

August 2003 by Roger Lloyd

## STATUS OF TOBACCO SETTLEMENT FUNDS

Montana receives revenue as a settling party to a Master Settlement Agreement with four original tobacco companies and 37 subsequent companies that ended a four-year legal battle that included 46 states, and six other entities. Montana is eligible for four types of payment: 1) reimbursement for legal costs (received December 1999); 2) five initial payments (Montana received two in fiscal 2000 and one per year in fiscal years 2001, 2002, and 2003); 3) on-going annual payments (to be received April 15th); and 4) strategic contribution payments (from fiscal 2008 through 2017). The Master Settlement Agreement places no restrictions on how states are to spend the money. Contrary to popular belief, the ongoing payments will be received in perpetuity.

### REVENUE

The total amount of tobacco settlement funds available to Montana may be affected by a number of adjustments. The two most important are the adjustments for inflation and volume of cigarettes shipped nationally. The amount of Montana's annual share will increase by a minimum amount of three percent or more if inflation is greater than three percent. The amount will decrease if the number of cigarettes shipped nationally decreases and will increase if the number increases. The figure below shows the revenue Montana has received through fiscal 2003 and the amounts to be received through fiscal 2005, as estimated by the legislature.

### DISTRIBUTION

In fiscal 2000, the revenue received from the Master Settlement Agreement was deposited to the general fund. However, due to passage of Montana Constitutional Amendment 35 by the electorate in November 2000, beginning in January 2001, the legislature is required to dedicate not less than 40 percent of tobacco settlement money to a permanent tobacco trust fund. Since the legislature has not yet determined the exact percentage to be distributed to the tobacco trust fund, the revenue estimates assume 40 percent. From fiscal 2001 through fiscal 2003, 60 percent of the money was deposited into the general fund. Due to passage of Initiative 146 by the electorate in November 2002 (and as amended in Senate Bill 485 by the 2003 legislature), beginning fiscal 2004, 32 percent of the total tobacco settlement money funds tobacco prevention/cessation programs and human service programs, and 17 percent funds the Children's Health Insurance Program and programs of the Comprehensive Health Association (CHA), and can be used to match federal Medicaid money. Money from both allocations can be used for tobacco disease prevention and to fund the Tobacco Prevention Advisory Board. Money not appropriated within two years is transferred to the tobacco trust fund. The remaining 11 percent of the total settlement money is deposited to the general fund. Senate Bill 485 authorized the transfer of \$5,831,360 in fiscal 2004 and \$6,057,600 in fiscal 2004 from the account receiving the 32 percent allocation to a newly created prevention and stabilization state special revenue account.

The figure below shows actual settlement amounts distributed between the general fund, the tobacco trust fund, and state special revenue accounts through fiscal 2003 and the amounts estimated to be distributed in fiscal years 2004 and 2005.

Tobacco Settlement and Tobacco Trust Revenues and Distributions									
Tobacco Settlement Revenue						Tobacco Trust Interest Earnings			
Distribution %	11%	40%	State Special Revenue		100%	90%	10%	100%	
Fiscal Year	General Fund	Trust Fund	Treat/Prevent & Human Services	CHIPS, CHA Med. Match	Total	State Special	Tobacco Trust	Total	
2000 Actual	\$34,804,411	\$0	\$0	\$0	\$34,804,411	\$0	\$0	\$0	
2001 Actual	15,990,244	10,650,750	0	0	26,640,994	98,519	71,172	169,691	
2002 Actual	18,647,410	12,431,607	0	0	31,079,017	1,015,407	22,212	1,037,619	
2003 Actual	18,699,611	12,466,407	0	0	31,166,018	1,647,194	160,832	1,808,027	
2004 Estimate	3,104,530	11,289,200	9,031,360	4,797,910	28,223,000	2,217,600	246,400	2,464,000	
2005 Estimate	<u>3,182,300</u>	<u>11,572,000</u>	<u>9,257,600</u>	<u>4,918,100</u>	<u>28,930,000</u>	<u>2,927,700</u>	<u>325,300</u>	<u>3,253,000</u>	
Totals	\$94,428,506	\$58,409,964	\$18,288,960	\$9,716,010	\$180,843,440	\$7,906,420	\$825,917	\$8,732,336	

As stipulated in the Montana Constitution, interest earnings from the tobacco trust fund are to be distributed: 1) 90 percent for appropriation by the legislature for disease prevention programs and state programs providing benefits, services, or coverage related to the health care needs of the people of Montana; and 2) 10 percent to the tobacco trust. The figure above also shows these actual and estimated amounts.

## TOBACCO TRUST FUND BALANCE

The tobacco trust fund began receiving deposits of settlement proceeds and interest earnings in fiscal 2001. The figure below shows the actual fiscal year ending fund balances through fiscal 2003 and balances estimated by the legislature for fiscal years 2004 and 2005. Money in the tobacco trust fund can be spent if approved by 2/3 of each house of the legislature. Appropriations of principal, income, or interest from the trust fund cannot be used to replace state or federal money that support tobacco disease prevention programs that existed on December 31, 1999.

