

ANALYSIS OF THE TOBACCO SETTLEMENT TRUST FUND FOR THE 2005-07 BIENNIUM AS OF MAY 2006

Beginning balance - July 1, 2005		\$0
Add estimated revenues		
Tobacco settlement revenues collected to date	\$21,414,069 ¹	
Projected tobacco settlement revenues	22,972,067	
Total estimated revenues		44,386,136 ²
Total available		\$44,386,136 ³
Less estimated expenditures and transfers		
Transfers to the community health trust fund (10%)	\$4,438,614	
Transfers to the common schools trust fund (45%)	19,973,761	
Transfers to the water development trust fund (45%)	19,973,761	
Total estimated expenditures and transfers		44,386,136
Estimated ending balance - June 30, 2007		\$0

¹For the 2005-07 biennium, the state has received three tobacco settlement payments totaling \$21,414,069 as of April 30, 2006. The state has received total tobacco settlement collections of \$174,261,226.

²Revenues - 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.

³The tobacco settlement proceeds for the 2005-07 biennium were estimated to be \$51,271,214 at the end of the 1999 legislative session. The decrease in the amount of tobacco settlement revenues collected for the biennium of \$6,885,078 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.

In addition, two major tobacco companies reduced their total 2006 payment to North Dakota by approximately \$2.7 million. The tobacco companies are contending that the master settlement agreement allows for the payments to be reduced if they lose sales to small cigarette makers that did not participate in the agreement and if states do not enforce laws intended to make smaller tobacco companies set aside money for legal claims. The Attorney General's office plans to file a lawsuit against the tobacco companies to collect the full payment. The tobacco companies have set aside the additional payment until the dispute is resolved. The total estimated revenues of \$44,386,136 do not include the \$2.7 million withheld by tobacco companies. 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 Management and Budget Revised Estimated Collections
1999-2001	\$57,593,770	\$52,900,784
2001-03	61,143,578	53,636,363
2003-05	51,271,214	46,310,010
2005-07	51,271,214	44,386,136
2007-09	82,231,080	73,687,266
2009-17 (\$82,231,080/\$73,687,266 per biennium)	328,924,320	294,749,064
2017-25 (\$58,591,490/\$52,503,832 per biennium)	234,365,960	210,015,328
Total	\$866,801,136	\$775,684,951

NOTE: Additional annual tobacco settlement funds are anticipated to be received beginning in 2008 through 2017 based on each state's contribution to litigation or resolution of state tobacco lawsuits. The anticipated increase in annual payments is reflected in the above table.

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 within 30 days of its 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.