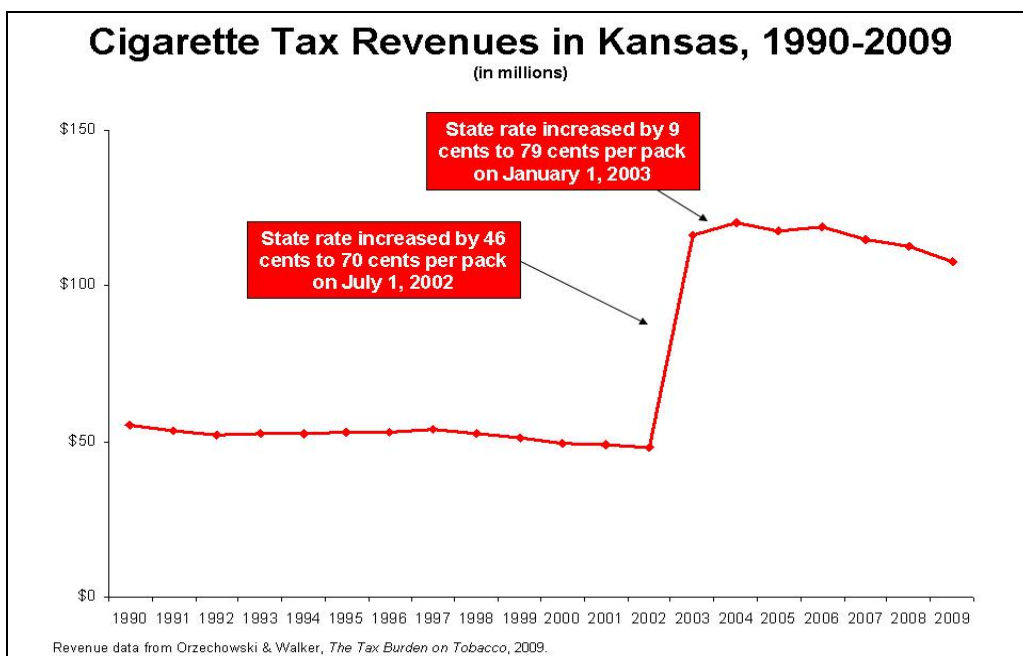


TOBACCO TAX INCREASES OFFER KANSAS A RELIABLE SOURCE OF SUBSTANTIAL NEW STATE REVENUES

State tobacco taxes are one of the most predictable sources of revenue that states receive, rarely experiences sharp changes from one year to the next (except when revenues go up substantially in response to state rate increases).

The higher level of state tobacco tax revenues after a rate increase will decline over time as state smoking levels continue to shrink, but the revenue levels will remain much higher than they would have been without the rate increase. In addition, the smoking-reduction revenue declines will occur at a gradual, predictable rate, making related state budgeting quite easy. At the same time, any reductions to state cigarette tax revenues over time from ongoing smoking declines are dwarfed by the much larger government and private sector cost savings from those same smoking declines.

For example, prior to the last cigarette tax increases in Kansas, the state's cigarette tax revenues had been more or less holding steady for more than ten years at about \$50 million per year, with a slight downward trend because of gradual ongoing smoking declines. Then, state revenues increased by more than \$65 million per year when the state raised its tax rate by 46 cents on July 1, 2002 and by another nine cents on January 1, 2003. [See graph below.] Since then, state cigarette revenues have declined modestly, thanks to continuing smoking declines, which were accelerated by the predictable smoking declines caused by the 61-cent federal cigarette tax increase in early 2009. But even after those sharper smoking declines from the federal tax increase, Kansas will still receive at least \$50 million more cigarette tax revenues in fiscal year 2009-2010 than it received before its last cigarette tax increases.



The modest Kansas revenue declines after 2004 were caused by the continuing smoking declines in the state. For example, from 2002 to 2008, the number of adult smokers dropped by 88,000, saving 23,000 Kansans from dying early from smoking, and locking in healthcare cost savings, over time, of more than \$838.5 million.

With a new \$1.00 per pack tax increase, Kansas will enjoy immediate increases in tobacco tax revenues, reduced smoking levels, and related cost savings. After that, as with the last tax increases, revenues will decline modestly over the years as smoking rates continue to go down. But total state cigarette tax revenues will remain much higher than pre-tax-increase levels and the ongoing smoking declines will continue to lock in significant public health benefits and cost savings.