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## F I S C A L I M P A C T R E P O R T

SPONSOR: Carraro DATE TYPED: 2/19/03 HB \_\_\_\_\_

SHORT TITLE: Increase Cigarette Tax SB 528

ANALYST: Neel

### REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	FY04			
	\$29,277.0	\$31,938.0	Recurring	General Fund
	Neutral		Recurring	County and Municipality Recreation Fund
	Neutral		Recurring	County and Municipal Cig. Fund
	\$5,086.0	\$5,548.0	Recurring	UNM Cancer Treatment Center
	\$3,813.0	\$4,160.0	Recurring	NMFA

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to:

HB143 Cigarette Delivery Sales Act

SB336 Change Cigarette Tax and Revenue Distribution

HB488 Increase Cigarette Tax

### SOURCES OF INFORMATION

LFC files

#### Responses Received From:

Department of Health (DOH)

Health Policy Commission (HPC)

Taxation and Revenue Department (TRD)

**SUMMARY**

Synopsis of Bill

Senate Bill 528 (SB 528) proposes to increase the rate of the cigarette excise tax from the current state tax of 21 cents-per-pack to 81 cents-per-pack. SB 528 also proposes to modify distributions of cigarette tax revenue in a manner that reduces the distribution percent, yet maintains the current level of revenue for the county and municipality recreational fund and cigarette tax fund. Further, both the percent and the amount going to the Cancer Research and Treatment Center at UNM would increase significantly, with 21.5% of their new total dedicated to genomic research. Finally, the percent and amount going to the New Mexico Finance Authority would increase significantly with 75.7% of their new total to be used for expansion of the University of New Mexico Hospital. The effective date of the increase in the cigarette tax is July 1, 2003 and the effective date of the change in distribution is August 1, 2003.

The table below details the distribution changes included in SB 528:

<b>Subsection</b>	<b>Entity affected by re-distribution of cigarette tax revenue</b>	<b>Current percentage distribution</b>	<b>SB 528 proposed distribution</b>
A	County and Municipality Recreational Fund	.0475	.0147
B	County and Municipal Cigarette Tax Fund	.0950	.0295
*C	UNM Cancer and Treatment Center	.0475	.1066
*D	New Mexico Finance Authority	.07125	.0901

*\*C - This increase provides that 21.5% of this distribution shall be used for genomic research.*

*\*D – This increase provides that 75.7% of the distribution be used for the expansion of the University of New Mexico hospital.*

**FISCAL IMPLICATIONS**

Data sources: Taxation and Revenue Department monthly reports of taxable stamp sales by the Taxation and Revenue Department; economic research reports on the elasticity of demand for cigarettes; taxable consumption data from various other states.

TRD notes the following assumptions:

- (1) Proposed tax increases were converted to the equivalent percentage increase in price, assuming the average price of a pack of cigarettes in New Mexico is \$2.60 in FY 2004.
- (2) We assume the elasticity of demand for cigarettes in New Mexico at -0.7. This number equals the ratio of the percentage change in sales to the percentage change in price. In a survey of national studies, the U.S. Congressional Research Service found a range of estimates for this elasticity of -0.3 to -0.5. A higher value in this estimate reflects the ready access of many smokers to state tax-exempt sales from tribal vendors.

- (3) Given the above assumptions, the proposed tax increases lead to a 24% increase in the average price of taxable cigarettes, resulting in a 17% decline in taxable sales of cigarettes in the state. Taxable sales have been declining for the last several years in response to sharp price increases. Without a tax increase, taxable sales should drop to 91.7 million packs in FY 2004.

## **OTHER SUBSTANTIVE ISSUES**

### National Smoking Statistics

- According to *Tobacco Facts*, one out of 5 people who dies in the US, dies because of smoking, approximately 430,000 people annually.
- Smoking is the number 1 preventable cause of premature death in the US.
- Smokers, on the average, live 7 years less than those who do not smoke.
- According to the Surgeon General, smoking causes heart disease, lung and esophageal cancer, chronic lung disease, and contributes to cancers of the bladder, pancreas and kidney.
- Men who smoke are 22 times more likely to die from lung cancer and 10 times more likely to die from bronchitis and emphysema.
- Second-hand smoke exposes non-smokers to carcinogenic elements in cigarette smoke.
- Over 90% of adults who smoke began smoking in adolescence.

### New Mexico Smoking Statistics

The Campaign for Tobacco-Free Kids, utilizing data from the US Centers for Disease Control and Prevention-2001 and 2002 data, note the following statistics for New Mexico:

- 36.2% (41,000) of NM High School students smoke cigarettes. Kids (under 18) in New Mexico who become new daily smokers each year are 5,200.
- National youth smoking rates have declined somewhat since 1997, but remain at historically high levels. According to the National Youth Tobacco Survey, 28.4% of all U.S. high school kids smoke.
- In New Mexico, 23.6% (293,000) of adults are smokers, which compare 23.3% of United States adults.
- 2,100 New Mexico adults will die each year from their own smoking. 44,000 kids under 18 and currently alive in New Mexico will ultimately die prematurely from smoking.

### Smoking-Caused Monetary Costs in New Mexico

Annual health care costs in New Mexico directly caused by smoking is \$360 million and the portion covered by State Medicaid was \$144 million. Residents' state & federal tax burden from smoking-caused government expenditures was \$507 per household. (Source: US Centers for Disease Control and Prevention-2001 and 2002 data).

As of January 2002 New Mexico ranked 38<sup>th</sup> in the amount of cigarette tax per pack.

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(Source: The Campaign for Tobacco-Free Kids).

Any legislation that motivates New Mexicans to quit or reduce smoking is in the best interest of New Mexicans health.

The redistribution of cigarette tax revenue as described in SB528 will likely negatively impact those entities who stand to lose revenue to fund the programs they administer.

### University of New Mexico Hospital Use of Cigarette Tax Revenue

UNMH is considering a building project in the future. This will involve the university issuing low interest bonds to pay for the project with revenues from the hospital used to service the debt. Revenue from the cigarette tax, in conjunction with revenue from low interest bonds, will be used in the building and operating of the structure.

### What is Genome Research?

- Genome research is the study of the genome, which is the collection of genes passed down from cell to cell, generation to generation in a given organism; the complete collection of DNA. The Human Genome Project is an international research effort to determine the location of all human genes and to read the entire set of genetic instructions encoded in human DNA. Once scientists complete the ultimate task of sequencing all 3 billion base pairs in the human genome, they will have created a virtual blueprint for a human being. Genomics research seeks to understand the structure and function of the human genome and its role in health and disease. (*National Human Genome Research Institute website*)
- UNM has become a leader in US genomics research. The UNM Cancer Research and Treatment Center is using genomic research to understand why New Mexicans are particularly susceptible to certain forms of cancer, and to discover new ways to detect, prevent and treat diseases caused by tobacco

## **ADMINISTRATIVE IMPACT**

A substantial increase in the cigarette tax will increase the pressure to enforce this tax. Significant tax-evasion opportunities present themselves. At present, the Department does not have the personnel to ensure full compliance. Effective administration of this tax may be impossible without statutory changes that permit the state to collect the tax when cigarettes first enter the state. Such a system, employed in Arizona and other states, is the only effective means of limiting tax avoidance.

SN/yr