Cigarette Tax to Fund Healthcare, Tobacco Use Prevention, Research, and Law Enforcement. Initiative Constitutional Amendment and Statute.
PROPOSITION 56

CIGARETTE TAX TO FUND HEALTHCARE, TOBACCO USE PREVENTION, RESEARCH, AND LAW ENFORCEMENT.
INITIATIVE CONSTITUTIONAL AMENDMENT AND STATUTE.

OFFICIAL TITLE AND SUMMARY

- Increases cigarette tax by $2.00/pack, with equivalent increase on other tobacco products and electronic cigarettes containing nicotine.
- Allocates revenues primarily to increase funding for existing healthcare programs; also for tobacco use prevention/control programs, tobacco-related disease research/law enforcement, University of California physician training, dental disease prevention programs, and administration. Excludes these revenues from Proposition 98 education funding calculation requirements.
- If tax causes decreased tobacco consumption, transfers tax revenues to offset decreases to existing tobacco-funded programs and sales tax revenues.
- Requires biennial audit.

SUMMARY OF LEGISLATIVE ANALYST’S ESTIMATE OF NET STATE AND LOCAL GOVERNMENT FISCAL IMPACT:

- Increased net state revenue of $1 billion to $1.4 billion in 2017–18, with potentially lower annual revenues over time. These funds would be allocated to a variety of specific purposes, with most of the monies used to augment spending on health care for low-income Californians.

ANALYSIS BY THE LEGISLATIVE ANALYST

BACKGROUND

Cigarette and Tobacco Products

People currently consume different types of cigarette and tobacco products:

- **Cigarettes.** Smoking cigarettes is the most common way to use tobacco.
- **Other Tobacco Products.** Other tobacco products can be consumed by smoking or other forms of ingestion. These include cigars, chewing tobacco, and other products made of or containing at least 50 percent tobacco.
- **Electronic Cigarettes (E-Cigarettes).** These are battery-operated devices that turn specially designed liquid, which can contain nicotine, into vapor. The vapor is inhaled by the user. Some e-cigarettes are sold with the liquid, while others are sold separately from the liquid.

These products are subject to excise taxes (which are levied on a particular product) and sales taxes (which are levied on a wide array of products). The excise tax is levied on distributors (such as wholesalers) while the sales tax is imposed at the time of purchase. As shown in Figure 1, cigarettes and other tobacco products currently are subject to state and federal excise taxes as well as state and local sales and use taxes (sales taxes). E-cigarettes are only subject to sales taxes.

**Existing State Excise Taxes on Cigarettes.** The current state excise tax is 87 cents for a pack of cigarettes. Figure 2 shows how the tax has increased over time and how these revenues are allocated for different purposes. Existing excise taxes are estimated to raise over $800 million in 2015–16.

**Existing State Excise Taxes on Other Tobacco Products.** While excise taxes on other tobacco products are based on the excise tax on a pack of cigarettes, they are somewhat higher due to the provisions of Proposition 10. Currently, the excise taxes on other tobacco products are the equivalent of $1.37 per pack of cigarettes. Revenues from excise taxes on other tobacco products are allocated solely to Proposition 99 (1988) and Proposition 10 (1998) funds for various purposes, as described in Figure 2. Under current law, any increase in cigarette excise taxes automatically triggers an equivalent increase in excise taxes on other tobacco products.

<table>
<thead>
<tr>
<th>Federal Excise Taxes</th>
<th>State Excise Taxes</th>
<th>State and Local Sales Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cigarettes</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Other Tobacco Products</td>
<td>✔  ✔</td>
<td>✔  ✔</td>
</tr>
<tr>
<td>Electronic Cigarettes</td>
<td>✔  ✔</td>
<td>✔  ✔</td>
</tr>
</tbody>
</table>

* Includes cigars, chewing tobacco, and other products made of or containing at least 50 percent tobacco.

* Battery-operated devices that turn specially designed liquid, which can contain nicotine, into vapor.
Figure 2
Allocation of Existing State Cigarette Excise Taxes
(Dollars in Millions)

<table>
<thead>
<tr>
<th>Funds Description</th>
<th>Current Tax Per Pack of Cigarettes</th>
<th>Estimated 2015–16 Net Revenuea</th>
</tr>
</thead>
<tbody>
<tr>
<td>State General Fund: Supports the state budget. The cigarette excise tax allocating revenue to the state General Fund was established by the Legislature in 1999.</td>
<td>10¢</td>
<td>$84</td>
</tr>
<tr>
<td>Proposition 99 Funds: Established by the voters in 1988 for the purposes of supporting tobacco education and prevention efforts, tobacco-related disease research programs, health care services for low-income persons, and environmental protection and recreational resources.</td>
<td>25</td>
<td>259b</td>
</tr>
<tr>
<td>Breast Cancer Fund: Established by the Legislature in 1993 for the purposes of supporting breast cancer screening programs for uninsured women and research related to breast cancer.</td>
<td>2</td>
<td>20</td>
</tr>
<tr>
<td>Proposition 10 Funds: Established by the voters in 1998 for the purposes of supporting early childhood development programs.</td>
<td>50</td>
<td>447b</td>
</tr>
<tr>
<td>Totals</td>
<td>87¢</td>
<td>$810</td>
</tr>
</tbody>
</table>

a Accounts for payments from Proposition 10 to other funds in order to maintain pre-Proposition 10 revenue levels.
b Total includes excise tax revenue from other types of tobacco products, such as cigars and chewing tobacco.

Existing Federal Excise Taxes on Tobacco Products.
The federal government also levies excise taxes on cigarettes and other tobacco products. Currently, the federal excise tax is $1.01 per pack of cigarettes and varying amounts on other tobacco products.

Existing Sales Taxes on Tobacco Products and E-Cigarettes. Sales taxes apply to the sale of cigarettes, other tobacco products, and e-cigarettes. Sales taxes are based on the retail price of goods, which includes the impact of excise taxes. The average retail price for a pack of cigarettes in California is close to $6. Currently, the sales tax ranges from 7.5 percent to 10 percent of the retail price (depending on the city or county), with a statewide average of around 8 percent. Thus, sales tax adds roughly 50 cents to 60 cents to the total cost for a pack of cigarettes. The sales taxes on cigarettes, other tobacco products, and e-cigarettes raises about $400 million annually, with the proceeds going both to the state and local governments.

Adult Smoking Trends and E-Cigarette Use in California
Most tobacco users in California smoke cigarettes. According to the California Department of Public Health (DPH), California has one of the lowest adult cigarette smoking rates in the country. The DPH reports that about 12 percent of adults smoked cigarettes in 2013, compared to about 24 percent of adults in 1988. While cigarette smoking rates in California have steadily declined over the past couple decades for a variety of reasons, this trend appears to have stalled in recent years according to DPH.

As the number of individuals smoking cigarettes in California has decreased, so has the total amount of cigarette purchases by California consumers. As a result, revenues from taxes on these purchases also have declined.

The DPH reports that e-cigarette use among California adults was about 4 percent in 2013, nearly doubling compared to the prior year. Because e-cigarettes are relatively new products, however, there is little information to determine longer-term use of e-cigarettes.

State and Local Health Programs
Medi-Cal. The Department of Health Care Services administers California’s Medi-Cal program, which provides health care coverage to over 13 million low-income individuals, or nearly one-third of Californians. With a total estimated budget of nearly $95 billion (about $23 billion General Fund) for 2015–16, Medi-Cal pays for health care services such as hospital inpatient and outpatient care, skilled nursing care, prescription drugs, dental care, and doctor visits. Some of the services provided in the Medi-Cal program are for prevention and treatment of tobacco-related diseases.

Public Health Programs. The DPH administers and oversees a wide variety of programs with the goal of optimizing the health and well-being of Californians. The department’s programs address a broad range of health issues, including tobacco-related diseases, maternal and child health, cancer and other chronic diseases, infectious disease control, and inspection of health facilities. Many public health programs and
services are delivered at the local level, while the state provides funding, oversight, and overall strategic leadership for improving population health. For example, the DPH administers the California Tobacco Control Program—a Proposition 99 program—that funds activities to reduce illness and death from tobacco-related diseases with a budget of about $45 million in 2015–16.

Recent Changes in Tobacco-Related Laws

The Legislature recently passed, and the Governor signed in May 2016, new tobacco-related legislation that made significant changes to state law. Figure 3 describes these changes. Also in May 2016, the U.S. Food and Drug Administration (FDA) issued new rules that extend the FDA’s regulatory authority to include e-cigarettes, cigars, and other tobacco products. These recent changes do not directly affect the state taxes on these products or the programs that receive funding from these taxes.

State Spending Limit and Minimum Funding Level for Education

The State Constitution contains various rules affecting the state budget. Proposition 4, passed by voters in 1979, establishes a state spending limit. Proposition 98, passed in 1988, establishes a minimum level of annual funding for K–12 education and the California Community Colleges.

PROPOSAL

This measure significantly increases the state’s excise tax on cigarettes and other tobacco products and applies this tax to e-cigarettes. The additional revenues would be used for various specified purposes. The major provisions of the measure are described below.

New Taxes Imposed by Measure

**Increases Cigarette Tax by $2 Per Pack.** Effective April 1, 2017, the state excise tax on a pack of cigarettes would increase by $2—from 87 cents to $2.87.

**Raises Equivalent Tax on Other Tobacco Products.** As described earlier, existing law requires taxes on other tobacco products to increase any time the tax on cigarettes goes up. Specifically, state law requires the increase in taxes on other tobacco products to be equivalent to the increase in taxes on cigarettes. Accordingly, the measure would raise the tax on other tobacco products also by $2—from $1.37 (the current level of tax on these products) to an equivalent tax of $3.37 per pack of cigarettes.

**Imposes New Taxes on E-Cigarettes.** As noted above, the state does not currently include e-cigarettes in the definition of other tobacco products for purposes of taxation. The measure changes the definition of “other tobacco products” for purposes of taxation to include e-cigarettes that contain nicotine or liquid with nicotine (known as e-liquid). Changing the definition in this way causes the $3.37 equivalent tax to apply to these products as well.

### Figure 3

**Recent Changes in Tobacco-Related Laws**

<table>
<thead>
<tr>
<th>Legislation</th>
<th>Subject</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chapter 4 of 2016 (AB2X 7, Stone)</td>
<td>Smoking in the workplace</td>
<td>Expands prohibition on smoking in a place of employment and eliminates various specified exemptions for workplace smoking.</td>
</tr>
<tr>
<td>Chapter 5 of 2016 (AB2X 9, Thurmond)</td>
<td>Tobacco use programs</td>
<td>Expands eligibility and requirements of tobacco use prevention funding to include charter schools.</td>
</tr>
<tr>
<td>Chapter 6 of 2016 (AB2X 11, Nazarian)</td>
<td>Cigarette and tobacco product licensing; fees and funding</td>
<td>Increases cigarette and tobacco retailer, distributor, and wholesaler licensing fees. Effective January 1, 2017.</td>
</tr>
<tr>
<td>Chapter 7 of 2016 (SB2X 5, Leno)</td>
<td>Electronic cigarettes</td>
<td>Broadens the definition of tobacco products to include electronic cigarettes and defines the term smoking, as specified.¹</td>
</tr>
<tr>
<td>Chapter 8 of 2016 (SB2X 7, Hernandez)</td>
<td>Tobacco products: minimum legal age</td>
<td>Increases the minimum age for purchasing tobacco products from 18 years old to 21 years old.</td>
</tr>
</tbody>
</table>

¹ Except when noted in the description, new legislation became effective June 9, 2016.

² This broadened definition of tobacco products to include electronic cigarettes does not apply for the purposes of taxation.
ANALYSIS BY THE LEGISLATIVE ANALYST

How Would Revenues From New Tobacco and E-Cigarette Taxes Be Spent?

Revenues from the cigarette, other tobacco product, and e-cigarette excise taxes that are increased by this measure would be deposited directly into a new special fund. Revenues deposited in this fund would only be used for purposes set forth in the measure, as described below. (Revenues from applying the $1.37 per pack rate on e-cigarettes, however, would support Proposition 99 and Proposition 10 purposes. This would be new revenue to these funds.)

As shown in Figure 4, the revenues would be allocated as follows:

<table>
<thead>
<tr>
<th>Step 1: Replace Revenues Lost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program or Entity</td>
</tr>
<tr>
<td>Existing Tobacco Tax Funds</td>
</tr>
<tr>
<td>State and Local Sales and Use Tax</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Step 2: Tax Administration</th>
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<tbody>
<tr>
<td>BOE—administration</td>
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<table>
<thead>
<tr>
<th>Step 3: Specific Amounts for Various State Entitiesa,b</th>
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</thead>
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</tr>
<tr>
<td>Various state entities—enforcementc</td>
</tr>
<tr>
<td>UC—physician training</td>
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<tr>
<td>Department of Public Health—State Dental Program</td>
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<tr>
<td>California State Auditor</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Step 4: Remaining Funds for State Health Programsa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program or Entity</td>
</tr>
<tr>
<td>Medi-Cal—DHCS</td>
</tr>
<tr>
<td>California Tobacco Control Program—Department of Public Health</td>
</tr>
<tr>
<td>Tobacco-Related Disease Program—UC</td>
</tr>
<tr>
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</tr>
</tbody>
</table>

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Figure 4

<table>
<thead>
<tr>
<th>How New Tax Revenue Would Be Spent</th>
</tr>
</thead>
<tbody>
<tr>
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</tr>
<tr>
<td>-------------------</td>
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</tr>
<tr>
<td>School Programs—California Department of Education</td>
</tr>
</tbody>
</table>

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*a The measure would limit the amount of revenues raised by the measure that could be used to pay for administrative costs, to be defined by the State Auditor through regulation, to not more than 5 percent.

*b Predetermined amounts would be adjusted proportionately by BOE annually, beginning two years after the measure went into effect if BOE determines that there has been a reduction in revenues resulting from a reduction in the consumption of cigarette and tobacco products due to the measure.

*c Funds distributed to Department of Justice/Office of Attorney General ($30 million), Office of Attorney General ($6 million), Department of Public Health ($6 million), and BOE ($6 million).

BOE = Board of Equalization; UC = University of California; and DHCS = Department of Health Care Services.
ANALYSIS BY THE LEGISLATIVE ANALYST

- **Step One.** The measure requires that new revenues raised by the measure first be used to replace revenue losses to certain sources (existing state tobacco funds and sales taxes) that occur as a result of the measure. These revenue losses would occur due to lower consumption of tobacco products due to the higher excise taxes.

- **Step Two.** The State Board of Equalization would then receive up to 5 percent of the remaining funds to pay for administrative costs to implement the measure.

- **Step Three.** The measure provides specified state entities with fixed dollar amounts annually for specific purposes, as described in Figure 4.

- **Step Four.** The remaining funds would be allocated—using specific percentages—for various programs, primarily to augment spending on health care services for low-income individuals and families covered by the Medi-Cal program.

**Other Provisions**

**Required Audits.** The California State Auditor would conduct audits of agencies receiving funds from the new taxes at least every other year. The Auditor, who provides independent assessments of the California government’s financial and operational activities, would receive up to $400,000 annually to cover costs incurred from conducting these audits.

**Revenues Exempt From State Spending Limit and Minimum Education Funding Level.** Proposition 56 amends the State Constitution to exempt the measure’s revenues and spending from the state’s constitutional spending limit. (This constitutional exemption is similar to ones already in place for prior, voter-approved increases in tobacco taxes.) This measure also exempts revenues from minimum funding requirements for education required under Proposition 98.

**FISCAL EFFECTS**

This measure would have a number of fiscal effects on state and local governments. The major impacts of this measure are discussed below.

**Impacts on State and Local Revenues**

**New Excise Taxes Would Increase State Revenue by Over $1 Billion in 2017–18.** This measure would raise between $1.3 billion and $1.6 billion in additional state revenue in 2017–18—the first full year of the

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### Figure 5

**How Estimated Revenues in 2017–18 Would Be Allocated**

(\textit{In Millions})

<table>
<thead>
<tr>
<th></th>
<th>Low Range(^a)</th>
<th>High Range(^a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated revenue from new excise taxes</td>
<td>$1,270</td>
<td>$1,610</td>
</tr>
<tr>
<td>Replace revenue loss(^b)</td>
<td>230</td>
<td>200</td>
</tr>
<tr>
<td><strong>Estimated Net Revenue to Be Allocated</strong></td>
<td><strong>$1,040</strong></td>
<td><strong>$1,410</strong></td>
</tr>
<tr>
<td><strong>Tax Administration</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board of Equalization—administrative expenses</td>
<td>$50</td>
<td>$70</td>
</tr>
<tr>
<td><strong>Specific Amounts Allocated to State Entities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Various state entities—enforcement</td>
<td>$48</td>
<td>$48</td>
</tr>
<tr>
<td>University of California—physician training</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Department of Public Health—State Dental Program</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>California State Auditor—audits</td>
<td>__(^c)</td>
<td>__(^c)</td>
</tr>
<tr>
<td><strong>Remaining Funds Allocated to State Health Programs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medi-Cal</td>
<td>$710</td>
<td>$1,000</td>
</tr>
<tr>
<td>Tobacco Control Program</td>
<td>100</td>
<td>130</td>
</tr>
<tr>
<td>Tobacco-Related Disease Program—University of California</td>
<td>40</td>
<td>60</td>
</tr>
<tr>
<td>School programs</td>
<td>20</td>
<td>20</td>
</tr>
</tbody>
</table>

\(^a\) The consumer response to the proposed tax increases is uncertain, so we present a range of plausible outcomes. The low-revenue estimate reflects a strong consumer response, while the high-revenue estimate reflects a weaker consumer response.

\(^b\) LAO estimate. Revenue loss replacement amounts would be determined by the Board of Equalization.

\(^c\) $400,000.
measure's implementation. The excise tax increase would result in higher prices for consumers. As a result, consumers would reduce their consumption of cigarettes and other tobacco products, including e-cigarettes. (Many consumers might also change the way they buy these products to avoid the tax.) The range in potential new revenue reflects uncertainty about how much consumers will reduce their purchases in response to higher prices. The low-range estimate ($1.3 billion) assumes consumers have a stronger response to the tax than under the high-range estimate ($1.6 billion). In future years, revenues may decline relative to 2017–18 due to changes in consumer choices.

**Applying Excise Taxes on E-Cigarettes Also Would Generate Additional Revenue for Existing Tobacco Funds.** As noted earlier, the measure expands the definition of other tobacco products to include e-cigarettes. This change makes e-cigarettes subject to the taxes passed by voters in Proposition 99 and Proposition 10. As a result, the funds supported by those two propositions would receive additional revenue due to this measure. This additional revenue likely would be in the tens of millions of dollars annually.

**Over $1 Billion in Increased Funding in 2017–18, Mostly for State Health Programs.** Figure 5 estimates the amount of funding each program and government agency would receive from the new tax revenues in 2017–18. After covering revenue losses resulting from the measure, the revenue available for specific activities funded by the measure—mostly health programs—would be between $1 billion and $1.4 billion. If cigarette use continues to decline, these amounts would be somewhat less in future years. In addition, much of the added spending on health programs would generate additional federal funding to the state. As a result, state and local governments would collect some additional general tax revenue.

**Potentially Little Effect on State and Local Sales Tax Revenue.** Higher cigarette and other tobacco product prices would increase state and local sales tax revenue if consumers continued to buy similar amounts of these products. However, consumers would buy less of these products as prices increase due to the measure’s taxes. As a result, the effect of the measure on sales tax revenue could be positive, negative, or generally unchanged, depending on how consumers react. Under the measure, if the state or local governments received less sales tax revenue as a result of the measure’s taxes, those losses would be replaced by the revenue raised by the measure.

**Effects on Excise Tax Collection.** As described in Figure 4, the measure would provide additional funding to various state agencies to support state law enforcement. These funds would be used to support increased enforcement efforts to reduce tax evasion, counterfeiting, smuggling, and the unlicensed sales of cigarettes and other tobacco products. Such enforcement efforts would increase the amount of tax revenue. The funds also would be used to support efforts to reduce sales of tobacco products to minors, which would reduce revenue collection. As a result, the net effect on excise tax revenue from these enforcement activities is unclear. In addition, while cigarettes and other tobacco products—as currently defined—are covered by federal laws to prevent tax evasion, e-cigarettes are not covered. As a result, enforcement of state excise taxes on e-cigarettes may be more challenging if consumers purchase more of these products online to avoid the new taxes.

**Impact on State and Local Government Health Care Costs**

The state and local governments in California incur costs for providing (1) health care for low-income and uninsured persons and (2) health insurance coverage for state and local government employees and retirees. Consequently, changes in state law such as those made by this measure that affect the health of the general population would also affect publicly funded health care costs.

For example, as discussed above, this measure would result in a decrease in the consumption of tobacco products as a result of the price increase of tobacco products. Further, this measure provides funding for tobacco prevention and cessation programs, and to the extent these programs are effective, this would further decrease consumption of tobacco products. The use of tobacco products has been linked to various adverse health effects by the federal health authorities and numerous scientific studies. Thus, this measure would reduce state and local government health care spending on tobacco-related diseases over the long term.

This measure would have other fiscal effects that offset these cost savings. For example, state and local governments would experience future health care and social services costs that otherwise would not have occurred as a result of individuals who avoid tobacco-related diseases living longer. Further, the impact of a tax on e-cigarettes on health and the associated costs over the long term is unknown, because e-cigarettes are relatively new devices and the health impacts of e-cigarettes are still being studied. Thus, the net long-term fiscal impact of this measure on state and local government costs is unknown.

Visit [http://www.sos.ca.gov/measure-contributions](http://www.sos.ca.gov/measure-contributions) for a list of committees primarily formed to support or oppose this measure. Visit [http://www.fppc.ca.gov/transparency/top-contributors/nov-16-gen-v2.html](http://www.fppc.ca.gov/transparency/top-contributors/nov-16-gen-v2.html) to access the committee’s top 10 contributors.
The American Cancer Society Cancer Action Network, American Lung Association in California and American Heart Association are sponsoring Prop. 56 because taxing tobacco saves lives by getting people to quit or never start smoking.

Get the facts at YesOn56.org.

VOTE YES ON PROP. 56 TO KEEP KIDS FROM SMOKING AND REDUCE TOBACCO-RELATED HEALTHCARE COSTS

Tobacco remains a DEADLY, COSTLY product that hurts all Californians—even those who don’t smoke.

- Each year, tobacco causes more deaths than guns, car accidents, HIV, alcohol, and illegal drugs combined.
- Tobacco is the #1 cause of preventable death—killing 40,000 Californians annually.
- Each year, tobacco-related healthcare costs Californian taxpayers $3.58 BILLION.

At the same time, Big Tobacco has made billions in profits off California and is still trying to hook future generations into a lifetime of addiction. They know Prop. 56 will prevent youth smoking. That’s why they’ll spend millions of dollars to defeat Prop. 56: to protect their profits at our expense.

PROP. 56 WORKS LIKE A USER FEE, TAXING TOBACCO TO HELP PAY FOR TOBACCO-RELATED HEALTHCARE COSTS

Prop. 56 increases the tax on cigarettes and other tobacco products, including electronic cigarettes.

The only people who will pay are those who use tobacco products, and that money will fund already existing programs to prevent smoking, improve healthcare and research cures for cancer and tobacco-related diseases.

PROP. 56 IS ABOUT FAIRNESS—IF YOU DON’T USE TOBACCO, YOU DON’T PAY

California taxpayers spend $3.58 BILLION every year—$413 per family whether they smoke or not—paying medical costs of smokers. Prop. 56 is a simple matter of fairness—it works like a user fee on tobacco products to reduce smoking and ensure smokers help pay for healthcare costs.

Prop. 56 was specifically written to financially benefit health insurance companies and other wealthy special interests. It’s just one more example of special interest ballot box budgeting. Over $16 million has already been contributed to pass it.

They want you to believe it is about helping people stop smoking, but that’s not where most of the money goes:

- Only 13% of this new tax money goes to treat smokers or stop kids from starting (Section 30130.55(b) of Prop. 56).
- 82% of this new tax money—$1 billion a year—goes to insurance companies and other wealthy special interests (Section 30130.55(a)) and they don’t have to treat one more patient to get the money.

Nearly 10% can be spent on administration and overhead (Section 30130.57(a)(f)).

Prop. 56 has virtually no taxpayer accountability for how health insurance companies and other providers spend the money. CEOs and senior executives could reward themselves with higher pay and profits from our tax dollars.

PROP. 56 HELPS PREVENT YOUTH SMOKING

Increasing tobacco taxes reduces youth smoking according to the US Surgeon General. Yet California has one of the lowest tobacco taxes nationwide. This year alone, an estimated 16,800 California youth will start smoking, one-third of whom will die from tobacco-related diseases.

In every state that has significantly raised cigarette taxes smoking rates have gone down. Prop. 56 is so important because it helps prevent youth from becoming lifelong addicts and will save lives for future generations.

PROP. 56 FIGHTS BIG TOBACCO’S LATEST SCHEME TO TARGET KIDS

Electronic cigarettes are Big Tobacco’s latest effort to get kids hooked on nicotine. They know that 90% of smokers start as teens. Teens that use e-cigarettes are twice as likely to start smoking traditional cigarettes. That’s why every major tobacco corporation now owns at least one e-cigarette brand. Some e-cigarettes even target children with predatory themes like Barbie, Minions and Tinker Bell, and flavors like cotton candy and bubble gum.

Prop. 56 taxes e-cigarettes just like tobacco products, preventing our kids from getting hooked on this addictive, costly, deadly habit.

PROP. 56 INCLUDES TOUGH TRANSPARENCY AND ACCOUNTABILITY MEASURES

Prop. 56 has built-in safeguards, including independent audits and strict caps on overhead spending and administrative costs. And Prop. 56 explicitly prohibits politicians from diverting funds for their own agendas.

SAVE LIVES. VOTE YES ON 56.

JOANNA MORALES, Past Chair of the Board American Cancer Society, California Division

TAMI TITTELFritz, R.N., Leadership Board Member American Lung Association in California

DAVID LEE, M.D., President American Heart Association, Western States Affiliate

Prop. 56 CHEATS SCHOOLS

Prop. 56 deceptively cheats schools out of at least $600 million per year by amending the State Constitution to bypass California’s minimum school funding guarantee. In fact, cheating schools is the only reason Prop. 56 amends the Constitution.

WEALTHY SPECIAL INTERESTS SHOULDN’T GET AWAY WITH USING PROP. 56 TO ENRICH THEMSELVES AT THE EXPENSE OF FUNDING SCHOOLS, FIXING ROADS AND FIGHTING VIOLENT CRIME.

Follow the money for the truth at www.NoOnProposition56.com and then please join us in voting NO on Prop. 56.

MIKE GENEST, Former Director California Department of Finance

TOM BOGETICH, Former Executive Director California State Board of Education

LEW UHLER, President National Tax Limitation Committee
WE ALL WANT TO HELP THOSE WHO WANT TO STOP SMOKING, BUT PROP. 56 IS NOT WHAT IT APPEARS TO BE.

Prop. 56 is a $1.4 billion “tax hike grab” by insurance companies and other wealthy special interests to dramatically increase their profits by shortchanging schools and ignoring other pressing problems.

Prop. 56 allocates just 13% of new tobacco tax money to treat smokers or stop kids from starting. If we are going to tax smokers another $1.4 billion per year, more should be dedicated to treating them and keeping kids from starting.

Instead, most of the $1.4 billion in new taxes goes to health insurance companies and other wealthy special interests, instead of where it is needed.

PROP. 56 CHEATS SCHOOLS OUT OF AT LEAST $600 MILLION PER YEAR.

California’s Constitution (through Proposition 98), requires that schools get at least 43% of any new tax increase. Prop. 56 was purposely written to undermine our Constitution’s minimum school funding guarantee, allowing special interests to deceptively divert at least $600 million a year from schools to health insurance companies and other wealthy special interests. Not one penny of the new tax money will go to improve our kids’ schools.

PROP. 56 DOESN’T SOLVE PROBLEMS FACING CALIFORNIA FAMILIES.

We have many pressing problems in California, like fully funding our schools, repairing roads, solving the drought and fighting violent crime. If we are going to raise taxes, we should be spending this new tax revenue on these problems.

PROP. 56 FATTENS INSURANCE COMPANY PROFITS.

In another deception, health insurance companies and wealthy special interests wrote Prop. 56 and are spending millions to pass it so that they can get paid as much as $1 billion more for treating the very same Medi-Cal patients they already treat today. They are not required to accept more Medi-Cal patients to get this money.

VOTE YES ON 56: SAVE LIVES. PROTECT KIDS. REDUCE THE HARMFUL COSTS OF TOBACCO.

Tobacco is still a DEADLY and COSTLY problem.

• Every year, 40,000 Californians die from tobacco-related diseases. • This year alone, 16,800 California kids will start smoking. • Each year, California taxpayers pay $3.58 Billion for tobacco-related healthcare costs. That’s $413 per family every year, whether you smoke or not.

“Prop. 56 pays for SMOKING PREVENTION so kids don’t get addicted.”—Matthew L. Myers, President, Campaign for Tobacco-Free Kids

PROP. 56 WORKS LIKE A USER FEE: SMOKERS WILL HELP PAY THEIR FAIR SHARE OF HEALTH CARE COSTS

Under Prop. 56, tobacco users pay to help offset the $3.58 billion in tobacco-related healthcare costs taxpayers pay every year.

Prop. 56 has strong accountability and transparency protections, including strict caps on overhead, ensuring politicians can’t divert money for their own personal agendas.

Under Prop. 56, if you don’t use tobacco, you don’t pay.

Instead of treating more patients, insurance companies can increase their bottom line and more richly reward their CEOs and senior executives. In fact, the Prop. 56 spending formula gives insurance companies and other health care providers 82% of this new tax.

PROP. 56 SPENDS OVER $147 MILLION PER YEAR ON OVERHEAD AND BUREAUCRACY.

This $147 million can be spent each year with virtually no accountability to taxpayers. This could lead to massive waste, fraud, and abuse. In fact, Prop. 56 spends nearly as much money on administration and overhead as it does on tobacco prevention efforts!

NO ON PROP. 56

NO to wealthy special interests using our initiative process just to increase their profits.

NO to cheating schools out of at least $600 million per year.

NO to millions of new tax dollars going to overhead and administration with the potential for waste, fraud, and abuse.

NO to rewarding health insurance companies and wealthy special interests with even bigger profits, instead of solving real problems like roads, violent crime and fully funding our schools.

PLEASE READ IT FOR YOURSELF AND FOLLOW THE PROP. 56 MONEY AT: www.NoOnProposition56.com

Please join us in voting ‘NO’ on Prop. 56.

TOM BOGETICH, Former Executive Director
California State Board of Education

ARNOLD M. ZEIDERMANN, M.D., M.P.H., FACOG,
Former Director, Maternal Health and Family Planning,
Los Angeles County Department of Health

TOM DOMINGUEZ, President
Association of Orange County Deputy Sheriffs

STUART COHEN, M.D., M.P.H., District Chair
American Academy of Pediatrics, California

LORI G. BREMNER, California Grassroots Director
American Cancer Society Cancer Action Network

ALEX M. JOHNSON, Executive Director
Children’s Defense Fund—California

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shall be a charge on funds appropriated to the Attorney General, which shall be satisfied promptly.

SEC. 8. Effective Date.
This measure shall take effect immediately upon passage.

PROPOSITION 56
This initiative measure is submitted to the people in accordance with the provisions of Section 8 of Article II of the California Constitution.

This initiative measure adds a section to the California Constitution and amends and adds sections to the Revenue and Taxation Code; therefore, existing provisions proposed to be deleted are printed in strikeout type and new provisions proposed to be added are printed in italic type to indicate that they are new.

PROPOSED LAW

SECTION 1. Findings and Declarations.
(a) Tobacco use is the single most preventable cause of death and disease in California, claiming the lives of more than 34,000 people every year. Each year thousands of Californians require medical and dental treatment as a result of tobacco use.

(b) Healthcare treatment of all types of cancer, cardiovascular and lung disease, oral disease, and tobacco-related diseases continues to impose a significant financial burden upon California’s overstressed healthcare system. Tobacco use costs Californians more than $13.29 billion in healthcare expenses every year, of which $3.5 billion is paid for by taxpayers through existing healthcare programs and services that provide healthcare, treatment, and services for Californians. The cost of lost productivity due to tobacco use adds an additional estimated $10.35 billion to the annual economic consequences of smoking and tobacco use in California.

(c) An increase in the tobacco tax is an appropriate way to decrease tobacco use and mitigate the costs of healthcare treatment and improve existing programs providing for quality healthcare and access to healthcare services for families and children. It will save lives and save state and local government money in the future.

(d) An increase in funding for existing healthcare programs and services that treat all types of cancer, cardiovascular and lung disease, oral disease, and tobacco-related diseases and conditions will expand the number of healthcare providers that treat patients with such diseases and conditions. Funds spent for this purpose can be used to match federal funds, with the federal government putting up as much as nine dollars for every dollar spent from this fund.

(e) Most electronic cigarettes contain nicotine, which is derived from tobacco and is a highly addictive drug. Electronic cigarettes are currently not subject to any tobacco taxation, making them cheaper and potentially more attractive, especially to young people.

(f) There are more than 470 electronic cigarette brands for sale today offered in over 7,700 flavors including candy-flavors that appeal to youth, such as Captain Crunch, gummy bear, cotton candy, Atomic Fireball, and fruit loops. The fastest growing age range for electronic cigarettes is middle school and high school students and according to the U.S. Centers for Disease Control and Prevention, electronic cigarette use among this group tripled from 2013 to 2014.

(g) Research into the causes, early detection, and effective treatment, care, prevention, and potential cures of all types of cancer, cardiovascular and lung disease, oral disease, and tobacco-related diseases will ultimately save lives and save state and local government money in the future.

(h) There is an urgent need for research in California for new and effective treatments for all types of cancer, cardiovascular and lung disease, oral disease, and tobacco-related diseases. Such research transforms scientific discoveries into clinical applications that reduce the incidence and mortality of such diseases and conditions.

(i) Funding prevention programs designed to discourage individuals, particularly youth, from taking up smoking and the use of other tobacco products through health education and health promotion programs will save lives and save state and local government money in the future.

(j) A reinvigorated tobacco control program will allow targeted public health efforts to combat the tobacco industry’s predatory marketing to ethnic groups, driving down smoking rates and ultimately reducing cancer, cardiovascular and lung disease, oral disease, and tobacco-related diseases in these California communities.

(k) Funding implementation and administrative programs to support law enforcement efforts to reduce illegal sales of tobacco products to minors, cigarette smuggling, and tobacco tax evasion will save lives and save state and local government money in the future.

(l) California faces a shortage of physicians and dentists to meet the growing healthcare needs of its residents. As a result, access to primary and oral healthcare, treatment for tobacco-related diseases, regular check-ups and other urgent healthcare needs will suffer. California taxpayers support the education of thousands of medical and dental students every year, yet because of limits on the number of residency programs, many of those physicians and dentists are forced out of state to continue their training, leaving patients in California without access to care. Funding implementation and administrative programs that will help keep hundreds more doctors in California every year to improve the health of Californians will save lives and save state and local government money in the future.

(m) Medical studies have shown that the smoking of cigarettes and use of other tobacco products affects oral health by causing dental disease, including gum disease and bone loss, cancers of the mouth and throat, and severe tooth wear. Smoking causes half of the cases of gum disease, which results in increased tooth loss. Oral cancer risk for smokers is at least six times higher than for nonsmokers and 75% of all oral cancer in the United States is related to tobacco use. Oral cancer risk for smokeless tobacco increases 50-fold over nonsmokers. There is an association between maternal smoking during pregnancy and cleft lip development in fetuses. Tobacco cessation reduces the risk of mouth and throat cancer by 50%. Funding programs that educate, prevent and treat dental diseases, including those caused by use of tobacco, will improve the lives of Californians and save state and local government money in the future.

(n) Increasing the cost of cigarettes and tobacco products is widely recognized as the most effective way to reduce smoking across California, especially by young people. The
2000 U.S. Surgeon General’s Report, Reducing Tobacco Use, found that raising tobacco-product prices decreases the prevalence of tobacco use, particularly among kids and young adults, and that tobacco tax increases produce “substantial long-term improvements in health.” From its review of existing research, the report concluded that raising tobacco taxes is one of the most effective tobacco prevention and control strategies. Reducing smoking saves lives and saves state and local government money in the future.

(o) Because increasing the tobacco tax will reduce smoking and the use of other tobacco products, it is important to protect existing tobacco tax funded programs from a decline in tax revenues.

(p) California currently taxes cigarettes at only $0.87 per pack, and ranks 35th in tobacco tax rates, reflecting one of the lowest tobacco taxes in the United States. As of January, 2016, the national average will be $1.60 per pack. Thirty-two states have cigarette tax rates of $1 per pack or higher, and California is well below other western states (Washington: $3.025; Oregon: $1.31; Nevada: $1.80; and Arizona: $2). California last raised its tobacco tax in 1998.

SEC. 2. Statement of Purpose.

The purpose of this act is to increase the tax on tobacco and other tobacco products, including electronic cigarettes, in order to:

(a) Save the lives of Californians and save state and local government money in the future by reducing smoking and tobacco use among all Californians, but particularly youth.

(b) Provide funds to increase funding for existing healthcare programs and services that treat all types of cancer, cardiovascular and lung disease, oral disease, and tobacco-related diseases, expand the number of healthcare providers, and maximize federal funding for these programs and services.

(c) Provide funds to support research into the causes of and cures for all types of cancer, cardiovascular and lung disease, oral disease, and tobacco-related diseases, and to transform such scientific discoveries into clinical applications to reduce the incidence and mortality of such diseases and conditions.

(d) Provide funds to support prevention programs aimed at discouraging individuals from using cigarettes and other tobacco products, including electronic cigarettes.

(e) Provide funds for implementation and administrative purposes to reduce cigarette smuggling, tobacco tax evasion, and illegal sales of tobacco products to minors, fund medical training for new doctors to treat diseases, including those caused by tobacco use, and fund programs to prevent and treat dental diseases, including those caused by tobacco use.

(f) Protect existing tobacco tax funded programs, which currently save Californians millions of dollars in healthcare costs.

(g) Provide a full accounting of how funds raised are spent to further the purposes of this act without creating new bureaucracies.

SEC. 3. Definition of Tobacco Products.

SEC. 3.1. Section 30121 of the Revenue and Taxation Code is amended to read:

30121. For purposes of this article:

(a) “Cigarettes” has the same meaning as in Section 30003, as it read on January 1, 1988.

(b) “Tobacco products” includes, but is not limited to, all forms of cigars, smoking tobacco, chewing tobacco, snuff, and any other articles or products made of, or containing at least 50 percent, tobacco a product containing, made, or derived from tobacco or nicotine that is intended for human consumption, whether smoked, heated, chewed, absorbed, dissolved, inhaled, snorted, sniffed, or ingested by any other means, including, but not limited to, cigars, little cigars, chewing tobacco, pipe tobacco, or snuff, but does not include cigarettes. Tobacco products shall also include electronic cigarettes. Tobacco products shall not include any product that has been approved by the United States Food and Drug Administration for sale as a tobacco cessation product or for other therapeutic purposes where that product is marketed and sold solely for such approved use. Tobacco products does not include any food products as that term is defined pursuant to Section 6359.

(c) “Electronic cigarettes” means any device or delivery system sold in combination with nicotine which can be used to deliver to a person nicotine in aerosolized or vaporized form, including, but not limited to, an e-cigarette, e-cigar, e-pipe, vape pen, or e-hookah. Electronic cigarettes include any component, part, or accessory of such a device that is used during the operation of the device when sold in combination with any liquid or substance containing nicotine. Electronic cigarettes also include any liquid or substance containing nicotine, whether sold separately or sold in combination with any device that could be used to deliver to a person nicotine in aerosolized or vaporized form. Electronic cigarettes do not include any device not sold in combination with any liquid or substance containing nicotine, or any battery, battery charger, carrying case, or other accessory not used in the operation of the device if sold separately. Electronic cigarettes shall not include any product that has been approved by the United States Food and Drug Administration for sale as a tobacco cessation product or for other therapeutic purposes where that product is marketed and sold solely for such approved use. As used in this subdivision, nicotine does not include any food products as that term is defined pursuant to Section 6359.

(Text of Proposed Laws)

30130.50. Definitions.
For the purposes of this article:
(a) “Cigarette” has the same meaning as that in Section 30003 as it read on January 1, 2015.
(b) “Tobacco products” has the same meaning as that in subdivision (b) of Section 30121, as amended by this act.

(a) In addition to any other taxes imposed upon the distribution of cigarettes under this part, there shall be imposed an additional tax upon every distributor of cigarettes at the rate of one hundred mills ($0.100) for each cigarette distributed on or after the first day of the first calendar quarter commencing more than 90 days after the effective date of this act.
(b) The board shall adopt regulations providing for the implementation of an equivalent tax on electronic cigarettes as that term is defined in subdivision (c) of Section 30121, and the methods for collection of the tax. Such regulations shall include imposition of an equivalent tax on any device intended to be used to deliver aerosolized or vaporized nicotine to the person inhaling from the device when sold separately or as a package; any component, part, or accessory of such a device that is used during the operation of the device, whether sold separately or as a package with such device; and any liquid or substance containing nicotine, whether sold separately or as a package with that device that would allow it to be inhaled. Such regulations may include, but are not limited to, defining who is a distributor of electronic cigarettes pursuant to Section 30011 and the licensing requirements of any such person.
(c) Notwithstanding any other provision of this part, all revenues resulting from the tax imposed by subdivision (a) and all revenues resulting from the equivalent increase in the tax on tobacco products, including electronic cigarettes, imposed by subdivision (b) of Section 30123, shall be deposited into the California Healthcare, Research and Prevention Tobacco Tax Act of 2016 Fund created by Section 30130.53.

(a) (1) In addition to any other tax, every dealer and wholesaler, for the privilege of holding or storing cigarettes for sale, use, or consumption, shall pay a floor stock tax for each cigarette in its possession or under its control in this state at 12:01 a.m. on the first day of the first calendar quarter commencing more than 90 days after the effective date of this act and the rate of one hundred mills ($0.100) for each cigarette.
(2) Every dealer and wholesaler shall file a return with the board on or before the first day of the first calendar quarter commencing more than 180 days after the effective date of this act on a form prescribed by the board, showing the number of cigarettes in its possession or under its control in this state at 12:01 a.m. on the first day of the first calendar quarter commencing more than 90 days after the effective date of this act. The amount of tax shall be computed and shown on the return.
(b) (1) Every licensed cigarette distributor, for the privilege of distributing cigarettes and for holding or storing cigarettes for sale, use, or consumption, shall pay a cigarette indicia adjustment tax for each California cigarette tax stamp that is affixed to any package of cigarettes and for each unaffixed California cigarette tax stamp in its possession or under its control at 12:01 a.m. on the first day of the first calendar quarter commencing more than 90 days after the effective date of this act at the following rates:
(A) Two dollars and fifty cents ($2.50) for each stamp bearing the designation “25.”
(B) Two dollars ($2) for each stamp bearing the designation “20.”
(C) One dollar ($1) for each stamp bearing the designation “10.”
(2) Every licensed cigarette distributor shall file a return with the board on or before the first day of the first calendar quarter commencing 180 days after the effective date of this act on a form prescribed by the board, showing the number of stamps described in subparagraphs (A), (B), and (C) of paragraph (1). The amount of tax shall be computed and shown on the return.
(c) The taxes required to be paid by this section are due and payable on or before the first day of the first calendar quarter commencing 180 days after the effective date of this act. Payments shall be made by remittances payable to the board and the payments shall accompany the return and forms required to be filed by this section.
(d) Any amount required to be paid by this section that is not timely paid shall bear interest at the rate and by the method established pursuant to Section 30202 from the first day of the first calendar quarter commencing 180 days after the effective date of this act, until paid, and shall be subject to determination, and redetermination, and any penalties provided with respect to determinations and redeterminations.

(a) The California Healthcare, Research and Prevention Tobacco Tax Act of 2016 Fund is hereby established in the State Treasury.
(b) All revenues raised pursuant to the taxes imposed by this article, less refunds made pursuant to Article 1 (commencing with Section 30361) of Chapter 6, shall be deposited into the California Healthcare, Research and Prevention Tobacco Tax Act of 2016 Fund.
(c) Notwithstanding any other law, the California Healthcare, Research and Prevention Tobacco Tax Act of 2016 Fund is a trust fund established solely to carry out the purposes of this act and all revenues deposited into the California Healthcare, Research and Prevention Tobacco Tax Act of 2016 Fund, together with interest earned by the fund, are hereby continuously appropriated for the purposes of this act without regard to fiscal year and shall be expended only in accordance with the provisions of this act and its purposes.
(d) Notwithstanding any other law, revenues deposited into the California Healthcare, Research and Prevention Tobacco Tax Act of 2016 Fund, including any interest earned by the fund, shall only be used for the specific purposes set forth in this act, and shall be appropriated and expended only for the purposes expressed in this act and shall not be subject to appropriation, reversion, or

(a) The California Healthcare, Research and Prevention Tobacco Tax Act of 2016 Prepaid Cigarette Indicia Tax Fund is hereby established in the State Treasury.
(b) All revenues deposited into the California Healthcare, Research and Prevention Tobacco Tax Act of 2016 Prepaid Cigarette Indicia Tax Fund are hereby continuously appropriated for the purposes of this act and all revenues deposited into the California Healthcare, Research and Prevention Tobacco Tax Act of 2016 Prepaid Cigarette Indicia Tax Fund, together with interest earned by the fund, are hereby continuously appropriated for the purposes of this act without regard to fiscal year and shall be expended only in accordance with the provisions of this act and its purposes.

(a) The California Healthcare, Research and Prevention Tobacco Tax Act of 2016 Prevention Tobacco Tax Fund is hereby established in the State Treasury.
(b) All revenues deposited into the California Healthcare, Research and Prevention Tobacco Tax Act of 2016 Prevention Tobacco Tax Fund are hereby continuously appropriated for the purposes of this act and all revenues deposited into the California Healthcare, Research and Prevention Tobacco Tax Act of 2016 Prevention Tobacco Tax Fund, together with interest earned by the fund, are hereby continuously appropriated for the purposes of this act without regard to fiscal year and shall be expended only in accordance with the provisions of this act and its purposes.

(a) The California Healthcare, Research and Prevention Tobacco Tax Act of 2016 Tobacco Products Tax Fund is hereby established in the State Treasury.
(b) All revenues deposited into the California Healthcare, Research and Prevention Tobacco Tax Act of 2016 Tobacco Products Tax Fund are hereby continuously appropriated for the purposes of this act and all revenues deposited into the California Healthcare, Research and Prevention Tobacco Tax Act of 2016 Tobacco Products Tax Fund, together with interest earned by the fund, are hereby continuously appropriated for the purposes of this act without regard to fiscal year and shall be expended only in accordance with the provisions of this act and its purposes.
TEXT OF PROPOSED LAWS

transfer by the Legislature, the Governor, the Director of Finance, or the Controller for any purpose other than those specified in this act, nor shall such revenues be loaned to the General Fund or any other fund of the state or any local government fund.


(a) The board shall determine within one year of the effective date of this act, and annually thereafter, the effect that the additional taxes imposed on cigarettes by this article, and the resulting increase in the tax on tobacco products required by subdivision (b) of Section 30123, have on the consumption of cigarettes and tobacco products in this state. To the extent that a decrease in consumption is determined by the board to be a direct result of the additional tax imposed on cigarettes by this article, and the resulting increase in the tax on tobacco products required by subdivision (b) of Section 30123, the board shall determine the fiscal effect the decrease in consumption has on the Cigarette and Tobacco Products Surtax Fund created by Section 30122 (Proposition 99 as approved by the voters at the November 8, 1988, statewide general election), the Breast Cancer Fund created by Section 30461.6, and the California Children and Families Trust Fund created by Section 30131 (Proposition 10 as approved by the voters at the November 3, 1998, statewide general election), and the revenues derived from Section 30101.

(b) The Controller shall transfer from the California Healthcare, Research and Prevention Tobacco Tax Act of 2016 Fund to those affected funds described in subdivision (a) the amount necessary to offset the revenue decrease directly resulting from the imposition of additional taxes by this article.

(c) The board shall determine within one year of the effective date of this act, and annually thereafter, the effect, if any, that the additional taxes imposed on cigarettes by this article, and the resulting increase in the tax on tobacco products required by subdivision (b) of Section 30123, have on the consumption of cigarettes and tobacco products in this state, including from the illegal sale of cigarettes and tobacco products. To the extent that there is a loss of state or local government sales and use tax revenues and such loss is determined by the board to be a direct result of the additional tax imposed on cigarettes by this article, and the resulting increase in the tax on tobacco products required by subdivision (b) of Section 30123, including from the illegal sale of cigarettes and tobacco products, the board shall determine the fiscal effect on state and local government sales and use tax revenues.

(d) The Controller shall transfer from the California Healthcare, Research and Prevention Tobacco Tax Act of 2016 Fund to the general fund of the state and those affected local governments described in subdivision (c) the amount necessary to offset the state and local sales and use tax revenue decrease directly resulting from the imposition of additional taxes by this article, including from the illegal sale of cigarettes and tobacco products.

(e) Transfers under this section shall be made by the Controller at such times as the Controller determines necessary to further the intent of this section.


After deducting and transferring the necessary funds pursuant to Section 30130.54 and subdivisions (a), (b), (c), (d), and (e) of Section 30130.57, the Controller shall annually allocate and transfer the remaining funds in the California Healthcare, Research and Prevention Tobacco Tax Act of 2016 Fund as follows:

(a) Eighty-two percent shall be transferred to the Healthcare Treatment Fund, which is hereby created, and shall be used by the State Department of Health Care Services to increase funding for the existing healthcare programs and services described in Chapter 7 (commencing with Section 140000) to Chapter 8.9 (commencing with Section 14700), inclusive, of Part 3 of Division 9 of the Welfare and Institutions Code, including those that provide healthcare, treatment, and services for Californians with tobacco-related diseases and conditions, by providing improved payments, for all healthcare, treatment, and services described in Chapter 7 (commencing with Section 140000) to Chapter 8.9 (commencing with Section 14700), inclusive, of Part 3 of Division 9 of the Welfare and Institutions Code. To the extent possible, given the limits of funding under this article, payments and support for the nonfederal share of payments for healthcare, services, and treatment shall be increased based on criteria developed and periodically updated as part of the annual state budget process, provided that these funds shall not be used to supplant existing state general funds for these same purposes. These criteria shall include, but not be limited to, ensuring timely access, limiting specific geographic shortages of services, or ensuring quality care. Consistent with federal law, the funding shall be used to draw down federal funds. The funding shall be used only for care provided by health care professionals, clinics, health facilities that are licensed pursuant to Section 1250 of the Health and Safety Code, and to health plans contracting with the State Department of Health Care Services to provide health benefits pursuant to this section. The funding can be used for the nonfederal share of payments from governmental entities where applicable. The department shall, if required, seek any necessary federal approval for the implementation of this section.

(b) Thirteen percent shall be used for the purpose of funding comprehensive tobacco prevention and control programs, provided that these funds are not to be used to supplant existing state or local funds for these same purposes. These funds shall be apportioned in the following manner:

(1) Eighty-five percent to the State Department of Public Health Tobacco Control Program to be used for the tobacco control programs described beginning at Section 104375 of the Health and Safety Code. The State Department of Public Health shall award funds to state and local governmental agencies, tribes, universities and colleges, community-based organizations, and other qualified agencies for the implementation, evaluation, and dissemination of evidence-based health promotion and health communication activities in order to monitor, evaluate, and reduce tobacco and nicotine use, tobacco-related disease rates, and tobacco-related health disparities, and develop a stronger evidence base of effective prevention programming with not less than 15 percent of health promotion, health communication activities, and evaluation and tobacco use surveillance
funds being awarded to accelerate and monitor the rate of decline in tobacco-related disparities with the goal of eliminating tobacco-related disparities.

(2) Fifteen percent to the State Department of Education to be used for school programs to prevent and reduce the use of tobacco and nicotine products by young people as described in Section 104420 of the Health and Safety Code with not less than 15 percent of these funds being awarded to accelerate and monitor the rate of decline in tobacco-related disparities.

(c) Five percent to the University of California for medical research of cancer, heart and lung tobacco-related diseases pursuant to Article 2 (commencing with Section 104500) of Chapter 1 of Part 3 of Division 103 of the Health and Safety Code to supplement the Cigarette and Tobacco Products Surtax Medical Research Program, provided that these funds be used under the following conditions:

(1) The funds shall be used for grants and contracts for basic, applied, and translational medical research in California into the prevention of, early detection of, treatments for, complementary treatments for, and potential cures for all types of cancer, cardiovascular and lung disease, oral disease, and tobacco-related diseases. Notwithstanding any other provision of law, the University of California, through the Tobacco Related Disease Research Program, shall have authority to expend funds received under this act for the purpose set forth in this subdivision.

(2) Any grants and contracts awarded shall be awarded using existing medical research program infrastructure and on the basis of scientific merit as determined by an open, competitive peer review process that assures objectivity, consistency, and high quality.

(3) Individuals or entities that receive the grants and contracts pursuant to this subdivision must reside or be located entirely within California.

(4) The research must be performed entirely within California.

(5) The funds shall not be used to supplant existing state or local funds for these same purposes.

30130.56. Independent Audit and Disclosure.

To provide full public accountability concerning the uses to which funds from the California Healthcare, Research and Prevention Tobacco Tax Act of 2016 are put, and to ensure full compliance with the California Healthcare, Research and Prevention Tobacco Tax Act of 2016:

(a) The nonpartisan California State Auditor shall conduct at least biennially an independent financial audit of the state and local agencies receiving funds pursuant to the California Healthcare, Research and Prevention Tobacco Tax Act of 2016. An audit conducted pursuant to this section shall include, but not be limited to, a review of the administrative costs expended by the state agencies that administer the fund.

(b) Based on the independent audit, the nonpartisan California State Auditor shall prepare a report detailing its review and include any recommendations for improvements. The report shall be made available to the public.

(c) Each state agency and department receiving funds pursuant to this act shall, on an annual basis, publish on its respective Internet Web site an accounting of how much money was received from the California Healthcare, Research and Prevention Tobacco Tax Act of 2016 Fund and how that money was spent. The annual accounting shall also be posted on any social media outlets the state agency or department deems appropriate.

(d) The use of the funds received by the State Department of Health Care Services pursuant to subdivision (a) of Section 30130.55 shall be subject to the same restrictions, including, but not limited to, audits and prevention of fraud, imposed by existing law.

(e) The use of the funds received by the State Department of Public Health, the State Department of Education, and the University of California pursuant to subdivisions (b) and (c) of Section 30130.55 shall be subject to oversight by the Tobacco Education and Research Oversight Committee pursuant to Sections 104365 and 104370 of the Health and Safety Code.

30130.57. Implementation and Administrative Costs.

(a) Moneys from the California Healthcare, Research and Prevention Tobacco Tax Act of 2016 Fund shall be used to reimburse the board for expenses incurred in the administration, calculation, and collection of the tax imposed by this article and for expenses incurred in the calculation and distribution of funds and in the promulgation of regulations as required by this act, provided, however, that after deducting the necessary funds pursuant to subdivision (b) of Section 30130.54, not more than 5 percent annually of the funds remaining in the California Healthcare, Research and Prevention Tobacco Tax Act of 2016 Fund shall be used for such administrative costs.

(b) Moneys from the California Healthcare, Research and Prevention Tobacco Tax Act of 2016 Fund shall be used to reimburse the independent nonpartisan California State Auditor up to four hundred thousand dollars ($400,000) annually for actual costs incurred to conduct each of the audits required by Section 30130.56 for the purpose of providing public transparency and ensuring that the revenues generated by this article are used for healthcare, tobacco use prevention and research.

(c) Moneys from the California Healthcare, Research and Prevention Tobacco Tax Act of 2016 Fund in the amount of forty million dollars ($40,000,000) annually shall be used to provide funding to the University of California for the purpose and goal of increasing the number of primary care and emergency physicians trained in California. This goal shall be achieved by providing this funding to the University of California to sustain, retain, and expand graduate medical education programs to achieve the goal of increasing the number of primary care and emergency physicians in the State of California based on demonstrated workforce needs and priorities.

(1) For the purposes of this subdivision, “primary care” means internal medicine, family medicine, obstetrics/gynecology, and pediatrics.

(2) Funding shall be prioritized for direct graduate medical education costs for programs serving medically underserved areas and populations.

(3) For the purposes of this subdivision, all allopathic and osteopathic residency programs accredited by federally recognized accrediting organizations and located in California shall be eligible to apply to receive funding to support resident education in California.

(4) The University of California shall annually review physician shortages by specialty across the state and by
(d) Moneys from the California Healthcare, Research and Prevention Tobacco Tax Act of 2016 Fund in the amount of thirty million dollars ($30,000,000) annually shall be used to provide funding to the State Department of Public Health state dental program for the purpose and goal of educating about, preventing and treating dental disease, including dental disease caused by use of cigarettes and other tobacco products. This goal shall be achieved by the program providing this funding to activities that support the state dental plan based on demonstrated oral health needs, prioritizing serving underserved areas and populations. Funded program activities shall include, but not be limited to, the following: education, disease prevention, disease treatment, surveillance, and case management.

The department shall have broad authority to fully implement and effectuate the purposes of this subdivision, including the determination of underserved communities, the development of program protocols, the authority to reimburse state-sponsored services related to the program, and the authority to contract with one or more individuals or public or private entities to provide program activities.

(e) Moneys from the California Healthcare, Research and Prevention Tobacco Tax Act of 2016 Fund in the amount of forty-eight million dollars ($48,000,000) annually shall be used for the purpose of funding law enforcement efforts to reduce illegal sales of tobacco products, particularly illegal sales to minors; to reduce cigarette smuggling, tobacco tax evasion, the sale of tobacco products without a license and the sale of counterfeit tobacco products; to enforce tobacco-related laws, court judgments, and legal settlements; and to conduct law enforcement training and technical assistance activities for tobacco-related statutes; provided that these funds are not to be used to supplant existing state or local funds for these same purposes. These funds shall be apportioned in the following manner:

(1) Thirty million dollars ($30,000,000) annually to the California Department of Justice/Office of the Attorney General to be distributed to local law enforcement agencies to support and hire front-line law enforcement peace officers for programs, including, but not limited to, enforcement of state and local laws related to the illegal sales and marketing of tobacco to minors, and increasing investigative activities and compliance checks to reduce illegal sales of cigarettes and tobacco products to minors and youth.

(2) Six million dollars ($6,000,000) annually to the board to be used to enforce laws that regulate the distribution and retail sale of cigarettes and other tobacco products, such as laws that prohibit cigarette and tobacco product smuggling, counterfeiting, selling untaxed cigarettes and other tobacco products, and selling cigarettes and other tobacco products without a proper license.

(3) Six million dollars ($6,000,000) annually to the California Department of Public Health to be used to support programs, including, but not limited to, providing grants and contracts to local law enforcement agencies to provide training and funding for the enforcement of state and local laws related to the illegal sales of tobacco to minors, increasing investigative activities, and compliance checks, and other appropriate activities to reduce illegal sales of tobacco products to minors, including, but not limited to, the Stop Tobacco Access to Kids Enforcement (STAKE) Act, pursuant to Section 22952 of the Business and Professions Code.

(4) Six million dollars ($6,000,000) annually to the California Attorney General to be used for activities, including, but not limited to, enforcing laws that regulate the distribution and sale of cigarettes and other tobacco products, such as laws that prohibit cigarette smuggling, counterfeiting, selling untaxed tobacco, selling tobacco without a proper license and selling tobacco to minors, and enforcing tobacco-related laws, court judgments, and settlements.

(f) Not more than 5 percent of the funds received pursuant to this article shall be used by any state or local agency or department receiving such funds for administrative costs.

(g) The California State Auditor shall promulgate regulations pursuant to the rulemaking provisions of the Administrative Procedure Act (Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code) to define administrative costs for purposes of this article. Such regulations shall take into account the differing nature of the agencies or departments receiving funds.

(h) The board shall determine beginning two years following the effective date of this act, and annually thereafter, any reduction in revenues, following the first year after the effective date of this act, resulting from a reduction in the consumption of cigarettes and tobacco products due to the additional taxes imposed on cigarettes by this article, and the increase in the tax on tobacco products required by subdivision (b) of Section 30123. If the board determines there has been a reduction in revenues, the amount of funds allocated pursuant to subdivisions (c), (d) and (e) shall be reduced proportionately.


SEC. 5.1. Section 30014 of the Revenue and Taxation Code is amended to read:

30014. (a) “Transporter” means any person transporting into or within this state any of the following:

(1) Cigarettes not contained in packages to which are affixed California cigarette tax stamps or meter impressions.

(2) Tobacco products upon which the tobacco products surtax imposed by Article 2 (commencing with Section 30121), Article 2.5 (commencing with Section 30130.50), and Article 3 (commencing with Section 30131) of Chapter 2 has not been paid.

(b) “Transporter” shall not include any of the following:

(1) A licensed distributor.

(2) A common carrier.

(3) A person transporting cigarettes and tobacco products under federal internal revenue bond or customs control that are non-taxpaid under Chapter 52 of the Internal Revenue Act of 1954 as amended.

SEC. 5.2. Section 30104 of the Revenue and Taxation Code is amended to read:
imposed by Sections 30101, 30123, and 30131.2. Those common carriers and authorized persons shall pay the tax imposed by this section and file reports with the board, as provided in Section 30186.

SEC. 5.3. Section 30108 of the Revenue and Taxation Code is amended to read:

30108. (a) Every distributor engaged in business in this state and making gifts of untaxed cigarettes or tobacco products as samples with respect to which the tax imposed by Sections 30101, 30123, and 30131.2 under this part is inapplicable shall, at the time of making the sale or accepting the order or, if the purchaser is not then obligated to pay the tax with respect to his or her distribution of the cigarettes or tobacco products, at the time the purchaser becomes so obligated, collect the tax from the purchaser, if the purchaser is other than a licensed distributor, and shall give to the purchaser a receipt therefor in the manner and form prescribed by the board. This section shall not apply to those distributions of cigarettes or tobacco products which are exempt from tax under Section 30105.5.

(b) Every person engaged in business in this state and making gifts of untaxed cigarettes or tobacco products as samples with respect to which the tax imposed by Sections 30101, 30123, and 30131.2 under this part is inapplicable shall, at the time of making the gift or, if the donee is not then obligated to pay the tax with respect to his or her distribution of the cigarettes or tobacco products, at the time the donee becomes so obligated, collect the tax from the donee, if the donee is other than a licensed distributor, and shall give the donee a receipt therefor in the manner and form prescribed by the board. This section shall not apply to those distributions of cigarettes or tobacco products which are exempt from tax under Section 30105.5.

(c) “Engaged in business in the state” means and includes any of the following:

(1) Maintaining, occupying, or using, permanently or temporarily, directly or indirectly, or through a subsidiary, or agent, by whatever name called, an office, place of distribution, sales or sample room or place, warehouse or storage place, or other place of business.

(2) Having any representative, agent, salesperson, canvasser or solicitor operating in this state under the authority of the distributor or its subsidiary for the purpose of selling, delivering, or the taking of orders for cigarettes or tobacco products.

(d) The taxes required to be collected by this section constitute debts owed by the distributor, or other person required to collect the taxes, to the state.

SEC. 5.4. Section 30166 of the Revenue and Taxation Code is amended to read:

30166. Stamps and meter register settings shall be sold to licensed distributors at their denominated values less a discount of 0.85 percent, which shall be capped at the first one dollar ($1.00) in denominated value to licensed distributors. Payment for stamps or meter register settings shall be made at the time of purchase, provided that a licensed distributor, subject to the conditions and provisions of this article, may be permitted to defer payments therefor.

SEC. 5.5. Section 30181 of the Revenue and Taxation Code is amended to read:

30181. (a) When any tax imposed upon cigarettes under Article 1 (commencing with Section 30101), Article 2 (commencing with Section 30121), and Article 3 (commencing with Section 30131) of Chapter 2 of this part is paid through the use of stamps or meter impressions, the tax shall be due and payable monthly on or before the 25th day of the month following the calendar month in which a distribution of cigarettes occurs, or in the case of a sale of cigarettes on the facilities of a common carrier for which the tax is imposed pursuant to Section 30104, the tax shall be due and payable monthly on or before the 25th day of the month following the calendar month in which a sale of cigarettes on the facilities of the carrier occurs.

(b) Each distributor of tobacco products shall file a return in the form, as prescribed by the board, which may include, but not be limited to, electronic media respecting the distributions of tobacco products and their wholesale cost during the preceding month, and any other information as the board may require to carry out this part. The return shall be filed with the board on or before the 25th day of the calendar month following the close of the monthly period for which it relates, together with a remittance payable to the board, of the amount of tax, if any, due under Article 2 (commencing with Section 30121) or Article 3 (commencing with Section 30131) of Chapter 2 for that period.

(c) To facilitate the administration of this part, the board may require the filing of the returns for longer than monthly periods.

(d) Returns shall be authenticated in a form or pursuant to methods as may be prescribed by the board.

(e) This section shall become operative on January 1, 2007.

SEC. 6. Conformity with State Constitution.

SEC. 6.1. Section 23 is added to Article XVI of the California Constitution, to read:

Sec. 23. The tax imposed by the California Healthcare, Research and Prevention Tobacco Tax Act of 2016 and the revenue derived therefrom, including investment interest, shall not be considered General Fund revenues for purposes of Section 8 and its implementing statutes, and shall not be considered “General Fund revenues,” “state revenues,” or “General Fund proceeds of taxes” for purposes of subdivisions (a) and (b) of Section 8 and its implementing statutes.

SEC. 6.2. Section 14 is added to Article XIII B of the California Constitution, to read:

Sec. 14. “Appropriations subject to limitation” of each entity of government shall not include appropriations of revenue from the California Healthcare, Research and
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Prevention Tobacco Tax Act of 2016 Fund created by the California Healthcare, Research and Prevention Tobacco Tax Act of 2016. No adjustment in the appropriations limit of any entity of government shall be required pursuant to Section 3 as a result of revenue being deposited in or appropriated from the California Healthcare, Research and Prevention Tobacco Tax Act of 2016 Fund.

SEC. 7. Severability.
If the provisions of this act, or part thereof, are for any reason held to be invalid or unconstitutional, the remaining provisions shall not be affected, but shall remain in full force and effect and to this end the provisions of this act are severable.

(a) It is the intent of the people that in the event that this measure and another measure relating to the taxation of tobacco shall appear on the same statewide election ballot, the provisions of the other measure or measures shall not be deemed to be in conflict with this measure, and if approved by the voters, this measure shall take effect notwithstanding approval by the voters of another measure relating to the taxation of tobacco by a greater number of affirmative votes.

(b) If this measure is approved by the voters but superseded by law by any other conflicting ballot measure approved by the voters at the same election, and the conflicting measure is later held invalid, this measure shall be self-executing and given the full force of law.

(a) Except as hereafter provided, this act may only be amended by the electors as provided in subdivision (c) of Section 10 of Article II of the California Constitution.

(b) The Legislature may amend subdivisions (a) and (c) of Section 30130.55 and Section 30130.57 of the Revenue and Taxation Code to further the purposes of the California Healthcare, Research and Prevention Tobacco Tax Act of 2016 by a statute passed in each house by roll-call vote entered in the journal, two-thirds of the membership concurring.

(c) The Legislature may amend subdivision (b) of Section 30130.55 of the Revenue and Taxation Code to further the purposes of the California Healthcare, Research and Prevention Tobacco Tax Act of 2016 by a statute passed in each house by roll-call vote entered in the journal, four-fifths of the membership concurring.

SEC. 10. Effective Date.
This act shall become effective as provided in subdivision (a) of Section 10 of Article II of the California Constitution; provided, however, the amendment to Section 30121 of the Revenue and Taxation Code shall be effective April 1, 2017.

PROPOSED LAW

The Public Safety and Rehabilitation Act of 2016

SECTION 1. Title.
This measure shall be known and may be cited as “The Public Safety and Rehabilitation Act of 2016.”

SEC. 2. Purpose and Intent.
In enacting this act, it is the purpose and intent of the people of the State of California to:
1. Protect and enhance public safety.
2. Save money by reducing wasteful spending on prisons.
3. Prevent federal courts from indiscriminately releasing prisoners.
4. Stop the revolving door of crime by emphasizing rehabilitation, especially for juveniles.
5. Require a judge, not a prosecutor, to decide whether juveniles should be tried in adult court.

SEC. 3. Section 32 is added to Article I of the California Constitution, to read:

SEC. 32. (a) The following provisions are hereby enacted to enhance public safety, improve rehabilitation, and avoid the release of prisoners by federal court order, notwithstanding anything in this article or any other provision of law:
(1) Parole Consideration: Any person convicted of a nonviolent felony offense and sentenced to state prison shall be eligible for parole consideration after completing the full term for his or her primary offense.
(A) For purposes of this section only, the full term for the primary offense means the longest term of imprisonment imposed by the court for any offense, excluding the imposition of an enhancement, consecutive sentence, or alternative sentence.
(2) Credit Earning: The Department of Corrections and Rehabilitation shall have authority to award credits earned for good behavior and approved rehabilitative or educational achievements.
(b) The Department of Corrections and Rehabilitation shall adopt regulations in furtherance of these provisions, and the Secretary of the Department of Corrections and Rehabilitation shall certify that these regulations protect and enhance public safety.

SEC. 4.1. Section 602 of the Welfare and Institutions Code is amended to read:
602. (a) Except as provided in subdivision (b) of Section 707, any person who is under 18 years of age when he or she violates any law of this state or of the United States or any ordinance of any city or county of this state defining crime other than an ordinance establishing a curfew based solely on age, is within the jurisdiction of the juvenile court, which may adjudicate such person to be a ward of the court.
(b) Any person who is alleged, when he or she was 14 years of age or older, to have committed one of the following offenses shall be prosecuted under the general law in a court of criminal jurisdiction:
(1) Murder, as described in Section 187 of the Penal Code, if one of the circumstances enumerated in subdivision (a) of Section 190.2 of the Penal Code is

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