



## Use of Phase II Payments in Other Major Tobacco States

# Policy Update

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### Phase II of the Tobacco Settlement

The Master Settlement Agreement contained language that called for participating manufacturers to meet with representatives of major tobacco producing states to come up with a plan to help compensate tobacco growers and quota holders for declining tobacco consumption and demand resulting from the settlement. The result was establishment of the National Tobacco Growers' Settlement Trust Fund, which has come to be known as "Phase II" of the tobacco settlement. Phase II calls for participating cigarette manufacturers to pay \$5.15 billion into a national tobacco grower trust over 12 years to be distributed among tobacco-growing states based on each state's share of 1998 tobacco quotas.

Phase II funds may only be used to make direct payments to tobacco quota holders and producers who suffer economic losses due to industry settlement of state lawsuits. Funds cannot be used for agricultural development, warehouses, or any purpose other than payments directly to quota owners and growers. Payments are only for quotas of tobacco types used in domestic cigarettes. According to the agreement, each participating state is responsible for establishing a board to distribute funds among eligible tobacco quota holders and growers. The allocation of funds among the state's quota owners and growers (including owners, lessees, and tenants) is determined by each individual state board. In flue-cured regions, state boards have generally split payments evenly between growers and quota owners. In burley regions, payments have generally been weighted more heavily toward growers or those bearing a larger share of financial risk. Another issue of *Policy Update* describes the status of the Phase II payments in Tennessee while this issue focuses on other major tobacco states.

### North Carolina

Payments to North Carolina flue-cured producers are split 50/50 between growers and quota owners based on lost quota in the payment year. Payments to burley producers are also split 50/50 between growers and quota owners with growers paid based on pounds actually marketed in the previous year and quota owners paid based on pounds of lost quota in the payment year. Payments in 1999 totaled \$140 million and were distributed to over 100,000 farmers. Payments in 2000 were about \$92 million. North Carolina expects to receive just under \$2 billion under Phase II over the 12 year period.

### Kentucky

In Kentucky, payments are divided equally among the quota owner, grower/tenant of the quota, and the growing farm. In 1999 and 2000, the quota owner payment was based on basic quota in the

previous year. Payments to growing farms and growers/tenants were based on the average of the previous year marketings and effective quota. Future Phase II payments to Kentucky's growing farms and growers/tenants will be based on the 1998-2000 production history, averaging effective quota and marketings. Payments to quota owners will be based on basic quota owned as of July 2000. The changes in the formula resulted from the experience that anticipation of the Phase II payments drove up quota lease prices and that Phase II payments were viewed by some growers as a way to stay in tobacco production rather than assistance in transitioning out of tobacco. In 1999, Kentucky distributed about \$109 million in Phase II funds. Although only \$84 million in Phase II funds were available to Kentucky in 2000, the legislature allocated an additional \$40 million from their MSA payments to supplement Phase II payments so that they will remain at a consistent level around \$114 million.

## Virginia

Flue-cured growers and quota owners in Virginia each receive half of their Phase II flue-cured payments with payments based on basic quota in 1998. Burley growers receive 75% of Virginia's Phase II burley payments with payments based on the average of effective quota and marketings in 1998. The other 25% of the burley Phase II payments are paid to burley quota owners based on basic quota in 1998. The base year will remain fixed at 1998 through 2004. Virginia expects to receive \$357 million in Phase II payments over 12 years.

## Other Tobacco States

Phase II payments in South Carolina and Georgia are split 50/50 between flue-cured growers and quota owners. Payments to Georgia quota owners and growers and to South Carolina quota owners are based on basic quota in the previous year. Payments to South Carolina growers are based on actual marketings in the previous year. Each state distributed over \$20 million to more than 10,000 growers and quota owners in 1999 and over \$15 million in 2000. South Carolina expects \$339 million over the 12 year period and Georgia expects about \$300 million. In addition to the six major tobacco producing states, eight other states—Ohio, Indiana, Florida, Maryland, Pennsylvania, Missouri, West Virginia, and Alabama—share just over 5% of all Phase II payments.