



## **Rating Action: Moody's upgrades \$356.1 million of Tobacco Asset-Backed Bonds and downgrades an additional \$87.2 million**

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**Global Credit Research - 10 Oct 2017**

New York, October 10, 2017 -- Moody's Investors Service has upgraded the ratings of 12 tranches in 6 tobacco settlement revenue securitizations and downgraded the ratings of 6 tranches in 3 tobacco settlement revenue securitizations.

The complete rating actions are as follows:

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

Cl. 2006A-1, Upgraded to Baa2 (sf); previously on Jan 19, 2017 Upgraded to Ba1 (sf)

Cl. 2006A-2, Upgraded to B2 (sf); previously on Jul 6, 2015 Downgraded to B3 (sf)

Cl. 2006A-3, Upgraded to B2 (sf); previously on Jul 6, 2015 Downgraded to B3 (sf)

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

2005A-1, Upgraded to Baa1 (sf); previously on Jan 19, 2017 Upgraded to Baa2 (sf)

2005A-2, Upgraded to Ba3 (sf); previously on Feb 20, 2014 Confirmed at B1 (sf)

2005A-3, Upgraded to B1 (sf); previously on Feb 20, 2014 Confirmed at B2 (sf)

Issuer: New York Counties Tobacco Trust I, Series 2000

Term Bond 1, Upgraded to Aa3 (sf); previously on Feb 20, 2014 Confirmed at A1 (sf)

Issuer: New York Counties Tobacco Trust II, Series 2001

Super Sinker Term Bond 2, Downgraded to Baa2 (sf); previously on Jul 14, 2017 A1 (sf) Placed Under Review for Possible Downgrade

Super Sinker Term Bond 3, Downgraded to Baa3 (sf); previously on Jul 14, 2017 A2 (sf) Placed Under Review for Possible Downgrade

Issuer: New York Counties Tobacco Trust III, Series 2003

2003 TTB-3, Downgraded to A3 (sf); previously on Jul 14, 2017 Aa3 (sf) Placed Under Review for Possible Downgrade

Issuer: Rockland Tobacco Asset Securitization Corporation, Series 2001

Super Sinker Term Bond 3, Upgraded to Baa3 (sf); previously on Jan 19, 2017 Downgraded to Ba1 (sf)

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

Ser. 2002 Term Bonds 2, Downgraded to A3 (sf); previously on Jul 14, 2017 A2 (sf) Placed Under Review for Possible Downgrade

Ser. 2002 Term Bonds 3, Downgraded to Baa2 (sf); previously on Jul 14, 2017 Baa1 (sf) Placed Under Review for Possible Downgrade

Ser. 2002 Term Bond 4, Downgraded to Baa3 (sf); previously on Jul 14, 2017 Baa1 (sf) Placed Under Review

for Possible Downgrade

Issuer: Tobacco Securitization Authority of Northern California (Sacramento County)

2005A-1-1, Upgraded to Baa3 (sf); previously on Jan 19, 2017 Upgraded to Ba2 (sf)

2005A-2, Upgraded to B2 (sf); previously on Feb 20, 2014 Upgraded to B3 (sf)

Issuer: Tobacco Settlement Financing Corporation (New Jersey), Series 2007-1

2007-1A Serial Bond 11, Upgraded to Aaa (sf); previously on Jul 26, 2016 Upgraded to Aa1 (sf)

2007-1A Serial Bond 12, Upgraded to Aa2 (sf); previously on Jul 6, 2015 Upgraded to A1 (sf)

## RATINGS RATIONALE

The upgrade actions announced today are primarily the result of continued deleveraging of the transactions, and, to a lesser extent, Moody's upgrade of Reynolds American Inc.'s senior unsecured rating to Baa2 from Baa3 in August 2017. The 2016 cigarette shipment volume decrease of approximately 4.0% was in line with Moody's expectation.

The upgrade action on New York Counties Tobacco Trust I, Series 2000 also reflects an adjustment to the calculation of the liquidity reserve requirement and corrects an error in prior analysis in the payment schedule that was affecting future bond cashflow to the deal.

Today's downgrade actions on New York Counties Tobacco Trust II, Series 2001 (NY Tobacco Trust II), New York Counties Tobacco Trust III, Series 2003 (NY Tobacco Trust III), and The California County Tobacco Securitization Agency (Fresno County Tobacco Funding Corporation), Series 2002 conclude the review actions announced on July 14, 2017 and reflect corrections of the errors disclosed in the press release issued on that date. The downgrade actions on the bonds from NY Tobacco Trust II and NY Tobacco Trust III also reflect correction of inaccurate operating expense inputs, and, for NY Tobacco Trust II, an adjustment to the calculation of the liquidity reserve requirement, used in prior analysis. The net impact of correcting all of these errors and making the adjustments was negative.

## METHODOLOGY

The principal methodology used in these ratings was "Moody's Approach to Rating Tobacco Settlement Revenue Securitizations" published in January 2017. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

For the New York transactions, Moody's base case assumed non-SET paid Tribal pack sales to be 175 million packs per year, decreasing annually at the same rate as our assumption for the yearly volume decline of cigarette shipments. This upward adjustment of the base case from 150 million packs per year is based on information provided by New York State as determined by an independent investigator. In addition, for the New York transactions, today's rating actions included cash flow runs for additional scenarios to test the resiliency of ratings to stresses to the projections of future non-SET paid Tribal NPM pack sales.

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 falls below our 4% base case expectation, if future arbitration proceedings and subsequent recoveries for settling states become more expeditious than they currently are, or, in the case of the New York deals, the number of non-SET paid Tribal NPM packs sold drop significantly below our expectations.

### Down

Moody's could downgrade the ratings if the annual rate of decline in the volume of domestic cigarette shipments increases above our 4% base case expectation, 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, for the New York deals, the number of non-SET paid Tribal NPM packs sold do not decrease in line with our expectations.

## 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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