PAR COMMENTARY

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MAKING THE MOST OF THE TOBACCO WINDFALL

Legislators have been so concerned with how best to spend the tobacco settlement windfall that they have largely ignored the question of how best to save the money. With less than two weeks of the session remaining, there is still no concensus on how to spend the money beyond next year. The House and Senate have adopted widely differing proposals.

Fortunately, the question of how to save the tobacco money can be separated from the more contentious question of how to spend it. Furthermore, there is no immediate need to make spending decisions for all future years. The first year's tobacco payments have already been committed to balance next year's budget and the newly-elected Legislature can easily deal with the spending issues in the regular session next year.

The most important issue now is to preserve the remaining windfall in such a way as to provide the greatest benefit to the state over the long run. The state treasurer's proposed cash management plan (LIFT) shows how it might be done. The plan would put all of the tobacco payments into a trust fund and invest the money for the long run. By allowing judicious borrowing against the trust, the plan would provide a stable revenue stream and permit reasonable spending in the early years. Assuming historic investment earnings, the trust could build to $7.4 billion over thirty years and provide $6.2 billion for

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spending. By contrast, the House proposal would allow the same amount of spending but would end up with only $2.5 billion in trust.

It would be a serious mistake to throw away $5 billion in extra trust fund money. If it wishes to properly exercise its fiduciary responsibility, the Legislature ought to postpone consideration of spending the tobacco money and instead adopt a workable cash management plan. This would require a proposed constitutional amendment to accomplish three basic objectives:

1. Place all of the tobacco settlement payments into a permanent trust fund from which only the investment earnings could be appropriated;
2. Require that the trust fund be invested under the same provisions governing funds in the state employees' retirement system; and
3. Prohibit any related outstanding debt from exceeding 50% of the trust fund balance.

Let's keep it simple. Protect and maximize the windfall now. Worry about spending later.

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