Tobacco Settlement Financing Corporation
July 15, 2014
Minutes of the Meeting

A Tobacco Settlement Financing Corporation meeting was held in the Executive Conference Room on the 4th floor of the Department of Administration Building, One Capitol Hill, Providence, on Tuesday, July 15, 2014.

At 3:05 p.m., Thomas Mullaney, Chairperson, called the meeting to order. Corporation members present were: Thomas Mullaney (Chair), James Thorsen and Robert Cusack. Others in attendance were: Maureen Gurghigian and Matthew Blais from FirstSouthwest, Thomas Green from Citigroup, Roger Bagley from Hawkins Delafield & Wood and Suzanne Amerault from the State Budget Office. Board member Andrew Reilly was absent.

The first order of business was to approve the minutes of the April 17, 2014 meeting. A motion was made to approve the minutes by Chairman Mullaney. The motion was seconded by Mr. Cusack and approved unanimously.

The next agenda item was an update on the Tobacco Bond transaction. Chairman Mullaney asked Thomas Green of Citigroup to speak to this item. A PowerPoint presentation (attached herewith) was passed out to the group which summarized the proposed transaction.

Mr. Green explained the benefits to the State and the Corporation from this transaction, which include: an upfront cash payment of at least $20 million to the State from the 2014 bond proceeds; the State will also receive 30% of any TSR amounts owed to Rhode Island by the tobacco companies and currently held in the Master Settlement Agreement's Disputed Payment Account and, until the 2014B bonds are paid off, 30% of the residual TSRs after payment and funding requirements related to the 2014 bonds; the Attorney General will have the ability to resolve MSA disputes with the tobacco companies and the Corporation is expected to have A, A- and BBB+ ratings for the 2014 bonds.

Next, Mr. Green discussed the impacts of this transaction on the existing bondholders, which include but are not limited to: the 2002 bondholders are called out at par plus accrued interest, the 2007 bondholders tender a portion of their bonds for purchase. The remaining bondholders are projected to be paid much earlier than they would have been paid without the transaction.

Mr. Thorsen had a few questions for Mr. Green regarding the transaction. First, Mr. Thorsen asked what exactly the Corporation is getting for the $20 million. Mr. Green opened the discussion, as others joined in and the group basically decided that they are "buying creditworthiness" including but not limited to significantly earlier repayment of bondholders. Mr. Thorsen stated that this transaction is reducing risks.

Mr. Thorsen then asked how the Board will know they are getting a fair deal and if there are any comparable deals in the market. Mr. Bagley added that there are no known comparable deals in the market at this time. Mr. Green and Ms. Gurghigian discussed the models used and that the tender price is at or below the JJ Kenny price.

Mr. Thorsen then asked if all bondholders will be given the same offer. Mr. Green and Mr. Bagley told Mr. Thorsen that all 2007 bondholders were notified of the offers made for purchase of their bonds. Mr. Green said that we are not expecting any reaction from the minority holders.

Mr. Thorsen asked if there are any constraints on what the State can use the proceeds for. Chairman Mullaney stated that the Legislature laid out the following: $5 million for the Municipal Road and Bridge Revolving Loan Fund, which is administered by Clean Water Finance Agency and which funds must be used for long life projects, $5 million will be put in the General Fund, and $10 million will be put in the IT Investment Fund.

Mr. Thorsen then asked how much flexibility the Corporation will have to refinance in the future. Mr. Bagley stated that the Corporation could do a refunding of the 2014 As and Bs if the additional bonds tests in the 2014 indenture and the amended 2007 indenture are satisfied.

Mr. Thorsen then asked the group if there are any risks that have not been discussed. Mr. Green stated that we haven't discussed tobacco risks because we are selling those off.

Mr. Cusack asked about the SWAP policy. Mr. Green said that Morgan Stanley is of the view that the reserve fund agreement should be treated the same as an interest rate SWAP which would require a board policy. Mr. Cusack stated that we shouldn't have to do this, however, there is no downside.

Chairman Mullaney asked Roger Bagley to discuss the Authorizing Resolution. A binder was handed out to those in attendance. Mr. Bagley proceeded to discuss each item in the Resolution. Additional discussion was given to Item 5, Authorization of Execution and Delivery of the Continuing Disclosure Agreement. The Board discussed using Digital Assurance Certification (DAC). They are an off-shoot of Ernst & Young and are very active in the continuing disclosure area. The Corporation can hire them for $3,000 upfront fee and $1,500 per year. All were in agreement the Corporation should hire DAC.

Also, additional discussion was given to Item 10, Appointment of Trustee. Mr. Bagley stated that Wells Fargo is already the Trustee for the 2007 Bond Issue and there are benefits to retaining them. Led by Mr. Cusack, the Board fully discussed the advantages to the Corporation by having the same trustee as on the 2002 and 2007 bond issues given the complexity of this transaction.

Chairman Mullaney then asked Maureen Gurghigian to discuss the syndicate. It was advised that there be two senior managers (CitiGroup as Senior Manager and Bank of America/Merrill Lynch as Co Senior Manager); and 3 co-managers (Janney, Oppenheimer and Raymond James). Ms. Gurghigian suggested recommending the three co-managers because they are local firms and do a lot of Rhode Island issues. Mr. Thorsen asked if there is a benefit in having the co-managers. Ms. Gurghigian stated that on the Series A, the benefit is broader distribution from the underwriting group.

With regard to the allocation of liability for the underwriting, the group discussed and decided on: 80% to Citigroup, 11% to Bank of America/Merrill Lynch and 3% to each of the co-managers (Janney, Oppenheimer & Raymond James).

Mr. Green told the group that the majority 2007A bondholder might stick to an earlier request for shortening the stated maturity of the 2007A bonds, but that they might not and, even if they do, they wouldn't be entitled to get any more than the existing accreted value tables provide for any payment date, including the new earlier stated maturity. Mr. Bagley stated that a change in the stated maturity of the 2007A bonds should only be made with the consent of 100% of 2007A bond holders. Mr. Green agreed with that.

Chairman Mullaney asked the group to vote on the resolution and made a motion to approve the resolution, Mr. Thorsen seconded the motion, all were in favor.

There being no other business, the members voted in favor of adjourning at 4:42 p.m.