The Buckeye Tobacco Settlement Financing Authority

John R. Kasich, Governor

Josh Mandel, Treasurer

Timothy S. Keen, Director, Office of Budget and Management

Quarterly Report
For the Period Ended September 30, 2011

Prepared by the Office of Budget and Management
October 2011

The Buckeye Tobacco Settlement Financing Authority

30 East Broad Street, 34th Floor
Columbus, Ohio 43215

614.466.4034
614-466-3813 (FAX)

October 4, 2011

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 for the period July 1, 2011 through September 30, 2011 and is presented on a cash basis of accounting. 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.

A summary of the Series 2007 Tobacco Bond financing 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,

Timothy S. Keen
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; and
- $938 million into the Higher Education Improvement Fund.

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[1]	Other Receipts	Program Disbursements	Transfers	Ending Balance
12/31/07	$4,112,000,000	$9,876,832	$768,230	$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	$65,049,179	($30,001)	$287,386,358	($78,000,000)[2]	$3,431,400,756
Fiscal Year 2008 Total		$90,827,384	$803,234	$694,239,862	($78,000,000)	
9/30/08	$3,431,400,756	$26,931,056	$243,750	$429,586,963[3]	$-0-	$3,028,988,598
12/31/08	$3,028,988,598	$58,322,621	$7,029	$306,922,615	$-0-	$2,780,395,634
3/31/09	$2,780,395,634	$11,353,598	$874,264	$230,463,495	$-0-	$2,562,160,001
6/30/09	$2,562,160,001	$33,284,050	$2,255,624	$285,740,358	($142,728,710)[2]	$2,169,230,607
Fiscal Year 2009 Total		$129,891,325	$3,380,667	$1,252,713,432	($142,728,710)	
9/30/09	$2,169,230,607	$8,432,969	$326,135	$224,695,316	$-0-	$1,953,294,396
12/31/09	$1,953,294,396	$37,962,995	$-0-	$222,587,790	$-0-	$1,768,669,601
3/31/10	$1,768,669,601	$1,940,886	$1,138,219	$309,024,895	$-0-	$1,462,723,810
6/30/10	$1,462,723,810	$2,487,086	$3,356,316	$232,966,581	($50,779,108)[2]	$1,184,821,523
Fiscal Year 2010 Total		$50,782,112	$4,862,493	$989,274,582	($50,779,108)	
9/30/10	$1,184,821,523	$475,911	$595,184	$232,358,887	$-0-	$953,533,731
12/31/10	$953,533,731	$1,395,627	$-0-	$245,905,801	$-0-	$709,023,557
3/31/11	$709,023,557	$434,155	$695,052	$221,830,287	$-0-	$488,322,478
6/30/11	$488,322,478	$702,166	$1,221,098	$201,342,034	($3,010,308)[2]	$285,893,400
Fiscal Year 2011 Total		$3,007,858	$2,511,334	$901,437,008	($3,010,308)	
9/30/11	$285,893,400	$46,161	$12,013,366	$157,827,381	$-0-	$140,125,546
Cumulative Total		**$274,564,841**	**$23,571,094**	**$3,995,492,264**	**($274,518,125)**[2]	

[1] *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.*

[2] *Reflects transfers to the GRF of interest earned on investments of the Tobacco Settlement Bond proceeds.*

[3] *Reflects authorized reimbursement of prior expenditures made from the Education Facilities Trust Fund (N087) and the Public School Building Fund (7021).*

Higher Education Improvement Fund (7034-D034)						
Period Ended	Beginning Balance	Interest Earnings[1]	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	$15,603,966	$-0-	$78,106,858	($17,796,038)[2]	$781,139,875
Fiscal Year 2008 Total		$21,574,576	$-0-	$160,638,663	($17,796,038)	
9/30/08	$781,139,875	$5,637,227	$-0-	$66,988,571	$-0-	$719,788,531
12/31/08	$719,788,531	$13,561,421	$-0-	$71,324,970	$-0-	$662,024,982
3/31/09	$662,024,982	$2,300,166	$-0-	$65,848,504	$-0-	$598,476,644
6/30/09	$598,476,644	$8,614,552	$-0-	$83,992,395	($33,433,612)[2]	$489,665,189
Fiscal Year 2009 Total		$30,113,366	$-0-	$288,154,440	($33,433,612)	
9/30/09	$489,665,189	$1,617,422	$-0-	$87,880,419	$-0-	$403,402,191
12/31/09	$403,402,191	$9,092,080	$-0-	$84,018,195	$-0-	$328,476,077
3/31/10	$328,476,077	$83,714	$-0-	$72,245,202	$-0-	$256,314,589
6/30/10	$256,314,589	$122,258	$-0-	$73,108,739	($10,915,474)[2]	$172,412,634
Fiscal Year 2010 Total		$10,915,474	$-0-	$317,252,555	($10,915,474)	
9/30/10	$172,412,634	$205,926	$-0-	$75,996,800	$-0-	$96,621,760
12/31/10	$96,621,760	$256,195	$-0-	$61,397,798	$-0-	$35,480,157
3/31/11	35,480,157	$358,886	$-0-	$34,559,744	$-0-	$1,279,299
6/30/11	$1,279,299	$5,555	$-0-	$-0-	($1,284,854)[2]	$-0-
Fiscal Year 2011 Total		$826,562	$-0-	$171,954,342	($1,284,854)	
Cumulative Total		**$63,429,978**	**$-0-**	**$938,000,000**	**($63,429,978)**	

[1] *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.*

[2] *Reflects transfers to the GRF of interest earned on investments of 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	(66,825,286)
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	25,537,652
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, is 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 at the time 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.

On October 29, 2007, the Tobacco Settlement Senior Bonds (Series 2007A-1, 2007A-2 and 2007A-3) were rated "Baa3" by Moody's Investors Service, "BBB" by Standard & Poor's Rating Services and "BBB+" by Fitch Inc. Since the issuance date of the Tobacco Settlement Bonds, the rating agencies have upgraded and downgraded various series of Tobacco Settlement Senior Bonds as part of their annual surveillance of tobacco settlement revenue bonds. The Tobacco Settlement Senior Bonds are currently rated B3 to Aaa by Moody's, BB- to BBB by Standard & Poor's, and BB+ to BBB+ by Fitch.