

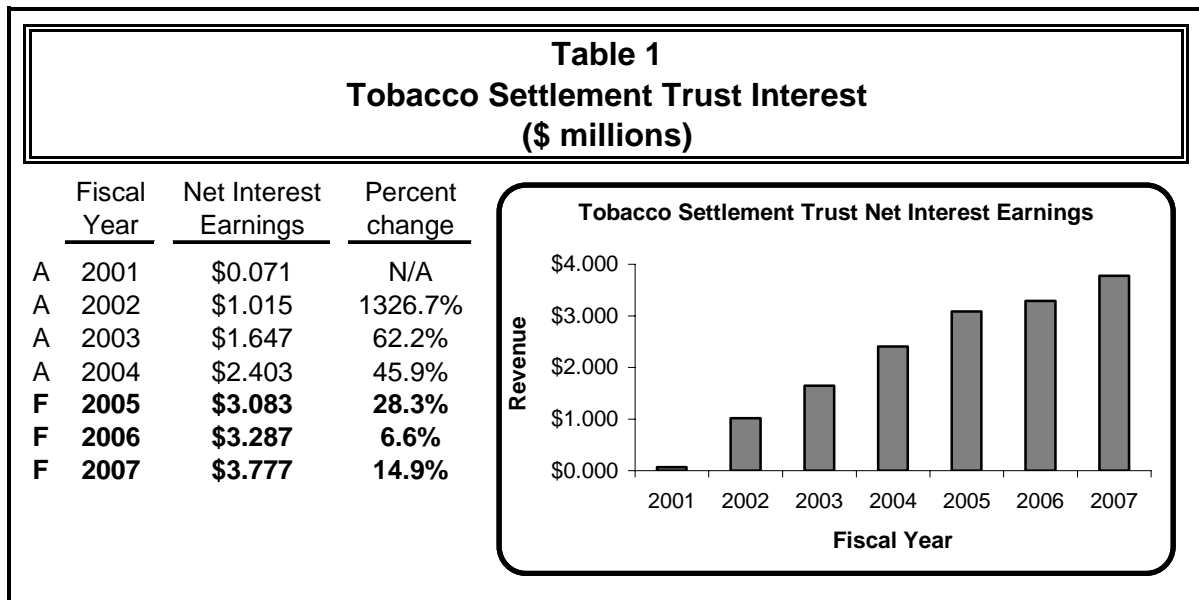
TOBACCO SETTLEMENT TRUST INTEREST

Revenue Description

Montana receives payments from a multi-state settlement with tobacco companies. Forty percent of the receipts from this settlement are deposited in the tobacco settlement trust. Ten percent of interest from the trust fund is retained in the trust and ninety percent is deposited in a special revenue account and may be appropriated for tobacco prevention and health care programs.

Historical and Projected Yields

The tobacco settlement trust was established in January 2001 following passage of Constitutional Amendment 35 in the November 2000 election. Table 1 shows actual net interest earnings for FY 2001 through FY 2004 and projections for FY 2005 through FY 2007.



Interest earnings are growing rapidly because annual deposits to the trust fund are significant relative to the trust fund balance. In FY 2004, the beginning balance was \$35.8 million, and deposits were \$10.7 million, or 30% of the beginning balance.

Forecast Methodology and Projection Calculation

The trust fund balance is invested in two mutual funds managed by the Board of Investments, the Trust Fund Bond Pool (TFBP) and the Short Term Investment Pool

(STIP). On average 97.6% of the trust fund balance is in TFBP and 2.4% is in STIP. The annual yield of the trust fund is forecast as a weighted average of the forecast TFBP and STIP yields, weighted by the percentage of the trust fund in each. Table 2 shows projected yields for TFBP, STIP, and the tobacco trust for FY 2004 through FY 2007.

Table 2			
Tobacco Settlement Trust Fund Yield			
Fiscal Year	TFBP Yield	STIP Yield	Trust Fund Yield
F 2005	7.16%	2.12%	7.04%
F 2006	6.23%	3.28%	6.16%
F 2007	6.21%	3.68%	6.15%

The trust fund earns interest monthly. Ten percent of the interest is retained in the trust and added to the balance. Because the balance changes every month, projected interest earnings are calculated for each month and then summed to give annual interest earnings. Almost all of the tobacco settlement payment is received in April. Thus, the May and June balances are significantly higher than the previous months. Table 3 shows the interest calculation for two months in FY 2005.

Table 3				
Example - Monthly Interest Calculations				
	April 2005		May 2005	
Beginning Balance		\$47,003,409		\$57,604,981
	x	0.59%	x	0.59%
Gross Interest		\$275,716		\$337,903
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	x	0.1	x	0.1
Retained Interest		\$27,572		\$33,790
Gross Interest		\$275,716		\$337,903
	x	0.9	x	0.9
Net Interest		\$248,144		\$304,113
Beginning Balance	+	\$47,003,409	+	\$57,604,981
Retained Interest	+	\$27,572	+	\$33,790
Settlement Payments	+	\$10,574,000	+	\$0
Ending Balance		\$57,604,981		\$57,638,771

The middle column shows the calculations for April. The balance at the beginning of April is \$47.003 million. Interest of \$275,716 for the month is calculated by multiplying the balance by one-twelfth of the interest rate ($0.59\% = 7.16\%/12$). Ten percent of the interest, \$27,572, is retained in the trust and ninety percent, \$248,144 is deposited in the state special revenue account. The ending balance of \$57.605 million is the sum of the beginning balance, the retained interest, and tobacco settlement payments during the month. The right-hand column shows the same calculations for May.

Table 4 summarizes the results of the monthly balance calculations. It shows the actual balance at the beginning of FY 2005 and projected beginning balances for FY 2006 and FY 2007. It also shows projections of tobacco settlement payments, the sum of the twelve months of retained interest, and the resulting average annual balance for each fiscal year.

Table 4				
Trust Fund Balances and Deposits				
(\$ millions)				
Fiscal Year	Beginning Balance	Settlement Payment	Retained Interest	Average Balance
F 2005	\$46.756	\$10.574	\$0.343	\$48.670
F 2006	\$57.673	\$8.612	\$0.365	\$59.271
F 2007	\$66.650	\$8.505	\$0.420	\$68.256

Table 5 summarizes the results of the monthly interest calculations. Multiplying the average annual balance by the annual yield gives the sum of the twelve monthly interest earnings. Ten percent of the interest earnings are retained in the trust and ninety percent are deposited in the special revenue account.

Table 5					
Trust Fund Interest Summary					
(\$ millions)					
Fiscal Year	Average Balance	Yield	Gross Interest	Retained in Trust	Net Interest
F 2005	\$48.670	7.04%	\$3.426	\$0.343	\$3.083
F 2006	\$59.271	6.16%	\$3.652	\$0.365	\$3.287
F 2007	\$68.256	6.15%	\$4.196	\$0.420	\$3.777