Speaker Turzai's Privatization Scheme is WRONG for Pennsylvania!

Speaker Turzai's legislation to dismantle the Pennsylvania Wine and Spirits stores is a risky and irresponsible scheme. His proposal will risk the over $566 million the PLCB annually contributes to the state treasury, be a detriment to public health and safety, increase prices, decrease selection, and will put 5,000 employees of the Wine and Spirits on the unemployment line, as well as risking the jobs and livelihoods of 11,000 Pennsylvanians who work in many family-run beer distributors across the state.

Revenue

- This legislation risks the over $566 million in annual contribution from the PLCB. This contribution has been trending upward for the past decade. The Wine and Spirits stores have had an increasing profit margin each and every year. Turzai's proposal eliminates the profit generated from the Wine and Spirits stores.
- States that have privatized in the past, such as Iowa and West Virginia, saw dramatic decreases in revenue after they privatized their liquor systems. Iowa and West Virginia both had increasing revenues each and every year from their state liquor stores. Since they have privatized, it took over a decade for both states to reclaim that revenue, and when adjusted for inflation, they have never caught back up with the revenues they previously enjoyed.
- Turzai promises a one-time windfall of $1 billion (or now $500 million according to different news outlets). This is just an estimate, not guaranteed money. His $1 billion estimate is down from the $6 billion promised in 2010, and down from the $2 billion in 2012. It is also down from the $1.3-$1.9 billion that former Governor Corbett's own report said could be earned in privatization.
- Turzai's $1 billion of "upfront revenue" is also not true, as only about $137 million will be realized in the first year, based off the fiscal note to HB 790.
- In Turzai's $1 billion estimate from the HB 790 fiscal note, the proposal relies on $112 million coming from beer distributors who will buy "enhanced licenses". This would mean that 750 of the nearly 1,100 beer distributors in the state would have to buy these "enhanced licenses". Reports from the media and beer distributors themselves have already said there are very few distributors who can afford this type of license, while also competing with big-box and grocery stores.

- Turzai's estimates for both the wholesale fees and retail auction are also overly optimistic. PFM predicts there will be 10-30 wholesalers who will carry a wide array of products in a private wholesale system. This is simply not true in other privatized states, due to only 1 or 2 wholesalers usually operating in private states. This shows that PFM's wholesale projection may be overly optimistic as well.
- Turzai's own $1 billion estimate is outweighed by the $1.4 billion over five years that will cost the state to transition from a public system to a private system according to the PFM report commissioned by former Governor Tom Corbett.
- The Wine and Spirits stores transfer 100% of its taxes collected directly over to the state. For every 1% of tax delinquency in the private sector, the state stands to lose $4 million in tax revenue.

Public Health and Safety

- Turzai's proposal triples the amount of outlets that will sell liquor, and also allows an additional 800 grocery stores to sell wine across the state. Restaurants also have the ability to now sell wine and spirits to go from for off-premise consumption. This proposal has the potential to put alcohol on every corner possible.
- A peer-reviewed study from a U.S. Centers for Disease Control Task Force recommended against any further privatization. They found any level of privatization leads to increases in excessive consumption and other social problems. Statistics show that the per-capita social cost of excessive consumption in the United States is approximately $746 per person.
- Every professional peer-reviewed study demonstrates that a private corporate takeover of the sale of wine and spirits leads to increased negative social impacts, including spikes in under-age drinking, overall consumption, deaths as a result of drunk drivers, crime, property damage, gang violence, suicides, excessive consumption, violence in relationships, college student drinking and other factors.
- Washington State privatized its retail liquor system in June 2012. They have seen dramatic increases in shoplifting, especially among teens, as well as a large increase of minors in possession of alcohol. There have even been organized crime rings to steal liquor from private retailers and sell it to bars and restaurants for prices cheaper then what the private system is offering.
- The Wine and Spirits stores did over 1.4 million minor checks in 2013. Studies show that state employees have a much higher rate of carding minors than the private sector does.

Pricing and Selection

- The Turzai privatization proposal will lead to increased prices and decreased selection.
- The PLCB is the largest purchaser of wine and spirits in the country, and enjoy incredibly low wholesale acquisition prices. By privatizing the retail and wholesale, the buying power Pennsylvania currently enjoys will disappear.
- The proposal eliminates the 30% markup, yet keeps the 18% Johnstown Flood tax. This will result in dramatic price increases. The private wholesalers will be getting a higher acquisition price. There then will be a private wholesale markup, the 18% flood tax, and then a private retail markup. Former Governor Tom Ridge's 1997 Price Waterhouse report on liquor privatization estimated a combined private wholesale and retail markup at about 44-49%, which was a conservative estimate. Today, that markup can be expected to be much higher. In fact, in Washington State, news reports suggested the private wholesale markup could be as high as 72%.
- Washington State has seen a dramatic increase in prices after privatization. Prices have skyrocketed anywhere from between 10 to 30 percent higher in many areas of the state. Prices have gotten so high, that Washington consumers have been driving across the border to both Oregon and Idaho, which have state liquor stores, to purchase their alcohol. In fact, both states' Liquor Control Board's have decided to open more stores along the border of Washington due to the large increase in Washington consumers coming across the border.
- The average Wine and Spirits stores stock between 3,000 to 5,000 items. The smallest stores in the state carry a minimum of 1,000 items. The premium collection stores carry around 10,000 items. No where in the private sector can you find that type of selection in each and every store in the state. Costco, the major proponent of privatization in the state of Washington, typically carries 140 wines and 32 spirits on its shelves.

Jobs

- The Turzai proposal will lay off 5,000 Pennsylvanians who work in the Wine and Spirits stores. The proposal offers no realistic protections for displaced employees. The tuition grants for college are only a maximum of $1,000-$2,000 for two years, the tax credits are meaningless for retailers who will save money by just not hiring any extra employees to stock liquor, and the Civil Service points are misleading due to a lack of state jobs, and a PLCB employee cannot receive these points unless they work until they day they are terminated.
- There is no new business creation from this proposal. This proposal gives existing retailers the ability to sell wine and spirits. These retailers will simply reallocate their workforce to stock less of one product, and more of another. The Governor's own PFM report is quoted as saying the same thing, and even predicts there will be over 2,300

full-time equivalent employees from the PLCB who will go on unemployment compensation.

- This proposal will put the majority of the approximately 1,100 beer distributors out of business. This proposal pins small business against big business. Beer distributors only sell one thing, beer. And they cannot sell it at a loss, and will be pushed out of business over the course of a few years.
- Those who purchased the former state liquor stores from Washington State are already out of business, as they were not able to compete with Costco, Safeway and others, and were forced to close their doors less than a year into a privatized system. Corbett's proposal is no different when it comes to the beer distributors.