Tobacco Taxes for Health Programs
Arizona Health Care Cost Containment System and the Department of Health Services
Program Summary

Program Overview
Arizona levies an excise tax on cigarettes. Arizona's cigarette tax currently totals $2.00 per pack for most cigarettes sold in the state. This program summary focuses on cigarette tax revenues disbursed from the Tobacco Tax and Health Care Fund (TTHCF), Tobacco Products Tax Fund (TPTF), and the Smoke-Free Arizona Fund (SFAz) to the Arizona Health Care Cost Containment System (AHCCCS) and the Department of Health Services (DHS). Approximately $1.02 of the cigarette tax is dedicated to health programs.

The TTHCF was enacted by Proposition 200 in 1994. Proposition 200 added 40 cents to the existing 18-cent cigarette tax, and disbursed the revenues to 3 new accounts: the Health Research Account, the Health Education Account, and the Medically Needy Account. The Health Research Account (HRA) funds biomedical research in Arizona. The Health Education Account (HEA) provides funding for education and prevention programs about tobacco use and chronic disease. The Medically Needy Account (MNA) provides supplemental funding to health care programs for low-income individuals.

Additional cigarette tax monies were added to these accounts with the Tobacco Products Tax Fund (TPTF), which was enacted in Proposition 303 in 2002. The TPTF added 60 cents to the cigarette tax and created 2 new health accounts: the Proposition 204 Protection Account, and the Emergency Health Services Account (EHSA). These accounts both provide funding for Medicaid services for the Proposition 204 population in the AHCCCS budget. *Table 1* below shows the formula for disbursing each tax to the accounts. This program summary will refer to the TTHCF as "the 40-cent tax," the TPTF as the "60-cent tax."

In 2006, Proposition 201 added 2 cents to the cigarette tax to create SFAz, which funds enforcement of a ban on smoking in public places. This program summary will refer to SFAz as "the 2-cent tax."

Table 1

Cigarette Tax Allocations

	$0.40 Tax (TTHCF)	$0.60 Tax (TPTF)
Medically Needy Account	70%	27%
Health Education Account	23%	5%
Health Research Account	5%	2%
Corrections Adjustment Account	2%	--
Proposition 204 Protection Account	--	42%
Emergency Health Services Account	--	20%
Health Adjustment Account	--	4%

Program Funding
In FY 2015 the health accounts received $163.0 million in revenue. Between FY 2000 and FY 2015, actual combined revenues from the health account taxes increased by 48.4%. This increase was primarily driven by the addition of the 60-cent tax in 2003 and the 2-cent tax in 2006.

Since FY 2007, health account revenues have declined by (32.1)%. This decline is partly attributable to increases in the cigarette tax that reduced overall demand for cigarettes. In 2006, Proposition 302 created the Early Childhood Development and Health Fund (ECDHF), and increased cigarette taxes by 80 cents per pack. The ECDHF did not direct monies to the health accounts. The addition of 80 cents in cigarette taxes was the equivalent of an approximately 17% increase in the price of cigarettes.

Many economic studies have determined that demand for cigarettes is responsive to price changes. According to the Centers for Disease Control and Prevention (CDC), most studies find that a 10% change in the price of cigarettes leads to a 3%-5% reduction in the number of cigarettes purchased.

In Arizona and the rest of the nation, smoking rates have declined over time. According to DHS, the smoking rate among adults in Arizona declined from 20% in 2002 to 16% by 2013. If current trends continue, cigarette tax revenues will likely continue to decline steadily for the foreseeable future. Smoking rates in Arizona have mirrored national trends. According to the CDC, at the national level, smoking rates among adults have declined from 23% in 2001 to 17% in 2014.

Table 2

Cigarette Tax Revenues for Health Care Programs, FY 2000-FY2015

	FY 2000	FY 2007 1/	FY 2015	Change FY 2000-FY 2007	Change FY 2007-FY 2015	Change FY 2000-FY 2015
\$0.40 tax (TTHCF)	109,786,025	100,500,062	67,071,278	(8.5)%	(33.3)%	(38.9)%
\$0.60 tax (TPTF)	--	137,624,178	93,055,529	--	(32.4)%	--
\$0.02 tax (SFAz)	--	1,778,847	2,848,986	--	60.2%	--
Combined Revenues	**109,786,025**	**239,903,087**	**162,975,793**	**118.5%**	**(32.1)%**	**48.4%**

1/ SFAz revenues in FY 2007 were only collected for a portion of the fiscal year because Proposition 201 passed in November 2006.

Health Research Account

Proposition 200 allows health research monies to be spent on a wide range of biomedical research. A.R.S. § 36-275 states that the funds are to be spent on research relating to "the prevention and treatment of tobacco related disease and addiction," as well as "research into the causes, epidemiology and diagnosis of disease, the formulation of cures, the medically accepted treatment or the prevention of diseases including new drug discovery and development, and may include behavioral studies and attitude assessments."

The HRA receives 5% of revenues from the 40-cent tax on cigarettes and 5% of revenues from the 60-cent tax on cigarettes, or roughly 5 cents on every pack of cigarettes in total. In FY 2017, the HRA is expected to generate \$8.1 million in revenue. *Table 3* shows how HRA monies were spent in FY 2015 by the Arizona Biomedical Research Commission (ABRC), which receives all HRA revenues.

Table 3

Arizona Biomedical Research Commission Expenditures, FY 2015 1/

	Expenditure	Fund Source
Operating Costs	\$ 540,000	HRA/Lottery
TGen	2,000,000	HRA
Alzheimer's Consortium	1,000,000	HRA
Competitive Research Grants	1,100,000	HRA/Lottery
Biospecimen Locator Program	543,400	Lottery
Public Cord Blood Program	931,400	Lottery
Research Education	155,200	Lottery
Total	**\$6,270,000**	

1/ Estimates based on DHS' actual reported spending in FY 2015 and ABRC's FY 2015 annual report.

ABRC advises DHS on strategies to advance and support biomedical research in Arizona. It is governed by a board of 9 commissioners appointed by the Governor for 3-year terms. The ABRC statute requires that 3 commissioners are members of the general public, 3 are members of the medical community, and 3 are members of the scientific research community. ABRC was formerly its own division, but in FY 2012 it was merged into DHS.

ABRC also receives monies from the Disease Control Research Fund, which is funded by the state lottery. *Table 3* lists the ABRC programs that are funded with lottery monies. In FY 2017 the Disease Control Research Fund is expected to generate \$2.4 million in revenues. If the combined revenues from tobacco monies and lottery monies exceed expenditures in any given year, ABRC may invest the balance in interest-bearing funds held by the Arizona State Treasurer.

In FY 2015, ABRC expended \$4.1 million on direct funding for research, comprising 65% of its overall spending. This amount includes a \$2 million appropriation to the Translational Genomics Research Institute (TGen) from the Health Research Account. TGen is a non-profit research institute that supports research that translates advances in scientific knowledge about the human genome into medical practice. For example, TGen provides funding for clinical trials for prescription drugs, research on new therapies for cancer and neurological disorders, and genetic research on rare childhood disorders, among other projects. TGen maintains its own research staff, but also collaborates with other private sector and public sector entities on research.

From FY 2002 to FY 2011, TGen received $5.5 million from ABRC annually. After ABRC was merged into DHS, ABRC gradually reduced its allocation to TGen to $2 million in FY 2014. The FY 2015 budget advance-appropriated $2 million to TGen every fiscal year through FY 2019. TGen also receives an annual $3 million General Fund appropriation for biotechnology from Northern Arizona University (NAU) until FY 2019.

An additional $1 million of the research expenditures consist of appropriated disbursements to the Arizona Alzheimer's Consortium. The Arizona Alzheimer's Consortium is an organization dedicated to promoting collaboration between its member institutions on Alzheimer's disease research. The member institutions include Arizona State University, the University of Arizona, TGen, Mayo Clinic Arizona, Banner Sun Health Research Institute, Banner Alzheimer's Institute, and the Barrow Neurological Institute. The FY 2017 budget provides a one-time increase of $1 million from the Health Research Account for the consortium, for a total of $2 million from the account.

The remaining direct funding for research from the HRA is non-appropriated, and is awarded in competitive grants to biomedical researchers throughout Arizona. Grant recipients include faculty at the University of Arizona, Arizona State University, and Northern Arizona University, as well as researchers at Arizona hospitals. In FY 2015, ABRC disbursed $1.1 million in competitive research grants.

ABRC expends additional non-appropriated monies on the Biospecimen Locator program, the Public Cord Blood program, and the Research Education program. In FY 2015 total expenditures on these programs were $1.6 million, and are funded by lottery monies.

The Biospecimen Locator program involves storage of biospecimens such as tissues, cells, and molecular samples to be used in biomedical research. The program includes a database that researchers may use to search for and order biospecimens to use in their research. The Cord Blood program began in 2011 and funds the collection and storage of umbilical cord blood at certain Arizona hospitals to be used in transplants for leukemia, lymphoma, and other life-threatening disease. The Research Education program funds conferences and other activities that give Arizona's biomedical researchers opportunities to learn about other ongoing research and collaborate on new projects.

Health Education Account

Proposition 200 requires that HEA monies be spent on "programs for the prevention and reduction of tobacco use." A.R.S. § 36-772 authorizes 4 types of expenditures by the HEA: contracts with county health departments and other local partners, administrative expenses, advertising, and evaluations of programs funded by the HEA. Spending these monies for lobbying for political campaigns is expressly prohibited. Proposition 303 requires that the revenue for the HEA from the 60-cent tax be spent on the "prevention and early detection" of the 4 leading disease-related causes of death as determined by the CDC.

The HEA receives 23% of the revenues from the 40-cent cigarette tax and 2% of the revenues from the 60-cent cigarette tax, or a little more than 10 cents per pack. In FY 2017, HEA is expected to expend $20.3 million, and is expected to receive $18.1 million in revenue. Going into FY 2017, the HEA had a projected balance forward of $5.4 million, and is expected to have a $3.1 million balance at the end of FY 2017.

Revenues from the 40-cent tax are used to fund tobacco education and prevention programs. In FY 2017, expenditures on these programs are expected to be $17.9 million. The 3 largest categories of spending for Tobacco Education and Prevention funds are funds disbursed to county health departments (42%), statewide projects (26%), and marketing and communication (23%). These monies are also used to enforce prohibitions against sales of cigarettes to minors.

Revenues from the 60-cent tax monies used to fund programs at the state and local level designed to reduce the prevalence of the 4 leading disease-related causes of death in Arizona. These diseases include heart disease, cancer, chronic lower respiratory disease, and stroke. DHS primarily gives these monies to counties and schools to implement a variety of initiatives to reduce the incidence and prevalence of chronic disease, including worksite wellness programs, disease self-management classes, and healthy community design protocols. In FY 2017, expenditures are expected to be $2.5 million.

Medically Needy Account

The MNA provides funds for health care services for AHCCCS enrollees and other low-income individuals. The account receives 70% of the revenues from the 40-cent cigarette tax, and 27% of the revenues from the 60-cent cigarette tax, or about 44 cents per pack.

The FY 2017 budget appropriates $73.7 million from the Medically Needy Account. Of this amount, $73.0 million is to provide state matching funds for medical services and behavioral health services for Medicaid enrollees meeting traditional eligibility criteria. The remaining $700,000 is for 2 public health programs in DHS. The Folic Acid program, which distributes folic acid multivitamins to pregnant women to prevent birth defects in children, is appropriated $400,000 from the Medically Needy Account in FY 2017. The Renal Dental Care and Nutrition Supplements program provides dental care and nutrition assistance to low-income kidney disease patients, and is appropriated $300,000 from the account in FY 2017.

Proposition 204 Protection and Emergency Health Services

The Proposition 204 Protection Account monies are used to fund Medicaid acute care services for the Proposition 204 population, which includes childless adults with incomes up to 100% of the Federal Poverty Level. The account receives 42% of the 60-cent tax, or about 25 cents per pack. The FY 2017 budget appropriates $37.5 million from the account to AHCCCS to provide state matching funds for medical services rendered to the Proposition 204 population.

The Emergency Health Services Account monies are to be used "solely for the reimbursement of uncompensated care, primary care services and trauma center readiness costs." The account receives 20% of the 60-cent tax, or 12 cents per pack. A.R.S. § 36-776 stipulates that these monies must be appropriated, and that any unexpended funds shall be reverted to the Proposition 204 Protection Account. The FY 2017 budget appropriates $18.7 million from the account to AHCCCS to provide state matching funds for medical services for Proposition 204 services.

Smoke-Free Arizona Fund

The Smoke Free Arizona Act was adopted in Proposition 201 in 2006. It banned smoking in most public places, and added 2 cents to the cigarette tax to provide funds to DHS to enforce the ban. DHS provides most of these funds to county health departments, who conduct site visits at public establishments to ensure compliance with the law. DHS also provides free "No Smoking" signs to businesses. In FY 2017 the fund is expected to receive $3.1 million in revenues and incur expenditures of expend $3.2 million, resulting in a projected ending balance of $343,800.

Prepared by Patrick Moran, Fiscal Analyst