



BOARD OF SUPERVISORS  
AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors  
105 E. Anapamu Street, Suite 407  
Santa Barbara, CA 93101  
(805) 568-2240

Department Name: Public Health  
Department No.: 041  
For Agenda Of: 5/27/08  
Placement: Departmental  
Estimated Tme: 20 minutes  
Continued Item: No  
If Yes, date from:  
Vote Required: Majority

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**TO:** Board of Supervisors  
**FROM:** Department Elliot Schulman, MD, MPH (681-5105)  
Director(s) Director and Health Officer  
Public Health Department  
Contact Info: Michele Mickiewicz, MPH (681-5446)  
**SUBJECT: Tobacco Settlement Endowment**

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**County Counsel Concurrence**

As to form: N/A

**Other Concurrence:** N/A

**Auditor-Controller Concurrence**

As to form: N/A

**Recommended Actions:**

That the Board of Supervisors consider allocating funding from the Tobacco Settlement Endowment to meet County health needs.

**Summary Text:**

A number of questions were raised at the May 20, 2008 meeting of the Board of Supervisors about potential uses of the funding in the Tobacco Settlement Endowment. The Public Health Department was asked to bring forward an item for consideration by the Board of Supervisors regarding allocation of this funding.

**Background:**

Tobacco settlement funding is received by Santa Barbara County as a result of litigation against the tobacco industry to recover the costs of tobacco-related illness. These funds were directed by the Board to be used for county health needs and programs.

When the Board created TSAC in 2000, it directed that an endowment be created for future health needs with 20% of tobacco settlement revenues be placed into this endowment annually. The Board of Supervisors approved allocations to the endowment for 5 years (FY 99-2000 through FY 2003-04). In FY 2003-04, the General Fund borrowed \$800,000 from the Tobacco Settlement Endowment and this loan was repaid in FY 2005-06. No allocations to the endowment were recommended or made for FY 2004-05 and subsequent years.

Originally, the endowment was created as a means of mitigating impacts if the annual tobacco settlement allocations should decrease over time as has been the case with Proposition 99 tobacco tax California Healthcare for Indigents (CHIP) funding. Tobacco settlement funding allocations are not tax-based, are calculated differently from Prop 99, and are based on the Master Settlement Agreement (MSA), a legal document that is structured in such a way to maintain ongoing stable or increased funding. The State Attorney General’s Office projects allocation amounts each year based on the MSA. Since the allocation projections are based on *income* from cigarettes, not simply on cigarette *volume*, we expect increases in cigarette prices to mitigate any potential decrease in domestic sales volume. This coupled with the guarantee of an annual inflation adjustment of not less than 3% means that we expect tobacco settlement revenues to be stable or increase slightly in the foreseeable future. Since 1999, the tobacco settlement revenues allocated to Santa Barbara County have increased from the starting point of \$3.4 million to the projected 2008-09 allocation of \$4.5 million while smoking rates for adults in the US decreased from 23.5% in 1999 to 20.8% in 2006.

**Fiscal and Facilities Impacts:**

Currently the Endowment balance is estimated to be \$5,273,000 at the end of June 2008. An estimated \$3,366,712 in these endowment funds are invested in County pooled funds and \$1,906,288 million are invested in longer term directed investments as detailed below:

Projected Principal Balance at 6/30/08	Investment Earnings Rate	Investment Type	Maturity Date	Additional Description
\$ 399,580	7.125%	Non-callable Bond	06/15/2010	FannieMae
\$1,506,708	4.125%	Callable Bond	07/21/2011	FannieMae
\$3,366,712	4.230%	County Fund Pool	None	Cash accounts

The average combined earnings rate for all three investments is projected currently at 5.160%.

**Staffing Impacts:**

**Legal Positions:**

**FTEs:**

There are no staffing impacts associated with the TSAC Endowment.

**Special Instructions:**

**Authored by:**

Michele Mickiewicz, MPH