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STATE OF IOWA
LEGISLATIVE FISCAL BUREAU

MEMORANDUM

To: Legislative Fiscal Committee
From: Beth Lenstra, Legislative Fiscal Bureau
Date: July 25, 2000
Re: House File 2579 - Tobacco Securitization

House File 2579 creates the Tobacco Settlement Authority with the governing board comprised of the Treasurer of State, the State Auditor, and the Director of the Department of Management. The Act begins the process necessary for the State to sell its future tobacco settlement payments due from the Master Settlement Agreement, subject to approval by a constitutional majority of each House of the General Assembly and approval by the Governor. Such sale would arguably assure the receipt of the proceeds from the Master Settlement Agreement.

The Tobacco Settlement Authority is authorized to create a program plan, which shall describe the terms and conditions of any sale. The Tobacco Settlement Authority is required to file a report regarding the program plan with the Legislative and Executive Councils. The program plan shall include the structure of any sale agreement between the State and the Authority; terms of payment amounts due from the Authority to the State; investment criteria; analysis of alternative funding options; recommendations to the Governor and General Assembly related to any changes required in existing law; and, any terms or provisions necessary to implement the Act. House File 2579 is repealed March 1, 2001.

The Act provides that any bonds issued are not a general obligation or indebtedness of the State. It is assumed the program plan will provide a revenue stream equal to, or greater than the costs of the bonds. Iowa will receive approximately \$1.9 billion over the next 25 years from the Master Settlement Agreement or approximately \$60.0 million to \$70.0 million annually. If a program plan were approved that permitted bonding for the

proceeds, at an interest rate of 10.0%, approximately \$68.0 million annually may be produced over the next 25 years (\$1.7 billion). Bonding professionals in cooperation with staff from the Department of Management, the State Treasurer's Office, and the State Auditor's Office generated this estimate.

The Tobacco Settlement Authority has issued Request for Proposals (RFP) to select a financial advisor. The advisor will assist the Authority in reviewing and researching various financial options. The Tobacco Settlement Authority is scheduled to meet again September 5, 2000; the Authority will make a recommendation regarding the hiring of a financial advisor to the State Treasurer at that time. The Tobacco Settlement Authority plans on issuing its program plan to the Legislative and Executive Councils by mid-November 2000.