



Colorado
Legislative
Council
Staff

Amendment 72

**FISCAL IMPACT
STATEMENT**

Date: September 1, 2016

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BALLOT TITLE: INCREASE CIGARETTE AND TOBACCO TAXES

Fiscal Impact Summary	FY 2016-2017	FY 2017-2018
State Revenue	<u>\$149.5 million</u>	<u>\$299.0 million</u>
General Fund	(\$1.9 million)	(\$4.5 million)
Cash Funds	\$151.4 million	\$303.5 million
State Expenditures	<u>\$1,554,338</u>	<u>\$14,274,494</u>
General Fund	\$114,525	\$54,201
Cash Funds	\$178,886	\$6,913,337
Centrally Appropriated Costs	\$1,260,927	\$7,306,956
FTE Position Change	1.8 FTE	101.7 FTE

Summary of Measure

Amendment 72 proposes amending the Colorado Constitution to increase the state tax on a pack of cigarettes from \$0.84 to \$2.59 and on other tobacco products from 40 percent to 62 percent of the price, beginning January 1, 2017. The amendment requires that new tax money be spent on health-related programs, medical research, doctors and clinics in rural or low income areas, and veterans' services.

Background

Colorado currently taxes cigarettes at a rate of 84 cents per pack and other tobacco products at 40 percent of the manufacturer's price. Half of the tax on other tobacco products and 20 cents per pack of the tax on cigarettes is deposited in the General Fund and appropriated at the discretion of the General Assembly. The remaining 64 cents per pack of cigarettes and the other half of the tax on other tobacco products are collected as a result of Amendment 35, which went into effect January 1, 2005. Tax revenue collected under Amendment 35 must be spent on health-related programs identified in the Colorado Constitution, including Medicaid, children's health care, tobacco education programs, and disease prevention and treatment.

State Revenue

Amendment 72 is expected to increase state tax revenue by \$149.5 million in FY 2016-17 and by \$299.0 million in FY 2017-18, the first full year in which the new tax will be in effect. Although new state tax revenue is estimated to be \$315.7 million, the higher cost of cigarettes is

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expected to reduce tobacco consumption and revenue from existing taxes by \$16.7 million. The net impact to state revenue under Amendment 72 is expected to be \$299.0 million. New tax revenue under Amendment 72 will be credited to the State Treasury and appropriated to various state agencies for the purposes outlined in the measure.

Table 1 shows the expected FY 2016-17 and FY 2017-18 impact on each program.

Table 1. Current and Proposed Cigarette Tax Revenue by Program						
	FY 2016-2017			FY 2017-2018		
	New Revenue	Existing Revenue	Net Impact	New Revenue	Existing Revenue	Net Impact
Amendment 35 Programs						
Children's Basic Health Plan & Medicaid	\$13,069,980	(\$2,737,000)	\$10,332,980	\$16,560,000	(\$5,474,000)	\$11,086,000
Comprehensive Primary Care	5,398,470	(1,130,500)	4,267,970	6,840,000	(2,261,000)	4,579,000
Tobacco Education Programs	4,546,080	(952,000)	3,594,080	5,760,000	(1,904,000)	3,856,000
Cancer, Cardiovascular, and Pulmonary Programs	4,546,080	(952,000)	3,594,080	5,760,000	(1,904,000)	3,856,000
Compensation of State and Local Governments	852,390	(178,500)	673,890	1,080,000	(357,000)	723,000
Amendment 72 Programs						
Research Grants	42,619,500	0	42,619,500	92,096,341	0	92,096,341
Tobacco Education and Prevention	25,256,000	0	25,256,000	54,575,610	0	54,575,610
Veterans Grants	22,099,000	0	22,099,000	47,753,659	0	47,753,659
Mental Health Grants	15,785,000	0	15,785,000	34,109,756	0	34,109,756
Construction and Improvement Grants	15,785,000	0	15,785,000	34,109,756	0	34,109,756
Student Loan Repayment	7,892,500	0	7,892,500	17,054,878	0	17,054,878
Other Distributions						
State General Fund		(1,691,000)	(1,691,000)		(3,382,000)	(3,382,000)
Local Governments	673,890	(459,000)	214,890	723,000	(918,000)	(195,000)

State Expenditures

Amendment 72 increases state expenditures by \$1,554,338 in FY 2016-17 and by \$14,274,494 in FY 2017-18. Costs will increase in the Departments of Health Care Policy and Financing, Public Health and Environment, and Revenue, as shown below.

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Table 2. Expenditures Under Amendment 72		
Cost Components	FY 2016-17	FY 2017-18
Department of Health Care Policy and Financing		\$66,561
Personal Services		\$48,548
FTE		0.9 FTE
Operating Expenses and Capital Outlay Costs		\$5,653
Centrally Appropriated Costs*		\$12,360
Department of Public Health Care and Environment	\$1,439,813	\$14,207,933
Personal Services	148,958	\$6,320,687
FTE	1.8 FTE	100.8 FTE
Operating Expenses and Capital Outlay Costs	\$29,928	\$542,735
Travel		\$49,915
Centrally Appropriated Costs*	\$1,260,927	\$7,294,596
Department of Revenue	\$114,525	
GenTax System Upgrades and Testing	\$42,677	
Cigarette Tax Stamps	\$68,248	
Form Updates	\$3,600	
TOTAL	\$1,554,338	\$14,274,494

*Centrally appropriated costs are not included in the bill's appropriation.

Department of Health Care Policy and Financing (HCPF). Beginning in FY 2017-18, Amendment 72 increases General Fund expenditures in HCPF by \$66,561 and 1.0 FTE (prorated to 0.9 FTE in the first year). HCPF requires one FTE to administer grant revenue for construction, improvement, and new technologies for community health facilities.

Department of Public Health and Environment (CDPHE). Amendment 72 increases cash fund expenditures in CDPHE by \$1,439,813 in FY 2016-17 and by \$14,207,933 in FY 2017-18. CDPHE requires six FTE in FY 2016-17, prorated to 1.8 FTE to account for an April 1 start date, to begin building four new grant programs. FY 2017-18 expenditures include 100.8 FTE for these four new grant programs as well as expansion of existing programs. As specified by Amendment 72, CDPHE must expend revenue collected from the tax on research grants to study tobacco-related health issues; grants to improve health, find employment, and prevent homelessness for veterans; grants for child and adolescent mental health and substance abuse prevention and treatment; student loan repayment and training for health care professionals working in rural or underserved areas of the state; and education and prevention programs encouraging people to stop using tobacco. Expenditures for travel include site visits with grantees.

Department of Revenue (DOR). Amendment 72 increases one-time General Fund expenditures in the Department of Revenue by \$114,525 in FY 2016-17. DOR requires 175 hours of programming to the GenTax computer system at \$200 per hour and \$7,677 for testing to ensure the system functions properly. As of January 1, 2017, DOR will have to destroy its current inventory of cigarette stamps and replace them with new stamps indicating the higher tax rates. The current inventory is valued at \$68,248. Given that smuggling and counterfeiting of tax stamps can occur when states adopt tax increases, DOR may need to purchase new cigarette tax stamps

with enhanced security measures. These costs have not been estimated yet, and the fiscal note assumes that DOR will request necessary funding through the annual budget process. Finally, three forms will require updating at a cost of \$3,600, to be reappropriated to the Department of Personnel and Administration.

Centrally appropriated costs. Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. The centrally appropriated costs subject to this policy are estimated in the fiscal note for informational purposes and summarized in Table 3.

Table 3. Centrally Appropriated Costs Under Amendment 72		
Cost Components	FY 2016-17	FY 2017-18
Employee Insurance (Health, Life, Dental, and Short-term Disability)		\$817,813
Supplemental Employee Retirement Payments		\$570,720
Indirect Costs		\$3,936,823
Leased Space		\$1,981,600
TOTAL		\$7,306,956

Local Government Impact

The net impact on county and municipal revenues from Amendment 72 is a \$214,890 increase in FY 2016-17 and a \$195,000 reduction in FY 2017-18 and future years.

Counties and municipalities receive 27 percent of pre-Amendment 35 cigarette tax revenue. This revenue is expected to decrease by \$459,000 in FY 2016-17 and by \$918,000 in FY 2017-18. Amendment 35 revenues to local governments will be reduced but up to \$1.08 million of Amendment 72 revenues will be used to offset these losses. The impact is expected to be a \$673,890 increase in FY 2016-17 and a \$723,000 increase in FY 2017-18.

Effective Date

Amendment 72 takes effect January 1, 2017.

State and Local Government Contacts

Health Care Policy and Financing
Revenue

Public Health and Environment