Liquor Privatization Fiscal Analysis - Leasing of Wholesale Liquor System and Ultimate Divestiture (House Bill 466, PN 1985)

- The Republican estimates are based on very loose assumptions; therefore, there are no guarantees that leasing the liquor system will bring in the $220 million in revenue they are depending on to balance their 2015/16 budget.
- The Republicans presented this latest plan for leasing the wholesale operations just a few days ago. There have been no hearings or independent studies of the fiscal impact. A thorough analysis of this plan would take several weeks.
  - A proper, independent valuation of the system should be conducted before considering selling or leasing the liquor system.
- The previous version of House Bill 466 sold-off the liquor system for a one-time influx of revenue over the first two to three years.
  - While we do not support the use of one-time revenues to balance the budget, the revenue would have been received up front.
  - Under the revised plan, the one-time revenue is spread over 10 years. While it is still one-time revenue, it will leave the state with a revenue loss up front because the one-time revenue is spread over a longer period of time.
- The Republican estimates do not account for:
  - the cost of running the Liquor Control Board for regulating the new licensees,
  - enforcement costs, which would increase under a private system, and
  - the loss of current profits or the lost opportunity costs from modernizing the liquor system.
- **According to our estimates, House Bill 466 as amended will result in a net loss of more than $20 million in the first year.** Our estimates for 2015/16 take into account the cost of running the Board as operations wind down, as well as transition costs, enforcement costs, the loss of $80 million in current annual profits, the loss of profits if the system were modernized, licensing costs and current transfers to drug and alcohol treatment programs. Even considering new corporation taxes paid by private sellers, there is still a net loss in the first year. Because of many unknown and unmeasurable factors, the estimated revenue loss may be even higher.
- The current liquor system is a valuable state asset that benefits taxpayers. If the state sells the system, a few big businesses will reap the profits, while consumers will pay

higher prices. Businesses will pass-on the licensing and renewal fees to consumers in the form of higher prices.

- According to a recent quote by Senator McIlhinney, chairman of the Senate Law & Justice Committee: *"The liquor system gives us money every year for our budget. Let's be frank, we make money selling liquor. So it is a positive revenue asset for us. The struggle is if you're going to maintain that revenue by divesting and having a new person some in and have them make profit … it's going to have an impact on the liquor prices."*
- Fiscal prudence demands conservative estimates when government depends on a new proposal to generate revenue. In 2013, the Republicans, in their zest to avoid facing a deficit, passed small games of chance in taverns for the first time. Gov. Corbett's office assumed a $156 million revenue gain, and the Republican majority Appropriations Committees concurred in their fiscal notes. It did not prove to be as lucrative as some had thought, the General Assembly lowered the licensing fees and the state has only generated $554,000 in the first full year.
- This Republican privatization proposal would do very little to help close next year's projected $2 billion structural budget gap, and will likely exacerbate it.
- Even after considering new revenue from renewal fees and additional business tax collections, the state would lose significant annual revenue, including the $80 to $120 million in annual profits - especially once the system is fully divested. Therefore, the state budget would lose significant revenue over the long term, while businesses would reap the profits.
- House Bill 466 significantly increases the number of locations selling wine and spirits, but provides no additional support for drug and alcohol programs or law enforcement.