



Highlights of [GAO-05-312](#), a report to congressional requesters

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, 46 states and four of the nation's largest tobacco companies signed a Master Settlement Agreement (MSA) that requires the tobacco companies to make annual payments to the states in perpetuity as reimbursement for past tobacco-related health care costs. The MSA commits the tobacco companies to pay the states approximately \$206 billion over the first 25 years. Some of the states have arranged to receive upfront proceeds based on the amounts that tobacco companies owe by issuing bonds backed by future payments.

The Farm Security and Rural Investment Act of 2002 requires GAO to report annually on the amount of MSA payments that states receive through fiscal year 2006. This fourth report provides information on

- the payments the 46 states received in fiscal year 2004 and expect to receive in fiscal year 2005 and
- states' allocations of these funds to various program categories and changes from prior years.

To conduct this study, GAO surveyed the 46 states.

www.gao.gov/cgi-bin/getrpt?GAO-05-312.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Robert A. Robinson, 202-512-3841, robinsonr@gao.gov.

TOBACCO SETTLEMENT

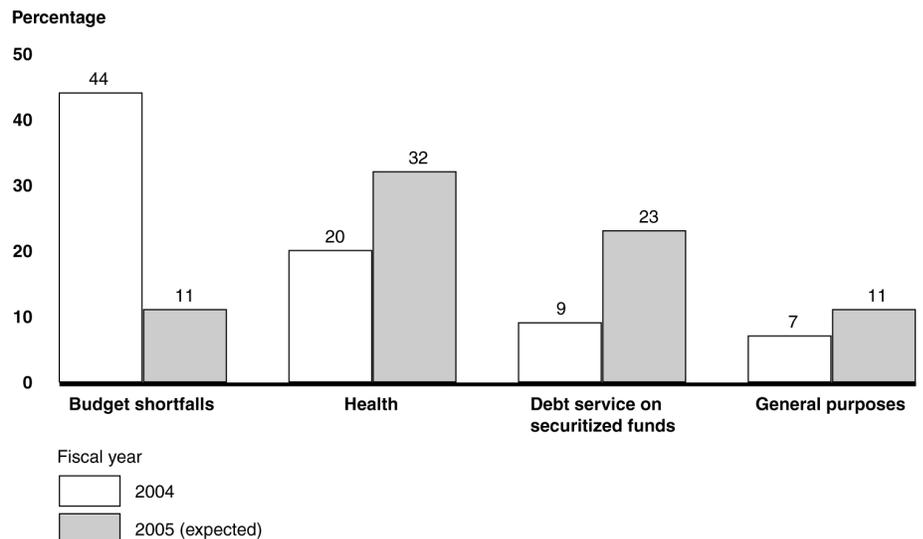
States' Allocations of Fiscal Year 2004 and Expected Fiscal Year 2005 Payments

What GAO Found

The 46 states party to the MSA expect to receive about \$15.1 billion in fiscal years 2004 and 2005. States reported they received about \$9.7 billion in fiscal year 2004 and expect to receive about \$5.4 billion in fiscal year 2005. About 70 percent of these amounts will be MSA payments from the tobacco companies, and 30 percent will be proceeds from the sale of bonds (securitized proceeds) backed by payments tobacco companies will make in the future. In addition, only 1 state expects to receive securitized tobacco settlement funds in fiscal year 2005, so the amount of securitized proceeds are expected to decline in fiscal year 2005 to about \$64 million, down from the \$4.4 billion states received in 2004. Over the 4 prior fiscal years, states also reported receiving a total of about \$36.8 billion. These amounts include \$25.7 billion in payments from tobacco companies and, for some states, \$11.1 billion in securitized proceeds.

The MSA allows states to use their tobacco settlement payments for any purpose. States reported that they used the largest portions of the fiscal year 2004 payments to address budget shortfalls (about 44 percent) and to fund health-related programs (20 percent). Compared with fiscal year 2004, states in fiscal year 2005 expect to decrease allocations to address budget shortfalls (11 percent) and to increase allocations to both health-related programs (32 percent) and debt service on securitized funds (23 percent).

Categories to Which States Allocated the Largest Portion of Tobacco Settlement Payments (Fiscal Year 2004 and Expected Fiscal Year 2005 Allocations)



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