



OREGON LEGISLATIVE POLICY & RESEARCH OFFICE

State Capitol Room 453
Salem, Oregon 97310

(503) 986-1813

Health and Human Services Team

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Basics on . . . BALLOT MEASURE #44

TITLE: INCREASES, ADDS CIGARETTE AND TOBACCO TAX; CHANGES TAX REVENUE DISTRIBUTION

- What would be the effect of Ballot Measure #44?* Passage of Ballot Measure 44 would increase and redistribute state taxes on cigarettes and other tobacco products. Tobacco products include, but are not limited to, cigarettes, cigars, chewing tobacco, pipe tobacco, and snuff.
- What is the current tax on tobacco products?* Currently, Oregon imposes a “permanent” tax of 1.4 cents per cigarette (28 cents per standard 20-count pack) and a “temporary” tax of 0.5 cents per cigarette (10 cents per standard pack) for a total of 1.9 cents per cigarette (38 cents per standard pack). The temporary tax will expire December 31, 1997. Other tobacco products are presently taxed at 35 percent of their wholesale value.
- What would the tax be if Measure 44 passes?* Measure 44 would increase the permanent tax per cigarette by 1.5 cents per cigarette, to 2.9 cents (58 cents per standard pack). The total tax would equal 3.4 cents per cigarette (68 cents per standard pack) until December 31, 1997, when the temporary tax expires. Other tobacco products would be taxed at 65 percent of their wholesale value. The measure would also impose a one-time “floor tax” on existing stocks of distributed cigarettes held in inventory on February 1, 1997, to make the increased tax apply to all retail sales beginning February 1, 1997.
- How does this compare to other states?* Every state taxes cigarettes and Oregon’s current tax of 38 cents per standard pack ranks 17th highest in the nation.¹ Passage of Measure 44, increasing the tax to 68 cents per standard pack (until December 31, 1997), would give Oregon the third highest cigarette tax in the country behind Washington’s 81.5 cents and Michigan’s 75 cents per pack. Twenty-seven states dedicate at least a portion of tobacco tax revenue to specific uses, and eleven of these dedicate at least a portion to health/welfare/human services purposes.²
- What is the current distribution of tax revenue?* Currently, Oregon law requires approximately 78.6 percent of cigarette tax revenue and all of the “other tobacco products” tax to be dedicated to the state General Fund. The remaining 21.4 percent of the cigarette tax revenue is distributed equally (approximately 7.2 percent each) to the Oregon Department of Transportation for services for the elderly and disabled, and to cities and to counties for general government purposes. All of the revenue from the temporary cigarette tax is dedicated to the Oregon Health Plan.
- What would the distribution of tax revenue be under Measure 44?* Measure 44 would allocate approximately 89.5 percent of the permanent cigarette tax to the state General Fund. Of that 89.5 percent, approximately 52 percent (or 46.8 percent of the total cigarette tax revenue) would be dedicated to the Oregon Health Plan. The Oregon Department of Transportation, cities, and counties would each receive approximately 3.5 percent of the revenues.
- All of the revenue from the one-time floor tax will go into the state General Fund with 90 percent dedicated to the Oregon Health Plan and the remaining 10 percent dedicated to the Tobacco

Use Reduction Account.

Passage of Measure 44 would result in the allocation of the “other tobacco products” tax to the state General Fund with approximately 41.5 percent dedicated to the Oregon Health Plan. Approximately 4.6 percent would be dedicated to the Tobacco Use Reduction Account.

PERCENT DISTRIBUTION: CURRENT LAW AND MEASURE 44

	Current Law			Measure 44		
	Cigarette	Other Tobacco	Temporary	Cigarette	Other Tobacco	One-Time Floor
General Fund: (total allocation)*	78.6	100	100	89.6	100	100
Oregon Health Plan			100	46.5	41.5	90
Tobacco Use Reduction Account undedicated	78.6	100		5.2	4.6	10
Cities, Counties, Special Transportation	21.4			10.4		

* revenue dedicated to the Oregon Health Plan and the Tobacco Use Reduction Account first goes into the General Fund and is then allocated for the specified purposes.

What is the Tobacco Use Reduction Account?

Measure 44 would establish the Tobacco Use Reduction Account. Funds in this account would be continuously appropriated to the Health Division to be used for prevention and education programs designed to reduce cigarette and tobacco use. The Health Division would be responsible for adopting rules for awarding grants to programs for public education on the risks of tobacco use. These programs include, but are not limited to, educating children on the health hazards and consequences of tobacco use and promoting enrollment in smoking cessation programs and other programs designed to prevent tobacco-related diseases.

How much money will passage of Measure 44 raise?

The Legislative Revenue Office estimates that the tax increase proposed by Measure 44 will generate more than \$161 million over the 1997-99 biennium, with total cigarette and tobacco tax revenue estimated at \$351 million. These estimates anticipate a decrease in tobacco sales once the cost increases. The current tax structure will raise an estimated \$189 million, including an estimated \$15.7 million from the temporary tax, for the 1997-99 biennium.

The Legislative Revenue Office estimates that Measure 44 will increase revenue dedicated to the Oregon Health Plan from \$15.7 million under current law to \$170 million in the 1997-99 biennium. The Tobacco Use Reduction Account will receive an estimated \$17.1 million while revenue for cities, counties, and special transportation projects is expected to decrease by \$1.53 million (\$510,605 less to each of the three). Again, this reduction in funding is based on an anticipated decrease in tobacco sales with the increased tax.

The Oregon Secretary of State's Office, through a committee made up of the Secretary of State, the State Treasurer, the director of the Department of Revenue, and the director of the Department of Administrative Services, provides fiscal impact estimates for direct government revenues/expenditures due to ballot measures and does not provide estimates for private firms or the public. The secretary of state's office anticipates an increase in state revenue of \$27 million in 1996-97, expanding to \$80 million per year by 1998-99. Additional expenditures for the Oregon Health Plan will increase from \$26 million to \$79 million per year by 1998-99. Expenditures for programs designed to reduce cigarette and tobacco use will increase by \$3 million in 1996-97 to \$8 million per year by 1997-98. Other revenues available to the state General Fund will decrease by \$1 million in 1996-97, and by \$4 million annually by 1998-99. Revenue available to counties and cities is anticipated to decrease by \$400,000 in 1997-97, declining by \$750,000 annually by 1998-99.

ESTIMATED CIGARETTE/TOBACCO TAX REVENUE FOR 1997-99 BIENNIUM³

	Current Law	Measure 44	Change
General Fund: (total allocation)*	157.5	320.6	163.1
Oregon Health Plan	15.7	170.1	154.4
Tobacco Use Reduction Account		17.1	17.1
undedicated	141.8	133.4	-8.4
Cities, Counties, Special Transportation	32	30.5	-1.5
Total Tax	189.5	351.1	161.6

* revenue dedicated to the Oregon Health Plan and the Tobacco Use Reduction Account first goes into the General Fund and is then allocated for the specified purposes.

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What is the current funding of the Oregon Health Plan?

The Oregon Health Plan, Oregon's Medicaid waiver program, is a \$1.7 billion program for the 1995-97 biennium. The federal government funds approximately \$1.04 billion and the state General Fund supplies another \$614 million (including an estimated \$54.7 million from the temporary 10 cent tax). \$41.6 million comes from other funds such as premiums collected from clients.

DEBATE**Proponents?****Arguments**

- importance of expanding the Oregon Health Plan
 - universal coverage
 - lower health costs

Proponents argue that Measure 44 would create revenue essential for the expansion of the Oregon Health Plan. They reason that this funding will help move the state closer to universal healthcare coverage. Supporters cite statistics indicating that since the Oregon Health Plan started two-and-a-half years ago, charitable care in Oregon has decreased by one-third and emergency room visits have decreased by five percent. Proponents contend that uncompensated care and emergency care for preventable problems can lead to providers shifting costs which lead to increased healthcare costs for all. Additionally, proponents argue that the Oregon Health Plan has further reduced provider cost-shifting with requirements that providers be compensated adequately for reasonable costs in order to minimize inappropriate cost shifts onto other healthcare payers⁴.

Measure 44 dedicates 46.5 percent of the total cigarette tax to the Oregon Health Plan which is estimated to equal \$170.1 million for the 1997-99 biennium. Supporters explain that currently no portion of the permanent cigarette tax is dedicated to the Oregon Health Plan. By expanding the Oregon Health Plan to increase the number of people covered, supporters maintain that overall healthcare costs will decrease. Additionally, moving toward healthcare coverage for all Oregonians is a fundamental objective of the Oregon Health Plan.

- tobacco users create more healthcare costs than non-tobacco users
- preventing Oregon children from smoking

Proponents also argue that tobacco users cost the healthcare system more than non-tobacco users and should be responsible for contributing more to offset these costs. Tobacco use is a leading cause of cancer, heart disease, and many other illnesses, and proponents cite statistics from the Oregon Health Division indicating that Oregon spent \$266 million in 1993 on direct costs for tobacco-related illnesses. Oregon state Medicaid funds paid close to \$27 million for smoking-related costs in 1993.

Proponents also stress the dedication of funds to the Tobacco Use Reduction Account and the overall goal of preventing children from smoking. Proponents cite statistics from the Coalition on Smoking or Health indicating that 90 percent of new smokers are under the age of 18 to demonstrate the need for prevention programs. The Oregon Health Division reports that 25 percent of Oregonians 14 to 18 years old smoke. The Tobacco Use Reduction Account will be administered by the Health Division to fund programs designed to prevent children from smoking. Proponents also argue that increased

costs will lead to a decreased number of smokers, especially children. Children generally have less discretionary income than adults and will be less able to afford cigarettes with the increased tax. Proponents claim that this, combined with the programs funded through the Tobacco Use Reduction Account, will work to prevent tobacco use among Oregon’s children.

Opponents’ Arguments

- unfair to tax tobacco users to fund the Oregon Health Plan which benefits all
- tobacco tax unstable source of funding
- cities, counties, and special transportation projects may receive less money
- inadequate restrictions on legislature’s use of funds
- Oregon Health Plan need for money due to increased provider compensation

Approximately 22 percent of Oregonians smoke and opponents argue that Measure 44 would unfairly tax a minority, tobacco users, to pay for the Oregon Health Plan, a program they contend is everyone’s responsibility. Opponents cite the Center for Disease Control statistics for 1993 which show that 6.7 percent of Oregon’s Medicaid expenditures were spent on smoking-related illnesses. Opponents contend that tobacco users are being asked to fund a significant share of the Oregon Health Plan even though, based on this statistic, they are not costing the healthcare system significantly more than non-tobacco users.

Opponents also reason that a tobacco tax is an unstable source of funding for the Oregon Health Plan. They reason that the Oregon Health Plan should be funded by as broad-based source as possible to assure funding stability. Opponents also maintain that the tobacco tax is a regressive tax.

Opponents explain that the revenue distribution changes proposed in Measure 44 are estimated to result in decreased funding for cities, counties, and special transportation projects for the elderly and disabled. In addition, approximately 38 percent of the collected revenue will be discretionary General Fund money. Opponents argue that the measure lacks adequate restriction on the legislature’s ability to use these funds.

They also contend that the measure does not assure that the Oregon Health Plan will get more money because the legislature is not prohibited from reducing current funding by an amount equal to the increase proposed by Measure 44. In other words, the legislature can maintain the current level of funding and use the tax increase to free more discretionary funds.

Opponents also assert that the Oregon Health Plan needs additional funding to expand eligibility, in part because expenses have not been adequately controlled. They claim that when the Oregon Health Plan was established, policies were instituted that increased provider compensation. Opponents argue that the money used to fund the increased provider compensation could have been used to provide health coverage to more Oregonians, negating the need for an increased tobacco tax.

CONTACTS:

PROPOSERS	OPPOSERS
<p>Chip Terhune Committee to Support the Oregon Health Plan 503-224-5650</p>	<p>Mark Nelson Fairness Matters to Oregonians 503-363-7084</p>
<p>** Please note: Ballot Measure 44 was adopted by Oregon voters in November 1996</p>	

¹ Commerce Clearinghouse: State Tax Guide, August 1996
² National Conference of State Legislatures, *Earmarking State Taxes*, April 1995
³ Legislative Revenue Office, Dick Yates, Economist
⁴ see ORS 414.610