

Rating Action: Moody's takes rating actions on tobacco settlement revenue securitizations

28 Jun 2019

Approximately \$3.84 billion securities affected

New York, June 28, 2019 -- Moody's Investors Service has upgraded the ratings of 4 tranches in 4 tobacco settlement revenue securitizations, and downgraded the ratings of 10 tranches in 3 tobacco settlement revenue securitizations.

The complete rating actions are as follows:

Issuer: Buckeye Tobacco Settlement Financing Authority, Tobacco Settlement Asset-Backed Bonds, Series 2007 (State of Ohio)

Series 2007-A-3 Senior Convertible Capital Appreciation Turbo Term Bonds, Downgraded to Caa3 (sf); previously on Jul 6, 2015 Downgraded to Caa1 (sf)

Series 2007A-2-1 Senior Current Interest Turbo Term Bonds, Downgraded to Ca (sf); previously on Oct 4, 2018 Downgraded to Caa3 (sf)

Series 2007A-2-2 Senior Current Interest Turbo Term Bonds, Downgraded to Ca (sf); previously on Oct 4, 2018 Downgraded to Caa3 (sf)

Series 2007A-2-3 Senior Current Interest Turbo Term Bonds, Downgraded to Ca (sf); previously on Oct 4, 2018 Downgraded to Caa3 (sf)

Series 2007A-2-4 Senior Current Interest Turbo Term Bonds, Downgraded to Ca (sf); previously on Oct 4, 2018 Downgraded to Caa3 (sf)

Issuer: California County Tobacco Securitization Agency (Los Angeles County Securitization Corporation)
Series 2006A Convertible Turbo Bonds

Cl. 2006A-1, Upgraded to A2 (sf); previously on Aug 1, 2018 Upgraded to A3 (sf)

Issuer: Northern Tobacco Securitization Corporation, Series 2006

2006-A-1, Upgraded to A2 (sf); previously on Jul 23, 2018 Upgraded to A3 (sf)

Issuer: The California County Tobacco Securitization Agency (Fresno County Tobacco Funding Corporation), Series 2002

Ser. 2002 Term Bonds 2, Upgraded to Aa3 (sf); previously on Aug 1, 2018 Upgraded to A2 (sf)

Issuer: The California County Tobacco Securitization Agency (Merced County Tobacco Funding Corporation) - Tobacco Settlement Asset-Backed Refunding Bonds

2005A-1, Upgraded to A2 (sf); previously on Aug 27, 2018 Upgraded to A3 (sf)

Issuer: Tobacco Settlement Authority (Iowa), Series 2005

2005B TNs, Downgraded to B3 (sf); previously on Feb 20, 2014 Confirmed at B2 (sf)

2005-C1 TNs, Downgraded to B3 (sf); previously on Feb 20, 2014 Confirmed at B2 (sf)

2005-C2 TNs, Downgraded to B3 (sf); previously on Feb 20, 2014 Confirmed at B2 (sf)

2005-C3 TNs, Downgraded to B3 (sf); previously on Feb 20, 2014 Confirmed at B2 (sf)

Issuer: Tobacco Settlement Finance Authority (Taxable Tobacco Settlement Asset-Backed Bonds, Series 2007) West Virginia

2007A TT CIBS, Downgraded to B3 (sf); previously on Feb 20, 2014 Confirmed at B2 (sf)

RATINGS RATIONALE

The downgrade actions are primarily a result of the increasing decline of total domestic cigarette shipments in recent years. Total domestic cigarette shipments as measured by federal excise tax data and reported by the National Association of Attorneys General (NAAG) for the past 3 years, 2016-2018, have declined by 4.06%, 4.46% and 4.73%, respectively. The downgraded lower-priority tranches with legal final maturities ranging from 2028-2047 are especially sensitive to the increasing cigarette shipment declines. These tranches have relatively high leverage and longer maturities. Therefore, they have less capacity to withstand a steady, prolonged decline of cigarette shipment decline.

The upgrade actions are primarily driven by further deleveraging, the availability of significant cash reserves and relatively short-term maturities, which minimizes the impact of future cigarette shipment declines.

For Buckeye Tobacco Settlement Financing Authority, Tobacco Settlement Asset-Backed Bonds, Series 2007 (State of Ohio), the downgrade actions are primarily a result of increasing decline of total domestic cigarette shipments and the amount available in the reserve account. The reserve is currently 62% of the required amount. An Event of Default ("EOD") will occur if there is a failure to pay down any of the bonds in full by their legal final maturity. The bonds are paid down in the order of bond maturity until the occurrence of an EOD, at which time the cash allocation will switch to pro-rata.

Moody's currently expects that US cigarette shipment volumes will fall at 4% to 5% during the next 12-18 months.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was "Moody's Approach to Rating Tobacco Settlement Revenue Securitizations" published in November 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Factors that would lead to an upgrade or downgrade of the ratings:

Up

Moody's could upgrade the ratings if the annual rate of decline in the volume of domestic cigarette shipments decreases, if future arbitration proceedings and subsequent recoveries for settling states become more expeditious than they currently are, or if additional settlements are entered into which benefit the bonds.

Down

Moody's could downgrade the ratings if the annual rate of decline in the volume of domestic cigarette shipments increases, if subsequent recoveries from future arbitration proceedings for settling states take longer than Moody's assumption of 15-20 years, if an arbitration panel finds that a settling state was not diligent in enforcing a certain statute which could lead to a significant decline in cash flow to that state, or if additional settlements are entered into which reduce the cash flow to the bonds.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions of the disclosure form.

The analysis relies on a Monte Carlo simulation that generates a large number of collateral loss or cash flow scenarios, which on average meet key metrics Moody's determines based on its assessment of the collateral characteristics. Moody's then evaluates each simulated scenario using model that replicates the relevant structural features and payment allocation rules of the transaction, to derive losses or payments for each rated instrument. The average loss a rated instrument incurs in all of the simulated collateral loss or cash flow scenarios, which Moody's weights based on its assumptions about the likelihood of events in such scenarios actually occurring, results in the expected loss of the rated instrument.

Moody's quantitative analysis entails an evaluation of scenarios that stress factors contributing to sensitivity of

ratings and take into account the likelihood of severe collateral losses or impaired cash flows.

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