

# **Tobacco Settlement Financing Corporation**

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## **Solicitation for Offers for Underwriting Proposals for Tobacco Settlement Asset-Backed Refunding Bonds, Series 2013-A March 26, 2013**

The Tobacco Settlement Financing Corporation (“TSFC” or the “Corporation”) is soliciting offers for underwriting proposals for the sale of Tobacco Settlement Asset-Backed Refunding Bonds, Series 2013-A (the “Bonds”). This Solicitation for Offers (the “SFO”) seeks responses from qualified firms to serve as senior managing underwriter and co-managers for this transaction. The TSFC reserves the right to select a team of underwriters from those firms submitting proposals in accordance with this SFO. Only firms submitting proposals in accordance with this SFO will be considered. From the respondents to this SFO, senior managing underwriter, co-senior manager, if the Corporation deems necessary, and co-managers will be selected. Within this SFO, prospective underwriting firms will sometimes be referred to as "offerors", or, when convenient and appropriate, addressed in the second person as "you", "your" and "yours".

### **I. Background Information**

Firms interested in submitting offers in response to this request may wish to understand more about the TSFC and its debt issues. The TSFC was created by Act 1145 of the 2001 Regular Session of the Louisiana State Legislature as a special purpose, public corporate entity, and an instrumentality independent of the State. On November 7, 2001, the TSFC issued Tobacco Settlement Asset-Backed Bonds in the amount of \$282,950,000, Series 2001A (Taxable) and \$919,795,000, Series 2001B (Tax-Exempt). Those bonds were issued to finance the TSFC’s purchase of 60% of the State’s future receipts from the Master Settlement Agreement (“MSA”) with participating cigarette manufacturers. The bonds are secured by the TSFC’s claim to 60% of this future receipt. The TSFC has no taxing power and no assets or revenues of the State, or any political subdivision thereof, is or shall be obligated or pledged to the payment of the principal of or interest on the bonds. The Series 2001A Bonds have been paid. As of June 30, 2012, the outstanding principal of the Series 2001B bonds is \$823,100,000. Additional information regarding the TSFC’s financial position and the bonds may be found in the latest TSFC annual financial report, which is available online at the following location:

[http://app1.la.state.la.us/PublicReports.nsf/873578DE4088D46B86257AF5004F8BC0/\\$FILE/0002ECFC.pdf](http://app1.la.state.la.us/PublicReports.nsf/873578DE4088D46B86257AF5004F8BC0/$FILE/0002ECFC.pdf)

All Bonds that are proposed to be issued will be tobacco settlement asset-backed refunding bonds of the TSFC, a single-purpose, bankruptcy remote financing entity. The TSFC was authorized and created by the State Legislature, and the State has sold and assigned without recourse a portion (60%) of the State’s share of payments under the MSA to the TSFC. The Bonds are payable from and secured solely by a portion of the State’s tobacco receipts to be received under the MSA that are sold or assigned to it. The Bonds will not constitute general obligations of the State, and the State’s full faith and credit will not be pledged to secure the Bonds.

## **II. Objective**

The purpose of accepting an offer to underwrite an issue of tobacco settlement asset-backed refunding bonds will be to provide funds to refund the currently outstanding Tobacco Settlement Asset-Backed Bonds, Series 2001B (Tax-Exempt).

## **III. Tobacco Settlement Asset-backed Refunding Bonds Team**

The senior managing underwriter and co-managers chosen on the basis of their respective offers in response to this SFO will be employed by the TSFC and will act on behalf of the TSFC in all matters undertaken in connection with the Bonds. The successful offerors will report directly to the TSFC.

The duties of the participants in the underwriting syndicate are expected to be substantially as follows:

**Senior Manager:** book runner; leader of the underwriting syndicate; pricing coordinator; responsible for marketing of the issue; structuring the financing; preparing rating agency stress test cash flows; determining credit enhancement alternatives; evaluate investment strategies for bond proceeds; compliance with disclosure standards; investor liaison; obtain tobacco consumption forecast consultant, if necessary; arrange for an accounting firm to verify certain tobacco company information and numerical schedules in the Official Statement and provide an agreed upon procedures letter, addressed to TSFC or including the TSFC as a specified user for reliance purposes, for such disclosures; and all related conventional roles for senior manager.

**Co-Senior Manager (if used by the Corporation):** assist in marketing the issue, compliance with disclosure standards, investor liaison and all related conventional roles for co-senior manager.

**Co-Manager:** assisting in marketing the issue and providing discrete “niches” in the marketing of the Bonds.

The Attorney General serves as the TSFC’s legal advisor hereunder, assisted by an outside Co-Bond Counsel, which has been selected solely for this bond issue.

## **IV. Inquiries**

Ben Huxen, Assistant Attorney General, together with assistance from the TSFC’s financial advisor, Public Resources Advisory Group, Inc., will answer any inquiries from firms interested in making offers in response hereto. All inquiries must be submitted in writing via email to [huxenb@ag.state.la.us](mailto:huxenb@ag.state.la.us) and [bvalentinsen@pragny.com](mailto:bvalentinsen@pragny.com) and received no later than 5:00 PM central daylight time on March 28, 2013.

Offerors are solely responsible for both the timely transmission and receipt of inquiries. Answers to such inquiries will be sent to each inquiring firm, to each firm which requests a copy of this Solicitation for Offers, and/or each firm which notifies Mr. Huxen in writing of its desire to be included in the list of those to receive answers, by close of business on April 1, 2013. Offerors are asked not to contact any State employees, Legislators, officials or TSFC board members regarding the SFO during the proposal review and selection process except through this inquiry process.

**V. Projected Time Line**

March 26, 2013	Email Distribution of SFO and post to DOA website
March 28, 2013	Inquiries due by 5:00 PM central daylight time
April 3, 2013	Answers to inquiries emailed
April 10, 2013	Offers due noon central daylight time
April 19, 2013	Selection recommendation by the TSFC Executive Committee
April 22, 2013	TSFC Board Meeting to confirm Executive Committee selection

**VI. Required Content of Offers** (*Please note: when providing the information requested in this section, please refer to Section VII, Instructions for Presentation of Offer.*) **Page Limit 30.**

Each offer for Senior Managing Underwriter and Co-Manager that is intended to be responsive to this SFO must answer the following inquiries:

**For All Respondents:**

1. Please begin your proposal with a cover letter in which you state the position(s) your firm is applying for with respect to the Bonds: senior managing underwriter or co-manager. This cover letter should be signed by an individual who will be both a member of the Bond financing team and who is capable of committing the firm's capital for the Bonds and of negotiating all fees and costs associated with the Bonds. Please state succinctly in the cover letter the top two reasons why your firm should be hired for the position for which you are applying, keeping in mind the specific qualifications required and described in this SFO.
2. Describe your firm by providing its full legal name, date of establishment, type of entity, current firm ownership structure and any recent or any materially significant proposed changes in ownership since January 1, 2010. If you wish to be identified by additional characteristics you would like the State to consider, please so state.
3. Identify the members of your firm who would be assigned to act for your firm in providing the underwriting services described in this SFO, and the functions to be performed by each. Include brief resumes or curriculum vitae of each such staff member, including name, position, education, and years of experience. Specify each member's experience with tobacco securitization revenue bonds and other securitizations and asset backed transactions.
4. Attach as an exhibit (which will not be counted against the page limit) your firm's most recent annual financial statement. Provide current net capital information on your firm, and identify any capital constraints which may apply to the underwriting of tobacco securitized obligations within your firm.
5. Describe your firm's commitments to Louisiana by highlighting the number of offices you maintain in the State and the number of employees you have in Louisiana.

6. Provide a table or short statement which outlines both your firm's five-year history of underwriting capability, as reported in your audited financial statements, and your firm's compliance over that same period with the Securities Exchange Commission's Uniform Net Capital Rule.
7. Give a brief but complete description of any criminal proceeding, criminal investigation, or other oversight entity's investigation of alleged securities laws violations involving your firm (all areas of the firm) or any professionals in your firm who would be involved in this financing. Also, list of all enforcement actions, current relevant litigation and settlements. Please cover the period January 1, 2009 through the present.
8. Review Rule No. 1993-A of the State Bond Commission entitled "Disclosure Agreements Between Financial Professionals for Negotiated Transactions" and provide a statement of your firm's ability to comply therewith.
9. Please disclose any conflicts of interest or potential conflicts of interest that may arise as a result of your firm's being hired for this engagement.

**For Senior Manager Only:**

1. Please describe three relevant case studies that show your firm's experience and expertise in structuring, managing, marketing, pricing and closing tobacco securitization revenue bond issues, as senior managing or co-senior managing underwriters, in transactions similar to that proposed in this SFO. Include the most recent similar issue on which you were senior manager. State whether the bonds were tax-exempt or taxable. Specify whether the bonds were unenhanced (secured solely by tobacco settlement revenues) or had a form of backing from the sponsoring entity. For each case study, provide a reference with all relevant contact information (name, title, organization, address, telephone number, fax number and email address) for that person. (Do not include references from Louisiana Treasury Department Staff, State Bond Commission members or staff, TSFC board members or staff, and State Legislators or staff.) Please explain why the structure of and the marketing plan for each case study were the optimal ones for that particular issue. Please note that references may be asked if the issue met expectations, especially as to structuring, marketing, pricing, and present value savings, if any.
2. List all other tobacco bond financings for which your firm served as senior manager or co-senior manager. Provide (a) the issuance date, (b) the par amount, (c) whether the bonds were tax-exempt or taxable, (d) whether the bonds were unenhanced (secured solely by the tobacco settlement revenues) or had a form of backing from the sponsoring entity and (e) the project team members who worked on the financing. (This can be provided as an attachment and excluded from the page limit.)
3. Additional experience can include tobacco bond financings on which key project team members (lead banker, underwriter, quantitative banker) worked while at other underwriting firms. Provide the same information requested above in 2a through 2d, along with the role of the project team members. (This can be provided as an attachment and excluded from the page limit.)
4. List all other experience as a senior manager or co-senior manager in tax-exempt and taxable securitizations and asset-backed transactions since January 1, 2010. Provide (a) the issuance date, (b) the par amount, (c) whether the bonds were tax-exempt or taxable, (d) the source of revenues and (e) the project team members who worked on the financing. (This can be provided as an attachment and excluded from the page limit.)

5. Describe your firm's abilities or resources in the following areas:
  - A. Technical and structuring resources
  - B. Distribution capabilities
  - C. Marketing
  - D. Other
  
6. Please provide a copy of all emails exchanged prior to the issuance of this SFO between your firm and State of Louisiana employees regarding the structure of the Bonds. Also, please provide a list of all meetings your firm has had with State of Louisiana employees regarding the structure of the Bonds.
  
7. Proposal for Structure of Bonds:
  - A. Provide a base case refunding that provides level savings. Also provide two additional refunding cases, one of which shows upfront savings. Assumptions to make are provided below in 7B. Please provide summary results and a discussion of the scenarios covering the topics presented below in 7C. Please provide as an appendix (which will be excluded from the page limit) detailed cash flows for each refunding scenario, minimally showing the sources and uses of funds, the stated and expected principal amortization and debt service and the savings results.
  
  - B. For purposes of the refunding scenarios assume the following: (a) base cigarette consumption assumptions on the IHS Global Insight forecast provided in the Golden State Tobacco Securitization Corporation (California) Preliminary Official Statement dated, March 25, 2013, (b) base Original Participating Manufacturer and Subsequent Participating Manufacturer market share assumptions on 2011 sales year information reported by the National Association of Attorneys General, (c) the Stipulated Partial Settlement and Award (the "NPM Adjustment Settlement") issued by the panel arbitrating the 2003 NPM Adjustment claims, dated March 12, 2013, is enforceable and will be implemented, (d) the 60% allocation of the State's April 15, 2013 MSA payment is received by the Corporation's trustee and there are no disputed or withheld payments, (e) base interest rates off of the AAA MMD on April 3, 2013, and (f) do not extend the year of expected final payment of the 2013 refunding bonds beyond the year of expected final payment of the 2001 bonds assuming no refunding.
  
  - C. Provide a discussion of your refunding scenarios that addresses the following items: (a) identify measures for comparing the refunding results and describe why you believe they are appropriate given the characteristics of tobacco bonds as compared to more conventional municipal bonds, (b) compare and contrast your refunding results using those measures and recommend your preferred case, (c) discuss the NPM Adjustment Settlement and how it affects your refunding case cash flows, (d) discuss the type of bonds (that is, turbo, fixed amortization, callable, and similar matters) you recommend for the TSFC's 2013 refunding bonds and why you believe they will provide the best structure, (e) the target ratings you expect to achieve and whether you recommend ratings from Fitch, Moody's and Standard & Poor's or just two of the three and (f) identify any other aspects of your refunding analysis that you feel is relevant.
  
  - D. Provide a suggested financing timeline, with closing on the Bonds by the end of June 2013. The TSFC can give no assurance that closing will actually occur by the end of June 2013; this date is given solely as an example.

8. Proposal for Marketing and Pricing of Bonds:

- A. Please describe your preferred marketing plan for the Bonds including investor presentation booklet, investor calls and meetings, an electronic “road show”, and special credit reports. Please provide a listing of the twenty-five (25) investors that you believe will have the most interest in buying the Bonds, showing maturity preference for each potential buyer and the possible dollar amount of their interest. Please note which of these potential investors were buyers in past tobacco securitization revenue bond issues, particularly for more recent transactions. Also note which of these potential buyers would be new purchasers of tobacco securitization revenue bonds. Which is the best way to approach each of these major investors? Do you anticipate retail participation, traditional or professional? If so, how much by each category? Which is the best way to approach each of these investor groups? Discuss any marketing issues that have come to the forefront as a result of recent tobacco securitization bond issues, particularly refundings. Provide your plans to overcome such issues in marketing the Bonds.
- B. Describe the process by which you would price the Bonds, including how the Bonds would be priced against other more recent tobacco securitization revenue bonds financings, secondary trading of tobacco bonds as well as against other structured, securitized and asset-backed issues.
- C. Describe how the NPM Adjustment Settlement would affect disclosure in the Official Statement as well as sales and marketing information provided to investors.
- D. Describe the method by which you would keep the tobacco securitized revenue bond team as well as other members of the underwriting syndicate informed about the sale during the order period. What is your view of the role of the issuer in the allotment process?
- E. Describe and discuss your preferred structure for the underwriting team: that is, syndicate, selling group or other structure. Explain which structure you believe would maximize underwriter attention to the Bonds and provide the most efficient pricing. Propose the syndicate and selling group rules that you believe should apply including any prioritization for Louisiana purchasers (all or retail only) and institutional designation rules (such as three-firm/50% standard). Provide any other ideas on syndication that you believe would optimize the pricing
- F. If a selling group structure is employed in the underwriting, what compensation do you recommend for selling group members?

9. Fee Proposal

- A. Assuming a \$700 million refunding transaction with a principal amortization similar to your base case refunding provided in Question 7A (under Senior Manager Only) provide an estimated gross spread. Please provide the average takedowns and takedowns by maturity assumed in calculating the gross spread. Please detail the expense budget including underwriter's counsel. Assume the hiring of co-underwriters counsel, including a national firm familiar with tobacco securitization issues and a local firm familiar with Louisiana law. Please note that the cost of any special consultants that may be needed must be included in expected expenses.
- B. Describe the process that your firm would use for selection of underwriter's counsel including the fee arrangement that you would prefer. Provide the names of two national firms familiar with tobacco securitization issues and capable of preparing the tobacco-related disclosures for the Preliminary and final Official Statement and two local firms familiar with Louisiana Law that you would recommend for underwriter's counsel. List the name of the lead attorney from each firm for this financing.

**For Co-Manager Only:**

- 1. Provide a list of tobacco transactions on which the firm served as Senior Manager, Co-Senior Manager or Co-Manager and how many bonds you sold.
- 2. Provide a list of securitization asset-backed transactions on which the firm has served as Senior Manager, Co-Senior Manager, or Co-Manager since January 1, 2010 and how many bonds you sold.
- 3. List all underwriting experience on tax-exempt bonds over \$50 million sold by Louisiana issuers since January 1, 2010. Specify your role as senior manager, co-senior, co-manager or selling group member.
- 4. Describe your firm's abilities or resources in the following areas:
  - A. Distribution capabilities
  - B. Marketing
  - C. Other
- 5. Provide any additional information to support your selection as co-manager to the TSFC.

## **VII. Instructions for Presentation of Offer**

Responsive offers should contain the items indicated in Section V above. No joint proposals will be allowed.

All questions should be answered in the order presented. Initiate each response by restating the question. Responses should be limited in length to thirty (30) pages of not less than 12 font, not including the annual financial statement exhibit or promotional addenda; promotional addenda should not exceed five (5) pages. Firm responses must be bound in one volume, and telecopies will not be accepted. One copy in electronic format (Word or PDF) on a CD or USB drive plus thirty (30) copies of the offer, each separately sealed in individual envelopes and bearing a label stating the name and address of the offeror, identifying this SFO, should arrive by 12:00 PM NOON, Baton Rouge Time on April 10, 2013. **Late proposals will be disqualified.** Proposals must be delivered to:

Benjamin A. Huxen II  
Assistant Attorney General  
Louisiana Department of Justice  
1885 North Third Street, 6<sup>th</sup> Floor  
Baton Rouge, LA 70802  
Telephone: 225-326-6083  
huxenb@ag.state.la.us

Four (4) additional copies and one copy in electronic format (Word or PDF) on a CD or USB drive must also be sent at the same time to PRAG, the Corporation's financial advisor. Proposals must be delivered to:

Barry Valentinsen  
Senior Managing Director  
Public Resources Advisory Group, Inc.  
40 Rector Street, Suite 1600  
New York, New York 10006  
Telephone: 212-566-7800  
bvalentinsen@pragny.com

## **VIII. Costs Incurred in Preparation of Offer**

All costs directly or indirectly related to preparation of an offer responding to this SFO, any oral presentations required to supplement and/or clarify an offer, and any reasonable appearance which may be required by the TSFC or the in connection with this SFO, shall be the sole responsibility of the offeror. Neither the TSFC nor the financing entity will pay any fees or expenses to the firm(s) selected in the event that any anticipated financing is not completed

## **IX. Competitive Selection; Evaluation Criteria and Process**

Selection for senior managing underwriter, co-senior manager (if deemed necessary) and co-manager, in accordance with the requirements of this SFO, will be reviewed and ratified by the TSFC. Selection may be made on the basis of a report delivered by Executive Committee of the TSFC, which is comprised of the Treasurer, the President of the Senate, the Speaker of the House, the Commissioner of Administration, and the Attorney General, or their designees, using evaluation criteria described below.

Consideration for senior managing underwriter is expected to be given, but is not guaranteed to be given, to the following criteria:

- 30.0% A. Experience of professionals to be assigned to the engagement with tobacco securitized revenue bonds or comparable structured, securitized or asset-backed bond issues; and capability of offeror to provide requisite underwriting expertise needed, as demonstrated by experience with tobacco securitized revenue bonds or comparable structured, securitized or asset-backed bond issues;
- 32.5% B. Proposed bond structure (Question 7 under Senior Manager Only);
- 20.0% C. Marketing Plan (Question 8 under Senior Manager Only); and
- 17.5% D. Fees for services (Question 9 under Senior Manager Only).

Consideration for co-managing underwriter is expected to be based on a firm's: distribution and marketing capabilities, experience in underwriting Louisiana tax-exempt bonds, and tobacco and other securitization and asset-backed experience.

The TSFC reserves the right to act without oral presentations or other discussions with offerors. Therefore, all offers should be submitted on the most favorable terms. However, if oral presentations are required, 75% of the total grade will be assigned to the written proposal as outlined above and 25% to the oral presentation.

The TSFC may reject any and all offers, may require additional technical and background information during the evaluation period, and/or negotiate all elements, including fees, which are contained in or which relate to any offer. By submitting an offer, the offeror agrees to these terms.

The TSFC shall not be liable for any expenses incurred by the offerors in the preparation and presentation of the offers and may terminate the selection process at any time without prior notice. All offers submitted pursuant to this SFO will become the property of TSFC. The TSFC will not pay any fees or expenses to the firm(s) selected in the event that any anticipated financing is not completed. The TSFC reserves the right to waive any informalities in any offer. The TSFC reserves the right to negotiate all fees and expenses.