

**SENATE FISCAL AGENCY
MEMORANDUM**

DATE: September 11, 2002

TO: Members of the Senate

FROM: John S. Walker, Chief Analyst

RE: Drug Policy Reform and Tobacco-Settlement-Revenue Ballot Proposals

On September 10, 2002, the Michigan Supreme Court denied the applications for leave to appeal from the September 6, 2002, Court of Appeals decisions regarding the Drug Policy Reform and Tobacco Settlement Revenue ballot measures. This means that the Drug Policy Reform issue will not be on the November 5, 2002, general election ballot but the Tobacco Settlement Revenue proposal will be. This memo outlines the fiscal impact of the Tobacco Settlement Revenue proposal; a detailed brochure will be available by September 17.

Tobacco Settlement Revenue Re-Allocation (Proposal 02-4)

Since the tobacco lawsuit settlement, these revenues have been dedicated to the Merit Award Trust Fund and the Tobacco Settlement Trust Fund. In the former case, the bulk of the revenue is used to fund the Merit Award Scholarships, with the remainder allocated to other education related activities, such as the Tuition Incentive Program and the Nursing Scholarship Program. By existing statute, the majority of current and future revenue, as well as existing fund balances are obligated, though not guaranteed, to the recipients of these programs. The latter Fund has been used to support a number of health related initiatives, with the two predominate entities being the Elder Prescription Insurance Coverage (EPIC) program and the Health and Aging Research and Development Initiative (Life Sciences Corridor).

If the ballot proposal to reallocate the tobacco settlement revenue is adopted, the current and prospective available revenue for the Merit Scholarship and most other broad-reaching educational purposes will be eliminated. Instead, 13% of the total would still go to EPIC and another 46% would be provided as direct grants to selected health care providers such as hospitals, nursing homes and nurse practitioners. Of the remaining 41% of funds, the Life Sciences Corridor, the Council of Michigan Foundations and the Nursing Scholarship Program will still receive funding at, or near, par. The "Tobacco-Free Futures Fund, Inc." is also a significant recipient of these funds. Last, but not least, the Legislature is left with 10% of the revenue to spend as it sees fit.

Table 1, which can be used to assess the fiscal impact of the proposal, displays the spread of these funds as enacted for FY 2002-03, and as proposed under the ballot proposal. One should first note, that the sizes of the earmarking "bases" are different. This is due to the fact that the Enacted value includes revenues, interest, and carryforwards, while the ballot proposal only allocates our estimate of actual revenues. In order to make an "apples to apples" comparison the remaining "carryforward" is allocated to offset a part of the General Fund/General Purpose (GF/GP) shortfall that will occur with the passage of the ballot proposal.

The size of the GF/GP deficit? Clearly, the enacted appropriations allocate \$130 million as GF/GP (or GF/GP equivalent) to balance the FY 2002-03 State budget. These funds are either allocated as such, or the Governor and Legislature will be in default of their constitutional responsibility to produce

a balanced budget. If the ballot proposal passes, the Legislature may have no choice but to allocate their "10%" discretionary funds (about \$32.9 million) along with what would have been the one-time carryforward (\$38.6 million) to the deficit. Even with this, the State budget would still be short by more than \$58 million. As for the other programs that would lose their funding source, full restoration would require just under \$168 million from some other source. Given that the ballot proposal would necessitate cuts in other parts of the State budget of at least \$58 million just to balance the budget and protect two major Medicaid accounts (along with a number of other smaller accounts) from being cut to offset the deficit, it would appear that the Legislature would be left with only two choices. They can either raise new revenue or discontinue these programs.

**Table 1
EFFECT OF TOBACCO BALLOT PROPOSAL ON FY 2002-03
TOBACCO APPROPRIATIONS**

Tobacco Settlement Item	FY 2002-03, Enacted Tobacco Appropriation	FY 2002-03, if Ballot Proposal Passes
Health Programs		
Health/Aging Research/Development (Life Sciences Corridor)	\$45,000,000	\$42,731,000
Elder Prescription Insurance Coverage Program (EPIC)	30,000,000*	42,731,000
Medicaid Base funding	30,000,000	0
Respite Care	5,000,000	0
Nursing Home Personal Needs Allowance Increase	5,000,000	0
Council of Michigan Foundations	4,000,000	6,574,000
Rare Isotope Accelerator	2,000,000	0
Long Term Care Advisor	800,000	0
Nonprofit Hospitals	0	92,036,000
Tobacco-Free Futures Fund	0	49,305,000
Licensed Nursing Homes	0	42,731,000
Licensed Hospices	0	6,574,000
Healthy Michigan Foundation	0	3,287,000
Nurse Practitioners	0	3,287,000
School Health Centers	0	3,287,000
Education Programs		
Merit Award Scholarship	114,300,000	0
MEAP Testing	18,900,000	0
Tuition Incentive Grants	5,300,000	0
Michigan Nurses Scholarship Program	4,000,000	3,287,000
Post-Secondary Scholarships	2,000,000	0
Education Savings Plan	1,000,000	0
General Fund Transfer/10% Discretionary Funds	100,000,000	32,870,000
Subtotal -- Total Earmarked Funds	\$367,300,000	\$328,700,000
Use of Carryforward to Offset GF/GP Shortfall if Proposal Passes . .		38,600,000
Total Tobacco Settlement Expenditures in FY 2002-03	\$367,300,000	\$367,300,000
* While \$30,000,000 is the nominal appropriation for this program, Section 1624 of the FY 2002-03 Department of Community Health Budget Act requires that \$20,000,000 in tobacco settlement revenue be transferred to the EPIC program if a Federal seniors prescription program is not implemented. As the likelihood of that prospect grows dim, the EPIC program will need, at least, the additional \$20,000,000 if the program is to be opened to all seniors with incomes at, or below, 150% of poverty.		

c: Gary Olson, Director
Ellen Jeffries, Deputy Director