

# **Bond Case Briefs**

*Municipal Finance Law Since 1971*

---

## **Tobacco Bond Ratings From Fitch Will Be Withdrawn in 30 Days.**

Fitch Ratings plans to withdraw its ratings on all tobacco bonds in the \$3.7 trillion municipal market in 30 days because the company doesn't believe future payments from cigarette makers can be predicted reliably.

Two settlements, one with New York and another with California and 23 other states, modified calculations outside of the original parameters prescribed as part of the 1998 settlement with Reynolds American Inc., Lorillard Inc. and Philip Morris USA, Fitch said Monday in a report. Under the pact, the companies agreed to make annual payments to states in perpetuity to settle liabilities for health-care costs tied to smoking. The amount was distributed according to allocation percentages.

"There was historically a single, consistent application of the calculation adjustments that affected all participating jurisdictions in the same way," Fitch analysts Steven Stubbs, Rodney Pelletier and Kevin Duignan wrote. "However, more recent settlement agreements related to disputed payments connected to the non-participating manufacturer adjustment have eroded Fitch's confidence in the predictability of the calculation of MSA payments going forward."

In October, New York Attorney General Eric T. Schneiderman announced a settlement that releases money from an escrow account to the state, counties and New York City. The funds had been withheld since 2003 because of a dispute surrounding the 1998 settlement. Going forward, 90 percent of previously trapped funds will be released and the state has no risk of losing future annual payments as the result of arbitration proceedings.

### **Significant Trend**

The settlements highlight uncertainty in the \$34 billion corner of the municipal market because some states could be vulnerable to an outsized adjustment in cigarette-company payments, Fitch said. High-yield tobacco bonds rallied by the most in nine months after Schneiderman's announcement.

"The significant trend toward material, and different settlements, the introduction of new variables with little analyzable history, and the incentives in place for additional settlements erode our confidence that a consistently reliable structured finance rating methodology can be applied going forward," the Fitch analysts wrote.

California's Golden State Tobacco Securitization Corp. and Ohio's Buckeye Tobacco Settlement Financing Authority are the two biggest issuers of the debt, data compiled by Bloomberg show. Fitch rated each of the agencies' single-largest securities CCC, the fifth-lowest grade and worse than the ranks from Moody's Investors Service and S&P Global Ratings.

In a \$55,000 trade on Tuesday, the junk-rated Golden State debt due in 2047 traded at 101.8 cents on the dollar, to yield 3.89 percent, the lowest in a month, data compiled by Bloomberg show. In a

\$2.78 million exchange, investment-grade California tobacco bonds traded at 121.9 cents, the highest since May 5.

High-yield tobacco bonds have returned 11.2 percent this year, compared with 3 percent for the broad municipal market, Barclays Plc data show. Since the start of 2014, the debt has surged 53 percent.

## **Bloomberg Business**

by Brian Chappatta

May 16, 2016 — 1:37 PM PDT Updated on May 17, 2016 — 6:53 AM PDT

Copyright © 2024 Bond Case Briefs | [bondcasebriefs.com](http://bondcasebriefs.com)