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### **FISCAL IMPACT REPORT**

SPONSOR:	Garcia	DATE TYPED:	02/10/00	HB	
SHORT TITLE:	Tobacco Settlement Revenue Distribution			SB	48/aSFC/aSFI#1
				ANALYST:	Eaton

#### **REVENUE**

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY00	FY01*			
\$ (1,000.0)	\$ (3,000.0)		Recurring	General Fund
\$ 1,000.0	\$ 3,000.0		Recurring	Tobacco Perm.
\$ 48,507.0			Recurring	Tobacco Perm.

(Parenthesis ( ) Indicate Expenditure Decreases)

*\*This bill specifies that all interest earnings will be accrued to the Tobacco Permanent Fund, reducing general fund revenues, increasing the Tobacco Permanent Fund.*

#### **APPROPRIATION**

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY00	FY01*	FY00	FY01		
	\$ 24,253.5			Recurring	Tobacco Perm

(Parenthesis ( ) Indicate Expenditure Decreases)

*\*50% distribution does not include interest earnings that will be accrued to the Tobacco Permanent Fund.*

Duplicates/Companion to HB 8, HB 110, SB 47 SB 70

**SOURCES OF INFORMATION**

State Investment Council

State Treasurer's Office

Legislative Council Service

LFC Files

**SUMMARY**

Synopsis of SFI#1 Amendment

The Senate Floor Amendment increases the distribution amount (amount available for appropriation) from 40% to 50% of settlement proceeds received and deposited in the state treasury and distributed to the tobacco settlement permanent fund in the prior fiscal year.

Synopsis of SFC Amendment

The SFC amendment strikes language which effectively leaves the appropriation decisions for consideration of the full legislature. To that end, the amendment also strikes language specifying appropriations for

programs, agencies and institutions.

Without the amendment, the appropriation recommendations of the legislature would have to be in accordance with the recommendations of tobacco settlement revenue oversight committee created in this bill.

### Synopsis of Bill

This bill provides for a 40% annual transfer of tobacco settlement proceeds from the tobacco settlement permanent fund to a newly named "tobacco settlement program fund" (formerly the tobacco settlement income fund).

The annual transfer to be used for expenditure is based upon settlement proceeds received and deposited in the state treasury and distributed to the tobacco settlement permanent fund in the prior fiscal year. The balance, or 60% would remain in the permanent fund, and constitute the corpus of the tobacco settlement permanent fund. These funds are to be invested by the State Investment Council in a manner similar to the Land Grant and Severance Tax Permanent Funds. Like the Constitutional amendment concerning the Land Grant Permanent Fund (LGPF) and the Severance Tax Permanent Fund (STPF) distributions, the bill provides for a change in the fixed rate annual distribution formula, to 4.7% of the five year average year-end market value of the total fund. The formula change, commonly referred to as a "crossover" would occur sometime in the future when the 4.7% distribution calculation is greater than the proposed fixed rate (40 percent) annual distribution methodology when it is measured at year end.

This bill also creates a tobacco settlement revenue oversight committee. The committee would be composed of six members: three members of the house of representatives appointed by the speaker of the house, and three members of the senate appointed by the committees' committee of the senate, or if the senate appointments are made in the interim, by the senate president pro-tempore, after consultation with and agreement of a majority of the members of the committees' committee. Political party affiliation on the appointed committee shall be representative of the party affiliation of both houses of the legislature, respectively.

The bill strikes the general language on the appropriation areas allowable and identifies specific agencies and areas where money may be appropriated from the tobacco settlement program fund. The bill identifies four agencies/areas and specifies appropriation amounts as follows:

Department of Health:

\$4,750.0 tobacco prevention and cessation programs

\$1,000.0 diabetes prevention outreach programs

\$3,800.0 primary prevention home visits to families of newborns with priority given to at-risk families.

**\$9,550.0**

State Department of Public Education:

**\$275.0** media literacy tobacco use prevention intervention

UNM School of Medicine:

\$3,000.0 endowed chair at UNM school of medicine for research in tobacco related illness.

\$1,000.0 UNM school of medicine for research on lung tissue regeneration

**\$4,000.0**

Next Generation Trust Fund (if enacted into law)

Remaining balances in the tobacco settlement program fund after appropriations are to be expended in accordance with the provisions of the Next Generation Trust Fund Act.

Any unexpended or unencumbered balance remaining at the end of fiscal year 2001 shall revert to the tobacco settlement program fund.

Significant Issues

The bill states that beginning in fiscal year 2002, money in the tobacco settlement program fund may be appropriated only to the agencies for the purposes specified in 6-4-10(B) (identified above) except for the

endowed chair appropriation, which is a one-time appropriation. The bill also states that expenditures from the tobacco settlement program fund proposed by the legislature be in accordance with the recommendations of the proposed tobacco settlement revenue oversight committee.

As of February 4, 2000, two tobacco settlement payments have been made to the state:

December 15, 1999: \$14,725.0

December 31, 1999: \$12,826.2

**Total \$27,551.2**

Projections performed in the fall by the legislative council service, in cooperation with the legislative finance committee, incorporated volume adjustments to payments based on methodology developed by Standard & Poor's. This methodology provided a 10% volume adjustment applied in the first year (FY2001). The Attorney General's Office indicated that the actual volume adjustment affecting FY2001 distributions will be 14%.

## **FISCAL IMPLICATIONS**

### Impact of Senate Floor Amendment

The Senate Floor Amendment increases the distribution amount (amount available for appropriation) from 40% to 50% of settlement proceeds received and deposited in the state treasury and distributed to the tobacco settlement permanent fund in the prior fiscal year. The estimated amount available for appropriation is \$24,253,500.

### Impact as Introduced

Language is added to the existing legislation stating that income earned from investment from the fund shall be credited to the tobacco settlement permanent fund. The Department of Finance and Administration previously indicated that unless there is language in statute that specifies the disposition of interest earnings on

fund balances, those earnings would be credited to the state general fund.

The estimated total revenues to be received by the state from the tobacco settlement through June 30, 2000, are \$48,507.0. This consists of \$27551.2 received to date and \$20.9 million to be received later this fiscal year. This reflects the 14% volume adjustment.

A 40% distribution of the \$48,507.0 is estimated to be \$19,402.9 and shall be distributed to the tobacco settlement program fund. This is \$368.1 less than the distribution previously estimated (see Attachment).

Projections made in the fall of 1999 estimated total distributions of \$49.4 million, based on a 10% volume adjustment.

Estimated volume adjustments applied to subsequent fiscal years are 3% for FY2002 distributions, 2.5% in FY2003, and 2% thereafter.

#### **ADMINISTRATIVE IMPLICATIONS**

Possible additional administrative impacts on the Department of Health.

#### **CONFLICT/DUPLICATION/COMPANIONSHIP/RELATIONSHIP**

House Bill 8, House Bill 110, Senate Bill 47 Senate Bill 70

#### **TECHNICAL ISSUES**

The underscored language removed with the amendment on page 3 line 13 includes the word "for", which is necessary to be grammatically correct.

JBE/gm

Attachment