

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman Richard Carlson at 9:50 a.m. on February 26, 2010, in Room 783 of the Docking State Office Building.

All members were present except:

Representative Pat George - excused
Representative Don Svaty - excused

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
Marla Morris, Committee Assistant

Conferees appearing before the Committee:

Representative Kay Wolf
Representative Pat Colloton
Michael Hammond, Association of Community Mental Health Centers of Kansas, Inc.
Marilyn Cook, COMCARE of Sedgwick County, Wichita
Ric Dalke, Area Mental Health Center, Garden City
Robbin Cole, Pawnee Mental Health Services
Rick Cagan, National Alliance on Mental Illness (NAMI)
Kim Strunk, Kansas Council on Developmental Disabilities
Stuart Little, Kansas Association of Addiction Professionals
Randall Allen, Kansas Association of Counties
Maury Thompson, Johnson County Developmental Supports
Tom Laing, InterHab
Roy Menninger, MD, Kansas Mental Health Coalition
R.E. "Tuck" Duncan, Kansas Wine and Spirits Wholesales Association
Ron R. Hein, Kansas Restaurant and Hospitality Association
Whitney Damron, Distilled Spirits Council of the United States (DISCUS)
Linda Langston, Owner-Eudora Wine and Spirits
Jennifer Vogel, Retailer-Kansas City
Philip Bradley, Kansas Licensed Beverage Association

Others attending:

See attached list.

Introduction of Bills:

Representative Menghini moved to introduce a bill dealing with outsourcing of jobs and tax incentives. Representative Lukert seconded the motion. The motion carried.

Chairman Carlson opened the hearing on:

HB 2593 - Alcoholic liquor, cereal malt beverage and malt products gallonage tax rate increase to fund developmental disability supplemental programs and community mental health centers supplemental programs

Staff Chris Courtwright, Kansas Legislative Research Department, briefed the Committee on **HB 2593** and provided a copy of the primer on liquor taxes (Attachment 1). Passage of the bill would basically double the current liquor gallonage tax rates from \$.18 to \$.36 on beer and cereal malt beverages; \$.30 to \$.60 on light wine; \$.75 to \$1.50 on fortified wine; and from \$2.50 to \$5.00 per gallon on alcohol and spirits. The revised fiscal note for FY 2011 would be approximately \$21.8 million of new revenue. The bill earmarks the new money for developmental disabilities funding and mental health program funding, not the state general fund. He stood for questions.

CONTINUATION SHEET

Minutes of the House Taxation Committee at 9:00 a.m. on February 26, 2010, in Room 783 of the Docking State Office Building.

Representative Kay Wolf testified in support of **HB 2593**. Representative Wolf, with Representative Colloton requested **HB 2593**, this bill provides a means of assisting with funding for Mental Health and the Developmentally Disabled by doubling the liquor gallonage tax. She provided a spreadsheet showing the estimated revenues over the next five years resulting in passage of **HB 2593** (Attachment 2).

Representative Pat Colloton urged the Committee to recommend **HB 2593**, which increases the wholesale alcohol tax for the first time since 1977 (Attachment 3). The increase in tax revenues from the passage of **HB 2593** will provide approximately \$22 million that will be split evenly between the providers of services to the developmentally disabled and providers of services for the mentally ill in community health centers across the state.

Michael Hammond, Association of Community Mental Health Centers of Kansas, Inc. (CMHC), testified in support of **HB 2593**. His testimony included a listing of the reductions in funding sustained by the CMCH system and a map with the locations of the Community Mental Health Centers of Kansas (Attachment 4).

Marilyn Cook, Executive Director, COMCARE of Sedgwick County, Wichita supports **HB 2593**. Her testimony showed COMCARE's loss in State grant support since 2007 (Attachment 5).

Ric Dalke, Executive Director, Area Mental Health Center, Garden City, offered a story about "Jane" to support the position of the Area Mental Health Center for increased funding that would result from passage of **HB 2593** (Attachment 6).

Robbin Cole, Pawnee Mental Health Services, Manhattan, testified in support of **HB 2593**. The Pawnee Mental Health Services, serving over 7,000 people a year in north central Kansas, lost \$1,253,000 in state funding since July, 2007. Her testimony listed the affect this loss of funding has caused the Center (Attachment 7).

Rick Cagan, National Alliance on Mental Illness (NAMI), spoke in favor of passage of **HB 2593**. His testimony stated NAMI's message to 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 (Attachment 8).

Kim Strunk, Kansas Council on Developmental Disabilities, provided January statistics from 2006 to 2010 on the number of persons served and the number of persons waiting for Home and Community Based Services (Attachment 9). She asked the Committee to support **HB 2593**.

Stuart Little, Kansas Association of Addiction Professionals spoke in favor of **HB 2593** and requested the Committee to amend the bill to maintain the current 10 percent funding from the alcohol gallonage revenue (Attachment 10).

Randall Allen, Kansas Association of Counties, urged the Committee to give thoughtful, positive consideration of **HB 2593** and report the bill favorably for passage (Attachment 11). The Kansas Association of Counties views services to the mentally ill and to the developmentally disabled as a shared responsibility with the state of Kansas.

Maury Thompson, Johnson County Developmental Supports, provided insight on the impact to Kansas communities as a result of funding cuts for the developmental disabled (Attachment 12).

Tom Laing, InterHab summarized the progress made in the developmental disability programs in Kansas over the past 25 years and urged the Committee to support **HB 2593** (Attachment 13).

Roy Menninger, MD, Kansas Mental Health Coalition, supports **HB 2593** and expressed concerns for State Mental Health Hospitals. His testimony included a list of funding cuts specific to mental health (Attachment 14).

Opponents testifying on **HB 2593**:

CONTINUATION SHEET

Minutes of the House Taxation Committee at 9:00 a.m. on February 26, 2010, in Room 783 of the Docking State Office Building.

R.E. "Tuck" Duncan, Kansas Wine & Spirits Wholesalers Association, presented visual aids to demonstrate the 55 percent tax on a bottle of spirits and testified in opposition to **HB 2593**. The beverage alcohol industry in Kansas cannot bear these proposed increases with the combination of federal and state excise taxes now levied, plus the 10 percent drink tax, in addition to all other business taxes (Attachment 15).

Ron R. Hein, Kansas Restaurant and Hospitality Association, expressed concerns that passage of **HB 2593**, combined with the recent smoking ban and the current economy downfall will be detrimental to the restaurant and hospitality industry (Attachment 16).

Whitney Damron, Distilled Spirits Council of the United States (DISCUS), testified in opposition to **HB 2593** stating the bill proposed to double the taxes on alcoholic liquor and CMB products (Attachment 17).

Linda Langston, Retailer-Douglas County, testified on behalf of her locally owned business, Eudora Wine and Spirits in Eudora. She opposes **HB 2593**, stating the bill creates a hardship for all liquor stores in Kansas. Ms. Langston compared the liquor taxes from neighboring states (Attachment 18).

Jennifer Vogel, Retailer-Kansas City, testified to the competition their family-owned retail liquor stores experience from neighboring Missouri businesses due to the lower liquor taxes in that state (Attachment 19). She opposes **HB 2593**.

Philip Bradley, Kansas Licensed Beverage Association; Draft Brewers Guild of KS; and KS Viticulture and Farm Winery Association, testified in opposition to **HB 2593**. These organizations support the funding of deserving programs, but oppose targeted taxes (Attachment 20).

Chairman Carlson directed the Committee to the written only testimony from the following:

Neutral:

Michelle Voth, Kansas Leadership to Keep Children Alcohol Free (Attachment 21); Dr. Eberhart-Phillips, KDHE (Attachment 22)

Opponents:

Derrick Sontag, Americans for Prosperity Kansas (Attachment 23); Kent Eckles, Kansas Chamber of Commerce (Attachment 24); Steve Beykirch, Eagle Beverage Corporation, Frontenac (Attachment 25); Stacey Harlow, Kansas Association of Beverage Retailers (Attachment 26); Dennis Reynolds, Somerset Ridge Vineyard & Winery (Attachment 27)

Chairman Carlson closed the hearing on **HB 2593**.

The next meeting is scheduled for February 27, 2010.

The meeting was adjourned at 11:15 a.m.

HOUSE TAXATION COMMITTEE

DATE: February 26, 2010

| NAME | REPRESENTING |
|-----------------|--|
| JUDITH GANN | CAPITOL ADVANTAGE |
| LUCK DUNCAN | KS WINE & SPIRITS WHIBE -r ASSN |
| Marilyn Cook | Com Care |
| Robbin Cole | Pawnee Mental Health |
| Ric Dalke | Area Mental Health |
| Sheli Swearing | ACM HCK |
| Mike Hammond | ACM HCK |
| Randall Allen | Ks. Assn. of Counties |
| Kelli Kirkwood | KLA |
| Joe Mosimann | AMCA |
| Kimi D'Amico | KCDD |
| RICK CAGAN | NAMI Kansas |
| Lance Vogel | L & J Lyman |
| Jennifer Vogel | L & J Lyman |
| Michelle Butler | Cap. Strategies |
| Mike Hutches | CEO |
| Larue Ann Brown | Wine Institute |
| JOHN BOTTEBERG | Miller/Coors |
| Whisper Jansen | DYSCUS |

HOUSE TAXATION COMMITTEE

DATE: Feb 26, 2020

| NAME | REPRESENTING |
|----------------|-----------------------|
| Warena Mead | JCDs |
| Tom Lamp | Interflor |
| Roy Merrinisse | K's Miff Coalition |
| Amy Campbell | KMHK / KABR |
| Linda Langston | Eudora Wine + Spirits |
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**Kansas Legislator
Briefing Book
2010**

**Kansas
Legislative
Research
Department**

Taxation

**W-2
Liquor Taxes**

**Other Taxation
reports available**

**W-1
Homestead Program**

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

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.

House Taxation
Date: 2-26-10
Attachment: 1

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.

Date: _____
 Attachment: _____

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.

Kansas Legislative Research Department

For more information, please contact:

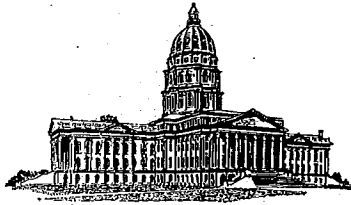
Chris Courtwright, Principal Economist
Chris.Courtwright@klrd.ks.gov

Dennis Hodgins, Principal Analyst
Dennis.Hodgins@klrd.ks.gov

Kansas Legislative Research Department
300 SW 10th Ave., Room 68-West, Statehouse
Topeka, Kansas 66612
Phone: (785) 296-3181
Fax: (785) 296-3824

State of Kansas
House of Representatives

State Capitol
Topeka, Kansas 66612
(785) 296-7663
kay.wolf@house.ks.gov



8339 Roe Avenue
Prairie Village, Kansas 66207
(913) 649-0699

Kay Wolf
Representative, 21st District

February 26, 2010

House Taxation Committee

Testimony in Support of HB 2593

Chairman Carlson and members of the Committee, thank you for allowing me to testify before you today in support of HB 2593. As you are aware, I, along with Representative Colloton requested drafting of this legislation as a means of providing additional funding for Mental Health and the Developmentally Disabled. I will briefly address mental health and Representative Colloton will follow with the Developmentally Disabled.

In addition to my written testimony, I have provided a handout showing the impact of the cuts made to mental health reform from 2007 through 2010. As you will see mental health has effectively had a 65% cumulative reduction in funding over the past 3 years. This represents a \$20 million dollar reduction in mental health grants. How do we as a legislative body expect mental health providers to provide this critical service to our constituency with this type of on-going funding reductions?

Community Mental Health Centers are a resource in every county of Kansas. Over 125,000 people were served. I believe this number will only increase given our current economic environment. By continuing to reduce their funding, we are hurting the very people who need our help the most. Many of them can lead a productive life and contribute to the Kansas economy if help is available.

HB 2593 provides a means of assisting with funding for Mental Health and the Developmentally Disabled by doubling the liquor gallonage tax. As you see in this bill, it raises beer from .18 cents to .36 cents, light wine .30 cents to .60cents, wine .75 cents to a \$1.50 and liquor from \$2.50 to \$5.00. The gallonage tax has not been raised since 1977. I want to reiterate that once again. The gallonage tax has not been raised since 1977. The additional revenue generated by enactment of this HB 2593 is approximately \$22 million dollars this year of which ½ would be designated solely for mental health and ½ solely for the developmentally disabled on an on-going basis. I have also attached a spreadsheet showing the estimated revenues over the next 5 years. The first year of HB 2593 enactment almost half of the dollars cut from mental health would be restored.

House Taxation
Date: 2-26-10
Attachment: 2

No one wants to raise taxes. No one is pro-tax. However, two points I would like to make. First, this is a true consumption tax. It will not adversely affect our constituency unless they chose to exercise this option. We as legislators are charged with governing for the greater good of our state. Surely, taking care of our most vulnerable citizens is within that charge. Secondly, many of us believe a fee is effectively the same as a tax. You may remember a few weeks back Representative Kinzer carried HB 2476 which increased the judicial branch surcharge charged on most docket fees from \$10.00 to \$15.00. The House voted 86 to 32 for favorable passage. Why? Because we were governing for the greater good. We cannot afford for our judicial system to fall apart. I ask today for your support of HB 2593. We can make a difference in the quality of life for Kansans.

Chairman Carlson, I am happy to stand for questions.

Mental Health Reform

2/11/2010

2-3

| FY | Amount | Impact | Cumulative Impact | % Difference | Cumulative Difference |
|--|--------------|--------------|----------------------|--------------|-----------------------|
| FY07 | \$31,066,330 | | | | |
| FY08 | \$21,874,340 | -\$9,191,990 | -\$9,191,990 | -29.59% | -29.59% |
| FY09 (Base) | \$21,874,340 | - | -\$9,191,990 | - | -29.59% |
| FY09 (Revised - Governor's 3% cut to SRS) ¹ | \$20,074,340 | -\$1,800,000 | -\$10,991,990 | -8.23% | -35.38% |
| FY10 Budget Bill ² | \$17,374,340 | -\$4,500,000 | -\$13,691,990 | -20.57% | -44.07% |
| FY10 Omnibus Bill | \$14,874,340 | -\$2,500,000 | -\$16,191,990 | -14.39% | -52.12% |
| FY10 Governor's Allotments | \$10,874,340 | -\$4,000,000 | -\$20,191,990 | -26.89% | -65.00% |

1) FY09 (Revised) makes cuts to the base FY09 funding level. These are one-time cuts and are not permanently out of the system.

2) FY10 Budget Bill cuts are taken out of the base FY09 funding level, as are the FY10 Omnibus Bill cuts.

Note: FY10 Budget Bill restored \$5 million to MHR funding. Without that, CMHC funding cuts would have been much deeper.

Proposed Liquor Gallonage Tax Increase (\$ in millions)

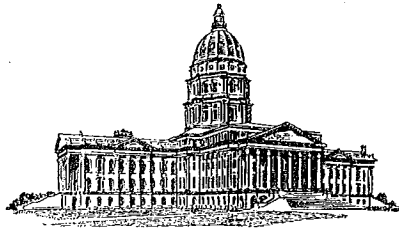
| | liquor gall tax incr beer & cmb from 18 to 36c strong beer | liquor gall tax incr beer & cmb from 18 to 36c cmb | liquor gall tax incr beer & cmb from 18 to 36c all beer | liquor gall tax incr light wine from 30 to 60 c 7/1/2010 | liquor gall tax incr alc & spir from 2.50 to 5.00 7/1/2010 | liquor gall tax inc fortified wine from 75 to 1.50 7/1/2010 | Total |
|-----------------|---|---|--|---|---|--|-----------|
| FY 2011 | \$8.693 | \$2.169 | \$10.862 | \$1.001 | \$7.336 | \$0.210 | \$19.409 |
| FY 2012 | \$8.895 | \$2.189 | \$11.084 | \$1.019 | \$7.569 | \$0.216 | \$19.888 |
| FY 2013 | \$9.037 | \$2.189 | \$11.226 | \$1.036 | \$7.691 | \$0.219 | \$20.172 |
| FY 2014 | \$9.182 | \$2.189 | \$11.371 | \$1.052 | \$7.813 | \$0.223 | \$20.459 |
| FY 2015 | \$9.329 | \$2.189 | \$11.518 | \$1.069 | \$7.938 | \$0.226 | \$20.751 |
| 5-yr total | \$45.136 | \$10.925 | \$56.061 | \$5.177 | \$38.347 | \$1.094 | \$100.679 |
| Inventory FY 11 | \$ 1.087 | \$ 0.271 | \$ 1.358 | \$ 0.125 | \$ 0.917 | \$ 0.026 | \$ 2.426 |
| Total for FY 11 | \$9.780 | \$2.440 | \$12.220 | \$1.126 | \$8.253 | \$0.236 | \$21.835 |
| ew 5-year total | \$46.223 | \$11.196 | \$57.419 | \$5.302 | \$39.264 | \$1.120 | \$103.105 |

Assuming there is 1.5 months of inventory

STATE OF KANSAS
HOUSE OF REPRESENTATIVES

STATE CAPITOL, ROOM 151-S
TOPEKA, KANSAS 66612
(785) 296-7631
pat.colloton@house.ks.gov

COMMITTEE ASSIGNMENTS
CORRECTIONS AND JUVENILE JUSTICE, CHAIRMAN
JUDICIARY
JOINT COMMITTEE ON CORRECTIONS AND
JUVENILE JUSTICE OVERSIGHT, CHAIRMAN
House Tax Committee



2513 W. 118TH STREET
LEAWOOD, KANSAS 66211
(913) 339-9246
pat@patcolloton.com

PAT COLLOTON
28TH DISTRICT

February 25, 2010

Re: HB 2593

Chairman Carlson and Committee Members:

I urge you to support HB 2593. This bill supports the developmentally disabled and mentally ill citizens of Kansas who are suffering greatly from lack of state funding. It raises the wholesale alcohol tax that has not been raised since 1977. The bill doubles the wholesale tax on beer, wine and hard liquor. This increase will provide approximately \$22 million dollars that will be split evenly between the providers of services to the developmentally disabled and providers of services for the mentally ill in community mental health centers across the state.

Since 1977 the wholesale tax on alcohol has not increased while inflation has risen over 350%. Under this bill the wholesale tax on beer will go from 18 cents to 36 cents per gallon; the wholesale tax on wine will go from 30 cents to 60 cents per gallon and from 75 cents to \$1.50 per gallon on higher alcohol content wine. The wholesale tax on liquor will go from \$2.50 to \$5.00. This is a consumption tax that is only paid by those who wish to buy alcohol. It is time to put a small increase in place to help those who are our most vulnerable citizens in Kansas.

This increase will not hurt business. The small increase of 18 cents on a gallon of beer will not incent beer drinkers to drive their car across state lines to purchase a six pack. The gas would cost more than the tax. For wine drinkers, the extra 30 cents or 75 cents on a gallon will not force oenophiles to stampede into Oklahoma, Missouri or Nebraska. What these increases will do is increase funding by \$11 million dollars for the disabled that will bring in an additional \$25 million dollars in funds from the federal government for the Medicaid match. The developmentally disabled will receive a total of \$36 million. It will bring at least \$11 million dollars to the community mental health centers and it will give them additional dollars in Medicaid matches because many who receive these services also qualify for Medicaid.

Please make this small increase in a consumption tax to meet our state obligation to help these individuals who are at the mercy of legislative policy for their well being. Almost everyone in the legislature say that they want to support these needy individuals, but just haven't been able to get the money from the general fund. So here is a clean, simple and direct way to do what's right. Please recommend HB 2593.

Sincerely,

Pat Colloton

House Taxation
Date: 2-26-10
Attachment: 3



Association of Community Mental Health Centers of Kansas, Inc
534 S. Kansas, Suite 330, Topeka, Kansas 66603
Telephone: 785-234-4773 / Fax: 785-234-3189
Web Site: www.acmhck.org

House Taxation Committee

Testimony in Support of House Bill 2593

February 26, 2010

Presented by:

Michael J. Hammond, Executive Director
Association of CMHCs of Kansas, Inc.

House Taxation
Date: 2-26-10
Attachment: 4

Mister Chairman and members of the Committee, my name is Mike Hammond, I am the Executive Director of the Association Community Mental Health Centers of Kansas, Inc. The Association represents the 27 licensed Community Mental Health Centers (CMHCs) in Kansas who provide home and community-based, as well as outpatient mental health services in all 105 counties in Kansas, 24-hours a day, seven days a week. In Kansas, CMHCs are the local Mental Health Authorities coordinating the delivery of publicly funded community-based mental health services. The CMHC system is state and county funded and locally administered. Consequently, service delivery decisions are made at the community level, closest to the residents that require mental health treatment. Each CMHC has a defined and discrete geographical service area. With a collective staff of over 4,500 professionals, the CMHCs provide services to Kansans of all ages with a diverse range of presenting problems. Together, this system of 27 licensed CMHCs form an integral part of the total mental health system in Kansas. As part of licensing regulations, CMHCs are required to provide services to all Kansans needing them, regardless of their ability to pay. This makes the community mental health system the "safety net" for Kansans with mental health needs, collectively serving over 131,000 Kansans with mental illness.

I stand before you to express the support of the CMHC system for House Bill 2593, which increases (doubles) the alcohol gallonage tax and would result in 25 percent of revenue generated being allocated to CMHCs to help fund the mandate we have to serve everyone who walks through the doors of a CMHC who has mental health needs, regardless of their ability to pay. Our understanding is this increase would generate approximately \$11 million that would be dedicated to CMHCs.

Consider the follow reductions in funding sustained by the CMHC system:

1. \$20 million reduction in Mental Health Reform grants since FY 2008 – a 65 percent reduction.
2. \$4.7 million quarterly (all funds) or \$19 million annually in Medicaid rate reductions.
3. \$3.1 million in MediKan funding in FY 2010 – a 45 percent reduction.
4. \$560,000 SGF in Community Support Medication Program funding – a 53 percent reduction

This list puts into context how devastating cuts have been to the public mental health system, and to the CMHCs in particular.

Cuts in Mental Health Reform Funding

Mental Health Reform grants allow CMHCs to serve the uninsured and underinsured who do not qualify for Medicaid and do not have resources to pay for their mental health treatment. It is this funding which essentially ensures every Kansan has universal access to mental health treatment. The CMHCs have a State mandate to serve everyone regardless of their ability to pay. If those living with mental illness do not receive timely treatment, they could easily end up being admitted into a State psychiatric hospital - the most costly level of care. It is the grant funding which has allowed Mental Health Reform to be a success.

Those served by the CMHCs who are not Medicaid eligible (the non-target population) are the largest population segment served, yet the CMHCs have limited resources available to cover the cost of providing those services. For example, 30 percent of individuals served by the CMHCs (or 39,300) have Medicaid as their sole payor source. The remaining 70 percent (or 91,700) are non-Medicaid eligible and benefit in some way from state grant funding.¹ We also know that of those served by the CMHC system who are non-Medicaid, and reporting income information, 69% earn less than \$20,000 a year.

Without treatment and care, many will end up in contact with law enforcement, jails, hospital emergency rooms or State psychiatric hospitals. Individuals who are able to be treated in the community will have improved quality of life for themselves and their families, and ultimately be more productive citizens.

Budget cuts are placing the public mental health system at a breaking point – community services that are critical to every Kansan who experiences a mental illness and are services that our citizens have come to rely upon in their time of need. Every Kansan who walks through the doors of a CMHC is being impacted by these budget cuts, and our workforce is equally impacted. These cuts have gone too far. We can no longer cut our way out of this crisis.

The response of the State is to impose deep cuts to the public mental health system, walking away from a longstanding commitment to ensuring Kansans have access to quality community-based treatment when they need it. The chart below details this trend.

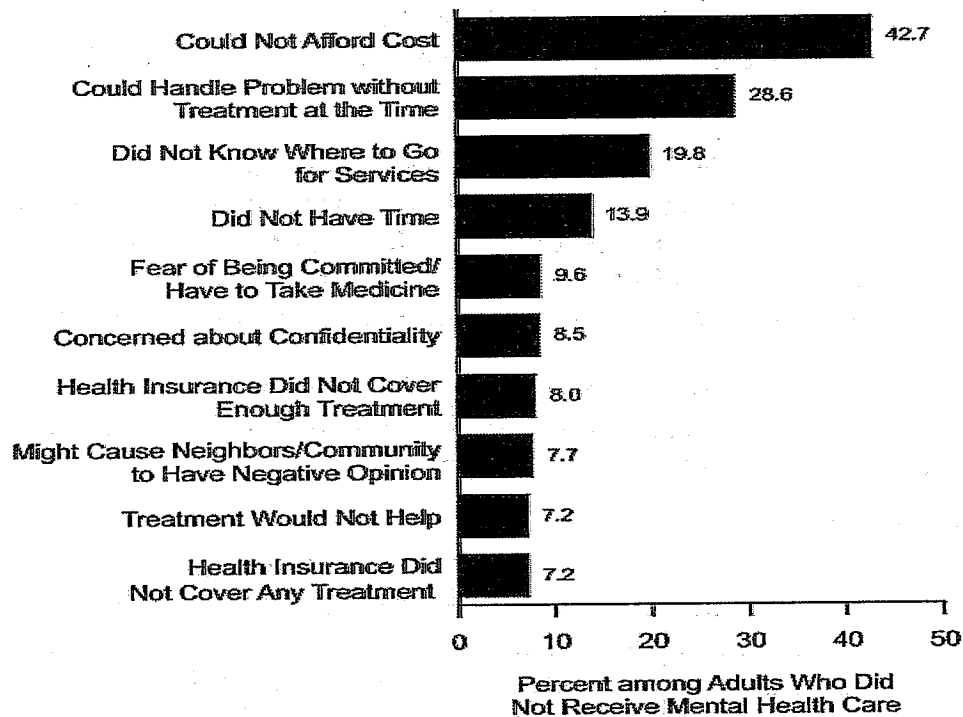
Mental Health Reform Funding

| FY | Amount | Impact | Cumulative Impact | % Difference | Cumulative Difference |
|---|--------------|---------------|---------------------|--------------|-----------------------|
| FY07 | \$31,066,330 | | | | |
| FY08 | \$21,874,340 | (\$9,191,990) | (\$9,191,990) | -29.59% | -29.59% |
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| FY10 Governor's Allotments | \$10,874,340 | (\$4,000,000) | \$20,191,990 | -26.89% | -65.00% |

The impact on those we serve and on the CMHC system is devastating and is already being felt throughout this State.

- Increased admissions to hospitals - local emergency rooms and psychiatric hospitals.
- Increased suicide calls.
- Increased demand for services (90% of CMHCs are experiencing increased demand for services).
- Delayed access to services for the uninsured - outpatient, therapy limits, crisis services, reduced/capped benefits.
- Waiting lists for some services, longer wait times for appointments.
- Elimination of programs and closing of local offices (75% of CMHCs have done so).
- Reduced staff hours.
- Reduced operating hours.

According to the 2008 National Survey on Drug Use and Health (NSDUH), among the 5.1 million adults aged 18 or older who reported an unmet need for mental health care and did not receive mental health services in the past year, several barriers to care were reported, which are outlined in the bar chart below. **The top reason (43%) was they could not afford the cost of treatment.**



In these distressing economic times, mental health needs are on the rise and individuals negatively impacted by the economy turn to our public mental health system for help. With these difficult times come increased drinking, domestic violence and marital problems linked to financial stress, as well as children trying to cope with extreme anxiety within the home. Research shows rates of depression and suicide tend to climb during times of economic tumult.² **Given these facts, in addition to the State mandate placed on CMHCs to serve everyone regardless of their ability to pay, the Association requests that the Legislature begin restoring cuts to Mental Health Reform funding.**

Without treatment and care, many would end up in contact with law enforcement, jails, hospital emergency rooms or state psychiatric hospitals. Mental Health Reform funding helped our system close state hospital beds and helps support services that are essential in keeping individuals out of inpatient settings. Reducing these funds puts at risk an already overstretched state hospital capacity. Without Mental Health Reform funding, there would be no universal system; no safety net; no 24 hour emergency care; increasing demands for mental health care in emergency rooms and in-patient setting; and a growing number of persons in our jails.

Community Based Mental Health Services are the Best Value for the State

In the face of budget shortfalls, severe cuts have been imposed on CMHCs that will impact the public mental health system and individuals with mental illness and their families. Policy makers must understand that paying for the costs of treating mental illness is unavoidable. Our only decision is how we as a State pay for it. The State can either invest in the public mental health system or pay a greater price through increased psychiatric hospitalization and primary care costs, greater reliance correctional facilities, homelessness, and other costs to society including lost productivity and suicide.

We know it costs on average, \$428 per day for treatment at one of our State psychiatric hospitals; \$80 per day on average to be incarcerated at Larned Correctional Mental Health

Facility; \$10 per day on average for Medicaid expenditures for community-based mental health treatment; and \$22 per day on average for Medicaid expenditures for the most chronic mental health conditions. This is consistent with other data which confirms community-based treatment for mental illness is the best value.

It is also important to note that investing in community-based mental health services directly lowers healthcare costs. Treatment for mental disorders is associated with a 20 percent reduction in the overall use of health care services.³ Budget gains from reducing access to pharmaceuticals are more than offset by increases in spending on services elsewhere in the system (such as increased hospitalization and emergency room care).⁴ At a time when the State is struggling with containing the costs of health care, paying for the cost of community-based mental health treatment is part of the solution to our State's budget crisis.

Why Investing in Mental Health is Important

- Good mental health enhances the workplace; a high percentage of lost productivity, staff absences and errors on the job is due to emotional problems, alcohol and/or drug abuse.
- Children learn better in a mentally healthy school environment where early intervention of mental health services is available.
- Effective community-based mental health treatment and support services, as well as newer medications, promote economic stability by permitting thousands of persons with serious mental illness to hold meaningful jobs and maintain productive lives in their own communities.
- Families stay healthier and grow stronger when affordable access to mental health services is readily available.
- The treatment success rates for such disorders as depression (more than 80%), panic disorder (70-90 percent) and schizophrenia (60 percent), surpass those of other medical conditions such as heart disease (45-50 percent).
- Evidence is being identified that the occurrence of severe psychiatric disorders may be increasing. The number of individuals on SSI/SSDI between 2000 and 2008 increased by 33 percent, while persons who have a mental disorder who are on SSI and SSDI, increased by 57 percent during the same time frame. The U.S. population increased by only 8 percent in this same time period.
- A growing number of employers have dropped health insurance for their employees and in some cases their dependents – many of whom show up on the doorsteps of community providers seeking services that we must provide, regardless of their ability to pay. These are men, women and children who will turn to community providers for help, when untreated problems build and result in a behavioral healthcare emergency. And we know from experience that, in crisis, care is more expensive to deliver. When they walk through our doors, for whatever reason, our challenge and commitment is to serve them.

Each of you should be well aware of the impact of the cuts on our system to your local CMHC, if my CMHC Directors are doing their jobs well. I have been urging them to keep their legislators informed of how these cuts are impacting their Center and those they serve. I have, however, highlighted for each of you what these cuts mean for each of your CMHCs. I have also included a map so you can see where your Center is located as well as their respective catchment area.

Area Mental Health Center – Ric Dalke, the Executive Director, is testifying today on how these cuts have impacted his CMHC.

Central Kansas Mental Health Center - No budgeted raises for a third year and reduced benefits; keep vacant positions open; reduce and restrict administrative and collaborative activities, community or regional meetings; triage clients with regard to services; alternative access for clients for whom attendance is difficult; reduce emergency staffing where possible; state hospital admissions are increasing significantly; increase productivity.

ComCare of Sedgwick County – Marilyn Cook, the Executive Director, is testifying today on how these cuts have impacted her CMHC.

Crawford County Mental Health Center – Information not available at time testimony was prepared.

Four County Mental Health Center – Eliminated eight jobs and up to 10 more in the next three months; reduced mileage reimbursement; cut wages for all summer and after school employees, all drivers, and attendant care staff; reduced cell phone reimbursement for work use; increased productivity standards; and are considering another 15 to 20 other strategies for cost reduction. The agency is left with a \$1.3 million hole in its budget for FY11, while referrals are up 25 percent over the last 18 months. Office hours, access to services and the amount of services available is now being examined by the agency.

Johnson County Mental Health Center – Implementing a managed benefits package for the uninsured; reducing salaries by five percent; not filling vacant positions; reducing psychiatry time by 25 percent; discontinuing staff development/training allowance/funds; imposing travel restrictions; reduce or even eliminate service availability in some or all branch offices; eliminating flex time leave; eliminating one paid holiday; laying off support staff; raising productivity standards.

Mental Health Center of East Central Kansas – Implementing a managed benefits package for the uninsured; implemented a hiring freeze and not replacing staff when they leave; withheld raises and froze benefit package; froze mileage rate at 34 cents; reduced psychiatric medication services; trimmed branch office time; down-sized substance abuse program; started a waiting list (which, in just a few weeks, has grown to 80+); cut back on outpatient counseling slots in main and branch offices; closed a parenting program; discontinued domestic violence evaluation/treatment program; discontinued anger management group for adults; discontinued supported employment program; closed substance abuse intervention program in Emporia Schools; raised psychological evaluation rates.

Pawnee Mental Health Center – Robbin Cole, the Executive Director, is testifying today on how these cuts have impacted her CMHC.

Prairie View, Inc. – Hiring freeze for all non-essential positions; not replacing staff when they leave; 20 staff have had their hours reduced; reduced mileage reimbursement; suspend use of professional leave funds and days; withhold PTO accrual for one pay period; eliminate non-critical overtime; increased productivity; reducing office hours at each location; revise service delivery model for patients without a payor source.

Wyandot Mental Health Center - Not replacing at least 18 vacant positions; closing respite facilities; selective layoffs of 20 staff over the next three months; cuts in employee benefits; reduced community involvement; managing a service package for the uninsured.

Desired Recommendations:

Mister Chairman and members of the Committee, I thank you for this opportunity to bring to the forefront the critical challenges facing our public mental health system as a result of funding reductions. For all the reasons that I have testified to today, and for those that will follow, we urge you to support House Bill 2593 and pass it out of this Committee favorably.

Thank you for allowing us to appear before you today.

¹ Automated Information Management System (AIMS); Kansas Department of Social and Rehabilitation Services; FY 2009.

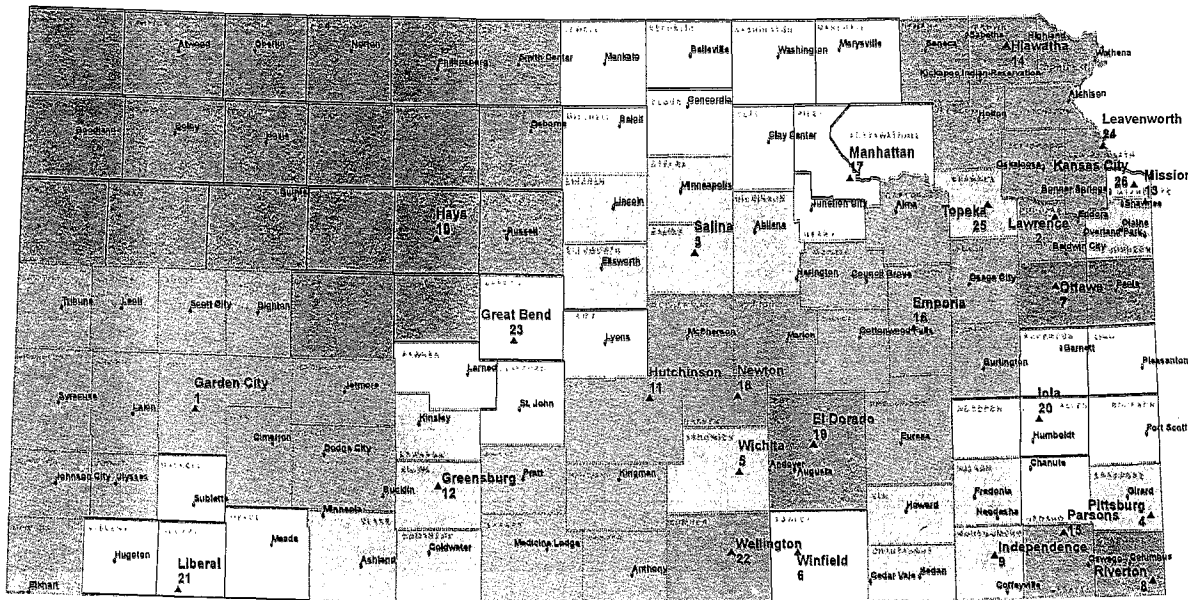
² National Alliance on Mental Illness; National Survey with MHA and Depression is Real. October 2009.

http://www.nami.org/Content/NavigationMenu/Top_Story/Economys_Toll_on_Mental_Health.htm .

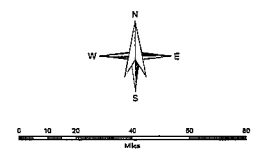
³ Lave J. The cost offset effect. In FogelBS, Furino A, Gottlieb GL, *Mental health policy for older Americans: Protecting minds at risk.* Washington, DC: American Psychiatric Press. 1990.

⁴ The Lewin Group. *Health Plan Benefit Barriers to Access to Pharmaceutical Therapies for Behavioral Health.* 1998.

Community Mental Health Centers of Kansas



▲ MAIN CENTERS
◆ SATELLITE CENTERS



Locations of Community Mental Health Centers
Key to Map

- | | | |
|--|---|--|
| <p>1. Area Mental Health Center - Garden City Counties Served: 13</p> <p>Full time outpatient offices in Dodge City, Ulysses, and Scott City. Satellite offices in: Tribune, Lead, Lakin, Dighton, Syracuse, Cimarron, Jetmore, Johnson City, and Elkhart</p> | <p>10. High Plains Mental Health Center - Hays Counties Served: 20</p> <p>Branch offices in Norton, Phillipsburg, Goodland, Colby, Russell, and Osborne. Outpatient counseling is also provided in Alwood, Hoxie, Oberlin, and Smith Center.</p> | <p>18. Prairie View, Inc. - Newton Counties Served: 3</p> <p>Satellite offices in McPherson and Marion.</p> |
| <p>2. Bert Nash Community Mental Health Center Lawrence Counties Served: 1</p> <p>Satellite offices in Eudora and Baldwin.</p> | <p>11. Horizons Mental Health Center - Hutchinson Counties Served: 5</p> <p>Satellite offices in Pratt, Kingman, Medicine Lodge, and Anthony.</p> | <p>19. South Central Mental Health Counseling Center El Dorado Counties Served: 1</p> <p>Satellite offices in Andover, August, and Rose Hill</p> |
| <p>3. Central Kansas Mental Health Center - Salina Counties Served: 5</p> <p>Satellite offices in Lincoln, Minneapolis, Abilene, Ellsworth, and Herington.</p> | <p>12. Iroquois Center for Human Development - Greensburg Counties Served: 4</p> <p>Satellite offices in Kinsley, Ashland, Coldwater, and Minneola.</p> | <p>20. Southeast Kansas Mental Health Center - Iola Counties Served: 6</p> <p>Satellite offices in Chanute, Ft. Scott, Garnett and Plessanton</p> |
| <p>4. Community Mental Health Center of Crawford County - Pittsburg Counties Served: 1</p> <p>Satellite office in Girard</p> | <p>13. Johnson County Mental Health Center - Mission Counties Served: 1</p> <p>Satellite offices in Olathe, Overland Park and Shawnee.</p> | <p>21. Southwest Guidance Center - Liberal Counties Served: 4</p> <p>Satellite offices in Sublette, Hugoton, and Meade</p> |
| <p>5. COMCARE of Sedgwick County - Wichita Counties Served: 1</p> <p>Family Consultation Service - Wichita (Licensee Affiliate of COMCARE) Counties Served: 1</p> | <p>14. Kanza Mental Health & Guidance Center - Hiawatha Counties Served: 4</p> <p>Satellite offices in Sabetha, Seneca, Kotton, Highland, Wathena, and Kickapoo Indian Reservation.</p> | <p>22. Sumner County Mental Health Center - Wellington Counties Served: 1</p> |
| <p>6. Cowley Community Mental Health Center Winfield Counties Served: 1</p> | <p>15. Labette Center for Mental Health Services - Parsons Counties Served: 1</p> <p>Satellite office in Osageo</p> | <p>23. The Center for Counseling and Consultation Great Bend Counties Served: 4</p> <p>Satellite offices in Lamed, St. John, and Lyons.</p> |
| <p>7. Elizabeth Layton Center, Inc. Ottawa Counties Served: 2</p> <p>Satellite office in Paola</p> | <p>16. Mental Health Center of East Central Kansas Emporia Counties Served: 7</p> <p>Satellite offices in Council Grove, Alma, Osage City, Cottonwood Falls, Eureka, and Burlington.</p> | <p>24. The Guidance Center - Leavenworth Counties Served: 3</p> <p>Satellite offices in Atchison and Oskaloosa.</p> |
| <p>8. Family Life Center, Inc. - Riverton Counties Served: 1</p> <p>Satellite office in Columbus.</p> | <p>17. Pawnee Mental Health Services - Manhattan Counties Served: 10</p> <p>Satellite offices in Jewell, Marshall, Washington, Mitchell, Republic, Pottawatomie, Concordia, Clay Center, and Junction City</p> | <p>25. Valeo Behavioral Health Care - Topeka Counties Served: 1</p> <p>Family Service & Guidance Center - Topeka (Licensee Affiliate of Valeo BHC) Counties Served: 1</p> |
| <p>9. Four County Mental Health Center Independence Counties Served: 4</p> | | <p>26. Wyandot Center for Community Behavioral Health Kansas City Counties Served: 1</p> <p>Satellite office in Bonner Springs.</p> |



MAP/DATA DISCLAIMER
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December 21, 2004



COMCARE

COMPREHENSIVE COMMUNITY CARE OF SEDGWICK COUNTY OF SEDGWICK COUNTY

www.sedgwickcounty.org/comcare

635 NORTH MAIN WICHITA, KANSAS 67203 TEL: (316) 660-7600 FAX: (316) 660-7886
24-HOUR CRISIS SERVICE: (316) 660-7500

Marilyn L. Cook, LSCSW
Executive Director

Good Morning Members of the House Taxation Committee. My name is Marilyn Cook and I have the privilege of serving as the Executive Director of COMCARE of Sedgwick County, the largest of the state's 27 Community Mental Health Centers (CMHC). I appreciate your time today and the daunting task you have been given.

I recently participated in our County's financial planning retreat to review our County's financial plan and to see if local or national economic indicators should cause course corrections to our plan. COMCARE is unique in that we are a County department and therefore a part of local government. The conclusions obtained during our retreat were that while our local economy has hit bottom and is slowly starting to recover; the residual effects of our downturn will continue in Wichita six to nine months longer than the national cycle and continue into 2011, much like our experience in 2002 following the events of 9/11.

COMCARE and our business affiliates will serve over 14,000 individuals this year; take over 60,000 crisis calls and we will intake 14-16 adult individuals into our services each day. 85% of those adults will need an appointment with one of our medical providers. We have 35 open hours each week for our medical providers to accept new patients. It's easy to calculate that with 14-16 new patients presenting each day – our medical providers easily are overwhelmed with volume. Those with Medical Cards can see other providers in the community who accept that coverage but that leaves us with a growing number of uninsured patients with no means to pay us. This is exactly why there is such a need for restoration of our grant funds. We have seven Psychiatrists and ten Advanced Nurse Practitioners. Last year we spent approximately \$800,000 more on their salaries than we brought in through the revenues they generated. We will continue to serve over 1,000 children, 700 of them with serious emotional disturbances who are able to receive an array of needed community based services because of the Children's SED Waiver program.

In 2007, just three short years ago, COMCARE received just shy of \$5 million in State grant support. In 2008 and 2009 that dropped to \$3.9 million; and in our current State Fiscal Year with further erosion of our State grant of \$1.2 million and an additional \$712,000 through the Governor's allotment process, we now only receive \$1.9 million in State grants.

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We're a large community and have a large system of care. We anticipate losing \$1.5 million in Medicaid revenue due to the 10% rate reduction through June of this year and if the rates are not restored, we will experience a \$3 million loss of revenue if the rates are not restored in July. This is in addition to the grant reduction I just mentioned. And while only 40% of our clients have Medicaid coverage, they represent 75% of the revenue we receive.

We track data on those approaching us for services and we experienced a 32% increase in calls to our Centralized Intake & Assessment Center in 2009 compared to the previous year, an 11% increase in those seeking medication evaluations from our medical providers.

A growing number who approach us have no payer source, many of whom need medications that we voucher for them. Some of them had to stop seeing their primary care providers when their insurance was lost due to a job loss, and they just keep coming.

Ultimately, the funds that have been cut represent funding used to pay for staff salaries for the professionals that deliver mental health services to the uninsured. The grant reductions in just the current fiscal year represent the equivalent of approximately 35,000 hours of counseling time, or the equivalent of a years' worth of therapy for 700 individuals. As I mentioned previously, the current economic environment has increased the demand for services provided by CMHC's. These increased demands along with diminishing resources put our communities and our fellow citizens at risk.

We recognize that there are no magic bullets. We recognize that if revenues don't increase, then additional cuts will result. We have implemented multiple strategies and efficiencies in our system and reduced the rates we pay to our community partners due to rate cuts we have endured. We are seeing our consumers experiencing increasingly shorter stays at Osawatomie State Hospital and coming back in less stable condition than in past years. There are few strategies left to implement. We are therefore excited by the prospect of additional revenue that could be generated through HB 2593.

We encourage you to support this bill and understand the significant relief it could provide to the CMHC system and those lives we touch each day.

Thank you for your time and enduring commitment and support to our system of care. Your past support has been meaningful and appreciated. We ask you again to consider the impact of the deep cuts we have sustained and support this bill and other revenue enhancements that will help us to continue to serve those who struggle each day with the consequences of the illnesses they experience.

Thank You.

Marilyn Cook, LSCSW
Executive Director

Testimony to the House Committee on Taxation

February 26, 2010

**By Ric Dalke, Executive Director
Area Mental Health Center**

Mister Chairman and members of the Committee, thank you for the opportunity to appear before you to testify on budget issues and concerns for the community mental health system across the State of Kansas. My name is Ric Dalke, Executive Director of Area Mental Health Center. I am from Garden City. Area Mental Health Center (AMHC) provides comprehensive mental health services to the residents of 13 counties in southwest Kansas. I would like to focus my testimony primarily to what is happening in our "neck of the woods" in the far southwest and I would like to do this by starting with a story about a woman we will call Jane.

Jane is a middle aged woman who used to be a 'regular' at our day program in Garden City. She sat close to the front door to welcome those entering. She had little in the way of financial resources, dressed poorly, hygiene and her personal care were questionable. She often had a muffin or something to offer me as I entered the building.

She is an example of a person who experiences co-occurring disorders. She has significant physical problems including diabetes and a serious mental health disorder, schizophrenia. Jane was a regular at our Center because we provided support services that could keep her and so many like her out of the hospital. She is now a resident of Larned State Hospital (LSH).

When I first knew Jane, she had family members that provided a basic level of care. When they left the area, possibly to get away from the demands of a person whose symptoms were difficult to care for, we were able to step in with an infrastructure of support services including: Attendant Care support, 24/7 when her symptoms warranted that level of care; subsidized housing; a transitional living center; crisis center; nutritional support; transportation; medications and education about her illness and how to treat it.

Mental Health Reform Legislation passed in 1990 which provided community support dollars through a contract with the State and the Community Mental Health Centers (CMHCs) allowed Jane to live in her home community. Jane is now an example of what has happened at AMHC and other CMHCs across the State as 65% of those contract dollars have been cut. This reduction of funds no longer allow for my mental health center to provide the infrastructure that Jane and others like her need.

Jane now resides at LSH. In about six weeks we will go to court to continue a court order to keep her there. At a court hearing over a month ago, a LSH doctor responsible for her care testified that she was no longer suffering from the schizophrenic disorder, that LSH treatment of her mental condition was successful and that she should be dismissed from the hospital. The Court supported his recommendation. We opposed the discharge. We knew she was doing well and her schizophrenic symptoms were negated. We also knew that without family support and without our Attendant Care and other support services her diabetes and her mental health problems would worsen. Within 24 hours of her discharge LEC called asking us to assist in any way possible as they stated Jane was experiencing self care failure. We screened her back into LSH and are preparing for another court exchange. We will spend large amounts of dollars to argue where she should be placed when LSH regulates her medications and her schizophrenia is remitted. A Judge, at least three attorneys, LSH psychiatrist and staff and AMHC staff will spend time and resources to either keep Jane at LSH or to discharge her to a community that no longer has the mental health supports and infrastructure to treat her successfully and keep her well in her community. This is Jane's current story. And if it was just about Jane, this would be so easy, we would find the dollars to provide what she needs. But there are many Janes in our 13 counties and communities.

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The infrastructure we had with Mental Health Reform dollars is gone. The infrastructure that allowed us to have enough people to have someone trained and ready to provide services Jane needs at 3 AM on a Thursday night is gone. The transitional living center that provided beds for those who needed one so that we could keep them out of the State hospital is gone. Food, Nutrition, medication assistance, transportation support are severely restricted.

The State of Kansas made tough decisions to address a real and serious economic crisis. Area Mental Health Center and other CMHCs have had to make tough decisions to address the State cutbacks for programs that once allowed an infrastructure of supports that gave life to the intent of Mental Health Reform legislation and to Jane and others that previously benefited from it.

It can and will be argued that Medicaid pays for the community support services mentioned. Jane and others are not covered by Medicaid or insurance. 19 percent of the people seeking mental health services at Area Mental Health Center have Medicaid or a medical card. Jane is one of the other 81 percent. These Southwest Kansas residents seek mental health services and either have other payment options or depend upon Mental Health Reform funds that came with a mandate that the CMHCs provide services to all regardless of the ability to pay.

I regretfully share that AMHC has lost its infrastructure or base to provide community support services to all people, but am proud to report that we provide the traditional services of therapy, psychiatric services and crisis services to all. When an individual, family, law enforcement or other community partner calls, we respond and provide the services that we can as we continue the community safety net mandate of providing services regardless of the consumer's ability to pay. State hospitalization is back as a viable tool in the safety net function that we are mandated to provide. It is expensive and against the intent of Mental Health Reform legislation. Please support House Bill 2593, as it will general funding is critically necessary for our system. Community Mental Health Center services are a part of the solution to the fiscal crisis, not a part of the problem. Community support programs have been shown to be significantly less costly than State Mental Health Hospitalization.

Thank you for allowing me this opportunity to appear before you. I will be happy to stand for any questions.



Testimony to the House Taxation Committee

February 26, 2010

Good morning, Chairman Carlson and members of the committee. I am Robbin Cole, Executive Director of Pawnee Mental Health Services. Thank you for the opportunity to appear before you today regarding House Bill 2593. I ask that you support this bill as it generates additional revenue to fund mental health services for those who are uninsured and walk through our doors.

Pawnee Mental Health Services is a licensed community mental health center and licensed substance abuse treatment center in north central Kansas serving Jewell, Mitchell, Republic, Cloud, Washington, Marshall, Clay, Geary, Riley, and Pottawatomie Counties. Pawnee's origins go back more than 50 years.

Pawnee serves over 7000 people a year, providing a full continuum of outpatient mental health and substance abuse services including individual, family and group psychotherapy, 24 hour crisis services, medication services, community support services for adults with severe and persistent mental illnesses, and community based services for children and youth with serious emotional disturbances.

Pawnee's mission is "to enhance and strengthen the wellness of our communities by providing quality mental health and substance abuse services." This mission is carried out without regard to ability to pay. As state grant funding has been cut, it has become increasingly difficult to fulfill this mission.

Since July 1, 2007, Pawnee Mental Health Services has had over \$1,253,000 cut from its state funding budget as a result of the more than \$20,191,000 cut from the consolidated grants for the community mental health system. This represents a 61% reduction in Pawnee's state funding and a 9% reduction in Pawnee's overall budget. In addition, Pawnee anticipates further losses of approximately \$750,000 for CY2010 as a result of the 10% cut in Medicaid reimbursement imposed by the governor.

To maintain its mission to the mentally ill and drug affected in its service area, Pawnee:

- Has given no cost of living increases since before January 1, 2002
- Has given no merit based raises since July 1, 2004
- Reduced mileage reimbursement to .40/mile

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- Eliminated one of nine paid holidays
- Eliminated sick leave, vacation leave, and health insurance benefits for employees working less than 30 hours/week
- Increased billable service expectations for direct service staff
- Eliminated a management position by consolidating its Alcohol & Drug Treatment program and its Regional Prevention Center
- Eventually closed its Regional Prevention Center
- Closed a residential house for adults with severe and persistent mental illnesses
- Discontinued participation in three University of Kansas sponsored evidence based practice programs for adults with severe and persistent mental illnesses
- Discontinued participation in Compeer, an international friendship program for adults with severe and persistent mental illnesses
- Eliminated 31 positions from its budget on February 1, 2009
- Eliminated another 34 positions from its budget on January 1, 2010. In this most recent staff reduction were five management positions including:
 1. Prevention, Treatment and Recovery Services Director
 2. Public Relations Manager
 3. Medical Records Manager
 4. Junction City Business Office Supervisor
 5. Manhattan Community Support Services Supervisor (for adults with severe and persistent mental illness)
- While the agency has reduced its staff, the number of clients it serves has increased by approximately 600
- Implemented a "pay-as-you-go" policy. Clients are not allowed to schedule another appointment until/unless they pay for the last appointment they received.
- Implemented a "benefits package for the uninsured." Within that benefits package, clients have access to a limited number of individual/marital/family therapy sessions at their discounted rate each year. Once they've exhausted these, they can either pay a higher rate for individual/marital/family sessions, can access group therapy sessions at their discounted rate or can access crisis services at their discounted rate

These, and other changes too numerous to mention, are the actions that have been taken to preserve services to the mentally ill and substance affected in an environment of shrinking financial resources.

Mental illness is with us. It is no respecter of persons. It doesn't care about how much money you make, how well educated you are, what your ethnicity is, how old you are or whether you have a job. Mental illness is not just the problem of the individual. It is the problem of the family, the community and the society we live in. As a society, we can either allocate the resources to treat mental illness when the individual's symptoms are manageable at the community level or we can allocate the resources to treat mental illness when the individual's symptoms have escalated to the point that they are dangerous to themselves or others and must be managed at the institutional level of hospitalization or incarceration. This is at the heart of the question we bring before you today. Thank you for this opportunity to speak.

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House Committee on Taxation

Testimony on House Bill 2593

February 26, 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 the initiative by Representatives Colloton and Wolf 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.

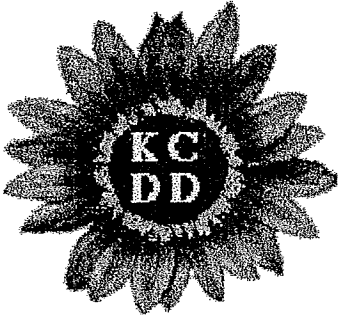
*One in five people with a serious mental illness are uninsured.*¹³ People with low income and no insurance are twice as likely to have a psychiatric disorder.¹⁴ Approximately 15 percent of the uninsured have a serious mental health condition.¹⁵ Without treatment, individuals with a serious mental illness 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. HB 2593 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.



Kansas Council on Developmental Disabilities

MARK PARKINSON, Governor
KRISTIN FAIRBANK, Chairperson
JANE RHYS, Ph. D., Executive Director
jrhys@kcdd.org

Docking State Off. Bldg., Rm 141,
915 SW Harrison Topeka, KS 66612
785/296-2608, FAX 785/296-2861
<http://kcdd.org>

"To ensure the opportunity to make choices regarding participation in society and quality of life for individuals with developmental disabilities"

HOUSE TAXATION COMMITTEE

February 26, 2010

Testimony in Regard to funding for programs for persons who have a developmental disability.

Mr. Chairman, Members of the Committee, I am appearing today on behalf of the Kansas Council on Developmental Disabilities in support of H.B. 2533.

The Kansas Council is federally mandated and funded under the Developmental Disabilities Assistance and Bill of Rights Act of 2000 and receives no state funds. It is composed of individuals who are appointed by the Governor, including representatives of the major agencies who provide services for individuals with developmental disabilities. At least 60 percent of the membership is composed of individuals who are persons with developmental disabilities or their immediate relatives. Our mission is to advocate for individuals with developmental disabilities to receive adequate supports to make choices about where they live, work, and learn.

A Developmental Disability occurs before age 22, is lifelong, and results in substantial functional limitation in three or more areas of major life activity such as self-care, mobility, communication, and economic self-sufficiency. These disabilities require coordinated lifelong supports, they are not curable nor do persons get better as they get older.

There is great need for funding of services for persons with Developmental Disabilities. Many people are waiting for services, as can be seen on the attached salmon colored page that shows the number of persons served on the DD Waiver from 2006 – 2010 and the number on the DD Waiting Lists, all from January of each year. As of January of this year, there were **2,394 adults and families with children** waiting for services. Ten years ago, in 1999, there were 307 adults and families with children waiting for services (*Developmental Disabilities Summary for the Month of January, 1999*). This is an increase of 2087 persons or 700 per cent. In 1999 we served 5,119 on the Home and Community Based Services

House Taxation

Date: 2-26-10

Attachment: 9

Waiver for Developmental Disabilities. In January of this year we served 7,746 for an increase of 2,627 or 51 per cent. We have persons with Developmental Disabilities and families with children who have Developmental Disabilities who have been waiting for several years.

House Bill 2593 would increase the tax on alcoholic beverages, recommendations to increase sales taxes, and recommendation to reduce the number of entities who are exempt from sales taxes. Twenty-five percent of the new revenue raised by the tax will be put into what is being called as the Developmental Disabilities Supplemental Programs Fee Fund. These funds/taxes shall be used to provide services for persons on the HCBS DD Waiver waiting list or to increase payment rates for service providers under the HCBS DD Waiver.

So we are asking for your support of House Bill 2593. Persons with Developmental Disabilities have been waiting, some for many years, for any kind of service. It is a great deal because the federal government more than matches funding for the DD Waiver. We know you face difficult choices but we are told every year to wait. How long do we ask people with Developmental Disabilities and their families to wait? How long do we put these individuals at risk?

Thank you and I would be happy to answer any questions.

Kim Strunk-Program Coordinator
Kansas Council on Developmental Disabilities
Docking State Office Building, Room 141
915 SW Harrison
Topeka, KS 66612-1570
785 296-2608
partnersinpolicy@kcdd.org

HCBS Developmental Disabilities Waiver Data

| Persons Served | | 2006 | 2007 | 2008 | 2009 | 2010 |
|-----------------------------|--|-------------|-------------|-------------|-------------|-------------|
| January of each Year | | | | | | |
| # Served | | 6766 | 7004 | 7410 | 7433 | 7746 |
| # increase | | | 167 | 406 | 23 | 313 |
| % Increase | | | 2.47% | 5.80% | 0.31% | 4.21% |

| Persons Waiting for Services | | 2006 | 2007 | 2008 | 2009 | 2010 |
|-------------------------------------|--|-------------|-------------|-------------|-------------|-------------|
| January of each Year | | | | | | |
| Waiting List | | 1288 | 1414 | 1389 | 1574 | 2394 |
| No. Increase | | | 126 | -25 | 185 | 820 |
| % Increase | | | 9.78% | -1.77% | 13.32% | 52.10% |

Summary Of Under Served Adults And Families

| CDDO | Adults | | | | | Families | | | | |
|------------------------|------------------------------|------------|-------------|------------------------|--------------------------|------------------------------|------------|-------------|------------------------|--------------------------|
| | Unduplicated Number Unserved | Day | Residential | In Home Family Support | Direct Financial Support | Unduplicated Number Unserved | Day | Residential | In Home Family Support | Direct Financial Support |
| Achievement Services | 12 | 5 | 9 | 0 | 0 | 5 | 0 | 0 | 5 | 1 |
| Arrowhead West Inc | 31 | 20 | 17 | 4 | 0 | 16 | 3 | 2 | 15 | 0 |
| Big Lakes | 37 | 13 | 31 | 2 | 0 | 4 | 0 | 0 | 4 | 0 |
| Brown Co Dvlpmntl Ctr | 9 | 3 | 8 | 1 | 0 | 2 | 0 | 0 | 2 | 0 |
| CLASS Ltd | 47 | 26 | 27 | 3 | 0 | 12 | 11 | 6 | 1 | 0 |
| COF | 40 | 16 | 33 | 4 | 0 | 20 | 3 | 8 | 13 | 2 |
| ComCare | 225 | 84 | 192 | 12 | 1 | 51 | 27 | 25 | 15 | 10 |
| Cottonwood | 81 | 40 | 63 | 6 | 0 | 12 | 8 | 12 | 0 | 0 |
| Cowley County Dev S | 11 | 7 | 7 | 2 | 0 | 12 | 3 | 1 | 9 | 0 |
| DPOK | 53 | 30 | 40 | 3 | 0 | 9 | 8 | 8 | 1 | 0 |
| DSNWK | 48 | 15 | 41 | 4 | 0 | 3 | 1 | 3 | 0 | 0 |
| Flinthills | 27 | 10 | 20 | 8 | 0 | 13 | 3 | 3 | 10 | 0 |
| Futures Unlimited | 10 | 2 | 6 | 2 | 0 | 2 | 0 | 0 | 2 | 0 |
| Harvey-Marion County | 19 | 6 | 14 | 3 | 0 | 1 | 1 | 1 | 0 | 0 |
| Hetlinger Dev Services | 32 | 15 | 23 | 4 | 0 | 5 | 3 | 3 | 1 | 0 |
| Individual Provider | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| JCDS | 309 | 144 | 252 | 18 | 1 | 66 | 8 | 21 | 45 | 0 |
| MCDS | 24 | 16 | 14 | 1 | 5 | 6 | 2 | 4 | 0 | 4 |
| Nemaha Co Trng Ctr | 10 | 0 | 10 | 0 | 0 | 4 | 0 | 0 | 4 | 0 |
| New Beginnings | 5 | 1 | 3 | 1 | 0 | 3 | 0 | 0 | 3 | 0 |
| Riverside Resources | 16 | 8 | 14 | 2 | 0 | 0 | 0 | 0 | 0 | 0 |
| SDSI | 56 | 34 | 33 | 9 | 1 | 113 | 28 | 22 | 99 | 0 |
| TARC | 116 | 79 | 83 | 17 | 0 | 55 | 7 | 6 | 48 | 0 |
| TECH | 27 | 11 | 19 | 5 | 0 | 1 | 1 | 1 | 0 | 0 |
| Tri-Ko | 8 | 1 | 6 | 2 | 0 | 7 | 1 | 1 | 7 | 0 |
| Tri-Valley | 19 | 11 | 16 | 4 | 0 | 11 | 4 | 5 | 4 | 2 |
| Twin Valley | 2 | 0 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Wyandotte CDDO | 84 | 45 | 50 | 12 | 1 | 28 | 9 | 6 | 19 | 0 |
| Totals | 1358 | 642 | 1033 | 129 | 9 | 461 | 131 | 138 | 307 | 19 |

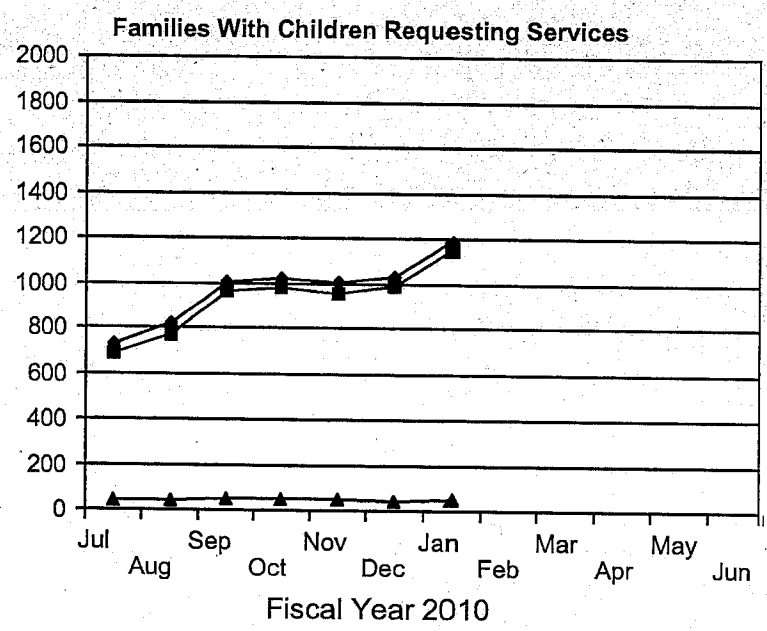
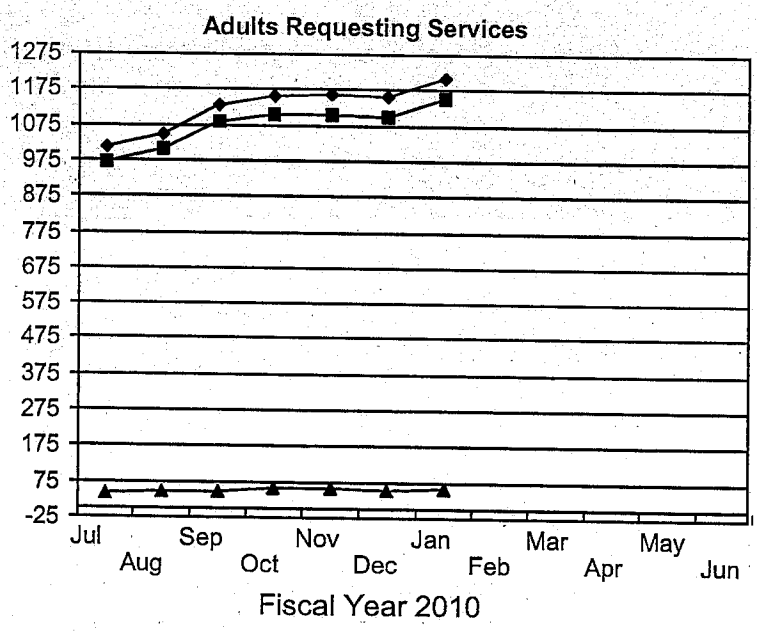
Underserved In "Day Services" = Waiting for day services and being served in either residential, in home, or direct financial services.
 Underserved In "Residential Services" = Waiting for residential services and being served in either day, in home, or direct financial services.
 Underserved In "In Home Services" = Waiting for in home services and being served in either residential, day, or direct financial services.
 Underserved In "Direct Financial Services" = Waiting for in direct financial services and being served in either residential, day, or in home services.

Summary Of Unserved Adults And Families

| CDDO | Adults | | | | | | Families | | | | | |
|------------------------|------------------------------|------------|------------------|---------------------|------------------------|--------------------------|------------------------------|-----------|------------------|---------------------|------------------------|--------------------------|
| | Unduplicated Number Unserved | Day Only | Residential Only | Day And Residential | In Home Family Support | Direct Financial Support | Unduplicated Number Unserved | Day Only | Residential Only | Day And Residential | In Home Family Support | Direct Financial Support |
| Achievement Services | 12 | 5 | 2 | 5 | 1 | 0 | 1 | 0 | 0 | 0 | 0 | 1 |
| Arrowhead West Inc | 49 | 15 | 5 | 25 | 13 | 0 | 16 | 0 | 0 | 2 | 14 | 0 |
| Big Lakes | 24 | 2 | 0 | 22 | 5 | 0 | 24 | 0 | 0 | 4 | 15 | 15 |
| Brown Co Dvlpmntl Ctr | 4 | 1 | 0 | 3 | 1 | 0 | 5 | 0 | 0 | 1 | 3 | 2 |
| CLASS Ltd | 56 | 12 | 1 | 42 | 15 | 0 | 60 | 3 | 1 | 8 | 57 | 1 |
| COF | 20 | 2 | 0 | 18 | 2 | 0 | 16 | 0 | 0 | 1 | 9 | 9 |
| ComCare | 351 | 87 | 30 | 212 | 111 | 4 | 370 | 9 | 0 | 35 | 313 | 94 |
| Cottonwood | 42 | 8 | 5 | 28 | 11 | 0 | 61 | 1 | 0 | 5 | 58 | 0 |
| Cowley County Dev S | 11 | 2 | 0 | 8 | 5 | 0 | 5 | 0 | 1 | 1 | 4 | 0 |
| DPOK | 40 | 6 | 1 | 30 | 16 | 0 | 85 | 0 | 2 | 4 | 83 | 1 |
| DSNWK | 48 | 8 | 5 | 35 | 12 | 2 | 23 | 0 | 2 | 1 | 19 | 4 |
| Flinthills | 15 | 4 | 1 | 10 | 4 | 1 | 19 | 1 | 1 | 2 | 15 | 11 |
| Futures Unlimited | 18 | 4 | 1 | 10 | 9 | 1 | 12 | 0 | 0 | 2 | 10 | 0 |
| Harvey-Marion County | 23 | 11 | 3 | 8 | 9 | 1 | 28 | 0 | 0 | 4 | 26 | 0 |
| Hettinger Dev Services | 32 | 6 | 5 | 20 | 11 | 0 | 47 | 0 | 0 | 6 | 45 | 21 |
| JCDS | 140 | 21 | 25 | 90 | 81 | 25 | 245 | 3 | 15 | 1 | 244 | 87 |
| MCDS | 7 | 0 | 0 | 5 | 2 | 1 | 17 | 0 | 0 | 1 | 16 | 2 |
| Nemaha Co Trng Ctr | 6 | 1 | 1 | 4 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| New Beginnings | 5 | 1 | 0 | 4 | 1 | 0 | 8 | 0 | 0 | 0 | 7 | 4 |
| Riverside Resources | 32 | 7 | 4 | 19 | 7 | 0 | 26 | 1 | 1 | 1 | 23 | 0 |
| SDSI | 103 | 25 | 1 | 73 | 42 | 0 | 49 | 3 | 0 | 12 | 34 | 37 |
| TARC | 76 | 9 | 5 | 54 | 32 | 1 | 54 | 0 | 0 | 2 | 52 | 0 |
| TECH | 34 | 6 | 2 | 26 | 7 | 1 | 23 | 0 | 0 | 4 | 20 | 0 |
| Tri-Ko | 12 | 0 | 2 | 6 | 6 | 0 | 10 | 0 | 0 | 3 | 10 | 4 |
| Tri-Valley | 28 | 8 | 4 | 14 | 11 | 1 | 24 | 1 | 0 | 4 | 23 | 1 |
| Twin Valley | 3 | 0 | 0 | 3 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Wyandotte CDDO | 62 | 19 | 5 | 35 | 15 | 7 | 30 | 4 | 0 | 3 | 18 | 22 |
| Totals | 1253 | 270 | 108 | 809 | 431 | 45 | 1258 | 26 | 23 | 107 | 1118 | 316 |

**Status of Service Requests
Fiscal Year 2010
Date Of Report: February 05, 2010**

| | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Net Change |
|---------------------------|------|------|------|------|------|------|------|-----|-----|-----|-----|-----|------------|
| Adults Waiting | 1009 | 1049 | 1130 | 1158 | 1162 | 1155 | 1208 | | | | | | 199 |
| Services Req Immediate | 968 | 1004 | 1083 | 1102 | 1105 | 1101 | 1152 | | | | | | |
| Services Req Thru 01/2010 | 41 | 45 | 47 | 56 | 57 | 54 | 56 | | | | | | |
| Families With Children | 724 | 814 | 1008 | 1023 | 1005 | 1027 | 1186 | | | | | | 462 |
| Services Req Immediate | 687 | 770 | 961 | 978 | 958 | 988 | 1141 | | | | | | |
| Services Req Thru 01/2010 | 37 | 44 | 47 | 45 | 47 | 39 | 45 | | | | | | |



Services Req Immediate
 Services Req Thru 01/2010
 Total Services Req

Services Req Immediate
 Services Req Thru 01/2010
 Total Services Req

Data submitted by CDDOs
 SRS Division of Health Care Policy
 Policy Evaluation, Research & Training
 February 5, 2010

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

February 25, 2010

House Assessment and Taxation Committee

Testimony on House Bill 2593

Chairman Carlson and Members of the Committee,

I appear today on behalf of the Kansas Association of Addiction Professionals (KAAP) in support of House Bill 2593, 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 House Bill 2593 warrants our organization's input. House Bill 2593 seeks to establish a laudable goal: increasing the alcohol gallonage tax and distributing that new revenue to the mental health and developmental disability community. We have no question of the need for increased state support for these valuable programs.

KAAP, however, requests the Committee amend the bill in Section 1 (i) [Page 3, line 4]. 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.



TESTIMONY

concerning HB 2593

Funding for Services to the Mentally Ill and Developmentally Disabled
House Taxation Committee

Presented by Randall Allen, Kansas Association of Counties
February 26, 2009

Chairman Carlson and members of the committee, I am Randall Allen, Executive Director of the Kansas Association of Counties. Thank you for the opportunity to present testimony in support of HB 2593, which would restore some of the state funding cuts to mental health services and services to developmentally disabled persons that have occurred over the past several years.

County governments across Kansas are integrally involved in funding and/or providing both mental health services to Kansans through the 27 community mental health centers (CMHCs) as well as services to developmentally disabled Kansans. Annually, boards of county commissioners levy local property taxes in support of these programs and services, and there is a high level of awareness among county commissioners about the needs of persons in these respective client groups. Simply stated, we view services to the mentally ill and to the developmentally disabled as a *shared responsibility* with the state of Kansas.

HB 2593 offers a partial remedy to the severe budget cuts that have occurred in the past several years. In a good year, the alcohol tax might not be a consensus first choice for a dedicated funding stream for these services. However, this is not a good year financially for virtually any level of government, and certainly not a good year for individuals financially. However, let us consider the alternative to not maintaining basic services to the mentally ill and developmentally disabled, and the profound, negative impact that insufficient funding has on both the personal lives of Kansans and on the collective society, through additional jail and incarceration costs. If services cannot be restored, we not only jeopardize the health and well-being of individual Kansans in these client groups, but we also risk injury to the general population.

We urge the committee to give thoughtful, positive consideration to HB 2593 and report the bill favorably for passage. Thank you, Mr. Chairman, for the opportunity to testify on this bill. If/when you have questions, I will try to answer them at the appropriate time.

The Kansas Association of Counties, an instrumentality of member counties under K.S.A. 19-2690, provides legislative representation, educational and technical services and a wide range of informational services to its member counties. Inquiries concerning this testimony should be directed to the Randall Allen or Melissa Wangemann at the KAC by calling (785) 272-2585.

300 SW 8th Avenue
3rd Floor
Topeka, KS 66603-3912
785•272•2585
Fax 785•272•3585

House Taxation
Date: 2-26-10
Attachment: 11



February 25, 2010

To: House Taxation Committee

From: Maury L. Thompson, Executive Director
Johnson County Developmental Supports (JCDS)

RE: House Bill 2593 – Alcoholic liquor, cereal malt beverage and malt products gallonage tax rate

Chairman Carlson and members of the Committee, I appreciate the opportunity to speak with you today. Johnson County Developmental Supports, (a community-based developmental disabilities (DD) provider in Johnson County since 1972) in its role as the Community Developmental Disabilities Organization for Johnson County, contracts with a large number of individuals and entities, providing an array of DD services to individuals.

We and our affiliate network of nearly 400 providers serve Kansans with DD across the life-span (birth to death), enabling them to live in **their** community, closer to **their** families. In doing so we fulfill the law of the State – that is we help persons become more **independent**, more **integrated**, more **included** in their communities, and more **productive**.

Unfortunately, the numbers of Kansans we are able to help, and the quality of how we are able to help has all suffered.

Medicaid cuts hit every person with DD served in the State . . . from needed medical assistance for children receiving Tiny-K services, to reduced, or eliminated vendors of durable medical equipment, to staff wage pressures in day and residential services, to access to medical care, (the numbers of physicians accepting Medicaid patients was difficult at best before the cuts), to the elimination of assistance (respite and subsidy – 157 families in Johnson County alone) for families, and the list goes on and on and on . . .

These impacts are hitting every Kansas community – from A to Z, (or Abbyville to Zurich) and everywhere in between, including Johnson County.

- Psychiatric Residential Treatment Facilities (PRTF) – (facilities providing prescribed services to children with DD and Mental Illness in Foster Care) are being cut. Lakemary Center, an affiliate of JCDS, has estimated that the 10% Medicaid rate cut translates to a loss of \$475,000 per year. Kansas children, whose future desperately relies on these essential treatment and therapeutic services, will be devastatingly impacted as these treatment facilities struggle to maintain programs that are no longer fiscally feasible to operate. Last year alone Lakemary Center (one of twelve PRTF's in the State) served 115 children in its PRTF. These are some of our State's most disadvantaged children. Collectively, our inability to continue to

House Taxation
Date: 2-26-10
Attachment: 12

provide essential treatment and therapeutic services to these deserving children will have a dramatic impact on the future of our children, our communities, and our State.

- Infant and Toddler program funding, even WITH a Federal entitlement, is dropping each year in terms of State investment per child. (A program which annually saves special education dollars because of the proven success of early intervention services.)
- Individuals receiving day and residential services are seeing fewer and fewer entities able to afford the losses incurred by Community Service Providers. Providers of day and residential services are truly struggling to exist. With increasing costs and decreasing revenues, providers have simply been cut to the core. Cutting further is no longer an option. Many providers will simply fade away because they are no longer fiscally feasible to operate and will no longer be able to carry-on those vital services.

The DD system has been chronically underfunded for many years and has fallen far behind every economic indicator. Reimbursement rates to providers have increased only 29% since 1993. In that same period of time, inflation increased by more than 52%.

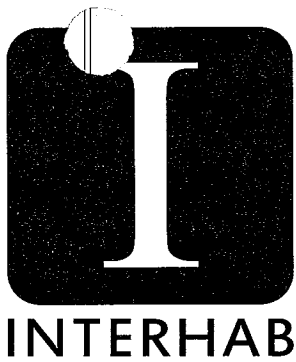
Community provider staff average \$4.00 per hour *less* than the State pays its own provider staff working in one of the State's two DD hospitals. Many community staff works more than one job in order to pay their bills and keep food on the table for their own families.

And, as community provider pay has been neglected, so have the many un-served individuals who are requesting funding for vital supports. You have heard about the DD waiting list for the past few years. The facts are such that in 1996 there was *no* waiting list. Today there are over 4,000 Kansans who are asking the State for help. These individuals are children, teenagers, men and women, the young and the old. All are Kansans in dire need of assistance. In 2009, 50 individuals were taken off the state-wide waiting list. In 2010 not one person was removed from that infamous list.

We all know that the State is in a devastating financial situation. We also know that the State of Kansas has not prioritized the needs of its citizens with developmental disabilities and those organizations that support them. I applaud Legislators who look at these two dire issues as an opportunity to offer constructive solutions for additional revenue. Whether Legislators agree or disagree on the source, something must be done.

Persons served and their families face challenges most of us can't even imagine. These are your neighbors, your constituents. HB 2593 provides you with an opportunity to begin to reverse a lack of administrative and legislative ambivalence toward these essential services. HB 2593 could be part of a comprehensive tax package which would turn us in the right direction. Advocates for those with developmental disabilities ask that the Legislature work on the development of such a process as a means to begin to stop the erosion of community-based DD services.

The DD system has never before asked for an earmarked tax, and we yet today don't suggest that such an earmark has to be a part of the ultimate solution. But, what we do ask is that you commit to not allow DD programs to be left out yet again, yet another year.



INDEPENDENCE
INCLUSION
INNOVATION

February 26, 2010

TO: Representative Richard Carlson and Members

House Committee on Taxation

FR: Tom Laing, Executive Director

InterHab: The Resource Network for Kansans with Disabilities

RE: Testimony in support of House Bill 2593: regarding the rate of taxation for Alcoholic liquor, cereal malt beverage and malt products; and regarding the distribution of the proceeds.

Thank you, Representative Carlson and members of the Committee for scheduling this hearing on HB 2593, a proposal our organization supports regarding alcohol taxes, and the proposed distribution of new tax proceeds into community service programs for persons with mental health issues and developmental disabilities.

Thanks to those who have identified this funding priority: We appreciate the sponsors of this measure. We believe they have heard the voices of Kansas families, as you have, who confront the issues of developmental disabilities, and have determined that these issues must be addressed this year.

We know this is just a beginning step to revenue decision-making: We know many votes will be cast before the issues are finalized; however, we hope in your conversations on this bill you will better appreciate that if we intend to have programs for the betterment of our state, there must be the will to enact revenue increases when needed.

Our goal is not to say this specific proposal must be a part of a final proposal, but to urge you to give heed to its sponsors and to those of your citizens who believe that investments such as those in the bill are justifiable, necessary and will be proudly supported across the State.

There is broad popular support for ours and many programs, and voters recognize that it takes money to pay the bills for such programs.

An incredible program success story is at stake: In the last 25 years, Kansas has moved its developmental disability programs from an institutional-model to a community-model, and these are the benefits:

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- **Families** which a generation ago would have been forced apart in order to secure services for their family member in a State institution **are now supported in their efforts to stay together** thanks to State policies that favor home and community based services.
- **Persons with disabilities** who were once virtual prisoners in institutions because there was no place else to go are today working at steady jobs and **have become taxpayers themselves.**
- **Dollars** from across the State which were **once spent in and around the 4 counties where institutions were sited are now invested in all 105 counties**, a decentralization of tax dollars for which past Governors and Legislators have never gotten sufficient credit.
- In addition to **tens of thousands of personal success stories** of persons who finally got a chance to be citizens of their communities, there are **many tens of millions of dollars saved** for the State by community programs which have partnered with the State to make this possible.
- And finally, don't forget, the **Federal government pays 60-70% of every dollar spent.**

There are few programs that have done so much good, and brought in so much assistance from outside the State in the process. That's what's at stake, and that's what we, and the sponsors of this bill, and your neighbors around the State are fighting to protect. The system is faltering for a lack of stewardship and this proposal is one means by which to address the situation.

In addition to this legislation, we will continue to support and ask you to support tax policies which will help all programs: As you consider this bill do not consider it in isolation from other programs.

- From the age of infancy to adulthood, Kansans with disabilities cannot succeed if public schools falter.
- Into adulthood, persons with disabilities who rely on public health services will suffer if Medicaid medical care falters.
- For many persons we serve, along with others who may be vulnerable, public safety must not be sacrificed to the false notion that every corner cut is a wise move in budgeting.

In closing: We applaud the sponsors for doing the thing that has been lacking the past few years.

They have identified a growing budget challenge, and they have proposed a remedy. Whatever legislation passes, we are assured by this hearing that this committee and our legislature will be better informed and equipped to make the right decisions for our State in the coming weeks.

Thank you for your thoughtful consideration of this proposal.

KANSAS MENTAL HEALTH COALITION

An Organization Dedicated to Improving the Lives of Kansans with Mental Illnesses

Testimony presented to the House Social Services Budget Committee

by Roy Menninger, MD – February 26, 2010

Thank you for the opportunity to address your committee today on behalf of the Kansas Mental Health Coalition.

HB 2593 attempts to provide some relief to the cuts suffered to Kansas social services in the past three years. Specifically, the bill provides a supplemental fund to support community mental health treatment and community services to the developmentally disabled.

Mental health funding has been cut multiple ways in FY09 and FY10. The KHPA budget cut Medicaid reimbursement and MediKan populations for savings. The SRS budget cut grants to community mental health centers and disability waivers, MediKan mental health treatment, and General Assistance - and most recently lost crucial funding for needed mental health hospital staffing and capacity investment. Further losses have been sustained in the state budget for substance abuse treatment and services to foster care children. The drastic cuts to Corrections and JJA have seriously impacted their ability to provide mental health services.

One of the greatest strengths of the Kansas mental health system is its diverse funding resources. However, it is a disadvantage when across the board cuts are utilized.

FUNDING CUTS SPECIFIC TO MENTAL HEALTH:

1. \$20 million CMHC grants since FY 2008 – a 65 percent reduction.
2. \$4.7 million quarterly (all funds) or \$19 million annually as the 10 percent Medicaid cut.
3. \$3.1 million in MediKan funding in FY 2010 – a 45 percent reduction.
4. \$560,000 SGF in Community Support Medication Program funding – a 53 percent reduction
5. \$1.7 m to State Mental Health Hospitals in the last round of Rescission reductions.

We are extremely concerned that cuts to the CMHC grants have resulted in SRS reducing the expectation for the Centers to treat all Kansans who have a need for mental health treatment. The 2009 CMHC contract negotiations resulted in a dilution of the public mental health mandate to serve all Kansas citizens by prioritizing access to treatment by diagnosis, level of crisis and ability to pay. This triage system may require individuals with no private payor source to decompensate until their illness reaches a crisis stage in order to access the full array of services they truly need.

The Association of Community Mental Health Centers will explain the impacts of the cuts on the services that they provide. I would like to provide some information about the dire situation faced by our hospitals.

State Mental Health Hospitals are in crisis:

- According to SRS, Osawatomie and Larned continue to exceed their budgeted bed capacity regularly. The percentage of time-over-census has increased at Osawatomie to approximately 23% in FY 2009 and FY 2010 to date. Larned State Hospital saw dramatic increases to 85% in FY 2010 to date. It is a chronic problem that will continue as long as funding for staff remains at marginally adequate levels.
- Although the new 30-bed unit at OSH has been constructed, funds requested by SRS and granted by the Legislature in 2008 to open and staff the new unit for six months beginning in January 2009 were cut. SRS predicts they will exceed all physical capacity at LSH by 2012.

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- Staffing needs at all 3 hospitals now are critical and at great risk of impacting the quality of treatment. They are only marginally adequate, having been severely weakened by the cost-saving strategy of “artificial shrinkage” as the only way hospitals can cover their ‘other operating expenditures’ (OOE) of drugs, utilities and food when those expenses exceed their allocated budget.

Osawatomie SH has around 55 unfilled positions of a total of 441. Rainbow had 15 of 122 positions unfilled. These numbers represent a dramatic increase over those of 2008, when Osawatomie had only 20-25 positions open, and Rainbow 8-10. Absent requisite funding in the face of continued cuts in funding for basic expenses, further staff cuts to provide necessary funds will unquestionably negatively impact the quality of treatment.

Insufficient staff, especially of skilled, well-trained professionals, will bring several undesirable consequences. Hospital stays will likely become shorter, producing an increased risk of premature discharges, problematic challenges for community treatment services, and subsequent recidivism. Without adequate staff, a diminished active daily treatment programs will seriously penalize patients with no other treatment alternatives.

There are some patients for whom longer-term hospitalization is the only answer: those whose disturbances are too severe or violent or disruptive to be treated in the community; those with intractable disorders who need a therapeutic environment for an extended time, for whom short-term “stabilization” is useless; those with disorders requiring specialized services not available in the community. A well-staffed hospital capable of providing these tertiary services is essential if these vitally needed services are to be available to Kansas citizens.

- Private psychiatric hospital units have reduced from 30 to 13 statewide – because the reimbursement for serving psychiatric patients beyond 2-3 days does not cover the cost of treatment.

Shortages at our State Mental Health Hospitals create a greater burden on our community based treatment programs. Underfunded community services result in greater burdens in other areas such as the state hospitals, Corrections and JJA.

The Kansas Mental Health Coalition recognizes that the bill before you will not repair the extensive funding shortages faced by the Kansas mental health system overall.

However, we are extremely appreciative of the effort put forth by Rep. Colloton and Rep. Wolf to attempt to mend some of the damage to community treatment. We recognize it is a difficult time to consider increasing taxes on businesses and individuals.

The work of this committee in reviewing revenue options and creating an overall revenue policy that works for all of us is greatly appreciated. Please do not hesitate to contact our Coalition if we can provide more information on this or other topics of interest.

For More Information, Contact:

Kansas Mental Health Coalition

c/o Roy W. Menninger MD, Chair
85 SW Pepper Tree Lane, Topeka, KS 66611-2072
785-266-6100, fx: 785-266-9004, roymenn@cjnetworks.com

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

February 26, 2010

To: House 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 the 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 or supplementing health services would be unfair and arbitrary. Whatever the merits of the particular outlays to be financed, it is clear that all Kansans have

a stake in them, not just individuals who consume certain products. There is no justification for making one group of taxpayers finance government activities which affect everyone. Earmarking taxes is bad public policy.

When the Kansas Legislature last raised the gallonage tax from \$1.50 to \$2.50 per gallon, unfortunately the legislature also elected to "ear-mark" a portion of the tax. Any student of good government knows that "tagged" funds to government agencies can result in inefficiencies. No additional revenues should be "earmarked". It would be far more advisable to place that money in the state general fund for distribution in accordance with legislatively determined priorities. The industry bears an exorbitant tax burden. The theory of diminishing returns threatens the industry. As Chief Justice John Marshall pointed out, "The power to tax is the power to destroy."

"Earmarking various taxes that have no direct relationship to those who pay the tax and those who spend those tax dollars jeopardizes the integrity of the state's finances. Either the tax will produce more than the programs need or, as has been the case, it will not produce what is truly needed to fund the program. And raising the tax so high that it discourages the consumption and, therefore, the payment of the tax may not be very smart either." *Lowell L. Kalapa is the president of the Tax Foundation of Hawaii*

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)." That was the experience when last there was an increase in the federal excise tax.

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.

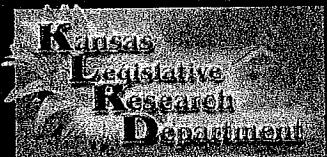
Based on the enforcement tax collections in January 2010 (for December 2009 sales) 38.5 percent of retail sales of beverage alcohol occur within 50 miles of the Missouri border. We know that when Illinois recently increased its beverage alcohol taxes, tax collections in Missouri increased.



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 |
| <u>10% DRINK TAX</u> | | |
| 33 drinks/liter, average drink \$4.00 = \$132.00 x .10 | = | <u>13.20</u> |
| TOTAL TAXES..... | | \$17.75 |

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 targeted taxes. . Thank you for your attention to and consideration of these matters.



Taxation

W-2

Liquor Taxes

Other Taxation reports available

W-1

Homestead Program

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

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 manufacturers, 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.

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% |

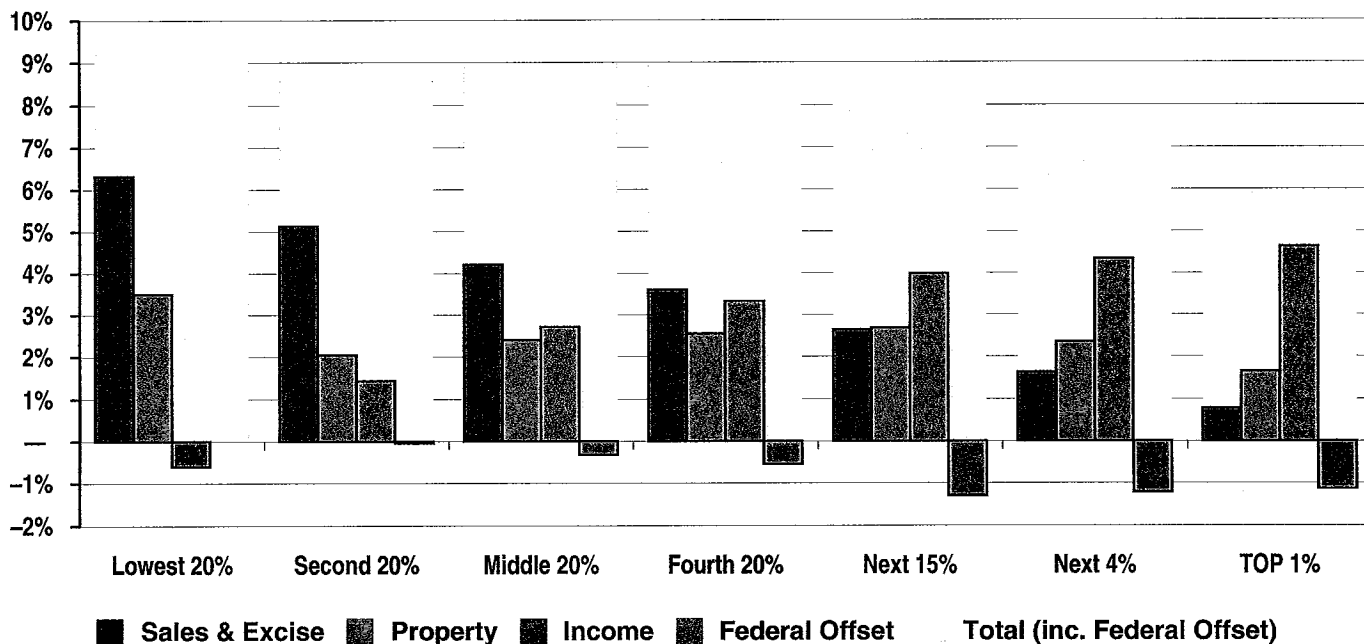
*** Liquor drink tax revenues in FY 2009 were about \$36.5 million, of which \$9.1 million were deposited in the SGF.

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

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.

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: HB 2593
House Taxation Committee
Presented by Ronald R. Hein
on behalf of
Kansas Restaurant and Hospitality Association
February 26, 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 HB 2593 that doubles the gallonage tax on all of the types of liquor and wine.

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.

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 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

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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) This tax revenue is being earmarked for specific government uses. We certainly do not express any concern with moneys being used for developmentally disabled programs nor for mental health programs, and, in fact, we are sure that such programs are badly in need of additional funding. However, in general, the KRHA opposes earmarking of funds as set out in HB 2593 or any other bill, which trumps the legislature's appropriations authority to determine how best to allocate state general fund resources amongst competing agencies and/or programs. If the public generally supports higher taxes to pay for increased governmental services or to make up for decreased revenues during economic downturns, then the general public would certainly support increases in general taxes, rather than attempting to impose taxes on selected individuals, selected businesses, or those who consume specific products.

4) Of additional 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, inappropriately earmarked, 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.



TESTIMONY

**TO: The Honorable Richard Carlson, Chair
And Members of the House Taxation Committee**

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

**RE: HB 2593 - Alcoholic liquor, cereal malt beverage and malt products
gallorage tax rate increase to fund developmental disability
supplemental programs and community mental health centers
supplemental programs.**

DATE: February 26, 2010

Good morning Chairman Carlson and Members of the House Taxation Committee. 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 HB 2593 that proposes to double the taxes on alcoholic liquor and CMB products with proceeds earmarked for developmental disability and community mental health center programs.

First of all, let me say that DISCUS is not here today commenting on the validity of the services and programs provided by those who provide services to the developmentally disabled and recipients of health care from community mental health centers in Kansas nor their need for appropriate funding. Certainly we can all have empathy for the challenges these organizations are facing during difficult financial times for the state. However, we are opposed to an effort to earmark liquor and CMB taxes to a specific recipient and furthermore, we expressly oppose an effort to double the taxes on the liquor and CMB products irrespective of whether proceeds are earmarked for a specific state expenditure.

Included with my testimony is an impact document specific to Kansas that has been prepared by DISCUS that analyzes the impact HB 2593 would have on our state if enacted into law.

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 (gallorage, 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 gallonage 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 HB 2593.

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



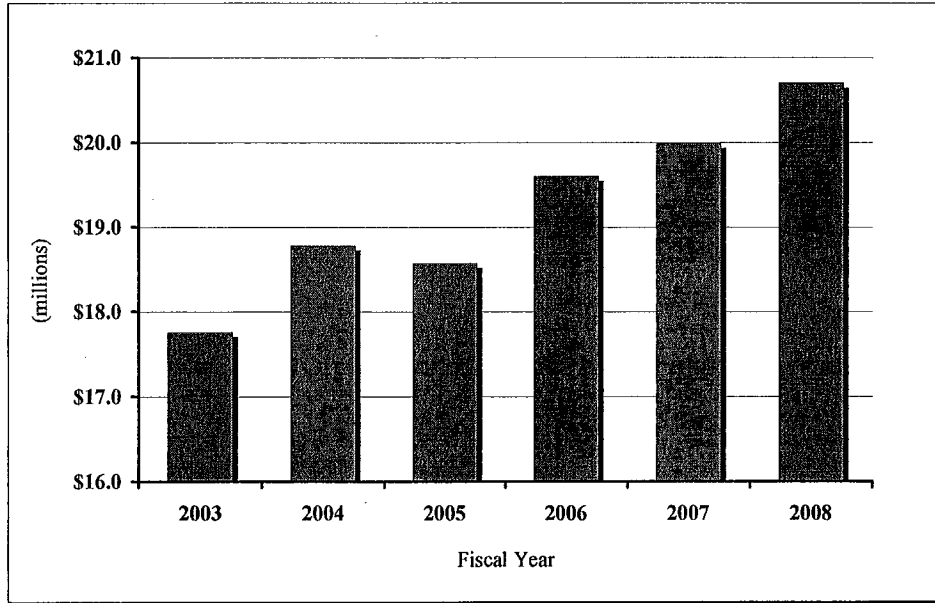
DEPARTMENT OF REVENUE ANNUAL STATISTICAL REPORT

FISCAL YEAR ENDING
JUNE 30, 2008

Gallonge Tax Receipts by Components and Fiscal Year

Gross Gallonge 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% |

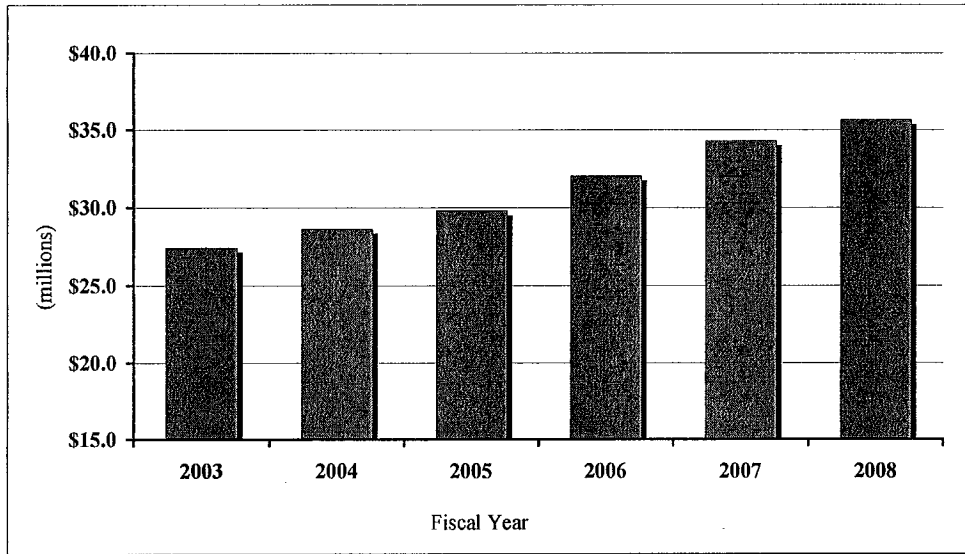


Total Gallonge Tax by Fiscal Year

| 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

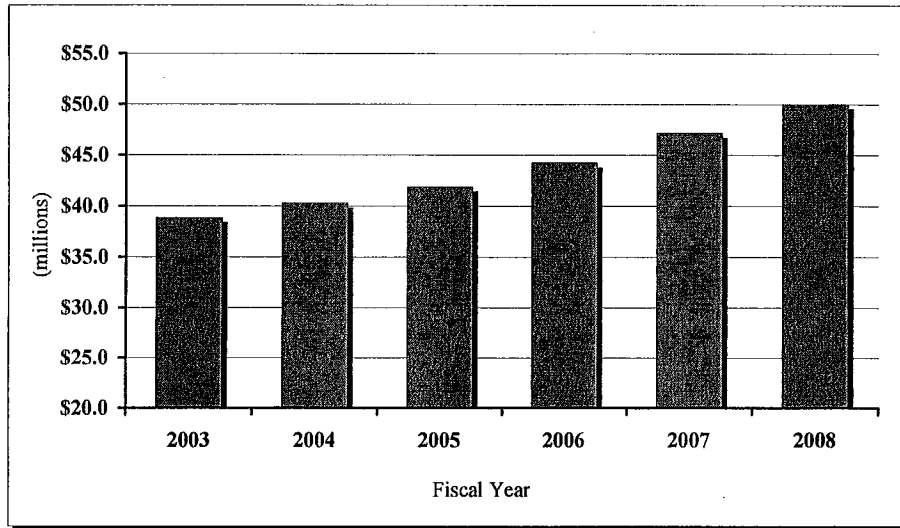
The liquor excise tax is a 10% retail tax on gross receipts from the sale of liquor on-premises at private clubs, drinking establishments open to the public and caterers. It is imposed on all alcoholic beverages, including cereal malt. Seventy percent of the collection is returned to the locality from 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 |

House Taxation Committee
Testimony to oppose HB 2593

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 HB 2593. 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

House Taxation
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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 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

KANSAS ASSOCIATION OF BEVERAGE RETAILERS

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

February 26, 2010

House Taxation Committee
Kansas Legislature

Chairman Carlson and Committee:

My name is Jennifer Vogel, my husband and I have liquor stores in Kansas City Kansas. We are third generation owners.

We bought the family store in September 2000 and a second store in June of 2005. These were major purchases for us and we won't have them paid off until 2015. We are the owners of our stores, and we operate our stores daily.

The goal of HB 2593 – to raise funds for services to disabled Kansans – is positive. However, there are complications to increasing gallonage taxes paid on beer, wine and spirits that will have serious negative implications on our family owned businesses.

First – our stores must compete directly with Missouri. Kansas businesses already face a serious disadvantage in this arena. While the current gallonage tax on beer is 18 cents a gallon in Kansas, it is 6 cents per gallon in Missouri. While the current gallonage tax on spirits is \$2.50 per gallon in Kansas, it is \$2.00 per gallon in Missouri.

The cost difference across the state line is significant. The following chart shows ADVERTISED RETAIL PRICE in Missouri vs. MY WHOLESALE COST on the same items

| <u>BRAND</u> | <u>SIZE</u> | <u>MO RETAIL PRICE</u> | <u>KANSAS WHOLESALE COST</u> |
|------------------|-------------|--------------------------------|--------------------------------------|
| BUDWEISER | 20PK | \$12.99 | \$13.80 |
| SEAGRAMS 7 CROWN | 1.75L | \$15.99 | \$17.93 |
| ROSEMOUNT WINES | 750ML | \$5.99 | \$6.41 |
| MCCORMICK VODKA | 1.75L | \$10.99 | \$11.73 |
| CANADIAN MIST | 1.75L | \$16.99 | \$17.12 |

Second – New Section 2 establishes a floor tax to be paid by retail liquor stores on their inventory in stock July 1, 2010, to collect the difference between the current tax and the increased tax rate.

House Taxation
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Our Association has asked a regional sampling of retail liquor stores to calculate the tax that would be owed on their current inventories. See table below:

| <u>STORE LOCATION</u> | | <u>AMOUNT DUE ON CURRENT INVENTORY</u> |
|-----------------------|--------|--|
| MANHATTAN | EST | \$ 7900.00 |
| WICHITA | ACTUAL | \$ 5725.50 |
| WICHITA | ACTUAL | \$ 4147.77 |
| LAWRENCE | ACTUAL | \$ 3448.50 |
| SATANTA | ACTUAL | \$ 1500.50 |
| KANSAS CITY | EST | \$ 8500.00 to \$ 10440.00 |

Please note that the last estimate is based on a calculation comparing my current inventory vs. actual inventory calculated at another business. It would take 60 hours to develop this actual calculation on my inventory. How can the Legislature ask my business to come up with \$10000 by July 25?

By the way – the above calculations are based on February inventories – which are much smaller than July inventories. So, you can assume those numbers will be higher.

Additionally, there are multiple taxes to be paid on liquor, wine and beer. While my customers must pay an 8 % liquor store tax on all of their purchases from me – Missouri stores only collect 4.225%

Please consider the incredible burden that would be placed on my business by this bill. Please consider the motivation that you are giving Kansas customers to take more and more of their buying power to Missouri.

Kansas retail liquor stores are Kansas owned businesses and proud of it. We sympathize with the need to examine the tax structure and review various revenue sources. However, we simply cannot support this bill.

In this economy, of ALL economies, self-inflicting more harm to Kansas businesses is not wise.

Thank you for your time.

Jennifer Vogel, 1717 N 38th St., Kansas City, KS 66102 913-371-7372



*Kansas
Licensed
Beverage
Association*

Testimony on HB-2593
February 26, 2010

House Tax Committee

Mr. Chairman, and members 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. (KVFWA) and the Craft Brewers Guild of KS (CBGK) in combined testimony.

We all ask and urge you to oppose HB 2593!

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

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

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.

Philip Bradley
CEO

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



House Taxation
Date: 2-26-10
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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

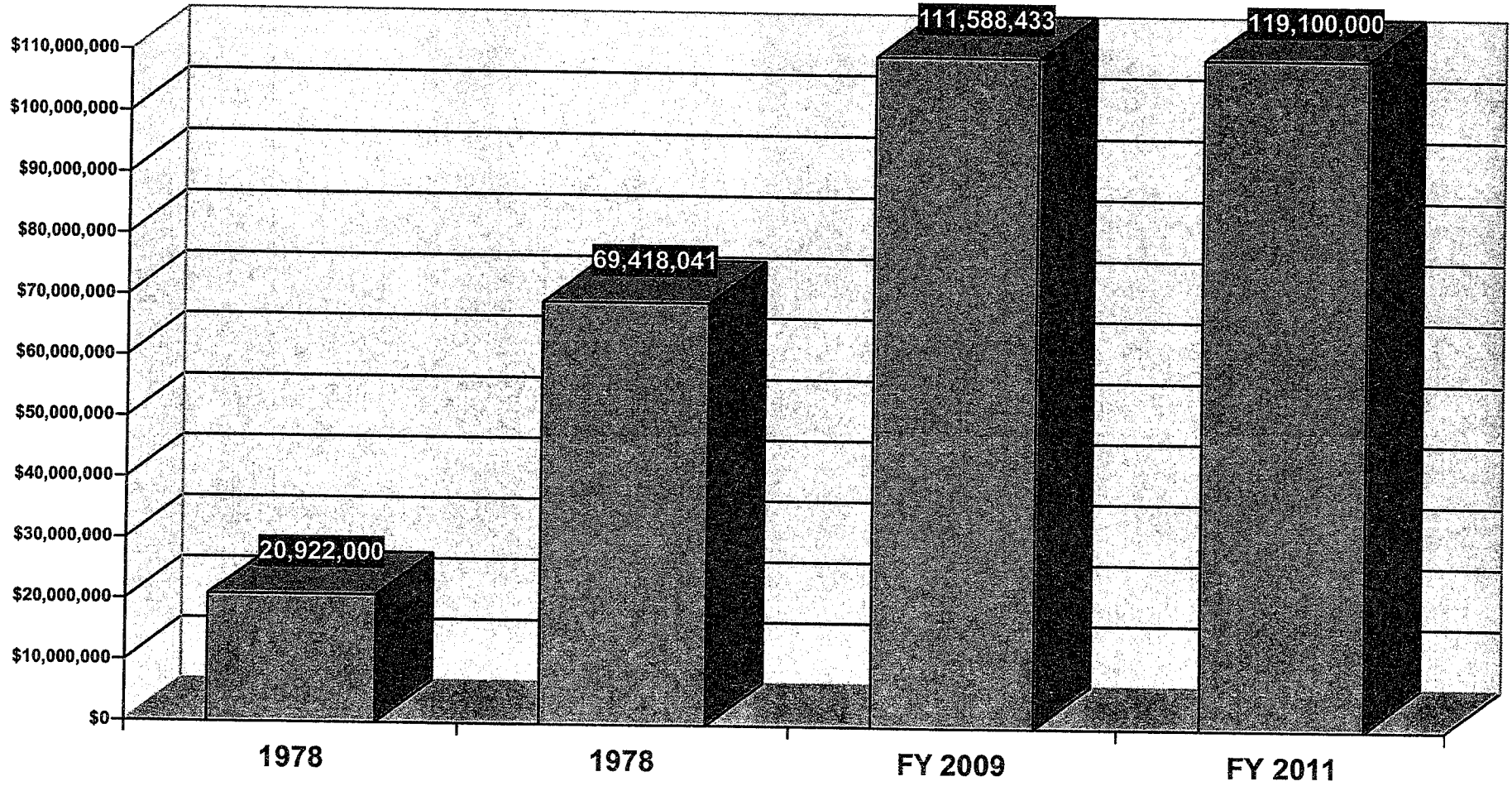
PBB@SUNFLOWER.COM

Kansas Department of Revenue
Office of Policy and Research
Liquor Tax Receipts (Net of Refunds)
Fiscal Year 2009

| | Liquor Excise | Liquor Enforcement | Total Gallonage | Gallonage Beer | Gallonage Wine | Gallonage Alcohol & Spirits | Gallonage Cereal Malt Beverage |
|---------|------------------|-----------------------|--------------------|-------------------|-------------------|--------------------------------|-----------------------------------|
| Jul-08 | \$ 3,164,745 | \$ 3,478,069 | \$ 1,817,286 | \$ 808,665 | \$ 77,882 | \$ 733,179 | \$ 197,559 |
| Aug-08 | \$ 3,046,224 | \$ 5,662,113 | \$ 1,775,791 | \$ 824,500 | \$ 80,940 | \$ 670,478 | \$ 199,873 |
| Sep-08 | \$ 2,769,723 | \$ 4,234,546 | \$ 1,863,804 | \$ 766,191 | \$ 181,136 | \$ 745,887 | \$ 170,590 |
| Oct-08 | \$ 2,753,237 | \$ 4,100,539 | \$ 1,735,574 | \$ 859,090 | \$ 15,652 | \$ 672,304 | \$ 188,528 |
| Nov-08 | \$ 2,640,231 | \$ 3,529,147 | \$ 1,888,106 | \$ 661,229 | \$ 109,144 | \$ 953,413 | \$ 164,320 |
| Dec-08 | \$ 3,883,361 | \$ 5,884,262 | \$ 1,808,927 | \$ 663,096 | \$ 122,488 | \$ 873,023 | \$ 150,320 |
| Jan-09 | \$ 3,355,788 | \$ 5,645,558 | \$ 1,716,506 | \$ 619,733 | \$ 100,168 | \$ 837,483 | \$ 159,122 |
| Feb-09 | \$ 2,567,728 | \$ 3,418,303 | \$ 1,290,949 | \$ 609,989 | \$ 65,585 | \$ 484,237 | \$ 131,139 |
| Mar-09 | \$ 3,367,520 | \$ 4,424,770 | \$ 1,792,072 | \$ 680,185 | \$ 92,284 | \$ 860,011 | \$ 159,591 |
| Apr-09 | \$ 2,978,432 | \$ 3,955,856 | \$ 1,786,548 | \$ 742,932 | \$ 81,489 | \$ 754,069 | \$ 208,058 |
| May-09 | \$ 3,004,694 | \$ 4,490,690 | \$ 1,778,082 | \$ 753,176 | \$ 89,185 | \$ 746,736 | \$ 188,985 |
| Jun-09 | \$ 3,033,964 | \$ 4,970,196 | \$ 1,975,095 | \$ 785,605 | \$ 92,584 | \$ 926,485 | \$ 170,422 |
| FY 2009 | \$ 36,565,645 | \$ 53,794,049 | \$ 21,228,739 | \$ 8,774,390 | \$ 1,108,536 | \$ 9,257,305 | \$ 2,088,507 |

| | Liquor Excise | Liquor Enforcement | Total Gallonage | Gallonage Beer | Gallonage Wine | Gallonage Alcohol & Spirits | Gallonage Cereal Malt Beverage |
|---------|------------------|-----------------------|--------------------|-------------------|-------------------|--------------------------------|-----------------------------------|
| Jul-09 | \$ 2,982,478.20 | \$ 4,798,206.55 | \$ 2,018,742.28 | \$ 860,876.61 | \$ 103,738.37 | \$ 842,168.28 | \$ 211,959.02 |
| Aug-09 | \$ 2,941,784.42 | \$ 4,775,073.48 | \$ 1,717,903.55 | \$ 810,211.61 | \$ 75,191.07 | \$ 647,069.70 | \$ 185,431.17 |
| Sep-09 | \$ 2,554,320.63 | \$ 4,052,499.90 | \$ 1,682,656.30 | \$ 814,595.94 | \$ 95,950.66 | \$ 587,982.22 | \$ 184,127.48 |
| Oct-09 | \$ 3,106,262.53 | \$ 5,026,233.53 | \$ 1,786,740.31 | \$ 723,352.65 | \$ 78,038.46 | \$ 826,261.42 | \$ 159,087.78 |
| Nov-09 | \$ 2,083,162.64 | \$ 2,441,095.31 | \$ 1,799,620.08 | \$ 657,251.03 | \$ 129,887.71 | \$ 861,540.91 | \$ 150,940.43 |
| Dec-09 | \$ 3,807,643.78 | \$ 6,581,974.04 | \$ 1,729,344.89 | \$ 625,566.03 | \$ 107,147.18 | \$ 845,370.25 | \$ 151,201.43 |
| Jan-10 | | | \$ - | | | | |
| Feb-10 | | | \$ - | | | | |
| Mar-10 | | | \$ - | | | | |
| Apr-10 | | | \$ - | | | | |
| May-10 | | | \$ - | | | | |
| Jun-10 | | | \$ - | | | | |
| FY 2010 | \$ 17,475,652.20 | \$ 27,675,082.81 | \$ 10,735,007.41 | \$ 4,491,853.87 | \$ 589,953.45 | \$ 4,610,392.78 | \$ 1,042,000.00 |

Have Liquor Taxes Kept Up?



All Liquor Taxes

Adjusted for Inflation through 2009

\$83,239,000 to SGF

Consensus Estimate
November 12, 2009
(\$90,000,000 to SGF)



Testimony on HB 2593

February 26, 2010

The Honorable Representative Richard Carlson
State Capitol
300 SW 10th Avenue, Room 274-W
Topeka, KS 66612-1504

Dear Chairman Carlson and Members of the House Taxation Committee:

Thank you for the opportunity to provide testimony regarding HB 2593. This testimony is submitted on behalf of the Kansas Leadership to Keep Children Alcohol Free, a statewide committee coordinated by the Kansas Family Partnership, a statewide drug prevention organization. This Committee recently developed a white paper entitled, "State of the State Regarding Underage Drinking in Kansas" that was distributed to all legislators last week. Our primary focus is to reduce underage drinking in Kansas and as a result prevent the associated harms and reduce costs to families and to the state of Kansas.

Here are our findings related to alcohol taxes and our recommendations, all of which are based on national research.

- **Underage drinking costs the state of Kansas \$727.3 million dollars** when the costs of youth violence, traffic crashes, high-risk sex, property crime, injury, alcohol treatment, fetal alcohol among mothers age 15-20 and poisonings and psychoses.
- **Kansas spends only .27 percent of its budget on substance abuse and addiction prevention, treatment and research** – but **spends \$17.4%** of its total state budget **on the burdens** of substance abuse and addiction.
- Raising alcohol taxes will reduce underage consumption and should result in **increased revenues for prevention of underage drinking and treatment.** (National Academy of Sciences Institute of Medicine)
- Kansas has not raised the beer excise tax since 1977 and it has lost 72% of its value since that time.

House Taxation

Date: 2-26-10

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Page 2 - Testimony from Kansas Leadership to Keep Children Alcohol Free Committee on HB 2593

- Kansas falls behind other states in the amount it levies on alcohol.

| Excise taxes | Beer | Wine | Spirits |
|------------------|--------------|--------------|---------------|
| National Average | \$.28/gallon | \$.80/gallon | \$6.72/gallon |
| Kansas | \$.18/gallon | \$.30/gallon | \$2.50/gallon |

- Another method of calculating an increase in alcohol taxes is through a per drink tax. **By increasing the per drink excise tax just \$0.10 an estimated revenue of \$97,381,400 could be generated.**

It has been over thirty years since the beer excise tax has been changed. Raising alcohol taxes is an option that is well-justified and is good for public health. We urge the committee to consider that every dollar spent on substance abuse prevention can save the state between \$2.00 and \$20.00.

The Kansas Leadership to Keep Children Alcohol Free Committee thanks the committee for this opportunity and encourages members to fully review our State of the State White Paper on Underage Drinking at <http://www.kansasfamily.com/getinvolved-ksleadership.cfm#SOS>.

Sincerely,



Michelle Voth
Co-Chair
Kansas Leadership to Keep Children Alcohol Free



Mark Parkinson, Governor
Roderick L. Bremby, Secretary

DEPARTMENT OF HEALTH
AND ENVIRONMENT

www.kdheks.gov

**Written Testimony on HB 2593
Alcoholic liquor, cereal malt beverage and malt product gallonage tax**

**Presented to
House Taxation Committee**

**By
Dr. Jason Eberhart-Phillips
State Health Officer and Director Division of Health,
Kansas Department of Health and Environment**

February 26, 2010

Chairman Carlson and members of the committee, I am Dr. Jason Eberhart-Phillips, State Health Officer and Director of Health for the Kansas Department of Health and Environment. Thank you for the opportunity to present written testimony on House Bill 2593 because the increased taxes on various alcoholic products proposed in this legislation would have public health impacts for Kansas.

In 2009, over 38% of Kansas high school students reported consuming alcohol, and 25% reported riding in a car with someone who had been drinking.¹ Data indicate 14% of adults in Kansas are considered binge drinkers² (males having five or more drinks on one occasion or women having four or more drinks on one occasion in the past 30 days), and one in four Kansas high school students fit the definition of a binge drinker³ (five or more drinks of alcohol in a row). Research indicates that binge drinking during the senior year of high school reduces the probability of receiving a high school diploma, and it increases the probability of an individual obtaining a General Education Development (GED) degree instead, at a later time in life.⁴

Heavy drinking over a prolonged period of time is the major cause of deaths due to chronic liver disease and cirrhosis. Data used in the Kansas Substance Abuse Epidemiological Indicators Profile report indicate slight increases in death rates for chronic liver disease over the past five years in our state.⁵

Alcohol is also a major cause of injury in Kansas. According to the Kansas Department of Transportation there were over 3,300 alcohol-related crashes in 2008. This equates to one crash every 2.61 hours. Sadly, 131 Kansans lost their lives to an alcohol-related death in 2008.⁶

DIRECTOR OF HEALTH'S OFFICE
CURTIS STATE OFFICE BUILDING, 1000 SW JACKSON ST., STE. 300, TOPEKA, KS 66612-1368

Voice 785-296-1086 Fax 785-296-1562

House Taxation

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According to the Centers for Disease Control and Prevention (CDC), higher alcohol prices or taxes are consistently related to fewer motor vehicle crashes and fatalities, less alcohol-impaired driving, lower mortality from liver cirrhosis and reduced all-cause mortality in the population. Similar effects have been demonstrated for measures of violence, sexually transmitted diseases, and alcohol dependence.⁷ Studies have consistently shown that harmful drinking generally begins during adolescence and often persists into adulthood.⁸ Preventing early initiation of alcohol use by Kansas youth is a key factor in improving all sorts of risks associated with this substance.

Raising excise tax rates, and thereby hiking prices, is a strategy that has strong and well-documented prevention effects on underage drinking. Research indicates that beer prices inversely correlate with youths' decision to drink heavily.⁹ Frequency and quantity of underage alcohol consumption is inversely correlated with the price of alcohol.¹⁰ Other studies indicate that higher taxes increase the probability of attending and graduating from a four-year college or university. According to a study published in the *Journal of Health Economics*, raising the state beer tax from \$0.10 to \$1.00 per case would increase the probability of graduating college by 5.3%.¹¹ The CDC found that a beer-tax increase of 20 cents per six-pack would reduce gonorrhea rates by 8.9% and syphilis rates by 32.7%.¹²

In sum, increasing the tax on alcoholic beverages provides Kansas an opportunity to improve multiple health outcomes associated with alcohol consumption. Thank you for the opportunity to submit this written testimony on this bill.

¹ 2009 Kansas Youth Risk Behavior Survey Grades 9-12, Kansas State Department of Education

² 2008 Kansas Behavior Risk Factor Surveillance System, Kansas Department of Health and Environment

³ 2009 Kansas Youth Risk Behavior Survey Grades 9-12, Kansas State Department of Education

⁴ Renna, Francesco. *Teens' alcohol consumption and schooling*. *Economics of Education Review*. Vol 27, Issue 1, February 2008, Pages 69-78

⁵ 2006 Kansas Substance Abuse Epidemiological Indicators Profile

⁶ 2008 Kansas Department of Transportation

⁷ Guide to Community Preventive Services. Preventing excessive alcohol use: increasing alcohol taxes.

www.thecommunityguide.org/alcohol/increasingtaxes.html

⁸ Hollingworth W, Ebel BE, McCarty CA, Garrison MM, Christakis DA, Rivara FP. Harborview Injury Prevention and Research Center, Seattle, Washington

⁹ Cook, P.J. & Moore, M.J. (2002). The economics of alcohol abuse and alcohol-control policies. *Health Affairs*. 21(2):120-133.

¹⁰ Grossman, M., Chaloupka, F.J., Saffer, H. & Laixuthai, A. (1994). Effects of alcohol price policy on youth: A summary of economic research. *Journal of Research on Adolescence*. 4(2):347-364. Cook, P.J. & Moore, M.J. (1993). Drinking and schooling. *Journal of Health Economics*. 12:411-429

¹¹ Cook, P.J. & Moore, M.J. (2002). The economics of alcohol abuse and alcohol-control policies. *Health Affairs*. 21(2):120-133.

¹² Chesson, H., Harrison, P. & Kassler, W.J. (2000). Sex under the influence: The effect of alcohol policy on sexually transmitted disease rates in the United States. *Journal of Law and Economics*. XLIII:215-238



AMERICANS FOR PROSPERITY

K A N S A S

February 25, 2010

House Bill 2593
House Taxation Committee

Mr. Chairman and members of the committee,

I am proudly before you today, representing the nearly 40,000 members of Americans for Prosperity-Kansas.

AFP opposes HB 2593, which would raise the state gallonage tax on alcoholic liquor, cereal malt beverage and malt products. If enacted, this tax increase would double the current tax rates and would place Kansas retailers at an even larger competitive disadvantage to their counterparts in neighboring states.

Kansas' tax environment is already uncompetitive, and AFP supports efforts to lessen the tax burden on Kansas businesses. It can be argued that Kansas families and businesses are already overtaxed and that the state receives plenty of tax revenue. When looking at the time frame beginning in 2001 and ending in 2008, individual tax receipts increased by 47 percent with individual income tax receipts increasing by 46 percent. During that same time period, business tax receipts increased by 83 percent with the corporate income tax realizing an increase of 104 percent.

The following chart indicates Kansas' tax rates compared to our neighboring states:

| | Top tax rate for individual with \$50,000 taxable income | Tax burden for individual with \$50,000 taxable income | Top Corporate Income Tax Rate | Sales Tax Rate | Gas Tax | Per Capita Property Tax Collections (2005) |
|-----------------|--|--|-------------------------------|----------------|---------|--|
| Colorado | 4.63% | \$2,315 | 4.63% | 2.90% | \$0.22 | \$1,057 |
| Kansas | 6.45% | \$2,753 | 7.05% | 5.30% | \$0.24 | \$1,127 |
| Missouri | 6.00% | \$2,740 | 6.25% | 4.23% | \$0.18 | \$811 |
| Nebraska | 6.84% | \$2,660 | 7.81% | 5.50% | \$0.26 | \$1,198 |
| Oklahoma | 5.65% | \$2,508 | 6.00% | 4.50% | \$0.17 | \$486 |
| | | | | | | |
| | | | | | | |

With 33 percent of the Kansas population residing in a county bordering Missouri, we must take into account the effect legislation like this would have on our retailers. Considering Kansas retailers already face a competitive disadvantage when looking at sales tax, tobacco tax, and gas tax, the last thing this Legislature should do is increase the gallonage tax on liquor.

How many times does the economic truism of “the more you tax something, the less of it you’ll get” need to be proven before we learn this simple economics lesson.

Increasing this tax or any other tax would only exacerbate the problem.

Derrick Sontag
State Director
Americans For Prosperity-Kansas

Written Testimony before the House Taxation Committee
HB 2593 – Liquor Gallonage Tax Increase
Submitted by J. Kent Eckles, Vice President of Government Affairs



Friday, February 26th, 2010

The Kansas Chamber of Commerce appreciates the opportunity to present testimony in opposition to HB 2593, 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 (HB 2475) 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 HB 2593.

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.



835 SW Topeka Blvd. Topeka, KS 66612 785.357.6321

House Taxation
Date: 2-26-10
Attachment: 24



Eagle Beverage
Frontenac, KS

February 24, 2010

Representative Julie Menghini
Kansas House of Representatives

RE: Liquor Taxes

Dear Representative Menghini:

The current Kansas gallonage tax on beer is \$.18 per gallon which is 225% of that in Colorado (at \$.08/gallon) and **300%** of that in Missouri (at \$.06/gallon). A doubling of the gallonage tax, as proposed, would put Kansas at 600% greater than Missouri!

In addition, Kansas is alone to the extent it stacks other taxes on top of this gallonage tax. The gallonage tax is already part of the price of the product when it arrives at a liquor store. After their markup, Kansas then collects an 8% enforcement tax. If sold to a club or drinking establishment, they pay those taxes, add their markup and then the State collects an additional 10% drink tax when sold to the consumer. I have attached a "chart" to demonstrate how beer is taxed for your reference.

You will hear that the gallonage tax hasn't been increased since 1977. Since that time the liquor excise tax has doubled from 4% to 8%, the 10% drink tax was established and the federal gallonage tax doubled. Also, we have had prices increases almost every year, which increase the tax revenue to the state every time! The attached chart shows how overall all state liquor taxes have kept pace since 1977.

Passage of this tax increase will result in a much larger differential in the retail price of beer in Kansas when compared to Missouri prices. This will have a devastating impact on Kansas businesses on this side of the state line and on resulting revenues both from these and all other sales on the Kansas side. We have Missouri convenience stores within minutes from Pittsburg that aggressively advertise in our Kansas newspapers, "one stop shop, get your gas, cigarettes and beer here in Missouri." Why would we give more revenue to Missouri? Regressive beer taxes fall most heavily on working men and women who have modest incomes. Don't penalize the working men and women of Kansas with additional beer taxes. In addition, many retailers will struggle with the ability to pay the floor tax imposed in the bill.

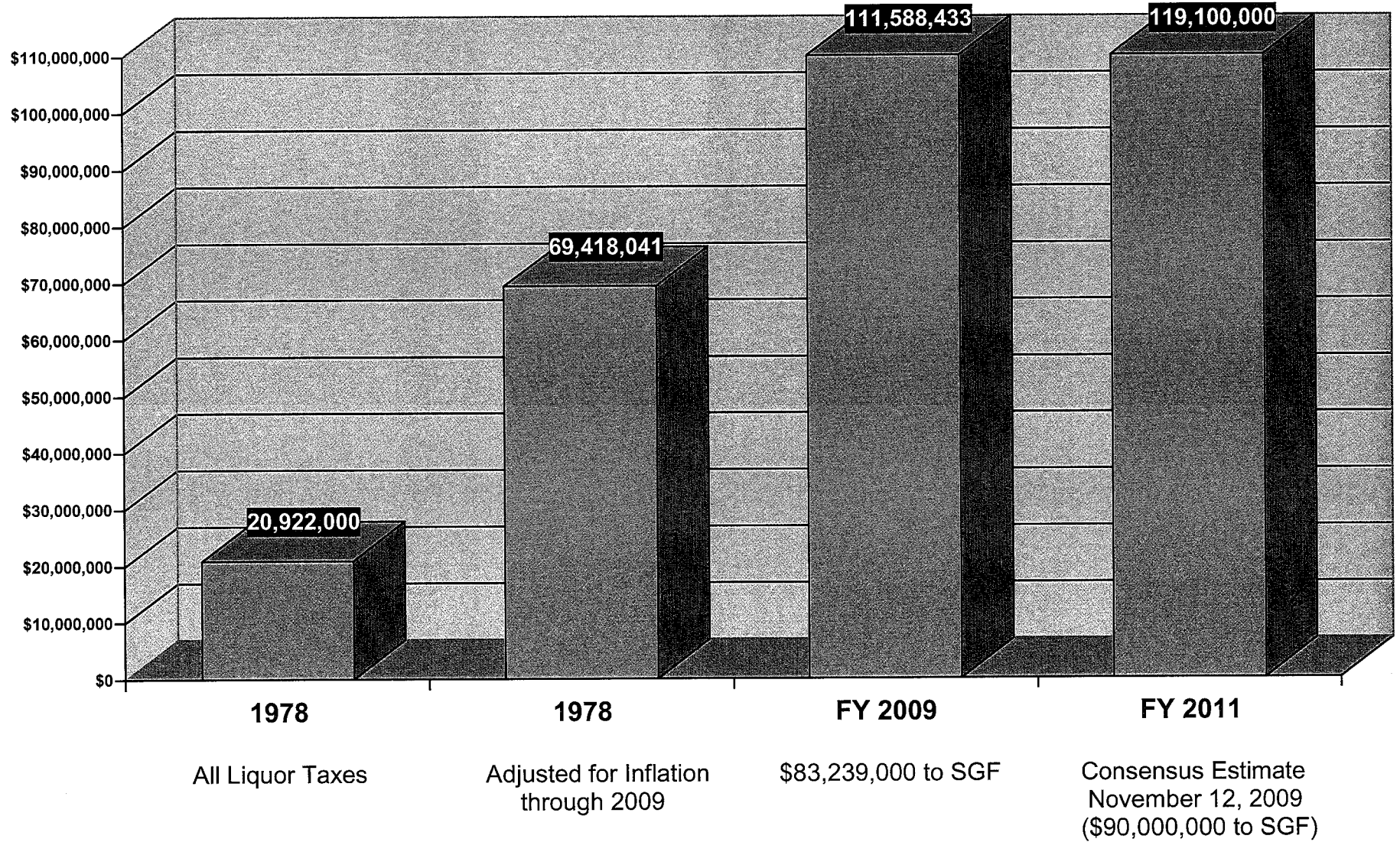
We would urge you to oppose a gallonage or other beer, wine or spirits tax increase. As in our area, puts an undue burden on those that already are facing a very tough economic climate

Respectfully submitted,

Steve Beykirch
Eagle Beverage Corporation

House Taxation
Date: 2-26-10
Attachment: 25

Have Liquor Taxes Kept Up?



TAXES

HIGH ENOUGH

Sales and excise taxes: \$10.7 billion

Federal income, payroll and other taxes: \$10.7 billion

State and local income, payroll and other taxes: \$3.6 billion

\$25 billion

REGRESSIVE

They fall most heavily on working men and women who have modest incomes.

UNFAIR

Government services should be paid by a broad-base of people. Hiking the beer tax will cause economic ripples that will hurt, rather than help, the economy.

ROLL BACK
★ ★ ★ ★ ★
BEER TAX

44%
of the Cost of
Every Beer
is Hidden Taxes

19%
Sales &
excise taxes

6%
State & local
income, payroll
& other taxes

19%
Federal income,
payroll
& other taxes

House Taxation Committee
February 26, 2010

Testimony opposing HB 2593

Dear Chairman Carlson and Committee members,

In 2008, I was elected to serve as 3rd Vice President for the Kansas Association of Beverage Retailers. Since taking a leadership role, I have learned a great deal about the work of our association and the services we provide to the state licensed retail liquor stores. Our members take very seriously their role as licensed retailers of adult beverages and we spend a significant amount of time staying on top of the laws and regulations that we must follow.

We work very closely with the ABC – collaborating with them to offer training programs to licensees and their employees. We have recently amended our training program to include new information relating to new Kansas I.D.s, new state laws, and policy changes at the ABC. We also cooperate with ABC to send out important information to our members about issues important to the State – including their new penalty guidelines, new rules about keg registration and wine sales, and where they may be seeing problems in the industry.

It appears that HB 2593 will require me to come up with at least \$1500 in July to pay a one time tax to the Department of Revenue. This will not be an easy accomplishment for me.

This one time expense is compounded on top of the increases in unemployment tax that are being enforced this year.

Alcoholic liquor is a unique product as it is sold in our state. We support the regulated industry and do not oppose a close look at the rates that are paid in Kansas vs. other states. It is easy to see that we are at a competitive disadvantage in comparison to our closest competitors

Please support your Kansas owned retail liquor stores. And please feel free to contact us if we can work with you on other issues as well.

Stacey Harlow – 2 Bags Brew, 204 W Nez Perce, Satanta, KS 67870 620-649-3460

House Taxation
Date: 2-26-10
Attachment: 26

February 26, 2010

House Bill 2593 – An Act concerning taxation. Increase in gallonage taxes on alcoholic liquor, CML and malt products.

Chairman Carlson and members of the House Taxation Committee:

The Kansas Grape Growers and Winemakers Association respectfully submits the following comments in **opposition** to HB 2593:

All of the wineries in Kansas are family-owned small businesses, as are the vineyards that raise and sell grapes to the wineries. Gallonage taxes are already a burden on these businesses. These are taxes that are borne entirely by the wineries; they are not collected from consumers.

To double an already burdensome tax on small local businesses at a time when our economy is struggling would not be wise.

For an industry such as ours, which is entirely Kansas-based, small and struggling to grow, we are already over-taxed and over-regulated. We suggest cost cutting on the regulatory side in this time of budget crisis rather than increasing taxes on small business, which will be the engine of our recovery.

Thank you for your consideration of our comments.

Dennis Reynolds
Somerset Ridge Vineyard & Winery
29725 Somerset Road
Paola, KS 66071
913-491-0038

House Taxation
Date: 2-26-10
Attachment: 27