

---

# Overview of Cigarette Restitution Fund Support in the Fiscal 2013 Budget

---

## Presentation to the Senate Budget and Taxation Committee

Department of Legislative Services  
Office of Policy Analysis  
Annapolis, Maryland

February 2012

# Cigarette Restitution Fund (CRF) Revenue Sources

- State share (2.26%) of Master Settlement Agreement (MSA) payments adjusted for inflation, volume, and prior settlements.
- State share (3.3%) of Strategic Contribution payments related to the State's contribution toward resolution of lawsuits. Payable between fiscal 2008 through 2017.
- National Arbitration Panel Award.
- Interest and unspent prior year awards.

# Nonparticipating Manufacturers Litigation and Revenues

- Tobacco companies participating in the MSA are in litigation with the states contending that nonparticipating manufacturers (NPM) have increased the market share at their expense because states have not created a level playing field between them and the NPM.
- Tobacco companies may choose to place funding in escrow pending resolution of this issue, an NPM adjustment.
- Beginning in fiscal 2011, the escrow amount increased with an additional participating manufacturer choosing to escrow rather than continuing to make payments pending resolution of the litigation.
- Resolution of litigation is still some time away. Maryland is not expected to have its case heard until fall 2012 and no decision until all State hearings are completed, likely some time in 2013.

# CRF Revenues Have Been Slowly Declining

	<u>2011</u>	<u>Working 2012</u>	<u>Allowance 2013</u>
Beginning Fund Balance	\$2.4	\$3.4	\$0.1
Settlement Payments	133.4	131.3	129.9
NPM and Other Shortfalls in Payments	-20.1	-20.1	-20.1
Awards from Disputed Account	0.0	0.0	0.0
Other Adjustments	35.0	33.6	33.6
<b>Subtotal</b>	<b>\$150.7</b>	<b>\$149.2</b>	<b>\$144.5</b>
Prior Year Recoveries	2.1	1.0	1.0
<b>Total Available Revenue</b>	<b>\$152.8</b>	<b>\$149.2</b>	<b>\$144.5</b>

## BRFA of 2012 Again Diverts Funding from Tobacco Use Cessation and Prevention and Academic Health Center Programs

- ***Tobacco Use Prevention and Cessation Program:*** Fiscal 2013 allowance will be reduced by \$4.1 million if Budget Reconciliation and Financing Act (BRFA) language is adopted to reduce the legislative mandate to align with the fiscal 2012 appropriation.
- ***Statewide Academic Health Centers:*** Fiscal 2013 allowance will be reduced by \$10.6 million if BRFA language is adopted to reduce the legislative mandate to align with the fiscal 2012 appropriation.
- In the Medicaid program, \$14.7 million in general funds are cut contingent on the transfer of CRF funds from Tobacco Use Cessation and Academic Health Centers to Medicaid.

## After BRFA 2012 Adjustments CRF Support for Medicaid Still Declines; Other Programs Largely Level Funded

	<u>2011</u>	<u>Working 2012</u>	<u>Allowance 2013</u>
<b>Health</b>			
Tobacco	\$3.6	\$3.5	\$3.6
Cancer	14.1	14.4	14.4
Substance Abuse	21.1	21.0	21.0
Medicaid	86.7	84.0	79.1
Breast and Cervical Cancer	13.8	15.2	14.7
<b>Subtotal</b>	<b>\$139.2</b>	<b>\$138.1</b>	<b>\$132.8</b>
<b>Other</b>			
Aid to Nonpublic School	\$4.5	\$4.5	\$4.5
Crop Conversion	5.0	5.5	5.1
Attorney General	0.7	0.9	0.9
<b>Subtotal</b>	<b>\$10.2</b>	<b>\$11.0</b>	<b>\$10.6</b>
<b>Total Expenses</b>	<b>\$149.4</b>	<b>\$149.1</b>	<b>\$143.4</b>
<b>Ending Fund Balance</b>	<b>\$3.4</b>	<b>\$0.1</b>	<b>\$1.1</b>

# Governor's CRF Proposal Changes Mandated Funding Levels Revised by the Legislature in the BRFA of 2010 at least for Fiscal 2013

	<u>Original Level</u>	<u>2013 and Beyond as Set by BRFA 2010</u>	<u>2013 Allowance Adjusted by 2012 BRFA</u>	<u>Change from Original Level</u>
<b>tobacco Use Prevention and Cessation</b>	<b>\$21.00</b>	<b>\$10.00</b>	<b>\$6.00</b>	<b>-71.43%</b>
<b>total Statewide Academic Health Centers</b>				
Cancer Research Grants	10.40	13.00	2.40	-76.92%
Tobacco-related Disease Research Grants	2.00	0.00	0.00	
Statewide Network Grants	3.00	0.00	0.00	
<b>total</b>	<b>15.40</b>	<b>13.00</b>	<b>2.40</b>	<b>-84.42%</b>

note: Tobacco Use Prevention and Cessation Funding level includes all funds

# Department of Legislative Services

## Fiscal 2013 CRF-related Recommendations

- Concur with Governor's proposal to transfer funds from the tobacco use cessation and prevention and statewide academic health center programs to Medicaid in order to reduce general fund expenditures by \$14.7 million.