KANSAS ASSOCIATION OF BEVERAGE RETAILERS

Testimony for the House Commerce and Labor Committee
March 11, 2016

The Kansas Association of Beverage Retailers represents the independent Kansas businesses licensed by the State of Kansas for the off-premise sale of strong beer, wine and spirits. Strong beer, wine and spirits are classified by Kansas statute as "alcoholic liquor". This year, there are 761 stores.

KABR opposes HB 2718.

Today, three KABR members will speak regarding our opposition to the Strong Beer Trigger Bill in HB 2718. Brian Davis is the new president of KABR. Stacey Harlow is our past president, and has travelled all the way from Hugoton. Aaron Rosenow is a member of our Board of Directors and owns a store in Topeka.

I can also stand for questions at the end of the testimony.

The Kansas system for selling alcoholic liquor at retail provides for efficient regulation as well as small business development with robust competition. Currently, every liquor store must compete within a system that allows any Kansan to open a new retail liquor store virtually anywhere they prefer, as long as it complies with local commercial zoning ordinances. This means that every liquor store owner must offer competitive service and pricing, while working within Kansas liquor laws – and at any time, another store may open across the street or down the road. Uniform statewide enforcement of the laws provides a level playing field for that competition, and discourages those who might try to circumvent the law to get ahead.

The current marketplace supports 761 liquor store licenses because it includes the sale of strong beer, wine and spirits. Strong beer sales make up the majority of most store sales (some even as high as 80%), provide customer traffic for sales of other products, and represent growing craft beer demand.

This is proven by the fact that the number of liquor stores in Kansas has remained very stable over the past decade.

HB 2718 allows strong beer to be sold by grocery and convenience stores with no limitations on the alcohol content of the product and no limits on the number of strong beer retail licenses. The alcohol content in craft products can be very high. While the big box stores like to talk about narrow differences in alcohol content between some light domestic beer products (3.2% alcohol by volume equals 4.0% alcohol by weight), currently popular strong beer products contain twice to three times the amount of alcohol. What is the argument to allow 18 years olds to sell strong beer with alcohol content higher than some wine or spirits products?

HB 2718 purports to identify an economic crisis, a situation in which cereal malt beverage is no longer an economically viable product for sale. We can debate whether or not this creates an actual crisis. The fact that strong beer sales have been making up for perceived decreases in cereal malt beverage sales for the past three years seems to indicate that there will be no revenue losses to the State of Kansas and no revenue losses to the beer wholesalers. That is an analysis based solely on gallonage tax receipts, but we do not have any other measures to review.

While the bill creates indicators which would require the State to declare that CMB is no longer available in sufficient quantities to make it a viable product to sell, the bill lists CMB as an allowed product to every retail license. So, they are creating more outlets for CMB at the same time that the Governor has declared that CMB is no longer viable. The 25% measure is insufficient to claim a product is not viable.

There are other areas which are confusing. If sales of CMB are decreasing, does section 10 make any sense? Is there a reason for the State of Kansas to create a local cereal malt beverage fund if the sales tax receipts to the counties and cities were decreasing anyway? The local cereal malt beverage fund was a concept created by Uncork Kansas, anticipating comprehensive strong beer replacement of cereal malt beverages.

In 2015, the Division of ABC estimates there are 1775 eligible businesses that might begin selling strong beer if the bill is passed. At this point, the Kansas customer base will no longer support the existence of 761 liquor stores. A significant number of stores will fail and their licenses return to the State – there will be no bidding war to inflate the value of surviving licenses.

KABR has consistently testified that the loss of locally owned businesses depends on the legislation, but every proposal results in a significant loss of independent businesses – not all. There are two economic studies – Colorado and DISCUS - indicating that strong beer sales alone (without the big box liquor sales) will result in closure of locally owned retail liquor stores.

Review the studies:

- Colorado LBA Summit Study 3.2 Beer Impact Update 2011 Replacing cereal malt beverage sales with strong beer sales expected to reduce the number of liquor stores by 40% within three years and 51% within five years. See attached.
- Colorado Economic Impact Study of Replacing 3.2 Beer Sales with Strong Beer Sales 2009 Same.
- DISCUS Analysis: Full Strength Beer Sales Impact on the Spirits Industry 2008 A minimum loss of 241 stores initially.

Of course, there is also the Dr. Art Hall study commissioned by the Big Box Stores that predicted around 50% of stores would close once beer, wine and spirits were sold by grocery and convenience stores.

Why does this matter? Kansas liquor store owners have made significant investments into their businesses based on the current Kansas laws. Anytime we change those laws, we need to consider the impact on those Kansans, those current taxpayers, who rely on this marketplace. It is not fair to dramatically alter that marketplace without a deep investigation into the reasons for the change and the impacts of that change.

The Kansas Association of Beverage Retailers has not been presented with any current crisis to be solved or reasonable motivation to make the changes prescribed within HB 2718.

I am happy to stand for questions at the appropriate time.

Thank you for your consideration,

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