



## Use of Tobacco Settlement Payments in Tennessee

# Policy Update

March 2, 2001

### The Tobacco Master Settlement Agreement

After a year and a half of negotiations and failure of an earlier settlement proposal to obtain Congressional approval, the four largest cigarette manufacturers reached a settlement with 46 states over state claims against the tobacco industry on November 23, 1998. According to the Master Settlement Agreement (MSA), cigarette manufacturers agreed to pay participating states \$206 billion over the next 25 years. Four states – Florida, Mississippi, Minnesota, and Texas – settled suits individually with tobacco manufacturers prior to the 1998 MSA additionally committing cigarette makers to pay more than \$40 billion over the next 25 years. According to the terms of the settlement, payments are divided among participating states according to each state's share of Medicaid funding, which is largely population based. The MSA places no restrictions on state spending of settlement payments. 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.

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. In most states, general funds can only be appropriated for the term of the legislative body, requiring annual or biannual decisions on state settlement spending, though several states have created separate trusts or foundations to receive tobacco settlement funds allowing multi-year appropriation and some states are considering securitization of expected payments. All 43 states that have made decisions about spending settlement dollars have allocated some portion to health priorities. Most of the states 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. Other uses include scholarships, school construction, technology, literacy, public works, and many others.

This issue of *Policy Update* provides information about how Tennessee is using their tobacco settlement payments. Other issues provide information about how other tobacco states are using settlement money and about how Tennessee and other states are using Phase II settlement payments to compensate growers and quota owners for economic damages resulting from the settlement.

### The MSA in Tennessee

Tennessee expects to receive nearly \$4.8 billion in tobacco Master Settlement Agreement (MSA) payments over the first 25 years covered by the settlement. Tennessee had received approximately \$200 million through December 2000 and expects to receive about \$350 million by June 30, 2001. Last July, the Tennessee legislature decided to split payments through the current fiscal year (about \$350 million) between two funds: one for health and one for agriculture. Legislative committees were appointed for each fund to make spending recommendations to the General Assembly. Both committees held hearings and public meetings over the fall and winter to solicit input and made their recommendations to the General Assembly in February.

## The Agriculture Fund

The agriculture committee is recommending that their half of the current settlement dollars be used to fund agricultural development programs—in the areas of (1) alternative agricultural development, (2) agribusiness and industrial infrastructure, (3) creation/expansion of agricultural processing facilities, (4) agricultural marketing development, and (5) agricultural production efficiency and effectiveness—and educational financial assistance programs. Educational assistance funds could be used for scholarships for persons directly or indirectly affected by changes in the tobacco and/or agricultural economy or it could provide scholarships for students who agree to provide services in rural or underserved communities such as nurses and teachers. Guidelines for scholarships and educational assistance would be determined by an advisory board. All agricultural development programs would operate through the Tennessee Department of Agriculture.

The committee is recommending that any unspent agriculture funds be placed in a trust fund with only the future interest eligible for expenditures in the recommended areas. They are further recommending that half of all future MSA payments to the state go to an agriculture fund trust to use investment income for the same program areas. They also recommend securitization of the future income stream.

## The Health Fund

The health committee's final recommendations included funding the state's tobacco plan at the minimum level suggested by the Centers for Disease Control and Prevention, \$37 million. The \$37 million includes \$22 million for tobacco prevention and cessation programs and \$15 million for comprehensive school health programs. The committee also recommended allocating \$30 million to six hospitals to reimburse them for costs of treating sick smokers. Additionally, the committee recommended allocating \$10 million for tobacco addiction, prevention, and treatment research, \$5 million for voluntary smoking cessation programs, \$5 million for administration, \$3 million for a statewide counter-marketing campaign emphasizing minorities, \$2 million for grants to other anti-smoking projects, \$1 million to a lung center, and \$1 million for Department of Health oversight and grant writing.

The health committee also recommended that the other half of the Health Fund (about \$90 million) be placed in a trust account with only the future interest available for health expenditures. They are also recommending that half of all future settlement funds in the state (beyond 2001) go to the Health Fund.

## The Future of Tennessee's Settlement Payments

The legislature will take up the issue this spring. It is expected that the recommended uses may compete with using the money to avoid a projected budget shortfall. Some legislators are considering combining the recommendations of the health and agriculture committees into one bill to broaden the base of support and avoid having the settlement issue on the table twice. While still unknown at this time, several legislators feel that the settlement spending issue will not come before the full legislature for a vote until mid- to late-spring.