CALIFORNIA BUDGET PROJECT

Budget Brief

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WHAT WOULD PROPOSITION 10, THE "CALIFORNIA CHILDREN AND FAMILIES FIRST INITIATIVE," MEAN FOR CALIFORNIA?

Proposition 10, the California Children and Families First Act of 1998, would impose an additional surtax of 50 cents per pack on cigarettes and increase the tax on other tobacco products (cigars, chewing tobacco, pipe tobacco, etc.) by the equivalent of a dollar a pack. The new tax moneys would be allocated to the California Children and Families First Trust Fund to promote, support, and improve early childhood development from the prenatal stage to age five. A new state commission would be responsible for spending 20 percent of the new revenues, with the remainder allocated by individual county commissions. Actor-producer Rob Reiner is the sponsor of Proposition 10.

BACKGROUND

California began to tax cigarettes in 1959 at a rate of 3 cents per pack. The state currently imposes excise taxes on cigarettes totaling 37 cents per pack. Proposition 99, enacted by the voters in November of 1988, increased the tax on cigarettes by 25 cents per pack, and created an equivalent tax on other tobacco products. In 1993, the legislature increased cigarette taxes by 2 cents per pack to fund breast cancer research and early detection services. California ranks 21st among states with respect to the tax rate imposed on tobacco products and 37th with respect to the amount of tobacco taxes paid as a percentage of state personal income.[1] If Proposition 10 passes, California's 87 cents per pack tobacco tax rate would be the third highest in the nation, behind only Alaska and Hawaii. The federal government also imposes taxes on cigarettes totaling 24 cents per pack, and varying rates of tax on other tobacco products.

Where Do Current Tobacco Tax Revenues Go?

	Tax Rate (Per Pack)	**Revenue** (In Millions, 1997-98)
General Fund	10 cents	$165
Breast Cancer Research and Services	2 cents	$33
Proposition 99 Programs	25 cents	$450
Total	**37 cents**	**$648**

Source: Board of Equalization, Legislative Analyst's Office

Current tobacco tax revenues are divided between the state General Fund and two special funds. Revenues from a tax rate of 10 cents per pack go to the state's General Fund. The proceeds from the tax imposed by Proposition 99 are deposited into a special fund for allocation to programs specified in the original initiative. Programs supported by Proposition 99 revenues include health education, research into tobacco-related diseases, indigent health services, rural health services, and resource

[1] California Senate Office of Research, *Proposed Tobacco Surtax Would Fund Early-Childhood Development* (July 1998) and US Bureau of the Census, *1997 State Government Tax Collections Data by State* (last revised 4/14/98). Rankings exclude the District of Columbia.

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and environmental programs. Twenty percent of the revenues raised by Proposition 99, an estimated $90.3 million in 1997-98, are designated for health education programs aimed at reducing the use of tobacco.

The state, counties, and federal governments administer a range of programs designed to support child development. Current programs include Head Start; state pre-school and child care programs; Medi-Cal; California Children's Services; the Women, Infant and Children (WIC) nutrition program; the Child Health and Disability Program; and child welfare and child protective services programs. The Child Development Policy Advisory Committee serves as an advisory body to the state on child development policy issues, but does not administer any programs or grant funds. Many counties have established Children's Commissions or similar advisory bodies and local child care planning councils have statutory responsibilities with respect to the allocation of local child care resources.

HOW WOULD PROPOSITION 10 CHANGE TOBACCO TAXES?

Proposition 10's 50 cent per pack cigarette tax increase would bring total state excise taxes on cigarettes to 87 cents per pack. Proposition 10 also results in a tax increase on other tobacco products equivalent to twice that imposed on cigarettes.[2] This double increase occurs due to an interaction between Proposition 10 and a provision of Proposition 99. Under Proposition 99, any cigarette tax increase automatically triggers an increase in the tax imposed on other tobacco products. As a result, Proposition 10 would increase the tax on other tobacco products twice. The first increase would be equivalent to the tax increase on cigarettes mandated by Proposition 10. The second increase would be triggered by Proposition 99's automatic increase provision. Therefore, Proposition 10 would increase the tax on other tobacco products by an amount equivalent to a $1 per pack increase on cigarettes. Half of the revenues from the increase on other tobacco products would go toward programs funded by Proposition 99 and half would go to the California Children and Families First Trust Fund established by Proposition 10. Cigarette taxes would increase on January 1, 1999. Half of the increase on other tobacco taxes would take effective on January 1, 1999, with the second half taking effect on July 1, 1999.

WHAT WOULD PROPOSITION 10 MEAN FOR THE BUDGET?

Revenues. The Board of Equalization (BOE), the state agency charged with collecting tobacco taxes, estimates that Proposition 10 would increase state tobacco tax revenues by $316 million in 1998-99 and $547 million in 1999-00, the first full year of implementation.[3] The BOE's estimate assumes that consumption of taxed cigarettes will drop by 20 percent and that consumption of taxed tobacco products would drop by 25 percent due to higher prices and tax evasion to avoid the higher tax rate. The Legislative Analyst's Office (LAO) estimates that Proposition 10 will raise approximately $400 million in 1998-99, $750 million in 1999-00, and slightly declining amounts thereafter.[4] The differences between the estimates result from different assumptions regarding the degree to which consumption will decline as a result of the new tax.

New expenditures. Most of the moneys raised by Proposition 10 will be allocated to a new Children and Families First Trust Fund to support early childhood development programs, as described below.

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[2] Measured as a percentage of the wholesale price of tobacco products. Proposition 10 also imposes a floor stock tax on cigarettes and tobacco products held by distributors as of the effective date of the tax increase.
[3] State Board of Equalization, Legislative Division, *Ballot Initiative Analysis "California Children and Families First Initiative" November 3, 1998 General Election Ballot* (July 8, 1998).
[4] Legislative Analyst's Office, *Proposition 10: State and County Early Childhood Development Programs. Additional Tobacco Surtax. Initiative Constitutional Amendment and Statute* (August 31, 1998), http://www.lao.ca.gov/november_98_ballot.html#10.

To the extent some of these expenditures are eligible for federal matching funds, the total amount of funds available for early childhood development programs could exceed revenues raised by the increase in tobacco taxes.

Reimbursement of existing programs. Higher prices for cigarettes and tobacco products, including price hikes caused by higher taxes, typically reduce consumption. A drop in consumption will reduce the revenues raised by the existing tax rates imposed on cigarettes and tobacco products. Proposition 10 provides reimbursement to the health education and research programs supported by Proposition 99 and breast cancer research and education programs to offset any reduction in revenues attributable to decreased consumption of tobacco products due to the higher tax rate.[5] The LAO estimates that less than one percent of the revenues raised by Proposition 10 would go toward reimbursement of the Breast Cancer Fund and about two percent would be used to reimbursement Proposition 99-supported programs.[6]

Proposition 10 does not reimburse the state's General Fund or Proposition 99's indigent health and environmental programs for tax revenues lost due to decreased consumption. The LAO estimates that Proposition 99's indigent health and environmental programs will experience revenue losses of approximately $18 million in 1998-99 and $7 million annually thereafter as a result of reduced consumption due to Proposition 10's tax increase.

State General Fund and local government revenues. Proposition 10 would increase state General Fund and local government sales tax revenues, since sales taxes are imposed on the price of cigarettes and tobacco products including any excise taxes. The BOE estimates that state sales tax revenues will increase by $16 million in 1998-99 and $27 million in 1999-00 and thereafter. The BOE also estimates that local government sales tax, including local transit tax, revenues will increase by $9.2 million in 1998-99 and $16 million in 1999-00 and thereafter.

The Legislative Analyst estimates that, on balance, Proposition 10 would increase state General Fund revenues by $2 million in 1998-99 and $4 million per year thereafter due to the offsetting impact of increased sales tax revenues and decreased General Fund tobacco tax revenues.

Long-term savings. The state and local governments may realize cost savings from reduced health care expenditures on smoking related diseases through Medi-Cal, county indigent care programs, and by state and local government employee and retiree health plans due to decreased consumption of tobacco products. The amount of any potential savings is impossible to quantify and there would be a considerable lag time between the tax increase and the realization of any savings.

New revenues will not increase Proposition 98's school-funding guarantee. Proposition 10 amends the state Constitution to exclude the new tobacco tax revenues from the calculation used to determine the state's minimum school-funding obligation. This provision means that the new moneys will not increase the minimum school-funding guarantee established by Proposition 98. Currently, the portion of tobacco tax revenues deposited into the state's General Fund counts toward Proposition 98's minimum school-funding guarantee, while amounts generated by Proposition 99 do not.

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[5] The BOE notes that tobacco use is declining for a number of reasons, making it difficult, if not impossible, to attribute a portion of any drop in consumption to a single factor. This may complicate efforts to determine the appropriate amount of revenues that should be transferred to the Breast Cancer and Health Education Funds to make up for lost revenues.

[6] Legislative Analyst's Office, *Proposition 10: State and County Early Childhood Development Programs. Additional Tobacco Surtax. Initiative Constitutional Amendment and Statute* (August 31, 1998), http://www.lao.ca.gov/november_98_ballot.html#10.

HOW WOULD THE NEW MONEY BE SPENT?

Proposition 10 establishes new state and county commissions to administer programs supported by the new tax revenues. Moneys remaining after reimbursing breast cancer and Proposition 99 programs would be divided between state and county administered child development programs. State-administered programs would receive 20 percent of the available funds, with the remaining 80 percent allocated to county commissions. The state and county commissions are also authorized to accept grants and bequests of funds, in addition to tobacco tax moneys.

The State Children And Families First Commission

A new state commission, composed of seven voting members, would determine the allocation of funds available for state level programs. The Governor would appoint three of the commission's members and the Speaker of the Assembly and Senate Rules Committee would each appoint two members. The Secretary of the state Health and Welfare Agency and Secretary of Child Development and Education would serve as nonvoting members. One of the Governor's appointees must be a county health officer. Commission members would be appointed for four-year terms.[7] Commission members would not be paid, but would receive "a reasonable per diem" and reimbursement for expenses related to their service as commission members. The commission is charged with hiring an executive director and additional staff, as needed.

Commission duties would include preparation and dissemination of information designed to promote, support, and improve early childhood development and development of guidelines for a comprehensive statewide program aimed at enhancing early childhood development. The commission would be required to hold at least one public hearing on the proposed guidelines prior to their adoption.

How Would The New Moneys Be Divided Between Counties?

County	1996 Births	Percent of State Total	Estimated Share of 1999-00 Surtax Revenues
Alameda	20,668	3.837	$21,488,077
Alpine	10	0.002	$10,397
Amador	289	0.054	$300,467
Butte	2,475	0.460	$2,573,205
Calaveras	320	0.059	$332,697
Colusa	302	0.056	$313,983
Contra Costa	12,284	2.281	$12,771,412
Del Norte	333	0.062	$346,213
El Dorado	1,664	0.309	$1,730,025
Fresno	14,637	2.718	$15,217,776
Glenn	440	0.082	$457,459
Humboldt	1,500	0.279	$1,559,518
Imperial	2,497	0.464	$2,596,077
Inyo	221	0.041	$229,769
Kern	11,557	2.146	$12,015,565
Kings	2,255	0.419	$2,344,475
Lake	581	0.108	$604,053
Lassen	297	0.055	$308,785
Los Angeles	168,973	31.371	$175,677,611
Madera	2,007	0.373	$2,086,635
Marin	2,642	0.491	$2,746,831
Mariposa	154	0.029	$160,111
Mendocino	1,021	0.190	$1,061,512
Merced	3,733	0.693	$3,881,120
Modoc	114	0.021	$118,523
Mono	120	0.022	$124,761
Monterey	6,635	1.232	$6,898,267
Napa	1,509	0.280	$1,568,875
Nevada	794	0.147	$825,505,
Orange	48,007	8.913	$49,911,850
Placer	2,760	0.512	$2,869,513
Plumas	148	0.028	$153,872
Riverside	23,473	4.358	$24,404,376
Sacramento	17,844	3.313	$18,552,025
San Benito	798	0.148	$829,664
San Bernardino	29,359	5.451	$30,523,924
San Diego	44,886	8.333	$46,667,013
San Francisco	8,368	1.554	$8,700,030
San Joaquin	8,779	1.630	$9,127,338
San Luis Obispo	2,488	0.462	$2,586,720
San Mateo	10,042	1.864	$10,440,452
Santa Barbara	5,977	1.110	$6,214,159
Santa Clara	26,646	4.947	$27,703,276
Santa Cruz	3,419	0.635	$3,554,661
Shasta	2,050	0.381	$2,131,341
Sierra	16	0.003	$16,635
Siskiyou	532	0.099	$553,109
Solano	5,806	1.078	$6,036,374
Sonoma	5,503	1.022	$5,721,351
Stanislaus	7,166	1.330	$7,450,337
Sutter	1,143	0.212	$1,188,353
Tehema	672	0.125	$698,664
Trinity	145	0.027	$150,753
Tulare	7,194	1.336	$7,479,448
Tuolumne	463	0.086	$481,371
Ventura	11,665	2.166	$12,127,851
Yolo	2,154	0.400	$2,239,468
Yuba	1,093	0.203	$1,136,369

Source: Senate Office of Research. Estimates based on total revenues as estimated by the Legislative Analyst's Office.

[7] Some of the initial commission members would serve shorter terms.

Revenues designated for the state commission would be allocated as follows:

- Six percent of total revenues for media outreach on topics related to early childhood development, prevention of tobacco, alcohol, and drug use by pregnant women, and the impact of secondhand smoke on children;
- Five percent of total revenues for parental and professional education and training, technical support for county commissions, and development of educational materials;
- Three percent of total revenues for education and training of childcare providers;
- Three percent of total revenues for research and development of "best practices," establishing standards for early-childhood development programs, and program evaluation;
- One percent of total revenues for the administrative functions of the state commission; and
- Two percent of total revenues for allocation to any program furthering the purpose of the initiative, other than administration of the state commission.

County Children And Families First Commissions

In order for a county to receive funds, Proposition 10 requires county boards of supervisors to adopt an ordinance creating a county children and families first commission and the commission must complete a strategic plan. Proposition 10 gives the new county commissions the authority to allocate funds designated for local programs. Proposition 10 also requires county commissions to prepare an annual report or audit of their activities. Eighty percent of the initiative's revenues would be allocated to the county commissions based on the number of births in each county as a percentage of the statewide total. If one or more counties chose not to participate, the funds that would otherwise go to those counties would be divided proportionately among participating counties.

The county commissions would be composed of five to nine members appointed by the county board of supervisors. At least one commissioner would have to be a member of the board of supervisors and two commissioners must be administrators of county health or human services programs. Two or more counties may form a joint commission and implement joint programs.

Ability To Make Future Amendments Limited

Proposition 10 specifies that any future changes must be consistent with the purposes of the initiative and requires any legislated changes to be approved by a two-thirds vote of each house of the legislature. The measure also includes a severability clause, which states that if any section of the measure is ruled unconstitutional, the remaining sections shall remain in force.

POLICY CONSIDERATIONS RAISED BY PROPOSITION 10

Who Smokes?

Rates of tobacco usage vary significantly by gender, education, and ethnicity. Surveys estimate that 18 percent of Californians smoke, including 21 percent of men and 15 percent of women. Rates of tobacco usage also vary significantly by race and ethnicity. Twenty-three percent of African-Americans, 19 percent of whites, 15 percent of Hispanics, and 14 percent of Asian-Americans smoke. Californians with less education are more likely to smoke. Twenty-two percent of those with less than 12 years of

Who Pays Tobacco Taxes In California (Tobacco Taxes as a Percentage of Income by Income Group, 1998)		
Income Group	**Married Taxpayers**	**All Taxpayers**
Lowest 20%	0.28%	0.39%
Second 20%	0.12%	0.21%
Middle 20%	0.09%	0.13%
Fourth 20%	0.06%	0.09%
Next 15%	0.04%	0.05%
Next 4%	0.02%	0.02%
Top 1%	0.00%	0.01%
ALL	**0.06%**	**0.08%**

Source: Institute on Taxation and Economic Policy

education smoke, whereas only 18 percent of those with 13 to 15 years of education smoke and 11 percent of those with 16 or more years of education smoke.[8]

Tobacco Taxes Are Predominantly Paid By Low Income Californians

Tobacco taxes are regressive taxes. In other words, lower income persons spend a greater share of their income on tobacco products and therefore shoulder a disproportionate share of the tobacco tax burden. In 1998, tobacco taxes consumed 0.39 percent of the income of the poorest fifth of Californians, but only 0.01 percent of the income of the top one percent of households. Overall, Californians spent 0.08 percent of their income on tobacco taxes in 1998.[9]

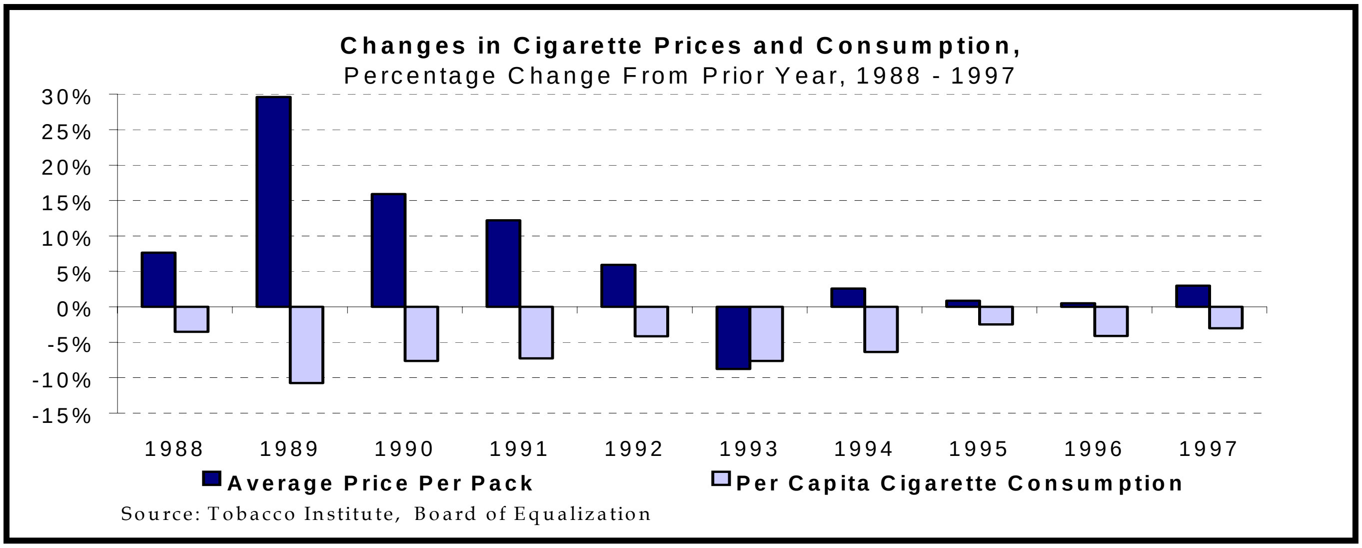
A Senate Office of Research analysis estimates that California households with gross incomes at or below $15,000 per year with one smoker currently spend an average of $870 per year on tobacco products, including $270 in tobacco taxes.[10] Proposition 10 would increase the amount paid in tobacco taxes by these families by $170 per year if they continue to smoke the same amount after the initiative passes. The overall impact would be less, since most Californians do not smoke. On average, Proposition 10's 50 cent per pack tax would increase the taxes paid by the poorest fifth of California households by $47 per year and the taxes paid by middle income households by $55 per year.[11]

Do Higher Tobacco Taxes Reduce Consumption?

The degree to which changes in the price of tobacco products influence consumption is the subject of considerable controversy. Research suggests that demand for cigarettes declines by 2 to 6 percent for every 10 percent increase in cigarette prices.[12] In 1989, the year after Proposition 99's 25 cent per pack tax increase, per capita cigarette consumption fell 10.7 percent, while the average price per pack rose by 29.6 percent.[13] The decline in tobacco consumption has exceeded projections every year since 1989. However, a portion of the revenues raised by Proposition 99 are earmarked for tobacco cessation and anti-smoking public education campaigns. As a result, it is impossible to determine how much of the drop in consumption is due to higher prices and how much is attributable to the success of programs designed to reduce smoking. If Proposition 10 results in a proportionate drop in consumption to that experienced after Proposition 99, California could experience a drop in tobacco consumption in the range of 20 to 25 percent.

A recent study by the Centers For Disease Control And Prevention suggests that lower income and certain minority populations are more sensitive to cigarette price increases than other populations. The study found that smokers with family incomes equal to or below the median in the population surveyed ($33,106 in 1997 dollars) were more likely to quit smoking as a result of a price increase than were

[8] JP Pierce, et al., *Tobacco Control In California: Who's Winning The War? An Evaluation Of The Tobacco Control Program, 1989-1996* (La Jolla, CA: University of California at San Diego, 1998), p. B-9.
[9] Institute on Taxation and Economic Policy.
[10] California Senate Office of Research, *Proposed Tobacco Surtax Would Fund Early-Childhood Development* (July 1998), p. 4.
[11] CBP calculations based on Institute on Taxation and Economic Policy data based on all household data. Does not take into account reduced consumption due to higher cigarette and tobacco prices.
[12] JP Pierce, et al., *Tobacco Control In California: Who's Winning The War? An Evaluation Of The Tobacco Control Program, 1989-1996* (La Jolla, CA: University of California at San Diego, 1998), p. 8-3.
[13] CBP calculations based on data on cigarette prices from the Tobacco Institute and consumption data from the State Board of Equalization.



smokers with a family incomes above the median, and African-Americans and Hispanics were more than twice as likely as whites to quit smoking due to a price increase. Some research findings suggest that teen smokers are two to three times as price sensitive as adults.[14, 15] Some researchers point to contradictory evidence, including teens' relatively low monthly expenditures on tobacco products showing that teens appear to be less cost sensitive.[16]

Who Pays For Smoking Related Costs? How Much Do They Pay?

Proponents of higher tobacco taxes argue that increases are warranted by the costs imposed on public programs by smoking-related health conditions. The Centers For Disease Control and Prevention reported that medical care expenditures attributable to smoking-related health conditions totaled $50 billion nationwide in 1993.[17] Public programs, including Medicare, Medicaid (Medi-Cal in California), and other public health programs, paid more than 40 percent of the bills for smoking-related health care costs. In California, tobacco-related health conditions were responsible for an estimated $1.7 billion in Medi-Cal expenditures in 1993, more than double the amount raised by state tobacco taxes.[18] Another recent study attempts to quantify the economic impact of smoking in California, including both direct costs related to health services and the loss of productivity attributable to smoking and premature death. These research concluded that approximately 43 percent of direct costs related to smoking are public health costs and that smoking cost the California economy approximately $10 billion in 1993; equivalent to $314 per resident, or $2,014 per smoker.[19] Opponents of higher taxes argue that current levels of taxation provide adequate compensation for smoking related costs, citing research identifying reduced nursing home, health care, Social Security, and pension costs due to smokers' premature death as sources of cost savings attributable to tobacco use.[20]

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[15] JP Pierce, et al., *Tobacco Control In California: Who's Winning The War? An Evaluation Of The Tobacco Control Program, 1989-1996* (La Jolla, CA: University of California at San Diego, 1998), pp. 8-5 - 8-6.
[17] Centers for Disease Control, "Medical Care Expenditures Attributable to Cigarette Smoking --- United States, 1993," *Morbidity and Mortality Weekly Report*, 43, No. 26 (July 8, 1994), pp. 469-472.
[18] LS Miller, et al., "State Estimates Of Medicaid Expenditures Attributable To Cigarette Smoking, Fiscal Year 1993," *Public Health Reports,* Volume 113 (March/April 1998), pp. 140-151.
[19] Wendy Max and Dorothy P. Rice, "The Cost Of Smoking In California, 1993," *Tobacco Control*, Volume 4, suppl 1 (1995), pp. S39-S46.
[20] *National Bureau of Economic Research Digest*, "Current Cigarette Taxes Reflect Societal Costs Well" (February 1995).

How Much Of The Money Will Be New Money?

Proposition 10 requires the revenues raised by the new tax to be used to supplement and not supplant existing state and local funds for child development programs. This provision is intended to prevent the legislature or local governments from reducing existing levels of support for child development programs and substituting revenues from the new tax. This provision would not, however, prevent the state or local governments from using the new tax revenues to fund costs attributable to caseload growth or other program expansions that would have occurred in the absence of the new money. To the extent that new revenues are available, the state and local governments may chose to reduce the growth in General Fund support for child development programs and to fund any program expansion out of the new moneys. To the extent this occurs, Proposition 10 could free up General Fund dollars for other purposes.

Funds Would Be Allocated Outside Of The Normal Budget Process

Proposition 10 turns over the spending authority for over $500 million in new resources to new state and county commissions operating outside of the normal state and county budget processes. Under current law, the state legislature is responsible for allocating state revenues and county boards of supervisors approve county spending plans. Since the allocation of resources and priority setting under Proposition 10 occurs independent of the legislative process, it is unclear whether and how the new programs and commissions will be coordinated with existing state and local child development programs. Commission members would be appointed by the Governor and legislative leadership, however, Proposition 10 does not provide a mechanism for removing commission members or for ensuring that their actions are accountable to the appointing bodies.

Should A Declining Revenue Source Be Used To Fund New Programs and Services?

Tobacco tax revenues have declined over time due to falling consumption. Over the past decade, state tobacco tax revenues have dropped from $787 million in 1989-90 to $651 million in 1997-98.[21] Between 1989-90 and 1996-97, per capita consumption of cigarettes dropped from 78.2 packs to 54.5 per year.[22] If this trend continues, revenues available for the early childhood development programs established through Proposition 10 will decline over time. To the extent this occurs, these programs will either be forced to scale back or to seek support from other sources. The desire to maintain or expand funding for child development programs could lead to increased competition for state and local General Fund resources. Some analysts argue that programs' desire to maintain funding creates an inherent conflict with the broader public health goal of reducing tobacco use and could undermine efforts to reduce smoking.

Commission Staff Exempt From Civil Service Rules

Proposition 10 exempts professional staff hired by the state commission from the civil service rules, the state's system of hiring and promoting employees based on standardized criteria. Furthermore, no other state commission has the authority to set the salary of its executive officer and staff without regard to existing state job descriptions and salary ranges. Proponents argue that this will enable the commission to hire the best experts in child development from outside of state government. Opponents argue that

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[21] State Department of Finance, *Governor's Budget Summary 1998-99* (January 1998), p. 79.
[22] State Board of Equalization, *1996-97 Annual Report* (April 1998), p. A-41.

the civil service system is designed to protect against favoritism in hiring and that exempting commission staff from civil service rules opens the door to abuse.

Will Higher Taxes Lead To Increased Smuggling?

State Board of Equalization staff, along with opponents of Proposition 10, note that a tax increase of this magnitude could lead to increased smuggling of cigarettes and tobacco products. Tobacco products other than cigarettes, which are subject to a larger tax increase, may be particularly susceptible to increased smuggling since state law does not require tobacco products to be labeled with a stamp indicating that proper taxes have been paid. To the extent smuggling increases in response to the higher tax rate, revenues received by the funds that depend on existing tax rates, as well as the new rate, will be reduced.

ARGUMENTS FOR AND AGAINST

In Favor. Proponents argue that Proposition 10 will provide sorely needed funds to promote and support early childhood development. The proponents cite recent research findings reporting that children who lack proper nutrition, health care, and nurturing during their early years tend not to develop the social, motor, and language skills needed to perform well in school. Proponents claim that encouraging proper brain development in a child's early years and shielding children from exposure to smoking will dramatically improve a child's success in school and overall achievement. Proponents argue that Proposition 10's tax increase will accomplish two goals at once. First, it will provide much-needed funds for early-childhood development programs. Second, higher prices will reduce tobacco consumption, improve health outcomes, and lower costs for smoking-related diseases.

In Opposition. Opponents claim Proposition 10 is another example of ballot box budgeting that raises funds and spends them with little oversight or accountability. Opponents argue that Proposition 10 creates a massive new state bureaucracy and 58 local bureaucracies, which would be largely unaccountable for their actions. They claim that taxpayers already pay for early-childhood development programs and that there are no specific services identified in this initiative that are not currently provided through taxpayer dollars. Opponents contend that tobacco taxes will not provide a stable funding source for childhood development programs, since revenues will decline as tobacco sales fall. Opponents also claim that the increase will reduce funding for existing programs that depend on tobacco taxes and that tobacco taxes are a regressive and the costs of early-childhood development programs should be borne by all taxpayers, not just the minority who smoke.

The California Budget Project neither supports nor opposes Proposition 10. This Budget Brief is designed to help voters reach an informed decisions based on the merits of the issues. The California Budget Project (CBP) is a nonpartisan, nonprofit organization whose goal is to promote a better understanding of state fiscal issues in order to promote a healthy public sector based on a fair and equitable tax system. General operating support for the California Budget Project is provided by grants from the California Endowment, James Irvine, Ford, Annie E. Casey, and California Wellness Foundations and individual donations and subscriptions.
