

HOUSE SUBSTITUTE FOR
SENATE BILL NO. 472

A bill to amend 1999 PA 244, entitled

"An act to require tobacco product manufacturers to place funds in escrow for medical expenses incurred by the state due to tobacco related illnesses; to establish a formula for determining the amount of the escrow; to establish the conditions for release of funds from escrow; to prescribe powers and duties of the attorney general; and to provide for civil penalties for violation of this act,"

by amending sections 1 and 2 (MCL 445.2051 and 445.2052), section 2 as amended by 2003 PA 286.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1 Sec. 1. As used in this act:

2 (a) "Adjusted for inflation" means increased in accordance
3 with the formula for inflation adjustment set forth in Exhibit C to
4 the master settlement agreement.

5 (b) "Affiliate" means a person who directly or indirectly owns

1 or controls, is owned or controlled by, or is under common
2 ownership or control with, another person. Solely for purposes of
3 this definition, the terms "owns", "is owned", and "ownership" mean
4 ownership of an equity interest, or the equivalent thereof, of 10%
5 or more, and the term "person" means an individual, partnership,
6 committee, association, corporation, or any other organization or
7 group of persons.

8 (c) "Allocable share" means that term as defined in the master
9 settlement agreement.

10 (d) "Cigarette" means any product that contains nicotine, is
11 intended to be burned or heated under ordinary conditions of use,
12 and consists of or contains (i) any roll of tobacco wrapped in
13 paper or in any substance not containing tobacco; or (ii) tobacco,
14 in any form, that is functional in the product, which, because of
15 its appearance, the type of tobacco used in the filler, or its
16 packaging and labeling, is likely to be offered to, or purchased
17 by, consumers as a cigarette; or (iii) any roll of tobacco wrapped
18 in any substance containing tobacco which, because of its
19 appearance, the type of tobacco used in the filler, or its
20 packaging and labeling, is likely to be offered to, or purchased
21 by, consumers as a cigarette described in clause (i) of this
22 definition. The term "cigarette" includes "roll-your-own" (i.e.,
23 any tobacco which, because of its appearance, type, packaging, or
24 labeling is suitable for use and likely to be offered to, or
25 purchased by, consumers as tobacco for making cigarettes). For
26 purposes of this definition of "cigarette", 0.09 ounces of "roll-
27 your-own" tobacco shall constitute 1 individual "cigarette".

1 (e) "Inflation adjustment" means that term as defined in the
2 master settlement agreement.

3 (f) "Master settlement agreement" means the settlement
4 agreement (and related documents) entered into on November 23,
5 1998, and incorporated into a consent decree and final judgment
6 entered into on December 7, 1998, in Kelley Ex Rel. Michigan v
7 Philip Morris Incorporated, et al., Ingham ~~county~~ **COUNTY** circuit
8 court, docket no. 96-84281CZ.

9 (g) "Original participating manufacturer" means that term as
10 defined in the master settlement agreement.

11 (h) "Participating manufacturer" means that term as defined in
12 the master settlement agreement.

13 (i) "Qualified escrow fund" means an escrow arrangement with a
14 federally or state chartered financial institution having no
15 affiliation with any tobacco product manufacturer and having assets
16 of at least \$1,000,000,000.00 where such arrangement requires that
17 such financial institution hold the escrowed funds' principal for
18 the benefit of releasing parties and prohibits the tobacco product
19 manufacturer placing the funds into escrow from using, accessing,
20 or directing the use of the funds' principal except as consistent
21 with section 2(2) of this act.

22 (j) "Released claims" means that term as defined in the master
23 settlement agreement.

24 (k) "Releasing parties" means that term as defined in the
25 master settlement agreement.

26 (l) "Tobacco product manufacturer" means an entity that after
27 the date of enactment of this act directly (and not exclusively

1 through any affiliate) meets 1 or more of the following:

2 (i) Manufactures cigarettes anywhere that such manufacturer
3 intends to be sold in the United States, including cigarettes
4 intended to be sold in the United States through an importer
5 (except where such importer is an original participating
6 manufacturer that will be responsible for the payments under the
7 master settlement agreement with respect to such cigarettes as a
8 result of the provisions of subsection II(mm) of the master
9 settlement agreement and that pays the taxes specified in
10 subsection II(z) of the master settlement agreement, and provided
11 that the manufacturer of such cigarettes does not market or
12 advertise such cigarettes in the United States).

13 (ii) Is the first purchaser anywhere for resale in the United
14 States of cigarettes manufactured anywhere that the manufacturer
15 does not intend to be sold in the United States.

16 (iii) Becomes a successor of an entity described in
17 subparagraph (i) or (ii).

18 (m) The term "tobacco product manufacturer" as defined in
19 subdivision (l) does not include an affiliate of a tobacco product
20 manufacturer unless the affiliate itself falls within 1 or more of
21 subdivision (l) (i) to (iii).

22 (n) "Units sold" means the number of individual cigarettes
23 sold in the state by the applicable tobacco product manufacturer
24 (whether directly or through a distributor, retailer, or similar
25 intermediary or intermediaries) during the year in question, as
26 measured by excise taxes collected by the state on packs (or "roll-
27 your-own" tobacco containers) bearing the excise tax stamp of the

state. **UNITS SOLD SHALL ALSO INCLUDE THE NUMBER OF INDIVIDUAL CIGARETTES SOLD IN THE STATE BY THE APPLICABLE TOBACCO PRODUCT MANUFACTURER (WHETHER DIRECTLY OR THROUGH A DISTRIBUTOR, RETAILER, OR SIMILAR INTERMEDIARY OR INTERMEDIARIES) DURING THE YEAR IN QUESTION, AS TO WHICH THE STATE HAD POWER TO UNDER FEDERAL LAW, BUT DID NOT, IMPOSE OR COLLECT AN EXCISE TAX.** The department of treasury ~~shall~~ **MAY** promulgate such ~~regulations~~ **RULES** as are necessary to ascertain the amount of ~~state excise tax paid on the cigarettes~~ **UNITS SOLD** of such tobacco product manufacturer for each year.

Sec. 2. (1) Any tobacco product manufacturer selling cigarettes to consumers within the state (whether directly or through a distributor, retailer, or similar intermediary or intermediaries) after the date of enactment of this act shall do 1 of the following:

(a) Become a participating manufacturer and generally perform its financial obligations under the master settlement agreement.

(b) Place into a qualified escrow fund ~~by April 15 of the year following the year in question~~ the following amounts (as such amounts are adjusted for inflation):

(i) 1999: \$.0094241 per unit sold after the date of enactment of this act.

(ii) 2000: \$.0104712 per unit sold.

(iii) For each of 2001 and 2002: \$.0136125 per unit sold.

(iv) For each of 2003 through 2006: \$.0167539 per unit sold.

(v) For each of 2007 and each year thereafter: \$.0188482 per unit sold.

1 (2) THE ESCROW FUND DEPOSITS REQUIRED BY THIS SECTION SHALL BE
2 MADE IN QUARTERLY INSTALLMENTS FOLLOWING THE QUARTER IN WHICH SALES
3 TOOK PLACE. FOR PURPOSES OF THIS SECTION, THE CALENDAR YEAR SHALL
4 BE DIVIDED INTO THE FOLLOWING QUARTERS: JANUARY 1 THROUGH MARCH 31;
5 APRIL 1 THROUGH JUNE 30; JULY 1 THROUGH SEPTEMBER 30; AND OCTOBER 1
6 THROUGH DECEMBER 31. DEPOSITS FOR SALES FOR EACH QUARTER SHALL BE
7 MADE ACCORDING TO THE FOLLOWING SCHEDULE:

8 (A) DEPOSITS FOR SALES OCCURRING IN THE FIRST QUARTER, JANUARY
9 1 THROUGH MARCH 31, ARE DUE APRIL 30 OF THE SAME YEAR. A
10 CERTIFICATION OF THE FIRST QUARTER DEPOSIT SHALL BE FILED WITH THE
11 DEPARTMENT OF TREASURY NO LATER THAN MAY 15 OF THE SAME YEAR.

12 (B) DEPOSITS FOR SALES OCCURRING IN THE SECOND QUARTER, APRIL
13 1 THROUGH JUNE 30, ARE DUE JULY 31 OF THE SAME YEAR. A
14 CERTIFICATION OF THE SECOND QUARTER DEPOSIT MUST BE FILED WITH THE
15 DEPARTMENT OF TREASURY NO LATER THAN AUGUST 15 OF THE SAME YEAR.

16 (C) DEPOSITS FOR SALES OCCURRING IN THE THIRD QUARTER, JULY 1
17 THROUGH SEPTEMBER 30, ARE DUE OCTOBER 31 OF THE SAME YEAR. A
18 CERTIFICATION OF THE THIRD QUARTER DEPOSIT SHALL BE FILED WITH THE
19 DEPARTMENT OF TREASURY NO LATER THAN NOVEMBER 15 OF THE SAME YEAR.

20 (D) DEPOSITS FOR SALES OCCURRING IN THE FOURTH QUARTER,
21 OCTOBER 1 THROUGH DECEMBER 31, ARE DUE JANUARY 31 OF THE FOLLOWING
22 YEAR. A CERTIFICATION OF THE FOURTH QUARTER DEPOSIT SHALL BE FILED
23 WITH THE DEPARTMENT OF TREASURY NO LATER THAN FEBRUARY 15 OF THE
24 YEAR FOLLOWING THE YEAR IN WHICH THE CIGARETTES WERE SOLD.

25 (3) FOR EACH OF THE QUARTERS, THE QUARTERLY DEPOSIT SHALL BE
26 BASED UPON UNITS SOLD IN THAT QUARTER TOGETHER WITH THE INFLATION
27 ADJUSTMENT PROVIDED BY THE DEPARTMENT OF TREASURY. AN ANNUAL

1 RECONCILIATION DEPOSIT SHALL BE MADE ON OR BEFORE APRIL 15 OF THE
2 YEAR FOLLOWING THE YEAR IN WHICH THE CIGARETTES WERE SOLD TO
3 ACCOUNT FOR THE ACTUAL ANNUAL INFLATION ADJUSTMENT. A STATEMENT OF
4 THE RECONCILIATION DEPOSIT AND THE FINAL RECONCILED DEPOSIT FIGURES
5 SHALL BE INCLUDED WITH THE ANNUAL CERTIFICATION, DUE ON OR BEFORE
6 APRIL 30 OF THE YEAR FOLLOWING THE YEAR IN WHICH THE CIGARETTES
7 WERE SOLD. ADDITIONALLY, THE ANNUAL CERTIFICATION REQUIRED UNDER
8 SECTION 6D OF THE TOBACCO PRODUCT TAX ACT, 1993 PA 327, MCL
9 205.426D, SHALL INCLUDE THE FINAL RECONCILED DEPOSIT FIGURES.

10 (4) ~~(2)~~—A tobacco product manufacturer that places funds into
11 escrow pursuant to subsection (1)(b) shall receive the interest or
12 other appreciation on the funds as earned. The funds themselves
13 shall be released from escrow only under 1 or more of the following
14 circumstances:

15 (a) To pay a judgment or settlement on any released claim
16 brought against the tobacco product manufacturer by the state or
17 any releasing party located or residing in the state. Funds shall
18 be released from escrow under this subdivision in the order in
19 which they were placed into escrow and only to the extent and at
20 the time necessary to make payments required under such judgment or
21 settlement.

22 (b) To the extent that a tobacco product manufacturer
23 establishes that the amount it was required to place into escrow on
24 account of units sold in the state in a particular year was greater
25 than the master settlement agreement payments, as determined
26 pursuant to section IX(i) of that agreement including after final
27 determination of all adjustments, that such manufacturer would have

1 been required to make on account of such units sold had it been a
2 participating manufacturer, the excess shall be released from
3 escrow and revert back to such tobacco product manufacturer.

4 (c) To the extent not released from escrow under subdivision
5 (a) or (b), funds shall be released from escrow and revert back to
6 such tobacco product manufacturer 25 years after the date on which
7 they were placed into escrow.

8 (d) If a court of competent jurisdiction determines that
9 subdivision (b) as amended by the amendatory act that added this
10 subdivision is unconstitutional, subdivision (b) does not apply.

11 (5) ~~(3)~~—Each tobacco product manufacturer that elects to place
12 funds into escrow pursuant to subsection (1)(b) shall ~~annually~~ **ON A**
13 **QUARTERLY AND ANNUAL BASIS** certify to the department of treasury
14 that it is in compliance with this section. The attorney general
15 may bring a civil action on behalf of the state against any tobacco
16 product manufacturer that fails to place into escrow the funds
17 required under this section. Any tobacco product manufacturer that
18 fails ~~in any year~~ to place into escrow the funds required under
19 this section shall be subject to all of the following that are
20 applicable:

21 (a) Shall be required within 15 days to place sufficient funds
22 into escrow to bring it into compliance with this section. The
23 court, upon a finding of a violation of this subsection, may impose
24 a civil penalty to be paid to the general fund of the state in an
25 amount not to exceed 5% of the amount improperly withheld from
26 escrow per day of the violation and in a total amount not to exceed
27 100% of the original amount improperly withheld from escrow.

1 (b) In the case of a knowing violation, shall be required
2 within 15 days to place sufficient funds into escrow to bring it
3 into compliance with this section. The court, upon a finding of a
4 knowing violation of this subsection, may impose a civil penalty to
5 be paid to the general fund of this state in an amount not to
6 exceed 15% of the amount improperly withheld from escrow per day of
7 the violation and in a total amount not to exceed 300% of the
8 original amount improperly withheld from escrow.

9 (c) In the case of a second knowing violation, shall be
10 prohibited from selling cigarettes to consumers within the state
11 (whether directly or through a distributor, retailer, or similar
12 intermediary) for a period not to exceed 2 years.

13 (6) ~~(4)~~ For purposes of subsection ~~(3)~~, ~~(5)~~, each failure to
14 make **A QUARTERLY OR** an annual deposit required under subsection
15 (1)(b) shall constitute a separate violation.

16 (7) ~~(5)~~ If, following a court determination described in
17 subsection ~~(2)(d)~~, ~~(4)(D)~~, a court of competent jurisdiction
18 determines that subsection ~~(2)(4)~~ without subsection ~~(2)(b)~~ ~~(4)(B)~~
19 is unconstitutional, then this subsection applies. A tobacco
20 product manufacturer that places funds into escrow pursuant to
21 subsection (1)(b) shall receive the interest or other appreciation
22 on the funds as earned. The funds themselves shall be released from
23 escrow only under 1 or more of the following circumstances:

24 (a) To pay a judgment or settlement on any released claim
25 brought against the tobacco product manufacturer by the state or
26 any releasing party located or residing in the state. Funds shall
27 be released from escrow under this subdivision in the order in

1 which they were placed into escrow and only to the extent and at
2 the time necessary to make payments required under such judgment or
3 settlement.

4 (b) To the extent that a tobacco product manufacturer
5 establishes that the amount it was required to place into escrow in
6 a particular year was greater than the state's allocable share of
7 the total payments that such manufacturer would have been required
8 to make in that year under the master settlement agreement (as
9 determined pursuant to section IX(i)(2) of the master settlement
10 agreement, and before any of the adjustments or offsets described
11 in section IX(i)(3) of the master settlement agreement other than
12 the inflation adjustment) had it been a participating manufacturer,
13 the excess shall be released from escrow and revert back to such
14 tobacco product manufacturer.

15 (c) To the extent not released from escrow under subdivision
16 (a) or (b), funds shall be released from escrow and revert back to
17 such tobacco product manufacturer 25 years after the date on which
18 they were placed into escrow.

19 **(8) NOTWITHSTANDING SUBSECTION (4), A TOBACCO PRODUCT**
20 **MANUFACTURER THAT ELECTS TO PLACE FUNDS INTO ESCROW PURSUANT TO**
21 **SUBSECTION (1)(B) MAY MAKE AN IRREVOCABLE ASSIGNMENT OF ITS**
22 **INTEREST IN THE FUNDS TO THE BENEFIT OF THE STATE. SUCH ASSIGNMENT**
23 **SHALL BE PERMANENT AND APPLY TO ALL FUNDS IN THE SUBJECT ESCROW**
24 **ACCOUNT OR THAT MAY SUBSEQUENTLY COME INTO THE ACCOUNT, INCLUDING**
25 **THOSE DEPOSITED INTO THE ESCROW ACCOUNT PRIOR TO THE ASSIGNMENT**
26 **BEING EXECUTED, THOSE DEPOSITED INTO THE ESCROW ACCOUNT AFTER THE**
27 **ASSIGNMENT IS EXECUTED, AND INTEREST OR OTHER APPRECIATION ON THE**

1 FUNDS. THE TOBACCO PRODUCT MANUFACTURER, THE MICHIGAN DEPARTMENT OF
2 TREASURY, AND THE FINANCIAL INSTITUTION WHERE THE ESCROW ACCOUNT IS
3 MAINTAINED MAY MAKE SUCH AMENDMENTS TO THE QUALIFIED ESCROW ACCOUNT
4 AGREEMENT AS MAY BE NECESSARY TO EFFECTUATE AN ASSIGNMENT OF RIGHTS
5 EXECUTED PURSUANT TO THIS SUBSECTION OR A WITHDRAWAL OF FUNDS FROM
6 THE ESCROW ACCOUNT PURSUANT TO SUBSECTION (4). AN ASSIGNMENT OF
7 RIGHTS EXECUTED PURSUANT TO THIS SECTION SHALL BE IN WRITING,
8 SIGNED BY A DULY AUTHORIZED REPRESENTATIVE OF THE TOBACCO PRODUCTS
9 MANUFACTURER MAKING THE ASSIGNMENT, AND SHALL BECOME EFFECTIVE UPON
10 DELIVERY OF THE ASSIGNMENT TO THE MICHIGAN DEPARTMENT OF TREASURY
11 AND THE FINANCIAL INSTITUTION WHERE THE ESCROW ACCOUNT IS
12 MAINTAINED.

13 (9) NOTWITHSTANDING SUBSECTION (4), ANY ESCROW FUNDS ASSIGNED
14 TO THE STATE PURSUANT TO SUBSECTION (1)(A) SHALL BE WITHDRAWN BY
15 THE STATE UPON THE REQUEST BY THE TREASURER AND APPROVAL OF THE
16 ATTORNEY GENERAL. ANY FUNDS WITHDRAWN PURSUANT TO THIS SUBSECTION
17 SHALL BE DEPOSITED INTO THE GENERAL FUND AND SHALL BE CALCULATED ON
18 A DOLLAR-FOR-DOLLAR BASIS AS A CREDIT AGAINST ANY JUDGMENT OR
19 SETTLEMENT DESCRIBED IN SUBSECTION (4) WHICH MAY BE OBTAINED
20 AGAINST THE TOBACCO PRODUCT MANUFACTURER WHO HAS ASSIGNED THE FUNDS
21 IN THE SUBJECT ESCROW ACCOUNT. NOTHING IN THIS SECTION SHALL BE
22 CONSTRUED TO RELIEVE A TOBACCO PRODUCT MANUFACTURER FROM ANY PAST,
23 CURRENT, OR FUTURE OBLIGATIONS THE MANUFACTURER MAY HAVE PURSUANT
24 TO THIS ACT.

25 (10) ~~(6)~~—If this act or any portion of the amendatory act that
26 added this subsection is held by a court of competent jurisdiction
27 to be unconstitutional, the remaining portions of this act shall

1 continue in full force and effect.

2 Enacting section 1. This amendatory act takes effect 90 days
3 after the date it is enacted into law.