



**HB 49 - Written Testimony
Kristin Mullins, President/CEO
Ohio Grocers Association**

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Chairman Oelslager, Vice Chair Manning and Ranking Minority Member Skindell, and members of the Senate Finance Committee, thank you for the opportunity to submit written testimony on the alcohol and tobacco tax components contained in the Executive, as introduced version of House Bill 49. We appreciate the House's action by removing these costly tax increases and would urge the Senate to preserve the House's changes.

As President of the Ohio Grocers Association, I proudly represent over 300 food retail, wholesale and supply companies across the Buckeye state. My members range from the largest chain stores to the smallest "mom and pop" independent grocers as well as some convenience stores and of course the food wholesalers who supply these stores. At our last market study, Ohio's grocery industry employs over 110,000 people in full- and part-time jobs. Ohio grocers generated over \$18.5 billion in sales, paid over \$2.3 billion in wages, and paid \$1.1 billion in state and federal taxes. I give you these numbers to illustrate that Ohioans not only depend on grocers as distributors of their food supply, but as employers and taxpayers, as well.

I am writing today to protect these jobs and hopefully prevent any tax policy that will be harmful to the future growth and quite frankly sustainability of Ohio's grocery industry. We support the leadership and direction that Governor Kasich has taken our economy and state in making Ohio a better place to work and live. I also applaud and appreciate his desire to lower the state's income tax rate which is something that can ultimately have a positive impact for all Ohioans. Yet, I have an obligation to protect my members from public policy that will have an adverse impact on their operations especially a policy that places an unfair tax burden on high-volume, low-profit businesses.

For your typical retailer, tobacco sales make up, on average, 3.5 – 4% of total store sales and beer and wine make up an average of 7.5- 8%; illustrating that these proposed taxes would have a negative impact on roughly 11-12% of total sales combined. For the convenience store operator, I am sure these percentages are significantly higher.

Here is why the Ohio Grocers Association is opposed to the alcohol tax increase:

1. Ohio grocers and wholesalers operate on a classic high-volume, low-profit business model

- a) The average net profit margin in the grocery business is a mere 1.0 – 1.5 %. Our members are facing industry wide challenges: increased minimum wage, soaring swipe fees (the amount paid per swipe of the credit card to process credit/debit transactions), rising healthcare costs and a soon to be effective federal requirement to label salad bars and hot case with calorie information which will cost my industry \$1 billion to implement.
- b) Members are struggling to stay competitive against online retailers and to keep their prices competitive. The last thing my members need is 70% increase to alcohol taxes, driving the consumer out of stores and onto cheaper alternatives across the border.

2. The alcohol tax increase will lead to fewer dollars to re-invest in grocer operations.

- a. The proposed alcohol tax increase on beer and wine would place Ohio as the highest among our border states for beer, highest for wine over 14% ABV and second highest for wine under 14% ABV. Our industry is so competitive and we know customers (perhaps yourselves even) that will travel from store to store to shop around for the best deals, even if this means going across the border.

In addition, grocers also frequently need new refrigeration cases, upgrades to lighting and other fixtures that may all have to be put on hold if these tax increases take root and our businesses lose sales. Thus, impacting the local economy where grocers tend to use subcontract labor and small businesses to handle much of this work.

I wish I could end my testimony here. However, we are also concerned about the proposed tobacco tax increases. Plain and simple, tobacco sales are important to Ohio retailers. In 2016, Ohio stores sold 590 million packs of cigarettes totaling more than \$3.6 billion in revenue. A tobacco tax would significantly hit Ohio retailers and businesses.

Customers also purchase other items while they are there, so the state loses significant tax revenue, and Ohio retailers lose sales. If implemented, the latest proposal to raise the cigarette tax (to \$2.25 per pack) would result in gross profits lost to Ohio retailers and wholesalers to exceed \$134 million due to the decline of cigarette, other tobacco products, and sundry product sales. I also represent several convenience stores; while cigarettes sales are a smaller

percentage of a grocery store sales; it is quite the opposite for a convenience store. Cigarettes are the top category for “c-stores” with the average c-store selling \$693,890 worth of cigarettes and other tobacco products annually, accounting for just over 36% of in-store sales. The fact remains that these increases will put Ohio retailers and the entire state at a competitive disadvantage.

Here are two reasons why Ohio’s grocery industry is intensely opposed to tobacco tax increases:

1. Any tobacco tax increase would have a chilling effect on the profitability of Ohio’s grocers and retailers.
 - a. In Ohio, consumers visit their local grocery store nearly twice per week. Our research shows that the loss of a cigarette smoker could result in the loss of an average grocery bag sale totaling near \$30 dollars. We know that smokers rarely just buy their pack of cigarettes but would also purchase additional items. Given our industry’s razor thin profit margin, Ohio’s grocers count on large volumes of purchases to keep their businesses afloat. Any loss in sales would lead to the grocer having to cut back hours and ultimately lay off workers. Moreover, a less profitable grocer is not going to be able to re-invest in their store which can have a ripple effect on their ability to make capital investments and hire lighting, refrigeration and other contractors servicing our industry. Of course, from a fiscal standpoint less sales equals less state sales tax that we will be able to contribute to the state.
2. The proposed increase in the tobacco tax rate would place Ohio as one of the highest of all our border states
 - b. Smokers have other options (legal and illegal) to obtain their tobacco products. A tobacco tax increase will further direct current Ohio smokers to alternative and likely tax-free options such as the Internet, out-of-state retailers and the black market. In addition, border states such as Indiana (99.5¢), West Virginia (\$1.20) and Kentucky (60¢) already enjoy significant competitive advantages over Ohio’s retailers with their excise tax rates. Any Ohio increase on tobacco is only going to further black market activity and loss of legitimate Ohio retailer sales along the border. Border sales are a very REAL issue especially when you consider that 46% of Ohio’s population lives in border counties according to 2010 census data. If you don’t represent a border, consider that purchasing tobacco over the internet is a very real thing and something that goes unregulated, un-taxed (unless the consumer claims it).

When weighing all the options, please consider the chilling effect these tax increases will have on your local grocery stores, convenience stores and other retailers that employ your constituents. My members support countless local school, church, food pantry and community projects while working hard to deliver a safe, reliable source of food to your

kitchen tables. It is this very industry that survives on a high-volume, low-profit business model while facing rising costs and increasing challenges to stay in operation.

I strongly request that the members of this committee not recommend any alcohol or tobacco tax increases be added back into the Budget Bill and seek alternative solutions to lowering the state's tax rate.

Thank you for your time and consideration.