

Department of Fiscal Services  
Maryland General Assembly

FISCAL NOTE

Senate Bill 544 (Senator Hoffman)  
Budget and Taxation and Judicial Proceedings

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**State Tobacco Tax - Smoking and Cancer Prevention Fund - Poverty Grants for Schools**

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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 cent tax. The bill also reduces the wholesaler discount from 1.36% to 0.802623%.

Any additional tobacco excise tax revenues resulting from this bill are to be credited to a special fund which is then distributed as follows: (1) 10% to a Tobacco Crop Conversion Account within the Department of Agriculture; (2) 25% to a Smoking and Cancer Prevention Fund within the Department of Health and Mental Hygiene (DHMH); and (3) 65% to local boards of education for poverty grants.

The bill is effective June 1, 1997.

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**Fiscal Summary**

**State Effect:** General fund revenues would increase by approximately \$100,000 in FY 1998 due to increased sales tax revenues. Special fund revenues would increase by \$2.5 million in FY 1997 and \$73.3 million in FY 1998 due to increased excise tax revenues, including floor tax revenues. General fund expenditures for the Comptroller would increase by \$4,000 in FY 1997 and general fund expenditures would increase by \$309,000 for the Department of Health and Mental Hygiene in FY 1998. Special fund expenditures in FY 1998 are from the smoking and cancer prevention fund, the crop conversion fund, and the poverty grants for local boards of education. Future year estimates reflect decreasing cigarette consumption, inflation, and salary adjustments.

(in thousands)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
GF Revenues	\$100	\$100	\$100	\$100	\$100
SF Revenues	\$73,300	\$63,600	\$62,000	\$60,400	\$58,900
GF Expenditures	\$309	\$320	\$332	\$344	\$355
SF Expenditures	\$59,000	\$51,700	\$50,500	\$49,300	\$48,200
Net Effect	\$14,091	\$11,680	\$11,268	\$10,856	\$10,445

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

**Local Effect:** Local revenues and expenditures could increase by \$47.6 million in FY 1998 as discussed below.

**Small Business Effect:** Meaningful effect on small businesses as discussed below.

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## Fiscal Analysis

### State Revenues:

#### *Current Law*

Because cigarette consumption is declining by an estimated 2.5% per year, sales in fiscal 1998 are expected to total 354.3 million packs (down from 363.4 million in fiscal 1997). Under current law, excise tax revenues at 36 cents per pack, less the 1.36% vendor discount, would total \$125.8 million in fiscal 1998. Sales tax revenues from cigarettes in fiscal 1998, net of the sales tax vendor credit, is estimated to be \$34.5 million. Total tax revenues from the sale of cigarettes under current law is estimated to be \$160.3 million in fiscal 1998.

#### *Senate Bill 544*

As seen in **Exhibit 1**, the estimated fiscal 1998 sales with a 25 cent tax increase are 315.7 million packs. This reflects a 10.9% decline stemming from the 25 cent increase and a 2.5% decline independent of the increase. Excise tax revenues, at 61 cents per pack, would total \$191.0 million (net of the .802623% wholesaler discount). The estimated sales tax revenues, net of the vendor credit, would be \$34.6 million. The 25 cent floor tax levied on all cigarettes in inventory is estimated to bring in \$8.1 million in revenues for fiscal 1998 only. The Department of Fiscal Services advises that a portion of floor tax revenues could be received in fiscal 1997, although revenues from the tax are not required to be remitted to the Comptroller until September 30, 1997.

The total revenues from the sale of cigarettes under this bill would be \$233.7 million in fiscal

1998, an increase of \$73.4 million. All but \$100,000 of this increase would be credited to the special fund created by this bill.

Since the bill is effective June 1, 1997, one month of increased tax revenues would result for fiscal 1997. This increase in revenues would be approximately \$2.5 million.

**Exhibit 1  
FY 1998 Revenue Impact of SB 544**

(in millions)	<u>Stamps Sold</u>	<u>Excise Tax</u>	<u>Sales Tax</u>	<u>Floor Tax</u>	<u>Total Revenue</u>
Current Law	354.3	\$125.8	\$34.5	\$0.0	\$160.3
Senate Bill 544	<u>315.7</u>	<u>\$191.0</u>	<u>\$34.6</u>	<u>\$8.1</u>	<u>\$233.7</u>
Difference	(38.6)	\$65.2	\$0.1	\$8.1	\$73.4

*Distribution of Revenues*

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: 10% to the Tobacco Crop Conversion Account within the Department of Agriculture, 25% to a Smoking and Cancer Prevention Fund within the Department of Health and Mental Hygiene, and 65% to local boards of education for poverty grants. The resulting increase in sales tax revenues would be distributed to the general fund. **Exhibit 2** shows the distribution of revenues in fiscal 1998 - 2002.

**Exhibit 2  
Revenue Distribution under SB 544**

(in millions)	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>
Tobacco Crop Conversion	\$7.4	\$6.4	\$6.2	\$6.0	\$5.9
Smoking and Prevention	\$18.3	\$15.9	\$15.5	\$15.1	\$14.7
Local Poverty Grants	\$47.6	\$41.3	\$40.3	\$39.3	\$38.3
General Fund	<u>\$0.1</u>	<u>\$0.1</u>	<u>\$0.1</u>	<u>\$0.1</u>	<u>\$0.1</u>
<b>Total</b>	<b>\$73.4</b>	<b>\$63.7</b>	<b>\$62.1</b>	<b>\$60.5</b>	<b>\$59.0</b>

Of the \$2.5 million in additional tax revenues generated in fiscal 1997, approximately \$1,625,000 would go to poverty grants, \$625,000 would go to the smoking prevention fund, and \$250,000 would go to the crop conversion fund.

**State Expenditures:**

*Office of the Comptroller*

The Office of the Comptroller would incur general fund expenditures in fiscal 1997 of approximately \$4,000 for supplies and postage to inform vendors of the tax change and administer the floor tax.

*Department of Health and Mental Hygiene*

The Smoking and Cancer Prevention Fund would be a special fund used to make annual grants to the Maryland Association of County Health Officers 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.

DHMH advises that general fund expenditures could increase by \$309,170 in fiscal 1998 for the costs associated with administering the Smoking and Cancer Prevention Fund. Administration of this new fund would require one Program Administrator, four Community Health Educators, two Administrative Officers, and one Office Secretary to administer the grants and assist the association with program development. Since the bill requires all revenues in the Smoking and Cancer Prevention Fund to be used for grants, these would be general fund expenditures. This estimate includes salaries of \$234,685, fringe benefits, and operating expenses as shown below.

Salaries & Fringe Benefits	\$308,269
Equipment and Operating Expenses	<u>901</u>
<b>FY 1998 Administrative Expenditures</b>	<b>\$309,170</b>

Future year administrative expenses reflect full salaries with 3.5% annual increases and 3% employee turnover as well as 2% annual increases in ongoing operating expenses.

The Department of Fiscal Services advises that it is assumed that DHMH could begin administration of this program using existing resources. Depending upon the specific number of grants and grant amounts awarded from the fund, the additional staff requested by the department may be needed in future years.

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

*Department of Agriculture*

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. It is assumed that all revenues deposited in the account would be spent in the year received. Accordingly, expenditures would total \$7.4 million in fiscal 1998.

**Local Effect:** This bill specifies that 65% of the additional tax revenues from the excise tax increase be provided to county boards of education, subject to the appropriation of funds in the State budget. Each county would receive a poverty grant in an amount equal to \$500 times the number of students living in poverty enrolled in the county schools the previous school year, to be distributed directly to schools based on the number of students in poverty in each school. The bill defines a student living in poverty to mean a student who qualifies for a free or reduced price lunch. The bill also requires that the State board of education and the local boards of education issue annual reports indicating what the grants were spent on and the effectiveness of those grants in improving educational outcomes.

**Exhibit 3** shows the number of students qualifying for a free or reduced price lunch by county for fiscal 1998.

**Exhibit 3  
Students receiving Free or Reduced Price Lunches  
Fiscal 1998**

County	Students on Free or Reduced Lunch Price	County	Students on Free or Reduced Lunch Price
Baltimore City	73,749	St. Mary's	3,591
Prince George's	52,148	Cecil	3,390
Baltimore	27,496	Carroll	2,481
Montgomery	27,251	Worcester	2,455
Anne Arundel	11,318	Dorchester	2,424
Harford	6,550	Caroline	2,397
Washington	5,878	Garrett	2,261
Allegany	5,197	Calvert	2,053

Frederick	4,948	Somerset	1,765
Charles	4,806	Queen Anne's	1,208
Wicomico	4,800	Talbot	1,188
Howard	3,887	Kent	1,071
<b>Total</b>	<b>254,312</b>		

If the funding amount included in the State budget for these grants is less than \$500 times the statewide number of students, the amount would be calculated as follows. For each school in the State, the percentage of all students enrolled in the school for the previous school year that were living in poverty would be determined, then each school would be ranked relative to all schools in the State from the highest to the lowest percentages of students living in poverty. Beginning with the school with the highest percentage, an amount equal to \$500 times the number of students living in poverty would be distributed to county school boards for distribution to particular schools. This distribution would continue until all appropriated funds are exhausted.

Estimated funding for the poverty grants is \$47.6 million in fiscal 1998. As **Exhibit 3** indicates, there are a total of 254,312 students living in poverty in fiscal 1998. If every county received \$500 for each of these students, revenues of approximately \$127.2 million would be required. The Department of Fiscal Services assumes that the distribution to schools of the \$47.6 million from this excise tax would be relatively proportional to the number of students living in poverty in each county.

**Small Business Effect:** This bill could significantly affect small businesses. The majority of tobacco producers, wholesalers, and retailers in Maryland are small businesses. The 25 cent tobacco tax increase as proposed in this bill would reduce the sales of tobacco products. The loss in revenues from reduced sales, while partially offset by increased profits per pack, would decrease the profits that businesses realize from tobacco sales.

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**Information Sources:** Comptroller of the Treasury (Alcohol and Tobacco Tax Unit), Department of Health and Mental Hygiene, Department of Fiscal Services

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