

FISCAL NOTE

Bill #: HB58

Title: Long-term cash flow for tobacco trust by raising cigarette taxes

Primary

Sponsor: Ron Erickson

Status: Amended

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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Fiscal Summary

	<u>FY2002 Difference</u>	<u>FY2003 Difference</u>
Revenue :		
General Fund		\$26,230,016
Capital Projects Fund (LRBP)		\$(107,345)
State Special Revenue (DPHHS)		\$(67,373)
Net Impact on General Fund Balance:		\$26,230,016

<u>Yes</u>	<u>No</u>		<u>Yes</u>	<u>No</u>	
	X	Significant Local Gov. Impact		X	Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts
	X	Dedicated Revenue Form Attached	X		Family Impact Form Attached

Fiscal Analysis

ASSUMPTIONS:

1. Under current law, the cigarette tax rate is \$0.18 per pack.
2. Under this proposal, the cigarette tax rate is increased to \$0.56 per pack.
3. Under current law, cigarette tax revenues, after tribal revenue sharing payments, are distributed 73.04% to the state general fund; 15.85% to the Long-Range Building Program Account; and 11.11% to the Department of Public Health and Human Services.
4. Under this proposal, cigarette tax revenues, after tribal revenue sharing payments, are distributed 91.3% to the state general fund, for the purposes of funding K-12 basic entitlements and per-ANB entitlements; 5.1% to the Long-Range Building Program Account; and 3.6% to the Department of Public Health and Human Services.
5. The impacts of the cigarette tax rate increase to \$0.56 per pack will generate new net revenue of \$20,526,941 in fiscal 2003. The new net revenue will *increase* the state general fund by \$20,701,659 in

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fiscal 2003; and *decrease* revenue going to the Department of Public Health and Human Services by \$67,373 in fiscal 2003; and *decrease* revenue going to the Long-Range Building Program Account by \$107,345 in fiscal 2003.

6. The above impact in assumption five is calculated using a model developed by the Department of Revenue (DOR). The DOR cigarette tax revenue estimate under current law for fiscal 2003 is used as the base. In addition to DOR's base estimate, a price elasticity of demand for cigarettes of 0.44 is used in this model. Given a base cost of \$2.61 per pack, which is used in this model, and an elasticity of 0.44, each penny increase in the price of a pack of cigarettes results in a decrease in demand of 0.17%.
7. Under current law, the tobacco products tax rate is 12.5% of the wholesale price.
8. Under this proposal, the tobacco products tax rate is increased to 50% of the wholesale price.
9. Under current law, tobacco products tax revenues, after tribal revenue sharing payments, are distributed 100% to the state general fund.
10. Under this proposal, tobacco products tax revenues, after tribal revenue sharing payments, are distributed 100% to the state general fund. Fifty percent of the tax deposited in the state general fund must be used for the purpose of funding K-12 basic entitlements and per-ANB entitlements.
11. The impacts of the tobacco products tax rate increase to 50% of the wholesale price will generate new net revenue going to the state general fund by \$5,528,357 in fiscal 2003.
12. The above impact in assumption eleven is calculated using a model developed by the DOR. The DOR tobacco tax revenue estimate under current law for fiscal year 2003 is used as the base. In addition to DOR's base estimate, a price elasticity of demand for tobacco products of 0.44 is used in this model. A wholesale list price before taxes of \$2.43 is used in this model. The model assumes a 10% markup from the wholesale list price to the retail price.
13. This proposal has no impact on Department of Revenue administrative expenses.
14. The impacts in this fiscal note assumes the majority of qualified electors of Montana participating in the special election to be held in November 2001 will vote for this act.

FISCAL IMPACT:

	<u>FY2002</u>	<u>FY2003</u>
	<u>Difference</u>	<u>Difference</u>
<u>Revenues:</u>		
General Fund (01)		\$26,230,016
Capital Projects Fund (LRBP) (02)		\$(107,345)
State Special Revenue (DPHHS) (03)		\$(67,373)

Net Impact to Fund Balance (Revenue minus Expenditure):

General Fund (01)	\$26,230,016
Capital Projects Fund (LRBP) (02)	\$(107,345)
State Special Revenue (DPHHS) (03)	\$(67,373)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

This proposal has no impact on county or other local government revenues or expenditures.

LONG-RANGE IMPACTS:

Under this proposal, revenue going to the state general fund will continue to be larger than under current law. Revenue going to the LRBP and the DPHHS will continue to be less than under current law.