Joint Budget Committee

Staff Budget Briefing
FY 2027-28

Tobacco Revenue

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To find the online version of the briefing document search the General Assembly's website for budget documents (content.leg.colorado.gov/content/budget#budget-documents-section).

Overview of Tobacco Revenue Streams

Colorado receives TABOR-exempt tobacco revenue from three sources:

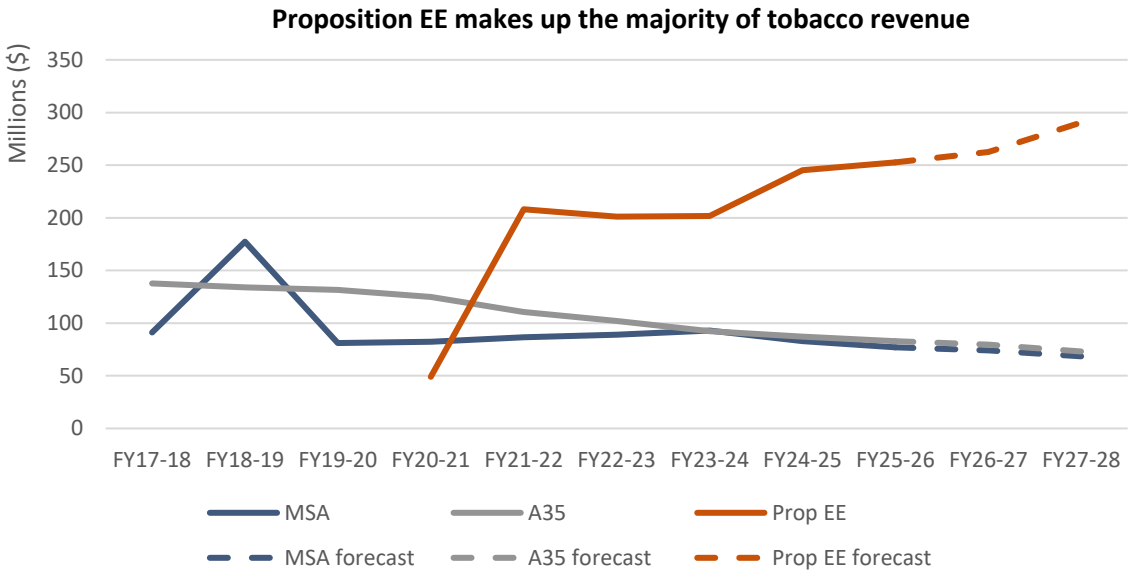
1. Tobacco Master Settlement Agreement (MSA): a 1998 legal settlement between tobacco manufacturers and states that sued manufacturers to recover Medicaid and health-related costs from treating smoking-related illnesses.
2. Amendment 35 (A35): a 2004 constitutional amendment that created tobacco and cigarette taxes.
3. Proposition EE: a tobacco, cigarette, and nicotine product tax approved by voters in November 2020.

This document includes a high-level summary below, followed by a detailed discussion of each of the three revenue sources.

How large are these revenue streams?

Proposition EE revenue is the newest and largest tobacco revenue source discussed in this document. It generates over $250 million in annual revenue and is projected to remain relatively steady under the Legislative Council Staff (LCS) September 2026 forecast.

Amendment 35 and Master Settlement Agreement revenues are projected to continue declining.



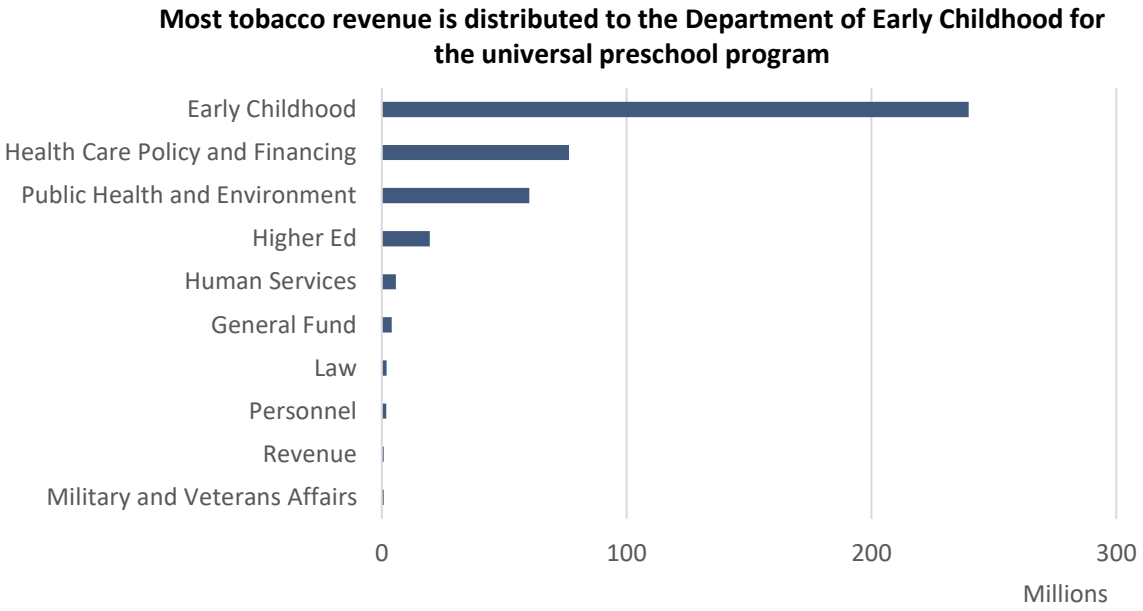
What does the revenue fund?

Based on FY 2025-26 data, most tobacco revenue goes to the Department of Early Childhood to support universal preschool ($217.6 million). A small amount also goes to the Department's Nurse Home Visitor Program ($22.1 million). The contribution to universal preschool is from Proposition EE revenue.

The Department of Healthcare Policy and Financing receives the second-highest amount of tobacco revenue ($76.5 million). Most of this revenue goes towards Medicaid expansion ($43.1 million), followed by primary care

in underserved areas ($17.8 million). $14.1 million also goes towards the CHP+ program that provides low-cost health insurance for certain children and pregnant individuals.

The Department of Public Health and Environment receives the third-highest amount of tobacco revenue ($60.3 million). This primarily funds tobacco education programs ($35.0 million), followed by $15.0 million for prevention, early detection, and treatment programs. These include programs focused on breast and cervical cancer, health disparities, health data and analytics, and cancer, cardiovascular disease, chronic pulmonary disease. A significant portion of these funds are distributed to local entities as grants.



How flexible are the uses of the revenue?

Of the revenue sources discussed, the distribution from Tobacco Master Settlement Agreement revenue is the most flexible since it is dictated solely by statute. The distributions for Amendment 35 and Proposition EE revenue are outlined in statute, but also in the Constitution and ballot language that create additional constraints.

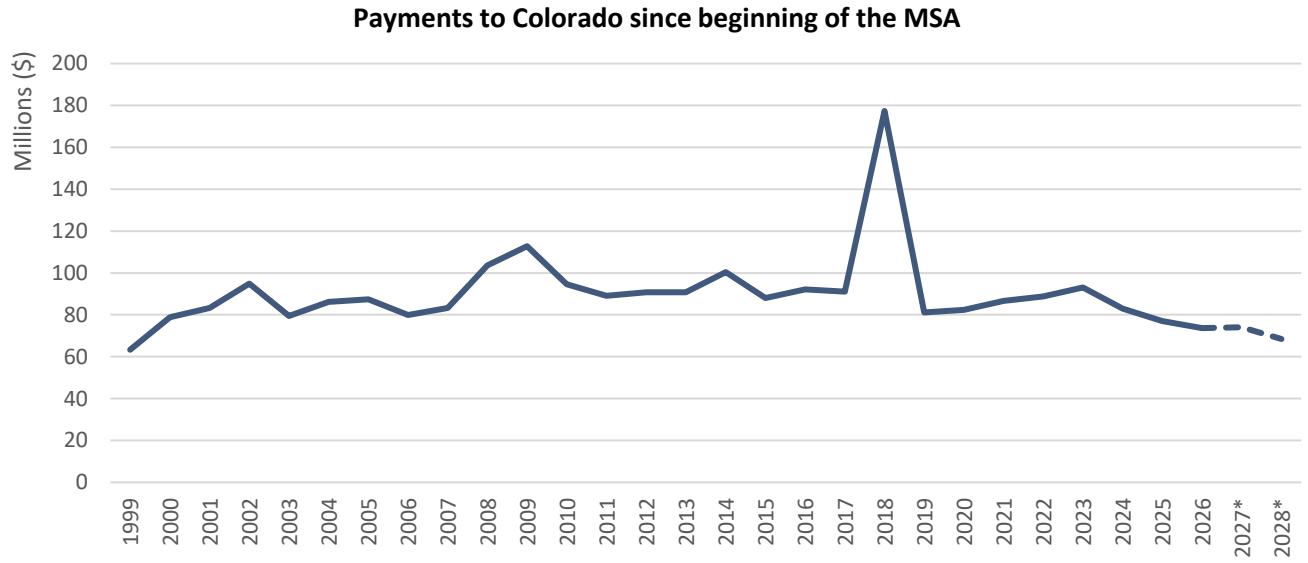
Tobacco Master Settlement Agreement

The 1998 Tobacco Master Settlement Agreement (MSA) was the result of legal action to recover expenses that states incurred for the treatment of tobacco-related illnesses. Under the MSA, states and other governments consented to release participating manufacturers from health-related claims associated with tobacco products, and receive perpetual annual payments in return. MSA revenue is exempt from TABOR as a damage award.

Calculating Total MSA Payment

The size of the annual MSA payment is largely determined by (1) U.S. inflation rates, (2) nationwide cigarette consumption, and (3) cigarette manufacturers' income. A base payment of $9.0 billion is annually adjusted by these factors. More information about these adjustments can be found in Appendix A.

Colorado receives 1.4 percent of the annual payment. These payments have been declining since 2023, and are projected to continue declining due to reduced cigarette sales. The large payment in 2018 was a result of the Non-Participating Manufacturer Adjustment Settlement Agreement discussed in Appendix A.



*forecasted amounts based on the LCS January 2026 forecast

MSA Fund Distribution in Colorado

The recommended distribution for the FY 2027-28 MSA payment will be based on the January 2027 LCS forecast of MSA revenue. The state receives the annual MSA payment in April, which is after the Long Bill is typically sent to the Governor. As a result, even though the actual payment is known by mid-April, appropriations in the Long Bill are based on forecasted amounts.

Funds are distributed to programs as follows:

Tobacco Master Settlement Agreement Revenue Distributions

Department	Program	Percent	FY 25-26 Actual	FY 26-27 Estimate	FY 27-28 Forecast
Early Childhood	Nurse Home Visitor Program	28.7%	$22,100,926	$21,257,271	$19,649,494
Health Care Policy and Financing	Children's Basic Health Plan Trust (CHP+)	18.0%	13,861,208	13,332,086	12,323,724
Higher Ed	University of Colorado Health Sciences Center (2.0% of this amount is for in-state cancer research)	17.5%	13,476,174	12,961,750	11,981,399
Higher Ed	Fitzsimons Lease Purchase Payments	8.0%	6,160,537	5,925,372	5,477,211
Human Services	Tony Grampsas Youth Services Program	7.5%	5,775,503	5,555,036	5,134,885
Law	Tobacco Litigation Settlement	2.5%	1,925,168	1,851,679	1,711,628
Military and Veterans Affairs	State Veterans Trust Fund	1.0%	770,067	740,671	684,651
Personnel	Supplemental State Contribution	2.3%	1,771,154	1,703,544	1,574,698
CDPHE	State Drug Assistance Program (SDAP, Ryan White)	5.0%	3,850,336	3,703,357	3,423,257
CDPHE	AIDS and HIV Prevention (CHAPP)	3.5%	2,695,235	2,592,350	2,396,280
CDPHE	Immunizations	2.5%	1,925,168	1,851,679	1,711,628
CDPHE	Dental Loan Repayment Program	1.0%	770,067	740,671	684,651
CDPHE	Colorado Health Service Corps	1.0%	770,067	740,671	684,651
n/a	Unallocated Amount	1.5%	1,155,101	1,111,007	1,026,977
Total		100.0%	$77,006,710	$74,067,145	$68,465,135

The MSA itself does not have language that dictates how the payments to states may be used. States made these decisions through Consent Orders filed in individual state courts, and Colorado's Consent Order stated that the use of funds would be directed by the State Legislature. As such, the MSA distribution formula is dictated by statute.[1]

MSA revenues are first placed in the Tobacco Litigation Settlement Fund and then distributed to programs by the Treasury. The statutory distribution formula has been amended twice in the past ten years.[2]

Section 24-75-1103, C.R.S., outlines an overall state policy for the use of tobacco settlement funds. A majority of the funds received shall be "dedicated to improving the health of the citizens of Colorado, including tobacco use prevention, education, and cessation programs and related health programs". The statute also lists activities for which a portion of settlement funds shall be used:

- statewide and local public health programs;
- addressing tobacco-related health problems;
- tobacco-related in-state research; and
- improving childhood literacy through reading programs implemented by public schools.

For more information on MSA-funded program activities and outcomes, see Appendix B.

[1] Section 24-75-1104.5 (1.7), C.R.S.

[2] House Bill 16-1408 replaced MSA funding for multiple programs with the Marijuana Tax Cash Fund and allocated additional funding for cancer research at the University of Colorado. House Bill 24-1388 increased the Nurse Home Visitor Program's distribution from 26.7 percent to 28.7 percent.

Actual Expenditures

Due to the uncertainty in the amount of the tobacco MSA payment every year, actual allocations and expenditures may vary from the amount appropriated in the Long Bill.

An annual request for information helps to get a sense of actual MSA allocations and expenditures.

Actual expenditures for MSA programs in FY 2025-26

Department	Program	Purpose	Allocation	Expenditures	Over (-) / Under (+)
Early Childhood	Nurse Home Visitor Program	Home visits for economically disadvantaged families who are expecting their first child.	$22,100,926	$24,368,325	-$2,267,399
HCPF	Children's Basic Health Plan	Public low-cost health insurance for certain children and pregnant women.	13,861,208	13,861,208	0
Higher Ed	UC Health Sciences Center	Mandatory educational operating costs, School of Medicine (curriculum), Cancer Center (research and community engagement).	13,476,174	13,476,174	0
Human Services	Tony Grampsas Youth Services Program	Grants to organizations that provide programs to reduce youth crime and violence, marijuana use, prevent child abuse and neglect.	5,775,503	8,404,946	-2,629,443
Military and Veterans Affairs	State Veterans Trust Fund	Grants to state veterans community living centers and non-profit veterans services organizations.	770,067	1,055,733	-285,666
Law	Tobacco Litigation Settlement	Monitors compliance with settlement terms and protects Colorado's interests in annual payment calculations and potential litigation.	1,925,168	388,452	1,536,716
Personnel	Supplemental State Contribution Fund	Supplemental health insurance to low-income state employees.	1,771,154	1,500,605	270,549
CDPHE	Drug Assistance Program	Medications and support for premiums for those with HIV and that meet financial eligibility criteria.	3,850,336	5,775,436	-1,925,101
CDPHE	AIDS and HIV Prevention Grants	Grants for HIV and AIDS prevention and education.	2,695,235	3,147,108	-451,873
CDPHE	Immunizations	Core Immunization Service contracts for LPHAs.	1,925,168	2,142,375	-217,208
CDPHE	Health Services Corps Fund	Educational loan repayment for health professionals.	770,067	741,012	29,055
CDPHE	Dental Loan Repayment Program	Educational loan repayment for dental health professionals.	770,067	770,067	0

In FY 2025-26, half of the programs funded by the MSA started spending more than they receive. This coincides with declining MSA revenue as well as additional demand for some programs (e.g., state drug assistance).

In the five years prior to FY 2025-26, most programs were not spending their full MSA allocation. These years also experienced a steady year-over-year MSA revenue increase due to high inflation alongside slower than normal decline in cigarette and tobacco sales. The current MSA forecast does not anticipate revenues returning to these higher levels.

Despite this change in revenue, two programs have consistently spent less than they are allocated and contributed to budget balancing. Since 2020, $6.0 million from the Supplemental State Contribution Fund (DPA)

and $8.3 million from the Tobacco Settlement Defense Account (DOL) have been transferred to the General Fund.[3]

The Tony Grampsas program's MSA fund balance was also used to offset $1.0 million General Fund in FY 2025-26.

Additional programmatic details will be discussed during individual department briefings.

Budget Reduction Options

The MSA is the most flexible of the three tobacco revenue sources discussed in this document, with the distribution and purposes outlined solely in statute that may be amended by the Committee. As such, staff has identified the following pathways for budget reductions:

Option 1: Adjusting the MSA fund distribution [requires legislation]

Increasing allocations to MSA-funded programs that also receive General Fund could offset General Fund needs. However, this comes at the cost of a reduced allocation to programs that rely entirely on MSA funding. The majority of MSA-funded programs are primarily (or entirely) funded by the settlement funds.

A few programs are also supported by the General Fund and other funds:

- the Children's Basic Health Plan Trust or CHP+ ($53.5 million General Fund)
- Tony Grampsas Youth Services Program ($1.8 million General Fund, $2.2 million Marijuana Tax Cash Fund)
- University of Colorado Fitzsimons Lease Purchase Payments (about $1 million General Fund)

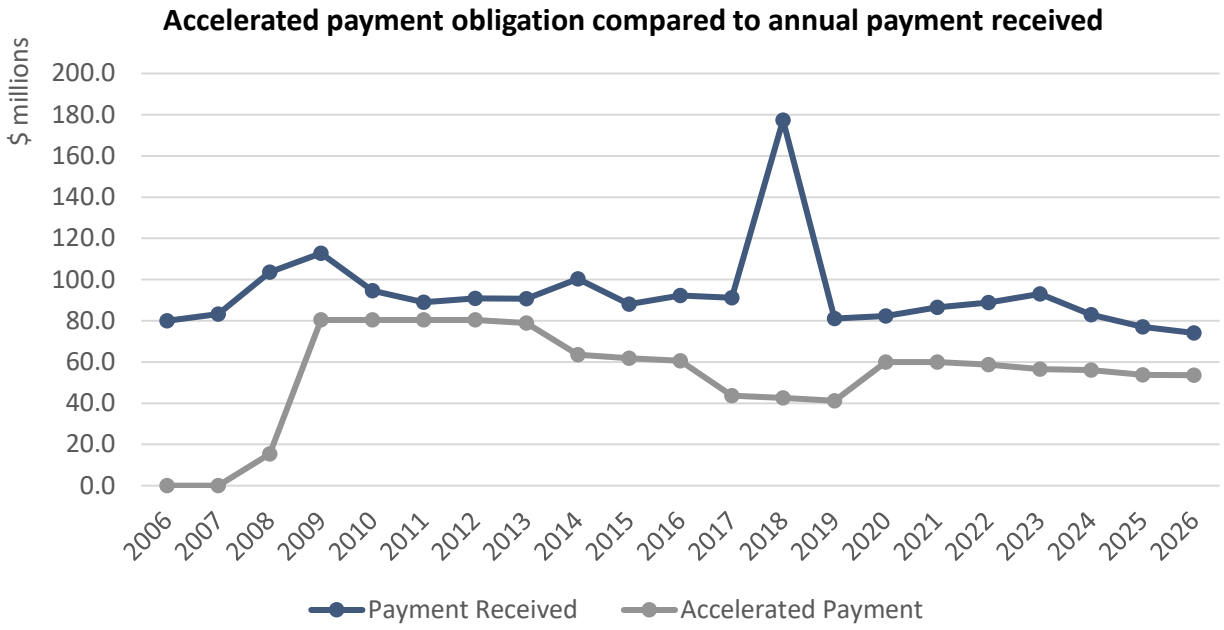
Option 2: Accelerated payments [requires legislation]

Staff does not recommend using the "accelerated payment" as a budget balancing option because it creates short-term budget relief in exchange for a long-term cost. However, it has been utilized previously and is an option.

In 2009, the General Assembly created an "accelerated payment" by borrowing against the annual MSA payment. This allowed them to spend more in the current year with the promise of paying for the additional expenses with next year's MSA payment. Before 2009, the MSA payment received in April would fund programs in the following fiscal year (starting in July). Now, the MSA payment received in April funds programs in the current fiscal year (starting immediately), and the remainder pays for expenses in the following fiscal year.

The size of the accelerated payment is not currently a concern, but may become a concern if the April payment is lower than the amount that programs have spent. This would result in a General Fund obligation that cannot be paid off with MSA money. This was not an issue in FY 2025-26 because the remaining accelerated payment was $53.6 million compared to $74.1 million received in April 2026.

[3] Funds were transferred through HB 20-1380, SB 25-264, and HB 26-1405.



Since 2020, the General Assembly has been slowly paying down the accelerated payment. Current annual payments are 1.5 percent of the annual distribution, projected to be $1.0 million in FY 2027-28. At the current rate, fully paying off the accelerated payment will take decades.

Tobacco, Cigarette, and Nicotine Taxes

This section contains an overview of Colorado's two tobacco-related taxes, and an overview of two statewide budget requests related to tobacco taxes.

Amendment 35

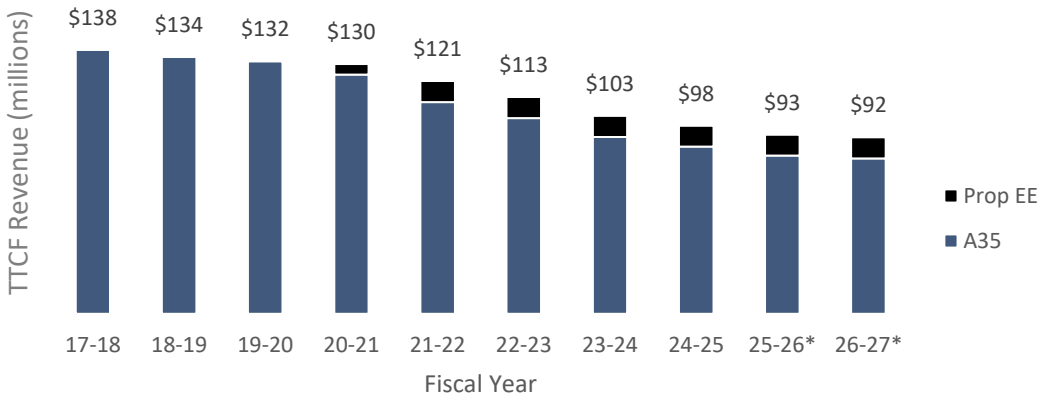
Amendment 35, approved by voters in 2004, added two cigarette and tobacco taxes to Section 21 of Article X of the Colorado Constitution:

- An additional $0.64 tax on each pack of cigarettes sold in Colorado; and
- A statewide tobacco products tax equal to 20.0 percent of the manufacturer's list price, on the sale, use, consumption, handling, or distribution of tobacco products by distributors.

This revenue is TABOR-exempt as a voter-approved measure.

Revenue from Amendment 35 is first deposited in the Tobacco Tax Cash Fund (TTCF) before being distributed to programs on a monthly basis. Amendment 35 revenues have declined over time, as shown below, mainly due to decreasing consumption of cigarettes in Colorado. This revenue decline has been slightly offset in the short term by increased revenue from Proposition EE taxes, which transferred $5.5 million into the TTCF in FY 2020-21 and $11.0 million in FY 2021-22 and ongoing.

Amendment 35 revenue continues declining, partially offset by Proposition EE revenue



*FY26-27 and FY27-28 based on forecasted revenue

Revenue distribution is dictated by the constitutional amendment and is codified in Section 24-22-117, C.R.S. The revenue is distributed to the Departments of Health Care Policy and Financing (HCPF), Public Health and Environment (CDPHE), and Revenue (DOR).

The September 2026 Legislative Council Staff forecast projects the following distribution:

Distribution of TTCF revenue (includes both A35 and Prop EE revenue)

Department	Program/Fund	Percent	FY 24-25 Actual	FY 25-26 Actual	FY 26-27 Forecast	FY 27-28 Forecast
HCPF	Health Care Expansion Fund – includes Medicaid expansion	46.0%	$45,138,312	$43,143,332	$41,623,254	$38,646,927
HCPF	Primary Care Fund – funds primary care in underserved communities	19.0%	18,644,085	17,820,072	17,192,214	15,962,861
CDPHE	Tobacco Education Programs Fund – Tobacco Education, Prevention, and Cessation Grant Program	16.0%	15,700,282	15,006,376	14,477,654	13,442,409
CDPHE	Prevention, Early Detection, and Treatment Fund – breast and cervical cancer, health disparities, health data, and cancer, cardiovascular disease, chronic pulmonary disease prevention	16.0%	15,700,282	15,006,376	14,477,654	13,442,409
HCPF	Old Age Pension Fund – medical care for eligible adults 60 years and older	1.5%	1,471,901	1,406,848	1,357,280	1,260,226
Revenue	Local government compensation for lost revenue from tobacco taxes	0.9%	883,141	844,109	814,368	756,136
CDPHE	Immunizations performed by small local public health agencies	0.3%	294,380	281,370	271,456	252,045
HCPF	Children's Basic Health Plan (CHP+)	0.3%	294,380	281,370	271,456	252,045
	Total	100.0%	$98,126,765	$93,789,853	$90,485,336	$84,015,058

Proposition EE and II

Proposition EE was a ballot measure initiated by HB 20-1427 (Cigarette, Tobacco, and Nicotine Products Tax) and approved by voters in November 2020. The measure raised taxes on cigarettes and other tobacco products, as indicated in the table below, and created a tax on nicotine products such as vaping devices.

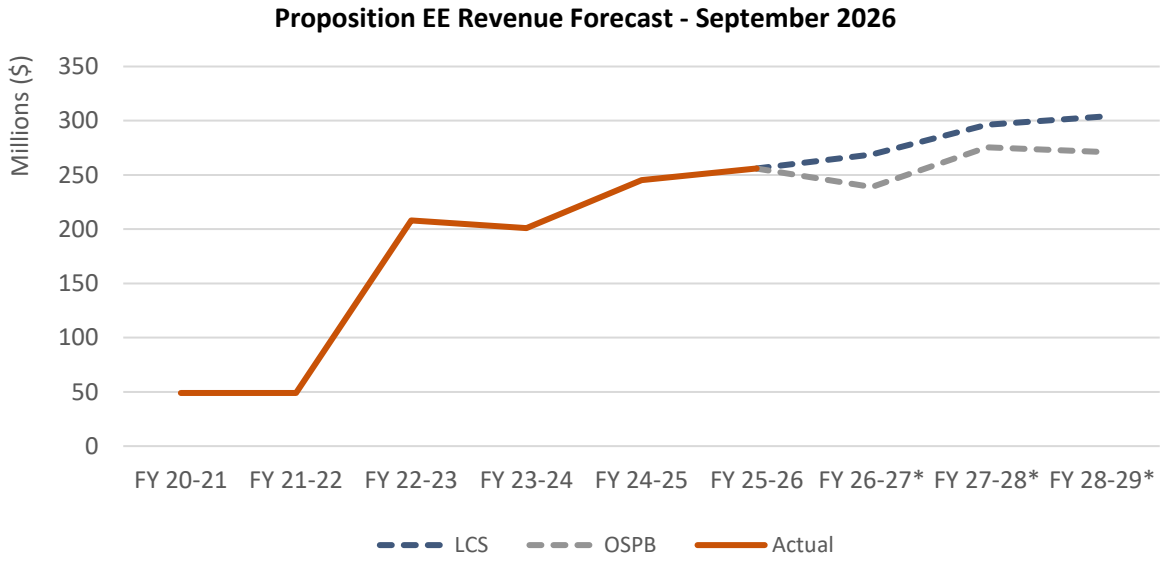
Proposition II allowed greater-than-expected revenue from Proposition EE to be retained by the state. [4] It was approved by voters in November 2023.

Prop EE/II tax increases for cigarettes, tobacco, and nicotine

Product	Timing	Jan 2021 - Jun 2024	Jul 2024 - Jun 2027	Jul 2027 onwards
Cigarettes	Before Jan 1, 2021	$0.84	$0.84	$0.84
Cigarettes	Prop EE/II Tax Increase	$1.10	$1.40	$1.80
	Total cigarette tax	$1.94	$2.24	$2.64
Tobacco	Before Jan 1, 2021	40%	40%	40%
Tobacco	Prop EE/II Tax Increase	10%	16%	22%
	Total tobacco tax	50%	56%	62%
Nicotine	Before Jan 1, 2021	0%	0%	0%
Nicotine	Prop EE/II Tax Increase	50%	56%	62%
	Total nicotine tax	50%	56%	62%

[4] Revenue from the increased taxes in Proposition EE totaled $208.0 million in FY 2021-22, exceeding the $186.5 million estimate in the 2020 Blue Book.

Proposition EE revenue in FY 2026-27 is projected to slowly increase under the LCS September 2026 forecast, and slightly decline under the OSPB forecast. The forecasted OSPB decline is largely due to the reclassification of a number of ZYN nicotine pouches as "modified risk tobacco products" – thereby reducing their tax rate. This decreased the September 2026 forecast by $9.7 million compared to the June 2026 forecast.



*Dotted lines indicate forecasted amounts.

Cigarette taxes make up the largest portion (50.9 percent) of Proposition EE revenue, followed by nicotine revenue (42.0 percent).

Proposition EE distribution

As outlined in Section 24-22-118, C.R.S., tax revenue from Proposition EE is deposited in the 2020 Tax Withholding Fund and distributed on an ongoing basis throughout the year. The distribution goes first to the General Fund, Tobacco Education Programs Fund, and Tobacco Tax Cash Fund.

After these distributions are made, the remaining revenue is then deposited into the Preschool Programs Cash Fund. If revenue is not enough to cover initial obligations, dollars are dispersed on a proportional basis.

The table below shows actual and projected Proposition EE revenue based on the September 2026 LCS forecast.[5]

Distribution of Proposition EE dollars

Program/Fund	FY 24-25 Actual	FY 25-26 Forecast	FY 26-27 Forecast	FY 27-28 Forecast
General Fund	$4,050,000	$4,050,000	$4,050,000	$4,050,000
Tobacco Education Programs Fund	20,000,000	20,000,000	20,000,000	30,000,000
Tobacco Tax Cash Fund	10,950,000	10,950,000	10,950,000	10,950,000
Preschool Programs Cash Fund	210,182,036	217,654,357	227,635,135	245,473,550
Total	$245,182,036	$252,654,357	$262,635,135	$290,473,550

[5] Revenue is forecasted on an accrual basis, however, distributions are made on a cash basis which may lead to discrepancies between total revenue and total distributions.

The distribution is scheduled to change on July 1, 2027, when the distribution to the Tobacco Education Programs Fund will increase to $30.0 million. The remainder of the distribution will remain unchanged.

Budget Requests

The Governor's request includes two statewide decision items that impact tobacco revenue.

→ Statewide R7: Shift Proposition EE transfers

This item primarily impacts the Department of Public Health and Environment, and programmatic impacts will be discussed further during the department's briefing on December 11, 2026.

Request

A statutory change to increase the Proposition EE distribution to the General Fund by $5.0 million, and reduce the distribution to the Tobacco Education Programs Fund by $5.0 million. This is proposed as a one-time change.

Background

The Tobacco Education Programs Fund is used by the Department of Public Health and Environment for grants to local public health agencies and community-based organizations to reduce tobacco use and exposure. The fund currently receives a $20.0 million annual distribution from Proposition EE revenue.

Due to budget balancing measures in FY 26-27, half of the annual distribution ($10.0 million) will already transfer to the Department of Early Childhood to offset General Fund expenditures for the universal preschool program.[6] This will reduce available funding for grantees.

The fund is scheduled to receive a $10.0 million increase in their distribution in FY 27-28, so that the total distribution is $30.0 million. This proposal would reduce the FY 27-28 distribution to $25.0 million.

→ Statewide R13: New funding for preschool and childcare [informational]

This item was submitted as an informational item for the Joint Budget Committee's awareness. This document provides background on the tobacco tax portion of the request, with additional details to be discussed during the briefing for the Department of Early Childhood on November 19, 2026.

Request

The Governor's Office is proposing two referred ballot measures for November 2027 that would provide additional revenue for childcare and preschool programs by (1) increasing nicotine, cigarette, and tobacco taxes and (2) increasing and exempting gaming taxes from TABOR. The tobacco tax is projected to raise $48.7 million

[6] Per HB 26-1404 (Transfer Tobacco Education Fund to Preschool Program Fund). The transfer is scheduled for June 30, 2027.

in its first year, and $134.7 million annually once fully implemented. Most (72.3 percent) of this revenue is projected to come from cigarette taxes.

The proposed tobacco tax increases would be phased in over three years. The below table shows the additional proposed tax, not including existing taxes.

Incremental phase-in for proposed tax

Timing	Cigarettes (per pack)	Tobacco (% of manufacturer's list price)	Nicotine (% of manufacturer's list price)
Step 1 (Jul 2028 - Jun 2029)	$0.48	6%	6%
Step 2 (Jul 2029 - Jun 2030)	$0.96	12%	12%
Step 3 - Final Tax Rate (Jul 2030 and onwards)	$1.44	18%	18%

The proposed tax increase would bring Colorado's total cigarette tax to $4.08 per pack – a 54.5 percent increase compared to the current tax schedule under Proposition EE. Tobacco and nicotine taxes would also increase to 80.0 percent of the manufacturer's list price, a 29.0 percent increase above the tax rate in current law.

The next table shows total cigarette, tobacco, and nicotine tax rates including the proposed tax and all existing taxes.

Final Proposed Tax Rates[7]

Product	Cigarette (per pack)	Tobacco (% of manufacturer's list price)	Nicotine (% of manufacturer's list price)
1986 Statutory Tax	$0.20	20%	n/a
Amendment 35	$0.64	20%	n/a
Proposition EE – final (starting Jul 1, 2027)	$1.80	22%	62%
Statewide R13 – final (starting July 1, 2030)	$1.44	18%	18%
Total state taxes (starting July 1, 2030)	**$4.08**	**80%**	**80%**

Background

Compared to the rest of the country, Colorado has:

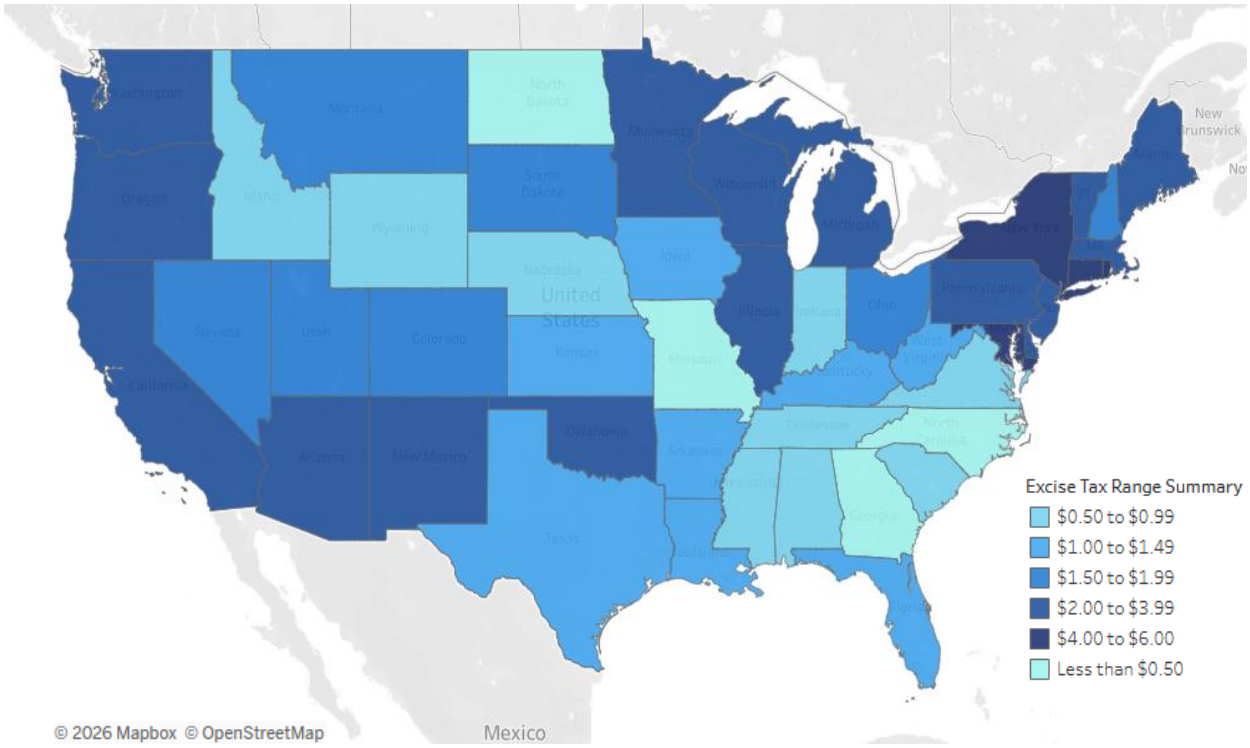
- a rate of adult smokers that is below the national median (8.2 percent vs. 10.6 percent nationwide)[8]
- below average cigarette taxes that are already scheduled to increase on July 1, 2027
- above average tax rates for nicotine and other tobacco products

With the proposed tax increases, Colorado would still remain below the very highest tax rates nationwide – but above average rates.

[7] Amendment 35 taxes are detailed in the Colorado Constitution, Article X, Section 21. The statutory taxes are outlined in Section 39-28.5-102, C.R.S.

[8] Based on 2025 data from the Centers for Disease Control and Surveillance Behavioral Risk Factor Surveillance System (BRFSS).

In 2024, the average tax for a pack of cigarettes in the U.S. was $2.18.[9] At the time, Colorado's tax per pack was $1.94, as shown in the map below. With the passage of Proposition EE, Colorado's cigarette tax will be $2.64 beginning July 1, 2027.



Data source: Centers for Disease Control and Surveillance's State Tobacco Activities Tracking and Evaluation (STATE) System (2024). Adapted by Kelly Shen.

The tax rate for other tobacco and nicotine products is harder to compare across the country because many states either do not tax these products or impose specific taxes that are not based on the price of the product.

Including Colorado, at least 34 states levy a tax on e-cigarettes and at least 19 states tax alternative tobacco/nicotine products. [10] The highest *ad valorem* e-cigarette tax is 95.0 percent of the wholesale price in Minnesota[11], and the lowest is 7.0 percent in Georgia.[12] With the passage of Proposition EE, Colorado's nicotine tax will be 62.0 percent of the manufacturer's list price beginning July 1, 2027.

Many localities also impose tobacco and e-cigarette taxes that are not reflected above.

[9] Based on 2024 data from the Centers for Disease Control and Surveillance's State Tobacco Activities Tracking and Evaluation (STATE) System.
[10] "It Pays to Sin: Cigarettes, Tobacco, and Nicotine," National Conference of State Legislatures, last modified January 13, 2026, https://www.ncsl.org/fiscal/it-pays-to-sin-cigarettes-tobacco-and-nicotine.
[11] Chapter 297F.05(3), Minnesota Statutes.
[12] Section 48-11-2(a)(6), Official Code of Georgia Annotated.

Questions for Consideration

These questions are not necessarily for department hearings, but are broad, suggested questions to think about if the General Assembly decides to move forward with this proposal.

1. Is the proposal an appropriate use of tobacco/nicotine tax revenue?

- State uses for tobacco and nicotine tax revenue vary widely. Several states also use a portion of the funds to support early childhood initiatives, including Arizona and California.[13]

2. Who will be impacted by this tax increase?

- In Colorado, tobacco and electronic vapor product use varies across many factors including age, socioeconomic status, and geographic location:
  - Smoking is most common among adults age 35-44 (12.5 percent usage), whereas electronic vapor product use is most common among adults 18-24 (21.3 percent).
  - Both cigarette and vaping are more common among those below 250.0 percent of the federal poverty level compared to above (12.8 percent and 11.2 percent usage, respectively).
  - Using electronic vapor products in urban areas is more popular than in rural areas (8.7 percent compared to 6.7 percent). This trend is reversed for cigarette use.[14]
- Initial studies show that the majority of e-cigarette tax increases are passed onto consumers.[15] [16]
- Many studies show that responsiveness to tobacco price changes varies by socioeconomic status, education level, age, and race. [17] [18] [19] [20] [21]
- The increased price of tobacco products may lead to healthcare cost savings in the short- and medium-term. [22]

[13] Chapter 42-3-9(3371), Arizona Revised Statutes and 2 RTC 13-2-3, California Statutes.
[14] 2024 Colorado Behavioral Risk Factor Surveillance System and CDPHE's VISION dashboard.
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3. What are unintended effects of increasing tax rates?

- While increased tobacco taxes have been shown to reduce rates of cigarette use,[23] there are now many more products that deliver nicotine to an individual – and more options for substitution.[24]

4. What are assumptions and risks within the forecasted revenue? Is this a stable source of revenue for a long-term program?

- Cigarette consumption has historically been less responsive to price in short-term.[25]
- Demand for newer products like e-cigarettes may be more responsive to price in the short-term. [26] [27]
- There is growing research on the relationship between e-cigarettes (and other nicotine delivery systems) and cigarettes. Some initial studies show that they are economic substitutes – such that increased e-cigarette taxes or more e-cigarette purchase restrictions are associated with increased cigarette use. [28] [29] [30]

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Appendix A: MSA Payment Calculation Details

The size of the annual MSA payment is largely determined by (1) U.S. inflation rates, (2) nationwide cigarette consumption and manufacturer income, and (3) disputed payments.

Inflation Adjustment

The inflation adjustment is equal to either 3.0 percent or the U.S. Consumer Price Index (CPI-U) percentage change for the calendar year used to determine the payment, whichever is greater. The Independent Auditor for the MSA, Price Waterhouse Coopers, calculates the inflation adjustment using CPI-U across the nation.

U.S. Cigarette Consumption and Manufacturer Income (Volume and Profit Adjustments)

The volume adjustment is based on the aggregate number of cigarettes shipped in or to the U.S. by the MSA's original participating manufacturers. The Legislative Council Staff forecast uses a proxy measure that has data available monthly – excise taxes collected on containers of roll-your-own tobacco and on packs of cigarettes bearing state excise tax stamps. With the exception of during the pandemic, in which demand temporarily increased, cigarette sales in the U.S. have declined for decades and are projected to continue declining.

When income collected by cigarette manufacturers in a given year exceeds an inflation-adjusted threshold, the profit adjustment is applied to the volume adjustment and MSA payments are increased. In recent years, the largest manufacturers that participate in the MSA have begun moving towards higher-priced premium products and non-cigarette tobacco products, and away from lower-cost products, resulting in higher incomes for tobacco manufacturers.

Disputed Payments, Arbitration, and Settlements

Participating manufacturers used to withhold portions of Colorado's MSA payments based on a "non-participating manufacturer (NPM) adjustment" clause within the MSA. In 2018, the NPM Adjustment Settlement Agreement (NPMASA) changed this for the state by:

- releasing all disputed payments withheld from Colorado for 2004 through 2017;
- ending NPM adjustment withholding from future annual payments; and
- determining percentage splits/credits for the no-longer-withheld, but disputed NPM adjustment amounts.

The original clause intended to ensure that significant losses of market share do not occur for participating manufacturers as a result of the MSA. However, per the MSA, resolving NPM adjustment disputes requires states and participating manufacturers to enter into a lengthy arbitration process. For the 2003 NPM adjustment dispute – the process to define the multi-state arbitration began in 2006, actual arbitration began in 2010, and ended in 2013.

In order to avoid arbitration processes, many states and the participating manufacturers entered into the NPMASA. As a result, Colorado's payment received increased in 2018 to approximately $113.3 million. This one-time revenue was credited to the General Fund per Section 24-75-1104.5 (5) C.R.S. The agreement is currently extended through 2027. Without another extension or agreement, 2028 is the next sales year for which an NPM adjustment arbitration could occur.

Appendix B: RFI Responses

There is currently one multi-Department request for information on program outcomes for entities that receive tobacco MSA revenue. This appendix summarizes Department responses.

"Each Department is requested to provide the following information to the Joint Budget Committee by October 1 of each year for each program funded with Tobacco Master Settlement Agreement money: the name of the program; the amount of Tobacco Master Settlement Agreement money received and expended by the program for the preceding fiscal year; a description of the program including the actual number of persons served and the services provided through the program; information evaluating the operation of the program, including the effectiveness of the program in achieving its stated goals."

This RFI applies to the following departments:

- Early Childhood – Nurse Home Visitor Program
- Healthcare Policy and Financing – Children's Basic Health Plan
- Higher Education – University of Colorado
- Human Services – Tony Grampsas Youth Services Program
- Law – Tobacco Settlement Defense Account
- Military and Veterans Affairs – State Veterans Trust Fund
- Personnel – Supplemental State Contribution Program
- Public Health and Environment – Drug Assistance Program, AIDS and HIV Prevention, Immunizations, Dental Loan Repayment, Colorado Health Services Corps

Early Childhood

Nurse Home Visitor Program

The program was created in FY 2000-01 in order to support economically disadvantaged families who are expecting their first child. The program utilizes the Nurse-Family Partnership (NFP) model – an evidence-based, voluntary, community health nursing program. Under the model, clients are partnered with a registered nurse early in their pregnancy and receive home visits until the child turns two. All nurses delivering NFP are trained by the NFP National Service Office (NFPNSO) and receive consultation and continuing education from Invest in Kids (IIK). IIK, the NFPNSO, and the University of Colorado ensure the program is implemented properly.

The program is open to first-time, low-income parents (individuals below 200.0 percent of the Federal Poverty Level). In Colorado, the average client age is 21.

The program aims to:

- Improve pregnancy outcomes by helping women access prenatal care, improve their diets, and reduce the use of cigarettes, alcohol, and illegal substances. The program has seen a 21.0 percent reduction in smoking rates among participants compared to 20.0 nationwide.

- Improve child health and development by helping parents provide responsible and competent care. 95.0 of clients initiate breastfeeding compared to 89.0 percent nationwide, and 92.1 percent of 24-month-old infants received immunizations compared to 87.0 nationwide.
- Improve family economic self-sufficiency by helping parents develop a future vision, plan pregnancies, continue their education, and find work. 38.9 percent of clients without a high school diploma/GED were able to earn a diploma/GED by program completion.

In FY 2025-26, through MSA funding, the program completed 35,841 visits to 3,540 clients (including 2,976 children). An additional 585 clients were served and 5,419 visits were completed with federal funding.

Health Care Policy and Financing

Children's Basic Health Plan Trust

The Children's Basic Health Plan (CHP+) provides affordable health insurance to children under 19 and pregnant women in low-income families who: (1) do not qualify for Medicaid and (2) do not have private insurance.

In FY 2025-26, the program served an average monthly caseload of 74,576, including 72,005 children and 2,571 pregnant adults. This is a decrease of 15.9 percent in the average monthly enrollment compared to FY 2024-25.

Enrollment has generally grown over the past three years due to the unwinding of the public health emergency and beneficiaries who moved from Medicaid to CHP+. Despite the recent decline in caseload, the Department anticipates that enrollment will continue to grow.

Higher Education

University of Colorado Anschutz

MSA revenue is used to offset potential tuition increases and support the following areas in FY 2025-26:

Colorado School of Public Health ($293,135)

- The evaluation, expansion, and adaptation of the Colorado School of Public Health's educational programs.

School of Medicine ($4,574,062)

- Two curriculum programs, which focus on skills beyond the lab or clinic, such as teamwork, communication, and ethics.
- Stipends for first-year PhD students completing degrees in select basic science programs.

School of Dental Medicine ($926,199)

- Support faculty in education and clinical training related to prosthodontics, general practice residency, restorative dentistry, and oral and maxillofacial surgery.

College of Nursing ($699,320)

- Support faculty that teach across the college's undergraduate and graduate programs. This funding offsets cost increases that would have otherwise been included in tuition.

Skaggs School of Pharmacy and Pharmaceutical Sciences ($881,270)

- Compensate faculty teaching in the school's Doctor of Pharmacy (PharmD), master's and PhD programs.

Area Health Education Centers ($387,464)

- Operational funds to build statewide network capacity and strengthen academic-community partnerships. The centers aim to improve career pathways to health professions, recruitment and continuing education in rural and urban medically underserved areas, and access to health education.

Cancer Center ($1,581,551)

- Improve the University of Colorado Cancer Center's inclusion of medically underserved Coloradans in the center's clinical, research and educational efforts, including minority-focused clinical trial enrollment and community engagement.

Classroom, library and student services expenditures ($434,474)

- Increased access to electronic resources for education and research, including online journals, databases, and educational software.

Mandatory educational operating costs ($3,698,699)

- Utilities, building maintenance, IT infrastructure, and other basic operating needs for 3.2 million square feet of the buildings on the Anschutz Medical Campus.

Human Services

Tony Grampsas Youth Services Program

The program funds community-based organizations that serve children, youth, and their families with programs designed to: (1) reduce youth crime, violence, and drug use, and (2) prevent child abuse and neglect. Eligible applicants include local governments, schools, nonprofit organizations, state agencies, and higher education institutions.

These organizations serve children and youth ages 0 to 25, as well as parents, caregivers, and community members. In FY 2025-26, grantees served 67,699 individuals from 53 counties and the Southern Ute Tribe. This was an increase of 5,901 (8.0 percent) individuals from FY 2024-25. Of those served:

- 18.0 percent were children (ages 0-8);
- 52.0 percent were youth (ages 9- 18);
- 14.0 percent were young adults (ages 19-24);
- 9.0 percent were parents or caregivers;
- 1.0 percent were adult mentors; and
- 6.0 percent were adult community members.

Military and Veterans Affairs

Colorado State Veterans Trust Fund

The fund is designed to assist all Colorado veterans regardless of race, color, national origin, religion, gender identity, and marital or religious status. The program funds:

1. Capital improvements or needed amenities for existing or future State Veterans' Community Living Centers;
2. Operation and maintenance costs of existing or future state veterans' cemeteries;
3. Costs incurred by the Division of Veterans Affairs; and
4. Veterans programs operated by non-profit veterans' organizations.

In FY 2025-26, the fund awarded $1,105,358 in grants to non-profit organizations and Veterans Community Living Centers across the state. This is a $214,869 (24.1 percent) increase from grants awarded in FY 2024-25.

This funding served 1,366 veterans, most of whom (78.0 percent) live in rural or remote areas of the state. 63.0 percent of those served were older adults 65 years and older.

Personnel

Supplemental State Contribution Program

Pursuant to Section 24-50-609, C.R.S., the program:

- Provides affordable and adequate health insurance to as many children of lower-income state employees as possible, and
- Supplements plan premiums to encourage lower-income employees with dependent children to enroll in health insurance plans. The supplement reduces the employee contribution to zero.

Supplement distribution is prioritized by income level. The Department must first supplement state employees that have an annual income of less than 200 percent of the Federal Poverty Level (Level 1). If funds remain, supplements are given to state employees with an annual income of 200 to 249 percent of the Federal Poverty Level (Level 2). Finally, supplements are given to state employees with an annual income of 250 to 299 percent of the Federal Poverty Level (Level 3).

In FY 2025-26, the program provided the maximum supplement for all levels. 118 employees were approved for Level I, 140 were approved for Level 2, and 150 were approved for Level 3.

Program services provided for the past three years

Fiscal Year	Number of employees receiving supplements	Total supplements paid	Average monthly supplement	Average yearly supplement	Number of dependent children supported
FY23-24	464	$1,564,566	$281	$3,372	1,095
FY24-25	364	1,406,976	322	3,865	925
FY25-26	380	1,500,605	$329	3,949	930

Public Health and Environment

Colorado HIV and AIDS Prevention Program (CHAPP)

The CHAPP sponsors a statewide competitive grant program for Human Immunodeficiency Virus (HIV) and Acquired Immunodeficiency Syndrome (AIDS) prevention and education. The program supports local needs through:

- Increased access to testing;

- Education and outreach to increase knowledge of HIV; and
- Prevention of new HIV acquisition through PrEP, sterile syringes, and condoms.

In FY 2025-26, CHAPP served:

- 4,118 clients with HIV testing (9.1 percent increase compared to FY 2024-25);
- 4,290 clients with PrEP referral and navigation (9.7 percent increase);
- 62,171 individuals through outreach and education (6.5 percent increase); and
- 35,850 clients who participated in syringe access programming (57.7 percent increase).

The program also distributed harm reduction materials, including 1.2 million syringes and 341,871 sexual risk reduction materials.

Immunization Program

The program provides financial resources to increase the awareness of and access to immunizations, improve vaccination rates, and decrease the morbidity associated with vaccine preventable diseases among all Coloradans. The following are key updates from the program for FY 2025-26:

- Enhancement of Immunization Core Services: Support ongoing immunization program infrastructure needs and immunization service activities for local public health agencies (LPHAs). During FY 2025-26, 56 LPHAs accepted this funding.
- MSA Funds Received: During FY 2025-26, LPHAs received $1,905,400 from MSA funding for Core Immunization Service contracts, which is a $536,124 increase from last year. The MSA funding supported LPHA activities to improve measles, mumps, and rubella (MMR) vaccination rates. In addition to MSA funding, Core Immunization Service contracts are supported by $5.4 million in additional state and federal funds.
- Impact of the COVID-19 pandemic: The pandemic interrupted the administration of routine vaccines. Data from the Colorado Immunization Information System (CIIS) shows that between March 15, 2020, and April 25, 2020, there was a 37.0 percent decrease in the number of pediatric doses administered compared to the same time period in 2019.

More recently, in FY 2024-25, the overall number of doses administered was 7.9 percent lower than doses administered in corresponding pre-pandemic weeks in 2019. The decreases varied by age group with declines of:

- 8.5 percent in children from birth to age 2,
- 9.2 percent in children from 3 to 9 years old,
- 7.9 percent in children 10 to 12 years old, and
- 2.6 percent in children 13 to 17 years old.

State Drug Assistance Program

SDAP provides formulary medications on an outpatient basis, free of charge, to Colorado residents who are diagnosed with HIV and who meet the financial eligibility criteria. SDAP also provides support for paying premiums, deductibles, coinsurance, and copays for insured Colorado residents living with HIV on Medicare, private insurance, and Medicaid.

In FY 2025-26, the program served 4,536 people, which is a 6.2 percent decrease from last year (4,818 people). Program outputs included:

- Medical deductible, coinsurance, and copay assistance for 2,958 individuals;
- Health Insurance premium assistance for a monthly average of 88 individuals; and
- Supporting the network of PrEP providers who will see uninsured individuals in 116 clinics across the state.

Colorado Health Service Corps (CHSC)

CHSC seeks to reduce barriers to primary health care access, particularly for those who are publicly insured, uninsured, low-income, or live in rural and frontier communities across the state. The program assesses primary health care professional workforce needs of communities and directs health professional incentives, such as loan repayment, to areas of the state with a health professional shortage.

Health professionals that participate include: primary care physicians, physician's assistants, dentists, dental hygienists, nurse practitioners, certified nurse midwives, advanced practice nurses with specific training in substance use disorders or pain management, licensed clinical social workers, licensed professional counselors, licensed clinical or counseling psychologists, psychiatric nurse specialists, marriage and family therapists, clinical pharmacists, licensed addiction counselors, certified addiction technicians and specialists, and health professional faculty.

Eligible providers must practice in a designated Health Professional Shortage Area (HPSA) for at least three years and spend at least 32 hours per week in direct patient care for a full-time contract or at least 16 hours per week in direct patient care for a part-time contract. They must also serve individuals who are uninsured or publicly insured, offer a sliding fee payment scale to those below 200 percent of the federal poverty level, and work for a public or non-profit organization.

In FY 2025-26, the program awarded 68 new and one-year renewal loan payment contracts. The program includes 381 practicing clinicians, 32 clinicians with a pending contract, and 19 physician residency faculty. Approximately 1.4 million individuals received care from clinicians practicing in the Colorado Health Service Corps, which has served 7.4 million patients since the program started.

Dental Loan Repayment Program (DLRP)

DLRP provides educational loan repayment to incentivize dental clinicians to improve access to care for people who experience high barriers to care. Dental clinicians are eligible if they provide dental services to Coloradans who are publicly insured and/or live in rural areas. The DLRP pays all or part of the principal, interest, and related expenses of the educational loans of eligible clinicians. The program is open to both dentists and dental hygienists.

In FY 2025-26, 45 clinicians participated in the Dental Loan Repayment Program, which is 15 more clinicians compared to last year. 23 practiced in rural or frontier counties and 22 practiced in urban counties. 55,200 underserved Coloradans received care from participating clinicians, for a total of 655,601 individuals served since the program's inception in 2001.