

Legislative Fiscal Division

Revenue Estimate Profile

Tobacco Trust Interest

Revenue Description: This revenue source is the interest from the Tobacco Trust Fund. The Tobacco Trust Fund is a fund set up with money from the tobacco settlement which included 46 states, Puerto Rico, American Samoa, the U.S. Virgin Islands, the North Mariana Island, Guam and the District of Columbia. 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.

Due to passage of Montana Constitutional Amendment 35 by the electorate in November 2000, the legislature is required to dedicate not less than 40% of tobacco settlement money to a permanent trust fund. Initially, the legislature did not determine the exact percentage to be deposited to the trust fund; the revenue estimate assumes 40%. Since the passage of Initiative 146 by the electorate in November 2002, 32% of the tobacco settlement money is to fund tobacco prevention and 17% is to fund the Children's Health Insurance Program. As amended in SB 485 by the 2003 Legislature, money from these allocations can also be used to fund human services programs and to match federal Medicaid funds through FY 2005. The remaining 11% of the money is deposited to the general fund. Interest earnings from the trust can only be used for tobacco disease prevention programs and programs providing benefits, services, or coverage that are related to the health care needs of Montanans. HB 743 enacted by the 2007 Legislature added chronic disease programs to the definition of tobacco disease prevention programs. The earnings cannot be used to replace state or federal money used to fund tobacco disease prevention programs and state programs that existed on December 31, 1999, providing benefits, services, or coverage of the health care needs of Montanans.

Statutory Reference:

Tax Rate – NA

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

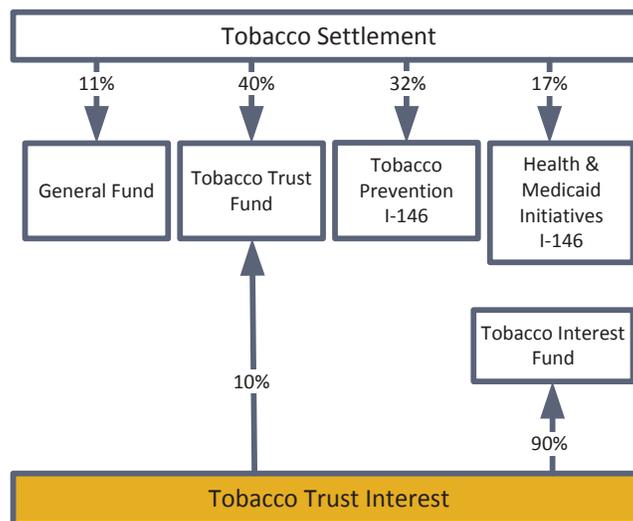
Date Due – Interest deposits are mostly made monthly, but none in July and two in June

Applicable Tax Rate(s): NA

Distribution: Interest earnings from the trust fund are distributed:

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.

Distribution Chart:



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Summary of Legislative Action: The 63rd Legislature did not enact legislation that impacted this source.

Collection Frequency: Trust interest earnings are deposited monthly to the state special revenue account and the trust.

% of Total General Fund Revenue: N/A

Revenue Estimate Methodology:

Data

The data used to estimate interest earnings from the tobacco settlement trust are obtained from the Board of Investments (BOI), IHS, and the state accounting system (SABHRS). The 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.

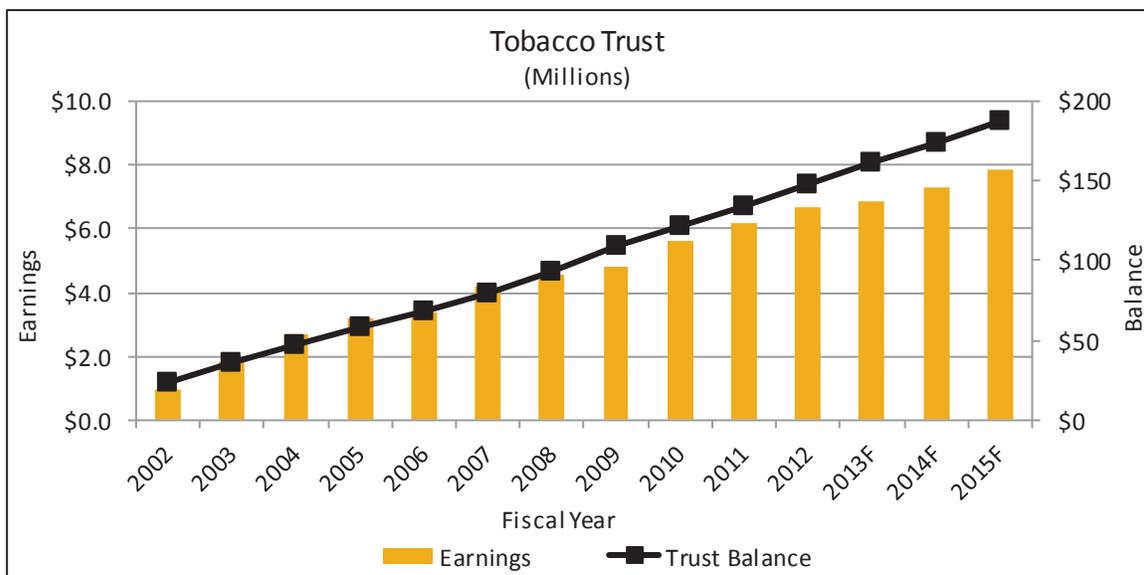
Analysis

The tobacco settlement trust, formed in 2000, was created from distributions of the tobacco settlement funds. 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.

To forecast the tobacco settlement trust interest earnings, each of the following three interest/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. To estimate TFBP earnings, the base year rate of return generated by the pool, as reported by the BOI, is adjusted during the forecast period for maturing securities. The applicable new long-term rate for these securities is based on an average of four long-term rates projected by IHS.



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. To estimate future STIP earnings, an average short-term interest rate is developed, based on IHS projections of three short-term investments.

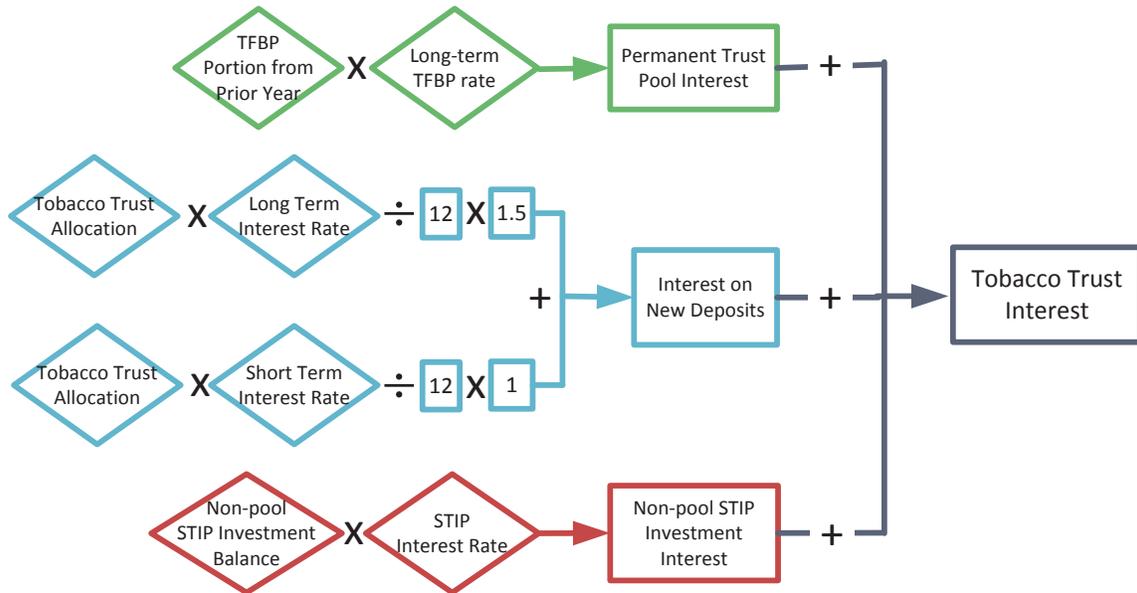
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The 40% distribution of tobacco settlement funds and 10% of retained interest earnings are considered new deposits in the tobacco settlement trust. New deposits are transferred to the trust on a quarterly basis. When the BOI receives the tobacco settlement 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.

Forecast Methodology:



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Revenue Estimate Assumptions:

This section contains the assumptions used to generate the revenue estimates contained in Senate Joint Resolution 2. It does not reflect changes, if any, enacted by the 2013 Legislature that may affect future estimates of this revenue source.

	t	Total Rev.	GF Rev.	TFBP	STIP	90 Percent	10 Percent
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Interest</u>	<u>Interest</u>	<u>Interest</u>	<u>Interest</u>
				<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual	2002	0.968	0.000	0.955	0.012		
Actual	2003	1.830	0.000	1.816	0.014	1.647	0.183
Actual	2004	2.670	0.000	2.662	0.008	2.403	0.267
Actual	2005	3.202	0.000	3.166	0.037	2.882	0.320
Actual	2006	3.388	0.000	3.321	0.067	3.049	0.339
Actual	2007	4.208	0.000	4.156	0.052	3.787	0.421
Actual	2008	4.546	0.000	4.525	0.021	4.091	0.455
Actual	2009	4.825	0.000	4.817	0.008	4.343	0.483
Actual	2010	5.599	0.000	5.597	0.002	5.039	0.560
Actual	2011	6.173	0.000	6.148	0.001	5.556	0.617
Actual	2012	6.701	0.000	6.615	0.003	6.031	0.670
Forecast	2013	6.825	0.000	6.818	0.007	6.143	0.683
Forecast	2014	7.298	0.000	7.291	0.007	6.568	0.730
Forecast	2015	7.821	0.000	7.811	0.010	7.039	0.782

	t	Tobacco	New Deposit	Non Pool	Non Pool	Invested	Average
	<u>Fiscal</u>	<u>New Deposit</u>	<u>Long Term</u>	<u>STIP</u>	<u>STIP Bal</u>	<u>Balance</u>	<u>Return</u>
		<u>Millions</u>	<u>Rate</u>	<u>Rate</u>	<u>Millions</u>	<u>Millions</u>	<u>Rate</u>
Actual	2002	12.432	6.2%	2.6%	0.585		
Actual	2003	12.466	5.7%	1.4%	0.251		
Actual	2004	10.669	5.4%	1.3%	0.133	46.756	5.7%
Actual	2005	10.828	5.2%	2.4%	2.854	57.902	5.5%
Actual	2006	9.940	5.2%	4.1%	0.917	68.175	5.0%
Actual	2007	10.324	5.4%	4.7%	0.493	79.001	5.3%
Actual	2008	13.846	5.3%	3.1%	0.537	93.294	4.9%
Actual	2009	15.009	5.1%	1.0%	0.098	108.776	4.4%
Actual	2010	12.613	4.8%	0.2%	0.064	121.957	4.6%
Actual	2011	12.410	4.4%	0.1%	0.105	134.421	4.6%
Actual	2012	12.698	3.8%	0.1%	2.109	147.168	4.6%
Forecast	2013	13.586	3.4%	0.1%	2.109	160.754	4.2%
Forecast	2014	13.479	3.8%	0.1%	2.109	174.233	4.2%
Forecast	2015	13.405	4.2%	0.2%	2.109	187.638	4.2%

$$\text{Total Rev.} = \text{Invested Balance} \times \text{Average Return}$$

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Revenue Projection:

