

# **Expectations vs. Experience: Use of Tobacco Settlement Payments in Major Tobacco Growing States**

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## **INTRODUCTION**

Cigarette manufacturers reached a settlement with 46 states<sup>1</sup> over state claims against the tobacco industry on November 23, 1998, committing manufacturers to pay participating states \$206 billion over the next 25 years.<sup>2</sup> 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 MSA funds generally rest with state legislatures. While the language of the settlement placed no restrictions on individual state uses of payments, widespread expectations were that a significant portion of the funds would be used for smoking-related healthcare costs.

A further expectation in many states economically dependent on tobacco production was that the MSA would help moderate economic losses facing the tobacco industry, above and beyond the National Tobacco Growers' Settlement Trust Fund, otherwise 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. Phase II funds may only be used to make direct payments to tobacco quota

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<sup>1</sup> Four states—Florida, Minnesota, Mississippi, and Texas—previously reached individual settlements that totaled an additional \$40 billion. Washington, D.C. and four U.S. commonwealths and territories also participated in the MSA with 46 states.

<sup>2</sup> 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. Some components of settlement payments extend into perpetuity.

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. Expectations were that Phase II payments would offset some of the lost tobacco producer income resulting from declining demand.

The MSA has created an unprecedented opportunity for states to use tobacco settlement revenues to fund programs and services. The objectives of this paper are to describe the status and uses of tobacco Master Settlement Agreement (MSA) payments to states and the use of Phase II payments in major tobacco states. The paper focuses primarily on the use of tobacco settlement and Phase II payments in major tobacco growing states, emphasizing the economic impacts of these payments on tobacco growers, quota owners, and agricultural communities. This research is the first known effort to document ag-related uses of MSA payments and the first to explore the impacts of settlement spending on tobacco growers, quota owners, agricultural development and planning, and rural communities.

## **BACKGROUND**

### **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 largest cigarette manufacturers reached a settlement with 46 states over state claims against the tobacco industry on November 16, 1998. Four major tobacco companies were party to the MSA, which represent 97.5 percent of the tobacco industry. Cigarette manufacturers agreed to pay participating states \$206 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. While most state suits were based on recovery of state Medicaid expenditures on smoking-related illness, others were based on antitrust, deceptive advertising or other consumer foundations. Thus, the Master Settlement Agreement placed no restrictions on state spending of settlement payments.

The payment schedule included in the agreement called for initial payments to states in 1998. However, the settlement was required to achieve final approval—defined as the earlier of June 30, 2000 or the date when both 80 percent of the settling states and states receiving 80 percent of the monies exhaust the appeals process, achieving state-specific finality—before any monies were disbursed. Initially, states were concerned that the federal government may view tobacco settlements as Medicaid overpayments and claim a portion of settlement funds according to each state's federal share of Medicaid dollars, which averages 57 percent of the total settlement. Legislation passed in May 1999 containing language that ensures that tobacco settlement payments to states will not be subject to federal strings. While initial payments to states were made as early as 2000, some state payments were delayed until state-specific finality was achieved. Through April 2001, tobacco companies have made payments to states totaling \$13.5 billion (GAO, 2001). A summary of payments to tobacco states, including MSA payments and Phase II payments, is presented in table 1.

Terms of the settlement direct payments to each state's general fund. Thus, decisions regarding spending state tobacco settlement funds 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. To date, just over half of all states have determined how tobacco settlement funds will be spent in the next year. Uses range from smoking and health care initiatives to covering state budget deficits to construction of schools, roads, sidewalks, to name a few.

### **National Tobacco Grower Settlement Trust Agreement**

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 in February 1999 (finalized in July 1999), 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 fund over 12 years beginning in 1999 and continuing through 2010.

The fund is to be distributed among 14 tobacco growing states based on each state's share of 1998 basic tobacco quotas. In states where no quota existed (Maryland and Pennsylvania), payment rates are based on 1998 production of cigarette tobaccos. Table 1 shows the allocation percentages for Phase II payments, the expected payments rate, and the average payment level. Three states, North Carolina, Kentucky, and Tennessee, receive over 75 percent of all Phase II payments, while the six major tobacco producing states (adding South Carolina, Virginia, and Georgia) receive nearly 95 percent of Phase II payments. The exact amount of each annual payment is subject to three adjustments: (1) if domestic cigarette consumption declines, payments will be reduced by the same formula as in the Master Settlement Agreement; (2) adjustments will be made upward to reflect inflation, up to 3 percent annually; (3) if tobacco excise taxes are increased and any portion of the proceeds is earmarked for direct grower compensation, payments made to the Phase II Fund will be reduced dollar-for-dollar.

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 agreement set forth the composition of the board with some latitude for appointments within the proscribed categories including: the Governor, the Commissioner of Agriculture, the Attorney General, two members of the state legislative body, 2 members of the state's congressional delegation, three to six tobacco growers or quota holders appointed by the governor, and one distinguished citizen appointed by the governor. The allocation of funds among the state's quota owners and growers (including owners, lessees, and tenants) is determined by each individual state board, which then submits their funding plans to the national board for annual approval. Upon approval, funds will be released from the national trust to the state board for disbursement according to the plan. Payments could not be distributed to individuals in a state until the state achieved state-specific finality as required by the MSA. 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.

## SCOPE AND METHODS

This paper draws upon an extensive search of state budget and legislative records, state, regional, and local newspapers, and personal contacts to develop a comprehensive and complete picture of MSA and Phase II uses by state. Data on actual MSA payments to states made by the tobacco companies was obtained from the National Association of Attorneys General which monitors the actual MSA payments to states through an independent auditor (NAAG, 2001). An important aspect of data collection is an effort to provide a method of consistent spending comparisons across states with very different accounting procedures for both receipt and spending of settlement funds. The paper then expands the extensive database of MSA and Phase II spending with a qualitative evaluation of the impacts of agriculture-related settlement spending and direct payments on agricultural returns and agricultural industry development. In this analysis, major tobacco producing states include North Carolina, Kentucky, Tennessee, Virginia, South Carolina, and Georgia. Combined, these six states produce 95 percent of U.S. tobacco. Additionally, eight states are identified as minor tobacco states, producing the remaining five percent of U.S. tobacco: Ohio, Indiana, Florida, Maryland, Pennsylvania, Missouri, West Virginia, and Alabama.

## FINDINGS

### **Summary of State MSA Allocations**

By the end of fiscal year 2001, MSA payments had been made to 45 of the 46 participating states totaling \$13.5 billion.<sup>3</sup> The MSA allows states great latitude in the use of their payments, and states have used their MSA payments for a wide variety of programs and budget priorities. Most state legislatures have viewed the MSA payments as a discrete revenue stream and many have earmarked MSA payments for specific long-term uses. Various approaches and processes have been established for determining state uses including voter referendum, planning commissions, boards, working groups, legislative committees, and legislature enacted laws. Because the payments are made annually, most state constitutions do not allow the legislative body to commit funds that will accrue to future legislative bodies. However, many states have enacted laws to ensure that future payments are restricted or used for specific purposes and have established dedicated funds that separate MSA payments from other revenues or funding sources.

Most all of the participating states (91%) have allocated some portion of their MSA payments to date to health priorities. Health related purposes has been the single largest category of settlement funded spending, receiving about half of all allocations to date (over \$5 billion). Many of the states (78%) have allocated some settlement monies to tobacco use prevention and

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<sup>3</sup> Payments to Missouri were delayed due to settlement counter-suits. Missouri finalized the settlement in July 2001 and received initial settlement payments by the end of 2001.

reduction. Other health uses include programs for the elderly, prescription drugs, Medicaid, children's health insurance, mental health, substance abuse, long-term care, medical research and chronic diseases.

A primary focus for many states has been spending in the areas of tobacco use reduction and underage use prevention. The benchmark for state spending on tobacco prevention and control is the state guidelines established by the Centers for Disease Control and Prevention (CDC). Through 2001, tobacco control spending in five states fell within the CDC guidelines, according to a recent study by the Campaign for Tobacco-Free Kids (2002). Spending in fifteen states ranged from 50 to 100 percent of the CDC minimum recommendations while spending in another 15 states ranged from 25 to 50 percent. Spending in twelve states fell below 25 percent while spending in three states was zero. Two of these three states with no tobacco control expenditures are major tobacco producing states (North Carolina and Tennessee). Two other major tobacco states spent less than 25 percent of the CDC minimum: Kentucky, \$5.5 million and South Carolina, \$1.6 million. Only two major tobacco states (Virginia and Georgia) approached half of the CDC minimum spending guidelines. Low levels of funding, along with some of the lowest state-level cigarette excise taxes in the county, contribute toward significantly higher smoking rates in tobacco producing states, especially among youths.

States have also allocated over \$1 billion toward education and social service uses. Education uses include scholarships, school construction, technology, literacy, preschool and daycare, and higher education, among others. Ten states have allocated MSA monies for physical infrastructure, including health care, long-term care and retirement facilities, water projects, transportation, and capital building projects. Two states, Connecticut and Illinois, have used a substantial portion of their settlement proceeds to fund tax reductions. Another \$1.2 billion has been allocated for budget reserves and other general spending purposes. Fifteen states held \$2 billion in unallocated MSA payments while other states used settlement payments to provide budget relief.

### **Allocations to Agricultural Development and Tobacco Production**

Eight of the 14 tobacco producing states—Virginia, North Carolina, Kentucky, Georgia, South Carolina, Maryland, Ohio, and Alabama—have targeted some portion of their MSA payments to programs related to agriculture and/or rural communities, especially uses targeting tobacco growers and agricultural development. These states have spent an average of 22 percent of their settlement receipts to fund projects targeting agricultural development. Five of these eight tobacco states—Virginia, North Carolina, Kentucky, South Carolina, and Georgia—have also allocated another 20 percent on average for direct payments to tobacco growers and quota owners.

**Virginia.** Virginia was the first state to allocate a portion of settlement payments to the agriculture sector. Legislation passed in 1999 directs half of all their settlement proceeds to the Tobacco Communities Indemnification and Revitalization Fund.<sup>4</sup> The Fund must be used to indemnify tobacco growers from the adverse economic effects of the Master Settlement and to

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<sup>4</sup> Ten percent of Virginia's settlement receipts is directed into a health fund (primarily targeting youth tobacco prevention) and the remaining 40 percent is available to the state legislature for discretionary use.

revitalize tobacco dependent communities. To date, about 70 percent of the funds have been used for direct payments to growers and quota owners and 30 percent for various economic development programs. A 31-member Commission was created to allocate the money in the Fund including burley and flue-cured producers, representatives of agricultural organizations, and elected officials. The Commission has divided the Fund between the state's two tobacco regions, with the Southside flue-cured region receiving 73 percent of the funds and the Southwest burley region receiving 27 percent of the funds. The Southside and Southwest segments determine annual allocations independently.

Virginia has established a target cumulative payment level they have determined necessary to "make the grower whole", set at \$12 per pound of quota lost since 1998. They intend to supplement Phase II direct payments with additional direct payments funded by MSA receipts until the target payment level is achieved. To date, the Commission has processed over \$94 million in direct payment to tobacco growers and quota holders, above Phase II direct payments. Payments have been made to flue-cured producers and quota owners at the rate of \$.155 per pound of basic quota. Payments have been made to burley quota owners at the rate of \$0.212 per pound of basic quota and to burley producers at the rate of \$0.272 per pound of average effective quota and marketings. The Commission has also awarded 62 grants for various economic development projects in tobacco counties totaling \$25.5 million. In addition to economic development, the Commission is focusing funding on educational and job training programs at community colleges in the tobacco regions (\$12 million), tobacco and alternative crop research (\$6.5 million), and scholarships for tobacco families (\$5.3 million).

**North Carolina.** North Carolina has allocated half of their share of the MSA to a nonprofit foundation for tobacco communities and the other half to two equal nonprofit trust funds to benefit (1) health programs and (2) tobacco growers, quota owners, and workers. The states created the Golden LEAF (Long-term Economic Advancement Foundation) with half of the MSA payments, nearly \$200 million to date. Golden LEAF can use the interest income from the foundation money to provide assistance to tobacco-dependent communities in a variety of forms such as assistance for farmers, quota holders, tobacco manufacturing workers, rural health programs, rural and agricultural development, and education. With two grant cycles now completed, the foundation has allocated about \$15 million to more than 60 non-profit groups for a wide variety of projects. More than a third of the projects and total funding have been in the agriculture area. Nearly \$3 million has funded economic development projects while about \$1 million has gone to community assistance and \$1 million to education projects.

Another 25 percent of North Carolina's MSA money was allocated to a trust fund to benefit tobacco growers, allotment holders, and tobacco workers. The trust fund can provide assistance to farmers to compensate for lost business or cuts in tobacco quotas, or it can provide more help in tobacco communities. The fund's newly-created board has about \$82 million in payments to date to allocate. While the board has expressed interest in making direct payments to growers and quota owners, a clause in the state's constitution forbids state government from making direct payments to individuals or private groups unless they provide some sort of public service in return. The board has agreed to use \$30 million to partially reimburse farmers who have retrofitted their curing barns to reduce the level of tobacco-specific nitrosamines. Alternative allocations are being investigated.

**Kentucky.** Kentucky's legislature has allocated half of their settlement payments to provide direct payments to tobacco growers and quota owners and to provide agricultural and economic development assistance in the state. From the agricultural development fund created with half of the settlement payments, \$40 million was allocated to direct payments to quota owners and growers in 2000 to supplement Phase II payments. Additional direct payments were authorized in subsequent years to ensure that total direct payments (including Phase II) are at least \$114 million per year.

The remaining portion of the ag development fund created with half of the MSA monies is to be split 35/65 between county-level agricultural development projects and statewide projects. Planning boards in each county submit proposals to the state board for county uses including a wide variety of agricultural development, market development, diversification, and cost-share programs. The other 65% of the remaining fund is for statewide projects and use, which has included funding for environmental cost-sharing, rural water line debt service, funding for the Kentucky Center for Ag Development and Entrepreneurship, as well as capital investments, research, and funding for cooperatives. To date, the board has approved about \$20 million in state level project expenditures and about \$7.5 million in a variety of county-level programs.

**Maryland.** In 1999, Maryland allocated \$78 million over ten years from their share of expected tobacco settlement payments to a tobacco buyout. This represents approximately 6.5 percent of the state's tobacco settlement funds over the first ten years. Farmers participating in the voluntary buyout program are paid \$1 per pound annually for the next ten years, based on the average amount of tobacco produced between 1996 and 1998. Through 2001, 649 of Maryland's 981 eligible tobacco farmers (66 percent) were participating in the buyout, accounting for 81 percent of the state's eligible tobacco production (6.4 million pounds). More farmers are expected to join the buyout program, now into its second year.

To be eligible for the buyout, the farmer had to actively grow tobacco in 1998. In exchange for the payments, farmers must agree to permanently quit tobacco production and convert their land to other agricultural uses for at least ten years. Farmers can also receive a ten percent bonus if they agree to put their retired tobacco land into agricultural land preservation. In addition to direct payments to growers, grants for alternative crop research are also included in the \$78 million buyout package. An early buyout proposal called for a discounted up-front lump sum buyout payment option instead of ten annual installments. This option was to be funded by a \$55 million bond issue. While this strategy was not followed, Maryland's legislature has authorized issuance of general obligation bonds (backed by expected settlement proceeds) up to \$5 million per year in fiscal years 2003 through 2008 that will fund the ten-year buyout, providing a measure of certainty for participating tobacco producers.

**Other Tobacco States.** Two of the remaining three major tobacco producing states, Georgia and South Carolina, have also allocated some of their MSA payments to agricultural and rural development. Georgia has authorized up to one third of its expected settlement payments to the OneGeorgia program, created in 2000 to provide economic assistance to rural communities wanting to develop local business and tourism opportunities. So far, the state's Tobacco Community Development Board, working under the OneGeorgia program, has allocated \$13

million in 2000 and \$21 million in 2001 for direct payments to compensate tobacco growers and quota owners for reduced incomes (in addition to Phase II direct payments).

South Carolina has securitized their expected settlement payments, receiving about \$800 million up front from a sale of tobacco settlement bonds expected to net about \$3 billion over 25 years. Nearly 15 percent of their settlement proceeds (\$118 million) are earmarked for payments to tobacco producers and quota owners (to supplement Phase II payments) and another 10 percent (\$79 million) is earmarked for economic development in rural areas of the state. The other major tobacco state, Tennessee, initially expressed interest in allocating half of its settlement payments to an agricultural development fund, but later used all of its payments through FY2002 (over \$550 million) to partially offset a general budget deficit.

Two other minor tobacco states have also targeted settlement funds to economic development in tobacco counties. Ohio initially allocated 2.3 percent of its settlement payments (about \$229 million over 12 years) to payments to tobacco farmers and quota owners, although the amount has since been reduced as settlement payments have been re-directed to relieve budget deficits. Alabama has pledged \$97 million of its expected settlement funds to an economic development program aimed at attracting industrial development to the state. Indiana, Florida, Pennsylvania, and West Virginia have allocated their MSA payments to priorities other than tobacco communities and agricultural development. Missouri was the last state to receive tobacco settlement payments and has just recently allocated its first settlement installments, with no allocations made to tobacco growers or tobacco communities.

### **Phase II Allocations**

Phase II payments must be used to directly compensate tobacco growers or quota owners for economic losses. Individual states have developed various compensation programs based on dominant production/quota patterns. In flue-cured regions (NC, SC, VA, and GA), 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. Following is a description of Phase II allocations to date in major tobacco growing states.

**North and South Carolina.** The largest share of Phase II funds will be paid to North Carolina tobacco growers and quota owners, due to receive over 38 percent of all Phase II payments, or \$1.9 billion through 2010. North Carolina has paid out over \$350 million to date to about 100,000 thousand growers and quota owners. North Carolina has divided the Phase II payments for flue-cured tobacco evenly between tobacco growers and quota owners. In 1999 and 2000, payments were based on the level of basic quota in the previous year. In 2000, the payment base year was frozen at 1999. South Carolina has elected to allocate their Phase II funds similarly. Payments have been split evenly between flue-cured quota owners and growers, with payments based on the previous crop year the first two years of the program and then fixed at the 1999 level in the third year of the program (crop year 2001). Phase II payments in South Carolina have totaled nearly \$67 million paid to over 10,000 growers and quota owners to date. Owners and producers of burley quota in Western North Carolina are also splitting payments evenly, with growers paid based on pounds actually marketed in the previous year and quota owners paid based on pounds of lost quota in the previous year.

**Kentucky.** Kentucky is scheduled to receive approximately 30 percent of all Phase II payments, or about \$1.5 billion through 2010. The Phase II board in Kentucky has decided to split payments event among quota owners, growing farms, and growers/tenants. According to the state's plan, a quota owner is defined as the person or entity that owns farmland for which there is a currently established burley tobacco quota. A growing farm is defined as the person or entity that controls the land on which burley tobacco is produced and shares in the risk of production. A grower or tenant is defined as the person or entity that provides labor to produce burley tobacco and shares in the risk of production. Payments to quota owners are based on basic quota in the preceding year. Payments to growing farms and growers/tenants are based on the average of marketings and effective quota for the three preceding crop years. If a farmer owns his quota and grows it on his own land, then he is eligible for all three portions of Phase II payments. To date, more than \$300 million in Phase II funds have been paid out in Kentucky to about 150 thousand growers and quota owners. As noted earlier, some of Kentucky's Phase I funds have been used to supplement Phase II payments to ensure that annual distributions total \$114 million.

**Tennessee.** Tennessee is scheduled to receive nearly \$400 million in Phase II payments through 2010. In 1999 and 2000, the board decided to allocate 80% of the Phase II payments to tobacco growers and 20% to quota owners. In 2001, the board decided to change the allocation of funds so that 90% is distributed to growers and 10% to quota owners. Payments to quota owners are based on basic quota in the previous year and payments to growers are based on actual marketings in the previous year. For the 1999 tobacco crop, Tennessee distributed nearly \$29 million in Phase II payments to more than 68,000 tobacco growers and quota owners. Payments for the 2000 crop totaled nearly \$17.5 million, and payments for 2001 are expected to be issued to about 55,000 growers and quota owners totaling \$26 million.

**Virginia.** Virginia's share of Phase II payments are expected to total about \$350 million through 2010. About 40 thousand growers and quota owners in Virginia are eligible for direct payments. Phase II payments have been made totaling nearly \$24 million in 1999, \$16 million in 2000, and \$24 million in 2001. Payments for flue-cured tobacco have been split evenly between growers and quota owners based on basic quota in 1998. Payments for burley tobacco have been split 75/25, with 75 percent paid to burley growers based on the average of effective quota and marketings in 1998 and 25 percent paid to burley quota owners based on basic quota in 1998. The base year for Virginia's Phase II payments will remain fixed at 1998 through the 2004 payment year. Virginia quota owners and growers have received additional direct payments from the state's Phase I settlement totaling nearly \$100 million since 2000.

**Georgia.** Georgia expects to receive about \$300 million in Phase II payments through 2010. Payments to about 10 thousand growers and quota owners have totaled more than \$50 million to date. Phase II payments have been divided evenly between tobacco growers and quota owners, based on basic quota levels in the previous year. Direct payments to growers and quota owners have been nearly doubled over the past two years with supplemental payments made from Phase I funds.

## DISCUSSION

The tobacco settlement has provided an unprecedented income opportunity for states. State suits were based on a variety of allegations, including tobacco industry violation of

antitrust and consumer protection laws, withholding information about the adverse health effects of tobacco, manipulation of nicotine levels to keep smokers addicted, deceptive advertising, and conspiracy to withhold less risky and less addictive tobacco products from the market. While the Master Settlement Agreement reached between 46 states and four major cigarette manufacturers did not stipulate eligible uses for settlement payments, general expectations were that the majority of the settlement payments would be used for tobacco prevention and control and to treat sick smokers. Many states rationalized that the payments were an opportunity to fund priority programs that had been unfunded or underfunded in the past because of excessive state expenditures to treat sick smokers. To date, nearly half of all MSA payments have been allocated to health and tobacco control programs, although these general categories encompass an extremely broad range of health-related uses. Only five states are meeting or exceeding CDC recommended minimum spending on tobacco control and tobacco-growing states are generally at the low end of the spectrum in this spending category.

Most (actually all if you include Tennessee which “intended” ag-related uses) major tobacco producing states have viewed the settlement as an opportunity to provide direct and indirect economic assistance to tobacco growers and communities facing declining tobacco-related income since the tobacco settlement.<sup>5</sup> The six major tobacco states have allocated a total of \$1.4 billion to growers, quota owners, and ag communities since 1999. This includes \$903.5 billion in direct payments from Phase II funds, \$316 million in supplemental direct payments from Phase I funds, and \$171.5 million in actual allocations to tobacco and rural communities for agricultural and economic development. These figures include only actual allocations to date and do not include allocations available for these uses but as yet unapproved. While these payments are a significant cash influx in the tobacco region, they still fall short of estimated income losses in the region due to declining tobacco income over the period. It is also important to note that some of the direct payments to tobacco growers have been transferred to quota owners as anticipated payments have been bid into escalating quota lease prices.

Finally, it is important to note that settlement payment allocations in states are generally subject to political tides. At least four states have elected to securitize their expected payments, opting for a discounted up-front payment. A number of states have established endowments, trusts, or foundations to receive and allocate future settlement payments. Sixteen states have also passed supplantation laws disallowing use of settlement monies to fund programs currently funded through recurring state revenue streams. Yet much of the experience to date has been during a period of economic growth. Recently, as economic conditions have deteriorated in many states, several states that had initially allocated money to health programs and other uses—including payments earmarked to endowments or trusts—have re-directed payments to recurring general expenses. Tennessee, Wisconsin, Maine, Ohio, Florida, North Carolina, and Missouri have all either recently used part or all of their settlement payments to plug holes in state general budgets or have considered it. Since decision making regarding settlement spending generally rests with political bodies, prior and current allocations are not necessarily an indicator of future uses.

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<sup>5</sup> It should be noted, however, that all of the negative economic pressure on the tobacco producing sector cannot be attributed to the tobacco settlement. A number of other pressures have played a significant role in declining demand for U.S. leaf tobacco.

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**Table 1. Tobacco settlement and Phase II payments (in millions of dollars) and allocations in tobacco growing states.**

	Phase II		MSA (Phase I)			Tobacco Control
	% Share	Expected Payments through 2010	Expected Payments through 2025	Payments through FY2001	% to Growers & Econ Dev't	% of CDC Minimum Recommendations
<i>Major Tobacco States</i>						
North Carolina	37.95	1,954.4	4,804.5	327.1	75%	0%
Kentucky	29.66	1,527.5	3,628.0	247.0	50%	24%
Tennessee	7.57	389.9	5,028.2	354.4	0%	0%
Virginia	6.58	338.9	4,212.2	294.2	50%	48%
South Carolina	6.94	357.4	2,423.3	169.2	25%	7%
Georgia	5.85	301.3	5,056.2	353.1	23%	49%
<i>Minor Tobacco States</i>						
Ohio	1.36	70.0	10,377.3	724.7	2%	
Indiana	1.16	59.7	4,202.0	293.5	0%	
Florida	1.13	58.2	13,000.0	1,100.0	0%	
Maryland	0.62	31.9	5,365.4	325.2	4%	
Pennsylvania	0.43	22.1	11,838.5	664.2	0%	
Missouri	0.42	21.6	4,685.7	338.0	0%	
West Virginia	0.28	14.4	1,826.1	127.5	0%	
Alabama	0.05	2.6	3,329.2	228.6	7%	