



EDDIE BAZA CALVO  
Governor

RAY TENORIO  
Lieutenant Governor

*Office of the Governor of Guam.*

32-14-1858

7.18.14

*[Handwritten signature]*  
Date: 7.18.14  
Office of the Speaker  
Judith T. Won Pat - 4.D

July 18, 2014

Honorable Judith T. Won Pat, Ed.D.  
Speaker  
*I Mina'trentai Dos Na Liheslaturan Guåhan*  
155 Hesler Place  
Hagåtña, Guam 96910

Dear Madame Speaker:

Pursuant to the enclosed Bond Counsel's correspondence on the matter dated July 17, 2014, I am writing to you to provide the notice required in Section 3 of Public Law 32-179. P.L. 32-179 provides that certain remaining amounts from the original issuance of the Series 2001B tobacco settlement bonds will be allocated to various health departments, or for local matching and other health-related costs. These costs are all considered "working capital costs," as opposed to capital costs. Tax-exempt bonds, including tobacco settlement bonds, are only allowed to be spent on working capital costs if they meet certain federal tax rules, the most important of which for our purposes is the "proceeds spent last" rule.

2014 JUL 18 PM 5:11  
*[Handwritten mark]*

The Government of Guam, and various related or controlled entities, have, through the years, issued tax-exempt bonds to finance other working capital costs. Those costs, and those tax-exempt bonds, were all subject to the same rule. The expenditures now authorized under P.L. 32-179 will be treated as more working capital costs, and so will be similarly subject to the same rule.

Please feel free to reach out to me should you need anything further.

*Senseramente,*

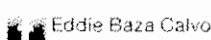
**EDDIE BAZA CALVO**

ENCLOSURE

1858

P.O. Box 2950 • Hagatna, Guam 96932

Tel: (671) 472-8931 • Fax: (671) 477-4826 • [governor.guam.gov](http://governor.guam.gov) • [calendar.guam.gov](http://calendar.guam.gov)



Eddie Baza Calvo



@eddiebazacalvo



@governorcalvo



governorofguam



ORRICK, HERRINGTON & SUTCLIFFE LLP  
THE ORRICK BUILDING  
405 HOWARD STREET  
SAN FRANCISCO, CALIFORNIA 94105-2669  
  
tel +1-415-773-5700  
fax +1-415-773-5759  
  
WWW.ORRICK.COM

John Y. Wang  
(415) 773-5993  
jwang@orrick.com

July 17, 2014

Judith T. Won Pat, Ed.D.  
Speaker, 32nd Guam Legislature  
Suite 201  
155 Hesler St.  
Hagåtña, Guam 96910

Re: Letter Relating to Public Law 32-179

Dear Speaker Won Pat:

I am writing to you in connection with Section 3 of Public Law 32-179 (“P.L. 32-179”). We understand there are still proceeds remaining from the original issuance of the 2001B tobacco settlement asset-backed bonds. The 2001B bonds were refinanced in 2007, but they continue to exist as proceeds of tax-exempt bonds and, therefore, are subject to federal tax rules.

Restrictive investment rules applied to proceeds of the 2001B proceeds at their original issuance. These investment rules continue to apply to these proceeds until they are considered ‘spent’ for federal tax purposes. Bond proceeds may either be spent on capital costs upon payment to finance depreciable assets, or may be considered spent for working capital (non-depreciable) costs if the issuer of those bonds can demonstrate a sufficient cashflow need. Accordingly, using bond proceeds to finance working capital costs is to be demonstrated on a ‘proceeds spent last’ basis, which measures the issuer’s cash sufficiency at the time of expenditure, and through other points in time. Once considered ‘spent,’ proceeds from these 2001B bonds will be relieved from their investment restrictions.

P.L. 32-179 provides that certain proceeds from the 2001B bonds will now be allocated to various health departments and used for local matching and other health-related costs. These uses are all considered working capital costs and are only considered ‘spent’ for federal tax law purposes in accordance with the ‘proceeds spent last’ method. This method means, generally, that there is a current, immediate need for using the bond proceeds to pay working capital costs, due to the insufficiency of other available cash that are not bond proceeds.

Another series of tobacco settlement asset-backed bonds (Series 2001A) and various other issues of tax-exempt bonds have been previously issued by the Government of Guam or entities issuing on behalf of the Government to finance working capital costs. All those bonds



were subject to the same 'proceeds spent last' rule. P.L. 32-179 would now permit a portion of the original 2001B proceeds to be spent on more working capital costs, and therefore be subject to the same rule. Therefore, assuming that the Government has remained in compliance with the rule with respect to the 2001B and the 2007 Bonds and continues to do so, the reprogramming and reapportion of 2001B proceeds described in P.L. 32-170 should satisfy the 'proceeds spent last' rule.

Very truly yours,

John Y. Wang

cc. Stan Dirks