

Agenda Report

TO: CITY COUNCIL
Through Legislative Policy Committee

DATE: September 25, 2006

FROM: Cynthia J. Kurtz
City Manager

SUBJECT: SUPPORT PROPOSITION 86 – The Tobacco Tax Act of 2006

RECOMMENDATION:

It is recommended that the City Council:

Support Proposition 86, The Tobacco Tax Act of 2006

BACKGROUND:

Proposition 86, the Tobacco Tax Act of 2006, will appear on the November 7, 2006 general election ballot. If passed, this initiative would increase state excise taxes on cigarettes by \$2.60 per pack, generating an estimated \$2 - \$3 billion dollars in state revenue annually.¹ The increased cost of tobacco products would significantly reduce cigarette usage, resulting in improved health status of Californians. The new funds would be used to support hospital emergency services, community clinics, children's health insurance programs, tobacco use prevention programs, nursing programs, chronic disease prevention (obesity, heart disease, stroke, and asthma), cancer research, and loan repayment programs to encourage physicians to work in underserved communities.

Tobacco use is one of the leading causes of serious health problems including many forms of cancer, heart disease, and respiratory illnesses such as emphysema. The treatment of tobacco related diseases places a significant burden on California's health care system and is estimated to cost the state billions of dollars annually in medical expenses and lost productivity.²

¹ Tobacco Control Section, California Department of Health Services, "Economic and Health Effects of a State Cigarette Excise Tax Increase in California", 2006. Legislative Analyst Office, State of California.

² Tobacco Control Section, California Department of Health Services. Center for Disease Control and Prevention.

Although California has one of the lowest rates of smoking in the country at 14.8% for adults and 13.2% in youth, this still represents approximately 4 - 5 million individuals that use tobacco products.³ These figures do not even take into account the effects of dangerous second hand smoke.⁴

The tobacco excise tax in California is currently at 87 cents per pack, ranks 23rd highest of all states, and has not been raised since 1998. If Proposition 86 passes, the additional \$2.60 tobacco tax will increase the average price of cigarettes to between \$6.55 and \$6.83 per pack. An extensive scientific analysis by the California Department of Health Services estimates the following effects of a new \$2.60 excise tax:

- Cigarette consumption in California would be reduced by 26.3%, which represents 312 million fewer packs of cigarettes consumed annually.
- Approximately 502,108 smokers in California would quit smoking, which would lower the state rate by 13.2%.
- Approximately 120,000 high school students and 30,000 middle school students would either quit smoking or not start smoking because of the tax increase.
- The tax increase alone would prevent more than 700,000 children currently under 17 years of age from becoming smokers in adulthood.
- Approximately 120,000 deaths due to smoking would be prevented among current California adult smokers who quit smoking.
- Nearly 180,000 deaths due to smoking would be prevented among California youth currently under the age of 17 years.
- Nearly \$16.5 billion would be saved in long-term health care costs.
- Total California tax revenue from the tobacco tax would increase by more than \$3 billion dollars a year.

Revenue from the proposed tobacco tax increase would be deposited in a Tobacco Tax of 2006 Trust Fund and would be allocated according to provisions outlined in the legislation. An unspecified amount, estimated to be \$170 million dollars, would be used to backfill revenue losses to Proposition 10 which may occur due to the tax increases in this measure. A Health Treatment and Services Account would be established and receive 52.75% of the remaining funds. This account would support funding to emergency/ trauma centers, nurse education programs, community clinics, payment for uncompensated health care for indigents, loan repayment programs to encourage physicians to work in underserved areas, cancer treatment, and tobacco prevention programs. A Health Maintenance and Disease Prevention Account would be established and receive 42.25% of the remaining funds. This account would support the expansion of children's health insurance, streamlining application and enrollment in Medi-Cal and Healthy Families programs, tobacco related programs, and

³ Campaign for Tobacco Free Kids Fact Sheet

⁴ Report of the Surgeon General, "The Health Consequences of Involuntary Exposure to Tobacco Smoke", 2006.

chronic disease prevention programs that address issues such as obesity, diabetes, heart disease, stroke, and asthma. A Health and Disease Research Account would receive 5% of the funds to support medical research specifically related to cancer and other tobacco related disease research. A more detailed summary of how the revenue would be allocated is included as Attachment 1.

The measure would also implement other policy changes that would affect the state requirements for charity care, the collection of unpaid medical bills, and the coordination of medical services provided by hospitals.

The Tobacco Tax Act of 2006 will result in improved health status of Californians by reducing tobacco usage and will also provide vital revenue statewide to support programs to increase access to health care, assist hospitals that provide emergency services, prevent chronic diseases, increase health care work force development, and fund cancer research. It is recommended that the City Council support Proposition 86.

Proponents of Proposition 86 include the California Medical Association, California Hospital Association, Children Now, American Heart and Lung Associations, and numerous other health advocacy and consumer groups.

Opponents of the tobacco tax argue that this measure would unfairly place a large tax burden on smokers. If the tobacco tax is passed, California will have the highest cigarette tax in the country. Research by the Centers for Disease Control (CDC), however, estimates that smoking costs the state of California \$14.14 dollars per pack sold due to health care expenses and lost productivity. This is still more than the cost of a pack of cigarettes under this measure. Opponents also claim that cigarette tax increases do not provide a reliable source of revenue for programs since the rate of tobacco use will ultimately decline. The primary opponents of Proposition 86 include the tobacco industry, tobacco retailers, and anti-taxation groups.

LOCAL IMPACT:

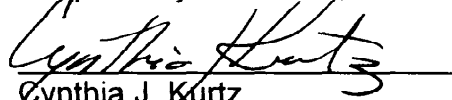
Reductions in tobacco use in Pasadena would improve the health of individual residents and the overall community. Revenue generated by a new tobacco tax would directly enhance services provided by the Pasadena Public Health Department through the allocation of additional funding support for several programs such as tobacco control, chronic disease prevention, and expansion of children's health insurance programs. Huntington Memorial Hospital (HMH) would receive funding support to help pay for their unreimbursed costs for emergency services and to improve their facilities and equipment. The Community Health Alliance of Pasadena (CHAP) would also receive funding as part of the community clinic allocation. Pasadena City College (PCC) could potentially benefit through support for their nursing programs. Other local agencies and organizations also stand to benefit through funding opportunities

that will likely be available in the areas of disease prevention, community education, and cancer research.


FISCAL IMPACT:

According to the Legislative Analysts Office summary, the tobacco tax as proposed would generate about \$2.1 billion dollars annually; however, this amount would decline slightly over time as tobacco usage decreases. Local government would likely experience an annual increase in sales tax revenue. Revenue from the excise tax will be distributed from the state to local jurisdictions through contracts and grants and would likely support several programs within the Pasadena Public Health Department, as well as community partners such as Huntington Memorial Hospital, CHAP, and PCC. The exact amounts of these allocations will be determined by various formulas developed by the State Department of Health Services. Increases in enrollment into health insurance programs and decreases in morbidity and mortality as a result of tobacco related illness would benefit the local health care system and employers. This would result in unknown but potentially significant cost savings to local government and the health care network.

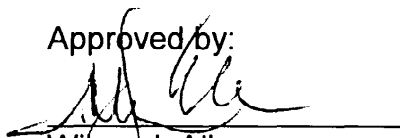
Respectfully submitted,


Cynthia J. Kurtz
City Manager

Prepared by:


Takashi M. Wada, MD MPH
Health Officer
Pasadena Public Health Department

Approved by:


Wilma J. Allen
Director
Pasadena Public Health Department

ATTACHMENT 1

Purpose	Allocation	Estimate of annual funding (dollars in millions)
Backfill of California Children and Families First Trust Fund (Proposition 10) to replace any revenue loss due to implementation of Proposition 86	Unspecified	\$170
Health Treatment and Services Account Hospital emergency/ trauma care Nursing education programs Nonprofit community clinics California Healthcare for Indigents Program Tobacco cessation services Prostate cancer treatment Rural Health Services Program Physician Loan Repayment for work in underserved areas	52.75% of remaining funds 74.50% of account 9.00% of account 5.75% of account 5.75% of account 1.75% of account 1.75% of account 0.75% of account 0.75% of account	\$1,070
Health Maintenance and Disease Prevention Account Children's health insurance programs Heart Disease and Stroke programs Breast and cervical cancer program Obesity, diabetes, and chronic diseases program Tobacco control media campaign Tobacco control competitive grants program Local health department tobacco prevention programs Asthma program Colorectal cancer program Tobacco prevention education programs Tobacco control enforcement activities Evaluation of tobacco control programs	42.25% of remaining funds 45.50% of account 8.50% of account 8.00% of account 7.75% of account 6.75% of account 4.50% of account 4.25% of account 4.25% of account 4.25% of account 3.50% of account 2.25% of account 0.50% of account	\$770
Health and Disease Research Account Tobacco control research Breast cancer research Cancer research Cancer registry Lung cancer research	5% of remaining funds 34.00% of account 25.75% of account 14.75% of account 14.50% of account 11.00% of account	\$90
Total Tobacco Tax Funding Allocations		\$2,100