



Research Brief

Measure 50

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Summary

This brief addresses revenue questions surrounding Measure 50 and Senate Bill 3. It describes Oregon's current tobacco taxes, and changes that will occur if Measure 50 and Senate Bill 3 become law. If approved by voters revenue will be incorporated into the state budget. For a description of the budgetary implications of Measure 50 see "Measure 50 Budget Information Brief" released by the Legislative Fiscal Office.

Measure 50, referred to voters by the 2007 Legislature, is a constitutional amendment that raises taxes on cigarettes and other tobacco products and dedicates the additional revenue to health care and tobacco use reduction. The measure raises Oregon's current \$1.18 per pack cigarette tax to \$2.025 starting January 1, 2008. It also increases the tax on other tobacco products¹ from 65% of the wholesale price to 95%. Measure 50 is expected to generate \$147 million in net new revenue in the current 2007-09 budget period. It is expected to increase revenue by \$208.4 million for the 2009-11 biennial budget.

Senate Bill 3 (SB 3) goes into effect if voters approve Measure 50. SB 3 reconfigures the distribution of tobacco taxes to account for the additional revenue raised through Measure 50. It is designed to adjust for anticipated reductions in tobacco consumption caused by higher prices and hold existing programs harmless. Total tobacco revenue is projected to be \$665 million in 2007-09 and \$692.5 million in 2009-11 if Measure 50 becomes law.

Current Law

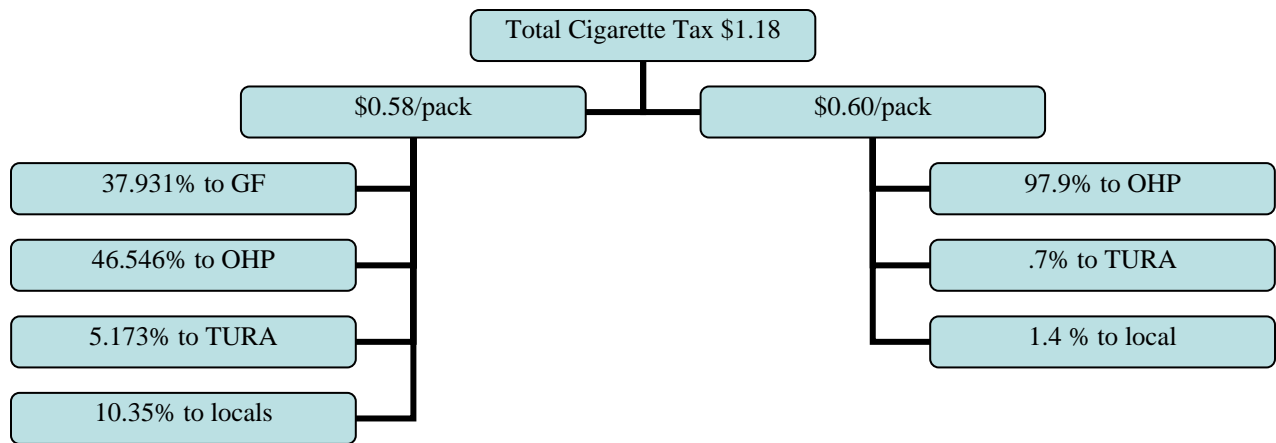
Cigarettes taxes are levied on a per cigarette basis while other tobacco products are taxed as a percent of their wholesale price. Taxes on cigars cannot exceed 50 cents per cigar. The tax rate on cigarettes is \$1.18 and the other tobacco products tax rate is 65% of the wholesale price. A temporary tax of 10¢ on cigarettes, dedicated to the Oregon Health Plan, was terminated in 2004. Cigarette taxes are distributed in the following way: 22 cents is distributed to the General Fund (18.64%), the Health Plan gets 85.7 cents (72.66%), 3.4 cents goes to the tobacco cessation programs (2.9%), and 2.3 cents (1.93%) each to cities, counties, and to the Department of Transportation for senior and disabled transit. Distribution within cities and counties is based on population. The other tobacco products tax (OTP) is distributed to the General Fund (53.84%), the Health Plan (41.54%), and tobacco cessation programs (4.62%). Tobacco distributors are allowed 0.4 cents per pack as compensation for their collection efforts and costs (ORS 323.170(2)). OTP distributors are allowed 1.5% of the total tax owed for their collection costs (ORS 323.505(3)).

¹ Other Tobacco Products (OTP) includes cigars, pipe tobacco, chewing tobacco, and snuff.

Because Oregon’s tobacco taxes were increased at different times for different purposes the current cigarette tax is treated as two separate rates in the existing statutes: 58 cents (ORS 323.030, and 455), and 60 cents (ORS 323.031, and 475). Figure 1 shows the distribution of tobacco tax revenue under current law.

Figure 1

Current Tax Revenue Distribution



(OTP) General Fund (53.84%), Oregon Health Plan (41.54%), Tobacco Use Reduction Account (4.62%)

Revenue under Measure 50

If Ballot Measure 50 is approved, it would add section 15 to Article IX of Oregon’s Constitution. This Article is where many provisions related to state finance and taxation are located. Measure 50 would increase Oregon’s cigarette tax by 84.5 cents per pack, and other tobacco products’ taxes by 30% of the wholesale price. The measure dedicates the new tax to “providing health care to children, low income adults and to other medically underserved Oregonians and to tobacco use prevention and education.” The estimated net revenue impact based on the September revenue forecast can be seen in Table 1.

Table 1 Estimated Revenue Impact of Measure 50

\$ Millions	2007-08	2008-09	2009-10	2010-11	2007-09 Biennium	2009-11 Biennium
Net new revenue						
Cigarette new revenue	\$34.77	\$106.53	\$101.53	\$97.77	\$141.30	\$199.29
OTP new revenue	\$1.04	\$4.68	\$4.59	\$4.51	\$5.72	\$9.10
Subtotal Net New Revenue	\$35.80	\$111.21	\$106.12	\$102.28	\$147.02	\$208.40
Adding new (Measure 50) revenue to current law estimate						
Total Revenue	\$298.57	\$366.42	\$351.78	\$340.70	\$664.98	\$692.48

In addition to legislative actions from the 2007 session, which affected tobacco revenue, the September forecast includes changes in general revenue trends. September shows a lower current law forecast primarily due to an anticipated impact of smoking restrictions contained in SB 571. This has the effect of reducing the forecast upon which the Measure 50 revenue estimates were based during the 2007 session². Moreover, the Legislature used anticipated tobacco revenue to fund enforcement and collection costs thereby reducing revenue available for program expenditures.

² For the revenue impact figures at the time of the 2007 session, refer to the Revenue Impact Statement of SJR 4 and SB 3.

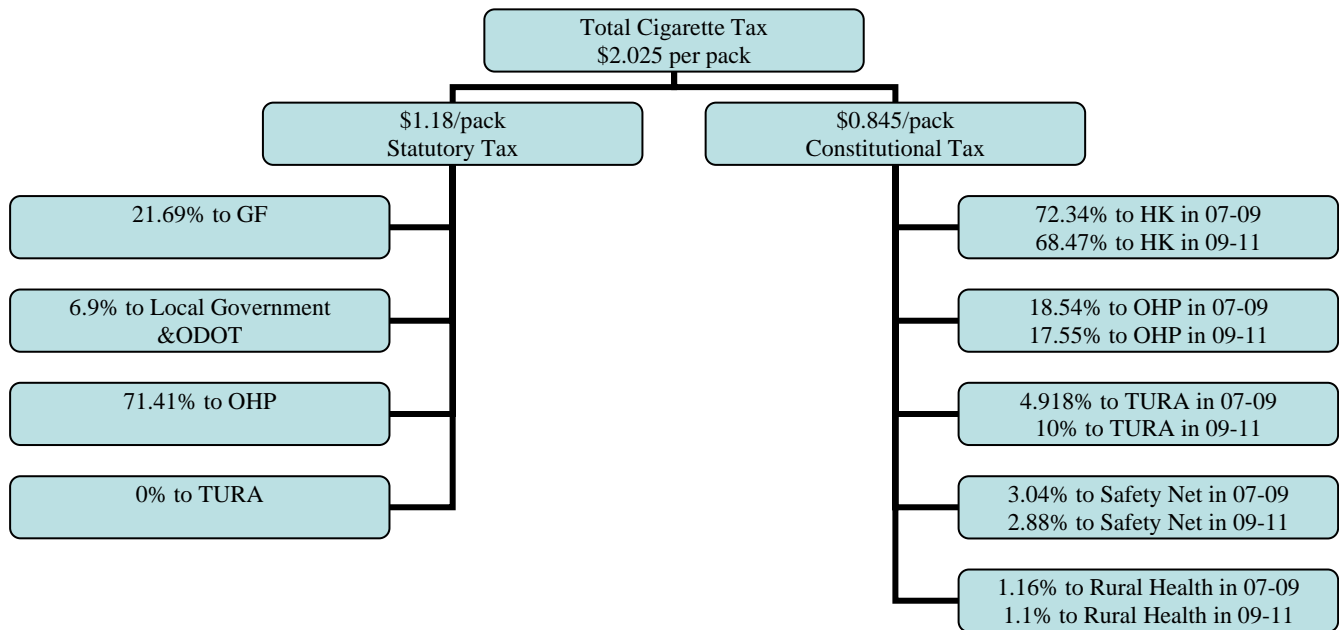
Incorporating the changes from the September revenue forecast leads to a net revenue impact from Measure 50 of \$147 million in the 2007-09 biennium and \$208.4 million in 2009-11. The revenue estimates are adjusted for collection costs in both the 2007-09 biennium (current law) and the anticipated amounts in the 2009-2011 biennium. The amounts of the revenue impact of the measure represent the net increase of tobacco revenue over the revenue amounts generated under current law.

Revenue Distribution under Measure 50 and SB 3

Senate Bill 3 (SB 3) becomes law if the voters pass Measure 50. SB 3 treats all tobacco revenue as two main segments. The constitutionally raised taxes on tobacco of 84.5 cents and 30% of OTP’s wholesale price will be the segment dedicated to the Healthy Kids program, other health, and tobacco education and prevention programs. The current tobacco taxes, combined (from two rates) at the rate of \$1.18 for cigarettes and 65% for OTP will be the second segment used to hold harmless the current programs that depend on tobacco taxes. Figure 2 outlines how new and old tobacco tax revenue will be distributed if voters approve Measure 50.

Figure 2

(Measure 50 and SB 3)



Old OTP (GF 78.7%, OHP 21.3%)

New OTP tax (30%) TURA (55.4% in 07-09, 43% for 09-11) OHP (44.6% in 07-09, 57% for 09-11)

As shown in Figure 2, the revenue distribution picture for the 2007-09 biennium is modified in the 2009-11 biennium. Additionally, the 2007-09 biennium will include revenue collected prior to the Measure 50 implementation date of January 1, 2008. These revenues will continue to be distributed under the current law statutes. The total revenue picture of the biennium will include a mix of old and new distributions to result in an outcome as described in the revenue impact statement for SB 3 issued in the 2007 legislative session³. At the time of the 2007 session, the totals were estimated at \$677.1 million for the 2007-09 biennium, and \$768.4 million for the 2009-11 biennium. The comparable total revenue picture based on the September forecast is described in Table 2.

³ Find Revenue and Fiscal Impact Statements at: <http://www.leg.state.or.us/comm/sms/SMS07Frameset.html>

Table 2 Total Tobacco Revenue Distribution

\$ Million Total Revenue					2007-09	2009-11
	2007-08	2008-09	2009-10	2010-11	Biennium	Biennium
State General Fund	60.03	60.74	58.77	57.29	120.76	116.06
Health Plan (OHP)	179.53	173.58	166.46	161.07	353.11	327.53
TURA	9.69	12.93	17.95	17.46	22.61	35.41
Rural Health	0.54	1.60	1.46	1.41	2.15	2.86
Kids Safety Net	1.42	4.20	3.81	3.68	5.63	7.49
Local (Cities)	4.50	4.44	4.25	4.10	8.94	8.35
Local (Counties)	4.50	4.44	4.25	4.10	8.94	8.35
Local (Transit)	4.50	4.44	4.25	4.10	8.94	8.35
Healthy Kids Program	33.87	100.04	90.59	87.48	133.91	178.06
Total	\$298.57	\$366.42	\$351.78	\$340.70	\$664.98	\$692.48

The two segments of revenue produced by Measure 50 increases and SB 3 distribution formulas (shown earlier) are specified in Table 3 (new rate segment) and Table 4 (the old rate segment).

Table 3 Revenue Distribution: New Rate Segment

84.5 cent Revenue Amounts \$ Millions	(starting 1/1/08)	2008-09	2007-09 Biennium	2009-11 Biennium
	2007-08			
Health Plan (OHP)	8.68	25.64	34.32	45.64
TURA	4.26	12.93	17.19	35.41
Rural Health	0.54	1.60	2.15	2.86
Kids Safety Net	1.42	4.20	5.63	7.49
Healthy Kids Program	33.87	100.04	133.91	178.06
Total	\$48.77	\$144.42	\$193.19	\$269.46

Table 4 Revenue Distribution: Old Rate Segment

\$1.18 Revenue amounts \$ Millions	(starting 1/1/08)	2008-09	2007-09 Biennium	2009-11 Biennium
	2007-08			
State General Fund	20.21	60.74	80.95	116.06
Health Plan (OHP)	49.89	147.94	197.83	281.89
Local Government (Cities)	1.50	4.44	5.95	8.35
Local Government (Counties)	1.50	4.44	5.95	8.35
Local Government (Transit)	1.50	4.44	5.95	8.35
Total	\$74.62	\$222.00	\$296.62	\$423.02

Revenue Forecast Risks.

A number of states, including Oregon, have increased tobacco taxes in recent years. This provides the advantage of recent data on how tobacco users are likely to respond to price changes of the magnitude contained in Measure 50. This tends to increase the reliability of the estimates. However, a number of risks remain. These include more pronounced cross border effects, larger than expected declines in use, higher than expected sales of untaxed products and changes in federal or other state's tax policy. The revenue estimates contained in this report account for these risks to the extent possible with the objective of producing an estimate that has an equal probability of being too high or too low.

For additional information, contact the Legislative Revenue Office, 503-986-1266