



Contra
Costa
County

To: Board of Supervisors
From: LEGISLATION COMMITTEE
Date: August 2, 2016

Subject: Support position on Proposition 56 Cigarette Tax to Fund Healthcare, Tobacco Use Prevention, Research, and Law Enforcement

RECOMMENDATION(S):

CONSIDER adopting a Support position on Proposition 56: Cigarette Tax to Fund Healthcare, Tobacco Use Prevention, Research, and Law Enforcement, an initiative which seeks to Increase cigarette tax by \$2 per pack, with equivalent increase on other tobacco products and electronic cigarettes containing nicotine, as recommended by the Legislation Committee.

FISCAL IMPACT:

No direct impact to the County from supporting the initiative. However, a successful initiative has an estimated fiscal impact on state and local government: Net increase in excise tax revenues in the range of \$1.1 billion to \$1.6 billion annually by 2017-18, with revenues decreasing slightly in subsequent years. The majority of funds would be used for payments to health care providers. The remaining funds would be used for a variety of specified purposes, including tobacco-related prevention and cessation programs, law enforcement programs, medical research on tobacco-related diseases, and early childhood development programs.

BACKGROUND:

☒ APPROVE

☐ OTHER

☐ RECOMMENDATION OF CNTY ADMINISTRATOR

☒ RECOMMENDATION OF BOARD COMMITTEE

Action of Board On: **08/02/2016** ☒ APPROVED AS RECOMMENDED ☐ OTHER

Clerks Notes:

VOTE OF SUPERVISORS

AYE: John Gioia, District I Supervisor
Candace Andersen, District II Supervisor
Mary N. Piepho, District III Supervisor
Karen Mitchoff, District IV Supervisor
Federal D. Glover, District V Supervisor

I hereby certify that this is a true and correct copy of an action taken and entered on the minutes of the Board of Supervisors on the date shown.

ATTESTED: August 2, 2016

David Twa, County Administrator and Clerk of the Board of Supervisors

By: June McHuen, Deputy

Contact: L. DeLaney,
925-335-1097

cc:

Proposition 56 increases the cigarette tax by \$2.00 per pack, with equivalent increase on other tobacco products and electronic cigarettes containing nicotine. The initiative allocates revenues primarily to increase funding for existing healthcare programs; also for tobacco use prevention/control programs, tobacco-related disease research and law enforcement, University of California physician training, dental disease prevention programs, and administration. This excludes these revenues from Proposition 98 funding requirements. If the tax causes decreased tobacco consumption, this initiative transfers tax revenues to offset decreases to existing tobacco-funded programs and sales tax revenues.

BACKGROUND: (CONT'D)

BACKGROUND

Tobacco Products and Electronic Cigarettes

Tobacco products are derived from tobacco plants, contain nicotine, and are intended for human consumption, such as cigarettes and smokeless tobacco. Electronic cigarettes are battery-operated products that are generally designed to deliver nicotine, flavor, and other chemicals. These devices turn chemicals, including nicotine, into an aerosol that is inhaled by the user. Some types of electronic cigarettes are sold together with those chemicals, while others are sold separately. (There are also some electronic cigarettes that produce aerosols that do not contain nicotine.)

Tobacco and Electronic Cigarette Taxes

Tobacco products are subject to state and federal excise taxes, and state and local sales and use taxes. In contrast, electronic cigarettes are currently not subject to state and federal excise taxes but are subject to state and local sales and use taxes.

Existing State Excise Taxes on Tobacco Products. Current state law imposes excise taxes on the distribution of cigarettes and other tobacco products, such as cigars and chewing tobacco. Tobacco excise taxes are paid by distributors who supply cigarettes and other tobacco products to retail stores. These taxes are typically passed on to consumers as higher prices on cigarettes and other tobacco products.

The state's cigarette excise tax is currently 87 cents per pack. Figure 1 of Attachment B describes the different components of the per-pack tax. As the figure shows, two voter-approved measures—Proposition 99 in 1988 and Proposition 10 in 1998—are responsible for generating the vast majority of tobacco excise tax revenues. As the figure indicates, total state revenues from existing excise taxes on cigarettes and other tobacco products were just under \$840 million in 2014-15.

Revenues from existing excise taxes on other tobacco products support Proposition 10 and Proposition 99 purposes. Under current law, any increase in cigarette taxes automatically triggers an equivalent increase in excise taxes on other tobacco products, with the latter revenues going to support Proposition 99 purposes.

Existing Federal Excise Tax on Tobacco Products. The federal government imposes an excise tax on cigarettes and other tobacco products. In 2009, this tax was increased by 62 cents per pack (to a total of \$1.01 per pack) to help fund the Children's Health Insurance Program, which provides subsidized health insurance coverage to children in low-income families.

Existing State and Local Sales and Use Taxes on Tobacco Products and Electronic Cigarettes. Sales of cigarettes, other tobacco products, and electronic cigarettes are

subject to state and local sales and use taxes. These taxes are imposed on the retail price of a product, which includes excise taxes that have generally been passed along from distributors. The average retail price of a pack of cigarettes in California currently is close to \$6. Roughly \$400 million in annual revenue from sales and use taxes on cigarettes and other tobacco products go to the state and local governments.

State and Local Health Programs

Department of Health Care Services (DHCS). The DHCS administers the Medicaid program, known as the California Medical Assistance Program (Medi-Cal) in California. Medi-Cal is a joint federal-state program that provides health care services to qualified low-income persons. Currently, Medi-Cal provides health care services to over 12 million people, with a General Fund budget estimated at \$18 billion for 2015-16. Federal law establishes some minimum requirements for state Medicaid programs regarding the types of services offered and who is eligible to receive them. Required services include hospital inpatient and outpatient care, skilled nursing care, and doctor visits. In addition, California offers an array of services considered optional under federal law, such as coverage of prescription drugs and durable medical equipment. While Medi-Cal is by far the largest healthcare program that DHCS administers in terms of both funding level and persons served, the department also administers a few other programs that provide health care services.

Department of Public Health (DPH). The DPH administers and oversees a wide variety of programs with the goal of optimizing the health and well-being of Californians. The department's programs address a broad range of health issues, including tobacco-related diseases, maternal and child health, cancer and other chronic diseases, communicable disease control, and inspection of health facilities. Many public health programs and services are delivered at the local level, while the state provides funding, oversight, and overall strategic leadership for improving population health. The state also centrally administers certain public health programs, such as licensing and certification of health facilities.

State Spending Limit

The State Constitution contains various rules affecting the state budget, such as the state spending limit that has been in place since passage of Proposition 4 in 1979. The Constitution requires the state to issue taxpayer rebates if the state exceeds the spending limit.

See Attachment A for the full text of the measure and Attachment B for the full report by the Legislative Analyst's Office.

CONSEQUENCE OF NEGATIVE ACTION:

There would be no record of the County's support for the ballot initiative.

ATTACHMENTS

Attachment A: Proposition 56 Cigarette Tax to Fund Healthcare, Tobacco Use Prevention, Research, and Law Enforcement

Attachment B: Legislative Analyst's Office fiscal impact analysis