HOUSE OF REPRESENTATIVES
COMMONWEALTH OF PENNSYLVANIA

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LIQUOR CONTROL BOARD
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House Appropriations Committee

Main Capitol Building
Majority Caucus, Room 140
Harrisburg, Pennsylvania

Thursday, March 2, 2017

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MAJORITY COMMITTEE MEMBERS PRESENT:

Honorable Stanley Saylor, Majority Chairman
Honorable Karen Boback
Honorable Jim Christiana
Honorable Sheryl Delozier
Honorable George Dunbar
Honorable Garth Everett
Honorable Keith Greiner
Honorable Seth Grove
Honorable Marcia Hahn
Honorable Susan Helm
Honorable Warren Kampf
Honorable Jerry Knowles
Honorable Nick Miccarelli
Honorable Duane Milne
Honorable Jason Ortitay
Honorable Michael Peifer
Honorable Jeffrey Pyle
Honorable Brad Roae
Honorable James Santora
Honorable Curtis Sonney

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Key Reporters
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MINORITY COMMITTEE MEMBERS PRESENT:

Honorable Joseph Markosek, Minority Chairman
Honorable Kevin Boyle
Honorable Tim Briggs
Honorable Donna Bullock
Honorable Mary Jo Daley
Honorable Madeleine Dean
Honorable Maria Donatucci
Honorable Marty Flynn
Honorable Edward Gainey
Honorable Patty Kim
Honorable Stephen Kinsey
Honorable Leanne Krueger-Braneky
Honorable Peter Schweyer

NON-COMMITTEE MEMBERS:

Honorable Lynda Schlegel Culver
Honorable Russ Diamond
Honorable Brian Ellis
Honorable Kate Harper
Honorable Adam Harris
Honorable David Millard
Honorable Barry Jozwiak
Honorable Chris Quinn
Honorable Jack Rader
Honorable Eric Roe
Honorable Frank Ryan
Honorable Tommy Sankey
Honorable Jeff Wheeland
Honorable Frank Burns
Honorable Morgan Cephas
Honorable Paul Costa
Honorable Dom Costa
Honorable Bob Freeman
Honorable Bill Kortz
Honorable Mark Longietti
Honorable Chris Sainato

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STAFF MEMBERS PRESENT:

David Donley  
Majority Executive Director

Ritchie LaFaver  
Majority Deputy Executive Director

Miriam Fox  
Minority Executive Director

Tara Trees, Esquire  
Minority Chief Counsel
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LIQUOR CONTROL BOARD

Charlie Mooney
   Executive Director

Mike Negra
   Board Member

Michael Newsome
   Board Member

Rodrigo Diaz, Esquire
   Chief Counsel

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MAJORITY CHAIRMAN SAYLOR: Good morning, everyone.

MEMBERS: Good morning.

MAJORITY CHAIRMAN SAYLOR: I wanted to start off this morning by introducing a few of our guests, the members that are here. We've been joined by Representative Wheeland, Representative Kortz, Representative Cephas, Representative Burns, and we've been joined by the Chairman of the Liquor Control Committee, Adam Harris, and his counterpart, Chairman Paul Costa.

So, with that, if the gentlemen who are going to testify would rise and raise your right hand.

(All testifiers were duly sworn by Chairman Saylor).

MAJORITY CHAIRMAN SAYLOR: Thank you. Any opening comments from any members of the board?

MR. NEWSOME: Yes. Thank you. Thank you, Mr. Chairman and to the other Chairman, and members of the Appropriations Committee and --

MAJORITY CHAIRMAN SAYLOR: Ah --

MR. NEWSOME: Yes. Can you hear me
okay?

MAJORITY CHAIRMAN SAYLOR: Mr. Newsome, would you pull it in close? Yes.

MR. NEWSOME: A little closer. I am a little soft-spoken, so let me get that a little closer. I'll let you get me upset, then I might speak up a little bit.

(Laughter in the room).

MAJORITY CHAIRMAN SAYLOR: We'll try not to do that.

MR. NEWSOME: But we would like to thank you for the opportunity to present to you this morning and answer any questions that you have.

We have submitted written remarks into the record, and, as you have requested, we will not read those remarks.

This morning I have with me -- I am Michael Newsome, by the way, a member of the Liquor Control Board. And I have on my left Michael -- Mike Negra, who is also a member of the board, and to my right our executive director, Charlie Mooney.

Our chairman, Chairman Tim Holden, is recuperating from surgery at this point and was not able to be with us. He sends his regrets, and we wish him well.

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We, in the interest of time, are certainly available to answer questions regarding the written comments or any other questions that you may have. So, we're prepared to answer those.

MAJORITY CHAIRMAN SAYLOR: Mr. Newsome, here in February there was a transfer of roughly $144.9 million from your funds to the General Fund. Could you tell me why that -- It's over the estimate. The estimate from the Governor was $96.5 million. Can you tell me why that was transferred, that amount?

MR. NEWSOME: Are you familiar with the 96 million (looking at Mr. Mooney)?

I can tell you why it was transferred. I'm not familiar with the specifics of the 96 million. We, at the beginning of the year, had anticipated that we would be transferring a hundred million dollars at the beginning of the fiscal year. That was an anticipated amount.

Upon the passing of Act 39 and subsequent changes to that, there were additional amounts that were required from us, and the Governor's office indicated that we should transfer additional amounts. We did not transfer, as I recall, not all of that in February. I believe we
had three, four different transfers. We had a transfer in January of approximately 73 million, a transfer in February of 23 million and then subsequent transfer for the beginning of March of $48 million. And I believe those are the numbers; is that correct?

MR. MOONEY: That is correct.

MR. NEWSOME: Those are the numbers.

MR. MOONEY: That is correct.

MAJORITY CHAIRMAN SAYLOR: The revenues reported to the Appropriations Committee was that you made a 144.9 million transfer at the very end of February.

MR. NEWSOME: As far as I know --

MAJORITY CHAIRMAN SAYLOR: That was the report we got; not the other transfers that you had mentioned in part.

MR. NEWSOME: I'm not familiar.

MR. NEGRA: We just transferred $48.3 million at the end of February. They wanted it by March 1st. That would have been our March transfer, as far as the schedule from GBO. But -- unless they took a hundred million that we didn't know about.

MR. NEWSOME: And, by the way --
MR. NEGRA: I think they have our routing number.

MAJORITY CHAIRMAN SAYLOR: That leads to a good question. Who --

MR. NEGRA: Hopefully they don't have our routing number.

MAJORITY CHAIRMAN SAYLOR: Who in your agency decides on the timing of the transfers? Do you as the board?

MR. NEGRA: The board approves it.

MR. NEWSOME: The board approves it, and it's in the public records.

MAJORITY CHAIRMAN SAYLOR: Okay. Now, with that transfer, which is above what the Governor had estimated your transfer would be for the month of February, currently the Governor's -- the budget that the General Assembly passed estimated that you would pass onto us about $216.4 million over the fiscal year and above.

Are you estimating that your profits are going to be higher than what's in the current budget?

MR. NEWSOME: We are estimating that our profits will be approximately, maybe a little less than what's in the budget. And there was never a
secret about the additional amounts that would come
from our reserves.

MAJORITY CHAIRMAN SAYLOR: Okay. Very
good. We'll start with Chairman Markosek.

MINORITY CHAIRMAN MARKOSEK: Thank you,
Chairman. Welcome.

I want to say hello to Chairman Holden,
who I know is watching from back home today. So I
want to say Godspeed and get well soon and get back
here and help us out. I do have one question to
start out with.

Chairman Holden himself, a couple years
ago sitting where you are, mentioned, when we were
talking about the LCB reform, that the big money --
moneymaker, so to speak, or the big money, is in
the flexible pricing; the whole idea of the
flexible pricing and reforming the way we do that.
And I know that's a work in progress. That doesn't
happen overnight.

But, can you give us a little snapshot,
update and, perhaps, a little prediction of where
we're going with the whole flexible pricing idea?
Is it working? Is it or, in your opinion, will it
provide additional great revenues for the system?

MR. NEWSOME: Sure. We can give you
just an overview, and I'll ask other members to
chime in on this.

Flexible pricing is -- it's a moving --
it's a moving target right now, and it's something
-- I like to use the terminology delicate
negotiations that we're having with our suppliers
at this point. It is a significant change to the
way this has been done over the last 80 years or
so, and it's new to everyone. It's certainly new
to our staff. It's new to our suppliers; new in
Pennsylvania to our suppliers, although they deal
with it in many other non-control states. But it
is a whole new way of them looking at how we price
our products, how we procure our products.

So, in a nutshell, it's been really
delicate negotiations with our suppliers. And
we've had somewhere near 80 individual meetings
between our staff and suppliers, and some of them
were very, very, very helpful and noncontentious.
We had a few that actually refused to talk to us in
the beginning, so the board became directly
involved in that, and we met with them personally
and had wonderful meetings with them as well so
that there's an understanding about that.

So, just to make a long story short, we
say that it's in ongoing negotiations. We have achieved quite a bit up through this point, but a lot of it hasn't been realized because, as you may know that, we have to work some of this through our inventories. The inventories that we've had up to this point have been subject to the old calculator, so we have to work through that. But as we work through that, we expect significant improvements in margins.

MINORITY CHAIRMAN MARKOSEK: Without getting into any detail, once you work through this process, do you anticipate that -- and assuming the negotiations go favorably, are you predicting that this will be -- provide great new revenues or additional revenues for the system?

MR. NEGRA: I'll answer that. I believe the answer to that is yes, and at the same time it will provide better pricing and availability for our consumers. So it's not just -- it's not just revenue-based, but it's also -- you know, for the Commonwealth, but it's also for our customers as well.

One of the flip sides as far as negotiations are concerned is that, it took the shackles off of us from a pricing of, say,
allocated items or one-time buys where we were limited in the past of a 30 percent markup. Now we can really meet --

As far as the market is concerned, I think there's revenue to be achieved from that standpoint, but there's also price decreases to come. And I think the price increases have been balanced by the price decreases. And, going forward, that's a desire of the board. We have no desire to take an across-the-board price increase just because we can.

MINORITY CHAIRMAN MARKOSEK: Okay. I'll leave it at that, and I appreciate those answers. It's one of the big reasons that I supported reform, and I look forward to that being a big part of providing new revenues and better pricing for our citizens. Thank you.

MR. NEGRA: Thank you.

MAJORITY CHAIRMAN SAYLOR:

Representative Dunbar.

REPRESENTATIVE DUNBAR: Thank you, Mr. Chairman, and thank you, gentlemen.

Historically, I've always asked about long term, where the LCB is at. Are they going to be able to make the transfers that we're projecting
out? And that's always been something I've always asked about. And, in the past, I always kind of complained about the fact that your revenue growth was not projected to be as high as your expense growth and that, eventually, those two would intersect and you wouldn't be able to do it.

So, I'm pleased to see that you have a report that actually has revenue growth at least somewhat greater than growth of your expenditures. But, just because it's on a piece of paper doesn't necessarily mean it is always true.

So, with that being said, in the past Chairman Holden has told us of expected growth of 5 percent. That's what he told us last year, and that was without modernization or Act 39. He also said that, if Act 39 came in, there may be a potential for an additional 5 percent of growth.

So, I guess my question is, with Act 39 being passed, why is growth going forward only projected at 4.7 percent? And also, I do have great concerns about even this year's number when our collections -- our liquor tax collections are only 3.6 percent ahead of last year. So how can we justify the growth that we have on the budget sheet?
MR. NEWSOME: I'd like to take that.

Just a short story.

Last year I was sitting back in the audience when a similar question came up, and at that time we did not have projections, and I recalled saying to myself that that's unacceptable; that we should be able to provide long-term projections. So, one of the things we did was, we asked our staff to really start doing that; to put together projections that can be considered reasonable, projections that we can defend in a setting such as this; and, at the same time, let's be conservative and at least to the point where we can feel comfortable with those projections. We did not feel comfortable with going much beyond where we are now as far as the percentage increase for a couple of reasons.

One, we're talking long term. But, secondly, with the advent of Act 39, and now we would have sales -- wine sales in convenience stores and grocery stores and so forth, we're not sure how that's gonna impact our entire overall sales increase, so we asked them to back off on those projections. So that came directly from the board.
So, along those lines, we, at the same time, wanted them to try to be really realistic with expenses, because we acknowledge that our expenses are high in a number of areas. Member Negra and I spent a lot of time looking at those, and we expect to continue to do that as we go forward.

REPRESENTATIVE DUNBAR: And if you don't mind me interrupting just for the sake of time, since you did mention expenses, the last two years that we have actual numbers for, for LCB expenses, I have the growth at 8.3 percent from '14-'15 to '15-'16 for LCB expenses. And our estimated '16-'17 growth you have pegged at 6 percent, which the year is not complete yet, so we don't know.

So, first off, are we going to be at a 6 percent growth? And future years you have tabbed at 4 percent growth. Now, like I said, it's very nice to have long-term projections. I appreciate long-term projections. But how do we get from 8.3 on the last two actual numbers that we have; 6 percent this year, which we're three-quarters of the way through? How all of a sudden -- What steps have been taken to get the 4 percent? That's a big drop.
MR. NEGRA: A lot of the driver is pension and OPEB and workers' comp, and that's just an unknown. We really don't know what our final expenses are gonna be until August.

Our operational expenses in that time frame that you talked about were 1.2 percent. So, what we can manage from an expense standpoint, I think we do a pretty good job of managing. What we can't manage, we can't manage. And so, from that standpoint, that comes through -- goes to our P&L, and we're one of, what, two agencies that have a P&L, and one with like a little microcosm of the Commonwealth as a whole. And so, you see our pension liabilities rise. You see our workers' comp liabilities rise, and our other post-employment benefit expenses rise.

REPRESENTATIVE DUNBAR: Yeah.

MR. NEGRA: So, their major --

REPRESENTATIVE DUNBAR: And even if you're looking at your balance sheet, those numbers are increasing dramatically year to year as well.

MR. NEGRA: Absolutely.

REPRESENTATIVE DUNBAR: I mean, your long-term liabilities are even far greater, which gets to my last question, because I see my yellow...
light, so I am running out of time. I'm sure Commissioner Holden would have appreciated that the last couple of years.

But, the last question, which is, you know, knowing all these factors and even looking at your long-term liabilities, which are very much like you said, very similar to the state, can you make the deposits, the 185 million as you're projecting? I thought it was going to be 200 million, but that's, you know. Do you all feel comfortable that that will happen?

MR. NEWSOME: Yes, and that's the short answer. A little longer answer to that is, we have projected out four or five years, and the good news is that that 185 has remained stagnant for the five-year period, which is good for us.

We're standing on next year; that the next fiscal year we feel comfortable with that and, perhaps, the year after that things can change. Many things can change over the next three or four years. As it stands right now, our staff tells us that we can. And again, we -- some -- much of the -- many -- some of this is coming from our reserves. And as we continue to pare down our reserves, we have to keep an eye on that.
REPRESENTATIVE DUNBAR: I appreciate it. I hope that is the case.

MAJORITY CHAIRMAN SAYLOR:

Representative Krueger-Braneky.

REPRESENTATIVE KRUEGER-BRANEKY: Thank you, Mr. Chairman. Thank you, gentlemen, for joining us here today.

I, for one, appreciate that you're being conservative on your revenue projections and more realistic on your expenses, because the General Fund counts on transfers from the Liquor Control Board every year. So, being conservative and then over-performing, in my mind, wouldn't be a bad thing.

I've got a couple questions for you. So, Chairman Markosek started to talk about some of the changes in Act 39 around pricing. I'm curious about whether you have seen the act lead to the agency functioning more efficiently. Has there been anything in the modernization legislation that we passed last year that's leading to greater efficiency in operations?

MR. NEGRA: Charlie?

MR. MOONEY: Yes, Representative, I believe it does. We'll start off with just
flexible pricing. As Member Newsome explained, we're in the midst of that, and we've had great meetings with our suppliers.

But we already explained that we'll also talk about -- we've been able to develop a CRM program that we're in the middle -- Customer Relations Management program that we're in the infancy stages of collecting the data to see where that can take us. That's gonna make us much more efficient. It allows us to -- We're collecting data from the consumer base right now.

Then we have this -- We have a task in front of us about special liquor orders, or what we refer to as SLO, and we're looking at a more efficient model and how to do that with the industry.

REPRESENTATIVE KRUEGER-BRANEKY: Great. And we've talked about the revenue projections already. How long do you think it's gonna take us to see the full effects of Act 39?

MR. NEWSOME: I'll start with the first part of that. Let's just take one item from the act, and that is the auctions. And one of the -- As I recall, that number was $45 million that we were expecting to actuate from that. That will
take years. Because of the way that we are doing the auctions right now, we're anticipating two or three auctions per year.

The first auction, as you know, generated almost $8 million in revenue, which we haven't, by the way, presented on our financials yet because it hasn't been earned yet, per se. That's the only amount that will be achieved this fiscal year. So, that's an example of it taking a long time.

Flexible pricing is going to take -- it's going to be a long term. We're thinking three to five years before we have our suppliers understanding their approach that the board is taking now to procuring product, to setting retail pricing and so forth. So, yes, it will take years.

REPRESENTATIVE KRUEGER-BRANEKY: And the timing of the auction licenses, is that something that the legislature dictated to you in the legislation or that you decided as you planned out implementation?

MR. NEWSOME: It was not dictated to us, but we wanted to maximize revenue. According to the act, at least the implication from the act, was that all of these licenses would be made available
right away.

MR. NEGRA: We had the flexibility to maintain; not upset the market. We could approach it however we wanted, and we ended up doing it in a sealed -- the first two in a sealed-bid way with limited -- I think we had 40 the first time and 50 this time. Licensing can only handle so many, because there's transfers. It's a variety of paperwork that has to occur versus dumping 200 into the market and what that would do.

REPRESENTATIVE KRUEGER-BRANEKY: And I appreciate that. Again, this is a state-owned asset, so we want to maximize the revenue from those licenses. And if your determination is a certain amount a year versus all of them dumped out at the same time, it seems to me we're gonna gain more revenue if we're able to pace it.

The last question I had, the McKinsey report is being referenced a lot in our hearings, and it's been really interesting to read through and see their recommendations for maximizing revenue and making government more efficient. I noticed that they stated that the price of spirits was actually 6 percent lower here in Pennsylvania, which surprised me because a lot of the rhetoric
and the debate around modernization versus privatization is that we pay more in Pennsylvania. We need to protect consumers, and we'd be better if we privatized the whole system.

Given that McKinsey stated that spirits are actually 6 percent lower in Pennsylvania, do you think that's a missed opportunity for us? Should we be raising prices on that, or should we be marketing more effectively? What's your take on that?

MR. NEGRA: I think that they only looked at, like, 18 SKUs --

REPRESENTATIVE KRUEGER-BRANEKY: Okay.

MR. NEGRA: -- so it was a very, very small representation of the entire market.

We look at pricing, you know, in our border states all the time. If we can deliver a better price to the consumers in Pennsylvania, good for us. I don't think we have to match Maryland and New York and New Jersey on every single bottle.

So I think that, when they looked at us, they looked at us from 30,000 feet. We're on the ground, and we'll deal with those sort of SKU-by-SKU decisions when it comes to pricing. We appreciate their recommendations, you know, buy
low, sell high. You know, okay. Why didn't I think of that?

But, as far as that's concerned, we read it. We take all the advice that we can and we process it. But from a pricing standpoint, I think we're pretty happy where we're at, and we're gonna try to do better for our consumers.

REPRESENTATIVE KRUEGER-BRANEKY: Thank you, gentlemen. Thank you, Mr. Chairman.

MAJORITY CHAIRMAN SAYLOR: You're welcome.

Representative Miccarelli.

REPRESENTATIVE MICCARELLI: Thank you, Mr. Chairman. And thank you, gentlemen -- Over here in the back. Thank you, gentlemen, for being here.

My first question is: How has flexible pricing affected the actual prices in the retail and wholesale markets, and can you give me an example of something positive that's happened in that regard?

MR. NEWSOME: We actually have some statistics on that. Do you have those nearby?

MR. MOONEY: Representative, to date, we've been -- In the midst of these ongoing
supplier meetings, our staff has been, right now, been able to reduce prices at the shelf on over a hundred SKUs. Over 1,400 SKUs have remained in the same price range.

And on the same token, we’ve actually raised prices on 96 SKUs. So, it’s an ongoing -- it’s an ongoing process between the suppliers and our staff, particularly at our marketing staff, but to date, that’s what the adjustments have been.

REPRESENTATIVE MICCARELLI: Okay. Thank you.

Next question: Is all of that posted online, somewhere public for consumers to see that?

MR. NEGRA: Not the adjustments, to my --

REPRESENTATIVE MICCARELLI: Or the retail or --

MR. NEGRA: Our retail prices are online.

REPRESENTATIVE MICCARELLI: And the wholesale prices as well?

MR. NEGRA: The wholesale prices are just 10 percent off the retail prices.

REPRESENTATIVE MICCARELLI: Okay. I know that’s something that’s part of Act 39.
My final question: I know we have, as you said, a consultant coming in for consumer relations and the loyalty program, I believe. I was wondering, who -- Is it the LCB paying for that, and who will be paying for a loyalty program? Will that be the Commonwealth, the LCB or suppliers, customers?

MR. NEWSOME: The LCB pays for everything.

REPRESENTATIVE MICCARELLI: Okay. So -- But I guess my question is --

MR. NEWSOME: That's the short answer, of course.

REPRESENTATIVE MICCARELLI: I mean on -- But let's say -- I understand that the consultant will be paid for that. But, as far as this loyalty program, if that's put in place, is that going to be -- Is the cost of that, the saving, is that going to be paid by the taxpayers; is that going to be by the consumer or the wholesale?

MR. NEWSOME: The program itself is really developed by the LCB. So, for the most part, yes, we will be paying for it, of course.

We're in the process now of analyzing the return on investment. Of course, we will not
go ahead with something like that unless it can
increase revenues, increase our transfer to the
General Fund and then be better for the consumers.

We expect that we will be talking to our
suppliers about certain aspects of it. In fact,
they are participating in some of the design of the
program as we move forward.

So, yes, it's all part of a bigger
picture. We don't have all the details yet, but we
don't expect -- First of all, we don't expect --
If you're suggesting that we're going
after our suppliers --

REPRESENTATIVE MICCARELLI: Oh, I'm not
suggesting anything. I'm just asking a question.

MR. NEWSOME: -- for this, no, we're not
going that.

MR. NEGRA: But we are looking at a
couple of different models. We're looking at a
free model to consumers. We're looking at a model
that might award points, in which there would be a
cost to the LCB to be able to pay for those
discounts. And we're also looking at, say, an
Amazon-Prime-type model where the consumer would
pay for the benefits that they would receive,
hopefully achieving more benefits than what they
pay. That's the whole point of that.

So, those point -- those models, none of those have been finalized yet. We're in focus groups right now and trying to determine what exactly it is our customer wants and then we'll move forward.

MR. MOONEY: Representative, I would add that a successful consumer relations program is very, very complex; much more -- on transparency, much more complex than we thought at the surface.

We have a consultant in the building. As Michael stated, the liquor board paid for the consultant. I think we're approaching it correctly, cautiously. And as Member Negra said, we are looking at all the different models to see what is the right way to do that. And as recently as this week, we had focus groups together from different parts of the states of consumers that we did both phone surveys, and Tuesday night we actually had members of our consumers in a focus group down in Philadelphia and asked them a series of questions to model the program going forward.

REPRESENTATIVE MICCARELLI: Thank you for your answer there. So I'm guessing -- With the Amazon Prime, I like those ideas. I mean, it
sounds like we're moving in a good direction.

But, I guess a short answer would be that what's being looked at now is some customer buy-in and possibly some supplier or wholesaler buy-in?

MR. NEWSOME: Absolutely.

REPRESENTATIVE MICCARELLI: Okay. Thank you, gentlemen.

MAJORITY CHAIRMAN SAYLOR: Representative Bullock.

REPRESENTATIVE BULLOCK: Thank you, Mr. Chairman. Good afternoon, gentlemen. I'm over here to the back. Good morning.

I represent an area of Philadelphia, and over the years we've seen a lot of issues in regards to what we refer to as stop-and-gos locally. In the last year, we've seen a significant number of establishments that operate and look like a stop-and-go but have an R license, which is not traditionally what those stop-and-go facilities have seen.

Do you keep any record of how those licenses operate? And I'm not sure if you're aware, most stop-and-gos usually have an E license and usually operate more of a take-out deli with
the beer. And now we see them operating with their R licenses, so they're actually giving out shots, or liquor shots, through the counter, but it doesn't look or appear to be a bar.

Do you keep any record or can you tell me if you have any statistics on how many of those have transitioned in that business format over the last couple of years?

MR. NEWSOME: We may want to defer it to one of our executives.

MR. DIAZ: Sure. Representative, I'm the Chief Counsel. We don't further categorize our retail licensees beyond the fact that they are retail licenses --

MAJORITY CHAIRMAN SAYLOR: I have to ask you to be sworn in.

MR. DIAZ: Oh, sure.

REPRESENTATIVE BULLOCK: Are you gonna stop the clock on that, Mr. Chairman?

MAJORITY CHAIRMAN SAYLOR: Please, would you cite your name so that they can --

MR. DIAZ: Rod Diaz.

(Testifier was duly sworn by Chairman Saylor).

MAJORITY CHAIRMAN SAYLOR: And the
reason we needed your name, and give it one more time so that the person transcribing this via Skype gets it into the record.

MR. DIAZ: All right. It's Rodrigo, actually, but Diaz, and I'm the Chief Counsel for the liquor board.

And to get back to your question, the requirements for a restaurant license, which sells beer and liquor, and the requirements for an eating place license, which only sells beer, are very similar. And, basically, you need 30 tables and chairs and need 300 to 400 square feet. As long as they hit that threshold, we don't ask anything else. So, we don't know, necessarily, without going into the actual record of that license, what their configuration is. So, we don't know how many of these places that are known as stop-and-gos exist.

We do know that, if you're telling me that they're selling liquor --

REPRESENTATIVE BULLOCK: Yes.

MR. DIAZ: -- then they have Rs. But most licenses in Philadelphia are Rs. There are only about 400 E licenses in the entire state.

REPRESENTATIVE BULLOCK: Yeah, we've
seen a significant conversion of bars and taverns to these stop-and-go establishments over the last couple of years, so it's been noticeable.

So my second follow-up question to that is: How many inspectors do we have or troopers do we have that do enforcement in the Philadelphia area?

MR. NEGRA: I think BLCE could answer that. I really don't -- have no idea how many are in Philadelphia versus the rest of the state. We really -- All we do is give them $25 million a year.

REPRESENTATIVE BULLOCK: Do you know how many licenses, R licenses, do we have in Philadelphia?

MR. DIAZ: About 1,600 retail licenses.

REPRESENTATIVE BULLOCK: So 1,600 R and about 400 E; is that --

MR. DIAZ: 400 for the entire state.

REPRESENTATIVE BULLOCK: State, okay.

Understood.

MR. DIAZ: 1,600 total Rs and Es.

REPRESENTATIVE SAYLOR: Got you.

Understand.

MAJORITY CHAIRMAN SAYLOR: You have to
be speaking at the mic if you're going to answer questions.

REPRESENTATIVE SAYLOR: Thank you, sir.

MR. MOONEY: Representative, I would add that, we're cognizant of these so-called stop-and-gos, and our regulatory staff is -- Tisha Albert is sitting to our left -- Member Negra's left here; actually just was in Philadelphia with a contingent of our licensing people and had a meeting with the new administration, some of the police department and the state liquor control enforcement.

On the subject matter was so-called stop-and-gos and how do we proceed in looking at those. And it is an enforcement issue. Once the liquor board issues the license, the regulation enforcement rests with BLCE. And they were in on the meeting, so we are actively talking about this issue.

REPRESENTATIVE BULLOCK: I appreciate that, because I think it is largely an enforcement issue.

My last and final question is in regards to your personnel and your staff and diversity among your staff, and if you can share percentages in regards to minority employees, female employees,
and if you can also share any statistics you may have in regards to your management level as well.

MR. MOONEY: Representative, I have some numbers here, but we could certainly provide you what our staff -- the details of all the percentages. On a cursory, quick look at it, for the total liquor board, it's -- (Paused). Let me see if I can get percentages here.

MAJORITY CHAIRMAN SAYLOR: Why don't you just send that to us.

MR. MOONEY: Could I --

MAJORITY CHAIRMAN SAYLOR: That way she gets the accurate information --

MR. MOONEY: We would like to do that.

MAJORITY CHAIRMAN SAYLOR: -- and the entire committee will have it instead of kind of guesstimating.

MR. MOONEY: We'll take care of that.

MAJORITY CHAIRMAN SAYLOR: That would be good.

MR. MOONEY: Okay.

REPRESENTATIVE BULLOCK: I appreciate that. Thank you, Mr. Chairman.

MAJORITY CHAIRMAN SAYLOR: You're welcome.
Representative Greiner.

REPRESENTATIVE GREINER: Thanks, Mr. Chairman. I'm over here, gentlemen. Thanks for being here.

I know I was one of the gentlemen in the past that had some concerns about the ability of the LCB to make their contribution to the General Fund over the future, much like Representative Dunbar, and I'm kind of gonna delve into the weeds, kind of, as he did.

You know, I'm looking at page 39 of your report, and there's some good things that occurred, in that, a percentage of your liquor purchases, as compared to sales would decrease. I think that might be due to the flexible pricing. But I also see, unfortunately, that some of your other expenses are going up, and that, you know, in the end, the margins actually appear to be decreasing in the future.

Do you have an explanation for that, or can you give me an idea what might be occurring there?

I will say that I do appreciate the conservative budgeting moving forward, though, at least laying it out that way. But like I said,
this is more in the details now.

MR. NEWSOME: Okay. I'll start with the
-- with the good part of this, and that is the fact
that we are --

MR. NEGRA: Give me the bad part.

MR. NEWSOME: I'll give him the bad
part, yeah.

We are confident that we will be able to
improve our margins, as you've indicated, going
forward, and we have a conservative --
approximately four points over the next five years.
And that's relatively indicated here as
conservative.

Our expenses, as Member Negra said
earlier--he's prepared to go into a little more
detail on that--are related to those uncontrollable
areas that we have here, and that would be, mostly,
the benefits, the pensions and the OPEB and those
types of things.

MR. NEGRA: As far as, which I already
talked about pension and OPEB and workers' comp,
which is, obviously, out of our control; rent,
insurance, labor. I think recently there was just
an 11.8 percent increase across the board for our
staff. Those are costs that are out of our
control. So, when we try to determine where our
costs are going to go, especially when you do it on
a long-term basis, it's difficult. You have to
come up with assumptions; you just have to.

And all of those things come into play
when trying to determine a basis for moving forward
and to give you a -- as accurate as humanly
possible, when you go out past '17-18, because we
don't know if it's going to be a static environment
or not a static environment when it comes to the
LCB.

REPRESENTATIVE GREINER: And that's kind
of where I agreed with my colleague Representative
Dunbar earlier. It's great to have the projections
on paper, but it is hard, and I understand that, as
you go out three or four years to make sure that we
have a good basis, because we have to make
decisions as a legislative body, moving forward,
what we want to do and what we think is best.

I also do want to follow up on a
question that he has in there. It's in the state
store's fund book that you had, page 39. It said
that the sales and tax revenues are projected to
grow by 4.5 percent in 2016-17. I want to kind of
go back. Right now we're only at 3.6 percent.
Do you see -- Do you see that -- Do you see us able to get to that percentage of growth this year in fulfillment of that? Or are we going to actually be behind on projections on that one? This goes back to what I'm saying: You can make projections, and if they don't come through, it does affect things.

MR. NEGRA: I think, historically, over the last three to four years, we've been running at that 4 to 4 and a half percent. Where the WEPs come into play, the wine expanded permits, and what else happens as far as any other changes with who we're selling to certainly might affect that.

But, I think we feel relatively confident in anticipating a 4.5 percent growth. Optimistic? It might be a touch optimistic.

REPRESENTATIVE GREINER: Yeah, because I actually have the actual General Funds collections here to substantiate the 3.6, and I just wanted to know moving forward.

And then just kind of -- I thought there was another excellent question asked before. I think Chairman Saylor had asked this. Looking at the liquor store profits, there's a schedule of what the Governor wants to, you know -- or what's,
hopefully, to be contributed to the General Fund, which is the $217 million.

First question: Do you think we're gonna be able to get to -- I mean, in light of the percentage, are we gonna get to that figure?

MR. NEGRA: This year?

REPRESENTATIVE GREINER: Yes.

MR. NEWSOME: We are positive it will happen this year.

REPRESENTATIVE GREINER: It will happen?

MR. NEWSOME: It has begun.

REPRESENTATIVE GREINER: Okay. Because, you know, I have a schedule here of what was anticipated to be paid out. And just to give you an idea, you know, 23 million approximately was to be paid out in February, and that's where the 71 -- The actual transfer to the General Fund was about 73 million in January; 72 million in February. So that's -- you know, we're --

MR. NEGRA: A lot of that -- A lot of that's coming from reserves.

REPRESENTATIVE GREINER: Okay.

MR. NEGRA: I mean, you know --

REPRESENTATIVE GREINER: So it is --

Okay. So that's reserves.
MR. NEWSOME: Absolutely.

MR. NEGRA: Absolutely. You know, that's your money, too. I mean, we're just a subsidiary of the Commonwealth.

REPRESENTATIVE GREINER: Well -- And I agree with that, by the way. I'm a big proponent of using the reserves, trust me, through this whole budgeting process. But I just wanted to give an overview because we were trying to determine what the transfers were and what was occurring. And I see, you know, March was anticipated 48 million.

So, I just wanted to say, thus far, it appears about 145 million has been transferred to the General Fund. So, I guess, we look at another 70 -- approximately 70 million --

MR. NEGRA: That's right.

REPRESENTATIVE GREINER: -- in order to meet what the Governor was anticipating. So, I just wanted to confirm that and see whether we were on the same page moving forward.

Thanks for your time. Thanks, Mr. Chairman.

MAJORITY CHAIRMAN SAYLOR:

Representative Schweyer.

REPRESENTATIVE SCHWEYER: Thank you, Mr.
Chairman. Good afternoon -- Or, good morning, gentlemen. I'm already planning ahead for the last day of budget hearings this week.

With the number of changes that we had over the course of the last year with modernization and the consumer convenience and changes that we have made, you're gonna forgive the members of the committee for bouncing around a little bit and kind of going back and forth, both sides of the aisle here. Two things that had been briefly touched upon earlier, but I really wanted to give you an opportunity to give us an update on some of the changes that were made that I'd like to ask about.

First is the implementation of Pennsylvania Lottery machines a little bit further. How is the implementation going for your stores? Is it having any kind of direct impact on your clerks, on the operations of it, and are you realizing some of the figures you'd like to receive (sic) -- Realize. Excuse me.

And then the other one, again, going back to the question of the abandoned licenses, how are you doing? Are you going to be able to move forward? I understand that there was an initial cost setup for -- a cost that you had to outlay to
get that process going.

So, I just really wanted to talk about those two changes, because they have a direct impact on your budget and, quite frankly, a direct impact on what you're ultimately going to be able to transfer to the General Fund.

MR. MOONEY: Representative, I'll take your first question about the lottery. Our staff was very aggressive with the Department of Revenue and lottery prior to August 8th, which was when Act 39 took place.

We currently have 313 stores that have self-service lottery machines inside them. We have a wonderful relationship with the Lottery Commission. They pick the stores; they pick the locations based upon all the demographic and analytical detail that they do and where all their competitive kiosks are and different things and machines.

But, yes, we are seeing growth in our lottery sales, in our commissions. It was a slow process to start. Changing consumer behaviors and patterns, it doesn't happen overnight, but we're seeing a relatively steady growth in our lottery sales and, thus, greater commissions sent through.
MR. NEGRA: Go ahead.

REPRESENTATIVE SCHWEYER: Very good.

And the orphaned licenses or the vacant --

MR. NEWSOME: Yes, regarding the auctions?

REPRESENTATIVE SCHWEYER: Yes.

MR. NEWSOME: We did have to ramp up a little bit with personnel. Actually, I believe we transferred some personnel over to help us handle the auctions. But, as I recall, no significant increases in expenses in order to conduct these auctions.

As of right now, we have completed, as you know, the first auction. We have $7.8 million of -- We have the funds already. We can't record them until they're actually earned. They will not be earned until, probably, most -- certainly before the end of the fiscal year, but we think starting April, May, we'll start recording those amounts.

The second auction actually will take -- we'll actually open the bids next week, and we're hopeful that that will be similar; probably not as much, but we're excited about that. We plan to -- The board hasn't really decided yet, but two or three auctions per year, which will approach, what;
a hundred, hundred or so?

MR. NEGRA: Yeah, a hundred.

MR. NEWSOME: A hundred or so.

MR. NEGRA: Yeah, we'll make that
determination based upon the market, and we don't
anticipate as much money coming in this auction
because of the counties that they're being held in.

There's a lot of northern-tier counties
where the competition might not be as strong. So,
it's a learning experience, especially the first
two or three that we do, and we'll probably get
into more of a rhythm as we move forward. We might
try an open auction going down -- going down the
path. I don't know that we're going to do one from
the steps of the Capitol, but you never know.

REPRESENTATIVE SCHWEYER: Fair enough.

Real quick, one last question:

Something that you won't have yet,
because we understand that those auctions -- those
licenses that have been brought out of -- brought
back as a result of the auctions, I understand that
those restaurants and those places of business are
not yet open.

But what will be interesting is an
analysis of how many jobs were created as a result
of these licenses opening up. What are the economic impacts of the result of opening up more businesses; again, how many jobs were created; how much tax revenue is generated from that.

So, later this year, perhaps—I also serve on the Liquor Committee or even next budget hearing—it would be interesting to get that information.

Thank you, Mr. Chairman.

MR. NEGRA: Will do.

MAJORITY CHAIRMAN SAYLOR:

Representative Boback.

REPRESENTATIVE BOBACK: Thank you, Mr. Chairman.

When we passed Act 39, one of the contentions was that it would help stop what they call border bleed. Is there any way that you could assess if, in fact, it did any of that; where people would go to other states to purchase liquor, alcohol, wine?

MR. MOONEY: I'll take it, yeah.

Representative, the tool that we're looking to, that Act 39 gave us the ability to answer your question from the, quote, border bleed, would be our CRM program, the consumer relations
program. The way the act was written allows us to do certain things under the loyalty program that everybody seems to refer to.

We have the ability to put certain territorial promotions in place, which would be down around the Delaware border, around the New Jersey border, in the Greater Philadelphia, southeast areas. That would be different from what happens in State College or Erie. So that is a tremendous tool that would give us the ability to combat the so-called border bleed.

We've also taken advantage of some great store locations that we've been successful. We have a store we call Glen Mills, at the corner of 1 and 202 in Delaware County, where we actually see a lot of Delaware license plates in our store parking lot because it's 13,000 square feet and we sit next to a Wegmans. And we think we've been successful turning that the other direction.

REPRESENTATIVE BOBACK: I'm happy to hear that.

Since Act 39, did you notice any decrease in your people who work in your store, in your complement and the people who are, I guess, service workers?
MR. MOONEY: Since Act 39, Representative, we've added store personnel. We've had to increase staff due to additional Sunday stores. We opened up -- We had 188 prior to Act 39. We have 330 now open on Sunday. They're also open greater hours. We're open 11 to 7, previously 12 to 5, so we had to staff our stores. We added complement for sure.

Where we are seven months into the act is, we are analyzing the sales at all our Sunday operations and taking a look at it store by store to see what's been successful and rank them according to how they're doing.

REPRESENTATIVE BOBACK: Thank you.

And how many positions do you have that are full time throughout the Commonwealth?

MR. NEWSOME: Do you have that? I think --

MR. MOONEY: I have it. (Paused).

Full-time positions, within the stores and the administrative side, is approximately 3,000.

REPRESENTATIVE BOBACK: And that includes the new employees that you hired --

MR. MOONEY: It does.

REPRESENTATIVE BOBACK: -- post Act 39?
How many are part time and seasonal, if you have that? If not, you can get it back to me.

MR. MOONEY: Yeah. Why don't I break it all down and we'll send it to you?

REPRESENTATIVE BOBACK: I would appreciate that.

MR. MOONEY: That's fine.

REPRESENTATIVE BOBACK: And my last question is: Do your seasonal and part-time workers, are they eligible for health care or pension, any other benefits?

MR. MOONEY: They are. Our part-time -- not seasonal, but our part-time employees are eligible for pension and SERS when they meet a threshold.

REPRESENTATIVE BOBACK: What would that be?

MR. MOONEY: Yeah. For example, the part-timers must work, it gets into a lot of details, but 979 hours, and then they're eligible to get into pension and Affordable Care Act. But right now there's only -- We have 1,400 part-time positions. Excuse me, 1,600. There's only 167 part-timers enrolled in benefits.

REPRESENTATIVE BOBACK: Thank you very
much --

MR. MOONEY: You're welcome.

REPRESENTATIVE BOBACK: -- for your responses.

Thank you, Mr. Chairman.

MAJORITY CHAIRMAN SAYLOR:

Representative Donatucci.

REPRESENTATIVE DONATUCCI: Thank you, Mr. Chairman. And welcome, gentlemen.

From your written remarks, it appears you've been working with grocery stores and convenience stores that are now selling wine to go. Basically, you act as the wholesaler and they then sell the wine at retail. Tell us a little more about what services you are providing to licensees, including these new wine expanded permit holders, to help them get their product and figure out how much they should be buying and when.

MR. NEWSOME: I'll do it, or Charlie, do you want it?

MR. MOONEY: I'll take it.

Representative Donatucci, we've been very successful. We're very proud of how our agency reacted to our new wholesale business. Act 39 allowed these licenses to go very quickly. If
the grocery stores and different type of operators
-- We call them bottle shops and different things,
but, primarily the grocery stores, if they already
were selling beer, they already had a license, and
they were very quickly able to start selling wine;
actually, as fast as we could go.

We're very proud of the fact that we
were able to get -- most of the grocery stores that
were ready to go were selling wine in October. So
we acted very quickly from August, and we procured
every product that they wanted. We hired a staff
and put into place to work very closely with the
grocery stores. We met individually with each
chain; went through their assortments SKU by SKU.
They've been very successful, and we are getting
their product as they require.

MR. NEGRA: From an ordering standpoint,
it's all -- it's all online. We're allowing them
to come in. We have a pilot program for
backhauling. So, from a shipping standpoint, we're
working with them in terms of logistics from our
supply chain that has tried to make it as seamless
as possible.

We're looking to make changes from a
timing standpoint; adding Sunday to our warehousing
and making a faster delivery approach available to these particular partners. And we're trying to be a good wholesaler, okay. In fact, we're trying to be the best wholesaler, if possible.

REPRESENTATIVE DONATUCCI: Great.

Although I know we're here to talk about numbers, you also have an important alcohol education program that we shouldn't overlook. It's my understanding you're in the midst of a new alcohol education grant cycle. Do you have any details on what that is; what are the grants for, who can get them, and when are applications due?

MR. MOONEY: I have that.

MR. NEWSOME: Do you want to handle that?

MR. MOONEY: We just started the two-year grant cycle. We're on a two-year cycle now. It just started and we're taking applications, and -- (Paused).

MR. NEGRA: We've done Town and Gown.

MR. MOONEY: Well, I'll talk a little bit about alcohol in general, alcohol education. We're very excited about alcohol education.

I think, as the executive director, we're gonna be put a renewed emphasis on our
alcohol education, and we've taken a program that used to be called Town-Gown, where we targeted college and high school students about education -- educating them about underage drinking and the dangers.

Our new survey that we're progressing on now and we're just starting is now telling us that you need to start educating children as low as eight years old. We've done a lot of data research, a lot of focus groups, and we're in the very infancy stages of developing this new program.

But, there's staggering statistics that more than 50 percent of children before the age of 10 have tasted alcohol, and a lot of it -- We're talking to parents also because a lot of it is what the children are seeing in the residence and what adults are around them.

So we're doing this in conjunction with a fabulous company that's affiliated with Franklin and Marshall College. And as I said, we're just getting into this, but I think you're going to see a renewed emphasis, starting with a lower age, going forward.

MR. NEWSOME: Let the record show that we are not talking directly to children.
REPRESENTATIVE DONATUCCI: No, I think it's a wonderful program.

MR. NEWSOME: We're talking to their parents, and our PR person will correct us on that for sure.

REPRESENTATIVE DONATUCCI: Do I have any more time for one last question?

MAJORITY CHAIRMAN SAYLOR: A few seconds.

REPRESENTATIVE DONATUCCI: Okay.

I'd like to ask about the re-branded stores. My constituents love them. They love the shopping experience at these stores. Do you see improved sales after doing a store re-brand, and are you planning more in the future now that grocery stores are beginning to sell wine to go?

MR. MOONEY: Representative Donatucci, we are very proud of our branded efforts. Today we've branded 170 stores. We do plan to continue. Our customer reaction has been fabulous, and our sales have increased as a result of the branded efforts. We have a run rate right now of 5.5 percent sales increase across all our branded stores. We've been very, very successful, and we are aggressively continuing.
REPRESENTATIVE DONATUCCI: Thank you.
You've been doing a wonderful job.

Thank you, Mr. Chairman.

MAJORITY CHAIRMAN SAYLOR:
Representative Kampf.

REPRESENTATIVE KAMPF: Thank you, gentlemen.

The annual reports that you all create show sales in terms of dollars by each of your stores. Do you keep kind of an expense-to-revenue by store as well? Do you keep those statistics?

MR. MOONEY: We do, sir. Each and every store has a budget. We track sales. We track expenses. We track profit. We track 18 different metrics around our store sales and expenses.

REPRESENTATIVE KAMPF: So, if I wanted to take a look at those, I would just contact you?

MR. MOONEY: Absolutely.

REPRESENTATIVE KAMPF: Okay. And I probably will. And this leads into my questions -- or my next questions.

The stores, the grocery stores and whatnot, have been selling since October. Has that had an impact on wine sales in the stores, your stores?
MR. MOONEY: It has.

REPRESENTATIVE KAMPF: Is it unit by unit? I mean, the papers you gave us say 2 million units were bought by the new licensees. Is it a 2-million-unit loss to you or what?

MR. MOONEY: It is not. To date, the grocery stores -- And I'll just call them the WEPs. We call them wine expanded permits. It's beyond the grocery stores. But, to date, we've sold over -- We gave them $25 million worth of product.

Are they affecting our stores? Yes.

REPRESENTATIVE KAMPF: Well, can you give me any kind of statistics on that?

MR. MOONEY: I can. So we just completed an entire analysis of your question. According to sales, we are dropped 1.8 percent over a base growth that we had prior to Act 39.

REPRESENTATIVE KAMPF: Okay. Is that written down? Could I see that analysis?

MR. MOONEY: It is.

REPRESENTATIVE KAMPF: Could I see it?

MR. MOONEY: I see no reason why you couldn't. We'll send it.

REPRESENTATIVE KAMPF: All right.

Great.
And just on filled positions, generally, I see in your submission to us, you have 3,055 filled positions budgeted for '17-18 and 3,395 authorized. Is the budget number for personnel that you gave us in your report based on authorized or on filled positions only?

MR. NEWSOME: I believe that was authorized.

MR. MOONEY: Authorized, correct.

MR. NEWSOME: We believe that number is authorized.

REPRESENTATIVE KAMPF: So authorized?

MR. MOONEY: Yes.

REPRESENTATIVE KAMPF: Okay. Did the Administration, the Wolf Administration, indicate to you you were only supposed to give us filled requests for dollars?

MR. NEWSOME: We -- As far as I know.

REPRESENTATIVE KAMPF: It looks like no. Is that a no?

MR. NEWSOME: I think that's a no.

REPRESENTATIVE KAMPF: Okay. And I noticed your benefit factor for your full-time employees is 93 percent; meaning, for every dollar in salary, there's $0.93 in benefits. Any chance
you're gonna be able to reverse that for us?

MR. NEWSOME: It's a combin --

Obviously, some of it is based on the salaries themselves, on the wages themselves. We don't see that happening with the current pension situation, OPEB, and other benefits. We do not see that happening.

REPRESENTATIVE KAMPF: Okay. Thank you.

MAJORITY CHAIRMAN SAYLOR:

Representative Kinsey.

REPRESENTATIVE KINSEY: Thank you, Mr. Speaker. Good afternoon, gentlemen. Good morning, gentlemen. I'm sorry.

First I want to, if you can, thank your staff. I represent the City of Philadelphia -- portions of the City of Philadelphia, and we've had some issues with stop-and-go, but your staff have been very responsive with getting us information. So, I'd be remiss if I don't thank your staff for the help that they provided us over the past year. So, thank you very much for that.

Many of us were here when the previous Administration was pushing to privatize the liquor stores. A lot of us had great concerns because it would have probably cost over 5,000 hard-working
Pennsylvanians' employment. So, instead, we passed Act 39 and we modernized the liquor stores.

Can you speak to the staffing complements? I know that Representative Kampf just talked about it in regards to the positions authorized and filled. But I guess my question more or less leads to, since the passing of Act 39, did we see -- did we lose employees -- did we lose employees or were we able to expand employment opportunities? That's one part of my question.

The second part of my question is: The Governor is proposing a 12-dollar minimum wage. How would that impact the budget for the LCB? How would that impact, you know, if we were to increase the minimum wage to $12 per hour?

MR. NEWSOME: I'll deal with the second question first, and then we'll have our executive director --

REPRESENTATIVE KINSEY: Sure.

MR. NEWSOME: -- answer the first question.

REPRESENTATIVE KINSEY: Okay.

MR. NEWSOME: We have done some preliminary analysis on our wages. Actually, it was pretty simple. Our wages are over -- pretty
much over. I think he's proposing 12.25, and our
minimum is 12.12.

REPRESENTATIVE KINSEY: Your minimum is,
I'm sorry?

MR. NEWSOME: It's 12.12.

REPRESENTATIVE KINSEY: Okay.

MR. NEWSOME: So there would be some
impact, a little impact, but insignificant when it
comes to that.

REPRESENTATIVE KAMPF: Okay. Great.

Thank you very much for that.

MR. MOONEY: First part of your
question, Representative, is, we've added staff,
since Act 39, to the stores. What we've done is,
we've decreased -- We've had a -- We always look at
our vacancies across our administrative side of the
agency. We've had to add a few for Act 39, but
we're always cognizant.

But, in the stores, we've actually
increased our complement in the stores, as I
testified earlier, because of the additional Sunday
stores and the Sunday hours. So we've created
positions.

MR. NEGRA: I'd like to speak to the
minimum-wage issue, okay?
REPRESENTATIVE KINSEY: Sure.

MR. NEGRA: If it goes to 12.25 and we're spending 12.12 now for staff, I don't see us raising it to 12.25, okay, and getting the people that we need to get to deliver the type of service that we need. So, every dollar that our staff is increased costs the LCB about $3 million.

All right. So, if minimum wage goes to 12.25 and we've got to start paying 14 or $15 an hour to get the people that we need, including the people sitting in this room, based upon on what happens in the collective bargaining agreement is certainly gonna cost the PLCB, okay. So it's not gonna be a wash because we're within $0.13 of minimum wage.

REPRESENTATIVE KINSEY: I understand.

MR. MOONEY: So there is gonna be a cost to us.

REPRESENTATIVE KINSEY: I do understand that. But also, when I look at the overall budget and recognize that money's being transferred, we're saying that there's gonna be a cost, but it's something that the LCB can still consume based on previous revenues; is that correct?

MR. NEGRA: Well, it increases our
expenses, and next time we come in, we'll have to explain that. We'll say, hey, minimum wage went up, and so, our corresponding costs went up, you know, to our staff. So, I don't think the LCB --

First of all, we're paying 12.12 now; minimum wage is 7.25. We're not interested in having minimum-type wages. Okay? So --

REPRESENTATIVE KINSEY: And I appreciate you sharing that. I think that -- Not just for the folks that are sitting here, but even with my colleagues as we talk about living wages for Pennsylvanians, you know, we're looking at things like that, so I do appreciate that.

Executive Director Mooney, I just want to make a comment. I appreciate your visit to Philadelphia, meeting with city leaders and law enforcement. What I'd like to do is invite you back to meet with state legislators. We've been having some conversations.

In fact, we also have pending legislation centered around liquor licenses, and some of the issues that we're hearing about throughout our constituency. So I'd like to invite you back; maybe meet with a group of legislators and community stakeholders; and, again, just so
that we can sort of talk about some of the issues that we're facing day to day, and look at a proactive way that we can address it in cooperation -- in collaboration with the LCB. So, again, I'd like to have you come back, and I'll reach out directly to you.

But, again, thank you all, gentlemen.

MR. MOONEY: We'd be happy to do that.

REPRESENTATIVE KINSEY: Great. Thank you very much.

Thank you, Mr. Chairman.

MAJORITY CHAIRMAN SAYLOR:

Representative Helm.

REPRESENTATIVE HELM: Thank you, Mr. Chairman.

Gentlemen, I had an original question on re-brands, which Donna -- Representative Donatucci asked that question, so -- And you said that they are operating sufficiently and it's been working well for you.

But, on Linglestown Road, we have a strip mall that has one of your new Fine Wine and Good Spirits stores there, very nice store, and also a Giant. I just wondered, since the Giant sells wine, have you noticed any less wine sales in
your state store?

MR. MOONEY: As I testified earlier, Representative, there's a slight decrease in sales where our stores are in close proximity to one of the new grocery stores that are selling wine. We are looking at those situations on a store-by-store basis. Our analysis right now has 464 stores that we believe are in the market areas of a grocery store selling wine. Yeah, we're very cognizant of where they are and the relationship, and we're watching every one of them.

REPRESENTATIVE HELM: I know, in those stores, you have, like, the Chairman's Selection and all those bottles up front. Like, are you making money on those?

MR. NEGRA: Oh, sure.

MR. MOONEY: Yes, we are. Go ahead, Mike.

MR. NEGRA: No, no. Go ahead, Charlie.

MR. MOONEY: Our Chairman's program is one of the most successful consumer programs we have. It has brand recognition. Sales -- We started a secondary program in Chairman's called Chairman's Advantage. That's growing tremendously, and all Chairman's Advantage wines are $10 or less,
and we're expanding the opportunity for that purchase in a lot of our stores.

    REPRESENTATIVE HELM: You know, I know you have limited space. But, when I go in there, and I don't know that much about my wines, and I try and read them, but I always revert back to going to the Kendall-Jackson and then I have to, like, go to find the Chardonnay or the Pinot Noir. Sometimes I wish you could just, you know, clump those certain brands all in one little area.

    MR. NEGRA: Ah, do it by brand, huh?

    (Laughter in the room).

    MR. NEGRA: I'd like to -- Can I expand on something that Charlie said?

    REPRESENTATIVE HELM: Certainly.

    MR. NEGRA: And this is actually to Representative's point earlier.

    When we talked about a 1.8 percent decrease as a result of our wine expanded permits and groceries stores and so forth, for wine, that is not 1.8 percent decrease in year over year. We were running at a 5.4 percent increase in wine sales, and now we're running at 1.8 percent less than 5.4 percent increase.

    So, it's not like our year-to-year wine
sales are down. It's just we're not running as much of an increase on a -- This was -- The study we did was for the fourth quarter of '16. So, we're not selling as much, but we're still selling more than what we did. And I just wanted to expand on that just a touch so that it doesn't show that -- that you don't think that we're selling less wine total.

MR. NEWSOME: And that's reflective of a number of new customers coming into -- Some of these customers that buy in the grocery stores would never come to one of our stores, for whatever reason.

MR. MOONEY: For further clarification, our growth, in the wine in those areas I refer to as base growth, was 7.5 percent ahead of last year, and we're simply down 1.8 lower than the 7.5 in those affected markets.

MR. NEWSOME: Great.

REPRESENTATIVE HELM: All right. Thank you.

MAJORITY CHAIRMAN SAYLOR: Representative Gainey.

REPRESENTATIVE GAINEY: Hello, gentlemen. How are you doing?
MR. NEWSOME: Great.

REPRESENTATIVE GAINEY: My question is in regards to your Sunday sales. One, I appreciate the fact that you increased your hours. How has your sales went on Sunday? Has it generated any revenue? And how many stores are currently open on Sunday, and do you see this market growing, and will it be able to produce more revenue for you in the future? So let me just go over it again, because I know I'm on a time.

One is, I want to know how many stores are open on Sunday? Two, in terms of your sales, how has your sales productivity been, how much revenue has it generated, and how many stores do you feel you can open that can help you generate more revenue?

MR. MOONEY: Representative, sitting here today, there are 331 stores open on Sunday; predominately, most of them are open 11 to 7.

So, to your question, we have $12 million in sales growth on Sunday, over same period last year, due to the additional stores and the additional hours we're open.

What we are doing as a staff right now is trying -- We're not trying. We're going to. We
are analyzing what exactly that shift in all the sales have done, because, at the same time, we now have all the grocery stores selling wine.

So, we opened -- So there's so many facets of change in Act 39 occurring at the same time. We're taking a cautious approach to say, well, who's buying at the grocery store and who is buying at our store. So we see $12 million of increase, but we're taking a very cautious look at it, and we're going to study the effect of all the customer's options that are in front of them and how are they affecting each other and within our own system.

REPRESENTATIVE GAINEY: And do you have a strategy? You said you've seen a small decrease in -- Grocery stores that are selling wine, you've seen a small decrease in terms of customers going there and buying wine.

Do you have a strategy to be able to combat that to see how you can get those customers? I know you said some of them just wouldn't come into the store anyway. But to the percentage that you felt you lost, is there a strategy going forward to how you get them to come back into the liquor stores to be able to purchase from us?
MR. NEGRA: I think the customer relations management program will really do that. You know, the coupons, discounts and whichever model we choose, I think, will have a lot, from a marketing standpoint, to bring people back into our stores.

REPRESENTATIVE GAINENY: Thank you.

MAJORITY CHAIRMAN SAYLOR:

Representative Roae.

REPRESENTATIVE ROAE: Thank you, Mr. Chairman. And thank you, members of the board and with the LCB. My question is -- a couple follow-up questions on minimum wage.

Are there any subcontractors that do things for the LCB or any of the stores that would be impacted by 12-dollar-an-hour minimum wage?

MR. NEGRA: Warehouse would be -- That'd be it, Charlie, right? All of our warehouses are subcontracts.

MR. NEWSOME: But they're not --

MR. NEGRA: So they're not --

MR. MOONEY: They're not our employees.

REPRESENTATIVE ROAE: I mean, are there any --

MR. NEGRA: No. I would say no.
REPRESENTATIVE ROAE: So, like, no cleaning people or no maintenance people or no part-timers, or anything like that making under 12 that are subs?

MR. MOONEY: Representative, to the best of our knowledge, no.

REPRESENTATIVE ROAE: Okay.

MR. MOONEY: But subcontractors, whoever you mentioned and different parties, they're not liquor board employees, so --

REPRESENTATIVE ROAE: Right. But I just thought, if we raise it to 12, that would raise your --

I have a lot of questions. I'm gonna move on.

Some union contracts have a clause that adjusts the pay scales if the law changes for minimum wage. Do you know, is that in the union contract for your employees?

MR. NEWSOME: We're not aware of that.

MR. NEGRA: Yeah, I'm not aware of that, but it certainly could be. I really don't know.

REPRESENTATIVE ROAE: Could you check and get back to us, because I'd appreciate that?

MR. NEGRA: Absolutely.
REPRESENTATIVE ROAE: Because some contracts automatically raise the whole pay scale if there's a minimum wage change.

MR. MOONEY: Representative, ours do not.

REPRESENTATIVE ROAE: They don't? Okay.

MR. MOONEY: No. They're fixed, and the increases are detailed in each of the calendar years.

REPRESENTATIVE ROAE: Okay. Thank you.

Then my next question is: Obviously, the union contract does have a big impact over you guys controlling your costs. But, as far as non-union employees, have you guys asked them to pay more for health insurance or skip pay raises or anything like that to help manage the costs, or are they basically getting something similar to what the union members are getting, usually, every year?

MR. MOONEY: Well, we asked. That's for sure.

REPRESENTATIVE ROAE: Let me put -- We are very quick on time here. Are there pay freezes right now for non-union people in 2017?

MR. MOONEY: There is not.

REPRESENTATIVE ROAE: Okay. Are there
pay freezes in 2016 for non-union people? Were there in 2016, pay freezes?

MR. NEWSOME: The pay freeze, I think, was lifted in mid-fall of last year.

REPRESENTATIVE ROAE: Okay. All right. In 2017, are you asking the nonunion employees to pay more for health insurance?

MR. NEWSOME: No. We're not negotiating --

REPRESENTATIVE ROAE: Than what the union members have to pay.

MR. NEWSOME: We --

REPRESENTATIVE ROAE: Are you basically miring -- The people that are covered by the union contract, is that basically similar pay raises and --

You know, I'll send you a follow-up question. We're running out of time.

MR. MOONEY: Sir, to answer your question, it is. It's very similar.

REPRESENTATIVE ROAE: Okay. So you could control your costs. The union members, you can't, but with the non-union members, you could say, hey, we're gonna give you a 1 percent raise this year instead of 2 percent. You could say,
you're gonna pay a hundred bucks a month for health insurance instead of 50 bucks, but you choose not to; is that correct?

MR. MOONEY: That is the intention. I'd be cautious to say that. We have not completed the negotiations with our non-union member -- union. So I don't really want to get into all the details yet.

REPRESENTATIVE ROAE: Okay. Well -- Okay.

My next question is: When you look at page 39 in the book here, it looks like -- I want to get some more information on that. The sales, it looks like, if you take it out all the way to 2021, it works out to be an exactly 25 percent increase over five years, so about a 5 percent increase per year. The --

Just for the sake of argument, if there was only a 4 percent increase in each year, every year for the next five years, your sales would be about a hundred million dollars less than what you're projecting here, and you would actually be losing money every single year between now and 2021. If you didn't have a cash balance to draw --

Like, in 2016-2017, you're gonna lose
$91 million even with these sales projections. 2017-2018, you're gonna lose $21 million. You're drawing stuff from your reserves. But I guess my question -- my question is: How did that work out that it was exactly a 5 percent projected increase? And a sub-question is: In 2017, you think your increase is gonna be 4.8 percent; in 2018, 4.7 percent; 2019, 4.6 percent. But then 2020 is only 4.1 percent increase. Then 2021, it goes back up to 4.6 percent.

Why is there that one low year in there. It looks like it's designed just to show an exactly 5 percent per year compounded increase.

(Phone interruption). My stupid phone again.

MR. NEWSOME: I'll be happy to answer that question for you.

REPRESENTATIVE ROAE: Okay, yeah.

MR. NEWSOME: Are you reading my notes? I have actually done that same analysis that you just talked about --

REPRESENTATIVE ROAE: Okay.

MR. NEWSOME: -- and it just happens that it comes out to 25 percent. I was kind of
curious about that myself.

REPRESENTATIVE ROAE: And it just
happens that, in 2020 --

MAJORITY CHAIRMAN SAYLOR:
Representative, your time has expired. I'm gonna
let him answer the question --

REPRESENTATIVE ROAE: Okay.

MAJORITY CHAIRMAN SAYLOR: -- but no
more questions.

REPRESENTATIVE ROAE: Okay.

MR. NEWSOME: Okay. Your percentages
are exactly correct for each of those years. And
we've asked our finance department to actually
produce those numbers, and it's based on a number
of factors.

Remember the twenty -- or at least
understand, the 25 percent is a compounded number.
So, if you have 4.8 on one year, it is compounded
from the previous year. So, it's not 5 percent per
year. It's actually those percentages that you
mentioned: 4.6, 4.1 and so forth. And it's just,
the compounded amount is 25 percent.

So, I understand your question, but I'm
hoping that, as you reduce the sales, you're also
reducing the cost of sales and so forth. I don't
believe that we're going to generate a loss, even if the sales per year is even less than 4 percent, because there's a corresponding calculation that has to be made with the cost of sales.

MAJORITY CHAIRMAN SAYLOR: All right.

Representative Flynn.

REPRESENTATIVE FLYNN: Thank you, Mr. Chairman. Thank you, members of the board, for your testimony. I'm over here to your left.

I was wondering, with the liquor system employing about 5,000 Pennsylvanians between part time and full time, how much money does the liquor system cost the state of Pennsylvania; more specifically, DGS? You know, does the state pick up the tab for the employer contribution on pension, health care, operational costs? Who actually pays this?

MR. NEWSOME: Just so I understand the question, you're asking, how much are we costing --

REPRESENTATIVE FLYNN: The state.

MR. NEWSOME: -- the state? Zero.

REPRESENTATIVE FLYNN: Zero.

MR. NEWSOME: We are actually sending funds to the state on a regular basis. We just talked about 217 million that we will be
transferring to the state. That's just the amount that we're transferring in cash.

We are also paying for DGS. We're paying for our payroll. We're paying for a number of other things. We're also paying for state police. So, we are -- we are a cash generator for the state.

REPRESENTATIVE FLYNN: So you're basically an independent business of 5,000 employees that deposits cash in the state every year --

MR. NEWSOME: That is correct.

REPRESENTATIVE FLYNN: -- General Fund. So over the past five years, how much money have you deposited to the General Fund?

MR. NEWSOME: We have that number somewhere. It's -- Can we get it to him pretty quickly?

MR. MOONEY: It's over a couple billion.

MR. NEWSOME: It's a very large number.

REPRESENTATIVE FLYNN: So you've made over a couple --

MR. NEGRA: Including our liquor tax, sales tax and what we've paid to other state agencies and what we've transferred to the General
MR. NEWSOME: That number is $2.3 billion.

REPRESENTATIVE FLYNN: You've made for the taxpayers of Pennsylvania?

MR. NEWSOME: Well, it includes tax, profits and so on and so forth.

REPRESENTATIVE FLYNN: Thank you.

MAJORITY CHAIRMAN SAYLOR: Representative Santora.

REPRESENTATIVE SANTORA: Thank you, Mr. Chairman.

My first question relates to real estate. Who handles your real estate for you? Is it in-house, DGS, outside brokers or all of the above; for leases?

MR. MOONEY: The Department of General Services has the primary responsibility for executing our leases. Yeah, we absolutely use outside brokers to help us find sites. We also have a small staff within the Liquor Control Board that coordinates all that through General Services.

REPRESENTATIVE SANTORA: So you have a real estate department?

MR. MOONEY: We do.
REPRESENTATIVE SANTORA: Okay. So, are they looking at trends? Are we --

So, for example, across the Commonwealth I believe you're averaging 15.90 a square foot for your leased space. Are we looking at it -- For example, in the southeast and in Pittsburgh and other parts of the state, are we getting a fair price? Are we competing with other retailers?

MR. MOONEY: We're getting a better price, Representative. Because we're the state, we generally --

First of all, our leases are gross. If you know how the leasing works, it's not triple net. Most tenants always pay triple net. Our leases are gross. And we do comparable rentals in shopping centers in the market area.

Certainly, the southeast is more expensive than the west and so on. But we do comparable rentals, and we're generally three to five dollars a square foot less than everybody else in the plaza.

REPRESENTATIVE SANTORA: I understand. So, example: A Walmart is a driver for other businesses to come into a shopping center. They're paying six bucks, and they are triple net at the
6-dollar number. However, you're able to do those same types of negotiations, because I would think you would be a driver for some different types of stores to come in the centers, when you're doing it in a center, especially when you're doing the re-branding?

MR. MOONEY: We are a driver, and we do negotiate very tough.

REPRESENTATIVE SANTORA: Okay, great.

And then moving on to a couple other questions I have regarding Act 39: One of the mandates was that you look at the 150 best-selling wines and spirits and do a 6-month look on sales. Has that been done in January?

MR. NEGRA: Yes.

MR. MOONEY: Yes.

REPRESENTATIVE SANTORA: And is that available for us to see? Is it public?

MR. NEGRA: Well, we haven't implemented it, okay? We've looked at how many new brands would come in and how many brands would go out. And it's actually a relative -- it's a very confusing issue for not only us but the suppliers.

So, if you were to ask me what you could do for us, it would be to remove the 150 and make
flexible pricing go all the way --

REPRESENTATIVE SANTORA: So you want to go bigger with it. That was my next question.

MR. NEGRA: Yeah, we want to go across the board, and our suppliers want to do it as well.

REPRESENTATIVE SANTORA: Okay.

MR. NEGRA: You sit down at a negotiation table; well, that's in the calculator. Oh, no, that's not in calculator. Well, that came off because of the Christmas season.

REPRESENTATIVE SANTORA: I got it.

MR. NEGRA: You know, it's crazy.

REPRESENTATIVE SANTORA: Now, you talked about -- Well, not you. I apologize. We talked about a CRM program, and we talked about the border areas being able to get a little more flexible. Does that mean, in one part of the state we're actually selling the same product for less than another part of the state?

MR. NEWSOME: Currently, no.

MR. NEGRA: Not yet.

MR. NEWSOME: Not yet, but --

REPRESENTATIVE SANTORA: That's your intention, though?

MR. NEWSOME: It could be possible due
to -- depending on the program, yes.

REPRESENTATIVE SANTORA: Okay. (Paused).

So, Mr. Mooney, you brought up the customer relations program. How does that program generate efficiencies; and then, more important, that being said, what type of profits are we gonna be looking to generate from that?

MR. MOONEY: Well, it's early, Representative, as far as the CRM program. We haven't got (sic) real far into that. We have models that were looked at.

As Member Negra had said, we're looking at a free program. We're also looking at a paid program. We're not sure if we're gonna go both, or one first and then -- So we're working around all those -- all those numbers now.

There is certainly a start-up cost to a CRM program. It has a high IT component and how it interrelates with our point-of-sale system and our registers. We have 608 brick-and-mortar stores. So when you have a system that large, we're looking at what the cost is to step up and implement this program. And we're looking at our ROA right now to see, when exactly do we get returns; is it year 1 or is it year 2?
MR. NEGRA: I --

REPRESENTATIVE SANTORA: I see the yellow light on. I just have one quick follow-up and then you can say whatever you want.

MR. NEGRA: Okay.

REPRESENTATIVE SANTORA: I appreciate your honest answer on the minimum wage, and I hope when we're looking at that, we --

I go into my local liquor store and I ask about a certain wine, and, for the most part, I get pointed to the wine section. When I go to visit my wife's grandmother in Delaware, we go and buy a bottle of wine, there's somebody there giving me the full descriptions and everything else.

I hope when you're gonna be investing more money in some of your staff, that that's gonna come along with it. Maybe it is in some of the stores. Maybe the one on Route 1 and 202 is already that way. I hope that's gonna expand through the stores, because I --

MAJORITY CHAIRMAN SAYLOR: Rep --

REPRESENTATIVE SANTORA: -- really believe that's gonna be a -- I gotcha, sir.

(Laughter in the room).

MR. MOONEY: Representative, that's
certainly our intent.

MAJORITY CHAIRMAN SAYLOR: All righty.

Representative Dean.

REPRESENTATIVE DEAN: Good morning, gentlemen. Welcome. Good to see you.

And just by way of anecdote, my experience in my area wine and spirit shop is quite the opposite of what my colleague on the other side of the aisle said. Your new branded stores, some in my area, and your employees, some of whom I see here today, couldn't be more helpful. So, I think you're doing some things extremely well.

And on that front, we started these hearings with the IFO telling us about state revenue is down by a projected $700 million; a state budget deficit of $2 billion. But you guys are a bright spot. You are a profit center. As you pointed out, you cost the General Fund nothing and, in fact, you contribute money to the General Fund.

So I want to follow up on what Representative Flynn said, and focus, in particular, on the profit transfers to the General Fund. Our state system, in 2015-16, had sales and revenues -- total sales and revenues of
over
$2 billion -- $2.4 billion a year and a half, two
years ago, which was an increase of almost
$100 million; four and a half -- 4.1 percent
growth.

If you look at, what I always find very
impressive are, in 2015-16, $500 million
transferred to the General Fund, a half a billion
dollars, based on taxes, sales and liquor taxes.
That grew. In this current year, it's estimated
it'll be $531 million. It's estimated at $550
million.

When I first got on this committee, it
was very interesting to see, then, the profit
transfers. Under the last Administration, four
years in a row, profit transfer was fixed at
$80 million, but your profits were greater than
that.

And I remember the previous Chairman and
the Chairman, who is now recuperating well, I hope,
saying to us year after year, we have more in
profits here. We could transfer more, but for some
reason we passed on that under the previous
Administration. I'm delighted that, this past year
we did increase the profit transfer to
$100 million.

Explain to me now how we're able to transfer in this year, in this difficult budget year, 216 million, and it's projected to go to 185 in the following year. Can you explain how we're able to do that?

MR. NEWSOME: Well, our Chairman was right. We were building reserves at that point, so then, we were able to pay out of reserves. So that's what we're doing this year. We'll be doing it again next year. And we're hoping, as we move forward, that we continue to build in profits and we'll not continue to reduce our reserves.

We have our staff telling us what they think the minimum reserve number should be. They're telling us it's about 150 million. We think it should be closer to 200 million, but we'll let them continue to operate the cash --

REPRESENTATIVE DEAN: So some of the transfer this year is excess profits that had been held in reserve.

MR. MOONEY: Yes.

MR. NEWSOME: Absolutely.

REPRESENTATIVE DEAN: Right. And moving forward, next year at the 185, is that a reflection
of what you project as profits, or will that be
profits plus some reserve also?

MR. NEWSOME:  Profits plus reserves.

MR. NEGRA:  Yeah, definitely a combo.

MR. MOONEY:  Yes.

REPRESENTATIVE DEAN:  So what are the
profits? If we have at least a half a billion in
sales tax and liquor tax revenues coming into our
General Fund, what are the annual profits?

MR. NEWSOME:  We've had these
discussions among ourselves, so if you will indulge
me for about 30 seconds here and talk about profits
versus cash flow --

REPRESENTATIVE DEAN:  Right.

MR. NEWSOME:  -- because we're talking
two different things here. Our profit this year
will be somewhere in the 90-million-dollar range,
I'm told. Our cash flow is slightly higher than
that. Again, we're still trying to figure out what
that number is, but it will be significantly --
well, slightly higher than 90 million.

So, profit is one thing. That's in a
cruel situation where we have non-cash expenses
impacting that profit, and then we have cash flow.
So, we have cash. So when we talk profit versus
cash, we just want to make sure we're talking about the right thing. Cash is sent over to the General Fund; not profits.

REPRESENTATIVE DEAN: I understand that. Thank you. And you manage the cash flow very well. And I guess I'll close with this thought, which is: I don't want Pennsylvanians to forget what a robust asset this is and what an extraordinary workforce we have. So, thank you for your management of it and your stewardship, and you're telling us things that you need from us.

Anecdotally, I know that customer convenience under the act has grown in my area. I see it from friends and neighbors, and the service is increasing also. So, thanks for your work.

Thanks, Mr. Chairman.

MR. NEWSOME: Thank you.

MR. NEGRA: Thank you.

MAJORITY CHAIRMAN SAYLOR: Representative Sonney.

REPRESENTATIVE SONNEY: Thank you, Mr. Chairman. Good morning, gentlemen.

MR. NEGRA: Good morning.

REPRESENTATIVE SONNEY: I want to go back on the same type of questioning for a minute
and talk about the transfers and exactly how much is gonna be coming out of the reserve fund this year, and in the subsequent years, according to your projections.

MR. NEWSOME: Well, we don't have the specific numbers, as I indicated. But one way to -- We can certainly provide those numbers after we've completed the year. But, again, it's a matter of how much cash is being generated versus what we are generating in overall profit. So --

REPRESENTATIVE SONNEY: So even though you're projecting what your profit transfer will be in the subsequent outlying years, you really don't have a firm grasp on how much is going to end up having to come out of reserves yet?

MR. NEWSOME: No. What we're saying is, this statement that you're looking at on page 39 is, essentially, a cash-flow statement. Okay, so this is a summary, or at least a projection of cash inflows and cash outflows. We obviously have another P&L, which is the actual audited statement, that indicates what the accrued profit --

REPRESENTATIVE SONNEY: What the actual number is.

MR. NEWSOME: Right.
REPRESENTATIVE SONNEY: With the expansion of wine sales, has that helped your profits or hurt your profits?

MR. NEWSOME: It's actually an increase to our profits. Obviously, it's an increase to sales.

But, we have done some analysis on -- If we just try to take WEP or Act 39 and the impact on that, we can provide, I think, some of those details down the road.

You're asking -- It sounds like we're kind of hedging here. But you're asking a question about, how much of our reserves are we actually using? I think one way to look at it is, if you look at the bottom of this statement, you'll see that, in '15-16, we had a cash balance of $275 million, and that number we're projecting to drop to 183 million.

Through six months this year, we added about 50 -- or $48 million in cash flow. So, when you do the math -- I haven't done the math on it. But when you do the math on it, we can calculate what is coming out of profit and what's coming out of the reserves. But, the bottom-line number is the one that we're most concerned about; where will
we be after we've made those transfers?

    MR. NEGRA: And hopefully we won't get
to a point where the cash gets so low that it
affects operations. And if that happens, well,
then we'll have our conversations --

    MR. NEWSOME: We'll have to have a
conversation.

    MR. NEGRA: -- with you all and GBO.
But it's certainly something that we keep a close
eye on.

    REPRESENTATIVE SONNEY: And that would
be dealing with the margin and markup, you mean, if
that would have to be changed because your
profitability has, you know, reduced to the
point --

    MR. NEGRA: Well, yeah. I mean, there's
a lot of business factors that would go into that,
in terms of margin, store mix, expenses. Like any
other retail business, if your cash is dropping,
then you've got to make adjustments. We look upon
that on a daily, weekly basis.

    REPRESENTATIVE SONNEY: And is that one
of the things that you're looking at when it comes
to the expanded Sunday sales?

    MR. NEGRA: Absolutely. Absolutely.
REPRESENTATIVE SONNEY: In other words, is it really worth having the stores open?

MR. NEGRA: That's right. There's costs associated with --

REPRESENTATIVE SONNEY: Right.

MR. NEGRA: -- our expanded Sunday sales that we're looking at. And Charlie and his team are keenly aware of what stores aren't necessary -- even though we opened them in August or whatever, maybe might not stay open, or work from a 12-to-5 hour instead of a 11-to-7 hour.

So, every single facet of operations needs to be dissected, or we're not doing our jobs.

REPRESENTATIVE SONNEY: Thank you.

Thank you, Mr. Chairman.

MAJORITY CHAIRMAN SAYLOR:

Representative Briggs.

REPRESENTATIVE BRIGGS: Thank you, Chairman. Thank you, members of the board. I'm over on your left here. How are you? Mr. Mooney.

I just want to echo some of the comments that a number of the members made of the great support that your staff provides to me and my office. I represent the King of Prussia area, and it seems like the growth and the success of the
redevelopment efforts that is happening at King of
Prussia puts a little bit of a burden on the
availability of licenses.

The first instant (sic) was -- My first
communication with Mr. Mooney was -- just that we
had two terrific stores in our area. And with some
smart thinking from the board, you closed both of
them and opened up a really terrific, fine store
right on DeKalb Pike. My constituents are very
happy.

I don't share problems or complaints
that other members have brought up. I think people
in my area are very pleased with, and I hope it's
-- it's one of the top stores in the Commonwealth
for you guys.

The other topic that I think is probably
going to be a broader conversation, but we have
every month, every other month, a new restaurant, a
new hotel trying to find a license in Montgomery
County. The auction showed that -- I think they
were in the 500,000-dollar range that the two went
for, and they are being creative and they're being
very aggressive.

But, we have a plan for the future in
the King of Prussia area that will make King of
Prussia an edge city and then a terrific
destination for tourism and shopping and dining and
the like. But part of it is making sure that our
restaurants can be open in a timely manner and
that.

Every time I contact you when one of
these instances come up, you're very helpful and
you come to a conclusion that is favorable. But is
there a way to address, without hurting current
license holders, a way to satisfy the need of the
licenses, especially in a growing county, growing
area like Montgomery County, King of Prussia? Is
that something that you want to spend a couple
minutes on talking about, or is that me talking to
Chairman Costa and trying to tackle that --

MR. NEGRA: There's a number of ways --

REPRESENTATIVE BRIGGS: -- over the next
couple of years?

MR. NEGRA: There's a number of
different ways to get licenses, you know, from
safekeeping. I mean, right now we're restricted in
terms of R licenses or E licenses, and there's a
great competition for that, especially in your
marketplace; thus, the $500,000 tag for it.
There's economic development licenses. There's --
But, from a code standpoint, as it's written now, while licenses are available, we utilize every single -- every single means of trying to accommodate whatever restaurant or entrepreneur wants to do. So, short of a supermarket license or a convenience store license or expansion of a license's capabilities, in certain markets, that's really up to you all; not really up to us. We fudge as much as we can.

REPRESENTATIVE BRIGGS: I know business owners have pursued the economic development licenses, and even have transferred one, I think, that is being reviewed from Philadelphia, and I appreciate your support and assistance in those endeavors.

I just didn't want to pass the opportunity of giving King of Prussia a plug and all the great work that is happening there and the demand that it's putting on the community, and your support to continue helping us grow would be terrific. Thank you so much.

MAJORITY CHAIRMAN SAYLOR: Representative Delozier.

REPRESENTATIVE DELOZIER: Thank you, Mr. Chairman. I'm over here. We keep switching on
you.

Quickly, just -- I noticed, and I apologize if this was asked, because I didn't hear it. But you guys went up about 500 employees. Is that for new stores or -- last year to this year, according to your number?

MR. MOONEY: That's a big number.

MR. NEWSOME: No.

MR. MOONEY: No, we didn't go up 500.

We added about 18 positions, administratively, due to Act 39.

REPRESENTATIVE DELOZIER: Okay.

MR. MOONEY: And we have --

REPRESENTATIVE DELOZIER: I'm just looking at your book in here, and it says, total positions, and it goes from 5,090 to 6,004 -- 6,400. I'm just doing that math. Am I reading this incorrectly?

(Paused. No answer).

REPRESENTATIVE DELOZIER: Well, I'll go on to another question because my timer is ticking here.

As to these employees, in and of themselves, how many of these employees are in the stores?
MR. NEWSOME: We have, what, 24?

MR. NEGRA: Charlie, I think you told us 127, or something in that ballpark, went into the stores. And I believe that the 500 --

REPRESENTATIVE DELOZIER: Not just the new hires, I'm sorry; in total.

MR. NEWSOME: You mean in total --

MR. NEGRA: Oh, in total?

REPRESENTATIVE DELOZIER: Of your employees, yeah, how many are in the state stores?

MR. NEWSOME: Around 3,000; a little over 3,000.

REPRESENTATIVE DELOZIER: 3,000? Okay.

MR. NEWSOME: Yeah, twenty-four sixteen.

REPRESENTATIVE DELOZIER: Okay. And I guess what I -- And the three areas in which you have folks are pretty much headquarters, the stores, and you talked about warehouse, correct? Is that kind of the three locations in which you'd have employees?

MR. NEWSOME: We only have a few employees at the warehouses. Most of them are not our employees.

REPRESENTATIVE DELOZIER: Okay. So they're either at headquarters or at the stores?
MR. NEWSOME: Yes.

REPRESENTATIVE DELOZIER: Okay.

The transfers over the 500 million, of that 500 million, how much of that is to pay, you know, taxes that we would continue to collect, like the Johnstown Flood Tax, and then pension and benefits come out of that as well?

MR. NEWSOME: We're showing for this year over 500 million just in taxes.

REPRESENTATIVE DELOZIER: Okay. So the 500-million transfer that's coming over to the General Fund is just taxes?

MR. NEWSOME: The 500, yes.

REPRESENTATIVE DELOZIER: Okay. So the ability for us in '16-17 -- the transfer also that's coming over would be included -- would be the taxes that we would collect however the system was run; selling alcohol, like the Johnstown Flood Tax, sales tax, that type of thing, correct?

MR. NEWSOME: Those taxes are transferred over, plus the 217 million that we've talked about.

MR. NEGRA: And the taxes come every day.

REPRESENTATIVE DELOZIER: Correct. No,
no, no. What I'm getting at is the fact that we're
talking about a large amount coming into the
General Fund, which is absolutely wonderful,
obviously, but they are the taxes that are
collected on selling alcohol in the state of
Pennsylvania?

MR. NEWSOME: Yes.

REPRESENTATIVE DELOZIER: Okay. So when
we talk about the profit and cash flow as well, all
of these issues come into fact. And I want to kind
of switch real quick before my light changes as
well.

Dealing with the enforcement of liquor
control, LCE and, I know PSP, I recognize that, but
I'm just asking your general opinion of
enforcement. Is there anything that we need to
change in the sense of allowing for better
enforcement of those that have our liquor licenses.

We've had a lot of issues, obviously,
with different things--you know, small games and
that kind of thing of enforcement--with liquor
licenses. So I'm just throwing it out there to ask
your opinion of enforcement and where we stand with
that in Pennsylvania.

MR. NEGRA: Well, as far as a wish list
for our relationship with BLCE, first of all, we have a great relationship with them, and we try to meet on a quarterly basis.

If you were to ask my personal opinion, I would like to see the money that we give them come out of the General Fund and increase our money to you. I think there's a little bit more accountability there between you all and the BLCE versus us. So take the funding out of -- out of the PLCB; put it back into the General Fund with their other funding, and then we have more money, obviously, to give to you for that.

In addition, I'd like to see, from an enforcement standpoint, the bureaucratic part of enforcement be taken -- be given back to us, and the criminal aspect of what's going on in the liquor environment be handled by BLCE. I think we can do it more efficiently.

REPRESENTATIVE DELOZIER: Well, most of the LCE agents are not law enforcement --

MR. NEGRA: That's correct.

REPRESENTATIVE DELOZIER: -- so they do not have that capability. They have to call a trooper in, if they do see something that is illegal in order to do -- They can only write up
the citation about it.

    MR. NEGRA:  Right.

    REPRESENTATIVE DELOZIER:  So you're saying to bring back in what part of it, then?

    MR. NEGRA:  Oh, you know, as far as the administrative part; where's your license. You know, the -- those sort of administrative type of citations that occur --

    REPRESENTATIVE DELOZIER:  Okay.

    MR. NEGRA:  -- I'd personally like to see then be brought back into the LCB.

    REPRESENTATIVE DELOZIER:  Okay.

    MR. MOONEY:  Representative, that would allow -- If we could take the administrative side of LCE and take the enforcement officers off those mundane tasks, like Member Negra said, you're crooked in the window, you don't have it posted behind the bar, we'd be able to put -- we'd be able to coordinate with much more enforcement and put more boots on the ground where we're having issues, to the Representative's point in Philadelphia, about looking into the stop-and-gos much more aggressively.

    REPRESENTATIVE DELOZIER:  So you're saying having two inspectors; basically, one going
in for liquor, one going in for admin?

MR. MOONEY: This is just conversation of the board and I --

REPRESENTATIVE DELOZIER: Okay. That's why I'm asking your opinion.

MAJORITY CHAIRMAN SAYLOR: Representative, your time has expired.

REPRESENTATIVE DELOZIER: Thank you very much.

MAJORITY CHAIRMAN SAYLOR: Representative Daley.

REPRESENTATIVE DALEY: Thanks, Mr. Chairman. I think it's still morning. Good morning, gentlemen.

So I want to just say that I really appreciate that the state's General Fund receives the net profits from your operations directly. I also want to say that I really appreciate that your employees receive livable wage, pension and other benefits. I think that that is a good thing for the state and, obviously, a good thing for these people who work in this system. And I also appreciate that they can exercise their rights to collectively bargain with you. I think that's also a positive thing for the state.
But my question is related to the McKinsey report and its comparison of Pennsylvania's system with neighboring states, or with other states. So, does that comparison account for the union contracts, the employee benefits, the Civil Service requirements, geographic requirements for your locations, the uniform pricing requirements or the mission of the board?

MR. NEWSOME: As we indicated before, we haven't had a lot of detail from that report. We do hope to spend some time with them and discuss those items.

Again, as Member Negra said earlier, they took a 30,000-foot kind of view of our operation. And as soon as we can spend more time with them, we'll be able to address that particular question.

REPRESENTATIVE DALEY: I think that would really be helpful to all of us, because it's pretty clear that, with what you're bringing into the state and, also, the fact that you are paying your way for everything and monies are going into other parts of the state from your operation, for instance, the state police, I think these are all
positive things.

    So, I don't really have a question
beyond that. But, I just wanted to make that
statement. So, thank you.

    MR. NEWSOME: Thank you.

    MR. NEGRA: Thank you.

    MAJORITY CHAIRMAN SAYLOR:

Representative Costa.

    REPRESENTATIVE P. COSTA: Thank you, Mr.
Chairman. Gentlemen, thank you all for being here
today and withstanding all these questions. And,
Tim, if you're watching, I hope you get well soon.

    My questions are around Act 39 and Act
166. We threw a lot at you last year, and I have
to say, you guys implemented everything. I think
you did a great job. I've solicited and
unsolicited comments from my constituents and
friends and, all around, are very happy with the
way things are working out.

    But my question to you is: With the
exception of, I heard you say today that, flexible
pricing for all products, what other things can we
do to help you guys implement Act 39, or what other
changes can we make to make you guys more
profitable and more efficient?
MR. NEWSOME: Well, the first item we mentioned was the remove -- giving us flexible pricing on everything. That certainly will be quite helpful for us and take away a lot of the confusion. We've had great, great meetings with our suppliers, and we've learned a lot from them as well.

And back to the McKinsey report, one of the items that they didn't take into account is, when we talked to many of our suppliers, they talked about the amount of special pricing adjustments that they make in dollars; the real dollars that they spend each year with us. And we had to kind of deal with that when we were dealing with flexible pricing. I'm not sure that particular area was dealt with in the report, so we want to deal with that as well.

But flexible pricing gives us a tremendous opportunity to sit with our suppliers to talk about our procurement pricing, as well as setting the appropriate retail pricing in the stores. So, that would really be helpful, because it takes away a lot of the confusion.

MR. NEGRA: We're gonna need a little bit more time in Special Liquor Order, the direct
aspect of Act 39. Our suppliers are asking for it. We're asking for it. There's a hard date of June 1st, 2017, for the implementation of that. And I think that we're gonna -- What we'd really like is another year. I don't think we'll need it. In terms of a fix-it bill, I'd love to see June 1st, 2018. That will allow us to do it and to do it absolutely right.

REPRESENTATIVE P. COSTA: Thank you.

So, the wine-to-go permits, I assume a majority of them were taken by supermarkets. I guess the concern was, early on, that the supermarkets would only shelf the top brands. Are we finding that these supermarkets are purchasing Pennsylvania wines? And if so, how are they doing?

MR. MOONEY: The grocery stores are buying Pennsylvania wines. There's no question about it. Certain chains -- I don't want to go into specific names, but certain chains are working directly with the Pennsylvania wineries. And it's given the Pennsylvania wine industry expanded outlets to get their products on different shelves. I'm just gonna bring one out. Wegmans, for example, has a tremendous Pennsylvania wine section. They're proud of it. We're hearing from
the Pennsylvania wine industry that it's additional
outlets for them, and they're good about that.

REPRESENTATIVE P. COSTA: Okay. Thank
you.

A couple of the members did bring it up
that you guys are a unique organization, where you
pay for -- and chairman -- Not chairman. I'm
sorry. Board Member Newsome, you mentioned that
you pay for everything.

And I just found out last week, speaking
to you gentlemen, that I wasn't aware that you have
to pay for audits that are done. I'm not aware of
any other department that actually pays for an
audit that is done from the state; in addition to
the state police, in addition to the DGS, things
that you have to pay for; your windows, your
computers.

So, if you would pull all those things
out of your -- And you even mentioned about the
state police. If you pulled them out of your line
items, I mean, I think we would show a lot more
profitability and address the concerns of my grade
school and high school partner, Representative
Dunbar. So I would like to see that. Hopefully,
we could help --
MR. NEGRA: I think it's around 46 million.

REPRESENTATIVE DUNBAR: The question is, who cheated off of each other in grade school and high school?

(Laughter in the room).

REPRESENTATIVE P. COSTA: I plead the Fifth. And then one more question if I have time.

I thought I heard you say this; that you're able to have different prices near the border? I didn't think you were allowed to do that.

MR. NEWSOME: Currently, we do not. We believe that the CRM program would allow us to do that through special pricing and special --

REPRESENTATIVE P. COSTA: So you would have to be a -- It's not open to everybody. It would only be open to the people that are with the --

MR. NEWSOME: Yes.

REPRESENTATIVE P. COSTA: Okay.

MR. NEWSOME: Yeah.

REPRESENTATIVE P. COSTA: All right.

Because I didn't think that you were allowed to do that.
MR. NEWSOME: We are not allowed to do that right now.

REPRESENTATIVE P. COSTA: I just wanted to make sure.

And, again, I want to thank you, gentlemen, all for being here. And thank you for the implementation of Act 39. Again, I've heard nothing but good things about, again, the grocery stores getting it and how quickly you had it up and running, even though it's only been not even seven months. So, thank you.

MR. NEWSOME: Great. Thank you.

REPRESENTATIVE P. COSTA: Thank you, Mr. Chairman.

MR. NEGRA: Thank you.

MAJORITY CHAIRMAN SAYLOR: Chairman Harris.

REPRESENTATIVE HARRIS: Well, I've been sitting here beside Representative Dunbar, who's had so many excellent questions. So, knowing that him and Paul went to grade school together, I'm gonna guess who copied off of who.

(Laughter in the room).

REPRESENTATIVE HARRIS: He's my buddy.

He doesn't mind if I say that.
Thank you all for being here. This is very informative. I've been the Chair of this committee for about six months now, and I know I personally have a lot to learn, and these type of forums are very informative.

Unfortunately, going almost last, I think a lot of my questions were already answered. I had a few concerns regarding flexible pricing. And the one -- I mean, obviously, I think the answer is, it's really too early to tell at this point.

But the one concern I seem to have is, I hope we never get in the situation where negotiations break down, we can't reach what is a fair price, and a product comes off the shelves. I think consumers, whether you drink beer, wine or liquor in Pennsylvania, you're happy with the direction we're going, and I think losing products off the shelves would be a step backwards.

Do you foresee any situation where that could possibly happen?

MR. NEGRA: No.

MR. MOONEY: That's the short answer.

REPRESENTATIVE HARRIS: Well, I know we don't have a lot of time.
MR. NEGRA: No.

MR. MOONEY: I think both Member Newsome, Member Negra, Representative, inferred earlier that we had some difficult negotiations with 12 to 15 of our suppliers, where the board actually sat down in a Top-to-Top meeting at the -- When that broke down, our staff was recommending certain things, but the board interjected. We sat down. We had very successful meetings with some of the larger suppliers where we conveyed to them that we're looking for a win-win scenario.

Today, we've been successful doing that. We have no intention of pulling stock off the shelves.

REPRESENTATIVE HARRIS: Excellent. And I thank you for your legislative recommendations. And one thing I hope we can work together, Chairman Costa and the committee, is the issue of the stop-and-gos.

I know many of the Philadelphia delegation came to me right away when I became chairman. They are a problem, and they're mentioning to us, you know, it's a negative influence in their community. I know I certainly wouldn't want this occurring in my community.
So I look forward to -- You know, although they might be following the letter of the law, I'm not so sure they're following the spirit of the law. So I look forward to us all working together and, hopefully, can come up with some kind of a resolution.

MR. MOONEY: I'd like to acknowledge, to Member Negra's left, Tish Albert. Tish, could you just stand up a minute?

(Ms. Albert stood).

MR. MOONEY: Tish Albert's our new director, regulatory and licensing. She has a very good relationship with BLCE. Tish is the one that headed our delegation that was in Philadelphia already.

As we promised earlier, we'll go down and meet with the representatives and the senators in the affected areas, and we'll work with BLCE. The board has actually taken an interest in, what are these all about and how do these function. I know because we have boots on the ground.

Again, as the Representative said, they take the chairs out after we give them the license, and there's shots being poured on the premise. That's not the intent of the license.
MAJORITY CHAIRMAN SAYLOR: I want to thank the members for being here today. I, along with Representative Costa and Representative Harris, wish Chairman Holden best wishes. I did talk to him on the phone and wished him a speedy recovery.

Again, one of the concerns I do have, as you take money out of your reserves to send them to here, is the cash-flow problems that may develop for you, where you're gonna have to take out a loan to keep your payroll, meet your payroll at certain times or whatever.

So, I am concerned that we're trying to put expectations to kind of make things look good that aren't necessarily always as good as they may appear simply because of transfers. I think it's important for us to be honest with ourselves. It's like anything else; if you pass a budget that's not real, you end up in big trouble.

So, I hope that we can work with you to make sure that we don't expect more from you than is reasonable.

And, again, I thank the board for being here, and the executive director, Charlie Mooney. Thank you very much and appreciate your work.
MR. MOONEY: Thank you.

MR. NEWSOME: Great. Thank you.

MAJORITY CHAIRMAN SAYLOR: Did you have something to comment?

MR. NEGRA: The only thing I'll comment is that you'll always get an honest answer when it comes to numbers, from us. Okay? It's as simple as that.

MAJORITY CHAIRMAN SAYLOR: Thank you.

The committee will reconvene at 1 o'clock to hear from the Department of Community and Economic Development.

MR. NEWSOME: Great. Thank you.

(Whereupon, the budget hearing concluded).

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