



## Legislative Fiscal Bureau

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Joint Committee on Finance

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### **Appropriation Obligation Bonds Debt Service Reestimate**

[LFB 2009-11 Budget Summary: Page 33, #6]

#### **CURRENT LAW**

Under 2001 Act 16, the Secretary of the Department of Administration (DOA) was authorized to securitize the state's rights to its tobacco settlement payments. Using this authority, the DOA Secretary assigned the rights to the state's tobacco settlements to the Badger Tobacco Asset Securitization Corporation (BTASC) on April 18, 2002. BTASC, after receiving the rights to the state's tobacco settlement payments, used the newly-acquired revenue stream to back the issuance of \$1.59 billion in revenue bonds. In return for the rights to the state's tobacco settlement payment revenues, BTASC provided the state with the net proceeds from those bonds.

Under the provisions of 2007 Act 226, the state repurchased its rights to its annual tobacco settlement payments. The first \$50 million of settlement revenues will be transferred to the MA trust fund, and the remainder transferred to the general fund.

Under the Act 226 refinancing and securitization transaction, the state issued appropriation bonds and established a repayment schedule on those bonds so that the newly-repurchased annual tobacco settlement revenues would, on an estimated basis, be sufficient to: (a) fund a \$50 million annual transfer to the MA trust fund beginning in 2009-10; and (b) cover the annual GPR debt service amounts associated with the appropriation bonds. The \$50 million transfer to the MA trust fund is used to fund MA and BadgerCare Plus program benefits in lieu of \$50 million GPR. DOA issued these appropriation obligation bonds on April 8, 2009.

#### **GOVERNOR**

Decrease funding by \$50,604,000 GPR in 2009-10 and \$53,439,000 GPR in 2010-11 from the base level of \$165,000,000 GPR in 2008-09. Reduce estimated GPR-Lapses by \$165,000,000 annually from the level included in the 2008-09 base year.

Increase GPR-Earned estimates by \$114,396,000 in 2009-10 and \$111,561,000 in 2010-11 associated with tobacco settlement revenues to be reacquired under the second securitization transaction and that would be deposited to the general fund after \$50,000,000 annually is transferred to the medical assistance trust fund. Debt service on these appropriation bonds is paid from an annual, sum certain GPR appropriation, and funding in the bill for this appropriation would be \$114,396,000 in 2009-10 and \$111,561,000 in 2010-11.

## **MODIFICATION**

Reduce GPR-Earned amounts by \$13,634,400 in 2009-10 and \$17,148,200 in 2010-11 to reflect reestimated revenues associated with the reacquired tobacco settlement revenues. Reduce expenditures by \$15,596,000 GPR in 2009-10 and \$18,961,000 in 2010-11 to reflect expected debt service on the recently-issued appropriation bonds.

**Explanation:** Under AB 75, estimated tobacco settlement revenues, net of the \$50,000,000 annual transfer to the MA trust fund, were expected result in \$114,396,000 GPR-Earned in 2009-10 and \$111,561,000 GPR-Earned in 2010-11. Based on more recent information, GPR-Earned associated with the reacquired tobacco settlement revenues, after the MA trust fund transfer, are reestimated at \$100,761,600 and \$94,412,800, which would represent a reduction of -\$13,634,400 in 2009-10 and -\$17,148,200 in 2010-11.

These lower GPR-Earned amounts are more than offset by lower GPR debt service on the appropriation bonds in each year. Under AB 75, estimated debt service on the appropriation obligations issued relative to the state's tobacco securitization refinancing is \$114,369,000 GPR in 2009-10 and \$111,561,000 GPR in 2010-11. Based on the repayment structure of the recently issued appropriation bonds, annual debt service on the bonds is reestimated at \$98,800,000 GPR in 2009-10 and \$92,600,000 GPR in 2010-11, which would represent reductions of -\$15,596,000 GPR in 2009-10 and -\$18,961,000 GPR in 2010-11 from AB 75. The combined effect of these reestimates would be an increase to the general fund balance of \$1,961,600 in 2009-10 and \$1,812,800 in 2010-11. These changes are indicated in the following table.

**Reestimates of Tobacco Settlement Revenues and  
Appropriation Bond Debt Service**

	<u>2009-10</u>	<u>2010-11</u>
<b>GPR-Earned</b>		
Expected Tobacco Settlement Revenues Under AB 75	\$164,396,000	\$161,561,000
Less Transfer to MA Trust Fund	<u>-50,000,000</u>	<u>-50,000,000</u>
Total Revenues	\$114,396,000	\$111,561,000
Current Tobacco Settlement Revenue Estimate	\$150,761,600	\$144,412,800
Less Transfer to MA Trust Fund	<u>-50,000,000</u>	<u>-50,000,000</u>
Total Revenues	\$100,761,600	\$94,412,800
Change in GPR-Earned	-\$13,634,400	-\$17,148,200
<b>GPR Funding</b>		
Reestimated Appropriation Bond Debt Service	\$98,800,000	\$92,600,000
Appropriation Bond Debt Service Under AB 75	<u>114,396,000</u>	<u>111,561,000</u>
Change in Appropriation Bond GPR Debt Service	-\$15,596,000	-\$18,961,000
Net Change to General Fund Balance	\$1,961,600	\$1,812,800

<b>Change to Bill</b>		
	Revenue	Funding
GPR	-\$30,782,600	-\$34,557,000

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