

Expectations vs. Experience

An Update on States' Use of MSA payments

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2004 Tobacco Workers
Conference

January 21, 2004



Master Settlement Agreement, 1998

- 46 States
- 4 manufacturers
- No restrictions
- Expectations that significant portion for smoking related health care costs
- Further expectation that tobacco states would use money to help moderate losses



Trends

- **\$13.2 billion received by states through April 2001**
- **\$6.2 billion received by states in 2002**
 - 30% lower than original GAO projections
- **\$6.2 billion expected in 2003**
 - 30% lower than original GAO projections
- **Health continues to be the largest recipient of funds**
- **Biggest change included securitization of funds primarily used to cover budget shortfalls**

Health Issues

- **Health: Up to 50.7% from 41.3%**
 - Medicaid
 - Children's Health Insurance Program
 - State immunization programs
 - Cancer research/prevention

(cont.) Health Issues

- **Education/Social Services: About 10%**
 - Substance abuse treatment/intervention
 - Child care management
 - Preschool/scholarship programs
- **Tobacco control: Down to 5.1% from 6.8%**
 - Tobacco prevention, cessation, education
 - Reducing tobacco sales to minors

Health Community Response

- **CDC Report**
 - Tobacco prevention programs cut
 - Marketing restrictions not effective
- **Lung Assn.**
- **Campaign for Tobacco Free Kids**
- **While the expenditures in the area of health have actually increased, health groups have been particularly critical of underfunding in tobacco prevention programs**



Securitization

- **10 states securitized funds for the first time in 2002-2003**
- **Issuing bonds backed by all or a portion of future MSA payments in return for an upfront payment**
- **\$10.6 billion securitized in 2002-2003**
- **To date, 13 states have securitized funds**
- **Other states are considering it**



Use of Securitized MSA Funds

- **Budget Shortfalls**
 - 31 % 2002
 - 66% 2003
- **Infrastructure (school construction/debt retirement)**
 - 24% 2002
 - 18% 2003
- **Education/Social Services**
 - 16% 2002
 - 6% 2003
- **Health**
 - Trust funds for health services 21% 2002

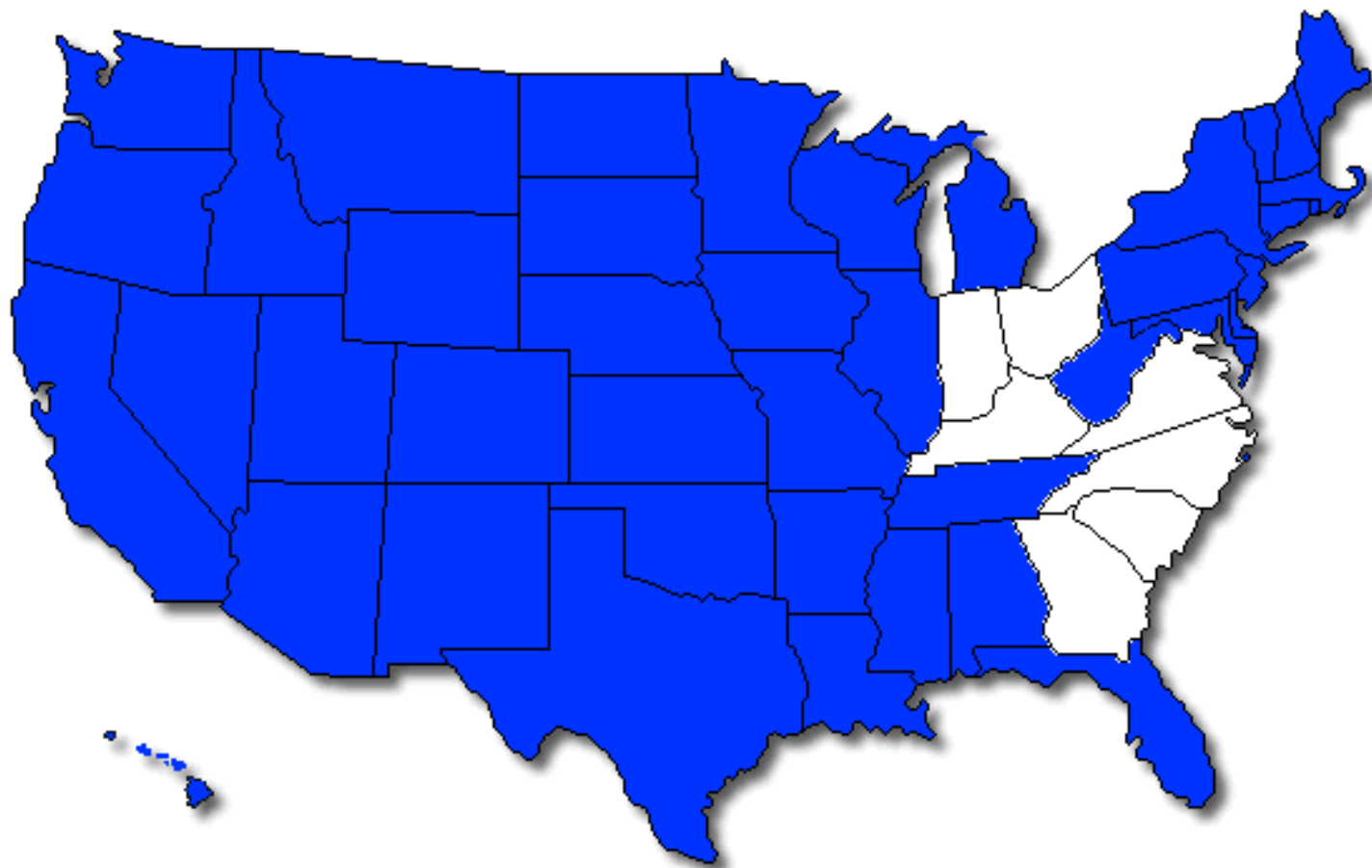


Use of MSA funds in Tobacco States

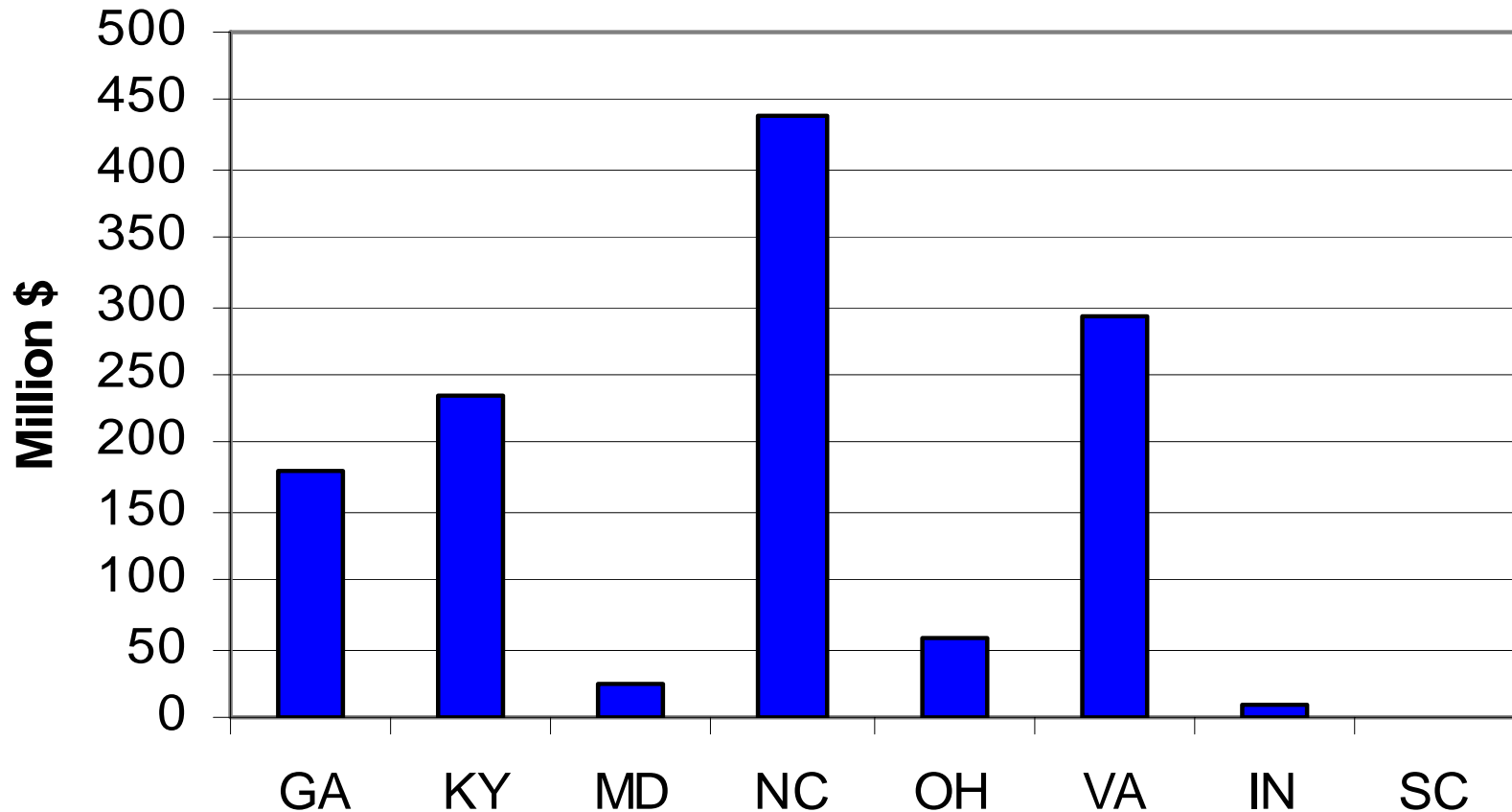
- **Percentage of tobacco states with some MSA funds allocated to Ag Issues: 57%**
- **Percentage of major tobacco states with some MSA funds allocated to Ag Issues: 83%**
- **Average 2003 allocation: 28.28% in tobacco states**
- **Average 2003 allocation: 47.27% in major tobacco states**



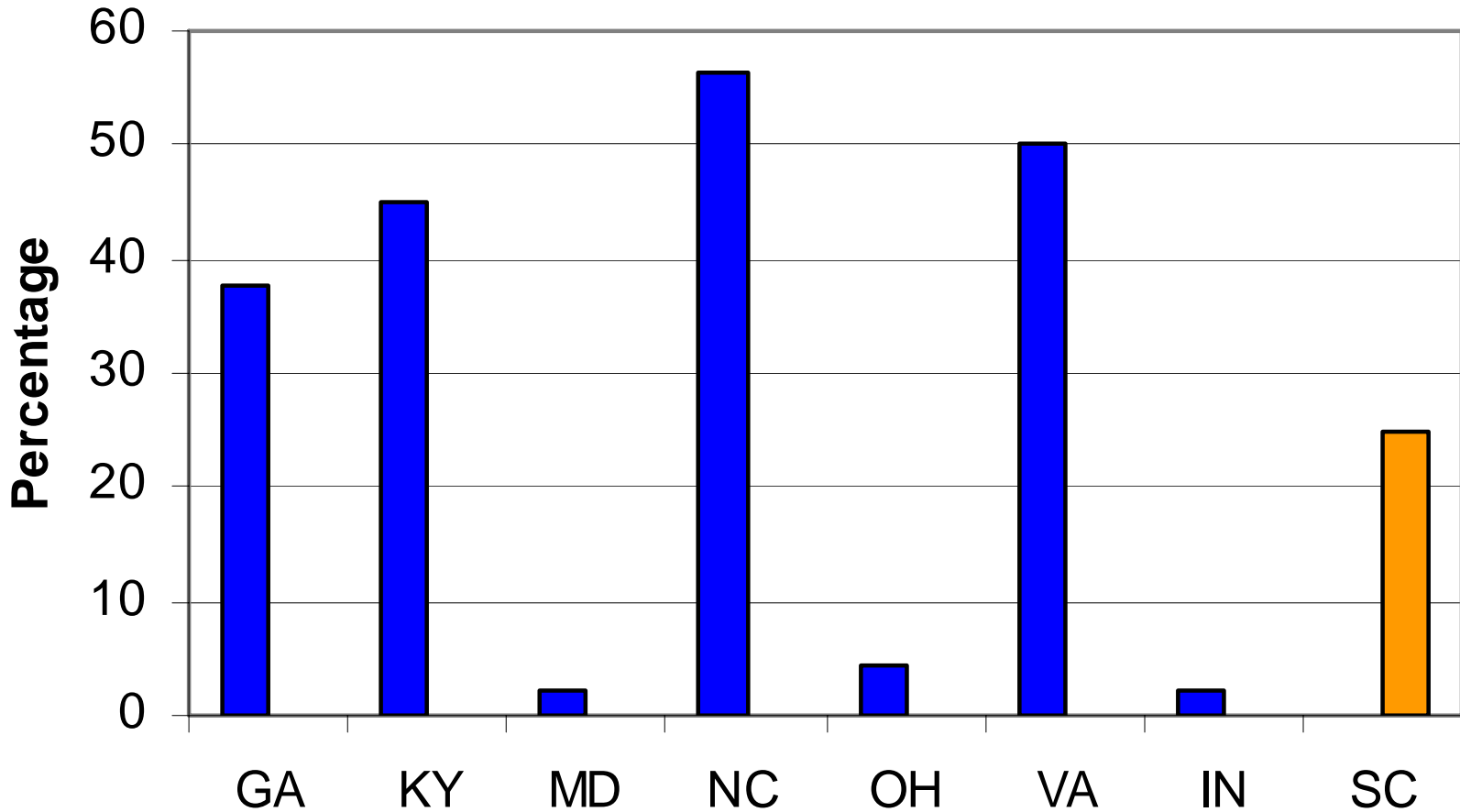
States with Ag Spending in 2002 and/or 2003



MSA funds allocated to Growers and Economic Development



% 2003* MSA funds allocated to Growers and Economic Development



* SC securitized funds the first year, allocating 25% to Growers and Economic Development

Detail of Ag Spending Georgia

- **OneGeorgia Authority**
 - 1/3 of settlement funds go to OneGeorgia
 - Used for municipal grants and rural development
 - Flint River Drought Protection
 - Assistance to Tobacco Farmers
 - Augments Phase II
 - Helps capture additional federal matching funds

Detail of Ag Spending KY

- **40-45% of state's MSA funds**
- **Agricultural Development Board**
 - \$30 million awarded FY 02-03
 - Marketing and Market Development
 - Improving Access to Capital
 - Environmental Stewardship
 - Farm Family Education/Computer Literacy
 - Supporting Local Leadership
 - Research and Development



Detail of Ag Spending MD

- **Maryland 32 Buyout**
- **Voluntary participants**
 - 68 % participation through 2001
 - 80% of eligible growers now participating
 - 7.3 million lb tobacco
- **Alternative crop research**
- **Ag land Preservation program**



Detail of Ag Spending NC

- **Golden Leaf Foundation**
 - 340 million received through 2003
 - 102 million awarded
 - Econ.Dev. Projects bringing employment/business to historically tobacco dependant or economically distressed communities
 - Help farmers fund non-tobacco ag options
 - Work force preparedness initiatives for tobacco/economically distressed communities
- **Tobacco Trust Fund**
 - Agri-Economic Development
 - Diversification Initiatives
 - Workforce Development
 - Conservation of Natural Resources



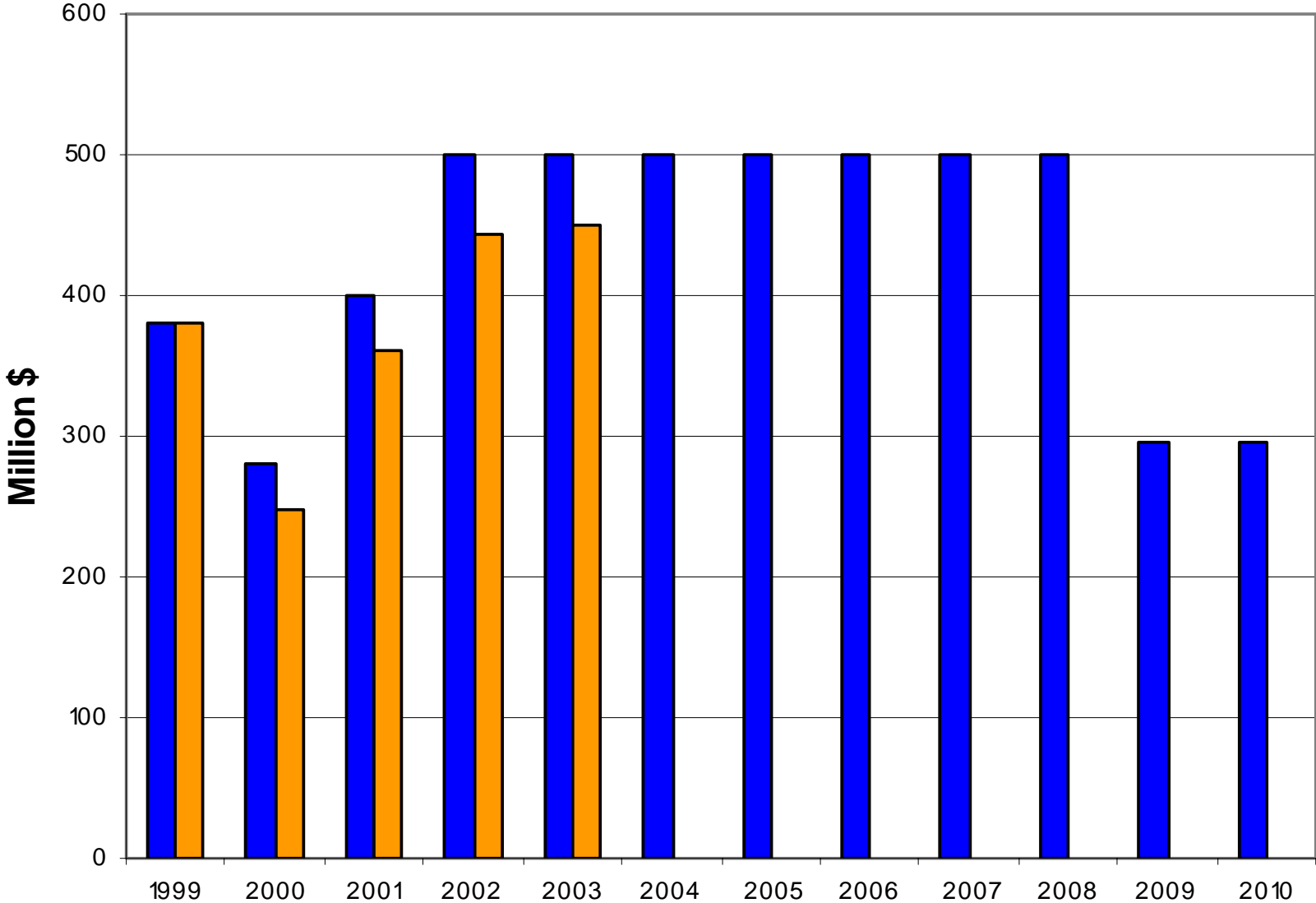
Detail of Ag Spending OH, SC

- **Ohio**
 - Indemnification payments
- **South Carolina**
 - Trust fund set up using securitized funds
 - 15% earmarked for direct payments
 - 10% economic development in rural areas
- **Indiana**
 - Tobacco farmers
 - Rural communities

Detail of Ag Spending VA

- 50% of MSA funding
- Indemnification payments
- Economic development of tobacco dependent communities
- Scholarships

Actual vs. Baseline Phase II Payments



Phase II

- **Payments expected to continue to be 88-90% lower than the baseline projections**
- **While states can alter the distribution of payments, most states are continuing to allocate funds very similarly year after year**
 - **TN**
 - **90% growers**
 - **10% owners**
 - **KY**
 - **1/3 growers**
 - **1/3 owners**
 - **1/3 controllers of growing farms**



Summary

- **Health care issues continue to be the largest recipient of MSA funding**
- **Health groups are not satisfied with the funding allocated to prevention**
- **States use of MSA funds to cover budget shortfalls and infrastructure needs increased**
- **Much of the funding allocated to ag issues is going to fund economic and rural development**
- **Actual Phase II payments: 90% of baseline**

For More Information

www.agpolicy.org/tobacco.html

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Presented at Agricultural Markets and Outlook Extension Agent Training, Central District Office Nashville, TN
Kelly Tiller and Jennifer Brown
November 19, 2003

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Presented at Agricultural Markets and Outlook Extension Agent Training, Smoky Mountain District Office Knoxville, TN
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Daryll E. Ray and Harwood Schaffer
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The Great Pretender: Crop Agriculture's Devotion to International Trade

