House Committee on Finance

March 22, 2017

To the Honorable Members of the House Committee on Finance: Representative Marvin L. Abney - Chairman, Representative Kenneth A. Marshall- 1st Vice Chair, Representative Teresa Ann Tanzi – 2nd Vice Chair, Representative Gregg Amore, Representative Jean-Phillipe Barros, Representative Grace Diaz, Representative John G. Edwards, Representative Antonio Giarrusso, Representative Joy Hearn, Representative Alex Marszalkowski, Representative James N. McLaughlin, Representative Kenneth J. Mendonca, Representative Michael Morin, Representative William W. O'Brien, Representative Robert J. Quattrocchi, Representative Deborah Ruggiero, Representative Scott Slater, Representative Carlos E. Tobon.

RE: Budget Proposal Article 8

Tobacco use remains the single largest preventable cause of disease and premature death. More than 16 million Americans are living with a disease caused by smoking. Smoking causes cancer, heart disease, stroke, lung diseases, diabetes, and chronic obstructive pulmonary disease (COPD), which includes emphysema and chronic bronchitis.[1] In fact, lung cancer is the number one cancer killer in Rhode Island.[2] Each year, tobacco claims the lives of 1,800 Rhode Islanders and costs our state $640 million in health care expenditures.[3]

Unfortunately, Rhode Island is on the wrong path when it comes to tobacco use. Currently, 15.5% of Rhode Island adults (131,000 residents) and 4.8% of high school students smoke[4], which is higher than our neighboring states. It's time to get back to basics and do what we know works in tobacco prevention and cessation— the combination of regular significant tobacco tax increases and investments in tobacco prevention and cessation programs that use proven best practices.

SIGNIFICANT Tobacco Tax Increases = Lives Saved

Increasing the price of tobacco through higher tobacco taxes is one of the most successful ways to keep youth from smoking and help adults quit, saving lives and healthcare costs along the way. Economic studies in peer-reviewed journals have documented that significant cigarette tax or price increases reduce both adult and underage smoking.

The amount of the increase is very important. Tax increases should be $1.00 per pack or more to ensure a public health impact. Small price increases have limited effects on public health because tobacco companies easily undercut these increases with price discounting strategies. These price discounts occupy a huge part of the industry's marketing and promotional budget because the companies know how effective increasing prices can be on reducing tobacco use. Current industry discounts amount to a roughly 50-cent reduction in the per-pack cost of cigarettes,[5] and tobacco companies can easily extend those discounts to undermine the impact of small tax increases. When the tobacco companies increase the wholesale prices on their products, they know that consumers will only tolerate small increases at a time.

What we are up against: According to the Federal Trade Commission Cigarette Report, retail and wholesale price discounts were the two largest expenditure categories in 2014 for major manufacturers of cigarettes, representing a combined 79.7 percent of total expenditures. (Federal Trade Commission Cigarette Report 2014, Issued 2016).[6]

In contrast, significant cigarette tax increases will have a much larger impact on public health – and the state's economy. Evidence from states shows that significant cigarette tax increases reduce

smoking.[7] For example, the Wisconsin Quit Line received a record-breaking 20,000 calls in the first two months after its $1.00 per cigarette pack increase (it typically receives 9,000 calls per year). These efforts to quit by smokers after tax increases translate directly into lower smoking rates. Increasing the price of tobacco through higher tobacco taxes is one of the most successful ways to keep youth from smoking and help adults quit, saving lives and healthcare costs along the way. **The bottom line – larger increases yield greater benefits.**

Tobacco Tax Revenue Should Fund Tobacco Prevention & Cessation Programs

Rhode Island must establish sustainable funding for tobacco prevention and cessation programs at levels that meet or exceed Centers for Disease Control and Prevention (CDC) recommendations. **Despite collecting more than $137 million in tobacco tax revenue, the state invested a mere $375,622 in prevention and cessation for FY 2017.** This is unacceptable. The CDC recommends that Rhode Island spend $12.8 million annually,[8] leaving significant room for improvement. In fact, Rhode Island ranks a disappointing 42nd in the country in funding programs that prevent kids from smoking and help smokers quit.[9]

Please oppose the 50-cent cigarette tax increase in the budget

We can no longer ignore the health impact caused by tobacco related illness, and it's time to do more. While significant cigarette tax increases effectively reduce adult smoking and prevent youth initiation, smaller ones only raise more money for the state without measurably improving public health. We oppose the recommended 50-cent tobacco tax increase and urge the Committee to consider a $1.00 increase to truly help improve the health of Rhode Islanders. We further request that the state reinvest in the Tobacco Control Program at the highest level historically of $3.1 million as we work toward CDC's recommended funding.

Thank you for your consideration.

Cancer Action Network™ American Cancer Society®

American Heart Association | American Stroke Association. life is why®

Campaign for Tobacco-Free Kids®

AMERICAN LUNG ASSOCIATION.

StayFit Plan

NEW REVENUES, PUBLIC HEALTH BENEFITS & COST SAVINGS FROM A $1.00 CIGARETTE TAX INCREASE IN RHODE ISLAND

- The current state cigarette tax is $3.75 per pack (3rd among all states and DC).
- Annual health care expenditures in Rhode Island directly caused by tobacco use are $640 million.

Projected New Annual Revenue from Increasing the Cigarette Tax by $1.00 Per Pack: $9.19 million

New Annual Revenue is the amount of additional new revenue the first full year the tax increase is in effect. The state will collect less new revenue if it fails to apply the rate increase to all cigarettes and other tobacco products held in wholesaler and retailer inventories on the effective date.

Projected Public Health Benefits for Rhode Island from the Cigarette Tax Rate Increase	
Percent decrease in youth (under age 18) smoking:	**11.3%**
Youth under age 18 kept from becoming adult smokers:	**2,600**
Reduction in young adult (18-24 years old) smokers:	**700**
Current adult smokers who would quit:	**4,600**
Premature smoking-caused deaths prevented:	**1,800**
5-Year reduction in the number of smoking-affected pregnancies and births:	**600**
5-Year health care cost savings from fewer smoking-caused lung cancer cases:	**$830,000**
5-Year health care cost savings from fewer smoking-affected pregnancies and births:	**$1.64 million**
5-Year health care cost savings from fewer smoking-caused heart attacks & strokes:	**$1.92 million**
5-Year Medicaid program savings for the state:	**$2.73 million**
Long-term health care cost savings from adult & youth smoking declines:	**$139.45 million**

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- Small tax increase amounts do not produce significant public health benefits or cost savings because the cigarette companies can easily offset the beneficial impact of such small increases with temporary price cuts, coupons, and other promotional discounting. Splitting a tax rate increase into separate, smaller increases in successive years will similarly diminish or eliminate the public health benefits and related cost savings (as well as reduce the amount of new revenue).
- Raising state tax rates on other tobacco products (OTPs) to parallel the increased cigarette tax rate will bring the state additional revenue, public health benefits, and cost savings (and promote tax equity). With unequal rates, the state loses revenue each time a cigarette smoker switches to cigars, roll-your-own tobacco, smokeless tobacco, or other tobacco products taxed at a lower rate. To parallel the new $4.75 per pack cigarette tax, the state's new OTP tax rate should be a percentage of the wholesale price with minimum tax rates for each major OTP category linked to the state cigarette tax rate on a per-package or per-dose basis.

Explanations & Notes

Health care costs listed at the top of the page are from the U.S. Centers for Disease Control and Prevention (CDC). Annual health care expenditures in Rhode Island directly caused by tobacco use are in 2009 dollars and are from the CDC's 2014 *Best Practices for Comprehensive Tobacco Control Programs*.

Projections are based on research findings that nationally, each 10% increase in the retail price of cigarettes reduces youth smoking by 6.5%, young adult prevalence by 3.25%, adult prevalence by 2%, and total cigarette consumption by about 4% (adjusted down to account for tax evasion effects). However, the impact of the tax increase may vary from state-to-state, based on the starting pack price. Significant tax increases generate new revenues because the higher tax rate per pack brings in more new revenue than is lost from the tax-related drop in total pack sales.

The projections also incorporate the effect of ongoing background smoking declines, population distribution, and the continued impact of any recent state cigarette tax increases or other changes in cigarette tax policies on prices, smoking levels, and pack sales.

These projections are fiscally conservative because they include a generous adjustment for lost state pack sales (and lower net new revenues) from possible new smuggling and tax evasion after the rate increase and from fewer sales to smokers or smugglers from other states, including sales on tribal lands. For ways that the state can protect and increase its tobacco tax revenues and prevent and reduce contraband trafficking and other tobacco tax evasion, see the Campaign for Tobacco-Free Kids factsheet, *State Options to Prevent and Reduce Cigarette Smuggling and to Block Other Illegal State Tobacco Tax Evasion*, http://tobaccofreekids.org/research/factsheets/pdf/0274.pdf.

Projected numbers of youth prevented from smoking and dying are based on all youth ages 17 and under alive today. Projected reduction in young adult smokers refers to young adults ages 18-24 who would not start smoking or would quit as a result of the tax increase. Savings to state Medicaid programs include estimated changes in enrollment resulting from federal laws in effect as of December 2016 and state decisions regarding Medicaid expansion. Long-term cost savings accrue over the lifetimes of persons who stop smoking or never start because of the tax rate increase. All cost savings are in 2017 dollars.

Projections for cigarette tax increases much higher than $1.00 per pack are limited, especially for states with relatively low current tax rates, because of the lack of research on the effects of larger cigarette tax increase amounts on consumption and prevalence. Projections for cigarette tax increases much lower than $1.00 per pack are also limited because small tax increases are unlikely to produce significant public health benefits.

Ongoing reductions in state smoking rates will, over time, gradually erode state cigarette tax revenues, in the absence of any new rate increases. However, those declines are more predictable and less volatile than many other state revenue sources, such as state income tax or corporate tax revenues, which can drop sharply during recessions. In addition, the smoking declines that reduce tobacco tax revenues will simultaneously produce much larger reductions in government and private sector smoking-caused health care and other costs over time. See the Campaign for Tobacco-Free Kids factsheet, *Tobacco Tax Increases are a Reliable Source of Substantial New State Revenue*, http://tobaccofreekids.org/research/factsheets/pdf/0303.pdf.

The projections in the table on this fact sheet were generated using an economic model developed jointly by the Campaign for Tobacco-Free Kids (TFK) and the American Cancer Society Cancer Action Network (ACS CAN) and are updated annually. The projections are based on economic modeling by researchers with Tobacconomics: Frank Chaloupka, Ph.D., John Tauras, Ph.D., and Jidong Huang, Ph.D. at the Institute for Health Research and Policy at the University of Illinois at Chicago, and Michael Pesko, Ph.D., at the Weill Cornell Medical College. The state Medicaid cost savings projections, when available, are based on modeling done by Matthew Buettgens and Hannah Recht at the Urban Institute, with updates by Matt Broaddus at the Center for Budget and Policy Priorities.

For other ways states can increase revenues (and promote public health) beyond just raising cigarette tax rates, see the Campaign factsheet, *The Many Ways States Can Raise Revenue While Also Reducing Tobacco Use and Its Many Harms & Costs*, http://tobaccofreekids.org/research/factsheets/pdf/0357.pdf.

Additional information and resources to support tobacco tax increases are available at:

http://www.tobaccofreekids.org/facts_issues/fact_sheets/policies/tax/us_state_local/

http://acscan.org/tobacco/taxes/

http://tobacconomics.org/

For more on sources and calculations, see http://www.tobaccofreekids.org/research/factsheets/pdf/0281.pdf or www.acscan.org/tobaccotaxexplanations.

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