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S	66	4	4	2

Table S–7. TOBACCO LEGISLATION

(In billions of dollars)

	Estimate					Total 1999–2003
	1999	2000	2001	2002	2003	
USES OF RECEIPTS FROM TOBACCO LEGISLATION						
Federally-operated Programs:						
Research Fund for America	3.6	4.6	5.0	5.7	6.3	25.3
Food and Drug Administration Enforcement Activities	0.1	0.2	0.3	0.3	0.3	1.2
Health and Human Services/Centers for Disease Control Smoking Prevention	0.1	0.1	0.1	0.1	0.1	0.4
Medicare Beneficiaries Cancer Clinical Trials Demonstration	0.2	0.2	0.3	....	....	0.8
Subtotal, Federally-operated programs	4.0	5.1	5.6	6.1	6.7	27.5
State-administered Programs:						
Child Care and Development Block Grant	1.2	1.3	1.4	1.6	2.1	7.5
Medicaid Child Outreach Reforms	0.1	0.2	0.2	0.2	0.2	0.9
Class Size Initiative	1.1	1.3	1.5	1.7	1.7	7.3
Subtotal, State-administered programs	2.4	2.7	3.1	3.5	4.0	15.7
Other Uses (Includes unrestricted funds for States, cessation programs, farmer assistance, etc.)	3.4	3.9	4.6	5.0	5.4	22.3
Total Uses	**9.8**	**11.8**	**13.3**	**14.5**	**16.1**	**65.5**
TOBACCO LEGISLATION RECEIPTS PROPOSED	**9.8**	**11.8**	**13.3**	**14.5**	**16.1**	**65.5**

TOBACCO LEGISLATION

	1999	2000	2001	2002	2003	Total FY99-03	
USES OF RECEIPTS FROM TOBACCO LEGISLATION							
Federally Operated Programs							
Research Fund for America	3,597	4,624	5,028	5,723	6,341	25,313	
FDA Enforcement Activities	125	206	265	273	283	1,152	
HHS/CDC Smoking Prevention	71	73	74	76	76	369	
Medicaid Child Outreach Reforms	110	150	210	210	220	900	
Cancer Clinical Trials Demonstration	200	250	300	–	–	750	
Subtotal, Federally operated programs	4,103	5,303	5,877	6,282	6,920	28,484	
Federally Directed State Programs							
Child Care & Development Block Grant	1,155	1,280	1,400	1,600	2,065	7,500	
Teachers Initiative	1,100	1,300	1,500	1,700	1,735	7,335	
Subtotal, State prgms with Federal direction	2,255	2,580	2,900	3,300	3,800	14,835	57
						11191	43
Other Uses, including Cessation & Other State Funds	3,425	3,943	4,582	4,972	5,362	22,284	
	1704	1963	2281	2475	2663	11093	av.
	1.900	2242	2.620	2824	3028	1152	
Total Uses	9,783	11,825	13,359	14,554	16,082	65,603	300
TOBACCO LEGISLATION RECEIPTS REQUIRED	9,783	11,825	13,359	14,554	16,082	65,603	
Estimated Equivalent Per-Pack Amount (real $)	0.62	0.80	0.90	1.00	1.10		12614
Estimated Equivalent Per-Pack Amount (current $)	0.62	0.82	0.96	1.09	1.24		

All figures in millions of current dollars, except estimated per-pack equivalents.

A Tobacco Bill

Talk Central Section: discuss hot topics of the day online.

All Editorials and Op-Ed columns from this morning's Washington Post.

All editorials and commentary from Sunday's Washington Post Outlook section.

Tuesday, January 20, 1998; Page A14

THE TOBACCO debate in the past few weeks has detoured through just about every issue except what ought to be the central one of how to achieve a reduction in smoking, particularly among the young. Before they do anything else, the president and Congress need to seize the moment and pass legislation to do that, as a separate matter. The question of what to do with any money that happens to be raised should be taken up afterward and on its own. It will be the ultimate abdication if, in the end, the money tail is allowed to wag the tobacco dog. Let it serve to reduce the debt for a year; what's wrong with that?

Among the most important things the government can do to reduce the incidence of smoking is to raise the price. The president has accepted the notion that an increase of $1.50 a pack would begin to be an effective deterrent. The right way to jack up the price that much -- simplest, surest, most efficient -- is to raise the federal excise tax by that amount. But of course that creates its own instant complications.

Republicans say they're opposed to a tax increase -- unless perhaps the proceeds can be used to finance an offsetting tax cut. The president, before he even proposes a device for exacting the money, has begun to let it be known how he would spend it -- on increased federal child-care subsidies and biomedical research, for example. The states, meanwhile, having brought the lawsuits that in effect caused the tobacco companies to seek legislative protection, think the bulk of the money should go to them, in part as compensation for past Medicaid spending brought on by smoking illnesses. Suddenly the tobacco issue becomes a complicated exercise in fiscal federalism, a.k.a. fighting over money.

Nor is that all. If the companies pay the levy, whatever it is called, as distinct from having their customers pay it at the cigarette counter, does the payment become deductible like other costs of doing business, thereby reducing their income tax? The effect of deductibility would be to shift a large part of the cost of the program to the general taxpayer.

None of these issues should be allowed to sink the basic tax (by whatever name) and price increase. Nor should they become pretexts for delay. If they threaten to do so, they should be set aside, the money placed somehow in escrow or fiscal limbo until another time, when its disposition can be fought over separately. Such a shelving of the money is not beyond the inventiveness of legislative man.

A price increase is not the only thing that needs to happen. Mr. Clinton and Congress ought to make explicit, lay to rest questions about and possibly strengthen the Food and Drug Administration's authority to regulate nicotine as a drug and cigarettes as the instrument of its delivery. Restrictions need to be placed on the advertising and marketing of cigarettes; enforcement of the laws against sales to minors needs to be strengthened; greater efforts need to be made to encourage and help people to quit.

That's what ought to be passed. If they can't solve the other issues, let those issues be the ones to wait.

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THE WALL STREET JOURNAL INTERACTIVE EDITION
FRONT SECTION
POLITICS & POLICY

In this Section:

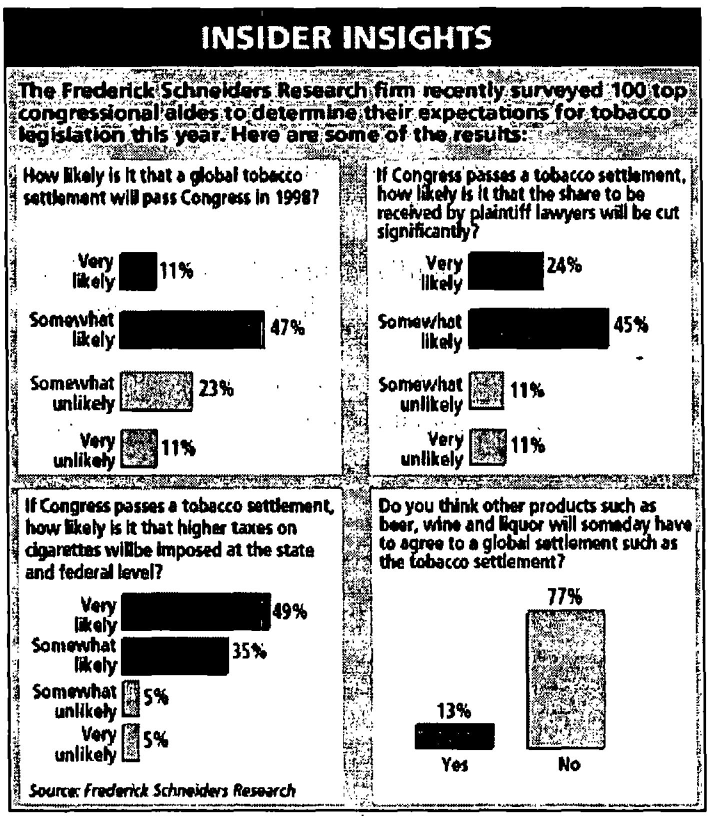
January 16, 1998

Clinton Counts on Tobacco To Help Fund His Initiatives

By JACKIE CALMES and DAVID ROGERS
Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON -- President Clinton is betting his second-term agenda on a tobacco deal.

With the tobacco industry in public disrepute as never before -- especially after this week's evidence that R.J. Reynolds Tobacco Co. targeted teenagers for smoking -- Mr. Clinton is counting on the industry to bankroll a raft of popular new initiatives and help him dodge the lame-duck label. In his budget proposal early next month, the president will be able to claim he has reached balance. Yet Mr. Clinton is also proposing about $100 billion in new spending over five years -- about 60% funded from unspecified new tobacco revenues.



Thursday at the White House, Mr. Clinton ratcheted up pressure on the industry -- and on the Republicans in Congress. The release of the internal Reynolds documents, he said, shows "more than ever why it is absolutely imperative that Congress take action now to get tobacco companies out of the business of marketing cigarettes to children." Democratic Sen. Edward Kennedy seconded

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Clinton's comment, saying tobacco "may well be the major issue of this Congress in defining Republicans."

Republicans Fumble for Response

The Republicans who control Congress already are squirming in the face of Mr. Clinton's tactics and fumbling for a response. In a brief interview last night, Senate Majority Leader Trent Lott of Mississippi complained that Democrats simply want a political fall guy, and said he warned the president late last year that a legislative settlement was "dead in the water" unless Mr. Clinton got more involved. "He's got to put his fingerprints on it, and he's got to lead," Mr. Lott said. "Now he's spending the money."

Link

Texas Judge Dismisses Jury Pool as Settlement Is Expected Soon

But White House strategists gamble that Democrats will win either way. Either they get a deal in the GOP Congress, or they can blame Republicans for simultaneously defending Big Tobacco and blocking funds that chiefly would go to child-care subsidies and biomedical research.

"The Republican leadership should start worrying less about tobacco corporate chiefs, and more about protecting America's children from tobacco," according to White House senior adviser Rahm Emanuel.

Republicans, meanwhile, privately admit the politics are dicey for their party. The GOP has long been identified by its financial ties to Big Tobacco, as well as by its opposition to anything that looks like a tax increase. Some party strategists are arguing that could leave GOP candidates in a vulnerable position going into the 1998 elections. "I think Republicans should throw the industry overboard," said Rich Galen, a former aide to House Speaker Newt Gingrich. And Rep. Thomas Bliley, the Virginia Republican who formerly was a chief industry ally, said he has written to five top tobacco executives requesting they appear before Congress on Jan. 29 to testify.

Meanwhile, signs of the antitobacco environment are everywhere. In California, publicly funded billboards mock the Marlboro Man as an emphysema victim. Conservative Tom Bordonaro, who won a special GOP congressional primary this month, joked that "if you're a smoker, you're not even a second-class citizen." Even in conservative Nebraska, said Democratic Sen. Robert Kerrey, there's been "a huge sea change" in public attitudes in the last several years: a consensus that "the tobacco industry has been misleading consumers."

Lott's Faux Pas

In this climate, even GOP supporters winced this week after Mr. Lott told reporters that the GOP Congress was much less likely to pass a tobacco settlement as a result of Mr. Clinton's efforts to use the money to finance his domestic agenda. Republicans fret that Mr. Lott telegraphed a knee-jerk obstructionism, and they bemoan the ill luck of having sensational new tobacco documents disclosed on the heels of the Lott remarks. Democrats, meanwhile, salivated at the prospect of political campaigns tying Republican inaction to tobacco contributions.

Mr. Clinton, in the budget he will propose in the first week of February, is counting on about $10 billion in fiscal 1999, which begins Oct. 1, and as much as a total of $60 billion over five years in funds from tobacco. That could take the form of either a cigarette tax of about $1.10 to $1.20 a pack, or industry fees or voluntary payments-the president will leave the specifics to Congress. About $20 billion of the $60 billion in revenues would be reserved for states, though some of the grants would come with strings-for instance, requirements that states use some money for child-care subsidies.

The president's new Medicare initiative -- allowing some Americans between the age of 55 and 64 to buy into the seniors' health insurance --would largely pay for itself through beneficiaries' premiums. But the tobacco revenues help fund other Clinton pets, such as his child-care proposals and at least $15 billion over five years for the National Institutes of Health.

GOP Will Focus on Teen Smoking

House GOP leaders, meanwhile, indicated again Thursday that any tobacco-tax increases would have to be offset by tax cuts. And after the president's challenge to Congress Thursday, Mr. Bliley issued a terse response endorsing Mr. Clinton's comment that reducing teen smoking is America's "bottom line."

But, he chided, "if reducing teenage smoking is the White House's bottom line, as it is mine, calling for action is not enough. The president must take action, exert leadership and work with Congress to resolve the problem. We have yet to see a legislative proposal from the White House."

Should Mr. Clinton prevail, it won't be the first time he has gone to the tobacco trough and brought the GOP Congress along. Last year, in the bipartisan budget deal, he secured $24 billion over five years to expand children's health insurance with a cigarette-tax increase. But he's seeking much more now, and reaching a tobacco settlement this year won't be easy. The Reynolds documents could in fact make it harder to achieve, lawmakers in both parties said.

In the proposed deal that the industry reached last year with state attorneys general and consumer groups, it would pay at least $368.5

billion over 25 years, and accept advertising and marketing restrictions, in return for limits on its legal liability.

But liberal tobacco foes such as Sen. Frank Lautenberg seized on the Reynolds information to press their opposition to any liability protection for tobacco makers -- the primary incentive for the industry and its congressional supporters to cut a deal. "These revelations make it almost impossible for members of Congress to give the industry immunity and then go home to face the children in their districts," the New Jersey Democrat said.

Senate Democratic Leader Thomas Daschle, acknowledging the importance of tobacco monies to Mr. Clinton's agenda, said a "deal" as proposed might be out of the cards. But he added, "I still think an agreement is a strong possibility."

Ultimately, action may rest more on veteran lawmakers such as Mr. Bliley, the traditional tobacco champion, and California Rep. Henry Waxman, the industry's Democratic nemesis. From opposite poles, they have nonetheless made quiet progress in Commerce Committee hearings. The tobacco companies, meanwhile, are "in a free fall, and they can't dictate the terms," said Rep. Waxman. "That settlement is not going to become law. We're dealing with a new reality."

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TOBACCO LEGISLATION

USES OF RECEIPTS FROM TOBACCO LEGISLATION	1999	2000	2001	2002	2003	Total FY99-03	
Federally Operated Programs							
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Teachers Initiative	1,100	1,300	1,500	1,700	1,735	7,335	
Subtotal, State prgms with Federal direction	2,255	2,580	2,900	3,300	3,800	14,835	
Other Uses, including Cessation & Other State Funds	3,425	3,943	4,582	4,972	5,362	22,284	
	1613.2	1857.2	2158.1	2341.8	2525.5		
Total Uses	9,783	11,825	13,359	14,554	16,082	65,603	41% state
TOBACCO LEGISLATION RECEIPTS REQUIRED	9,783	11,825	13,359	14,554	16,082	65,603	
Estimated Equivalent Per-Pack Amount (real $)	0.62	0.80	0.90	1.00	1.10		
Estimated Equivalent Per-Pack Amount (current $)	0.62	0.82	0.96	1.09	1.24		

All figures in millions of current dollars, except estimated per-pack equivalents.

10497.762

Moore 196/368

90835 - 25 yrs - Fed directed state

68524.64 - 43% x17.2% = 11786.238 - 1st 5yrs

125524 - 25yrs - Other uses

1st 5yrs - 17.2%

47.1% of other uses for fed.

TITLE VI: Programs/Funding

TOTAL 25 YEAR PACKAGE FACE VALUE -- $368.5 Billion

A. Up Front Commitment -- Lump Sum Cash Payment -- $10 Billion

1. Payable on Statute Signing Date.

B. Base Annual Payments -- 25 Year Total Face Value is $358.5 Billion (Figures Subject to Inflation Protection and Market Volume Adjustments)

1. Duration -- annual payments in perpetuity

2. Commencement -- 12/31 of first **full** year after statute signing

3. Face Amounts (includes payments from all industry sources):

Payment Year	1	2	3	4	5	6-8	9	→ ∞
Total Payments	$8.5B	$9.5B	$11.5B	$14B	$15B	$15B	$15B	$15B
Base Amount:	$6B	$7B	$8B	$10B	$10B	$12.5B	$15B	$15B
Public Health Trust	$2.5B	$2.5B	$3.5B	$4B	$5B	$2.5B		

4. Inflation Protection for Annual Payments

   - Greater of 3% or CPI applied each year on previous year, beginning with first annual payment.

5. Adjustment for Volume Decrease (Adult Volume Only) or Total Volume Increase

   - Beginning in year 1; payment made equal to scheduled annual payment times the ratio of actual relevant domestic tobacco product unit sales volume to relevant base volume. In the event of a decline in volume, relevant actual volume and relevant base volume are adult volume figures; in the event of an increase in volume, relevant actual volume and

P/B 7-3-97

PROGRAMS / FUNDS IN TOBACCO SETTLEMENT

(Dollars in billions unless otherwise specified)

YEAR	1	2	3	4	5	*5 Years*	6, 7, 8	9-25	*25 Years*
UP-FRONT COMMITMENT	**10.0**	-	-	-	-	*10.0*	-	-	*10.0*
BASE PAYMENTS									
Reduce Use	125 m	125 m	125 m	225 m	225 m	*825 m*	225 m	225 m	*5.325*
FDA	300 m	300 m	300 m	300 m	300 m	*1.5*	300 m	300 m	*7.5*
Programs like ASSIST	75 m	75 m	100 m	125 m	125 m	*500 m*	125 m	125 m	*3.0*
Research	100 m	100 m	100 m	100 m	100 m	*500 m*	100 m	100 m	*2.5*
Education	500 m	500 m	500 m	500 m	500 m	*2.5*	500 m	500 m	*12.5*
Cessation Fund	1.0	1.0	1.0	1.0	1.5	*5.5*	1.5	1.5	*35.5*
Teams' Fund	-	75 m	75 m	75 m	75 m	*300 m*	75 m	75 m	*1.8*
Health / Other	3.9	4.825	5.8	7.675	7.175	*29.375*	9.675	12.175	*265.375*
Federal Share	**2.223**	**2.750**	**3.306**	**4.375**	**4.090**	***16.744***	**5.515**	**6.940**	***151.264***
SUBTOTAL	**6.0**	**7.0**	**8.0**	**10.0**	**10.0**	***41.0***	**12.5**	**15.0**	***333.5***
PUBLIC HEALTH TRUST FUND	**2.5**	**2.5**	**3.5**	**4.0**	**5.0**	***17.5***	**2.5**	**-**	***25.0***
TOTAL	**18.5**	**9.5**	**11.5**	**14.0**	**15.0**	***68.5***	**15.0**	**15.0**	***368.5***

Note: Annual base payments are adjusted for inflation and sales volume decreases; protected during bankruptcy/ reorganization proceedings; and should be passed through to consumers through price increases to discourage use.

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National Breaking News: 24-hour-a-day updates in the Today's Top News section.

All National stories from this morning's Washington Post.

Revenue Is Hazy for Clinton's Anti-Smoking Spending

By Peter Baker
Washington Post Staff Writer
Wednesday, January 7, 1998; Page A04

In the budget he will release next month, President Clinton plans to spend $10 billion from the national settlement of legal claims against the tobacco industry.

The only trick: The settlement has not actually been settled.

By including the money in the budget even before tobacco legislation is crafted, the White House is taking a calculated risk that pressure will increase on the Republican-led Congress to pass the comprehensive multibillion-dollar package -- or risk taking the political heat in the fall midterm elections if it does not.

"There's a good prospect we will get a national tobacco settlement," said Rahm Emanuel, Clinton's senior adviser, "and, if not, there will be a lot of people with a lot of explaining to do to the American public."

Yet even as they seek to turn up the heat on lawmakers, some White House aides acknowledge they have put more at stake for the president. With his budget now counting on the money, they believe, Clinton must make the tobacco issue a high priority for the upcoming congressional session.

The fiscal 1999 budget the administration will send Congress in early February assumes that the federal government will collect $10 billion from whatever legislation ultimately is passed, whether it be in the form of excise taxes or "voluntary payments" from cigarette manufacturers. The administration's budget will outline how the money should be spent -- mostly for tobacco-related initiatives previously envisioned by negotiators, such as increased regulatory enforcement, anti-smoking campaigns and biomedical research.

The rest of the money would go to other Clinton priorities that he would define as public health improvements. However, aides declined to detail the beneficiaries or scope of this spending until it is formally announced in the budget.

While he plans to tell Congress how he wants the $10 billion spent, Clinton has no plans to be more specific in public about how he wants it raised. Aides said that for now at least he will not go beyond the broad principles he discussed last fall, leaving it instead to congressional leaders to craft the particular bill.

In part, that stems from the administration's own uncertainty over how to structure tobacco legislation. On the one side of the White House debate are those aides who want to impose the cost on the industry in the form of tax increases. On the other are officials convinced that option would never pass on Capitol Hill and therefore are more willing to make concessions to the industry to win its agreement to make direct payments to the government.

Republicans led by House Speaker Newt Gingrich (Ga.) already have signaled their aversion to tax hikes. "If the president were to propose an increase in the cigarette tax, the speaker believes it should be offset by tax cuts," Gingrich spokeswoman Christina Martin said yesterday.

White House officials said there was no internal disagreement over including the tobacco money in the budget, reasoning that proposed revenue increases of any sort normally are reflected in the annual spending document.

Doing so provides two political benefits as well, they figured. For one thing, by divvying up the money first, the White House can "get our marker down" for its priorities, as one official put it. For another, they concluded the strategy helps force congressional Republicans to pass a plan that would anger an industry that has been a lucrative source of GOP campaign cash; if Republicans fail to produce legislation, they hand Democrats a tailor-made issue to use against them in the election.

"Any time you can place the Republicans in the position of having to choose between the votes they need and the money they need, you've put them in a bad spot," said another top Clinton aide. "If you think we're willing to fight over tobacco, you're right. . . . We either get what we want without a fight or we get what we want after a fight."

But a fight is not necessarily in the public interest, according to some anti-smoking activists who viewed the discussion over the money warily.

"There is a growing consensus that comprehensive legislation should be enacted, but it could fail if all the attention is turned into a fight over who gets the money or into partisan politics," said Matthew L. Myers, executive vice president of the National Center for Tobacco-Free Kids. "This is not a town where you count your chickens before they're hatched -- even if you spend money before you have it."

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Taxing Tobacco

Talk Central Section: discuss hot topics of the day online.

All Editorials and Op-Ed columns from this morning's Washington Post.

All editorials and commentary from Sunday's Washington Post Outlook section.

Monday, January 12, 1998; Page A16

THE TOBACCO issue is one of the most important remaining before this Congress. On moral grounds as well as in the conventional terms of public health, regulation, liability, cost and all the rest, it towers over most others. If a good bill can be passed, it should be. The odds already seem to us to be against. The subject is enormously complex, there probably isn't enough time and there probably hasn't been sufficient preparation. But if there is a chance, extraneous issues should not be put in the way -- nor should Congress end up adopting a bill that's weak on tobacco because there are other goodies hooked to it.

The outlines of a possible bill were set in last summer's negotiations between the tobacco companies and the state attorneys general who had sued them. In return for limits on future liability -- in itself a debatable idea -- the companies would agree to pay a sum of money and accept, in the sense of agreeing not to fight in either Congress or the courts, new regulations both of nicotine as a drug and of their marketing techniques. The deal would require congressional enactment. The president had his staff review it and rightly concluded, among other things, that the payments agreed to were too small. To be an effective deterrent, he said, they need to be large enough to drive up the price of cigarettes by about $1.50 a pack, twice what the deal would do.

Meanwhile, there is the question of what to do with the money -- how much to set aside for future plaintiffs, how much for anti-smoking efforts, how much for the states, which say they are entitled to the lion's share at least of the amount negotiated last summer for having brought the suits that brought the companies to the table, etc. The states describe their share in part as compensation for Medicaid costs incurred in treating smoking-related illnesses. Some people note that the federal government through Medicare and its share of Medicaid has incurred even greater costs, and local officials have begun to point out that they pay a share of the national health care bill too -- all reminders of the way the proposed arrangement has turned into a honey pot for many, fighting in advance over how much goes to them and their particular interests.

The president now proposes that some tobacco money also go to child care. As part of his forthcoming budget, he is said to have decided on either a sizable tobacco tax increase or some other exaction of funds from the tobacco industry. Some of the money would help finance the increased child-care subsidies he proposes. We think the idea of such an announced earmarking is flawed in major ways. It puts the U.S. government, currently negotiating with the tobacco industry, into potentially the same weakened bargaining position as some of the other parties to a proposed deal, who have tended increasingly to view it mainly as a source of needed funds. It announces a kind of dependency on the outcome, which can hardly fail to be noticed by the government's negotiating partner, the tobacco industry. Will child-care advocates become more inclined to accept a weak tobacco bill that they might otherwise reject? Do the states begin to object, as at least one attorney general already has, that the federal government is siphoning off their share? If the spoils begin to dictate the outcome of this bill, the cigarette companies win. The logic becomes bizarre. Should smoking be encouraged for the sake of subsidizing an essentially unrelated social program? "Buy another carton of cigarettes to show your support for child care."

This is a president who has an impressive record on the smoking issue. His administration has tackled the companies as no other. The White House needs to make clear, perhaps in advance of the budget, how whatever else the president is proposing meshes with that strong record and will not stand in the way of its continuation.

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Editorial

The New York Times ON THE WEB

January 13, 1998

Hooked on Tobacco Sponsorships

There are plenty of reasons to be concerned about the proposed **tobacco** settlement that still awaits action by Congress. It would undercut regulatory controls over nicotine and fail to set sufficiently high penalties if the **tobacco** industry does not curb **smoking** by youths. Even the $368 billion to be paid by the industry over 25 years to settle class-action lawsuits is probably too low to force up prices enough to deter demand for **tobacco** products.

But these substantive arguments for amending the settlement may be neglected if potential opponents of the deal are bought off with benefits tucked into the agreement.

A glaring example of an improper buyoff is a provision that would compensate cultural groups and sports teams that have gotten **tobacco** sponsorship money in the past and could be hurt financially by the settlement's ban on **tobacco** advertising at sports, music and cultural events. Two **tobacco** settlement bills now in the Senate, one sponsored by Edward Kennedy and the other by John McCain, would set aside part of the settlement money for transitional sponsorship uses.

Some worthy events -- from stock-car racing to jazz music festivals -- may be hurt because they can no longer rely on **tobacco** sponsors. But it makes no sense to give them a guaranteed bailout just because they have grown accustomed to **tobacco** money. Groups and events that do not live by **tobacco** money -- including those that have refused to seek it -- would receive no benefit. If Congress believes music festivals and the like are worthy of public support, it should finance those events without tying the funding to past reliance on **tobacco** money.

Aside from the unfairness of this plan, it is bad public policy to placate potential opponents by giving them settlement money that would be better spent on health care and **smoking** prevention. The temptation to buy support from every special interest by spreading settlement money around looms large. The danger is that the flow of money will swamp principled argument that the settlement's regulatory tools are too weak to justify shielding the **tobacco** industry from future litigation.

THE WALL STREET JOURNAL INTERACTIVE EDITION FRONT SECTION NEWS

January 12, 1998

Clinton to Offer One-Third Of Tobacco Funds to States

By CHRISTOPHER GEORGES
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON -- President Clinton, in an effort to appease states' demands for full control of funds from the national tobacco settlement, will propose granting them nearly $20 billion in new money over the next five years.

The plan, which is expected as part of his fiscal 1999 budget to be unveiled in February, would let states receive about one-third of the spoils expected from the tobacco accord, which was negotiated last year by major cigarette makers, states' attorneys general and public-health groups. That is a controversial notion because many state officials, who played a key role in negotiating a settlement, have repeatedly stated they want to spend all the proceeds as they -- and not the federal government -- see fit.

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Legal Beat: Texas Is Close to Settling $14.5 Billion Tobacco Suit

Clinton Wants to Boost Tobacco Prices To Fund Host of Initiatives in '99 Budget (Jan. 8)

States Urge Congress to Keep Tobacco Dollars From HCFA (Dec. 9, 1997)

Sen. Hatch Proposes Boosting Tobacco Payout to $397.3 Billion (Nov. 13, 1997)

House Bill Seeks to Limit Fees For Tobacco Pact Attorneys (Oct. 27, 1997)

The approximately $20 billion allocation is a key part of Mr. Clinton's broader plan for spending the first $60 billion expected from a proposed tobacco settlement. Although proposed terms call for cigarette makers to pay $368.5 billion, those payments are spread over 25 years and, according to administration and congressional calculations, would produce about $60 billion of new money in the first five years.

According to the White House budget plan, about half of the $20 billion would be allocated to states in fiscal 1999 with no strings attached. But they would be required to put the rest toward state-run initiatives favored by the administration, such as child-care programs, White House officials said.

Administration officials dismissed suggestions they are squeezing states out of the picture. "Any compromise legislation is going to include significant funds for the states because they brought the lawsuits and they are entitled to their share of the damages," said a senior White House aide, referring to legal action aimed at recovering the cost of treating those with smoking-related ailments. "The budget will take that into account."

Although tobacco-settlement legislation is expected to have a high priority in the new Congress, passage isn't assured. Still, an array of actors, including the president, congressional Republicans, and states, are all eager to grab at least some spoils for their own uses.

Essentially, the president's budget is expected to assume billions in new revenue from higher cigarette taxes-about $1.10 to $1.20 per pack -- as part of the hoped-for tobacco-settlement legislation. Mr. Clinton wants to allot a large portion of that revenue to a wide array of new federal programs, such as biomedical and other health research.

State attorneys general, who have organized a wide-ranging settlement of state lawsuits against cigarette makers, are upset by such suggestions. However, administration officials contend that many programs they want to fund-such as child-care programs-match the priorities of many states.

E-Mail

The White House in recent days has unveiled several new initiatives for inclusion in the fiscal 1999 budget. The most recent came Friday when President Clinton proposed spending about $70 million to help one million students work their way through college by performing community service. The proposal mirrors a plan proposed by congressional Republicans, and would raise the next budget's spending on work-study programs to $900 million.

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The Wall Street Journal Interactive Edition -- January 9, 1998

Clinton's Interest in Tobacco Laws For Budget Funding Draws Criticism

By JEFFREY TAYLOR
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON -- President Clinton was trying to soothe tattered nerves when he wrote the National Governors Association last month that he wanted "to find a mutually agreeable purpose" for the money raised by any **tobacco** legislation.

But the tinkerings of Mr. Clinton's budget mechanics are having the opposite effect. State attorneys general, bemused by an earlier claim that the federal government is entitled to a big share of Medicaid-related recoveries in state settlements with **tobacco** companies, are now less than thrilled by a Clinton budget plan.

Administration officials said Wednesday that President Clinton will seek a 50- to 60-cent-a-pack cigarette-price increase in his fiscal 1999 budget to fund a series of new programs, including a $21.7 billion, five-year child-care program that includes subsidies and tax breaks for families and businesses.

What the States Might Do

"I'm sure there are some states that would be happy to spend the money on child care, but that should be the states' decision," said Jeffrey Modisett, Indiana's attorney general. "States have other priorities for **tobacco** money as well, including children's health insurance, child immunizations and public health programs in general."

The unenthusiastic state response underscores the likely intensity of a looming fight over the spoils of **tobacco** legislation, as state officials petition the Republican-controlled Congress to shield their share of tobacco-industry dollars from federal bureaucrats.

"They'd better not be spending our money," said James Tierney, a former Maine attorney general who is a consultant to states that have sued the **tobacco** industry. "The states would be universally upset if the administration is proposing wiping out the state cases, taking the money we negotiated and spending it for nontobacco purposes."

Congress is preparing to consider the proposed $368.5 billion settlement of state lawsuits against **cigarette** makers. Lawmakers are expected to approve the settlement in some form, although it isn't clear whether it will be as comprehensive as the package of counter-smoking measures, advertising restrictions, price increases and industry legal relief now provided by the settlement.

The Administration's Plan

The administration's budget proposal would increase **cigarette** prices $1.10 to $1.20 a pack over the next five years, netting nearly $60 billion in new revenue in that period. State officials complain that the White House hasn't been clear about whether this is in addition to, instead of, or part of the $368.5 billion to be raised over 25 years by the proposed settlement. "The White House hasn't given us details," Mr. Modisett said, "either because they don't want to or because they're trying to gather the largest consensus in favor of their numbers."

What is clear, House Minority Leader Richard Gephardt said Thursday, is that the administration intends to pay for "a substantial part of the child-care proposal through monies that would be yielded through the **tobacco** bill." The administration is committed, the Missouri Democrat said after a meeting with Mr. Clinton, to use other money collected from **tobacco** companies "for trying to get young people to choose not to **smoke**."

The states' sentiment mirrors their objections to a Health Care Financing Administration letter in November, which they said indicated the federal government would claim as much as 70% of the $193.5 billion they are entitled to under the proposed settlement.

Last month, HCFA administrator Nancy-Ann Min DeParle tried to play down the federal-state conflict. Still, a fight appears to be brewing: The states have considerable support among congressional Republicans, including Michael Bilirakis of Florida, chairman of the House Commerce Committee's health and environment subcommittee, who has introduced a bill to ban the federal government from claiming a share of states' **tobacco** settlements.

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The Wall Street Journal Interactive Edition -- January 8, 1998

Clinton Wants to Boost Tobacco Prices To Fund Host of Initiatives in '99 Budget

By CHRISTOPHER GEORGES and JACKIE CALMES
Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON -- President Clinton will seek a boost in cigarette prices next year of 50 to 60 cents a pack to help pay for a host of new spending initiatives in the fiscal 1999 federal budget, administration officials said.

The increase would be $1.20 a pack in the next five years, netting a total of nearly $60 billion in new revenues, according to details of the budget plan that is expected to be released in February.

Avoiding the 'T' Word

It remains unclear whether the administration plans to raise the money through an outright excise tax, by penalties on the **tobacco** industry, or by a combination of factors. White House officials have been careful to avoid labeling the idea a tax increase, though as far as public perception goes, one administration official acknowledged that "ultimately, it comes down to being a tax."

The federal excise tax on cigarettes now is 24 cents a pack, and Congress voted last year to raise it an additional 15 cents in the next five years.

Any revenue from higher tobacco-related revenues would not be used to help balance the federal budget, but to help fund new spending programs, many of which have been unveiled by the White House in recent weeks, such as a new child-care proposal unveiled Wednesday.

"We feel very secure in assuming there will be bipartisan progress on a **tobacco** settlement early this year, and that there will be ample revenue coming from that settlement," said White House spokesman Mike McCurry.

CBO Budget Projections

Indeed, President Clinton announced Monday that his new budget will reach balance in fiscal 1999, which starts Oct. 1, and show

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surpluses in the years thereafter, thanks mostly to robust economic growth. Wednesday, the Congressional Budget Office presented a similar projection, estimating the federal deficit would shrink to $5 billion in fiscal 1998, to $2 billion in 1999 without any changes in federal programs, and turn into a $14 billion surplus in 2001. The projections follow a budget deficit of $22 billion in fiscal 1997.

Links

The Economic and Budget Outlook for Fiscal Years 1999-2008: A Preliminary Report is available on the CBO Web site.

Clinton Expects Budget Deficit Will Be Lower Than Predicted (Jan. 6)

Budget Deficit's Reduction Sparks White House Debate (Dec. 18)

Mr. Clinton's reliance on new **tobacco** revenue is critical, because it allows him to propose new initiatives this year while also showing fiscal discipline by adhering to the spending limits of the balanced-budget agreement. Indeed, administration officials have been eager to produce a creatively active agenda this year, even as they stick to the agreement. "We have put to bed the notion that we don't have new ideas," said Gene Sperling, who heads the president's National Economic Council.

The proposal to fund new programs using tobacco-related revenues is an outgrowth of the debate over the proposed **tobacco** settlement reached by state attorneys general and the **tobacco** industry. The proposed settlement -- which would increase cigarette prices by 73 cents a pack over five years, according to industry representatives -- requires congressional approval, but President Clinton and congressional leaders have said they want to see changes in key provisions.

Seizing the Political High Road

In using **tobacco** revenues in his coming budget plan, the president is trying to highlight his priorities. But it also emerges as a carefully crafted political maneuver. Republicans would be hard-pressed in an election year to oppose higher cigarette prices as a way to fund politically popular initiatives such as biomedical research. If Republicans balk, House Democrats are left with a potent election-year issue.

On the other hand, the White House strategy entails risks. **Tobacco** legislation has momentum but is not assured. At the same time, Republicans leaders have said they will not agree to any tax increases unless they are offset by tax cuts.

About one-third of the anticipated **tobacco** revenues, administration officials said, would help to finance a $21.7 billion, five-year package of child-care subsidies and tax breaks for families and businesses.

Mr. Clinton detailed the child-care package Wednesday, calling it "the single largest national commitment to child care in the history of the United States."

The White House announcement, with first lady Hillary Rodham Clinton and Vice President Al Gore, was the latest of what has been almost a goodie-a-day preview of politically attractive pieces of Mr. Clinton's budget for fiscal 1999; the budget is due Feb. 2. The child-care proposals, covering five years, would:

Increase by $7.5 billion the federal grants to states to subsidize low-income parents' child-care costs. By the fifth year, that could double the number of children who get aid to more than two million, the administration said.

Expand the existing tax credit for working parents, at a cost to the Treasury of $5.2 billion. The increase would apply to families earning less than $60,000 a year, and by the administration estimate, provide relief to three million more taxpayers.

Create a new tax incentive for businesses to offer on-site child care, or otherwise help with employees' arrangements. A business's credit could equal 25% of its costs, but no more than $150,000 a year. The relatively moderate initiative would cost a projected $500 million.

Boost funds for states' and communities' early-childhood development programs, including $3.4 billion more for Head Start.

Provide $500 million over five years for state efforts to license child-care outlets and enforce health and safety standards.

The Republican-controlled Congress is expected to approve some child-care expansion, especially because this is an election year, and it is high among Democrats' priorities. Some GOP lawmakers, particularly in the Senate, prefer using tax incentives to promote child care, rather than spending programs. But party conservatives oppose major child-care initiatives for encouraging parents to work outside the home.

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What's New

White House proposes sharing tobacco settlement money with states

By LAURAN NEERGAARD
The Associated Press
01/12/98 3:26 PM Eastern

WASHINGTON (AP) -- The White House has agreed to let states receive $196 billion of the proposed $368 billion national tobacco settlement, Mississippi Attorney General Michael Moore said Monday.

Moore said top White House officials provided him with the numbers at a meeting last week.

Administration officials would not comment Monday.

The plan should settle squabbling between the states and the Clinton administration over the settlement's proceeds -- although Congress still must decide whether to approve a deal and set the final tab.

Under the settlement proposal that would end 40 state lawsuits, tobacco companies would pay $368 billion over 25 years and curb their marketing practices. The firms also would get protection against future lawsuits and limits on federal tobacco regulation.

The Clinton administration last fall warned states that federal law required them to split any settlement proceeds with the federal government. That's because the states sued the tobacco industry seeking to recover Medicaid funds spent treating sick smokers, and the federal government pays 50 percent to 70 percent of state Medicaid bills.

The National Governors' Association and other state groups told President Clinton they should get all the funds, because the federal government chose not to participate in the lawsuits.

Moore said the compromise gives states a share of federal Medicaid money, but that share must be used for children's health care.

His figures were somewhat different from published reports that Clinton's upcoming budget would allocate one-third of the settlement's first proceeds to the states.

Moore said he was confident the math hadn't changed, but if it had, "it wouldn't go over well at all" with the states.

Please send any questions or
comments to newsflash@nj.com.

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January 5, 1998

Clinton Proposes Cigarette Tax To Help Pay for New Spending

By CHRISTOPHER GEORGES
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON -- President Clinton will propose higher cigarette taxes among other increases in tobacco-related revenues to help pay for billions of dollars in new initiatives, administration officials said.

The plan, to be formally unveiled in February as part of the fiscal 1999 budget, would raise nearly $10 billion in 1999 and between $40 billion and $60 billion over five years. That would make the planned levies on tobacco the largest single source of new revenue in the budget, administration officials said.

Also Sunday, White House officials said President Clinton would step up efforts on Social Security reform. But administration aides offered no specific proposals and said the effort would likely be limited to drawing public attention to the need for reform.

The proposal to fund new programs using tobacco-related revenues is an outgrowth of the debate over the proposed tobacco settlement reached by states' attorneys general and the tobacco industry. But it is also tied closely to White House efforts, especially in an election year, to offer a series of new initiatives without exceeding the spending targets set in last year's balanced-budget agreement.

The White House has confirmed in recent weeks that it will propose billions of dollars in new programs from school construction to medical research. The search for funds to pay for the programs has led administration officials to focus partly on tobacco legislation. "We are driving a truck through the tobacco industry," said one senior White House aide.

While momentum strongly favors some form of tobacco legislation this year, its content and the amount of revenue derived from it remain in question. The proposed settlement between the industry and state attorneys general to settle claims relating to health-care costs requires congressional approval, but President Clinton and congressional leaders have said they want to see changes in key provisions.

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Still, administration officials said that even if Congress fails to enact tobacco legislation, the administration would push other proposals to secure the needed revenue, such as a straight-out excise tax on cigarettes. "If a settlement doesn't work out, we will come up with other tax plans," said one senior White House aide.

Although specifics of the budget proposal remain vague, new revenues could come from other sources such as licensing fees and other industry payments. That's likely to draw opposition from some Republicans and supporters of tobacco interests, but White House officials said they are counting on public opinion to help their case. Indeed, the White House is eager to tout its plan to pay for President Clinton's new initiatives with tobacco levies, especially as congressional elections approach. If Republican opposition surfaces, Democrats believe they will have defined a potent election-year issue.

Meanwhile, on Social Security, White House officials said Sunday that "dozens of proposals," such as regional forums, a bipartisan congressional committee and a special session of Congress, were under discussion.

Republican congressional leaders welcomed President Clinton's interest, but also signaled their deep philosophical disagreement with the administration over how to shore up Social Security and Medicare.

--John Harwood contributed to this article.

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January 5, 1998

REMARKS BY THE PRESIDENT IN BUDGET MEETING PHOTO OPPORTUNITY

1:20 P.M. EST

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release January 5, 1998

REMARKS BY THE PRESIDENT
IN BUDGET MEETING PHOTO OPPORTUNITY

The Cabinet Room

1:20 P.M. EST

THE PRESIDENT: Good afternoon and happy new year to all of you. I'm glad to be back at work and I'm looking forward to 1998.

We can begin the year with some good news. I can now say that we believe that the deficit this year will be less than $22 billion. That means that it will decline for the sixth year in a row, a truly historic event -- $22 billion is a far cry from the $357 billion the deficit was projected to be this year when I took office, or the $90 billion it was projected to be when the Balanced Budget Agreement was enacted. So we have come a very long way.

I can also say that the budget that I present to the Congress in February will be a balanced budget for 1999. Again, this will be the first time in 30 years we've had a balanced budget, and that's good news for the American people and for the American economy. It continues the successful economic policy that we adopted beginning with the budget in 1993, which was the first major step.

We have followed a policy of investing in our people, expanding the sales of American goods and services overseas, and practicing fiscal discipline. We reversed 12 years of trickle-down economics in which the deficit of this country exploded year after year, and our national debt was quadrupled.

So we have taken a different course, and thanks to the

So we have taken a different course, and thanks to the hard work and productivity of the American people, it is working. And I'm very, very pleased about it.

Now, what we have to do now is to build on it; first, with the balanced budget to keep interest rates down and keep the economy growing, secondly with other policies which I will be outlining in the State of the Union. I welcome other people to the debate.

But let me say, I want to caution everyone that I will do everything that I can to prevent anyone from using a projected future surplus as a pretext for returning to the failed policies of the past. We do not want to go back to the terrible conditions that paralyzed our government and paralyzed our own people's potential in 1992 when I took office. We have to go forward.

This is great news today. I'm very pleased by it. The American people should be pleased by it. But we should be determined to stay on the course and do what works. And that's my determination.

Q Are you ruling out a tax cut, Mr. President, with this surplus?

THE PRESIDENT: I do not -- let me just say, I want to say just exactly what I said. We don't have a surplus. We can project a surplus, but we don't have one. And we've waited 30 years for a balanced budget -- between 1981 and 1992, we projected all kinds of things and went out and spent the money on tax cuts and spending, both. We spent the money. And we quadrupled the debt, drove up interest rates, put our country in a terrible hole. We have dug ourselves out of that hole with a lot of effort and a lot pain in 1993. It was a very difficult dig and a lot of people paid a very high price for it. Then we had the overwhelming bipartisan support for the balanced budget.

All I'm saying is that any policy we adopt must not, it cannot run any risk of returning to the failed policies of the past. We got away from trickle-down economics; we're into investing and growing our future. We're doing it the old-fashioned way. I have been exhorting the American people for five years now to be responsible, to remember that we cannot have opportunity without responsibility. Well, that same rule applies to the government. We have to set a good example. We have to create opportunity and we can't do it unless we're also responsible.

So whatever policies we adopt have to be within the framework of the budget to the best of our knowledge. We cannot take risks with the future that we have worked so hard to build.

Q Mr. President, are you going to call for cigarette tax increases to help pay for new initiatives?

THE PRESIDENT: I will -- first of all, on the tobacco issue generally -- I'll have more to say about this later, but keep in mind what my first priority is. My first priority is to protect our children from the dangers of tobacco, from the illegal dangers of tobacco. And I will propose a plan that I believe is best designed to do that, that will build on the settlement agreement that was reached earlier. And I will work with members of Congress in both parties in good faith to try to pass comprehensive tobacco legislation that I think will achieve that goal.

And I'll say more about the details later.

BASE: HEALTH

HHS/FDA & CDC
TOBACCO PREVENTION and CONTROL
(budget authority, in millions of dollars)

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
FY 1998 Budget..........	70	69	68	67	66	N/A
FY 1998 En/Passback	66	66	66	66	66	66
Changes to Passback:						
Original OMB Proposal.		+100	+100	+100	+100	+100
Agency Appeal......		+120	*(HHS has not provided outyear estimates.)*			
OMB Recommendation.		+30	+30	+30	+30	+30

- Background HHS identified tobacco control and prevention activities at FDA and CDC as Secretarial priorities for the FY 1999 Budget.

- Original OMB Proposal $46 million of the $100 million increase would go to FDA, which is the same as the HHS request. The remaining $54 million would be for CDC, $41 million below the HHS request.

  FDA: The proposal would expand FDA outreach and enforcement activities that began with $34 million in FY 1998 to curb tobacco use among youth. The 135% increase in funds will increase state enforcement staff to help meet FDA's goal of 300,000 unannounced compliance checks of retail establishments to ensure that tobacco products are not being sold to minors.

  CDC: The proposal would expand funding for CDC state-based prevention activities (+285%), school-based health education (+200%) and other surveillance activities. The proposal does not include $40 million requested by HHS to establish a national tobacco prevention advertising campaign since it is unlikely that such a campaign would have a large impact on smoking rates, given that the tobacco industry spends $5 billion a year on advertising.

- Agency Appeal HHS has appealed for $120 million (+54 million over the passback level), +$46 million for FDA and +$74 million for CDC.

- OMB Recommendation Of the $30 million recommended by OMB, $21 million is for CDC to expand existing state-based tobacco prevention/education activities and $9 million is for FDA to increase compliance checks of retail establishments.

- Implications While this initiative is consistent with Administration policy, an alternative funding source for these activities could be provided through tobacco settlement legislation.

$150M
$90M
$54M

+74
$20 counter
$49 state programs
$5 surveillance research

Impact
$12M out the door in FY97

Assist
$1.2M avg.
will drop $1M

43

350-400
inspections/state /mos
$460M
- 10x lower than what data suggests is necessary

DEPARTMENT OF HEALTH AND HUMAN SERVICES
(budget authority, in millions of dollars)

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
FY 1998 Budget....................	35,292	35,597	35,874	36,177	36,491	N/A
FY 1998 Enacted/Passback..	35,868	34,674	35,031	35,127	35,215	35,794
Changes to Passback:						
Agency Appeal:						
Base...........................		+2,215	N/A	N/A	N/A	N/A
Initiatives.......................		+1,286	N/A	N/A	N/A	N/A
Total, Agency Appeal...		+3,501	N/A	N/A	N/A	N/A
OMB Recommendation:						
Base.............................		+573	+573	+573	+573	+573
Initiatives.......................		+1,019	+1,888	+2,809	+3,786	+4,821
Total, OMB Rec............		+1,592	+2,461	+3,382	+4,359	+5,394

Overview of Agency Appeal

- Of the total appeal, 36% increases initiatives and 64% increases base activities, including over $350M for S&E. Appeal increases total BA by $2.5 billion over FY 1998 (+7.0%), and maintains or increases from FY 1998 most continuing activities (LIHEAP, Community Services are among the few programs cut below 1998). Initiative appeals include: NIH, FDA and CDC Food Safety, and AHCPR.

- Base appeals: FDA, to replace user fees with BA; HRSA, to increase Ryan White, Community Health Centers, and MCH Block Grant above FY 1998; IHS; CDC, to increase Infectious Diseases, Diabetes, HIV and STD Prevention, and Immunizations above FY 1998; SAMHSA for Substance Abuse demos; HCFA, for HIPAA and BBA implementation and to replace user fees with a guaranteed BA level; and ACF, for Head Start and Refugee Assistance.

OMB Recommendation

- Recommendation, $0.6 billion (+1.7%) over FY 1998, includes initiative increases for Food Safety (within the passback level), NIH, health care quality, Race and Health, and child care.

- Recommendation increases or maintains FY 1998 funding for priority base activities including: Head Start, Ryan White, MCH Block Grant, Health Centers, Mental Health and Substance Abuse Block Grants, HIV Prevention, Immunizations, Breast/Cervical Cancer Screenings, total CDC, and LIHEAP. Base activities cut below FY 1998 include Community Services, SAMHSA demos, Refugee Assistance, and S&E accounts.

BASE: HEALTH

HHS/FDA & CDC
TOBACCO PREVENTION and CONTROL
(budget authority, in millions of dollars)

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
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Summary of HHS Appeal for Selected Programs -- FY 1999 Budget
(BA in Millions)

Agency	FY 1998 Enacted	FY99 OMB Recommendation Base	Initiatives	Total	HHS Appeal -- (+/-) OMB Rec. Base	Initiatives	Total
FDA Total (BA)	926	842	0	842	+201	+39	+240
Program Level	*1,038*	*1,066*	*0*	*1,066*	*+119*	*+39*	*+158*
BA Substitution for User Fees	0	-114	0	-114	+228	+0	+228
Food Safety	24	49	0	49	+0	+39	+39
Laboratory Construction	15	0	0	0	+28	+0	+28
Tobacco	34	43	0	43	+37	+0	+37
HRSA Total (BA)	3,628	3,684	0	3,684	+206	+0	+206
Ryan White	1,150	1,250	0	1,250	+0	+0	+0
Community Health Centers	826	826	0	826	+69	+0	+69
Healthy Start Demo Grants	96	96	0	96	+75	+0	+75
MCH Block Grant	683	683	0	683	+50	+0	+50
IHS Total (BA)	2,099	2,089	0	2,089	+100	+0	+100
Program Level	*2,431*	*2,446*	*0*	*2,446*	*+100*	*+0*	*+100*
CDC Total (BA)	2,379	2,362	0	2,362	+293	+5	+298
Program Level	*2,438*	*2,438*	*0*	*2,438*	*+277*	*+5*	*+282*
Emerging Infectious Diseases	60	60	0	60	+43	+0	+43
Food Safety	15	20	0	20	+0	+5	+5
HIV Prevention	634	634	0	634	+10	+0	+10
STD's	114	114	0	114	+13	+0	+13
Immunizations	427	427	0	427	+10	+0	+10
Diabetes	56	56	0	56	+11	+0	+11
Tobacco	28	49	0	49	+53	+0	+53
NIH Total (BA)	13,648	13,648	819	14,467	+0	+334	+334
SAMHSA Total (BA)	2,147	2,169	0	2,169	+238	+0	+238
Targeted Substance Abuse							
Capacity Expansion Grants	67	63	0	63	+100	+0	+100
Substance Abuse Demonstrations	240	170	0	170	+70	+0	+70
Nat'l Household Survey on Drug Abuse	16	22	0	22	+6	+0	+6
AHCPR Total (BA)	90	69	30	99	+31	+29	+60
Program Level	*146*	*125*	*30*	*155*	*+27*	*+29*	*+56*
HCFA Total (BA)	1,743	1,668	0	1,668	+455	+0	+455
Program Level	*1,883*	*2,072*	*0*	*2,072*	*+246*	*+0*	*+246*
Office of the Secretary (BA)	243	219	0	219	+27	+0	+27
Anti Terrorism	2	2	0	2	+9	+0	+9
General Administration	102	98	0	98	+9	+0	+9
Race and Health	0	0	30	30	+0	+0	+0
Undistributed Reduction	0	-8	0	-8	+8	+0	+8
Health Subtotal (BA)	25,902	26,722	879	27,601	+1,559	+407	+1,966
ACF (BA)	8,101	7,861	140	8,001	+33	-140	-107
Refugees	419	360	0	360	+55	+0	+55
National Youth Sports	14	0	0	0	+16	+0	+16
AoA (BA)	866	866	0	865	+60	+0	+60
Home Delivered Meals	112	112		112	+40	+0	+40
HHS Total (BA)	35,868	35,448	1,019	36,467	+1,642	+267	+1,909

TOBACCO LEGISLATION

	1999	2000	2001	2002	2003	Total FY99-03
USES OF RECEIPTS FROM TOBACCO LEGISLATION						
Federally Operated Programs						
Research Fund for America	3,597	4,624	5,028	5,723	6,341	25,313
FDA Enforcement Activities	125	206	265	273	283	1,152
HHS/CDC Smoking Prevention	71	73	74	76	76	369
Medicaid Child Outreach Reforms	110	150	210	210	220	900
Cancer Clinical Trials Demonstration	200	250	300	–	–	750
Subtotal, Federally operated programs	4,103	5,303	5,877	6,282	6,920	28,484
Federally Directed State Programs						
Child Care & Development Block Grant	1,155	1,280	1,400	1,600	2,065	7,500
Teachers Initiative	1,100	1,300	1,500	1,700	1,735	7,335
Subtotal, State prgms with Federal direction	2,255	2,580	2,900	3,300	3,800	14,835
Other Uses, including Cessation & Other State Funds	3,425	3,943	4,582	4,972	5,362	22,284
Total Uses	***9,783***	***11,825***	***13,359***	***14,554***	***16,082***	***65,603***
TOBACCO LEGISLATION RECEIPTS REQUIRED	***9,783***	***11,825***	***13,359***	***14,554***	***16,082***	***65,603***
Estimated Equivalent Per-Pack Amount (real $)	0.62	0.80	0.90	1.00	1.10	
Estimated Equivalent Per-Pack Amount (current $)	0.62	0.82	0.96	1.09	1.24	

All figures in millions of current dollars, except estimated per-pack equivalents.

TOBACCO SETTLEMENT'S SPECIFIED BASE SPENDING
(Dollars in billions)

	BASELINE	2003*
RESEARCH	**1.3**	**4.8**
Public Health Trust Fund (research)		4.7
HHS research on cessation		0.1
EDUCATION / PREVENTION	**0.045**	**1.0**
National education / media campaign		0.6
State programs / ASSIST		0.1
HHS grants to reduce tobacco use		0.3
CESSATION	**0**	**1.7**
Cessation Trust Fund		1.7
MISCELLANEOUS	**0.045**	**0.4**
FDA enforcement costs	0.045	0.3
Payments to tobacco-sponsored teams	0	0.1
Other	0	0.9
TOTAL		**8.8**

*Fully implemented year

<u>DRAFT</u> SPENDING OPTIONS FOR THE TOBACCO SETTLEMENT

OPTION	COST/YR ($ billions)	RATIONALE & LINK TO TOBACCO
RESEARCH		
Double Tobacco-Related Research	1.3	Contributes to finding treatments and cures for tobacco-related illnesses. Supplements the significant increase in base package.
21st Century Trust Fund	2 to 3	Builds overall research infrastructure and funds a broad range of biomedical research.
PUBLIC HEALTH		
Children's public health	0.2 to 0.4	Complements the Settlement's and the Administration's focus on children with programs like school-based health education & expanded prenatal care through Health Start or CHCs.
Tobacco-related illness initiatives	0.2 to 0.4	Funds prevention programs for tobacco-related illnesses like cardiovascular disease and cancer; or expand substance abuse programs since it is linked with tobacco use.
COVERAGE		
Pre-Medicare Buy-In	2 to 4 or more	Allows groups of people under age 65 to buy into Medicare since long-term smokers usually face barriers to buying insurance and are more likely to have illnesses that make them uninsurable.
Workers Changing Jobs	2 to 3	Makes insurance affordable as well as accessible through premium assistance. Job change is the most common reason why people lose health coverage.
Medicaid Children's Outreach	0.5 to 1	Gives states a higher Medicaid matching rate for enrolling uninsured children already eligible. Consistent with the Settlement intent to fund children's health coverage.
OTHER		
Farmers' Compensation	0 0.1 to 0.2	<u>No-cost option</u>: Tobacco industry agrees to purchasing minimums from domestic farmers. <u>Cost option</u>: Subsidizes farmers and communities to offset losses due to lower consumption.
International tobacco programs	0.05 to 0.1	Doubles World Health Organization tobacco control efforts.
FDA enforcement	0.1	Supplement funds in the Settlement to improve FDA efforts.
Child care initiatives	0.5 to 2	Complements the Settlement's and the Administration's focus on children through potential initiatives in the child care area (not yet specified).
Congressional set-aside	?	Sets aside a certain amount of funding for Congressional priorities, which could improve the likelihood of passage.
Budget offsets	2 to 5	Offsets the potential reductions in Federal & state tobacco tax revenue & possible increases in Medicaid costs.

DRAFT

SUMMARY OF TOBACCO SETTLEMENT SPENDING PROPOSALS

Spending Category	State AG Proposals	Current Federal Efforts	Other Proposals	Comment
Research	New $25B research "trust fund" ($4.8B in '03.)	HHS FY97 funds: $142M on "smoking & health" and $1.3B on diseases frequently linked to smoking (e.g. lung cancer, stroke..)	Increase HHS tobacco-related research by $1.3B a year -- more than double current efforts.	Much high-quality research could be funded within $1.3B a year of new funds.
Prevention/ Education	New national anti-smoking ad campaign ($600M in '03), increase funding for HHS state-based programs ($100M in '03) and create new "Reduced Use" states grants ($300M in '03).	HHS FY97 funds: 2 state-based prevention programs ($30M) and school-based tobacco prevention activities ($15M).	Moderate settlement funding. Consolidate funds for state-based and "Reduced Use" grants into one grant program. Target funds for school-based smoking prevention activities, not explicit in settlement.	Studies show prev/ed programs can reduce smoking, but not as well as tobacco price increases. Efforts should be aimed at youth since most smokers begin while teenagers. State grant programs proposed may be duplicative.
Cessation	New national cessation fund ($1.7B in '03) to finance cessation counseling and services for all smokers trying to quit.	No specific Federal program. Cessation services are optional Medicaid benefit which some states already offer.	$300M a year for cessation-related activities, but not create national fund. Smokers pay for over-the-counter nicotine NRT which costs about the same as smoking. Encourage private plans with quality measures, technical assistance and education to offer cessation services. Finance cessation services for uninsured/poor through CHCs and low-income pregnant women with "Healthy Start" grants.	More cost-effective to prevent smoking than to help quit after addiction. Formal cessation programs have low success and uptake rates, especially among youth. $1B a year fund would likely fund services for most who would quit using own resources and discourage private plans from offering coverage for services.

Spending Category	State AG Proposals	Current Federal Efforts	Other Proposals	Comment
Enforcement	$300M a year for FDA and states to enforce minor access provisions, including vendor licensing (similar to alcohol).	HHS FY97 funds: $16M on enforcement. Budget increases to $45M in FY98.	$100M a year assuming aggressive enforcement, but no licensing requirements.	Aggressive enforcement activities in some states have contributed to lowering teen smoking rates.
Compensation	Up to 33% of base annual payments available for judgements and settlements of civil liability cases. If 33% cap is not reached, Presidential Commission allocates surplus amount.	n/a	Separate from payments for individual compensation, settlement funds could be used to: (1) compensate state for their loses of tobacco excise tax as a result of higher cigarette prices ($1B in 2003) and/or (2) compensate tobacco farmers ($80M in FY 2003). *	Not clear whether 33% of base payments is appropriate set-aside for this purpose or whether full amount would actually be spent. Also a very large sum that could use up much of net revenues.

* Any civil liabilities allowed under the settlement will also be included in the amount of the compensation.

September 11, 1997

DRAFT

Proposed and Alternative Tob cco Settlement in 2003
(Assumes Repeal of $50B BBA Tax Credit and Youth Targets Are Met)

(Current $ in Billions)

Part I. Payments and Revenues Assumed in Base Settlement	FY 2003
Net Industry Payments	13.3
Total Net Federal Revenues	9

Part II. Spending Assumed in Base Settlement	**Settlement**	**Illustrative Alternative Option**
Research	FY 2003	FY 2003
Public Health Trust Fund	4.7	1.3
Federal Research to Discourage Tobacco Use	0.1	0.0
Sub-Total Research	4.8	1.3
Prevention/Education		
HHS "Reduced Use" Grants to States	0.3	0
Grants to States for Assist-type Programs	0.1	0.2
National Anti-Smoking Ad Campaign	0.6	0.3
Sub-Total Prevention/Education	1	0.5
Cessation		
National Fund for Cessation Services	1.7	0.3
Enforcement		
FDA Enforcement and Grants to States	0.3	0.1
Miscellaneous		
Payments to Tobacco-Sponsored Teams/Events	0.1	0
International Programs	0	0.1
Spending of Look-Back Surcharge (90% for State Grants)	0	0
State Excise Tax Offset	0	1.5
Offsets to Federal-Matched State Programs	0	*
Tobacco Farmer Compensation	0	0.08
Spending of Unused Civil Suit Credit for New Initiatives	2.2	2.2
Total Specified Spending	10	6.1
New Initiatives	0	2.9
(Unspecified Residual, Federal Share -- non-add)	(0)	(2)
Total Spending (Specified + New Initiatives)	**10.2**	**9**

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

July 21, 1997

Memorandum To: Bruce Reed

From: Jonathan Gruber JG

Subject: Cigarette Consumption Under the Tobacco Settlement

The attached tables describe the path of cigarette consumption under the tobacco settlement. There are four tables:

- Number of cigarettes consumed
- Number of adult smokers
- Number of teen smokers
- Assumptions
  - Effects on price
  - Elasticities

The bottom line results for the "long run" (7 years out) are:

- 22 percent decline in cigarette consumption
- 15 percent decline in adult smokers
- 22 percent decline in teen smokers

It is important to emphasize that this is an "out of sample" prediction. As such, it is not clear that simply applying the constant elasticities listed on the last page is appropriate. For example, an alternative model (that is used by our tax folks in doing excise revenue estimates) uses a different functional form for demand (the semi-log form), and predicts only a 14% decline in cigarette consumption, which is two-thirds as large as the constant elasticity assumption. This gives you a sense of the uncertainty that we face going forward.

I would be happy to talk about this further if you like.

07/18/97 10:17 AM

Cigarette Consumption (mil. packs)

	Current Law	Agreement	# decline	% decline
1995	24349			
1996	24222	24222	0	0
1997	24096	24096	0	0
1998	23971	21638	-2333	10
1999	23846	21017	-2829	12
2000	23722	20031	-3691	16
2001	23599	18785	-4814	20
2002	23476	18345	-5131	22
2003	23354	18250	-5104	22
2004	23233	18155	-5078	22
2005	23112	18061	-5052	22
2006	22992	17967	-5025	22
2007	22872	17873	-4999	22
2008	22753	17780	-4973	22
2009	22635	17688	-4947	22
2010	22517	17596	-4922	22
2011	22400	17504	-4896	22
2012	22284	17413	-4870	22
2013	22168	17323	-4845	22
2014	22053	17233	-4820	22
2015	21938	17143	-4795	22
2016	21824	17054	-4770	22
2017	21710	16965	-4745	22
2018	21598	16877	-4720	22
2019	21485	16789	-4696	22
2020	21373	16702	-4672	22
2021	21262	16615	-4647	22
2022	21152	16529	-4623	22
2023	21042	16443	-4599	22
2024	20932	16357	-4575	22
2025	20824	16272	-4551	22

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Adult Smokers (millions)

	Current Law	Agreement	# decline	% decline
1995				
1996	50.500	50.500	0.000	0
1997	50.237	50.237	0.000	0
1998	49.976	46.970	-3.006	6
1999	49.716	45.882	-3.834	8
2000	49.458	44.248	-5.209	11
2001	49.201	42.175	-7.026	14
2002	48.945	41.456	-7.488	15
2003	48.690	41.241	-7.449	15
2004	48.437	41.026	-7.411	15
2005	48.185	40.813	-7.372	15
2006	47.935	40.601	-7.334	15
2007	47.685	40.390	-7.296	15
2008	47.437	40.180	-7.258	15
2009	47.191	39.971	-7.220	15
2010	46.945	39.763	-7.182	15
2011	46.701	39.556	-7.145	15
2012	46.458	39.350	-7.108	15
2013	46.217	39.146	-7.071	15
2014	45.976	38.942	-7.034	15
2015	45.737	38.740	-6.998	15
2016	45.500	38.538	-6.961	15
2017	45.263	38.338	-6.925	15
2018	45.028	38.139	-6.889	15
2019	44.793	37.940	-6.853	15
2020	44.560	37.743	-6.818	15
2021	44.329	37.547	-6.782	15
2022	44.098	37.351	-6.747	15
2023	43.869	37.157	-6.712	15
2024	43.641	36.964	-6.677	15
2025	43.414	36.772	-6.642	15

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	Teen Smokers (millions)			
	Current Law	Agreement	# decline	% decline
1995				
1996	3.456	3.456	0.000	0
1997	3.498	3.498	0.000	0
1998	3.528	3.091	-0.437	12
1999	3.560	3.068	-0.493	14
2000	3.581	2.981	-0.600	17
2001	3.611	2.874	-0.737	20
2002	3.672	2.869	-0.803	22
2003	3.738	2.921	-0.817	22
2004	3.804	2.973	-0.831	22
2005	3.863	3.018	-0.844	22
2006	3.896	3.045	-0.852	22
2007	3.904	3.051	-0.853	22
2008	3.880	3.032	-0.848	22
2009	3.847	3.006	-0.841	22
2010	3.815	2.981	-0.834	22
2011	3.806	2.975	-0.832	22
2012	3.798	2.968	-0.830	22
2013	3.789	2.961	-0.828	22
2014	3.781	2.954	-0.826	22
2015	3.772	2.948	-0.824	22
2016	3.789	2.961	-0.828	22
2017	3.806	2.974	-0.832	22
2018	3.824	2.988	-0.836	22
2019	3.841	3.001	-0.839	22
2020	3.858	3.015	-0.843	22
2021	3.900	3.048	-0.852	22
2022	3.942	3.081	-0.862	22
2023	3.985	3.114	-0.871	22
2024	4.027	3.147	-0.880	22
2025	4.069	3.180	-0.889	22

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	Excise Equiv of Penalty	Cigarette Price	Teen Partic Elasticity	Adult Partic Elasticity	Overall Dem Elasticity	Teen Population	Teen Use % Cur. Law	Teen Use % Agreement
1995			-0.70	-0.26	-0.47	18.586	18.2	
1996		1.85	-0.70	-0.26	-0.47	18.989	18.2	18.200
1997	0.00	1.85	-0.70	-0.26	-0.47	19.218	18.2	18.200
1998	0.33	2.18	-0.70	-0.34	-0.55	19.382	18.2	15.946
1999	0.37	2.22	-0.70	-0.39	-0.60	19.563	18.2	15.681
2000	0.44	2.29	-0.70	-0.44	-0.65	19.675	18.2	15.150
2001	0.54	2.39	-0.70	-0.49	-0.70	19.84	18.2	14.467
2002	0.58	2.43	-0.70	-0.49	-0.70	20.174	18.2	14.222
2003	0.58	2.43	-0.70	-0.49	-0.70	20.54	18.2	14.222
2004	0.58	2.43	-0.70	-0.49	-0.70	20.902	18.2	14.222
2005	0.58	2.43	-0.70	-0.49	-0.70	21.224	18.2	14.222
2006	0.58	2.43	-0.70	-0.49	-0.70	21.408	18.2	14.222
2007	0.58	2.43	-0.70	-0.49	-0.70	21.452	18.2	14.222
2008	0.58	2.43	-0.70	-0.49	-0.70	21.318	18.2	14.222
2009	0.58	2.43	-0.70	-0.49	-0.70	21.135	18.2	14.222
2010	0.58	2.43	-0.70	-0.49	-0.70	20.962	18.2	14.222
2011	0.58	2.43	-0.70	-0.49	-0.70	20.915	18.2	14.222
2012	0.58	2.43	-0.70	-0.49	-0.70	20.868	18.2	14.222
2013	0.58	2.43	-0.70	-0.49	-0.70	20.820	18.2	14.222
2014	0.58	2.43	-0.70	-0.49	-0.70	20.773	18.2	14.222
2015	0.58	2.43	-0.70	-0.49	-0.70	20.726	18.2	14.222
2016	0.58	2.43	-0.70	-0.49	-0.70	20.820	18.2	14.222
2017	0.58	2.43	-0.70	-0.49	-0.70	20.914	18.2	14.222
2018	0.58	2.43	-0.70	-0.49	-0.70	21.009	18.2	14.222
2019	0.58	2.43	-0.70	-0.49	-0.70	21.103	18.2	14.222
2020	0.58	2.43	-0.70	-0.49	-0.70	21.197	18.2	14.222
2021	0.58	2.43	-0.70	-0.49	-0.70	21.429	18.2	14.222
2022	0.58	2.43	-0.70	-0.49	-0.70	21.662	18.2	14.222
2023	0.58	2.43	-0.70	-0.49	-0.70	21.894	18.2	14.222
2024	0.58	2.43	-0.70	-0.49	-0.70	22.127	18.2	14.222
2025	0.58	2.43	-0.70	-0.49	-0.70	22.359	18.2	14.222

SUMMARY OF BUDGETARY EFFECTS OF PROPOSED SETTLEMENT
BASE SCENARIO WITH BBA CREDIT REPEALED AND YOUTH TARGETS MET

09/11/97
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(In billions of dollars)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08	98-23
RECEIPTS														
Base Payment (inc. trust and up-front payment)	**10**	**9**	**10**	**12**	**14**	**15**	**15**	**15**	**15**	**15**	**15**	**69**	**144**	**369**
Payments to Recoup Excise Tax Credit and/or Losses	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Adult Sales Volume Adjustment	—	(1)	(1)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(9)	(23)	(74)
Credit for Personal Compensation Claims	—	—	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(3)	(3)	(3)	(13)	(59)
Inflation Adjustment	—	0	0	1	1	2	2	3	3	3	3	5	18	109
Credit for BBA Excise Taxes	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Look-Back Surcharge for Youth Consumption	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Net Industry Settlement Payments	**10**	**8**	**8**	**10**	**12**	**13**	**13**	**13**	**14**	**12**	**12**	**62**	**125**	**344**
Tax Offsets														
Indirect Business Tax Offset	(3)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(15)	(31)	(86)
Corporate Income Tax on Look-Back Surcharge	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Youth Excise Tax Trigger	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Reduction in Existing Federal Excise Taxes	—	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(3)	(8)	(23)
Total Federal Tax Offsets	(3)	(2)	(3)	(3)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(19)	(40)	(109)
Net Additional Receipts to US Government	**8**	**6**	**6**	**7**	**8**	**9**	**9**	**9**	**9**	**8**	**8**	**43**	**86**	**234**
POTENTIAL USES/CHANGES														
State Attorneys General Proposals, Total	—	6	6	7	8	10	8	9	9	5	5	39	74	165
Offset Reduction in State Excise Taxes	—	1	1	1	1	1	1	1	1	1	1	5	11	39
Use of Youth Look-Back Surcharge (90% grants)	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Potential Increase in Federal Medicaid Match	1	1	2	2	2	2	2	3	3	2	2	10	22	63
Total Potential Uses	**1**	**8**	**9**	**10**	**12**	**14**	**12**	**12**	**13**	**8**	**9**	**54**	**108**	**268**

Memoranda:

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Ad Valorem Equivalent of Net Payments		**17%**	**18%**	**22%**	**26%**	**28%**	**28%**	**29%**	**29%**	**29%**	**29%**
Change in Total Cigarette Consumption		**-7%**	**-8%**	**-10%**	**-13%**	**-13%**	**-14%**	**-14%**	**-14%**	**-14%**	**-14%**
Percentage Point Shortfall from Youth Target						**—**	**—**	**—**	**—**	**—**	**—**

GOVT RECOVERY CASE

SUMMARY OF BUDGETARY EFFECTS OF PROPOSED SETTLEMENT
BASE SCENARIO WITH BBA CREDIT REPEALED AND YOUTH TARGETS MET

09/11/97
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(In billions of dollars)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08	98-23
RECEIPTS														
Base Payment (inc. trust and up-front payment).........	**10**	**11**	**12**	**15**	**18**	**19**	**19**	**19**	**19**	**19**	**19**	**84**	**179**	**464**
Payments to Recoup Excise Tax Credit and/or Losses....	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Adult Sales Volume Adjustment....................................	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Credit for Personal Compensation Claims.......................	—	—	(1)	(1)	(1)	(1)	(2)	(2)	(2)	(4)	(4)	(4)	(16)	(76)
Inflation Adjustment..	—	(1)	(1)	(1)	(1)	(1)	(0)	0	1	1	1	(4)	(2)	72
Credit for BBA Excise Taxes...	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Look-Back Surcharge for Youth Consumption.................	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Net Industry Settlement Payments........................	**10**	**10**	**11**	**13**	**16**	**17**	**17**	**18**	**18**	**16**	**16**	**77**	**161**	**460**
Tax Offsets														
Indirect Business Tax Offset..	(3)	(3)	(3)	(3)	(4)	(4)	(4)	(4)	(5)	(4)	(4)	(19)	(40)	(115)
Corporate Income Tax on Look-Back Surcharge...........	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Youth Excise Tax Trigger...	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Reduction in Existing Federal Excise Taxes.................	—	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(4)	(11)	(29)
Total Federal Tax Offsets..	(3)	(3)	(3)	(4)	(5)	(6)	(6)	(6)	(6)	(5)	(5)	(24)	(51)	(145)
Net Additional Receipts to US Government..........	**8**	**7**	**7**	**9**	**11**	**12**	**12**	**12**	**12**	**11**	**11**	**53**	**110**	**316**
POTENTIAL USES/CHANGES														
State Attorneys General Proposals, Total.........................	—	7	7	8	10	12	10	10	10	6	6	44	86	204
Offset Reduction in State Excise Taxes...........................	—	1	1	1	1	2	2	2	2	2	2	6	15	49
Use of Youth Look-Back Surcharge (90% grants)...........	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Potential Increase in Federal Medicaid Match.................	1	2	2	2	3	3	3	3	3	3	3	13	29	85
Total Potential Uses...	**1**	**10**	**10**	**12**	**14**	**16**	**15**	**15**	**15**	**11**	**11**	**63**	**130**	**338**
Memoranda:														
Ad Valorem Equivalent of Net Payments..............................		**22%**	**23%**	**29%**	**34%**	**38%**	**38%**	**38%**	**38%**	**38%**	**39%**			
Change in Total Cigarette Consumption...............................		**-10%**	**-11%**	**-13%**	**-16%**	**-17%**	**-18%**	**-18%**	**-18%**	**-18%**	**-18%**			
Percentage Point Shortfall from Youth Target.......................						**—**	**—**	**—**	**—**	**—**	**—**			

$1.50 CASE

~~Gov't Recovery Case~~

SUMMARY OF BUDGETARY EFFECTS OF PROPOSED SETTLEMENT

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~~BASE SCENARIO WITH BBA CREDIT REPEALED AND YOUTH TARGETS MET~~

(In billions of dollars)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08	98-23
RECEIPTS														
Base Payment (inc. trust and up-front payment).........	**10**	**23**	**25**	**30**	**37**	**39**	**40**	**40**	**40**	**40**	**40**	**163**	**361**	**953**
Payments to Recoup Excise Tax Credit and/or Losses....	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Adult Sales Volume Adjustment..	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Credit for Personal Compensation Claims........................	—	—	(1)	(1)	(1)	(1)	(2)	(2)	(2)	(4)	(4)	(4)	(16)	(76)
Inflation Adjustment...	—	(4)	(4)	(5)	(7)	(8)	(7)	(7)	(6)	(5)	(4)	(28)	(57)	(7)
Credit for BBA Excise Taxes..	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Look-Back Surcharge for Youth Consumption.................	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Net Industry Settlement Payments........................	**10**	**19**	**20**	**24**	**28**	**30**	**31**	**31**	**32**	**31**	**32**	**131**	**288**	**871**
Tax Offsets														
Indirect Business Tax Offset..	(3)	(5)	(5)	(6)	(7)	(8)	(8)	(8)	(8)	(8)	(8)	(33)	(72)	(218)
Corporate Income Tax on Look-Back Surcharge...........	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Youth Excise Tax Trigger...	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Reduction in Existing Federal Excise Taxes..................	—	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(8)	(20)	(53)
Total Federal Tax Offsets..	(3)	(6)	(6)	(8)	(9)	(10)	(10)	(10)	(10)	(10)	(10)	(41)	(92)	(271)
Net Additional Receipts to US Government..........	**8**	**13**	**14**	**16**	**19**	**20**	**21**	**21**	**22**	**21**	**21**	**90**	**196**	**600**
POTENTIAL USES/CHANGES														
State Attorneys General Proposals, Total.........................	—	10	10	12	13	15	14	14	15	12	12	60	127	348
Offset Reduction in State Excise Taxes...........................	—	2	2	2	3	3	3	3	3	3	3	11	27	89
Use of Youth Look-Back Surcharge (90% grants)............	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Potential Increase in Federal Medicaid Match..................	1	4	4	4	5	6	6	6	6	6	6	24	53	162
Total Potential Uses...	**1**	**15**	**16**	**18**	**21**	**24**	**23**	**23**	**24**	**21**	**21**	**95**	**207**	**599**
Memoranda:														
Ad Valorem Equivalent of Net Payments..............................		**45%**	**49%**	**59%**	**72%**	**78%**	**79%**	**79%**	**80%**	**80%**	**80%**			
Change in Total Cigarette Consumption................................		**-19%**	**-21%**	**-25%**	**-30%**	**-32%**	**-32%**	**-32%**	**-32%**	**-33%**	**-33%**			
Percentage Point Shortfall from Youth Target..						**-2%**	**-4%**	**—**	**—**	**—**	**—**			

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SUMMARY OF BUDGETARY EFFECTS OF PROPOSED SETTLEMENT
BASE SCENARIO WITH BBA CREDIT REPEALED AND YOUTH TARGETS NOT MET

(In billions of dollars)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08	98-23
RECEIPTS														
Base Payment (inc. trust and up-front payment)	**10**	**9**	**10**	**12**	**14**	**15**	**15**	**15**	**15**	**15**	**15**	**69**	**144**	**369**
Payments to Recoup Excise Tax Credit and/or Losses	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Adult Sales Volume Adjustment	—	(1)	(1)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(9)	(24)	(76)
Credit for Personal Compensation Claims	—	—	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(3)	(3)	(3)	(13)	(59)
Inflation Adjustment	—	0	0	1	1	2	2	2	3	3	3	5	18	108
Credit for BBA Excise Taxes	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Look-Back Surcharge for Youth Consumption	—	—	—	—	—	1	—	3	—	2	2	1	6	29
Net Industry Settlement Payments	**10**	**8**	**8**	**10**	**12**	**14**	**13**	**16**	**14**	**13**	**13**	**62**	**131**	**370**
Tax Offsets														
Indirect Business Tax Offset	(3)	(2)	(2)	(2)	(3)	(3)	(3)	(4)	(3)	(3)	(3)	(16)	(33)	(92)
Corporate Income Tax on Look-Back Surcharge	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Youth Excise Tax Trigger	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Reduction in Existing Federal Excise Taxes	—	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(3)	(9)	(23)
Total Federal Tax Offsets	(3)	(2)	(3)	(3)	(4)	(4)	(4)	(5)	(4)	(4)	(4)	(19)	(41)	(116)
Net Additional Receipts to US Government	**8**	**6**	**6**	**7**	**8**	**9**	**9**	**11**	**9**	**9**	**9**	**43**	**90**	**254**
POTENTIAL USES/CHANGES														
State Attorneys General Proposals, Total	—	6	6	7	8	10	8	8	9	5	5	39	74	165
Offset Reduction in State Excise Taxes	—	1	1	1	1	1	1	1	1	1	2	5	12	39
Use of Youth Look-Back Surcharge (90% grants)	—	—	—	—	—	1	—	3	—	2	2	1	6	29
Potential Increase in Federal Medicaid Match	1	1	2	2	2	3	2	3	3	2	3	11	23	68
Total Potential Uses	**1**	**8**	**9**	**10**	**12**	**15**	**12**	**15**	**13**	**10**	**10**	**54**	**115**	**301**
Memoranda:														
Ad Valorem Equivalent of Net Payments		**17%**	**18%**	**22%**	**26%**	**29%**	**28%**	**33%**	**28%**	**32%**	**32%**			
Change in Total Cigarette Consumption		**-8%**	**-9%**	**-10%**	**-13%**	**-14%**	**-13%**	**-16%**	**-13%**	**-15%**	**-15%**			
Percentage Point Shortfall from Youth Target						**6%**	**2%**	**23%**	**17%**	**24%**	**30%**			

SUMMARY OF BUDGETARY EFFECTS OF PROPOSED SETTLEMENT
WITH BBA CREDIT REPEALED AND TOUGHER YOUTH SURCHARGE (EX TAX EQUIV)

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(In billions of dollars)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	98-03	98-08	98-23
RECEIPTS														
Base Payment (inc. trust and up-front payment)	**10**	**9**	**10**	**12**	**14**	**15**	**15**	**15**	**15**	**15**	**15**	**69**	**144**	**369**
Payments to Recoup Excise Tax Credit and/or Losses	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Adult Sales Volume Adjustment	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Credit for Personal Compensation Claims	—	—	(1)	(1)	(1)	(1)	(2)	(2)	(2)	(4)	(4)	(4)	(16)	(76)
Inflation Adjustment	—	(0)	(0)	(0)	(0)	(0)	0	0	0	1	1	(1)	0	49
Credit for BBA Excise Taxes	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Look-Back Surcharge for Youth Consumption	—	—	—	—	—	1	1	4	7	3	7	1	23	161
Net Industry Settlement Payments	**10**	**8**	**9**	**10**	**13**	**15**	**14**	**18**	**20**	**15**	**19**	**64**	**150**	**503**
Tax Offsets														
Indirect Business Tax Offset	(3)	(2)	(2)	(3)	(3)	(4)	(4)	(4)	(5)	(4)	(5)	(16)	(38)	(126)
Corporate Income Tax on Look-Back Surcharge	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Youth Excise Tax Trigger	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Reduction in Existing Federal Excise Taxes	—	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(4)	(10)	(31)
Total Federal Tax Offsets	(3)	(2)	(3)	(3)	(4)	(5)	(5)	(6)	(6)	(5)	(6)	(20)	(48)	(156)
Net Additional Receipts to US Government	**8**	**6**	**6**	**7**	**9**	**10**	**10**	**12**	**14**	**10**	**13**	**45**	**103**	**346**
POTENTIAL USES/CHANGES														
State Attorneys General Proposals, Total	—	6	6	7	9	10	9	9	9	5	5	39	75	166
Offset Reduction in State Excise Taxes	—	1	1	1	1	1	1	2	2	2	2	5	14	52
Use of Youth Look-Back Surcharge (90% grants)	—	—	—	—	—	1	1	4	7	3	7	1	23	161
Potential Increase in Federal Medicaid Match	1	2	2	2	2	3	3	3	4	3	3	11	27	93
Total Potential Uses	**1**	**9**	**9**	**10**	**12**	**15**	**13**	**18**	**21**	**12**	**17**	**56**	**138**	**472**
Memoranda:														
Ad Valorem Equivalent of Net Payments		**17%**	**19%**	**23%**	**28%**	**31%**	**31%**	**39%**	**44%**	**36%**	**44%**			
Change in Total Cigarette Consumption		**-8%**	**-9%**	**-11%**	**-13%**	**-15%**	**-15%**	**-18%**	**-20%**	**-17%**	**-20%**			
Percentage Point Shortfall from Youth Target						**4%**	**-1%**	**19%**	**10%**	**4%**	**24%**			

ALTERNATIVE TOBACCO SETTLEMENTS -- SUMMARY

(Dollar amounts in billions)

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	Baseline	AG Settlement	Tougher Youth Surcharge	Restore Gov't Share	Payment of $1.50 Per Pack
Youth Targets Met:					
Average Payment per Pack in 2003 (96$)........................		0.54	0.54	0.73	1.50
Average Price per Pack in 2003 (96$)...............................	1.93	2.47	2.47	2.66	3.43
Millions of Smokers in 2003...	51.5	46.3	46.3	45.1	40.2
Gross Payments over 25 Years (98$):					
Base Payments..		369	369	464	953
Youth Smoking Penalty..		0	0	0	0
Total..		369	369	464	953
Net Federal Revenues, Cumulative:					
Five Year Total (1998-2003)...		43	43	53	90
Ten Year Total (1998-2008)..		86	86	110	196
25-Year Total (1998-2023)...		234	234	316	600
Payments and Revenues in 2003:					
Gross Industry Payments..		17	17	18	31
Net Industry Payments...		13	13	17	30
Net Federal Revenues..		9	9	12	20
Specified AG spending..		10	10	12	15

Note: All scenarios assume repeal of the TRA97 excise tax credit and include the BBA97 excise tax increase..

ALTERNATIVE TOBACCO SETTLEMENTS -- SUMMARY

(Dollar amounts in billions)

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	Baseline	AG Settlement	Tougher Youth Surcharge	Restore Gov't Share	Payment of $1.50 Per Pack
Youth Targets Not Met:					
Average Payment per Pack in 2003 1/		0.57	0.60		
Average Price per Pack in 2003 1/	1.93	2.49	2.53		
Millions of Smokers in 2003	51.5	46.2	45.9		
Gross Payments over 25 Years 2/:					
Base Payments		369	369		
Youth Smoking Penalty		18	98		
Total		386	467		
Net Federal Revenues, Cumulative:					
Five Year Total (1998-2003)		43	45		
Ten Year Total (1998-2008)		90	103		
25-Year Total (1998-2023)		254	346		
Payments and Revenues in 2003:					
Gross Industry Payments		17	16		
Net Industry Payments		14	15		
Net Federal Revenues		9	10		
Specified AG spending		11	11		

Note: all scenarios assume repeal of the TRA97 excise tax credit.
1/ In constant 1996 dollars. Includes BBA97 excise tax increase.
2/ In constant 1998 dollars.