

HOUSE BILL REPORT

HB 2194

As Reported by House Committee On:
Technology & Economic Development

Title: An act relating to creating a funding stream and program for cancer research, prevention, and care.

Brief Description: Creating a funding stream and program for cancer research, prevention, and care.

Sponsors: Representatives Hunter, Hansen, Carlyle, Johnson, Walkinshaw, Ryu and Santos.

Brief History:

Committee Activity:

Technology & Economic Development: 4/1/15, 4/15/15 [DPS].

Brief Summary of Substitute Bill

- Creates a new non-appropriated Life Science Discovery Fund (LSDF) Account to be expended solely for the purposes of cancer research, prevention, and care.
- Creates new tobacco and cigarette taxes to fund the LSDF Account for cancer research, prevention, and care.
- Creates a new account within the State Treasury to receive tax revenue from new tobacco and cigarette taxes.
- Creates a new LSDF advisory committee.

HOUSE COMMITTEE ON TECHNOLOGY & ECONOMIC DEVELOPMENT

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 8 members: Representatives Morris, Chair; Tarleton, Vice Chair; Fey, Hudgins, Magendanz, Ryu, Santos and Wylie.

Minority Report: Do not pass. Signed by 5 members: Representatives Smith, Ranking Minority Member; DeBolt, Assistant Ranking Minority Member; Harmsworth, Nealey and Young.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Staff: Kirsten Lee (786-7133).

Background:

Life Sciences Discovery Fund.

In 2005 the Life Sciences Discovery Fund (LSDF) was created to promote life science research in Washington. The LSDF was authorized to receive tobacco settlement strategic contribution payments and leverage these state contribution payments by providing grant opportunities to support life sciences research and development. The LSDF is managed by the LSDF Authority (Authority), governed by a board of trustees consisting of four legislators and seven members appointed by the Governor. The Authority solicits and reviews grant applications.

Tobacco and Cigarette Taxes.

Washington imposes a tax on the distributor of tobacco products for the sale, use, consumption, handling, or distribution of cigars, pipe tobacco, chewing tobacco, and other forms of tobacco. Cigarettes are taxed separately. Tobacco products are taxed at the following rates:

- cigars, not including "little cigars" have a 95 percent tax on the taxable sales price of cigars, not to exceed 65 cents per cigar;
- "little cigars" are taxed at the same rate per unit as cigarettes;
- moist snuff is taxed based on the net weight at a rate of \$2.526 per single unit of 1.2 ounces or less; and
- other tobacco products have a tax rate of 95 percent of the taxable sales price.

Washington imposes a tax for the sale, use, consumption, handling, possession, or distribution of cigarettes. Cigarettes are taxed at a rate of \$3.025 on a pack of 20 cigarettes, \$3.78125 on a pack of 25 cigarettes, or 12.125 cents per cigarette. Cigarettes are also subject to sales and use taxes.

Summary of Substitute Bill:

Life Sciences Discovery Fund.

The Life Science Discovery Fund Authority (Authority) is provided a new purpose of cancer research, prevention, and care.

The Authority is additionally empowered to:

- use public monies and taxes created by this act, and leverage public and private monies, to promote life sciences research including cancer research;
- hold funds received in trust to promote cancer research;
- make grants to public and private entities to fund or reimburse the entities for cancer research to be conducted in Washington;
- create one or more permanent or ad hoc advisory boards composed of scientists, clinicians, industrialists, and others familiar with cancer research, prevention, and care; and
- impose application fees.

A new advisory committee is created for the purposes of advising the Authority during the development and review of its strategic plans for cancer research and on scientific and other matters in furtherance of cancer research purposes. The new advisory committee is also responsible for appointing two new trustees to the LSDF board of trustees. Members of the advisory committee are appointed by the Authority and include:

- two trustees nominated from the University of Washington and Washington State University;
- two trustees nominated from the Fred Hutchinson Cancer Research Center, Seattle Cancer Alliance, or Seattle Children's Research Institute;
- two trustees nominated from cancer patient advocacy organizations;
- two trustees nominated by entities or systems that provide health care delivery system services;
- one trustee nominated by any health sciences and service authority; and
- two members of the public.

The Authority must develop and annually update a plan for the allocation of projected funds, including allocation targets for funding pediatric cancer research. The Authority must issue an annual report to the public including grants awarded, grant funded work in progress, research accomplishments, cancer prevention and care activities, and the future program direction. The Authority must include in its annual report information regarding:

- number and dollar amounts of the grants issued;
- grantees from the prior year;
- the Authority's administrative expenses;
- an assessment of other funds available for cancer, research, prevention and care;
- a summary of research and findings;
- a list of areas for future investment; and
- state benefits from the LSDF programs.

The Authority must request an audit by an independent auditor at least once every three years that produces recommendations to the Authority, the Governor, and the Legislature regarding improvements for the Authority's allocation of monies from the Fund to Fight Cancer Fund.

Fund to Fight Cancer.

A new non-appropriated account, the Fund to Fight Cancer (FFC), is created under the Authority in the custody of the State Treasurer to be used for the purpose of funding LSDF cancer research, prevention, and care. Revenues to the FFC consist of receipts from new tobacco and cigarette taxes levied, gifts and grants, and earned interest.

A new Fight Cancer Treasury Fund (FCTF) is created in the State Treasury to receive tax revenue from the new tobacco and cigarette taxes. Revenue from the new tobacco and cigarette taxes levied must be appropriated from the FCTF to the FFC. If the FFC has caused a state revenue decrease from imposition of the new tobacco and cigarette taxes, the Department of Revenue (DOR) must estimate the amount of the fiscal effect and the State Treasurer must transfer the amount of decreased revenue determined by the DOR from the FFC to the State General Fund by July 1 of each year to offset the state revenue decrease.

Tobacco and Cigarette Taxes.

A new tax is created upon the sale, handling, or distribution of all tobacco products, except "little cigars," of 10 percent, to be deposited into the FCTF. The tax is imposed at the time a distributor brings the product into the state, manufactures the product in this state, ships the product to retailers in this state, or handles the product for sale where no tax has already been imposed. The not-to-exceed cap on the tax of cigars applies. A new tax of 2.5 cents per cigarette is also created to be deposited into the FCTF. "Little cigars" are taxed at the same rate as cigarettes. A new floor stock tax is created for tobacco products other than cigarettes, and the existing floor stock tax applies to cigarettes.

Definitions.

Multiple definitions are provided including:

"Cancer research" means advanced and applied research and development relating to the causes, prevention, and diagnosis of cancer and care of patients including the development of tests, genetic analysis, medications, processes, services, and technologies to optimize cancer therapies and their manufacture and commercialization, and includes the costs of recruiting scientists and establishing and equipping research facilities.

"Care" means the treatment of cancer and the provision of services to provide relief from pain and suffering for cancer patients, and specifically includes genetic analysis of tumors to optimize cancer therapies, medications, processes, and technologies used for these purposes.

"Prevention" means measures to prevent the development and progression of cancer, including education, vaccinations, and screening processes and technologies, and to reduce the risk of cancer.

Substitute Bill Compared to Original Bill:

The substitute bill eliminates the double tax increase on taxes for moist snuff and "little cigars." A floor stock tax is created for tobacco products other than cigarettes, and the new floor stock tax is eliminated for cigarette taxes. The scientific review committee and the committee to solicit and evaluate grant proposals created in the original bill are eliminated and are replaced with an advisory committee run by the LSDF board-appointed advisory committee members. Advisory committee nominations must include nominations submitted by "cancer patient advocacy organizations," instead of "patient advocacy organizations." The existing LSDF board membership is restored and two new trustees appointed by the advisory committee are added to the LSDF board. Public members of the board appointed by the Governor must serve on the "board," instead of the "Authority." The Authority's powers are expanded and the LSDF is authorized to impose application and establish a tax exempt organization to receive private funds for the sole purpose of funding the LSDF. The Authority's power is also amended to "adopt policies and procedures to facilitate the orderly process of grant application, review, and award." References to "cancer research" are changed to "cancer research, prevention, and care" and references to "health care delivery" are changed to "health care delivery systems." The definition of cost is changed to mean "costs and expenses associated with the conduct of cancer research, prevention, and care." A definition for "care" is created and the definition for "fund authority" is eliminated. The DOR estimates, rather than determines, the amount of funds that must be transferred to the

State General Fund from the FFC to offset any state revenue decrease as a result of the increase in tobacco and cigarette taxes.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on April 15, 2015.

Effective Date of Substitute Bill: The bill contains an emergency clause and takes effect on July 1, 2015.

Staff Summary of Public Testimony:

(In support) There have been significant cuts in federal funding for cancer related research, including the National Institute of Health sequester. Cancer is the leading cause of death in Washington and any additional funding to help support cancer research is helpful for this reason. In addition, deterring the use of tobacco, especially with children is a priority. Raising tobacco prices will deter tobacco use. In fact, a greater tax increase, from 50 cents to \$1 to be used in part to fund tobacco prevention programs is encouraged. The LSDF supports and has the infrastructure to implement the bill to a high degree of competency.

(Opposed) Cigarette consumption is on the decline, so funding the LSDF through an increase in cigarette and tobacco taxes is not a good idea. Tax revenue from cigarette taxes is not a stable source of funding, an increase in cigarette taxes could increase cigarette smuggling and theft, drive the market to tribal stores or across the border where the increased taxed would not be imposed, and small retail store sales could suffer for safety and financial reasons. Washington has lost \$319 million in sales tax revenue due to smuggling and has the third highest smuggling rate in the nation.

Persons Testifying: (In support) Representative Hunter, prime sponsor; Ian Goodhew, University of Washington Medicine; Marcia Fromhold, Fred Hutchinson Research; John P. DesRosier, Life Sciences Discovery Fund Authority; Seth Stankus, American Stroke Association; Mary McHaley, American Cancer Society; and Genesee Adkins, University of Washington.

(Opposed) Larry Stewart and Justin Erickson, Washington Association of Neighborhood Stores; Joanie Deutsch, Washington Retail Association; and Holly Chisa, Northwest Grocery Association.

Persons Signed In To Testify But Not Testifying: None.