TSA
TOBACCO SETTLEMENT AUTHORITY

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Tobacco-bond refinancing to save millions for state

SEATTLE – Today the Washington State Tobacco Settlement Authority closed the refinancing of a bond issue that will save an estimated $90 million in interest over the next decade.

The savings come from taking advantage of favorable interest rates, similar to refinancing a home mortgage, to refinance bonds the TSA issued in 2002 to generate revenue for the state.

"I'm pleased that through the diligence and stewardship of the Tobacco Settlement Authority, this refinancing will be a win for the people of Washington," said Governor Jay Inslee.

Thanks to the refinancing, the Tobacco Settlement Authority will be able to pay off approximately $517 million in bonds sooner than anticipated—saving interest and returning revenue to the state.

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

During the "dot-com" recession, the state did not have enough revenue to balance the 2001-03 budget. Legislators decided to borrow against the future tobacco settlement money in order to add funds to the state coffers right away. The amount the state needed was $450 million.

In 2002, the legislature and governor passed a law creating the Tobacco Settlement Authority, a five-member board appointed by the Governor, to issue the bonds and incur the debt. In November 2002, the TSA issued the bonds, which were purchased by investors, generating $450 million that the TSA deposited into the state general fund and additional funds required for closing costs, a reserve account and oversight. The TSA continues to pay off the debt using 29.2 percent of the state's annual tobacco revenues.

Today's refinancing means that the 29.2 percent currently used by the TSA to repay the debt will begin flowing directly to the state years earlier than anticipated. The interest savings are just under $90 million, or $58 million in today's dollars when adjusted for inflation.

"The current schedule will allow TSA to repay the debt in 2024, after which an estimated $40 to $41 million will go to the state of Washington each year," said TSA Chair Carla M. Dewberry. "We will all benefit from this savings in the long run."

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

TSA

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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.