

Summary of Select Vaping Bills

Bill Number	Sponsor & Committee	Issues	Relating to....
<p><b>SB 190</b></p>	<p>AG Rosenblum  In Senate Judiciary (had hearing on 3/9)</p>	<ul style="list-style-type: none"> <li>• Prohibits internet sales of cigarette, tobacco products and electronic cigarettes</li> <li>• Defines "electronic cigarette" (covers device, components and substance to be vaporized);</li> <li>• Substance covers those to deliver nicotine</li> </ul>	<p>Nicotine</p>
<p><b>HB 2134, HB 2074</b></p>	<p>House Rev. Committee;  In House Rev Committee; hearings scheduled for 4/6</p>	<ul style="list-style-type: none"> <li>• Defines "vapor products" (covers any vapor device and nicotine solutions);</li> <li>• Adds "vapor products" to definition of "tobacco products" in ORS 323.500</li> <li>• Definitional addition in effect subjects vapor products to 65% wholesale tax under ORS 323.505(2)(c) (other tobacco);</li> <li>• Definitional addition in effect subjects tax distributions to ORS 323.625 (Gen. Fund, OR Health Plan, TURA Account). Compare cigarette tax distribution under ORS 323.455 to .457 (includes DOT, local government and mental health).</li> </ul>	<p>Taxation of products intended for nicotine consumption</p>
<p><b>HB 3053</b></p>	<p>Rep. Clem  In House Rev. Comm.</p>	<ul style="list-style-type: none"> <li>• Increases taxes on all cigarettes and other tobacco products;</li> <li>• Defines "vapor products" (covers any vapor device and nicotine solutions);</li> <li>• Adds "vapor products" to definition of "tobacco products" in ORS 323.500</li> <li>• Definitional addition in effect subjects vapor products to wholesale tax under ORS 323.505(2)(c) with tax distributions under ORS 323.625 (compare cigarette tax distribution under ORS 323.455 to .457)</li> <li>• Present law is tax of 65% of wholesale on other tobacco products, but bill taxes other tobacco at 81.25% of wholesale.</li> </ul>	<p>Taxation of products containing nicotine</p>

<p><b>HB 2546-A</b></p>	<p>Many Members</p> <p>Has passed House; in Senate Health Care Committee presently (hearing was held on 3/23)</p>	<ul style="list-style-type: none"> <li>• Defines "inhalant delivery system" (covers device, components, substance to be vaporized);</li> <li>• Substance <b>covers those to deliver nicotine or cannabinoids;</b></li> </ul> <p><b>Regulates vaping:</b></p> <ul style="list-style-type: none"> <li>• Makes it unlawful to sell inhalants to persons under 18;</li> <li>• Regulates packaging (not to be attractive to minors);</li> <li>• Provides for FDA exceptions;</li> <li>• OHA civil fines for regulation violations;</li> <li>• Adds selling/distributing inhalant delivery systems to endangering welfare of minor criminal statutes;</li> <li>• Adds minor possession of inhalant delivery system to criminal statute</li> <li>• Criminalizes vending machine distribution of inhalant delivery systems and accessibility of them in retail stores;</li> <li>• Prohibits using inhalant delivery system in vehicle with minor;</li> <li>• Adds inhalants to Oregon's Indoor Clean Air Act (prohibits in public place and place of employment)</li> </ul>	<p>Inhalants</p>
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See also pending Washington bills—HB 2211 (60% plus sales tax) and HB 1645 (95% plus sales tax)

LOC, 4.6.15 WJJ

# Distributions of Taxes

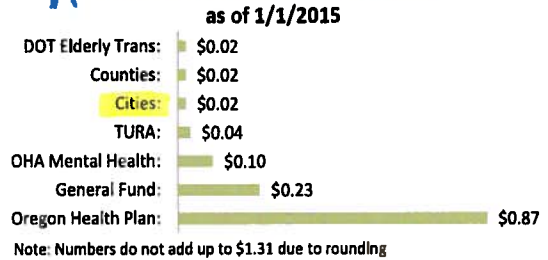
## EXCISE TAXES

See ORS 323.455 to .457

### Taxes on Cigarettes and Other Tobacco Products

Excise taxes are imposed on distribution of all tobacco products in Oregon. Taxes are levied on each cigarette and as a percent of wholesale price of other tobacco products. As of January 1, 2015 the tax rate on cigarettes is 65.5 mills per cigarette or \$1.31 per pack of 20 cigarettes. Under current law the tax is scheduled to increase to \$1.32 beginning January 1, 2016 and to \$1.33 beginning January 1, 2018. The distribution of tax revenue per pack of cigarettes is shown at right. Note that the numbers do not sum to \$1.31 due to rounding and TURA refers to the Tobacco Use Reduction Account. Distributions to cities and counties are based on their respective populations.

### Cigarette Tax Distribution



The Other Tobacco Products (OTP) tax is applied slightly differently depending upon the product. Moist snuff is taxed at \$1.78 per ounce with a minimum tax of \$2.14 per retail container.<sup>1</sup> Cigars are taxed at 65% of their wholesale sales price but the tax is capped at \$0.50 per individual cigar. All other tobacco products not taxed as moist snuff or cigars are taxed at 65% of their wholesale sales price. Distributions of revenues from the Other Tobacco Products tax are displayed in the table to the right.

### Distribution of Other Tobacco Products Tax (1/1/2015)

General Fund:	53.84%
OR Health Plan:	41.54%
TURA:	4.62%

See ORS 323.625

Additional tobacco revenue is received under the Master Settlement Agreement. Through June 30, 2014, in total Oregon has received over \$1.2 billion in payments and expects to receive about \$165 million for the 2013-15 biennium. The 2003 Session (SB 856) pledged much of this revenue for payments on \$450 million appropriation bonds. In August 2013, payment obligations were met.

#### Cigarette and Other Tobacco Products Taxes (\$ Millions)

Fiscal Year	Cigarette Tax Rate	Cigarettes Revenue	Cigarettes Change	Other Tobacco Revenue	Other Tobacco Change	Total Revenue	Total Change
2003-04	\$1.23	240.1		25.3		265.4	
2004-05	\$1.18	217.8	-9.3%	26.0	2.8%	243.8	-8.1%
2005-06	\$1.18	238.7	9.6%	31.2	20.0%	269.9	10.7%
2006-07	\$1.18	240.2	0.6%	30.9	-0.8%	271.1	0.4%
2007-08	\$1.18	222.2	-7.5%	32.8	5.9%	255.0	-6.0%
2008-09	\$1.18	215.3	-3.1%	32.9	0.4%	248.2	-2.6%
2009-10	\$1.18	201.9	-6.3%	37.4	13.7%	239.3	-3.6%
2010-11	\$1.18	211.6	4.8%	51.2	36.8%	262.8	9.8%
2011-12	\$1.18	203.5	-3.9%	52.2	2.0%	255.7	-2.7%
2012-13	\$1.18	198.5	-2.4%	56.7	8.7%	255.2	-0.2%
2013-14	\$1.31	201.2	1.3%	56.4	-0.6%	257.6	0.9%

#### Combined Distribution of Tobacco Taxes (\$ Millions)

Fiscal Year	General Fund	Health Plan	Mental Health	TURA	Special Transit	Local Gov't's
2003-04	53.9	184.8		7.8	4.4	8.8
2004-05	52.5	168.5		7.3	4.3	8.6
2005-06	59.4	180.7		8.1	4.1	8.9
2006-07	60.6	185.3		8.3	4.6	9.2
2007-08	59.0	176.1		8.0	4.6	9.2
2008-09	57.1	168.5		7.7	4.1	8.3
2009-10	57.4	161.9		7.4	3.5	7.8
2010-11	66.3	173.2		7.9	4.0	8.1
2011-12	66.1	170.8		7.7	3.9	7.9
2012-13	67.5	168.0		8.4	3.8	7.7
2013-14	67.0	163.6	7.7	8.3	3.7	7.4

Page Sources: Oregon Department of Revenue, DAS CFO, DAS Quarterly Economic & Revenue Forecast

<sup>1</sup> Under current law, moist snuff rates are scheduled to be indexed to inflation for reporting periods beginning on or after July 1, 2022. Rates are indexed to one quarter of the change in U.S. City Average Consumer Price Index.

## 2015 State Shared Revenue Estimates

Based on the 2013-15 legislatively-enacted state budget, cities are projected to receive the following per capita distributions from several state collected taxes:

	Liquor Tax Revenues <sup>1</sup>	Cigarette Tax Revenues	9-1-1 Tax Revenues <sup>2</sup>	Highway Fund <sup>3</sup> (Gas Tax)
2014-15	\$14.44	\$1.25	N/A	\$56.74
2015-16	\$16.11	\$1.17	N/A	\$57.66
2016-17	\$16.57	\$1.08	N/A	\$57.81

1 See description of liquor revenue in the full online report. Per capita liquor revenue projections include Liquor Tax (20%) but not State Shared Revenues, which are derived from separate liquor taxes (14%).

2 9-1-1 emergency communications tax distributions are made directly to 9-1-1 jurisdictions and no longer "pass through" cities. See 9-1-1 Tax Revenues section in the full online report.

3 Highway Fund revenue distribution contains several component parts. Please see the section entitled "Highway Fund Revenue" in the full online report for more detail.

" Updated 02/03/15 "

Projections for distributions to cities are developed and revised periodically by various state agencies throughout the year. Source documents for the projections are available from the appropriate state agency.

Per capita distribution for appropriate revenue sources are calculated based on certified statistics from Portland State University's Center for Population Research. Population estimates compiled each

July are certified approximately January 1 of the following year and thereafter begin to govern the distributions.

Revenue projections are based on current law and do not contemplate changes to current statutory distribution formulas or policy changes that may be enacted by the Legislature.

A program synopsis and revenue history for each shared revenue source follows.

(continued on page 2)

For questions regarding these estimates, email Charlie Conrad at [cconrad@orcities.org](mailto:cconrad@orcities.org) or call (503) 588-6550.

# 2015 City Population

Adair Village	845	Dunes City	1,315	Klamath Falls	21,500	Portland	601,510	Vernonia	2,065
Adams	370	Durham	1,880	La Grande	13,150	Powers	700	Waldport	2,060
Adrian	180	Eagle Point	8,635	La Pine	1,670	Prairie City	910	Wallowa	810
Albany	51,270	Echo	705	Lafayette	3,825	Prescott	55	Warrenton	5,175
Amity	1,620	Elgin	1,725	Lake Oswego	37,105	Prineville	9,385	Wasco	415
Antelope	50	Elkton	205	Lakeside	1,705	Rainier	1,905	Waterloo	230
Arlington	605	Enterprise	1,940	Lakeview	2,300	Redmond	26,770	West Linn	25,540
Ashland	20,340	Estacada	2,935	Lebanon	15,740	Reedsport	4,150	Westfir	255
Astoria	9,590	Eugene	160,775	Lexington	255	Richland	175	Weston	685
Athena	1,125	Fairview	8,935	Lincoln City	8,400	Riddle	1,185	Wheeler	405
Aumsville	3,895	Falls City	950	Lonerock	20	Rivergrove	485	Willamina	2,045
Aurora	950	Florence	8,565	Long Creek	195	Rockaway Beach	1,325	Wilsonville	21,980
Baker City	9,890	Forest Grove	22,715	Lostine	215	Rogue River	2,155	Winston	5,410
Bandon	3,105	Fossil	475	Lowell	1,060	Roseburg	22,510	Wood Village	3,905
Banks	1,775	Ganibaldi	790	Lyons	1,160	Rufus	280	Woodburn	24,455
Barlow	135	Gaston	640	Madras	6,260	Salem	159,265	Yachats	720
Bay City	1,320	Gates	485	Malin	815	Sandy	10,170	Yamhill	1,050
Beaverton	93,395	Gearhart	1,475	Manzanita	615	Scappoose	6,700	Yoncalla	1,060
Bend	79,985	Gervais	2,530	Maupin	425	Scio	830		
Boardman	3,445	Gladstone	11,495	Maywood Park	750	Scotts Mills	365		
Bonanza	455	Glendale	875	McMinnville	32,705	Seaside	6,560		
Brookings	6,535	Gold Beach	2,275	Medford	76,650	Seneca	200		
Brownsville	1,680	Gold Hill	1,220	Merrill	840	Shady Cove	3,015		
Bums	2,835	Granite	40	Metolius	700	Shaniko	35		
Butte Falls	430	Grants Pass	35,060	Mill City	1,875	Sheridan	6,225		
Canby	16,010	Grass Valley	165	Millersburg	1,505	Sherwood	18,955		
Cannon Beach	1,705	Greenhom	2	Milton-Freewater	7,060	Siletz	1,235		
Canyon City	705	Gresham	106,455	Milwaukie	20,485	Silverton	9,460		
Canyonville	1,910	Haines	415	Mitchell	130	Sisters	2,190		
Carlton	2,070	Halfway	290	Molalla	8,820	Sodaville	310		
Cascade Locks	1,235	Halsey	915	Monmouth	9,620	Spray	160		
Cave Junction	1,905	Happy Valley	16,480	Monroe	620	Springfield	60,065		
Central Point	17,375	Harrisburg	3,635	Monument	130	St Helens	12,990		
Chiloquin	735	Helix	195	Moro	325	St Paul	425		
Clatskanie	1,750	Heppner	1,290	Mosier	440	Stanfield	2,115		
Coburg	1,045	Hermiston	17,345	Mt Angel	3,395	Stayton	7,700		
Columbia City	1,945	Hillsboro	95,310	Mt Vernon	525	Sublimity	2,760		
Condon	695	Hines	1,560	Myrtle Creek	3,465	Summerville	135		
Coos Bay	16,315	Hood River	7,545	Myrtle Point	2,525	Sumpter	205		
Coquille	3,870	Hubbard	3,220	Nehalem	280	Sutherlin	7,945		
Cornelius	11,910	Huntington	445	Newberg	22,765	Sweet Home	9,060		
Corvallis	56,535	Idanha	140	Newport	10,095	Talent	6,230		
Cottage Grove	9,840	Imbler	305	North Bend	9,730	Tangent	1,195		
Cove	550	Independence	8,605	North Plains	2,015	The Dalles	14,480		
Creswell	5,075	Ione	330	North Powder	445	Tigard	49,140		
Culver	1,380	Imgon	1,885	Nyssa	3,285	Tillamook	4,880		
Dallas	14,940	Island City	1,025	Oakland	935	Toledo	3,485		
Damascus	10,625	Jacksonville	2,840	Oakridge	3,220	Troutdale	16,020		
Dayton	2,570	Jefferson	3,165	Ontario	11,465	Tualatin	26,925		
Dayville	150	John Day	1,745	Oregon City	33,760	Tuner	1,900		
Depoe Bay	1,410	Johnson City	565	Paisley	245	Ukiah	245		
Detroit	210	Jordan Valley	175	Pendleton	16,700	Umatilla	7,050		
Donald	975	Joseph	1,095	Philomath	4,630	Union	2,150		
Drain	1,160	Junction City	5,620	Phoenix	4,580	Unity	70		
Dufur	605	Keizer	36,985	Pilot Rock	1,505	Vale	1,875		
Dundee	3,180	King City	3,365	Port Orford	1,135	Veneta	4,690		

Portland State  
Population  
Certified  
Census  
July, 2014

# Cigarette Tax Revenue

The statutory authorization for distribution of cigarette revenue to cities is in ORS 323.455. Between 1928 and its eventual approval in 1967, Oregon's cigarette tax was rejected by voters six times. The deciding factor, according to media accounts, was that the tax proceeds were aimed both directly and indirectly at property tax relief. When it passed, the tax was \$0.04 per pack, with 50 percent of the tax designated for property tax relief and 50 percent distributed to cities and counties. Since then, the amount of tax on cigarettes has increased but cities' proportionate share of the tax revenue has shrunk, from 33 percent to just 1.7 percent of the total tax (a second penny was added for cities in 1986).

Generally, the tax is paid through the use of tax stamps that are purchased by Oregon licensed cigarette distributors. The money received by the Department of Revenue is paid to the state treasurer. It is then distributed to the Oregon Health Plan; the state General Fund; cities and counties; the Tobacco Usage Reduction Account; and the Elderly and Disabled Special Transportation Fund.

Prior to January 1, 2014 the cigarette tax per pack totaled \$1.18 with the following distribution: \$0.8574 to the health plan, \$0.22 to the state general fund, \$0.0342 to tobacco use reduction and \$0.0228 each to

cities, counties and public transit. Following the passage of HB 3601 during the 2013 Special Session and beginning January 1, 2014, taxes per pack were raised \$0.13 to a total of \$1.31 per pack. Beginning January 1, 2016 taxes will increase an additional \$0.01 for a total of \$1.32 per pack with a further \$0.01 increase on January 1, 2018, for a total of \$1.33 per pack.

The distribution of the \$0.13 increase beginning in 2014 is split \$0.10 to mental health, \$0.013 to the state general fund, \$0.002 to tobacco use reduction and \$0.016 to the health plan. Beginning January 1, 2016 the full tax increase of \$0.14 per pack (relative to pre-2014 tax rates) is dedicated to mental health. The full \$0.15 post January 1, 2018 is likewise dedicated to mental health. Cities will receive no additional proceeds from the increase in tax. (Source: Department of Administrative Services, Office of Economic Analysis, Revenue Forecast Appendix B.)

Revenues are paid to cities on a monthly basis within 35 days after the end of the month for which a distribution is made. The distribution is on a per capita basis. Cities may use their share for general government purposes, without program restrictions on their use.

(continued on next page)

The 10-year history of city disbursements is as follows:

## Actual Cigarette Tax Disbursements: All Cities

Year	Disbursement	Year	Disbursement
2004-05	\$4,174,998	2009-10	\$3,889,726
2005-06	\$4,595,568	2010-11	\$4,022,667
2006-07	\$4,610,003	2011-12	\$3,911,667
2007-08	\$4,252,081	2012-13	\$3,822,638
2008-09	\$4,133,710	2013-14	\$3,642,107

After a decade of constant decline, cigarette tax revenues are expected to rise slightly before settling back into decline.

## Projected Cigarette Tax Disbursements: All Cities

Year	Projected Disbursement
2014-15	\$3,470,333
2015-16	\$3,290,666
2016-17	\$3,079,333

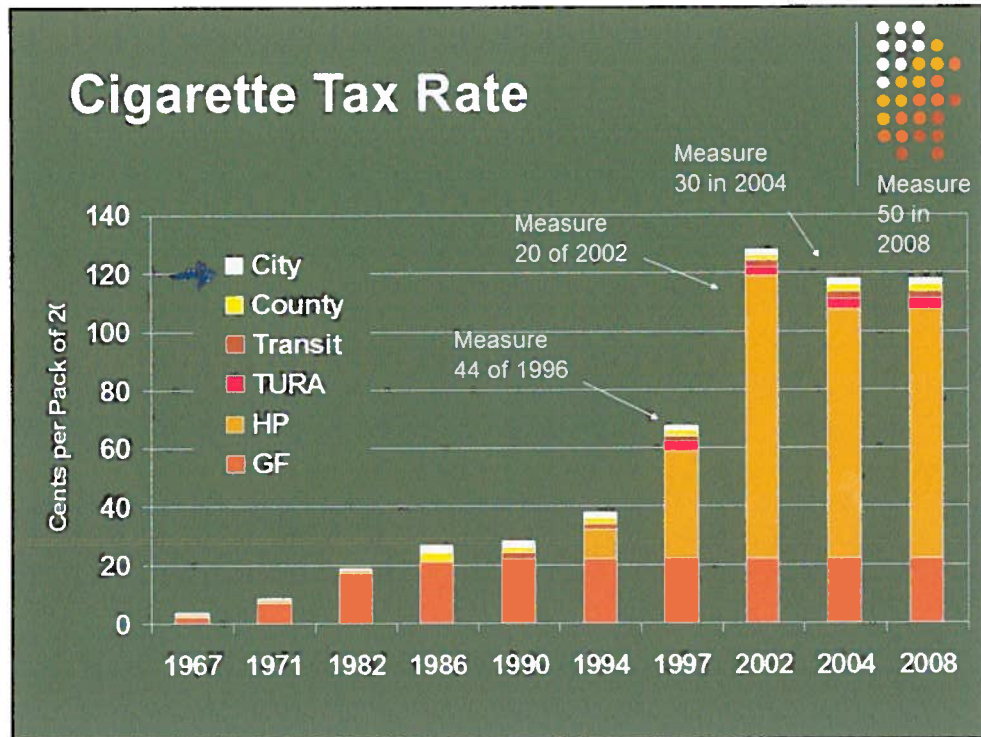
Decreasing Revenue

**TABLE 7  
SUMMARY OF OREGON TAXES**

STATE	% CHANGE				
	2003-2004 COLLECTIONS	2012-2013 COLLECTIONS	2013-2014 COLLECTIONS	10 YEAR	
				2013 TO 2014 % CHG	2004 TO 2014
PERSONAL INCOME TAX	\$4,268,572,769	\$6,258,703,426	\$6,649,032,232	6.2%	55.8%
UNEMPLOYMENT INSURANCE TAXES	651,920,000	1,011,950,501	1,048,171,404	3.6%	60.8%
GASOLINE AND USE FUEL TAXES	401,968,000	486,134,061	492,657,207	1.3%	22.6%
CORPORATE INCOME TAX	317,506,034	452,888,190	494,759,369	9.2%	55.8%
WEIGHT MILE TAX	217,370,000	284,016,386	301,225,523	6.1%	38.6%
CIGARETTE TAX	240,069,022	198,548,451	202,084,629	1.8%	-15.8%
INSURANCE TAXES	51,732,659	53,066,995	30,457,147	-42.6%	-41.1%
OTHER LABOR TAXES	87,596,364	72,102,306	87,336,237	21.1%	-0.3%
TIMBER SEVERANCE TAXES	3,787,065	531,848	607,996	14.3%	-83.9%
ESTATE (INHERITANCE) TAX	73,609,092	101,862,939	85,491,021	-16.1%	16.1%
WORKERS' COMP INSURANCE TAXES	58,192,322	49,712,523	52,759,088	6.1%	-9.3%
TELEPHONE EXCHANGE ACCESS TAX/911	33,255,970	39,175,232	39,251,361	0.2%	18.0%
OTHER TOBACCO PRODUCTS TAX	25,278,884	56,690,359	56,370,715	-0.6%	123.0%
REAL ESTATE RECORDING TAX	21,925,857	35,696,662	33,003,807	-7.5%	50.5%
BEER & WINE TAXES	13,665,748	16,419,394	17,462,776	6.4%	27.8%
FOREST PRODUCTS HARVEST TAXES	11,940,279	14,148,783	14,922,588	5.5%	25.0%
ELECTRIC COOP TAX	4,555,367	8,569,627	7,242,866	-15.5%	59.0%
PHONE ACCESS SURCHARGE	5,377,192	6,296,987	5,991,833	-4.8%	11.4%
AMUSEMENT DEVICE TAX	798,200	1,924,133	1,894,638	-1.5%	137.4%
HAZARDOUS SUBSTANCE TAXES	2,565,657	2,510,906	2,860,572	13.9%	11.5%
AVIATION GAS AND JET FUEL TAXES	2,379,798	1,997,135	1,965,638	-1.6%	-17.4%
PETROLEUM LOADING FEE	1,267,559	1,133,013	1,539,088	35.8%	21.4%
BOXING TAX	87,915	59,023	48,570	-17.7%	-44.8%
PRIVATE RAIL CAR TAX	189,168	258,058	260,236	0.8%	37.6%
OIL & GAS SEVERANCE TAX	109,322	64,227	102,233	59.2%	-6.5%
DRY CLEANERS TAX	117,593	0	0	0.0%	-100.0%
STATE LODGING TAX	1,457,243	12,793,208	13,924,746	8.8%	855.6%
MEDICAL PROVIDER/HOSPITAL TAXES		428,998,782	454,410,947	6%	NA
<b>LOCAL TAXES</b>	<b>2003-04 COLLECTIONS</b>	<b>2012-13** COLLECTIONS</b>	<b>2013-14** COLLECTIONS</b>	<b>2013 to 2014 % chg</b>	<b>2004 to 2014 % chg</b>
PROPERTY TAXES*	3,612,927,649	5,174,628,651	5,462,022,916	5.6%	51.2%
TRANSIT PAYROLL & EMPLOYMENT TAXES	173,563,613	278,925,838	298,207,898	6.9%	71.8%
FRANCHISE TAXES	139,656,000	227,041,560	230,274,180	1.4%	64.9%
HOTEL-MOTEL	65,600,000	107,000,000	121,338,000	13.4%	85.0%
PORTLAND BUSINESS LICENSE TAX	45,364,373	78,214,550	81,020,110	3.6%	78.6%
MULTNOMAH COUNTY BUSINESS TAX	30,286,000	58,750,000	61,800,000	5.2%	104.1%
MOTOR VEHICLE RENTAL TAX	12,930,000	24,764,000	27,435,000	10.8%	112.2%
MULTNOM. COUNTY INCOME TAX	100,144,000	76,000	34,000	-55.3%	-100.0%
MOTOR FUEL TAXES	12,926,000	15,602,172	15,528,628	-0.5%	20.1%
WASHINGTON COUNTY TRANSFER TAX	4,057,444	3,409,272	3,858,507	13.2%	-4.9%
OTHER TAXES	169,728,290	625,247,685	637,690,425	2.0%	275.7%

\*\* Estimates where actuals are not available

\* includes tax imposed and urban renewal revenue



The Oregon Legislature first imposed an excise tax on cigarettes at 4¢ per pack effective July 1, 1966.

Revenue was distributed to the counties to reduce property taxes (50%) and to cities and counties (25% each).

The Legislature increased the permanent rate to 9¢ in 1971, to 27¢ in 1985, and to 28¢ in 1989.

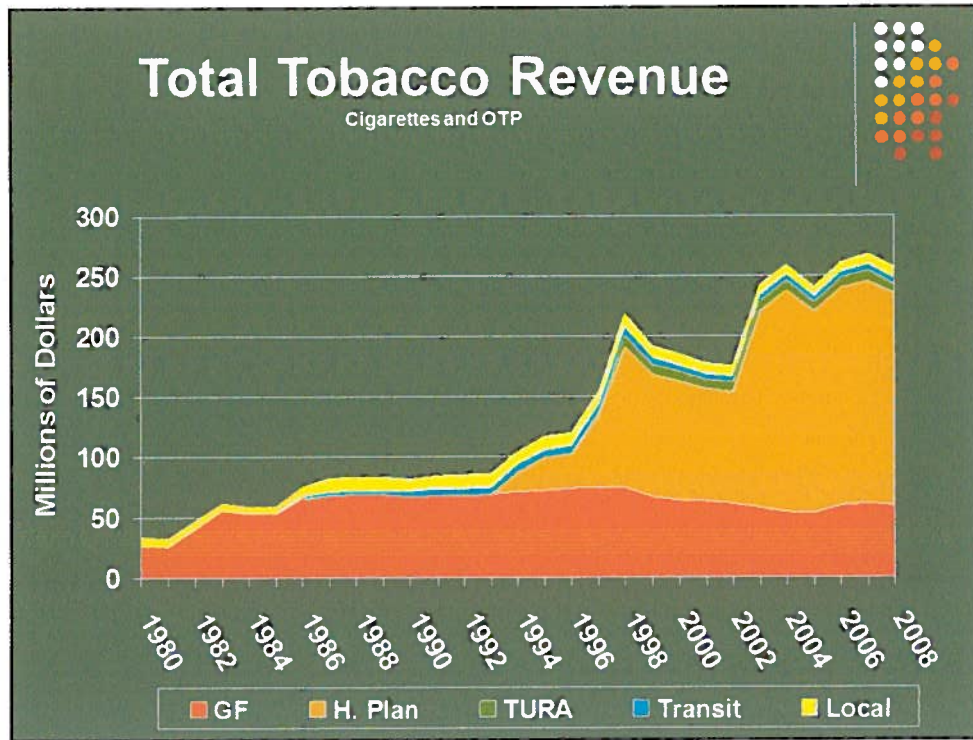
Ballot Measure 44 in 1996 (initiative petition) increased the permanent rate to 58¢.

Measure 20 in 2002 increased the permanent rate to \$1.18.

A temporary rate of 7¢ was passed by the 1981 & 1982 Special Sessions and allowed to sunset.

A temporary rate of 10¢ was passed in 1993 with a July 1, 1995 sunset. The sunset has been extended each Session until January 1, 2004. The renewal of the 10¢ temporary rate was part of Measure 30 that failed to pass in 2004; therefore it is no longer effective.

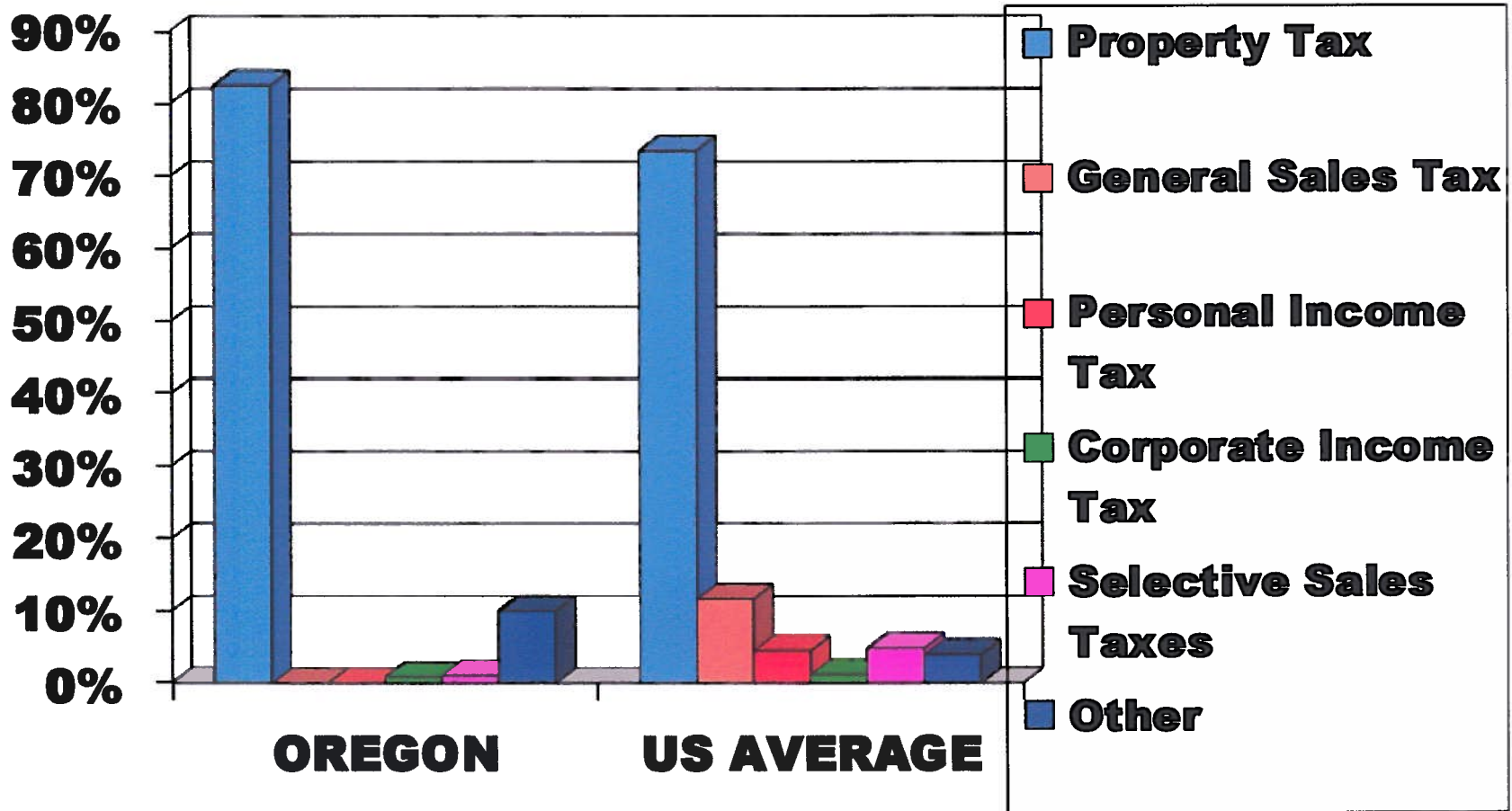




Because OTP not the same distribution as cigarettes, the total Tobacco Revenue becomes different in total to be distributed to the different funds. Higher OHP, and GF. Lower Local and Transit.

# Local Taxes by Source

(Percent of Local Government Tax Collections in Fiscal Year 2011-12)



# Evaluation of Local Tax System

- Strengths
  - Stability
  - Voter Acceptance
- Weaknesses
  - Rigidity
  - Not Responsive to Economic Growth
  - Horizontal Inequities
  - Lack of Diversity





**CIGARETTE EXCISE TAX RATES AS OF JANUARY 1, 2015  
BEER AND WINE RATES AS OF 2014  
Ranked by Sum of Excise and Sales Tax Rates (Dollars)**

Rank	Malt Liquor (Beer) per Gallon			Table Wine (14% alcohol) per Gallon			Cigarette Taxes (\$'s per Pack)		
	State	Excise	Sales	State	Excise	Sales	State	Excise	Sales
1	Tennessee	1.150	0.700	Florida	2.25	2.40	New York	4.35	0.40
2	South Carolina	0.770	0.800	Rhode Island	1.40	2.80	Rhode Island	3.50	0.58
3	Hawaii	0.930	0.400	Iowa	1.75	2.40	Massachusetts	3.51	0.54
4	Mississippi	0.427	0.700	Tennessee	1.21	2.80	Connecticut	3.40	0.52
5	North Carolina	0.617	0.475	Illinois	1.39	2.50	Hawaii	3.20	0.35
6	Florida	0.480	0.600	New Mexico	1.70	2.00	Washington	3.03	0.50
7	Alaska	1.070	0.000	New Jersey	0.88	2.80	New Jersey	2.70	0.52
8	California	0.200	0.825	Virginia	1.51	2.00	Vermont	2.75	0.46
9	Alabama	0.530	0.400	California	0.20	3.30	Minnesota	2.90	0.00
10	Washington	0.261	0.650	Washington	0.87	2.60	Wisconsin	2.52	0.37
11	New Mexico	0.410	0.500	Nevada	0.70	2.74	Dist. of Columbia	2.50	0.00
12	Utah	0.410	0.470	West Virginia	1.00	2.40	Illinois	1.98	0.44
13	Nebraska	0.310	0.550	Alabama	1.70	1.60	Michigan	2.00	0.39
14	Illinois	0.231	0.625	South Carolina	0.90	2.40	Maryland	2.00	0.38
15	Maine	0.350	0.500	Indiana	0.47	2.80	Arizona	2.00	0.37
16	Oklahoma	0.400	0.450	Mississippi	0.35	2.80	Maine	2.00	0.36
17	Nevada	0.160	0.685	Nebraska	0.95	2.20	Utah	1.70	0.37
18	Connecticut	0.240	0.600	Arkansas	0.75	2.40	Alaska	2.00	0.00
19	Minnesota	0.150	0.688	Connecticut	0.72	2.40	New Mexico	1.66	0.32
20	Arkansas	0.230	0.600	Georgia	1.51	1.60	Pennsylvania	1.60	0.36
21	Texas	0.200	0.625	Arizona	0.84	2.24	New Hampshire	1.78	0.00
22	New Jersey	0.120	0.700	Minnesota	0.30	2.75	Texas	1.41	0.36
23	Indiana	0.115	0.700	Hawaii	1.38	1.60	South Dakota	1.53	0.23
24	Rhode Island	0.110	0.700	Vermont	0.55	2.40	Iowa	1.36	0.35
25	Michigan	0.200	0.600	Michigan	0.51	2.40	Montana	1.70	0.00
26	Iowa	0.190	0.600	North Carolina	1.00	1.90	Florida	1.34	0.33
27	West Virginia	0.180	0.600	Idaho	0.45	2.40	Delaware	1.60	0.00
28	Virginia	0.260	0.500	Maryland	0.40	2.40	Ohio	1.25	0.32
29	Idaho	0.150	0.600	Texas	0.20	2.50	Arkansas	1.15	0.36
30	Ohio	0.180	0.550	Dist. of Columbia	0.30	2.40	Indiana	1.00	0.37
31	Arizona	0.160	0.560	Maine	0.60	2.00	<b>Oregon</b>	<b>1.31</b>	<b>0.00</b>
32	Georgia	0.320	0.400	South Dakota	0.93	1.60	California	0.87	0.41
33	Louisiana	0.320	0.400	Ohio	0.32	2.20	Nevada	0.80	0.36
34	Kansas	0.180	0.530	Oklahoma	0.72	1.80	Kansas	0.79	0.32
35	Dist. of Columbia	0.090	0.600	Alaska	2.50	0.00	Oklahoma	1.03	0.00
36	Maryland	0.090	0.600	North Dakota	0.50	2.00	Mississippi	0.68	0.34
37	Pennsylvania	0.080	0.600	Pennsylvania	0.00	2.40	Colorado	0.84	0.16
38	South Dakota	0.270	0.400	Wisconsin	0.25	2.00	Tennessee	0.62	0.35
39	North Dakota	0.160	0.500	Missouri	0.42	1.69	Nebraska	0.64	0.29
40	Wisconsin	0.060	0.500	New York	0.30	1.60	Kentucky	0.60	0.29
41	New York	0.140	0.400	Utah		1.88	South Carolina	0.57	0.29
42	Missouri	0.060	0.423	Louisiana	0.11	1.60	Idaho	0.57	0.29
43	Wyoming	0.020	0.400	Wyoming	0.00	1.60	West Virginia	0.55	0.29
44	Colorado	0.080	0.290	Colorado	0.28	1.16	Wyoming	0.60	0.20
45	New Hampshire	0.300	0.000	Montana	1.06	0.00	North Carolina	0.45	0.22
46	Vermont	0.265	0.000	Delaware	0.97	0.00	North Dakota	0.44	0.23
47	Delaware	0.160	0.000	<b>Oregon</b>	<b>0.67</b>	<b>0.00</b>	Alabama	0.43	0.20
48	Montana	0.140	0.000	Massachusetts	0.55	0.00	Virginia	0.30	0.26
49	Massachusetts	0.110	0.000	Kentucky	0.50	0.00	Georgia	0.37	0.18
50	Kentucky	0.080	0.000	Kansas	0.30	0.00	Louisiana	0.36	0.19
51	<b>Oregon</b>	<b>0.080</b>	<b>0.000</b>	New Hampshire	0.00	0.00	Missouri	0.17	0.19

Source: Excise tax rates from Federation of Tax Administrators (web).  
Tax Burden on Tobacco, Orzechowski and Walker

May 12, 2014

## Equity Research

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### Tobacco: Vapor World Expo - Key Takeaways

Tobacco

- **Vapor Industry Conference Key Takeaways** - We recently presented at the “first of its kind” Vapor World Expo Trade Show in Chicago and wanted to highlight some of the key takeaways and other interesting tidbits we gleaned while attending this conference. In attendance were several hundred e-vapor product manufacturers, distributors, wholesalers and retailers. After attending/speaking at this show and others, we are even more excited about the vast potential of the e-vapor category which, according to our recent “Tobacco Talk” survey, is a \$2.2B retail market in the U.S. (incl. e-cigs). We believe the potential of vapors-tanks-mods (VTMs) is undeniable given the superior product performance and fierce customer commitment to the category. **Therefore, if the robust growth of the VTM category continues and is not ultimately hindered by FDA regulation, we expect big tobacco has no choice but to enter this category either organically or via acquisition.**
- **We Expect Vapors-Tanks-Mods To Go More Mainstream In the Next Few Years** – We spoke with several independent manufacturers of VTMs and e-juice and we believe these products will continue to make up a bigger portion of the e-vapor product mix in c-stores. VTMs are already present in the c-store channel running the gamut from small independent manufacturers getting product placement in small, local chains to manufacturers like Mystic bringing its Haus personal vaporizer into nearly 40,000 points of distribution over the next few months. Though we continue to believe “traditional” or “cig-alike” e-cigs are here to stay, especially as the technology improves and evolves, we believe the rapid growth and staying power of VTMs serves as a “wake-up call” for traditional e-cig manufacturers. We believe VTMs are the wave of the future which is both an opportunity and challenge for c-store retailers. The opportunity is the fast growth and attractive margins, but the challenge for these retailers will be the high level of consumer interaction and education required. According to our recent “Tobacco Talk” survey, over 70% of retailers carry or plan to carry VTMs soon. Further, nearly 70% of retailers either already see a negative traffic impact from vape shops or expect a negative impact soon.
- **Key Trends in E-Juice** – (1) It is increasingly apparent that there is a trend towards high quality e-juice made in the U.S. and some e-juice companies are choosing to manufacture their own flavors versus importing or using 3<sup>rd</sup> party flavor providers. We view this as positive especially given potential regulations that could require ingredient disclosure for pre-market approval and/or sale of the product (though it will likely be several years before regulations are finalized); (2) We have been hearing that consumers have very low loyalty to juice brands and, given the vast variety of flavors, they are always wanting to try what’s new and different; (3) Though juice margins are still thought to be well above 50%, given the potential commoditization of e-juice products, we believe there could be margin compression in the industry especially since there are currently somewhat low barriers to entry.
- **E-Vapor Category Growth is Accelerating – Driven by VTMs** – According to our recent “Tobacco Talk” survey of independent e-vapor manufacturers, VTMs are growing at 2x the rate of the \$2.2B e-vapor category in 2014 with attractive margins that rival combustible cigs. On one hand this should ease concerns around e-cig category growth deceleration, but on the other hand highlights the pressures blu e-cigs and the e-cig category are facing from VTMs.

Please see page 6 for rating definitions, important disclosures and required analyst certifications

All estimates/forecasts are as of 05/12/14 unless otherwise stated.

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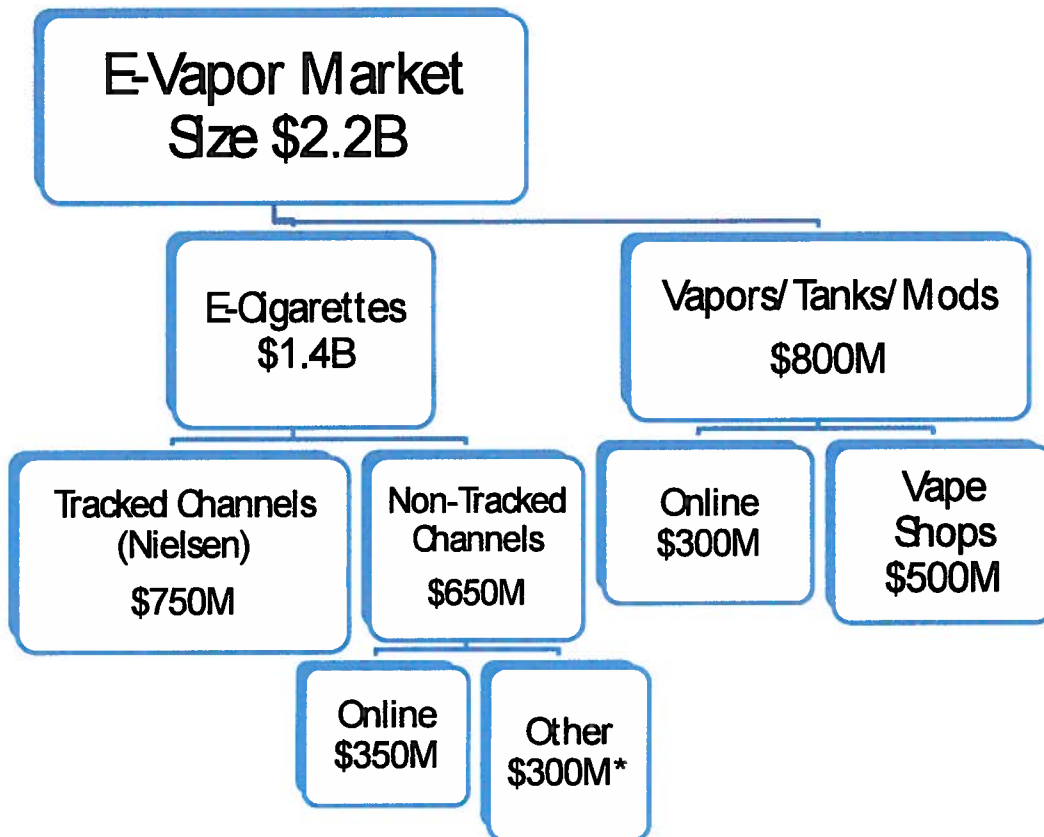


**Exhibit 1. Examples of eGo Tanks and Mods (VTMs)**



Source: Henleycigs.com

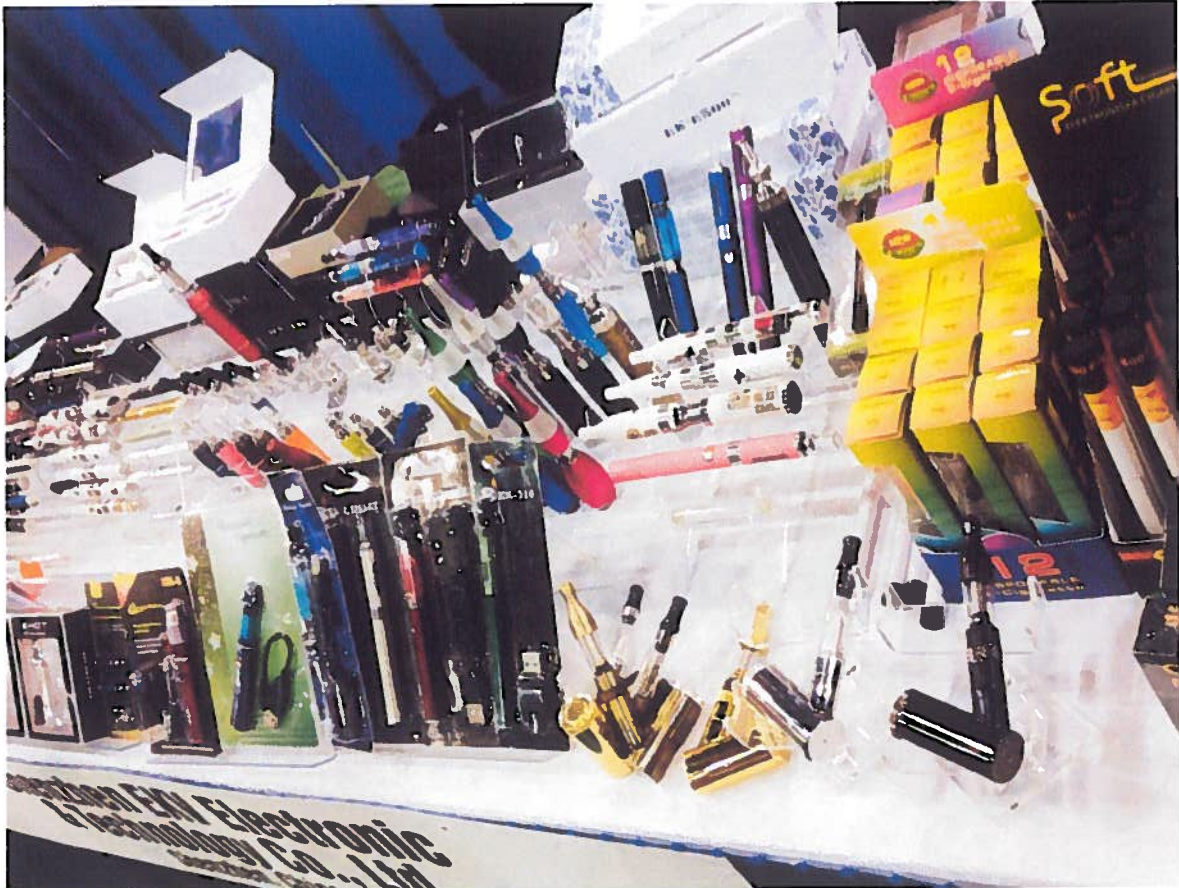
**Exhibit 2. Estimated Size of the E-Vapor Market**



Source: Nielsen C-Store Database, Wells Fargo Securities, LLC estimates  
\*Other Non-Tracked channels include tobacco-only outlets and other e-cig retail locations.

**Tobacco: Vapor World Expo - Key Takeaways**

**Exhibit 3. Photos from Vapor World Expo**



Source: Wells Fargo Securities, LLC

Tobacco



Source: Wells Fargo Securities, LLC

## Key Takeaways from “Tobacco Talk” Independent E-Vapor Manufacturer and Marketer Survey

In late March 2014, we reached out to several independent e-cig/e-vapor companies to gather and consolidate information on the e-vapor category, specifically the burgeoning vapor/tank sub-segment of the broader e-vapor category. We surveyed independent manufacturers and marketers of e-vapor products. The majority of the respondents have annual sales of \$30MM or less with operating margins of 20-30%. Nearly half of the companies that responded have less than 10 employees, 18% have 10-50 employees, 18% have 50-100 employees, and 18% have more than 100 employees. In terms of online sales, 29% of respondents have no online sales while 29% have more than 50% of their sales online. Nearly 80% of the companies that responded have less than 5 brands and less than 50 different flavors with the majority offering between 10-100 SKUs. Points of retail distribution were widely dispersed, as 30% of the companies that responded having greater than 1,000 points of distribution. Please see pages 14-15 for more detailed information on the companies that completed our survey. **Below are some of the key takeaways from this survey including direct quotes from a number of independent company owners, founders and senior executives.**

- **Retail Market for E-Vapor Products Likely Exceeds \$2B in the U.S. Today – Greater Than Our Original Estimates – “I believe scan data is way lower than actual sales.”**



Tobacco: Vapor World Expo - Key Takeaways

- **E-Vapor Retail Sales Mix Evolving - 65% Weighted Towards E-cigarettes versus 35% Vapors/Tanks**
- **Vape Shops Increasingly Popular Places to Buy E-Vapor Products – Slight Movement Away From C-Stores and Online**
- **Vapors/Tanks Sub-Segment Growth Expected to Continue to Accelerate in 2014–In Contrast to Broader E-Vapor Category Where Growth Remains Robust but Expected to Decelerate in 2014**
- **Average Vapor/Tank Consumer's Weekly Spend About 30% Less Than E-Cig Consumer's Weekly Spend – This is Likely Contributing to the Lower Revenue (Decelerating Growth) of the Overall E-Vapor Category**
- **Vapors/Tanks Overwhelmingly Taking E-Cig Share According to 90% of Respondents – Transition to Vapors Is the “Natural Progression” After E-Cigs – “The big boys who sell just e-cigs are already becoming dinosaurs.”**
- **Vapor/Tank Consumers 84% More Committed Than E-Cig Consumers to Their Vaping Lifestyle – Driven by Greater Affordability, Ability to Personalize, Better Nicotine Delivery and Product Performance – “Passionate vapers don't use cig-alikes, simple as that.”**
- **Greater Consumer Satisfaction, “Vaping Lifestyle” Factor and Better Affordability Key Drivers Behind Vapor/Tank Consumers Being Less Likely To Dual Use Vapors/Tanks versus E-Cig Consumers – We Believe These Factors Will Continue to Accelerate Growth of Vapors/Tanks - “Nicotine delivery is more efficient for vapors/tanks with more heat and more reliable products which have better battery life and more durability which makes people less likely to relapse to smoking.”**
- **Vapors/Tanks Resonating with Millennials – And Other Generations – Interestingly, we believe Millennials (essentially adult vapers under 30 – or “AVU” 30) have been early adopters of vapors/tanks due to: (1) ability to customize the vaping experience by virtue of creating your own flavor profiles; (2) Superior vaping experience that better mimics combustible cigs (greater vapor volume and better nicotine delivery to the bloodstream); (3) high comfort level with electronic devices/carrying chargers, and adapting to fast-changing technology; (4) high comfort level with online purchasing; (5) greater affordability relative to e-cigs or combustible cigs; (6) variable uses of vapor/tank devices; and (7) their view that smoking combustible cigs is “passé” and not wanting to be associated with cigarettes or be considered “smokers”.**
- **The Growth of Vapors/Tanks Will Likely Continue to Put Pressure on Both Combustible and E-Cig Manufacturers Such That They Will Need to Join – “The writing is on the wall for combustible cigarettes, if the FDA can act to support the positive potential that they bring.”**
- **FDA Regulation Will Likely Impose Age, Marketing Restrictions and Set E-Liquid Manufacturing Standards for Public Safety; Respondents Hopeful FDA Will View E-Vapor Market As Harm Reduction Opportunity – “I'm hopeful that the FDA will act responsibly, and I'm encouraged by the investment they have made into an ongoing e-cigarette research program, and the engagement with vapor product industry bodies.”**
- **New Innovation Ranges From Improved Vaping Experience, Bringing Automated, U.S.-Based Manufacturing to E-Vapor Product Production To Total Redesign of E-Cig Architecture As We Know It – “We are constantly evaluating new technology and evaluating every changing consumer wants and needs. Innovation will be a constant and continuous process within this industry.”**
- **General Industry and Consumer Trends**
  - **More and More E-Cig Consumers Switching To Vapors/Tanks From E-Cigs Due to Increased Satisfaction with Vapor/Tank Products**
  - **Technology Still Has Lots of Room for Improvement**
  - **Industry Will Likely Consolidate Over Time**
  - **Regulation is Needed but Will Hopefully Not Stifle Innovation**

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