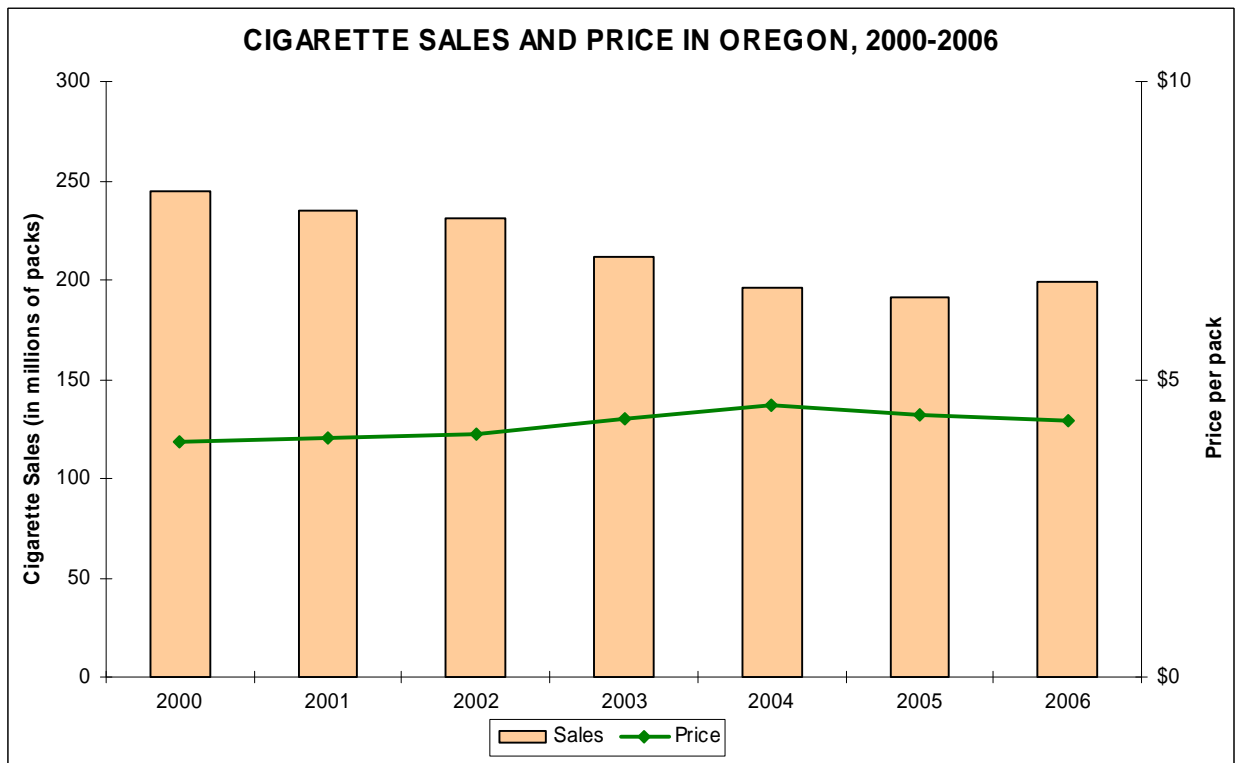


# TOBACCO TAX BENEFITS FOR OREGON

## REDUCING SMOKING, SAVING LIVES, AND SAVING MONEY



**A Special Report By The Campaign for Tobacco-Free Kids**

**October 2007**

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*The Campaign for Tobacco-Free Kids is an independent, nonprofit organization dedicated to preventing and reducing tobacco use and its harms, especially among youth. The Campaign does not receive or accept any government funding, nor does it receive or accept any funding from the tobacco industry. To save lives and protect the public health, the Campaign has been supporting efforts to increase state and local tobacco tax rates throughout the country in order to reduce smoking, save lives, and reduce smoking-caused harms and costs. For more information, see [www.tobaccofreekids.org](http://www.tobaccofreekids.org).*

# TOBACCO TAX BENEFITS FOR OREGON

## REDUCING SMOKING, SAVING LIVES, AND SAVING MONEY

### **Introduction & Executive Summary**

Measure 50 on the November ballot would expand health care coverage for uninsured children and low-income families in Oregon and provide more adequate funding for state tobacco prevention efforts. These new health initiatives would be paid for through increasing Oregon's tobacco tax rates. But the proposed 84.5-cent cigarette tax increase, by itself, would produce enormous additional public health and economic benefits throughout the state.

***Smoking is taking a terrible toll on Oregon.*** The toll of tobacco use in Oregon remains quite high. Each year, 5,000 adults die from their own smoking, 5,300 more kids become new addicted daily smokers, and countless other Oregon residents suffer from smoking-caused disease and disability – with annual smoking-caused health costs in the state totaling more than \$1.11 billion. In fact, the U.S. Centers for Disease Control and Prevention (CDC) estimates that smoking-caused health costs and productivity losses in Oregon total more than \$11.02 per pack sold in the state.\*

***Oregon's cigarette tax and the rest of the country.*** Oregon has not increased its cigarette tax for five years, when its new \$1.28 per pack tax became the eighth highest state cigarette tax in the nation. Since then, Oregon has reduced its cigarette tax rate by ten cents per pack, while 43 other states and DC have increased their own cigarette taxes more than 70 times. Oregon's current \$1.18 per pack cigarette tax rate is just barely higher than the statewide average, and well below neighboring Washington's \$2.025 per pack rate. In fact, eight states now have cigarette tax rates at \$2.00 or higher, with the highest rate in New Jersey at \$2.575 per pack. Various cities and counties have even higher combined state-local cigarette tax rates, such as \$3.00 per pack in New York City and \$3.66 per pack in Chicago (but no Oregon localities have their own cigarette tax).

***The proposed increase to Oregon's cigarette tax rate would quickly produce massive public health and economic benefits.*** By itself, increasing Oregon's cigarette tax by 84.5 cents to just two dollars per pack would produce enormous benefits to the state and its residents, including:

- Preventing more than 29,000 Oregon kids from becoming addicted adult smokers
- Prompting more than 15,000 current adult smokers to quit for good
- Saving more than 13,000 Oregonians from dying prematurely from smoking
- Improving worker productivity throughout the state
- Cutting future public, private sector, and household health costs in Oregon by more than \$662 million
- Reducing future state Medicaid program expenditures caused by smoking by more than \$81 million
- Generating more than \$94 million in additional new annual state revenue

***Public support for a large state cigarette tax increase is strong.*** A July 2007 poll found that 61 percent of Oregon voters (with a majority in every major subgroup – gender, age, political party, and education level) supported an 84.5-cent cigarette tax increase to provide funding for health care for children, for other health programs, and for state efforts to prevent and reduce tobacco use.<sup>1</sup>

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\* For more detail on the toll of tobacco in Oregon, see Appendix A.

***The proposed new investments in comprehensive tobacco prevention programs would produce even more benefits and savings.*** Measure 50 calls for investing a small portion of the extra new revenue from the cigarette tax rate increase to fully fund the state's efforts to prevent and reduce tobacco use and its harms, which would work to prevent and reduce tobacco use and its harms in Oregon even more effectively and powerfully – supplementing and maximizing the public health benefits and cost savings from the Measure's tobacco tax rate increases.

***Tobacco tax increases are a predictable and stable source of substantial new state revenues.*** Every single state that has significantly raised its cigarette tax rate has enjoyed substantial increases to state revenues, despite the related declines in state smoking levels and despite any related increases in cigarette smuggling or cigarette tax avoidance. Put simply, the increased tax per pack sold brings in more new revenue than is lost by the related pack sales declines. Moreover, once the dust has settled after a major cigarette tax increase, the new higher levels of state tobacco tax revenues typically decline by only about two percent per year, on average, because of ongoing reductions in state smoking rates. Year to year, state cigarette tax revenues are more predictable and less volatile than many other state revenue sources, such as state income tax or corporate tax revenues, which can vary considerably year to year because of nationwide recessions or state economic slowdowns.

***The proposed increases to the state's tax rates on other tobacco products would produce substantial additional benefits and savings.*** Measure 50's increase to the state's tax rate on smokeless tobacco and other tobacco products – from 65 to 95 percent of wholesale price – would bring Oregon another \$8.5 million in new revenues each year while reducing these other forms of tobacco use and the many harms and costs they cause. Among other things, this rate increase would reduce the number of kids using smokeless tobacco by approximately 19.5 percent and cut adult consumption by about 10.5 percent – thereby reducing the death, oral cancers and other health problems caused by smokeless use. Increasing the tax rates on smokeless tobacco products and cigars is especially important for reducing youth use because they are increasingly being produced and marketed with kid-friendly flavors, such as grape, cherry, and chocolate.

***Lower-income households would benefit the most.*** Because more lower-income than higher-income smokers will quit in response to a substantial cigarette tax increase, both proportionately and in total numbers, lower-income families in Oregon would be the largest beneficiaries from the 84.5-cent increase. Indeed, low-income families currently suffer disproportionately from smoking and smoking-caused disease and costs, and the 84.5-cent rate increase would directly and substantially reduce that burden – especially since Measure 50 also directs a major portion of the new revenue to provide health care to help low-income children and families.

### **Increasing Oregon's Cigarette Tax Rate Will Reduce Smoking and Related Harms**

Recent reports by the National Academy of Sciences' Institute of Medicine and the President's Cancer Panel have strongly recommended that states raise their tobacco tax rates as an effective way to reduce the toll that tobacco use takes on the states.<sup>2</sup>

Even the cigarette companies have repeatedly acknowledged, both publicly and in internal company documents disclosed in tobacco lawsuits, that raising cigarette prices through state tobacco tax increases significantly reduces smoking, especially among kids. For instance, in 1994, Ellen Merlo, Senior Vice President of Corporate Affairs, stated, "When the tax goes up, industry loses volume and profits as many smokers cut back."<sup>3</sup>

Indeed, the actual experiences of the states that have raised their cigarette tax rates firmly establish that cigarette tax increases reduce smoking rates and related harms (while increasing revenue).<sup>\*</sup> Here in Oregon, for example, pack sales declined by more than 33 percent as the price increased by more than 63 percent between 1997 and 2005. But after the 2004 reduction to the state cigarette tax, pack sales went up by more than four percent.

Clearly, cigarette tax increases are one of the most effective ways to sharply reduce smoking, especially among youths, pregnant women, and low-income smokers. Studies have shown that for every 10 percent increase in the price of cigarettes, youth smoking drops by approximately 6.5 percent, smoking among pregnant women drops at a similar rate, and overall consumption declines by three to five percent.<sup>4</sup>

Applying these findings to the proposed 84.5-cent increase to Oregon’s cigarette tax rate shows that the state will enjoy the following benefits.

Cigarette Tax Increase	Kids Alive Today Stopped From Smoking	Kids Saved From Dying From Smoking	Adult Smokers Who Quit	Adults Saved From Dying From Smoking
84.5¢	29,500	9,400	15,400	4,000

Moreover, for every person who dies from smoking in the state there are another 20 people suffering from smoking-caused disease or disability. By reducing smoking levels in the state, the 84.5-cent cigarette tax increase would reduce that suffering, as well – including, but not limited to, the benefits shown in the following table.

Cigarette Tax Increase	5-Year Decline in Smoking-Affected Pregnancies	Fewer Cigarette Packs Sold
84.5¢	3,800	35.8 million

**The Declines in Smoking and Smoking-Caused Harms in Oregon From the 84.5-Cent Increase Will Reduce Government, Private Sector and Household Smoking-Caused Health Costs throughout the State**

Extra healthcare expenditures in Oregon caused by smoking add up to more than \$1.11 billion, with the state Medicaid Program’s share an estimated \$287 million per year. Exposure to secondhand smoke, by itself, produces extra healthcare costs of \$54.9 million each year.<sup>†</sup> Increasing the cigarette tax is one of the most effective methods to reduce these costs to the state and its taxpayers – and the proposed 84.5-cent cigarette tax increase would secure substantial savings.

As the table below shows, in the first five years, an 84.5-cent tax increase will reduce health care costs by \$13 million just from fewer smoking-caused heart attacks, strokes and fewer smoking-affected births.<sup>‡</sup> The pregnancy savings would start immediately, as the cigarette tax increase stops pregnant women from smoking. The heart attack and stroke savings from the

<sup>\*</sup> See TFK Factsheets, *Raising Cigarette Taxes Reduces Smoking, Especially Among Kids (And the Cigarette Companies Know It)*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0146.pdf>, and *Raising State Cigarette Taxes Always Increases State Revenues and Always Reduces Smoking*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0098.pdf>.

<sup>†</sup> For more detail on the economic toll of tobacco use in Oregon, see Appendix A.

<sup>‡</sup> For a full list of benefits to Oregon from an 84.5-cent cigarette tax increase, see Appendix B. For detailed information and references regarding how these projections were made, see Appendix D.

immediate smoking declines would start out small in the first year, but would then increase sharply each year until reaching a peak in eight to 10 years and then maintaining that high rate thereafter. In other words, the heart-stroke savings in the second five years would be substantially larger than the savings in the first five years. More importantly, these immediate heart-stroke and pregnancy cost reductions represent only the tip of the savings iceberg for Oregon, as the smoking declines from the 84.5-cent rate increase would immediately begin to reduce numerous other smoking-caused health costs, as well.

<b>Cigarette Tax Increase</b>	<b>5-Year Heart-Stroke Savings</b>	<b>5-Year Pregnancy Savings</b>	<b>Long-Term Healthcare Savings</b>	<b>Medicaid Share of Long-Term Savings</b>
84.5¢	\$6.5 million	\$6.5 million	\$662.6 million	\$81.4 million

Over the lifetimes of the smokers who quit or kids who never start smoking because of the 84.5-cent increase, Oregon would save \$662.6 million in overall reductions to public, private sector, and household health care costs throughout the state. In addition, all of these savings would help to reduce skyrocketing Medicaid program costs because Medicaid covers approximately 12.3 percent of the state’s total smoking-caused health costs and 50 percent of smoking-caused pregnancy-related health costs in the state.<sup>5</sup> Besides Medicaid, Oregon would also see reductions to the smoking-caused health costs in other state or state-funded programs because of the smoking declines prompted by the cigarette tax increase – and private sector and individual smoking-caused health costs would also decline. Most notably, decreasing smoking rates among workers would also lower public and private sector employers’ health care and health insurance costs.

**Smoking Declines From Increasing Oregon’s Cigarette Tax Rate Will Also Reduce Public and Private Non-Health Costs**

By reducing smoking, the 84.5-cent cigarette tax increase in Measure 50 would also reduce a range of non-healthcare costs, such as reducing the amount of property damage and loss from smoking-caused fires and shrinking smoking-caused cleaning and maintenance costs. But the biggest non-health-cost benefit might be the smoking-declines impact on improving worker productivity and reducing related losses.

***Reducing Productivity Losses in the State.*** Currently, the CDC estimates that the productivity losses in Oregon just from productive work lives being shortened by smoking-caused death reducing to total \$1.07 billion each year.<sup>6</sup> In addition, a recent study found that smoking further hurts productivity because employees who smoke are absent from work on average 6.16 days per year due to illness, whereas nonsmokers are absent on average 3.86 days per year.<sup>7</sup> Similarly, a study done for the Indiana Health Department determined that the cost of smoking employees to businesses in just a single Indiana county totaled \$260.1 million per year from increased absenteeism and lost productivity, higher health insurance premiums, and increased recruitment and training costs from smoking employees’ premature retirement and death.<sup>8</sup>

By reducing smoking among workers, the 84.5-cent rate increase would increase worker productivity, and reduce related employer losses, by improving worker health and on-the-job performance, reducing the amount of smoking-caused work absences and work-time cigarette breaks, and having fewer healthy and productive work lives interrupted or ended prematurely because of smoking-caused illness and disability. These improvements will not only help existing state businesses, but will also make Oregon more attractive to businesses that may consider relocating to the state.

***Increasing State Employment and Further Strengthening the State's Economy.*** There is also solid evidence that increasing state cigarette taxes will also increase employment levels, especially in states like Oregon with no significant amounts of tobacco farming or cigarette manufacturing. For example, economic studies have found that even if smoking were entirely eliminated in the United States, the net economic effect on each state would be positive, with more jobs created as well as other increases in productive economic activity.<sup>9</sup> More recently, state-specific economic impact studies in New Hampshire, Texas, and Virginia have found that substantial cigarette tax increases in those states would actually increase total state employment – and that reduced cigarette sales have, in the past, been linked with increased state retail employment.<sup>10</sup>

One way that cigarette tax increases improve the economic activity in a state is that smokers who quit or cutback because of the increase will spend or use the money they formerly spent on cigarettes in other ways – and those alternative uses are likely to produce more jobs and more productive economic activity. Right now, much of the money spent by Oregon smokers on cigarettes is exported to the states where the tobacco is grown and the cigarettes are manufactured. Keeping more of that money in state would produce significant economic benefits. More generally, spending on cigarettes creates high social costs; but spending on less harmful consumables along with increased consumer savings or investments will be more socially constructive and more economically productive.\*

### **Increasing Oregon's Cigarette Tax Rate Will Produce Substantial New State Revenues**

Besides reducing smoking-caused costs and improving public health, the 84.5-cent cigarette tax increase will produce an estimated \$94.9 million in additional new annual state revenues.<sup>†</sup>

Massive amounts of economic research and state experiences have firmly established that significantly raising state cigarette tax rates will always substantially increase state revenues, despite the related smoking declines and any related increases in cigarette smuggling or cigarette tax avoidance.<sup>‡</sup> Put simply, the additional revenues the state receives per pack sold after a cigarette tax increase brings in far more revenue than the state loses from the declines in pack sales prompted by the increase. These funds have helped states balance budgets and fund essential services like health care, tobacco prevention, and education programs. The money raised from the cigarette tax increase in Measure 50 would be used to increase health care access for uninsured children and provide funding for the state tobacco prevention program, which currently does not receive the adequate amount as recommended by the CDC.

### **Investing Some of the New Revenues to Expand State Tobacco Prevention Efforts Will Produce Even Larger Public Health Benefits and Cost Savings**

By directing some of the new revenues from the 84.5-cent rate increase to expand the state's efforts to prevent and reduce tobacco use, Measure 50 would magnify the many public health benefits and cost benefits, described above, from the cigarette tax, alone.

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\* For a full list of benefits to Oregon from an 84.5-cent cigarette tax increase, see Appendix B.

† For detailed information and references regarding how these projections were made, see Appendix D.

‡ See TFK Factsheets, *Raising State Cigarette Taxes Always Increases State Revenues (And Always Reduces Smoking)*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0098.pdf> [and references cited therein], and *Raising Cigarette Taxes Reduces Smoking, Especially Among Kids (And the Cigarette Companies Know It)*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0146.pdf>.

Unfortunately, Oregon currently falls far short of the minimum amount recommended by the U.S. Centers for Disease Control and Prevention (CDC) for state tobacco prevention spending: \$21.1 million per year. In fiscal year 2007, Oregon is spending only \$3.5 million to prevent and reduce tobacco use and its many harms and costs, and in fiscal year 2008, Oregon will invest \$8.2 million. But Measure 50 would add 4.9 percent of the revenues from the cigarette tax increase to the state's tobacco prevention funding for fiscal years 2007 to 2009 and 10 percent of revenues for the following two fiscal years,<sup>11</sup> which could fund the program at approximately the CDC minimum.

Comprehensive tobacco prevention efforts reduce state smoking rates by roughly one or two percentage points each year – and each one percentage point decline in smoking obtained by the increased tobacco prevention funding called for in Measure 50 would produce the following public health benefits.

Reduction in Current Adult Smokers	Reduction in Current Youth Smokers	Kids Alive Today Stopped From Smoking	Reduction in Current Pregnant Smokers	5-Year Reduction in Smoking-Affected Births	5-Year Reduction in Smoking-Caused Heart Attacks and Strokes	Total Future Smoking-Caused Deaths Avoided
28,400	2,000	8,500	460	2,300	260	10,800

Each one-percentage point decline in adult and youth smoking rates secured by the investments in tobacco prevention called for in Measure 50 would also secure the following healthcare cost reductions.

Future Health Cost Savings from Youth Smoking Declines	Future Health Cost Savings from Adult Smoking Declines	5-Year Savings from Fewer Smoking-Caused Heart Attacks, Strokes, and Fewer Smoking-Affected Births
\$148.8 million	\$269.8 million	\$16 million

### **The Proposed Increases to State Tax Rates on Other Tobacco Products Will Produce Additional Revenues, Public Health Benefits, and Cost Reductions**

While this report focuses on the broad range of substantial benefits that Oregon would enjoy from raising its cigarette tax, the provisions in Measure 50 to make parallel increases to the state's tax rate on other tobacco products, such as cigars and smokeless tobacco, would protect and expand these cigarette-tax benefits. Right now, Oregon's tax on tobacco products other than cigarettes is 65 percent of the wholesale price. Measure 50 would increase the state tax rate on smokeless tobacco and other tobacco products to 95 percent of wholesale price. That rate increase would bring the state more than \$8.5 million in additional new annual tobacco tax revenues. Equally important, it would save lives and promote public health.

Currently, eight percent of eleventh graders in Oregon use smokeless tobacco. The habit is more popular among high school boys – 13 percent of boys use smokeless tobacco compared to two percent of girls in Oregon. About 3.5 percent of adults use smokeless tobacco, but again, more men (6.9 percent) than women (0.2 percent) use smokeless tobacco products.<sup>12</sup> The increase to the state's tax on tobacco products other than cigarettes in Measure 50 would reduce the number of kids who use smokeless or spit tobacco by approximately 19.5 percent and reduce overall consumption by about 10.5 percent – with corresponding reductions to the death, disease, costs and other harms caused by the use of these other tobacco products.

<sup>\*</sup> For more detail on the benefits of a one-percentage point decline in smoking in Oregon, see Appendix C. See also, TFK Factsheet, *Comprehensive Statewide Programs Reduce Tobacco Use*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0045.pdf>.

In addition, if smokeless tobacco taxes and prices are significantly lower than cigarette prices, kids may choose to use the cheaper smokeless tobacco products as a gateway to a lifetime of tobacco addiction. Increasing the tax on other tobacco products will discourage switching to lower-cost products and prevent youth from using these starter products, which often come in flavors such as grape, cherry, and vanilla. \*

### **State Cigarette Tax Increases Help Low-Income Residents**

One of the most frequent attacks made by the big cigarette companies against large cigarette tax increases is that they unfairly burden lower-income smokers.<sup>†</sup> In fact, cigarette tax increases are one of the most effective ways of reducing the massive regressive burden caused by smoking on lower-income households and communities.<sup>‡</sup>

Put simply, the death, harm, disability, and suffering caused by smoking are currently focused much more in lower-income families and communities because smoking levels are higher among lower-income than among higher-income persons and lower-income persons have less access to health care, cessation assistance, and other treatment. Cigarette tax increases help to reduce this horrible burden among lower-income families and communities both by prompting current lower-income smokers to quit and by preventing lower-income kids from starting. Moreover, because lower-income smokers are more likely to quit or cutback in response to cigarette tax increases than higher-income smokers, the household public health and economic benefits from the tax-prompted smoking declines are enjoyed predominantly by those with lower-incomes.<sup>§</sup>

In addition, Measure 50 will further benefit low-income Oregonians because it specifies that the revenues from the cigarette tax increase will go to expand health care coverage for currently uninsured children and low-income families.

Lower-income smokers who quit or cutback because of a state cigarette tax increase will also secure an enormous “tax cut.” A smoker who quits or cuts back not only avoids the cigarette tax increase on each pack he or she no longer smokes but also avoids the original state tax and saves all the other money previously paid for each pack. In Oregon, a pack-a-day smoker who quits because of an 84.5-cent cigarette tax increase would save more than \$1,890 per year from no longer buying cigarettes – with additional savings from avoiding other smoking-caused costs.<sup>§</sup>

Given the consistently strong support for cigarette tax increases among low-income persons and the enormous benefits those tax increases bring to low-income smokers, families, and communities, the big cigarette companies’ efforts to “protect” low-income communities from higher cigarette taxes is not only patronizing and misdirected but also hostile to lower-income interests. The cigarette companies’ regressivity argument should be seen for exactly what it

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\* See TFK Factsheet, *Benefits From Increasing Smokeless Tobacco Tax Rates*, <http://tobaccofreekids.org/research/factsheets/pdf/0180.pdf> and the references cited therein.

† The tobacco companies have spent at least \$11 million to defeat Measure 50 so far.

‡ For more on the many benefits to lower-income persons and families from cigarette tax increases, see TFK Factsheet, *State Cigarette Tax Increases Benefit Lower-Income Smokers & Families*, <http://tobaccofreekids.org/research/factsheets/pdf/0147.pdf>.

§ The current average price for cigarettes in Oregon is \$4.36 per pack, adding an 84.5-cent cigarette tax increase will raise that average price to at least \$5.205 per pack. \$5.205 times 365 days in a year equals \$1,899 in annual savings to a pack-a-day smoker who quits (or to a heavier smoker who reduces his or her consumption by a pack a day).

really is: a self-serving smokescreen designed to keep smoking levels up and protect cigarette company profits.\*

### **Oregon's Cigarette Tax Rate Has Failed to Keep Up with Cigarette Company Price Increases and Cigarette Company Marketing**

Cigarette company opposition to efforts to increase Oregon's cigarette tax is, of course, based entirely on the companies' desire to protect their own sales and revenues. They are happy to increase cigarette prices to maximize their own profits, but state cigarette tax increases reduce pack sales with all the new revenues going to the state rather than the companies. In fact, Oregon's cigarette tax rate has failed to keep up with the ongoing increases in cigarette prices in the state. Just since 1998, the average price of a pack of cigarettes has almost doubled, as the major cigarette companies have used the state tobacco settlements as an excuse to raise the prices they charge by more than \$1.00 per pack (more than twice the amount needed to cover all of their settlement-related costs).<sup>†</sup> While competitive pressure from new, small manufacturers' brands temporarily dampened these major company price hikes in recent years, the major cigarette companies announced a brand new price increase in September 2007 (the last price increases were just the year before) and Wall Street tobacco industry analysts expect more to come.<sup>14</sup>

Because of past industry pricing and state tax policies, the cigarette companies have been getting increasingly larger revenues and profits from each pack sold in the state while the state's share of cigarette revenues has become smaller and smaller. Right now, Oregon's cigarette tax currently accounts for only about 27.4 percent of the average price of a pack of cigarettes in the state.<sup>15</sup> In contrast, the cigarette companies receive about 52 percent of the money spent on cigarettes in Oregon.<sup>16</sup> The proposed 84.5-cent rate increase would make those shares of overall cigarette sales revenue more equal.

The cigarette companies also use a portion of their revenues from Oregon cigarette pack sales to maintain and increase smoking levels (and related harms and costs) in the state through extensive advertising and other marketing efforts. In 2005, the most recent year for which data is available, tobacco companies spent \$135.9 million on marketing and promotions in Oregon (which is about 71 cents per pack sold in the state in 2005). That represents a 66.5 percent increase since 1998.<sup>17</sup> Increasing Oregon's cigarette tax and investing some of the new revenue to expand state tobacco prevention efforts, as Measure 50 does, is one way to offset the impact of the cigarette companies' marketing and promotional spending in the state.

### **The New Revenues from Raising Oregon's Cigarette Tax Rate will be Stable and Predictable for Years to Come**

Year to year, state cigarette tax revenues are more predictable and less volatile than many other state revenue sources, such as state income tax or corporate tax revenues, which can vary considerably year to year because of nationwide recessions or state economic slowdowns. In sharp contrast, large drops in cigarette tax revenue from one year to the next are quite rare because of the addictive power of cigarettes – the heaviest smokers, who are the most addicted

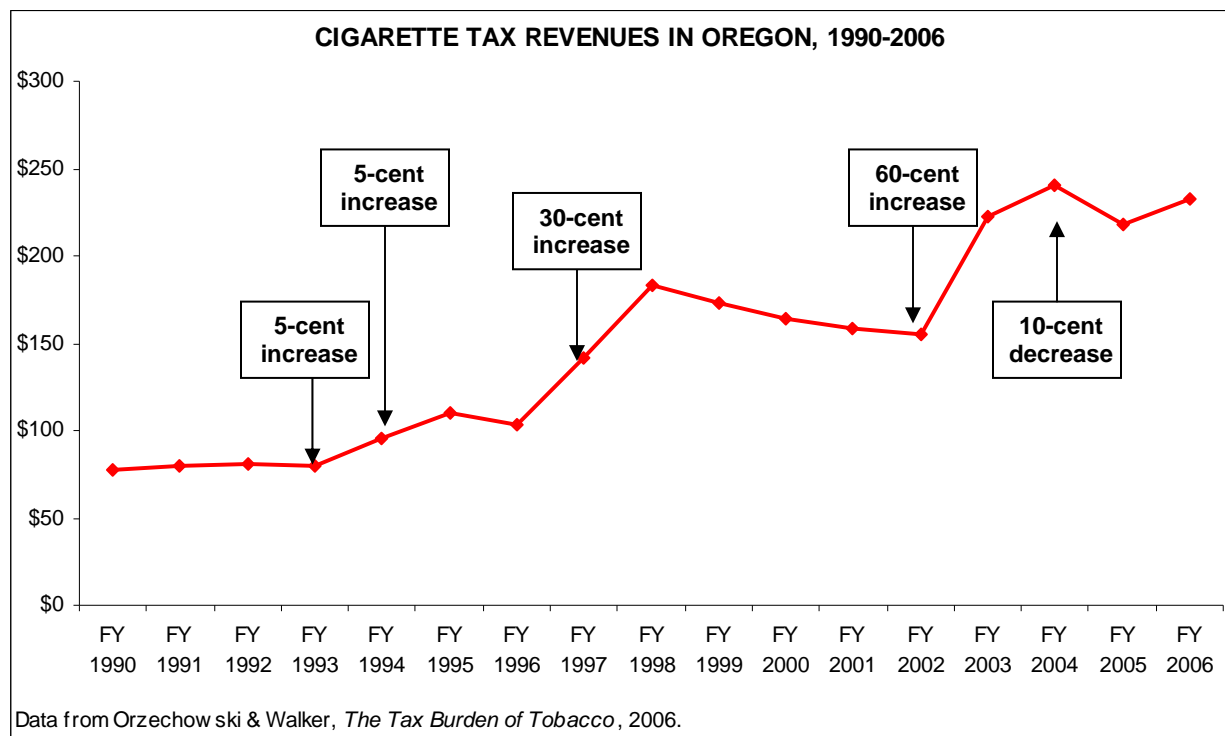
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\* For an analysis of the other self-serving arguments commonly made against tobacco tax increases by the cigarette companies and their allies, see TFK Factsheet, *Responses to Misleading and Inaccurate Cigarette Company Arguments Against State Tobacco Tax Increases*, <http://tobaccofreekids.org/research/factsheets/pdf/0227.pdf>.

<sup>†</sup> See TFK Factsheet, *U.S. Cigarette Companies' Settlement-Related Price Hikes Excessive*, <http://tobaccofreekids.org/research/factsheets/pdf/0071.pdf>.

and most resistant to quitting, cause total state pack sales and revenues to decline by smaller amounts, proportionately. After a major cigarette tax increase, state tobacco tax revenues typically decline by only about two percent per year, on average, because of ongoing reductions in smoking levels.

Past experience in Oregon reflects these basic trends relating to cigarette tax rates and related revenues, with each rate increase prompting significant revenue increases and years without any rate increase showing slow, gradual declines. As shown in the following graph, each of Oregon's last four cigarette tax increases (in 1993, 1994, 1997, and 2002) directly produced significantly higher new net state revenues (and the 10-cent cigarette tax reduction in 2004, not surprisingly, reduced state revenues significantly).



Moreover, much of the revenue declines after the 1997 increase were caused by the nationwide smoking declines prompted by the unprecedented pack-price increases implemented in 1998 by the big cigarette companies to cover their tobacco settlement payments to the states and related costs (and to do some related profiteering). Those kinds of large industry-wide price increases are not likely to occur again to disrupt state revenues because there are many more cigarette manufacturers now than at the time of the 1998 tobacco settlements and the U.S. cigarette market has become much more price competitive.

As the above graph shows, every time state cigarette tax revenues have declined in the past, Oregon has simply increased its cigarette tax rate both to offset the revenue decline and to bring in substantially more revenue. Indeed, without any state cigarette tax increase, Oregon's annual cigarette tax revenues will gradually decline over time because of ongoing smoking declines in the state. But the proposed 84.5-cent per pack increase in the state's cigarette tax rate would not only stop those revenue declines from occurring but would also bring in more than \$90 million in net new annual revenue.

\* See TFK Factsheet, *Tobacco Tax Increases are a Reliable Source of Substantial New State Revenue*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0303.pdf>.

Because of ongoing smoking declines and Measure 50's new investments in expanded state efforts to prevent and reduce tobacco use and its harms, the much higher levels of total state cigarette tax revenues established by the 84.5-cent rate increase are likely then to start slowly declining by about two percent per year (in the absence of any additional rate increases). But the smoking declines behind those gradual revenue reductions would also be simultaneously producing much larger reductions in government and private sector smoking-caused expenditures.\* At the same time, the smokers who terminate or reduce their purchases of cigarettes will use the money they save to purchase other state goods and services, which will further strengthen the state's economy – and to the extent that such consumers purchase other goods subject to special state taxes (e.g., alcoholic beverages or gasoline), the decline in tobacco product sales will also increase those other forms of state revenue.

In addition, there are a variety of other actions Oregon could take to protect and maintain, or even increase, its cigarette tax revenues over time. For instance, the state can periodically increase its tobacco tax rates or index its cigarette tax rate to inflation.<sup>18</sup>

## **Conclusion**

By itself, the 84.5-cent increase to the state cigarette tax rate proposed in Measure 50 would immediately reduce adult and youth smoking rates throughout the state, producing enormous public health and economic benefits.

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\* See, e.g., TFK Factsheet, *Benefits & Savings From Each One Percentage Point Decline in Adult and Youth Smoking Rates in the United States*, <http://tobaccofreekids.org/research/factsheets/pdf/0235.pdf>.

## APPENDIX A

### THE TOLL OF TOBACCO IN OREGON

#### Tobacco Use in Oregon

- High school students who smoke: 17.0% [Girls: NA Boys: NA]
- High school males who use smokeless tobacco: 13.0%
- Kids (under 18) who try cigarettes for the first time each year: 17,100
- Additional Kids (under 18) who become new regular, daily smokers each year: 5,300
- Packs of cigarettes bought or smoked by kids in Oregon each year: 6.7 million
- Kids exposed to second hand smoke at home: 167,000
- Adults in Oregon who smoke: 18.5% [Men: 19.8% Women: 17.2% Pregnant Females: 12.4%]

Nationwide, youth smoking has declined significantly since the mid-1990s, but that decline appears to have slowed or even reversed. The 2005 Youth Risk Behavior Survey found that the percentage of high school students reporting that they have smoked cigarettes in the past month increased to 23 percent in 2005 from 21.9 percent in 2003. Adult smoking has been decreasing gradually over the last several decades, and 20.9 percent of U.S. adults (about 45 million) currently smoke.

#### Deaths in Oregon From Smoking

- Adults who die each year in Oregon from their own smoking: 5,000
- Annual deaths in state from others' smoking (secondhand smoke & pregnancy smoking): 410 to 740
- Oregon kids who have lost at least one parent to a smoking-caused death: 3,600
- Kids alive in state today who will ultimately die from smoking: 74,000 (given current smoking levels)

Smoking, alone, kills more people each year than alcohol, AIDS, car crashes, illegal drugs, murders, and suicides combined. For every person in Oregon who dies from smoking approximately 20 more state residents are suffering from serious smoking-caused disease and disability, or other tobacco-caused health problems.

#### Tobacco-Related Monetary Costs in Oregon

- Annual health care expenditures in the State directly caused by tobacco use: \$1.11 billion
- Annual health care expenditures in Oregon from secondhand smoke exposure: \$54.9 million
  - State Medicaid program's total health expenditures caused by tobacco use: \$287.0 million
- Citizens' state/federal taxes to cover smoking-caused gov't costs: \$836.6 million (\$587/household)
- Smoking-caused productivity losses in Oregon: \$1.07 billion
- Smoking-caused health costs and productivity losses per pack sold in Oregon: \$11.02

The productivity loss amount, above, is from smoking-death-shortened work lives, alone. Additional work productivity losses totaling in the tens of billions nationwide come from smoking-caused work absences, on-the-job performance declines, and disability during otherwise productive work lives. Other non-health costs caused by tobacco use include direct residential and commercial property losses from smoking-caused fires (about \$400 million nationwide); and the costs of extra cleaning and maintenance made necessary by tobacco smoke and tobacco-related litter (about \$4+ billion per year for commercial establishments alone).

#### Tobacco Industry Advertising and Other Product Promotion

- Annual tobacco industry marketing expenditures nationwide: \$13.4 billion (\$36+ million per day)
- Estimated portion spent in Oregon each year: \$135.9 million

Published research studies have found that kids are three times more sensitive to tobacco advertising than adults and are more likely to be influenced to smoke by cigarette marketing than by peer pressure, and that one-third of underage experimentation with smoking is attributable to tobacco company marketing.

#### Oregon Government Policies Affecting The Toll of Tobacco in Oregon

- Annual State tobacco prevention spending from tobacco settlement and tax revenues: \$3.5 million [National rank: 33rd (with 1 the best), based on percent of CDC recommended minimum]
- State cigarette tax per pack: \$1.18 [National rank: 20th (average state tax is \$1.07 per pack)]

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## **APPENDIX B**

### **BENEFITS FROM AN 84.5-CENT CIGARETTE TAX INCREASE IN OREGON**

**Current State Cigarette Tax: 118 Cents Per Pack (20th among all states)**

**Smoking-caused costs in state per taxed pack sold: \$11.16**

**Average retail price per pack: \$4.31 (state share from excise and sales taxes: \$1.18)**

**Annual health care expenditures in the Oregon directly caused by tobacco use: \$1.11 billion**

**Total state Medicaid program smoking costs each year: \$287.0 million**

**Annual state cigarette tax revenue: \$232.6 million (2006)**

#### **Projected Benefits From Increasing the State Cigarette Tax By 84.5 Cents Per Pack**

- **New state cigarette tax revenues each year: \$94.9 million**
- **Pack sales decline in state: -36.1 million**
- **Percent decrease in youth smoking: 12.7%**
- **Increase in total number of kids alive today who will not become smokers: 29,500**
- **Number of current adult smokers in the state who would quit: 15,400**
- **Number of smoking-affected births avoided over next five years: 3,850**
- **Number of current adult smokers saved from smoking-caused death: 4,000**
- **Number of kids alive today saved from later premature smoking-caused death: 9,400**
- **5-Year healthcare savings from fewer smoking-affected pregnancies & births: \$6.5 million**
- **5-year healthcare savings from fewer smoking-caused heart attacks & strokes: \$6.5 million**
- **Long-term healthcare savings in state from adult & youth smoking declines: \$662.6 million**

These projections are based on research findings that a 10% cigarette price increase reduces youth smoking rates by 6.5%, adult rates by 2%, and total consumption by 4% (but adjusted down to account for tax evasion effects), and assume that the state tax will keep up with inflation. Nevertheless, the tax increase will both reduce smoking levels and increase state revenues because the higher tax per pack brings in more new revenue than is lost from the drop in the number of packs sold. These projections are fiscally conservative because they include a generous adjustment for lost state pack sales (and tax revenues) from new tax avoidance efforts after the tax increase by continuing in-state smokers. Projected new revenue amounts are for net new revenues above the actual cigarette tax revenues received by the state in the year preceding the tax increase. Without any tax increase, it is likely that the revenues would decline by a small amount. Kids stopped from smoking and dying are from all kids alive today. Long-term savings accrue over lifetimes of persons who stop smoking or never start because of tax increase. These projections assume that the state will follow standard practice and apply the cigarette tax increase to all previously tax-stamped or otherwise tax-paid cigarettes held in inventory by wholesalers or retailers on the effective date of the increase. Failing to tax such cigarettes held in inventory would open the door to massive pre-increase stockpiling by retailers and wholesalers to evade the increase, drastically reducing the amount of new state revenues. All cost and savings amounts are in 2004 dollars.

For more information, see TFK Factsheets – including *Raising State Tobacco Taxes Always Reduces Tobacco Use (& Always Increases State Revenues)* – at <http://tobaccofreekids.org/research/factsheets/index.php?CategoryID=18>.

**Sources.** Chaloupka, F, "Macro-Social Influences: Effects of Prices and Tobacco Control Policies on the Demand for Tobacco Products," *Nicotine & Tobacco Research*, 1999, and other price studies at <http://tigger.uic.edu/~fjc> and [www.uic.edu/orgs/impacteen](http://www.uic.edu/orgs/impacteen). Orzechowski & Walker, *Tax Burden on Tobacco*, 2006. USDA Economic Research Service, [www.ers.usda.gov/Briefing/tobacco](http://www.ers.usda.gov/Briefing/tobacco). Farelly, M, et al., *State Cigarette Excise Taxes: Implications for Revenue and Tax Evasion*, RTI International, May, 2003, [http://www.rti.org/pubs/8742\\_Excise\\_Taxes\\_FR\\_5-03.pdf](http://www.rti.org/pubs/8742_Excise_Taxes_FR_5-03.pdf). State tax offices. CDC, *Data Highlights 2006* [and underlying CDC data/estimates]. Miller, P, et al., "Birth and First-Year Costs for Mothers and Infants Attributable to Maternal Smoking," *Nicotine & Tobacco Research* 3(1):25-35, February 2001. Lightwood, J & Glantz, S, "Short-Term Economic and Health Benefits of Smoking Cessation - Myocardial Infarction and Stroke," *Circulation* 96(4):1089-1096, August 19, 1997, <http://circ.ahajournals.org/cgi/content/full/96/4/1089>. Hodgson, T, "Cigarette Smoking and Lifetime Medical Expenditures," *The Millbank Quarterly* 70(1), 1992. U.S. Census. National Center for Health Statistics.

**Projections will be updated and improved as updated underlying data becomes available and when new data and research findings prompt refinements to the projection models and formulas.**

## APPENDIX C

### **BENEFITS & SAVINGS FROM EACH ONE PERCENTAGE POINT DECLINE IN OREGON'S SMOKING RATES**

The following estimates show the benefits and savings that are obtained in Oregon for each one percentage point decline in adult and youth smoking rates in the state (e.g., from new state investments in tobacco prevention or increased state tobacco tax rates). These estimates can also be switched around to show what harms and costs Oregon would suffer from each one percentage point increase to its smoking rates or from each one percentage point reduction the State fails to obtain (e.g., because it fails to sustain adequate state tobacco prevention funding or lets its tobacco tax rates erode over time).

#### Fewer Smokers

**Fewer current adult smokers: 28,400**

**Fewer current pregnant smokers: 460**

**Fewer current high school smokers: 2,000**

**Oregon kids alive today who will not become addicted adult smokers: 8,500**

#### Public Health Benefits

**Today's adults saved from dying prematurely from smoking: 7,500**

**Today's high school smokers saved from dying prematurely from smoking: 600**

**Oregon kids alive today who will not die prematurely from smoking: 2,700**

	<u>First Year</u>	<u>Over 5 Years</u>
<b><i>Fewer smoking-affected births:</i></b>	<b>460</b>	<b>2,300</b>
<b><i>Fewer smoking-caused heart attacks:</i></b>	<b>13</b>	<b>170</b>
<b><i>Fewer smoking-caused strokes:</i></b>	<b>8</b>	<b>91</b>

[The number of heart attacks and strokes prevented each year by a one-time decline in adult smoking rates of one percentage point starts out small but grows sharply until it peaks and stabilizes after about ten years.]

#### Monetary Benefits (Reduced Public, Private, and Individual Smoking-Caused Costs)

	<u>First Year</u>	<u>Over 5 Years</u>
<b><i>Savings from smoking-affected birth reductions</i></b>	<b>\$0.8 million</b>	<b>\$3.9 million</b>
<b><i>Savings from heart attack &amp; stroke reductions</i></b>	<b>\$0.9 million</b>	<b>\$12.1 million</b>

[Annual savings from fewer smoking-caused heart attacks and strokes grows substantially each year as more and more are prevented by the initial one percentage point smoking decline. Savings from prevented smoking-caused cancer are even larger, but do not begin to accrue until several years after the initial smoking decline.]

**Reduction to future health costs from adult smoking declines: \$269.8 million**

**Reduction to future health costs from youth smoking declines: \$148.8 million**

[These savings accrue over the lifetimes of the adults who quit and the youth who do not become adult smokers. Roughly 12.3% of smoking-caused healthcare expenditures in Oregon are paid by its Medicaid program.]

At the same time that they reduce public and private smoking-caused costs, state smoking declines also increase public and private sector worker productivity and strengthen the state's economy.

For sources and more detail, see the TFK factsheet *Comprehensive State Tobacco-Control Programs Save Money*, <http://tobaccofreekids.org/research/factsheets/pdf/0168.pdf>. And see <http://tobaccofreekids.org/research/factsheets> or <http://tobaccofreekids.org/research/factsheets/index.php?CategoryID=6> for additional related information.

## APPENDIX D

### **EXPLANATIONS AND SOURCES FOR TFK'S PROJECTIONS OF NEW REVENUES & BENEFITS FROM STATE CIGARETTE TAX INCREASES**

The Campaign for Tobacco-Free Kids (TFK) projections of increased state revenues and other benefits from raising state cigarette tax rates reflect the basic fact that cigarette tax increases both boost state cigarette tax revenues and reduce smoking because the increased tax per pack brings in more new revenue than is lost from the declines in pack sales caused by consumption declines or increased smoker tax avoidance prompted by the price increase.

These projections are based, in part, on research findings that a 10% cigarette price increase, if maintained against inflation, reduces youth smoking rates by 6.5% or more, adult rates by 2%, and total consumption by 4%. [See, e.g., Chaloupka, FJ, "Macro-Social Influences: The Effects of Prices and Tobacco Control Policies on the Demand for Tobacco Products," *Nicotine & Tobacco Research* (2000), and other price studies at <http://tiger.uic.edu/~fjc>; Tauras, J, et al., "Effects of Price and Access Laws on Teenage Smoking Initiation: A National Longitudinal Analysis," Bridging the Gap Research, ImpacTeen, April 24, 2001, and other price studies at <http://www.impactteen.org>.] But these elasticity findings are adjusted downward to be conservative and to account for some smokers avoiding the price increases through a range of tax evasion strategies. Despite such tax evasion, cigarette tax increases reduce smoking rates, which, in turn, reduces smoking caused disease, death, and economic costs. Parallel increases to state excise taxes on other tobacco products would similarly provide additional new state excise tax and sale tax revenue – while also reducing the use of these products in the state, and reducing related harms and healthcare costs.

These projections are fiscally conservative because they include generous adjustments for lost state pack sales (and reduced state revenue gains) caused by new tax avoidance efforts by continuing in-state smokers and, where applicable, fewer in-state cigarette sales to supply smokers from other states, informal smugglers, criminal smuggling organizations, or multistate internet sellers. [See, e.g., Farrelly, M, et al., "Cigarette Smuggling Revisited," U.S. Centers for Disease Control & Prevention (CDC), in press, and Farelly, M, et al., *State Cigarette Excise Taxes: Implications for Revenue and Tax Evasion*, RTI International, 2003, [http://www.rti.org/pubs/8742\\_Excise\\_Taxes\\_FR\\_5-03.pdf](http://www.rti.org/pubs/8742_Excise_Taxes_FR_5-03.pdf).] To account for possible additional declines in state cigarette sales and revenues from other factors – such as state tobacco prevention investments, other public and private tobacco prevention efforts, federal cigarette tax changes, cigarette company or other increases to cigarette prices, etc. – these projections also assume a background year-to-year decline in consumption of 1.5%. To be even more conservative, the projected amounts have also been rounded down.\*

Despite all of these conservative adjustments, the projections still show that non-trivial state cigarette tax increases will both significantly reduce smoking levels and substantially increase state revenues. The increased tax per pack will still bring in more new state revenue than is lost from the decrease in the number of packs sold caused by the tax increase from either consumption declines, tax avoidance, or smuggling. And that is exactly what has happened in every state that has significantly increased its cigarette tax rates. [See, e.g., TFK Factsheet, *Raising State Cigarette Taxes Always Increases State Revenues (and Always Reduces Smoking)*, <http://tobaccofreekids.org/research/factsheets/pdf/0098.pdf>.]

In those states that apply their sales tax percentage to the total retail price of a pack of cigarettes (including the state cigarette tax amount), a cigarette tax increase will raise state sales tax revenues per pack, which will offset sales tax revenue losses from fewer packs being sold. In addition, smokers who quit or cut back will likely spend the money they previously spent on cigarettes largely on other goods on which sales tax is collected, which further increases state sales tax revenues.

These projections assume that the tax increase is fully passed on in higher prices, and keeps up with inflation over time. The starting price per pack (before the proposed cigarette tax increase) used in these projections includes all federal and statewide excise and sales taxes but not any purely local taxes (except that NY City's \$1.50 per pack tax is factored into the overall NY State price per pack), and is based on data from *The Tax Burden on Tobacco*, 2004, reports of state cigarette tax increases, and USDA Economic Research Service, Tobacco Briefing Room, <http://www.ers.usda.gov/briefing/tobacco>. These projections assume that the state or district will follow standard practice and apply the cigarette tax increase to all previously tax-stamped or otherwise tax-paid cigarettes held in inventory by wholesalers or retailers on the effective date of the increase.

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\* Cigarette company price cuts and other factors could also work to increase cigarette consumption and/or sales in the state, which would increase state cigarette tax revenues beyond the projected amounts.

Failing to tax such cigarettes held in inventory would open the door to massive pre-increase stockpiling by retailers and wholesalers to evade the increase, drastically reducing the amount of new state revenues.

The projections for youths stopped from becoming smokers and avoided premature youth and adult deaths are calculated by applying the above findings regarding the effects of tax and price increases to the number of current adult smokers in each state and to estimates the U.S. Centers for Disease Control and Prevention (CDC) of the number of kids alive today in each state who will become adult smokers and the number projected to die from smoking. [CDC, *State Sustaining State Programs for Tobacco Control: Data Highlights 2004*, <http://www.cdc.gov/tobacco/datahighlights/Page4.htm>. For an explanation of how CDC makes these youth projections, see CDC, "Projected Smoking-Related Deaths Among Youth – United States," *MMWR* 45(44): 971-974, <http://www.cdc.gov/mmwr/preview/mmwrhtml/00044348.htm>, November 11, 1996, which also contains data on relative death risks of smokers, nonsmokers, former smokers, etc.

Because of research and data limitations, it is not yet possible to estimate health savings in each year following a cigarette tax increase, or even provide reasonable estimates of the total health care savings over the first five or ten years. Although smoking-caused healthcare cost savings from a cigarette tax increase will be relatively small in the first year after an increase, they grow quickly. The listed 5-Year savings from fewer smoking-caused heart attacks and strokes and from fewer smoking-affected pregnancies and related birth complications show just some of the many substantial savings from the smoking reductions prompted by a tax increase that begin to accrue immediately.

The projected healthcare savings from reducing the number of future youth and current adult smokers accrue over the lifetimes of kids alive in the state today who quit or don't start because of tax increase and over the lifetimes of those current adult smokers who quit because of the tax increase. Smokers' lifetime healthcare costs average at least \$16,000 higher than nonsmokers (in 2002 dollars), despite shorter life spans; but the savings per each adult quitter are less than that because adult smokers have already been significantly harmed by their smoking and have already incurred or locked-in extra, smoking-caused health costs. [Hodgson, TA, "Cigarette Smoking and Lifetime Medical Expenditures," *The Millbank Quarterly* 70(1), 1992. See, also, Nusselder, W, et al., "Smoking and the Compression of Morbidity," *Epidemiology & Community Health*, 2000; Warner, K, et al., "Medical Costs of Smoking in the United States: Estimates, Their Validity, and Their Implications," *Tobacco Control* 8(3): 290-300, <http://tc.bmjournals.com/content/vol8/issue3/index.shtml>, Autumn 1999. CDC, "Projected Smoking-Related Deaths Among Youth – United States," *MMWR* 45(44): 971-974, November 8, 1996, <http://www.cdc.gov/mmwr/preview/mmwrhtml/00044348.htm>. See also, "Annual Smoking-Attributable Mortality, Years of Potential Life Lose, and Economic Costs – United States 1995-1999," *MMWR*, April 11, 2002, [www.cdc.gov/mmwr/preview/mmwrhtml/mm5114a2.htm](http://www.cdc.gov/mmwr/preview/mmwrhtml/mm5114a2.htm).]

5-Year Heart & Stroke Savings projections show the estimated reductions in smoking-caused healthcare expenditures within first five years after the tax increase from reduced smoking-caused heart attacks and strokes, based on Lightwood & Glantz, "Short-Term Economic and Health Benefits of Smoking Cessation – Myocardial Infarction and Stroke," *Circulation* 96(4), August 19, 1997. These savings will increase steadily in subsequent years. The projected 5-Year Smoking Births Savings accrue from declines in smoking among pregnant women and corresponding reductions in smoking-caused birth complications and related first-year health costs. [Miller, D, et al., "Birth and First-Year Costs for Mothers and Infants Attributable to Maternal Smoking," *Nicotine & Tobacco Research* 3:25-35, 2001; and state pregnancy-smoking and births data.]

All projected savings have been adjusted to 2002 dollars using the same methodology the U.S. Centers for Disease Control and Prevention has used to update its data on state smoking-caused costs. The projected savings amounts would be larger if put in 2004 dollars, but using the CDC methodology to put them in 2002 dollars makes the projections more conservative and reliable and makes them comparable to the CDC's estimates of smoking-caused state costs. [See CDC, *Sustaining State Programs for Tobacco Control: Data Highlights 2004*, <http://www.cdc.gov/tobacco/datahighlights/index.htm>.] These projections do not include a range of additional short and long-term savings from other declines in smoking-caused health problems and other smoking-caused costs. [See, e.g., U.S. Department of the Treasury, *The Economic Costs of Smoking in the U.S. and the Benefits of Comprehensive Tobacco Legislation*, 1998.]

## **USEFUL RESEARCH STUDIES**

### **Tobacco Tax, Price, and Consumption**

- Chaloupka, F, "Macro-Social Influences: The Effects of Prices and Tobacco Control Policies on the Demand for Tobacco Products," *Nicotine & Tobacco Research*, 1999.
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