

## BUCKEYE TOBACCO SETTLEMENT FINANCING AUTHORITY

### Minutes of August 29, 2007 Meeting

The Buckeye Tobacco Settlement Financing Authority (the Authority) held a meeting commencing at 3:00 p.m. on Wednesday, August 29, 2007, in the 35th Floor Conference Room, Office of Budget and Management, James A. Rhodes State Office Tower, 30 East Broad Street, Columbus, Ohio, pursuant to notice of meeting given by the Secretary of the Authority pursuant to section 4.2 of Bylaws.

[Copies of the items marked \* are attached hereto and made a part of these minutes.]

The Chairman called the meeting to order.

Mr. Kauffman reported for the secretary that no new designations, pursuant to Section 183.52 of the Revised Code, were filed since the last meeting of the Authority.

Pursuant to Section 3.1 of the Bylaws, Mr. Markus presided as Chair of the meeting. Upon roll call, the Chairman declared a quorum to be present. The following members and designee of the member of the Authority, eligible to vote at the meeting, were present during the meeting:

Kent Markus, Office of the Governor  
Richard Cordray, Treasurer of State  
J. Pari Sabety, Director of Budget and Management

Also present were Mark Losey and Hope Sharett (assistant Attorney General to the Authority), Kurt Kauffman (Assistant Secretary), Jake Wozniak (Assistant Treasurer), Jeanne Vanda, Ted Ricci and Dan Kozloff (Public Financial Management), David Ellis, Louis Capobianco, Anthony Perry Larry Scurlock and Liberty Ziegahn (Office of Budget and Management); Chris Glaros, Todd Dieffenderfer, Robert Newman and Amy Minardo (Office of the Treasurer of State); Brian Perera and Matt Whatley (Ohio Senate), Mike Roth and Laura Takeshta (Bank of New York), Mark Miller (Rice Financial Products Company), Michael Gagnon (KeyBanc Capital Markets), Richard Van Dusen (Hawkins Delafield and Wood), Greg Stype (Squire Sanders & Dempsey), John Lee (J.P. Morgan); Mark Fisher (A.G. Edwards), Bob Selak (Thompson, Hine & Flory), Ned Flynn (First Albany Capital), Stephen Szanto (Cabrera Capital Markets), Kip Wahlers (Calfee, Halter & Griswold), Daniel Cohen Jim Haddon (Citi), Jana Wesley (Bank of America Securities), Stan Harris (National City Bank), Shams Lawson and Maurice Murphy (Merrill Lynch), Rita Merry (Huntington Investment Co.), Juan Cespedes (Oxley Geery), Aida Chinloy and Sue Charlton (Goldman Sachs), Matt McCauliffe (PNC Capital Markets), Brad Kastan, Kym Arnone and Nora Ostrovskaya (Bear Stearns), Richard Boylan (RLB Group Inc), Nicole O'Reilly and Scott Miller (U.S. Bank), Chris Moore, Juanita Sanchez and Marakah Mancini (Service Employees International Union) and various news and media organizations.

The Assistant Secretary filed the certificate\* of compliance with the public meeting notice provisions of Section 121.22 of the Revised Code.

The Secretary began by providing a brief overview of the selection process for the underwriting team. The Secretary noted that each qualified book-running senior manager was interviewed as part of the selection process and each interview focused on the same set of questions

including the firm's perspective of the market, their commitment to the transaction, team structure and the interaction of risk and compensation. She then requested staff presentations.

Mr. Wozniak presented the staff and financial advisor report and recommendations\* with respect to the statements received in response to the Authority's request for proposals for senior managing and co-managing underwriter services. Mr. Wozniak noted, among other things, that one report has been prepared to reflect all underwriter selections. Mr. Wozniak then introduced Ms. Vanda who would be giving a visual presentation.

Ms. Vanda presented a power point report\* highlighting the factors considered in determining the recommended size and composition of the underwriting team. Ms. Vanda concluded with the staff's recommendation to appoint two lead book-running managers to the Authority due to the size of the transaction and the difficult current market conditions. She also suggested a range of four-to-five firms to serve as co-senior managers, and fifteen to twenty-five firms to serve as co-managers to the Authority.

The Treasurer asked if other states had used more than one lead manager and how that would work for other transactions. Ms. Vanda replied that California recently used joint lead managers and added that there is well established precedence in the market. She added that with more than one lead, roles and expectations for each firm must be well defined. The Chairman then asked why two lead managers was the optimum number of firms, and the Treasurer asked if more than two had been used on other deals. Ms. Vanda responded that joint lead managers would bring in the full resources of each firm including structuring ideas, market capabilities, and capital. She added that no more than two leads had been used on a tobacco deal and that more than two would be cumbersome and could potentially cause firms to lose focus. The Secretary asked if any firms suggested a joint lead manager in their proposals. Mr. Kauffman stated that four out of the six proposals suggested that Authority structure their team in this way and the other two proposals mentioned it as a possibility.

Following this discussion, Mr. Wozniak continued the staff and financial advisor report and recommendations stating that six proposals had been received for the senior managing position. Mr. Wozniak stated that each proposal was checked to confirm that they met both the minimum qualifications and the submission requirements set forth in the RFP. Mr. Wozniak noted that one firm, Merrill Lynch, did not meet the minimum qualifications as they had not served as book or joint book-running senior manager on a tobacco securitization in excess of \$400 million in par since July 2002. Mr. Wozniak stated that the proposed fees per bond for the qualified firms ranged from \$3.00/\$1,000 to \$4.43/\$1000.

Ms. Vanda continued the staff recommendation by reviewing the evaluation matrix for the book running senior managers, noting that two firms distinguished themselves from the other proposals in terms of their experience in the tobacco market. Ms. Vanda stated that in terms of the number and size of each firm's tobacco deals as well as their presence in the secondary markets Bear Stearns and Citi established themselves as the two dominate firms. Given the size of Authority's transaction and the difficult market conditions, Ms. Vanda explained that staff recommended that Bear Stearns and Citi be appointed as joint lead managers to the Authority. The Chairman asked if the two firms had previous work experience together. Ms. Vanda said they had in a different capacity but not formally as joint senior managers. The Secretary then asked staff for any further comments. Mr. Kauffman added that after considering the proposals of each firm, Bear Stearns and Citi clearly stood out as the two strongest and due to the size and complexity of the transaction the benefits of appointing two firms outweighed any potential difficulties. The Secretary

noted that the two firms had two different philosophies. One firm's approach was to focus on diversified products and the other advocated standardized products to push volume. Ms. Vanda acknowledged these variations but stated that the difference in philosophy would be advantageous to the Authority because they would receive the benefits associated with both approaches.

The Chairman then asked for some discussion on the fee proposals received. Mr. Ricci responded that there was a very narrow range of fees received and all fees were lower than average when compared to similar transactions. Ms. Vanda emphasized that a difference of one basis point translates into approximately \$7 million dollars. Mr. Ricci reported that staff recommended setting the fees later in the transaction. The Chairman asked if this meant that fees would be negotiated as opposed to set based on levels in the firm's proposals. Ms. Vanda confirmed fees would be negotiated. Mr. Wozniak added that the Authority solicited fees in the context of a certain structure and market and since that time the market and structure has fluctuated enough that it would be reasonable to postpone discussion of fees until the final structure is determined. The Chairman then inquired if the range of fees proposed would still be reasonable. Mr. Ricci confirmed they would. The Treasurer emphasized the importance of selecting the strongest firms and creating an incentive structure where firms are paid according to their ability to sell bonds. The Treasurer reiterated his goal of keeping the per bond fee lower than any tobacco deal to date and suggested the Authority set a cap on fees to insure this.

The Chairman then asked staff if each firm interviewed was open to the idea of a joint structure. The Secretary confirmed that there was no hesitation from any firm. Ms. Vanda added that it is the financial advisor's responsibility to assure the dual lead structure is successful. Mr. Ricci also noted his confidence in each firm noting the high caliber and previous satisfactory work with staff. The Secretary stressed the importance of communication between staff and the underwriting team to insure the success of the transaction. Following this discussion, Treasurer Cordray stated he was convinced that joint lead managers would serve the Authority well and moved, seconded by the Chairman, to appoint Bear Stearns and Citi as joint lead book-running managers to the Authority. The motion was approved upon roll call as follows: Ayes – Sabety; Cordray, Markus; Nays - None. The Chair declared the motion passed

Ms. Vanda continued the staff and financial advisor report by reviewing the process used to select co-senior managers. Ms. Vanda noted that the four firms who submitted proposals for lead manager who were not selected were now recommended for the co-senior manager position. Mr. Wozniak added that seven additional firms submitted proposals for co-senior manager. One firm, Rice Financial Products Company did not meet the minimum requirements for co-senior manager as they had not served as senior manager on two tobacco securitization transactions with at least one of those transactions having an issuance par in excess of \$400 million since July 2002. Overall, the staff considered 10 firms for the position of co-senior manager. Ms. Vanda then reviewed the criteria and matrix used to evaluate firms. Based on the evaluation criteria and the overall quality of the proposals the staff recommended that the Authority appoint five firms: Goldman Sachs, First Albany, JP Morgan, Merrill Lynch and Morgan Stanley as co-senior managers to the Authority. The Chairman asked if some of the firms had been recommended due to the fact that they had applied for the previous position. Ms. Vanda replied that this was not the case and that the firms were recommend due to their strong credentials and superior experience in terms of number of transactions, structures ideas, involvement in the market and distribution capabilities.

The Secretary then asked for some clarification concerning the First Albany and DEPFA acquisition. Mr. Wozniak answered that as of September 14<sup>th</sup> the acquisition would be finalized and

this information was reflected in the staff's evaluation matrix. Ms. Vanda noted DEPFA's capital commitment and willingness to participate in the tobacco market. The Treasurer asked if there was any hesitation about the acquisition. Ms. Vanda reported that the staff was impressed with the focus and clarity of First Albany's response to this question during their interview and added that the acquisition of DEPFA would enhance the transaction. The Chairman then asked why only five firms were recommended. Ms. Vanda replied that the firms recommended distinguished themselves in terms of volume of participation in the secondary markets and tobacco experience; additionally the staff felt that if more firms were added it would dilute the Authority's ability to provide an adequate incentive structure. Mr. Ricci referred back to the power point presentation that highlighted the importance of compensation that reflects the level of commitment and risk. Following this discussion Treasurer Cordray moved, seconded by the Secretary, to appoint Goldman Sachs, First Albany, JP Morgan, Merrill Lynch and Morgan Stanley as co-senior managers to the Authority. The motion was approved upon roll call as follows: Ayes – Sabety; Cordray, Markus; Nays - None. The Chair declared the motion passed.

Mr. Wozniak then began discussion on the staff and financial advisor report for the co-manager positions. He reported that 22 proposals were received and three firms did not meet the minimum qualifications set forth in the RFP. Mr. Wozniak also noted that the firms who applied for a co-senior position, but were not recommended, were also eligible for consideration for a co-manager position. Mr. Ricci then reviewed the roles and evaluation criteria for the co-manager position, noting that firms needed to meet at least two of the five criteria, with at least one being Ohio specific, to be recommended as co-managers to the Authority. Eighteen firms met these qualifications: A.G. Edwards, Bank of America, Butler Wick & Co. Fidelity Capital Markets Services, Fifth Third Securities, Huntington Investment Company, KeyBanc Capital Markets, Lehman Brothers, Loop Capital Markets, NatCity Investments, PNC Capital Markets, Raymond James, RBC Capital Markets, Rice Financial Products Company, Robert W. Baird & Co, SBK-Brooks Investment Corp, Siebert Brandford Shank and UBS Securities. Mr. Ricci further recommended that the ten firms who applied for co-manager but were not recommended be included as part of the selling group to the Authority. The ten firms are: Alexandra & James, BB&T Capital Markets, Cabrera Capital Markets, Ferris, Baker Watts, M.R. Beal & Co., Grigsby & Associates, Jackson Securities, LaSalle Financial Services, Sterne, Agee & Leach and Sweney Cartwright. The Secretary then asked for some clarification as to the retail component of the marketing plan. Mr. Ricci stated that retail can provide momentum, particularly with early maturities. Ms. Vanda emphasized the importance of exploring all market segments but noted that retail should not be expected to drive pricing. Treasurer Cordray inquired as to the most retail ever sold in a tobacco securitization. Ms. Vanda replied that the State of California sold \$474 million through a comprehensive retail marketing effort.

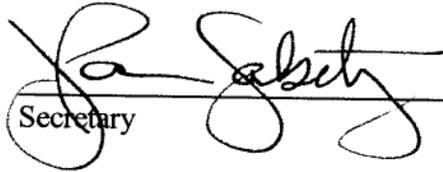
The Secretary then noted the inclusive nature of staff's recommendation of including a number of Ohio and minority firms. Treasurer Cordray concurred with the Secretary adding the importance to utilize Ohio-based firms and capabilities. The Secretary then moved, seconded by the Treasurer to appoint all eighteen recommended firms as co-managers to the Authority. The motion was approved upon roll call as follows: Ayes – Sabety; Cordray, Markus; Nays - None. The Chair declared the motion passed. Treasurer Cordray then moved, seconded by the Secretary to appoint the ten firms recommended by staff as selling group to the Authority, noting that the selling group was not closed and that additional interested firms could still be appointed, subject to further action by the Authority. The motion was approved upon roll call as follows: Ayes – Sabety; Cordray, Markus; Nays - None. The Chair declared the motion passed.

The Treasurer then opened up discussion of compensation. The Chairman suggested that staff develop a recommendation for compensation and return to the Authority at a later date. The Treasurer agreed but moved to place a \$4.00 per \$1,000 ceiling on the underwriter takedown fee. The Secretary seconded with discussion and asked if this ceiling referred to the average takedown per bond, which the Treasurer confirmed. Mr. Wozniak asked if this ceiling was exclusive of expenses to which the Treasurer again confirmed was accurate. Following this discussion the motion was approved upon roll call as follows: Ayes – Sabety, Cordray, Markus; Nays - None. The Chair declared the motion passed.

Mr. Kauffman reported that the next meeting of the Authority would take place in two or three weeks and the purpose of that meeting would be to address the procurement of other necessary services such as trustee services and printing. The Secretary and Mr. Kauffman both commented that these services were fairly common place and could be delegated to staff. Mr. Losey, as counsel to the Authority, recommended that a short public meeting be held to address these items. Treasurer Cordray asked if the tentative time line for the transaction had changed. Mr. Kauffman replied that it had not and the Authority could expect to go to market in mid-to-late October.

The Chairman then asked for public comment from Juanita Sanchez, representing the Service Employees International Union. Ms. Sanchez urged the Authority to consider the bidders' commitment to local communities when selecting the underwriting team. She also requested the Authority select responsible financial institutions, which support good-paying jobs, livable wages, healthcare and fair banking practices such as translation and access to credit.

There being no further business, the meeting was adjourned.

  
Secretary



**THE BUCKEYE TOBACCO SETTLEMENT FINANCING AUTHORITY**

**RICHARD CORDRAY, Treasurer**  
Treasurer of State

**TED STRICKLAND, Chairman**  
Governor

**J. PARI SABETY, Secretary**  
Director of Budget and Management

**CERTIFICATION REGARDING NOTIFICATION OF MEETING  
TO THE PUBLIC AND NEWS MEDIA**

The undersigned, Assistant Secretary of the Buckeye Tobacco Settlement Financing Authority, hereby certifies that the notice of the time, place and purposes of the meeting of the Authority of August 29, 2007 at 3:00 p.m. was posted on August 27, 2007 in the State House press room, the Office of Budget and Management (34<sup>th</sup> Floor, 30 East Broad Street), and the Office of the Treasurer of State (9<sup>th</sup> Floor, 30 East Broad Street), all in accordance Section 121.22 of the Revised Code and the Open Meetings Rule for notification of meetings to the public and news media adopted by the Authority July 2, 2007.

Dated: August 29, 2007

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Kurt Kauffman  
Assistant Secretary of the  
Buckeye Tobacco Settlement Financing Authority

**\*\* Public Meeting Notice \*\***

August 27, 2007

TO: Members of the Buckeye Tobacco Settlement Financing Authority and their designees

Ted Strickland, Governor  
Richard Cordray, Treasurer of State

Kent Markus  
Chris Glaros  
David Ellis  
(my designee)

FROM: J. Pari Sabety, Secretary of the Buckeye Tobacco Settlement Financing Authority

SUBJECT: **Meeting on Wednesday, August 29, 2007, at 3:00 p.m.  
in Conference Room A of the Office of Budget and Management  
(35<sup>th</sup> Floor, Rhodes State Office Tower)**

Pursuant to the Bylaws of the Buckeye Tobacco Settlement Financing Authority, I am notifying you of the next meeting of the Authority to be held on Wednesday, August 29, 2007, at 3:00 p.m. in Conference Room A of the Office of Budget and Management (35<sup>th</sup> Floor, Rhodes State Office Tower, 30 East Broad Street, Columbus, Ohio). The primary purpose of the meeting will be to discuss the underwriting proposals received in response to the Authority's request for proposals and to consider and act on motions to select firm(s) to serve as senior managing underwriters and co-managing underwriters for the Authority's proposed tobacco securitization bonds.

If you or members of your staff have any questions, please contact me or Kurt Kauffman of my staff at 466-0691.

cc. Marc Dann, Attorney General  
Mike Deemer, Chief Deputy Attorney General for Governmental Affairs  
Jake Wozniak, Assistant Treasurer  
Mark Losey, Chief, Business Counsel Section  
Hope Sharett, Director of Outside Counsel

# ***The Buckeye Tobacco Settlement Financing Authority***

## ***Senior Managing and Co-Managing Underwriter Services***

### **STAFF AND FINANCIAL ADVISOR REPORT AND RECOMMENDATION**

#### **I. Process Review**

- At its meeting on Thursday, August 2<sup>nd</sup>, the Authority authorized the release of Request for Proposals (RFP) for both senior managing underwriter services and co-managing underwriter services in connection with the proposed tobacco securitization.
- An advertisement was placed in the Bond Buyer, a nationally recognized municipal finance publication, and ran on August 3<sup>rd</sup> and August 6<sup>th</sup>-7<sup>th</sup>.
- The RFP's were available for download on the OBM/BTSFA website or by request from Authority staff.
- Firms were given seven and eight days to respond. The deadline for submission was 1:00 p.m., Thursday, August 9<sup>th</sup> for senior managers and 1:00 p.m., Friday, August 10<sup>th</sup> for co-managers. The proposals were distributed to Authority members, their designees and staff the day they were received.
- During the response window, no direct communication on the RFP was allowed between Authority members/staff and potential respondents.
- Questions regarding the RFP's were submitted and responded to via the Authority's e-mail address. Those questions and responses are provided as Exhibit A to this report.

#### **II. Role and Scope of Services Presentation – (underwriting syndicate composition)**

##### Book-running Senior Manager:

The firm or firms selected as book-running senior manager are responsible for the overall management and execution of the transaction. Firms serving in this role are charged with the structuring, rating, marketing, and pricing of the obligations on behalf of the Authority. The book-runner is responsible for coordinating the efforts of and providing timely communication to the entire underwriting syndicate regarding all aspects of the transaction.

Their role as set forth within the scope of services:

- Presentation of information to the Authority and its financial advisor and staff, credit rating agencies, the bond market, the media, executive branch and legislative leadership, and the public.
- Advise and consult with the Authority and its representatives in the development and execution of a comprehensive plan of finance including a detailed marketing plan.
- Assist the financial advisor in identifying tasks, assigning responsibilities and coordinating dates for completing activities related to the plan of finance.
- Evaluation of alternative structures, terms and conditions to best accomplish the Authority's goals.
- Manage and oversee the underwriting syndicate and selling group members.
- Develop a comprehensive underwriting team communication and coordination plan. Proactively communicate and educate syndicate members on transaction structure and provide disclosure and suitability language for syndicate member's sales forces.
- Review of legal and other documents related to the marketing and issuance of the proposed securities, including but not limited to, official statements, bond resolutions, indentures and disclosure documents.
- Prepare and coordinate all submissions and presentations to potential investors, credit rating agencies, and credit enhancement providers.
- Provide insight and recommendations on timing and amount of the sale in light of competing supply, prevailing interest rates, investor demand, economic conditions, and other factors.

# ***The Buckeye Tobacco Settlement Financing Authority***

## ***Senior Managing and Co-Managing Underwriter Services***

### **STAFF AND FINANCIAL ADVISOR REPORT AND RECOMMENDATION**

- Deliver timely reports on the status of the high yield and municipal bond markets and any economic reports or other news that may impact the municipal bond market.
- Retain the services of an econometric consumption consultant to forecast domestic cigarette consumption for the term of the bonds. Such contract shall be between the senior underwriter and the consumption consultant and will not constitute an expense of the Authority.
- Employ a mutually acceptable underwriter's counsel(s), responsible for drafting the following documents and for rendering related opinions: the offering circular (including disclosure provisions), bond purchase agreement, and agreement among underwriters.
- Provide, in advance of the pricing, the proposed pricing of each member of the senior underwriting team, a recommended pre-pricing scale and the rationale for determining the recommended scale.
- During the pricing of the obligations, provide:
  - The ability to remotely monitor the placement and status of orders on a real-time basis, including the type of order (retail, institutional, member) and the firm placing the order.
  - On-site facilities for the Authority and its representatives to effectively monitor and oversee the pricing process.
  - Frequent status reports summarizing order flow, maturity by maturity subscription, and intra-day market movements.
- Purchase, or participate in the purchase of, the obligations upon terms and conditions mutually acceptable to the Authority and the underwriters as set forth in a bond purchase agreement.
- Prepare a post-pricing summary outlining orders and allocations by firm.
- Provide a comprehensive post closing book summarizing key aspects of the transaction.
- Attend and participate in meetings of the Authority and the financing team as requested.
- Other related services as requested by the Authority.

#### **Co-Senior Manager**

Firms selected as co-senior managers serve at a senior level in a supportive role to the book-running senior manager(s). Co-senior managers are expected to aid in marketing the bonds to the investor community and to provide feedback to the senior manager on structures or products sought by existing and new investors. Firms serving in this role have a considerable stake in the successful execution of the transaction and are expected to support the pricing at appropriate pricing levels.

Their role as set forth within the scope of services:

- Purchase, or participate in the purchase of, the obligations upon terms and conditions mutually acceptable to the Authority and the underwriters as set forth in a bond purchase agreement.
- Participate fully in transaction discussions pursuant to the book-running senior manager's comprehensive marketing and communications plans.
- Provide structuring ideas and feedback to the Authority and the financing team.
- Offer preliminary market insight and preliminary pricing input to the book-running senior manager.
- Comment on and approve draft documents as requested.
- Attend and participate in meetings of the Authority and the financing team as requested.
- Other related services as requested by the Authority.

# ***The Buckeye Tobacco Settlement Financing Authority***

## ***Senior Managing and Co-Managing Underwriter Services***

### **STAFF AND FINANCIAL ADVISOR REPORT AND RECOMMENDATION**

#### Co-Manager

The co-managers support the transaction by assuming an underwriting liability and distributing the bonds to multiple market segments including regional and retail investors. They are generally selected based on their distribution capability in the kind of credit being sold and for their local and regional distribution networks. Firms not recommended for the co-manager position will be offered a position as a selling group member. Selling group members participate in the marketing and sale of the bonds during the retail order period but do not participate in the institutional order period.

Their role as set forth within the Scope of Services:

- Purchase, or participate in the purchase of, the obligations upon terms and conditions mutually acceptable to the Authority and the underwriters as set forth in a bond purchase agreement.
- Conduct proactive investor information and marketing efforts to the firm's investor base in coordination with the book running senior managers marketing plan.
- Comment on and approve draft documents as requested.
- Provide distribution of the Authority's bonds to interested investors.
- Attend and participate in meetings of the Authority and the financing team as requested.
- Other related services as requested by the Authority.

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# ***The Buckeye Tobacco Settlement Financing Authority***

## ***Senior Managing and Co-Managing Underwriter Services***

### **STAFF AND FINANCIAL ADVISOR REPORT AND RECOMMENDATION**

#### **III. Evaluation Process**

- Authority members, staff, and its financial advisor independently evaluated the proposals based on the evaluation criteria set forth in the RFPs.
- Staff met separately with each of the Authority members to discuss the substance of the proposals and to solicit input from each member regarding the substance and format of this report.

#### **A. Book-Running Senior Manager**

##### **1. Proposals Received**

- Six firms submitted proposals to serve as book-running senior manager:
  - Bear Stearns & Co., Inc.
  - Citi
  - First Albany Capital, Inc. (DEPFA bank)
  - Goldman Sachs
  - JP Morgan Securities, Inc.
  - Merrill Lynch & Co., Inc
- Each proposal was checked to confirm that it met both the minimum qualifications and the submission requirements set forth in the RFP.
  - Merrill Lynch did not meet the minimum qualifications for book-running senior manager as they have not served as a book or joint book-running senior manager on a tobacco securitization transaction in excess of \$400 million in par since July 2002.
  - All other proposals met both requirements as shown in Exhibit B.
- The proposed per bond fees for the qualified firms ranged from \$3.00/\$1,000 to \$4.43/\$1,000.
- Pursuant to the RFP, one-hour question and answer sessions were held with each of the five firms that met the minimum qualifications to serve as a book-runner. The Authority's Secretary, its staff and financial advisor, and a representative of the Attorney General, were present to ask follow-up questions about their proposals. Feedback gathered as result of the follow-up meetings was given consideration in light of the overall firm by firm evaluations and is reflected in this report.

##### **2. Evaluation Criteria**

- Experience serving as a book-running or co-senior manager on tobacco securitizations.
- Demonstrated ability to effectively manage a large underwriting team.
- Degree to which the proposed structure effectively targets existing and new tobacco investors.
- Breadth and depth of the proposed marketing plan across the range of maturities and products being offered.
- Tobacco related qualifications, experience and expertise of the assigned personnel.
- Financial capacity and willingness to underwrite at appropriately aggressive levels.
- Overall knowledge of the current tobacco bond market.
- Proposed fees.

**valuation Matrix – Senior Manage**

Evaluation Criteria	Bea
General Firm Info Areas of Practice (Q:1)	Founded: Headquar 15,000 en Investmer
Experience serving and a Book-running or co-senior manager on tobacco securitizations and overall knowledge of the tobacco market. (Q:3, 5a, 5b)	Excellent Senior : Co-Senior BR on 3 la 8 TS >\$1.0
Demonstrated ability to effectively manage a large underwriting team. (Q:4)	Excellent Very-Expe Recommen 4.4B CA. C syndicate r
Degree to which the proposed structure effectively targets existing and new tobacco investors. (Q:7, 8a, 8b, 8c)	Excellent Detailed di structuring investor ba products, to
Breadth and depth of the proposed marketing plan (Q:9)	Excellent Detailed tin New produ
Tobacco related Qualifications, experience and expertise of assigned personnel. (Q:2)	Excellent 21 staff assi 2 capital co 4 tobacco b 8 tobacco st 7 sales, und
Financial capacity, willingness to underwrite, secondary mkt. (Q:6)	Excellent Net Excess (C Sec. Trades:
References (Q:10)	A, A
Proposed Fees Per Bond (\$/1000)	\$4.00 / \$100

# ***The Buckeye Tobacco Settlement Financing Authority***

## ***Senior Managing and Co-Managing Underwriter Services***

### **STAFF AND FINANCIAL ADVISOR REPORT AND RECOMMENDATION**

#### 3. Evaluation Results and Staff Recommendation.

Given the size of the proposed securitization, number of syndicate members involved, and current market conditions, we recommend the Authority utilize two of these firms as joint book-running senior managers to strengthen and deepen the team on this transaction. As mentioned earlier, the notion of two firms working together to execute a transaction is not uncommon, and in fact joint structures have been employed in several of the most recent large transactions. The joint structure is especially beneficial in large transactions that require increased distribution and marketing efforts as was most recently demonstrated for California's \$4.4 billion tobacco securitization earlier this year. Two strong firms with tobacco expertise and significant capital resources provide assurance to the market that the Authority's large and complex transaction can be completed strategically and successfully.

Based on our evaluation of the proposals and insight gathered as a result of the follow-up question and answer sessions, we believe certain firms are clearly more qualified than others. Although all of these firms are qualified to serve as a book-running senior manager, both Bear Stearns and Citi have distinguished themselves as leaders in the tobacco securitization sector. They have unmatched tobacco transaction experience and a depth of staffing expertise which sets them apart from the other responding firms.

For these reasons, we recommend the Authority utilize both Bear Stearns and Citi as joint book-running senior managers. Both Bear and Citi are familiar with the joint structure, having recently completed transactions employing the structure. These two firms together have the substantial tobacco expertise and significant capital resources needed to complete this transaction successfully. Joining the efforts of Bear Stearns and Citi for the proposed transaction delivers the most qualified firms to serve the Authority.

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# *The Buckeye Tobacco Settlement Financing Authority*

## *Senior Managing and Co-Managing Underwriter Services*

### STAFF AND FINANCIAL ADVISOR REPORT AND RECOMMENDATION

#### **B. Co-Senior Manager**

##### 1. Proposals Received

- Seven firms submitted proposals to serve as co-senior manager:
  - Banc of America Securities, LLC
  - Lehman Brothers, Inc.
  - Loop Capital Market, LLC
  - Morgan Stanley & Co., Incorporated
  - Rice Financial Products Company
  - Siebert Brandford Shank & Co., L.L.C.
  - UBS Securities, LLC.
- Each proposal was checked to confirm that it met both the minimum qualifications and the submission requirements set forth in the RFP.
  - Rice Financial Products did not meet the minimum qualifications for co-senior manager as they have not served as a senior manager on two tobacco securitization transactions with at least one of those transactions having an issuance par in excess of \$400 million since July 2002.
  - All other proposals met both requirements as shown in Exhibit C.
- In addition to the six proposals being considered for co-senior manager, the firms that applied but are not recommended for book-running senior manager will be considered for selection as a co-senior manager. Depending on what selections the Authority has chosen to make for the two joint book-running senior managers, those firms are the three remaining firms from among:
  - Bear Stearns & Co., Inc.
  - Citi
  - Goldman Sachs.
  - First Albany Capital, Inc.
  - JP Morgan Securities, Inc.
- Merrill Lynch responded to be considered for book-running senior manager and did not meet the minimum qualifications. Merrill Lynch does meet the minimum qualifications set forth to serve as a co-senior manager and will be considered for selection.
- Therefore, these ten firms are eligible to be considered for selection as a co-senior manager:
  - Banc of America Securities, LLC
  - Lehman Brothers, Inc.
  - Loop Capital Market, LLC
  - Merrill Lynch & Co., Inc.
  - Morgan Stanley & Co., Incorporated
  - Siebert Brandford Shank & Co., L.L.C.
  - UBS Securities, LLC.
  - Three firms from Bear Stearns, Citi, Goldman Sachs, First Albany, and JP Morgan

##### 2. Evaluation Criteria

- Experience serving as a book-running or co-senior manager on tobacco securitizations.
- Financial capacity and willingness to underwrite at appropriately aggressive levels.
- Overall knowledge of the current tobacco bond market.
- Ability to market and expand the distribution of the Authority's bonds.

**valuation Matrix – Co-Senior Mana**

Evaluation Criteria	Banc of Am Securitie
General Firm Info Areas of Practice (Q:1)	Founded: 1 Headquarters: N 195,600 Employe Investment-Consu Bank
Experience serving as a Book-running or co- senior manager on tobacco securitizations and overall knowledge of the tobacco bond market. (Q:3, 5a, 5b)	Good Senior : NON Co-Senior: 3 TS
Financial capacity, willingness to underwrite, secondary market (Q:6)	Good Excess Capital: \$ Tobacco Sec Trades: \$ Avg. Daily Inv:
Ability to market and expand the distribution of the Authority's bonds. (Q:1)	N/A Does not answer question.

# ***The Buckeye Tobacco Settlement Financing Authority***

## ***Senior Managing and Co-Managing Underwriter Services***

### **STAFF AND FINANCIAL ADVISOR REPORT AND RECOMMENDATION**

#### 3. Evaluation Results and Staff Recommendation

##### Book-Running Senior Manager Respondents

Of the five qualified firms that responded to be considered for book-running senior manager, two firms were recommended for selection as joint book-running senior managers leaving three others as candidates for consideration as co-senior manager. As previously mentioned, a co-senior manager plays a key role in supporting the transaction by expanding the distribution, providing input on pricing and structure, and employing the use of firm capital to maintain appropriate pricing levels. These firms have served as book-running senior managers on a large tobacco securitizations and have extensive senior-level tobacco experience. They all have strong capital positions, hold daily tobacco positions, and are active secondary market participants. These attributes combine to make them well qualified to fulfill the co-senior manager scope of services. Therefore, we recommend that the Authority select the three remaining firms from among the applicants for joint book-running senior managers (according to the staff recommendation, these would be First Albany, Goldman Sachs, and JP Morgan) to serve in the role of co-senior managers.

##### Co-Senior Manager Respondents

The seven remaining co-senior manager respondents are set forth in the co-senior manager evaluation matrix. A firm's capital position becomes increasingly important with transactions of large size. Co-senior managers must be able to put their capital to work in order to support a pricing during eroding and difficult market situations. Five of the firms demonstrate strong capital positions while two, Loop Capital and Seibert, Brandford & Shank, show positions that are below a comfortable level for a co-senior manager on a transaction of this magnitude. For this reason Loop Capital and Seibert, Brandford & Shank are not recommended to serve as co-senior managers. The remaining five firms: Bank of America, Merrill Lynch, Morgan Stanley, Lehman Brothers, and UBS are well qualified to serve as co-senior managers and are active tobacco market participants with substantial prior tobacco experience.

Co-senior managers act under a key supportive role to the book-running senior manager(s) in helping to place bonds with investors. One way to gauge firms' ability to help support the transaction is a firms trading and secondary market tobacco activity. Firms that actively trade tobacco bonds and carry inventory are in a position to more readily enable an investor to buy bonds by trading them out of their current positions to create capacity for them to purchase your transaction. Based on this factor and the overall quality of the proposals we believe there is a relative ranking among the five qualified firms, as follows: Merrill Lynch, Morgan Stanley, Lehman Brothers, UBS, and Bank of America, respectively. Recognizing that there is a finite number of positions for co-senior managers we would recommend firms be considered using this ranking and recommend Merrill Lynch and Morgan Stanley to fill the remaining two of the five suggested co-senior positions. Should the Authority choose to select more than five co-senior managers we believe this ranking accurately reflects their relative value added to the transaction.

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# *The Buckeye Tobacco Settlement Financing Authority*

## *Senior Managing and Co-Managing Underwriter Services*

### STAFF REPORT AND RECOMMENDATION

#### C. Co-Manager

##### I. Proposals Received

- Twenty-two firms submitted proposals to serve as co-manager:
  - A.G. Edwards
  - BB&T Capital Markets
  - Alexandra & James
  - Butler Wick & Co.
  - Cabrera Capital Markets
  - Ferris, Baker Watts
  - Fidelity Capital Markets Services
  - Fifth Third Securities
  - Grigsby & Associates
  - Huntington Investment Company
  - Jackson Securities
  - KeyBanc Capital Markets
  - LaSalle Financial Services
  - M.R. Beal & Company
  - NatCity Investments
  - PNC Capital Markets
  - Raymond James & Associates
  - RBC Capital Markets
  - Robert W. Baird & Co.
  - SBK-Brooks Investment Corp.
  - Sterne, Agee & Leach
  - Sweney Cartwright & Co.
- The following three firms did not meet the minimum qualifications for experience serving as co-manager on at least two tobacco transactions or experience serving as a co-manager or senior manager on at least two negotiated transactions for state-level Ohio issuing authorities:
  - Alexandra & James
  - Grigsby & Associates
  - Sweney Cartwright & Co.
- All other proposals met both requirements as shown in Exhibit D.
- The following firms that applied for a co-senior position, but were not recommended, are also eligible for consideration for a co-manager position:
  - Bank of America
  - Lehman Brothers
  - Loop Capital Markets
  - Rice Financial Products Company
  - Siebert Brandford & Shank
  - UBS Securities

##### 2. Evaluation Criteria and Methodology

- Proposals were evaluated based upon the following factors:
  - Physical presence and commitment to Ohio.
  - Underwriting experience for state-level issuing authorities in Ohio.
  - Experience serving on tobacco securitization transactions.
  - Marketing and distribution capabilities.
  - Financial capacity.

Our evaluation process starts with a recommendation that all firms who applied for a co-senior manager position and met minimum qualifications, but were not recommended, should be included as a co-manager based on their overall level of qualifications.

The process for determining the remaining co-managers consisted of multiple criteria. A strong commitment to Ohio combined with underwriting experience for Ohio state-level issuing authorities were both critical levels of evaluated criteria. This level of commitment and experience in Ohio is important because it demonstrates both a firm's dedication to Ohio business and also indicates if a firm has a pre-existing investor base for State bonds. Our formula for determining which firms should be recommended as

# ***The Buckeye Tobacco Settlement Financing Authority***

## ***Senior Managing and Co-Managing Underwriter Services***

### STAFF REPORT AND RECOMMENDATION

a co-manager began with prioritizing each of the Ohio factors. Although the major national and institutional market penetration will be provided at the senior level underwriting positions, co-managers are important to the process especially on a regional and State level.

Experience serving as a co-manager on previous tobacco transactions was also deemed pertinent criteria during our evaluation process. Previous tobacco experience at the co-manager level demonstrates a firm's proven ability to target tobacco specific investors. To meet this level of performance, firms must have previously served as a co-manager on multiple tobacco transactions.

The marketing and distribution capabilities of each submitted firm were evaluated as another level of criteria. The scope of a firm's distribution network of both retail and institutional accounts and a strong sales force were identified as indicators of strong marketing and distribution capabilities.

The financial capacity of responding firms was also taken into consideration as qualifying criteria for a co-manager. Excess net capital and total tobacco bonds traded in the secondary market combined with an average daily inventory of tobacco bonds were identified as specific points of evaluation. Strong performance in this level of criteria demonstrates an ability and willingness to support an underwriting liability.

### 3. Evaluation Results and Staff Recommendation

The evaluation and selection process for co-managers is challenging because the Authority received many good proposals for a limited number of spots. In recommending the first positions to be filled, each of the following firms that applied for co-senior manager and met minimum qualifications, are recommended for inclusion as a co-manager, based on their overall level of qualifications:

- Bank of America
- UBS Securities
- Lehman Brothers
- Siebert Brandford Shank
- Loop Capital Markets

In further determining additional co-manager positions, we recommend that firms must meet at least two of the five criteria listed above, with at least one being Ohio specific. Based upon that formula, we believe the following individual firms are best qualified to provide co-manager services to the Authority:

- A.G. Edwards
- Butler Wick & Co.
- Fidelity Capital Markets Services
- Fifth Third Securities
- Huntington Investment Company
- KeyBanc Capital Markets
- NatCity Investments
- PNC Capital Markets
- Raymond James & Associates
- RBC Capital Markets
- Rice Financial Products Company
- Robert W. Baird & Co.
- SBK-Brooks Investment Corp.

A total of 18 firms overall have been recommended to serve as a co-manager to the Authority. It is important to highlight that every firm who responded to the Authority's underwriting RFP's will be included in the proposed transaction, either in the role of senior manager, co-manager or as a member of the selling group. The following firms are recommended for the selling group:

- Alexandra & James
- BB&T Capital Markets
- Cabrera Capital Markets
- Ferris, Baker Watts
- M.R. Beal & Co.
- Grigsby & Associates
- Jackson Securities
- LaSalle Financial Services
- Sterne, Agee & Leach
- Sweney Cartwright

***The Buckeye Tobacco Settlement Financing  
Authority***

***STAFF REPORT AND RECOMMENDATION***

***Exhibit B***

		Bear Stearns	Citigroup	First Albany	Goldman Sachs	J.P. Morgan	Merrill Lynch
Underwriter Services	Book-Running Senior Manager	x	x	x	x	x	x
	Co-Senior Manager						
Submission of Proposal	Turned in by 1:00 PM	x	x	x	x	x	x
	Within page limitations	x	x	x	x	x	x
	12 Copies	x	x	x	x	x	x
Certification & Info Sheet	Completed Certifications	x	x	x	x	x	x
	Completed Info Sheet	x	x	x	x	x	x
Trade Secret Claim	Included Trade Secret Claim	x	None	None	None	None	None



# The Buckeye Tobacco Settlement Financing Authority

## Staff Report and Recommendation

### Exhibit C

	A.G. Edwards & Sons	Alexandra & James	BB&T Capital Markets	Butler Wick	Cabrera Capital Markets	Ferris, Baker Watts	Fidelity Capital Markets
Submission of Proposal	X	X	X	X	X	X	X
Turned in by 1:00 PM	X	X	X	X	X	X	X
5 pages or less	X	X	X	X	X	X	X
12 Copies	X	X	X	X	X	X	X
Certificate n & Info Sheet	X	X	X	X	X	X	X
Completed Certifications	X	X	X	X	X	X	X
Completed Info Sheet	X	X	X	X	X	X	X
Trade Secret Claim	None	None	None	None	None	None	None
Included Trade Secret Claim	None	None	None	None	None	None	None
Minimum Qualifications	10 Transactions Par amt. \$21.8B	Did not meet	4 Transactions Par amt. \$5.2B	Did not meet	Did not meet	3 Transactions Par amt. \$4.8B	4 Transactions Par amt. \$7.9B
Co-Manager on at least 2 Tobacco Securitizations; or Senior or co-manager on 2 Negotiated transactions for State-level OH issuing authorities	27 Issues Par amt. \$2.8B	Did not respond/meet	2 Issues Par amt. \$320M	19 Issues Par amt. \$2.6B	2 Issues Par amt. \$244M	Did not respond/meet	Did not meet

# The Buckeye Tobacco Settlement Financing Authority

## Staff Report and Recommendation

### Exhibit C

Fifth Third	Grigsby & Associates	Huntington	Jackson Securities	Key Banc	LaSalle	M.R. Beal	NatCity Investment	PNC Capital Markets
X	X	X	X	X	X	X	X	X
X	X	X	X	X	X	X	X	X
X	X	X	X	X	X	X	X	X
X	X	X	X	X	X	X	X	X
X	X	X	X	X	X	X	X	X
None	None	None	None	None	None	None	None	None
Did not meet	Did not meet	Did not meet	6 Transactions Par amt. \$16.7B	Did not meet	5 Transactions Par amt. \$7.2B	18 Transactions Par amt. \$22.3B	Did not meet	Did not meet
61 Issues Par amt. \$7B	Did not meet	9 Issues Par amt. \$1B	2 Issues Par amt. \$145M	56 Issues Par amt. \$4.5B	6 Issues Par amt. \$355M	5 Issues Par amt. \$450M	2 Issues Par amt. \$7.2B	14 Issues Par amt. \$1.5B

# The Buckeye Tobacco Settlement Financing Authority

## Staff Report and Recommendation

### Exhibit C

Raymond James	RBC Capital Markets	Rice Financial Products	Robert W. Baird	SBK-Brooks	Sterne, Agee & Leach	Sweeney Cartwright
X	X	X	X	X	X	X
X	X	X	X	X	X	X
X	X	X	X	X	X	X
X	X	X	X	X	X	X
X	X	X	X	X	X	X
None	None	None	None	None	None	None
6 Transactions Par amt. \$10.5B	18 Transactions Par amt. \$25.9B	Did not meet	Did not meet	Did not meet	5 Transactions Par amt. \$5.9B	Did not meet
4 Issues Par amt. \$486M	89 Issues Par amt. \$7B	17 Issues Par amt \$1.8B	12 Issues Par amt. \$1B	31 Issues Par amt. \$3.9B	Did not meet	Did not meet

**The Buckeye Tobacco  
Settlement Financing  
Authority**



**Planned Tobacco Securitization  
\$5.05 Billion Targeted Proceeds**

**Underwriting Team Selection**



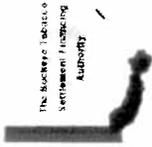
## Underwriting Team – Selection Considerations

*It is our opportunity and challenge to successfully deliver \$5.05 billion in net tobacco asset-backed bond proceeds at the lowest possible interest cost.*

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The Buckeye transaction, estimated at \$5.6 billion, will be the largest tobacco securitization yet executed in the municipal tobacco market.

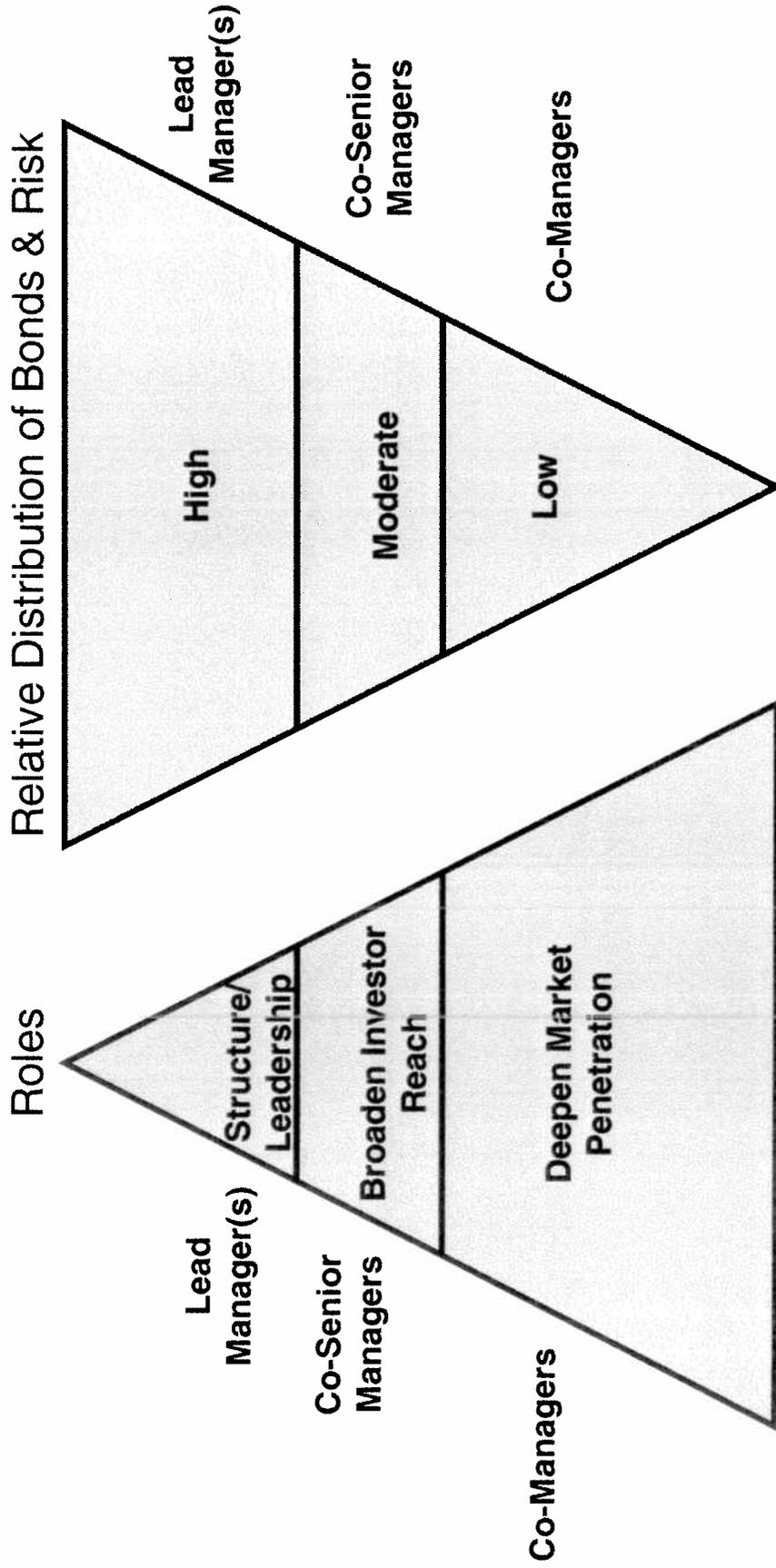
- Golden State (CA) transaction of \$4.4 billion completed March, 2007
- New Jersey transaction of \$3.6 billion completed January, 2007



## Underwriting Team – Selection Considerations

- The BTSFA must leverage the full resources of the investment banking firms most experienced in tobacco securitization.
  - Need to successfully engage existing tobacco buyers
  - Need to attract new buyers for tobacco
- The BTSFA transaction must set new standards for **Communication, Collaboration and Cooperation** among all investment banking team firms.

# Underwriting Team: Balancing Roles, Risk and Compensation





## **Underwriting Team – Lead Manager Responsibilities**

### **Lead/Book-Running Manager Responsibilities:**

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- Lead initiative to analyze structural alternatives, product mix, and develop an optimal plan of finance;
- Lead effort to develop an investor marketing plan and coordinate work of Co-Senior Managers to identify and dialogue with potential investors to fine tune the structure, generate demand for the bonds, and facilitate buyer liquidity.
- Provide insight and recommendations with respect to the timing and amount of the sale.
- Coordinate orders for the bonds as bonds are being priced; and
- Provide capital to underwrite unsold bond balances, if necessary.



## **Underwriting Team – Lead Manager Selection Criteria**

### **Lead/Book-Running Manager Selection Criteria:**

---

- Broad experience leading other state level tobacco transactions;
- Proposed ideas to optimize structure and product mix to attract buyers;
- Demonstrated ability to effectively manage a large underwriting team;
- Commitment to collaborate with other Co-Senior Managers, Staff & PFM;
- Ability and willingness to commit capital to facilitate successful execution and maintain secondary market liquidity.

## **Underwriting Team – Senior Manager Responsibilities**

### **Co-Senior Manager Responsibilities:**

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- Provide feedback to Lead Manager(s) on structure and product mix;
- Work cooperatively with Lead Manager(s) to implement the marketing and communication plan, thus expanding the range of potential investors;
- Provide capital to facilitate buyer liquidity and, if necessary, underwrite unsold balances; and
- Maintain strong secondary market for transaction on an ongoing basis.



## **Underwriting Team – Senior Manager Selection Criteria**

### **Co-Senior Managers Selection Criteria:**

---

- Experience in senior managing role in other state or larger county tobacco transactions;
- Commitment to collaborate with other Lead Manager(s), Staff & PFM;
- Ability to market and expand the distribution of the Authority's bonds.
- Ability and willingness to commit capital to facilitate successful execution; and
- Commitment to maintaining secondary market liquidity.



## **Underwriting Team – Co-Manager Responsibilities**

### **Co-Manager Responsibilities:**

---

- Complement the marketing strengths of the Lead and Co-Senior Managers, adding distribution strength to multiple market segments, including retail and regional buyers; and
- Commit capital to underwrite unsold balances up to assigned liabilities.



## **Underwriting Team – Co-Manager Selection Criteria**

### **Co-Manager Selection Criteria:**

---

- Experience in other Ohio state level transaction and Ohio presence.
- Experience in other tobacco securitization transactions.
- Marketing and distribution capabilities.
- Financial capacity to underwrite the Authority's bonds.



## Underwriting Team – Determining Size

- Setting size of team is influenced by several factors:
  - Size of Transaction
    - Larger transactions mean larger group of investment banking firms to successfully market and distribute bonds.
  - Content of Proposals
    - Evaluation process may lead to “grouping” of firms with skill sets that best match needs of transaction.
  - Market Precedent
    - March 2007 California transaction of \$4.4 billion.
    - Utilized 2 Joint Book-Runners, 3 Co-Senior Managers, and 19 Co-Managers.
- Target Team Composition:
  - Two Lead/Book-Running Managers
  - Four to Five Co-Senior Managers
  - Fifteen to Twenty-five Co-Managers