



LEGISLATIVE REPORT #274

Health Special Session -Tobacco Tax Target For Increasing Medi-Cal Rates - Legislation or Ballot Initiative?

July 17, 2013: The Legislature is starting their Summer Recess which lasts until August 17th. It will be quiet in the Capitol but the stage is being set for the Health Special Session called by Governor Brown to look at new funding mechanisms to fund the Medi-Cal program.

As I mentioned in my previous report, the Governor called the special session to have the Legislature negotiate a new Managed Care Organization (MCO) tax. The funds generated from this tax are meant to be used to support various programs within Medi-Cal including IHHS. The primary focus of the special session, from the Governor's perspective, was the MCO tax. He did also say the Legislature could consider other funding mechanisms to fund increasing provider reimbursement rates.

In the informational hearings held by each house, multiple ideas for alternative funding mechanisms were discussed including tobacco tax, sugar/soda tax, and an alcohol tax. The one that seems to be getting the most attention is the tobacco tax. Over the past 10 years there have been multiple Legislative attempts to increase the tobacco tax. All efforts have been soundly defeated primarily due to the need of a two thirds vote to pass a tax bill. The Democrats do not have a super majority to pass a tax bill.

This week there were a number of bills introduced into the special session many of which target tobacco. It appears tobacco will be the target but once again but it is unclear if Democrats will be able to sway a few Republicans to vote for a tax.

There have been rumors around the Capitol that a few Republicans are being targeted by certain interest groups to “persuade” them to vote for a tobacco tax. These Republicans are in competitive districts and face challenging upcoming elections. If a Republican voted for a tax bill the “interest groups” may not choose to focus on that Republican’s election and focus their efforts elsewhere.

In parallel to the special session, a coalition calling themselves the Save Lives California Coalition is leading the effort to place a ballot initiative on the November 2016 ballot to raise the tobacco tax by \$2/pack to be used to fund an increase in reimbursement rates for Medi-Cal providers. The coalition includes California Medical Association, SEIU California, California Dental Association, and the American Heart Association.

California currently taxes tobacco at \$0.87 per pack which ranks 33rd in the United States. The national average is \$1.54. The last time tobacco taxes were raised in California was 1998. The Legislative Analyst Office (LAO) estimates the new tobacco tax would raise between \$1 billion and \$1.3 billion to be used for increasing Medi-Cal provider reimbursement rates.

Other ballot initiatives to raise tobacco taxes were attempted in 2006 and 2012 and were both defeated. In 2006, tobacco spent more than \$65 million to defeat the measure while the supporters spent \$16 million. In 2012, tobacco spent more than \$49 million while the supporters spent \$13 million.

Looking at these numbers, you can see why there will be high pressure on Republicans to try and find a way to pass a tobacco tax through the Legislature.

If you are interested in reading the full LAO report it can be found at the following link.

<http://www.lao.ca.gov/ballot/2015/150291.pdf>