

SB 5539 BUDGET REPORT and MEASURE SUMMARY

Joint Committee On Ways and Means

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Department of Administrative Services

2017-19

PRELIMINARY

Summary of Revenue Changes

On November 23, 1998 46 states and the four largest United States tobacco manufacturers, Philip Morris Incorporated, R. J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation, and Lorillard Tobacco Company, collectively known as the Original Participating Manufacturers (OPMs) entered into an agreement known as the Master Settlement Agreement (MSA). For release from past and present smoking- related claims by the states and for a continuing release of future smoking-related claims, the OPMs agreed to make annual payments to the states in perpetuity. The MSA requires that the MSA Escrow Agent distribute the annual payments on or before April 15 of each calendar year. The size of the annual payments is subject to numerous adjustments as outlined in the MSA. The OPMs also agreed to the imposition of certain tobacco advertising and marketing restrictions.

The State of Oregon revenues are deposited to the Tobacco Settlement Funds Account administered by the Department of Administrative Services (DAS). Senate Bill 5539 allocates the funds available from the account. The amounts outlined in this bill are based on resources projected to be available for the 2017-19 biennium. As actual amounts vary, the allocations or distributions set forth within could also vary.

The Subcommittee approved the following allocations from the Tobacco Settlement Funds Account:

- \$30,906,415 is allocated to the Department of Administrative Services, Oregon Health and Science University Bond Fund to pay debt service and administrative fees on the Oregon Opportunity Bonds.
- \$3,564,100 is allocated to the Department of Education for physical education related grants authorized by ORS 329.501.
- \$13,841,200 is allocated to the Oregon Health Authority for community mental health programs
- \$154,844,700 is allocated to the Oregon Health Authority for the Oregon Health Plan.

ORS 293.537 authorizes DAS to transfer sufficient funds from the Tobacco Settlement Funds Account (MSA) for the enforcement of ORS 180.400 to 180.455. The Department of Justice's 2017-19 budget includes \$1,822,901 in associated Other Funds expenditure limitation (HB 5015). The agency will expend approximately \$1.5 million per biennium for the enforcement of the Non-Participating Manufacturing (NPM) requirements under the MSA, which includes a DOJ lawyer, paralegal, investigator/auditor, and part of an administrator position. This program certifies tobacco product manufacturers and maintains a directory of all compliant tobacco products that can be sold in Oregon, monitors quarterly escrow payments by NPMs, coordinates with the Department of Revenue on distributor cigarette sales, and performs other compliance duties directed by statute. The agency will expend an additional \$343,788 for two Compliance Specialist 1 positions to work as field inspectors assisting the program in gathering information for distributor audits, coordinating with the Department of Revenue to inspect Oregon's nearly 4,000 retail locations, provide compliance training to Oregon-licensed distributors and retailers, and assisting DOJ's investigator/auditor with records review. The agency can request further resources for the enforcement activities, but must get approval of the Department of Administrative Services and an increase in expenditure limitation approved by the Legislature or Emergency Board.

Summary of Capital Construction Subcommittee Action

No expenditure limitation is given with this bill. The expenditure limitation for the Tobacco Settlement revenues allocated in this bill are contained in the identified agency budgets and expended as Other Funds.