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ROLL NUMBER

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10/15/03
Date

2003 SENATE FINANCE AND TAXATION

SB 2076

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2003 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB2076

Senate Finance and Taxation Committee

Conference Committee

Hearing Date February 5, 2003

Tape Number	Side A	Side B	Meter #
1		X	1,657-5096

Committee Clerk Signature *Mary Kay Peterson*

Minutes:

Senator Urlacher opened the hearing on SB2076. All committee members are present. This bill relates to rates of taxation on tobacco products.

Pam Sharp, OMB (mtr #1718) - Introduced SB2076 is the Governor's proposal to increase the tax on cigarette sales. Written testimony is attached.

Senator Wardner (mtr #1989) - What do the neighboring states do with tobacco tax?

Ms. Sharp (mtr #2016) - Minnesota legislature has proposed an increase but not sure where that will go.

Senator Tollefson (mtr #2056) - What happens if surrounding states do not tax as much as we do.

Ms. Sharp (mtr #2088) - Have concerns only with Minnesota, and it depends what they will do with their tax.

Senator Urlacher (mtr #2136) - Has there been a comparison with Canada?

Ms. Sharp (mtr #2158) - Do not have knowledge of that.

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Senate Finance and Taxation Committee

Bill/Resolution Number SB2076

Hearing Date February 5, 2003

Senator Nichols (mtr #2227) - Question about the status of businesses on the reservation.

Ms. Sharp (mtr #2257) - Not sure what the increase would have to be before it would impact.

Senator Tollefson (mtr #2297) - Bootlegging of cigarette sales, could that effect the fiscal note.

Ms. Sharp (mtr #) - A 5% decrease was worked into the fiscal note

Gary Anderson, State Tax Department (mtr #2443) - Clarified sections of the bill. Also clarified the effect on cigarette sales on reservations.

Vicky Wagner - Testified in opposition to SB2076. Feels it would result in black-market sales.

Kathleen Mangskau, Tobacco Prevention and Control Program Administrator for the ND

Department of Health (mtr #2755) - Testified in support of SB2076. Written testimony is attached. Referenced attached fact sheet. Dept of Health requests a favorable response.

Senator Wardner (mtr #3557) - Question on the percentage that comes back and how that is distributed.

Ms. Mangskau (mtr #3581) - Health Department administers those funds.

John F. Job, Division Manager, AMCON Distributing Company (mtr #3651) - Testified in opposition to SB2076. Written testimony is attached.

Patti Lewis, ND Hospitality Assn. (mtr #) - Testified in opposition to SB2076. Would prefer a broader based tax.

Russ Hanson, NDRA/NDPMA (mtr #4145) - Testified in opposition to SB0276.

Senator Tollefson (mtr #4283) - If you buy cigarettes on the Internet, what is the tax amount?

Mr. Hanson (mtr #4307) - In many cases, no tax.

Jack Haulerand (mtr #4412) - Responded to question regarding Internet sales of cigarettes.

Senator Nichols (mtr #4808) - Where do cigarette products come from for Internet sales.

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Senate Finance and Taxation Committee
Bill/Resolution Number SB2076
Hearing Date February 5, 2003

Mr. Haulerand (mtr#4833) - Not from us, a number of different sources.

Senator Wardner (mtr #4954) - Question about the collection of the Jenkins Act report.

Mr. Haulerand (mtr #5001) - Receiving state collects tax from the buyer.

Senator Urlacher closed the hearing on SB2076.

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2003 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB2076

Senate Finance and Taxation Committee

Conference Committee

Hearing Date February 5, 2003

Tape Number	Side A	Side B	Meter #
3	X		1,433

Committee Clerk Signature *Mary Kay Hickey*

Minutes:

Senator Urlacher opened the discussion on SB2076. All committee members are present. This bill relates to rates of taxation on tobacco products.

Senator Wardner (mtr #1482) - Will oppose this bill due to amount of tax.

Senator Nichols (mtr #1540) - Feels there would be a problem with non-indian businesses close to reservations.

Senator Tollefson (mtr #1565) - Many opportunities for black market sales.

Senator Urlacher - We want people to keep buying in the state.

Senator Tollefson moves Do Not Pass. 2nd by Senator Wardner. Roll call vote 6 yea, 0 nay, 0 absent. Carrier Senator Tollefson.

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FISCAL NOTE
 Requested by Legislative Council
 01/03/2003

Bill/Resolution No.: SB 2076

1A. **State fiscal effect:** Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.

	2001-2003 Biennium		2003-2005 Biennium		2005-2007 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			\$29,729,000			
Expenditures						
Appropriations						

1B. **County, city, and school district fiscal effect:** Identify the fiscal effect on the appropriate political subdivision.

2001-2003 Biennium			2003-2005 Biennium			2005-2007 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
				(\$84,000)				

2. **Narrative:** Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.

SB 2076 increases the cigarette tax rate from \$.44 to \$.79 per package of 20 cigarettes. The wholesale tax rates on other tobacco products are increased by a similar percentage. If enacted, SB 2076 is estimated to increase state general fund revenues by \$29,729,000 during the 2003-05 biennium. There is a small corresponding loss to cities due to the estimated drop in cigarette consumption caused by the increase in overall prices. We estimate this drop in city tax revenues at \$84,000 for the 2003-2005 biennium.

NOTE: This fiscal impact is included in the Governor's budget.

3. **State fiscal effect detail:** For information shown under state fiscal effect in 1A, please:

A. **Revenues:** Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.

B. **Expenditures:** Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.

C. **Appropriations:** Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.

Name:	Kathryn L. Strombeck	Agency:	Tax Dept.
Phone Number:	320-3402	Date Prepared:	02/04/2003

K. Costa Rickford 10/15/03
 Operator's Signature Date

REPORT OF STANDING COMMITTEE (410)
February 6, 2003 9:27 a.m.

Module No: SR-23-1807
Carrier: Tollefson
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE
SB 2076: Finance and Taxation Committee (Sen. Urlacher, Chairman) recommends DO NOT PASS (6 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2076 was placed on the Eleventh order on the calendar.

(2) DESK, (3) COMM

Page No. 1

SR-23-1807

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Date

10/15/03

2003 TESTIMONY

SB 2076

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Testimony on SB 2076
Senate Finance and Taxation Committee

Good Morning Chairman Urlacher, and members of the committee. I am Pam Sharp. I am the Interim Director for the Office of Management and Budget.

Senate Bill 2076 is the Governor's proposal to increase cigarette and tobacco taxes. This is the proposal that is included in the Governor's Executive Recommendation.

This bill increases the tax on a pack of cigarettes by 35 cents per pack. Thus, raising the current tax of 44 cents per pack to 79 cents per pack.

In addition to the tax on cigarettes, this bill also increases the tobacco tax rates. Cigar and pipe tobacco taxes are currently taxed at the rate of 28 percent of the wholesale purchase price. This bill increases the tax rate to 50 percent of the wholesale purchase price.

A can or package of snuff is currently taxed at the rate of 60 cents per ounce. This bill increases that tax to \$1.08 per ounce.

Chewing tobacco is currently taxed at the rate of 16 cents per ounce and this bill increases that tax to 29 cents per ounce.

The tax increase on cigarettes alone generates \$26 million and the increase on tobacco products generates \$3.7 million for a total increase to the general fund of \$29.7 million.

Figured into our base forecast for cigarette and tobacco tax collections is a continuing trend for a decrease in consumption of between 3 and 4 percent per year.

We have also included price elasticity into our forecast for the increase in the tax. Price elasticity says that for every one percent increase in the total price of a product, there is some corresponding decrease. We have used .4 of 1 percent for the price elasticity, which is comparable to what other states have used. This price elasticity amounted to about a 5 percent decrease in consumption in addition to the 3 to 4 percent decrease per year already built into the forecast.

The last time the cigarette tax was increased was in 1993 and it increased by 15 cents per pack. That increase did not decrease consumption at all, however, because this increase is larger than that, we felt it appropriate to include a decrease in consumption into the forecast.

We benefit from this bill in two ways. The primary benefit is an increase in general fund tax collections of \$29.7 million. The secondary benefit, but still very important, is that this bill will decrease consumption of cigarette and tobacco products, particularly with our young people.

Individuals from the Tax Department are here to answer any technical questions you may have of the bill.

That concludes my testimony. I would be happy to answer any questions you may have.

Testimony

Senate Bill 2076

Senate Finance and Taxation Committee

February 5, 2003

9:45 a.m.

North Dakota Department of Health

Good morning Chairman Urlacher and members of the Senate Finance and Taxation Committee. My name is Kathleen Mangskau, and I am the Tobacco Prevention and Control Program Administrator for the North Dakota Department of Health. I am here to provide testimony in support of Senate Bill 2076 regarding the rates of taxation on tobacco products.

The 2000 Surgeon General's Report on Reducing Tobacco Use concluded that raising tobacco taxes is one of the most effective tobacco prevention and control techniques. The Centers for Disease Control and Prevention Task Force on Community Preventive Services also strongly recommends increasing the price of tobacco products to reduce the number of adolescents and young adults who use tobacco products and the quantity consumed.

Tobacco use is a significant public health problem in North Dakota. North Dakota's tobacco use prevalence among youth ranks among the highest in the nation. According to the 2001 North Dakota Youth Risk Behavior Survey (YRBS), 35 percent of youth in grades 9 through 12 are current smokers, compared to the national average of 29 percent. In addition, 13 percent of our youth are smokeless tobacco users, compared to the national average of 8 percent. Results from the 2001 Behavioral Risk Factor Survey show that 22 percent of adults are current tobacco users, which is similar to the national average of 23 percent. Among pregnant women in North Dakota, the smoking prevalence is 19 percent, compared to 12 percent nationally.

Each year, tobacco kills more than 440,000 people in the United States. That is more than the total number killed by AIDS, alcohol, motor vehicles, homicide, illegal drugs and suicide combined. In North Dakota, tobacco use is the leading preventable cause of death and disability. Each year, more than 850 North Dakotans die from causes attributed to smoking. Of the 35 percent of youth who are current smokers, 15,600 are projected to die prematurely from causes attributed to smoking.

According to the Surgeon General and the National Institute of Health, smoking causes chronic lung disease; heart disease; stroke; and numerous types of

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Kathleen Mangskau
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cancer, including lung, throat and bladder cancer. Research has found that smoking and exposure to secondhand smoke by pregnant women is a major cause of spontaneous abortions, stillbirths and sudden infant death syndrome (SIDS). In addition, the Surgeon General has determined that the use of smokeless tobacco can lead to oral cancer, gum disease and nicotine addiction, and increases the risk of cardiovascular disease, such as heart attacks.

Secondhand smoke exposure is associated with several different health risks in both children and adults. Children exposed to secondhand smoke are at a higher risk of sudden infant death syndrome (SIDS), respiratory infections, asthma, chronic respiratory symptoms and ear infections. In adults, secondhand smoke exposure increases the risk of lung cancer, sinus cancer and heart disease. The U.S. Environmental Protection Agency (EPA) and the U.S. Department of Health and Human Services National Toxicology Program report that smoke from the burning end of a cigarette contains more than 4,000 chemicals and 42 carcinogens, including formaldehyde, cyanide, arsenic, carbon monoxide, methane and benzene. The EPA has classified secondhand smoke as a "Group A" carcinogen – a substance known to cause cancer in humans.

Tobacco use is costly to North Dakotans, not only in terms of death and disability, but also in economic terms. An attached fact sheet outlines the economic impact of tobacco on North Dakota. Tobacco use costs the state \$351 million annually in medical expenses (\$193 million) and lost productivity (\$158 million). That is \$552 for each man, woman and child in the state. The health costs related to smoking total \$7.82 for each pack sold and taxed in North Dakota. About 11 percent (\$37 million) of all Medicaid expenditures in the state are spent on smoking-related illnesses and diseases each year. Blue Cross Blue Shield of North Dakota reports \$30 million annually in smoking-related health care costs, and the Public Employees Retirement System reports smoking-related medical costs of around \$4.5 million annually. Cigarette tax revenue collected in 2001 totaled only \$19.4 million, compared to the \$193 million in direct health care costs and the \$158 million in lost productivity costs related to smoking.

The effects of a price increase on smoking prevalence constitute both an increase in smoking cessation among smokers and a reduction in smoking initiation among potential young smokers. Youth are significantly more responsive to changes in price than are adults. Studies from the economist Chaloupka and colleagues show that every 10 percent increase in the price of cigarettes will result in a 4 percent reduction in overall cigarette consumption – a 2 percent decline in the number of adults smoking and a 7 percent reduction in the number of teens smoking. In addition, a 10 percent increase in the price of cigarettes will reduce smoking among pregnant women by 7 percent. These studies also show that similar decreases can be expected in the use of other tobacco products, as well.

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In 2002, 21 states and Puerto Rico raised their tobacco excise taxes. An additional 20 states are reported to be considering tax increases. South Dakota, Montana and Minnesota legislatures also have tobacco excise tax proposals on the table.

Higher tobacco taxes reduce smoking rates and smoking-related health care costs. An attached fact sheet shows the projected benefits from a 35 cent increase in the excise tax on cigarettes, including:

- 6.5 percent decrease in youth smoking
- 3,100 youth would not become smokers
- 900 children saved from premature smoking-caused deaths
- 2,100 adults would quit smoking
- 400 adults saved from smoking-caused deaths
- 500 fewer smoking-affected births
- Long-term healthcare savings of \$54.5 million

The Department of Health respectfully requests your favorable response to Senate Bill 2076. I am pleased to answer any questions you or other members of the committee may have regarding tobacco prevention and control issues. Thank you.

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North Dakota Department of Health

FACT SHEET

Tobacco's Toll on North Dakota

Tobacco use is the leading preventable cause of death and disability in North Dakota.

Health Impacts¹

- Each year 855 North Dakotans die prematurely due to smoking. (1999)
- More than 15,600 youth are projected to die prematurely due to smoking. (1999-2000)
- Disease-specific, smoking-attributable death rates (1999)

Lung cancer	64.1/100,000
Coronary heart disease	53.1/100,000
Chronic obstructive pulmonary disease	50.9/100,000

Economic Impacts²

- **Smoking-attributable direct medical expenditures (1998)**

Ambulatory	\$54,000,000
Hospital	\$56,000,000
Nursing Home	\$61,000,000
Prescription Drugs	\$13,000,000
Other	\$9,000,000
Total	\$193,000,000
Annual cost per capita	\$303
- **Smoking-attributable productivity costs (1999)³**

Total	\$158,000,000
Annual per capita cost	\$249
- **Medicaid Expenditures on smoking-related illnesses and diseases (1998)⁴**
\$37,000,000 annually (11% of all Medicaid expenditures)

State Revenue from Cigarette Excise Taxes Collected⁵

2000	\$20,054,019
2001	\$19,426,875

¹ Centers for Disease Control and Prevention. Smoking-Attributable Mortality, and Economic Costs (SAMMEC): Adult SAMMEC Software.

² Ibid.

³ Ibid.

⁴ Miller L, Zhang X, Novotny T, Rice D, Max W. State estimates of Medicaid expenditures attributable to cigarette smoking, fiscal year 1993. Public Health Reports 1998; 113:140-51; and Centers for Medicare and Medicaid Services, Personal health care expenditures paid by Medicaid in fiscal year 1998.

⁵ North Dakota Tax Department. Office of the State Tax Commissioner, Statement of Collections, 2000 & 2001.

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Visit the health department home page at www.health.state.nd.us

CAMPAIGN For TOBACCO-FREE Kids[®]

BENEFITS FROM A CIGARETTE TAX INCREASE IN NORTH DAKOTA

Current State Cigarette Tax: 44 Cents Per Pack (27th among all states)

Average retail price per pack: \$3.68 (including state cigarette and sales taxes totaling 62 cents).

Smoking-caused costs in state per taxed pack sold in state: \$7.82

Cigarette tax revenue (2001): \$19.8 million. Medicaid Program smoking costs: \$37 million/year.

Last North Dakota Cigarette Tax Increase: 7/1/93

- Inflation since then: +24.6% Cigarette price increases since then: +94.5%
- Today's inflation-adjusted tax rate would be: 55 cents per pack

Projected Benefits From Increasing State Cigarette Taxes By 35 Cents Per Pack

- New state cigarette tax revenues each year: \$14.3 million
- New state sales tax revenues: \$0.4 million
- Fewer packs of cigarettes smoked each year: 1.8 million
- Percent decrease in youth smoking: 6.5%
- Increase in total number of kids alive today who will not become smokers: 3,100
- Number of current adult smokers in the state who would quit: 2,100
- Number of smoking-affected births avoided over next five years: 500
- Number of current adult smokers saved from smoking-caused death: 400
- Number of kids alive today saved from premature smoking-caused death: 900
- 5-Year healthcare savings from fewer smoking-affected pregnancies & births: \$0.6 million
- 5-year healthcare savings from fewer smoking-caused heart attacks & strokes: \$0.7 million
- Long-term healthcare savings in state from adult & youth smoking declines: \$54.5 million

Cigarette tax increases both reduce smoking levels and increase state revenues because the increased tax per pack brings in more new revenue than is lost from the decrease in the number of packs sold. Sales tax revenues from cigarette sales similarly increase, despite fewer pack sales, because the state sales tax percentage applies to the total retail price of a cigarette pack, including the increased state cigarette tax amount.

Sources

Orzechowski & Walker, *Tax Burden on Tobacco*, 2002. Economic Research Service, USDA, Tobacco Briefing Room, www.ers.usda.gov/Briefing/tobacco. U.S. Centers for Disease Control & Prevention (CDC), *State Highlights 2002: Impact and Opportunity, April 2002*, www.cdc.gov/tobacco/StateHighlights.htm; CDC, "Projected Smoking-Related Deaths Among Youth -- United States," *MMWR* 45(44): 971-974, November 8, 1996. Projections reflect estimate that a 10% cigarette price increase reduces youth smoking rates by 6.5%, adult rates by 2%, and total consumption by 4%, and assume that tax will be adjusted for inflation. Chaloupka, F., "Macro-Social Influences: Effects of Prices and Tobacco Control Policies on the Demand for Tobacco Products," *Nicotine & Tobacco Research*, 1999, and other price studies at <http://tigger.unc.edu/~fjc> and www.unc.edu/orgs/impacteen. Revenue projections are conservative, but do not account for possible changes in smuggling or cross-border sales. Kids stopped from smoking and dying = from all kids alive today.

Lightwood, J. & S. Glantz, "Short-Term Economic and Health Benefits of Smoking Cessation - Myocardial Infarction and Stroke," *Circulation* 96(4): 1089-1096, August 19, 1997, <http://circ.ahajournals.org/cgi/content/full/96/4/1089>; Miller, P., et al., "Birth and First-Year Costs for Mothers and Infants Attributable to Maternal Smoking," *Nicotine & Tobacco Research* 3(1): 25-35, February 2001 [costs from pregnancy smoking average \$1,142 - \$1,358 per affected birth]; Hodgson, T., "Cigarette Smoking and Lifetime Medical Expenditures," *The Millbank Quarterly* 70(1), 1992 [average smoker's lifetime healthcare costs \$12,000 more than nonsmokers, despite dying sooner]. Long-term savings accrue over lifetimes of persons who stop smoking or never smoke because of tax increase.

See, also, the Campaign fact sheets, *Raising State Tobacco Taxes Always Reduces Tobacco Use (& Always Increases State Revenues)*; and *Toll of Tobacco in North Dakota*, www.tobaccofreekids.org/research/factsheets.

National Center for Tobacco-Free Kids, 6.5.02 / Eric Lindblom 2/4/03

1400 I Street NW - Suite 1200 - Washington, DC 20005
Phone (202) 296-5469 Fax (202) 296-5427 www.tobaccofreekids.org

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North Dakota Department of Health

FACT SHEET

Tobacco Excise Tax Facts

- The 2000 Surgeon General's Report, *Reducing Tobacco Use*, found that raising tobacco-product prices decreases the prevalence of tobacco use, especially among kids and young adults. The report concluded that raising tobacco taxes is one of the most effective tobacco prevention and control strategies.¹
- Every 10 percent increase in the real price of cigarettes will reduce the total amount of adult smoking by about 2 percent and reduce teen smoking by roughly 7 percent. Overall consumption will be reduced by 4 percent.²
- Every single state that has significantly increased its excise tax has significantly increased its revenues – despite the lost sales caused by the related smoking declines and despite any associated increase in cigarette smuggling or other tax avoidance. Research shows that cigarette smuggling and tax avoidance are relatively minor problems.³
- North Dakota's tobacco use rates are high:
 - 35 percent of students in grades 9 through 12 are current smokers. North Dakota's youth smoking rate is among the highest in the nation.⁴
 - 22 percent of adults are current smokers.⁵
- Nationwide, the range of cigarette taxes is from a low of 2.5 cents in a tobacco producing state to a high of \$1.51 in Massachusetts.⁶

Tobacco states' average	8.3 cents per pack
Other states' average	68.2 cents per pack
Overall states' average	61.1 cents per pack
- 21 states and Puerto Rico raised their excise taxes in the past year. An additional 20 states are reported to be considering tax increases.⁷
- Current tobacco excise tax rates:⁸

North Dakota	44 cents per pack
Minnesota	48 cents per pack
South Dakota	33 cents per pack
Montana	18 cents per pack

¹ U.S. Department of Health and Human Services. *Reducing Tobacco Use: A Report of the Surgeon General*. Centers for Disease Control and Prevention, 2000.

² Chaloupka, Frank F. *Macro-Social Influences: Effects of Prices and Tobacco Control Policies on the Demand for Tobacco Products*. Nicotine and Tobacco Research, 1999.

³ Yurelki, A. & P. Zhang. *The Impact of Clean Indoor-Air Laws and Cigarette Smuggling on Demand for Cigarettes: An empirical Model*. Health Economics 9:159-170, 2000.

⁴ North Dakota Youth Risk Behavior Survey, 2001.

⁵ North Dakota Behavioral Risk Factor Surveillance System, 2001.

⁶ National Center for Tobacco-Free Kids. *State Cigarette Excise Tax Rates & Rankings*, December 2002.

⁷ Ibid.

⁸ Orzechowski & Walker, *Tax Burden on Tobacco*, 2002.

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10/15/03
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3125 East Thayer Avenue
Bismarck, ND 58501

AMCON Distributing Company of Bismarck distributes consumer products in North Dakota, South Dakota, Minnesota, and Montana.

The staff and management of AMCON are opposed to SB 2076.

Raising excise taxes, and therefore the price of cigarettes and tobacco products purchased in our state, could provide an additional incentive for smokers and people who use tobacco products to seek alternative ways to purchase cigarettes and other tobacco products. For example smokers could purchase on the internet, in Native American territories to avoid state tax, or travel to neighboring states with lower excise tax. These potential changes in purchasing behavior can have several consequences. They could cause economic harm, including revenue loss to our state, as well as potential job losses to retailers and small business. If smokers travel to reservations or other states to purchase their cigarettes, they will buy other products as well. Increasing the tax would also increase the incentive of smuggling low taxed or no taxed cigarettes. The MSA payments to our state could also be impacted. With the potential of sales shifting to internet, surrounding states, those sales would not count as sold in ND and ND's MSA payment would be reduced. The sales could reduce significantly enough that the excise tax would not generate the dedicated funds necessary in SB 2307. The following is information that I have taken from NACS (National Association of Convenience Stores) Daily.

Smokers Cross to Delaware for Cigarettes

February 4, 2003

NEW CASTLE, DE -- Delaware is reaping profits from increased cigarette taxes in neighboring states.

In fact, Delaware is predicting it will collect 25 percent more cigarette-tax revenue in 2003 than in 2002, adding up to \$35 million, reports the *Philadelphia Inquirer*.

New Jersey's cigarette tax is \$1.50 per pack and Pennsylvania and Maryland have \$1 taxes, while Delaware currently has a 24-cent-per-pack tax.

According to David Gregor, research director at Delaware's Department of Finance, the tax hikes in other states are "the biggest driver behind this" revenue increase.

Delaware Gov. Ruth Ann Minner proposed doubling the state's cigarette tax to 50 cents per pack in July 2003. For now, out-of-state smokers are willing to make the trek to purchase cheaper cigarettes.

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The *Inquirer* interviewed one man from Burlington County who has been driving 100 miles to and from Delaware about every two weeks to buy cigarettes since July 2002, when New Jersey increased its cigarette tax.

Cigarette and other tobacco products are sensitive to the overall consumer demand. Sales of cigarettes, cigars, pipe tobacco, have been declining nationwide since the mid 1960's. Raising the excise taxes to generate additional revenue may have the reverse effect of significantly reducing sales, there by potentially reducing not only AMCON Distributing Company's work force, but retail establishments all over our state.

John F. Job, Division Manager, AMCON Distributing Company, 701-258-3618
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LaCosta Rickford
Operator's Signature

10/15/03
Date

STATEMENT
Senate Finance & Tax Committee
SB 2076
Rhonda Brunmeier
February 5, 2003

Mr. Chairman, members of the committee, my name is Rhonda Brunmeier. I am a smoker and the manager of the Bismarck AMVETS Club.

If I appear a bit nervous it's because I am, as this is my first time ever testifying before a legislative committee.

I am here to express my opposition to this bill which would raise the price of a pack of cigarettes by 35 cents per pack.

Those who patronize our club and belong to our organization are pretty much working class individuals with families. Lots of them smoke, as do I.

I see and hear firsthand about the hard times out there. I can't begin to tell you the stories we hear at our club. I hear many comments about why is the legislature picking on the smokers with a tax increase which nearly doubles the current tax. In fact, "We are just going to have to find another place to buy our cigarettes if the state wants to keep raising the taxes on them" is often heard.

What is accomplished if increasing the taxes just pushes these smokers to find another source of supply either on the internet, reservation, another state or from a black market source. When that happens the number of smokers doesn't necessarily decrease, but the taxes coming in most likely will. Will I quit smoking because the tax goes up? No, but I will look for the best deal I can get to buy my cigarettes, including from the above sources. I sincerely ask that you don't make me and many others do that. We love North Dakota, but we will also seek out the best buys.

I urge you not to increase the tobacco tax. It appears to me it could create more problems than it will solve.

Thank you.

FAX

February 6, 2003

To: Senate Finance and Tax Committee

Senator Herb Urlacher, Chairman
Senator Rich Wardner, Vice Chairman
Senator John Syverson
Senator Ben Tollefson
Senator Ronald Nichols
Senator Tom Seymour

From: American Heart Association

Re: "Do Pass" SB 2076 information

4 pages total

June Herman, VP
Office of Public Advocacy
American Heart Association
Northland Affiliate
P.O. Box 1287
Jamestown, ND 58401
1-800-437-9710
(701) 252-5122
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Grassroots Advocacy: You Can Make A Difference!

AHA's Homepage: <http://www.americanheart.org>

PAGE 1

FAX: 7012512092

AMERICAN HEART ASSN FEB-06-03 THU 11:03 AM

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10/15/03
Date

After hearing testimony yesterday on several tobacco tax bills, I felt the following pieces of information would be helpful to you in recommending a "Do Pass" recommendation on SB 2076.

Does a tobacco tax increase target one small segment unfairly?
Tobacco costs all North Dakotans \$7.82 for every pack sold. Smokers pay 44c per pack in current state excise taxes, an equivalent of 5% of that per pack cost. The increase Governor Hoeven proposes moves that accountability of choice to 10% per pack. A tobacco tax increase doesn't target a segment, it moves a small portion of responsibility to those who smoke.

AHA has joined with other health groups to propose a \$1 tobacco tax increase, with a recommendation to increase support for prevention and cessation services. A \$1 tobacco tax represents 17% of the costs we all pay for tobacco related costs.

For more information:
<http://tobaccofreekids.org/research/factsheets/pdf/0207.pdf>

Is a tobacco tax regressive?
Data shows an increase in price increases the quit rate among lower income smokers. This means they can use their limited resources for other vital needs. In addition, many lower income smokers rely on Medicaid to help cover their health care costs. A higher quit rate means more savings for North Dakota taxpayers.

For more information:
<http://tobaccofreekids.org/research/factsheets/pdf/0147.pdf>

Will our Tobacco Settlement Dollars Decrease with a higher tax rate?
The average state excise tax is now over one dollar. Other states will continue to shift tax responsibility to those who chose to smoke. As other states increase their prices, they have smokers quit - helping to reduce their costs. As they invest in prevent and cessation, their use rates decrease.

Other state actions will continue regardless of what ND chooses to do. The impact to the Master Settlement Agreement, if of any substantial impact, will happen regardless of ND actions.

ND tobacco tax increases will reduce tobacco use. ND funded prevention and cessation can reduce those numbers further. That is when ND saves taxpayers.

The state smoking declines prompted by new increases to state cigarette tax rates will slightly reduce both MSA and Phase II payments to the state --through the "volume adjustments" made to the payment amounts -- but these relatively small reductions will be dwarfed by the new state revenues from the cigarette tax increase and from the corresponding reductions to the state's smoking-caused costs.



American Heart Association
Northland Affiliate
Phone: 1-800-437-9710
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Fighting Heart Disease and Stroke

For more information:
<http://tobaccofreekids.org/research/factsheets/pdf/0197.pdf>

Isn't a substantial increase in tobacco prices unfair to a legitimate business and those who retail?

The tobacco industry has increased tobacco prices by almost \$1.50 since the last time ND increased its tobacco rates. It made good business sense to them. Why doesn't it for North Dakota?

For more information:
<http://tobaccofreekids.org/research/factsheets/pdf/0210.pdf>

Do North Dakotans support a tobacco tax increase?

On January 24, 2003, AHA released a poll with the University of North Dakota and Research!America which reflects that of the 800 households polled, 71% favored an increased tobacco tax.

For more information (page 3):

I am happy to assist you with further data searches. Tobacco tax increases are sound policy decisions, and can help save lives and tax dollars.

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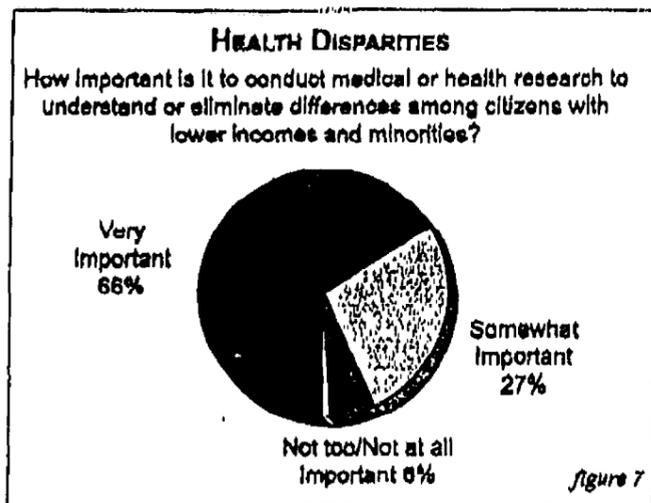
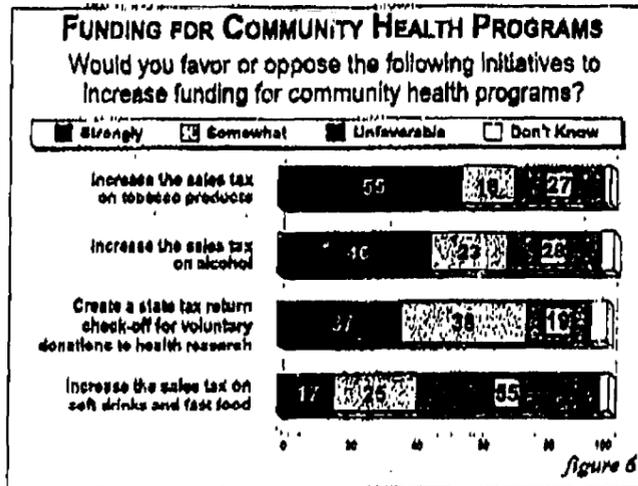
LaCosta Rickford
Operator's signature

10/15/03
Date

RESIDENTS SUPPORT PROPOSALS TO INCREASE FUNDING FOR HEALTH PROMOTION AND DISEASE PREVENTION RESEARCH AND COMMUNITY HEALTH PROGRAMS

Residents favor several proposals to increase funding for health promotion and disease prevention research. Seventy-one percent would favor an initiative to create a state tax return check-off for voluntary donations to health research. Sixty-nine percent would favor an initiative that would increase the sales tax on tobacco products, and 68% would favor an increase of sales tax on alcohol. Residents are less favorable toward increasing the sales tax on fast food and soft drinks, with 40% favoring and 58% opposing such a measure.

Residents are even more favorable toward similar measures that would be designed to increase funding for community health programs (see Figure 6). Three-quarters would favor an initiative that would create a state tax return voluntary check-off for health research donations, and 71% would favor increasing the sales tax on tobacco products to fund these programs. Sixty-nine percent of North Dakota residents would favor increasing the sales tax on alcohol to increase funding community health programs. Residents remain hesitant to increase sales taxes on soft drinks and fast food, with 42% favoring and 55% opposing the increase.



NORTH DAKOTA RESIDENTS PLACE A HIGH VALUE ON RESEARCH TO ELIMINATE HEALTH DISPARITIES

North Dakota residents believe it is important to research diseases that disproportionately affect low income and minority citizens. Ninety-three percent say it is important to conduct research to end these differences. Specifically, two-thirds feel this is very important and 27% feel it is somewhat important (see figure 7). Additionally, 88% of North Dakota residents support research that seeks to understand why there are differences in quality of care and outcomes for patients. In fact, 45% believe this research to be very important.