Vermont Legislative Joint Fiscal Office

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FISCAL NOTE

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S.24– An act relating to banning flavored tobacco products and e-liquids

Bill Summary

This bill proposes to ban the sale of all flavored tobacco products in Vermont. This includes banning the sale of:

- Flavored cigarettes of any kind
- Other tobacco-based products including cigars, cigarillos, chewing tobacco, snuff, and dipping tobacco.
- Flavored electronic cigarettes of any kind.

The bill is effective September 1, 2021.

Fiscal Impact

This bill is estimated to result in a direct revenue reduction of $5.64 million in Fiscal Year (FY) 2022. This reduction will be split between the General Fund and Education Fund:

- $4.98 million to the General Fund from reduced cigarette and tobacco tax revenue.
- $664,000 to the Education Fund from reduced sales and use tax revenues.

The reduction is projected to decline modestly over the next three years as cigarette usage continues to decline (Table 1)

Table 1: Estimated Direct Revenue Impacts of S.24 (in millions of dollars)

Fiscal Year	FY2022	FY2023	FY2024
Total	**-$5.64**	**-$6.69**	**-$6.47**
Of which: General Fund	-$4.98	-$5.92	-$5.73
Of which: Education Fund	-$0.64	-$0.77	-$0.74

The majority of this reduction in revenues is attributable to the banning of menthol cigarettes. Over the period of 2011-2015, it is estimated that menthol cigarette composed 18.8% of total cigarette sales in Vermont.[1] Total cigarette tax revenues are estimated to generate approximately $62.8 million in revenue in FY 2022.

Revenues from the sale of e-cigarettes and other tobacco products for FY 2022 are estimated to be $15 million in FY 2022. It is estimated that between 20% to 40% the sales of these products are flavored.[2]

The revenue reductions in S.24 are projected to be higher than they were projected to be in S.288 of 2020, a bill which had the same ban on flavored tobacco products. The reason for this larger decrease in revenues is due to a higher revenue forecast for tobacco products, in particular, electronic cigarettes. In the January 2020 Consensus Forecast, e-cigarette revenues were projected to be just over $3 million. In the January 2021 forecast, they are projected to generate $6.2 million in revenue.

An important variable in this estimate is the degree to which current users quit using tobacco because of the ban. It is also the variable that is most difficult to predict. For adult users, evidence from surveys and analysis from municipalities that have banned flavored tobacco indicate that between 30% and 65% of users would quit altogether. For youth tobacco users, surveys have indicated much higher quit rates, upwards of 60 to 75%.

JFO's estimate is informed by the literature, however, it should be emphasized that there is a considerable level of uncertainty surrounding this variable. Even a small change in the assumed quit rate could lead to significant changes in the revenue estimate.

Finally, the long-term public health benefits of reducing tobacco use are undeniable and while there would also be significant long-terms fiscal benefits from this, they are difficult to estimate.

Medicaid Impacts:
Prior to FY 2019, all revenues from cigarette and tobacco taxes were deposited into the State Health Care Resources Fund and used to draw down federal matching dollars. As such cigarette and tobacco revenue estimates also accounted for the gains and/or losses of federal match dollars to fund Medicaid programs. Act 6 of 2019 (Budget Adjustment) transitioned all cigarette and tobacco tax revenues to the General Fund. As such, JFO revenues estimates no longer account for Medicaid match impacts.

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[1] Kuiper et al. "Trends in Sales of Flavored and Menthol Tobacco Products in the United States during 2011–2015." https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5711620/

[2] See list of references and sources

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