

MEMO TO: Senate Assessment and Taxation Committee  
FROM: Thomas M. Palace, Executive Director of the Petroleum Marketers and Convenience Store Association of Kansas  
DATE: March 17, 2017  
RE: SB 224

Madam Chairwomen and members of the Senate Assessment and Taxation Committee: My name is Tom Palace and I am the Executive Director of the Petroleum Marketers and Convenience Store Association of Kansas (PMCA), a statewide trade association that represents over 275 independent petroleum marketers and convenience store retailer throughout Kansas.

I appreciate the opportunity to offer testimony in opposition to SB 224.

PMCA does not support the fuel tax increase in SB 224. In fact, on the contrary, we believe the fuel tax should be lowered. If the Kansas Legislature can approve sweeping over \$2 billion dollars out of KDOT and continue new projects as well as maintain highways...we are paying more than enough in fuel excise taxes.

The increase in motor fuel taxes is one of several tax increases that the Kansas Legislature is considering which will have a direct impact on the consumers and convenience store retailers in Kansas. Tobacco (both cigarettes and other tobacco products) account for 35% of a convenience stores gross inside sales and retailers continue to feel the pain of lost sales along the border from the 2015 \$.50 tax increase. Motor fuel is 60-65% of gross sales. Motor fuel and tobacco are key products for retailers. Also, selling tobacco and motor fuel spur ancillary sales as well...coffee, sandwiches, lottery tickets; all of which bring revenue for the retailer but also the State of Kansas.

**For retailers that compete on the border, we will see further deterioration of their customer base if these taxes are approved and Kansas will lose with lost sales tax.**

Convenience store owners in Kansas who compete with bordering states are already at a disadvantage due to the disparity of the excise tax rates. Current rates are:

KS	\$.2503 (gas)	\$.2703 (diesel)
NE	\$.282	\$.282 (1/1/17-6/30/17)
MO	\$.17	\$.17
CO	\$.22	\$.205
OK	\$.17	\$.14

(Includes environmental and inspection fees)

**If SB 224 passes Kansas will have the highest motor fuel tax rate of all 4 contiguous states.**

**Potential Motor Fuel Tax Advantages for contiguous states:**

MO	\$.13 advantage on gas	\$.15 advantage on diesel tax
NE	\$.0183	\$.0383
CO	\$.08	\$.115
OK	\$.13	\$.18

(Includes environmental and inspection fees)

Compare rates – Kansas will have the highest motor fuel rate!

*I have also included with my testimony a state-by-state comparison of fuel tax rates for your review.*

Fuel retailers and distributors collect **over \$400 million annually in motor fuel tax.**

Consumers buy fuel based on price. The National Association of Convenience Stores has reported that consumers are more sensitive to gas prices than other top economic concerns. Consumers will change their behavior to save a few cents per gallon. In fact, it would not be uncommon for a person to drive 5-7 miles out of their way to save 2 cents per gallon. Price is the deciding factor where consumers purchase fuel. If people are willing to drive 5-7 miles out of their way to save 2 cents per gallon, it is a pretty good guess that driving 10-15 miles (or more) out of their way to save 20 cents (MO & OK) cents per gallon makes sense.

***What One Retailer Did***

It is no secret that there is a tax disparity for retailers who compete along the border. Not too long ago (2010) a Kansas retailer decided to change its street address to a Missouri address. I am referring to the actions taken by the QuikTrip Corporation. QuikTrip moved a store in Kansas City, Kansas 100 feet to the east so that it would have a Missouri address – at a cost of \$3.4 million. The loss to Kansas was estimated to be \$1.4 million in state and local taxes. The \$1.4 million is a financial loss that Kansas cannot afford. I would venture a guess that if more Kansas convenience store retailers had the corporate backing to be able to do the same thing QuikTrip did, they would give serious consideration to a similar move.

When fuel prices increase, so do credit card processing costs...***and unlike the state or local government, we cannot pass on the fees to the consumer.*** Today 81% of fuel sales are paid by debit or credit card. For a convenience store credit card fees account for the highest expense item on a P & L, just below employee costs. And on top of the current discount points that are paid per transaction retailers are now required to be EMV compliant. **EMV** stands for **Europay, MasterCard and Visa**. This more secure credit card technology, which has long been used throughout Europe, recognizes unique microchips embedded in credit and debit cards and validates their legitimacy, potentially cutting down on card fraud. Beginning October 1, 2015, U.S. retailers who have not installed EMV-capable payment terminals will be held liable for fraud resulting from transactions at their locations. On October 1, 2020, fuel retailers will be

required to have the chip card reader available at the pump. Retailers that are branded MUST comply with this extremely expensive approach to continue accepting credit cards.

Convenience stores are small businesses in Kansas that serve valuable services for many areas of a community. In many instances the C-Store is the only access to staple foods, ie. bread, milk etc. For the under privileged C-Stores may be the only merchant accepting food stamps in their neighborhood. They also act as the only available source of over the counter medication in some areas. And of course, could be the only fueling source for your vehicle.

Convenience stores are a major source of employment and community sponsor of many activities and events. The loss of which would have a huge impact on cities and towns across the state.

My point is an increase in taxes on motor fuel and tobacco, the bread and butter of a convenience stores, will have devastating effects on the Mom and Pop stores that PMCA represents. We feel that C-Stores are often over looked for what they offer a community. Legislation that is passed that gives another state a competitive advantage over a Kansas business is a slap in the face and should not happen.

Madam Chairwomen, the tax increases being proposed by SB 224 will have a negative impact on all convenience stores that try to compete on the border. Retailers are still feeling the effects of lost sales from the tobacco and sales tax increases levied in 2015. Increasing motor fuel taxes as well as the potential of another tobacco tax could be the deciding factors for small business owners...can I continue to stay in business or not?

*Consumers won't change what they buy; they will change where they buy; they will simply find a cheaper way to purchase their goods.* More specifically, retailers who compete along the border are hit the hardest when tax increases in their home state are passed. They watch the exodus of their customers cross the state line without the wherewithal to do anything about the cost disparity. They simply can't lower their prices enough to be competitive.

The tax increases proposed in SB 224 are excellent **economic development for our neighboring states!**

Thank you.