

**NLWJC - Kagan**

**DPC - Box 052 - Folder-012**

**Tobacco-Settlement:**

**Program/Funds Group**

**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>
<b><u>SPENDING</u></b>							
NIH:							
Passback.....	13.6	13.6	13.6	13.6	13.6	13.6	68
Double funding over 10 years.....	-----	1.0	1.9	2.9	4.1	5.4	15.3
Presidential Initiatives.....	-----	5.0	5.0	5.0	5.0	5.0	25.0
Total.....	13.6	19.6	20.5	21.5	22.7	24.0	108.3
<b><u>FUNDING</u></b>							
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.....	-----	0.33	0.34	0.34	0.34	0.38	-----
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	-----

40m

35.5

1995 - 454  
2003 - 584

Tobacco - Settlement - pro programs / funds

Tobacco - settlement - pro program/funds

## ALTERNATIVE TOBACCO SETTLEMENTS -- SUMMARY

(Dollar amounts in billions)

09/11/97  
12:58 PM

	Baseline	AG Settlement	Inflate At Health Inflation*	Restore Gov't Share*	Double Price Increase*
<b>Youth Targets Met:</b>					
Average Price per Pack in 2003 1/.....	1.93 (15%)	2.47-	2.52	2.66	3.01
Increase in Price per Pack in 2003 1/.		0.54	0.60	0.73	1.08
Millions of Smokers in 2003.....	51.5	46.3	46.0	45.1	42.9
<b>Payments and Revenues in 2003:</b>					
Gross Industry Payments.....			18	18	25
Net Industry Payments.....			14	17	24
Net Federal Revenues.....			10	12	16
<b>Net Federal Revenues, Cumulative:</b>					
Five Year Total (1998-2003).....		43	45	53	72
Ten Year Total (1998-2008).....		86	93	110	155
25-Year Total (1998-2023).....		234	291	316	463

*Handwritten notes:*  
 15 + 11 flat  
 Volume  
 17  
 civil liabilities  
 13  
 Federal  
 25% +  
 Excise  
 (12b.)

Note: all scenarios assume repeal of the TRA97 excise tax credit.  
 1/ In constant 1996 dollars. Includes BBA97 excise tax increase.  
 \* Volume adjustment eliminated.

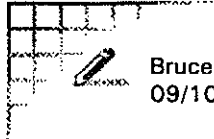
OPTION 1 = Fix  
Look back

2 = Fix Base

w/  
w/o <sup>fixed</sup> lookback

3 = Big \$11.50

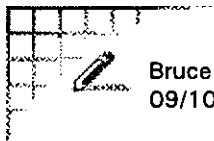
Tobacco - settlement -  
programs/funding

 Bruce N. Reed  
09/10/97 02:43:29 AM

Record Type: Record

To: Elena Kagan/OPD/EOP  
cc:  
Subject: Budget #'s

----- Forwarded by Bruce N. Reed/OPD/EOP on 09/10/97 02:43 AM -----

 Bruce N. Reed  
09/10/97 02:43:13 AM

Record Type: Record

To: Christopher C. Jennings/OPD/EOP  
cc:  
Subject: Budget #'s

Thanks for your options memo -- it has all the right info we needed. If everyone around here were as persistent and precise as you, we would have finished this a long time ago.

I think we might be able to make the moderate option more attractive by including a whopping lookback provision, that would raise \$4 billion or more per year for the kind of goodies you currently describe in option 3. I would prefer the 3rd option to just be raising the upfront payment to \$30 billion and indexing to GDP.

Can you send me a 25-yr # for upfront payment plus indexing to GDP (not including enhanced lookbacks)?

Let's talk in the morning. Thanks again.

**DRAFT**

Tobacco - settlement -  
programs/funds

## BUDGET / INVESTMENT ISSUES IN THE TOBACCO SETTLEMENT

### OVERVIEW OF THE SETTLEMENT

- **Industry payments:** The Tobacco Settlement would specify in legislation that the tobacco industry pay \$368 billion over 25 years -- \$69 billion over 5 years and \$144 billion over 10 years. These amounts, over time, would be adjusted for four factors:
  - **Volume adjustment:** Payments would be reduced if adult tobacco sales volume falls. OMB assumes that sales volume would fall and reduce payments by \$9 billion over 5 years, \$78 billion over 25 years.
  - **Civil liabilities:** Payments would be reduced by up to 33 percent of industry payments for awards for civil liabilities allowed under the Settlement. This would reduce payments by \$4 billion over 5 years, \$72 billion over 25 years.
  - **Inflation adjustment:** Payments would be increased for general inflation by \$4 billion over 5 years, \$97 billion over 25 years.
  - **Youth look-back surcharge:** Additional payments would be collected if there is not a targeted decline in the proportion of youths who smoke. OMB assumes that the targets will not be met. Therefore, \$3 billion over 5 years and \$50 billion over 10 years would be raised.

- **Other issues affecting availability of funds:**

- **Balanced Budget Act provision:** A last-minute provision would subtract from any Settlement payments the revenue from the budget's tobacco tax increase. OMB estimates the gross revenue from this tax at \$10 billion over 5 years, \$63 billion over 25 years.
- **Federal budget offsets:** One effect not considered by the Settlement negotiators is budget treatment of industry payments. OMB assumes that 25 percent of Federal revenues would be lost because of indirect effects such as the loss of income tax for displaced workers (CBO makes the same adjustment). This could reduce revenue by over \$76 billion over 25 years.

Summary of Tobacco Settlement Funds (billions)		
	<u>5 Yrs</u>	<u>25 Yrs</u>
<b>Sources:</b>		
Industry payments:	69	368
Volume adjustment:	-8	-72
Civil liabilities:	-3	-60
Inflation adjustment:	5	110
Youth look-back:	3	53
BBA provision:	-11	-73
25% Offset:	-14	-82
<b>Subtotal:</b>	<b>39</b>	<b>244</b>
<b>Uses:</b>		
Research:	19	29
Cessation/Education:	22	141
Look-back: States & FDA:	3	53
Health Investments:	0	21*
<b>Subtotal:</b>	<b>44</b>	<b>244</b>
•Federal Share:	0	12
Effect on the deficit:	+5	0

**Recommended Uses of Funds:** In addition to specifying industry payments, the Settlement outlines uses for these funds:

- **Research:** A Public Health Trust Fund would be created to fund a range of tobacco-related research from clinic studies to community-based surveys, guided by a Presidentially appointed board. To secure stable, long-term funding, these payments could be invested rather than directly spent; interest and income would fund an annual research budget of \$1 to 3 billion.
- **Cessation / education:** A series of Federal, state, local and private efforts to prevent smoking and help those who want to quit would be funded. Today, only about \$45 million is spent on related activities; the Settlement would increase this amount by at least ten-fold.
- **Look-back surcharge spending:** The Settlement explicitly directs that 90 percent of any revenue from the look-back would go to states and 10 percent to the FDA.
- **Health investments:** Any remaining fund would be available for health investments. Unfortunately, under OMB assumptions, there are no available funds until 2007.

**Issues about health investments:** On the whole, the Settlement's recommended spending fills critical gaps in the public health system. However, because the amount of residual funding is projected to be zero (not the \$4 billion per year that the negotiators initially indicated would be available), there may be pressure to increase the Settlement to ensure that there is funding for priority health investments.

- **Amount available for health investments:** The amount available for health priorities could be increased by either reallocating money from other types of spending in the Settlement or by increasing the overall amount of the Settlement payments.
- **Decisions about allocation of funds:** If the Settlement funds were either reallocated or increased, a central question is: who decides the use of the unallocated funds? We assume that the Federal government would retain 57 percent of any unallocated funds -- its average share of Medicaid costs. However, since some recent court cases are claiming non-Medicaid state spending, this may be challenged. It is also not clear what role Congress will play in these decisions.

The following three options illustrate types of health investments that could be made with varying levels of resources. It also discusses both the policy and political pros and cons of each.

## OPTION 1: NO CHANGE IN SETTLEMENT

### Amount of Funds Available for Health Investments:

- OMB estimates that, after accounting for adjustments, offsets, and recommended spending, there would be no additional funds available for Federal health investments. In fact, if the research, education and cessation recommendations were enacted, total spending would exceed the projected incoming revenues, thus actually increasing the deficit. Therefore, contrary to the suggestions that the Settlement would produce about \$4 billion annually, there would be no ability to fund possible priority health investments.

### Options for Uses of Residual Funds:

- **None**

### Discussion:

- The advantages include:
  - **Requires no adjustment to the Settlement** This would validate that there are many positive attributes to the Settlement, including important investments in research, cessation and education programs as well as improved regulation of tobacco, that are not worth risking by changing the underlying Settlement.
  - **Key parties in the Settlement who signed onto the Settlement could be expected to support this option:** (the tobacco industry and possibly the attorneys general)
  - **Allows us to spend capital on making changes in other important parts of the Settlement:** Rather than engaging in a difficult fight over additional dollars that the tobacco industry claims that they do not have, the Administration can focus on other concerns such as industry document disclosure.
- The disadvantages include:
  - **Public and elite reaction would be highly skeptical:** The industry's non-opposition or support would undermine the public's receptivity to any Settlement.
  - **Plays into perception that the industry is not contributing enough::** The media and many of the outside validators consistently claim that the Settlement funds are insufficient to significantly decrease consumption and to penalize the industry. Moreover, expectations have risen about the availability of funds for important health investments.



## OPTION 2: MODERATE CHANGES TO THE SETTLEMENT

### Amount of Funds Available for Health Investments:

- Funding could be increased by modifying some of the recommendations in the Settlement. Specifically, it is assumed that the tobacco tax revenue from the BBA would be restored and the penalties on the look-back surcharge would be doubled if the smoking reduction goals are not met, with its revenues split 50/50 between the states and the Federal government. It also is assumed that the industry would offset losses to tobacco farmers outside of the Settlement (e.g., purchasing agreements with farmers).

### Options for Additional Investments:

- Double tobacco-related illness research (\$1.3 billion per year):** We now spend about \$1.3 billion on tobacco-related research. This would add explicit funding for cutting-edge, biomedical research on tobacco-related illness.

Option 2. Minor Changes in Settlement (\$ billions)			
	<u>1 Yr</u>	<u>5 Yrs</u>	<u>10 Yrs</u>
<b>Residual funds:</b>			
Settlement:	1.5-2	14	36
Additional:			
<u>Subtotal:</u>			
<b>Uses:</b>			
Research Supplement:	1-2	11	26
Public Health Initiative:	0.2-0.4	1-2	5-10
<u>Subtotal:</u>	<u>2-3</u>	<u>18</u>	<u>44</u>

- Increase tobacco surveillance research:** A nationwide monitoring and tracking systems for tobacco use and related illnesses is essential to ensure that the Settlement is enforced and that we can monitor consumption patterns. Public policy experts think that investments in this area are critically important to secure compliance with the Settlement.
- Public health initiatives (\$200-400 million per year):** The residual funds would be sufficient for key public health programs but not enough for larger initiatives that the public health community would advocate. High priority investments that we could afford include:
  - Children's public health:** This would complement the children's health initiative and the zero-to-three focus with programs such as tobacco prevention in school-based clinics (expand CDC's school-based health programs) and expanded community-health center and Healthy Start programs to provide prenatal care.
  - Tobacco-related problems:** This would address tobacco-related problems through: (1) national media campaigns and grants to community-based coalitions to disseminate state-of-the-art prevention and treatment methods for cardiovascular disease and cancer; and (2) expanding substance abuse programs since smokers are 8 times more likely to use illicit substances.

## Discussion:

- The advantages include:
  - **The public and public health community would be more supportive.** Modifications to the Settlement that likely attracts opposition from the tobacco industry increases public support.
  - **Major increases in research and public health:** Combined with the other elements of the Settlement, these enhanced investments would make a significant difference in the successful implementation of any Settlement.
- The disadvantages include:
  - **Any change to underlying Settlement risks tobacco industry support:** This is especially true if we are also advocating major changes in the other parts of the Settlement.
  - **Advocates will think that modifications are not sufficient:** Because the residual investment is \$1.5 to 2 billion per year, many advocates will conclude that this is less than what they minimally expected would be available.
  - **Still not a major increase in price of tobacco:** Experts will claim that the likely increase in tobacco prices will be insufficient to deter an adequate number of young smokers.

## OPTION 3: MAJOR CHANGES TO THE SETTLEMENT

### Amount of Funds Available for Health Investments:

- In addition to the changes described above, this option would include the Treasury Department's recommendations to: (1) triple the up-front payment, from \$10 billion to \$30 billion; (2) index the inflation adjuster to GDP (since it is more in line with medical cost growth), and (3) would triple the youth look-back surcharge and allow 50 percent of it to be used for health investments.
- This both increases the funds and allows it sustained growth over time.

**Options for Additional Investments:** Under this recommendation, there is an additional \$3 to \$4 billion per year to invest over and above the initiatives included in Option 2. Provided is a wide range of options from which the \$4 billion supplement can be invested.

- **Coverage expansion:** Investments in coverage would allow you to continue your incremental, targeted approach to decreasing the number of people without insurance. They also address groups who could defensibly be described as having been disproportionately harmed by tobacco.

<b>Option 3. Major Changes in Settlement (\$ billions)</b>			
	<u>1 Yr</u>	<u>5 Yrs</u>	<u>10 Yrs</u>
<b>Residual funds:</b>			
Settlement:	3-4	22	58
Additional:			
<u>Subtotal:</u>			
<b>Uses:</b>			
Research supplement:	1-2	11	26
Public health initiative:	0.2-0.4	1-2	5-10
<b>Other:</b>			
Coverage options:	0.5-4	3-11	14-55
Child care:			
Teaching fund:			
Congress set-aside:	0.5		
<u>Subtotal:</u>	<u>3-4</u>	<u>22</u>	<u>58</u>

- **Pre-Medicare buy-in (\$2-4 billion per year):** This policy would allow people between ages 55 and 65 to buy into Medicare with some type of capped premium assistance. Many long-term smokers have contracted tobacco-related illnesses that make them uninsurable in the private marketplace.
- **Workers changing jobs (\$2-3 billion per year):** The Kassebaum-Kennedy bill assured access to insurance for people with pre-existing conditions if they changed jobs. Although accessible, this insurance often remains unaffordable for people with tobacco-related illnesses, who smoke, or who have other health problems. This provision would provide temporary premium assistance for families losing insurance due to job transitions. Job change is the most common reason why people lose health insurance. This group is also least likely to buy out private coverage, since they have lost their employer contribution.
- **Medicaid outreach for children (\$500 million to \$1 billion):** States would receive a higher Medicaid matching rate for enroll uninsured children eligible for Medicaid. This initiative is consistent with the Settlement negotiators' original intent: that unspecified funds be used for children's health insurance.
- **Other options:** One or a combination of the following options could also be funded through the Settlement.
  - **21st Century Research Trust Fund (\$1 to 3 billion per year):** In addition to the significant increase in research funding for tobacco-related research, a research trust fund could be established to embody a new and unprecedented financial commitment to biomedical research and the infrastructure necessary to support it.

- **Child care (\$500 million to \$1 billion per year):** Consistent with the theme of investments in children, this could fund some or all of a number of initiatives such as a quality incentive fund that gives states money if they meet standards for quality child care (e.g., training for child care providers); adjustments to the dependent care tax credit; additional funding for child care subsidies to families; tax credits for business that build or operate child care centers; and investments in after-school programs.
- **Medical education fund for doctors training in children's hospitals (\$300 million per year):** Although Medicare provides funding for the costs associated with the training of physicians who serve Medicare beneficiaries, the Federal government does not provide any funds for teaching facilities who train physicians serving children. The decline in private and Medicaid support for children's hospitals (increased reliance on managed care and cuts in DSH payments) have placed these hospitals at a financial disadvantage.
- **Congressional set-aside (\$500 million per year):** Congress must pass any Settlement. To ensure its support, it may make sense to set aside a certain dollar amount or proportion of the Settlement for Congressional priorities.
- **Offsetting losses in tobacco tax revenues (\$2 billion per year):** OMB suggests that the Settlement will reduce both Federal and state tobacco excise tax revenue. Although these effects would not be scored against the Settlement, they recommend decreasing spending to offset these possible losses.

**Discussion:**

- The advantages include:
  - **More likely to decrease tobacco use:** A larger up-front payment and an improved youth look-back will produce much higher prices for tobacco that will, in turn, decrease consumption, particularly among children.
  - **Broadens support from Democratic base and likely Settlement validators:** The public health community, including Koop and Kessler, is strongly advocating for at least a \$1.50 per pack increase from the Settlement, more than double the original Settlement. While not increasing the payments to this extent, it is most consistent with their position. In addition, the new health investments would attract a much larger, visible, and more influential constituency.
  - **Option adds to record on health coverage:** One potential legacy of this Administration is that fewer Americans will be uninsured in 2000. Any coverage option could build on the Administration's record.

- The disadvantages include:
  - **A large change in the Settlement may not be politically viable:** Changes of this magnitude may well draw such opposition that it cannot pass the Congress.
  - **Charges of new entitlement:** Although all options could be designed to be capped, mandatory programs, any major new initiative is likely to be cast as a new, open-ended entitlement.
  - **Connection to tobacco may be weak:** Coverage expansions are harder to link explicitly to tobacco.

## SUMMARY OF TOBACCO SETTLEMENT SPENDING PROPOSALS

Spending Category	State AG Proposals	Current Federal Efforts	Other Proposals	Comment
<b>Research</b>	New \$25B research "trust fund" (\$4.8B in '03.)	HHS FY97 funds: \$142M on "smoking & health" and \$1.3B on diseases frequently linked to smoking (e.g. lung cancer, stroke..)	Increase HHS tobacco-related research by \$1.3B a year -- more than double current efforts.	Much high-quality research could be funded within \$1.3B a year of new funds.
<b>Prevention/ Education</b>	New national anti-smoking ad campaign (\$600M in '03), increase funding for HHS state-based programs (\$100M in '03) and create new "Reduced Use" states grants (\$300M in '03).	HHS FY97 funds: 2 state-based prevention programs (\$30M) and school-based tobacco prevention activities (\$15M).	Moderate settlement funding. Consolidate funds for state-based and "Reduced Use" grants into one grant program. Target funds for school-based smoking prevention activities, not explicit in settlement.	Studies show prev/ed programs can reduce smoking, but not as well as tobacco price increases. Efforts should be aimed at youth since most smokers begin while teenagers. State grant programs proposed may be duplicative.
<b>Cessation</b>	New national cessation fund (\$1.7B in '03) to finance cessation counseling and services for all smokers trying to quit.	No specific Federal program. Cessation services are optional Medicaid benefit which some states already offer.	\$300M a year for cessation-related activities, but not create national fund. Smokers pay for over-the-counter nicotine NRT which costs about the same as smoking. Encourage private plans with quality measures, technical assistance and education to offer cessation services. Finance cessation services for uninsured/poor through CHCs and low-income pregnant women with "Healthy Start" grants.	More cost-effective to prevent smoking than to help quit after addiction. Formal cessation programs have low success and uptake rates, especially among youth. \$1B a year fund would likely fund services for most who would quit using own resources and discourage private plans from offering coverage for services.

Tobacco - settlement - programs/funds

Spending Category	State AG Proposals	Current Federal Efforts	Other Proposals	Comment
<b>Enforcement</b>	\$300M a year for FDA and states to enforce minor access provisions, including vendor licensing (similar to alcohol).	HHS FY97 funds: \$16M on enforcement. Budget increases to \$45M in FY98.	\$100M a year assuming aggressive enforcement, but no licensing requirements.	Aggressive enforcement activities in some states have contributed to lowering teen smoking rates.
<b>Compensation</b>	Up to 33% of base annual payments available for judgements and settlements of civil liability cases. If 33% cap is not reached, Presidential Commission allocates surplus amount.	n/a	Separate from payments for individual compensation, settlement funds could be used to: (1) compensate state for their loses of tobacco excise tax as a result of higher cigarette prices (\$1B in 2003) and/or (2) compensate tobacco farmers (\$80M in FY 2003). *	Not clear whether 33% of base payments is appropriate set-aside for this purpose or whether full amount would actually be spent. Also a very large sum that could use up much of net revenues.

\* Any civil liabilities allowed under the settlement will also be included in the amount of the compensation.

*September 11, 1997*

**Proposed and Alternative Tobacco Settlement in 2003**  
**(Assumes Repeal of \$50B BBA Tax Credit and Youth Targets Are Met)**  
(Current \$ in Billions)

**DRAFT**

<b>Part I. Payments and Revenues Assumed in Base Settlement</b>	<b>FY 2003</b>	
Net Industry Payments	13.3	
Total Net Federal Revenues	9	
<b>Part II. Spending Assumed in Base Settlement</b>	<b>Settlement</b>	<b>Illustrative Alternative Option</b>
	<b>FY 2003</b>	<b>FY 2003</b>
<b>Research</b>		
Public Health Trust Fund	4.7	1.3
Federal Research to Discourage Tobacco Use	0.1	0.0
Sub-Total Research	4.8	1.3
<b>Prevention/Education</b>		
HHS "Reduced Use" Grants to States	0.3	0
Grants to States for Assist-type Programs	0.1	0.2
National Anti-Smoking Ad Campaign	0.6	0.3
Sub-Total Prevention/Education	1	0.5
<b>Cessation</b>		
National Fund for Cessation Services	1.7	0.3
<b>Enforcement</b>		
FDA Enforcement and Grants to States	0.3	0.1
<b>Miscellaneous</b>		
Payments to Tobacco-Sponsored Teams/Events	0.1	0
International Programs	0	0.1
Spending of Look-Back Surcharge (90% for State Grants)	0	0
State Excise Tax Offset	0	1.5
Offsets to Federal-Matched State Programs	0	•
Tobacco Farmer Compensation	0	0.08
Spending of Unused Civil Suit Credit for New Initiatives	2.2	2.2
<b>Total Specified Spending</b>	<b>10</b>	<b>6.1</b>
<b>New Initiatives</b>	<b>0</b>	<b>2.9</b>
(Unspecified Residual, Federal Share -- non-add)	(0)	(2)
<b>Total Spending (Specified + New Initiatives)</b>	<b>10.2</b>	<b>9</b>



**DRAFT SPENDING OPTIONS FOR THE TOBACCO SETTLEMENT**

OPTION	COST/YR (\$ billions)	RATIONALE & LINK TO TOBACCO
<b>RESEARCH</b>		
Double Tobacco-Related Research	1.3	Contributes to finding treatments and cures for tobacco-related illnesses. Supplements the significant increase in base package.
21st Century Trust Fund	2 to 3	Builds overall research infrastructure and funds a broad range of biomedical research.
<b>PUBLIC HEALTH</b>		
Children's public health	0.2 to 0.4	Complements the Settlement's and the Administration's focus on children with programs like school-based health education & expanded prenatal care through Health Start or CHCs.
Tobacco-related illness initiatives	0.2 to 0.4	Funds prevention programs for tobacco-related illnesses like cardiovascular disease and cancer; or expand substance abuse programs since it is linked with tobacco use.
<b>COVERAGE</b>		
Pre-Medicare Buy-In	2 to 4 or more	Allows groups of people under age 65 to buy into Medicare since long-term smokers usually face barriers to buying insurance and are more likely to have illnesses that make them uninsurable.
Workers Changing Jobs	2 to 3	Makes insurance affordable as well as accessible through premium assistance. Job change is the most common reason why people lose health coverage.
Medicaid Children's Outreach	0.5 to 1	Gives states a higher Medicaid matching rate for enrolling uninsured children already eligible. Consistent with the Settlement intent to fund children's health coverage.
<b>OTHER</b>		
Farmers' Compensation	0 0.1 to 0.2	<u>No-cost option:</u> Tobacco industry agrees to purchasing minimums from domestic farmers. <u>Cost option:</u> Subsidizes farmers and communities to offset losses due to lower consumption.
International tobacco programs	0.05 to 0.1	Doubles World Health Organization tobacco control efforts.
FDA enforcement	0.1	Supplement funds in the Settlement to improve FDA efforts.
Child care initiatives	0.5 to 2	Complements the Settlement's and the Administration's focus on children through potential initiatives in the child care area (not yet specified).
Congressional set-aside	?	Sets aside a certain amount of funding for Congressional priorities, which could improve the likelihood of passage.
Budget offsets	2 to 5	Offsets the potential reductions in Federal & state tobacco tax revenue & possible increases in Medicaid costs.

*Shuts off 21st C. Trust Fund*  
*Linked to tobacco-related*  
*21st C. Trust Fund*  
*Children's Coverage Account Fund*

**SUMMARY OF BUDGETARY EFFECTS OF PROPOSED SETTLEMENT  
BASE SCENARIO WITH BBA CREDIT REPEALED AND YOUTH TARGETS MET**

09/11/97

05:37 PM

(In billions of dollars)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>98-03</u>	<u>98-08</u>	<u>98-23</u>	
<b>RECEIPTS</b>															
Base Payment (inc. trust and up-front payment).....	10	9	10	12	14	15	15	15	15	15	15	69	144	369	
Payments to Recoup Excise Tax Credit and/or Losses....	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Adult Sales Volume Adjustment.....	—	(1)	(1)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(9)	(23)	(74)	
Credit for Personal Compensation Claims.....	—	—	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(3)	(3)	(3)	(13)	(59)	
Inflation Adjustment.....	—	0	0	1	1	2	2	3	3	3	3	5	18	109	
Credit for BBA Excise Taxes.....	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Look-Back Surcharge for Youth Consumption.....	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
<u>Net Industry Settlement Payments.....</u>	<u>10</u>	<u>8</u>	<u>8</u>	<u>10</u>	<u>12</u>	<u>13</u>	<u>13</u>	<u>13</u>	<u>14</u>	<u>12</u>	<u>12</u>	<u>62</u>	<u>125</u>	<u>344</u>	
<b>Tax Offsets</b>															
Indirect Business Tax Offset.....	(3)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(15)	(31)	(86)	
Corporate Income Tax on Look-Back Surcharge.....	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Youth Excise Tax Trigger.....	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Reduction in Existing Federal Excise Taxes.....	—	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(3)	(8)	(23)	
<u>Total Federal Tax Offsets.....</u>	<u>(3)</u>	<u>(2)</u>	<u>(3)</u>	<u>(3)</u>	<u>(4)</u>	<u>(4)</u>	<u>(4)</u>	<u>(4)</u>	<u>(4)</u>	<u>(4)</u>	<u>(4)</u>	<u>(19)</u>	<u>(40)</u>	<u>(109)</u>	
<u>Net Additional Receipts to US Government.....</u>	<u>8</u>	<u>6</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>9</u>	<u>9</u>	<u>9</u>	<u>8</u>	<u>8</u>	<u>43</u>	<u>86</u>	<u>234</u>	
<b>POTENTIAL USES/CHANGES</b>															
State Attorneys General Proposals, Total.....	—	6	6	7	8	10	8	9	9	5	5	39	74	165	
Offset Reduction in State Excise Taxes.....	—	1	1	1	1	1	1	1	1	1	1	5	11	39	
Use of Youth Look-Back Surcharge (90% grants).....	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Potential Increase in Federal Medicaid Match.....	<u>1</u>	<u>1</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>3</u>	<u>3</u>	<u>2</u>	<u>2</u>	<u>10</u>	<u>22</u>	<u>63</u>	
<u>Total Potential Uses.....</u>	<u>1</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>12</u>	<u>14</u>	<u>12</u>	<u>12</u>	<u>13</u>	<u>8</u>	<u>9</u>	<u>54</u>	<u>108</u>	<u>268</u>	
<b>Memoranda:</b>															
Ad Valorem Equivalent of Net Payments.....	17%	18%	22%	26%	28%	28%	29%	29%	29%	29%	29%				
Change in Total Cigarette Consumption.....	-7%	-8%	-10%	-13%	-13%	-14%	-14%	-14%	-14%	-14%	-14%				
Percentage Point Shortfall from Youth Target.....						—	—	—	—	—	—				



\$1.50 CASE  
~~Gov't RECOVERY CASE~~

**SUMMARY OF BUDGETARY EFFECTS OF PROPOSED SETTLEMENT**  
**BASE SCENARIO WITH BBA CREDIT REPEALED AND YOUTH TARGETS MET**

09/11/97

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(In billions of dollars)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08	98-23
<b>RECEIPTS</b>														
Base Payment (inc. trust and up-front payment).....	10	23	25	30	37	39	40	40	40	40	40	163	361	953
Payments to Recoup Excise Tax Credit and/or Losses....	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Adult Sales Volume Adjustment.....	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Credit for Personal Compensation Claims.....	--	--	(1)	(1)	(1)	(1)	(2)	(2)	(2)	(4)	(4)	(4)	(16)	(76)
Inflation Adjustment.....	--	(4)	(4)	(5)	(7)	(8)	(7)	(7)	(6)	(5)	(4)	(28)	(57)	(7)
Credit for BBA Excise Taxes.....	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Look-Back Surcharge for Youth Consumption.....	==	==	==	==	==	==	==	==	==	==	==	==	==	==
<b>Net Industry Settlement Payments.....</b>	<b>10</b>	<b>19</b>	<b>20</b>	<b>24</b>	<b>28</b>	<b>30</b>	<b>31</b>	<b>31</b>	<b>32</b>	<b>31</b>	<b>32</b>	<b>131</b>	<b>288</b>	<b>871</b>
<b>Tax Offsets</b>														
Indirect Business Tax Offset.....	(3)	(5)	(5)	(6)	(7)	(8)	(8)	(8)	(8)	(8)	(8)	(33)	(72)	(218)
Corporate Income Tax on Look-Back Surcharge.....	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Youth Excise Tax Trigger.....	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Reduction in Existing Federal Excise Taxes.....	==	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(8)	(20)	(53)
Total Federal Tax Offsets.....	<u>(3)</u>	<u>(6)</u>	<u>(6)</u>	<u>(8)</u>	<u>(9)</u>	<u>(10)</u>	<u>(10)</u>	<u>(10)</u>	<u>(10)</u>	<u>(10)</u>	<u>(10)</u>	<u>(41)</u>	<u>(92)</u>	<u>(271)</u>
<b>Net Additional Receipts to US Government.....</b>	<b>8</b>	<b>13</b>	<b>14</b>	<b>16</b>	<b>19</b>	<b>20</b>	<b>21</b>	<b>21</b>	<b>22</b>	<b>21</b>	<b>21</b>	<b>90</b>	<b>196</b>	<b>600</b>
<b>POTENTIAL USES/CHANGES</b>														
State Attorneys General Proposals, Total.....	--	10	10	12	13	15	14	14	15	12	12	60	127	348
Offset Reduction in State Excise Taxes.....	--	2	2	2	3	3	3	3	3	3	3	11	27	89
Use of Youth Look-Back Surcharge (90% grants).....	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Potential Increase in Federal Medicaid Match.....	<u>1</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>6</u>	<u>6</u>	<u>6</u>	<u>6</u>	<u>6</u>	<u>24</u>	<u>53</u>	<u>162</u>
<b>Total Potential Uses.....</b>	<b>1</b>	<b>15</b>	<b>16</b>	<b>18</b>	<b>21</b>	<b>24</b>	<b>23</b>	<b>23</b>	<b>24</b>	<b>21</b>	<b>21</b>	<b>95</b>	<b>207</b>	<b>599</b>
<b>Memoranda:</b>														
Ad Valorem Equivalent of Net Payments.....	45%	49%	59%	72%	78%	79%	79%	80%	80%	80%	80%			
Change in Total Cigarette Consumption.....	-19%	-21%	-25%	-30%	-32%	-32%	-32%	-32%	-32%	-33%	-33%			
Percentage Point Shortfall from Youth Target.....					-2%	-4%	--	--	--	--	--			

**SUMMARY OF BUDGETARY EFFECTS OF PROPOSED SETTLEMENT  
BASE SCENARIO WITH BBA CREDIT REPEALED AND YOUTH TARGETS NOT MET**

09/11/97

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(In billions of dollars)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08	98-23
<b>RECEIPTS</b>														
Base Payment (Inc. trust and up-front payment).....	10	9	10	12	14	15	15	15	15	15	15	69	144	369
Payments to Recoup Excise Tax Credit and/or Losses....	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Adult Sales Volume Adjustment.....	--	(1)	(1)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(9)	(24)	(76)
Credit for Personal Compensation Claims.....	--	--	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(3)	(3)	(3)	(13)	(59)
Inflation Adjustment.....	--	0	0	1	1	2	2	2	3	3	3	5	18	108
Credit for BBA Excise Taxes.....	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Look-Back Surcharge for Youth Consumption.....	<u>==</u>	<u>==</u>	<u>==</u>	<u>==</u>	<u>==</u>	<u>1</u>	<u>==</u>	<u>3</u>	<u>==</u>	<u>2</u>	<u>2</u>	<u>1</u>	<u>6</u>	<u>29</u>
<b>Net Industry Settlement Payments.....</b>	<b>10</b>	<b>8</b>	<b>8</b>	<b>10</b>	<b>12</b>	<b>14</b>	<b>13</b>	<b>16</b>	<b>14</b>	<b>13</b>	<b>13</b>	<b>62</b>	<b>131</b>	<b>370</b>
<b>Tax Offsets</b>														
Indirect Business Tax Offset.....	(3)	(2)	(2)	(2)	(3)	(3)	(3)	(4)	(3)	(3)	(3)	(16)	(33)	(92)
Corporate Income Tax on Look-Back Surcharge.....	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Youth Excise Tax Trigger.....	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Reduction in Existing Federal Excise Taxes.....	<u>==</u>	<u>(0)</u>	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>	<u>(3)</u>	<u>(9)</u>	<u>(23)</u>
<b>Total Federal Tax Offsets.....</b>	<b>(3)</b>	<b>(2)</b>	<b>(3)</b>	<b>(3)</b>	<b>(4)</b>	<b>(4)</b>	<b>(4)</b>	<b>(5)</b>	<b>(4)</b>	<b>(4)</b>	<b>(4)</b>	<b>(19)</b>	<b>(41)</b>	<b>(116)</b>
<b>Net Additional Receipts to US Government.....</b>	<b>8</b>	<b>6</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>9</b>	<b>11</b>	<b>9</b>	<b>9</b>	<b>9</b>	<b>43</b>	<b>90</b>	<b>254</b>
<b>POTENTIAL USES/CHANGES</b>														
State Attorneys General Proposals, Total.....	--	6	6	7	8	10	8	8	9	5	5	39	74	165
Offset Reduction in State Excise Taxes.....	--	1	1	1	1	1	1	1	1	1	2	5	12	39
Use of Youth Look-Back Surcharge (90% grants).....	--	--	--	--	--	1	--	3	--	2	2	1	6	29
Potential Increase in Federal Medicaid Match.....	<u>1</u>	<u>1</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>3</u>	<u>2</u>	<u>3</u>	<u>3</u>	<u>2</u>	<u>3</u>	<u>11</u>	<u>23</u>	<u>68</u>
<b>Total Potential Uses.....</b>	<b>1</b>	<b>8</b>	<b>9</b>	<b>10</b>	<b>12</b>	<b>15</b>	<b>12</b>	<b>15</b>	<b>13</b>	<b>10</b>	<b>10</b>	<b>54</b>	<b>115</b>	<b>301</b>
<b>Memoranda:</b>														
Ad Valorem Equivalent of Net Payments.....	17%	18%	22%	26%	29%	28%	33%	28%	32%	32%				
Change in Total Cigarette Consumption.....	-8%	-9%	-10%	-13%	-14%	-13%	-16%	-13%	-15%	-15%				
Percentage Point Shortfall from Youth Target.....						6%	2%	23%	17%	24%	30%			

**SUMMARY OF BUDGETARY EFFECTS OF PROPOSED SETTLEMENT  
WITH BBA CREDIT REPEALED AND TOUGHER YOUTH SURCHARGE (EX TAX EQUIV)**

09/11/97

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(In billions of dollars)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>98-03</u>	<u>98-08</u>	<u>98-23</u>
<b>RECEIPTS</b>														
Base Payment (inc. trust and up-front payment).....	10	9	10	12	14	15	15	15	15	15	15	69	144	369
Payments to Recoup Excise Tax Credit and/or Losses....	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Adult Sales Volume Adjustment.....	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Credit for Personal Compensation Claims.....	—	—	(1)	(1)	(1)	(1)	(2)	(2)	(2)	(4)	(4)	(4)	(16)	(76)
Inflation Adjustment.....	—	(0)	(0)	(0)	(0)	(0)	0	0	0	1	1	(1)	0	49
Credit for BBA Excise Taxes.....	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Look-Back Surcharge for Youth Consumption.....	—	—	—	—	—	1	1	4	7	3	7	1	23	161
<b>Net Industry Settlement Payments.....</b>	<b>10</b>	<b>8</b>	<b>9</b>	<b>10</b>	<b>13</b>	<b>15</b>	<b>14</b>	<b>18</b>	<b>20</b>	<b>15</b>	<b>19</b>	<b>64</b>	<b>150</b>	<b>503</b>
<b>Tax Offsets</b>														
Indirect Business Tax Offset.....	(3)	(2)	(2)	(3)	(3)	(4)	(4)	(4)	(5)	(4)	(5)	(16)	(38)	(126)
Corporate Income Tax on Look-Back Surcharge.....	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Youth Excise Tax Trigger.....	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Reduction in Existing Federal Excise Taxes.....	—	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(4)	(10)	(31)
Total Federal Tax Offsets.....	(3)	(2)	(3)	(3)	(4)	(5)	(5)	(6)	(6)	(5)	(6)	(20)	(48)	(156)
<b>Net Additional Receipts to US Government.....</b>	<b>8</b>	<b>6</b>	<b>6</b>	<b>7</b>	<b>9</b>	<b>10</b>	<b>10</b>	<b>12</b>	<b>14</b>	<b>10</b>	<b>13</b>	<b>45</b>	<b>103</b>	<b>346</b>
<b>POTENTIAL USES/CHANGES</b>														
State Attorneys General Proposals, Total.....	—	6	6	7	9	10	9	9	9	5	5	39	75	166
Offset Reduction in State Excise Taxes.....	—	1	1	1	1	1	1	2	2	2	2	5	14	52
Use of Youth Look-Back Surcharge (90% grants).....	—	—	—	—	—	1	1	4	7	3	7	1	23	161
Potential Increase in Federal Medicaid Match.....	1	2	2	2	2	3	3	3	4	3	3	11	27	93
<b>Total Potential Uses.....</b>	<b>1</b>	<b>9</b>	<b>9</b>	<b>10</b>	<b>12</b>	<b>15</b>	<b>13</b>	<b>18</b>	<b>21</b>	<b>12</b>	<b>17</b>	<b>56</b>	<b>138</b>	<b>472</b>
<b>Memoranda:</b>														
Ad Valorem Equivalent of Net Payments.....	17%	19%	23%	28%	31%	31%	39%	44%	36%	44%				
Change in Total Cigarette Consumption.....	-8%	-9%	-11%	-13%	-15%	-15%	-18%	-20%	-17%	-20%				
Percentage Point Shortfall from Youth Target.....					4%	-1%	19%	10%	4%	24%				

**ALTERNATIVE TOBACCO SETTLEMENTS -- SUMMARY**  
(Dollar amounts in billions)

09/11/97  
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	Baseline	AG Settlement	Tougher Youth Surcharge	Restore Gov't Share	Payment of \$1.50 Per Pack
<b>Youth Targets Met:</b>					
Average Payment per Pack in 2003 (96\$).....		0.54	0.54	0.73	1.50
Average Price per Pack in 2003 (96\$).....	1.93	2.47	2.47	2.66	3.43
Millions of Smokers in 2003.....	51.5	46.3	46.3	45.1	40.2
<b>Gross Payments over 25 Years (98\$):</b>					
Base Payments.....		369	369	464	953
Youth Smoking Penalty.....		0	0	0	0
Total.....		369	369	464	953
<b>Net Federal Revenues, Cumulative:</b>					
Five Year Total (1998-2003).....		43	43	53	90
Ten Year Total (1998-2008).....		86	86	110	196
25-Year Total (1998-2023).....		234	234	316	600
<b>Payments and Revenues in 2003:</b>					
Gross Industry Payments.....		17	17	18	31
Net Industry Payments.....		13	13	17	30
Net Federal Revenues.....		9	9	12	20
Specified AG spending.....		10	10	12	15

Note: All scenarios assume repeal of the TRA97 excise tax credit and include the BBA97 excise tax increase..

## ALTERNATIVE TOBACCO SETTLEMENTS -- SUMMARY

(Dollar amounts in billions)

09/11/97

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	AG Settlement	Tougher Youth Surcharge	Restore Gov't Share	Payment of \$1.50 Per Pack
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**Youth Targets Not Met:**

Average Payment per Pack in 2003 1/.....		0.57	0.60	
Average Price per Pack in 2003 1/.....	1.93	2.49	2.53	
Millions of Smokers in 2003.....	51.5	46.2	45.9	

**Gross Payments over 25 Years 2/:**

Base Payments.....		369	369	
Youth Smoking Penalty.....		<u>18</u>	<u>98</u>	
Total.....		386	467	

**Net Federal Revenues, Cumulative:**

Five Year Total (1998-2003).....		43	45	
Ten Year Total (1998-2008).....		90	103	
25-Year Total (1998-2023).....		254	346	

**Payments and Revenues in 2003:**

Gross Industry Payments.....		17	16	
Net Industry Payments.....		14	15	
Net Federal Revenues.....		9	10	
 Specified AG spending.....		 11	 11	

**Note:** all scenarios assume repeal of the TRA97 excise tax credit.

1/ In constant 1996 dollars. Includes BBA97 excise tax increase.

2/ In constant 1998 dollars.



## TOBACCO INDUSTRY PAYMENT OPTIONS

Option	Rationale
1. Settlement as Proposed	Agreed upon, hard negotiated compromise that would raise prices and provide funds to cut smoking. About 54¢ - 64¢ per pack by '03 (with youth penalty).
2. Tough Youth Smoking Penalties	Would provide much tougher youth smoking penalty and could raise substantial revenues if targets aren't met. About 54¢ - 79¢ per pack by '03, exceeding \$1.50 by 2008.
3. Restore Promised Investment Revenues	Since AG settlement didn't take into account income tax and other offsets, raise payments enough so that the US government can make the level of health investments originally promised. About \$1.00 per pack by '03 (inc. youth penalty).
4. \$1.50 per Pack	Raise prices enough to cause a sharp drop in smoking. (Prices would still be lower than in many countries.) Raise revenues substantially.

**TOBACCO INDUSTRY PAYMENT OPTIONS**

<b>If Youth Targets Met</b>		<b>Proposed AG Settlement</b>	<b>Tougher Youth Surcharge</b>	<b>Restore Promised Revenues</b>	<b>\$1.50 Per Pack</b>
	<i>Baseline</i>				
Average Payment per Pack in 2003 (96\$).....		0.54	0.54	0.98	1.50
Average Price per Pack in 2003 (96\$).....	1.93	2.47	2.47	2.91	3.43
Millions of Smokers in 2003.....	51.5	46.3	46.3	43.5	40.3
<b>Gross Payments over 25 Years (98\$):</b>					
Base Payments.....		\$369	\$369	\$620	\$943
Youth Penalty.....		<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total.....		369	369	620	943
Total (25 Yrs) in Net Present Value.....		187	187	311	471
Total (25 Yrs) in Current Dollars.....		469	469	683	938
<b>Available Revenues Over 25 years:</b>					
Gross Payments.....		469	469	683	938
Settlement Adjustments.....		<u>-145</u>	<u>-145</u>	<u>-91</u>	<u>-91</u>
Net Payment.....		324	324	592	847
Losses of Other Tax Revenues.....		<u>-104</u>	<u>-104</u>	<u>-185</u>	<u>-265</u>
Net Revenues Available.....		220	220	406	582
<b>Available Revenues in 2003:</b>					
Gross Payment (98\$).....		15	15	20	27
Gross Payment, current dollars.....		17	17	23	31
Settlement Adjustments.....		<u>-4</u>	<u>-4</u>	<u>-1</u>	<u>-1</u>
Net Payment.....		13	13	22	30
Losses of Other Tax Revenues.....		<u>-4</u>	<u>-4</u>	<u>-7</u>	<u>-10</u>
Net Revenues Available.....		9	9	15	20
Uses Already Specified by AGs/States.....		9	9	10	11

Dollars in billions, except per pack.

**TOBACCO INDUSTRY PAYMENT OPTIONS**

<b>If Youth Targets Not Met With Minimal Deterrence</b>		<b>Proposed AG Settlement</b>	<b>Tougher Youth Surcharge</b>	<b>Restore Promised Revenues</b>	<b>\$1.50 Per Pack</b>
	<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
<b>Gross Payments over 25 Years (98\$):</b>					
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
<b>Available Revenues Over 25 years:</b>					
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
<b>Available Revenues in 2003:</b>					
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.

Tobac - set -  
 Payment/banking.

## ALTERNATIVE TOBACCO SETTLEMENTS -- SUMMARY

(Dollar amounts in billions)

09/11/97

12:58 PM

Baseline	AG Settlement	Inflate At Health Inflation*	Restore Gov't Share*	Double Price Increase*
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### Youth Targets Met:

Average Price per Pack in 2003 1/.....	1.93	2.47	2.52	2.66	3.01
Increase in Price per Pack in 2003 1/.		0.54	0.60	0.73	1.08
Millions of Smokers in 2003.....	51.5	46.3	46.0	45.1	42.9

### Payments and Revenues in 2003:

Gross Industry Payments.....	17	18	18	25
Net Industry Payments.....	13	14	17	24
Net Federal Revenues.....	9	10	12	16

### Net Federal Revenues, Cumulative:

Five Year Total (1998-2003).....	43	45	53	72
Ten Year Total (1998-2008).....	86	93	110	155
25-Year Total (1998-2023).....	234	291	316	463

Note: all scenarios assume repeal of the TRA97 excise tax credit.

1/ In constant 1996 dollars. Includes BBA97 excise tax increase.

\* Volume adjustment eliminated.

To Lac/ settle/  
payment-  
funding

## TOBACCO INDUSTRY PAYMENT OPTIONS

Option	Rationale
1. Settlement as Proposed	Agreed upon, hard negotiated compromise that would raise prices and provide funds to cut smoking. About 54¢ - 64¢ per pack by '03 (with youth penalty).
2. Tough Youth Smoking Penalties	Would provide much tougher youth smoking penalty and could raise substantial revenues if targets aren't met. About 54¢ - 79¢ per pack by '03 (with youth penalty).
3. Restore Promised Investment Revenues	Since AG settlement didn't take into account income tax and other offsets, raise payments enough so that the US government can make the level of health investments originally promised. About \$1.00 per pack by '03 (with youth penalty).
4. \$1.50 per Pack	Raise prices enough to cause a sharp drop in smoking. (Prices would still be lower than in many countries.) Raise revenues substantially.

**TOBACCO SETTLEMENT'S SPECIFIED BASE SPENDING**  
 (Dollars in billions)

	<b>BASELINE</b>	<b>2003*</b>
<b>RESEARCH</b>	<b>1.3</b>	<b>4.8</b>
Public Health Trust Fund (research)		4.7
HHS research on cessation		0.1
<b>EDUCATION / PREVENTION</b>	<b>0.45</b>	<b>1.0</b>
National education / media campaign		0.6
State programs / ASSIST		0.1
HHS grants to reduce tobacco use		0.3
<b>CESSATION</b>	<b>0</b>	<b>1.7</b>
Cessation Trust Fund		1.7
<b>MISCELLANEOUS</b>	<b>0.45</b>	<b>0.4</b>
FDA enforcement costs	0.45	0.3
Payments to tobacco-sponsored teams	0	0.1
Other	0	0.9
<b>TOTAL</b>		<b>8.8</b>

\*Fully implemented year

## **DRAFT SPENDING OPTIONS FOR THE RESIDUAL FUNDS**

Residual is: 0 in Option 1, \$0-1 billion in Option 2, \$5 billion in Option 3, & \$10 billion in Option 4

OPTION	COST/YR (\$ billions)	RATIONALE & LINK TO TOBACCO
<b>RESEARCH</b>		
21st Century Trust Fund	2 to 3	Increases the Settlement's trust fund by 50% to sponsor additional, cutting-edge biomedical research.
<b>PUBLIC HEALTH</b>		
Children's public health	0.2 to 0.4	Complements the Settlement's and the Administration's focus on children with programs like school-based health education & more prenatal care in Healthy Start or CHCs.
Tobacco-related illness initiatives	0.3 to 0.5	Funds prevention programs for tobacco-related illnesses like cardiovascular disease & cancer; expand programs for substance abuse since it is linked with tobacco use.
<b>COVERAGE</b>		
Pre-Medicare Buy-In	2 to 4 or more	Allows groups of people under age 65 to buy into Medicare since long-term smokers are more likely to face barriers to buying insurance & have illnesses that make them uninsurable.
Workers Changing Jobs	2 to 3	Makes insurance affordable as well as accessible through premium assistance. Job change is the most common reason why people lose health coverage.
Medicaid Children's Outreach	0.5 to 1	Gives states a higher Medicaid matching rate for enrolling uninsured children already eligible. Consistent with the Settlement intent to fund children's health coverage.
<b>OTHER</b>		
Economic adjustments	0 0.1 to 0.2	<u>No-cost option</u> : Tobacco industry agrees to purchasing minimums from domestic farmers. <u>Cost option</u> : Subsidizes farmers, tobacco-industry workers & communities to compensate for any losses.
International tobacco programs	0.05 to 0.1	Dramatically Increases World Health Organization tobacco control efforts.
Child care initiatives	0.5 to 2	Complements the Settlement's and the Administration's focus on children through initiatives in the child care area.

# ALTERNATIVE SPENDING OPTIONS FOR RESIDUAL FUNDS

## SPECIFIED INVESTMENTS

- **21st Century Research Trust Fund:** Supplement tobacco-related and other biomedical research.
- **Economic adjustments:** Compensate and assist tobacco farmers and tobacco industry workers affected by the Settlement.
- **International tobacco cessation:** Dramatically increase World Health Organization tobacco control efforts.

## THEMATIC INVESTMENTS

### Options include:

- **Health Insurance Coverage Trust Fund:** Trustees would identify groups of uninsured Americans, like workers changing jobs or people not yet eligible for Medicare, and develop efficient policy options to cover them.
- **Children's Trust Fund:** Trustees would annually determine the most important investments for children and fund options like Medicaid outreach for the 3 million uninsured children not enrolled; public health programs like school health education; and child care initiatives.
- **Family Security Trust Fund:** This fund would assist workers and their families in a wide range of areas such as health insurance (e.g., offering premium assistance to workers changing jobs) or expanded unemployment compensation.



Broad Things to talk  
about next week

1-888-582-  
3194

Core of framework

Youth smoking  
FDR  
Inc. Accountability - changing way  
do business  
Other Pub Health Goals -  
ETS, research, international  
growers + communities

Level of Retail

~~Industry structure~~

Level of detail Payment

Falls short - price needs to reflect penalties  
clumps need to be acceptable

Pen - how to provide real econ  
self-int. to reduce undercomp. with  
held carriers

Price to be negotiated on the  
+ negot'd in Hill

Pub health  
community

Needs to be  
company-specific

Combo of price + penalties that is at least  
\$1 - 1.50 (to meet targets)  
Then lay out altern routes

(example) Specify the opt - + essentially describe  
The opt - in speech or  
brochures/papers

Tobacco - settlement - payments/industry

## TOBACCO INDUSTRY PAYMENT OPTIONS

Option	Rationale
1. Settlement as Proposed	Agreed upon, hard negotiated compromise that would raise prices and provide funds to cut smoking.
2. Tough Youth Smoking Penalties	Would provide much tougher youth smoking penalty and could raise substantial revenues if targets aren't met.
3. Restore Promised Investment Revenues	Since AG settlement didn't take into account income tax and other offsets, raise payments enough so that the US government can make the level of health investments originally promised.
4. \$1.50 per Pack	Raise prices enough to cause a sharp drop in smoking. (Prices would still be lower than in many countries.) Raise revenues substantially.

## TOBACCO INDUSTRY PAYMENT OPTIONS

If Youth Targets Met:		Proposed AG Settlement	Tougher Youth Surcharge	Restore Promised Revenues	\$1.50 Per Pack
	<i>Baseline</i>				
Average Payment per Pack in 2003 (96\$).....		0.54	0.54	0.98	1.50
Average Price per Pack in 2003 (96\$).....	1.93	2.47	2.47	2.91	3.43
Millions of Smokers in 2003.....	51.5	46.3	46.3	43.5	40.3
 Gross Payments over 25 Years (98\$):					
Base Payments.....		\$369	\$369	\$620	\$943
Youth Penalty.....		<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total.....		369	369	620	943
 Net Federal Revenues:					
Five Years ('98-'03).....		43	43	67	90
Ten Years ('98-'08).....		85	85	141	194
 Payments and Revenues in 2003:					
Gross Industry Payments.....		17	17	23	31
Net Federal Revenues.....		9	9	15	20
Specified AG/State spending.....		9	9	10	11
Residual funds for investments.....		0	0	5	10

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Dollars in billions, except per pack.

## TOBACCO INDUSTRY PAYMENT OPTIONS

If Youth Targets Not Met Moderate Deterrence Case		Proposed AG Settlement	Tougher Youth Surcharge	Restore Promised Revenues	\$1.50 Per Pack
	<i>Baseline</i>				
Average Payment per Pack in 2003 (96\$)...		0.57	0.60	0.98	1.50
Average Price per Pack in 2003 (96\$).....	1.93	2.49	2.53	2.91	3.43
Millions of Smokers in 2003.....	51.5	46.2	45.9	42.8	38.9
 Gross Payments over 25 Years (98\$):					
Base Payments.....		\$369	\$369	\$620	\$943
Youth Penalty.....		<u>18</u>	<u>100</u>	<u>3</u>	<u>0</u>
Total.....		386	468	623	943
 Net Federal Revenues, Cumulative:					
Five Years ('98-'03).....		43	45	66	88
Ten Years ('98-'08).....		89	102	141	191
 Payments and Revenues in 2003:					
Gross Industry Payments.....		17	16	23	31
Net Federal Revenues.....		9	10	15	20
Specified AG/State spending.....		9	9	10	11
Residual funds for investments.....		(0)	0	5	9

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Dollars in billions, except per pack.

## TOBACCO INDUSTRY PAYMENT OPTIONS

If Youth Targets Not Met Minimum Deterrence Case		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.....		<u>32</u>	<u>303</u>	<u>31</u>	<u>19</u>
Total.....		400	671	651	962
 Net Federal Revenues:					
Five Years ('98-'03).....		45	48	67	90
Ten Years ('98-'08).....		93	141	147	197
 Payments and Revenues in 2003:					
Gross Industry Payments.....		19	20	24	31
Net Federal Revenues.....		11	13	15	20
 Specified AG/State spending.....					
Specified AG/State spending.....		11	11	10	11
Residual funds for investments.....		(1)	1	5	10

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Dollars in billions, except per pack.

Tobacco settlement -  
programs/funds group**CAMPAIGN for TOBACCO-FREE Kids**

TO: Bruce Reed (456-2878)  
Bruce Lindsay (456-2983)  
Elena Kagan (456-2878)

FROM: Matthew Myers *Matthew Myers*

RE: Newly released Position of American College of Preventive  
Medicine  
Breakdown of Settlement Expenditures

DATE: August 4, 1997

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I thought you would like to see the attached position statement from the American College of Preventive Medicine. It is constructive and, like the American Medical Association, makes clear that this is an opportunity and agreement upon which we should can and should build.

I have been surprised that people have not asked for a more detailed breakdown of the expenditure of the settlement funds. It is impossible to discern this information, particularly the amount allocated between the states and the tort fund, from the 68 page document. If the states' money is treated as Medicaid reimbursement the federal share would be approximately 60% I have been told. I hope this is useful. I have been concerned because the parties did not factor in revenue the federal government would lose as well as the revenue it would take in when calculating its effect. It may be that additional moneys that are negotiated, if any, will be needed just to offset revenue lost.

**TOBACCO AGREEMENT FUNDS**

- A.) \$10 billion payable on effective date of the legislation.
- B.) Annual payments - to be made in perpetuity - 25 year face value is \$358.5 billion (to be adjusted annually for inflation). Payments for the Public Health Trust for the 1<sup>st</sup> eight years only - creating a Public Health Trust totalling \$25B.

Payment Year	1	2	3	4	5	6	7	8	9 and on
Total Payments	\$8.5B	\$9.5B	\$11.5B	\$14B	\$15B	\$15B	\$15B	\$15B	\$15B
Public Health Trust	\$2.5B	\$2.5B	\$3.5B	\$4B	\$5B	\$2.5B	\$2.5B	\$2.5B	-0-
Base Amount	\$6B	\$7B	\$8B	\$10B	\$10B	\$12.5B	\$12.5B	\$12.5B	\$15B

**C. Proposed Allocation of the Base Amounts:**

Payment Year	1	2	3	4	5	6	7	8	9 and on
A) Smoking Cessation	1	1	1	1	1	1.5	1.5	1.5	1.5
B) Funding for Public Health Programs	1	1	1.5	1.5	1.5	1.5	1.5	1.5	1.5
C) Funds for the States	4.	4.5	4.5	6.5	6.5	8	8	8	8
D) Funds for the Tort System	0	.5	1	1	1	1.5	1.5	1.5	4
Total Base Amount	\$6B	\$7B	\$8B	\$10B	\$10B	\$12.5B	\$12.5B	\$12.5B	\$15B

Tobacco settlement -  
~~Programs/Funds~~  
~~Programs~~  
Programs/Funds

Date: 07/18/97 Time: 14:13

TFarmers propose guarantees under any tobacco settlement

WASHINGTON (AP) Arguing that the proposed multibillion-dollar tobacco settlement threatens their livelihoods, tobacco farmers have asked Congress for \$7 billion in economic protections and a requirement that cigarette makers buy a guaranteed amount of U.S. leaf.

The growers also want a promise of government compensation for losses in land value and other property if future regulations cause tobacco use to plummet, according to an eight-point plan developed by farm organizations and obtained by The Associated Press.

'We're after what the companies got: stability,' said Tim Cansler, national affairs director for the Kentucky Farm Bureau Federation. 'The implications of this negotiated settlement very much put us into a new light.'

The proposed \$368 billion settlement of health-related tobacco lawsuits negotiated by the cigarette companies and 40 state attorneys general makes no mention of the impact on America's estimated 124,000 tobacco farms. Tobacco is the nation's sixth-largest cash crop.

On Thursday in Raleigh, N.C., officials from tobacco-state farm bureaus, farmer cooperatives and others reached consensus on a plan being circulated in Congress. The document represents the first time tobacco growers have put their demands in writing, although they cautioned the plan is subject to change.

The plan calls for 2 percent of the settlement roughly \$7 billion from the tobacco companies to be set aside for the 'economic benefit' of tobacco growers. That could include price supports or possibly buyouts of farmers who want to quit the tobacco business.

Health groups encourage assistance to get farmers out of tobacco, but growers are reluctant because tobacco is so lucrative. It would take 747 acres of corn to produce the same income as 50 acres of tobacco.

In addition, overseas markets are booming, giving farmers added incentive to stick with the crop. 'Our tobacco farmers want to continue to grow the crop,' Cansler said.

The growers want a guarantee that each year cigarette makers will buy 90 percent of their historic levels of the two main kinds of tobacco: flue-cured and burley leaf. That is so cigarette makers don't buy more cheaper foreign-grown tobacco.

Tobacco-state lawmakers pledge to make the farmers' concerns a priority.

President Clinton and Republican leaders already have begun discussing the pact's potential effects on farmers, who were invisible in earlier negotiations. And they could provide attractive cover for politicians who are troubled by a settlement that benefits big corporations.

'We don't have much sympathy for the tobacco companies, but we do have real sympathy for the family farmers who have been growing this crop for generations,' Bruce Reed, a top Clinton aide, said this week.

Congress and the White House must ratify the settlement, and Clinton already has demanded changes. After meeting Friday with industry whistleblowers, Clinton officials pledged to investigate another concern: whether the deal forces cigarette makers to disclose enough of their secrets. Former Philip Morris scientist Victor DeNoble told Vice President Al Gore that companies still are



hiding years of research into safer cigarettes.

Under the deal, tobacco companies would provide many research documents to the Food and Drug Administration. But the deal stops short of full disclosure and requires the FDA to protect many of the papers as trade secrets.

The farmer proposal, meanwhile, offers additional protections to growers' wallets. It would eliminate use of reconstituted tobacco essentially, cheap floor sweepings from warehouses in cigarettes and clarify that growers would be immune from any health-related lawsuits.

If future government rules, such as FDA curbs on the amount of nicotine in cigarettes, trigger steep declines in tobacco use, the growers want the government to enable them to "cash out."

In the case of flue-cured tobacco, for example, the government would give growers a one-time payment of \$14 a pound for their farm's usual tobacco production and compensate them for any declines in property values.

APNP-07-18-97 1431EDT



## PROGRAMS / FUNDS IN TOBACCO SETTLEMENT

### UP-FRONT COMMITMENT (\$10 billion over 25 years)

- A one-time, \$10 billion payment would be required as of the date of enactment of the settlement. There is no dedicated use for these funds.

### BASE PAYMENTS (\$333.5 billion over 25 years)

- **Federal and State Uses**

**Reduction in Tobacco Usage (\$5.325 billion):** For Secretary of HHS to encourage current tobacco users to quit through media-based and non-media based education, prevention and cessation campaigns.

**FDA (\$7.5 billion):** To the Food and Drug Administration (FDA) to enforce the terms of the settlement.

**Programs like ASSIST (\$3.0 billion):** For state and local tobacco control, similar to the community-based model of the ASSIST program

**Research (\$2.5 billion):** On the methods to prevent smoking and help individuals quit.

**Education (\$12.5 billion):** To fund an Independent, non-profit organization to run a multi-media campaign to discourage and de-glamorize tobacco use.

- **Cessation Fund (\$35.5 billion):** To create a trust fund to promote effective cessation programs and provide financial assistance to access such programs.
- **Teams' Fund (\$1.8 billion):** For 10 years, to compensate events, teams, or entries in such events who lose sponsorship by the tobacco industry as a result of the settlement. After 10 years, funds will be reallocated to education, enforcement of provisions, and community-based programs.
- **Medicaid / Other (\$265.375 billion / possibly \$151.264 billion Federal):** Remainder of the Base Payments; no specified use.

### PUBLIC HEALTH TRUST FUND (\$25 billion over 25 years)

- A Presidential Commission will be created to identify and fund specific tobacco-related medical research

**PROGRAMS / FUNDS IN TOBACCO SETTLEMENT**  
(Dollars in billions unless otherwise specified)

<b>YEAR</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>1-5</b>	<b>6-8</b>	<b>9-25</b>	<b>1-25</b>
<b>UP-FRONT COMMITMENT</b>	<b>10.0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10.0</b>	<b>-</b>	<b>-</b>	<b>10.0</b>
<b>BASE PAYMENTS</b>									
Reduce Use	125 m	125 m	125 m	225 m	225 m	825 m	225 m	225 m	5.325
FDA	300 m	300 m	300 m	300 m	300 m	1.5	300 m	300 m	7.5
Programs like ASSIST	75 m	75 m	100 m	125 m	125 m	500 m	125 m	125 m	3.0
Research	100 m	100 m	100 m	100 m	100 m	500 m	100 m	100 m	2.5
Education	500 m	500 m	500 m	500 m	500 m	2.5	500 m	500 m	12.5
Cessation Fund	1.0	1.0	1.0	1.0	1.5	5.5	1.5	1.5	35.5
Teams' Fund	-	75 m	75 m	75 m	75 m	300 m	75 m	75 m	1.8
Medicaid/ Other	3.9	4.825	5.8	7.675	7.175	29.375	9.675	12.175	265.375
<b>Federal Share</b>	<b>2.223</b>	<b>2.750</b>	<b>3.306</b>	<b>4.375</b>	<b>4.090</b>	<b>16.744</b>	<b>5.515</b>	<b>6.940</b>	<b>151.264</b>
<b>SUBTOTAL</b>	<b>6.0</b>	<b>7.0</b>	<b>8.0</b>	<b>10.0</b>	<b>10.0</b>	<b>41.0</b>	<b>12.5</b>	<b>15.0</b>	<b>333.5</b>
<b>PUBLIC HEALTH TRUST FUND</b>	<b>2.5</b>	<b>2.5</b>	<b>3.5</b>	<b>4.0</b>	<b>5.0</b>	<b>17.5</b>	<b>2.5</b>	<b>-</b>	<b>25.0</b>
<b>TOTAL</b>	<b>18.5</b>	<b>9.5</b>	<b>11.5</b>	<b>14.0</b>	<b>15.0</b>	<b>68.5</b>	<b>15.0</b>	<b>15.0</b>	<b>368.5</b>

Note: Annual base payments are adjusted for inflation and sales volume decreases; protected during bankruptcy/ reorganization proceedings; and should be passed through to consumers through price increases to discourage use.

## OPTIONS FOR \$3 TO 4 BILLION ANNUAL SPENDING

### OPTION 1. CHILDREN

#### **Mandate Medicaid Children's Coverage Up to 150% of poverty**

Extend Medicaid coverage for all children below 150% of poverty, with some additional flexibility for states

Cost: \$2 billion per year; Coverage: 1-2 million children

#### **State Assistance Pool**

Create transition grant program to assist states, including those that have a disproportionate number of poor children, creative outreach efforts, or large safety net programs.

Cost: \$1-2 billion per year

### OPTION 2. SAFETY NET

#### **Pool for States and Safety Net Providers**

Create transition pool for states, hospitals, and clinics that are undergoing major changes due to managed care, the DSH policy change, and other Medicaid changes.

Cost: \$2 billion per year

#### **Children's Outreach Campaign**

Fund a nationwide education effort about eligibility of children for Medicaid. Possibly fund simplified, school-based enrollment for children.

Cost: \$1 billion per year; Coverage: 1-2 million children

### OPTION 3. COVERAGE IN SMALL BUSINESSES

#### **Voluntary Small Group Purchasing Cooperatives**

Give states grants to develop voluntary purchasing cooperatives and provide limited premium assistance to low-income families.

Cost: \$3 billion per year

#### **OPTION 4. RESEARCH**

##### **Dedicated Funds for Priority Research**

Creates funding source for long-term, large-scale investigations of major diseases and/or treatment options. This could be directed towards AIDS; diabetes; cancer; asthma; heart disease prevention; or Alzheimer's. It could also fund long-term projects (like the human genome project) aimed at developing interventions like an AIDS vaccine.

Cost: \$4 billion per year

#### **OPTION 5. EXAMPLE OF COMBINATION APPROACH**

##### **Buy-In for Low-Income Families**

Allow any person with income below 150% of poverty to buy into Medicaid with a sliding scale premium. This would create an affordable option for working families without access to employer-based insurance.

Cost: \$2 billion per year; Coverage: 1-2 million people

##### **Pool for State and Safety Net Providers**

Create transition pool for states, hospitals, and clinics that are undergoing major changes due to managed care, the DSH policy change, and other Medicaid changes.

Cost: \$1 billion per year

##### **Dedicated Funds for Priority Research**

Creates funding source for investigations of major diseases and/or treatment options.

Cost: \$1 billion per year