

**COUNTY OF SACRAMENTO
CALIFORNIA**

For the Agenda of:
September 9, 2004
9:30 a.m.

To: Board of Supervisors

From: Countywide Services Agency

Subject: Report Back On Specifics Of Higher Than Expected Tobacco Litigation Settlement (TLS) Fund Balance, And The Impact On The TLS Endowment's Interest Earnings From Earlier-Than-Anticipated Deallocation Of TLS Bond Proceeds And Identify Which Tobacco Cessation Programs Were Previously Funded By The TLS Endowment 15.0 Percent Set Aside.

Contact: AnnMarie Boylan, Senior Administrative Analyst; 874-4627

BACKGROUND:

Your Board requested information on three specific areas in regards to the TLS Endowment Fund:

1. The projected TLS Endowment fund balance for Fiscal Year 2004-05 was proposed in May 2004 at \$839,780 and has been increased by \$634,142 to an estimated aggregate amount of \$1,473,922 for Fiscal Year 2004-05.
2. Discuss the impact on TLS investment earnings due to an earlier-than-anticipated deallocation of TLS bond proceeds.
3. Identify which tobacco cessation programs were previously funded by TLS Endowment from the 15.0 percent set-aside.

DISCUSSION:

Specifics on Higher Than Anticipated TLS Fund Balance:

The estimated fund balance submitted for Fiscal Year 2004-05 Proposed Budget was \$839,780. The additional \$634,142 of fund balance was generated primarily through additional received revenues of \$578,582 of funding over and above the scheduled bond annuity and deallocation payments. The balance of \$55,860 was generated through under lower than anticipated spending in both community-based organizations and county programs.

The final amount of deallocated funds is not known to the County prior to June 1st of each year, following the payment of bond debt service through revenues deposited with the bond trustee by the tobacco companies who participated in the national tobacco litigation settlement. The original annuity and deallocation schedule was originally predicated on a conservative payback expectation from the tobacco companies and thus far the tobacco companies have been paying

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this debt more quickly (based upon actual tobacco sales) which in turn deallocates our revenue stream more rapidly. This serves to shorten the life of the bonds; however, the County will still receive funds from the tobacco companies in perpetuity through the Sacramento County Tobacco Securitization Corporation which in turn can choose to make those funds available to the County. Once the TLS bond principal is retired and the funds begin to flow directly to the Sacramento County Tobacco Securitization Corporation the funds will not be restricted as to their use. The conservative estimate of TLS revenues projected that our TLS bonds would be fully amortized in 30 years; however, a more liberal estimate of TLS revenues predicted that the TLS bonds could be retired in as few as 17 years.

Using the additional fund balance that was generated through higher than estimated deallocation of bond proceeds (due to higher than expected TLS revenues) will cause the planned 15-year endowment fund to be exhausted earlier than 15 years. However, the fact that revenues are coming in at a higher level than conservatively estimated will also result in the TLS revenues being returned to control of the Sacramento County Tobacco Securitization Corporation sooner than the 30-year planned maturity of the tobacco bonds as well. In any event, there will likely be a gap between the end of the endowment's life and the resumption of payments directly to the Sacramento County Tobacco Securitization Corporation of 2 to 15 years.

Impact on TLS Investment earnings due to an earlier-than-anticipated deallocation of TLS bond proceeds:

The funds held by the investment company have a locked in rate of return of 3.68 percent. The earning power of funds held in interest bearing accounts at the County are subject to the current interest rate environment and are only earning around 1.0 percent. Therefore, in cases where monies are released to the County early, we lose approximately \$26,800 annually in investment income on every \$1,000,000.

Identify which tobacco cessation programs were previously funded by TLS Endowment from the 15.0 percent set-aside:

There were seven projects funded from the original Request for Proposal process. An estimated \$945,000, which represents 15.0 percent of the overall annual receipts (\$6.3 million), was set-aside for these projects. The original awards totaled \$894,406 annually which is 14.1 percent of the total TLS estimated annual receipts. The attached schedule provides a list of all funded projects, the funding amounts as well as a brief narrative as to the nature of the project.

Respectfully submitted,

APPROVED:

PENELOPE CLARKE, Administrator
Countywide Services Agency

TERRY SCHUTTEN
County Executive

Attachment