



ISSUE BRIEF:

Initiated Measure 25 would increase the State tobacco tax and create a postsecondary technical institute fund for the purposes of lowering student tuition and providing financial support to the State postsecondary technical institutes

Approved by the Board of Directors: Approved August 22, 2018

The Sioux Falls Area Chamber of Commerce has taken a position to support Initiated Measure 25 for the 2018 general election.

Background

In South Dakota, citizens may initiate a change in the South Dakota Codified Laws through an initiated measure by submitting a completed petition with 13, 871¹ valid signatures to the Secretary of State. Initiated Measure 25 (IM-25) qualified² for the November 18 ballot on February 16, 2018.

IM 25 Proposed Changes to the South Dakota Constitution

The IM-25 increases the State tax on tobacco products sold in South Dakota. The tax on cigarette packs containing 20 cigarettes would increase one dollar per pack (\$1.00), and 21-cigarette packs would increase to one dollar and twenty-five cents (\$1.25) per pack. Tax on other types of tobacco products such as cigars, roll-your-own, and chewing tobacco would change from the current rate of 35 percent of the wholesale price to 55 percent of the wholesale price.

The measure also creates a postsecondary technical institute tuition reduction and workforce training fund that will be administered by the State Board of Technical Education. This Board oversees the state's four postsecondary technical institutes: Lake Area Technical Institute, Mitchell Technical Institute, Southeast Technical Institute, and Western Dakota Technical Institute. The workforce training fund's purpose would include lowering tuition and providing financial support for these technical institutes.

Under current law, the first 30 million dollars of tobacco tax revenue collected annually is deposited into the state general fund, and the next 5 million dollars are deposited into the existing tobacco prevention and reduction trust fund. This measure would require the next 20 million dollars to be deposited into the technical institute fund created by this measure. Any additional dollars would be deposited in the general fund after the remittance to the three designated funds above (totaling 55 million dollars).

¹ <https://sdsos.gov/elections-voting/assets/HowToCirculate2018BQPetition.pdf> (August 2018).

² <https://sdsos.gov/elections-voting/upcoming-elections/general-information/2018-ballot-questions.aspx> (August 2018).

Proponent Rationale:

Proponents assert South Dakota's technical institutions have the third highest tuition³ in the United States, coming in at 47 out of 49 tech-schools. While many public tech-schools benefit from a local or regional funding mechanism, South Dakota's lack of local contribution leads to higher tuition costs. These costs are noticeably higher than the tech-schools that border our state. South Dakota's tuition and fees at public two-year tech-schools are \$6,320, while tech-schools in Nebraska, Wyoming, Montana, North Dakota, Iowa, and Minnesota in-district tuition rates are \$2,980, \$2,990, \$3,300, \$4,400, \$4,920 and \$5,380 respectively.

Proponents propose to cure our state's high tuition costs by buying down \$75.00 dollars per credit hour or \$13.125 million dollars through the increase tax on cigarettes/tobacco. The tobacco tax has been collected in South Dakota since 2005 and has a proven track record of a long-term upward trend making it a predictable revenue stream to fund the state's general fund and tobacco prevention and cessation programs.

Voters have historically voted in favor of tobacco tax increases and bans. In 2006, the one dollar increase in tobacco tax was approved by 60.08%⁴ of the voters. In 2010, the voters approved a referendum⁵ to prohibit smoking tobacco or carrying lighted tobacco products in certain places and to require certain persons to inform violators of the prohibition. Lastly a recent poll in 2018 also indicated there was strong support for IM-25 by 44% strongly supporting the tax and 21% somewhat supporting. Opposition to the tax increase polled much lower at 25% strongly opposing and 10% somewhat opposing the tax increase proposed in IM 25.

Lastly, there are health and societal benefits of a \$1.00 dollar increase in the tobacco tax proposed in IM 25:

- 11 percent DECREASE in youth smoking
- 3,900 youth never become adult smoker
- 4,000 current adult smokers quit
- 2,200 premature deaths avoided
- 166.1 million in health care savings

³ Proponents site this ranking is based on the average 2016-2017 in-district tuition and fees at public two-year institutions.

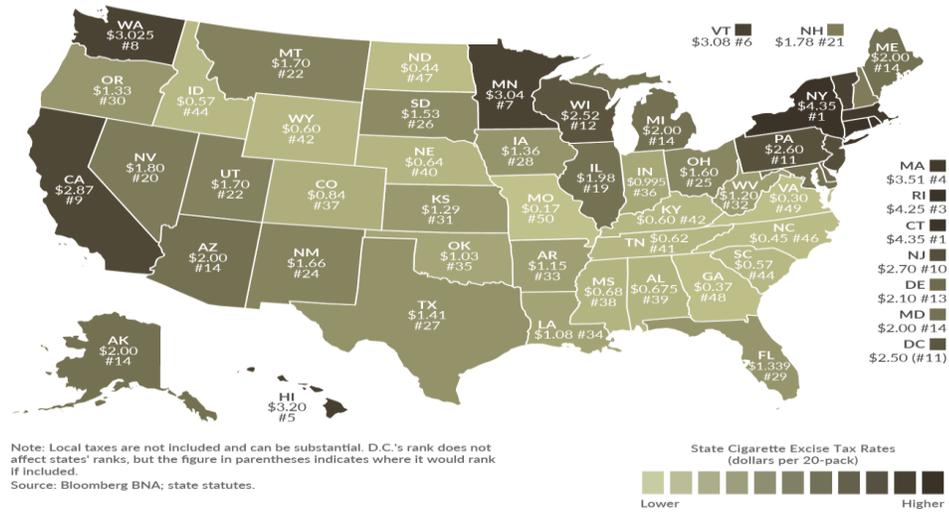
⁴ In 2006, the voters approve Initiated Measure 2, an Initiative to increase the tax on cigarettes and tobacco products and to dedicate the revenues. Passed 202,779 to 130,757. <https://sdsos.gov/elections-voting/assets/BallotQuestions.pdf> (August 2018).

⁵ Referred Law 12: An Act to prohibit smoking tobacco or carrying lighted tobacco products in certain places and to require certain persons to inform violator of the prohibition. Passed 204,160 to 113,011. <https://sdsos.gov/elections-voting/assets/BallotQuestions.pdf> (August 2018).

Below is a chart that compares the current cigarette tax rates across the nation and how they vary from state to state. Each state's cigarette tax is levied in addition to the federal tax rate of \$1.0066 per 20-pack of cigarettes.

How High Are Cigarette Taxes in Your State?

State Cigarette Excise Tax Rates, 2018 (dollars per 20-pack)



Opponent Rationale:

Opponents assert IM-25 will be a \$35 million-dollar tax increase in South Dakota and will burden the hard-working residents of our state. Many of the consumers who use tobacco are already struggling to make ends meet. The tobacco consumers should not shoulder the burden of reducing tech-school tuition alone. Moreover, a portion of the tax increase should be spent on tobacco prevention and cessation to help those who are addicted to tobacco.

Other arguments asserted by opponents include the tax will hurt small businesses. Tobacco sales make up a significant portion of sales in convenient stores and the tax increase could force many retailers out of business, causing a loss of more than 400 jobs. In addition, IM-25 could lead to more illegal cross-border sales of cigarettes and could result in more people purchasing tobacco products from Native American reservations, the Internet or through increased illicit sales.

Bad fiscal policy: IM-25 will dramatically grow government spending with a revenue source that declines over time. Prior tobacco tax hikes in South Dakota and other states have failed to raise the revenue projected by their backers. As tobacco revenue drops, additional tax increases or cuts in services will be needed to make up the shortfall.

The tax increase disadvantages post-secondary schools. The new tax funds technical schools, but largely ignore other educational facilities in South Dakota like preschool, K-12 and four-year colleges. We

⁶ <https://files.taxfoundation.org/20180125120524/CigTaxes-01.png> (August 2018).

shouldn't be spending tens of millions in new tax money on technical schools at the expense of the state's other educational needs.

Lastly, this idea was introduced in the 93rd legislative session and was overwhelmingly rejected by the legislature in 2018⁷ (HB 1274).

Note: Detailing "Proponents" and "Opponents" rationale is designed to provide the reader with an understanding of the opinions and talking points from each perspective. They are not intended to reflect any position of the Sioux Falls Area Chamber of Commerce.

Chamber Position:

The Sioux Falls Area Chamber of Commerce has taken a position to support Initiated Measure 25 for the 2018 general election.

Rationale⁸:

As a member driven organization, workforce is important to our members and the local business community. While the Board did not see IM-25 as an ideal answer, the lack of a local and regional funding for South Dakota's four technical schools to reduce the cost of tuition has not been addressed or resolved over the years. In addition, the legislature has not acted to reduce tuition costs for technical schools. Without well-funded and affordable technical schools, our community will continue to struggle with workforce challenges. With years of public funding inaction and no funding alternatives available, the Board chose to support IM-25. South Dakota's tech school's tuition must become competitive with our surrounding states.

If our state's high tuition costs are not addressed, South Dakota will continue to incentivize our workforce to seek technical education by moving to neighboring states to take advantage of their substantially cheaper technical education costs. Once our workforce has left South Dakota to pursue training it is unlikely they will ever return to work in South Dakota.

⁷ https://sdlegislature.gov/Legislative_Session/Bills/Bill.aspx?Bill=1274&Session=2018 (August 2018).

⁸ Issues Management Council adopted their recommendation to the Board to stay neutral on Aug. 9, 2018. The Chamber Board of Directors voted to support Initiated Measure 25 on Aug. 22, 2018.