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# PAYCHECK\$ and POLITICS

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## The 2009 Tobacco Tax: Was Children's Health Care the Big Loser?

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Gov. Mike Beebe and legislative leaders in 2009 passed a comprehensive healthcare package paid for by a 56 cent increase in the tobacco tax. In addition to curbing smoking rates, the increase was intended to fund a flagship trauma system, fill critical service gaps and expand health promotion and prevention activities.

Despite ample new revenue from the increase, some programs promised a part of the new money haven't seen a penny of it.

The tax increase was estimated to bring in more than \$80 million the first year, with sufficient funds available to cover the array of programs. Indeed, tobacco tax general revenues increased from \$164.6 million in state fiscal year (SFY) 2009 to \$245.1 million in SFY 2010, an increase of \$80.5 million, according to the Arkansas Department of Finance and Administration's (DFA) monthly general revenue reports.<sup>1</sup>

Because the tax began March 1, 2009, the state got a head start on new revenue to help fund the initiative (16 months of funding for the first state fiscal year, which didn't start until July 1), so the actual impact is greater than anticipated. Total collections for the last four months of SFY 2009 were about \$15.9 million higher than the same four-month period of 2008.<sup>2</sup>

But it's not all good news. Despite the robust tax revenues in SFY 2010, less than half (46.8 percent) of the intended healthcare initiative money was spent that year,

and only 87.1 percent of the money from the original proposal is budgeted to be spent in SFY 2011. Only five of the 23 programs in the promised initiative were fully funded in 2010.<sup>3</sup> The table on the next page shows intended funding under the healthcare initiative, actual or budgeted funding and the actual percentage received or budgeted for SFY 2010 and SFY 2011. As the table shows, two programs have not yet been funded. Two of those are not budgeted for the 2011 state fiscal year, and many others were not funded at intended levels. Please note:

**Three of the 23 programs were not funded in SFY 2010 and two are not budgeted for SFY 2011, leaving millions in federal Medicaid matching dollars on the table.**

These include:

- ARKids First children's health insurance expansion from 200 percent to 250 percent of the federal poverty level. This was intended to cover as many as 20,000 uninsured children, most of whom are already eligible for the program.<sup>4</sup>
- New substance abuse treatment services for pregnant women and adolescents under Medicaid were not funded in 2010 but DHS Director John Selig indicated in September 2010 that this program would proceed in March 2011.
- Electronic medical records (EMRs) under Medicaid.<sup>5</sup>

These three programs can bring in substantial federal Medicaid matching funds, which support as much as 80 percent of the total cost. Based on the original estimates,

# 2009 Arkansas Health Care Initiative: Fiscal Year 2010 Spending and Fiscal Year 2011 Budget

	One-time cost (in millions)	FY 2010 Intended (in millions)	FY 2010 Actual Expenditures (in millions)	FY 2010 Percent of original funded	FY 2011 Intended (in millions)	FY 2011 Budgeted (in millions)	FY 2011 Percent of original budgeted	Total inc. Federal Matched Funding 2010 (in millions)	Total inc. Federal Matched Funding 2011 (in millions)
<b>Proposed programs, by agency or initiative</b>								(2009 estimate, assumes originally budgeted funds spent)	
<b>Arkansas Department of Health</b>									
Arkansas Trauma System (one-time funds for EMT/ambulance)	\$5.0	\$20.0	\$6.5	32.5%	\$28.0	\$29.90	106.8%	\$25.0	\$28.0
Arkansas Influenza Immunization Campaign									
Continuation of existing adult vaccines		\$1.7	\$1.7	100.0%	\$1.7	\$1.70	100.0%	\$1.7	\$1.7
Expansion of vaccines to all public school students		\$1.2	\$1.0	83.3%	\$1.2	\$1.10	91.7%	\$1.2	\$1.2
Community Health Centers	\$5.0	\$10.0	\$8.7	87.0%	\$10.0	\$10.00	100.0%	\$15.0	\$10.0
Infant Death Review*		\$0.3	\$0.0	0.0%	\$0.3	0.15**	50.0%	\$0.3	\$0.3
<b>Step-Up Coalition -- additional support**</b>									
The Arkansas Cancer Coalitions Arkansas Cancer Plan		\$2.0	\$1.5	75.0%		\$1.80	(see above)		
Arkansas Association of Charitable Clinics		\$1.0	\$0.8	80.0%		\$1.00	(see above)	\$1.0	\$1.0
Arkansas Acute Stroke Care Task Force		\$0.3	\$0.0	0.0%		\$0.06	(see above)		
Arkansas Tobacco Control Board		\$0.5	\$0.2	40.0%		\$0.50	(see above)		
<b>Arkansas Department of Human Services</b>									
AR Health Networks (Div. of Medical Services)		\$2.0	\$0.2	10.0%	\$3.5	\$0.90	25.7%	\$13.3	\$23.3
ARKids expanded to 250% FPL (Div. of Medical Services)		\$3.6	\$0.0	0.0%	\$6.0	\$0.00	0.0%	\$20.0	\$33.3
Autism Treatment and Coordination (Div. of Developmental Disabilities Services)		\$1.5	\$1.4	93.3%	\$1.5	\$1.40	93.3%	\$1.5	\$1.5
Home and community based services (Div. of Medical Services)		\$5.0	\$3.5	70.0%	\$5.0	\$4.70	94.0%	\$18.5	\$18.5
Hunger Coalition (Div. of County Operations)		\$1.0	\$0.9	90.0%	\$1.0	\$0.90	90.0%	\$1.0	\$1.0
Medicaid adult dental (Div. of Medical Services)		\$2.7	\$2.9	107.4%	\$2.7	\$4.60	170.4%	\$10.0	\$10.0
Medicaid breast and cervical cancer (Div. of Medical Services)		\$2.5	\$1.9	76.0%	\$2.5	\$2.60	104.0%	\$9.3	\$9.3
Medicaid electronic health record (Div. of Medical Services)	\$4.0		\$0.0	0.0%		\$0.00		\$26.7	\$-
Medicaid substance abuse treatment for children and pregnant women (DMS)		\$5.0	\$0.0	0.0%	\$5.0	\$0.53	10.6%	\$18.5	\$18.5
<b>University of Arkansas Medical Sciences</b>									
Area Health Education Centers (UAMS)		\$3.4	\$3.4	100.0%	\$4.0	\$3.40	85.0%	\$3.4	\$4.0
Arkansas Health Data Initiative (UAMS) ACHI		\$0.7	\$0.7	100.0%	\$0.9	\$0.70	77.8%	\$0.7	\$1.1
UAMS NW Medical school (UAMS)		\$3.0	\$3.0	100.0%	\$4.0	\$3.00	75.0%	\$3.0	\$4.0
<b>Arkansas Department of Education</b>									
Coordinated School Health (one-time purchase of computers for school nurses)	\$1.0	\$2.0	\$1.7	85.0%	\$2.7	\$2.00	74.1%	\$3.0	\$2.7
School facility joint use support		\$1.0	\$0.0	0.0%	\$2.0	\$0.50	25.0%	\$1.0	\$2.0
<b>Final Budget 2010: \$87.8 (\$10m from Smokeless &amp; \$77.8m at .56)</b>									
<b>Final Budget 2011: \$85.8 (\$10m from Smokeless &amp; \$75.8 at .56)</b>									

Information based on governor's 2009 healthcare initiative (program listing, 2010 and 2011 intended funding, anticipated Medicaid match). Updated budget information (2010 actual expenditures, 2011 budgeted) provided by the Arkansas Department of Finance and Administration (DFA), with the exception of 2011 budgeted funding for Infant Death Review, provided by the Arkansas Department of Health. Updates of federal match funding are from governor's original 2009 health care initiative proposal.

\*Officials at the Department of Health note that the investment has been redirected from the original "Infant Mortality Autopsy Support" and that \$150,000 has been allocated for SFY 2011.

\*\*Note: Step-Up Coalition initiatives are listed individually but the total amount for Step-Up is not double counted in the totals.

just abandoning the ARKids First expansion and substance abuse treatment means the state has already forgone more than \$35 million in federal funds. Then there are other Medicaid-matchable programs that received some—but not all—of the funding that was originally intended (see table).

**Ten programs received less than 75 percent of intended funding in 2010.** Of these, four have 75 percent or more of their funding budgeted for 2011<sup>6</sup>, three programs<sup>7</sup> will receive 25 percent to 50 percent of their intended funding and two programs are not funded in the 2011 budget (See above)<sup>8</sup>.

Some of the programs may have made more progress than the books show. For example, spending on the trauma system appears low during the first year because the effort took so much work to get up and running. That program, like all those in the health initiative, were allowed to carry money over to the second year to ensure spending wasn't hurried by fiscal deadlines.

**If tobacco tax revenues are up, then why hasn't the money been spent on the healthcare initiative?** The tobacco tax revenue was never tied in law to these programs, and instead goes to the state's general revenue account. The state's net available general revenue was down \$111 million in SFY 2010 compared to SFY 2009. The new money from the tobacco tax was used to fill that hole. Sadly, each abandoned program is a missed opportunity to attract additional federal Medicaid dollars into the Arkansas economy. Every state dollar invested in Medicaid-matching programs leverages at least \$6 in federal matching money and related business activity.<sup>9</sup> Arkansas loses economic activity by not investing in these programs.

**Lawmakers passed the tobacco tax increase to fill critical service needs** including a trauma system, substance abuse services and ARKids First for families who are struggling to pay for health care services today. The state can lay the groundwork for implementing the new federal health reform law by fully financing the programs that support these families.

**Now is the time to improve the health of Arkansans.** Families who would benefit from these investments are worse off today than they were in 2009. Unlike the state, families have no more room for cuts and have no money in reserves. We must move forward on the ARKids First expansion and substance abuse treatment for pregnant women and adolescents.



#### Endnotes

1: Note: When the tax increase passed, it was understood that it is a declining revenue source, which is also why the tax was promoted as a public health benefit since it helps to curb smoking rates. The general revenue forecast for all tobacco tax revenues for SFY 2011 (not only the increase) is \$234 million, \$11 million less than the \$245 collected in SFY 2011. It is not clear how much of this decrease is attributable to the 2009 increase.

2: Based on DFA monthly revenue report releases, the increases/decreases for these four months were: \$3.3 million, \$2.7 million, \$8.1 million and \$8.4 million, respectively.

3: Adult vaccinations, Medicaid adult dental services, UAMS Area Health Education Centers, UAMS Arkansas Center for Health Improvement Health Data Initiative, and the UAMS Northwest Arkansas Medical School campus. See table for more.

4: For more information, see Arkansas Advocates for Children and Families' Crossing the Finish Line 2010: Moving Toward Covering All Kids available at [www.aradvocates.org](http://www.aradvocates.org)

5: Although this program has not received state funding, at least three agencies, AFMC, DHS and Office of Health Information Technology have received federal funding for work on this program.

6: Trauma system, Acute Stroke Care Task Force, Arkansas Tobacco Control Board, Medicaid Home- and Community-based services for seniors.

7: ARHealth Networks (a limited package of Medicaid benefits for qualified adults), infant death reviews, and joint use agreements for school-community partnerships, which support the ability to allow school buildings to be used outside regular school hours by other community organizations.

8: ARKids expansion and Medicaid EMRs.

9: Deck, K (2010). The Economic Impact of Medicaid Spending in Arkansas. Fayetteville, AR: University of Arkansas, Sam M. Walton College of Business, Center for Business and Economic Research.