



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 640** HLS 99- 1087
 Bill Text Version: **RE-REENGROSSED**
 Opp Chamb Action:
 Sub Bill For:
 Proposed Amd:

Date: May 31, 1999	6:58 PM	Author: DOWNER
Dept/Agy:		Analyst: Greg Albrecht
Subject: Tobacco Settlement Dedication		

FUNDS/FUNDING

(Constitutional Amendment) To create the TOPS Trust Fund, and the Health Trust Fund, and Louisiana Fund

Effective July 1, 2000, the Louisiana Fund (LA Fund) is created to receive 70% of all tobacco settlement revenue in FY01, 60% in FY02, and 50% in FY03 and thereafter. The LA Fund shall also retain all interest earned. The LA Fund shall be invested in the same manner as the state general fund. Appropriations from the LA Fund in these years can support a variety of health and education activities enumerated in 5 groups of activities. The TOPS Trust Fund is created to receive 15% of all tobacco settlement revenue in FY01, 20% in FY02, and 25% in FY03 and thereafter. At the same time the Health Trust Fund is created to receive 15% of all tobacco settlement revenue in FY01, 20% in FY02, and 25% in FY03 and thereafter. These funds are also to retain all interest, dividends, and capital gains earned by them. Various types of financial instruments these Trusts can be invested in, including up to 50% of the funds in stocks, are specified. SEE PAGE TWO

ESTIMATED FISCAL IMPACT:

EXPENDITURES	1999-00	2000-01	2001-02	2002-03	2003-04	5 YEAR TOTAL
State General Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Stat. Deds./Other	\$137,800,000	\$110,000,000	\$117,000,000	\$106,000,000	\$97,000,000	\$567,800,000
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total	\$137,800,000	\$110,000,000	\$117,000,000	\$106,000,000	\$97,000,000	\$567,800,000

REVENUES	1999-00	2000-01	2001-02	2002-03	2003-04	5 YEAR TOTAL
State General Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Stat. Deds./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

EXPLANATION OF ESTIMATES:

EXPENDITURES:

The following discussion is taken from the fiscal note on HB 1547, the enabling legislation that is in part specifically contingent upon adoption of this constitutional amendment. Administrative costs apply to the TOPS and Health Trust Funds and are likely to be similar to the current expenditures associated with administering and managing the La. Education Quality Trust Fund. Custodial banking (\$50,000 per year), financial consulting (\$75,000 per year), and investment management services (50 basis points per year based on market value of securities managed) would be deducted from the LA Fund. As the stock component of the portfolio is phased-in, total administrative costs will likely be dominated by the costs of investment management services. However, as with the 8(G) trust fund, the treasury is likely to phase-in the 50% stock component of the portfolio over a number of years; possibly 3 to 5 years. Thus, total administrative costs are likely to be relatively small in the early years of the Trusts.

The current (HB1 Reengrossed) disposition of the tobacco settlement revenue available for FY00 includes \$137.8 million allocated for expenditure: \$122.9 million in the general appropriations bill and \$14.9 million in the capital outlay bill, and \$61.2 million allocated to special funds but not appropriated for expenditure: \$10.8 million in the Stabilization Fund and \$50.4 retained in the LA Fund (\$33.1 million recurring and \$17.3 million nonrecurring). SEE PAGE TWO

REVENUES:

The following discussion is taken from the fiscal note on HB 1547, the enabling legislation that is in part specifically contingent upon adoption of this constitutional amendment. Based on the Master Settlement Agreement, the Consensus Revenue Estimating Conference has recognized \$199 million of tobacco settlement revenue as available during FY00. These monies will actually be available to the state at June 30, 2000 or shortly thereafter. The attorney general has stated that receipt at that time would make the revenue available to support expenditures in FY00, for accounting purposes. The treasury has estimated that the initial balance to be received may be some \$206 million, including some \$7 million in accrued interest. This accrued interest will approximately offset the interest cost of supporting appropriations in FY00 from the state's cash flow balance and/or borrowing from special funds before the settlement revenue is actually received by the state.

The Treasury estimates that the annual rate of return on investment of monies in the La. Fund would be 6% - 6.5% per year, and for the TOPS and Health Funds the return would be about 8% (higher return due to realized capital gains on stock investments allowed for this fund). All authorized amounts are assumed to be fully appropriated and expended by the end of each year. Obviously, actual earnings in any given fiscal year will depend on actual investment performance. SEE PAGE TWO

Dual Referral Rules

- | | |
|--|---|
| Senate | House |
| <input checked="" type="checkbox"/> 13.5.1 >= \$500,000 Fiscal Cost per year | <input type="checkbox"/> 6.8(F) >= \$500,000 Fiscal Cost per year |
| <input type="checkbox"/> 13.5.2 >= \$500,000 Tax or Fee Change per year | <input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease per year |

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PURPOSE OF BILL (continued from page one) :

Appropriations from the TOPS Trust and the Health Trust are limited to the estimated aggregate annual interest, dividends, and realized capital gains earned by the funds. Realized capital gains available for appropriation can not exceed the interest and dividend amounts. Appropriations from the TOPS Trust are restricted to support of the state's tuition assistance program. Appropriations from the Health Trust are restricted to support of a variety of health related activities.

To be submitted to the electors at the gubernatorial primary election in 1999.

EXPENDITURE EXPLANATION (continued from page one) :

Programmatic expenditures during FY01 and beyond are assumed to be the entire total annual settlement receipts deposited to the LA Fund. In FY01 that share will be 70% or \$109 million, in FY02 the share will be 60% or \$112 million, and in FY03 that share will be 50% or \$95 million. Annual expenditures will also include the earnings of the TOPS and Health Trust Funds. Revenue flows and earnings estimates are discussed below.

Administrative expenses of the TOPS and Health Trust Funds are to be paid from the LA Fund. These costs will be relatively small overall, especially in the early years of the Trusts because it will take a few years for the 50% stock component to be phased-in and the investment management costs to become material.

REVENUE EXPLANATION (continued from page one) :

According to a schedule of the projected tobacco settlement payout to Louisiana provided by the Treasury, total receipts in the next few years are expected to be \$156 million in FY01, \$187 million in FY02, \$189 million in FY03, and \$158 million in FY04. Should the constitutional amendment originating as HB 640 of the 1999 Regular Session be approved by the electorate, these totals will be allocated to the Trust Funds: 30% in FY01 or \$47 million, 40% in FY02 or \$75 million, 50% in FY03 or \$95 million. In subsequent years the share will be 50% of settlement revenue received.

Only earnings of the TOPS and Health Trusts can be appropriated each year and those earnings are likely to be relatively small in the early years of the Trusts' accumulation. For the years FY01 - FY03, two payments per year are scheduled in January and April. Thus, from a fiscal year perspective, each year's receipts will only be available for investment effectively for only about one quarter of that year. In addition, as with the 8(G) trust fund, the treasury is likely to phase-in the 50% stock component of the portfolio over a number of years; possibly 3 to 5 years. In a rising market this will work to dampen total dollar returns while protecting somewhat against an excessive average cost of investment should the market experience a downturn during the period of construction of the portfolio's basic allocation among the allowable types of investment instruments.

In FY01, the Trusts' earnings may be less than \$1 million. In subsequent years, earnings would grow as the Trusts' balances grow, as the share of annual settlement revenue devoted to them grows (through FY03), and as the stock component is built up. In FY02 earnings might be some \$5 million; in FY03 some \$11 million; and in FY04 some \$18 million. However, it is possible that in any particular period capital gains are not realized and/or capital losses are experienced even if not realized. In these periods the total dollar return of the Trusts may not exceed the prior year by the amounts illustrated here.

Dual Referral Rules

- Senate
[checked] 13.5.1 >= \$500,000 Fiscal Cost per year
[] 13.5.2 >= \$500,000 Tax or Fee Change per year
House
[] 6.8(F) >= \$500,000 Fiscal Cost per year
[] 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease per year

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