

Official Title and Summary Prepared by the Attorney General

CIGARETTE AND TOBACCO TAX. BENEFIT FUND. INITIATIVE CONSTITUTIONAL AMENDMENT AND STATUTE. Imposes additional tax upon cigarette distributors of one and one-fourth cents (1¼ cents) for each cigarette distributed. Imposes tax upon distributors of other tobacco products which is equivalent to combined rate of tax imposed on cigarettes. Directs State Board of Equalization to determine this tax annually. Places moneys raised in special account which can only be used for: treatment; research of tobacco-related diseases; school and community health education programs about tobacco; fire prevention; and environmental conservation and damage restoration programs. Declares revenues not subject to appropriations limit. Summary of Legislative Analyst's estimate of net state and local government fiscal impact: Will raise additional state revenues of approximately \$300 million in 1988-89 (part year) and \$600 million in 1989-90 (first full year). These revenue increases would decline gradually in subsequent years. Annual administrative costs are estimated at \$500,000 in 1988-89 and \$300,000 in subsequent years. There would be no substantial net effect on sales and excise tax revenues to the state, cities, and counties.

Analysis by the Legislative Analyst

Background

Current law imposes a state excise tax which amounts to 10 cents for each pack of 20 cigarettes. This tax is collected by the State Board of Equalization. Seventy percent of the proceeds are distributed to the State General Fund, and the remainder to cities and counties.

Proposal

This measure imposes an additional excise tax on cigarettes which amounts to 25 cents for each pack of 20 cigarettes. The total excise tax, therefore, would be 35 cents for each pack. In addition, it imposes a new excise tax on other types of tobacco products, such as cigars, chewing tobacco, pipe tobacco, and snuff. The rate of this tax would be determined by the Board of Equalization, and would be equivalent to the total excise tax on cigarettes.

The measure requires the revenues from the additional taxes to be spent for the following purposes:

- **Health Education.** Twenty percent must be used for the prevention and reduction of tobacco use, primarily among children, through school and community health education programs.
- **Hospital Services.** Thirty-five percent must be used to pay hospitals for the treatment of patients who cannot afford to pay, and for whom payment will not be made through private coverage or federally funded programs. The medical care services qualifying for payment are not limited to the treatment of tobacco-related illnesses.
- **Physician Services.** Ten percent must be used to pay physicians for medical care services provided to specified patients who cannot afford to pay, as described above.
- **Research.** Five percent must be used to fund tobacco-related disease research.
- **Public Resources.** Five percent must be equally

divided between programs that (1) protect, restore, enhance, or maintain fish, waterfowl, and other wildlife habitat areas; and (2) improve state and local park and recreation resources.

- **General Purposes.** The remaining 25 percent may be used for any of the specific purposes described above.

The measure requires all funds to be used to supplement current services, not to fund existing service levels.

In addition, this measure amends the California Constitution to provide that the appropriation of revenues from the additional taxes imposed by this measure subject to either the state or local appropriations limits.

The measure would become effective on January 1, 1989.

Fiscal Effect

This measure would raise additional state revenues of approximately \$300 million in 1988-89 (part year) and \$600 million in 1989-90 (first full year). These revenue increases would decline gradually in subsequent years.

In addition, this measure would have two offsetting effects on State General Fund and local revenues. First, the measure would *increase* sales tax revenues. This is because the sales tax is imposed on the total price of tobacco products, including the increased excise tax. Second, the measure would *reduce* revenues from the existing 10-cents-per-pack cigarette excise tax, because some consumers would reduce their purchases of tobacco products in response to the higher taxes. These revenue effects would offset each other, and there would be little or no *net* effect on the State General Fund or on local revenues.

Administration of the surtax on cigarettes and tobacco products would increase annual costs to the State Board of Equalization by approximately \$500,000 in 1988-89 and \$300,000 in subsequent years. These costs would be reimbursed out of the proceeds of the additional taxes.

Cigarette and Tobacco Tax. Benefit Fund. Initiative Constitutional Amendment and Statute

Argument in Favor of Proposition 99

The alarming report released May 16, 1988, by the U.S. Surgeon General confirmed that the ADDICTIVE DRUG, NICOTINE, FOUND IN CIGARETTES is as habit forming and addictive as cocaine and heroin. "We must take steps to prevent young people from beginning to smoke," the report states. "We must insure that every child in every school in this country is educated as to the HEALTH RISKS AND ADDICTIVE NATURE OF TOBACCO USE."

A YES VOTE ON PROPOSITION 99 will place an additional 25-cent tax on every pack of cigarettes and guarantee strong antismoking programs in our schools.

That's why the out-of-state tobacco companies are spending millions of dollars to defeat PROPOSITION 99 the Tobacco Tax. They know that with the growing number of people who kick the habit and the 320,000 people who die annually from tobacco-related diseases, THE TOBACCO COMPANIES MUST HOOK 5,000 NEW YOUNG SMOKERS EVERY DAY JUST TO KEEP CIGARETTE SALES AT THEIR PRESENT LEVELS.

Tobacco companies know that passage of PROPOSITION 99 will hurt cigarette sales. They will spend whatever it takes to get a "No" vote even if it means sacrificing the health and safety of young people.

A YES VOTE FOR A 25-CENT TAX ON EVERY PACK OF CIGARETTES will also raise an additional 30 million dollars each year for medical research to help find a cure and treatment for cancer, emphysema, lung and heart diseases caused by smoking.

A YES VOTE FOR A 25-CENT TAX ON EVERY PACK OF CIGARETTES will pay for medical care for those who cannot afford it and take some of that burden off the taxpayer.

California's health care crisis is forcing some hospitals, clinics, trauma centers and emergency rooms to close. Cities and towns throughout California cannot raise the money necessary to keep them open. THE CLOSING OF HEALTH CARE FACILITIES

PUTS EVERY INDIVIDUAL AND FAMILY IN JEOPARDY.

A YES VOTE FOR A 25-CENT TAX ON EVERY PACK OF CIGARETTES will protect our wildlife and parklands.

Throughout California fires and devastation threaten wildlife and recreational park facilities. A YES VOTE ON PROPOSITION 99 will authorize funding for fire protection, restoration and enhancement of California's parks and open land.

NONSMOKING CALIFORNIANS SHOULD NOT HAVE TO PAY HIGHER TAXES AND INSURANCE PREMIUMS BECAUSE SMOKING CAUSES FIRES AND DISEASE. Smokers should pay their fair share. A 25-cent tax on every pack of cigarettes is a small price to pay.

VOTE YES ON 99 to educate children about the dangers of smoking.

VOTE YES ON 99 for medical care for people who cannot afford health care.

VOTE YES ON 99 for continued research into tobacco-related diseases.

VOTE YES ON 99 for wildlife protection and restoration of parklands.

P.S. The people who care about your health and welfare—THE AMERICAN CANCER SOCIETY, AMERICAN LUNG ASSOCIATION, AMERICAN HEART ASSOCIATION, PHYSICIANS, DENTISTS, HOSPITALS, NURSES, EDUCATORS, ENVIRONMENTAL, CITIZEN AND CONSUMER GROUPS—are sponsoring this initiative and urge you to vote YES ON PROPOSITION 99.

JESSE STEINFELD, M.D.
Surgeon General (Ret.)

NEIL C. ANDREWS, M.D.
President, American Cancer Society, California Division

PATRICIA A. SCHIFFERLE
Regional Director, The Wilderness Society,
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Rebuttal to Argument in Favor of Proposition 99

If you want to triple a tax, invite more crime, treat many hard-working Californians unfairly, punish some of your neighbors and hand over more money to many wealthy doctors, you'll vote for Proposition 99.

Read Proposition 99 carefully. You'll see what serious problems it creates for Californians.

Here are just five of the many reasons to oppose Proposition 99:

- It would invite serious crime. New pressures will be put on police. Officials in 13 states recently joined in a hotline to combat the growing problem of cigarette smuggling. The California State Sheriffs Association and the California Peace Officers Association oppose Proposition 99.
- It would provide a potential new cash source for street gangs and other criminals. Smugglers could avoid up to \$200,000 in taxes on a truckload of cigarettes bootlegged from another state. Resulting illegal profits could finance the purchase of drugs or guns that could be used against innocent citizens.
- It would single out and penalize the behavior of one group of people who are breaking no laws. Is that in the American

tradition of fairness?

- It would unfairly burden lower-income Californians. Taxes like this take a bigger chunk of a poor family's income. That's called "regressive." Even a 1986 report of the American Hospital Association acknowledges tobacco taxes "tend to produce a regressive distribution of the cost of government programs."
- It would enrich the medical industry with hundreds of millions of dollars. A 1987 study indicated one in four doctors surveyed already is a millionaire.

No on taxes.
No on crime.
No on Proposition 99.

PAUL GANN
President, The People's Advocate

VINCENT CALDERON
National Chairman, Latino Peace Officers Association

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Member of the Assembly, 15th District
Vice Chairman, Ways and Means Committee

Cigarette and Tobacco Tax. Benefit Fund. Initiative Constitutional Amendment and Statute

99

Argument Against Proposition 99

Proposition 99 is a 250-percent tax increase and special interest giveaway disguised as a health initiative. It is not a smoking ban.

Proposition 99 will encourage crime, discriminate against one group of Californians, penalize some lower-income families and reward its major promoters hundreds of millions of dollars.

Proposition 99 would establish several historic firsts:

- **This ballot measure will encourage crime in California.** Large tax increases on tobacco products in other states have triggered bootlegging, highjacking, vandalism and other criminal behavior. They create a financial bonanza for street gangs and organized crime. *The California State Sheriffs Association and the California Peace Officers Association know the facts and oppose Proposition 99.*
- **This ballot measure was designed to pay off many of its promoters.** Most taxes benefit all citizens. But California's medical industry would pocket at least \$292 million of these projected taxes each year. And those least able to afford it would feel the sharpest impact of these new taxes. Proposition 99 would create an unacceptable precedent for other self-serving ballot measures sponsored by special interests seeking new tax dollars for their "special" agendas.
- **This ballot measure was drafted by one group to punish by taxation the behavior of another.** Proposition 99's promoters would impose their values on everyone, penalizing one segment of society for its conduct. Who will be punished next? Can new taxes on beer, wine, coffee or even red meat and eggs be far behind?

Proposition 99 is an excise tax. It hits one group of citizens for what they buy, not what they earn. In 1987 the Congressional Budget Office reported that excise taxes such as tobacco taxes proposed by Proposition 99 are a greater burden on lower-

income Americans than other taxes. Tobacco taxes are more unfair than taxes on gasoline, beer or wine.

Groups representing the needy, minorities, business and labor opposed last year's proposed federal excise tax increase and Congress rejected it. Similarly, a state tobacco tax increase failed to get one vote in the California Legislature last year.

The promoters of Proposition 99 have billed it as a health research initiative. Yet, *only five pennies of each new tax dollar would go to health research*—the smallest allocation in the initiative.

The promoters of Proposition 99 have billed it as a health education initiative as well. The promoters say some of the new education money would be used to finance "major local and statewide media campaigns." Don't be misled. Even the state's largest teachers organization took no position on this initiative. *Earmarking Proposition 99 funds for a health education account could result in a cut in the level of financial support for reading, math and other basic classroom subjects.*

Don't be fooled by trendy, noble-sounding rhetoric. *Read Proposition 99 carefully.* The promoters want you to penalize one group of Californians, impose an unfair tax that falls hardest on lower-income families, and put millions of dollars into their pockets—while encouraging crime . . . all at the same time.

Proposition 99 is less than meets the eye. *Voters should reject Proposition 99.*

PAUL GANN

President, The People's Advocate

VINCENT CALDERON

National Chairman, Latino Peace Officers Association

RICHARD FLOYD

Member of the Assembly, 53rd District

Chairman, Governmental Organization Committee.

Rebuttal to Argument Against Proposition 99

TOBACCO COMPANIES WON'T TELL YOU THE TRUTH about why they oppose Proposition 99.

THE TRUTH IS they oppose increasing tobacco taxes because THEY WILL LOSE MONEY. Every other argument against Proposition 99 is a smokescreen.

THE TRUTH IS CIGARETTE SALES WILL DECLINE. Fewer children will start smoking and more adults will stop.

THE TRUTH IS crime is not the issue. Bootlegging from low-tax tobacco-growing states up the East Coast was a problem in the 1970s. No longer. ILLEGAL DRUG TRADE IS MORE ATTRACTIVE TO CRIMINALS AND GANGS THAN SMUGGLING CIGARETTES.

THE TRUTH IS the State Board of Equalization enforces the tobacco taxes. This is generally not a police matter.

THE TRUTH IS TOBACCO COMPANIES EAGERLY SELL CIGARETTES NO MATTER HOW POOR THE BUYER. They advertise heavily to minority and low-income youth. The result—55% of Blacks die from the major smoking-related diseases, and smoking among Hispanic teens is skyrocketing.

That's why antismoking education and training is so important.

THE TRUTH IS IT TAKES MONEY TO DELIVER MEDICAL CARE. Proposition 99 provides additional resources to care for those in need.

THE TRUTH IS \$32 MILLION EVERY YEAR SUPPORTS RESEARCH ON TOBACCO-RELATED DISEASES. It may be "only pennies" to tobacco companies, but it is four times what the National Cancer Institute spent in California last year.

WHOM DO YOU TRUST? The out-of-state tobacco industry after more profits? Or the American Cancer Society, American Lung Association and American Heart Association? VOTE YES ON 99.

JOHN VAN DE KAMP

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RICHARD V. LOYA

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