

**Department of Legislative Services**  
Maryland General Assembly  
2002 Session  
**FISCAL NOTE**

House Bill 499 (Delegate W Baker, *et al.*)  
Ways and Means

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**Contraband Tobacco Products and Conveyances - Distribution of Sale Proceeds**

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This bill requires that proceeds from the sale of seized and forfeited contraband tobacco products and conveyances be distributed to the Cigarette Restitution Fund (CRF). Of the proceeds distributed to the CRF, 50% are to be spent on the Youth Tobacco Use Prevention and Cessation Program and 50% on the Cancer Prevention, Education, Screening, and Treatment Program.

The bill also provides that seized and forfeited contraband tobacco products may not be sold until one year after the Comptroller of the Treasury obtains possession of the tobacco products, and that seized and forfeited contraband tobacco products may only be sold to a licensed cigarette manufacturer. Any seized and forfeited tobacco products the Comptroller is unable to sell within 18 months must be destroyed.

The bill is effective July 1, 2002.

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**Fiscal Summary**

**State Effect:** General fund revenue decrease of \$350,000 to \$500,000 annually beginning in FY 2003, based on previous sales of contraband tobacco products and conveyances, and a corresponding increase in special fund revenues. Potential increase in special fund expenditures.

**Local Effect:** Potential increase in local revenues and expenditures in connection with the Youth Tobacco Use and Prevention Program and the Cancer Prevention, Education, Screening, and Treatment Program.

**Small Business Effect:** None.

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## Analysis

**Current Law:** The Youth Tobacco Use Prevention and Cessation Program and the Cancer Prevention, Education, Screening, and Treatment Program exist in the Department of Health and Mental Hygiene.

The purpose of the Youth Tobacco Use Prevention and Cessation Program is to reduce the use of tobacco products through education and other programs that are community-based or school-based and the enforcement of tobacco restrictions. The purpose of the Cancer Prevention, Education, Screening, and Treatment Program is to reduce the incidence and mortality of selected cancers through education, screening, and research programs.

Both programs are funded through the annual budget process, using funds available in the Cigarette Restitution Fund. The Cigarette Restitution Fund is a special fund for all payments made by tobacco companies pursuant to the November 1998 tobacco settlement between the states and tobacco companies. The fiscal 2003 budget allowance is \$23.2 million for the tobacco program, and \$34.7 million for the cancer program.

After seizure, contraband tobacco products may be sold to various State institutions, nonprofit organizations, and licensed cigarette wholesalers or manufacturers. Since July 1, 1999, however, it has been the policy of the Comptroller's Office to only sell contraband tobacco products to licensed cigarette wholesalers or manufacturers. The revenue resulting from these sales goes to the State general fund. Since July 1, 1999 contraband tobacco products have been sold for approximately \$991,900, and conveyances for \$6,700.

**State and Local Fiscal Effect:** The actual amount received from the sale of contraband tobacco products and conveyances will depend upon the number and size of contraband seizures and the bids received at auction. Based on prior years' experience and the contraband cigarettes in the possession of the Comptroller of the Treasury, \$350,000 to \$500,000 will be realized at auction each year. The bill will therefore result in a loss to the general fund of an estimated \$350,000 to \$500,000 annually beginning in fiscal 2003. Assuming that these funds would supplement funds that would otherwise be given to the tobacco and cancer programs, special fund revenues and expenditures would increase accordingly. The Comptroller's Office advises that because the tobacco products are held until at least 30 days after any court proceedings, the one-year holding requirement will not affect operations.

## **Additional Information**

**Prior Introductions:** A similar bill, House Bill 287, in the 2001 session passed the House and no action was taken in the Senate.

**Cross File:** None.

**Information Source(s):** Comptroller's Office (Alcohol and Tobacco Tax Division), Maryland State Department of Education, Department of Health and Mental Hygiene, Department of Legislative Services

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