



Use of Tobacco Settlement Payments in Other Major Tobacco States

# Policy Update

March 2, 2001

## The Tobacco Master Settlement Agreement (MSA)

Cigarette manufacturers reached a settlement with 46 states over state claims against the tobacco industry on November 23, 1998, committing manufacturers to pay participating states \$206 billion over the next 25 years, although the exact amount of future settlement payments is uncertain as payments are subject to annual adjustments for changes in cigarette consumption, inflation, and other factors. The tobacco Master Settlement Agreement (MSA) places no restrictions on state spending of settlement payments. Terms of the settlement direct payments to each state's general fund. Thus, decisions regarding spending state tobacco settlement funds generally rest with state legislatures. All 43 states that have made decisions about spending settlement dollars have allocated some portion to health priorities. Most of the states (38 of the 43) have allocated some settlement monies to tobacco use prevention and reduction. Other health uses include programs for the elderly, prescription drugs, Medicaid, research and chronic diseases. Many states have also allocated money toward education uses including scholarships, school construction, technology, and literacy, among others. Most of the major tobacco-producing states have targeted some portion of their MSA payments to programs related to agriculture and/or rural communities. This issue of *Policy Update* describes the use of MSA payments in major tobacco states, especially uses targeting tobacco growers and agricultural development.

## North Carolina

North Carolina expects to receive about \$4.6 billion in MSA payments over the first 25 years covered by the settlement. To date, North Carolina has received about \$200 million in MSA payments. Legislation was passed and signed into law in 1999 establishing a non-profit corporation for economic assistance to tobacco dependent communities (the Golden LEAF Foundation) with 50 percent of the state's MSA payments. The other half of the payments are to be divided equally between two trust funds: one for tobacco producers, quota holders and tobacco workers and the other for health-related interests. Golden LEAF has just finished the first round of grants awarding more than \$5 million to 39 projects including alternative crops, education, research, economic development, and alternative employment. Most of these monies will target the eastern flue-cured region, although significant funding will also go to the western burley region. Uses for the 25% of settlement fund payments allocated to the Tobacco Trust Fund have not been determined, but possible uses include assisting tobacco farmers in converting curing barns to reduce nitrosamines or giving college scholarships to children of tobacco farmers.

## Kentucky

Kentucky expects to receive about \$3.5 billion in MSA payments over 25 years and has received about \$150 million to date. In 2000, the General Assembly voted to allocate 50 percent of all settlement funds through 2002 to agriculture, 25 percent to early childhood development programs and 25 percent to health initiatives, with \$69 million reserved for a "Bucks for Brains" education endowment. Of the \$180 million expected in the agriculture fund through 2002, \$40 million will ensure a minimum support level under Phase II. \$49 million will be available to county ag councils for local uses, such as low interest loans, grants for water line

extensions, transitioning to other farm enterprises, and environmental stewardship. The remaining \$91 million allocated for statewide ag development projects will benefit agriculture by developing regional farm markets, supporting small farm diversification, sharing some of the costs of complying with the state water quality plan and other environmental targets, providing municipal water in prime agricultural areas, and developing farmland preservation programs.

## Virginia

Virginia expects to receive \$4 billion over the next 25 years from the MSA and has received \$167 million through December 2000. Virginia passed legislation in early 1999 allocating 50 percent of all settlement payments to a Tobacco Indemnification and Community Revitalization Fund with a governing board that will compensate tobacco farmers for loss of assets and promote economic growth in tobacco dependent communities. The same legislation allocates 10 percent of settlement payments to a youth tobacco use prevention program. The remaining 40% is allocated annually by the legislature and the governor has recently proposed securitization of this portion. In 1999 and 2000, \$62 million of the payments to the Tobacco Fund went to direct payments to more than 42,000 growers and quota owners. Initial grants from the remaining Tobacco Fund include \$6 million to seven community colleges in Southwest Virginia, \$11.6 million to Virginia Tech to develop an institute for research of plant and animal genetics, \$2 million to research on medicinal and other uses for tobacco, and the remainder to fund economic development projects in Southwest and Southside Virginia.

## South Carolina

South Carolina's legislature approved a plan allocating the majority (73%) of their expected \$2.3 billion MSA payments (about \$100 million received to date) to health care, including prescription drugs, home and community based care for the elderly, newborn health screenings, and youth smoking prevention. 15% was allocated to compensate tobacco growers and quota holders for production losses, and 12% was allocated for water and sewer infrastructure improvements, primarily in rural areas. South Carolina recently completed a bond sale backed by future settlement payments, allowing them to collect \$945 million up front.

## Other Tobacco States

Georgia's legislature approved a plan allocating payments through fiscal year 2001 to rural economic development and health priorities. One third of the settlement payments, \$62 million, was appropriated under the One Georgia Fund to four rural economic development projects (funded at \$10 million each) designed to attract businesses to south Georgia and \$22 million was reserved for future economic development needs. Maryland has committed \$11 million from their expected settlement payments to a buy-out program for tobacco growers. The buy-out pays growers \$1 per pound annually for the next ten years for every pound of tobacco in their average annual yield for 1996-98. In return, tobacco growers agree to stop growing tobacco and are required to continue farming alternative crops. The average annual payment is about \$11,000, but varies greatly. Four farmers have received buyout payments to date and around 650 farmers (which is 68% of the state's tobacco farmers) have so far applied to participate. The state expects participation to increase substantially and may require additional funding over the ten year period. The legislature is considering a bond issue backed by settlement funds to pay for the buyout up front rather than spread over 10 years. Ohio has decided to allocate 2.3% of their settlement funds for the next 12 years, or about \$229 million over 12 years, to tobacco farmers and their communities. While Florida settled their lawsuit with cigarette manufacturers outside the MSA, they have considered using a small portion of their settlement funds to assist tobacco producing regions.