



## REVENUES FROM TOBACCO “MASTER SETTLEMENT AGREEMENT” OF 1998

Since 2000, Colorado has received \$1.05 billion in payments from the multi-state lawsuits against cigarette manufacturers, lawsuits that resulted in the 1998 Master

Settlement Agreement (MSA) between 45 states and the nation’s four largest cigarette manufacturers.

In 2009, annual payments to Colorado reached a peak of \$112.8 million, but fell to \$94.6 million for 2010. In addition, beginning in 2006, some participating manufacturers began to withhold a portion of their scheduled payments, contending that Colorado was not adequately enforcing portions of the MSA that called for certain annual payments to the state from smaller tobacco manufacturers which were not party to the original settlement.

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MSA revenues are allocated according to a complicated formula set forth in law.<sup>1</sup> Primary beneficiaries (aka “Tier 1”) of these revenues are:

- Children’s Basic Health Plan, 24 percent of MSA revenues, not to exceed \$30 million and not less than \$17.5 million.
- Nurse Home Visitor Program, 13 percent in FY 2009-10, rising 1 percent per year to 19 percent by FY

2015-16, and not to exceed \$19 million.

- Fitzsimons lease purchase, 8 percent, not to exceed \$8 million.
- Read-to-Achieve and related education grants, 5 percent, not to exceed \$8 million.
- Tony Grampsas Youth Services Program, 4 percent, not to exceed \$5 million.
- HIV/AIDS drug assistance program, 3.5 percent, not to exceed \$5 million.
- Comprehensive primary and preventive care grants, 2 percent, not to exceed \$2 million.
- HIV/AIDS prevention grants, 2 percent, not to exceed \$2 million.
- State veterans, 1 percent, not to exceed \$1 million.
- Autism treatment fund, \$1 million annually.
- Child Mental Health Transplant Act, \$300,000 annually.
- Dental Loan Repayment Program, \$200,000 annually.

Any funds remaining after the above allocations have been met are then distributed as follows:

- University of Colorado Health Sciences Center, 49 percent.
- Children’s Basic Health Plan, 13.5 percent
- Mental health services for juvenile and adult offenders, 12 percent.
- Local public health services, 7 percent.
- Short-term grants for innovative health programs, 6 percent.
- Supplemental state contribution for group benefit plans, 4.5 percent.
- Colorado Immunization Program, 4 percent.
- Alcohol and drug abuse treatment programs, 3 percent.
- Children’s Hospital Medicaid shortfall, 1 percent.

In many cases, MSA revenues pay for programs that otherwise would be funded by general fund tax revenues. In other instances, MSA funds were used to fuel new programs.

While anti-tobacco advocates argue that MSA revenues should be earmarked for anti-tobacco education and cessation and to pay for state health care costs related to tobacco use, the MSA does not stipulate how the funds must be spent. Moreover, the state lawsuits



argued that cigarette manufacturers should pay states for money they had previously spent on tobacco-related illnesses – i.e., money that otherwise would have been spent on other budget priorities not related to health care.

Thus, lawmakers have flexibility to spend this money on a wide variety of budget priorities determined annually. Expenditures should be re-examined annually to specifically determine whether funded programs are resolving the problems they purport to address or merely are adding to the perpetual, caseload-driven spending bureaucracy.

## **ACKNOWLEDGEMENTS**

**Mark Hillman** wrote this section. Please see his complete biography in the Author's section.

## **ADDITIONAL RESOURCES**

Office of the State Treasurer, Tobacco Revenues table, 2000-2010 (June 2010).

Joint Budget Committee, FY 2010-11 Appropriations Report, Appendix G.

Congressional Research Service, *Tobacco Master Settlement Agreement (1998): Overview, Implementation by States, and Congressional Issues*, Nov. 5, 1999.

## **ENDNOTES**

<sup>1</sup> Colo. Rev. Stat. § 24-75-1104.5.