United States General Accounting Office

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Report to Congressional Requesters

February 2003

TOBACCO SETTLEMENT

States' Allocations of Fiscal Years 2002 and 2003 Master Settlement Agreement Payments

GAO-03-407

February 2003

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States' Allocations of Fiscal Years 2002 and 2003 Master Settlement Agreement Payments

GAO Accountability • Integrity • Reliability

Highlights

Highlights of GAO-03-407, a report to congressional requesters

Why GAO Did This Study

The Master Settlement Agreement (MSA) requires four of the nation's largest tobacco companies to make annual payments to states in perpetuity as reimbursement for past health care costs related to tobacco use. The Farm Security and Rural Investment Act of 2002 requires GAO to report annually on the amount of MSA payments states receive and how they allocate these payments for the years 2002 through 2006.

This report provides information on the

- amount of MSA payments that the 46 states party to the MSA received for fiscal year 2002 and the amount these states expect to receive during fiscal year 2003;
- states' allocations of MSA funds to various program categories for fiscal years 2002 and 2003 and changes in these allocations from prior years; and
- changes in states' decision-making frameworks for MSA funds since fiscal year 2001.

To conduct this study, GAO sent a survey to budget officials in the 46 states party to the MSA. GAO did not independently verify the accuracy of the information provided by the state budget offices.

www.gao.gov/cgi-bin/getrpt?GAO-03-407.

To view the full report, including the scope and methodology, click on the link above. For more information, contact Anu Mittal at (202) 512-3841 or mittala@gao.gov.

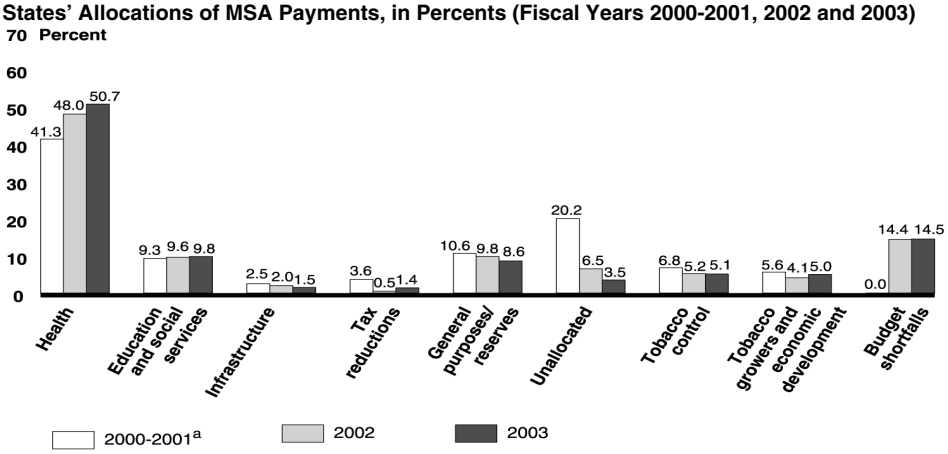
What GAO Found

The 46 states party to the MSA reported receiving a total of about $6.2 billion from the tobacco companies during fiscal year 2002 and expect to receive an additional $6.2 billion for fiscal year 2003. These amounts supplement the $13.2 billion the states had already received through April 2001. In addition, 12 of the 46 states issued bonds backed by all or a portion of their future MSA payments, a process known as securitization. Securitization allowed these states to receive upfront payments totaling an additional $10.6 billion for the 2-year period in lieu of some or all of their future MSA payments.

The MSA allows states to use their payments for any purpose. For fiscal years 2002 and 2003, states reported allocations of MSA funds for a variety of programs and budget priorities, although somewhat different than the allocations made for fiscal years 2000 and 2001. For example, for fiscal years 2002 and 2003, states reported that about half of their MSA payments were allocated to health-related programs, which is an increase from the 41 percent allocated in fiscal years 2000 and 2001. States also allocated MSA payments to cover anticipated budget shortfalls, for education and social services, and for general purposes and reserves. The 12 states that securitized future MSA payments allocated these proceeds primarily to cover budget shortfalls (31 percent for fiscal year 2002 and 66 percent for fiscal year 2003). Securitized proceeds were also allocated for infrastructure, education and social services, and health programs.

About half of the 46 states reported changes to the frameworks they use for making decisions related to MSA funds since fiscal year 2001. The change most frequently reported by the states was the passage of legislation affecting the use of MSA funds. Other changes included the establishment of new goals or revised requirements for the use of MSA funds and increases or decreases in the use of dedicated funds, such as endowments or trusts.

States' Allocations of MSA Payments, in Percents (Fiscal Years 2000-2001, 2002 and 2003)



Source: State budget offices (data), GAO (analysis).

[a]In June 2001, GAO reported on states' combined fiscal years 2000 and 2001 allocations of MSA payments.

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Abbreviations

MSA	Master Settlement Agreement
NASBO	National Association of State Budget Officers
NGA	National Governors Association
MTF	Medical Trust Fund

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G A O
Accountability * Integrity * Reliability

United States General Accounting Office
Washington, D.C. 20548

February 28, 2003

Congressional Requesters

The Master Settlement Agreement (MSA), signed in November 1998 by the attorneys general of 46 states,[1] requires four of the nation's largest tobacco companies to make annual payments to states in perpetuity as reimbursement for health care costs related to tobacco use, such as Medicaid expenditures. This agreement, the largest civil settlement in U.S. history, commits the tobacco companies to pay approximately $206 billion over the first 25 years and imposes no requirements on how states spend their payments.[2] Four states are not party to the MSA—Florida, Minnesota, Mississippi, and Texas. These states reached earlier, individual settlements with the tobacco companies under which they will receive payments totaling $40 billion over 25 years.

The Farm Security and Rural Investment Act of 2002 (2002 Farm Bill) requires GAO to report annually on the amount of tobacco settlement payments states receive and how they use these payments for the years 2002 through 2006. This report is the second in a series of reports responding to the 2002 Farm Bill requirement. On December 3, 2002, we issued a report entitled *Tobacco Settlement: States' Allocations of Phase II Funds* (GAO-03-262R) that provided information on the National Tobacco Grower Settlement Trust (commonly referred to as the Phase II agreement). GAO previously reported in June 2001 on states' receipt and use of MSA payments for fiscal years 2000 and 2001.[3]

This report discusses the (1) amount of payments received by the 46 states party to the MSA during fiscal year 2002 and the amount of payments these states expect to receive during fiscal year 2003, (2) states' allocation of MSA funds to various program categories for fiscal years 2002 and 2003 and

[1] The District of Columbia and the 5 U.S. territories are also included in the agreement; however, this study only reports on the 46 states that are party to the agreement.

[2] The $206 billion includes $204.5 billion in estimated total payments to the 46 states, the District of Columbia, and the 5 U.S. territories and an additional $1.8 billion for other initiatives agreed to in the MSA, including a national foundation dedicated to significantly reducing the use of tobacco products by youth and administrative costs of the National Association of Attorneys General.

[3] U.S. General Accounting Office, *Tobacco Settlement: States' Use of Master Settlement Agreement Payments*, GAO-01-851 (Washington, D.C.: June 29, 2001).

changes in these allocations from prior years, and (3) changes in states' decision-making frameworks for MSA funds since fiscal year 2001.

To address our objectives, we surveyed the budget offices in each of the 46 states and requested budget-related information for fiscal years 2002 and 2003.[4] Our study focuses on the states' share of MSA payments and does not include information on MSA payments made to counties and cities in New York and California; it also does not include information on MSA payments made to the District of Columbia and the five U.S. territories. We summarized the states' categorization of their MSA payment allocations for fiscal years 2002 and 2003 using the eight program categories presented in our 2001 report. Because of changes in the fiscal status of states during the last two years, we added a ninth category to account for amounts that states allocated to balance state budgets and close gaps or reduce deficits resulting from lower than anticipated revenues or increased mandatory or essential expenditures (budget shortfalls). We did not verify the accuracy of the information provided to us by the state budget offices; however, as needed, we contacted some states to clarify the information they provided. We conducted our work from July 2002 through December 2002 in accordance with generally accepted government auditing standards. See appendix I for more information on our scope and methodology and detailed definitions of the nine program categories used in this report.

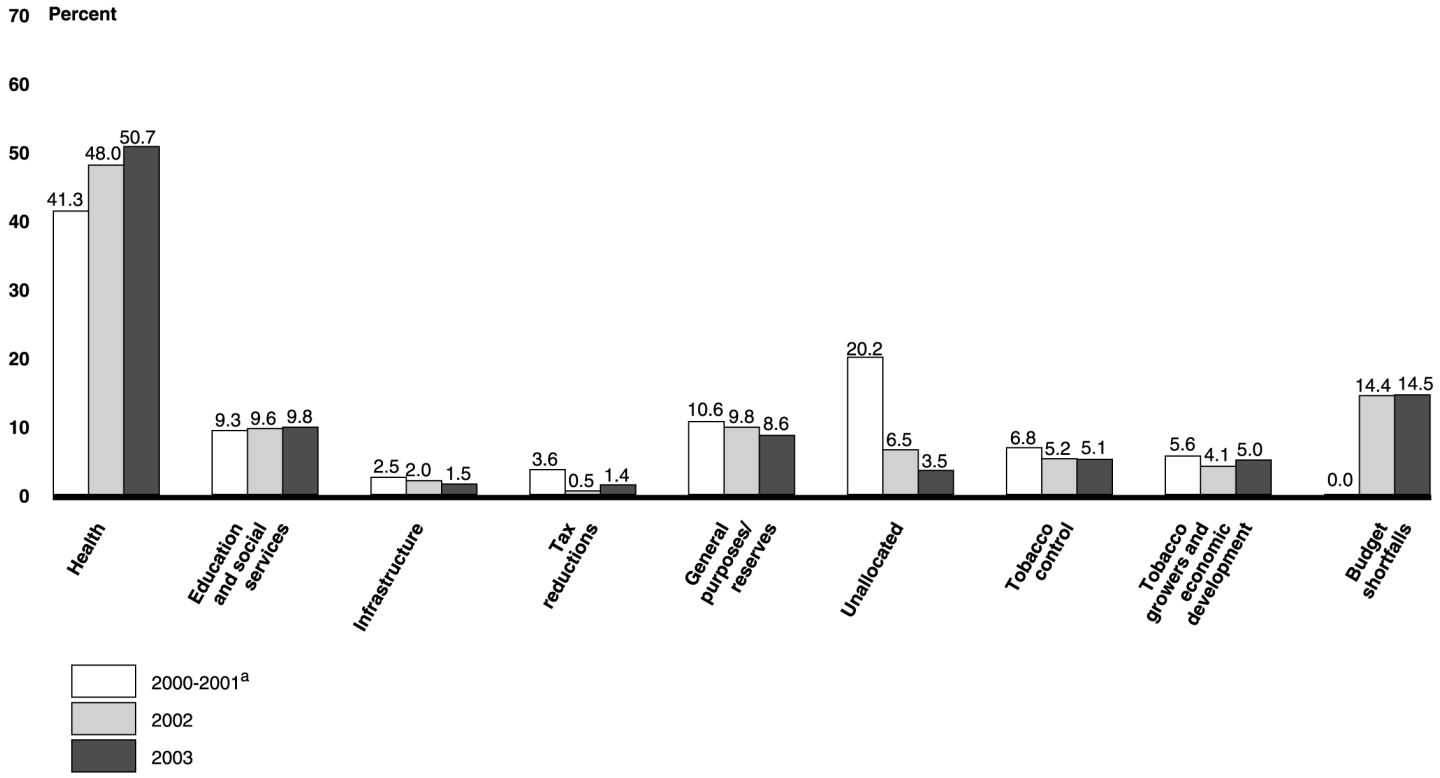
Results in Brief

During fiscal year 2002, the 46 states party to the Master Settlement Agreement reported receiving a total of about $6.2 billion from the tobacco companies. For fiscal year 2003, these states expect to receive an additional $6.2 billion. These amounts supplement the $13.2 billion that the states had already received in payments through April 2001. In addition, 12 of the 46 states reported that in either fiscal year 2002 or 2003 they had issued bonds backed by all or a portion of their future MSA payments (a process commonly known as securitization). Securitization allowed these states to receive upfront payments totaling an additional $10.6 billion for the two-year period in lieu of all or a portion of their future MSA payments.

[4] Throughout this report, fiscal year refers to the state's fiscal year. In most states, the fiscal year begins on July 1 and ends on June 30; the exceptions are Alabama and Michigan, where the fiscal year begins on October 1, and New York where the fiscal year begins on April 1.

The MSA allows states to use their payments for any purpose, and for fiscal years 2002 and 2003, the 46 states allocated MSA funds for a variety of programs and budget priorities. These allocations were somewhat different than those for fiscal years 2000 and 2001. For fiscal years 2002 and 2003, states reported that about half of their MSA payments have been allocated to health-related programs. This is an increase from the 41 percent allocated in fiscal years 2000 and 2001. Other categories that received MSA funds included budget shortfalls, education and social services, and general purposes and reserves. For fiscal years 2002 and 2003, states reported allocating 5 percent of MSA funds for tobacco control programs, such as youth education and cessation programs. Although this is a decrease from the 7 percent they allocated to tobacco control programs in fiscal years 2000 and 2001, some states rely on other sources of funds for these programs. Figure 1 shows states' allocations of MSA payments for fiscal years 2000-2001, 2002, and 2003 for 9 program categories. (See app. I for a definition of each program category.)

Figure 1: States' Allocations of MSA Payments, in Percents (Fiscal Years 2000-2001, 2002 and 2003)



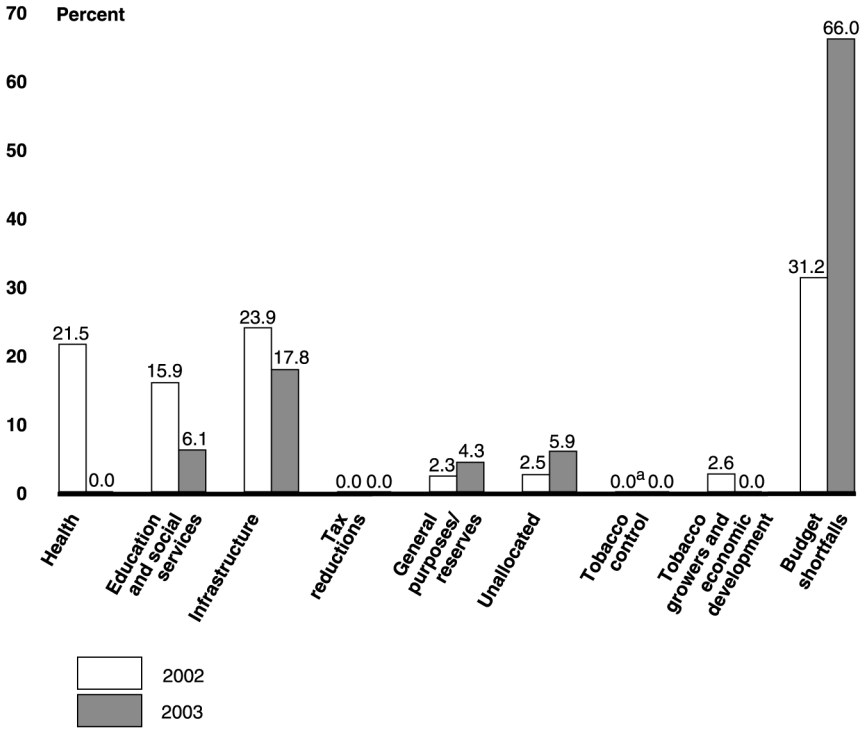
Source: State budget offices (data), GAO (analysis).

Note: Percentages may not total 100 due to rounding.

[a]GAO's June 2001 report combined states' allocations of MSA payments for fiscal years 2000 and 2001.

The 12 states that securitized future MSA payments primarily allocated these funds to cover budget shortfalls. For fiscal year 2002, 31 percent of these states' securitized proceeds were allocated to budget shortfalls, and for fiscal year 2003, 66 percent were allocated for this purpose. Other areas to which these states allocated securitized proceeds included infrastructure, education and social services, and health.

Figure 2: States' Allocations of Securitized MSA Proceeds, in Percents (Fiscal Years 2002 and 2003)



Source: State budget offices (data), GAO (analysis).

Notes: We did not obtain data on states' allocations of securitized MSA proceeds for fiscal years 2000 and 2001.

Percentages may not total 100 due to rounding.

[a]The total allocation to tobacco control for fiscal year 2002 was 0.04 percent.

About half of the 46 states indicated that they had made changes to the framework they use to make decisions related to MSA funds since fiscal year 2001. The change most frequently reported by the states was the passage of legislation affecting the use of MSA funds. States also reported other changes, including the establishment of new goals or changes in their requirements for the use of MSA funds, modifications to their methods of budgeting MSA funds, and variations in the use of dedicated funds, such as endowments or trusts.

Background

Beginning in the mid 1990s, states and some localities sued tobacco companies, alleging that the industry had violated antitrust and consumer protection laws, withheld information about the adverse health effects of tobacco, manipulated nicotine levels to keep smokers addicted, and conspired to hold back less risky and less addictive tobacco products from the market. The states sought to obtain equitable relief and damages, including consumer protection and/or antitrust laws, in order to further the states' policies regarding public health, including policies adopted to achieve a significant reduction in smoking by youth. During 1997 and 1998, four states—Florida, Minnesota, Mississippi, and Texas—settled their lawsuits with the tobacco industry by negotiating independent agreements. In November 1998, four of the nation's largest tobacco companies—Philip Morris Incorporated, R.J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation, and Lorillard Tobacco Company (referred to as the "original participating manufacturers")[5]—negotiated an agreement with the attorneys general of the remaining 46 states, the District of Columbia, and the 5 U.S. territories, thereby settling a number of lawsuits brought by these parties against them. The terms of this agreement, known as the MSA, apply only to those tobacco companies and states that are party to the agreement. Under the MSA, the tobacco companies are required to provide monetary relief to the states in the form of annual payments and reimbursement for attorney fees. For additional information on the agreement, refer to our June 2001 report on the MSA.[6]

Each state receives a share of the annual MSA payments made by tobacco companies based on a fixed percentage as agreed to in the MSA. Table 1 shows each state's share of annual MSA payments.

[5] Several other tobacco companies have joined the MSA since the time of the agreement.

[6] GAO-01-851.

Table 1: Percent Allocation of MSA Payments for 46 States

State	Percent
Alabama	1.6161308
Alaska	0.3414187
Arizona	1.4738845
Arkansas	0.8280661
California	12.7639554
Colorado	1.3708614
Connecticut	1.8565373
Delaware	0.3954695
Georgia	2.4544575
Hawaii	0.6018650
Idaho	0.3632632
Illinois	4.6542472
Indiana	2.0398033
Iowa	0.8696670
Kansas	0.8336712
Kentucky	1.7611586
Louisiana	2.2553531
Maine	0.7693505
Maryland	2.2604570
Massachusetts	4.0389790
Michigan	4.3519476
Missouri	2.2746011
Montana	0.4247591
Nebraska	0.5949833
Nevada	0.6099351
New Hampshire	0.6659340
New Jersey	3.8669963
New Mexico	0.5963897
New York	12.7620310
North Carolina	2.3322850
North Dakota	0.3660138
Ohio	5.0375098
Oklahoma	1.0361370
Oregon	1.1476582
Pennsylvania	5.7468588

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State	Percent
Rhode Island	0.7189054
South Carolina	1.1763519
South Dakota	0.3489458
Tennessee	2.4408945
Utah	0.4448869
Vermont	0.4111851
Virginia	2.0447451
Washington	2.0532582
West Virginia	0.8864604
Wisconsin	2.0720390
Wyoming	0.2483449

Source: Master Settlement Agreement.

The MSA does not impose any restrictions on how states use the payments they receive from the tobacco companies. As we reported in 2001, many states gave high priority to the use of MSA payments for health-related funding. During recent years, states have seen a decrease in their general revenues because of weaknesses in state tax collections and the stalled national economy while spending pressures have continued to mount. According to a recent report by the National Governors Association (NGA) and the National Association of State Budget Officers (NASBO), to help manage their fiscal year 2002 budget shortfalls, some states have turned to a variety of short-term solutions, including drawing from sources such as the MSA payments.

States Expect to Receive More Than $12 Billion in MSA Payments for Fiscal Years 2002 and 2003

The 46 states party to the MSA received a total of about $6.2 billion during fiscal year 2002, and expect to receive an additional $6.2 billion for fiscal year 2003. These amounts are in addition to the $13.2 billion that states received through April 2001.[7] The amount of payments that each state received in fiscal year 2002 ranged from about $19 million for Wyoming to over $400 million for California.[8] Table 2 shows the amount of MSA payments each state reported receiving in fiscal year 2002 and the amount each state expects to receive in fiscal year 2003.

Table 2: Fiscal Year 2002 MSA Payments Received and Fiscal Year 2003 Payments Expected by the 46 States

State	Actual fiscal year 2002 MSA payments	Expected fiscal year 2003 MSA payments
Alabama	$121,567,706	$116,904,241
Alaska	24,800,000	24,500,000
Arizona	111,955,069	105,656,500
Arkansas	62,180,504	63,149,680
California	474,992,000[a]	474,400,000[a]
Colorado	100,304,008	103,757,361
Connecticut	140,000,000	133,000,000
Delaware	29,800,000	29,400,000
Georgia	184,650,080	175,080,760
Hawaii	43,751,843	50,508,337
Idaho	26,397,202	26,953,192
Illinois	312,276,311	295,190,266
Indiana	149,200,000	150,800,000
Iowa	63,537,410	63,080,096
Kansas	60,998,554	56,000,000
Kentucky	132,777,390	125,600,000
Louisiana	165,021,020	163,196,404

[7] The $13.2 billion received through April 2001 does not include the payment New York received in April 2001. Because New York's fiscal year 2002 began on April 1, 2001, the state's April 2001 payment is included in the amount states received during fiscal year 2002. In addition, as of April 2001, Missouri had not yet received any MSA payments because the state did not receive approval of the MSA from its state court until late April 2001.

[8] This amount does not include MSA payments made to the counties and cities in California.

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State	Actual fiscal year 2002 MSA payments	Expected fiscal year 2003 MSA payments
Maine	56,317,761	55,669,879
Maryland	164,247,000	164,791,000
Massachusetts	304,500,000	288,100,000
Michigan	328,200,000	328,600,000
Missouri	172,700,000	164,000,000
Montana	31,079,018	31,605,000
Nebraska	42,543,266	44,250,000
Nevada	44,628,083	44,134,648
New Hampshire	48,725,000	47,400,000
New Jersey	283,872,000	275,198,000
New Mexico	43,600,000	42,900,000
New York	399,000,000[a]	500,000,000[a]
North Carolina	175,835,882	177,862,000
North Dakota	26,780,712	26,536,441
Ohio	368,587,515	372,700,000
Oklahoma	75,872,921	74,778,992
Oregon	86,524,314	84,950,966
Pennsylvania	433,529,654	424,255,000
Rhode Island	52,601,291	53,410,000
South Carolina	86,078,586	85,128,014
South Dakota	25,358,785	25,803,143
Tennessee	180,705,600	170,000,000
Utah	32,551,745	31,897,822
Vermont	30,920,000	29,330,000
Virginia	149,613,891	151,354,360
Washington	150,000,000	149,000,000
West Virginia	64,861,064	74,392,000
Wisconsin	156,215,304	157,602,800
Wyoming	18,735,007	12,789,960
Total	**$6,238,393,496**	**$6,245,616,862**

Source: State budget offices.

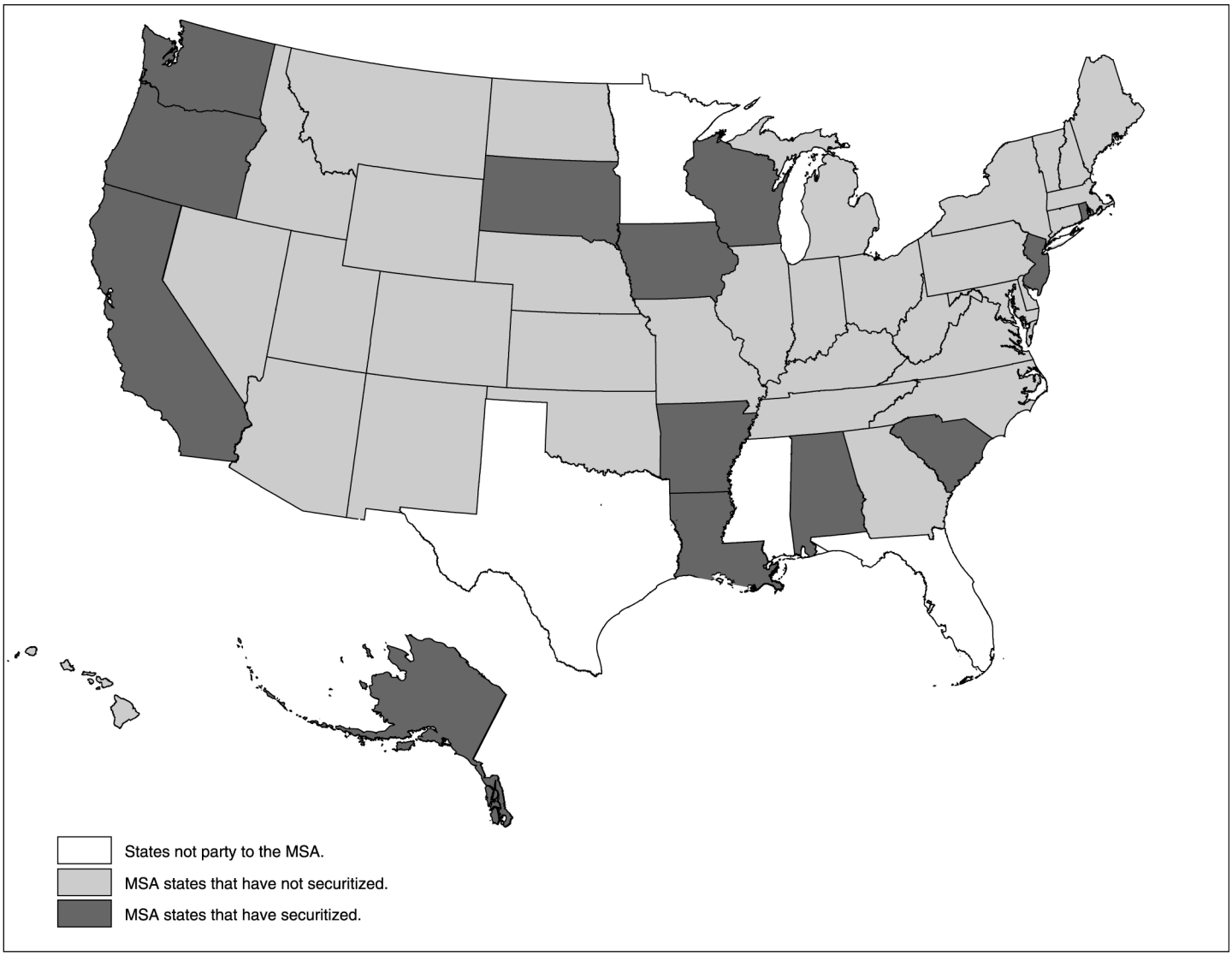
[a]The amounts of MSA payments received and expected by New York and California do not include MSA payments made to the counties and cities within those states.

In addition to MSA payments received, 12 of the 46 states also received $10.6 billion for fiscal years 2002 and 2003 by issuing bonds backed by all or a portion of their future MSA payments in return for an upfront payment (a process commonly known as "securitization").[9] Ten states reported securitizing all or a portion of their MSA payments for the first time in fiscal years 2002 or 2003, and Alabama and Alaska securitized additional MSA payments.[10] Figure 3 shows the MSA states that have received securitized proceeds. Table 3 shows the amounts of securitized proceeds that the 12 states received for fiscal years 2002 and 2003. During the course of our study, we learned that other states, such as Illinois, Missouri, and Virginia are currently considering the use of securitization in the future.

[9]"Securitization" is the process of selling future tobacco settlement revenue streams to a special purpose entity established for the purpose of issuing bonds backed by these funds and paying the debt service on the bonds.

[10]In June 2001, we reported that three states—Alabama, Alaska and South Carolina—had securitized all or a portion of their MSA payments. See appendix II for information on individual states' use of securitization.

Figure 3: MSA States that Have Received Securitized Proceeds and Those that Have Not (Fiscal Years 2000-2003)



Source: State budget offices (data), GAO (analysis).

Note: Alabama and Alaska initially securitized a portion of their MSA payments in fiscal years 2000 and 2001, and securitized additional payments in fiscal year 2002. South Carolina securitized all of its MSA payments in fiscal year 2001. Ten other states securitized all or a portion of their MSA payments for the first time in fiscal years 2002 or 2003.

Table 3: Securitized Proceeds Received by 12 States for Fiscal Years 2002 and 2003

State	Fiscal year 2002 securitized proceeds	Fiscal year 2003 securitized proceeds
Alabama	$103,760,000	$0
Alaska	110,000,000	0
Arkansas	58,268,549	0
California	0	4,500,000,000
Iowa	579,596,212	0
Louisiana	1,069,510,894	0
New Jersey	0	1,488,141,494
Oregon	0	150,000,000
Rhode Island	544,238,410	0
South Dakota	0	243,596,553
Washington	0	450,000,000
Wisconsin	1,275,002,400	0
Total	**$3,740,376,465**	**$6,831,738,047**

Source: State budget offices.

States' Allocations of MSA Payments Changed Since 2001

For fiscal years 2002 and 2003, the program categories to which states allocated MSA and securitized MSA funds varied and had changed somewhat from the allocations made in fiscal years 2000 and 2001. We found that MSA payments that were not securitized were primarily allocated by the 46 states to health-related programs. In contrast, the 12 states that securitized some or all of their MSA payments generally allocated these funds to cover budget shortfalls and finance infrastructure development.

In fiscal years 2002 and 2003, states reported that they had allocated $7.2 billion and $6.5 billion, respectively, of their MSA payments. In addition, states allocated $4.5 billion and $7.0 billion of securitized MSA proceeds for fiscal years 2002 and 2003, respectively. These amounts exceed the actual MSA payments and securitized proceeds that states received for these two years primarily because the amounts include carry-over funds from prior years and the interest earned on these funds.

Our analysis of states' use of MSA payments (those funds that have not been securitized) shows that the largest amount of funds was allocated to

health-related programs. For fiscal year 2002, 48 percent of MSA payments was allocated to health care programs, such as Medicaid, Children's Health Insurance Program, state immunization programs, and cancer research and prevention, and for fiscal year 2003, states allocated 51 percent of the payments they expect to receive to these programs. This allocation is up from 41 percent for fiscal years 2000 and 2001. Other major areas to which funds were allocated included budget shortfalls (14 percent for fiscal year 2002 and 15 percent for fiscal year 2003); education and social services, such as substance abuse treatment and intervention plans, child care management, and pre-school and scholarship programs (10 percent for both years); and general purposes and reserves (10 percent for fiscal year 2002 and 9 percent for fiscal year 2003). In addition, states allocated about 5 percent of their payments to tobacco control programs for both years—such as tobacco prevention, cessation, and education programs, reducing tobacco sales to minors, and tobacco prevention and cessation grants. This allocation is down from the 7 percent allocated by the states for fiscal years 2000 and 2001. However, as we reported in 2001, states do not solely rely on MSA payments to fund tobacco control programs. Some states fund tobacco control programs from other sources, such as cigarette excise taxes. Tables 4 and 5 show the percentage of each state's individual allocation of MSA payments to various program categories for fiscal years 2002 and 2003, respectively. (See app. I for definitions of the program categories and a description of our methodology.)

Table 4: Allocations of MSA Payments by Category, Fiscal Year 2002

State	Budget shortfall	Tobacco control	Assistance to tobacco growers and economic development	Health	Education and social services	Tax reductions	Infrastructure	General purposes/ reserves	Unallocated
Alabama	0.0	0.6	0.0	47.2	35.5	0.0	0.0	16.7	0.0
Alaska	0.0	51.1	0.0	8.5	0.0	0.0	0.0	0.0	40.4
Arizona	0.0	0.0	0.0	100.0	0.0	0.0	0.0	0.0	0.0
Arkansas	0.0	31.0	0.0	69.0	0.0	0.0	0.0	0.0	0.0
California	0.0	0.0	0.0	84.9	0.0	0.0	0.0	15.1	0.0
Colorado	70.7	4.7	0.0	15.8	8.8	0.0	0.0	0.1	0.0
Connecticut	0.0	12.3	0.0	2.8	0.0	0.0	0.0	84.9	0.0
Delaware	0.0	16.4	0.0	68.7	1.1	0.0	13.1	0.6	0.0
Georgia	0.0	14.3	19.8	61.8	4.1	0.0	0.0	0.0	0.0
Hawaii	0.0	24.8	0.0	34.7	0.0	0.0	0.0	40.5	0.0
Idaho	66.3	3.5	0.0	2.9	3.2	0.0	0.0	0.0	24.2
Illinois	0.0	15.3	0.0	51.3	0.8	11.2	7.0	1.8	12.6
Indiana	0.0	13.0	2.0	23.7	6.5	0.0	5.5	0.0	49.4
Iowa	0.0	0.0	0.0	100.0	0.0	0.0	0.0	0.0	0.0
Kansas	0.0	0.8	0.0	3.3	61.5	0.0	0.0	16.4	18.0
Kentucky	22.4	4.2	40.9	20.8	10.2	0.0	1.5	0.0	0.0
Louisiana	0.0	0.0	0.0	54.5	45.5	0.0	0.0	0.0	0.0
Maine	17.5	20.8	0.0	33.7	28.0	0.0	0.0	0.1	0.0
Maryland	0.0	5.5	2.0	11.5	19.4	0.0	0.0	9.7	51.8
Massachusetts	0.0	2.0	0.0	80.3	3.5	0.0	0.0	0.0	14.3
Michigan	32.3	0.4	0.0	27.5	30.1	0.0	0.0	0.0	9.7
Missouri	36.2	0.2	0.0	60.4	2.5	0.0	0.0	0.7	0.0
Montana	0.0	1.6	0.0	40.0	0.0	0.0	0.0	58.4	0.0
Nebraska	0.0	16.5	0.0	44.2	0.0	0.0	0.0	0.0	39.3
Nevada	0.0	12.0	0.0	35.1	52.4	0.0	0.0	0.5	0.0
New Hampshire	0.0	6.4	0.0	0.0	85.1	0.0	0.0	8.5	0.0
New Jersey	0.0	8.2	0.0	72.5	0.0	0.0	19.3	0.0	0.0
New Mexico	0.0	13.4	0.0	16.6	0.0	0.0	0.0	50.0	20.0
New York	0.0	10.0	0.0	90.0	0.0	0.0	0.0	0.0	0.0
North Carolina	36.4	0.0	56.8	6.8	0.0	0.0	0.0	0.0	0.0
North Dakota	0.0	8.7	0.0	1.2	44.7	0.0	45.4	0.0	0.0
Ohio	77.3	0.2	5.0	7.7	5.1	0.0	4.5	0.3	0.0

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State	Budget shortfall	Tobacco control	Assistance to tobacco growers and economic development	Health	Education and social services	Tax reductions	Infrastructure	General purposes/ reserves	Unallocated
Oklahoma	0.0	25.4	0.0	59.8	13.1	0.0	0.0	1.7	0.0
Oregon	0.0	0.0	0.0	0.0	57.4	0.0	0.0	42.6	0.0
Pennsylvania	0.0	0.0	0.0	100.0	0.0	0.0	0.0	0.0	0.0
Rhode Island	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0	0.0
South Carolina[a]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
South Dakota	0.0	0.0	0.0	0.0	100.0	0.0	0.0	0.0	0.0
Tennessee	100.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Utah	0.0	12.0	0.0	34.0	5.9	0.0	0.0	48.1	0.0
Vermont	0.0	21.4	0.0	53.6	4.6	0.0	0.0	20.4	0.0
Virginia	0.0	10.0	50.0	0.0	0.0	0.0	0.0	40.0	0.0
Washington	0.0	10.5	0.0	86.6	0.0	0.0	0.0	0.0	3.0
West Virginia	0.0	8.3	0.0	91.7	0.0	0.0	0.0	0.0	0.0
Wisconsin	0.0	3.9	0.0	0.0	0.0	0.0	0.0	96.1	0.0
Wyoming	0.0	4.6	0.0	95.4	0.0	0.0	0.0	0.0	0.0
Total state allocations	**14.4**	**5.2**	**4.1**	**48.0**	**9.6**	**0.5**	**2.0**	**9.8**	**6.5**
Total number of states	**9**	**35**	**7**	**38**	**24**	**1**	**7**	**23**	**11**

Source: State budget offices (data), GAO (analysis).

Note: Percentages may not total 100 due to rounding.

[a]South Carolina used all of its MSA payments for fiscal year 2002 to service the debt on the bonds issued when the state securitized its MSA payments in fiscal year 2001.

Table 5: Allocations of MSA Payments by Category, Fiscal Year 2003

State	Budget shortfall	Tobacco control	Assistance to tobacco growers and economic development	Health	Education and social services	Tax reduc-tions	Infrastruc-ture	General purposes/ reserves	Unallocated
Alabama	0.0	0.6	0.0	47.2	35.5	0.0	0.0	16.7	0.0
Alaska	0.0	73.8	0.0	8.2	0.0	0.0	0.0	18.0	0.0
Arizona	0.0	0.0	0.0	100.0	0.0	0.0	0.0	0.0	0.0
Arkansas	0.0	31.0	0.0	69.0	0.0	0.0	0.0	0.0	0.0
California	0.0	0.0	0.0	100.0	0.0	0.0	0.0	0.0	0.0
Colorado	0.0	20.6	0.0	33.8	16.5	0.0	0.0	23.9	5.3
Connecticut	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0	0.0
Delaware	0.0	16.4	0.0	81.5	1.4	0.0	0.0	0.6	0.0
Georgia	0.0	8.8	37.8	49.3	4.1	0.0	0.0	0.0	0.0
Hawaii	0.0	12.4	0.0	34.8	0.0	0.0	27.8	25.0	0.0
Idaho	32.8	4.2	0.0	6.2	1.4	0.0	0.0	0.0	55.5
Illinois	0.0	4.9	0.0	64.9	1.2	27.4	1.1	0.5	0.0
Indiana	0.0	11.3	2.3	35.1	15.1	0.0	6.8	0.0	29.4
Iowa	0.0	0.0	0.0	100.0	0.0	0.0	0.0	0.0	0.0
Kansas	0.0	0.9	0.0	3.5	76.7	0.0	0.0	9.5	9.4
Kentucky	0.0	4.6	45.1	37.5	7.9	0.0	4.9	0.0	0.0
Louisiana	0.0	0.4	0.0	51.4	48.3	0.0	0.0	0.0	0.0
Maine	40.3	17.7	0.0	23.4	18.6	0.0	0.0	0.1	0.0
Maryland	0.8	10.7	2.1	51.5	11.2	0.0	0.0	14.7	9.0
Massachusetts	45.9	0.9	0.0	38.0	4.3	0.0	0.0	0.0	10.9
Michigan	26.2	0.5	0.0	31.4	38.2	0.0	0.0	0.1	3.6
Missouri	53.7	0.3	0.0	44.5	0.0	0.0	0.0	1.5	0.0
Montana	0.0	1.6	0.0	40.0	0.0	0.0	0.0	58.4	0.0
Nebraska	0.0	15.8	0.0	48.5	0.0	0.0	0.0	0.0	35.7
Nevada	0.0	10.7	0.0	30.1	58.6	0.0	0.0	0.6	0.0
New Hampshire	0.0	6.3	0.0	0.0	84.4	0.0	0.0	9.3	0.0
New Jersey	0.0	0.0	0.0	98.2	0.0	0.0	1.8	0.0	0.0
New Mexico	0.0	12.5	0.0	41.3	0.0	0.0	0.0	46.2	0.0
New York	0.0	8.0	0.0	92.0	0.0	0.0	0.0	0.0	0.0
North Carolina	43.9	0.0	56.2	0.0	0.0	0.0	0.0	0.0	0.0
North Dakota	0.0	8.8	0.0	1.2	44.5	0.0	45.6	0.0	0.0
Ohio	75.9	0.2	4.5	2.3	5.1	0.0	11.9	0.2	0.0

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State	Budget shortfall	Tobacco control	Assistance to tobacco growers and economic development	Health	Education and social services	Tax reduc-tions	Infrastruc-ture	General purposes/ reserves	Unallocated
Oklahoma	0.0	27.2	0.0	44.8	26.8	0.0	0.0	1.3	0.0
Oregon	0.0	0.0	0.0	2.6	97.5	0.0	0.0	0.0	0.0
Pennsylvania	0.0	0.0	0.0	100.0	0.0	0.0	0.0	0.0	0.0
Rhode Island	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0	0.0
South Carolina[a]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
South Dakota	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0	0.0
Tennessee	100.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Utah	50.3	11.5	0.0	32.5	5.7	0.0	0.0	0.0	0.0
Vermont	0.0	30.1	0.0	55.9	2.6	0.0	0.0	11.4	0.0
Virginia	0.0	10.0	50.0	0.0	0.0	0.0	0.0	40.0	0.0
Washington	0.0	10.5	0.0	67.2	0.0	0.0	0.0	0.0	22.3
West Virginia	0.0	7.8	0.0	92.2	0.0	0.0	0.0	0.0	0.0
Wisconsin	0.0	9.7	0.0	0.0	0.0	0.0	0.0	90.3	0.0
Wyoming	0.0	19.0	0.0	19.0	62.0	0.0	0.0	0.0	0.0
Total state allocations	**14.5**	**5.1**	**5.0**	**50.7**	**9.8**	**1.4**	**1.5**	**8.6**	**3.5**
Total number of states	**10**	**34**	**7**	**37**	**23**	**1**	**7**	**23**	**9**

Source: State budget offices (data), GAO (analysis).

Note: Percentages may not total 100 due to rounding.

[a]South Carolina used all of its MSA payments for fiscal year 2003 to service the debt on the bonds issued when the state securitized its MSA payments in fiscal year 2001.

Our analysis of states' use of securitized MSA proceeds shows that the category to which the largest amount of funds were allocated was budget shortfalls—31 percent for fiscal year 2002 and 66 percent for fiscal year 2003.[11] Other major areas for which securitized proceeds were used included the following: infrastructure, such as school construction and the retirement of state infrastructure debt (24 percent for fiscal year 2002 and 18 percent for fiscal year 2003); education and social services, such as state aid for public schools and trust funds for education purposes (16 percent

[11] For fiscal year 2002, Rhode Island and Wisconsin were the only two states that allocated securitized proceed to cover budget shortfalls. For fiscal year 2003, California and New Jersey were the only two states that allocated securitized proceeds to cover budget shortfalls.

for fiscal year 2002 and 6 percent for fiscal year 2003); and health, such as trust funds for health purposes (21 percent for fiscal year 2002). Tables 6 and 7 show the percentage of each state's individual allocation of securitized proceeds to the nine program categories for fiscal years 2002 and 2003, respectively. (See appendix I for definitions of the program categories and a description of our methodology.)

Table 6: Allocations of Securitized MSA Proceeds by Category, Fiscal Year 2002

State	Budget shortfall	Tobacco control	Assistance to tobacco growers and economic development	Health	Education and social services	Tax reductions	Infrastructure	General purposes/ reserves	Unallocated
Alabama	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0	0.0
Alaska	0.0	0.0	0.0	0.0	0.0	0.0	100.0	0.0	0.0
Arkansas	0.0	0.0	0.0	0.0	0.0	0.0	100.0	0.0	0.0
California	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Iowa	0.0	0.0	0.0	6.8	0.0	0.0	93.2	0.0	0.0
Louisiana	0.0	0.0[a]	0.0	32.9	67.0	0.0	0.0	0.0	0.0
New Jersey	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Oregon	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rhode Island	24.8	0.0	0.0	0.0	0.0	0.0	54.2	0.0	21.0
South Carolina	0.0	0.2	14.9	73.0	0.0	0.0	11.9	0.0	0.0
South Dakota	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Washington	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Wisconsin	100.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total state allocations	**31.2**	**0.0[b]**	**2.6**	**21.5**	**15.9**	**0.0**	**23.9**	**2.3**	**2.5**
Total number of states	**2**	**2**	**1**	**3**	**1**	**0**	**5**	**1**	**1**

Source: State budget offices (data), GAO (analysis).

Note: Percentages may not total 100 due to rounding.

[a]Louisiana's allocation for tobacco control was 0.03 percent.

[b]The total state allocation for tobacco control was 0.04 percent.

Table 7: Allocations of Securitized MSA Proceeds by Category, Fiscal Year 2003

State	Budget shortfall	Tobacco control	Assistance to tobacco growers and economic development	Health	Education and social services	Tax reductions	Infrastructure	General purposes/ reserves	Unallocated
Alabama	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Alaska	0.0	0.0	0.0	0.0	0.0	0.0	100.0	0.0	0.0
Arkansas	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
California	100.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Iowa	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Louisiana	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New Jersey	9.0	0.0	0.0	0.0	2.3	0.0	46.5	14.5	27.8
Oregon	0.0	0.0	0.0	0.0	100.0	0.0	0.0	0.0	0.0
Rhode Island	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0	0.0
South Carolina	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
South Dakota	0.0	0.0	0.0	0.0	100.0	0.0	0.0	0.0	0.0
Washington	0.0	0.0	0.0	0.0	0.0	0.0	100.0	0.0	0.0
Wisconsin	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total state allocations	**66.0**	**0.0**	**0.0**	**0.0**	**6.1**	**0.0**	**17.8**	**4.3**	**5.9**
Total number of states	**2**	**0**	**0**	**0**	**3**	**0**	**3**	**2**	**1**

Source: State budget offices (data), GAO (analysis).

Note: Percentages may not total 100 due to rounding.

Some States Changed the Way They Allocate MSA Payments

Since we last reported on this issue, about half of the 46 states indicated that they had made some changes to the framework they use to make decisions related to MSA funds. The most widely reported change among the states was the passage of legislation affecting the use of MSA funds. For example, six states—Alaska, Illinois, Iowa, Missouri, Virginia, and Washington—passed legislation authorizing the securitization of future MSA payments. Some states also indicated that they had established new goals or changed their requirements for the use of MSA funds. For example, Hawaii and California either changed the percentage of MSA funds that could be used for specific purposes or restricted MSA expenditures for designated purposes, such as tobacco control or health care. In addition, Wyoming created a Substance Abuse Treatment Plan from its MSA payments. The creation of this plan decreased the state's allocation of MSA

payments into its trust fund currently earmarked for future health and tobacco prevention spending and redirected these funds for substance abuse efforts in the state. Moreover, several states reported that they had made certain changes in their method of budgeting MSA funds since fiscal year 2001. For example, 14 states reported that they had either increased or decreased their use of dedicated funds, such as endowments or trusts. Of these 14 states, 10 reported a decrease in their use of dedicated funds, with 7 states making transfers from trust funds to their general fund. Two of the states indicated that these transfers were made to cover budget shortfalls.

We are sending copies of this letter to interested congressional committees and others upon request. The letter is also available on the GAO Web site at http://www.gao.gov. Please call me at (202) 512-3841 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix IV.

Anu K. Mittal
Acting Director, Natural Resources
and Environment

List of Requesters

The Honorable Thad Cochran
Chairman, Committee on Agriculture, Nutrition,
and Forestry
United States Senate

The Honorable Tom Harkin
Ranking Democratic Member, Committee on Agriculture, Nutrition,
and Forestry
United States Senate

The Honorable Robert Goodlatte
Chairman, Committee on Agriculture
House of Representatives

The Honorable Charles Stenholm
Ranking Minority Member, Committee on Agriculture
House of Representatives

The Honorable Jim Bunning
United States Senate

Objectives, Scope, and Methodology

The Farm Security and Rural Investment Act of 2002 (2002 Farm Bill) requires GAO to report annually on the amount of MSA payments states receive and how they use these payments for the years 2002 through 2006. This report is the second in a series of reports responding to the 2002 Farm Bill requirement. On December 3, 2002, we issued a report entitled *Tobacco Settlement: States' Allocations of Phase II Funds* (GAO-03-262R) that provides information on the National Tobacco Grower Settlement Trust (commonly referred to as the Phase II agreement). GAO also previously reported on states' receipt and use of MSA payments for fiscal years 2000 and 2001 in a June 2001 report entitled *Tobacco Settlement: States' Use of Master Settlement Agreement Payments* (GAO-01-851).

To respond to the Farm Bill requirements, the objectives of this study were to provide information on the (1) amount of payments received by the 46 states party to the MSA during fiscal year 2002 and the amount of payments these states expect to receive during fiscal year 2003; (2) states' allocations of MSA funds to various program categories for fiscal years 2002 and 2003 and changes in these allocations from prior years; and (3) changes in states' decision-making frameworks for MSA funds since fiscal year 2001.

To address these objectives, we surveyed the executive budget offices in each of the 46 states party to the MSA. In addition, we obtained and reviewed fiscal year 2002 MSA disbursements data provided by the National Association of Attorneys General and,[1] for some states, budget-related and legislative documents. We also reviewed previous GAO reports and other relevant studies, and we spoke with representatives from some of the organizations conducting these studies. Throughout this report, information on fiscal years 2000 and 2001 MSA receipts and allocations is based on our June 2001 report. The 2001 report's methodology primarily consisted of GAO's analysis of state budget-related and legislative documents and interviews of state budget office officials. We conducted our work from July 2002 through December 2002 in accordance with generally accepted government auditing standards.

[1] The National Association of Attorneys General monitors the actual payments made to states as determined by an independent auditor.

Our study focuses on the states' shares of MSA payments and does not include information on California and New York counties' and cities' allocations of MSA payments.[2] In addition, we did not collect information on MSA payments made to the District of Columbia or the five U.S. territories that are also party to the MSA.

Because we completed our fieldwork in December 2002, before states received their fiscal year 2003 payments, we were unable to obtain final information on the actual MSA payments states received during fiscal year 2003. Consequently, we obtained information on states' expected fiscal year 2003 MSA payments.

Survey Methodology and Categorization of States' Allocations

We pretested a survey in five state budget offices.[3] Three of the pretested states have securitized a portion of their MSA payments. For each pretest, we sent the survey to the state budget office and asked a designated budget official to complete the survey and provide any information on problems or complications encountered while completing the survey. After the budget official had completed the survey, we interviewed the official to ensure that (1) the questions were clear and unambiguous, (2) the terms we used were precise, and (3) the survey did not place an undue burden on agency officials completing it.

Because this was not a sample survey, there are no sampling errors. However, the practical difficulties of conducting any survey may introduce errors, commonly referred to as nonsampling errors. For example, difficulties in how a particular question is interpreted, in the sources of information that are available to respondents, or in how the data are entered into a database or were analyzed can introduce unwanted variability into the survey results. We took steps in the development of the survey, the data collection, and the data editing and analysis to minimize these nonsampling errors. For example, as already noted, we pretested the survey. In addition, we edited the completed surveys for consistency and contacted state budget offices to clarify responses, verified a sample of the survey data that were entered into our database, and verified that the computer programs were written correctly.

[2] As we reported in 2001, California counties, 4 California cities, New York counties, and New York City each receive a share of MSA payments.

[3] See appendix III for a copy of the survey that we sent to each of the 46 states.

In October 2002, we e-mailed the survey to the budget offices in each of the 46 states party to the MSA. We received responses from all 46 states. From these responses, we obtained information on the states' planned uses of MSA payments and securitized MSA proceeds for fiscal years 2002 and 2003. We refer to these planned uses reported by states as "allocations."[4] Furthermore, in the survey, we asked the states to categorize their allocations of MSA payments and securitized MSA proceeds for fiscal years 2002 and 2003 using the 11 program categories developed for our 2001 report.[5] Because of changes in states' fiscal status during the last two years, we added a 12th category to account for budget shortfalls. In some cases allocations reported for this category may overlap with allocations made to the general purposes category. (See the definitions of the 12 categories below.)

For reporting purposes, we consolidated some of the 12 categories and this report provides information for 9 consolidated program areas. Specifically, we combined (1) education and social services, (2) economic development for tobacco regions and payments to tobacco growers, and (3) general purposes and reserves/rainy day funds. Because we are relying on state-reported information, the level of detail for individual states varies. We did not independently verify the accuracy of the information provided to us by the state budget offices; however, as needed, we contacted some states to clarify the information they provided.

[4] In some instances, states may later revise reported allocations.

[5] While we asked states to classify their allocations by program category for this report, we used state budget documents to classify states' allocations by program category for the 2001 report.

Definitions for Categories of States' Allocations

Budget Shortfalls

This category comprises amounts budgeted to balance state budgets and close gaps or reduce deficits resulting from lower than anticipated revenues or increased mandatory or essential expenditures.

Economic Development for Tobacco Regions

This category comprises amounts budgeted for economic development projects in tobacco states such as infrastructure projects, education and job training programs, and research on alternative uses of tobacco and alternative crops. This category includes projects specifically designed to benefit tobacco growers as well as economic development that may serve a larger population within a tobacco state.

Education

This category comprises amounts budgeted for education programs such as day care, preschool, Head Start, early childhood education, elementary and secondary education, after-school programs, and higher education. This category does not include money for capital projects such as construction of school buildings.

General Purposes

This category comprises amounts budgeted for attorneys' fees and other items, such as law enforcement and community development, that could not be placed in a more precise category. This category also includes amounts budgeted to the state's general fund that were not earmarked for any particular purpose. Amounts used to balance state budgets and close gaps or reduce deficits should be categorized as budget shortfalls rather than general purposes.

Health

This category comprises amounts budgeted for direct health care services, health insurance, including Medicaid and the State Children's Health Insurance Program, hospitals, medical technology, public health services, and health research. This category does not include money for capital projects such as construction of health facilities.

Infrastructure

This category comprises amounts budgeted for capital projects such as construction and renovation of health care, education and social services facilities, water and transportation projects, and municipal and state government buildings. This category includes retirement of debt owed on capital projects.

Payments to Tobacco Growers

This category comprises amounts budgeted for direct payments to tobacco growers including subsidies and crop conversion programs.

Reserves/Rainy Day Funds

This category comprises amounts budgeted to state budget reserves such as rainy day and budget stabilization funds not earmarked for specific programs. Amounts budgeted to reserves that are earmarked for specific areas are categorized under those areas—e.g., reserve amounts earmarked for economic development purposes should be categorized in the economic development category.

Social Services

This category comprises amounts budgeted for social services such as programs for the aging, assisted living, Meals on Wheels, drug courts, child welfare, and foster care. This category also includes amounts budgeted to special funds established for children's programs

Tax Reductions

This category comprises amounts budgeted for tax reductions such as property tax rebates and earned income tax credits.

Tobacco Control

This category comprises amounts budgeted for tobacco control programs such as prevention, including youth education, enforcement, and cessation services.

Unallocated

This category comprises amounts not budgeted for any specific purpose, such as amounts budgeted to dedicated funds that have no specified purpose; amounts states chose not to budget in the year MSA payments were received that will be available for budgeting in a subsequent fiscal year; interest earned from dedicated funds not yet budgeted; and amounts that have not been budgeted because the state had not made a decision on the use of the MSA payments.

State-Specific Master Settlement Agreement Payments Information

This appendix presents information for each of the 46 states party to the Master Settlement Agreement (MSA) on (1) payments received and allocated; (2) securitized proceeds received and allocated, if applicable; and (3) changes in the state's decision-making framework for MSA funds since April 2001. In some cases, the amounts allocated may exceed the actual MSA payments and securitized proceeds that states received for fiscal years 2002 and 2003 because they include carry-over funds from prior years and the interest earned on these funds. Some states that allocated funding to a program category did not provide examples of programs receiving funds.

Alabama

According to the terms of the MSA, Alabama receives 1.62 percent of the annual payments made by the tobacco companies. Alabama expects to receive a total of $467,089,947 from the MSA through fiscal year 2003. This total consists of

- about $228,618,000 received as of April 2001;
- $121,567,706 received for fiscal year 2002; and
- $116,904,241 expected to be received for fiscal year 2003.

Table 8 shows the program areas to which Alabama allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 8: Alabama's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$0	$0	
Economic development for tobacco regions and payment to tobacco growers	$16,000,000	0	0	
Education and social services	104,556,000	39,261,085	36,894,983	Alternative schools, school safety, foster care, childcare management, multiple needs children, at-risk programs, and aging waivers
General purposes and reserves/rainy day funds	19,543,000	18,486,901	17,372,771	Juvenile probation officers, juvenile detention programs, forensics
Health	84,667,000	52,159,472	49,016,031	Children's Health Insurance Program, mental health programs, AIDS waivers, and Medicaid services
Infrastructure	0	0	0	
Tax reduction	0	0	0	
Tobacco control	560,000	660,247	620,456	Prohibit access to tobacco by minors
Unallocated	0	0	0	
Total	**$225,326,000**	**$110,567,705[b]**	**$103,904,241[b]**	

Source: Alabama Department of Finance—Executive Budget Office.

Note: Although Alabama allocated all of the funds it received from the MSA to the program areas indicated above, some of these funds will not be used in fiscal year 2002 and will be carried over to fiscal year 2003 and beyond.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]The amount available for allocation to the 9 program areas was reduced by $11 million in fiscal year 2002 and $13 million in fiscal year 2003 because these amounts were needed to service the debt on the bonds issued when the state securitized a portion of its MSA payments in fiscal years 2000 and 2002.

Alabama initially securitized a portion of its MSA payments in fiscal year 2000 and received $50 million. Subsequently, Alabama securitized another portion of its MSA payments in fiscal year 2002 and received an additional $103,760,000 in securitized proceeds. To service the debt on the bonds issued to procure these securitized funds, the state pledged $13 million per year from its annual MSA payment for fiscal years 2003 through 2017 and $16 million per year thereafter. Alabama allocated all of its fiscal year 2002

securitized proceeds for general purposes. According to the state budget office, these funds will most likely be used for economic development, industrial recruiting, and training initiatives, in the state.

Alabama reported no changes in its decision-making framework for MSA funds since fiscal year 2001.

Alaska

According to the terms of the MSA, Alaska receives 0.34 percent of the annual payments made by the tobacco companies. Alaska expects to receive a total of $98,420,000 from the MSA through fiscal year 2003. This total consists of

- about $49,120,000 received as of April 2001;
- $24,800,000 received for fiscal year 2002; and
- $24,500,000 expected to be received for fiscal year 2003.

Table 9 shows the program areas to which Alaska allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003 and the types of programs that received these funds.

Table 9: Alaska's MSA Payments Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$0	$0	
Economic development for tobacco regions and payment to tobacco growers	$0	0	0	
Education and social services	1,337,000	0	0	
General purposes and reserves/rainy day funds	0	0	1,100,000	Medicaid
Health	46,304,000	400,000	500,000	
Infrastructure	0	0	0	
Tax reduction	0	0	0	
Tobacco control	3,106,000	2,400,000	4,500,000	Tobacco Cessation/ Education Fund
Unallocated	0	1,900,000[b]	0	
Total	**$50,748,000**	**$4,700,000[c]**	**$6,100,000[d]**	

Source: Alaska Office of Management and Budget.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]The state legislature did not appropriate the entire MSA payment for fiscal year 2002.

[c]The amount available for allocation to the 9 program areas was reduced by $20.1 million for fiscal year 2002 because this amount was needed to service the debt on the bonds issued when the state securitized a portion of its MSA payments in fiscal years 2001 and 2002.

[d]The amount available for allocation to the 9 program areas was reduced by $20.2 million for fiscal year 2003 because this amount was needed to service the debt on the bonds issued when the state securitized a portion of its MSA payments in fiscal years 2001 and 2002. In addition, the amount allocated for fiscal year 2003 includes $2.4 million in carry-over funds from prior years.

Alaska initially securitized a portion of its MSA payments in fiscal year 2001 and received $93 million. Subsequently, Alaska securitized another portion of its MSA payments in fiscal year 2002 and received an additional $110 million in securitized proceeds. The state pledged 40 percent of its annual MSA payments for fiscal years 2001 through 2017 and 40 percent of its annual MSA payments for fiscal years 2002 through 2023 to service the debt on the bonds issued to procure these securitized funds. During fiscal year 2002, Alaska allocated the $93 million in securitized proceeds that it received in fiscal year 2001 for infrastructure purposes. According to the state's Office of Management and Budget, these funds will be used for school construction and major maintenance. For fiscal year 2003, Alaska allocated the additional $110 million in securitized proceeds that it received in fiscal year 2002 also for infrastructure purposes. These funds will be

used primarily to fund the development and maintenance of schools, ports, and harbors.

Alaska reported changes in its decision-making framework for MSA funds since fiscal year 2001. Primarily, the state passed legislation in both 2000 and 2001 authorizing the securitization of 40 percent of the state's 2001-2017 MSA payments and 40 percent of 2002-2023 payments. This legislation also delegated decision-making authority over the use of the MSA funds to a special corporation—the Northern Tobacco Securitization Corporation, which oversees the debt service on the state's securitized proceeds. Alaska also earmarked 20 percent of its annual MSA payments to be placed in a special account within the state's general fund called the Tobacco Cessation and Education Fund.

Arizona

According to the terms of the MSA, Arizona receives 1.47 percent of the annual payments made by the tobacco companies. Arizona expects to receive a total of $425,577,569 from the MSA through fiscal year 2003. This total consists of

- about $207,966,000 received as of April 2001;
- $111,955,069 received for fiscal year 2002; and
- $105,656,500 expected to be received for fiscal year 2003.

Table 10 shows the program areas to which Arizona allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 10: Arizona's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$0	$0	
Economic development for tobacco regions and payment to tobacco growers	$0	0	0	
Education and social services	0	0	0	
General purposes and reserves/rainy day funds	0	0	0	
Health	159,600,000	111,955,000	105,656,500	Medical services for an expanded segment of the population[b]
Infrastructure	40,000,000	0	0	
Tax reduction	0	0	0	
Tobacco control	0	0	0	
Unallocated	0	0	0	
Total	**$199,600,000**	**$111,955,000**	**$105,656,500**	

Source: Arizona Governor's Budget Office.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]In November 2000, Arizona voters passed an expansion of medical services eligibility to 100 percent of the federal poverty level. This initiative requires that all MSA payments be used for medical services.

Arizona reported no changes in its decision-making framework for MSA funds since fiscal year 2001.

Arkansas

According to the terms of the MSA, Arkansas receives 0.83 percent of the annual payments made by the tobacco companies. Arkansas expects to receive a total of $246,876,184 from the MSA through fiscal year 2003. This total consists of

- about $121,546,000 received as of April 2001;
- $62,180,504 received for fiscal year 2002; and
- $63,149,680 expected to be received for fiscal year 2003.

Table 11 shows the program areas to which Arkansas allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 11: Arkansas' MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$0	$0	
Economic development for tobacco regions and payment to tobacco growers	$0	0	0	
Education and social services	0	0	0	
General purposes and reserves/rainy day funds	0	0	0	
Health	43,736,000	15,245,627	39,454,548	Bioscience Institute operations and enhancement to Medicaid
Infrastructure	6,912,000	0	0	
Tax reduction	0	0	0	
Tobacco control	6,952,000	6,849,484	17,725,957	State law directs 31 percent of MSA payments to the Department of Health for Prevention and Cessation program grants
Unallocated	64,700,000	0	0	
Total[b]	**$122,300,000**	**$22,095,111[c]**	**$57,180,505[d]**	

Source: Arkansas Office of Budget—Department of Finance and Administration.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]The amount available for allocation to the 9 program areas was reduced by $5 million in fiscal years 2002 and 2003 because these amounts were needed to service the debt on the bonds issued when the state securitized a portion of its MSA payments in fiscal year 2002.

[c]The state did not budget the first three years of MSA payments until fiscal year 2001 (totaling about $122 million). According to state law, the first $100 million was to be deposited to a Healthy Century Trust Fund, for which no appropriations currently exist. This deposit was made in fiscal year 2001. The remaining $22 million was not allocated until fiscal year 2002.

[d]This amount represents fiscal year 2002 payments that were allocated in fiscal year 2003.

In fiscal year 2002, Arkansas securitized a portion of its MSA payments and received $58,268,549 in securitized proceeds. Arkansas will use $5 million from the state's annual MSA payments for the first 25 years to service the debt on the bonds issued to procure these securitized funds. When the

state's debt on these securitized proceeds is paid off, the state will continue to deposit $5 million on an annual basis for any future MSA securitization that may happen. Arkansas allocated all of the securitized proceeds it received in fiscal year 2002 for infrastructure purposes. According to the state budget office, these funds will be used for the construction of a School of Public Health and a Biosciences Institute at the University of Arkansas for Medical Sciences and Arkansas State University.

Arkansas reported no changes in its decision-making framework for MSA funds since fiscal year 2001.

California

According to the terms of the MSA, California receives 12.76 percent of the annual payments made by the tobacco companies. California expects to receive a total of $1,844,570,000 from the MSA through fiscal year 2003. This total consists of

- about $895,178,000 received as of April 2001;
- $474,992,000 received for fiscal year 2002; and
- $474,400,000 expected to be received for fiscal year 2003.[1]

Table 12 shows the program areas to which California allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

[1] These MSA payments include only payments made to the state, which amount to 50 percent of the annual payments made by the tobacco companies to California. Four cities and the 58 counties in the state receive the other 50 percent of the annual MSA payments to California.

Table 12: California's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$0	$0	
Economic development for tobacco regions and payment to tobacco growers	$0	0	0	
Education and social services	0	0	0	
General purposes and reserves/rainy day funds	0	71,627,000	0	
Health	904,000,000	403,365,000	546,027,000	Healthy families, Medi-Cal expansion, breast and cervical cancer treatment, and child health and disability prevention
Infrastructure	0	0	0	
Tax reduction	0	0	0	
Tobacco control	0	0	0	
Unallocated	0	0	0	
Total	**$904,000,000**	**$474,992,000**	**$546,027,000[b]**	

Source: California Department of Finance.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]The amount allocated for fiscal year 2003 includes about $71.6 million in carry-over funds from prior fiscal years.

California securitized its MSA payments in fiscal year 2003 and will receive $4.5 billion in securitized proceeds. The state pledged all of its MSA payments beginning in 2004 and continuing for 25 years to service the debt on the bonds issued to procure these securitized funds. According to the state's Department of Finance, California allocated all of its fiscal year 2003 securitized proceeds to cover budget shortfalls.

California reported changes in its decision-making framework for MSA funds since fiscal year 2001. For example, the state passed legislation that established a special Tobacco Settlement fund that restricts MSA expenditures to either health care or tobacco control. This legislation changed the state's requirements for the use of MSA funds. However, according to state budget officials, none of the funding from the MSA was used for tobacco control in either fiscal year 2002 or 2003. Instead, all of the MSA funds were used for other health treatment. According to budget officials, California did not need to use MSA funds for tobacco control

because the state currently spends $88.4 million annually on tobacco control using Proposition 99 funding— an initiative passed by California in 1988 that placed a $0.25 surtax on all tobacco products.

Colorado

According to the terms of the MSA, Colorado receives 1.37 percent of the annual payments made by the tobacco companies. Colorado expects to receive a total of $401,286,369 from the MSA through fiscal year 2003. This total consists of

- about $197,225,000 received as of April 2001;
- $100,304,008 received for fiscal year 2002; and
- $103,757,361 expected to be received for fiscal year 2003.

Table 13 shows the program areas to which Colorado allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 13: Colorado's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$138,123,849	$0	
Economic development for tobacco regions and payment to tobacco growers	$0	0	0	
Education and social services	26,638,000	17,188,402	19,796,823	Read to Achieve, Veteran's trust fund
General purposes and reserves/rainy day funds	0	105,574	28,760,251	Reserved for investment advisors, deposits to the state's trust fund in FY 2003
Health	43,834,000	30,827,418	40,641,642	Primary and preventive care grants, State's Children's Health Insurance Program, breast and cervical cancer (Medicaid)
Infrastructure	1,402,000	0	0	
Tax reduction	0	0	0	
Tobacco control	21,030,000	9,173,614	24,731,160	Tobacco cessation grants
Unallocated	105,808,000	81,823,125	73,704,110[b]	Carry over to future fiscal years
Total	**$198,712,000**	**$277,241,982[c]**	**$187,633,986[d]**	

Source: Colorado Office of State Planning and Budget.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]This amount includes about $67.3 million to be carried over to fiscal year 2004, and about $6.4 million that will be deposited in the state's trust fund.

[c]The amount allocated for fiscal year 2002 includes a deposit from the state's trust fund and interest earned.

[d]The amount allocated for fiscal year 2003 includes carry-over funds from prior years and interest earned.

Colorado reported changes in its decision-making framework for MSA funds since fiscal year 2001. Primarily, the state passed legislation transferring about $138 million from a trust fund to the general fund for fiscal years 2001 and 2002. This transfer was used to help cover budget shortfalls. The state also used MSA funds to provide pre-natal benefits through the state's Children's Health Insurance Program totaling $7.7 million in fiscal years 2002 and 2003 and to include Medicaid eligibility

for breast cancer patients who met certain income requirements in fiscal years 2001 and 2002.

Connecticut

According to the terms of the MSA, Connecticut receives 1.86 percent of the annual payments made by the tobacco companies. Connecticut expects to receive a total of $533,406,000 from the MSA through fiscal year 2003. This total consists of

- about $260,406,000 received as of April 2001;
- $140,000,000 received for fiscal year 2002; and
- $133,000,000 expected to be received for fiscal year 2003.

Table 14 shows the program areas to which Connecticut allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 14: Connecticut's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$0	$0	
Economic development for tobacco regions and payment to tobacco growers	$0	0	0	
Education and social services	58,700,000	0	0	
General purposes and reserves/rainy day funds	20,500,000	120,000,000	133,100,000	General fund revenue
Health	77,600,000	4,000,000	0	Biomedical Research Trust Fund
Infrastructure	0	0	0	
Tax reduction	100,000,000	0	0	
Tobacco control	5,000,000	17,400,000	0	Tobacco and Health Trust Fund
Unallocated	0	0	0	
Total	**$261,800,000**	**$141,400,000[b]**	**$133,100,000[b]**	

Source: Connecticut Office of Policy and Management.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]The amounts allocated for fiscal years 2002 and 2003 include carry-over funds from prior years and interest earned.

Connecticut reported changes in its decision-making framework for MSA funds since fiscal year 2001. The state passed legislation in 2001 modifying the use of MSA payments for the biennium ending June 30, 2003. Through this legislation, the state transferred funds from the state's Tobacco and Health Trust Fund for a variety of purposes, including the Children's Health Initiatives' Easy Breathing program, the Children's Trust Fund for the Healthy Families program, a school-based health clinic in Norwich, and tobacco related health, education, and prevention for fiscal years 2002 and 2003. However, for fiscal year 2003 the state decided to eliminate the transfer of these funds from the Tobacco and Health Trust Fund and will credit any balance from this fund to the state's general fund.

Delaware

According to the terms of the MSA, Delaware receives 0.40 percent of the annual payments made by the tobacco companies. Delaware expects to receive a total of $114,670,000 from the MSA through fiscal year 2003. This total consists of

- about $55,470,000 received as of April 2001;
- $29,800,000 received for fiscal year 2002; and
- $29,400,000 expected to be received for fiscal year 2003.

Table 15 shows the program areas to which Delaware allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 15: Delaware's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$0	$0	
Economic development for tobacco regions and payment to tobacco growers	$0	0	0	
Education and social services	0	340,000	430,000	
General purposes and reserves/rainy day funds	14,935,000	188,300	192,300	
Health	14,176,000	20,500,000	24,300,000	Various health purposes and deposits to the tobacco-fund Strategic Reserve[b]
Infrastructure	0	3,900,000	0	
Tax reduction	0	0	0	
Tobacco control	2,833,000	4,900,000	4,900,000	
Unallocated	25,000,000	0	0	
Total	**$56,944,000**	**$29,828,300[c]**	**$29,822,300[d]**	

Source: Delaware Department of Health and Social Services.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]In fiscal year 2002, Delaware allocated $9.4 million to the tobacco-fund Strategic Reserve. These funds are held in savings for future health-related initiatives. The state allocated an additional $9.9 million to the Strategic Reserve in fiscal year 2003. These funds cannot revert back to the state for general use.

[c]The difference in the amount received and the amounts allocated for fiscal year 2002 is due to rounding.

[d]The difference in the amount received and the amounts allocated for fiscal year 2003 is due to rounding and the anticipation of $400,000 in carry-over funds from fiscal year 2002 programs.

Delaware reported no changes in its decision-making framework for MSA funds since fiscal year 2001.

Georgia

According to the terms of the MSA, Georgia receives 2.45 percent of the annual payments made by the tobacco companies. Georgia expects to receive a total of $712,851,540 from the MSA through fiscal year 2003. This total consists of

- about $353,121,000 received as of April 2001;
- $184,650,080 received for fiscal year 2002; and
- $175,080,760 expected to be received for fiscal year 2003.

Table 16 shows the program areas to which Georgia allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 16: Georgia's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$0	$0	
Economic development for tobacco regions and payment to tobacco growers	$79,954,000	34,131,677	65,430,712	OneGeorgia Authority
Education and social services	0	7,149,804	7,149,804	Home community-based services to the elderly; early intervention for at-risk families
General purposes and reserves/rainy day funds	0	0	0	
Health	109,907,000	106,647,690	85,255,966	Medicaid, Children's Health Insurance Program expansion, school nurses, public health programs, Medicaid waiver programs, Georgia Cancer Coalition
Infrastructure	0	0	0	

(Continued From Previous Page)

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Tax reduction	0	0	0	
Tobacco control	15,766,000	24,715,890	15,165,890	Tobacco use prevention program compliance/ enforcement for underage smoking
Unallocated	139,905,000	0	0	
Total	**$345,532,000**	**$172,645,061[b]**	**$173,002,372[b]**	

Source: Georgia Governor's Office of Planning and Budget.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]Georgia allocated fiscal year 2001 MSA payments during fiscal year 2002 and allocated fiscal year 2002 payments during fiscal year 2003. Any remaining MSA payments received in fiscal year 2002 that have not been allocated for fiscal year 2003 will be appropriated through the fiscal year 2003 Amended Budget.

Since fiscal year 2001, Georgia reported creating a special board—the OneGeorgia Authority—to support local and regional economic development efforts using MSA funds. The authority will use one-third of the state's MSA payments to assist in development efforts for the state's most economically challenged areas.

Hawaii

According to the terms of the MSA, Hawaii receives 0.60 percent of the annual payments made by the tobacco companies. Hawaii expects to receive a total of $178,680,180 from the MSA through fiscal year 2003. This total consists of

- about $84,420,000 received as of April 2001;
- $43,751,843 received for fiscal year 2002; and
- $50,508,337 expected to be received for fiscal year 2003.

Table 17 shows the program areas to which Hawaii allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 17: Hawaii's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$0	$0	
Economic development for tobacco regions and payment to tobacco growers	$0	0	0	
Education and social services	0	0	0	
General purposes and reserves/rainy day funds	21,214,000	17,710,737	12,638,793	Tobacco enforcement special fund of the Attorney General's Office for MSA enforcement, Emergency and Budget Reserve Fund
Health	18,563,000	15,190,645	17,555,418	Department of Health for public health programs, Department of Human Services for Children's Health Insurance Program
Infrastructure	0	0	14,044,334	Debt service on bonds issued to the University of Hawaii[b]
Tax reduction	0	0	0	
Tobacco control	13,259,000	10,850,461	6,269,792	Tobacco Prevention and Control Trust Fund
Unallocated	33,955,000	0	0	
Total	**$86,991,000**	**$43,751,843**	**$50,508,337**	

Source: Hawaii Department of Budget and Finance.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]Beginning in fiscal year 2003, 28 percent of Hawaii's MSA payment will be allocated to service the debt on the bond issued to fund the construction of a new Health and Wellness Center, biomedical research center, and medical school at the University of Hawaii.

During fiscal year 2001, Hawaii passed legislation affecting the state's use of MSA funds and established new goals for the funds. Specifically, the state passed legislation changing the statutory allocations of MSA funds in the following areas (1) decreasing the MSA payments allocated to the Emergency and Budget Reserve Fund by 15.5 percent, (2) decreasing the allocation to the Tobacco Prevention and Control Trust Fund by 12.5 percent, and (3) making a new allocation of 28 percent to the University of Hawaii to pay debt service on bonds issued for the Medical School. Hawaii also changed its requirements for use of MSA funds, which

will allow the Tobacco Prevention and Control Trust Fund to spend up to 50 percent of its total assets in any fiscal year for tobacco prevention and control purposes.

Idaho

According to the terms of the MSA, Idaho receives 0.36 percent of the annual payments made by the tobacco companies. Idaho expects to receive a total of $105,612,394 from the MSA through fiscal year 2003. This total consists of

- about $52,262,000 received as of April 2001;
- $26,397,202 received for fiscal year 2002; and
- $26,953,192 expected to be received for fiscal year 2003.

Table 18 shows the program areas to which Idaho allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 18: Idaho's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$19,335,604	$10,000,000	
Economic development for tobacco regions and payment to tobacco growers	$0	0	0	
Education and social services	0	920,000	420,000	Youth courts to address juvenile crime, youth asset building, status offender program for high-risk youth, adolescent pregnancy prevention
General purposes and reserves/rainy day funds	0	0	0	
Health	0	830,000	1,891,400	Program to reduce county deductible payments for health care for indigents with tobacco-related diseases, cancer camp for children with cancer, planning funds for small business health insurance
Infrastructure	0	0	0	
Tax reduction	0	0	0	
Tobacco control	2,305,000	1,006,500	1,267,800	Tobacco counter marketing, smoking prevention and cessation; tobacco free coalitions; youth tobacco investigations
Unallocated	37,679,000	7,061,598	16,953,192	Deposit to the Millennium Trust Fund
Total	**$39,984,000**	**$29,153,702[b]**	**$30,532,392[b]**	

Source: Idaho Division of Financial Management.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]The amounts allocated for fiscal years 2002 and 2003 include MSA payments received in fiscal years 2002 and 2003 and the interest earned on the Millennium Trust Fund.

Idaho reported changes in its decision-making framework for MSA funds since fiscal year 2001. Through legislation, the state established the Joint Millennium Fund Committee to make recommendations to the legislature regarding the use of MSA allocations to the Millennium Trust Fund. Idaho also increased the allocation of MSA funds into the state's general fund,

transferring $19.3 million of fiscal year 2002 MSA payments and $10 million of the projected fiscal year 2003 MSA payments into the general fund to cover budget shortfalls.

Illinois

According to the terms of the MSA, Illinois receives 4.65 percent of the annual payments made by the tobacco companies. Illinois expects to receive a total of $1,277,069,577 from the MSA through fiscal year 2003. This total consists of

- about $669,603,000 received as of April 2001;
- $312,276,311 received for fiscal year 2002; and
- $295,190,266 expected to be received for fiscal year 2003.[2]

Table 19 shows the program areas to which Illinois allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

[2] This amount does not include $88,325,000 in additional tobacco settlement payments that the state received as a result of the settlement of a dispute with the outside attorneys who represented the state in MSA negotiations. According to the state budget office, all of these funds will be allocated in fiscal year 2003 to the state's Medicaid program.

Table 19: Illinois' MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$0	$0	
Economic development for tobacco regions and payment to tobacco growers	$0	0	0	
Education and social services	1,800,000	2,500,000	4,000,000	University of Illinois Veterinary Research Grant, Information campaign to let seniors know about the Pharmaceutical Assistance Program
General purposes and reserves/rainy day funds	147,246,000	5,636,088	1,500,000	Marketing of Illinois Technology, Illinois Technology Enterprise Corporation
Health	91,650,000	160,032,533	214,226,450	SeniorCare, Pharmaceutical Assistance Program for seniors, AIDS, Hepatitis C awareness, sickle cell research, academic excellence centers, juvenile diabetes
Infrastructure	25,000,000	21,933,320	3,500,000	Statewide capital maintenance projects, Argonne Rare Isotope Accelerator, Fermi National Accelarator Lab, Peoria Oncology Center, University of Illinois Office of Technology Transfer
Tax reduction	315,750,000	35,000,000	90,500,000	Earned income tax credit, property tax rebate for senior citizens

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Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Tobacco control	29,550,000	47,904,109	16,200,000	Local health departments, teen tobacco prevention, enforcement of tobacco laws, MSA enforcement
Unallocated	0	39,270,261	0	
Total	**$610,996,000**	**$312,276,311**	**$329,926,450**[b]	

Source: Illinois Bureau of the Budget.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]The amount allocated for fiscal year 2003 includes carry-over from payments received in prior fiscal years.

Since fiscal year 2001, Illinois passed legislation that could potentially alter the way the state uses its MSA funds. The legislation authorizes the securitization of $750 million to be issued in bonds backed by tobacco settlement payments for fiscal year 2003. The Governor has discretion to determine whether to issue these bonds, the amount and timing of any bond sales, and the repayment schedule, which cannot exceed 30 years. If bonds are issued, the proceeds of any size issue must be used as follows: 50 percent will be placed in the General Revenue Fund to build the general funds cash balance and to meet the ordinary and contingent expenses of the state, and 50 percent will be placed in the Budget Stabilization Fund. The same legislation also authorizes transfers of MSA funds, beginning in fiscal year 2004, from the Tobacco Settlement Recovery Fund to the General Revenue Fund to pay the principal and interest on any general obligation bonds that are issued. No fiscal year 2003 tobacco payments can be used to repay these bonds, even if the bonds are issued early in fiscal year 2003. However, at the time of our survey, Illinois had not taken the steps to securitize funds as allowed by the legislation.

Indiana

According to the terms of the MSA, Indiana receives 2.04 percent of the annual payments made by the tobacco companies. Indiana expects to receive a total of $593,465,000 from the MSA through fiscal year 2003. This total consists of

- about $293,465,000 received as of April 2001,
- $149,200,000 received for fiscal year 2002, and

- $150,800,000 expected to be received for fiscal year 2003.

Table 20 shows the program areas to which Indiana allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 20: Indiana's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$0	$0	
Economic development for tobacco regions and payment to tobacco growers	$0	5,000,000	5,000,000	Tobacco farmers and rural community
Education and social services	0	16,400,000	33,300,000	Waiver programs, residential services
General purposes and reserves/rainy day funds	0	0	0	
Health	86,400,000	59,900,000	77,600,000	Children's Health Insurance Program, Prescription Drugs for Seniors, vaccines, health center
Infrastructure	10,000,000	14,000,000	15,000,000	State Operated Facilities, Health Centers
Tax reduction		0	0	
Tobacco control	35,000,000	32,800,000	25,000,000	Prevention and cessation programs
Unallocated	159,093,000	124,800,000[b]	65,000,000	Interest earned, carry-over savings
Total	**$290,493,000**	**$252,900,000[c]**	**$220,900,000[c]**	

Source: Indiana State Budget Agency.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]Indiana made a transfer of $60 million in fiscal year 2002 MSA payments to the state's general fund. However, as of January 2003, the actual transfer had not been completed.

[c]The amounts allocated for fiscal years 2002 and 2003 include carry-over funds from prior years.

Indiana reported changes in its decision-making framework for MSA funds since fiscal year 2001. Specifically, the state passed legislation affecting its use of MSA funds by restricting the transfer of unspent funds at the end of each fiscal year out of certain tobacco accounts back to the Indiana Tobacco Master Settlement Agreement Fund, from which allocations to

individual programs are made. These restricted tobacco accounts include the Indiana Tobacco Prevention and Cessation Account and the Local Health Department Trust Account. In addition to passing this legislation, Indiana also authorized the transfer of $60 million in fiscal year 2002 MSA payments to the state's general fund. As of January 2003, however, the actual transfer had not been completed.

Iowa

According to the terms of the MSA, Iowa receives 0.87 percent of the annual payments made by the tobacco companies. Iowa expects to receive a total of $251,735,506 from the MSA through fiscal year 2003. This total consists of

- about $125,118,000 received as of April 2001;
- $63,537,410 received for fiscal year 2002; and
- $63,080,096 expected to be received for fiscal year 2003.

Table 21 shows the program areas to which Iowa allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 21: Iowa's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$0	$0	
Economic development for tobacco regions and payment to tobacco growers	$0	0	0	
Education and social services	0	0	0	
General purposes and reserves/rainy day funds	64,600,000	0	0	
Health	45,645,000	13,904,202	13,877,621	Deposited into the Endowment for Iowa's Health fund
Infrastructure	0	0	0	
Tax reduction	0	0	0	
Tobacco control	9,345,000	0	0	

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Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Unallocated	3,461,000	0	0	
Total	**$123,051,000**	**$13,904,202[b]**	**$13,877,621[b]**	

Source: Iowa Department of Management.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]The amount available for allocation to the 9 program areas was reduced by $49,633,207 in fiscal year 2002 and $49,202,475 in fiscal year 2003 because these amounts were needed to service the debt on the bonds issued when the state securitized a portion of its MSA payments in fiscal year 2002.

Iowa securitized a portion of its MSA payments in fiscal year 2002 and received $579,596,212. The state pledged about 78 percent of its fiscal years 2002 through 2027 MSA payments to service the debt on the bonds issued to procure the securitized funds. Iowa allocated its securitized proceeds to two funds as follows:

- $540,045,010 to a tax-exempt restricted capital fund for infrastructure projects, and
- $39,551,202 to the Endowment for Iowa's Health fund, which is to be used for future appropriations to health-related programs.

In addition to passing legislation during 2001 to securitize part of the state's MSA payments, Iowa also made a one-time transfer of $6 million in fiscal year 2002 from a health programs fund to the state's general fund.

Kansas

According to the terms of the MSA, Kansas receives 0.83 percent of the annual payments made by the tobacco companies. Kansas expects to receive a total of $236,938,554 from the MSA through fiscal year 2003. This total consists of

- about $119,940,000 received as of April 2001;
- $60,998,554 received for fiscal year 2002; and
- $56,000,000 expected to be received for fiscal year 2003.

Table 22 shows the program areas to which Kansas allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 22: Kansas' MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$0	$0	
Economic development for tobacco regions and payment to tobacco growers	$0	0	0	
Education and social services	34,962,000	37,500,000	44,436,626	Parent education, 4-year old at risk, school violence prevention, reading and vision research, juvenile justice prevention and sanction grants, family centered systems of care, therapeutic preschool, child care and child welfare community services, Medicaid, smart start Kansas
General purposes and reserves/rainy day funds	91,038,000	10,000,000	5,528,860	State general fund
Health		2,000,000	2,000,000	Infants & Toddlers, healthy start home visitor, pediatric biomedical research, tele-kid health care link
Infrastructure	0	0	0	
Tax reduction	0	0	0	
Tobacco control	500,000	500,000	500,000	Smoking prevention & cessation
Unallocated	0	10,998,554	5,471,140	Funds allocated to the Key trust fund[b]
Total	**$126,500,000**	**$60,998,554**	**$57,936,626[c]**	

Source: Kansas Division of the Budget.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]Unallocated funds include MSA payments allocated to the Key Fund, a trust fund which is to be used in the future to provide earnings if MSA payments are reduced or ceased. For fiscal year 2002, $50 million of the MSA payments were allocated, leaving $10,998,554 in the Key Fund. For fiscal year 2003, $5,471,140 was allocated to the Key Fund.

[c]The amount allocated for fiscal year 2003 includes about $1.9 million carried over from prior year payments.

Kansas reported an increase in its appropriations of MSA funds into the state's general fund since fiscal year 2001. Specifically, the state transferred

about $11.5 million to the state's general fund to finance an increase in education base aid per pupil.

Kentucky

According to the terms of the MSA, Kentucky receives 1.76 percent of the annual payments made by the tobacco companies. Kentucky expects to receive a total of $505,405,390 from the MSA through fiscal year 2003. This total consists of

- about $247,028,000 received as of April 2001;
- $132,777,390 received for fiscal year 2002; and
- $125,600,000 expected to be received for fiscal year 2003.

Table 23 shows the program areas to which Kentucky allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 23: Kentucky's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$29,735,233	$0	
Economic development for tobacco regions and payment to tobacco growers	$124,000,000	54,342,697	56,688,000	Governor's Office for Agricultural Policy, Natural Resources-Conservation-Environmental Stewardship
Education and social services	97,500,000	13,500,000	9,961,700	Families and Children-Early Childhood Development Program, Higher Education Assistance Authority-Early Childhood Scholarship Program
General purposes and reserves/rainy day funds	0	0	0	

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Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Health	21,473,000	27,660,000	47,123,500	Health access nurturing development services, folic acid distribution, healthy start, universal children's immunization, substance abuse services to Medicaid eligible women with dependent children, universal newborn hearing testing, lung cancer research program, Kentucky access
Infrastructure	0	2,000,000	6,112,000	Debt service—Kentucky Infrastructure Authority-water resource development
Tax reduction	0	0	0	
Tobacco control	5,027,000	5,540,000	5,714,800	Smoking cessation
Unallocated	0	0	0	
Total	**$248,000,000**	**$132,777,930**	**$125,600,000**	

Source: Kentucky Governor's Office for Policy Research.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

Kentucky reported no changes in its decision-making framework for MSA funds since fiscal year 2001.

Louisiana

According to the terms of the MSA, Louisiana receives 2.26 percent of the annual payments made by the tobacco companies. Louisiana expects to receive a total of $652,693,424 from the MSA through fiscal year 2003. This total consists of

- about $324,476,000 received as of April 2001;
- $165,021,020 received for fiscal year 2002; and
- $163,196,404 expected to be received for fiscal year 2003.

Table 24 shows the program areas to which Louisiana allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 24: Louisiana's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$0	$0	
Economic development for tobacco regions and payment to tobacco growers	$0	0	0	
Education and social services	88,896,000	44,305,854	45,844,357	Local and special schools, Tuition Opportunity Program, Education Excellence trust fund
General purposes and reserves/rainy day funds	10,750,000	0	0	
Health	212,473,000	53,051,828	48,787,815	Children's Health Insurance Program, school-based health care centers, Medicaid, Health Excellence trust fund
Infrastructure	9,930,000	0	0	
Tax reduction	0	0	0	
Tobacco control	1,680,000	0	342,074	Attorney General enforcement
Unallocated	-229,000[b]	0	0	
Total	**$323,500,000**	**$97,357,682[c]**	**$94,974,246[c]**	

Source: Louisiana Office of Planning and Budget, Division of Administration.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]A negative unallocated amount represents an adjustment for over-allocation of MSA payments in prior years.

[c]The amount available for allocation to the 9 program areas was reduced by $99,012,612 for fiscal year 2002 and $97,900,000 for fiscal year 2003 because these amounts were needed to service the debt on the bonds issued when the state securitized a portion of its MSA payments in fiscal year 2002. In addition, the amounts available for allocation in fiscal years 2002 and 2003 include carry-over funds from the Louisiana Fund, the Education Excellence trust fund, the Health Excellence trust fund, and the Tuition Opportunity Program fund, as well as interest earned on the Millennium Trust Fund.

Louisiana securitized a portion of its MSA payments in fiscal year 2002 and received $1,069,510,894. The state pledged 60 percent of its annual MSA

payments from fiscal years 2001 through 2039 to service the debt on the bonds issued to procure these securitized funds. In fiscal year 2002, the state paid about $65.9 million to service the debt on the bonds and deposited an additional $33 million in a trust fund for future payments. In fiscal year 2003, the state paid about $77 million to service the debt on the bonds, with an additional $20.8 million deposited into a trust fund for future payments. According to the state budget office, Louisiana allocated most of its securitized proceeds to education and health programs. The state's specific allocations for fiscal year 2002 were

- $304,186,602 to the Education Excellence trust fund;
- $304,186,602 to the Tuition Opportunity trust fund;
- $106,951,089 to local and special schools;
- $304,186,602 to the Health Excellence trust fund;
- $48,160,863 for Louisiana's Children's Health Insurance Program, school-based health care centers, and Medicaid;
- $1,489,137 for the Starting Points pre-school program; and
- $350,000 to the attorney general's office for enforcement of tobacco control programs.

In addition to securitizing a portion of its MSA payments, Louisiana passed a ballot initiative that created the Tobacco Settlement Financing Corporation. The purpose of this corporation is to carry out the finance, purchase, ownership, and management of the assets the state received as a result of its securitization of MSA payments.

Maine

According to the terms of the MSA, Maine receives 0.77 percent of the annual payments made by the tobacco companies. Maine expects to receive a total of $222,673,640 from the MSA through fiscal year 2003. This total consists of

- about $110,686,000 received as of April 2001;
- $56,317,761 received for fiscal year 2002; and

- $55,669,879 expected to be received for fiscal year 2003.

Table 25 shows the program areas to which Maine allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 25: Maine's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$10,000,000	$32,872,838	
Economic development for tobacco regions and payment to tobacco growers	$0	0	0	
Education and social services	9,854,000	16,070,241	15,142,600	Child care and child development initiatives: infant, toddler and preschool child care subsidies, after-school services, year round Head Start, substance abuse prevention, intervention, testing and treatment
General purposes and reserves/rainy day funds	971,000	49,372	51,840	Attorney General enforcement and administration costs
Health	78,496,000	19,292,539	19,087,362	Expand Medicaid to parents/ guardians up to 150 percent of the federal poverty levels, increase access to Cub Care and infants under one, extend Medicaid coverage for pregnant women, and expand oral health programs
Infrastructure	0	0	0	
Tax reduction	0	0	0	
Tobacco control	21,826,000	11,890,000	14,472,789	Community/ school grants and statewide coordination to reduce tobacco addiction and use, tobacco prevention, control and treatment

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Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Unallocated	1,321,000	0	0	
Total	**$112,468,000**	**$57,302,152[b]**	**$81,627,429[c]**	

Source: Maine Department of Administrative and Financial Services, Bureau of the Budget.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]The amount allocated for fiscal year 2002 includes carry-over funds from MSA payments received in fiscal year 2001 and interest earned.

[c]The amount allocated for fiscal year 2003 includes approximately $25 million in carry-over funds from MSA payments received in prior years and interest earned.

Since fiscal year 2001, Maine reported passing legislation that changed its decision-making framework for MSA funds. The legislation allowed the balance in the Trust Fund for a Healthy Maine to be transferred to the general fund in June 2001 for unappropriated surplus. This transfer of about $11.1 million was included with the fiscal year 2001 budget, thereby increasing the state's appropriations of MSA funds into the general fund for fiscal year 2001.

Maryland

According to the terms of the MSA, Maryland receives 2.26 percent of the annual payments made by the tobacco companies. Maryland expects to receive a total of $654,248,000 from the MSA through fiscal year 2003. This total consists of

- about $325,210,000 received as of April 2001;
- $164,247,000 received for fiscal year 2002; and
- $164,791,000 expected to be received for fiscal year 2003.

Table 26 shows the program areas to which Maryland allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 26: Maryland's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$0	$2,450,000	
Economic development for tobacco regions and payment to tobacco growers	$11,500,000	6,292,000	6,291,000	Crop Conversion and tobacco buy-out: the state pays farmers not to grow tobacco for human consumption; 75 percent for payment to tobacco growers and 25 percent for economic development
Education and social services	53,800,000	60,098,000	32,960,000	Drug addiction
General purposes and reserves/rainy day funds	81,758,000	30,100,000	43,130,000	State legal expenses and outside counsel
Health	175,400,000	35,577,000	151,544,000	Medicaid, cancer research and prevention, Maryland Health Care Foundation
Infrastructure	0	0	0	
Tax reduction	0	0	0	
Tobacco control	18,100,000	16,914,000	31,363,000	
Unallocated	-11,200,000[b]	160,256,000	26,404,000	Includes money paid into escrow account for legal services as a result of MSA and carry-over funds
Total	**$329,358,000**	**309,237,000[c]**	**294,142,000[d]**	

Source: Maryland Department of Budget and Management.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]A negative unallocated amount represents an adjustment for over-allocation of MSA payments in prior years.

[c]The amount allocated for fiscal year 2002 includes carry-over funds from fiscal year 2001, interest earned, a refund from the Internal Revenue Service, and a $93,075,478 disbursement from a joint escrow account pursuant to settlement of a legal dispute between the state and its outside attorneys.

[d]The amount allocated for fiscal year 2003 includes carry-over funds from fiscal year 2002 (including the transfer from the state's escrow account), interest earned, a payment from the National Arbitration Panel for outside attorney fees, and a payment pursuant to the settlement agreement with the outside counsel.

Maryland reported changes in its decision-making framework for MSA funds since fiscal year 2001. Since it began receiving MSA payments, Maryland has been depositing 25 percent of its payments to a joint escrow

account because of a court order and legal dispute with the state's outside counsel. In April 2002, a settlement was reached between the state and its legal counsel resolving all disputes, and pursuant to that settlement, funds in the joint escrow account were disbursed to the legal counsel ($30,000,000) and to the state ($93,075,478). Maryland's 2002 General Assembly passed legislation that provided for the appropriation of the state's portion of these escrow funds in fiscal year 2003. This legislation also required that 25 percent of the state's MSA payments for fiscal years 2003 through 2006 would be appropriated to the Maryland Medical Assistance Program, which is the state's Medicaid program.

Massachusetts

According to the terms of the MSA, Massachusetts receives 4.04 percent of the annual payments made by the tobacco companies. Massachusetts expects to receive a total of $1,159,126,000 from the MSA through fiscal year 2003. This total consists of

- about $566,526,000 received as of April 2001;
- $304,500,000 received for fiscal year 2002; and
- $288,100,000 expected to be received for fiscal year 2003.

Table 27 shows the program areas to which Massachusetts allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 27: Massachusetts' MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$0	$162,000,000	
Economic development for tobacco regions and payment to tobacco growers	$0	0	0	
Education and social services	0	11,900,000	15,000,000	Home care for elders, adult community placements
General purposes and reserves/rainy day funds	0	0	0	
Health	544,647,000	273,800,000[b]	134,200,000	Health insurance benefits for individuals with HIV, grants to distressed hospitals, prescription drug insurance for elders, Hepatitis C research and screening, school health, Health Care Security Trust Fund
Infrastructure	27,138,000	0	0	
Tax reduction	0	0	0	
Tobacco control	31,260,000	6,800,000	3,300,000	Smoking cessation programs
Unallocated	0	48,600,000	38,400,000	
Total	**$603,045,000**	**$341,100,000[c]**	**$352,900,000[c]**	

Source: Massachusetts Fiscal Affairs Division.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]In fiscal year 2002, Massachusetts deposited $152.3 million (about half of the total MSA payment) in the Health Care Security Trust Fund.

[c]The amounts allocated for fiscal years 2002 and 2003 include carry-over funds, investment revenue, and federal reimbursement for tobacco expenditures.

Massachusetts reported changes in its decision-making framework for MSA funds since fiscal year 2001. The state passed legislation that resulted in increased appropriations of MSA funds to the state's general fund for fiscal years 2001, 2002, and 2003. In fiscal year 2001, the legislation appropriated 30 percent of the state's MSA payment to the general fund; in fiscal year 2002, it increased the amount appropriated to the general fund to 50 percent and, in fiscal year 2003, appropriated all of the state's MSA payment to the general fund.

Michigan

According to the terms of the MSA, Michigan receives 4.35 percent of the annual payments made by the tobacco companies. Michigan expects to receive a total of $1,267,224,000 from the MSA through fiscal year 2003. This total consists of

- about $610,424,000 received as of April 2001;
- $328,200,000 received for fiscal year 2002; and
- $328,600,000 expected to be received for fiscal year 2003.

Table 28 shows the program areas to which Michigan allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 28: Michigan's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$159,000,000	$100,000,000	
Economic development for tobacco regions and payment to tobacco growers	$0	0	0	
Education and social services	366,700,000	148,500,000	145,500,000	Merit Award scholarships and tuition incentive grants for higher education students, Michigan Educational Assessment Program testing for K-12 students, post secondary scholarships, nursing scholarships, Michigan Education Savings Plan
General purposes and reserves/rainy day funds	0	0	400,000	Attorney General enforcement expenses

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Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Health	177,700,000	135,600,000	119,800,000	Elder pharmaceutical assistance, Medicaid personal needs allowance, long term care advisor, respite care, indigent medical programs, Medicaid support, biomedical research and development, health promotion programs for seniors
Infrastructure	0	0	0	
Tax reduction	0	0	0	
Tobacco control	0	2,000,000	2,000,000	Education and cessation programs for youth and senior populations
Unallocated	90,900,000	47,600,000	13,600,000	Merit Award Trust Fund and the Tobacco Settlement Trust Fund balances
Total	**$635,300,000**	**$492,700,000[b]**	**$381,300,000[b]**	

Source: Michigan Budget Development and General Government Division, State Budget Office.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]The amounts allocated for fiscal years 2002 and 2003 include carry-over funds and interest earned.

Michigan reported changes in its decision-making framework for MSA funds since fiscal year 2001. First, the state changed its appropriation of MSA funds into the general fund. While there were no funds transferred to the general fund in fiscal year 2001, the state transferred $159 million in fiscal year 2002 and $100 million in fiscal year 2003 to cover budget shortfalls. Additionally, beginning in fiscal year 2002, Michigan law required that 75 percent of MSA payments be deposited in a Merit Award Trust Fund and 25 percent in a Tobacco Settlement Trust Fund. However, according to state budget officials, this requirement has no impact on how the legislature makes appropriation decisions from each of the funds.

Missouri

According to the terms of the MSA, Missouri receives 2.27 percent of the annual payments made by the tobacco companies. Missouri expects to receive a total of $674,900,000 from the MSA through fiscal year 2003. This total consists of

- about $338,200,000 received through the end of fiscal year 2001; [3]
- $172,700,000 received for fiscal year 2002; and
- $164,000,000 expected to be received for fiscal year 2003.

Table 29 shows the program areas to which Missouri allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 29: Missouri's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$139,100,000	$89,400,000	
Economic development for tobacco regions and payment to tobacco growers	$0	0	0	
Education and social services	0	9,700,000	0	Early childhood education programs such as Parents as Teachers
General purposes and reserves/rainy day funds	0	2,500,000	2,500,000	Administrative costs
Health	0	232,200,000	74,200,000	Prescription drugs for seniors, lead screening, Medicaid, graduate medical education, federally qualified health centers, Telemedicine, lead screening
Infrastructure	0	0	0	

[3] Missouri did not receive state specific finality until late April 2001, so its total payments were not included in the total payments received through April 2001 in our June 2001 report. The payments received for fiscal year 2001 are as of the end of the fiscal year.

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Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Tax reduction	0	0	0	
Tobacco control	0	900,000	500,000	
Unallocated	0	0	0	
Total	**$0**	**$384,400,000[b]**	**$166,600,000[b]**	

Source: Missouri Division of Budget and Planning.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]The amounts allocated for fiscal years 2002 and 2003 include carry-over funds from payments received in prior fiscal years.

At the time of our study, Missouri was considering securitizing a portion of its MSA payments for fiscal year 2003. According to the Missouri Division of Budget and Planning, the state is authorized to securitize up to 30 percent of its future stream of tobacco payments. However, as of January 2003, the state had not securitized any of its MSA payments, although the Governor had recently suggested the securitization of about $350 million in fiscal year 2003 rather than the $50 million the General Assembly originally estimated that the state would receive. However, to procure the $350 million in proceeds, Missouri is considering the issuance of a hybrid tobacco bond instead of securitizing its MSA payments. According to the budget director, such a hybrid approach would use a revenue pledge—such as a general revenue appropriation—as a means of capturing lower interest costs. This would help reduce the cost of the bonds and would allow the state to fall back on general revenues if future MSA payments became insufficient to pay the bonds.

In addition to passing legislation authorizing the securitization of up to 30 percent of its total MSA payments, Missouri established the (1) Tobacco Settlement Financing Authority to implement the state's securitization process and (2) Advisory Committee on Tobacco Securitization to make recommendations on projects and programs that should be funded with the state's securitized proceeds.

Montana

According to the terms of the MSA, Montana receives 0.42 percent of the annual payments made by the tobacco companies. Montana expects to receive a total of $123,794,018 from the MSA through fiscal year 2003. This total consists of

- about $61,110,000 received as of April 2001;
- $31,079,018 received for fiscal year 2002; and
- $31,605,000 expected to be received for fiscal year 2003.

Table 30 shows the program areas to which Montana allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 30: Montana's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$0	$0	
Economic development for tobacco regions and payment to tobacco growers	$0	0	0	
Education and social services	1,600,000	0	0	
General purposes and reserves/rainy day funds	42,333,000	18,147,411	18,463,000	
Health	10,000,000	12,431,607	12,642,000	Deposited in a trust fund where the proceeds are restricted for new or expanded health costs and tobacco control[b]
Infrastructure	0	0	0	
Tax reduction	0	0	0	
Tobacco control	7,000,000	500,000c	500,000[c]	
Unallocated	0	0	0	
Total	**$60,933,000**	**$31,079,018**	**$31,605,000**	

Source: Montana Office of Budget and Program Planning.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]Allocations from the trust fund are directed to the Children's Health Insurance Program and its related Medicaid costs, youth challenge and intensive military style confidence building programs for school dropouts, and tobacco prevention.

[c]With the passage of legislation establishing the state's trust fund, the general fund for tobacco prevention was reduced from $3.5 million to $500,000 per year. Tobacco control programs also receive some additional funds from the state's trust fund.

Montana reported no changes in its decision-making framework for MSA funds since fiscal year 2001.

Nebraska

According to the terms of the MSA, Nebraska receives 0.59 percent of the annual payments made by the tobacco companies. Nebraska expects to receive a total of $172,393,266 from the MSA through fiscal year 2003. This total consists of

- about $85,600,000 received as of April 2001;
- $42,543,266 received for fiscal year 2002; and
- $44,250,000 expected to be received for fiscal year 2003.

Table 31 shows the program areas to which Nebraska allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 31: Nebraska's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$0	$0	
Economic development for tobacco regions and payment to tobacco growers	$0	0	0	
Education and social services	0	0	0	
General purposes and reserves/rainy day funds	0	0	0	
Health	56,820,000	18,814,000	21,461,475	Behavioral health, public health, biomedical research, community-based developmental disability services
Infrastructure	0	0	0	
Tax reduction	0	0	0	

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Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Tobacco control	14,000,000	7,000,000	7,000,000	Tobacco quit line, teen tobacco education project, media campaign, youth access enforcement, community-oriented program grants
Unallocated[b]	0	16,728,266	15,788,525	
Total	**$70,820,000**	**$42,542,266**	**$44,250,000**	

Source: Nebraska Department of Administrative Services, Budget Division.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]Unallocated funds also include MSA payments deposited to the Tobacco Settlement Trust Fund, which is the state's endowment fund. For fiscal years 2002 and 2003, $15,453,266 of MSA payments will be invested in the Tobacco Settlement Trust Fund. According to the state budget office, funds in the Tobacco Settlement Trust Fund are not authorized for expenditure.

Since fiscal year 2001, Nebraska passed legislation affecting the state's use of MSA funds. The state's legislature established an endowment investment strategy for the purpose of creating an annual transfer of MSA funds from the Tobacco Settlement Trust Fund to the Nebraska Health Care Cash Fund; these funds are to be used for health care priorities.

Nevada

According to the terms of the MSA, Nevada receives 0.61 percent of the annual payments made by the tobacco companies. Nevada expects to receive a total of $176,513,731 from the MSA through fiscal year 2003. This total consists of

- about $87,751,000 received as of April 2001;
- $44,628,083 received for fiscal year 2002; and
- $44,134,648 expected to be received for fiscal year 2003.

Table 32 shows the program areas to which Nevada allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 32: Nevada's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$0	$0	
Economic development for tobacco regions and payment to tobacco growers	$0	0	0	
Education and social services	44,383,000	24,178,014	26,213,005	Scholarship program for students who attend and graduate from a Nevada Higher Education Institute, grants that assist senior citizens to live independent of care facilities, support senior services, a homemaker program
General purposes and reserves/ rainy day funds	0	238,501	251,825	Support Attorney General's Office administration expenses
Health	28,243,000	16,179,926	13,471,469	Grants to improve health services for persons with disabilities, pay for prescription drugs and pharmaceuticals supplies for low-income seniors, an endowment fund that expends interest earnings only to provide grants for the promotion of public health
Infrastructure	0	0	0	
Tax reduction	0	0	0	
Tobacco control	8,070,000	5,512,344	4,795,918	Grants provided to organizations to help fund tobacco cessation programs
Unallocated	0	0	0	
Total	**$80,696,000**	**$46,108,785[b]**	**$44,732,217[b]**	

Source: Nevada Department of Administration, Budget Office.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]The amounts allocated for fiscal years 2002 and 2003 include carry-over funds and interest earned.

Nevada reported changes in its decision-making framework for MSA funds since fiscal year 2001. The state passed legislation allowing for the

appropriation of MSA funds to support the Attorney General's Office administration and senior service programs. The state also changed the percentage of MSA funds that can be used to administer the Healthy Nevada Fund and appropriated a portion of the interest earnings from the Public Health Trust Fund, which is dependent on MSA funds, to fund nursing loans.

New Hampshire

According to the terms of the MSA, New Hampshire receives 0.67 percent of the annual payments made by the tobacco companies. New Hampshire expects to receive a total of $191,932,000 from the MSA through fiscal year 2003. This total consists of

- about $95,807,000 received as of April 2001;
- $48,725,000 received for fiscal year 2002; and
- $47,400,000 expected to be received for fiscal year 2003.

Table 33 shows the program areas to which New Hampshire allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 33: New Hampshire's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$0	$0	
Economic development for tobacco regions and payment to tobacco growers	$0	0	0	
Education and social services	91,548,000	40,000,000	40,000,000	To support the education trust fund
General purposes and reserves/rainy day funds	442,000	4,000,000	4,400,000	To the overall general fund
Health	0	0	0	
Infrastructure	0	0	0	
Tax reduction	0	0	0	
Tobacco control	3,000,000	3,000,000	3,000,000	Tobacco use prevention
Unallocated	0	0	0	
Total	**$94,990,000**	**$47,000,000[b]**	**$47,400,000**	

Source: New Hampshire Legislative Budget Assistant's Office.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]The amount allocated for fiscal year 2002 is $1.725 million less than the amount received because, according to the state's Budget Office, the state had developed a conservative budget for the year.

New Hampshire reported increasing the state's appropriation of MSA funds into the general fund since fiscal year 2001. For example, from fiscal year 2002 to fiscal year 2003, the state increased MSA appropriations to the general fund by $400,000.

New Jersey

According to the terms of the MSA, New Jersey receives 3.87 percent of the annual payments made by the tobacco companies. New Jersey expects to receive a total of $1,116,800,000 from the MSA through fiscal year 2003. This total consists of

- about $557,730,000 received as of April 2001;
- $283,872,000 received for fiscal year 2002; and
- $275,198,000 expected to be received for fiscal year 2003.

Table 34 shows the program areas to which New Jersey allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 34: New Jersey's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$0	$0	
Economic development for tobacco regions and payment to tobacco growers	$0	0	0	
Education and social services	53,268,000	0	0	
General purposes and reserves/rainy day funds	42,000,000	0	0	
Health	396,367,000	264,751,000	271,706,000	NJ Family Care, Supplemental Charity Care, New and Expanded Community Options for Seniors, senior pharmaceutical assistance, expanded cancer initiatives, Cancer Institute of New Jersey, Garden State Cancer Center, medical services
Infrastructure	11,900,000	70,453,000	5,000,000	Cancer Institute of New Jersey and education facilities construction
Tax reduction	0	0	0	
Tobacco control	48,562,000	30,000,000	0	Youth Anti-Tobacco Awareness Media Campaign, Smoking Cessation Programs for Addicted Adults and Youth, Research, surveillance, evaluation and assistance for anti-smoking programs, school-based programs for the prevention of tobacco use and community- based tobacco control programs
Unallocated	0	0	0	

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Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Total	**$552,097,000**	**$365,204,000[b]**	**$276,706,000[c]**	

Source: New Jersey Office of Management and Budget, Department of the Treasury.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]The amount allocated for fiscal year 2002 includes carry-over funds from prior years.

[c]The amount allocated for fiscal year 2003 includes interest earned.

New Jersey securitized a portion of its MSA payments and received proceeds of $1,488,141,494 in fiscal year 2003. The state pledged 50 percent of its MSA payments beginning in fiscal year 2004 to service the debt on the bonds issued to procure these securitized proceeds. New Jersey's allocations of its securitized proceeds for fiscal year 2003 were the following:

- $691,264,082 for infrastructure, including grants to public schools for capital spending, public health and environment laboratories, and various transportation system improvements;
- $216,304,321 for general purposes including information technology;
- $133,999,764 to cover a budget shortfall;
- $33,431,833 for social services; and
- $413,000,000 unallocated for fiscal year 2003.

Other than its securitization of its MSA payments beginning in fiscal year 2004, New Jersey reported no other changes in its decision-making framework for MSA funds since fiscal year 2001.

New Mexico

According to the terms of the MSA, New Mexico receives 0.60 percent of the annual payments made by the tobacco companies. New Mexico expects to receive a total of $172,302,000 from the MSA through fiscal year 2003. This total consists of

- about $85,802,000 received as of April 2001;
- $43,600,000 received for fiscal year 2002; and

- $42,900,000 expected to be received for fiscal year 2003.

Table 35 shows the program areas to which New Mexico allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 35: New Mexico's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$0	$0	
Economic development for tobacco regions and payment to tobacco growers	$0	0	0	
Education and social services	0	0	0	
General purposes and reserves/rainy day funds	60,929,000	18,700,000	21,800,000	Permanent fund[b]
Health	19,525,000	6,220,000	19,498,000	Lung and tobacco illness research, diabetes prevention and control, HIV services and medication, Mobile Prenatal/Primary Care Clinics, genomics and environmental research, base Medicaid funding, breast and cervical cancer, defibrillators, link access information
Infrastructure	0	0	0	
Tax reduction	0	0	0	

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Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Tobacco control	2,225,000	5,000,000	5,900,000	Tobacco cessation and prevention programs and youth nonsmoking
Unallocated	2,654,000	7,480,000	0	
Total	**$85,333,000**	**$37,400,000[c]**	**$47,198,000[d]**	

Source: New Mexico Department of Finance and Administration.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]MSA deposits to the permanent fund are not available for expenditure and only the interest earned may be appropriated in future years.

[c]The amount allocated for fiscal year 2002 includes MSA payments received in fiscal year 2001, totaling $37.4 million.

[d]The amount allocated for fiscal year 2003 includes MSA payments received in fiscal year 2002 and includes carry-over funds from prior years.

New Mexico reported increasing the state's appropriation of MSA funds to the general fund since fiscal year 2001. For example, the state increased the general fund appropriations by $7.6 million during fiscal year 2003. These funds will be used to cover base Medicaid funding.

New York

According to the terms of the MSA, New York receives 12.76 percent of the annual payments made by the tobacco companies. New York expects to receive a total of $1,550,845,185 from the MSA through fiscal year 2003. This total consists of

- about $651,845,135 received as of April 2001;
- $399,000,000 received for fiscal year 2002; and
- $500,000,000 expected to be received for fiscal year 2003.[4]

[4] These MSA payments include only payments made to the state, which amount to about 51 percent of the annual payments made by the tobacco companies to New York. New York City and the 57 counties in the state receive the other 49 percent of the annual MSA payments to New York. In addition, the $651.8 million received through April 2001 does not include $261 million that New York received in April 2001. Because New York's fiscal year 2002 began on April 1, 2001, this $261 million is included in the $399 million New York received during fiscal year 2002.

Table 36 shows the program areas to which New York allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 36: New York's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$0	$0	
Economic development for tobacco regions and payment to tobacco growers	$0	0	0	
Education and social services	0	0	0	
General purposes and reserves/rainy day funds	250,000,000	0	0	
Health	388,000,000	359,000,000	460,000,000	Medicaid, indigent care, elderly pharmaceutical program, Family Health Plus, health insurance for the uninsured, breast and cervical cancer treatment and similar programs
Infrastructure	0	0	0	
Tax reduction	0	0	0	
Tobacco control	30,000,000	40,000,000	40,000,000	Tobacco control and prevention activities
Unallocated	0	0	0	
Total	**$668,000,000**	**$399,000,000**	**$500,000,000**	

Source: New York Division of the Budget.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

Since fiscal year 2001, New York enacted legislation to strengthen the enforcement of the MSA. This legislation changed the state's tax law to ensure that nonparticipating tobacco manufacturers abide by the escrow provisions of the MSA. The legislation also requires cigarette tax stamping agents in the state to follow strict guidelines to ensure that nonparticipating tobacco manufacturers are abiding by the excise requirements of the MSA.

North Carolina

According to the terms of the MSA, North Carolina receives 2.33 percent of the annual payments made by the tobacco companies. North Carolina expects to receive a total of $680,834,882 from the MSA through fiscal year 2003. This total consists of

- about $327,137,000 received as of April 2001;
- $175,835,882 received for fiscal year 2002; and
- $177,862,000 expected to be received for fiscal year 2003.

Table 37 shows the program areas to which North Carolina allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 37: North Carolina's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$64,009,022	$78,000,000	
Economic development for tobacco regions and payment to tobacco growers	$252,695,000	87,917,941	99,862,000	Tobacco Trust Fund
Education and social services	0	0	0	
General purposes and reserves/rainy day funds	0	0	0	
Health	84,232,000	11,954,459	0	Health and wellness
Infrastructure	0	0	0	
Tax reduction	0	0	0	
Tobacco control	0	0	0	
Unallocated	0	0	0	
Total	**$336,927,000**	**$175,835,881**	**$177,862,000**	

Source: North Carolina Office of State Budget and Management.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

North Carolina reported increasing its appropriation of MSA funds to the general fund since fiscal year 2001. The state increased the appropriations by $78 million. At this time, the increase has been approved only for fiscal year 2003 and will be used to offset Medicaid costs.

North Dakota

According to the terms of the MSA, North Dakota receives 0.37 percent of the annual payments made by the tobacco companies. North Dakota expects to receive a total of $105,975,153 from the MSA through fiscal year 2003. This total consists of

- about $52,658,000 received as of April 2001;
- $26,780,712 received for fiscal year 2002; and
- $26,536,441 expected to be received for fiscal year 2003.

Table 38 shows the program areas to which North Dakota allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 38: North Dakota's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$0	$0	
Economic development for tobacco regions and payment to tobacco growers	$0	0	0	
Education and social services	23,483,000	12,051,320	11,941,399	45 percent of MSA payments are set aside for the Common Schools Trust Fund—allocated but not spent
General purposes and reserves/rainy day funds	0	0	0	
Health	5,218,000	322,378	322,378	Dental loan fund, breast and cervical cancer program
Infrastructure	23,483,000	12,249,147	12,249,147	Water development projects
Tax reduction	0	0	0	

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Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Tobacco control	0	2,350,000	2,350,000	Tobacco Cessation Program
Unallocated	0	0	0	
Total	**$52,184,000**	**$26,972,845[b]**	**$26,862,924[b]**	

Source: North Dakota Office of Management and Budget.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]The amounts allocated for fiscal years 2002 and 2003 include interest earned.

North Dakota reported no changes in its decision-making framework for MSA funds since fiscal year 2001.

Ohio

According to the terms of the MSA, Ohio receives 5.04 percent of the annual payments made by the tobacco companies. Ohio expects to receive a total of $1,466,029,515 from the MSA through fiscal year 2003. This total consists of

- about $724,742,000 received as of April 2001;
- $368,587,515 received for fiscal year 2002; and
- $372,700,000 expected to be received for fiscal year 2003.

Table 39 shows the program areas to which Ohio allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 39: Ohio's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$289,578,188	$282,858,890	
Economic development for tobacco regions and payment to tobacco growers	$22,189,000	18,595,425	16,605,356	Indemnification payments
Education and social services	13,759,000	19,063,156	18,819,419	SchoolNet: support for education technology in local school districts, alcohol and drug addiction services
General purposes and reserves/rainy day funds	20,005,000	1,109,239	770,695	Taxation— settlement enforcement, Attorney General— oversight administration
Health	15,016,000	28,890,525	8,723,367	Department of Health and Minority Health Commission, Biomedical Research Technology Transfer Trust Fund
Infrastructure	138,063,000	17,004,476	44,286,273	Funding to local school districts for school facilities, Ohio Peace Officer Training Academy Improvements
Tax reduction	0	0	0	
Tobacco control	234,861,000	546,507	636,000	Under-age tobacco use enforcement
Unallocated	306,282,000	0	0	
Total	**$750,175,000**	**$374,787,516**	**$372,700,000**	

Source: Ohio Office of Budget and Management.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

Ohio reported changes in its decision-making framework for MSA funds since fiscal year 2001. The state passed legislation allowing the use of $289.6 million in fiscal year 2002 and $282.9 million in fiscal year 2003 for budget shortfalls. In addition, up to $120 million of the state's MSA payments per year is being diverted from the Tobacco Use Prevention Trust Fund for deficit reduction in the fiscal years 2002 and 2003 biennium. The state also decided to divert MSA payments amounting to $180 million in fiscal year 2002 and $165 million in fiscal year 2003 from the School Facilities Commission to cover budget deficits. Ohio is issuing debt to

offset the loss of funding to the School Facilities Commission; however, the lost revenue will not be recovered until fiscal years 2013 and 2014.

Oklahoma

According to the terms of the MSA, Oklahoma receives 1.04 percent of the annual payments made by the tobacco companies. Oklahoma expects to receive a total of $299,719,913 from the MSA through fiscal year 2003. This total consists of

- about $149,068,000 received as of April 2001;
- $75,872,921 received for fiscal year 2002; and
- $74,778,992 expected to be received for fiscal year 2003.

Table 40 shows the program areas to which Oklahoma allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 40: Oklahoma's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$0	$0	
Economic development for tobacco regions and payment to tobacco growers	$0	0	0	
Education and social services	4,000,000	10,427,604	20,000,000	General Programs
General purposes and reserves/rainy day funds	46,598,000	1,373,905	1,002,004	Law Enforcement-Attorney General
Health	96,055,000	47,590,850	33,462,765	General Programs, Tobacco Trust Fund for treatment of tobacco-related disease
Infrastructure	0	0	0	
Tax reduction	0	0	0	
Tobacco control	2,000,000	20,206,878	20,314,223	Health Department's tobacco cessation program, the Tobacco Trust Fund for cessation, education, and prevention

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Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Unallocated	0	0	0	
Total	**$148,653,000**	**$79,599,237[b]**	**$74,778,992**	

Source: Oklahoma Office of State Finance.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]The amount allocated for fiscal year 2002 includes carry-over funds from prior years.

Oklahoma reported no changes in its decision-making framework for MSA funds since fiscal year 2001. In November 2002, a proposal to change uses of the Tobacco Trust Fund was rejected in a statewide referendum.

Oregon

According to the terms of the MSA, Oregon receives 1.15 percent of the annual payments made by the tobacco companies. Oregon expects to receive a total of $332,451,280 from the MSA through fiscal year 2003. This total consists of

- about $160,976,000 received as of April 2001;
- $86,524,314 received for fiscal year 2002; and
- $84,950,966 expected to be received for fiscal year 2003.

Table 41 shows the program areas to which Oregon allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 41: Oregon's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$0	$0	
Economic development for tobacco regions and payment to tobacco growers	$0	0	0	
Education and social services	0	133,449,338	95,530,949	Insurance Pool Governing Board/ Oregon Health Plan
General purposes and reserves/rainy day funds	0	99,219,713	0	State general fund
Health	0	0	2,500,000	Bio-technology: Oregon Health Sciences Center
Infrastructure	0	0	0	
Tax reduction	0	0	0	
Tobacco control	0	0	0	
Unallocated	161,039,000	0	0	
Total	**$161,039,000**	**$232,669,051[b]**	**$98,030,949[b]**	

Source: Oregon Department of Administrative Services.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]The amounts allocated for fiscal years 2002 and 2003 include carry-over funds and interest from fiscal years 2000 and 2001. Oregon did not allocate any of its MSA payments until fiscal year 2002.

Oregon securitized a portion of its MSA payments in fiscal year 2003 and received $150 million. The state pledged 77 percent of its MSA payments for fiscal years 2004 through 2007 to service the debt on the bonds issued to procure the securitized funds. Oregon allocated all of its fiscal year 2003 securitized proceeds for education. According to the state budget office, these funds will most likely be used for the state school fund for kindergarten through twelfth grade education.

During fiscal year 2002, Oregon also increased its appropriation of MSA funds into the state's general fund by about $100 million.

Pennsylvania

According to the terms of the MSA, Pennsylvania receives 5.75 percent of the annual payments made by the tobacco companies. Pennsylvania expects to receive a total of $1,521,974,654 from the MSA through fiscal year 2003. This total consists of

- about $664,190,000 received as of April 2001;
- $433,529,654 received for fiscal year 2002; and
- $424,255,000 expected to be received for fiscal year 2003.

Table 42 shows the program areas to which Pennsylvania allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 42: Pennsylvania's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$0	$0	
Economic development for tobacco regions and payment to tobacco growers	$0	0	0	
Education and social services	0	0	0	
General purposes and reserves/rainy day funds	0	0	0	
Health	0	667,305,000	433,529,000	Allocation to the Tobacco Settlement Fund, with funding for health care insurance for the uninsured, home and community-based care, contributions to the PACEnet program, tobacco use prevention and cessation, broad-based health research, medical care for workers with disabilities, and uncompensated care
Infrastructure	0	0	0	
Tax reduction	0	0	0	

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Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Tobacco control	0	0	0	
Unallocated	803,500,000	0	0	
Total	**$803,500,000**	**$667,305,000[b]**	**$433,529,000[c]**	

Source: Pennsylvania Governor's Office of the Budget, Bureau of Budget Analysis.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]The amount allocated for fiscal year 2002 includes MSA payments received in fiscal years 2000 and 2001, which were held pending the passage of legislation that allowed the state to allocate these funds.

[c]The amount allocated for fiscal year 2003 includes MSA payments received in fiscal year 2002.

Pennsylvania reported changes in its decision-making framework for MSA funds since fiscal year 2001. In 2001, the state established the Tobacco Settlement Fund as the special revenue fund that receives the proceeds from the MSA. The fund maintains an endowment component to preserve a portion of the receipts to ensure funds for future generations, sustain critical programs if tobacco allocations decrease, and provide ongoing revenue if tobacco allocations end. Pennsylvania also passed legislation making distribution adjustments within the Tobacco Settlement Fund to support health-related programs, and also redirected funding that was to be deposited in an endowment account to support health-related programs within the Tobacco Settlement Fund.

Rhode Island

According to the terms of the MSA, Rhode Island receives 0.72 percent of the annual payments made by the tobacco companies. Rhode Island expects to receive a total of $209,439,291 from the MSA through fiscal year 2003. This total consists of

- about $103,428,000 received as of April 2001;
- $52,601,291 received for fiscal year 2002; and
- $53,410,000 expected to be received for fiscal year 2003.

Table 43 shows the program areas to which Rhode Island allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 43: Rhode Island's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]			
Economic development for tobacco regions and payment to tobacco growers	$0	$0	$0	
Education and social services	0	0	0	
General purposes and reserves/rainy day funds	102,853,000	53,630,000	53,410,000	State general fund
Health	0	0	0	
Infrastructure	0	0	0	
Tax reduction	0	0	0	
Tobacco control	0	0	0	
Unallocated	0	0	0	
Total	**$102,853,000**	**$53,630,000[b]**	**$53,410,000**	

Source: Rhode Island Budget Office.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]This amount is greater than the actual payment received in fiscal year 2002 because allocations were based on projected receipts for the year.

Rhode Island securitized its MSA payments and received $544,238,410 in fiscal year 2002. The state pledged all of its fiscal years 2004 through 2043 MSA payments to service the debt on the bonds issued to procure the securitized funds. Rhode Island allocated its securitized proceeds as follows

- $295,100,000 for infrastructure projects, including transportation projects, correctional facilities, and other capital projects;
- $135,00,0000 to cover budget shortfalls; and
- $114,138,410 was unallocated for fiscal year 2002, but $85,000,000 of this funding was subsequently allocated to the state's general fund for fiscal year 2003.

Other than its securitization of its MSA payments for fiscal years 2004 through 2043, Rhode Island reported no other changes in its decision-making framework for MSA funds since fiscal year 2001.

South Carolina

According to the terms of the MSA, South Carolina receives 1.18 percent of the annual payments made by the tobacco companies. South Carolina expects to receive a total of $340,447,600 from the MSA through fiscal year 2003. This total consists of

- about $169,241,000 received as of April 2001;
- $86,078,586 received for fiscal year 2002; and
- $85,128,014 expected to be received for fiscal year 2003.

Table 44 shows the program areas to which South Carolina allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 44: South Carolina's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$0	$0	[c]
Economic development for tobacco regions and payment to tobacco growers	$0	0	0	[c]
Education and social services	0	0	0	[c]
General purposes and reserves/rainy day funds	0	0	0	[c]
Health	163,422,000	0	0	[c]
Infrastructure	0	0	0	[c]
Tax reduction	0	0	0	[c]
Tobacco control	1,750,000	0	0	[c]
Unallocated	0	0	0	[c]
Total	**$165,172,000**	**$0[b]**	**$0[b]**	[c]

Source: South Carolina Office of State Budget.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]South Carolina used its entire MSA payments for fiscal years 2002 and 2003 to service the debt on the bonds issued when the state securitized its MSA payments in fiscal year 2001.

[c]Data not applicable.

In fiscal year 2001, South Carolina securitized its MSA payments and received $785.9 million. The state pledged all of its annual MSA payments for fiscal years 2002 through 2030 to service the debt on the bonds issued to procure the securitized funds. For fiscal year 2002, the state allocated $791.3 million in securitized proceeds. According to the state budget office, the state allocated these funds as follows

- $577.6 million for health purposes, including (1) the Silvercard-Senior Citizen Prescription Assistance Program and (2) $553.6 million for a state Health Care Trust Fund;
- $94.3 million for infrastructure, funding programs such as (1) water and wastewater infrastructure grants and loans and (2) $92.7 million for an Economic Development and Local Government Fund to be used for water and wastewater infrastructure grants and loans throughout all regions of the state;
- $117.8 million for payments to tobacco growers, tobacco quota holders and warehousemen for reduced production since 1998, including $8.3 million for the Tobacco Community Trust Fund; and
- $1.6 million for tobacco control purposes, such as youth smoking prevention cessation.

South Carolina's fiscal year 2002-2003 Appropriations Act also redirected $101 million in MSA payments from the unrestricted portion of the Healthcare Tobacco Settlement Trust Fund to fund Medicaid and mental health programs.

South Dakota

According to the terms of the MSA, South Dakota receives 0.35 percent of the annual payments made by the tobacco companies. South Dakota expects to receive a total of $101,364,928 from the MSA through fiscal year 2003. This total consists of

- about $50,203,000 received as of April 2001;
- $25,358,785 received for fiscal year 2002; and
- $25,803,143 expected to be received for fiscal year 2003.

Table 45 shows the program areas to which South Dakota allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 45: South Dakota's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$0	$0	
Economic development for tobacco regions and payment to tobacco growers	$0	0	0	
Education and social services	0	25,358,785	0	Education Enhancement Trust Fund
General purposes and reserves/rainy day funds	100,000	0	3,416,872	
Health	0	0	0	
Infrastructure	0	0	0	
Tax reduction	0	0	0	
Tobacco control	700,000	0	0	
Unallocated	48,400,000	0	0	
Total	**$49,200,000**	**$25,358,785**	**$3,416,872**[b]	

Source: South Dakota Bureau of Finance and Management.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]South Dakota used its entire MSA payment for fiscal year 2003 to service the debt on the bonds issued when the state securitized its MSA payments in fiscal year 2003. The amount allocated in fiscal year 2003 to general purposes reflects interest earned on prior MSA payments.

Since fiscal year 2001, South Dakota changed its decision-making framework for MSA funds by establishing the Education Enhancement Trust Fund. As of July 1, 2001, all of the state's MSA payments were to be deposited into this trust fund. South Dakota also securitized all of its MSA payments in fiscal year 2003 and received $243,596,553. The state pledged all of its annual MSA payments into perpetuity to service the debt on the bonds issued to procure the securitized funds. According to the state budget office, South Dakota allocated all of its fiscal year 2003 securitized proceeds for education purposes. The proceeds were deposited into the Education Enhancement Trust Fund. Interest earned on the trust fund balance is to be appropriated for education enhancement programs.

Tennessee

According to the terms of the MSA, Tennessee receives 2.44 percent of the annual payments made by the tobacco companies. Tennessee expects to receive a total of $705,061,600 from the MSA through fiscal year 2003. This total consists of

- about $354,356,000 received as of April 2001;
- $180,705,600 received for fiscal year 2002; and
- $170,000,000 expected to be received for fiscal year 2003.

Table 46 shows the program areas to which Tennessee allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 46: Tennessee's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$188,863,700	$170,000,000	[c]
Economic development for tobacco regions and payment to tobacco growers	$0	0	0	[c]
Education and social services	0	0	0	[c]
General purposes and reserves/rainy day funds	0	0	0	[c]
Health	0	0	0	[c]
Infrastructure	0	0	0	[c]
Tax reduction	0	0	0	[c]
Tobacco control	0	0	0	[c]
Unallocated	356,379,000	0	0	[c]
Total	**$356,379,000**	**$188,863,700[b]**	**$170,000,000**	[c]

Source: Tennessee Department of Finance & Administration, Budget Office.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]This amount is greater than the actual MSA payment received in fiscal year 2002 because allocations were based on projected receipts for the year.

[c]Data not applicable.

Tennessee reported no changes in its decision-making framework for MSA funds since fiscal year 2001.

Utah

According to the terms of the MSA, Utah receives 0.44 percent of the annual payments made by the tobacco companies. Utah expects to receive a total of $128,455,567 from the MSA through fiscal year 2003. This total consists of

- about $64,006,000 received as of April 2001;
- $32,551,745 received for fiscal year 2002; and
- $31,897,882 expected to be received for fiscal year 2003.

Table 47 shows the program areas to which Utah allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 47: Utah's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$0	$17,800,000	
Economic development for tobacco regions and payment to tobacco growers	$0	0	0	
Education and social services	2,000,000	2,000,000	2,000,000	Drug Court, Drug Board Pilot Program
General purposes and reserves/rainy day funds	24,141,000	16,276,000		Tobacco Permanent Endowment Fund
Health	9,500,000	11,496,000	11,497,000	Children's Health Insurance Program, cancer research
Infrastructure	0	0	0	
Tax reduction	0	0	0	

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Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Tobacco control	4,000,000	4,053,000	4,061,000	Tobacco quit line, TV campaign, prevention partnerships
Unallocated	8,641,000	0	0	
Total	**$48,282,000**	**$33,825,000[b]**	**$35,358,000[b]**	

Source: Utah Governor's Office of Planning and Budget.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]The amounts allocated for fiscal years 2002 and 2003 include carry-over funds from prior fiscal year MSA payments.

Utah reported increasing its appropriation of MSA payments from the permanent trust fund into the state's general fund since fiscal year 2001 by about $17.8 million.

Vermont

According to the terms of the MSA, Vermont receives 0.41 percent of the annual payments made by the tobacco companies. Vermont expects to receive a total of $117,925,000 from the MSA through fiscal year 2003. This total consists of

- about $57,675,000 received as of April 2001;
- $30,920,000 received for fiscal year 2002; and
- $29,330,000 expected to be received for fiscal year 2003.

Table 48 shows the program areas to which Vermont allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 48: Vermont's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$0	$0	
Economic development for tobacco regions and payment to tobacco growers	0	0	0	
Education and social services	0	1,490,000	810,000	Opiate addiction treatment
General purposes and reserves/rainy day funds	0	6,550,000	3,510,000	
Health	33,680,000	17,250,000	17,250,000	Medicaid
Infrastructure	0	0	0	
Tax reduction	0	0	0	
Tobacco control	14,750,000	6,870,000	9,290,000	Education, youth program, trust fund
Unallocated	940,000	0	0	
Total	**$49,370,000**	**$32,160,000[b]**	**$30,860,000[b]**	

Source: Vermont Department of Finance and Management.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]The amounts allocated for fiscal years 2002 and 2003 include interest earned on prior MSA payments.

Since fiscal year 2001, Vermont reduced its use of a dedicated fund by transferring MSA funds from the state's Tobacco Trust Fund to the general fund. The state transferred about $6.6 million and about $3.5 million to the general fund for fiscal years 2002 and 2003, respectively.

Virginia

According to the terms of the MSA, Virginia receives 2.04 percent of the annual payments made by the tobacco companies. Virginia expects to receive a total of $595,139148,251 from the MSA through fiscal year 2003. This total consists of

- about $294,180,000 received as of April 2001;
- $149,613,891 received for fiscal year 2002; and
- $151,354,360 expected to be received for fiscal year 2003.

Table 49 shows the program areas to which Virginia allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 49: Virginia's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$0	$0	
Economic development for tobacco regions and payment to tobacco growers	$144,673,000	74,135,594	75,677,180	Economic development projects, infrastructure, education and job training, research, administrative budget of the Tobacco Indemnification and Community Revitalization Commission, and indemnification payments to tobacco growers
Education and social services	0	0	0	
General purposes and reserves/rainy day funds	115,339,000	59,308,475	60,541,744	Deposited to the state general fund and allocated through the budget process
Health	0	0	0	
Infrastructure	0	0	0	
Tax reduction	0	0	0	
Tobacco control	28,835,000	14,827,119	15,135,436	Public education campaigns to discourage consumption by minors, research, and the administrative budget of the Virginia Tobacco Settlement Foundation
Unallocated	0	0	0	
Total	**$288,847,000**	**$148,271,188[b]**	**151,354,360**	

Source: Virginia Department of Planning and Budget.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]The amount allocated for fiscal year 2002 does not equal the amount received because actual MSA payments exceeded estimates used for budget development.

Virginia passed legislation authorizing the securitization of MSA funds in 2002. This legislation authorized the Governor to sell all or a portion of

Virginia's proceeds from the MSA dedicated to the Tobacco Indemnification and Community Revitalization Fund, which accounts for 50 percent of the state's share. The Tobacco Indemnification and Community Revitalization Commission has proposed securitization of these funds for the spring of 2003, and approval by the Governor is pending.

Washington

According to the terms of the MSA, Washington receives 2.05 percent of the annual payments made by the tobacco companies. Washington expects to receive a total of $594,401,000 from the MSA through fiscal year 2003. This total consists of

- about $295,401,000 received as of April 2001;
- $150,000,000 received for fiscal year 2002; and
- $149,000,000 expected to be received for fiscal year 2003.

Table 50 shows the program areas to which Washington allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 50: Washington's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$0	$0	
Economic development for tobacco regions and payment to tobacco growers	$0	0	0	
Education and social services	0	0	0	
General purposes and reserves/rainy day funds	700,000	0	0	
Health	198,464,000	145,000,000	111,800,000	Health services access for low income residents, plus public health purposes-including direct distributions to local public health districts and the state's immunization program

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Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Infrastructure	0	0	0	
Tax reduction	0	0	0	
Tobacco control	100,000,000	17,500,000	17,500,000	Tobacco prevention and control programs
Unallocated	0	5,000,000	37,200,000	Set aside for potential debt service and sales costs for securitization
Total	**$299,164,000**	**$167,500,000[b]**	**$166,500,000[b]**	

Source: Washington State Office of Financial Management.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]The amounts allocated for fiscal years 2002 and 2003 include carry-over funds from prior fiscal years.

Washington reported changes in its decision-making framework for MSA funds since fiscal year 2001. Primarily, the state passed legislation authorizing the securitization of MSA funds. Washington securitized 30 percent of its MSA payments in fiscal year 2003 and received $450 million. The securitization begins in fiscal year 2003 and will continue for 30 years. However, the sale of the bonds was structured with the expectation that the bonds would be retired in 19 to 21 years rather than 30 years. For fiscal year 2003, the state plans to pledge between $25 and $30 million from its MSA payment to service the debt on the bonds issued to procure the securitized funds. Washington allocated all of its fiscal year 2003 securitized proceeds for infrastructure purposes. According to the state budget office, these funds are earmarked for state debt service, working capital, and capital expenditures. Washington also increased the allocation of MSA funds into the state's general fund for future payments on the state's securitized proceeds.

West Virginia

According to the terms of the MSA, West Virginia receives 0.89 percent of the annual payments made by the tobacco companies. West Virginia expects to receive a total of $266,787,064 from the MSA through fiscal year 2003. This total consists of

- about $127,534,000 received as of April 2001;
- $64,861,064 received for fiscal year 2002; and
- $74,392,000 expected to be received for fiscal year 2003.

Table 51 shows the program areas to which West Virginia allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 51: West Virginia's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$0	$0	
Economic development for tobacco regions and payment to tobacco growers	$0	0	0	
Education and social services	0	0	0	
General purposes and reserves/rainy day funds	0	0	0	
Health	128,089,000	64,579,940	69,345,408	Operation of state-run hospitals, Medical Trust Fund[b]
Infrastructure	0	0	0	
Tax reduction	0	0	0	
Tobacco control	5,851,000	5,850,592	5,850,592	Funding, training, and technical assistance to community groups for prevention and cessation
Unallocated	0	0	0	
Total	**$133,940,000**	**$70,430,532[c]**	**$75,196,000[c]**	

Source: West Virginia Department of Administration.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]Half of West Virginia's MSA payments are deposited into a Medical Trust Fund (MTF) annually. The principal of the MTF cannot be spent, but interest earned can be used for the Public Employee Health Insurance Reserve Fund, expansion of Medicaid, funding of public health programs, funding for state-owned and operated health facilities. For fiscal year 2002, the state deposited $32,430,532 into the MTF, with an additional deposit of $37,196,000 in fiscal year 2003.

[c]The amounts allocated for fiscal years 2002 and 2003 include carry-over funds from prior years.

West Virginia reported no changes in its decision-making framework for MSA funds since fiscal year 2001.

Wisconsin

According to the terms of the MSA, Wisconsin receives 2.07 percent of the annual payments made by the tobacco companies. Wisconsin expects to

receive a total of $604,452,104 from the MSA through fiscal year 2003. This total consists of

- about $290,634,000 received as of April 2001;
- $156,215,304 received for fiscal year 2002; and
- $157,602,800 expected to be received for fiscal year 2003.

Table 52 shows the program areas to which Wisconsin allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 52: Wisconsin's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$0	$0	
Economic development for tobacco regions and payment to tobacco growers	$0	0	0	
Education and social services	0	0	0	
General purposes and reserves/rainy day funds	47,952,000	149,493,700	142,257,700	Direct aid to schools and school property tax relief, aid to counties, municipalities and technical colleges, medical assistance programs, other aid and tax relief to individuals and organizations, University of Wisconsin System, correctional system
Health	219,032,000	0	0	
Infrastructure	0	0	0	
Tax reduction	0	0	0	
Tobacco control	23,500,000	6,032,300	15,345,100	
Unallocated	0	0	0	
Total	**$290,484,000**	**$155,526,000**	**$157,602,800**	

Source: Wisconsin Department of Administration.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

Wisconsin securitized a portion of its MSA payments in fiscal year 2002 and received $1,275,002,400. The state pledged all of its annual MSA payments through fiscal year 2032 to service the debt on the bonds issued to procure the securitized funds. Wisconsin allocated $1.275 billion of its fiscal year 2002 securitized proceeds to cover budget shortfalls. According to the state budget office, the securitized funds were allocated as follows:

- $681 million was deposited directly into the state general fund in fiscal year 2002, and
- $594 million was deposited in an endowment fund where the proceeds plus any interest earned on the fund will be used to pay for a portion of aid to local governments in fiscal year 2003.

Wisconsin also reported that it decreased the use of dedicated funds and passed legislation allowing the use of the entire securitized MSA proceeds to address the state's budget deficit. Initially, the state's securitized proceeds were to be deposited in an endowment fund, but subsequently went to the state's general fund for budget shortfalls.

Wyoming

According to the terms of the MSA, Wyoming receives 0.25 percent of the annual payments made by the tobacco companies. Wyoming expects to receive a total of $66,358,967 from the MSA through fiscal year 2003. This total consists of

- about $34,834,000 received as of April 2001;
- $18,735,007 received for fiscal year 2002; and
- $12,789,960 expected to be received for fiscal year 2003.

Table 53 shows the program areas to which Wyoming allocated MSA funds for fiscal years 2000 and 2001, 2002, and 2003, and the types of programs that received these funds.

Table 53: Wyoming's MSA Payment Allocations

Program areas	Fiscal years 2000 and 2001	Fiscal year 2002	Fiscal year 2003	Types of programs receiving funds, fiscal years 2002 and 2003
Budget shortfall	[a]	$0	$0	
Economic development for tobacco regions and payment to tobacco growers	$0	0	0	
Education and social services	0	0	9,789,960	Substance Abuse Treatment Plan
General purposes and reserves/rainy day funds	0	0	0	
Health	0	18,735,007	3,000,000	MSA payment deposited into a Trust Fund currently earmarked for future health and tobacco prevention spending
Infrastructure	0	0	0	
Tax reduction	0	0	0	
Tobacco control	38,155,000	900,000	3,000,000	Tobacco prevention in reducing sales to minors, regional prenatal programs, community tobacco prevention activities
Unallocated	0	0	0	
Total	**$38,155,000**	**$19,635,007[b]**	**$15,789,960[c]**	

Source: Wyoming Office of the Attorney General.

[a]We did not obtain information on allocations for budget shortfalls in fiscal years 2000 and 2001.

[b]For fiscal year 2002, Wyoming budgeted its entire MSA payment to a trust fund earmarked for future health and tobacco prevention programs. The interest earned on the trust fund, totaling $900,000, was available to the state for allocation to tobacco control programs in fiscal year 2002.

[c]For fiscal year 2003, Wyoming budgeted about $9.8 million of its MSA payment to the Substance Abuse Treatment Plan and for other social services programs. The remaining $3 million was deposited into a trust fund earmarked for future health and tobacco prevention programs. The interest earned on the trust fund was available to the state for allocation to tobacco control in fiscal year 2002.

Since fiscal year 2001, Wyoming passed legislation granting rulemaking authority for the Department of Health. The legislation allows the Department of Health to establish treatment and prevention standards, known as a Substance Abuse Plan, by amending revenue streams and using funds received under the MSA. Because of the state's new Substance Abuse

Plan, the amount of MSA payments allocated to the state's trust fund decreased.

Survey of States' Use of Master Settlement Agreement Payments

United States General Accounting Office

Survey on States' Budgeting of Fiscal Years 2002 and 2003 Master Settlement Agreement Payments

Introduction

The U.S. General Accounting Office (GAO) is an independent agency of the legislative branch that supports Congress in meeting its Constitutional responsibilities. We are currently gathering information on states' budgeting of fiscal years 2002 and 2003 MSA payments as required by the Farm Security and Rural Investment Act of 2002, and will continue to gather the information annually through 2006. Specifically, we are seeking information on the total amount of fiscal year 2002 MSA payments received and the total amount of fiscal year 2003 MSA payments expected by each of the 46 states party to the MSA and how these funds have been budgeted.

Most of the questions in this survey can be answered by checking boxes or filling in blanks. Space has been provided at the end of the survey for any additional comments. Your participation is very important and we urge you to complete this survey. We cannot provide meaningful information to the Congress on these issues without your responses. Thank you for your time and assistance.

Instructions

You can either print out the survey and fill in the responses in hard copy and fax it to Gary Brown or Kristy Williams at **(404) 679-1819** or you can save the survey on your computer and e-mail the completed file to either Gary Brown (BrownG@gao.gov) or Kristy Williams (WilliamsK@gao.gov).

Contacts

If you have any questions about any aspect of this survey, please contact:

Gary Brown
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Thank you in advance for your cooperation.

Glossary

Please refer to the following definitions when completing this survey:

Fiscal year - Refers to your state's fiscal year.

MSA - Refers to the November 1998 Master Settlement Agreement, under which the attorneys general of 46 states signed a comprehensive agreement with the nation's largest tobacco companies requiring them to make annual payments to states in perpetuity as reimbursement for past tobacco-related costs.

Securitization - Refers to the use of MSA payments to back the issuance of bonds. More specifically, securitization is a type of structured financing method based on the cash flow of receivables or rights to future payments.

1

Glossary (Continued)

Definitions of MSA payment budget categories

To standardize the information reported by the 46 states for fiscal years 2000 and 2001, we developed the following categories for the program areas to which states budgeted their MSA payments. For this current survey, we are using the categories that we used for 2000 and 2001, and because several states have recently experienced budget deficits, we have added an additional category for funds used to reduce budget shortfalls. When classifying funds to a category, please include administrative costs that apply to that category.

Budget Shortfalls: This category is comprised of amounts budgeted to balance state budgets and close gaps or reduce deficits resulting from lower than anticipated revenues or increased mandatory or essential expenditures.

Economic Development for Tobacco Regions: This category is comprised of amounts budgeted for economic development projects in tobacco states such as infrastructure projects, education and job training programs, and research on alternative uses of tobacco and alternative crops. This category includes projects specifically designed to benefit tobacco growers as well as economic development that may serve a larger population within a tobacco state.

Education: This category is comprised of amounts budgeted for education programs such as day care, preschool, Head Start, early childhood education, elementary and secondary education, after-school programs, and higher education. This category does not include money for capital projects such as construction of school buildings.

General Purposes: This category is comprised of amounts budgeted for attorneys' fees and other items, such as law enforcement community development, that could not be placed in a more precise category. This category also includes amounts budgeted to the state's general fund that were not earmarked for any particular purpose. Amounts used to balance state budgets and close gaps or reduce deficits should be categorized as budget shortfalls rather than general purposes.

Health: This category is comprised of amounts budgeted for direct health care services, health insurance including Medicaid and the State Children's Health Insurance Program (SCHIP), hospitals, medical technology, public health services, and health research. This category does not include money for capital projects such as construction of health facilities.

Infrastructure: This category is comprised of amounts budgeted for capital projects such as construction and renovation of health care, education and social services facilities, water and transportation projects, and municipal and state government buildings. This category includes retirement of debt owed on capital projects.

Payments to Tobacco Growers: This category is comprised of amounts budgeted for direct payments to tobacco growers including subsidies and crop conversion programs.

Reserves/Rainy Day Funds: This category is comprised of amounts budgeted to state budget reserves such as rainy day and budget stabilization funds not earmarked for specific programs. Amounts budgeted to reserves that are earmarked for specific areas are categorized under those areas--e.g., reserve amounts earmarked for economic development purposes should be categorized in the economic development category.

2

Glossary (Continued)

Social Services: This category is comprised of amounts budgeted for social services such as programs for the aging, assisted living, Meals on Wheels, drug courts, child welfare and foster care. This category also includes amounts budgeted to special funds established for children's programs

Tax Reductions: This category is comprised of amounts budgeted for tax reductions such as property tax rebates and earned income tax credits.

Tobacco Control: This category is comprised of amounts budgeted for tobacco control programs such as prevention, including youth education, enforcement and cessation services.

Unallocated: This category is comprised of amounts not budgeted for any specific purpose, such as amounts budgeted to dedicated funds that have no specified purpose; amounts states chose not to budget in the year MSA payments were received that will be available for budgeting in a subsequent fiscal year; interest earned from dedicated funds not yet budgeted; and amounts that have not been budgeted because the state had not made a decision on the use of the MSA payments.

Contact Information

Please provide the following information about the primary person completing this survey in case we need to clarify a response.

Name: _____

Agency: _____

Title: _____

Telephone number: ( ) _____

E-mail address: _____

3

Background Information

In 2001, GAO obtained information from your state on how fiscal years 2000 and 2001 MSA payments were budgeted. We then classified your state's budgeted MSA payments for both years into 8 categories (listed in alphabetical order) and reported the following payment allocations. This information is being provided for informational purposes and may aid in your completion of the survey. (See the Glossary for definitions of the MSA payment budget categories.)

Economic Development for Tobacco Regions and Payments to Tobacco Growers:
Education and Social Services:
General Purposes and Reserves/Rainy Day Funds:
Health:
Infrastructure:
Tax Reductions:
Tobacco Control:
Unallocated:

MSA Payments Received

1. What was the amount of **fiscal year 2002 MSA payments** your state received?

   $ _____

2. What is the amount of **fiscal year 2003 MSA payments** your state expects to receive?

   $ _____

Securitization of MSA Payments

3. Has your state received any proceeds from securitization of its MSA payments in fiscal years 2000, 2001, or 2002, or is your state scheduled to receive any securitized proceeds in fiscal year 2003? (Note: See the glossary for a definition of securitization.)

   1. [ ] No → ***Skip to question 11.***
   2. [ ] Yes → ***Continue with question 4.***

4

Securitized MSA Payment Proceeds Received in Fiscal Years 2000 - 2003

4. If your state received any proceeds from securitization of its MSA payments in fiscal years 2000, 2001, or 2002, or if your state is scheduled to receive any securitized proceeds in fiscal year 2003, please enter the following information:

a. Amount of Securitized Proceeds Received in Fiscal Year 2000	$
b. Amount of Securitized Proceeds Received in Fiscal Year 2001	$
c. Amount of Securitized Proceeds Received in Fiscal Year 2002	$
d. Amount of Securitized Proceeds Scheduled to be Received in Fiscal Year 2003	$
e. Future MSA payments that were pledged to obtain these proceeds (e.g.: 50 percent of 2005-2020 payments)	Enter response below:

MSA Payments Used to Service Debt on Bonds

5. Of the **fiscal year 2002 MSA payments** your state received, what amount was used to service debt on bonds backed by MSA payments?

$ _____

6. Of the **fiscal year 2003 MSA payments** your state expects to receive, what amount will be pledged to service debt on bonds backed by MSA payments?

$ _____

5

Budgeting of Fiscal Years 2002 and 2003 Securitized MSA Payment Proceeds

7. What was the amount of the **securitized proceeds** your state budgeted for fiscal year 2002?

$ _____

If the amount of securitized proceeds budgeted for fiscal year 2002 (question 7) is not equal to the amount received in fiscal year 2002 (see question 4, row "c"), please explain the difference below (e.g., unallocated securitized proceeds carried over from previous fiscal years, interest earned, etc.).

8. For each of the categories below (listed in alphabetical order), please provide the amount of **securitized proceeds** your state **budgeted for fiscal year 2002**. In addition, please provide specific examples of programs for each of the categories that received these funds. (Note: The total of the amounts listed in the categories below should equal the amount reported in question 7.)

Budgeting of Securitized Proceeds Received in Fiscal Year 2002

Category	Amount Budgeted From Fiscal Year 2002 Securitized Proceeds	Examples of programs receiving funds
Budget Shortfalls	$	
Economic Development for Tobacco Regions	$	
Education	$	
General Purposes	$	
Health	$	
Infrastructure	$	
Payments to Tobacco Growers	$	
Reserves/Rainy Day Funds	$	
Social Services	$	
Tax Reductions	$	
Tobacco Control	$	
Unallocated	$	
Total	**$**	

6

9. What was the amount of the **securitized proceeds** your state budgeted for fiscal year 2003?

$ _____

If the amount of securitized proceeds budgeted for fiscal year 2003 (question 9) is not equal to the amount your state is scheduled to receive in fiscal year 2003 (see question 4, row "d"), please explain the difference below (e.g., unallocated securitized proceeds carried over from previous fiscal years, interest earned, etc.

10. For each of the categories below (listed in alphabetical order), please provide the amount of **securitized proceeds** your state **budgeted for fiscal year 2003**. In addition, please provide specific examples of programs for each of the categories scheduled to receive these funds. (Note: The total of the amounts listed in the categories below should equal the amount reported in question 9.)

Budgeting of Securitized Proceeds Scheduled to be Received in Fiscal Year 2003

Category	Amount Budgeted From Scheduled Fiscal Year 2003 Securitized Proceeds	Examples of programs scheduled to receive funds
Budget Shortfalls	$	
Economic Development for Tobacco Regions	$	
Education	$	
General Purposes	$	
Health	$	
Infrastructure	$	
Payments to Tobacco Growers	$	
Reserves/Rainy Day Funds	$	
Social Services	$	
Tax Reductions	$	
Tobacco Control	$	
Unallocated	$	
Total	**$**	

7

Budgeting of Fiscal Years 2002 and 2003 MSA Payments That Were Not Securitized

11. What was the amount of the **MSA payments** your state budgeted for fiscal year 2002?

$ _____

If the amount of MSA payments budgeted for fiscal year 2002 (question 11) is not equal to the amount received in fiscal year 2002 (see question 1), please explain the difference below (e.g., carry-over funding from MSA payments received prior to fiscal year 2002, interest earned, etc.).

12. For each of the categories below (listed in alphabetical order), please provide the amount of **MSA payments** your state budgeted **for fiscal year 2002**. In addition, please provide specific examples of programs for each of the categories budgeted to receive these funds. (Note: The total of the amounts listed in the categories below should equal the amount reported in question 11).

Budgeting of MSA Payments for Fiscal Year 2002

Category	Amount of MSA Payments Budgeted for Fiscal Year 2002	Examples of programs receiving funds
Budget Shortfalls	$	
Economic Development for Tobacco Regions	$	
Education	$	
General Purposes	$	
Health	$	
Infrastructure	$	
Payments to tobacco growers	$	
Reserves/Rainy Day Funds	$	
Social Services	$	
Tax Reductions	$	
Tobacco Control	$	
Unallocated	$	
Total	**$**	

8

13. What was the amount of the **MSA payments** your state budgeted for fiscal year 2003?

$ _____

If the amount of MSA payments budgeted for fiscal year 2003 (question 13) is not equal to the amount received in fiscal year 2003 (see question 2), please explain the difference below (e.g., carry-over funding from MSA payments received prior to fiscal year 2003, interest earned, etc.).

14. For each of the categories below (listed in alphabetical order), please provide the amount of **MSA payments** your state budgeted **for fiscal year 2003**. In addition, please provide specific examples of programs for each of the categories budgeted to receive these funds. (Note: The total of the amounts listed in the categories below should equal the amount reported in question 13).

Budgeting of MSA Payments for Fiscal Year 2003

Category	Amount of MSA Payments Budgeted for Fiscal Year 2003	Examples of programs scheduled to receive funds
Budget Shortfalls	$	
Economic Development for Tobacco Regions	$	
Education	$	
General Purposes	$	
Health	$	
Infrastructure	$	
Payments to tobacco growers	$	
Reserves/Rainy Day Funds	$	
Social Services	$	
Tax Reductions	$	
Tobacco Control	$	
Unallocated	$	
Total	**$**	

9

Legislation and Other Changes Affecting Planned Uses of MSA Payments

15. Did your state take any of the following actions since MSA budgeting decisions were made in fiscal year 2001? *(Check one box in each row. If yes, please provide a brief description.)*

Passed legislation affecting the state's use of MSA funds	[ ] Yes → [ ] No [ ] Not sure	If yes, please provide a brief description:
Made changes to establish new goals (e.g., strategic plan for the state's use of the funds)	[ ] Yes → [ ] No [ ] Not sure	If yes, please provide a brief description:
Changed requirements for use of MSA funds (e.g., place restrictions on use of MSA funds)	[ ] Yes → [ ] No [ ] Not sure	If yes, please provide a brief description:
Passed ballot initiative determining use of MSA funds	[ ] Yes → [ ] No [ ] Not sure	If yes, please provide a brief description:
Other - Please specify below:	[ ] Yes → [ ] No	If yes, please provide a brief description:

If available, please provide a citation or web site where documentation of the change(s) (i.e.: legislation, report, etc.) can be found.

10

16. Did your state make any of the following changes in its method(s) of budgeting MSA funds since fiscal year 2001? *(Check one box in each row. If yes, please provide a brief description.)*

Increased (or decreased) the use of dedicated funds, such as endowment funds or trust funds	[ ] Yes → [ ] No [ ] Not sure	If yes, please indicate increased or decreased. [ ] Increased [ ] Decreased → Please describe below:
Implemented special commission/ task force/ board recommendations for spending of funds	[ ] Yes → [ ] No [ ] Not sure	If yes, please provide a brief description:
Delegated more (or less) decision-making authority over the use of funds to special commission/task force/board	[ ] Yes → [ ] No [ ] Not sure	If yes, please indicate more or less. [ ] More [ ] Less → Please describe below:
Increased (or decreased) appropriations of MSA funds into the state's general fund for current or future needs	[ ] Yes → [ ] No [ ] Not sure	If yes, please indicate increased or decreased. [ ] Increased [ ] Decreased → Please describe below:
Other - Please specify below:	[ ]Yes → [ ] No	If yes, please provide a brief description:

Comments

17. If you have any additional comments relating to any of the issues raised in this questionnaire, please enter them in the space provided.

Thank you for your cooperation.

11

GAO Contact and Staff Acknowledgments

GAO Contact

Anu K. Mittal 202-512-3841

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