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**Testimony to the Public Health Committee
February 21, 2007**

**In Support of House Bill #6088: An Act Concerning a Dedicated Alcohol Tax to Fund Substance Abuse Treatment Programs and
House Bill #5631: An Act Concerning State Spending on Community Mental Health Services**

**By Nora Duncan, Public Policy Specialist
February 21, 2007**

Good Afternoon honored members of the Public Health Committee. My name is Nora Duncan and I am the Public Policy Specialist for CT Association of Nonprofits. CT Nonprofits represents nearly 500 nonprofit organizations in CT, nearly 300 of which are state-funded. Many of those are Department of Mental Health and Addiction Services (DMHAS) funded to provide treatment of addiction and mental illness around CT

I am here today in support of Bill #6088 and Bill #5631.

House Bill #6088: An Act Concerning a Dedicated Alcohol Tax to Fund Substance Abuse Treatment Programs

This bill provides a DEDICATED increase in the tax on alcohol with the revenues benefiting treatment providers directly. I would like to focus the attention on a beer tax, specifically. Beer is the biggest source of alcohol sales by far (87% of alcohol beverage sales nation-wide) and the 29 cent per gallon tax on it has not been increased since 1989 and ranks 29th among the 50 states.

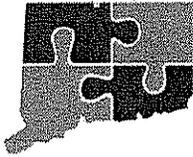
In this bill, the revenue from an increased tax would be dedicated to existing addiction treatment providers in the DMHAS system that, for the most part, have seen no rate increases since the inception of the SAGA Behavioral Health Program almost 9 years ago. On average, rates cover approximately 70% of the cost of care. With no rate increases and no inflationary increases at all in the Governor's budget, a dedicated alcohol tax is good step toward giving nonprofit providers of critical addiction treatment services the rate increases they so desperately need.

There are two major reasons that it makes sense to support an increased dedicated tax on beer:

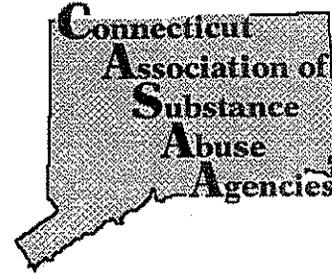
- 1) Financial support for existing providers, and
- 2) Increased public health via reduced under-age drinking (higher beer taxes correspond to lower underage drinking)

With only 3 minutes to testify, I will focus on the financial reasons and leave the public health issues, namely reducing underage drinking, to the prevention professionals here today. Some of my attached documents reflect the public health issues.

CT sells approximately 58 million gallons of beer per year (sources: Adams Beverage Group Beer Handbook 2005; Center for Science in the Public Interest). For some perspective: there is just over a half gallon of beer in a 6 pack, 2.25 gallons of beer in a case, and 15.5 gallons of beer in a keg. If CT added 5 cents additional tax per gallon, CT could raise approximately \$2.9 million dollars in revenue to dedicate to addiction providers. That would raise the tax to 34 cents per gallon – recalling that this would be the first increase since 1989 – and only cost the consumer about **2.5 cents extra per 6 pack of beer.**



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2007 Legislative/Public Policy Priorities for DMHAS Behavioral Health Care Providers

A number of public policy issues that benefit nonprofits will appear on the CT Association of Nonprofits 2007 Public Policy Agenda.

The nonprofit behavioral health care provider community believes that adequate funding for providers is extraordinarily important due to the correlation between funding and staffing levels, and the resulting availability and quality of care. The following items focus on revenue enhancement as a good business practices to ensure that the partnership between the State of Connecticut and the nonprofit community-based provider sector can survive and a crisis in the provision of quality services can be avoided.

Support Alcohol Tax Increases for Support of Substance Abuse Prevention and Treatment

CT has a substance use/abuse problem that is significant and needs attention. The National Survey on Drug Use and Health (NSDUH)¹ for 2003-2004 shows CT in the top 5th of the country for highest rate of alcohol use in the past month among all age groups, at 60% across the age groups, with an alarming 74% of 18-25 year olds reporting alcohol use in the past month. Compared to a national average of 22%, 25% of CT residents in total and 48% of 18-25 year olds reported binge drinking in the last month. CT ranked 5th among all the states in illicit drug dependence or abuse in the past year for 18-25 year olds, at just over 10%.

JoinTogether.org², a respected national advocacy group formed in 1991 to support community-based efforts to advance effective alcohol and drug policy, with support of the Robert Wood Johnson Foundation, released a report in 2006 that called for states to “consider raising alcohol excise taxes, especially on beer, earmarking the revenues for prevention, treatment and recovery programs if they need additional money.” A recent survey of residential treatment providers by the CT Association of Nonprofits showed that the average per diem SAGA rate for care covers about 70% of actual costs and that in the last 5 years energy costs are up nearly 70% and employee health insurance costs are up nearly 45%, while the benefits have often been reduced. Some SAGA Behavioral Health Program rates have not been increased since inception 9 years ago. The need for additional money is clear.

CT ranks 29th among the 50 states in beer taxes at 19 cents/gallon. The national average is 26 cents/gallon. The last increase in the beer tax was in 1989.

Research shows that higher “sin” taxes reduce consumption and enhance public health and safety. JoinTogether.org reports that “The five states with the highest beer taxes have significantly lower rates of teen binge drinking than the states with the lowest taxes” and polls across the country, including one by the American Medical Association in 2004, show that voters are in favor of state alcohol excise taxes that support alcohol abuse prevention and treatment. In a national poll released in December of 2004 by the Center for Science in the Public Interest³, 79% of respondents (68% of Republicans, 70% of drinkers and 87% of Democrats) prefer raising alcohol taxes to cutting social programs as a means to offsetting budget shortfalls.

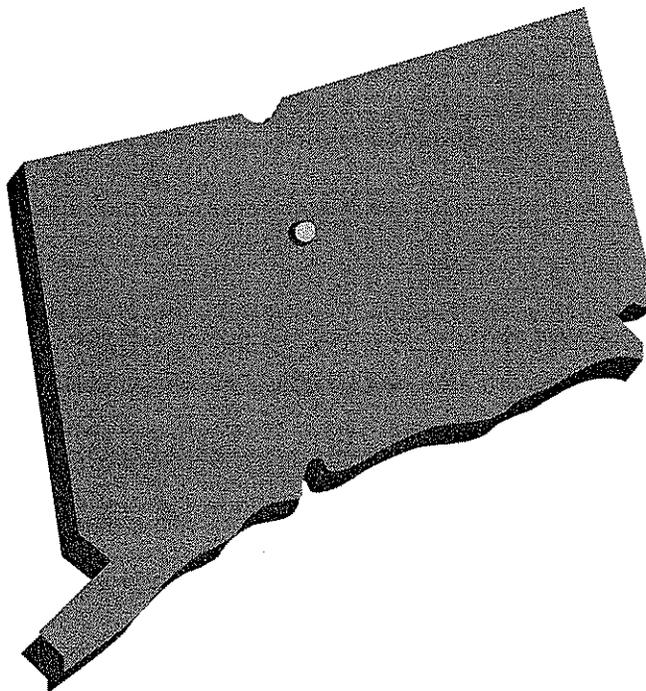
CT’s treatment and prevention system would benefit from a new alcohol tax that directly results in increased rates for a struggling nonprofit treatment provider community and increased capacity. This will help ensure that quality services can continue to be available for all who need them.

¹ <http://oas.samhsa.gov/2k4State/AppB.htm>

² <http://www.jointogether.org/keyissues/taxes/>

³ <http://www.cspinet.org/new/200512071.html>

Alcohol Excise Taxes in Connecticut: A Case for an Increase



**Center for Science in the Public Interest
Alcohol Policies Project
1875 Connecticut Avenue, NW, Suite 300
Washington, DC 20009**

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surveys on alcohol excise taxes conducted in several states, results have consistently shown that between 76 and 80 percent of respondents either believe that increasing alcohol taxes is "good" or "acceptable,"¹³ or support an increase in state alcohol excise taxes.¹⁴

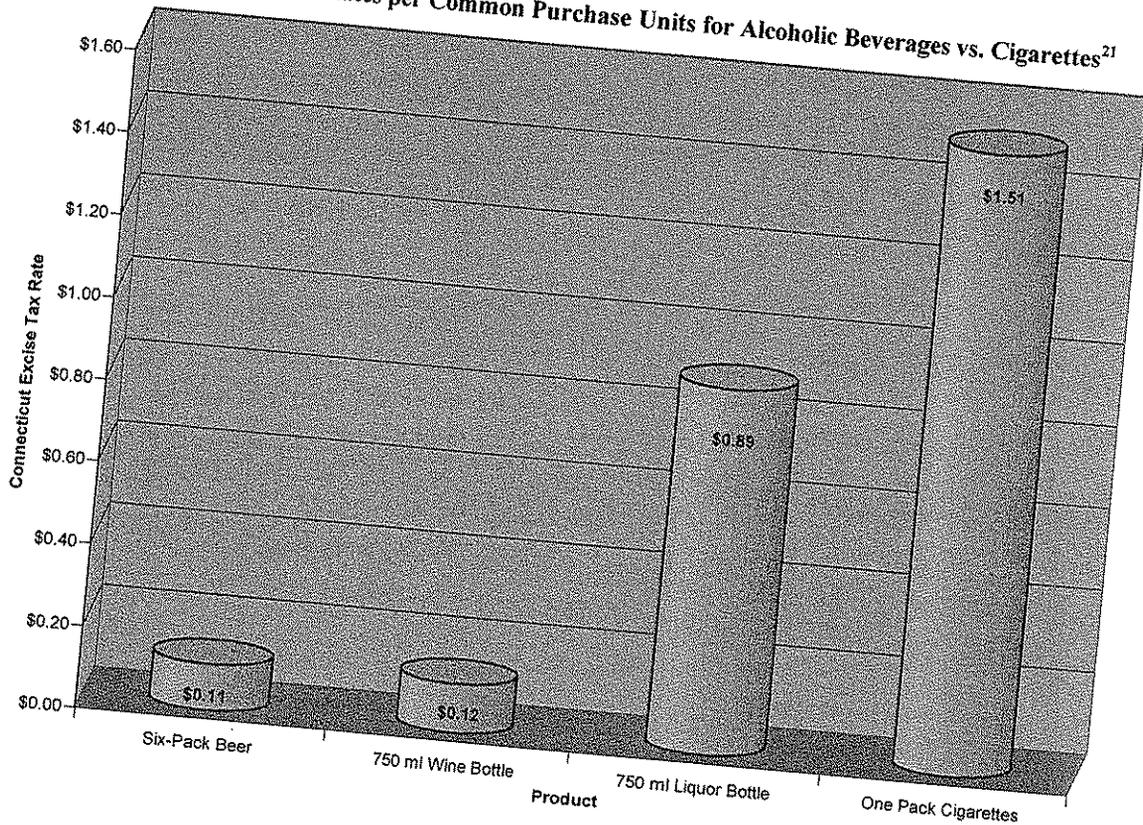
In 1998, the estimated economic cost of alcohol abuse in the U.S. exceeded \$184 billion. That cost equals roughly \$683 for every man, woman and child living in the U.S.¹⁵ The cost to Americans of underage drinking alone totals nearly \$53 billion.¹⁶ Each year, the federal government spends nearly \$1.0 billion on alcohol prevention services for people of all ages, less than two percent of the annual cost of alcohol use by youth alone.¹⁷

States and their taxpayers, including those in Connecticut, bear a substantial portion of those costs. Connecticut residents spend more than \$473 million on alcohol-related healthcare costs.¹⁸ The average alcohol-related fatality costs the public \$4.1 million: \$1.3 million in monetary costs and \$2.8 million in quality of life losses.¹⁹ In 2002, the state reported 3,376 cases of gonorrhea,²⁰ a number that would decline with an increase in alcohol taxes.

Alcohol and Tobacco Tax Comparison

Governor Rowland has also proposed raising excise taxes on cigarettes from \$1.51 per pack to \$2.05 per pack. At its current rate, however, the excise tax on a pack of cigarettes in Connecticut dwarfs the tax rates for a six-pack of beer and a bottle of wine, and is 70 percent greater than the tax on a bottle of liquor (Graph 1).

Graph 1. Tax Rates per Common Purchase Units for Alcoholic Beverages vs. Cigarettes²¹



wine tax rates to the average tax rate of all states; and 3) equalizing Connecticut's rates to the highest rates of its surrounding states. We address each of these issues and then include a few more tax-increase options.

Effects of Inflation on Tax Rates and Revenues

Generally, alcohol excise tax rates have not increased to compensate for the effects of inflation. As a result, real tax rates have declined over most of the post-war period. This erosion of real tax rates has contributed to overall declines in real revenues and real beverage prices over time.²⁷ Inflation has decreased the value of alcohol excise taxes in Connecticut since they were last raised in 1989.

The current excise tax on beer, at \$0.20 per gallon, now has a real value of only \$0.13 per gallon; the \$0.60 per gallon tax on wine is now worth \$0.40 per gallon; and the \$4.50 per gallon rate on distilled liquor is now worth \$3.03 per gallon. Indexing for inflation since 1989, the tax on beer, now \$0.20 per gallon, would be \$0.30 per gallon today; on wine, currently \$0.60 per gallon, the tax would be \$0.89 per gallon; and on liquor, now \$4.50 per gallon, it would be \$6.68 per gallon. Had the tax rates on beer, wine, and liquor been indexed for inflation since 1989, the state would have collected more than \$59 million in revenues in 2003, an increase of some \$19 million (Table 1).

Table 1. Alcohol Tax Rates and Revenues Have Eroded, Due to Inflation

Product	Current Tax Rate (per gallon)	FY 2002-2003 Revenue	Current Tax Rate, at Eroded Value* (per gallon)	Revenue if Tax Indexed for Inflation since 1989
Beer	\$0.20	\$10.53 million	\$0.13	\$15.73 million
Wine	\$0.60	\$6.43 million	\$0.40	\$9.60 million
Liquor	\$4.50	\$23.14 million	\$3.03	\$34.56 million
Total		\$40.10 million		\$59.53 million

* In 1989 dollars.

Connecticut's Alcohol Excise Taxes Compared to the Average of All States

Connecticut's beer and wine tax rates fall below the average tax rates of all U.S. states, while the liquor tax exceeds the state average (Table 2).

Table 2. Connecticut's Alcohol Excise Tax Rates Compared to the U.S. Average

Product	Connecticut (per gallon)	State Average ²⁸ (per gallon)
Beer	\$0.20	\$0.26
Wine	\$0.60	\$0.78
Liquor	\$4.50	\$3.92

If Connecticut merely raised current beer and wine taxes to equal the average state rate for each of those products, while leaving the liquor tax at its current rate, the state would gain a modest \$4.5 million more in revenue, bringing the total expected revenue to more than \$44.6 million. In comparison, raising alcohol tax rates on beer, wine, and liquor by merely a penny per drink would generate more than \$13.4 million in new revenue for the state.

Higher Taxes Will Cause Only Modest Price Changes

Alcoholic-Beverage Prices Compared to Other Products

Prices for off-premise alcoholic beverages³⁰ have risen more slowly than for all other consumer products combined. The consumer price index (CPI), which measures the price value of products, illustrates this fact. Between 1983 and 2003, the CPI growth for all products was 18 percent higher than for beer, 33 percent higher than for wine, and 13 percent higher than for liquor.³¹

The alcohol excise tax factors into product price. The failure to keep alcohol taxes at appropriate levels has contributed to the relative decline of alcoholic-beverage prices. Artificially low prices are not a boon to consumers or public health. Cheaper alcoholic-beverage prices lead to higher consumption and more alcohol-related problems. Raising taxes on those products can help reduce consumption while providing funding for much-needed treatment and prevention programs.

Although alcoholic-beverage producers have raised prices on their products several times within the past year, that amount does not fill the gap in price created by eroded tax values. As opposed to excise taxes, industry-driven price increases do not directly contribute funds to state revenues.

It doesn't take dramatic increases in price to reap public health gains. States will feel modest positive effects of tax-driven price increases, even with relatively small changes.

Minimal Price Rises Expected

Governor Rowland's proposal would increase prices on the common purchasing units of alcoholic beverages by modest amounts – a mere penny for a six-pack of beer and a bottle of wine, and less than a dime for a fifth of liquor. Other increase proposals would similarly affect prices. Considering that alcohol-related crashes alone cost an average of \$0.70 per drink,³² raising the price of a six-pack of beer or a bottle of wine by a penny seems little to pay for the economic toll that alcohol-related problems take on society.

Table 5 illustrates the estimated rise in prices for each type of alcohol-tax increase. For instance, an average consumer who purchases a six-pack of beer a week would likely spend about one cent more per week on a six-pack under Governor Rowland's proposal. Under the most aggressive tax-increase proposal, a dime per drink, the price of a six-pack per week would rise by about \$0.65. Those would be tiny additions, especially considering that the average Connecticut resident (including heavy drinkers who consume most of the beer) drinks no more than a six-pack of beer per week.³³ In fact, 40.6 percent of Connecticut residents do not drink at all.³⁴

Notes

CSPI used the following equation to calculate the projected volume consumed and revenue generated from potential increases in Connecticut's alcohol excise tax rate:

$$V_1 = V_0 (1 + PE (PI/CP))$$

Where: V_1 = projected volume consumed

V_0 = 2001 volume consumed

PE = price elasticity

PI = price increase (including a 7.5 percent mark-up)

CP = current price

The price increase assumes a 7.5 percent mark-up (a conservative estimate³⁵) on the tax increase. The current price (CP) was obtained by calculating that an average six-pack of beer costs \$4.86 or \$8.65 per gallon. These numbers represent total retail sales of beer divided by the total volume of beer sold in the U.S. This same method can be localized using Connecticut data, if available

For this report, we used a price elasticity of -0.30, from a study in NIAAA's *10th Special Report to Congress*.³⁶ Although the study applied this value specifically to beer consumption and revenue, we used this value for all beverage types, to provide conservative estimates of the projected revenues. Applying different elasticities to wine and liquor would result in slightly different estimates of consumption decreases and revenue gains.

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- ¹² Harwood, E.M., Wagenaar, A.C. & Zander, K. M. (1998). Youth access to alcohol survey: Summary report. Princeton, NJ: Robert Wood Johnson Foundation. Online: www.rwjf.org/publications/publicationsPdfs/Youth_Access_to_Alcohol_Survey.pdf.
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