

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE

The meeting was called to order by Chairman Les Donovan at 10:30 a.m. on March 16, 2010, in Room 152-S of the Capitol.

All members were present.

Committee staff present:

Gordon Self, Office of the Revisor of Statutes
 Scott Wells, Office of the Revisor of Statutes
 Chris Courtwright, Kansas Legislative Research Department
 Brandon Riffel, Kansas Legislative Research Department
 Mary Jane Brueck, Committee Assistant

Conferees appearing before the Committee:

Stuart J. Little, representing Kansas association of Addiction Professionals
 Rick Cagan, Executive Director, National Alliance on Mental Illness
 Shannon Jones, SILCK (Statewide Independent Living Council of Kansas)
 Kathy Harding, Kansas Association for the Medically Underserved
 Whitney Damron, Distilled Spirits Council of the United States
 Phil Bradley, CEO Kansas Licensed Beverage Association
 Ron Hein, Kansas Restaurant and Hospitality Association
 Rebecca Rice, Kansas Beer Wholesalers Association
 Ted Powers, Anheiser Busch
 Marshall Rimann, Rimann Liquor
 Linda Langston, Eudora Wine and Spirits
 Tuck Duncan, Kansas Wine & Spirits Wholesalers Association
 Tom Palace, Petroleum Marketers Convenience Store Association of Kansas
 Kent Eckles, Vice President of Public Affairs, Kansas Chamber of Commerce
 Martin Platt, Platt Retail Liquor, in Wichita

Others attending:

See attached list.

Chairman Donovan opened the hearing on **SB 569 - Alcoholic liquor, cereal malt beverage and malt products gallonage tax and liquor enforcement tax rate increases**. Stuart J. Little, representing Kansas association of Addiction Professionals was first to speak as a proponent for the bill. He requested the committee amend the bill in Section 1 (I) [page 3, line 3] in order to leave the transfer rate at 1/10 or 10%. (Attachment 1) Rick Cagan, Executive Director, National Alliance on Mental Illness, expressed their concern about the impact on local communities from the reduction in community-based services for mental health treatment. (Attachment 2) Shannon Jones, SILCK (Statewide Independent Living Council of Kansas) was called next. She volunteered to have her testimony in favor of this bill included with other written testimony. (Attachment 3) Kathy Harding, Kansas Association for the Medically Underserved has submitted written testimony. (Attachment 4) Chairman Donovan asked if there were any others who wished to speak as a proponent to this bill. There were none.

Whitney Damron, Distilled Spirits Council of the United States was the first to speak in opposition of this bill. (Attachment 5) Phil Bradley, CEO Kansas Licensed Beverage Association, asked the committee to oppose the targeted tax increase on this bill. (Attachment 6) Sen Donovan said the approach to handling this bill when the committee actually works the bill they will be able to lessen the onus of increasing this tax. Ron Hein, Kansas Restaurant and Hospitality Association followed in the opposition to this bill saying this tax increase seems punitive and excessive, ill-timed, and unjustly targeted to the members of the Kansas Restaurant and Hospitality Association and similar organizations. (Attachment 7) Next to speak in opposition to this bill was Rebecca Rice, Kansas Beer Wholesalers Association. (Attachment 8) Ted Powers, Anheiser Busch submitted his testimony as written. (Attachment 9) Marshall Rimann, Rimann Liquor in the Kansas City area. He gave several examples of price differences between Kansas and Missouri stores, showing the reason Kansas businesses feel certain their business would decrease because customers will take the time to drive to Missouri to purchase liquor. (Attachment 10) Linda Langston, owner Eudora Wine and Spirits explained this bill will effect sales in her business and will decrease state revenue from liquor taxes

CONTINUATION SHEET

Minutes of the Senate Assessment and Taxation Committee at 10:30 a.m. on March 22, 2010, in Room 152-S of the Capitol.

through the decrease in sales in other small businesses across the state. (Attachment 11)

Chairman Donovan said this committee does not want to put an additional burden on these businesses or any other. He told the committee Tuck Duncan, Kansas Wine & Spirits Wholesalers Association will be allowed to speak briefly at the March 18 meeting. The Chairman went on to point out the committee has written testimony from Tuck Duncan, Kansas Wine & Spirits Wholesalers Association (Attachment 12), Tom Palace, Petroleum Marketers Convenience Store Association of Kansas (Attachment 13), Kent Eckles, Vice President of Public Affairs, Kansas Chamber of Commerce (Attachment 14), and Martin Platt, Platt Retail Liquor, in Wichita. Mr. Platt asked to speak to the committee and was allowed to do so. (Attachment 15)

The next meeting is scheduled for March 17, 2010.

The meeting was adjourned at 11:36 a.m.

STUART J. LITTLE, Ph.D.
Little Government Relations, LLC

March 16, 2010

Senate Assessment and Taxation Committee

Testimony on Senate Bill 569

Chairman Donovan and Members of the Committee,

I appear today on behalf of the Kansas Association of Addiction Professionals (KAAP) in support of Senate Bill 569, provided the bill is amended.

The Kansas Association of Addiction Professionals (KAAP) began in 1974 and is the statewide organization comprised of over 450 members including individuals counselors in private practice and large treatment programs who provide counseling and treatment services to individuals with addictions. KAAP includes professionals in the fields of gambling addiction, prevention and treatment counselors, as well as other addiction related professionals such as educators, court services officers and members of special populations. KAAP helps our members provide the highest quality and most up-to-date, science-based services to our clients, our families and our communities.

It is rare for KAAP to weigh in on tax policy issues, but Senate Bill 569 warrants our organization's input. We believe there is need for increased state support for social service programs. KAAP, however, requests the Committee amend the bill in Section 1 (i) [Page 3, line 3]. That section reduces the percent of funds transferred to the community alcoholism and intoxication program fund from the current 10 percent to 5 percent. The striking of 1/10 and insertion of 5 percent should be removed leaving the transfer rate at 1/10 or 10 percent. KAAP believes if the Legislature is going to increase gallonage taxation, that the prior statutory commitments to funding substance abuse treatment programs should be honored. Maintaining the current 10 percent funding from alcohol gallonage revenue will maintain the current state commitment and assist in moderating the continued decline in state support for substance abuse treatment in the last two years, totaling now almost \$3.0 million.

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



Senate Committee on Assessment & Taxation

Testimony on Senate Bill 569

March 16, 2010

Presented by:
Rick Cagan, Executive Director

NAMI Kansas is a statewide grassroots membership organization dedicated to improving the lives of individuals with mental illness. Our members are individuals who are living with mental illnesses and the family members who provide care and support. NAMI Kansas provides peer support through a statewide network of local affiliates. We sponsor educational programs targeted at consumers of mental health services, their family members, and the general public. We advocate for individuals who are living with mental illness to ensure their access to treatment and supportive services.

Admittedly, our expertise does not lie with the intricacies of revenue programs. It is our understanding that gallonage tax receipts would be a consistent source of revenue and that they would likely grow over time. Kansas collected \$20.3 million in gallonage tax receipts in FY 2009 and is predicted to collect \$20.7 million in FY 2010. As proposed, the new funding would not reduce State General Fund revenues.

We are however deeply concerned about the impact on local communities from the reduction in community-based services for mental health treatment. We appreciate this initiative to seek a dedicated revenue stream for community mental health centers and would like to focus our testimony on the level of need for these services.

Cuts to community mental health services have come from several sources. Each cut in turn has taken a negative toll on our capacity in Kansas to provide effective treatment for those who are living with serious mental illnesses. These cuts include the reduction of \$20 million in mental health reform grants since FY 2008, the loss of \$3.1 million in MediKan funding, the elimination of more than half of the funding for the Community Support Medication Program (\$560,000), and the 10 percent across the board Medicaid rate cut which is currently reducing revenue to the mental health centers at an annual rate of \$19 million.

While an estimated revenue stream of \$10 million from gallonage tax receipts would by no means close the gap on all of these revenue losses, this new revenue would make an important and significant dent in the current shortfalls. Our message to the budget committees has consistently been that in light of the impacts on vulnerable Kansans, it is critically important for the Kansas legislature to *forestall any additional cuts to the community mental health system and to restore previous cuts.*

The availability of mental health services is critical to our communities.

One in four adults experiences a mental health disorder in a given year. One in seventeen lives with a serious mental illness, such as schizophrenia, major depression or bipolar disorder¹, and about one in ten children have a serious mental or emotional disorder.² Close to 95,000 adults in Kansas are affected by a serious mental illness³ and about 31,000 children live with serious mental health conditions.⁴ Fewer than one-third of adults and half of children with a diagnosable mental disorder receive any mental health services in a given year. In the U.S., the annual indirect cost of mental illnesses was estimated to be \$79 billion in 1999, a figure which has certainly increased in the last 10 years. 80% of that amount reflects the loss of productivity as a result of illnesses.⁵

Untreated mental illness has deadly and costly consequences. In 2006, 379 Kansans died by suicide.⁶ Suicide is almost always the result of untreated or under-treated mental illness and is the third leading cause of death among youth and young adults aged 15-14.⁷ During the 006-07 school year, approximately 53 percent of Kansas students aged 14 and older living with serious mental health conditions who receive special education services dropped out of high school.⁸

Treatment works if you can get it. Early treatment of mental illnesses reduces the extent of disability and recurrences of symptoms. 66 percent of Americans believe that treatment and support can help people with mental illnesses lead normal lives. Recovery rates with treatment and medication have been noted at 80 percent for bipolar disorder, 65-80 percent for major depression, and 60 percent for schizophrenia. Individuals living in recovery are contributing members of their community and can work and pay taxes.

How are the cuts in funding impacting individuals and communities?

The community mental health system is under-resourced. On the one hand we expect community mental health centers to be the safety net provider for uninsured Kansans. On the other hand, \$20 million in reductions in state general funds since FY 2008 place vulnerable Kansans with serious mental illnesses at immediate risk of going without treatment. Kansas' public mental health system provides services to only 15 percent of adults who live with serious mental illnesses.⁹ We spent just \$91 per capita on mental health services in 2006 representing 2.2 percent of total state spending that year.¹⁰ In light of funding reductions, community mental health centers are in many cases ill-equipped to provide the robust array of services needed for persons with chronic mental illnesses.

Medicaid funding does not meet the needs of Kansans with serious mental illness. As state general fund dollars are removed from the system, mental health centers are being pushed to rely more on Medicaid as a payer source. This strategy further undermines the safety net and is destabilizing to the mental health centers. In addition, it is important to note that only 30 percent of the clients being treated by the CMHCs have Medicaid as their sole source of payment.¹¹

We cannot afford to continue to shift the costs of treatment. The consequences of an under-resourced treatment system are substantial for the health and well-being of our citizens and for the ability of other agencies, including health, law enforcement, courts, and schools that depend on the safety net services which our mental health centers provide. To the extent that we cut corners in providing adequate funding for community-based care for mental illness, there will be more demand on state hospitals for providing treatment. Of great significance is the finding that more than half of admissions to the state hospitals are patients who have had no previous connection to the public mental health system. Daily costs for state hospital treatment are almost 20 times as much as community-based treatment for an individual with a chronic mental illness. Other sectors, particularly law enforcement, also bear the brunt of an under-funded mental health treatment system, especially when state hospitals are routinely over census.

The criminal justice system is our other treatment system. The cost of untreated mental illness continues to be shifted to law enforcement and corrections agencies. These costs are corroborated by the published data including a 2006 report from the U.S. Department of Justice which indicates that 24 percent of state prisoners and 21 percent of local jail prisoners have a recent history of a mental health disorder. In 2008, approximately 2,000 adults with serious mental illnesses were incarcerated in prisons in Kansas.¹² A 2007 report from the National Center for Mental Health & Juvenile Justice found that 70 percent of youth in juvenile justice systems have at least one mental health disorder with at least 20 percent experiencing significant functional impairment from a serious mental illness. These data reflect the financial burden on state and local governments from untreated mental illness. The cost for incarceration at the Larned Correctional Mental Health Facility is almost four times as much as the cost of community-based care.

*One in five people with a serious mental illness are uninsured.*¹³ People with low income and no insurance are twice as likely to have a psychiatric disorder.¹⁴ Approximately 15 percent of the uninsured have a serious mental health condition.¹⁵ Without treatment, individuals with a serious mental illness are at an increased risk of hospitalization.¹⁶

Reduced funding to our mental health treatment system means that more people who need services will not get them. Specifically, the impacts of the cuts will translate into a reduction in the level and frequency of care being provided to the uninsured and will create delays in receiving timely treatment. Despite the availability of effective treatments, there are already long delays—sometimes decades – between the first onset of symptoms and when people seek and receive treatment.¹⁷ We cannot afford to exacerbate these delays by not having adequate resources in place when individuals present themselves for treatment.

In 2009, NAMI's *Grading the States* report applauded diligent efforts in Kansas to make mental health system improvements over the past three years. The report noted that "political will is needed to preserve the gains recently made and provide the funding necessary to implement recommendations" of SRS' Hospital and Home Initiative. NAMI Kansas is hopeful that the legislature will ensure that adequate investments are made in our local communities' capacity to provide mental health services. This is the most cost-effective solution for Kansas. SB 569 represents a reasonable effort to provide dedicated funding for these critical services.

Thank you for the opportunity to provide these comments.

-
- ¹ National Institute of Mental Health. NIMH: The numbers count— Mental disorders in America. National Institute of Health. Available at <http://www.nimh.nih.gov/publicat/numbers.cfm>.
- ² U.S. Department of Health and Human Services. *Mental Health: A Report of the Surgeon General*. Rockville, MD: U.S. Department of Health and Human Services, Substance Abuse and Mental Health Services Administration, Center for Mental Health Services, 1999, pp. 408-409, 411.
- ³ Holzer, III, C.E. and Nguyen, H.T., psy.utmb.edu.
- ⁴ U.S. Public Health Service, Report of the Surgeon General's Conference on Children's Mental Health: A National Action Agenda, (Washington, DC: Department of Health and Human Services, 2000).
- ⁵ U.S. Department of Health and Human Services. *Mental Health: A Report of the Surgeon General*. Rockville, MD: U.S. Department of Health and Human Services, Substance Abuse and Mental Health Services Administration, Center for Mental Health Services, 1999, pp. 408-409, 411.
- ⁶ McIntosh, J.L. USA Suicide 2006: Official Final Data, (Washington, DC: American Association of Suicidology, April 19, 2009, <http://www.suicidology.org>).
- ⁷ National Institute of Mental Health, "Suicide in the U.S.: Statistics and Prevention," 2009, <http://www.nimh.nih.gov/health/publications/suicide-in-the-us-statistics-and-prevention/index.shtml>
- ⁸ U.S. Department of Education, Office of Special Education Programs, Data Accountability Center, IDEA Data, "State Rank-Ordered Tables," Table 1.3b, DANS (July 15, 2008)
- ⁹ Aron, L., Honberg, R., Duckworth, K., et al., *Grading the States 2009: A Report on America's Health Care System for Adults with Serious Mental Illness*, (Arlington, VA, National Alliance on Mental Illness, 2009)
- ¹⁰ NASMHPD Research Institute, "State Mental Health Agency Profiles Systems and Revenues Expenditures Study: Revenues and Expenditures Reports from 2006."
- ¹¹ AIMS Data Summary Report, FY 2009
- ¹² Sabol, W.J., West, H.C., and Cooper, M., *Prisoners in 2008*, U.S. Department of Justice, Bureau of Justice Statistics, (2009) and James, D., and Glaze, L., *Mental Health Problems of Prison and Jail Inmates*, U.S. Department of Justice, Bureau of Justice Statistics, (2006).
- ¹³ SAHMSA, Office of Applied Studies, National Survey on Drug Use and Health, 2005.
- ¹⁴ Mechanic, D. (2001). *Closing Gaps in Mental Health Care*. Health Services Research 36:6.
- ¹⁵ SAHMSA, Office of Applied Studies, National Survey on Drug Use and Health, 2005.
- ¹⁶ McAlpine, D.D. (2000). Utilization of Specialty Mental Health Care Among Persons with Severe Mental Illness: The Roles of Demographics, Need, Insurance, and Risk. Health Services Research. 35.1
- ¹⁷ Wang, P., Berglund, P., Olfson, M., Pincus, H., Wells, K. & Kessler, R. (2005). Failure and delay in initial treatment contact after first onset of mental disorders in the National Comorbidity Survey Replication (NCS-R). *Archives of General Psychiatry*, 62, June 2005, 603-613.

Testimony to Senate Assessment and Taxation
In Support of SB 569
March 16, 2010

My name is Shannon Jones. I am the director of the Statewide Independent Living Council of Kansas, (SILCK). The SILCK envisions a world in which people with disabilities are valued equally and participate fully. To realize that vision, the SILCK works closely with the 12 Centers for Independent Living to promote productivity and economic self sufficiency for people with all types of disabilities.

The SILCK supports SB 569 imposing a tax on alcoholic liquor and cereal malt beverage.

As the legislature moves to critical decision making time, the discussion needs to move away from what can we cut to what are the basic needs of our most vulnerable citizens.

Our state has a proud history of giving support to ensure a basic standard for all it's citizens. We have moved away from that history and we need to return.

At present we are facing a revenue deficit of over \$400 million to fund the FY 2011 budget. SB 569 provides a revenue generating measure to help close the gap.

Currently, 58 persons have died while waiting for services and the waiting list for persons with a disability stands at 1800 and growing daily. There is a rightness in providing services to the most vulnerable in our Kansas society.

The Statewide Independent Living Council doesn't advocate in a vacuum. We recognize there is the need for revenue. During this session we have testified in support of tax increases and the elimination of tax exemptions.

The idea of a 'alcohol' tax should be viewed as both a public health measure and a revenue measure. As in increases on cigarettes there was a decline especially with the young smoker so there might be the same value in relation to an alcohol tax.

We urge you to support any revenue generating measure.



Testimony on:

SB 569

Presented to:

Senate Assessment and Taxation Committee

By:

**Cathy Harding, Executive Director
Kansas Association for the Medically Underserved**

March 16, 2010

For additional information contact:

KAMU
1129 S Kansas Ave., Ste. B
Topeka, KS 66612
Ph: (785) 233-8483
Fax: (785) 233-8403

Sn Assmnt & Tax
3-16-10

Attachment # 4

Mister Chairman and members of the Assessment and Taxation Committee:

I am Cathy Harding, Executive Director of the Kansas Association for the Medically Underserved, (KAMU). I am pleased to present written testimony in support of SB 569.

KAMU was designated the Primary Care Association (PCA) of Kansas by the Bureau of Primary Health Care in 1991 and maintains that designation today. As the PCA, KAMU represents 44 members, including 40 safety net clinics. The 40 Safety Net Clinics along with their 29 satellite sites provide Kansans a total of 72 access points. Membership includes public and private non-profit primary care clinics, Federally Qualified Health Centers (FQHC's), one Federally Qualified Health Center Look-Alike, local health departments and the Statewide Farmworker Health Program.

KAMU's purpose is to grow and strengthen safety net clinics so that all Kansans will have a primary health care "home". This home is a place where people receive comprehensive primary, dental and behavioral health care, which cover the spectrum of preventative, acute and chronic health care needs.

In 2008 our 40 clinics provided care for nearly 190,000 underserved Kansans – a 34% increase in patients in just two years – 2006-2008. With the current economic client in our state, the number of individuals who are uninsured and underinsured will continue to rise. Our clinics that have reported data for 2009 (1/3 of the members to date) averaged a 25% increase in the number of patients served in just one year!

Kansas safety net clinic program received \$7,481,065 in SFY 2010 and 98% of the state investment goes directly to the clinics through grant programs. The remaining 2% is used to support the clinics through technical assistance and workforce development.

Recognizing that this year tough budget decisions will need to be made, I am pleased to state that investing in the safety net clinics is a positive decision – in fact, it actually saves the state money.

- Nationally, studies show that Medicaid patients served by Federally Qualified Health Centers **saves** Medicaid an average of \$1,000 per beneficiary per year. So, this is a direct savings to our Medicaid program.
- Statewide, for every state dollar that goes to our clinics, another \$10 is secured from other sources. This is an excellent return on the dollar.
- Finally, our clinics prevent the use of more expensive options. Some studies indicate that the cost of a visit to an emergency room is five times that of an outpatient clinic visit. Again, if this is a Medicaid beneficiary, the result is a direct savings to the state.

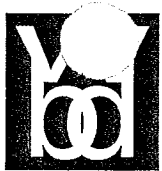
4-2

As a primary health care organization that supports healthy lifestyles, we support a tax on alcoholic liquor and cereal malt beverages.

An increase in the liquor tax benefits the state, specifically by providing an increase in revenue to the state general fund as well as provide funding for much needed health care programs.

Thank you Mister Chairman for the opportunity to provide written testimony in support of SB 569.

4-3



TESTIMONY

TO: The Honorable Les Donovan
And Members of the Senate Committee on Assessment and Taxation

FROM: Whitney Damron
On behalf of the Distilled Spirits Council of the United States (DISCUS)

RE: SB 569 - Alcoholic liquor, cereal malt beverage and malt products
gallongage tax and liquor enforcement tax rate increase.

DATE: March 16, 2010

Good morning Chairman Donovan and Members of the Senate Committee on Assessment and Taxation. I am Whitney Damron and I appear before you today on behalf of the Distilled Spirits Council of the United States, otherwise known as DISCUS, in opposition to SB 569 that proposes to double the gallongage and enforcement taxes on alcoholic liquor and CMB products.

Included with my testimony is an impact document specific to Kansas that has been prepared by DISCUS that analyzes the impact a doubling of the gallongage tax would have on our state. That document does not address an increase in the enforcement tax.

I would like to highlight several of the key points contained in that document:

- On a typical bottle of spirits purchased in Kansas, 47% of the purchase price is made up of a tax or fee of some kind (gallongage, excise and enforcement taxes).
- Higher tax rates would cause a projected decline in retail sales of \$55 million for Kansas merchants, resulting in a loss of 800 jobs. In the past year the Kansas City area alone has lost 1,400 hospitality industry jobs.
- In addition to the sales Kansas will lose due to higher prices that will follow a tax increase, the state will also lose from cross-border sales. Kansas tax rates are already higher than those of Missouri and Colorado (\$2.50 gallon vs. \$2.00 in Missouri and \$2.28 in Colorado). If HB 2593 were enacted, Kansas gallongage taxes would be 150% higher than Missouri and 120% higher than Oklahoma.

Proponents of an increase in liquor gallonage taxes suggest this tax has not been raised since 1977. That is only part of the picture. Since that time, there have been significant increases in excise taxes and the establishment of a drink tax.

But that raises the question as to what should the standard be for raising taxes? Does it matter that a product, service, income, property or sales tax has not been increased in a long period of time? Or should the consideration be whether the product is being taxed at an appropriate and competitive level when compared to other tax payers and sectors of our economy as well as the tax rates on similar products and services readily available in our neighboring states?

Included with my testimony are four pages taken from the Kansas Department of Revenue 2008 Annual Report that has a five year record for receipts from gallonage, excise and enforcement taxes as well as a summary page of licensees. I believe the graphs from KDOR along with the comparison of tax rates from other states in the information prepared by DISCUS clearly reflect that the spirits and hospitality industry are paying their fair share of taxes.

Two of three of the major taxes on spirits and CMB are an excise tax that is applied to a sale price, meaning the state receives a tax increase every year as the price is increased from the wholesale level to the retailer. It appears to us that the State does very well under the current taxing scheme for spirits and CMB products in our state and the taxes on these products should not be increased. Increasing taxes on these licensees during these difficult financial times is the wrong thing to do.

On behalf of the Distilled Spirits Council of the United States, I thank you for your time today and consideration of our position on SB 569.

WBD

Attachments

DISCUS

www.discus.org

No Time for New Taxes Kansas

The proposal to increase double beverage alcohol excise taxes is a poorly conceived plan that comes despite the fact that, by any measure, beverage alcohol is already over taxed. On a typical bottle of spirits purchased in Kansas 47% of the purchase price is made up of a tax or fee of some kind. The proposal to increase Kansas's excise tax rates would only exacerbate this problem.

Higher tax rates would cause a projected decline in retail sales of \$55 million for Kansas merchants. As sales fall, so does economic activity, resulting in the loss of an estimated 800 jobs in the ailing hospitality industry. This is no time to institute job killing tax increases. In the past year the Kansas City area alone has lost 1,400 hospitality industry jobs.

Beverage alcohol already overtaxed.

- The proposal to double beverage alcohol excise taxes comes despite the fact that, by any measure, beverage alcohol is already overtaxed in Kansas. For a typical bottle of distilled spirits sold in Kansas 25% of the retail price goes to pay direct taxes and fees. When all taxes are considered a staggering 47% of the purchase price goes toward taxes. Doubling excise tax rates, as proposed, would only increase the burden on everyone that enjoys a cocktail, beer or glass of wine.
- The tax burden on beverage alcohol is already so high that Federal, State and local governments collect over \$2 in taxes for every \$1 that the industry (suppliers, wholesalers, retailers and restaurants) earn in profit. Government is already an unequal partner in the beverage alcohol business.
- Increasing beverage alcohol taxes will only lead to higher prices – never a good idea when many consumers are still struggling from the slowing economy. Spirits prices are expected to increase by over 5%. Beer and wine prices would go up as well.

Economic Impact: jobs destroyed

- Unfortunately, people react to higher prices. As prices rise spirits volumes will go down. Kansas will lose sales in two ways. First, there will be the natural reaction by Kansans to buy less of something that is more expensive. Spirits volumes are projected to decline by nearly 140,000 gallons as a result, while wine would drop by 26,000 gallons and beer by over 600,000 gallons. Lost spirits sales will be worth \$28 million at retail. Including beer and wine brings lost sales to \$42 million.



- But, Kansas will also lose sales from cross-border purchases. Kansas' current tax rate is already higher than merchants in nearby Missouri and Colorado (\$2.50/gallon versus \$2.00 in Missouri and \$2.28 in Colorado). But, the proposed tax increase would make Kansas 150% higher than Missouri and nearly 120% higher than Colorado.
- If the excise tax proposal is enacted many Kansans would opt to make their purchases in lower taxed/ lower priced bordering states. Kansas retailers would be the big losers. In total, spirits retailer losses are expected to reach \$42 million. Total losses across spirits, beer and wine are expected to exceed \$55 million.
- The power to tax is the power to destroy. As sales fall, so does economic activity. Gross state product (a measure of general economic activity) will decline and an estimated 800 jobs would be destroyed in the process.
- This is no time to institute job killing tax increases. In the past year the Kansas City area alone has lost 1,400 hospitality industry jobs.

Excise taxes maximize economic harm

- The principles of good taxation tell us that the most efficient and equitable taxes are those that have the lowest rates possible, but that are applied to the broadest possible base. By doing so, a tax can both maximize revenues while also minimizing economic pain.
- Excise taxes, however, focus directly on a single product with high tax rates, thereby *maximizing* economic harm.

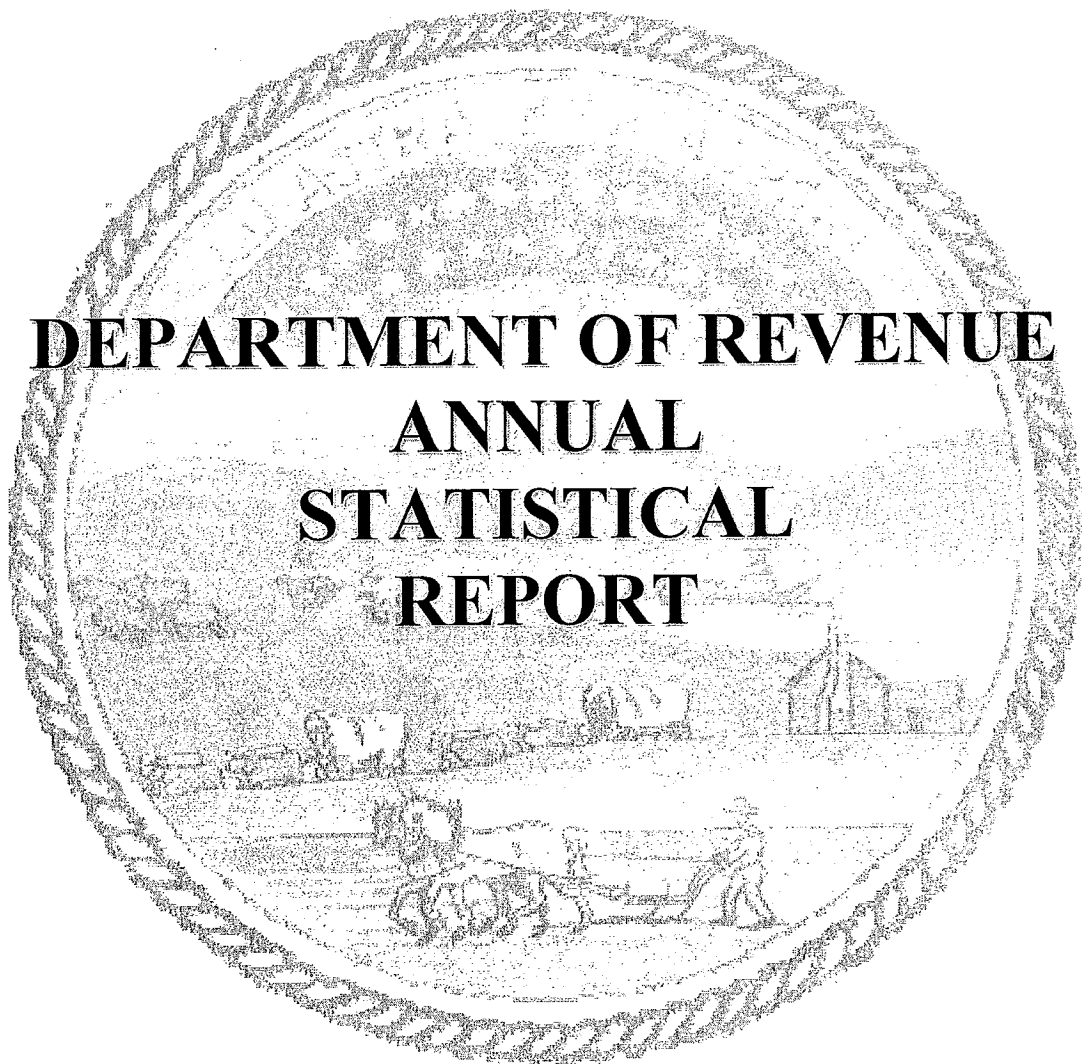
People pay taxes, not corporations. Excise taxes are regressive.

- Corporations do not pay taxes. Corporations are merely tax collectors that pass proceeds along to the various Federal, State and Local Treasuries. People pay taxes. Almost all tax increase levied on businesses are passed along to consumers in the form of higher prices.
- Excise taxes are known to be the most regressive form of taxation, impacting persons of lower income far more than the wealthy. When beverage alcohol taxes are raised, it is the working poor who are most affected. Over one-third of all beverage alcohol consumers (sprints, beer or wine) come from households having income of less than \$50,000.

Excise taxes do not act as a deterrent to abusive drinking; population level policies ineffective.

- In addition to failing the user fee test, beverage alcohol excise taxes do not appear to act as a deterrent to abusive drinking. Raising taxes on beverage alcohol only serves to penalize responsible beverage alcohol consumers and does not deter abusers for whom taxes are of little concern. The National Institute on Alcohol Abuse and Alcoholism (NIAAA), the government's lead agency on alcohol issues, reported in its January 2001 issue of *Alcohol Alert* that research suggests the heaviest-drinking 5 percent of drinkers do not reduce their consumption significantly in response to price increases, unlike drinkers who consume alcohol at lower levels.
- Consistent with the NIAAA findings was a 2009 meta-analysis, "Effects of beverage alcohol price and tax levels on drinking: a meta-analysis of 1003 estimates from 112 studies," published in *Addiction*. The study found that heavy drinkers are far less responsive to price increases than the total population of drinkers. And, it is important to note that "heavy" is often defined in alcohol studies as anyone having more than two drinks per day – not necessarily someone who has an alcohol use disorder. If drinkers who consumed five or more drinks per day were isolated these populations would be even *less* responsive to higher prices.
- A 2008 study "Secular Trends in Alcohol Consumption over 50 Years: The Framingham Study," published in *The American Journal of Medicine*, showed that over the 50 year period from 1948-2003, the prevalence of alcohol use disorders in the population has been constant. This finding is also consistent with the NIAAA report; over that 50 year period the affordability of beverage alcohol and alcohol control policies in general have varied widely; from the highly restrictive distribution policies and relatively high tax rates of the late 1940's and 1950's to the 1970's and early 1980s when the legal drinking age was only 18 in many states. And yet, despite these wide swings the level of alcohol use disorders was relatively constant.

STATE OF KANSAS

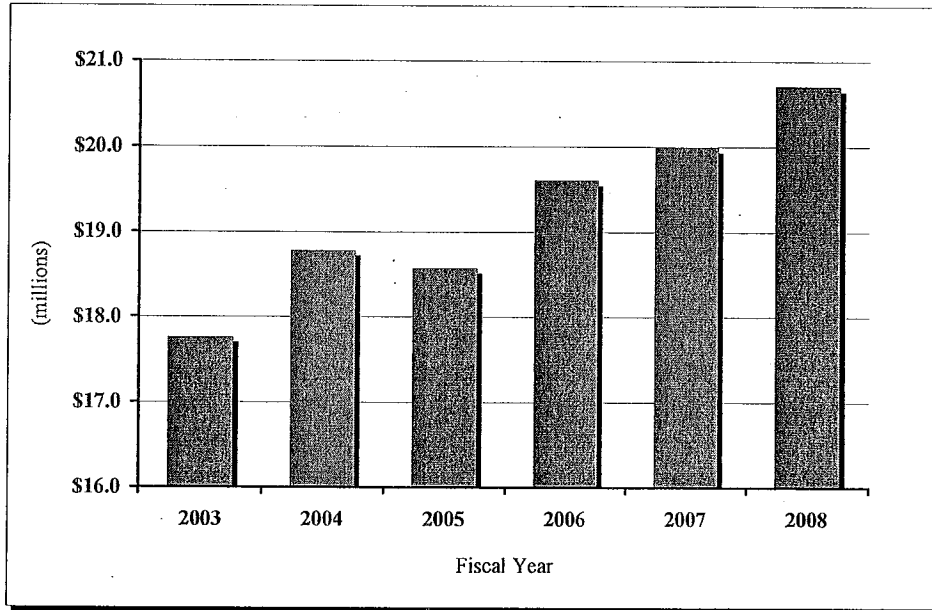


**FISCAL YEAR ENDING
JUNE 30, 2008**

Gallone Tax Receipts by Components and Fiscal Year

Gross Gallone Tax by Components

	Fiscal Year <u>2007</u>	Fiscal Year <u>2008</u>	Percent <u>Change</u>
Alcohol and Spirits	\$8,480,294	\$8,950,418	5.5%
Fortified and Light Wine	\$1,033,480	\$1,086,866	5.2%
Strong Beer	\$8,387,023	\$8,436,962	0.6%
Cereal Malt Beverage	<u>\$2,090,992</u>	<u>\$2,228,577</u>	6.6%
Total	\$19,991,789	\$20,702,823	3.6%

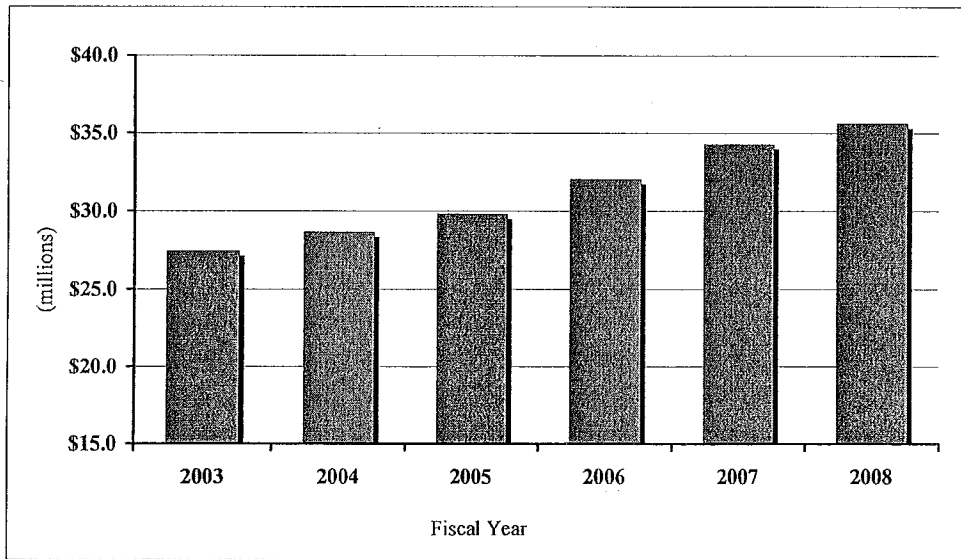


Total Gallone Tax by Fiscal Year

Fiscal <u>Year</u>	Amount <u>Collected</u>	Percent <u>Change</u>
2003	\$17,760,697	0.2%
2004	\$18,779,625	5.7%
2005	\$18,574,828	-1.1%
2006	\$19,598,134	5.5%
2007	\$19,991,789	2.0%
2008	\$20,702,823	3.6%

Liquor Excise Tax Gross Receipts

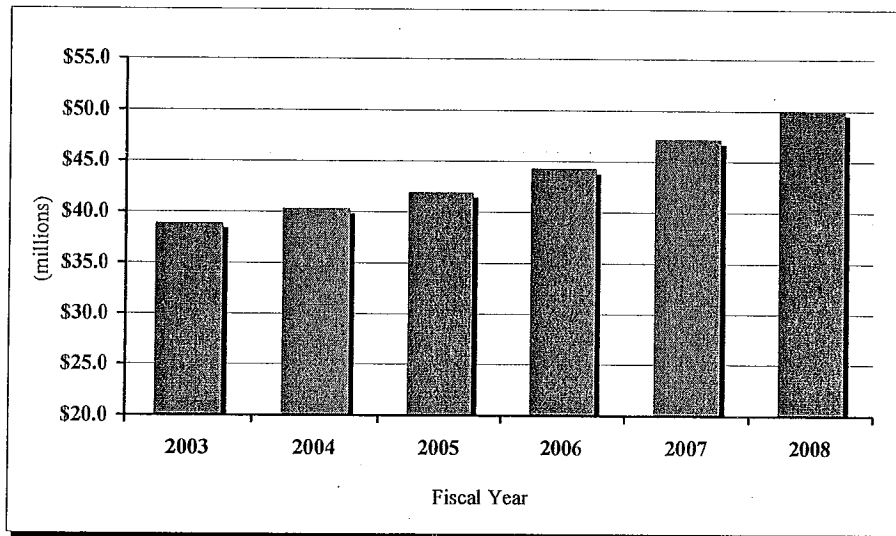
The liquor excise tax is a 10% retail tax on gross receipts from the sale of liquor on-premises at private clubs, drinking establishments open to the public and caterers. It is imposed on all alcoholic beverages, including cereal malt. Seventy percent of the collection is returned to the locality from which collected, 25% is credited to the State General Fund and 5% to the Community Alcoholism and Intoxication Programs Fund. This tax is collected by the Division of Tax Operations rather than the Division of Alcoholic Beverage Control.



<u>Fiscal Year</u>	<u>Amount Collected</u>	<u>Percent Change</u>
2003	\$27,450,972	3.7%
2004	\$28,672,690	4.5%
2005	\$29,826,910	4.0%
2006	\$32,051,923	7.5%
2007	\$34,307,823	7.0%
2008	\$35,639,204	3.9%

Liquor Enforcement Tax Gross Receipts

The liquor enforcement tax is imposed upon the gross receipts from the sale of liquor to consumers by retailers, microbreweries, and farm wineries. Also on the gross receipts from the sale of liquor and cereal malt beverage to clubs, drinking establishments, and caterers by distributors. This tax is collected by the Division of Tax Operations, rather than the Division of Alcoholic Beverage Control.



<u>Fiscal Year</u>	<u>Amount Collected</u>	<u>Percent Change</u>
2003	\$38,859,323	3.8%
2004	\$40,272,868	3.6%
2005	\$41,924,949	4.1%
2006	\$44,264,770	5.6%
2007	\$47,183,769	6.6%
2008	\$50,020,773	6.0%

Total Liquor Taxes and Fees and Number of Licenses

Fiscal Year 2008 Total Liquor Taxes and Fees

	Fiscal Year <u>2008</u>	Percent <u>Total</u>
Gallonage Tax	\$20,702,823	18.8%
Liquor Excise Tax	\$35,639,204	32.4%
Liquor Enforcement Tax	\$50,020,773	45.4%
Fees and Fines	<u>\$3,725,768</u>	<u>3.4%</u>
Total	\$110,088,568	100.0%

Alcoholic Beverage Licenses Issued

Retail Liquor Stores	739
Spirits Distributors	18
Wine Distributors	17
Beer Distributors	42
Class A Vets, Frat'l Club	227
Class A Social Club 500+	18
Class A Social Club <500	59
Class B Private Clubs	142
Drinking Establishments	1,619
Caterers	27
Hotels	38
Drinking Establishments/Caterers	93
Hotel/Caterers	17
Farm Wineries	20
Farm Winery Outlet	6
Microbreweries	15
 Total	 3,097



**Kansas
Licensed
Beverage
Association**

Testimony on SB-569
March 16, 2010

Senate Tax Committee

Chairman Donovan, and Senators of the Committee,

I am Philip Bradley representing the Kansas Licensed Beverage Assn. (KLBA). Thank you for the opportunity to speak today and I will be brief. And in respect for your time I am also speaking for the Kansas Viticulture and Farm Winery Assn. (KVFVA) and the Craft Brewers Guild of KS (CBGK) in combined testimony.

We all ask and urge you to oppose the targeted tax increase in SB 569!

We have combined our testimony and tried to be brief in the following pages. We appreciate for your attention and ask that you to carefully consider our information.

We oppose the targeted tax increases!

1) Excise Tax Increases Promote Inequalities in Taxation.

Excise taxes are regressive and force lower income families to shoulder a greater portion of the burden. These taxes will unfairly burden lower wage earners while having little impact on the highest income households. 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. There is a chart of per capita income levels of Kansans below by district.

"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.

2) Targeted taxes further reduce tax competition with Missouri and Colorado.

3) In addition the Federal TTB itself questions the effectiveness of this increase, "Economic theory predicts that, other things equal, the increase in the tax rate has the potential to lead to greater tax evasion, including smuggling of tobacco products." This is from a TTB study that Congress directed Treasury to conduct, reviewing the loss of Federal tax receipts due to illicit tobacco trade in the United States. Link and further text below.

**Philip Bradley
CEO**

785.766-7492
www.klba.org
info@klba.org

There are undoubtedly further issues and questions that will arise as these are read therefore I am available for your questions today and at your convenience.

Again thank you for your attention and consideration.

Philip Bradley

Sn Assmnt & Tax
3-16-10

Attachment # 6

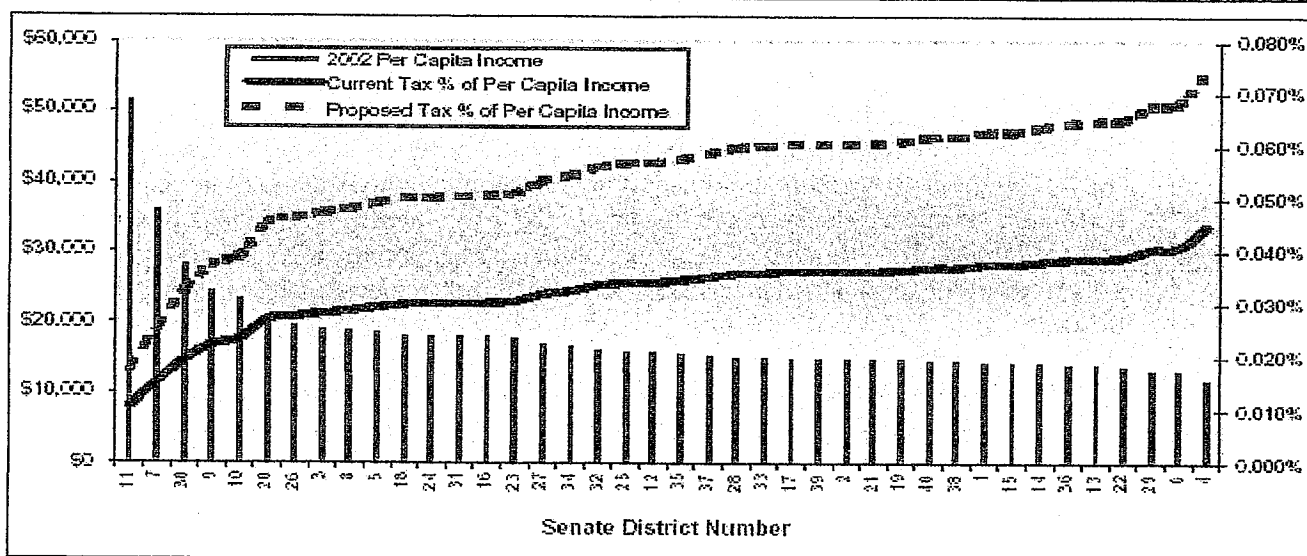
KLBA - *Kansas Licensed Beverage Assn.* represents the interests of the men and women in the hospitality industry, who own, manage and work in Kansas bars, breweries, clubs, caterers, hotels, and restaurants. These are the places you frequent and enjoy with the tens of thousands of employees that are glad to serve you.

KVFWA - *Kansas Viticulture and Farm Winery Assn:* We began our Association in 2004 but our journey began decades ago. Our mission is the promotion of the production of wine from Kansas grapes, the science and practice of viticulture in the State of Kansas, and the development of Kansas Farm Wineries. We include farm wineries (such as *Blue Jacket, Davenport, Holy-Field, Stone Pillar and White Tail Run*) and numerous growers of fine grapes

CBGK-*Craft Brewers Guild of Kansas* is the microbrewers and craft brewers of Kansas. We are a diverse group that embraces the commercial operations and the home hobby artist brewer.



PER CAPITA INCOMES OF KANSANS



A

short primer on Alcohol Taxes...

Our tier is hurting! Kansas operates under a 4 tier system of alcohol distribution and sales. Alcohol must be manufactured or imported, that is the First Tier. A Distributor or wholesaler acquires from the first tier for resale to retailers. That is the second tier. They then do sell to a retailer, usually to a package store or (for only bulk wine or bulk beer) to an on-premise licensee. That is the third tier. And then the package liquor store sells to the restaurant, bar or caterer who is required to purchase from them. That is the fourth tier.

There are 4 taxes on alcohol. One Federal and then Kansas has three levels of liquor taxation, each of which imposes different rates and provides for a different disposition of revenue, including: **Liquor Gallonage Tax, Liquor Enforcement and Liquor Drink Tax.**

Gallonage. The first level of KS taxation is the gallonage tax, which is imposed upon the person who first manufactures, sells, purchases, or receives the liquor or cereal malt beverage (CMB).

enforcement or Sales. The second level of KS taxation is the enforcement or sales tax, which is imposed on the gross receipts from the sale of liquor or CMB to consumers by retail liquor dealers; and to clubs, drinking establishments, and caterers by liquor stores and/or distributors.

Drink Tax. A tertiary level of taxation is levied in KS on the gross receipts from the sale of liquor by clubs, caterers, and drinking establishments.

All liquor taxes are compounded unlike other taxes in other businesses and industries. The consumer pays a drink tax, on the enforcement tax that the restaurant paid, on the gallonage tax that the liquor store paid when they purchased from the wholesaler, on the federal tax they paid.

Our People still pay all the other taxes including; Sales, Income, Property, Payroll, SS, and Income. And in addition we collect and pay the liquor taxes. And every year we pay more taxes. The revenue to the state increases every year. Kansas receives more from our industry each year without ever having to increase rates. Please refer to the charts provided. But this year something is different. The Drink tax, which indicates the health of the fourth tier, is down. Luckily for the State the other tiers have increased enough to compensate for the SGF's benefit. What that shows is more people are going home for dinner and entertainment. And that means that the business on the fourth tier are hurting, and all the folks, jobs, suppliers and vendors are hurting. More of them would be here except that most have reduced hours of their employees. Many have reduced their Workers too. They are increasing their own hours and they are picking up some of the shifts of cut back workers. And this is a Friday, the biggest Lunch day of the week and a game weekend. They have asked me to speak to you for them. And ask you to go out again please. OFTEN!

Targeted taxes, in this case, are bad idea. Our taxes go to SGF-these do not go to run the agency in fact alcohol taxes create more than the required dollars for licensing and regulation and create a profit for the state. That profit goes into the SGF so that the Legislature can use the proper process to appropriate those funds. This bill seeks to create a private fund for just two of the many states requests without going through that process.

Although we support the funding of deserving programs, we believe that it is bad public policy to earmark revenues to specific projects. We believe that the Legislature should see the merits of these programs and fund them from the state general fund through the budgeting procedure. It has long been a tenant of Kansas legislators that tax revenue should flow to the state general fund and be allocated each year through the legislative process.

Also we oppose targeted taxes. We believe that the funds the state needs for general state needs should come from the taxes that all citizens pay, sales, property and income. Targeting individual industries only makes that industry less competitive in the market place and drives consumers to other states or on-line sales outlets where Kansas receives no tax revenue. The legislature has considered and granted many roll backs and tax benefit to individual industries for just that reason. We ask that you apply consistent reasoning here as well.

Some legislators are rallying around the argument that targeted taxes will pull us out of the state's budget deficit or that they are the answer to specific programs budget woes. They mistakenly contend that consumers of alcoholic beverages, tobacco, lottery tickets and/or some other group should be obliged to pay disproportionately high taxes to help underwrite services that all Kansans enjoy.

Targeted taxes of any kind are the fuzziest form of math, and dangerous because of the implication that a small group of "others" should and can generate enough revenue to fill our current budgetary shortfalls. And they are certainly no way to balance a budget: According to the National Conference of State Legislators, a stable revenue source is "one that is

broad-based, equitable, and not narrowly targeted at one specific type of economic activity . . ." The above-mentioned taxes do not pass this test.

The state's spending is overwhelmingly for general purposes: education, social services, transportation, and public safety. Where all citizens benefit, all taxpayers have been willing to contribute equitably to the revenue stream that pays for these programs. It is discriminatory to expect even larger taxes on targeted industries to subsidize statewide needs, and in fact, the numbers that are coming out of budget committees leave too large a hole to be filled with a simple targeted tax.

The needs of all should not be carried on the backs of a few. In a previous state of the state, about the state budget solution, a previous Governor said, "Every Kansan will be affected. Every Kansan will be asked to contribute to the solution." The citizens of Kansas, when shown where specific monies can be directed to provide services, have always been willing to pay their fair share, but first have rightfully asked exactly how existing revenues have been allocated. Increasing the tax burden of the hospitality industry, a segment extremely hard-hit since the 9-11 tragedy, and first and most deeply affected in the current economic downturn, would be counterproductive.

Asking every Kansan to be part of the budget solution is, I suggest, the fairest way out of the budget crisis and the only route that will put the state back on a fiscally sound track. To attempt to balance the budget with any other selective form of taxation would not only be punitive to the targeted group in the short term; it would be fiscally irresponsible in the long run.

Our Industry creates more revenue each year without an increase in rates. That is because of the multiple taxes, compounded upon each other. And that most liquor tax dollars are based on sales prices. Those prices increase with inflation, cost of living and increase of input costs.

Our industry is working and is a compliant contributor to the success of the state of Kansas. Please do not kill the golden goose in an effort to fix that that is not broken!

PHILIP BRADLEY

785-766-7492

PBB@SUNFLOWER.COM

HEIN LAW FIRM, CHARTERED

5845 SW 29th Street, Topeka, KS 66614-2462

Phone: (785) 273-1441

Fax: (785) 273-9243

Ronald R. Hein
Attorney-at-Law

Email: rhein@heinlaw.com

Testimony re: SB 569
Senate Assessment and Taxation Committee
Presented by Ronald R. Hein
on behalf of
Kansas Restaurant and Hospitality Association
March 16, 2010

Mr. Chairman, Members of the Committee:

My name is Ron Hein, and I am legislative counsel for the Kansas Restaurant and Hospitality Association. The KRHA is the trade association for restaurant, hotel, lodging and hospitality businesses in Kansas.

KRHA opposes SB 569 that doubles the gallonage tax on all of the types of liquor and wine and also doubles the enforcement tax from 8% to 16%.

The KRHA opposes these increases for several reasons.

1) Although any increase of a tax during an economic recession is bad, this increase is made even worse by the compounding effect of the three taxes on alcohol sales in this state, gallonage, liquor enforcement, and the drink tax, which are layered on each other before the drink is finally sold at retail to the ultimate consumer. In addition, this bill is doubling the RATE of the enforcement tax. The enforcement tax has already been previously doubled. To double the RATE of the tax again, is outrageous.

Supporters of an increase in alcohol taxes have pointed to the gallonage tax and have said that it hasn't been increased since 1977. The proponents are not telling the whole story. They are not mentioning that in 1979, a new tax (the drink tax) was imposed as a gross receipts tax at a rate of 10%. They are not mentioning that in 1983, the enforcement tax was increased from 4% to 8%, a 100% increase. Nor are they mentioning that the enforcement tax and the drink tax are both based upon a percentage of the value, so although the rate has not been increased, the amount of tax paid per unit of sales has increased every year with inflation. Nor are they mentioning the compounding effect of these three pyramided taxes, which generate additional taxes by applying percentages of tax upon the taxes themselves.

2) The proposed gallonage increases are dramatic and the timing is even worse. This increase at this time will be extremely detrimental to the businesses who will be asked to pay it. These increases will certainly affect the consumers who will ultimately be asked to bear the burden of the tax increase. But they will also impact our businesses by increasing costs and by impacting sales. Any increases in this economic recession are even more egregious. The restaurants and other entertainment venues which sell alcohol

Sn Assmnt & Tax
3-16-10

Attachment # 1

March 16, 2010

Page 2

have been hurt by decreased income, and during the same period are facing significant increases in Unemployment Insurance taxes, smoking bans which will jeopardize many of these businesses, and now additional liquor gallonage taxes. Businesses can not continue to survive under these oppressing conditions. We can not control the economic recession, but for government to make the problem worse by increasing taxes is simply outrageous. If the government cannot live within its means, then how are our businesses expected to survive when the government continues to increase our cost of doing business. .

3) Of major concern to our industry is the fact that the government tends for political reasons to focus its attention on targeted tax increases to fund general government functions. Although resources are obviously tight for the State right now with a bad economy, our businesses are also subject to that same economy. If our taxes are increased when the economy is turning down, our options are to cut costs, increase the costs to our consumers if we can do so without affecting sales, or go out of business.

As an association, we are very concerned about the expenses that are borne by our members, and taxes are no different than any other expense. We understand that the legislature has a legitimate police power to impose taxes on our businesses and our customers. However, the power to tax is also the power to destroy. This tax increase imposed on our industry, seems punitive and excessive, ill-timed, and unjustly targeted on our members and our customers.

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

Senate Assessment & Taxation Committee

Re: SB 569

March 16, 2010

Mr. Chairman and Members of the Committee:

My name is Rebecca Rice and I appear before you today on behalf of the Kansas Beer Wholesalers Association.

The Kansas Beer Wholesalers Association is opposed to targeted tax increases. We believe it is bad public policy and unfair to all within the industry including the more than 800 targeted businesses that can - by law - only be owned by Kansans. More importantly, it is unfair to target a particular Kansas consumer simply because of a demographic bias.

THE "NOT SINCE 1977" MYTH

- IN 1979 -- A KANSAS DRINK TAX OF 10 PERCENT OF GROSS RECEIPTS IS IMPOSED ON "ON PREMISE" ALCOHOL PURCHASES.
- IN 1987 -- THE 4 PERCENT ENFORCEMENT TAX FOR OFF-PREMISE CONSUMPTION WAS DOUBLED TO 8 PERCENT, AND WAS BROADENED TO INCLUDE SALES OF 3.2% BEER TO DRINKING ESTABLISHMENTS, CLUBS, ETC. WHILE OTHER BUSINESSES AND PRODUCTS ARE RECEIVING TAX BREAKS AND EXEMPTIONS, CONSUMERS OF A SPECIFIC PRODUCT WERE TARGETED FOR INCREASES -- AGAIN.
- IN 1990 -- THE 10% DRINK TAX WAS EXTENDED TO MORE LICENSEES.
- IN 1991 -- THE FEDERAL BEER EXCISE TAX DOUBLED RESULTING IN A SIGNIFICANT PRICE INCREASE FOR KANSAS CONSUMERS AND A "WINDFALL" FOR THE STATE'S GENERAL FUND DUE TO OUR RELATIVELY *UNIQUE* SYSTEM OF "TAXING" TAXES.

In 2002, the Kansas sales tax was increased. Any CMB sold in CMB-only establishments are subject to sales taxes (vs. the enforcement tax) but is also subject to the gallonage tax.

We strongly urge the committee to reject SB 569. This is a tax increase that is easily avoided by consumers and as such could result in deep financial harm to Kansas-based businesses.

Sn Assmnt & Tax
3-16-10

Attachment # 8



One Busch Place
St. Louis, Missouri
63118-1852
tel: (314) 577-2000

March 16, 2010

Chairman Donovan and Members of the Senate Assessment and Taxation Committee,

On behalf of Anheuser-Busch, I want to state our strong opposition to SB 569 for three important reasons.

First, the excise tax burden on Kansas citizens who drink beer is already very high. Total taxes paid by Kansans on alcohol beverages were more than \$111 million in 2009, compared to only \$20 million in 1978 after the last gallonage tax increase. According to econometric firm John Dunham and Associates, taxes already make up 49% of the price that consumers pay for a beer in Kansas. As stated in the study concerning beer purchases in Kansas, "In other words, if a consumer pays \$2.00 for a beer in a restaurant, nearly \$.98 of that is being paid directly to the government."

Second, an increase would only worsen the problem of cross-border shopping. As an example, one-third of residents of Kansas live in a county bordering Missouri. If this bill passes, the tax on beer will be 6 TIMES THE RATE IN MISSOURI. Further, the sales tax rate in liquor stores for beer, wine and liquor will be 4 TIMES THE RATE IN MISSOURI (16% VS. 4.225%). This would be devastating for those retailers near the border.

Third, a statewide need for revenue requires a broad-based solution. Anheuser-Busch has no quarrel with a tax burden that is shared by all. However, it should not be the case that every time a need for the state arises that the same group of taxpayers pays the bill. This is particularly true since excise taxes fall hardest on working and middle-income Americans. For example, half the beer purchased is by those with household incomes under \$50,000. And it is certainly the case that these less-wealthy consumers have indeed been paying more since the gallonage tax was increased in 1977.

- ⇒ In 1979 -- a drink tax of 10 percent of gross receipts is imposed on consumers for alcohol purchases. Because this is a percentage of the price, the tax burden rises every year.
- ⇒ In 1983 -- the 4 percent enforcement tax for off-premise consumption was doubled to 8 percent. Because this is a percentage of the price, it too rises every year as prices rise.
- ⇒ In 1990 -- the 10% drink tax was extended to more licensees (e.g., those with temporary permits).
- ⇒ In 1991 -- Kansas consumers had the federal portion of their beer excise tax go up 100%.
- ⇒ In 2002 -- the Kansas sales tax was increased, and because the gallonage taxes become part of the cost for retailers and are subject to sales tax for 3.2% beer, this creates a tax being levied on a tax.

We urge you to vote no on SB 569. Thank you for the opportunity to submit this to the committee.

Sincerely,

Ted Powers
Region Director, Government Affairs
Anheuser-Busch

Sn Assmnt & Tax
3-16-10

Attachment # 9

KANSAS ASSOCIATION OF BEVERAGE RETAILERS

P.O. Box 3842, Topeka, KS 66604
785-969-1617 – campbell525@sbcglobal.net

March 16, 2010

Assessment and Taxation Committee
Kansas Senate
RE: SB 569

Chairman Donovan and Committee:

My name is Marshall Rimann of Lenexa, Kansas. Thank you for the opportunity to appear before you today on a matter that is of the utmost importance to us and to small family owned businesses in Kansas. My wife Mary and I are co owners of two liquor stores. We established our store in Lenexa in 1983 and one in Prairie Village in 1999. As life long residents of Kansas we appreciate the challenges facing the state today and understand the need to make tough decisions regarding the budget. To raise the gallonage and enforcement tax on alcohol however, would be devastating, not only to us personally, but to the industry as a whole, especially in the counties bordering on Missouri.

Johnson County, where both of our stores are located accounts for over 20% of the gallonage and enforcement tax collected in the State. If you include Wyandotte County, the figure is closer to 30%. We compete directly with stores in Kansas City, Missouri, which as the documents provided you show, has a much lower tax rate on alcohol. This competitive imbalance already affects our businesses. An increase in those taxes would cause serious financial damage to retail stores and restaurants in our state. People will take business away from Kansas and into Missouri as the price difference escalates.

Today, the retail price of a 30 pack of Bud Light in our store, including enforcement tax is \$21.05. With the increase in taxes proposed, the customer would pay \$23.49 for the same package. The retail price in Kansas City, Missouri, according to ads in the Kansas City Star is \$17.98 plus sales tax, approximately \$19.33 including tax. A difference of \$4.16.

The retail price of a bottle of Yellow Tail Chardonnay would have a retail price differential of \$1.97 on an item that sells for under \$8.

The retail price of a 1.75 Liter bottle of Bacardi Rum would have a price differential of \$10 to the customer.

Many items, beer, spirits and wine can be purchased for less at a retail outlet in Missouri, than they cost a Kansas retailer. A partial list includes the following items:

Sn Assmnt & Tax
3-16-10

Attachment # 10

ITEM	MO. Retail Price	KS Wholesale COST
Seagrams 7 Crown, 1.75	\$15.99	\$18.99
Rosemount Wines	\$ 5.99	\$6.41
McCormick Vodka, 1.75	\$10.99	\$11.73
Canadian Mist, 1.75	\$16.99	\$17.12

The larger the disparity in prices becomes between Missouri and Kansas, the more customers will migrate across the state line. The Kansas resident, even the many who want to support their local businesses, will drive the short distance for what would be a considerable savings.

In addition, the proposed floor tax would create a considerable hardship on our small business. Stores the size of ours would be assessed a one time tax of over \$10,000 on inventory for which we have already paid - inventory which we have no assurances of selling at the higher price. This would present a disproportionate burden to all of us that make a living in our industry.

Mary and I and our Managing Partner in Lenexa, Andy Wingert, are proud to be a part of the Kansas business community. We employ over 20 people in the two stores. Sixteen are full time. All are adults over 21 years of age. For our full time employees we are able to provide health, dental and life insurance. We pay 90% of their premiums for this benefit. We also greatly appreciate our customers and friends that have allowed us to serve them for over 27 years. It has been a wonderful business to be in. It is for them and all of the thousands of people in the state of Kansas that rely on our industry for their livelihood, we ask you to oppose Senate Bill 569.

Marshall Rimann
Rimann Liquors
3917 Prairie Lane
Prairie Village, KS 66208

Senate Assessment and Taxation Committee
Testimony to oppose SB569

My name is Linda Langston and I own Eudora Wine and Spirits in Eudora, Kansas. Thank you for this opportunity to speak to you about SB569. This bill creates a unique hardship for Kansas liquor stores –which are all locally owned businesses. My comments today are submitted on behalf of my store. These views are shared by members of the Kansas Association of Beverage Retailers.

I am pleased to own a Kansas small business and to be able to make a contribution to my community and to my state. My liquor license is a partnership with the State of Kansas. We work hard to sell alcoholic liquor safely and responsibly. We are happy to collect and remit enforcement taxes monthly to the state –in addition to payroll taxes and all of the other fees and taxes associated with owning a business.

The licensed liquor industry in Kansas contributed \$115,398,840 in fiscal year 2009 through fees, permits, taxes and fines. This does not include payroll, property, and income taxes. It has been a concern to us that the Division of Alcoholic Beverage Control is struggling to meet its licensing and regulation functions due to reduced staffing. We support a fully staffed licensing division and would really like to see funds committed to improving the agency's technology resources. But we understand that the State is operating on a lean budget and will hope to support more money going to that agency in the future.

Our taxes, fees and fines did not suffer the well known “fee fund sweep” the past two years – because our taxes, fees and fines go straight into the State budget. In fact, all of the liquor enforcement tax paid by liquor stores goes into the State General Fund. So, in essence, our fees are always “swept” every year. Our own taxes are not earmarked for regulating and licensing our own industry.

According to a November State General Fund receipts report on gallonage taxes collected on alcoholic liquor (liquor, wine and beer) –Kansas collected \$18,215,000 in FY 2009 and estimates collecting \$18,500,000 in FY 2010. The gallonage taxes collected on cereal malt beverage (CMB) also increase –from \$2,089,000 to \$2,200,000.

Gallonage tax receipts are one of the very few revenue sources in Kansas that continue to grow gradually each year. Increasing the rate could jeopardize that growth. This bill increases the gallonage tax on beer to six times the rate paid in Missouri. The gallonage rate on other products seem a little more equitable –but then you must consider that Kansas customers must pay for the 8% enforcement tax and the 10% drink tax on a glass of wine at a restaurant –when that same glass of wine sold in Colorado only collects a 2.9% “sales” tax and Missouri collect 4.2%. The enforcement tax and the liquor drink tax have also been reliable sources of income for the state.

It seems to be a mistake to create any negative impact on a solid source of revenue.

Further –Kansas liquor stores are not accustomed to calculating and remitting gallonage taxes –which are paid by wholesalers on product bought from manufacturers for resale to retailers. This bill would require me to inventory my store in July and pay the difference in gallonage tax due on that product. I have attempted to provide an estimate of what that will cost me

in a one time expense. Am I supposed to borrow the money for that transaction? Will anyone loan a small business money to pay a one time tax?

Please understand that we are concerned about the state of the Kansas budget, as much as any other group of citizens. However, it is very important to consider the big picture. This tax targets a very specific group of Kansans—those who enjoy beer, wine and spirits.

As much as I want you to consider the impact this legislation will have on my small business—make no mistake—it will be paid by the citizens. Any increase in gallonage tax is then compounded when added into the price of the product, which is then subject to an 8% enforcement tax once sold by my store (*16% in this bill*) AND a 10% drink tax when sold by the restaurant or drinking establishment.

For the most part—my customers are not particularly wealthy or somehow deserving of a targeted tax increase. Excise taxes on working people are among the most regressive revenue sources as they place the greatest burden on lower and middle-income consumers. It is these same people who will be paying any increases in sales taxes or vehicle property taxes or fuel taxes that might be passed by this Legislature.

In the current economic crisis, we have seen customers change their buying practices to purchase smaller quantities and cheaper brands. So far, the glass of wine, or bottle of beer, or martini at the end of the week continues to be an affordable luxury that has not seen an overall decrease at the liquor store level. But no purchasing patterns are immune to price increases. The restaurants and clubs can attest to the reduction in their business in recent years.

As you consider tax and spending policies for the State of Kansas, please keep in mind the consequences of targeting a tax such as gallonage rates. If it is wise to earmark certain taxes to pay for certain programs, perhaps those earmarks should have a logical connection to that particular tax base.

I wish you the best of luck during this difficult legislative session and offer myself as a resource to any of you who would like to have more information about state licensed retail liquor stores.

Thank you for your kind attention.

Linda Langston
Eudora Wine and Spirits
785-806-5808

K • A • N • S • A • S
WINE & SPIRITS
WHOLESALE ASSOCIATION

March 16, 2010

To: Senate Committee on Taxation
From: R.E. "Tuck" Duncan
Kansas Wine & Spirits Wholesalers Association
RE: Taxes on Beverage Alcohol

KWSWA strongly opposes any increase in beverage alcohol taxes.

Excise Taxes are Taxes - An increase in excise taxes is just as much a tax increase as an increase in the personal income tax or any other type of tax. This is the case whether they are argued on the basis of so-called "user fees" or for program enhancement (such as health). The fact is that excise taxes are taxes.

Excise Taxes are Regressive - Excise taxes weigh most heavily on low and middle income families making the tax structure less progressive or fair. The chart attached hereto prepared by the Institute on Taxation & Economic Policy, November 2009, demonstrates this fact. If the effective rate increases as income increases, the tax structure is said to be "progressive." Conversely, if the effective rate decreases as income increases, the tax is said to be "regressive." An effective tax rate which is constant throughout the entire range of income is known as "proportional." As shown, alcohol excise taxes are very regressive.

Current Excise Taxes are Important to State and Local Governments - The alcohol beverage industry now contributes to the state and local governments through excise taxes. Increases in beverage alcohol taxes may decrease current state revenue sources and would further hamper state fiscal options. Attached is the Kansas Legislature Briefing Book 2010 outlining the Kansas alcohol tax structure. Any increase in rates at the gallonage tax level (the first level) increases the taxes paid by consumers at retailers and restaurants. In FY 2001 total liquor taxes were \$77,974,304.. In FY2009 those collections increased to \$111,588,433 – an increase of \$33,614,129 a year. Over that decade the beverage alcohol industry contributed \$836,668,763 to state and local government.

Excise Taxes are Unfair and Discriminatory - An increase in the beverage alcohol taxes for the purpose of bridging the state's revenue shortfall would be unfair and arbitrary. There is no justification for making one group of taxpayers finance government activities which affect everyone.

Sn Assmnt & Tax
3-16-10

Elasticity of demand - The Kansas Legislative Research Department during previous discussions of beverage alcohol taxes has stated: "Increases in prices will, other things remaining equal, decrease the quantity sold. Increases in taxes which lead to increases in prices of goods or services, may as a result of a decrease in the base, lead to less than proportional increases in receipts ... thus, proposals to increase taxes by a substantial amount will probably result in significantly less revenue than might be projected on the assumption of zero elasticity of demand (that price will not effect demand)." We are already seeing some decline in gallonage taxes in recent returns.

CROSS BORDER PURCHASES - Further, we believe that higher taxes on beer, wine and spirits would result in a shift the sales across the border to Missouri. Taxes are lower in surrounding states such as Missouri and Colorado. Missouri is a particular problem because of the metropolitan area on the state line. An increase in taxes will cause Kansans to go across the border to make purchases, reducing sales. Currently spirits are taxed at \$2.50 per gallon in Kansas. Missouri is at \$2.00 and Colorado is at \$2.28. Beer is currently taxed at 18 cents/gallon in Kansas and 8 cents/gallon in Missouri.

Based on the enforcement tax collections in January 2010 (for December 2009 sales) 38.5 percent of retail sales of beverage alcohol occur within 50 miles of the Missouri border. We know that when Illinois recently increased its beverage alcohol taxes, tax collections in Missouri increased.

In the 1986 work KANSAS POLICY CHOICES, edited by H. Edward Flentjie, it was stated:

"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, and are susceptible to tax evasions... State and local governments should use restraint in setting excise tax rates. Tax rates that are substantially higher than in neighboring states will encourage tax evasion."



TAXES TODAY ON AN AVERAGE \$12.99 LITER OF SPIRITS

Federal Excise Tax \$13.50 100 proof gallon		
80 proof liter 10.50 x .264172	=	2.85
State gallonage tax - \$2.50 gallon		
@ 2.50 x .264172	=	.66
Enforcement Tax @ .08	=	1.04
Sub-Total Tax	=	4.55

10% DRINK TAX

33 drinks/liter, average drink \$4.00 = \$132.00 x .10	=	13.20
--	---	-------

TOTAL TAXES..... \$17.75

That bottle provides more tax revenue than the value of its product. The doubling of the gallonage tax rates will continue to exacerbate the inequity between wine, beer and spirits rates – where spirits are 13 times higher per gallon than beer and 8 times higher per gallon than wine.

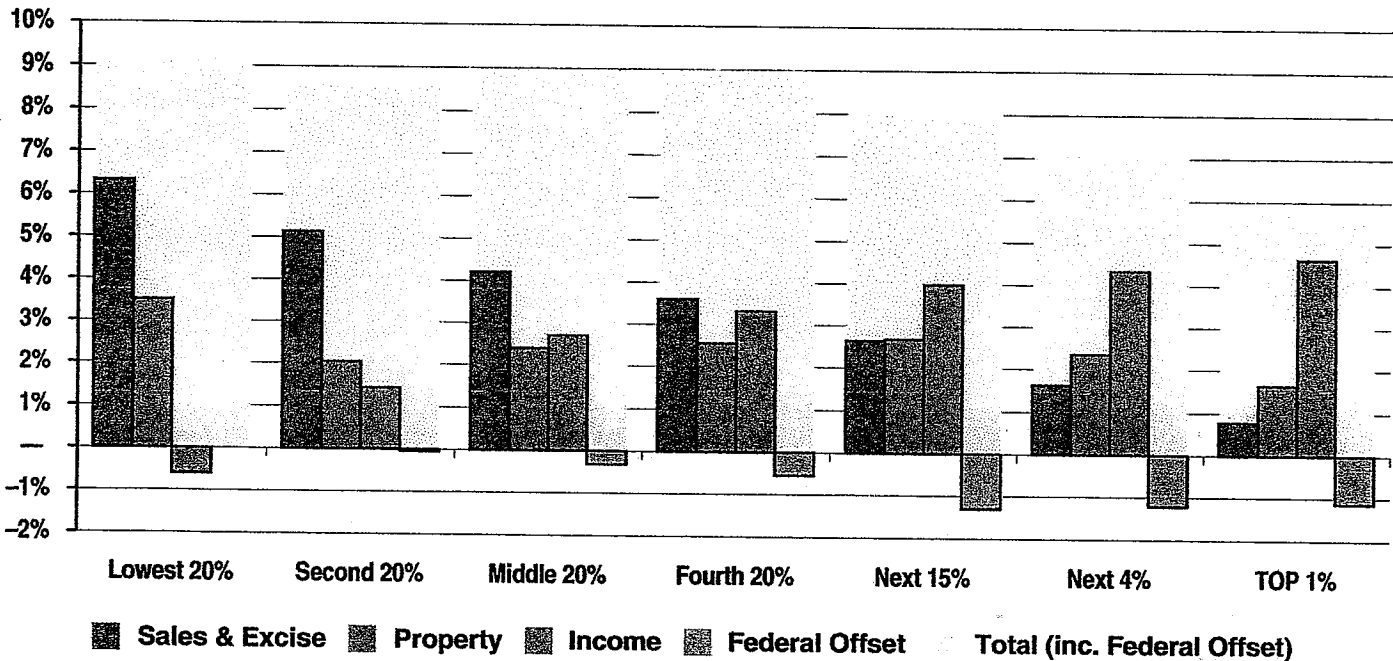
The beverage alcohol industry in Kansas, with the combination of federal and state excise taxes now levied, plus the 10 per cent drink tax -- in addition to all other business taxes paid -- cannot bear these proposed increases.

We respectfully request that you reject these increases. *Thank you for your attention to and consideration of these matters.*

Kansas

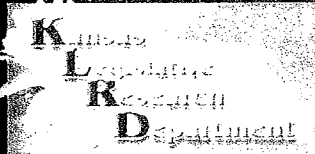
State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$19,000	\$19,000 – \$35,000	\$35,000 – \$56,000	\$56,000 – \$90,000	\$90,000 – \$169,000	\$169,000 – \$424,000	\$424,000 or more
Average Income in Group	\$10,100	\$27,600	\$45,500	\$72,000	\$119,000	\$247,600	\$1,236,400
Sales & Excise Taxes	6.3%	5.1%	4.2%	3.6%	2.6%	1.6%	0.8%
General Sales—Individuals	3.6%	3.1%	2.6%	2.3%	1.7%	1.1%	0.5%
Other Sales & Excise—Ind.	1.0%	0.7%	0.5%	0.4%	0.3%	0.1%	0.0%
Sales & Excise on Business	1.7%	1.4%	1.1%	0.9%	0.7%	0.4%	0.2%
Property Taxes	3.5%	2.0%	2.4%	2.5%	2.7%	2.3%	1.6%
Property Taxes on Families	3.3%	2.0%	2.3%	2.4%	2.5%	1.9%	0.7%
Other Property Taxes	0.2%	0.1%	0.1%	0.2%	0.2%	0.4%	1.0%
Income Taxes	-0.6%	1.4%	2.7%	3.3%	4.0%	4.3%	4.6%
Personal Income Tax	-0.6%	1.4%	2.7%	3.3%	3.9%	4.2%	4.4%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%
TOTAL TAXES	9.2%	8.6%	9.3%	9.5%	9.3%	8.3%	7.1%
Federal Deduction Offset	—	-0.0%	-0.3%	-0.5%	-1.3%	-1.2%	-1.1%
TOTAL AFTER OFFSET	9.2%	8.6%	9.0%	8.9%	8.0%	7.1%	5.9%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.



Taxation

W-2

Liquor Taxes

**Other Taxation
reports available**

W-1

Homestead Program

Taxation

W-2 Liquor Taxes

Kansas has three levels of liquor taxation, each of which imposes different rates and provides for a different disposition of revenue, including:

Liquor Gallonage Tax

Liquor Enforcement or Sales Tax

Liquor Drink Tax

Gallonage. The first level of taxation is the gallonage tax, which is imposed upon the person who first manufactures, sells, purchases, or receives the liquor or cereal malt beverage (CMB).

Enforcement or Sales. The second level of taxation is the enforcement or sales tax, which is imposed on the gross receipts from the sale of liquor or CMB to consumers by retail liquor dealers and grocery and convenience stores; and to clubs, drinking establishments, and caterers by distributors.

Drink Tax. A tertiary level of taxation is levied on the gross receipts from the sale of liquor by clubs, caterers, and drinking establishments.

Gallonage

* Since the tax is imposed upon the person who first manufactures, uses, sells, stores, purchases, or receives the alcoholic liquor or cereal malt beverage, the tax has already been paid by the time the product has reached the retail liquor store – or in the case of CMB, grocery or convenience store.

**Chris Courtwright,
Principal Economist
785-296-3181
Chris.Courtwright@kird.ks.gov**

So when the liquor store owner purchases a case of light wine from a distributor, the 30 cents per gallon tax has already been built in as part of that store owner's acquisition cost.

Rates	
	Per Gallon
Beer and CMB	\$0.18
Light Wine	\$0.30
Fortified Wine	\$0.75
Alcohol and Spirits	\$2.50

* Gallonage tax receipts in FY 2009 were approximately \$21.2 million. Of this amount, nearly \$10.9 million was attributable to the beer and CMB tax.

Gallonage Tax – Disposition of Revenue		
	State General Fund	Community Alcoholism and Intoxication Programs Fund (CAIPF)
Alcohol and Spirits	90%	10%
All Other Gallonage Taxes	100%	--

Liquor gallonage tax rates have not been increased since 1977.

Enforcement and Sales

Enforcement. Enforcement Tax is an in-lieu-of sales tax imposed at the rate of 8 percent on the gross receipts of the sale of liquor to consumers and on the gross receipts from the sale of liquor and CMB to clubs, drinking establishments, and caterers by distributors.

** So a consumer purchasing a \$10 bottle of wine at a liquor store is going to pay 80 cents in enforcement tax.

The club owner buying the case of wine (who already had paid the 30 cents per gallon gallonage tax as part of his acquisition cost) also would now pay the 8 percent enforcement tax.

Sales. CMB purchases in grocery or convenience stores are not subject to the enforcement tax, but rather are subject to state and local sales taxes. The state sales tax rate is 5.3 percent, and combined local sales tax rates range as high as 3.75 percent.

CMB sales therefore are taxed at rates ranging from 5.3 to 9.05 percent.

Besides the rate differential between sales of strong beer (and other alcohol) by liquor stores and CMB by grocery and convenience stores, there is a major difference in the disposition of revenue.

Enforcement and Sales Tax – Disposition of Revenue			
	SGF	State Highway Fund	Local Units
Enforcement (8 percent)	100.00%	---	---
State Sales (5.3 percent)	87.74%	12.26%	---
Local Sales (up to 3.0 percent)	---	---	100.00%

** Enforcement tax receipts in FY 2009 were approximately \$53.8 million. Grocery and convenience store sales tax collections from CMB are unknown.

The liquor enforcement tax rate has not been increased since 1983.

Drink

***The liquor drink tax is imposed at the rate of 10 percent on the gross receipts from the sale of alcoholic liquor by clubs, caterers, and drinking establishments.

The club owner (who had previously effectively paid the gallonage tax and then the enforcement tax when he acquired the case of wine) next is required to charge the drink tax on sales to its customers. Assuming the club charged \$4.00 for a glass of wine, the drink tax on such a transaction would be 40 cents.

Drink Tax – Disposition of Revenue			
	SGF	CAIPF	Local Alcoholic Liquor Fund
Drink Tax (10%)	25%	5%	70%

*** Liquor drink tax revenues in FY 2009 were about \$36.5 million, of which \$9.1 million were deposited in the SGF.

The liquor drink tax rate has remained unchanged since imposition in 1979.



March 16, 2010

Memorandum:

To: Senate Taxation Committee
From: Thomas M. Palace
Re: Written Testimony in Opposition to SB569

Mr. Chairman and members of Senate 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 present written testimony in opposition to SB 569, doubling the gallonage tax on Cereal Malt Beverage.

PMCA has testified in this committee against proposed tax increases on tobacco tax and sales tax. Both proposals hinder convenience store retailer's ability to be competitive along the border. In previous testimony, I offered an example of a business (Quiktrip corporation) leaving the state due to the tax climate in Kansas that will cost the state \$1.4 million in excise and sales tax revenue.

Mr. Chairman, it appears that convenience store retailers are under attack by the Kansas Legislature. Tax increase proposals such as; tobacco tax, sales tax, motor fuel tax, soda pop tax and now gallonage tax on CMB will impact convenience stores more than any other business in Kansas.

The tax increases the Kansas Legislature is considering, if passed, would have a negative impact every convenience store retailer in the state. Consumers won't change what they buy; they will simply find a cheaper way to purchase their goods.

We urge the committee to oppose SB 569.

Petroleum Marketers and Convenience Store Association of Kansas

115 SE 7th • Topeka, KS 66603
PO Box 678 • Topeka, KS 66601-0678
785-233-9655 • Fax: 785-354-4374

Sn Assmnt & Tax
3-16-10

Attachment # 13



**Written Testimony before the Senate Assessment & Taxation Committee
SB 569 – Liquor Gallonage Tax Increase
Submitted by J. Kent Eckles, Vice President of Government Affairs**

Wednesday, March 17th, 2010

The Kansas Chamber of Commerce appreciates the opportunity to present testimony in opposition to SB 569, which would double the liquor gallonage tax in the State.

The committee has previously heard the Chamber testify against the proposed sales tax increase bill (SB 516) and from a state competitiveness standpoint, our position remains the same: Our peer states are already salivating at the prospects of both a sales tax & tobacco tax increase. You can now add the proposed doubling of the liquor gallonage tax to the list of tax increases our competitor states would like to see Kansas enact.

The liquor gallonage tax is already \$.50 per gallon higher in Kansas than Missouri, so doubling it will certainly increase cross-border shopping in Missouri. Again, the direct quote from the Missouri Petroleum and Convenience Store Marketing Association (MPCA) clearly states our case:

It's the very definition of short-sighted when State Legislators over-tax the very industries that will drive their economic recovery and development and implement tax policies that force their citizens to purchase goods and services in lower taxed border-states."

Presently, 44% of the cost of a glass of beer in Kansas is due to taxes. We believe that is excessive and doubling the gallonage tax rate will only exacerbate Kansas' competitive disadvantage with our border states.

We urge the Committee to not pass SB 569.

The Kansas Chamber, with headquarters in Topeka, Kansas, is the leading statewide pro-business advocacy group moving Kansas towards becoming the best state in America to live and work. The Chamber represents small, medium, and large employers all across Kansas. Please contact me directly if you have any questions regarding this testimony.



Senator Les Donovan
Senate Assessment and Taxation Committee
March 16, 2010

I am writing to ask you to oppose SB 569, which would double the gallonage tax and double the enforcement tax on liquor, wine and beer.

I am fundamentally opposed to targeted taxes – as everyone should share equally in the cost of providing government and services.

In the case of my locally owned business:

- Unemployment taxes have tripled on my business since last year.
- Platt Liquor recently cut employee hours to reduce overhead cost.
- As Wichita unemployment rates grow, I am doing my best to reduce employee hours carefully and to preserve the jobs in my store.

Although some people might argue that Wichita is insulated from cross border competition, I would ask you to consider the impact that this tax increase will certainly have on the businesses who share customers with Missouri, Oklahoma, Colorado, and Nebraska. Further, these tax hikes will certainly encourage some people to turn to illegal internet sales.

My store will be obligated to pay in excess of \$5000.00 by July 25 to cover the inventory tax in section 2 of this bill. I don't know why the state thinks I can come up with \$5000.00 in July. That assumes that I would sell my entire inventory in 24 days.

If I am unable to come up with that payment, my license renewal will be rejected.

Further, I do not have a P.O.S. system that calculates gallonage taxes. The gallonage tax rates are currently paid by wholesalers and not retailers. The inventory process will cost me \$750 to \$1000 in wages.

Martin Platt
Platt Retail Liquor
725 W 29th Street North
Wichita, KS 67204
316-838-8880
mliqplatt@hotmail.com

Sn Assmnt & Tax
3-16-10

Attachment # 15