TOBACCO MASTER SETTLEMENT FUND

BUDGET UPDATE
12/12/2012

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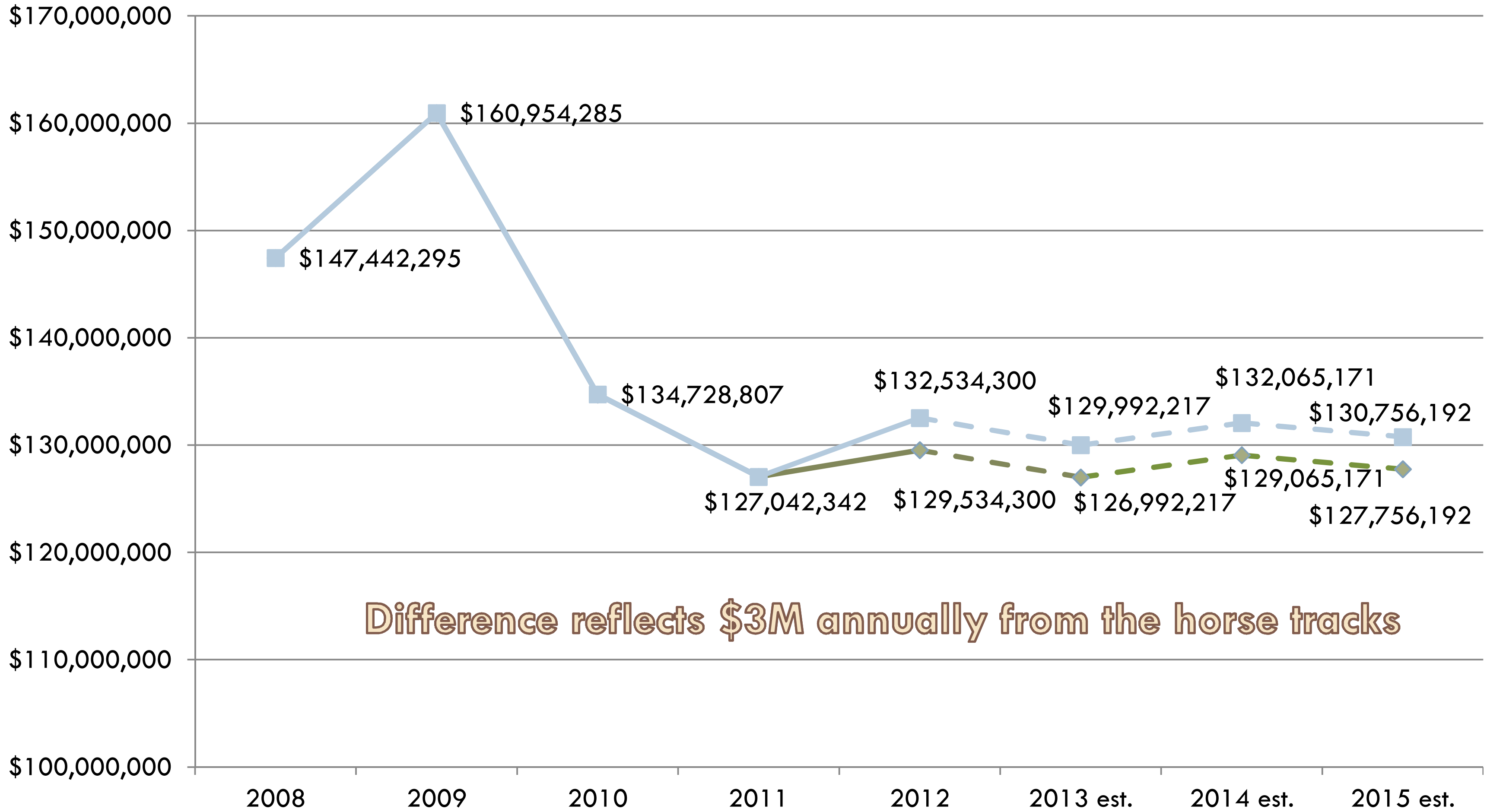
Background on MSA

- 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 costs associated with healthcare costs
- Agreement imposes no restrictions on how states spend their MSA payments
- Indiana's allocable share is set at 2.039 percent of total annual payment to states
- In 1999, the General Assembly created the Tobacco Master Settlement Fund (TMSF)

Revenue Projections

- The revenue projections are based on assumptions made by the National Association of Attorneys General about cigarette consumption and the rate of inflation over the next three years. The revenue estimates can change based on the actual participating manufacturers' cigarette sales, market share, and rate of inflation.
  - Cigarette consumption continues to decrease (2.5% in 2011)
  - The MSA provides a 3% "floor" for the inflation adjustment
- HEA 1001-2011 directed $3M of the supplemental tax paid by the horse tracks to the TMSF ($1.5M from each track)

Revenues: FY08 – FY15



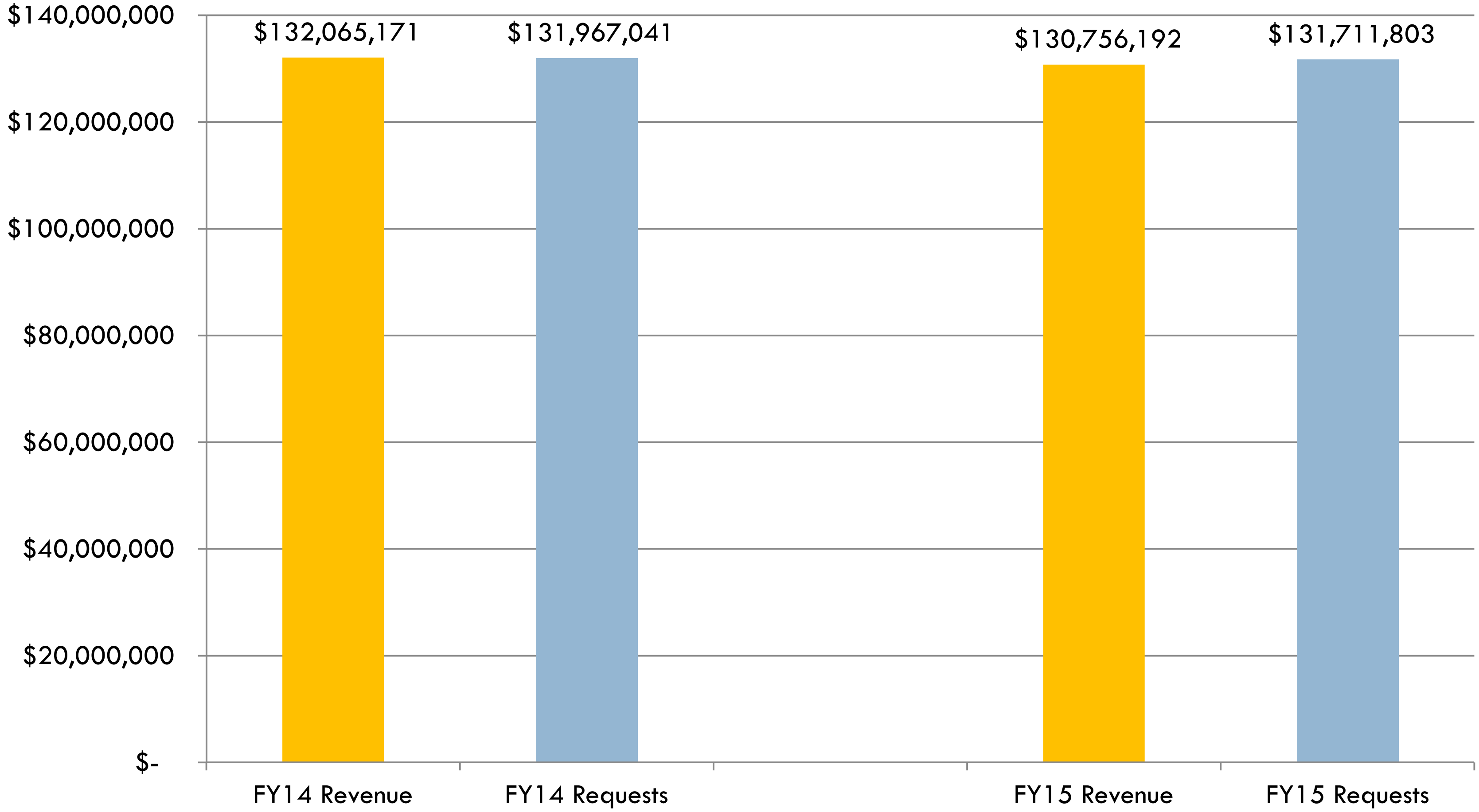
Receipt of Revenues

- Actual TMSF revenues for a given fiscal year are not known until April 15th , the date set in the MSA when the annual payments are distributed to states
- Indiana has spent more than 75 percent of estimated revenues prior to receiving the payments - if the payments come in below estimates, as they often have in the past, then the spending cannot be “undone”
- Thus, it is prudent to maintain a reserve

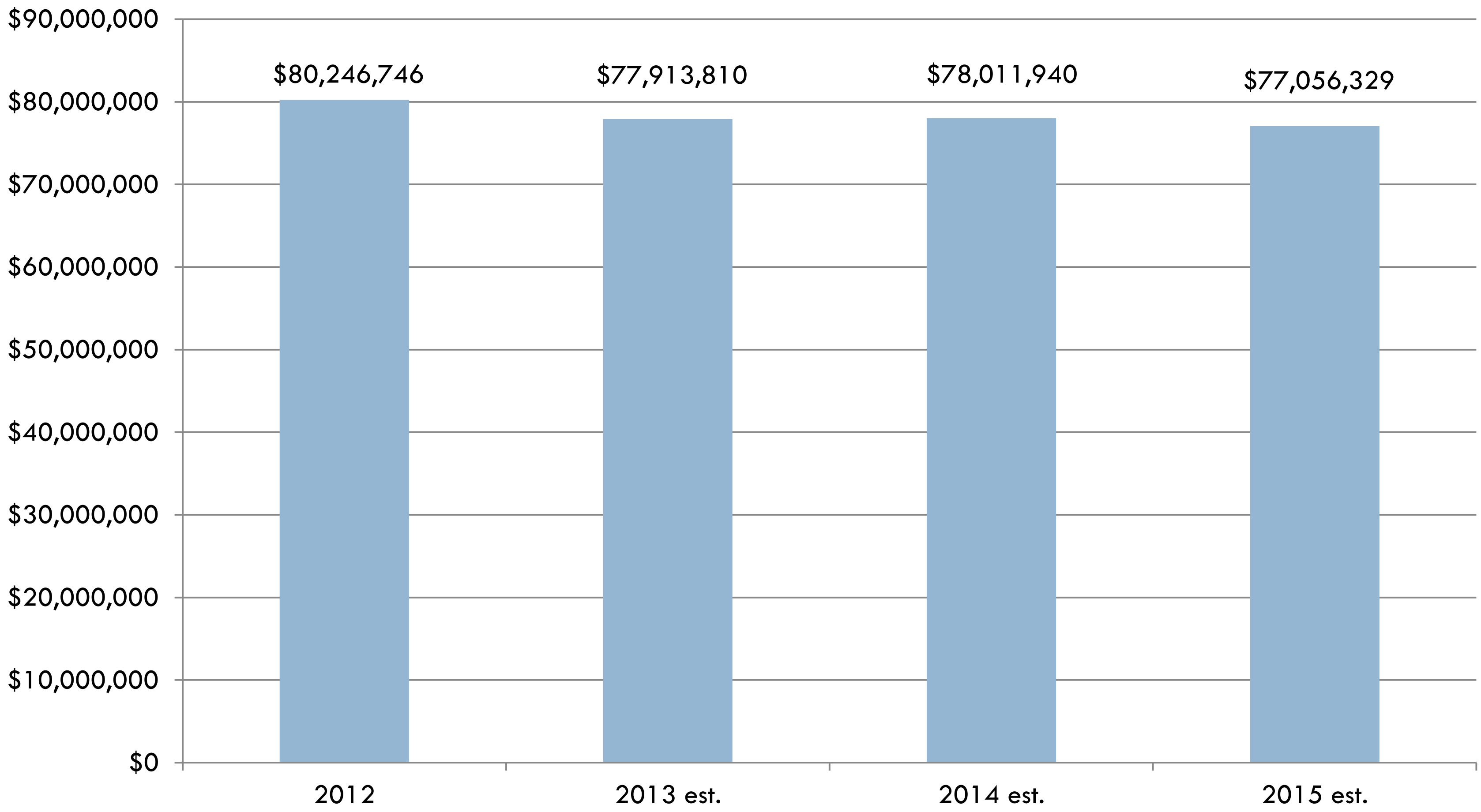
Requested Appropriations

- The State of Indiana is committed to dedicating the proceeds from the MSA to funding healthcare related programs, anti-smoking programs, and tobacco control programs implemented by ISDH and FSSA
- In the requested appropriations for FY 2014 and FY 2015, 99% of the TMSF budget would be used for HHS programs
  - In the last current biennium budget, this was also at 99%
- The only non-HHS requested appropriations are for the Office of the Attorney General and the Rural Economic Development Fund

Projected Revenue vs. Budget Request



Projected FYE Balances



2003 NPM Adjustment Dispute

- At stake is the $1.15 billion payment made in 2004
  - Based on 2003 sales
  - Indiana’s 2004 payment was $126.8M
- It’s unknown how much of Indiana’s 2014 payment will be offset because of the dispute and arbitration
- Decisions made on 2003 could impact disputes on payments made in the following years
- Another good reason to maintain a healthy reserve balance

Questions?