

# Summary of Rep. Mike Turzai's House Bill 2350

## Privatizing Retail and Wholesale Wine and Spirits Sales in Pennsylvania

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We have introduced legislation to privatize the wine and spirits wholesale and retail operations of the Pennsylvania Liquor Control Board (PLCB). (Please note that this proposal would not affect the way beer is sold in the Commonwealth.)

### Fiscal Benefits

Pennsylvania is facing a looming fiscal crisis. We have to be bold and innovative in how we tackle the issues before us. This plan will not deplete but will actually enhance revenues moving forward. The proposal is cautiously estimated to bring in approximately \$2 billion for the sale of the wholesale and retail licenses alone. Furthermore, the new plan will at least maintain if not increase current annual revenues into the General Fund from the sale of wine and spirits.

The notion that the state's General Fund gets this massive annual infusion of money from the LCB itself is a myth. Currently, the LCB transfers only on average \$90 million annually to the General Fund from its operation. In addition to this transfer, taxes on the sale of wine and spirits bring in about an annual \$376 million directly to the General Fund. (These tax revenues will come in whether operated by the state or by private owners). Total, that amounts to about \$466 million annually.

Under our new tax and fee structure, annual revenues should amount to about \$500 million - ensuring that the Commonwealth continues to receive the funding it has in the past while offsetting the administrative costs of a newly streamlined PLCB operation (licensing, enforcement and alcohol education).

### Customer Satisfaction

This proposal will 1) promote better selection, 2) lead to more reasonable prices and 3) increase consumer convenience. Competition will take effect.

### State should not be in the business of selling alcohol: Conflict of interest

One question we should ask ourselves is: should Pennsylvania really be in the business of selling alcohol? Should the entity promoting sales of wine and spirits be the same entity that polices those sales? Doesn't that constitute a conflict of interest?

Only two states currently own and operate all wholesale and retail sales of wine and spirits: Pennsylvania and Utah. There are currently only 18 states that have some level of involvement in wholesale operations, 32 do not. Only 14 states have some level of involvement in retail operations of wine and spirits, 36 do not. (Even those states with some involvement have private sector components).

## Auction of Licenses

- Auction off 750 retail (currently 621 state retail stores) and 100 wholesale licenses to the highest responsible bidder with a reserve price based upon the fair market value.
- Establish a biennial license renewal fee and a transfer of license fee comparable to fees charged for renewal and transfer of other licenses issued by the PLCB.

## Tax Reform

We will institute a fairer approach to taxation, one that is more consistent with what is done in many other states:

- Eliminate the current 30 percent PLCB markup and the 18 percent Johnstown Flood Tax.
- Replace current taxes with a “gallonage tax” as is done in 26 other states for spirits and 35 other states for wine. The tax rates would range from \$3.50 to \$7.00 based on alcohol content. Most wines would be assessed at \$3.50/gallon and most spirits will be assessed at \$6.50/gallon.
- Currently, restaurants, taverns and clubs pay the 6 percent sales tax when they purchase wine and spirits from the PLCB. This will be eliminated. The proposal will instead assess the 6 percent sales tax at the final point of sale for all alcoholic beverages served at those establishments.
- The \$1.50 per bottle stealth “handling” tax imposed by PLCB would be abolished.
- Keep in mind that a private system will create 850 new businesses that will pay either the corporate net income tax or the personal income tax.
- The plan will see recoupment of revenue from Pennsylvania consumers who currently leave the state to purchase their wine and spirits. This approach will significantly mitigate what is commonly referred to as “border bleed.”

## Employee Opportunities

- Provide employment support for PLCB employees through 1) tax credits for employers who hire PLCB employees, 2) tuition assistance for employees’ further education and 3) a preferential leg up in applying for other civil service positions in the Commonwealth.

## The Proper Role of Government: Law Enforcement

Our proposal actually strengthens law enforcement supervision of sales and enhances alcohol safety and awareness programs for buyers and sellers.

Currently, Pennsylvania’s liquor laws are enforced by a compliment of civilian officers located within a bureau of the Pennsylvania State Police (PLCE). In total, there are approximately 150

officers assigned to the PLCE headquarters in Harrisburg or one of nine district offices. They are supervised by a handful of State Police officers and responsible to conduct investigations of nearly 18,000 licensed establishments.

Our proposal strengthens enforcement by:

- Increasing law enforcement by providing for concurrent jurisdiction for state and local police to enforce liquor laws (as we do with tobacco).
- Retaining enforcement, licensing, inspections and alcohol education functions of the PLCB.
- Increasing safety by requiring retail employees to attend R.A.M.P. (Responsible Alcohol Management Program) training.
- Mandating the use of I.D. scanners with age verification software.
- Requiring retail operations to be maintained in a separate, self-contained area dedicated solely to the sale of wine and spirits.
- Requiring retail store employees be at least 21 years old.
- Establishing heavy fines (up to \$5,000) for licensees who violate the provisions of the Liquor Code and authorizes the PLCB to suspend or revoke licenses for “nuisance” operators.

#### Licensing approach can do better job at curbing irresponsible drinking

Given the appropriate tools, as suggested above, and a singular focus, a revamped law enforcement PLCB should be able to do a better job at curbing irresponsible drinking than is presently done. The argument is often made that privatizing alcohol sales would have a negative social impact. Economics professor Dr. Antony Davies and student John Pulito at Duquesne University recently did a study titled “Government-Run Liquor Stores: The Social Impact of Privatization.” The study showed that privatization does not lead to increased DUI fatalities. In fact, the study indicates that license states actually have a lower DUI fatality rate than control states. The study also found “no statistically significant difference” in underage drinking or underage binge drinking between license and control states.

#### Conclusion

We have an opportunity to move Pennsylvania into the 21<sup>st</sup> century by allowing the private sector to sell wine and spirits. This approach will result in better selection, cheaper prices and more convenience for consumers. In addition, this proposal will have the beneficial effect of filling state coffers to help us meet the looming fiscal crisis in front of us. We can do this while actually strengthening law enforcement and doing better at curbing irresponsible drinking. It is a proposal whose time has come.