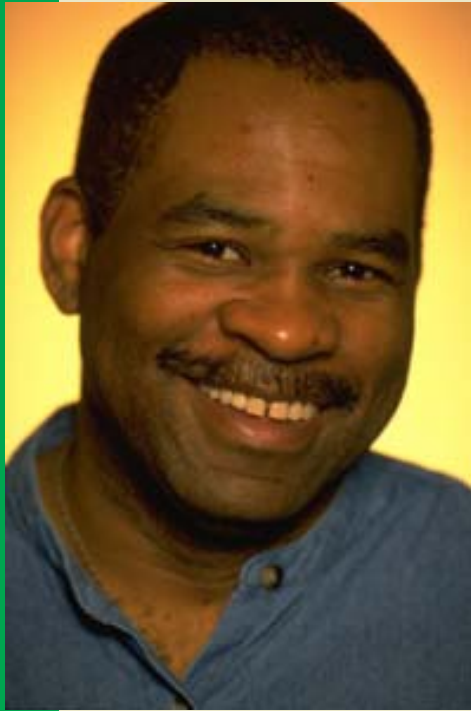




Building A Healthier Oklahoma



Oklahoma Tobacco Settlement
Endowment Trust Fund Board of Directors
Fiscal Year 2002 Annual Report



Message from the Chair of the Board of Directors



"Although the Trust's Board of Directors recognizes tobacco use prevention and cessation as our top priority for funding, at the current rate of growth it will be at least 10 years before the Trust will have sufficient earnings to fully support an effective statewide program, even if all of the earnings were allocated for this purpose."

Every day, inquiries from Oklahoma's citizens, organizations, and elected officials echo similar concerns:

- Where is the tobacco settlement money?
- What is the Board of Directors doing with the earnings from the Trust?
- What is the Oklahoma State Legislature doing with the remainder of the tobacco settlement payments?
- Who are the Board members and how are they appointed?
- How can my program secure funding from the Trust?

This report attempts to answer at least some of these critical questions.

Oklahoma's tobacco settlement funds are governed by a 2000 ballot initiative, passed by Oklahoma voters, which established the Tobacco Settlement Endowment Trust (TSET). Under the measure, a portion of Oklahoma's tobacco settlement payments are deposited into the Trust, from which only the earnings can be spent on certain broadly specified programs including health, research in tobacco-related disease, and tobacco use prevention and cessation. The Trust's Board of Directors decides how to allocate earnings from the Trust. The State Legislature makes appropriation decisions for the remaining settlement funds.

The promise of the tobacco settlement was to use these funds for tobacco use prevention and cessation, however, Oklahoma currently ranks 42nd among the states in funding of tobacco prevention and cessation programs. The U.S. Centers for Disease Control and Prevention (CDC) recommends that the State of Oklahoma spend between \$21.8 million and \$56.3 million a year to have a statewide tobacco prevention and cessation program that will effectively reduce youth tobacco use, promote quitting among youth and adults, and protect all Oklahomans from secondhand smoke.

According to the 2003 State of the State's Health Report, Oklahoma continues to be the only state whose death rate has been increasing since 1990. Tobacco use, as our leading cause of preventable death, kills more Oklahomans than alcohol, auto accidents, AIDS, suicides, murders, and illegal drugs combined. In addition, the imbalance of spending by the tobacco industry to addict Oklahomans, versus what is spent by the state to protect its citizens and treat tobacco-related disease, is staggering.

In Oklahoma the tobacco industry spends \$35 to support addiction for every dollar spent on tobacco prevention and cessation. Every pack of cigarettes bought by an Oklahoman costs each Oklahoman, smoker and non-smoker, about \$6 to pay for the consequences of smoking.

Why then, are tobacco prevention and cessation programs so poorly funded? This low ranking is due in part to the nature of an endowment in which earnings grow slowly over time. It is also due to annual legislative appropriations of less than \$2 million for tobacco prevention and cessation programs. Tobacco settlement funds that were not appropriated to tobacco prevention and cessation programs, or placed in the trust fund, were appropriated by the Legislature to other health and social services programs.

Although the Trust's Board of Directors recognizes tobacco use prevention and cessation as our top priority for funding, at the current rate of growth it will be at least 10 years before the Trust will have sufficient earnings to fully support an effective statewide program, even if all of the earnings were allocated for this purpose.

As the state grapples with one of the worst economic crises in 70 years, the Trust's Board of Directors encourages an increase in the state excise tax on tobacco products. This would offset the state's medical costs to treat tobacco-related disease and effectively curb tobacco use, particularly among youth. A small amount of the revenue from the excise tax increase could provide sufficient funding for effective tobacco control programs right away, and leave a majority of revenue available for funding other health-related needs.

If we wait to make a sufficient investment in tobacco prevention and cessation programs, Oklahoma will continue to be poorer in health, and in jobs and income foregone because businesses will locate or re-locate to states with a healthy population. More importantly, tens of thousands of Oklahomans, both young and old, will face a lifetime of addiction and early death that could have been effectively prevented.

On behalf of the Board of Directors of the Oklahoma Tobacco Settlement Endowment Trust, I am pleased to present this first Annual Report. We welcome your comments, thank you for your interest and support in the development and implementation of the Trust, and encourage you to visit our website at <http://www.tobaccosettlement.state.ok.us> for updates on our progress.

– Robert McCaffree, M.D.

Message from the Chair of the Board of Investors

“While many state governments have squandered their share of the Tobacco Settlement, Oklahoma voters have established, in our constitution, an airtight system to make sure money is always available for tobacco prevention and cessation programs.”



To the People of Oklahoma:

With the Oklahoma Tobacco Settlement constitutional amendment, our state is in a unique position as it works to reduce and prevent smoking in the Sooner State. While studies show that too many of our citizens are addicted to tobacco, well above the national average, we have created a system to attack the problem with strength and resolve now and for generations to come.

As chairman of the Oklahoma Tobacco Settlement Endowment Trust Fund Board of Investors, it is my responsibility to safely and effectively invest the money entrusted to the fund to ensure a steady and growing flow of earnings to fund the programs initiated by the Board of Directors.

We are unique among the states in our wise and foresighted establishment of the endowment trust fund. While many state governments have squandered their share of the Tobacco Settlement, Oklahoma voters have established, in our constitution, an airtight system to make sure money is always available for tobacco prevention and cessation programs.

We enjoy a seamless working relationship between our two boards. We are working together without conflict toward the same goal — to dramatically reduce tobacco use in Oklahoma. It is only through this cooperative relationship that we can be assured of success.

Through our joint efforts, we can, and will, make Oklahoma the best place to raise a family — free from the horrible and costly consequences of tobacco addiction.

Sincerely,

A handwritten signature in black ink that reads "Robert Butkin". The signature is written in a cursive, slightly slanted style.

Robert A. Butkin
Oklahoma State Treasurer
Chair, Oklahoma Tobacco Settlement
Endowment Trust Fund Board of Investors

Board of Directors of the Oklahoma Tobacco Settlement Endowment Trust



Robert McCaffree, M.D., Board Chair, appointed by the Attorney General, is a physician specializing in diseases of the lung and critical illness. He is Professor of Medicine in the Pulmonary Disease and Critical Care Section of the OU College of Medicine. Administratively, Dr. McCaffree is Chief of Staff at the Oklahoma City VA Medical Center and Associate Dean for Veterans' Affairs for the College of Medicine. He is Past-chair of the Oklahoma Coalition on Health and Tobacco. He is also Past-President of the American College of Chest Physicians, in which role he was a member of the Koop-Kessler Congressional Advisory Committee on Health and Tobacco, and has testified before Congress on tobacco

issues. Dr. McCaffree is a member of the Board of Directors of the American Lung Association of Oklahoma and has recently been appointed to the national ALA Council.

Marvin Apple, Board Vice-Chair, appointed by the Speaker of the House, brings to the Board of Directors over 40 years of experience in the public sector of Oklahoma, working with state and local governments in the areas of public administration, education, program development, and operation. Mr. Apple served as a Public Health Administrator with the Cherokee County Health Department and as a Quadrant Administrator for the Oklahoma State Department of Health, supervising six public health administrators responsible for the operation of nineteen county health departments in northeastern Oklahoma. Mr. Apple was instrumental in establishing the first county health coalition, and the first county health authority in Oklahoma. Presently, Mr. Apple serves as the CEO of the Cherokee County Health Services Council and in that role he has been a major force in the creation of the Rural Health Institute and the Oklahoma Center for Rural Development located at Northeastern State University.



Tracy Foor, Board Secretary, appointed by the State Superintendent of Public Instruction, is a dedicated high school mathematics teacher with the Norman Public Schools. Formerly an attorney and a petroleum engineer, Mr. Foor was one of Oklahoma's first math teachers to receive National Board Certification. He is an educational leader who has served on the district's secondary-level Mathematics Advisory Board and the Norman Public School Foundation Board. In 2001 he served as the State Teacher Representative to the National Education Summit. He was the 1997-1998 Norman Public Schools' Teacher of the Year, and in 2000, Mr. Foor was a Milken Family Foundation National Educator Award winner, recognized for his hands-on approach to teaching math by emphasizing real-life applications of mathematics.

Susan Walters Bizé, Board Member, appointed by the State Auditor and Inspector, is an attorney in private practice with the firm of Lester, Loving & Davies. Ms. Bizé practiced for many years as a CPA and attorney in the public and private sectors, primarily in the areas of tax and business law. She worked with numerous state legislatures and Congress while serving as Senior Government Relations Counsel for J.C. Penney, Company, Inc. in Dallas and Washington, DC. Upon returning to Oklahoma, Ms. Bizé served as Regional Vice-President for the American Cancer Society where she oversaw the implementation of programs in western Oklahoma. She is a member of the Oklahoma and Texas Bar Associations, the Oklahoma Society of CPA's and volunteers for many charitable and civic organizations.



Donald L. Cooper, M.D., Board Member, appointed by the Governor, is Emeritus Director of the Oklahoma State University Student Health Center. With over thirty years experience in sports medicine, Dr. Cooper is known throughout the state as the "Jock Doc". He was an active member of the President's Council on Physical Fitness and Sports under Presidents Regan and Bush, a U.S. Olympic team physician for the XIX Olympiad, and a sports medicine consultant to the NCAA Football Rules Committee. Dr. Cooper has served on numerous state and national boards and committees, testified before Congress, appeared on national television shows, and studied and lectured on sports medicine in China and the Soviet Union. In November 1999 Dr. Cooper was inducted into the

Oklahoma Hall of Fame, and was featured in the Journal of the Oklahoma State Medical Association as a "Leader in Medicine".

Brian L. Maddy, Board Member, appointed by the Senate President Pro Tempore, serves as Chief Executive Officer of OU Physicians. He also serves as Associate Dean for Administration and Institutional Development for the University of Oklahoma, College of Medicine. Prior to assuming these two positions, Mr. Maddy was Vice-President of Administrative Affairs for the University of Oklahoma where he functioned as the university's Chief Financial Officer. He also held positions of Chief of Staff of the Oklahoma State Senate and Director and Fiscal Analyst for the Senate fiscal staff. In those positions, he developed elements of the statutory framework for public sector healthcare, criminal justice reform, cost-containment strategies and economic development initiatives.



Suzanne Olive, M.D., Board Member, appointed by the State Treasurer, is a physician in private practice with the Tulsa Pulmonary and Allergy Consultants, Inc. She is also Clinical Professor of Medicine with the University of Oklahoma Health Science Center. Dr. Olive is Board Certified in Internal Medicine, Pulmonary Medicine, Allergy and Immunology, and Critical Care. She is a member of the American Medical Association, Oklahoma State Medical Association, and Tulsa County Medical Society.

The mission of the Board of Directors of the Tobacco Settlement Endowment Trust is to improve the health and quality of life of all Oklahomans through accountable programs and services that address the hazards of tobacco use and other health issues.



Background

August 1996

Oklahoma became the fourteenth state to file suit against the tobacco industry to recover tax dollars lost treating smoking-caused illnesses. Within two years 46 state attorneys general had joined together to negotiate a settlement with the four largest tobacco companies in the United States. Oklahoma's Attorney General, Drew Edmondson, was one of eight attorneys general to serve on the negotiating team.

November 1998

The 46 states negotiated a Master Settlement Agreement ("MSA") with the tobacco industry. Four states— Florida, Minnesota, Texas, and Mississippi had previously settled their tobacco cases separately. As a result of the MSA, the tobacco industry is projected to pay Oklahoma approximately \$2 billion over the first 25 years of the settlement.

Tobacco Settlement Payments to the State of Oklahoma

Totals by Calendar Year	Amount
1999	\$27,305,975.81
2000	\$59,646,931.17
2001	\$85,612,298.89
2002	\$71,773,279.25
2003	\$5,549,056.62
Total	\$249,887,541.74

Totals by Fiscal Year	Amount
FY-2000	\$86,951,878.27
FY-2001	\$64,897,380.88
FY-2002	\$75,872,920.52
FY-2003	\$22,165,362.07
Total	\$249,887,541.74

November 2000

Oklahoma voters are unique in the nation for having established a tobacco settlement trust fund by passing a constitutional amendment, by a vote of 69-31 percent, which places increasing portions of each tobacco settlement payment into the Trust.

This approach serves to help protect the funds from being used for state operations or purposes unrelated to health or tobacco use prevention and cessation. It maintains a Trust that is independent of political or special interest group influence, and assures that as the settlement payments decline due to reduced tobacco consumption, the State of Oklahoma will have a stable source of program funding even as the earnings grow greater with each passing year.

Deposits into the Oklahoma Tobacco Settlement Endowment Trust (TSET) from settlement funds received by the State of Oklahoma are made according to the following schedule:

<u>Fiscal Year Ending</u>	<u>Minimum Percentage of Payments</u>
June 30, 2002	50%
June 30, 2003	55%
June 30, 2004	60%
June 30, 2005	65%
June 30, 2006	70%
June 30, 2007	75%

and all subsequent years

An initial \$50 million in settlement funds were directed to the Trust's principal by the Oklahoma State Legislature during the 2001 legislative session.

The constitutional amendment which established the TSET also created a five-member Board of Investors to oversee the investment of the Trust funds, and a seven-member Board of Directors to direct the earnings from the Trust to fund programs in the following five areas:

- Clinical and basic research and treatment efforts in Oklahoma to prevent and treat cancer and tobacco related disease.
- Cost-effective tobacco cessation and prevention programs.
- Other programs which maintain or improve the health of Oklahomans with particular emphasis on children.
- Programs which benefit children with emphasis on common and higher education, before- and after-school and pre-school programs, substance abuse prevention programs and other programs to improve the health and quality of life of children.
- Programs designed to enhance the health and well-being of senior adults.

History and Accomplishments

August 2001

The first meeting of the Board of Directors was convened by Attorney General Drew Edmondson, and included a presentation from Robert Butkin, State Treasurer and Chair of the Trust Fund's Board of Investors.

September and October 2001

The Board of Directors established a contract with the Oklahoma City Community Foundation for staff assistance and consultation to guide the Board through an initial strategic planning process.

Conference calls were held with Dr. Stephen Schroeder, President of the Robert Wood Johnson Foundation, Mathew Myers, Director, Campaign for Tobacco-Free Kids, and Mississippi's Attorney General Mike Moore, to provide the Board with an introduction to grantmaking processes, and effective tobacco use prevention and cessation policies and programs from other states as well as those in Oklahoma.

The Board also heard presentations and funding allocation recommendations from a wide variety of community-based organizations, coalitions, state agencies, and other key stakeholders in Oklahoma that addressed each of the focus areas in the constitutional amendment.

January 2002

The Board of Directors created a strategic plan to guide funding activities that will fulfill the Board's mission to "improve the health and quality of life of all Oklahomans through accountable programs and services that address the hazards of tobacco use and other health issues."

The Board determined that tobacco use prevention and cessation programs would be the first priority for funding because:

- It was the intent of the Master Settlement Agreement that states would use settlement funds to reduce tobacco use and tobacco-caused illness and death.
- Tobacco use is Oklahoma's leading cause of preventable death, killing 6,000 Oklahomans each year.
- The estimated direct health care costs of tobacco use in Oklahoma exceed \$1 billion annually, or an average of about \$300 per capita.

- The combined tobacco-related health and loss of productivity costs in Oklahoma are \$2 billion annually, or a per capita average of about \$600.

Spring and Summer 2002

The Board of Directors developed a job description and completed a nationwide search for an Executive Director.

August 2002

An Executive Director was hired and a state agency was established in office space provided by the University of Oklahoma Health Sciences Center. As a very small state agency with a limited administrative budget, the TSET has developed a "virtual infrastructure" utilizing existing expertise from within the following State of Oklahoma agencies:

- The Department of Central Services, Procurement Services, assists TSET with market research, development of contracts and requests for proposals, proposal review and grant administration and monitoring.
- The Office of the Attorney General provides legal counsel to the TSET and assists in the development of contracts.
- In addition to the financial counseling and budget preparation guidance the Office of State Finance provides to all state agencies, the TSET has entered into a contract with OSF for budgeting and financial management services, assistance with small purchases such as office supplies and travel, and payment of invoices.
- The Office of Personnel Management assists TSET with all personnel needs including payroll, recruitment, and performance review guidelines.

- Other state agencies that provide administrative support to the TSET include the Employees Benefits Council, the Ethics Commission, the Oklahoma Public Employees Retirement System, and others.

Support from these state agencies makes it possible for the TSET to utilize the expertise within the state, avoid administrative duplication, and maintain a conservative operations budget.

November 2002

The Board of Directors approved funding to initiate a statewide tobacco use cessation quitline or “helpline” that will provide information, self-help materials, and behavioral counseling over the telephone for all Oklahomans with a desire to stop smoking or using tobacco in any form.

Telephone counseling and support for smokers is one of the most effective cessation strategies and is strongly recommended by the *U.S. Public Health Service*, the *Cochrane Collaboration*, and the *Guide to Community Preventive Services*.

Funding was also approved for a limited media campaign necessary to promote the helpline. In addition, an independent evaluation of both the helpline and media campaign will be conducted.

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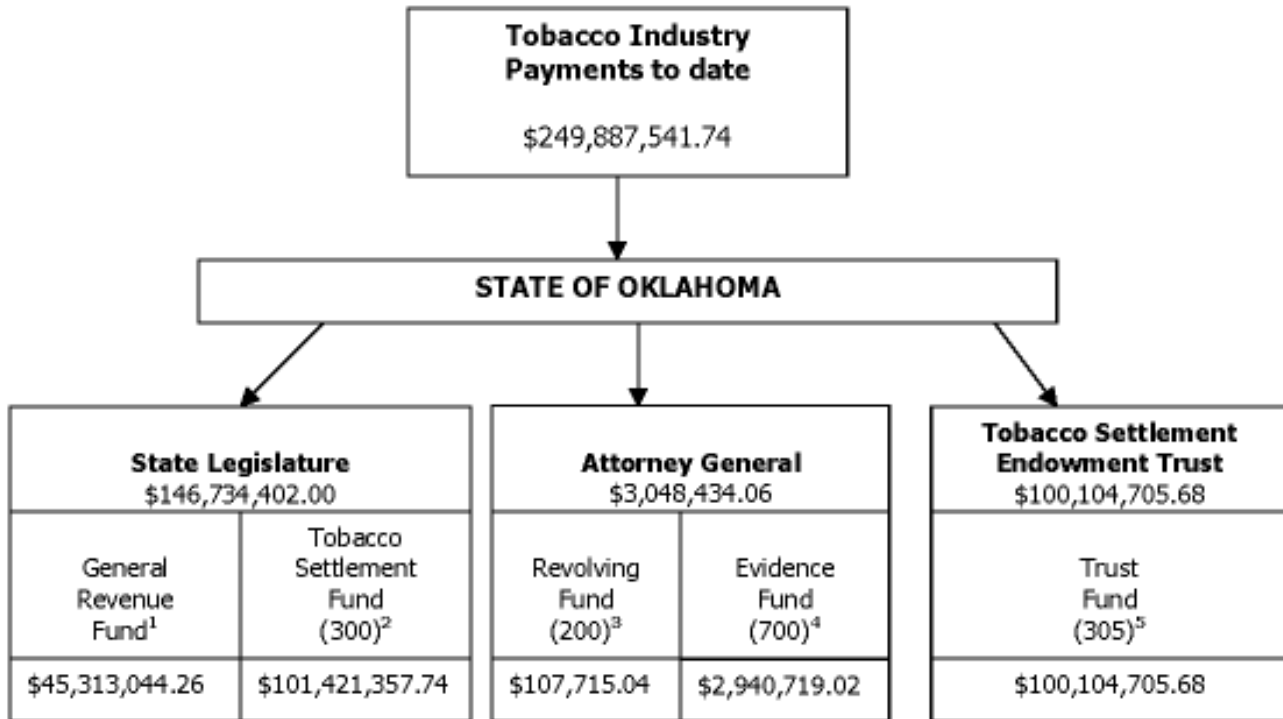
Spring and Summer 2003

The Board of Directors will launch the helpline and media campaign. Funding a statewide helpline will allow the Board of Directors to implement a proven program while working with state leaders and key stakeholders throughout Oklahoma to develop a blueprint for the future. As a result, the Board will be making plans and decisions about future funding priorities, establishing grantmaking processes and selection criteria, and determining the best structure for grant administration and management.

As soon as these funding priorities and grantmaking processes are established, they will be posted on the TSET website, <http://www.tobaccosettlement.state.ok.us>, announced to the public, and institutionalized through promulgation of administrative rules that are approved by the Legislature and Governor.



Distribution of Oklahoma's Tobacco Settlement Payments



¹ Initial tobacco settlement payments were placed into the general revenue total and became part of the funds appropriated for state agency operations.

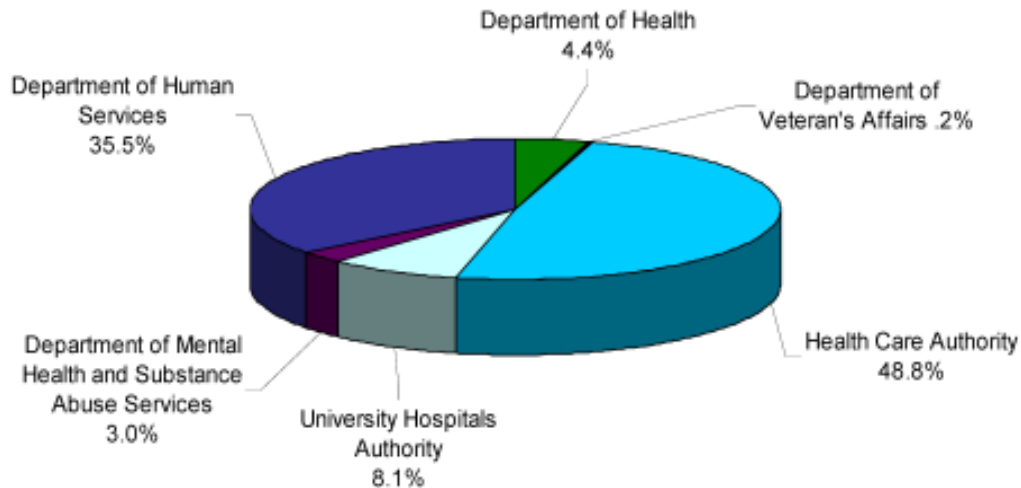
² The \$101.4 million in the State's Tobacco Settlement Fund (fund number 300) has been allocated for various programs as detailed in the "Appropriations by the Oklahoma State Legislature from the Tobacco Settlement Fund" table below. These funds are not part of the Trust fund.

³ These funds were part of the November 14, 1999 payment to the State. Initial laws established in Oklahoma provided that a percentage of settlement payments to Oklahoma would be placed into the Attorney General's Revolving Fund (fund number 200). Because of the large amount of funds involved with the Tobacco Settlement, the law was changed to reduce the amount that went to the Attorney General's revolving fund from these payments.

⁴ The law still provides that part of the settlement payments will go into the Attorney General's Evidence Fund (fund number 700) to be used for legal battles to pay for expert witnesses and other costs.

⁵ The \$100.1 million is the amount that has been invested in the Tobacco Settlement Endowment Trust Fund (fund number 305). This includes an initial \$50 million in settlement funds that were directed to the Trust's principal by the Oklahoma State Legislature during the 2001 legislative session.

Appropriations by the Oklahoma State Legislature from the Tobacco Settlement Fund (Fund 300)



Agency Number	Purpose	FY-2001	FY-2002	FY-2003	Agency Three-Year Totals	Agency Percent
807	Health Care Authority health	\$27,814,025	\$23,428,344	\$10,000,000	\$61,242,369	48.8%
830	Department of Human Services social services	\$14,386,582	\$10,152,604	\$20,000,000	\$44,539,186	35.5%
825	University Hospitals Authority health	\$5,921,414	\$4,178,739	-----	\$10,100,153	8.1%
340	Department of Health tobacco prevention, health	\$1,833,333	\$1,725,000	\$2,000,000	\$5,558,333	4.4%
452	Department of Mental Health and Substance Abuse Services health	\$1,490,561	\$1,051,888	\$1,148,542	\$3,690,991	3.0%
650	Department of Veteran's Affairs social services	-----	\$275,000	-----	\$275,000	.2%
	TOTALS	\$51,445,915	\$40,811,575	\$33,148,542	\$125,406,032	100%

**Grand Total: includes the anticipated April 2003 payment

**Tobacco Settlement Endowment Trust
(Fund 305)
FY-2002 Expenditures and FY-2003 Budget**

FY-2002: July 1, 2001 through June 30, 2002

The Board of Investors certified \$651,619 in FY-2001 earnings for use in FY-2002. Of that amount, \$56,737 was expended as follows:

Professional Services	\$47,241
Investment and Operations Consultation	
Travel	3,814
Advertising	5,560
Includes published notices for investment consultants and managers and an executive director	
Miscellaneous	<u>122</u>
Total Expenditures	\$56,737
 Amount of earnings available for carryover to FY-2003	 \$594,882

FY-2003: July 1, 2002 through June 30, 2003

The Board of Investors certified \$1,442,846 in FY-2002 earnings for use in FY-2003. Unexpended funds from FY-2002 in the amount of \$594,882 were placed in reserve for future program and administrative needs. Certified funds are budgeted as follows:

Board of Directors administrative expenses	\$210,927
Board of Investors administrative expenses	5,500
Independent audit	25,000
Investment Management expenses	499,120
Program Grants	<u>702,299</u>
Total certified funds FY-2003	\$1,442,846

Oklahoma Tobacco Settlement Endowment Trust Fund

Board of Directors

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