

Legislative Fiscal Office

Ken Rocco
Legislative Fiscal Officer



900 Court Street NE
H-178 State Capitol
Salem, Oregon 97301
503-986-1828

Budget Information Brief / 2007-2

Ballot Measure 50

Summary

Ballot Measure 50, which amends Oregon's Constitution, would increase the state's cigarette tax by 84.5 cents/pack, from \$1.18/pack to \$2.025/pack. Cigar and other tobacco products' taxesⁱ would increase from 65% of the wholesale price to 95%. At \$2.025/pack, Oregon's cigarette tax would be equal to the State of Washington's tax. Oregon's net tobacco tax revenue would increase by an estimated \$147 million during the 2007-09 biennium (from about \$518 million under existing tax rates to \$665 million), and \$208.4 million in the 2009-11 biennium (from about \$484 million to \$692.4 million).

If Ballot Measure 50 is approved, a statutory measure passed by the 2007 Legislature (SB 3) would also become law. SB 3 provides the mechanism for distributing all tobacco taxes, including the net increase in revenue generated by Measure 50. Under SB 3, current recipients of existing tobacco tax revenue (the state General Fund, the Oregon Health Plan [OHP], county and city governments, and elderly and senior transportation programs) would receive nearly the same amount of revenue they collect today. The Tobacco Use Reduction Account (which funds tobacco use prevention and education programs) also currently receives tobacco tax. Under SB 3, it would receive additional funding of \$6.6 million during the 2007-09 biennium. The remainder of the tobacco tax increase would be used to fund the Oregon Healthy Kids Program Fund (\$133.9 million), the Rural Health Revolving Account (\$2.2 million), and the Healthy Kids Safety Net Fund (\$5.6 million).

SB 3 requires the Legislature to use the Healthy Kids Program Fund to, first, fully fund the Healthy Kids Program – an expansion of health coverage for children. It then allows the Legislature to use Fund revenue to pay for other health services provided by the Department of Human Services (DHS). Among these other services is a possible expansion of the OHP Standard program which provides health coverage to low-income adults. Given anticipated expenditures for the Healthy Kids and OHP Standard programs, the Healthy Kids Program Fund is expected to have an ending balance of approximately \$53.8 million at the end of the 2009-11 biennium. This ending balance could be used to fund future Healthy Kids Program costs.

Congress and the President are currently debating the reauthorization of the State Children's Health Insurance Program (SCHIP), a federal program which provides funding to states for children's health coverage. Because this debate is ongoing, it could, at a later date, affect Oregon's Healthy Kids Program.

Ballot Measure 50 Background

The 2007-09 Governor's recommended budget included a proposal to expand health care coverage for children, called the Healthy Kids Program. This plan was designed to provide health insurance for many of the state's estimated 117,000 uninsured children, and to raise the percentage of children in Oregon with coverage to 95%. The Governor's budget proposed funding the program with an increase in Oregon's tobacco taxes. To increase the cigarette and other tobacco products' taxes requires a three-fifths majority vote by both Oregon's House of Representatives and Senate. While the Legislature did not pass a higher tobacco tax, it did approve a trio of bills (SJR 4, HB 2640, and SB 3). If approved by voters, SJR 4 (Ballot Measure 50) would allow DHS and the Office of Private Health Partnerships to implement an expansion of children's health care coverage with additional tobacco tax revenue and federal matching funds.

ⁱ Other tobacco products (OTP) includes cigars, pipe tobacco, chewing tobacco, and snuff.

- **SJR 4** is being submitted to the voters of Oregon as Ballot Measure 50. If approved in November 2007, Ballot Measure 50 would amend Oregon’s Constitution by adding a new section (section 15) to Article IX that would increase tobacco taxes. Article IX of Oregon’s Constitution contains a wide variety of provisions related to state finance. The measure would increase Oregon’s cigarette tax by 84.5 cents/pack and the cigar and other tobacco products’ taxes by 30% of the wholesale price. Ballot Measure 50 (Section 5) would dedicate new revenue to provide “health care to children, low-income adults and other medically underserved Oregonians and to tobacco use prevention and education.” Tobacco taxes would be increased on January 1, 2008. The ballot measure does not designate specific amounts or percentages of revenue to these dedicated purposes.
- **HB 2640** refers SJR 4 to a November 6, 2007 special election and contains the ballot measure title as well as the explanatory statement and estimate of financial impact that will be printed in the voters’ pamphlet. HB 2640 indicates that SJR 4 would raise about \$152.7 million of net revenue during the 2007-09 biennium and \$233.2 million of net revenue during the 2009-11 biennium. *Those net revenue estimates have been updated based on new economic data since HB 2640 was passed, and now stand at \$147 million and \$208.4 million for the two biennia.*
- **SB 3** becomes law only if Ballot Measure 50 is approved by voters. It creates a statutory framework for the Healthy Kids Program by establishing program eligibility requirements, assigning various state agencies implementation tasks, and prescribing the distribution of Ballot Measure 50 tobacco tax revenue. SB 3 is discussed in more detail below.

SB 3 Distribution of Net Tobacco Taxes Generated by Ballot Measure 50

Table A describes how the net additional revenue generated by Ballot Measure 50 would be distributed during the 2007-09 and 2009-11 biennia. It shows the net revenue impact to current tobacco tax recipients as well as new tobacco tax revenue allocations to three other programs: the Rural Health Revolving Account, the Healthy Kids Safety Net Fund, and the Oregon Healthy Kids Program Fund. (For further information about tobacco tax revenue, see the Legislative Revenue Office brief on Ballot Measure 50.)

Table A
Net Tobacco Taxes Generated by Ballot Measure 50
(Millions of \$)

Line	Program/Fund	2007-09 Net Revenue	2009-11 Net Revenue
A1	State General Fund	2.8	4.6
A2	Health Plan (OHP)	(4.3)	(5.5)
A3	Local Government (Cities)	0.1	0.2
A4	Local Government (Counties)	0.1	0.2
A5	Local Government (Senior Transit)	0.1	0.2
A6	Tobacco Use Reduction Account (TURA)	6.6	20.3
A7	Rural Health Revolving Account	2.2	2.9
A8	Healthy Kids Safety Net Fund	5.6	7.5
A9	Healthy Kids Program Fund	133.9	178.0
A10	Total	\$147.0 *	\$208.4

* The total is rounded to \$147.0 million

- **Current Tobacco Tax Recipients.** SB 3 redistributes all of the state’s tobacco tax revenue. The intent of this redistribution was to, at least, maintain the revenue amounts current recipients receive in light of the expectation that tobacco product consumption would decrease because of higher retail prices resulting from the tax increase. Current recipients are: the state’s General Fund, the Oregon Health Plan, cities, counties, and elderly and senior transportation programs (lines A1-A5). Table A shows that the redistribution would, with one exception, moderately increase existing revenue flows. The one exception is the Oregon Health Plan (line A2). This loss in Health Plan funding may need to be offset with other state revenue if OHP services are to be maintained.

- **Tobacco Use Reduction Account, Rural Health Revolving Account, and Healthy Kids Safety Net Fund.** While the Tobacco Use Reduction Account receives tobacco tax under the current distribution method, the SB 3 redistribution would generate about \$6.6 million of enhanced funding in the 2007-09 biennium (line A6). This enhancement represents a bona fide policy decision to increase funding for tobacco use prevention and education programs managed by the DHS public health division.

Additional funds for the Rural Health Revolving Account (line A7) would be used by the Office of Rural Health at Oregon Health and Science University to replace or renovate aging rural hospitals, modernize capital equipment, preserve access to rural health care providers, expand rural health education opportunities, or improve the quality of health care in rural areas (SB 3, section 44).

The Healthy Kids Safety Net Fund would be established with new funding of \$5.6 million (line A8) during the 2007-09 biennium to provide “grants to community health centers and safety net clinics to ensure the capacity of each grantee to provide health care services to underserved or vulnerable populations” (SB 3, section 22).

- **Oregon Healthy Kids Program Fund.** The Healthy Kids Program Fund is established in SB 3 and has two purposes. First, revenue in the Fund must be used by the Legislature to fully fund the Healthy Kids Program. Second, “if and to the extent that the Legislative Assembly determines that the Oregon Healthy Kids Program is fully funded, moneys in the Oregon Healthy Kids Program Fund...may be used, in amounts determined by the Legislative Assembly, to fund other health services” provided by DHS (SB 3, Section 15). In other words, SB 3 establishes a funding priority for the revenue contained in the Healthy Kids Program Fund – first, to fully fund the Healthy Kids Program and, second, for other health services provided by DHS. The Legislative Fiscal Office assumes that one such service would be the expansion of the OHP Standard Program because the Ballot Measure 50 explanatory statement contained in HB 2640 (Section 5[2]) indicates that, in addition to the Healthy Kids Program, SB 3 would “provide affordable health care for 10,000 low-income adults through the Oregon Health Plan.”

As Table A shows, most of the net tobacco tax revenue increase would be distributed to the Healthy Kids Program Fund. This Fund would receive approximately \$133.9 million of net tobacco tax revenue for the 2007-09 biennium and \$178 million in the 2009-11 biennium (Table A, line A9; also see Table B, line B2).

Table B shows how the revenue in the Healthy Kids Program Fund could be expended given the funding priorities in SB 3 and assumed in HB 2640. An estimated \$36.9 million of the revenue would be used to fund the Healthy Kids Program, which would begin July 1, 2008 and operate for 12 months of the 2007-09 biennium. This program would cost \$146 million during the 2009-11 biennium (line B3). These amounts would provide health coverage to an average monthly caseload of 37,718 children for the 2007-09 biennium, and about 91,755 during the 2009-11 biennium. The estimated cost of expanding the OHP Standard Program by 10,000 adults is shown on line B5 and amounts to \$21.9 million and \$53.3 million for the 2007-09 and 2009-11 biennia, respectively.

Table B
Oregon Healthy Kids Program Fund Expenditures
(Millions of \$)

Line	Healthy Kids Program Fund Revenues, Expenditures, and Balances	2007-09	2009-11
B1	Beginning Balance Healthy Kids Fund	0.0	75.1
B2	Healthy Kids Program Fund - New Revenue	133.9	178.0
B3	Estimated Cost Healthy Kids Program	(36.9)	(146.0)
B4	Funds in Excess of Healthy Kids Program	97.0	107.1
B5	Estimated Cost OHP Standard Expansion	(21.9)	(53.3)
B6	Ending Balance Healthy Kids Fund	\$75.1	\$53.8

After expenditures for the Healthy Kids Program and an expansion of OHP Standard, the Healthy Kids Program Fund would have ending balances of \$75.1 million and \$53.8 million at the end of the 2007-09 and 2009-11 biennia, respectively (line B6). These ending balances could be reserved for future Healthy Kids Program costs.

Healthy Kids Program

Under SB 3, DHS would take the lead in submitting the necessary Medicaid state plan amendment or waiver changes to the federal government for approval in order to implement the Healthy Kids Program. This is an important step because Healthy Kids, like existing public health care coverage for children, would be funded with both state funds (tobacco taxes shown in Table B) and Federal Funds (through Medicaid and the State Children's Health Insurance Program). Table B does not include federal matching funds. If the federal government approved Oregon's plans, DHS would expand health coverage to children in households with incomes up to 200% of the Federal Poverty Level (e.g., about \$27,380/year for a two-person household, or \$34,340/year for a three-person household). Today, public coverage is limited to children in households with incomes up to 185% of the Federal Poverty Level.

Another state agency, the Office of Private Health Partnerships (OPHP), would administer a health insurance premium subsidy program for households with incomes above 200% of the Federal Poverty Level and up to 300% of the Federal Poverty Level, to assist them in purchasing health coverage for their children; 300% of the Federal Poverty Level is \$41,070/year for a two-person household and \$51,510/year for a three-person household. Households with incomes above 300% of the Federal Poverty Level would be allowed to purchase the coverage, but would not be eligible for a subsidy. Premium subsidy amounts would be based upon a sliding household income scale. Like the expansion of DHS' programs, the OPHP part of the Healthy Kids Program would be supported with both state funds and federal funds. In addition to administering the subsidy program, OPHP would manage an aggressive outreach campaign to enroll eligible children in the Healthy Kids Program.

Oregon Health Plan Standard Program

As noted above, SB 3 requires the Legislature to fully fund the Healthy Kids Program before directing tobacco tax revenue to other health care services, such as the OHP Standard program. Today, OHP Standard provides health coverage for adults (single or married; with children, or childless) who have household incomes up to 100% of the Federal Poverty Level (e.g., about \$10,210/year for one person, or about \$17,170/year for a three-person household). The OHP Standard caseload included nearly 100,000 persons in 2002, but was closed to new enrollees in July 2004 because of state revenue constraints. Recently, the caseload stood at about 19,000 people. Individuals enrolled in OHP Standard with incomes above 10% of the Federal Poverty Level must pay a monthly premium to remain in the program. The program is supported with provider taxes, beneficiary premium revenue, and federal Medicaid funds.

Federal Law Changes

At the time this brief was written, Congress and the President were debating the laws, regulations, and funding of the State Children's Health Insurance Program, or SCHIP, in an attempt to reauthorize this federal program. SCHIP, along with Medicaid support and state matching funds, provides much of the health coverage for the nation's children who live in low-income families. This debate could affect the Oregon Healthy Kids Program in terms of the program design and the amount of available federal SCHIP funds. In addition, funding SCHIP with a federal cigarette tax increase, as proposed by Congress, could affect Oregon's tobacco tax revenue receipts.

For additional information, contact: Ken Rocco, 503-986-1844 or John Britton, 503-986-1816