Politics of Budgeting for Health: Lessons From the Master Settlement Agreement (MSA)

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Session Outline

- Overview of the MSA
- Budget Processes and Revenue Streams
- Factors Influencing Allocations
- Policy Considerations
- Possible Learnings and Future Steps

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The Master Settlement Agreement (MSA)

- Negotiated in 1998 between 46 states and the 4 major tobacco companies to address states prior losses on health care costs related to tobacco uses and constrain future actions
- Set forth various restrictions on tobacco marketing and corporate behavior
- Establishes unrestricted revenue stream estimated to exceed $200 billion for states over 25 years

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The Overarching Research Question

- Comparing 46 states with an identical new and unrestricted revenue stream, constituting an average 2% of total revenues (more than most lottery or special revenue sources)
- What factors influence state allocation decisions? And, where is the money now?

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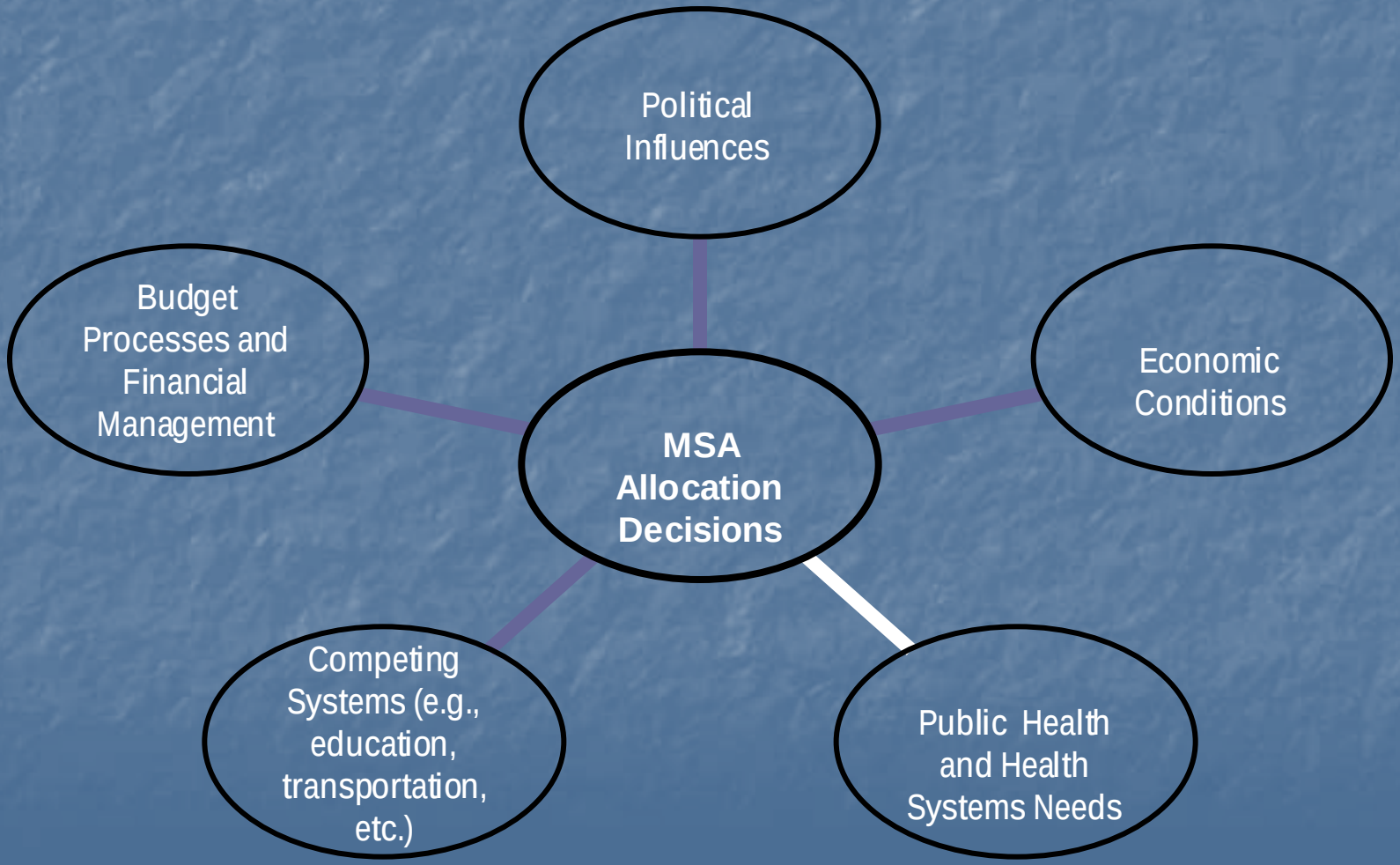
The Theoretical Construct



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Budget Processes and Revenue Streams

- Budgeting tends to be incremental
- Changes are effected at the margin
- Revenue once absorbed is difficult to redirect
- General revenues become part of the "base"
- In the elected and legislative world, all money is fair game

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States' Allocation of MSA Funds by Reporting Category

Number and Percentage of States Reporting in MSA Funds in Category of Expenditure/Allocation (Based on GAO Reports)										
Fiscal Year	Budget Shortfalls	Debt Service on Securitized	Economic Development and Tobacco Growers	Education and Social Services	General Purpose and Reserves	Health	Infrastructure	Tax Reductions	Tobacco Control	Unallocated
2001	--	--	7 (15.2%)	19 (41.3%)	23 (50.0%)	35 (76.1%)	10 (21.7%)	2 (4.3%)	36 (78.3%)	21 (45.6%)
2002	9 (19.6%)	0	7 (15.2%)	24 (52.2%)	23 (50.0%)	38 (82.6%)	7 (15.2%)	1 (2.2%)	35 (76.1%)	11 (23.9%)
2003	18 (39.1%)	8 (17.4%)	7 (15.2%)	23 (50.0%)	19 (41.3%)	37 (80.4%)	7 (15.2%)	1 (2.2%)	30 (65.2%)	12 (26.1%)
2004	7 (15.2%)	13 (28.2%)	7 (15.2%)	27 (58.7%)	26 (56.5%)	36 (78.3%)	8 (17.4%)	1 (2.2%)	29 (63.0%)	9 (19.6%)
2005 projected	4 (8.7%)	14 (30.4%)	7 (15.2%)	25 (54.3%)	24 (52.2%)	35 (76.1%)	8 (17.4%)	0	29 (63.0%)	7 (15.2%)

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Average Allocation of MSA Funds by Reporting Category

Average of States' Reported Proportional Use of MSA Funds by Category of Expenditure/Allocation										
Fiscal Year	Budget Shortfalls	Debt Service on Securitized	Economic Development and Tobacco Growers	Education and Social Services	General Purpose and Reserves	Health	Infrastructure	Tax Reductions	Tobacco Control	Unallocated
2001	--	--	4.6	10.4	14.6	36.6	2.3	2.0	8.7	18.6
2002	10.0	2.2	3.8	13.7	14.2	39.1	2.1	0.2	8.6	6.1
2003	18.8	7.0	4.2	11.3	13.0	32.1	2.8	0.5	5.5	4.8
2004	6.9	15.0	4.6	12.7	11.2	33.8	3.9	0.4	6.0	5.5
2005 projected	3.3	18.6	4.6	12.8	10.8	35.0	2.7	0.0	6.6	5.5

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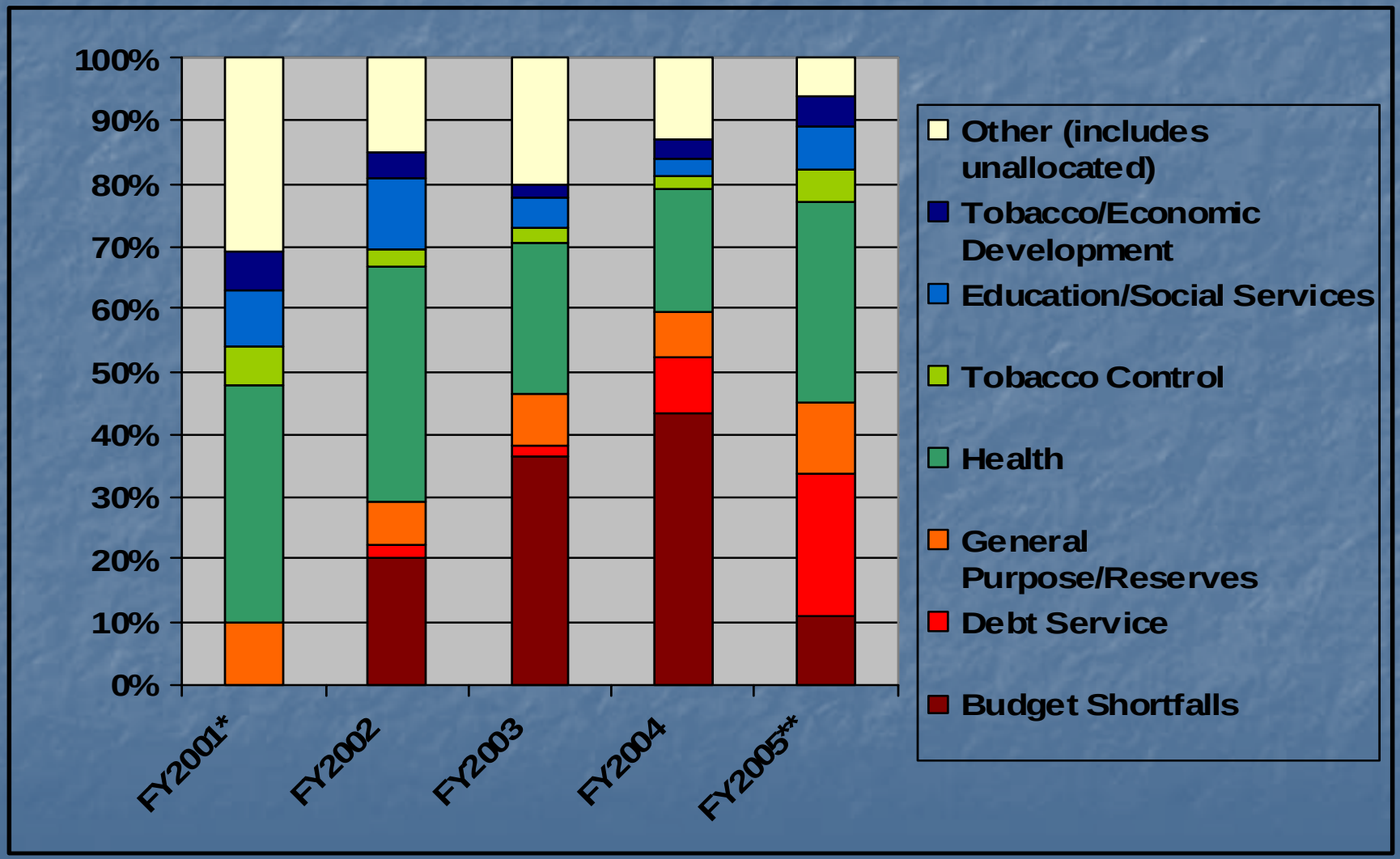
Trends of Total MSA Fund Investments Using GAO Reporting Categories



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Factors Influencing Allocations - The Data

- **Dependent Variables: Five GAO Reports Representing Six Years (2000 - 2005) with Allocation Categories and Two Weighted Composites**
- Independent Variables
  - **States' Economic and Employment Conditions**
    - State Own-Source Revenue Per Capita, 2000-2003
    - Annual Unemployment Rates, 2000 – 2004
    - Three Year Average Median Household Income, 2001-2003
    - Tannenwald's Index of Fiscal Comfort, 1996
  - **States' Health Care Needs Specifically Related to the MSA**
    - State Population
    - Medicaid Expenditures as a Percentage of Total State Expenditures, 2000-2003
    - Medicaid Payments Per Enrollee, SFY2001
    - State Health Expenditures as a Percentage of Total State Expenditures, 2000-2003
    - Lung Cancer Attributable Death Rates, 1997-2001
  - **Budget Process and Political Influences**
    - State Fiscal Management, GPP Scores 1999 and 2001
    - Restriction Against Supplantation
    - Tobacco Growing and/or Manufacturing State
    - State Political Culture, Revised Sharkansky Scale
    - State Party Control, 2000-2004

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State MSA Investment Scores (Four Point Composite), FY2001 – FY2004
Ordinary Least Squares Regression Results

Independent Variable – Annually Adjusted as Required	FY2001		FY2002		FY2003		FY2004	
	Estimated Coefficient	t-value (p-value)	Estimated Coefficient	t-value (p-value)	Estimated Coefficient	t-value (p-value)	Estimated Coefficient	t-value (p-value)
(Constant)	279.513	1.360	304.626	1.925	161.519	.909	391.471	2.191
FM GPP Score	-12.368	-.616	20.219	1.330	26.048	1.452	32.594	1.727*
Restrictions Against Supplantation	.210	.007	-7.639	-.330	9.033	.361	13.723	.504
Tobacco Growing/Manufacturing State	-4.758	-.108	-50.020	-1.402	-31.477	-.828	-4.478	-.109
Political Culture	-5.846	-.635	3.509	.486	14.387	1.734*	6.337	.717
State Party Control	-5.196	-.900	-10.400	-2.056**	-.914	-.172	-7.544	-1.378
State Population	.000	.599	.000	1.858	.000	1.115	.000	-.252
Medicaid Expenditures as % of Total State Expenditures	-4.932	-.690	-10.750	-1.943*	1.766	.270	1.851	.293
Medicaid Payments Per Enrollee, FY2001	-.006	-.307	.002	.162	.018	1.288	-.006	-.421
State Health Expenditures as % of Total State Expenditures	3.457	.609	9.216	2.154**	-3.287	-.666	-2.818	-.555
Smoking Attributable Lung Cancer Deaths, 1997-2001	.866	.756	.218	.256	-.243	-.248	-.711	-.682
State Own-Source Revenue - U.S. Census Bureau	.034	.753	-.002	-.051	-.001	-.027	-.022	-.544
Annual Unemployment Rates	-15.227	-.829	-22.168	-1.669	-8.049	-.606	-15.237	-1.086
Average Median Household Income, 2001-2003	-.002	-.486	-.005	-1.892*	-.005	-1.563	-.003	-.855
Tannenwald's Index of Fiscal Comfort, 1996	.429	.324	1.322	1.355	1.380	1.138	.997	.746
Model R^2		.184		.458		.256		.295
F value/Significance	.466	.933	1.812	.084*	.738	.722	.898	.569

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Factors Influencing Allocations - The Findings

- Economic (specifically, unemployment conditions) are associated with categorical and overall MSA spending. Other economic factors have little or no predictive utility.
- Health status concerns and related funding demands do not increase MSA investments in health areas
- Past Medicaid expenditures appear to be associated with greater spending on budget shortfalls, reflecting a “crowding out” phenomenon

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The Findings

- Procedural aspects of budgeting have no observed relationship with “rational” spending behavior for the MSA. Safeguards against supplantation make no difference.
- Political factors (party and culture) are associated with MSA spending, but only occasionally and not consistently
- Tobacco producing states will spend MSA funding to support tobacco growers and regions; other investment choices for these states are distinctive

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The Findings

- Budgeting behavior with the MSA tends to be incremental (predicted more by prior year funding patterns than any rational, environmental factors), but not always
- In times of extreme fiscal stress, states may tend toward budgeting behavior that is shaped by economic and environmental forces (i.e., punctuated equilibrium)

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Policy Considerations

- Economics and Equity
  - Smoking Rates and Settlement Dollars
  - Donor and Beneficiary States
- Litigation as Policy Tool and Means of Generating Revenue
- How Forty-Six States Agreed
  - Recognizing that the MSA Actors were not the Budget Players

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Per Capita Cumulative MSA Funding for 2000 through 2005*
(Using 2004 Estimated Population Figures)

State	Per Capita MSA Funds	State	Per Capita MSA Funds
Alabama	146.42	New Hampshire	210.86
Alaska	223.66	New Jersey	184.80
Arizona	104.71	New Mexico	128.68
Arkansas	126.15	New York	120.70
California	74.06	North Carolina	116.59
Colorado	125.07	North Dakota	239.26
Connecticut	218.43	Ohio	183.19
Delaware	200.41	Oklahoma	117.89
Georgia	114.47	Oregon	133.10
Hawaii	202.57	Pennsylvania	192.03
Idaho	100.26	Rhode Island	278.29
Illinois	143.78	South Carolina	115.83
Indiana	135.28	South Dakota	188.27
Iowa	121.65	Tennessee	172.39
Kansas	129.05	Utah	70.47
Kentucky	176.05	Vermont	259.80
Louisiana	208.38	Virginia	112.62
Maine	245.08	Washington	137.89
Maryland	172.26	West Virginia	203.99
Massachusetts	267.25	Wisconsin	157.53
Michigan	181.77	Wyoming	210.31
Missouri	145.65	**Mean Per Capita**	**163.57**
Montana	189.97	**Minimum**	**70.47**
Nebraska	131.63	**Maximum**	**278.29**

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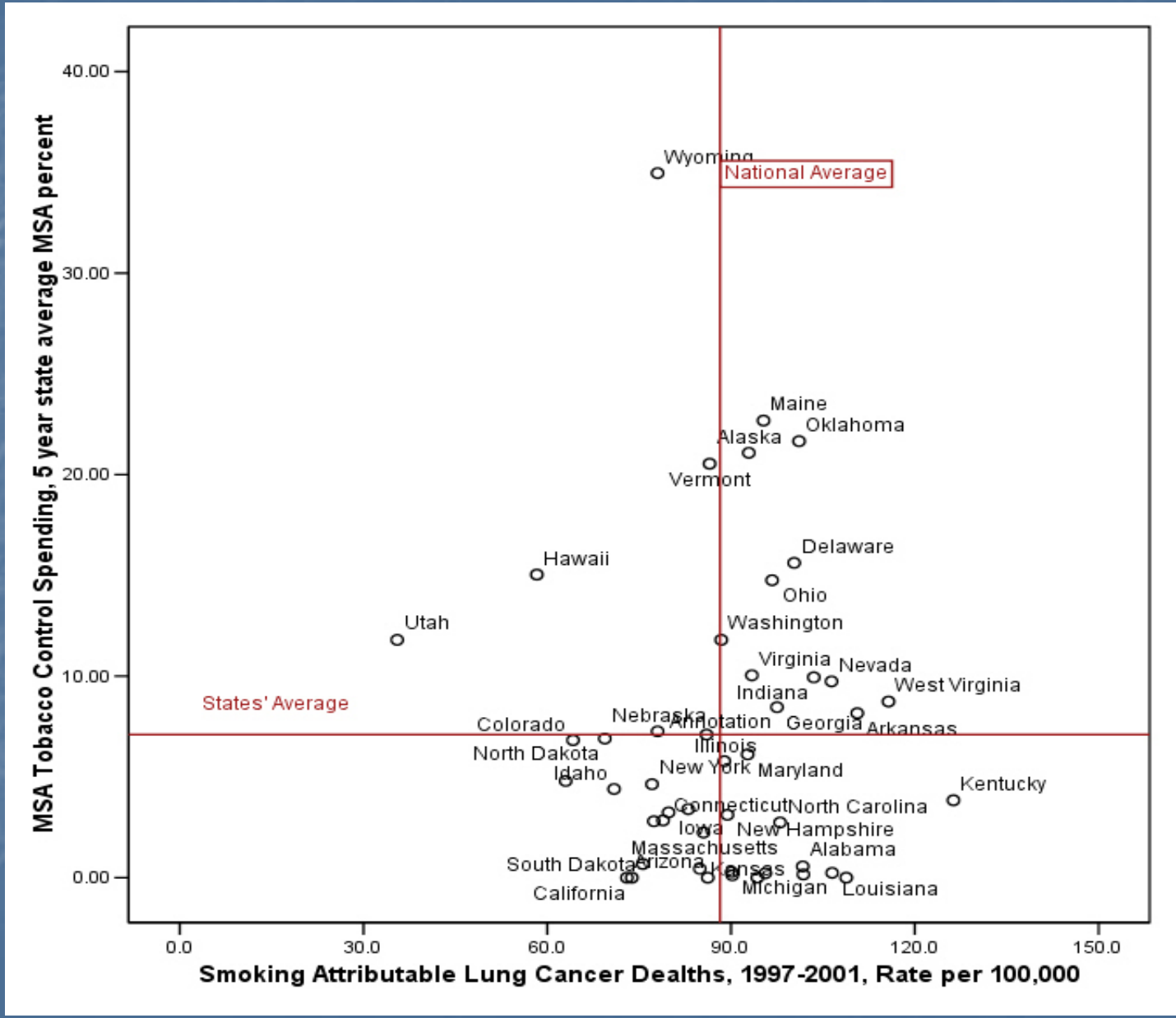
Five-Year Average Use of MSA Funds for Tobacco Control as compared to State Smoking-Attributable Lung Cancer Rates



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Policy Considerations

- The Cost of “Free” Revenues
  - Failure to correct structural imbalances
  - Lack of commitment to the agreement
- The Case for Securitization
- The Merits of Earmarking
- Tax Purpose – Suppression of Use or Creation of Revenue?

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Learnings and Future Steps

- Health advocates need to be better versed in budget and finance theory and processes
- Litigation may be a tool for punishment and remedies, but not ideal for “public” finance
- The imbalance between treatment and prevention in the US will drive resources
- Unrestricted revenue will be treated as just that

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Learnings and Future Steps

- Electoral time frame makes litigation and taxation “deals” unsustainable
- Personalities are fleeting, politics is everlasting
- Budgets don’t change policies; Policies must be used to change budgets
- Be careful using “sin taxes” as a means to create revenue stream
- What deal have we forged – with our officials, for ourselves?

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