

**Department of Legislative Services**  
 Maryland General Assembly  
 2004 Session

**FISCAL AND POLICY NOTE**

House Bill 1315  
 Ways and Means

(Delegate Hurson, *et al.*)

**Tobacco Tax Revenues - Maryland Medical Assistance Program and Maryland Children's Health Program - Increased Provider Reimbursements**

This bill establishes a special fund to increase provider reimbursements in Medicaid and the Maryland Children's Health Program (MCHP). To fund the initiative, the bill increases the cigarette tax from: (1) 50 cents to 75 cents per package of 10 or fewer cigarettes; (2) \$1.00 to \$1.50 per packages of 11 to 20 cigarettes; (3) 5.0 cents to 7.5 cents per cigarette in packages of more than 20; and (4) 5.0 cents to 7.5 cents for each cigarette in a package of free sample cigarettes. The Comptroller must deposit \$100 million of the increased tobacco tax revenues in the special fund and any remaining balance to the general fund. Money in the special fund may be appropriated only to increase participating provider reimbursements in the Medicaid and MCHP programs.

**Fiscal Summary**

**State Effect:** Special fund revenues could increase by \$94.9 million in FY 2005. Medicaid and MCHP expenditures could increase by \$189.8 million (50% federal funds, 50% special funds) to increase provider reimbursements. Future year estimates reflect decreasing revenues due to lower sales of tobacco products.

| (\$ in millions) | FY 2005  | FY 2006  | FY 2007  | FY 2008  | FY 2009  |
|------------------|----------|----------|----------|----------|----------|
| SF Revenue       | \$94.9   | \$83.8   | \$82.7   | \$81.7   | \$79.6   |
| SF Expenditure   | 94.9     | 83.8     | 82.7     | 81.7     | 79.6     |
| FF Expenditure   | 94.9     | 83.8     | 82.7     | 81.7     | 79.6     |
| Net Effect       | (\$94.9) | (\$83.8) | (\$82.7) | (\$81.7) | (\$79.6) |

*Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect*

**Local Effect:** None.

**Small Business Effect:** Meaningful.

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## Analysis

**Current Law:** Medicaid and MCHP provide comprehensive health care coverage to qualifying individuals. An adult may qualify for Medicaid if the adult is: (1) aged, blind, or disabled; (2) in a family where one parent is absent, disabled, unemployed, or underemployed; or (3) a pregnant woman. Adults must also have very low incomes to qualify for Medicaid (about 46% of the federal poverty level guidelines, or FPG), with the exception of pregnant women who are covered up to 250% of FPG. MCHP covers children whose family income is 300% of FPG or less, and to pregnant women whose family income is 250% of FPG or less.

**Background:** In fiscal 2005, Medicaid enrollment is projected at 519,778; MCHP enrollment is projected at 101,486. The Governor's proposed fiscal 2005 budget includes \$1.38 billion in general/federal funds for payments to Medicaid managed care organizations, which provide health care coverage to Medicaid and MCHP enrollees.

Chapter 288 of 2002 increased the cigarette tax from \$.66 to \$1.00 per pack. Chapter 121 of 1999 increased the cigarette tax from \$.36 to \$.66 and also lowered the licensed wholesaler discount from 1.36% to 0.82%. In addition, Chapter 121 imposed a 15% tax on the wholesale price of other tobacco products such as cigars and smokeless tobacco.

After the tax increase enacted in 1999, cigarette revenues were approximately \$197.8 million in fiscal 2000, approximately \$69.3 million more than in fiscal 1999. During that same period, Maryland taxable cigarette sales decreased by approximately 16.3%. After the tax increase of 2002, fiscal 2003 cigarette revenues were approximately \$261.4 million, approximately \$58.5 million more than in fiscal 2002. Sales decreased over that period by approximately 11.6%.

**State Fiscal Effect:** Special fund revenues could increase by \$94.9 million in fiscal 2005. This estimate assumes: (1) \$83.7 million from the excise tax; (2) \$10 million from the floor tax; and (3) \$1.2 million from the sales and use tax. Future year estimates reflect decreases resulting from fewer tobacco products sold due to the increased price per pack.

Medicaid expenditures could increase by \$189.8 million, beginning in fiscal 2005. This estimate assumes \$94.9 million would be used to increase provider reimbursements in Medicaid and MHCP, and these funds would receive federal matching funds. Future year

estimates reflect the decline in tobacco tax revenues and corresponding decrease in federal matching funds in the Medicaid and MCHP programs.

**Small Business Effect:** According to the *1998 Survey of U.S. Business* by the U.S. Census Bureau, over 92% of general merchandise stores, food and beverage stores, and gas stations (places where individuals are likely to purchase tobacco products), have fewer than 20 employees. Cigarettes are major sources of sales revenues in these stores. Any reduction in cigarette sales would have an impact on these businesses. Small business health care providers who participate in Medicaid and MCHP could receive higher compensation.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Comptroller's Office, Department of Health and Mental Hygiene (Medicaid), Department of Legislative Services

**Fiscal Note History:** First Reader - March 22, 2004  
ncs/mdr

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