
TOBACCO MASTER SETTLEMENT AGREEMENT (MSA) SECURITIZATION

Background Information and Potential Opportunities

State of Nevada



EXHIBIT C SilverHaired Document consists of 22 pages.

Entire document provided

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Dear Governor Gibbons, Senator Raggio and Speaker Buckley,

Attached please find detailed information on the possible securitization of Nevada's Tobacco Master Settlement Agreement future revenues. There are pros and cons associated with securitizing the money at this time; however, given the current budget situation this may be a useful tool without raising taxes to ensure that critical programs are not forced to make harmful cuts.

Using the working models contained in this working draft, the \$775 million that could be gained from securitizing would be reduced by prevailing market conditions, rating agency requirements and mandatory debt reserves. Therefore, the amount of tobacco fund proceeds available for immediate use by the state would be approximately \$600 million.

I hope this information is helpful and informative as you make your decisions on how to address the budget challenges faced by the state.

Respectfully submitted,



Brian K. Krolicki
Lieutenant Governor



The Tobacco Master Settlement Agreement (MSA)

- **Annual payments are to be made to the States in perpetuity**
 - Payments will be made largely by the “Big Four” tobacco companies (Philip Morris, R.J. Reynolds, Lorillard and Brown & Williamson) based on each company’s annual market share of U.S. cigarette shipments.
 - \$383 billion in payments are currently expected to be made by the “Big Four” over the next 40 years.
 - Annual payments are subject to adjustment based on inflation and changes in volume of domestic U.S. cigarette shipments.

- **The Tobacco Settlement Agreement anticipates that Nevada will receive approximately \$2.4 billion over the next 40 years, subject to adjustments for inflation and changes in cigarette consumption.**



Tobacco Settlement Payments

- Nevada has already or is expected to receive three types of Tobacco Settlement Payments
 - Initial Payments: 2000 – 2003
 - Annual Payments: 2000 – Perpetuity
 - Strategic Contribution Payments: 2008 – 2017

- Annual and Strategic Contribution Payments are adjusted for
 - Inflation at 3% minimum
 - Volume changes
 - Previously Settled States' payments and Subsequent Participating Manufacturers payments



Future tobacco settlement payments are unpredictable.

- **Cigarette consumption is dropping faster than anticipated.**
 - Cigarette shipments in the first quarter of 2008 fell by 3.3% from their level in the first quarter of 2007.
 - Full year 2008 consumption is projected to decline 3.13% from 2007 and 2009 consumption is expected to decline a further 2.38%.

- **Consumption declines are translating into lower tobacco settlement payments.**

- **Strategic bankruptcy by the tobacco companies to protect their assets could result in immediate payment stoppage.**

- **Per the MSA, participating manufacturers can withhold three times their market share losses from future payments under certain conditions, and otherwise downwardly adjust future payments.**

- **Decision-makers are caught in the public policy dichotomy of enacting policies and laws to reduce smoking while relying on continued smoking for future revenues. In 2006, Nevada voters passed severe restrictions on smoking, banning it on all school property, in grocery stores and in restaurants.**



Numerous challenges facing the tobacco industry put future tobacco settlement payments at risk.

■ Litigation

- Individual smoker cases
- Pending lawsuits challenging the MSA under federal antitrust laws

■ Legislation

- Possible FDA regulation of tobacco

■ Bankruptcy

- Strategic bankruptcy to protect assets from punitive damage awards

■ Future Business Prospects

- Public policy initiatives to reduce smoking
- Additional excise taxes

■ Non-Participating Manufacturer (“NPM”) Adjustment

- Adjustment that can be claimed by the “Big Four” due to loss in market share
- Can result in a reduction of payments to the State
- Disputed Payments under the NPM Adjustment
 - 2003: \$1.2 billion; 2004: \$1.1 billion; 2005: \$775 million



The State currently utilizes its tobacco settlement revenues to fund a number of different programs.

- **40% of the MSA payments are allocated to the Governor Guinn Millennium Scholarship Program Trust Fund.**
- **10% is directed to the Trust Fund for Public Health.**
- **50% is allocated to the Trust Fund for a Healthy Nevada.**



What is Securitization?

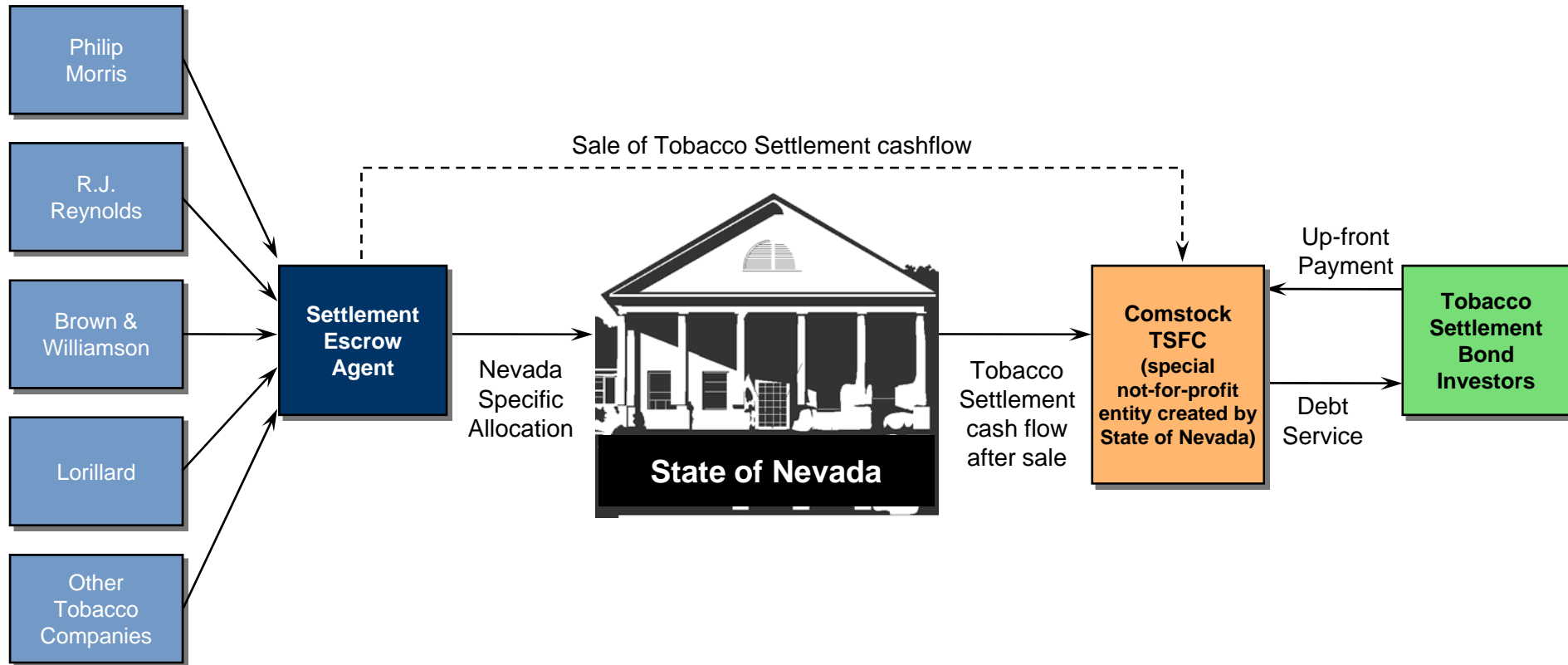
- Securitization provides the State with a method of managing the risk inherent in receiving payments from the tobacco companies, and to capture future payments in one lump sum.

- The owner (State) of a contractually obligated payment stream (Tobacco Settlement Payments) sells the payment stream to a special purpose entity – the Comstock Tobacco Settlement Financing Corporation (TSFC) (*this is the proposed name of the corporation*) – in exchange for an up-front payment.

- The TSFC issues bonds backed solely by the purchased payment stream. Importantly, these bonds would neither be considered obligations of the state nor count against the state's constitutional debt limit.
 - The State would have no liability.



How a Securitization Works



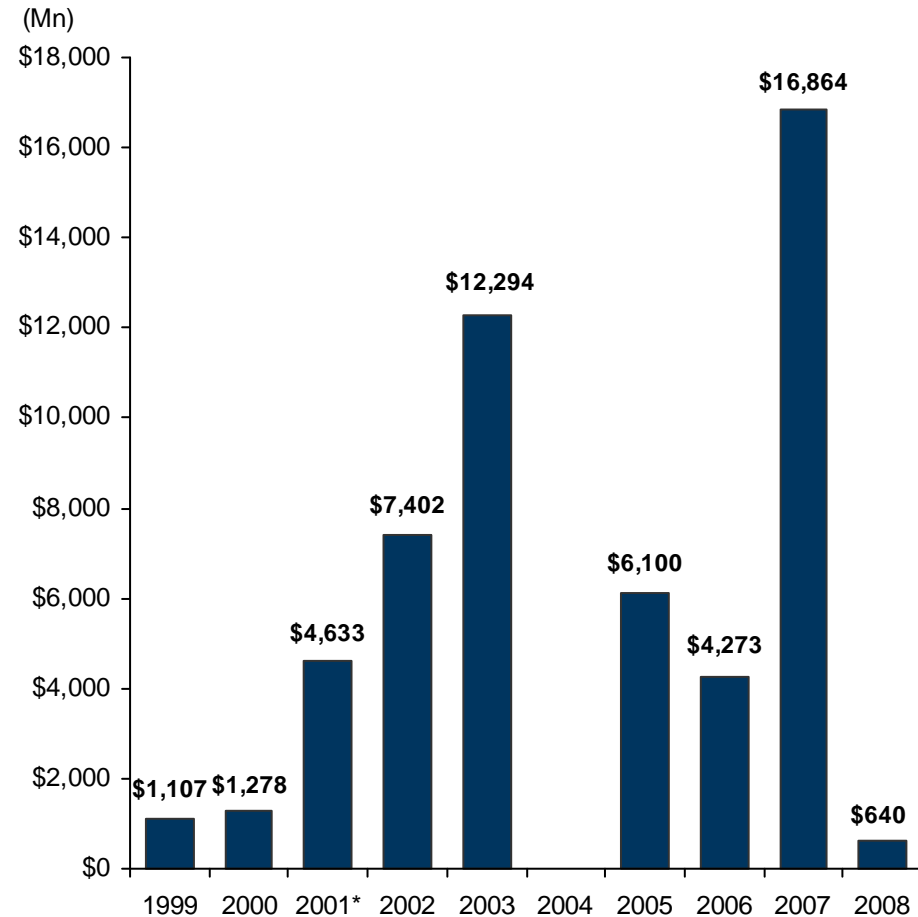


Numerous States have securitized all or a portion of their Tobacco Settlement Revenues, with an approximate market value of \$54.6 bn.

States where MSA Revenues have been Securitized

- Alaska
- California
- California Counties
- District of Columbia
- Guam
- Iowa
- Louisiana
- Michigan
- New Jersey
- New York
- New York Counties
- Ohio
- Puerto Rico
- Rhode Island
- South Carolina
- South Dakota
- Virgin Islands
- Virginia
- Washington
- West Virginia
- Wisconsin

Tobacco Bond Issuance by Year



* The State Treasurer's Office first proposed tobacco securitization in 2001.



Selling future tobacco settlement revenues has substantial immediate benefits for the State.

- Assist with balancing the State's budget over the next biennium until changes can be made to the current structure of Nevada's finances.
- Without raising or creating new taxes it will materially assist in bridging the budget gap.
- Agencies can be more selective in budget cuts without harming critical programs or services.
- Federal matching funds could be spared from state budget cuts. (According to the Nevada Department of Health and Human Services, \$224 million in federal matching funds would be lost if the agency makes the 14% expenditure reductions currently necessary to balance the budget.)

<i>(\$Mn)</i>	General Fund Cut	Lost Federal Revenue	Total Cut
Medicaid	\$89.2	\$89.2	\$178.4
Mental Health & Development	27.0	8.1	35.1
Child & Family Services	22.2	14.7	36.9
Totals for 1 Fiscal Year	<u>\$138.4</u>	<u>\$112.0</u>	<u>\$250.4</u>
Biennial Totals	<u>\$276.8</u>	<u>\$224.0</u>	<u>\$500.8</u>



Programs currently funded by MSA

- Securitization is not intended to put the programs currently funded by the MSA at risk.
 - The process can be managed to ensure the short-term viability of these programs by directing the tobacco proceeds into certain funds.
 - The Governor and the Legislature would have time to identify and secure future funding sources.

- A restructured fiscal model for Nevada must be pursued in the near term to alleviate the cyclicity of the state's revenues and to plan funding for certain of these programs from the general fund going forward.



Global Insight (formerly DRI-WEFA) provides the municipal bond industry forecasts for Tobacco Settlement Revenues (TSRs).

- Global Insight has developed a cigarette consumption model based on historical United States data since 1965.
- Global Insight's forecasts consider the impact of demographics, cigarette prices, disposable income, employment and unemployment, industry advertising expenditures and a number of qualitative factors.
- Increased availability of data has allowed Global Insight to re-estimate and update its original 1999 consumption model over time.
- 2003 update incorporated a slightly higher price elasticity of demand at -0.33 rather than the previous -0.31.
 - For each 10% increase in the real price of cigarettes, consumption is estimated to be reduced by 3.3%.
- Based on industry data released in 2008, Global Insight adjusted its forecast downward to account for industry and economic conditions.
 - Data released for the first quarter of 2008 indicated a sharp decline in cigarette shipments compared to the first quarter of 2007 and projections.
 - Full year 2008 consumption is projected to be 4.0 billion "sticks" lower than previously projected.



The most recent Global Insight updates have resulted in declines in projected revenues to the State of Nevada.

	1999 Base Case	2003 Base Case	2008 Base Case	% Change Since 1999	% Change Since 2003
2009	\$52,166,305	\$51,009,968	\$49,866,091	(4.409%)	(2.242%)
2010	52,794,390	51,688,537	50,177,167	(4.957%)	(2.924%)
2011	53,339,864	52,429,504	50,786,496	(4.787%)	(3.134%)
2012	53,839,445	53,169,891	51,384,491	(4.560%)	(3.358%)
2013	54,264,541	53,873,948	51,974,823	(4.220%)	(3.525%)
2014	54,646,258	54,561,395	52,547,190	(3.841%)	(3.692%)
2015	54,953,479	55,235,128	53,103,833	(3.366%)	(3.859%)
2016	55,653,429	56,018,552	53,764,401	(3.394%)	(4.024%)
2017	56,302,986	56,800,988	54,426,507	(3.333%)	(4.180%)
2018	53,041,895	53,606,964	51,280,485	(3.321%)	(4.340%)
2019	53,654,068	54,319,234	51,875,864	(3.314%)	(4.498%)
2020	54,272,711	55,015,508	52,453,488	(3.352%)	(4.657%)
2021	54,831,578	55,776,679	53,092,612	(3.171%)	(4.812%)
2022	55,614,324	56,530,298	53,725,017	(3.397%)	(4.962%)
2023	56,306,834	57,317,131	54,386,847	(3.410%)	(5.112%)
2024	56,925,928	58,106,198	55,047,377	(3.300%)	(5.264%)
2025	57,596,326	58,961,939	55,770,992	(3.169%)	(5.412%)
2026	58,556,231	59,827,163	56,501,839	(3.508%)	(5.558%)
2027	59,582,081	60,708,430	57,248,718	(3.916%)	(5.699%)
2028	60,266,967	61,613,084	58,012,000	(3.742%)	(5.845%)
2029	60,934,762	62,535,622	58,792,082	(3.516%)	(5.986%)
2030	61,583,686	63,472,155	59,583,565	(3.248%)	(6.126%)
2031	62,146,545	64,425,532	60,384,770	(2.835%)	(6.272%)
2032	63,059,041	65,366,527	61,173,652	(2.990%)	(6.414%)
2033	63,821,490	66,334,232	61,988,191	(2.873%)	(6.552%)
2034	64,565,001	67,319,676	62,814,613	(2.711%)	(6.692%)
2035	65,290,238	68,304,545	63,640,713	(2.526%)	(6.828%)
2036	65,793,337	69,184,146	64,360,761	(2.177%)	(6.972%)
2037	66,446,966	70,179,268	66,230,561	(0.326%)	(5.627%)
2038	67,357,314	71,195,634	67,089,447	(0.398%)	(5.767%)
2039	68,317,645	72,246,597	67,980,068	(0.494%)	(5.906%)
2040	69,233,939	73,246,036	68,817,668	(0.601%)	(6.046%)
2041	70,033,178	74,272,933	69,680,015	(0.504%)	(6.184%)
2042	70,814,712	75,332,360	70,570,341	(0.345%)	(6.321%)
2043		76,360,911	71,430,165		(6.457%)
2044			72,308,617		
2045			73,204,589		
2046			74,113,786		
2047			75,046,393		
2048			75,999,963		



Nevada's Tobacco Settlement Payments with Projected Adjustments

Adjusted Payments

- Global Insight ("GI"), a well-regarded econometrics consulting firm, has forecasted changes in cigarette consumption for all securitizations completed to date based on a wide range of factors including:

- Price increases
- Income growth
- Increased anti-smoking initiatives

- Projections of spend-as-received funding must be measured against substantial risks of tobacco settlement payments in determining securitization strategy.

- The securitization transaction will be structured to pass all rating agency stress tests to achieve an investment grade "BBB" category rating.

- Structuring assumptions do not include any NPM Adjustment projections.

Year	Original Agreement Assumed Payments	2008 GI Base Case	GI Low Case 1	GI Low Case 2	GI Low Case 3	3.0% Annual Decline	4.0% Annual Decline
2009	\$61,480,307	\$49,866,091	\$50,035,284	\$50,298,272	\$50,298,272	\$49,933,206	\$49,434,205
2010	61,498,813	50,177,167	50,476,566	50,586,872	44,528,414	49,935,548	48,943,584
2011	61,535,062	50,786,496	50,969,763	50,948,191	42,434,235	49,939,306	48,460,350
2012	61,570,637	51,384,491	51,451,568	51,298,992	42,939,941	49,944,521	47,984,475
2013	61,605,755	51,974,823	51,925,562	51,643,298	43,437,800	49,951,237	47,515,937
2014	61,639,806	52,547,190	52,378,547	51,969,950	43,922,169	49,959,497	47,054,713
2015	61,672,920	53,103,833	52,802,265	52,242,205	49,249,282	49,969,346	46,600,783
2016	61,712,218	53,764,401	53,365,988	52,695,761	44,949,805	49,980,830	46,154,130
2017	61,751,606	54,426,507	53,910,860	53,108,905	45,510,082	49,993,998	45,714,738
2018	57,966,920	51,280,485	50,691,012	49,824,464	42,885,489	46,578,339	42,176,253
2019	58,002,596	51,875,864	51,180,056	50,190,791	43,388,108	46,593,878	41,780,492
2020	58,037,207	52,453,488	51,642,334	50,532,508	43,877,043	46,611,127	41,391,462
2021	58,075,504	53,092,612	52,179,897	50,970,168	44,419,272	46,630,136	41,009,156
2022	58,113,398	53,725,017	52,699,527	51,366,359	44,954,546	46,650,957	40,633,571
2023	58,153,055	54,386,847	53,266,396	51,822,570	45,514,425	46,673,642	40,264,703
2024	58,192,635	55,047,377	53,813,947	52,244,188	46,073,340	46,698,248	39,902,554
2025	58,235,994	55,770,992	54,437,588	52,757,925	46,685,610	46,724,829	39,547,126
2026	58,279,787	56,501,839	55,064,822	53,274,249	47,303,585	46,753,445	39,193,422
2027	58,324,540	57,248,718	55,708,641	53,804,164	47,935,968	46,784,155	38,856,451
2028	58,370,277	58,012,000	56,363,670	54,344,495	48,581,432	46,817,022	38,521,221
2029	58,417,019	58,792,082	57,032,949	54,900,748	49,240,725	46,852,108	38,192,745
2030	58,464,446	59,583,565	57,719,842	55,464,955	49,912,294	46,889,478	37,871,037
2031	58,512,454	60,384,770	58,389,362	56,001,507	50,589,518	46,929,202	37,556,113
2032	58,559,725	61,173,652	59,067,040	56,560,203	51,259,962	46,971,347	37,247,993
2033	58,608,532	61,988,191	59,768,762	57,140,520	51,950,769	47,015,986	36,946,700
2034	58,658,052	62,814,613	60,480,575	57,728,544	52,650,109	47,063,192	36,652,257
2035	58,707,552	63,640,713	61,186,751	58,316,761	53,352,822	47,113,041	36,364,694
2036	58,750,698	64,360,761	61,743,438	58,708,819	53,966,173	47,165,612	36,084,039
2037	58,862,738	66,230,561	62,451,785	58,525,935	54,686,749	47,220,984	35,810,326
2038	58,914,203	67,089,447	63,161,941	59,091,537	55,407,939	47,279,241	35,543,592
2039	58,967,569	67,980,068	63,916,729	59,711,953	56,153,831	47,340,469	35,283,875
2040	59,017,759	68,817,668	64,603,139	60,246,967	56,856,729	47,404,754	35,031,219
2041	59,069,431	69,680,015	65,328,481	60,835,121	57,580,524	47,472,189	34,785,667
2042	59,122,780	70,570,341	66,079,388	61,444,529	58,326,716	47,542,866	34,547,270
2043	59,174,301	71,430,165	66,778,610	61,994,358	59,048,611	47,616,881	34,316,079
2044	59,226,938	72,308,617	67,520,713	62,596,486	59,789,748	47,694,334	34,092,150
2045	59,280,626	73,204,589	68,276,516	63,936,446	60,544,165	47,775,326	33,875,541
2046	59,335,105	74,113,786	69,054,591	64,565,473	61,323,960	47,859,963	33,666,315
2047	59,390,988	75,046,393	69,848,959	65,209,639	62,154,287	47,948,353	33,464,537
2048	59,448,126	75,999,963	70,664,830	65,874,333	63,003,234	48,040,607	33,270,278
Total	\$2,372,708,079	\$2,412,636,198	\$2,327,438,692	\$2,234,779,159	\$2,026,687,683	\$1,910,319,200	\$1,581,746,752



Global Insight Base Case Could Result in \$775 Million of proceeds.

- However, in order to achieve investment grade ratings on the securitization, market conditions require that the cash flows be subjected to relatively restrictive stress tests which will significantly reduce the amount of available proceeds.
- In addition, investors will buy the bonds and set the interest rate based on their view of current credit market conditions and the likelihood of timely repayment including a thorough review of ratings, debt service coverage levels and reserves.
- The tax-exempt analysis is applicable if the Legislature authorizes the State and its Agencies permitting the tobacco securitization payments to fund working capital budget deficits. States that have utilized this approach include California, New York, Wisconsin and Washington, among others.
- Under a structure in which every dollar received from the securitized portion of the settlement is used to pay down the debt as fast as possible, tobacco securitization transactions are expected to be repaid over 23 years, but the rating agencies allow payment to be extended over 40 years before a default occurs.

Preliminary Securitization Results

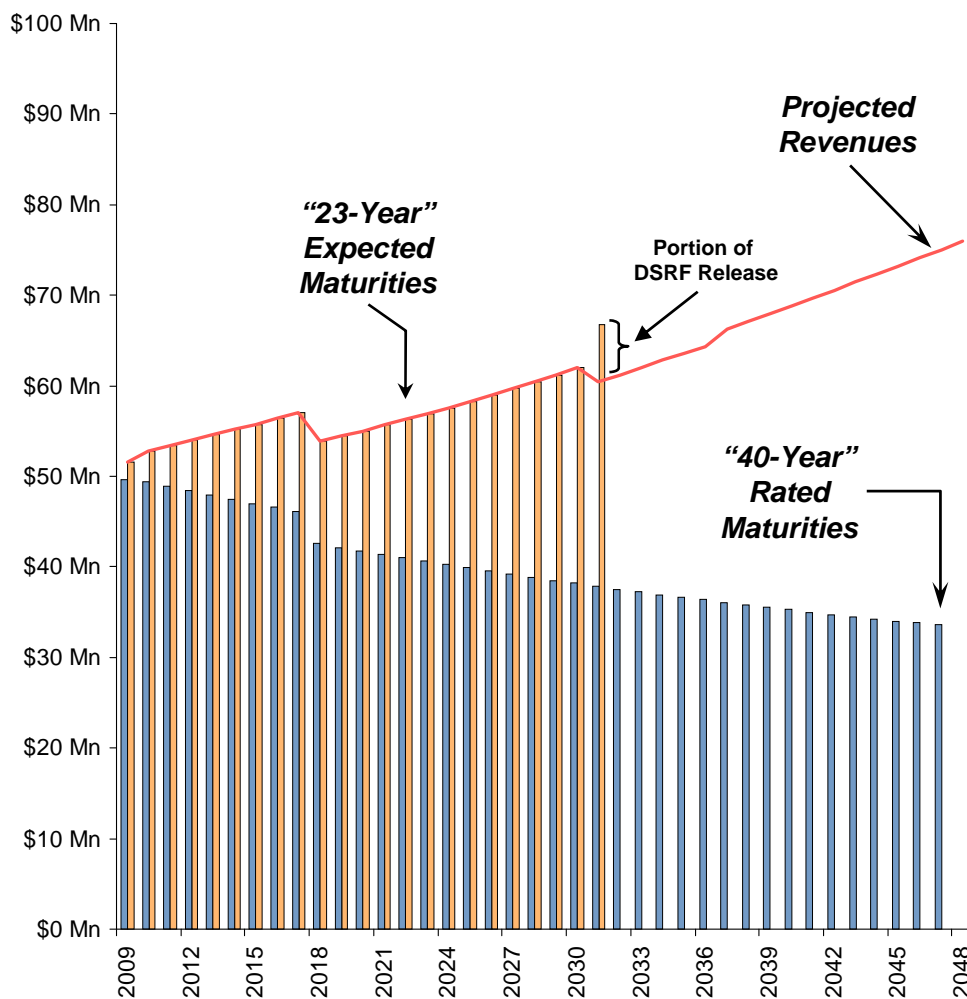
Theoretical Funds Available under GI Base Case:	\$775,000,000
Proceeds Reduction due to Market Stress Tests:	(105,000,000)
Bond Proceeds:	\$670,000,000
Reserves ^(a) :	(63,500,000)
Transaction Costs ^(b) :	(6,500,000)

Approximate Proceeds Available to State: \$600,000,000

(a) Includes Debt Service Reserve Fund (DSRF) and Capitalized Interest Fund which will be placed in an interest bearing account and held by the State of Nevada. Funds in DSRF will be unencumbered after full repayment of the bonds.

(b) See estimated details on page 17.

Tax-Exempt Securitization Debt Structure



Note: Assumes 6.50% bond interest rate.



Based on projections, the State will begin to receive tobacco revenues after the bonds are fully repaid in 2031.

	Year	Base Case Revenues	Earnings and Reserve Release	Funds Available for Debt Service	Projected Interest	Projected Principal	Projected Debt Service	Cash Flow to State
1	2009	49,866,091	1,697,256	51,563,348	42,233,348	9,330,000	51,563,348	-
2	2010	50,177,167	2,638,181	52,815,348	41,615,348	11,200,000	52,815,348	-
3	2011	50,786,496	2,635,151	53,421,648	40,901,648	12,520,000	53,421,648	-
4	2012	51,384,491	2,627,306	54,011,798	40,106,798	13,905,000	54,011,798	-
5	2013	51,974,823	2,626,475	54,601,298	39,226,298	15,375,000	54,601,298	-
6	2014	52,547,190	2,618,458	55,165,648	38,255,648	16,910,000	55,165,648	-
7	2015	53,103,833	2,616,514	55,720,348	37,190,348	18,530,000	55,720,348	-
8	2016	53,764,401	2,607,446	56,371,848	36,021,848	20,350,000	56,371,848	-
9	2017	54,426,507	2,599,191	57,025,698	34,740,698	22,285,000	57,025,698	-
10	2018	51,280,485	2,582,412	53,862,898	33,457,898	20,405,000	53,862,898	-
11	2019	51,875,864	2,574,534	54,450,398	32,175,398	22,275,000	54,450,398	-
12	2020	52,453,488	2,562,955	55,016,443	30,771,443	24,245,000	55,016,443	-
13	2021	53,092,612	2,554,551	55,647,163	29,182,163	26,465,000	55,647,163	-
14	2022	53,725,017	2,545,173	56,270,190	27,395,190	28,875,000	56,270,190	-
15	2023	54,386,847	2,534,798	56,921,645	25,446,645	31,475,000	56,921,645	-
16	2024	55,047,377	2,517,702	57,565,079	23,320,079	34,245,000	57,565,079	-
17	2025	55,770,992	2,505,954	58,276,946	21,011,946	37,265,000	58,276,946	-
18	2026	56,501,839	2,487,915	58,989,754	18,499,754	40,490,000	58,989,754	-
19	2027	57,248,718	2,467,094	59,715,813	15,760,813	43,955,000	59,715,813	-
20	2028	58,012,000	2,453,563	60,465,563	12,780,563	47,685,000	60,465,563	-
21	2029	58,792,082	2,427,493	61,219,575	9,549,575	51,670,000	61,219,575	-
22	2030	59,583,565	2,406,735	61,990,300	6,050,300	55,940,000	61,990,300	-
23	2031	60,384,770	6,350,868	66,735,638	2,130,638	64,605,000	66,735,638	-
24	2032	61,173,652		61,173,652				61,173,652
25	2033	61,988,191		61,988,191				61,988,191
26	2034	62,814,613		62,814,613				62,814,613
27	2035	63,640,713		63,640,713				63,640,713
28	2036	64,360,761		64,360,761				64,360,761
29	2037	66,230,561		66,230,561				66,230,561
30	2038	67,089,447		67,089,447				67,089,447
31	2039	67,980,068		67,980,068				67,980,068
32	2040	68,817,668		68,817,668				68,817,668
33	2041	69,680,015		69,680,015				69,680,015
34	2042	70,570,341		70,570,341				70,570,341
35	2043	71,430,165		71,430,165				71,430,165
36	2044	72,308,617		72,308,617				72,308,617
37	2045	73,204,589		73,204,589				73,204,589
38	2046	74,113,786		74,113,786				74,113,786
39	2047	75,046,393		75,046,393				75,046,393
40	2048	75,999,963		75,999,963				75,999,963

Bonds Projected to be Fully Redeemed via Turbo Redemption in 2031

The State is projected to resume receiving TSRs in 2032

61,173,652
61,988,191
62,814,613
63,640,713
64,360,761
66,230,561
67,089,447
67,980,068
68,817,668
69,680,015
70,570,341
71,430,165
72,308,617
73,204,589
74,113,786
75,046,393
75,999,963



Estimated Transaction Costs

■ Underwriters' Discount ^(a) :	\$2,850,000
■ Legal Fees:	2,000,000
■ Financial Advisor:	450,000
■ Rating Agency Fees:	400,000
■ Global Insight:	165,000
■ Printing and Other Logistics:	50,000
■ Miscellaneous:	585,000
■ Total:	<hr/> <u>\$6,500,000</u>

(a) Includes all professional fees, sales commissions and other compensation for all members of the underwriting and sales syndicate.



Legislation to authorize securitization should protect the State and provide appropriate security provisions to minimize financing costs.

- In 2003, the State Treasurer introduced SB 448 to securitize Nevada's Tobacco Settlement Revenues. The legislation would need to be modified to reflect the securitization of 100% of the revenues and the revised use of proceeds.
- **Summary of key provisions of securitization bill:**
 1. Authorize creation by designated State officials of a new not-for-profit corporation to issue bonds, notes or other debt instruments for purposes provided below.
 2. Authorize the transfer of the State's right to receive tobacco settlement proceeds to the not-for-profit corporation in exchange for proceeds of bonds and to make such covenants on behalf of the State as are necessary so that the corporation continues to be entitled to receive tobacco settlement monies under the terms of the settlement.
 3. Authorize the new not-for-profit corporation to issue bonds and other securities payable solely from the tobacco settlement monies and to enter into all necessary or desirable contracts in connection therewith, including professional service contracts, credit enhancement contracts and interest rate hedge contracts. ***Provide such securities that shall never be a debt or indebtedness of the State.***
 4. Authorize the corporation to enforce the tobacco settlement and the State to join in any such enforcement action if necessary.
 5. Require the net proceeds of any such bonds or the proceeds from the sale of the rights to the settlement monies to the new not-for-profit corporation be deposited in the funds established by the legislature.
 6. Provide that the State, its officers, employees and agents and the corporation, its officers, employees and agents are immune from any lawsuit on account of any act or omission by those officers or employees (whether it would be otherwise actionable under federal or State law), except that the corporation and the State may be required, in an action for specific performance, to comply with the provisions of their respective contracts with respect to the bonds and the transfer of the rights to the tobacco settlement.
 7. Provide that on dissolution or retirement of the bonds and any refunding bonds, any remaining assets of the corporation must revert to the State, to be applied in the same manner, as tobacco settlement monies are required to be applied as established by the legislature.
 8. In order to permit the tobacco securitization bonds to be tax-exempt, the Legislature may need to authorize certain budgetary procedural changes to permit securitization proceeds to fund working capital budget deficits.



Next Step: The Governor should create a Working Group to study tobacco securitization in greater depth.

- The Lieutenant Governor respectfully requests the following participants be appointed to a Securitization Working Group:
 - Lieutenant Governor
 - Treasurer
 - Director, Department of Administration
 - Legal Counsel, Office of the Governor
 - Fiscal Analyst, Senate Finance Committee
 - Fiscal Analyst, Assembly Ways & Means Committee
 - Director, Nevada Taxpayer's Association

Appendix A: Definition of Key Terms



Definition of Key Terms

- **Adjusted Payments:** Projected tobacco settlement payments adjusted according to econometric projections of cigarette shipments and inflation.
- **Fixed Income:** A security, such as a note or a bond, that pays a guaranteed rate of interest.
- **Present Value:** The value today of a future stream of payments at an assumed interest rate.
- **Securitization:** The process of issuing bonds to receive up-front value from an asset that is expected to provide cash over a long period of time.
- **Strategic Contribution Payments:** Tobacco settlement payments for contribution to the litigation effort made in addition to the annual payments.
- **Tobacco Company Exposure:** The risk that the tobacco companies will be unable to make all or a portion of the tobacco settlement payments due to litigation, regulation or bankruptcy.
- **Tobacco Master Settlement Agreement:** The Agreement was executed in 1998 and settles all legal claims of 46 states and 5 territories against cigarette manufacturers in exchange for \$206 billion paid over 25 years. Payments will be made in perpetuity and will change based on a number of factors, principally domestic cigarette shipment and inflation.
- **Unadjusted Payments:** Base tobacco settlement payments made according to a schedule in the Agreement and subject to adjustment for domestic cigarette shipments and inflation.