

SENATE BILL REPORT

SB 6874

As Reported by Senate Committee On:
Ways & Means, March 5, 2010

Title: An act relating to providing funding for the basic health plan by increasing the taxes on certain tobacco products and facilitating the funding within the state expenditure limit.

Brief Description: Providing funding for the basic health plan by increasing the taxes on certain tobacco products and facilitating the funding within the state expenditure limit.

Sponsors: Senators Tom, Keiser and Kohl-Welles.

Brief History:

Committee Activity: Ways & Means: 2/24/10, 3/05/10 [DPS, DNP, w/oRec].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 6874 be substituted therefor, and the substitute bill do pass.

Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Tom, Vice Chair, Operating Budget; Fairley, Hobbs, Keiser, Kline, Kohl-Welles, McDermott, Murray, Oemig, Regala and Rockefeller.

Minority Report: Do not pass.

Signed by Senators Zarelli, Ranking Minority Member; Carrell, Hewitt, Pflug and Schoesler.

Minority Report: That it be referred without recommendation.

Signed by Senator Honeyford.

Staff: Dean Carlson (786-7305)

Background: Cigarettes are subject to tax at a rate of \$2.025 per pack of 20 cigarettes. Retail sales and use taxes are also imposed on sales of cigarettes. Approximately 43 cents of the tax on each pack is deposited into the education legacy trust account and the remainder is deposited into the general fund.

Summary of Bill (Recommended Substitute): The tax on cigarettes is increased by \$1 to a total of \$3.025 per pack of 20 cigarettes.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

An additional tax is added: \$1.825 per pack is added to promotions such as buy one pack get one free and two packs for the price of one.

Cigarettes that are manufactured by nonparticipating members in the master settlement agreement are subject to an additional tax of 42 cents per pack.

The basic health plan stabilization account is created. Funds from the account must be used to support enrollment in the basic health plan.

For fiscal year 2011, \$85,698,000 is deposited in the basic health plan stabilization account from the general fund and is appropriated from the account to fund approximately 36,600 enrollments in the basic health plan.

An exception is provided from lowering the state expenditure limit for any monies deposited into, and appropriated from, the the basic health plan stabilization account.

EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (Recommended Substitute): An additional tax is added: \$1.825 per pack is added to promotions such as "buy one pack get one free" and "two packs for the price of one.

Cigarettes that are manufactured by nonparticipating members in the master settlement agreement are subject to an additional tax of 42 cents per pack.

Appropriation: For fiscal year 2011, \$85,698,000 is deposited in the basic health plan stabilization account from the general fund and is appropriated from the account to fund approximately 36,600 enrollments in the basic health plan.

Fiscal Note: Requested on February 24, 2010.
[OFM requested ten-year cost projection pursuant to I-960.]

Committee/Commission/Task Force Created: No.

Effective Date: The bill takes effect on June 1, 2010.

Staff Summary of Public Testimony on Original Bill: PRO: The decrease in smoking will save 17,000 lives. We feel that if you tax a product and put it to a health purpose it is no longer regressive. We think you should put it towards tobacco prevention programs. We think there are other products that should be taxed like cigarettes. AARP supports this bill. The basic health plan is very important for people over 50 that don't yet qualify for Medicare. Many people in this age group get rejected for insurance coverage. The basic health plan is the only option for some over 50.

CON: We are concerned for convenience stores that the tax will push people to alternative methods of purchasing cigarettes. We polled our customers and 23,000 people have signed a petition opposing an increase to the tax. Every time there is an increase the revenues drop. Last time the state increased taxes on tobacco I lost customers and had to lay off people. We had a dramatic decrease in sales the last time the tax was increased. We would like to see an

amendment for bad debts and for exempting the B&O tax from the tax. We feel this tax is excessive.

Persons Testifying: PRO: Nick Federici, American Cancer Society; David Foster, American Lung Association; Peggy Quan, American Association of Retired Persons; Lonnie Johns-Brown, National Organization of Women.

CON: Mark Johnson, Washington Retail Association; Patrick Connor, National Federation of Independent Business; Prit Sing, Robert Pavlish, 7-eleven; Amber Carter, Association of Washington Business; Jan Gee, Washington Food Industry; Justin Erickson, Washington Association of Neighborhood Stores; Jeannie Lee, Korean American Grocers Association.