

## Tobacco Trust Interest

### Revenue Description

The tobacco trust fund is set up with money from the tobacco settlement which included 46 states and various United States territories. In 2000, as required by constitutional amendment, the state began depositing 40% of the tobacco settlement funds into a trust. As required in statute, 10% of the trust earnings must be deposited in the trust.

This revenue source is only the interest resulting from that account (highlighted in the distribution chart); revenue from continued payments from the tobacco settlement is explained in the Tobacco Settlement section under the Other General Funds section.

### Statutory Reference

Distribution – [Montana Constitution Article XII, Section 4](#); [17-6-601, MCA](#); [17-6-603, MCA](#)

Date Due – Interest deposits are mostly made monthly, but none in July and two in June

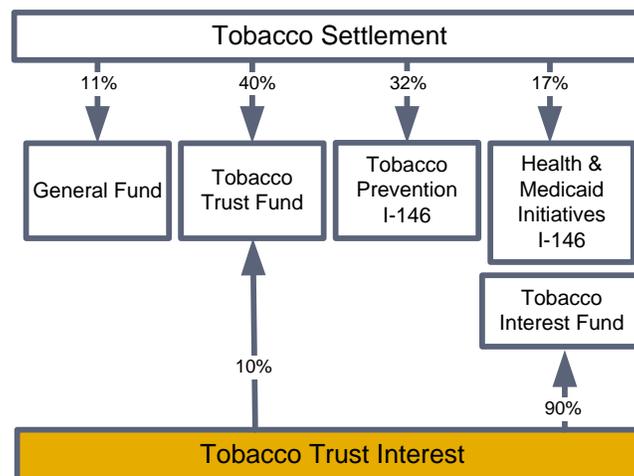
**Applicable Tax Rates:** N/A

**Collection Frequency:** Monthly

### Distribution

Interest earnings from the trust fund are distributed as follows

1. 90% to a state special revenue account for appropriation by the legislature for disease prevention programs (includes chronic disease programs) and state programs providing benefits, services, or coverage that are related to the health care needs of the people of Montana; and
2. 10% to the tobacco settlement trust fund



### Forecast Risks

- Short and long-term interest rates

### Revenue Estimate Methodology

#### Data

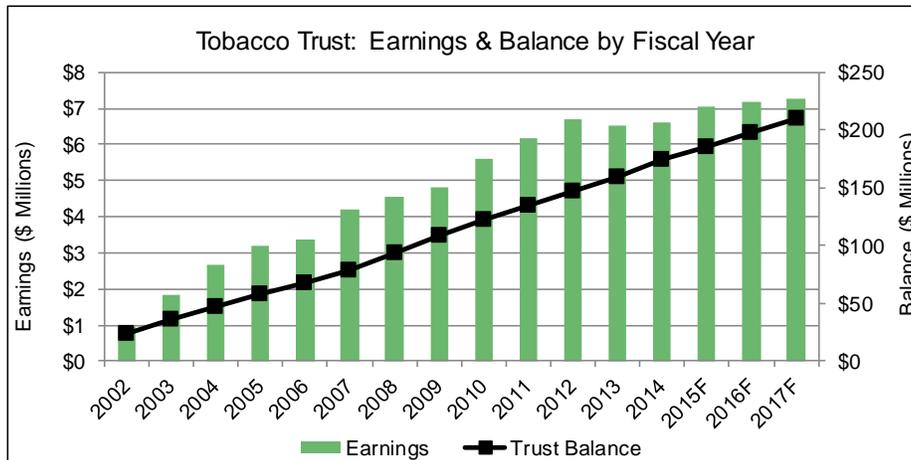
The Board of Investments (BOI) provides information on historic interest rates as well as the gains and losses from the sale of securities. Projections of future interest rates are provided by IHS and historic interest collections are obtained from SABHRS.

Analysis

Each of the following interest or income components are estimated independently and combined:

- Trust funds bond pool (TFBP)
- Short-term investment pool (STIP)
- New trust deposits

The TFBP was formed in 1995 to manage the fixed investments held in the state’s major trust funds. Each trust owns “shares” of the pool and interest earnings are paid to each trust on a per-share basis. TFBP earnings are the largest source of earnings for the trust, as shown in the figure below. TFBP earnings are forecast by applying estimated return rates, provided by the BOI, to the current and forecast trust balance.



STIP interest (including other interest) is earned on cash, prior to investment in long-term investments. Funds are acquired from new deposits and/or maturing securities in the forecast period. Funds are held in STIP until the BOI determines that conditions are favorable for investment in the TFBP. Short-term interest forecasts from IHS are applied to money not invested in the TFBP to calculate future STIP earnings.

The 40% distribution of tobacco settlement funds and 10% of retained interest earnings are considered new deposits in the tobacco settlement trust. New deposits are transferred to the trust on a quarterly basis. When the BOI receives the tobacco settlement funds, they are immediately invested in STIP. Funds are expected to remain in STIP for one month before being invested in the TFBP. The interest earned on new deposits is estimated by summing STIP earnings for one month with TFBP earnings for the remainder of the year.

**Interest Earnings**

**Tobacco Trust Interest**

**Revenue Estimate Assumptions**

FY	Total Rev. \$ Millions	GF Rev. \$ Millions	TFBP Interest \$ Millions	STIP Interest \$ Millions	90 Percent Interest \$ Millions	10 Percent Interest \$ Millions
A 2002	\$0.968	\$0.000	\$0.955	\$0.012		
A 2003	1.830	-	1.816	0.014	\$1.647	\$0.183
A 2004	2.670	-	2.662	0.008	2.403	0.267
A 2005	3.202	-	3.166	0.037	2.882	0.320
A 2006	3.388	-	3.321	0.067	3.049	0.339
A 2007	4.208	-	4.156	0.052	3.787	0.421
A 2008	4.546	-	4.525	0.021	4.091	0.455
A 2009	4.825	-	4.817	0.008	4.343	0.483
A 2010	5.599	-	5.597	0.002	5.039	0.560
A 2011	6.173	-	6.148	0.001	5.556	0.617
A 2012	6.701	-	6.615	0.003	6.031	0.670
A 2013	6.526	-	6.523	0.002	5.873	0.653
A 2014	6.592	-	6.591	0.001	5.933	0.659
F 2015	7.041	-	7.036	0.004	6.337	0.704
F 2016	7.175	-	7.158	0.017	6.458	0.718
F 2017	7.278	-	7.239	0.039	6.550	0.728

FY	Tobacco New Deposit \$ Millions	TFBP Long Term Rate	Non Pool STIP Rate	Non Pool STIP Bal \$ Millions	Invested Balance \$ Millions
A 2002	\$12.432	0.0%	3.0%	\$0.585	\$22.605
A 2003	12.466	6.2%	3.3%	0.251	35.579
A 2004	10.669	6.5%	4.1%	0.133	46.624
A 2005	10.828	6.2%	2.5%	2.854	55.049
A 2006	9.940	5.4%	3.5%	0.917	67.258
A 2007	10.324	5.7%	7.4%	0.493	78.508
A 2008	13.846	5.3%	4.1%	0.537	92.758
A 2009	15.009	4.8%	2.5%	0.098	108.678
A 2010	12.613	4.9%	1.9%	0.064	121.893
A 2011	11.850	4.8%	1.7%	0.105	134.317
A 2012	12.081	4.7%	0.3%	2.109	145.059
A 2013	12.078	4.3%	0.2%	0.294	159.609
A 2014	13.257	4.0%	0.2%	0.609	173.209
F 2015	11.550	3.6%	0.3%	0.609	183.739
F 2016	11.437	3.4%	1.1%	0.609	196.348
F 2017	11.327	3.3%	2.5%	0.609	208.957

