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plaid pantry
convenience stores

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SB 692 Testimony – Senate Finance and Revenue Committee: April 15, 2011

Good Morning Chair Burdick, Members of the Committee. My name is Chris Girard, and I am president and CEO of Plaid Pantries, Inc. Plaid operates 104 convenience stores, mostly in Oregon. We have about 750 employees, and we provide a full range of benefits for them, including health insurance.

We believe it is very risky for the State to relinquish authority and control over such an important revenue stream going to the State's needs, particularly in terms of funding provided for the Oregon Health Plan. We also believe it is not fair to single out only a fifth of Oregon's citizens with inevitable significant increases in a very regressive and selective tax that would be enabled by this proposed legislation. If we're going to raise taxes, we should ask all citizens to help with the counties' and state's current budget difficulties.

Proponents of a county tax on cigarettes have speculated in previous testimony that tobacco users probably will not go out of their way to purchase lower-taxed tobacco products. The Oregonian editorial page repeated this faulty logic yesterday. They appear to be saying "Since prices are different among competing stores, then prices don't matter", when the fact is that prices are competitively different precisely because prices do matter.

The most dramatic proof of this economic fact is the example of Washington raising their cigarette tax by $1 per pack last May. Our Vancouver stores are down 29% in tobacco sales. The more dramatic statistic is that our Oregon border stores tobacco sales more than doubled since the tax increase; close-in border stores are up an average of 131% in this category. This shows that Washingtonians are driving from a considerable distance beyond the State line to avoid the higher Washington tax.

We track all of our product sales closely, and we estimate that there are about 80,000 Washington residents who are buying their tobacco products in Oregon. Assuming that Multnomah and other counties establish a $1 per pack county tax, this cross-border shopping factor, along with expected sales losses due to the tax increase itself, will result in the loss to Oregon of between 2.3 million, up to as high as 3.9 million taxable Oregon cartons. In round numbers, a loss of 3 million cartons means that the counties will not realize the amount of revenue that one might expect from a new $1 tax, and the State will lose the $1.18 of the current tax on the lost cartons, for a very real revenue loss of $35 million dollars. Equally important from an ongoing revenue standpoint, the State loses another slice of a declining tax base for future revenue, due to the permanent loss of these taxable sales.

As you know Oregon relies heavily on tobacco revenue to meet its budget needs, particularly for the Oregon Health Plan funding. Tobacco revenue, as you also know, is a declining source of money for the State. Consumption is declining a very regular and predictable 4% per year. Continual tax increases have driven much of the formerly collectible taxes underground, to gray and black-market sources, un-taxed native American outlets, and the internet. There is an increasing and significant trend towards "roll-your-own" cigarettes, since bulk tobacco is taxed at a much lower rate than packaged products.

Again, using Washington as an example, in the current fiscal year, as the latest result of their most recent tax increase, per-capita taxed cigarette carton sales will be only half the per-capita rate as in Oregon. And nobody would believe that Washingtonians use tobacco half as frequently as Oregonians. Washington has a severe tax evasion problem, but we also know that Oregon's lost tax collections, while lower than Washington, are still very significant. Higher taxes will only drive these tax evasion trends further in that direction, and the burden continues to increasingly fall only on law-abiding consumers and law-abiding retailers.

It is also not fair to allow the counties to establish new taxes on a minority population that has very little political say in the matter. About eighteen percent of Oregon's adult population uses tobacco. Tobacco products are already heavily taxed at both the Federal and State level. It is not a good idea to raise taxes following such a deep recession and in the very slow recovery we are experiencing. But if the counties find it necessary to raise revenues, it should be in a way that shares the pain among all county residents. Tobacco users are already paying considerably more in taxes than other citizens.

Many people don't like the fact that some people use tobacco, so it is easier I suppose to put a tax on it. I don't know if any of you on the committee have friends or know people who use tobacco. We see these folks in our stores every day. About a third of our customers purchase tobacco products. These people are going through what everyone else is facing in their personal finances. They are mostly working folks, who have bills and mortgages to pay, or rent payments to make. Some of them have lost their jobs and are struggling to make ends meet while seeking new employment. They're just like everyone else, except they use tobacco. This is not a good reason to allow them to be singled out as the only relatively small group of citizens being asked to pay increased taxes, especially at this point in the weak economic recovery.

I would also like to point out that the legitimate, law-abiding businesses in Oregon that sell tobacco are not getting rich from doing so. We are more the "tax collector"; for the Federal government we collect $1.01 per pack of cigarettes. For Oregon, we collect $1.18 per pack. Using my company as an example, we average only about 58 cents gross margin on the sale of a pack of cigarettes.

This retailer gross profit on a cigarette pack sale goes directly into Oregon economic activity, which is multiplied further as it flows through the economy. Over half of these margin dollars go to jobs, wages, and employee benefits. Nearly 40% of the margin dollars go to over 300 companies, mostly Oregon small businesses, that provide maintenance, repairs, supplies, and other services to our company. And finally, companies pay property taxes and income taxes.

A direct consumption tax increase on a product that doesn't have a legal substitute product or a legal source of supply is a horribly blunt instrument for raising revenue. It will destroy total economic activity many times greater than the tax raised. We can't look just at the isolated retail transaction that is lost to the black/gray market or other tax avoidance scheme. Consider all of the trade and transportation activity, wholesale distribution value added, and jobs and commerce all along the chain, including after the retail transaction. Related companies and their employees spend and re-spend multiple times the nominal value of the single lost retail sale.

We are concerned that the counties could get really carried away with this new taxing authority. Large tax increases, as will likely be imposed, especially in today's very soft economy, primarily will impact three areas most significantly... the already cash-strapped consumer, Oregon's overall economy, and State tax receipts, in particular the Oregon Health Plan.

Businesses will react by cutting costs. When faced with significant sales decreases, especially on such low-margin items as tobacco, we have no choice but to reduce expenses. Our single largest controllable expense is labor costs, and cuts here will cost jobs, benefits, and health insurance coverage for workers. Companies will also cut back on other non-critical expenses and growth plans, which negatively impacts retailers' supplier and contractor partners, and the economy as a whole.

Now is not the time to raise taxes on anything, or to allow Counties to raise new taxes. It is an especially bad time to allow Counties to raise taxes, probably very significantly, on only a small group of Oregonians who are struggling like everyone else in a very tough economy. And finally, it is very risky to State finances to relinquish control over such an important revenue stream that unquestionably will be significantly negatively impacted by county taxes on these products.

We urge you not to take action to implement this proposed legislation.

Thank you for hearing my testimony, I'll be glad to answer any questions.

Chris Girard
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