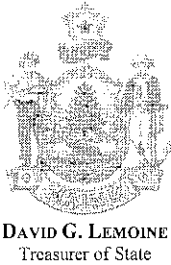


# MAINE STATE LEGISLATURE

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DAVID G. LEMOINE  
Treasurer of State

**State of Maine**  
**Office of the Treasurer of State**

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Augusta ME 04333-0039  
207.624-7477 (voice) 207.287-2367 (fax)

To: Members of the Joint Standing Committee on Appropriations and Financial Affairs,  
Members of the Joint Standing Committee on Health and Human Services

Cc: Governor John E. Baldacci, Senate President Beth Edmonds, Senate Majority Leader  
Michael Brennan, Assistant Senate Majority Leader Kenneth Gagnon, Senate Minority  
Leader Paul Davis, Assistant Senate Minority Leader Carol Weston, House Speaker  
John Richardson, House Majority Leader Glenn Cummings, Assistant House Majority  
Leader Robert Duplessie, Republican House Leader David Bowles, Assistant  
Republican Leader Joshua Tardy, Attorney General G. Steven Rowe, Grant Pennoyer,  
Dr. Dora Mills

Fr: State Treasurer David G. Lemoine

On: December 8, 2005

Re: 2005 Tobacco Settlement Payments Report

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**Mandated Report:** Each year, pursuant to 22 M.R.S.A. s. 1511, the State Treasurer reports the status of Maine's Tobacco Settlement Payments to both the Joint Standing Committee on Appropriations and Financial Affairs and the Joint Standing Committee on Health and Human Services. This annual report is to be submitted no later than the second Friday in December.

**Statutorily Required Contents:** The 2005 Annual Report includes:

- Tobacco Settlement Payments received to date;
- Deposits, Transfers, Earnings, and Available Balances in the Fund for a Healthy Maine;
- Estimated Tobacco Settlement Payments for 2005, the 2006/2007 biennium, and the 2008/2009 biennium.

**Additional Contents:** In addition to what is required by statute, the 2005 report includes:

- An Executive Summary;
- A discussion of Maine's Tobacco Settlement Payments Basic Formula and Projection Process; and
- Long term projections for U.S. cigarette consumption and MSA payment streams.



## EXECUTIVE SUMMARY

- ◆ In 1998, Maine and the other states became creditors of the Participating Cigarette Manufacturers (PMs) pursuant to a Master Settlement Agreement between the states and most cigarette manufacturers. NOTE: Original Participating Manufacturers (OPMs) held 94% of the market share when the Settlement was reached. Subsequent Participating Manufacturers (SPMs) also joined the Master Settlement Agreement, adding a further 4.5% of the market, and raising the market share included under the Master Settlement Agreement to 98.5%.
- ◆ Maine's Tobacco Settlement Payment revenue stream hinges on four (4) key issues:
  1. Enforceability: The continuing enforceability of the manufacturers' Master Settlement Agreement payment obligations.
  2. Financial Capacity: The continuing financial capacity of the manufacturers to make timely Master Settlement Agreement payments.
  3. Legal Actions: Any legal action which delays or alters Master Settlement Agreement Payment obligations.
  4. Nationwide Sales: The total cigarette sales within the United States by Participating Manufacturers, notwithstanding any change in Maine cigarette sales, since this number is the primary determinant of the payment amount.
- ◆ The State of Maine has received over \$321,657,634.34 million to date from the Tobacco Settlement.



**TOBACCO SETTLEMENT PAYMENTS RECEIVED TO DATE**

The State of Maine has received over \$321,657,634.34 million to date from the Tobacco Settlement. Each payment is deposited into the Fund for a Healthy Maine (the "Fund") where it is invested in the Treasurer's Cash Pool. All earnings on these funds are deposited back into the Fund.

Tobacco Settlement Payments Received

FY 00 Total	\$	63,176,643.10
FY 01 Total	\$	47,819,279.67
FY 02 Total	\$	56,317,761.88
FY 03 Total	\$	55,807,032.71
FY 04 Total	\$	48,952,964.09
FY 05		
8/27/2004	\$	536,783.38
1/24/2005		961.69
4/21/2005		1,702,451.23
4/21/2005		46,792,932.67
FY 05 Total	\$	49,033,128.97
FY 05 Estimate	\$	48,491,906.00
FY 06		
10/4/2005	\$	550,823.92*

*\*FY 05 payment received in FY 06*

**DEPOSITS, TRANSFERS, EARNINGS, AND AVAILABLE BALANCES IN THE FUND FOR A HEALTHY MAINE**

Total Principal Deposits:	<b>\$321,657,634.34</b>	Life to Date
Earnings:	<b>\$7,180,811.53</b>	FY 00, 01, 02, 03, & 04
	<b>\$14, 470.28</b>	FY 06 to date
Fund Balance:	<b>\$1,010,214.97</b>	(as of 12/06//05)



**ESTIMATED TOBACCO SETTLEMENT PAYMENTS  
FOR 2005, THE 2006/2007 BIENNIUM, AND THE 2008/2009 BIENNIUM**

The *Global Insights* (GI) econometric model projects a slight increase in the State of Maine's Tobacco Settlement Payments for FY 06 and FY 07. There are several adjustments to the projections, including volume and inflation adjustments, which increase and decrease the amount due under the Master Settlement Agreement each year. In addition, another adjustment proceeding, called a significant factor proceeding under the Master Settlement Agreement, makes it possible that the participating manufacturers will attempt to adjust downward their settlement payments by 18.6% in April, 2006.

FY	12/30/04 estimate	GI Increase	New GI Estimate	Budget revision - potential significant factor proceeding	Current estimate
06	48,739,525	1,159,851	49,899,376	(7,086,863)	41,652,662
07	49,485,635	1,077,446	50,563,081	(7,720,092)	41,765,543
08	61,877,959	1,146,124	63,024,083	9,943,662	71,821,621
09	62,803,705	1,052,665	63,856,370	9,850,203	72,653,908

- The original Tobacco Settlement Payment (TSP) Projections shown above were estimated in November 2005 using the then current Global Insight base case scenario econometric model.
- The most-recently revised estimates, in blue above, include the most recent information from Global Insight and from the Maine Attorney General.
- Maine will always receive 0.7693050% of the perpetual Annual Payments. From 2008-2017, inclusive, Strategic Contribution Payments will supplement the Annual Payments. In each of these years, Maine will receive 1.3281978% of the Strategic Contribution Payments. These payments are received as a result of Maine's early involvement in the legal actions which resulted in the Master Settlement Agreement.
- Ten years of Strategic Contribution Payments begin in FY 2008. This increases the payment to the State of Maine \$10.6 million in 2008, growing slightly each year to \$12 million in 2017. These 10 additional payments reimburse States for time spent by the Attorneys General on the MSA.



## MAINE'S TOBACCO SETTLEMENT PAYMENTS BASIC FORMULA AND PROJECTION PROCESS

**BASIC FORMULA:** The Tobacco Settlement Payment annual distribution formula is driven by two key adjustments, the **inflation** factor and the **volume** of cigarettes sold nationwide.

Inflation Factor: The base annual payments will increase annually by the greatest of 3% or CPI, (the Consumer Price Index).

National Sales Volume: Maine's Tobacco Settlement Payments are directly related to the shipments of cigarettes nationwide without regard to increases or decreases in Maine cigarette sales.

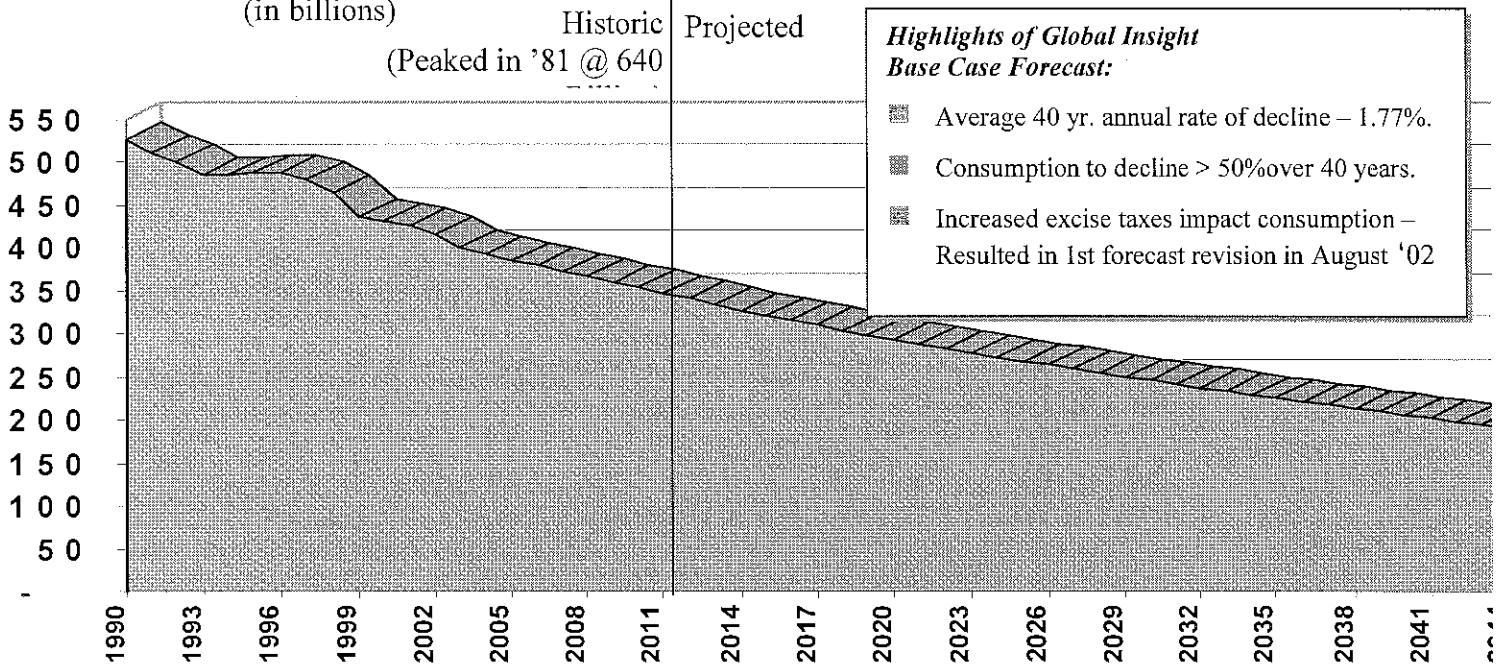
### REVENUE PROJECTION PROCESS:

- The Treasurer follows tobacco industry trends, including the financial health of the Participating Manufacturers, as well as any federal, private or third-party litigation and/or settlements.
- The Independent Auditor, (specified in the Master Settlement Agreement), must verify the volume of cigarettes sold nationwide in a particular year to ensure that the states receive the correct Tobacco Settlement Payment amounts.
- The Treasurer accesses an econometric model, developed by Global Insight, which has the exclusive purpose of projecting domestic consumption of cigarettes using the most current information available. It is the nearly universal reference point for TSP estimates throughout the United States and for tobacco securitization deals in particular. *Note:* All econometric modeling is based on estimates and assumptions and cannot guarantee or predict all movements in the cigarette marketplace.
- The Treasurer consults with other states seeking their experiences, opinions and projections and consults with the Maine Attorney General's Office regarding significant factor actions and other potential risks based on legal actions and cases monitored by the Maine Attorney General. *Note:* The revised estimates, shown earlier in this report, include the most recent information from Global Insight and the Maine Attorney General.
- A number of Original Participating Manufacturers (OPMs) have indicated that next year (2006) they may opt for the Non-Participating Manufacturers (NPM) Adjustment, which would allow these OPMs to withhold up to 18.6% of their Annual Payments. Such an action could delay the payments to the State by the same amount.



### LONG TERM VIEW OF U.S. CIGARETTE CONSUMPTION (GLOBAL INSIGHTS FORECAST)

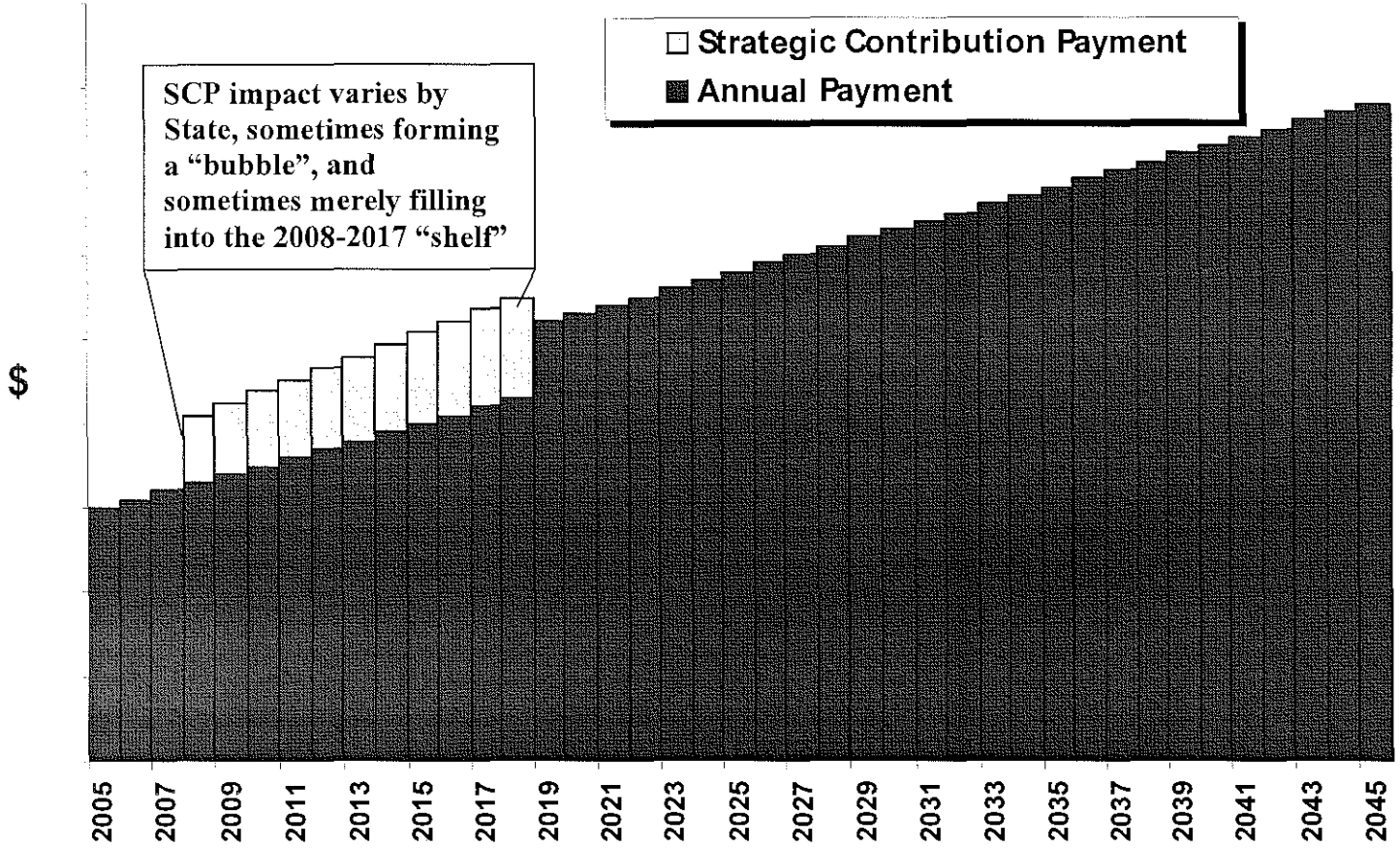
Annual U.S. Cigarette Consumption: Base Case Forecast  
(in billions)





### LONG TERM VIEW OF PAYMENT STREAM (GLOBAL INSIGHTS FORECAST)

The projected Inflation Adjustment is expected to offset the projected consumption decline, so that payments would annually increase.





**Adams, Jane B**

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**From:** Adams, Jane B

**Sent:** Thursday, December 08, 2005 11:26 AM

**To:** wwalcott; alerman; bdudley; dcurley; hpingree; jbrannigan; jcampbell; jmills; lmillar; mcraeven; profundo; rburns; rnutting; smillett; tshields; Webster, RepDavid; amayo; Avore, Alexandra; Bowen, RepStephen; Brannigan, RepJoe; Burns, RepRichard; Campbell, RepJames; Craven, RepMargaret; Curley, RepDarlene; Dionne, James K; Dudley, RepBen; Fischer, RepJeremy; glynn, kevin; Grose, RepCarol; Lerman, RepArthur; Lewin, RepSally; Martin, SenJohn; Mayo, SenArthur; Miller, RepLisa; Millett, RepSawin; Mills, RepJanet; Nass, SenRichard; Nixon, Lucia; Nolan, Christopher; Nutting, SenJohn; Orbeton, Jane; Pingree, RepHannah; rosen, richard; Rotundo, SenMargaret; Shields, RepTom; sockalexis, michael; Walcott, RepWilliam

**Cc:** Baldacci, John E; Edmonds, SenBeth; Brennan, SenMichael; Gagnon, SenKen; Davis, SenPaul; Weston, SenCarol; Richardson, RepJohn; Cummings, RepGlenn; Duplessie, RepRobert; Bowles, RepDavid; Tardy, RepJoshua; Rowe, Steven; Pennoyer, Grant; Mills, Dora A.

**Subject:** 2005 Tobacco Settlement Payments Report