



LEGISLATIVE FISCAL OFFICE
Fiscal Note

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

Date: May 19, 1999	4:55 PM	Author: DOWNER
Dept/Agy:		Analyst: Greg Albrecht
Subject: Tobacco Settlement Dedication		

FUNDS/FUNDING

(Constitutional Amendment) Creates Tobacco Settlement Trust Fund and Louisiana Fund

Effective July 1, 2000, the bill creates the Tobacco Settlement Trust Fund (TOPS Trust) to receive 33% of all monies received from the tobacco settlement and to retain all interest, dividends, and capital gains earned by the TOPS Trust. Also creates the Louisiana Fund (LA Fund) to receive 67% of all monies received from the tobacco settlement and to retain all interest earned by the Fund. Up to 50% of the TOPS Fund may be invested in stock. The LA Fund shall be invested in the same manner as the state general fund. Appropriations from the TOPS Trust are limited to the estimated aggregate annual interest, dividends, and realized capital gains. Realized capital gains available for appropriation can not exceed the interest and dividends amounts. Appropriations from the TOPS TRUST are restricted to support of the state's tuition assistance program. 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	\$0	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total	\$0					

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 cost estimates apply to the TOPS Trust and are estimated based information provided by the Treasury of actual 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 small in the early years of the TOPS Trust.

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 Fund 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 LA Fund can support (a) children's education and health care, (b) advanced health care sciences, health care for tobacco-related illnesses and chronic disease management services, and capital improvements at state health care facilities, (c) tobacco-related educational efforts, cessation assistance, promotion of a tobacco-free lifestyle, and enforcement of the Settlement Agreement by the attorney general and, (d) expenses related to investment of the TOPS Trust.

This amendment is effective July 1, 2000.

To be submitted at the 1999 gubernatorial primary election.

EXPENDITURE EXPLANATION (continued from page one) :

Expenditures during FY01 and beyond are assumed to be the entire 67% of total annual settlement receipts deposited to the LA Fund plus the earnings of the TOPS Trust (both discussed below). Administrative expenses of the TOPS Trust are to be paid from the LA Fund. These costs will be relatively small overall, especially in the early years of the TOPS Trust 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 TOPS Trust (33%) and the LA Fund (67%) in the following amounts, respectively: \$51.5 million and \$104.5 million in FY01, \$ 61.7 million and \$125.3 million in FY02, \$62.4 million and \$126.6 million in FY03, and \$ 52.1 million and \$105.9 million in FY04.

Only earnings of the TOPS TRUST can be appropriated for the tuition assistance program each year and those earnings are likely to be relatively small in the early years of the Trust's 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, TOPS Trust earnings may be less than \$1 million. In subsequent years, earnings would grow as the Trust balance grows and as the stock component is built up. In FY02 earnings might be some \$4 million; in FY03 some \$9 million; and in FY04 some \$15 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 Trust may not exceed the prior year by the amounts illustrated here.

Dual Referral Rules

Senate

- 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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