

## **Where There's Smoke, There's Funding: Expenditure of Proposition 99 and Proposition 10 Funds in Santa Cruz County**

### ***Synopsis***

This report looked at how tobacco tax funds received by Santa Cruz County are spent, specifically funds from:

- Proposition 99 (passed in 1988); and
- Proposition 10 (passed in 1998).

The county has had success with tobacco education, prevention and cessation programs, and providing indigent medical care using Proposition 99 funds. Proposition 10 monies have established and funded healthcare for young children, high-risk infant intervention, drug and alcohol treatment for parents of young children and early childhood education programs. We applaud the successes of these programs.

## **Expenditure of Proposition 99 Funds in Santa Cruz County**

### ***Definitions***

**CDHS:** California Department of Health Services

**CHIP:** California Healthcare for the Indigent Program

**LLA:** Local Lead Agency

**Medically indigent:** a person who cannot afford medical care and for whom payment will not be made by any private coverage or federal program

**Medi-Cruz:** a county-operated healthcare program that helps low-income residents of Santa Cruz County without health insurance get the healthcare services they need

**TCS:** Tobacco Control Section

### ***Background***

In November 1988, California voters approved Proposition 99, also known as the California Tobacco Tax and Health Promotion Act of 1988. This act increased the state surtax on cigarettes by 25 cents per pack and added an equivalent amount on other tobacco products. The two main uses of this tobacco tax revenue are to fund:

- tobacco-related health education programs and disease research; and
- medical and hospital care for medically indigent patients.

At the state level, money is deposited in Health Education, Hospital Services and Physician Services accounts, then dispersed to county and city health departments. The money deposited in the Health Education Account goes for health education efforts to prevent and reduce tobacco use. One-third of these health education funds go to the California Department of Education and two-thirds go to the California Department of Health Services (CDHS).

The state funds numerous health and tobacco-related programs with Proposition 99 revenue. The only funds that come directly into Santa Cruz County accounts, however, go to the Tobacco Education Program and the California Healthcare for Indigents Program (CHIP).

### **Tobacco Education Program**

The state's health services department was charged with reducing tobacco use through statewide media campaigns, tobacco control programs in local health departments and competitively selected state, regional and community-based projects. It was also charged with conducting extensive, ongoing evaluations of the entire tobacco education campaign. The department created a Tobacco Control Section (TCS) to implement these

programs, following a mandate set forth in California Health and Safety Code, Chapter 1.2, beginning with § 104350.

The mission of the statewide Tobacco Control Section is to work toward a tobacco-free California and reduce illness and premature deaths due to tobacco use. This is accomplished through programs to reduce tobacco use and exposure to secondhand tobacco smoke. The state's Tobacco Control Section funds county, community, regional and statewide projects.

Each of the state's 58 county and three city health departments are designated as Local Lead Agencies (LLA). In Santa Cruz County, the lead tobacco control agency is the County of Santa Cruz Health Services Agency, Community Health and Prevention Programs. It is responsible for coordinating information, referrals, outreach and education activities within its health jurisdiction. LLAs are legislatively mandated to periodically submit a comprehensive tobacco control plan to CDHS. They oversee community coalitions to help develop this plan and engage in community activities that promote social changes, educate the public about health issues related to tobacco use and tobacco industry strategies that promote tobacco use. Local Lead Agencies develop local community policy, support enforcement of tobacco control laws and provide local tobacco cessation services.

### **California Healthcare for Indigents Program (CHIP)**

In 1989, the Legislature established the California Healthcare for Indigents Program (CHIP) and the Rural Health Services Program to allocate Proposition 99 funds to participating counties. These funds reimburse providers for uncompensated services for individuals who cannot afford care and for whom no other source of payment is available. Santa Cruz County is one of 23 California counties to receive CHIP funds and to do so has agreed to:

- maintain a financial level of effort in the delivery of services;
- report expenditure and utilization data to the department; and
- provide medically necessary follow-up treatment to eligible children.

In Santa Cruz County, Proposition 99 funds come through the Health Services Agency and go to the Tobacco Education Program and the California Health Care for the Indigent Program (CHIP). The CHIP monies go to Dominican Santa Cruz Hospital and Watsonville Community Hospital and physicians.

Statewide, Proposition 99 funds have been decreasing and continued to decrease for fiscal year 2004-05 due to reduced tobacco product purchases, changes in revenue estimates and state redirection of resources to programs outside the Department of Health Services.<sup>1</sup>

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<sup>1</sup> Department of Health Services, State of California, 2004-05 Budget Act Highlights, August 13, 2004.

## **Scope**

This investigation examines Proposition 99 tobacco tax spending in Santa Cruz County.

## **Sources**

### **Interviewed:**

County administrative personnel.  
County health officials.

### **Reviewed:**

Application for California Healthcare for Indigents Program Funding for Fiscal Year 2004-05, provided by Health Services Agency, Santa Cruz County.  
“California Healthcare for Indigents Program and Rural Health Services Program (Proposition 99),” <http://www.dhs.ca.gov/hisp/ochs/chsu/index.htm>.  
California Healthcare for Indigents Program, CHIP Funding History, provided by Santa Cruz County Health Services Agency, May 4, 2005.  
Community Assessment Project, Comprehensive Report, 2004.  
Department of Health Services, State of California:  
2004-05 Budget Act Highlights, August 13, 2004.  
“Local Lead Agency Guidelines for a 2004-2007 Comprehensive Tobacco Control Plan, Issued January 6, 2004.”  
[http://www.appliedsurveyresearch.org/products/CAP10\\_Health.pdf](http://www.appliedsurveyresearch.org/products/CAP10_Health.pdf).  
“Local Programs,” <http://www.ldhs.ca.gov/tobacco/>.  
News Release: “California Smoking Rates Drop 33 Percent Since State’s Anti-Tobacco Program Began,” February 2005,  
<http://www.dhs.ca.gov.santacruzhealth.org>.  
Santa Cruz County administrative personnel, memo.  
Santa Cruz County Health Services Agency personnel, memo.  
Santa Cruz County Health Services Agency, Tobacco Education Program:  
“Administrative/Collaborative Activities,” <http://catob.esp.fsu.edu>.  
“Coalition Membership.”  
“Scope of Work: Overview and Intervention Activities, 7/1/2004 – 6/30/2007.”  
State Board of Equalization, “Cigarette and Tobacco Products Taxes,” June 2004, Publication No. 93.  
“Tobacco Control Section” (TCS), <http://www.dhs.ca.gov/tobacco/>.  
“Tobacco Education Coalition,”  
<http://www.santacruzhealth.org/phealth/healthed/3tobacco.htm>.  
Tobacco Education Coalition, 2003 Year-in-Review.  
Tobacco Education Program, Budget Justification for Santa Cruz County Health Services Agency.

## ***Findings***

### **Tobacco Education Program**

1. The Santa Cruz County Health Services Agency, Community Health and Prevention Programs, acting as the Local Lead Agency (LLA), receives Proposition 99 funds in three-year funding cycles. In the present funding cycle for Fiscal Years 2004-05, 2005-06 and 2006-07, a total of \$450,000, or \$150,000 per year, is projected. This amount is based on population, with \$150,000 being the smallest amount a county could receive.
2. The budget for the present three-year funding cycle is outlined as follows:<sup>2</sup>

<b>Budget Section</b>	<b>FY 04-05</b>	<b>FY 05-06</b>	<b>FY 06-07</b>	<b>Total</b>
<b>Personnel Costs</b>	\$ 75,622	\$ 89,336	\$ 90,859	\$ 255,817
<b>Fringe Benefits @35-42%</b>	\$ 30,249	\$ 35,734	\$ 35,435	\$ 101,418
<b>Operating Expenses</b>	\$ 2,000	\$ 1,500	\$ 500	\$ 4,000
<b>Equipment Expenses</b>	\$ 2,700	\$ 0	\$ 0	\$ 2,700
<b>Travel/Per Diem and Training</b>	\$ 4,000	\$ 2,169	\$ 3,900	\$ 10,069
<b>Subcontracts and Consultants</b>	\$ 12,000	\$ 1,000	\$ 0	\$ 13,000
<b>Other Costs</b>	\$ 5,762	\$ 1,500	\$ 362	\$ 7,624
<b>Indirect Expenses @14-15%</b>	\$ 17,667	\$ 18,761	\$ 18,944	\$ 55,372
<b>Total Expenses</b>	\$150,000	\$150,000	\$150,000	\$450,000

**Table 1. Budget for Fiscal Year 2004-05 through Fiscal Year 2006-07 for the Tobacco Education Program.**

3. The California Department of Health Service's document titled "Local Lead Agency Guidelines for a 2004-2007 Comprehensive Tobacco Control Plan, January 6, 2004" sets forth strict operating, program and budget guidelines for LLAs.<sup>3</sup>
4. The Tobacco Education Program in Santa Cruz County must follow the state's strict budget and spending guidelines in order to receive funding and be reimbursed for expenditures. Any tobacco education activity funded by Proposition 99 must be approved in advance by the state. The LLA then sends a cost report to the state for

<sup>2</sup> Tobacco Education Program, Budget Justification for Santa Cruz County Health Services Agency.

<sup>3</sup> California Department of Health Services, Tobacco Control Section, "Local Lead Agency Guidelines for a 2004-2007 Comprehensive Tobacco Control Plan, Issued January 6, 2004."

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reimbursement. The state oversees spending of the funds, which must be spent on required objectives.

5. Santa Cruz County has not been formally audited for its expenditures of Tobacco Education Proposition 99 monies.
6. The “Scope of Work” of the Santa Cruz Tobacco Education Program for the term 7/1/04 to 6/30/2007 includes well-defined activities, start and end dates for each activity, responsible parties for each activity and tracking measures. Its objectives are to:
  - reduce exposure to secondhand smoke in public places;
  - reduce retail availability of tobacco;
  - review the extent to which LLA and TCS-funded projects address specific objectives of cultural or ethnic/minority communities or populations; and
  - counter pro-tobacco influences such as tobacco sponsorships of public, private and sporting events; tobacco company contributions to education, research, public health, cultural and intellectual activities.
7. The Tobacco Education Program is the repository for tobacco information for the community, and it:
  - recruits, maintains and organizes the Tobacco Education Coalition. The Coalition takes action on tobacco industry activities in the community, proposes legislation and advocates for Proposition 10 monies to be spent on tobacco-related issues. The Tobacco Education Coalition meets monthly.
  - stays current on local and statewide tobacco-related events. The Tobacco Education Program makes public statements and answers questions and concerns from the public, media and other agencies regarding tobacco issues.
  - fields calls from the public, sends materials, maintains a list of current cessation services in the county, stays current with tobacco-related laws or policies in the five jurisdictions and creates anti-tobacco curriculum ideas for teachers.
8. The Tobacco Education Coalition, formed in 1985, is an advocacy group that promotes a tobacco-free lifestyle and environment. The Tobacco Education Coalition membership includes the following government and community non-profit agencies:
  - American Cancer Society
  - American Heart Association
  - American Lung Association
  - Cabrillo College Student Health Center

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<sup>4</sup> Santa Cruz County Health Services Agency, Tobacco Education Program, “Coalition Membership.”

- Central Coast Alliance for Health  
Children and Families First  
City of Santa Cruz Parks and Recreation  
City of Santa Cruz Police Department  
Community Connections  
ETR Associates  
Front Street, Inc.  
Individual community members at large (10 members)  
Katz Cancer Resource Center  
Medical Works  
Mental Health Client Action Network  
Mountain Community Resources  
Pajaro Valley Prevention and Student Assistance (three members)  
Planned Parenthood  
Salud Para la Gente  
San Lorenzo Valley Unified School District  
Santa Cruz City Schools District (two members)  
Santa Cruz County Medical Society  
Santa Cruz County Office of Education  
Santa Cruz County Parks and Recreation  
Santa Cruz County Sheriff's Department (two members)  
Substance Abuse Prevention Program  
Tobacco Education Clearinghouse of California  
Tobacco Education Program (three members)  
University of California, Santa Cruz Alcohol and Other Drug Prevention Program
9. Some of the recent accomplishments of the Tobacco Education Coalition are:
- promoting compliance with smoke-free workplace laws;
  - working with the Seaside Company to make the Santa Cruz Beach Boardwalk a smoke-free environment;
  - conducting surveillance of local newspapers for print tobacco advertisements and writing letters, when appropriate, to ask each organization to adopt a smoke-free advertising policy;

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- conducting media campaigns about smoke-free playgrounds, cigarette sales to minors and other tobacco issues;
  - supporting Pajaro Valley Prevention and Student Assistance efforts to create 100 percent smoke-free parks in Watsonville via letters to the editor and letters to Watsonville City Council members;
  - working with local jurisdictions on smoking ordinances;
  - writing letters to various agencies to discourage acceptance of tobacco industry grant monies;
  - reducing the number of stores that sell tobacco to minors and providing education materials to discourage self-service tobacco displays. In 2002, the Coalition supported a self-service tobacco display ban that was adopted in the City of Capitola; and
  - surveying Santa Cruz County bars regarding compliance with smoking ordinances.
10. California’s adult smoking rate dropped to a historic low of 15.4 percent in 2004, compared to 22.8 percent in 1988 (a 32.5 percent decrease) when California voters passed Proposition 99.<sup>5</sup>
11. Comprehensive local and school-based tobacco education programs have been credited as key factors in statewide smoking reductions.<sup>6</sup>
12. From 1994 to 2002, student tobacco use has decreased in Santa Cruz County as illustrated in the following table:<sup>7</sup>

Year	Percentage of Age Group Stating That They Have Used Tobacco	
	9 <sup>th</sup> Graders	11 <sup>th</sup> Graders
1994	65%	64%
2002	31%	40%

**Table 2. Percentages of Santa Cruz County 9<sup>th</sup> and 11<sup>th</sup> Graders Stating That They Have Used Tobacco.**

13. Surveys done in 2002 and 2003 show adult smoking rates continue to decrease in Santa Cruz County.<sup>8</sup>

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<sup>5</sup> News Release: “California Smoking Rates Drop 33 Percent Since State’s Anti-Tobacco Program Began,” February 2005, <http://www.dhs.ca.gov>.

<sup>6</sup> News Release: “California Smoking Rates Drop 33 Percent Since State’s Anti-Tobacco Program Began,” February 2005, <http://www.dhs.ca.gov>.

<sup>7</sup>Community Assessment Project, Comprehensive Report, 2004, [http://www.appliedsurveyresearch.org/products/CAP10\\_Health.pdf](http://www.appliedsurveyresearch.org/products/CAP10_Health.pdf).

<b>Do you now smoke cigarettes every day, some days or not at all?</b>			
	<b>Everyday</b>	<b>Some Days</b>	<b>Not At All</b>
<b>2002</b>	19.5%	6.9%	73.6%
<b>2003</b>	18.9%	6.2%	74.8%

**Table 3. Adult Cigarette Smoking Rates, Santa Cruz County.**

### **CHIP Funds**

14. In order to receive California Healthcare for the Indigent Program (CHIP) funds from the state, Santa Cruz County must submit an application to the California Department of Health Services and agree to abide by strict state guidelines.
15. In 1998-99, Santa Cruz County Health Services Agency received over \$1.1 million in Proposition 99 monies that went to CHIP. By 2002-03, that amount had dwindled to \$314,111, then dropped to \$68,933 in 2003-04.
16. CHIP funds received by Santa Cruz County from Fiscal Year 2001-02 to Fiscal Year 2003-04 are summarized as follows:<sup>9</sup>

<b>CHIP Account</b>	<b>Fiscal Year Allocation</b>		
	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>
Total Hospital	\$363,822	\$233,984	\$64,500
Total Physician	\$14,624	0	0
Total Other	\$56,970	\$80,127	\$4,433
<b>Total CHIP</b>	<b>\$435,416</b>	<b>\$314,111</b>	<b>\$68,933</b>

**Table 4. CHIP Allocations for Santa Cruz County for Fiscal Year 2001-02 through Fiscal Year 2003-04.**

17. For Fiscal Year 2004-05, the CHIP allocation from Proposition 99 for Santa Cruz County was \$77,214. These funds were appropriated in April 2005 and were not anticipated in the current year's budget.
18. According to health services personnel, due to the strict, cumbersome and staff-intensive state reporting requirements, receiving a CHIP allocation of less than \$35,000 would not be cost effective for the county.

<sup>8</sup> Community Assessment Project, Comprehensive Report, 2004, [http://www.appliedsurveyresearch.org/products/CAP10\\_Health.pdf](http://www.appliedsurveyresearch.org/products/CAP10_Health.pdf).

<sup>9</sup> California Healthcare for Indigents Program, CHIP Funding History, provided by Santa Cruz County Health Services Agency, May 4, 2005.

19. The State of California deposits money into county revenue accounts and/or trust funds. When claims are made, the money is pulled from the trust fund accounts, goes into the general fund, then is paid out. Charges are made before money comes out of the trust fund.
20. The Medi-Cruz Program within the Health Services Agency pays for indigent care, and CHIP money is expended from that division's budget. The Health Services Agency receives claims from the hospitals and physicians for indigent care. Available CHIP funds are used to help pay the claims until the funds are exhausted.
21. CHIP funds going to Dominican Santa Cruz Hospital and Watsonville Community Hospital and physicians involve contracts. Some contracts are blended and may contain some Proposition 99 money as well as other funding sources.
22. The current budget for the Medi-Cruz program is \$4.5 million. Although the current \$77,214 CHIP allocation is a small part of that budget, county health officials felt it would still be beneficial to receive the money.
23. Despite the continuing decrease in CHIP allocation, Santa Cruz County has used county overmatch and realignment funds to keep the Medi-Cruz program viable. Approximately 8,000 to 9,000 patients annually receive care paid by Medi-Cruz funds.

### ***Conclusions***

1. Santa Cruz County is spending its Proposition 99 monies according to the guidelines set forth by the State of California.
2. The Tobacco Education Program and Tobacco Education Coalition have mounted successful programs in Santa Cruz County to reduce smoking rates in adults and students.
3. The Tobacco Education Program and Tobacco Education Coalition have successfully worked with local jurisdictions and businesses to reduce second-hand smoke exposure.
4. Since CHIP funds have decreased dramatically since 1998-99, Santa Cruz County has less money for indigent medical care. Eventually, Proposition 99 funding could drop so low that accepting it would not be cost-effective for the county.

### ***Recommendations***

1. Santa Cruz County's Tobacco Education Program is to be commended for its success in reducing tobacco use and lessening exposure to secondhand smoke.
2. Santa Cruz County is to be commended for successfully using Proposition 99 funds for indigent medical care and for its efforts to keep the Medi-Cruz program intact.

**Responses Required**

<b>Entity</b>	<b>Findings</b>	<b>Recommendations</b>	<b>Respond Within</b>
Santa Cruz County Board of Supervisors	1-23	1, 2	60 Days (August 30, 2005)
Santa Cruz County Health Services Agency	1-23	1, 2	90 Days (September 30, 2005)

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