

BUCKEYE TOBACCO SETTLEMENT FINANCING AUTHORITY

Minutes of June 15, 2012 Meeting

The Buckeye Tobacco Settlement Financing Authority (the Authority) held a meeting commencing at 11:30 a.m. on Friday, June 15, 2012, in the 35th Floor Conference Room, Office of Budget and Management, 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 Bylaws.

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

The Chairman called the meeting to order.

Mr. Kauffman, as Assistant Secretary, reported that a new designation of Seth Metcalf for the Treasurer of State, pursuant to Section 183.52 of the Revised Code, was filed since the last meeting of the Authority.

Pursuant to Section 3.1 of the Bylaws, Mr. Grodhaus presided as Chair of the meeting. Upon roll call, the Chairman declared a quorum to be present. The following member and designees of the Authority, eligible to vote at the meeting, were present:

Michael Grodhaus, Office of the Governor

Seth Metcalf, Treasurer of State

Timothy S. Keen, Director of Budget and Management

Also present were Kurt Kauffman (Assistant Secretary); Gordon Short, Dana Wasserman, Ryan Bilsky, and Ted Geer (Treasurer's office); Emily Kaylor, Larry Scurlock, Cassie Sanfrey, and John Sohner (Office of Budget and Management); Greg Stype (Squire Sanders & Dempsey); and Scott Miller (U.S. Bank).

The Assistant Secretary filed the certificate* of compliance with the public meeting notice provisions of Section 121.22 of the Revised Code.

Mr. Grodhaus requested approval of the June 9, 2011 meeting minutes. After discussion, Mr. Metcalf moved, seconded by Mr. Keen, to approve the minutes of the June 9, 2011 Authority meeting. There being no discussion, the motion was approved upon roll call as follows: Ayes – Grodhaus, Keen, Metcalf; Nays – None. The Chair declared the motion passed.

Mr. Kauffman provided an overview of the fiscal year (FY) 2011 financial statement preparation and audit process and presented a brief summary of FY 2011 audit results.* Mr. Kauffman noted that the FY2011 audit opinion was 'unqualified' and that no material weaknesses or deficiencies in internal controls were identified. He also reported that work on the FY2012 financial statement preparation would begin July 1 with the goal of providing those financial statements to the Auditor of State by mid-August.

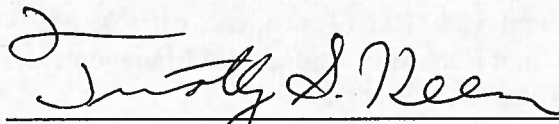
Mr. Kauffman then presented an update on the tobacco settlement receipts (TSRs) received in calendar year (CY) 2012.* He explained that CY 2012 receipts exceeded CY 2011 receipts by \$5.3 million or 1.8% and that those 2012 receipts, in conjunction with interest earnings thereon, would be just sufficient to cover annual debt service payments without needing to draw from the Senior Liquidity Reserve Fund. Amounts remaining, if any, after payment of annual debt service would be transferred to the Senior Liquidity Reserve Fund (and not available for payment of principal on any turbo term bonds). There was also discussion of amounts potentially due and payable to Ohio that have been deposited in the "disputed payments accounts" provided for under

the Master Settlement Agreement or otherwise withheld by the participating manufacturers and that are now the subject of arbitration hearings. Mr. Kauffman noted that such amounts have aggregated to \$143 million since the October 2007 pledge of such receipts to Buckeye tobacco bondholders. Mr. Grodhaus noted that arbitration is proceeding very slowly and that the process will work from the oldest to the newest amounts that remain in dispute.

Mr. Short then presented an overview* of the various investment options that have been considered for the Senior Liquidity Reserve Fund. He noted that the Reserve Fund is currently invested in short-term, high-grade commercial paper and that Treasurer's Office is currently planning to move forward with an investment approach in which about \$100 million would continue to be invested in high-grade commercial paper with the balance invested in a laddered portfolio of qualified municipal bonds. The commercial paper would ensure liquidity on potential draws from the Senior Liquidity Reserve and the municipal bonds would safely enable the Authority to achieve higher investment returns. After a brief discussion of the credit and tax-status of the potential municipal bond investment, Mr. Keen thanked the Treasurer's office for their efforts in this area.

Mr. Scurlock then presented the Authority's operating budget for FY 2012 and its proposed budget for FY 2013. He began by reviewing the FY 2012 year-to-date expenses, noting modest under-spending relative to the budgeted amount. Mr. Scurlock also explained that the budget for FY 2013 does not include an amount for enforcement expenses of the Attorney General's Office and funding for those activities is being addressed in the State's operating budget.

There being no further business, the meeting was adjourned.



Timothy S. Keen, Secretary
Buckeye Tobacco Settlement Financing Authority



THE BUCKEYE TOBACCO SETTLEMENT FINANCING AUTHORITY

JOSH MANDEL, TREASURER
TREASURER OF STATE

JOHN R. KASICH, CHAIRMAN
GOVERNOR

TIMOTHY S. KEEN, SECRETARY
DIRECTOR OF BUDGET AND MANAGEMENT

CERTIFICATION REGARDING NOTIFICATION OF MEETING TO THE PUBLIC AND NEWS MEDIA

The undersigned, Assistant Secretary of the Buckeye Tobacco Settlement Financing Authority, hereby certifies that the notice of the time, place and purposes of the meeting of the Authority of June 15, 2012 at 11:30 a.m. was posted on Wednesday, June 13, 2012 in the State House press room, the Office of Budget and Management (34th Floor, 30 East Broad Street), and the Office of the Treasurer of State (9th Floor, 30 East Broad Street), all in accordance Section 121.22 of the Revised Code and the Open Meetings Rule for notification of meetings to the public and news media adopted by the Authority July 2, 2007.

Dated: June 13, 2012

Kurt Kauffman
Assistant Secretary of the
Buckeye Tobacco Settlement Financing Authority



***** Public Meeting Notice -- REVISED *****

June 13, 2012

TO: Members of the Buckeye Tobacco Settlement Financing Authority and their designees

John R. Kasich, Governor
Josh Mandel, Treasurer of State

Mike Grodhaus
Seth Metcalf

FROM: Timothy S. Keen, Secretary, Buckeye Tobacco Settlement Financing Authority

SUBJECT: **Meeting on Friday, June 15, 2012, at 11:30 a.m. in Conference Room A of the Office of Budget and Management (35th Floor, Rhodes State Office Tower)**

Pursuant to the Bylaws of the Buckeye Tobacco Settlement Financing Authority, I am notifying you of the meeting of the Authority to be held on Friday, June 15, 2012, commencing at 11:30 a.m. in Conference Room A of the Office of Budget and Management (35th Floor, Rhodes State Office Tower, 30 East Broad Street, Columbus, Ohio). Staff will present an overview of the Authority's fiscal year 2011 audit results, its fiscal year 2012 and proposed fiscal year 2013 operating budgets, and the status of tobacco settlement receipts and debt service payments for calendar year 2012. The Treasurer of State's office will present information regarding planned investments for the Senior Liquidity Reserve Account.

Enclosed are a meeting agenda, the June 9, 2011 meeting minutes, copies of the fiscal year 2011 audited financial statements, and the operating budget for fiscal years 2012 and 2013, all as referred to in that agenda.

If you or members of your staff have any questions, please contact me or Kurt Kauffman of my staff at 466-0691.

cc. Mike DeWine, Attorney General
Dana Wasserman, Deputy Director, Office of Debt Management, Treasurer of State
Larry Scurlock, Assistant Debt Manager, Office of Budget and Management



BUCKEYE TOBACCO SETTLEMENT FINANCING AUTHORITY
STAFF PRESENTATION
June 15, 2012

FY2011 Audit Process

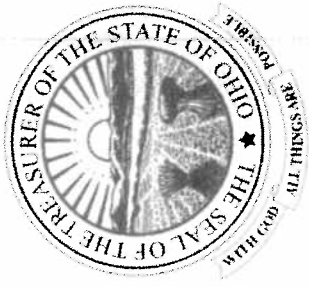
- Staff and U.S. Bank (bond trustee) provided the account statements, reports, and other information to Kennedy Cottrell Richards (KCR) who compiled the FY 2011 financial statements.
- Once the financial statements were compiled, Secretary Keen, OBM and TOS met with KCR to confirm all cash based numbers in the report and examine all line-items that experienced a variance of 5% or more from its prior fiscal year value.
- Financial Statements were turned over to the Auditor of State in August and the audit work took place in mid-August through September.
- The FY2011 Audit Opinion was ‘unqualified’ and the financial statements were found to present fairly, in all material aspects, the financial position of the Authority in accordance with Generally Accepted Accounting Principles.
- The Audit did not identify any significant deficiencies or material weaknesses in internal controls nor any instances of noncompliance with material laws and regulations impacting the Authority.
- The FY2011 Audit did not include a Management Letter.

CY 2011 Tobacco Settlement Receipts versus Debt Service Requirements

\$ in Millions

Calendar Year (CY)	Pledged MSA Payments to Ohio	Interest Earnings	Total Pledged Funds	Less Operating Expenses	Less Debt Service Payments	Shortfall
2008	\$333.1	\$22.3	\$355.5	(\$2.6)	(\$352.7)	--
2009	\$364.9	\$5.3	\$370.2	(\$2.6)	(\$367.8)	--
2010	\$305.6	\$1.7	\$307.3	(\$1.3)	(\$306.0)	--
2011	\$289.3	\$1.4	\$290.7	(\$0.3)	(\$297.7)	(\$7.3)
2012 est.	\$294.6	\$0.3	\$294.9	(\$0.1)	(\$294.7)	--

- Pledged Tobacco Settlement Receipts (TSRs) for CY 2012 totaled \$294.6 million, an increase of 1.8% from CY 2011 TSRs of \$289.3 million.
 - The modest increase in CY2012 TSRs is attributable primarily to a smaller than anticipated decline of about 3.5% in domestic cigarette consumption in 2011 which was more than offset by the inflation adjustment and other components of the MSA payment formula.
- As they did in 2011, the three largest participating tobacco manufacturers (Philip Morris, RJ Reynolds, and Lorillard) all made a portion of their payment to disputed accounts.

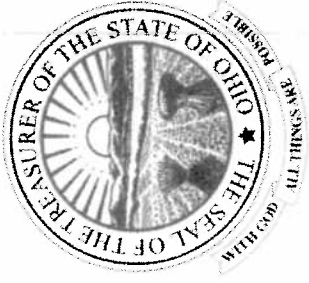


JOSH MANDEL

STATE TREASURER OF OHIO

Buckeye Tobacco Settlement Financing Authority

Review of Investment Options for the
Senior Debt Liquidity Reserve Account



JOSH MANDEL

STATE TREASURER OF OHIO

Considerations in Choosing BTSFA Investments

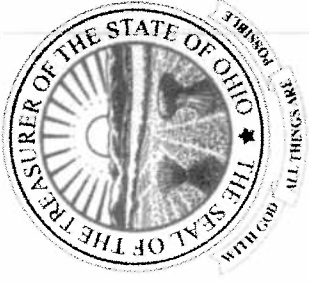
- Limited by Eligible Investments per Trust Indenture
- Liquidity needs (reserve fund draws)
- Interest rate risk
- Rating agencies acceptance of investments
- Counterparty risk
- Concentration of credit risk
- Return to bondholders



JOSH MANDEL
STATE TREASURER OF OHIO

Considered Investment Options

- Reserve Fund CD
- Interest Rate Swap
- Guaranteed Investment Contract
- Commercial Paper
- Municipal Bonds



JOSH MANDEL

STATE TREASURER OF OHIO

Proposed Strategy for Future BTSFA Reserve Fund Investments

Safely increase return to bondholders, with an expectation of rates rising in 2014, while providing liquidity to meet principal and interest payments

Combination of Investments :

- Investment options are not mutually exclusive. A combination of different investments could provide diversification and higher returns while meeting the liquidity needs of the fund
- Example:
 - \$100M in Commercial Paper
 - \$282M in a Muni-Laddered Portfolio