

Health Policy Studies Division
Contact: Nasima Baskey, 202/624-7820
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1999 State Initiatives on Spending Tobacco Settlement Revenues*

Summary

The first payment of tobacco settlement revenues was released to states in mid-December as Governors' attempted to balance competing interest groups with the real needs of their constituents. To target tobacco settlement revenues effectively, Governors created committees, task forces, and foundations to manage the decisionmaking process, and to make expenditure of the tobacco settlement revenues accountable. Health initiatives, including tobacco control programs, are the Governors' top priority for tobacco settlement revenues. Education comes in a close second, as Governors are keen to improve state school systems and to help high school students continue their education at the university level. In addition, Governors from tobacco-producing states recognize the importance of crop diversification and alternatives to tobacco production for farmers and farm communities. They are pursuing a number of initiatives to assist farmers in identifying and taking advantage of diversification opportunities. This *Issue Brief* describes the mechanisms four states have implemented to manage the tobacco settlement revenues and highlights state initiatives for spending these revenues.

Governance Systems to Manage and Allocate Tobacco Settlement Revenues

States have a variety of ways to help decide on how to spend tobacco settlement revenues. The consultation process has been very public, with Governors setting up committees, task forces, and foundations to solicit information from the public on where the monies will best be spent. Examples of all three systems follow:

- In July 1999, **Delaware** Governor Thomas R. Carper signed Senate Bill 8 to create the Delaware Health Fund, which will target monies received by Delaware under the national tobacco settlement agreement for the purposes of expanding access to health care, promoting healthy lifestyles and mitigating the effects of disease. The legislation established the Delaware Health Fund Advisory Committee to provide recommendations to the Governor and General Assembly. The committee consists of the Secretary of Delaware Health and Social Services, members of the senate, house of representatives, and of the technical advisory office of the legislative council, members of the public selected by the Governor, the chair of the Delaware Health Care Commission, and public members appointed by the president pro tempore of the senate and the speaker of the house. The Advisory Committee has held a series of public hearings across the state to hear recommendations on how the monies should be spent from the general public, community health leaders, youth and other health professionals. The Committee also accepted written comments from the public. The information gathered will be used to develop recommendations to go to the Governor and general assembly in early 2000.
- Governor Parris N. Glendening of **Maryland** formed three task forces to study his \$1 billion proposal to fight smoking and cancer and to make recommendations. The Task Force to Conquer Cancer was asked to determine how to allocate funds for cancer prevention and control and to increase access for rural and minority populations. The task force met six times between August

- 1999 and October 1999 and held seven public hearings statewide. The Task Force to End Smoking recommended ways to prevent tobacco use among teens and to encourage smoking cessation. In September, the task force held a debriefing session with national experts to brainstorm possible activities. Several meetings also were held statewide to learn about the needs and concerns of residents from different socioeconomic and racial backgrounds. The Task Force on Tobacco Crop Conversion consists of thirteen members who represent agricultural interests in Maryland. They are investigating ways to phase out tobacco farming by means such as tobacco buyout and transition, agricultural land preservation and infrastructure, and economic development.
- In December 1999, **North Carolina** Governor James B. Hunt, Jr. announced his appointments to the Long-Term Economic Advancement Foundation's Board of the Golden Leaf, which is charged with distributing 50 percent of the tobacco settlement revenues over the next twenty-five years to tobacco-dependent communities. The board will consist of fifteen members, five members each selected by the Governor, the state senate president pro tempore and the state house speaker respectively. The board will begin deliberations in early 2000. Under its articles of incorporation, the board can offer seven types of grants: education assistance, job training, scientific research, economic hardship assistance, public works and industrial recruitment, health and human services, and community assistance to economically depressed tobacco dependent communities. It is the intent of the legislature to create two trust funds — one with 25 percent of the funds to help tobacco farmers, allotment holders, and others in tobacco businesses, and a second with the remaining 25 percent for health purposes. Governor Hunt is interested in seeing a portion of the health trust fund go toward reducing underage tobacco use.
 - In March 1999, **Pennsylvania** Governor Tom Ridge created a multi-agency taskforce to recommend ways to spend the tobacco settlement revenues. The task force is to use five guiding principles in its decisionmaking process: Making Pennsylvania's citizens healthier; spending revenues on programs that are easily adjusted to the fluctuations in tobacco settlement payments; investing a percentage of the tobacco revenues for future generations and focusing revenues on improving existing programs before creating new ones; and focusing on programs that don't require expansion of government agencies. In July the task force held several public meetings across the state to gather public opinions. Groups and individuals were asked to submit written copies of proposals and opinions. This information will be used to develop the tobacco settlement revenue allocation plan, which will be presented to the state's general assembly.

State Proposals and Legislation for Expenditure of Tobacco Settlement Revenues

Governors seem to be overwhelmingly interested in improving health care delivery in their states. Education and diversification of tobacco farms also are top priorities for tobacco settlement revenues.

- Children's Health and Welfare. **Indiana** Governor Frank O'Bannon signed a biennial budget bill in May 1999 that included almost \$47 million for the Children's Health Insurance Program (CHIP). **Nebraska** Governor Mike Johanns created the Tobacco Settlement Trust Fund, where tobacco settlement revenues are deposited and invested. Governor Johanns has appointed a six-member Excellence in Health Care Trust Fund Council, which is authorized to use the interest from the trust fund to make grants and loan guarantees for any health initiatives, including state matching funds for CHIP. In his state-of-the-state address in January 1999, **Alaska** Governor Tony Knowles proposed using a percentage of revenues to supplement licensed child-care; fund child protection and abuse prevention, including family preservation; and increase payments to foster parents. In May 1999, **Florida** Governor Jeb Bush signed into law House Bill 1885, which created the \$1.7 billion Lawton Chiles Endowment Fund. Tobacco settlement revenues will be deposited over four years and the interest used to fund children's health care and child welfare programs. **Kansas** Governor Bill Graves signed House Bill 2558 in May 1999, creating the Kansas Endowment for

Youth Fund and the Kansas Children's Cabinet. All tobacco settlement revenues will be deposited into this fund for investment. The resulting income will be transferred into the Children's Initiatives Fund, which will be used to finance children's physical, mental health and welfare programs.

- **Elderly Services.** In April 1999, outgoing **Mississippi** Governor Kirk Fordice signed House Bill 519 which establishes the Health Care Expendable Fund. Revenues may be spent only on health-related purposes, including community-based care for the elderly. **New Jersey** Governor Christie Whitman's 2000 budget proposal to spend first-year tobacco settlement revenues was accepted by the state legislature, and revenues will go toward long-term care alternatives and pharmaceutical assistance for the aged and disabled. **Nevada** Governor Kenny C. Guinn signed Assembly Bill 474, which created the Fund for Healthy Nevada. Fifty percent of tobacco settlement revenues will be deposited into this fund and used to improve health services for senior citizens and for pharmaceutical assistance for low-income seniors.
- **The Uninsured.** In March 1999, **Arkansas** Governor Mike Huckabee signed House Bill 1839, which funds indigent health care services through the University of Arkansas for Medical Sciences. **Montana** Governor Marc Racicot signed House Bill 2, which allocated the tobacco settlement revenues for the year 2000-2001 budgets. Twenty-five percent of tobacco settlement revenues will be spent toward health initiatives, including the Montana Comprehensive Health Association, a high-risk insurance pool for the uninsured.
- **Tobacco Control and Cancer Programs.** **Texas** Governor George W. Bush signed House Bill 1676 in June 1999, which created a permanent fund for tobacco education and enforcement. The Texas Department of Health will receive \$10 million annually for programs to reduce use of tobacco products. **Oklahoma** Governor Frank Keating also proposed to use tobacco settlement revenues toward smoking prevention. **Hawaii** Governor Benjamin J. Cayetano signed Senate Bill 1034 in July 1999, which created the Hawaii Tobacco Settlement Special Fund. All tobacco settlement revenues are deposited in this fund, and 60 percent of the revenues will go toward health programs, including chronic diseases related to tobacco. **Maryland** Governor Parris N. Glendening announced that Johns Hopkins and the University of Maryland medical system will each receive \$15 million annually over 10 years for cancer treatment, prevention, and research. The University of Maryland also will invest some of the funds in its innovative Telemedicine and Cancer Network Initiative; over 10 years \$20 million annually will be invested in community-based support groups that provide education, prevention, and supportive care to cancer patients. **New Jersey** Governor Christie Whitman and the state legislature agreed to spend over \$18 million of the first year's tobacco settlement revenues for tobacco prevention, cessation, and control initiatives.
- **Education.** **Michigan** Governor John Engler signed House Bill 4666 in June 1999, which created the Michigan Merit Award Trust Fund, a scholarship program for high school students who may receive \$2,500 to \$3,000 for higher education, including job-specific training delivered by community colleges and other training providers. Tobacco Settlement funds will also be used for the Tuition Incentive Program (TIP), which is designed to encourage Medicaid-eligible students to complete high school by providing assistance for college tuition and fees. **Nevada** Governor Kenny C. Guinn signed Senate Bill 496, which directs 40 percent of the tobacco settlement revenues to the Millennium Scholarship Program, which will provide \$2,500 per year for four years to students enrolled in a Nevada state university and \$1,250 per year for two years to students at Nevada's community colleges. **North Dakota** Governor Edward T. Schafer signed House Bill 1475 in April 1999, which created the tobacco settlement fund. Forty-five percent of tobacco settlement revenues will go to the Common Schools Trust Fund to help local school districts.

- **Tobacco Farmers.** Governor James B. Hunt, Jr. is committed to keeping the tobacco economy strong in **North Carolina**. He helped create the “Phase II” settlement, in which the major tobacco companies agreed to set up a \$5 billion trust fund for tobacco farmers in all states. Money from the trust fund will be paid out over the next twelve years — directly from the companies to the farmers and allotment holders — to make up for income lost due to recent cuts in tobacco quotas. Governor Hunt also signed Senate bill 6 in March 1999. This legislation stipulates that 50 percent of the tobacco settlement revenues go to a non-profit corporation that provides economic assistance to tobacco dependent regions of the state. The legislation also establishes the intent of the legislature to use 25 percent of the funds for a separate trust fund to help tobacco producers, allotment holders, and others engaged in tobacco-related businesses. **South Carolina** Governor Jim Hodges signed Senate Bill 739, which created the South Carolina Tobacco Community Development Board, which will fund assistance to tobacco farmers. **Virginia** Governor James S. Gilmore III signed House Bill 2635 in March 1999, which created the Tobacco Indemnification and Community Revitalization Fund, which will compensate tobacco farmers for loss of assets and promote economic development in tobacco farming communities.
- **Other.** **Michigan** is the first state to allocate tobacco settlement revenues to bolster technology-based economic development programs, and plans to spend \$1 billion over the next 20 years for life sciences, research, development, and commercialization. **Utah** Governor Michael O. Leavitt proposed spending \$3.6 million of the tobacco settlement revenues to fund an offender information tracking system, highway patrol laptops, court technology and juvenile information system reengineering.

Conclusion

States are still in the early phases of proposal development, and new initiatives are being approached with caution. States are having difficulty budgeting programs accurately, because of the volume adjustment provision of the master settlement agreement. Under this provision, states’ anticipated payments would decrease if cigarette sales falter. Recently the U.S. Department of Agriculture’s Economic Research Service recorded an 11 percent drop in cigarette sales since 1997. At this point in time, it is difficult for states to accurately calculate how much money they will receive in any given year, so new programs and initiatives are being structured to correspond with the potentially unpredictable payment schedules.

*This *Issue Brief* highlights state efforts to allocate tobacco settlement revenues and is not based on a comprehensive survey of states.

For more detail on state proposals and legislation, please investigate NGA’s web site at <http://ww.nga.org/health/tobacco.htm>.

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