Memo

From the House Appropriations Committee (D)

TO: House Democratic Members and Interested Parties

FROM: Rep. Joseph Markosek, Chairman

SUBJECT: House Republicans' Liquor Privatization Proposal (House Bill 466, PN 512) - Five Key Points

DATE: Feb. 24, 2015

Recently, House Republicans reintroduced their proposal to outsource the state liquor system despite the lack of support from the Senate last session for a nearly identical bill. Liquor privatization also lacks support from newly elected Governor Tom Wolf, who has indicated that he supports modernizing the liquor system, rather than privatizing it. Below are five key points to consider about House Bill 466:

1.) Speaker Turzai's privatization proposal would do very little to help close the state's projected $2.2 billion structural budget gap because only about $167 million would be available in the first year.

- Speaker Turzai claims his proposal would generate $1.1 billion in one-time revenue for the state budget; however, it would occur over a two- to four-year period dependent upon when retail and wholesale licenses would be sold.

2.) Pennsylvania taxpayers would lose over the long-term because the state would be selling an asset that provides a steady source of revenue in exchange for a one-time payment.

- The Liquor Control Board generates $80 million in profits annually for the state's General Fund, which would no longer exist under a privatized system.
- Even after considering new revenue from renewal fees and additional business tax collections, the state would lose more than $190 million annually once the system is fully divested, including the $80 million in annual profits. Therefore, the state budget would lose roughly $3 billion over the next 20 years, while businesses would reap the profits. *(Source: HACD fiscal analysis of HB 466, PN512)*

3.) It is unclear whether the Speaker's estimates account for substantial transition costs, including unemployment costs for about 4,000 displaced workers.

- The study commissioned under former Gov. Tom Corbett concluded it would cost about $1.4 billion over five years to fully divest from the retail and wholesale liquor operations, including separation costs for displaced workers.
- About 4,000 full and part-time workers would lose their jobs if the liquor system is outsourced, which would cost the state millions of dollars in unemployment costs and leave payouts.

4.) Consumers would lose under this proposal as prices for wine and liquor will likely increase and prices and selection will vary from store to store and across the state.

- The bill would create a complicated and confusing licensing bureaucracy with at least 30 different possible retail configurations – which is not exactly the one-stop shopping experience supporters tout.
- Liquor prices will likely increase as the licensing fees are passed on to consumers in the form of higher prices. Additionally, there will be mark-ups at the wholesale level and the retail level, as compared to one standard mark-up under the current system.

5.) House Bill 466 would significantly increase the number of locations selling wine and spirits, but yet provides no additional support for drug and alcohol programs or law enforcement.

Additionally, the facts do not support other claims from the bill's supporters. Here are three examples:

- Supporters claim Pennsylvanians prefer to outsource the current liquor system; however, a recent poll by Franklin & Marshall showed that 57 percent of Pennsylvanians preferred to modernize the state liquor system or leave it alone, rather than sell it to private companies. *(Source: Franklin & Marshall College Poll, July 2, 2014)*
- Supporters claim liquor privatization will lead to lower prices for shoppers; however, consumers will most likely see higher prices as businesses pass on the upfront licensing fees and renewal fees to consumers. *(Source: HACD fiscal analysis of HB466, PN512)*
- Supporters claim there is significant "border bleed" (i.e. Pennsylvanians who travel out-of-state to buy wine and spirits); however, more than 15 percent of the LCB's online sales are from out-of-state customers. *(Source: PLCB's 2013/14 Annual Report, Page 24)*. In addition, an LCB analysis of state store sales in October 2013 revealed three percent of sales that month were from customers with out-of-state ZIP codes. (*Source: Could PA Benefit from 'Border Bleed' When Others Come Here to Buy Booze?, By Jeff Frantz, PennLive, March 6, 2014*)

Under the House Republicans' liquor outsourcing proposal, consumers and taxpayers lose while private companies stand to benefit. Furthermore, Republicans have not held a public hearing on House Bill 466, nor did they hold hearings last session on House Bill 790. The last hearing on liquor privatization in the House was nearly four years ago on a vastly different proposal.

Alternatively, the General Assembly should modernize the liquor laws in Pennsylvania, which will benefit consumers and increase the profitability of the state stores. Modernization efforts would generate at least $125 million more each year for the state. For example, allow the LCB to: open more stores on Sundays and for longer hours; price products according to market trends instead of a fixed mark-up; offer store coupons and other offers; sell lottery tickets; and increase outdated fines and fees to cover its administrative costs. Finally, we should permit out-of-state wineries to ship wine directly to Pennsylvania customers.