



LEGISLATIVE FISCAL OFFICE
Fiscal Note

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

| | | |
|-----------------------------------------------|----------|-------------------------------|
| Date: April 29, 1999 | 10:02 AM | Author: DOWNER |
| Dept/Agy: | | Analyst: Greg Albrecht |
| Subject: Tobacco Settlement Dedication | | |

FUNDS/FUNDING

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

Creates the Tobacco Settlement Trust Fund to receive 25% of the revenue from the tobacco settlement and to retain all interest, dividends, and capital gains earned by the Trust Fund. No appropriations shall be made from the Trust Fund. Also creates the Louisiana Fund to receive 75% of the revenue from the tobacco settlement and to retain all interest, dividends, and capital gains earned by the LA Fund. When the Trust Fund balance reaches \$1 billion all future earnings and all settlement revenue is to be credited to the LA Fund. The funds are to be invested by the treasurer in accordance with law, and up to 35% of the Trust Fund may be invested in stocks. The money in the LA Fund may be appropriated for any purpose including fund expenses. To be submitted at the 1999 gubernatorial primary election.

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 | \$154,350,000 | \$119,700,000 | \$143,600,000 | \$145,000,000 | \$120,600,000 | \$683,250,000 |
| Federal Funds | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Local Funds | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Annual Total | \$154,350,000 | \$119,700,000 | \$143,600,000 | \$145,000,000 | \$120,600,000 | \$683,250,000 |

| 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:

Administrative cost estimates apply to the Trust Fund and are provided by the Treasury based on 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, reflected in statutory dedication expenditures above. Total administrative costs are estimated at \$215,000 in FY01, \$292,000 in FY02, \$390,000 in FY03, and \$495,000 in FY04. These cost estimates are based on the guidelines and fees actually associated with the La. Education Quality Trust Fund, including an assumption that 35% of the fund will be invested in stocks. Costs begin in FY01 because the receipt of these monies by the state is not expected until June 30, 2000 or shortly thereafter.

Programmatic expenditures (amounts shown above less administrative costs) are 75% of annual settlement revenue, as depicted in a schedule provided by the Treasury based on the Master Settlement Agreement, plus earnings of the La. Fund. All authorized amounts are assumed to be fully appropriated and expended by the end of each year.

REVENUES:

Based on the Master Settlement Agreement, the Treasury assumed that the initial fund balance would 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 initial balance would be \$205.8 million (\$198.7 million principal plus \$7.1 million accrued earnings). The Treasury estimates that the rate of return on investment of monies in the La. Fund would be 6% - 6.5% per year. All authorized amounts are assumed to be fully appropriated and expended by the end of each year. Obviously, actual earnings available for expenditure in any given fiscal year will depend on when the initial fund balance is available to the state (earlier or later than June 30, 2000 is possible), as well as actual investment performance.

Note: on April 1, 1999, the Consensus Revenue Estimating Conference recognized \$110 million of tobacco settlement revenue as available for accounting as FY00 revenue. The Conference will likely consider recognizing additional tobacco settlement revenue at its next meeting.

Dual Referral Rules

- Senate
 13.5.1 >= \$500,000 Fiscal Cost
 13.5.2 >= \$500,000 Tax or Fee Change

- House
 6.8(F) >= \$500,000 Fiscal Cost
 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease

H. Gordon Monk

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STAFF DIRECTOR