A SIGNIFICANT CIGARETTE TAX RATE INCREASE IN KANSAS WOULD PRODUCE A LARGE, SUSTAINED INCREASE IN STATE TOBACCO TAX REVENUES

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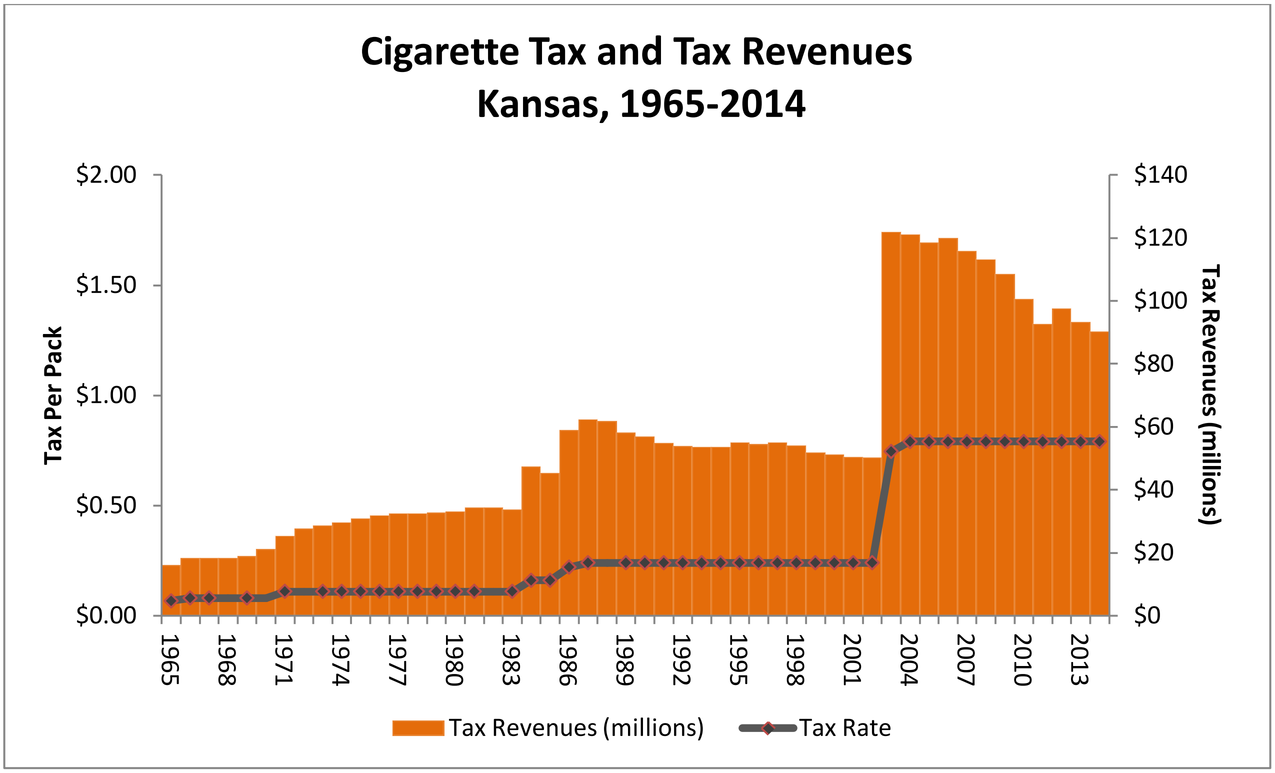
EXECUTIVE SUMMARY

State cigarette and other tobacco tax revenues are among the most predictable, steady, and reliable revenues that states receive. While these revenues do decline gradually over time as smoking and other tobacco use declines, the reductions in revenue are modest, predictable, and more than offset by the related reductions in public and private sector health care costs and other economic costs caused by smoking.

In general, state cigarette tax revenues increase sharply following a significant increase to a state's cigarette tax rates (despite the smoking declines prompted by the tax increase and any related increases in tax avoidance or evasion), and then tend to decline slowly year to year as cigarette smoking continues to go down in response to other factors (e.g. stronger public policies targeting tobacco use). However, any decline in revenues from smoking reductions will be offset by related declines in tobacco-related healthcare costs burdening the state. For instance, the Campaign for Tobacco-Free Kids and the American Cancer Society Cancer Action Network project that a $1.50 per pack cigarette tax increase in Kansas will prevent 25,400 youth from becoming adult smokers, encourage 25,800 adults to quit, prevent 14,900 future smoking-caused deaths, and save the state $1.00 billion in future health care costs. The Kansas Division of the Budget projects that a $1.50 per pack increase in the cigarette tax will generate $71.90 million in new revenue in the first year.

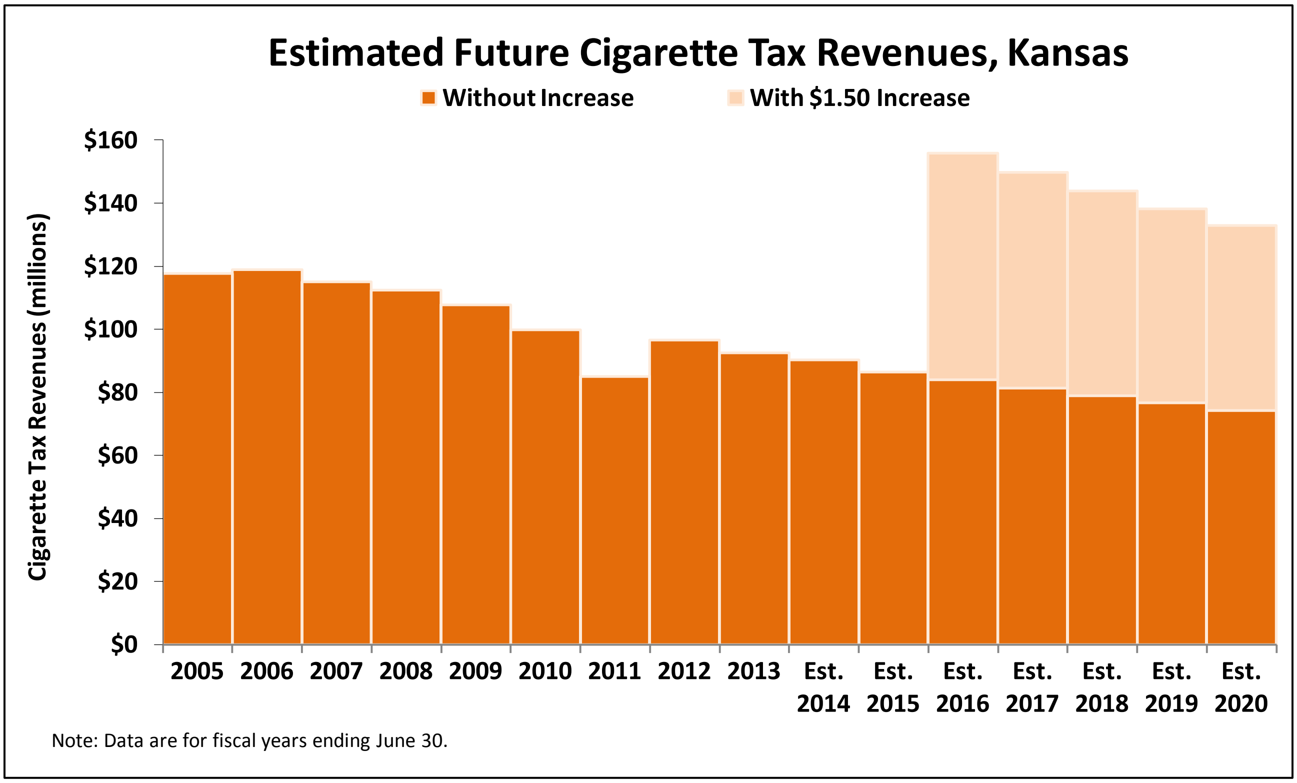
As shown in the chart below, Kansas, like other states, has enjoyed substantial revenue increases each time it has raised its cigarette tax rate, followed by years of steady revenue levels. When Kansas last increased its cigarette tax rate in 2002 and 2003, revenues increased sharply and have stayed at a relatively high level since, except for a larger than normal decline after the large federal tobacco tax increases in early 2009, which significantly reduced smoking and other tobacco use nationwide. But it also appears that Kansas' revenue declines in the years since its last increase were even larger because the state failed to raise its tax rates on all other tobacco products when it raised its cigarette tax. Because of those unequal rates, some regular cigarette smokers have likely been evading the new, higher cigarette tax rate by switching to much lower taxed roll-your-own cigarettes, little cigars and the like – and every time a regular smoker switches to some other lower-taxed tobacco product Kansas loses revenue. Setting Kansas' tobacco tax rates so that all tobacco products are taxed at parallel levels would eliminate that problem and bring in additional state revenues. The Campaign for Tobacco-Free Kids and the American Cancer Society Cancer Action Network estimates that raising Kansas' low 10 percent wholesale price tax rate on other tobacco products to parallel a new $2.29 per pack cigarette tax rate would bring in another $25.60 million per year in new state revenues.



Note: Data are for fiscal years ending June 30.

Despite the declines, Kansas is still receiving nearly twice as much in cigarette tax revenues compared to what it received right before it last increased its cigarette tax rate. That same basic pattern, with large amounts of new state revenues in every future year, would occur again if Kansas increased its cigarette tax rate significantly in 2015 – and the new revenues would be even larger if Kansas also equalized all its tobacco product tax rates at the same time.

The chart shows what the Campaign for Tobacco-Free Kids projects that the $1.50 per pack increase would generate in new cigarette tax revenues over each of the next five years. Even if Kansas' cigarette sales declined by five percent a year after the initial $71.90 million in new revenues estimated by the Kansas Division of the Budget from the rate increase, the state would still be receiving more than $45 million in additional new annual cigarette tax revenues five years after the increase compared to what it received in 2015, and would have received more than $325 million in total new annual revenues over that five year period compared to what it would receive with no rate increase.



Finally, while there may be some tax avoidance and evasion in response to increases in cigarette and other tobacco product taxes, these tax increases will still generate significant public health and revenue gains. This is evident from Kansas' experiences following the 2002-2003 tax increases that raised the state cigarette tax from 24 to 79 cents per pack, while the cigarette tax in Missouri stayed at 17 cents per pack. As shown in the figure above, cigarette tax revenues in Kansas rose by $72 million (an increase of 151 percent), while sales fell by 26 percent. In contrast, Missouri's revenues increased by only eight percent, despite cigarette tax increases in most of its other neighboring states (Arkansas, Illinois, Nebraska and Tennessee) which all saw large increases in their own cigarette tax revenues. Adult smoking prevalence fell from 22.2 percent in 2001, the last full year before the tax increases to 20.4 percent in 2003, a more than eight percent decline following several years of virtually no change.

If Kansas is concerned about the impact of tobacco tax increases on smuggling and tax evasion, there are a number of steps that Kansas could take to protect or even increase its tobacco tax revenues over time and to maximize the public health impact of the increases. For example, Kansas could implement high-tech tax stamps to ensure that taxes are paid and to prevent cigarette smuggling and tax evasion. The state could also minimize tobacco product smuggling and other tax evasion through such measures as making sure smokers understand the state’s laws pertaining to tobacco tax evasion, increasing penalties for smuggling and other tax evasion, and directing a portion of all penalties to help fund expanded enforcement (which would bring in both more penalty payments and more tobacco tax revenues).

A SIGNIFICANT CIGARETTE TAX RATE INCREASE IN KANSAS WOULD PRODUCE A LARGE, SUSTAINED INCREASE IN STATE TOBACCO TAX REVENUES

Every state that has passed a significant cigarette tax increase has enjoyed a substantial, sustained increase in its state cigarette tax revenues. This revenue increase occurs, despite the significant declines in smoking rates and tax-paid cigarette sales caused by the cigarette tax rate increase, because the increased tax per pack brings in much more new revenue than is lost by the declines in the number of packs sold and taxed. Exhibits A and B show many examples from actual state cigarette tax increases.

Exhibit A presents a list of significant state cigarette tax increases between 2003 and 2013 (increases of 50 cents or more per pack) and shows the amount of the tax increase, the decline in tax-paid cigarette sales, compared to the decline in sales nationally over the same time period, and the revenue change from the twelve months before the tax increase to the twelve months after the tax increase. In every state that significantly increased its tax, there were both sharp reductions in total packs sold and large increases in total net new revenues in the year following the rate increase, compared to the year before it.

Exhibit B is a short report that examines the sustainability of revenues generated from cigarette tax increases. This report considered every major cigarette tax increase (50 cents or more per pack) between 2000 and June 2009 and looked at state cigarette tax revenues before the tax increase and for at least five years following the increase, with analyses for states with and without well-funded comprehensive tobacco control programs. In every state that raised its tax during that time period, cigarette tax revenues increased significantly and remained much higher than revenues prior to the tax for many years after the tax increase.

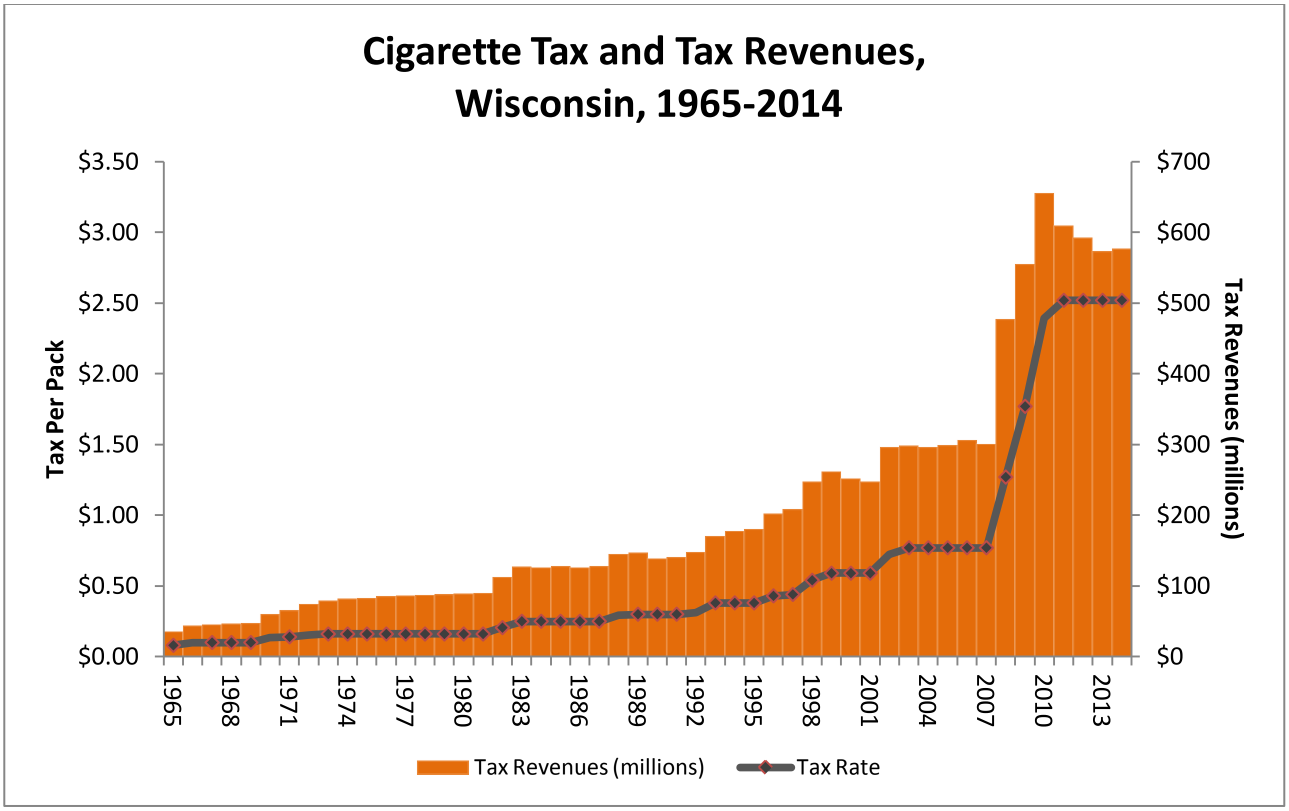
Accordingly, Exhibits A and B provide direct evidence from actual state experiences that confirms that significant cigarette tax increases have always produced substantial amounts of new revenues (compared to what the state would have received without the increase), both immediately and over extended periods of time, and despite any and all related decreases in taxed state pack sales.

Cigarette and Other Tobacco Tax Revenues Are Much More Predictable and Stable Than Many Other State Revenues

Year to year, state cigarette and other tobacco tax revenues are more predictable and less volatile than most other state revenue sources, such as state personal income taxes or corporate income taxes, which can vary considerably from year to year because of nationwide or regional recessions or state economic slowdowns.

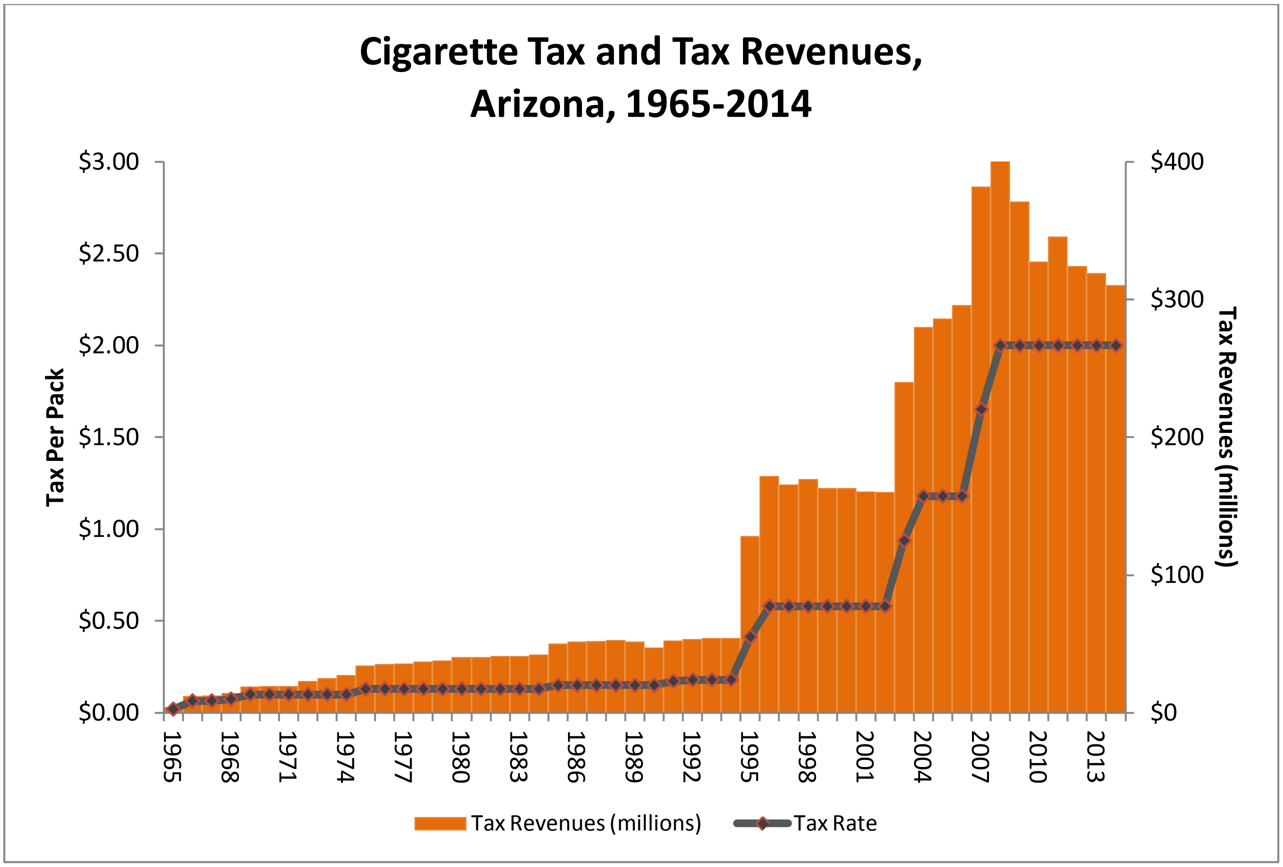
In contrast, sharp drops in cigarette or other tobacco tax revenues from one year to the next are rare, in large part due to the addictive nature of cigarette smoking and other tobacco use. Long term trends in tobacco use show modest declines from year to year, both nationally and at the state level. These declines can be accelerated by comprehensive tobacco prevention efforts, but will generally be no more than a few percentage points each year. The exception to this will be the large smoking declines and related cigarette tax revenue declines that result from large nationwide increases in cigarette prices, such as the large cigarette company price increases prompted by the 1998 Master Settlement Agreement and the April 1, 2009 increase in federal excise taxes on cigarettes and other tobacco products. The only other large year-to-year changes to state cigarette tax revenues are the large revenue increases when a state significantly increases its own cigarette tax rates.

In states where taxes have been increased regularly over time, each increase in the tax leads to a significant and sustained increase in tax revenues. As shown in the figure below, for example, Wisconsin has increased its cigarette excise tax several times over the past few decades, with each increase generating new, sustained revenues.



Note: Data are for the fiscal year ending June 30.

The same pattern holds even in states where a share of the new revenues generated by the tax increase is used to fund a comprehensive tobacco control program. Arizona, for example, has increased its cigarette excise tax multiple times over the past few decades. In November 1994, Arizona voters approved the Tobacco Tax and Health Care Act that raised the cigarette tax by 40 cents per pack and dedicated a portion of the new revenues to the state's tobacco control program. As the figure below shows, each subsequent tax increase in Arizona led to a significant and sustained increase in revenues, despite the greater declines in smoking that result from the funding for the state program.



Note: Data are for the fiscal year ending June 30.

Additional examples of the relative stability of revenues from other state cigarette tax increases in states with and without well-funded tobacco control programs are contained in Exhibit B.

Smoking Declines Produce Enormous Public and Private Sector Savings That More Than Offset Any State Revenue Reductions from Fewer Packs Being Sold

As described above, gradual reductions in cigarette smoking and other tobacco use in the years after increases in state cigarette and other tobacco taxes will produce slow declines in state tobacco tax revenues (in the absence of additional tax increases). These declines in revenues, however, will be offset by reductions in public and private spending on health care to treat diseases caused by smoking, and by the reductions in the other economic costs caused by tobacco use. Some declines in costs, such as those resulting from smoking during pregnancy, will be seen almost immediately. Over time, these reduced costs will grow considerably, given that most of the health and other consequences of tobacco use occur after many years.

When smoking rates decline among pregnant women and lower income smokers (among the groups whose smoking behavior is most sensitive to changes in tax and price), costs to state Medicaid programs subsequently decline. Decreasing smoking rates among workers will decrease public and private sector employee healthcare costs.

Increasing tobacco taxes in Kansas will raise revenue while also lowering the healthcare cost burden on the state. Each year, Kansas spends $1.12 billion on health care costs caused by tobacco use, $237.4 million of which is paid by the state through the Medicaid program. A decline of one percentage point in adult smoking rates will save the state $237.6 million in healthcare costs, including millions in state Medicaid costs related to tobacco use over time. And preventing kids from starting to smoke will save the state even more in health care costs.

In addition, the reductions in smoking from state cigarette and other tobacco product tax increases will produce other economic benefits for the state, including increased productivity in government and private sector workforces as fewer employees miss work because of smoking-caused sick days and cigarette breaks or have their productive work-lives interrupted or cut short by smoking-caused disability or premature death. Other economic benefits include reduced property losses from smoking-caused fires, and reduced cleaning and maintenance costs caused by smoking.

It is important to note that small rate increases or a rate increase that is split into smaller multi-stage increases would reduce the public health benefits and cost savings, and Kansas would not collect as much revenue as from a one-time, larger rate increase. This is because the tobacco industry can easily offset small increases with price cuts, coupons, and other price-reducing promotions. For instance, the Campaign for Tobacco-Free Kids and the American Cancer Society Cancer Action Network project that a $1.50 per pack increase will prevent 25,400 youth from becoming adult smokers, encourage 25,800 adults to quit, prevent 14,900 smoking-caused deaths, and save $1.00 billion in long-term health care costs. However, a small increase would not generate as many public health benefits or cost savings.

States Can Implement Other Effective Strategies to Maintain and Increase Their Cigarette and Other Tobacco Tax Revenues

If gradually declining state tobacco tax revenues are a concern for Kansas – despite the benefits and cost savings from the related smoking and other tobacco use declines discussed above – the state can periodically increase its tobacco tax rates to offset any declines in revenue. Alternatively, Kansas could implement legislation that allows for administrative increases in state tobacco tax rates following any significant decline in annual state tobacco tax revenues (or in total state tobacco revenues, including tobacco settlement payments).

Another important strategy is to make sure that all taxes on other tobacco products are set at rates that parallel the state's cigarette tax rate. Creating tax equity among all the tobacco tax products sold in the state will make the revenues even more reliable – Kansas will not lose revenues if tobacco users switch to tobacco products taxed at lower rates. But most states, including Kansas, have unequal rates so that the state loses revenues each time a cigarette smoker switches to smoking roll-your-own (RYO) tobacco or small cigars or starts using other cheaper and less-taxed tobacco products. But even with a comparable percentage tax rate for other tobacco products, some lower priced tobacco products will be taxed at a much lower level compared to cigarettes on a per-use or per-package basis.

> RYO cigarettes, for example, are much cheaper than manufactured cigarettes; and most state percentage-of-price tax rates subject them to much lower taxes, per pack, than manufactured cigarettes. That tax inequity could be fixed by taxing a cigarette pack's worth of RYO tobacco (0.65 ounces) at the same tax rate as a regular pack of cigarettes as a minimum tax to complement the percentage-of-price basic rate.

> Similarly, the tax-equity minimum tax on a standard 1.2-ounce can of smokeless tobacco would be an amount equal to the state tax on a pack of 20 cigarettes.

A similar cigarette pack tax amount tax could be placed on standard five-packs of cigarillos, blunts and other small cigars. But the big tax revenue loser for states in relation to cigars usually comes from cigarettes being packaged and sold as "little cigars" to escape the state's higher tax on cigarettes. That problem can be eliminated by amending the state law "cigarette" definitions to reach any and all cigarettes, no matter how they are labeled or packaged (without reaching any bona fide cigars). One way to do that would be to add the following phrase to the existing "cigarette" definitions: "and includes any other roll for smoking containing tobacco that weighs no more than four and a half pounds per thousand, unless it is wrapped in whole tobacco leaf and does not have a filter."

States can also protect their cigarette and other tobacco tax revenues by implementing initiatives to prevent and reduce cigarette smuggling and other forms of tobacco tax evasion – such as adopting new, high-tech tax stamps. California, the first state to adopt a high-tech tax stamp, enjoyed a $100 million increase in cigarette tax revenues in the first 20 months after the new tax stamp was introduced.

Additional cost-effective strategies to protect tobacco tax revenues include increasing penalties and fines; educating smokers about applicable state laws (such as limits on the number of packs that may be brought into the state from other states); and increasing enforcement efforts – perhaps allowing the enforcing agencies to keep half of all fines and penalties they collect to fund expanded new enforcement efforts (with general revenues receiving the other half, along with all of the recouped tax revenues). Other states have reduced tax avoidance and increased collections by targeting tax collection efforts at smokers who purchase cigarettes on the Internet without paying the state tax or by entering into special tax compacts with Native American tribes located in the state so that they impose and collect equivalent taxes on all reservation cigarette sales.

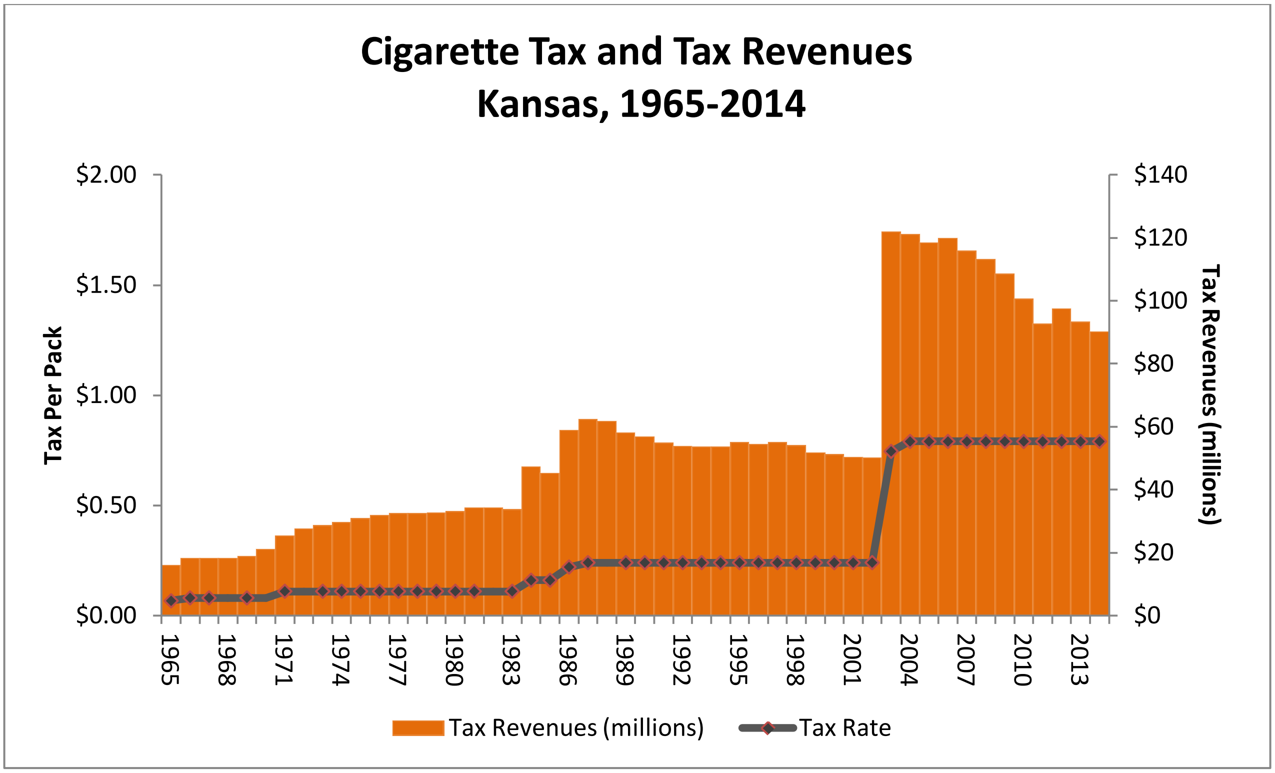
Kansas' Past Experience with Cigarette Tax Increases

Kansas has increased its cigarette excise tax five times since 1970:

July 1, 1970: 3-cent increase to 11 cents per pack
July 1, 1983: 5-cent increase to 16 cents per pack
October 1, 1985: 8-cent increase to 24 cents per pack
July 1, 2002: 46-cent increase to 70 cents per pack (first of a two-stage increase)
January 1, 2003: 9-cent increase to 79 cents per pack (second of a two-stage increase)

As shown in the figure below, Kansas has raised its cigarette tax rate five times since 1970, but has not raised it at all since 2003. Each of those rate increases produced significant amounts of new revenue, despite related pack sales declines. Most notably, the most recent increase, a two-stage increase in 2002 and 2003, generated a large and sustained increase to the state's cigarette excise tax revenues. After accounting for the stockpiling that occurred in anticipation of the tax increases, the tax rate increases more than doubled cigarette excise tax revenues in Kansas (comparing fiscal year 2002 revenues of $47.9 million to fiscal year 2004 revenues of $120.3 million). If Kansas had increased its rate in one lump sum of 55 cents on July 1, 2002 – instead of phasing it in with 46-cents on July 1, 2002 plus 9 cents on January 1, 2003 – the state would have received even more revenues more quickly.

In the years following the most recent tax increases, state revenues – after first rising very sharply – have declined somewhat in each subsequent year. These declines reflect not only ongoing background declines in smoking but also the significant increase in the federal cigarette excise tax in April 2009. It is also likely that Kansas is also losing revenues as cigarette smokers evade the higher cigarette tax by shifting to other much lower-taxed tobacco products, such as roll-your-own cigarettes, cigarette-like "little cigars," or regular cigars. Despite these declines in smoking, Kansas revenues in fiscal year 2014 were still more than $42 million higher than revenues in fiscal year 2002, right before the last set of cigarette tax rate increases.



Note: Data are for the fiscal year ending June 30.

This graph illustrates several points. First, state cigarette tax revenues can decline somewhat after the large revenue gains that following state tax rate increases because of ongoing gradual declines in smoking, which can be accelerated by other factors. For example, the relatively larger decline between 2009 and 2010 was mostly attributable to the significant federal cigarette tax increase that took effect on April 1, 2009, which significantly reduced cigarette consumption and smoking across all states.

Second, leaving the state tax rate on other tobacco products low while increasing the state cigarette tax leaves revenues on the table and also reduces tobacco tax revenues. Because it failed to increase the tax rate on other tobacco products when the state last increased its cigarette tax rate, Kansas not only missed its opportunity to increase its other tobacco tax revenues, but is also losing revenue each time a regular cigarette smoker evades the higher cigarette tax by switching to much lower-taxed roll-your-own cigarettes, little cigars, or other tobacco products.

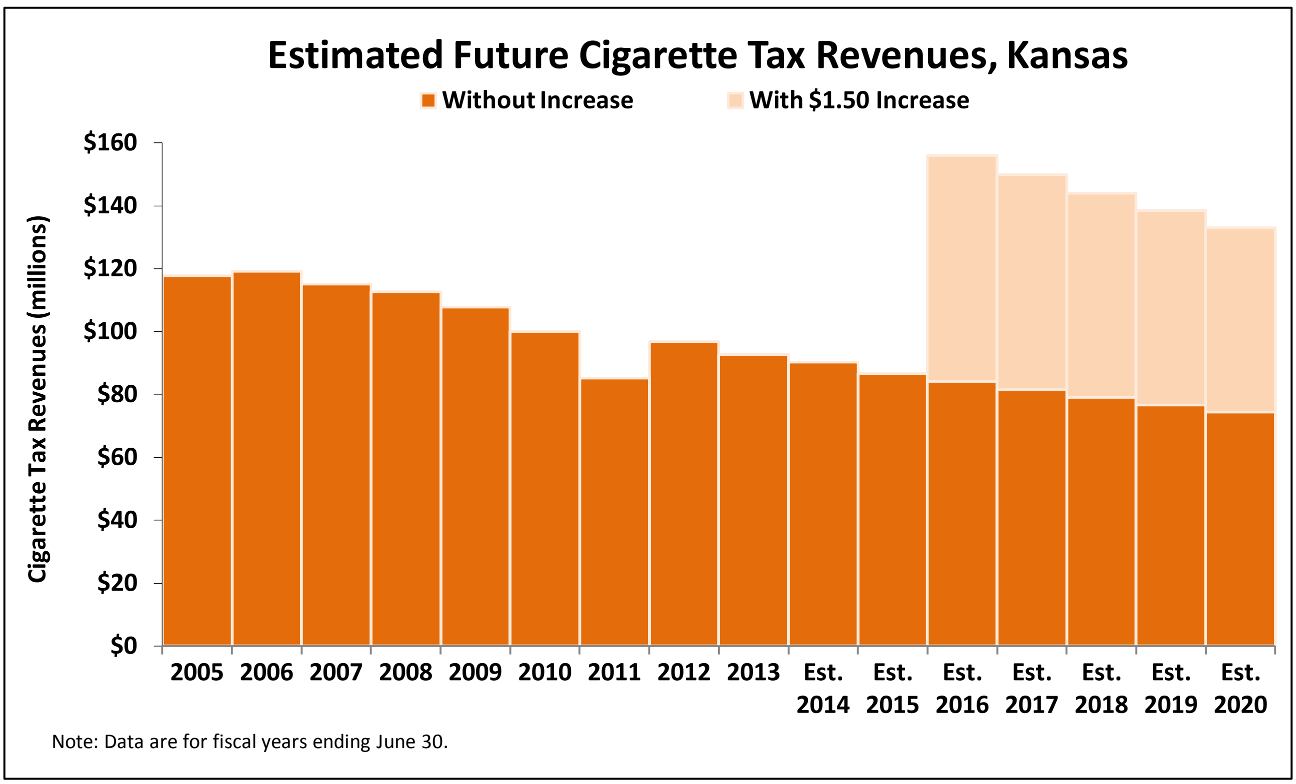
Third, even with the out-year revenue declines caused by ongoing smoking reductions, state cigarette tax revenues several years after the last cigarette tax increase are still substantially larger than the revenue levels before the increase – and much higher than what the revenue levels would have been today absent any cigarette tax increase.

Fourth, periodic increases in a state's cigarette tax will more than offset the revenue declines from underlying downward trends in smoking, or new smoking declines from other factors, and produce substantially more revenue.

What Kansas Could Expect from a Tobacco Tax Increase

If Kansas increases its cigarette tax significantly in 2015, its revenues should follow the same basic patterns that occurred after its last cigarette tax increases, bringing the state substantial new revenues.

For example, the Kansas Division of the Budget projects that the $1.50 per pack increase in the cigarette tax will generate $71.90 million in new revenues in the first 12 months of the increase, despite reductions in smoking rates as a result of the rate increase. In addition, if Kansas increased its tax rate on other tobacco products and implemented a minimum tax rate to match the new cigarette tax rate at the same time, the Campaign for Tobacco-Free Kids and the American Cancer Society Cancer Action Network project that the state could collect more than $25.60 million in additional revenue, while also gaining public health benefits and savings in health care costs because of reduced tobacco use.



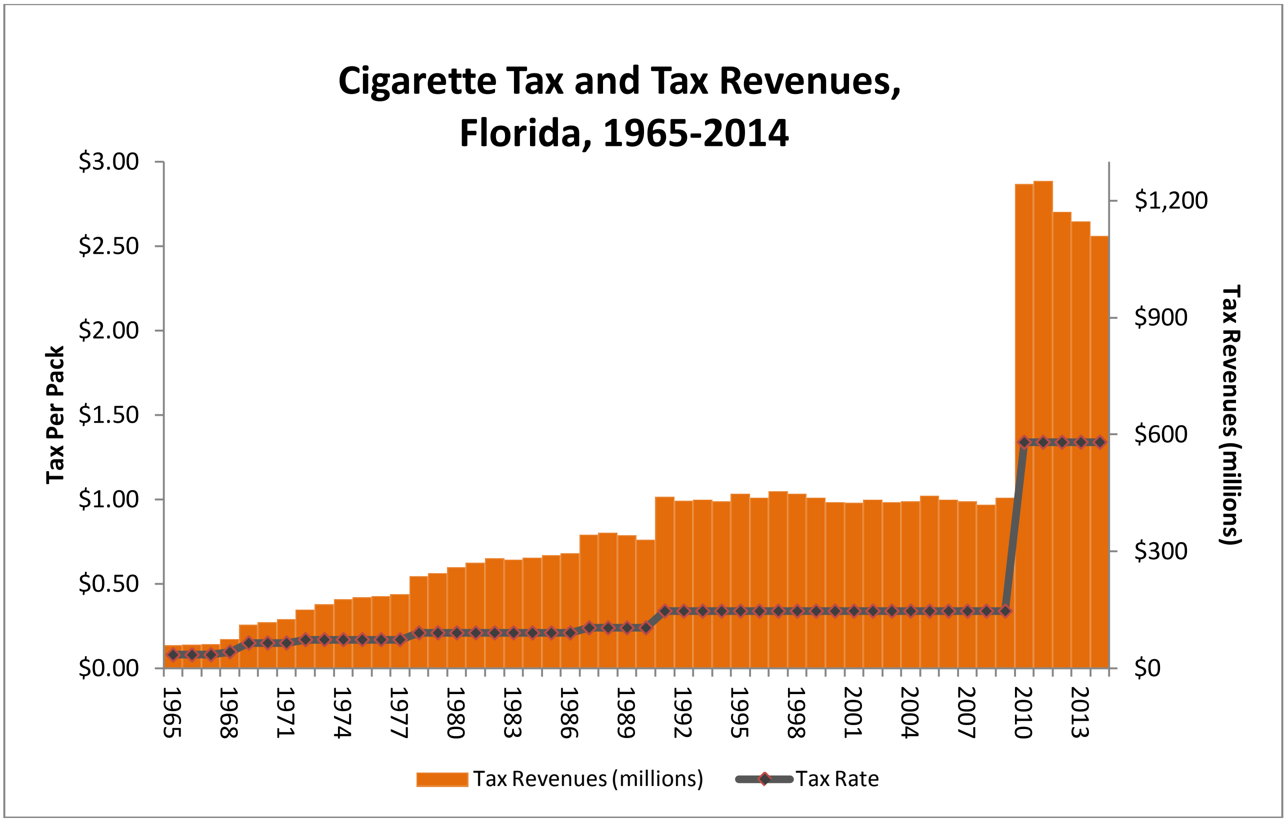
Even if Kansas' cigarette sales declined by five percent a year after the initial surge in new revenues after a $1.50 rate increase, the state would still be receiving more than $45 million in additional new annual cigarette tax revenues five years after the increase compared to what it received in 2015, and would have received more than $325 million in total new annual revenues over that five year period compared to what it would receive with no rate increase.

While there may be some tax avoidance and evasion in response to increases in cigarette and other tobacco product taxes, these tax increases will still generate significant public health and revenue gains. This is evident from Kansas' experiences following the 2002-2003 tax increases that raised the state cigarette tax from 24 to 79 cents per pack, while the cigarette tax in Missouri stayed at 17 cents per pack. Adult smoking prevalence in Kansas fell from 22.2 percent in 2001, the last full year before the tax increases to 20.4 percent in 2003, a more than eight percent decline following several years of virtually no change. As described above, cigarette tax revenues in Kansas rose by $72 million (an increase of 151 percent), while sales fell by 26 percent. Illinois raised its cigarette tax from 58 to 98 cents per pack on July 1, 2002; Tennessee raised its tax from 13 to 20 cents per pack, also on July 1, 2002; Nebraska increased its tax from 34 to 64 cents on October 1, 2002; and Arkansas raised its tax from 34 to 59 cents per pack on June 1, 2003. As in Kansas, all saw large increases in their own cigarette tax revenues, with revenues rising by $264 million, $35 million, $24 million, and $51 million in Illinois, Tennessee, Nebraska and Arkansas, respectively, in the year following the increases. In contrast, Missouri's revenues increased by only eight percent, despite cigarette tax increases in Kansas and most of its other neighboring states.

If Kansas is concerned about the impact of tobacco tax increases on smuggling and tax evasion, there are a number of steps that Kansas could take to protect or even increase its tobacco tax revenues over time and to maximize the public health impact of the increases. For example, Kansas could implement high-tech tax stamps to ensure that taxes are paid and to prevent cigarette smuggling and tax evasion. The state could also minimize tobacco product smuggling and other tax evasion through such measures as making sure smokers understand the state's laws pertaining to tobacco tax evasion, increasing penalties for smuggling and other tax evasion, and directing a portion of all penalties to help fund expanded enforcement (which would bring in both more penalty payments and more tobacco tax revenues).

The pattern predicted for Kansas directly parallels what has happened in other states that have significantly increased their cigarette tax rates. For example, Florida increased its cigarette tax rate by $1.00 per pack, effective July 1, 2009, from a starting cigarette tax of 33.9 cents per pack. As shown in the chart below, Florida's gross tax revenues increased by 193 percent in the first year after the increase have stayed at the much higher level since, while pack sales declined by 27 percent in the first year after the increase.

This Florida chart also provides another example of how state cigarette taxes provide a stable source of funding, with no major changes year-to-year, except when revenues go up sharply because of significant rate increases. Over time, cigarette tax revenues will decline slowly as smoking rates continue to fall, but revenues will remain considerably higher for many years and the declines will be gradual and predictable. Moreover, the substantial health benefits that result from the declines in smoking caused by the tax increase and the resulting reductions in health care costs should be considered.



Note: Data are for the fiscal year ending June 30.

As noted earlier, every single state that has significantly increased its cigarette taxes has, like Kansas, enjoyed substantial new cigarette tax revenues. Indeed, every state cigarette tax increase has produced an increase to state revenues that is well above what the state would have received with no tax increase.*

* In rare cases, a small state cigarette tax increase might not bring in enough new revenue to make up for significant state pack sales and revenue declines caused by other factors. For example, after New Jersey increased its $2.40 per pack cigarette tax by another 17.5¢ in 2006 (which amounted to only a 3% increase to the average pack price), its total cigarette tax revenues declined somewhat over the following year. This decline was almost certainly the result of ongoing smoking declines in the state as well as additional reductions in cigarette consumption caused by the state's Smoke-Free Air Act that went into effect in April 2006. Without the small cigarette tax increase, the state's cigarette tax revenues would have dropped much more sharply. In every other instance besides New Jersey in 2006, state cigarette tax rate increases have been followed by significant net increases to annual state tax revenues – despite any ongoing or new smoking declines unrelated to the cigarette tax increase – and in every instance, including New Jersey, the state cigarette tax increase has brought the state more revenues than it would have received without any rate increase. See, e.g., Exhibits A and B.

EXHIBIT A

STATE EXPERIENCES WITH LARGE CIGARETTE TAX INCREASES 2003-2013 REDUCED PACK SALES AND INCREASED REVENUES

State	Effective Date	Tax Increase Amount (per pack)	New State Tax Rate (per pack)	State Pack Sales Decline	Nationwide Pack Sales Trend	Revenue Increase	Gross New Revenues (millions)
Alaska	1/1/05	60¢	$1.60	- 23.2%	- 4.2%	+ 22.8%	+ $9.3
Arkansas	3/1/09	56¢	$1.15	- 27.8%	- 10.2%	+ 33.5%	+ $46.5
Arizona	12/8/06	82¢	$2.00	- 32.5%	- 4.4%	+ 13.6%	+ $44.5
Colorado	1/1/05	64¢	84¢	- 24.3%	- 4.2%	+ 220.2%	+ $131.0
Delaware	7/31/07	60¢	$1.15	- 35.1%	- 4.9%	+ 35.1%	+ $31.8
Washington, DC	10/1/08	$1.00	$2.00	- 25.9%	- 7.0%	+ 57.3%	+ $13.2
Florida	7/1/09	$1.00	$1.339	- 27.4 %	- 8.4%	+ 193.2%	+ $828.8
Hawaii	7/1/09	60¢	$2.60	- 11.3%	- 8.4%	+ 14.5%	+ $15.1
Illinois	6/24/12	$1.00	$1.98	- 31.2%	-2.3%	+ 39.0%	+ $229.2
Iowa	3/15/07	$1.00	$1.36	- 30.6%	- 4.7%	+ 140.2%	+ $128.0
Maine	9/19/05	$1.00	$2.00	- 12.3%	- 1.8%	+ 76.5%	+ $71.5
Maryland	1/1/08	$1.00	$2.00	- 27.1%	- 4.2%	+ 45.8%	+ $126.9
Massachusetts	7/1/08	$1.00	$2.51	- 20.3%	- 5.3%	+ 32.2%	+ $137.2
Massachusetts	7/1/13	$1.00	$3.51	- 15.0%	- 4.7%	+ 15.3%	+ $81.9
Michigan	7/1/04	75¢	$2.00	- 15.2%	- 1.7%	+ 28.1%	+ $238.9
Minnesota	8/1/05	75¢	$1.23	- 16.1%	- 1.8%	+ 160.7%	+ $258.4
Minnesota	7/1/13	$1.60	$2.83	- 24.0%	- 4.7%	+ 56.0%	+ $204.1
Mississippi	5/15/09	50¢	$0.68	- 22.8%	- 9.5%	+ 188.3%	+ $88.9
Montana	5/1/03	52¢	$0.70	- 7.3%	- 2.9%	+ 259.8%	+ $30.5
Montana	1/1/05	$1.00	$1.70	- 42.0%	- 4.2%	+ 36.5%	+ $18.8
New Jersey	7/1/03	55¢	$2.05	- 9.0%	- 2.3%	+ 26.6%	+ $157.4
New Mexico	7/1/03	70¢	$0.91	- 32.3%	- 2.3%	+ 191.8%	+ $39.2
New Mexico	7/1/10	$0.75	$1.66	- 7.8%	- 2.6%	+ 67.5%	+ $37.5
New York	6/3/08	$1.25	$2.75	- 15.2%	- 5.8%	+ 40.3%	+ $377.4
New York	7/1/10	$1.60	$4.35	- 24.8%	- 2.6%	+ 18.8%	+ $244.6
Ohio	7/1/05	70¢	$1.25	- 20.6%	- 1.6%	+ 78.9%	+ $437.6
Oklahoma	1/1/05	80¢	$1.03	- 34.7%	- 4.2%	+ 98.2%	+ $81.6
Rhode Island	7/1/04	75¢	$2.46	- 18.7%	- 1.7%	+ 16.9%	+ $18.7
South Dakota	1/1/07	$1.00	$1.53	- 25.8%	- 4.9%	+ 115.4%	+ $31.8
Rhode Island	4/10/09	$1.00	$3.46	- 14.7%	- 11.1%	+ 15.1%	+ $17.8
South Carolina	7/1/10	50¢	$0.57	+ 7.8%†	- 2.6%	+ 434.2%	+ $116.8
Texas	1/1/07	$1.00	$1.41	- 21.0%	- 4.9%	+ 191.7%	+ $1,003.7
Utah	7/1/10	$1.005	$1.70	- 24.5%	- 2.6%	+ 85.0%	+ $47.0
Vermont	7/1/06	60¢	$1.79	- 15.2%	- 3.0%	+ 27.9%	+ $13.2
Washington	7/1/05	60¢	$2.025	- 8.4%	- 1.6%	+ 29.1%	+ $95.5
Washington	5/1/10	$1.00	$3.025	- 20.5%	- 3.9%	+ 17.0%	+ $62.0
Wisconsin	1/1/08	$1.00	$1.77	- 15.0%	- 4.2%	+ 93.9%	+ $286.0

Sources: Orzechowski & Walker, *Tax Burden on Tobacco*. U.S. Alcohol and Tobacco Tax and Trade Bureau. Consumption declines and revenue increases are for the 12 months before and after the tax increase. Nationwide consumption declines are for the 50 states and DC. Trends for rate increases after January 2008 include the impact of the 61.66-cent federal cigarette tax increase (effective April 1, 2009).

† The increased pack sales is largely due to a surge in pack sales in July 2010 because SC's new tax rate was not implemented until August 2010.

EXHIBIT B

SUSTAINABILITY OF CIGARETTE TAX REVENUES OVER TIME FOLLOWING CIGARETTE TAX RATE INCREASES

Introductory Points:

- Cigarette consumption is generally trending down. During the period from 1990 to 2014, total sales for the U.S. fell by 2.6 percent, on average, per year. During this same period, sales in Kansas fell by an average of 2.8 percent per year, with the larger decline reflecting the impact of two tax increases in Kansas in the early 2000s. In the absence of cigarette tax increases, revenues from cigarette taxes will also be on a downward trend given the underlying trends in cigarette consumption.
- Cigarette tax increases will generate reductions in cigarette smoking and increases in revenues. Estimates indicate that the short run elasticity of cigarette demand is approximately –0.4, implying that a price increase of 10 percent will reduce total cigarette consumption by 4 percent. Because of the addictive nature of cigarette smoking, smokers' adjustments to the tax increases will occur over time, with the effect of a permanent, inflation adjusted tax increase rising so that the reductions in consumption that result will increase over time; estimates of the long run (after many decades) price elasticity of cigarette demand are –0.8. This implies that the gains in revenue that results from a tax increase will fall (although still be substantial) over time; however, the effects of inflation will erode the value of the tax increase, dampening the growth in the decline in smoking and lessening the drop in revenues.
- In states that use some of the revenues from tax increases to fund comprehensive tobacco control programs, these efforts lead to further reductions in smoking beyond those resulting from the tax increase. The implications for revenues are that the revenues generated from the tax increase will be lower in years after the comprehensive program is implemented compared to before.
- Historically, every significant state cigarette excise tax increase has resulted in a significant increase in cigarette tax revenues.

Data Sources:

Monthly tax paid cigarette tax revenues, by state, 1999-2014, provided by USDA and CDC Tax Burden on Tobacco monthly reports; cigarette tax rates and dates of change, *Tax Burden on Tobacco*, 2013. Note that the revenues for later periods described below (post November 1998) are lower relative to the general trend because of sharp reductions in smoking resulting from industry initiated cigarette price increases in the wake of the Master Settlement Agreement and, more recently, the significant increase in the federal cigarette excise tax in 2009. Tobacco control funding and CDC recommended funding amounts from CDC and the Campaign for Tobacco-Free Kids.

Approach:

- Analyzed significant tax changes – those that increased the state tax cigarette excise tax rate by at least 50 cents per pack over the period from 2000 through June 2009.

- Computed tax revenues for the 12 months preceding tax change and for as many 12 month periods as possible after tax change, for a minimum of five years; if tax was changed mid-month, then the last 12 full months and subsequent 12 full month periods were examined.

Findings:

<u>States With At Least 5 years of Post-Tax Increase Data Available, and the Average State Tobacco Control Funding as a Percent of the CDC Recommendation less than 50%:</u>

- Arizona – tax increases from 58 cents to 118 cents per pack, 11/26/2002, and to 200 cents per pack, 12/8/2006:
    - Revenues 12/1/2001 – 11/30/2002: $177.7 million
    - Revenues 12/1/2002 – 11/30/2003: $244.8 million
    - Revenues 12/1/2003 – 11/30/2004: $280.5 million
    - Revenues 12/1/2004 – 11/30/2005: $286.2 million
    - Revenues 12/1/2005 – 11/30/2006: $325.9 million
    - Revenues 12/1/2006 – 11/30/2007: $370.4 million
    - Revenues 12/1/2007 – 11/30/2008: $391.4 million
    - Revenues 12/1/2008 – 11/30/2009: $348.3 million
    - Revenues 12/1/2009 – 11/30/2010: $324.5 million
    - Revenues 12/1/2010 – 11/30/2011: $323.6 million
    - Revenues 12/1/2011 – 11/30/2012: $319.2 million
    - Revenues 12/1/2012 – 11/30/2013: $310.7 million
    - Average annual revenues, 12/2002 – 11/2013: $320.5 million
- ❖ Arizona – average tobacco control funding as a percent of the CDC recommendation, 2006 – 2015: 45.8%

- California – tax increase from 37 cents to 87 cents per pack, 1/1/1999:
    - Revenues 1/1/1998 – 12/31/1998: $646.6 million
    - Revenues 1/1/1999 – 12/31/1999: $1,115.7 million
    - Revenues 1/1/2000 – 12/31/2000: $1,125.7 million
    - Revenues 1/1/2001 – 12/31/2001: $1,105.2 million
    - Revenues 1/1/2002 – 12/31/2002: $1,068.9 million
    - Revenues 1/1/2003 – 12/31/2003: $1,024.4 million
    - Revenues 1/1/2004 – 12/31/2004: $1,030.2 million
    - Revenues 1/1/2005 – 12/31/2005: $1,036.2 million
    - Revenues 1/1/2006 – 12/31/2006: $1,031.3 million
    - Revenues 1/1/2007 – 12/31/2007: $984.6 million
    - Revenues 1/1/2008 – 12/31/2008: $952.3 million
    - Revenues 1/1/2009 – 12/31/2009: $870.1 million
    - Revenues 1/1/2010 – 12/31/2010: $849.4 million
    - Revenues 1/1/2011 – 12/31/2011: $829.4 million
    - Revenues 1/1/2012 – 12/31/2012: $813.1 million
    - Revenues 1/1/2013 – 12/31/2013: $768.6 million
    - Average annual revenues, 1/1999 – 12/2013: $973.7 million
- ❖ California – average tobacco control funding as a percent of the CDC recommendation, 2006 – 2015: 26.3%

- Connecticut – tax increases from 50 cents to 111 cents per pack, 4/3/2002, to 151 cents per pack, 3/15/2003, to 200 cents on 7/1/2007, to 300 cents on 10/1/2009, and to 340 cents on 7/1/2011:
  - Revenues 4/1/2001 – 3/31/2002: $115.8 million
  - Revenues 4/1/2002 – 3/31/2003: $234.7 million
  - Revenues 4/1/2003 – 3/31/2004: $280.9 million
  - Revenues 4/1/2004 – 3/31/2005: $269.4 million
  - Revenues 4/1/2005 – 3/31/2006: $268.6 million
  - Revenues 4/1/2006 – 3/31/2007: $269.5 million
  - Revenues 4/1/2007 – 3/31/2008: $301.2 million
  - Revenues 4/1/2008 – 3/31/2009: $299.3 million
  - Revenues 4/1/2009 – 3/31/2010: $349.1 million
  - Revenues 4/1/2010 – 3/31/2011: $394.0 million
  - Revenues 4/1/2011 – 3/31/2012: $412.7 million
  - Revenues 4/1/2012 – 3/31/2013: $384.2 million
  - Revenues 4/1/2013 – 3/31/2014: $370.9 million
  - Average annual revenues, 4/2002 - 3/2014: $319.6 million
- ❖ Connecticut – average tobacco control funding as a percent of the CDC recommendation, 2006 – 2015: 7.5%

- District of Columbia – tax increases from 100 cents to 200 cents per pack, 10/1/2008, and to 250 cents per pack on 10/1/2009:
  - Revenues 10/1/2007 – 9/30/2008: $23.1 million
  - Revenues 10/1/2008 – 9/30/2009: $34.2 million
  - Revenues 10/1/2009 – 9/30/2010: $33.3 million
  - Revenues 10/1/2010 – 9/30/2011: $33.5 million
  - Revenues 10/1/2011 – 9/30/2012: $37.7 million
  - Revenues 10/1/2012 – 9/30/2013: $32.1 million
  - Average annual revenues, 10/2008 – 9/2013: $34.2 million
- ❖ DC – average tobacco control funding as a percent of the CDC recommendation, 2006 – 2015: 13.1%

- Iowa – tax increase from 36 cents to 136 cents per pack, 3/15/2007:
  - Revenues 3/1/2006 – 2/28/2007: $91.3 million
  - Revenues 3/1/2007 – 2/29/2008: $219.3 million
  - Revenues 3/1/2008 – 2/28/2009: $230.8 million
  - Revenues 3/1/2009 – 2/28/2010: $206.1 million
  - Revenues 3/1/2010 – 2/28/2011: $207.6 million
  - Revenues 3/1/2011 – 2/29/2012: $200.6 million
  - Revenues 3/1/2012 – 2/28/2013: $202.3 million
  - Revenues 3/1/2013 – 2/28/2014: $205.2 million
  - Average annual revenues, 3/2007 – 2/2014: $210.3 million
- ❖ Iowa – average tobacco control funding as a percent of the CDC recommendation, 2006 – 2015: 25.4%

- Maryland – tax increase from 100 cents to 200 cents per pack, 1/1/2008:
  - Revenues 1/1/2007 – 12/31/2008: $276.7 million
  - Revenues 1/1/2008 – 12/31/2009: $403.6 million

- Revenues 1/1/2009 – 12/31/2010: $394.0 million
- Revenues 1/1/2010 – 12/31/2011: $401.3 million
- Revenues 1/1/2011 – 12/31/2012: $401.1 million
- Revenues 1/1/2012 – 12/31/2013: $380.9 million
- Average annual revenues, 1/2008 – 12/2013: $395.9 million

❖ Maryland – average tobacco control funding as a percent of the CDC recommendation, 2006 – 2015: 24.8%

- Massachusetts – tax increases from 76 cents to 151 cents per pack, 7/25/2002, to 251 cents per pack, 7/1/2008, and to 351 cents on 7/31/2013:
  - Revenues 8/1/2001 – 7/31/2002: $279.4 million
  - Revenues 8/1/2002 – 7/31/2003: $438.4 million
  - Revenues 8/1/2003 – 7/31/2004: $422.3 million
  - Revenues 8/1/2004 – 7/31/2005: $406.2 million
  - Revenues 8/1/2005 – 7/31/2006: $422.5 million
  - Revenues 8/1/2006 – 7/31/2007: $426.2 million
  - Revenues 8/1/2007 – 7/31/2008: $440.2 million
  - Revenues 8/1/2008 – 7/31/2009: $557.7 million
  - Revenues 8/1/2009 – 7/31/2010: $555.9 million
  - Revenues 8/1/2010 – 7/31/2011: $562.7 million
  - Revenues 8/1/2011 – 7/31/2012: $550.7 million
  - Revenues 8/1/2012 – 7/31/2013: $539.3 million
  - Average annual revenues, 8/2002 – 7/2013: $483.8 million

❖ Massachusetts – average tobacco control funding as a percent of the CDC recommendation, –2006 – 2015: 11.6%

- Michigan – tax increases from 75 cents to 125 cents per pack, 8/1/2002 and to 200 cents per pack, 7/1/2004:
  - Revenues 8/1/2001 – 7/31/2002: $556.9 million
  - Revenues 8/1/2002 – 7/31/2003: $815.6 million
  - Revenues 8/1/2003 – 7/31/2004: $1,124.4 million
  - Revenues 8/1/2004 – 7/31/2005: $1,138.2 million
  - Revenues 8/1/2005 – 7/31/2006: $1,092.8 million
  - Revenues 8/1/2006 – 7/31/2007: $1,043.9 million
  - Revenues 8/1/2007 – 7/31/2008: $1,028.6 million
  - Revenues 8/1/2008 – 7/31/2009: $957.5 million
  - Revenues 8/1/2009 – 7/31/2010: $916.0 million
  - Revenues 8/1/2010 – 7/31/2011: $918.3 million
  - Revenues 8/1/2011 – 7/31/2012: $896.1 million
  - Revenues 8/1/2012 – 7/31/2013: $896.1 million
  - Average annual revenues, 8/2002 – 7/2013: $982.6 million

❖ Michigan – average tobacco control funding as a percent of the CDC recommendation, 2006 – 2015: 2.0%

- Minnesota – tax increases from 48 cents to 123 cents per pack, 8/1/2005, to 283 cents per pack, 7/1/2013, and to 290 cents on 1/1/2015:
  - Revenues 8/1/2004 – 7/31/2005: $160.8 million
  - Revenues 8/1/2005 – 7/31/2006: $419.1 million

- Revenues 8/1/2006 – 7/31/2007: $401.5 million
- Revenues 8/1/2007 – 7/31/2008: $404.5 million
- Revenues 8/1/2008 – 7/31/2009: $390.4 million
- Revenues 8/1/2009 – 7/31/2010: $382.3 million
- Revenues 8/1/2010 – 7/31/2011: $383.6 million
- Revenues 8/1/2011 – 7/31/2012: $357.0 million
- Revenues 8/1/2012 – 7/31/2013: $377.2 million
- Average annual revenues, 8/2005 – 7/2013: $389.4 million

❖ Minnesota – average tobacco control funding as a percent of the CDC recommendation, 2006 – 2015: 48.3%

- Mississippi – tax increase from 18 cents to 68 cents per pack, 5/15/2009:
  - Revenues 5/1/2008 – 4/30/2009: $47.2 million
  - Revenues 5/1/2009 – 4/30/2010: $136.1 million
  - Revenues 5/1/2010 – 4/30/2011: $139.5 million
  - Revenues 5/1/2011 – 4/30/2012: $135.4 million
  - Revenues 5/1/2012 – 4/30/2013: $132.0 million
  - Revenues 5/1/2013 – 4/30/2014: $127.6 million
  - Average annual revenues, 5/2009 – 4/2014: $134.1 million

❖ Mississippi – average tobacco control funding as a percent of the CDC recommendation, 2006 – 2015: 33.7%

- New Jersey – tax increases from 80 cents to 150 cents per pack, 7/1/2002, to 205 cents per pack, 7/1/2003, to 240 cents on 7/1/2004, to 257.5 cents on 7/15/2006, and to 270 cents on 7/1/2009:
  - Revenues 7/1/2001 – 6/30/2002: $390.7 million
  - Revenues 7/1/2002 – 6/30/2003: $612.1 million
  - Revenues 7/1/2003 – 6/30/2004: $760.8 million
  - Revenues 7/1/2004 – 6/30/2005: $782.2 million
  - Revenues 7/1/2005 – 6/30/2006: $788.7 million
  - Revenues 7/1/2006 – 6/30/2007: $766.5 million
  - Revenues 7/1/2007 – 6/30/2008: $764.7 million
  - Revenues 7/1/2008 – 6/30/2009: $728.1 million
  - Revenues 7/1/2009 – 6/30/2010: $731.9 million
  - Revenues 7/1/2010 – 6/30/2011: $773.4 million
  - Revenues 7/1/2011 – 6/30/2012: $758.3 million
  - Revenues 7/1/2012 – 6/30/2013: $733.1 million
  - Revenues 7/1/2013 – 6/30/2014: $704.7 million
  - Average annual revenues, 7/2002 – 6/2014: $742.0 million

❖ New Jersey – average tobacco control funding as a percent of the CDC recommendation, 2006 – 2015: 9.0%

- New Mexico – tax increases from 21 cents to 91 cents per pack, 7/1/2003, and to 166 cents per pack on 7/1/2010:
  - Revenues 7/1/2002 – 6/30/2003: $21.0 million
  - Revenues 7/1/2003 – 6/30/2004: $61.8 million
  - Revenues 7/1/2004 – 6/30/2005: $61.3 million
  - Revenues 7/1/2005 – 6/30/2006: $62.9 million

- Revenues 7/1/2006 – 6/30/2007: $64.4 million
- Revenues 7/1/2007 – 6/30/2008: $61.7 million
- Revenues 7/1/2008 – 6/30/2009: $59.0 million
- Revenues 7/1/2009 – 6/30/2010: $55.5 million
- Revenues 7/1/2010 – 6/30/2011: $93.0 million
- Revenues 7/1/2011 – 6/30/2012: $92.4 million
- Revenues 7/1/2012 – 6/30/2013: $91.5 million
- Revenues 7/1/2013 – 6/30/2014: $85.2 million
- Average annual revenues, 7/2003 – 6/2014: $71.7 million

❖ New Mexico – average tobacco control funding as a percent of the CDC recommendation, –2006 – 2015: 38.4%

- New York – tax increases from 56 cents to 111 cents per pack, 3/1/2000, to 150 cents per pack, 4/3/2002, to 275 cents on 6/3/2008, and to 435 cents on 7/1/2010:
  - Revenues 3/1/1999 – 2/29/2000: $645.4 million
  - Revenues 3/1/2000 – 2/28/2001: $973.2 million
  - Revenues 3/1/2001 – 2/28/2002: $999.2 million
  - Revenues 3/1/2002 – 2/28/2003: $1,072.6 million
  - Revenues 3/1/2003 – 2/29/2004: $974.6 million
  - Revenues 3/1/2004 – 2/28/2005: $948.3 million
  - Revenues 3/1/2005 – 2/28/2006: $939.0 million
  - Revenues 3/1/2006 – 2/28/2007: $944.2 million
  - Revenues 3/1/2007 – 2/29/2008: $936.2 million
  - Revenues 3/1/2008 – 2/28/2009: $1,240.9 million
  - Revenues 3/1/2009 – 2/28/2010: $1,273.1 million
  - Revenues 3/1/2010 – 2/28/2011: $1,472.3 million
  - Revenues 3/1/2011 – 2/29/2012: $1,552.5 million
  - Revenues 3/1/2012 – 2/28/2013: $1,467.3 million
  - Revenues 3/1/2013 – 2/28/2014: $1,360.2 million
  - Average annual revenues, 3/2000 – 2/2014: $1,153.8 million

❖ New York – average tobacco control funding as a percent of the CDC recommendation, 2006 – 2015: 37.1%

- Ohio – tax increase from 55 cents to 125 cents per pack, 7/1/2005:
  - Revenues 7/1/2004 – 6/30/2005: $567.9 million
  - Revenues 7/1/2005 – 6/30/2006: $996.7 million
  - Revenues 7/1/2006 – 6/30/2007: $985.8 million
  - Revenues 7/1/2007 – 6/30/2008: $927.9 million
  - Revenues 7/1/2008 – 6/30/2009: $884.1 million
  - Revenues 7/1/2009 – 6/30/2010: $968.0 million
  - Revenues 7/1/2010 – 6/30/2011: $819.8 million
  - Revenues 7/1/2011 – 6/30/2012: $804.9 million
  - Revenues 7/1/2012 – 6/30/2013: $779.7 million
  - Revenues 7/1/2013 – 6/30/2014: $771.6 million
  - Average annual revenues, 7/2005 – 6/2014: $871.0 million

❖ Ohio – average tobacco control funding as a percent of the CDC recommendation, 2006 – 2015: 23.7%

- Oklahoma – tax increase from 23 cents to 103 cents per pack, 1/1/2005:
  - Revenues 1/1/2004 – 12/31/2004: $83.1 million
  - Revenues 1/1/2005 – 12/31/2005: $164.7 million
  - Revenues 1/1/2006 – 12/31/2006: $203.1 million
  - Revenues 1/1/2007 – 12/31/2007: $218.5 million
  - Revenues 1/1/2008 – 12/31/2008: $235.7 million
  - Revenues 1/1/2009 – 12/31/2009: $235.4 million
  - Revenues 1/1/2010 – 12/31/2010: $235.8 million
  - Revenues 1/1/2011 – 12/31/2011: $246.0 million
  - Revenues 1/1/2012 – 12/31/2012: $244.5 million
  - Revenues 1/1/2013 – 12/31/2013: $228.8 million
  - Average annual revenues, 1/2005 – 12/2013: $223.6 million
- ❖ Oklahoma – average tobacco control funding as a percent of the CDC recommendation, 2006 – 2015: 48.4%

- Oregon – tax increase from 68 cents to 128 cents per pack, 11/1/2002, tax reduced to 118 cents per pack, 1/1/04, and increased to 131 cents per pack on 1/1/2014:
  - Revenues 11/1/2001 – 10/31/2002: $162.1 million
  - Revenues 11/1/2002 – 10/31/2003: $259.6 million
  - Revenues 11/1/2003 – 10/31/2004: $231.7 million
  - Revenues 11/1/2004 – 10/31/2005: $229.2 million
  - Revenues 11/1/2005 – 10/31/2006: $236.7 million
  - Revenues 11/1/2006 – 10/31/2007: $238.1 million
  - Revenues 11/1/2007 – 10/31/2008: $225.9 million
  - Revenues 11/1/2008 – 10/31/2009: $210.9 million
  - Revenues 11/1/2009 – 10/31/2010: $204.0 million
  - Revenues 11/1/2010 – 10/31/2011: $208.0 million
  - Revenues 11/1/2011 – 10/31/2012: $199.7 million
  - Revenues 11/1/2012 – 10/31/2013: $198.1 million
  - Average annual revenues, 11/2002 – 10/2013: $222.0 million
- ❖ Oregon – average tobacco control funding as a percent of the CDC recommendation, 2006 – 2015: 21.0%

- Pennsylvania – tax increases from 31 cents to 100 cents per pack, 7/15/2002, and to 135 cents per pack, 1/7/2004, to 160 cents on 11/1/2009:
  - Revenues 7/1/2001 – 6/30/2002: $329.8 million
  - Revenues 7/1/2002 – 6/30/2003: $888.8 million
  - Revenues 7/1/2003 – 6/30/2004: $989.4 million
  - Revenues 7/1/2004 – 6/30/2005: $1,052.8 million
  - Revenues 7/1/2005 – 6/30/2006: $1,050.4 million
  - Revenues 7/1/2006 – 6/30/2007: $1,031.2 million
  - Revenues 7/1/2007 – 6/30/2008: $1,032.4 million
  - Revenues 7/1/2008 – 6/30/2009: $1,004.7 million
  - Revenues 7/1/2009 – 6/30/2010: $1,087.8 million
  - Revenues 7/1/2010 – 6/30/2011: $1,145.6 million
  - Revenues 7/1/2011 – 6/30/2012: $1,122.1 million
  - Revenues 7/1/2012 – 6/30/2013: $1,080.8 million
  - Revenues 7/1/2013 – 6/30/2014: $1,038.3 million

- Average annual revenues, 7/2002 – 6/2014: $1,043.7 million

❖ Pennsylvania – average tobacco control funding as a percent of the CDC recommendation, 2006 – 2015: 21.8%

- Rhode Island – tax increase from 171 cents to 246 cents per pack, 7/1/2004, to 346 cents per pack, 4/10/2009, and to 350 cents on 7/1/2012:
  - Revenues 7/1/2003 – 6/30/2004: $112.4 million
  - Revenues 7/1/2004 – 6/30/2005: $132.5 million
  - Revenues 7/1/2005 – 6/30/2006: $119.0 million
  - Revenues 7/1/2006 – 6/30/2007: $119.5 million
  - Revenues 7/1/2007 – 6/30/2008: $116.1 million
  - Revenues 7/1/2008 – 6/30/2009: $123.4 million
  - Revenues 7/1/2009 – 6/30/2010: $136.6 million
  - Revenues 7/1/2010 – 6/30/2011: $134.3 million
  - Revenues 7/1/2011 – 6/30/2012: $131.2 million
  - Revenues 7/1/2012 – 6/30/2013: $132.3 million
  - Revenues 7/1/2013 – 6/30/2014: $133.1 million
  - Average annual revenues, 7/2004 – 6/2014: $127.8 million

❖ Rhode Island – average tobacco control funding as a percent of the CDC recommendation, 2006 – 2015: 6.7%

- South Dakota – tax increase from 53 cents to 153 cents per pack, 1/1/2007:
  - Revenues 1/1/2006 – 12/31/2006: $27.5 million
  - Revenues 1/1/2007 – 12/31/2007: $59.3 million
  - Revenues 1/1/2008 – 12/31/2008: $64.1 million
  - Revenues 1/1/2009 – 12/31/2009: $58.6 million
  - Revenues 1/1/2010 – 12/31/2010: $57.7 million
  - Revenues 1/1/2011 – 12/31/2011: $56.4 million
  - Revenues 1/1/2012 – 12/31/2012: $54.2 million
  - Revenues 1/1/2013 – 12/31/2013: $55.0 million
  - Average annual revenues, 1/2007 – 12/2013: $57.9 million

❖ South Dakota – average tobacco control funding as a percent of the CDC recommendation, 2006 – 2015: 33.7%

- Texas – tax increase from 41 cents to 141 cents per pack, 1/1/2007:
  - Revenues 1/1/2006 – 12/31/2006: $523.4 million
  - Revenues 1/1/2007 – 12/31/2007: $1,527.1 million
  - Revenues 1/1/2008 – 12/31/2008: $1,348.8 million
  - Revenues 1/1/2009 – 12/31/2009: $1,246.0 million
  - Revenues 1/1/2010 – 12/31/2010: $1,342.4 million
  - Revenues 1/1/2011 – 12/31/2011: $1,339.8 million
  - Revenues 1/1/2012 – 12/31/2012: $1,363.5 million
  - Revenues 1/1/2013 – 12/31/2013: $1,312.0 million
  - Average annual revenues, 1/2007 – 12/2013: $1,354.2 million

❖ Texas – average tobacco control funding as a percent of the CDC recommendation, 2006 – 2015: 4.9%

- Vermont – tax increase from 119 cents to 179 cents per pack, 7/1/2006, to 199 cents per

pack, 7/1/2008, to 224 cents on 7/1/2009, to 262 cents on 7/1/2011, and to 275 cents on 7/1/2014:
  - Revenues 7/1/2005 – 6/30/2006: $47.5 million
  - Revenues 7/1/2006 – 6/30/2007: $60.8 million
  - Revenues 7/1/2007 – 6/30/2008: $55.6 million
  - Revenues 7/1/2008 – 6/30/2009: $61.8 million
  - Revenues 7/1/2009 – 6/30/2010: $66.3 million
  - Revenues 7/1/2010 – 6/30/2011: $67.9 million
  - Revenues 7/1/2011 – 6/30/2012: $74.4 million
  - Revenues 7/1/2012 – 6/30/2013: $68.5 million
  - Revenues 7/1/2013 – 6/30/2014: $66.9 million
  - Average annual revenues, 7/2006 – 6/2014: $65.3 million
- ❖ Vermont – average tobacco control funding as a percent of the CDC recommendation, 2006 – 2015: 49.5%

- Washington – tax increase from 82.5 cents to 142.5 cents per pack, 1/1/2002, to 202.5 cents per pack, 7/1/2005, and to 302.5 cents on 5/1/2010:
  - Revenues 1/1/2001 – 12/31/2001: $244.0 million
  - Revenues 1/1/2002 – 12/31/2002: $344.5 million
  - Revenues 1/1/2003 – 12/31/2003: $327.0 million
  - Revenues 1/1/2004 – 12/31/2004: $331.2 million
  - Revenues 1/1/2005 – 12/31/2005: $384.9 million
  - Revenues 1/1/2006 – 12/31/2006: $426.5 million
  - Revenues 1/1/2007 – 12/31/2007: $426.9 million
  - Revenues 1/1/2008 – 12/31/2008: $407.1 million
  - Revenues 1/1/2009 – 12/31/2009: $381.0 million
  - Revenues 1/1/2010 – 12/31/2010: $409.7 million
  - Revenues 1/1/2011 – 12/31/2011: $425.4 million
  - Revenues 1/1/2012 – 12/31/2012: $415.4 million
  - Revenues 1/1/2013 – 12/31/2013: $403.1 million
  - Average annual revenues, 1/2002 – 12/2013: $390.2 million
- ❖ Washington – average tobacco control funding as a percent of the CDC recommendation, 2006 – 2015: 33.7%

- Wisconsin – tax increase from 77 cents to 177 cents per pack, 1/1/2008, and to 252 cents per pack, 9/1/2009:
  - Revenues 1/1/2007 – 12/31/2007: $304.5 million
  - Revenues 1/1/2008 – 12/31/2008: $590.5 million
  - Revenues 1/1/2009 – 12/31/2009: $596.8 million
  - Revenues 1/1/2010 – 12/31/2010: $643.3 million
  - Revenues 1/1/2011 – 12/31/2011: $589.6 million
  - Revenues 1/1/2012 – 12/31/2012: $583.2 million
  - Revenues 1/1/2013 – 12/31/2013: $592.8 million
  - Average annual revenues, 1/2008 – 12/2013: $599.4 million
- ❖ Wisconsin – average tobacco control funding as a percent of the CDC recommendation, 2006 – 2015: 19.2%

States With At Least 5 years of Post-Tax Increase Data Available, and the Average State Tobacco Control Funding as a Percent of the CDC Recommendation more than 50%:

- Alaska – tax increase from 100 cents to 160 cents per pack, 1/1/2005, to 180 cents per pack,7/1/2006, and to 200 cents on 7/1/2007:
  - Revenues 1/1/2004 – 12/31/2004: $41.1 million
  - Revenues 1/1/2005 – 12/31/2005: $50.5 million
  - Revenues 1/1/2006 – 12/31/2006: $52.7 million
  - Revenues 1/1/2007 – 12/31/2007: $63.1 million
  - Revenues 1/1/2008 – 12/31/2008: $63.3 million
  - Revenues 1/1/2009 – 12/31/2009: $63.6 million
  - Revenues 1/1/2010 – 12/31/2010: $63.1 million
  - Revenues 1/1/2011 – 12/31/2011: $60.3 million
  - Revenues 1/1/2012 – 12/31/2012: $57.3 million
  - Revenues 1/1/2013 – 12/31/2013: $57.3 million
  - Average annual revenues, 1/2005 – 12/2013: $59.0 million
- ❖ Alaska – average tobacco control funding as a percent of the CDC recommendation, 2006 – 2015: 89.2%

- Arkansas – tax increase from 59 cents to 115 cents per pack, 3/1/2009:
  - Revenues 3/1/2008 – 2/29/2009: $138.8 million
  - Revenues 3/1/2009 – 2/28/2010: $185.3 million
  - Revenues 3/1/2010 – 2/28/2011: $196.3 million
  - Revenues 3/1/2011 – 2/29/2012: $196.6 million
  - Revenues 3/1/2012 – 2/28/2013: $188.4 million
  - Revenues 3/1/2013 – 2/28/2014: $183.4 million
  - Average annual revenues, 3/2009 – 2/2014: $190.0 million
- ❖ Arkansas – average tobacco control funding as a percent of the CDC recommendation, 2006 – 2015: 56.2%

- Colorado – tax increase from 20 cents to 84 cents per pack, 1/1/2005:
  - Revenues 1/1/2004 – 12/31/2004: $59.5 million
  - Revenues 1/1/2005 – 12/31/2005: $190.5 million
  - Revenues 1/1/2006 – 12/31/2006: $208.1 million
  - Revenues 1/1/2007 – 12/31/2007: $203.2 million
  - Revenues 1/1/2008 – 12/31/2008: $195.1 million
  - Revenues 1/1/2009 – 12/31/2009: $180.0 million
  - Revenues 1/1/2010 – 12/31/2010: $175.5 million
  - Revenues 1/1/2011 – 12/31/2011: $172.0 million
  - Revenues 1/1/2012 – 12/31/2012: $172.6 million
  - Revenues 1/1/2013 – 12/31/2013: $165.7 million
  - Average annual revenues, 1/2005 – 12/2013: $184.7 million
- ❖ Colorado – average tobacco control funding as a percent of the CDC recommendation, 2006 – 2015: 54.6%

- Delaware – tax increase from 55 cents to 115 cents per pack, 7/31/2007:
  - Revenues 8/1/2006 – 7/31/2007: $90.4 million
  - Revenues 8/1/2007 – 7/31/2008: $122.2 million

- Revenues 8/1/2008 – 7/31/2009: $125.5 million
- Revenues 8/1/2009 – 7/31/2010: $124.8 million
- Revenues 8/1/2010 – 7/31/2011: $126.8 million
- Revenues 8/1/2011 – 7/31/2012: $122.7 million
- Revenues 8/1/2012 – 7/31/2013: $113.0 million
- Average annual revenues, 8/2007 – 7/2013: $122.5 million

❖ Delaware – average tobacco control funding as a percent of the CDC recommendation, 2006 – 2015: 81.9%

- Maine – tax increase from 100 cents to 200 cents per pack, 9/19/2005:
  - Revenues 9/1/2004 – 8/31/2005: $93.5 million
  - Revenues 9/1/2005 – 8/31/2006: $165.1 million
  - Revenues 9/1/2006 – 8/31/2007: $153.8 million
  - Revenues 9/1/2007 – 8/31/2008: $147.9 million
  - Revenues 9/1/2008 – 8/31/2009: $137.5 million
  - Revenues 9/1/2009 – 8/31/2010: $136.9 million
  - Revenues 9/1/2010 – 8/31/2011: $137.9 million
  - Revenues 9/1/2011 – 8/31/2012: $135.9 million
  - Revenues 9/1/2012 – 8/31/2013: $130.7 million
  - Average annual revenues, 9/2005 – 8/2013: $143.2 million

❖ Maine – average tobacco control funding as a percent of the CDC recommendation, 2006 – 2015: 77.4%

- Montana – tax increase from 18 cents to 70 cents per pack, 5/1/2003 and to 170 cents per pack,1/1/2005:
  - Revenues 5/1/2002 – 4/30/2003: $12.0 million
  - Revenues 5/1/2003 – 4/30/2004: $43.1 million
  - Revenues 5/1/2004 – 4/30/2005: $51.8 million
  - Revenues 5/1/2005 – 4/30/2006: $79.6 million
  - Revenues 5/1/2006 – 4/30/2007: $84.7 million
  - Revenues 5/1/2007 – 4/30/2008: $87.2 million
  - Revenues 5/1/2008 – 4/30/2009: $80.8 million
  - Revenues 5/1/2009 – 4/30/2010: $81.0 million
  - Revenues 5/1/2010 – 4/30/2011: $78.1 million
  - Revenues 5/1/2011 – 4/30/2012: $77.2 million
  - Revenues 5/1/2012 – 4/30/2013: $76.2 million
  - Revenues 5/1/2013 – 4/30/2014: $74.9 million
  - Average annual revenues, 5/2003 – 4/2014: $74.1 million

❖ Montana – average tobacco control funding as a percent of the CDC recommendation, 2006 – 2015: 56.0%

Conclusions:

- Significant cigarette excise tax increases generate significant increases in cigarette tax revenues.
- Revenues several years after the tax increase remain significantly higher than revenues prior to the tax increase and changes over time after the increase are consistent with changes that would result from underlying downward trends in cigarette smoking.
- Revenues in states that dedicate some revenues for comprehensive tobacco control programs in the years following the implementation of these programs are still significantly higher than revenues prior to the tax increase and program implementation.