

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

April 28, 2003

TO: Honorable Ron Wilson, Chair, House Committee on Ways & Means

FROM: John Keel, Director, Legislative Budget Board

IN RE: HB53 by Wolens (Relating to an increase in the cigarette tax and the distribution of that increase to counties and municipalities for police, sheriff, and fire services.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB53, As Introduced: a negative impact of (\$88,624,000) through the biennium ending August 31, 2005.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

This analysis includes the fiscal impact estimate resulting from the dynamic analysis provided by the Comptroller of Public Accounts.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2004	(\$38,378,000)
2005	(\$50,246,000)
2006	(\$36,793,000)
2007	(\$54,044,000)
2008	(\$42,570,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain/(Loss) from <i>GENERAL REVENUE FUND</i> 1	Probable Revenue Gain/(Loss) from <i>New General Revenue Dedicated - County and Municipal Cigarette Tax Fund</i>
2004	(\$38,378,000)	\$416,057,000
2005	(\$50,246,000)	\$561,255,000
2006	(\$36,793,000)	\$484,924,000
2007	(\$54,044,000)	\$530,971,000
2008	(\$42,570,000)	\$454,615,000

Fiscal Analysis

The bill would amend Chapter 154 of the Tax Code to increase the tax rate on cigarettes.

The bill would increase the tax rate by \$25.00 per 1,000 cigarettes weighing three pounds or less per 1,000 (\$0.50 per pack of 20 cigarettes), to a new rate of \$45.50 per 1,000 cigarettes (\$0.91 per pack).

The bill would create the County and Municipal Cigarette Tax Fund as a trust fund to be managed

by the Comptroller's Office. The additional cigarette tax revenue generated by the rate increase would be allocated to the new trust fund. The Comptroller's Office would make quarterly distributions from the trust fund to counties and municipalities that had certified that the funds would be spent for sheriff's department, police department, and/or fire protection services provided by those governmental units. For each distribution from the trust fund, funds would have to be evenly divided between counties and cities. Within those two groups, funds would have to be distributed on a per-capita basis to the governmental units that had submitted a certification.

Interest earned on balances in the trust fund would be credited to the trust fund.

The bill would take effect October 1, 2003. The first distribution from the trust fund would have to be made on or after January 1, 2004.

Methodology

The proposed increase in the cigarette tax rate would reduce the taxable consumption of cigarettes in Texas. Potential revenue collections were adjusted for consumption and tax avoidance effects, and for collection lags.

Because taxable cigarette consumption would decline, and the General Revenue Fund 0001 allocation from the cigarette tax would remain at the current \$0.41 per pack, there would be a net loss of cigarette tax revenue allocated to Fund 0001.

In addition, there would be negative dynamic fiscal impacts resulting from the tax increase, which also would be borne by Fund 0001. The dynamic impacts are included in the Fund 0001 figures in the table below. The Comptroller's Office did not estimate any change in sales tax revenue that would result from the provisions of the bill.

This analysis assumed that allocations to the trust fund would begin when the new tax revenue reached the State Treasury, which would be approximately one month following the bill's effective date.

Because the bill would create or recreate a dedicated account in the General Revenue Fund, create or recreate a special or trust fund either with or outside of the Treasury, or create a dedicated revenue source, the fund, account, or revenue dedication included in this bill would be subject to funds consolidation review by the current Legislature.

Local Government Impact

The fiscal impacts to units of local government are illustrated in the above table.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JK, JO, WP, SD