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MEMORANDUM

DATE: May 1, 2006

TO: Task Force Members
Task Force for the Fund for a Healthy Nevada

FROM: Rick Combs, Program Analyst
Fiscal Analysis Division

SUBJECT: Funds Available for Distribution for the FY 2007 and FY 2008 Grant Cycle

As the members of the Task Force may be aware, several tobacco companies, participating in the master settlement agreement withheld approximately \$4.5 million in tobacco payments the state of Nevada expected to receive this fiscal year. The companies placed the funds in a disputed payment account because they believe the tobacco settlement agreement provides for a reduced payment when the participating cigarette manufacturers lose significant market share to non-participating manufacturers. The Attorney General has filed a lawsuit in federal court to obtain full payment of the disputed funds based on the fact the state has diligently enforced its law requiring non-participating manufacturers to put money in escrow for future legal obligations.

Because the Healthy Nevada Fund receives 50 percent of tobacco payments, the withheld payments result in a \$2.25 million reduction in revenues for the Healthy Nevada Fund in FY 2007. The loss of revenue is somewhat offset by an increase in projected interest revenue based on the interest earnings for the first three quarters of FY 2006. A summary of the available amounts for FY 2007 compared to the preliminary projections provided to the Task Force at its January 5, 2006 meeting is set forth below:

	Preliminary Estimate	Current Estimate	Difference
Reduce Tobacco Use Grants	\$4,318,222	\$3,979,751	(\$338,471)
Children's Health Grants	\$1,943,161	\$1,773,926	(\$169,235)
Disability Services Grants	\$1,694,866	\$1,567,939	(\$126,927)

EXHIBIT B Healthy Nevada Document consists of 6 pages.

☒ Entire document provided

A copy of the complete document is available through
the Research Library (775/684-6827) or e-mail
library@lcb.state.nv.us). Meeting Date 5/04/06

I have provided three options for the Task Force to consider with respect to allocations for FY 2008. The first option assumes that the tobacco companies will not withhold tobacco payments in FY 2007 and that Nevada will receive its full share of tobacco revenues under the agreement. The second option assumes that the payments received from the tobacco companies will be reduced by approximately 10.8 percent from current projections, which is the percentage reduction that occurred in FY 2006. The third option assumes that the payments received in FY 2007 will be reduced by approximately 21 percent because all participating manufacturers may choose to withhold payments in future years.

The Fiscal Analysis Division recommends that the Task Force use option 2 to establish the amounts that should be allocated for FY 2008. Selecting option 1 may require the Task Force to take action to reduce FY 2008 grant amounts if the tobacco companies withhold payments next fiscal year. Option 1 results in increased revenues due to increased interest revenue projections. Option 3 would require the Task Force to reduce significantly the grants that have been recommended by the Task Force and Grants Management Unit Advisory Council joint subcommittees during the past couple of weeks. Such a significant reduction may be unnecessary if the litigation is resolved in the state's favor, if interest revenues exceed projections or if grantees do not expend all of the allocated funds in FY 2006 or FY 2007. Option 2 provides the Task Force some protection from being required to reduce grants later in the grant cycle, while reducing the severity of the reductions in the grants that have already been recommended by the joint subcommittees.

A summary of the available amounts for FY 2008 compared to the preliminary projections provided to the Task Force at its January 5, 2006, meeting is set forth below for each option described above:

OPTION 1	Preliminary Estimate	Current Estimate	Difference
Reduce Tobacco Use Grants	\$3,876,848	\$3,984,177	\$107,329
Children's Health Grants	\$1,938,424	\$1,992,088	\$53,664
Disability Services Grants	\$1,453,818	\$1,494,066	\$40,248

OPTION 2	Preliminary Estimate	Current Estimate	Difference
Reduce Tobacco Use Grants	\$3,876,848	\$3,551,823	(\$325,025)
Children's Health Grants	\$1,938,424	\$1,775,912	(\$162,512)
Disability Services Grants	\$1,453,818	\$1,331,934	(\$121,884)

OPTION 3	Preliminary Estimate	Current Estimate	Difference
Reduce Tobacco Use Grants	\$3,876,848	\$3,151,823	(\$725,025)
Children's Health Grants	\$1,938,424	\$1,575,912	(\$362,512)
Disability Services Grants	\$1,453,818	\$1,181,934	(\$271,884)

Regardless of the option selected by the Task Force, it should be noted that the FY 2008 allocations are estimates and could vary considerably from the amounts actually received. **The Task Force should include language in the FY 2008 grant allocation to indicate that the grant amount may require modification in the event estimated revenues are not achieved.**

The attached worksheets provide detailed information regarding the manner in which the amounts available for allocation were estimated. A separate worksheet is provided for each option in FY 2008.

Attachments - 3

Fund for a Healthy Nevada
Estimate of Funds Available for Allocation for FY 2007 and FY 2008 (Option 1)

	Senior Rx Program 30%	Independent Living Grants 30%	Reduce Tobacco Use Grants 20%	Children's Health Grants 10%	Disability Services Grants 7.5%	Disability RX Program 2.5%	Total Healthy Nevada Fund 100%
Balances Brought Forward from FY06	\$ 3,355,215	\$ -	\$ 391,093	\$ (20,307)	\$ 222,212	\$ 563,954	\$ 4,512,167
Revenues Received in FY 06 for expenditure in FY 07							
Tobacco Settlement Receipts	\$ 5,288,643	\$ 5,288,643	\$ 3,525,762	\$ 1,762,881	\$ 1,322,161	\$ 440,720	\$ 17,628,812
Treasurer's Interest Received	\$ 311,100	\$ 311,100	\$ 207,400	\$ 103,700	\$ 77,775	\$ 25,925	\$ 1,037,000
Total Revenue Available for FY 2007	\$ 8,954,958	\$ 5,599,743	\$ 4,124,255	\$ 1,846,274	\$ 1,622,148	\$ 1,030,599	\$ 23,177,979
Outstanding Obligations for FY 2007							
Senior RX / Disability Rx Expenditures - FY07	\$ (8,977,560)					\$ (465,227)	\$ (9,442,787)
Aging Services Grants - FY 07		\$ (5,641,129)					\$ (5,641,129)
Allocation for Admin. Treas - FY07	\$ (24,819)	\$ (24,819)	\$ (16,546)	\$ (8,273)	\$ (6,205)	\$ (2,068)	\$ (82,731)
Allocation for Admin. DHR - FY07	\$ (294,168)		\$ (127,958)	\$ (64,075)	\$ (48,004)		\$ (534,205)
Allocation for Admin. Aging - FY07		\$ (162,365)					\$ (162,365)
FY 2007 Unobligated Balance	\$ (341,589)	\$ (228,570)	\$ 3,979,751	\$ 1,773,926	\$ 1,567,939	\$ 563,304	\$ 7,314,762
Difference from Prelim. Estimate 1-5-06	\$ (507,706)	\$ (507,706)	\$ (338,471)	\$ (169,235)	\$ (126,927)	\$ (42,309)	
Revenues Received in FY 07 for expenditure in FY 08							
Tobacco Settlement Receipts	\$ 5,943,985	\$ 5,943,985	\$ 3,962,657	\$ 1,981,328	\$ 1,485,996	\$ 495,332	\$ 19,813,285
Treasurer's Interest Received	\$ 255,000	\$ 255,000	\$ 170,000	\$ 85,000	\$ 63,750	\$ 21,250	\$ 850,000
Total Revenue Available for FY 2008	\$ 6,198,985	\$ 6,198,985	\$ 4,132,657	\$ 2,066,328	\$ 1,549,746	\$ 516,582	\$ 20,663,285
Outstanding Obligations for FY 2008							
Allocation for Admin. Treas - FY08	\$ (27,301)	\$ (27,301)	\$ (18,201)	\$ (9,100)	\$ (6,825)	\$ (2,275)	\$ (91,004)
Allocation for Admin. DHR - FY08	\$ (325,698)		\$ (130,279)	\$ (65,140)	\$ (48,855)	\$ (27,142)	\$ (597,113)
Allocation for Admin. Aging - FY08		\$ (178,602)					\$ (178,602)
FY 2008 Unobligated Balance	\$ 5,845,986	\$ 5,993,083	\$ 3,984,177	\$ 1,992,088	\$ 1,494,066	\$ 487,165	\$ 19,796,565
Difference from Prelim. Estimate 1-5-06	\$ 176,938	\$ 137,077	\$ 107,329	\$ 53,664	\$ 40,248	\$ 14,744	

Fund for a Healthy Nevada
Estimate of Funds Available for Allocation for FY 2007 and FY 2008 (Option 2)

	Senior Rx Program 30%	Independent Living Grants 30%	Reduce Tobacco Use Grants 20%	Children's Health Grants 10%	Disability Services Grants 7.5%	Disability RX Program 2.5%	Total Healthy Nevada Fund 100%
Balances Brought Forward from FY06	\$ 3,355,215	\$ -	\$ 391,093	\$ (20,307)	\$ 222,212	\$ 563,954	\$ 4,512,167
Revenues Received in FY 06 for expenditure in FY 07							
Tobacco Settlement Receipts	\$ 5,288,643	\$ 5,288,643	\$ 3,525,762	\$ 1,762,881	\$ 1,322,161	\$ 440,720	\$ 17,628,812
Treasurer's Interest Received	\$ 311,100	\$ 311,100	\$ 207,400	\$ 103,700	\$ 77,775	\$ 25,925	\$ 1,037,000
Total Revenue Available for FY 2007	\$ 8,954,958	\$ 5,599,743	\$ 4,124,255	\$ 1,846,274	\$ 1,622,148	\$ 1,030,599	\$ 23,177,979
Outstanding Obligations for FY 2007							
Senior RX / Disability Rx Expenditures - FY07	\$ (8,977,560)					\$ (465,227)	\$ (9,442,787)
Aging Services Grants - FY 07		\$ (5,641,129)					\$ (5,641,129)
Allocation for Admin. Treas - FY07	\$ (24,819)	\$ (24,819)	\$ (16,546)	\$ (8,273)	\$ (6,205)	\$ (2,068)	\$ (82,731)
Allocation for Admin. DHR - FY07	\$ (294,168)		\$ (127,958)	\$ (64,075)	\$ (48,004)		\$ (534,205)
Allocation for Admin. Aging - FY07		\$ (162,365)					\$ (162,365)
FY 2007 Unobligated Balance	<u>\$ (341,589)</u>	<u>\$ (228,570)</u>	<u>\$ 3,979,751</u>	<u>\$ 1,773,926</u>	<u>\$ 1,567,939</u>	<u>\$ 563,304</u>	<u>\$ 7,314,762</u>
Difference from Prelim. Estimate 1-5-06	\$ (507,706)	\$ (507,706)	\$ (338,471)	\$ (169,235)	\$ (126,927)	\$ (42,309)	
Revenues Received in FY 07 for expenditure in FY 08							
Tobacco Settlement Receipts	\$ 5,295,455	\$ 5,295,455	\$ 3,530,303	\$ 1,765,152	\$ 1,323,864	\$ 441,288	\$ 17,651,517
Treasurer's Interest Received	\$ 255,000	\$ 255,000	\$ 170,000	\$ 85,000	\$ 63,750	\$ 21,250	\$ 850,000
Total Revenue Available for FY 2008	\$ 5,550,455	\$ 5,550,455	\$ 3,700,303	\$ 1,850,152	\$ 1,387,614	\$ 462,538	\$ 18,501,517
Outstanding Obligations for FY 2008							
Allocation for Admin. Treas - FY08	\$ (27,301)	\$ (27,301)	\$ (18,201)	\$ (9,100)	\$ (6,825)	\$ (2,275)	\$ (91,004)
Allocation for Admin. DHR - FY08	\$ (325,698)		\$ (130,279)	\$ (65,140)	\$ (48,855)	\$ (27,142)	\$ (597,113)
Allocation for Admin. Aging - FY08		\$ (178,602)					\$ (178,602)
FY 2008 Unobligated Balance	<u>\$ 5,197,456</u>	<u>\$ 5,344,552</u>	<u>\$ 3,551,823</u>	<u>\$ 1,775,912</u>	<u>\$ 1,331,934</u>	<u>\$ 433,121</u>	<u>\$ 17,634,798</u>
Difference from Prelim. Estimate 1-5-06	\$ (471,592)	\$ (511,454)	\$ (325,025)	\$ (162,512)	\$ (121,884)	\$ (39,300)	

Fund for a Healthy Nevada
Estimate of Funds Available for Allocation for FY 2007 and FY 2008 (Option 3)

	Senior Rx Program 30%	Independent Living Grants 30%	Reduce Tobacco Use Grants 20%	Children's Health Grants 10%	Disability Services Grants 7.5%	Disability RX Program 2.5%	Total Healthy Nevada Fund 100%
Balances Brought Forward from FY06	\$ 3,355,215	\$ -	\$ 391,093	\$ (20,307)	\$ 222,212	\$ 563,954	\$ 4,612,167
Revenues Received in FY 06 for expenditure in FY 07							
Tobacco Settlement Receipts	\$ 5,288,643	\$ 5,288,643	\$ 3,525,762	\$ 1,762,881	\$ 1,322,161	\$ 440,720	\$ 17,628,812
Treasurer's Interest Received	\$ 311,100	\$ 311,100	\$ 207,400	\$ 103,700	\$ 77,775	\$ 25,925	\$ 1,037,000
Total Revenue Available for FY 2007	\$ 8,954,958	\$ 5,599,743	\$ 4,124,255	\$ 1,846,274	\$ 1,622,148	\$ 1,030,599	\$ 23,177,979
Outstanding Obligations for FY 2007							
Senior RX / Disability Rx Expenditures - FY07	\$ (8,977,560)					\$ (465,227)	\$ (9,442,787)
Aging Services Grants - FY 07		\$ (5,641,129)					\$ (5,641,129)
Allocation for Admin. Treas - FY07	\$ (24,819)	\$ (24,819)	\$ (16,546)	\$ (8,273)	\$ (6,205)	\$ (2,068)	\$ (82,731)
Allocation for Admin. DHR - FY07	\$ (294,168)		\$ (127,958)	\$ (64,075)	\$ (48,004)		\$ (534,205)
Allocation for Admin. Aging - FY07		\$ (162,365)					\$ (162,365)
FY 2007 Unobligated Balance	\$ (341,589)	\$ (228,570)	\$ 3,979,751	\$ 1,773,926	\$ 1,567,939	\$ 563,304	\$ 7,314,762
Difference from Prelim. Estimate 1-5-06	\$ (507,706)	\$ (507,706)	\$ (338,471)	\$ (169,235)	\$ (126,927)	\$ (42,309)	
Revenues Received in FY 07 for expenditure in FY 08							
Tobacco Settlement Receipts	\$ 4,695,455	\$ 4,695,455	\$ 3,130,303	\$ 1,565,152	\$ 1,173,864	\$ 391,288	\$ 15,651,517
Treasurer's Interest Received	\$ 255,000	\$ 255,000	\$ 170,000	\$ 85,000	\$ 63,750	\$ 21,250	\$ 850,000
Total Revenue Available for FY 2008	\$ 4,950,455	\$ 4,950,455	\$ 3,300,303	\$ 1,650,152	\$ 1,237,614	\$ 412,538	\$ 16,501,517
Outstanding Obligations for FY 2008							
Allocation for Admin. Treas - FY08	\$ (27,301)	\$ (27,301)	\$ (18,201)	\$ (9,100)	\$ (6,825)	\$ (2,275)	\$ (91,004)
Allocation for Admin. DHR - FY08	\$ (325,698)		\$ (130,279)	\$ (65,140)	\$ (48,855)	\$ (27,142)	\$ (597,113)
Allocation for Admin. Aging - FY08		\$ (178,602)					\$ (178,602)
FY 2008 Unobligated Balance	\$ 4,597,456	\$ 4,744,552	\$ 3,151,823	\$ 1,575,912	\$ 1,181,934	\$ 383,121	\$ 15,634,798
Difference from Prelim. Estimate 1-5-06	\$ (1,071,592)	\$ (1,111,454)	\$ (725,025)	\$ (362,512)	\$ (271,884)	\$ (89,300)	