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TOBACCO SETTLEMENT

States' Allocations of Payments from Tobacco Companies for Fiscal Years 2000 through 2005

Statement of Lisa Shames, Acting Director
Natural Resources and Environment

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Highlights

Highlights of GAO-07-534T, a testimony before the Committee on Health, Education, Labor, and Pensions, U.S. Senate

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TOBACCO SETTLEMENT

States' Allocations of Payments from Tobacco Companies for Fiscal Years 2000 through 2005

Why GAO Did This Study

In the 1990s, states sued major tobacco companies to obtain reimbursement for health impairments caused by the public's use of tobacco. In 1998, four of the nation's largest tobacco companies signed a Master Settlement Agreement, agreeing to make annual payments to 46 states in perpetuity as reimbursement for past tobacco-related health care costs. Some states have arranged to receive advance proceeds based on the amounts that tobacco companies owe by issuing bonds backed by future payments.

This testimony discusses (1) the amounts of tobacco settlement payments that the states received from fiscal years 2000 through 2005, the most recent year for which GAO has actual data, and (2) the states' allocations of these payments. We also include states' projected fiscal year 2006 allocations.

The Farm Security and Rural Investment Act of 2002 required GAO to report annually, through fiscal year 2006, on how states used the payments made by tobacco companies. GAO based this testimony on five annual surveys of these 46 states' Master Settlement Agreement payments and how they allocated these payments.

www.gao.gov/cgi-bin/getrpt?GAO-07-534T.

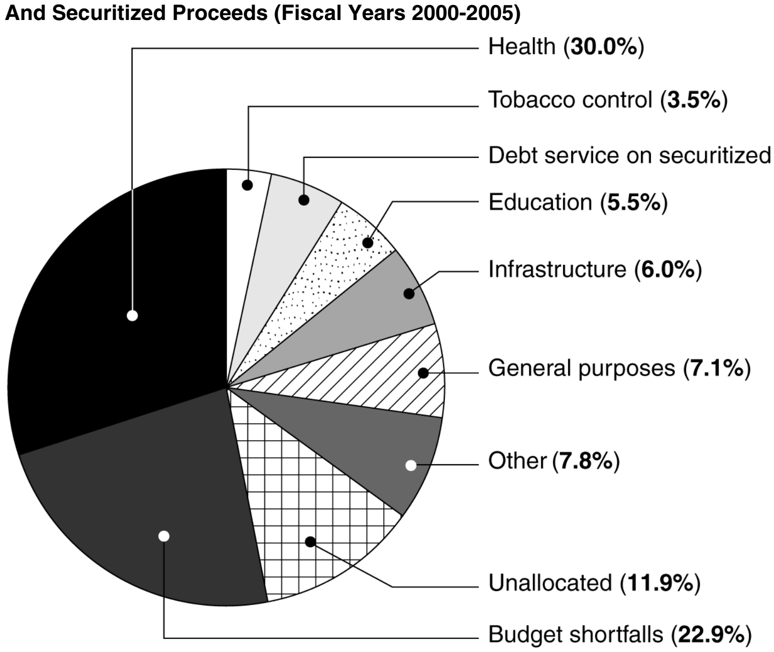
To view the full product, including the scope and methodology, click on the link above. For more information, contact Lisa Shames at (202) 512-3841 or ShamesL@gao.gov.

What GAO Found

From fiscal year 2000 through 2005, the 46 states party to the Master Settlement Agreement received \$52.6 billion in tobacco settlement payments. Of the \$52.6 billion total, about \$36.5 billion were payments from the tobacco companies and about \$16 billion were advance payments which several states had arranged to receive by issuing bonds backed by their future payments from the tobacco companies.

The Master Settlement Agreement imposed no restrictions on how states could spend their payments, and as such, the states have chosen to allocate them to a wide variety of activities. Some states told us that they viewed the settlement payments as an opportunity to fund needs that they were not able to fund previously due to the high costs of health care. States allocated the largest portion of their payments to health care—\$16.8 billion or 30 percent—which includes Medicaid, health insurance, hospitals, medical technology, and research. States allocated the second largest portion to cover budget shortfalls—about \$12.8 billion or about 22.9 percent. This category includes allocations to balance state budgets or reduce deficits that resulted from lower than anticipated revenues, increased mandatory spending, or essential expenditures. Included among the next largest categories are allocations for infrastructure projects, education, debt service on securitized proceeds, and tobacco control.

Categories to Which States Allocated Their Tobacco Settlement Payments And Securitized Proceeds (Fiscal Years 2000-2005)



Source: GAO analysis of data from state budget offices and their designees.

Mr. Chairman and Members of the Committee:

I am pleased to be here today to contribute to your deliberation on the need for the Food and Drug Administration to regulate tobacco products. Tobacco use is the leading cause of preventable death in the United States. Most adults who use tobacco started using it between the ages of 10 and 18. A Surgeon General's report to the Congress concluded that preventing youth from starting to use tobacco is key to reducing tobacco-related deaths and disease. The Centers for Disease Control and Prevention reported a few years ago that, on average, more than 440,000 deaths and $76 billion in medical expenditures are attributable to cigarette smoking annually. Reducing tobacco-related deaths and the incidence of disease, along with their associated costs, is a significant public health challenge.

Beginning in the mid-1990s, states sued the major tobacco companies for reimbursement of the cost of health impairments caused by the public's use of tobacco. The states alleged that the industry had violated antitrust and consumer protection laws, withheld information about the adverse health effects of tobacco, manipulated nicotine levels to keep smokers addicted, and conspired to keep less risky and less addictive tobacco products out of the market. Forty six states,[1] along with the District of Columbia and the five U.S. territories, negotiated and signed a settlement agreement, called the Master Settlement Agreement, with four of the largest tobacco companies—Phillip Morris, USA; R.J. Reynolds Tobacco Company; Brown & Williamson Tobacco Corporation; and Lorillard Tobacco company. The settlement was the largest civil settlement in U.S. history. It committed the tobacco companies to pay the 46 states an estimated $200 billion[2] over the first 25 years of the agreement, with payments to continue in perpetuity. In addition, it restricted the tobacco companies' marketing and advertising practices, among other things.

Today, I will focus on how the 46 states party to the Master Settlement Agreement have allocated their settlement payments. Specifically, I will discuss (1) the amounts of Master Settlement Agreement payments that the states received from fiscal years 2000 through 2005, the most recent

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[1]The four states that are not party to the Master Settlement Agreement—Florida, Minnesota, Mississippi, and Texas—reached earlier, individual settlements with the tobacco companies.

[2]This original estimate does not take into account adjustments in tobacco companies' payments that have and will occur.

year for which we have actual data, and (2) the states' allocations of these payments. The Farm Security and Rural Investment Act of 2002 (the 2002 Farm Bill) required GAO to report annually, from fiscal years 2002 through 2006, on how these 46 states used their Master Settlement Agreement payments.[3] My testimony is based primarily on these annual reports.

Our reports were based on our yearly surveys of the 46 states. Each year we asked the states to report (1) the amount of payments they received for the current state fiscal year, (2) the amount of payments they expected to receive for the next state fiscal year, and (3) their allocations of these payments among 13 spending categories. We independently corroborated the states' data to the extent possible by analyzing budget-related and legislative documents, and interviewing state budget officials, staff from state attorneys generals' offices and governors' offices and others as needed to clarify information. We performed our work in accordance with generally accepted government auditing standards.

In summary, from fiscal year 2000 through fiscal year 2005, the states received $52.6 billion in Master Settlement Agreement payments from the tobacco companies in amounts that varied from state to state and from year to year. Of the $52.6 billion, about $36.5 billion were payments from the tobacco companies and about $16 billion were advance payments (securitized proceeds) that 15 states arranged to receive by issuing bonds backed by their future payments from the tobacco companies. The annual payments from the tobacco companies' are adjusted based on several factors that include fluctuations in the volume of cigarettes sales, inflation, and other variables, such as the participating companies' shares of the tobacco market. Also, each state's share of the tobacco companies' annual payments is a fixed percentage based on smoking-related health care costs, which reflect population and smoking prevalence.

The Master Settlement Agreement imposed no restrictions on how states could spend these settlement payments and, as such, the states have

[3]GAO, *Tobacco Settlement: States' Allocations of Phase II Funds*, GAO-03-262R (Washington, D.C.: Dec. 3, 2002); GAO, *Tobacco Settlement: States' Allocations of Fiscal Years 2002 and 2003 Master Settlement Agreement Payments*, GAO-03-407 (Washington, D.C.: Feb. 28, 2003); GAO, *Tobacco Settlement: States' Allocations of Fiscal Year 2003 and Expected Fiscal Year 2004 Payments*, GAO-04-518 (Washington, D.C.: Mar. 19, 2004); GAO, *Tobacco Settlement: States' Allocations of Fiscal Year 2004 and Expected Fiscal Year 2005 Payments*, GAO-05-312 (Washington, D.C.: Mar. 21, 2005); and GAO, *Tobacco Settlement: States' Allocations of Fiscal Year 2005 and Expected Fiscal Year 2006 Payments*, GAO-06-502 (Washington, D.C.: April 11, 2006).

allocated their payments to a wide variety of activities. Some states told us that they viewed the settlement payments as an opportunity to fund needs that they were not able to fund previously due to the high costs of health care. States allocated the largest portion of their payments—30 percent or $16.8 billion—toward health care activities such as Medicaid, health insurance, hospitals, medical technology, and research. States allocated the second largest portion of their payments—about 23 percent or $12.8 billion—to help balance state budgets or reduce deficits that resulted from lower than anticipated revenues, increased mandatory spending, or essential expenditures.

In descending order, the next largest categories where states used their tobacco settlement payments were general purposes, infrastructure projects, education, debt service on securitized funds, and tobacco control.

States' Annual Tobacco Settlement Payments Have Varied

The 46 states reported receiving a total of nearly $52.6 billion in payments in varying annual amounts from fiscal year 2000 through fiscal year 2005. Of the nearly $52.6 billion, about $36.5 billion were payments from the tobacco companies and about $16 billion were securitized proceeds that 15 states arranged to receive, as shown in table 1.

Table 1: Master Settlement Agreement Payments and Securitized Proceeds Received by the 46 States (Fiscal Years 2000-2005)

Fiscal year	Payments	Securitized proceeds	Total
2000-2001	$13,200,000,000	$928,900,000	**$14,128,900,000**
2002	6,238,393,496	3,838,376,465	**10,076,769,961**
2003	6,306,329,459	6,482,764,469	**12,789,093,928**
2004	5,340,128,223	4,374,698,723	**9,714,826,946**
2005	5,453,132,303	389,977,667	**5,843,109,970**
Total	**$36,537,983,481**	**$16,014,717,324**	**$52,552,700,805**

Sources: GAO-01-851, GAO-03-407, GAO-04-518, GAO-05-312, GAO-06-502, state budget offices or their designees, and GAO analysis.

Note: This table does not include payments to cities and counties in California and New York.

The tobacco companies' annual payments are adjusted based on several factors contained in the Master Settlement Agreement that include fluctuations in the volume of cigarette sales, inflation, and other variables, such as the participating companies' share of the tobacco market. Declining tobacco consumption alone would result in lower Master

Settlement Agreement payments than originally expected. Tobacco consumption has declined since the Master Settlement Agreement was signed in 1998—by about 6.5 percent in 1999 alone—mostly due to one-time increases in cigarette prices by the tobacco companies after the agreement took effect. Analysts project that, in the future, tobacco consumption will decline by an average of nearly 2 percent per year.[4] As a result, tobacco consumption is estimated to decline by 33 percent between 1999 and 2020.

However, the Master Settlement Agreement also includes an inflation adjustment factor that some analysts have estimated increases payments more than any decreases caused by reduced consumption. The inflation adjustment equals the actual percentage increase in the Consumer Price Index for the preceding year or 3 percent, whichever is greater. The effect of these compounding increases is potentially significant, especially given that the payments are made in perpetuity. Assuming a 3-percent inflation adjustment and no decline in base payments, settlement amounts received by states would double every 24 years.

Also, several tobacco companies' interpretation of the provision that addresses participants' market share led them to lower their payments in 2006. Under this provision, an independent auditor determined that participating tobacco companies lost a portion of their market share to non-participating companies. An economic research firm determined that the Master Settlement Agreement was a significant factor in these market share losses. Based on these findings, several participating companies reduced their fiscal year 2006 payments by about a total of about $800 million. Many states have filed suit to recover these funds.

Each state's share of the tobacco companies' total annual payments is a fixed percentage that was negotiated during the settlement. These percentages are based on two variables related to each state's smoking-related health care costs, which reflect each state's population and smoking prevalence. In general, the most populous states receive a larger share of the tobacco companies' total annual payments than the less populous states. For example, California and New York each receive about 13 percent, while Alaska and Wyoming each receive less than 1 percent. However, these percentages are not strictly proportional to population.

[4] Cigarette consumption peaked in 1981 and has been declining since.

In addition to the annual payments states receive, the Master Settlement Agreement requires that a Strategic Contribution Fund payment begin in 2008 and continue through 2017. The base amount of each year's Strategic Contribution Fund payment is $861 million, which will be adjusted for volume and inflation and shared among the states. Strategic Contribution Fund payments are intended to reflect the level of the contribution each state made toward final resolution of their lawsuit against the tobacco companies. They will be allocated to the states based on a separate formula developed by a panel of former state attorneys general.

States Are Exercising Their Flexibility to Use Tobacco Settlement Payments for a Wide Variety of Activities

The Master Settlement Agreement imposed no restrictions on how states could spend their settlement payments and, as such, the states have allocated their payments[5] to a wide variety of activities, with health-related activities the largest among them. As part of their decision making on how to spend their payments, some states established planning commissions and working groups to develop recommendations and strategic plans for allocating their states' payments. In six states, voter-approved initiatives restricted use of the funds and, in 30 states, the legislatures enacted laws restricting their use.

Overall, we identified 13 general categories to which states have allocated their Master Settlement Agreement payments, as shown in table 2. Appendix I provides more details on the categories to which states allocated their payments.

[5]When states allocate payments, they may include carry-over funds from prior years and interest earned; therefore, in any one year, states' payments and securitized proceeds may not equal payments allocated for spending.

Table 2: Amount and Percentage of States' Allocations of Master Settlement Agreement Payments and Securitized Proceeds by Category, Fiscal Years 2000-2005

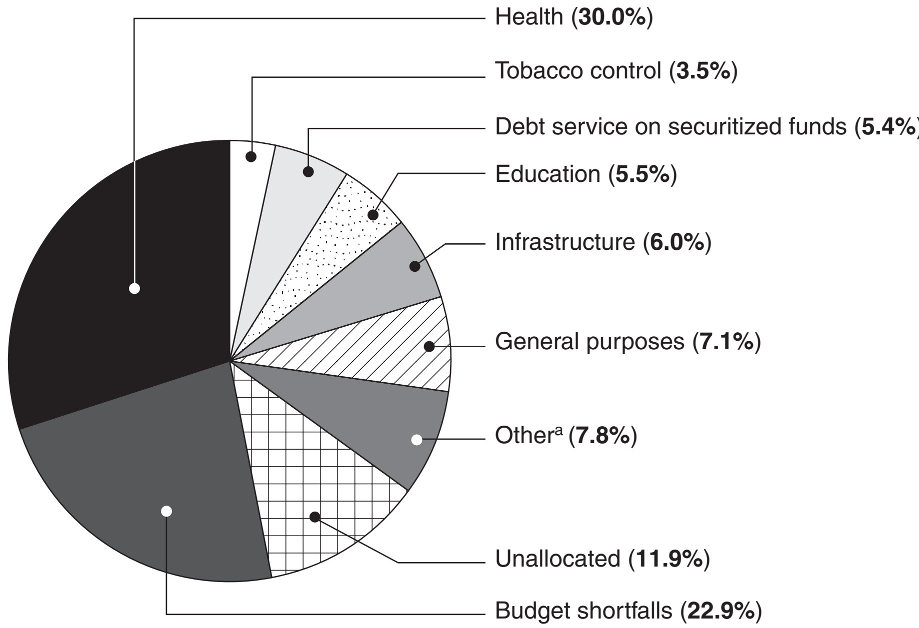
Dollars in millions and percent		
Category	**Dollars**	**Percent**
Health	$16,807	30.0
Budget shortfalls	12,806	22.9
Unallocated	6,639	11.9
General purposes	3,955	7.1
Infrastructure	3,350	6.0
Education	3,078	5.5
Debt service on securitized funds	3,005	5.4
Tobacco control	1,943	3.5
Economic development for tobacco regions	1,490	2.7
Social services	961	1.7
Reserves/rainy day funds	810	1.4
Tax reductions	616	1.1
Payments to tobacco growers	521	0.9
Total	**$55,981**	**100.1**

Source: GAO analysis of data from state budget offices and their designees.

Note: Percentages do not total to 100 due to rounding. Also, states' allocations do not match the payment amounts on an annual basis because states have carried over funds from one year to the next and earned interest on their payments.

States allocated the largest portion of their payments—about $16.8 billion, or 30 percent of the total payments—to health-related activities. To a closely related category—tobacco control—states allocated $1.9 billion, or 3.5 percent of their total payments. States allocated the second largest portion of their payments—about $12.8 billion or 22.9 percent—to cover budget shortfalls. Some states told us that they viewed the settlement payments as an opportunity to fund needs that they were not able to fund previously due to the high cost of health care. Figure 1 illustrates the relative magnitude of the categories receiving allocations.

Figure 1: States' Allocations of Master Settlement Agreement Payments and Securitized Proceeds by Category, as a Percent of Total Allocations, Fiscal Years 2000-2005



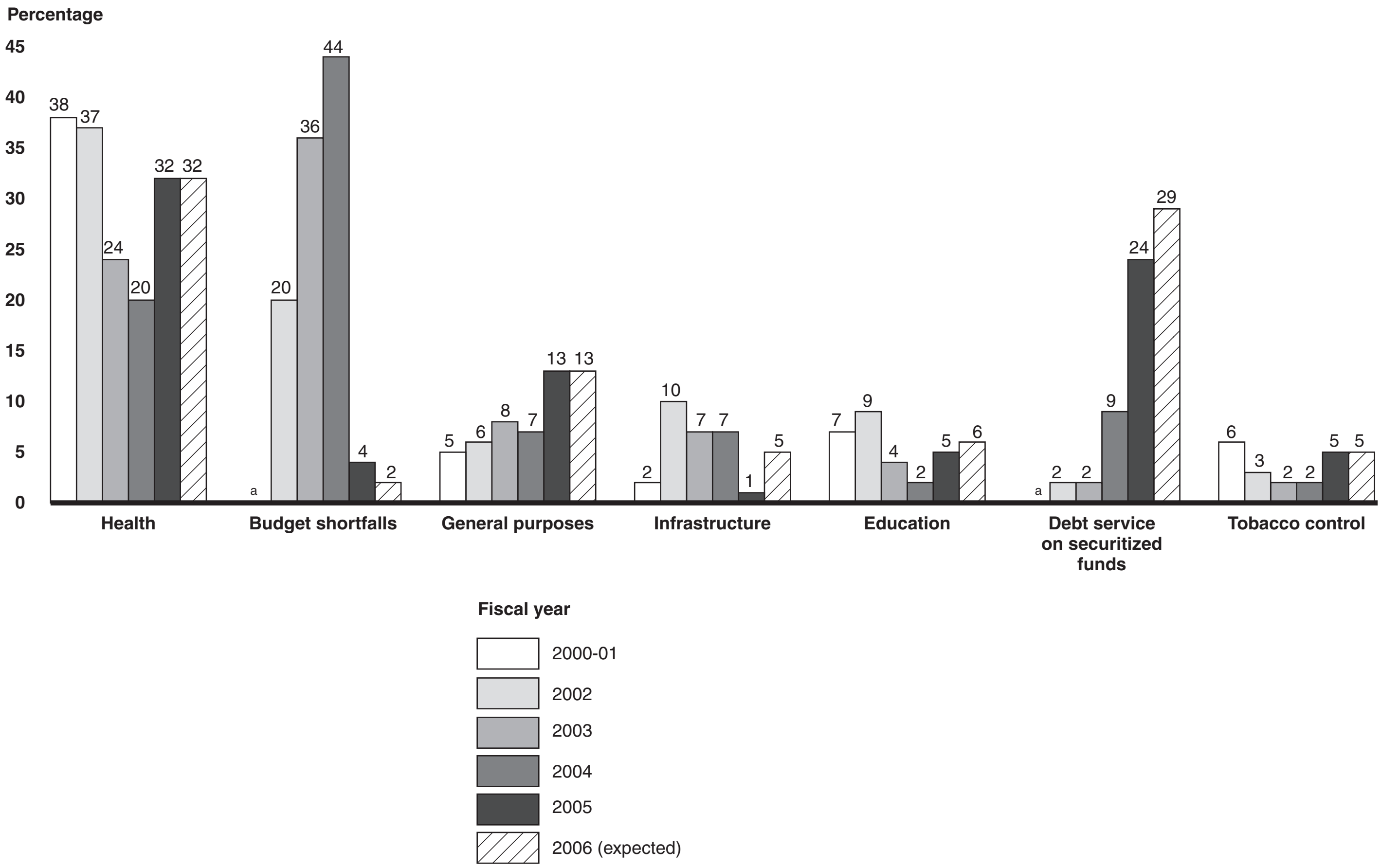
Source: GAO analysis of data from state budget offices and their designees.

Note: Percentages do not total to 100 due to rounding.

[a]The "other" category includes economic development for tobacco regions, social services, reserves/rainy day funds, tax reductions, and payments to tobacco growers.

The seven largest categories of allocations, in descending order, are health, budget shortfalls, general purposes, infrastructure, education, debt service on securitized funds, and tobacco control. States' allocations to these categories have varied considerably from year to year—with some categories showing wide fluctuations. For example, for budget shortfalls, the states allocated from 2 to 44 percent of the total payments. On the other hand, for health care, the states allocated from 20 to 38 percent of the total payments. Figure 2 shows these annual changes for these seven categories.

Figure 2: States' Allocations of Combined Master Settlement Agreement Payments and Securitized Proceeds to Seven Categories, Fiscal Years 2000 through 2005; and Expected Allocations for Fiscal Year 2006



Source: GAO-06-502 and GAO analysis of data from state budget offices and their designees.

[a]We did not obtain data for budget shortfalls and debt service on securitized funds for fiscal years 2000-01.

Information about how states have allocated their Master Settlement Agreement payments follows.

Health. From fiscal years 2000 through 2005, states allocated about $16.8 billion of their Master Settlement Agreement payments to a variety of health care programs, including Medicaid; health insurance; cancer prevention, screening, and treatment; heart and lung disease; and drug addiction. Over this period, the amounts states allocated to health care ranged from about $1.9 billion in fiscal year 2005 to nearly $4.8 billion in fiscal years 2000-2001 combined.

In fiscal year 2005, the most recent year for which we collected actual data, 36 of the 46 states allocated some of their Master Settlement Agreement payments to health care. Of the 36 states, 5 states allocated two-thirds or more of their payments to health care; 19 states allocated one-third to two-thirds; and 12 states allocated less than one-third. Ten states did not allocate any of their payments to health care activities. In fiscal year 2005, Pennsylvania, Illinois, Michigan, and Maryland allocated larger amounts to health care than the other states. Pennsylvania allocated over $326 million of its payments to health care programs for adult health insurance, uncompensated care, medical assistance for workers with disabilities, and community medical assistance. Illinois allocated nearly $204 million of its payments to health care, citing Medicaid drugs as a key program that would receive funds. Michigan allocated over $185 million of its payments to areas such as elder pharmaceutical assistance and Medicaid support programs. Maryland allocated nearly $100 million of its payments to areas such as Medicaid; cancer prevention, screening, and treatment; heart and lung disease; and drug addiction.

Budget Shortfalls. From fiscal years 2000 through 2005, states allocated about $12.8 billion of their Master Settlement Agreement payments to budget shortfalls. Over this period, the amounts the states allocated to budget shortfalls ranged from a high of about $5.1 billion, or 44 percent of the total payments in fiscal year 2004, to $261 million, or 4 percent in fiscal year 2005. In fiscal year 2005, only 4 of the 46 states allocated some of their Master Settlement Agreement payments to budget shortfalls. Of these states, only Missouri allocated more than one-third of its total payments—about $72 million—to budget shortfalls.

General Purposes. From fiscal years 2000 through 2005, states allocated about $4 billion of their Master Settlement Agreement payments to general purposes, including law enforcement, community development activities, technology development, emergency reserve funds, and legal expenses for enforcement of the Master Settlement Agreement. Over this period, the amounts states allocated to general purposes ranged from $623 million, or about 5 percent of the total payments they allocated in fiscal years 2000-2001 combined, to about $1.1 billion, or 8 percent in fiscal year 2003.

In fiscal year 2005, 27 of the 46 states allocated some of their Master Settlement Agreement payments to general purposes. Of these 27 states, 4 states allocated two-thirds or more of their total payments to general purposes; 2 states allocated one-third to two-thirds; and 21 states allocated less than one-third. Nineteen states did not allocate any of their payments to general purposes. Massachusetts, Tennessee, Connecticut, and

Colorado allocated the largest amounts to general purposes in fiscal year 2005. Massachusetts allocated nearly $255 million of its payments to general purposes for its General Fund, Tennessee allocated nearly $157 million of its payments to its General Fund, and Connecticut allocated about $113 million of its payments to its General Fund. Colorado allocated about $64.5 million of its payments to general purposes, but did not specify which programs would receive funds.

Infrastructure. From fiscal years 2000 through 2005, states allocated about $3.4 billion of their Master Settlement Agreement payments to infrastructure-related activities, including capital maintenance on state owned facilities, regional facility construction, and water projects. Over this period, the amounts states allocated to infrastructure have ranged from $31 million, or about 1 percent of the total payments in fiscal year 2005, to about $1.2 billion, or 10 percent in fiscal year 2002.

In fiscal year 2005, 5 of the 46 states allocated some of their Master Settlement Agreement payments to infrastructure. Of these 5 states, North Dakota was the only state that allocated more than one-third of its total payments to infrastructure. North Dakota, Hawaii, and Kentucky allocated the largest amounts to infrastructure in fiscal year 2005. North Dakota allocated about $10.5 million of its payments to infrastructure for work on water projects. Hawaii allocated approximately $10 million of its payments to infrastructure, citing debt service on University of Hawaii revenue bonds issued for the new Health and Wellness Center as a primary program that would receive funds. Kentucky allocated $6.1 million of its payments to service debt on such things as water resource development and a Rural Development Bond Fund.

Education. From fiscal years 2000 through 2005, states allocated about $3 billion of their Master Settlement Agreement payments to education programs, including early childhood development; special education; scholarships; after-school services; and reading programs. Over this period, the amounts states allocated to education ranged from between $280 million or 2 percent of the total payments in fiscal year 2004, to over $1.1 billion, or 9 percent, in fiscal year 2002.

In fiscal year 2005, 16 of the 46 states allocated some of the Master Settlement Agreement payments to education. Of the 16 states, only New Hampshire allocated more than two-thirds of its total payments to education; 4 states allocated between one-third and two-thirds to education; and 11 states allocated less than one-third. Thirty states did not allocate any of their payments to education-related activities. Michigan, New Hampshire, Nevada, and Colorado allocated the largest amounts to education in fiscal year 2005. Michigan allocated over $99 million of its payments to education for Merit Award scholarships and tuition incentive grants for higher education students; the Michigan Educational Assessment Program testing for K-12 students, nursing scholarships, the Michigan Education Savings Plan, and general higher education support. New Hampshire allocated $40 million of its payments to areas such as an Education Trust Fund, which distributes grants to school districts in the state. Nevada allocated about $33 million of its payments to education programs, citing a scholarship program for Nevada students attending Nevada's higher education institutions as a key recipient. Colorado allocated over $16 million of its payments to education, including its Read to Achieve program.

Debt Service on Securitized Funds. From fiscal years 2000 through 2005, states allocated about $3 billion of their Master Settlement Agreement payments to servicing debt on securitized funds. This category consists of amounts allocated to servicing the debt issued when a state securitizes all or a portion of its Master Settlement Agreement payments. Over this period, the amounts states allocated for this purpose have ranged from $271 million, or about 2 percent of the total payments in fiscal year 2002, to about $1.4 billion, or about 24 percent, in fiscal year 2005. In fiscal year 2005, four states—California, Rhode Island, South Carolina, and Wisconsin—allocated 100 percent of their Master Settlement Agreement payments to servicing debt on securitized funds, while New Jersey allocated just under 100 percent. In addition, Alaska, Louisiana, and South Dakota, allocated more than half of their payments for this purpose. In fiscal year 2005, California and New York allocated the largest amounts to servicing debt on securitized funds.

Tobacco Control. From fiscal years 2000 through 2005, states allocated about $1.9 billion of their Master Settlement Agreement payments to tobacco control programs, including prevention, cessation, and counter marketing. Over this period, the amounts states allocated to tobacco control ranged from $790 million, or about 6 percent of the total payments in fiscal years 2000-2001 combined, to $223 million, or about 2 percent, in fiscal year 2004.

In fiscal year 2005, 34 of the 46 states allocated some of their Master Settlement Agreement payments to tobacco control programs. Of the 34 states, Wyoming allocated more than one-third of its payments to tobacco control, while 33 states allocated less than one-third. Twelve states did not allocate any of their payments to tobacco control-related programs.

Pennsylvania and Ohio allocated more than the other states to tobacco control—about $44 million and $37 million, respectively—in fiscal year 2005.

Mr. Chairman, this concludes my prepared statement. I would be pleased to respond to any questions that you or other Members of the Committee may have.

Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. For further information about this testimony, please contact Lisa Shames, Acting Director, Natural Resources and Environment at (202) 512-3841 or ShamesL@gao.gov. Key contributors to this statement were Charles M. Adams, Bart Fischer, Jennifer Harman, Natalie Herzog, Alison O'Neill, and Beverly Peterson.

Appendix I: Categories of States' Allocations

To standardize the information reported by the 46 states, we developed the following categories and definitions for the program areas to which states allocated their payments.

Budget shortfalls: This category is comprised of amounts allocated to balance state budgets and close gaps or reduce deficits resulting from lower than anticipated revenues or increased mandatory or essential expenditures.

Debt service on securitized funds: This category consists of amounts allocated to service the debt on bonds issued when the state securitized all or a portion of its Master Settlement Agreement payments.

Economic development for tobacco regions: This category is comprised of amounts allocated for economic development projects in tobacco states such as infrastructure projects, education and job training programs, and research on alternative uses of tobacco and alternative crops. This category includes projects specifically designed to benefit tobacco growers as well as economic development that may serve a larger population within a tobacco state.

Education: This category is comprised of amounts allocated for education programs such as day care, preschool, Head Start, early childhood education, elementary and secondary education, after-school programs, and higher education. This category does not include money for capital projects such as construction of school buildings.

General purposes: This category is comprised of amounts allocated for attorneys' fees and other items, such as law enforcement or community development, which could not be placed into a more precise category. This category also includes amounts allocated to a state's general fund that were not earmarked for any particular purpose. Amounts used to balance state budgets and close gaps or reduce deficits should be categorized as budget shortfalls rather than general purposes.

Health: This category is comprised of amounts allocated for direct health care services; health insurance, including Medicaid and the State Children's Health Insurance Program (SCHIP); hospitals; medical technology; public health services; and health research. This category does not include money for capital projects such as construction of health facilities.

Infrastructure: This category is comprised of amounts allocated for capital projects such as construction and renovation of health care, education, and social services facilities; water and transportation projects; and municipal and state government buildings. This category includes retirement of debt owed on capital projects.

Payments to tobacco growers: This category is comprised of amounts allocated for direct payments to tobacco growers, including subsidies and crop conversion programs.

Reserves/rainy day funds: This category is comprised of amounts allocated to state budget reserves such as rainy day and budget stabilization funds not earmarked for specific programs. Amounts allocated to reserves that are earmarked for specific areas are categorized under those areas—e.g., reserve amounts earmarked for economic development purposes should be categorized in the economic development category.

*Social service*s: This category is comprised of amounts allocated for social services such as programs for the aging, assisted living, Meals on Wheels, drug courts, child welfare, and foster care. This category also includes amounts allocated to special funds established for children's programs.

Tax reductions: This category is comprised of amounts allocated for tax reductions such as property tax rebates and earned income tax credits.

Tobacco control: This category is comprised of amounts allocated for tobacco control programs such as prevention, including youth education, enforcement, and cessation services.

Unallocated: This category is comprised of amounts not allocated for any specific purpose, such as amounts allocated to dedicated funds that have no specified purpose; amounts states chose not to allocate in the year Master Settlement Agreement payments were received that will be available for allocation in a subsequent fiscal year; interest earned from dedicated funds not yet allocated; and amounts that have not been allocated because the state had not made a decision on the use of the Master Settlement Agreement payments.

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