

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE.

The meeting was called to order by Chairperson David Corbin at 11:10 a.m. on February 5, 2002, in Room 519-S of the Capitol.

All members were present except:

Committee staff present: Chris Courtwright, Legislative Research Department
April Holman, Legislative Research Department
Don Hayward, Revisor of Statutes Office
Shirley Higgins, Committee Secretary

Conferees appearing before the committee: Duane A. Goossen, Director, Division of Budget
Sally Finney, Kansas Health Care Access Coalition
Carter Headrick, Campaign for Tobacco Free Kids
Tom Bell, Kansas Hospital Association
Jerry Slaughter, Kansas Medical Society
Terri Roberts, Kansas State Nurses Association
Mark Tallman, Kansas Association of School Boards
Frances Kastner, Kansas food Dealers Association
Terry Presta, Petroleum Marketers and Convenience
Store Association
Karl Peterjohn, Kansas Taxpayers Network
Ron Hein, R.J. Reynolds Tobacco Company

Others attending: See attached list.

Senator Praeger moved to introduce a conceptual bill which would create a tax amnesty program similar to programs other states have enacted, seconded by Senator Jenkins. The motion carried.

Senator Lee moved to introduce a bill which would codify the interim tax committee's recommendation that the Property Valuation Division provide documentation or a narrative regarding statutory interpretation and implementation of all use valuation procedures by a date certain, seconded by Senator Jenkins. The motion carried.

Senator Jenkins moved to introduce a bill which would change the statutory definition of "fair market value" to include an exclusion for real estate commissions, seconded by Senator Haley. The motion carried.

SB 450—cigarette taxation; increasing the rate

SB 451—Sales and compensating use taxation; increasing the rate

Duane A. Goossen, Director of the Budget, testified in support of **SB 450** and **SB 451**, which are proposals included in the Governor's budget plan. He noted that **SB 450** would raise the cigarette tax 65 cents per pack and would increase revenue for the State General Fund by \$111 million in FY 2003 and that **SB 451** would raise the state sales tax by a quarter cent and would produce \$95 million for the State General Fund. He emphasized that the increases are necessary to maintain vital services in education and social services, and without new revenues, the state will be facing serious budget cuts. To illustrate the financial difficulties facing the state, he discussed the statistics regarding FY 2000 through 2003 shown on an outline of the State General Fund attached to his written testimony. He noted that the projected budget deficit for FY 2003 is \$426 million and that the gap does not take into account that revenue collections are currently almost \$200 million behind the FY 2002 revenue projections. He also discussed the Governor's restoration and enhancement package for the FY 2003 budget and the effect of several tax cuts enacted over the past seven years. (Attachment 1) In conclusion, he explained that the Governor has not proposed closing the whole gap

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with tax increases but has proposed \$206 million to begin addressing a \$426 million cut that would otherwise have to be made. He said the Governor's approach is an attempt to provide some hope that the most vital services can carry forward in this fiscal year and on into next year without significant cuts. He commented that legislators will still have to make several difficult decisions as the budget comes to the floor of the Senate.

Sally Finney, Executive Director of the Kansas Public Health Association, testified in support of **SB 450** on behalf of the Kansas Health Care Access Coalition which includes 34 organizations with a common bond regarding the benefits of reduced cigarette consumption. She contended that increasing the tax on cigarettes makes good health policy because fewer cigarettes would be smoked each year, many adult smokers will quit, and many children will not become smokers and thus will be saved from a smoking related death. In addition, she contended that increasing the tax on cigarettes makes good fiscal policy as taxpayers currently pay more than \$70 million annually to treat tobacco related diseases. (Attachment 2)

Carter Headrick, representing the Campaign for Tobacco Fee Kids in Washington, D.C., testified in support of **SB 450**. He commented that the public health community agrees with the tobacco industry that raising the cost of cigarettes will decrease consumption for both underage smokers and adults. In support, he quoted a statement published by the R.J. Reynolds Tobacco Company as follows: "If prices were 10 percent higher, the 12 to 17 incidence would be 11.9 percent lower. He also quoted the following statements published by the Philip Morris Company: (1) "It is clear that the price has a pronounced affect on the smoking prevalence of teenagers in that the goals of reducing teenage smoking and balancing the budget would both be served by increasing the federal excise tax on cigarettes." (2) "Jeffery Harris of MIT calculated that the 1982-1983 round of price increases caused two million adults to quit smoking and prevented 600,000 teenagers from starting to smoke." (3) "A high cigarette price more than any other cigarette attribute has the most dramatic impact on the share of the quitting population. Price, not tar level, is the main driving force for quitting." Mr. Headrick went on to say that numerous economic studies have documented that cigarette tax or price increases reduce both adult and underage smoking. The general consensus is that for every 10 percent increase in the price of cigarettes, the overall consumption of tobacco products will decrease by 4 percent in the general population and by 7 percent for kids who either do not start smoking or stop smoking. Furthermore, research studies have shown that, among all adults and youths, cigarette price increases were even more effective in reducing smoking for males, blacks, Hispanics, and lower income persons.

Mr. Headrick also discussed the issue of cross border sales of cigarettes and smuggling resulting from an increased tax on cigarettes. He contended that the argument that cross border sales will increase if taxes increase ignores the established fact that the lion's share of smoking reduction following a tax increase inevitably comes from the related reduction in the number of people who smoke and in the number of cigarettes the remaining smokers consume. For example, he noted that a survey in California found that soon after the state's 50 cent cigarette tax increase went into effect in 1999, no more than 5 percent of all continuing smokers were purchasing cigarettes in nearby states, from Indian reservations, military bases, or over the Internet. He commented that every state that has significantly increased its cigarette tax has significantly increased its revenues despite the lost sales caused by the related smoking decline and despite any associated increases in cigarette smuggling or other tax avoidance. He noted that every state bordering Kansas, with the exception of Colorado, is considering a tobacco tax increase. Nebraska is considering a 50 cent per pack increase, Missouri is considering a 41 cent tax increase, and Oklahoma is considering a \$1.00 tax increase. He further noted that, in the second year after New York increased its tax on cigarettes by 55 cents per pack in 1999, making the total tax \$1.11, state cigarette tax revenues increased by \$50 million as cigarette sales slightly increased. In his opinion, cigarette sales increased in the second year because smokers became tired of driving across the border to purchase cigarettes and returned to their normal pattern of purchasing them from convenience stores. He pointed out that 60 percent of all smokers buy their cigarettes by the pack and do not drive a great distance to get their next pack.

With regard to the argument that a cigarette tax is regressive and will punish lower income citizens, Mr. Headrick noted that, while new cigarette tax increases will raise cigarette prices, many smokers will avoid the higher prices by quitting, cutting back, or switching to cheaper cigarettes. Lower income smokers are much more likely than higher income smokers to quit or cut back in response to price increases. In fact, all smokers who quit and many who cut back because of a cigarette tax increase actually save money by spending less on

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cigarettes. For example, one study showed that lower income smokers actually reduced their overall expenditures on cigarettes in response to cigarette taxes. In addition, those who stop smoking in response to a cigarette tax increase would greatly improve their health, which would significantly reduce their health care costs. He pointed out that, because their higher rate of illness and disabilities, smokers have substantially higher annual and lifetime health care costs than nonsmokers or former smokers. Health care expenditures caused by smoking currently total more than \$89 billion per year nationally paid directly by smokers either through direct health care payments or through increased health insurance premiums. Smokers who quit end up with more money in their pockets not only due to no longer spending money on tobacco but also due to a reduction in their health insurance premiums and long-term medical costs. In conclusion, Mr. Headrick said, in poll after poll, low income Americans, along with all other Americans, strongly support higher cigarette taxes in order to prevent and reduce smoking. He noted that a significant number of smokers generally support a higher cigarette price increase because they want to quit, and the increase is one way to help them quit.*

Tom Bell, Kansas Hospital Association, testified in support of **SB 450**. He pointed out that the tax on cigarettes has not increased since 1985 and that other states have tapped this revenue resource to a much greater degree than Kansas. In his opinion, an increase in the cigarette tax will have a positive fiscal and health impact on the state. (Attachment 3)

Jerry Slaughter, Kansas Medical Society, testified in support of **SB 450**. He stated that increasing the tax on cigarettes would have a positive impact on youth because they will become not only healthier but also better students. In addition, the additional tax revenue will be a plus for the state at a time when the budget needs help. (Attachment 4)

Terri Roberts, Executive Director of the Kansas State Nurses Association, testified in support of **SB 450**. She informed the Committee that the average age a Kansas child has their first cigarette is 12. She believes that **SB 450** holds great promise for reducing youth consumption of tobacco because young persons are significantly more price sensitive than adults. She pointed out that 44 states have raised their cigarette excise tax since Kansas last raised its cigarette tax. In her opinion, a significant cigarette tax increase is the most effective way to reduce consumption and thus combat the negative consequences that accompany tobacco usage. (Attachment 5)

Mark Tallman, representing the Kansas Association of School Boards and the Kansas National Education Association, testified in support of **SB 450** and **SB 451**, although he does not support any particular revenue plan. He explained that schools continue to ask for more financial support because they are being asked to do more than ever, and meeting those expectations takes more money. For example, last month the President signed a bill which commits the nation to bringing every student to proficiency levels in basic skills and leaving no child behind. He noted that the overwhelming percentage of educational resources in pursuing the federal goals will continue to come from the states. He believes that Kansas is closer to the goals than most states because of state funding and the willingness of school boards to raise their local option budgets. He discussed the reasons he believes that the bills are the best of the three options presented to deal with the state budget problem, and he also outlined the consequences of not increasing state funding for public education. In conclusion, Mr. Tallman said that the bills will not meet all the needs of education; therefore, a broader tax package will ultimately be required. (Attachment 6)

Senator Corbin called attention to written testimony in support of **SB 450** submitted by the following (Attachment 7):

Kevin Walker, American Heart Association
Gary Brunk, Kansas Action for Children, Inc.
Bruce Beal, DCCA
Paul Klotz, Association of Community Mental Health Centers of Kansas, Inc.
Debra Zehr, Kansas Association of Homes and Services for the Aging
J. Edgar Rosales, M.D., FAAP, American Academy of Pediatrics
Robert P. Moser, Jr., M.D., Kansas Academy of Family Physicians

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Joyce Volmut, Kansas Association for the Medically Underserved
Margaret Hartman, Lansing Parents as Teachers
Mary L. Baskett, Kansas Head Start Association
Stephanie Sharp, American Cancer Society
Bob Harder, United Methodist Church
Ben Coates, Catholic Social Services
Jim Pelch, American Lung Association
Jane Adams, Keys for Networking, Inc.

Frances Kastner, Kansas Food Dealers Association, testified in opposition to **SB 450** and **SB 451**. Noting that grocery stores are a vital part of any community, she contended that, rather than targeting the sales of individual products, the economic woes the state is experiencing should be shouldered by all Kansas citizens. (Attachment 8)

Terry Presta, representing the Petroleum Marketers and Convenience Store Association (PMCA), testified in opposition to **SB 450**. He argued that current taxing rates are sufficient and should not be changed in the face of a short-term shortfall in state revenues. He believes that it is better for the long-term health of the state's economy to balance this year's revenue shortfall by the drawing down of the state ending balance. In his opinion, the state should immediately allow the lottery to expand as other states have done in order to increase state revenues. That revenue could be used to shore up the 2003 budget and rebuild the ending balance. He objects to an increase in the cigarette tax because the price increase will make convenience stores less competitive in the market place. (Attachment 9)

Tom Palace, Executive Director of PMCA, submitted written testimony in opposition to **SB 450**. His testimony outlines the reasons he believes the bill would be detrimental to the convenience store industry and to the state. (Attachment 10)

Karl Peterjohn, Kansas Taxpayers Network, testified in opposition to **SB 450** and **SB 451**. (Attachments 11 and 12). With regard to **SB 450**, Mr. Peterjohn commented that, if truth in advertising applied to the government, it could be called the western Missouri retail development act of 2002. He noted that Kansas taxes are already higher in a variety of categories that place retailers located near the Missouri border at a disadvantage. In addition, he argued that taxpayers need relief from the automatic tax hikes that exist in current law. He contended that an increase in the state's cigarette tax will promote tax evasion and smuggling. In his opinion, Kansas has simply raised taxes in recent decades instead of setting priorities and making tough decisions about the level of government services. He urged the Committee not to continue this trend.

With regard to **SB 451**, Mr. Peterjohn pointed out that Kansas' sales tax is already the highest in a five state region. He contended that an increase in the sales tax would send a clear signal to Kansans who live or work close to the state line to take their shopping out of state. He noted that he opposes the bill along with other tax hikes, fee expansions, and revenue enhancement bills being considered by the Kansas Legislature.

Ron Hein, representing R.J. Reynolds Tobacco Company, gave final testimony in opposition to **SB 450**. He discussed the reasons an increase in the cigarette tax would adversely effect both consumers and retailers. He emphasized that an increase in the cigarette tax would increase cross-border purchases and organized smuggling of cigarettes. He asked the Committee to consider a recent study which shows that cigarette taxes are regressive, extracting a far greater percentage of income from modest wage earners compared to those with high incomes. (Attachment 13)

There being no others wishing to testify, the hearings on **SB 450** and **SB 451** were closed.

The meeting was adjourned at 12:10 p.m.

The next meeting is scheduled for February 6, 2002.

*Mr. Headrick submitted written testimony on March 6, 2002. (Attachment 14)

SENATE ASSESSMENT AND TAXATION COMMITTEE GUEST LIST

DATE: February 5, 2002

NAME	REPRESENTING
Richard Crum	KDOR
Arin Dukes	DOB
Duane Goossen	DOB
Frances Kartner	Ks Food Dealers Assn
Amanda Hubbard	Intern for Sen. Allen
Karl Peterjohn	Ks Taxpayers Network
Terri Roberts	Ks. State Nurses Assn.
K Spielman	sen maj Lark office
Dave Halchans	K RHA
Wilbur Hayes	Federico Consulting
Ron Hein	RJ Reynolds Tobacco
TERRY Presta	PMCA/Presta Oil Inc
W. Ledica	Sawyers office
Andy Shaw	Kearney Law Office
LARRY R BARD	LKM
DENNY KOCH	UST PUBLIC AFFAIRS INC
Tom Brand	GBAA
Pete Bodily	KDOR/ABC
KEVIN M. WALKER	AMERICAN HEART ASSN.

SENATE ASSESSMENT AND TAXATION COMMITTEE
GUEST LIST

DATE: February 5, 2002

NAME	REPRESENTING
Theresa Johnston	Kansas Smokeless Kids
Mandy Broek	Kansas Smokeless Kids
M. J. Hollebust	Kansas Smokeless Kids Initiative
Tim Flegg	KS Citizen
Dr. David Ross	Kansas Medical Society
Jerry Slaughter	"
Chris Collins	"
Shawn Herossa	Greater KC Chamber
Tom Bell	Ks Hosp. Assn.
Tom Palace	PMCA OF KANSAS
DON L. McNEELY	KS AUTOMOBILE DEALERS ASSN.
Therese Barget	Archdiocese of KC
Jim O'Malley	Kansas Press Assn
Kathy Danner	Philip Morris
Deann Williams	KS MOTOR CARRIERS ASSOC.
Stuart Little	Danner & Assoc.
Rebecca Reed	Ks Dept of Agriculture
Marsha Strahm	Court of Ko.
Meaghan Zimny	Keys for Networking Inc.

SENATE ASSESSMENT AND TAXATION COMMITTEE
GUEST LIST

DATE: 2.5.02

NAME	REPRESENTING
<i>Susan Adams</i>	<i>Keys for Networking, Inc.</i>
<i>Amy Henry</i>	<i>Olathe School Dist</i>
<i>Mike Bush</i>	<i>Pat Hubble Assoc.</i>
Mike Hammond	Assoc. of CMHCs of KS
<i>Craig Arant</i>	<i>HNEA</i>
Mark Tallman	<i>KASB</i>
<i>Bill Brady</i>	<i>Ks GOVT Consulting</i>
<i>Jacelin Clark</i>	<i>Dallmark Card</i>
Erik Sartorius	City of Overland Park
Bob Corkins	<i>KLEAR, Inc.</i>
<i>Dodie Wellshead Johnson</i>	<i>Pat Hurley & Co.</i>
Wes Beal	<i>KS Smokeless Kids</i>
<i>Bob Totten</i>	<i>Ks Contractors Association</i>
<i>Patrick Newley</i>	<i>IST</i>
<i>Sally Linsky</i>	<i>Ks Health Care Access Coalition</i>
Garry Winget	<i>KANSAS for Addiction Prevention</i>



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Bill Graves
Governor

Duane A. Goossen
Director

MEMORANDUM

TO: Senate Committee on Assessment and Taxation
FROM: Duane A. Goossen, Director of the Budget
DATE: February 5, 2002
SUBJECT: SB 450 and SB 451

Mr. Chairman, Members of the Committee,

Thank you for the opportunity to testify in support of SB 450 and SB 451.

SB 450 raises the cigarette tax by 65 cents per pack and would increase revenue for the State General Fund by \$111 million in FY 2003. SB 451 raises the state sales tax by a quarter cent and would produce \$95 million for the State General Fund.

These increases are necessary to maintain vital services in public education, higher education, and social services. Without new revenue very serious budget cuts are required.

Attached is a one-page outline of the State General Fund that shows a budget deficit in FY 2003 of \$426 million. The budget gap grows to \$426 million even without considering, any increase for education, employee salary increases, or inflation. The gap also does not take into account that revenue collections are currently almost \$100 million behind the FY 2002 revenue projections.

Also attached is a summary of the Governor's proposal for use of the increased revenue. The Governor is not proposing anything lavish. Your Ways and Means Committee will find that most agency budgets still contain cuts and require many hard decisions. However, in the Governor's proposal, the most vital services are maintained now and in FY 2003.

Finally, for perspective, a one-page list of tax cuts enacted over the last 7 years is also provided.

*Senate Assessment & Taxation
2-5-02
Attachment 1*

State General Fund Outline

	<u>FY 2000</u>	<u>FY 2001</u>		<u>FY 2002</u>		<u>FY 2003</u>
Beginning Balance	540.7	378.0		365.7		156.7
Released Encumbrances	1.8	2.3				
Revenue	4,203.1	4,415.0		4,436.0		4,588.6
				LAVTR (54.7)	LAVTR	(54.7)
				CCRS (34.9)	CCRS	(34.9)
				SCCHF (10.4)	SCCHF	(10.4)
Total Available	<u>4,745.6</u>	<u>4,795.3</u>		<u>4,701.7</u>		<u>4,645.3</u>
			Approved Budget	4,508.9	FY 2002 Budget	4,545.0
			Shifted Expenditures	4.6	Adjust Out Shifts	(4.6)
			KDOT Veto Adjustment	(26.5)	Caseloads	50.7
			Caseloads	34.5	Title XIX Shortfall	12.0
			Local Option Budget Shortfall	22.0	KPERS Regular	8.2
			Dept. of Corrections	<u>1.5</u>	KPERS D&D	9.0
					Employee Health Care	12.4
					Pay Plan Annualization	9.0
					Local Option Budget Shortfall	8.0
					KDOT Demand Transfer	52.0
					Higher Education (SB 345)	45.0
					Cuts/Adjustments	<u>(426.0)</u>
Expenditures	4,367.6	4,429.6		4,545.0		4,320.7
Ending Balance	<u>378.0</u>	<u>365.7</u>		<u>156.7</u>		<u>324.6</u>
As % of Expenditures	8.7%	8.3%		3.4%		7.5%

local bid volume transferred funds

Governor Graves' Restoration and Enhancement Package for FY 2003 Budget
(Dollars in Millions)

Restore funding to current levels for programs that directly affect children, older Kansans, and the public's health and safety:

Aid to Local Schools	\$ 91.1
Universities, Comm. Coll., Voc-Tech Schools	27.1
SRS Grants and Services	7.0
<i>Mental Health Grants</i>	3.0
<i>Developmentally Disabled Grants</i>	1.5
<i>Family Preservation Services</i>	2.0
<i>Funeral Assistance</i>	0.5
Elderly In-Home Services	4.4
Keep Correctional Facilities Open	5.5
<i>Labette</i>	2.4
<i>Stockton</i>	1.3
<i>Osawatomie</i>	1.0
<i>Toronto</i>	0.8
Aid to Local Libraries	0.2
Teachers National Board Certification--ESU	0.1
Aid to Cities and Counties	3.6
Total Restorations	\$ 139.0

Fund targeted enhancements that make important investments in our state's services:

Increase Aid to Local Schools (\$20/student)	12.0
2% Salary Increase for State Employees	12.0
Increase Regents Operating Grants	7.0
Economic Stimulus Package	3.0
Student Financial Aid for Postsecondary Ed.	1.0
SRS Grants and Services	10.0
<i>Waiting Lists</i>	5.0
<i>Medicaid Rates</i>	5.0
Homeland Security	2.0
Tobacco Prevention	1.5
Keep Courts Open and Functioning	4.1
Total Enhancements	\$ 52.6
Total Additional Expenditures	\$ 191.6
Maintain Ending Balance at 7.5%	14.3
Total	\$ 205.9

To finance these important restorations and enhancements, two revenue increases are proposed.

Quarter Cent Sales Tax Increase	\$ 95.0
65 Cent Cigarette Tax Increase	111.0
Total Additional Revenues	\$ 206.0

To maintain the state's Comprehensive Transportation Plan increases to Highway Fund receipts are proposed.

1 cent Motor Fuels Tax	\$ 18.0
3% Registration Fee on All Vehicles	4.0
Total--Annually	\$ 22.0
Total--Over 7 Remaining Years of CTP	\$ 154.0

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Estimated Effect of the Tax Reductions Enacted during Graves' Administration

(Dollars in Millions)

	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	Est. FY 2002	Est. FY 2003
Property Taxes:									
Car Tax Reductions	--	26.7	68.9	95.5	96.6	104.9	106.5	108.1	109.6
General Property Tax Reduction	--	--	--	115.6	267.5	326.2	338.9	362.3	378.4
Property Tax Subtotal	\$ --	\$ 26.7	\$ 68.9	\$ 211.1	\$ 364.1	\$ 431.1	\$ 445.4	\$ 470.4	\$ 488.0
Income Taxes:									
Endangered Species Tax Credit	--	--	--	1.5	1.5	1.5	1.5	--	--
Tax Credit for Adoptions	--	--	--	1.3	1.3	1.3	1.3	0.2	0.2
Single Income Rate Reductions	--	--	--	16.3	39.3	49.3	51.5	53.8	56.2
Increase Standard Deduction	--	--	--	--	18.4	14.4	14.6	14.8	15.0
Increase Personal Exemption	--	--	--	--	36.3	28.8	29.7	30.6	31.6
Tax Credit for Business Machinery	--	--	--	--	16.0	25.8	28.4	13.0	14.0
Earned Income Tax Credit	--	--	--	--	22.6	23.4	24.0	21.3	21.8
Food Sales Tax Rebate	--	--	--	--	20.1	20.9	21.5	27.0	27.5
Oil Property Tax Credits	--	--	--	--	1.5	4.8	2.8	--	--
Alternative Fuel Credits	--	--	--	--	--	0.2	0.2	--	--
Education Savings Program	--	--	--	--	--	--	0.5	0.5	0.5
Agriculture Loan Privilege Tax Credit	--	--	--	--	--	--	0.8	0.8	0.8
Farm Loss Carrybacks	--	--	--	--	--	--	0.4	0.4	0.4
Income Tax Subtotal	\$ --	\$ --	\$ --	\$ 19.1	\$ 157.0	\$ 170.4	\$ 177.2	\$ 162.4	\$ 168.0
Replace Inheritance Tax with Estate Tax	--	--	--	--	30.5	63.3	66.4	69.7	73.2
Sales Tax Exemptions for:									
New Construction Services	2.1	17.7	18.5	19.4	20.3	21.2	22.1	22.6	23.2
Utilities Consumed during the									
Production Process	--	12.4	13.0	13.6	14.3	14.9	15.5	15.8	16.3
Residential Remodeling	--	--	--	--	14.7	16.6	17.3	17.7	18.2
Major Component Parts Exemption	--	--	--	--	1.4	1.6	1.7	1.7	1.8
Grain Storage and Transportation	--	--	--	--	--	1.1	0.8	--	--
Property Consumed in One Year	--	--	--	--	--	0.5	0.5	0.5	0.5
Health Clinic Exemptions	--	--	--	--	--	0.2	0.2	0.2	0.2
Integrated Plant Exemptions	--	--	--	--	--	--	3.9	4.0	4.1
Various Other Exemptions	--	1.8	1.9	2.0	9.7	10.7	11.0	11.2	11.6
Sales Tax Subtotal	\$ 2.1	\$ 31.9	\$ 33.4	\$ 35.0	\$ 60.4	\$ 66.8	\$ 73.0	\$ 73.8	\$ 75.8
Severance Taxes:									
Production Exemptions	--	--	--	--	2.7	4.6	4.6	4.6	4.6
Insurance Premiums Taxes	--	--	--	1.5	21.6	26.6	28.6	24.1	19.6
Reductions in Employers'									
Unemployment Contributions	97.4	103.8	110.7	119.8	124.2	--	--	--	--
Total Tax Reductions	\$ 99.5	\$ 162.4	\$ 213.0	\$ 386.5	\$ 760.5	\$ 762.8	\$ 795.2	\$ 805.0	\$ 829.2
Cumulative Reductions	\$ 99.5	\$ 261.9	\$ 474.9	\$ 861.4	\$ 1,621.9	\$ 2,384.7	\$ 3,179.8	\$ 3,984.8	\$ 4,814.1

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KANSAS HEALTH CARE ACCESS COALITION

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KANSAS MEDICAL SOCIETY
KANSAS HOSPITAL ASSOCIATION
KANSAS PUBLIC HEALTH ASSOCIATION
AMERICAN HEART ASSOCIATION
AMERICAN CANCER SOCIETY
TOBACCO FREE KANSAS COALITION
AMERICAN LUNG ASSOCIATION
KANSAS STATE NURSES' ASSOCIATION
AMERICAN ACADEMY OF PEDIATRICIANS
KANSAS ACTION FOR CHILDREN
ASSOCIATION OF COMMUNITY MENTAL HEALTH CENTERS OF KANSAS
KANSAS FOR ADDICTION PREVENTION
DCCCA
CATHOLIC COMMUNITY SERVICES
KANSAS ACADEMY OF FAMILY PHYSICIANS
KANSAS ASSOCIATION OF LOCAL HEALTH DEPARTMENTS
KANSAS ASSOCIATION FOR THE MEDICALLY UNDERSERVED
KANSAS CHAPTER OF NATIONAL ASSOCIATION OF SOCIAL WORKERS
KANSAS PHARMACISTS ASSOCIATION
CHRIST THE KING CATHOLIC CHURCH
KANSAS ECUMENICAL MINISTRIES
KANSAS SMOKELESS KIDS INITIATIVE
PUBLIC ASSISTANCE COALITION OF KANSAS
UNITED METHODIST CHURCH OF KANSAS
KANSAS DENTAL ASSOCIATION
TOPEKA CENTER FOR PEACE AND JUSTICE

To: Members of the Senate Committee on Assessment and Taxation
From: Sally Finney
Re: SB 450
Date: February 5, 2002

Senator Corbin and members of the committee, I am Sally Finney, Executive Director of the Kansas Public Health Association. I appear before you today as spokesperson for the Kansas Health Care Access Coalition to ask you to support SB 450, Governor Graves' proposal increasing the excise tax on cigarettes by \$0.65 per pack.

The Kansas Health Care Access Coalition is comprised of 34 organizations that deal with health care and concerns related to the well-being of Kansans. A list of coalition members is attached.

While we are a diverse group, we have a common bond when it comes to the benefits of reducing cigarette consumption in Kansas. Both overwhelming statistical evidence, and common sense, tell us all that ours will be a safer, cleaner, healthier state if cigarette consumption is decreased.

Cigarettes cost Kansas, both in human terms and in financial ones. The Kansas Health Care Access Coalition believes this is a problem we can no longer afford to ignore.

Increasing the tax on cigarettes makes good health policy. Some of the projected health benefits from increasing the state cigarette tax by \$0.65 include:

- Fewer packs of cigarettes smoked each year: 16.9 million.
- Number of current adult smokers in Kansas who will quit: 16,300.
- Number of kids alive today who would not become smokers: 19,000.
- Number of kids alive today saved from smoking-cause death: 6,000.

Increasing the tax on cigarettes makes good fiscal policy. Each year, Kansas taxpayers spend more than \$70 million just to treat tobacco-related disease. This excludes the lost revenue from sick smokers who are unable to work and related costs to employers for such expenses as decreased productivity from absenteeism due to illness and increased health insurance for workers.

*Senate Assessment + Taxation
2-5-02
Attachment 2*

The projected \$111 million in new revenue that will result from passage of SB 450 will give you and the Governor options as you struggle to deal with decisions about state spending, decisions that will directly affect the ability of the state to serve its citizens. In addition to helping you deal with our state's current fiscal concerns, increasing the cigarette tax would mean

- 5-year healthcare savings from fewer smoking-affected pregnancies and births: \$4.1 million.
- 5-year healthcare savings from fewer smoking-caused heart attacks and strokes: \$5.5 million.
- Long-term healthcare savings in Kansas from declines in youth and adult smokers: \$362.5 million.

Cigarettes, when used as directed, kill. They cost the Kansas economy, and each year they cost nearly 5,000 Kansans their lives. Raising the tax on cigarettes does make sense. The Kansas Health Care Access Coalition asks you to support SB 450.

Kansas Health Care Access Coalition Member Organizations

American Cancer Society
American Heart Association
American Lung Association of Kansas
Association of Community Mental Health Centers of Kansas
Catholic Community Services
Christ the King Catholic Church
DCCCA
Kansans for Addiction Prevention
Kansas Academy of Family Physicians
Kansas Action for Children
Kansas Association for the Medically Underserved
Kansas Association of Community Action Programs
Kansas Association of Counties
Kansas Association of Local Health Departments
Kansas Asthma Coalition
Kansas Chapter, Academy of Pediatrics
Kansas Dental Association
Kansas Ecumenical Ministries
Kansas Head Start Association
Kansas Homes and Services for Aging (KAHSA)
Kansas Hospital Association
Kansas Medical Society
Kansas Parents as Teachers Association
Kansas Pharmacists Association
Kansas Public Health Association
Kansas SmokeLess Kids Initiative
Kansas State Nurses' Association
Keys for Networking
KS Chapter, National Association of Social Workers
NAMI (National Alliance for the Mentally Ill of Kansas)
Public Assistance Coalition of Kansas
Tobacco Free Kansas Coalition
Topeka Center for Peace and Justice
United Methodist Church of Kansas

Memorandum



Donald A. Wilson
President

To: Senate Assessment and Taxation Committee
From: Thomas L. Bell
Senior Vice President/Legal Counsel
Re: SB 450—Increase in Cigarette Tax
Date: February 5, 2002

The Kansas Hospital Association appreciates the opportunity to comment regarding the provisions of SB 450, which would enact a \$.65 per pack increase in the cigarette tax. KHA supports this legislation.

Earlier this year, the KHA board discussed this issue and voted unanimously to support the efforts to increase the cigarette tax. This action was taken for several reasons. First, the tax on cigarettes has not increased since 1985. Other states have tapped this revenue resource to a much greater degree than Kansas and, even with the Governor's proposed increase, it is likely that many states will still be more reliant on the tax after the 2002 sessions are over.

Second, the increase in the cigarette tax makes for good fiscal policy, especially this year, when state finances are particularly strapped. Each year, Kansas spends more than \$70 million just to treat tobacco-related disease. This does not include the lost revenue from sick smokers who are unable to work, nor does it include related costs to employers for such expenses as decreased productivity from absenteeism due to illness and increased health insurance for workers. The state's budget office estimates that raising the cigarette tax by \$0.65 will generate \$111 million in new state revenue each year, thereby allowing the state to support a variety of programs related to the well being of Kansas.

Finally, but perhaps most importantly, the tax increase is good health policy. The costs to Kansas of cigarettes are very real, in human as well as financial terms. Some of the projected health benefits from increasing the state cigarette tax by \$0.65 include:

- Fewer packs of cigarettes smoked each year: 16.9 million.
- Number of current adult smokers in Kansas who will quit: 16,300.
- Number of kids alive today who would not become smokers: 19,000.

The correlation between reduced smoking and better health is clear.

The Kansas Hospital Association urges your support for SB 450. Thank you for your consideration of our comments.

Senate Assessment & Taxation

Kansas Hospital Association

215 SE 8th Ave. • P.O. Box 2308 • Topeka, KS • 66601 • 785/233-7436 • Fax: 785/233-6955 • www.kha-net.org


2-5-02

Attachment 3



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Topeka KS 66612-1627
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800.332.0156
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kmsonline.org

To: Senate Assessment and Taxation Committee

From: Jerry Slaughter
Executive Director 

Date: February 5, 2002

Subject: SB 450; relating to cigarette taxation

The Kansas Medical Society appreciates the opportunity to appear in support of SB 450, which would increase the excise tax on cigarettes by \$.65 per pack.

The 4,500 physician members of KMS support this measure because it helps our state in two significant ways. First, research shows that increasing the cost of cigarettes will *reduce* smoking rates, particularly among children. Quite simply, anything that prevents children from starting to smoke, or results in them smoking fewer cigarettes (or stopping completely), is good public policy. The disastrous health effects of smoking are indisputable. If this measure results in fewer children and adults smoking, it will yield tremendous gains in health status, as well as lower health care costs, for our citizens.

Second, this bill does produce added revenue to our state at a time when we need it to fund essential services. It is estimated that this increase will produce \$111 million of new revenue. We currently rank in the bottom tier of states in terms of our cigarette tax, which effectively positions Kansas as a tobacco-friendly state. We do not believe that is the message we want to send to our young people. We urge your favorable consideration of the \$.65 per pack increase contained in SB 450. Thank you.

Senate Assessment & Taxation
2-5-02
Attachment 4



1208 SW Tyler
Topeka, Kansas 666012-1735
785.233.8638 * Fax 785.233.5222
www.nursingworld.org/snas/ks
the Voice of Nursing in Kansas

Terri Johnson, M.S.N., N.P.
President

Terri Roberts, J.D., R.N.
Executive Director

For More Information Contact
Terri Roberts J.D., R.N.
Executive Director
troberts@sound.net

February 5, 2002

S.B. 450 \$.65 Cigarette Excise Tax Increase

Senator Corbin, and members of the Senate Assessment and Taxation Committee, my name is Terri Roberts and I am the Executive Director of the KANSAS STATE NURSES ASSOCIATION. We support the Governor's proposal to increase the cigarette excise tax from the current rate of \$.24 to \$.89 effective July 1, 2002.

The leading cause of preventable deaths, tobacco usage, is an appropriate target for public policy changes that reduce consumption. The average age that a Kansas child has their first cigarette is 12 years old. S.B. 450 holds great promise for reducing youth and adult consumption of tobacco, because youth are significantly more price sensitive than adults. The number of adult smokers in the state that would quit is 16,300 and the number of children alive today that *will not* become smokers if this increase is enacted is 19,000. Raising the price of tobacco, through a significant excise tax increase is the single "most effective" policy for reducing consumption. This proposed excise tax increase is sound fiscal policy and good public health policy.

Since 1985, when Kansas last raised the cigarette excise tax, 44 states have raised their cigarette excise tax, and in 2001 6 states raised it. It is long overdue to raise the cigarette excise tax in our state.

Registered nurses in Kansas, numbering over 27,000, provide care, comfort and education to those suffering the ill health effects of nicotine addiction and years of cigarette smoking. As a profession we are committed to a campaign to eliminate smoking by children and combat the negative consequences that accompany tobacco usage.

We are hopeful that this legislation passes out of this committee favorably, and through the Senate.

The mission of the Kansas State Nurses Association is to promote professional nursing, to provide a unified voice for nursing in Kansas and to advocate for the health and well-being of all people.

Constituent of The American Nurses Association

*Senate Assessment + Taxation
2-5-02 Attachment 5*

KANSAS
ASSOCIATION



OF
SCHOOL
BOARDS



1420 SW Arrowhead Road • Topeka, Kansas 66604-4024
785-273-3600

Testimony on
SB 450 – Cigarette Taxation, Increasing the Rate
SB 451- State Sales and Compensation Use Tax
Before the
Senate Committee on Assessment and Taxation

By
Mark Tallman, Assistant Executive Director/Advocacy
Kansas Association of School Boards

February 5, 2002

Mr. Chairman, Members of the Committee:

Thank you for the opportunity to testify today on behalf of the Kansas Association of School Boards. I am also representing the Kansas National Education Association. I have asked to be listed as a proponent of both bills in the Governor's revenue enhancement package, but I want to state that KASB has not endorsed any particular revenue plan. However, it is clear to us that we cannot meet the funding needs of Kansas schools and the students they serve without additional revenue. Our Association has joined the other members of the School Finance Coalition, which includes not only KASB but the United School Administrators, Kansas National Educational Association, Schools for Quality Education, the Kansas Education Coalition, Kansans for Local Control and the six largest school districts in the state: Wichita, Shawnee Mission, Kansas City, Olathe, Blue Valley and Topeka in supporting the school funding and improvement goals proposed by the Kansas State Board of Education. Delegates to the KASB annual convention in December voted overwhelmingly to support that plan, fully recognizing that it will take tax increases at the state level to begin to implement that plan.

My colleagues and I have been asked the following question many times in the past few weeks: in light of the weak economy and wartime challenges confronting our state and nation, how can the education community continue to seek funding increases when the state simply does not have the revenue? My answer is the same I gave the Senate Ways and Means Committee two weeks ago: our state and national future requires it. Our schools are being asked to do more than ever, and meeting those expectations will take more money, not less.

Last month, our conservative, Republican, wartime President, with unprecedented public approval ratings, in a time of war and recession, signed a bill reflecting his highest domestic priority: education. Passed by an overwhelming, bi-partisan majority in Congress, the bill commits this nation to accomplishing unprecedented goals: bringing every American student to proficiency levels in basic skills; closing the "achievement gap" for poor and minority students; leaving no child behind. President Bush has stated clearly that accomplishing these goals will take more resources, and despite this bill, the overwhelming percentage of educational resources will continue to come from the states.

Kansas is closer to these goals than most states: we outrank most states and exceed the national average on most educational measures, and since the mid-1990's, we have seen modest but steady improvement on our state accountability measures.

These improvements have occurred because school districts have worked with the State Board, the Governor and the Legislature to increase and target resources that make a difference in student achievement: early childhood and all-day kindergarten, expanded at-risk and alternative programs, increased technology and improved professional development.

Some of these improvements have been funded by the state, but many have been made possible because school boards and patrons have been willing to make a difficult choice and do what we ask this Legislature to do: raise taxes to support education. School boards have raised their local option budgets by \$350 million since the current school finance law began in 1993; voters have authorized hundreds of millions for school construction, renovation and equipment. Let me stress: this investment has paid off. By almost every measure, Kansas public schools are better than they were ten years ago, and serve more children better than they have before.

This Legislature has so far been given three options. First, the Governor's statutorily required budget that does not raise taxes and preserves a 7.5 percent ending balance. Under that plan, the base budget per pupil would be cut \$158 next year, effectively wiping out the past three years worth of base increases.

Second, the "Kerr/Morris" approach would cut budgets in the current year and lower, then rebuild, the ending balances of the state. We believe that while this plan would cut school budgets less deeply, it would make meaningful increases in state support for public education almost impossible for the next several years, barring an unprecedented economic recovery.

Third, the Governor's enhanced budget, funded by the revenue package before you today, would avoid cuts in base support for schools, fund the major school aid programs at statutory levels, and provide a very modest \$20 increase for next year. Quite frankly, we agree with the Governor's characterization of the \$20 increase as "woefully inadequate." But it is certainly the best of the three options to date.

During hearings on tax reduction bills in the mid-1990's, proponents frequently stated that they did not want to cut taxes to the point where education is not adequately funded. We would respectfully suggest that we have reached that point. Since 1992, the base budget has never been increased at even the rate of inflation. Average teacher salary increases in Kansas have been lower than average private sector salary increases every year since 1995. Kansas ranks 41st in the nation in teachers' salaries and has fallen from 13.9 percent below the national average in 1995 to 16.5 percent below in 2001. The predictable result is a growing teacher shortage. Although the percentage of Kansas children scoring "unsatisfactory" on state reading and math tests has decreased in recent years, poor children are about three times more likely to perform at low levels than middle- and upper-income children.

These circumstances have occurred when the base has increased \$50 a year for four years. Clearly, even the Governor's enhancement budget proposal for a \$20 base increase will do little to address these needs.

There will be those who say that looking at the base budget alone does not tell the full story. They point out that total school funding has actually risen much more than the base alone. That is true, but there are several important points for the committee to keep in mind.

First, a significant amount of the increase in educational funding has occurred because the legislature has approved changes in weightings and created new programs that also result in additional costs, such as raising the at-risk weighting or funding at-risk preschool programs. These actions give school districts more money, but also new responsibilities for that money.

Second, much of the increase in operating budget has come from higher local option budgets, which increase school district property taxes. Third, voters have approved significantly more capital improvement projects. These funds are not available for operating expenses such as salaries. Fourth, federal aid to education has increased, but again, these funds are limited to specific programs such as special education or food service.

We realize that this committee will be reluctant to vote for higher taxes. However, the Committee, the Legislature and the public need to be fully informed about the consequences if state funding for public education is not increased. These consequences have tax policy implications as well as educational implications.

First, those districts that are capped at the 25 percent LOB maximum will be forced to make internal budget cuts because you simply cannot sustain programs when salaries are rising at four percent or more a year and base state aid is being cut, frozen or raised by token amounts. I suspect, however, that sooner or later the political pressure to raise the LOB cap will prevail, which will help some districts financially but make the whole system less equitable for all children.

That leads to the second consequence: taxes will continue to be increased through the local option budget by local school boards in order to meet rising costs. These costs include salaries, insurance, utilities, technology, special education and the new requirements of state and federal laws. Raising the LOB will, in turn, increase demands for LOB state aid, which will limit funding available for the base, which will lead to greater pressure on the LOB.

The third consequence will fall most heavily on small, rural districts. Many of these districts are losing enrollment because they are losing population and the economic base in their communities. They have increasing difficulty offering health insurance. Therefore, they are at a greater disadvantage when recruiting new teachers and administrators, which means the quality of instruction and the number of programs they provide will erode, resulting in a further loss of students. The only option will be closing schools, increasing the downward spiral of many communities. Closing schools means losing school employees and families, which means a loss of economic activity in the community, which reduces the tax base to the detriment of those who remain in the community.

The fourth consequence will fall on poor districts and disadvantaged students. Poor districts will have a harder time using the LOB because of the greater tax burden it places on lower tax bases. Poor children often start school far behind their more advantaged peers and need additional resources to catch up. But it is support for these students – smaller class sizes, early childhood, at-risk and alternative programs, summer and after school learning time, truancy prevention – that will be the first to go under budget cuts and be more difficult to add without additional resources for the simple reason that these programs are not required.

The final consequence will be the loss of the traditional high quality of Kansas public schools. Good schools are not an accident and they are not cheap. Every time I see a bumper sticker proclaiming Kansas the “high tax point on the prairie,” I remember that Kansas is the education high point on the prairie. If salaries and benefits for educators continue to fall compared to competing employment; if courses, programs, schools and districts are eliminated; if the achievement gap widens, then as a state we are poorer, regardless of our tax statements.

We believe the bills before you today will not meet all the needs of education. We suspect that a broader tax package will ultimately be required. But we strongly believe that the Legislature should do no less. We urge the committee to develop a revenue plan that allows the state to respond to the educational needs outlined in my presentation today.

Thank you for your consideration.

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**Testimony In Support of SB 450
5 February 2002
Senate Assessment and Taxation Committee**

Mr. Chairman and members of the Committee my name is Kevin Walker and I am the Senior Director of Advocacy for the American Heart Association. On behalf of the more than 200,000 Kansans who give their time, talents and financial gifts to the American Heart Association I am appearing before you today in full support of Senate Bill 450.

By enacting the \$.65 per pack increase proposed by Governor Graves the state will see significant reductions in smoking rates – particularly among Kansas youth. Smoking is the most preventable cause of premature death in the United States and is a major contributing factor to heart disease and stroke – the first and third leading causes of death among Kansans.

By quitting smoking you are reducing your risk of heart disease and stroke. In just three years after quitting your risk of heart disease returns to almost the same level as someone who never smoked.

Because of the impact of smoking on heart disease and stroke and the reductions in smoking that this excise tax increase will generate, the American Heart Association and its volunteers have identified this issue as one of our top legislative priorities for this year.

You undoubtedly will be hearing from constituents of yours who support the American Heart Association so I hope when they call you can tell them you also support this bill.

I appreciate the time to appear before you and will be happy to respond to any questions you might have.

*Senate Assessment + Taxation
2-5-02
Attachment 7*



3360 SW Harrison St.
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Gary L. Brunk
Executive Director

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Kansas Action for Children Testimony in Support of Senate Bill 450

Senate Committee on Taxation and Assessment
February 5, 2002

Submitted by Gary Brunk, Executive Director

Kansas Action for Children believes we need to protect the important investments in our children our state has made in the past few years. Promoting healthy children and families is the right thing to do and it is also a smart investment in our future.

Given the current fiscal crisis, in order to protect those investments Kansas needs to find sources of additional revenues. The KAC Board of Directors has voted to support an increase in the cigarette excise tax. Specifically, KAC supports the excise tax increase as proposed by Governor Graves in Senate Bill 450. We will continue to be in contact with our network of supporters across the state, letting them know about the status of this issue.

We urge your support for Senate Bill 450.



A MEMBER OF THE NATIONAL ASSOCIATION OF CHILD ADVOCATES



Testimony
Senate Committee on Assessment and Taxation
February 5, 2002

DCCCA, Inc. strongly supports the initiative by Governor Graves in SB450 to raise the excise tax on cigarettes. We actively support this effort because we believe it will have a significant positive impact on the health of Kansans now and in the future. An increase in excise taxes will not only raise needed revenues for the State but also will demonstrate that Kansans are serious about improving the health of our citizens.

DCCCA is a 501(c)(3) headquartered in Lawrence with 29 locations in Kansas providing behavioral programs and services in family preservation, sex offender treatment, residential and outpatient substance abuse treatment, drug and alcohol prevention, juvenile offender services and traffic safety. The agency employs more than 450 staff and operates with a \$20 million annual budget.

A handwritten signature in cursive script, appearing to read "Bruce Beale", is written over a horizontal line.

Bruce Beale, Executive Director



Association of Community Mental Health Centers of Kansas, Inc
720 SW Jackson, Suite 203, Topeka, Kansas 66603
Telephone: 785-234-4773 / Fax: 785-234-3189
Web Site: www.acmhck.org

February 5, 2002

Testimony to the Senate Assessment and Taxation Committee
on Senate Bill 450

Mr. Chairman and members of the Committee, I am Paul Klotz, Executive Director of the Association of Community Mental Health Centers of Kansas, Inc. I represent the 29 licensed Community Mental Health Centers (CMHCs) in Kansas who provide community-based mental health services in all 105 counties in Kansas, 24-hours a day, seven days a week.

The Association supports the excise tax increase on cigarettes as proposed by Governor Graves in SB 450 because it will have a positive impact not only on the physical health, but also on the mental health of all Kansans. We know that physical health and mental health go hand-in-hand. We know the consumption of tobacco products has a negative impact over time on a person's physical health. We also know that increased costs of tobacco products does lead to reduced consumption by minors and others.

During this critical time of serious budget reductions, we believe this is a sound proposal to generate needed revenue to restore cuts to vital health services that will preserve individuals recovering from mental illness and other services that preserve the most vulnerable families in Kansas.

Please know that not just our staff but our entire membership and their communities will be actively supporting this effort as it is a top priority.

Thank you.

KAHSA

KANSAS ASSOCIATION OF
HOMES AND SERVICES FOR THE AGING

**To: Senator David Corbin, Chair, and Members,
Senate Committee on Assessment and Taxation**
From: Debra Zehr, Vice President
Date: February 4, 2002

Please Support 65-Cent Cigarette Excise Tax Increase

Thank you, Mr. Chairman, and Members of the Committee, for this opportunity to provide written comments on the Governor's recommendation for increasing state revenues through a 65-cent per pack increase in the cigarette excise tax.

The Kansas Association of Homes and Services for the Aging represents over 150 religious, government, fraternal, and other not-for-profit-sponsored long term care provider organizations. They serve over 15,000 Kansas seniors in retirement communities, nursing homes, assisted living facilities, senior apartments and community-based services throughout the state.

We appreciate the difficulty in which you and your fellow lawmakers find yourselves in this time of projected major budget shortfalls. On behalf of our many members, and as an association dedicated to the health and welfare of senior Kansans, we wish to express support for the excise tax increase on cigarettes as proposed by Governor Graves in Senate Bill 450. This increase in revenue will help allay cuts in essential services for our frail elderly and other vulnerable Kansans, and at the same time, have a positive impact on the health of other Kansans.

Thank you for your support of the Governor's cigarette excise tax increase. Please feel free to contact me with questions or concerns.

American Academy of Pediatrics

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Kansas Chapter

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February 4, 2002

To Kansas Senate Committee on Assessment and Taxation

The Kansas Chapter of the American Academy of Pediatrics strongly supports the Governor's proposed tax increase on cigarettes in SB 450. There is ample evidence that increasing the price for tobacco products will lower the usage of tobacco in underage individuals. The positive impact on the health of the children in the state of Kansas with the enactment of this bill is undeniable. The fiscal impact from decrease tobacco usage to the future cost of health care is also undeniable. The Kansas Chapter represents the majority of pediatricians in the state and I can assure you we will be very active in support of this bill.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Edgar Rosales".

J. Edgar Rosales, MD, FAAP
Kansas Chapter President

Kansas Academy of Family Physicians

7570 W. 21st St. N. Bldg. 1046, Suite C • Wichita, KS 67205 • 316-721-9005
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Feb. 4, 2002

To: Senate Committee on Taxation and Assessment
 From: Robert P. Moser, Jr., MD, President
 RE: Cigarette excise tax increase

The Kansas Academy of Family Physicians supports the excise tax increase on cigarettes as proposed by Governor Graves in SB 450 because it will have a positive impact on the health of Kansans. Our membership supports this effort – indeed, it is our top legislative priority this year. We support it because it just makes sense. It's the right thing to do for health reasons, and for fiscal reasons. You've heard the arguments. I won't belabor them. Now it's your turn. We urge you to support SB 450. Thank you for the opportunity to provide testimony.

Sincerely,

Robert P. Moser, Jr., MD
 President



Kansas Association
for the
Medically Underserved
The State Primary Care Association

112 SW 6th Ave., Suite 201 Topeka, KS 66603 785-233-8483 Fax 785-233-8403 www.ink.org/public/kamu

February 4, 2002

My name is Joyce Volmut, I am the Executive director of the Kansas Association for the Medically Underserved, an Association of clinics who provide comprehensive primary care services for the medically and dentally underserved people in Kansas.

As an Association who represents the most vulnerable of Kansas citizens where access to health care is concerned and also the most vulnerable of the safety net providers, our association supports the excise tax increase on cigarettes as proposed by Governor Graves in SB 450 because it will have a positive impact on the health of Kansans. Our staff and membership will actively work in support of the effort.

KAMU member clinics see first hand the effects of cigarette smoking everyday and believe that cigarette tax increases both reduce smoking levels and increase state revenues because the increased tax per pack brings in more new revenue than is lost from the decrease in the number of packs sold.

Last year Kamu member clinics provided over 270,000 patient visits. This included care for approximately 101,000 individuals. This represents an increase of 24% from the previous year. 60% of the clients served are uninsured. Approximately 20% are Medicaid. In actuality these clinics need an increase in funding of at least 20% in order to have sufficient staff to meet the demand.

Overall KAMU member clinics represents one of our state's most economical investments. Last year client visits cost approximately \$79.00 per visit – State dollars represented only 1/3 of that cost or \$27.00 per visit. These clinics live up to their original intention - *that was to serve as a medical home*. Our data finds this to be truly the case with the same clients who have been enrolled in the clinics receiving services for over the past 10 years. Primary Care Clinics fully understand the need for a balanced budget. However the state legislature and the federal government are their only resource for continuous primary care dollars. We ask that you please consider this as you move ahead over the next few months.

Kansas Health Centers - A Good Investment



Lansing Parents as Teachers

210 E. Mary, Lansing, KS 66043

(913) 727-2700

February 4, 2002

To whom it may concern:

The Lansing Parents as Teachers staff strongly supports Governor Graves' proposal in SB450 because of the potentially positive impact it will have on the health of Kansans. A survey of our more than 75 families shows that they are also in support of this proposal.

Sincerely,

Margaret Hartman

Margaret Hartman, Coordinator
Lansing Parents as Teachers



February 4, 2002

Kansas Senate Committee on Assessment and Taxation
Topeka, KS

Dear Senators:

The Kansas Head Start Association supports the excise tax increase on cigarettes as proposed by Governor Graves in SB 450 because it will have a positive impact on the health of Kansas children and families.

The Head Start Association represents over 8,500 families served by Head Start, as well as the staff that provides services in 83 Kansas Counties. We urge your support for this important legislation.

Sincerely,

Mary L. Baskett
Executive Director

22521 West 53rd Terrace • Shawnee, KS 66226 • 913-422-1700 • Fax : 913-422-5002
e-mail: khsa@kc.rr.com • web site: ksheadstart.org

7-10



February 5, 2002

Written Testimony in Support of Senate Bill 450 to the Senate Assessment and Taxation Committee

Chairman Corbin and Members of the Committee:

As the Government Relations Director for the American Cancer Society, I represent more than 270,000 volunteers, supporters, and staff in the state of Kansas. It is in that capacity that I render our whole-hearted support for Governor Graves \$.65 cigarette excise tax increase proposal.

We unite with more than 40 health-interest organizations that have joined forces to form the Kansas Health Care Access Coalition in the battle to save the lives and lungs of Kansas children. Since 1985 - Kansas last increase - every other state in the Union has increased their cigarette tax, EXCEPT the eight primary tobacco-producing states, AND Kansas. Is this the company we want to keep? Kansas children deserve better.

The link between tobacco use and cancer is no secret:

- 1 in 3 cancer deaths are tobacco related;
- Tobacco causes nearly 90 percent of lung cancers;
- Lung cancer is not the sole cancer risk for smokers. Tobacco use is a risk factor for nearly every other cancer – colon, breast, cervical, prostate, pancreatic, kidney, liver, throat, and the list goes on.

Smoking kills thousands every day - parents and grandparents that miss out on valuable years, because they were chained by an addiction that hooked them as children. Let's not leave that fate to the next generation of Kansans. A \$.65 cigarette tax increase will keep 19,000 Kansas children from ever becoming smokers, and will encourage more than 16,000 adult smokers to quit!

Not only can a \$.65 increase in the cigarette tax save children and parents from addiction, but the significant revenue generated by this tax will enable the state of Kansas to maintain the services and quality of life we have all come to expect as Kansans: state-of-the-art health care facilities and care, quality schools, safe roads, and low crime.

Soon, if not already, American Cancer Society advocates in your districts will be contacting you to show their support for the Governor's proposal. They are counting on you to be their voice in public policy. Will you speak for them? Please support SB 450.

Stephanie Sharp, Government Relations Director

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mindspring.com

TO: Legislative Committee, Sub-Committee **DATE:** 5 February 2002

FROM: Bob Harder, Volunteer Governmental Representative of UMC-KS and
Bishop Fritz Mutti

RE: Tobacco Legislation

The United Methodist Church has a longstanding record of concern for social issues facing our country. We are currently concerned about the number of children who take up smoking. We are also concerned about the number of adults who die from smoking-related diseases.

The UMC made the following statements in its Social Principles, 2000:

We commend the suspension of cigarette advertising on radio and television. We are concerned about other advertisements that associate smoking with physical and social maturity, attractiveness, and success, especially those targeted at youth, racial minorities, and women. We support the Federal Trade Commission's rules requiring health warning statements in cigarette packaging.

1. We recommend a tobacco-free environment in all public areas.
2. We recommend the prohibition of all commercial advertising of tobacco products.
3. We urge the development of educational methods that effectively discourage the use of tobacco and methods to assist those who wish to stop using tobacco.

We believe that the current legislation providing for a 65-cent increase in price per pack of cigarettes is in line with the United Methodist Church's statements concerning tobacco. We think that an increase in price will reduce the rate of youth smoking. Estimates are that this 65-cent per pack increase will also produce \$111 million in new revenues.

Therefore, this legislation provides a double benefit, decreasing the number of children and youth who will begin to smoke while raising needed revenue for the State.

Bob Harder
1420 Ward Parkway
Topeka, KS 66604
785-272-8726, rharder@networksplus.net

Testimony
February 5, 2002
Senate Assessment and Taxation

Catholic Social Services endorses the Governor's proposal: SB 450. A 65 cent per pack increase is a viable means to raise funds for health and social service programs. It makes sense on two fronts: it is a means to generate revenue without taxing vital services or products, and increases in the cost of cigarettes has been shown to reduce consumption especially among youth. Both of these rationales have merit; in fact it is hard for anyone other than smokers and their suppliers to find fault with this proposal.

Catholic Social Services has nine offices in Northeast Kansas. We serve over 75,000 people in any given year, most of them poor. We provide emergency assistance, health care, early childhood education, counseling and a variety of community based social services. We are a faith-based organization, but we serve all in need regardless of their religion, social status or race.

Providing services to the poor especially health care and early childhood services are expensive and the government reimbursement for these services only covers a portion of our cost. We understand that faith-based organizations have an obligation to raise funds to support our programs. We do that and do it very well, but we also rely on government funding to help us meet our obligations. If we see any reductions in these funds, we will not be able to continue to provide services to these very vulnerable populations. We will be faced with the harsh reality of cutting services or in some cases eliminating them altogether. We simply cannot fund these programs with donations alone, we can supplement state dollars with our fund raising efforts, but we cannot carry the entire burden.

A reduction in child care or Medicaid funding will have dire consequences for poor Kansans in impoverished areas especially in Wyandotte County. Please endorse the Governor's proposal, pass SB 450 out of committee with a recommendation that it be passed

Respectfully Submitted

Ben Coates - Director of Services Kansas City Kansas Diocese
785-233-6300
email Bcoates440@aol.com

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February 5, 2002

**To the members of the
Senate Assessment and Taxation Committee
Re: SB 450**

The volunteers and staff of the American Lung Association of Kansas urge your support for the passage of SB 450 to increase the excise tax on each pack of cigarettes sold in Kansas by 65 cents.

Increasing cigarette excise taxes has a benefit beyond raising additional, necessary revenue for the State. Higher prices do discourage people from smoking, particularly children, who are highly price sensitive.

Lowering tobacco consumption in Kansas is good for public health and will lower health care costs to the State by reducing the leading cause of death and disease in Kansas.

Our association wholeheartedly supports the excise tax increase on cigarettes as proposed by Governor Graves in SB 450 because it will have a positive impact on the health of Kansans, both through making possible funding of important health care programs as well as reducing the number of cigarettes smoked. Our volunteers, as well as our staff, will be active in support of this effort. Increasing the cigarette excise tax is a top priority for us this year.

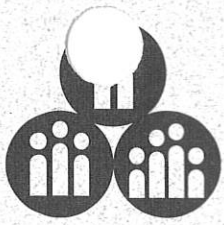
On behalf of the volunteers, Board of Directors and staff of the American Lung Association of Kansas, we urge passage of this important lung health measure.

Jim Pelch, RRT, RPFT
President

**When You Can't
Breathe,
Nothing Else
Matters®**

Please fight lung disease by remembering us in your will.

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Keys for Networking, Inc.

The Kansas Parent Information and Resource Center
The State Organization of the Federation of Families for Children's Mental Health

February 5, 2002

To: Members of the Senate Committee on Assessment and Taxation

From: Jane Adams, Executive Director

RE: Support for Governor's Proposal to increase the cigarette tax increase to \$.65.

I am the director of Keys for Networking, Inc., the Kansas Parent Information and Resource Center. I represent families whose children have serious emotional and behavioral problems or who are at high risk of developing those problems. Last year my organization served over 10,000 families, across Kansas.

We support the Governor's proposal to raise the tax on cigarettes to \$.65. You well know the state's revenue picture this year. We see this tax increase as a respectful way to help support the mental health and special education services needed by families who are trying to raise the state's most difficult children.

I am submitting written testimony, only. Please know I am eager to answer questions or to further elaborate on my letter.



EXECUTIVE DIRECTOR
JIM SHEEHAN
Shawnee Mission

SENATE ASSESSMENT AND TAX COMMITTEE

2-5-02

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DIRECTOR OF
GOVERNMENTAL AFFAIRS

FRANCES KASTNER

OPPOSING SB 450 AND SB 451

I am Frances Kastner, Director of Governmental Affairs for the Kansas Food Dealers Association. Our membership includes retailers, distributors and manufacturers of food products throughout Kansas.

As you heard me say last week, our members need to be competitive in the market place, whether it is the price of individual products, or increasing the sales tax. That comment is still true this week.

Every day you can pick up the newspaper and see another business is closing. That is also happening in Kansas. When a store closes in your community, the loss escalates.

The State loses sales tax, business tax, and personal income tax paid by employees. The local government loses their share of sales tax and property tax. Government EXPENSES increase when the workers who lost their jobs, and maybe their health insurance benefits, end up becoming eligible for food stamps and other assistance provided by the state, including unemployment benefits. The list goes on and on.

Grocery stores are a vital part of any community, and actively participate in community affairs. They don't just sell food. Their customers are their neighbors. We feel the economic woes the State is experiencing should be shouldered by ALL our citizens rather than increasing the sales tax and targeting individual products.

Thank you for the opportunity to express our concerns and we respectfully request you NOT recommend SB 450 and 451 favorably.

Frances Kastner

Senate Assessment & Taxation



February 5, 2002

Senate Taxation Committee

Senators;

I am Terry Presta, President of Presta Oil Inc. Today I am appearing before you as the legislative Chairman of the Petroleum Marketers and Convenience Store Association. PMCA.

I appear today in opposition to SB 450.

Early in my business career I had a banker who warned me about a curious state in the human condition. He said that when times are good businessmen have a tendency to think they will always be good and conversely when they are bad they tend to think they will always be bad. I thought of this when I heard in these halls, that as weak as revenues have been this year, they can only get worse next year without a tax increase. I disagree. A year ago natural gas prices reached highs not seen before and gasoline prices spiked soon thereafter. Every recession since WWII has been preceded with a spike in energy costs and last year was no different. Then came the attacks of 9-11 and the economy tanked. Revenue estimates were revised down and I understand from the papers that the State collections are coming in below these lowered estimates. Certainly concern over this situation is understandable.

However, this year, it is natural gas prices that have tanked, gasoline prices are at historic lows (inflation adjusted), and interest rates are at 40 year lows. State revenues which are a trailing indicator of the economy continue to slump but it is only a matter of time until they rebound. So, in my opinion, the question is, how to bridge the short term gap in revenues until the economy recovers.

I argue today that your taxing rates are sufficient and that they should not be changed in the face of a short term shortfall in State revenues. I argue that it is better for the long term health of the state economy to balance this years revenue shortfall by the drawing down of the State ending balance. For, in my view, if 9-11 was not an emergency like the ending balance was intended to be used for, then I can't imagine what kind of emergency will warrant its use.

Petroleum Marketers and Convenience Store Association of Kansas
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The state should immediately move to allow the lottery the flexibility to expand their services to encompass more games, as other states have done, to increase state revenues. This money would be used to shore up the 2003 budget year and to rebuild the States ending balance. In all states, that I am aware of, the lottery has progressed as we have here in Kansas. First was the scratch off tickets, next came an online game like Powerball and Kansas Cash, and then came Keno. In fact, just last week the Missouri Gaming Commission authorized Missouri to add Keno to their games list. They did this with no legislative action that I am aware of.

In Kansas, when then lottery director Ralph Decker added Club Keno to the games list, as was in his authority to do, some in the legislature reacted negatively. Thereafter, in the lottery renewal bills, a prohibition against any new games and a specific mention of video lottery was inserted. This one action need only to be reversed to allow the natural progression of the lottery to take place. (It has been estimated that video lottery would bring in 300 million dollars to the State in its first full year.)

As businessmen we do not object today because we pay these taxes, we only collect them. We object because we are certain that the resulting price increases will make us less competitive in the market place. In the long run this will mean lower revenues for both business and the State of Kansas as customers are driven to other venues. This is almost certain to be immediate if anything like a \$6.50 per carton tax is placed on cigarettes.

Twenty years ago my banker friend was cautioning me to be ever vigilant in good times and bad. He was also cautioning me against making radical reactions to short term problems. I think that is still good advice today. Thank you for allowing me to appear today.

Terry Presta
Legislative Chairman, PMCA



MEMO TO: Senate Assessment and Taxation Committee
FROM: Thomas M. Palace, Executive Director of the Petroleum Marketers and
Convenience Store Association of Kansas
DATE: February 5, 2002
RE: Comments on SB 450

Mr. Chairman and members of the Senate Assessment and Taxation Committee:

My name is Tom Palace and I am the Executive Director of the Petroleum Marketers and Convenience Store Association of Kansas (PMCA), a statewide trade association that represents over 360 independent petroleum marketers and convenience stores throughout Kansas.

I appreciate the opportunity to appear before you today in opposition to SB 450.

Senate Bill 450 proposes a 65 cent-per-pack increase in the state cigarette tax. This tax would increase the tax on cigarettes from 24 cents per pack to 89 cents per pack - or a 271% increase. Kansas smokers have been hit hard by the Master Settlement Agreement (MSA), causing price increases of over \$1 per pack since 1997. It should also be pointed out that Kansas will collect about \$1.6 billion under the MSA from the nation's largest cigarette manufacturers. Kansas consumers could save money buying cigarettes from states on any of its borders. The proposed 89 cent per pack tax would tower over the tax in Missouri (17 cents), Colorado (20 cents), Oklahoma (23 cents) and Nebraska (34 cents). Clearly putting Kansas tobacco retailers at a competitive disadvantage.

As I stated in my testimony opposing SB 425, tobacco sales and gas sales are the "bread and butter" of the convenience store industry. Cigarettes are an important product for convenience stores, not only because cigarette sales make up approximately 23% of gross sales, but also because these sales lead to other sales such as pop, coffee, sandwiches, etc. The increased price of cigarettes has the potential of changing peoples' buying patterns, thus reducing store revenues for all products sold in convenience stores...as well as sales tax revenue for the State of Kansas.

Over the past few years, tobacco increases have been proposed in the legislature as a way to STOP people from smoking. If this is true, how can the state rely on tobacco revenue to fund new government programs? How will the money the state receives from the MSA be impacted? I would assume the state will see a reduction should tobacco sales decline. Also, Internet sales have become a factor. It is a sure bet that with a 271% tax increase, the consumer will be motivated to use the Internet in ever-increasing numbers to purchase tobacco products.

Kansas could also be threatened with cross border sales and /or cigarette smuggling from Native American reservations where, in many instances, state sales and excise taxes do not apply to cigarette sales. One major source for tribal sales is Oklahoma, where a compact exists that

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permits the tribes to levy a very small cigarette tax (approximately 5 cents per pack). This means that if the Kansas tax were raised to 89 cents per pack, Oklahoma reservations could provide Kansas consumers a savings of \$8.40 per carton.

Kansas tobacco retailers have serious concerns about raising tobacco prices 271%. If they compete with bordering states, they will be at a tremendous competitive disadvantage, as this huge increase will push people out of the state to purchase cigarettes. Convenience stores will be hardest hit by this huge increase because cigarette sales fuel additional sales, i.e., gasoline, pop, coffee, food etc. Therefore, when consumers change their buying habits, it affects all segments of a convenience store's business.

Another growing concern retailers are dealing with is the "dash and grab" thefts that are occurring at an alarming pace. Retailers are concerned for both the welfare and safety of their employees and customers. It is far easier to steal 4 cartons of cigarettes and sell them on the street for \$25 a carton, than it is to steal \$25 in cash from a cash register. Retailer space is so limited that it makes it next to impossible to put cartons of cigarettes behind the counter, thereby thwarting theft.

A recent study by the Barents Group, a KPMG Peat Mawick Company, reports that large increases in cigarette prices have created an environment conducive to illegal activity- including both smuggling and theft. Increased cigarette tax differentials among the states have increased the interstate smuggling problem, and an increasing differential between U.S. wholesale prices and international wholesale prices has given rise to a serious international smuggling problem. A recent study by FIA International Research, LTD, concluded that the incentive to smuggle cigarettes and the size of the contraband market are at all time highs in the United States. They estimated that 1.3 billion packs or 5.7 percent of all cigarettes consumed in the U.S. in 1998, were smuggled (including both interstate and international smuggling). They estimated that cigarette smugglers' market share was 20 percent of consumption in Michigan and New York, 19 percent in Washington, 16 percent in California, 10 percent in Texas, 9.6 percent in New Jersey, and 9 percent in Florida. Some states have stepped up efforts to interdict smuggling activities, and the U.S. Bureau of Alcohol, Tobacco and Firearms is adding enforcement personnel in this area. However, Canada's experience of the early 1990s suggests that the smuggling business will continue to grow as long as price differentials create large enough profit opportunities. (The Outlook For Convenience Store Tobacco Sales Through 2005) The Barents Group, LLC

Mr. Chairman, we have posed a number of reasons as to why SB 450 is detrimental to the convenience store industry and the state of Kansas, and we strongly urge the committee to oppose this bill.

Thank You.

**Testimony Opposing SB 450
Karl Peterjohn, Exec. Dir.**

The Kansas Taxpayers Network is testifying in opposition to this bill that is the primary provision in a series of tax hike proposals that if truth in advertising applied to the government, should be called the western Missouri retail development act of 2002. The governor's cigarette tax hike proposal contained in SB 450 is the keystone to his tax hike plan.

Currently Kansas taxes are higher in a variety of a categories that place Kansas retailers located near the Missouri border with a significant disadvantage. So the high tax point on the prairie according to federal tax data wants to become even higher if this bill, and the companion bills that go along with it under Governor Graves tax hike plan are enacted.

Taxpayers are opposed to raising Kansas taxes during this recession. Taxpayers need tax relief from the automatic tax hikes that exist in current law and that will allow the state's tax collections to grow by over \$150 million in FY 2003 over FY 2002.

If this legislature wants to promote tax evasion, smuggling, improper use of non state taxed cigarettes that are already being sold inside the borders of Kansas, this bill will lead us into a tax mess that will be placed on the next governor of this state and not Governor Graves. If Governor Graves is going to insist upon this hole being dug, then he should not push his successor into it.

Governor Graves position on taxes has shifted 180 degrees. I would like to close this testimony by quoting Governor Graves' statement from his first term in office:

"Through most of Kansas' great history our heritage has been one of sound, prudent management of our financial resources. In Kansas, we have traditionally rejected the notion that it's possible to spend our way into prosperity or to tax our way into an economically stronger future for ourselves and our children.

But in recent decades this heritage of prudent management has been compromised. Instead of setting priorities and making tough decisions about the level of government services, we simply raised taxes--beyond the current income of the state. This trend has stifled Kansas' economy and diminished the personal income of every Kansan.

It's a trend we cannot afford to continue." KTN agrees with this statement by Governor Graves and so this organization opposes this bill along with the other tax hike, fee expansions, revenue enhancements bills being considered. We cannot afford to continue trying to tax ourselves wealthy and spend ourselves rich. KTN believes that the campaign slogan, "high and tight," was never meant to be a higher level of state spending and a tighter grip on taxpayers wallets. Kansas taxpayers deserve better and this committee should reject SB 450.

*Senate Assessment & Taxation
2-5-02
Attachment 11*

**P.O. Box 20050
Wichita, KS 67208
5 February 2002**

**316-684-0082
FAX 316-684-7527**

**Testimony Opposing SB 451
Karl Peterjohn, Exec. Dir.**

Kansas sales taxes are arguably already the highest in our five state region. So Kansas Taxpayers Network is here to testify in opposition to Governor Graves proposal to raise the state sales tax .25 percent. The lowest state rate in this region is Colorado with a 2.9 percent levy that was lowered by 1/10 cent two years ago.

Only Nebraska has a nominally higher state sales tax rate today than Kansas at five percent. However, Nebraska and Colorado both exempt grocery purchases from the sales tax. Oklahoma (4.5 percent state rate) under a Republican Governor Frank Keating is looking at abolishing their state sales tax on food as well as their personal income tax.

Four years ago Missouri lowered their sales tax on groceries to 1.225 percent. Their state rate is already well below Kansas while the main Missouri state sales tax rate is 4.225 percent. So a person living near the state line can already save substantially on their grocery purchases by buying east of the Kansas border and somewhat less on other purchases. This proposal is another piece of what KTN calls these tax hike bills that are really the "western Missouri retail development act of 2002."

Today state taxes in Kansas are already higher on a large number of retail products. Governor Graves tax hike scheme would aggravate a bad situation and send a clear signal to price conscience Kansans who live or work close to our state line, and a large number of Kansans do, to take their shopping out of state. The governor's proposals for raising taxes is a 180 degree flip-flop from his campaign positions. Yet I must finish this testimony by quoting the Governor Graves:

"Through most of Kansas' great history our heritage has been one of sound, prudent management of our financial resources. In Kansas, we have traditionally rejected the notion that it's possible to spend our way into prosperity or to tax our way into an economically stronger future for ourselves and our children.

But in recent decades this heritage of prudent management has been compromised. Instead of setting priorities and making tough decisions about the level of government services, we simply raised taxes--beyond the current income of the state. This trend has stifled Kansas' economy and diminished the personal income of every Kansan.

It's a trend we cannot afford to continue." KTN agrees with this statement by Governor Graves and so this organization opposes this bill along with the other tax hike, fee expansions, revenue enhancements bills being considered by this legislature. We cannot afford to continue trying to tax ourselves wealthy and spend ourselves rich. KTN believes that the 1994 campaign slogan, "high and tight," was never meant to be a higher level of state spending and a tighter grip on taxpayers wallets. Kansas taxpayers deserve better and this committee should reject SB 451.

*Senate Assessment & Taxation
2-5-02
Attachment 12*

HEIN AND WEIR, CHARTERED

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Ronald R. Hein

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*Stephen P. Weir**

Email: sweir@hwchtd.com

*Admitted in Kansas & Texas

**Testimony re: SB 450
Senate Assessment and Taxation Committee
Presented by Ronald R. Hein
on behalf of
R. J. Reynolds Tobacco Company
February 5, 2002**

Mr. Chairman, Members of the Committee:

RJR opposes SB 450, which would increase the Kansas cigarette tax from 24¢ to 89¢ per pack, because it would hurt consumers and retailers alike.

Current tax rate and past tax increases

Supporters of increasing the cigarette tax in Kansas have cited frequently that the current state excise tax on cigarettes has not been raised in a number of years. However, this does not tell the entire story.

Since the Kansas excise tax was last increased, Kansas smokers have seen significant increases in the cost of cigarettes, some of that increase goes to the federal government because of excise tax increases, much of that increase goes to the state of Kansas as a result of the Master Settlement Agreement (MSA) between the state attorneys general and the tobacco industry, and smokers pay increased sales tax on the increases in the cost of cigarettes.

The federal tax on smokers has increased substantially over the past 15 years. Since 2000, federal taxes on a pack of cigarettes have increased 62.5%, including an additional federal tax of 5 cents beginning January 1, 2002.

Under the MSA, Kansas will collect \$1.6 billion over the next 25 years from the nations' largest cigarette manufacturers. (Although payments are calculated over a 25-year time-frame, in fact they go on for perpetuity.) This means that Kansas smokers will pay approximately \$1.6 billion over the next 25 years to the state of Kansas in addition to the excise taxes and sales taxes they are paying on cigarettes.

Kansas will receive approximately \$65 million per year in annual MSA payments. This amounts to a payment to Kansas that is more than the amount that Kansas derives from its current 24¢ per pack cigarette tax.

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2-5-02
Attachment 13*

Lastly, Kansas imposes a sales tax on cigarette sales. The 4.9% state sales tax is also imposed on the excise taxes and MSA payments built into the cost of a pack of cigarettes. Since the cost of a pack has gone up substantially as a result of the MSA, Kansas is taxing smokers much more with the additional sales tax. Nationally, from 1998 to 2001, the average price per pack rose from \$2.04 to \$3.28. If this national average was also true in Kansas, the amount of state sales tax imposed on smokers would have increased greater than 50% during that three-year period.

All together Kansas smokers are financing federal and state governments to the tune of \$1.33 per pack. The typical Kansas smoker now pays about \$700 in total cigarette taxes per year, larger than the average income liability for the bottom half of federal income tax filers (about \$540 in 1998.) After a 65¢ Kansas tax hike the total tax would rise to a stupendous \$1.98 per pack. A Kansas smoker would be paying about \$1.000 per year.

The argument that Kansas smokers have not had a tax increase in years is simply not accurate, as seen by the above information.

Effect on Kansas Retailers.

Kansas retailers should also be concerned. The new 89¢ tax would be **more than double** the rate in Nebraska (34¢), **more than five times** the existing Missouri tax (17¢), **more than four times** the tax in Colorado (20¢), and **almost four times** the Oklahoma rate (23¢). If the Governor's proposal of increasing the cigarette tax 65¢, to a total of 89¢ were to pass, that would mean Kansans could save money simply by crossing borders. Colorado also does not impose a sales tax on cigarettes, making the differential even higher.

Cigarette purchasing patterns have changed dramatically since 1989. High-tax states have seen tax reported sales plunge, while low-tax states have seen a corresponding increase.

With low tax Missouri, Colorado and Oklahoma on its borders, Kansas' retailers could confront a competitive challenge. Nearly 25% of Kansas' population lives in the greater Kansas City area, which borders Missouri. Kansas consumers could save as much as \$7.20 per carton purchasing in Missouri, assuming their existing tax rate. These margins come close or exceed the Advisory Commission on Intergovernmental Relation's bootleg "flashpoint" of \$3.80 per carton. Tax differences above the "flashpoint" are likely to encourage serious investments in cigarette smuggling. Kansas retailers, and ultimately state law enforcement budgets, would be vulnerable to smuggling.

Tobacco products are sold in many types of stores including convenience stores, gas stations, supermarkets, tobacco stores, drug and proprietary stores. According to a 1998 study by the American Economics Group (AEG), nearly 11,000 jobs were directly and indirectly created due to such activities.

Tobacco sales have an especially magnified impact on smaller establishments. This is because cigarette sales comprise such a large share of their sales. In 2000, The National Association of Convenience Stores reported that tobacco sales in such stores accounted for nearly 30% of merchandise sales. Over 50% of all tobacco products are sold through convenience stores nationwide.

Loss in Cigarette Sales Volume – Assuming no changes in tax rates of surrounding states, it is projected that a 65¢ per pack tax increase will reduce Kansas cigarette sales by approximately 24%. Most of this would be due to lost sales to low-tax states and zones.

Loss in Retail Sales - The gross retail value of lost cigarette sales would be approximately \$30 million (10 million packs evaluated at a final retail price of \$3.00 per pack). Sundry product sales, or products normally bought in conjunction with tobacco products, would fall by about \$12 million (based on past estimates of this phenomenon by Price Waterhouse).

Lost Jobs - It is estimated that nearly 400 Kansas jobs would be lost as a result of a 65¢ tax increase.

It is estimated that a 65¢ per pack tax hike will lead to about a \$152 million reduction in cigarette sales for Kansas' businesses. Sundry product losses would be about \$46 million. It is obvious that Kansas businesses will lose revenue, and the state will lose corresponding excise and sales taxes from the cigarettes and other sundry items.

The Cross Border Threat

Cigarette purchasing patterns have changed dramatically due to more than 70 state cigarette tax increases since 1989. High-tax states have seen tax reported sales plunge, while low-tax states have seen a corresponding increase. The Tax Foundation examined this shift in a 1996 study, The Effect of Excise Tax Differentials on Smuggling and Cross Border Cigarette Sales. They discovered that tax differentials between high and low-tax states were creating substantial increases in both casual cross-border purchases and the organized smuggling of cigarettes. In a subsequent study, the Tax Foundation estimated that cross-border sales represented nearly 14% of total U.S. sales in 1997.

The Tax Foundation noted that the following high-tax block of states -- California, Massachusetts, Michigan, and New York -- with an average tax of 73¢ per pack, sell fewer cigarettes than the following low-tax states -- Indiana, Kentucky, Missouri, New Hampshire, North Carolina, Tennessee, and Virginia -- with an average tax of 13¢ per pack. Yet the four high-tax states have a population (65.4 million) nearly double that of the low-tax states (34.4 million).

In 1995, for the first time in history, the low-tax block sold more cigarettes (4.4 billion packs) than the high-tax block (4.3 billion packs). Since then, the gap has widened. In FY 2000, tax-reported sales in the low-tax block were 20% greater than such sales in the high-tax block. Kansas could easily be swept up in the cigarette smuggling epidemic that now plagues some other states.

Consider the case of Michigan. After it increased its cigarette tax from 25¢ to 75¢ per pack in May of 1994, annual Michigan cigarette sales nose-dived by 27 percent. On the other hand, annual cigarette sales went up by 8 percent in Kentucky, 14 percent in South Carolina, 12 percent in Indiana, 7 percent in Tennessee, 6 percent in North Carolina, 4 percent in Missouri, and 2 percent in Ohio. The sales volume gain in the low-tax states more than matched the 200 million-pack loss in Michigan.

In the words of Robert Manes, head of the Michigan State Police Treasury Enforcement Division, “[E]fforts to get around the tax increase are a growing problem. With the amount of money that can be made now, everybody who has an avenue is getting into it.” (Associated Press, December 13, 1994).

More recent cross border episodes include:

New York - The Empire State cigarette tax increased by 55¢ (from 56¢ to \$1.11 per pack) on March 1, 2000. During the following 12 months, New York tax-paid cigarette volume packs nose-dived by 24%. Neighboring Vermont (44¢) and Pennsylvania (31¢) have seen their sales volume rise over this time. It has been estimated that contraband and cross border cigarette sales now take nearly 25% of the New York market.

California - The Golden State’s cigarette tax increased by 50¢ (from 37¢ to 87¢) on January 1, 1999. California tax paid cigarette sales volume has fallen by nearly 25%. California State officials now estimate that cigarette excise tax losses due to tax evasion exceed \$150 million per year. This means that tax-evading sales take more than 12% of the entire California cigarette market. According to state tax officials, “illegal and untaxed sales have mushroomed.”¹ According to state officials, counterfeit stamps can be found throughout the state and appear to be a growing problem. Internet sales have grown as well, and are now estimated to be beyond \$60 million per year in California.

Regressivity

A recent study by the Barents Group of KPMG Peat Marwick shows that cigarette taxes are incredibly regressive, extracting a far greater percentage of income from modest wage earners compared to those with high incomes.

¹ “State Officials Fear Big Drop in Tariff Revenue,” *San Diego Times-Union*, April 19, 2001.

Barens looked at U.S. families in the bottom half of the income distribution, those earning approximately \$30,000 a year or less. While this group represents roughly 50% of all households in the country, it earns only 16% of all income generated. This group pays about 15.3% of all federal income and FICA taxes, but pays over **47% of all tobacco taxes.**

Barens found that while most excise taxes are regressive, tobacco excise taxes are the most regressive of all. While the bottom half of U.S. households only reaped 16% of all income, they paid 47% of tobacco taxes, 17% of wine taxes, 30% of gas taxes, 30% of distilled spirits taxes and 34% of beer taxes. Clearly, the Kansas cigarette tax hike will harm those with modest incomes the most.

Thank you very much for permitting me to testify and I will yield for any questions.

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Testimony of Carter Headrick Manager, Grassroots and Field Operations Campaign for Tobacco-Free Kids

Mr. Chairman, members of the Committee, good morning and thank you for having me this morning. I appreciate you taking time to consider this issue.

Today I wish to address three subjects. The first may surprise you as it is an issue that health advocates and the tobacco industry agree on. That doesn't happen very often. That first issue is that increasing the price of a pack of cigarettes will drive down youth smoking. We know it. They know it. It is why they are opposed to all tobacco taxes and why we favor tobacco taxes. Second, I wish to address the issue of the stability of tax revenue and the potential for smuggling. Third, I'd like to address the issue that tobacco taxes may be regressive and show you that we believe the opposite to be true.

Higher prices mean less smoking.

But first, let's deal with the one area where public health advocates and the tobacco industry agree. Raising tobacco taxes will reduce youth smoking.

The cigarette companies have opposed tobacco tax increases by arguing that raising cigarette prices would not reduce adult or youth smoking. But the companies' internal documents, disclosed in the tobacco lawsuits, show that they know very well that raising cigarette prices is one of the most effective ways to prevent and reduce smoking, especially among kids.

- RJ Reynolds: *If prices were 10% higher, 12-17 incidence [the percentage of kids who smoke] would be 11.9% lower.*¹
- Philip Morris: *It is clear that price has a pronounced effect on the smoking prevalence of teenagers, and that the goals of reducing teenage smoking and balancing the budget would both be served by increasing the Federal excise tax on cigarettes.*²

¹ R.J. Reynolds Executive D. S. Burrows, "Estimated Change In Industry Trend Following Federal Excise Tax Increase" RJR Document No. 501988846 -8849, September 20, 1982, www.rjrdocs.com.

² Philip Morris Research Executive Myron Johnston, "Teenage Smoking and the Federal Excise Tax on Cigarettes," PM Document No. 2001255224, September 17, 1981, www.pmdocs.com.

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- Philip Morris: Jeffrey Harris of MIT calculated . . . that the 1982-83 round of price increases caused two million adults to quit smoking and prevented 600,000 teenagers from starting to smoke. . . . We don't need to have that happen again.³
- Philip Morris: A high cigarette price, more than any other cigarette attribute, has the most dramatic impact on the share of the quitting population. . . . price, not tar level, is the main driving force for quitting.⁴

Numerous economic studies in peer-reviewed journals have documented that cigarette tax or price increases reduce both adult and underage smoking. The general consensus is that every 10 percent increase in the real price of cigarettes will reduce overall cigarette consumption by approximately four percent and reduce the number of kids who smoke by about six or seven percent.⁵ Research studies have also made the following related findings:

- Among all adults or all youths, cigarette price increases work even more effectively to prevent and reduce smoking among males, Blacks, Hispanics, and lower-income persons.⁶
- The 2000 U.S. Surgeon General's Report, *Reducing Tobacco Use*, found that increasing the price of tobacco products would decrease the prevalence of tobacco use, particularly among kids and young adults, and that tobacco tax increases would lead to "substantial long-term improvements in health." From its review of existing

³ Philip Morris Executive Jon Zoler, "Handling An Excise Tax Increase," PM Document No. 2022216179, September 3, 1987, www.pmdocs.com.

⁴ Philip Morris Executive Claude Schwab, "Cigarette Attributes and Quitting," PM Doc. 2045447810, March 4, 1993, www.pmdocs.com.

⁵ See, e.g., Tauras, J., et al., "Effects of Price and Access Laws on Teenage Smoking Initiation: A National Longitudinal Analysis," Bridging the Gap Research, ImpacTeen, April 24, 2001, and other price studies at www.impactteen.org. Chaloupka, F., "Macro-Social Influences: The Effects of Prices and Tobacco Control Policies on the Demand for Tobacco Products," *Nicotine and Tobacco Research*, 1999, and other price studies at <http://tigger.uic.edu/~fjc>; Chaloupka, F. & R. Pacula, *An Examination of Gender and Race Differences in Youth Smoking Responsiveness to Price and Tobacco Control Policies*, National Bureau of Economic Research, Working Paper 6541, April 1998), <http://tigger.uic.edu/~fjc>. Emery, S., et al., "Does Cigarette Price Influence Adolescent Experimentation?," *Journal of Health Economics* 20:261-270, 2001. Evans, W. & L. Huang, *Cigarette Taxes and Teen Smoking: New Evidence from Panels of Repeated Cross-Sections*, working paper, April 15, 1998, www.bsos.umd.edu/econ/evans/wrkpap.htm. Harris, J. & S. Chan, "The Continuum-of-Addiction: Cigarette Smoking in Relation to Price Among Americans Aged 15-29," *Health Economics Letters* 2(2) 3-12, February 1998, www.mit.edu/people/jeffrey.

⁶ See, e.g., U.S. Centers for Disease Control and Prevention (CDC), "Responses to Cigarette Prices By Race/Ethnicity, Income, and Age Groups – United States 1976-1993," *Morbidity and Mortality Weekly Report (MMWR)* 47(29): 605-609 July 31, 1998, www.cdc.gov/mmwr; Chaloupka & Pacula, April 1998.

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research, the report concluded that raising tobacco taxes is one of the most effective tobacco prevention and control strategies.⁷

- The 1999 World Bank report *Curbing The Tobacco Epidemic: Governments and the Economics of Tobacco Control* carefully evaluated existing research and data, worldwide, and concluded that "the most effective way to deter children from taking up smoking is to increase taxes on tobacco. High prices prevent some children and adolescents from starting and encourage those who already smoke to reduce their consumption."⁸
- Wall Street tobacco industry analysts have long recognized the powerful role increased cigarette taxes and rising cigarette prices play in reducing U.S. smoking levels. For example, a December 1998 "Sensitivity Analysis on Cigarette Price Elasticity" by Credit Suisse First Boston Corporation settled on a "conservative" estimate that cigarette consumption will decline by four percent for every 10 percent increase in price.
- In its 1998 report, *Taking Action to Reduce Tobacco Use*, the National Academy of Sciences' Institute of Medicine concluded that "the single most direct and reliable method for reducing consumption is to increase the price of tobacco products, thus encouraging the cessation and reducing the level of initiation of tobacco use."⁹
- A National Cancer Institute Expert Panel reported in 1993 that "a substantial increase in tobacco excise taxes may be the single most effective measure for decreasing tobacco consumption," and "an excise tax reduces consumption by children and teenagers at least as much as it reduces consumption by adults."

Stability of Revenue and the Potential for Smuggling

The cigarette companies also oppose cigarette tax increases by arguing that the sales declines following the increases come primarily from surges in cigarette smuggling and smoker efforts to evade the higher cigarette taxes through cross-border purchases or internet cigarette sales. This argument ignores the established fact that the lion's share of the smoking reductions following a tax increase inevitably come from the related reductions in both the number of people who smoke and the number of cigarettes the remaining smokers consume. A survey in California, for example, found that soon after the state's 50-cent cigarette-tax increase went into effect in 1999 no more than five percent of all continuing smokers were purchasing cigarettes in nearby states, from Indian reservations or military bases, or via the internet, or were otherwise avoiding the

⁷ Available at www.cdc.gov/tobacco/sgrpage.htm.

⁸ Available at <http://www1.worldbank.org/tobacco/reports.htm>.

⁹ Available at www.nap.edu/books/0309060389/html/index.html.

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state's cigarette tax.¹⁰ More to the point: *every single state that has significantly increased its cigarette taxes has significantly increased its revenues – despite the lost sales caused by the related smoking declines and despite any associated increases in cigarette smuggling or other tax-avoidance sales.*

In the second year after New York's 55-cent tax increase to \$1.11 per pack, state cigarette tax revenues increased by another \$50 million as cigarette sales slightly increased. This increase in revenues and sales in the second year after the tax increase – despite intervening price hikes by the cigarette companies – suggests that some state residents who initially took steps to avoid the cigarette tax increase (e.g., by purchasing cigarettes in neighboring states, via the internet, or from the black market) soon returned to their original in-state purchasing patterns and began paying the full new tax. Moreover, any real or imagined problems with smuggling and tax avoidance from New York's tax increase in 2000 were not significant enough to stop the state from increasing its cigarette tax again, by 39 cents, in 2002.

Cigarette Tax Increases Benefit Lower-Income Residents

Because smoking levels are highest among people with low incomes, the cigarette companies try to argue that cigarette tax increases are regressive taxes that fall disproportionately hard on lower-income persons. But this argument turns reality upside down. Higher smoking rates among lower-income groups means that lower-income families and communities are now suffering the most from smoking and will, consequently, benefit the most from any effective new measures to reduce smoking, including increased state cigarette taxes.

This disproportionate benefit for low-income families and communities is expanded by the fact that tobacco-tax increases work most powerfully to prompt lower-income smokers to quit or cutback and to stop lower-income kids from every starting.¹¹ Most notably, smokers with family incomes at or below the national median are four times as likely to quit because of cigarette tax increases as those with incomes above the median.¹² Accordingly, low-income families that currently suffer from direct and secondhand smoking-caused health risks, disease, and related costs are much more

¹⁰ Cancer Prevention & Control Program, University of California - San Diego, *The California Tobacco Control Program: A Decade of Progress, Results from the California Tobacco Survey, 1990-1999*, Tobacco Control Section, California Department of Health Services, December 26, 2001, http://ssdc.ucsd.edu/ssdc/pdf/1999_Final_Report.pdf.

¹¹ See, e.g., U.S. Centers for Disease Control and Prevention (CDC), "Responses to Cigarette Prices By Race/Ethnicity, Income, and Age Groups – United States 1976-1993," *Morbidity and Mortality Weekly Report (MMWR)* 47(29): 605-609 (July 31, 1998); Chaloupka, F. J. & R. Pacula, *An Examination of Gender and Race Differences in Youth Smoking Responsiveness to Price and Tobacco Control Policies*, National Bureau of Economic Research, Working Paper 6541 (April 1998).

¹² CDC, *MMWR* 47(29): 605-609 (July 31, 1998).

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likely to have those harms and costs reduced by a cigarette tax increase than similar families with higher-incomes. And those cost reductions (including reduced family expenditures on cigarettes) will also mean more to lower-income households.

It is also important to note that in poll after poll lower-income Americans (along with all other Americans) strongly support higher cigarette taxes.¹³ A recent poll in Indiana, for example, found that 77 percent of voters with family incomes less than \$25,000 per year supported a 50-cent increase (to 65.5 cents per pack). In Connecticut, 62 percent of those with annual family incomes less than \$40,000 support a 50-cent increase (to \$1.00 per pack). In Kansas, 76 percent of voters with family incomes of less than \$30,000 per year support a 75-cent increase (to 99 cents per pack). In about a dozen other states where polls surveyed low-income attitudes, at least 57 percent of voters in families with low incomes supported substantial increases in the state cigarette tax.¹⁴

The cigarette companies' regressivity argument also fails to account for each of the following facts:

- Because more lower-income smokers than higher-income smokers will quit or cutback because of cigarette tax increases, any state that significantly increases its cigarette tax rate will also end up increasing the portion of the state's total cigarette tax revenues that are paid for by higher-income smokers and reduce the portion paid by lower-income smokers.¹⁵
- Increases to state cigarette tax rates will not place any new financial burdens of any kind on the more than 75 percent of U.S. adults who neither smoke cigarettes nor buy them.
- Many current smokers (especially those with low incomes) will avoid the new cigarette tax by quitting or cutting back, or compensate for the higher cigarette taxes by switching from premium brands to cheaper cigarettes. In fact, all of the smokers who quit and many of those who cut back because of cigarette tax increases will actually save money by either eliminating or reducing their spending on cigarettes. A

¹³ Market Strategies poll of registered voters (February 24 – March 5, 1998) & Market Facts poll of the general public (September 19, 1997), both commissioned by the Campaign for Tobacco-Free Kids.

¹⁴ Campaign for Tobacco-Free Kids (CFTFK) factsheet, *Voters Across the Country Support Significant Increases in State Tobacco Taxes*, www.tobaccofreekids.org/research/factsheets/index18.shtml. These polls also show significant support among smokers for substantial cigarette-tax increases, ranging from 22% to 45%.

¹⁵ Using CDC data, if lower-income smokers account for 60% of a state's cigarette tax revenues with 40% from higher income smokers, a tax increase that raises the price of a pack by 25% will reduce the number of packs smoked by lower-income persons by about 7.25% and reduce the number of packs smoked by higher-income smokers by 4.25%. After those reductions, lower-income smokers will be paying 59% of all state cigarette tax revenues and higher-income smokers will be paying 41%. Larger cigarette tax increases would have more pronounced effects. CDC, *MMWR* 47(29): 605-609 (July 31, 1998).

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study in England, for example, found that low-income smokers actually reduced their overall expenditures on cigarettes in response to increased cigarette taxes.¹⁶

- Those who stop smoking in response to cigarette tax increases will greatly improve their own health, which could also significantly reduce their health costs. Because of their higher rate of illness and disability, smokers have substantially higher annual and lifetime health care costs than nonsmokers or former smokers (despite living shorter lives).¹⁷ Health care expenditures caused by smoking currently total more than \$89 billion per year nationwide, with billions being paid directly by smokers, either through direct healthcare payments or increased health insurance premiums.¹⁸
- Smokers who quit or cutback because of the tax increase will also help to reduce the exposure of their family members, friends, and coworkers to their secondhand smoke -- thereby producing additional health improvements and related cost savings for their family and community.¹⁹
- Even those smokers who do not reduce their smoking because of a cigarette tax increase will still benefit from it, along with every other federal or state taxpayer. Right now, smoking produces a "hidden tax" that totals more than \$40 billion per year to pay for smoking-caused state and federal healthcare costs.²⁰ Smoking declines caused by state cigarette tax increases directly reduce these tobacco-caused tax burdens.²¹
- Any significant state cigarette tax increase will also bring in millions of dollars per year in new government revenues, thereby reducing pressures for other, broader-based tax increases and possibly even making future broad-based tax cuts more

¹⁶ Townsend, J. L., "Cigarette Tax, Economic Welfare and Social Class Patterns of Smoking," *Applied Economics* 19: 355-365 (1987).

¹⁷ See, e.g., Hodgson, T., "Cigarette Smoking and Lifetime Medical Expenditures," *The Millbank Quarterly* (1992); Nusselder, W.J., et al., "Smoking and the Compression of Morbidity," *Epidemiology and Community Health* (2000).

¹⁸ Zhang, X., et al., "Cost of Smoking to the Medicare Program, 1993," *Health Care Financing Review* 20(4): 1-19 (Summer 1999). See, also, Miller, L., et al., "State Estimates of Total Medical Expenditures Attributable to Cigarette Smoking, 1993" *Public Health Reports* 113: 447-58 (September/October 1998); CDC, "Medical Care Expenditures Attributable to Smoking - United States, 1993," *MMWR* 43(26): 1-4 (July 8, 1994).

¹⁹ See, e.g., Campaign for Tobacco-Free Kids (CFTFK) factsheets, *Secondhand Smoke and Harm to Kids from Secondhand Smoke*, www.tobaccofreekids.org/research/factsheets/index19.shtml.

²⁰ Zhang et al. *Health Care Financing Review* 20(4): 1-19 (Summer 1999).

²¹ Research studies have firmly established that smokers have higher lifetime healthcare costs than nonsmokers, despite living shorter lives. See, e.g., Hodgson (1992) and Nusselder (2000). Roughly half of all smoking-caused health care costs are paid by the federal or states' governments, with much of that spent on treating low-income smokers through the Medicaid program. See, e.g., Zhang et al. (Summer 1999); CDC (July 8, 1994). Moreover, any new government costs caused by people living longer because they no longer smoke would be more than offset by the health care savings, other reductions to smoking-caused costs, and the work productivity increases (and related new income tax revenues) from more people living longer, healthier, smoke-free lives. See, e.g., U.S. Department of the Treasury, *The Economic Costs of Smoking in the U.S. and the Benefits of Comprehensive Tobacco Legislation* (1998); Campaign for Tobacco-Free Kids, factsheet, *Immortality and Inaccuracy of the Death Benefit Argument*, www.tobaccofreekids.org/research/factsheets/index1.shtml.

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likely. Cigarette tax increases are also often used as an alternative to cuts to the funding of state government programs that serve low-income communities.

- The smoking declines produced by cigarette tax increases save lives, reduce human suffering, promote the public health, and prevent more kids from becoming addicted to smoking or ultimately dying from it – and these results are disproportionately experienced among low-income persons, families, and communities. Even those low-income smokers who do not change their behavior because of tobacco-tax increases will still benefit from having fewer family members, friends, and neighbors falling victim to tobacco use.
- Low-income smokers and their communities also disproportionately benefit when any of the new revenues from cigarette tax increases are directed to new programs to help people quit smoking and prevent kids from starting – both because smoking is more prevalent among low-income persons and because lower-income persons currently have much less access or exposure to any such programs than people with higher incomes.

Moreover, the cigarette companies say that they oppose higher cigarette taxes because they care about low-income families and the poor. But these are the same companies that have been preying on low-income and poor communities for decades. In fact, the cigarette companies have increased the prices they charge for their cigarettes by more than \$1.00 per pack in that past few years (and by more than two cents for every cent needed to cover all of their costs from the state tobacco lawsuit settlements).²² Apparently, the cigarette companies have no problem with levying new charges on low-income smokers when it is done to increase the companies' own profits and oppose it only when the new revenues go to the states, instead. Clearly, the cigarette companies' are making their regressivity argument (and opposing state cigarette tax increases) because tobacco-tax increases reduce overall smoking rates and shrink the companies' revenues and profits.²³

Given the strong support for cigarette tax increases among low-income persons and the enormous benefits those tax increases will bring to low-income families and communities (including low-income smokers), the tobacco companies' efforts to "protect" low-income smokers from higher cigarette taxes is not only patronizing but directly counter to the real interests of lower-income persons and smokers. The cigarette companies' regressivity argument should be seen for what it really is: a self-serving smokescreen designed to keep smoking levels up, protect cigarette company profits, and continue smoking-caused costs and harms.

²² CFTFK factsheets, *U.S. Cigarette Companies' Settlement-Related Price Hikes Excessive*, www.tobaccofreekids.org/research/factsheets/pdf/0071.pdf, and *US Cigarette Company Price Hikes vs. Federal Cigarette Tax Increases (1994-2002)*, www.tobaccofreekids.org/research/factsheets/pdf/0091.pdf.

²³ CFTFK factsheet, *Raising Cigarette Taxes Reduces Smoking, Especially Among Kids (and the Cigarette Companies Know It)*, www.tobaccofreekids.org/research/factsheets/pdf/0146.pdf.

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Conclusion:

An increase in the tobacco tax in Kansas will lead to a decrease in smoking, especially among kids. The tax will also provide substantial revenue for the state as you grapple with balancing the state budget. The opportunity to protect the public health while balancing state budgets has appealed to elected officials across the country. Governor George Pataki in New York has raised tobacco taxes twice in the last few years. New York now collects \$1.50 on each pack of cigarettes sold in that state. The Governor of Nebraska is actively looking at an increase in the tobacco tax. The Board of Health in Oklahoma has proposed a \$1.00 increase in their tax and legislation has been introduced in Missouri to raise the tobacco tax.

This is a win – win situation. You can reduce youth smoking, protect the public health and ease the strain on your budget.

Thank you very much for your time and your attention.