



COLORADO CENTER
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Justice and Economic Security for all Coloradans

Five Reasons to Oppose Tobacco Securitization

FACT SHEET
April 25, 2006

HB06-1402

The Tobacco Master Settlement Agreement was entered into on the basis that States and their health care providers would be facing increased costs in the future for medical and nursing care for persons who had smoked. The settlement monies should be and were dedicated largely to health care and prevention activities. Currently, proceeds from the tobacco settlement pay for: Children's Basic Health Plan, Nurse Home Visitor program, Comprehensive Primary and Preventive Care Grant programs, Tony Grampas Youth services program and the Colorado State Veterans Trust Fund as well as AIDS programs, senior services and children's mental health programs. HB 1402 proposes to securitize a portion of the tobacco settlement proceeds. It would use funds from the sale of tobacco settlement proceeds for budget stabilization, fire and police pensions, and school construction.

REASONS TO OPPOSE SECURITIZATION IN HB06-1402:

1. There is no guarantee that health care programs will receive the \$80 million dollars they are scheduled to receive from annual proceeds. **Health care programs** funded from tobacco proceeds **are not held harmless** and are at risk of being eliminated or reduced. The proposed securitization sells first the most reliable portions of the settlement and then prioritizes bond interest payments over health care programs--the bond holders are paid first, and health care programs only receive what is left over.
2. There are no taxpayer protections against a bad bond deal. There is no floor on the market value to be obtained for the tobacco settlement proceeds. While there is an option to not proceed if bond sales won't yield an appropriate return, there is nothing that protects tax payers from a poor financial deal – a deal that would, by its structure, adversely affect the availability of health care services in the state.
3. There is no fiscal crisis requiring securitization. While first proposed because of TABOR related budget difficulties, Referendum C assures monies may be spent on State programs. If protection against future recessions is desired, a budget stabilization fund could be built (without securitization) from future surplus cash flow from the tobacco settlement, as payments are due to go up beyond the rate of inflation in the next few years. Further, under current estimates, State revenues in the foreseeable future will generate monies in excess of the 6% statutory

spending limit. A budget stabilization fund could be supplemented with funds “above the line” without jeopardizing program funding and without securitization.

4. Tobacco proceeds are more valuable and more reliable than they have ever been. There is less chance than ever that settlement payments will fall and undermine support for health programs. It is fiscally imprudent to discount the value of those proceeds in a deal that can't guarantee sufficient returns to protect health care programs.
5. There are no limits on the profits an underwriter can make, nor is there a requirement for competitive bidding. Those who are lobbying for the bill may already have an inside track precluding a process totally in the public interest.

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