



Highlights of [GAO-06-502](#), a report to congressional requesters

### Why GAO Did This Study

In the 1990's, 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 (MSA) 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.

The Farm Security and Rural Investment Act of 2002 requires GAO to report annually, through fiscal year 2006, on how states use MSA payments made by tobacco companies. To conduct this study, GAO surveys the 46 states. This is the fifth and final of a series of reports that provides information on

- the payments the 46 states received in fiscal year 2005 and expect to receive in fiscal year 2006 and
- states' allocations of these funds to various program categories and changes from prior years.

[www.gao.gov/cgi-bin/getrpt?GAO-06-502](http://www.gao.gov/cgi-bin/getrpt?GAO-06-502).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Robert A. Robinson at (202) 512-3841 or [robinsonr@gao.gov](mailto:robinsonr@gao.gov).

## TOBACCO SETTLEMENT

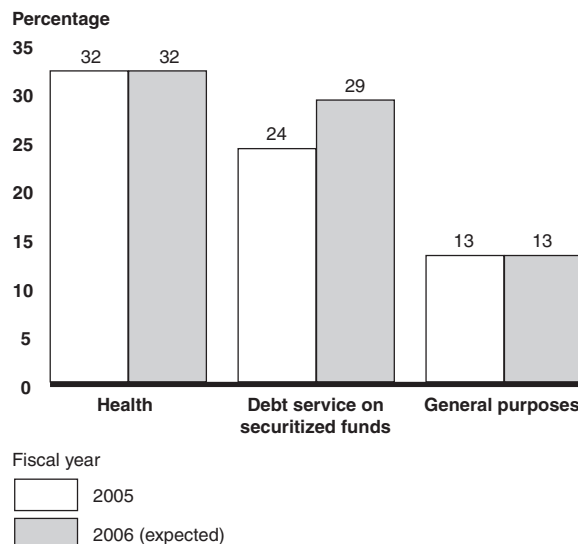
### States' Allocations of Fiscal Year 2005 and Expected Fiscal Year 2006 Payments

#### What GAO Found

The 46 states that are party to the MSA reported receiving about \$5.8 billion in fiscal year 2005 and expect to receive about \$5.4 billion in fiscal year 2006. Over the previous 5 years, on average, states received \$9.3 billion annually. The recent decrease in tobacco settlement funds provided to states has occurred because securitized proceeds—payments states obtained from the sale of bonds backed by future MSA payments—have declined. Proceeds declined because only one state (Virginia) chose to issue a bond and receive proceeds in fiscal year 2005, and the two states (California and New York) with the largest payments issued bonds in prior years. In fiscal year 2006, states reported that all of the tobacco settlement funds they expect to receive will be payments from tobacco companies, and none from securitized proceeds.

The MSA allows states to use their tobacco settlement payments for any purpose. States reported that they used the largest portion of the fiscal year 2005 payments and proceeds (32 percent) to fund health-related programs and the next largest portion (24 percent) to fund debt service on securitized proceeds. States expect health programs to account for the same proportion of funds in fiscal year 2006, while they expect debt service to increase to 29 percent.

**Categories to Which States Allocated the Largest Portions of Tobacco Settlement Payments and Securitized Proceeds (Fiscal Year 2005 and Expected Fiscal Year 2006)**



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