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Highlights

Highlights of GAO-07-534T, a testimony before the Committee on Health, Education, Labor, and Pensions, U.S. Senate

TOBACCO SETTLEMENT

States' Allocations of Payments from Tobacco Companies for Fiscal Years 2000 through 2005

Why GAO Did This Study

In the 1990s, states sued major tobacco companies to obtain reimbursement for health impairments caused by the public's use of tobacco. In 1998, four of the nation's largest tobacco companies signed a Master Settlement Agreement, agreeing to make annual payments to 46 states in perpetuity as reimbursement for past tobacco-related health care costs. Some states have arranged to receive advance proceeds based on the amounts that tobacco companies owe by issuing bonds backed by future payments.

This testimony discusses (1) the amounts of tobacco settlement payments that the states received from fiscal years 2000 through 2005, the most recent year for which GAO has actual data, and (2) the states' allocations of these payments. We also include states' projected fiscal year 2006 allocations.

The Farm Security and Rural Investment Act of 2002 required GAO to report annually, through fiscal year 2006, on how states used the payments made by tobacco companies. GAO based this testimony on five annual surveys of these 46 states' Master Settlement Agreement payments and how they allocated these payments.

www.gao.gov/cgi-bin/getrpt?GAO-07-534T.

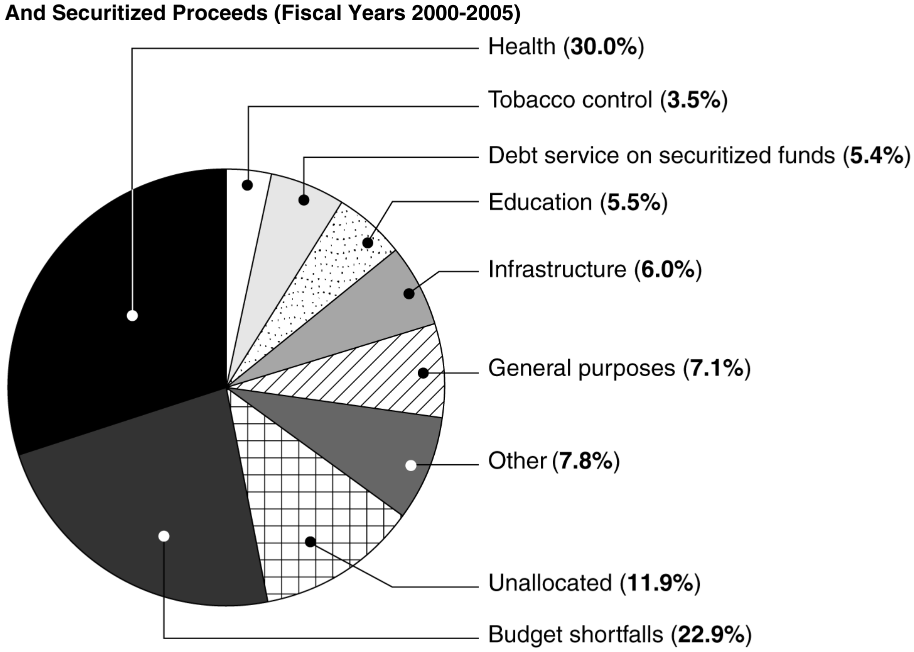
To view the full product, including the scope and methodology, click on the link above. For more information, contact Lisa Shames at (202) 512-3841 or ShamesL@gao.gov.

What GAO Found

From fiscal year 2000 through 2005, the 46 states party to the Master Settlement Agreement received $52.6 billion in tobacco settlement payments. Of the $52.6 billion total, about $36.5 billion were payments from the tobacco companies and about $16 billion were advance payments which several states had arranged to receive by issuing bonds backed by their future payments from the tobacco companies.

The Master Settlement Agreement imposed no restrictions on how states could spend their payments, and as such, the states have chosen to allocate them to a wide variety of activities. Some states told us that they viewed the settlement payments as an opportunity to fund needs that they were not able to fund previously due to the high costs of health care. States allocated the largest portion of their payments to health care—$16.8 billion or 30 percent—which includes Medicaid, health insurance, hospitals, medical technology, and research. States allocated the second largest portion to cover budget shortfalls—about $12.8 billion or about 22.9 percent. This category includes allocations to balance state budgets or reduce deficits that resulted from lower than anticipated revenues, increased mandatory spending, or essential expenditures. Included among the next largest categories are allocations for infrastructure projects, education, debt service on securitized proceeds, and tobacco control.

Categories to Which States Allocated Their Tobacco Settlement Payments And Securitized Proceeds (Fiscal Years 2000-2005)



Source: GAO analysis of data from state budget offices and their designees.