

NLWJC - Kagan

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Tobacco-Settlement: Budget [2]

Withdrawal/Redaction Sheet

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FOLDER TITLE:

Tobacco - Settlement: Budget [2]

2009-1006-F
db1538

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

- P1 National Security Classified Information [(a)(1) of the PRA]
- P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
- P3 Release would violate a Federal statute [(a)(3) of the PRA]
- P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
- P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]
- P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).

RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

- b(1) National security classified information [(b)(1) of the FOIA]
- b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
- b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
- b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
- b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

mtg w/ Mel staff : price

Graben: # of diffts in models

- separate effect of settlement from what would have happened anyway

• actual cost of SR

• effects of that on retail prices

--
other things going on - independent (e.g. \uparrow in fed excise tax)

- other things - how does fed payment translate into price - how much pyramiding will there be?

Treasury - close to 0 pyramiding - certainly single digit.

When looking at state data, mostly of small amounts.

Diff as lookback - mostly in early years (2003)

Vertical line of text on the left margin, possibly a page number or header.

Main body of text, appearing as a series of faint, illegible lines.

Pricing - Part 25.

Q6: We're talking about real; therefore talking measured.

(Following)

↳ L.Y.S. - ^{quicker} test is inflation - in term
price + sales tax

Q7: Price - examples in changes in markets

doesn't make even sense to ↑ markets just b/c tax is on product

Andi: but actually diff. except MF has been copying out an
lockade - see last!

Diff. is about concepts - what are you measuring -

total ↑ in prices ca change caused by inflation?

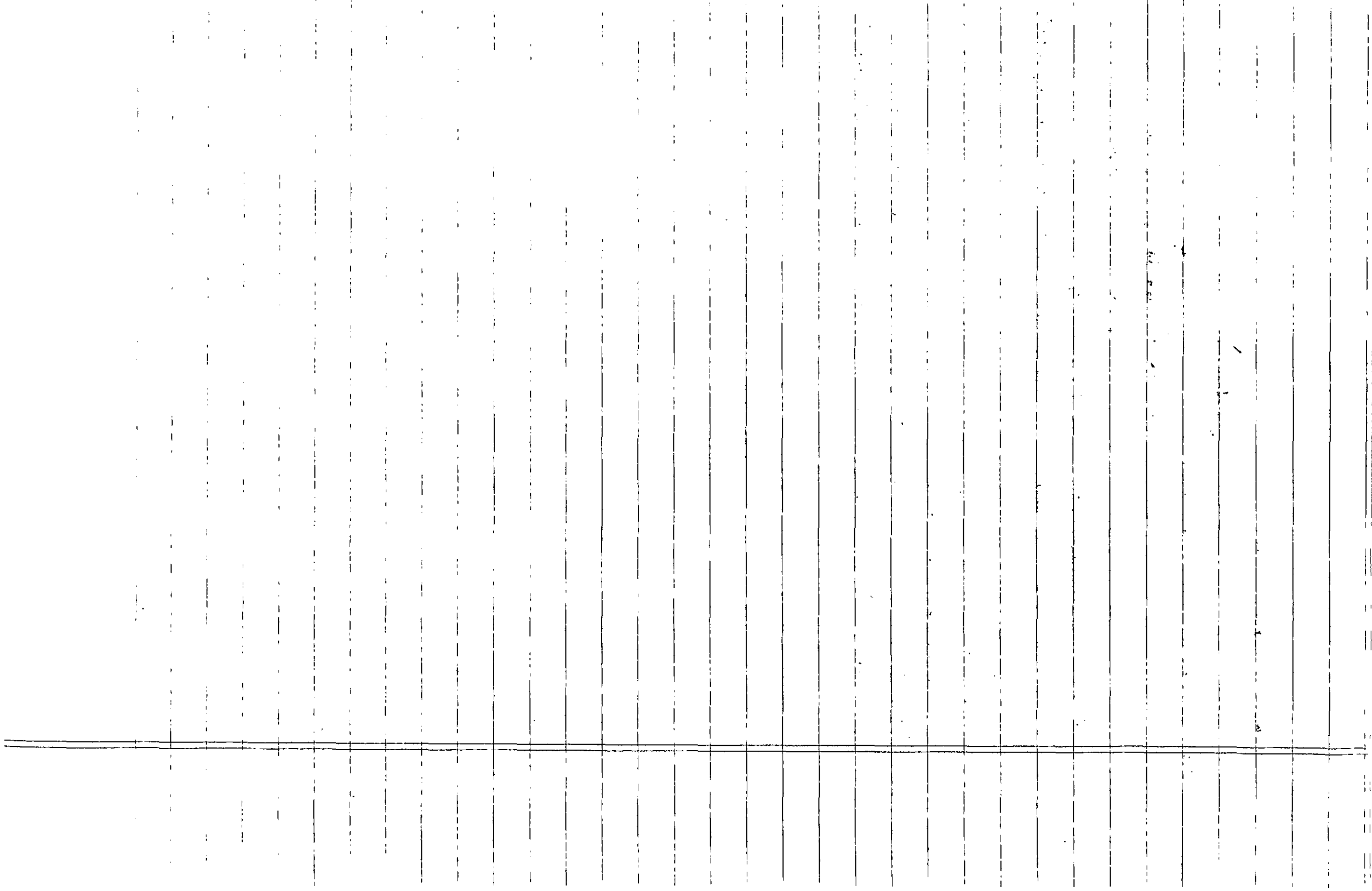


Table 1

Average Price Per Pack of Small Cigarettes
FY 1999 Budget Assumptions

Calendar Years	1998	1999	2000	2001	2002	2003
Nominal Prices						
Baseline Price Assumption 1/	1.94	1.99	2.14	2.18	2.29	2.34
FY99 Budget price increases	0.00	0.63	0.82	0.95	1.09	1.24
Total Price	1.94	2.62	2.96	3.13	3.38	3.58
Real Prices (1998 \$)						
Baseline Price Assumption	1.94	1.94	2.04	2.04	2.09	2.09
FY99 Budget price increases	0.00	0.62	0.78	0.89	1.00	1.10
Total Price	1.94	2.56	2.82	2.93	3.09	3.19

1/ Price assumed is weighted average of premium, generic, and discount cigarettes sold as singles, cartons and case.

3-20

Rand / Ivan Mtg

1. Presentation of budget language

July takes = yr 1 - yr 5

net - 10 in yr 1

15 in yr 5

Gotbaum - came back to you
to Hollings himself?!

lost about 1/3 due to adjustments -

a) 25% business tax of 1981

b) decline of federal excise taxes

AGs didn't take this into acct;

also didn't take into acct

the decline in construction +

resulting loss of revenues.

estimate - translate into

62 to 90 1.00 \$ 1.10 per pack

Not become much less.

Will keep buy above or around that
prices will really + more because
of Feldman theory.

as result -

Upfront payment - 1st yr price

not be higher (not not come

out of profits alone)

FR: What if we require a passthrough?

Hollings -
Dennis

may want some to come out of profits.

Vertical line of text on the left margin, possibly a page number or header.

Main body of text, appearing as a series of faint, illegible lines.

NOTE TO: Rich Farplin
ASL Staff

FROM: Helen

SUBJECT: Senate Budget Committee Markup

DATE: March 18, 1998

Today, the Senate Budget Committee completed action on a Budget Resolution for FY99 and reported it out of the committee with a vote of 12 -10. This vote was strictly along party lines.

Senator Lautenberg offered a Democratic Alternative, which was rejected by a vote of 14-8. Senator's Hollings and Feingold voted against the alternative. (Attached)

A brief summary of the Budget Committee actions on amendments is as follows:

Tobacco Related Amendments

A Sense of the Senate was offered by Senator Lautenberg to increase the price of tobacco products (cigarettes) by \$1.50 per pack over three years. Senator's Bond, Gorton, Snowe, Abraham, Gregg, Smith supported the amendment. Senator's Hollings and Feingold did not. This amendment was adopted by a vote of 14-8. (Attached)

Senator Conrad offered five (5) amendments which were rejected basically along party line votes.

- ▶ First amendment would ensure that the tobacco reserve fund in the FY99 budget resolution can be used to fund anti-tobacco programs to protect children from tobacco health hazards. This amendment failed by a vote of 12-10. (Attached)
- ▶ Second amendment would ensure that the tobacco reserve fund in the FY99 budget resolution may be used to strengthen social Security and reduce the debt. This amendment failed by a vote of 12-10. (Attached)
- ▶ Third amendment would ensure that the tobacco reserve fund in the FY99 budget resolution will dedicate a portion of the state share of tobacco receipts to children's health insurance programs. This amendment failed by a vote of 12-10. (Attached)
- ▶ Fourth amendment would ensure that the tobacco reserve fund in the FY99 budget resolution protects tobacco farmers. Senator Feingold did not support this amendment. This amendments failed by a vote of 13-9. (Attached)

- ▶ **Fifth amendment would ensure that the tobacco reserve fund could be used to fund anti-tobacco programs, provide transition assistance to tobacco farmers, provide reimbursement to States for tobacco-related health cost, fund expanded Food and Drug Administration regulating of tobacco products, expand health insurance for children, fund biomedical research, and provide saving for Social Security and Medicare. This amendment failed by a vote of 12-10. (Attached)**

Senator Boxer offered an amendment that would have set up a tobacco reserve fund for NIH and health research. This amendment failed by a vote of 12-10. (Attached)

A Sense of the Senate was offered by Senator Lautenberg to give FDA full authority to regulate over Tobacco products. This sense of the Senate failed by a vote of 13-9. Senator Hollings did not support this Sense of the Senate. (Attached)

Health Related Amendments

Senator Wyden offered two Senses of the Senate amendments that were adopted by voice vote.

- ▶ **First Senses of the Senate states that the budget resolution assumes that the National Bipartisan commission on the Future of Medicare should, as part of its deliberations, describe long term care needs and make recommendations that reflect the need for a continuum of care that spans from acute to long term care. (Attached)**
- ▶ **Second Sense of the Senate assumes that blending of local and national payment rates on Medicare payments pursuant to the BBA should be a priority for the Senate Finance committee. (Attached)**

Child Care Related Amendments

Senator Snowe offered a sense of the Senate expressing that tax relief should be directed at parents who are struggling to afford quality child care, and that making child care more to low-income families through increased funding (doubling) for the Child Care Development Block Grant should be a priority within the budget. This sense of the Senate was adopted by voice vote. (Attached)

*** [Senator Murray offered an amendment that would establish a deficit-neutral reserve fund "to improve the afford-ability, availability, and quality of child care and services for school-age children. This amendment failed by a vote of 12-10. (Attached)**

If you would like a copy of the other amendments that the committee dealt with please let me know.

TABLE 1
Proposed National Settlement Distribution
("Face Amount" in Billions of Dollars)²¹

Year	Total Annual Payment	Payments to States	Judgment and Settlement Fund	Tobacco Control and Counter-marketing	Tobacco Cessation	Public Health Trust
"Up Front"	\$10	\$7	\$1	\$1	\$1	\$0
Year 1	8.5	4	0	1	1	2.5
Year 2	9.5	4.5	.5	1	1	2.5
Year 3	11.5	5	1	1	1	3.5
Year 4	14	6.5	1	1.5	1	4
Year 5	15	6.5	1	1.5	1	5
Year 6	15	8	1.5	1.5	1.5	2.5
Year 7	15	8	1.5	1.5	1.5	2.5
Year 8	15	8	1.5	1.5	1.5	2.5
Year 9	15	8	4	1.5	1.5	0
Annual Amount in Years 10-25	15	8	4	1.5	1.5	0
25 Year Total	\$368.5	\$193.5	\$77	\$37	\$36	\$25
Percentage Distribution	100%	52%	21%	10%	10%	7%

Treatment of State Lawsuits

²¹ Testimony of Jeffrey A. Modisett, Attorney General of Indiana, before the Subcommittee on Health and the Environment of the House Committee on Commerce, December 8, 1997, p. 4.

**Comparing the FY 1999 Budget to Major Tobacco Settlement Bills
Revenue/Spending Provisions over 5-Year Budget Window
(BA -- \$ in Billions)**

	S. 1638 CONRAD FY99-03	S. 1648 JEFFORDS FY99-03	S. 1491/2 KENNEDY FY99-03	S. 1414 MCCAIN FY99-03	BUDGET FY99-03
RECEIPTS					
Gross Receipts	109.2	0.5	98.9	79.0	87.5
Initial (lump-sum) payment	15			10	
Assessments	94.2	0.5	98.9	69	87.5
Net Receipts to Federal Government	81.9	0.5	74.2	59.3	68.6
SPENDING					
Unrestricted Payments to States (For Medicaid costs & other purposes)	11.9		9.3	17.5	11.2
Grants to States for Child Care/Early Development	13.9		21.1		7.8
Grants to States for Education [class size]	4.9				7.3
Medicaid Outreach and Increased Enrollment	3.3				1.13
Public Health Programs	12.7	9.8	12.4	11.7	
FDA Tobacco Control Activities	1.5	0.8	1.6	1.5	
Indian Health Service	1.0				
Other Public Health	10.2	8.9	10.8	10.2	
Research on smoking behavior	1.0	0.001	0.5	0.5	
CDC surveillance/surveys	0.5				
ASSIST and Community/school prevention grants	1.5	0.9	0.4	1.3	
Counter-advertising	2.8	2.5	2.7	2.5	
Smoking Cessation	3.4	5.5	7.2	5.5	
Assist individuals suffering from tobacco illness	0.3				
International tobacco control	0.2				
ACT	0.1				
National event sponsorship [sports teams]	0.1			0.4	
Reduce youth drug use	0.5				
Research	17.2	14.1	21.1	0.0	17.3
NIH/Biomedical and Basic Research	16.9	12.5			17.0
CDC prevention research	0.2	1.8			0.1
AHCPR health services research	0.2				0.1
Tobacco Community Revitalization (farmers)	9.8		12.6	10.5	
HJ Trust Fund	3.3				
Cancer Clinical Trials	0.8				0.8
Reducing the Public Debt	4.9				
Payments for Judgments and Settlements/Comp. Fund (assumes 33% of base payments in McCain)			10.5	19.3	

DRAFT


3/4/98



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

March 6, 1998

To: **Frank Raines, Jack Lew, Bruce Reed,** c: **Richard Turman, Gregg White**
Elena Kagan, Emily Bromberg

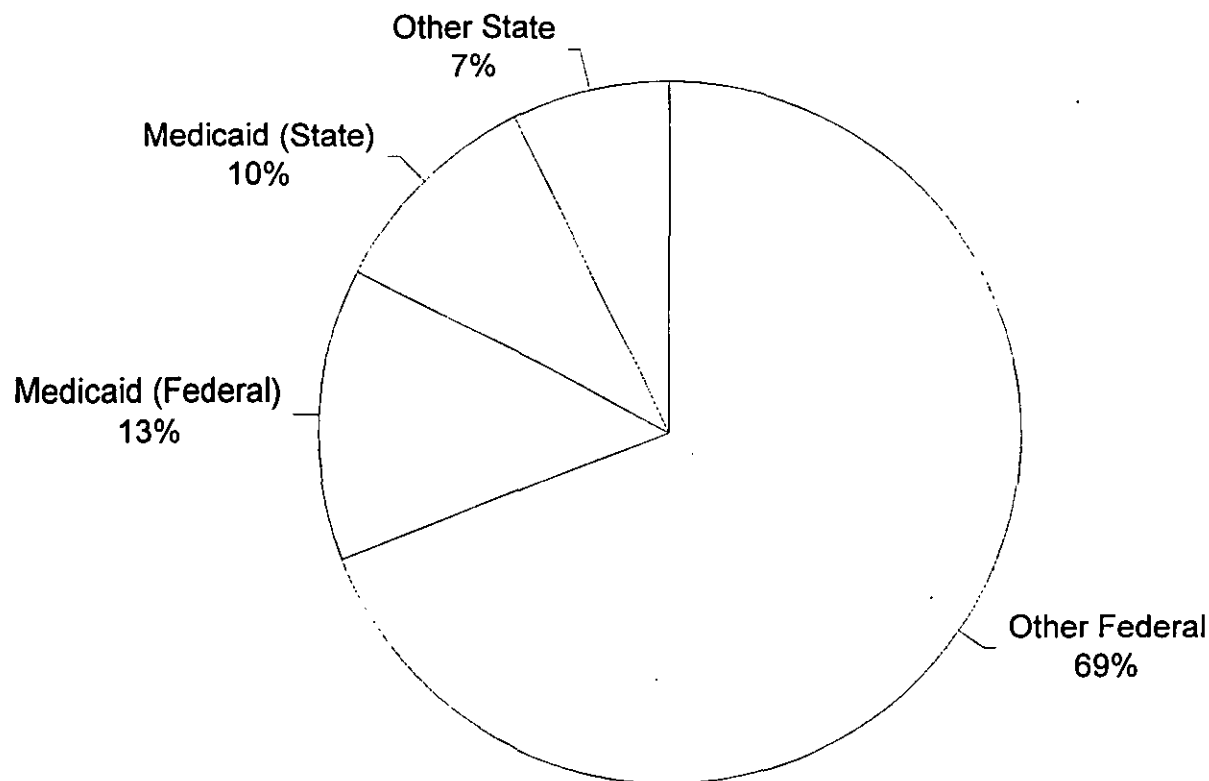
From: Joshua Gotbaum 

Re: **What portion of tobacco-related health expenditures are state funded?**

The attached summarizes a 1994 study by the Centers for Disease Control (using data from the 1980's). Although nothing in this area is perfect, it does make the point that roughly 80% of government spending on tobacco related diseases is Federal, not state.

In talking with the NGA and others, we have continually said that the Administration was bending over backwards to accommodate the states (large portion goes to states, few strings attached, etc.). This study reinforces that point and may be useful in some discussions.

Over 80% of Public Expenditures To Treat the Health Effects of Smoking are Federal



Source: CDC

MEMORANDUM

TO: BRUCE REED, ELENA KAGAN

FROM: TOM FREEDMAN, MARY L. SMITH

RE: TOBACCO BILLS ALLOCATION TO STATES

DATE: FEBRUARY 3, 1998

I. SUMMARY

The following summarizes the methodology used by several bills to allocate funds to the states from tobacco legislation.

1. **Sen. Hatch (R-UT):** This bill allocates 50% of the funds to states based on a percentage formula, which was developed by state attorneys general in September 1997 based on a number of factors such as Medicaid distribution, smoking rates, and population. The percentage allocations are listed below.
2. **Sen. Lautenberg (D-NJ):** This bill allocates 75% of the funds to states based on the same percentage formula that Senator Hatch uses.
3. **Sen. Kennedy (D-MA):** States are compensated for their share of Medicaid expenses attributable to treatment for tobacco induced illnesses and conditions. Compensation will be determined by the Medicaid formulation to States. States will also receive the federal share of Medicaid money, if they use it for the needs of children. States are also entitled to apply to block grants for smoking cessation programs. Sen. Kennedy's staff stated that these block grants are also allocated to the states based on the Medicaid formula.
4. **Sen. McCain (R-AZ):** States receive block grant funds based on a formula that is left blank in the bill. However, it seems probable that McCain will also use the state attorneys general formula used by Hatch, given that when McCain announced his bill, he said he was basing it on the tobacco settlement.
5. **Sen. Conrad (D-ND):** This bill is not yet introduced. The draft bill uses Sen. Kennedy's formula. Sen. Conrad's staff thinks it's pretty similar in results to the outcome of the settlement.

II. DETAILS OF SOME OF THE BILLS

HATCH BILL (S. 1530)

- Generally, 50% of the funds in the Trust Fund go to a state account and 50% to a federal account (§101).
- States are allocated funds according to the following percentages (same as Lautenberg):

1.	Alabama	1.270390
2.	Alaska	0.241356
3.	Arizona	1.163883
4.	Arkansas	0.751011
5.	California	8.805641
6.	Colorado	1.054018
7.	Connecticut	1.596937
8.	Delaware	0.227018
9.	D.C.	0.534487
10.	Florida	3.590667
11.	Georgia	2.007112
12.	Hawaii	0.642527
13.	Idaho	0.257835
14.	Illinois	4.272898
15.	Indiana	1.714594
16.	Iowa	0.758686
17.	Kansas	0.762230
18.	Kentucky	1.875439
19.	Louisiana	1.916886
20.	Maine	0.870740
21.	Maryland	2.051849
22.	Massachusetts	3.700447
23.	Michigan	4.431824
24.	Minnesota	2.474364
25.	Mississippi	0.851450
26.	Missouri	1.659116
27.	Montana	0.335974
28.	Nebraska	0.445356
29.	Nevada	0.307294
30.	New Hamp.	0.552048
31.	New Jersey	3.494187
32.	New Mexico	0.465816
33.	New York	14.529380
34.	North Carolina	2.097625
35.	North Dakota	0.250758
36.	Ohio	4.690156
37.	Oklahoma	0.841972
38.	Oregon	1.092920
39.	Pennsylvania	5.233270
40.	Rhode Island	0.821727
41.	South Carolina	0.883628
42.	South Dakota	0.234849
43.	Tennessee	2.479873

44.	Texas	4.451382
45.	Utah	0.330016
46.	Vermont	0.370244
47.	Virginia	1.373860
48.	Washington	1.794612
49.	West Virginia	1.003660
50.	Wisconsin	2.098696
51.	Wyoming	0.122405
52.	Amer. Samoa	0.008681
53.	N. Mariana	0.001519
54.	Guam	0.006506
55.	Virgin Islands	0.004804
56.	Puerto Rico	0.193175

- Establishes a National Tobacco Settlement Trust Fund. The manufacturers will deposit into the Trust Fund \$303,337,500,000 for compensatory damages and \$95,000,000,00 for punitive damages (§101).
- In order to receive liability protections, the manufacturers will pay licensing fees in an aggregate amount of \$10,000,000,000 in the first year . Thereafter, manufacturers will pay license fees in aggregate amounts (with adjustments for inflation and volume) of
 - \$9,792,500,000 - 1st fiscal year following the first year fees are paid
 - \$12,992,500,000 - 2nd fiscal year
 - \$16,092,500,000 - 3rd fiscal year
 - \$14,492,500,000 - 4th fiscal year
 - \$15,492,500,000 - 5th fiscal year
 - \$16,500,000,000 - 6th thru 10th fiscal years
 - \$16,457,000,000 - 11th thru 15th fiscal years
 - \$16,465,000,000 - 16th thru 20th fiscal years
 - \$16,472,000,000 - 21st thru 25th fiscal years

KENNEDY BILL (S.1492)

- States will be compensated for that portion of their Medicaid expenditures attributable to treatment for tobacco-induced illnesses and conditions. Compensation will be on the Medicaid formula.
- States will be permitted to retain the federal share of the reimbursement for Medicaid expenditures on the condition that those funds be utilized to serve the needs of children through one or more of the following programs:
 - Child Care Development Block Grant
 - Head Start

- Early Start
 - State Children's Health Insurance Program
 - Maternal and Child Health Block Grant
 - Individuals with Disabilities Education Act
 - Child Nutrition Act
 - state-initiated programs serving the health and developmental needs of children which have been approved for the use of these funds by the Secretary of Health and Human Services
- From a Tobacco Use Reduction and Education Block Grant, the states would receive funding to be used for the following purposes
 - smoking cessation programs
 - reduction of tobacco usage through counter advertising
 - tobacco free public education programs
 - tobacco free community action programs
 - licensing of tobacco sellers and enforcement of youth deterrence
 - The amount of the block grants to the states is:
 - \$1,144,000,000 for fiscal 1998
 - \$1,215,000,000 for fiscal 1999 (increased by CPI)
 - \$1,240,000,000 for fiscal 2000 (increased by CPI)
 - \$1,325,000,000 for fiscal 2001 (increased by CPI)
 - \$1,825,000,000 for fiscal 2002 thru 2008 (increased by CPI)
 - \$1,750,000,000 for fiscal 2009 and thereafter (increased by CPI)
 - Basically, Senator Kennedy's staff explains the bill as follows: There will be \$1.50 increase per pack. Out of this \$1.50 increase in the price of cigarettes, about 65 cents was already contemplated by the settlement. Sen. Kennedy allocates this \$1.50 as follows:

65 cents is about 43% of the total \$1.50 increase which will go to the States for Medicaid reimbursement, public health programs (including block grants to the states), and the tobacco victim fund.

85 cents is about 57% of the total \$1.50 increase which goes to farmers, biomedical research, and early childhood development.

MCCAIN BILL (S. 1414)

- The amounts to go to each of the states are to be determined by an allotment formula. However, there is no allotment formula contained in the bill.

- The States may use the funds in the following ways:
 - (1) to reimburse the State for expenses incurred by the State under the State program under title XIX of the Social Security Act relating to the treatment of tobacco-related illnesses or conditions;
 - (2) to reimburse the State for other expenses incurred by the State in providing directly, or reimbursing others for the provision of , treatment for tobacco-related illnesses or conditions;
 - (3) to provide health care coverage, either directly or through arrangements with other entities, for uninsured individuals under 18 years of age who reside in the State;
 - (4) to establish a State tobacco products liability judgments and settlement fund,
 - (5) to reimburse the State for expenses incurred in carrying out the tobacco licensure requirements (of establishing a program under which an entity would be required to obtain a state or local license to sell or otherwise distribute tobacco products directly to consumers); and
 - (6) to carry out any other activities determined appropriate by the State

- There is a National Tobacco Settlement Trust Fund. Payments by each industry source to the trust fund the following amounts:
 - \$10,000,000,000 - Initial payment (an amount that bears the same ratio to \$10B as the relevant domestic tobacco product unit sales volume of the industry source bears to the relevant domestic tobacco product unit volume of all industry sources for 1996.)
 - \$8,500,000,000 - 1st year; ratio to domestic tobacco product unit sales volume for that yr
 - \$9,500,000,000 - 2nd year; above ratio applies
 - \$11,500,000,000 - 3rd year; same ratio applies
 - \$14,000,000,000 - 4th year; same ratio applies
 - \$15,000,000,000 - 5th thru 25th years; same ratio applies

- Amounts available to the Secretary of HHS to make block grants to the states (§401):
 - Not less than \$2,500,000,000 - in the 1st and 2nd years following establishment of fund;
 - Not less than \$3,500,000,000 - in the 3rd year
 - Not less than \$4,000,000,000 - in the 4th year
 - Not less than \$5,000,000,000 - in the 5th year
 - Not less than \$2,500,000,000 - in the 6th year and each year thereafter

LAUTENBERG BILL (S.1343)

- Establishment of Public Health and Education Resource Trust Fund (PHAER Trust Fund).
- 75% of the amounts in the Trust Fund will be distributed to the States.

- States must use the funds in the following manner:
 - (1) Not less than 10 nor more than 30 percent to State and local school and community-based tobacco education, prevention, and treatment programs;
 - (2) Not less than 10 nor more than 30 percent to State and local smoking cessation programs and services, including pharmacological therapies;
 - (3) Not less than 10 nor more than 30 percent to State and local counter advertising programs;
 - (4) Not less than 10 nor more than 25 percent to the State Children's Health Insurance Program under title XXI of the Social Security Act;
 - (5) Not less than 5 nor more than 10 percent to
 - (a) the Special Supplemental Food Program for Women, Infants, and Children;
 - (b) the Maternal and Child Health Services Block Grant Program under Title V of the Social Security Act; or
 - (c) a combination of both programs as determined by the State.
 - (6) Not less than 1 nor more than 3 percent to the American Stop Smoking Intervention Study for Cancer Prevention (ASSIST) program for such State or other State or local community-based tobacco control programs;
 - (7) Not more than 5 percent of such amount to a State general health care block grant program.

- States are allocated funds according to the following percentages (same as Hatch):

1.	Alabama	1.270390
2.	Alaska	0.241356
3.	Arizona	1.163883
4.	Arkansas	0.751011
5.	California	8.805641
6.	Colorado	1.054018
7.	Connecticut	1.596937
8.	Delaware	0.227018
9.	D.C.	0.534487
10.	Florida	3.590667
11.	Georgia	2.007112
12.	Hawaii	0.642527
13.	Idaho	0.257835
14.	Illinois	4.272898
15.	Indiana	1.714594
16.	Iowa	0.758686
17.	Kansas	0.762230
18.	Kentucky	1.875439
19.	Louisiana	1.916886
20.	Maine	0.870740
21.	Maryland	2.051849

22.	Massachusetts	3.700447
23.	Michigan	4.431824
24.	Minnesota	2.474364
25.	Mississippi	0.851450
26.	Missouri	1.659116
27.	Montana	0.335974
28.	Nebraska	0.445356
29.	Nevada	0.307294
30.	New Hamp.	0.552048
31.	New Jersey	3.494187
32.	New Mexico	0.465816
33.	New York	14.529380
34.	North Carolina	2.097625
35.	North Dakota	0.250758
36.	Ohio	4.690156
37.	Oklahoma	0.841972
38.	Oregon	1.092920
39.	Pennsylvania	5.233270
40.	Rhode Island	0.821727
41.	South Carolina	0.883628
42.	South Dakota	0.234849
43.	Tennessee	2.479873
44.	Texas	4.451382
45.	Utah	0.330016
46.	Vermont	0.370244
47.	Virginia	1.373860
48.	Washington	1.794612
49.	West Virginia	1.003660
50.	Wisconsin	2.098696
51.	Wyoming	0.122405
52.	Amer. Samoa	0.008681
53.	N. Mariana	0.001519
54.	Guam	0.006506
55.	Virgin Islands	0.004804
56.	Puerto Rico	0.193175

Tobacco-budget

**JOSHUA
GOTBAUM**

03/05/98 10:11:02 AM



Record Type: Non-Record

To: Bruce N. Reed/OPD/EOP
cc: Elena Kagan/OPD/EOP, Jacob J. Lew/OMB/EOP, Richard J. Turman/OMB/EOP, Mark E. Miller/OMB/EOP
Subject: re: When is a tax not a tax: CBO

CBO said because they and Joint Tax couldn't figure out what we were doing on tobacco, so they accepted our \$65 billion number (see below for text).

They have not published an estimate of the per pack equivalent, though they reserve the right to do so when legislation is proposed. (Sometimes vagueness is a great thing.)

----- Forwarded by Joshua Gotbaum/OMB/EOP on 03/05/98 09:52 AM -----

Record Type: Record

To: Joshua Gotbaum/OMB/EOP@EOP
cc: See the distribution list at the bottom of this message
Subject: re: did CBO do a per-pack estimate

We'll check with CBO; the one thing we've seen (below, see blue text) indicated that they just took the Administration's numbers for this round.

**CONGRESSIONAL BUDGET OFFICE
AN ANALYSIS OF THE PRESIDENT'S BUDGETARY
PROPOSALS FOR FISCAL YEAR 1999**

Preliminary Report

MARCH 4, 1998


Under the President's proposals, total revenues would exceed the CBO baseline by \$12 billion in 1999 and \$18 billion by 2003. The budget proposes about \$24 billion in cumulative tax reductions through 2003 (such as an increase in the child and dependent care tax credit), which are offset by revenue increases of \$26 billion (for example, repealing the ability of certain multinational firms to expand their use of foreign tax credits and thereby decrease their federal tax payments). The net boost in revenues stems mostly from assumed new revenues from tobacco companies totaling \$65 billion through 2003. The budget, however, does not specify the policies that might be implemented to raise that \$65 billion. Because **there are a number of ways to achieve that end**, the Joint Committee on Taxation, which estimates the effects of proposed changes to the tax code, simply accepted the Administration's totals.



Cynthia A. Rice

03/04/98 11:54:15 PM

Record Type: Record

To: Joshua Gotbaum/OMB/EOP
cc: Richard J. Turman/OMB/EOP, Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP
bcc:
Subject: Re: Tobacco Receipts 

Thanks -- the sooner the better. Could you give us both
1) the non-tax language; and
2) the payment stream from our budget (that gets us to \$1.10/\$1.25 in 5)
both written as change pages to McCain S.1415?


Since we've stressed to them that the price per pack is key, we need to be able tell them how to get there. Thanks.

JOSHUA

**JOSHUA
GOTBAUM**
03/04/98 10:36:51 PM



Record Type: Non-Record

To: Bruce N. Reed/OPD/EOP
cc: cynthia a. rice/opd/eop, elena kagan/opd/eop, Richard J. Turman/OMB/EOP
bcc:
Subject: Re: Tobacco Receipts 

We met earlier this week with Treasury and came up with a formulation (modeled in structure on the Hatch "assessment" of \$X billion in year Y) that

- (a) is largely consistent with the structure of the settlement,
- (b) we can characterize as a "miscellaneous receipt" (not a tax receipt) in the budget, and
- (c) that members of committees other than Ways & Means and Finance could claim "with a straight face" arise outside tax committee jurisdiction. (Archer and Roth will disagree, of course, but we were aiming for plausability, not to win the argument.)

The language is being written up and reviewed and we hope to have it ready for you by COB Friday.


Bruce N. Reed

**JOSHUA
GOTBAUM**

03/04/98 10:36:51 PM



Record Type: Non-Record

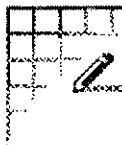
To: Bruce N. Reed/OPD/EOP
cc: cynthia a. rice/opd/eop, elena kagan/opd/eop, Richard J. Turman/OMB/EOP
bcc:
Subject: Re: Tobacco Receipts 

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- (c) that members of committees other than Ways & Means and Finance could claim "with a straight face" arise outside tax committee jurisdiction. (Archer and Roth will disagree, of course, but we were aiming for plausability, not to win the argument.)

The language is being written up and reviewed and we hope to have it ready for you by COB Friday.

Bruce N. Reed



Bruce N. Reed
03/04/98 06:16:48 PM

Record Type: Record

To: Joshua Gotbaum/OMB/EOP@EOP
cc: Cynthia A. Rice/OPD/EOP@EOP, Elena Kagan/OPD/EOP@EOP
Subject: Tobacco Receipts

How are we coming on our tax-fee-offsetting receipts mechanism? As we start discussions with Commerce Dems & Repubs, we need to be giving them the clearest possible direction on price/money. All their members are still thinking in 25-year settlement terms. We should try to give them our numbers before they figure something else out.

By the way, I saw that CBO is giving us the \$65 billion in the budget. Do you know whether they did a per-pack estimate?

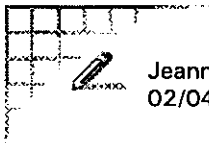
354

THE BUDGET FOR FISCAL YEAR 1999

Table S-7. TOBACCO LEGISLATION
(In billions of dollars)

	Estimate					Total 1999- 2003
	1999	2000	2001	2002	2003	
USES OF RECEIPTS FROM TOBACCO LEGISLATION						
Federally-operated Programs:						
Research Fund for America	3.6	4.6	5.0	5.7	6.3	25.9
Food and Drug Administration Enforcement Activities	0.1	0.2	0.3	0.3	0.3	1.2
Health and Human Services/Centers for Disease Control Smoking Prevention	0.1	0.1	0.1	0.1	0.1	0.4
Medicare Beneficiaries Cancer Clinical Trials Dem- onstration	0.2	0.2	0.3	0.8
Subtotal, Federally-operated programs	4.0	5.1	5.6	6.1	6.7	27.5
State-administered Programs:						
Child Care and Development Block Grant	1.2	1.3	1.4	1.6	2.1	7.5
Medicaid Child Outreach Reforms	0.1	0.2	0.2	0.2	0.2	0.9
Class Size Initiative	1.1	1.3	1.5	1.7	1.7	7.3
Subtotal, State-administered programs	2.4	2.7	3.1	3.5	4.0	15.7
Other Uses (Includes unrestricted funds for States, ces- sation programs, farmer assistance, etc.)	3.4	3.9	4.6	5.0	5.4	22.3
Total Uses	9.8	11.8	13.3	14.5	16.1	65.5
TOBACCO LEGISLATION RECEIPTS PROPOSED	9.8	11.8	13.3	14.5	16.1	65.5

Include to far ena 1/1



Jeanne Lambrew
02/04/98 12:45:20 PM

Record Type: Record

To: Elena Kagan/OPD/EOP, Laura Emmett/WHO/EOP

cc:

Subject: tobacco out years

Question: OMB told me that they are assuming that the tobacco tax assumed in the budget stops at \$1.10 real in 2003 (it only increases for inflation afterward). We did not assume that it continues to rise to \$1.50?

Also, do you have the 10 and 25 year revenue (analogous to the \$65 billion over 5 years)? Chris and Bruce are trying to figure out ways to make the governors happier with their cut.

Thanks!

Jeanne —
So what's the
answer to this?

Elena



answer

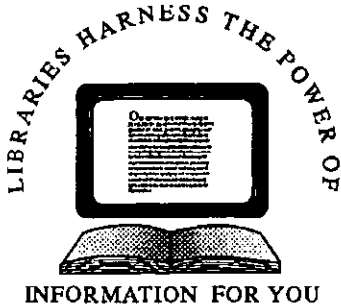
TOBACCO SETTLEMENT: DESCRIPTION OF FUNDS

(Dollars in millions)

Fiscal Year	1999	2000	2001	2002	2003	2008	2023	1999-2003	1999-2008	1999-2023
Year #	1	2	3	4	5	10	25	5 Years	10 Years	25 Years
Tobacco Receipts										
Revenue (Current)	9,758	11,787	13,283	14,544	16,085	18,567	28,508	65,457	153,182	505,929
Per Pack	\$0.62	\$0.82	\$0.95	\$1.09	\$1.24	\$1.44	\$2.24			
Revenue (Real)		11,444	12,521	13,310	14,291	14,230	14,024	51,565	122,836	334,636
Per Pack	\$0.62	\$0.80	\$0.90	\$1.00	\$1.10	\$1.10	\$1.10			
Grants to States										
Total (Current)	3,980	4,470	5,050	5,780	6,750	9,004	14,028	26,030	68,503	240,993
Federal	2,269	2,548	2,879	3,295	3,848	5,132	7,996	14,837	39,047	137,366
State	1,711	1,922	2,172	2,485	2,903	3,872	6,032	11,193	29,456	103,627
Total (Real)	4,000	4,500	4,500	6,500	6,500	8,000	8,000	26,000	66,000	186,000
Federal	2,280	2,565	2,565	3,705	3,705	4,560	4,560	14,820	37,620	106,020
State	1,720	1,935	1,935	2,795	2,795	3,440	3,440	11,180	28,380	79,980

Assumes: Tobacco receipts increase at inflation after 2003

Grants to States increases at inflation after 2004



EOP Librarians--
Your Information Partners

EOP Library

Room 308 OEOB

x57000

February 11, 1998

to: Melinda

MEMORANDUM FOR: ^{From:} JEANNE LAMBREW
235 OEOB

SUBJECT: Current Awareness Search on Children's Health Care

Attached is this week's current awareness search. If you need any articles full text, or have any questions, please contact Melinda Alter in the OEOB Library (Room 308, x57000).

Thanks as always!

*To Jeanne
From Melinda*

INCREASE ONLY (NOT TRANSFERS FROM DISCRETIONARY)

	1999	2000	2001	2002	2003	5 years
Research Fund For America	3.6	4.6	5.0	5.7	6.3	25.3
NIH	1.15	2.01	2.98	4.35	6.54	17.032
OTHER	2.4	2.6	2.0	1.3		8.3
NSF	356	.37		4.18		
	+10%			+24%		

Tobacco/Budget Q&A
February 3, 1998

Q: Are you concerned by comments by some members of Congress that tobacco legislation may be getting stalled -- that you may not be serious about getting a bill -- and that you should take a more active role in pushing legislation?

A: I am committed to enacting comprehensive bipartisan tobacco legislation. So any comments to the contrary are just wrong. We are making very solid progress towards enacting comprehensive tobacco legislation that will reduce teen smoking. I've proposed a very clear set of principles about what should be in the bill. I've met personally with senior members involved in this. Our staff has met with members of both parties and will continue to do so. And my budget contains a great deal of details on how I think we should get this done -- on how much money the tobacco companies should pay and where it should go. This has been a long battle we have been fighting and we will stay with it, and it will make a difference to the health of millions of children over the next few years.

Q: Last week, several Republicans came out against tobacco legislation that would grant the industry limits on liability. Many public health leaders are also saying that tobacco legislation must not include limits on liability. Do you still favor a settlement that would include limits on industry liability?

A: I will evaluate tobacco legislation as a whole to determine whether it protects the public health. Liability limits are not necessarily a deal-breaker for us. What's important is achieving comprehensive legislation that includes, for example, a large per-pack price increase, penalties for marketing to children, and broad restrictions on children's access to tobacco.

I hope that these kinds of statements (statements by Republican senators on liability) don't mean that some members are seeking to walk away from their responsibility to protect children by enacting comprehensive tobacco legislation.

Piecemeal legislation won't accomplish our goal. It's not enough just to say we did something if we don't pass comprehensive legislation that really accomplishes our goals.

Q: In September, you said the focus of tobacco legislation should not be about money. In the budget you unveiled this week, more than 60 percent of the proposed increase in discretionary spending is paid for by tobacco legislation. Why have you changed course?

A: My course has not changed -- Congress should send me legislation that will dramatically

reduce youth smoking. Experts all agree the single most important step we can take to reduce youth smoking is to raise the price of a pack of cigarettes significantly. That is why last September, and again in the State of the Union speech, I called for Congress to pass legislation that raises cigarette prices by up to \$1.50 per pack over the next ten years as necessary to reduce youth smoking. Our budget simply scores that part of the plan, and allocates the revenues to programs that promote public health and assist children.

Q: How can you assume revenues from tobacco legislation when it's not at all certain whether this legislation will pass?

A: It is a normal part of the budget process to account for any revenues that will be raised from proposed legislation. And we believe strongly that Congress will pass comprehensive tobacco legislation this year. If everyone who says they are committed to protecting children from tobacco rolls up their sleeves and gets to work, we will pass a significant piece of legislation.

Q: Why is it that some of the programs funded with tobacco revenues have no relation to tobacco?

A: Most of the spending is directly related to tobacco, such as health-related research and smoking cessation programs. The rest goes to programs that will assist our children. I wanted to ensure that states get a substantial share of the resources, because of the states' contribution in negotiating the original proposed settlement. It is this state-directed money that goes to children's programs -- to improve child care and reduce class size -- in recognition that these are shared federal and state goals.

Q: Doesn't attaching tobacco legislation to particular spending initiatives hurt the chance of passing this legislation?

A: No. It is a normal part of the budget process to propose how to spend any revenues raised from proposed legislation. And we will work on a bipartisan basis with Congress if it has other ideas on the best way to allocate these revenues. There is no reason why allocation issues should hold up the process of comprehensive legislation.

Q: Doesn't using tobacco legislation as a funding source for important policy proposals -- such as improving child care and reducing class size -- hurt the chances of achieving those proposals?

A: No. I believe Congress will pass tobacco legislation that imposes significant financial burdens on tobacco companies. Of course, no offset proposed in a budget is guaranteed; Congress can reject any proposed way of financing a program. If Congress does not pass

comprehensive tobacco legislation, we will work with Congress to find other offsets. These are high priorities, and we will find effective funding mechanisms.

Q: How much money do you expect to raise from tobacco legislation next year? What about over five years? How did you come to this figure?

A: This budget is designed to reduce youth smoking by 30% in five years and 50% in seven years, which are the goals I've set out. We calculate that the necessary increase in the price per pack will result in about \$10 billion in revenue next year and \$65 billion over five years.

Q: How much does your plan increase the cost of cigarettes?

A: In order to reach the goal of reducing youth smoking by 30% in five years, and 50% in seven years, my budget projects about a \$1.10 increase in the price of cigarettes over five years.

Q: What programs is tobacco money used for in the budget?

A: In general, tobacco revenues go toward protecting public health and assisting children. First, the budget provides for funds for anti-smoking activities that will help us meet the goals of reducing youth smoking rates. In addition, there are funds in the budget to support the commitment I made when I announced my plan for tobacco legislation in September to fund a dramatic expansion of health-related research in America. Finally, in recognition of the states' role in bringing suit against tobacco companies, the budget provides for a substantial amount of money to revert to the states. Some of this money can be used for any purpose. Other funds must be used on state-administered programs to assist children (specifically, for child care, Medicaid child outreach, and class size reduction).

Q: How much money is there for states in the budget?

A: The states will receive as much money over five years as they would have received under the original settlement agreement. A large part of this money will be unrestricted; states can use it for whatever purposes they choose. The rest of the money will go to states for state-administered programs to provide child care subsidies and reduce class size. This money represents the usual federal share of Medicaid recoveries, which I believe should go back to the states in recognition of the important role the states played in bringing about this legislation.

Q: Does your budget assume that the revenues from tobacco legislation will come from increased excise taxes, or from industry payments pursuant to a settlement?

A: The budget assumes that the money will come from annual industry payments pursuant to a settlement.

Q: Do recent events -- the tobacco settlement in Texas or the release of documents showing some companies were marketing to children -- diminish the need for legislation or the chance that it would get passed?

A: No. It is a good sign that industry is being held accountable for the harms it has caused, and that we are getting information out about how the industry has hurt children. That should serve as still further impetus for comprehensive legislation. We need a comprehensive system of penalties to make sure companies reduce teen smoking; we need the FDA to have authority over tobacco products to protect our health; and we need to make sure tobacco companies don't market to children. I think all the attention from these events makes it clear why we need a national solution, and why it's so important to get it done soon.

Q: Lawyers in both Texas and Florida have asked for obscene amounts of money for their role in bringing about settlements with the tobacco industry. Will you support a provision in national legislation to limit fees for lawyers?

A: I'm primarily concerned with ensuring that tobacco legislation reduces youth smoking and protects the public health -- not with collecting and distributing money from a settlement. The lawyers who brought these suits have expended lots of time and effort, and deserve to be well recompensed for their work. But everyone agrees that fees shouldn't be out of proportion to the work that was done.

Tobacco/Budget Q&A
February 2, 1998

Q: In September, the President said the focus of tobacco legislation should not be about money. In the budget you are submitting today, more than 60 percent of the proposed increase in discretionary spending is paid for by tobacco legislation. Why has the President changed course?

A: The President's course has not changed -- Congress should send the President legislation that will dramatically reduce youth smoking. Experts all agree the single most important step we can take to reduce youth smoking is to raise the price of a pack of cigarettes significantly. That is why last September, and again in his State of the Union speech, the President called for Congress to pass legislation that raises cigarette prices by up to \$1.50 per pack over the next ten years as necessary to reduce youth smoking. Our budget simply scores that part of the President's plan, and allocates the revenues to programs that promote public health and assist children.

Q: How can you assume revenues from tobacco legislation when it's not at all certain whether this legislation will pass?

A: It is a normal part of the budget process to account for any revenues that will be raised from proposed legislation. And we believe strongly that Congress will pass comprehensive tobacco legislation this year. If everyone who says they are committed to protecting children from tobacco rolls up their sleeves and gets to work, we will pass a significant piece of legislation.

Q: Why is it that some of the programs funded with tobacco revenues have no relation to tobacco?

A: Most of the spending is directly related to tobacco, such as health-related research and smoking cessation programs. The rest goes to programs that will assist our children. We wanted to ensure that states get a substantial share of the resources, because of the state's contribution in negotiating the original proposed settlement. It is money that goes to children's programs -- to improve child care and reduce class size -- in recognition that these are shared federal and state goals.

Q: Doesn't attaching tobacco legislation to particular spending initiatives hurt the chance of passing this legislation?

A: No. It is a normal part of the budget process to propose how to spend any revenues raised from proposed legislation. And we will work on a bipartisan basis with Congress if it has

other ideas on the best way to allocate these revenues. There is no reason why allocation issues should hold up the process of comprehensive legislation.

Q: Doesn't using tobacco legislation as a funding source for important policy proposals -- such as improving child care and reducing class size -- hurt the chances of achieving those proposals?

A: No. We believe Congress will pass tobacco legislation that imposes significant financial burdens on tobacco companies. Of course, no offset proposed in a budget is guaranteed; Congress can reject any proposed way of financing a program. If Congress does not pass comprehensive tobacco legislation, we will work with Congress to find other offsets. These are high Administration priorities, and we will find effective funding mechanisms.

Q: How much money do you expect to raise from tobacco legislation next year? What about over five years? How did you come to this figure?

A: This budget is designed to reduce youth smoking by 30% in five years and 50% in seven years, which is the President's goal. We calculate that the necessary increase in the price per pack will result in about \$10 billion in revenue next year and \$65 billion over five years.

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Q: Does your budget assume that the revenues from tobacco legislation will come from increased excise taxes, or from industry payments pursuant to a settlement?

A: The budget assumes that the money will come from annual industry payments pursuant to a settlement.

Q: Some of the money is listed under a category called "Other Uses." What is in this category?

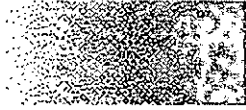
A: This category includes funds that will go to states to use as they see fit, as well as funds for tobacco farmers and for a variety of other uses. We expect final tobacco legislation to make specific allocations within this category.

Q: Last week, several Republicans came out against tobacco legislation that would grant the industry limits on liability. Many public health leaders are also saying that tobacco legislation must not include limits on liability. Does the president still favor a settlement that would include limits on industry liability?

A: The President will evaluate tobacco legislation as a whole to determine whether it protects the public health. Liability limits are not necessarily a deal-breaker for us. What's important is achieving comprehensive legislation that includes, for example, a large per-pack price increase, penalties for marketing to children, and broad restrictions on children's access to tobacco.

We hope that these kinds of statements (statements by Republican senators on liability) don't mean that some members are seeking to walk away from their responsibility to protect children by enacting comprehensive tobacco legislation.

Piecemeal legislation won't accomplish our goal. It's not enough just to say we did something if we don't pass comprehensive legislation that really accomplishes our goals.



Jerold R. Mande

01/30/98 06:47:53 PM

Record Type: Record

To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP, Thomas L. Freedman/OPD/EOP

cc:

Subject: Tobacco Budget and Q&A.

Two items:

1. I heard from a Senate staffer who attended a briefing Jack Lew did on the budget today that Jack described our proposed tobacco budget as a "floor." I have been saying it is neither a floor or ceiling, it is the amount experts tell us is necessary to reach the youth targets.

2. At a meeting yesterday you said our budget contains the same \$26B over 5 years for states that was in the 6/20 deal (\$4 - \$4.5 - \$4.5 - \$6.5 - \$6.5). Presenting this fact will provide groups a number to subtract from the "other uses" and highlight that there may not be the \$\$ they hoped for for tobacco control or growers. On the other hand providing the number may be reassuring to the states. Your call. I wanted to make sure you focused on it.

Q: What exactly is in the budget as an assumption of revenue from passage of tobacco legislation? How much is it?

A: The budget assumes a stream of revenue in the five-year budget window of \$60 billion, roughly equal to raising the price of a pack of cigarettes gradually from --- cents today to \$1.20 in 2003. [DPC to check numbers.]

Q: Does the tobacco revenue you're assuming in your budget come from a cigarette tax, or penalties by the industry, or both?

A: The budget simply assumes a stream of revenue in the five-year budget window of \$60 billion, roughly equal to raising the price of a pack of cigarettes gradually from --- to \$1.20. [DPC to check numbers.] There are no other assumptions – it's compatible with any framework of taxes, penalties or industry payments.

Q: What exactly does this tobacco money fund?

A: It funds the following:

1) **21st Century Research Fund.** The budget includes \$ ____ billion for the 21st Century Research Fund the President announced in the State of the Union. That fund includes:

- NIH funding of \$ 20 billion over five years;
- CDC funding of \$ ____ billion;
- AHCPR funding of \$ ____ billion;
- NSF of \$ ____
- NASA of \$ ____
- Commerce programs (what are they?) of \$ ____
- DOD programs of \$ ____ (Are there others?)

The total for the 21st Century Research Fund is \$ ____ billion over five years [DPC to add numbers]

2) **Cancer Clinical Trials.** The budget includes a 3 year \$750 million demonstration that will allow Medicare patients to participate in cancer clinical trials run by the NIH.

3) **Child Care.** The HHS budget includes a \$7.5 billion increase over five years in the child care block grant to states.

4) **Other HHS Programs.**

- **Tobacco Control.** The budget includes a total of \$ ____ million for FDA regulatory work and enforcement and CDC tobacco control programs over the next five years.
- **Food Safety.** Approximately \$25 million of FDA's food safety increase may be funded with tobacco revenues. [Is this out now?]

5) An Education Department initiative to reduce classroom size is funded at \$_____ over five years.

Q: How is this different from what you've said previously?

A: It's not. We've said all along that we expect Congress to pass tobacco legislation which will include payments and penalties from the tobacco industry that would gradually bring the price of cigarettes to about an additional \$1.50 per pack over ten years. The budget document simply makes clear that we expect the revenue from that legislation to total approximately \$---- in the five-year budget window.

Q: How was that amount calculated and by who?

A: The budget assumptions were calculated by OMB in conformance with the principles the President has laid out. They were done using data from the Treasury Department to calculate the effect of price hikes on consumption of tobacco.

Q: Isn't this an odd way to budget – relying on a tax that you hope will eventually deter all smoking, and end up producing no revenue?

A: No – this is a strategy that is proven, and which the Administration has supported all along. Remember, we're supporting a sound public health strategy of a combination of industry payments and penalties designed to increase the price of a pack of cigarettes by up to \$1.50 in the next decade – as needed to meet youth reduction targets of 30 percent in five years, 50 percent in seven years, and 60 percent in 10 years. This budget includes a very realistic assumption of what the revenue from this approach would be in the five-year budget window.

Q: How did you choose which policy proposals will be paid for by the tobacco settlement and which ones will not?

A: In general, funding from the tobacco legislation falls into two categories. One is spending that is tied to the health consequences of tobacco use and uniquely suited for a separate funding stream, such as the cancer clinical trials initiative and the 21st Century Research Fund. The other category is responsibilities to assist children which the States and the Federal government share, like the child care initiative.

Q: Doesn't this mean that many of the policy proposals you've announced simply may not happen if there isn't tobacco legislation?

A: No. As we've said all along, our budget proposal makes clear that these proposals can be fully paid for within the context of a balanced budget. Our budget assumes that Congress will pass tobacco legislation, and we believe that this is a realistic assumption. The budget we are sending to Congress includes a number of proposals to pay for our new initiatives – including tax proposals and spending offsets. Of course, no offset proposed in a budget is guaranteed; the Congress can reject any proposed way of financing a program. If Congress does not pass comprehensive tobacco legislation, we will work with Congress to find other offsets. This is a high Administration priority, and we will find an effective funding mechanism.

Q: Why are some of the President's key priorities funded with tobacco money? Is this just a ploy to increase pressure on Congress to pass tobacco legislation? What are you going to do if Congress doesn't pass a bill this year?

A: First, let's remember that every initiative in our budget submission, including these, are paid for within the context of a balanced budget. The President is committed to that goal, and we'll simply find other offsets to support our key priorities if necessary. That's what happens in the budget process every year.

But we expect Congress to pass tobacco legislation -- it has bipartisan support. So does funding for the NIH, and so does child care. We believe we're going to be able to work with Congress to pass these important initiatives.

Q: Realistically, won't Congress reject tobacco legislation that includes limits on liability, given the new RJ Reynolds documents that indicate that tobacco companies targeted children as young as 14?

A: The new documents are very disturbing, but they only confirm what we've long suspected, while making the need for legislation in this area more clear than ever. Comprehensive legislation stands a far better chance of reducing youth smoking and protecting the public health than lawsuits brought by smokers against the tobacco industry. The President will focus on the legislation as a whole and ask whether it will reduce smoking and protect the public health. If it meets these objectives, he will sign it. As we've said before, limits on liability are not necessarily a dealbreaker; they should be weighed against, and viewed in light of, the public elements of the legislation.

HEALTH DIVISION
Office of Management and Budget
Executive Office of the President
Washington, D.C. 20503

Date:

1/12

TO:

Elena Kagan

fax:

cc: Jennings / Turman

FROM:

Josh Gotbaum 5-9188

Number of pages (not including cover): 2

Subject:

per your discussion with Chris

Note: The "State Programs w/
Federal Coordination,

~~★~~ Would like to Discuss with you

89188

TOBACCO LEGISLATION

(In millions of current dollars, except estimated per-pack equivalents)

	1999	2000	2001	2002	2003	Total FY99-03
USES OF RECEIPTS FROM TOBACCO LEGISLATION						
<i>Federally Operated Programs</i>						
21st Century Research Fund for America	3,597	4,578	5,084	5,695	6,359	25,313
FDA Enforcement Activities	125	206	265	273	283	1,152
HHS/CDC Smoking Prevention	71	73	74	76	76	369
Medicare Beneficiaries Cancer Clinical Trials Demonstration	<u>200</u>	<u>250</u>	<u>300</u>	--	--	<u>750</u>
Subtotal, Federally operated programs	3,993	5,107	5,723	6,044	6,718	27,584
<i>State Programs with Federal Coordination ^{Administered}</i>						
Child Care & Development Block Grant	1,155	1,280	1,400	1,600	2,065	7,500
Medicaid Child Outreach Reforms ?	110	150	210	210	220	900
Class Size Initiative	<u>1,100</u>	<u>1,300</u>	<u>1,500</u>	<u>1,700</u>	<u>1,735</u>	<u>7,335</u>
Subtotal, State programs with Federal Coordination	2,365	2,730	3,110	3,510	4,020	15,735
Other State Funds & Uses*	3,425	3,943	4,582	4,972	5,362	22,284
<i>Unc</i> Total Uses	<u>9,783</u>	<u>11,779</u>	<u>13,415</u>	<u>14,526</u>	<u>16,100</u>	<u>65,603</u>
TOBACCO LEGISLATION RECEIPTS REQUIRED	<u>9,783</u>	<u>11,779</u>	<u>13,415</u>	<u>14,526</u>	<u>16,100</u>	<u>65,603</u>
Estimated Equivalent Per-Pack Amount (real \$)	0.62	0.80	0.90	1.00	1.10	
Estimated Equivalent Per-Pack Amount (current \$)	0.62	0.82	0.96	1.09	1.24	

* Includes unrestricted funds for states, cessation, farmer assistance, etc.

programs,

Clinton to Offer Grants in Tobacco Funds

States Would Get \$20 Billion Over Five Years as Part Of a Compromise Plan

By CHRISTOPHER GEORGES

Staff Reporter of THE WALL STREET JOURNAL
WASHINGTON — President Clinton, in an effort to appease states' demands for full control of funds from the national tobacco settlement, will propose granting them nearly \$20 billion in new money over the next five years.

The plan, which is expected as part of his fiscal 1999 budget to be unveiled in February, would let states receive about one-third of the spoils expected from the tobacco accord, which was negotiated last year by major cigarette makers, states' attorneys general and public-health groups. That is a controversial notion because many state officials, who played a key role in negotiating a settlement, have repeatedly



Bill Clinton

Clinton Mulls Building Ban On National Forest Roads

By a WALL STREET JOURNAL Staff Reporter
WASHINGTON — The Clinton administration is considering suspending road construction on millions of acres of national forest, which would curb logging in some of the country's most remote public lands.

Forest Service spokesman Alan Polk said yesterday that administration officials are reviewing options that examine "the entire transportation service" on the national forest system's 191 million acres, including the road-building ban. The suspension could last at least a year, until a final review of its impact by the Forest Service. A proposal is expected within a few weeks.

Environmentalists and the timber industry are waging a fierce fight over the 40 million to 50 million acres of roadless forestland that is home to threatened fish and wildlife populations. The timber industry is lobbying aggressively to scale back any possible construction restrictions, especially in Alaska and the Northwest. Environmental groups want the administration to ban roads on areas as small as 1,000 acres.

stated they want to spend all the proceeds as they — and not the federal government — see fit.

The approximately \$20 billion allocation is a key part of Mr. Clinton's broader plan for spending the first \$60 billion expected from a proposed tobacco settlement. Although proposed terms call for cigarette makers to pay \$368.5 billion, those payments are spread over 25 years and, according to administration and congressional calculations, would produce about \$60 billion of new money in the first five years.

According to the White House budget plan, about half of the \$20 billion would be allocated to states in fiscal 1999 with no strings attached. But they would be required to put the rest toward state-run initiatives favored by the administration, such as child-care programs, White House officials said.

Administration officials dismissed suggestions they are squeezing states out of the picture. "Any compromise legislation is going to include significant funds for the states because they brought the lawsuits and they are entitled to their share of the damages," said a senior White House aide, referring to legal action aimed at recovering the cost of treating those with smoking-related ailments. "The budget will take that into account."

Although tobacco-settlement legislation is expected to have a high priority in

the new Congress, passage isn't assured. Still, an array of actors, including the president, congressional Republicans, and states, are all eager to grab at least some spoils for their own uses.

Essentially, the president's budget is expected to assume billions in new revenue from higher cigarette taxes — about \$1.10 to \$1.20 per pack — as part of the hoped-for tobacco-settlement legislation. Mr. Clinton wants to allot a large portion of that revenue to a wide array of new federal programs, such as biomedical and other health research.

State attorneys general, who have organized a wide-ranging settlement of state lawsuits against cigarette makers, are upset by such suggestions. However, administration officials contend that many programs they want to fund — such as child-care programs — match the priorities of many states.

The White House in recent days has unveiled several new initiatives for inclusion in the fiscal 1999 budget. The most recent came Friday when President Clinton proposed spending about \$70 million to help one million students work their way through college by performing community service. The proposal mirrors a plan proposed by congressional Republicans, and would raise the next budget's spending on work-study programs to \$900 million.

DNC Drops Ban on Money Given by Foreign Residents

By a WALL STREET JOURNAL Staff Reporter
WASHINGTON — The Democratic National Committee is dropping its ban on contributions from permanent foreign residents as competition heats up between the parties for support from new citizens, and voters, in the coming election.

The DNC imposed the ban a year ago in the wake of the campaign-finance scandal that focused, in part, on allegations that foreign money was funneled into the presidential race.

But the party's executive committee decided Saturday that new compliance requirements would "catch anything improper," said spokeswoman Melissa Bouney. The party returned about \$1 million in questionable donations.

Permanent foreign residents can make contributions, but can't vote.

Steve Grossman, the party's national chairman, said the move followed recommendations by a DNC panel looking into new ways to reach growing Hispanic and Asian communities, which strongly supported President Clinton in 1996. Key Republican strategists are urging the GOP to aggressively compete for that support, particularly in California, Florida, Texas and other major states.

FAA Found Several Violations of Safety At Former ValuJet

CLEVELAND (AP) — Federal inspectors have found a number of serious safety-related violations at the air carrier formerly known as ValuJet Airlines.

According to internal Federal Aviation Administration documents obtained by the Plain Dealer of Cleveland, the violations found at the airline, now called AirTran Airlines and based in Orlando, Fla., included falsified documents, improper maintenance, faulty repairs and repeated failures to supervise contractors.

A ValuJet DC-9 plunged into the Everglades in 1996 shortly after takeoff from Miami International Airport, killing all 110 people on board. A cargo fire on the doomed flight was blamed on parts with falsified maintenance records.

The FAA documents, based on a three-week inspection that ended Nov. 7, show the airline had more serious violations than a February 1996 report that recommended that the burgeoning ValuJet, then with its headquarters in Atlanta, be grounded. That warning went unheeded until after the May 11, 1996, crash of ValuJet Flight 592.

The FAA draft report found that three instances of failing to properly calculate the proper weight and balance of aircraft to determine safe takeoff and landing speeds; that a senior pilot who oversees the qualifications of other pilots falsified information about the experience of an unspecified number of them; and that improperly trained workers renovated an unspecified number of cabins to make way for larger business-class seats and modify the passengers' emergency oxygen system.

Asked about the inspection, AirTran spokeswoman Lori LeRoy said, "Informally, we understand that everything turned out very well." She declined to comment further.

Broad Battle to End HMOs' Limited Liability For Treatment-Coverage Denials Gains Steam

By LAURIE MCGINLEY

Staff Reporter of THE WALL STREET JOURNAL

SCOTTSDALE, Ariz. — It's a brilliant winter day, but state lawmakers gathered here from around the country aren't taking in the local sights like the Western home of the late Frank Lloyd Wright.

Instead, they're crowded into a hotel conference room to talk about one of the hottest topics in health care: how to make it easier for patients to sue their managed-care plans.

The star attraction is Winnfield Atkins, a legislative aide to Texas state Sen. David Sibley. Last year, Sen. Sibley engineered passage of the first law in the nation that permits injured patients to sue health plans for malpractice over decisions to deny coverage for treatment. "Health plans were making decisions but not being held accountable in court," Mr. Atkins says.

Several lawmakers at the session, sponsored by the National Conference of State Legislatures, nod in agreement; dozens of legislatures this year will debate similar liability proposals. And, because state laws can only go so far, some members of Congress are already pushing for a federal law as part of a proposed crackdown on managed care. The issue, emotionally charged and legally murky, has emerged as the most contentious in the debate over how far the government should go in regulating managed care, and is the subject of a fierce lobbying war.

Erisa Limitations on Liability

Most consumers are severely limited in suing health plans over coverage decisions, even though those decisions often dictate what treatment patients receive and when they see specialists or are hospitalized, says Patricia Butler, a consultant in Boulder, Colo. That constraint is imposed by a 1974 federal law that regulates employer-sponsored health plans.

In an often-cited Louisiana case, for example, an employer-sponsored health plan decided it was unnecessary for a woman named Florence Corcoran, who was having a problem pregnancy, to be hospitalized, as a doctor recommended. The plan authorized a visiting nurse instead. But while the nurse was off duty, the fetus went into distress and died.

A federal appeals court ruled that Mrs. Corcoran and her husband couldn't sue the plan for damages under state law because of the federal Employee Retirement Income Security Act, or Erisa. Under the law, as traditionally interpreted, patients injured as a result of coverage denials can't sue employer-sponsored plans in state court for lost wages, pain and suffering, or punitive damages. They can only sue in federal court for the cost of the benefit that was denied. The law has a wide reach because most Americans receive their health insurance through em-

Malpractice Maelstrom

Pros and cons of making it easier to sue health plans for coverage decisions.

Arguments For:

- Makes plans accountable for bad decisions.
- Reflects plans' increased impact on patient care.
- The threat of litigation may improve care.

Arguments Against:

- Increases costs of litigation and liability insurance.
- Courts are already allowing some malpractice suits.
- Let consumers "vote with their feet" to solve quality problems.

Source: "Managed Care Plan Liability" by Patricia Butler

ployer-sponsored plans.

"Why is it that doctors and nurses are accountable for their health-care treatment decisions and managed-care companies are not?" asks Sen. Sibley, a Waco, Texas, Republican. Robert Berenson, a vice president at consulting firm Lewin Group, agrees. "Health plans can't have it both ways," he says. "They can't take the position that they save money through effective utilization review, and then, when something goes wrong, say, 'It has nothing to do with us.'"

Such talk terrifies managed-care plans and employers, who say health costs will soar if plans become embroiled in litigation. In vetoing a bill in 1996 that would have allowed patients to sue their HMOs, Democratic Gov. Lawton Chiles of Florida warned that such legislation would destroy the benefits of managed care by gutting the concept of cost control.

Employers also worry that they may end up liable for decisions made by their health plans.

Others argue that it won't help the health-care system to clog up the courts with more litigation. "Do you take a broken system and extend it across the board in hopes of improving quality?" asks Karen Ignagni, president of the American Association of Health Plans, which represents more than 1,000 HMOs and managed-care systems. She says lawyers, not patients, benefit from lawsuits, and a better course would be to beef up appeal procedures for consumers so that disputes with health plans can be resolved more quickly. Even Mr. Berenson of the consulting firm says there should be limits imposed on potential damage awards to keep plaintiffs' attorneys from viewing health plans as "deep-pockets" targets for lawsuits.

The idea of holding health plans liable for coverage decisions is being pushed by a

powerful combination of interests: consumer groups dissatisfied with managed care, disgruntled physicians seeking to redress the balance of power with health plans, and trial attorneys who see the potential for big fees. To avoid becoming political targets, the lawyers are generally keeping a low profile; they're happy to let doctors, usually their political enemies, take the lead.

Even if more states act to allow consumers to sue plans for coverage denials under state malpractice laws, the impact may be limited because of the Erisa exemption for employer-sponsored plans. So some members of Congress want to change Erisa so that it can't be used as a defense in cases involving the denial of benefits.

The charge is coming from wings of both political parties: Two conservative Republicans, Rep. Charlie Norwood of Georgia and Sen. Alfonse D'Amato of New York, are pushing one proposal, while liberal Democratic Rep. Fortney H. "Pete" Stark of California champions another.

Fighting Changes in Erisa

But employers will try to derail any congressional effort to tamper with the Erisa-mandated liability exemptions. Over the past few years, courts have gotten increasingly skeptical of the Erisa defense, and industry officials say the courts should be left to sort out the issue. Mark Ugoretz, president of the Erisa Industry Committee, which represents major employers, says "the best way to improve the consumer's lot would be to change federal regulations to give patients the right to seek an immediate court ruling when a managed-care plan denies treatment. That way, he says, "you don't have to wait until you're dead or injured to get some relief."

In Texas, the medical malpractice battle originated with Gov. George Bush's 1995 veto of a wide-ranging managed-care reform bill that didn't include the malpractice provision concerning decisions on coverage. His action fueled a consumer backlash against managed care that led to passage last year of Sen. Sibley's bill, which was strongly supported by the Texas Medical Association, a powerful physicians group. (Mr. Sibley's bill specifically excludes employers from liability, as does the Norwood-D'Amato bill.) Gov. Bush, torn between opposition by health plans and support for the bill from physicians, decided to allow the Sibley bill to become law without his signature.

Aetna Inc., one of the largest managed-care companies operating in Texas, has sued the state in federal court in Houston to block the law. A court decision may come soon, and the dispute eventually may have to be decided by the U.S. Supreme Court. Meanwhile, the law went into effect in September, but no patient has yet invoked it to sue a health plan.

Danka - pls ~~make~~ ^{make} these people @
return to me. Sach

Brice, Jeanne, Josh, Elene FyJ



TO: Chris Jennings

FROM: David Nexon

DATE: 1/9/97

SUBJECT: TOBACCO TAX ESTIMATES/NEAR-ELDERLY

TOBACCO TAX

Our goal, as always, should be to get whatever policy we adopt scored as high as possible, so that we have more money to spend. It would be very helpful if you would work with the Treasury Department to try to get them to adopt estimating procedures that will maximize anticipated revenues and encourage them to work with the Joint Tax Committee, as well.

The attached document illustrate some of the key assumptions that may affect the level of the estimates. It is based on Joint Tax's estimate of a \$1.50 per pack increase phased in at 50 cents per pack per year over the first three years.

The first line is an official JTC estimate given to us last year. These numbers will change based on the new tobacco baseline, but we do not know how much. My understanding is that they will be down significantly because the CBO revenue baseline is going to be down.

The second line adds back the tax offset that JTC assumes occurs with any tax bill (33%). The JTC argument is that if people are paying \$1.00 more in cigarette taxes they will be buying \$1.00 less of apples or cars or something comparable. This means less income and less taxes paid by the makers of cars or growers of apples.

Logically, this offset should not apply to the Kennedy bill (or to the President's proposal, if it is framed properly), because the bill itself requires that the new tax money be spent in an equal and offsetting amount to the tax. Under our bill, every dollar that is collected in taxes is spent on public health or biomedical research or child development and is taxable income to the producers of those services. Because of JTC estimating conventions, however--which really seem to be a product of

the separation between JTC tax estimates and CBO outlay estimates rather than having any economic basis--JTC seems unlikely to give us credit for the add-back without prodding. It might be very helpful if Treasury gives us credit for spending in their revenue calculations and would be willing to discuss this issue with their counterparts at Joint Tax.

The third line represents the additional revenues that accrue if the payments the tobacco industry makes to the government are not tax deductible as a business expense. According to Mack's people, Ken Kies told them that Mack-Harkin would generate \$100 billion over 25 years. We have simply added in \$4 billion a year based on this. The idea of non-deductibility seems to have strong support, so I would hope that Treasury would factor it into its estimates and the President can include it in his proposed policy.

NEAR-ELDERLY

After some discussion, we have decided that your instinct is right and we should stick with the President's program for introduction and worry about improving it later on.

DISTRIBUTION OF REVENUES UNDER THE ACT FOR SMOKEFREE AND HEALTHY CHILDREN
JOINT TAX COMMITTEE ESTIMATE (ADJUSTED BY 33% FOR ADDBACK OF INCOME TAX OFFSET &
NONDEDUCTIBILITY TAX CLAUSE (\$4 BILLION/YR))

(in billions of nominal dollars)

Cigarette Tax (\$1.50)	Percent Share	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Total 98-02	Total 98-07
JTC Estimate (Unadjusted)		5.1	10.5	12.6	13.1	13.1	13.5	14.0	14.5	15.1	15.1	54.4	126.6
JTC Estimate (Adjusted by 33% for addback of income tax offset)		6.8	14	16.8	17.4	17.4	18	18.6	19.3	20.1	20.1	72.4	168.5
JTC Estimate (Adjusted by 33% for addback of income tax offset and nondeductibility tax clause)		10.8	18	20.8	21.4	21.4	22	22.6	23.3	24.1	24.1	92.4	208.5

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JUN 12 1998 8:58AM

Clinton to Propose Cigarette Tax Increase

By CHRISTOPHER GEORGE

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—President Clinton will propose higher cigarette taxes among other increases in tobacco-related revenues to help pay for billions of dollars in new initiatives, administration officials said.

The plan, to be formally unveiled in February as part of the fiscal 1999 budget, would raise nearly \$10 billion in 1999 and between \$40 billion and \$60 billion over five years. That would make the planned levies on tobacco the largest single source of new revenue in the budget, administration officials said.

Also yesterday, White House officials said President Clinton would step up efforts on Social Security reform. But administration aides offered no specific proposals and said the effort would likely be limited to drawing public attention to the need for reform.

The proposal to fund new programs using tobacco-related revenues is an outgrowth of the debate over the proposed tobacco settlement reached by states' attorneys general and the tobacco industry. But it is also tied closely to White House

efforts, especially in an election year, to offer a series of new initiatives without exceeding the spending targets set in last year's balanced-budget agreement.

The White House has confirmed in recent weeks that it will propose billions of dollars in new programs from school construction to medical research. The search for funds to pay for the programs has led administration officials to focus partly on tobacco legislation. "We are driving a truck through the tobacco industry," said one senior White House aide.

While momentum strongly favors some form of tobacco legislation this year, its content and the amount of revenue derived from it remain in question. The proposed settlement between the industry and state attorneys general to settle claims relating to health-care costs requires congressional approval, but President Clinton and congressional leaders have said they want to see changes in key provisions.

Still, administration officials said that even if Congress fails to enact tobacco legislation, the administration would push other proposals to secure the needed revenue, such as a straight-out excise tax on cigarettes. "If a settlement doesn't work

out, we will come up with other tax plans," said one senior White House aide.

Although specifics of the budget proposal remain vague, new revenues could come from other sources such as licensing fees and other industry payments. That's likely to draw opposition from some Republicans and supporters of tobacco interests, but White House officials said they are counting on public opinion to help their case. Indeed, the White House is eager to tout its plan to pay for Mr. Clinton's new initiatives with tobacco levies, especially as congressional elections approach. If Republican opposition surfaces, Democrats believe they will have defined a potent election-year issue.

Meanwhile, on Social Security, White House officials said yesterday that "dozens of proposals," such as regional forums, a bipartisan congressional committee and a special session of Congress, were under discussion.

Republican congressional leaders welcomed Mr. Clinton's interest, but also signaled their deep philosophical disagreement with the administration over how to shore up Social Security and Medicare.

—John Harwood contributed to article.

Holiday Ritual: IRS Sends Out 1997 Tax Forms

WASHINGTON (AP) — In an annual symbol that ends holiday revelry and marks a return to reality, the Internal Revenue Service on Friday began mailing out its 1997 federal income-tax forms.

The IRS said it is sending about 60 million tax packages at a cost of about \$21 million for printing and postage. Most people should get their forms this week.

About 28 million packages will have no forms. Just instructions for people to use TeleFile, the file-by-phone method used by nearly five million filers last year.

This year's forms vary only slightly from the 1996 version. Most of the major changes in the tax code incorporated in the balanced-budget deal worked out between President Clinton and Congress last year don't take effect until the 1998 tax year.

The Form 1040 adds two new lines, one for a medical-savings account deduction and the other for an adoption credit, both resulting from 1996 legislation.

But it does require taxpayers with capital gains to use Schedule D of Form 1040 to take advantage of changes in capital-gains rates that did take effect in 1997. The top tax rates on capital gains are lower for most transactions, including installment payments received after May 6, 1997, on property held more than one year. The new rate for most gains is 20%, down from 28%.

Among other changes:

- Up to \$250,000 of gains from the sale of a residence after May 6 may be excluded (\$500,000 on a joint return) if the taxpayer has owned and used the home as a principal residence for two of the previous five years.
- For an adoption that became final during or before 1997, a taxpayer may claim a credit of up to \$5,000, or \$6,000 for a child with special needs.
- On a joint return, up to \$2,000 of earnings may be contributed to each spouse's tax-deductible individual-remainder account, or IRA. Previously, if only one spouse had earned income, the total contributions were limited to \$2,250.

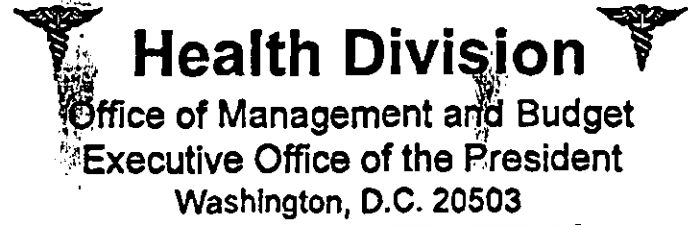
- Self-employed people may deduct up to 4% of their health-insurance premiums for every month they weren't eligible to participate in an employer-sponsored health plan.

The IRS said this year it is expanding its free telephone-assistance service to 16 hours a day, six days a week. That service, which received 100 million calls last year, is available at 1-800-829-1040.

THE WALL STREET JOURNAL
MONDAY, JANUARY 5, 1998

Date: 12/31/97

FAX



To: ELENA KAGAN
Fax: 6-2878
Phone:

From: RICHARD TURMAN/MARC GAROFI

Number of Pages (not including cover):

Subject: ATTACHED ARE NEW TABLES FOR TOBACCO SPENDING.
 JOSH WOULD LIKE US TO SET UP A CONFERENCE CALL WITH
 YOU THIS AFTERNOON TO DISCUSS THESE NUMBERS. WE'LL CALL YOU

Please call if there are any problems with this transmission:

Health Division (Front Office)	202/395-4922
Health & Human Services Unit	202/395-4925
Health Programs & Services Branch	202/395-4926
Health Financing Branch	202/395-4930

OFFICE TO CHECK YOUR
 AVAILABILITY.

Fax Numbers:

Health Division (Front Office)	202/395-3910
Health Division (Room 7001)	202/395-7840

TOBACCO LEGISLATION

	1999	2000	2001	2002	2003	Total FY99-03
USES OF RECEIPTS FROM TOBACCO LEGISLATION						
<i>Federally Operated Programs</i>						
Research Fund for America	3,578	4,605	5,029	5,724	6,332	25,268
FDA Enforcement Activities	125	168	210	282	292	1,076
HHS/CDC Smoking Prevention	205	171	139	76	76	667
Medicaid Child Outreach Reforms	120	160	200	200	220	900
Cancer Clinical Trials Demonstration	<u>200</u>	<u>250</u>	<u>300</u>	<u>--</u>	<u>--</u>	<u>750</u>
Subtotal, Federally operated programs	4,228	5,354	5,877	6,282	6,920	28,661
<i>Federally Directed State Programs</i>						
Child Care & Development Block Grant						7,500
Teachers Initiative						<u>7,335</u>
Subtotal, State prgms with Federal direction	2,255	2,580	2,900	3,300	3,800	14,835
<i>Other Uses, including Cessation</i>	3,300	3,891	4,582	4,972	5,362	22,107
<i>Total Uses</i>	<u>9,783</u>	<u>11,825</u>	<u>13,359</u>	<u>14,554</u>	<u>16,082</u>	<u>65,603</u>
TOBACCO LEGISLATION RECEIPTS REQUIRED						
Equivalent Per-Pack Amount Required (real \$)	0.62	0.80	0.90	1.00	1.10	
Equivalent Per-Pack Amount Required (current \$)	0.62	0.82	0.96	1.09	1.24	
<i>Total Net Receipts</i>	<u>9,783</u>	<u>11,825</u>	<u>13,359</u>	<u>14,554</u>	<u>16,082</u>	<u>65,603</u>

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	FY99-03	FY99-08
MODIFIED SETTLEMENT USES, Constant \$												
Public Health Trust Fund											0.000	0.000
HHS Research on Cessation											0.000	0.000
National Education/Media Campaign	0.450	0.450	0.450	0.450	0.450	0.450	0.450	0.450	0.450	0.450	2.250	4.500
State Programs/ASSIST	0.050	0.050	0.050	0.050	0.049	0.050	0.050	0.050	0.050	0.050	0.249	0.499
HHS Grants to Reduce Tobacco Use	0.134	0.096	0.061	0.000	0.000	0.134	0.134	0.134	0.134	0.134	0.291	0.961
Cessation Trust Fund	1.000	1.000	1.000	1.000	1.000	1.500	1.500	1.500	1.500	1.500	5.000	12.500
FDA Enforcement	0.116	0.154	0.189	0.250	0.251	0.251	0.251	0.251	0.251	0.251	0.960	2.215
Civil Suit Reimbursements	0.000	0.400	0.800	0.800	0.800	1.200	1.200	1.200	3.200	3.200	2.800	12.800
Payments to Sports Teams											0.000	0.000
Miscellaneous	0.000	-0.100	-0.200	-0.100	-0.200	-0.200	-0.200	-0.200	-0.200	-0.200	-0.600	-1.600
Subtotal: Specified Items	1.750	2.050	2.350	2.450	2.350	3.385	3.385	3.385	5.385	5.385	10.950	31.875
Subtotal excluding Research Fund	1.750	2.050	2.350	2.450	2.350	3.385	3.385	3.385	5.385	5.385	10.950	31.875
In Current \$	1.750	2.112	2.493	2.677	2.645	3.924	4.042	4.163	6.822	7.026	11.677	37.654
International (Proposed Add)	0.050	0.050	0.050	0.050	0.050	0.200	0.200	0.200	0.200	0.200	0.250	1.250
Farmers (Proposed Add)	0.080	0.100	0.100	0.100	0.100	0.200	0.200	0.200	0.200	0.200	0.480	1.480
Total Exc Trust Fund(Constant \$)	1.880	2.200	2.500	2.600	2.500	3.785	3.785	3.785	5.785	5.785	11.680	34.605
Total (Current \$)	1.880	2.266	2.652	2.841	2.814	4.388	4.519	4.655	7.328	7.548	12.453	40.892

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	FY99-03	FY99-08
MODIFIED SETTLEMENT USES, Current \$												
Public Health Trust Fund											0.000	0.000
HHS Research on Cessation											0.000	0.000
National Education/Media Campaign	0.450	0.464	0.477	0.492	0.506	0.522	0.537	0.553	0.570	0.587	2.389	5.159
State Programs/ASSIST	0.050	0.052	0.053	0.055	0.055	0.058	0.060	0.061	0.063	0.065	0.264	0.572
HHS Grants to Reduce Tobacco Use	0.134	0.099	0.065	0.000	0.000	0.155	0.160	0.165	0.170	0.175	0.298	1.122
Cessation Trust Fund	1.000	1.030	1.061	1.093	1.126	1.739	1.791	1.845	1.900	1.957	5.309	14.541
FDA Enforcement	0.116	0.159	0.201	0.273	0.283	0.291	0.300	0.309	0.318	0.327	1.031	2.576
Civil Suit Reimbursements	0.000	0.412	0.849	0.874	0.900	1.391	1.433	1.476	4.054	4.175	3.035	15.564
Payments to Sports Teams											0.000	0.000
Miscellaneous, Rounding Error	0.020	-0.069	-0.164	-0.150	-0.239	-0.232	-0.239	-0.246	-0.253	-0.261	-0.603	-1.834
Subtotal: Specified Items	1.770	2.146	2.541	2.636	2.631	3.924	4.042	4.163	6.822	7.026	11.724	37.701
Subtotal excluding Research Fund	1.770	2.146	2.541	2.636	2.631	3.924	4.042	4.163	6.822	7.026	11.724	37.701
In Current \$	1.770	2.146	2.541	2.636	2.631	3.924	4.042	4.163	6.822	7.026	11.724	37.701
International (Proposed Add)	0.050	0.052	0.053	0.055	0.056	0.232	0.239	0.246	0.253	0.261	0.265	1.496
Farmers (Proposed Add)	0.080	0.103	0.106	0.109	0.113	0.232	0.239	0.246	0.253	0.261	0.511	1.742
Total Exc Trust Fund(Current \$)	1.900	2.300	2.700	2.800	2.800	4.388	4.519	4.655	7.328	7.548	12.500	40.939
Total (Current \$)	1.900	2.300	2.700	2.800	2.800	4.388	4.519	4.655	7.328	7.548	12.500	40.939

Withdrawal/Redaction Marker

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Clinton Presidential Records
Domestic Policy Council
Elena Kagan
OA/Box Number: 14367

FOLDER TITLE:

Tobacco - Settlement: Budget [2]

2009-1006-F
db1538

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

- P1 National Security Classified Information [(a)(1) of the PRA]
- P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
- P3 Release would violate a Federal statute [(a)(3) of the PRA]
- P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
- P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]
- P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).

RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

- b(1) National security classified information [(b)(1) of the FOIA]
- b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
- b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
- b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
- b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

✓ Scott Brasby

✓ Marley W.
69006

✓ Diana F.

✓ Chris T. - 2 pages → press
Friday

STND tomorrow

SPionelis

P6/(b)(6)

take out - higher level,
effective in July

P6/(b)(6)

Greg White - Health Div - OMB

✓ Beverly B.

Enshure IVs in Mem.

Info today -

t.p.

child care -

Educate - -



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

December 23, 1997

To: **The Director** c: Jack Lew, Joe Minarik, Barry
Anderson, Barry Clendenin

From: Joshua Gotbaum *JG*

Re: **Summary Table of Uses of Tobacco Legislation**

Attached as you requested is a tobacco sources and uses, in both "Federal only" and "Total" uses form.

I would strongly recommend using the "Fed Only" case, because putting the other uses in the budget would be interpreted as an Administration endorsement of those levels.

Please note that, on the "Fed Only" case, the per-pack amounts shown are an overestimate of the amount that would be needed to fund only these uses. The estimates shown (39 to 80 cents, current dollars) represent the fraction of the already agreed-upon stream from 62 cents to \$1.10 (real) represented by the Federal uses. If we go with the "Fed Only" approach, we can reestimate the exact amounts.

Fed Only

TOBACCO LEGISLATION

	1999	2000	2001	2002	2003	Total FY99-03
USES OF RECEIPTS FROM TOBACCO LEGISLATION						
<i>Federally Operated Programs</i>						
Research Fund for America	3,873	5,029	5,676	5,933	6,488	26,999
Youth smoking prevention programs, additional (CDC)	21	21	21	21	21	105
Youth smoking enforcement programs, additional (FDA)	<u>9</u>	<u>9</u>	<u>9</u>	<u>9</u>	<u>9</u>	<u>45</u>
Subtotal, Federally operated programs	3,903	5,059	5,706	5,963	6,518	27,149
<i>Federally Directed State Programs</i>						
Child Care & Development Block Grant						7,500
Teachers Initiative						<u>7,335</u>
Subtotal, State-operated programs under Federal direction	2,255	2,580	2,900	3,300	3,800	14,835
Total Uses	<u>6,158</u>	<u>7,639</u>	<u>8,606</u>	<u>9,263</u>	<u>10,318</u>	<u>41,984</u>
TOBACCO LEGISLATION RECEIPTS REQUIRED						
Equivalent Per-Pack Amount Required (current \$)	\$0.39	\$0.53	\$0.60	\$0.69	\$0.80	
Federally Operated Programs, Total	3,903	5,059	5,706	5,963	6,518	27,149
State Programs with Federal Direction, Total	<u>2,255</u>	<u>2,580</u>	<u>2,900</u>	<u>3,300</u>	<u>3,800</u>	<u>14,835</u>
Total Additional Net Receipts	<u>6,158</u>	<u>7,639</u>	<u>8,606</u>	<u>9,263</u>	<u>10,318</u>	<u>41,984</u>

Excludes other state programs and other programs that may be funded via legislation.

Total

TOBACCO LEGISLATION

	1999	2000	2001	2002	2003	Total FY99-03
USES OF RECEIPTS FROM TOBACCO LEGISLATION						
<i>Federally Operated Programs</i>						
Research Fund for America	3,873	5,029	5,676	5,933	6,488	26,999
Youth smoking prevention programs, additional (CDC)	21	21	21	21	21	105
Youth smoking enforcement programs, additional (FDA)	9	9	9	9	9	45
Subtotal, Federally operated programs	3,903	5,059	5,706	5,963	6,518	27,149
<i>Federally Directed State Programs</i>						
Child Care & Development Block Grant						7,500
Teachers Initiative						7,335
Subtotal, State-operated programs under Federal direction	2,255	2,580	2,900	3,300	3,800	14,835
<i>Other State Uses</i>	1,700	1,900	2,200	2,500	2,900	11,200
<i>Other Uses</i>	1,900	2,300	2,700	2,800	2,800	12,500
<i>Total Uses</i>	<u>9,758</u>	<u>11,839</u>	<u>13,506</u>	<u>14,563</u>	<u>16,018</u>	<u>65,684</u>
TOBACCO LEGISLATION RECEIPTS REQUIRED						
Equivalent Per-Pack Amount Required (current \$)	\$0.62	\$0.82	\$0.95	\$1.09	\$1.24	
Federal Programs, Total	3,903	5,059	5,706	5,963	6,518	27,149
State Programs with Federal Guidance, Total	2,255	2,580	2,900	3,300	3,800	14,835
Other State Programs	1,700	1,900	2,200	2,500	2,900	11,200
Other Tobacco Related Programs Proposed in Settlement	<u>1,900</u>	<u>2,300</u>	<u>2,700</u>	<u>2,800</u>	<u>2,800</u>	<u>12,500</u>
Total Additional Net Receipts	<u>9,758</u>	<u>11,839</u>	<u>13,506</u>	<u>14,563</u>	<u>16,018</u>	<u>65,684</u>

DRAFT

Tobus23.xls Total 12/23/97 11:29 AM

NIH OPTIONS (Dollars in millions; fiscal years)

		1998	1999	2000	2001	2002	2003	1999-200	% Increase
Base Numbers 12/18	NIH (No NCI breakout)	13,648	14,648	15,234	15,843	16,477	17,136	79,338	26%
	Increase over Baseline		1,000	1,586	2,195	2,829	3,488	11,098	
	Growth		7.3%	4.0%	4.0%	4.0%	4.0%	4.7%	
Case A Corrected #s Friday morning	NIH (No NCI breakout)	13,648	16,050	17,093	17,393	18,441	19,842	88,819	45%
	Increase over Baseline		2,402	3,445	3,745	4,793	6,194	20,579	
	Growth		17.6%	6.5%	1.8%	6.0%	7.6%	7.8%	
	Cancer Clinical Trials		340	340	340	340	340	1,700	
	TOTAL PROPOSED		16,390	17,433	17,733	18,781	20,182	90,519	
	Increase		1,340	1,926	2,535	3,169	3,828	12,798	
Case B Numbers from Mid-day Friday	NIH	13,648	14,648	15,785	16,967	18,431	20,133	85,964	48%
	Increase over Baseline		1,000	2,137	3,319	4,783	6,485	17,724	
	Growth		7.3%	7.8%	7.5%	8.6%	9.2%	8.1%	
	Non-NCI proposed spending	11,101	11,795	12,601	13,401	14,101	15,039	66,937	35%
	Increase over Baseline		694	1,500	2,300	3,000	3,938	11,432	
	Growth		6.3%	5.8%	5.8%	5.8%	5.8%	6.3%	
	NCI proposed spending	2,547	2,853	3,184	3,566	4,330	5,094	19,027	100%
	Increase over Baseline		306	637	1,019	1,783	2,547	6,292	
	Growth		12.0%	5.8%	5.8%	5.8%	5.8%	14.9%	
	Cancer Clinical Trials		340	340	340	340	340	1,700	
	TOTAL PROPOSED		14,988	16,125	17,307	18,771	20,473	87,664	
	Increase		1,340	2,477	3,659	5,123	6,825	19,424	
Case C	NIH	13,648	14,648	15,757	16,887	18,147	19,557	84,996	43%
	Increase over Baseline		1,000	2,109	3,239	4,499	5,909	16,756	
	Growth		7.3%	7.6%	7.2%	7.5%	7.8%	7.5%	
	Non-NCI proposed spending	11,101	11,795	12,701	13,576	14,326	15,314	67,712	38%
	Increase over Baseline		694	1,600	2,475	3,225	4,213	12,207	
	Growth		6.3%	7.7%	6.9%	5.5%	6.9%	6.6%	
	NCI proposed spending	2,547	2,853	3,056	3,311	3,821	4,243	17,284	67%
	Increase over Baseline		306	509	764	1,274	1,696	4,549	
	Growth		12.0%	7.1%	8.3%	15.4%	11.0%	10.7%	
	Cancer Clinical Trials Demo		200	300	400			900	
	TOTAL PROPOSED		14,848	16,057	17,287	18,147	19,557	85,896	
	Increase		1,200	2,409	3,639	4,499	5,909	17,656	
Case D	NIH	13,648	14,802	15,827	16,923	18,095	19,349	84,996	42%
	Increase over Baseline		1,154	2,179	3,275	4,447	5,701	16,756	
	Growth		8.5%	6.9%	6.9%	6.9%	6.9%	7.2%	
	Non-NCI proposed spending	11,101	12,000	12,801	13,655	14,565	15,537	68,558	40%
	Increase over Baseline		899	1,700	2,554	3,464	4,436	13,053	
	Growth		8.1%	6.7%	6.7%	6.7%	6.7%	7.0%	
	NCI proposed spending	2,547	2,802	3,026	3,268	3,530	3,812	16,438	50%
	Increase over Baseline		255	479	721	983	1,265	3,703	
	Growth		10.0%	8.0%	8.0%	8.0%	8.0%	8.4%	
	Cancer Clinical Trials Demo		200	300	400			900	
	TOTAL PROPOSED		15,002	16,127	17,323	18,095	19,349	85,896	
	Increase		1,354	2,479	3,675	4,447	5,701	17,656	

VP/CT approved

Team

HEALTH BUDGET OPTIONS

(Dollars in billions, fiscal years)

	1999	2000	2001	2002	2003	5 Years
MEDICARE						
Anti-Fraud *	-0.1	-0.4	-0.4	-0.4	-0.5	-1.8
Reduce payment for EPO	-0.045	-0.065	-0.065	-0.07	-0.075	-0.3
Payment for drugs	-0.07	-0.13	-0.15	-0.16	-0.18	-0.7
Partial hospitalization	-0.015	-0.015	-0.02	-0.03	-0.04	-0.1
MSP	-0.01	-0.14	-0.16	-0.18	-0.2	-0.7
Pre-65	0.44	0.44	0.34	0.34	0.34	1.9
Clinical Cancer	0.2	0.3	0.4			0.9
? Long-Term Care Info. (Discretionary)	0.005	0.005	0.005	0.005	0.005	0.025
 MEDICAID - KIDS HEALTH						
Presumptive eligibility	0.09	0.09	0.12	0.13	0.14	0.57
TANF	0.05	0.06	0.07	0.07	0.08	0.33
 CHILDREN'S HEALTH INSURANCE PROGRAM						
Puerto Rico	0.034	0.034	0.034	0.024	0.024	0.15
 OTHER						
Voluntary Purchasing Coops	0.025	0.025	0.025	0.025	0.025	0.125
 TOBACCO						
→ Tobacco Revenue	-9.783	-11.825	-13.359	-14.554	-16.082	-65.603
21st Century Trust Fund	1.99	3.35	4.82	6.41	8.00	24.58
NIH	1.15	2.18	3.27	4.45	5.70	16.76
NSF	0.437	0.628	0.841	1.074	1.202	4.182
?? Other	0.395	0.543	0.708	0.893	1.101	3.639
Settlement Spending	1.90	2.30	2.70	2.80	2.80	12.50
Federal/State Funds	3.98	4.47	5.05	5.78	6.75	26.02
Federal (57%)	2.27	2.55	2.88	3.29	3.85	14.83
State (43%)	1.71	1.92	2.17	2.48	2.90	11.19
Residual	1.92	1.71	0.79	-0.44	-1.47	2.51

* Net of premium offset

going where ?

Adopt CDC

NATIONAL INSTITUTES OF HEALTH -- FY 1999 BUDGET

(BA in millions)

	1998	1999	2000	2001	2002	2003	1999 - 2003
CASE A (12/19, am)							
Total NIH (including Clinical Trials)	13,648	16,390	17,433	17,733	18,781	20,182	90,519
Cumulative % Increase over FY98		20%	28%	30%	38%	48%	
National Cancer Institute	2,547	3,256	3,679	4,163	4,718	5,434	21,250
✕ CASE B (12/19, pm)							
Total NIH	13,648	14,988	16,125	17,307	18,771	20,473	87,663 ^{incl 1.7}
Cumulative % Increase over FY98		10%	18%	27%	38%	50%	
National Cancer Institute	2,547	2,853	3,184	3,566	4,330	5,094	19,026
Base	2,547	2,547	2,547	2,547	2,547	2,547	12,735
Cumulative % Increase over FY98		12%	25%	40%	70%	100%	
Non-NCI NIH	11,101	11,795	12,601	13,401	14,101	15,039	66,937
Base	11,101	11,101	11,101	11,101	11,101	11,101	55,505
Cumulative % Increase over FY98		6%	14%	21%	27%	35%	
Cancer Clinical Trials	n/a	340	340	340	340	340	1,700
CASE C (12/23)							
Total NIH	13,648	14,947	15,357	16,112	16,867	18,792	82,075
Cumulative % Increase over FY98		10%	13%	18%	24%	38%	
National Cancer Institute	2,547	2,802	3,056	3,311	3,566	3,821	16,556
Base	2,547	2,547	2,547	2,547	2,547	2,547	12,735
Cumulative % Increase over FY98		10%	20%	30%	40%	50%	
Non-NCI NIH	11,101	11,945	12,101	12,601	13,101	14,771	64,519
Base	11,101	11,101	11,101	11,101	11,101	11,101	55,505
Cumulative \$ Increase over FY98		844	1,000	1,500	2,000	3,670	9,014
Cumulative % Increase over FY98		8%	9%	14%	18%	33%	
Cancer Clinical Trials	n/a	200	200	200	200	200	1,000
Case A and B Exceed Case C by:							
Case A: NIH Total (includes \$1.7b fo NCI)	-	1,443	2,076	1,621	1,914	1,391	8,445
NCI	-	454	623	852	1,152	1,614	4,695
Case B: NIH Total (includes \$1.7b fo NCI)	-	41	767	1,195	1,904	1,682	5,589
NCI	-	51	127	255	764	1,274	2,471

*Incr NIH by 1b
 reduce c.t. → 700m (save 1b)*
 -----12/23/97, 3:11 PM-----
*900m for kids
 - 1.1m left over -*

POSSIBLE USES OF TOBACCO RECEIPTS

Revenues in billions current \$; per-pack equivalents in real & current \$

	1999	2000	2001	2002	2003	TOTAL FY99-03	
RECEIPTS -- ALTERNATIVE CASE							
PER PACK EQUIVALENTS -- Real 1999\$	0.62	0.80	0.90	1.00	1.10		
Current \$	0.62	0.82	0.95	1.09	1.24		
TOTAL RECEIPTS (billions current \$)	9.8	11.8	13.4	14.6	16.1	65.6	
USES							
Federal Research & Other Direct Funds	3.9	5.1	5.7	6.0	6.5	27.1	40%
State Funds -- Federally Directed Portion	2.3	2.6	2.9	3.3	3.8	14.8	22%
State Funds -- State Controlled Portion	1.7	1.9	2.2	2.5	2.9	11.2	16%
Tobacco Settlement/Constituency Funds	<u>1.9</u>	<u>2.3</u>	<u>2.7</u>	<u>2.8</u>	<u>2.8</u>	<u>12.5</u>	<u>18%</u>
Total Uses	<u>9.8</u>	<u>11.5</u>	<u>13.8</u>	<u>15.6</u>	<u>17.6</u>	<u>68.4</u>	<u>100%</u>

Increase NIH by \$1.1 billion in 1999; Double NCI by 2003

National Institutes of Health (NIH) Funding Options

(Dollars in millions)

	1997	1998	1999	2000	2001	2002	2003	1999-2003
BASELINE: NO GROWTH	12,741	13,648	13,648	13,648	13,648	13,648	13,648	
1. HHS Appeal		13,648	14,801	16,051	17,407	18,877	20,472	
Increase over Flat Baseline			1,153	2,403	3,759	5,229	6,824	19,368
<i>Growth</i>			8.4%	8.4%	8.4%	8.4%	8.4%	8.4%
2. Tobacco Settlement		13,648	16,148	16,148	17,148	17,648	18,648	
Increase over Flat Baseline			2,500	2,500	3,500	4,000	5,000	17,500
<i>Growth</i>			18.3%	0.0%	6.2%	2.9%	5.7%	6.4%
3. NIH: \$1 b in 1999		13,648	14,748	15,697	16,736	17,876	19,130	
Increase over Flat Baseline			1,100	2,049	3,088	4,228	5,482	15,947
<i>Growth</i>			8.1%	6.4%	6.6%	6.8%	7.0%	7.0%
NSF: \$150 m in 1999		3,430	3,580	3,687	3,798	3,912	4,029	
Increase over Flat Baseline			150	257	368	482	599	1,857
<i>Growth</i>			4.4%	3.0%	3.0%	3.0%	3.0%	3.3%
TOTAL INCREASE			1,250	2,306	3,456	4,710	6,082	17,804
NOTE								
Non-NCI Base		11,431	11,431	11,431	11,431	11,431	11,431	
Non-NCI proposed spending		11,431	12,352	12,908	13,489	14,096	14,730	
Increase over Baseline			921	1,477	2,058	2,665	3,299	10,421
<i>Growth</i>			8.1%	4.5%	4.5%	4.5%	4.5%	5.2%
NCI baseline		2,217	2,217	2,217	2,217	2,217	2,217	
NCI proposed spending		2,217	2,396	2,789	3,247	3,780	4,400	
Increase over Baseline			179	572	1,030	1,563	2,183	5,526
<i>Growth</i>			8.1%	16.4%	16.4%	16.4%	16.4%	14.7%

OMB OPTION: \$14 billion over 5

National Institutes of Health (NIH) Funding Options

(Dollars in millions)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	1999-2003	1999-2008
BASELINE: NO GROWTH	12,741	13,648	13,648	13,648	13,648	13,648	13,648	13,648	13,648	13,648	13,648	13,648		
1. HHS Appeal		13,648	14,801	16,051	17,407	18,877	20,472	22,202	24,078	26,112	28,318	30,711		
Increase over Flat Baseline			1,153	2,403	3,759	5,229	6,824	8,554	10,430	12,464	14,670	17,063	19,368	82,549
Growth			8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%
2. Tobacco Settlement		13,648	16,148	16,148	17,148	17,648	18,648	16,148	16,148	16,148	13,648	13,648	17,500	25,000
Increase over Flat Baseline			2,500	2,500	3,500	4,000	5,000	2,500	2,500	2,500	0	0	0	0
Growth			18.3%	0.0%	6.2%	2.9%	5.7%	-13.4%	0.0%	0.0%	-15.5%	0.0%	0.4%	0.0%
3. NIH: \$1 b in 1999		13,648	14,648	15,234	15,843	16,477	17,136	17,822	18,534	19,276	20,047	20,849	11,098	39,385
Increase over Flat Baseline			1,000	1,586	2,195	2,829	3,488	4,174	4,886	5,628	6,399	7,201	0	0
Growth			7.3%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.7%	4.3%
NSF: \$250 m in 1999		3,430	3,680	3,827	3,980	4,139	4,305	4,477	4,656	4,843	5,036	5,238	2,782	9,882
Increase over Flat Baseline			250	397	550	709	875	1,047	1,226	1,413	1,606	1,808	0	0
Growth			7.3%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.6%	4.3%
TOTAL INCREASE			1,250	1,983	2,746	3,539	4,363	5,221	6,113	7,040	8,005	9,008	13,880	49,268
NOTE														
Non-NCI Base		11,431	11,431	11,431	11,431	11,431	11,431	11,431	11,431	11,431	11,431	11,431		
Non-NCI proposed spending		11,431	12,269	12,759	13,270	13,800	14,352	14,927	15,524	16,145	16,790	17,462		
Increase over Baseline			838	1,328	1,839	2,369	2,921	3,496	4,093	4,714	5,359	6,031	9,295	32,988
Growth			7.3%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.7%	4.3%
NCI baseline		2,217	2,217	2,217	2,217	2,217	2,217	2,217	2,217	2,217	2,217	2,217		
NCI proposed spending		2,217	2,379	2,475	2,574	2,677	2,784	2,895	3,011	3,131	3,256	3,387		
Increase over Baseline			162	258	357	460	567	678	794	914	1,039	1,170	1,803	6,398
Growth			7.3%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.7%	4.3%

OMB OPTION: \$14 billion over 5; Doubling NCI by 2003

National Institutes of Health (NIH) Funding Options

(Dollars in millions)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	1999-2003	1999-2008
BASELINE: NO GROWTH	12,741	13,648	13,648	13,648	13,648	13,648	13,648	13,648	13,648	13,648	13,648	13,648		
1. HHS Appeal		13,648	14,801	16,051	17,407	18,877	20,472	22,202	24,078	26,112	28,318	30,711		
Increase over Flat Baseline			1,153	2,403	3,759	5,229	6,824	8,554	10,430	12,464	14,670	17,063	19,368	82,549
Growth			8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%
2. Tobacco Settlement		13,648	16,148	16,148	17,148	17,648	18,648	16,148	16,148	16,148	13,648	13,648		
Increase over Flat Baseline			2,500	2,500	3,500	4,000	5,000	2,500	2,500	2,500	0	0	17,500	25,000
Growth			18.3%	0.0%	6.2%	2.9%	5.7%	-13.4%	0.0%	0.0%	-15.5%	0.0%	6.4%	0.0%
3. NIH: \$1 b in 1999		13,648	14,648	15,185	15,789	16,471	17,245	17,935	18,652	19,398	20,174	20,981		
Increase over Flat Baseline			1,000	1,537	2,141	2,823	3,597	4,287	5,004	5,750	6,526	7,333	11,098	39,997
Growth			7.3%	3.7%	4.0%	4.3%	4.7%	4.0%	4.0%	4.0%	4.0%	4.0%	4.8%	4.4%
NSF: \$250 m in 1999		3,430	3,680	3,827	3,980	4,139	4,305	4,477	4,656	4,843	5,036	5,238		
Increase over Flat Baseline			250	397	550	709	875	1,047	1,226	1,413	1,606	1,808	2,782	9,882
Growth			7.3%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.6%	4.3%
TOTAL INCREASE			1,250	1,934	2,691	3,533	4,472	5,334	6,230	7,163	8,132	9,141	13,880	49,880
NOTE														
Non-NCI Base		11,431	11,431	11,431	11,431	11,431	11,431	11,431	11,431	11,431	11,431	11,431		
Non-NCI proposed spending		11,431	12,269	12,410	12,553	12,698	12,845	13,359	13,893	14,449	15,027	15,628		
Increase over Baseline			838	979	1,122	1,267	1,414	1,928	2,462	3,018	3,596	4,197	5,620	20,819
Growth			7.3%	1.2%	1.2%	1.2%	1.2%	4.0%	4.0%	4.0%	4.0%	4.0%	2.4%	3.2%
NCI baseline		2,217	2,217	2,217	2,217	2,217	2,217	2,217	2,217	2,217	2,217	2,217		
NCI proposed spending		2,217	2,379	2,775	3,236	3,773	4,400	4,576	4,759	4,949	5,147	5,353		
Increase over Baseline			162	558	1,019	1,556	2,183	2,359	2,542	2,732	2,930	3,136	5,478	19,178
Growth			7.3%	16.6%	16.6%	16.6%	16.6%	4.0%	4.0%	4.0%	4.0%	4.0%	14.7%	9.2%

OPTION 1: \$15 billion over 5; Double NCI by 2003

National Institutes of Health (NIH) Funding Options

(Dollars in millions)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	1999-2003	1999-2008
BASELINE: NO GROWTH	12,741	13,648	13,648	13,648	13,648	13,648	13,648	13,648	13,648	13,648	13,648	13,648		
1. HHS Appeal		13,648	14,801	16,051	17,407	18,877	20,472	22,202	24,078	26,112	28,318	30,711		
Increase over Flat Baseline			1,153	2,403	3,759	5,229	6,824	8,554	10,430	12,464	14,670	17,063	19,368	82,549
Growth			8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%
2. Tobacco Settlement		13,648	16,148	16,148	17,148	17,648	18,648	16,148	16,148	16,148	13,648	13,648		
Increase over Flat Baseline			2,500	2,500	3,500	4,000	5,000	2,500	2,500	2,500	0	0	17,500	25,000
Growth			18.3%	0.0%	6.2%	2.9%	5.7%	-13.4%	0.0%	0.0%	-15.5%	0.0%	6.4%	0.0%
3. NIH: \$1 b in 1999		13,648	14,648	15,411	16,251	17,179	18,208	19,119	20,075	21,078	22,132	23,239		
Increase over Flat Baseline			1,000	1,763	2,603	3,531	4,560	5,471	6,427	7,430	8,484	9,591	13,458	50,862
Growth			7.3%	5.2%	5.5%	5.7%	6.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.9%	5.5%
NSF: \$150 m in 1999		3,430	3,580	3,687	3,798	3,912	4,029	4,150	4,275	4,403	4,535	4,671		
Increase over Flat Baseline			150	257	368	482	599	720	845	973	1,105	1,241	1,857	6,741
Growth			4.4%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.3%	3.1%
TOTAL INCREASE			1,150	2,021	2,971	4,013	5,160	6,191	7,271	8,403	9,589	10,832	15,315	57,603
NOTE														
Non-NCI Base		11,431	11,431	11,431	11,431	11,431	11,431	11,431	11,431	11,431	11,431	11,431		
Non-NCI proposed spending		11,431	12,269	12,637	13,016	13,406	13,808	14,499	15,224	15,985	16,784	17,623		
Increase over Baseline			838	1,206	1,585	1,975	2,377	3,068	3,793	4,554	5,353	6,192	7,980	30,940
Growth			7.3%	3.0%	3.0%	3.0%	3.0%	5.0%	5.0%	5.0%	5.0%	5.0%	3.9%	4.4%
NCI baseline		2,217	2,217	2,217	2,217	2,217	2,217	2,217	2,217	2,217	2,217	2,217		
NCI proposed spending		2,217	2,379	2,775	3,236	3,773	4,400	4,620	4,851	5,094	5,348	5,616		
Increase over Baseline			162	558	1,019	1,556	2,183	2,403	2,634	2,877	3,131	3,399	5,478	19,921
Growth			7.3%	16.6%	16.6%	16.6%	16.6%	5.0%	5.0%	5.0%	5.0%	5.0%	14.7%	9.7%

OPTION 2: \$19 billion over 5; Double NCI by 2003; Double NIH by 2008

National Institutes of Health (NIH) Funding Options

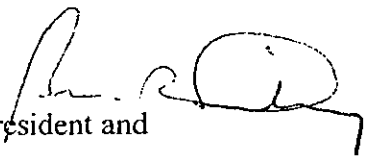
(Dollars in millions)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	1999-2003	1999-2008
BASELINE: NO GROWTH	12,741	13,648	13,648	13,648	13,648	13,648	13,648	13,648	13,648	13,648	13,648	13,648		
1. HHS Appeal		13,648	14,801	16,051	17,407	18,877	20,472	22,202	24,078	26,112	28,318	30,711		
Increase over Flat Baseline			1,153	2,403	3,759	5,229	6,824	8,554	10,430	12,464	14,670	17,063	19,368	82,549
Growth			8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%
2. Tobacco Settlement		13,648	16,148	16,148	17,148	17,648	18,648	16,148	16,148	16,148	13,648	13,648		
Increase over Flat Baseline			2,500	2,500	3,500	4,000	5,000	2,500	2,500	2,500	0	0	17,500	25,000
Growth			18.3%	0.0%	6.2%	2.9%	5.7%	-13.4%	0.0%	0.0%	-15.5%	0.0%	6.4%	0.0%
3. NIH: \$1 b in 1999		13,648	14,648	15,779	17,021	18,385	19,889	21,082	22,347	23,688	25,109	26,616		
Increase over Flat Baseline			1,000	2,131	3,373	4,737	6,241	7,434	8,699	10,040	11,461	12,968	17,482	68,084
Growth			7.3%	7.7%	7.9%	8.0%	8.2%	6.0%	6.0%	6.0%	6.0%	6.0%	7.8%	6.9%
NSF: \$150 m in 1999		3,430	3,580	3,687	3,798	3,912	4,029	4,150	4,275	4,403	4,535	4,671		
Increase over Flat Baseline			150	257	368	482	599	720	845	973	1,105	1,241	1,857	6,741
Growth			4.4%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.3%	3.1%
TOTAL INCREASE			1,150	2,389	3,741	5,219	6,840	8,154	9,544	11,013	12,566	14,209	19,339	74,824
NOTE														
Non-NCI Base		11,431	11,431	11,431	11,431	11,431	11,431	11,431	11,431	11,431	11,431	11,431		
Non-NCI proposed spending		11,431	12,269	13,005	13,785	14,612	15,489	16,418	17,403	18,447	19,554	20,727		
Increase over Baseline			838	1,574	2,354	3,181	4,058	4,987	5,972	7,016	8,123	9,296	12,004	47,399
Growth			7.3%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.3%	6.1%
NCI baseline		2,217	2,217	2,217	2,217	2,217	2,217	2,217	2,217	2,217	2,217	2,217		
NCI proposed spending		2,217	2,379	2,775	3,236	3,773	4,400	4,664	4,944	5,240	5,555	5,888		
Increase over Baseline			162	558	1,019	1,556	2,183	2,447	2,727	3,023	3,338	3,671	5,478	20,684
Growth			7.3%	16.6%	16.6%	16.6%	16.6%	6.0%	6.0%	6.0%	6.0%	6.0%	14.7%	10.3%

THE WHITE HOUSE
WASHINGTON

December 18, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: Bruce R. Lindsey 
Assistant to the President and
Deputy Counsel

RE: NIH Budget/~~T~~obacco Settlement

I understand that the Vice President and others are talking about using revenue from the tobacco "settlement" to double the NIH budget. In my opinion, such a proposal will kill the possibility of a legislative solution to the tobacco issue. As you know, the "settlement" as currently contemplated requires the industry to pay \$368.5 billion in exchange for settlement of the state and private lawsuits and limited liability protection for past conduct. In addition, the industry has agreed to voluntary advertising and marketing restrictions that could not be constitutionally imposed upon it. The tobacco industry will not support the level of funding needed to both settle the state and private lawsuits and provide the revenue needed to double NIH. Without the industry's support, additional revenue from the tobacco industry would have to come as additional excise taxes on cigarettes. I do not believe the votes are there to pass any additional excise taxes. In the end, you will have killed the tobacco deal without generating any additional revenue to fund the NIH budget -- a lose/lose proposition. We will have confirmed the Republicans' belief that we are more interested in tobacco as an election issue than in addressing the problem of youth smoking.

Finally, if you propose a doubling of the NIH budget without a realistic means of funding it, you will allow Congress to pick and choose among your budget priorities. Thus, they may decide to fully fund your NIH budget request at the expense of your educational programs.



**Executive Office of the President
Office of Management and Budget**

December 18, 1997

To: Bruce Reed, Elena Kagan

Fax: 6-2878 Phone: 6-6515
Pages (inc. cover): 4

From: Joshua Gotbaum
Executive Associate Director
OEOB Room 254
(202) 395-9188 Fax: (202) 395-3174

Revised Tobacco Scenarios



ALTERNATIVE TOBACCO REVENUE SCENARIOS

Revenues in billions current \$; per-pack equivalents in real & current \$

BASE CASE	1999	2000	2001	2002	2003	FY99-03
PER PACK RECEIPTS -- Real 1999\$	0.50	0.65	0.80	0.90	1.00	
Current \$	0.50	0.67	0.85	0.98	1.13	
TOTAL RECEIPTS (billions current \$)	8.1	10.0	12.2	13.4	15.0	59
Federal Research & Direct Funds	2.2	3.2	4.5	4.8	5.5	20
State Funds						
State Discretion	1.7	1.9	2.2	2.5	2.9	11
Federally Directed Portion	<u>2.3</u>	<u>2.6</u>	<u>2.9</u>	<u>3.3</u>	<u>3.8</u>	<u>15</u>
Total State Funds	4.0	4.5	5.0	5.8	6.8	26
Tobacco Settlement/Constituency Funds	<u>1.9</u>	<u>2.3</u>	<u>2.7</u>	<u>2.8</u>	<u>2.8</u>	<u>12</u>
Total Uses	<u>8.1</u>	<u>10.0</u>	<u>12.2</u>	<u>13.4</u>	<u>15.0</u>	<u>59</u>
 HIGHER REVENUE CASE						
PER PACK RECEIPTS -- Real 1999\$	0.62	0.78	0.94	1.10	1.25	
Current \$	0.62	0.80	1.00	1.20	1.41	
TOTAL RECEIPTS (billions current \$)	9.8	11.5	13.8	15.6	17.6	68
Federal Research & Direct Funds	3.6	4.2	5.4	6.3	6.7	26
State Funds						
State Discretion	1.7	1.9	2.2	2.5	2.9	11
Federally Directed Portion	<u>2.3</u>	<u>2.6</u>	<u>2.9</u>	<u>3.3</u>	<u>3.8</u>	<u>15</u>
Total State Funds	4.0	4.5	5.0	5.8	6.8	26
Tobacco Settlement/Constituency Funds	<u>2.2</u>	<u>2.9</u>	<u>3.4</u>	<u>3.5</u>	<u>4.2</u>	<u>16</u>
Total Uses	<u>9.8</u>	<u>11.5</u>	<u>13.8</u>	<u>15.6</u>	<u>17.6</u>	<u>68</u>
 TOTAL FEDERAL FUNDS COMPARED						
Total Federal -- Higher Revs Case	5.8	6.7	8.3	9.6	10.5	41
Total Federal -- Base Case	<u>4.5</u>	<u>5.8</u>	<u>7.4</u>	<u>8.1</u>	<u>9.3</u>	<u>35</u>
Difference	<u>1.3</u>	<u>1.0</u>	<u>0.9</u>	<u>1.5</u>	<u>1.2</u>	<u>6</u>

ALTERNATIVE TOBACCO REVENUE SCENARIOS

Revenues in billions current \$; per-pack equivalents in real & current \$

BASE CASE	1999	2000	2001	2002	2003	FY99-03
PER PACK RECEIPTS -- Real 1999\$	0.50	0.65	0.80	0.90	1.00	
Current \$	0.50	0.67	0.85	0.96	1.13	
TOTAL RECEIPTS (billions current \$)	8.1	10.0	12.2	13.4	15.0	59
Federal Research & Direct Funds	2.2	3.2	4.5	4.8	5.6	20
State Funds						
State Discretion	1.7	1.9	2.2	2.5	2.9	11
Federally Directed Portion	<u>2.3</u>	<u>2.6</u>	<u>2.9</u>	<u>3.3</u>	<u>3.8</u>	<u>15</u>
Total State Funds	4.0	4.6	5.0	5.8	6.8	26
Tobacco Settlement/Constituency Funds	<u>1.9</u>	<u>2.3</u>	<u>2.7</u>	<u>2.8</u>	<u>2.8</u>	<u>12</u>
Total Uses	<u>8.1</u>	<u>10.0</u>	<u>12.2</u>	<u>13.4</u>	<u>15.0</u>	<u>59</u>

IF PROPOSED SETTLEMENT USES WERE NOT UNDERTAKEN (EXCEPT LITIGATION CLAIMS)

PER PACK RECEIPTS -- Real 1999\$	0.50	0.65	0.80	0.90	1.00	
Current \$	0.50	0.67	0.85	0.96	1.13	
TOTAL RECEIPTS (billions current \$)	8.1	10.0	12.2	13.4	15.0	59
Federal Research & Direct Funds	4.1	5.1	6.4	6.8	7.6	30
State Funds						
State Discretion	1.7	1.9	2.2	2.5	2.9	11
Federally Directed Portion	<u>2.3</u>	<u>2.6</u>	<u>2.9</u>	<u>3.3</u>	<u>3.8</u>	<u>15</u>
Total State Funds	4.0	4.6	5.0	5.8	6.8	26
Tobacco Settlement/Constituency Funds	<u>0.0</u>	<u>0.4</u>	<u>0.8</u>	<u>0.8</u>	<u>0.8</u>	<u>3</u>
Total Uses	<u>9.8</u>	<u>11.5</u>	<u>13.8</u>	<u>15.6</u>	<u>17.6</u>	<u>68</u>

TOTAL FEDERAL FUNDS COMPARED

Total Federal -- Higher Revs Case	6.4	7.6	9.2	10.1	11.3	45
Total Federal -- Base Case	<u>4.5</u>	<u>5.8</u>	<u>7.4</u>	<u>8.1</u>	<u>9.3</u>	<u>35</u>
Difference	<u>1.9</u>	<u>1.9</u>	<u>1.9</u>	<u>2.0</u>	<u>2.0</u>	<u>10</u>

Settlement-Specified Uses + Other Non-Federal Constituency Spending

(BA -- \$ in Billions)

	1999	2000	2001	2002	2003	2008	Totals	Modified
							FY99-03	FY99-03
AS ORIGINALLY PROPOSED								
Public Health Trust Fund	2.50	2.5	3.5	4.0	5.0	0.0	17.5	0.0
HHS Research on Cessation	0.10	0.1	0.1	0.1	0.1	0.1	0.5	0.0
National Education/Media Campaign	0.50	0.5	0.5	0.5	0.5	0.5	2.5	2.3
State Programs/ASSIST	0.08	0.1	0.1	0.1	0.1	0.1	0.5	0.3
HHS Grants to Reduce Tobacco Use	0.13	0.2	0.2	0.2	0.2	0.2	1.0	0.0
Cessation Trust Fund	1.00	1.0	1.0	1.0	1.5	1.5	5.5	5.0
FDA Enforcement	0.30	0.3	0.3	0.3	0.3	0.3	1.5	1.3
Civil Suit Reimbursements		0.4	0.8	0.8	0.8	3.2	2.8	2.8
Payments to Sports Teams		0.1	0.1	0.1	0.1	0.1	0.3	0.0
Miscellaneous							0.0	-0.6
Subtotal: Specified Items	4.6	5.2	6.6	7.1	8.6	6.0	32.1	11.0
Subtotal excluding Research Fund	2.1	2.7	3.1	3.1	3.6	6.0	14.6	11.0
In Current \$	<u>2.1</u>	<u>2.8</u>	<u>3.3</u>	<u>3.4</u>	<u>4.1</u>	<u>7.9</u>	<u>15.6</u>	<u>11.7</u>
<i>International (Proposed Add)</i>	0.05	0.1	0.1	0.1	0.1	0.1	0.3	0.3
<i>Farmers (Proposed Add)</i>	<u>0.08</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.4</u>	<u>0.5</u>
Total Exc Trust Fund(Constant \$)	<u>2.2</u>	<u>2.8</u>	<u>3.2</u>	<u>3.2</u>	<u>3.8</u>	<u>6.2</u>	<u>15.3</u>	<u>11.7</u>
Total (Current \$)	<u>2.2</u>	<u>2.9</u>	<u>3.4</u>	<u>3.5</u>	<u>4.2</u>	<u>8.0</u>	<u>16.3</u>	<u>12.5</u>

**JOSHUA
GOTBAUM**

12/18/97 02:38:33 AM



Record Type: Non-Record

To: Bruce N. Reed/OPD/EOP, Jacob J. Lew/OMB/EOP

cc: Elena Kagan/OPD/EOP

Subject: URGENT Tobacco Revenue Scenarios in Your Fax

In your fax machines should be two pages of scenarios:

- Base Case -- 50c rising to \$1 real, using the level of settlement funds previously agreed -- compared to a Higher Revenue Case -- 62c rising to \$1.25 real, using everything proposed in the original settlement (except the Public Health Trust Fund, which we're replacing with the 21st Century Research Fund.
- Base Case compared to the Federal revenues that would be available if nothing specified in the agreement were implemented *except* the reimbursement of civil litigation claims.

Plus:

- Backup detail on the settlement uses, as originally specified and at a lower level (roughly what we have used in recent months).

I'll try to catch you in the morning. Thanks.

Another long business
to have challenges
rolled back.

They're getting kind of greedy.
I think it's getting to the
point of being counterproductive
esp when they take slots of e-care

USING TOBACCO REVENUES TO FUND VARIOUS INITIATIVES

Revenues in billions current \$; per-pack equivalents in real & current \$

BASE CASE

	1999	2000	2001	2002	2003	2008	FY99-03	FY99-08
PER PACK REVENUES -- Real 1999\$	0.50	0.65	0.80	0.90	1.00	1.25		
TOTAL REVENUES (billions current \$)	8.1	10.0	12.2	13.4	15.0	20.3	59	149
A Protecting State and Most Tobacco Settlement Funding, But Not Federal Research								
Federal Research & Direct Funds	2.2	3.2	4.5	4.8	5.5	6.5	20	48
State Funds								
State Discretion	1.7	1.9	2.2	2.5	2.9	3.4	11	28
Federally Directed Portion	2.3	2.6	2.9	3.3	3.8	4.6	15	38
Total State Funds	4.0	4.5	5.0	5.8	6.8	8.0	26	66
Tobacco Settlement/Constituency Funds	1.9	2.3	2.7	2.8	2.8	5.8	13	35
Total Uses -- Package A	8.1	10.0	12.2	13.4	15.0	20.3	59	149
B Protecting State and Federal Funding and Litigation Claims, But Not Other Settlement Items								
Federal Research & Direct Funds	4.1	5.1	6.4	6.8	7.5	9.1	30	70
State Funds								
State Discretion	1.7	1.9	2.2	2.5	2.9	3.4	11	28
Federally Directed Portion	2.3	2.6	2.9	3.3	3.8	4.6	15	38
Total State Funds	4.0	4.5	5.0	5.8	6.8	8.0	26	66
Tobacco Settlement/Constituency Funds	0.0	0.4	0.8	0.8	0.8	3.2	3	13
Total Uses -- Package B	8.1	10.0	12.2	13.4	15.0	20.3	59	149
Total Federal Funds Compared								
Federal Funds under Scenario A	4.5	5.7	7.3	8.1	9.3	11.1	35	86
Federal Funds under Scenario B	6.4	7.6	9.2	10.1	11.3	13.7	45	108

USING TOBACCO REVENUES TO FUND VARIOUS INITIATIVES

Revenues in billions current \$; per-pack equivalents in real & current \$

HIGHER REVENUE CASE

	1999	2000	2001	2002	2003	2008	FY99-03	FY99-08
PER PACK REVENUES -- Real 1999\$	0.62	0.78	0.94	1.10	1.25	1.50		
TOTAL REVENUES (billions current \$)	9.8	11.5	13.8	15.6	17.6	23.0	68	172
A Protecting State and Most Tobacco Settlement Funding, But Not Federal Research								
Federal Research & Direct Funds	3.9	4.7	6.1	7.1	8.1	9.2	30	71
State Funds								
State Discretion	1.7	1.9	2.2	2.5	2.9	3.4	11	28
Federally Directed Portion	<u>2.3</u>	<u>2.6</u>	<u>2.9</u>	<u>3.3</u>	<u>3.8</u>	<u>4.6</u>	<u>15</u>	<u>38</u>
Total State Funds	4.0	4.5	5.0	5.8	6.8	8.0	26	66
Tobacco Settlement/Constituency Funds	<u>1.9</u>	<u>2.3</u>	<u>2.7</u>	<u>2.8</u>	<u>2.8</u>	<u>5.8</u>	<u>13</u>	<u>35</u>
Total Uses -- Package A	<u>9.8</u>	<u>11.5</u>	<u>13.8</u>	<u>15.6</u>	<u>17.6</u>	<u>23.0</u>	<u>68</u>	<u>172</u>
B Protecting State and Federal Funding and Litigation Claims, But Not Other Settlement Items								
Federal Research & Direct Funds	5.8	6.6	8.0	9.1	10.1	11.8	40	93
State Funds								
State Discretion	1.7	1.9	2.2	2.5	2.9	3.4	11	28
Federally Directed Portion	<u>2.3</u>	<u>2.6</u>	<u>2.9</u>	<u>3.3</u>	<u>3.8</u>	<u>4.6</u>	<u>15</u>	<u>38</u>
Total State Funds	4.0	4.5	5.0	5.8	6.8	8.0	26	66
Tobacco Settlement/Constituency Funds	<u>0.0</u>	<u>0.4</u>	<u>0.8</u>	<u>0.8</u>	<u>0.8</u>	<u>3.2</u>	<u>3</u>	<u>13</u>
Total Uses -- Package B	<u>9.8</u>	<u>11.5</u>	<u>13.8</u>	<u>15.6</u>	<u>17.6</u>	<u>23.0</u>	<u>68</u>	<u>172</u>
Total Federal Funds Compared								
Federal Funds under Scenario A	6.2	7.3	9.0	10.3	11.9	13.7	45	109
Federal Funds under Scenario B	8.1	9.2	10.9	12.3	13.9	16.3	54	131

Settlement-Specified Uses + Other Non-Federal Constituency Spending

(BA -- \$ in Billions)

	How Paid?	1999	2000	2001	2002	2003	2008	FY99-03	FY99-08
Public Health Trust Fund	In Budget Research Funding							0.0	0.0
HHS Research on Cessation	In HHS							0.0	0.0
National Education/Media Campaign	In Settlement	0.5	0.5	0.5	0.6	0.6	0.7	2.7	5.9
State Programs/ASSIST	In State \$	0.1	0.1	0.1	0.1	0.1	0.1 #	0.5	1.0
HHS Grants to Reduce Tobacco Use	In State \$							0.0	0.0
Cessation Trust Fund	Reduce in Stmt	1.0	1.0	1.0	1.0	1.0	1.5	5.0	12.5
FDA Enforcement	Part in HHS	0.3	0.3	0.3	0.3	0.3	0.3	1.5	3.0
Civil Suit Reimbursements	In Settlement	0.0	0.4	0.8	0.8	0.8	3.2	2.8	12.8
Miscellaneous	In Settlement	0.5	0.5	0.5	0.5	0.5	0.5	2.5	5.0
International (Proposed Add)	New Proposal	0.1	0.1	0.1	0.1	0.1	0.2	0.5	1.5
Farmers (Proposed Add)	New Proposal	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>1.0</u>	<u>2.0</u>
Total		<u>1.9</u>	<u>2.3</u>	<u>2.7</u>	<u>2.8</u>	<u>2.8</u>	<u>5.8</u>	<u>12.5</u>	<u>35.2</u>

ID:

ALTERNATIVE TOBACCO REVENUE SCENARIOS

Revenues in billions current \$; per-pack equivalents in real & current \$

BASE CASE

	1999	2000	2001	2002	2003	FY99-03
PER PACK REVENUES -- Real 1999\$	0.50	0.65	0.80	0.90	1.00	
TOTAL REVENUES (billions current \$)	8.1	10.0	12.2	13.4	15.0	59
Federal Research & Direct Funds	2.2	3.2	4.5	4.8	5.5	20
State Funds						
State Discretion	1.7	1.9	2.2	2.5	2.9	11
Federally Directed Portion	<u>2.3</u>	<u>2.6</u>	<u>2.9</u>	<u>3.3</u>	<u>3.8</u>	<u>15</u>
Total State Funds	4.0	4.5	5.0	5.8	6.8	26
Tobacco Settlement/Constituency Funds	<u>1.9</u>	<u>2.3</u>	<u>2.7</u>	<u>2.8</u>	<u>2.8</u>	<u>13</u>
Total Uses	<u>8.1</u>	<u>10.0</u>	<u>12.2</u>	<u>13.4</u>	<u>15.0</u>	<u>59</u>

HIGHER REVENUE CASE

PER PACK REVENUES -- Real 1999\$	0.62	0.78	0.94	1.10	1.25	
TOTAL REVENUES (billions current \$)	9.8	11.5	13.8	15.6	17.6	68
Federal Research & Direct Funds	3.9	4.7	6.1	7.1	8.1	30
State Funds						
State Discretion	1.7	1.9	2.2	2.5	2.9	11
Federally Directed Portion	<u>2.3</u>	<u>2.6</u>	<u>2.9</u>	<u>3.3</u>	<u>3.8</u>	<u>15</u>
Total State Funds	4.0	4.5	5.0	5.8	6.8	26
Tobacco Settlement/Constituency Funds	<u>1.9</u>	<u>2.3</u>	<u>2.7</u>	<u>2.8</u>	<u>2.8</u>	<u>13</u>
Total Uses	<u>9.8</u>	<u>11.5</u>	<u>13.8</u>	<u>15.6</u>	<u>17.6</u>	<u>68</u>
Total Federal Funds Compared						
Total Federal Funds Base Case	4.5	5.7	7.3	8.1	9.3	35
Total Federal Funds Higher Revs Case	6.2	7.3	9.0	10.3	11.9	45

SHOWING THE EFFECT OF A REALLOCATION OF THE SETTLEMENT

Revenues in billions current \$; per-pack equivalents in real & current \$

BASE CASE

	1999	2000	2001	2002	2003	FY99-03
PER PACK REVENUES -- Real 1999\$	0.50	0.65	0.80	0.90	1.00	
TOTAL REVENUES (billions current \$)	8.1	10.0	12.2	13.4	15.0	59

A Protecting State and Most Tobacco Settlement Funding, But Not Federal Research

Federal Research & Direct Funds	2.2	3.2	4.5	4.8	5.5	20
State Funds						
State Discretion	1.7	1.9	2.2	2.5	2.9	11
Federally Directed Portion	<u>2.3</u>	<u>2.6</u>	<u>2.9</u>	<u>3.3</u>	<u>3.8</u>	<u>15</u>
Total State Funds	4.0	4.5	5.0	5.8	6.8	26
Tobacco Settlement/Constituency Funds	<u>1.9</u>	<u>2.3</u>	<u>2.7</u>	<u>2.8</u>	<u>2.8</u>	<u>13</u>
Total Uses -- Package A	<u>8.1</u>	<u>10.0</u>	<u>12.2</u>	<u>13.4</u>	<u>15.0</u>	<u>59</u>

B Eliminating All Settlement Claims except Litigation Claims

Federal Research & Direct Funds	4.1	5.1	6.4	6.8	7.5	30
State Funds						
State Discretion	1.7	1.9	2.2	2.5	2.9	11
Federally Directed Portion	<u>2.3</u>	<u>2.6</u>	<u>2.9</u>	<u>3.3</u>	<u>3.8</u>	<u>15</u>
Total State Funds	4.0	4.5	5.0	5.8	6.8	26
Tobacco Settlement/Constituency Funds	<u>0.0</u>	<u>0.4</u>	<u>0.8</u>	<u>0.8</u>	<u>0.8</u>	<u>3</u>
Total Uses -- Package B	<u>8.1</u>	<u>10.0</u>	<u>12.2</u>	<u>13.4</u>	<u>15.0</u>	<u>59</u>

Total Federal Funds Compared

Federal Funds under Scenario A	4.5	5.7	7.3	8.1	9.3	35
Federal Funds under Scenario B	6.4	7.6	9.2	10.1	11.3	45

Settlement-Specified Uses + Other Non-Federal Constituency Spending

(BA -- \$ in Billions)

	How Paid?	1999	2000	2001	2002	2003	2008	FY99-03	FY99-08
Public Health Trust Fund	In Budget Research Funding							0.0	0.0
HHS Research on Cessation	In HHS							0.0	0.0
National Education/Media Campaign	In Settlement	0.5	0.5	0.5	0.6	0.6	0.7	2.7	5.9
State Programs/ASSIST	In State \$	0.1	0.1	0.1	0.1	0.1	0.1 #	0.5	1.0
HHS Grants to Reduce Tobacco Use	In State \$							0.0	0.0
Cessation Trust Fund	Reduce in Stmt	1.0	1.0	1.0	1.0	1.0	1.5	5.0	12.5
FDA Enforcement	Part in HHS	0.3	0.3	0.3	0.3	0.3	0.3	1.5	3.0
Civil Suit Reimbursements	In Settlement	0.0	0.4	0.8	0.8	0.8	3.2	2.8	12.8
Miscellaneous	In Settlement	0.5	0.5	0.5	0.5	0.5	0.5	2.5	5.0
International (Proposed Add)	New Proposal	0.1	0.1	0.1	0.1	0.1	0.2	0.5	1.5
Farmers (Proposed Add)	New Proposal	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>1.0</u>	<u>2.0</u>
Total		<u>1.9</u>	<u>2.3</u>	<u>2.7</u>	<u>2.8</u>	<u>2.8</u>	<u>5.8</u>	<u>12.5</u>	<u>35.2</u>

Tobacco Revenue Scenarios

Attached are exhibits that assume:

- Tobacco receipts rising from 50¢ in 1999 to \$1.00 in 2003 to \$1.50 in 2008 in real 1999\$.
- Annual net payments to states are fixed at levels assumed by parties involved with the Settlement (rising from \$4b in 1999 to \$8b by 2004). (The settlement itself specifies no particular level of payment.)
 - No account has been taken of the possibility that (57% of) these funds could offset planned Federal efforts. Doing so could add \$15b (57% of \$26b) over 5 years and \$38b over 10 years. We have not taken into account that funds could be spent as the state portion of a federally matched program.
- Tobacco Settlement/Constituency Payments:
 - Some items are included, but any that arguably will be undertaken by the US government or states have been dropped (e.g., Public Health Trust Fund, cessation research) or reduced considerably (e.g., FDA enforcement, cessation trust fund).
 - Civil suit reimbursement included at the levels projected by parties involved in the negotiation (\$2.8b over 5 yrs; \$12.8b over 10).
 - Included limited funds for international efforts and payments to farmers (\$100m per year each, \$200m beginning 2004)

Scenario A: Protecting State & Most Settlement Funding, But Not Federal Research

- Under this scenario, \$27b would be available for Federal research and related activities in the first five years, \$74b over 10 years.

Scenario B: Protecting State & Most Federal Research, But Not Settlement Items (Except Litigation Claims)

- Under this scenario, \$32b would be available for Federal research and related activities in the first five years, \$83b over 10 years. The Federal share was estimated by assuming the Federal government receives first call after the state allocations and payment of civil lawsuit claims. The resulting Federal revenues would rise from \$4b in 1999 to \$12b in 2008.
- Settlement-related and constituency claims (e.g., farmers) would be reduced substantially.

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- Settlement-related and constituency claims (e.g., farmers) would be reduced substantially.

USING TOBACCO REVENUES TO FUND VARIOUS INITIATIVES

Revenues in billions current \$; per-pack equivalents in real & current \$

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	FY99-03	FY99-08
PER PACK REVENUES -- Real 1999\$	0.50	0.65	0.80	0.90	1.00	1.10	1.20	1.30	1.40	1.50		
-- Current \$	0.50	0.67	0.85	0.98	1.13	1.28	1.43	1.60	1.77	1.96		
TOTAL REVENUES (billions current \$)	8.1	10.0	12.2	13.4	15.0	16.6	18.1	19.7	21.3	23.0	59	157

A Protecting State and Most Tobacco Settlement Funding, But Not Federal Research

Research & Other Federal Funds	3.3	4.2	6.0	5.1	6.7	6.4	7.9	9.5	9.0	10.7	25	69
Annual Net Payments to States	4.0	4.5	4.5	6.5	6.5	8.0	8.0	8.0	8.0	8.0	26	66
Tobacco Settlement/Constituency Funds	<u>0.8</u>	<u>1.3</u>	<u>1.7</u>	<u>1.8</u>	<u>1.8</u>	<u>2.2</u>	<u>2.2</u>	<u>2.2</u>	<u>4.3</u>	<u>4.3</u>	<u>7</u>	<u>23</u>
Total Uses -- Package A	<u>8.1</u>	<u>10.0</u>	<u>12.2</u>	<u>13.4</u>	<u>15.0</u>	<u>16.6</u>	<u>18.1</u>	<u>19.7</u>	<u>21.3</u>	<u>23.0</u>	<u>59</u>	<u>157</u>

B Protecting State and Federal Funding, But Not Settlement Items (Except Litigation Claims)

Research & Other Federal Funds	4.1	5.1	6.9	6.1	7.7	7.4	8.9	10.5	10.1	11.8	30	79
Annual Net Payments to States	4.0	4.5	4.5	6.5	6.5	8.0	8.0	8.0	8.0	8.0	26	66
Tobacco Settlement/Constituency Funds	<u>0.0</u>	<u>0.4</u>	<u>0.8</u>	<u>0.8</u>	<u>0.8</u>	<u>1.2</u>	<u>1.2</u>	<u>1.2</u>	<u>3.2</u>	<u>3.2</u>	<u>3</u>	<u>13</u>
Total Uses -- Package B	<u>8.1</u>	<u>10.0</u>	<u>12.2</u>	<u>13.4</u>	<u>15.0</u>	<u>16.6</u>	<u>18.1</u>	<u>19.7</u>	<u>21.3</u>	<u>23.0</u>	<u>59</u>	<u>157</u>

Comparing Federal Funds to Potential Needs

Federal Funds under Scenario A	3.3	4.2	6.0	5.1	6.7	6.4	7.9	9.5	9.0	10.7	25	69
Federal Funds under Scenario B	4.1	5.1	6.9	6.1	7.7	7.4	8.9	10.5	10.1	11.8	30	79
Doubling NIH in 10 Years	1.0	2.0	3.1	4.3	5.6	7.0	8.5	10.1	11.8	13.6	16	67

Receipts net of other tax losses.

Settlement-Specified Uses + Other Non-Federal Constituency Spending

(BA -- \$ in Billions)

Maintain Settlement Claims If Unaddressed Elsewhere

	How Paid?	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	FY99-03	FY99-08
Public Health Trust Fund	In NIH											0.0	0.0
HHS Research on Cessation	In HHS											0.0	0.0
National Education/Media Campaign	In Settlement	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.7	2.7	5.9
State Programs/ASSIST	In State \$											0.0	0.0
HHS Grants to Reduce Tobacco Use	In State \$											0.0	0.0
Cessation Trust Fund	Reduce in Stmt	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.5	1.0
FDA Enforcement	Part in HHS	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	1.0	2.0
Payments to Tobacco-Sponsored Teams	In Settlement		0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.4	0.9
Civil Suit Reimbursements	In Settlement	0.0	0.4	0.8	0.8	0.8	1.2	1.2	1.2	3.2	3.2	2.8	12.8
Miscellaneous	In Settlement	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	2.5	5.0
International (Proposed Add)	New Proposal	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.5	1.5
Farmers (Proposed Add)	New Proposal	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.5</u>	<u>1.5</u>
Total		<u>0.8</u>	<u>1.3</u>	<u>1.7</u>	<u>1.8</u>	<u>1.8</u>	<u>2.2</u>	<u>2.2</u>	<u>2.2</u>	<u>4.3</u>	<u>4.3</u>	<u>7.4</u>	<u>22.6</u>

INCREMENTAL TOBACCO REVENUES REQUIRED FOR VARIOUS INITIATIVES

Revenues in billions (current \$); per-pack equivalents in current \$

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	FY99-03	FY99-08
Increment to Double NIH's Budget in 10 Yrs.	1.0	2.0	3.1	4.3	5.6	7.0	8.5	10.1	11.8	13.6	16.1	67.1
Additional Funds	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	25.0	50.0
Annual Net Payments to States	4.0	4.5	4.5	6.5	6.5	8.0	8.0	8.0	8.0	8.0	28.0	66.0
Tobacco Settlement Base Spending	2.5	3.1	3.6	3.8	4.4	5.0	5.0	5.1	7.3	7.3	17.4	47.1
TOTAL REVENUES (\$in billions)	12.5	14.6	16.2	19.6	21.5	25.0	26.6	28.2	32.1	33.9	84.6	230.2
<i>Per Pack Equivalent</i>	<i>0.84</i>	<i>1.08</i>	<i>1.24</i>	<i>1.68</i>	<i>1.92</i>	<i>2.50</i>	<i>2.74</i>	<i>3.05</i>	<i>4.80</i>	<i>5.25</i>		

Standard scoring method. Includes offset for losses in other taxes

Package A: Detail on Tobacco Settlement's Specified Base Spending

(BA -- \$ in Billions)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	FY99-03	FY99-08
Public Health Trust Fund	0	0	0	0	0	0	0	0	0	0	0	0
HHS Research on Cessation	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.5	1
National Education/Media Campaign	0.6	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.7	2.7	5.9
State Programs/ASSIST	0	0	0	0	0	0	0	0	0	0	0	0
HHS Grants to Reduce Tobacco Use	0.1	0.1	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.9	2.4
Cessation Trust Fund	1	1.1	1.1	1.1	1.7	1.8	1.8	1.9	2	2	6	15.5
FDA Enforcement	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	1.5	3.5
Payments to Tobacco-Sponsored Teams	0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.4	0.9
Other (Includes Civil Suits)	0.5	0.9	1.4	1.3	1.3	1.7	1.7	1.7	3.7	3.7	5.4	17.9
International	0	0	0	0	0	0	0	0	0	0	0	0
Farmers	0	0	0	0	0	0	0	0	0	0	0	0
Total	2.5	3.1	3.6	3.8	4.4	5	5	5.1	7.3	7.3	17.4	47.1

INCREMENTAL TOBACCO REVENUES REQUIRED FOR VARIOUS INITIATIVES

REDUCED ADDITIONAL FUNDS

Revenues in billions (current \$); per-pack equivalents in current \$

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	FY99-03	FY99-08
Increment to Double NIH's Budget in 10 Yrs.	1.0	2.0	3.1	4.3	5.6	7.0	8.5	10.1	11.8	13.6	16.1	67.1
Additional Funds	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	12.5	25.0
Annual Net Payments to States	4.0	4.5	4.5	6.5	6.5	8.0	8.0	8.0	8.0	8.0	26.0	66.0
Tobacco Settlement Base Spending	2.5	3.1	3.6	3.8	4.4	5.0	5.0	5.1	7.3	7.3	17.4	47.1
TOTAL REVENUES (\$ in billions)	10.0	12.1	13.7	17.1	19.0	22.5	24.0	25.7	29.6	31.4	72.0	205.2
<i>Per Pack Equivalent</i>	<i>0.64</i>	<i>0.85</i>	<i>0.99</i>	<i>1.36</i>	<i>1.58</i>	<i>2.05</i>	<i>2.25</i>	<i>2.49</i>	<i>3.31</i>	<i>3.72</i>		

Standard scoring method. Includes offset for losses in other taxes

**FUNDING NIH AND DISCRETIONARY PRESIDENTIAL INITIATIVES
FROM THE TOBACCO SETTLEMENT**
(in billions of dollars)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>1999- 2003</u>
SPENDING							
NIH:							
Passback.....	13.6	13.6	13.6	13.6	13.6	13.6	68.0
Double funding over 10 years.....	-----	1.0	1.9	2.9	4.1	5.4	15.3
Presidential Initiatives.....	-----	<u>5.0</u>	<u>5.0</u>	<u>5.0</u>	<u>5.0</u>	<u>5.0</u>	<u>25.0</u>
Total.....	13.6	19.6	20.5	21.5	22.7	24.0	108.3
FUNDING							
Existing taxes:							
Alcohol.....	7.1	7.1	7.2	7.1	7.1	7.0	35.5
Tobacco:							
Dollars.....	5.7	5.7	7.5	8.0	8.4	8.7	38.3
Equivalent to cents per pack.....	0.24	0.24	0.34	0.34	0.39	0.39	-----
Proceeds from tobacco settlement:							
For NIH:							
Dollars.....	-----	2.2	1.8	1.8	1.6	3.1	10.5
Equivalent to cents per pack.....	-----	0.12	0.12	0.12	0.12	0.20	-----
For Presidential Initiatives:							
Dollars.....	-----	5.0	5.0	5.0	5.0	5.0	25.0
Equivalent to cents per pack.....	-----	<u>0.33</u>	<u>0.34</u>	<u>0.34</u>	<u>0.34</u>	<u>0.38</u>	-----
Totals:							
Dollars.....	5.7	12.9	14.3	14.8	15	16.8	73.8
Equivalent to cents per pack.....	0.24	0.69	0.80	0.80	0.85	0.97	-----

.45-.58 from tobacco

NIH as capped mandatory

TOBACCO INDUSTRY PAYMENT OPTIONS

If Youth Targets Not Met With Minimal Deterrence		Proposed AG Settlement	Tougher Youth Surcharge	Restore Promised Revenues	\$1.50 Per Pack
	<i>Baseline</i>				
Average Payment per Pack in 2003 (96\$).....		0.64	0.79	1.00	1.50
Average Price per Pack in 2003 (96\$).....	1.93	2.57	2.72	2.93	3.43
Millions of Smokers in 2003.....	51.5	46.3	45.2	43.6	40.3
Gross Payments over 25 Years (98\$):					
Base Payments.....		\$369	\$369	\$620	\$943
Youth Penalty.....		32	303	31	19
Total.....		400	671	651	962
Total (25 Yrs) in Net Present Value.....		208	382	331	483
Total (25 Yrs) in Current Dollars.....		518	866	730	967
Available Revenues Over 25 years:					
Gross Payments.....		518	866	730	967
Settlement Adjustments.....		-148	-91	-91	-91
Net Payment.....		370	775	639	876
Losses of Other Tax Revenues.....		-116	-240	-198	-272
Net Revenues Available.....		254	535	441	604
Available Revenues in 2003:					
Gross Payment (98\$).....		17	17	20	27
Gross Payment, current dollars.....		19	20	24	31
Settlement Adjustments.....		-4	-1	-1	-1
Net Payment.....		16	19	23	30
Losses of Other Tax Revenues.....		-5	-6	-7	-10
Net Revenues Available.....		11	13	15	20
Uses Already Specified by AGs/States.....		11	11	10	11

Dollars in billions, except per pack.