TSA
TOBACCO SETTLEMENT AUTHORITY

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Tobacco-bond refinancing to save state millions

SEATTLE – The state of Washington will save an estimated $5 million over the next five to six years, thanks to the refinancing of a portion of an existing bond issue by the Washington State Tobacco Settlement Authority.

With the refinancing, which closed June 20, the Tobacco Settlement Authority will be able to pay off approximately $43.6 million in bonds sooner than anticipated—saving interest and returning tobacco-settlement revenue to the state earlier than anticipated.

"We take our stewardship of these financial tools very seriously and have watched the market for opportunities to save the state money," said Carla M. Dewberry, chair of the TSA. "We're very pleased to have again taken advantage of such an opportunity."

The $5 million savings come from refinancing and restructuring of an allowable portion of tax-exempt bonds the TSA issued in 2013, which themselves refinanced the original 2002 bonds.

The tobacco-settlement bonds originated in the late 1990s, when 46 states reached a settlement with the major tobacco companies over violations of antitrust and consumer-protection laws. Washington was awarded about $4 billion, to be received in annual payments over time.

But due to a recession-related budget crisis, in 2002, state legislators decided to borrow against these future revenues. The Governor appointed the Tobacco Settlement Authority to issue the bonds and incur the debt. The resulting sale of bonds to investors generated $450 million for the state general fund.

Ever since, the TSA has continued to pay off the debt using 29.2 percent of the state's annual revenues from the tobacco settlement. A refinancing in 2013 saved the state approximately $90 million over the life of the bonds.

The current refinancing means that the 29.2 percent currently used by the TSA to repay the debt will begin flowing directly to the state earlier than anticipated—a return of $5.6 million.

The transaction would have been larger and generated more savings, but the 2017 Tax Cuts and Jobs Act eliminated the advance refunding of bonds in the interest of offsetting other tax cuts.

Thanks to the Tobacco Settlement Authority, the state has no obligation or liability related to the bonds. The bonds do not affect the state's credit, credit ratings, or borrowing capacity.

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For further information, visit www.tsa-wa.org or contact the TSA.

The Tobacco Settlement Authority was created by state law in 2002 to issue bonds against future tobacco-settlement revenues. It is a five-member board appointed by the Governor, with administrative support provided by the staff of the Washington State Housing Finance Commission.

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FAQ:

What is the Tobacco Settlement Authority?

The Tobacco Settlement Authority was created by state law in 2002 to issue bonds against future tobacco-settlement revenues. It is a five-member board appointed by the Governor, with administrative support provided by the staff of the Washington State Housing Finance Commission.

Why were the tobacco bonds issued?

To provide $450 million for state budget relief in 2002 at the direction of the state legislature.

How much revenue was generated?

The bonds were sold for $517 million. Most ($450 million) was deposited into the state's general fund in 2002. The remainder covers required closing costs, a reserve account, and oversight.

What are tobacco-settlement revenues?

In the late 1990s, 46 states, including Washington, reached a Master Settlement Agreement with the major tobacco companies over violations of antitrust and consumer-protection laws. Washington state was awarded approximately $4 billion, to be received over a period of 25 years. Payments to the state in accordance with the Master Settlement Agreement are tobacco-settlement revenues.

How do the bonds work?

Per legislation, the Tobacco Settlement Authority issued bonds that were purchased by private investors and it must repay the bonds over time, a process known as securitization. The TSA receives 29.2% of the tobacco-settlement revenues that come to the state each April and uses this portion to pay off the bonds. (The state Office of Financial Management receives the other 70.8%.)

How does this percentage compare with other states?

Most states have sold 100% of their anticipated tobacco revenues. Washington decided to issue bonds against no more than 30% of its expected tobacco revenues.

Is this debt carried by the state?

No. The state has no obligation or liability in any way related to the repayment of these bonds. The bonds can never directly affect the state's credit, its credit ratings, or its borrowing capacity.

Are the bonds all tax exempt?

Yes. The entire bond issue is tax exempt, meaning that investors do not have to pay federal income tax on interest on the bonds. Therefore, the Authority pays lower interest rates.