

# Expectations vs. Experience

## Use of Tobacco Settlement Payments in Major Tobacco States

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# Review of MSA Provisions

- **Settlement between 4 manufacturers and 46 states reached November 23, 1998**
- **Projected to pay states \$206 billion over 25 years, adjusted annually**
- **Money generally goes to states' general fund, allocation decisions generally rest with state legislatures**
- **No strings attached**



# MSA Expectations

- **Most states' suits were based on recovery of state Medicaid expenditures, others based on antitrust, deceptive advertising, other consumer foundations**
- **A significant portion of payments would be used to**
  - Reduce youth smoking
  - Cover health care costs of treating sick smokers
- **Tobacco growing states might use some funds to “soften the blow” to tobacco growers and related industries**



# States' Use of MSA Payments

- To date, about \$15 billion has been paid to states
- Payments have been delayed in many states
- Most states have viewed MSA payments as a discrete revenue stream, earmarked payments for long-term uses
- Many state legislatures have viewed this as an opportunity to fund programs/projects that had been unfunded/underfunded because of tobacco-related healthcare expenditures
- Several comprehensive reviews of state spending, including NCSL, GAO, Campaign for Tobacco-Free Kids



# Summary of State MSA Uses

- **91% of states have allocated some portion to health priorities, over \$5 billion total**
  - Includes spending for elderly, prescription drugs, Medicaid, children's insurance, mental health, substance abuse, long-term care, research, chronic diseases
- **78% of states have allocated some to tobacco use prevention and reduction (tobacco control)**
  - Only 5 of 50 states meeting CDC minimum guidelines
  - Tobacco states spending relatively little in this area



# Summary of State MSA Uses

- 8 tobacco states have targeted an average of 22% to ag development, 5 states allocated another 20% for direct payments to growers and owners
- Over \$1 billion to education and social services
- 10 states have allocated to physical infrastructure
- Some for tax reductions and budget relief
- \$1.2 billion for budget reserves and general spending
- Over \$2 billion unallocated



# Virginia

- **50% to the Tobacco Communities Indemnification and Revitalization Fund**
  - 70% for direct payments to growers and quota owners
  - 30% for community economic development programs
- **To date, Commission has processed over \$94 million in direct payments to growers and owners (in addition to Phase II)**
- **Awarded 62 grants for economic development projects totaling \$25.5 million**
- **Also focusing on community college education and job training (\$12 m), alternative crop research (\$6.5 m), scholarships for tobacco families (\$5.3 m)**



# North Carolina

- **50% to the Golden LEAF nonprofit foundation, allocates interest income to provide economic assistance to tobacco-dependent communities**
- **25% to trust funds for (1) health programs and (2) tobacco growers, quota owners and workers**
- **Golden LEAF has received about \$200 million**
- **Has allocated about \$15 million to more than 60 projects**
  - **One-third in the agriculture area**
  - **\$3 million to economic development, \$1 million to community assistance, \$1 million to education projects**



## **(cont'd) North Carolina**

- **Trust fund to benefit tobacco growers, allotment holders and tobacco workers has accumulated about \$82 million**
- **Newly-created board has expressed interest in making direct payments to growers and owners**
  - **Constitutional challenges**
- **Agreed to use \$30 million to partially reimburse retrofitting of curing barns**



# Kentucky

- **50% to agricultural development fund to provide direct payments and agricultural and economic development assistance**
- **\$40 million for direct payments to supplement Phase II in 2000, additional payments authorized to maintain Phase II at \$114 million per year**
- **Remaining portion: 35% to county ag development projects, 65% to statewide ag development projects**



# Kentucky

- **County planning boards have received funding (\$7.5 million) for uses including**
  - Ag development, market development, diversification, and cost-share programs
- **Statewide projects (\$20 million) have included**
  - Funding for environmental cost-sharing
  - Rural water line debt service
  - Funding for Kentucky Center for Ag Development and Entrepreneurship
  - Capital investments, research, funding for cooperatives



# Maryland

- **Allocated \$78 million over 10 years to a tobacco buyout program (6.5% of total funds)**
- **Voluntary participants paid \$1/lb/yr for 10 years based on 1996-1998 average production**
- **Through 2001, 68% of Maryland's 981 eligible farmers participating, 81% of production**
- **Must permanently quit tobacco, must convert land to other ag uses for at least 10 years**
- **Also funds for alternative crop research, bonus for retiring land into ag land preservation program**



# South Carolina, Georgia, Tennessee

- **SC has securitized expected settlement payments, received \$800 million up front**
  - 15% (\$118 million) earmarked for direct payments to supplement Phase II
  - 10% for economic development in rural areas
- **GA authorized up to 1/3 to OneGeorgia to provide economic assistance to rural communities**
  - Allocated \$13 million in 2000 and \$21 million in 2001 for direct compensation to growers and owners (over Phase II)
- **TN initially expressed interest in allocating 50% to agricultural development, used \$550 million (all payments through FY02) to partially offset budget deficit**



# Summary

- **Nearly half of all payments to date have been allocated to health and tobacco control programs**
- **Tobacco states generally at low end of tobacco control spending**
- **5 of 6 major tobacco states have allocated \$1.4 billion to growers, owners and ag communities since 1999**
  - \$903.5 m in direct payments from Phase II
  - \$316 m in supplemental direct payments from Phase I
  - \$171.5 m in actual allocations to tobacco and rural communities for agricultural and economic development
- **Settlement payments are generally subject to political tides**



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