

January 2002

ANALYSIS OF THE TOBACCO SETTLEMENT TRUST FUND FOR THE 1999-2001 AND 2001-03 BIENNIUMS

	<u>1999-2001 Biennium</u>	<u>2001-03 Biennium</u>
Beginning balance	\$0	\$0
Add revenues		
Tobacco settlement revenues collected to date	\$52,900,784 ¹	\$7,296,576 ⁴
Projected tobacco settlement revenues		<u>45,201,247</u>
Total estimated revenues	<u>52,900,784²</u>	<u>52,497,823²</u>
Total available	\$52,900,784 ²	\$52,497,823
Less estimated expenditures and transfers		
Transfers to the community health trust fund (10%)	\$5,290,078	\$5,249,783
Transfers to the common schools trust fund (45%)	23,805,353	23,624,020
Transfers to the water development trust fund (45%)	<u>23,805,353</u>	<u>23,624,020</u>
Total expenditures and transfers	<u>52,900,784</u>	<u>52,497,823</u>
Estimated ending balance	<u><u>\$0</u></u>	<u><u>\$0</u></u>

¹ Eleven tobacco settlement payments were received by the state during the 1999-2001 biennium totaling \$52,900,784.

² Revenues - 1999 House Bill No. 1475 (North Dakota Century Code Section 54-27-25) provides that interest on the moneys in the tobacco settlement trust fund must be retained in the fund, and the principal and interest must be allocated 10 percent to the community health trust fund, 45 percent to the common schools trust fund, and 45 percent to the water development trust fund. The interest earned on the moneys in the tobacco settlement trust fund will increase the amount available for transfers to the other funds. However, because of uncertainty regarding the timing of the receipt of the tobacco settlement proceeds, interest earned on the balance of the tobacco settlement trust fund has not been included in this analysis. Tobacco settlement revenues collected to date were transferred immediately to the proper trust funds; therefore, no interest has been earned by the tobacco settlement trust fund to date.

³ The tobacco settlement proceeds for the 1999-2001 biennium were estimated to be \$57,593,770 at the end of the 1999 legislative session. The decrease in the amount of tobacco settlement revenues collected for the biennium of \$4,692,986 is the result of volume adjustments made to payments received. A volume adjustment is an adjustment made to a settlement payment to reflect increases or decreases in tobacco manufacturers' operating income from cigarette sales. The original estimate was calculated before the anticipated effect of volume adjustments on tobacco settlement collections was determined. The total original estimated tobacco settlement collections made during the 1999 legislative session and the total estimated collections as revised by the Office of Management and Budget to reflect anticipated volume adjustments are:

	Biennium	1999 Original Estimated Collections	Office of Manage- ment and Budget Revised Estimated Collections
1999-2001		\$57,593,770	\$52,900,784
2001-03		61,143,578	52,497,823
2003-05		51,271,214	45,944,134
2005-07		51,271,214	45,944,134
2007-17 (original - \$82,231,080/revised - \$73,687,266 per biennium)		411,155,400	368,436,330
2017-25 (original - \$58,591,490/revised - \$52,503,832 per biennium)		234,365,960	210,015,328
Total		\$866,801,136	\$775,738,533

⁴ Two tobacco settlement payments have been received by the state as of January 10, 2002, totaling \$7,296,576.

FUND HISTORY

North Dakota Century Code Section 54-27-25 created by 1999 House Bill No. 1475 established a tobacco settlement trust fund for the deposit of all tobacco settlement moneys obtained by the state. Moneys in the fund, including interest, must be transferred as follows, within 30 days of their deposit in the fund:

- Ten percent to the community health trust fund.
- Forty-five percent to the common schools trust fund.
- Forty-five percent to the water development trust fund.

North Dakota Century Code Section 54-27-25 requires transfers that would otherwise be made to the common schools trust fund during the biennium must be made to the water development trust fund until the amount in the water development trust fund is sufficient to make required bond payments for bonds issued for water projects authorized by Section 61-02.1-04. Once the amount required for the biennium is transferred to the water development trust fund, an equal amount must be transferred to the common schools trust fund, if available, from the moneys deposited in the tobacco settlement trust fund during the biennium. Once an equal amount has been deposited in each fund, transfers from the tobacco settlement trust fund will be allocated equally for the remainder of the biennium--45 percent to the water development trust fund and 45 percent to the common schools trust fund. The State Engineer has stated that the deposit of 45 percent of the tobacco settlement trust fund into the water development trust fund would be adequate during the 1999-2001 biennium. Therefore, transfers to date for the common schools trust fund have not been redirected to the water development trust fund.

ANALYSIS OF THE WATER DEVELOPMENT TRUST FUND FOR THE 1999-2001 AND 2001-03 BIENNIUMS

	1999-2001 Biennium	2001-03 Biennium
Beginning balance	\$0	\$23,805,353
Add revenues		
Transfers to date from tobacco settlement trust fund	\$23,805,353 ¹	\$3,283,459 ⁴
Projected transfers from tobacco settlement trust fund		20,340,561
Total estimated revenues	23,805,353 ²	23,624,020 ²
Total available	\$23,805,353	\$47,429,373
Less estimated expenditures		
Transfer to the general fund (2001 HB 1023)		\$9,733,820 ⁵
State Water Commission		
Bond payments (2001 HB 1023)		8,636,398
Water development projects (2001 HB 1023)		28,995,286 ⁶
Section 404 of the Clean Water Act (2001 SB 2285)		800,000
State Department of Health		
Total maximum daily load and pollution control plans (2001 SB 2004)		99,756
Total estimated expenditures	0 ³	48,265,260 ⁷
Estimated ending balance	\$23,805,353	(\$835,887 ⁸)

¹ Eleven transfers were made from the tobacco settlement trust fund totaling \$23,805,353.

² Revenues - Interest earned on the water development trust fund is not retained in the fund but deposited in the state general fund. The tobacco settlement revenues for the water development trust fund were estimated to be \$25,917,197 for the 1999-2001 biennium at the end of the 1999 legislative session. The decrease in the amount of revenues collected from the tobacco settlement trust fund of \$2,111,844 is the result of volume adjustments made to payments received. A volume adjustment is an adjustment made to a settlement payment to reflect increases or decreases in tobacco manufacturers' operating income from cigarette sales. The original estimate was calculated before the anticipated effect of volume adjustments on tobacco settlement collections was determined. The revenues for the water development trust fund originally estimated during the 1999 legislative session and the estimated collections as revised by the Office of Management and Budget to reflect anticipated volume adjustments are as follows:

	1999 Original Estimated Collections	Office of Management and Budget Revised Estimated Collections
Biennium		
1999-2001	\$25,917,197	\$23,805,353
2001-03	27,514,610	23,624,020
2003-05	23,072,046	20,674,860
2005-07	23,072,046	20,674,860
2007-17 (original - \$37,003,986/revised - \$33,159,270 per biennium)	185,019,930	165,796,350
2017-25 (original - \$26,366,170/revised - \$23,626,724 per biennium)	105,464,680	94,506,896
Total	\$390,060,509	\$349,082,339

- ³ Expenditures - House Bill No. 1475 (1999) provides that moneys in the water development trust fund are to be used to address the long-term water development and management needs of the state. Senate Bill No. 2188 (1999) provides that bonds issued for flood control projects, the Southwest Pipeline Project, and an outlet to Devils Lake are to be repaid from moneys in the water development trust fund as appropriated by the Legislative Assembly. The 1999 Legislative Assembly did not appropriate any funds from the water development trust fund for repayment of bond principal and interest; however, the Legislative Assembly did appropriate \$84.8 million from the water development trust fund for the purpose of repaying the line of credit extended by the Bank of North Dakota for interim financing. Approximately \$1.1 million for the Southwest Pipeline Project was drawn on the \$84.8 million line of credit. The funds were repaid with proceeds from the March 2000 bond sales which will provide \$23 million for the flood control project in Grand Forks and \$4.5 million for the Southwest Pipeline Project. If necessary, a portion of the Grand Forks allocation may be used for the Wahpeton flood control project, depending on timing. The first payment of principal and interest accrued for the bonds is scheduled to be made in the 2001-03 biennium.
- ⁴ Two transfers have been made from the tobacco settlement trust fund totaling \$3,283,459.
- ⁵ Transfer to general fund - House Bill No. 1023 (2001) transfers \$9,733,820, the amount for the State Water Commission administrative expenses, from the water development trust fund to the general fund. A general fund appropriation was then provided by the 2001 Legislative Assembly for the administrative expenses.
- ⁶ The authorization for water projects includes the \$28,572,333 included in the water projects line item in Section 1 of the bill and \$422,953 of additional operating costs relating to water projects.
- ⁷ The State Water Commission is authorized to spend up to \$67.8 million from the water development trust fund, resources trust fund, and bond proceeds on water development projects for the 2001-03 biennium. This includes \$31.5 million of carryover projects from 1999 Senate Bill No. 2188. Section 14 of 2001 House Bill No. 1023 limits the bonding authority for the new projects to \$20 million plus the cost of issuing bonds. Contracts for water projects to be paid from the water development trust fund may initially be issued up to an amount equal to 75 percent of the amount appropriated from that fund. Contracts for the remaining 25 percent appropriated may only be issued to the extent uncommitted funds are available in the water development trust fund. The State Water Commission is also authorized in 2001 House Bill No. 1015 to spend up to \$5 million from the resources trust fund or bond proceeds for levees at Devils Lake, which increases the bonding cap to \$25 million and the water project cap to \$72.8 million.
- ⁸ If adequate moneys are not available in the fund to provide for the appropriations and transfers as current projections indicate, expenditures will need to be reduced to maintain a positive ending balance.

FUND HISTORY

North Dakota Century Code Section 54-27-25 created by 1999 House Bill No. 1475 established a water development trust fund to be used for the long-term water development and management needs of the state. This section creates a tobacco settlement trust fund for the deposit of all tobacco settlement moneys obtained by the state. Moneys in the fund must be transferred as follows, within 30 days of their deposit in the fund:

- Ten percent to the community health trust fund.
- Forty-five percent to the common schools trust fund.
- Forty-five percent to the water development trust fund.

North Dakota Century Code Section 54-27-25 also provides that transfers that would otherwise be made to the common schools trust fund during the biennium must be made to the water development trust fund until the amount in the water development trust fund is sufficient to make required bond payments for bonds issued for water projects authorized by Section 61-02.1-04. Once the amount required for the biennium is transferred to the water development trust fund, an equal amount must be transferred to the common schools trust fund, if available, from the moneys deposited in the tobacco settlement trust fund during the biennium. Once an equal amount has been deposited in each fund, transfers from the tobacco settlement trust fund will be allocated equally for the remainder of the biennium--45 percent to the water development trust fund and 45 percent to the common schools trust fund. The State Engineer has stated

that deposit of 45 percent of the tobacco settlement trust fund into the water development trust fund would be adequate during the 1999-2001 biennium. Therefore, transfers to date for the common schools trust fund have not been redirected to the water development trust fund.

North Dakota Century Code Section 61-02.1-04 created by 1999 Senate Bill No. 2188 provides that the principal and interest on bonds issued for flood control projects, the Southwest Pipeline Project, and an outlet to Devils Lake must be repaid with moneys appropriated from the water development trust fund.

ANALYSIS OF THE COMMUNITY HEALTH TRUST FUND FOR THE 1999-2001 AND 2001-03 BIENNIUMS

	1999-2001 Biennium	2001-03 Biennium
Beginning balance	\$0	\$5,290,078
Add revenues		
Transfers to date from the tobacco settlement trust fund	\$5,290,078 ¹	\$729,658 ⁴
Projected transfers from the tobacco settlement trust fund		\$4,520,125
Total estimated revenues	5,290,078 ²	5,249,783 ³
Total available	\$5,290,078	\$10,539,861
Less estimated expenditures		
State Department of Health		
Tobacco prevention and control (2001 Senate Bill No. 2004)		\$4,700,000 ⁵
Dentists' loan program (2001 Senate Bill No. 2276)		180,000 ⁶
Community health grants (2001 Senate Bill No. 2380)		350,000 ⁷
Department of Human Services		
Breast and cervical cancer assistance (2001 House Bill No. 1472)		114,755 ⁸
Total estimated expenditures	0 ³	5,344,755
Estimated ending balance	\$5,290,078	\$5,195,106

¹ Eleven transfers were made from the tobacco settlement trust fund totaling \$5,290,078.

² Revenues - Interest earned on the community health trust fund is deposited in the state general fund. The tobacco settlement revenues for the community health trust fund were estimated to be \$5,759,377 for the 1999-2001 biennium at the end of the 1999 legislative session. The decrease in the amount of revenues collected from the tobacco settlement trust fund of \$469,299 is the result of volume adjustments made to payments received. A volume adjustment is an adjustment made to a settlement payment to reflect increases or decreases in tobacco manufacturers' operating income from cigarette sales. The original estimate was calculated before the anticipated effect of volume adjustments on tobacco settlement collections was determined. The revenues for the community health trust fund originally estimated during the 1999 legislative session and the estimated collections as revised by the Office of Management and Budget to reflect anticipated volume adjustments are as follows:

	1999 Original Estimated Collections	Office of Management and Budget Revised Esti- mated Collections
1999-2001	\$5,759,377	\$5,290,078
2001-03	6,114,358	5,249,783
2003-05	5,127,121	4,594,413
2005-07	5,127,121	4,594,413
2007-17 (original - \$8,223,108/revised - \$7,368,727 per biennium)	41,115,540	36,843,633

2017-25 (original - \$5,859,149/revised - \$5,250,383 per biennium)	<u>23,436,596</u>	<u>21,001,532</u>
Total	\$86,680,113	\$77,573,852

³ Expenditures - 1999 House Bill No. 1475 provides that moneys in the community health trust fund may be used by the State Department of Health, subject to legislative appropriation, for community-based public health programs and other public health programs, including programs with emphasis on preventing or reducing tobacco usage in this state. The 1999 Legislative Assembly did not appropriate to the State Department of Health any moneys in the community health trust fund for community-based public health programs. Consequently, no expenditures from the fund were made during the 1999-2001 biennium.

⁴ Two transfers have been made from the tobacco settlement trust fund totaling \$729,658.

⁵ 2001 Senate Bill No. 2004 provides an appropriation to the State Department of Health for tobacco prevention and control programs.

⁶ 2001 Senate Bill No. 2276 provides an appropriation to the State Health Council for providing for a dentists' loan repayment program which provides loan assistance to certain dentists who start a practice in smaller North Dakota communities in need of a dentist.

⁷ The community health grant program is established in 2001 Senate Bill No. 2380 with the intent to prevent or reduce tobacco usage in the state. The bill provides an appropriation of \$100,000 for funding the Community Health Grant Program Advisory Committee and \$250,000 to provide grants to cities and counties for tobacco education and cessation programs.

⁸ 2001 House Bill No. 1472 provides an appropriation to the Department of Human Services for providing medical assistance coverage for women screened and found to have breast and cervical cancer.

FUND HISTORY

North Dakota Century Code Section 54-27-25 created by 1999 House Bill No. 1475 established a tobacco settlement trust fund for the deposit of all tobacco settlement moneys obtained by the state. Moneys in the fund must be transferred as follows, within 30 days of their deposit in the fund:

- Ten percent to the community health trust fund.
- Forty-five percent to the common schools trust fund.
- Forty-five percent to the water development trust fund.