TOBACCO MASTER SETTLEMENT FUND

BUDGET COMMITTEE
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Background on Master Settlement Agreement

- November 1998 – the AGs of 46 states and the nation's largest tobacco companies signed a comprehensive agreement
- Agreement calls for annual payments in perpetuity as reimbursement for past tobacco-related healthcare costs
- Agreement imposes no restrictions on how states spend their MSA payments
- Indiana's allocable share is set at 2.039% of total annual payments to states
- In 1999, the General Assembly created the Tobacco Master Settlement Fund (TMSF)

2013 and 2017 Decisions

- As part of the 2013 TMSA arbitration ruling for 2003 sales year, Indiana received a $63M reduction in the FY14 payment
- $57.4M of the $85.8M reserve balance was used to cover the FY14 revenue shortfall
- Subsequent settlement in 2014 (finalized in 2017) prevents a similar arbitration for sales years 2004-2017

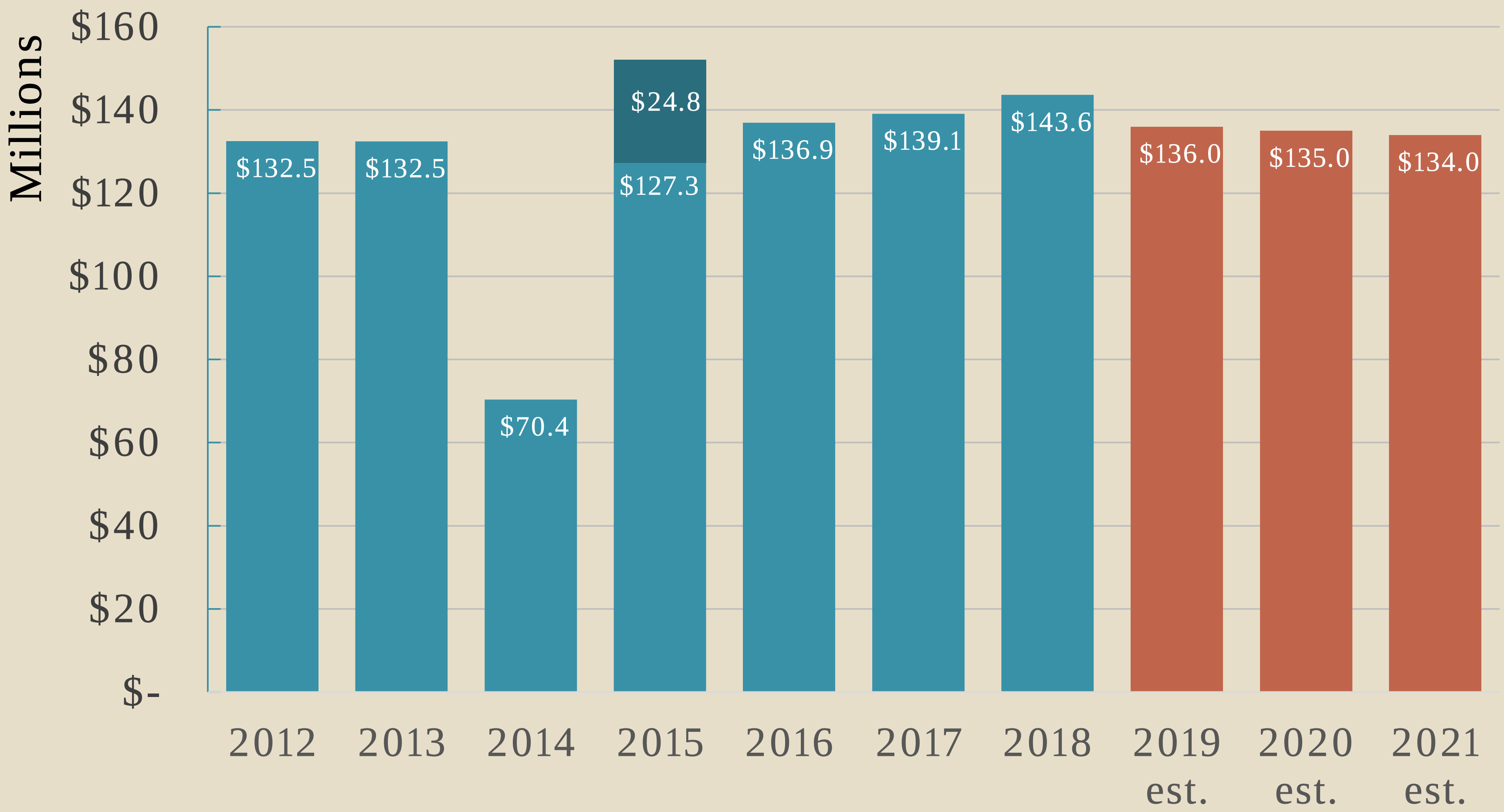
Revenue Projections & Receipts

- Revenue projections are based on assumptions made by the National Association of Attorneys General about:
  - cigarette sales–volume has been declining between 4-5%
  - rate of inflation—MSA sets floor at 3%
  - Adjustment for sales in previously settled states (e.g. FL, MN, TX)
  - participating manufacturers' (PM) vs. non-participating manufacturers' (NPM) market share— NPM adjustment ~13%

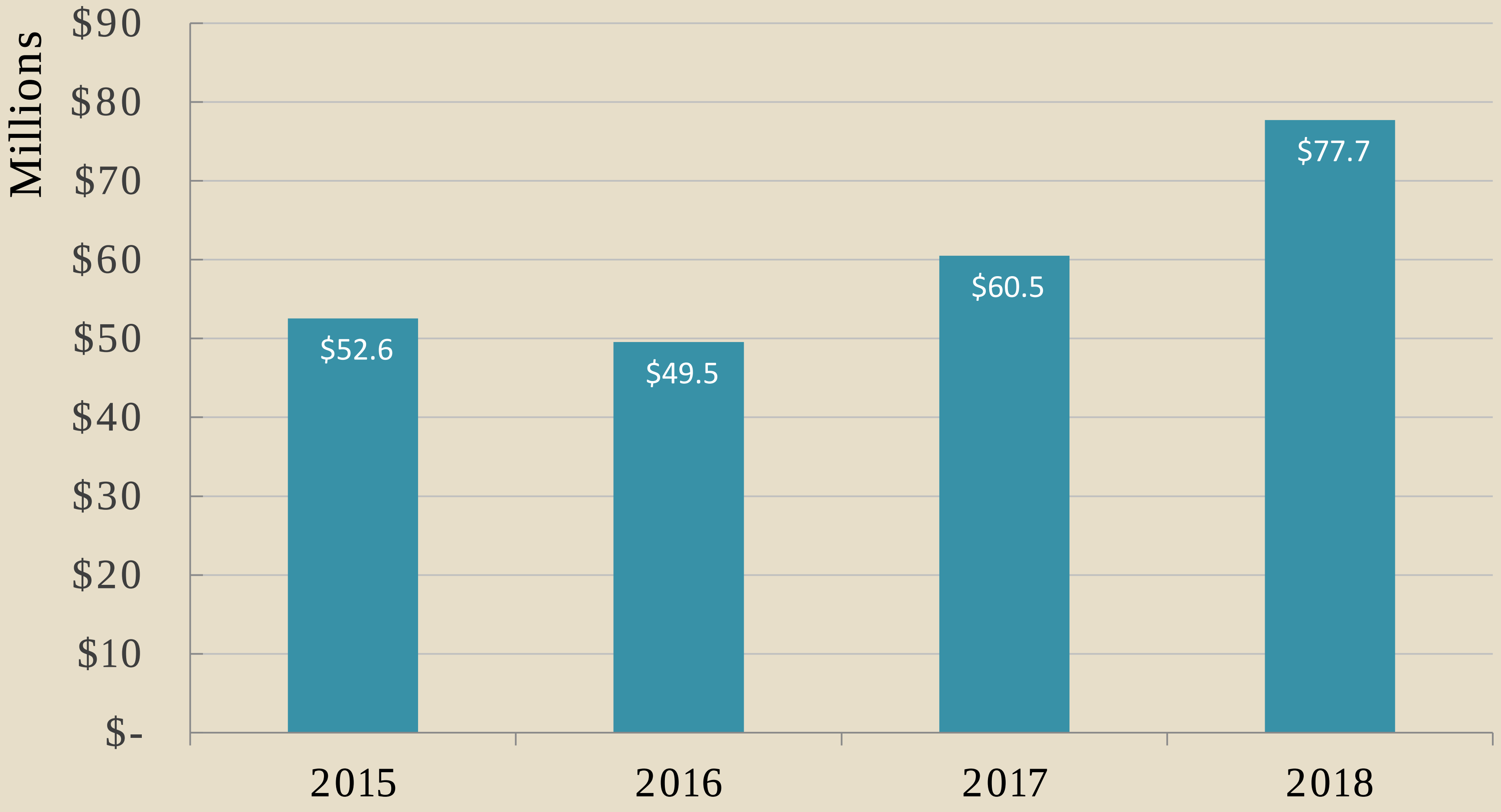
- Actual TMSF revenues for a given fiscal year are not known until after April 15th, the date set in the MSA when the annual payments are due.

- Approximately 75% of annual spend is completed prior to receiving annual payment - if the payments come in below estimate, as they did in FY14, spending cannot be undone.

Revenue: FY12-FY21



Actual FYE Fund Balances



Appropriations

- Indiana has been committed to dedicating the proceeds from the MSA to funding healthcare and tobacco use prevention programs.
- $63 million is annually appropriated to ISDH for various programs including infant mortality reduction, tobacco use prevention and cessation, community health centers, local health departments, minority health initiatives, deaf and hard of hearing services, HIV/AIDS patient services, and care for children with special health care needs.
- $47 million is appropriated to FSSA for disability services, substance abuse treatment, community mental health centers, Adult Protective Services, burial services, and the Children’s Health Insurance Program (CHIP).
- $7 million in appropriations are for primary care scholarships and medical residency grants.
- $12 million funds annual lease payments for 3 state psychiatric hospitals.

Future Funding Challenges

- As cigarette sales decline and participating manufacturers lose market share to non-participating manufacturers, the master settlement payments will be a declining revenue source.
- Beginning in FFY2016, the ACA increased the already enhanced CHIP FMAP of 76% by an additional 23% bringing the federal share to 99%.
- The ACA enhanced FMAP for CHIP is set to expire on September 30, 2019 and will step down to the more historical federal share of 76% by October 1, 2020 (see below). This results in a larger state share of CHIP expenditures for the next two years.
- Indiana CHIP FMAPs by Federal Fiscal Year

2015	2016	2017	2018	2019	2020	2021 estimated
76.56%	99.62%	99.72%	98.91%	99.17%	87.59%	76.09%