

**EL DORADO COUNTY BOARD OF SUPERVISORS  
AGENDA ITEM TRANSMITTAL**

**Meeting of  
January 30, 2007**

**AGENDA TITLE:** Intention of Securitizing Tobacco Settlement Funds

**DEPARTMENT:** Chief Administrative Office

**DEPT SIGNOFF:**

**CAO USE ONLY:**

**CONTACT:** Jim Wiltshire

**DATE:** 1/5/2007

**PHONE:** 5569

**DEPARTMENT SUMMARY AND REQUESTED BOARD ACTION:**

Request that the Board of Supervisors adopt attached resolution approving in concept: 1) the sale of El Dorado County's Tobacco Settlement revenues for the purpose of securitizing these revenues, and 2) El Dorado County's participation in the California Statewide Communities Tobacco Securitization Pool.

**CAO RECOMMENDATIONS:**

Financial impact? ( ) Yes (X) No

Funding Source: ( ) Gen Fund ( ) Other  
Other:

**BUDGET SUMMARY:**

**CAO Office Use Only:**

Total Est. Cost \_\_\_\_\_  
**Funding**  
 Budgeted \_\_\_\_\_  
 New Funding \_\_\_\_\_  
 Savings \_\_\_\_\_  
 Other \_\_\_\_\_  
 Total Funding \_\_\_\_\_  
**Change in Net County Cost** \_\_\_\_\_

4/5's Vote Required ( ) Yes ( ) No  
 Change in Policy ( ) Yes ( ) No  
 New Personnel ( ) Yes ( ) No

**CONCURRENCES:**

Risk Management \_\_\_\_\_  
 County Counsel \_\_\_\_\_  
 Other \_\_\_\_\_

**\*Explain**

**BOARD ACTIONS:**

**Vote:** Unanimous \_\_\_\_\_ Or

**Ayes:**

**Noes:**

**Abstentions:**

**Absent:**

Rev. 6/04 ISKW001 Agenda

**I hereby certify that this is a true and correct copy of an action taken and entered into the minutes of the Board of Supervisors**

**Date:** \_\_\_\_\_

**Attest: Cindy Keck, Board of Supervisors Clerk**

**By:** \_\_\_\_\_



# *The County of El Dorado*

*Chief Administrative Office*  
*Laura S. Gill, Chief Administrative Officer*

*Jim Wiltshire*  
*Assistant Chief Administrative Officer*

*Phone (530) 621-5569*  
*Fax (530) 626-5730*

January 16, 2007

TO: Board of Supervisors

RE: Resolution of Intention of Securitizing Tobacco Settlement Funds

**Recommendation:** That the Board of Supervisors adopt attached resolution approving in concept: 1) the sale of El Dorado County's Tobacco Settlement revenues for the purpose of securitizing these revenues, and 2) El Dorado County's participation in the California Statewide Communities Tobacco Securitization Pool.

**Reason for Recommendation:** El Dorado County has an enormous backlog of needed capital projects. Other than a Senior Center and Library in El Dorado Hills built in 2005, the county has not had a capital budget and program since 1990 (Ray Lawyer overpass, Building C and Building A expansion). The pay-as-you-go plan does not generate enough funds to keep pace with construction cost growth. The County is required by its Charter to submit all proposed indebtedness to the voters. Indebtedness for public facilities traditionally does not receive favorable votes. The securitization of tobacco settlement funds is a possible source to finance a five year capital program.

The California Statewide Communities Development Authority (CSCDA) is a California joint powers agency organized by the California State Association of Counties and has undertaken a pooled tobacco securitization program for the benefit of the counties in the State expected to receive tobacco settlement payments. El Dorado County receives approximately \$1.7 million per year in annual payments. This program essentially allows public agencies to sell this revenue stream and receive the proceeds upfront. For El Dorado County the proceeds equal \$.78 on the dollar when discounted for inflation.

The Chief Administrative Office is preparing the Capital Improvement Program for the Board of Supervisor consideration. It is anticipated that the capital needs will exceed the funds available. However, with tobacco settlement funds the high priority projects could get accomplished.

Attached is a county briefing and market update provided by California Communities for the 2007 Tobacco Securitization Program. Members from the financing team will be available to make presentations on January 30, 2007.

**Fiscal Impact:** The securitization of 100% of the tobacco settlement funds would generate nearly \$37 million for capital facilities. Ten percent of the funds are earmarked for health facilities.

**County Cost:** The nearly \$37 million reflects the net proceeds minus the cost of issuance (estimated at \$450,000).

**Action to be taken following approval:** Clerk to submit the Resolution of Intent to CSCDA and direct the Assistant CAO work with financing team to prepare documents for El Dorado County to participate in the pool including a Board approved capital financing plan.



## RESOLUTION NO.

### OF THE BOARD OF SUPERVISORS OF THE COUNTY OF EL DORADO

*A RESOLUTION OF THE COUNTY OF EL DORADO APPROVING IN CONCEPT THE SALE OF ITS TOBACCO SETTLEMENT REVENUES FOR PURPOSES OF SECURITIZING SUCH REVENUES AND PARTICIPATION IN THE CALIFORNIA STATEWIDE COMMUNITIES TOBACCO SECURITIZATION POOL; AND DIRECTING AND AUTHORIZING APPROPRIATE COUNTY STAFF TO UNDERTAKE ACTIONS PRELIMINARY THERETO*

**WHEREAS**, a variety of litigation actions against tobacco manufacturers were settled and memorialized in a Master Settlement Agreement (the "MSA") among 46 states, including the State of California (the "State"), the District of Columbia and three U.S. territories (collectively, the "Participants") and tobacco manufacturers which represent nearly all of the current United States market (the "Manufacturers");

**WHEREAS**, under the MSA, the Manufacturers are required to make tobacco settlement payments ("TSPs"), based upon their market share, which are distributed among the Participants principally based upon cigarette consumption within each Participant's jurisdiction;

**WHEREAS**, in accordance with a Memorandum of Understanding regarding the TSPs and an Agreement Regarding the Interpretation of the MOU, each among the State, certain cities within the State and the 58 counties within the State, the TSPs that are allocated to the State under the MSA are split 50% to the State, 5% to the four major cities (Los Angeles, San Diego, San Francisco and San Jose) and 45% to the counties, including the County of El Dorado (the "County");

**WHEREAS**, certain payments under the MSA are to be paid in perpetuity, but payment of the TSPs is not guaranteed and the TSPs could be reduced by withdrawal of participating tobacco manufacturers from the settlement, bankruptcy of participating tobacco manufacturers, loss of market share by participating tobacco manufacturers, diverse and significant ongoing or new litigation risks, possible federal tobacco legislation, reduced consumption of tobacco products or changes in population among California counties;

**WHEREAS**, to minimize the County's exposure to such risks and to realize a significant percentage of the present value of the forecasted TSPs, the County is considering the sale of the County's rights to receive its allocated TSPs in an asset securitization transaction (a "Securitization");

**WHEREAS**, the complexity of a Securitization and the related costs in time, money and staffing may be prohibitive, and the relative size of a Securitization by the County may result in higher interest rates and/or less proceeds;

**WHEREAS**, the California Statewide Communities Development Authority (the "Authority"), a California joint powers agency organized by the California State Association of Counties, has undertaken a pooled tobacco securitization program (the "Program") for the benefit of the counties in the State expected to receive TSPs, and the Authority is in the process of establishing certain entities required for the implementation of the Program, including an entity to purchase the County's TSPs and a joint powers authority that will assist in the issuance of securities in order to provide funds for the purchase of the TSPs and for the operation of the Program; and

**WHEREAS**, the County has preliminarily determined that participation in the Program will provide public benefits to the County and its residents by minimizing risks, maximizing the present value of its TSPs and lowering its overall costs, thereby making more funds available for public purposes;

**NOW, THEREFORE, BE IT RESOLVED** the Board of Supervisors of the County of El Dorado hereby finds, determines, declares and resolves as follows:

Section 1.All of the recitals above set forth are true and correct, and the Board of Supervisors hereby so finds and determines.

Section 2.The County hereby declares its intent to securitize its TSPs and to participate in the Program; provided that this declaration does not bind the County to sell any TSPs, make any expenditure, incur any indebtedness, or proceed with the Securitization; and provided, further, that any sale of TSPs, Securitization or participation in the Program will be subject to approval by this Board of Supervisors at a future meeting.

Section 3.The County Administrative Officer and other appropriate County officers, directors and employees are hereby authorized and directed, jointly and severally, to cause to be prepared such documentation and reports as they shall determine necessary, in consultation with County Counsel, for review and consideration by this Board of Supervisors in order to securitize the County's TSPs and to participate in the Program, and to do any and all things they deem necessary or advisable in order to otherwise to effectuate the purposes of this Resolution and the transactions contemplated hereby.

Section 4.This Resolution shall take effect from and after its adoption and approval.

**PASSED AND ADOPTED** by the Board of Supervisors of the County of El Dorado at a regular meeting of said Board, held the \_\_\_\_\_ day of \_\_\_\_\_, 200\_\_, by the following vote of said Board:

**Attest:**  
Cindy Keck  
Clerk of the Board of Supervisors

**Ayes:**  
**Noes:**  
**Absent:**

By: \_\_\_\_\_  
Deputy Clerk

\_\_\_\_\_  
Chairman, Board of Supervisors

**I CERTIFY THAT:**  
THE FOREGOING INSTRUMENT IS A CORRECT COPY OF THE ORIGINAL ON FILE IN THIS OFFICE

**DATE:** \_\_\_\_\_

**Attest:** CINDY KECK, Clerk of the Board of Supervisors of the County of El Dorado, State of California.

By: \_\_\_\_\_

## California Communities 2007 Pooled Tobacco Securitization Program



### *County Briefing and Market Update*

December 2006

# Participants

## **CALIFORNIA COMMUNITIES**

- James Hamill, Program Manager

## **CSAC FINANCE CORPORATION**

- Norma Lammers, Executive Director

## **CITIGROUP**

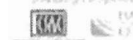
- Robert Barna, Director
- Michael Gomez, Director
- Nora Ostrovskaya, Vice President

## **RBC CAPITAL MARKETS**

- Catherine Bando, Managing Director

## **ORRICK, HERRINGTON & SUTCLIFFE LLP**

- Roger Davis, Partner






## CSAC Tobacco Pool: Program History

- The California Communities Pooled Tobacco Securitization Program, sponsored by CSAC, has been created to enable California counties to raise money on the most favorable terms possible by pooling with other counties and securitizing their right to receive payments under the Master Settlement Agreement (MSA) and Memorandum of Understanding (MOU)
- The inaugural 2002 CSCDA Pooled Securitization transaction provided \$169 million in up-front proceeds for 11 California counties (Colusa, Imperial, Kings, Madera, Modoc, San Benito, Solano, Tehama, Tuolumne, Yolo and Yuba)
- The 2006 Pooled Securitization, modeled after the successful 2002 transaction, provided \$59 million of additional proceeds for 9 of these counties

	<b>\$196.5 million</b> <b>CA Statewide</b> <b>Financing Auth</b>	<b>Participating</b> <b>Counties:</b> Colusa Imperial Kings Madera Modoc San Benito Solano Tehama Tuolumne Yolo Yuba
	August 2002 <b>Citigroup</b>	

	<b>\$61.8 million</b> <b>CA Statewide</b> <b>Financing Auth</b>	<b>Participating</b> <b>Counties:</b> Imperial Kings Madera San Benito Solano Tehama Tuolumne Yolo Yuba
	April 2006 <b>Citigroup</b>	

# CSAC Tobacco Pool: Program Goals

## **BENEFITS OF SECURITIZATION:**

- Upfront Cash
- Reduced Exposure to Tobacco Industry Risk

## **BENEFITS OF POOLING:**

- Economies of Scale
  - Cost of Issuance
  - Bond Pricing
  - Reduced Staff Resource Commitment
- Additional Cash
  - Population Adjustment Risk Diversification - More Proceeds

## **FLEXIBILITY WITHOUT COMPLEXITY:**

- Timing
- Structure
- Transaction Size
- Use of Proceeds



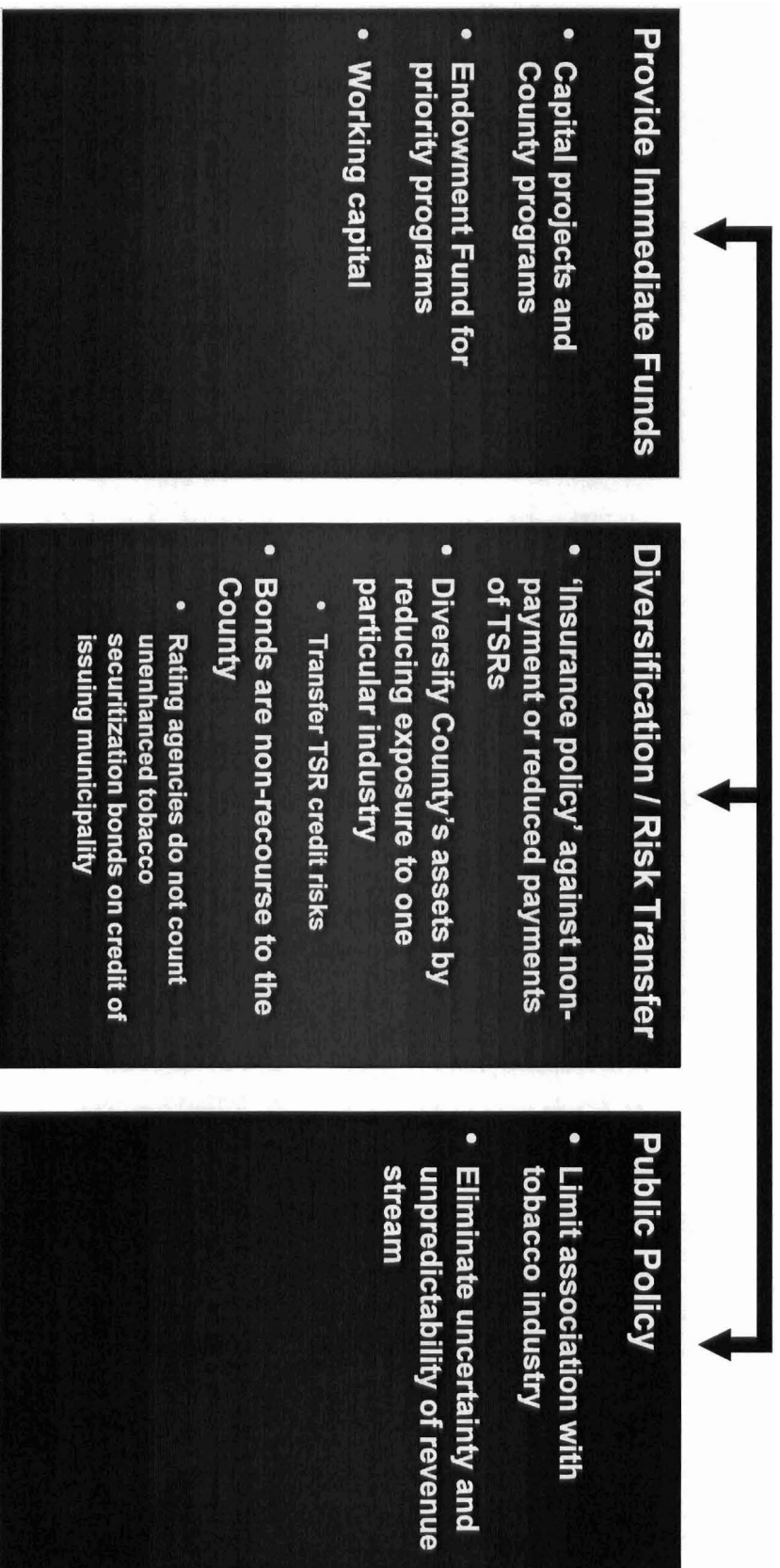
## Completed and Pending California County Tobacco Securitizations

- **\$3.2 billion of tobacco securitization bonds have been issued by 24 California counties and cities since 1999**

City / County	Date	Size	Notes
Tulare County	12/99	\$45mm	
Sacramento County	8/01	\$199mm	
San Diego County	<b>12/01</b>	<b>\$466mm</b>	
Stanislaus County	3/02	\$67mm	
Sonoma County	4/02	\$67mm	
Merced County	3/02	\$31mm	
Kern County	5/02	\$105mm	
Placer County	6/02	\$42mm	
Marin County	6/02	\$34mm	
CSAC Pool (2002)	7/02	\$197mm	
Fresno County	7/02	\$93mm	
<b>Alameda County</b>	<b>10/02</b>	<b>\$220mm</b>	
Merced County	10/05	\$39mm	Restructuring
Sonoma County	10/05	\$83mm	Restructuring
Sacramento County	<b>12/05</b>	<b>\$255mm</b>	<b>Restructuring</b>
Alameda County	2/06	\$68mm	Subordinate CABs
Los Angeles County	2/06	\$320mm	Convertible CABs / CABs
Stanislaus County	3/06	\$42mm	Subordinate CABs
Fresno County	4/06	\$39mm	Subordinate CABs
CSAC Pool (2006)	4/06	\$62mm	Subordinate CABs
San Diego County	5/06	\$584mm	Restructuring
Placer County	5/06	\$59mm	Restructuring
San Diego City	6/06	\$105mm	Taxable
Santa Clara County	2007	\$100mm	Convertible CABs / CABs



# Why Securitize?



# Why Would a County Want to Pool?

- Lower Costs of Issuance

Stand-alone costs of issuance can be prohibitive

- Time & Expense Savings

Reduced procurement and transaction development costs

- Lower Interest Rates

Small to medium sized transactions will pay an interest rate premium

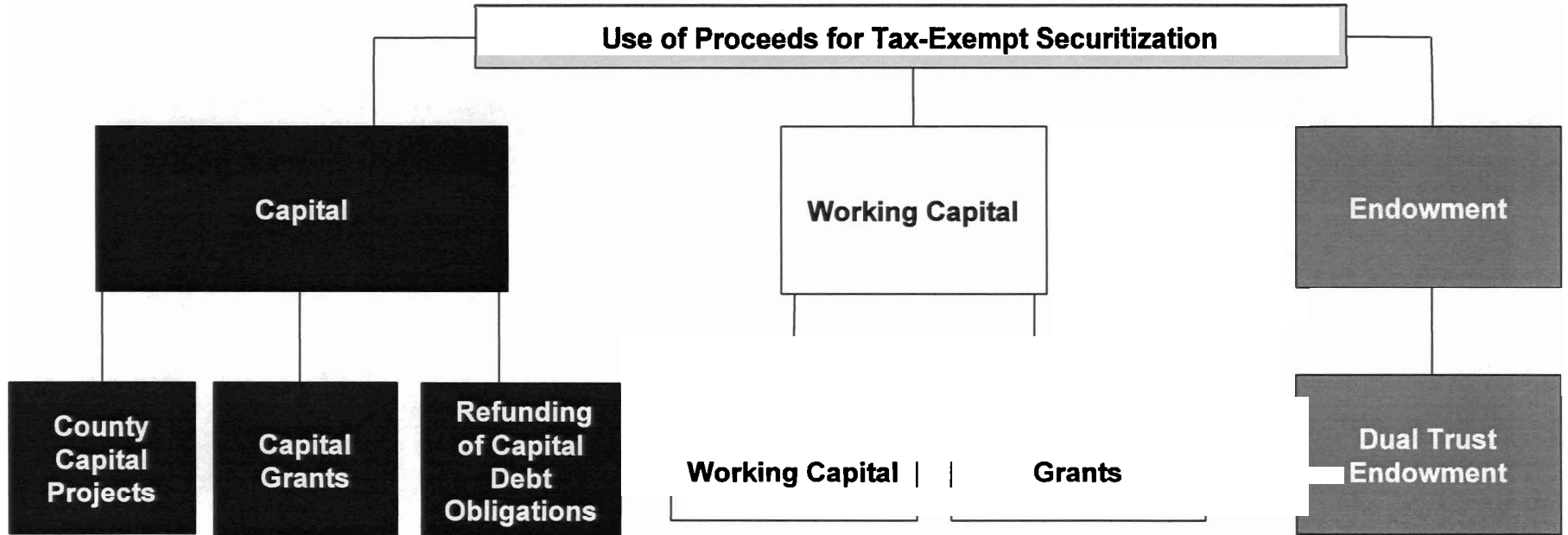
- Mitigate the MOU Population Adjustment Risk

More stringent stress requirements reduce stand-alone financing capacity



# What Can the Money Be Used for?

- Tax-exempt securitization proceeds can be used for a variety of purposes



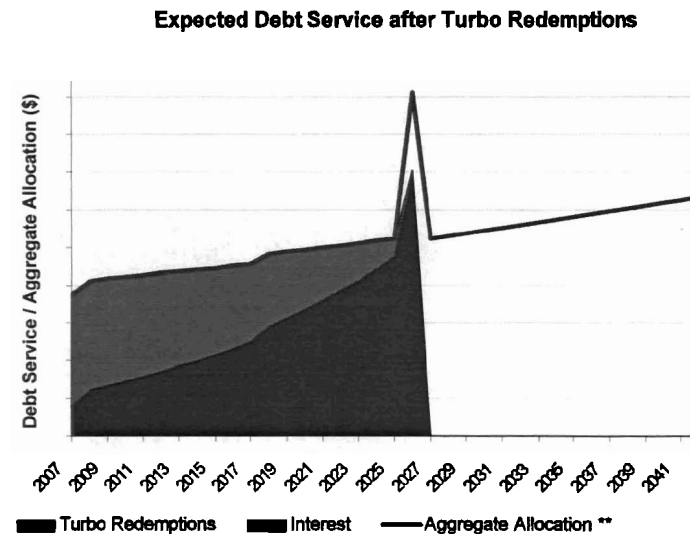
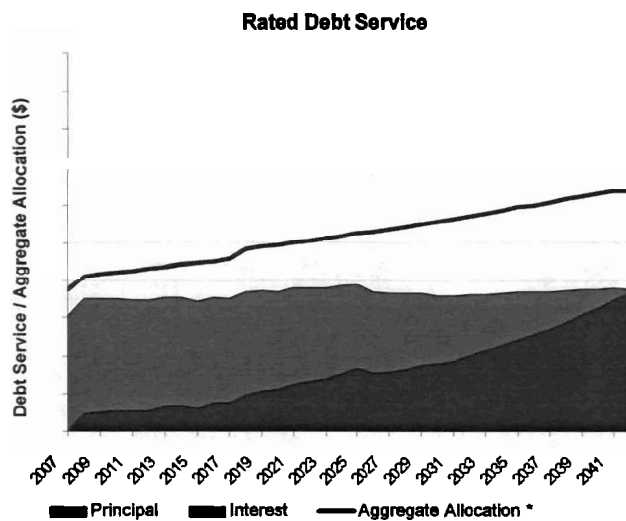
# Program Mechanics: Turbo Redemption Provisions

- The majority of tobacco securitization bonds today are structured with a “turbo” payment feature, which allows debt repayment to vary based on the amount of TSRs received

All securitized TSRs in excess of scheduled bond debt service are retained to prepay debt early

All TSRs flow back to County after bonds have been paid off

If TSRs are collected as expected, revenue will be available to retire debt early, so that the “planned” final amortization date of the debt is life of the transaction is earlier than the final stated maturity



Note: Graphs for illustration purposes only. Preliminary; subject to change. TSR projections based on Global Insight Base Case consumption forecast and other structuring assumptions.

\* In Rated Debt Service graph, Aggregate Allocation includes pledged TSRs, Capitalized Interest and earnings on Debt Service Account and Debt Service Reserve Account.

\*\* In Expected Debt Service graph, Aggregate Allocation includes pledged TSRs, Capitalized Interest, earnings on Debt Service Account and Debt Service Reserve Account, and release of Debt Service Reserve Account in 2026.



# Program Mechanics: Partial or Delayed Pledge of the County's TSRs

## PARTIAL PLEDGE

- Several municipalities have securitized a percentage of their TSRs
  - For example, the State of Iowa securitized 78% of its TSRs. The remaining, unsold 22% continues to flow to the State
  - Should the County choose to securitize a percentage of TSRs less than 100%, the remaining unsold percentage would continue to flow to the County free of the lien of the Indenture

## DELAYED PLEDGE

- Starting in 2005, increased demand for tobacco securitization bonds has allowed for greater issuance of tobacco backed Convertible Capital Appreciation Bonds ("Convertible CABs") and Capital Appreciation Bonds ("CABs")
  - An all-Convertible CAB/CAB transaction can allow for securitization with a delayed pledge of TSRs

In the two all-Convertible CAB/CAB county tobacco financings completed to date (including a transaction for Los Angeles County), no TSRs were pledged to the payment of debt service until 3 to 5 years after the execution of each transaction, allowing TSRs to continue to flow to the counties and fund other programs and projects during that interval

## PROCEEDS IMPLICATIONS

- Both of the above financing options will generate less upfront proceeds than a "full" securitization of TSRs





## Recent Tobacco Market Developments

- Over the past year, the tobacco securitization market has been shaped primarily by three factors:
  - Large cash positions of high yield and tobacco securitization investors
  - Low supply of high yield bonds

Investor perception of tobacco industry creditworthiness and diminished litigation / consumption risk

- Due to high demand and low supply for high yield bonds, investors are now accepting bond structures that until recently were not perceived as “sellable”

Longer maturities

- Final “rated” maturity for many tobacco financings is now 50 years, compared to historical 40-year final maturity

- Senior and subordinated liens of tobacco bonds

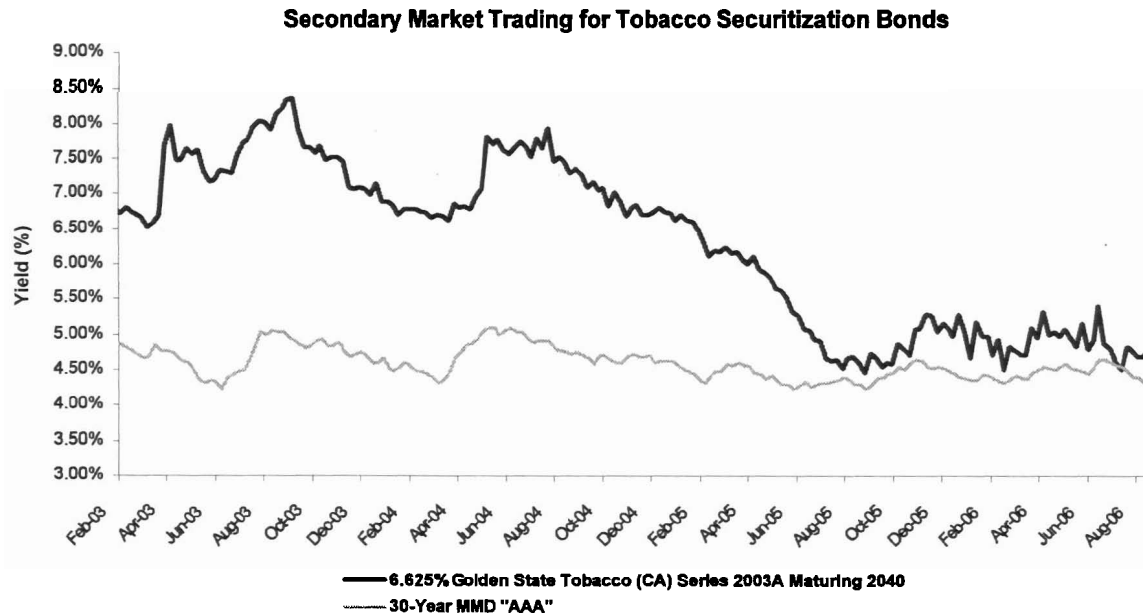
- Convertible CABs and CABs
- “BB”-rated and non-rated bonds

- **Increased demand and more flexible structuring terms have increased the tobacco financing opportunities available to California counties in today’s market**



# High Demand for Tobacco Securitization Bonds in Current Market

- Historically low tax-exempt rates; flat yield curve
- Limited tax-exempt high yield investment options
- California municipal bond issuance down 19% from last year
- High yield fund assets up 22% from last year
- Unprecedented liquidity for tobacco bonds
- Increased interest in munis from arb accounts and international buyers due to ratio tightening
- Investor concerns about tobacco credit are manageable



Yields calculated as volume-weighted weekly averages based on MSRB daily trading data.



# Preliminary Financing Schedule

## Key Timeframes and Events

- January 2007: County indications of interest
- Mid-February 2007: Legal documents approved by the Board of Supervisors of each Participating County; Pool composition finalized
- Late February 2007: Transaction structuring completed; bond issue pre-marketing
- Early March 2007: Bond issue pricing
- Mid-March 2007: Transaction closing; Delivery of bond proceeds



# Conclusion

- Increased demand and more flexible structuring terms have increased the tobacco financing opportunities available to California counties in today's market
  - Partial or delayed TSR pledge
  - High demand for range of bond types and structures
- Pooled tobacco securitization can be more efficient than a standalone securitization
  - Time and cost of issuance savings
  - More financing capacity
- Successful history exists for CSAC Tobacco Pool securitizations

# Additional Information

- Additional overview information provided in the Appendix:
  - What is Securitization?
  - Overview of the Master Settlement Agreement
  - Types of MSA Payments
  - Tobacco Securitization Credit Risks

# Financing Team Contacts

## Program Sponsors

### **California Communities**

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### **California State Association of Counties**

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### **RBC Capital Markets**

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## Bond Counsel

### **Orrick, Herrington & Sutcliffe**

Roger Davis, Esq.  
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rogerdavis@orrick.com



## APPENDIX

# What Is Securitization?

- Securitization is the structuring of a stream of cash flows (all or a portion of the TSRs) into a liquid security for sale to investors. It offers the benefits of:

## Non-recourse financing

- True sale of TSRs to Multi-County Special Purpose Trust
- No pledge of County credit
- County has no obligation to pay debt service

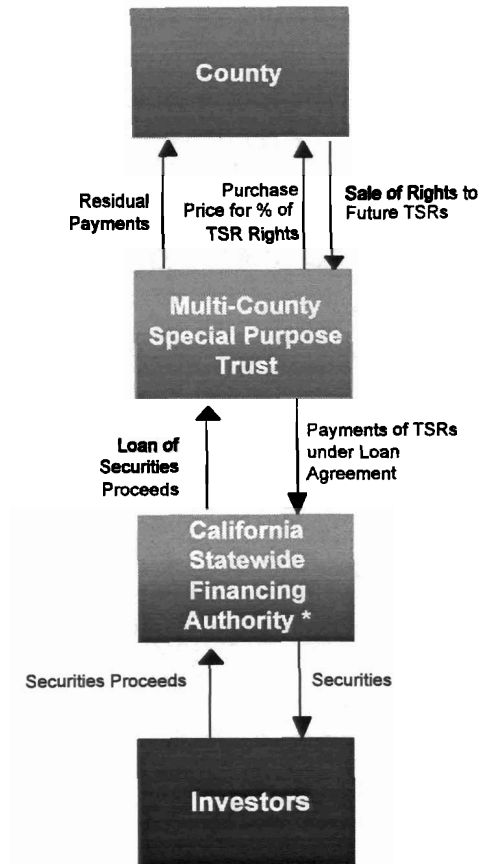
## Isolation of security

## Upfront proceeds to County

## Reduced County exposure to tobacco industry

- Risk of future reduction in TSR receipts is transferred to bondholder, preserving County's ability to fund designated programs effectively without risk of potential future revenue decreases

## STRUCTURE AT ISSUANCE

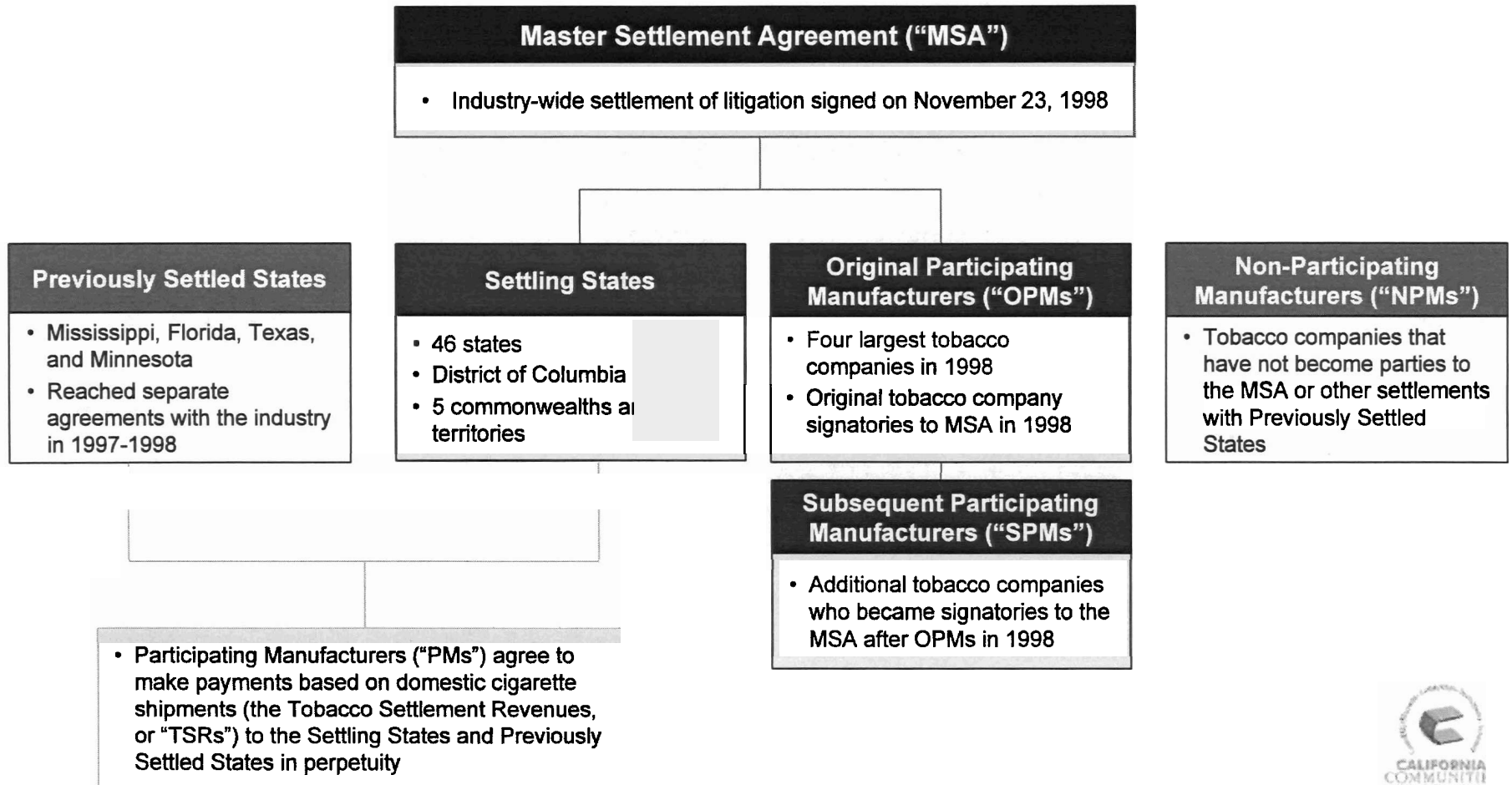


\* JPA (sponsored by CSCDA) that issues the bonds





# Overview of the Master Settlement Agreement



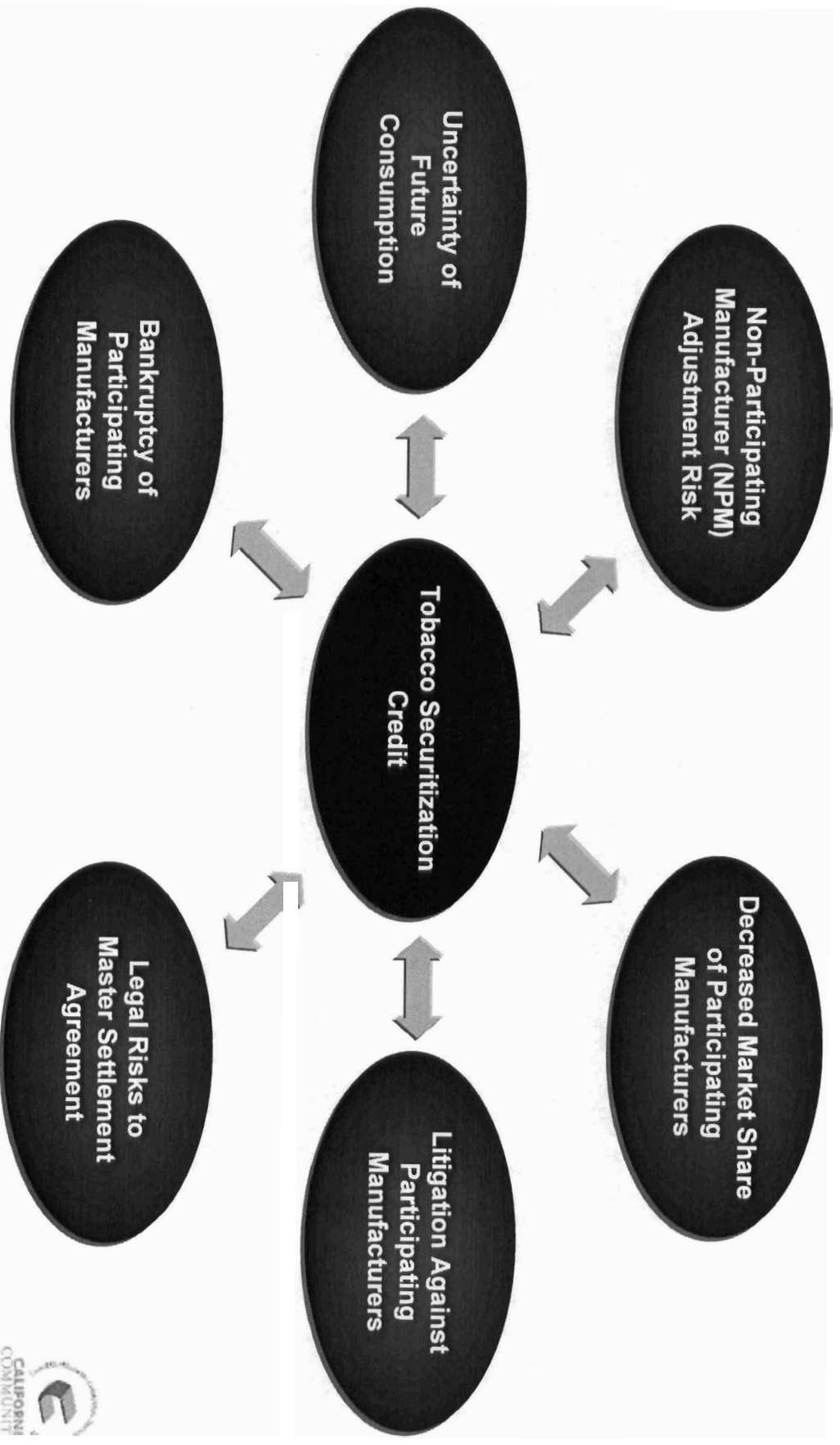
## Types of MSA Payments

- The MSA requires that the PMs make several types of payments:
  - Initial Payments:**
    - OPMs made Initial Payments in 1998-2003
  - Annual Payments:**
    - OPMs and SPMs are required to make Annual Payments on each April 15 in perpetuity (starting in 2000)
  - Strategic Contribution Payments:**
    - OPMs and SPMs are also required to make Strategic Contribution Payments on each April 15 from 2008 to 2017
    - Payments are allocated among the Settling States according to each Settling State's contribution to the litigation or resolution of state tobacco litigation, including, but not limited to, litigation and/or settlement with tobacco product manufacturers
- The State of California is entitled to approximately 12.76% of the Initial Payments and Annual Payments and 5.17% of the Strategic Contribution Fund Payments under the MSA

Under the Memorandum of Understanding ("MOU") and Agreement Regarding Interpretation of Memorandum of Understanding ("ARIMOU"), 45% of the payments flowing to the State are to be allocated among the State's 58 counties, based on population share



# Tobacco Securitization Credit Risks



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- We will not require you to provide property or services to Citibank or any affiliate of Citibank as a condition to the extension of a commercial loan to you by Citibank or any of its subsidiaries, unless such a requirement is reasonably required to protect the safety and soundness of the loan.

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