Approved: February 26, 2008
Date

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman Kenny Wilk at 9:30 A.M. on February 8, 2008 in Room 519-S of the Capitol.

All members were present except:
Representatives Davis - Excused
Representative Owens - Excused
Representative Peck - Excused
Representative Whitham - Excused

Committee staff present:
Chris Courtwright, Legislative Research Department
Gordon Self, Office of Revisor of Statutes
Ryan Hoffman, Legislative Research Department
Scott Wells, Office of Revisor of Statutes
Rose Marie Glatt, Committee Secretary

Conferees appearing before the committee:
Ron Hein, Reynolds American, Topeka
Lisa Benlon, American Cancer Society, Johnson County
Corrie Edwards, KS Health Consumer Coalition, Topeka
Terry Roberts, Executive Director, KS Nursing Association
Mary Jayne Hellebust, Tobacco Free Kansas Coalition
Paula Marmet - Director, Office of Health Promotion, KDHE, Topeka
Linda De Coursey, American Heart Association, Topeka
Eric Donaldson, United States Tobacco, Texas
Jeff Martin, Armor Amusement, Kansas City Business Rights Coalition
Patrick Hubbell, Cigar Association of America, Topeka
Karl Peterjohn, Kansas Taxpayers Network
Tom Palace, Petroleum Marketers and Convenience Store Assoc., Topeka
Whitney Damron, Swisher International, Inc.

Written Only
April Holman, KS Action for Children, Topeka
Michelle Bernth, American Lung Assoc. Of the Central States
Chad Austin, Kansas Hospital Association
Dan Morin, Director of Governmental Affairs, KMA
Cynthia Smith, Sisters of Charity of Leavenworth Health System
Dr. Phil Bradley, Kansas Licensed Beverage Assn.
Dr. James Hamilton, Kansas Cancer Partnership, Topeka
Alan Cobb, Americans for Prosperity
John Bottenberg, Phillip Morris
Nizar Ali, Discount Smokes
Patti Solomon, Smoke EEZ
Jerry D. Davidson, Crescent Oil Company, Inc.

Others attending:
See attached list.

The following bill introductions were requested:

Representative Bethel requested a bill introduction regarding taxing authority for Barton county roads. Chairman Wilk moved the request. Representative Carlson seconded. The motion carried.

Representative Sloan requested a bill introduction concerning income taxation relating to credits, contributions of professional time by certain physicians and dentists. Chairman Wilk moved the request for introduction, seconded by Representative Carlson. The motion carried.

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MINUTES OF THE House Taxation Committee at 9:00 A.M. on February 8, 2008 in Room 519-S of the Capitol.

Representative Holland requested a Committee bill regarding counties preparation of back-up plans regarding property valuation data. Representative Goyle seconded the motion. The motion carried.

Representative Lukert requested a bill introduction for taxing authority for Brown county to increase sales tax for jail construction.

The Chairman continued the hearing from yesterday on **HB 2737**

HB 2737 - An act increasing the rate of tax upon cigarettes and tobacco products and creating a health reform fund.

Ron Hein, Reynolds American, provided the history of past tax increases and spoke about the effect additional taxes would have on Kansas retailers; cross border threat; regressivity; New Jersey Experience and the Anti-Tobacco group projections. He distributed two memorandums: 1) a multi-state map, reflecting estimated losses from 50-cent cigarette tax increase, and 2) a comparable chart, (Kansas and Missouri), reflecting taxes paid on cigarette sales, since the 2002 Kansas Tax increase (Attachment 1).

Lisa Benlon, stated the state of Kansas is spending $927 million in annual health care costs directly caused by smoking. The smoking-caused productivity losses in Kansas are $863 million (Attachment 2). She answered two questions raised at yesterday's hearing:

1) Kansas would not necessarily see a decline in the Master Settlement Agreement (MSA) funds, if less cigarettes were sold in Kansas, since the state MSA revenues are based on a percentage of the volume of cigarettes sold nationwide - not state volume
2) Proceeds from the MSA funds are placed in the Children's cabinet, and used for early childhood programs.

The Children's Cabinet has provided $1 million on the smoking cessation program in Kansas, while the Center for Disease Control states Kansas should be spending $32.1 million annually to be effective in cessation/prevention programs.

Corrie Edwards, Executive Director, Kansas Health Consumer Coalition, addressed the regressivity issue discussed yesterday. She said that in general, cigarette taxes are regressive. On average, low-income taxpayers pay more of their income in these taxes than upper-income families. However, the harm from smoking are regressive as well. Lower-income families already suffer disproportionately from smoking-caused disease, disability, death, and costs. Cigarette tax increases, offer one of the best ways to help low-income families who are currently suffering from direct and secondhand smoking (Attachment 3).

Terry Roberts, Executive Director, KS Nursing Association, appeared in support of **HB 2737** because it will decrease consumption of tobacco products. She said in 1998 and 1999, when the legislature considered an excise tax increase, she held various positions in the Tobacco Free Kansas Coalition. Through ninety-four studies from the Kansas Health Institute, they assured her that the ranges used to determine what amount of taxes the state will collect, despite what they hope will be a decrease in use of cigarette and tobacco products are accurate. She said she would provide testimony at a later date (no written testimony).

Steve Brunken, Kansas Department of Revenue, explained that during the compilation of figures for the fiscal note, they considered elasticity, tax erosion, cross state sales, and the lag factor. Chris Courtwright added that the current $.79 cent a pack rate raises about $113-$115 million dollars. The assumption is that the next $.50 proposed increase would raise only $43 million dollars. There is significant slippage due to consumer behavior factored into the fiscal note. This is just on sale of cigarettes, with no other sales projected.

Mary Jane Hellebust, Tobacco Free Kansas Coalition, rose in support of the bill. She gave the demographics of the average smoker. She said that statistics show that $430,000 Kansans are smoking, and 56% have tried to stop smoking in the past year; 40 % have income less than $15,000; 28% have less than a high school education; 22% are disabled; and 36% do not have health insurance. Raising the cost is

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not regressive because low-income people are 4 times more likely to stop smoking or cut back (Attachment 4).

Dick Morrisey spoke on behalf of Paula Marmet, Director, Office of Health Promotion, KDHE, whose testimony was distributed. He also distributed a 2006 Status Report on *Tobacco Use in Kansas,* which provides data and graphics for the Committee's perusal. He said that the toll of tobacco in Kansas remains very high and each year, nearly 3,900 adult Kansans die from cardiovascular disease, cancer and respiratory disease from their own smoking. In conclusion, he said seven out of ten Kansans support a tax increase on cigarettes, which includes smokers and non-smokers (Attachment 5).

Linda De Coursey, American Heart Association, Topeka, testified in support of the bill. She said that it is tough to be a smoker today as the culture weighs the fairness and health concerns of tobacco use. She said that smoking-caused health costs and productivity losses per pack sold in Kansas is $11.66, and right now we collect $.79 cents of pack, thus we are supporting the tobacco industry (Attachment 6).

The Chairman called attention to the following written testimony contained in (Attachment 7):

1) April Holman, KS Action for Children, Topeka
2) Michelle Bernth, American Lung Assoc. Of the Central States
3) Chad Austin, Kansas Hospital Association
4) Dan Morin, Director of Governmental Affairs, Kansas Medical Society
5) Dr. James Hamilton, Kansas Cancer Partnership, Topeka
6) Cynthia Smith, Sisters of Charity of Leavenworth Health System

Discussion followed regarding:

1) Formula for distribution of funds as outlined in the Kansas Health Reform Authority proposal and whether the Legislature has authority to determine how funds are allocated.
2) Similarity between **HB 2737** and **SB 542**
3) Dependancy of Health Policy Recommendations on the proposed increase in taxes.

The following questions were posed:

1) Was there consideration given to setting policy guidelines and determining the dollar amount necessary to direct a sufficient amount of money to every Kansas High School for smoking prevention or cessation programs?
2) Are there any organizations that have considered putting forth the effort to make tobacco products illegal in Kansas?
3) Is there data that reflects a particular point at which the tax becomes so onerous to users that it impacts the ability to generate the revenue to fund the health programs?
4) Is there more money in the Health Reform Proposal that is allocated to smoking cessation programs?

The Chairman observed that many Committee members believed that more than the current allocation of $1 million dollars, from the Master Settlement Agreements, should be spent on smoking cessation programs. He asked if any of the list of conferees could explain the rationale for that decision. He also suggested at the conclusion of the hearing, they might want to draft a letter to the Appropriation Committee advising them of the two day hearings, at which time the Committee recommends that they re-direct some of the funds toward this worthwhile project.

At this time, the Chairman turned attention to the opponents of the bill.

Eric Donaldson, United States Tobacco, Texas, said that instead of the proposal before them they should consider a "unit" based tax, like one laid out in **HB 2512** which was introduced last year. It treats all products the same and raises more revenue than its' "price" based counterpart (Attachment 8) .

Patrick Hubbell, Cigar Association of America, said the tax increase in **HB 2737** simply threatens to put many cigar retailers in Kansas out of business. Today cigars are taxed by the state of Kansas at 10% of the wholesale price and would increase to 57% of the wholesale, a 470% increase. In conclusion, he

said that the increased taxes ensure that Missouri tax coffers would grow as a result of across border sales(Attachment 9).

Karl Peterjohn, Kansas Taxpayers Network (KTN) , (Attachment 10) reviewed the history of taxes on cigarettes in 2002 compared to revenue gained. He explained the rationale for the data. KTN's position is that Kansans are already overtaxed, which places undue hardship on taxpayers and well as makes Kansans less competitive with neighboring states.

Tom Palace, Petroleum Marketers and Convenience Store Association spoke to the Committee about the concern of business owners located on the borders of the state. He said that tax increases will hurt small businesses, as consumers go across the border, because profit of sales for ancillary sales, such as candy, pop and fuel, have a significant impact on profitability of a small business. (Attachment11).

Whitney Damron, Swisher International, Inc., testified that they respectfully find the imposition of a 470% increase in the existing tax on "Other Tobacco Products" as proposed in **HB 2737,** to be an outrageous recommendation from the Kansas Health Policy Authority. He said if the Legislature determines that the state should increase taxes to expand access to health care, then they believe the costs should be born by all Kansans and not assessed through targeted tax increases on cigarette and tobacco users. If this program is good public policy, then all Kansans should share in its cost, not the 20 percent of adults who lawfully consume tobacco products. His testimony included a memorandum containing data from the United Health Foundation on "America's Health Rankings" (Attachment 12).

The Chairman called attention to the following written testimony contained in (Attachment 13):

1) John Bottonberg, Phillip Morris
2) Jeff Martin, Armor Amusement
3) Alan Cobb, Americans for Prosperity
4) Dr. Phil Bradley, Kansas Licensed Beverage Assn
5) Jerry Davidson, Crescent Oil Company
6) Patty Solomon, Smoke-EEZ, Kansas City
7) Nizar Ali, Discount Smokes, Bonner Springs

Discussion followed regarding percent of taxes paid on cigarettes and tobacco products and loss of motor fuel taxes due to consumers purchasing fuel elsewhere.

In response to the question of why cigarettes are taxed per package, while other tobacco products are taxed at a percentage rate, staff reviewed the history of cigarette taxes from the 30's through the initiation of taxes on other tobacco products in the 70's.

The Chairman reviewed Committee requests for additional information: Dr. Marcia Niesen agreed to provide information on the smoking cessation programs brought forward by the Children's Initiative Council, which is funded by the Master Settlement Agreement. The data should include; current usage of the funds, how much has been spent and what are the results.

A second question was raised concerning the premise of the original tobacco suit and the amount the state of Kansas was awarded. Are actual expenses being covered by funds from the master settlement. It was suggested that perhaps this issue would be a good audit subject.

The Chairman closed the hearing on **HB 2737**.

Announcements were made for Monday Sub-committee meetings.

The meeting was adjourned at 11:30 A. M. The next meeting is February 12, 2008.

HOUSE TAXATION COMMITTEE

DATE: Feb 8, 2008

NAME	REPRESENTING
LISA BENLON	AMER. CANCER SOC.
Connie Edwards	KS Health Consumer Coalition
MG Hellebust	Tobacco Free Kansas Coalition
CLARENCE CRYER	KDHE
HARLEN HAYES	KDHE
RICHARD MORRISSEY	KDHE
Katie Sunbaugh	Kearney and Associates
Randy Hayzlett	
Ron Hein	Reynolds American, Inc
Austin Hayden	PMI
Whitney Damron	Swisher Int'l, Inc.
TOM PALACE	PMCA OF KS
Richard Cram	KDOR
Steven Brunkan	KDOR
David R. Corbin	KDOR
Barb Langner	KHPA
Tara Hacker	KHPA
Suzanne Wikle	KS Action for Children
April Holman	" " " "

HOUSE TAXATION COMMITTEE

DATE: 2/8/08

NAME	REPRESENTING
KEVIN GREGG	KMCA
Michelle Schroeder	Dunn Govt Relations
Phil Bradley	KLBA
LORI DESCH	PMCA OF KS
Karl Peterjohn	KS Taxpayers Network
Mike Reecht	Xcaliber International
Terri Roberts	Kansas State Nurses Assn.

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Testimony re: HB 2737
House Taxation Committee
Presented by Ronald R. Hein
on behalf of
Reynolds American, Inc.
February 7, 2008

Mr. Chairman, Members of the Committee:

My name is Ron Hein, and I am legislative counsel for Reynolds American, Inc.

RAI opposes HB 2737, which would increase the Kansas cigarette tax 50 cents from 79 cents to $1.29 per pack and an additional 20 cents (up to $1.49 per pack) over the next five years. This bill will hurt consumers and retailers alike. This bill, when fully implemented, would result in an increase in cigarette taxes of 89%. This bill will also increase the tax on other tobacco products (OTP), changing the rate from 10% of wholesale price to 57% of wholesale price, a 470% increase in the rate of taxation.

History of past tax increases

Cigarette taxes in Kansas have been raised substantially in recent years. Not only have excise taxes been raised, but Kansas smokers have seen significant increases in the cost of cigarettes resulting from federal excise tax increases (62.5% increase since 2000) and the increased costs resulting from the Master Settlement Agreement (MSA) between the state attorneys general and the tobacco industry. Lastly, Kansas smokers have to pay increased sales tax on the increased cost of cigarettes resulting from the MSA and the increased taxes, which are compounded when the sales tax is collected. Since the sales tax has also been increased, both at the state and, in some cases, at the local level, consumers have had to pay that additional tax as well.

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 in 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.

Nationally, from 1998 to 2007, the average price per pack rose from $2.04 to $4.43. In 2002, the government collected $1.67 of the average pack of cigarettes. **The average cost of a pack in Kansas as of November 2007 was $4.33, and $2.05 of that amount goes to federal, state, and local government.**

<u>**Effect on Kansas Retailers.**</u>

Kansas retailers should also be concerned. The new $1.49 tax would be more than twice as high as the rate in Nebraska (64¢), **almost nine times** the existing Missouri tax (17¢), **almost twice** the tax in Colorado (84¢), and **one and one half times** the Oklahoma rate ($1.03).

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 already confront a competitive challenge and this bill would make that worse. Nearly 25% of Kansas' population lives in the greater Kansas City area, which borders Missouri. Kansas consumers could save as much as $13.20 per carton purchasing in Missouri, assuming their existing tax rate. These margins exceed the Advisory Commission on Intergovernmental Relations' 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.

The Cross Border Threat

Cigarette purchasing patterns have changed dramatically due to 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 at that time, sold 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.

Regressivity

A 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. Barents 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**.

Barents 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.

New Jersey Experience

I have attached to my testimony an article concerning the experience when New Jersey raised their tax and saw their actual revenue received fall. This is another example of the problems that can result from cross border sales, Internet sales, or other sales where consumers seek other options for tax avoidance on cigarettes and other products.

Anti-Tobacco Groups Projections

Careful consideration should be given by this committee and the full legislature to projections made by anti-tobacco organizations regarding the effect upon tobacco consumption by certain amounts of increases in the tobacco tax. Historically, such projections have proven to be incorrect, as was noted from the experience of the last major increase in the tobacco tax for Kansas raising the tax from 24 cents to 79 cents. It would be appropriate for the legislature to request Legislative Research to review such past projections and to determine such projections credibility, if the legislature is interested in pursuing this legislation.

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

Testimony in favor of HB 2737
House Taxation Committee
February 8, 2008

Chairman Wilk and Committee members,

My name is Lisa Benlon. I am the Legislative/Government Relations Director for the American Cancer Society. The American Cancer Society stands in support of HB 2737.

Smoking-Caused Monetary Costs in Kansas

Annual health care costs in Kansas directly caused by smoking	**$927 million**
- Portion covered by the state Medicaid program	**$196 million**
Residents' state & federal tax burden from smoking-caused government expenditures	**$582 per household**
Smoking-caused productivity losses in Kansas	**$863 million**

Amounts do not include health costs caused by exposure to secondhand smoke, smoking-caused fires, spit tobacco use, or cigar and pipe smoking. Other non-health costs from tobacco use include residential and commercial property losses from smoking-caused fires (more than $500 million per year nationwide); extra cleaning and maintenance costs made necessary by tobacco smoke and litter (about $4+ billion nationwide for commercial establishments alone); and additional productivity losses from smoking-caused work absences, smoking breaks, and on-the-job performance declines and early termination of employment caused by smoking-caused disability or illness (dollar amount listed above is just from productive work lives shortened by smoking-caused death).

Above information cited:

Smoking-caused health expenditures, productivity losses, tax burdens
CDC, *Data Highlights 2006* [and underlying CDC data/estimates; CDC's STATE System average annual smoking attributable productivity losses from 1997-2001 (1999 estimates updated to 2004 dollars); See also, CDC, "Annual Smoking-Attributable Mortality, Years of Potential Life Lose, and Economic Costs -- United States 1995-1999," MMWR, April 11, 2002; Zhang, X., et al., "Cost of Smoking to the Medicare Program, 1993," Health Care Financing Review 20(4): 1-19, Summer 1999; Office of Management & Budget, The Budget for the United States Government - Fiscal Year 2000, Table S-8, January 1999; Leistikow, B., et al., "Estimates of Smoking-Attributable Deaths at Ages 15-54, Motherless or Fatherless Youths, and Resulting Social Security Costs in the United States in 1994," Preventive Medicine 30(5): 353-360, May 2000. CDC, "Medical Care Expenditures Attributable to Smoking -- United States, 1993," MMWR 43(26): 1-4, July 8, 1994.

The increased revenue per package of each tobacco product sold brings in far more new revenue than are lost by the reduction of tobacco product consumption and sales prompted by the tax increase. The $.50 per pack of cigarettes is expected to yield revenues of $43.14 million in tax revenue per year with increases of 2.8% annually. An increase in the excise tax on other tobacco products will generate approximately $18.43 million in new revenue.

In response to a comment made by Ms. Ellsworth during her testimony yesterday, she stated that raising the tobacco excise tax would lower the volume of packs sold in Kansas as consumers would be traveling to Missouri to purchase their tobacco. She then stated Kansas would see a decline in the Master Settlement Agreement funds. That is not accurate...the state MSA revenues are based on a percentage of the volume of cigarettes sold nationwide—not state volume.

Representative Dillmore asked about the revenues from the MSA funds. Those funds were set up to be placed in the Children's Cabinet. It is hard to argue against the merits of early childhood programs. The Children's Cabinet has provided $1 million annually for cessation/prevention programs. The Center for Disease Control states Kansas should be spending $32.1 million annually to be effective in cessation/prevention programs. The MSA fund is expected to bring in an estimated $50 million this year. Also, beginning this year and for the next eight years, Kansas will receive a "bonus" payment of roughly an extra $16 million.

Tobacco is a legal substance, but we would not allow another industry to cost the state nearly a billion dollars a year without assessing them a significant fee—tobacco should be no different.

Results from a poll by the Sunflower Foundation show 64% of Kansas voters support a tobacco tax increase.

The American Cancer Society encourages the tax committee members to vote HB2737 favorably.

Testimony of the Kansas Health Consumers Coalition
Regarding HB 2737: Increasing the Rate of Taxation on Cigarettes and Tobacco Products
Presented to the House Committee on Taxation
Submitted by Corrie Edwards
February 8, 2008

Thank you Chairman Wilk for the opportunity to speak today in support of HB 2737, a proposal to increase Kansas tobacco taxes. My name is Corrie Edwards and I am the Executive Director of Kansas Health Consumer Coalition (KHCC) based in Topeka. The Coalition works to advocate for affordable, accessible and quality health care in Kansas. I would like to address the regressivity argument brought up yesterday.

In general, cigarette taxes are regressive – on average, low-income taxpayers pay more of their income in these taxes than upper-income families. However, the harms from smoking are regressive as well. Lower- income families already suffer disproportionately from smoking-caused disease, disability, death, and costs.

After a tax increase, lower income people tend to quit, reduce their smoking, or switch to cheaper brands. Low income smokers end up paying a lower proportion of their income to tobacco taxes after a tax increase. Because fewer upper income people quit smoking after a tax increase, the proportion of personal income devoted to tobacco among upper income people remains approximately the same. Since the proportion of income devoted to tobacco is lowered among low income people, but stays the same among upper income people, the tax becomes less regressive.

Raising cigarette taxes, by getting more lower-income smokers to quit and cutback, will reduce those regressive harms and costs.

Higher smoking rates among lower-income groups means they are now suffering the most from smoking and will, consequently, benefit the most from any effective new measures to reduce smoking, including increased state tobacco taxes.

If we can use the tax increase to expand services to low-income smokers, more will get tobacco treatment provided through the Medicaid program.

Cigarette tax increases, offer one of the best ways to help low-income families who are currently suffering from direct and secondhand smoking, they can escape the smoking-caused health risks, disease, and related costs. These smokers and their families will be much more likely to have those harms and costs eliminated or reduced by a cigarette tax increase. Those cost reductions will also have a more powerful and beneficial impact on the financial health of lower-income families.

It is only a matter of time before Kansas takes action to face the reality that we must be more aggressive to discourage use of tobacco. You can't effectively address this concern by avoiding a tobacco tax. We have one of the lowest tobacco taxes in the nation. The time to take action is sooner rather than later.

The Kansas Health Consumer Coalition urges you to support HB 2737. Thank you for considering this testimony.

Respectfully submitted,

Corrie L. Edwards, MPA
Executive Director
Kansas Health Consumer Coalition
534 S. Kansas Ave, Suite 335
Topeka, Kansas 66603

Testimony in Support of HB 2737
House Committee on Taxation
February 7, 2008

Chairman Wilke and Members of the Taxation Committee:

My name is Mary Jayne Hellebust, and I am the director for the Tobacco Free Kansas Coalition (TFKC). The Coalition is composed of members from health-related voluntary and professional associations, local tobacco and wellness coalitions, state and local agencies, other organizations, and individuals committed to reducing the prevalence of tobacco use in Kansas and the physical and economical toll that such use causes. TFKC supports the provisions of HB 2737 to increase the tax rates for cigarettes and tobacco products and provide these revenues for implementing the 21 recommendations developed by the Kansas Health Polity Authority to improve health in Kansas while reducing health costs across the state. Today I would like to discuss the impact of the bill and address some arguments that are usually made against tobacco tax increases.

Impact of Tobacco Use in Kansas

Tobacco use is still identified as the single most preventable cause of death in our country. In Kansas each year, 3,900 adults die from illnesses caused by their own smoking, several hundred more from secondhand smoke. What is ironic that almost the same number of Kansas kids are lured into becoming newly addicted smokers each year.

Tobacco use is a pediatric disease that starts in childhood and culminates in illness and premature death in adulthood. But even though it is labeled a legal agricultural product, the Kansas state legislature can adopt procedures to reduce the ill effects that tobacco use has on personal health and the economic well-being of the state.

Kansans suffering from smoking-caused disabilities have annual health costs and productivity losses that total almost $1.8 billion—costs that all of us and the state are paying for. The U.S. Center of Disease Control estimate that smoking-caused health costs and productivity losses in Kansas total more than $11.66 for each per pack of cigarettes sold in the state.

Smoking Proven to Have a Financial Impact

Arguments are still being raised to downplay the costs of treating smoking-related illnesses. A recent Dutch study purports to show that healthy people have more health costs than people who smoke or

Tobacco Free Kansas Coalition Officers:

President
Lisa Benlon

Vice-President
Terri Roberts, JD,Rn

Secretary
Kathy Bruner

Treasurer
Linda DeCo

HS Taxation
2-8-08
Attachment 4

Mary Jayne Hellebust, Executive Director
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Phone 785-272-8396 ★ Fax 785-272-5870 ★ www.tobaccofreekansas.org

who are obese because healthy folks live longer and thus have more time to incur health medical treatment. This study seems to be based on the concept that the shorter a life is, the less the health costs.

However, this study does consider the extreme costs for treatments of heart attacks, strokes, lung and other cancers, COPD, and other ailments for the primary smoker, nor does it look at associated costs for secondhand smoke treatment, or medical care for premature babies born to smoking parents, or to the loss of productivity to the economy when people die early, or the societal cost of caring for children of parents who die prematurely due to smoking-related illnesses. To follow the logic of this study, should we encourage children to start smoking so their early deaths will save the state the cost of their later health care?

Increasing Tobacco Tax Rates Will Produce Significant Revenue

An increase in tobacco products and cigarette excise taxes will produce a significant source of new revenue while at the same time reducing smoking-caused costs and improving public health. Estimates provided by the Kansas Legislative Research staff project a revenue increase of $61.5 million resulting from a 50-cent cigarette tax increase and a boost in the tobacco products tax to 57% of the wholesale price. Reducing smoking prevalence will also have a significant and immediate impact on reducing the number of heart attacks and strokes and pregnancy complications due to smoking. A significant portion of low income people, often those most dependent upon state assistance for health treatment, are addicted to smoking.

State Cigarette Tax Increases Help Low-Income Residents

Some argue that higher cigarette taxes unfairly burden lower-income smokers. However what is actually regressive is the impact of increased death rates, disabilities and suffering that smoking causes in lower-income families with less access to health care or cessation treatment. In addition, adult smokers with family incomes at or below the national median income are four times more likely than those with higher incomes to quit smoking because of higher cigarette prices. If they cut back or quit smoking, these Kansans not only avoid the tax increase, the original tax (state and federal), but also the current price of a pack of cigarettes. Quitting a pack a day habit at a price of $4.50 for a pack could produce a savings of $1,602 a year. In addition, the health benefits are profound, both in terms of the individual who stops smoking and for the family members who will not be affected by secondhand smoke—or who as youth will not be influenced to begin another generation of smoking behavior.

New Revenue from Raising the Cigarette Tax Rate to Be Stable and Predictable

Another argument follows from the regression argument. Some say Kansas cannot possibly rely on cigarette tax revenues to fund health programs because revenues decrease too quickly if everyone stops smoking. Actually, year to year, state cigarette tax revenues are more predictable and less volatile than many other tax revenues. Unfortunately, tobacco is extremely addictive, and the heaviest smokers will continue to buy their favorite addictive products, even at an increased price—or a lower priced product but still at the higher tax rate. Most states have usually seen state tobacco tax revenues decline by about 2% when a larger tax increase goes into effect. This has happened in

Kansas also. Prior to the 2002-03 tax in Kansas, cigarette tax revenues brought in about $48 million. In FY07, the state still received $115 million, more than double the tax revenue from the previous 24-cent tax level in 2002. Even Utah with the lowest adult prevalence rate in the nation still receives cigarette tax revenues. HB 2737 also provides for a 4 cent additional increase each year through 2013 to ensure a consistent level of cigarette tax revenue.

Maximizing Tobacco Tax Revenue by Minimizing Smuggling and Tax Evasion Via the Internet

The Alcoholic Beverage Control division of the Department of Revenue has been expanding its staff to continue its focus on enforcement, particularly of retail tobacco sales to minors. Incidental to that focus, inspectors are finding other evidence of other problem areas including smuggling and tax evasion. In addition, the Department of Revenue has been obtaining customer sales listings of Kansans making on line purchases from internet sales companies in order to send tax payments notices for collection purposes. These activities can help reduce potential problems in this area.

Cross Border Sales

The cross border sales argument appears regularly, and there is no way of denying that Kansas City, Missouri and towns close to the Kansas border may attract Kansas tobacco purchasers. However, most tobacco retailers admit a single pack of cigarettes is the usual purchase for most customers, not the carton with a price exceeding $30. At the current price of gas, not many folks, particularly low-income or teens will drive to get a pack of cigarettes in city across the state line from them.

Tobacco Products Tax Increase

The tax level for tobacco products—cigars, loose tobacco, smokeless tobacco—has remained unchanged since first collected in FY 73. If this tax is not increased to the same proportional level as cigarettes, we could well see an additional increase in youth, particularly teenaged boys, using these smokeless products now being highly promoted as alternatives to smoking or to be used when smoking is restricted. As it is 14% of Kansas teen boys say they have used chew tobacco in the past 30 days. Increasing the tax on tobacco products will discourage youth from switching to lower priced non-cigarette tobacco products lower-cost products which often come in kid-friendly flavors such as grape, cherry, apple, and chocolate or banana.

Conclusion

The passage of HB 2737 will have a profound impact on the health of Kansans and provide for funding for implementing the Kansas Health Policy proposals that will improve the health of Kansans, provide for preventive care, and reduce the prevalence of tobacco use.

KANSAS
DEPARTMENT OF HEALTH
AND ENVIRONMENT

Kathleen Sebelius, Governor
Roderick L. Bremby, Secretary

www.kdheks.gov

Testimony on House Bill 2737

To
House Taxation Committee

Presented by
Paula F. Marmet, MS, RD, LD
Director, Office of Health Promotion
Kansas Department of Health and Environment

February 7, 2008

Chairman Wilk and members of the Taxation Committee, my name is Paula Marmet. I serve as the Director of the Office of Health Promotion in the Division of Health, Kansas Department of Health and Environment. Thank you for the opportunity to appear before you today in support of HB2737 which proposes to increase the excise tax on cigarettes and other tobacco products.

KDHE sincerely appreciates the Committee's leadership in recognizing the significant toll of tobacco use upon the health of Kansas citizens. Significantly increasing the tobacco tax rates not only offers a method of raising the needed new revenue for implementing health reform recommendations, but is one of the most effective ways to reduce tobacco use and its related harms in Kansas.

The toll of tobacco in Kansas remains very high. Each year, nearly 3,900 adult Kansans die from cardiovascular disease, cancer and respiratory disease from their own smoking. These deaths are replaced by nearly 3,800 Kansas kids who become new addicted daily smokers every year. Countless other Kansas residents suffer from smoking-caused disease and disability with annual smoking-caused health costs in the state totaling more than $927 million, of which $196 million is paid by the Kansas Medicaid program. The Campaign for Tobacco Free Kids (TFKC) estimates that the smoking-caused costs in Kansas are $11.66 for every taxed pack sold. (Based on average retail price per pack = $3.94; state share from excise and sales tax = $0.99)

The health care costs associated with tobacco use are driven primarily by the increased incidence of chronic diseases among smokers compared to non-smokers. Smokers are 2-4 times more likely to develop coronary heart disease, the leading cause of death in Kansas. Smoking is attributed to 90% of lung cancer deaths in men and almost 80% o

lung cancer deaths in women. It is associated with a number of adverse reproductive and birth outcomes, including infertility, preterm delivery, stillbirth, low birth weight and sudden infant death syndrome.

Interventions to increase the price of tobacco products (cigarettes and smokeless) are a proven method recommended by the American Journal of Preventive Medicine's *Guide to Community Preventive Services: Tobacco Use Prevention and Control.* There exists strong evidence of its effectiveness in (1) reducing population consumption of tobacco products, (2) reducing tobacco use initiation, and (3) increasing tobacco cessation. The Guide also reports strong evidence that increasing the price of tobacco products is particularly effective in reducing tobacco use prevalence of adolescents and young adults.

The Campaign for Tobacco Free Kids (a non-profit organization) estimates that a $.50 per pack tobacco tax increase will result in 8,200 adult smokers quitting for good and 14,700 kids who are alive today that will not die prematurely from a smoking-caused disease. Additionally, it would result in 2,350 fewer smoking-affected births over the next five years. A $.50 tax increase on cigarettes is predicted to generate $49 million in new revenue each year while producing a decline in cigarette sales of 18.9 million packs.

Similarly, increasing the excise tax on other tobacco products by 57% of wholesale price will generate $17.8 million and result in a nearly 1/3 reduction in the number of youth using other tobacco products. Increasing the price of other tobacco products to parallel that of cigarettes is an important strategy to prevent cigarette smokers, especially youth, from switching to the less expensive non-cigarette tobacco products.

From 1998 to 2002, the Kansas cigarette tax was $0.24 per pack of 20 cigarettes. In 2003 the Kansas legislature increased the cigarette excise tax by $0.55 to a total of $0.79 per pack. This tax increase dramatically increased the amount of tax collected in 2003 by $81 million and reduced the number of cigarettes sold in the state by 18 percent according to the Kansas Department of Revenue. In 2005, the number of packs sold decreased by only 0.7% and in 2006 it decreased by 0.9%.

This slowed decline in the number of taxed cigarette packs sold can be attributed in large part to the concept of price elasticity: essentially, steeper price increases lead to quicker declines in the purchase (and use of tobacco). Factors such as inflation weaken the impact of price (tax) increase over time.

A price elasticity model predicts demand to go down by a certain proportion based on a specific price increase. So, as the real price of tobacco products decreases due to industry counter pricing (discounts for bulk, special pricing) and from the impact of inflation, the price elasticity is also reduced. Here is a very general example to illustrate:

> *Imagine a pack of cigarettes that cost $3.50 in 2004 prior to the excise tax increase. With the $.55 increase per pack, the price per pack jumped up to $4.05, an increase of 15.7%. Without any additional increases in price, this same pack of cigarettes in 2007 dollars would be equivalent to $3.69 in 2004 dollars. This would only be an increase in price of 5.4% as compared to the original starting*

price of $3.50. This adjustment for "real" price in 2007 is due to inflation of incomes over time (assumed to be around 4% per year, using the Bureau of Labor Statistics to calculate these real values).

Without any further price increase since 2004, the "real" price of tobacco has only increased marginally. Therefore, the demand is not impacted as much and the decrease in tobacco use declines.

As of November 2007 at $0.79 per pack, Kansas ranked 33rd in state rankings for excise tax. New Jersey has the highest excise tax in the country at $2.58 per pack and the average rate is $1.12. The Kansas excise tax is currently less than Colorado and Oklahoma and more than our other two border states.

Public support for a cigarette tax increases is strong in Kansas. A 2007 Sunflower Foundation poll found that 64 percent of all voters support increasing the current 79-cent tax on a pack of cigarettes. The response was stronger in the 2006/2007 Kansas Adult Tobacco Survey where seven out of 10 adults in Kansas support raising the tax on cigarettes to fund tobacco use prevention programs and 58.8 percent said they would support an increase of $1 or more.

Put simply, the increased revenues per package of each tobacco product sold brings in far more new revenue than are lost by the reductions in tobacco product consumption and sales prompted by the tax increase. The health benefits that result from reduced consumption of tobacco products and subsequent disease will save lives and money, and will significantly reduce the skyrocketing Medicaid program costs.

Thank you for your consideration of this important health policy. I will be pleased to stand for any questions you might have.

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February 7, 2008

To: House Committee on Taxation

From: Linda J. De Coursey, Sr. Director of Advocacy—Kansas

Re: HB 2737—increases taxes on all tobacco products, establishes health reform fund

Mr. Chairman and members of the committee:

Thank you for this opportunity to speak out on this very important issue. Heart disease and stroke is the number one cause of death in Kansans. The American Heart Association's mission is to build lives free of cardiovascular disease and stroke, and tobacco control has been one way to reduce tobacco use, particularly among children. That is one of the reasons the American Heart Association supports the 21 health reform recommendations offered by the Kansas Health Policy Authority and embraces the overarching goals of health reform. It is our belief that these 21 recommendations are critical first steps to transform the health care system and improve the health of Kansans.

Smoking takes a terrible toll on Kansans. Tobacco use is the single most preventable cause of death in Kansas. Every year more than 3,900 Kansans die from diseases that are directly linked to tobacco use. In the Tobacco Use in Kansas Status Report 2006, it was reported that annual health care related expenditures attributed to smoking now totals more than $927 million. The direct cost paid by Medicaid for tobacco related illnesses in Kansas was $196 million. Tobacco use costs the State lives and money.

Increasing the tobacco tax is a win-win-win solution for Kansas: a public health win that reduced smoking and saves lives, a financial win that raises much-needed revenue to fund health reform and reduces smoking-caused health care costs, and a political win because tobacco taxes have strong support of the public (64% of Kansans according to the Sunflower Foundation poll released June of last year).

Increased tobacco taxes are especially effective at reducing smoking among kids. Studies show that every 10 percent increase in the price of cigarette reduces youth smoking by about 7 percent and over cigarette consumption by about 4 percent. Even a slight decrease in youth smoking will save lives because for every three kids we prevent from becoming regular smokers, a life is saved.

Heart Disease and Stroke. You're the Cure.
5375 SW 7th St. ~ Topeka, KS 66606 785-228-3437 785-272-3435 linda.decoursey@heart.org

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Tobacco taxes are a reliable source of revenue for Kansas. It is not a shrinking source...because 4,000 kids try their first cigarette every day...another 1,000 become daily smokers and one-third of them will die prematurely as a result. In Kansas, before students graduate from high school, a staggering 3 out of 4 have tried tobacco and 1 in 3 become regular users of tobacco.

Increased benefit for lower-income smokers and families. It as been reported that smoking levels are highest among people with low incomes, and the tobacco industry argues 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 they are now suffering the most from smoking and will, consequently benefit the most from any effective measures to reduce smoking, including increased state tobacco taxes. Using data from the U.S. Centers for disease control and Prevention (CDC), we now that:

- Low-income smokers are much more likely to quit because of state tobacco tax increases than high-income smokers.
- State tobacco-tax increases shift the overall tobacco-tax burden more toward higher-income smokers.
- State cigarette tax increases give many current smoker a "tax cut" by switching from premium to cheaper brands.
- Low-income voters strongly support tobacco-tax increase.
- State tobacco-tax increases improve the health of low-income smokers and their families and reduce their related costs.

Kansas cigarette tax is below national average ($1.11). Currently, 26 states, DC, Puerto Rico and Northern Marianas, and Guam have cigarette tax rates of $1.00 per pack or higher. CDC estimates that smoking-cause health costs and productivity losses total $10.28 per pack sold.

In closing, significant tobacco tax increases are proven to reduce smoking and save lives. They make tobacco products too expensive for many kids and give smokers another incentive to quit. The higher the tax, the more lives saved. Raising the Kansas tobacco tax rate by 50c places Kansas back in the ranks of states controlling tobacco taxes and its many harms and costs. Please consider increasing tobacco excise taxes in Kansas. Thank you.

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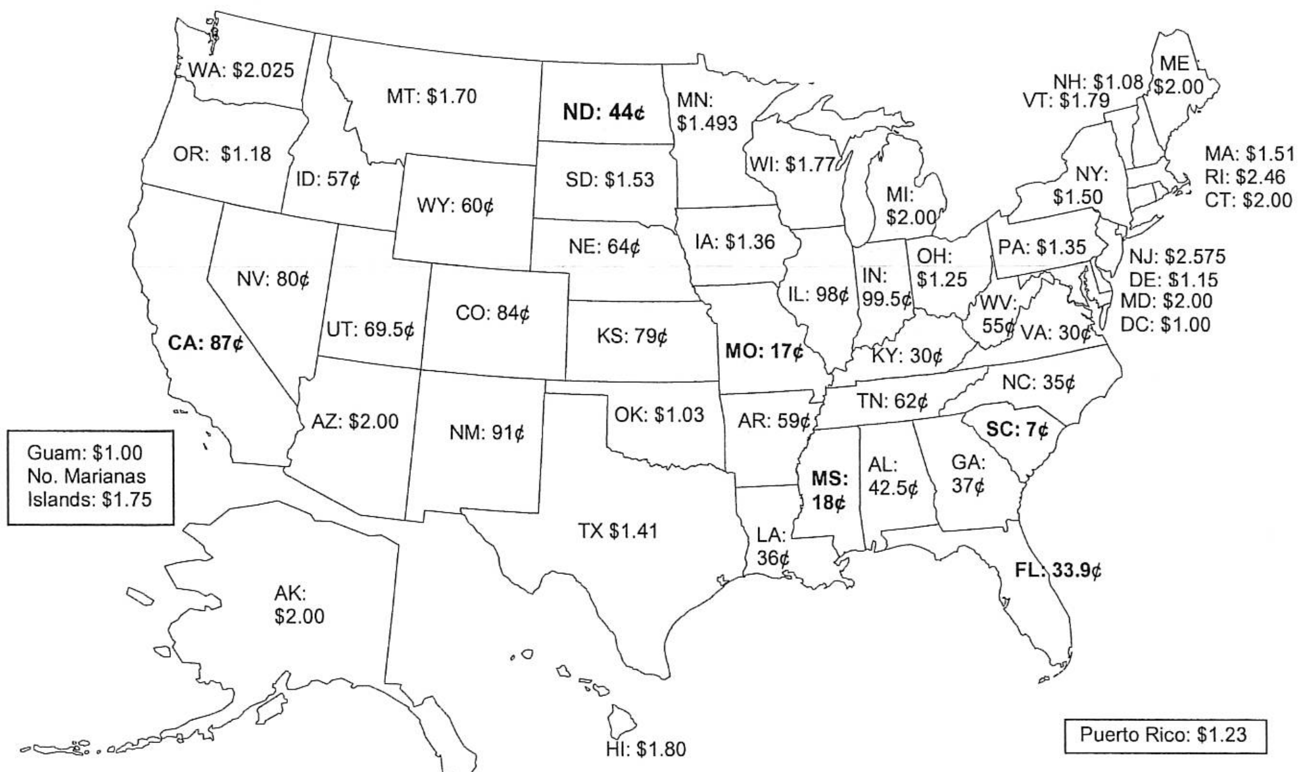
MAP OF STATE CIGARETTE TAX RATES

Average State Cigarette Tax: $1.11 per Pack

Average Cigarette Tax in Major Tobacco States: 33.5 cents per Pack

Average Cigarette Tax in Non-Tobacco States: $1.22 per Pack



Map shows state cigarette tax rates in effect now and those that will go into effect this calendar year on January 1, 2008 (MD, WI). The six states that have not increased their cigarette tax rate since 2001 or earlier are marked in bold. Currently, 26 states, DC, Puerto Rico, the Northern Marianas, and Guam have cigarette tax rates of $1.00 per pack or higher. Nine states have cigarette tax rates of $2.00 per pack or higher. The state averages, listed above, do not include Puerto Rico (with a population larger than those in 20 different states) or any of the U.S. territories (such as Guam). Including Puerto Rico raises the state average and the non-tobacco state average slightly. The major tobacco states with extensive tobacco farming and, often, cigarette manufacturing are NC, KY, VA, SC, TN, & GA. Federal cigarette tax is 39¢ per pack. Not shown are the special taxes or fees some states place on cigarettes made by Non-Participating Manufacturers (NPMs), the companies that have not joined the Master Settlement Agreement (MSA) between the states and the major cigarette companies. Some local governments also have their own cigarette taxes, such as Chicago (68¢), Cook County, IL ($2.00), New York City ($1.50), and Anchorage, AK ($1.30). The U.S. Centers for Disease Control & Prevention estimates that smoking-caused health costs and productivity losses total $10.28 per pack sold.

Campaign for Tobacco-Free Kids, November 27, 2007 / Ann Boonn

For more information on state cigarette taxes and the benefits from increasing them, see:

- http://tobaccofreekids.org/research/factsheets/index.php?CategoryID=18
- http://tobaccofreekids.org/reports/prices

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February 8, 2008

TO: House Committee on Taxation

FROM: Linda J. De Coursey, Sr. Director of Advocacy—Kansas

RE: HB 2737—increases taxes on all tobacco products, establishes health reform fund

Mr. Chairman and members of the committee:

You have my testimony for yesterday and all in it have been stated by others in previous testimony. What I would like to do is focus on the issue of fairness that was brought out yesterday in testimony.

It's tough to be a smoker these days, and is getting tougher as we weigh fairness and health concerns. In 2005 a Gallup poll showed that only one in four Americans were inclined to believe tobacco taxes are too low. And when asked to consider the tradeoffs in raising tobacco tax, they gave much more weight to the public health problems associated with smoking as they give to fair treatment of smokers. In 2007, the general federal public seems to agree that higher taxes on tobacco were fair. In a survey conducted by the Mellman Group, 67% of the United States public supported an increase on cigarette taxes to finance health care for uninsured children.

The Campaign for Tobacco –Free Kids reported that smoking-caused health costs and productivity losses per pack sold in Kansas is $11.66 (just out yesterday). Currently, the tax rate on a pack of cigarettes in Kansas is $.79 and that doesn't even begin to cover the health care costs per pack. So who do you think ends up paying these costs? It's definitely not smokers. As a result, those costs end up getting passed on to the rest of the taxpayers who don't smoke. Until the state taxes tobacco products as much as tobacco costs the state, Kansas is effectively subsidizing tobacco use.

The money that each pack of cigarettes costs the state could be used for so many better purposes. But instead Kansans pay for people to use a product that at this point everyone knows is harmful. People can choose to smoke if they want, that's their right. However, if they do use tobacco, they should also bear all of the consequences, including the monetary cost. Raising the tobacco tax requires smokers to pay a greater share of the costs that they incur by using tobacco. Could anything be fairer?

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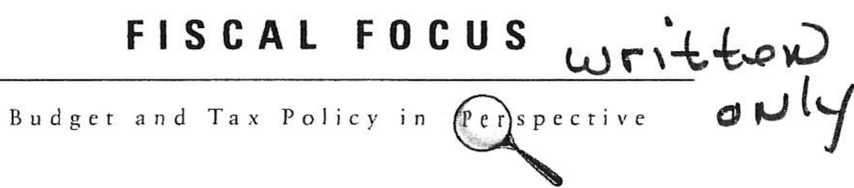

April Holman
Written Testimony Only
House Bill 2737
House Committee on Taxation
February 7, 2008

KAC is a not-for-profit child advocacy organization that has been in existence since 1979. KAC works to promote policies that improve child well-being in the areas of health, education and family economic success.

We stand in support of HB 2737 because data shows that increases in the cost of cigarettes and tobacco products result in a reduction in the use of these products by young people.

According to the Campaign for Tobacco-Free Kids, an increase in the cigarette tax of 50 cents would result in a decline in youth smokers of 7.9 % and over 13,000 fewer new youth smokers in Kansas. This has played out in New Jersey, the state with the highest cigarette tax ($2.58 per pack), and also the state with the lowest percentage of teen smokers (17.3 % compared to the national average of 21.7 %).

Tax law is commonly used to promote policies that are beneficial for the fiscal and physical health of the state. The tax increase proposed by HB 2737 would curb teen use of cigarettes and tobacco products and eliminate a significant health risk for those youth who are priced out of the tobacco market.

We respectfully urge your support of HB 2737.

720 SW Jackson, Suite 201 | Topeka, KS 66603 | Telephone 785- 232-0550 | Fax 785-232-0699 | kac@kac.org | www.kac.org

An initiative of Kansas Action for Children

February 7, 2008

Kenny Wilk, Chair
House Committee on Taxation

Chairman Wilk and Honorable Members of the Committee on Taxation:

Change is in the wind for Kansas, and you can play a critical role in improving health in our state. By advancing HB 2737, you can help provide funds which will reduce the tragedies caused by tobacco among our citizens.

This bill is complementary to the Kansas Health Policy Authority's 21 points plan for providing health reform measures for Kansas.

The negative health impact of tobacco on those who are addicted has been documented for decades. The question addressing us now is: "how best can we help our citizens?"

A proven method of reducing smoking rates is increasing the cost through a tax increase. Typically, increasing the sales tax on tobacco receives bi-partisan support. In a recent report by the Campaign for Tobacco Free Kids, 41% of Republicans said that they would cross party lines to support a Democrat who supported a 50 cent cigarette tax increase over a Republican who opposed it.

At the American Lung Association of the Central States we are fully committed to preventing and controlling lung disease. Our vision is a world free from lung disease.

We need your help. Please advance HB 2737 which will increase the tax on both cigarettes and tobacco products and provide funding the Kansas Health Policy Authority recommendations.

For all Kansas citizens who have chronic lung disease, and for all those who will avoid it through this bill, we thank you.

Sincerely,

Michelle Bernth

Michelle Bernth
Senior Vice President, Marketing & Advocacy
American Lung Association of the Central States.

1118 Hampton Avenue
St. Louis, MO 63139

(p) 314.645.5505
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www.lungusa.org
1-800-LUNG-USA

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Improving Life,
One Breath at a Time

Thomas L. Bell
President

February 7, 2008

TO: House Taxation Committee

FROM: Chad Austin
Vice President, Government Relations

RE: HB 2737

The Kansas Hospital Association appreciates the opportunity to comment regarding the provisions of HB 2737, which would enact a $.50 per pack increase in the tobacco tax. KHA and its members support this legislation.

Earlier this year, the KHA Board discussed the health reform recommendations offered by the Kansas Health Policy Authority and voted to support the efforts to increase the tobacco tax. Determining how to finance the cost of proposed expansions in coverage and access to services is perhaps the most important conversation facing Kansas. While Kansas community hospitals continue to care for all who come to them, financing is a shared responsibility. A fee on tobacco products, along with other financing options, will be important if the proposed health reform measures can be achieved.

The increase in the tobacco tax makes for good fiscal policy, especially this year, when state finances are particularly tight. Each year, more than $900 million is spent on health care related expenditures to treat tobacco-related diseases. This does not include the lost revenue from tobacco users who are unable to work due to tobacco-related illnesses, 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 increase in the tobacco tax will help generate the revenue necessary to support other health care related programs.

Finally, but perhaps most importantly, the tax increase is a good health policy. The costs to Kansas of tobacco products are very real, in human as well as financial terms. Studies have suggested that every ten percent increase in tobacco tax results in a reduction of youth smoking by 7 percent and overall consumption by 4 percent. The correlation between reduced tobacco consumption and better health is clear.

The Kansas Hospital Association urges your support for HB 2737. Thank you for your consideration of our comments.

Kansas Hospital Association
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www.KMSonline.org

To: House Committee on Taxation

From: Dan Morin
Director of Government Affairs

Date: February 8, 2008

Subject: HB 2737; An act increasing the rate of taxation imposed upon cigarettes and tobacco products; creating the health reform fund.

The Kansas Medical Society appreciates the opportunity to submit the following comments on in support of HB 2737, which would increase the tax on cigarettes. The cigarette tax would be an extra 50 cents, for a total of $1.29 starting July 2008 and increase annually to a final total of $1.49 in 2013. The bill also increases the wholesale sales tax of all tobacco products to 57% from 10%. Set amounts from the tax increases are to be deposited into a newly formed Health Reform Fund to be administered by the Kansas Health Policy Authority.

It is our belief that 100% of any funds resulting from such an increase should be dedicated to health care, namely increasing access to insurance coverage for Kansans. Unlike the spending decisions resulting from the 1998 financial settlement with tobacco companies, a settlement based on increased health care costs to the citizens of this country and this state, we think it's appropriate that all funds from passing HB2737 be targeted for health care, specifically, efforts to assist providing access to health coverage for the approximately 300,000 people in the state who have no health insurance. We are very pleased the bill establishes the Health Reform Fund, as it provides the state with a separate, identifiable source of funds with which we can begin to tackle the difficult financing issues associated with health care reform policy.

In addition, a major step in improving the future health of Kansans is tobacco cessation, specifically among teens. Stopping teens from smoking before they start is an important goal we all want to reach. Numerous studies show that significantly increasing the price of cigarettes is one of the most effective ways to reduce teen smoking. The Kansas Medical Society strongly supports public policy that will substantially reduce smoking among our young people and that may prevent the next generation of prospective smokers from ever lighting their first cigarette.

Thank you for the opportunity to offer these comments.

Testimony on House Bill 2737

Increasing the rate of taxation on cigarettes and tobacco products

To

House Taxation Committee

Presented by James Hamilton, Jr., MD, FACS
Kansas Cancer Partnership
Commission on Cancer State Chair, Kansas
February 7, 2008

Chairman Wilke and members of the House Taxation Committee, my name is Dr. James Hamilton and I am here today representing the Kansas Cancer Partnership as Chairman of the Commission on Cancer for the State of Kansas. Thank you for allowing me this time today regarding House Bill 2737, which proposes to increase the rate of taxation on cigarettes and tobacco products.

The Kansas Cancer Partnership, an organization of nearly 180 individuals representing public and private entities across the state who support cancer prevention and control, are very supportive of this legislation to increase the tax on cigarettes and tobacco products as a means to raise funds to support the 21 point proposal provided by the Kansas Health Policy Authority to improve the health of Kansans. Even beyond the funds raised by the increase are benefits of those who would be deterred from smoking by the increase.

Nearly 12,000 Kansans are diagnosed with cancer each year and 5,000 will die from the disease. Cancer costs the state nearly $1.6 billion each year in direct medical costs and the cost of lost productivity due to illness and premature death. Lung cancer, primarily caused by smoking, was diagnosed in 1,733 Kansans in 2005 and 1,604 died that year from the disease.

As a doctor and surgeon, I can also testify to the personal toll it takes on my patients and their families. Prevention, early detection and quality treatment are keys to reducing the burden of cancer in the state. However, this legislation can provide a direct health benefit to every Kansan-by increasing the tobacco tax, we will see a reduction in use and the health benefits that will result.

Many cancers are preventable with sound health initiatives and awareness of factors that contribute to the disease. The Kansas Cancer Plan promotes tobacco prevention, cessation and elimination of nonsmokers' exposure to second hand smoke. Smoking causes most lung cancers and tobacco contributes to other cancers of the mouth and oral cavity. Children are particularly vulnerable to illnesses caused by exposure to secondhand smoke.

There is some good news—cancer rates are dropping in Kansas. However, they are dropping at only half the rate they are nationally. Kansas needs to take action to address this problem. The members of the Kansas Cancer Partnership support the increase in the tobacco tax, to not only reduce cancer risk, but to support health care reform for Kansas and its citizens. Taking this critical step will help fund health initiatives and build the foundation for the much-needed health care reform in this state. I urge you to vote in favor of this legislation.

A number of initiatives included in KHPA's proposal are directly related to the Kansas Comprehensive Cancer Plan. Most important of those is the increase in funding to the state breast and cervical cancer prevention program, which uses federal dollars to fund no cost screenings for women in Kansas. Because of flat funding from the federal government this vital

Kansas House Taxation Committee
HB 2737
Tax on cigarettes and tobacco products; Health reform fund
February 7-8, 2008

Colorado tobacco tax increase, Adopted 2004

- *19% used to provide primary care through safety net clinics*

Citizens for a Healthier
COLORADO

Albert Yates, Barbara O'Brien • Co-Chairs

AMENDMENT 35

- Every year, more than 4,000 Coloradans die from tobacco-related illnesses
- One in three Coloradans who start smoking as teens will die prematurely because of it
- Every year, more than 10,000 Colorado teens become regular smokers
- Heath care expenditures in Colorado directly related to tobacco use = $1 billion per year
- Colorado Medicaid payments directly related to tobacco use = $249 million per year
- The cost to each and every Colorado household = $501 per year

Yet Colorado has the lowest cigarette tax in the country!

If we increase tobacco taxes, we can reduce tobacco use and provide much-needed funding for important health care programs - while making the cost of tobacco in Colorado similar to the cost in most other states.

Our proposed ballot initiative will:

- Raise the excise tax on cigarettes by 64 cents - bringing the total to 84 cents per pack and putting Colorado closer to the national average.
- Raise the excise tax on other tobacco products - cigars, chewing tobacco, etc - by 20%.
- This will generate approximately $175 million per year in new revenue for these programs:
  - $80.5 million (46%) to expand the Child Health Plan Plus and Medicaid
  - $33.25 million (19%) to provide comprehensive primary care through community health centers and other clinics serving a high portion of uninsured and medically indigent
  - $28 million (16%) for tobacco education, prevention and cessation programs
  - $28 million (16%) for prevention, early detection and treatment of cancer, cardiovascular and pulmonary diseases
  - $5.25 million (3%) to the general fund, old age pension fund and municipal and county governments for health related expenses (to compensate for tax revenue reductions due to lower tobacco use once this new tax is in place)

For more information please visit www.cohealthinitiative.org or call 303.839.1261

UST PUBLIC AFFAIRS INC.

R. Eric Donaldson
State Government Relations
UST Public Affairs, Inc.
7801 Mesquite Bend Drive, Suite 101
Irving, Texas 75063
(214) 296-6110
Cell: (214) 507-0148
FAX (214) 296-6112

Mr. Chairman, my name is Eric Donaldson. On behalf of the company I represent -- US Smokeless Tobacco -- we oppose HB 2737.

This bill would increase the OTP tax on smokeless tobacco from 10% to 57% of the wholesale price. In dollars and cents, that means that the tax would go from 30 cents to $1.72 per can on products such as Skoal or Copenhagen. That also means the revenue would go from roughly 5 million to 25 million dollars for a 470% increase.

The 20 million dollars of new revenue would be levied on the approximate 80,000 adult consumers in Kansas.

Such a huge increase will undoubtedly lead to significant cross-border trafficking -- both casual and organized -- as well as state excise tax evasion through internet sales.

If good tax policy for tobacco is intended to 1) discourage use and 2) reimburse the state for potential cost to society, then we would suggest the tax contained in HB 2737 should be changed.

To continue with the percentage type tax – based on price – does nothing but create an incentive to market, sell <u>and purchase</u> lower priced – and therefore lower taxed products.

A "unit" based tax – like HB 2512 which was introduced in this committee last year -- treats all products the same and raises more revenue than its' "price" based counterpart. Just like the Kansas excise tax for cigarettes, wine, beer or gasoline – a unit based tax is fair and revenue positive.

Because of the continuation of an outdated tax structure, this bill allows the cheapest products to be taxed the least. **It allows a company to flood the market with cheap smokeless tobacco at less tax.**

From a health advocacy perspective or a fiscal perspective the policy should be that **if every can of smokeless tobacco has the same impact on society -- then every can should be taxed the same.**

Under a "unit" based system, whatever level of tax the legislature deems appropriate would be applied to all cans of smokeless tobacco.

Doing so would also eliminate the “buy one – get one free” tax loophole inherent to a “price” based system. **Every can should at least be taxed -- and every can should be taxed equally.**

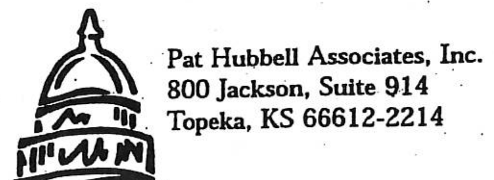
In closing, let me say that most other tobacco companies have opposed this change.

They do not want to pay the same as we do for selling the same product.

They do not want to – and have not signed – the Smokeless Tobacco Master Settlement Agreement as US Smokeless has.

And last, they like the unit based tax on their premium cigarettes, but they don’t like a unit based tax on their deep discount smokeless tobacco.

Thank you for you time and consideration.



Pat Hubbell Associates, Inc.
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STATEMENT

Cigar Association of America, Inc.
Patrick Hubbell
House Assessment & Taxation Committee
February 7, 2008

Good morning, Mr. Chairman. My name if Pat Hubbell. I am here today in opposition to HB 2737 representing the Cigar Manufacturers of America. Cigar Manufacturers is a national Trade Association, representing cigar manufacturers, both domestic and foreign, importers, distributors and major suppliers to the industry. The latter category consists of leaf dealers, manufacturers of machinery and packaging materials.

The Association represents 80% of the cigars, including large and little cigars, popular priced and premium cigars sold in the United States.

The tax increase in HB 2737 simply threatens to put many cigar retailers in Kansas out of business. Today cigars are taxed by the state of Kansas at 10% of the wholesale price. Under HB 2737 the tax will increase to 57% of the wholesale price, a 470% increase.

HS Taxation
2-8-08
Attachment 9

Under the present cigar tax, when manufacturers increase their price, the state automatically receives more tax revenues. Cigar taxes at the present time are automatically pegged to inflation.

*While health care programs are worthy of support, we believe they should be funded more broadly, not on the shoulders of cigar smokers. An example of this tax increase would be a box of premium cigars whose wholesale price is **$60,** presently having an excise tax of **$6**. This box would retail somewhere in the area of **$90** plus sales tax. Under HB 2737 the tax on the wholesale price on the same **$60** box of cigars would be **$34.20**, making an estimated retail cost of **$120** plus sales tax.*

In conclusion, Mr. Chairman, I believe with a 10% tax on the wholesale price of cigars in Missouri, their tax coffers will grow as a result of across border sales.

Thank you Mr. Chairman, members of the Committee for your attention. I will answer any questions you may have.

KANSAS TAXPAYERS NETWORK **web:www.kansastaxpayers.com**
P.O. Box 20050 **316-684-0082**
Wichita, KS 67208 **Fax 316-684-7527**
February 7, 2008

Testimony Opposing H.B. 2737

By Karl Peterjohn, Executive Director

H.B. 2737 would raise the cigarette tax 62 cents over four years after a first year 50 cent increase. This is very similar to the 59 cent cigarette tax hike that was enacted a few years ago in Kansas in 2002. At that time the Kansas Taxpayers Network opposed this tax hike describing it as the "western Missouri Retail Development Act of 2002."

The concerns that KTN expressed at that time have occurred.

Kansas cigarette tax revenues per penny of tax have declined from more than $2 million per penny of tax in FY 2002 down to less than $1.5 million in 2007. State revenue figures show that Missouri, where voters have rejected increased taxes at the ballot box in the last few years, has had an increase in cigarette sales while Kansas has declined. There is an easy explanation of how and why this is occurring.

This committee needs to remember that the geography of Kansas along with the number of Indian reservations, military facilities, and the large number of Kansans living close to our neighboring states' boundaries provides a difficult environment to have Kansas excise taxes out-of-line with neighboring states. The result is Kansas sales are leaving Kansas, Kansas businesses are being hurt, and neighboring states benefit.

Kansas cigarette taxes are already over $5 a carton higher than in Missouri. This proposal once it is fully implemented would raise this tax difference to over $11 a carton. Since state gasoline taxes are roughly 50 percent higher in Kansas than in neighboring states, this provides another strong incentive for Kansans to shop out-of-state. Besides purchasing cigarettes and gasoline, other taxable items are also likely to be purchased and this will cost Kansas tax revenue that will be hidden but Kansas retailers will be hurt.

I believe that this is already occurring and is one reason why the growth in the state sales tax revenues has been in decline. Enactment of H.B. 2737 will exacerbate this economic impact and provide additional incentives for cross border sales and opportunities for the "trunk slammers," who illegally sell cigarettes to expand.

If the marginal decline in cigarette sales that occurred in 2002 remains unchanged, we may even see a decline in total cigarette tax revenues if this increase becomes law. KTN believes that you are reaching a tipping point on cigarette tax revenues and that this tax hike is unlikely to generate anywhere near the revenues projected. KTN believes that a more realistic estimate of increased cigarette tax revenues will be less than $20 million and could actually be negative.

Memo To: House Taxation Committee
From: Thomas M. Palace
Date: February 7, 2008
Re: Opposition to HB 2737

Mr. Chairman and members of House Taxation Committee:

My name is Tom Palace. I am the Executive Director of the Petroleum Marketers and Convenience Store Association of Kansas (PMCA of Kansas), a statewide trade association representing over 300 independent Kansas petroleum distribution companies and convenience store owners throughout Kansas.

We appreciate the opportunity to appear before you today in opposition to HB 2737, a bill that, as proposed, would raise the tobacco excise tax $.70, to a total of $1.49. It also includes a 470% increase in smokeless tobacco that changes the current 10% tax to a 57% tax.

The sale of cigarettes and other tobacco products comprises 34.4 percent of the in-store sales at convenience stores (compiled by the National Association of Convenience Stores). This high percentage shows that tobacco products are the number one inside sales product sold by convenience stores. While controversial, tobacco is a legal product and one that is important to the economic viability of the convenience store industry.

Although raising the tax on tobacco products may prompt some tobacco consumers to quit, it will however, force others smoking consumers to find alternative ways to purchase tobacco products. Additionally, tobacco sales lead to other ancillary sales made at convenience stores such as: soft drinks, sandwiches, flavored coffee, etc. The increased price of cigarettes has the potential of changing consumer purchasing patterns, encouraging consumers to find alternative ways to purchase tobacco products, thus reducing store revenues as well as tax revenue for the State of Kansas.

Convenience store owners in Kansas who compete with bordering states will be at a tremendous competitive disadvantage if HB 2737 were to become

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law. Convenience store owners have millions of dollars invested in their Kansas businesses. Tax increases, like the tobacco and smokeless tobacco tax, will eventually force small businesses out of Kansas. It's interesting to note that although tobacco has an unsavory connotation, the state of Kansas and the convenience store industry have a common bond with tobacco. Both rely on the revenues from the sale of cigarettes to meet budget demands. Unfortunately, the small business owner becomes the immediate loser when taxes in Kansas are out of line with their neighbors.

As an example of what Kansas marketers contend with the following is an excerpt from a Newsletter distributed from my colleague in Missouri seeking assistance to stop tax increases in Missouri. He writes:

> **Tax Increase Will Hurt Small Businesses.** Missouri's current tobacco and fuel taxes are lower than our border-states. As a result, consumers from our higher taxed border-states - most notably Illinois and Kansas – have a financial incentive to come to Missouri to spend their money on lower taxed goods which generates tobacco, fuel and sales tax revenue for state and local coffers.
>
> The IP's oppressive 470% tax increase will completely eliminate this competitive tax advantage and put Missouri tobacco retailers at a competitive tax disadvantage with 6 of our 8 border-states.
>
> If the IP passes, consumers from our higher-taxed border states will no longer have a financial incentive to come to Missouri to spend their money on our goods and services. This very significant decrease in cross-border consumer traffic will cripple Missouri tobacco retailers, decrease state and local tax revenue, and increase unemployment, all of which will hurt Missouri's economy.

Over the 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? It would be a fair assumption that if people stop smoking, elect to purchase tobacco on-line, or purchase tobacco in other states, the MSA dollars that Kansas receives now would decline, leaving gaps in programs funded by the smoking public. Statistics show that only 20% of Kansas citizens smoke…80% don't smoke.

Mr. Chairman, competition in the convenience store industry is fierce. Competing with other retailers is tough enough, but the continued push by

the Kansas Legislature to put small businesses at a competitive disadvantage with neighboring states with a stroke of a pen is hard to overcome. The tax increases that Kansas lawmakers have passed the last 6-7 years only shrink the tax base for Kansas and push new revenues to our neighboring states.

We urge committee members to oppose the tobacco tax increases that are proposed in HB 2737.

Thank you.

WHITNEY B. DAMRON, P.A.

TESTIMONY

TO:	**The Honorable Kenny Wilk, Chairman And Members of the House Taxation Committee**
FROM:	**Whitney Damron On behalf of Swisher International, Inc.**
RE:	**HB 2737 - An Act increasing the rate of taxation imposed upon cigarettes and tobacco products; creating the health reform fund; depositing money into.**
DATE:	**February 7, 2008**

Good morning Chairman Wilk and Members of the House Taxation Committee. I am Whitney Damron and I appear before you today on behalf of Swisher International, Inc., to offer testimony in opposition to HB 2737.

Swisher International is one of the largest manufacturers of cigars and smokeless tobacco products in the world. The company is headquartered in Jacksonville, Florida and was established in 1861.

On behalf of Swisher and its customers, we respectfully find the imposition of a 470 percent increase in the existing tax on Other Tobacco Products as proposed in HB 2737 to be an outrageous recommendation from the Kansas Health Policy Authority and hope to discourage consideration of any increase in the taxes on these products through our comments today.

By way of background for the Committee, cigars and smokeless tobacco products often referred to as "Other Tobacco Products" or "OTP" are taxed at the wholesale level. Under K.S.A. 79-3371, the current tax rate is ten percent of the wholesale price of such products. Under HB 2737, that tax rate would increase to 57 percent of the wholesale price – a 470 percent increase.

The unique nature way OTP products are taxed in Kansas necessarily insures that the state receives a tax increase on these products each and every year. As manufacturers increase their prices at the wholesale level, these price increases translate into increased tax revenue for the state. Included with my testimony is a graph taken from the Kansas Department of Revenue's 2007 Annual Report that clearly demonstrates how this tax structure has worked to benefit the state.

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During the period of time reflected in the graph (2002-2007), the average annual increase in state revenues from OTP tax collections increased by 4.33 percent.

According to *MeasuringWorth.com*, the annual U.S. inflation rate during that same period of time was only 2.88 percent. As a result, state tax revenues from OTP products have more than kept up with inflation during this time.

Health Care Costs and Considerations.

Proponents of HB 2737 suggest increasing the taxes on cigarettes and Other Tobacco Products will serve as a deterrent to users and also provide revenues to the state to help pay for expansion of health coverage and offset costs of smoking. If history is any indicator, the ability of the Legislature to permanently dedicate such revenues to health care and prevention programs are unlikely to be sustained over time.

According to *Tobacco Free Kids*, the State of Kansas will receive $187.5 million in Tobacco Generated Revenue in FY 2008 and spend $1.4 million on tobacco prevention. Not a very good track record for investing in prevention, we would suggest.

According to a Kansas Health Policy Authority report entitled, *Frequently Asked Questions, Topic: Health Care Reform in Kansas – What Problems will be Addressed*:

- 20 percent of adult Kansans smoke.
- In 2003, the percent of overweight and obese adults in Kansas was over 60 percent; the percent of Kansans determined to be obese was 24 percent while 11 percent of children were overweight or obese.

According to the *Healthier America Project* report found at the website for *Trust for American's Health*, the 2004-06 average obesity rates for Kansans were 24.3 percent, ranking Kansas 27th in the United States. In that same study, Kansas ranked 38th in adult smoking rates at 19.2 percent.

From these and other reports, research suggests that cigarette and tobacco usage remains flat or is declining, while obesity rates continue to trend upwards.

Healthy living and access to health care is an issue for all Kansans and therefore the cost of health care should not be disproportionately born by those who consume cigarettes and tobacco products, as tobacco usage is certainly not the only cost driver for increasing health care costs in our state.

Legislation such as HB 2737 is targeted at a decreasing population of consumers who are being forced to pay for a disproportionate share of health care programs and state general fund expenditures. If the Legislature determines that the state should increase taxes to expand access to health care, then we believe the costs should be born by all Kansans and not assessed through targeted tax increases on cigarette and tobacco users.

Before I conclude my comments, I have to make the observation that this legislation appears to be constructed upon an interesting dichotomy: The proponents of this bill would like to reduce consumption of certain lawful products, while at the same time they base the financing of a new health care program squarely on the backs of these same consumers they want to discourage from using these products.

Should the advocate's objective of reducing consumption of cigarettes and tobacco products come to fruition, where will the look next for replacement revenues to sustain these programs?

HB 2737 is an $80 million tax increase that will transfer wages and salaries from working class Kansans to the state to partially finance a health care initiative that will require significant additional dollars to fully implement and maintain.

If this program is good public policy, then we would suggest all Kansans share in its cost, not the 20 percent of adults who lawfully consume tobacco products.

On behalf of Swisher International, we respectfully request the Legislature to reject the tax increases proposed by HB 2737.

I would be pleased to stand for questions at the appropriate time.

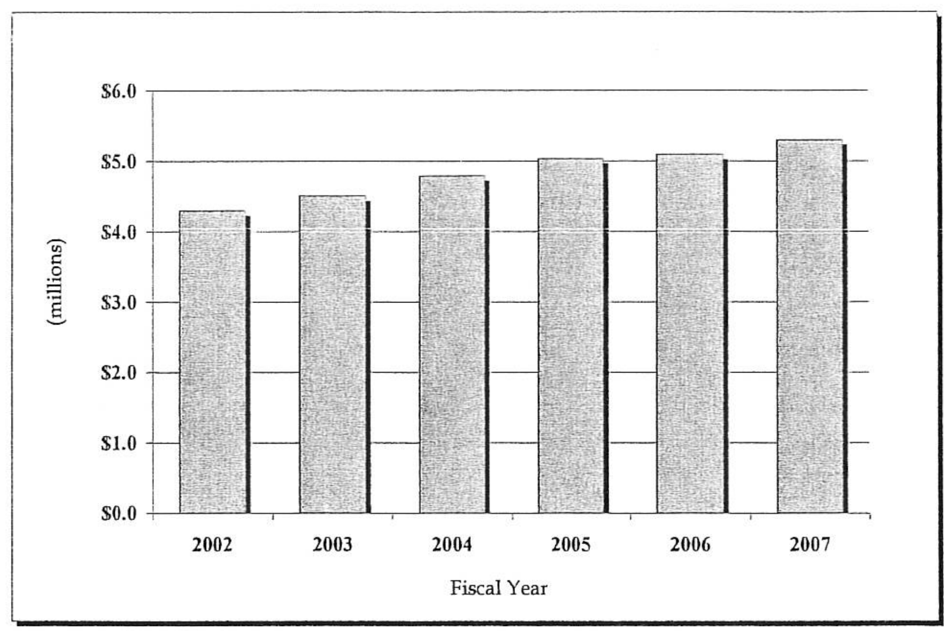
Thank you.

Whitney Damron

Attachment

Tobacco Products Tax to State General Fund after Refunds

The tobacco products tax was reenacted in 1972. The tax rate is 10% on the wholesale price of tobacco products.



Fiscal Year	Amount Collected	Percent Change
2002	$4,301,982	5.1%
2003	$4,509,937	4.8%
2004	$4,797,229	6.4%
2005	$5,038,551	5.0%
2006	$5,092,583	1.1%
2007	$5,305,299	4.2%

12-4

WHITNEY B. DAMRON, P.A.

United Health Foundation
America's Health Rankings
www.unitedhealthfoundation.org

State by State Snapshots

Prevalence of Smoking (Percent of Population):

Kansas		United States
1990	30.2 percent	29.5 percent
2001	21.2 percent	
2002	22.2 percent	22.9 percent
2003	22.0 percent	23.0 percent
2004	20.4 percent	22.0 percent
2005	19.8 percent	20.8 percent
2006	17.8 percent	
2007	20.0 percent	21.1 percent

Comments.

1. Some of my date is missing, as there was a corrupt file in one instance and a missing page in another instance.

2. Kansas Health Policy Authority testimony stated that a ten percent increase in the cost of a pack of cigarettes is associated with a four percent drop in tobacco use.

In 2002, the price for a pack of cigarettes was increased by .55 cents, which was closer to a 25 percent increase in the cost of a pack of cigarettes. From 2002 to 2003, in Kansas, the usage rate dropped from 22.2 percent to 22.0 percent, a reduction of .2 percent.

At the same time, the rate of consumption at the national level remained relatively static, increasing by .1 percent. Tobacco use in Kansas, like the country, has consistently trended downward over time with an occasional anomaly in the numbers.

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SNAPSHOT>>

Kansas

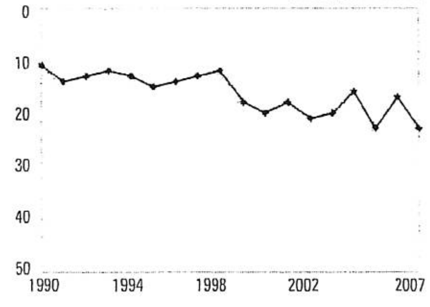
Overall Rank: 23
Change: ▽6

Strengths:
- Few poor mental and physical health days
- Low incidence of infectious disease
- Ready access to adequate prenatal care

Challenges:
- High percentage of children in poverty
- Limited access to primary care
- Low immunization coverage

Significant Changes:
- In the past year, the prevalence of smoking increased by 12%
- In the past year, the rate of uninsured population increased by 19%
- Since 1990, the percentage of children in poverty increased by 38%
- Since 1990, the infant mortality rate declined by 27%

RANKING: Kansas is 23rd this year; it was 17th in 2006.



STRENGTHS:
Strengths include few poor mental and physical health days per month at 2.9 days and 3.0 days in the previous 30 days, respectively, a low incidence of infectious disease at 7.9 cases per 100,000 population and ready access to adequate prenatal care with 79.1 percent of pregnant women receiving adequate prenatal care.

CHALLENGES:
Challenges include a high percentage of children in poverty at 19.7 percent of persons under age 18, low immunization coverage with 79.2 percent of children ages 19 to 35 months receiving complete immunizations and limited access to primary care with 101.6 primary care physicians per 100,000 population. Kansas ranks lower for health determinants than for health outcomes, indicating that overall healthiness may decline over time.

SIGNIFICANT CHANGES:
- ▲ In the past year, the prevalence of smoking increased from 17.8 percent to 20.0 percent of the population.
- ▲ In the past year, the rate of uninsured population increased from 10.3 percent to 12.3 percent.
- ▲ Since 1990, the percentage of children in poverty increased from 14.3 percent to 19.7 percent of persons under age 18.
- ▼ Since 1990, the infant mortality rate decreased from 9.2 to 6.7 deaths per 1,000 live births.

HEALTH DISPARITIES:
In Kansas, blacks experience 70 percent more premature death than whites. Deaths from cancer are 43 percent more prevalent among blacks than whites.

STATE HEALTH DEPARTMENT WEB SITE: www.kdheks.gov/

Kansas

	2007		2006		2000		1990	
	VALUE	RANK	VALUE	RANK	VALUE	RANK	VALUE	RANK
DETERMINANTS — PERSONAL BEHAVIORS								
Prevalence of Smoking (Percent of population)	20.0⇑	24	17.8	6	21.0	11	30.2	27
Prevalence of Binge Drinking (Percent of population)	15.3	25	12.4*	13*	11.7*	8*	—	—
Prevalence of Obesity (Percent of population)	25.9⇑	30	23.9	22	18.9	22	13.1	40
High School Graduation (Percent of incoming ninth graders)	77.9	22	76.9	20	73.3*	21*	84.1*	8
COMMUNITY ENVIRONMENT								
Violent Crime (Offenses per 100,000 population)	425⇑	27	389	26	397	21	361	21
Occupational Fatalities (Deaths per 100,000 workers)	6.1	25	6.0	26	7.4	40	11.5*	32
Infectious Disease (Cases per 100,000 population)	7.9	11	7.9	11	14.0	10	23.3	16
Children in Poverty (Percent of persons under age 18)	19.7⇑	38	17.8	31	18.5	35	14.3	11
PUBLIC & HEALTH POLICIES								
Lack of Health Insurance (Percent without health insurance)	12.3⇑	19	10.3	8	11.4	22	9.0	12
Per Capita Public Health Spending (Dollars per person)	$95	39	$95	39	—	—	—	—
Immunization Coverage (Percent of children ages 19 to 35 months)	79.2	35	83.8	13	70.7	34	—	—
CLINICAL CARE								
Adequacy of Prenatal Care (Percent of pregnant women)	79.1	16	79.1	16	80.3*	12*	76.2*	9*
Primary Care Physicians (Number per 100,000 population)	101.6	38	100.1	38	—	—	—	—
Preventable Hospitalizations (Number per 1,000 Medicare enrollees)	80.8⇑	34	76.4	30	—	—	—	—
ALL DETERMINANTS	2.2	26	6.1	16	1.5	23	5.9	14
HEALTH OUTCOMES								
Poor Mental Health Days (Days in previous 30 days)	2.9	9	2.8	5	2.3	3	—	—
Poor Physical Health Days (Days in previous 30 days)	3.0	6	3.0	3	2.6	3	—	—
Infant Mortality (Deaths per 1,000 live births)	6.7	27	7.1	29	7.2	24	9.2	14
Cardiovascular Deaths (Deaths per 100,000 population)	308.0	28	315.3	28	337.7	22	367.6	12
Cancer Deaths (Deaths per 100,000 population)	199.3	21	201.6	23	199.7	14	181.0	8
Premature Death (Years lost per 100,000 population)	7,236	24	7,114	21	6,933	21	7,581	14
ALL HEALTH OUTCOMES	2.0	20	1.8	23	4.4	16	6.0	9
OVERALL RANK	4.1	23	7.9	17	5.9	20	11.9	11

⇓ and ⇑ indicate major increases and decreases in the last year. — indicates data not available. *Data may not be comparable.

12-6

SNAPSHOT>>

Kansas

Overall Rank: 23

Change: ▽7

Strengths:

- Low rate of uninsured population
- Low prevalence of smoking
- Low incidence of infectious disease
- Few limited activity days

Challenges:

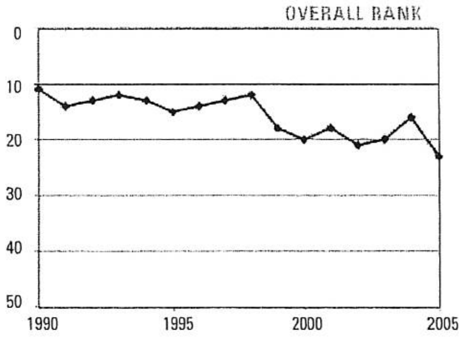
- Low immunization coverage
- Low per capita public health spending

Significant Changes:

- In the past year, the incidence of infectious disease decreased by 18%
- In the past year, the percentage of children in poverty increased by 8%
- Since 1990, the number of limited activity days declined by 49%
- Since 1990, the prevalence of smoking decreased by 34%

RANKING: Kansas is 23rd this year; it was 16th in 2004.

STRENGTHS: Strengths include a low rate of uninsured population at 11.1 percent, a low prevalence of smoking at 19.8 percent of the population, a low incidence of infectious disease at 8.5 cases per 100,000 population, ready access to prenatal care with 79.1 percent of pregnant women receiving adequate prenatal care, a high rate of high school graduation with 75.2 percent of incoming ninth graders who graduate within four years and few limited activity days at 1.6 days in the previous 30 days.



CHALLENGES: Challenges include low immunization coverage with 77.5 percent of children ages 19 to 35 months receiving complete immunizations and low per capita public health spending at $95 per person.

SIGNIFICANT CHANGES:

- ⬇ In the past year, the incidence of infectious disease declined from 10.4 to 8.5 cases per 100,000 population.
- ⬆ In the past year, the percentage of children in poverty increased from 14.5 percent to 15.6 percent of persons under age 18.
- ⬇ Since 1990, the number of limited activity days per month decreased from 3.2 to 1.6 days in the previous 30 days.
- ⬇ Since 1990, the prevalence of smoking decreased from 30.2 percent to 19.8 percent of the population.

HEALTH DISPARITIES: In Kansas, the infant mortality rate varies from a low of 6.4 deaths per 1,000 live births for non-Hispanic whites to a high of 14.7 deaths for non-Hispanic blacks. Cholesterol screening within the past five years is more extensive for Asians/Pacific Islanders, at 81.5 percent of the population age 18 and older, and less extensive for Hispanics, at 60.6 percent.

TEEN PREGNANCY: Births per 1,000 teenage females decreased 22.4 percent from 55.4 births in 1991 to 43.0 births in 2002. If this decline hadn't occurred, there would be an additional 5.5 percent of children under age 6 in poverty in 2002.

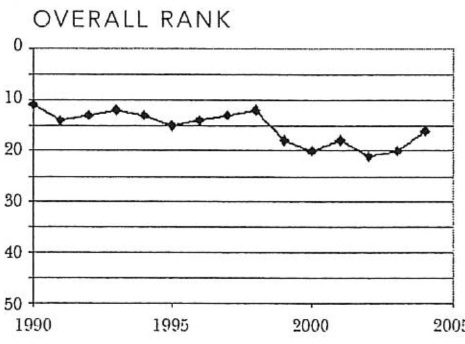
STATE HEALTH DEPARTMENT WEB SITE: www.kdheks.gov/

	2005		2004		1990	
	DATA	RANK	DATA	RANK	DATA	RANK
RISK FACTORS—PERSONAL BEHAVIORS						
Prevalence of Smoking (Percent of population)	19.8⇓	11	20.4	13	30.2	27
Motor Vehicle Deaths (Deaths per 100,000,000 miles driven)	1.6	29	1.6	27	2.2	17
Prevalence of Obesity (Percent of population)	23.1	25	22.6	24	13.1	40
High School Graduation (Percent of incoming ninth graders)	75.2	14	75.2	14	84.1	8
RISK FACTORS—COMMUNITY ENVIRONMENT						
Violent Crime (Offenses per 100,000 population)	375	27	377	27	361	21
Lack of Health Insurance (Percent without health insurance)	11.1	6	11.0	12	9.0	12
Infectious Disease (Cases per 100,000 population)	8.5⇓	11	10.4	15	23.3	16
Children in Poverty (Percent of persons under age 18)	15.6⇑	22	14.5	21	14.3	11
Occupational Fatalities (Deaths per 100,000 workers)	6.8	37	6.6	38	11.5*	32
RISK FACTORS—HEALTH POLICIES						
Per Capita Public Health Spending ($ per person)	$95	39	$91	40	—	—
Adequacy of Prenatal Care (Percent of pregnant women)	79.1	15	78.7	17	—	—
Immunization Coverage (Percent of children ages 19 to 35 months)	77.5⇑	43	75.7	41	—	—
OUTCOMES						
Limited Activity Days (Days in previous 30 days)	1.6	4	1.4	1	3.2*	14
Cardiovascular Deaths (Deaths per 100,000 population)	320.3	26	321.8	24	367.6	12
Cancer Deaths (Deaths per 100,000 population)	201.6	20	200.9	18	181.0	8
Total Mortality (Deaths per 100,000 population)	874.0⇑	32	863.2	25	819.2	10
Infant Mortality (Deaths per 1,000 live births)	6.9	28	7.0	27	9.2	14
Premature Death (Years lost per 100,000 population)	7,344	23	7,244	24	7,581	14
OVERALL RANK		23		16		11

⇓ and ⇑ indicate major increases and decreases in the last year. — indicates data not available. *Data may not be comparable.

12-7

Kansas is 16th this year; it was 20th in 2003. Strengths include a low rate of uninsured population at 11.0 percent, high access to adequate prenatal care with 81.0 percent of pregnant women receiving adequate prenatal care, a moderate prevalence of smoking at 20.4 percent of the population, a low incidence of infectious disease at 10.4 cases per 100,000 population and a low number of limited activity days per month at 1.4 days in the previous 30 days. The state's challenges are a higher than average occupational fatalities rate at 6.6 deaths per 100,000 workers and moderate support for public health with 3.1 percent of the state health budget allocated to public health. Kansas is 15th for the combined measures of risk factors and 25th for the combined measures of outcomes, implying the state is on a positive course and may be able to improve its relative healthiness in future years. Disparity among races for access to prenatal care is low compared to other states, but premature death rates indicate strong differences between non-Hispanic blacks and non-Hispanic whites, with 12,998 years lost compared to 6,862 years of life lost per 100,000 population. In the past year, the rate of motor vehicle deaths decreased from 1.8 to 1.6 deaths per 100,000,000 miles driven, and the prevalence of smoking decreased from 22.1 percent to 20.4 percent of the population. Since 1990, the prevalence of smoking has decreased from 30.2 percent to 20.4 percent of the population, the rate of deaths from cardiovascular disease has declined from 367.6 to 321.8 deaths per 100,000 population and the total mortality rate has increased from 819.2 to 863.2 deaths per 100,000 population.



To learn more about health and health initiatives in Kansas, visit the Kansas state department of health Web site at: www.kdhe.state.ks.us/

RANKINGS 2004	2003	1990	RISK FACTORS	MEASUREMENT DATA 2004	2003	1990
			PERSONAL BEHAVIORS			
13	17	27	Prevalence of Smoking (Percent of population)	20.4	22.1	30.2
27	35	17	Motor Vehicle Deaths (Deaths per 100,000,000 miles driven)	1.6	1.8	2.2
24	28	40	Prevalence of Obesity (Percent of population)	22.6	22.8	13.1
14	17	8	High School Graduation (Percent of incoming ninth graders)	75.2	74.5	84.1
			COMMUNITY ENVIRONMENT			
27	27	21	Violent Crime (Offenses per 100,000 population)	377	405	361
12	10	12	Lack of Health Insurance (Percent without health insurance)	11.0	10.4	9.0
15	17	16	Infectious Disease (Cases per 100,000 population)	10.4	12.2	23.3
21	26	11	Children in Poverty (Percent of persons under age 18)	14.5	14.4	14.3
38	38	32	Occupational Fatalities (Deaths per 100,000 workers)	6.6	6.5	11.5*
			HEALTH POLICIES			
37	45	—	Percent of Health Dollars for Public Health (Percent of health exp.)	3.1	3.2	—
35	46	—	Per Capita Public Health Spending ($ per person)	$ 26	$ 23	—
12	11	9	Adequacy of Prenatal Care (Percent of pregnant women)	81.0	81.1	76.2
			OUTCOMES			
1	4	14	Limited Activity Days (Days in previous 30 days)	1.4	1.5	3.2*
24	23	12	Cardiovascular Deaths (Deaths per 100,000 population)	321.8	327.8	367.6
18	15	8	Cancer Deaths (Deaths per 100,000 population)	200.9	197.3	181.0
25	26	10	Total Mortality (Deaths per 100,000 population)	863.2	861.6	819.2
27	27	14	Infant Mortality (Deaths per 1,000 live births)	7.0	7.1	9.2
24	22	14	Premature Death (Years lost per 100,000 population)	7244	7079	7581

* Data sources and/or methodology may not be comparable for this year.

A dash (—) indicates data not available.

12-8

KANSAS

Kansas is 20th this year; it was 21st in 2002. Strengths include high access to adequate prenatal care with 81.1 percent of pregnant women receiving adequate prenatal care, a low rate of uninsured population at only 10.4 percent, strong support for public health care and a low number of limited activity days per month. The state's challenges are a higher than average rate of motor vehicle deaths at 1.8 deaths per 100,000,000 miles driven and a higher than average occupational fatalities rate. The combined risk factor measures and the combined outcome measures for Kansas are both ranked at 19th, indicating the overall ranking for Kansas is likely to remain steady in the future. Health disparity within the state is lower than other states. In the past year, the rate of uninsured population declined from 11.4 percent to 10.4 percent, and support for public health care increased from 10 percent below the average state to 12 percent above average. Since 1990, the prevalence of smoking has decreased from 30.2 percent to 22.0 percent of the population, support for public health care has increased from 20 percent below the average state to 12 percent above average and the total mortality rate has increased from 819.2 to 861.6 deaths per 100,000 population.

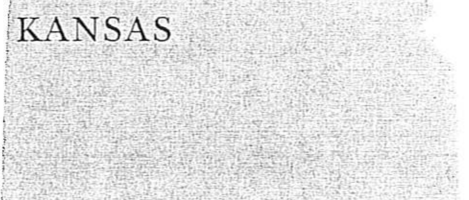
To learn more about health and health initiatives in Kansas, visit the Kansas state department of health Web site at: www.kdhe.state.ks.us/

OVERALL RANK

RANKINGS				MEASUREMENT DATA		
2003	2002	1990	RISK FACTORS	2003	2002	1990
17	15	27	Prevalence of Smoking (Percent of population)	22.0	22.2	30.2
35	30	17	Motor Vehicle Deaths (Deaths per 100,000,000 miles driven)	1.8	1.7	2.2
27	27	21	Violent Crime (Offenses per 100,000 population)	405	389	361
18	23	20	Risk for Heart Disease (Percent above or below national average)	-6	-2	0
17	17	8	High School Graduation (Percent of incoming ninth graders)	74.5	74.4	84.1
26	26	11	Children in Poverty (Percent of persons age 18 and under)	14.4	13.6	14.3
11	8	9	Adequacy of Prenatal Care (Percent of pregnant women)	81.1	81.7	76.2
10	21	12	Lack of Health Insurance (Percent without health insurance)	10.4	11.4	9.0
13	26	33	Support for Public Health Care (Ratio)	1.95	1.50	0.61*
			OUTCOMES			
38	36	32	Occupational Fatalities (Deaths per 100,000 workers)	6.5	6.5	11.5*
4	4	14	Limited Activity Days (Days in last 30 days)	1.5	1.5	3.2*
19	17	15	Heart Deaths (Deaths per 100,000 population)	243.8	250.3	288.6
15	13	8	Cancer Deaths (Deaths per 100,000 population)	197.3	198.4	181.0
17	16	16	Infectious Disease (Cases per 100,000 population)	12.2	13.0	23.3
26	25	10	Total Mortality (Deaths per 100,000 population)	861.6	864.6	819.2
27	24	14	Infant Mortality (Deaths per 1,000 live births)	7.1	7.0	9.2
22	21	14	Premature Death (Years lost per 100,000 population)	7079	7306	7581

* Data sources and/or methodology may not be comparable for this year.

12-9



Kansas is 21st this year, down slightly from 18th last year. Strengths include strong prenatal care with 81.7 percent of pregnant women receiving adequate care, low prevalence of smoking at 22.2 percent of the population, and low incidence of cancer deaths with 198.4 deaths per 100,000 population. The state's challenges are higher than average motor vehicle deaths with 1.7 deaths per 100,000,000 miles driven and high infant mortality at 7.2 deaths per 1,000 live births. Risk factors and outcome measures for Kansas have held constant, contributing to little change in the overall ranking this year. Health disparity within the state is minimal compared to other states. In the past year, the prevalence of children in poverty increased slightly from 13.0 percent to 13.6 percent of persons under age 18. Since 1990, the high school graduation rate in Kansas has decreased from 84.1 percent to 74.4 percent of incoming ninth graders, who graduate within four years, the prevalence of smoking has declined from 30.2 percent to 22.2 percent of the population, the rate of infectious disease has dropped from 23.3 to 13.0 cases per 100,000 population and infant mortality has dropped from 9.2 to 7.2 deaths per 1,000 live births.

OVERALL RANK

0
10
20
30
40
50
1990 1992 1994 1996 1998 2000 2002

RANKINGS | MEASUREMENT DATA

2002	2001	1990	RISK FACTORS	2002	2001	1990
13	13	27	Prevalence of Smoking (Percent of population)	22.2	21.1	30.2
30	28	17	Motor Vehicle Deaths (Deaths per 100,000,000 miles driven)	1.7	1.7	2.2
27	25	20	Violent Crime (Offenses per 100,000 population)	389	383	361
20	29	19	Risk for Heart Disease (Percent above or below national average)	-2	2	0
17	16	8	High School Graduation (Percent of incoming ninth graders)	74.4	74.5	84.1
26	18	11	Children in Poverty (percent of persons age 18 and under)	13.6	13.0	14.3
8	14	8	Adequacy of Prenatal Care (Percent of pregnant women)	81.7	79.9	76.2
21	21	12	Lack of Health Insurance (Percent without health insurance)	11.4	12.1	9.0
26	34	33*	Support for Public Health Care (Ratio)	1.50	1.44	0.61*
			OUTCOMES			
36	40	32*	Occupational Fatalities (Deaths per 100,000 workers)	6.5	7.4	11.5*
8	6	13*	Limited Activity Days (Days in last 30 days)	3.1	3.0	3.2*
17	17	14	Heart Disease (Deaths per 100,000 population)	250.3	251.8	288.6
13	13	8	Cancer Deaths (Deaths per 100,000 population)	198.4	197.6	181.0
16	10	15	Infectious Disease (Cases per 100,000 population)	13.0	11.8	23.3
25	23	9	Total Mortality (Deaths per 100,000 population)	864.6	857.9	819.2
29	24	14	Infant Mortality (Deaths per 1,000 live births)	7.2	7.1	9.2
21	20	14	Premature Death (Years lost per 100,000 population)	7,306	7,043	7,581
21	**18**	**11**	**OVERALL**			

* Data sources and/or methodology may not be comparable for this year.

121-10

National Changes from 1990

The 18-year perspective provided by this report, allows us to view health over time. During the past 18 years, this report has tracked our nation's 18.4 percent improvement in overall health (Graph 1). This national success stems from improvements in the reduction of infant mortality, infectious disease, prevalence of smoking, cardiovascular deaths, violent crime, children in poverty and occupational fatalities, and an increase in immunization coverage and prenatal care. However, success has eluded us in four measures due to a rapid increase in the prevalence of obesity, an increase in the rate of uninsured population and an increase in both poor mental and physical health days in the last month (Table 4).

Graph 1: Improvements Since 1990

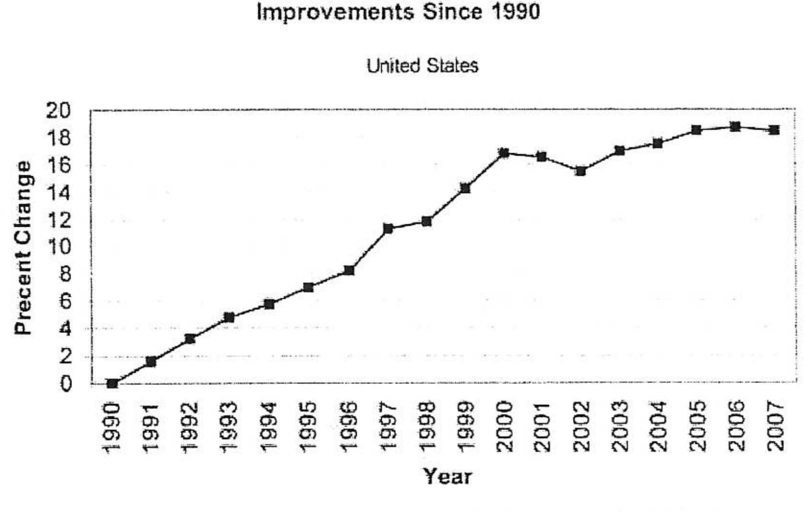


Table 4 - National Measures of Successes and Challenges: Long-Term

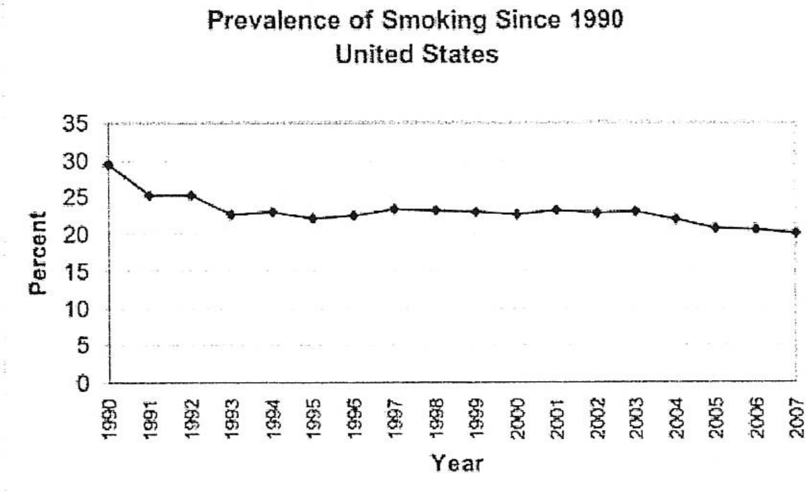
MEASURE	EDITION TO EDITION CHANGES
Successes	
Infectious Disease	45 percent decrease in the incidence of infectious disease from 40.7 cases in 1990 to 22.5 cases per 100,000 population in 2007.
Infant Mortality	33 percent decrease in the infant mortality rate from 10.2 deaths in 1990 to 6.8 deaths per 1,000 live births in 2007.
Prevalence of Smoking	32 percent decline in the prevalence of smoking from 29.5 percent in 1990 to 20.1 percent of the population in 2007.
Violent Crime	22 percent decline in the violent crime rate from 609 offenses in 1990 to 474 offenses per 100,000 population in 2007.
Cardiovascular Deaths	22 percent decline in the rate of deaths from cardiovascular disease from 406.3 deaths in 1990 to 317.5 deaths per 100,000 population in 2007.
Children in Poverty	16 percent decline in the percentage of children in poverty from 20.6 percent in 1990 to 17.4 percent of persons under age 18 in 2007.
Occupational Fatalities	39 percent decline in the occupational fatalities rate from 8.7 deaths in 1990 to 5.3 deaths per 100,000 workers in 2007.
Immunization Coverage	46 percent increase in immunization coverage from 55.1 percent in 1996 to 80.6 percent of children ages 19 to 35 months receiving complete immunizations in 2007.

12-11

Prenatal Care	Approximately 10 percent improvement to 75.4 percent of pregnant women receiving adequate prenatal care in 2007.
High School Graduation	Slight increase in rate of high school graduation in last few years —74.3 percent of incoming ninth graders now graduate within four years.
Premature Death	A decline from 8,716 to 7,411 years of potential life lost before age 75 per 100,000 population since 1990.
Challenges	
Prevalence of Obesity	116 percent increase in the prevalence of obesity from 11.6 percent in 1990 to 25.1 percent of the population in 2007.
Lack of Health Insurance	18 percent increase in the rate of uninsured population from 13.4 percent in 1990 to 15.8 percent in 2007.
Poor Mental Health Days	In the last eight years, the number of poor mental health days per month increased from 3.0 to 3.4 days in the last 30 days.
Poor Physical Health Days	In the last eight years, the number of poor physical health days per month increased from 3.2 to 3.6 days in the last 30 days.

Graph 1 shows that the rate of improvement in the health of the United States' population has ceased. During the 1990s, health improved at an average annual rate of 1.5 percent per year. During the first half of this decade, the annual rate of improvement slipped to an average of 0.3 percent per year. In the last three years, it has stagnated. The overall health of the population in the United States is no longer improving. Special concern surrounds the decline in health determinants, as those measures point to the future health of the population.

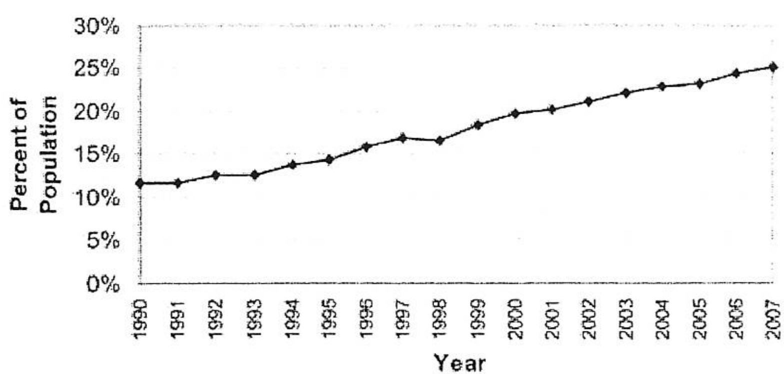
Graph 2 - Prevalence of Smoking Since 1990



The United States has the potential to return to the rates of improvement typical of the 1990s. However, to do so, it must address the drivers of declining health more directly while focusing on reducing important risk factors. For example, while there has been an overall 32 percent decrease in the prevalence of smoking - from 29.5 percent of the population in 1990 to 20.1 percent of the population in 2007 - most of this decrease occurred in the early 1990s. Reductions in the rate of smoking have stagnated in the last three years (Graph 2).

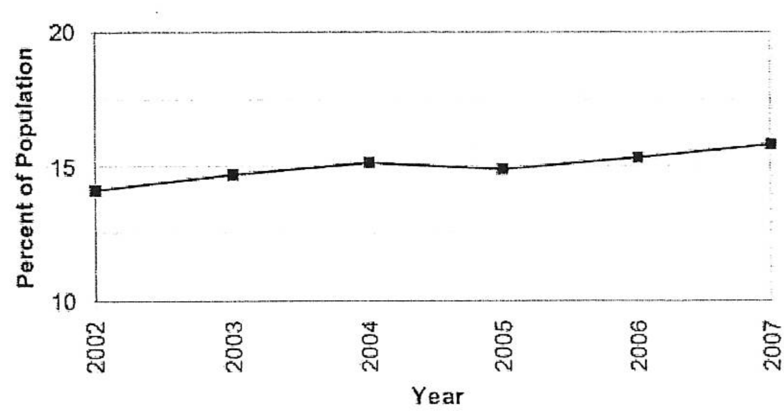
Graph 3 - Prevalence of Obesity Since 1990

12 12



Unprecedented and unchecked growth in the prevalence of obesity has also dramatically impacted the overall health of the United States. The prevalence of obesity has exploded from 11.6 percent of the population in 1990 to 25.1 percent of the population in 2007. Now, one in four people is considered obese – a category that the Centers for Disease Control and Prevention reserves for those who are significantly over the suggested body weight given their height. This alarming rate of increase shows no evidence of slowing (Graph 3).

Graph 4 - Lack of Health Insurance: 2002-2007



The lack of health insurance coverage increased from 14.1 percent in 2002 to 15.8 percent of the population in 2007 (Graph 4). Lack of health insurance not only inhibits people from getting the proper care when needed but also reduces necessary preventive care to curtail or minimize future illnesses.

While there continue to be improvements since 1990, these worsening influences have caused and will continue to cause slower rates of improvement than in the 1990s.

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12-13

John Bottenberg

Cigarette Excise Taxes Can Create Unintended Consequences

Kansas HB 2737 would increase the state cigarette excise tax by $0.50 per pack. Philip Morris USA is opposed to this proposed increase because it is unfair and will result in numerous unintended consequences. In addition to placing an unfair burden on adult smokers, it provides an additional incentive for smokers to seek alternative avenues to purchase cigarettes. These avenues may include Native American territories and the Internet, where state excise taxes may be avoided or evaded illegally. Smokers may also travel to adjoining states with lower state and local excise tax rates to purchase cigarettes. These unintended consequences can lead to short and long-term fiscal problems for state governments and negatively impact legitimate cigarette retailers.

Economic Impact

Since 2000, federal and state governments have increased their cigarette excise tax rates 82 times. In fiscal year 2007, federal and state governments received $21.8 billion in cigarette excise tax revenues, compared to $13.1 billion in FY 1999.[1] This trend is unfair to adult smokers and tobacco retailers.

- **Adult smokers increasingly face higher prices for their cigarettes as the government raises cigarette excise taxes**. In addition, because these taxes are based on the product and not on income level, cigarette excise taxes are regressive, impacting low-income smokers more than high-income smokers.

- **Tobacco excise tax increases may be costly to retailers and small business owners.** When users of tobacco products react to a tax increase by shifting their purchases across state lines or to other sources, such as Native American territories or over the Internet, where taxes are often not collected, in-state retailers lose sales & revenues. The impact of this purchasing shift on retailers becomes even more pronounced when tobacco purchases are bundled with other products, such as gasoline and groceries.

- **The effect of tobacco excise tax increases is not limited to the tobacco segment of the retail community**. The Joint Committee on Taxation ("JCT") notes that "because smokers are paying more in aggregate to smoke, they consume less of other goods and services in the economy. This implies that incomes of producers and workers in other sectors will decline."[2] In fact, when estimating the revenue increase from a tobacco excise tax increase, the JCT offsets gross revenues by 25% to account for decreases in income and payroll tax revenues.

- **Tobacco excise tax increases provide additional incentives for smuggling**. As stated by John D'Angelo of the Bureau of Alcohol, Tobacco, Firearms and Explosives, "There is no doubt that there's a direct relationship between the increase in a state's tax and an increase in illegal trafficking."[3] It may also accelerate the growth of imports of counterfeit cigarettes manufactured in China and many other countries around the world.

Fiscal Impact

Cigarette excise taxes are a poor solution for state funding needs. States may receive less revenue than they anticipate from a cigarette tax increase, which can result in short and long-term fiscal problems for the state.

- **In the short-term, the amount of revenue that a cigarette tax will raise can be very difficult to predict**. This is illustrated by the fact that of the 48 state excise tax increases that were implemented between FY 2003 and FY 2006, only 12 of them met or exceeded the projected revenues.[4]

- **In the long-term, this revenue source will likely continue to under-perform as tax-paid cigarette sales decline**. Cigarette consumption in the United States has been declining by approximately 1-2% a year since 1981[5] and at a faster 2.2% in FY 2007.[6] PM USA expects this trend to continue. As a result, taxing jurisdictions that rely on cigarette taxes realize less and less revenue and may face gaps in funding in the long-term. Earmarking cigarette tax revenues for programs with growing costs compounds this problem.

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[1] Bill Orzechowski & Rob Walker, *The Tax Burden on Tobacco,* vol. 42 (February 2008); funded in part by PM USA.
[2] Joint Committee on Taxation, Modeling the Federal Revenue Effects of Proposed Changes in Cigarette Excise Taxes, (JCX-101-07), October 19, 2007.
[3] Maria Schultz, *Raised Tax on Smokes May stoke Illicit Sales,* DETROIT NEWS, (July 21, 2002).
[4] *State Cigarette Excise Tax Increases: A Comparison of Projected versus Actual Revenue FY 2003 -2006*, FISCAL PLANNING SERVICES, INC., (January 1, 2008); prepared for and funded by Altria Corporate Services, Inc.
[5] Thomas Capehart, Tobacco Outlook, USDA-ECONOMIC RESEARCH SERVICE, TBS No. 254 (April 23, 2003).
[6] Bill Orzechowski & Rob Walker, *The Tax Burden on Tobacco,* vol. 42 (February 2008); funded in part by PM USA. According to the Tax Burden on Tobacco Table 3 page 6, total cigarette consumption in 1981 was 633.3 billion cigarettes. In 2007, total cigarette consumption was 374.7. The average percentage change based on a compound annual growth rate calculation was approximately -2.0%.

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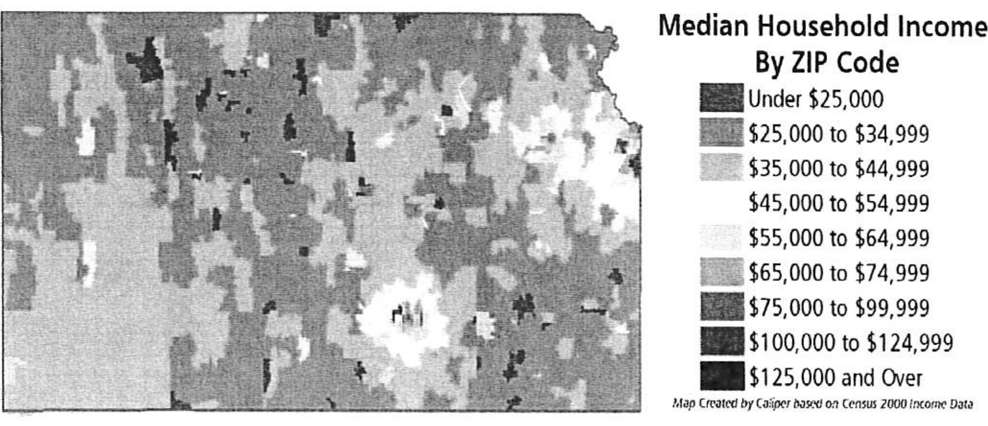
For more information please visit www.pmusa.com

Excessive Cigarette Excise Tax Increases Disproportionately Burden the Households of Lower Income Smokers

Adult smokers already pay high government costs for cigarettes
According to the Center for Disease Control, 20% of Kansas' population smokes.[1] Based on this figure, there are an estimated 414 thousand adult smokers in Kansas.[2] Due to the already high government costs imposed on cigarettes, a household with one pack a day smoker must pay $733 per year to the federal and state governments.[3] This is on top of the other taxes that a typical household pays, including income taxes, social security taxes, general sales taxes, excise taxes on other products (such as gasoline) and property taxes.

The proposed $0.50 cigarette excise tax increase will further increase these costs
Including the proposed $0.50 cigarette excise tax increase, the total government costs imposed on cigarettes could increase to as high as $927 per year for a pack a day smoker.[4]

These government costs would take a large bite out of a household's income
According to the U.S. Census, the median household income in Kansas was $44,478.[5] This means that the proposed government burden on cigarettes for a pack a day smoker would account for up to 2.1% of the median household income.



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1 State-Specific Prevalence of Current Cigarette Smoking Among Adults and Quitting Among Persons Aged 18--35 Years --- United States, 2006, CENTER FOR DISEASE CONTROL, MMWR; 56(38):993-996, (2007).

2 Based on CDC estimates for smoking prevalence and U.S. Census estimates for the population over the age of 18: *State Population Estimates -- Characteristics: Age and Sex for States and for Puerto Rico:* April 1, 2000 – July 1, *2006*, U.S. CENSUS BUREAU, POPULATION DIVISION, at http://www.census.gov/popest/states/asrh/SC-EST2006-02.html.

3 This includes the state excise tax, state sales tax, and federal excise tax paid by a pack a day smoker per year based on information from Bill Orzechowski & Rob Walker, *The Tax Burden on Tobacco,* vol. 42 (February 2008); funded in part by PM USA; a per pack settlement cost of $0.50 from *A Smoke Ring? That'll Cost You $280 billion; Big Tobacco and the Law,* THE ECONOMIST, (September 18, 2004); and an estimated quota buyout payment from PM USA internal data.

4 This includes the $0.50 increase to the state excise tax and the resulting increase in sales tax per pack.

5 *Two-Year-Average Median Household Income by State: 2004-2006*, U.S. CENSUS, http://www.census.gov/hhes/www/income/income06/statemhi2.html; data is the 2 year average median income for 2005-06.

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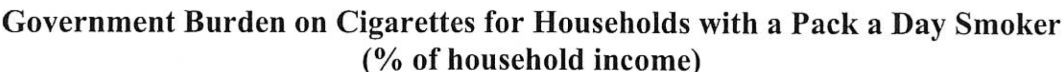
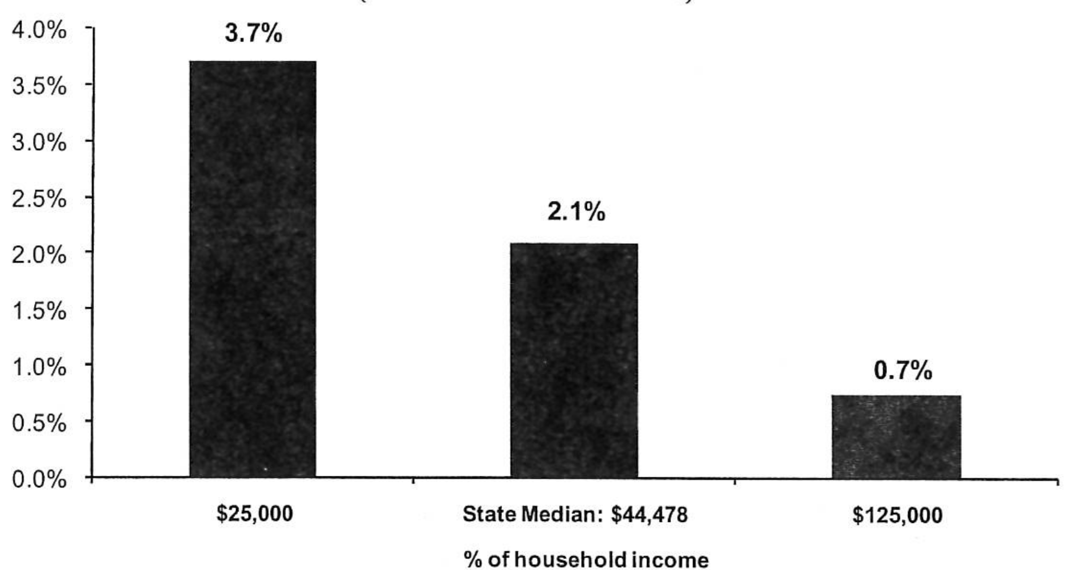
These government costs burden lower income households more than higher income households
As the map illustrates, the median household income varies dramatically by zip code. In some parts of the state, the median household income is below $25,000, in others it is above $125,000.[6] The impact of the proposed tax increase on a household with a pack a day smoker varies accordingly. For a household with an income of $25,000, the government burden on cigarettes for a pack a day smoker would account for 3.7% of income. For a household with an income of $125,000, the same burden would only account for 0.7% of income.



Government Burden on Cigarettes for Households with a Pack a Day Smoker (% of household income)



Government imposed costs on cigarettes are already significant, and more burdensome on lower-income households. The proposal to raise the state excise tax further will worsen this situation.

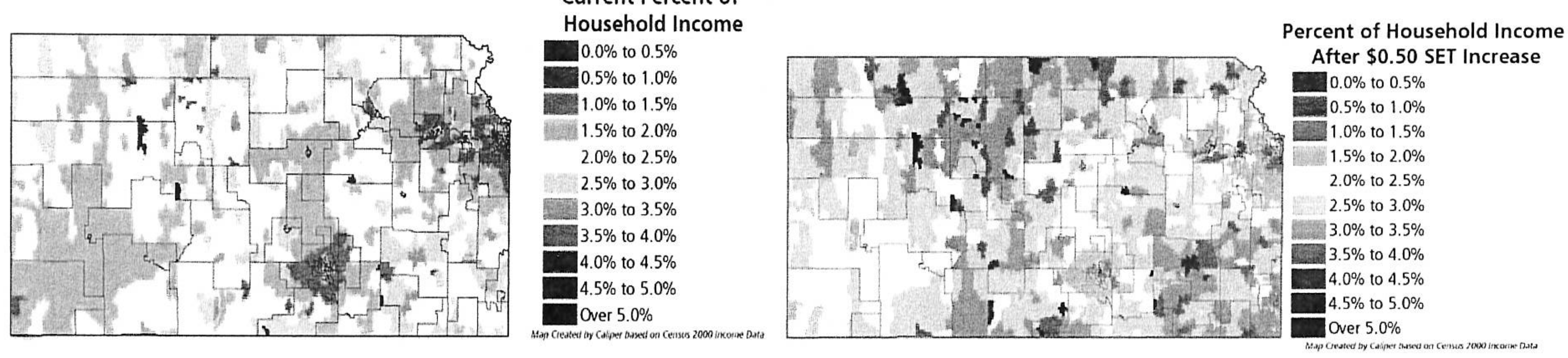
[6] Income data is for smokers and non-smokers and is derived from the U.S. Census Aggregate Household Income Data, 1999 Dollars, from the Census 2000 Summary File 3 (SF3), at www.census.gov.

Estimated Government Burden in Kansas House Districts

Currently, up to $2.01 per pack of cigarettes in Kansas goes to the government.[1] Based on this amount, the government burden on cigarettes for a pack a day smoker in Kansas could be up to $733 annually. The left map below shows the percentage of median household income by zip code that a pack a day smoker currently pays to the government by House Districts.[2]

If the state excise tax on cigarettes is increased by $0.50, the government burden on cigarettes for a pack a day smoker in Kansas could go up to $927 annually. This increased burden, as a percentage of median household income, is reflected in the right map below.

Clearly an increase in the cigarette excise tax would burden lower income households more than higher income households.



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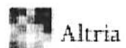
[1] This amount includes federal excise tax, state excise tax, state sales tax, and the estimated price increases by settling manufacturers to fund tobacco settlement and quota buyout payments. Tax rates per pack are from Bill Orzechowski & Rob Walker, *The Tax Burden on Tobacco,* vol. 42 (February 2008); funded in part by PM USA. The estimated settlement cost per pack is $0.50 from *A Smoke Ring? That'll Cost You $280 billion; Big Tobacco and the Law*, THE ECONOMIST, (September 18, 2004). The estimated quota buyout payment is from PM USA internal data.

[2] Income data is for smokers and non-smokers and is derived from the U.S. Census Aggregate Household Income Data, 1999 Dollars, from the Census 2000 Summary File 3 (SF3), at www.census.gov.

 Altria

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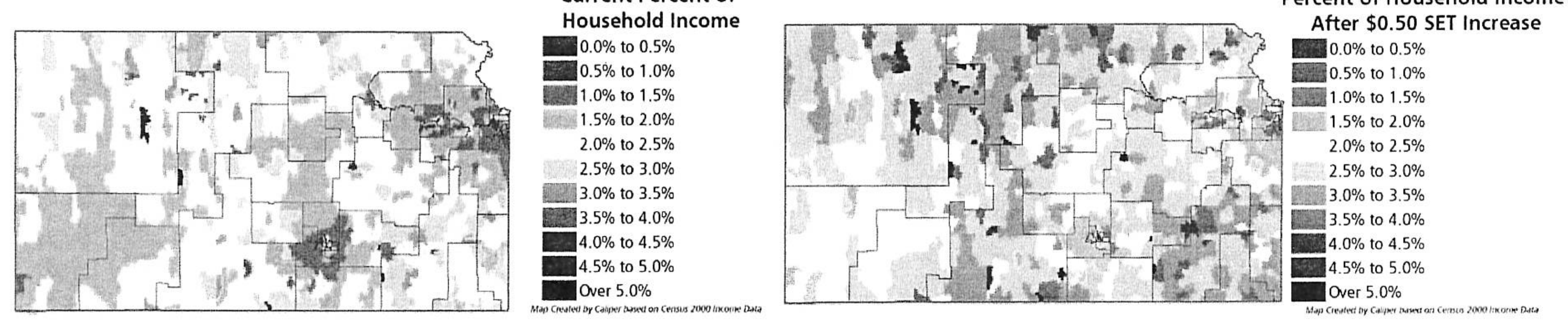
Estimated Government Burden in Kansas Senate Districts

Currently, up to $2.01 per pack of cigarettes in Kansas goes to the government.[1] Based on this amount, the government burden on cigarettes for a pack a day smoker in Kansas could be up to $733 annually. The left map below shows the percentage of median household income by zip code that a pack a day smoker currently pays to the government by Senate Districts.[2]

If the state excise tax on cigarettes is increased by $0.50, the government burden on cigarettes for a pack a day smoker in Kansas could go up to $927 annually. This increased burden, as a percentage of median household income, is reflected in the right map below.

Clearly an increase in the cigarette excise tax would burden lower income households more than higher income households.



[1] This amount includes federal excise tax, state excise tax, state sales tax, and the estimated price increases by settling manufacturers to fund tobacco settlement and quota buyout payments. Tax rates per pack are from Bill Orzechowski & Rob Walker, *The Tax Burden on Tobacco,* vol. 42 (February 2008); funded in part by PM USA. The estimated settlement cost per pack is $0.50 from *A Smoke Ring? That'll Cost You $280 billion; Big Tobacco and the Law*, THE ECONOMIST, (September 18, 2004). The estimated quota buyout payment is from PM USA internal data.

[2] Income data is for smokers and non-smokers and is derived from the U.S. Census Aggregate Household Income Data, 1999 Dollars, from the Census 2000 Summary File 3 (SF3), at www.census.gov.

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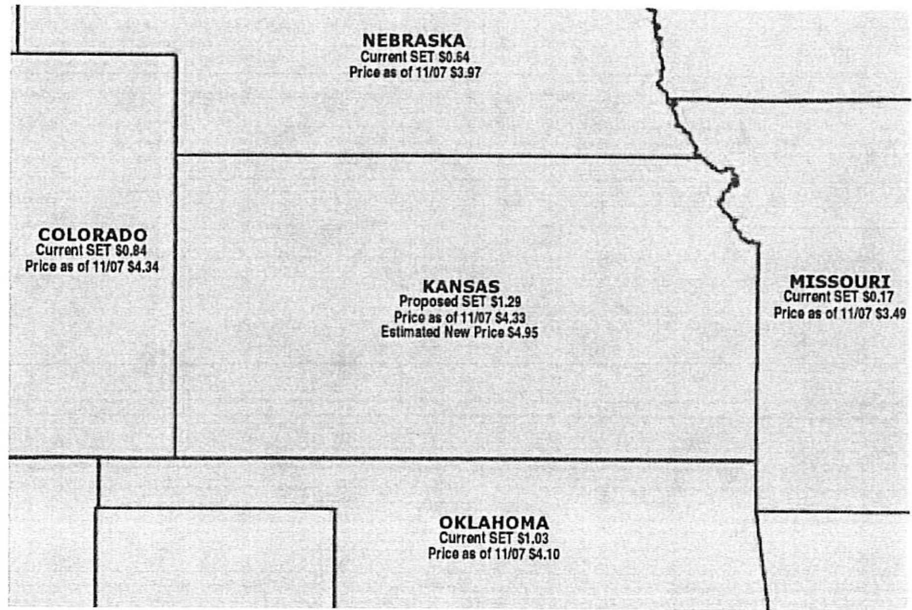
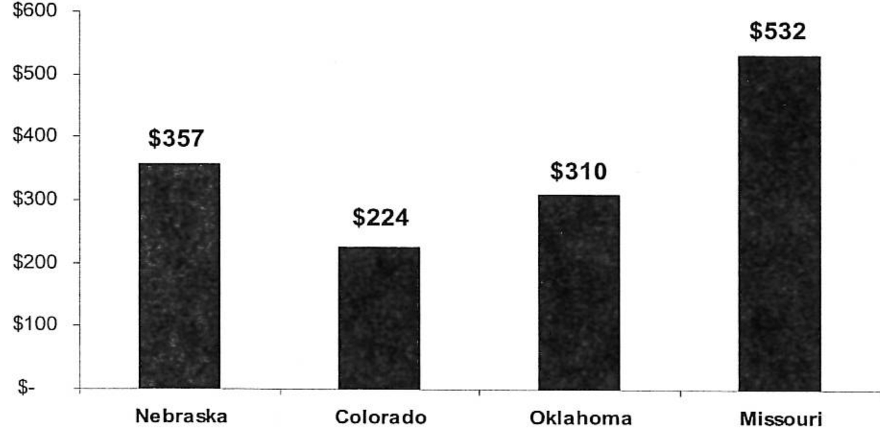
Cross-border Purchasing Impacts Government Revenues



The Proposed Excise Tax Will Increase the Cigarette Price in Kansas Compared to its Neighbors
The current average price per pack in Kansas is $4.33.[1] If a $0.50 increase in the state excise tax is implemented, the average price would go up to $4.95 per pack.[2] Many consumers make purchasing decisions based on the best price. The resulting price differentials between Kansas and its neighbors will provide incentives for smokers to cross the border to buy cigarettes.

Post $0.50 Increase: Estimated Annual Savings to a Pack a Day Smoker across Border



When smokers act on these incentives, in-state tax-paid cigarette sales fall. As a result, a state often collects less revenue than expected from a cigarette excise tax increase. For example, New Jersey raised its cigarette excise tax further above that of surrounding states in July 2004. Its revenues fell short of projections by 67%.[3]

Cross-border purchasing undermines the stability of this revenue source and should be strongly considered before the tax is raised to fund important government programs.

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[1] Bill Orzechowski & Rob Walker, *The Tax Burden on Tobacco,* vol. 42 (February 2008); funded in part by PM USA.

[2] The resulting price in Kansas has been estimated by adding the $0.50 tax increase, the resulting increase in the sales tax, and including an estimated 18% trade margin. The estimated trade margin based on *State of the Industry: Convenience Store Totals, Trends & Averages,* NATIONAL ASSOCIATION OF CONVENIENCE STORES, 2007.

[3] New Jersey raised its cigarette excise tax in July 2004 expecting to raise $65.8 million. Actual revenues came in at $21.4 million. *State Cigarette Excise Tax Increases: A Comparison of Projected versus Actual Revenue FY 2003 -2006*, FISCAL PLANNING SERVICES, INC., (January 1, 2008); prepared for and funded by Altria Corporate Services, Inc.

Kansas Health Insurance Expenditures and Cigarette Tax Revenues

Cigarette tax revenues do not provide a stable funding source for new and growing health expenditures. A look at the trends in the cost of insurance and tax-paid cigarette sales indicates that the initial increase in cigarette revenues would not be sustained over time and that health insurance costs are rising.

Between 1998 and 2006, health insurance costs have risen by 43.5%, or 4.6% per year.[1] Therefore, revenues to pay for the costs of providing health insurance to the uninsured should be based on a similarly growing base.

By contrast, cigarette tax revenues are a declining revenue source. According to data reported by Orzechowski & Walker, total state tax-paid sales have declined by an average of 2.8% per year from 1998-2007.[2] ***This consistent decline adversely affects the amount of revenue that can be realized from a cigarette excise tax.***

In Kansas, tax-paid cigarettes sales have declined 4.7% per year on average over the past 10 years.[3] If this trend continues, the amount of revenue raised from the proposed tax increase will be less and less in the future. It should be noted that Kansas has increased its cigarette excise tax twice over this time period– $0.46 in 2002 and $0.09 in 2003.

Below is a ten-year chart that shows the divergent trends of the growing cost of the uninsured problem in California, and the declining tax base that has been proposed to cover it.

Tax-paid Cigarette Sales Compared to Price Increases for Health Insurance

Data scaled to 1.0 in FY 98

46-cent Increase Effective 7/2002

09-cent Increase Effective 1/2003

1.43

0.65

1.60
1.40
1.20
1.00
0.80
0.60
0.40

FY 98 FY 99 FY 00 FY 01 FY 02 FY 03 FY 04 FY 05 FY 06 FY 07

Health Insurance Price Index
Cigarette Tax Base

Cigarette tax revenues do not provide a stable funding source for new and growing expenditures.

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[1] Health insurance price increases are from the Bureau of Economic Analysis, National Income and Product Accounts Tables: Table 2.4.4. Price Indexes for Personal Consumption Expenditures by Type of Product, http://www.bea.gov/bea/dn/nipaweb/index.asp. Price increase data is the annual price increase for health insurance expenditures.

[2] Based on state tax-paid cigarette sales data provided in Bill Orzechowski & Rob Walker, *The Tax Burden on Tobacco,* vol. 42 (February 2008); funded in part by PM USA.

[3] Based on state tax-paid cigarette sales data provided in Bill Orzechowski & Rob Walker, *The Tax Burden on Tobacco,* vol. 42 (February 2008); funded in part by PM USA.

Information provided by Altria Corporate Services, Inc. on behalf of Philip Morris USA Inc.
For more information please visit www.pmusa.com

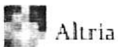
Cigarettes Tax Revenues Can Be Unpredictable

The following table examines the performance of all 48 state excise tax increases that became effective between Fiscal Year 2003 (which began July 1, 2002) and Fiscal Year 2006 (which ended June 30, 2006). Only in 12 cases did the actual increase to state tax revenues meet or exceed the estimates made by internal state offices in the first year following the increase. In the other 36 instances, states fell short of projections by as much as 67%.[1]

State	Tax Increase	Date	Est. Rev. Increase (millions)	Act. Rev. Increase (millions)	Difference	Diff. As % of Est.
NJ	35-cents	7/1/2004	$65.80	$21.40	($44.40)	-67%
WY	48-cents	7/1/2003	$25.30	$10.40	($14.90)	-59%
HI[2]	20-cents 10-cents	10/1/2002 7/1/2003	$33.00	$13.80	($19.20)	-58%
CT	40-cents	3/15/2003	$25.50	$14.60	($10.90)	-43%
GA	25-cents	7/1/2003	$180.00	$117.10	($62.90)	-35%
AZ	60-cents	11/5/2002	$90.20	$62.40	($27.80)	-31%
MT	$1.00	1/1/2005	$17.60	$12.30	($5.30)	-30%
RI	75-cents	7/1/2004	$26.50	$19.00	($7.50)	-28%
OK	80-cents	1/1/2005	$76.60	$55.00	($21.60)	-28%
DC	35-cents	1/1/2003	$5.80	$4.20	($1.60)	-28%
OR	60-cents	11/1/2002	$70.70	$53.70	($17.00)	-24%
MI	75-cents	7/1/2004	$210.20	$160.60	($49.60)	-24%
MI	50-cents	8/1/2002	$282.40	$222.10	($60.30)	-21%
IL	40-cents	7/1/2002	$185.00	$156.10	($28.90)	-16%
VA	10-cents	7/1/2005	$62.85	$52.75	($10.10)	-16%
PA	35-cents	1/7/2004	$118.10	$103.30	($14.70)	-13%
IN	40-cents	7/1/2002	$259.70	$229.20	($30.50)	-12%
NJ	55-cents	7/1/2003	$151.50	$133.60	($17.80)	-12%
AR	25-cents	6/1/2003	$52.50	$46.50	($6.00)	-11%
MA	75-cents	7/25/2002	$195.00	$176.00	($19.00)	-10%
KY	27-cents	6/1/2005	$18.10	$16.60	($1.50)	-8%
VT	49-cents	7/1/2002	$20.30	$18.90	($1.40)	-7%
RI	39-cents	7/1/2003	$24.80	$23.00	($1.80)	-7%
ID	29-cents	6/1/2003	$22.97	$21.50	($1.47)	-6%
TN	7-cents	7/15/2002	$30.50	$29.10	($1.40)	-5%
NE	30-cents	10/1/2002	$20.70	$19.80	($0.90)	-4%
PA	69-cents	7/15/2002	$585.00	$559.90	($25.10)	-4%
NV	45-cents	7/22/2003	$63.30	$60.70	($2.60)	-4%
KS	**46-cents** **9–cents**	**7/1/2002** **1/1/2003**	**$84.00**	**$81.20**	**($2.80)**	**-3%**
NJ	70-cents	7/1/2002	$250.80	$242.30	($8.50)	-3%

[1] *State Cigarette Excise Tax Increases: A Comparison of Projected versus Actual Revenue FY 2003 -2006*, FISCAL PLANNING SERVICES, INC., (January 1, 2008); prepared for and funded by Altria Corporate Services, Inc.

[2] Hawaii's projection for FY 2004 included both the 10-cent and 20-cent increases implemented in the previous year.



Information provided by Altria Corporate Services, Inc. on behalf of Philip Morris USA Inc.
For more information please visit www.pmusa.com

WV	38-cents	5/1/2003	$59.70	$57.80	($1.90)	-3%
NM	70-cents	7/1/2003	$43.00	$42.20	($0.80)	-2%
ME	$1.00	9/19/2005	$51.30	$51.10	($0.20)	0%
MT	52-cents	5/1/2003	$4.90	$4.90	0	0%
NH	28-cents	7/1/2005	$44.80	$45.30	0.5	1%
VT	26-cents	7/1/2003	$23.80	$25.30	1.5	6%
OH	31-cents	7/1/2002	$246.50	$276.90	30.4	12%
CO	64-cents	1/1/2005	$55.70	$64.30	$8.60	15%
MN	75-cents	8/1/2005	$121.90	$141.10	19.2	16%
OH	70-cents	7/1/2005	$451.71	$522.65	70.94	16%
DE	31-cents	8/1/2003	$28.90	$37.30	8.4	29%
WA	60-cents	7/1/2005	$59.90	$112.20	52.3	87%
SD	20-cents	3/24/2003	$1.60	$3.00	1.4	88%
AK	60-cents	1/1/2005	$2.80	$6.10	$3.30	118%
AL	26-cents	5/18/2004	$14.60	$32.50	17.9	123%
LA	12-cents	8/1/2002	$1.50	($15.70)	($17.20)	n/a

This variability in returns should suggest that cigarette excise taxes are an unpredictable source of tax revenue, and could pose short and long term problems to the fiscal solvency of a state.

Altria

Information provided by Altria Corporate Services, Inc. on behalf of Philip Morris USA Inc.
For more information please visit www.pmusa.com

In Delaware, tax-paid cigarette sales have grown from nearly 80 million packs in FY 1991 to more than 158 million packs in FY 2007, or an average increase of 4.4% per year.[3] To put this in context, the average annual industry decline in cigarette sales is 1-2% per year.[4] In New Jersey, tax-paid cigarette sales have been declining at an accelerated rate of 5.0% per year.[5]

These figures suggest that in response to high cigarette taxes a number of smokers in New Jersey are purchasing their cigarettes through alternate avenues. These avenues may include Native American territories and the Internet, where excise taxes may be avoided or evaded illegally. Or, adult consumers may be traveling to adjoining states with lower state and local excise tax rates to purchase cigarettes thus depriving a state of expected revenue.

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[3] Based on state tax-paid cigarette sales data provided in Bill Orzechowski & Rob Walker, *The Tax Burden on Tobacco,* vol. 42 (February 2008); funded in part by PM USA.

[4] Thomas Capehart, Tobacco Outlook, USDA-ECONOMIC RESEARCH SERVICE, TBS No. 254 (April 23, 2003).

[5] Based on state tax-paid cigarette sales data provided in Bill Orzechowski & Rob Walker, *The Tax Burden on Tobacco,* vol. 42 (February 2008); funded in part by PM USA.

Hello, and thank you for having me today. My name is Jeff Martin and I am with Armor Amusement. My company places and supplies cigarette machines throughout the greater Kansas City area. I am here today to speak with you about the differences that I see on a daily basis that most people do not have the benefit of. That is the subtle differences in the city, but between the state lines.

Right now in Missouri if you want to buy a pack of cigarettes out of a vending machine, you can expect to pay five dollars. If the proposed tax goes through, you can expect to see the price across the street in Kansas be close to seven dollars. The problem is not entirely in the price. The really becomes the location. If you are telling a person that they can save two dollars by walking a few blocks or even driving a few miles, most people will. The bigger issue comes into play that you are losing more than just tax dollars. You will be losing that person's revenue dollars from the other products they will buy.

There are significant problems that will come along with this type of tax hike. You are unintentionally going to start forcing people that live along the borders of this state to go across state lines to save a significant amount of money. That has bad idea written all over it. I am a person that supplies this industry and I would like to continue to do so. This type of tax threatens my livelihood in the state of Kansas. You realistically could legislate my business out of the state of Kansas. That does not sound remotely fair to me.

Capitalism is designed to create parity and better products. This tax increase looks like it would wipe that away. This tax increase looks like it flies in the face of everything that is capitalism. How can a store stay competitive if politicians are voluntarily increasing store prices? You are effectively creating an unequal playing field. You are going to do more damage to people that already pay you significant amounts of tax dollars. What happens when that well starts to dry up.

Thank you for your time and careful consideration in this difficult and complex issue.

AMERICANS FOR PROSPERITY
KANSAS

February 7, 2008

Chairman Wilk, members of the committee,

I am Alan Cobb, Kansas State Director of Americans for Prosperity, a free market grassroots public policy group with more than 12,000 members in Kansas.

We oppose this proposed tax increase.

Kansas local and state tax burden is at an all time high – higher than all of our neighbors but Nebraska and 15th highest in the country. We pay more of our income in taxes than residents of Massachusetts.

Kansas doesn't have a revenue problem – over the last four years, we've averaged a 9% increase in the State General Fund.

We know that taxpayers vote with their feet. If this tax is increased, many folks who purchase cigarettes will continue buy those products, but not in Kansas. Thus Kansas will not only lose revenue from tobacco purchases, but also the revenue from purchases that frequently accompany purchase those in

Americans for Prosperity was founded to organize taxpayers and give them a greater voice in promoting free-market economic policies at the local, state, and federal levels. Our members have consistently told us that they are opposed to high tobacco taxes, which is why we strongly oppose any increase in the federal cigarette excise tax.

Sin taxes are deeply flawed public policy. To minimize economic distortions, taxes should have a broad base and a low rate. Excise taxes are the worst departure from this principal, singling out specific products for excessive taxation, substituting coercive government power for free market pricing.

Sin taxes are highly regressive, consistently borne by low-income Americans. A recent Tax Foundation study that the burden of the existing federal cigarette excise tax is 7.5 times greater on the bottom income quintile than on the top. Increasing the tax would therefore be a counterproductive way to finance an expansion of health care assistance to lower income families, because the tax would fall largely on the very families the expansion is intended to benefit.

The cigarette excise tax also has contradictory purposes—while one stated goal is to discourage smoking, the tax also make the government reliant on revenue from smokers. This is an unreliable revenue source, both because smoking is in general decline and because higher taxes tend to reduce sales.

Finally, there are limits to the enforceability of cigarette tax increases. Cigarette smuggling has dramatically increased in recent years and small smuggling operations are being supplanted by highly sophisticated organized crime syndicates.

For these reasons, we urge you to oppose any increase in the cigarette tax.

2348 SW Topeka, Suite 201 Topeka, Kansas 66611
785-354-4237 785-354-4239 FAX
www.afpks.org

Kansas Licensed Beverage Association

February 7, 2008 Testimony on HB-2737, House Taxation Committee

Mr. Chairman, and Members of the Committee,

I am Philip Bradley representing the Kansas Licensed Beverage Assn., the men and women, in the hospitality industry, who own, manage and work in Kansas bars, breweries, clubs, caterers, hotels and restaurants where beverage alcohol is served. These are the over 3000 places you frequent, enjoy and the tens of thousands employees that are glad to serve you. Thank you for the opportunity to speak today and I will be brief.

We oppose HB-2737.

We recognize the value of your time and will not repeat the many and varied reasons to defeat this measure presented by the other opponents. Instead I will make a few points that might be missed.

Excise Tax Increases Promote Inequalities in Taxation. Excise taxes are regressive and force lower income families to shoulder a greater portion of the burden. Measured as a percentage of income, excise taxes have an impact that is five times greater for lower income families than for upper income families. At the same time, lower, middle and upper income adults all consume the same type of tobacco.

"Excise taxes on alcohol, tobacco, and motor fuel constitute relatively minor sources of revenue for most states and have major disadvantages. They have little growth potential, fall heavily upon low-income persons...State and local governments should use restraint in setting excise rates. Tax rates that are substantially higher than neighboring states will encourage tax evasion."
From, Kansas Policy Choices, 1986.

We appear in opposition to the tax increases targeted at only one industry. Although we support equitable funding of our government, we oppose targeted taxes. We believe that the funds the state needs for general state obligations should come from the taxes that all citizens pay; sales, property and income, (which we pay as well). Targeting individual industries only makes that industry less competitive in the market place and drives consumers to other states, on-line or black market sales outlets where Kansas receives no tax revenue.

This will not change the consuming habits of those that can afford to buy bulk and will drive a few more minutes to buy packs, cartons & cases. It will just encourage the consumer to drive that extra few miles or few minutes from Kansas to purchase in Missouri or Oklahoma, where they can already get cigarettes for less or gas for less. What is likely is that the consumer that has a limited budget will consider getting his goods elsewhere and KS business takes another hit.

Please review the attached article that provides proof that another myth about taxing tobacco has bit the dust.

I am available for your questions. Thank you for your time.

Philip Bradley

Philip Bradley

Anger is an acid that can do more harm to the vessel in which it is stored than to anything on which it is poured. ***Mark Twain***

Philip Bradley
CEO

785.766-7492
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info@klba.org

September 10, 2007

New Research Suggests that Cigarette Price Increases No Longer Stimulate Smoking Cessation

A new study published online ahead of print in the *American Journal of Public Health* concludes that contrary to the popular wisdom in tobacco control, cigarette price increases are no longer an effective strategy to reduce adult smoking prevalence. In addition, the study concludes that cigarette price increases impose a disproportionate burden on poor smokers (see: Franks P, Jerant AF, Leigh P, et al. Cigarette prices, smoking, and the poor: implications of recent trends. *Am J Public Health* 2007; 97).

The study examined the relationship between cigarette price and smoking participation (not cigarette consumption) during the period 1984-2004. Overall, the study found that the increasing price of cigarettes over time was associated with a marked decline in smoking only for higher-income individuals, not for lower-income persons.

Prior to the Master Settlement Agreement (MSA), there was a strong association between increasing cigarette price and reduced smoking participation, with the price elasticity being significantly larger among lower-income (-0.45) versus higher-income (-0.22) persons. After the MSA, there was no significant association between cigarette price and smoking participation in either income group.

The authors conclude: "Despite cigarette price increases after the MSA, income-related smoking disparities have increased. Increasing cigarette prices may no longer be an effective policy tool and may impose a disproportionate burden on poor smokers."

The Rest of the Story

This is an important study because it challenges the popular wisdom in tobacco control that increasing cigarette excise taxes is an effective strategy to promote smoking cessation. That assumption is a key one that is being used by anti-smoking groups to support state and federal cigarette tax increases -- in particular, the proposed 61 cents per pack increase in the federal cigarette excise tax to provide revenues for the expansion of the State Children's Health Insurance Program (SCHIP).

For example, the Campaign for Tobacco-Free Kids has estimated that a 61 cents per pack tax increase will result in 171,000 adult smokers quitting. This estimate is based on

a price elasticity of -0.2 for smoking participation among adults.

While the Campaign for Tobacco-Free Kids' assumption is supported by this new study using data for prior to the MSA, it is not supported by the post-MSA data. The post-MSA data suggest that smoking participation is no longer price sensitive, which would render the Campaign's estimate invalid.

It is important to note that according to these authors, the prevailing wisdom that there is a significantly negative price elasticity for smoking participation is based on data that were obtained prior to the MSA. The authors report that their study is only the second to use post-MSA data and that their results are in concordance with the one prior study that examined the more recent data (see: Colman G, Remler DK. Vertical equity consequences of very high cigarette tax increases: if the poor are the ones smoking, how could cigarette tax increases be progressive? Cambridge, MA: National Bureau of Economic Research; 2004. NBER Working Paper 10906).

The prior study concluded as follows: "We find that the price elasticity of smoking participation is -.14 for the lowest income tercile, -.05 for the middle income, and -.21 for the high income. We find that the price sensitivity of conditional consumption, cigarettes smoked by smokers, shows no robust pattern with income and is frequently insignificant. Thus, our results challenge the conventional view that price sensitivity falls monotonically with income. Our predictions of the equity consequences of tax increases show that using all traditional measures of progressivity, whether based on tax expenditures or welfare, cigarette tax increases are not close to progressive."

There are two important limitations to this study. First, it pertains only to smoking participation, not to cigarette consumption. Thus, it is still possible that smokers cut down on the amount they smoke in response to price increases.

Second, the study pertains only to adult smoking, not to youths.

In light of these limitations, I think there are two important implications of this research.

First, the research suggests that cigarette tax increases may no longer be effective in stimulating adult smoking cessation. It is possible that previous tax increases have "skimmed off" the less addicted smokers who were more motivated to quit smoking and thus left a population of smokers which is more addicted and less interested in quitting -- and thus much less price sensitive.

Second, the research suggests that cigarette tax increases are now increasing, not

decreasing, income-related disparities in smoking prevalence. Combined with the Colman and Remler study, this new paper provides evidence that cigarette tax increases now do impose a disproportionate economic burden on the poor.

These are important considerations in light of the proposed use of an increased federal cigarette tax to fund an expansion of the SCHIP program. They add to the strength of my argument against this approach.

Michael Siegel M.D.

I am a physician who specialized in preventive medicine and public health. I am now a professor in the Social and Behavioral Sciences Department, Boston University School of Public Health. I have 20 years of experience in tobacco control, primarily as a researcher. My areas of research interest include the health effects of secondhand smoke, policy aspects of regulating smoking in public places, effects of cigarette marketing on youth smoking behavior, and the evaluation of tobacco control program and policy interventions.

CRESCENT OIL COMPANY, INC.
CORPORATE OFFICE

February 5, 2008

RE: HB 2737 – Cigarette and OTP Bill

Mr. Chairman and members of the House Tax Committee, my name is Jerry D. Davidson and I am the Vice President of Operations for Crescent Oil Company and I am opposed to HB 2737.

Crescent Oil Company collected and paid over $24,000,000 in fuel taxes to the State of Kansas in 2007. In addition Crescent C-stores collected and paid over $667,956 in tobacco and sales tax.

Our companies are diversified into retail, wholesale, and consign operated retail. The Retail division consists of 20 convenience stores where Crescent operates the complete facility, whereas the Wholesale/Distributor side supplies fuel to over 400 Branded Convenience stores. The Consign Operation is very unique. Crescent partner's with the Operator of the convenience store and splits the profit on the fuel. Crescent maintains the fueling equipment and supplies the fuel while the Operator maintains and operates the C-store operation. At the present time there are 150 Consign Operators. Therefore this bill will provide a tremendous hardship to our customers and Crescent Oil for the following reasons.

Our retail division will see tobacco sales go down due to consumers buying across state line and will also lose other sales that will be purchased at the same time as the tobacco products. We are already at a disadvantage with gas tax and this tobacco tax will make our sites less viable for the future. If these sites are unable to succeed due to tax disadvantages then the state will not only lose tax revenue, but jobs will cross the border to work in an industry that will strive due to tax advantages.

The Wholesale and Consign divisions are affected due to the same facts, but with added burden to our company when the Operators of these stores are not able to pay their bills. We already get hit hard due to the difference in gas taxes and with the added tobacco tax many of our Customers will not survive. As business men we all know that when businesses fail the people who supply them are left with unpaid invoices and tax revenue goes down. Crescent continues to grow in the State of Kansas and would like that growth to continue in our State not the bordering states.

One of the responsibilities for our state is to create new jobs not to send them to another state. HB 2737 will close businesses, lose tax revenues, and send jobs out of state. Please do not go backwards, vote no on HB 2737.

Sincerely,

Jerry D. Davidson

Jerry D. Davidson
VP Fuel Operations

116 WEST MYRTLE, P. O. BOX 667, INDEPENDENCE, KS 67301
PHONE - 620-331-2850; FAX - 620-332-5270

STATE GENERAL FUND RECEIPTS
July-January, FY 2004
(dollar amounts in thousands)

	Actual FY 2003	Estimate.	FY 2004 Actual	Difference	Percent Increase-- FY 2004 Over FY 2003	Estimate
Property Tax: Motor Carriers General	$ 10,945 $ 0	10,750 $	12,877	$ 2,127	17.7 %	19.8 %
Property Motor	0	8,500	7,834	(666)		(7.8)
Vehicle	10,945 $	1,200	999	(201)		(16.8)
Total	$	20,450 $	21,711	$ 1,261	98.4 %	6.2 %
Income Taxes: Individual	$ 1,064,097 $	1,114,000 $	1,109,089 $	(4,911) 4.2 % 14,959		(0.4) %
Corporation	29,197	58,800	73,759	152.6 (2,826) (8.8)		25.4 (17.1)
Financiallnst.	14,986	1~,500	13,674	7,222 8.0 %		0.6 %
Total	$ 1,108,280 $	1,189,300 $	1,196,522 $			
Estate/Succ Tax	$ 28,377 $	27,000 $	31,998	$ 4,998	12.8 %	18.5 %
Excise Taxes: Retail Sales	$ 941,761 $	980,000 $	971,221 $	(8.779)	3 .1	(0 9)
Compo Use	131,190	130,000	126,866	(3.134)	(3 .3)	(2.4)
Ciga rette	77,157	75,500	70,445	(5.055)	(8 .7)	(6.7)
Tobacco Prod.	2,670	2,850	2,782	(68)	4 .2	(2.4)
Cereal Ma lt Bev.	1,363	1,475	1,329	(146)	(2 .5)	(9. 9)
Liquor Galbnage	8,871	9,500	9,498	(2)	7 2.1	0. 0
Liquor Enforce.	23,288	24,300	23,949	(351)	6.8	(1.4)
Liquor Drink Corp.	3,939	4,250	4,177	(73)	3.8	(1. 7)
Franchise Severance	9,695	13,000	13,438	438	3.0	3. 4
Gas	36,501	49,600	47,658	(1.942)	3.6 %	(3 9) %
Oil	27,473	39,500	37,464	(2.036)	12 .4	(5 2)
Total	9,027	10,100	10,194	94	2 .9	9 0.
	$ 1,236,435 $	1,290,475 $	1,271,362 $	(19.113)	.8	5) (1.
Other Taxes: Insurance Premo Miscellaneous	$ 34,216 $	34,350 $	40,586	$ 6,236	18.6 %	18.2 %
	2,357	2,300	2,383	83	1.1	3.6
Total	$ 36,573 $	36,650 $	42,969	$ 6,319	17.5 %	17.2 %
Total Taxes	$ 2,420,610 $	2,563,875 $	2,564,561	$ 686	5.9 %	0.0 %
					%	%
Other Revenue: Interest	$ 12,561 $	7,200 $	7,761	$ 561	(38.2) %	7.8 %
Transfers (net)	(82,208)	(15,300)	(13,121)	2,179		14.2
Agency Earnings						

and Misc. 31,793 77,300 82,208 4,908 158.6 6.3 Total $ (37,855) $ 69,200 $ 76,849 $ 7,649 --% (11.1) %

TOTAL RECEIPTS $ 2,382,755 $ 2,633,075 $ 2,641,410 $ 8,335 10.9 % 0.3 %

Consensus estimate as of November 3, 2003. Excludes $450 million to State General Fund due to issuance of a certificate of indebtedness.

NOTES: Details may not add to totals due to rounding.

39365(2/9/4(3:08PM))

Patty Solomon Testimony- Smoke-EEZ Manager

5239 State Ave.

Kansas City, KS 66102

Mr. Chairman and members of the committee, my name is Patty Solomon. I am a manager at Smoke-EEZ Cigarette Outlet located at 5239 State Ave. We sell a variety of different tobacco products. I am concerned because Kansas is currently considering a cigarette tax increase proposal of 50¢ per pack followed by 4 cent increases in each of the subsequent 5 years. If passed, the Kansas cigarette tax would rise from 79¢ to $1.29 per pack in 2008. This number is substantially larger than Missouri's tax of 17¢ per pack. Since Smoke-EEZ is located so close to the Missouri border, we compete with their retailers. With such a discrepancy in the price of a pack of cigarettes, and more noticeably on a carton of cigarettes, residents of Kansas are going to begin to travel across the border to make their tobacco purchases.

On one single carton of cigarette, Missouri's smoke shops will have a price that is $11.20 cheaper than their competitors across the border. Being such a short drive away, I am sure that our customers will find that saving this $11.20 each time they buy a carton in Missouri to be well worth the trip. The last time the cigarette tax went up, our owner Larry Mills, reported that sales dropped by at least 50%. Smoke-EEZ cannot afford another drop like that. This drop in sales will not only be a result of the pricier tobacco products, sales of other items in our store will vanish. People who come in to buy cigarettes also buy other products. And when our customers count goes down as a result of the higher tax, our sales of these other items will drop as well.

I think that the negatives outweigh the positives on this issue. I really don't see anything that will be positive coming from increasing the tax by another 50 cents. If sales decline in Kansas like they have in the past, I believe that we will be wondering where all of the tax income went because people *are* going to buy their cigarettes elsewhere.

Thank you for your time, Patty!

Nizar Ali – Testimony – Owner Discount Smokes

13010 Kansas Ave.

Bonner Springs, 66012

My name is Nizar Ali, and I own 7 Gas Stations total in Kansas and Missouri. I am most concerned with my Kansas location's sales because if another tax increase hits Kansas' cigarettes I will loose a substantial portion of sales. From my experience, Missouri's stores are already doing 30-40% more business due to the discrepancy in taxes. This number is not only tobacco sales; it includes other products that I sell in my store. People want to make one stop, and if they are coming onto a store to buy cigarettes, they are going to make the other purchases that they need to. So you see, this tax increase will not only take away cigarette sales, it will also take away other potential sales that I would have made if customers were not driven across the border to make purchases because they can save money that way. People do not worry about where the tax money is going when they make purchases like cigarettes, they worry about how much they are spending. So Kansas' residents are not going to be concerned that they are giving tax dollars to Missouri, they are only worried about how much they can save.

A few facts on the proposed tax increase;

If the proposed 50 cent per pack tax increase goes thru, Kansas' tax will be almost 700% higher than neighboring Missouri's. It is well known in economics that consumers will seek lower priced substitutes if they are readily available.

A 50¢ per pack tax hike would cause the tax per pack to rise from 79¢ to $1.29. It is estimated that this tax hike would drop Kansas tax-paid cigarette sales volume by approximately 18%.

Cigarette volume would fall by 27 million packs if the tax were increased by 50¢ in FY 2009. Most of these sales would be lost to low-tax states, Indian Reservations, and Internet merchants.

Raising the tax in Kansas is going to hurt owners of business inside of Kansas' borders. I believe that another 50 cent increase will drive up business and tax revenue in other bordering states.