



LEGISLATIVE FISCAL OFFICE
Fiscal Note

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

Date: July 7, 1999	1:31 PM	Author: DOWNER
Dept/Agy:		Analyst: Greg Albrecht
Subject: Tobacco Settlement Dedication		

FUNDS/FUNDING

(Constitutional Amendment) To create the Millennium Trust Fund composed of the Health Excellence Fund, the Education Excellence Fund, the TOPS Fund, and to create the Louisiana Fund
 Effective July 1, 2000, the Millennium Trust Fund is created to receive a portion of all tobacco settlement revenue as follows: 45% in FY01, 60% in FY02, 75% in FY03, and thereafter. Three subfunds are created within the Trust Fund; the Health Excellence Fund, the Education Excellence Fund, and the TOPS Fund. The Education Excellence Fund receives an additional 10% share of settlement monies during FY 01, 02, and 03. The Trust Fund shall be invested in the same manner as the 8(G) fund (35% maximum equity component, but a 2/3 legislative vote can increase that maximum to 50%). All settlement revenue and investment earnings are credited equally to three subfunds. Only earnings in excess of inflation (as determined by the Revenue Estimating Conference) are available for appropriation, although Education Excellence Fund appropriations in the first three years shall include the 10% share of settlement monies allocated to that fund. The amount of realized capital gains contained in the estimate of annual earnings available for appropriation shall not exceed interest and dividends earnings. 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	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					

EXPLANATION OF ESTIMATES:

EXPENDITURES:

Administrative costs apply largely to the Millennium Trust Fund and are likely to be similar to the current expenditures associated with administering and managing the 8(G) 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 Trust Fund. As the stock component of the portfolio is built up, 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 stock component of the portfolio over a number of years; possibly 5 or more years. Thus, total administrative costs are likely to be small in the early years of the Trust.

Programmatic expenditures for aggregate Millennium Trust Fund purposes would be supported by the earnings of the Trust Fund in excess of inflation (plus the 10% share of settlement monies allocated to the Education Excellence Fund during FY01-FY03). In the aggregate, those expenditures might be as follows: \$16 million in FY01, \$22.7 million in FY02, \$27.6 million in FY03, and \$14 million in FY04. From FY04 and beyond only earnings of the Trust fund in excess of inflation are available to support expenditures. SEE PAGE TWO

REVENUES:

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 by 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 Louisiana Fund would be 6% - 6.5% per year, and for the Millennium Trust Fund the return would be about 8% (a higher return due to realized capital gains on stock investments allowed for this fund). 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 |

H. Gordon Monk

H. Gordon Monk
STAFF DIRECTOR



LEGISLATIVE FISCAL OFFICE
Fiscal Note

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

Date: July 7, 1999 1:31 PM Author: DOWNER
Dept/Agy: Analyst: Greg Albrecht
Subject: Tobacco Settlement Dedication

PURPOSE OF BILL (continued from page one) :

Appropriations from the Health Excellence Fund are allowed for children's health programs and various other health initiatives. Appropriations from the Education Excellence Fund are allocated to pre-K through 12th grade private schools, special schools, alternative schools, and public schools. Allocations are based largely on per pupil proration except the special schools which also receive a fixed amount allocation. For the first seven years, the public school allocation is divided into a 30% component distributed evenly to systems, and a 70% component distributed on the basis of the MFP. After that, all of the public school allocation is distributed on an equal per pupil basis. Capital expenditures and salary increases are prohibited. Monies may not supplant other state or local funding. Appropriations from the TOPS Fund are allowed to support that program.

The Louisiana Fund is also created to the balance of tobacco settlement revenue as follows: 45% in FY01, 30% in FY02, 15% in FY03, and 25% in FY04 and thereafter. All of these monies may be appropriated each year for various children's education and health care programs, for direct health care services for tobacco-related illnesses, for other health care initiatives, and for initiatives to diminish tobacco-related injury and death.

Also creates the Millennium Leverage Fund to receive settlement proceeds with a 2/3 legislative vote. These monies could secure revenue bonds whose proceeds may be appropriated for the purposes of the Millennium Trust Fund and the Louisiana Fund. To be submitted to the electors at the gubernatorial primary election in 1999.

EXPENDITURE EXPLANATION (continued from page one) :

Expenditures for the purposes of the Louisiana Fund would be supported by the share of settlement monies allocated to that fund each year. In the aggregate, those expenditures might be as follows: \$70 million in FY01, \$56 million on FY02, \$28 million in FY03, and \$40 million in FY04. Assuming that all receipts of this fund are appropriated and expended within each fiscal year, earnings of this fund are likely to small.

Revenue flows and earnings estimates are discussed below.

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 (the payment schedule continues at that level until FY08 when it increases to \$181 million per year thereafter). During the fiscal note horizon these totals will be allocated to the Millennium Trust Fund for investment as follows: 45% in FY01 or \$70 million, 60% in FY02 or \$112 million, 75% in FY03 or \$142 million, and 75% in FY04 or \$119 million. Each of the three subfunds will receive 1/3 of these amounts. The Education Excellence Fund will receive an additional 10% share in the first three years as follows: \$15.6 million in FY01, \$18.7 million in FY02, and \$18.9 million in FY03. The Louisiana Fund will receive for expenditure the following amounts: 45% in FY01 or \$70 million, 30% in FY02 or \$56 million, 15% in FY03 or \$28 million, and 25% in FY04 or \$40 million.

Except for the additional 10% share of settlement monies allocated to the Education Excellence Fund in the first 3 years, only earnings of the Millennium Trust Fund in excess of inflation can be appropriated 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, these year's total receipts will only be available for investment effectively for about one quarter of the year in which received. In addition, as with the 8(G) trust fund, the treasury is likely to phase-in the stock component of the portfolio over a number of years, possibly 5 or more years. Then, some of the earnings will not be recognized for appropriation because they will be considered associated with inflation.

Using a 6% earnings assumption for the early years, in FY01 the Trust's total earnings may be around \$1 million. In subsequent years, earnings would grow as the Trust's balances grow, as its share of annual settlement monies grows, and as the stock component is built up. In FY02 total earnings might be some \$6 million; in FY03 some \$13 million; and in FY04 some \$21 million. For purposes of appropriation, these amounts would be reduced by an inflation component of possibly 2 points of earnings.

Dual Referral Rules

Senate

[X] 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

H. Gordon Monk

H. Gordon Monk
STAFF DIRECTOR