



## Are We Appropriating Tobacco Revenue Properly in Iowa?

by Brad Cook

One item within Governor Vilsack's budget proposal that is sure to be a heated topic of debate will be his proposal to increase the state's cigarette tax by 80 cents, making it \$1.16 per pack — almost twice that of Nebraska's 64 cents. A large part of the increase would be used to cover the projected shortfall of \$100 million in the state's Medicaid program.

In fairness to the Governor, Iowa's current cigarette tax of 36 cents per pack is 24 cents below the national median of 60 cents per pack, giving Iowa the thirty-eighth highest tax rate. Many other states have also increased their cigarette tax to make up for shortfalls in Medicaid accrued from requirements of pre-recession increases in the number of beneficiaries and the amount of benefits for Medicaid. However the 80-cent increase would award Iowa with the twelfth highest cigarette tax.<sup>1</sup> Instead of levying a substantial tax increase on Iowa smokers to pay for Medicaid shortfalls, maybe we should look at what is being done to prevent smoking.

In November 1998, Iowa was part of a multi-state tobacco settlement that is expected to award the states with \$246 billion over 25 years. Since the settlement, Campaign for Tobacco-Free Kids has regularly issued reports assessing the use of the settlement funds by the states to reduce smoking and the public health problems that accompany smoking. In December 2004 they released, "A Broken Promise to Our Children: The 1998 State Tobacco Settlement Six Years Later," in which they established "that most states are still failing to keep this promise even as they collect record amounts of tobacco-generated revenue from the tobacco settlement and tobacco taxes and even as the tobacco companies spend record amounts to market their deadly and addictive products."<sup>2</sup>

They found that states this year (FY 2005) will collect \$20 billion from the tobacco settlement and tobacco taxes. While only 8 percent of the \$20 billion could fund tobacco prevention and cessation programs in every state at the minimum levels recommended by the U.S. Centers for Disease Control and Prevention (CDC), states are spending just 2.7 percent on tobacco prevention and cessation.<sup>3</sup> Iowa is no exception.

Annually Iowa generates \$143.5 million from tobacco settlement payments and tobacco taxes, yet is spending just 3.6 percent of that revenue on tobacco prevention. Funding for prevention has also decreased since 2001. In FY 2001 Iowa spent \$9.4 million (6.2 percent of tobacco revenue) on tobacco prevention programs, and has committed just \$5.1 million (3.6 percent of tobacco revenue) for FY 2005. The CDC recommends that Iowa spend between \$19.3 million and \$48.7 million a year to have a comprehensive and effective prevention program. The \$5.1 million represents just 26.4 percent of the CDC's minimum recommendation, ranking Iowa twenty-ninth among the states.<sup>4</sup>

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In addition, tobacco companies spend nearly thirty times as much for marketing in Iowa than what Iowa spends on tobacco prevention.<sup>5</sup> A large part of the FY 2003 funding decreases cut Iowa's "Just Eliminate Lies" youth counter-marketing campaign by two-thirds and eliminated all school-based and adult cessation programs.<sup>6</sup>

Therefore, it would be reasonable to ask just how much of the proposed tax increase would be spent on prevention. Governor Vilsack recommends increasing "Tobacco Prevention and Treatment"<sup>7</sup> by \$1 million and spending an embarrassing \$75,000 on "Smoking Cessation Products."<sup>8</sup> Though this would be nearly a twenty percent increase from the FY 2005 budget, it is less than one percent of the \$129 million in projected new tax revenue, and would bring spending to just 31.6 percent of the CDC's minimum recommendation. The increase in tobacco revenue and prevention spending results in Iowa spending just 2.2 percent of tobacco revenue on prevention programs. When compared to FY 2005<sup>9</sup> rankings, only nine states would have spent a smaller percentage of their tobacco revenues on tobacco prevention programs.

Promoters of the tax increase will try and make the case that the other 97.8 percent of tobacco revenue is needed to fund smoking-related health-care costs. If this is true and the remaining \$266+ million is used to fund such costs, then the tax increase might be legitimate. However, a look at how the states have spent the tobacco settlement money will show that government does not have a good track record on spending the money in such a way. Though the suit was originally filed to claim the states' payments to Medicaid for smoke-related illnesses, and the settlement was meant to pay for such payments and tobacco prevention programs, states have not been using the money in such a way. The General Accountability Office projected that of the \$11 billion dollars the states would receive this year from the settlement funds only 17 percent went to health-related programs.<sup>10</sup>

Maybe it is time for our State Legislature to show some fiscal responsibility by scaling back certain programs and spending tobacco revenue for the programs which it is meant for, instead of taxing or litigating<sup>11</sup> their way to fiscal solvency.

**(Endnotes)**

1 Morgan Quinto, *State Rankings 2004*, 15<sup>th</sup> Ed.

2 Campaign for Tobacco-Free Kids, "A Broken Promise to Our Children: The 1998 State Tobacco Settlement Six Years Later," December 2, 2004, p. i, <<http://www.tobaccofreekids.org/reports/settlements/2005/fullreport.pdf>> (January 3, 2005).

3 *Ibid*, p. i.

4 *Ibid*, p. 31.

5 *Ibid*, p. xii.

6 *Ibid*, p. 32.

7 "Summary of FY 2006 Budget and Governor's Recommendations," January 2005, p. 31 <[http://staffweb.legis.state.ia.us/lfb/docs/BudgAnalysis/FY2006/Lagar\\_06\\_final.pdf](http://staffweb.legis.state.ia.us/lfb/docs/BudgAnalysis/FY2006/Lagar_06_final.pdf)> (February 3, 2005).

8 *Ibid*, p. 295.

9 Campaign for Tobacco-Free Kids, p. vii.

10 Sam Kazman, "Demonize — Then Pulverize," *The Navigator*, Vol. 7, No. 9, November 2004.

11 See Amy K. Frantz, "Suing Your Way to Fiscal Fitness," *Institute Brief*, Public Interest Institute, Vol. 9, No. 35, December 2002.

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