

**INITIATIVE FINANCIAL INFORMATION STATEMENT**  
**Comprehensive Statewide Tobacco Education and Prevention Program**

**SUMMARY OF INITIATIVE FINANCIAL INFORMATION STATEMENT**

Based on information provided through public workshops and information collected through staff research, the Financial Impact Estimating Conference principals expect that the proposed amendment will have the following financial effects:

- Education, prevention and enforcement costs will increase. The state will be required to appropriate approximately \$57 million from Tobacco Settlement funds in 2007, which will be adjusted annually for inflation. Because the Tobacco Settlement funds are currently fully obligated, the requirement to spend these dollars on the specified programs will result in reductions to existing programs or the replacement of those dollars with \$57 million of other state funds.
- Some long-term savings to state and local government health and insurance programs is probable. The Comprehensive Statewide Tobacco Education and Prevention Program is expected to reduce tobacco consumption. Because of this, state and local governments that offer health and insurance programs will probably experience some long-term savings. However, the savings resulting from the prevention program are indeterminate. Many factors besides the prevention program contribute to the decline of tobacco use. In addition, the number of persons, particularly youth, who will stop using tobacco, for how long they will stop, or who will never use tobacco is unknown.
- Minor loss of revenue to the state is probable, but is indeterminate. Revenue to the state from the Tobacco Settlement payments and from the Cigarette and Other Tobacco Products Taxes are dependent in part on tobacco sales. The statewide campaign proposed by the constitutional amendment is expected to reduce consumption by some unknown amount. Many other factors may also contribute to the decline of tobacco use, including affected opinions about tobacco companies following the multi-state settlements, increasing cost of cigarettes, increasing tax rates on tobacco products, and the implementation of smoking regulations in public places. Consequently, minor loss of revenue is probable, but the amount attributable to the prevention program cannot be determined.

**FINANCIAL IMPACT STATEMENT**

This amendment requires state government to appropriate approximately \$57 million in 2007 for the Comprehensive Statewide Tobacco Education and Prevention Program. Thereafter, this amount will increase annually with inflation. This spending is expected to reduce tobacco consumption. As a result, some long-term savings to state and local government health and insurance programs are probable, but indeterminate. Also, minor revenue loss to state government is probable, but indeterminate.

## I. SUBSTANTIVE ANALYSIS

### A. Proposed Amendment

#### Ballot Title:

Protect People, Especially Youth, From Addiction, Disease, and Other Health Hazards of Using Tobacco

#### Ballot Summary:

To protect people, especially youth, from addiction, disease, and other health hazards of using tobacco, the Legislature shall use some Tobacco Settlement money annually for a comprehensive statewide tobacco education and prevention program using Centers for Disease Control best practices. Specifies some program components, emphasizing youth, requiring one-third of total annual funding for advertising. Annual funding is 15% of 2005 Tobacco Settlement payments to Florida, adjusted annually for inflation. Provides definitions. Effective immediately.

#### 1) Statement and Purpose:

The purpose of the amendment is to require the Florida Legislature to annually fund a comprehensive, statewide tobacco education and prevention program, using tobacco settlement money and using the 1999 Centers for Disease Control's best practices to primarily target youth and other at-risk Floridians.

#### 2) Amendment of Florida Constitution:

Article X, Florida Constitution, is amended to add the following:

Section 27. Comprehensive Statewide Tobacco Education And Prevention Program. In order to protect people, especially youth, from health hazards of using tobacco, including addictive disorders, cancer, cardiovascular diseases, and lung diseases; and to discourage use of tobacco, particularly among youth, a portion of the money that tobacco companies pay to the State of Florida under the Tobacco Settlement each year shall be used to fund a comprehensive statewide tobacco education and prevention program consistent with recommendations of the U.S. Centers for Disease Control and Prevention (CDC), as follows:

- (a) Program. The money appropriated pursuant to this section shall be used to fund a comprehensive statewide tobacco education and prevention program consistent with the recommendations for effective program components in the 1999 *Best Practices for Comprehensive Tobacco Control Programs* of the CDC, as such *Best Practices* may be amended by the CDC. This program shall include, at a minimum, the following components, and may include additional components that are also contained within the CDC *Best Practices*, as periodically amended, and that are effective at accomplishing the purpose of this section, and that do not undermine the effectiveness of these required minimum components:

- (1) an advertising campaign to discourage the use of tobacco and to educate people, especially youth, about the health hazards of tobacco, which shall be

designed to be effective at achieving these goals and shall include, but need not be limited to, television, radio, and print advertising, with no limitations on any individual advertising medium utilized; and which shall be funded at a level equivalent to one-third of each total annual appropriation required by this section;

- (2) evidence-based curricula and programs to educate youth about tobacco and to discourage their use of it, including, but not limited to, programs that involve youth, educate youth about the health hazards of tobacco, help youth develop skills to refuse tobacco, and demonstrate to youth how to stop using tobacco;
  - (3) programs of local community-based partnerships that discourage the use of tobacco and work to educate people, especially youth, about the health hazards of tobacco, with an emphasis on programs that involve youth and emphasize the prevention and cessation of tobacco use;
  - (4) enforcement of laws, regulations, and policies against the sale or other provision of tobacco to minors, and the possession of tobacco by minors; and
  - (5) publicly-reported annual evaluations to ensure that moneys appropriated pursuant to this section are spent properly, which shall include evaluation of the program's effectiveness in reducing and preventing tobacco use, and annual recommendations for improvements to enhance the program's effectiveness, which are to include comparisons to similar programs proven to be effective in other states, as well as comparisons to CDC *Best Practices*, including amendments thereto.
- (b) Funding. In every year beginning with the calendar year after voters approve this amendment, the Florida Legislature shall appropriate, for the purpose expressed herein, from the total gross funds that tobacco companies pay to the State of Florida under the Tobacco Settlement, an amount equal to fifteen percent of such funds paid to the State in 2005; and the appropriation required by this section shall be adjusted annually for inflation, using the Consumer Price Index as published by the United States Department of Labor.
- (c) Definitions. "Tobacco" includes, without limitation, tobacco itself and tobacco products that include tobacco and are intended or expected for human use or consumption, including, but not limited to, cigarettes, cigars, pipe tobacco, and smokeless tobacco. The "Tobacco Settlement" means that certain Settlement Agreement dated August 25, 1997, entered into in settlement of the case styled as State of Florida, et al. v. American Tobacco Company, et al., Case No. 95-1466 AH (Fla. 15th Cir. Ct.), as amended by Stipulation of Amendment dated September 11, 1998; and includes any subsequent amendments and successor agreements. "Youth" includes minors and young adults.
- (d) Effective Date. This amendment shall become effective immediately upon approval by the voters.
- 3) Effective Date:
- This amendment will be effective on the date it is approved by the electorate.

## B. Effect of Proposed Amendment

According to Floridians for Youth Tobacco Education, Inc, the initiative sponsor, the proposed constitutional amendment is designed to protect Floridians, especially youth, from addiction, disease and other health hazards associated with tobacco use. The sponsor indicates that by “preventing kids from becoming adult smokers, Florida can help reduce the enormous financial costs and taxpayer burdens associated with smoking” (sponsor’s website, [www.keepkidssmokefree.org](http://www.keepkidssmokefree.org)).

### **Background**

#### Tobacco Settlement Trust Fund

On August 25, 1997, the State of Florida and several major American tobacco companies (Philip Morris Incorporated; R. J. Reynolds Tobacco Company; Brown & Williamson Tobacco Corporation; and Lorillard Tobacco Company) entered into a *Settlement Agreement*<sup>1</sup> that included both non-monetary and monetary provisions related to Florida’s financial losses as a result of smokers in the state’s Medicaid program. In the Agreement, the tobacco companies agreed to discontinue certain forms of advertising and to support legislative initiatives prohibiting the sale of cigarettes in vending machines and strengthening civil penalties related to the sale of tobacco products to children and possession of tobacco products by children. The tobacco companies also agreed to make annual payments in perpetuity, with the payments structured to be about \$11.3 billion over the first 25 years, subject to certain annual adjustments, primarily for shipment volume and the Consumer Price Index.

The Tobacco Settlement Trust Fund (TSTF) receives the settlement payments. The funds are currently used for specified types of programs in the health and human services area. Examples of currently obligated Tobacco Settlement funds include the KidCare Program and Medicaid physician services in the Agency for Health Care Administration, Children’s Medical Services and school health services in the Department of Health, and children’s and adolescents substance abuse services and children’s mental health services in the Department of Children and Family Services.

Settlement payments into the TSTF are expected to be \$377.1 million and \$384.7 million in Fiscal Years 2005-06 and 2006-07, respectively. Settlement payments are expected to grow slowly in the future, but will be negatively affected if nationwide consumption of cigarettes falls more rapidly than expected. Conversely, settlement payments will be positively affected if general price inflation is more rapid than currently projected.

#### Cigarette and Other Tobacco Products Taxes

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<sup>1</sup> *State of Florida, et al., v. American Tobacco, et al.*, Case No. 95-1466 AH, filed in the Fifteenth Judicial Circuit, in and for Palm Beach County Florida.

First established in 1943, the Cigarette and Other Tobacco Products Taxes are imposed on the sale of cigarettes and other non-cigar tobacco products in Florida. For cigarettes of common-size, the rate is \$0.339 per pack, with rates varying proportionately for cigarettes and packs of non-standard size. For other tobacco products, the tax is 25% of the wholesale price.

The tax revenue is used for the benefit of the Alcoholic Beverage and Tobacco Trust Fund, the Public Medical Assistance Trust Fund, the H. Lee Moffitt Cancer Center and Research Institute, County Revenue Sharing, and the General Revenue Fund. Anticipated collections will generate \$451 million in Fiscal Year 2005-06 and \$457 million in Fiscal Year 2006-07.

### Existing State Prevention, Education and Enforcement Programs

According to the Department of Health, Fiscal Year 2004-05 state expenditures include \$1 million for the Florida Tobacco Prevention Program, an additional \$685,541 by county health departments on prevention activities, \$91,219 for enforcement of the Florida Clean Indoor Air Act, and an amount not captured that county health departments spent on on-site inspections as part of the regular duties regarding complaints of violations of the Act. The Department of Business and Professional Regulation indicate they spent \$278,816 for education and enforcement activities; the Department of Education spent \$837,423 for tobacco prevention and intervention teacher training and education research projects.

## **II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT**

Section 100.371, Florida Statutes, requires that the Financial Impact Estimating Conference “. . . complete an analysis and financial impact statement to be placed on the ballot of the estimated increase or decrease in any revenue or costs to state or local governments resulting from the proposed initiative.”

As part of determining the fiscal impact of this proposed amendment, the Financial Impact Estimating Conference (FIEC) principals held three public meetings—one in October and two in November 2005.

### **A. FISCAL ANALYSIS**

The fiscal impact summary for this proposed constitutional amendment is based on independent research, testimony before the FIEC public workshop, written statements from the sponsor of the initiative, responses to a survey of state agencies and local governments regarding fiscal impacts, and discussions among the FIEC principals and other professional staff. Based on this information, the FIEC principals expect that the proposed constitutional amendment will have the following financial effects on state and local governments.

- **Education, prevention and enforcement costs will increase.** The proposed constitutional amendment requires the Legislature to annually spend 15% of the 2005 Tobacco Settlement payment to Florida, which is approximately \$57 million ( $\$377.1 \text{ million} \times 0.15$ ) on a comprehensive, statewide tobacco education and prevention program. This amount will be

adjusted annually for inflation. Because the Tobacco Settlement funds are currently fully obligated, the requirement to spend these dollars on the specified programs will result in reductions to existing programs or the replacement of those dollars with \$57 million of other state funds.

- **Some long-term savings to state and local government health and insurance programs are probable, but indeterminate.** According to the Centers for Disease Control, “Florida spent \$331 per capita on smoking attributable direct medical expenditures. In 1998, about 16% (\$976,000,000 or \$512 per recipient) of all Medicaid expenditures were spent on smoking related illnesses and diseases.”<sup>2</sup> It has also been estimated that the lifetime health care costs of smokers total on average at least \$12,000 more than non-smokers.<sup>3</sup> The Department of Health estimates that there were 119,840 fewer smokers from 1998 to 2002 as a result of the Tobacco Youth Control Program.<sup>4</sup> They further estimate that if “these 119,840 youth remain smoke-free over their lifetime, they will require nearly \$1.44 billion less in health care expenditures.”<sup>5</sup> Responses received from the Florida Association of Counties and the League of Cities indicated that they had no independent estimates of tobacco-related expenditures on health benefits.

The statewide campaign proposed by the constitutional amendment is expected to reduce consumption, which would result in probable long-term savings to state and local governments. However, this savings cannot be quantified because many factors besides the prevention program contribute to the decline of tobacco use. In addition, the number of persons, particularly youth, who will stop using tobacco, for how long they will stop, or who will never use tobacco is unknown.

- **Minor loss of revenue to state government is probable, but is indeterminate.** Revenue to the state from the Tobacco Settlement payments and from the Cigarette and Other Tobacco Products Taxes are dependent in part on tobacco sales. The statewide campaign proposed by the constitutional amendment is expected to reduce consumption by some unknown amount. Survey data often show a reduction in youth smoking since the inception of the TRUTH® campaign in Florida. It is important to note, however, that correlation does not imply causation. That is, correlation—or the tendency of two events to move in relation to one another—is not sufficient evidence that movement in one event directly results in movement in the other. Many factors may contribute to the decline of smoking rates, including changing tax rates, affected opinions

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<sup>2</sup> National Center for Chronic Disease Prevention and Health Promotion, Centers for Disease Control, *Health Effects of Cigarette Smoking*, Fact Sheet February 2004.

<sup>3</sup> Hodgson, T.A., Cigarette smoking and lifetime medical expenditures, *The Millbank Quarterly*, 70, (1), 1992.

<sup>4</sup> Florida Department of Health FTYS 2002—Monitoring Program Outcomes in 2001, *Florida Youth Tobacco Survey 2001*, 4, 1, October 5, 2001.

<sup>5</sup> Florida Department of Health, Florida Tobacco Control Program: Help Stop Tomorrow’s Smoking Today.

about tobacco companies following the multi-state settlements, increasing cost of cigarettes, and the implementation of smoking regulations in public places.

Available studies that suggest a downturn in smoking as a result of anti-smoking campaigns are more accurately showing that a decline took place over the same time period as the implementation of these programs. Without more systematic studies, including controls for other potential causes of movement in smoking rates, it is difficult if not impossible to move toward attributing a causal link to these programs and reductions in smoking. Recent studies that move toward a more scientific analysis of the effect of anti-smoking campaigns on smoking rates show mixed results. In one study, researchers found evidence to suggest that smoking rates were declining faster in states that spent large amounts (relative to other states) on anti-smoking campaigns.<sup>6</sup> Another report, however, showed a negative relationship between exposure to the TRUTH® campaign in Florida and smoking incidence.<sup>7</sup> Interpreting these or other studies would require a detailed look at the magnitude of these findings and the particular conditions present in the studies before making general claims. Consequently, minor loss of revenue is probable, but the amount cannot be determined.

## B. FISCAL IMPACT ON STATE AND LOCAL GOVERNMENTS:

### 1. Revenues:

Direct financial impact cannot be determined, but is expected to be minor. (See section A above.)

### 2. Expenditures:

The state will be required to appropriate approximately \$57 million from Tobacco Settlement funds in 2007, which will be adjusted annually for inflation. State and local governments that offer health and insurance programs will probably experience some long-term savings, which are indeterminate. (See section A above.)

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<sup>6</sup> Centers for Disease Control, *The Impact of Tobacco Control Program Expenditures on Aggregate Cigarette Sales: 1981-2000*.

<sup>7</sup> Research Triangle Institute, *Assessing the Impact of the Florida Tobacco Control Program in a Cohort of Florida Youth*, 2003.