

**MINUTES OF THE REGULAR MEETING OF THE
THE 43RD MEMBERS' MEETING OF THE
TOBACCO SETTLEMENT FINANCING AGENCY
HELD ON DECEMBER 9, 2010 AT 3:33 P.M AT
ITS OFFICES AT 641 LEXINGTON AVENUE
NEW YORK, NEW YORK 10022**

MEMBERS AND DESIGNEES

PRESENT:

Judd S. Levy	Chairman
Kenneth M. Bialo	Member
Susan L. Watson	Member
Elaine McCann	Division of the budget, representing Robert Megna, Member (via video conference)

ABSENT:

William Myers	Member
Andrew A. SanFilippo	Member

Chairman Levy chaired the meeting; Joy F. Willig, Senior Vice President and Counsel, acted as secretary. The meetings of the Affiliated Agencies opened in joint session for the consideration of various matters of shared importance. These minutes reflect only those items being considered by the Members of the Tobacco Settlement Financing Corporation. A record of items considered by other Agencies is contained in the minutes of each Agency respectively.

The first item on the agenda was the President's Report. President Lawlor noted that this would be the last board meeting under the current Governor, and that the Agencies looked forward to the leadership of Governor Elect Cuomo beginning in January. He then exhibited an award from Habitat for Humanity that honored SONYMA as "Innovator of the Year" in recognition of the success of the low-interest-rate mortgages of 2% for Habitat projects. He congratulated Ms. Marian Zucker, President, Office of Finance and Development and George Leocata, Senior Vice President, Single Family Programs/Financing, for their efforts in ensuring the success of these projects. The President then went on to congratulate staff in securing extremely favorable NIBP and HFA bond rates in a tumultuous market environment.

The next item on the agenda was the report of the Audit Committee Meeting. Chairman Levy reported that the committee had approved the minutes of its Committee meeting held on October 28, 2010; adopted a resolution approving Internal Audit Staff Functions; adopted a resolution approving Procurement Audit Reports; approved an Accounts Payable Audit Report; approved a Treasury Audit Report; adopted the Action Plan for 2011; reviewed an information report on Whistle Blower Activities.

The next item on the agenda was the report of the Governance Committees. The Committees adopted Minutes; conducted the Board Self-Evaluation and adopted a resolution with recommendations; adopted the Action Plan for 2011; authorized the adoption of salary ranges for Senior Officers; and reviewed an information report on salary increases for management confidential employees.

The next item on the agenda was an action item approving the minutes of the 42nd Members' meeting for TSFC held on September 14, 2010. There being no objections or corrections by the Members, the minutes were deemed approved.

The next item on the agenda was a resolution concerning board self-evaluations. Mr. Alejandro Valella, Vice President and Deputy Counsel, presented this item, highlighting certain aspects of the self-evaluation process. Mr. Valella explained that the Governance Committee had recommended the filing of the results of this evaluation at the beginning of 2011, in accordance with the ABO-recommended evaluation form, with the caveat that staff revise the text of the question in the evaluation pertaining to review of publicly-released documents to reflect Corporation practices. The committee generally recommended that the evaluation form be revised prior to next year's evaluation to be more acutely tailored to the practices and procedures of the Corporation and include an opportunity for more extensive comments. Additionally, Mr. Valella explained that the committee requested that staff determine the steps the Corporation would need to take to evaluate the performance of the President and CEO and senior staff as required under Public Authorities Law.

Mr. Bialo moved to adopt the resolution; Ms. McCann seconded the motion; and the following resolution was adopted unanimously:

A RESOLUTION OF THE NEW YORK STATE HOUSING FINANCE AGENCY, THE STATE OF NEW YORK MORTGAGE AGENCY, THE NEW YORK STATE AFFORDABLE HOUSING CORPORATION, THE STATE OF NEW YORK MUNICIPAL BOND BANK AGENCY, AND THE TOBACCO SETTLEMENT FINANCING CORPORATION CONCERNING BOARD SELFEVALUATIONS.

The next item on the agenda was the approval of Quarterly and Annual Bond Sale Reports. There was no discussion from the Members.

Ms. McCann moved to adopt the resolution; Mr. Bialo seconded the motion; and the following resolution was adopted unanimously:

A RESOLUTION OF THE NEW YORK STATE HOUSING FINANCE AGENCY, STATE OF NEW YORK MORTGAGE AGENCY, THE STATE OF NEW YORK MUNICIPAL BOND BANK AGENCY AND THE TOBACCO SETTLEMENT FINANCING CORPORATION APPROVING THE AGENCIES' BOND SALE REPORTS

At this time, Mr. Lawlor elaborated upon the rating of "fair" that the Corporation's IT department had earned from the banking department examiner, as it was lower than ratings in other categories. He explained that the banking examiner had reviewed the emergency preparedness of SONYMA and took issue with the lag time required to reboot Corporation data systems, currently estimated to take up to eight (8) hours. The President stated that the banking examiner had asserted that the capacity to reboot such systems immediately would be important to disaster functioning. Mr. Lawlor disagreed, pointing out that SONYMA had decided to continue relying on the New York State data recovery process, rather than investing in an outdoor generator at a considerably higher cost, after careful consideration of the Corporation's needs. However, Mr. Lawlor explained that this disagreement had led the examiner to question the method by which the Corporation had chosen its current disaster preparedness systems, and assign SONYMA with the "fair" rating on IT disaster preparedness. Mr. Lawlor thought it prudent to ensure that the Members were aware of these issues, and there were no further questions from the Board.

The next item on the agenda was an information item regarding procurement contracts and purchase orders with minority-owned business and women-owned-business enterprises. Ms. Lisa Pagnozzi, Contract Administrator/Officer, presented this item to the board in response to information requested in connection with new procurement guidelines surrounding minority- and women-owned businesses. There were no questions or comments from the board on this item.

The next item on the agenda was a resolution approving revisions to the Agencies' Bylaws. Alejandro Valella, Deputy Counsel, highlighted certain changes to the organizational structure of HCR, previously outlined by Mr. Lawlor, that create three primary program areas, one of which will influence the operations of TSFC: the Finance and Development team. Mr. Valella noted that previously, a senior officer position was created in the bylaws of HFA, AHC, and SONYMA to oversee the finance and development team. Mr. Valella noted that a similar change was now being made to the TSFC by-laws to create the new senior officer position for the Corporation. Mr. Valella also noted that the By-Laws would be amended to reflect the role of the audit committee in overseeing, monitoring, and reviewing the work of the external and internal auditors, whereas this had previously been left out of TSFC bylaws as well as those of the other Agencies.

Mr. Bialo moved to adopt the resolution; Ms. McCann seconded the motion; and the following resolution was adopted unanimously:

A RESOLUTION OF THE MUNICIPAL BOND BANK AGENCY APPROVING REVISIONS TO THE AGENCIES' BY-LAWS.

A RESOLUTION OF THE TOBACCO SETTLEMENT FINANCING CORPORATION APPROVING REVISIONS TO THE AGENCIES' BY-LAWS.

The next item on the agenda was a resolution appointing President of the Office of Finance and Development. Mr. Valella discussed a recommendation by Mr. Lawlor to appoint Marian A. Zucker, Executive Vice President of the Agencies, to the newly-created position of President, Office of Finance and Development. Mr. Bialo obtained confirmation that this would not constitute a change in compensation, and expressed satisfaction with the appointment.

Mr. Bialo moved to adopt the resolution; Ms. McCann seconded the motion; and the following resolution was adopted unanimously:

A RESOLUTION OF THE STATE OF NEW YORK MUNICIPAL BOND BANK AGENCY AND THE TOBACCO SETTLEMENT FINANCING CORPORATION APPOINTING PRESIDENT OF THE OFFICE OF FINANCE AND DEVELOPMENT.

Mr. Lawlor excused himself from the meeting at 3:50 p.m., to attend to another obligation.

The next item on the agenda was a resolution approving a contract with K & L Gates, LLP for Legal Services. Ms. Genevieve D'Agostino, Senior Vice President and Treasurer explained that the Corporation had entered into an agreement in 2009 with K & L Gates, which was considered a uniquely qualified source vendor, in order to terminate its investment agreement with Lehman Brothers, which was in bankruptcy. She stated that K & L Gates successfully terminated the Corporation's investment contract with Lehman, enabling the corporation to invest its funds in an alternative longer term agreement, and that K & L Gates has been paid \$40,000 to date and is anticipating additional fees to resolve remaining issues with Lehman Brothers. Therefore, the Corporation requests approval to extend the agreement for another 2 year period. Mr. Bialo explained that he had remaining questions regarding this contract, and requested that its review be postponed to a subsequent meeting. No action was taken with respect to this resolution at this time.

The next item on the agenda was an information item updating the board on TSFC bond deals. Ms. Zucker, President, Office of Finance and Development, explained that a great decline in tobacco consumption had caused a decline in tobacco revenues under the Settlement Agreement. In response to this decline, S & P downgraded certain tobacco bonds, but not the Corporation's bonds, which were much more conservatively structured than other tobacco issues in that they had shorter maturities and benefit from a state contingency contract. However, the coverage of the Corporation's bond issues has changed, from 1.08 (debt revenues: debt service) upon issuance to 3% for the 2003A series and 1.05 to 2.5% for the 2003B series. Based on unpublished reports, there is a projected 5.8% reduction in 2010 and up to a 6.1% decline over the next eleven (11) years. Ms. Zucker noted that recently, the first tobacco issue in many years had been executed with an "A" rating from S & P, and it was chiefly due to its conservative structuring, much like the TSFC structuring. She concluded that based on current projections, the Corporation has sufficient coverage to meet scheduled debt services without taking into

account "turbo" calls. Mr. Bialo asked if the Global Insight data would affect the master agreement. Staff explained that it would not.

Ms. Zucker then announced to the board that MBBA would be collecting an award for "deal of the year" from the Bond Buyer that evening, to which the Board responded enthusiastically.

There being no unfinished business, Mr. Bialo moved to adjourn the meeting, Chairman Levy seconded the motion; and the meeting was adjourned at 4:05 p.m.


Secretary