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Oklahoma Supreme Court Rules Fee on Cigarettes Unconstitutional.

(Reuters) - Oklahoma's Supreme Court declared a fee on cigarettes unconstitutional on Thursday, citing faulty lawmaking practices, prompting the state's governor to suggest calling back the legislature to find a solution to replace the lost revenue.

In a statement following the court's decision, Republican Governor Mary Fallin said invalidating the fee would cause a \$215 million budget shortfall. Most of the revenue created by the passage in May of the "cessation" fee - \$1.50 per pack of cigarettes - was earmarked for health and human services agencies.

"These agencies and the people they serve cannot sustain the kind of cuts that will occur if we do not find a solution," Fallin said. "My belief is we will have to come into special session to address this issue."

The court called the fee a "revenue raising measure" that was passed in violation of the state's legislative process that requires that such measures cannot be passed in the last five days of a session. The measure also did not garner either a required supermajority vote in favor, or a vote by the people to pass.

Lawmakers were attempting to fill an \$878 million shortfall.

A special session would cost the state an additional \$30,000 per day, according to a statement released Thursday by the House Democratic Caucus.

Petitioners, which included both tobacco and wholesale distribution companies, argued that the fee was a revenue-raising measure. Attorneys representing the state said the principle purpose of the fee was not to raise revenue, saying that it primarily aimed at reducing smoking rates, and therefore did not have to follow the constitutional process.

Oklahoma has a balanced budget requirement. Its fiscal-year 2018 budget totaled about \$6.8 billion, according to Michael McNutt, a spokesman for Fallin.

The yield on Oklahoma 10-year general obligation bonds traded 20 basis points over the benchmark Thomson Reuters Municipal Market Data AAA yield scale on Wednesday, according to the data available. The yield was little changed from the end of May, when the state's legislative session ended.

By REUTERS

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(Reporting by Stephanie Kelly; Editing by Daniel Bases and Leslie Adler)

