

**COUNTY OF SONOMA  
AGENDA ITEM  
SUMMARY REPORT**

**Clerk of the Board Use Only**  
**Meeting Date**                      **Held Until**  
 /       /                                      /       /  
**Agenda Item No:**                      **Agenda Item No:**  
 \_\_\_\_\_

**Department:** Auditor-Controller-Treasurer-Tax Collector

**4/5 Vote Required**

**Contact:**  
Jonathan Kadlec

**Phone:**  
(707) 565-6124

**Board Date:**  
07/14/09

**Deadline for Board Action:**  
07/14/09

**AGENDA SHORT TITLE:**  
Tobacco Endowment Funds Deallocation

**REQUESTED BOARD ACTION:**

Resolution authorizing budgetary adjustments to the FY 2008-09 Final Budget for the Tobacco Endowment Funds in the amount of \$2,000,000 requiring 4/5 vote.

**CURRENT FISCAL YEAR FINANCIAL IMPACT**

**EXPENDITURES**

**Estimated Cost**                      \$ 2,000,000

**Amount Budgeted**                      0

**Other Avail Approp.**  
(Explain below)

**Additional Requested:**              \$ 2,000,000

**Explanation (if required):**

**ADD'L FUNDS REQUIRING BOARD**

**Contingencies**  
(Fund Name:)

**Unanticipated Revenue**  
(Source:)

**Other Transfer(s)**                      \$2,000,000  
(Source: Tobacco Deallocation Fund)

**Add'l Funds Requested:**              \$ 2,000,000

**Prior Board Action(s):**

10/24/00 - Board adopted Resolution No. 00-1310 approving formation of the Calif. Tobacco Securitization Agency, formation of the Sonoma County Securitization Corp., the execution of an installment sale, self-insurance and risk transfer agreement; 02/05/02 - Board adopted Resolution No. 02-0156 which modified documents in Resolution No. 00-1310 and other related actions; 9-27-05 Board adopted resolution #05-0832 authorizing issuance of the 2005 refunding bonds.

**Alternatives - Results of Non-Approval:** Lost opportunity to invest funds at a higher rate of interest.

**Background:**

In 2002, Sonoma County issued \$67,410,000 in Tobacco Securitization Bonds (the "Bonds"). The Bonds are secured by the County's share of tobacco settlement revenues resulting from a master settlement agreement between 46 states (including the State of California) and the four largest United States tobacco manufacturers in resolution of cigarette smoking related litigation. The proceeds of the Bonds were used to fund a debt service reserve, an attorney's reserve to fund future legal expenses associated with the Bonds, a cost of issuance fund, and capitalized interest. In addition, \$32,046,634 funded the new Juvenile Justice Center capital project, and \$27,221,990 was placed into the Sonoma County Tobacco Securitization Endowment Fund (the "Endowment") for future capital project needs. The funds in the Endowment are general fund dollars restricted to future capital projects.

In 2005, the Bonds were refunded (refinanced) and an additional \$12,803,783 in securitized tobacco settlement revenues were placed into the Endowment. The endowment funds are invested by the County Treasurer according to the terms of the Bond Indenture, and as of 6/25/09 the balance of the Endowment stands at \$39,074,923. Of this balance, \$7,195,400 is budgeted to the construction of the Valley of the Moon Children's Home Phase III.

The deallocation formula is a highly complex one but in summary as principal on the Bonds is paid down, a proportionate share of the Endowment funds are deallocated and become unrestricted and are available to the general fund. Currently, there is approximately \$3,400,000 in deallocated funds, but this amount is subject to fluctuation based upon the deallocation formula and only \$3,000,000 is available for reinvestment at this time. On 4/21/09 the Board of Supervisors authorized use of up to \$1,000,000 of the deallocated funds as a line of credit to help fund the operations of the Sonoma County Energy Independence Program. Based upon that authorization, these funds have already been reinvested and transferred to an unrestricted general fund project. Now, the Treasurer intends to reinvest an additional \$2,000,000 in deallocated funds to realize a greater return on investment. These funds are unrestricted and available to the general fund.

**Requested Action**

Resolution authorizing budgetary adjustments to the FY 2008-09 Final Budget for the Tobacco Endowment Funds in the amount of \$2,000,000 requiring 4/5 vote.

**Attachments:** Resolution authorizing budgetary adjustments in the amount of \$2,000,000.

**On File With Clerk:** None.

**CLERK OF THE BOARD USE ONLY**

**Board Action** (If other than "Requested")

**Vote:**