



BLX Group LLC

51 West 52nd St
New York, NY 10019
Ph 212 506 5200 Fx 212 506 5151
blxgroup.com

March 22, 2019

Mr. Clyde L. Burmaster
President
Niagara County Treasurer's Office
Niagara Tobacco Asset Securitization Corporation
59 Park Avenue
Lockport, NY 14094

Re: \$44,295,000
Niagara Tobacco Asset Securitization Corporation
Tobacco Settlement Asset-Backed Bonds, Series 2014 (the "Bonds")
Proposal to Provide Mark-to-Market Valuation Analysis

Dear Mr. Burmaster:

On behalf of BLX Group LLC ("BLX"), we are pleased to present this proposal to Niagara Tobacco Asset Securitization Corporation (the "Corporation") to provide a mark-to-market investment valuation analysis as it relates to the computation of the arbitrage rebate liability with respect to the Bonds. The primary goal of the proposed analysis and valuation is to reduce the current and future cumulative arbitrage rebate liability and future rebate payments with respect to the Bonds. The Corporation's approximate future rebate payment obligations to the IRS are projected in Table 1 below.

Table 1:

<i>Bond Issue</i>	<i>Bond Yield</i>	<i>Payment Date</i>	<i>Approximate Future Rebate Payments</i>	<i>Present Value of Payments</i>
Tobacco Settlement Asset-Backed Bonds, Series 2014	3.817436%	03/31/19	\$133,000	\$133,000
		03/31/24	\$352,000	\$291,000
		03/31/29	\$342,000	\$234,000
		03/31/34	\$307,000	\$174,000
		03/31/39	\$247,000	\$116,000
		11/15/40	\$306,000	\$135,000
Total:			\$1,687,000	\$1,083,000

Background

The Bonds are, in part, current refunding bonds, a portion of the proceeds of which were used to refund the Corporation's Tobacco Settlement Asset-Backed Bonds, Series 2000 (the "2000 Bonds") on October 24, 2014. The 2000 Bonds were issued on November 9, 2000 with a bond yield of 6.364237%. The Liquidity Reserve Account of the 2000 Bonds was funded with proceeds of the sale of the 2000 Bonds and invested in a forward delivery agreement with Citigroup Financial Products Inc. (the "Provider"), the terms of which are detailed below (the "Citi FDA").

Original Forward Delivery Agreement:

Closing Date	Maturity Date	Guaranteed Rate	Liquidity Reserve Requirement (2000 Bonds)
November 9, 2000	November 15, 2040	6.045%	\$3,973,906.25

At the time the Bonds were issued, due to the lower relative interest rate environment and the above market rate of the Citi FDA, the Citi FDA was transferred to the debt service reserve account for the Bonds. Since a portion of the Citi FDA was not required to satisfy the Liquidity Reserve Requirement of the Bonds, a portion of the Citi FDA was terminated, resulting in a termination amount of \$347,000 paid by Citigroup Financial Products Inc. to the Corporation (the "Termination Amount")¹ Such termination payment was applied to pay debt service on the 2000 Bonds. The Termination Amount was taken into account in the determination of cumulative rebate liability with respect to the 2000 Bonds. As of the final redemption date of the 2000 Bonds, the cumulative rebate liability was negative (\$3,969,700).

In addition to the termination of a portion of the Citi FDA described above, the portion of the Citi FDA that was not terminated was amended to reflect a new amortization schedule consistent with the Liquidity Reserve Requirement of the Bonds. A summary of the terms of the amended forward delivery agreement are detailed below.

Amended Forward Delivery Agreement:

Closing Date	Maturity Date	Guaranteed Rate	Liquidity Reserve Requirement (Bonds)	Termination Amount
September 24, 2014	November 15, 2040	6.045%	\$3,371,437.50	\$347,000

Transferred Proceeds

The date on which proceeds of the Bonds are utilized to pay outstanding principal of the 2000 Bonds, unspent proceeds of the 2000 Bonds cease to be proceeds of the 2000 Bonds and instead are treated as transferred proceeds of the Bonds ("Transferred Proceeds"). Unexpended proceeds (including accrued interest) from the Liquidity Reserve Account in the amount of \$3,390,000 (representing the plain par valuation of the Citi FDA) became Transferred

¹ The fact that a termination payment was paid at closing is helpful in establishing a precedent for a positive market value on the Citi FDA, as the Transferred Proceeds date (mark-to-market date) is only 30 days later.

Proceeds of the Bonds on October 24, 2014. The investment of the Transferred Proceeds of the Citi FDA at a rate of 6.045% is above the yield on the Bonds of 3.817%, generating positive arbitrage and the projected rebate payments referenced in Table 1.

Proposed Analysis – Mark-to-Market

We have identified an opportunity to reduce or possibly eliminate the Corporation's rebate payment obligations on the Bonds. As mentioned previously, the 2000 Bonds have a cumulative rebate liability of approximately (\$4M) and therefore the potential to shield the excess spread generated by the Citi FDA with respect to the Bonds.

Based upon this information, we have initiated a comprehensive review of available optional calculation methodologies or elections that could be applied as of the transferred proceeds date that might result in a reduction in the existing and future rebate liability associated with the Bonds, as permitted by the Treasury Regulations. As set forth in Section 1.148-5(d)(1) of the Treasury Regulations, the value of an investment on any date must be determined by one of the following valuation methodologies (i) plain par plus accrued interest, (ii) present value, and (iii) market value. By choosing to value the Citi FDA using the last option (market value) on the relevant transferred proceeds date, we believe the Corporation will realize a sizable present value savings through the reduction or elimination of future rebate payments due in connection with the Bonds. Even though the exploration, evaluation, and application of the available investment valuations may be complex and cumbersome, the potential benefits may vastly surpass the costs of the additional financial analyses.

Based upon estimates using historical yield curve data and assuming the following: (1) the Bonds are not redeemed prior to the lesser of the stated maturity date, or the maturity of the Citi FDA, (2) the Citi FDA is not terminated prior to its stated maturity date, and (3) the reinvestment rate after the maturity of the Citi FDA will not be in excess of the yield on the Bonds through the stated maturity date, we anticipate the gross savings to be in excess of \$1,650,000 and present value savings to be in excess of \$1,050,000.

Risks

As set forth in the Treasury Regulations, the fair market value of an investment is the price at which a willing buyer would purchase the investment from a willing seller in a bona-fide, arm's length transaction. For investments such as guaranteed investment contracts and forward delivery agreements that do not trade on the open market and are therefore illiquid, the Treasury Regulations set forth specific requirements to determine fair market value. These requirements are known as the "safe harbor" provisions.

As with all guaranteed investment contracts and agreements, the Citi FDA is not a liquid security. Therefore, the safe harbor provisions in determining fair market value are not available once the security has been procured. Because the proposed valuation does not fall under the safe harbor, the IRS could technically challenge the market value calculation in the event of an IRS inquiry. However, BLX will determine the market value and provide analysis to support a fair and reasonable valuation, consistent with industry standards. As mentioned previously, the fact that a termination payment has been paid by the Provider at closing is helpful in establishing the reasonableness of the calculation.



Personnel Roles/Responsibilities

It is anticipated that the following individuals would have an integral role in delivering the services indicated herein:

<i>Personnel</i>	<i>Title</i>	<i>Roles/Responsibilities</i>
Richard Chirls	Tax Partner	Tax/Regulatory Research, Consultation and Oversight
Eric Chu	Managing Director	Mark-to-Market Rate Evaluation and Opinion
Jeffrey Higgins	Managing Director	Project Management, Regulatory Research, and Report Review
Justin Gagnon	Managing Director	Project Management, Regulatory Research, and Report Review
Allen Hueston	Managing Consultant	Mark-to-Market Implementation and Report Production
Guangyu Shi	Managing Consultant	Mark-to-Market Rate Calculation and Evaluation

Deliverables

- Summary of Mark-to-Market Analysis as it relates to both the Bonds and the 2000 Bonds.
- Mark-to-Market Evaluation and Opinion, prepared by BLX Swap Advisory Group.
- Revised Final Arbitrage Rebate Analysis for the 2000 Bonds for the period ending October 24, 2014, which will reflect the implementation of the mark-to-market analysis.
- Interim Arbitrage Rebate Analysis for the Bonds for the installment computation date of March 31, 2019, which will reflect the implementation of the mark-to-market analysis.
- Projected Arbitrage Rebate Liability Summary for the Bonds, which will reflect the implementation of the mark-to-market analysis.

Cost

A proposed fee for the identification of such a significant opportunity, the consultation, evaluation, implementation, and documentation surrounding the above mentioned services, analyses, and deliverables is generally 5%-10% of savings identified. However, we are willing to provide the above-mentioned scope for a flat fee of \$55,000. Please note that this fee is inclusive of the involvement of Orrick, Herrington & Sutcliffe LLP and would be due and payable upon the delivery of the aforementioned deliverables.



Mr. Clyde L. Burmaster
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Thank you for the opportunity to present this proposal to the Corporation.

If this proposal is satisfactory, please have an authorized official execute one copy and return it to the undersigned.

Very truly yours,

Justin M. Gagnon, CFA
Managing Director
(919) 537-8855

Accepted: NIAGARA TOBACCO ASSET SECURITIZATION CORPORATION

By:

Print Name:

Title:

Date:

CYDE L. BURMASTER
6:30 PM President
4-9-19