HB 357

Department of Legislative Services

Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE

House Bill 357 (Delegate Rosenberg, *et al.*)
Health and Government Operations and Appropriations

Cigarette Restitution Fund - Required Appropriations

This bill prohibits the Maryland Medical Assistance Program (Medicaid) appropriations from the Cigarette Restitution Fund (CRF) from being counted toward the CRF requirement that at least 50% of all appropriations must be made for specific purposes. This reduces Medicaid appropriations to not more than 50% of total CRF revenues.

The bill takes effect June 1, 2004 and is applicable to all fiscal years beginning with fiscal 2005.

Fiscal Summary

State Effect: No effect in FY 2005 or 2006. General fund expenditures could increase by $8.7 million in FY 2007, $20.6 million in FY 2008, and $21.0 million in FY 2009 to replace CRF expenditures that could not be allocated to Medicaid as a result of this bill. No effect on revenues.

($ in millions)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Revenues	$0	$0	$0	$0	$0
GF Expenditure	0	0	8.7	20.6	21.0
Net Effect	$0	$0	($8.7)	($20.6)	($21.0)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: CRF is a special, nonlapsing fund supported by revenue from a settlement with the five major tobacco companies. The fund supports: the Tobacco Use Prevention and Cessation Program; the Cancer Prevention, Education, Screening, and Treatment Program; and other programs that serve specified purposes. The other programs that may be supported by CRF are: (1) the reduction of tobacco product use by minors; (2) tobacco crop conversion; (3) public and school education campaigns to decrease tobacco use; (4) smoking cessation programs; (5) enforcing tobacco sales laws; (6) the Maryland Health Care Foundation's purposes; (7) primary health care in rural areas and areas targeted by tobacco manufacturers; (8) prevention, treatment, and research concerning cancer, heart disease, lung disease, tobacco product use, and tobacco control; (9) substance abuse treatment and prevention programs; and (10) any other public purpose. At least 50% of CRF funds must be appropriated for one of the first nine purposes. Statute also requires that 25% of CRF appropriations be directed to Medicaid through fiscal 2006.

Background: The State settled its contract dispute with the Law Offices of Peter G. Angelos, P.C. in April 2002 making available $93 million held in escrow pending resolution of the case. The Budget Reconciliation and Financing Act of 2002 stipulated that any disbursement to the State as a result of such a settlement would be credited to the CRF. Futhermore, it required that the first $20 million from the escrow account be dedicated to the CRF's cancer and tobacco programs with the next $73 million dedicated to Medicaid. The increased fiscal 2003 appropriation for the cancer and tobacco programs was ultimately withheld for cost containment; however, the additional $73 million remained in the Medicaid budget, increasing the fiscal 2003 appropriation of cigarette restitution funds to that program to $104 million.

The fiscal 2004 appropriation of cigarette restitution funds to Medicaid was maintained at $107 million. With less total revenue available from the tobacco companies and a smaller fund balance at the beginning of the fiscal year, funding for several programs was reduced to maintain level Medicaid spending from fiscal 2003 to 2004. Had CRF support for Medicaid decreased over that period, the State would have had to find an offsetting amount of general funds to compensate.

CRF-funded programs, including cancer and tobacco programs and Medicaid, are expected to decline by $54 million for fiscal 2005 as Medicaid costs are shifted to the general fund. Future reductions may be necessary should revenues come in under expectations due to declines in domestic tobacco consumption, a possibility given the recent combination of smoking prevention activities and tobacco tax increases nationwide.

CRF expenditures for Medicaid currently can be counted toward meeting the CRF mandate that 50% of the funds must be used for specified purposes.

State Fiscal Effect: In fiscal 2005, Medicaid is slated to receive $50.5 million in CRF funds (43% of the total $116.8 million CRF budget allowance). In fiscal 2006, the Department of Legislative Services (DLS) assumes the CRF budget appropriation will be $143.3 million with $30 million of this amount paid to the Law Offices of Peter Angelos as required by State settlement. As a result, total CRF funds available for State expenditures would be $113.3 million in fiscal 2006, increasing to $146.9 million in fiscal 2007, $173.4 million in fiscal 2008, and $174.5 million in fiscal 2009.

Since Medicaid may not receive more than 50% of CRF funds in fiscal 2005 and beyond, enactment of this bill would not have an effect in fiscal 2005 (45% of the CRF funds are slated for Medicaid) nor fiscal 2006 (41% of the CRF funds are slated for Medicaid). From fiscal 2007 through 2009, Medicaid general fund expenditures would have to increase to replace CRF expenditures that could not be made for Medicaid. Medicaid general fund expenditures could increase by: $8.7 million in fiscal 2007; $20.6 million in fiscal 2008; and $21.0 million in fiscal 2009.

Additional Information

Prior Introductions: A similar bill, HB 247, was introduced in the 2003 session. The bill had a hearing in the Health and Government Operations and Appropriations committees. No further action was taken.

Cross File: None.

Information Source(s): Department of Health and Mental Hygiene, Department of Legislative Services

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