Memo

The House Appropriations Committee (D)

TO: House Democratic Members and Interested Parties

FROM: Rep. Joseph Markosek, Chairman

SUBJECT: Ramifications of Gov. Corbett's Proposal to Privatize the Liquor Store System

DATE: February 8, 2013

As I am sure you are aware by now, privatizing the liquor system will be a hot topic in 2013. As policymakers, we should be concerned about the ramifications of Gov. Corbett's liquor store privatization proposal and the use of one-time funds from privatization to shore up the education budget; the dependence on increased liquor consumption to generate growth in liquor tax revenue; and no serious attempt to generate significant revenue by first simply modernizing the current liquor store system.

<u>Here are some important things to keep in mind and question about Gov. Corbett's proposal to privatize the liquor system:</u>

- **One-time funding is not a solution to an education funding crisis; sustainable increases to education funding are possible without liquor privatization.**
    - Gov. Corbett's proposal does nothing to mitigate the nearly $1 billion in cuts to public education the Republicans enacted in the 2011/12 budget and have since maintained.
    - Instead of relying on a one-time, hypothetical funding gimmick by linking alcohol sales to temporary public school funding, we need to work together on a sustainable plan.
    - Don't forget, Gov. Corbett criticized using temporary money (from federal stimulus) for public schools, but apparently his liquor privatization for education scheme is different.
    - Remember, Gov. Corbett's corporate tax giveaways total more than $1 billion per year, enough to provide increases to education and manage the state's pension obligation.
    - Gov. Corbett's temporary, restricted funding scheme of $1 billion over four years, beginning with $200 million in the proposed budget, leads us to question: What guarantee do school districts have that the money will be available and appropriated in future budgets, particularly during years when he may not even be governor?
- **Gov. Corbett's proposal may not actually generate $1 billion over four years.**
    - The estimates are based on "some broad assumptions" and "they should be viewed given the associated range of risk", according to the administration's analysis from The PFM Group.
    - In fact, his proposal requires no minimum bids when auctioning the retail licenses, which could undercut the estimated $1 billion for education over four years. "In an auction for retail and/or wholesale licenses under any privatization option, the commonwealth is vulnerable to losing up-front revenue," according to the administration's analysis.
    - To replace lost profits to the state, the governor is counting on greater consumption of alcohol and assumes there will be 7,200 new establishments - big-box retailers, grocery stores, pharmacies and convenience stores - selling alcohol and paying annual license fees. Again, if these assumptions do not materialize, neither will the profits to the state.

- Will the $298 million in liquor tax revenues continue to flow to the state? While the governor's plan retains the 18 percent liquor tax rate, the tax would be shifted from the current consumer price down to the wholesale level. Therefore, in order to maintain current tax revenues, there would need to be greater alcohol consumption and/or higher prices.

- **Consumers will most likely see higher prices for liquor and wine.**
  - Under the governor's plan, there is no limit on retail mark-ups and no requirement for uniform pricing across the state. Therefore, there is no way to predict the prices on specific products.
  - Prices and selection will vary from store to store, so consumers will need to be prepared to shop around. Some product prices will increase, others will decrease, and prices will vary across the state depending on the amount of competition.
- **With increased alcohol availability, there will be social consequences and increased costs.**
  - With alcohol available on every corner, will the social costs associated with drunk driving, domestic violence and alcohol-related health care increase?
  - By including more state funding for enforcement and alcohol treatment and prevention in his proposal, even Gov. Corbett acknowledges there are social consequences to dramatically increasing the number of locations selling liquor, wine and beer.
- **About 4,000 more people will lose their jobs.**
  - If we do not stop the sale of the state liquor stores, the nearly 4,000 liquor store employees will join the ranks of the 17,000 school employees who lost their jobs due to budget cuts during Gov. Corbett's first two years and the 1,811 who lost their public service jobs. The governor is also proposing to cut an additional 900 jobs in the 2013/14 budget, including 177 positions at the Lottery because of privatization.
  - Several thousand family-sustaining jobs will be lost with a move to privatization of the state-owned liquor stores. The governor's offer of $2,000 for education assistance will not go far enough to provide a new career for displaced workers.
- **Gov. Corbett's proposal involves the hiring of outside consultants.**
  - Similar to what we saw with the governor's Lottery privatization scheme, the proposal requires the use of an outside consultant for the divestiture of the current system and auction of new licenses. How much will this consultant profit from the deal?
- **We can increase profitability of the liquor stores without privatization.**
  - Legislative efforts to modernize Pennsylvania's alcohol laws could add approximately $71 million to the profits transferred to the state annually, increase customer convenience and retain public -sector jobs.