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Highlights

Highlights of GAO-03-407, a report to congressional requesters

February 2003

TOBACCO SETTLEMENT

States' Allocations of Fiscal Years 2002 and 2003 Master Settlement Agreement Payments

Why GAO Did This Study

The Master Settlement Agreement (MSA) requires four of the nation's largest tobacco companies to make annual payments to states in perpetuity as reimbursement for past health care costs related to tobacco use. The Farm Security and Rural Investment Act of 2002 requires GAO to report annually on the amount of MSA payments states receive and how they allocate these payments for the years 2002 through 2006.

This report provides information on the

- amount of MSA payments that the 46 states party to the MSA received for fiscal year 2002 and the amount these states expect to receive during fiscal year 2003;
- states' allocations of MSA funds to various program categories for fiscal years 2002 and 2003 and changes in these allocations from prior years; and
- changes in states' decision-making frameworks for MSA funds since fiscal year 2001.

To conduct this study, GAO sent a survey to budget officials in the 46 states party to the MSA. GAO did not independently verify the accuracy of the information provided by the state budget offices.

www.gao.gov/cgi-bin/getrpt?GAO-03-407.

To view the full report, including the scope and methodology, click on the link above. For more information, contact Anu Mittal at (202) 512-3841 or mittala@gao.gov.

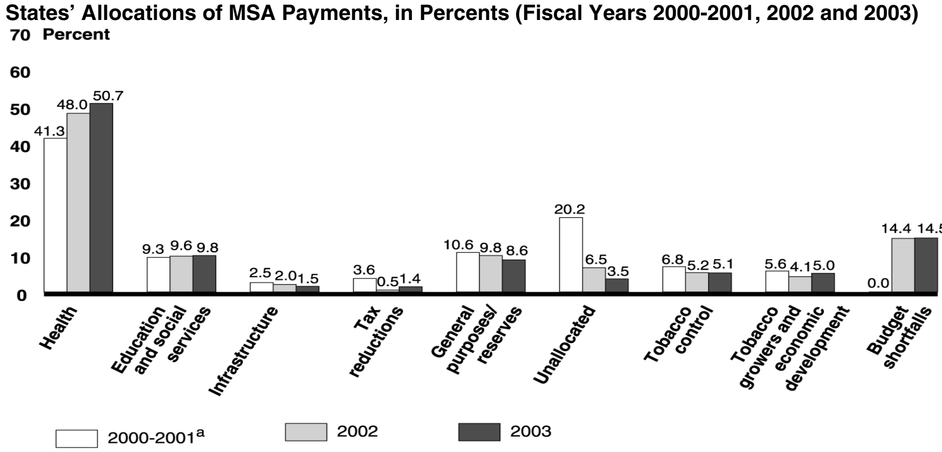
What GAO Found

The 46 states party to the MSA reported receiving a total of about $6.2 billion from the tobacco companies during fiscal year 2002 and expect to receive an additional $6.2 billion for fiscal year 2003. These amounts supplement the $13.2 billion the states had already received through April 2001. In addition, 12 of the 46 states issued bonds backed by all or a portion of their future MSA payments, a process known as securitization. Securitization allowed these states to receive upfront payments totaling an additional $10.6 billion for the 2-year period in lieu of some or all of their future MSA payments.

The MSA allows states to use their payments for any purpose. For fiscal years 2002 and 2003, states reported allocations of MSA funds for a variety of programs and budget priorities, although somewhat different than the allocations made for fiscal years 2000 and 2001. For example, for fiscal years 2002 and 2003, states reported that about half of their MSA payments were allocated to health-related programs, which is an increase from the 41 percent allocated in fiscal years 2000 and 2001. States also allocated MSA payments to cover anticipated budget shortfalls, for education and social services, and for general purposes and reserves. The 12 states that securitized future MSA payments allocated these proceeds primarily to cover budget shortfalls (31 percent for fiscal year 2002 and 66 percent for fiscal year 2003). Securitized proceeds were also allocated for infrastructure, education and social services, and health programs.

About half of the 46 states reported changes to the frameworks they use for making decisions related to MSA funds since fiscal year 2001. The change most frequently reported by the states was the passage of legislation affecting the use of MSA funds. Other changes included the establishment of new goals or revised requirements for the use of MSA funds and increases or decreases in the use of dedicated funds, such as endowments or trusts.

States' Allocations of MSA Payments, in Percents (Fiscal Years 2000-2001, 2002 and 2003)



Source: State budget offices (data), GAO (analysis).

[a]In June 2001, GAO reported on states' combined fiscal years 2000 and 2001 allocations of MSA payments.