DAVID Y. IGE
GOVERNOR OF HAWAII

VIRGINIAPRESSLER, M.D.
DIRECTOR OF HEALTH

DEPT. COMM. NO. 257

STATE OF HAWAII
DEPARTMENT OF HEALTH
P. O. BOX 3378
HONOLULU, HI 96801-3378

In reply, please refer to:

January 13, 2017

The Honorable Ronald D. Kouchi,
President and Members of the Senate
Twenty-Ninth State Legislature
State Capitol, Room 409
Honolulu, Hawaii 96813

The Honorable Joseph Souki, Speaker
and Members of the House of
Representatives
Twenty-Ninth State Legislature
State Capitol, Room 431
Honolulu, Hawaii 96813

Dear President Kouchi, Speaker Souki, and Members of the Legislature:

For your information and consideration, I am transmitting a copy of the

Report on Cigarette Tax Revenue as required by HB2466, Act 086 Session Laws Hawaii 2016. In accordance with Section 93-16, Hawaii Revised Statutes, I am also informing you that the report may be viewed electronically at **http://health.hawaii.gov/opppd/department-of-health-reports-to-2017-legislature/**.

Sincerely,

Virginia Pressler

VIRGINIA PRESSLER

Director of Health

Enc.

c: Legislative Reference Bureau

REPORT TO THE TWENTY-NINTH HAWAII STATE LEGISLATURE

2017 SESSION

IN ACCORDANCE WITH THE PROVISIONS OF ACT 086, SESSION LAWS OF HAWAII 2016, RELATING TO NON-GENERAL FUNDS

DEPARTMENT OF HEALTH

December 2016

Executive Summary

NOTE: Report recommendations were finalized prior to the January 2017 Council on Revenue's General Fund Forecast and may not reflect current budget priorities.

Cigarette smoking is the leading preventable cause of death in the United States, contributing to nearly one in five deaths. Smokers are more likely than nonsmokers to develop heart disease, stroke, cancer, and other diseases.

Patients with these lifelong conditions access healthcare at community health centers, emergency departments, and trauma centers, whose effectiveness is enhanced by scientific and medical research from academic centers. State support for these resources is a critical policy choice and life-and-death matter for Hawaii's residents. As a result, the Hawaii Department of Budget and Finance and the Hawaii Department of Health, pursuant to Act 086, Session Laws of Hawaii 2016, recommends the following.

The intent of these recommendations is to maintain the continuity and level of funding for each program, regardless of the means of finance.

- Continue the cigarette tax revenue distribution to the Hawaii Cancer Research Special Fund administered by the University of Hawaii without modification;
- As of July 1, 2018, abolish the Trauma System Special Fund, redistribute all of the cigarette tax revenues to the general fund, and add to the base budget of the Department of Health the amount of $7,270,271 in general funds;
- As of July 1, 2018, abolish the Community Health Centers Special Fund, redistribute all of the cigarette tax revenues to the general fund, and add to the base budget of the Department of Health the amount of $8,800,000 in general funds; and
- As of July 1, 2017, abolish the Emergency Medical Services Special Fund, redistribute all of the cigarette tax revenues to the general fund, and add to the base budget of the Department of Health the amount of $14,796,503 in general funds.

The purpose of Act 086, Session Laws of Hawaii (SLH) 2016 is to require the Department of Health and Department of Budget and Finance to jointly conduct a study of the distribution of the cigarette tax revenues. The study shall include the following:

1. Estimated total revenues derived from the cigarette tax through fiscal year 2024-2025;
2. Estimated distribution of cigarette tax revenues among the non-general funds specified in section 245-15(6), Hawaii Revised Statutes, through fiscal year 2024-2025;
3. Estimated budgetary needs of the agencies and programs supported by the non-general funds listed in section 245-15(6), Hawaii Revised Statutes, through fiscal year 2024-2025;
4. Differences between the estimated budgetary needs of the agencies and programs under paragraph (3) and their estimated their estimated cigarette tax revenue distribution; and
5. A recommendation on whether to:
    a. Continue the cigarette tax revenue distribution to the non-general funds, with or without modification; or
    b. Redistribute all or most of the cigarette tax revenues to the general fund and change the means of financing of affected agencies and programs to general funds.

Introduction

Tobacco use is the leading cause of preventable death and disease in the United States. In Hawaii, it claims 1,200 lives each year and creates $336 million in annual healthcare costs directly attributed to smoking. Taxes on the sales of cigarettes, enacted prior to statehood, are part of effective tobacco control policy by inducing cessation and delaying or preventing initiation of tobacco use.

Research from the World Health Organization describes that, on average, a 10% price increase on a pack of cigarettes would be expected to reduce demand for cigarettes by about 4% in high-income countries and by about 5% in low- and middle-income countries, where lower incomes tend to make people more sensitive to price changes. Children and adolescents are also more sensitive to price increases than adults, allowing price interventions to have a significant impact on this age group.

Hawaii ranks 5th in the nation with a cigarette tax of $3.20 per pack, or 16 cents per cigarette in a pack of 20 cigarettes. As of July 1, 2016,

- 2.0 cents per cigarette shall be deposited to the credit of the Hawaii cancer research special fund (UHCC), established pursuant to section 304A-2168, for research and operating expenses and for capital expenditures;
- 1.125 cents per cigarette, but not more than $7,400,000 in a fiscal year, shall be deposited to the credit of the trauma system special fund (DOH Trauma) established pursuant to section 321-22.5;
- 1.25 cents per cigarette, but not more than $8,800,000 in a fiscal year, shall be deposited to the credit of the community health centers special fund (DOH CHC) established pursuant to section 321-1.65; and
- 1.25 cents per cigarette, but not more than $8,800,000 in a fiscal year, shall be deposited to the credit of the emergency medical services special fund (DOH EMS) established pursuant to section 321-234.

Activities financed by each special fund will be described later in this document.

Estimated Total Revenues Derived from Cigarette Tax Revenues Through Fiscal Year 2024-2025

Cigarette Tax Collections and Projections (thousands)	
Fiscal Year	**Amount**
2017-2018	$112,891
2018-2019	$109,505
2019-2020	$106,220
2020-2021	$103,033
2021-2022	$99,942
2022-2023	$96,944
2023-2024	$94,035
2024-2025	$91,215

*Actual collection amount

Estimated Distribution of Cigarette Tax Revenues Among the Non-General Funds Specified in Section 245-15(6), Hawaii Revised Statutes, Through Fiscal Year 2024-2025

Fiscal Year	UHCC[1]	DOH Trauma[2]	DOH CHC[3]	DOH EMS[4]
2017-2018	$13,960,000	$7,400,000	$8,800,000	$8,800,000
2018-2019	$13,820,000	$7,178,000	$8,536,000	$8,536,000
2019-2020	$13,680,000	$6,962,660	$8,279,920	$8,279,920
2020-2021	$13,540,000	$6,753,780	$8,031,522	$8,031,522
2021-2022	$13,400,000	$6,551,167	$7,790,577	$7,790,577
2022-2023	$13,260,000	$6,354,632	$7,556,859	$7,556,859
2023-2024	$13,120,000	$6,163,993	$7,330,154	$7,330,154
2024-2025	$12,980,000	$5,979,073	$7,110,249	$7,110,249

[1] 2.0 cents per cigarette shall be deposited to the credit of the Hawaii cancer research special fund, established pursuant to section 304A-2168, for research and operating expenses and for capital expenditures

[2] 1.125 cents per cigarette, but not more than $7,400,000 in a fiscal year, shall be deposited to the credit of the trauma system special fund established pursuant to section 321-22.5

[3] 1.25 cents per cigarette, but not more than $8,800,000 in a fiscal year, shall be deposited to the credit of the community health centers special fund established pursuant to section 321-1.65

[4] 1.25 cents per cigarette, but not more than $8,800,000 in a fiscal year, shall be deposited to the credit of the emergency medical services special fund established pursuant to section 321-234

Estimated Budgetary Needs of the Agencies and Programs Supported by the Non-General Funds Listed in Section 245-15(6), Hawaii Revised Statutes, Through Fiscal Year 2024-2025

Fiscal Year	UHCC	DOH Trauma	DOH CHC	DOH EMS
2017-2018	$19,874,523	$7,400,000	$8,800,000	$8,800,000
2018-2019	$19,161,013	$7,400,000	$8,800,000	$8,800,000
2019-2020	$18,876,323	$7,400,000	$8,800,000	$8,800,000
2020-2021	$18,705,273	$7,400,000	$8,800,000	$8,800,000
2021-2022	$18,700,000	$7,400,000	$8,800,000	$8,800,000
2022-2023	$18,700,000	$7,400,000	$8,800,000	$8,800,000
2023-2024	$18,700,000	$7,400,000	$8,800,000	$8,800,000
2024-2025	$18,700,000	$7,400,000	$8,800,000	$8,800,000

Differences Between the Estimated Budgetary Needs of the Agencies and Programs Under Paragraph (3) And Their Estimated Share of Fee Revenues

Fiscal Year	UHCC	DOH Trauma	DOH CHC	DOH EMS
2017-2018	($5,914,523)	($7,178,000)	($8,536,000)	($8,536,000)
2018-2019	($5,341,013)	($6,962,660)	($8,279,920)	($8,279,920)
2019-2020	($5,196,323)	($6,753,780)	($8,031,522)	($8,031,522)
2020-2021	($5,165,273	($6,551,167)	($7,790,577)	($7,790,577)
2021-2022	($5,300,000)	($6,354,632)	($7,556,859)	($7,556,859)
2022-2023	($5,440,000)	($6,163,993)	($7,330,154)	($7,330,154)
2023-2024	($5,580,000)	($5,979,073)	($7,110,249)	($7,110,249)
2024-2025	($5,720,000)	($5,799,701)	($6,896,942)	($6,896,942)

Discussion

The **Hawaii cancer research special fund** is administered by the University of Hawaii for the Cancer Center of Hawaii's research and operating expenses and capital expenditures. In addition to cigarette tax revenue, deposits are from other fees, charges, and other moneys received in conjunction with programs of the cancer center of Hawaii; transfers from other accounts or funds; and interest earned or accrued on moneys in the special fund.

For Fiscal Year 2015-16, the University of Hawaii Cancer Center used moneys from the Hawaii cancer research special fund for:

- Debt service for the new Cancer Center Building ($7,876,293);
- Personnel ($9,285,645);
- Capital reserves for upcoming repair and maintenance expenses ($3,092,347);
- Materials, Supplies, and Equipment ($917,414);
- Service Fees and Rentals ($922,187);
- Repairs and Maintenance ($454,064);
- Travel and Relocations ($157,166); and
- Other Costs ($264,159)

Reports can be found here:

http://hawaii.edu/offices/eaur/govrel/reports/2016/hrs304a-2168_2016_cancer-research_semi-annual-report_july-dec-2015.pdf

http://hawaii.edu/offices/eaur/govrel/reports/2016/hrs304a-2168_2016_cancer-research_semi-annual-report_jan-june-2016.pdf

It is important to note that contained within the documents relating to the revenue bonds issued for the financing of the construction and maintenance of the Cancer Center is specific language noting the additional securitization of the bonds by the Hawaiʻi Cancer Research Special Fund. Additionally, specific reference to Section 245-3, Hawaiʻi Revised Statutes, is made, denoting the 2.0 cents per cigarette that is deposited to the credit of the fund. Because of these statements related to the debt issued by the State, it is important that a steady source of funding be available to the Cancer Research Special Fund.

The **trauma system special fund**, administered by the Department of Health and established in section 321-22.5, Hawaii Revised Statutes (HRS), was created by Act 305, SLH 2006, to provide funds to support the continuing development and operation of a comprehensive state trauma system to ensure the availability of care for trauma patients in the state. Section 321-22.5(b), HRS, was amended by Act 276, SLH 2012, to include costs to staff and operate the State's injury prevention program. In addition to cigarette tax revenue, deposits are from surcharges for a variety of traffic violations; other federal and state funds; and interest earned from an investment pool account. The State contracts for trauma system development services on the islands of Oahu, Hawaii, Kauai, Maui, Molokai, and Lanai.

In Fiscal Year 2015-2016, the Department of Health, Emergency Medical Services and Injury Prevention System Branch used moneys from the trauma system special fund for:

- Personal Services Expenses ($594,712.17);
- Other Current Operating Expenses, including remaining encumbrances ($8,268,049.93)

The Department of Health acknowledges the merits of non-special fund financing but requires at least one year to prepare for the comprehensive administrative and statutory restructuring necessary to assure program continuity.

Specifically, the Department of Health must competitively procure and contract with eligible trauma centers currently exempt from chapters 103D and 103F pursuant to section 321-22.5(a)(6), HRS.

The **community health center special fund**, administered by the Department of Health and established in section 321-1.65, HRS, was created by Act 316, SLH 2006 to discourage smoking by increasing the tax on cigarettes and to allocate the resulting funds to effective sources in the prevention and treatment of disease and injury related to cigarette smoking. The Department of Health contracts with thirteen community health centers to provide comprehensive primary/behavioral health services to uninsured/underinsured individuals across the state. In addition, the Department of Health contracts with two community health centers to provide 24/7 emergency and urgent care services to their respective communities.

In the time since the fund's inception, the role of community health centers – both in the fight to stop tobacco use in Hawaii, and as a vital member of the overall health system – has grown exponentially.

To the first point, in 2015 alone, Hawaii's health centers provided tobacco use screenings (including cessation intervention for those identified as a tobacco user) for more than 80% of their adult patients.

To the second, despite the fact that the Community Health Center Special Fund serves as the sole form of financing received from the State, Hawaii's health centers provided comprehensive primary/behavioral/oral health care to over 150,000 underserved patients in 2015. Of the 150,000 patients served, more than half were enrolled in Medicaid, 89% reside below 200% of the Federal Poverty Level, and 9,300 were homeless.

As for the uninsured population in Hawaii, the recent closure of the Hawaii Health Connector and challenges with healthcare.gov has prohibited the Affordable Care Act from achieving its goal of eradicating those without health coverage. As a result, Hawaii's health centers continue to provide comprehensive primary/behavioral/oral health care to a high number of patients lacking health insurance (21,000 individuals in 2015), with a particular health center seeing more than 6,000 such patients, at a significant cost.

Compounding the uninsured issue are the impending changes and reversion of the health care system back to pre-Affordable Care Act (ACA) levels as a result of the transition to a new federal administration. The potential repeal/replacement of the ACA with an open and competitive insurance marketplace will likely result in a spike in the uninsured – as those that just recently obtained health insurance through the ACA are rolled off. Making this potentiality even more concerning are populations such as the COFA citizens and other Legally Present Residents, which cumulatively represent 8,500 people, the majority of which obtain their care at Hawaii's health centers. These individuals will continue to be ineligible for Medicaid and will not be able to afford private health insurance premiums if the ACA is abolished.

The Department of Health acknowledges the merits of non-special fund financing but requires at least one year to prepare for the administrative restructuring necessary to assure program continuity.

Specifically, the Department of Health must competitively procure and contract with eligible community health centers currently exempt from chapters 103D and 103F pursuant to section 321-1.65(b), HRS, by virtue of their designation as a federally qualified health center from the US Centers for Medicare and Medicaid Services.

The **emergency medical services special fund**, administered by the Department of Health and established in section 321-234, Hawaii Revised Statutes (HRS) was created by Act 158, SLH 2004, to provide funds for operation of an enhanced and expanded state comprehensive emergency medical services system. In addition to cigarette tax revenue, deposits are from motor vehicle registration fees; other federal and state funds; and interest earned from an investment pool account. The State contracts for emergency ambulance services and training on the islands of Oahu, Hawaii, Kauai, Maui, Molokai, and Lanai.

In fiscal year 2015-2016, the Department of Health, Emergency Medical Services and Injury Prevention System Branch used moneys from the emergency medical services special fund for:

- Other Current Operating Expenses, including remaining encumbrances ($23,644,186.27).
- See attachment for most recent report to the Legislature.

<u>Recommendations</u>

NOTE: Report recommendations were finalized prior to the January 2017 Council on Revenue's General Fund Forecast and may not reflect current budget priorities.

These recommendations are intended to preserve the continuity and level of funding for each program, regardless of means of financing.

For the Hawaii Cancer Research Special Fund, administered by the University of Hawaii, continue the distribution of fee revenues to the non-general funds without modification for the life of the debt service bonds financed by the special fund.

For the Trauma System Special Fund, administered by the Department of Health, continue the distribution of fee revenues to the non-general fund without modification from July 1, 2017 for the

Fiscal Biennium 2017-19; but from July 1, 2018 and dependent upon amendments to relevant portions of statute:

- Redistribute all of the cigarette tax revenue to the general fund;
- Redistribute all of the surcharge revenue pursuant to sections 291-15, 291C-2, and 291E-7 to the general fund;
- Redistribute all of the interest on and other income from the fund to the general fund; and
- Add to the base budget of the Department of Health a general fund appropriation of $7,270,271.

At least one year is required to resolve procurement, contracting, and employment issues related to the trauma fund statute, 321-22.5, HRS.

For the Emergency Medical System Special Fund, administered by the Department of Health, **from July 1, 2017 for fiscal year 2018-2019** and in conjunction with amendments to relevant portions of statute, change the means of financing to general funds, and add to the base budget of the Department of Health the amount of $14,796,503 from general funds.

- Redistribute all of the cigarette tax revenue to the general fund;
- Redistribute all of the fees revenue pursuant to sections 249-31 to the general fund;
- Redistribute all of the interest on and other income from the fund to the general fund; and
- Add to the base budget of the Department of Health a general fund appropriation of $14,796,503.

For the Community Health Center Special Fund, administered by the Department of Health, **from July 1, 2018 for fiscal year 2018-2019** and in conjunction with amendments to relevant portions of statute, change the means of financing to general funds, and add to the base budget of the Department of Health the amount of $8,800,000 from general funds. At least one year is required to resolve procurement and contracting issues.

NOTE: Report recommendations were finalized prior to the January 2017 Council on Revenue's General Fund Forecast and may not reflect current budget priorities.