

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION**

**April 14, 2003**

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

**FROM:** John Keel, Director, Legislative Budget Board

**IN RE: HB267** by Naishtat (Relating to an increase in the cigarette tax and to the use of that increase for certain health and human services programs.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB267, As Introduced: a negative impact of (\$221,306,000) 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)<br>Impact to General Revenue Related<br>Funds |
|-------------|--|
| 2004        | (\$98,281,000)   |
| 2005        | (\$123,025,000)  |
| 2006        | (\$99,211,000)   |
| 2007        | (\$127,395,000)  |
| 2008        | (\$107,224,000)  |

**All Funds, Five-Year Impact:**

| Fiscal Year | Probable Revenue<br>Gain/(Loss) from<br><i>GENERAL REVENUE<br/>FUND<br/>1</i> | Probable Revenue<br>Gain/(Loss) from<br><i>New General Revenue<br/>Dedicated - Tobacco<br/>Cessation</i> | Probable Revenue<br>Gain/(Loss) from<br><i>New General Revenue<br/>Dedicated - Trauma<br/>Care</i> | Probable Revenue<br>Gain/(Loss) from<br><i>New General Revenue<br/>Dedicated - Texas<br/>Department on Aging</i> |
|-------------|---|--|--|--|
| 2004        | (\$98,281,000)  | \$39,490,000   | \$78,979,000   | \$23,694,000   |
| 2005        | (\$123,025,000)   | \$48,034,000   | \$96,067,000   | \$28,820,000   |
| 2006        | (\$99,211,000)  | \$41,667,000   | \$83,335,000   | \$25,000,000   |
| 2007        | (\$127,395,000)   | \$45,381,000   | \$90,761,000   | \$27,228,000   |
| 2008        | (\$107,224,000)   | \$39,049,000   | \$78,097,000   | \$23,429,000   |

| <b>Fiscal Year</b> | <b>Probable Revenue Gain/(Loss) from New General Revenue Dedicated - Texas Cancer Registry</b> | <b>Probable Revenue Gain/(Loss) from New General Revenue Dedicated - Texas Department of Health</b> | <b>Probable Revenue Gain/(Loss) from New General Revenue Dedicated - Rural Health Care</b> | <b>Probable Revenue Gain/(Loss) from New General Revenue Dedicated - Medical Assistance</b> |
|--------------------|--|---|--|---|
| 2004               | \$15,796,000   | \$236,937,000   | \$39,490,000   | \$236,937,000   |
| 2005               | \$19,213,000   | \$288,202,000   | \$48,034,000   | \$288,202,000   |
| 2006               | \$16,667,000   | \$250,004,000   | \$41,667,000   | \$250,004,000   |
| 2007               | \$18,152,000   | \$272,284,000   | \$45,381,000   | \$272,284,000   |
| 2008               | \$15,619,000   | \$234,292,000   | \$39,049,000   | \$234,292,000   |

| <b>Fiscal Year</b> | <b>Probable Revenue Gain/(Loss) from New General Revenue Dedicated - Childrens Health Insurance Program</b> |
|--------------------|---|
| 2004               | \$118,469,000   |
| 2005               | \$144,101,000   |
| 2006               | \$125,002,000   |
| 2007               | \$136,142,000   |
| 2008               | \$117,146,000   |

### **Fiscal Analysis**

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

The bill would raise the tax rate by \$50.00 per 1,000 cigarettes weighing three pounds or less per thousand (\$1.00 per pack of 20 cigarettes), to a new rate of \$70.50 per 1,000 cigarettes (\$1.41 per pack). The share of cigarette tax revenues going to the General Revenue Fund 0001 would remain at the first \$20.50 of tax received per 1,000 cigarettes (41 cents per pack).

The new cigarette tax revenue generated by the bill would be allocated to eight new accounts in the General Revenue Fund 0001. Monies in the accounts would be available for appropriation only to the Texas Department of Health (TDH) for specified programs, with the exception of one account for the Texas Department of Aging (TDA) and two accounts for the Texas Health and Human Services Commission (THHSC). The new accounts and the associated portions of the tax increase would be as follows:

GR Account—Tobacco Cessation: \$2.50 per 1,000 cigarettes, or \$0.05 per pack;

GR Account—Trauma Care: \$5.00 per 1,000 cigarettes, or \$0.10 per pack;

GR Account—Texas Department on Aging (TDA): \$1.50 per 1,000 cigarettes, or \$0.03 per pack;

GR Account—Texas Cancer Registry: \$1.00 per 1,000 cigarettes, or \$0.02 per pack;

GR Account—Texas Department of Health: \$15.00 per 1,000 cigarettes, or \$0.30 per pack;

GR Account— Rural Health Care: \$2.50 per 1,000 cigarettes, or \$0.05 per pack;

GR Account—Children's Health Insurance Program (THHSC): \$7.50 per 1,000 cigarettes, or \$0.15 per pack; and

GR Account—Medical Assistance (THHSC): \$15.00 per 1,000 cigarettes, or \$0.30 per pack.

This bill would take effect September 1, 2003.

## **Methodology**

The proposed increase in the cigarette tax rate would have a negative effect on 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 Fund 0001 allocation from the cigarette tax will remain at the current 41 cents per pack, there would be a net loss of cigarette tax revenue allocated to Fund 0001.

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

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

The Comptroller's Office estimates additional FTEs and administrative costs would be necessary to handle the increased workload, for taxpayer notification, and to maintain a new system.

Because the bill would create dedicated accounts in the General Revenue Fund, the accounts included in this bill would be subject to funds consolidation review by the current Legislature.

## **Local Government Impact**

No fiscal implication to units of local government is anticipated.

**Source Agencies:** 304 Comptroller of Public Accounts, 340 Department on Aging, 501 Department of Health, 529 Health and Human Services Commission

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