

ANALYSIS OF THE TOBACCO SETTLEMENT TRUST FUND FOR THE 2001-03 AND 2003-05 BIENNIUMS (REFLECTING THE 2003-05 BIENNIUM EXECUTIVE BUDGET RECOMMENDATION)

	2001-03 BIENNIUM	2003-05 BIENNIUM
Beginning balance	\$0	\$0
Add revenues		
Tobacco settlement revenues collected to date	\$26,780,712 ¹	
Projected tobacco settlement revenues	<u>26,536,443</u>	<u>\$45,944,134</u>
Total revenues	<u>53,317,155²</u>	<u>45,944,134²</u>
Total available	\$53,317,155 ³	\$45,944,134
Less expenditures and transfers		
Transfers to the community health trust fund (10%)	\$5,331,715	\$4,594,414
Transfers to the common schools trust fund (45%)	23,992,720	20,674,860
Transfers to the water development trust fund (45%)	<u>23,992,720</u>	<u>20,674,860</u>
Total expenditures and transfers	<u>53,317,155</u>	<u>45,944,134</u>
Estimated ending balance	<u><u>\$0</u></u>	<u><u>\$0</u></u>

¹ Five 2001-03 biennium tobacco settlement payments have been received by the state as of December 1, 2002, totaling \$26,780,712. Total tobacco settlement collections of \$79,681,496 have been received to date by North Dakota.

² Revenues - 1999 House Bill No. 1475 (North Dakota Century Code Section 54-27-25) provides that interest on the money 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 money 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 have been 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 2001-03 biennium were estimated to be \$61,143,578 at the end of the 1999 legislative session. The decrease in the amount of tobacco settlement revenues collected for the biennium of \$7,826,423 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:

	1999 Original Estimated Collections	Office of Management and Budget Revised Estimated Collections
1999-2001	\$57,593,770	\$52,900,784
2001-03	61,143,578	53,317,155
2003-05	51,271,214	45,944,134
2005-07	51,271,214	45,944,134
2007-17 (\$82,231,080/\$73,687,266 per biennium)	411,155,400	368,436,330
2017-25 (\$58,591,490/\$52,503,832 per biennium)	234,365,960	210,015,328

Total	\$866,801,136	\$776,557,865
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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 money obtained by the state. Money 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 money 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 2001-03 biennium. Therefore, transfers to date for the common schools trust fund have not been redirected to the water development trust fund.