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April 13, 2021

Chair Stacy Hetherington
Martin County
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RE: Opioid Litigation

Dear Chair Stacy Hetherington:

My name is John Guard and I am the Chief Deputy Attorney General for the State of Florida (the "State"). Since she took office, Attorney General Moody has been heavily involved in leading both the State's ongoing opioid litigation and several different negotiations with defendants in that litigation. Those negotiations have included litigation counsel representing cities and counties.

As part of those negotiations to enable Florida to achieve the maximum amount recoverable for both the State and its subdivisions, the State has been negotiating for a lengthy time with outside counsel for nearly all litigating political subdivisions within the State. After multiple sessions and significant compromise by both sides, the attached memorandum of understanding ("MOU") has been reached. We have offered and the lawyers for the litigating subdivisions are recommending to their clients that the attached MOU be accepted. This proposal is the result of numerous meetings and includes feedback and comments from many local subdivisions. Based on the status of this litigation, the likely structure of any resolution, the potential litigation risks in the absence of such an agreement, the State believe that this proposal reflects a reasonable compromise between the State and its political subdivisions.

The purpose of this letter is to summarize the primary terms of the MOU and attempt to anticipate questions that you, your commission, and your internal and/or other legal counsel may have regarding this litigation and allocation proposal.

What cases does this MOU apply?

This allocation agreement is intended to govern the distribution of settlement proceeds obtained through the Purdue Pharma L.P. (“Purdue”) bankruptcy, the Mallinckrodt PLC (“Mallinckrodt”) bankruptcy, the distributor (Cardinal Health, Inc., McKesson Corp., and AmerisourceBergen Corp. (collectively referred to as the “Distributors”)) and Johnson & Johnson (“J&J”) potential deal, as well as any additional settlements obtained related to the opioid litigation.

Why is an allocation agreement necessary and why now?

Almost 100 political subdivisions within the State of Florida, as well as the State of Florida itself, have filed suit against numerous entities engaged in the manufacture, marketing, promotion, distribution or dispensing of opioids. Another 30 political subdivisions within the State of Florida have filed claims in the Purdue bankruptcy.

The State and the Plaintiffs’ Executive Committee for the Opioid Litigation Multi-District Litigation panel (the “PEC”) are in ongoing negotiations with Purdue, Mallinckrodt, the Distributors, and J&J with potential resolutions anticipated in the coming weeks. Under the likely settlement structure for these cases, states and their political subdivisions are strongly incentivized to reach a joint resolution of all State and political subdivision claims. Under the Distributor and J&J deal, the State and its subdivisions receive a substantially larger settlement amount the higher the number of subdivisions sign on to the deal. Therefore, it is in the best interest of all political subdivisions and the State of Florida to reach an allocation agreement which will permit the joint resolution of all claims within the state.

The deals contemplate the need for relatively quick buy in by subdivisions in order to maximize recovery. The pace of negotiations is accelerating, and Purdue has filed its plan of reorganization. Given this accelerating pace, there is a greater sense of urgency among all counsel to come to agreement and resolve how monies are going to be allocated, so that we can move Purdue, Mallinckrodt, and other potential settlements toward finality. Given the Sunshine law, the likely need for public notice and comment, and the complexity of the deals, we need to agree to an allocation plan now to ensure that Florida maximizes recovery.

How can funds be utilized?

You will see as you review the MOU that the State and its subdivisions, who execute this MOU, are agreeing that almost all the funds from any settlement will go to abatement activities. In other words, funds must be utilized for strategies, programming and services used to expand the availability of treatment for individuals impacted by Opioid Use Disorder or co-occurring Substance Use Disorder and Mental Health disorders (“Approved Purposes”). A non-exclusive list of potential abatement programs and uses are included in Exhibits A and B to the agreement. The list was developed nationally consulting with public health officials in multiple states, experts for the states and subdivisions, and officials within the United States Department of Health and Human Services. These uses are intended to best serve the overall purpose and

intention of this litigation, which is to abate the continuing public health crisis of opioid addiction within our communities.

While supported by the State, this requirement was imposed the defendants for tax and other reasons. It is also necessary to militate against the United States seeking substantial amounts of settlement funds from both the State and subdivisions as recoupment.

How are the funds allocated amongst the States?

While not part of the MOU, the States have been negotiating the national allocation for almost two years with an agreement reached in late 2019. Florida's interstate allocation is 7.03%. That allocation is the second largest allocation in the nation ahead of Texas, which is the second largest state. Florida is one of a handful of states whose allocation is greater and greater by a significant percentage above its population (Florida has 6.54% of the United States' population). The only states that have larger gains over their population are the opioid belt states: West Virginia, Kentucky, etc. The interstate allocation is the product of two measures. One calculated by the PEC and the other calculated by the States. The data sets chosen are slightly different (including different years and what measures were selected), but the main difference is that some states demanded that population play a more significant factor in the state allocation and it is not a factor in the PEC calculation. Given how much Florida's allocation percentage is above its population, the need in these settlements to maximize the number of states settling, and the potential litigation risks in the absence of such an agreement, it would be our recommendation that cities and counties accept the interstate allocation.

How much money does the State expect for it and its subdivisions?

It depends. Each of the current or proposed settlements are for different lengths of time and each contain different variability. In Purdue, payments are paid over a ten-year period and vary with the performance of the ongoing business of the new company and payments from third parties. In Mallinckrodt, payment amounts are still being negotiated, but will be paid over seven years and will vary depending on the value of the emerging company seven years later as part of the recovery is warrants in the re-emerged company. In the Distributor and J&J proposed deal, the proposed deal is over eighteen years and the amount paid varies depending on subdivision participation and whether other subdivisions file opioid related litigation in the future. As part of the MOU, the State is willing to seek judicial or legislative action to reduce the variability of the monies, especially in connection with the Distributor and J&J deal. Our current best guess based on projections and assuming total participation is \$120-140M a year for the first few years, \$90-110M a year for the middle years, and then \$60-70M a year for the later years of the deal for the State and its subdivisions. Again, these numbers can and will vary and hopefully will increase if additional settlements are reached.

How are the funds allocated amongst the State and its subdivisions?

This Proposal divides all settlement funds between three funds: (1) the City/County Fund; (2) the Regional Fund; and (3) the State Fund.

The **City/County Fund** consists of 15% of the total settlement amounts allocable to the State of Florida. These funds are distributed to all counties and qualifying municipalities in the State of Florida.

The allocation of the City/County Fund between counties and municipalities is based on a model referred to as the “Negotiation Class Metrics.” This model was developed in the National Prescription Opiate MDL by the PEC, and considers: (1) the amount of opioids shipped to the county; (2) the number of opioid deaths that occurred in that county; and (3) the number of people who suffer opioid use disorder in that county. Allocations between counties and municipalities within each county use historical federal data showing how the specific county and the cities within it have made opioids-related expenditures in the past.

We have attached a spreadsheet to this letter that provides you an estimated amount per year for an amount within each range in the previous question.

The **Regional Fund** consists of a sliding scale between 30% and 40% of the total settlement amounts allocable to the State of Florida, with the largest percentages occurring in the immediate years after settlement and decreasing over time.

These funds are allocated to counties in accordance with the “Negotiating Class Metrics” described above. In the case of counties with a population of over 300,000, and which satisfy other criteria regarding abatement infrastructure, (termed “Qualified Counties”) these funds are provided directly to the county. For the remainder of counties within the State, these funds are provided to the Managing Entity (the entity that the State has contracted with to provide substance abuse treatment) for that county, to be spent on approved purposes within the region that the county is a part.

For Counties with populations greater than 300,000: We encourage you to review the definition of Qualified County in the MOU, so that you can understand the other requirements that you will have to meet. Importantly, the definition of Qualified County requires that you reach an agreement with at least some municipalities (at least 50% of the population) within your county as to how these funds are spent. The requirements of such agreements are subject to further discussion and negotiation.

We have attached a spreadsheet to this letter that provides you an estimated amount per year for an amount within each range in the previous question. The amount will vary for qualified counties depending on how many municipalities in that County: (1) join a settlement; and (2) enter an agreement with a County.

For Counties with populations less than 300,000 or that do not qualify as a Qualified County: Currently, a majority of the monies being utilized to respond to the opioid epidemic in the State flow through Managing Entities located regionally who provide service in each community. When we traveled the state before COVID and had discussions with many of you, most (outside a couple large counties) indicated that they

had a good working relationship with their Managing Entity. Indeed, several indicated that they were already involved with their Managing Entity. The actual dollar amounts annually paid to smaller counties under the contemplated settlement agreements are not substantial enough to support standalone programs. Given that reality, but wanting to maximize services locally, it made sense to have the monies flow through the existing structure to expand services in each county. If there are issues or problems with Managing Entities, we are happy to engage. We are also happy to try and help communities get involved in or engage with their Managing Entity.

We have attached a spreadsheet to this letter that demonstrates the amounts attributable to each county per year for an amount within each range in the previous question.

The **State Fund** consists of the remaining 45% to 55% of the total settlement amounts allocable to the State of Florida, depending on the amount of the Regional Fund above. As with the City/County Fund and Regional Fund, these funds must be spent on Approved Purposes

Why should we agree to this allocation?

The proposed allocation in the MOU is better than the alternative that subdivisions will receive if they do not enter an agreement with the State. Two of the defendants who we have negotiated with, Purdue and Mallinckrodt are now in bankruptcy. In advance of and in connection with those bankruptcies, the states, the PEC, and city and county representatives negotiated a default intrastate allocation and agreed that it will apply unless a state and its cities and counties agree to something else. A Deputy County Attorney for Broward County, Florida, was involved in the negotiations related to Purdue. Something like the Purdue default allocation is currently in the draft connected to the Distributor and J&J deal.

The allocation above is superior for Florida's subdivisions than that default allocation. Indeed, the State offered substantial improvements over those terms from the beginning of the negotiations that led to this MOU. We have attached a copy of the Purdue abatement term sheet for your review. Under that default allocation, there is no city/county fund. Only subdivisions with populations greater than 400,000 people are eligible to receive any monies directly. Almost all the monies will flow through the Managing Entities who are regionally supplying services. The allocation percentages for the regional bucket are dollar based and decrease to half, far more quickly than in the MOU. In other words, the allocation in this MOU allows a far greater recovery directly to each Florida city and county than the alternative and greater recoveries regionally for all subdivisions.

The allocation is also better than the cities and counties would achieve if damages were proportionally allocated. In the Purdue bankruptcy, over one hundred twenty-five Florida subdivisions filed proofs of claims. When the size of those claims is compared to that of the State's claim, the State's claim was more than four, almost five times larger than all the subdivisions' claims combined. Subdivisions are getting substantially more than what their proportional share would be. The State is willing to agree to the larger because it frankly reflects the reality of how monies are currently being spent and is consistent with how the legislature has been appropriating monies to combat this crisis.

If individual subdivisions do not agree to a settlement, what will happen?

If there are hold outs or subdivisions that do not respond, the MOU contemplates that the State will either file a new suit or sever its claims against settling defendants from its existing opioid lawsuit and add political subdivisions and through either a class action mechanism or declaratory relief seek to bar future subdivision claims. Such action is necessary to ensure that the State and any subdivisions that agree to a settlement maximize their recoveries. This not a novel position and there is a substantial body of Florida law that exists that the State may resolve and release public claims including subdivision claims.¹ That being said, the State would prefer that we reach agreement on the allocation under the proposed MOU and handle things consensually. But, if there are holdouts, the State is prepared to litigate or seek legislation from the legislature to ensure that cities and counties that agree to this MOU are protected and will receive the recovery contemplated under the allocation.

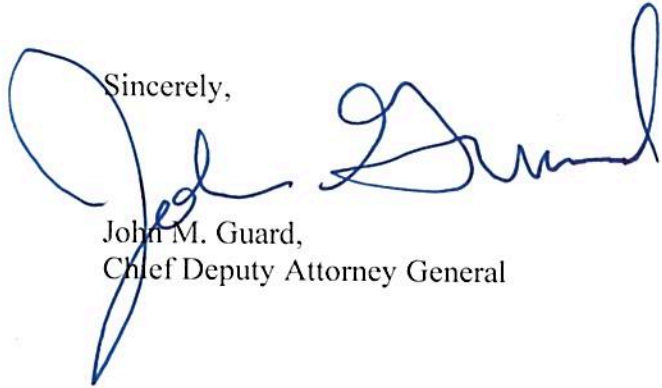
What are the next steps and the timeline?

We would ask that you review the attached MOU and proposed model resolution supporting an agreement on the MOU terms. We will be scheduling calls to answer questions about the MOU. We would ask each subdivision to think about who is attending each session and ensure that any of those discussions will not violate Florida's government-in-the-sunshine law. If you will contact my administrator, Janna Barineau, by e-mail (Janna.Barineau@myfloridalegal.com), we will include you in those discussions. After those discussions, we would then ask that you follow Florida law for approving such a resolution by your commission and in due course, pass it, and return a copy to me at the address on the first page of the letter. Potential settlements are anticipated in the coming weeks or months, but I cannot tell you exactly when a settlement will be finalized. These proposed settlements are

¹ See Fla. Stat. §501.207(1)(c)(authorizing the Attorney General to bring “[a]n action on behalf of one or more consumers or **government entities** for actual damages...” under Florida’s Deceptive and Unfair Trade Practices Act); e.g., *Engle v. Liggett Group, Inc.*, 945 So. 2d 1246, 1258-62 (Fla. 2006); *Young v. Miami Beach Improvement Co.*, 46 So. 2d 26, 30 (Fla. 1950); *Castro v. Sun Bank of Bal Harbour*, 370 So. 2d 392, 393 (Fla. 3d DCA1979); *City of New Port Richey v. State ex rel. O’Malley*, 145 So. 903, 905 (Fla. 2d DCA 1962); also *State of Florida ex rel. Shevin v. Exxon Corp.*, 526 F.2d 266, 275 (5th Cir. 1976) (holding that the Attorney General could file suit seeking damages for injuries sustained by government entities who had not specifically authorized the Attorney General to do so); *Eggers v. City of Key West*, 2007 WL 9702450, at *3 (S.D. Fla. Feb. 26, 2007) (concluding “[a]pplicable Florida law states that a judgment in an action brought against a public entity that adjudicates matters of general interest to the citizens of the jurisdiction is binding on all citizens of that jurisdiction.”); *Aerojet-General Corp. v. Askew*, 366 F. Supp. 901, 908-11 (N.D. Fla. 1973).

anticipated to include provisions which establish time limits on agreements between states and political subdivisions. As a result, we would request that you pass a resolution in the next 60-90 days, if possible.

Sincerely,

A handwritten signature in blue ink, appearing to read "John M. Guard", is written over the typed name and title.

John M. Guard,
Chief Deputy Attorney General

cc: Sarah Woods
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Enc. Proposal with Ex. A and B
Recovery Spreadsheet
Purdue Abatement Term Sheet