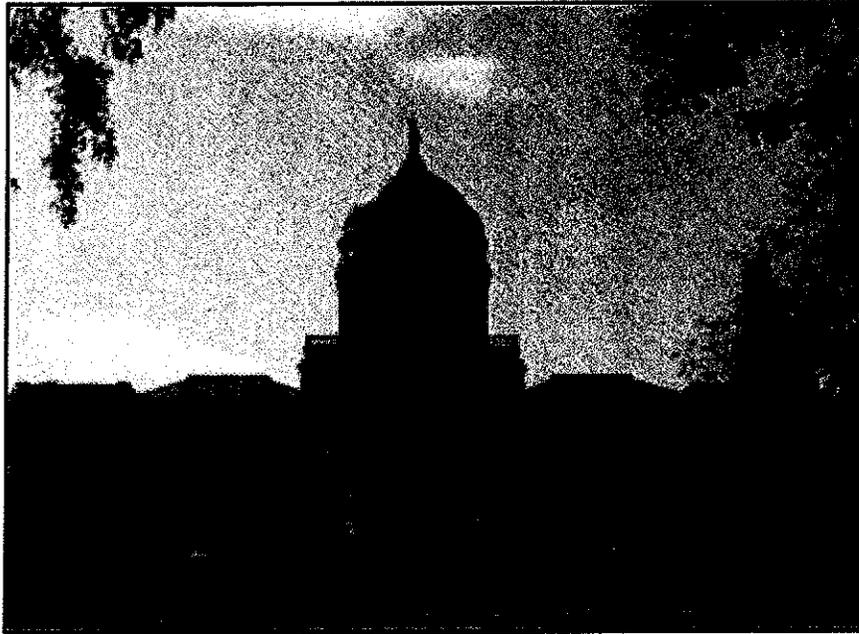
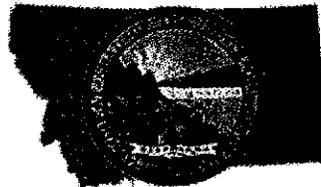


## Other General Fund Revenue

All Other Revenue  
Highway Patrol Fines  
Nursing Facilities Fee  
Public Institution Reimbursements  
Tobacco Settlement



Legislative Fiscal Division



[www.leg.state.mt.us/css/fiscal/](http://www.leg.state.mt.us/css/fiscal/)

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# Legislative Fiscal Division

## Revenue Estimate Profile

### Tobacco Settlement

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**Revenue Description:** Montana receives revenue as a settling party to a Master Settlement Agreement (MSA) with four original tobacco companies and 43 subsequent companies to end a four-year legal battle with 46 states, Puerto Rico, American Samoa, the U.S. Virgin Islands, the North Mariana Island, Guam and the District of Columbia (52 total settling entities).

Montana is eligible for four types of payments: 1) reimbursement for legal costs (received December 1999); 2) five initial payments (Two were received in fiscal 2000. One each year is expected in fiscal 2001, 2002, and 2003); 3) on-going, perpetual annual payments; and 4) strategic contribution payments (from fiscal 2008 through 2017). The MSA places no restrictions on how the settling parties spend the money.

The total amount of tobacco settlement funds available to Montana is affected by a number of adjustments. These may include inflation, sales volume changes, non-participating manufacturers (NPM) adjustment for the loss of market shares, operating income of the original four tobacco companies, number and operating income of subsequent participating manufactures, number of states reaching state specific finality, settlements reached by the four states not party to the agreement (Florida, Texas, Minnesota, and Mississippi), litigation offsets, disputed payments, and federal tobacco legislation offsets among others.

The adjustment for NPM is applied for the first time beginning fiscal 2006. Amounts paid by manufacturers who participate in the MSA may decrease if they have lost market shares and it is proven that a significant portion of the loss (to companies not participating in the MSA) is due to the disadvantages caused by the MSA. An economics firm must determine if this is the case. Although this has not yet been determined, it is expected that participating manufactures will withhold a portion of their payments in disputed escrow accounts until the matter is resolved, thus reducing payments to the settling entities.

**Applicable Tax Rate(s):** NA

**Distribution:** Due to passage of Constitutional Amendment 35 by the electorate in November 2000, the legislature is required to dedicate no less than 40 percent of tobacco settlement money to a permanent trust fund. Since the legislature has not yet determined the exact percentage to be deposited to the trust fund, the revenue estimate assumes 40 percent. For fiscal 2003, the remaining 60 percent of the money is deposited to the general fund. Due to passage of Initiative 146 by the electorate in November 2002, beginning fiscal 2004, 32 percent of the tobacco settlement money funds tobacco prevention programs and (due to the enactment of SB 485 by the 2003 legislature) human services programs, and 17 percent of the funds is used for the Children's Health Insurance Program and (due to the enactment of SB 485 by the 2003 legislature) match for federal Medicaid funds. The remaining 11 percent of the money is deposited to the general fund. The effects of SB 485 terminate at the end of fiscal 2005.

**Collection Frequency:** For fiscal 2003: The last initial payment is expected January 10, 2003 and the annual payment is expected April 15<sup>th</sup> 2003. Beginning fiscal 2004: Annual payments are expected each April 15<sup>th</sup> into perpetuity. General Tobacco, a new subsequent participating manufacturer, is required to make annual payments every August 30<sup>th</sup> through calendar 2016 for obligations incurred from 2000 to 2003.

#### Major Drivers:

- Base payments required in the Master Settlement Agreement
- Payments by subsequent participating manufacturers
- Quantity of cigarettes shipped nationally
- Inflation

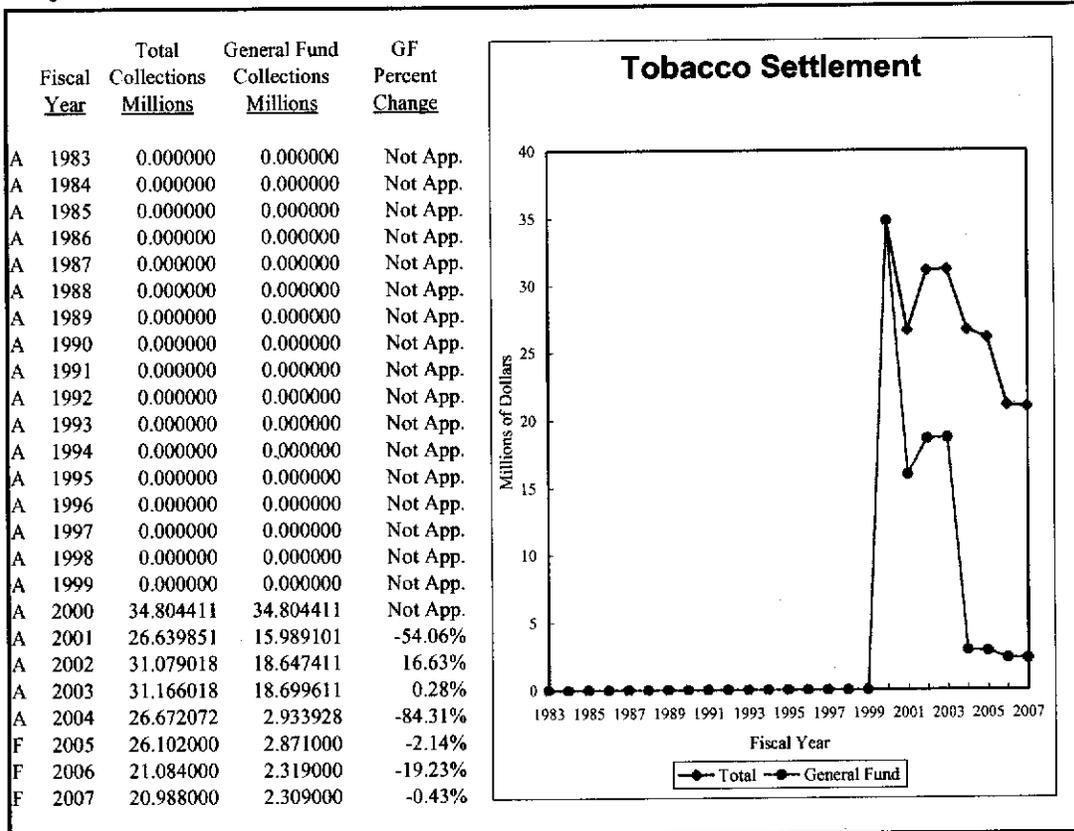
# Legislative Fiscal Division

## Revenue Estimate Profile

### Tobacco Settlement

2. Initial Payments the (last payment was received in fiscal 2003): The total settlement amount available each year from the initial payment is adjusted by an estimate for the volume adjustment then multiplied by the Montana's percentage share.
3. General Tobacco Annual Payments: For fiscal 2005 only, one-half of the company's calendar 2004 MSA obligation is estimated. Beginning fiscal 2006, net payment obligations (reduced by the amount of escrow funds released to the states) are added to certain accrued interest and an estimate of the other half of the company's calendar 2004 MSA obligation to equal the principal to be paid from fiscal 2006 to fiscal 2017. The applicable portion of the principal owed plus accrued interest earnings equal the total payment that is then multiplied by Montana's share.
4. Total: The sum of the annual payment, the initial payment, and General Tobacco payments equals the amount Montana will receive in that fiscal year.

#### Revenue Projection:



# Legislative Fiscal Division

## Revenue Estimate Profile

### Tobacco Settlement

#### Revenue Estimate Assumptions

	t	Total Tax	GF Tax	Initial	Annual	Montana's	PSS
	Fiscal	Millions	Millions	Payment	Payment	Share	Reduction
				Millions	Millions	Percent	Percent
Actual	2000	34.804411	34.804411	4872.000000	4500.000000	0.004247591	-0.124500000
Actual	2001	26.639851	15.989101	2546.160000	5000.000000	0.004247591	-0.124500000
Actual	2002	31.079018	18.647411	2622.544800	6500.000000	0.004247591	-0.124500000
Actual	2003	31.166018	18.699611	2701.221144	6500.000000	0.004247591	-0.124500000
Actual	2004	26.672072	2.933928	0.000000	8000.000000	0.004247591	-0.124500000
Forecast	2005	26.102000	2.871000	0.000000	8000.000000	0.004247591	-0.124500000
Forecast	2006	21.084000	2.319000	0.000000	8000.000000	0.004247591	-0.124500000
Forecast	2007	20.988000	2.309000	0.000000	8000.000000	0.004247591	-0.124500000

	t	Annual	Cummulative	Adjustment	Adjusted	Annual	Cummulative
	Fiscal	Vol. Change	Vol. Change	Factor	Vol. Change	CPI Change	CPI Change
		Percent	Percent	Percent	Percent	Percent	Percent
Actual	2000	-0.140094943	-0.140094943	0.980000000	-0.137293044	0.030000000	0.030000000
Actual	2001	-0.015542065	-0.153459643	0.980000000	-0.150390450	0.033868093	0.064884100
Actual	2002	-0.045780332	-0.192214542	0.980000000	-0.188370251	0.030000000	0.096830600
Actual	2003	-0.049400356	-0.232119431	0.980000000	-0.227477042	0.030000000	0.129735500
Actual	2004	-0.056361859	-0.275398607	0.980000000	-0.269890635	0.030000000	0.163627600
Forecast	2005	-0.056361859	-0.316238489	0.980000000	-0.309913719	0.030000000	0.198536400
Forecast	2006	-0.056361859	-0.354776559	0.980000000	-0.347681028	0.030000000	0.234492500
Forecast	2007	-0.056361859	-0.391142552	0.980000000	-0.383319701	0.030000000	0.271527300

	t	Op. Income	SPM	General	NPM
	Fiscal	Adjustment	Payment	Tobacco	Adjustment
		Millions	Millions	Millions	Millions
Actual	2000	40.787986	46.446683		
Actual	2001	64.221594	78.134224		
Actual	2002	0.000000	144.417783		
Actual	2003	0.000000	240.733198		
Actual	2004	0.000000	293.806967		
Forecast	2005	0.000000	352.138345	0.000000	0.000000
Forecast	2006	0.000000	434.712146	0.072141	-4.791702
Forecast	2007	0.000000	552.748361	0.080386	-4.767922

Total Tax = [Annual \* (1 + Value Change) \* (1 + Cumulative CPI) \* (1 + PSS) + Op. Income + SPM] \* Montana's + General