KEEP KANSANS IN BUSINESS

Local businesses are the lifeblood of our communities.

Testimony on House Bill 2200 *February 12, 2015*

House Committee on Commerce, Labor and Economic Development

Presented by Spencer Duncan, M.B.A

The fundamental question before you is: If, as an elected official, you don't look out for the interests of Kansas small businesses and local economies, who will? You are not a government protectionist or anti-free marketer when you reinforce public policy that supports Kansan-owned businesses. Elected officials who reaffirm policy supporting locally-owned businesses have the support of the citizens. More importantly, it is economic fact that local-based policies keep money in the economy, generate the most revenue and strengthen communities. For example:

- Since the dominance of big-box retailers in 1999, grocery cashier wages have dropped 4% nationally.
- Local retailers return more than 52% of their revenue to the local economy, and in some cases as much as 70%, compared to just 14% for national chain retailers.
- Local businesses re-circulate dollars in a community. Small businesses spend more on local labor, procure local services (insurance, lawyer, accountant, banks, printing, etc.), and procure more goods locally for resale. This means a much larger share of money spent locally stays in a local economy, supporting other businesses and jobs.

Subsidies and tax breaks are an integral part of a big-box retail model. Incentives and subsides are used in Kansas and never proportionally offered to small businesses. **This should concern free-market legislators:** providing big-box retailers with incentives and subsidies not available to small businesses creates a situation in which the government provides big-box retailers a significant advantage – which they traditionally don't need – over small businesses. Talk about picking winners!

When it is suggested a legislator should support small-business needs over big-box retailer wants, critics respond this is anti-competitive and goes against the nature of a free-enterprise system. However, the opposite is true: big-box retailers dominate a market, push out local competition and threaten healthy competition necessary for strong neighborhood economies. Legislators must recognize the skewed playing field created by big-box stores that makes real competition illusory.

As more small businesses are put out-of-business, competition declines as big-box retailers and grocers become the only stores still standing. The results are monopolistic and three situations manifest: **big-box retailers dictate the acquisition costs of goods; they eventually set higher prices for consumers; and community economies become increasingly reliant on these few big-box establishments for sales tax revenue and employment trends.** This contradicts the free-market principles of a diverse and competitive market and the expansion of community tax bases.

Communities with strong small-business environments view individuals less as cash commodities (a lens through which many big-box retailers view consumers), and more as neighborhood consumers. These communities overcome isolation and create a real sense of community and these community environments are essential to preserving and advocating strong values and vibrant economies.

There is no contradiction in being a Legislator who champions the free market, while also understanding the importance of small businesses to Kansas principles and supporting small business policies that strengthen those principles.

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<u>Statewide Polls Show Kansans Have No Desire For Change.</u>
A statewide poll, conducted by Public Opinion Strategies, shows Kansans do not want expanded alcohol sales. Overall, 66% oppose changing the law; 81% said alcohol should be displayed and sold away from items such as milk and candy; 70% said a change would be bad for the economy. Kansans have no appetite for the Legislature to expand sales into thousands of new outlets. *The poll is attached.*

<u>Job Loss</u>
The average Kansas liquor store has 8.5 employees*(1)*. Some as few as 3, while large stores employ more than 30. Estimates are at least 340 local stores close upon implementation of this legislation*(2)*. Just allowing for the sale of strong beer in grocery and convenience stores will close as many as 217 liquor stores*(3)*. **That is nearly 3,000 people HB 2200 puts out of work.**

Big-box, grocery and convenience stores will **not** make up these lost jobs. In most cases, grocery/convenience stores have the staff they need. Adding a product then making dozens of new hires is counterproductive. New income and new expenses rise proportionally. This is especially true with beer and wine - low-margin products that must be sold in high volumes to produce a cost benefit. Profit is maximized from these low margin items by hiring as few individuals as possible. National chains also demand - and get - assistance from suppliers and distributors in ordering, stocking, shelving and marketing, which decreases the need for new staff.

<u>High Fiscal Notes, Plus Additional Costs</u>
Previous fiscal notes have indicated a nearly 50% expansion of Alcohol Beverage Control is necessary to implement this type of Legislation, totaling nearly \$2 million in additional money needed from the SGF. A 2011 memo from the Department for Children and Families, then SRS, indicates **\$4.2 million will be needed yearly for prevention and treatment programs** as a direct result of this type of legislation.

<u>It's a Practical, Not Theoretical, Problem</u>
The average liquor store in Kansas is 3,000 square feet*(1)*. HB2200 allows liquor stores to sell other products. Where will they put them? Big-box and grocery stores can clear shelves and stack product in other sections.

Many liquor stores are landlocked in shopping centers or areas where permitting and zoning issues make it impossible to expand. If a current liquor-store owner wants to move or expand, where will the resources come from? Lending to small businesses is low and these local business owns do not have access to the capital they need to expand. Passage of this legislation tells bankers half of these stores will go out-of-business, making them poor investments. Banks are also bullish on lending dollars to purchase consumable items, especially local businesses. This is a real-world, practical problem that must be addressed.

HB2200 is bad economic policy and we encourage you to support the current retail liquor system.

Sources

(1) Capitol Connection, LLC. *Statewide survey of more than 250 Kansas liquor stores*, 2013. www.capitolconnectionks.com

(2) *"An Economic Case for Increased Competition in the sale of Beer, Wine and Spirits in the State of Kansas"* Dr. Art Hall, PhD, January 2011

(3) *"Distilled Spirits Council of America, Kansas Fiscal Analysis of Strong Beer Sales'"* 2008. www.discus.org

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Kansas Statewide Survey
Alcohol Sales in Grocery and Convenience Stores

PUBLIC OPINION STRATEGIES

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Public Opinion Strategies is a national political and public affairs research firm which has conducted more than six million interviews with voters and consumers in all fifty states. Headquartered in Alexandria, Virginia, its nationwide presence is achieved through strategically sited offices in California and Colorado and twelve partners and two Vice Presidents leading research efforts.

Public Opinion Strategies has conducted polling on some of the most complex public policy issues, including: Health care, Tort reform, Medicare, Social Security, Education, Deregulation, and Economic Development.

Field Dates: February 11-12, 2013
N = 500 Voters
Margin of Error = +- 4.38%

Commissioned By Keep Kansans in Business (www.keepkansasjobs.com)
Conducted by Public Opinion Strategies (www.pos.org)

Do you support changing the law to allow for the sale of hard liquor, wine, strong beer and malt liquor in grocery stores, convenience stores and department stores?

66% Oppose changing the law

29% Support Changing the law

5% Don't Know/Undecided/Refused

Do you believe wine and hard liquor should be displayed and sold next to items such as milk and candy?

81% No, alcohol should be displayed and sold away from those items

15% Yes, liquor should be allowed to be displayed and sold next to those items.

4% Undecided/Don't Know/No Answer

Do you believe individuals who are not of drinking age should be allowed to sell and handle alcohol in grocery and convenience stores?

77% No, only individuals who are of drinking age should sell alcohol

21% Yes, individuals who are not of drinking age should be allowed to sell alcohol

2% Undecided/Don't Know/No answer

Do you believe the state should ease restrictions on the sale of alcohol?

78% No, restrictions on alcohol should stay the same

16% Yes, restrictions on alcohol should be reduced

6% Don't Know/Undecided/Refused

Do you believe local stores should be in charge of alcohol sales in our community?

61% Yes, I trust local small businesses to better handle the sale of alcohol in my community

31% No, it does not matter who sells alcohol

8% Don't Know/Undecided/Refused

Do you think the change to the liquor law would be good for the Kansas economy?

70% No, it would be bad for the Kansas economy

19% Yes, it would be good for the Kansas economy

11% Don't Know/Undecided/Refused

Additional Survey Results/Information

- A statewide survey, covering more than 80 counties.
- All individuals surveyed are likely 2014 primary voters.
- 45% of those surveyed identified as Republicans; 26% Democrat; 27% unaffiliated; 2% Other/Don't Know/Refused

- 58% of individuals between the ages of 18 and 44 oppose changing current retail alcohol laws
- 61% of Women oppose changing current retail alcohol laws

- 63% of Republicans surveyed oppose changing current retail alcohol laws
- 54% of Democrats surveyed oppose changing current retail liquor laws
- 77% identified themselves as moderate, somewhat conservative and/or very conservative
- 17% identified themselves as somewhat liberal and/or very liberal

- 46% have college and/or post-graduate degrees

- 52% surveyed were Women
- 48% surveyed were Men