

# Issue Brief



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## 2001 State Tobacco Settlement Spending Initiatives\*

### Summary

In 1998 46 states, 5 commonwealths and territories, and the District of Columbia reached the Master Settlement Agreement (MSA) with the five major tobacco companies to recoup medical costs of treating tobacco-related illnesses. Four states—Florida, Minnesota, Mississippi, and Texas—settled prior to and separately from the MSA for a total of \$40 billion over 25 years. Since that time, states have begun receiving funds and implementing plans for spending that money. While no stipulations were made on how the money could be spent, most states are using the funds to address health issues.

Governors' top use of tobacco settlement monies has been to fund health initiatives, including tobacco prevention and control programs. Education initiatives have been second, with tobacco funding 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* highlights state initiatives for spending these revenues for fiscal 2001. A few state examples are given in each spending area to highlight the broad range of activities for using tobacco settlement dollars. Each example constitutes significant spending in that area.

### State Decisions for Expenditure of Tobacco Settlement Revenue

#### *Health*

All 46 states<sup>1</sup> that have made spending decisions have allocated some portion of their tobacco settlement funds to health priorities. The top priorities are tobacco prevention and control, elderly health programs including prescription drug programs, State Children's Health Insurance Programs (SCHIP), maternal and child health (MCH), Medicaid, biomedical and health research, and chronic disease prevention programs.

### *Tobacco Prevention and Control*

Forty-two states have allocated some portion of tobacco settlement monies to tobacco prevention and control. Maine and Maryland are two states that have implemented comprehensive tobacco control programs according to the Centers for Disease Control and Prevention guidelines for comprehensive tobacco control programs.<sup>2</sup> **Maine** allocated a combination of settlement funds and Medicaid funds totaling \$22.3 million for the state's tobacco prevention program. The expanded comprehensive tobacco prevention program includes \$8.35 million for community- and school-based grants; \$6.75 million for smoking cessation and statewide multimedia campaigns to reduce tobacco use; \$1.8 million for prevention and treatment of tobacco-related diseases for those with Medicaid; \$1.2 million for program evaluation; and \$200,000 for staff at the state bureau of health.

As part of a \$1 billion, 10-year initiative to combat cancer and smoking, **Maryland** combined an increase in tobacco excise tax with tobacco settlement funds to increase funding for tobacco control programs and cancer prevention and control. Maryland has also made investments in the state Medicaid program and substance abuse prevention programs.

**Minnesota**, which settled prior to and separately from the MSA, passed legislation that created trust funds for the settlement payments. For fiscal 2001, \$590 million was directed to the Tobacco Prevention and Public Health Endowments (61 percent): \$395 million for tobacco prevention programs in the department of health; \$97 million for community tobacco grants; and \$97 million for local public health activities. Interest earned from this fund (approximately \$10 million a year) is divided equally among youth antismoking programs and programs to fight other youth health behaviors.

The 1999 **Washington** budget set aside \$100 million for fiscal 2000-2001 for tobacco prevention and control. House and senate supplemental budget proposals for 2001 contain an appropriation from the Tobacco Prevention and Control Account for a comprehensive tobacco control plan.

### *Elderly Health*

Twenty states have allocated some portion of tobacco settlement monies to programs for the elderly, including prescription drug programs. **Indiana** allocated \$20 million to help low-income senior citizens afford prescription medicines. For Fiscal Year 2001, **Michigan** allocated \$50 million for a Life Sciences Corridor project to support basic and applied research in health-related areas, with emphasis on issues related to aging, with not less than \$5 million allocated to research related aging diseases and health problems; \$25 million for Long-Term Care costs related to Nursing Home Services including \$5 million that raised the personal needs allowance for nursing home residents from \$30 to \$60 per month; \$10 million for long term health care innovation grants; \$3 million for a long term care advisor in the Office of Services to the Aging, \$5 million to the Office of Services to the Aging for respite care; \$10 million for Rural Health Initiative Grants; and \$33 million for the Elder Prescription Insurance Coverage program to provide seniors enrolled in the program with prescription coverage. **Nevada** spent 15 percent of settlement money for fiscal 2001 for a prescription drug program for the elderly and disabled. **New York** has earmarked approximately \$568 million through June 30, 2003, to cover the cost of a prescription drug insurance benefit for more than 200,000 seniors statewide. The benefit is available to low- and moderate-income senior citizens and recent program changes are expected to cause a dramatic increase in seniors served.

### *Medicaid Programs*

Seventeen states have allocated some portion of tobacco settlement monies to Medicaid services. **Mississippi** allocated \$40.6 million for Medicaid, which includes program expansion, medical services match, home and community based waivers, dental fee increase, disabled workers buy-in, and eyeglasses coverage. **New Jersey** set aside \$100 million to expand Medicaid and provide access to health care to uninsured. **Vermont** included a \$17.25-million allocation for Medicaid and the Vermont Health Access Program to defray the cost of health care to low-income residents.

### *Biomedical and Health Research*

Seventeen states have allocated some portion of tobacco settlement monies to biomedical and health research, which includes research projects on cancer and tobacco-related diseases. **Illinois** allocated \$34.5 million for research projects at universities on tobacco-related illnesses, juvenile diabetes, and other illnesses, and to augment medical imaging and genome research. **Ohio** has allocated \$493 million, spread over 12 years<sup>3</sup>, to a Biomedical Research and Technology Trust Fund.

### *State Children's Health Insurance Programs*

State Children's Health Insurance (SCHIP) programs were also among the top health spending priorities for tobacco settlement funds for 2001, with 14 states allocating some portion of tobacco settlement monies. **Alabama** allocated \$6.5 million, or 10 percent of their fiscal 2001 settlement payments to the department of public health for the SCHIP, a tobacco control program, and programs to increase access to health care. **California** allocated the state's entire share of settlement funds to healthcare, increasing the number of children and adults enrolled in the Healthy Families, the state's SCHIP program. The state also allocated \$170 million to expand coverage under Medi-Cal, the state's Medicaid program. **Florida** allocated \$81.5 million to Kids Care for the current fiscal year. **Iowa** approved plans to improve Healthy and Well Kids Iowa (HAWK-I), the SCHIP program. The state is spending \$21 million in tobacco settlement funds to increase eligibility to 200 percent of federal poverty level, providing 12-month continuous eligibility and changing provider rate and methodology for payment. As one of the states settling prior to and separately from the MSA, **Texas** received large upfront payments. The Texas SCHIP received \$324 million from those first payments.

### *Maternal and Child Health Programs*

Maternal and child health (MCH) programs are receiving a substantial amount of tobacco settlement funds. Twelve states have allocated some portion of tobacco settlement monies to improving the health and well-being of pregnant women and children. **Colorado** allocated \$2.375 million to a nurse home visitor program that will provide home health and education services to first-time, low-income mothers during their pregnancies and through their child's second birthday. **Kansas** deposited the majority of tobacco settlement monies into the Kansas Endowment for Youth Fund. The fund will be used for programs to improve children's physical and mental health, welfare, safety, and overall well-being. For the current year, \$3 million is being spent on children's health and education programs and on programs to reduce the number of juvenile offenders.

### *Chronic Disease Programs*

Chronic disease prevention and control was also a health priority for states for fiscal 2001. Twelve states allocated some portion of tobacco settlement monies to chronic disease programs. **Delaware** allocated \$1.8 million for defibrillators in community facilities; chronic disease, diabetes and disabilities programs and research; housing for substance abuse treatment transitions; and programs for lesser known illnesses, such as lupus. **Hawaii** has allocated 35 percent of their annual tobacco settlement receipts (approximately \$15-\$16M) to the department of health for health promotion and prevention oriented public health programs targeting maternal and child health, physical activity, nutrition and tobacco control. Up to 10 percent of total receipts is to be used for the children's health insurance program. **Massachusetts** spent a portion of its payments disease prevention for Hepatitis C, colorectal and prostate cancers, renal disease, and multiple sclerosis. **New Mexico** spent \$18.9 million to fund Medicaid, HIV services, trauma care, teen pregnancy, pediatric oncology, and juvenile diabetes. An additional \$2.5 million was allocated for research on tobacco-related diseases.

### *Education*

Twenty-two states are spending some portion of their tobacco settlement on education initiatives. This includes scholarships, school construction, technology, and literacy. **Colorado** invested 19 percent of its settlement monies, not to exceed \$19 million, to create Colorado's Read to Achieve program, a child literacy program aimed second- and third-grade students who are not reading at grade level. Under the program, individual schools may submit grant applications to the Read to Achieve board to fund teacher training, in-school reading clinics, one-on-one tutoring, and after school and summer school reading programs. **Maryland** spent \$35 million for teachers' salaries (which may be used for intervention and early childhood programs) and \$9.3 million for teacher mentoring, certification and school readiness. **Michigan** created the Michigan Merit Award Program. This program gives an award of \$2,500 to any high school students who demonstrate performance at or above basic state standards in math, science, reading and writing using the state's assessment test. Students have up to 7 years to use the money and may use it to pay for costs associated with any form of post-secondary education - university, community college, apprenticeships or specialized certification programs. In its inaugural year, over 40,000 students earned this award. Some students have chosen to defer receiving the funds to subsequent years, but these first year awards reflect over \$100 million in financial support for post-secondary education and training. **New Hampshire** allocated \$40 million of the tobacco settlement funds to support education system reform.

### *Welfare and Social Services*

While receiving much less than health or education, welfare and social service programs received a substantial amount of tobacco settlement funding to improve or implement social services. Ten states allocated money for substance abuse or mental health programs. **Kentucky** spent \$5 million to establish the Kentucky Agency for Substance Abuse Policy to organize community-based programs for the reduction and prevention of alcohol, tobacco, and other drug use.

Early childhood development or children's social services received tobacco settlement funds in seven states. **Kentucky** allocated 25 percent of their tobacco settlement payment (approximately \$55.6 million) to early childhood development programs, focusing on immunizations for uninsured children, early childhood development, childcare, and education.

An additional five states invested money in improving criminal justice systems, with an emphasis on youth programs. **Alabama** allocated \$11 million to the department of youth services to fund secure beds to house youth in need of services, group homes, graduated release facilities, community-based alternatives to commitment, and subsidies for regional detention facilities. It also earmarked \$6.5 million for the Juvenile Probation Services Fund to unify and upgrade the juvenile justice system and to improve the delivery of services to children who have been referred to the juvenile court.

### *Economic Development*

Many states invested their tobacco settlement monies in trust funds and economic development systems to yield future financial benefit. Twenty-two states allocated money to economic development, commerce and information technology. **Georgia** invested \$62 million into the One Georgia Fund to attract businesses for rural economic development; **Hawaii** put money into an Emergency and Budget Reserve Fund for rainy day reserve and economic stabilization; and **Illinois** allocated \$315 million in tax relief and \$174 million for a rainy day fund.

### *Assistance to Tobacco Farmers and Communities*

Although tobacco growing states and tobacco companies entered into a separate settlement, often called Phase II, six states allocated MSA funds to assist tobacco growers and quota holders or to assist the overall economies of tobacco dependent regions.<sup>4</sup>

**North Carolina** established a non-profit corporation to assist tobacco-farming communities and two trust funds. The non-profit corporation received 50 percent of settlement payments for economic impact assistance to tobacco dependent regions of the state. A major goal of the non-profit is to encourage the development to alternatives to reliance on tobacco production as a cash crop. The state also deposited 25 percent into a trust fund established by the General Assembly to fund programs and provide assistance to tobacco producers, allotment holders, and persons engaged in tobacco-related businesses. The remaining 25 percent is to be paid into a Health and Wellness Trust Fund which may be used among other things to develop a comprehensive, community-based plan with goals and objectives to improve the health and wellness of the people of North Carolina with a priority on preventing, reducing, and remedying the health effects of tobacco use and with an emphasis on reducing youth tobacco use.

**Virginia** placed 50 percent of their funding into the Tobacco Indemnification and Community Revitalization Commission and Fund and the Tobacco Settlement Fund. The Indemnification Fund will compensate tobacco farmers for loss of assets and promote economic growth in tobacco-dependent communities.

### *Natural Resources Protection and Cleanup*

Three states allocated monies to natural resources projects. **North Dakota** transferred 45 percent to the Water Development Trust Fund for a comprehensive water development program to address the state's long-term water needs. **South Carolina** allocated 10 percent for water and sewer infrastructure improvements in rural and underdeveloped areas. **South Dakota** devoted \$8 million for surface-mine cleanup.

## **Finance**

States have many options available to deal with financing of their tobacco settlement payments. Most states have utilized trust funds or endowments for investing their payments. Thirty-six states deposited their tobacco settlement funds into trust funds or special funds and 24 states deposited their funds into the general fund. Many states have used a combination of these methods to finance programs and deal with future payments.

**Idaho** established the Millennium Fund as an endowment fund structure to receive, invest and disburse tobacco settlement funds. The state may allocate a small portion of the interest and the principal remains untouched.

**Nebraska** created several funds for tobacco settlement monies: the Tobacco Settlement Trust Fund, the Tobacco Prevention and Control Cash Fund, and the Excellence in Health Care Trust Fund. All tobacco settlement funds are first deposited in the Tobacco Settlement Trust Fund and invested. From this fund, the Tobacco Prevention and Control Cash Fund receives \$21 million (\$7 million for each of the next three years) for a tobacco program; and any interest from the Tobacco Settlement Trust Fund is paid into the Excellence in Health Care Trust Fund to provide grants and loan guarantees for a number of state health services.

### *Securitization*

To date, only four states<sup>5</sup> have approved plans to securitize their tobacco settlement funds. **Alaska** passed legislation enabling the state to securitize tobacco settlement money to finance school and university construction, public housing, and port and harbor facilities. In October 2000, the Alaska Housing Finance Corporation completed the sale of \$116 million in bonds to support port and school repair and construction. **Arkansas** voters passed an initiative in November 2000 to allow the state to securitize a small portion of their tobacco settlement funds to improve universities. **Louisiana** is considering plans to allow a portion of its tobacco settlement monies to be securitized, but has not made a decision about securitization. **South Carolina** opted to securitize their 25-year settlement payments to receive a lump sum of approximately \$1 billion.

## **Ballot Initiatives**

Voters in Arizona, Arkansas, Montana, Oklahoma, Oregon, and Utah decided tobacco ballot initiatives in the November 2000 elections. Of these six states, only Oregon's spending decisions remain unknown. All of the initiatives allocate money to health care priorities.

**Arizona** had two competing ballot initiatives, Proposition 200<sup>6</sup> and 204<sup>7</sup>. [Proposition 200](#) proposed using tobacco settlement money to provide prevention services for preschool-age children and families; to provide health insurance, including behavioral health coverage, for eligible uninsured parents; to authorize schools to enroll uninsured children in KidsCare; to fund early detection and prevention of cancer, strokes and other diseases; and to provide hospice care for the terminally ill.

[Proposition 204](#) proposed funding the Healthy Arizona Initiative passed in 1996; to increase eligibility of working poor for health care coverage through Arizona Health Care Cost Containment System; to fund health education, nutrition and prevention programs; to fund premium sharing and other health care programs. Both propositions included language to determine a winner in the case that both initiatives passed. Both initiatives did pass, however

Proposition 204 garnered more votes than the competing initiative and thus became the valid winner.

**Arkansas** voters passed [Opinion No. – 00-137](#),<sup>8</sup> which was put forth by the Coalition for Healthy Arkansans Today. This plan places the first \$100 million the state receives in an endowment called the Arkansas Healthy Century Trust Fund. Annually, the first \$5 million would go into the trust fund for the Arkansas Development Finance Authority to issue bonds to improve state universities. Subsequent annual payments would be distributed to tobacco prevention and cessation (31.6 percent), Medicaid expansions (29.8 percent), bioscience research (22.8 percent), and area health education centers, a center on aging and minority health care, and the creation of an Arkansas School of Public Health (15.8 percent).

**Montana** voters passed [Constitutional Amendment 35](#),<sup>9</sup> which deposits 40 percent of all future tobacco settlement payments into a health trust fund. Interest generated by the trust fund will be used for tobacco disease prevention. The remaining 60 percent will be deposited into the general fund for allocation by the legislature.

**Oklahoma** voters passed [State Question 692](#),<sup>10</sup> which amends the state constitution and creates the Tobacco Settlement Endowment Trust Fund. A percentage of the payments (increasing annually through 2007) received by the state from tobacco companies will be deposited in the trust fund. Monies not deposited in the trust fund are subject to legislative appropriations. The earnings from the trust fund may be expended for tobacco prevention and cessation programs, health care, education, other children's services, and programs for senior adults. The measure allows the legislature to pass laws to further implement this section.

**Oregon** voters faced two competing initiatives in November 2000—Measure 4 and Measure 89.<sup>11</sup> [Measure 89](#) would have created a trust fund requiring annual distribution, in specified amounts, of the fund's investment earnings only to specified programs, including an elderly and disabled transportation fund; low-income and disabled housing programs; tobacco use prevention programs; Oregon Health Sciences University's medical researcher recruitment; nonprofit organizations providing women's shelter care; and county public and mental health programs. [Measure 4](#) would have placed all settlement payments into a trust fund and require appropriation of all fund earnings for medical, dental, and other remedial care services for low-income persons, including programs under SCHIP. Neither measure passed, which returns spending decisions of tobacco settlement funds to the legislature in the next session.

**Utah** voters passed Proposition Number 2<sup>12</sup> amending the state constitution to establish a permanent state trust fund of tobacco settlement money. Income from the trust fund will be transferred into the general fund and the principal remains in the trust fund unless the governor and three-fourths of both the senate and House of Representatives agree to remove money or assets from the trust fund for deposit into the state's general fund.

### **Proposals In States Where no Decision Has Been Made**

Four states—Missouri, Oregon, Pennsylvania and Tennessee—and the District of Columbia (D.C.) have not made spending decisions. However, the governors and mayor of D.C. have put forth proposals to spend the money.

Last year, the late **Missouri** Governor Mel Carnahan urged members of the Missouri General Assembly to approve legislation to develop a plan for the state's share of the national tobacco

settlement. Since taking office, Governor Holden signed an executive order creating the healthy Families Trust Fund to hold payments to the state from the tobacco settlement, an estimated \$4.5 billion over the next 25 years. Governor Holden has recommended spending settlement funds on prescription drug relief for seniors, health care access and treatment, tobacco prevention, life sciences research, and early childhood care and education.

**Oregon** had two ballot initiatives in November 2000 to address its allocation of tobacco settlement funds. Neither initiative passed so the decision will revert back to the legislature for the next session.

**Pennsylvania** Governor Tom Ridge proposed investing the state's multibillion-dollar share of the national tobacco settlement in a broad range of health initiatives. Governor Ridge's Health Investment Plan would provide health insurance to uninsured Pennsylvanians and enable older residents to get the health-care services they need to continue to live at home. His proposal would distribute 40 percent to health insurance for the uninsured, 15 percent to tobacco prevention and cessation programs, 15 percent to home- and community-based care, 15 percent to broad-based health research and health care-related venture capital, 10 percent to uncompensated care for hospitals, and 5 percent plus the initial payment of \$142 million to be placed in an endowment for future health challenges.

Governor Ridge has also proposed the creation of three regional Biotechnology Greenhouses with a one-time allotment of \$90 Million dollars from Pennsylvania's share of the tobacco settlement payments. The Greenhouses will be a focal point that will integrate the academic, research, medical, technology, business and economic development infrastructure of key regions around the state in order to produce marketable health improvement products while simultaneously developing new businesses and jobs for Pennsylvanians.

**Tennessee** has not made any specific long-term plans to spend their tobacco settlement funds. The legislature established two reserve accounts in the general fund: one for health and one for agriculture and tobacco growers. Two committees were formed to make recommendations to the legislature on how the funds in those two reserve accounts should be spent. The Agricultural Tobacco Settlement Committee recommended that half of the MSA funds should go in the agriculture account (one-quarter of the total MSA funds) and the other half be invested in an endowment. The second committee, the Ad Hoc Committee on Tobacco Settlement Health Fund plans mirror the agricultural committee's recommendations to spend half and invest half in a trust fund, with only the interest being spent as it becomes available. The committee has decided how to apportion the money allocated for health purposes, however it still needs to decide what mechanisms to use to fund its proposed programs. Final recommendations including those mechanisms are likely to be issued in March 2001. By April 2001, Tennessee expects to have \$372 million (total of first three payments) in the state accounts. The Governor recently proposed holding the funds for the first two years in the state's "rainy day fund" as a reserve to cover any shortfall resulting from a change in the state's tax structure.

In the **District of Columbia** fiscal 2000 budget, Mayor Anthony Williams and the city council agreed that half of the settlement money would be used for health and education programs and the remaining half would be invested in an endowment fund. Mayor Williams requested that the funds be securitized to finance major renovations to city schools, however the council initially rejected this option. After some discussion, the council requested that the mayor investigate

securitization a second time. While no decisions have been made, if securitized, D.C. would receive \$645 million up-front. Fiscal 2001 budget allocations would be as follows: \$73 million in fiscal 2001 would go to reducing the District's debt (\$50 million in subsequent years would be used for that purpose) and \$11.3 million would be used for tobacco prevention. Debt savings would be used to fund programs on education, health initiatives, school computers, and senior citizens' health centers.

## **Conclusion**

While states were not obligated to allocate money to any specific spending area under the Master Settlement Agreement with the five major tobacco companies, the overwhelming majority of the funds are being spent on health and education. Governors have made the health and welfare of their constituents their top priority. While most states have made spending decisions for fiscal 2001, this issue is likely to be revisited as priorities and the needs of each state evolve. As states change allocations or priorities, NGA will continue to track state spending.

## **Additional Resources:**

State tobacco settlement spending plans:

[http://www.nga.org/special/1,1260,C\\_MINI\\_WEB\\_SITE^D\\_428,00.html](http://www.nga.org/special/1,1260,C_MINI_WEB_SITE^D_428,00.html)

NGA tobacco settlement information for states: <http://www.nga.org/>

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<sup>1</sup> Includes states that settled prior to and separately from the MSA.

<sup>2</sup> While seven states – Arizona, Indiana, Maine, Massachusetts, Mississippi, Ohio and Vermont – are meeting CDC's recommended funding for comprehensive tobacco control programs, it is unclear how many are following the guidelines for critical components of a comprehensive tobacco control program. Hawaii is spending 98 percent of the CDC recommended amount. While California is spending 71 percent of the recommended amount, it is the longest running program in the country and has served as a model for developing tobacco control programs. Source: *Investment in Tobacco Control: State Highlights—2001*. Atlanta, GA: U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, National Center for Chronic Disease Prevention and Health Promotion, Office on Smoking and Health, 2001.

<sup>3</sup> Estimated and subject to adjustments as put forth in the MSA.

<sup>4</sup> By law, a producer needs a quota issued by USDA to grow tobacco in the United States. The quota specifies the amount and type of tobacco that may be grown. The quota is a property right. It is illegal to grow and sell more tobacco than set forth in quota. Persons who hold quota are known as quota holders. Subject to certain restrictions, quota holders may sell or lease their right to grow certain types of tobacco. See: <http://www.farmerslawyer.com/Tobacco/definitions.doc>

<sup>5</sup> Not including other entities, such as counties and cities, receiving MSA funds that have opted to securitize.

<sup>6</sup> <http://www.sosaz.com/election/2000/info/pubpamphlet/english/pgfId-1>

<sup>7</sup> Ibid.

<sup>8</sup> [http://www.sosweb.state.ar.us/pdf/00\\_137.pdf](http://www.sosweb.state.ar.us/pdf/00_137.pdf)

<sup>9</sup> <http://www.state.mt.us/sos/assets/elections/2000VIPa.pdf>

<sup>10</sup> [http://www.state.ok.us/~elections/00gen\\_sq.html](http://www.state.ok.us/~elections/00gen_sq.html)

<sup>11</sup> <http://www.sos.state.or.us/elections/nov72000/2000genmea.htm>

<sup>12</sup> [http://governor.state.ut.us/lt\\_gover/2000vip/PROPOSITION2BALLOTTITLE.htm](http://governor.state.ut.us/lt_gover/2000vip/PROPOSITION2BALLOTTITLE.htm)