

Testimony before: Senate Assessment and Taxation Committee

From: Brenda Elsworth, Director of Operations, Pete's of Erie, Inc., Parsons KS

Date: March 24, 2015

Re: SB 233

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

My name is Brenda Elsworth and I am the director of operations for Pete's of Erie, dba Pete's convenient stores. We operate convenient stores in southeast Kansas, southwest Missouri and northeast Oklahoma. We employ 247 Kansans.

I appreciate the opportunity to appear before you today in opposition to SB 233.

I was alarmed when I hear that SB 233 had been introduced to raise cigarette taxes \$1.50 per pack, as well as, raise the OTP tax to 25%.

We do business on the border of Missouri. Below I have stats regarding the population of the border. However, I want to speak about my concerns regarding this fierce competition. We have conducted business on the border for many years. Currently, before we ever set cigarette packs retails we are 62 cents per pack higher on cigarettes than Missouri.

Cigarettes represent 39% of our inside sales. We rely on our smoking customers, who also purchase other products. Quite frankly I get very disgruntled when the state of Kansas introduces bills that will determine how we can compete. When the State attacks one segment of customers, they not only ostracize the customers, they KILL business. Kansas retailers work daily to stay ahead of regulation, taxes, competition, stings, unemployment and I could go on. But then to have the state of Kansas announce they may slice the proverbial "wrist" of Kansas tobacco retailers, by raising taxes on cigarettes....I think I can relate to the peasants of years ago.

At the end of 2013 Kansas state population was 2,895,801 (according to the source U.S. Census Bureau: State and County Quick Facts, Last Revised: Thursday, 05-Fe-2015 13:13:57 EST.) The same source estimated 2014 Kansas population to be 2,904,021.

The population of the closest 2 Kansas counties bordering Missouri, from the southern counties of Cherokee and Labette to Doniphan county the most northern, is 1,164,803, (according to the source U.S. Census Bureau: State and County Quick Facts, Last Revised: Thursday, 05-Fe-2015 13:13:57 EST.)

This represents 40.2% of the total Kansas population. I chose to include the 2nd counties in from Missouri as I live in one of these counties and I can tell first hand of friends and neighbors who make weekly trips to Missouri for their consumables, including tobacco products.

Missouri's 2013 population was 6,021,988, (according to the source U.S. Census Bureau).

Missouri's current tobacco tax per pack is 17 cents. As you know Kansas is 79 cents per pack. At the 79 cents per pack we are 36th in the nation, while bordering the 51st state in the nation, regarding tobacco tax. How can Kansas justify raising cigarette and OTP taxes, when 40% of our population sites near the border of the Nation's lowest tobacco tax competitor, Missouri?

In 2003, when the state last raised the cigarette tax, we at Pete's lost nearly all of our carton sales and those sales have never restored in the 12 years since. The majority of our cigarettes and OTP are sold by pack or can.

FY2014, Missouri sold 526.6 million packs of cigarettes, while Kansas sold 118.2 packs of cigarettes.

Kansas population is about 48% of Missouri's population, yet Missouri sells 4.5 times more packs of cigarettes than Kansas sells.

Missouri drew 77 million more dollars than Kansas from the Master Settlement Agreement (MSA) for the 2013 year. Raising the disparity between Kansas and Missouri and surrounding states, will no doubt reduce Kansas MSA tobacco revenues further.

I have tried to show you facts about our competition...which is currently Missouri. If this tax bill becomes law and the Kansas tax rate goes to \$2.29 per pack, Pete's and all other Kansas tobacco retailers will not be able to compete. Our customers also suffer when they are burdened with such high tax. They are forced to buy their cigarettes from other sources such as black market or smuggling. Tobacco smuggling was up 15% during the year 2013 in Kansas. I can only imagine what the number will be if this tax increase becomes law. Some will surely say that higher taxes will cause people to stop smoking but I contend that they will simply find a way around our competitive taxes. Many already do.

Running a business is hard. When there are short falls, businesses have no safety net, such as just taxing the people for more money... We have to be diligent to watch costs, competition, customer preferences, employee performances, etc. We have to maintain our sites so they continue to be clean, safe and a pleasant experience for our customers.

If the state of Kansas raises the tobacco tax, by ANY amount, Kansas jobs will be lost and many will struggle to continue to do business in Kansas. We have invested millions of dollars in Kansas and strive daily to be more efficient just to compete. I propose that we here in Topeka can and should do the same.

I respectfully ask you to oppose SB 233.

Thank you.

Brenda Elsworth