

Executive Summary

Since the November 1998 multi-state tobacco settlement, we have issued regular reports assessing whether the states are keeping their promise to use a significant portion of the settlement funds – expected to total \$246 billion over 25 years – to attack the enormous public health problem posed by tobacco use in the United States.

This year, we find 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 despite an improvement in the overall financial condition of most states. The failure of the states to significantly increase funding for tobacco prevention under these positive circumstances is particularly troubling because there is clear evidence that the cuts states have made in tobacco prevention funding since 2002 have slowed or even stalled recent declines in youth smoking and the tobacco companies continue to spend record amounts marketing their deadly and addictive products. In fact, the growing gap between the inadequate amounts the states are spending on tobacco prevention and the vast sums the tobacco companies are spending to market cigarettes and other tobacco products is putting further progress at risk.

In the current budget year, Fiscal Year 2006, only four states – **Maine, Colorado, Delaware** and **Mississippi** – are funding tobacco prevention programs at minimum levels recommended by the U.S. Centers for Disease Control and Prevention (CDC), while 35 states and the District of Columbia are funding tobacco prevention programs at less than half the CDC minimum or providing no funding at all.

Altogether, the states have allocated \$551 million for tobacco prevention in FY2006, which amounts to barely one-third of the \$1.6 billion minimum that the CDC recommends. FY2006 funding does represent a small increase from FY2005 funding of \$538.2 million. While this is the first increase in tobacco prevention funding in four years, it is still 26.5 percent less than the peak funding level of \$749.7 million in FY2002.

The past year has brought troubling new evidence that the cuts in state tobacco prevention funding since 2002 are having a harmful impact. In April 2005, the CDC released the results of the 2004 Youth Tobacco Survey that found no significant declines in high school and middle school smoking rates between 2002 and 2004, indicating that significant smoking declines that began in the late 1990s have stalled. The CDC attributed the slowing of smoking declines to two primary factors: deep cuts in state tobacco prevention funding and steep increases in tobacco marketing expenditures. States cut funding for tobacco prevention programs by 28 percent from FY2002 to FY2004. In contrast, between 1998 when they agreed to the state tobacco settlement and 2003, the tobacco companies increased their marketing expenditures by 123 percent to \$15.4 billion, according to the most recent annual reports on tobacco marketing issued by the Federal Trade Commission¹. Most tobacco marketing is now concentrated on price discounts, which

¹ *Tobacco marketing expenditures are based on the most recent official data available from the federal government. The most recent marketing data for cigarettes is from 2003 and comes from the Federal Trade Commission (FTC)'s Cigarette Report for 2003. The most recent available marketing data for smokeless tobacco is for 2001 and comes from the FTC's Smokeless Tobacco Report, 2000 and 2001. 2002 and 2003 totals include 2001 smokeless marketing numbers, which are used as estimates for 2002 and 2003.*

undermine state efforts to reduce smoking by increasing tobacco taxes and which have the greatest impact on youth – the most price-sensitive customers.

In October 2005, the CDC released another study that provided further concrete evidence of the impact of reduced state tobacco prevention funding: kids are being exposed to less state-sponsored television advertising that discourages them from smoking. Unfortunately, these reductions in state-sponsored advertising come at the same time that the American Legacy Foundation has had to reduce its national “truth” anti-smoking advertising campaign because a significant portion of its funding under the 1998 settlement ended after 2003.

The states lack credible excuses for their failure to do more to protect children from tobacco addiction and help smokers quit:

- There is plenty of tobacco-generated revenue to do the job in every state. States this year will collect a record \$21.3 billion from the tobacco settlement and tobacco taxes (an increase from \$20 billion in FY2005). Just 7.5 percent of this total can fund tobacco prevention and cessation programs in every state at minimum levels recommended by the CDC. However, the states are spending only 2.6 percent of their tobacco revenue on tobacco prevention and cessation.
- The tobacco problem is as great as ever. Tobacco use remains the nation’s leading preventable cause of death, killing more than 400,000 people and costing the nation more than \$180 billion in health care bills and lost productivity each year. As noted earlier, the tobacco companies are spending a record \$15.4 billion a year – \$42 million each day – on marketing, often in ways that appeal to children. In fact, the tobacco companies spend \$28 to market tobacco products for every dollar the states spend on tobacco prevention. The tobacco companies spend more on marketing in a single day than 47 states and the District of Columbia each spend in an entire year.
- The states have more evidence than ever before that tobacco prevention and cessation programs work to reduce smoking, save lives and save money by reducing tobacco-caused health care costs. **Maine** and **Mississippi** have each funded tobacco prevention programs at CDC-recommended levels for seven years in a row and are enjoying significant public health benefits as a result. From 1997 to 2005, Maine, which has the nation’s best-funded prevention program for the fourth year in a row, reduced smoking by 64 percent among middle school students and by 59 percent among high school students. Between 1999 and 2004, Mississippi reduced smoking by 48 percent among public middle school students and by 32 percent among public high school students.

2005 brought other troubling developments in the funding of tobacco prevention programs. The most alarming is the continued threat to some of the most effective state tobacco prevention programs, including those in **Mississippi** and **Ohio**.

In **Mississippi**, despite the success of the state’s program, Governor Haley Barbour has filed suit to overturn a court order requiring that Mississippi spend \$20 million a year in tobacco settlement funds on tobacco prevention. Barbour wants to use the funds for Medicaid. Health advocates have pointed out that the tobacco prevention program is saving money for Mississippi

and its Medicaid program by reducing smoking-caused health care costs, and they have advocated a tobacco tax increase as help fund Medicaid. Barbour has opposed this proposal.

In **Ohio**, for the fifth year in a row, Governor Robert Taft and the Legislature diverted to the general fund the portion of the state's annual tobacco settlement payments that were earmarked under a 2000 law for the state's Tobacco Use Prevention and Control Foundation. As a result, the Foundation has been forced to fund its prevention and cessation programs by spending down its initial endowment. This year Ohio cut funding for tobacco prevention by 10 percent, fell from fifth to 10th among the states, and will have to continue to cut funding unless settlement dollars are restored. Ohio's leaders have cut funding to the program despite the fact it has helped reduce high school smoking by 45 percent from 1999 to 2003 and adult smoking by 17 percent from 2003 to 2004.

In a promising development, voter-supported ballot initiatives have produced significant increases in tobacco prevention spending in **Colorado** and **Montana**, the two most improved states in the nation in tobacco prevention funding.

In **Colorado**, voters approved a November 2004 ballot initiative that increased the state cigarette tax by 64 cents a pack, with \$27 million of the revenue dedicated to tobacco prevention for 2005. Colorado rose from 34th to second among the states in its funding of tobacco prevention and is now one of only four states to meet the CDC's minimum recommendation.

Montana, with the strong support of newly-elected Governor Brian Schweitzer, increased funding for tobacco prevention from \$2.5 million to \$6.8 million, placing it at 73 percent of the CDC's minimum recommendation and increasing the state's ranking from 28th to 11th. This action came after voters twice expressed strong support for tobacco control measures, voting in November 2004 for a \$1 per pack cigarette tax increase and in November 2002 to dedicate 32 percent of the state's tobacco settlement payments to tobacco prevention (however, the governor and Legislature retained authority to override the 2002 initiative, and the previous governor and Legislature exercised it).

Because of the failure of states to adequately fund tobacco prevention and cessation programs, the trend of turning to the voters to fund tobacco prevention programs when elected officials fail to do so appears likely to continue in 2006. In **Florida**, public health groups are collecting signatures in support of a constitutional amendment that would restore funding for that state's once pioneering and highly successful program, which has had its funding reduced from \$70 million to \$1 million a year in recent years. Ballot initiatives have also been proposed in **California** and **Missouri** to increase the cigarette tax and allocate a portion of the revenue for tobacco prevention.

Summary of Findings

Each of our reports assesses and ranks the states based on whether they are funding tobacco prevention programs at the minimum levels recommended by the CDC, which usually amounts to 20 to 25 percent of a state's annual settlement proceeds and an even smaller percentage of a state's tobacco-generated revenue from the tobacco settlement and tobacco taxes. The findings for this year:

- Only four states – Maine, Colorado, Delaware and Mississippi – currently fund tobacco prevention programs at minimum levels recommended by the CDC. With the addition of Colorado, this is up from three a year ago.
- Only 11 other states are funding tobacco prevention programs at half or more of the minimum levels recommended by the CDC. Arkansas is close to CDC minimum at 98 percent.
- Thirty states are spending less than half the CDC’s minimum amount. Another five states – Michigan, Missouri, New Hampshire, South Carolina and Tennessee – and the District of Columbia allocate no significant state funds for tobacco prevention.
- In the current budget year, Fiscal Year 2006, the states cumulatively plan to spend \$551 million on tobacco prevention programs. This amounts to just 34.4 percent of the CDC’s minimum recommendations for all the states combined, which total \$1.6 billion.
- Before this year’s small increase in funding, the states from 2002 to 2005 had cut total funding for tobacco prevention by 28 percent, or \$211.5 million, from \$749.7 million to \$538.2 million.

Key Trends

States are failing to adequately fund tobacco prevention and cessation programs despite collecting record amounts of tobacco-generated revenue from the tobacco settlement and tobacco taxes. Since January 1, 2002, 41 states and the District of Columbia have increased tobacco taxes, some more than once. These actions have increased the average state cigarette tax from 43.4 cents to 91.7 cents a pack. As a result, the states this year will collect a record \$21.3 billion in revenue from the tobacco settlement and tobacco taxes.

The states’ funding of tobacco prevention and cessation is woefully inadequate given the magnitude of the problem and the record amounts tobacco companies are spending to market their products. When the public health problems posed by tobacco are compared to other health problems, it is clear that the amount the states are spending on tobacco prevention today pales in comparison to the enormity of the problem. Tobacco use is the number one cause of preventable death in the United States, claiming more lives every year – 400,000 – than AIDS, alcohol, car accidents, murders, suicides, illegal drugs and fires combined. Despite recent progress in reducing youth smoking rates, 21.7 percent of high school students still smoke. Every day, another 1,500 kids become regular smokers; one-third of them will die prematurely as a result. These children are the tobacco companies’ valued “replacement smokers.”

The evidence is conclusive that state tobacco prevention and cessation programs work to reduce smoking, save lives and save money. Every scientific authority that has studied the issue, including the National Cancer Institute, the Institute of Medicine and the U.S. Surgeon General, has concluded that when properly funded and implemented, these programs reduce smoking among both kids and adults.

The strongest evidence comes from the states themselves. This report has already cited the results from Maine, Mississippi and Ohio. Washington state, with another well-funded

prevention program, has cut smoking by 57 percent among sixth graders, 49 percent among eighth graders and 44 percent among twelfth graders.

These smoking declines translate into lives and health care dollars saved, as well as improved health. Maine, for example, estimates that its smoking declines have prevented more than 26,000 youth from becoming smokers, saved more than 14,000 of them from premature, smoking-caused deaths and already saved more than \$416 million in future health care costs, a significant return on investment for a program funded at \$14.2 million a year (savings estimates are based on research showing that smokers, on average, have \$16,000 more in long-term health care costs than non-smokers). Washington State's smoking declines translates into 65,000 fewer youth smokers, 130,000 fewer adult smokers and \$2.6 billion in long-term health care cost savings. Mississippi has prevented more than 28,000 children from becoming smokers, saving more than \$400 million in future health care costs.

Studies show that California, which started the nation's oldest tobacco prevention program in 1990, has saved tens of thousands of lives by reducing smoking-caused birth complications, heart disease, strokes and lung cancer. Other studies have shown that California and Massachusetts, which started their tobacco prevention programs in 1990 and 1993 respectively, were saving as much as \$3 in smoking-caused health care costs for every dollar spent on tobacco prevention when their programs were adequately funded.

When states cut tobacco prevention programs, progress can be reversed quickly. Perhaps the most egregious example is Florida, where a once innovative and successful program that served as a model around the country was steadily weakened and then virtually eliminated by the governor and legislature. Florida's kids are already paying a price for the decision to dismantle a program that reduced high school smoking by 35 percent and middle school smoking by 50 percent in four years. Recent data from Florida indicates that progress in reducing smoking among middle school students has stalled and the state's anti-smoking messages are not reaching younger kids, those entering the most vulnerable years for starting to smoke, as effectively as they once did.

In Massachusetts, a study released by the Massachusetts Association of Health Boards found that tobacco control program cuts have been followed by an alarming increase in illegal tobacco sales to children. In Minnesota, a survey found a significant increase in youth susceptibility to smoking just months after funding for the state's youth tobacco prevention program was eliminated.

Our nation has made significant progress in recent years in reducing youth tobacco use with a comprehensive approach that includes well-funded tobacco prevention and cessation programs in some states, tobacco tax increases, smoke-free air laws, and the American Legacy Foundation's "truth" public education campaign. But continued progress in reducing youth smoking, and acceleration of the slow decline in adult smoking rates, will not occur unless more states use more of the billions of dollars they are receiving from the tobacco settlement and tobacco taxes to fund comprehensive tobacco prevention and cessation programs based on the recommendations of the CDC. If they do, the 1998 state tobacco settlement could yet mark a historic turning point in the battle to reduce tobacco's terrible toll. If they do not, it will be a tragic missed opportunity for the nation's health.