

Department of Planning and Budget 2002 Fiscal Impact Statement

1. Bill Number: HB698

House of Origin	<input checked="" type="checkbox"/> Introduced	<input type="checkbox"/> Substitute	<input type="checkbox"/> Engrossed
Second House	<input type="checkbox"/> In Committee	<input type="checkbox"/> Substitute	<input type="checkbox"/> Enrolled

2. Patron: Byron

3. Committee: Appropriations

4. Title: Securitization of payments under Master Settlement Agreement

5. Summary/Purpose: The bill requires the Governor to sell 50 percent of the revenues derived from the Master Settlement Agreement. Proceeds from the sale shall be deposited into the Tobacco Indemnification and Community Revitalization Endowment Fund. The income of the endowment, and up to fifteen percent of the corpus of the endowment shall be paid annually to the Tobacco Indemnification and Community Revitalization Fund to be used to compensate tobacco growers and tobacco quota holders for economic loss and to promote economic growth and development in tobacco dependent communities.

The bill also creates the Tobacco Settlement Financing Corporation as a public body corporate, an independent instrumentality of the Commonwealth. The Tobacco Settlement Financing Corporation is empowered to issue obligations and use the proceeds to purchase from the Commonwealth its future tobacco settlement payments. Any bonds issued by the corporation would not be considered a debt or pledge of the faith or credit of the Commonwealth. The Department of the Treasury would staff the Tobacco Settlement Financing Corporation.

These securitized proceeds deposited in the Endowment will not be used in calculations affecting the Personal Property Tax Relief Act.

6. Fiscal Impact Estimates are: See Item 8.

7. Budget amendment necessary: Yes, Item 509 of HB/SB30. Currently, funding from the Master Settlement Agreement for the Tobacco Indemnification and Community Revitalization Fund (\$73 million in FY03 and \$64 million in FY04) is appropriated through a central account transfer in the budget bill. Under the proposed legislation, an annual appropriation will be needed for the interest income from the endowment and portion of the corpus, subject to the restrictions of the bill to replace the current appropriation.

8. Fiscal implications: According to the Tobacco Indemnification and Community Revitalization Commission, through securitizing up to 50 percent of the Commonwealth's Master Settlement Agreement Allocation, the net cash proceeds in FY2003 are estimated at \$644,917,968 to be deposited to the Tobacco Indemnification and Community Revitalization Endowment. The income and portion of the corpus of the endowment will be used for the purposes stated in the bill.

Interest earnings of the endowment are estimated to be \$32.2 million in the first year, assuming a 5 percent return. Earnings in future years are depended on the amount of corpus withdrawn and the return on investment.

The Tobacco Indemnification and Community Revitalization Commission advises that the net present value difference between financing and not financing is \$31.4 million and represents the cost in present value terms.

9. Specific agency or political subdivisions affected: Tobacco Indemnification and Community Revitalization Commission, Department of the Treasury, and Treasury Board.
10. Technical amendment necessary: No.
11. Other comments: Senate Bill 457 is a companion bill introduced by Senator Hawkins.

Date: 1/29/02 kbs

Document: G:\02Fis\Hb698.Doc Kendra Shifflett

cc: Secretary of Finance

Secretary of Commerce and Trade