

MINUTES OF THE HOUSE APPROPRIATIONS COMMITTEE

The meeting was called to order by Chairman Melvin Neufeld at 9:00 a.m. on March 31, 2004 in Room 514-S of the Capitol.

All members were present.

Committee staff present:

Alan Conroy, Legislative Research
J. G. Scott, Legislative Research
Amy VanHouse, Legislative Research
Michele Alishahi, Legislative Research
Jim Wilson, Revisor of Statutes
Mike Corrigan, Revisor of Statutes
Nikki Feuerborn, Administrative Analyst
Shirley Jepson, Committee Secretary

Conferees appearing before the committee:

Ron Hein for R. J. Reynolds
Kathy Damron for Philip Morris
Keith Burdick, Xcaliber International, Pryor, OK

Others attending:

See Attached List.

- Attachment 1 Testimony on **HB 2946** by Ron Hein, Legislative Counsel for R. J. Reynolds
- Attachment 2 Letter presented by Kathy Damron on behalf of Philip Morris by Derek Crawford, Altria Corporate Services, Inc. in opposition to **HB 2946**

Chairman Neufeld complemented the Budget Conference Committee on their work with the budget during the Conference Committee meetings. The Chair announced that the Appropriations Committee will meet at 10:00 a.m. on April 21 to begin work on the Omnibus bill.

Continued Hearing on HB 2946 - Payments by certain tobacco product manufacturers under the master settlement agreement.

Chairman Neufeld recognized Ron Hein, who presented testimony on behalf of R.J. Reynolds in opposition to **HB 2946** (Attachment 1). Mr. Hein noted that R. J. Reynolds is a participant in the original Master Settlement Agreement (MSA). Although **HB 2946** was drafted because of a loophole in the MSA concerning non-participating manufacturers (NPMs), R J. Reynolds opposes the legislation because it adds a third mechanism for them in making payments to the state. Mr. Hein's testimony includes a proposed bill with an amendment to the MSA addressing the loophole in the MSA which R.J.Reynolds feels is a better solution to the inequity that allows NPMs to sell a greater market share of total cigarettes in the state; however, only having to make escrow payments on their allocable share as provided in the MSA.

Responding to a question from the Committee, Mr. Hein indicated that the original participating manufacturers (OPMs) and the subsequent participating manufacturers (SPMs), through the MSA, make payments directly to the State; however, payments, made by NPMs on their allocable share, go directly into an escrow account and are returned to those NPMs at a later date if not used for litigation cases. Mr. Hein further noted that the NPMs have not signed the MSA and are not bound by any of the marketing restrictions of the MSA. A Committee member voiced concern because **HB 2946** deviates from the original MSA by increasing the cost burdens for OPMs and SPMs and could result in the State's Escrow Statute to no longer qualify as being a "Model Statute" or "Qualifying Statute" making the State subject to litigation.

The Committee noted that **HB 2946** is proposed because the current MSA gives a disadvantage to the OPMs and SPMs, and gives an advantage to the NPMs resulting in the need for legislation to "level the playing field". Mr. Hein indicated that R. J. Reynolds would support legislation to correct the inequity in the allocable share directed at NPMs.

CONTINUATION SHEET

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The Chair recognized Kathy Damron, who presented testimony in opposition to **HB 2946** on behalf of Philip Morris and shared a letter with the Committee written by Derek Crawford, District Director of Altria Corporate Services, Inc. on behalf of Philip Morris USA (Attachment 2).

Chairman Neufeld recognized Keith Burdick, Xcaliber International, Pryor, OK, who had presented testimony in opposition to **HB 2946** at the previous meeting. Mr. Burdick indicated that after further consideration, he has changed his position on the bill and would now support the legislation because he feels that it corrects the inequities in the MSA.

Chairman Neufeld closed the hearing on **HB 2946**.

Representative Shriver moved to approve the minutes as written of March 17, March 18 and March 19. The motion was seconded by Representative Howell. Motion carried.

The meeting was adjourned at 9:50 a.m. The next meeting will be held at 10:00 a.m. on April 21, 2004.

Melvin Neufeld, Chairman