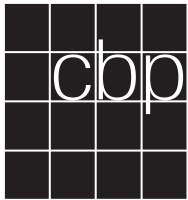


CALIFORNIA BUDGET PROJECT

budget brief

SEPTEMBER 2006

WHAT WOULD PROPOSITION 86 MEAN FOR CALIFORNIA?

Proposition 86, which will appear on the November 2006 ballot, would raise the tax on cigarettes by $2.60 per pack, nearly triple the current tax of $0.87. Proposition 86 would also raise the tax on other tobacco products, such as cigars and smokeless tobacco. Revenues from the increased tax would provide funding for hospital emergency services and an expansion of children's health insurance. These revenues would also fund physicians and community clinics, nursing education, tobacco prevention, and various research and treatment programs.

Proposition 86 would raise an estimated $2.1 billion in 2007-08, the first full year the measure would be effective, though revenues are likely to decline in the future. The increased tobacco tax would have a disproportionate impact on low-income Californians, since low-income individuals tend to spend a greater share of their incomes on tobacco products. Proposition 86 sponsors include the California Hospital Association and the American Cancer Society.[1] The California Budget Project neither supports nor opposes Proposition 86.

What Would Proposition 86 Do?

Proposition 86 would raise the cigarette tax from $0.87 to $3.47 per pack beginning January 1, 2007. The measure would also raise the tax on other tobacco products, such as cigars and smokeless tobacco, by a comparable amount. Proposition 86 would spend the new revenues on a variety of purposes (Table 1). Specifically, the measure would:

- Fund hospital emergency services and other health services;
- Provide health insurance for children;
- Fund programs to reduce tobacco consumption;
- Support research, detection, and treatment of cancer and other diseases;
- Replace revenues raised by Proposition 10 of 1998, which supports programs for children age zero through 5, that are lost due to a drop in tobacco consumption. Proposition 86 would not replace lost tobacco tax revenues that support the General Fund or other programs, but would provide funding for specific components of some of those programs;[2] and
- Exclude revenues raised by the tobacco tax increase from the State Appropriations Limit and the Proposition 98 school funding guarantee.

The Legislature can amend certain parts of Proposition 86, but only to further the measure's purposes. For example, changes to the provisions governing funding for hospitals would require a four-fifths vote and changes to the children's health insurance provisions would require a majority vote of the Legislature.

Proposition 86 Would Provide Funds to and Impose New Requirements on Hospitals

Funding for Emergency Services

Approximately one-third of the revenues raised by Proposition 86 – an estimated $756 million in 2007-08 – would support hospital emergency services. However, the distribution of funding would not be based on a specific hospital's losses due to unreimbursed emergency care. The allocation of funding among hospitals would be determined by two factors: a hospital's total number of emergency room visits – including visits by insured patients – and the total amount of unreimbursed care provided by each hospital to uninsured patients.[3] As a result, a hospital with 1 percent of all hospitals' emergency care losses could, for

example, receive 2 percent of total hospital funding under the initiative.[4]

Hospitals could use the new monies for specified purposes, including the unreimbursed cost of providing emergency services and purchase of equipment for emergency rooms and critical care departments.[5] Hospitals could not use the funds to supplement payments received from insurance companies, Medi-Cal, or Medicare that they consider inadequate. Any unused funds would be returned to the state for redistribution among hospitals on the same basis as the original funds.

Protections Against Excessive Billing

Proposition 86 would require hospitals that receive funding under the initiative to comply with new rules on patient billing. Consumer advocates, the Legislature, and Congress have all expressed concern that hospitals currently overcharge low-income uninsured patients. Under Proposition 86, hospitals could not charge certain low-income individuals more than Medi-Cal or Medicare would pay for the same services. Specifically, the measure appears to prevent hospitals from billing higher amounts to individuals with incomes at or below 350 percent of the federal poverty level (FPL).[6] Proposition 86 would also require hospitals to post their policies for determining who qualifies for free or substantially reduced bills. In addition, the measure would limit when hospitals could send unpaid bills of certain low-income patients to collection agencies.

Hospitals Would Gain Authority to Coordinate Services

Proposition 86 would allow hospitals to cooperatively develop local or regional plans for provision of emergency and specialty care services and would protect hospitals from anti-trust laws if they coordinate emergency services. Counties or local authorities responsible for emergency services would have to approve and oversee the implementation of these plans. Anti-trust laws currently prohibit hospitals from coordinating how they provide services, jointly setting prices, and determining which hospitals serve residents in different geographical areas.

Proposition 86 Would Expand Health Coverage for Children

Proposition 86 would allocate an estimated $367 million in 2007-08 to provide health coverage to uninsured children. Of this amount:

- At least 90 percent would be used to provide health coverage to children who are not currently eligible for Medi-Cal or Healthy Families; and
- The remainder would be available to streamline enrollment processes for Medi-Cal and Healthy Families, to improve coordination between the two programs, and to research strategies for covering children at income levels above 300 percent of the FPL.

Table 1: Allocation of New Tobacco Tax Revenues

	Estimated 2007-08 Funding (Dollars in Millions)	Percentage of Estimated 2007-08 Funding
Health Services		
Hospital emergency services	$756	36.0%
Emergency physician services	$66	3.1%
Heart disease and stroke program	$69	3.3%
Obesity, diabetes, and chronic diseases programs	$63	3.0%
Community clinic services	$58	2.8%
Asthma program	$34	1.6%
Subtotal	**$1,046**	**49.8%**
Children's Health Coverage	**$367**	**17.5%**
Tobacco Control		
Tobacco control, prevention, and cessation programs	$171	8.1%
Tobacco control research and evaluation	$36	1.7%
Tobacco control enforcement	$18	0.9%
Subtotal	**$225**	**10.7%**
Cancer Research and Treatment		
Breast and cervical cancer program	$65	3.1%
Colorectal cancer program	$34	1.6%
Breast cancer research	$24	1.1%
Prostate cancer program	$18	0.9%
Cancer research, with a focus on applied research	$14	0.7%
Cancer registry	$14	0.7%
Lung cancer research	$10	0.5%
Subtotal	**$179**	**8.5%**
Other		
Nursing education programs	$91	4.3%
Loan repayment program for physicians in underserved areas	$8	0.4%
Subtotal	**$99**	**4.7%**
Proposition 10 Backfill	**$180**	**8.6%**
Grand Total	**$2,100**	**100.0%**

Note: Totals may not sum due to rounding.
Source: Legislative Analyst's Office

Specifically, the measure would expand coverage to children under the age of 19:

- With family incomes that are too high to qualify for Medi-Cal or Healthy Families, but whose incomes are at or below 300 percent of the FPL;[7]
- Regardless of immigration status, if they meet the measure's income requirements; and
- Who are currently enrolled in county-based Children's Health Initiatives (CHIs).[8]

All newly eligible children would be enrolled in Healthy Families, regardless of family income. Children currently eligible for either Medi-Cal or Healthy Families coverage could continue to enroll in these programs, but coverage for these children would be paid for out of other state resources, and not by Proposition 86 funds.

Proposition 86 Would Lock In Current Spending for Children's Health Coverage

Proposition 86 contains a so-called "no supplantation" requirement that would prohibit the use of funds raised by the new tax to replace existing spending for a number of children's health programs. This requirement covers state and local funds and is potentially quite broad. Proposition 86 would not allow the state to replace existing spending for the Medi-Cal, Healthy Families, or Child Health and Disability Prevention (CHDP) Programs with Proposition 86 dollars. Certain local funds used to support CHIs – including dollars resulting from the 1998 Master Settlement Agreement (MSA) between major tobacco companies and state attorneys general – would also be covered by the "no supplantation" requirement, although it is uncertain how this requirement would work once children covered by CHIs enroll in health care coverage supported by Proposition 86.[9]

Proposition 86 Would Expand Health Coverage for Children

Proposition 86 revenues would flow to a fund dedicated to the new programs. However, the policy changes contained in Proposition 86 are likely to affect state budget revenues and costs.[10]

State Revenues

The increased tobacco tax would have both a positive and negative impact on state revenues. Sales tax revenues from cigarettes and other tobacco products would increase because the sales tax would apply to the higher tobacco tax. However, state tobacco tax revenues would decline as tobacco consumption falls due to higher prices. The Legislative Analyst's Office (LAO) estimates that higher sales tax revenues would roughly offset lower tobacco tax revenues.[11]

In addition, the increased tobacco tax could reduce MSA payments to the state, as well as to cities and counties.[12] MSA payments could fall if the decline in smoking in California significantly reduces the total number of cigarettes purchased nationally, or if smokers switch to generic cigarette brands not owned by the major tobacco companies that signed the MSA. Any decline in MSA payments would reduce state revenues, as well as payments to four cities and all California counties. As part of the 2002-03 and 2003-04 budget agreements, the state issued bonds backed by its future MSA payments to help address multi-billion dollar budget deficits, and MSA payments are now used to repay these bonds. If future MSA revenues fall below the level needed to make bond debt service payments, the state would have to make up the difference or default on the bonds. A number of counties have also "securitized" – that is, borrowed against – their MSA payments for a variety of purposes.

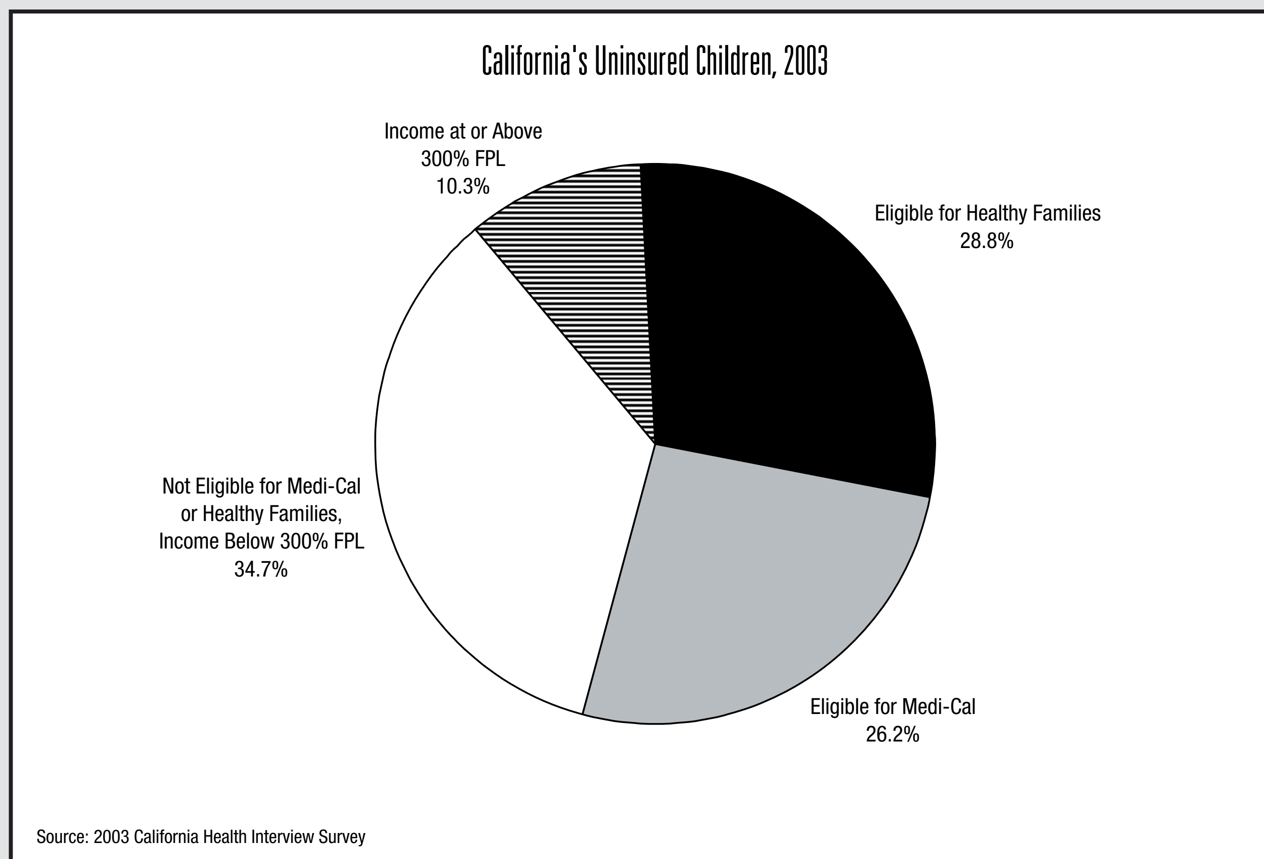
State Costs

In addition to covering children who are not currently eligible for Medi-Cal or Healthy Families, Proposition 86 would likely increase enrollment of children who are currently eligible for these programs. First, Proposition 86 would require the state to simplify enrollment procedures for Medi-Cal and Healthy Families, which could increase the number of children covered by these programs. Second, research suggests that making health coverage available for all children with incomes at or below 300 percent of the FPL could increase the enrollment of children who are already eligible for, but not enrolled in, Medi-Cal or Healthy Families. Studies suggest that is because families are more likely to enroll their children if they are all eligible for coverage.[13] For example, a family with a noncitizen teenager who would become newly eligible for coverage may also choose to enroll a younger citizen child who was previously eligible for Medi-Cal or Healthy Families because the family could obtain health coverage for both children.

Increased enrollment of children currently eligible for Medi-Cal or Healthy Families would increase state budget costs. The state cost of covering all eligible, but not enrolled, children – an estimated 430,000 in 2003 – would be approximately $250 million, in addition to more than $300 million in federal matching dollars.[14] Federal Medicaid funds provide a one-to-one match for state Medi-Cal expenditures on an open-ended basis, while State Children's Health Insurance Program (SCHIP) funds provide a two-to-one match for state Healthy Families spending up to California's fixed federal funding level. Congress is scheduled to reauthorize federal SCHIP funding in 2007 and, due to pressures on the federal budget, California's future SCHIP funding level is

Who Are California's Uninsured Children?

Nearly 800,000 children were uninsured in 2003. Nearly all (700,000) had family incomes at or below 300 percent of the FPL. Over half, approximately 430,000, were eligible for but not enrolled in Medi-Cal or Healthy Families. Approximately 270,000 uninsured children had family incomes below 300 percent of the FPL and were not eligible for Medi-Cal or Healthy Families.



uncertain. The state's cost of covering children who are currently eligible for Healthy Families coverage, but not enrolled, would be higher if sufficient federal funding is not available.

How Much Is the Current Tobacco Tax?

California's current cigarette tax is $0.87 per pack, which includes four separate tax rates (Table 2). A $0.10 per pack tax rate supports the state's General Fund, a $0.25 per pack rate goes to health and related programs under Proposition 99 of 1988, and a $0.50 per pack rate goes to early childhood programs authorized by Proposition 10 of 1998. In 1994, the Legislature imposed a tax of $0.02 per pack to support breast cancer treatment and research. The state also taxes other tobacco products – such as cigars and smokeless tobacco – based on a percentage of the wholesale price.[15]

Consumers of tobacco products pay other taxes as well. The federal government imposes a $0.39 per pack tax on cigarettes. In addition, consumers pay sales tax on the retail price of cigarettes and other tobacco products, which includes state and federal tobacco taxes.

Table 2: California's Current Cigarette Tax			
Component	Tax Rate (per pack)	Estimated 2006-07 Revenue (Millions)	Purpose
Proposition 10	50 cents	$617	Programs for children age 0 through 5
Proposition 99	25 cents	$335	Tobacco prevention, health care services, tobacco-related disease research, and environmental programs
General Fund	10 cents	$118	General support for state programs
Breast Cancer Fund	2 cents	$24	Breast cancer research and services
Total	**87 cents**	**$1,094**	

Source: Department of Finance

Tobacco Tax Revenues Have Declined

Tobacco tax revenues have declined over time due to declining consumption of tobacco products (Figure 1). Per capita consumption of cigarettes dropped by 75.4 percent between 1967-68 and 2004-05. The decrease in consumption is primarily attributable to concerns over smoking-related health problems and changing societal norms; however, increases in tobacco prices have also contributed to the drop in smoking. National research suggests that cigarette consumption declines by approximately 4 percent for every 10 percent increase in cigarette prices, although research specific to California suggests that consumption declines by 4.5 percent to 6 percent for every 10 percent increase in cigarette prices.[16] The drop in per capita cigarette consumption that occurred after recent increases in tobacco taxes supports this hypothesis. Proposition 99 increased tobacco taxes on January 1, 1989, and per capita cigarette consumption fell by 17.6 percent between 1987-88 and 1989-90. Proposition 10 further increased tobacco taxes on January 1, 1999, and per capita cigarette consumption fell by 21.7 percent between 1997-98 and 1999-00.

New Tax on Tobacco Would Raise $2.1 Billion in First Full Year, Then Decline in the Future

The LAO estimates that Proposition 86 would raise $2.1 billion in the first full year the tax is in effect (2007-08).[17] This amount reflects the higher tax rate, somewhat offset by a decline in the purchase of tobacco products due to higher prices.

Research of prior price increases suggests that an increase of 65 percent – the approximate magnitude of the proposed tax increase – could be expected to reduce cigarette consumption by approximately 26 percent to 39 percent. However, no increase of this magnitude has occurred previously, and the reduction in smoking could be higher or lower than prior research predicts. Recent declines in smoking could mean that a high proportion of remaining smokers are addicted and unable to quit, although research suggests this may not be true.[18] Highly addicted smokers may continue to smoke despite higher prices, leading to a lower-than-expected reduction in smoking from a price increase. On the other hand, a substantial price increase may cause smokers to avoid higher tobacco taxes by purchasing untaxed cigarettes at tribal casinos or over the Internet.[19]

Revenues from the tax increase are likely to decline over time. The average number of packs purchased per person fell by an average of 2.5 percent per year between 2002-03 and 2004-05, a period when retail cigarette prices were fairly stable. Moreover, Proposition 86 would increase funding for programs aimed at reducing smoking. If these programs are successful, revenues would decline more rapidly in the future as fewer people smoke fewer cigarettes.

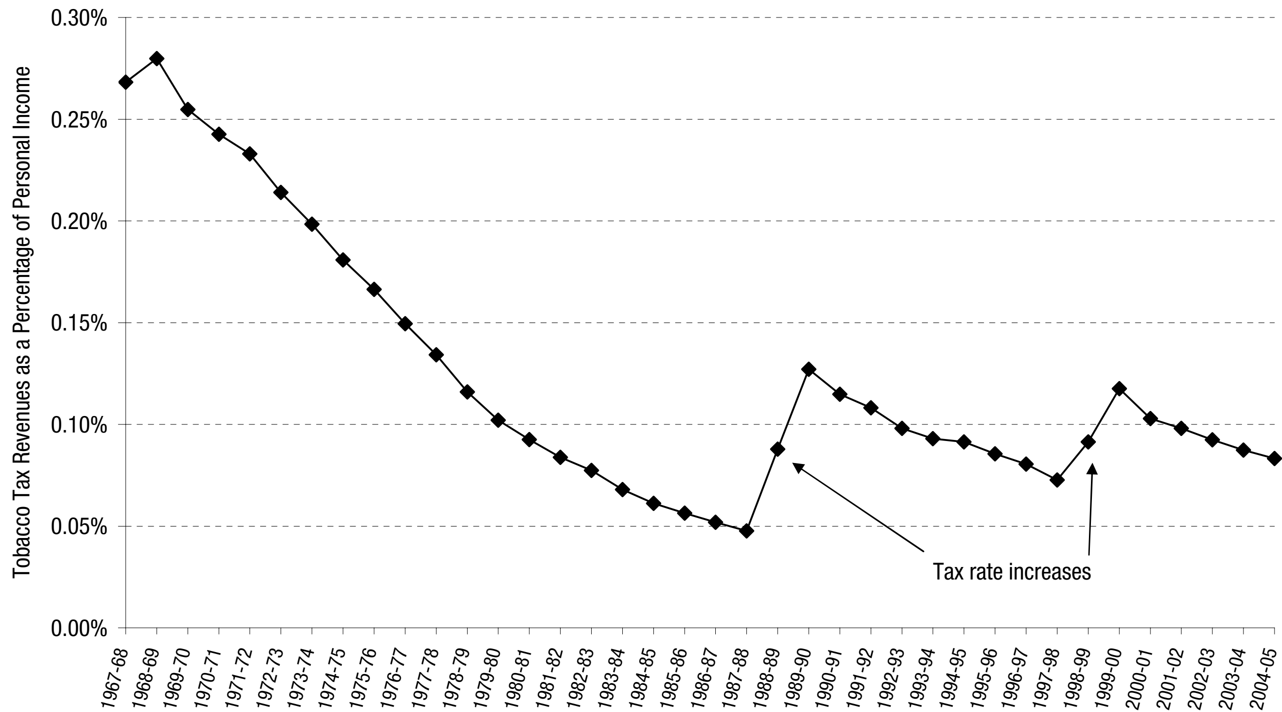
How Does California's Cigarette Tax Compare?

California's cigarette tax rate is currently the 22nd highest among the states. Nationally, the median tax rate – the rate at the midpoint of the distribution of rates among the states – was $0.80 per pack as of January 1, 2006.[20] Three states – New Jersey, Rhode Island, and Washington – have tax rates higher than $2 per pack.[21] Proposition 86 would increase California's cigarette tax to $3.47 per pack, the highest in the nation. California's tobacco tax revenues as a percentage of personal income ranked 39th among all states in 2004-05.[22] The lower ranking on this measure partially reflects a lower rate of smoking in California than in other states.

The Impact of the Cigarette Tax Would Fall Hardest on Low-Income Families

The cigarette tax increase would have a disproportionate impact on low-income families and individuals since low-income persons spend a greater share of their income on tobacco products. The poorest fifth of taxpayers in California would spend 0.9 percent of their income on the new tax in 2007, compared to 0.01 percent for taxpayers in the top 1 percent (Figure 2). The disparity results both from the lower income of poor taxpayers and from the fact

Figure 1: Tobacco Tax Revenues Have Declined as a Percentage of Personal Income



Source: CBP analysis of Bureau of Economic Analysis and Board of Equalization data

that smoking is more prevalent among low-income populations. Researchers found that in 2002, 21.9 percent of California adults with incomes between $10,000 and $20,000 smoked, while just 13.2 percent of those with incomes in excess of $75,000 smoked.[23]

Smoking rates also vary by gender, race/ethnicity, and educational attainment. Surveys indicate that men and blacks in California are more likely to smoke than women or whites and Latinos, respectively.[24] Nationally, people with less than a high school degree are more likely to smoke, while in California, people with a high school degree, but not a higher level of educational attainment, are most likely to smoke.

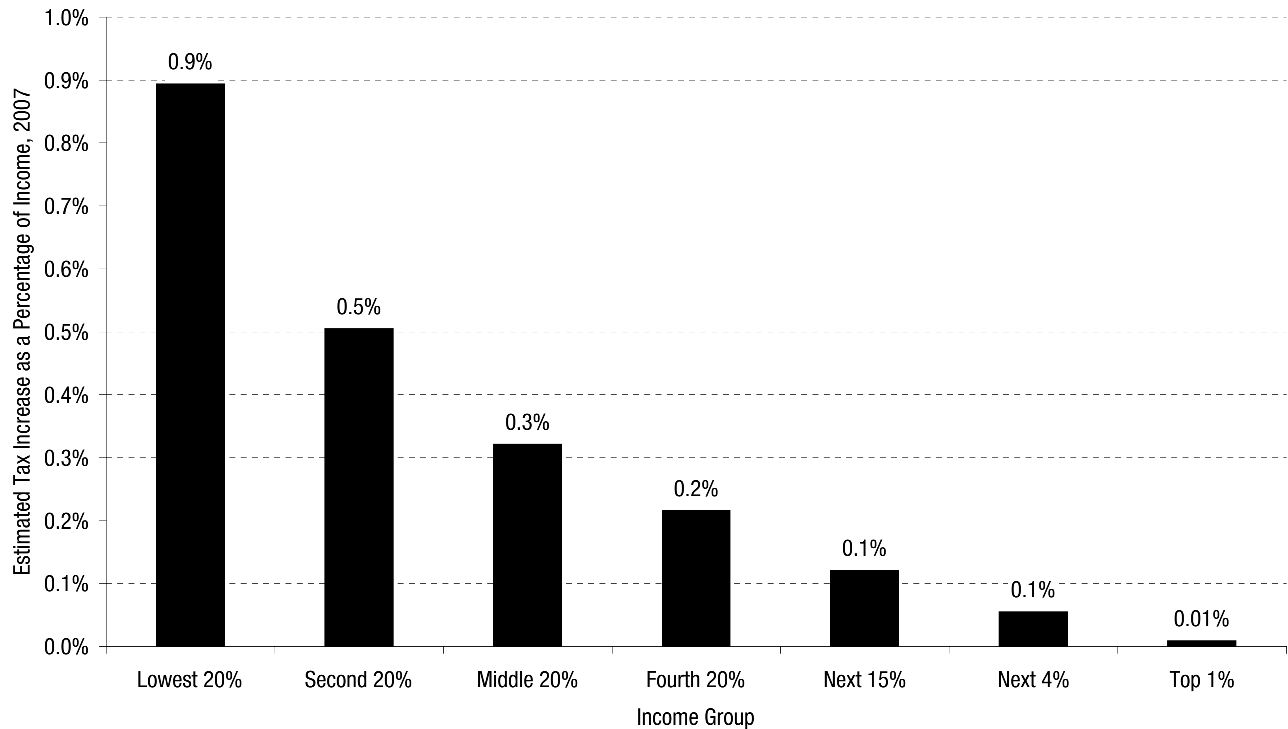
Proponents contend that the regressivity of the tax is not a problem since low-income persons are more likely to reduce cigarette consumption as a result of a price increase and would benefit from improved health outcomes.[25] In addition, proponents argue, many low-income families would benefit from the health coverage expansion. However, recent research suggests that adults with incomes above $50,000 are more likely to stop smoking, and all evidence indicates that tobacco taxes are regressive.[26]

Policy Issues Raised by Proposition 86

Proposition 86 contains an unprecedented tobacco tax increase and would use the proceeds to support a number of programs and program expansions. The tax increase and how the measure would spend the new revenues raise a number of policy and fiscal issues.

The Initiative's Goals Are Inconsistent

The combination of programs and goals contained in Proposition 86 presents a policy dilemma. The fundamental goal of many of the initiative's sponsors is to reduce, if not entirely eliminate, smoking. Both the tax itself and programs to prevent the use of tobacco that are supported by Proposition 86 are intended to accomplish this goal. However, this goal is inconsistent with the goal of supporting an expansion of children's health insurance and providing funding to hospitals over the long term. Greater success in reducing smoking rates would result in lower revenues to support hospitals and health coverage for children. To the extent efforts to reduce smoking succeed, fewer dollars would be available for programs supported by Proposition 86, as well as for programs supported by Propositions 10 and 99.



Would Proposition 86 Provide Sufficient Funding for Health Coverage?

An estimated 300,000 uninsured children would become eligible for health coverage under Proposition 86, and the state's cost of covering these children could exceed $300 million annually.[27] In the short term, the measure would likely provide sufficient funds to pay for children enrolled in health care coverage under Proposition 86. However, available funds would likely be insufficient to support all eligible children over the long term as revenues decrease, tobacco consumption declines, the population of eligible children increases, and health care costs rise. The length of time that funding would be sufficient to support all enrolled children would depend on several factors, including the magnitude of the reduction in smoking, the number of children who would enroll and when they enroll, and future increases in health care costs.

The Legislature would have several options to address insufficient funding. For example, the Legislature could:

- Allocate additional state dollars;
- Reduce the number of children in the program by capping or reducing enrollment; or
- Reduce payments to managed care plans that provide coverage to children in Healthy Families. In turn, these plans could reduce payments to health care providers or drop out of the program entirely.

Proposition 86 Would Set Budget and Policy Priorities at the Ballot Box

Proposition 86 would raise the tobacco tax and dedicate the revenues to specified uses. Opponents of so-called "ballot box budgeting" argue that the initiative process limits voters to an up-or-down choice in isolation from other potential uses of funds. They further argue that earmarking the proceeds from a revenue source that is relatively popular among voters limits the ability of legislators to use the same source for other spending priorities or to fill a gap in the state budget. Moreover, they argue that initiatives "lock in" programs by limiting the ability of the Legislature to make programmatic changes or to modify spending in response to economic, budget, and demographic shifts. Finally, opponents argue that California faces ongoing budget shortfalls and that any increase in revenues should be used to ensure that current programs are adequately funded prior to taking on additional responsibilities.

Proponents of initiative-based spending argue that the two-thirds vote requirement for legislative approval of tax increases makes it difficult, if not impossible, to raise revenues to support important program expansions. Given this difficulty, they maintain, it is appropriate to offer voters the ability to raise taxes to fund programs supported by a majority of the voters.

Hospital Funding Allocations Would Not Be Based on Emergency Care Losses

The distribution of funds to support hospital emergency services would not be based on hospitals' actual emergency care losses. Instead, the amount a hospital receives would be based, in part, on the number of patients treated in its emergency room. As a result, hospitals that treat a large number of patients in their emergency rooms, such as large hospitals, would receive substantial funding, even if they treat relatively few uninsured patients. If a hospital's funding exceeds its emergency care losses, it could use the funds to purchase new equipment for its emergency room and critical care units.

Moreover, the amount allocated for hospital emergency services – an estimated $756 million in 2007-08 – appears to be considerably higher than hospitals' actual emergency room losses. For example, the California Medical Association estimates that hospital emergency room losses were $460 million in 2001-02, and the California Hospital Association, a sponsor of the initiative, reported a similar figure in 2004.[28] If funds allocated to hospitals exceed the unreimbursed cost of emergency care, the Legislature would be limited in its ability to shift the funding to other priorities since such a change would require a four-fifths vote and hospitals would likely argue that a reduction in hospital funding would not further the purposes of the initiative.

Would Proposition 86 Allow Anti-Competitive Behavior?

Proposition 86 would protect hospitals that coordinate emergency services with nearby hospitals from anti-trust laws. Proponents argue that protection from these laws would allow hospitals to improve patient care by coordinating how they provide these services. Critics argue that an exemption from anti-trust laws could lead to price fixing and other anti-competitive behavior that would otherwise be illegal.

Proposition 86 Would Further Complicate Eligibility Rules

Currently, eligibility rules for Medi-Cal and Healthy Families are complex. Medi-Cal and Healthy Families offer health coverage to children with family incomes at or below 250 percent of the FPL, and eligibility for each program is based on children's age and family income. For example, a child under one year of age with a family income of 150 percent of the FPL would be enrolled in Medi-Cal, but a six-year-old with the same family income would be enrolled in Healthy Families. This means that a family could have a younger child enrolled in Medi-Cal and an older child enrolled in Healthy Families. However, very low-income children – those with family incomes at or below 100 percent of the FPL – are enrolled in Medi-Cal, regardless of their age.

Proposition 86 would further complicate eligibility rules, despite the measure's aim to simplify enrollment procedures. Instead of following the current age and income guidelines for Medi-Cal and Healthy Families, all newly eligible children would be enrolled in Healthy Families, including children with family incomes at or below 100 percent of the FPL. This means that siblings with different immigration statuses could be enrolled in different programs. For example, a family whose income is below 100 percent of the FPL could have a younger child born in the US who is eligible for Medi-Cal, and an older noncitizen child who would be eligible for Healthy Families under Proposition 86 – even though Healthy Families does not currently enroll children at this income level. Having children eligible for different programs could decrease the likelihood that families would enroll their children.

"No Supplantation" Requirement Could Have Unintended Consequences for Current Health Programs

Proposition 86 contains a strict "no supplantation" requirement that would prevent the Legislature from using the increased revenues to support existing health care programs or other state needs. Proposition 86 funds could not be shifted, for example, to the existing Healthy Families Program if federal funding is cut below the level needed to support the current program. This requirement could create a situation in which Proposition 86 funding would be available to support children with incomes above the Healthy Families limit of 250 percent of the FPL, even if funding is insufficient to support all children enrolled in the current Healthy Families Program who have lower incomes.

Proposition 86 Could Face Legal Challenge

Proposition 86 could lead to a legal challenge with broader budget implications. A letter signed by the four legislative leaders – the top Democrats and Republicans in each house – raised concerns that the proposed tobacco tax would conflict with the tobacco settlement agreement. However, the Minnesota Supreme Court recently found that Minnesota's separate, but similar, tobacco settlement agreement did not prevent the state from imposing a fee on tobacco products. Losing MSA payments would be particularly significant because the state has committed these

payments to repay bonds issued in prior years; loss of MSA payments would mean that the state would have to repay the bonds with revenues that would otherwise be available to support programs and services.

What Do Proponents Argue?

Proponents argue that Proposition 86 would:

- Ensure that children have access to affordable, comprehensive health insurance;
- Make it easier for families to enroll their children and keep them covered;
- Reduce smoking and prevent smoking-related deaths; and
- Provide needed funds for emergency care.

What Do Opponents Argue?

Opponents argue that Proposition 86 would:

- Distribute the largest share of new funds to hospitals, which are sponsors of the measure;
- Unfairly tax smokers to pay for non-smoking-related programs funded by Proposition 86; and
- Increase crime and cigarette smuggling.

Conclusion

Proposition 86 has lofty goals but raises several policy concerns. It would increase California's cigarette tax rate to the highest in the US to help reduce smoking, and it would support hospitals and provide health insurance to low-income children. However, the tax increase would have a disproportionate impact on low-income Californians, who spend a higher percentage of their income on tobacco products. In addition, the measure would likely not provide sufficient revenues to support children's health coverage over the long term. Finally, the measure's success at reducing smoking would lower tobacco tax revenues and place funding at risk for health coverage to children and other programs funded by Proposition 86.

David Carroll prepared this Budget Brief. The California Budget Project (CBP) neither supports nor opposes Proposition 86. This Budget Brief is designed to help voters reach an informed decision based on the merits of the issues. The CBP was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. General operating support for the CBP is provided by foundation grants, individual donations, and subscriptions. Please visit the CBP's website at www.cbp.org.

ENDNOTES

[1] Secretary of State, *Campaign Finance: Yes On Proposition 86 – A Coalition of Health Organizations Promoting Disease Research, Tobacco Control, Emergency Care and Children's Health Services*, downloaded from http://cal-access.ss.ca.gov/Campaign/Committees/Detail.aspx?id=1278256&session=2005&view=received on August 28, 2006.

[2] Proposition 86 would also support tax collection and administrative costs.

[3] Unreimbursed care provided to uninsured individuals would include the cost of services to uninsured individuals who are unable to pay for their care and for whom the hospital does not expect payment; the cost of services provided to indigent individuals for whom a county is responsible; and the cost of services for which the hospital expected but did not receive payment from patients (bad debt). Kaiser hospitals could not receive more than $40 million annually; beginning January 1, 2009, this amount would increase or decrease proportionally to the change in funds available for hospitals.

[4] For example, a hospital with 3 percent of all hospitals' emergency room visits and 1 percent of total unreimbursed care to uninsured patients could receive 2 percent of total hospital funding under the initiative, regardless of that hospital's level of emergency care losses.

[5] The initiative defines emergency services to include inpatient services to treat medical emergencies.

[6] Hospitals could charge higher amounts to patients with substantial assets. In addition, rural hospitals could set income limits at lower, unspecified levels.

[7] The family income limit for the Healthy Families Program is 250 percent of the FPL. Medi-Cal income limits are lower and depend on age and other factors. Children who are eligible for Medi-Cal, but who must pay a portion of their health care expenses before Medi-Cal coverage begins – "share of cost" recipients – would also be eligible for coverage under Proposition 86.

[8] All children must meet state residency requirements to be eligible. Children enrolled in CHIs must also meet income requirements to be covered by Proposition 86. Eighteen CHIs currently provide health coverage to children who are not eligible for the Medi-Cal or Healthy Families Programs. The family income limit for most CHIs is 300 percent of the FPL.

[9] Proposition 10 funds, as well as local funds that match federal funds through the County Health Initiative Matching (CHIM) Fund for children with family incomes between 251 percent and 300 percent of the FPL, would not be covered by the supplantation prohibition.

[10] The revenues and costs in this section refer to those reflected in the state's General Fund, which supports the Medi-Cal and Healthy Families Programs.

[11] Legislative Analyst's Office, *Proposition 86 Tax on Cigarettes. Initiative Constitutional Amendment and Statute,* downloaded from http://www.ss.ca.gov/elections/vig_06/general_06/pdf/proposition_86/prop86_la.pdf on September 12, 2006.

[12] In California, half of MSA payments go the state and half go to the counties and four cities. In 2005, California received $406.9 million, and counties and the cities of San Jose, Los Angeles, and San Diego received a total of $406.9 million. San Francisco receives payments as both a city and a county. Office of the Attorney General, *Tobacco Master Settlement Agreement Payments to Counties and Cities 1999-2006*, downloaded from http://www.ag.ca.gov/tobacco/settlements/TMSAPC_REV.pdf on August 28, 2006.

[13] Christopher A. Trenholm and Sean Orzol, *The Impact of the Children's Health Initiative (CHI) of Santa Clara County on Medi-Cal and Healthy Families Enrollment Final Report* (Mathematica Policy Research, Inc.: September 2004).

[14] Federal funding includes approximately $140 million in Medicaid funds and approximately $170 million in State Children's Health Insurance Program (SCHIP) funds. California Health Interview Survey and California Budget Project analysis.

[15] The tax on other tobacco products is equivalent to the $0.75 per pack rate on cigarettes because the General Fund and Breast Cancer Fund taxes do not apply to tobacco products other than cigarettes.

[16] US Department of Health and Human Services, *Reducing Tobacco Use: A Report of the Surgeon General* (US Department of Health and Human Services, Centers for Disease Control and Prevention: 2000), p. 326 and E.A. Gilpin, et al., *Tobacco Control Successes in California: A Focus on Young People, Results from the California Tobacco Surveys, 1990-2002* (University of California, San Diego: October 2003), p. 9-5.

[17] Legislative Analyst's Office, *Proposition 86 Tax on Cigarettes. Initiative Constitutional Amendment and Statute*, downloaded from http://www.ss.ca.gov/elections/vig_06/general_06/pdf/proposition_86/prop86_la.pdf on September 12, 2006.

[18] An evaluation of California's tobacco control programs finds no evidence that remaining smokers are more addicted. E.A. Gilpin, et al., *Tobacco Control Successes in California: A Focus on Young People, Results from the California Tobacco Surveys, 1990-2002* (University of California, San Diego, October 2003), p. 2-16.

[19] Tribal casinos are allowed to sell cigarettes without imposing state taxes. Individuals owe – but do not necessarily pay – state taxes on tobacco products purchased over the Internet and through mail-order vendors, and the state Board of Equalization is increasing efforts to collect these unpaid taxes. Andrew McIntosh, "Smokers May Get Burned in Cigarette-Tax Collection," *Sacramento Bee* (July 19, 2006).

[20] Federation of Tax Administrators, *State Excise Tax Rates on Cigarettes* (January 1, 2006), downloaded from http://www.taxadmin.org/fta/rate/cigarett.html on April 18, 2006.

[21] Some cities and counties impose additional tobacco taxes. For example, the state of New York imposes a $1.50 per pack tax, and New York City imposes an additional tax of $1.50.

[22] US Census Bureau and US Bureau of Economic Analysis.

[23] E.A. Gilpin, et al., *Tobacco Control Successes in California: A Focus on Young People, Results from the California Tobacco Surveys, 1990-2002* (University of California, San Diego, October 2003), p. 2-25.

[24] Tax Analysis Division, Bureau of Tax and Economic Policy, *Michigan Department of Treasury, Michigan's Cigarette and Tobacco Taxes 2004* (October 2005).

[25] See, for example, US Department of Health and Human Services, "Response to Increases in Cigarette Prices by Race/Ethnicity, Income, and Age Groups – United States, 1976-1993," *Morbidity and Mortality Weekly Report* 47 (July 31, 1998), pp. 606-609.

[26] E.A. Gilpin, et al., *Tobacco Control Successes in California: A Focus on Young People, Results from the California Tobacco Surveys, 1990-2002* (University of California, San Diego: October 2003), p. 2-25.

[27] California Budget Project analysis. The amount of Proposition 86 revenues needed for health care coverage depends on several factors, including the actual number of children enrolled and the amount of federal funds, if any, that would be available. California could be allowed to use federal State Children's Health Insurance Program (SCHIP) funds – which support California's Healthy Families Program – to support children with incomes between 251 percent and 300 percent of the FPL. The federal government would need to approve an amendment to California's SCHIP state plan in order for California to receive the matching funds. However, since California currently spends more than it receives in capped federal SCHIP funds on an annual basis, SCHIP funding may not be available for this purpose. California may also be able to receive federal Medicaid funds for emergency services provided to undocumented children who enroll in Healthy Families under Proposition 86.

[28] California Medical Association, *A System in Continued Crisis: CMA's Annual ER Losses Report* (September 2004) and *California Healthcare Association, California Hospitals' Financial Condition: On Life Support* (June 2004).