

# Tobacco Control Promises Deferred: Distribution of Master Settlement Agreement Funds in North Carolina

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## 1. Introduction

Allocation of Master Settlement Agreement (MSA) funds to tobacco control has fallen short of public health advocates' expectations. There are a number of reasons for this, some structural, others the result of shifting political objectives and a fiscal crisis that recently confronted most states. This paper provides a detailed examination of the evolution of these changing forces in one tobacco dependent state, North Carolina (NC), how interplay between politics, economics, and public health priorities have shaped MSA allocation, and implications for future tobacco control efforts.

North Carolina provides an excellent opportunity for a case study. It is a major tobacco-producing state with above average tobacco use, two factors likely to diminish lawmakers' and constituents' interests in tobacco control. State lawmakers face a complex array of competing interests and political issues:

- the tobacco lobby continues to exercise considerable political strength;
- tobacco-dependent communities represent new challenges as market pressures drive smaller tobacco growers to seek alternative income sources;
- a substantial loss of manufacturing jobs in non-tobacco dependent communities has introduced new pressures for economic development; and
- shrinking tax revenues combined with rapidly rising Medicaid costs have created a very constrained economic climate.

Adding to the complexity, North Carolina's farmers have benefited to varying degrees from Phase II Settlement payments now being replaced by tobacco quota buyout payments. Although neither of these last two funding sources are within control of the state, their purposes and those of the MSA funds are intertwined.

## 2. Background

### MSA Payments

- MSA was reached between the attorneys general of 46 states and the major tobacco manufacturers in November 1998.
- Provided for tobacco industry payments to states of more than \$200 billion through 2025 in exchange for states dropping current and future lawsuits against the industry seeking to recover healthcare costs.

### Phase II Payments

- "Phase II" settlement between tobacco manufacturers and tobacco-producing states compensated tobacco quota owners and tobacco growers for revenue losses due to reductions in demand for tobacco because of the MSA provisions.
- Phase II payments were paid directly to quota holders and producers based on 1998 tobacco production, with NC receiving 38% of payments.
- Phase II payments were scheduled to be \$5.15 billion over 12 years, but ended early with the passage of the tobacco quota buyout in October 2004.

### Public Health

- Public health community and general public had strong reasons to expect that a significant portion of MSA funds would target tobacco control programs based on statements by parties involved in the negotiations.
- However, only a small proportion of MSA funds have actually been devoted to tobacco control programs.
  - Diversions to general state budgets.
  - Reallocation towards economic development projects.
  - Reallocation towards other public health issues (e.g., prescription drug assistance, obesity).

## 3. Institutional Structure for Distribution of MSA Funds in North Carolina

North Carolina created three new institutions to receive and disburse MSA funds:

- Golden LEAF Foundation (50% of MSA funds)**
  - Mission "to improve the economic and social conditions of North Carolina's people" and "to promote the social welfare of North Carolina's citizens and to receive and distribute funds for economic impact assistance."
- Tobacco Trust Fund (25% of MSA funds)**
  - Mission to assist "tobacco farmers, tobacco quota holders, persons engaged in tobacco-related businesses, individuals displaced from tobacco-related employment, and tobacco product component businesses in North Carolina by funding programs that support, foster, encourage, and facilitate a strong agricultural economy in North Carolina."
- Health and Wellness Trust Fund (25% of MSA funds)**
  - Mission to address the health needs of vulnerable and underserved populations; supporting health research, education, prevention and treatment programs; increase capacity of communities to respond to public health needs; and develop a comprehensive, community-based plan with goals and objectives to improve the health and wellness of North Carolina residents, with an emphasis on reducing youth tobacco use (emphasis added).

## 4. Methods

- Historical data were extracted from the websites of the three North Carolina institutions distributing MSA funds as well as the Phase II website.
- Golden LEAF expenditures for fiscal years 2000-2004 were compiled from the awards list by year by sector.
- Tobacco Trust Fund expenditures for fiscal years 2001-2003 were compiled from the awards list by year by sector. There were no awards in 2000 while the program was starting up and no awards in 2004 because all funds were diverted to the general budget by the state legislature.
- Health and Wellness Trust Fund expenditures were estimated based on total commitments through fiscal year 2004.

- Expenditures were categorized based on institutional definitions (Table 1)

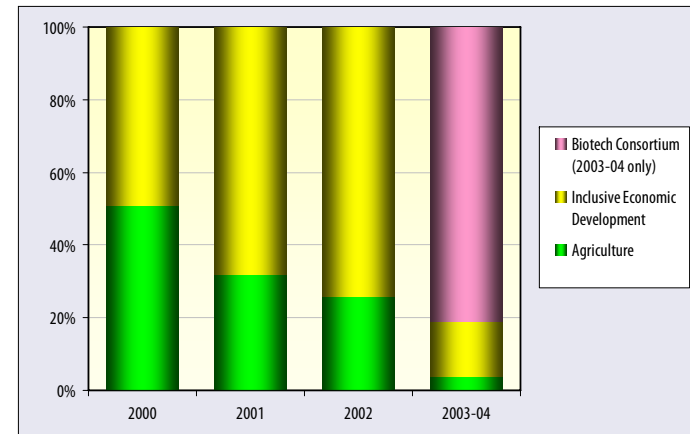
Table 1. MSA Fund Grant Categories

Agriculture (Tobacco Trust Fund & Golden Leaf Fund)
Tobacco diversification
Supporting tobacco farmers to grow tobacco
Supporting tobacco farmers—unrestricted
Equally beneficial to tobacco and nontobacco farmers
Economic Development (Golden Leaf Fund)
Economic development (GLF definition)
Workforce preparedness
Biotech consortium (2003-04 only)
Economic stimulus grants (2002, 2003-04)
Site certification
Health (Health & Wellness Trust Fund)
Teen tobacco use prevention and cessation
Medication assistance
Prescription drug initiative
Obesity

## 5. Results

- Golden LEAF Foundation grants for agricultural purposes decreased from 51% of expenditures in 2000 to 4% in 2003-2004 (Figure 1).
  - Overall allocation heavily influenced by decision in 2003 to provide \$60 million for a Biotechnology Training Consortium composed of major educational institutions.
  - Dollar amount jumped between 2002 and 2003-2004 (from \$12.6 million to \$70.9 million) due to Golden LEAF Foundation decision to temporarily depart from restricting grants to foundation investment income only.
  - Over time, expenditures became increasingly concentrated on colleges and universities, while the share of funds aimed at agricultural research outside the college and university system declined.
  - Golden LEAF Foundation avoided efforts to divert funds to the general state budget because of the way the organization was structured.

Figure 1. Golden Leaf Fund Funding Priorities — Changes in Grant Purposes Over 4 Years



- Tobacco Trust Fund expenditures went almost exclusively to agriculture (97%) versus economic development (3%), as expected based on program goals. However, funds for tobacco diversification were limited.
  - Only 7% of agriculture funding was targeted to tobacco diversification.
  - Counter-productive to tobacco control, 89% of Tobacco Trust Fund expenditures were directed towards "supporting tobacco farmers to grow tobacco." The largest portion of this, \$41 million, was provided to tobacco farmers for retrofitting flue-cured tobacco barns.
    - May have helped tobacco manufacturers avoid lawsuits related to nitrosamines in cured tobacco leaf.
    - May have helped tobacco manufacturers accelerate plans to replace the tobacco auction system with direct contracting system.
  - \$157 million (75% of total allocation to this fund) was diverted to the state's general budget.
- Health and Wellness Trust Fund devoted the majority of funds to public health objectives other than tobacco control.
  - Teen tobacco use prevention and cessation received 21% of the grant funds awarded.
  - Medication assistance, prescription drug assistance, and obesity prevention programs received the other 79% of grant funds awarded by this fund.
  - \$97.9 million (43% of total allocation to this fund) was diverted to the state's general budget.
  - Despite the relatively small allocation of funds to teen tobacco prevention, this is a substantial improvement in North Carolina's prevention efforts.
    - Before 2003, the state spent no MSA funds on tobacco prevention.
    - In 2003, state spent \$6.2 million to reduce smoking.
    - By 2005, that figure rose to \$15 million, or 35% of CDC-recommended level.
- Phase II funding to eligible tobacco quota holders and growers totaled \$665.8 million for the first 5 years of payments through 2003.
  - Over twice the total grant expenditures through the three MSA funds.

## 5. Results (cont'd)

- Overall funding allocation (Table 2)
  - Excluding Phase II payments and diversions to the general budget, health-related projects were the single largest component of MSA grant expenditures (45.1%), with economic development receiving 32.6% and agriculture 22.3%.
  - Including Phase II payments under agriculture, agriculture accounts for 60.3% of total MSA and Phase II funds, economic development 7.8%, health 10.8%, and diversions to the general budget 21.1%.
  - Tobacco diversification and teen tobacco use prevention and cessation were allocated small fractions of total funds.

Table 2. Funding Priorities for North Carolina MSA Funds (Including Diversions to the General Fund) and Phase II Payments, 2000-04

Grant funding total (by purpose)	Dollar Amount Without Phase II Funds & Diversion to General Funds	% of Total \$ Amount	Dollar Amount With Phase II Funds & Diversion to General Funds	% of Total \$ Amount
<b>Agriculture</b>	<b>\$64,467,941</b>	<b>22.3%</b>	<b>\$730,222,003</b>	<b>60.3%</b>
Tobacco diversification <sup>a</sup>	\$16,739,791	5.8%	\$16,739,791	1.4%
Supporting tobacco farmers to grow tobacco <sup>b</sup>	\$46,982,161	16.2%	\$46,982,161	3.9%
Supporting tobacco farmers—unrestricted (Phase II)	—	—	\$665,754,062	55.0%
Equally beneficial to tobacco and nontobacco farmers <sup>c</sup>	\$745,989	.3%	\$745,989	0.1%
<b>Inclusive Economic Development</b>	<b>\$94,666,479</b>	<b>32.6%</b>	<b>\$94,666,479</b>	<b>7.8%</b>
Economic development (GLF definition) <sup>d</sup>	\$14,179,064	4.9%	\$14,179,064	1.2%
Workforce preparedness <sup>e</sup>	\$11,399,866	3.9%	\$11,399,866	0.9%
Biotech consortium (2003-04 only) <sup>f</sup>	\$60,000,000	20.7%	\$60,000,000	5.0%
Economic stimulus grants (2002, 2003-04) <sup>f</sup>	\$8,552,896	2.9%	\$8,552,896	0.7%
Site certification <sup>g</sup>	\$534,654	.2%	\$534,654	0.0%
<b>Health—All Areas</b>	<b>\$130,875,000</b>	<b>45.1%</b>	<b>\$130,875,000</b>	<b>10.8%</b>
Teen tobacco use prevention and cessation <sup>h</sup>	\$28,000,000	9.6%	\$28,000,000	2.3%
Medication assistance <sup>h</sup>	\$15,400,000	5.3%	\$15,400,000	1.3%
Prescription drug initiative <sup>h</sup>	\$78,000,000	26.9%	\$78,000,000	6.4%
Obesity <sup>h</sup>	\$9,475,000	3.3%	\$9,475,000	0.8%
<b>Diversion to General Fund (FY01-02 – FY03-04)<sup>h</sup></b>	<b>—</b>	<b>—</b>	<b>\$255,055,751</b>	<b>21.1%</b>

a: \$13,421,329 from GLF and \$3,538,462 from TTF; b: \$200,000 from GLF; \$46,782,161 from TTF; c: \$20,000 from GLF; \$725,989 from TTF; d: \$13,409,612 from GLF and \$769,452 from TTF; e: \$10,699,866 from GLF; \$700,000 from TTF; f: GLF; g: HWTF; h: \$157,000,000 from TTF and \$97,900,000 from HWTF

## 6. Discussion

North Carolina allocations of MSA and related funds to tobacco control have not lived up to the rhetoric that accompanied the original agreement. MSA grant expenditures of \$290 million were dwarfed by diverted funds (\$255 million) and Phase II payments (\$667 million). However, within MSA-only outlays, health issues received 45.1% of funding, with tobacco control funding at 9.6%. There is clear evidence of increased expenditures for smoking prevention in a state that had previously demonstrated remarkable indifference, if not overt hostility, to the issue. Even with these increases in spending, though, North Carolina is still only spending 35% of the CDC-recommended minimum. Moreover, the state's almost exclusive focus on teen smoking reduction does little to reduce health impacts on adult smokers.

Why the shift away from tobacco control and tobacco farmer transition? Economic development initiatives, balancing the state budget, and fulfilling campaign promises for a senior prescription drug program were high priorities for lawmakers in recent years. In addition, lawmakers may have seen Phase II payments as reducing the need for MSA-funded tobacco diversification activities. If these shifts represent more efficient allocations of MSA dollars, then the flexibility granted to MSA fund overseers is justified. If these shifts represent lawmakers' abandonment of original MSA objectives and NC MSA trust fund priorities in favor of political benefits, however, then the absence of set-asides for tobacco farmer diversification and tobacco prevention has defeated the implied purpose of the MSA.