

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

Senate Bill 602 (Senator Hoffman)
Budget and Taxation

State Tobacco Tax - Smoking and Cancer Prevention Fund

This bill increases the excise tax on a pack of cigarettes from 36 to 61 cents. All unsold cigarettes in the State at the time of the tax increase are subject to the additional 25 cents tax (floor tax). The bill also reduces the wholesaler discount from 1.36% to .802623%. Any additional tobacco excise tax revenues resulting from this bill are to be credited to a special fund which will be distributed 10% to a Tobacco Crop Conversion Account within the Department of Agriculture and 90% to a Smoking and Cancer Prevention Fund within the Department of Health and Mental Hygiene (DHMH). The bill is effective June 1, 1996.

Fiscal Summary

State Effect: General fund revenues would increase by \$157,600 in FY 1996 and \$1.9 million in FY 1997 due to increased sales tax revenue. General fund revenues for FY 1998-2001 reflect increases in both tobacco excise tax and sales tax revenues. Special fund revenues would increase by \$13.5 million in FY 1996 and \$75.4 million in FY 1997 due to increased tobacco excise tax revenues. General fund expenditures reflect expenses of the Comptroller in FY 1996 and DHMH in FY 1997-2001. Special fund expenditures are from the Crop Conversion Account and the Smoking and Cancer Prevention Fund.

(in thousands)	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
GF Revenues	\$ 158	\$ 1,870	\$74,979	\$72,784	\$70,655	\$68,589
SF Revenues	13,483	75,387	0	0	0	0
GF Expenditures	4	87	77	79	82	85
SF Expenditures	1,348	11,538	4,000	4,000	4,000	4,000
Net Effect	\$12,288	\$65,633	\$70,903	\$68,705	\$66,572	\$64,504

Note: () - decrease; GF - general funds; FF - federal funds; SF - special funds

Local Effect: None.

Fiscal Analysis

State Revenues: As a result of this bill, excise tax revenues could increase by \$13.5 million in fiscal 1996 (including the floor tax) and \$75.4 million in fiscal 1997. Sales tax revenues could increase by \$157,600 in fiscal 1996 and \$1.9 million in fiscal 1997. The total revenue increase would be \$13.6 million in fiscal 1996 and \$77.3 million in fiscal 1997. **Exhibit 1** below reflects the amount and sources of the additional revenues for fiscal 1997. Out-year estimates reflect a 3% declining trend in consumption.

Exhibit 1 FY 1997 Revenue Impact of SB 602				
<u>(in millions)</u>	<u>Stamps Sold</u>	<u>Excise Tax</u>	<u>Sales Tax</u>	<u>Total Revenue</u>
Current Law	\$363.4	\$129.0	\$32.9	\$161.9
Senate Bill 602	<u>\$337.8</u>	<u>\$204.4</u>	<u>\$34.8</u>	<u>\$239.2</u>
Difference	(\$25.6)	\$75.4	\$1.9	\$77.3

Current Law

Because cigarette consumption is declining by an estimated 3% per year, sales in fiscal 1997 are expected to total 363.4 million packs (down from 374.6 in fiscal 1996). Under current law, excise tax revenues at 36 cents per pack, less the 1.36% wholesaler discount, would total \$129 million in fiscal 1997. Sales tax revenue from cigarettes in fiscal 1997, net the sales tax vendor credit, is estimated to be \$32.9 million. Total revenue from the sale of cigarettes is estimated to be \$161.9 million.

Senate Bill 602

The estimated fiscal 1997 sales with a 25 cent tax increase are 337.8 million packs. This reflects a 6.8% decline stemming from the 25 cent increase (.40 elasticity factor) and a 3% decline independent of the increase (a total 9.8% decline from fiscal 1996 estimated sales of 374.6 million packs). Excise tax revenue, at 61 cents per pack, would total \$204.4 million (net the .802623% wholesaler discount). The estimated sales tax revenue, net of the vendor credit, would be \$34.8 million. The total revenue from the sale of cigarettes under this bill would be \$239.2 million in fiscal 1997.

The fiscal 1996 estimate reflects the June 1, 1996 effective date of the bill and is based on current revenue estimates for June 1996. It is also assumed that the floor tax, which is estimated to yield \$8.4 million, would be collected in June 1996.

Distribution of Revenue

This bill specifies that additional tobacco excise tax revenues resulting from this bill are to be credited to a special fund which would be distributed as follows in fiscal 1996 and 1997: 10% to the Tobacco Crop Conversion Account within the Department of Agriculture and 90% to a Smoking and Cancer Prevention Fund. The resulting increase in sales tax would be distributed to the general fund. Beginning in fiscal 1998, all revenues would be distributed to the general fund. **Exhibit 2** shows the distribution of the revenue in fiscal 1996 - 2001.

Exhibit 2						
Distribution of Revenues						
(in millions)	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
Tobacco Crop Conversion	\$1.3	\$7.5	\$0.0	\$0.0	\$0.0	\$0.0
Smoking and Prevention	\$12.1	\$67.9	\$0.0	\$0.0	\$0.0	\$0.0
General Fund	<u>\$0.2</u>	<u>\$1.9</u>	<u>\$75.0</u>	<u>\$72.8</u>	<u>\$70.7</u>	<u>\$68.6</u>
Total	\$13.6	\$77.3	\$75.0	\$72.8	\$70.7	\$68.6

State Expenditures:

Office of the Comptroller

The Office of the Comptroller would incur general fund expenses of approximately \$4,200 in supplies and postage to inform vendors of the tax change and administer the floor tax in fiscal 1996.

Department of Health and Mental Hygiene

The Smoking and Cancer Prevention Fund would be a special non-lapsing fund which will be used to make annual grants to the Maryland Association of County Health Officers (MACHO) for programs relating to smoking prevention, smoking cessation, and the prevention of cancer and cancer related diseases. The Governor is required by this bill to include in the budget each year an appropriation for the lesser of \$4 million or the balance of the fund for the grants.

General fund expenditures could increase by \$86,606 in fiscal 1997 for costs associated with administering the Smoking and Cancer Prevention Fund. DHMH would need to hire one Health Educator II and one Administrative Officer to administer the grants and assist MACHO with program development. This estimate includes salaries of \$52,654, fringe benefits, one-time start-up costs, and operating expenses as shown below. These would be general fund expenditures, since the bill requires all revenues in the Smoking and Cancer Prevention Fund to be used for grants.

Salaries & Fringe Benefits	\$71,852
Equipment and Operating Expenses	<u>14,754</u>
FY 1997 Administrative Expenditures	\$86,606

Future year administrative expenses reflect (1) full salaries with 3.5% annual increases and 3% employee turnover; and (2) 2% annual increases in ongoing operating expenses.

Special fund expenditures from the Smoking and Cancer Prevention Fund would be a maximum of \$4 million per year, as the Governor is required to appropriate the lesser of \$4 million or the balance of the fund each year for the grants.

Department of Agriculture

The funds in the Tobacco Crop Conversion Account are to be used to develop and implement a program to encourage and assist tobacco growers in the State to convert tobacco farmland to produce uses other than the growing of tobacco. Since the bill does not specify that this account is to be non-lapsing, it is assumed that all revenues deposited in the account would be spent in the year received. Accordingly expenditures would total \$1.3 million in fiscal 1996 and \$7.5 in fiscal 1997.

Exhibit 3 reflects anticipated yearly revenues and expenditures by fund.

Exhibit 3
Yearly Revenues and Expenditures by Fund

(in thousands)	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
General Fund Revenues*	\$ 158	\$ 1,870	\$74,979	\$72,784	\$70,655	\$68,589
General Fund Expend. **	4	87	77	79	82	85
Crop Conversion Revenues	1,348	7,538	0	0	0	0
Crop Conversion Expend.	1,348	7,538	0	0	0	0
Smoking Fund Revenues	12,134	67,850	0	0	0	0
Smoking Fund Expend.	0	4,000	4,000	4,000	4,000	4,000
Net Effect	\$12,288	\$65,633	\$70,903	\$68,705	\$66,572	\$64,504

* Includes only sales tax revenues for FY 1996-1997.

** Includes \$4,200 costs for the Comptroller in FY 1996 and DHMH administrative expenses in FY 1997-2001.

Information Source(s): Office of the Comptroller (Alcohol and Tobacco Tax Unit), Department of Health and Mental Hygiene, Department of Agriculture, Department of Fiscal Services

Fiscal Note History: First Reader - March 1, 1996

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