



STATE BOARD OF EQUALIZATION  
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## State Board of Equalization Notice of Stakeholders Meeting

450 N Street, Room 121, Sacramento, CA  
November 13, 2014, 1:00 p.m.-3:00 p.m.

The State Board of Equalization's (BOE) Special Taxes Policy and Compliance Division invites you to attend a cigarette and tobacco industry stakeholders meeting.<sup>1</sup> We would like to hear your suggestions for new or alternative methods to supplement the funding of the Cigarette and Tobacco Products Licensing Program.

As required by the Supplemental Report of the 2014-15 Budget Package, Item 0860-001-001, the BOE has been requested to:

*"By February 1, 2015, the BOE shall convene a stakeholder meeting to discuss potential approaches for future funding of the Cigarette and Tobacco Products Licensing Program.*

*By April 1, 2015, the BOE shall submit a report describing at least three alternative approaches for future funding of the Cigarette and Tobacco Products Licensing Program. At least one of these alternatives shall provide for increasing the share of costs covered by licensing fees and another shall include increasing the share of costs covered by the General Fund."*

### Background

Tax evasion was costing the state millions in annual tax revenues. As a result, the Cigarette and Tobacco Products Licensing Act of 2003 (Act) was passed imposing licensing requirements on manufacturers, distributors, wholesalers, retailers and importers of cigarettes and tobacco products, and imposed more civil and criminal penalties on those who violate the law. Additionally, the Act also augmented the enforcement provisions of the law by expanding the authority of the state to conduct site inspections, impose fines, and suspend and revoke licenses.

The Act established the Cigarette and Tobacco Products Compliance Fund (CTCF) as the repository for the Licensing Program's revenues which included:

- A one-time administrative fee imposed on cigarette and tobacco product manufacturers and importers,
- A \$100 one-time license fee imposed on retailers,
- A \$1000 annual license renewal fee imposed on distributors and wholesalers, and
- Funds collected because of fines.

However, the current funding proved inadequate to cover the program's costs. To remedy the shortfall, the BOE received a technical budget adjustment effective July 1, 2006, to supplement the CTCF from the Breast Cancer Fund, Proposition 99 Fund, Proposition 10 Fund and the General Fund. In each consecutive fiscal year, the unfunded expenses of the Cigarette and Tobacco Products Licensing Program (Licensing Program) were allocated in the same manner as the expenses incurred by the Cigarette and Tobacco Products Tax Program.

In Fiscal Year 2013-14, CTCF revenues totaled \$1.8 million and costs of the Licensing Program during the same period exceeded those revenues by \$8.1 million. Subsequently, the BOE received a request to convene a meeting to receive ideas and suggestions directly from you, the stakeholders.

<sup>1</sup>This meeting is being held in accordance with the Bagley-Keene Open Meeting Act because the personal representatives of a majority of the Board Members may be present.

**Purpose**

Staff is eager to hear your thoughts on this matter. Your suggestions may include a legislative proposal, a regulatory change, or a different approach to increase the revenues generated for the Licensing Program on an annual basis. Please see the enclosed *Template for Recommended Solutions* (Attachment A), pre-filled with two proposed solutions as requested by the Supplemental Report of the 2014-15 Budget Package, Item 0860-001-001; use these examples as a guide as you prepare to submit your proposal using the blank template form (Attachment B). On or before April 1, 2015, the BOE will submit a report to the Legislature describing at least three alternative approaches for future funding of the Licensing Program. A copy of this final report will also be posted on the BOE website.

**Contact**

If you plan to attend the November 13, 2014, stakeholders meeting, please confirm your attendance by contacting Ms. Laurel Smith at [Laurel.Smith@boe.ca.gov](mailto:Laurel.Smith@boe.ca.gov) or by telephone at 1-916-322-3211. Your response by November 7, 2014, will allow us to adequately prepare for the meeting, and is much appreciated.

This notice will be available on the BOE website under *Latest News* at [www.boe.ca.gov](http://www.boe.ca.gov).

This hearing location is accessible to people with disabilities. Please contact Ms. Smith if you require special assistance.

If you are unable to attend, but would like to submit a proposal or comment in writing, please feel free to email your suggestions to Ms. Smith by December 1, 2014. Please do not include confidential information, as a copy of the material you submit may be provided to other stakeholders.

Thank you for your consideration. I look forward to hearing from you.

Sincerely,



Richard Parrott, Acting Chief  
Special Taxes Policy and Compliance Division

Enclosures

## Template for Recommended Solutions

Recommended Solution	How does it address the problem?	Impacted Parties	Estimated Cost	Potential Drawbacks
Have the General Fund cover the shortfall	Allows cigarette and tobacco fund recipients to receive more revenue	Citizens of California	\$x.xx million paid by the General Fund	CTCF will still be unsustainable
Charge a fee for renewing a retailer's license	Creates additional ongoing revenue to support the CTCF	Cigarette Retailers and possibly consumers	Minimal administration fees for BOE, additional fee to retailers	Increase in fees to retailers, which could be passed on to consumers; requires legislation and increased compliance efforts

**Template for Recommended Solutions**

<b>Recommended Solution</b>	<b>How does it address the problem?</b>	<b>Impacted Parties</b>	<b>Estimated Cost</b>	<b>Potential Drawbacks</b>

Please send your completed template to Laurel Smith at [laurel.smith@boe.ca.gov](mailto:laurel.smith@boe.ca.gov) by December 1, 2014.