

Figure 1. Summary of Proposition 86's Potential Impact in Los Angeles County

- It would save \$4 billion in health care costs
- It would provide \$350 million in uncompensated care funding for private and public hospitals, with \$96 million for the four county public hospitals
- It would provide up to \$20 million in potential new funding for community clinics
- Local ER physicians could receive up to \$18 million
- 51,000 children could qualify for expanded Healthy Families program and another 31,000 could become eligible for new pilot projects
- L.A. County Department of Public Health would receive \$10 million for tobacco-related programs
- 140,000 fewer adults would become smokers, and 170,000 children would be prevented from becoming smokers in adulthood

Note: Numbers provided are estimates.

Tobacco Tax of 2006 (Proposition 86): Potential Impact on Los Angeles County

This policy brief examines the potential effect on Los Angeles County (L.A. County) health care system should Proposition 86 pass in the upcoming November election. To the extent possible, the policy brief offers local funding estimates from the various components of the ballot initiative. Figures 1 and 2 provide a snapshot of Proposition 86 as well as its possible impact on health and health care programs in L.A. County.

LA Health Action neither supports nor opposes Proposition 86.

Background

On June 30, 2006, the *Tobacco Tax Act of 2006* qualified for the November 7, 2006 California statewide ballot. The initiative, assigned the title *Proposition 86*, would levy a new \$2.60 per pack tax on cigarettes (\$0.13 per cigarette). If passed, the tax would go into effect January 1, 2007. In the first full year of implementation (FY 2007-08), the tax would generate an estimated \$2.1 billion.¹

Proposition 86 is aimed at decreasing the number of California smokers and investing new tobacco taxes into a series of health-related areas including disease prevention and control, children's health insurance coverage and financial relief to portions of the state's over-burdened health care system.



California currently imposes a cigarette tax of \$0.87 per pack, which is expected to raise \$1.1 billion in state revenue in FY 2006-07.² California's cigarette tax rate ranks 24th highest in the United States and has not been raised since 1998 when voters approved Proposition 10, which levied an additional \$0.50 per pack tax on cigarettes dedicated to early childhood development programs.³

New Jersey currently has the highest state tobacco tax in the nation at \$2.58 per pack, while Missouri has the lowest at \$0.17 per pack.⁴ Should Proposition 86 pass, California's new per pack tax would stand at \$3.47, making it the highest tobacco tax in the nation.

Proposition 86 was filed by a coalition made up of 15 health organizations including the American Cancer Society, American Lung Association, American Heart Association, The California Hospital Association and Campaign for Tobacco-Free Kids.⁵

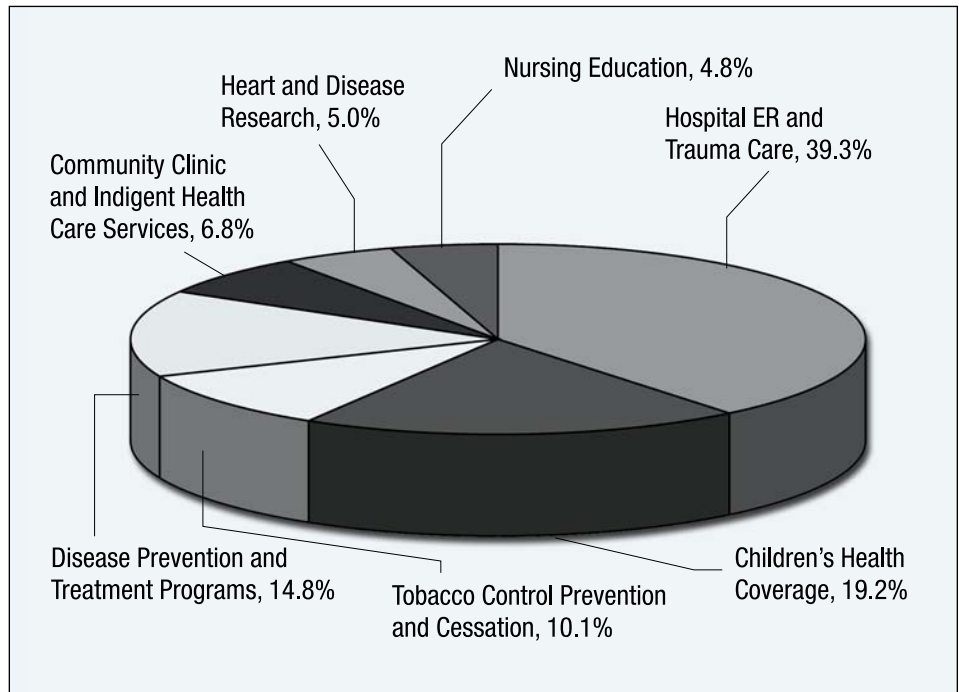
Figure 2. Quick Facts on Proposition 86

- It would impose a new \$2.60 per pack tax on cigarettes (\$0.13 per cigarette)
- It would raise \$2.1 billion in the first year (FY 2007-08)
- It would pay for
 - Hospital ER and trauma care
 - Children’s health coverage
 - Tobacco control, prevention and cessation
 - Disease prevention and treatment programs
 - Community clinic and indigent health care services
 - Heart disease and research
 - Nursing education

Initiative Funding Summary

Proposition 86 would create a Tobacco Trust Fund within the State Treasury, with Figure 3 providing information on the allocation of revenue. Almost 60 percent of funds would support hospital emergency room and trauma care as well as children’s health coverage, with the remaining amount divided among tobacco control and prevention, disease treatment and prevention programs, community clinic and indigent health care services, health and disease research, and nursing education.

Figure 3. Allocation of Proposition 86 Tax Revenues



Source: California Legislative Analyst's Office, *Proposition 86 Tax on Cigarettes: Initiative Constitutional Amendment and Statute* (July 20, 2006).

An unspecified amount of the revenue would be used to backfill Proposition 10 funds (the 1998 initiative that levied an additional \$0.50 per pack tax on cigarettes). Each year, the backfill amount would be determined by the Board of Equalization. Since cigarette sales are anticipated to decrease should Proposition 86 be enacted, this revenue would be dedicated to make up for the funding shortfall for Proposition 10 programs. After that, the funding would be divided into three accounts:

- Health Treatment and Services
- Health Maintenance and Disease Prevention
- Health and Disease Research⁶

Specific Revenue Allocations

The California Legislative Analyst's Office (LAO) estimates that in the first full year of funding (FY 2007-08), the tax would generate \$2.1 billion. Because of the anticipated negative impact on the prevalence of smoking, the annual revenue from the new tax would be expected to fall slightly in subsequent years. Table 1 provides the specific distribution of funds raised by the tax, which is described in greater detail below.

Table 1. Specific Allocations of Proposition 86 Tax Revenues, FY 2007-08

Purpose	Percent of Total Funding After Backfill	Estimated Revenue (in Millions)
Backfill of Proposition 10 Funds	N/A	\$ 180
Health Treatment and Services Account	52.75%	\$1,015
Hospital ER and trauma care	39.3%	\$ 756
Nursing education	4.8%	\$ 91
Funding to nonprofit community clinics	3.0%	\$ 58
California Healthcare for Indigents Program (ER physicians)	3.0%	\$ 58
Tobacco cessation services	0.9%	\$ 18
Prostate cancer treatment	0.9%	\$ 18
Rural Health Services Program	0.4%	\$ 8
Loan repayment for physicians working in underserved areas	0.4%	\$ 8
Health Maintenance and Disease Prevention Account	42.25%	\$ 810
Children's health coverage	19.2%	\$ 367
Tobacco control and prevention	9.2%	\$ 178
Heart disease and stroke program	3.6%	\$ 69
Breast and cervical cancer program	3.4%	\$ 65
Obesity, diabetes and chronic disease program	3.3%	\$ 63
Asthma program	1.8%	\$ 34
Colorectal cancer program	1.8%	\$ 34
Health and Disease Research Account	5.0%	\$ 95
Tobacco control research	1.7%	\$ 32
Cancer research and registry	1.5%	\$ 28
Breast cancer research	1.3%	\$ 24
Lung cancer research	0.5%	\$ 10
Total	100.0%	\$2,100

Should Proposition 86 pass, California's new per pack tax would stand at \$3.47, making it the highest tobacco tax in the nation.



Note: Totals may not sum due to rounding.

Source: California Legislative Analyst's Office, *Proposition 86 Tax on Cigarettes: Initiative Constitutional Amendment and Statute* (July 20, 2006).



Health Treatment and Services Account — (52.75 Percent)

- **Hospital funding:** Almost three-quarters of the funding in this account would be dedicated for hospitals to offset uncompensated costs for emergency care and to expand services, facilities and equipment. Funding levels for individual hospitals would be based on a formula tied to the amount of emergency care provided at each facility. The formula uses individual hospital factors, including emergency department encounters and the total amount of charity care and bad debt costs, to determine the percentage of overall uncompensated care provided by each hospital. Funding would then be distributed to individual hospitals based on this percentage.⁷ In 2004, L.A. County public and private hospitals incurred over \$1.3 billion in uncompensated care costs.⁸ These high costs stem largely from the fact that an estimated 2.1 million county residents were uninsured as of 2003.⁹ Given the significant amount of uncompensated care provided by L.A. area hospitals, the region would receive approximately \$350 million annually in funding.¹⁰ An estimated \$96 million of this amount would benefit the four L.A. County public hospitals that house emergency departments.¹¹ The funding would offset a portion of the L.A. County Department of Health Services (LACDHS) projected budget shortfall, estimated to be \$1.16 billion by FY 2009-10.¹²
- **Nursing education programs:** Funding would be allocated for the expansion of nursing education programs at the University of California, California State University, community colleges, and private nursing education programs.¹³ Eighty-six percent of expenditures would be used to support the expansion of public school nursing programs approved by the California Board of Registered Nursing (BRN), with the remaining 14 percent going towards private schools. The amount of funding would be determined based on the nursing shortage within an area. In addition, priority will be given to programs that provide nursing degrees that are in the highest demand. The California Healthcare Workforce Policy Commission would oversee the plan for the distribution of funds in the account, recommending to the director of the BRN which nursing education programs should receive support.¹⁴ The commission is supported by the California Office of Statewide Health Planning and Development (OSPHD) and is made up of 15 members appointed by the Governor and State Legislature.¹⁵

The need for additional nurses in L.A. County has been well documented. In L.A. County, the nurse-to-population ratio was just 646 per 100,000 residents in 2004, significantly lower than the national average of 787 per 100,000 residents.¹⁶ Although this figure was slightly higher than California's overall ratio, it demonstrates the critical need for additional nurses in the region. By 2030, L.A., Orange and Ventura Counties are forecasted to have a nursing shortage exceeding 20,000 nurses as aging nurses retire and the demand for health care increases.¹⁷ Given the number of variables that will be considered by the BRN in making its allocation decisions, it is difficult to determine an accurate estimate of potential funding for L.A. County. However, the area's severe nursing shortage coupled with its abundance of nursing programs suggests that the region is well positioned to receive substantial funding.

- **Community clinics:** Funding would be distributed to the more than 700 community-based clinics across California that provide health care to the uninsured and underinsured. The funding would be based on a formula using OSPHD data on the number of uninsured. Every clinic providing at least 1,000 visits to uninsured or indigent individuals will receive at least \$25,000. The majority of health centers will receive over \$100,000.¹⁸ All of the 43 community clinics in L.A. County would be eligible to receive funding, which could total up to \$20 million in FY 2007-08 for the region.¹⁹
- **Emergency room physicians:** Funding would be distributed to emergency room physicians to offset the treatment costs of uninsured patients.²⁰ The funding would be distributed through the State's EMS Maddy funds.²¹ Revenue from penalties for certain criminal offenses and motor vehicle violations are directed to the funds to reimburse physicians for the cost of uncompensated care.²² Should Proposition 86 pass, physicians in L.A. County could potentially receive up to \$18 million if the Board of Supervisors increases the fines and forfeitures to the maximum allowable.²³
- **Other programs:** The remaining funding would be allocated to loan repayment for physicians who work in underserved areas, smoking cessation programs and prostate cancer treatment.²⁴

Health Maintenance and Disease Prevention Account — (42.25%)

- **Children's health coverage:** The initiative would provide funding to expand the Healthy Families program, ensuring that all children under age 19 have access to health care as well as streamlining the application and renewal process for children's health insurance programs. Specifically, Healthy Families would be expanded to insure all children who are not eligible for either full-scope Medi-Cal or the existing Healthy Families program and live in households with income up to 300 percent of the federal poverty level (FPL),²⁵ about \$49,800 per year for a family of three.²⁶ Proposition 86 would also require the State to develop pilot projects for uninsured children in families above 300 percent of FPL, most likely allowing families to buy into the program on a sliding scale basis.²⁷ In L.A. County, an estimated 235,000 children ages 18 and younger do not have health insurance.²⁸

As of September 2006, 40,683 children between ages 0-18 were enrolled the Healthy Kids program under the Children's Health Initiative (CHI) of Greater Los Angeles.²⁹ Should Proposition 86 pass, it is forecasted that 51,000 children will qualify for the expanded Healthy Families program and 31,000 children will become eligible for the new pilot projects in L.A. County (Figure 4).³⁰ In addition, every child enrolled in Healthy Kids would be eligible for admission, bringing the total children provided coverage through Proposition 86 in the county to nearly 123,000.

L.A. County's severe nursing shortage coupled with its abundance of nursing programs suggests that the region is well positioned to receive substantial funding.

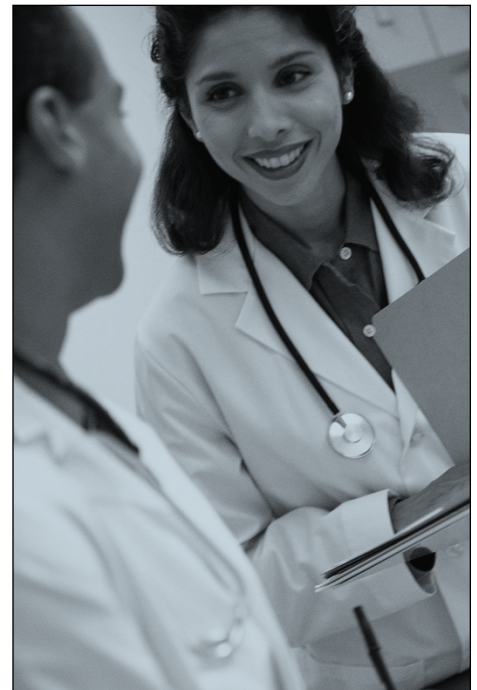
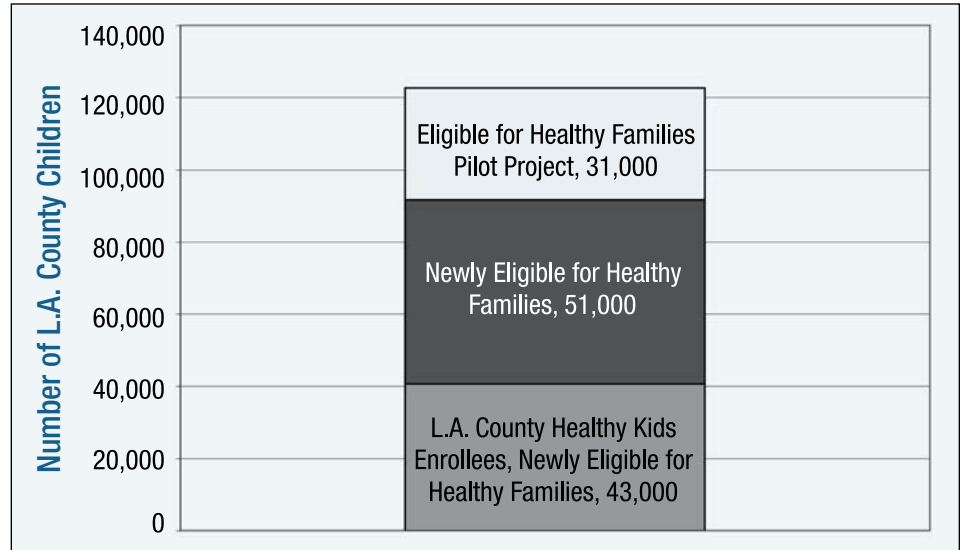




Figure 4. Impact of Proposition 86 on Eligibility for Public Programs among L.A. County Children Ages 0-18



Sources: 2005 California Health Interview Survey data and L.A. Care Membership (September 1, 2006).

- **Tobacco-related programs:** Funding would be allocated to programs aimed at reducing smoking through media campaigns, grants to local health departments and school-based education programs. The L.A. County Department of Public Health (LACDPH) is expected to receive approximately \$10 million for the county's Tobacco Control and Prevention Program.³¹
- **Health and education programs:** Funding would be allocated for the early detection and prevention of diseases including heart disease, stroke, obesity, asthma and colorectal cancer.³²

Health and Disease Research Account — (5%)

- **Medical Research:** Funding would be allocated for disease study, including specific allocations for cancer and other tobacco-related diseases as well as support of a statewide cancer registry. In addition, funding would support research on the effectiveness of tobacco-control efforts.³³ The funding for tobacco control, breast cancer and lung cancer will be continually appropriated to the University of California. The University of California Office of Research will oversee the distribution of grants through existing programs to research institutes throughout the state.³⁴ Since funding decisions will depend on the quality of individual grant applications, it is impossible to determine estimates of funding that may be directed to institutions in L.A. County. However, based on grant levels received in the past, researchers at UCLA and USC in particular could benefit. For example, under the existing Tobacco-Related Disease Research Program (which is set to receive 34 percent of the Account's total allocation), USC has received the third highest amount of grant support, while UCLA has received the sixth highest out of the 69 total institutes receiving funding.³⁵

Oversight

Proposition 86 would require the California Department of Health Services (CDHS) to prepare an annual report describing what programs received the tax revenue and how it was spent. This information would be made public and displayed on its web site. All programs receiving funding would also be subject to audit. Further, since the funds generated from Proposition 86 would not be appropriated through the State budget; they would not be subject to change by the Governor or the State Legislature.³⁶

Impact on Smoking in Los Angeles County

Analysis by the CDHS found that passage of Proposition 86 would have an impact on smoking rates in the state. In fact, a CDHS study in May 2006 found that the \$2.60 increase in the tobacco excise tax would reduce the amount of cigarettes consumed in California by 26.3 percent. Half of this reduction would come from the decrease in the number of overall smokers, while the other half would come from reduced consumption by remaining smokers.³⁷

In L.A. County, the rate of smoking is expected to fall from 14.6 percent to 12.7 percent, resulting in 140,000 fewer adult smokers if the tax increase is enacted. In addition, the tax would prevent an estimated 172,000 L.A. County children under age 17 from becoming smokers in adulthood, resulting in 37,000 fewer smoking-related deaths. Approximately 29,000 more deaths due to smoking would be prevented among the county's adult smokers who quit. In total, the L.A. County Department of Public Health (LACDPH) estimates that the county could save approximately \$4.0 billion in health care costs with the passage of Proposition 86.³⁸

Conclusion

This policy brief provides a description of the identified new funds and services that Proposition 86 could bring to L.A. County. Whether Proposition 86 passes or not, L.A. County must engage in a stronger long-range public and private planning effort to develop overall regional health care delivery system priorities. These health care priorities could address broad areas, including primary care, specialty care and emergency services, workforce shortages, governance, administration and operation. In this way, the County could ensure that any new funds and services — whether raised through Proposition 86 or otherwise — would be coordinated to support these regional health care priorities.³⁹

Whether Proposition 86 passes or not, L.A. County must engage in a stronger long-range public and private planning effort to develop overall regional health care delivery system priorities.





Resources on Proposition 86

For additional information on Proposition 86, please consult the following web sites:

California Budget Project

www.cbp.org

California HealthCare Foundation and Center for Governmental Studies

www.healthvote.org

California Legislative Analyst's Office

www.lao.ca.gov

California Secretary of State

www.ss.ca.gov

No on 86 Campaign

www.noprop86.org

Yes on 86 Campaign

www.yesonprop86.org

Proposition 86 is aimed at decreasing the number of California smokers and investing new tobacco taxes into a series of health-related areas.

Notes

- ¹ California Legislative Analyst's Office, *Proposition 86 Tax on Cigarettes: Initiative Constitutional Amendment and Statute* (July 20, 2006).
- ² Ibid.
- ³ Campaign for Tobacco-Free Kids, *State Cigarette Excise Tax Rates & Rankings* (July 2006). Accessed at www.tobaccofreekids.org/research/factsheets/pdf/0097.pdf.
- ⁴ Ibid.
- ⁵ California Department of Health Services, *Economic and Health Effects of a State Cigarette Excise Tax Increase in California* (May 26, 2006).
- ⁶ California Legislative Analyst's Office, *Proposition 86 Tax on Cigarettes: Initiative Constitutional Amendment and Statute* (July 20, 2006).
- ⁷ The Tobacco Tax Act of 2006, Chapter 4.5 Hospital Emergency Services.
- ⁸ California Office of Statewide Health Planning and Development, Hospital Annual Financial Data (2004), September 2005 data extract. Accessed at www.oshpd.ca.gov/hqad/Hospital/financial/hospAF.htm.
- ⁹ Brown ER, *The State of Health Insurance in Los Angeles*, UCLA Center for Health Policy Research, Presentation to the LA Health Collaborative (April 18, 2005).
- ¹⁰ Bayer J, Hospital Association of Southern California, Personal Communication (July 2006).
- ¹¹ Chernof B, LACDHS Director, *DHS Fiscal Outlook Update and Deficit* (April 5, 2006).
- ¹² Chernof B, LACDHS, Memorandum to the Board of Supervisors, *Department of Health Services Update — Re: Fiscal Outlook and Deficit Management Actions* (September 20, 2006).
- ¹³ California Legislative Analyst's Office, *Proposition 86 Tax on Cigarettes: Initiative Constitutional Amendment and Statute* (July 20, 2006).
- ¹⁴ The Tobacco Tax Act of 2006, Section 8, Subsection 128224.5(a) (p.21).
- ¹⁵ California Office of Statewide Health Planning and Development, California Healthcare Workforce Policy Commission. Accessed at www.oshpd.ca.gov/HWCDD/manpower/policy.htm. The commission is made up of representatives from the University of California, the state's private medical schools, California Office of Statewide Health Planning and Development, practicing family physicians, practicing physician assistants, family practice residents, practicing nurse practitioners, osteopathic family physicians, two consumer representatives and five practicing Registered Nurses.
- ¹⁶ California Institute for Nursing and Health Care, *California Registered Nurse Regional Workforce Report Card* (May 2006).
- ¹⁷ Spetz J, *Regional Forecasts of the Registered Nurse Workforce in California*, UCSF Center for California Health Workforce Studies (August 2006).
- ¹⁸ California Primary Care Association, *Tobacco Tax Initiative Overview* (June 2006). Accessed at www.cPCA.org/govaffairs/caissues/TTI.cfm#Overview.
- ¹⁹ Brownlow P, Community Clinic Association of Los Angeles, Personal Communication (September 2006).
- ²⁰ California Legislative Analyst's Office, *Proposition 86 Tax on Cigarettes: Initiative Constitutional Amendment and Statute* (July 20, 2006).
- ²¹ Bayer J, Hospital Association of Southern California, Personal Communication (September 2006).
- ²² California State Auditor Report, *County Emergency Medical Services*, Number 2003-101, March 2004.
- ²³ Meyer C, LACDHS Emergency Services Medical Services Agency Director, Personal Communication (September 2006).
- ²⁴ Ibid.
- ²⁵ Lavarreda SA et al., *More than Half of California's Uninsured Children Eligible for Public Programs But Not Enrolled*, UCLA Center for Health Policy Research (October 2006).
- ²⁶ U.S. Department of Health and Human Services, 2006 HHS Federal Poverty Guidelines, January 2006. Accessed at www.aspe.hhs.gov/poverty/06poverty.shtml.
- ²⁷ Lavarreda SA et al., *More than Half of California's Uninsured Children Eligible for Public Programs But Not Enrolled*, UCLA Center for Health Policy Research (October 2006).
- ²⁸ Children's Health Initiative of Greater Los Angeles, *Fact Sheet* (May 2005).
- ²⁹ L.A. Care Membership (September 1, 2006). Accessed at www.lacare.org/opencms/opencms/en/about/membership.html.
- ³⁰ Lavarreda SA and Brown ER, 2005 California Health Interview Survey data (October 11, 2006).
- ³¹ Aragon L, LACDPH, Personal Communication (August 2006).
- ³² California Legislative Analyst's Office, *Proposition 86 Tax on Cigarettes: Initiative Constitutional Amendment and Statute* (July 20, 2006).
- ³³ Ibid.
- ³⁴ Ibid.
- ³⁵ Tobacco-Related Disease Research Program, List of Funded Research by Institute. Accessed at www.trdrp.org/research/Institution_List.asp.
- ³⁶ California Legislative Analyst's Office, *Proposition 86 Tax on Cigarettes: Initiative Constitutional Amendment and Statute* (July 20, 2006).
- ³⁷ California Department of Health Services, *Economic and Health Effects of a State Cigarette Excise Tax Increase in California* (May 26, 2006).
- ³⁸ Fielding J, LACDPH, Memorandum to the Board of Supervisors, *Proposition 86: Health Impacts in Los Angeles County* (September 26, 2006).
- ³⁹ AB2470 (Ridley-Thomas) Authorizes the L.A. County Board of Supervisors to develop a master plan for the provision of health care services in the County and to assemble a task force to address specific issues and to report back to the Board



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About LA Health Action

LA Health Action's overarching goal is to expand access to health coverage and care to all L.A. County residents through policy and advocacy, coalition building, linking existing resources and making grants to local community-based organizations. A program office of The California Endowment, LA Health Action works through three primary focus areas: expanding health coverage for children, breaking down barriers to coverage and creating partnerships for change. LA Health Action was initiated through Community Partners, a nonprofit organization that provides program management, coordination and technical assistance to local and statewide initiatives.

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