Bond Case Briefs

Municipal Finance Law Since 1971

Fitch Rtgs: Opioid Lawsuits to Have Small Effect on State, Local Budgets

Fitch Ratings-New York-07 May 2019: States and local governments are taking legal action to recoup costs related to the opioid crisis but potential litigation awards may not fully account for the budgetary outlays, says Fitch Ratings. Lawsuits may be able to recoup some governmental expenditure for treating addiction and the social fallout of addiction but redress as a result of court decisions or legal settlements is not likely to significantly affect government budgets. Compensation will not be as much as provided for in the 1998 tobacco master settlement agreement (MSA), proceeds of which were not sufficient to affect state and local government credit quality.

Direct and indirect economic loss to governments from opioid abuse results from decreased productivity, lost wages, healthcare, substance abuse treatment, social services, and court and correctional expenses. These costs affect state and local governments in two ways: by diverting resources from other expenditures and by depriving governments of economic growth. A study in the journal Medical Care by researchers at Pennsylvania State University (PSU) estimated opioid misuse reduced state tax revenue by $11.8 billion between 2000 and 2016.

In recent court cases, governments alleged drug manufacturers, distributors and pharmacies misled the public on the dangers of opioids, which contributed to opioid overdose deaths, arguing these parties are responsible for abetting the crisis and related fallout. Oklahoma recently settled a lawsuit against Purdue Pharma for $270 million in which the state alleged the company aggressively and deceptively marketed OxyContin. The settlement includes $20 million for treatment drugs and $12 million to Oklahoma cities and towns. The settlement is carved out of any potential bankruptcy filing by Purdue.

Thirty-five other states have sued manufacturers in state courts, in addition to approximately 1,600 independent cases brought by states, counties, cities, tribes and other entities, such as unions and hospitals that have been consolidated in a multidistrict lawsuit in a US district court in Ohio, expected to be heard in October. Lawsuits were also brought by New York, Vermont, and Washington against drug distributers Rochester Drug Cooperative, Cardinal Health (BBB/Stable), McKesson (BBB+/Stable) and AmerisourceBergen (A-/Stable).

Fitch has indicated the outcome of the federal case may be a tobacco-style MSA. However, we expect any settlement would result in a smaller award than the tobacco litigation, which was $200 billion, as opioids are FDA approved prescription medications, and the sale of opioids are a small fraction of tobacco product sales. State costs related to the crisis are believed to be significantly less than the decades of health care expenses incurred by states tied to tobacco usage.

It is unknown how proceeds from any successful litigation will be allocated. Previous opioid settlement awards have been spent in various ways and not always directly for the benefit of those struggling with addiction. This outcome is similar to the MSA, in which the agreement with states did not specify how proceeds should be spent, and indeed, tobacco MSA proceeds have been used for many different purposes.

The US Council of Economic Advisers estimates the economic cost of the opioid crisis was $504 billion in 2015, including fatalities from opioid overdoses. However, the effect on individual states and counties varies widely. The PSU study underscored that estimates of lost tax revenues by state is dependent upon each state's tax rates and population size. The disparate effect on various parties will mean the allocation of any settlement proceeds will be adjudicated based on related effects to the many plaintiffs.

Contact:

Marcy Block
Senior Director, US Public Finance
+ 1 212 908-0239
Fitch Ratings Inc.
33 Whitehall St.
New York, NY 10004

Amy Laskey
Managing Director, US Public Finance
+1 212 908-0568

Sarah Repucci
Senior Director, Fitch Wire
+1 212 908-0726

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Copyright © 2026 Bond Case Briefs | bondcasebriefs.com