

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0559-05
Bill No.: SB 386
Subject: Elderly; Health Care; Health Department; Pharmacy; Public Assistance; Taxation and Revenue - Sales and Use; Tobacco Products
Type: Original
Date: March 5, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	\$0	(\$73,350)	(\$30,291)
Missouri Pharmaceutical Assistance*	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> State Funds	\$0	(\$73,350)	(\$30,291)

*Revenues and expenditures of approximately \$183 million annually net to \$0.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None			
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 6 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of State Treasurer** assume this proposal would not fiscally impact their agency.

Office of **Secretary of State (SOS)** state that statewide newspaper publication of constitutional amendments cost approximately \$1,460 per column inch based on estimates provided by the Missouri Press Service times three multiple printings as required by the Constitution and state statute (\$4,380 per column inch). SOS estimates the total number of inches for this amendment to be ten inches, which includes title header and certification paragraph (\$4,380 time 10 inches = \$43,800).

Officials from the **Department of Revenue (DOR)** assume the following fiscal impact:

Administrative Impact:

DOR would collect the additional cigarette tax. DOR would have to collect tax on the Other Tobacco Products at a different tax based than the existing tax base. DOR would need One Tax Processing Tech I to handle the different tax bases. DOR states that during Fiscal Year 2000 \$103 million was collected on the 17 cents cigarette tax. DOR assumes an unknown revenue impact.

Officials from the **Department of Social Services (DOS)** assume the following:

Program Costs

DOS states 771,000 of Missouri's 5,117,073 residents are 65 or older. There are 475,002 households in this age range in Missouri. DOS states that dividing the number of persons by the number of households yields 1.6 persons per household ($771,000 / 475,002 = 1.6$). There are 189,508 households with income below \$17,500. DOS states that \$15,447 is the 185% threshold for one person and \$20,812 is the threshold for two persons. DOS states that their data shows income only be household, not by persons, DOS chose the midpoint. DOS applying the standard of 1.6 persons per household, they estimate that there are 303,213 individuals that would meet the income eligibility standard. From this DOS deducted the number of persons receiving Medicaid. The number of Medicaid recipients over age 65 as of 12/31/00 was 77,111. Therefore, the maximum number of potential eligibles is 226,102 ($303,213 - 77,111$) and the maximum cost for the pharmaceutical assistance part of the bill is \$108,529,000 ($226,102 \times \480). DOS states the number of actual participants would depend on the price of the insurance

MW:LR:OD (12/00)

policy as determined by the contracts with DOS. If the cost is \$480 or less, participation can be ASSUMPTION (continued)

expected to be nearly universal since the policy would be basically free. DOS assumes the number of participants could be expected to decrease as the cost of the policy, especially as it compares to other policies in the marketplace, increases. Information on the cost of a policy covering only prescription drugs was not readily available in view of the fact that seniors generally purchase drug coverage as part of a Medicare supplement policy that includes other health care services.

DOS states the program costs do not include the costs associated with the operation of the task force, nor funds that would be allocated for tobacco cessation activities. These costs would be subject to appropriation and, therefore, cannot be estimated.

Administrative Costs

DOS could operate the program in one of two ways: either directly with DOS staff or by contracting with a pharmacy benefit management program. Either option would incur large administrative expenses. These expenses are associated with the following tasks:

- providing staff support to the task force;
- receiving and processing applications from individuals wanting to participate in the pharmaceutical assistance program;
- developing and maintaining a database of information about participants and transferring this information to the contracted insurance companies;
- forwarding payment to the insurance companies on behalf of participants;
- receiving and reviewing proposals, allocating, transmitting, and monitoring grants and expenditures for tobacco programs;
- preparing the required reports about the operation of the fund; and
- developing rules and regulations for operation of the program.

Without knowing the amount of the appropriations that would be available or the number of participants, it is very difficult to estimate a precise cost in the time allowed. DOS has looked to another pharmaceutical proposal (FN 619-01N) for a reasonable idea of what costs could be. DOS states that although the pharmaceutical programs in the two proposals are different in

design, they both involve the processing of applications and the generation of payments. In that proposal the combined administration costs for were roughly \$6 million in FY 02 and \$16 ASSUMPTION (continued)

million in FY 03 and FY 04 for approximately 133,000 participants.

Oversight assumes that under another program verifying eligibility, Children's Health Insurance Program, DOS assumed that current resources would be able to verify eligibility; therefore, no additional administrative expenses would be needed.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** state in calendar year 2000, the state 17 cents per pack cigarette tax raised \$100.4 million. For calendar year 2002, BAP estimates a 30 cent per pack increase would raise about \$165 million. BAP assumes that normal decline in cigarette consumption of one percent per year and a decline of five percent in cigarette consumption due to the price increase.

BAP states the proposal would add an increased tax of 30 cents per cigar sold and 30 cents per 1.2 ounce can of loose tobacco sold. BAP assumes for FY 2001, the "Other Tobacco Products" (OTP) tax would yield \$8,655,543. This tax is ten percent of the wholesale price of cigars and loose tobacco. BAP states about 25% of the OTP sales are cigars and 75% are loose tobacco. BAP assumes the average cigar price is \$1.25 and a 1.2 ounce can of loose tobacco is \$2.00. BAP states the total wholesale spending on cigars equals \$21.6 million and the total wholesale spending on loose tobacco equals \$64.9 million. BAP assumes retail markup equals 25%. BAP estimates unit sales of 21.6 million cigars and 40.6 cans of loose tobacco. BAP states that at 30 cents per cigar and can the revenue yield equals:

cigars	\$6.5 million
loose tobacco	\$12.2 million
Total	\$18.7 million

BAP states that assuming an effective date of January 1, 2002, revenue projections would be:

Fiscal Year	Cigarette	OTP	Total
2002	\$69.3 million	\$8.0 million	\$77.3 million
2003	\$164.1 million	\$19.8 million	\$183.9 million
2004	\$162.5 million	\$21.0 million	\$183.5 million

BAP assumes a six percent growth in OTP which is about the average growth over the last four years.

<u>FISCAL IMPACT - State Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
GENERAL REVENUE FUND			
<u>Costs - Office of Secretary of State</u>			
Election costs	\$0	(\$43,800)	\$0
<u>Costs - Department of Revenue</u>			
Personal services (1 FTE)	\$0	(\$21,722)	(\$22,265)
Fringe benefits	\$0	(\$7,240)	(\$7,421)
Expense and equipment	<u>\$0</u>	<u>(\$588)</u>	<u>(\$605)</u>
Total <u>Costs</u> - Department of Revenue	<u>\$0</u>	<u>(\$29,550)</u>	<u>(\$30,291)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$73,350)</u>	<u>(\$30,291)</u>
 MISSOURI PHARMACEUTICAL ASSISTANCE FUND			
<u>Income - Department of Revenue</u>			
Tax increase	\$0	\$77,300,000	\$183,900,000
<u>Costs - Department of Social Services</u>			
Program costs	<u>\$0</u>	<u>(\$77,300,000)</u>	<u>(\$183,900,000)</u>
ESTIMATED NET EFFECT ON MISSOURI PHARMACEUTICAL ASSISTANCE FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
 <u>FISCAL IMPACT - Local Government</u>			
	FY 2002 (10 Mo.)	FY 2003	FY 2004
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses would expect to be fiscally impacted to the extent they would incur additional

administrative costs as a result of the requirements of this proposal.

DESCRIPTION

This proposal would add a tax on the sale of certain tobacco products in order to fund the Missouri Pharmaceutical Assistance Program (MOPAP). Currently, Section 149.065, RSMo, exempts certain collected taxes from deposit in the state treasury. New language would add MOPAP to the list of exemptions. A new section 149.084 would create a thirty cent tax on the sale of each cigar, package of cigarettes, or 1.2 ounce container of smokeless tobacco. The proposal would also create the "Missouri Pharmaceutical Assistance Fund" for the proceeds, which should be used to fund MOPAP and tobacco cessation, education, and treatment programs as defined by the Department of Health by rule, with consideration given to the Centers for Disease Control and Prevention's nine elements of the comprehensive tobacco control program.

This proposal contains a referendum clause for the tax to be submitted to the voters.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration
Division of Budget and Planning
Department of Revenue
Department of Social Services
Office of Secretary of State
Office of State Treasurer



Jeanne Jarrett, CPA
Director

March 5, 2001