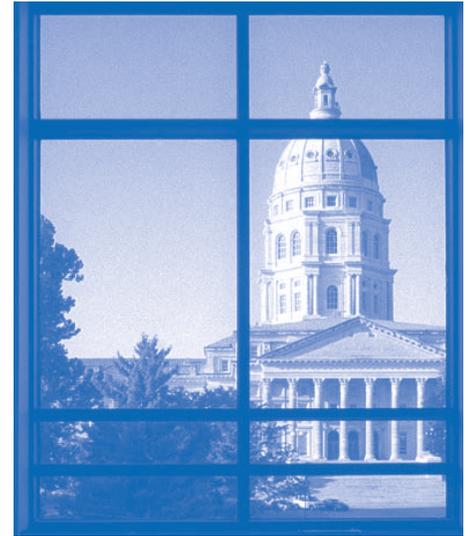


Issue Brief



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Economic Impact of Lawrence Smoke-Free Ordinance

Rachel J. Smit, M.P.A.
Sharon M. Homan, Ph.D.
Gina C. Maree, M.S.W., LSCSW

More Information

This Issue Brief describes the results of a Kansas Health Institute study on the impact that a smoke-free ordinance in the city of Lawrence had on restaurant and bar sales. It is intended to help policymakers better understand the health and economic implications of such ordinances.

For a [list of references](#) used in writing this brief and a [supplemental report](#), which includes information about the study methodology, please visit our Web site at www.khi.org.

Results in Brief

There has been much debate about whether the comprehensive smoke-free ordinance implemented in Lawrence in July 2004 caused financial harm to the restaurant and bar industry. The question about the potential economic impact has been clouded by claims of individual proprietors who indeed may have experienced a decrease in business following implementation of the ordinance. This study addresses the broader question of the ordinance's impact on the restaurant and bar industry. It found that:

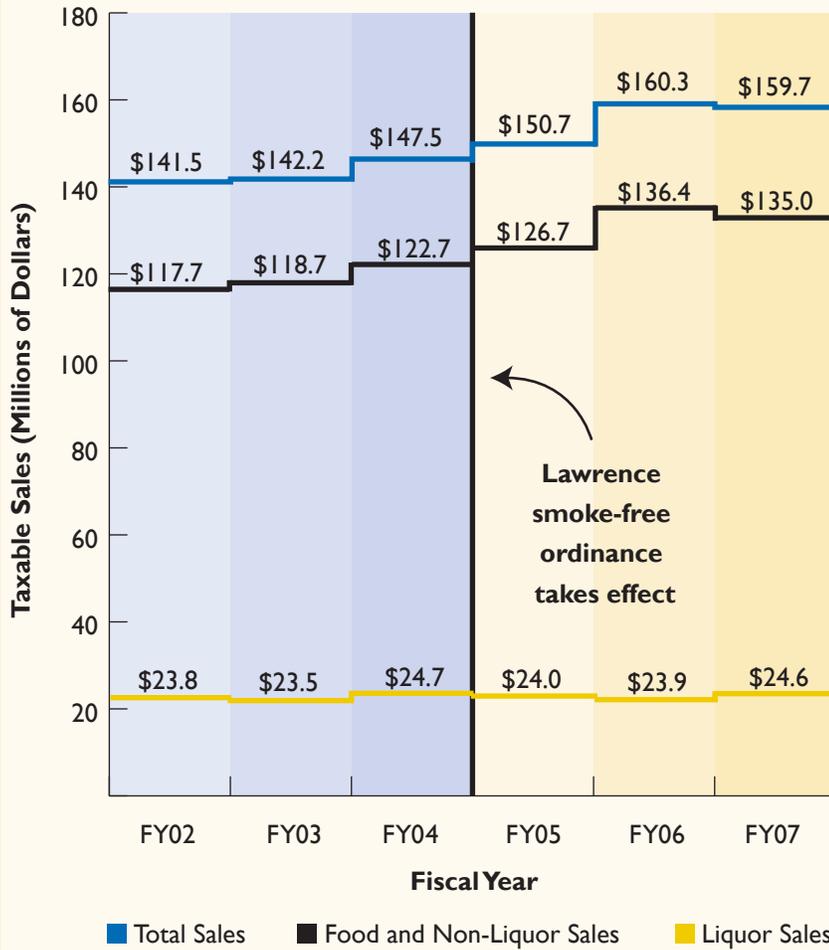
- Total sales at restaurants and bars in Lawrence continued to increase in the first two years after a smoke-free ordinance was implemented in July 2004.
- The trend in total sales did not change notably after implementation of the ordinance.
- Food and other non-liquor sales continued to increase in the first two years after implementation of the ordinance.
- Liquor sales declined in the first two years after implementation of the ordinance but it is not clear whether the smoke-free policy played a role in the slowdown because liquor sales also declined two years prior to its implementation.
- The Lawrence findings are similar to those of other studies, which have failed to show any long-term negative impact on the overall restaurant and bar industry.

BACKGROUND

Guided by evidence of the health dangers of second-hand smoke, state and local decision makers across the country are implementing smoke-

free policies. And those policies, according to recent studies, are having a positive impact on the health of those they were designed to protect.

Figure 1. Taxable Sales at Restaurants and Bars in Lawrence



Note: Total sales are food, non-liquor, and liquor sales combined. Sales have been adjusted for inflation and are in June 2007 dollars. Fiscal years are July to June.

a debate continues about whether such policies adversely affect certain hospitality industry businesses, such as restaurants and bars. Economic theory suggests that either a positive or negative impact on overall sales is possible. However, no study published in a peer-reviewed journal has yet found consistent evidence that smoke-free policies have a long-term negative impact on the restaurant and bar industry.

The KHI study detailed in this brief examines the economic impact of Kansas' first comprehensive smoke-free ordinance. Adopted by the city of Lawrence in 2004, it prohibits smoking in all enclosed public places and workplaces, including restaurants and bars.

Though data limitations make it difficult to document a cause-and-effect relationship, the study shows that total sales at restaurants and bars continued to increase in the first two years after implementation of the ordinance before leveling off in the third. Food and non-liquor sales followed a similar trajectory. The study also shows that liquor sales declined in the first two years after implementation. However, it is difficult to draw any conclusions about the role that the ordinance played in the downturn given that liquor sales also declined two years prior to its implementation.

Generally, it appears that the results of the Lawrence study are similar to those of the peer-reviewed studies referenced earlier that failed to show any long-term negative impact on the restaurant and bar industry.

DATA AND METHODOLOGY

To examine the potential impact of the Lawrence smoke-free ordinance on restaurants and bars we analyzed taxable sales, both food (and other non-liquor sales) and liquor.

A new study in Colorado documented a significant drop in heart attack hospitalizations in the community of Pueblo in the three years after the adoption of a ban on workplace smoking. And while some believe that factors other than the ban may have contributed to the drop, the researchers who conducted the study have said the results suggest a cause-and-effect relationship.

Another study, this one in New York state, also showed a notable decline in heart attack hospital admissions in the year after the state adopted a comprehensive smoke-free law.

Though the health effects of smoke-free policies are beginning to emerge,

We analyzed two sets of monthly tax receipts provided by the Kansas Department of Revenue:

- 1) Food and non-liquor sales subject to the state sales tax at Food Services and Drinking Places, or FSDP establishments. Businesses in this category include full-service and fast-food restaurants, bars, caterers and mobile vendors. Throughout this brief, businesses in this category are referred to as restaurants and bars.
- 2) Liquor sales subject to the state's liquor excise tax at businesses licensed for on-premise liquor sales. The liquor excise tax, also referred to as the "liquor-by-the-drink tax," is levied on alcoholic beverages consumed on-premise, not on liquor and beer sold for off-premise consumption.

The department of revenue did not make individual-level business data available because of concerns that establishments could be identified based on levels of tax receipts.

In order to evaluate the potential impact of the smoke-free ordinance, we analyzed:

- 1) Total sales (both liquor and non-liquor) at restaurants and bars;
- 2) Food and non-liquor sales at restaurants and bars; and
- 3) Liquor sales at restaurants and bars.

We compared taxable sales in the three years after implementation of the Lawrence ordinance to sales in the three years prior to when it took effect, examining data from July 2001 to June 2007. We adjusted taxable sales for inflation using the monthly Midwest Consumer Price Index. All dollar figures presented in this brief are in June 2007 dollars.

We summed the inflation-adjusted monthly data over state fiscal years (July to June) to examine annual sales over time. To further test our findings, we also analyzed the monthly data using multiple linear regression techniques. The results of those analyses can be viewed in a supplemental report available at www.khi.org.

THE LAWRENCE EXPERIENCE

The trend in total sales did not change notably after implementation of the smoke-free ordinance.

- As is depicted in Figure 1 on the preceding page, total sales at restaurants and bars grew by 2.2 percent in the first year after implementation of the ordinance. That growth rate is in line with those in the years prior to the ordinance: 3.7 percent in FY04 and 0.5 percent in FY03.
- In the second year under the ordinance total sales grew by 6.4 percent, the highest growth rate during the six years that we analyzed.
- In the third year under the ordinance, sales dropped by 0.4 percent. The reason for this leveling-off is not clear. But it is unlikely that any change directly related to the ordinance would first be detected three years after its implementation.

Food and non-liquor sales continued to increase in the first two years after implementation of the ordinance.

- As depicted in Figure 1 on the preceding page, the pattern of food and non-liquor sales mirrors total sales. This is because food and non-liquor items comprise roughly 85 percent of total sales.
- Prior to implementation of the ordinance, food and non-liquor sales grew by 0.9 percent in FY03 and by 3.4 percent in FY04.

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The Kansas Health Institute is an independent, nonprofit health policy and research organization based in Topeka, Kansas. Established in 1995 with a multi-year grant from the Kansas Health Foundation, the Kansas Health Institute conducts research and policy analysis on issues that affect the health of Kansans.

KANSAS HEALTH INSTITUTE
212 SW Eighth Avenue, Suite 300
Topeka, Kansas 66603-3936
Telephone (785) 233-5443
Fax (785) 233-1168
www.khi.org

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KHI/09-02 • January 2009

- In the first two years after implementation of the ordinance, food and non-liquor sales continued to grow, by 3.2 percent in FY05 and by 7.7 percent in FY06. Sales then dropped by 1.0 percent in FY07.

Liquor sales dropped after implementation of the ordinance, but the cause is unclear.

- As depicted in Figure 1 on page 2, liquor sales in Lawrence fluctuated both before and after the ordinance was implemented.
- Prior to the ordinance, liquor sales declined by 1.3 percent in FY03 and then increased by 5.1 percent in FY04.
- Liquor sales declined in the first two years after implementation of the ordinance — by 3.0 percent in the first year and 0.6 percent in the second. But they grew by 3.3 percent in FY07, nearly reaching the level they were at in FY04 before the ordinance.
- It is difficult to establish a clear cause-and-effect relationship between the ordinance and the slowdown in sales.

POLICY IMPLICATIONS

This study indicates that Lawrence's smoke-free ordinance did not have an overall negative impact on the restaurant and bar industry. While it may have affected individual businesses in different ways,

policymakers should be careful not to generalize those experiences to the restaurant and bar industry as a whole. There are clearly winners and losers in the rough-and-tumble marketplace of the restaurant and bar industry. However, there are no studies in scientific, peer-reviewed journals that document a consistent negative, community-wide impact on restaurants and bars following the implementation of a smoke-free ordinance.

On the other hand, the harmful effects of secondhand smoke in workplaces and public places are well established. And the U.S. Surgeon General has reported that smoke-free policies are the most effective means of protecting people from secondhand smoke exposure. That determination has been reinforced by the results of recent studies that have documented a reduction in heart attacks in communities with smoke-free policies.

As of the writing of this brief, at least 33 cities and two counties in Kansas have restricted smoking in public places, workplaces or both.

State policymakers contemplating smoke-free policies will continue to grapple with questions about local control and the appropriate role for government in protecting the public's health. But on the key question of whether smoke-free policies have negatively impacted the restaurant and bar industry as a whole, the verdict appears to be in.

Acknowledgments

The authors would like to thank Mr. Steven Brunkan at the Kansas Department of Revenue for his invaluable assistance with the data for this study. We would also like to thank Ms. Jessica Hembree, Dr. Candace Ayars, Dr. Leigh Murray, Dr. Michael Fox, Dr. Melissa Clark, Mr. Ron Liebman and Mr. Nathan Wozny for their assistance with earlier phases of this study.