



Highlights of [GAO-04-518](#), a report to congressional requesters

TOBACCO SETTLEMENT

States' Allocations of Fiscal Year 2003 and Expected Fiscal Year 2004 Payments

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, 46 states and four of the nation's largest tobacco companies signed a Master Settlement Agreement (MSA) that requires the tobacco companies to make annual payments to the states in perpetuity as reimbursement for past tobacco-related health care costs. The MSA commits the tobacco companies to pay the states approximately \$206 billion over the first 25 years. Some of the states have arranged to receive upfront proceeds based on the amounts that tobacco companies owe by issuing bonds backed by future payments.

The Farm Security and Rural Investment Act of 2002 requires GAO to report annually on the amount of MSA payments states receive through fiscal year 2006.

This third report provides information on the

- payments the 46 states received in fiscal year 2003 and expect to receive in fiscal year 2004, and
- states' allocations of these funds to various program categories and changes from prior years.

To conduct this study, GAO surveyed the 46 states.

www.gao.gov/cgi-bin/getrpt?GAO-04-518.

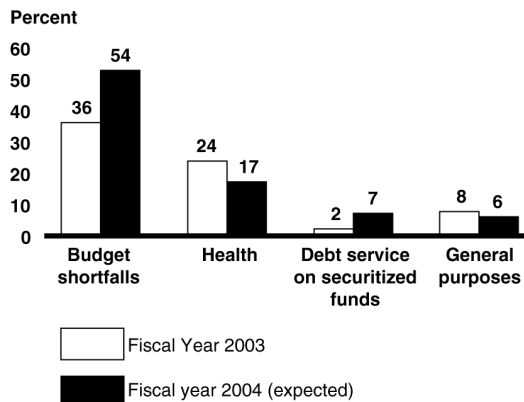
To view the full product, including the scope and methodology, click on the link above. For more information, contact Lawrence Dyckman, 202-512-3841, dyckmanl@gao.gov.

What GAO Found

The 46 states party to the Master Settlement Agreement expect to receive about \$24.2 billion in fiscal years 2003 and 2004. States reported they received about \$12.8 billion in fiscal year 2003 and expected to receive about \$11.4 billion in fiscal year 2004. Over the three prior years—fiscal years 2000, 2001, and 2002—states also reported receiving a total of about \$24 billion. These amounts include payments from tobacco companies and, for some states, the proceeds of the sale of bonds backed by payments tobacco companies will make in the future (securitized proceeds). Of the \$12.8 billion states received in 2003, about \$6.3 billion came from the tobacco companies and about \$6.5 billion came from securitized proceeds. Similarly, of the \$11.4 billion states expect to receive in 2004, about \$5.2 billion will be payments from tobacco companies and \$6.2 billion will be from securitized proceeds.

The Master Settlement Agreement allows states to use their tobacco settlement payments for any purpose. States reported that they used the largest portions of the fiscal year 2003 payments to address budget shortfalls and to fund health-related programs. The portion allocated to meet budget shortfalls is expected to increase from 36 percent in fiscal year 2003 to 54 percent in fiscal year 2004. The portion allocated to health-related programs is expected to decline from 24 percent in fiscal year 2003 to 17 percent in 2004. Also, allocations for debt service on states' securitized proceeds are expected to increase from about 2 percent in fiscal year 2003 to 7 percent in fiscal year 2004.

Categories to Which States Allocated the Largest Portion of Tobacco Settlement Payments (Fiscal Year 2003 and Expected 2004 Allocations)



Sources: State budget offices or their designees (data); GAO (analysis).