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Memorandum

To: All House Members

From: Representative Mike Turzai

Subject: Proposed Legislation – Reintroduction of Proposal to Privatize Wine and Spirits Distribution in Pennsylvania (Previously HB 2350)

Date: July 13, 2011

Should Pennsylvania really be in the business of selling alcohol? Only two states currently own and operate all wholesale and retail sales of wine and spirits: Pennsylvania and Utah.

We are introducing legislation to end the Pennsylvania Liquor Control Board (PLCB) monopoly on wine and spirits sales in Pennsylvania.

Last session, privatization of the PLCB was supported by newspaper editorial boards across the Commonwealth, calling it *“long overdue”* (Scranton Times-Tribune, April 25, 2010); an idea whose *“time has come”* (Daily American, May 4, 2010); and *“a necessity”* (Pittsburgh Post-Gazette, June 26, 2010). The Post Gazette also said, *“Keeping the archaic LCB in place, decades after other states have moved on, has perpetuated the notion of Pennsylvania as a backward-looking, behind-the-times state.”*

Most recently, in a June 13, 2011, editorial, the Philadelphia Inquirer wrote in support of privatization: *“Rarely before has any government agency [PLCB] so succinctly, thoroughly, and convincingly made the case for its own elimination.”*

Every public opinion poll shows that Pennsylvanians support privatization by a wide margin. Everywhere in the state, the message is the same: *“Privatize now!”* We believe that privatization must be accomplished in a deliberate, responsible manner – ensuring we receive *“fair value”* for this state asset; preserving annual General Fund revenues; promoting competition in the marketplace; and enhancing public safety.

Our plan will actually enhance revenues moving forward. The proposal will generate tremendous upfront revenue through the auctioning of retail licenses and the sale of wholesale licenses. Further, the new plan will maintain (if not increase) 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 PLCB transfers an average of \$90 million annually to the General Fund from its operation. Moreover, this \$90 million is inflated, as the LCB's financial records show that they generate substantially less in profit from the sale of wine and spirits than they transfer to the General Fund.

For example, in FY 2009-10, they transferred \$105 million in "profit" to the General Fund, but their net profit from the sale of wine and spirits was only \$49.5 million. The rest was pulled out of their operational accounts (which ultimately led to a negative ending "net asset" of -\$8.2 million for that fiscal year). Since FY 2006-07, the LCB has transferred \$155.3 million more than they actually made from the sale of wine and spirits.

Under our reformed tax structure, revenues generated by the sale of wine and spirits will remain constant. And, when coupled with the fees and costs for the new licenses, we ensure that the Commonwealth continues to receive, at minimum, the revenue it has in the past while offsetting the administrative costs of a newly streamlined PLCB operation (whose operations would be limited to regulator, enforcer and educator).

This proposal will promote better selection, provide for competition leading to more reasonable prices and increase consumer convenience. At the same time, we strengthen law enforcement supervision of sales and enhance alcohol safety and awareness programs for buyers and sellers.

Our bill requires Responsible Alcohol Management Program (RAMP) training for managers and employees of these new retail operations. Employees who sell wine and spirits must be at least 21 years old. We require the use of "swipe card" technology for purchasers to ensure against sales to minors. We specifically provide for concurrent jurisdiction between state and local police to enforce the Liquor Code. Most importantly, we ensure these new stores are subject to "age compliance" checks.

We have an opportunity to move Pennsylvania out of the post-Prohibition era by allowing the private sector to sell wine and spirits. This legislation will provide consumers better selection, lower prices and greater convenience, while at the same time strengthening the enforcement and regulation of our liquor laws. This is a proposal whose time has come.

If you would like to co-sponsor this legislation, please contact Stacy Bowie at sbowie@pahousegop.com or 717-772-9943.