

# **State Management and Allocation of Tobacco Settlement Revenue 2003**

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- To promote policy innovation and communication among state legislatures.
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# CONTENTS

Introduction.....	1
The Master Settlement Agreement (MSA).....	2
Methodology.....	4
Overview of State Allocation and Management of Tobacco Settlement Revenue, 2000—2004.....	5
Review of 2003 Activity.....	7
Analysis of State Actions by Category, 2000-2004.....	9
State-by-State Review of Current Activity.....	23
Alabama.....	23
Alaska.....	24
Arizona.....	24
Arkansas.....	25
California.....	26
Colorado.....	27
Connecticut.....	28
Delaware.....	29
Florida.....	30
Georgia.....	31
Hawaii.....	31
Idaho.....	33
Illinois.....	33
Indiana.....	34
Iowa.....	36
Kansas.....	37
Kentucky.....	37
Louisiana.....	39
Maine.....	40
Maryland.....	41
Massachusetts.....	42
Michigan.....	43
Minnesota.....	44
Mississippi.....	45
Missouri.....	46
Montana.....	47
Nebraska.....	47
Nevada.....	48
New Hampshire.....	49
New Jersey.....	49
New Mexico.....	50
New York.....	51
North Carolina.....	51
North Dakota.....	53
Ohio.....	53
Oklahoma.....	54
Oregon.....	55
Pennsylvania.....	56

Rhode Island.....	57
South Carolina.....	57
South Dakota.....	58
Tennessee.....	59
Texas.....	59
Utah.....	60
Vermont.....	61
Virginia.....	62
Washington.....	63
West Virginia.....	64
Wisconsin.....	64
Wyoming.....	65

**List of Tables and Figures**

Table

1. Tobacco Settlement Revenue Received by the States.....	3
2. States That Have Securitized Tobacco Settlement Revenue.....	20
3. Allocation of Tobacco Revenues by Category, Fiscal Years 2000-2004.....	21

Figure

1. Allocation of Tobacco Revenues, Number of States in Each Category.....	23
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## Introduction

The Master Settlement Agreement (MSA) between the states and the tobacco industry created an unprecedented opportunity for using tobacco settlement revenues to fund critical programs and services. The November 1998 settlement with 46 states, estimated to total \$206 billion during the first 25 years, is the largest settlement of its kind. Four states—Florida, Minnesota, Mississippi and Texas—previously reached separate settlements with the tobacco industry that totaled \$40 billion. These agreements place no restrictions on how states spend the funds. In 2000, this new revenue came to states when their economies were at their strongest. Consequently, opportunities existed for creating new programs, increasing funding for existing programs, and experimenting with bold new financing strategies. Because of the historic nature and size of the tobacco settlement payments to the states, the opportunities, possibilities and potential controversies for using these funds were staggering. In the fall of 2001, lawmakers were called back to state capitols to address a drastically different and rapidly changing economic situation. As a result of the economic downturn, tough budgetary decisions have been made. In several states, MSA funds were diverted from a variety of programs to cover these budget shortfalls. In addition, several states decided to securitize all or a portion of their tobacco settlement payments in an effort to ease budget woes.

This report incorporates information collected by the National Conference of State Legislatures' Health Policy Tracking Service (HPTS) during the past year to provide a comprehensive review of the financial management and programmatic decisions made by state legislatures during the 2003 legislative sessions. It covers the 46 participating states and the four states with separate agreements, first reviewing the basic fiscal terms of the Master Settlement Agreement and the magnitude of the expected revenues. Through an examination of the actions taken by states during the past legislative session, the report then discusses decisions state legislatures and governors are making concerning the funds, including:

- Decisions on financial and governance structures for managing the funds; and
- Decisions on the substantive allocation of the funds.

The report provides examples of the many ways states have chosen to manage and appropriate tobacco settlement revenue. In addition, it describes prominent legislation in detail. Finally, the state-by-state review of current activity documents state legislative activity during the past year concerning the tobacco settlement funds.

## The Master Settlement Agreement (MSA)

### *How the Funds Are Allocated Among States*

Under the agreement, the 46 participating states, the District of Columbia, Puerto Rico, the Virgin Islands and the other territories receive payments from the tobacco companies in perpetuity. Starting in 1998, the first of five "up-front" payments were paid to the states. The Master Settlement Agreement calls for the tobacco companies to make five up-front payments of \$2.4 billion between 1998 and 2003. A 3 percent inflation factor is included for 2000 to 2003, e.g., \$2.4 billion in 1998 is increased by 3 percent to \$2.472 billion in 2000. There was no up-front payment in 1999. The up-front payments are as follows:

- \$2.400 billion in 1998,
- \$2.472 billion in 2000,
- \$2.546 billion in 2001,
- \$2.623 billion in 2002, and
- \$2.700 billion in 2003.

This year—2003—is the final year of the initial payments; for the next four years, states will receive only annual payments.

The Master Settlement Agreement calls for tobacco companies to make annual payments beginning in 2000. Current MSA tables stop at 2025 only for the sake of convenience; however, the annual payments continue in perpetuity. The annual payments are as follows:

- \$4.5 billion in 2000,
- \$5 billion in 2001, and
- \$6.5 billion in 2002 and 2003.

The following adjustments, reductions and offsets apply to each year's annual payment starting in 2000: inflation adjustment, cigarette volume adjustment and an adjustment for the payments to the four non-settling states.

Each state's annual allotment represents a fixed share of the total payments to be made by the tobacco companies in that year. Each state's share is based on a complex formula that accounts for the state's total historical health spending. The annual payment is determined by adjusting a 1998 base amount by a number of factors, including the consumer price index and the amount by which domestic tobacco sales decline. Thus, from year to year the precise amounts that states will receive does fluctuate.

State governments will receive payments from the Strategic Contribution Fund beginning in 2008. Tobacco manufacturers will pay \$86.1 billion into the fund. Revenue from the fund will be allocated to the states based on a strategic formula developed by state attorneys general. The formula reflects the individual contribution made by states toward the resolution of the state lawsuits against the tobacco manufacturers.

Because of various legal requirements states had to fulfill—enacting model state statutes and resolving all challenges to the MSA—funds from the Master Settlement Agreement were not available to the states until January 2000. At that time state lawmakers were developing budgets and appropriations for FY 2001.

In 2003 the states received \$8.03 billion in tobacco settlement revenue; this included the four states that settled outside the MSA.

Table 1 documents the total tobacco settlement revenue received by the states.

**Table 1. Tobacco Settlement Revenue Received by the States**

<i>State</i>	<i>Received in 2000</i>	<i>Received in 2001</i>	<i>Received in 2002</i>	<i>Received in 2003</i>	<i>Total</i>
Alabama	\$131,736,409	\$96,961,493	\$118,630,006	\$109,218,715	\$456,546,623
Alaska	\$27,942,084	\$21,176,139	\$24,251,255	\$23,073,194	\$96,442,672
Arizona	\$120,317,729	\$87,669,615	\$107,032,929	\$99,605,678	\$414,625,951
Arkansas	\$69,407,000	\$51,364,510	\$58,818,734	\$55,960,989	\$235,551,233
California	\$1,031,054,950	\$759,225,833	\$926,913,190	\$862,592,805	\$3,579,786,778
Colorado	\$112,192,822	\$85,026,250	\$97,374,439	\$92,643,323	\$387,236,834
Connecticut	\$149,965,089	\$110,430,429	\$134,820,753	\$125,465,456	\$520,681,727
Delaware	\$31,944,739	\$23,523,288	\$28,718,767	\$26,725,971	\$110,912,765
Florida	\$674,400,000	\$731,300,000	\$591,300,000	\$546,500,000	\$2,543,500,000
Georgia	\$200,875,545	\$152,235,170	\$174,343,618	\$165,873,123	\$693,327,456
Hawaii	\$48,616,707	\$35,800,091	\$43,707,219	\$40,674,230	\$168,798,247
Idaho	\$29,729,862	\$22,531,022	\$25,803,019	\$24,549,477	\$102,613,380
Illinois	\$380,980,784	\$288,674,835	\$330,597,675	\$314,535,767	\$1,314,789,061
Indiana	\$166,939,733	\$106,515,675	\$144,889,950	\$137,850,671	\$556,196,029
Iowa	\$71,174,516	\$53,940,181	\$61,773,891	\$58,772,398	\$245,660,986
Kansas	\$68,338,678	\$51,707,586	\$59,216,781	\$56,339,811	\$235,602,856
Kentucky	\$142,260,704	\$104,957,133	\$127,894,429	\$119,019,735	\$494,132,001
Louisiana	\$184,580,616	\$139,997,812	\$160,200,950	\$152,417,604	\$637,196,982
Maine	\$62,964,502	\$47,268,164	\$54,647,978	\$51,992,991	\$216,873,635
Maryland	\$184,998,320	\$140,202,664	\$160,613,718	\$152,762,495	\$638,577,197
Massachusetts	\$326,255,685	\$240,246,288	\$293,308,837	\$272,955,673	\$1,132,766,483
Michigan	\$351,536,279	\$258,862,265	\$316,036,565	\$294,106,198	\$1,220,541,307
Minnesota	\$785,511,000	\$336,997,000	\$368,600,000	\$152,905,300	\$1,644,013,300
Mississippi	\$479,380,776	\$211,149,286	\$209,029,285	\$149,605,074	\$1,049,164,421
Missouri	\$190,657,000	\$142,110,326	\$161,568,359	\$153,718,381	\$648,054,066
Montana	\$34,762,750	\$26,248,117	\$30,171,242	\$28,705,371	\$119,887,480
Nebraska	\$48,694,095	\$36,903,219	\$42,262,298	\$40,209,207	\$168,068,819
Nevada	\$49,917,764	\$37,830,589	\$43,324,589	\$41,219,611	\$172,292,553
New Hampshire	\$54,500,780	\$43,303,862	\$47,302,022	\$45,004,085	\$190,110,749
New Jersey	\$317,900,000	\$239,846,695	\$274,678,152	\$261,333,005	\$1,093,757,852
New Mexico	\$48,809,193	\$36,989,850	\$42,362,485	\$40,304,233	\$168,465,761
New York	\$1,030,897,883	\$754,339,700	\$926,773,228	\$862,462,784	\$3,574,473,595
North Carolina	\$188,394,370	\$142,728,818	\$169,369,780	\$157,616,647	\$658,109,615
North Dakota	\$29,954,971	\$22,701,724	\$25,998,662	\$24,735,367	\$103,390,724
Ohio	\$412,275,427	\$312,446,299	\$357,821,523	\$340,436,808	\$1,422,980,057
Oklahoma	\$84,798,608	\$64,265,818	\$73,598,339	\$70,022,502	\$292,685,267
Oregon	\$92,704,121	\$68,264,932	\$83,342,506	\$77,559,151	\$321,870,710
Pennsylvania	\$322,321,007	\$341,834,697	\$417,334,739	\$388,374,868	\$1,469,865,311
Rhode Island	\$58,835,017	\$44,589,359	\$51,066,062	\$48,583,865	\$203,074,303
South Carolina	\$96,275,037	\$72,961,122	\$83,557,847	\$79,498,302	\$332,292,308
South Dakota	\$28,558,111	\$21,642,999	\$24,786,182	\$23,581,862	\$98,569,154
Tennessee	\$202,952,503	\$151,394,114	\$173,380,106	\$164,956,568	\$692,683,291
Texas	\$2,236,754,636	\$974,220,834	\$1,002,820,911	\$499,993,000	\$4,713,789,381
Utah	\$36,410,034	\$27,593,646	\$31,600,739	\$30,065,603	\$125,670,022
Vermont	\$33,214,200	\$24,458,081	\$29,860,051	\$27,788,013	\$115,320,345
Virginia	\$167,348,039	\$126,823,184	\$145,241,224	\$138,184,596	\$577,597,043
Washington	\$168,040,940	\$127,351,202	\$145,845,703	\$138,759,931	\$579,997,776
West Virginia	\$72,548,901	\$54,981,783	\$62,966,617	\$59,907,320	\$250,404,621
Wisconsin	\$167,372,619	\$123,248,769	\$150,470,470	\$140,029,148	\$581,121,006
Wyoming	\$20,060,495	\$14,772,038	\$18,034,918	\$16,783,265	\$69,650,716
<b>TOTAL</b>	<b>\$12,027,991,040</b>	<b>\$8,191,615,705</b>	<b>\$9,234,062,742</b>	<b>\$8,027,009,440</b>	<b>\$37,480,678,927</b>

Source: National Association of Attorneys General, 2003.

## Methodology

Information about how each state allocated its tobacco settlement revenue for fiscal year 2004 was obtained by the National Conference of State Legislatures (NCSL) by contacting staff in the legislative fiscal offices of each state legislature or a staff person of comparable authority and knowledge in the legislature. NCSL has confined its collection of financial data to the appropriation of tobacco settlement revenue. NCSL does not collect information about expenditures. However, on a case-by-case basis, NCSL may note in this report where a state legislature has carried over an unexpended balance of tobacco settlement revenue from a previous fiscal year and appropriated the funds in FY 2004.

The National Conference of State Legislatures created nine categories by which to analyze the financial and programmatic actions of state legislatures. Those nine categories are listed below.

- **Health Services** includes funding for Medicaid, SCHIP, rural health, maternal and child health, treatment of mental illness and substance abuse, primary care, etc.
- **Long-Term Care** includes funding for respite care, home- and community-based waivers and prescription assistance.
- **Tobacco-use Prevention** includes community and school-based tobacco-use prevention programs, anti-media campaigns, tobacco control measures and tobacco cessation treatment.
- **Research** includes funding for biomedical research.
- **Education** includes funding for kindergarten through grade 12 education and tuition for and scholarships to community colleges, colleges and universities.
- **Children and Youth** includes funding for early childhood programs, after-school adolescent programs and juvenile justice programs.
- **Tobacco Farmers** includes funding for individual tobacco farmers and quota holders and community and rural development programs to attract industry to rural areas.
- **Endowments and Budget Reserve** includes rainy day funds and endowments established to fund program activities with the earnings. Most, but not all, of these endowments are for health services.
- **Other** includes a wide variety of activities, including tax relief, water resource projects and debt reduction.

NCSL has used these nine categories in past reports and continues to use them for this report. However, the analysis includes a section on *Securitization* of tobacco settlement revenue—when a state chooses to issue bonds and sell the revenue stream of future tobacco settlement payments for a set period of time. The state receives an up-front payment from the sale of the bonds. Because securitization represents future MSA payments, NCSL has not included in the analysis how the states allocated MSA payments they received this year. However, in future reports NCSL will include the revenue used to pay the debt service in the *Other* category. When a state has securitized tobacco funds, NCSL has credited the amount to the category for which the funds are to be used, e.g., *Education*.

## **Overview of State Allocation and Management of Tobacco Settlement Revenue, 2000—2004**

### *Initial State Actions*

The Master Settlement Agreement (MSA) does not place restrictions on how states spend the funds. In 2000, this new revenue came when state economies were at their strongest. Consequently, opportunities existed for creating new programs, increasing funding for existing programs, and experimenting with bold new financing strategies. Governors, legislators, policymakers and health advocates foresaw the opportunity to use these new funds to expand or develop health, human service and education programs.

Representative of those opportunities are the initiatives adopted by state legislatures in the following seven states.

### *Colorado*

- The Health Care Trust Fund, an endowment, was established to receive 50 percent of the annual payments. The interest earned from the endowment supports the new programs established by the legislature.
- The Read to Achieve Program was established for at-risk elementary school children.
- Substantial resources are to be allocated to tobacco-use prevention programs, substance abuse treatment, a nurse home-visit program, and the Children's Health Insurance Program.

### *Indiana*

The General Assembly decided to devote all the state's tobacco settlement revenue to health activities. In doing so, the General Assembly:

- Established a pharmaceutical assistance program using tobacco settlement funds;
- Devoted substantial funding to tobacco-use prevention to meet the Centers for Disease Control and Prevention (CDC) guidelines; and
- Emphasized the health needs of minority communities.

### *Kentucky*

The General Assembly enacted a formula by which 25 percent of the tobacco settlement revenue is used for early childhood health and education programs, 25 percent is used for health care services and, 50 percent is used to assist in the economic development of rural areas, especially individuals who depend on the growth of tobacco.

### *Louisiana*

The Legislature established the Millennium and Louisiana funds to meet the immediate and long-range needs of health care services, public schools and higher education.

### *Maine*

The Legislature established the Trust Fund for Healthy Maine to fund tobacco-use prevention and other health care priorities with the interest earned from the trust.

### *Michigan*

- The Legislature acted to devote 75 percent of the state's tobacco settlement revenue to providing scholarships to qualified students who will attend universities and community colleges in Michigan.
- The balance of funds is used for pharmaceutical assistance, long-term care and biomedical research.

### *Pennsylvania*

The General Assembly established several permanent funds and programs to address:

- Health insurance for the indigent;
- Home- and community-based care;
- Hospital charity care;

- Tobacco-use prevention;
- Pharmaceutical assistance to the elderly and disabled; and
- Health care research.

By the spring of 2001, 27 states had adopted legislation that established specific programs and formulas to manage and allocate tobacco settlement revenue.

#### *Economic Crisis*

In the fall of 2001, lawmakers were called back to state capitols to address a drastically different and rapidly changing economic situation. As a result of the economic downturn that began in January 2001, difficult budgetary decisions had to be made. Several state legislatures held special sessions to trim fiscal year (FY) 2002 state expenditures. In other states, governors took executive actions to impose budget cuts of up to 5 percent on FY 2002 expenditures.

As the 2002 legislative sessions began, state lawmakers and governors continued to seek reductions in current FY 2002 expenditures. Program expectations and budget plans were revised downward in light of the \$70 billion revenue shortfall for FY 2003. States were forced to identify new sources of revenue without raising taxes. Several state legislatures turned to securitization of tobacco settlement revenue—selling the revenue stream and receiving a lump sum, up-front payment to obtain the necessary funds to balance their budgets.

Due to continuing revenue shortfalls, the MSA payments have taken on greater importance as a source of revenue. Many state legislatures appropriated tobacco settlement revenue to their general funds to maintain current services and ensure that the indigent and working poor would not lose access to critical health and human services programs. In many cases, the legislatures in the 27 states that have specific legislation allocating tobacco funds have been forced to reduce or eliminate funding for programs that were established with tobacco settlement funds.

In allocating and managing the tobacco settlement revenue, state lawmakers have responded—and continue to respond—to the overall desires and concerns of their constituents. The appropriation of tobacco settlement revenue is subject to review by the public, initially in the governor’s proposed budget and subsequently through the legislative hearing process. During the past four years, governors and legislatures have blended the tobacco settlement revenue with general revenue funds to support essential state services.

## **Review of 2003 Activity**

The nation's economic downturn, which continued through 2002 and into 2003, influenced the tone and the course of the 2003 legislative sessions. Facing gaping budget deficits, state lawmakers cut program spending, including higher education, social services and health care. These actions were taken in response to an aggregate \$78.4 billion budget shortfall in FY 2004, which is more than 10 percent of state spending. During the past two fiscal years the cumulative revenue shortfall in the states exceeded \$160 billion. State lawmakers' preference to cut programs rather than increase taxes and revenue continues a trend that is the defining feature of the two-year state fiscal crisis. The states' fiscal fortunes began to decline in the spring of 2001 and now are entering their third straight year of budget shortfalls—FY 2002, FY 2003 and FY 2004.

### ***A Difficult Year***

State tax revenues were not the only source of funds that experienced a dramatic drop in 2003. The states received \$8.03 billion in tobacco settlement revenue, a dramatic drop of \$1.2 billion from the \$9.3 billion they received in 2002. This 11 percent drop in tobacco settlement revenue occurred because of one-time additional funds the states received in 2002. Money that had been held in escrow was released when it was determined that the tobacco settlement funds were not subject to federal income tax. Money also was released due to the resolution of a dispute with the Brown & Williamson Tobacco Company. Also contributing to the dramatic difference was the decline in the volume of cigarettes shipped by participating manufacturers due to sales by nonparticipating manufacturers of deep-discount cigarettes and the continuing decline in consumption—2.2 percent.

This loss of \$1.2 billion further exacerbated the states' revenue shortfalls and came at a time of continuing increases in health care and education costs and demand for services. States that had dedicated tobacco settlement revenue to specific health and education programs and trust funds were faced with the dilemma of continuing these special programs at the expense of the basic health and education needs of all state citizens.

Voter opinion polls reported a consistent message from state to state throughout the year—people do not favor increased taxes. The polls also indicated that the electorate does not favor cuts in health and human services programs. Therefore, legislators in several states had to forgo allocating funds for dedicated purposes in favor of allocating tobacco settlement revenue to the general fund to support a broad range of health, human service and education programs.

In 2003, nearly three-fourths of the states—37—allocated \$2.3 billion to health services. Although the number of states doing so declined from 41 last year, the percent of tobacco settlement revenue being allocated to health services remained virtually the same—28 percent in 2003 versus 29 percent in 2002. State legislatures allocated 39 percent of the tobacco funds to health care—health services, tobacco-use prevention, long-term care and biomedical research. The percentage allocated to tobacco-use prevention declined to 3 percent, after being consistently at 5 percent during the previous three years.

The amount of tobacco revenue devoted to education—primary, secondary and higher education—increased this year from 3 percent to 5 percent. Education is one of three categories to experience an increase in the amount of allocated tobacco settlement revenue. The shift represents the state legislatures' commitment to education as a priority. Clearly, the tobacco settlement funds were used in place of general revenue funds that were cut from school budgets.

The second category to experience an increase in funding was tobacco growers and communities, from 2 percent in 2002 to 3 percent in 2003. The \$294.7 million that was appropriated across six states is a clear indication of the legislatures' commitment to enhancing the economic and education alternatives and opportunities to disadvantaged communities and regions in tobacco growing states.

The third category to experience an increase in the amount of tobacco settlement revenue allocated to it was other, or general revenue. The fact that 36 states, nearly twice as many as last year, were forced to use tobacco revenue to support general revenue is directly linked to the economic downturn and the lack of tax revenue to maintain programs at current service levels. The states appropriated \$3.7 billion to other or general revenue. However, one-third of that amount is attributable to the fact that Minnesota liquidated its trust funds and deposited them in the general fund. In addition, Massachusetts allocated \$273 million to other rather than to health care as it has done in the past, and Ohio allocated \$280 million to other instead of its trust funds, as has been the case in the past.

The category that experienced the most significant decline in funds was endowment and budget reserves. The continued revenue shortfall prevented state legislatures from depositing tobacco settlement funds into reserve accounts. Just as any financially strapped family must forgo savings in favor of meeting basic needs, the states used the funds that previously had been deposited in endowments and trust funds for current health, human service and education programs.

### ***Future Outlook***

State budgets are showing little improvement over last year's financial woes and, in fact, are growing increasingly tighter in 2003. This fiscal reality has forced state leaders to announce new belt-tightening measures. Less than one month into the new fiscal year, eight states already expressed concern about the revenue outlook for FY 2004, and two had taken action to implement across-the-board cuts to alleviate financial problems.

In light of these developments, one can expect an increasing demand to use tobacco settlement funds to shore up declining revenue and to minimize the effects of budget cuts. Yet, as indicated earlier, significantly less tobacco settlement money will be available in 2004 because there no longer will be a January 1 initial payment from the tobacco manufacturers.

## Analysis of State Actions by Category, 2000-2004

### Health Services

Fiscal Year	Appropriation	Percent
2001	\$3,554,881,000	33.7%
2002	\$3,206,203,000	29.6%
2003	\$2,811,190,000	29.0%
2004	\$2,252,483,000	28.0%
Total	\$11,824,757,000	30.0%

State legislatures have used tobacco settlement revenue to meet expanding Medicaid enrollment and rising prescription drug costs. The allocation of tobacco settlement revenue to Medicaid has the added benefit of leveraging federal dollars at between a 2:1 and a 3:1 ratio. Because of the economic recession and rising health care costs, individuals without health insurance are even more vulnerable and dependent upon state health care programs. In response to this need, state lawmakers have chosen to use tobacco settlement revenue to protect health care budgets from drastic cuts. In addition, they have allocated tobacco settlement funds for indigent care programs, primary care, to increase insurance coverage for the working poor, for hospital charity care, the State Children's Health Insurance Program (SCHIP), community health centers and numerous other health purposes. For instance, the **Arizona** Legislature initially expanded its Arizona Health Care Cost Containment Service (AHCCCS) program to 100 percent of the federal poverty level and continues to dedicate all tobacco settlement revenue to health care services. The **Pennsylvania** General Assembly allocated \$509 million during the past four years, with significant amounts for the uninsured up to 200 percent of the federal poverty level.

Despite the nearly three-year economic downturn, at least 23 state legislatures maintained their commitment to the original legislation or tenets adopted to allocate and manage tobacco settlement revenue. Another four state legislatures have maintained their commitment to consistently devote substantial resources to health care despite fiscal crises. Although the amount of tobacco settlement revenue allocated to health services consistently declined from the FY 2001 high of \$3.6 billion, the percentage of tobacco funds allocated to health services has remained relatively consistent between FY 2002 and FY 2004. This is a clear indication of state legislatures' intent to distribute a substantial amount of tobacco settlement revenue to health services.

In the 2003 legislative sessions, the actual amount of tobacco settlement revenue appropriated declined by \$558.7 million from the previous year. However, the percentage of tobacco settlement revenue dedicated to health services remained nearly constant—29 percent in 2002 and 28 percent in 2003.

The state legislatures allocated \$2.3 billion to health services for FY 2004. State legislatures that allocated significant amounts include the following.

- The **Alabama** Legislature allocated \$34.1 million to help address rising costs in state Medicaid programs.
- The **Arizona** Legislature continued to direct all its tobacco settlement revenue to the Arizona Health Care Cost Containment Service (AHCCCS) Program.
- The **Florida** Legislature appropriated \$58.9 million for Medicaid services and \$87.6 million for the Florida Kidcare Program.
- The **Indiana** General Assembly appropriated \$23.8 million to SCHIP.
- The **Louisiana** Legislature allocated \$6.8 million for school-based health centers.

- The **Mississippi** Legislature maintained allocations at FY 2003 levels to fund the SCHIP program at 200 percent of the federal poverty level.
- The **Pennsylvania** General Assembly appropriated \$96.8 million for adult basic health insurance.
- The **Texas** Legislature appropriated \$402 million to insurance programs for children and the medically needy, an increase of approximately 50 percent.
- The **Vermont** General Assembly maintained appropriations for state Medicaid programs at \$17.2 million.
- The **Washington** Legislature allocated \$98.5 million to the SCHIP program, the Basic Health Plan, childhood vaccines and public health.

### *Long-Term Care*

Fiscal Year	Appropriation	Percent
2001	\$ 347,095,000	3.2%
2002	\$712,176,000	7.0%
2003	\$748,211,000	8.0%
2004	\$414,091,000	5.0%
Total	\$2,196,866,000	6.0%

During the past four years, state legislatures appropriated \$2.2 billion in tobacco settlement revenue to long-term care, including funding for respite care, home- and community-based waivers, and prescription drug assistance for senior citizens. The allocation of tobacco settlement revenue for long-term care increased dramatically in FY 2002 from the previous year—from \$347.1 million in FY 2001 to \$712.2 million in FY 2002. The number of state legislatures that appropriated funds to long-term care increased as well—from 12 states in FY 2001 to 16 in FY 2002. The number of state legislatures that appropriated funds, the percentage of total appropriations and the amount appropriated to long-term care increased in FY 2003 as well.

However, the allocation of tobacco settlement revenue to long-term care for FY 2004 contrasts with the trend of increasing appropriations. The number of state legislatures that allocated funds to long-term care decreased to 17 in comparison to 21 in FY 2002, and total allocations decreased by \$385.6 million from FY 2003 levels.. This decrease does not indicate that lawmakers view long-term care as a less important public health issue; rather, the decrease is due to lower enrollment in pharmaceutical assistance programs than expected, particularly in **Indiana** and **Missouri**.

The states allocated \$363 million to long-term care programs in the 2003 legislative sessions. The following state legislatures allocated significant amounts of tobacco settlement revenue.

- The **Alabama** Legislature allocated \$2.3 million for Medicaid waivers for senior citizens and \$1.5 million to the Senior Services Trust Fund.
- The **Delaware** General Assembly appropriated \$7.5 million for pharmaceutical assistance programs.
- The **Florida** Legislature appropriated \$24.8 million for home- and community-based long-term care for senior citizens.
- The **Illinois** Legislature appropriated \$149.3 million for pharmaceutical assistance to the elderly and disabled.
- The **Michigan** Legislature budgeted \$40 million for long-term care, including \$30 million for pharmaceutical assistance for seniors, \$5 million for personal needs assistance and \$5 million for respite care.

- The **Pennsylvania** General Assembly appropriated over \$90 million for long-term care. This appropriation includes \$34.4 million for pharmaceutical assistance and \$55.9 million for home- and community-based care.

***Tobacco-use Prevention***

Fiscal Year	Appropriation	Percent
2001	\$ 548,429,000	5.1%
2002	\$550,135,000	4.9%
2003	\$448,088,000	5.0%
2004	\$265,766,000	3.0%
<b>Total</b>	<b>\$1,812,418,000</b>	<b>4.0%</b>

State legislatures allocated a historic \$1.8 billion to tobacco-use prevention during this four-year period. This amount is more than four times the investment by the federal government (Centers for Disease Control and Prevention) in tobacco-use prevention during the same period. Prior to the MSA, only a handful of states appropriated state funds for tobacco-use prevention. State legislatures used tobacco settlement revenue to establish new programs and to expand and enhance existing programs. During the past four years the following state legislatures have appropriated significant amounts to tobacco-use prevention.

- The **Florida** Legislature appropriated a total of \$162 million.
- The **Illinois** General Assembly appropriated \$26.2 million in FY 2001 and nearly doubled that amount to \$51.5 million in FY 2002.
- The **Indiana** General Assembly followed CDC guidelines and appropriated \$71 million during the past four years.
- The **Pennsylvania** General Assembly allocated \$41.4 million in FY 2002 and 12 percent of tobacco settlement revenue in future years for a total of \$145 million.

In the 2003 legislative sessions, 33 state legislatures appropriated \$266 million in settlement funds to tobacco-use prevention, smoking cessation, and community- and school-based education programs. Six states increased the amount they allocated for prevention in contrast to 2002 appropriations, while six states appropriated the same amount as in 2002.

- The **Delaware** General Assembly appropriated 31 percent of the state’s tobacco settlement revenue to tobacco-use prevention programs.
- The **Georgia** General Assembly allocated \$12.7 million for tobacco-use prevention and cessation programs.
- The **Illinois** General Assembly appropriated \$15.8 million to seven tobacco-use prevention programs.
- The **Maine** Legislature allocated \$14.6 million for programs that include grants to community- and school-based programs and statewide antismoking media campaigns.
- The **Maryland** General Assembly appropriated \$16.2 million for tobacco-use prevention and cessation programs.
- The **Mississippi** Legislature maintained funding at \$20 million for FY 2004.
- The **Montana** Legislature increased appropriations to tobacco-use prevention programs by \$2.9 million above FY 2003 appropriations.

- The **Pennsylvania** General Assembly allocated \$51.6 million for tobacco-use prevention and cessation programs.
- The **Virginia** Legislature adhered to existing legislation and appropriated 10 percent of the state’s tobacco settlement revenue—\$13.8 million—to the Tobacco Prevention Trust Fund.
- The **Washington** Legislature appropriated \$15 million to tobacco-use prevention programs.

In the face of fiscal crises and the decline in the amount of MSA payments, 21 states were forced to reduce funding for tobacco-use prevention programs, and eight of these states eliminated funding for FY 2004. These figures include several state legislatures that previously were praised by health advocates for their cessation and prevention programs. Many state lawmakers indicated that reductions are temporary and that they intend to restore funding in the upcoming fiscal year. In many states, lawmakers framed the issue as a choice between funding key health and human services programs or funding cessation and prevention programs.

In six states, the actual amount of tobacco funds appropriated for prevention programs declined, yet the percentage of tobacco funds devoted to prevention programs increased. This is a clear indication of the states’ commitment to tobacco-use prevention.

State action to increase the percentage of funds appropriated to tobacco-use prevention programs include the following.

- The **Delaware** General Assembly increased both the financial amount and the percentage of tobacco settlement revenue appropriated to tobacco-use prevention programs.
- The **Maine** Legislature’s appropriation to tobacco-use prevention programs increased to 29 percent of the total appropriation of tobacco settlement revenue, a 10 percent increase from FY 2003 appropriations.
- The **Mississippi** Legislature maintained allocations to tobacco-use prevention programs at \$20 million. Due to a decrease in the amount of the state’s MSA payment, the percentage of tobacco settlement revenue appropriated to prevention programs increased to 16 percent.
- The **Pennsylvania** General Assembly reduced funding for prevention and cessation programs by \$0.4 million, yet lawmakers appropriated 13 percent of the state’s total MSA payment to prevention programs, representing a 1 percent increase from FY 2003 appropriations.
- The **Utah** Legislature’s appropriation to prevention programs remained constant at \$4 million. However, the percentage of tobacco funds allocated to prevention programs increased due to a decline in the amount of the state’s MSA payment.

**Research**

Fiscal Year	Appropriation	Percent
2001	\$ 348,069,000	3.2%
2002	\$612,081,000	5.7%
2003	\$284,139,000	3.0%
2004	\$226,474,000	3.0%
Total	\$1,472,863,000	4.0%

During the past four years, as many as 16 states have allocated tobacco settlement revenue to biomedical research, including research on tobacco-related illnesses. State legislatures that appropriated significant amounts include the following:

- The **Illinois** General Assembly allocated a total of \$257 million to fund scientific and biomedical research at state universities.
- The **Maryland** General Assembly appropriated \$136 million to fund research on tobacco-related illnesses.
- The **Michigan** Legislature appropriated \$200 million to four major health research centers.

Fifteen state legislatures allocated \$226 million in the 2003 legislative sessions. In many states, the research is directed at finding the causes of or curing tobacco-related illnesses such as cancer and emphysema.

- The **Arkansas** General Assembly provided \$9.6 million in tobacco settlement revenue for research conducted at the University of Arkansas Bioscience Center.
- The **Florida** Legislature appropriated \$13.7 million for biomedical and cancer research.
- The **Kentucky** General Assembly appropriated \$5.4 million for lung cancer research.
- The **Illinois** General Assembly appropriated a total of \$18.7 million—\$13.8 million for excellence in academic medicine research programs, \$3 million to expand research facilities, and \$1.9 million for sickle cell research.
- The **Maryland** General Assembly again appropriated \$32.8 million for research and treatment of cancer and tobacco-related diseases at Johns Hopkins University and the University of Maryland Medical Center.
- The **Michigan** Legislature’s FY 2004 budget appropriated \$10 million for the Life Sciences Initiative.
- The **Nebraska** Legislature appropriated \$10 million for biomedical research.
- The **Ohio** General Assembly appropriated \$23.3 million to the Biomedical Research and Technology Transfer Fund.
- The **Pennsylvania** General Assembly allocated \$81.8 million for cancer and general health research.

### **Education**

<b>Fiscal Year</b>	<b>Appropriation</b>	<b>Percent</b>
<b>2001</b>	<b>\$442,388,000</b>	<b>4.2%</b>
<b>2002</b>	<b>\$866,790,000</b>	<b>8.3%</b>
<b>2003</b>	<b>\$342,630,000</b>	<b>3.0%</b>
<b>2004</b>	<b>\$379,374,000</b>	<b>5.0%</b>
<b>Total</b>	<b>\$2,051,182,000</b>	<b>5.0%</b>

During the past four years, as many as 15 state legislatures have allocated tobacco settlement revenue for public primary and secondary education and higher education endeavors. Foremost among these efforts are the tuition assistance and scholarship programs in **Louisiana, Michigan** and **Nevada**. The number of state legislatures that allocate revenue to education has remained relatively consistent during the past four years—15 state legislatures in FY 2001, 14 in FY 2002, 14 in FY 2003 and 15 in FY 2004. Clearly, state legislatures maintained their commitment to the original legislation or tenets adopted to allocate and manage tobacco settlement revenue.

In FY 2004, 15 states allocated \$379.4 million, which represents a \$36.7 million increase from FY 2003 appropriations to education. Education is one of three categories to experience an increase in appropriations. Several states allocated funds to school districts to address past problems of inadequate funding.

- The **Colorado** General Assembly allocated \$11.3 million to the Read to Achieve Program and regional library systems.
- The **Louisiana, Michigan** and **Nevada** legislatures continue to address the needs of college students. Each has created a trust fund to provide scholarships to state residents who decide to attend state community colleges, colleges and universities.
- The **New Hampshire** General Court continues to distribute nearly all its tobacco settlement revenue to education.
- The **Ohio** General Assembly appropriated \$35.7 million in tobacco settlement revenue to three education trust funds.
- The **Texas** Legislature continues to allocate tobacco settlement revenue to an education endowment. The endowment distributed \$45.6 million for higher education programs at 13 university health centers.

### *Children and Youth*

Fiscal Year	Appropriation	Percent
2001	\$450,148,000	4.2%
2002	\$270,600,000	2.2%
2003	\$277,572,000	3.0%
2004	\$231,399,000	3.0%
<b>Total</b>	<b>\$1,229,719,000</b>	<b>3.0%</b>

As many as 11 state legislatures have appropriated tobacco settlement revenue to children and youth programs. Due to specific earmarks that manage the allocation of revenue, both the number of state legislatures that allocate revenue to children and youth programs and the percentage of revenue dedicated to such programs have remained relatively constant. For instance, legislation enacted in 2000 requires the **Kentucky** General Assembly to allocate 25 percent of the state’s MSA payments to children and youth programs. Legislation enacted in 1999 requires the **Alabama** Legislature to transfer tobacco settlement revenue to the Children’s First Program.

During the 2003 legislative sessions, 11 state legislatures allocated \$231.4 million in tobacco settlement revenue to children and youth programs.

- The **Alabama** Legislature allocated \$14.7 million for school safety, alternative schools, boot camps and various other activities to prevent juvenile delinquency and stop teenagers from being drawn into gangs and cults.
- The **Florida** Legislature continued appropriations of tobacco settlement revenue to foster care programs in FY 2004.
- The **Kansas** Legislature, through its Children’s Initiatives Fund, appropriated funds for juvenile justice, early childhood development, school violence prevention efforts, and parent education and training.
- The **Kentucky** General Assembly allocated \$27 million for childhood development activities, which will allow for expansion of the Healthy Start Program and childhood development.

- The **Maine** Legislature allocated approximately 20 percent—\$10.4 million—of its tobacco settlement revenue for preschool subsidies, Head Start, after school services for adolescents, and professional positions at community services centers.

**Tobacco Farmers**

Fiscal Year	Appropriation	Percent
2001	\$ 320,967,000	3.0%
2002	\$366,143,000	3.4%
2003	\$235,226,000	2.0%
2004	\$294,685,000	4.0%
<b>Total</b>	<b>\$1,217,021,000</b>	<b>3.0%</b>

The May 2001 report of the President’s Commission on Improving Economic Opportunity in Communities Dependent on Tobacco Products notes in its findings that “... tobacco farmers and their communities confront a bleak future ... the loss of tobacco farms and the income they generate has had disastrous repercussions for tobacco dependent communities.” The report’s recommendations call on governments and policymakers to “ ... consider the broadest range of economic actions to assist farmers, tobacco farm families, and their communities in promoting their prosperity, stability and way of life.” The report goes on to suggest the following:

- Creation of economic redevelopment and diversification,
- Support for supplemental crops and livestock,
- Research into non-harmful uses of tobacco, and
- Development of the infrastructure to process alternative crops.

The state legislatures in nine tobacco growing states—**Alabama, Georgia, Indiana, Kentucky, Maryland, North Carolina, Ohio, South Carolina** and **Virginia**—have enacted legislation to assist tobacco growers and communities that already have been affected by the reduced quotas from tobacco companies. The programs vary in scope, but the goals and activities closely follow the President’s Commission report.

A total of \$1.2 billion has been appropriated during the past four years. During this period, state legislatures have demonstrated a consistent commitment to providing economic assistance to tobacco growers and communities. Six state legislatures appropriated revenue to tobacco growers and communities in FY 2001-2003, and seven state legislatures appropriated tobacco settlement revenue in FY 2004. The **Kentucky** General Assembly, the **North Carolina** General Assembly and the **Virginia** General Assembly contribute to this consistency through legislation that requires lawmakers to devote 50 percent of tobacco settlement revenue to economic assistance programs.

In the 2003 legislative sessions, seven state legislatures allocated \$294.7 million in tobacco settlement revenue to economic assistance programs.

- The **Georgia** General Assembly established the OneGeorgia Authority and appropriated tobacco settlement revenue to attract business and industry to rural Georgia. The EDGE (Economic Development, Growth and Expansion) Fund uses funds to assist Georgia communities that are competing for a business with a

community from another state. The Equity Fund finances activities that assist communities to promote the health, welfare, safety and economic security of the citizens of the state through the development and retention of employment opportunities in areas of greater need. Lawmakers allocated \$70.8 million to the OneGeorgia Authority in FY 2004.

- The **Kentucky** Agricultural Development Board approved a plan in mid-July to earmark \$20 million of the state’s annual MSA payments for a loan program aimed at assisting tobacco farmers. The Agriculture Investment Trust would help tobacco farmers obtain loans to diversify their crops. In addition, state authorities would work with local banks to buy down interest rates. As a result, an increasing number of farmers can afford loans to assist in crop diversification. This new trust fund theoretically will exist in perpetuity; as loans are repaid, revenue becomes available for additional loans.
- The **Maryland** General Assembly continues to implement a successful tobacco farmer buyout program. As of January 2004, 785 tobacco farmers will participate in the buyout program. This figure represents 80 percent of the eligible growers in the state and 7.3 million pounds of tobacco. The state's buyout program is designed to provide farmers with an opportunity to make the conversion and find an alternate crop or use for the land. Farmers enrolled in the program are paid \$1 per pound of tobacco, based on the average amount they sold from 1996 to 1998. The General Assembly allocated \$5.1 million to the program in FY 2004.
- The **Virginia** Tobacco Indemnification and Community Revitalization Commission has responsibility for half the state's tobacco settlement revenue. The commission has heavily emphasized training and education of tobacco farmers and their families, alternative crops and development of alternative uses for tobacco. The commission also uses the funds for direct payments to tobacco growers and economic development in the state's two tobacco growing regions—southside and southwest Virginia. For example, the fund awarded more than \$1 million in economic development grants to Lunenburg County in 2003. The grant will finance upgrades to water treatment facilities and renovations to fishing industries.

***Endowments and Budget Reserves***

Fiscal Year	Appropriation	Percent
2001	\$3,033,904,000	29.0%
2002	\$2,630,340,000	24.0%
2003	\$1,781,523,000	18.0%
2004	\$195,442,000	2.0%
<b>Total</b>	<b>\$7,636,209,000</b>	<b>19.0%</b>

One of the first decisions state legislatures had to make in 2000 was how best to manage the tobacco settlement funds. Were there issues in the state that needed immediate attention and funding? Was it better to develop long-term plans that establish programs and provide an independent source of funds in perpetuity? Twenty state legislatures chose to establish endowments or continue to deposit tobacco settlement revenue in trust funds to provide newly created or existing programs with an independent source of revenue.

During the past four years, the states have allocated \$7.6 billion to endowments, trust funds and budget reserves. However, only 11 state legislatures allocated \$195.4 million to endowments and trust funds in the 2003 legislative sessions, a dramatic decrease of 16 percent. Last year, 16 states allocated \$1.8 billion. This dramatic shift is a direct result of the states' revenue shortfalls. State legislatures are to be complimented for their foresight in creating endowments, trust funds and budget reserves that may be of assistance in difficult economic circumstances. The reduction of revenue allocated to endowments and budget reserves may allow state legislatures to address current education and health and human services programs. In this regard, the decline in the amount of revenue allocated to reserves is analogous to the typical American family in difficult economic circumstances. The typical family reduces the amount of revenue deposited into a savings account in favor of meeting basic needs.

State legislatures that allocated tobacco settlement revenue to endowments and budget reserves include the following.

- The **Colorado** General Assembly appropriated a total of \$7.1 million to the State Veterans Trust Fund and the Tobacco Settlement Trust Fund.
- The **Hawaii** Legislature appropriated \$12.4 million to the Emergency and Budget Reserve Fund. State statutes restrict these funds to urgent needs for public health, safety, welfare and education programs.
- The **Indiana** General Assembly allocated \$37.5 million to the 21<sup>st</sup> Century Research and Technology Fund. The fund awards grants to organizations that stimulate and diversify the state's economy.
- The **Montana** Legislature appropriated \$11.3 million to the Health Care Trust Fund. The interest from the fund may be appropriated to health care programs.

**Other**

Fiscal Year	Appropriation	Percent
2001	\$1,663,910,000	16.0%
2002	\$1,738,348,000	16.2%
2003	\$2,903,624,000	29.0%
2004	\$3,704,416,000	47.0%
<b>Total</b>	<b>\$7,912,723,000</b>	<b>25.0%</b>

State legislatures have allocated \$7.9 million in tobacco settlement revenue—25 percent of total appropriations—to other programs during this four-year period. The amount of revenue allocated to other programs and the percentage of total revenue allocated to other programs have consistently increased each year, although the FY 2002 increases are relatively marginal. The allocation of revenue to other programs increased substantially in FY 2003 and FY 2004, mirroring the economic downturn that continues to strain state budgets. The allocation of revenue to the general fund assisted state legislatures in meeting the constitutional requirement of a balanced budget. Although public health organizations have consistently criticized the allocation of revenue to programs other than health care, lawmakers have asserted that the allocation of tobacco settlement revenue to replace lost general revenue may minimize cuts to health and human services programs.

In the 2003 legislative sessions, state legislatures allocated \$3.7 billion to other programs for FY 2004, an increase of \$800.8 million from FY 2003 appropriations. The percentage of total revenue allocated to other programs increased substantially as well—47 percent in FY 2004 compared to 29 percent in FY 2003. The transfer of revenue from endowments and reserves to state general funds accounts for 16 percent of this 18 percent increase. Lawmakers justified appropriations to state general funds by indicating that funding for Medicaid and other critical health and human services programs would be reduced without transfers to state general funds. A degree of variation does exist among the state legislatures that appropriated tobacco settlement revenue to state general funds. Eight states—**California, Connecticut, Massachusetts, Minnesota, New Mexico, New York, Tennessee** and **Wisconsin**—appropriated their entire 2003 MSA payment to the general fund to address budget deficits and rising health care costs. The **Ohio** General Assembly appropriated 82 percent of its 2003 MSA payment to the general fund.

### *Securitization of Tobacco Settlement Revenues*

Securitization is the process by which a state sells the revenue stream of its tobacco settlement payments, for a set number of years, in return for a single, up-front payment. Although the up-front payment is less than the sum of the annual payments, a state receives one large payment and has the flexibility of establishing an endowment, applying the sum to a major program, or addressing a fiscal crisis that may threaten continued funding for basic services. It has been compared to a lottery winner accepting an up-front payment in lieu of a 20-year annuity.

Initially, states were attracted to securitization due to the concern that the MSA payments would bankrupt the major tobacco companies and prevent them from making the annual payments. By securitizing, states would be able to transfer the risk of those payments to bondholders and, in turn, the state receives a large up-front payment. For other states the attraction is the opportunity to obtain a critical mass of funds that would allow them to initiate a major project or program.

The tobacco settlement revenue bonds are sold like any other state capital improvement bond offering through an existing or newly established quasi-state agency. This provides security for state general funds; if the tobacco companies were to go bankrupt and default on MSA payments, state general funds could not be used to pay off the bondholders.

Severe fiscal crises forced eight states—**California, Connecticut, New Jersey, New York, Oregon, Rhode Island, Washington** and **Wisconsin**—to securitize all or part of the tobacco settlement revenue they were to receive in the next 20 years. The up-front payment allowed these states to avert a fiscal crisis and severe reductions to health, education and human service programs.

Early in 2003, 13 states—**Colorado, Florida, Illinois, Indiana, Kansas, Louisiana, Michigan, Minnesota, Nevada, New York, Oregon, South Carolina** and **Texas**—were considering securitizing their tobacco settlement revenue. In March 2003, the opportunity and ability to securitize tobacco settlement revenue were drastically affected by the ruling in the *Price vs. Philip Morris USA* lawsuit in Illinois. The appeal bond in the case was set at \$12 billion. Philip Morris' ability to post the bond directly affected its ability to fulfill its share of the annual MSA payment. If the company were unable to make the annual payment, this would directly affect current and future MSA payments and bond holders. The increased risk of the settlement payments increased the risk of the bonds and the interest rate. The higher interest rates on the bonds decreased the amount of money a state would realize from the sale of tobacco bonds. As a result, **New York** was the only state to securitize its tobacco settlement revenue. It realized \$4.2 billion from the sale, but only after it had pledged general revenue funds in the event there were insufficient funds to pay the bonds.

In August 2003, two states returned to the tobacco bond market and securitized tobacco funds as part of final negotiations to enact a FY 2004 budget. **Connecticut** Governor John Rowland (R) and state lawmakers agreed to

securitize \$300 million in tobacco settlement revenue, and **California** decided to securitize the balance of its tobacco settlement funds for \$2.2 billion.

Table 2 provides information on states that have securitized, the amount of revenue generated by the sale of tobacco bonds and the distribution of the additional revenue.

Table 3 lists the appropriation of tobacco settlement revenue to the nine categories in each fiscal year and indicates the percentage of total revenue appropriated to each category.

Figure 1 provides a diagram that illustrates the number of state legislatures that allocated tobacco settlement revenue to each category in each fiscal year.

**Table 2. States That Have Securitized Tobacco Settlement Revenue**

<b>STATE and YEAR</b>	<b>AMOUNT</b>	<b>PURPOSE</b>
<b>Alabama (2000)</b>	\$50 million	Industrial bonds to attract new industry and new jobs
<b>Alaska (2000, 2001)</b>	\$242 million	Remodel and build new schools, rehabilitate buildings at University of Alaska and upgrade several port facilities
<b>Arkansas (2001)</b>	\$60 million	Biomedical research facilities
<b>California (2002, 2003)</b>	\$4.2 billion	Deficit; sale in January 2003 and later on in 2003
<b>Connecticut (2003)</b>	\$300 million	General revenue
<b>Iowa (2001)</b>	\$644 million	Retire capital debt, freeing up general revenue that is dedicated to health care services
<b>Louisiana (2001)</b>	\$1.2 billion	Millennium Fund (endowment) to be used for health care, education and scholarships
<b>New Jersey (2002)</b>	\$1.8 billion	Deficit
<b>New York (2003)</b>	\$4.2 billion	Deficit
<b>North Dakota (2000)</b>	\$32 million	Debt service on water resource and flood control projects
<b>Oregon (2002)</b>	\$200 million	Deficit
<b>Rhode Island (2002)</b>	\$685 million	Retire capital debt, deficit
<b>South Carolina (2000)</b>	\$934 million	73% Health Care Endowment, balance for rural infrastructure, tobacco farmers
<b>South Dakota (2002)</b>	\$278 million	Education Endowment
<b>Washington (2002)</b>	\$518 million	Deficit
<b>Wisconsin (2001)</b>	\$1.6 billion	Deficit

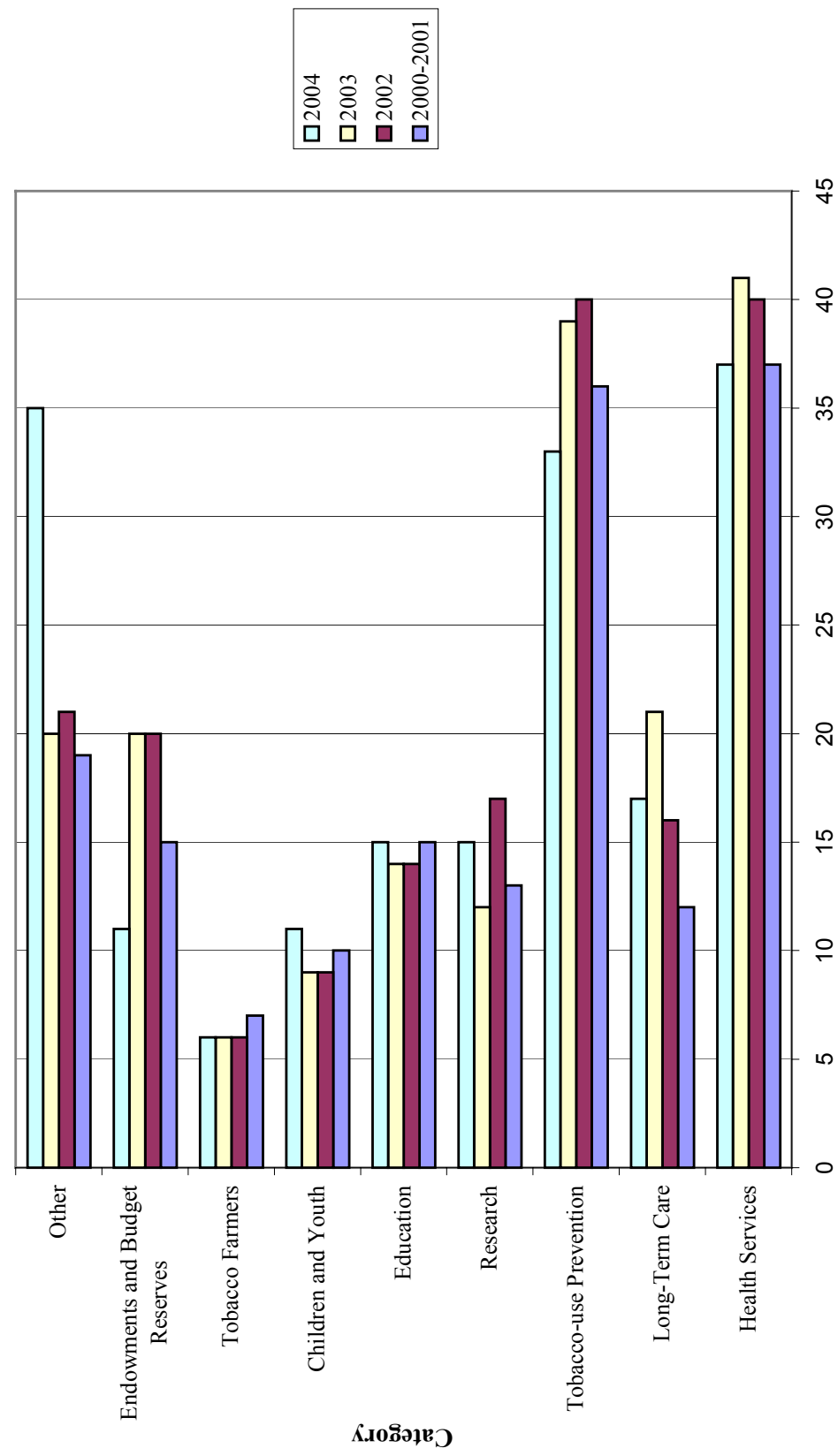
Source: National Conference of State Legislatures, Health Policy Tracking Service, 2003.

**Table 3. Allocation of Tobacco Revenues by Category, Fiscal Years 2000-2004  
(Dollars in thousands)**

Category	Allocation of Tobacco Revenue, FY 2000 and 2001		Allocation of Tobacco Revenue, FY 2002		Allocation of Tobacco Revenue, FY 2003		Allocation of Tobacco Revenue, FY 2004		Allocation of Tobacco Revenue, FY 2000-2004	
	Amount	Percentage of Total	Amount	Percentage of Total	Amount	Percentage of Total	Amount	Percentage of Total	Amount	Percentage of Total
Health Services	\$3,554,881	33%	\$3,206,203	29%	\$2,811,190	29%	\$2,252,483	28%	\$11,824,757	30%
Long-Term Care	\$347,095	3%	\$712,176	7%	\$748,211	8%	\$362,584	5%	\$2,168,066	6%
Tobacco-use Prevention	\$548,429	5%	\$550,135	5%	\$448,088	5%	\$265,766	3%	\$1,812,418	5%
Research	\$348,069	3%	\$612,081	6%	\$284,139	3%	\$226,474	3%	\$1,472,863	4%
Education	\$442,388	4%	\$886,790	8%	\$342,630	3%	\$379,374	5%	\$2,051,182	5%
Children and Youth	\$450,148	4%	\$270,600	2%	\$277,572	3%	\$231,399	3%	\$1,229,719	3%
Tobacco Farmers	\$320,967	3%	\$366,143	3%	\$235,226	2%	\$294,685	4%	\$1,217,021	3%
Endowments and Budget Reserves	\$3,033,904	29%	\$2,630,340	24%	\$1,781,523	18%	\$195,442	2%	\$7,636,209	19%
Other	\$1,663,910	16%	\$1,738,418	16%	\$2,903,624	29%	\$3,704,416	47%	\$10,015,368	25%
Total	\$10,709,791	100%	\$10,972,886	100%	\$9,832,203	100%	\$7,912,723	100%	\$39,427,603	100%

**Source:** National Conference of State Legislatures, Health Policy Tracking Service, 2003.

**Figure 1. Allocation of Tobacco Revenues**  
Number of States in Each Category



**Source:** National Conference of State Legislatures, Health Policy Tracking Service, 2003.

## State-by-State Review of Current Activity

This section provides a brief, state-by-state history leading to the 2003 debate on how the tobacco settlement revenue for FY 2004 was appropriated. Each state table displays the state's allocation of tobacco settlement revenue during the past four fiscal years. The figures are in thousands of dollars (e.g., \$2,537 equals \$2,537,000); the categories are explained in the previous section.

### Alabama

#### *Background*

In 1999, the Alabama Legislature created the 21<sup>st</sup> Century Fund to allocate the state's share of the tobacco settlement revenue. The legislation stipulated that the first \$50 million received by the state is retained in the fund for debt service on five industrial bonds. The balance, up to \$60 million, is transferred to the Children's First Program. If there continues to be a balance in the 21<sup>st</sup> Century Fund, the remaining money is deposited into the general revenue fund. Of the amount transferred to the general fund, up to \$45 million is to be used for Medicaid.

The allocation for FY 2003 differed slightly from the allocation schedule adopted in 1999. The appropriation to the Children's First Program, \$62.16 million, exceeded the established \$60 million limit. The appropriation funded various health and youth services programs. Only \$13 million was retained by the state for debt service.

#### *2003*

Although Alabama received \$109.2 million in tobacco settlement revenue, the Legislature appropriated only \$103 million. It is anticipated that a special session will be held in September 2003, and the Legislature may introduce legislation to appropriate the remaining tobacco settlement revenue received this year.

As a result of the lower amount of tobacco settlement revenue received and appropriated by the Legislature, the appropriation of tobacco settlement revenue to the Children's First Program decreased to \$53.7 million. Similarly, the allocations for other health, education, and children and adolescent programs were less than in previous years. Financial requirements dictated that \$13 million be allocated for debt service on the previously issued tobacco bonds.

Specific appropriations are highlighted below.

- \$13 million for debt service on bonds issued through the Alabama 21<sup>st</sup> Century Fund;
- \$53.7 million for the Children's First Trust Fund for various public health, mental health, education, juvenile probation and Department of Youth Services programs and activities;
- \$1.5 million for the Senior Services Trust Fund; and
- \$34.1 million for state Medicaid programs.

In the final days of the special legislative session held in September 2003, lawmakers amended state statutes that govern the Children's First Program's use of tobacco settlement revenue. Existing statutes stipulated that agencies involved in the program could not use tobacco settlement revenue to address budget shortfalls; rather, the revenue must fund new programs. The amendments allow agency directors to use tobacco revenue as they see fit. While advocates of the Children's First Program stated their preference for strictly using tobacco settlement revenue for new programs, proponents of the amendment asserted that the use of revenue to address budget shortfalls may sustain existing programs.

**Allocation of Tobacco Settlement Revenue**  
FY 2004 Estimated (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000	\$503	\$75,669	\$4,207		\$11,062	\$14,268			\$25,897	\$131,742
2001	\$567	\$59,735	\$4,808		\$12,268	\$15,808	\$500		\$8,433	\$101,614
2002	\$635	\$65,290	\$4,450		\$13,655	\$17,580			\$10,365	\$115,077
2003	\$620	\$68,282	\$4,440		\$13,632	\$16,930			\$13,000	\$116,904
2004	\$537	\$59,084	\$3,837		\$11,817	\$14,675			\$13,000	\$102,950

**Alaska**

*Background*

During the 2000 and 2001 legislative sessions, the Alaska Legislature chose to first securitize 40 percent and then 80 percent of its tobacco settlement revenue. The state realized \$202 million from the sale of the bonds and is using \$169 million to remodel and build new school facilities, \$20 million for construction of buildings at the University of Alaska and \$13 million for harbor facilities at Ketchikan, Sitka, Anchorage and Pelican Harbor. The remaining 20 percent of the tobacco settlement revenue was allocated to the Tobacco Use and Education Fund.

In 2002, the state devoted the majority of its MSA payments to debt service on the tobacco bonds issued in 2000 and 2001. The state distributed the remaining revenue to health and tobacco prevention programs.

*2003*

In 2000, the state affiliate of the American Cancer Society brought suit against the state for securitizing part of its tobacco settlement revenue. The association asserted that the bond sale committed lawmakers to spend revenue in a specific manner. The association argued that this aspect of the bond sale violated the state constitution's prohibition against earmarking funds. In April 2003, the state Supreme Court upheld the Legislature's decision to allocate \$93 million in future MSA payments to rural construction projects. The Court's majority opinion held that tobacco settlement revenue constitutes state property rather than income. The Legislature has the authority to sell state property.

**Allocation of Tobacco Settlement Revenue**  
FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000	\$1,400	\$26,593				\$1,344			\$361	\$29,338
2001	\$1,211	\$19,712								\$20,923
2002	\$1,211	\$13,379			\$198,727				\$13,000	\$226,317
2003	\$4,512	\$1,554							\$18,185	\$24,251
2004	\$3,643	\$1,753							\$17,677	\$23,073

**Arizona**

*Background*

In 2000, Arizona voters approved Proposition 204 to authorize the use of all tobacco settlement funds for the Arizona Health Care Cost Containment System (AHCCCS)—the state's Medicaid program. In 2001, the Legislature enacted legislation to implement Proposition 204. The law directs the tobacco settlement revenues to the AHCCCS program and expands eligibility for the program from individuals with an annual income level of 60 percent of the federal poverty level (FPL) to 100 percent of the FPL.

In 2002, Governor Jane Dee Hull (R) suggested using some of the state's tobacco settlement revenue for the state's revenue shortfall. Because of a decrease in the amount of tobacco settlement funds the state received in 2002, additional general funds were required to maintain the AHCCCS program at 100 percent of the FPL. The House Appropriations Committee attempted to limit the amount of general funds being spent on the AHCCCS program. This action would have reduced the number of people being served. The proposal ultimately was defeated in the Legislature, as was the governor's proposal to use tobacco settlement revenue to address the budget shortfall. The AHCCCS program was fully funded.

### 2003

The Arizona Legislature's allocation of the state's MSA payment followed the stipulations of Proposition 204, despite continuing revenue shortfalls. The Legislature distributed the revenue to the AHCCCS program. The state's MSA payment declined for the second straight year. Therefore, state lawmakers had to appropriate \$43.2 million in general funds to the AHCCCS program to offset the decrease in tobacco settlement revenue and fully fund the program.

### Allocation of Tobacco Settlement Revenue

FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000		\$20,000								\$20,000
2001		\$78,000							\$20,000	\$98,000
2002		\$53,700								\$53,700
2003		\$105,657								\$105,657
2004		\$99,606								\$99,606

## Arkansas

### Background

In 2001, the Arkansas General Assembly enacted 12 separate bills to allocate the state's tobacco settlement revenues for FY 2002. The initial \$100 million was deposited in the Arkansas Health Century Trust Fund, an endowment. The balance, which goes to the Tobacco Settlement Trust Fund, is allocated as follows:

- The first \$5 million is to pay the debt service for the \$60 million in capital bonds issued to improve the University of Arkansas Bioscience Center. The \$60 million was obtained through the securitization of tobacco settlement funds.
- The remaining amount is divided as follows:
  - 22.8 percent for bioscience research,
  - 29.8 percent for Medicaid expansion,
  - 31.6 percent for tobacco-use prevention, and
  - 15.8 percent for minority health initiative.

Early in 2002, Governor Mike Huckabee (R) ruled out using tobacco settlement revenue for the state's revenue shortfall, but ultimately used \$2.9 million for the medically needy program under Medicaid.

### 2003

The General Assembly enacted four separate bills to allocate the state's tobacco settlement revenues for FY 2004, in comparison to 12 bills for FY 2003. The legislature allocated \$2 million to the minority health initiative. The legislature also appropriated \$17.6 million to tobacco-use prevention programs, a decrease of approximately \$11 million from FY 2003. The FY 2004 budget allocated \$78 million for Medicaid expansion, including \$29.1 million for prescription drug benefits and \$46.8 million for hospital and medical services. The appropriation of revenue for hospital and medical services permits the state to expand Medicaid benefits to pregnant women and to

increase reimbursements for inpatient and outpatient services. The federal government will provide 75 percent of the funding—\$58.2 million—for Medicaid expansion, and Arkansas will provide the remaining 25 percent—\$19.8 million. The allocation of revenue to bioscience research decreased to \$9.6 million.

Further, the legislature appropriated \$0.2 million for debt service on the capital bonds issued to improve the University of Arkansas Bioscience Center.

**Allocation of Tobacco Settlement Revenue**  
FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000										
2001										
2002	\$11,932	\$97,793	\$869	\$5,850						\$115,094
2003	\$28,615	\$30,696	\$2,259	\$15,077						\$76,647
2004	\$18,979	\$19,768	\$664	\$9,608					\$218	\$49,237

## California

### *Background*

The Master Settlement Agreement calls for California to allocate 50 percent of tobacco settlement revenue to the state, 40 percent to counties, and 10 percent to be distributed between San Diego, Los Angeles, San Jose and San Francisco. Governor Gray Davis (D) deposited all the state’s tobacco settlement revenue in the general fund in 2000, stating that, by doing so, he was able to increase funding for health care services. However, California lawmakers wanted a more specific accounting of the funds, and in 2001, the tobacco settlement revenue was appropriated to specific health programs or reserve accounts— health, SCHIP and tobacco-use prevention.

In 2002, the magnitude of the state’s FY 2003 deficit—at the time \$23.5 billion—forced the Legislature to enact legislation to securitize the state’s tobacco settlement revenue. This sale of tobacco bonds occurred during the 2003 legislative session.

### *2003*

In January, the state sold 50 percent of its MSA payment and received \$2.5 billion. The Legislature allocated the revenue to the FY 2003 budget. The state planned to securitize the remaining balance of tobacco settlement revenue in May. However, litigation in Illinois (*Price vs. Phillip Morris USA*) disrupted the tobacco bond market. Philip Morris stated that the \$10.1 billion judgement in Illinois threatened its ability to pay its part of the April 2003 MSA payment to the states. Philip Morris’ stated inability to make the annual led financial analysts at Moody’s to lower Philip Morris’ credit rating twice in April 2003, and the overall value of MSA tobacco bonds fell by 20 percent. As a result, Governor Davis cancelled the second sale of bonds and planned to deposit the balance of the annual payment to the general fund.

In August, the Legislature enacted and Governor Davis signed a FY 2004 budget that was widely unpopular but that, by necessity, everyone agreed had to be adopted. The FY 2004 budget securitized the remainder of the state’s tobacco settlement revenue—\$2.4 billion.

**Allocation of Tobacco Settlement Revenue**  
 FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000										
2001		\$475,000								\$475,000
2002	\$20,000	\$381,500						\$73,100		\$475,000
2003									\$926,913	\$926,913
2004									\$862,593	\$862,593

## Colorado

### *Background*

The Colorado General Assembly enacted legislation in 2000 that distributes the state's tobacco settlement revenue as follows:

- 38 percent to the Health Care Trust Fund, an endowment. The percentage declines to 21 percent over several years. The interest earned is to be deposited into the trust fund until such time as the annual interest earned is sufficient to fund all the programs established by the legislation.
- Up to \$19 million for the Read to Achieve Program.
- Up to \$15 million for tobacco-use prevention.
- Up to \$10 million for SCHIP.
- Up to \$8 million for treatment of substance abuse.
- Up to \$3 million for the nurse home visit program. The amount of funds allocated to this program grows by 2 percent through 2009.
- Up to \$1 million for veterans' health programs.

In 2001 and 2002, the state allocated its tobacco settlement revenue according to this formula. However, in June 2002 the state learned that revenues were approximately \$30 million below the March 2002 forecast. To ensure that the state's various reserve funds had the legally required balances at the end of the fiscal year, the state transferred \$135 million from the Health Care Trust Fund endowment to the general fund.

### *2003*

Colorado lawmakers strove to follow the framework of the 2000 legislation—tobacco prevention, health services, education and endowments—in allocating tobacco settlement revenue, but at funding levels that differed significantly from previous years. Funding for tobacco prevention and education programs were reduced substantially. The allocation of revenue to health services was maintained at nearly the FY 2003 amount. In doing so, the General Assembly for the first time appropriated tobacco settlement revenue for mental health services and a dental loan repayment program. For the second consecutive year, funds placed in the Tobacco Settlement Trust Fund were withdrawn and deposited into the general fund.

Specific appropriations are detailed below.

#### Health Services

- \$6.9 million for visiting nurses;
- \$5.4 million for preventive care;
- \$10.7 million for SCHIP;
- \$7.7 million for prenatal care;
- \$0.2 million for the dental loan repayment program;
- \$1.4 million for breast and cervical cancer treatment and prevention;

- \$0.3 million for the Child Mental Health Treatment Act; and
- \$0.5 million for the Medicaid Mental Health Capitation Program.

Tobacco Prevention

- \$3.9 million for tobacco prevention and cessation grants.

Education

- \$10.7 million for the Read to Achieve Program; and
- \$0.6 million for regional library services systems.

Children and Adolescents

- \$1 million for youth-oriented human services programs and legal services.

Endowments and Reserves

- \$0.9 million to the State Veterans Trust Fund; and
- \$6.1 million to the Tobacco Settlement Trust Fund.

Other Programs

- \$0.1 million to the State Council on the Arts;
- \$0.1 million to the Office of the State Auditor; and
- \$43.4 million to the state general fund.

**Allocation of Tobacco Settlement Revenue**  
FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000	\$11,878	\$17,127		\$6,335				\$48,836		\$84,176
2001	\$12,845	\$19,240		\$6,885	\$15,046			\$37,880		\$91,896
2002	\$12,978	\$20,728		\$6,922	\$16,439			\$17,804	\$87	\$74,905
2003	\$23,000	\$30,398	\$1,000		\$19,000			\$61,491	\$100	\$134,989
2004	\$3,864	\$31,735			\$11,275	\$1,000		\$7,059	\$43,583	\$98,516

**Connecticut**

*Background*

In 2000, the General Assembly established the Tobacco and Health Care Trust Fund and deposited approximately \$20 million in the fund in fiscal years 2001 and 2002. Half the interest earned by the trust is to be appropriated for health care services, as recommended by a board of trustees. In 2001, the legislature established a second fund, the Biomedical Research Trust Fund, and diverted funds from the tobacco trust to it. The legislature and governor chose to allocate the bulk of Connecticut’s tobacco settlement funds to the general fund for a variety of programs and activities.

Facing a \$828 million budget shortfall in 2002, the Connecticut General Assembly transferred a total of \$191 million in tobacco settlement revenue to the state's general fund. This included \$53.7 million and \$4.1 million from the principal in the Tobacco and Health Trust Fund and the Research Trust Fund, respectively.

*2003*

Governor John Rowland (R) proposed diverting the annual \$12 million in tobacco settlement revenue previously distributed to the Tobacco and Health Trust Fund to the general fund. At one time, the trust fund had a balance of \$50 million, but that has been reduced to \$1 million by transfers to the general fund. The governor also proposed the dissolution of the fund's board of trustees, since there would not be funds to distribute. Dissenting legislators

proposed maintaining the board of trustees, since the tobacco settlement is a long-term payout and there certainly will be the desire to fund cessation programs when the economy improves.

Governor Rowland and state lawmakers reached a compromise and enacted a FY 2004 budget in early August. Although Governor Rowland previously criticized the proposed sale of tobacco bonds to raise immediate funds, the FY 2004 budget ultimately included the sale of tobacco bonds to garner \$300 million.

**Allocation of Tobacco Settlement Revenue**  
FY 2004 Proposed (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000	\$5,000							\$20,000	\$78,000	\$103,000
2001		\$500						\$19,500	\$138,000	\$158,000
2002	\$1,047	\$1,350	\$2,500	\$4,000				\$12,000	\$120,000	\$140,897
2003	\$847	\$1,600							\$133,000	\$135,447
2004									\$125,465	\$125,465

**Delaware**

*Background*

In 1999, the General Assembly created the Delaware Health Fund to receive the tobacco money. Each year, an advisory board makes recommendations on how the funds should be managed and used. Each year, the legislature has closely followed the board’s recommendations.

In 2002, Delaware received \$19.99 million in tobacco settlement revenue for allocation in FY 2003. Again following the board’s recommendation, the legislature appropriated the proceeds to the Department of Health and the Department of Education for school health programs.

*2003*

The General Assembly’s appropriation of tobacco settlement revenue for FY 2004 continues the trend of closely adhering to the advisory board’s recommendations. The General Assembly also maintained the trend of allocating the majority of tobacco settlement revenue—\$24.3 million—to the Department of Health and Social Services, with pharmaceutical assistance programs receiving \$7.5 million. The General Assembly substantially increased the allocation for tobacco-use prevention to 77 percent of total allocations. Given the reduced overall MSA payment, this increase came at the expense of the amount appropriated to the endowment. The allocation of revenue to the Department of Education—\$2.7 million—funds school health programs. In addition, lawmakers allocated \$0.6 million for enforcement of tobacco and alcohol laws and regulations.

**Allocation of Tobacco Settlement Revenue**  
FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000										
2001	\$2,833	\$12,276	\$1,900					\$14,935		\$31,944
2002	\$5,004	\$6,171	\$9,150					\$5,871		\$26,196
2003	\$5,205	\$6,297	\$7,213		\$218			\$11,900	\$750	\$31,887
2004	\$9,294	\$8,084	\$7,852	\$100				\$3,700	\$749	\$29,779

## Florida

### *Background*

Florida is one of four states that settled separately with the tobacco industry prior to the Master Settlement Agreement. In 1999, the Legislature established eight trust funds. The major trust funds are:

- Lawton Chiles Endowment Fund for Children and Elderly;
- Biomedical Research Fund;
- Child and Family Services Trust Fund;
- Environmental Affairs Trust Fund; and
- Moffitt Cancer Treatment Center.

In the past, the Legislature has allocated a substantial amount of funds for tobacco prevention, health care services, long-term care services, and child and adolescent programs. In 2001, the Legislature chose to carry forward into FY 2003 \$251.7 million in unspent funds. In 2002, the Legislature appropriated \$ 217.1 million to health services and \$39.1 million for tobacco cessation and prevention programs; these amounts represented a decrease in both programs compared to the previous year. However, the Legislature increased funding for children and adolescent programs by 35 percent, to \$192.7 million.

### *2003*

The Florida Legislature again appropriated tobacco settlement revenue to the Agency for Health Care Administration, Children and Families, Elder Affairs, Health and the Moffitt Cancer Center. However, the amount of revenue distributed to programs within these agencies for FY 2004 varied substantially from FY 2003 appropriations. For instance, the Legislature appropriated \$54 million to long-term care, in comparison to \$4 million in FY 2003. The Legislature decreased funding for child protection and services for the developmentally disabled by \$28 million and \$11 million, respectively. Oversight of and financial responsibility for child protection and services for the developmentally disabled were transferred to the Agency for Health Care Administration. This transfer freed approximately \$20 million to be used for long-term care under Medicaid. The most substantial spending reduction involved the Tobacco Prevention Pilot Program. The Legislature allocated \$39.1 million to the campaign in the FY 2003 budget; however, the FY 2004 budget reduces funding to \$1 million. This continues the trend of reduced funding for prevention and cessation programs from the FY 2002 high of \$44.2 million. Lawmakers on the House Human Services Appropriation Subcommittee stated that they had to choose whether to fund the anti-smoking advertising campaign or to provide basic health and human services programs. Health advocates threatened to sue Governor Jeb Bush (R) to restore funding; however, the suit was withdrawn after lawmakers assured the plaintiff's attorney that the Legislature would restore funding for FY 2005. Lawmakers have not indicated how funding will be restored.

### **Allocation of Tobacco Settlement Revenue**

FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000	\$40,100	\$258,536	\$19,437			\$190,803		\$1,100,000		\$1,608,876
2001	\$39,100	\$241,200	\$25,143			\$168,951		\$200,000	\$10,600	\$684,994
2002	\$44,244	\$281,202	\$60,943	\$16,200		\$142,598		\$200,000		\$745,187
2003	\$39,100	\$217,080	\$41,670	\$10,301		\$192,703		\$200,000		\$700,854
2004	\$1,000	\$217,043	\$53,795	\$13,741		\$144,434				\$430,013

## Georgia

### *Background*

The Georgia General Assembly enacted legislation in 2000 to establish the OneGeorgia Authority. Receiving one-third of the state's tobacco settlement revenue, the fund directs money to assist the state's most economically challenged communities and areas. Governor Roy Barnes (D) made a commitment to use tobacco settlement revenue for cancer research, economic development and tobacco prevention. Lawmakers followed the governor's lead and allocated funds to those activities for FY 2001 and FY 2002.

For FY 2003, the Georgia General Assembly appropriated \$173 million in tobacco settlement revenue, and the OneGeorgia Authority again received the majority of the revenue.

### *2003*

Passage of a FY 2004 budget was a contentious issue throughout the legislative session. Ultimately, lawmakers were able to find a middle ground and enacted a FY 2004 budget that included a \$0.25 per pack increase in the cigarette excise tax.

The General Assembly appropriated \$175.1 million in tobacco settlement revenue. Due to the state's FY 2004 projected revenue shortfall and a looming budget deficit, the General Assembly contemplated significant reductions in Medicaid eligibility and reimbursement rates. However, the General Assembly used tobacco settlement revenue to reduce cuts in hospital reimbursement rates and to provide funds to maintain Medicaid benefits and eligibility. The appropriations to health care include:

- \$8.9 million to expand Medicaid coverage for pregnant women and infants;
- \$4.9 million to expand the PeachCare for Kids Program;
- \$2.1 million for the Independent Care Waiver Program;
- \$3.5 million for Critical Access Hospital reimbursement;
- \$10.3 million for mental retardation waiver programs;
- \$12.7 million for tobacco prevention and cessation programs; and
- \$1.2 million for the AIDS Drug Assistance Program.

The OneGeorgia Authority received \$70.8 million to support local and regional economic development efforts. As of late July, the authority had not approved investments for FY 2004.

### **Allocation of Tobacco Settlement Revenue**

FY 2004 Final (Dollars in thousands)

<b>Fiscal Year</b>	<b>Tobacco Prevention</b>	<b>Health Services</b>	<b>Long-Term Care</b>	<b>Research</b>	<b>Education</b>	<b>Children &amp; Adolescents</b>	<b>Tobacco Farmers</b>	<b>Endowment or Reserve</b>	<b>Other</b>	<b>Total</b>
2000										
2001	\$15,765	\$97,909	\$7,999	\$4,000			\$80,953			\$206,626
2002	\$20,766	\$84,553	\$3,809	\$5,740			\$34,132			\$149,000
2003	\$15,346	\$83,577	\$3,809	\$5,240			\$65,431			\$173,403
2004	\$12,681	\$81,291	\$5,035	\$5,240			\$70,834			\$175,081

## Hawaii

### *Background*

In 1999, the Hawaii Legislature enacted legislation to distribute its tobacco settlement revenue as follows:

- 40 percent to the Rainy Day fund for emergencies.

- 35 percent for health promotion, disease prevention and healthy lifestyles. Of this amount, at least 10 percent is to be allocated to the SCHIP program.
- 25 percent to tobacco prevention.

In the fall of 2001 a controversy developed over how the state would pay for new buildings and capital improvements for the University of Hawaii Medical School. Ultimately, during the third special session of 2001, the Hawaii Legislature passed legislation to amend the state's statute for allocating tobacco settlement funds. The newly enacted allocation formula is as follows:

- 24.5 percent to the Emergency and Budget Reserve Fund.
- 35 percent for health promotion, disease prevention and healthy lifestyles. Of this amount, at least 10 percent to be allocated to the SCHIP program.
- 12.5 percent for the Tobacco Prevention and Control Trust Fund.
- 28 percent to the University Revenue-Undertakings Fund to be used to pay for bonds issued by the Board of Regents of the University of Hawaii to finance the cost of construction of a health and wellness center, including a new medical school facility.

*2003*

The Hawaii Legislature appropriated \$50.3 million to the Department of Health Tobacco Settlement Fund. The allocation of revenue from this fund mirrors FY 2003 appropriations. The specific allocations are as follows:

- \$12.4 million to the Emergency and Budget Reserve Fund. State statutes restrict these funds to urgent needs for public health, safety, welfare, and education programs.
- \$6.3 million to the Tobacco Prevention and Control Trust Fund.
- \$17.5 million to the Department of Health. State statutes authorize the department to transfer up to \$5.1 million to the Department of Human Services to the SCHIP program. The Department of Health may therefore expend \$12.5 million on prevention-oriented public health initiatives.
- \$14.1 million for debt service on revenue bonds to build the university's new medical center.

Although the basic distribution of the tobacco funds did not change, subsequent executive and legislative actions affected the use and availability of tobacco settlement revenue. Governor Linda Lingle (R) transferred approximately \$5.3 million from the "Start Living Healthy" campaign to the Health Start home-visit service. Since Medicaid funds Health Start, the transfer generated federal matching funds and freed general revenue funds. In addition, lawmakers repealed the exemption from administrative service fees that several special funds had enjoyed. This action results in a \$2.5 million expense for the tobacco fund. In addition, \$1.9 million of interest earned by the tobacco fund was transferred to the general treasury.

**Allocation of Tobacco Settlement Revenue**

FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000										
2001	\$12,159	\$17,015						\$19,447		\$48,616
2002	\$9,033	\$12,646						\$14,452		\$36,131
2003	\$6,314	\$31,655						\$12,375		\$50,344
2004	\$6,314	\$31,655						\$12,375		\$50,344

## Idaho

### *Background*

The state's tobacco settlement revenue is deposited to the Idaho Millennium Fund, an endowment that was established in 2000 for this purpose. Only the interest or return on investment can be used for expenditures. By 2020, it is expected that the trust fund will accumulate enough money that \$40 million in interest will be available annually. In 2002, the Legislature diverted \$19.3 million that was to have gone to the Millennium Fund to the general fund to address the state's budget shortfall.

### *2003*

This year, the Legislature appropriated the interest earned by the Millennium Fund to tobacco prevention, health care coverage, law enforcement, juvenile justice, and the state's general fund budget shortfall. The Legislature has consistently appropriated tobacco settlement revenue to tobacco cessation and prevention programs, although the allocation to health services has varied.

The following specific program allocations were made from the tobacco settlement funds:

- \$1.7 million for tobacco-use prevention, control and treatment programs.
- \$0.4 million for indigent care.
- \$0.3 million to the Youth Courts system.
- \$0.1 million to law enforcement programs.

The Legislature distributed the remainder of its MSA payment—\$24 million—to the general fund.

### **Allocation of Tobacco Settlement Revenue**

FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000								\$29,341		\$29,341
2001	\$1,200	\$735				\$270		\$21,044	\$100	\$23,349
2002	\$1,007	\$1,230				\$520		\$23,822		\$26,579
2003	\$1,268	\$1,686		\$121		\$454			\$19,350	\$22,879
2004	\$1,240	\$835				\$270			\$24,005	\$26,350

## Illinois

### *Background*

When Illinois initially began receiving the state's share of revenue from the Master Settlement Agreement, legislators were wary of beginning new programs when the future of the tobacco payments seemed tenuous. The decision was made that the annual tobacco settlement funds should be viewed as one-time payments, rather than recurring revenue. With this in mind, in 2000 the General Assembly used a majority of the funds for a one-time tax rebate and refund to Illinois residents. They were criticized for this decision by public health and tobacco control organizations. In 2001, the Illinois General Assembly made a major commitment to tobacco-use prevention, pharmaceutical assistance, research and health services in their allocation of the tobacco settlement funds.

In 2002, the General Assembly passed legislation to securitize 30 percent of its tobacco settlement revenue. The governor did not exercise the option to sell tobacco bonds, and the option expired in June 2003. Half of the amount would have been used for the FY 2003 budget; the other half would have gone to the state's rainy day fund.

## 2003

The Illinois General Assembly continues to distribute a substantial amount of its tobacco settlement revenue to tobacco-use prevention, health care services and long-term care. The long-term care funds assist the elderly with the cost of prescriptions, including \$149 million for SeniorCare, \$83 million for the Circuit Breaker Program and \$2 million for Senior Help Lines.

For FY 2004, the General Assembly appropriated \$277 million in tobacco settlement revenue. The following section highlights those appropriations.

### Tobacco-use Prevention

- \$1 million for the American Lung Association.
- \$2.3 million for school-based health clinics.
- \$5 million for grants to local health departments.
- \$1.2 million to the Liquor Control Commission for age enforcement.
- \$0.5 million for MSA enforcement.
- \$1 million for tobacco control research.
- \$5 million for tobacco-use prevention.

### Long-term Care

- \$149.3 million for prescription drugs for SeniorCare.
- \$82.5 million for the Circuit Breaker pharmaceutical assistance program.
- \$2 million for Senior Help Lines.

### Research

- \$13.8 million for Excellence in Academic Medicine, a medical research program.
- \$3 million for the federally qualified health center expansion.
- \$1.9 million for sickle cell research.

### Other

- \$3 million for research projects at the University of Chicago and the University of Illinois/Champaign.
- \$2 million for technology marketing.
- \$1.5 million for the Illinois Technology Enterprise Corporation Program.
- \$2.5 million for the Fermi National Accelerator Laboratory.

## Allocation of Tobacco Settlement Funds

FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000										
2001	\$26,400	\$8,900	\$36,000	\$50,250					\$315,000	\$437,350
2002	\$51,950	\$10,650	\$106,000	\$162,105					\$43,000	\$373,705
2003	\$18,482	\$149,471	\$139,500	\$26,400					\$47,814	\$381,667
2004	\$15,850	\$149,327	\$84,500	\$18,700					\$9,000	\$277,377

## Indiana

### Background

In 2000, the Indiana General Assembly passed legislation creating the Indiana Tobacco Master Settlement Agreement Fund, into which all tobacco funds are deposited. The law also established the Tobacco Fund Executive Advisory Council, which is responsible for making recommendations to the governor about which

programs should receive money from the fund. A unique factor in the legislation is its emphasis on serving the needs of minority populations in the state.

In 2001 and 2002, Indiana was one of 12 states that allocated all of its tobacco settlement revenue for health care. This included substantial funding for tobacco prevention and cessation programs. However, the General Assembly amended its FY 2002 tobacco settlement allocations by transferring \$29.7 million to the general fund to address a revenue shortfall.

*2003*

The Indiana General Assembly appropriated \$169.6 million in tobacco settlement revenue for FY 2004. Although the state received only \$137.8 million in 2003, the Tobacco Master Settlement Agreement Fund balance of \$246 million enabled the General Assembly to appropriate more revenue than it received.

Initially, Governor Frank O'Bannon (D) proposed securitizing 40 percent of the state's tobacco settlement revenue and using the proceeds to fund the 21<sup>st</sup> Century Fund, an economic development program. However, other funding sources were identified for the fund and just \$37.5 million in tobacco settlement revenue was appropriated to the economic development program.

State lawmakers appropriated the majority of the funds for health services and endowments, with an emphasis on serving the needs of minority populations. The General Assembly reduced funding for tobacco cessation and prevention programs by \$14.2 million from FY 2003 levels to help address the state's \$750 million budget shortfall. Due to the reduction, local prevention programs officials doubt that the Indiana Tobacco Prevention Use and Control Board will be able to adequately fund local programs. The legislature was forced to choose between funding tobacco cessation and prevention programs or adequately funding essential health care services. State lawmakers also substantially reduced the amount of tobacco settlement revenue appropriated to the state's pharmaceutical assistance program. This action was taken because enrollment in the program is only half of what was expected and, therefore, will more than likely not reduce services.

The following are highlights of the FY 2004 appropriations.

- \$37.5 million for the 21<sup>st</sup> Century Fund to develop and commercialize advanced technologies;
- \$10.8 million for the Tobacco Prevention Board and Program;
- \$15 million for community health centers
- \$21.3 million for developmental disability client services;
- \$23.8 million to the Indiana Health Care Advisory Board for the administration of SCHIP;
- \$2.1 million for the Minority Health Initiative;
- \$0.1 million for the Commission on Hispanic/Latino Affairs; and
- \$0.5 million for minority epidemiology.

**Allocation of Tobacco Settlement Revenue**  
FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000		\$18,800								\$18,800
2001	\$35,400	\$44,600	\$20,000							\$99,600
2002	\$5,000	\$86,280	\$10,000				\$5,000			\$106,280
2003	\$25,000	\$102,870	\$20,000				\$5,000			\$152,870
2004	\$10,800	\$105,167	\$11,000	\$500				\$37,500		\$164,967

## Iowa

### Background

In 2000, the Iowa General Assembly enacted legislation to establish a quasi-government agency—the Tobacco Settlement Trust Fund—to sell the state's tobacco settlement revenue and issue bonds. The state sold 78 percent of its MSA payments and realized \$591.4 million. The money from the sale of the tobacco funds is used for capital funding. The legislation also established the Endowment for Iowa's Health Account. The endowment receives general fund revenue that would have been used for capital improvement and any residual funds from the payment of the tobacco settlement revenue bonds. Beginning in 2001, \$55 million has been appropriated annually from the endowment to the Healthy Iowans Tobacco Trust Fund. The revenue is used for health care services. The \$55 million is adjusted upward each year by 1.5 percent for inflation.

Governor Tom Vilsack's (D) proposed FY 2003 budget directed \$6 million in tobacco settlement revenue to the general fund. Although the legislature accepted most of the governor's proposals for appropriating trust fund money, it rejected using tobacco funds for the budget shortfall. Instead, it placed a priority on using the funds for Medicaid, substance abuse treatment and tobacco-use prevention.

### 2003

The Endowment for Iowa's Health Account had a beginning balance of \$13.3 million from FY 2003. The General Assembly added \$27.6 million in tobacco settlement revenue and \$70 million in lottery receipts to the beginning balance. The endowment thus had available \$110.9 million for appropriation. Of this amount, \$20 million was transferred to the state general fund and \$29 million was carried over for appropriation in FY 2005. The General Assembly transferred the remaining \$61.9 million to the Healthy Iowans Tobacco Trust Fund.

The following details the specific appropriations from the Healthy Iowans Tobacco Trust Fund.

#### Department of Health

- \$5.1 million for tobacco-use prevention and control programs;
- \$11.8 million for substance abuse programs; and
- \$2.3 million for the Healthy Iowans 2010 Program.

#### Department of Human Services

- \$16.8 million for health and dental providers;
- \$1.9 million for home health and habilitative day care expansion;
- \$1.1 million for respite care expansion; and
- \$14.3 million to supplement Medicaid.

#### Department of Corrections

- \$2 million for department-wide programs.

#### Department of Education

- \$2.1 million to the Iowa Empowerment Fund.

### Allocation of Tobacco Settlement Revenue

FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Budget Reserve	Other	Total
2000										
2001	\$9,345	\$36,345	\$2,400					\$3,800	\$64,600	\$116,940
2002	\$75	\$48,471	\$1,137			\$1,153			\$591,400	\$642,236
2003	\$5,075	\$50,437	\$6,825			\$1,153			\$1,710	\$65,200
2004	\$5,075	\$47,809	\$6,356			\$2,153			\$22,020	\$83,413

## Kansas

### Background

In 1999, the Legislature enacted legislation that created a distribution plan for the state's tobacco settlement revenue. The law established the Kansas Endowment for Youth (KEY) Fund, the Children's Initiatives Fund and the Children's Initiatives Accountability Fund.

All money the state receives from the tobacco settlement is credited to the Kansas Endowment for Youth Fund. The fund is an endowment and revenue will remain there, with the exception of transfers to the Children's Initiatives Fund or other transfers as authorized by law. The KEY fund money also pays the operating expenses of the Kansas Children's Cabinet and those expenses of the Kansas Public Employees Retirement System Board of Trustees that are attributable to the board's responsibilities to manage the KEY Fund.

The money credited to the Children's Initiatives Fund from the KEY Fund is used to provide additional programs, projects, improvements and services that contribute to the physical and mental health, welfare, safety and overall well-being of children in Kansas. Programs must have a clearly articulated objective that will be achieved with the use of the funds. Funds also are used for the Children's Initiative Accountability Fund to assess and evaluate programs for which money is allocated or appropriated from the Children's Initiatives Fund.

### 2003

Initially, Governor Kathleen Sebelius (D) proposed securitizing part of the state's tobacco settlement revenue. The \$175 million from the sale of tobacco bonds would be used to help address the state's revenue shortfall. Republican legislators opposed the governor's proposal, and the Legislature continued to follow the aforementioned plan, appropriating the majority of the tobacco settlement funds to programs and health services for children and adolescents. The Legislature increased funding for children and adolescents in comparison to FY 2003. This increase is pursuant to legislation enacted in 1999, which stipulated transfers from the KEY Fund to the Children's Initiative Fund in increasing amounts. The legislation capped transfers at \$45 million. However, the Legislature did transfer \$1.1 million in tobacco settlement revenue to the general fund as part of the fiscal plan to help address the state's \$230 million budget shortfall.

### Allocation of Tobacco Settlement Revenue FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000		\$10,965			\$1,528	\$6,085				\$18,578
2001	\$500	\$15,800		\$1,250	\$3,875	\$7,000			\$20,300	\$48,725
2002	\$500	\$19,350		\$1,250		\$15,500				\$37,650
2003	\$500	\$25,828		\$2,000		\$16,525			\$15,359	\$60,212
2004	\$500	\$16,150		\$300	\$1,225	\$27,178			\$1,394	\$46,747

## Kentucky

### Background

In 2000, Governor Paul Patton (D) signed four measures that divide the state's tobacco settlement funds among farmers, childhood development and health care initiatives.

Fifty percent of the state's tobacco settlement revenue is distributed to tobacco farmers, rural counties and agricultural projects. The Kentucky Agricultural Development Board is responsible for disbursing this 50 percent. Of that percentage, \$40 million is used to maintain the Phase II payment program for tobacco growers at the current level of \$114 million. Of the balance, 35 percent is used for agricultural development and is distributed to tobacco growing counties by a formula, and 65 percent is directed toward statewide agriculture

projects. The emphasis is on value-added efforts such as apple farmers who not only grow apples but also produce cider.

Proceeds from a \$25 million Rural Development Bond Fund are being used to purchase land and protect farmland from urban encroachment across the state. Tobacco funds pay the debt service on the bonds. Tobacco funds also are used to assist agricultural producers to come into compliance with state water quality laws.

Twenty-five percent of the tobacco settlement revenue funds early childhood programs. Activities include public health initiatives—including childhood care and education, immunizations and vitamin supplements for pregnant women—as identified by the General Assembly.

The remaining 25 percent is to be used for health care initiatives. The funds are to be divided as follows: 70 percent for Kentucky Access—a high risk insurance program; 20 percent for lung cancer research; and 10 percent for tobacco-use prevention and control.

### *2003*

Fiscal year 2004 appropriations reflect the amount of tobacco settlement revenue the General Assembly expected to receive rather than the amount it actually received. The legislature expected to receive \$110.2 million and appropriated \$109.1 million in FY 2004, resulting in an expected \$1.1 million surplus. In actuality, the state received \$119 million.

In December 2002, Governor Patton announced that he would not use the state's tobacco settlement revenue to reduce the state's \$500 million budget deficit. The FY 2004 spending plan allocates the state's tobacco settlement revenue according to the percentages previously mandated by the legislature. Under these categories, some of the initiatives funded include:

#### 50 percent to Agriculture

- \$19.1 million for county level cost-share grant programs. Counties receive up to \$1 million on a formula basis for economic development projects.
- \$9 million in environmental cost-share programs.
- \$9.1 million for debt service on water line extension bond issue.
- \$2 million for debt service on farmland preservation bond issue authorized in 2000.
- \$1.6 million for merit-based bonuses for cooperative extension agents.

#### 25 percent to Early Childhood Development

- \$2.2 million to the Governor's Office of Early Childhood Development.
- \$7.3 million for community-based services.
- \$1.6 million for children with special health care needs.
- \$6.3 million to the Council on Postsecondary Education.

#### 25 percent to Health Care Improvement

- \$2.2 million for substance abuse programs.
- \$18.1 million for the Department of Health.
- \$16.9 million for the Kentucky Access Program (high-risk insurance program).

In mid-August, the Kentucky Agricultural Development Board approved \$6.4 million in grants for a total of 45 agricultural diversification programs throughout the state. These grants include \$2 million to provide technical assistance and upgrades to livestock markets and collection points and \$2.48 million to expand the horticulture industry through market research and market assistance.

**Allocation of Tobacco Settlement Revenue**  
FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000										
2001	\$2,528	\$17,693		\$5,055	\$1,250	\$24,025	\$119,450			\$170,000
2002	\$3,040	\$21,280		\$6,080	\$1,260	\$29,141	\$60,800			\$121,601
2003	\$3,140	\$21,980		\$6,280	\$750	\$30,650	\$62,800			\$125,600
2004	\$2,728	\$19,093		\$5,455	\$750	\$26,525	\$54,550			\$109,101

## Louisiana

### *Background*

In 1999, the Legislature established two trust funds that became part of the state constitution through a 2000 ballot initiative. The Millennium Trust Fund, an endowment, initially received 45 percent of the state's tobacco settlement revenue. This percentage increased to 75 percent in 2003. The interest earned can be appropriated for three purposes: K-12 education activities, health care services and college tuition support. Money from the second fund, the Louisiana Fund, is available for appropriation for health and education programs. The Louisiana Fund initially received 55 percent of the tobacco funds, but that amount declined to 25 percent in 2003.

In 2001, Louisiana enacted legislation to securitize 60 percent of its tobacco settlement revenue. The state received \$1.2 billion from the sale. Revenue realized from the sale of the bonds was distributed to the Louisiana Fund and the Millennium Fund according to a constitutional amendment adopted in 1999. The Millennium Fund received \$917.6 million, and the interest earned was distributed to health care and education programs.

### *2003*

Although the Legislature considered legislation to securitize the remaining 40 percent of the state's annual MSA payments, lawmakers ultimately did not issue additional tobacco bonds. FY 2004 appropriations adhered to the intent of the ballot initiative approved by voters in 2000. The Legislature allocated 60 percent of the MSA payment—\$86.2 million—to debt service. The balance was allocated to the Louisiana Fund and the Millennium Trust Fund according to the previously established percentages.

The Louisiana Fund allocated a total of \$14.4 million to public health programs. The following are details of specific appropriations.

- \$0.3 million to the Attorney General's Office for monitoring the Master Settlement Agreement;
- \$0.2 million to hospitals for Medicaid services;
- \$6.9 million for school-based health centers;
- \$0.5 million for tobacco prevention and cessation programs;
- \$1.5 million for the Temporary Assistance for Needy Families Program; and
- \$4.9 million to Louisiana State University for research.

The Millennium Trust Fund received 75 percent of the balance of the state's MSA payment—\$43.1 million—and appropriated \$47.4 million. The fund allocated \$4.1 million more than it received due to accrued interest and additional anticipated earnings for FY 2004. Lawmakers appropriated the revenue to K-12 education activities, health care services and college tuition support. The specific appropriations are as follows:

- \$14.6 million for local educational agencies, state education agencies and private schools;
- \$16.6 million for college tuition support;
- \$10.6 million for state Medicaid programs; and
- \$5.6 million to Louisiana State University for research.

**Allocation of Tobacco Settlement Revenue**  
 FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000										
2001		\$50,261		\$10,000	\$14,700	\$1,489			\$340	\$76,790
2002	\$500	\$49,487			\$16,600	\$1,489		\$63,696		\$142,085
2003	\$942	\$27,600		\$11,600	\$13,690	\$1,500		\$918,371		\$973,703
2004	\$500	\$17,757		\$10,530	\$31,199	\$1,489			\$86,943	\$148,418

## Maine

### *Background*

In 1999, the Maine Legislature enacted a law creating the Fund for Healthy Maine and the Fund for a Healthy Maine Trust Fund. The law stipulates that for the first five years, 10 percent of the annual MSA payments are to be placed in the Trust Fund for future use in the event that the MSA payments cease. The remainder of tobacco settlement revenue is spent on anti-smoking programs, child care, health care, prescription assistance, dental care and substance abuse prevention and treatment, and other health initiatives.

In 2001, the Legislature abolished the Trust Fund and reduced funding for health initiatives in order to help address the state's revenue shortfall. The Legislature restored funding for some of the programs in FY 2002 and FY 2003.

### *2003*

The allocation of tobacco settlement revenue for FY 2004 mirrors the allocations for FY 2003. Tobacco prevention programs and health services again received the majority of the funds. Fiscal year 2004 appropriations include the following.

#### Tobacco-use Prevention:

- \$7.7 million for grants to communities and schools for tobacco addiction programs;
- \$5.4 million for statewide media campaigns; and
- \$1.4 million for the administration of prevention and cessation programs and independent evaluations and monitoring.

#### Health Services:

- \$7.2 million for Medicaid services;
- \$1.9 million for health education and dental services;
- \$5.6 million for adult and youth substance abuse treatment and prevention; and
- \$0.9 million for the salary of the adult drug court coordinator.

#### Children and Youth:

- \$3.9 million for child care subsidies;
- \$1.4 million for the Head Start program;
- \$4.3 million for expansion of home-visiting program;
- \$0.6 million for positions in a community services center; and
- \$0.2 million to provide for additional inspections of day care facilities.

In May, Governor Michael Balducci (D) proposed a constitutional amendment, LD 1612, to require tobacco settlement revenue to be used only for health programs. Maine is the first state to consider permanently devoting all its MSA payments to health-related programs. The programs would be:

- Tobacco prevention, cessation and control;
- Prenatal care;
- Child care for children under age 15;
- Health coverage for children and adults to maximize federal matching funds;
- Prescription drug benefits;
- Dental and oral health care;
- Substance abuse prevention and treatment;
- Comprehensive school health programs; and
- Other health promotion and disease prevention activities included in a state health plan.

Introduced in the 2003 legislative session, the bill received only a few votes shy of the two-thirds majority in each chamber needed to send the measure to the voters for approval.

**Allocation of Tobacco Settlement Revenue**  
FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000	\$3,500									\$3,500
2001	\$18,826	\$12,766	\$10,000			\$14,550		\$25,540	\$15,000	\$96,482
2002	\$13,804	\$13,308	\$11,700			\$10,352			\$10,000	\$59,164
2003	\$15,575	\$13,635	\$10,000			\$9,495			\$32,873	\$81,578
2004	\$14,573	\$14,784	\$10,000		\$145	\$10,373				\$49,875

## Maryland

### *Background*

In 2001, the General Assembly appropriated the state's tobacco settlement revenue for tobacco prevention, health care services, biomedical research, public education and tobacco farmers. The state invested a substantial amount of funds into research on tobacco-related illnesses. In addition, the state established a successful tobacco farmer buyout program that allows farmers to move away from growing tobacco.

With \$7.7 million in unexpected balances from the previous year and \$4.9 million in interest earned from the Cigarette Restitution Fund, the legislature had \$180.4 million in tobacco settlement revenue for appropriation. However, \$46.8 million was set aside for legal fees the state incurred as a result of the Master Settlement Agreement. The amount of tobacco settlement funds appropriated to the state Medicaid program increased substantially in FY 2003.

In April 2002, the state and attorney Peter Angelos reached agreement on the amount that Angelos would receive for assisting in litigating the tobacco settlement for Maryland. Up to 25 percent of the state's annual payments had been placed in escrow pending resolution of the disagreement. Through 2006, the state will pay Angelos a total of \$150 million. The agreement immediately freed up \$123 million that was held in escrow. The majority of the funds—\$73 million—was distributed to state Medicaid programs. The General Assembly allocated \$20 million to tobacco prevention and cancer reduction programs. However, lawmakers transferred these funds to the Cigarette Restitution Fund for use in FY 2004.

### *2003*

In addition to the FY 2004 MSA payment, state lawmakers were able to appropriate revenue that previously was held in escrow pending the resolution of the Angelos dispute.

The General Assembly maintained the state's commitment to research on tobacco-related illnesses by appropriating \$32.8 million for cancer research. However, Governor Robert Ehrlich's (R) budget proposal

reduced funding for prevention and cessation programs by approximately \$4 million. State lawmakers allocated a substantial amount of tobacco settlement revenue to the state's Medicaid program, which is experiencing a deficit due to increased costs. The General Assembly also appropriated \$17.1 million for substance abuse treatment. The distribution of funds for education has declined dramatically during the past three years, down from \$56 million to \$3 million.

Maryland continues to implement its successful tobacco farmer buyout program. As of January 2004, 785 tobacco farmers will participate in the buyout program. This figure represents 80 percent of the eligible growers in the state and 7.3 million pounds of tobacco. The state's buyout program is designed to provide farmers with an opportunity to make the conversion and find an alternate crop or use for the land. Farmers enrolled in the program are paid \$1 per pound of tobacco, based on the average amount they sold from 1996 to 1998. The General Assembly allocated \$5.1 million to the program for FY 2004.

**Allocation of Tobacco Revenues**  
FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000		\$100,000					\$2,500			\$102,500
2001	\$18,065	\$44,603		\$30,782	\$56,277	\$5,000	\$9,000			\$163,727
2002	\$20,000	\$19,500		\$35,000	\$44,900		\$6,300			\$125,800
2003	\$20,300	\$50,500		\$37,700	\$16,400		\$6,300			\$131,200
2004	\$16,200	\$124,300		\$32,800	\$3,000		\$5,100			\$181,400

## Massachusetts

### *Background*

In 2000, after a long debate, the Massachusetts General Court enacted legislation establishing a formula for the allocation of the state's tobacco settlement funds. The formula is as follows:

- 70 percent of the tobacco settlement revenue is to be deposited in a trust fund, and
- 30 percent is to be appropriated by the legislature for health care services.

However, as a result of various legislative initiatives, line-item vetoes by the governor and revenue shortfalls, the 70/30 split was not followed in fiscal years 2001 and 2002.

### *2003*

In an effort to alleviate much of the budget shortfall, Massachusetts legislators placed the 2003 tobacco settlement revenue into the general fund. Although health advocates criticized the lack of funds for health services, the legislature and the governor approved transferring tobacco settlement revenue to the general fund and justified it by indicating that Medicaid and other health programs would have to be reduced without the transfer.

**Allocation of Tobacco Settlement Revenue**  
FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000	\$20,300	\$70,000		\$2,500				\$216,000		\$308,800
2001	\$13,000	\$42,000		\$86,000						\$154,000
2002	\$37,867	\$39,544	\$110,859			\$37,867				\$226,137
2003	\$24,011	\$195,154	\$110,131			\$1,801				\$331,097
2004									\$272,956	\$272,956

## Michigan

### *Background*

Initially, former Governor John Engler (R) proposed using the state's tobacco settlement funds for college scholarships and tuition support. However, public health advocates and Democratic lawmakers were able to negotiate with the governor. The result was legislation enacted in 2000 that distributes 75 percent to the Merit Award Trust Fund and 25 percent to the Tobacco Settlement Trust Fund. The Merit Award Trust Fund distributes tobacco settlement revenue to education, while the Tobacco Settlement Trust Fund allocates revenue to health care programs. The Legislature appropriated health care funds for biomedical research, pharmaceutical assistance and health care services. In FY 2002, the state transferred \$82.5 million in unexpended balances to the general fund to make up for revenue shortfalls.

Michigan appropriated \$367 million in tobacco settlement funds in FY 2003. As in previous years, the state allocated 25 percent of its total receipts to health care and the remaining 75 percent to education.

A coalition of health advocates—Citizens for a Healthy Michigan—criticized how the state spent its tobacco settlement money. It gathered enough signatures to place on the November 2002 ballot an initiative to amend the state's constitution on how the tobacco funds are spent. The Healthy Michigan Amendment proposed allocating 90 percent to smoking prevention, research and health care programs and 10 percent to the state general fund. The ballot initiative was defeated.

### *2003*

The Legislature's FY 2004 budget adhered to the legislation enacted in 2000 and appropriated 75 percent of the 2003 MSA payment to the Merit Award Trust Fund and 25 percent to the Tobacco Settlement Trust Fund. The tobacco settlement revenue was appropriated as follows:

- \$151 million for college scholarships and tuition support;
- \$4 million for the Nursing Scholarship Program;
- \$19.9 million for administrative costs associated with the MEAP program, the Michigan Merit Awards Commission, the Tuition Incentive Program and the Michigan Education Savings Program;
- \$10 million in grants to state universities for life sciences research;
- \$1 million to the Department of Career Development for the Council of Michigan Foundations;
- \$58 million for Medicaid base funding;
- \$30 million for the Senior Prescription Drug Program; and
- \$5 million for respite care.

The remaining tobacco settlement revenue is to remain in two trust funds for appropriations in FY 2005.

Governor Jennifer Granholm (D) had proposed reducing the college tuition scholarships supported by tobacco settlement revenue from \$2,500 to \$500. The annual savings would be directed to the state's Medicaid budget. The governor and state lawmakers compromised to maintain the scholarship at \$2,500 but spread the cost over four years of college, instead of offering a one-time scholarship award.

### **Allocation of Tobacco Settlement Revenue** FY 2004 Enacted (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000		\$8,000	\$53,000	\$50,000	\$81,000					\$192,000
2001		\$31,900	\$48,000	\$50,000	\$30,000					\$157,000
2002		\$46,000	\$58,021	\$43,000	\$156,200			\$44,100	\$82,500	\$280,121
2003		\$34,000	\$40,800	\$47,000	\$145,500				\$100,000	\$367,300
2004		\$58,000	\$40,000	\$10,000	\$174,900				\$1,400	\$284,300

## Minnesota

### *Background*

Minnesota settled separately with the tobacco industry and will receive five settlement payments totaling \$1.25 billion between fiscal years 1999 and 2003. As part of Minnesota's settlement, the state will also receive ongoing payments—called annual payments—that will be transferred directly to the state's general fund. The state has created two separate endowments for the five years of settlement payments and has distributed the funds as follows.

- 61 percent of the funds go to the Tobacco Prevention and Public Health Endowment. Up to 5 percent of the endowment is available for appropriation each year. Of this amount, the money is to be allocated as follows:
  - 67 percent for youth tobacco-use prevention grants,
  - 16.5 percent to local public health departments for tobacco prevention, and
  - 16.5 percent for grants to address high-risk behavior.
- 39 percent of the funds go to the Medical Education Fund. Up to 5 percent of the endowment is available for appropriation each year. Of this amount, the money is to be allocated as follows:
  - 70 percent for health care professionals at the Academic Health Center (AHEC), and
  - 30 percent for medical education.

During the 2002 legislative session, a number of bills were advanced to use tobacco settlement revenue to offset the general fund deficit for the current biennium or to eliminate or reduce the state's health care provider taxes that are used to fund the MinnesotaCare program. These legislative proposals did not prevail, and initiatives funded with tobacco settlement proceeds remain relatively unchanged from prior years with the exception of projected funding amounts. As part of the final FY 2003 budget enacted by the Legislature, the state is authorized to borrow up to \$1.1 billion from the trust funds. The money is to be used to ease cash flow, but must be paid back during the fiscal year.

### *2003*

In 2003, Minnesota received the last of its five settlement payments from the tobacco industry. In the future, the state will receive only annual payments that are deposited directly into the general fund.

The Legislature faced a revenue shortfall of \$4.5 billion in developing a budget for the FY 2004-2005 biennium. As part of the budget balancing efforts this session, the Legislature liquidated the Tobacco Prevention and Medical Education trust funds and transferred the \$1.1 billion balance to the general fund. The Legislature allocated the state's \$153 million annual payment to the general fund.

### **Allocation of Tobacco Settlement Revenue** FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000	\$7,745	\$11,148		\$10,000				\$682,585	\$104,926	\$816,404
2001	\$12,814	\$14,398		\$10,000				\$220,886	\$116,112	\$374,210
2002	\$20,061	\$17,854						\$227,236	\$155,285	\$420,436
2003	\$21,218	\$29,932				\$4,193		\$111,200	\$151,600	\$318,143
2004									\$152,905	\$152,905

## Mississippi

### *Background*

Mississippi was the first state to sue tobacco manufacturers to recover smoking-related health care costs borne by the states. It is one of four states to settle separately with the tobacco industry. The settlement between the state and the tobacco industry—negotiated by state Attorney General Mike Moore—included language that established the Partnership for a Healthy Mississippi. Dedicated to providing youth tobacco education, the partnership annually receives \$20 million of the state's share of the tobacco settlement. The remaining funds are placed in the Health Care Trust Fund, an endowment established in the state treasury in 1999. However, the principal of the trust fund must remain inviolate and never be expended. The law also established the Health Care Expendable Fund, comprised of the interest earned from the trust fund, which can be used, but only for health care purposes.

In 2002, the Mississippi Legislature chose to appropriate tobacco settlement revenue from two years—2002 and 2003. This is the reason the Legislature was able to appropriate nearly \$200 million, as opposed to \$90 million in the previous year. The Legislature did this to address the state's revenue shortfall and the deficit in the funds needed for Medicaid and other health care services through the Health Care Expendable Fund.

### *2003*

In March, Governor Ronnie Musgrove (D) signed legislation to appropriate the entire 2003 annual payment to the Health Care Expendable Fund rather than to the Health Care Trust Fund. The legislation, which took effect July 1, stipulates that the 2003 payment be used for health care programs. This continues a trend from 2002 when lawmakers used tobacco settlement revenue to buttress Medicaid programs. The language in the appropriation bills state that the funds will be returned to the trust fund should state revenues increase.

The following activities are funded with revenue from the Health Care Expendable Fund.

#### The Division of Medicaid:

- \$7 million for the SCHIP program;
- \$3.9 million for eyeglasses and dental care;
- \$4.8 million for the Home and Community Waiver Program;
- \$9.5 million to expand coverage for poor and disabled individuals;
- \$1.8 million to enable disabled workers to buy into the Medicaid program; and
- \$30.4 million for medical services matching funds.

#### The Department of Health:

- \$1.65 million for the Maternal and Child Health Program and early intervention programs;
- \$0.25 million for the Early Intervention Program;
- \$2.5 million for Department of Health Programs;
- \$4 million for the Qualified Health Center Grant Program; and
- \$6 million for trauma centers.

#### The Department of Mental Health:

- \$9.9 million for miscellaneous expenses, including psychotropic drugs, Alzheimer's disease treatment and epilepsy;
- \$7.7 million for Medicaid matching funds;
- \$6.5 million for crisis centers and substance abuse programs; and
- \$2.3 million for physician services at community mental health centers.

Department of Rehabilitation Services:

- \$5.5 million to fully match available federal funds; and
- \$1.7 million for the Independent Living Program.

**Allocation of Tobacco Settlement Revenue**

FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000	\$20,000	\$44,568								\$64,568
2001	\$14,000	\$70,203								\$84,203
2002	\$20,000	\$69,622								\$89,622
2003	\$20,000	\$171,383	\$7,378		\$400				\$117	\$199,278
2004	\$20,000	\$101,188	\$5,495		\$200				\$117	\$127,000

**Missouri**

*Background*

Missouri was one of the last states to receive its allotment from the Master Settlement Agreement. Not until 2001 did the Missouri legislature take up the issue of how to allocate its tobacco settlement revenue. Despite considerable debate and interest, the legislature was unable to agree upon a long-term formula to allocate funds. Therefore, lawmakers simply allocated funds through the regular appropriations process.

During its 2002 session, the Missouri General Assembly planned to securitize up to 30 percent of the state’s tobacco proceeds, but never acted on this option.

*2003*

The legislature appears to have abandoned efforts to establish a long-term formula to allocate tobacco settlement revenue. Lawmakers appropriated tobacco settlement revenue as follows for FY 2004 through the normal appropriations process.

- \$83.4 million to the general fund;
- \$0.6 million for tobacco prevention programs;
- \$53.3 million for health care; and
- \$16.5 million for prescription drug programs for senior citizens.

**Allocation of Tobacco Settlement Revenue**

FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000										
2001										
2002	\$22,200	\$113,500	\$152,500	\$21,600		\$14,400		\$50,000		\$374,200
2003	\$500	\$55,100	\$20,400						\$89,400	\$165,400
2004	\$566	\$53,256	\$16,485						\$83,412	\$153,719

## Montana

### *Background*

A ballot initiative approved by the voters in November 2000 placed 40 percent of the state's tobacco settlement revenue in a trust fund. Ninety percent of the interest earned from this endowment was available for health care and tobacco-use prevention programs. The 10 percent balance was deposited in the trust fund. The 60 percent not deposited in the trust fund was available for appropriation by the Legislature.

In 2001, the Montana Legislature appropriated nearly \$3 million from accrued interest for Medicaid services. The funds were available for the two-year biennium of FY 2002 and FY 2003. In addition, lawmakers appropriated \$500,000 each fiscal year for tobacco-use prevention services. However, the amount was trimmed to \$300,000 due to budget constraints. The Legislature was not in session in 2002.

### *2003*

In November 2002, Montana voters returned to the polls to determine how to spend tobacco settlement revenue. The electorate passed Initiative 146, mandating a new plan to allocate tobacco settlement revenue as follows.

- 32 percent for tobacco prevention programs;
- 40 percent to a health care trust fund;
- 17 percent for health insurance programs for low-income insurance individuals; and
- 11 percent to the general fund.

During the 2003 legislative session, the House passed legislation to appropriate the tobacco settlement revenue as called for in Initiative 146. However, the Senate rejected the bill and voted to appropriate the revenue without regard to Initiative 146. Ultimately, the Legislature disregarded Initiative 146 and appropriated \$3.2 million to tobacco prevention programs and transferred the remaining \$5.8 million of the 32 percent to fund human services programs. The Legislature was able to override the mandate of Initiative 146 because the ballot initiative was a statute, rather than a constitutional amendment.

### **Allocation of Tobacco Settlement Revenue** FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000	\$7,000	\$10,000			\$1,600					\$18,600
2001										
2002	\$500	\$1,463						\$10,500	\$15,748	\$28,211
2003	\$300	\$1,463						\$12,068	\$18,102	\$31,933
2004	\$3,200	\$10,629						\$11,289	\$3,105	\$28,223

## Nebraska

### *Background*

In 2000, lawmakers created the Youth Access to Tobacco Prevention Program and authorized it to receive \$7 million annually through FY 2003 from tobacco settlement funds. In 2001, the Legislature restructured the allocation of the state's tobacco settlement revenue and made a major commitment to devote the funds to health services. Lawmakers allocated more than \$50 million for mental health, substance abuse treatment, public health, respite care, services to the developmentally disabled, and tobacco-use prevention.

### *2003*

The Nebraska Legislature appropriated \$49.7 million in tobacco settlement revenue for mental health and substance abuse services, public health, respite care, services to the developmentally disabled and biomedical research. Tobacco settlement funds are deposited directly into a trust fund with other intergovernmental funds.

Each year, legislators can allocate approximately \$50 million from this trust fund, which actuarial projections show should be available for an indefinite period of time. For FY 2004, the Legislature appropriated the following amounts.

- \$1.6 million for respite care;
- \$5 million for the developmentally disabled;
- \$1 million for juvenile services;
- \$10.5 million for research;
- \$3.2 million for minority health; and
- \$10.1 million for behavioral health services, including adolescent and emergency protective services.

**Allocation of Tobacco Settlement Revenue**  
FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000	\$7,000									\$7,000
2001	\$7,000									\$7,000
2002	\$7,000	\$35,900	\$1,000	\$10,000						\$53,900
2003	\$2,075	\$32,608	\$6,060	\$10,000					\$5,000	\$55,743
2004		\$35,514	\$1,060	\$10,500		\$2,500			\$184	\$49,758

## Nevada

### *Background*

In 1999, the Nevada Legislature enacted legislation that set a formula for the state's use of tobacco settlement funds.

- 50 percent to the Fund for a Healthy Nevada. The funds are to be allocated as follows:
  - 15 percent for pharmaceutical assistance;
  - 15 percent to assist senior citizens with housing;
  - 10 percent to tobacco-use prevention; and
  - 10 percent for health care of children and disabled.
- 10 percent to the public health endowment.
- 40 percent to Millennium Trust Fund to be used for college scholarships and tuition support.

### *2003*

The Nevada Senate approved Treasurer Brian Krolicki's recommendation to sell \$150 million in tobacco bonds to avoid the risk that declining cigarette sales and future litigation will substantially reduce the state's future MSA payments. The treasurer stated that tobacco bonds would provide immediate revenue that the state could invest in a diversified portfolio. In addition, Treasurer Krolicki's proposal incorporates constitutional provisions that would require the state to preserve appropriations for scholarships and health care. Lawmakers questioned whether the state would squander the proceeds from securitization. The bill ultimately died in the Assembly Committee on Government Affairs.

For FY 2004, the Nevada Legislature appropriated \$41.2 million from the tobacco settlement revenue. The allocation of revenue continued to follow the formula originally set in 1999. The specific allocations are as follows.

- \$16.5 million to the Millennium Trust Fund;
- \$6.2 million for pharmaceutical assistance;
- \$6.2 million to assist senior citizens with housing;

- \$4.1 million to tobacco-use prevention;
- \$4.1 million for health care of children and the disabled; and
- \$4.1 million to the Public Health Endowment.

**Allocation of Tobacco Settlement Funds**  
FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000		\$64			\$123					\$187
2001	\$694	\$3,303	\$3,728		\$7,149				\$2,000	\$16,874
2002	\$3,845	\$4,020	\$623		\$14,495					\$21,983
2003	\$4,332	\$4,332	\$12,997		\$17,330			\$4,332		\$43,324
2004	\$4,122	\$4,122	\$10,305		\$16,488			\$4,122		\$39,159

## New Hampshire

### *Background*

In 2000, New Hampshire was under a state Supreme Court order to address state funding for K-12 education. Faced with the dilemma of having to find additional revenue for public education, New Hampshire lawmakers chose to use the bulk of the state's tobacco settlement revenue for that purpose.

In 2001 and 2002, the New Hampshire General Court continued to use the majority of its tobacco settlement revenue for primary and secondary education. The balance went to tobacco prevention and into the state's general fund as unrestricted revenue.

### *2003*

The New Hampshire General Court received \$48.3 million in tobacco settlement revenue for FY 2004, and the legislature again allocated \$40 million for primary and secondary education. Lawmakers also continued to appropriate tobacco settlement revenue to the general fund and to support tobacco prevention and cessation programs.

**Allocation of Tobacco Settlement Revenue**  
Final FY 2004 (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Budget Reserve	Other	Total
2000					\$54,000					\$54,000
2001	\$3,000				\$40,000					\$43,000
2002	\$3,000				\$40,000				\$4,000	\$47,000
2003	\$3,000				\$40,000				\$4,000	\$47,000
2004	\$3,000				\$40,000				\$5,300	\$48,300

## New Jersey

### *Background*

New Jersey lawmakers, in fiscal years 2001 and 2002, allocated nearly all the state's tobacco settlement funds to health care, including tobacco-use prevention, elder care, pharmaceutical assistance, health insurance for the working poor and cancer research.

In January 2002, newly-elected Governor James McGreevy (D) faced a major fiscal crisis with a state budget deficit of \$2.9 billion through FY 2002 and \$5.3 billion through FY 2003. Left with few choices, the governor and lawmakers decided to securitize the state's tobacco settlement revenue rather than slash programs or raise taxes. The state received \$1.8 billion from the tobacco bonds. Of that amount, \$1.75 billion was allocated to

support the FY 2003 budget. The remaining proceeds were deposited into an escrow account for use in future years.

### 2003

New Jersey appropriated the \$261 million it received in tobacco settlement revenue to debt service on tobacco bonds sold in 2002.

#### Allocation of Tobacco Settlement Revenue

FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000	\$18,562	\$18,633	\$39,198						\$86,421	\$162,814
2001	\$30,000	\$229,424	\$60,959	\$15,000	\$11,900			\$42,000		\$389,283
2002	\$30,000	\$100,000	\$87,993	\$10,000	\$65,453					\$293,446
2003									\$274,678	\$274,678
2004									\$261,333	\$261,333

## New Mexico

### Background

The appropriation of tobacco settlement revenue in fiscal years 2001 and 2002 was a struggle between the Legislature and the governor. In 2001, former Governor Gary Johnson (R) vetoed nearly half the tobacco settlement revenue appropriated by the Legislature for FY 2002. Those vetoed funds remained in escrow and were available for appropriation in FY 2003.

In 2002, the New Mexico Legislature appropriated the majority of the \$25.4 million in tobacco settlement revenue to health services, including \$7.6 million to provide for an increase in enrollment in Medicaid programs.

### 2003

New Mexico's Medicaid programs faced a FY 2004 deficit of \$100 million. Senate Majority Leader Manny Aragon (D) sponsored legislation to permanently abolish the state's Tobacco Settlement Fund and transfer the fund's current balance to the general fund to buttress the state's Medicaid programs. Governor Bill Richardson (D) endorsed the bill. However, House lawmakers objected to abolishing the fund and expressed concerns about the state's future ability to fund tobacco-use cessation and prevention programs. The governor stated his intent to support cessation and prevention programs through general funds. Ultimately, the Legislature approved transferring \$57 million in the settlement fund to the general fund. Through FY 2006, the state's annual payments will be deposited into the general fund. Beginning in FY 2007, the state's annual payment will be deposited into the Tobacco Settlement Fund; a vote of three-fifths in each chamber is required to withdraw funds.

#### Allocation of Tobacco Settlement Revenue

FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000										
2001	\$2,225	\$18,875		\$2,500	\$275					\$23,875
2002	\$5,000	\$1,800		\$4,400				\$9,200		\$20,400
2003	\$5,900	\$15,798	\$600	\$5,250						\$27,548
2004									\$40,304	\$40,304

## New York

### Background

In fiscal years 2001 and 2002, the Legislature chose to allocate most of the state's tobacco settlement revenue to the programs established by the Health Care Reform Act of 2000, including SCHIP, hospital charity care, and family health programs that cover parents of children enrolled in SCHIP.

Early in the 2002 session, the Legislature enacted legislation to increase the state's tobacco excise tax and dedicated the additional revenue to fund the Health Care Reform Act of 2000. This gave the Legislature greater opportunity to use the tobacco settlement funds for other health care programs.

The New York Legislature combined the state's tobacco settlement revenue—\$360 million—with \$207 million from the state's tobacco excise tax revenue to create a fund of \$567 million for programs continued and established by the Health Care Reform Act of 2000. Of this amount, the Legislature allocated \$88 million to state Medicaid programs and \$20 million for tobacco-use prevention. This decrease of 50 percent was justified on the basis that the authorization for the program expired on June 30, 2003.

### 2003

In 2003, New York faced a combined revenue shortfall of \$11 billion for FY 2003 and FY 2004. Governor George Pataki (R) proposed the securitization of the tobacco settlement revenue and the sale of bonds that would net the state \$4.2 billion. As with other states that considered securitization, the verdict in the *Price vs. Philip Morris USA* lawsuit affected New York's sale of tobacco bonds. To make the bonds more attractive to investors, state lawmakers voted to back the tobacco bonds with state tax revenue, in addition to tobacco settlement revenue. This move gave the bonds a lower interest rate than traditional tobacco bonds, allowing New York to realize more revenue from the sale of bonds. However, the interest rate the state will pay on the bonds remains slightly higher than traditional general obligation bonds.

**Allocation of Tobacco Settlement Revenue**  
FY 2004 (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Budget Reserve	Other	Total
2000										
2001	\$30,000	\$388,000							\$250,000	\$668,000
2002	\$40,000	\$356,000								\$396,000
2003	\$20,000	\$232,000	\$108,000							\$360,000
2004									\$862,463	\$862,463

## North Carolina

### Background

In 1999, lawmakers enacted legislation that divided the state's tobacco settlement funds into three trust funds. The trust funds, with their governing commissions, were created to insulate the allocation of funds from political pressure in the legislative budgeting process.

- The Golden LEAF (Long-term Economic Advancement Foundation) will receive 50 percent of the tobacco funds to provide economic assistance to tobacco-dependent or economically affected communities. It includes education assistance, job training, employment assistance, scientific research, economic hardship assistance, public works and industrial recruitment.
- The Tobacco Farmers Trust Fund will receive 25 percent of the funds to benefit tobacco farmers and quota holders and those in tobacco-related employment.

- The Health and Wellness Trust Fund will receive 25 percent of the funds and will make awards for health care services.

In 2002, the North Carolina Tobacco Commission, the board responsible for providing economic assistance to tobacco growers, was criticized for using some tobacco settlement revenue to assist the state's tobacco farmers in retrofitting their tobacco barns. The criticism centered on the fact that funds were being used to help an industry against which the states had brought suit. Tobacco farmers were required to retrofit and upgrade their curing barns to meet strict standards for reducing the amount of harmful tar in the tobacco. Without this action, the tobacco they marketed would not be competitive.

*2003*

The Tobacco Trust Fund and the Health and Wellness Trust Fund each were to have received \$39 million in FY 2004. However, the General Assembly enacted legislation to transfer \$40 million from the Tobacco Trust Fund and \$25 million from the Health and Wellness Trust Fund to the general fund to help address a revenue shortfall. These amounts will be transferred in FY 2005 as well. Lawmakers justified the diversion of funds by asserting that the funds would allow the state to minimize or eliminate proposed reductions in health and human services programs.

The Health and Wellness Trust fund allocated \$40.2 million to tobacco prevention, health services and long-term care programs. The allocations include:

- \$5.2 for tobacco-use prevention, including community and school programs, media campaigns and evaluation of all prevention efforts;
- \$3 million for prevention of obesity; and
- \$32 million for pharmaceutical assistance to the elderly and disabled.

In early August, The Golden Leaf Foundation committed \$60 million to a \$64.5 million biotechnology training initiative that would enable unemployed workers in rural areas to be retrained at universities and community colleges. The biotechnology industry will contribute the remaining \$4.5 million to the initiative. North Carolina State University will receive \$36 million to build and equip a center to train workers; North Carolina Central University will receive \$19.1 million for undergraduate and graduate degree programs in biotechnology; and the state community college system will receive \$9.4 million to recruit and train workers in local communities. The community college system will also serve as a feeder system for programs at North Carolina State and North Carolina Central.

**Allocation of Tobacco Settlement Revenue**  
FY 2004 Pending (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Budget Reserve	Other	Total
2000										
2001							\$36,935			\$36,935
2002								\$333,615		\$333,615
2003	\$6,200	\$9,365	\$18,000						\$254,643	\$288,208
2004	\$5,195	\$3,000	\$32,000				\$78,808		\$65,000	\$184,003

## North Dakota

### Background

In 1999, the Legislature established three trust funds to receive the state's share of the Master Settlement Agreement. The Water Resources Trust Fund and the Education Trust each receive 45 percent of the funds, while the Community Health Trust receives 10 percent. All money collected for the Water Resources Trust Fund can be spent in the current year on current projects or debt services for long-term projects. Only the interest earned from the Education Trust may be spent each year, and this money goes toward funding K-12 public school programs.

### 2003

Approximately \$11.1 million was deposited in the Water Resources Trust Fund and the Education Trust in FY 2004. Due to a decline in the Education Trust's investments, \$2 million was available for appropriation to K-12 school programs. All funds in the Community Health Trust are available for appropriation; \$2.7 million was appropriated for tobacco-use prevention and \$0.6 million was appropriated for health services. New this fiscal year is a tobacco quit line funded at \$0.3 million.

### Allocation of Tobacco Settlement Revenue FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000									\$25,600	\$25,600
2001		\$3,000			\$750			\$13,400	\$13,400	\$30,550
2002	\$2,525	\$250			\$1,500			\$12,000	\$12,000	\$28,275
2003	\$2,525	\$295			\$2,000			\$12,000	\$12,000	\$28,820
2004	\$2,690	\$622			\$2,000			\$11,131	\$11,131	\$27,574

## Ohio

### Background

In 2000, Ohio lawmakers established eight trust funds to receive the state's share of the tobacco settlement revenue. The funds and their funding allocations are listed below.

- The Tobacco Use Prevention and Cessation Fund—25.3 percent.
- The Law Enforcement Impact Trust Fund—\$2 million annually.
- The Southern Ohio Agricultural and Community Trust Fund—2.27 percent.
- The Public Health Priorities Trust Fund—2.5 percent.
- The Biomedical Research and Technology Fund—9.9 percent.
- The Education Facilities Trust Fund—49 percent.
- The Education Facilities Endowment Fund—\$5 million annually.
- The Education Technology Trust Fund—2.16 percent.

Governor Robert Taft (R) called a special session of the legislature in the fall of 2001 to deal with the state's fiscal crisis. The legislature approved the withdrawal of \$100 million from the Tobacco Use Prevention Fund to meet part of the state's revenue shortfall. Early in 2002, however, it became clear that lackluster tax revenues and rising costs would require additional program cutbacks and additional revenue. The legislature chose to withdraw \$290 million from the Education Facilities and Law Enforcement trust funds to meet part of the revenue shortfall.

### 2003

Initially, Governor Taft and the General Assembly planned to allocate the state's MSA payment and accrued interest in trust funds for FY 2004 according to the legislation enacted in 2000. However, as legislators began work on the FY 2004 budget and the state's \$2.1 billion deficit, they realized they would once again have to

divert tobacco settlement revenue from its intended purpose. They transferred approximately \$280.5 million originally intended for the Tobacco Use Prevention and Cessation Fund and the Education Facilities Endowment Fund to the general fund. Despite the diversion of revenue, the General Assembly was able to allocate \$88.7 million to the following programs.

- \$12.6 million to the Public Health Priorities Trust Fund;
- \$23.3 million to the Biomedical Research and Technology Trust Fund;
- \$15.6 million to the Education Facilities Trust Fund;
- \$5 million to the Education Facilities Endowment Fund;
- \$15.1 million to the Education Technology Trust Fund;
- \$16.3 million to the Southern Ohio Agricultural and Community Development Trust Fund;
- \$0.6 million to the Attorney General’s Oversight Fund for enforcement of the Master Settlement Agreement; and
- \$0.2 million to the Department of Taxation’s Enforcement Fund for the enforcement of tax stamping of cigarettes.

**Allocation of Tobacco Settlement Revenue**  
FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000										
2001		\$8,702		\$5,012	\$13,759			\$248,624		\$276,097
2002	\$24,000	\$11,586		\$30,142	\$475,718			\$134,579	\$5,200	\$681,225
2003		\$11,685		\$22,870	\$26,860		\$21,895		\$290,687	\$373,007
2004	\$771	\$12,600		\$23,300	\$35,700		\$16,300		\$280,518	\$369,189

## Oklahoma

### *Background*

In November 2000, voters passed a ballot initiative that directed the state to place 50 percent of the tobacco settlement funds in an endowment. The percentage of funds to be placed in the endowment increases each year up to 75 percent by FY 2008. The trust fund’s board of directors meets annually to determine how the interest earned from the trust fund will be expended. The funds may be used for tobacco-use prevention, health care, education, children’s services and programs for senior citizens. The tobacco settlement revenue not deposited in the trust fund, starting at 50 percent and declining to 25 percent, will be deposited in the general fund and appropriated by the Legislature.

### *2003*

The Legislature appropriated \$70 million in tobacco settlement revenue for FY 2004. As required by the ballot initiative, 55 percent of the state's tobacco settlement revenue was placed in an endowment. The amount placed into the endowment increased by 5 percent from prior legislative sessions. The ballot initiative mandates that the amount allocated to the endowment increase to 75 percent by 2008. Forty-four percent—\$30.8 million—was appropriated to the general fund for health and human services, Medicaid and mental health. The remaining \$0.7 million was allocated to the Attorney General’s Office for administration of the MSA.

**Allocation of Tobacco Settlement Revenue**  
FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000										
2001		\$36,400								\$36,400
2002	\$1,725	\$39,081						\$40,800		\$81,606
2003	\$2,000	\$31,100						\$33,000		\$66,100
2004		\$30,810						\$38,512	\$700	\$70,022

## Oregon

### *Background*

In 2000, the electorate defeated two competing ballot initiatives, both designed to allocate the state's tobacco settlement revenue. With the defeat of these measures, the responsibility for appropriating the funds returned to the legislature. It was not until the 2001 legislative session that lawmakers decided how to allocate the tobacco settlement revenue over the two-year biennium of FY 2002 and FY 2003. The final allocation of tobacco settlement funds reflected the balancing act lawmakers faced between growing budget shortfalls, rising costs and the desire to expand services.

The Oregon Legislative Assembly was not in regular session in 2002, and the legislature intended to allocate the state's tobacco settlement revenue according to the plan adopted in 2001. However, falling revenues and rising costs forced Governor John Kitzhaber (D) to call a special session of the legislature. Three contentious special sessions were held in the spring of 2002 to deal with the state's fiscal crisis. The use of the state's tobacco settlement revenue was a major issue. During the course of the special sessions, the amount of tobacco funds that were to be used to address the deficit grew from \$50 million to \$80 million.

During its third special session of 2002, the legislature amended the planned use of tobacco settlement revenue that was enacted at the end of 2001 and reappropriated \$335.2 million for FY 2002 and FY 2003. The most dramatic changes were the depletion of the Health Care Trust Fund from \$95 million to \$2 million and the increase in funds for the Oregon Health Plan from \$124 million to \$209 million. It cannot be determined how much of the \$335.2 million was required in FY 2002 or FY 2003. Therefore, in an attempt to maintain comparability across fiscal years and state allocations, NCSL has divided the total amount equally between the two fiscal years.

In August 2002, Governor Kitzhaber vetoed two spending bills from the third special session. The vetoes led to fourth and fifth legislative sessions in which the state decided to securitize 40 percent of its tobacco settlement payments.

### *2003*

The Legislative Assembly continues to struggle to enact a FY 2004-FY 2005 budget. As of late August, the legislature had not enacted a biennial budget, and ongoing budget negotiations have led to the longest legislative session in state history. State Treasurer Randall Edwards strongly urged lawmakers to balance the budget without the sale of bonds. The treasurer stated that long-term debt is fiscally irresponsible and may worsen the state's cash flow problem.

The use of tobacco settlement revenue has been a contentious issue in budget negotiations. Recently, the state House and Senate reached a tentative agreement to allocate \$42.2 million to the Oregon Health Plan.

**Allocation of Tobacco Settlement Revenue**  
FY 2004 Estimate (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000										
2001										
2002		\$114,500							\$52,100	\$167,600
2003		\$114,500						\$2,000	\$52,100	\$167,600
2004		\$42,000								\$42,000

## Pennsylvania

### *Background*

In 2001, after two years of debate, the Pennsylvania General Assembly enacted legislation to distribute the state's tobacco settlement revenue. It established a formula by which all future tobacco settlement funds would be allocated. The formula stipulates:

- 8 percent for a health endowment;
- 30 percent for health insurance for adults and medical assistance for the disabled;
- 13 percent for a home- and community-based waiver;
- 12 percent for tobacco-use prevention;
- 10 percent for charity care;
- 8 percent for PACE and PACENet pharmaceutical assistance; and
- 19 percent for health research.

In 2002, the legislature appropriated tobacco settlement revenue according to the previously enacted formula. The legislature also appropriated \$198.5 million of unexpended tobacco settlement revenue from FY 2002 into the FY 2003 general fund for the state's Medical Assistance (Medicaid) program.

### *2003*

For FY 2004, the legislature followed the allocation formula established by the Tobacco Settlement Act in 2001. Consequently, the FY 2004 appropriations are consistent with prior legislative sessions. The legislature appropriated \$430.2 million to support a number of health-related programs. This figure is a combination of the state's FY 2004 MSA payment and unexpended tobacco settlement revenue from prior fiscal years. The specific appropriations are as follows.

- \$96.8 million for basic health insurance for adults;
- \$32.3 million for medical assistance for workers with disabilities;
- \$4.3 million for cancer research;
- \$77.5 million for general health research;
- \$55.9 million for home and community-based care for senior citizens;
- \$51.6 million for tobacco-use prevention and cessation programs;
- \$43 million for the uncompensated hospital payment program;
- \$34.4 million for the PACE and PACENET pharmaceutical assistance programs; and
- \$34.4 million for the Health Account endowment.

**Allocation of Tobacco Settlement Revenue**  
FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000										
2001										
2002	\$41,369	\$195,896	\$72,395	\$235,501				\$195,624	\$68,508	\$809,293
2003	\$52,000	\$173,400	\$91,000	\$82,300				\$34,700		\$433,400
2004	\$51,600	\$172,100	\$90,300	\$81,800				\$34,400		\$430,200

## Rhode Island

### *Background*

In 2001, former Rhode Island Governor Lincoln Almond (R) and the legislature agreed to deposit the state's tobacco settlement funds directly into the general fund, without earmarking the money for health services, tobacco-use prevention or any other specific program or activity.

In 2002, the General Assembly chose to securitize all of its tobacco settlement revenue. The legislation established the Rhode Island Tobacco Settlement Financing Corporation. Citing concerns about the make-up of the corporation's board and the fiscal measures contained in the bill, Governor Almond vetoed it. The General Assembly overrode the veto, and the state received \$685.4 million from the sale of the tobacco settlement revenue. From that amount, the state allocated \$295.3 million to retire its current capital debt and appropriated \$248.9 million for working capital and operating expenses in FY 2002 through FY 2004. By retiring the current debt, the state was able to save \$343.5 million in general revenue.

### *2003*

Rhode Island used the \$49 million it received in tobacco settlement revenue for debt service on tobacco bonds sold in 2002.

**Allocation of Tobacco Settlement Revenue**  
FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000	\$1,000		\$3,400							\$4,400
2001									\$62,200	\$62,200
2002									\$53,300	\$53,300
2003									\$51,066	\$51,066
2004									\$48,584	\$48,584

## South Carolina

### *Background*

South Carolina was one of the first states to securitize its tobacco settlement revenue. It received \$791 million from the action and established four programs, distributing the proceeds as follows.

- 2 percent for water and sewer projects in rural communities;
- 10 percent for economic development grants to the I-95 corridor of tobacco communities;
- 15 percent to the Community Trust Fund for farmers affected by the drop in tobacco demand and prices; and
- 73 percent for Health Care Endowment, and initial awards from this fund supported the state's pharmaceutical assistance program.

In 2002, South Carolina withdrew \$100 million from the Health Care Endowment and appropriated it, along with the interest earned in the previous year, to help with the state's FY 2003 general revenue shortfall. The legislature chose to allocate the funds as follows: \$1 million for mental health, \$1 million for emergency preparedness, and \$99 million for Medicaid.

*2003*

For FY 2004, South Carolina withdrew an additional \$6.8 million from the Health Care Trust Endowment and appropriated it, along with the interest earned in 2002, to state Medicaid programs. The legislature did not make a specific appropriation from the endowment to the Silver Card pharmaceutical assistance program.

**Allocation of Tobacco Settlement Revenue**  
FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000										
2001	\$1,750	\$152,173				\$5,500				\$165,172
2002		\$2,000	\$24,000				\$196,500	\$553,000	\$15,700	\$791,000
2003		\$100,000							\$1,000	\$101,000
2004		\$6,768								\$6,768

**South Dakota**

*Background*

In 2000, the Legislature established the People's Trust Fund for purposes of depositing the tobacco settlement funds. Interest from the trust could be used for any purpose. In April 2001, South Dakota voters approved a constitutional amendment that directed the state's tobacco settlement money to be deposited into the Education Enhancement Trust Fund instead of the People's Trust Fund.

In April 2002, South Dakota voters approved a second constitutional amendment authorizing the state to securitize its tobacco settlement funds. In August 2002, the state announced the securitization of all its tobacco settlement revenue. The state received \$278 million for the Education Enhancement Trust Fund. The interest earned from the trust fund will be deposited in the general fund and used specifically to enhance public education in the state.

*2003*

The state allocated its entire MSA payment for debt service on tobacco bonds sold in 2002. Fiscal analysts estimate that \$5 million in interest from the Education Enhancement Trust Fund will fund education programs.

**Allocation of Tobacco Settlement Revenue**  
FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000										
2001	\$800							\$27,100		\$27,900
2002	\$1,900							\$19,473		\$21,373
2003	\$500				\$3,200			\$278,000		\$281,700
2004					\$5,000				\$28,582	\$33,582

## Tennessee

### *Background*

Tennessee lawmakers were unable to come to agreement on how to spend the state's tobacco settlement funds during the 2000 legislative session. In 2001, the state's fiscal crisis made it necessary for legislators to deposit all the accumulated funds in the general fund to close the budget gap created by declining state revenue.

The state placed all its tobacco settlement funds in the general fund for FY 2003 and used it to close the budget gap created by falling revenues and increasing costs, especially health care costs.

### *2003*

The General Assembly continues to allocate the entire MSA payment to the general fund to close budget shortfalls and address rising costs in state health care programs.

### **Allocation of Tobacco Settlement Revenue**

FY 2004 Final (Dollars in thousands)

<b>Fiscal Year</b>	<b>Tobacco Prevention</b>	<b>Health Services</b>	<b>Long-Term Care</b>	<b>Research</b>	<b>Education</b>	<b>Children &amp; Adolescents</b>	<b>Tobacco Farmers</b>	<b>Endowment or Reserve</b>	<b>Other</b>	<b>Total</b>
2000										
2001										
2002									\$557,323	\$557,323
2003									\$173,380	\$173,380
2004									\$164,957	\$164,957

## Texas

### *Background*

Texas is one of four states that settled with the tobacco industry independent of the Master Settlement Agreement. In 1999, the Legislature established nine separate endowments to fund health education and public health initiatives. The endowments are listed below.

- Higher Education Permanent Health Fund;
- Individual endowments to 13 medical schools;
- Higher Education Nursing and Allied Health Fund;
- Minority Health Research and Education Fund;
- Tobacco Education Enforcement Trust Fund;
- Children and Public Health Trust Fund;
- Emergency Medical Services and Trauma Care Fund;
- Rural Health Facility Capital Improvement Fund; and
- Community Hospital Capital Improvement Fund.

In 2002, the Legislature appropriated \$528.6 million for FY 2003 from previously established trust funds or endowments. These appropriations included \$61.3 million for state Medicaid programs, \$215 million for the Children's Health Insurance Program and \$9 million for tobacco-use prevention. The appropriation to tobacco-use prevention programs included language that requires the rate of tobacco use to drop by 60 percent by 2010 for the program to continue to be funded and that tobacco use be eliminated by 2018 for continuation of funding.

2003

The Legislature continued to appropriate revenue from previously established endowments and trust funds. The appropriations include the following.

- \$402 million for insurance premiums for children and the medically needy;
- \$75.1 million for the Children’s Health Insurance Program (SCHIP);
- \$12.7 million for the SCHIP Vendor Drug Program;
- \$5.9 million for tobacco education and prevention programs;
- \$3.9 million for public health services;
- \$3.8 million for emergency health care systems;
- \$2.2 million for improvements to rural health facilities; and
- \$45.6 million for endowment funds for higher education to 13 university health centers.

**Allocation of Tobacco Settlement Revenue**  
FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000	\$10,000	\$187,150			\$29,750					\$226,900
2001	\$10,000	\$191,450			\$29,750					\$231,200
2002	\$9,000	\$494,832			\$26,775					\$530,607
2003	\$9,000	\$381,808	\$94,129		\$43,650					\$528,587
2004	\$5,994	\$500,503	\$12,700		\$45,675					\$564,872

**Utah**

*Background*

In 2000, the Legislature established a plan for spending its tobacco settlement funds. The law requires 50 percent of the state's annual receipts to be placed in the Permanent Trust Fund (PTF), an endowment that can be tapped only with a two-thirds vote of the Legislature and concurrence of the governor. The law changes the amount placed in the endowment to 20 percent for FY 2004 only and returns it to 50 percent for fiscal years FY 2005-2007. In FY 2008, this amount increases to 60 percent. Half of the interest earned by the PTF is reinvested in the PTF; the other half is deposited into the general fund. The balance of the settlement revenue is transferred to a restricted fund that funds various programs as established in statute.

In 2001 and 2002, the Legislature allocated tobacco settlement revenue according to the legislation enacted in 2000. However, the Legislature withdrew a total of \$44.4 million from the PTF to cover part of the state's budget shortfall.

2003

Legislative fiscal analysts raised concerns about the Legislature's use of revenue in the restricted account. The annual appropriations from the restricted account have been greater than the deposits into the account from the annual MSA payments. At the conclusion of FY 2003, the balance in the restricted account was \$9.5 million, but will fall to \$2.2 million at the conclusion of FY 2004. Beginning in FY 2005, revenue coming into the restricted account will not be sufficient to cover the statutory appropriations. Current statutes provide that appropriations be made to the extent that funds will be available, so the programs listed last will not receive their full appropriations. The Legislature was unable to resolve this problem prior to its adjournment.

The state expects FY 2004 revenue of \$26.9 million. Of this amount, \$5.4 million will be deposited in the PTF and \$21.5 million will be transferred to the restricted account. Appropriations from the restricted account include the following.

- \$7 million for the Children's Health Insurance Program (SCHIP);
- \$4 million for tobacco prevention, cessation and education;
- \$2 million for core public health programs;
- \$2 million for drug courts;
- \$4 million to the University of Utah Health Science Centers - Huntsman Cancer Institute; and
- \$9.8 million to the general fund.

The total appropriations of \$28.8 million will cause the partial depletion of the carry-forward balance in FY 2004.

**Allocation of Tobacco Settlement Revenue**  
FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000										
2001	\$4,000	\$7,500		\$4,000				\$13,900		\$29,400
2002	\$4,000	\$9,500		\$4,000				\$15,800		\$33,300
2003	\$4,000	\$9,500		\$4,000				\$28,300		\$45,800
2004	\$4,000	\$11,000		\$4,000				\$5,400	\$9,822	\$34,222

## Vermont

### *Background*

In the past, the General Assembly has appropriated up to two-thirds of the state's tobacco settlement funds to the Vermont Health Care Trust Fund. Each year, the balance of tobacco settlement revenue has been appropriated for health care services.

### *2003*

Although Vermont received a total of \$27.8 million in tobacco settlement revenue, the legislature appropriated only \$24.6 million. This difference between revenue received and the amount appropriated is due to the method employed by the legislature to calculate the amount of revenue available for appropriation. The legislature begins with the state attorney general's financial estimate, but discounts it both on Vermont's past experience with fluctuations in the amount of MSA payments and the Department of Revenue's projections for states that issue tobacco bonds.

As in previous years, the legislature appropriated the majority of its tobacco settlement revenue for health care programs. For FY 2004, the legislature allocated the funds to tobacco prevention, health services, education and children's programs. The following section lists specific appropriations.

#### Tobacco Prevention

- \$4.4 million for tobacco cessation and control programs, enforcement of the MSA and tax stamping, and age enforcement.

#### Health Services

- \$17.3 million to the state Medicaid program; and
- \$2.2 million to the Office of Drug and Alcohol Programs for treatment and state drug courts.

#### Children and Adolescents

- \$0.8 million for various youth runaway, corrections and housing programs.

**Allocation of Tobacco Settlement Revenue**  
FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000	\$570	\$16,430						\$16,021		\$33,021
2001	\$6,014	\$17,250						\$750		\$24,014
2002	\$7,411	\$17,250			\$925			\$4,400	\$58	\$30,044
2003	\$5,636	\$18,015				\$2,168			\$4,380	\$30,199
2004	\$4,381	\$19,461				\$802				\$24,644

## Virginia

### *Background*

In 1999, the Virginia General Assembly enacted legislation to distribute the state's tobacco funds as follows.

- 50 percent to the Tobacco Indemnification Trust Fund to be used for direct payments, development of economic infrastructure, and education and training in southwest and southside Virginia. Some of the projects funded include installing fiberoptic cable with new water lines to create new business parks that are Internet-ready and making scholarships and tuition available for farmers and their families to receive training and education that will allow them to pursue careers other than traditional farming.
- 10 percent to the Tobacco-use Prevention Trust Fund.
- 40 percent to the general fund.

During the 2002 legislative session, the Virginia General Assembly enacted legislation to allow the Tobacco Indemnification and Community Revitalization Commission to securitize its share of the tobacco settlement revenue. The legislation also establishes the Tobacco Settlement Financing Corporation, through which the bonds will be sold. Each year, the commission receives 50 percent of the state's tobacco settlement funds to indemnify tobacco growers from adverse effects of the Master Settlement Agreement and to revitalize tobacco-dependent communities.

### *2003*

The financial concerns raised by the *Price vs. Phillip Morris USA* verdict affected Governor Mark Warner's (D) proposal to issue tobacco settlement bonds. Since the increased financial risk of tobacco bonds lowered the size of the payout, Virginia canceled a tobacco bond issue it had already sold but had not yet closed.

As in previous years the Legislature appropriated its tobacco settlement revenue in the following manner:

- 50 percent—\$69.1 million—to the Tobacco Indemnification and Revitalization Trust Fund;
- 10 percent—\$13.8 million—to the Tobacco Prevention Trust Fund, to be administered by the Virginia Tobacco Settlement Foundation; and
- 40 percent—\$55.3 million for general revenue—is available for appropriation at the discretion of the legislature.

The disbursement of funds from the Tobacco Prevention Trust Fund also followed previous trends. For example, the Families in Action Program is a family-based prevention program that targets protective factors associated with alcohol, tobacco and other drug abuse. The program teaches parents the skills needed to guide their children through challenging teen years, and helps teens learn communication and negotiation skills.

The Tobacco Indemnification and Revitalization Trust Fund continued to fund economic development programs. For example, the fund awarded more than \$1 million in economic development grants to Lunenburg County. The grant will finance upgrades to water treatment facilities and renovations to fishing industries. However, the

commission's FY 2004 budget declined from \$76.6 million for FY 2003 to \$69.1 million for FY 2004. This decrease in the commission's budget is a result of the commission's expectation that the state's MSA payments will continue to decline due to lower cigarette sales.

**Allocation of Tobacco Settlement Revenue**  
FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000										
2001	\$18,800						\$89,500		\$71,500	\$179,000
2002	\$17,000						\$63,411		\$50,729	\$131,400
2003	\$14,800						\$73,800		\$59,100	\$147,700
2004	\$13,818						\$69,093		\$55,274	\$138,185

## Washington

### *Background*

The bulk of the state's tobacco settlement revenue has been allocated to the Health Services Account, where it was used to fund the state's Basic Health Plan. In addition, the state has appropriated a significant amount to tobacco-use prevention.

In fall 2002, the state's rapidly growing fiscal problems required bold action on the part of the Legislature, which chose to securitize a portion of the state's future tobacco settlement funds to help with the revenue shortfall. The state needed to realize \$450 million from the sale of the bonds to balance the FY 2003 budget. From the tobacco settlement revenue the state received in 2002, the Legislature appropriated \$26.2 million to tobacco-use prevention and control measures and \$122.8 million to fund the state's Basic Health Plan.

### *2003*

For FY 2004, 29 percent of Washington's tobacco settlement revenue will be used to retire bonds issued pursuant to the prior sale of tobacco bonds. The balance of the funds will be allocated to health care programs, including the SCHIP program, the Basic Health Plan, childhood vaccines and public health.

The tobacco prevention efforts in Washington are budgeted at approximately \$26 million each year. About \$11 million of this amount comes from a dedicated cigarette tax that became effective November 2001. The remainder comes from a \$100 million reserve fund that was established from Washington's initial settlement payments.

**Allocation of Tobacco Settlement Revenue**  
FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000										
2001	\$15,000	\$153,000								\$168,000
2002	\$17,424	\$223,087								\$240,511
2003	\$26,200	\$111,800							\$7,846	\$145,846
2004	\$15,000	\$98,520							\$40,240	\$153,760

## West Virginia

### *Background*

In 1999, the Legislature enacted legislation to direct how future tobacco settlement funds were to be spent. Half the funds are to be deposited in the Medical Trust Fund, an endowment, where the interest earned is to be used for tobacco-use prevention programs. The other 50 percent, to be deposited into the West Virginia Tobacco Settlement Fund, is available for Medicaid, public health and state facilities. In 2002, legislation was introduced with the intent of securitizing a portion of West Virginia's tobacco settlement revenues. The legislation passed both chambers; however, the Senate refused to concur with amendments made in the House and the legislation was not enacted.

### *2003*

The Legislature appropriated its tobacco settlement revenues according to a plan established in 1999.

- \$5.9 million for tobacco prevention from the interest earned by the Medical Trust Fund;
- \$22.1 million for health services;
- \$29.9 million to the West Virginia Medical Trust Fund Endowment; and
- \$1.9 million to a special revenue fund for FY 2005 appropriation.

### **Allocation of Tobacco Settlement Revenue** FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000										
2001	\$5,900	\$47,000							\$5,000	\$57,900
2002	\$5,800	\$32,100						\$38,000		\$75,900
2003	\$5,850	\$32,149						\$38,000		\$76,000
2004	\$5,851	\$22,149						\$29,954	\$1,953	\$59,907

## Wisconsin

### *Background*

Former governors Tommy Thompson (R) and Scott McCallum (R) both deposited the bulk of the state's tobacco settlement funds into the state's general fund. A provision in the 2001 budget act created a tobacco prevention program and appropriated \$20 million to the program.

In June 2001, the state's deepening fiscal crisis required it to securitize its tobacco settlement revenue, and the sale represents payments received by the state beginning in 2004. Originally, 45 percent of the funds were to be used for the state's revenue shortfall and 55 percent were to be used to create a health care endowment. The proceeds from the endowment were to fund tobacco-use prevention activities in the state. The state's rapidly worsening fiscal crisis forced it to use all \$1.1 billion from the securitization for the revenue shortfall.

### *2003*

The Wisconsin Legislature deposited the \$140 million received in tobacco settlement revenue into the general fund to help address a budget shortfall.

### Allocation of Tobacco Settlement Revenue

FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Endowment or Reserve	Other	Total
2000	\$1,292			\$1,000					\$165,594	\$167,886
2001	\$19,708			\$1,500					\$103,556	\$124,764
2002									\$1,100,000	\$1,100,000
2003									\$150,470	\$150,470
2004									\$140,029	\$140,029

## Wyoming

### *Background*

Wyoming lawmakers chose to deposit the state's tobacco settlement funds in a Settlement Trust Fund and to spend the funds on tobacco-use prevention and control. In 2002, the Legislature enacted legislation to provide the state with a comprehensive substance abuse program. To fund this new initiative, lawmakers allocated \$25 million of the state's tobacco settlement funds. In addition, future tobacco settlement revenue will be dedicated to funding this program.

### *2003*

The Wyoming Legislature again allocated \$25 million from previously collected tobacco settlement revenue for the state's comprehensive substance abuse program. Following the trend of previous years, legislators also allocated \$1.8 million to tobacco prevention and cessation programs.

### Allocation of Tobacco Settlement Revenue

FY 2004 Final (Dollars in thousands)

Fiscal Year	Tobacco Prevention	Health Services	Long-Term Care	Research	Education	Children & Adolescents	Tobacco Farmers	Budget Reserve	Other	Total
2000										
2001	\$1,800							\$17,500		\$19,300
2002	\$1,800							\$12,972		\$14,772
2003	\$6,000	\$25,000								\$31,000
2004	\$1,800	\$25,000								\$26,800

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Additional information on this issue can be found in the biweekly **Snapshots** and quarterly **Issue Briefs** published by NCSL's **Health Policy Tracking Service (HPTS)**. HPTS services and publications are available to state legislators and their staff at [www.hpts.org](http://www.hpts.org).

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