

ANALYSIS OF THE TOBACCO SETTLEMENT TRUST FUND FOR THE 2007-09 AND 2009-11 BIENNIUMS (REFLECTING THE 2009-11 BIENNIUM EXECUTIVE BUDGET RECOMMENDATION)

	2007-09 Biennium		2009-11 Biennium	
Beginning balance		\$0		\$0
Add estimated revenues				
Tobacco settlement revenues collected to date	\$36,481,077 ¹		\$0	
Projected tobacco settlement revenues	21,940,594		43,881,191	
Total estimated revenues		58,421,671 ²		43,881,191 ²
Total available		\$58,421,671 ^{3,4}		\$43,881,191 ^{3,4}
Less estimated expenditures and transfers				
Transfers to the community health trust fund	\$5,842,167		\$4,388,119	
Transfers to the common schools trust fund	26,289,752		19,746,536	
Transfers to the water development trust fund	26,289,752		19,746,536	
Total estimated expenditures and transfers		58,421,671 ⁴		43,881,191 ⁴
Estimated ending balance		\$0		\$0

¹As of November 2008 the state has received two tobacco settlement payments totaling \$36,481,077 for the 2007-09 biennium. The state has received total tobacco settlement collections of \$233,156,352.

²Revenues - 1999 House Bill No. 1475 (NDCC 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.

In the November 2008 general election, voters approved initiated measure No. 3 that amends NDCC Section 54-27-25 to provide that a portion of tobacco settlement funds received by the state be deposited in the newly created tobacco prevention and control trust fund rather than the entire amount in the tobacco settlement trust fund. Tobacco settlement money received under subsection IX(c)(1) of the Master Settlement Agreement, which continue in perpetuity, will continue to be deposited into the tobacco settlement trust fund and 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. Tobacco settlement money received under subsection IX(c)(2) of the Master Settlement Agreement, which began in 2008 and continues through 2017, will be deposited beginning in 2009 in the tobacco prevention and control trust fund. The amount received under subsection IX(c)(2) of the Master Settlement Agreement for 2008 was \$13,797,729, which, because it was received prior to passage of the measure is included in the tobacco settlement revenues collected to date above. Remaining tobacco settlement trust fund revenues have been estimated based on the Office of Management and Budget revised estimated collections less anticipated strategic contribution payments of \$13,797,729 per year, which were estimated based on the actual amount of the 2008 strategic contribution payment. The measure also provides that, if in any biennium the tobacco prevention and control trust fund does not have adequate funding for the comprehensive plan, money may be transferred from the water development trust fund to the tobacco prevention and control trust fund in an amount determined necessary by the executive committee to adequately provide for the comprehensive plan.

³In 2006 certain tobacco companies began reducing their tobacco settlement payments to North Dakota 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 has filed a lawsuit against the tobacco companies to collect the full payment. Due to the uncertainty of the lawsuit, the Office of Management and Budget has further reduced the estimated tobacco settlement revenues for the

2007-09 biennium by 5 percent, or \$1,842,182, in the first year and by 3 percent, or \$1,105,309, in the second year. The Office of Management and Budget has reduced the estimated tobacco settlement revenues for the 2009-11 biennium by 3 percent or \$2,210,618 for the biennium. The total original estimated tobacco settlement collections, including payments to be received under both subsection IX(c)(1) and subsection IX(c)(2) of the Master Settlement Agreement, and the total estimated collections as revised by the Office of Management and Budget to reflect anticipated volume adjustments and legal challenges 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	43,654,951
2007-09	82,231,080	70,739,775
2009-11	82,231,080	71,476,648
2011-17 (\$82,231,080/\$73,687,266 per biennium)	246,693,240	221,061,798
2017-25 (\$58,591,490/\$52,503,832 per biennium)	234,365,960	210,015,328
Total	\$866,801,136	\$769,795,657

⁴Initiated measure No. 3 approved by voters in the November 2008 general election will result in the following estimated allocation of the revised estimated collections of the tobacco settlement payments through 2025:

	Actual and Estimated Total Tobacco Settlement Proceeds	Estimated Payments Under Master Settlement Agreement Subsection IX(c)(2) Deposited in the Tobacco Prevention and Control Trust Fund	Allocation of Actual and Estimated Payments Under Master Settlement Agreement Subsection IX(c)(1)		
			Common Schools Trust Fund	Water Development Trust Fund	Community Health Trust Fund
Actual payment April 2008	\$36.5 million	N/A	\$16.4 million	\$16.4 million	\$3.7 million
Estimated payment April 2009	35.7 million	\$13.8 million	9.9 million	9.9 million	2.1 million
Estimated 2009-11 biennium	71.5 million	27.6 million	19.8 million	19.8 million	4.3 million
Estimated 2011-13 biennium	73.7 million	27.6 million	20.8 million	20.8 million	4.5 million
Estimated 2013-15 biennium	73.7 million	27.6 million	20.8 million	20.8 million	4.5 million
Estimated 2015-17 biennium	73.7 million	27.6 million	20.8 million	20.8 million	4.5 million
Estimated 2017-19 biennium	52.5 million	N/A	23.6 million	23.6 million	5.3 million
Estimated 2019-21 biennium	52.5 million	N/A	23.6 million	23.6 million	5.3 million
Estimated 2021-23 biennium	52.5 million	N/A	23.6 million	23.6 million	5.3 million
Estimated 2023-25 biennium	52.5 million	N/A	23.6 million	23.6 million	5.3 million
Total	\$574.8 million	\$124.2 million	\$202.9 million	\$202.9 million	\$44.8 million

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.

In the November 2008 general election, voters approved initiated measure No. 3 that amended NDCC Section 54-27-25 to establish a tobacco prevention and control trust fund. The measure provides for a portion of tobacco settlement funds received by the state to be deposited in a new fund rather than the entire amount in the tobacco settlement trust fund. Tobacco settlement money received under subsection IX(c)(1) of the Master Settlement Agreement, which continue in perpetuity, will continue to be deposited into the tobacco settlement trust fund and 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. Tobacco settlement money received under subsection IX(c)(2) of the Master Settlement Agreement, relating to strategic contribution payments which began in 2008 and continue through 2017, will be deposited beginning in 2009 into the newly created tobacco prevention and control trust fund.

The tobacco settlement payment received by the state in April 2008 was the first payment that included funds relating to subsection IX(c)(2) of the agreement. This payment was received prior to the approval of the measure and was deposited in the tobacco settlement trust fund and disbursed as provided for in NDCC Section 54-27-25 prior to amendment by the measure. Future tobacco settlement payments will be deposited in the tobacco settlement trust fund and the tobacco prevention and control trust fund pursuant to Section 54-27-25, as amended by the measure.