

Tobacco Settlement Financing Corporation
August 20, 2013
Minutes of the Meeting

A Tobacco Settlement Financing Corporation meeting was held in the Controller's Conference Room on the 4th floor of the Department of Administration Building, One Capitol Hill, Providence, on Tuesday, August 20, 2013.

At 3:10 p.m., Thomas Mullaney, Executive Director/State Budget Office, Department of Administration called the meeting to order. Corporation members present were: Thomas Mullaney, James Thorsen and Robert Cusack. Corporation member absent was Andrew Reilly. Other attendees were: Rosemary Booth Gallogly, Director of Revenue, Maureen Gurghigian of FirstSouthwest, Tom Green from Citi, Peter Marino, Director of the Office of Management & Budget, Suzanne Amerault of the State Budget Office and Kathy Gregg of the Providence Journal.

The first order of business was to elect a new Chair. Mr. Mullaney was appointed to the Tobacco Settlement Financing Corporation (the Corporation) as a representative of the State Investment Commission by Governor Lincoln D. Chafee on June 28, 2013. A motion was made by Mr. Cusack to elect Thomas Mullaney as Chair of the Corporation. The motion was seconded by Mr. Thorsen and approved unanimously.

The next order of business was to approve the minutes of the October 12, 2012 meeting. A motion was made to approve the October 12, 2012 minutes by Mr. Thorsen. The motion was seconded by Mr. Cusack and approved unanimously.

The next item on the agenda was the update of the FY 2013 Audit Report. Mr. Mullaney notified the Corporation Board that Mr. Wilkinson from Braver, who serves as the Corporation's auditor, had received materials prepared by the State Controller's Office and was working on the Corporation's audit. Mr. Mullaney will provide the Board a copy of the draft audit as soon as it is available.

The next agenda item was discussion of the Memorandum of Understanding between the Corporation and State Controller's office. As this MOU was initiated by the Board's previous chair, Mr. Mullaney asked Mrs. Gallogly to discuss the MOU and its origins. Mrs. Gallogly explained how the Board's bank statements previously came to the Budget Office and that a Budget Analyst was assigned to enter data into an excel spreadsheet, as a way of tracking the Corporation's transactions. Transferring these accounting responsibilities to the State Controller's Office through the MOU between the State and the Corporation will provide a clear monthly record for the Auditors. There will be no charge to the Corporation. Mr. Thorsen made a motion to approve the MOU between the Corporation and the State Controller's office; Mr. Cusack seconded the motion, and all approved.

The next agenda item was an update on the Morgan Stanley Reserve Fund – Diversification issue. Mr. Mullaney asked Ms. Gallogly to update the Board. Mrs. Gallogly stated that due to a downgrade of Morgan Stanley, the bond documents required assets held in the reserve fund to be collateralized. Roger Bagley from Hawkins, Delafield & Wood worked on the change in the reserve fund documents relating to the collateralization for the Corporation, and Ms Gallogly asked that the issue of diversification of investments be addressed at this time. The change incorporated in the pending modified documents requires that no more than fifty percent be invested with one entity.

Attorney Bagley couldn't be in attendance at the meeting, but was available by phone if there were any questions. Mrs. Gallogly went on to say Mr. Bagley researched and found that the TFSC has to pay the fee relating to the custodian for the collateral in order to comply with the bond documents. Mr. Cusack asked that the Corporation be given a report when complete.

The next agenda item was for the Board to receive an update on the settlement relating to disputed payments entered into by other states. Tom Green from Citi was asked to update the Corporation as he had the most knowledge regarding this subject. Mr. Green gave a brief overview, relaying that 22 states have now signed on to resolve their disputes. Rhode Island was an uncontested state and this currently has no direct impact on the TFSC other than timing of the release of the funds. The bond documents also have language concerning the Corporation's pledge at the time of issuance to ensure that all funds due under the MSA are used to repay the bonds, and such settlement could be construed as settling for less.

The next item on the agenda was an update on market conditions but Chairman Mullaney asked to continue on the agenda and come back to this item.

Discussed next was the close of examination by the IRS of the Corporation's 2007 bond issuance. Mrs. Gallogly informed the Board that the IRS has concluded their audit and there were no adverse findings against the TFSC on this bond issuance. The audit commenced a year ago and the letter closing the audit was just received in July 2013.

Next Mrs. Gallogly was asked to give an update on the bid-rigging trial. She was a witness in a federal criminal trial in August 2012 relating to guaranteed investment contracts that the Corporation and the State of Rhode Island entered into in 2002 relating to the bond proceeds from the 2002 TFSC bond issuance. According to evidence presented at trial, while acting as providers, the three men convicted, with their provider and broker co-conspirators, corrupted the bidding process for more than a dozen investment agreements to increase the number and profitability of the agreements awarded to their firm. At other times, while acting as brokers, the three men convicted and their co-conspirators arranged for their firm to receive kickbacks in exchange for manipulating the bidding process and steering investment agreements to certain providers. As of a result of the SEC investigation into this matter, a number of investment banks reached settlements with the SEC that resulted in revenue to the TFSC and/or the state in the sum of several million dollars. Three men were sentenced to prison and ordered to pay fines.

The next agenda item discussed the market update. Mr. Mullaney asked Mr. Green from Citi, who served as the underwriter on the 2007 bonds, to provide an update on the current markets for tobacco settlement debt and the possibility of a refunding of outstanding TFSC debt. Mr. Green discussed the possibility of refunding the 2002 bonds and possibly a portion of the 2007 bonds, however, the benefits to any such refunding would accrue to the holders of the 2007 debt. Thus, the only way the Corporation and therefore the state could benefit from a refunding would be to negotiate with the 2007 bondholders. Mr. Green noted that refunding tobacco settlement debt is very complicated, and that a lot of work has to be done in order to be ready to move when the time is right.

Mrs. Gallogly noted that as with the previous debt issuances conducted by the Corporation, the Board would need to go through an RFP process for various assistance in conducting such a deal.

Mr. Cusack made a motion to direct the Chairman to pursue Requests for Proposals for a Financial Advisor, Bond Counsel, Escrow Agent, Verification Agency, Underwriter, Disclosure Counsel and for any other services typically required in a tobacco settlement bond issuance. Mr. Thorsen seconded the motion. All were in favor.

Mr. Thorsen asked that it be on record that the Board extends its heartfelt thanks to Rosemary Booth Gallogly for her years of service to the TSFC. Ms. Gallogly thanked the Board and offered her assistance going forward.

A motion was made to adjourn by Mr. Thorsen. The motion was seconded by Mr. Cusack and approved unanimously. The meeting adjourned at 3:55 p.m.

Respectfully submitted,

Robert Cusack
Secretary