SENATE BILL REPORT

SB 5359

As Reported By Senate Committee On:
Ways & Means, February 10, 1999

Title: An act relating to moneys received by the state under litigation against the tobacco industry.

Brief Description: Managing moneys received under tobacco company litigation.

Sponsors: Senators Thibaudeau, Deccio, Wojahn, Winsley, Franklin, Oke, Kohl-Welles and Fairley; by request of Governor Locke and Attorney General.

Brief History:
Committee Activity: Ways & Means: 2/3/99, 2/10/99 [DPS].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 5359 be substituted therefor, and the substitute bill do pass.
Signed by Senators Loveland, Chair; Bauer, Vice Chair; Brown, Vice Chair; Fairley, Fraser, Kline, Kohl-Welles, Long, Rasmussen, B. Sheldon, Snyder, Spanel, Thibaudeau and Wojahn.

Staff: Steve Jones (786-7440)

Background: In June 1996, the state of Washington brought suit against major tobacco companies, seeking reimbursement for costs incurred in treating tobacco-related illnesses as well as damages for violations of consumer protection and anti-trust laws. On November 23, 1998, the Attorneys General and other representatives of 46 states announced a proposed national settlement with the five largest tobacco manufacturers.

The settlement agreement includes restrictions on the marketing and advertising of tobacco products and industry activities such as trade associations and lobbying. Annual payments by the companies to the states are required, with the participating states receiving $206 billion during the first 25 years of the agreement. The state of Washington is scheduled to receive approximately $4.0 billion during the first 25 years, with $323 million to be received during the 1999-01 fiscal biennium. The settlement agreement does not restrict the state's use of the moneys; the Legislature may direct the moneys to be expended for any purpose.

The settlement of Washington's case was approved by the King County Superior Court and the decision became final on December 24, 1998. The settlement agreement will not take effect until 80 percent of the states (representing 80 percent of the total payments) have approved the agreement (which must occur by June 30, 2000).

To the extent that payments to the states represent reimbursement of state Medicaid expenditures for tobacco-related illnesses, the federal government may seek to recoup a portion of the payments to reimburse the federal government for federal Medicaid matching funds.

To finance the settlement payments, the major tobacco companies have implemented significant increases in cigarette prices (approximately 45 cents per pack). Higher cigarette prices will have a negative effect on cigarette sales, resulting in lower cigarette tax revenues to the state General Fund, Health Services Account, Violence Reduction and Drug Enforcement Account, and the Water Quality Account.

Summary of Substitute Bill: The state's share of proceeds from the national tobacco settlement is deposited in the Tobacco Settlement Account, a new account in the state treasury. Moneys in the account may be transferred to the Health Services Account (which is used to support the Basic Health plan and other health care programs) and the Tobacco Prevention and Control Account. The state Treasurer is directed to transfer $100 million from the Tobacco Settlement Account to the Tobacco Prevention and Control Account. The Tobacco Prevention and Control Account is a nonappropriated account that retains its interest earnings.

Substitute Bill Compared to Original Bill: The substitute bill deletes provisions relating to the Department of Health's administration of a tobacco control and prevention program, including a 14-member advisory board. The amount of the deposit to the Tobacco Prevention and Control Account is reduced from $155 million to $100 million, and the account is made subject to appropriation.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: The bill contains an emergency clause and takes effect immediately.

Testimony For: The state litigation was based on health care damages, so the proceeds of the litigation should be used to address the underlying problem of tobacco-related illnesses and other public health issues. Tobacco is the single largest cause of preventable death. Prevention and control programs are effective and will save dollars and lives if the programs are adequately funded. Funds are needed for education and research on lung disease and to benefit the victims of lung disease.

Testimony Against: None.

Testified: PRO: Christine Gregoire, Attorney General; Mary Selecky, Acting Secretary of Health; Len McComb, State Hospital Association; John Miller, staff, California Senate Health Committee; Dr. Bob Jaffe, State Medical Association; Nadine Jelsing, Alliance for Lung Cancer.