

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB 1001
 () Publish Date: _____
 Dept. Affected: Health & Social Services
 RDU: Public Health
 Component: Tobacco Prevention and Control

Revision Date/Time (Note if correction): _____
 Title: TOBACCO TAXES AND RELATED MATTERS

Sponsor: (RLS) BY REQUEST OF THE GOVERNOR

Requester: _____ Component No. 2384

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual		2,600.0	2,600.0	2,600.0	2,600.0	2,600.0
Supplies						
Equipment						
Land & Structures						
Grants & Claims		1,400.0	1,400.0	1,400.0	1,400.0	1,400.0
Miscellaneous						
TOTAL OPERATING	0.0	4,000.0	4,000.0	4,000.0	4,000.0	4,000.0

CAPITAL EXPENDITURES						
CHANGE IN REVENUES (0)						

FUND SOURCE (Thousands of Dollars)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1037 GF/Mental Health						
1168 Tobacco Educ/Cess Fund		4,000.0	4,000.0	4,000.0	4,000.0	4,000.0
Other(Specify Type-do not abbreviate)						
TOTAL	0.0	4,000.0	4,000.0	4,000.0	4,000.0	4,000.0

Estimate of any current year (FY2004) cost: _____
 Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

Funding for the Tobacco Control Program is authorized and appropriated by the Alaska Legislature each year. The Legislature established the Tobacco Use Education and Cessation Fund as AS 37.05.580, and a portion of Tobacco Master Settlement Agreement revenues are deposited into the Tobacco Fund in April of each year to support the Tobacco Control Program. The program faced a serious cash flow problem in FY04 that continues as it heads into FY05. The Department of Health and Social Services projects that the fund will have only \$397,000 of carry forward revenue at the start of FY05. The FY 2005 budget passed by the legislature authorized a budget of \$4,669,200. The projected \$4,300,000 Master Settlement revenue will not be deposited to the (continued next page)

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 Division: Office of the Commissioner Date/Time 06/21/2004
 Approved by: Joel S. Gilbertson, Commissioner Date 06/22/2004
 Agency: Department of Health and Social Services

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ANALYSIS CONTINUATION

Analysis Continued:

State until April 2005. As a result, the program will have to "borrow" from other Public Health programs in the interim to allow the Tobacco Control program to operate. This can be seen in the attached table showing Cash Flow without Tobacco Tax as a negative cash flow from July 2004 until April 2005 (attachment A).

Passing the proposed increase in tobacco excise taxes and including the proposed provision that 8.9 percent of the total proceeds of the tax shall be deposited into the Tobacco Use Education and Cessation Fund established in AS 37.05.580 will fix the existing cash flow problem as well as increase prevention funding. This fiscal note reflects an increase of \$4,000,000 Tobacco Education/Cessation Fund spending authorization for the Tobacco Prevention and Control component of the Public Health RDU. Additional authorization of this amount will result in expanded tobacco program activities as well as allow for sufficient carryforward to support program activities in the next fiscal year until Master Settlement revenues are deposited. See attached table showing cash flow with Tobacco Tax (attachment B).

These funds will also help offset a projected decrease in the Tobacco Master Settlement Agreement revenues, according to the latest forecast by the National Association of Attorneys General. This fiscal note also assumes that the current authorization for \$500,000 Tobacco Education/Cessation Fund in the Community Health Grants component would be switched to General Funds in the FY06 budget. If this does not occur, the funds available to the Tobacco Prevention and Control component would be reduced by \$500,000 to remain within the projected revenues. The net increase to the Tobacco Prevention and Control component will be approximately \$3,330,000. See attachment C for summary of Tobacco Program revenues and authorization.

The increased spending authorization is based on the Department of Revenue's projection that the amount of cigarette tax revenue deposited into the Tobacco Use Education and Cessation Fund would be \$4,000,000 annually. All revenues are reported on the Department of Revenue fiscal note.

Critical to the ongoing fiscal integrity of the program will be action by the legislature every year to provide for carry forward of unexpended Tobacco Use Education and Cessation Funds from the current State Fiscal Year to the following one. Because the Master Settlement revenues are not deposited until April each year, legislative action to authorize carry forward is essential so the State can avoid a negative cash flow situation.

The State Tobacco Control Program develops its annual management plan every year depending on the level of appropriations authorized by the legislature. The Tobacco Control Program staff, Alaska Division of Public Health (ADPH), work on an on-going basis closely with members of the Alaska Tobacco Control Alliance (ATCA) to monitor the burden of

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ANALYSIS CONTINUATION

Analysis Continued:

tobacco on Alaskans, evaluate existing program activities, assess "Best Practices Guidelines" from the National Centers for Disease Control and Prevention, and identify new opportunities to target prevention programs. Working together, the ATCA and Tobacco Control Program staff develops detailed recommendations to the Director, ADPH and Commissioner, Department of Health and Social Services for allocating appropriated resources.

If the legislature passes the proposed tobacco excise tax increase and authorizes 8.9 percent of annual proceeds to be deposited to the Tobacco Use Education and Cessation Fund, then the program will be able to significantly increase prevention program activities. To do so, the Tobacco Control Program staff will meet with our colleagues of the Alaska Tobacco Control Alliance to plan for ramping up the program beginning in FY06. We propose maintaining program spending in FY05 at the currently authorized level of \$4,669,200. This will allow the program to achieve a positive cash flow situation in FY05 with adequate funding to carry forward in FY06 to assure a continued positive cash flow.

We propose a FY06 and FY07 budget at a level of \$7,500,000 with an annual carry forward of \$2,600,000. This level of funding will protect the program from negative cash flow. This will bring us closer to, the Center for Disease Control's Best Practices minimum recommended expenditure level of \$8,100,000. Actual revenues and expenditures will be monitored to possibly allow for increased program funding to this recommended level in FY08 or beyond.

See attachments A-E.

Tobacco Use, Education and Cessation Fund Cash Flow Without Tobacco Tax

FY05	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	April	May	June	FY05 Total
Projected Carryforward of Revenue from FY04	397.0												397.0
Dept of Law Estimated Tobacco Settlement Deposit to Tobacco Educ/Cess Fund *										4,300.0			4,300.0
Projected Monthly Expenditures **	531.0	257.2	257.2	689.4	235.4	235.4	627.0	235.4	235.4	622.0	302.9	312.9	4,541.2
Cash Balance in Tobacco Fund w/out Tax ***	(134.0)	(391.2)	(648.4)	(1,337.8)	(1,573.2)	(1,808.6)	(2,435.6)	(2,671.0)	(2,906.4)	771.6	468.7	155.8	

FY06	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	April	May	June	FY06 Total
Projected Carryforward from FY05	155.8												155.8
Dept of Law Estimated Tobacco Settlement Deposit to Tobacco Educ/Cess Fund *										3,500.0			3,500.0
Projected Monthly Expenditures **	427.5	207.1	207.1	555.0	189.5	189.5	504.8	189.5	189.5	500.7	243.8	251.9	3,655.8
Cash Balance in Tobacco Fund w/out Tax ***	(271.7)	(478.7)	(685.8)	(1,240.8)	(1,430.3)	(1,619.8)	(2,124.5)	(2,314.0)	(2,503.5)	495.7	251.9	(0.0)	

FY07	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	April	May	June	FY07 Total
Projected Carryforward from FY06	(0.0)												(0.0)
Dept of Law Estimated Tobacco Settlement Deposit to Tobacco Educ/Cess Fund *										3,500.0			3,500.0
Projected Monthly Expenditures **	409.3	198.2	198.2	531.3	181.4	181.4	483.2	181.4	181.4	479.4	233.5	241.2	3,500.0
Cash Balance in Tobacco Fund w/out Tax ***	(409.3)	(607.5)	(805.7)	(1,337.0)	(1,518.5)	(1,699.9)	(2,183.1)	(2,364.6)	(2,546.0)	474.6	241.2	(0.0)	

* Dept of Law revenue estimate based on the National Association of Attorneys General estimate for Alaska's Master Settlement Revenues. The official Dept of Revenue forecast for FY05 is \$4.4 million.

** Projected Monthly Expenditures based on normal cash flow for grants/contracts/staff costs. FY05 total expenditures based on current program management plan. FY06 & FY07 total expenditures equal to total revenue projected for year. These projections also assume that Tobacco Educ/Cess Funding for Community Health Grants (\$500.0 in FY05) is switched to GF in FY06 budget, leaving all Tobacco Funds in direct support of the Tobacco Program.

*** No payments can be made from the Tobacco Use, Education and Cessation Fund when there is zero or negative cash balance. When a negative balance is shown above, another source of funding must be utilized until a revenue deposit is made into the Tobacco Educ/Cess Fund. This would likely delay the scheduled monthly expenditures and possibly impact the total expenditure level in the Tobacco Control Program.

Tobacco Use, Education and Cessation Fund Cash Flow With Proposed Tobacco Tax Receipts

FY05	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	April	May	June	FY05 Total
Projected Carryforward of Revenue from FY04	397.0												397.0
Dept of Law Estimated Tobacco Settlement Deposit to Tobacco Educ/Cess Fund *										4,300.0			4,300.0
Projected Cigarette Tax Deposits to Tobacco Educ/Cess Fund**					379.2	377.1	341.5	267.3	300.5	293.7	329.7	293.3	2,582.3
Total Monthly Tobacco Educ/Cess Fund Revenue	397.0	0.0	0.0	0.0	379.2	377.1	341.5	267.3	300.5	4,593.7	329.7	293.3	7,279.3
Projected Monthly Expenditures ***	546.0	264.4	264.4	708.8	242.0	242.0	644.7	242.0	242.0	639.5	311.4	321.7	4,669.2
Cash Balance in Tobacco Fund with Tax ****	(149.0)	(413.4)	(677.9)	(1,386.7)	(1,249.5)	(1,114.5)	(1,417.6)	(1,392.4)	(1,333.9)	2,620.3	2,638.5	2,610.1	

FY06	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	April	May	June	FY06 Total
Projected Carryforward from FY05	2,610.1												2,610.1
Dept of Law Estimated Tobacco Settlement Deposit to Tobacco Educ/Cess Fund *										3,500.0			3,500.0
Projected Cigarette Tax Deposits to Tobacco Educ/Cess Fund**	286.6	348.9	374.3	407.9	379.2	377.1	341.5	267.3	300.5	293.7	329.7	293.3	4,000.0
Total Monthly Tobacco Educ/Cess Fund Revenue	2,896.7	348.9	374.3	407.9	379.2	377.1	341.5	267.3	300.5	3,793.7	329.7	293.3	10,110.1
Projected Monthly Expenditures ***	877.6	425.1	425.1	1,139.3	389.0	389.0	1,036.2	389.0	389.0	1,028.0	500.6	517.1	7,505.1
Cash Balance in Tobacco Fund with Tax ****	2,019.1	1,943.0	1,892.2	1,160.7	1,150.9	1,139.0	444.3	322.5	234.0	2,999.7	2,828.8	2,605.0	

FY07	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	April	May	June	FY07 Total
Projected Carryforward from FY06	2,605.0												2,605.0
Dept of Law Estimated Tobacco Settlement Deposit to Tobacco Educ/Cess Fund *										3,500.0			3,500.0
Projected Cigarette Tax Deposits to Tobacco Educ/Cess Fund**	286.6	348.9	374.3	407.9	379.2	377.1	341.5	267.3	300.5	293.7	329.7	293.3	4,000.0
Total Monthly Tobacco Educ/Cess Fund Revenue	2,891.6	348.9	374.3	407.9	379.2	377.1	341.5	267.3	300.5	3,793.7	329.7	293.3	10,105.0
Projected Monthly Expenditures ***	877.6	425.1	425.1	1,139.3	389.0	389.0	1,036.2	389.0	389.0	1,027.9	500.6	517.1	7,505.0
Cash Balance in Tobacco Fund with Tax ****	2,014.0	1,937.9	1,887.1	1,155.7	1,145.9	1,133.9	439.2	317.5	228.9	2,994.7	2,823.8	2,600.0	

* Dept of Law revenue estimate based on the National Association of Attorneys General estimate for Alaska's Master Settlement Revenues. The official Dept of Revenue forecast for FY05 is \$4.4 million.

** Cigarette Tax Deposits based on Dept of Revenue estimate with 2 month lag after effective date of tax bill before first deposit made to Tobacco Educ/Cess Fund.

*** Projected Monthly Expenditures based on normal cash flow for grants/contracts/staff costs. FY05 total expenditures based on total authorized by Legislature. FY06 & FY07 total expenditures assume a cash balance in the Fund at the end of the fiscal year sufficient to maintain positive cash flow in the Tobacco Educ/Cess Fund until the Master Settlement deposit the following April. These projections also assume that Tobacco Educ/Cess Funding for Community Health Grants (\$500.0 in FY05) is switched to GF in FY06 budget, leaving all Tobacco Funds in direct support of the Tobacco Program.

This projection does not show expenditures equal to the CDC recommended minimum Tobacco Prevention and Control Program of \$8.1 million for Alaska. However, if expansion of the Tobacco Program in FY06 is slower than projected, this would result in additional carryforward (in excess of \$2.6 million as shown), which could potentially allow for increased program expenditures in future years.

**** No payments can be made from the Tobacco Use, Education and Cessation Fund when there is zero or negative cash balance. When a negative balance is shown above in FY05, another source of funding must be utilized until a revenue deposit is made into the Tobacco Educ/Cess Fund.

Proposed FY06-07 Tobacco Education/Cessation Fund Budgets/Revenues with Tobacco Tax

	Tobacco Use, Education and Cessation Fund
<i>FY2005 Conference Committee Tobacco Educ/Cess Fund Budget:</i>	
Public Health: Tobacco Prevention and Control	3,315.3
Public Health: Epidemiology	242.7
Public Health: Community Health Grants	500.0
Behavioral Health: Behavioral Health Admin (Enforcement)	611.2
Total FY2005 Budget	4,669.2
<i>FY2005 Revenues:</i>	
Dept of Law revenue estimate from Nat'l Assoc of Attorneys General *	4,300.0
Carryforward of FY04 Revenue	397.0
Cigarette Tax Deposits to Tobacco Fund (Estimated to be Rcvd by June 30, 2005)	2,582.3
Total Estimated FY2005 Revenue	7,279.3
Net Revenue Available to Carryforward to FY06	2,610.1

* Dept of Revenue Spring 2004 Revenue Forecast is \$4.4 million. Dept of Law reports that the National Assoc of Attorneys General that administer the settlement are forecasting a decrease in revenues in FY05-06.

	Tobacco Use, Education and Cessation Fund
<i>FY2006 Proposed Tobacco Educ/Cess Fund Budget: **</i>	
Public Health: Tobacco Prevention and Control (current funding)	3,315.3
Public Health: Tobacco Prevention and Control (net effect of decrease in Master Settlement revenue) ***	(670.3)
Public Health: Tobacco Prevention and Control (proposed increase)	4,000.0
Public Health: Epidemiology	245.0
Behavioral Health: Behavioral Health Admin (Enforcement)	615.0
Total Proposed FY2006 Budget	7,505.0
<i>FY2006 Revenues</i>	
Dept of Law Revenue Estimate from Nat'l Assoc of Attorneys General	3,500.0
Carryforward of FY05 Revenue	2,610.1
Cigarette Tax Deposits to Tobacco Fund (Estimated to be Rcvd 7/1/05-6/30/06)	4,000.0
Total Estimated FY2006 Revenue	10,110.1
Net Revenue Available to Carryforward to FY07	2,605.1

** FY06 and FY07 Proposed Budgets are based on eliminating Tobacco Educ/Cess funding from the Community Health Grants component by replacing that source with General Funds (\$500.0).

*** The latest revenue estimates from the Nat'l Assoc of Attorneys General forecast a decrease in Tobacco Settlement revenue. This decrease in expenditure authority keeps the DHSS program in balance with the total revenue anticipated.)

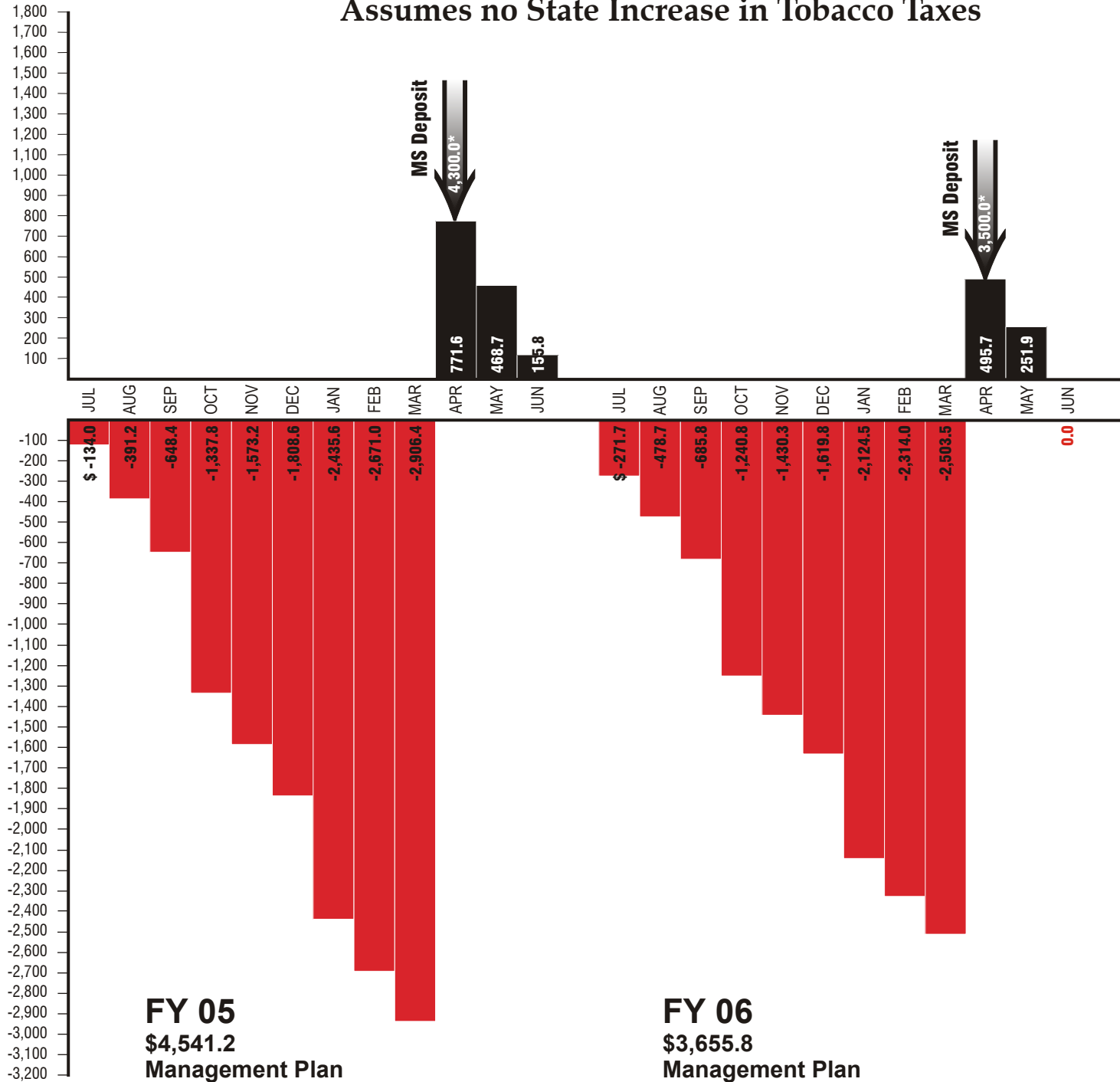
	Tobacco Use, Education and Cessation Fund
<i>FY2007 Proposed Tobacco Educ/Cess Fund Budget: **</i>	
Public Health: Tobacco Prevention and Control (current funding)	3,315.3
Public Health: Tobacco Prevention and Control (net effect of decrease in Master Settlement revenue) ***	(670.3)
Public Health: Tobacco Prevention and Control (proposed FY06 Tobacco Tax increase)	4,000.0
Public Health: Epidemiology	245.0
Behavioral Health: Behavioral Health Admin (Enforcement)	615.0
Total Proposed FY2007 Budget	7,505.0
<i>FY2007 Revenues</i>	
Dept of Law Revenue Estimate from Nat'l Assoc of Attorneys General	3,500.0
Carryforward of FY06 Revenue	2,605.1
Cigarette Tax Deposits to Tobacco Fund (Estimated to be Rcvd 7/1/06-6/30/07)	4,000.0
Total Estimated FY2006 Revenue	10,105.1
Net Revenue Available to Carryforward to FY08	2,600.1

** FY06 and FY07 Proposed Budgets are based on eliminating Tobacco Educ/Cess funding from the Community Health Grants component by replacing that source with General Funds (\$500.0).

*** The latest revenue estimates from the Nat'l Assoc of Attorneys General forecast a decrease in Tobacco Settlement revenue. This decrease in expenditure authority keeps the DHSS program in balance with the total revenue anticipated.)

Tobacco Revenue Cash Flow 2005-06

Assumes no State Increase in Tobacco Taxes



Tobacco Revenue Cash Flow 2005-07 with State Increase in Tobacco Tax

