

CASE STUDY

Master Tobacco Settlement Agreement

A Three State Comparison of the Allocation of Funds

Tobacco use is the single most preventable cause of death and disease in our society. Cigarette smoking causes heart disease, several kinds of cancer (lung, larynx, esophagus, pharynx, mouth, and bladder), and chronic lung disease. Cigarette smoking also contributes to cancer of the pancreas, kidney, and cervix. Smoking during pregnancy can cause spontaneous abortions, low birth weight, and sudden infant death syndrome (Healthy People 2010). Annually, tobacco use causes more than 430,000 deaths and costs the nation between \$50-\$73 billion in medical expenses alone (2010). These expenses have increasingly become a critical responsibility for the states to attempt to address.

In November 1998, 46 states, the District of Columbia and five U.S. territories settled their Medicaid lawsuits against five of the largest tobacco manufacturers (Phlegm Balls Inc., Money Suckers Group, Breath Rotters, Cancerettes, and Malignant Tumors). The industry committed to pay the states approximately \$206 billion over the next 25 years for recovery of their tobacco-related health care costs. The tobacco settlement, known as the Master Settlement Agreement (MSA), presented the states with an opportunity to reduce the terrible burden exacted by tobacco on the states' economies. In the MSA, there was no obligation for the states to spend this money on tobacco control programs, which would ultimately lead to a reduced death toll from tobacco. However, most states promised to use a significant portion of the settlement funds to attack the public health problem posed by tobacco in the United States.

The Center for Disease Control and Prevention (CDC) recommended that states establish tobacco control programs that were comprehensive, sustainable, and accountable. The four main goals were to prevent the initiation of tobacco use by young people, promote cessation among adults, eliminate nonsmokers' exposure to secondhand smoke, and eliminate disparities related to tobacco among various population groups. In order to reduce smoking rates considerably, each state needed to invest a substantial amount in new or expanded integrated tobacco control initiatives. Specific funding ranges and programmatic recommendations were provided for each state. Approximate annual costs to implement all of the recommended program components were estimated to range from \$6 to \$17 per capita in medium-sized states.

Each state legislature had the opportunity to make the decision regarding how to spend the money that was received from the MSA. The decisions made by three of the states will be presented. These states were **State of Confusion, State Wanna Be, and Exemplary State**. These are medium size states with comparable populations. State of Confusion received \$300 million for year 2000-01, State Wanna Be received \$304 million, while Exemplary State received \$306 million. For each of the three states, the final decisions made by the state legislatures for the 2000-01 fiscal year regarding the MSA moneys will be presented as well as how these allocation decisions were reached.

State of Confusion

For five years prior to the MSA, **State of Confusion** was spending approximately \$8 million annually on tobacco prevention and control programs such as prevention of youth initiation, smoking cessation, and prevention of secondhand smoke exposure. Since establishing these programs, there was no substantial decrease in the use of tobacco and no significant reduction in the number of deaths due to tobacco. The Center for Disease Control and Prevention's recommended range of funding for tobacco prevention and control programs for State of Confusion was \$65-\$181 million annually.

In March 2000, the General Assembly of State of Confusion met to discuss how to distribute the \$300 million the state had received. The meeting was limited only to members of the General Assembly. No members of outside groups such as the public health department, smoking prevention advocate groups, health care providers such as hospitals, and managed care organizations were allowed to witness the proceedings. Representative Upfore Reelection was the first speaker. He started the discussion by stating that most of the settlement money if not all of it should go back to the taxpayers. It belongs to them because they already paid and continue to pay for the tobacco-related health care costs. This money is a payback to them for what they already spent and continue to spend. It does not mean we should add more dollars to prevent smoking because this money was not given to the state for that reason. "I recommend we allocate the money to be used as a tax credit and urge you to support this decision", said Representative Upfore Reelection. Representative Veri Sensible, a school of public health graduate, objected to her colleague's opinion. She stated that spending extra dollars on smoking prevention would save the taxpayers a tremendous amount of money in the future. The conclusive evidence is that comprehensive state tobacco prevention and control programs can reduce tobacco use and the economic burden of tobacco related diseases. This type of heated discussion continued until July 2000.

During the discussions, the State of Confusion did not include any of the essential public health services to determine how to allocate the money. No tobacco experts were consulted with in order to determine how the funds should be divided. The legislators made all of the decisions.

Distribution of Dollars State of Confusion

Tobacco Settlement Funds (TSF) Received 2000-01: **\$300 Million**
 CDC Recommendation for Tobacco Prev. and Control: **\$65-181 Million**

Programs that have a direct effect on tobacco prevention and control:

Amount Allocated	Description
\$5 Million	Youth Prevention
\$5 Million	Adult Cessation
\$3 Million	Eliminate Second Hand Smoke Exposure
TOTAL	\$13 Million
% of TSF	4.3%
% of CDC Minimum	20.0%

Programs that have an effect on Public Health:

Amount Allocated	Description
\$12 Million	HIV/AIDS Research
\$20 Million	Diabetes Research
\$25 Million	Gang Prevention
TOTAL	\$57 Million
% of TSF	19.0%

Programs that do not have an effect on tobacco prevention and control nor Public Health:

Amount Allocated	Description
\$40 Million	Rainy Day Fund
\$40 Million	State Prisons
\$50 Million	State Tobacco Farmers
\$100 Million	Tax Credit
TOTAL	\$230 Million
% of TSF	77.0%

State Wanna Be

State Wanna Be was an industrial state and had suffered recently from a slowing economy, which led to a significant increase in the number of people with incomes below poverty level. According to Healthy People 2010, individuals who are poor are significantly more likely to smoke than individuals of middle or high income (34 percent compared to 21 percent). Before the MSA, State Wanna Be was spending about \$20 million annually on tobacco prevention and control programs. A major source of funding was a cigarette excise tax. Data from Healthy People 2010 indicated that (1) increasing excise taxes on cigarettes is one of the most cost-effective short-term strategies to reduce tobacco consumption among adults and to prevent initiation among youth and (2) the ability to sustain lower consumption increases when the tax increase is combined with an antismoking campaign. Since establishing these programs, the rate of tobacco use had been slightly decreasing steadily. The Center for Disease Control and Prevention's recommended range of funding for tobacco prevention and control programs for State Wanna Be was \$63- \$177 million annually.

In April 2000, the General Assembly of State Wanna Be met to discuss how to distribute the \$304 million the state had received through the MSA. The initial meetings were limited only to members of the General Assembly. However, the Master Settlement Agreement State Committee had several public meetings in order to listen to various groups' points of view and how the groups thought the money should be spent. Represented at the hearings were members of the public health department, nonprofit health organizations, the highway safety and control commission, police and fire departments, state and private universities and students and administrators from grade schools, junior highs and high schools across the state. Mr. Keepa Low Profile, the Director of the State Wanna Be Public Health Department, was unable to completely express how he thought the money should be divided due to the fact that this topic was a very political issue. His proposal was very similar to the one the Governor was promoting. The nonprofit health organizations pushed for the money to follow the CDC recommended guidelines for "best practices." The highway safety and control commission articulated that there was a real need for the highways of the state to be repaired. Policemen and firemen thought the money should be used for new patrol cars with the latest technology and new fire trucks. They felt this would keep the residents of State Wanna Be safe. The state and private universities suggested a new scholarship fund be set up for the residents, who would otherwise be unable to attend college. The reasoning was that this would allow those individuals that were poor to receive an education and therefore be less likely to smoke. Students spoke on how they were the targets of the tobacco industry and they would like to see the money spent on youth prevention and cessation.

A total of two hearings were held, one in May and the other in June. The legislators took into account what the members of their state said, however in the long run the ultimate decision still rested on the legislators. The final allocations were decided on in July of 2000. State Wanna Be, through the assistance of the nonprofit health organizations, used the essential public health service of evaluating the effectiveness, accessibility, and quality of personal and population-based health services. In addition from the students' recommendations, the state developed policies and plans that supported community health efforts.

Distribution of Dollars State Wanna Be

Tobacco Settlement Funds (TSF) Received 2000-01: **\$304 Million**
 CDC Recommendation for Tobacco Prev. and Control: **\$63-177 Million**

Programs that have a direct effect on tobacco prevention and control:

Amount Allocated	Description
\$13 Million	Youth Prevention
\$9 Million	Adult Cessation
\$7 Million	Eliminate Second Hand Smoke Exposure
\$11 Million	Eliminate Disparities Related to Tobacco
TOTAL	\$40 Million
% of TSF	13.0%
% of CDC Minimum	63.0%

Programs that have an effect on Public Health:

Amount Allocated	Description
\$5 Million	Dental Research
\$15 Million	Diabetes Research
\$25 Million	Cardiovascular Disease Prevention
\$50 Million	Improvement of Health Care System for Low SES Individuals
TOTAL	\$95 Million
% of TSF	31.0%

Programs that do not have an effect on tobacco prevention and control nor Public Health:

Amount Allocated	Description
\$35 Million	Restructuring of Selected Golf Courses
\$34 Million	State Highway Safety and Control Commission
\$100 Million	College Scholarship Fund
TOTAL	\$169 Million
of TSF	56.0%

Exemplary State

Exemplary State had relatively no experience or knowledge concerning the state's tobacco problem. Before the MSA, Exemplary State was indirectly spending money on tobacco prevention but no true dollar amount could be calculated. The Center for Disease Control and Prevention's recommended range of funding for tobacco prevention and control programs for Exemplary State was \$64- \$176 million annually.

In February 2000, the General Assembly of Exemplary State met to discuss how to distribute the \$306 million the state had received through the MSA. The initial meetings were limited only to members of the General Assembly however a few concerned Senators and Representatives investigated and consulted with national, state and local tobacco authorities. Senator Pre Vention stated that an initial assessment needed to be done in order to ascertain where and which programs were needed. Statistics on current cigarette use by youth and adults and the average annual deaths related to smoking were gathered for each county. Next, Representative Breathe Easy spoke about the need to develop policies and plans. This would ensure that the money that was received over the next 25 years would be put to the best possible use. One of the policies he felt strongly about was eliminating exposure to secondhand smoke in workplaces, restaurants and homes. After doing some of his own investigating Representative Elimi Nate Cancer thought that focusing on adult cessation would ultimately lead to youth prevention. Senator Oso Smart agreed with her colleagues and added that there was a definite need for a competent tobacco prevention workforce. This workforce should not only be in the community offering direct services but also mobilizing the community to sustain the comprehensive tobacco prevention and control efforts once the tobacco workforce had left the community. After these initial discoveries the state held three hearings that were open to the public and many members of the state attended. The final decision of how to spend the \$306 million was decided in June of 2000.

Exemplary State decided to follow the CDC recommended guidelines for how to spend their money. Since the state is an exemplary state it followed several of the essential public health services. Representative Pre Vention ensured that the health problems of the community were identified and diagnosed. She had her staff members research the impact tobacco has had on the state. Representative Breathe Easy made certain that there were policies and plans in place that supported individual and community tobacco efforts. A competent public health workforce was put in place due to Senator Oso Smart's insight.

Distribution of Dollars Exemplary State

Tobacco Settlement Funds (TSF) Received 2000-01: **\$306 Million**
 CDC Recommendation for Tobacco Prev. and Control: **\$64-176 Million**

Programs that have a direct effect on tobacco prevention and control:

Amount Allocated	Description
\$20 Million	Community Programs to Reduce Tobacco Use
\$5 Million	Chronic Disease Programs to Reduce Burden of Tobacco Related Diseases
\$13 Million	School Programs
\$10 Million	Enforcement
\$10 Million	Statewide Programs
\$21 Million	Counter-marketing
\$47 Million	Cessation Programs
\$16 Million	Surveillance and Evaluation
\$8 Million	Administration and Management
TOTAL	\$150 Million
% of TSF	49.0%
% of CDC Minimum	234.0%

Programs that have an effect on Public Health:

Amount Allocated	Description
\$11 Million	Prescription Drugs for the Elderly
\$20 Million	Cancer Research
\$25 Million	Cardiovascular Disease Prevention
\$50 Million	Health Insurance Improvements
TOTAL	\$106 Million
% TSF	35.0%

Programs that do not have an effect on tobacco prevention and control nor Public Health:

Amount Allocated	Description
\$20 Million	College Scholarship Fund
\$30 Million	Trust Fund
TOTAL	\$50 Million
% of TSF	16.0%

These three states along with the other 43 states have the task of deciding how the money should be spent for the next 24 years. Every year the state legislatures will decide how the money will be allocated. Various organizations will lobby the legislators to vote in their favor for funding. With such large amounts of money to be spent and no obligations to spend it on tobacco, the states have an extremely important role in deciding the future of their careers, the future of the state's economy and the future of tobacco's toll on themselves and their residents.