

**FISCAL ESTIMATE FORM**

**1999 Session**

- ORIGINAL     UPDATED  
 CORRECTED     SUPPLEMENTAL

**LRB # 1661/2**

**INTRODUCTION # SB 122**

**Admin. Rule #**

**Subject**  
**Tobacco Product Manufacturers Agreement**

**Fiscal Effect**

**State:**  No State Fiscal Effect  
 Check columns below only if bill makes a direct appropriation or affects a sum sufficient appropriation

- Increase Existing Appropriation     Increase Existing Revenues  
 Decrease Existing Appropriation     Decrease Existing Revenues  
 Create New Appropriation

- Increase Costs - May be Possible to Absorb  
 Within Agency's Budget  Yes  No  
 Decrease Costs

**Local:**  No Local Government Costs

1.  Increase Costs  
 Permissive  Mandatory  
 2.  Decrease Costs  
 Permissive  Mandatory

3.  Increase Revenues  
 Permissive  Mandatory  
 4.  Decrease Revenues  
 Permissive  Mandatory

5. Types of Local Governmental Units Affected:  
 Towns  Villages  Cities  
 Counties  Others \_\_\_\_\_  
 School Districts  WTCS Districts

**Fund Sources Affected**

- GPR  FED  PRO  PRS  SEG  SEG-S

**Affected Ch. 20 Appropriations**

20.566 (1)(a)

**Assumptions Used in Arriving at Fiscal Estimate:**

This bill would permit tobacco product manufacturers who were not part of the original tobacco manufacturers' lawsuit master settlement agreement of 1998 to join the master settlement agreement. It requires all tobacco product manufacturers not part of the original settlement to place money into escrow, based on the number of cigarettes sold each year in the state. The escrow funds will be used to satisfy judgements for claims against tobacco product manufacturers.

**Cigarette Taxes**

Under this bill, tobacco product manufacturers will be required to escrow a given amount per unit sold, this unit amount rises from \$0.0094241 per unit sold upon the effective date in 1999 to \$0.0188482 per unit sold in 2007. It is uncertain if manufacturers will raise cigarette prices to pay for the escrow required of each unit sold, or if they do, the extent of the increase. If cigarette prices are increased, it will have a negative impact on demand, and in turn, cigarette tax revenues. For every 1% increase in the price of cigarettes, demand falls by 0.5%; cigarette tax revenue would fall by the same percentage.

**Administrative Costs**

To meet the requirement of the master settlement agreement, the new system will need to track much more detailed sales information than is currently collected for the cigarette tax. Therefore, the legislation will require the development of a new cigarette tax system. A contractor will be hired to develop a new computer tracking system over a two-year period, and the costs for the contractor would be spread over a 5-year time period through a "master lease," at a total cost of \$1,435,600. Other one-time costs for PC/network installation will add another \$103,600.

(continued on page two)

**Long-Range Fiscal Implications:**

Agency/Prepared by: (Name & Phone No.)	Authorized Signature/Telephone No.	Date
Wisconsin Department of Revenue John T. Stott, (608) 266-9706	Yeang-Eng Braun <i>Yeang Eng Braun</i> (608) 266-2700	9/8/99

FISCAL ESTIMATE FORM

SB 122

Page 2

The proposal would also require 2.5 FTE of permanent staff for enforcement, application, data, and network support at an annual cost of \$131,200 for salary and fringe benefits. Ongoing supporting expenses and administrative costs will total an additional \$27,250 annually.

The following table summarizes the costs:

	FY00	FY01	FY02	FY03	FY04	5-Year Total
<b>One-time Costs:</b>						
Contract programming (master lease)	\$ 281,300	\$337,500	\$331,300	\$328,700	\$156,800	\$ 1,435,600
Network instal./PC/server/furniture/other	100,600	3,000	-	-	-	103,600
<b>Total one-time costs</b>	<b>381,900</b>	<b>340,500</b>	<b>331,300</b>	<b>328,700</b>	<b>156,800</b>	<b>1,539,200</b>
<b>On-going Costs: (2.5 FTEs)</b>						
Salaries and fringes	77,600 *	131,200	133,850	137,200	139,950	619,800
Supporting expenses	7,700 *	27,250	27,250	27,250	27,250	116,700
<b>Total on-going costs</b>	<b>85,300 *</b>	<b>158,450</b>	<b>161,100</b>	<b>164,450</b>	<b>167,200</b>	<b>736,500</b>
<b>Total Costs</b>	<b>\$ 467,200</b>	<b>\$498,950</b>	<b>\$492,400</b>	<b>\$493,150</b>	<b>\$324,000</b>	<b>\$ 2,275,700</b>

(\* for nine months )

YEB a/8/99

**FISCAL ESTIMATE WORKSHEET**

Detailed Estimate of Annual Fiscal Effect

**1999 Session**

- ORIGINAL     UPDATED  
 CORRECTED     SUPPLEMENTAL

**LRB # 1661/2**

**Admin. Rule #**

**INTRODUCTION # SB 122**

**Subject**  
Tobacco Product Manufacturers Agreement

**I. One-Time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):**  
\$1.54 million in total one-time costs for developing new computer system, spread over 5 years

II. Annualized Costs:	Annualized Fiscal impact on State funds from:	
	Increased Costs	Decreased Costs
<b>A. State Costs by Category</b>		
State Operations - Salaries and Fringe	\$ 131,200	\$ -
(FTE Position Changes)	(2.5 FTE)	(- FTE)
State Operations-Other Costs	27,250	-
Local Assistance		-
Aids to Individuals or Organizations		-
<b>TOTAL State Costs by Category</b>	<b>\$</b>	<b>\$ -</b>
<b>B. State Costs by Source of Funds</b>	<b>Increased Costs</b>	<b>Decreased Costs</b>
GPR	\$ 158,450	\$ -
FED		-
PRO/PRS		-
SEG/SEG-S		-
<b>III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)</b>	<b>Increased Rev.</b>	<b>Decreased Rev.</b>
GPR Taxes	\$	\$ - See Text
GPR Earned		-
FED		-
PRO/PRS		-
SEG/SEG-S		-
<b>TOTAL State Revenues</b>	<b>\$</b>	<b>\$ - See Text</b>

**NET ANNUALIZED FISCAL IMPACT**

	<u>STATE</u>	<u>LOCAL</u>
NET CHANGE IN COSTS	\$ - 158,450	\$
NET CHANGE IN REVENUES	\$ See Text	\$

Agency/Prepared by: (Name & Phone No.)	Authorized Signature/Telephone No.	Date
Wisconsin Department of Revenue John T. Stott, (608) 266-9706	Yeang-Eng Braun <i>Yeang Eng Braun</i> (608) 266-2700	9/8/99