

**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
6 or controls, is owned or controlled by, or is under common
7 ownership or control with, another person. Solely for purposes of

1 this definition, the terms "owns", "is owned", and "ownership" mean
2 ownership of an equity interest, or the equivalent thereof, of 10%
3 or more, and the term "person" means an individual, partnership,
4 committee, association, corporation, or any other organization or
5 group of persons.

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

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

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

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

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

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

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

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

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

24 (l) "Tobacco product manufacturer" means an entity that after
25 the date of enactment of this act directly (and not exclusively
26 through any affiliate) meets 1 or more of the following:

27 (i) Manufactures cigarettes anywhere that such manufacturer

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

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

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

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

20 (n) "Units sold" means the number of individual cigarettes
21 sold in the state by the applicable tobacco product manufacturer
22 (whether directly or through a distributor, retailer, or similar
23 intermediary or intermediaries) during the year in question, as
24 measured by excise taxes collected by the state on packs (or "roll-
25 your-own" tobacco containers) bearing the excise tax stamp of the
26 state. **UNITS SOLD SHALL ALSO INCLUDE THE NUMBER OF INDIVIDUAL**
27 **CIGARETTES SOLD IN THE STATE BY THE APPLICABLE TOBACCO PRODUCT**

1 MANUFACTURER (WHETHER DIRECTLY OR THROUGH A DISTRIBUTOR, RETAILER,
 2 OR SIMILAR INTERMEDIARY OR INTERMEDIARIES) DURING THE YEAR IN
 3 QUESTION, AS TO WHICH THE STATE HAD POWER TO UNDER FEDERAL LAW, BUT
 4 DID NOT, IMPOSE OR COLLECT AN EXCISE TAX. The department of
 5 treasury ~~shall~~ MAY promulgate such ~~regulations~~ RULES as are
 6 necessary to ascertain the amount of ~~state excise tax paid on the~~
 7 ~~cigarettes~~ UNITS SOLD of such tobacco product manufacturer for each
 8 year.

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

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

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

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

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

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

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

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

26 (2) THE ESCROW FUND DEPOSITS REQUIRED BY THIS SECTION SHALL BE
 27 MADE IN QUARTERLY INSTALLMENTS FOLLOWING THE QUARTER IN WHICH SALES

1 TOOK PLACE. FOR PURPOSES OF THIS SECTION, THE CALENDAR YEAR SHALL
2 BE DIVIDED INTO THE FOLLOWING QUARTERS: JANUARY 1 THROUGH MARCH 31;
3 APRIL 1 THROUGH JUNE 30; JULY 1 THROUGH SEPTEMBER 30; AND OCTOBER 1
4 THROUGH DECEMBER 31. DEPOSITS FOR SALES FOR EACH QUARTER SHALL BE
5 MADE ACCORDING TO THE FOLLOWING SCHEDULE:

6 (A) DEPOSITS FOR SALES OCCURRING IN THE FIRST QUARTER, JANUARY
7 1 THROUGH MARCH 31, ARE DUE APRIL 30 OF THE SAME YEAR. A
8 CERTIFICATION OF THE FIRST QUARTER DEPOSIT SHALL BE FILED WITH THE
9 DEPARTMENT OF TREASURY NO LATER THAN MAY 15 OF THE SAME YEAR.

10 (B) DEPOSITS FOR SALES OCCURRING IN THE SECOND QUARTER, APRIL
11 1 THROUGH JUNE 30, ARE DUE JULY 31 OF THE SAME YEAR. A
12 CERTIFICATION OF THE SECOND QUARTER DEPOSIT MUST BE FILED WITH THE
13 DEPARTMENT OF TREASURY NO LATER THAN AUGUST 15 OF THE SAME YEAR.

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

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

23 (3) FOR EACH OF THE QUARTERS, THE QUARTERLY DEPOSIT SHALL BE
24 BASED UPON UNITS SOLD IN THAT QUARTER TOGETHER WITH THE INFLATION
25 ADJUSTMENT PROVIDED BY THE DEPARTMENT OF TREASURY. AN ANNUAL
26 RECONCILIATION DEPOSIT SHALL BE MADE ON OR BEFORE APRIL 15 OF THE
27 YEAR FOLLOWING THE YEAR IN WHICH THE CIGARETTES WERE SOLD TO

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

8 (4) ~~(2)~~—A tobacco product manufacturer that places funds into
9 escrow pursuant to subsection (1)(b) shall receive the interest or
10 other appreciation on the funds as earned. The funds themselves
11 shall be released from escrow only under 1 or more of the following
12 circumstances:

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

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

1 escrow and revert back to such tobacco product manufacturer.

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

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

9 (5) ~~(3)~~—Each tobacco product manufacturer that elects to place
10 funds into escrow pursuant to subsection (1)(b) shall ~~annually~~ **ON A**
11 **QUARTERLY AND ANNUAL BASIS** certify to the department of treasury
12 that it is in compliance with this section. The attorney general
13 may bring a civil action on behalf of the state against any tobacco
14 product manufacturer that fails to place into escrow the funds
15 required under this section. Any tobacco product manufacturer that
16 fails ~~in any year~~ to place into escrow the funds required under
17 this section shall be subject to all of the following that are
18 applicable:

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

26 (b) In the case of a knowing violation, shall be required
27 within 15 days to place sufficient funds into escrow to bring it

1 into compliance with this section. The court, upon a finding of a
 2 knowing violation of this subsection, may impose a civil penalty to
 3 be paid to the general fund of this state in an amount not to
 4 exceed 15% of the amount improperly withheld from escrow per day of
 5 the violation and in a total amount not to exceed 300% of the
 6 original amount improperly withheld from escrow.

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

11 (6) ~~(4)~~ For purposes of subsection ~~(3)~~, ~~(5)~~, each failure to
 12 make **A QUARTERLY OR** an annual deposit required under subsection
 13 (1)(b) shall constitute a separate violation.

14 (7) ~~(5)~~ If, following a court determination described in
 15 subsection ~~(2)(d)~~, ~~(4)(D)~~, a court of competent jurisdiction
 16 determines that subsection ~~(2)~~ ~~(4)~~ without subsection ~~(2)(b)~~ ~~(4)(B)~~
 17 is unconstitutional, then this subsection applies. A tobacco
 18 product manufacturer that places funds into escrow pursuant to
 19 subsection (1)(b) shall receive the interest or other appreciation
 20 on the funds as earned. The funds themselves shall be released from
 21 escrow only under 1 or more of the following circumstances:

22 (a) To pay a judgment or settlement on any released claim
 23 brought against the tobacco product manufacturer by the state or
 24 any releasing party located or residing in the state. Funds shall
 25 be released from escrow under this subdivision in the order in
 26 which they were placed into escrow and only to the extent and at
 27 the time necessary to make payments required under such judgment or

1 settlement.

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

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

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

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

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

23 (10) ~~(6)~~—If this act or any portion of the amendatory act that
24 added this subsection is held by a court of competent jurisdiction
25 to be unconstitutional, the remaining portions of this act shall
26 continue in full force and effect.