

# FISCAL NOTE

No. 1

STATE OF ALASKA  
1999 LEGISLATIVE SESSION

Bill Version: SBB4  
(S) Publish Date: 2/19/99

Revision Date/Time (Note if correction)	Dept. Affected <u>Law</u>
Title <u>"... to a settlement agreement between certain tobacco product manufacturers and the state ..."</u>	BRU <u>Civil Division</u>
Sponsor <u>Rules Committee</u>	Component <u>Fair Business Practices</u>
Requester <u>Governor</u>	Component Serial No. <u>2206</u>

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY99) cost: \_\_\_\_\_

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** *(Attach a separate page if necessary)*

This legislation implements a provision of the Master Settlement Agreement (MSA) between 46 states, including Alaska, and certain United States tobacco product manufacturers. That agreement, which was a final settlement of the states' litigation with the major tobacco manufacturers, was signed on November 23, 1998. Under the terms of the settlement, Alaska will receive \$670 million over the next 25 years to help offset the financial burdens imposed on the state by cigarette smoking. In addition to the monetary provisions, the settlement requires fundamental and far-ranging changes in the tobacco industry's business practices, advertising, and marketing.

This legislation, referred to in the MSA as the "model (or qualifying) statute," creates a reserve fund for nonparticipating manufacturers to pay future claims and is intended to level the playing field between the manufacturers who participated in the MSA (or sign on to it in the future) and those who did not. It is intended to neutralize the cost

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Agency <u>Department of Law</u>	

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**ANALYSIS CONTINUATION**

disadvantages that the participating manufacturers experience (relative to the nonparticipating manufacturers) as a result of the MSA. It requires the nonparticipating manufacturers that sell tobacco products in the state and are not signators of the MSA to establish escrow accounts to pay for qualified claims for health-related concerns tied to their sales of tobacco products in the state.

Alaska does not need to pass the model/qualifying statute in order to receive payments under the Master Settlement Agreement, but failure to enact it could result in a significant reduction (as much as 65 percent) in the state's allotment under the agreement in the future. If a state does not pass the model statute, the MSA provides for an adjustment to that state's payments if the participating manufacturers, as a result of the marketing restrictions, payments, and other restrictions in the settlement, experience a disadvantage and lose market share for sales of their tobacco products to nonparticipating manufacturers. However, under the terms of the MSA, if a state passes the model statute and enforces it, it will be exempt from any payment reductions, even if the settlement was a significant factor contributing to the participating manufacturers' loss of market share.

Under terms of the legislation, a tobacco product manufacturer selling cigarettes in the state must either become a participating manufacturer or place a set amount into an escrow account for each unit sold in the state. The Commissioner of Revenue will be responsible for receiving certification that the manufacturer is in compliance with the terms of the legislation, and the Attorney General will be responsible for bringing a civil action against a non-complying manufacturer. It is impossible to predict whether nonparticipating manufacturers will enter the Alaska market and whether there will be a need for the Attorney General to take legal action against companies that do not comply with the terms of the statute. At this time, however, we do not anticipate additional costs related to enforcing the legislation.