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Georgia Budget and Policy Institute

TOBACCO TAX

F A C T S

INCREASE GEORGIA'S CIGARETTE TAX BY \$1 PER PACK TO HELP LESSEN CUTS IN HEALTH CARE

Georgia's 37 cent per pack cigarette tax is currently the 4th lowest cigarette tax rate in the nation. Increasing the per pack tax by \$1 would raise at least \$350 million, while also generating significant health benefits as smokers, particularly younger smokers, reduce their cigarette consumption. If this increase were enacted as part of the FY 2012 budget, these dollars could be used to fund increased state agency contribution to the State Health Benefit Plan without creating a significant funding gap in Georgia's Medicaid program.

FILLING FY 2012 BUDGET GAPS

State budget proposals recently released by both the Georgia House and Senate create a funding shortfall in Georgia's Medicaid program of approximately \$180 million. Both budget proposals shift state funding from Georgia's Medicaid program to the State Health Benefit Plan (SHBP), which covers state employees, teachers, and other school district employees. Without new funding, the SHBP would face serious cash flow issues in FY 2012.

While these proposals may be necessary to deal with the funding gap in the SHBP, transferring the money from the Medicaid programs creates equally serious funding shortfalls in Georgia's Medicaid program. Furthermore, the governor's initial FY 2012 budget proposal for Medicaid did not include new funding for enrollment growth from July 2011 to June 2012.

Previous GBPI analysis indicated that the governor's initial Medicaid proposal may have been short by more than \$60 million; however, recent Department of Community Health estimates indicate that this amount

R E C O M M E N D A T I O N

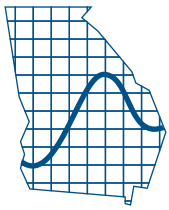
In light of Georgia's current budget situation, **Georgia lawmakers should consider a \$1 per pack increase in the cigarette tax to fund higher contributions to state employee health insurance without creating a hole in the state's Medicaid program.** These funds could be used to eliminate other cuts being considered in the FY 2012 budget such as cuts to provider reimbursement rates and the implementation of co-payments for PeachCare for Kids families, which may result in reduced access to care for children in PeachCare and Medicaid. Finally, the new revenue from the cigarette tax could be used to reduce the proposed 19 or 20 percent increase in employee contributions for state employee health insurance premiums included in the Senate and House budget proposals, respectively.

may exceed \$80 million. The House and Senate budget proposals reduce the Medicaid appropriation by an additional \$98 million in order to fund SHBP employer contributions and to provide funding to the Governor's Emergency Fund. (Funds directed to the Governor's Emergency Fund are being made available to pay interest owed on the state's Unemployment Trust Fund.)

State leaders have indicated that the Medicaid funding shortfall could be funded as part of the Amended FY 2012 budget that will be written during the 2012 Legislative Session. However, the size of the hole facing Medicaid under the House and Senate proposals may prove difficult

THOUGHTFUL ANALYSIS...RESPONSIBLE POLICY

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INCREASING THE CIGARETTE TAX BY \$1 PER PACK WILL RESULT IN A 16 PERCENT DECLINE IN YOUTH SMOKERS

to fill without a significant new revenue source such as the cigarette tax.

Furthermore, beginning in FY 2014, the temporary hospital tax passed as part of the FY 2011 budget will expire and create a funding gap in the Medicaid program of more than \$220 million. Increasing the cigarette tax by \$1 per pack would generate almost enough revenue to fill the budget gap in FY 2012 as well as offset the lost hospital tax revenue in 2014.

CIGARETTE TAX INCREASE BRINGS HEALTH BENEFITS

In addition to generating much needed state revenue in FY 2012, an increase in the cigarette tax yields significant public health benefits. In total, smoking-related illness cost Georgia approximately \$2.25 billion annually in direct medical costs and an additional \$3.3 billion in lost productivity. Over the long term, increasing the cigarette tax by \$1 will generate \$1.8 billion in long-term health care savings as a result of declining smoking rates for adults and younger Georgians.

While many consumers are sensitive to the price of cigarettes, younger smokers are especially price sensitive. Because of this price sensitivity, youth smoking will likely be affected most by a tax increase that adds to the retail price of cigarettes. According to analysis by the Campaign for Tobacco-Free Kids, a \$1 per pack increase in the cigarette tax will lead to a 15.7 percent decline in smoking rates among Georgia's youth.

TOBACCO'S EFFECT ON GEORGIANS

According to the Campaign for Tobacco-Free Kids:

- **11,400 kids under the age of 18** become new daily smokers each year
- **423,000 kids** are exposed to secondhand smoke at home
- **22.4 million packs** of cigarettes are bought or smoked by kids each year
- **\$548 per household** of state and federal tax dollars are spent on smoking-caused government expenditures
- An estimated **\$426.4 million** is spent annually on marketing expenses in Georgia by the tobacco industry

A \$1 per pack increase in the cigarette tax would lead to:

- **79,600 kids** kept from becoming addicted smokers
- **38,400 lives saved** from premature smoking caused deaths
- **49,100 adult smokers** would quit smoking

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