

FINAL BILL REPORT

I 773

C 2 L 02

Synopsis as Enacted

Brief Description: *Additional tobacco taxes.*

Sponsors: *By People of the State of Washington.*

Background: *Prior to passage of Initiative Measure 773, Washington's cigarette tax was 82.5 cents per pack of 20 cigarettes. This tax generated about \$235 million of revenue per year, divided among four accounts as follows: 28 percent to the General Fund; 10 percent to the Water Quality Account; 13 percent to the Violence Reduction and Drug Enforcement (VRDE) Account; and 50 percent to the Health Services Account.*

In addition to the cigarette tax, the state levies a tobacco products tax. Prior to passage of Initiative Measure 773, this tax was 74.9 percent of the wholesale price of such things as cigars, pipe tobacco and chewing tobacco. The revenues from this tax are divided among the General Fund, the Water Quality Account, and the Health Services Account.

When projecting the effect of a cigarette tax increase, the reduced demand for taxable cigarettes at the new higher price must be accounted for. When prices go up, consumption decreases, and the purchase of untaxed cigarettes increases. This reduces the revenue to the other accounts which are dependent upon cigarette taxes, if the revenue generated by the tax increase is dedicated to only one of them.

The Tobacco Prevention and Control Account was established in fiscal year 2000 with the first \$100 million which Washington received under the nationwide settlement of state lawsuits against the major tobacco companies. The 2001-03 budget enacted in June 2001 appropriated \$35 million from this account for implementation of a tobacco use prevention and cessation plan developed by the Department of Health. That plan includes media campaigns, community education, school-based activities, and telephone counseling and referrals.

The Basic Health Plan (BHP) provides state-subsidized health insurance coverage for persons with family incomes below 200 percent of the federal poverty level. Two-hundred percent of poverty is presently about \$17,700 per year for a single individual, and \$36,000 per year for a family of four. The BHP covers physicians visits, hospital care, outpatient and laboratory procedures, prescription drugs, and limited mental health and substance abuse services. The BHP does not provide dental or vision care, or cover rehabilitative therapies. Persons covered by the BHP are required to make co-payments at the time of service, and to pay monthly premiums which range from \$10 to about half of their monthly premium cost, depending upon income. The state subsidizes the balance of the monthly premium cost. The 2001-03 budget enacted in June 2001 appropriated \$492 million from the Health Services Account to support BHP enrollment for an average of 125,000 persons per month.

Summary: Effective January 1, 2002, the cigarette tax is increased by 60 cents per pack, and the tobacco products tax is increased to 129.4 percent of the wholesale price. The revenues generated by these tax increases are deposited into the Health Services Account.

Revenues are transferred from the Health Services Account to other dedicated accounts as follows:

<i>Dollars In Millions</i>	<i>FY 2002</i>	<i>FY 2003</i>	<i>FY 2004</i>	<i>FY 2005</i>	<i>FY 2006</i>	<i>FY 2007</i>
<i>Water Quality Account</i>	\$2.2	\$4.2	\$4.1	\$4.1	\$3.9	\$3.9
<i>VRDE Account</i>	\$2.2	\$4.2	\$3.9	\$3.9	\$3.5	\$3.5
<i>Health Services Account (unrestricted)</i>	\$9.1	\$17.2	\$15.9	\$15.9	\$14.3	\$14.3

Of the remaining revenue generated by the initiative,

- p* for fiscal years 2003 and 2004, \$5 million per year is to be appropriated by the Legislature for programs which improve the health of low-income persons. The Department of Health must provide recommendations to the Legislature by March 2002 on how these funds can be most effectively used to reduce disease and improve health among low-income persons.
- p* 10 percent per year is transferred to the Tobacco Prevention and Control Account. These transfers are currently projected to total approximately \$14.5 million per year. Beginning in fiscal year 2003, the Legislature must appropriate at least \$26.2 million from this account for implementation of the tobacco prevention and control plan.
- p* the balance is to be used only to increase enrollments in the Basic Health Plan, to the extent that the Legislature first funds a "base" enrollment level of 125,000 from other sources. These revenues dedicated to increased BHP enrollments are currently projected to total \$52.4 million in fiscal year 2002, and about \$111 million per year in fiscal years 2003 and 2004, and \$107 million in fiscal year 2005.

Effective: December 6, 2001