

THE BUCKEYE TOBACCO SETTLEMENT FINANCING AUTHORITY

Robert Sprague, Treasurer

Ohio Treasurer

Mike DeWine, Chairman

Ohio Governor

Kimberly Murnieks, Secretary

Director of the Office of Budget
and Management

DRAFT- SUBJECT TO REVIEW AND APPROVAL BY THE AUTHORITY

The Buckeye Tobacco Settlement Financing Authority (the Authority) held a meeting commencing at 10:30 a.m. on Tuesday, September 24, 2024, in the 35th Floor Conference Room, Office of Budget and Management (OBM), James A. Rhodes State Office Tower, 30 East Broad Street, Columbus, Ohio, pursuant to notice of meeting given by the Secretary of the Authority pursuant to Section 4.2 of its Bylaws.

*[Copies of the items marked * are attached hereto and made a part of these minutes.]*

The Chair called the meeting to order.

Upon request of the Chair, Christina Frass, Assistant OBM Director, reported that no new designations had been filed since the last meeting of the Authority.

Ms. Ackman next invited Ms. Frass to read a written statement from Kimberly Murnieks, OBM Director before the Authority. The statement indicated that on July 5, 2024, Michael Babin left employment at OBM. Mr. Babin had been serving as the Assistant Secretary to the Authority during his time at OBM. As such, his status should be revoked and Diane Chime, Chief of Capital Markets at OBM, should be appointed to serve as the new Assistant Secretary. Once Ms. Frass concluded reading the statement, the Chair moved to revoke the appointment of Mr. Babin as Assistant Secretary and appoint Ms. Chime to the position. Ms. Frass seconded the motion, and it was approved upon a unanimous roll call. Ayes — Ackman, Frass, and Eisenberg; Nays — None.

Pursuant to Section 183.52 of the Revised Code and Section 3.1 of the Bylaws, Ms. Ackman presided as Chair of the meeting. Upon roll call, the Chair declared a quorum to be present. The following members or the designees of members of the Authority, eligible to vote at the meeting, were present:

Sarah Ackman, Office of the Governor

Christina Frass, Office of Budget and Management

Lisa Eisenberg, Office of the Treasurer of State

The Assistant Secretary filed the certificate of compliance* with the public meeting notice provisions of Section 121.22 of the Revised Code and requirements of the Authority in Article 4 of the Bylaws.

Ms. Ackman requested approval of the September 27, 2023, meeting minutes. Ms. Frass moved for approval, seconded by Ms. Eisenberg. There being no further discussion, the motion was approved upon roll call as follows: Ayes — Ackman, Frass, and Eisenberg; Nays — None. The Chair declared the motion passed.

At the invitation of the Chair, Jennifer Croskey, Office of the Ohio Attorney General, provided an update on the status of arbitration relating from the 1998 Master Settlement Agreement (MSA) and payments held in the Disputed Payment Account.

Ms. Croskey reported that in April 2024 the State received its portion of the MSA payment for the 2023 sales year totaling \$231.8 million. She informed the Authority that \$46,000 of this payment

was comprised of a 2004 NPM adjustment payment previously withheld or deposited into the Disputed Payments Account. She relayed that more detail related to the payment was available in the written statement* provided to the Authority members.

Next, Ms. Croskey informed the Authority that the of arbitration phase for payment years 2005 through 2007 is essentially complete. A common case hearing involving nine of the arbitrating states took place in July 2022. Ohio's specific hearing was held from June 17 through June 28, 2024 in Chicago, IL with a subsequent hearing held in Columbus, OH on August 20, 2024. Ms. Croskey explained to the Authority that a post-hearing briefing will be held and the anticipated date of award is March 10, 2025, however she did note that payment cannot be guaranteed by that date. She went on to say that preliminary discussions are being held about award years 2008 and beyond. Finally, Ms. Croskey told the Authority that Massachusetts has settled with the tobacco manufacturers on a slightly accelerated timeline and has already settled 2008 through 2011.

Ms. Chime then presented a Financial Matters update on the Sales Year 2023 tobacco settlement receipts (TSRs) received in calendar year 2024, its impact on calendar year 2024 debt service payments, Turbo Term Bond Redemptions, and a pending voluntary disclosure filing. She added that while Ohio received \$231.8 million for the annual payment, an additional \$92.2 million, was held aside by tobacco manufactures in the disputed payment account for the NPM adjustment or for other disputes. She continued to explain that this is the first year since the issuance of the Series 2020 bonds in which TSRs in conjunction with interest earnings on the reserve fund and other pledged accounts are expected to be insufficient to fully pay the December 1, 2024 interest due (\$81.6 million) on the B-2 Class 2 Senior Turbo Term Bonds. The consequence of the debt service shortfall is a tapping of the Class 2 senior liquidity reserve fund, in the amount of the shortfall, approximately \$10.9 million. A draw on the Reserve Account does not constitute an "Event of Default" under the Indenture. She explained that the Class 2 reserve account is currently required to be funded at \$170.85 million. As a result of the draw on the reserve, she explained that the flow of funds includes replenishment of the reserve fund from annual TSRs once operating expenses and debt service for that year have been funded and before any excess TSRs would be used to fund future turbo redemption payments. She added that between June 1, 2020 and December 1, 2023, the Authority paid \$216.67 million towards turbo redemption payments, which are allowable by the current financing structure when excess pledged tobacco proceeds are available and the reserve accounts are fully funded. Ms. Chime informed the Authority that a Voluntary Disclosure notice regarding the expected draw on the Class 2 reserve will be filed on EMMA, in addition to the filing required by MSRB rule 15c2-12 within 10 days of the event of a draw on the reserve fund.

Following the presentation, at the invitation of the Chair, Errin Jackson, Assistant Chief of Capital Markets at the Office of Budget and Management, presented on the Fiscal Year 2023 audit process and its results. Ms. Jackson began by relaying that U.S. Bank, trustee for the Bonds, OBM staff, and staff from the Treasurer of State's Office collectively provided the required reports and documents to the selected compiler, Rea & Associates, and the final audit was completed in October 2023. The Independent Public Accountant's final report was accepted by the Ohio Auditor of State and certified for release on December 12, 2023. She noted that the FY 2023 financial statements were found to fairly present, in all material respects, the financial position of the Authority in accordance with Generally Accepted Accounting Principles. The audit opinion was "unqualified" and the audit did not identify any material weaknesses or significant deficiencies in internal controls or any instances of noncompliance with material laws and regulations.

Next, Ms. Jackson presented the Authority's operating budget results for FY 2024* and its operating budget for FY 2025.* She reviewed the FY 2024 year-to-date expenses, noting that FY 2024 came in approximately fifty per cent under budget due to lower-than-budgeted expenses for

financial advisory services and the amount set aside for miscellaneous expenses. Rating agency fees, financial document compilation fees, and audit expenses matched their budgeted amounts.

Lastly, Ms. Jackson reviewed the proposed FY 2025 budget, reporting that budgeted amounts were flat except for financial compilation and audit services, which are scheduled to increase slightly each year per contractual agreements. She relayed that the total budget for the year was set at \$147,685. Ms. Jackson pointed out that only \$65,000 dollars of the proposed budget amount was transferred from tobacco settlement proceeds payment that the state received in April 2024. The available cash from the close of FY 2024 was carried over to support projected FY 2025 expenses. Following Ms. Jackson's discussion of the audit and budget information, there were no questions from the Authority.

There being no further business, the meeting was adjourned.

Kimberly A. Murnieks, Secretary
Buckeye Tobacco Settlement Financing Authority



DAVE YOST
OHIO ATTORNEY GENERAL

Antitrust – Tobacco Unit
Office 614-387-5600
Fax 614-387-5597

MEMORANDUM

To: Buckeye Tobacco Settlement Finance Authority

From: Jennifer S. M. Croskey, Tobacco Counsel, Antitrust Section

Date: September 24, 2024

Subject: 2024 Report from Tobacco Counsel to the Attorney General

In April, we received Ohio's portion of the tobacco master settlement agreement (MSA) payment in the amount of \$231.8 million, which included an additional payment for the 2004 NPM Adjustment previously withheld or deposited to the Disputed Payments Account. The amount attributable to the 2004 NPM Adjustment is \$46 thousand, which is in addition to the \$40.8 million received last year.

The tobacco payment may be reduced when the tobacco companies that are parties to the MSA lose market share to tobacco companies that are not parties to the MSA. That reduction is referred to as the NPM Adjustment. A tobacco company may choose to (1) pay the NPM Adjustment subject to money being returned with interest by the states, (2) withhold the NPM Adjustment subject to paying the money later with interest, or (3) pay the NPM Adjustment to the Disputed Payments Account. PwC calculates the NPM Adjustment on a nationwide basis and then allocates it to each state. A state is not subject to the Adjustment and will receive its allocable share of the Adjustment if it had a Qualifying Statute (laws requiring tobacco companies that are not parties to the MSA to pay escrow on all cigarettes bearing a tax stamp) and diligently enforced that statute. Whether a state has diligently enforced its escrow law is determined in an arbitration. States that are not found to be diligent must share the burden of the entire nationwide NPM Adjustment.

As previously reported, the states are arbitrating diligent enforcement relating to the NPM Adjustment for 2005 through 2007. We had a common case hearing involving nine arbitrating states in July 2022. Ohio's state specific hearing was June 17 through June 28, 2024 in Chicago and August 20 in Columbus. There is post-hearing briefing and we anticipate an arbitration award by March 10, 2025. This arbitration began in September 2020 and resolved three years. The two prior arbitrations each resolved one year and took four and seven years. So, we are improving timing on these resolutions.

The parties are discussing the next arbitration. Massachusetts settled resolving 2008 through 2011 and agreed to arbitrate 2012 through 2016 in its next arbitration.

Buckeye Tobacco Settlement Financing Authority

Table 1: Fiscal Year End 2024 Operating Expenditures (Budget vs Actuals)

Service or Activity	Total by Category	Budgeted Line Amount	Amount Paid	Variance
Rating Agency Fees	\$20,000.00			
S&P Annual Surveillance		\$20,000.00	\$20,000.00	\$0.00
Trustee Services - US Bank	\$4,000.00			
Annual Trustee Fee		\$4,000.00	\$4,000.00	\$0.00
Financial Statement Preparation	\$8,900.00			
REA & Associates		\$8,900.00	\$8,900.00	\$0.00
Financial Statement Audit	\$39,270.00			
Rea & Associates on behalf of AOS		\$38,070.00	\$38,070.00	\$0.00
Auditor of State		\$1,200.00	\$756.50	\$443.50
Financial Advisor	\$10,000.00			
Public Financial Management		\$10,000.00	\$0.00	\$10,000.00
Continuing Disclosure and Legal Services	\$10,000.00			
Legal Services - Squire		\$10,000.00	\$1,342.25	\$8,657.75
Contingency /Other	\$54,000.00			
Miscellaneous Expense		\$54,000.00	\$0.00	\$54,000.00
TOTAL:	\$146,170.00	\$146,170.00	\$73,068.75	\$73,101.25

Table 2: Fiscal Year 2025 Operating Budget

Service or Activity	Total by Category	Budgeted Line Amount	Amount Paid	Variance
Rating Agency Fees	\$20,000.00			
S&P Annual Surveillance		\$20,000.00		\$20,000.00
Trustee Services - US Bank	\$4,000.00			
Annual Trustee Fee		\$4,000.00		\$4,000.00
Financial Statement Preparation	\$9,200.00			
REA & Associates		\$9,200.00		\$9,200.00
Financial Statement Audit	\$40,485.00			
Rea & Associates on behalf of AOS		\$39,285.00		\$39,285.00
Auditor of State		\$1,200.00		\$1,200.00
Financial Advisor	\$10,000.00			
Public Financial Management		\$10,000.00		\$10,000.00
Continuing Disclosure and Legal Services	\$10,000.00			
Legal Services - Squire		\$10,000.00		\$10,000.00
Contingency /Other	\$54,000.00			
Miscellaneous Expense		\$54,000.00		\$54,000.00
TOTAL:	\$147,685.00	\$147,685.00	\$0.00	\$147,685.00