

October 2002

ANALYSIS OF THE TOBACCO SETTLEMENT TRUST FUND FOR THE 2001-03 BIENNIUM

Beginning balance - July 1, 2001		\$0
Add revenues		
Tobacco settlement revenues collected to date	\$26,780,712 ¹	
Projected tobacco settlement revenues	<u>26,536,443</u>	
Total revenues		<u>\$53,317,155²</u>
Total available		\$53,317,155 ³
Less expenditures and transfers		
Transfers to the community health trust fund (10%)	\$5,331,715	
Transfers to the common schools trust fund (45%)	23,992,720	
Transfers to the water development trust fund (45%)	<u>23,992,720</u>	
Total expenditures and transfers		<u>\$53,317,155</u>
Estimated ending balance - June 30, 2003		<u><u>\$0</u></u>

¹ Five 2001-03 biennium tobacco settlement payments have been received by the state as of September 30, 2002, totaling \$26,780,712. Total tobacco settlement collections of \$79,681,496 have been received by North Dakota.

² Revenues - 1999 House Bill No. 1475 (North Dakota Century Code (NDCC) Section 54-27-25) provides that interest on the money in the tobacco settlement trust fund must be retained in the fund, and the principal and interest must be allocated 10 percent to the community health trust fund, 45 percent to the common schools trust fund, and 45 percent to the water development trust fund. The interest earned on the money in the tobacco settlement trust fund will increase the amount available for transfers to the other funds. However, because of uncertainty regarding the timing of the receipt of the tobacco settlement proceeds, interest earned on the balance of the tobacco settlement trust fund has not been included in this analysis. Tobacco settlement revenues collected to date were transferred immediately to the proper trust funds; therefore, no interest has been earned by the tobacco settlement trust fund to date.

³ The tobacco settlement proceeds for the 2001-03 biennium were estimated to be \$61,143,578 at the end of the 1999 legislative session. The decrease in the amount of tobacco settlement revenues collected for the biennium of \$7,826,423 is the result of volume adjustments made to payments received. A volume adjustment is an adjustment made to a settlement payment to reflect increases or decreases in tobacco manufacturers' operating income from cigarette sales. The original estimate was calculated before the anticipated effect of volume adjustments on tobacco settlement collections was determined. The total original estimated tobacco settlement collections made during the 1999 legislative session and the total estimated collections as revised by the Office of Management and Budget to reflect anticipated volume adjustments are:

Biennium	1999 Original Estimated Collections	Office of Management and Budget Revised Estimated Collections
1999-2001	\$57,593,770	\$52,900,784
2001-03	61,143,578	53,317,155
2003-05	51,271,214	45,944,134
2005-07	51,271,214	45,944,134
2007-17 (\$82,231,080/\$73,687,266 per biennium)	411,155,400	368,436,330
2017-25 (\$58,591,490/\$52,503,832 per biennium)	234,365,960	210,015,328
Total	\$866,801,136	\$776,557,865

FUND HISTORY

North Dakota Century Code Section 54-27-25, created by 1999 House Bill No. 1475, established a tobacco settlement trust fund for the deposit of all tobacco settlement money obtained by the state. Money in the fund, including interest, must be transferred within 30 days of its deposit in the fund as follows:

- Ten percent to the community health trust fund.
- Forty-five percent to the common schools trust fund.
- Forty-five percent to the water development trust fund.

North Dakota Century Code Section 54-27-25 requires transfers that would otherwise be made to the common schools trust fund during the biennium must be made to the water development trust fund until the amount in the water development trust fund is sufficient to make required bond payments for bonds issued for water projects authorized by Section 61-02.1-01. Once the amount required for the biennium is transferred to the water development trust fund, an equal amount must be transferred to the common schools trust fund, if available, from the money deposited in the tobacco settlement trust fund during the biennium. Once an equal amount has been deposited in each fund, transfers from the tobacco settlement trust fund will be allocated equally for the remainder of the biennium--45 percent to the water development trust fund and 45 percent to the common schools trust fund. The State Engineer has stated that the deposit of 45 percent of the tobacco settlement trust fund into the water development trust fund would be adequate during the 2001-03 biennium. Therefore, transfers to date for the common schools trust fund have not been redirected to the water development trust fund.

ANALYSIS OF THE WATER DEVELOPMENT TRUST FUND FOR THE 2001-03 BIENNIUM

Beginning balance - July 1, 2001		\$23,805,353
Add revenues		
Transfers to date from tobacco settlement trust fund	\$12,051,320 ¹	
Projected remaining transfers from tobacco settlement trust fund	11,941,400	
Total estimated revenues		\$23,992,720 ²
Total available		\$47,798,073
Less expenditures		
Transfer to the general fund (2001 HB 1023)	\$9,733,820 ³	
State Water Commission		
Bond payments (2001 HB 1023)	8,636,398 ⁴	
Water development projects (2001 HB 1023)	28,995,286 ⁵	
Section 404 of the Clean Water Act (2001 SB 2285)	800,000 ⁶	
State Department of Health		
Total maximum daily load and pollution control plans (2001 SB 2004)	99,756 ⁷	
Total expenditures		\$48,265,260 ⁸
Estimated ending balance - June 30, 2003		(\$467,187) ⁹

¹ Five 2001-03 biennium transfers have been made from the tobacco settlement trust fund as of September 30, 2002, totaling \$12,051,320. Total transfers of \$35,856,673 have been made from the tobacco settlement trust fund to the water development trust fund.

² Revenues - Interest earned on the water development trust fund is not retained in the fund but deposited in the state general fund. The tobacco settlement revenues for the water development trust fund were estimated to be \$27,514,610 for the 2001-03 biennium at the end of the 1999 legislative session. The decrease in the amount of revenues collected from the tobacco settlement trust fund of \$3,521,890 is the result of volume adjustments made to payments received. A volume adjustment is an adjustment made to a settlement payment to reflect increases or decreases in tobacco manufacturers' operating income from cigarette sales. The original estimate was calculated before the anticipated effect of volume adjustments on tobacco settlement collections was determined. The revenues for the water development trust fund originally estimated during the 1999 legislative session and the estimated collections as revised by the Office of Management and Budget to reflect anticipated volume adjustments are:

Biennium	1999 Original Estimated Collections	Office of Management and Budget Revised Estimated Collections
1999-2001	\$25,917,197	\$23,805,353
2001-03	27,514,610	23,992,720
2003-05	23,072,046	20,674,860
2005-07	23,072,046	20,674,860
2007-17 (\$37,003,986/\$33,159,270 per biennium)	185,019,930	165,796,350
2017-25 (\$26,366,170/\$23,626,724 per biennium)	105,464,680	94,506,896
Total	\$390,060,509	\$349,451,039

³ Transfer to general fund - The 2001 Legislative Assembly transferred \$9,733,820, the amount for the State Water Commission administrative expenses, from the water development trust fund to the general fund. A general fund appropriation was then provided by the 2001 Legislative Assembly for the administrative expenses. The Office of Management and Budget has not made the transfer to the general fund as of August 31, 2002.

- ⁴ Senate Bill No. 2188 (1999) (NDCC Section 61-02.1-02) authorized the State Water Commission to bond up to \$84.8 million for state water projects to be repaid from the water development trust fund. The March 2000 bonding provided a total of \$27.5 million, \$23 million for the Grand Forks flood control project and \$4.5 million for the Southwest Pipeline Project. The 2001-03 bond payments relating to the March 2000 bond issuance are approximately \$5.43 million, and the remaining \$3.2 million is the amount set aside for bond payments relating to possible 2001-03 bond issuances. Total bond payment expenditures of \$4,064,563 have been incurred as of September 2002, including principal of \$1,910,000 and interest payments of \$2,154,563. The State Water Commission is currently not anticipating bonding for water projects during the 2001-03 biennium. The city of Grand Forks has requested expense reimbursement for \$22.2 million of the \$23 million bonded for flood control.
- ⁵ House Bill No. 1475 (1999) (NDCC Section 54-27-25) provides that money in the water development trust fund is to be used to address the long-term water development and management needs of the state. The authorization for water projects includes the \$28,572,333 included in the water projects line item in Section 1 of the bill and \$422,953 of additional operating costs relating to water projects. The State Water Commission has expended \$6.2 million from the water development trust fund for water development projects as of August 30, 2002.
- ⁶ The 2001 Legislative Assembly authorized \$800,000 of funding from the water development trust fund for the State Water Commission to assume jurisdiction over and administer the Section 404 program of the Clean Water Act. The appropriation becomes effective on the date the State Engineer certifies to the Governor that a program has been designed to effectively assume responsibility for the Section 404 program of the Clean Water Act and the State Water Commission is ready to assume those responsibilities. The State Water Commission is in the process of assuming responsibility for the program and cannot yet access the funding.
- ⁷ The 2001 Legislative Assembly authorized \$99,756 from the water development trust fund to replace the general fund portion of the appropriation for two FTE positions and related operating expenses and equipment to develop total maximum daily loads and pollution control plans. The State Department of Health has not requested expense reimbursement for total maximum daily load and pollution control plans as of August 30, 2002.
- ⁸ The State Water Commission is authorized to spend up to \$67.8 million from the water development trust fund, resources trust fund, and bond proceeds on new water development projects for the 2001-03 biennium. Section 14 of 2001 House Bill No. 1023 limits the bonding authority for the new projects to \$20 million plus the cost of issuing bonds. Contracts for water projects to be paid from the water development trust fund may initially be issued up to an amount equal to 75 percent of the amount appropriated from that fund. Contracts for the remaining 25 percent appropriated may only be issued to the extent uncommitted funds are available in the water development trust fund. The State Water Commission is also authorized in 2001 House Bill No. 1015 to spend up to \$5 million from the resources trust fund or bond proceeds for levees at Devils Lake, which increases the bonding cap to \$25 million and the water project cap to \$72.8 million.
- ⁹ If adequate money is not available in the fund to provide for the appropriations and transfers as current projections indicate, expenditures will need to be reduced to maintain a positive ending balance.

FUND HISTORY

North Dakota Century Code Section 54-27-25, created by 1999 House Bill No. 1475, established a water development trust fund to be used for the long-term water development and management needs of the state. This section creates a tobacco settlement trust fund for the deposit of all tobacco settlement money obtained by the state. Money in the fund must be transferred within 30 days of its deposit in the fund as follows:

- Ten percent to the community health trust fund.
- Forty-five percent to the common schools trust fund.
- Forty-five percent to the water development trust fund.

North Dakota Century Code Section 54-27-25 also provides that transfers that would otherwise be made to the common schools trust fund during the biennium must be made to the water development trust fund until the amount in the water development trust fund is sufficient to make required bond payments for bonds issued for water projects authorized by Section 61-02.1-01. Once the amount required for the biennium is transferred to the water development trust fund, an equal amount must be transferred to the common schools trust fund, if available, from the money deposited in the tobacco settlement trust fund during the biennium. Once an equal amount has been deposited in each fund, transfers from the tobacco settlement trust fund will be allocated equally for the remainder of the biennium--45 percent to the water development trust fund and 45 percent to the common schools trust fund. The State Engineer has stated that deposit of 45 percent of the tobacco settlement trust fund into the water development trust fund would be adequate during the 2001-03 biennium. Therefore, transfers to date for the common schools trust fund have not been redirected to the water development trust fund.

North Dakota Century Code Section 61-02.1-04, created by 1999 Senate Bill No. 2188, provides that the principal and interest on bonds issued for flood control projects, the Southwest Pipeline Project, and an outlet to Devils Lake must be repaid with money appropriated from the water development trust fund.

ANALYSIS OF THE COMMUNITY HEALTH TRUST FUND FOR THE 2001-03 BIENNIUM

Beginning balance - July 1, 2001		\$5,290,078
Add estimated revenues		
Transfers to date from the tobacco settlement trust fund	\$2,678,071 ¹	
Projected remaining transfers from the tobacco settlement trust fund	2,653,644	
Total revenues		\$5,331,715 ²
Total available		\$10,621,793
Less expenditures		
State Department of Health		
Tobacco prevention and control (2001 SB 2004)	\$4,700,000 ³	
Dentists' loan program (2001 SB 2276)	180,000 ⁴	
Community health grants (2001 SB 2380)	350,000 ⁵	
Department of Human Services		
Breast and cervical cancer assistance (2001 HB 1472)	114,755 ⁶	
Total expenditures		\$5,344,755
Estimated ending balance - June 30, 2003		\$5,277,038

¹ Five 2001-03 biennium transfers have been made from the tobacco settlement trust fund as of September 30, 2002, totaling \$2,678,071. Total transfers of \$7,968,150 have been made from the tobacco settlement trust fund to the community health trust fund.

² Revenues - Interest earned on the community health trust fund is deposited in the state general fund. The tobacco settlement revenues for the community health trust fund were estimated to be \$6,114,358 for the 2001-03 biennium at the end of the 1999 legislative session. The decrease in the amount of revenues collected from the tobacco settlement trust fund of \$782,643 is the result of volume adjustments made to payments received. A volume adjustment is an adjustment made to a settlement payment to reflect increases or decreases in tobacco manufacturers' operating income from cigarette sales. The original estimate was calculated before the anticipated effect of volume adjustments on tobacco settlement collections was determined. The revenues for the community health trust fund originally estimated during the 1999 legislative session and the estimated collections as revised by the Office of Management and Budget to reflect anticipated volume adjustments are:

Biennium	1999 Original Estimated Collections	Office of Management and Budget Revised Estimated Collections
1999-2001	\$5,759,377	\$5,290,078
2001-03	6,114,358	5,331,715
2003-05	5,127,121	4,594,413
2005-07	5,127,121	4,594,413
2007-17 (\$8,223,108/\$7,368,727 per biennium)	41,115,540	36,843,633
2017-25 (\$5,859,149/\$5,250,383 per biennium)	23,436,596	21,001,532
Total	\$86,680,113	\$77,655,784

³ 1999 House Bill No. 1475 (North Dakota Century Code Section 54-27-25) provides that money in the community health trust fund may be used by the State Department of Health, subject to legislative appropriation, for community-based public health programs and other public health programs, including programs with emphasis on preventing or reducing tobacco usage in this state. Senate Bill No. 2004 (2001) provides an appropriation of \$4.7 million to the State Department of Health for tobacco

prevention and control programs. The 1999 Legislative Assembly did not appropriate to the State Department of Health any money in the community health trust fund for community-based public health programs. Consequently, no expenditures from the fund were made during the 1999-2001 biennium. 2001-03 biennium community health grant program contracts approved and actual expenditures incurred through September 2002 are:

	Contracts Approved	Expenditures
School grants (40% - \$1,880,000 total appropriation)	\$1,878,718	\$940,791
Community grants (40% - \$1,880,000 total appropriation)	1,870,561	936,014
State aid (20% - \$940,000 total appropriation)	940,000	705,000
Total	\$4,689,279	\$2,581,805

- ⁴ 2001 Senate Bill No. 2276 provides an appropriation of \$180,000 to the State Health Council for providing for a dentists' loan repayment program which provides loan assistance to certain dentists who start a practice in smaller North Dakota communities in need of a dentist. Three dentists have been accepted into the program, two from Minot and one from Larimore (less than 2,500 residents). There have been no applicants from dentists wanting to serve communities with less than 10,000 residents. Total dental loan repayment contracts have been approved for \$100,000 and actual expenditures of \$20,000 have been incurred through September 2002.
- ⁵ The community health grant program is established in 2001 Senate Bill No. 2380 with the intent to prevent or reduce tobacco usage in the state. The bill provides an appropriation of \$100,000 for funding the Community Health Grant Program Advisory Committee and \$250,000 to provide grants to cities and counties for tobacco education and cessation programs. Advisory committee expenditures of \$3,246 have been incurred through September 2002. Cessation program contracts totaling \$59,212 have been received and approved for five cities and counties. A total of \$19,780 has been expended from the community health trust fund for cessation programs as of September 30, 2002.
- ⁶ 2001 House Bill No. 1472 provides an appropriation of \$114,755 to the Department of Human Services for providing medical assistance coverage for women screened and found to have breast and cervical cancer. The Department of Human Services has incurred \$34,332 in expenditures for breast and cervical cancer assistance as of September 30, 2002, but has not yet requested reimbursement from the community health trust fund.

FUND HISTORY

North Dakota Century Code Section 54-27-25 created by 1999 House Bill No. 1475 established a tobacco settlement trust fund for the deposit of all tobacco settlement money obtained by the state. Money in the fund must be transferred within 30 days of deposit in the fund as follows:

- Ten percent to the community health trust fund.
- Forty-five percent to the common schools trust fund.
- Forty-five percent to the water development trust fund.