

Minnesota's Tobacco Settlement

What is Minnesota's tobacco settlement?

In 1998 the state of Minnesota and Blue Cross and Blue Shield of Minnesota settled their lawsuit against several tobacco companies and related organizations. According to the settlement, the state receives payments from tobacco companies that began in 1998 and will continue into perpetuity. Blue Cross and Blue Shield of Minnesota has a separate settlement agreement. The settlement establishes three types of settlement payments.

- **Annual payments** are deposited in the state's general fund and are used for the general operation of state government.
- **One-time payments** are deposited in endowments and are used for tobacco use prevention, other public health, and medical education activities, and for cash flow.
- **Court-administered payments** are used to fund the activities of the Minnesota Partnership for Action Against Tobacco (MPAAT).

The annual and one-time payments receive annual inflation adjustments and volume adjustments (based on changes in the volume of tobacco products sold in the United States, and changes in tobacco company profitability). The court-administered payments do not receive inflation or volume adjustments. The settlement also restricts tobacco companies and related organizations from engaging in certain marketing and advertising activities, requires dissolution of the Council for Tobacco Research, ensures public access to court documents and files, and requires disclosure of certain payments to lobbyists.

How much are the annual payments, and how are they used?

On December 31, 1999, and each year thereafter into perpetuity, the tobacco companies must make annual payments to the state. These annual payments are deposited in the state's general fund and are used for the general operation of state government. There are no restrictions on how these payments may be used. The following table specifies the payment amounts received to date and projected payment amounts for future fiscal years.

Fiscal Year	2000	2001	2002	2003 (proj)	2004 (proj)	2005 (proj)
Payment Amount	\$110.7 million	\$124.4 million	\$155.9 million	\$151.5 million	\$188.7 million	\$190.8 million

Source: Minnesota Department of Finance

How much are Minnesota is scheduled to receive six one-time payments between September 1998 and

the one-time payments, and how are they used?

January 2003. These one-time payments are distributed to two endowment funds and one account created by the legislature: the Tobacco Use Prevention and Local Public Health Endowment, the Medical Education Endowment, and an Academic Health Center Account within the Medical Education Endowment. Up to 5 percent of the fair market value of each fund or account is appropriated in statute each year for specific purposes. The following table provides additional information on the endowments and account.

	Tobacco Use Prevention and Local Public Health Endowment	Medical Education Endowment	Academic Health Center Account
Year Created	1999	1999	2001
How Funded	61 percent of 1998, 1999, 2000, and 2001 one-time payments	39 percent of 1998, 1999, 2000, and 2001 one-time payments	100 percent of 2002 and 2003 one-time payments
Fair Market Value of Fund as of 8/31/02	\$451 million	\$289 million	\$203 million
How Money Used	<ul style="list-style-type: none"> • Statewide youth tobacco prevention grants • Local youth tobacco prevention grants • Local public health promotion and protection activities • Minnesota Department of Health administrative expenses • Other MDH tobacco prevention and control activities • Tobacco-use monitoring systems • Biennial evaluations of endowment-funded projects 	<ul style="list-style-type: none"> • Instructional costs of health professional programs at publicly funded academic health centers and affiliated institutions • Clinical training of health professionals at various medical facilities • MDH administrative expenses 	<ul style="list-style-type: none"> • Instructional costs of health professional programs at the Academic Health Center (AHC) • Interdisciplinary academic initiatives at the AHC • Leveraging federal funds for medical education activities

Source of fair market value data: Minnesota Department of Finance

In addition to the above uses, beginning July 1, 2003, the principal amounts in both endowment funds may be used for cash flow purposes. The legislature authorized this use in 2002.

How much are the court-administered payments, and how are they used?

In addition to funds paid directly to the state, some tobacco settlement funds are deposited in one of two accounts—a cessation account or a national research account—administered as ordered by the Ramsey County District Court. Between 1998 and 2007, \$202 million will be deposited into these accounts. These accounts are administered by a private, nonprofit organization created by the court called the Minnesota Partnership for Action Against Tobacco (MPAAT).

- **Cessation account.** \$102 million due in December 1998 was deposited in a cessation account, to be used to offer smoking cessation opportunities to Minnesota smokers.
- **National research account.** \$100 million—\$10 million a year for ten years, from June 1998 to June 2007—is to be deposited into a national research account, to be used for research to eliminate tobacco use by children and for program implementation, evaluation, and other tobacco control purposes.

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The legislature and the executive branch do not have any direct control over MPAAT's funding or expenditures. The Ramsey County District Court oversees its activities.

For more information: Contact legislative analyst Elisabeth Loehrke at 651-296-5043.

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House Research Department | 600 State Office Building | St. Paul, MN 55155 | 651-296-6753 | www.house.mn/hrd/hrd.htm