

GUIDELINES OF THE TOBACCO SETTLEMENT FINANCING
CORPORATION ESTABLISHING STANDARDS
FOR THE SALE AND REPORTING OF TOBACCO SETTLEMENT
FINANCING CORPORATION BONDS

ADOPTED ON MAY 21, 2003, AS AMENDED ON APRIL 5, 2007

ARTICLE I

STATEMENT OF PURPOSE

101. The provisions set forth below (the "Guidelines") have been developed and are adopted to provide the Tobacco Settlement Financing Corporation (the "Corporation") with an administrative framework for conducting its bond sales. It is anticipated that the Guidelines will be amended from time to time to reflect the evolution of finance practices. The Guidelines shall be reviewed and approved by the Directors at least annually.

ARTICLE II

DEFINITION OF TERMS

201. Definitions. The following terms shall, for purposes of these Guidelines, have the following meanings unless the context shall clearly indicate some other meaning:

"Act" shall mean the Tobacco Settlement Financing Corporation Act.

"Corporation" shall mean the Tobacco Settlement Financing Corporation.

"Directors" shall mean the Members of the Tobacco Settlement Financing Corporation.

"Executive Director" shall mean the Executive Director of the Tobacco Settlement Financing Corporation.

"Minority Business Enterprise" shall mean a business enterprise, as that term is defined in the Guidelines of the Corporation Establishing Standards for the Use, Award, Monitoring and Reporting of Procurement Contracts, (the "Procurement Guidelines") adopted by the Corporation on the date hereof .

"Officer" shall mean the holder of any office so identified in the By-Laws of the Corporation adopted by the Corporation on the date hereof.

"Women-Owned Business Enterprise" shall mean any business enterprise, as defined in the Corporation's Procurement Guidelines.

ARTICLE III

SELECTION OF METHOD OF SALE

301. Upon authorization of a bond issue by the Directors of the Corporation, the Executive Director or a designee shall select a method of sale from among the following:

a. **Public Competitive Sale.** When a particular bond issue is standardized and routine such that the specifics of the issue can be easily described in a public notice to bidders and for which the most important factor is the ultimate price of the issue, bids may be solicited from the public. The sale of bonds shall be advertised in a manner determined by the Executive Director or a designee to provide adequate notice for the most practical and efficient sale.

b. **Public Negotiated Sale.** Bonds may be sold at public negotiated sale, upon the determination of the Executive Director or a designee, when the bond issue represents a new financing program; includes complex security, structuring, or other factors that require extensive explanation to potential purchasers of the bond; or has such other features as require extensive pre-marketing efforts in order to achieve a cost-effective sale. In addition, the use of public negotiated sale is appropriate during periods of instability or uncertainty in the financial markets. In the case of a public negotiated sale, managing underwriters shall be selected in accordance with Article IV of these Guidelines.

c. **Private Placement.** Where the size of a bond issue would make it impractical or not cost effective to offer the bonds for sale to more than a limited number of ultimate purchasers, the Executive Director or a designee may select a private placement sale, with the selection of the placement agent for the bonds to be made in accordance with Article IV of the Guidelines.

ARTICLE IV

SELECTION OF MANAGING UNDERWRITERS AND PRIVATE PLACEMENT AGENTS

401. Methods of Selecting Managing Underwriters and Private Placement Agents. The following general procedures shall be followed:

(1) Establishment of Pre-qualified Panel. From time to time the Executive Director or designee shall issue a Request for Statements of Qualifications from investment banking firms with experience in the structuring and marketing of tobacco securitization tax-exempt and taxable bonds. The Executive Director or designee shall compile a qualified list of potential managing underwriters after evaluating the statements of qualifications on the basis of demonstrated experience, expertise and capabilities, and compliance with the Corporation's affirmative actions policies.

(2) Requests for Proposals for Specific Financings. As appropriate in connection with the development and marketing of a specific bond issue, the Executive Director or designee may issue a Request for Proposals to firms on the pre-qualified panel of managing underwriters to solicit specific ideas and recommendations with respect to a specific bond issue.

(3) Selection of Managing Underwriters for Public Negotiated Sales. Except as otherwise authorized by resolution of the Corporation, the Executive Director shall select managing underwriters for a specific bond issue to be sold through public negotiated sale, generally taking into account the following factors: (a) inclusion on the pre-qualified panel; (b) responses to a Request for Proposals, if any; (c) recommendations by the Director of the Budget; (d) support provided to the Corporation through the general marketing of Corporation bonds and/or assistance in the development of new financing ideas; and (e) such other factors that are deemed relevant to the particular bond issue.

(4) Selection of Private Placement Agent. Where it has been determined by the Executive Director or designee that a private placement is the appropriate method of sale, the Executive Director shall select a placement agent generally taking into account the factors described in (3) above, as well as particular expertise and experience of effectuating a private placement in a cost-effective manner.

402. Promotion of Minority and Women-Owned Business Enterprises. It is the goal of the Corporation to, among other things, promote and assist participation by Minority and Women-Owned Business Enterprises in the underwriting of the Corporation's bonds. This goal shall be considered in the selection of managing underwriters and private placement agents as described in Subsection 401 above.

It is also the Corporation's goal to select as managing underwriters or private placement agents those investment banking firms that have evidenced compliance with the laws of the State of New York prohibiting discrimination in employment. The Corporation recognizes that this goal may be achieved by selecting as managing underwriters or private placement agents those firms that have demonstrated that they do not discriminate in employment. Accordingly, the Executive Director or designee shall request from investment banking firms such information on employment policies and practices as is necessary to assess such firms' compliance with relevant laws and policies on equal employment opportunity and affirmative action.

ARTICLE V

REPORTS ON BOND SALES

501. Quarterly Reports; Annual Report. The Corporation shall, on a quarterly basis, prepare and approve a bond sale report which shall include the Corporation's Bond Sale Guidelines, amendments to such guidelines since the last Corporation report, and if necessary, an explanation of the Bond Sale Guidelines and the results of any sale during such period, including, but not limited to, the underwriter's discount and net interest costs of bonds (and shall include current comparable market net interest cost data) sold during the reporting period. Such bond sale report shall also identify which of the Corporation's bond sales were conducted as public sales and which were conducted as private sales and of those, which were taxable, and describe the participation of minority and women-owned business enterprise firms in such sales. Such report shall also include the names of the senior managing underwriters or placement agent, and shall indicate the percentage of bond issues during such period for which any one senior managing underwriter or placement agent has performed as senior managing underwriter or placement agent. The quarterly reports may be part of any report that the Corporation is required to make.

In addition to quarterly reports, the Corporation, after approval by its Members, shall annually submit its bond sale report as required by statute, which shall incorporate the material included in its quarterly reports.

Copies of the bond sale report shall also be available to the public upon reasonable request at the Corporation's main office.

ARTICLE VI

MISCELLANEOUS PROVISIONS

601. Powers of Amendment. Any modification or amendment of these Guidelines may be made by a Resolution adopted at any duly constituted Directors` meeting; provided, however, that no such modification or amendment shall abrogate the rights and duties of existing Corporation contracts, the terms of which were established pursuant to these Guidelines; and further provided that the Chairman or Executive Director may make non-material changes in these Guidelines.

602. No Recourse Under these Guidelines. No provision of these Guidelines shall be the basis for any claim based on these Guidelines against any Director, officer or employee of the Corporation or the Corporation itself. Furthermore, notwithstanding the provisions of these Guidelines, once the Directors have authorized the issuance of bonds, these Guidelines shall not be construed to restrict in any way the issuance of such bonds.

603. Reserved.

604. Inability to Act. In any case where action by the Chairman of the Corporation is required under these Guidelines, if the Chairman is absent or unable to act as required for any reason (including, without limitation, an actual or potential conflict of interest), the Vice-Chairman of the Corporation (or, in his or her absence or inability to act, the senior Member appointed by the Governor with the advice and consent of the Senate who is able to act) may act in the place and stead of the Chairman.

605. Designee. Any reference in these Guidelines to a "designee" shall mean a person designated by the Executive Director as a designee of the Executive Director.