

Department of Legislative Services

Maryland General Assembly

2002 Session

FISCAL NOTE

Senate Bill 736

(Senators Middleton and Dyson)

Budget and Taxation

Cigarette Restitution Fund - Appropriations From Fund

This bill requires that at least 5% of the estimated funds available in the Cigarette Restitution Fund (CRF) in each fiscal year be appropriated to implement the Southern Maryland Regional Strategy-Action Plan for Agriculture.

The bill is effective July 1, 2003.

Fiscal Summary

State Effect: None. The bill codifies existing practice.

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: Implementation of the Southern Maryland Regional Strategy-Action Plan is one of the purposes for which CRF funds may be appropriated. There is no statutory requirement that 5% of the estimated funds available in the CRF be appropriated for implementation of the plan.

Chapter 102 of 2001 authorized \$5 million annually in general obligation bond issuance in fiscal 2003 through 2008, for a total issuance of \$30 million, with the proceeds of the bonds used as a grant to the Tri-County Council of Southern Maryland to assist in implementing the Southern Maryland Regional Strategy-Action Plan for Agriculture.

The Maryland Department of Agriculture must repay the general fund within eight years of issuance for the principal and interest costs of any debt issued. The authorization is to be included in the debt limit recommended by the Capital Debt Affordability Committee.

Background: In November 1998, Maryland along with other states entered into the Master Settlement Agreement (MSA) with tobacco manufacturers. Under the agreement the State will receive annual payments on April 15 of each year for perpetuity or until cigarettes are no longer shipped in the United States for consumption. Through fiscal 2003, the State will also receive an annual payment on January 11 of each year. Beginning in fiscal 2008, and through 2017, the State will receive strategic contribution payments. Currently the legal fees for the outside counsel are in dispute. Until the legal fees are resolved, 25% of every payment is being held in escrow.

Joint Chairmen's Report language for the fiscal 2000 budget specifies that in future years (after fiscal 2001), 5% of the funds available to the CRF are to be appropriated annually for implementation of the Southern Maryland Strategy-Action Plan for Agriculture.

The Southern Maryland Regional Strategy-Action Plan currently has four basic components: buyout programs; infrastructure; agricultural land preservation; and administration. The current plan uses most of the funding for buyout plans. However, the Tri-County Council can change the plan at any time.

State Fiscal Effect: Assuming that all the estimated funds available each year are appropriated, there would be no change in the total amount of expenditures from the CRF. The Department of Budget and Management advises that the bill codifies the existing understanding/commitment to provide 5% of any tobacco settlement receipts for crop conversion.

Exhibit 1 shows, under the Administration's assumptions for the CRF, 5% of the available payment for implementation of the Southern Maryland Regional Strategy-Action Plan for Agriculture. The Administration's assumptions include settlement of the legal fees at a 20% rate paid by the State in fiscal 2004, and annual declines in cigarette consumption of 2%. **Exhibit 1** also shows the 5% calculation if the legal fee issue is not resolved before the end of fiscal 2007.

Exhibit 1
Funds for Implementation at 5% of Available MSA Payments
(\$ in millions)

<u>Fiscal Year</u>	<u>Legal Fee Issue Resolved</u>	<u>Legal Fee Issue Unresolved</u>
2003	\$6.3	\$6.3
2004	7.6	5.5
2005	6.2	5.8
2006	6.0	5.6
2007	6.1	5.7
2008	7.3	6.9

Additional Information

Prior Introductions: None.

Cross File: HB 740 (Delegate Wood) – Appropriations.

Information Source(s): Department of Legislative Services

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ncs/jr

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