

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4254-01  
Bill No.: HB 1976  
Subject: Taxation and Revenue - General; Tobacco Products  
Type: Original  
Date: April 25, 2012

Bill Summary: This proposal would increase the tax on cigarettes, for tobacco use prevention and cessation, upon voter approval.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
General Revenue	\$0 or Less than \$198,500,000	\$0 or \$411,000,000	\$0 or \$411,000,000
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$0 or Less than \$198,500,000</b>	<b>\$0 or \$411,000,000</b>	<b>\$0 or \$411,000,000</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 7 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

- Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).
- Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>
<b>Local Government *</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

\* offsetting expenditures and reimbursements in FY 2013.

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Office of the Secretary of State (SOS)** assume unless a special election is called for the purpose, Joint Resolutions are submitted to a vote of the people at the next general election. If a special election is called to submit a Joint Resolution to a vote of the people, section 115.063.2 RSMo requires the state to pay the costs. Article III section 52(b) of the Missouri Constitution authorizes the General Assembly to order a special election for measures referred to the people and Article XII section 2(b) authorizes the Governor to call a special election to submit constitutional amendments to a vote of the people.

The SOS is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2 (b) of the Missouri Constitution and Section 116.230-116.290, RSMo. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with \$1.3 million historically appropriated in odd numbered fiscal years and \$100,000 appropriated in even numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2011, at the August and November elections, there were 6 statewide Constitutional Amendments or ballot propositions that cost \$1.02 million to publish (an average of \$170,000 per issue). Therefore, the Secretary of State's office assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements. However, because the publications are mandatory, we reserve the right to request funding to meet the cost of our publishing requirements if the Governor and the General Assembly change the amount or eliminate the estimated nature of our appropriation.

**Oversight** notes that the next scheduled general election is in November 2012 (FY 2013). It is assumed the subject within this proposal could be on that ballot; however, it could also be on a special election called for by the Governor. Oversight has reflected in this fiscal note the potential cost of state reimbursements to local political subdivisions for the cost of holding a special election for this joint resolution in fiscal year 2013. This reflects the decision made by the Joint Committee on Legislative Research, that the cost of such elections should be included in the fiscal note.

ASSUMPTION (continued)

To estimate the expense the state would incur for reimbursing local political subdivisions for a special election, Oversight requested expense estimates from all election authorities for an election. Eighty-six out of the one hundred fifteen election authorities responded to Oversight's request. From these respondents; the total election expense that would have to be reimbursed by the state government is over \$7 million. Therefore, Oversight will reflect a potential cost to the state in FY 2013 of over \$7 million for reimbursements to local governments. Oversight assumes the Governor could call for a special election to be held prior to November 2012 regarding this joint resolution; however, if a special election is not called, the subject would be submitted to the voters at the general election in November, 2012.

Officials from the **Joint Committee on Administrative Rules** assume this proposal would not have a fiscal impact to their organization in excess of existing resources.

Officials from the **Office of Administration, Division of Budget and Planning** (BAP), assume this proposal would not result in additional costs or savings to their organization.

BAP officials noted that this proposal would require the cigarette tax, effective 1/1/13, to be equal to 75% of the "national average of taxes levied upon the sale of cigarettes." BAP officials assume this means the national average of state excise taxes, which is reported to be \$1.46 by Tobacco Free Kids. If other taxes, such as federal and local excise taxes or certain retail sales taxes are to be included, this average would be much higher.

Subject to voter approval, BAP officials assume the new state excise tax would be \$1.10, based on the data above. BAP officials calculated the impact of the tax increase by estimating the quantity of packs currently sold, applying the midpoint formula for elasticity to estimate the new quantity of packs sold, then calculating increased revenues.

Based on those calculations, BAP officials estimated that the proposal could Increase General and Total State Revenues by \$411 million annually. This would increase revenues in FY13 for six months. However, the proposed tax increase would not be imposed on sellers' inventories on 12/31/12 which may encourage sellers to increase their inventories in advance of the tax increase, reducing the potential revenue gains.

ASSUMPTION (continued)

**Oversight** will use the BAP estimate of additional revenue. Since the proposed excise tax increase would become effective January 1, 2013 if the voters approve the measure, the impact for FY 2013 would be equal to approximately 6/12 of the impact for a full year, or \$205.5 million.

**Oversight** also notes that sales of cigarettes and other tobacco products could be influenced by factors other than the rate of state taxation, and that projections based on past activity may not be an indication of future activity.

**Oversight** notes that this proposal would require an increase in spending for tobacco usage prevention and cessation until such time as the state provides the amount recommended by the Centers for Disease Control and Prevention for such programs. Oversight assumes any appropriations for such programs in the Healthy Families Trust Fund would result from transfers from the General Revenue Fund, and will include the additional revenue from this proposal in the General Revenue Fund.

Officials from the **Department of Health and Senior Services**, the **Department of Public Safety, Division of Alcohol and Tobacco Control**, the **Department of Revenue**, and the **Department of Social Services** assume this proposal would have no fiscal impact on their organizations.

<u>FISCAL IMPACT - State Government</u>	FY 2013 (10 Mo.)	FY 2014	FY 2015
<b>GENERAL REVENUE FUND</b>			
<u>Expense</u> - Reimbursement of local political subdivisions for special election cost	\$0 or (More than <u>\$7,000,000</u> )	<u>\$0</u>	<u>\$0</u>
<u>Additional revenue</u> - Cigarette excise tax	<u>\$0 or</u> \$205,500,000	<u>\$0 or</u> \$411,000,000	<u>\$0 or</u> \$411,000,000
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<u><b>\$0 or Less than</b></u> <u><b>\$198,500,000</b></u>	<u><b>\$0 or</b></u> <u><b>\$411,000,000</b></u>	<u><b>\$0 or</b></u> <u><b>\$411,000,000</b></u>

<u>FISCAL IMPACT - Local Government</u>	FY 2013 (10 Mo.)	FY 2014	FY 2015
<b>LOCAL GOVERNMENTS</b>			
<u>Additional revenue</u> - reimbursement for election costs	\$0 or More than <u>\$7,000,000</u>	<u>\$0</u>	<u>\$0</u>
<u>Cost</u> - Special election	\$0 or (More than <u>\$7,000,000</u> )	<u>\$0</u>	<u>\$0</u>
<b>ESTIMATED NET LOCAL GOVERNMENTS</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

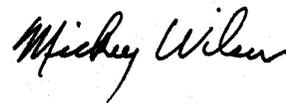
FISCAL DESCRIPTION

This proposal would increase the tax on cigarettes for tobacco use prevention and cessation upon voter approval.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State  
Joint Committee on Administrative Rules  
Office of Administration  
    Division of Budget and Planning  
Department of Health and Senior Services  
Department of Public Safety  
    Division of Alcohol and Tobacco Control  
Department of Revenue  
Department of Social Services



Mickey Wilson, CPA  
Director  
April 25, 2012