

**SUBSTITUTE FOR  
HOUSE BILL NO. 4850**

A bill to amend 2005 PA 226, entitled  
"Michigan tobacco settlement finance authority act,"  
by amending section 8 (MCL 129.268).

**THE PEOPLE OF THE STATE OF MICHIGAN ENACT:**

1       Sec. 8. (1) The state budget director with the approval of the  
2       state administrative board may sell to the authority, and the  
3       authority may purchase, for cash or other consideration and in 1 or  
4       more installments, all or a portion of the state's tobacco receipts  
5       pursuant to the terms of 1 or more sale agreements. In the  
6       alternative, the state budget director with the approval of the  
7       state administrative board may sell all or a portion of the state's  
8       tobacco receipts for cash or other consideration to a person or  
9       persons other than the authority, if the terms of the sale

House Bill No. 4850 (H-1) as amended May 30, 2007

1 agreement to sell the state's tobacco receipts are in the best  
2 interests of this state and the net proceeds of the sale will not  
3 exceed \$400,000,000.00. If the sale to a person or persons other  
4 than the authority is in the best interests of this state, the  
5 state administrative board shall approve the terms of the sale  
6 agreement. The sale agreement or combined sale agreements shall  
7 provide for the sale of that portion of the state's tobacco  
8 receipts sufficient to provide net proceeds to the state in the  
9 amount of ~~\$400,000,000.00~~ **[\$810,000,000.00]**, OF which **\$400,000,000.00**  
10 shall be deposited to and held, used, and expended by the state  
11 treasurer in the manner provided for in the Michigan trust fund  
12 act, 2000 PA 489, MCL 12.251 to 12.256, **[\$202,800,000.00 SHALL BE**  
**DEPOSITED IN THE STATE SCHOOL AID FUND ESTABLISHED BY SECTION 11 OF**  
**ARTICLE IX OF THE STATE CONSTITUTION OF 1963,] AND THE BALANCE SHALL BE**  
13 **DEPOSITED IN THE GENERAL FUND.**

14 (2) Any sale agreement shall provide that the purchase price  
15 payable by the authority to the state for TSRs shall consist of the  
16 net proceeds and the residual interests, if any. In addition, any  
17 sale shall be pursuant to 1 or more sale agreements that may  
18 contain the terms and conditions considered appropriate by the  
19 state budget director to carry out and effectuate the purposes of  
20 this section, including without limitation covenants binding this  
21 state in favor of the authority and its assignees, including  
22 without limitation the owners of the bonds and benefited parties,  
23 including a requirement that the state enforce the provisions of  
24 the master settlement agreement that require the payment of the  
25 TSRs, a requirement that the state enforce the provisions of the  
26 qualifying statute, a provision authorizing inclusion of the  
27 state's pledge and agreement, as set forth in section 11, in any

1 agreement with owners of the bonds or any benefited parties, and  
2 covenants with respect to the application and use of the proceeds  
3 of the sale of the state's tobacco receipts to preserve the tax  
4 exemption of the interest on any bonds, if issued as tax-exempt.  
5 The state budget director in any sale agreement may agree to, and  
6 the authority may provide for, the assignment of the authority's  
7 right, title, and interest under the sale agreement for the benefit  
8 and security of the owners of bonds and benefited parties.

9 (3) A sale agreement may provide that the remedies available  
10 to the authority and the bondholders for any breach of the pledges  
11 and agreements of this state set forth in subsection (2) shall be  
12 limited to injunctive relief and that this state shall be  
13 considered to have diligently enforced the qualifying statute if  
14 there has been no judicial determination by a court of competent  
15 jurisdiction in this state, in an action commenced by a  
16 participating tobacco manufacturer under the master settlement  
17 agreement, that this state has failed to diligently enforce the  
18 qualifying statute.

19 (4) The approval of the state administrative board shall be  
20 made by a resolution adopted by the state administrative board and  
21 that approval together with the sale agreement made pursuant to  
22 that approval shall be conclusively presumed to be valid for all  
23 purposes unless challenged in an action brought in the court of  
24 appeals within 30 days after the adoption of the resolution. All  
25 challenges shall be heard and determined as expeditiously as  
26 possible with lawful precedence over other matters. Consideration  
27 by the court of appeals shall be based solely on the record before

1 the state administrative board and briefs to the court shall be  
2 limited to whether the resolution conforms to the constitution and  
3 laws of this state and the United States and is within the  
4 authority of the state administrative board under this act.

5 (5) A sale of all or a portion of the state's tobacco receipts  
6 to the authority under a sale agreement shall be treated as a true  
7 sale and absolute transfer of the state's tobacco receipts  
8 transferred and not as a pledge or other security interest for any  
9 borrowing. A sale agreement that expressly states that the transfer  
10 of all or a portion of the state's tobacco receipts to the  
11 authority is a sale or other absolute transfer signifies that the  
12 transaction is a true sale and is not a secured transaction and  
13 that title, legal and equitable, has passed to the authority. The  
14 characterization of a sale as an absolute transfer by the  
15 participants shall not be negated or adversely affected by the fact  
16 that only a portion of the state's tobacco receipts are  
17 transferred, or by the acquisition or retention by this state of a  
18 residual interest, or by the participation by any state official as  
19 a member or officer of the authority, or by whether the state is  
20 responsible for collecting the TSRs or otherwise enforcing the  
21 master settlement agreement or retains legal title to the portion  
22 of the state's tobacco receipts for the purposes of these  
23 collection activities, or by any characterization of the authority  
24 or its obligations for purposes of accounting, taxation, or  
25 securities regulation, or by any other factor whatsoever. A true  
26 sale under this act exists regardless of whether the authority has  
27 any recourse against this state, or any other term of the sale

1 agreement, including the fact that this state acts as a collector  
2 of the state's tobacco receipts or the treatment of the transfer as  
3 a financing for any purpose.

4 (6) On and after the effective date of each sale of TSRs, the  
5 state shall have no right, title, or interest in or to the TSRs  
6 sold, and the TSRs sold shall be property of the authority and not  
7 of this state, and shall be owned, received, held, and disbursed by  
8 the authority and not this state. On or before the effective date  
9 of a sale described in this subsection, this state through the  
10 state treasurer shall notify the escrow agent under the master  
11 settlement agreement that this state has sold all or a portion of  
12 the state's tobacco receipts to the authority, including, if  
13 applicable, a statement as to the percentage sold and shall  
14 irrevocably instruct the escrow agent that, subsequent to the date  
15 specified in the notice, that portion of the state's tobacco  
16 receipts are to be paid directly to the authority or the trustee  
17 under the applicable authority resolution, trust agreement, or  
18 trust indenture for the benefit of the owners of the bonds and  
19 benefited parties until the authority's bonds and ancillary  
20 facilities are no longer outstanding. Once the bonds or ancillary  
21 facilities are no longer outstanding, an officer or agent of this  
22 state who shall receive any TSRs shall hold them in trust for the  
23 authority or the trustee, as applicable, and shall promptly remit  
24 the same to the authority or the trustee, as applicable.

25 (7) The net proceeds and any earnings on the net proceeds  
26 shall never be pledged to, or made available for, payment of the  
27 bonds or ancillary facilities or any interest or redemption price

1 or any other debt or obligation of the authority.