

Fiscal Note

State of Alaska
2016 Legislative Session

Bill Version: HB 304
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HB304-DHSS-CDPHP-2-18-16
Title: ELECTRNC TAX RETURNS;TOBACCO & E-CIGS
TAX
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: House L&C

Department: Department of Health and Social Services
Appropriation: Public Health
Allocation: Chronic Disease Prevention and Health Promotion
OMB Component Number: 2818

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below.

(Thousands of Dollars)

| | FY2017 Appropriation Requested | Included in Governor's FY2017 Request | Out-Year Cost Estimates | | | | |
|------------------------|--------------------------------------|--|-------------------------|------------|------------|------------|------------|
| OPERATING EXPENDITURES | FY 2017 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 |
| Personal Services | | | | | | | |
| Travel | | | | | | | |
| Services | | | | | | | |
| Commodities | | | | | | | |
| Capital Outlay | | | | | | | |
| Grants & Benefits | | | | | | | |
| Miscellaneous | | | | | | | |
| Total Operating | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Fund Source (Operating Only)

| | | | | | | | |
|--------------|------------|------------|------------|------------|------------|------------|------------|
| None | | | | | | | |
| Total | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Positions

| | | | | | | | |
|-----------|--|--|--|--|--|--|--|
| Full-time | | | | | | | |
| Part-time | | | | | | | |
| Temporary | | | | | | | |

| | | | | | | | |
|---------------------------|--|--|--|--|--|--|--|
| Change in Revenues | | | | | | | |
|---------------------------|--|--|--|--|--|--|--|

Estimated SUPPLEMENTAL (FY2016) cost: 0.0 (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2017) cost: 0.0 (separate capital appropriation required)
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? no
If yes, by what date are the regulations to be adopted, amended or repealed? n/a

Why this fiscal note differs from previous version:

Not applicable; initial version.

| | | | |
|--------------|---|--------|---------------------|
| Prepared By: | Dr. Jay Butler, Chief Medical Officer | Phone: | (907)269-6680 |
| Division: | Public Health | Date: | 02/18/2016 07:30 PM |
| Approved By: | Sana Efird, Asst. Commissioner, Finance and Management Services | Date: | 02/18/16 |
| Agency: | Health and Social Services | | |

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2016 LEGISLATIVE SESSION

BILL NO. HB304

Analysis

The proposed bill would effectively raise the tax on cigarettes by \$1 a pack and increase the percentage of tax on other tobacco products from 75% to 100% of wholesale price. The bill also newly includes electronic smoking devices and their components under the definition of other tobacco products.

The Department of Revenue projects an initial \$29.1 million increase in general fund revenue by raising the cigarette tax \$1 and taxing other tobacco products at 100% of their wholesale price. This does not include the additional tax generated from e-cigarettes. (Alaska Department of Revenue white paper on potential fiscal and revenue options, June 4, 2015; page 5; http://gov.alaska.gov/Walker_media/documents/20150605_potential-fiscal-and-revenue-options.pdf.) This \$29.1 million figure is projected to gradually decrease.

An initial increase in revenue of \$2.1 million is projected for the Tobacco Use Education and Cessation Fund. The revenue would come from an 8.9% share of the additional cigarette taxes, as the additional tax rate is raised from 62 to 112 mills, or the equivalent of about five cents per cigarette. This \$2.1 million revenue figure would gradually decrease proportionate to the gradual decrease in the projected additional tax on cigarettes. The Tobacco Fund receives no revenue from taxes on other tobacco products, which would now include e-cigarettes.

The Section of Chronic Disease Prevention and Health Promotion's Tobacco Prevention and Control program is mainly supported by the Tobacco Use Education and Cessation Fund. The program awards grants to 28 agencies in 220 communities; monitors tobacco use rates; funds the tobacco Quitline; and provides training, education and resources on prevention and cessation.

Despite significant declines in tobacco use, Alaska has the eighth highest rate of adult smoking (22%) in the U.S. Research shows that when tobacco prices are increased, smoking rates drop, especially among youth, lower-income individuals, and pregnant women. The proposed tax increase is estimated to result in approximately 2,100 current adult tobacco users quitting, and deterring approximately 200 youth from future tobacco use. In Alaska, low income adults, pregnant women, and Alaska Native adults smoke at even higher rates than their peers in the U.S. Adult electronic cigarette smoking rates have been on the rise, with women, young adults, and low income Alaskans using at higher rates. Nationally, teen use has increased nine-fold from 2011 to 2014.

The FY2017 Governor's Budget for this component includes a \$375.0 decrement, which is not related to this proposed legislation. Since FY2011, annual appropriations from the Tobacco Fund have outpaced revenues, requiring a drawdown of the surplus balance. The division and its partners developed a multi-year plan to reduce spending in a way that restores fiscal equilibrium, yet maintains outcomes at the highest level possible. Previous decrements were taken in FY2014 and FY2015; future decrements are planned.

The Tobacco Fund also receives revenue from the master settlement agreement with tobacco manufacturers. In FY2018 the master settlement agreement will change its formula, resulting in a projected annual revenue reduction of \$1.2 million to the Tobacco Fund (this change was anticipated in the fund's reduction plan). While the projected \$2.1 million additional revenue from raising the cigarette tax would cancel out the reduction in revenues generated through the master settlement agreement, it would not entirely eliminate the need for additional limitations on appropriations made from the fund for the component's Tobacco Prevention and Control program in future years.

Therefore, in order to provide stable and sustainable funding for the long-term, this is a zero fiscal note.