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May 10, 2002

The Honorable Alan J. Gerson
Council of the City of New York
51 Chambers Street, Suite 429
New York, NY 10007

Dear Council Member Gerson:

Your office requested information on the city's use of revenues deriving from the 1998 Master Settlement Agreement between the states and the country's four largest tobacco companies. For your information, I have enclosed a copy of *Inside the Budget* no. 85, from last June, in which IBO gave an overview of the city's use of its tobacco settlement revenues (TSRs). This letter provides an update of the information contained in that newsfax.

In brief, the city plans to use a portion of its share of the TSRs to back bonds issued by TSASC, Inc., a separate legal entity created by the city for this purpose, to finance the city's capital program. In addition, a share of the TSRs will be used to pay back a federal loan under the Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA). Finally, the residual revenues will be available to the city's general fund for any purpose. The city is not obligated to use any portion of its TSRs for health-related programs.

Tobacco Bonds. The city continues to count on the issuance of bonds by TSASC, Inc., repaid from the city's share of the tobacco settlement revenues, to finance its capital plan. The next TSASC bond offering of $660 million—originally scheduled for April 2002—is now expected to take place early in fiscal year 2003. A portion of the proceeds—$125 million—will be used for closure costs for the Fresh Kills site, with the rest going to the city's overall capital program. Two more offerings of $600 million each are planned for 2003 and 2004. After accounting for issuance costs and reserve funding requirements, net proceeds of TSASC-issued bonds will eventually total $2.06 billion.

TIFIA Loan. A portion of the tobacco revenues will also be used to repay the federal TIFIA loan of $150 million, which will fund one-third of the capital cost of the Staten Island Ferry Terminal project. The city will draw $45 million from the TIFIA loan this year, with the balance expected to be drawn in 2003 and 2004. Although planning is going ahead, substantial work will not begin until a plan has been developed for rebuilding lower Manhattan's transportation infrastructure, since the ferry terminal is an integral part of transportation in the area. For the time being, therefore, TIFIA loan proceeds are being "banked" for future use. Repayment will not begin until after 2006.

Tobacco Settlement Revenues, 2001-2005 *Dollars in millions*	2002	2003	2004	2005	2006
Tobacco Payments & Interest Earnings	$207	$256	$272	$242	$247
TSASC Debt Service	(54)	(55)	(118)	(169)	(199)
Balance Available for General Fund	**$153**	**$201**	**$154**	**$73**	**$48**
SOURCES: IBO; Mayor's Office of Management and Budget.					

General Fund. Debt service for tobacco bonds is projected to be $55 million in 2003, and rise to $199 million in 2006. This will leave $201 million available to the city's general fund in 2003, falling to $48 million in 2006.

The city is not required to use any of the funds for health-related programs. The city did have a Tobacco Cessation Program, funded at $13 million, which was eliminated mid-way through this fiscal year.

As part of the Master Settlement Agreement between the participating manufacturers and states, tobacco manufacturers agreed to fund a foundation that develops educational programs to reduce the use of cigarettes by youth and to fund research into diseases associated with the use of tobacco products. Each year, starting in 1999 and running until 2008, each manufacturer must pay its relative market share of $25 million annually. In addition, each of the four largest manufacturers must pay their relative market share of $250 million in 1999 and then their relative market share of $300 million through 2004.

I hope this information is helpful to you. Please feel free to call me directly, at (212) 442-0220, or Merrill Pond, senior budget and policy analyst, at (212) 442-8616, if you have any questions on this or any other subject.

Sincerely,

C. Preston Niblack
Deputy Director