

ASSEMBLY BILL NO. 14—COMMITTEE OF THE WHOLE

JULY 21, 2003

Declared an Emergency Measure

SUMMARY—Revising provisions regarding manufacture, sale and use of tobacco products. (BDR 15-25)

FISCAL NOTE: Effect on Local Government: Yes.
Effect on the State: Yes.

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EXPLANATION – Matter in *bolded italics* is new; matter between brackets [omitted-material] is material to be omitted.

AN ACT relating to tobacco; revising the duties and rights of manufacturers and distributors of cigarettes; revising the duties of the Department of Taxation; providing civil and criminal penalties; and providing other matters properly relating thereto.

THE PEOPLE OF THE STATE OF NEVADA, REPRESENTED IN
SENATE AND ASSEMBLY, DO ENACT AS FOLLOWS:

1 **Section 1.** Chapter 370 of NRS is hereby amended by adding
2 thereto the provisions set forth as sections 2 to 20, inclusive, of this
3 act.

4 **Sec. 2.** *The Legislature finds that:*

5 1. *Violations of the provisions of chapter 370A of NRS*
6 *threaten the integrity of the Master Settlement Agreement, the*
7 *fiscal soundness of the State and the public health.*

8 2. *The enactment of the procedural enhancements set forth in*
9 *sections 2 to 20, inclusive, of this act will aid in the enforcement of*
10 *the provisions of chapter 370A of NRS and thereby safeguard the*
11 *Master Settlement Agreement, the fiscal soundness of the State*
12 *and the public health.*

13 **Sec. 3.** *As used in sections 2 to 20, inclusive, of this act,*
14 *unless the context otherwise requires, the words and terms defined*
15 *in sections 4 to 14, inclusive, of this act have the meanings*
16 *ascribed to them in those sections.*



1 **Sec. 4.** *“Brand family” means all styles of cigarettes sold*
2 *under the same trademark and differentiated from one another by*
3 *means of additional modifiers or descriptors, including, but not*
4 *limited to, “menthol,” “lights,” “kings” and “100s,” and includes*
5 *any brand name, whether occurring alone or in conjunction with*
6 *any other word, any trademark, logo, symbol, motto, selling*
7 *message or recognizable pattern of colors, or any other indicia of*
8 *product identification identical or similar to, or identifiable with, a*
9 *previously known brand of cigarettes.*

10 **Sec. 5.** *“Cigarette” has the meaning ascribed to it in*
11 *NRS 370A.050.*

12 **Sec. 6.** *“Directory” means the directory created pursuant to*
13 *section 17 of this act.*

14 **Sec. 7.** *“Distributor” means a person that is authorized to*
15 *affix stamps to cigarette packages pursuant to this chapter or any*
16 *person that is required to pay the taxes on cigarettes imposed*
17 *pursuant to this chapter.*

18 **Sec. 8.** *“Manufacturer of tobacco products” has the meaning*
19 *ascribed to it in NRS 370A.060.*

20 **Sec. 9.** *“Master Settlement Agreement” has the meaning*
21 *ascribed to it in NRS 370A.070.*

22 **Sec. 10.** *“Nonparticipating manufacturer” means any*
23 *manufacturer of tobacco products that is not a participating*
24 *manufacturer.*

25 **Sec. 11.** *“Participating manufacturer” has the meaning*
26 *ascribed to it in NRS 370A.080.*

27 **Sec. 12.** *“Qualified escrow fund” has the meaning ascribed*
28 *to it in NRS 370A.090.*

29 **Sec. 13.** *“Stamp” means the indicia required to be placed on*
30 *a cigarette package that evidences payment of the taxes on*
31 *cigarettes imposed pursuant to this chapter.*

32 **Sec. 14.** *“Units sold” has the meaning ascribed to it in*
33 *NRS 370A.120.*

34 **Sec. 15. 1.** *A manufacturer of tobacco products whose*
35 *cigarettes are sold in this state, whether directly or through a*
36 *distributor, retailer or similar intermediary or intermediaries,*
37 *shall, not later than April 30 of each year, execute and deliver to*
38 *the Attorney General and the Department, on a form provided by*
39 *the Department, a certification which certifies under penalty of*
40 *perjury that, as of the date of that certification, the manufacturer*
41 *of tobacco products is either:*

42 *(a) A participating manufacturer; or*

43 *(b) In full compliance with subsection 2 of NRS 370A.140,*
44 *including any quarterly installment payments required pursuant to*
45 *section 20 of this act.*



- 1 2. *Except as otherwise provided in section 16 of this act:*
2 (a) *A participating manufacturer shall include in its*
3 *certification pursuant to this section a list of its brand families.*
4 *The participating manufacturer shall update that list at least 30*
5 *calendar days before it adds to or modifies its brand families by*
6 *executing and delivering a supplemental certification to the*
7 *Attorney General and the Department.*
8 (b) *A nonparticipating manufacturer shall, in its certification*
9 *pursuant to this section:*
10 (1) *Include:*
11 (I) *A list of all of its brand families and the number of*
12 *units sold for each brand family that were sold in the State during*
13 *the preceding calendar year; and*
14 (II) *A list of all of its brand families that have been sold*
15 *in the State at any time during the current calendar year;*
16 (2) *Indicate, by an asterisk, any brand family sold in the*
17 *State during the preceding calendar year that is no longer being*
18 *sold in the State as of the date of the certification; and*
19 (3) *Identify, by name and address, any other manufacturer*
20 *of those brand families in the preceding or current calendar*
21 *year.*
22 *A nonparticipating manufacturer shall update the information*
23 *required by this paragraph at least 30 calendar days before it adds*
24 *to or modifies its brand families by executing and delivering a*
25 *supplemental certification to the Attorney General and the*
26 *Department.*
27 3. *In addition to the requirements of subsection 2, the*
28 *certification of a nonparticipating manufacturer pursuant to this*
29 *section must certify:*
30 (a) *That the nonparticipating manufacturer is registered to do*
31 *business in the State or has appointed a resident agent for service*
32 *of process and provided notice thereof as required by section 18 of*
33 *this act;*
34 (b) *That the nonparticipating manufacturer has:*
35 (1) *Established and continues to maintain a qualified*
36 *escrow fund; and*
37 (2) *Executed a qualified escrow agreement governing the*
38 *qualified escrow fund that has been reviewed and approved by the*
39 *Attorney General;*
40 (c) *That the nonparticipating manufacturer is in full*
41 *compliance with chapter 370A of NRS and any regulations*
42 *adopted pursuant thereto;*
43 (d) *The name, address and telephone number of the financial*
44 *institution where the nonparticipating manufacturer has*



1 *established the qualified escrow fund required pursuant to chapter*
2 *370A of NRS and any regulations adopted pursuant thereto;*

3 *(e) The account number of that qualified escrow fund and any*
4 *subaccount number for this state;*

5 *(f) The amount the nonparticipating manufacturer placed in*
6 *that qualified escrow fund for cigarettes sold in the State during*
7 *the preceding calendar year, the date and amount of each such*
8 *deposit, and such evidence or verification as may be deemed*
9 *necessary by the Department to confirm the information required*
10 *by this paragraph; and*

11 *(g) The amount and date of any withdrawal or transfer of*
12 *money the nonparticipating manufacturer made at any time from*
13 *that qualified escrow fund or from any other qualified escrow*
14 *fund into which it ever made escrow payments pursuant to chapter*
15 *370A of NRS and any regulations adopted pursuant thereto.*

16 **Sec. 16.** *A manufacturer of tobacco products:*

17 *1. Shall not include a brand family in its certification*
18 *pursuant to section 15 of this act unless, if the manufacturer is:*

19 *(a) A participating manufacturer, the manufacturer affirms*
20 *that the brand family is to be deemed to be its cigarettes for*
21 *purposes of calculating its payments under the Master Settlement*
22 *Agreement for the relevant year, in the volume and shares*
23 *determined pursuant to the Master Settlement Agreement; or*

24 *(b) A nonparticipating manufacturer, the manufacturer*
25 *affirms that the brand family is to be deemed to be its cigarettes*
26 *for purposes of chapter 370A of NRS.*

27 *This subsection must not be construed as limiting or otherwise*
28 *affecting the right of the State to maintain that a brand family*
29 *constitutes cigarettes of a different manufacturer of tobacco*
30 *products for purposes of calculating payments under the Master*
31 *Settlement Agreement or for purposes of chapter 370A of NRS.*

32 *2. Shall maintain all invoices and documentation of sales,*
33 *and any other information relied upon by the manufacturer for its*
34 *certification pursuant to section 15 of this act, for at least 5 years,*
35 *unless the manufacturer is otherwise required by law to maintain*
36 *them for a greater period.*

37 **Sec. 17.** *1. The Department shall create and maintain on*
38 *its Internet website and otherwise make available for public*
39 *inspection a directory that lists, except as otherwise provided in*
40 *sections 2 to 20, inclusive, of this act, all manufacturers of tobacco*
41 *products that have provided current and accurate certifications*
42 *conforming to the requirements of sections 2 to 20, inclusive, of*
43 *this act and all brand families that are listed in those*
44 *certifications. The Department:*



1 (a) Shall not include or retain in the directory the name or
2 brand families of any nonparticipating manufacturer that has
3 failed to provide the required certification or whose certification
4 the Department determines is not in compliance with sections 2 to
5 20, inclusive, of this act, unless the Department has determined
6 that such violation has been cured to its satisfaction.

7 (b) Shall not include or retain in the directory a manufacturer
8 of tobacco products or brand family if the Department concludes,
9 for a nonparticipating manufacturer, that:

10 (1) Any escrow payment required pursuant to chapter 370A
11 of NRS for any period for any brand family, whether or not listed
12 by the nonparticipating manufacturer, has not been fully paid into
13 a qualified escrow fund governed by a qualified escrow agreement
14 which has been approved by the Attorney General; or

15 (2) Any outstanding final judgment, including any interest
16 thereon, for a violation of chapter 370A of NRS has not been fully
17 satisfied for that manufacturer or brand family.

18 2. The Department shall update the directory as necessary to
19 correct mistakes and to add or remove a manufacturer of tobacco
20 products or brand family to keep the directory in conformity with
21 the requirements of sections 2 to 20, inclusive, of this act.

22 3. Any determination of the Department not to include in or
23 to remove from the directory a manufacturer of tobacco products
24 or brand family is a final decision for the purposes of judicial
25 review.

26 **Sec. 18.** 1. Any nonresident or foreign nonparticipating
27 manufacturer that has not registered to do business in the State as
28 a foreign corporation or other business entity must, as a condition
29 precedent to having its brand families included or retained in the
30 directory, appoint and continually engage without interruption the
31 services of an agent in this state to act as its agent for the service
32 of process on whom all process, in any action or proceeding
33 against it concerning or arising out of the enforcement of this
34 chapter, may be served in any manner authorized by law. Such
35 service constitutes legal and valid service of process on the
36 nonparticipating manufacturer. The nonparticipating
37 manufacturer shall provide the name, address, phone number and
38 proof of the appointment and availability of such agent to, and to
39 the satisfaction of, the Attorney General and the Department.

40 2. A nonparticipating manufacturer shall provide notice to
41 the Attorney General and the Department at least 30 calendar days
42 before the termination of the authority of an agent appointed
43 pursuant to this section and shall provide proof to the satisfaction
44 of the Attorney General and the Department of the appointment of
45 a new agent not less than 5 calendar days before the termination



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1 of appointment of an existing agent. If an agent terminates his
2 appointment as an agent, the nonparticipating manufacturer shall
3 notify the Attorney General and the Department of that
4 termination within 5 calendar days and include with that
5 notification proof to the satisfaction of the Attorney General and
6 the Department of the appointment of a new agent.

7 3. Any nonparticipating manufacturer whose cigarettes are
8 sold in this state and who has not appointed and engaged an agent
9 as required by this section shall be deemed to have appointed the
10 Secretary of State as such agent and may be proceeded against in
11 courts of this state by service of process upon the Secretary of
12 State, except that the appointment of the Secretary of State as such
13 agent does not satisfy the condition precedent for having the brand
14 families of the nonparticipating manufacturer included or
15 retained in the directory.

16 **Sec. 19.** 1. Not later than 20 calendar days after the end of
17 each calendar quarter, and more frequently if so directed by the
18 Department, each distributor shall submit such information as the
19 Department requires to facilitate compliance with the provisions of
20 sections 2 to 20, inclusive, of this act, including, without
21 limitation, a list by brand family of the total number of cigarettes
22 or, in the case of "roll-your-own" tobacco, the equivalent unit
23 count, for which the distributor affixed stamps during the previous
24 calendar quarter or otherwise paid the tax due for those cigarettes.
25 The distributor shall maintain for at least 5 years, and make
26 available to the Department, all invoices and documentation of
27 sales of all cigarettes of nonparticipating manufacturers and any
28 other information relied upon in reporting to the Department.

29 2. The Department may disclose to the Attorney General any
30 information received pursuant to sections 2 to 20, inclusive, of this
31 act and requested by the Attorney General for purposes of
32 determining compliance with and enforcing the provisions of
33 sections 2 to 20, inclusive, of this act. The Department and
34 Attorney General shall share with each other the information
35 received pursuant to the provisions of sections 2 to 20, inclusive,
36 of this act, and may share such information with other federal,
37 state or local agencies only for purposes of enforcement of those
38 provisions, the provisions of chapter 370A of NRS or the
39 corresponding laws of other states.

40 3. The Department may require at any time from a
41 nonparticipating manufacturer proof, from the financial
42 institution in which that manufacturer has established a qualified
43 escrow fund for the purpose of compliance with chapter 370A of
44 NRS, of the amount of money in that fund, exclusive of interest,



1 *the amount and date of each deposit to that fund, and the amount*
2 *and date of each withdrawal from that fund.*

3 *4. In addition to the information otherwise required to be*
4 *submitted pursuant to sections 2 to 20, inclusive, of this act, the*
5 *Department may require a distributor or manufacturer of tobacco*
6 *products to submit any additional information, including, without*
7 *limitation, samples of the packaging or labeling of each brand*
8 *family, as is necessary to enable the Department to determine*
9 *whether a manufacturer of tobacco products is in compliance with*
10 *the provisions of sections 2 to 20, inclusive, of this act.*

11 *5. Every distributor shall provide to the Department and*
12 *update as necessary an electronic mail address for receiving any*
13 *notifications as may be required to carry out sections 2 to 20,*
14 *inclusive, of this act.*

15 **Sec. 20.** *1. To promote compliance with the provisions of*
16 *NRS 370A.140, the Department may adopt regulations requiring a*
17 *manufacturer of tobacco products to make the escrow deposits*
18 *required by NRS 370A.140 in quarterly installments during the*
19 *year in which the sales covered by those deposits are made. The*
20 *Department may require the production of information sufficient*
21 *to enable the Department to determine the adequacy of the amount*
22 *of each quarterly installment.*

23 *2. The Department may adopt such regulations as it deems*
24 *necessary to carry out the provisions of sections 2 to 20, inclusive,*
25 *of this act.*

26 **Sec. 21.** (Deleted.)

27 **Sec. 22.** NRS 370A.150 is hereby amended to read as follows:

28 370A.150 A manufacturer of tobacco products that deposits
29 money into escrow pursuant to subsection 2 of NRS 370A.140 shall
30 receive the interest or other appreciation on the deposit as earned.
31 The principal of the deposit may be released from escrow only
32 under the following circumstances:

33 1. To pay a judgment or settlement on a released claim brought
34 against that manufacturer by this state or by a releasing party located
35 or residing in this state. Money may be released from escrow under
36 this subsection only in the order in which it was deposited into
37 escrow and only to the extent and at the time necessary to make
38 payments required under the judgment or settlement.

39 2. To the extent that the manufacturer establishes that the
40 amount it was required to deposit into escrow *on account of units*
41 *sold in the State* in a particular year was greater than ~~[this state's~~
42 ~~allocable share of the total payments that the manufacturer would~~
43 ~~have been required to make in that year under]~~ the Master
44 Settlement Agreement *payments, as determined pursuant to section*
45 *IX(i) of that Agreement including after final determination of all*



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1 *adjustments, that such manufacturer would have been required to*
2 *make on account of such units sold* if the manufacturer had been a
3 participating manufacturer, ~~[as such payments are determined~~
4 ~~pursuant to section IX(i)(2) of that Agreement and before any of the~~
5 ~~adjustments or offsets described in section IX(i)(3) of that~~
6 ~~Agreement other than the inflation adjustment.]~~ the excess must be
7 released from escrow and revert to the manufacturer.

8 3. To the extent not released from escrow under subsection 1 or
9 2, deposits must be released from escrow and revert to the
10 manufacturer 25 years after the date on which they were deposited.

11 **Sec. 23.** NRS 370A.150 is hereby amended to read as follows:

12 370A.150 A manufacturer of tobacco products that deposits
13 money into escrow pursuant to subsection 2 of NRS 370A.140 shall
14 receive the interest or other appreciation on the deposit as earned.
15 The principal of the deposit may be released from escrow only
16 under the following circumstances:

17 1. To pay a judgment or settlement on a released claim brought
18 against that manufacturer by this state or by a releasing party located
19 or residing in this state. Money may be released from escrow under
20 this subsection only in the order in which it was deposited into
21 escrow and only to the extent and at the time necessary to make
22 payments required under the judgment or settlement.

23 2. ~~[To the extent that the manufacturer establishes that the~~
24 ~~amount it was required to deposit into escrow on account of units~~
25 ~~sold in the State in a particular year was greater than the Master~~
26 ~~Settlement Agreement payments, as determined pursuant to section~~
27 ~~IX(i) of that Agreement including after final determination of all~~
28 ~~adjustments, that such manufacturer would have been required to~~
29 ~~make on account of such units sold if the manufacturer had been a~~
30 ~~participating manufacturer, the excess must be released from escrow~~
31 ~~and revert to the manufacturer.~~

32 ~~—3.]~~ To the extent not released from escrow under subsection 1 ,
33 ~~{or 2,}~~ deposits must be released from escrow and revert to the
34 manufacturer 25 years after the date on which they were deposited.

35 **Sec. 24.** NRS 370A.150 is hereby amended to read as follows:

36 370A.150 A manufacturer of tobacco products that deposits
37 money into escrow pursuant to subsection 2 of NRS 370A.140 shall
38 receive the interest or other appreciation on the deposit as earned.
39 The principal of the deposit may be released from escrow only
40 under the following circumstances:

41 1. To pay a judgment or settlement on a released claim brought
42 against that manufacturer by this state or by a releasing party located
43 or residing in this state. Money may be released from escrow under
44 this subsection only in the order in which it was deposited into



1 escrow and only to the extent and at the time necessary to make
2 payments required under the judgment or settlement.

3 2. *To the extent that the manufacturer establishes that the*
4 *amount it was required to deposit into escrow in a particular year*
5 *was greater than this state's allocable share of the total payments*
6 *that the manufacturer would have been required to make in that*
7 *year under the Master Settlement Agreement if the manufacturer*
8 *had been a participating manufacturer, as such payments are*
9 *determined pursuant to section IX(i)(2) of that Agreement and*
10 *before any of the adjustments or offsets described in section*
11 *IX(i)(3) of that Agreement other than the inflation adjustment, the*
12 *excess must be released from escrow and revert to the*
13 *manufacturer.*

14 3. To the extent not released from escrow under subsection 1
15 ~~H~~ or 2, deposits must be released from escrow and revert to the
16 manufacturer 25 years after the date on which they were deposited.

17 **Sec. 25.** 1. The first report required by section 19 of this act
18 is due on or before October 20, 2003.

19 2. Notwithstanding the provisions of section 15 of this act, the
20 initial certifications required by that section are due on or before
21 November 15, 2003.

22 3. The Department of Taxation shall create and make available
23 for public inspection the directory required pursuant to section 17 of
24 this act on or before December 31, 2003.

25 **Sec. 26.** 1. This section and sections 1 to 22, inclusive, and
26 25 of this act become effective:

27 (a) Upon passage and approval for the purposes of adopting
28 regulations and taking such other actions as are necessary to carry
29 out the provisions of this act; and

30 (b) On October 1, 2003, for all other purposes.

31 2. Section 23 of this act becomes effective on the date a court
32 of competent jurisdiction enters a judgment determining that the
33 amendatory provisions of section 22 of this act are unconstitutional.

34 3. Section 24 of this act becomes effective on the date a court
35 of competent jurisdiction enters a judgment determining that the
36 amendatory provisions of section 23 of this act are unconstitutional.

