

## SELECTED ISSUES: THE 1999-00 BUDGET PROPOSAL FOR: THE TOBACCO SETTLEMENT

In November, California agreed to settle the lawsuit brought by the state against the tobacco industry. This section discusses the monetary settlement and its implications for the state and local governments.

**Overview.** Under the settlement, California will receive an estimated \$25 billion over a 25-year period from the four largest tobacco companies—Phillip Morris Inc., R.J. Reynolds Tobacco Co., Brown and Williamson Tobacco Co., and Lorillard Tobacco Co. The agreement further provides that California's monetary settlement be split 50-50 between the state and local governments. Of the 50 percent going to the cities and counties, ten percent would be distributed equally to San Diego, Los Angeles, San Jose, and San Francisco. The remaining 90 percent would be distributed to the 58 counties on a per capita basis. The table below shows the state and counties annual allotment for the first five years. (See the Legislative Analyst's Office publication *The Tobacco Settlement: What does it mean for California* for a list of annual payments by county)

Table 1

Tobacco Settlement Annual Allocation to State and Counties: 1998-2002 (Dollars in thousands)					
	1998	1999	2000	2001	2002
State	\$153,167.5	0	\$409,196.5	\$441,866.5	\$530,552.5
Counties	153,167.5	0	409,196.5	441,866.5	530,552.5
<b>Total</b>	<b>\$306,335</b>	<b>0</b>	<b>\$818,393</b>	<b>\$883,733</b>	<b>\$1,061,105</b>

**State Budget:** The 1999-00 Governor's budget assumes that the 1998 and 2000 payments will be received during the state fiscal year for a total of \$562 million. The settlement agreement places no restrictions on the use of the monies by the state. The money would therefore be deposited in the General Fund. The Governor's budget applies the full amount to deficit reduction.

**County Funds:** Over 25 years, the counties will receive a total of \$12.5 billion. While there are no restrictions placed on the funds to be received by the local governments, counties should be encouraged to use these funds to maximize receipt of available federal funds and to supplement existing state funded programs where there is demand. For example, counties may be able to use a portion of these funds to enhance the newly implemented Healthy Families program. They may also consider supplementing programs that are currently funded by declining revenue sources, such as Proposition 99-funded programs.

**Public Health Provisions:** The settlement included numerous restrictions on the tobacco industry aimed at protecting public health. Some key public health provisions would:

- Ban the use of cartoon characters;
- Restrict sponsorships by brand names;
- Ban outdoor advertising;
- Ban placement of tobacco products;
- Ban youth access to free samples;
- Ban proof of purchase gifts;
- Prohibit third parties from using tobacco brand names;
- Ban non-tobacco brand names; and
- Set minimum pack size at 20 cigarettes.

The settlement also requires the industry to pay \$250 million over the next ten years to fund a charitable foundation, which will support the study of programs to reduce teen smoking and substance abuse. It also requires the industry to pay \$1.45 billion over the next five years for a National Public Education Fund to support an education campaign to counter youth tobacco use and educate consumers about tobacco related disease. *The Legislative Analyst's Office (LAO) recommends that the state closely monitor implementation of these provisions, as they could complement or supplement the state's existing efforts to curb tobacco consumption.*

For a more comprehensive discussion of the tobacco settlement see the LAO's publication "*The Tobacco Settlement: What Will It Mean for California*".