

**REVENUE:** Revenue statement issued

**FISCAL:** May have fiscal impact, no statement yet issued

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**Action:** Do pass with amendments, be printed engrossed and be referred to Ways and Means by prior reference

**Vote:** 6-2-1

**Yeas:** Berger, Gelser, Read, Rosenbaum, Witt, Barnhart

**Nays:** Butler, Olson

**Exc.:** Bruun

**Prepared By:** Mazen Malik, Economist

**Meeting Dates:** 2/7, 2/8, 2/9, 2/12, 2/14

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**WHAT THE BILL DOES:** Increases cigarette tax by 84.5 cents per pack, and other tobacco products tax by 30% of wholesale price. Distributes the tax revenues to the Oregon Health Kids Program Fund, Oregon Health plans, Tobacco Use Reduction Account, General Fund, and Local Government. Imposes a floor tax as the new tax on the first day of the calendar month following the implementation date. Cigarette and tobacco tax increases become effective after 91<sup>st</sup> day following sine die.

Creates the Oregon Healthy Kids Program. Directs implementation to the Department of Human Services (DHS) and the Office of Private Health Partnerships (OPHP). Creates grant program in OPHP to fund outreach, enrollment and retention activities related to the Program. Establishes the Private Health Option Program and appropriates moneys in the account to OPHP for administering the private health option.

**ISSUES DISCUSSED:**

- The revenue implications. Increased revenue, distribution of current and new revenues. Winners and losers of the new schemes. Hold harmless.
- The reductions in consumption, 28 million less packs per year.
- Equalize the tax rate with Washington (3<sup>rd</sup> highest in the nation), not including the sales tax.
- The Washington effect (smoke dance, 6 million packs less). Washington will thank us.
- The vulnerability of the Other Tobacco Product (OTP) to see large reductions and much evasion.
- The regressive nature of the tax, low-income consumers of cigarettes. Most under 40 thousand a year income and low education level. Taxes increasing by close to \$400 per smoker.
- Washington effect might be much more 3 or 4 times as much as the estimates.
- OTP taxes are based on the price where users will pay taxes on the cost of packaging.
- 50-cent cap on cigars makes good sense. Need to cap more of OTP.
- Smokers as oppressed, picked upon, minority of low income and little political clout.
- Makes the state have two conflicting policy goals, smoking reductions and revenue increase.
- Cigarette taxes work to reduce smoking and improve health. Elasticity comes from quitting. Medical research on health improvement, tax increase and revenue increases in other states and Oregon. Most understood work and body of research. Result in 1.9 packs less per capita.
- Tobacco Task Force (enforcement) works for cigarettes and OTP.
- Tobacco Reduction efforts and funding. Health first more important than revenue.
- Would be beneficial to ban the product and fund the kids insurance from other sources.
- Fund the Kids health programs from other sources (General Fund)
- Floor tax and impact of tax on small business, mom and pop, and convenient stores.
- Impacts on youth, 20 start every day, and revenue on health insurance for low income. Save lives.
- Utilizing Federal funds of health care for each dollar we put in from this increase.
- What constitutes Healthy Kids. How many programs? And their names and funding level.
- Qualified Federal Health facilities, kids treated at schools, and parents treated somewhere else.
- The medical home. School based care. Capitation of benefits, more uninsured kids.

- The health care inflation costs. Assumptions of 7.7% or 10%.
- The high cost of tobacco on individual and society. Win-win-win solution for Oregon.
- Impact on OTP, income and employment of stores and on Master Settlement agreement.
- Synchronizing the implementation date and the floor tax with the end of the session.

**EFFECT OF COMMITTEE AMENDMENTS:** The amendments allows for the distribution of the new raised tax revenue to hold harmless the current law recipients of tobacco revenue. Synchronizes the implementation date with the 1<sup>st</sup> day of the month after 3 months of session adjournment. Lowers the income threshold for eligibility to 300% of the federal poverty level. Restricts the eligible recipients to Oregon residents with legal federal eligibility. adds to services to the healthy kids program. And permits exiting health services to participate in the new program. And defines the Tobacco reduction programs as related to the outcomes of a scientific study.

**BACKGROUND:**

Tobacco tax revenues are distributed to the General Fund, the Oregon Health Plan (**OHP**), the Tobacco Use Reduction Account (**TURA**), and equally to the Department of Transportation for senior and disabled transportation, to cities, and to counties (Local).

Taxes are levied on each cigarette and as a percent of wholesale price of other tobacco products. Measure 44 of 1996 brought the cigarette tax rate to 58 cents per pack. With the passage of Measure 20 of 2002, the permanent tax rate on cigarettes became \$1.18 and the other tobacco products tax rate is 65% of wholesale price. A temporary tax of 10¢ on cigarettes that has existed since 1993, dedicated to the Oregon Health Plan, was voted down along with measure 30 in 2004. Cigarette taxes are distributed in the following way: 22 cents is distributed to the General Fund (18.64%), the Health Plan gets 85.7 cents (72.66%), 3.4 cents went to the tobacco cessation programs (2.9%), and 2.3 cents (1.93%) each to cities, counties , and to ODOT for senior and disabled transit. Distributions within cities and counties are based on population. The Other Tobacco Products tax is distributed to the General Fund (53.85%), the Health Plan (41.54%), and tobacco cessation programs (4.62%).

The tax rate on other tobacco products is based on wholesale price but for cigars it is limited to a per cigar amount. The Oregon Legislature first imposed an excise tax at 35% of wholesale price on other tobacco products in 1985. Revenue went to the General Fund. Ballot Measure 44 in 1996 (initiative petition) increased the rate to 65%. The 2001 Legislature limited the tax on cigars to 50¢ per cigar.

This bill increase the cigarette tax by 84.5 cents per pack, and 30% of wholesale price for Other Tobacco Products (OTP). The increase in tax will case a reduction in consumption by about 14%. Therefore, the revenue amounts are first holding harmless the current users of tobacco taxes, then allocating 90% of the increase to the healthy kid’s initiative, and 10% to the tobacco reduction efforts. The bill also imposes a floor tax on the inventory of the distributors. The new tax as well as the floor tax will be effective on October 1<sup>st</sup>, or the first day of the month following the adjournment of the session. Thus, if the session adjourns in July, the implementation will be in effect on November 1.