INDEPENDENT STATE STORE UNION TESTIMONY

SENATE LAW AND JUSTICE COMMITTEE
HEARING ON PRIVATIZATION OF THE STATE STORE SYSTEM

JUNE 4, 2013

Good morning Chairman McIlhinney, Chairman Ferlo and members of the Senate Law and Justice Committee.

My name is Dennis Harty, President of the Independent State Store Union (ISSU) and the manager of the state store in Downingtown, Chester County. Accompanying me today is David Wanamaker, ISSU Executive Board member and Neil Cashman who serves as Government Affairs Coordinator for ISSU.

On behalf of the men and women of ISSU -- the union that represents 720 state store managers throughout the Commonwealth -- thank you for convening this meeting today and for your continued interest in the debate over privatization of the state store system.

We truly appreciate the opportunity to appear before you today to discuss this important public policy matter and to be part of the ongoing debate.

With your indulgence, I will speak first and offer some general comments on the current system and Mr. Cashman will then offer some specific comments on privatization. At the conclusion of our remarks, all three of us will be available to answer any questions you may have.

ISSU has always defended the state store system based on the responsible and reasonable alcohol policy argument. We strongly believe that Pennsylvania has the most responsible and effective alcohol distribution system in the nation.

It is imperative to remember that alcohol is a widely used and abused drug. Irresponsible use and abuse of alcohol comes with attendant societal ills and health related harms.

Our system is far superior in curbing and reducing the harms associated with the irresponsible use and abuse of alcohol that occur under privatized distribution systems.

The current system protects all Pennsylvanians -- drinkers and non-drinkers alike -- in urban, suburban and rural areas whether they are Republicans, Democrats or Independents and has done so for 80 years.

The current system provides a “best of both worlds” scenario – it represents a reasonable and responsible alcohol policy while generating millions in revenue to the Treasury to fund public programs.

As a dedicated employee of the state store system, I am proud to defend the current system from the responsible and reasonable alcohol policy perspective.

But, now I would like to take a few moments and focus on another component of the system that has often been ignored in this debate - the workers.

Like many of my fellow state store workers, I am a husband, a parent, a taxpayer, a homeowner, and an active member of my community. The Governor and the Legislature needs to realize that there are faces and families attached to the jobs that would be lost under privatization.

Thousands of state store workers and their families will be devastated by the elimination of their jobs. And, suggesting that current employees will have career opportunities in the private sector alcohol industry is a cruel hoax and downright dishonest.

Likewise, the proposed "transition assistance" provisions for dislocated workers are insulting. We aren't stupid or gullible.

- Token educational grants will not help a twenty year employee like me find a new career.
- Preference in job placement in state agencies where jobs don't exist is meaningless.
- And, probably most insulting is the idea of converting our years of dedicated service into a "tax credit voucher" to be traded by businesses to avoid paying taxes they owe.

It is time the Governor and legislators realize that employees are people, too. People should be as important as corporation profits in this debate.

Thank you for allowing me to appear before you today and speak on behalf of the more than 700 hard working men and women that I represent. I truly appreciate the opportunity and I know they do as well.

I will now turn our presentation over to Mr. Cashman to discuss some specific issues and concerns with privatization of the state store system.

Governor Corbett and Privatization

First and foremost, we want to make it clear that we support Governor Corbett's position on privatization of the state store system – his original position.

In an interview published in the Washington *Observer-Reporter* on April 8, 2010, then candidate Corbett made it clear that, if elected, privatization would not be a priority for his administration. In that interview, he cited the recurring revenues from the system as opposed to a one-time infusion of revenue from privatization as his reason.

The Observer-Reporter article included the following:

> *On the Republican side, frontrunner Tom Corbett, now serving as state attorney general, said privatization of the state store system "will not be a priority for the Corbett administration."*
>
> *Like some of his Democratic counterparts, Corbett cites the recurring revenue provided by the current system, as opposed to what he calls a "one-time infusion of revenue" that would be provided by a sell-off.*

"The lack of political will in the legislature to privatize the system suggests that political capital should be spent on other revenue generating priorities," Corbett said.

The Erie Times-News reported a similar position from the Governor on June 6, 2010. This time the response was to a suggestion from Representative Turzai that privatization would get more support from a Republican governor, such as then nominee Tom Corbett.

The *News-Times* report included the following:

But Corbett is not backing the plan, either. His campaign said in a statement that privatization would "not be a priority for the Corbett administration."
"It is currently an ongoing source of revenue whereas selling the stores off would provide a one-time infusion of revenue," the campaign said.
"The lack of political will in the state Legislature to privatize the system suggests that political capital should be spent on other revenue generating priorities."

Again, we agree wholeheartedly with Governor Corbett's original position – the revenue loss from privatization is one that the taxpayers of Pennsylvania simply cannot afford and privatization should not be a priority item for legislative focus.

There are a number of issues that are of real importance to all Pennsylvanians and worthy of legislative attention – legislating Captain Morgan on the same grocery shelf with Captain Crunch is not one of them.

We don't know why the Governor has changed his position but our position has not.

Washington Post – Iowa and West Virginia

We understand that positions on privatization may change over time but the facts relating to revenue from the sale of state owned systems don't. History has shown that when state systems are privatized, they don't realize the expected up-front revenue and they continue to lose revenue on an annual basis.

With the Governor's mandated deadline for privatization of the state's liquor system fast approaching, there is widespread speculation as to how the Senate crafted compromise plan will be structured. Speculation includes a hybrid plan with an expansion of wine and liquor sales by private retailers while retaining the state operated wholesale and retail operations.

Similar private retail sales experiments in other states have proven to be the death blow for the publicly owned systems - and the profits they generated for the benefit of their citizens.

Iowa and West Virginia are two examples of state owned systems that experimented with private retail sales of wine with disastrous financial results. The failed experiment eventually caused the full privatization of the state owned asset with similar disastrous financial implications.

According to data from West Virginia and Iowa, the experiment with private retail sales of wine resulted in significant revenue losses for each state.

- In West Virginia, revenue to the General Fund declined from $22.7 million prior to the privatization of wine sales (FY 1979-80) to just $9.7 million after wine sales were privatized (FY 1989-90).
- In Iowa, revenue to the General Fund declined from $83.3 million prior to the privatization of wine sales (FY 1984) to just $71.6 million after wine sales were privatized (FY 1986).

The failure of the private retail wine sales experiment eventually caused each state to fully privatize wine and liquor retail sales in an attempt to recover lost revenue with similar failed results.

According to a *Washington Post* report, neither Iowa nor West Virginia realized the anticipated windfall from full privatization - each made less than $20 million upfront when they privatized their retail sales - and annual revenue to the General Fund from liquor sales has dropped considerably after privatization.

The *Washington Post* survey verified the continued decline in revenue after privatization for each state as follows:

- In West Virginia, revenue to the General Fund declined from $9.7 million prior to privatization (FY 1989-90) to just $6.6 million after privatization (FY 1991-92).
- In Iowa, revenue to the General Fund declined from $71.6 million prior to privatization (FY 1986) to just $46.3 million after privatization (FY 1988).

Given the revenue loss documented above - under either a partial privatization or full privatization plan - it appears that the only logical reason for mandating a June 30th deadline for legislative action on the ill-conceived privatization initiative is to allow for inclusion of lost revenue in the upcoming budget process.

Any proposal to dramatically alter the retail sale of wine or liquor by expanding sales to private retailers will have a negative effect on revenue and the overall worth of the system.

As proven by the failed experiment in Iowa and West Virginia privatized sales of wine or liquor simply results in a loss of revenue for the state in the short term and devalues the worth of the system in the long term.

Such an approach seems to run contrary to a previously stated principle of Senate Pro Tempore Joe Scarnati which was a goal of maximizing the revenues from the system before considering any sale of this highly profitable, publicly owned asset.

Core Function of Government

The battle cry for privatization has primarily been focused on the premise that the system is not a core function of government. Obviously, we disagree with that assessment. And testimony presented at the first Senate hearing on the privatization issue proves that that the current system has a measurable impact on public health and safety.

At that hearing, treatment and prevention experts testified that alcohol related problems and addiction will increase under privatization. Likewise, law enforcement organizations testified that crime and public safety concerns associated with alcohol will increase under privatization.

Those professionals also testified that alcohol treatment and prevention programs as well as crime prevention and alcohol enforcement programs will require substantial funding increases to address the increased problems associated with privatization and easier access to alcohol.

Additionally, the various legislative proposals addressing privatization also acknowledge that there will be increased problems under a privatized system by dedicating additional funding for treatment and prevention programs as well as public safety and enforcement programs.

So, in light of the above, it is quite apparent that privatization will in fact create more alcohol related problems as well as public safety concerns. Is it acceptable to create more problems as long as we throw more money at the problem? Does that even resemble sound public policy?

The need for increased funding for treatment and prevention under privatization proves that the current system has a positive impact on public health issues.

The need for increased funding for law enforcement and crime prevention programs under privatization proves that the current system has a positive impact on public safety issues.

Since public health and public safety are essential services provided to our citizens, the current system meets the tests for being considered a core function of government.

Alcohol Policy and Research Studies

Countless public health and alcohol policy research studies have consistently and repeatedly concluded that state controlled alcohol distribution systems -- such as the system Pennsylvania currently has in place -- reduce the harms associated with alcohol abuse by promoting the responsible distribution and consumption of alcohol.

These studies have repeatedly identified a variety of societal harms and quality of life issues associated with privatized alcohol sales including health care costs, substance abuse, underage drinking, juvenile violence and alcohol related crime.

Other states that have privatized their retail liquor systems have often experienced a dramatic increase in retail liquor outlets – an outcome the Corbett plan will replicate. Numerous research studies have clearly identified that increased density of retail alcohol outlets results in negative consequences including increased consumption, abuse, crime and violence.

Researchers agree that making alcohol easier to purchase will lead to more consumption and an increase in a host of social and health problems. Researchers agree that easier access to alcohol has a downside. Among those who do alcohol policy research and alcohol research in general, there is a strong agreement that as alcohol availability increases, there is a corresponding increase in a wide range of problems.

Privatization supporters, and most notably the Commonwealth Foundation, have tried unsuccessfully to downplay the significance of the published research by providing their own analysis and comparison of data. Respected researchers point out that such broad comparisons are meaningless from a researcher's perspective because they fail to consider a host of variables necessary to reach conclusive results.

Public health and safety issues are serious concerns the legislature should consider when contemplating privatizing the current alcohol distribution system. We would encourage you to seriously consider the impact of privatization on your communities and your constituents while considering such a major policy shift.

And, when considering those impacts, we would hope you find the research of respected public health and alcohol policy experts more persuasive than the specious arguments of the hired guns of the privatization proponents who are only motivated by profits.

DUI Statistics

Privatization proponents have repeatedly raised DUI statistics from various states in the privatization debate in an effort to minimize the benefits of an alcohol control system. If control states, like Pennsylvania, held complete control over the sale and access to all alcohol, such a comparison might be compelling.

However, you must consider that in Pennsylvania there are approximately 16,650 licensed retail locations to purchase alcohol by the drink. And, while we were unable to find Pennsylvania specific statistics on where DUI suspects purchased their alcohol prior to their arrest, we did find some interesting stats from other states.

According to post conviction surveys of DUI suspects in Montana and North Dakota, the majority of offenders reported that their "place of last drink" (POLD) was a bar or restaurant.

In Montana, 54.7% of the respondents reported their POLD as a bar or restaurant. In North Dakota, 61.6% of the respondents reported their POLD as a bar or restaurant.

It is somewhat ironic that in an attempt to diminish the benefits of an alcohol control system with respect to DUI incidences, the free market stalwarts simply drew attention to the fact that private enterprise is in fact the major contributor to the DUI problem. I guess Main Street doesn't always do it better.

Another interesting stat was reported by Ventura County in California where, among certain demographic groups, the highest rate of POLD was a "drive thru" liquor store.

While the current privatization proposals don't specifically allow for drive thru liquor outlets, the proposals allow the next best thing. By eliminating the prohibition on liquor licenses being issued to establishments that dispense gasoline, we are creating an environment that will replicate the Ventura County problem. Instead of grabbing a Coke and bag of chips with their gas purchase, we are providing the opportunity to grab a pre-mixed Jack and Coke or two – isn't convenience great!

That's the Best We've Been Able To Do

Another point of contention in the privatization debate is the effect increased access has on consumption and thereby the social problems associated with increased use of alcohol.

Proponents of privatization argue that increased access to alcohol through privatized sales will not increase consumption while opponents strenuously point out that increased access will in fact lead to increased consumption – and the attended social ills associated with increased use of alcohol.

For a better perspective on this divisive issue, we offer the following insight directly from the horse's mouth if you will – a liquor manufacturer.

In a book entitled "Dying to Drink" the author, Dr. Henry Wechsler, discusses a rare and frank commentary from Paul Clinton, the President and CEO of a giant distiller that happened to have an interest in the production of beer, wine and liquor.

In remarks published in an alcohol trade journal, Mr. Clinton lamented that "moderate" drinking was rejected by a large segment of the American public.

Mr. Clinton said that "only about one-third of the country believes drinking can be part of a balanced life" and added that one-third believes it cannot and the other third is unsure. He then commented that in the seventy years since Prohibition, "that is the best we have been able to do."

To correct what he saw as a problem, he advocated for increased access and availability to alcohol including selling liquor "around the clock and on Sunday." He further advocated, that where laws prohibited such access, "we'll need to work together, with our retail partners, to make sure those laws change."

While Mr. Clinton's perspective may not be an approach shared by all liquor manufactures, his frank and somewhat blunt call to do whatever it takes to sell more alcohol proves that the producers are well aware that increased access leads to increased consumption.

We believe that Mr. Clinton's call for increased access in order to persuade more people to consume alcohol settles the increased access/increased consumption issue. If the privatization proponents wish to debate this issue further, we suggest they contact Mr. Clinton.

Cost of the Current System

The current system has not cost the state -- or more importantly its taxpayers -- one penny in eighty years. The system is self-supporting and pays all costs associated with its operation including salaries, benefits, pensions and related cost for all its employees out of its sales revenue.

Under the current system, if you do not consume alcohol, you do not pay one cent toward the operation of the system.

In fact, the current system is not only totally self-supporting, but has generated over $530 million in revenue last year. This includes $494 million contributed to the state treasury and an additional $36 million in funding for alcohol enforcement, drug and alcohol programs and municipal budgets.

At a time when elected officials throughout this Commonwealth are concerned with decreasing revenue and increased costs to maintain programs and services, it makes no sense to target for elimination an income producing system and transferring that income to private enterprise.

Washington State Experiment

The liquor and wine privatization experiment playing out in the state of Washington is just the most recent example that privatization has been a failure in other states. Despite the lofty promises of cheaper prices, increased selection and improved convenience, the opposite have occurred.

Reports on the Washington experiment show that consumers are paying much more at private retailers for many types of wine and liquor. In fact, according to media reports, residents are crossing the borders to Idaho and Oregon -- jurisdictions with state-run liquor stores -- for cheaper prices.

Additionally, in Washington, selection has diminished greatly. It has been reported that Costco, the largest private retailer in the state, stocks only 70-150 products. The average Pennsylvania state stores stocks over 2500 items and specialty stores stock over 5000 items.

Small, independently owned liquor stores in Washington have been forced to shut their doors because they can't compete in a market dominated by large, corporate owned box stores and retailers such as Costco, Wal-Mart and Walgreens.

The loss of independently owned liquor outlets has negatively impacted convenience. It is expected that the same corporations will dominate the market in Pennsylvania under a privatized system with similar results.

Understandably, increased prices, decreased selection and less convenience have resulted in a severe case of "buyer's remorse" from Washington consumers who were promised more and expected better under a privatized liquor system. Pennsylvanians are not willing to accept the same empty promises and similar results.

We have included two recent articles from Washington state news outlets to further substantiate the struggles that small, independently owned businesses are having in the privatized liquor market in the state of Washington. For the sake of our "mom and pop' businesses, we can only hope that the small business advocates in Pennsylvania have seen these articles as well.

Public Support Declines

After nearly two-and-a-half years of public debate over liquor privatization -- and despite repeated claims that the public is overwhelming in favor of privatizing alcohol sales -- public attitude is shifting in favor of the current state store system.

The polling numbers from the latest Franklin and Marshall College Poll is proof that the public is paying attention to this very important public policy debate and they are not buying the empty promises of privatization.

Privatization is a "sound bite" that usually polls well but as voters learn the specific details and impacts of such plans, privatization loses its luster with the public.

The latest polling reveals an overall decline of 22% in public support for privatization since this debate began.

- A June 2011 poll by Quinnipiac University indicated that 69% of respondents supported privatization;
- A February 2013 Franklin and Marshall College Poll showed only 53% of those surveyed supporting privatization.
- A May 2013 Franklin and Marshall College Poll showed that only 47% of voters favored privatization.

More importantly, the latest F&M poll showed that 57% of the respondents believe the state-owned liquor stores should be retained - only 37% believe they should be sold to private companies.

The more people learn about liquor privatization, the less they like it. As the privatization debate continues, facts will replace empty promises and public support will continue to wane.

When Rep. Turzai first rolled out his privatization plan, he did so with the promise of generating $2 billion in new revenue for the Commonwealth. That grossly inflated revenue projection helped to artificially inflate public support for privatization.

The promise of significant revenue -- without a tax increase -- made it easier for normally conservative Pennsylvanians to accept a bad idea. When those revenue projections were proven to be significantly exaggerated and unrealistic, public support started to plummet.

The decline in public support can also be attributed to the realization that increased convenience, better selection and lower prices would not materialize under privatization as witnessed in the Washington state experience.

Just like the privatization of the PA Lottery, our taxpayers are not willing to turn over our state stores -- a valuable state-owned asset which produces much needed revenue for vital state programs -- to faceless corporations at the expense of the Commonwealth.

Misplaced Priorities

State store privatization is simply not a priority issue to any great number of Pennsylvania residents or voters. Pennsylvania families don't sit around the dinner table with their children and talk about state store privatization.

The latest Franklin and Marshall College Poll indicates that privatization of the state store system ranks 10th in a list of 11 priority issues that voters considered important to them – only privatization of the lottery ranked lower.

While debate in Harrisburg has centered on efforts to privatize the state liquor stores, the F&M poll shows that voters want the legislative focus to be on the economy, creating jobs, or improving public schools – those are the important issues voters want state government to address.

The latest F&M Poll contradicts repeated claims by privatization supporters that the public wants privatization of the state store system and proves that focusing on the privatization issue is an example of totally misplaced priorities. Unfortunately, the Governor continues to expend an inordinate amount of political capital in his efforts to assist large corporations to steal revenue producing assets from the citizens of the Commonwealth and put the profits in their own pockets instead of the state treasury.

We believe the Governor is ill-advised to place the revenue driven corporate interests over the true needs of our residents. There are a host of issues that are more deserving of the Governor's time and focus. It is time that the Governor and the Legislature address issues of real importance to their constituents.

The voters of Pennsylvania want the General Assembly to address issues that have a true and positive impact on their daily lives. It is time we stop worrying about Pennsylvanians' liquor cabinets and concentrate on issues that are important to our citizens.

<u>Conclusion</u>

Sadly, after toying with the privatization concept for more than two years, the House has sent the Senate a completely unworkable plan and expects the Senate to craft a reasonable alternative in less than two months. With all due respect, given the complexity of the current system and the financial impacts on the current and future budgets, we would suggest that is an impractical expectation.

Likewise, we believe it is totally irresponsible to link passage of liquor privatization to other important legislative initiatives that truly benefit all Pennsylvanians. A "quid pro quo" approach to important legislative initiatives - such as transportation funding - is reprehensible. The public demands and deserves better from their elected officials.

There are numerous issues more important to a great number of Pennsylvanians that the Senate, House and Governor could focus on in the waning days prior to the adoption of the budget – again, legislating Captain Morgan on the same grocery shelf with Captain Crunch is not one of them.

If the Senate feels compelled to address liquor related issues in the remaining days of the spring session, we would strongly suggest that you focus your attention on maintaining the revenues from the current system - not rushing to eliminate it. That approach will be more beneficial to your constituents in the long term than either partial or full privatization.

Please be judicious and deliberate about such an important issue as privatization of alcohol sales. Don't be held hostage for a quick fix by an arbitrarily established deadline. The approach you take will have a lasting impact on future state revenues - and more importantly, your constituents and the taxpayers - for decades to come.

The outcome of your deliberations should be based on what will be viewed as a sound public policy win – not a political win.

INDEPENDENT STATE STORE UNION TESTIMONY
SUPPORTING DOCUMENTATION

SENATE LAW AND JUSTICE COMMITTEE
HEARING ON PRIVATIZATION OF THE STATE STORE SYSTEM

JUNE 4, 2013

Attachment #1
Pols reluctant on PLCB change
Washington *Observer-Reporter*, April 8, 2010

Attachment #2
Times In-Depth: What are the prospects for privatizing wine and liquor in Pennsylvania?
Erie *Times-News*, June 6, 2010

Attachment #3
Other states did not make money on ABC privatization
The Washington Post, September 7, 2010

Attachment #4
Montana Community Change Project – DUI Offender Survey Report
Excerpts from the report published April 2009

Attachment #5
Alcohol Consumption Patterns in North Dakota: Survey of DUI Offenders
Excerpts from the report published September 2012

Attachment #6
Dying to Drink: Confronting Binge Drinking on College Campuses
Excerpts from the book published by Henry Wechsler, Ph.D.

Attachment #7
Small liquor stores struggling to compete with big retail
KIMA –TV News, May 8, 2013

Attachment #8
The liquor store hangover: The dreams turn to nightmare for some small businesses after sales went private
The *News Tribune*, Tacoma, Washington, December 9, 2012

ATTACHMENT #1

Observer-Reporter

Date: Thursday, April 08, 2010
Location: WASHINGTON, PA
Circulation (DMA): 32,086 (22)
Type (Frequency): Newspaper (D&S)
Page: A7
Keyword: Pennsylvania Liquor Control Board

Pols reluctant on PLCB change

Though a growing number of rank-and-file lawmakers are at least willing to discuss, and in some cases openly support, privatization of the Soviet-style Pennsylvania liquor store system, such proposals have found little traction among legislative leaders and the governor's office.

And it seems those who favor getting the state out of the retail wine and liquor business won't get much help from candidates to succeed Gov. Ed Rendell, especially the leading contenders on the Democratic side.

When asked by this newspaper about their stance on the issue of privatization, Democrats Joe Hoeffel, Jack Wagner and Dan Onorato were united in favor of the status quo.

A spokesman for Hoeffel said simply that the former congressman from the Philadelphia area opposes privatization.

The communications director for the Onorato campaign said the Allegheny County chief executive favors the current liquor store system because it "generates significant revenue for the state each and every year, and it keeps liquor out of the hands of minors." However, Onorato would like to see the Pennsylvania Liquor Control Board become more responsive to consumer needs, "such as by putting stores inside large grocery stores."

An official with Wagner's campaign noted that the current state auditor general, while serving as a state senator, led the opposition when then-Gov. Tom Ridge attempted to privatize the system, and he believes that the commonwealth has "a professional, responsible and profitable liquor control system." Wagner is, however, willing to consider privatization or contracting out some public enterprises, provided that workers' jobs and rights are protected, significant money is saved and quality and accountability are maintained.

On the Republican side, frontrunner Tom Corbett, now serving as state attorney general, said privatization of the state store system "will not be a priority for the Corbett administration."

Like some of his Democratic counterparts, Corbett cites the recurring revenue provided by the current system, as opposed to what he calls a "one-time infusion of revenue" that would be provided by a sell-off.

"The lack of political will in the state Legislature to privatize the system suggests that political capital should be spent on other revenue-generating priorities," said Corbett.

To answer one of the concerns ex-

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pressed by the candidates, the shift of the state stores to private owners can be structured in such a way – through licensing, fees, taxes, etc. – that the level of revenue provided to the state can be maintained. In fact, most of the cash that the PLCB boasts of turning over to the general fund every year is tax money that also would be collected by private businesses operating liquor stores.

And the idea that turning over wine and liquor sales to private businesses would result in people who shouldn't have alcoholic beverages suddenly being able to obtain them is silly. Young people and inebriates who want alcohol are getting it now, and private licenseholders aren't going to risk their investment and livelihood by doling out liquor willy-nilly to drunks and children.

While there probably is little hope that Democrats, who typically are beholden to organized labor, would upset the applecart by eliminating the union PLCB jobs, we hold out hope that Corbett, if elected, eventually would hew to the long-held conservative belief that private enterprise can always do a better job than the government.

For too long, Pennsylvanians who are legally permitted to purchase wine and liquor have been inconvenienced by a system that features poor selection, poor locations, limited hours and, in many instances, poor service from employees who have little knowledge of the products they are selling.

The people of the commonwealth deserve better.

ATTACHMENT #2

PUBLISHED: JUNE 06. 2010 12:01AM

Times In-Depth: What are the prospects for privatizing wine and liquor sales in Pennsylvania?

By ED PALATTELLA - ERIE TIMES-NEWS

The state of Pennsylvania is the largest single purchaser of alcohol in the United States and the second-largest in the world. Monopolizing the market is the Pennsylvania Liquor Control Board, created in 1933. A new proposal in Harrisburg aims to sell the state-run liquor stores and privatize the industry. Lots of people already want to put a cork in the idea.

Cathy Stevens and Alice Skaff, relatives in town for a family reunion, had to make two shopping trips during a recent visit to the Yorktown Centre on West 12th Street in Millcreek Township.

They bought their groceries at Giant Eagle. They bought their liquor at the state-run Wine & Spirits Store. Then they walked back to Giant Eagle to catch up with the rest of their group. Stevens and Skaff could not buy everything they needed in one place. The state of Pennsylvania won't let them.

It's been like that since 1933, when the federal government repealed Prohibition and the Pennsylvania Liquor Control Board was born.

The PLCB created the system that requires Pennsylvanians to buy their liquor and wine at state-run stores and their groceries and beer somewhere else.

That's not the setup in Florida, where 46-year-old Skaff lives. She can buy wine at the grocery store and liquor at a store that can be directly connected to the supermarket. That's also not the system in Virginia and Maryland, where Stevens once lived.

Both states have less restrictive liquor regulations than Pennsylvania, one of only two states -- Utah is the other -- that fully control the wholesale and retail sales of wine and liquor.

"Pennsylvania's liquor system -- it's weird," said Stevens, 40, who moved to Philadelphia three years ago. "The laws are so old." And, once again, under scrutiny in Harrisburg.

In the latest attempt to change Pennsylvania's liquor-control regulations, the second-highest ranking Republican in the state House is pushing to privatize the state's wholesale and retail liquor operations, including selling the 621 state stores.

Rep. Mike Turzai, of Allegheny County, said his proposed legislation, unveiled in April, would raise $2 billion and continue to allow the state to collect hundreds of millions of dollars in annual tax revenue from the sale of liquor and wine.

Those are what Turzai said would be the economic benefits of his deal.

Just as important, he said, would be the benefits to the consumer -- more convenience, a better selection and the elimination of a government-run monopoly.

"We need to move into the 21st century," said Turzai, the Republican whip in the House, which the Democrats control.

The last time the Legislature heard a major push for privatization was 1997, when then-Gov. Tom Ridge introduced a plan to overhaul the PLCB. It went nowhere, as did a similar proposal from then-Gov. Dick Thornburgh, a fellow Republican, in 1983.

More than a decade after Ridge's effort, Turzai is likely to face the same challenges in finding support for his proposal: lack of political commitment in Harrisburg, concerns about public safety if sales of alcohol are less regulated, and the strength of the labor union that represents thousands of PLCB workers.

Turzai has an answer to each of his critics. Most of all, he said, he believes public sentiment is on his side, particularly with the state's precarious finances.

Lagging tax collections have left Pennsylvania with a shortfall of more than $1 billion for the current budget, which ends June 30. Turzai said no one wants to raise taxes, making privatization of wine and liquor sales even more attractive.

"None of us has a choice," he said. "Why let a good crisis go to waste?"

How the money flows

Scattered throughout Erie and Crawford counties are 20 enterprises that are guaranteed to make money -- the Pennsylvania Liquor Control Board's stores.

The businesses occupy an ideal economic position. They sell a highly desirable product that customers can buy nowhere else.

The sales can be high, as can the profits. Of the 20 local stores -- 15 in Erie County and five in Crawford County -- the most successful netted $549,987 in the most recent fiscal year, July 1, 2008, to June 30, 2009.

The business is Wine & Spirits Store No. 2514, located at 2501 W. 12th St., in the Yorktown Centre, where Cathy Stevens and Alice Skaff recently shopped.

The operation of the state-run liquor stores and the market they corner has made the PLCB the second-largest single purchaser of alcohol in the world, behind only the Liquor Control Board of Ontario.

The PLCB made $1 billion in purchases in fiscal 2008-09, recorded $1.9 billion in sales and transferred more than $500 million to the state treasury -- including $125 million in profits alone.

"There is a lot of money riding on the table here," said Antony Davies, Ph.D., an associate professor of economics at Duquesne University, who co-authored a recent study advocating privatization.

The PLCB makes money by following its rules and automatically marking up liquor and wine by 30 percent before selling it to the customer.

The board generates tax revenue by imposing the 6 percent state sales tax and an 18 percent state liquor tax, also known as an "emergency tax" or the "Johnstown flood tax," which has been around since 1936. The board also collects what Turzai called a "stealth" tax -- a handling fee that can be as high as $1.50 per bottle, depending on the size.

The taxes on liquor and wine generated $109.5 million in revenue in fiscal year 2008-09, according to PLCB records. The liquor tax generated $266.3 million.

Overall, the PLCB generated $500.8 million in revenue for the state in fiscal 2008-09. The current state budget is $27.8 billion.

A large payroll

The profits are what's left over after the PLCB pays expenses, including leases, administrative costs and payroll. The PLCB paid out a total of $147.3 million in salary and overtime in 2009.

In 2009, the PLCB employed 4,896 full- and part-time staffers, according to payroll records the Erie Times-News got through a request under the state's Right to Know Law. The PLCB said that number does not include seasonal workers.

PLCB workers are state employees, with those eligible receiving state-funded health and pension benefits.

The average annual pay for the 4,896 employees was $30,091, including overtime.

Of the 4,896 employees:
- 667 earned more than $50,000.
- 105 earned more than $70,000.
- 46 earned more than $80,000.
- 14 earned more than $100,000.
- Four employees received more than $20,000 in overtime.
- 42 received more than $10,000 in overtime
- 379 received more than $5,000 in overtime.
- Overtime totaled $7.3 million in 2009.
- The highest amount of individual overtime pay was $25,726, which went to a general manager of a liquor store.
- The highest-paid employee was the PLCB's chief executive, Joe Conti, a former state senator from Bucks County, who made $154,772. He was hired in 2007.

Conti called Turzai's proposal "thoughtful" but said the PLCB would leave the decision to privatize up to the Legislature. He said the PLCB is committed to improving its system to best serve "our shareholders -- the people of Pennsylvania."

A powerful union

The PLCB's employment and pay numbers are among the most significant for the state's liquor and wine industry.

One factor has consistently emerged as the most powerful in keeping the PLCB intact: the size and political strength of its unionized work force.

"We make no apologies for wanting to represent our members and protect our members' jobs," said Kevin Kilroy, director of public affairs for the Local 23 of the United Food and Commercial Workers International Union. "Pennsylvania can ill afford to lose those types of jobs."

The union's four locals represent the PLCB's clerks and assistant managers. Kilroy, whose office is in Canonsburg, said the PLCB's employees are well-trained, and are instrumental in protecting local communities by guarding against minors buying alcohol.

#2

"If they were forced to go to a mass retailer, who knows what they would be making?" Kilroy said of the PLCB employees. The current system, he said, "is a better deal for everybody all around -- and we'd like to see it stay that way."

Is the union concerned that the Legislature might change its mind and move to privatization?

"You can never be sure," Kilroy said. "Obviously, we have made our position clear to the General Assembly."

Gov. Ed Rendell has heard the message. The Democrat, who has six months left in his second and final term, has no intention on lobbying for privatization. "It doesn't seem to be something that is politically realistic," Rendell spokesman Gary Tuma said.

Over the past several years, Tuma said, the PLCB has become friendlier to consumers. Supporters of the board cite the addition of Sunday hours and the expansion of wine selections.

The PLCB, Tuma said, enjoys backing from a broad coalition: "sound union support"; Pennsylvania residents who don't want to see liquor become more available, particularly among minors; and lawmakers who don't want to see the PLCB revenue decline.

"From a budget standpoint, it is not a loser," Tuma said. "It makes money."

Others in Harrisburg also are unlikely to embrace privatization, particularly because the PLCB brings in so much money, said David Raskin, who teaches English and communications at Temple University. He wrote a piece on privatization for Governing magazine in September.

"They've got a good thing going," Raskin said, "and they don't want to chance it."

Raskin also questioned the public reaction. While the population in general might not be so fond of the current system, there "are a lot of regulations that are an irritant. I don't think people are all up in arms," he said.

'We have to be bold'

Like Rendell's office, Turzai said he also understands the political realities of privatization.

"Do I think we can get it done with this governor? I don't think so," he said.

He said he expects his plan would get more support from a Republican governor, such as GOP gubernatorial nominee Tom Corbett, the state attorney general.

But Corbett is not backing the plan, either. His campaign said in a statement that privatization would "not be a priority for the Corbett administration."

"It is currently an ongoing source of revenue whereas selling the stores off would provide a one-time infusion of revenue," the campaign said. "The lack of political will in the state Legislature to privatize the system suggests that political capital should be spent on other revenue generating priorities."

Turzai said his plan would make sure the wine and liquor stores continue to provide substantial tax revenue. He said he would design privatization so that PLCB employees would get priority hiring for other Civil Service positions in Pennsylvania.

And he said the PLCB and the state police still would maintain enforcement duties, such as guarding against sales to minors. Most Pennsylvanians, he said, realize the need to drink responsibly.

"But we don't need to have a nanny state about it," he said.

That is one of the primary arguments of Antony Davies, the Duquesne professor who supports privatization.

The Commonwealth Foundation, an independent, nonprofit research organization, in October published the study "Government-Run Liquor Stores: The Social Impact of Privatization."

Its key finding: "A comparison of states with varying degrees of privatization ... over the period 1970 through 2006 suggests that privatization is associated neither with increased alcohol consumption nor increased traffic fatalities involving impaired drivers."

In an interview, Davies said privatization, in terms of social effects, would not hurt Pennsylvania.

As for a strong PLCB representing the best way to control alcohol consumption, Davies said:

"I got a problem with the state looking to monitor social behavior. That is a role for parents and the church, not the state."

Turzai cited Davies' study in his proposal for privatization. He also cited the experiences of 48 other states. If privatization and competition works for them, he said, why not Pennsylvania, and why not now?

"We have to be bold," Turzai said.

#2

That's a valuable message to a customer like Skaff, the shopper at the Wine & Spirits Store at the Yorktown Centre, who said she favors privatization.

"Don't stop trying," she said. "That is the only way that things are going to change."

Staff writer Mike Maciag contributed to this report.

ED PALATTELLA can be reached at 870-1813 or at ed.palattella@timesnews.com.

http://www.goerie.com/apps/pbcs.dll/article?AID=/20100606/NEWS02/306049878

ATTACHMENT #3

The Washington Post

Virginia Politics

News and Notes on Politics in Richmond and Northern Virginia

Other states did not make money on ABC privatization

KUMAR

As we reported over the weekend, Virginia probably should not expect expect either a financial windfall or a level of income that matches what state-run liquor stores currently add to Richmond's bottom line, according to a *Washington Post* analysis of other states that have privatized at least part of their alcohol sales.

Gov. Bob McDonnell (R) said he expects to make $500 million upfront while retaining nearly $250 million in taxes and profits to the state each year by doing what no control state has done – privatizing the wholesale, distribution and retail. He will announce his proposal Wednesday.

Iowa and West Virginia, the only two states that have fully privatized their retail stores in the last two decades, each made less than $20 million upfront when they privatized. Officials there say the change helped them become more efficient and saved overhead costs, but never produced the anticipated windfall.

In West Virginia, during fiscal year 1990, the last full year before privatization, $9.7 million was sent to the state after expenses, according to Kimberly Osborne, a spokeswoman for West Virginia Department of Revenue relying on prior year's records. In fiscal year 1992, the first full year after privatization, $6.6 million was sent to the state after expenses, according to Osborne.

Maine, which leased out its wholesale operation to help close a $1 billion shortfall in the $5 billion budget, received $125 million upfront, but continues to collect less money each year than it would have had it stayed in the business.

The state receives about $6 million a year, officials said. It was receiving $28 million to $30 million each year before privatization.

See a full list of 18 control states and what systems they use now.

In Iowa, Senate Republican Leader Mike Gronstal, who helped push privatization through the Senate, said legislators constantly touted the possibility of a massive windfall.

"If you wanted to sell off everything, there was a potential for millions," he said. "But there was some real fear about losing the annual money."

Sixteen years went by before Iowa's tax and fee receipts from liquor sales – which fund substance abuse treatment and prevention, aid to localities and the state's general fund -- reached the level that alcohol had brought in when Iowa ran its own stores, according to the state's Alcoholic Beverages Division.

Iowa chose not to privatize the wholesale portion of the liquor pipeline because the state stood to lose $60 million to $70 million each year if it did, said former House Speaker Don Avenson, a Democrat who strongly supported the bill. Instead, Iowa privatized only its retail operation, and now has about 800 private stores selling liquor.

The first year the state saved $3.7 million dollars and took in an additional $9-million -- primarily from selling off its liquor inventory -- though it had expected $17-million, according to interviews and news reports.

During the last fiscal year, Iowa made nearly $3.7 million in license fees -- a figure that has gradually increased since 1987, state figures show. Each license costs $750 to $7,500.

But the money from liquor sales to the state for the general fund, substance abuse treatment and prevention, marketing and aid to localities dropped considerably after privatization.

In fiscal year 1986, the last full year before privatization, $71.6 million was sent to the state after expenses, according to Tonya Dusold, a spokeswoman for the Iowa Alcoholic Beverages Division relying on prior year's records. In fiscal year 1988, the first full year after privatization, $46.3 million was sent to the state, according to Dusold. It took Iowa until 2004 to reach pre-privation levels.

By Anita Kumar | September 7, 2010; 1:50 PM ET

ATTACHMENT #4

Montana Community Change Project

DUI Offender Survey Report – 2008

Prepared by

EVALCORP
Research & Consulting

for

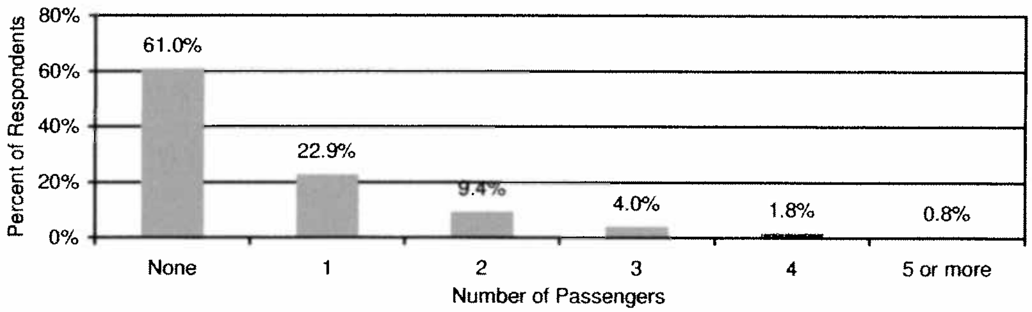
IPS

April 2009

Brought to you by The Montana Community Change Project and the Institute for Public Strategies
Funding provided by the State of Montana, Addictions and Mental Disorders Division
For more information contact the Institute for Public Strategies at (406) 551-4867 or email MTinfo@publicstrategies.org

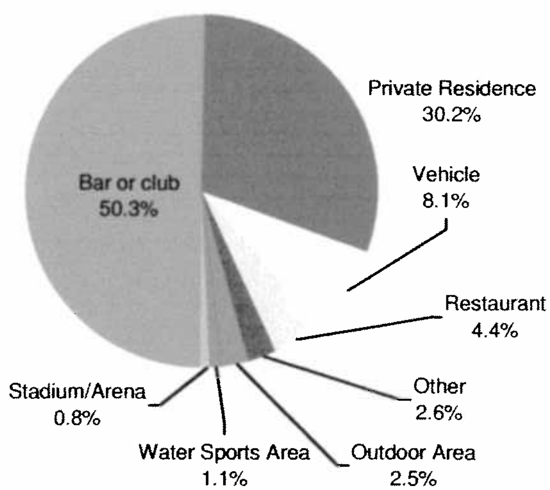
Typically, when stopped, respondents had no passenger in the vehicle at the time of the stop (61.0%) (Figure 5).

Figure 5. Numbers of Passengers When Respondent Stopped for DUI



The most common location where respondents consumed their last drink (a.k.a., place of last drink, or POLD) is a bar or club, as reported by 50.3% of respondents (Figure 6). A private residence is the next most common response (30.2%) followed by a vehicle (8.1%), restaurant (4.4%), other area (2.6%), outdoor area (2.5%), water sports area (1.1%) and stadium/arena (0.8%).

Figure 6. Place of Last Drink



The place of last drink may be associated with a number of factors, one of the most common being age. Young persons under the legal drinking age are usually less likely to be consuming alcohol in a bar, club, or restaurant because of their age. Of the 446 respondents under the age of 21, their most common place of last drink is a private residence (63.8%) while those 21 and older are more likely to report a bar or club as their place of last drink (56.4%) (Figure 7). Only 8.3% of those under 21 indicate that they were at a bar or club for their last drink.

ATTACHMENT # 5

Alcohol Consumption Patterns in North Dakota: Survey of DUI Offenders

Andrea Huseth, Associate Research Fellow

Andrew Kubas, M.S.

Upper Great Plains Transportation Institute
North Dakota State University
Fargo, North Dakota

September 2012

5.4 Drinking Place as a Risk Factor for DUI

To fully understand the tendencies of convicted DUI offenders, it is necessary to examine the place where alcohol was consumed as a determinant of high-risk behavior such as driving under the influence of alcohol. Based on information from the literature review, it is commonly accepted that ambience, social pressure, and self-control can influence the amount of alcohol consumed by an individual. Thus, different drinking environments can impact the likelihood that an individual may over-drink and subsequently choose to operate a vehicle afterwards.

DUI offenders were asked to identify the place where they consumed their last drink prior to being arrested. A majority, 61.6%, had their last drink at a bar, club, or restaurant (Figure 5.13). Although respondents were asked to provide the name of the establishment, no single establishment had more than 16 (1.5% of the total sample) DUI offenders consume their last beverage at that location. About one-fifth (19.3%) consumed their last drink at someone else's residence. A smaller proportion, 12.0%, had their last drink at their own residence prior to operating a vehicle. Approximately one in twenty-five (4.3%) individuals reported drinking their last alcoholic beverage in their vehicle prior to being arrested. This is comparable to similar studies discussed in the literature review.

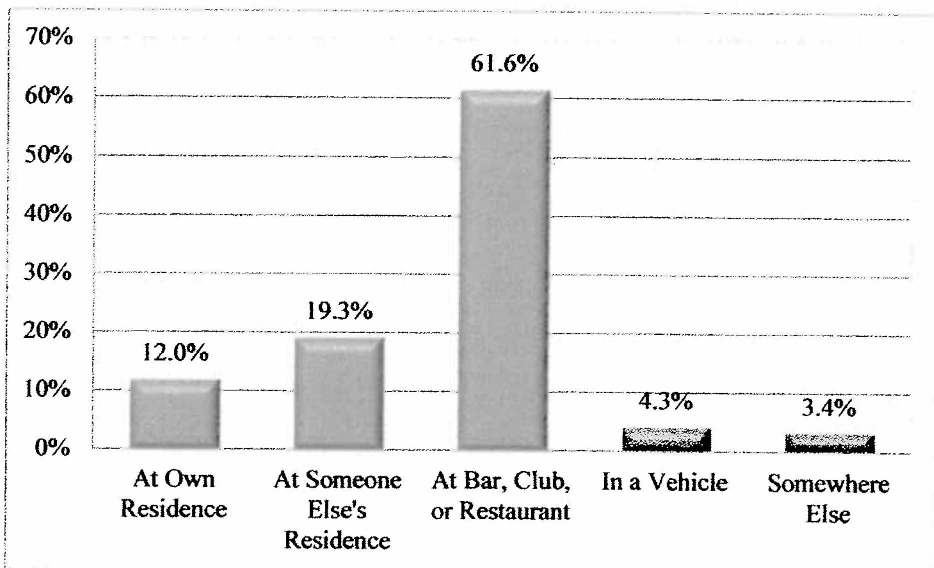
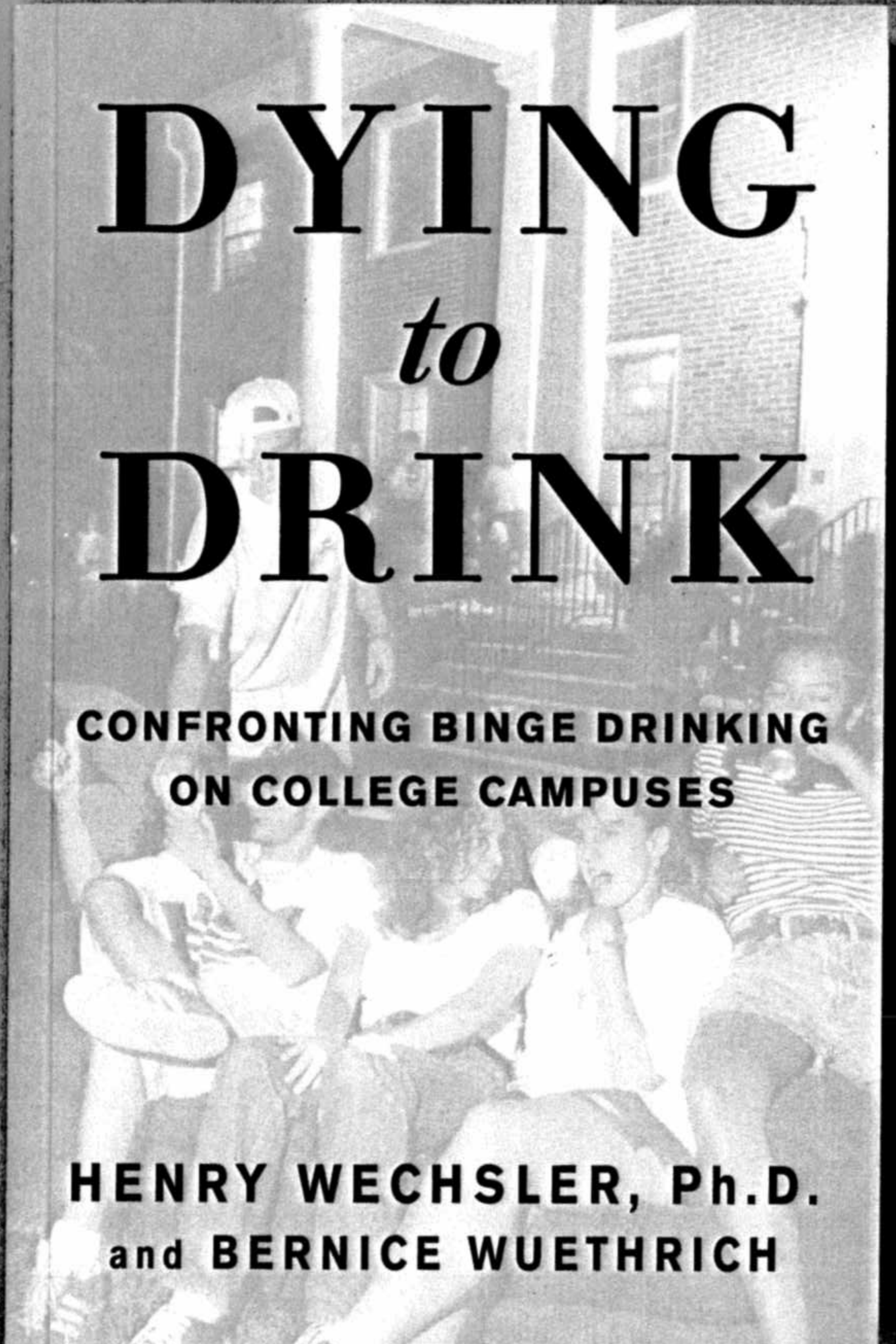


Figure 5.13 DUI Offender Place of Last Drink

Attachment #6



ATTACHMENT #6

as anywhere up to five drinks in one sitting—an amount that we know regularly results in serious problems.

"The social norm that I have not seen in educational programs is the fact that alcohol is unimportant for the vast majority of the American public," said Robert Hammond, director of the Alcohol Research Information Service in Lansing, Michigan. "That's the social norm that I think would be more effective for kids to understand. If college students think the social norm is to keep it at under five drinks in a sitting, they're going to have trouble."

According to *AII*, Paul Clinton, president and CEO of the giant distiller Guinness/UDV North America, bemoaned the rejection of "moderate" drinking by a large segment of the American public. "Only about one-third of the country believes drinking can be part of a balanced life," Clinton said. He added that another third says it cannot, and the remaining third is unsure. Clinton regaled the industry, saying that in the seventy years since Prohibition, "that's the best we've been able to do." To correct this situation, he advocates increasing the availability of alcohol, including being able to sell liquor "around the clock and on Sunday." If local laws prevent that, "we'll need to work together, with our retail partners, to make sure those laws change."

This surprisingly frank exhortation to do whatever it takes to sell more alcohol, including aggressively changing local laws, was printed in a trade publication read almost exclusively by members of the alcoholic beverage industry. It reveals an aspect of industry thinking that is carefully avoided in presenting industry goals and intentions to the general public.

Further, the industry has followed its push for increased "moderate" drinking with an attack on the word *binge*. This controversial and confrontational move is no ivory-tower debate. It has prompted outrage among health professionals and has been reported on the front page of the *New York Times*. The attack on the term

(continued on page 146)

#6

CHAPTER 7

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ATTACHMENT # 7

KIMA News

Small liquor stores struggling to compete with big retail

By Luke Duecy Published: May 8, 2013at 10:07 AM PDT

CLINTON, Wash. -- Almost a year after the state privatized liquor sales, more and more small, independent stores around the Puget Sound region are going under. They complain they can't compete with big retail and grocery stores.

"It's aggravating - there's not much we can really do about it," said Sean Niesel.

When Niesel opened Emerald City Spirits in Seattle, he thought he'd rake-in the big bucks.

Instead, "we're just about breaking even here."

Jan Neil says same for her liquor store on Whidbey Island.

Lower prices at nearby grocery stores are driving their stores out of business.

"Out of the association for contract liquor stores, we've lost more than 20 just in the last two quarters," Neil said.

The trouble began last year when voters passed Initiative 1183 to privatize liquor sales. Immediately, liquor manufacturers offered big-box stores and grocery chains huge discounts for buying bulk, while smaller store owners still pay the full wholesale price.

Add on top that 17 percent state tax and store owners say it's impossible to compete.

"We're not like Costco or grocery stores where they can add that 17 percent to bread, eggs, whatever they want," Niesel said.

According to the state Liquor Control Board, 19 small liquor stores have been forced to close their doors since last June, while 21 others never even opened. Two more small liquor stores on Whidbey Island are close to going under while a liquor store in Everett is just days away from closing up shop.

Now desperate, Neil's tried every deal and gimmick. She also gives 3 percent back to her most loyal customers, but that's also money she's taking out her own profits.

Several liquor stores introduced legislation this year to eliminate taxes for small owners.

"Some sort of rule where we can be exempt," Niesel said.

But it failed. For Niesel, the writing is on the wall.

"I think if things stay the way they are, there's not going to many of us left," he said.

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http://www.kimatv.com/news/local/Small-liquor-stores-struggling-to-compete-with-big-retail-206521771.html

ATTACHMENT # 8

THE NEWS TRIBUNE
thenewstribune.com
BUSINESS

Back to Regular Story Page

The liquor store hangover

The dreams turn to nightmare for some small businesses after sales went private

JOHN GILLIE

LAST UPDATED: DECEMBER 9TH, 2012 12:21 PM (PST)

Early this year when the state put its network of liquor stores on the auction block, many small-business people saw it as their path to prosperity.

Now, six months after liquor sales were privatized, many of those once-eager bidders, who collectively paid the state more than $31 million for the rights to the state's former stores, have discovered their adventures in retailing are a road to ruination.

"I don't think there's anyone who bought a retail liquor store who's making any money," declared Jasmel Sangha, the interim president on an infant organization formed by concerned store owners, the Washington Liquor Store Association.

"There's just a lot of pain out there," he said.

No one knows precisely how many successful bidders for the state's former network of 167 retail liquor stores are no longer in business. There are no firm numbers yet from even the Washington State Liquor Control Board or the Washington Department of Revenue, who license and collect taxes from spirits retailers.

Sangha thinks the casualty rate is near 30 percent.

"My best estimate is that at least 50 of the people who bought the rights to the retail stores aren't operating today," he said.

The liquor board says it knows of 11 stores that have gone out of business, but it acknowledges that's likely not an all-inclusive number.

Sangha is among the casualties. He won the bidding for the rights to operate the only liquor store in Belfair, a small Mason County community at the head of the Hood Canal. With the shores of the canal lined with vacation homes, the community potentially could be a strong market for liquor.

Sangha thought he might have to bid $20,000 for the rights to the former state store in Belfair. When bidding turned lively, the Lacey businessman ended up paying $75,000. Buying the store's inventory and other costs raised his final outlay to $100,000, he said.

When he approached the state's landlord about signing a new lease, he declined to negotiate. The landlord's largest tenant, Safeway, had invoked a clause in its leases that allowed it to exclude competitors.

Under the provisions of Initiative 1183, which mandated the state's exit from the liquor business, Safeway and hundreds of other larger stores ranging from Walmart to Walgreens were now the former state stores' competitors.

The liquor store association president, limited to locating within a mile of the former state store by liquor board rules, said there was no other suitable retail location in the small community.

Sangha isn't alone in encountering problems with landlords. A group of other successful bidders hired a lawyer, contending that the state should have allowed them to assume the state's leases rather than having to deal with landlords who either couldn't rent to them because of noncompetition clauses or because the state's landlords upped rents knowing that relocating could be difficult and expensive.

Those real estate difficulties are among a handful of roadblocks to profit that liquor store owners say they've encountered.

Among them:

• **High fees.** When privatization backers designed the new system, they created fees to compensate the state for any income it would lose by leaving the liquor business. Those fees, disclosed prominently by the liquor board, require all liquor retailers to pay 17 percent of their gross receipts from spirits sales to the state. Those fees come from the store owners' pockets. The state charges retail customers an additional 20.5 percent sales tax and a $3.77 per liter tax at the cash register. Distributors pay a 10 percent fee on spirits they sell to retail dealers and bars and restaurants.

Without the 17 percent fee, some owners say they'd be making money. With it they're sinking.
Darren Smith, a Tumwater liquor store owner, said the 17 percent fee is a common complaint among fellow liquor store owners. "These people are struggling," he said. "That fee is putting them under."

Sangha contends that many of the liquor store owners are first-generation Americans who didn't clearly understand that the fee would be collected on gross sales, not just on profits.

The liquor board says it very clearly outlined the fees on its website, in bidding documents and in personal briefings with potential owners.

• **The liquor distributors' fee advantage.** Many former state liquor retailers say they've lost virtually all of their bar and restaurant retail business, in part because the law allows distributors to directly serve Class H license holders, such as bars and restaurants. Distributors aren't subject to the 17 percent fee. Depending on the location, under state ownership, bars and restaurants had only one source for spirits, the state stores.

Again, the state said the fact that distributors would have fewer fees to pay was no secret.

The larger distributors, (two, Southern and Young's, own the lion's share of the market) are setting up wholesale-only storefronts to capture even that smaller quantity business. Those stores are open only to Class H license holders.

• **Distributors' pricing power.** Under the new system, distributors can charge whatever prices the market will bear for the goods they sell to retailers, bars and restaurants. That's because most distillers and wineries have signed exclusive marketing and distribution agreements with distributors. That means that for most brands of booze, there's no competition on price among the distributors. Stores can deal with Washington distilleries directly without going through a distributor. However, that is a small fraction of most retailers' business.

Distributors offer volume discounts to bigger customers. As the smallest customers in the liquor retail network, most former liquor stores say they're at a competitive disadvantage to the big supermarket, discount and liquor store chains that buy dozens, if not hundreds, of cases of liquor at a time.

Distributors say those discounts reflect their costs of handling and distributing smaller quantities of liquor. Generally, supermarkets bring their own tractor trailers to the distributors' warehouses for loading and then handle distribution of liquor to their individual stores themselves.

Some retailers say that prices from distributors vary widely week to week and even store to store. Calls to Young's and Southern Distributor for comment were not returned.

• **Out-of-state competition.** Because of Washington's high taxes and fees, liquor in both Oregon and Idaho is substantially less expensive than in Washington. Liquor sales in Oregon stores near the Washington border jumped by 35 percent in June, the first month of privatized liquor sales in Washington, according to Oregon Liquor Control Commission statistics.

In Jantzen Beach, just over the border from Vancouver, Wash., an Oregon liquor store reported a 46 percent increase in sales in June. In Rainier, Ore., on the other side of the Columbia River from Longview, Wash., a liquor store says its sales levels have consistently outmatched last year's summer and fall sales. In Idaho, a Post Falls liquor store expects sales of $10 million this year compared with $6 million last year after just seven months of higher prices in nearby Washington.

The state of Idaho in mid-October opened its first new liquor store in three years near the Washington border to handle cross-border sales.

"We have been somewhat overwhelmed in the change in market conditions as a result of the passage of 1183 in Washington," Jeff Anderson, the director of Idaho's Liquor Division, told Spokane radio station KXLY. "With this change in consumer buying patterns, it became apparent we really needed to provide relief to that Post Falls store. We have been somewhat overwhelmed in the change in market conditions as a result of the passage of 1183 in Washington."

The result for Washington retailers has been a huge sag in business in near-border stores. Sangha said one retail store owner in Vancouver now has only one store open in that Washington community of the four that he purchased.

• **The number and size of competitors.** Virtually every corner drugstore and supermarket in Washington is selling liquor now. The number of outlets has increased five times over pre-privatization times. Coming to the state for the first time are such big-time liquor chains as BevMo and Total Wine and More that are opening spirits superstores with huge selections of wine and spirits. Among the competitors are such huge retailers as Costco, Walmart, Safeway, RiteAid, Walgreens, Target and Fred Meyer. "Those stores don't have to make money on liquor.

They can make it up on bread and meat and cheese and all the other items they sell," said Sangha. The former state liquor stores, although they've added mixers and snacks and glassware to their product mix, still depend on liquor to pay their bills.

• **Tax-exempt sales on military bases.** Nyong Pang, owner of DuPont Cigar & Liquor just across Interstate 5 from Joint Base Lewis-McChord, said she's lost 40 percent of her business since the state left the business and prices jumped.

LARGER BATTLE AHEAD

The liquor store association's Sangha said that if even more of these businesses fail, the tragedy will fall not on the owners but on their friends and families.

The new owners of the state stores are disproportionately first-generation Americans, he said. The association president estimated that more than 80 percent of the new owners are recent immigrants or new Americans.

"These people crowd-sourced their money. They got it from their family and their friends and their relatives overseas.

Pang, for instance, said she got the $150,000 she used to buy the DuPont store from family and friends and relatives in South Korea.

Owners of small liquor stores have joined together to create the association to lobby the liquor board and the Legislature for changes that could level the playing field for small business people. The group plans a statewide meeting this week at Emerald Downs to rally store owners.

The association is interviewing potential lobbyists to take its message to the Legislature, said Sangha. The group had tentatively picked one lobbyist to hire, but the liquor distributors stepped in first to put him on their payroll.

The association is also working to create a buying cooperative that will allow them to increase their negotiating power with the liquor distributors and cut the basic costs of their goods.

"We think that small retailers have a role to play in this business," said the association president. "We hope we last long enough to prove it."

John Gillie: 253-597-8663

john.gillie@thenewstribune.com