



**COUNTY OF SAN MATEO**  
Inter-Departmental Correspondence  
County Manager



**Date:** September 21, 2016

**Board Meeting Date:** October 4, 2016

**Special Notice / Hearing:** None

**Vote Required:** Majority

**To:** Honorable Board of Supervisors

**From:** John L. Maltbie, County Manager  
Connie Juarez-Diroll, Legislative Director

**Subject:** November 2016 Statewide Propositions

**RECOMMENDATION:**

Adopt a resolution in support of Proposition 56, the Cigarette Tax to fund healthcare, tobacco use prevention, research, and law enforcement initiative, that will appear on the November 8, 2017 General Election ballot, which would increase the cigarette excise tax by \$2.00 per pack, with an equivalent increase on other tobacco products and electronic cigarettes containing nicotine.

**BACKGROUND:**

Cigarettes and other tobacco products, such as cigars and chewing tobacco, are subject to state and federal excise and state and local sales and use taxes. Over the past few years, several attempts to raise the tobacco tax in California have failed. California last raised its tobacco tax in 1998, and compared to other states, has one of the lowest tobacco excise taxes in the nation.

E-cigarette use has been a growing concern in the tobacco control fight. Nationally, the use of e-cigarettes is rapidly rising among teens and young adults and e-cigarette use by teens now surpasses the use of traditional cigarettes. According to a 2015 State Health Officer Report, the use of e-cigarettes among young adults ages 18 to 29 tripled in just one year in California. Moreover, since e-cigarettes are currently not subject to taxation, they are considered to be cheaper and potentially more attractive, especially to young people.

Increasing the cost of cigarettes and tobacco products is widely recognized as the most effective way to reduce smoking. Thus, to this end, the state legislature introduced, and the Governor signed, a series of tobacco-related bills in Second Extraordinary Session on Health Care to further reduce tobacco use and exposure to youth. Among other

things, these bills focused on defining and regulating e-cigarettes, raising the legal age for the purchasing of tobacco from 18 to 21 years of age, requiring schools to be tobacco-free at all times, and closing loop holes in the state's smoke free laws.

**DISCUSSION:**

Proposition 56 would raise the state excise taxes on cigarettes by \$2.00 per pack, from 87 cents per pack. Taxes on other tobacco products, including cigars, would also increase by \$2.00, from \$1.37 to \$3.37. Proposition 56 would also extend the state excise taxes to electronic cigarettes for the first time.

Revenues from the initiative would first backfill existing tobacco-funded programs (Propositions 99, Breast Cancer Fund, and Proposition 10, First 5 programs), as well as the sales tax revenues at the state and local levels. The majority of revenues, approximately 82 percent, would be allocated to increased funding for existing state health care programs and services, like Medi-Cal. The remaining revenues would be allocated to the University of California for physician training, dental disease programs, various law enforcement programs, tobacco-related prevention and cessation programs, and medical research on tobacco-related diseases. Proposition 56 excludes anticipated revenues from the Proposition 98 funding requirements. It also requires a biennial audit.

The County has long supported efforts to increase taxes on tobacco products and alcoholic beverages to both discourage tobacco and alcohol use and raise funds for health needs and prevention efforts. Proposition 56 would provide revenue for state Medi-Cal activities and preserve critical funding for state and local First 5 (Proposition 10) activities to improve the lives of Californians ages 0-5. This measure is sponsored the American Cancer Society Cancer Action Network, American Lung Association, and American Heart Association, and is supported by the California State Association of Counties (CSAC) and the Urban Counties of California (UCC). It is opposed by big tobacco companies and an array of taxpayer associations, including the Howard Jarvis Taxpayers Association.

**FISCAL IMPACT:**

There is no direct impact to the County from supporting the initiative. The Legislative Analyst's Office has estimated that the new excise taxes would increase state revenue by over \$1 billion in FY 2017-18, with likely lower annual amounts in future years. Over \$1 billion in increased funding in 2017-18 would mostly be used to for state health programs; however, much of the added spending on health programs would generate additional federal funding to the state in the form of federal matching funds. Finally, as this measure would increase prices for tobacco products and increase funding for prevention and cessation programs, which would likely result in a decrease in tobacco consumption, it is expected that this initiative would reduce state and local government health care spending on tobacco-related diseases over the long-term.