Core·Mark®
13551 S.E. Johnson Road, Portland, OR 97222
Phone 503.652.0200 Fax 503.652.1079 URL www.core-mark.com

March 15, 2013

Chair Phil Barnhart
Vice Chair Jules Bailey
Vice Chair Vicki Berger
Representative Cliff Bentz
Representative Jason Conger
Representative John Davis
Representative Sara Gelser
Representative Tobias Read
Representative Jessica Vega Pederson

House Revenue Committee
900 Court St. NE, Room 143
Salem, OR 97301

Dear Chair Barnhart and Vice-Chairs Bailey and Berger:

Core-Mark International, Inc., Portland Division is a broad line distributor of supplies and services to the convenience retail industry. In this capacity we employ approximately 200 Oregonians and also manage our Grants Pass distribution center which employs approximately 100 Oregonians. Aggregately, the two distribution centers supply approximately 950 convenience stores. In 2012 the two divisions paid over $73 million in cigarette stamp tax to the state of Oregon. I am also a board member of the Oregon Neighborhood Store Association (ONSA) which provides legislative and regulatory representation for Oregon's 2,500 smaller, mostly family-owned and operated convenience food stores.

Core Mark and ONSA oppose HB 2870 which changes Oregon's current law prohibiting Counties and municipalities from imposing a tobacco and cigarette tax in addition to Federal and in lieu of or addition to State excise taxes. HB 2870 omits any language regarding the amount of tax that can be assessed, leaving that to the discretion of each individual county. In addition, HB 2870 fails to designate whether or not a county or municipal tax stamp will or will not be attached to an individual cigarette package which could inherently create a lack of enforcement from the counties and in turn create an environment that would diminish taxable revenue collection.

1. **<u>Higher tobacco taxes do not significantly reduce consumption, but rather higher taxes drive customers to seek lower priced goods and thus to avoid/evade taxes.</u>**

The State of Oregon currently assesses a state tax of $11.80 per carton while the State of Washington assesses a state tax of $30.25 per carton. It is estimated that Washington fails to collect excise taxes and sales tax on 16 million cartons annually. Approximately 4.7 million of these cartons are purchased in the state of Oregon.

The same phenomena will occur from county to county depending upon the rate of tax. Consumers are willing to drive miles to save costs and avoid higher taxation, as is evident with current Washington cross-border buying. County tax differentials therefore will cause tobacco customers to travel additional distances to save cost. Ancillary products purchased will also be lost as that customer is likely to reduce the number of stops in order to compensate for any additional mileage consumed and driving time. This will create an uneven playing field between competing counties.

Small format stores, mostly owned by independent business people, that are located on the border in a higher taxed county, will face direct completion from a competitor that resides in a lower taxed county. They will not be able to equitably compete. There are instances in the city of Portland where a convenience store located in Multnomah County competes with a large format grocery store located across the street in Clackamas County. They and similar others will literally be wiped out.

2. **<u>The bill does not address the mechanics of identifying county jurisdiction.</u>**

HB 2870 does not designate whether or not individual county stamp taxes will be applied to each package of cigarettes in a carton. If indeed tax stamps are not required to be specific to a county jurisdiction, enforcement of the tax application specific to a county will be difficult if not impossible to impose. As a distributor, it has not been determined how certain cash & carry's, including COSTCO, would determine the rate at which they would pass the county tax to their customer base. Would the tax rate for a cash & carry be determined by the county within which they are located or by the county in which their customers reside? With the former, the cash & carry if located in a high tax county would likely see a dramatic decline in sales and possibly choose to discontinue that category. This would further decrease the revenue expected by the county. In the case of the latter, this bill does not address how proper identity would be determined for a customer to prove they should be charged the proper tax rate.

In either case, the end user will seek the lowest possible cost of goods which in turn would make the legitimate tax abiding distributor uncompetitive.

3. **<u>Multiple tax stamp jurisdictions create additional costs at the distribution level. These costs will get added to the end user which will further reduce consumption of in state product.</u>**

If a stamp is assessed by county, the requirement to stamp multiple county jurisdictions will force distributors to stamp product on demand and by hand as opposed to the current system of machine pre-stamping product based upon daily state movement history. This will force production cost up at least three times that of what it costs at today's current rate. And while there are stamp machines that are capable of handling multiple jurisdictions (up to four jurisdictions), the lease amount is three times that of a single jurisdiction machine. These business costs must and will be passed to the retailer who in turn will pass the additional cost to the end consumer. This will create further incentive for the end user to shop for the lowest priced product, which could very well mean shopping out of state, via internet or black market. Inevitably, this will reduce tax revenues for the state and hurt the Oregon economy while creating a nightmare for legitimate tax abiding distributors.

For the reasons above, I strongly oppose relinquishing the State's sole taxing authority on cigarettes and tobacco products to cities, counties or other municipal entities.

Respectfully submitted,

Brian Barry

Brian Barry
President, Portland Division
Core-Mark International, Inc.