Wine in Grocery Stores = Revenue Loss

Privatization of our state's Wine and Spirits Stores continue to be discussed during budget negotiations. Privatization means the loss of valuable revenue and nearly 5,000 family-sustaining jobs. These discussions include proposals that would allow for wine to be sold in grocery stores and beer distributors, which would dramatically decrease revenue provided by the PLCB.

Wine privatization means the following:

- Under the current PLCB retail model in Pennsylvania, **wine sales accounted for $848 million (42 percent of total dollar sales)** and 49.7 percent of all units sold in the Wine and Spirits Stores last year. The most popular brands - those most likely to be sold by the big-chain grocers - represent $518 million of total wine sales. These wines - known as **"value" and "standard" wines - made up 70 percent of the PLCB's retail wine sales for Retail Year '13-'14**. Additional private outlets selling a limited amount of these "value" and "standard" wines will cut into the PLCB's bottom line immediately.

- If grocery and convenience stores were given the ability to sell wine for off-premise retail, **a percentage of foot traffic then leaves the Wine and Spirits Stores** and enters private retail venues where a limited selection of value and standard wines would be sold. While "units sold" may remain the same or even increase, dollar sales for both wine and spirits will take a hit due to the lack of foot traffic in Wine and Spirits Stores.

    -- For example, if certain "value" and "standard" wine products were sold in private retailers, many products that consumers decide to "trade up" for in Wine and Spirits Stores would no longer be purchased. These are typically products - your Premium, Super Premium and Ultra Premium - that the PLCB receives a great dollar amount of revenue due to price difference. Consumers also take advantage of the PLCB's Chairman's Selection Program when entering Wine and Spirits Stores. Allowing private retailers to enter the market pulls sales away from those values and products the PLCB currently receives valuable revenue on, and will lead to decreased profits for the agency.

    -- This also impacts wineries; especially our Pennsylvania wineries that will lose a certain percentage of sales dollars from loss of foot traffic in Wine and Spirits Stores.

- **West Virginia and Iowa started down this path by privatizing wine sales and valuable publicly-owned assets were wiped out in 3-10 years**. Revenue losses ravaged the state treasuries and taxpayers were left holding the bag.

  -- In 1985 Iowa privatized their wholesale and retail wine distribution, before fully privatizing retail liquor sales in 1987. Funds generated from the Iowa Alcohol Beverage Division increased every year before wine privatization- rising from $48.4 million in FY 1977 to $83.8 million in FY 1984, the last year before privatization. In just three years, after wine was privatized at both the retail and wholesale level, revenues dropped by $20 million annually. Revenue dropped by $4 million in Year One, by $12 million in Year Two and, finally, by $20 million in the third year of private control.

  -- Funds from the West Virginia Alcohol Beverage Control Administration (ABCA) were also steadily increasing before retail and wholesale wine privatization in 1981. Between 1970-71 and 1980-81, ABCA's contribution to the state rose from $13.6 million to $21.8 million. In the first year under a private system, ABCA's contributions dropped by more than $2 million to $19.1 million. By 1989-90, the last year before West Virginia also went to retail liquor privatization, the contribution plummeted to $9.7 million.

Wine privatization would only further increase our structural budget deficit, leaving taxpayers to hold the bag for years to come. Proposals to allow for wine in grocery stores would lead to the eventual elimination of the Wine and Spirits Stores, leading to more costs for taxpayers.

Public Financial Management, the firm hired by former Governor Tom Corbett to analyze impacts of liquor privatization, found it would cost the state $1.4 billion in transition costs to divest from the current wholesale and retail system. Those transition costs include unemployment compensation, workers compensation costs, transfers to state police and drug and alcohol that will remain, and other costs to shut down the retail and wholesale system.

Those transition costs do not include other factors such as increased social costs, negative multiplier effects and costs to pension funds by elimination of 5,000 active contributors to the state pension funds. In budget testimony in front of the Senate Appropriations Committee earlier this spring, representatives from SERS estimated elimination of the Wine and Spirits Stores and the employees that go with them would increase the unfunded liability by $24 million a year for the next 30 years.

Every privatization proposal discussed and introduced would cause hundreds of millions of dollars in lost revenue for years. Modernization proposals as introduced by Sen. Jim Brewster and Rep. Gene DiGirolamo would increase revenues by $185 million after the first full year of implementation. Modernization includes increased store hours, more stores opened on Sundays, flexible pricing and more stores located within or next to grocery stores.

Now is the time to fully modernize our Wine and Spirits Stores to increase state revenues instead of dismantling this valuable asset and sending 5,000 Pennsylvanians to the unemployment line.