



The Buckeye Tobacco Settlement Financing Authority

Ted Strickland, Governor

Richard Cordray, Treasurer

J. Pari Sabety, Director, Office of Budget and Management

Quarterly Report For the Period Ended June 30, 2008

Prepared by the Office of Budget and Management
July 2008

The Buckeye Tobacco Settlement Financing Authority

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July 18, 2008

To: Honorable Members of the Ohio General Assembly

In accordance with Section 183.51(U) of the Ohio Revised Code, we are pleased to submit this report detailing fund activity relating to the Authority's Tobacco Settlement Asset-Backed Bonds, Series 2007 (the Tobacco Settlement Bonds).

This report covers the amounts in and activities of the School Building Program Assistance Fund and Higher Education Improvement Fund. These two improvement funds together received all of the net proceeds from the sale of the Tobacco Settlement Bonds to be spent for higher education and elementary and secondary school facilities. This report covers the period April 1, 2008 through June 30, 2008 and is presented on a cash basis of accounting.

A summary of the Series 2007 Tobacco Bond financing also has been included as an appendix for your reference and convenience.

Questions regarding any of the information provided in this report or requests for additional information should be addressed to the Buckeye Tobacco Settlement Financing Authority, 30 East Broad Street, 34th Floor, Columbus, Ohio 43215.

Respectfully Submitted,



J. Pari Sabety,
Secretary, The Buckeye Tobacco Settlement Financing Authority,
and Director, Office of Budget and Management

Tobacco Settlement Net Bond Proceeds Expenditures and Activities

The \$5.05 billion in net proceeds received by the State was deposited as follows:

- \$4.112 billion into the School Building Program Assistance Fund (sub-fund D032); and
- \$938 million into the Higher Education Improvement Fund (sub-fund D034).

The amounts in and activities of these two funds are presented in the following tables:

School Building Program Assistance Fund (7032-D032)

Period Ended	Beginning Balance	Interest Earnings*	Other Receipts	Program Disbursements	Transfers**	Ending Balance
12/31/07	\$4,112,000,000	\$9,876,832	\$768,231	\$190,426,810	\$-0-	\$3,932,218,253
3/31/08	\$3,932,218,253	\$15,911,373	\$65,004	\$216,426,694	\$-0-	\$3,731,767,936
6/30/08	\$3,731,767,936	<u>\$65,019,178</u>	<u>\$-0-</u>	<u>\$287,386,358</u>	<u>(\$78,000,000)</u>	\$3,431,400,756
	Total	\$90,807,383	\$833,235	\$694,239,862	(\$78,000,000)	

Higher Education Improvement Fund (7034-D034)

Period Ended	Beginning Balance	Interest Earnings*	Other Receipts	Program Disbursements	Transfers**	Ending Balance
12/31/07	\$938,000,000	\$2,201,082	\$-0-	\$34,110,083	\$-0-	\$906,090,999
3/31/08	\$906,090,999	\$3,769,528	\$-0-	\$48,421,722	\$-0-	\$861,438,805
6/30/08	\$861,438,805	<u>\$15,603,966</u>	<u>\$-0-</u>	<u>\$78,148,858</u>	<u>(\$17,796,038)</u>	\$781,097,875
	Total	\$21,574,576	\$-0-	\$160,680,663	(\$17,796,038)	

* Interest earnings are not smoothly patterned from one month to the next and depend in particular on the timing of the payments received on the investments. The earnings figures contained in these quarterly reports will more accurately reflect the expected overall rate of return on the net proceeds of the Tobacco Settlement Bonds when aggregated on an annual basis.

** For the quarter ending 6/30/08, reflects transfers to the GRF of interest earned on the Tobacco Settlement Bond proceeds.

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Appendix

Tobacco Settlement Bonds – Financing Summary

On October 29, 2007, The Buckeye Tobacco Settlement Financing Authority issued its Tobacco Settlement Bonds in the aggregate principal amount of \$5.532 billion. The total gross proceeds, net of any market discounts and premiums, equaled \$5.465 billion.

The following table summarizes the sources and uses for the Tobacco Settlement Bonds:

SOURCES AND USES	
Source of Funds	
Par Amount.....	\$5,531,594,541
Net Issue Discount.....	<u>(66,825,286)</u>
Total Sources of Funds.....	\$5,464,769,255
Uses of Funds	
Deposit to School Building Assistance Fund.....	\$4,112,000,000
Deposit to Higher Education Improvement Fund.....	938,000,000
Liquidity Reserve Funds (held by Trustee).....	389,231,603
Underwriters' Compensation/Other Costs of Issuance.....	<u>25,537,652</u>
Total Uses of Funds.....	\$5,464,769,255

The liquidity reserve in the amount of \$389.2 million is a funded reserve held by the Trustee for the purpose of securing the payment of debt service on Tobacco Settlement Bonds in the event that tobacco settlement receipts are insufficient to make the required debt service payments on those Bonds when due. The monies in the liquidity reserve will be expended to make the final debt service payments on the Bonds, at which time the tobacco settlement receipts will again be paid to the State (rather than the bondholders).

The total borrowing cost for the Tobacco Settlement Bonds, calculated inclusive of underwriters' compensation and all other costs of issuance, equals 6.29%. While the stated final maturity of the Tobacco Settlement Bonds is 45 years, if tobacco settlement payments are received each year at the baseline levels projected as part of the bond sale, the Tobacco Settlement Bonds will be fully paid off in year 2031 (24 years after issuance). The total principal and interest projected to be payable through year 2031 is \$11,146,264,961.

The Tobacco Settlement Bonds are rated "Baa3" by Moody's Investors Service, "BBB" by Standard & Poor's Rating Services and "BBB+" by Fitch Inc.