



THE STATE
of **ALASKA**
GOVERNOR MIKE DUNLEAVY

Department of Revenue

COMMISSIONER'S OFFICE

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February 8, 2023

The Honorable Bryce Edgmon
House Finance Committee, Co-Chair
Alaska State Legislature
State Capitol, Room 410
Juneau, AK 99801

The Honorable Neal Foster
House Finance Committee, Co-Chair
Alaska State Legislature
State Capitol, Room 511
Juneau, AK 99801

The Honorable DeLena Johnson
House Finance Committee, Co-Chair
Alaska State Legislature
State Capitol, Rooms 505
Juneau, AK 99801

Dear Co-Chairs Edgmon, Foster, and Johnson,

Thank you for allowing us the opportunity to address some of the questions that were raised during the Department of Revenue's (DOR) presentation reviewing State Debt and Credit considerations to the House Finance Committee on February 7, 2023. Please find below the questions and corresponding responses.

1. With respect to currently outstanding debt under the School Debt Reimbursement Program ("SDRP"), in what year is the final maturity date according to the bond repayment schedules?

The School Debt Reimbursement Program debt service information is derived from the Department of Education and Early Development as of June 30, 2022. The final payment maturity on the State's portion of the debt service is 2040. This information is included in the Annual Public Debt Book. An excerpt (Table 5.0-*State of Alaska Payments on General Fund Paid Debt as of June 30, 2022*) of the SDRP debt service schedule is attached for your reference.

2. Please describe the payment structure and mechanism for payments under the Northern Tobacco Securitization Corporation's ("NTSC") Tobacco Settlement Asset-Backed Bonds and include other regulatory requirements that may tie-into the repayment from a debt policy perspective, compliance, T-21, and impacts surrounding the specific financial instrument.

The following web address was created for the NTSC, through the Alaska Housing Finance Corporation ("AHFC"), and includes additional detail and background with respect to the original Master Settlement Agreement, original issuances and subsequent refinancings of the asset-backed bonds: <https://www.ahfc.us/about-us/subsidiaries/ntsc>. Please find a general summary below:

On November 23, 1998, the Master Settlement Agreement ("MSA") was entered into by a majority of U.S. states, territories and the District of Columbia (collectively, the "Settling States") and select tobacco manufacturers (collectively, the "Participating Manufacturers") to resolve certain tobacco-related litigation among the Settling States and the Participating Manufacturers, to release the Participating Manufacturers from past and present tobacco-related claims of the Settling States, and to provide for a continuing release of future tobacco-related claims of the Settling States, in exchange for which the Participating Manufacturers agreed, among other things, to make periodic payments of Tobacco Settlement Revenues ("TSRs") to the Settling States and to restrict certain types of tobacco-related advertising and marketing.

With the finalization of the MSA, the settling states had to develop strategies for managing and spending their MSA monies. In Alaska, the decision was taken by the 2000 Alaska State Legislature and then Governor to securitize a portion of the MSA revenue stream so that monies could be made immediately available to fund public projects. The AHFC was authorized to create a subsidiary corporation to issue bonds that would be secured by a certain portion of Alaska's revenue payments under the MSA. Proceeds from the sale of the bonds would be used to fund public projects and infrastructure improvements.

In response, the AHFC Board of Directors, at its annual meeting on August 30, 2000, approved the creation of the Northern Tobacco Securitization Corporation (NTSC), a nonprofit public corporation, to issue bonds on behalf of the State of Alaska. AHFC is the sole member of NTSC. The Board of Directors of NTSC consists of the Commissioners of the Alaska Departments of Revenue; Health and Social Services; and Commerce, Community and Economic Development; or their designees; and two members of the public appointed as independent directors. The Corporation issued its Tobacco Settlement Asset-Backed Bonds and proceeds of each issue were used to purchase a certain portion of the State's future right, title and interest in the Tobacco Settlement Revenues ("TSRs") under the MSA, the TSRs are pledged as security for debt service on the related bonds.

The TSR payments are dependent on a variety of factors, some of which include the financial capability of the Participating Manufacturers to pay TSRs; future cigarette consumption, which impacts the TSR payment calculation; and potential future legal and legislative challenges against the Participating Manufacturers and/or the MSA.

NTSC is a distinct entity with its own legal existence independent of, and separate from, AHFC and the State of Alaska. Neither the State of Alaska nor AHFC is obligated to meet debt service requirements on NTSC's bonds.

Sincerely,

A handwritten signature in black ink, appearing to read 'Adam Crum', with a long horizontal stroke extending to the right.

Adam Crum

Commissioner-Designee

Enclosures:

Attachment 1-Official Statement-Tobacco Settlement Asset-Backed Bonds, Series 2021 Senior Bonds

Attachment 2-Northern Tobacco Securitization Corporation Annual Financial Report as of June 30, 2022

Attachment 3 -Table 5.0-State of Alaska Payments on General Fund Paid Debt as of June 30, 2022