

1 HOUSE OF REPRESENTATIVES  
2 COMMONWEALTH OF PENNSYLVANIA

3 \* \* \* \*  
4 PENNSYLVANIA LIQUOR CONTROL BOARD  
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6 House Appropriations Committee

7 Main Capitol Building  
8 Majority Caucus, Room 140  
9 Harrisburg, Pennsylvania

10 Wednesday, February 28, 2018

11 --oOo--

12 MAJORITY COMMITTEE MEMBERS PRESENT:

13 Honorable Stanley Saylor, Majority Chairman  
14 Honorable Karen Boback  
15 Honorable Sheryl Delozier  
16 Honorable George Dunbar  
17 Honorable Garth Everett  
18 Honorable Keith Greiner  
19 Honorable Marcia Hahn  
20 Honorable Doyle Heffley  
21 Honorable Susan Helm  
22 Honorable Lee James  
23 Honorable Warren Kampf  
24 Honorable Fred Keller  
25 Honorable Duane Milne  
Honorable Jason Ortitay  
Honorable Michael Peifer  
Honorable Marguerite Quinn  
Honorable Brad Roae  
Honorable James Santora  
Honorable Curtis Sonney

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MINORITY COMMITTEE MEMBERS PRESENT:

Honorable Joseph Markosek, Minority Chairman  
Honorable Kevin Boyle  
Honorable Tim Briggs  
Honorable Donna Bullock  
Honorable Maria Donatucci  
Honorable Marty Flynn  
Honorable Patty Kim  
Honorable Stephen Kinsey  
Honorable Leanne Krueger-Braneky  
Honorable Michael O'Brien  
Honorable Mark Rozzi  
Honorable Peter Schweyer

NON-COMMITTEE MEMBERS:

Honorable Steve Barrar  
Honorable Cris Dush  
Honorable Harold English  
Honorable Eli Evankovich  
Honorable Adam Harris  
Honorable Francis Ryan  
Honorable Tommy Sankey  
Honorable Judy Ward  
  
Honorable Paul Costa, Minority Chairman  
LCB  
Honorable Bryan Barbin  
Honorable Frank Burns  
Honorable Dom Costa  
Honorable William Kortz  
Honorable Brian Sims

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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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INDEX OF TESTIFIERS

PENNSYLVANIA LIQUOR CONTROL BOARD

Charlie Mooney  
Executive Director

Michael Newsome  
Board Member

Mike Negra  
Board Member

REQUEST FOR PRODUCTION OF DOCUMENT

PAGE	LINE	PAGE	LINE	PAGE	LINE
51	7-16	86	11-13		

1 MAJORITY CHAIRMAN SAYLOR: Open the  
2 hearing. If those providing testimony would rise  
3 and raise your right hand.

4 (All three testifiers were sworn  
5 en masse by Chairman Saylor).

6 MAJORITY CHAIRMAN SAYLOR: Very good.  
7 We are not doing any opening statements as we have  
8 throughout these hearings by the testifiers. We'll  
9 immediately --

10 Chairman Markosek, any opening comments?

11 MINORITY CHAIRMAN MARKOSEK: Just a  
12 welcome our guests here today. We're anxious to  
13 hear what you have to say, and a side bar  
14 afterwards. I need to talk to you about the LCB  
15 store in my district. But I won't bore everybody  
16 else. I had a little landfill situation and they  
17 had to shut down. So, we'll talk about it later.  
18 Thanks.

19 MAJORITY CHAIRMAN SAYLOR: I thought he  
20 was going to try and get a couple cases of  
21 something. I don't know. Anyway. No.

22 We will move to the first questioner is  
23 Representative Dunbar.

24 REPRESENTATIVE DUNBAR: Good afternoon,  
25 gentlemen. It's like Ground Hog Day. We're back

1 again. Unfortunately, I'm starting to tol -- board  
2 member, neighbor, that I'm starting to get a  
3 complex, Commissioner Holden is avoiding me or  
4 something. But, we appreciate you all being here.

5 Discussions I've had over the last  
6 several years, I've always expressed my concerns  
7 about the long-term liability of the LCB. This is  
8 no way, shape or form meant as criticism of what  
9 you gentlemen are doing and what your staffs are  
10 doing. I think you are trying everything you can,  
11 and I appreciate that. I do believe it is a failed  
12 business model, though.

13 A couple years ago we talked about  
14 projections of revenue, and you pegged it at about  
15 5 percent is what you looked at going forward.  
16 Last year Mr. Newsome said, look, we're gonna try  
17 to be a little bit more realistic about these  
18 things and look at these numbers a little bit more  
19 closely. We're gonna say about 4.5 to 5 percent  
20 increase, and then some extra dollars as well based  
21 upon Act 39.

22 Now, this year I look at your  
23 projections and you're down to projected revenue  
24 growth of 3.47 percent. So, what's happened to  
25 change your opinions?

1 MR. NEWSOME: I'll start off, and we'll  
2 allow those two to chime in.

3 First of all, back to fiscal '16-17, we  
4 actually ended up at about just under 4 percent.  
5 About 3.9 percent is where we ended up. We have  
6 some good news and some bad news in order to answer  
7 that question.

8 When we put those numbers together, we  
9 were pretty optimistic about a 3.47 percent  
10 increase. Unfortunately, right now we're operating  
11 at under 2 and a half percent. And that's --

12 REPRESENTATIVE DUNBAR: A little over  
13 halfway through the year.

14 MR. NEWSOME: Halfway through -- Little  
15 halfway through the year; seven months. We're at  
16 about under 2 and a half percent.

17 On the surface appears to be the bad  
18 news. On the other side of the coin, our profit --  
19 profitability is up. So, as we continue to see  
20 that our sales -- the rate of the sales increase is  
21 actually falling, our margin dollars and margin  
22 percent are actually increasing.

23 We, at the same period of time, our  
24 overall expenses were down as well, and then other  
25 revenues and so forth put us in a position where we

1 are substantially higher than last year in  
2 bottom-line profit.

3 REPRESENTATIVE DUNBAR: Well, that's  
4 encouraging. Even with that, your projections for  
5 every year through '22-23 have more cash going out  
6 the door than comes in the door. So, essentially,  
7 you are in --

8 As you had testified to in the past as  
9 well, that you are not only turning over to the  
10 state the tax dollars, but you're also turning over  
11 profits and some -- some built-up proceeds or  
12 savings or whatever. And that is going to continue  
13 for the near term future, correct?

14 MR. NEGRA: Well, depends on what the  
15 near term future is.

16 REPRESENTATIVE DUNBAR: Well, through  
17 '22-23 at least.

18 MR. NEGRA: You know, it's very  
19 difficult in -- in almost any business, and  
20 certainly a retail business and certainly the LCB  
21 as to project a transfer dollar out five years.

22 REPRESENTATIVE DUNBAR: I understand  
23 that. I just -- Again, the questions are also  
24 meant for the same thing: Are we going to be able  
25 to make the transfers?

1 MR. NEGRA: Understood. I feel very  
2 comfortable in saying that 2018 and 2019 is -- is  
3 certainly achievable. And we're certainly going  
4 to, to quote Chairman Holden as to what he would  
5 say, that we're going to do our best to do that.

6 That being -- that being said, last year  
7 the fiscal year, it cost us about \$70 million out  
8 of our working capital to achieve the \$217 million  
9 that we transferred. This year we're expecting  
10 somewhere in the 25-to-30-million-dollar range out  
11 of working capital.

12 Considering where we want to be, working  
13 capital-wise, do I think it's achievable over those  
14 five years of the one eighty-five one? No, I  
15 don't. But, what number -- what number is, is  
16 certainly subject to the winds of consumerism and  
17 how well we're able to do in maintaining cost and  
18 driving -- and driving revenues through existing  
19 channels and other channels.

20 REPRESENTATIVE DUNBAR: Make sure I  
21 understand, you don't think you can generate one  
22 eighty-five yourself, but you can use reserves to  
23 get the one eighty-five?

24 MR. NEGRA: Well, I'm not sure that  
25 we'll have enough reserves --

1 REPRESENTATIVE DUNBAR: That's fair.

2 MR. NEGRA: -- to maintain the working  
3 capital through --

4 REPRESENTATIVE DUNBAR: No, that's fair.

5 MR. NEGRA: -- the time frame.

6 REPRESENTATIVE DUNBAR: Because I share  
7 that opinion as well because, especially when I sit  
8 here and look at your long-term liabilities, I  
9 mean, they've grown from, in June of 2015, to 480  
10 million to 598 million in June of '16, and June of  
11 '17, 646 million.

12 That's certainly a trend we wouldn't  
13 want to reverse as long as the long-term  
14 liabilities keep going up and cash keeps going  
15 down, there is a growing concern, as we would say  
16 in the accounting world.

17 MR. NEGRA: Yeah. Eventually we have to  
18 pay the piper.

19 REPRESENTATIVE DUNBAR: Exactly.

20 MR. NEGRA: So --

21 REPRESENTATIVE DUNBAR: And I real  
22 quickly wanted to change gears, because I  
23 appreciate what you guys offered last year as far  
24 as coming up with new ideas and new ways to  
25 generate additional revenues, and that was greatly

1 appreciated.

2 I do want to touch base real quickly on  
3 flexible pricing. You had told us last year that  
4 flexible pricing, or in the past--maybe it was a  
5 couple years ago--how flexible pricing -- you would  
6 negotiate with your suppliers, you'd get a better  
7 price, and that way generate more revenue because  
8 we won't force you into in normal markup.

9 But, what ended up transpiring is the  
10 top hundred, 150 top sellers, you just raised the  
11 price. So, you generated more revenue; you  
12 generated more profits, but it was solely at the  
13 cost of consumers.

14 Are we going to reverse that, or are we  
15 going to continue to do things like that?

16 MR. NEWSOME: I'll deal with that.

17 First of all, to make a blanket  
18 statement that we raised prices doesn't really tell  
19 the pitch -- tell the whole story of what happened.  
20 We -- We did not just blankly --

21 REPRESENTATIVE DUNBAR: I understand you  
22 tried to negotiate. But when you didn't, you tried  
23 to force the suppliers' hands by increasing a  
24 dollar a bottle.

25 MR. NEWSOME: Well, we negotiated lower

1 costs from our suppliers across the board. That  
2 really has -- some of it has transferred to lower  
3 prices at the retail level, and some of it went --  
4 traced the bottom line as far as providing more  
5 profitability to -- to the agency.

6 We, as a business -- when we think about  
7 the LCB as a business, many businesses -- probably  
8 most businesses are on a routine of increasing  
9 prices on a regular basis. We actually don't do  
10 that. We don't have a regularly-scheduled time  
11 where we raise prices to meet increased expenses in  
12 other areas.

13 What we've been doing, and thanks very  
14 much for the ability to do this through flexible  
15 pricing, we've had the wonderful opportunity to sit  
16 down with our suppliers, look at our retail prices,  
17 look at our costs, and through a collaborative  
18 effort from us and them, some prices did go up;  
19 some prices went down. Many prices went down, but  
20 it was not a wholesale increase of prices. That  
21 was not the case that happened. It's not even  
22 ongoing at this point.

23 REPRESENTATIVE DUNBAR: And I will stop,  
24 because I have gone way beyond my time. And I  
25 appreciate the leniency that the Chairman allowed

1 me. Thank you.

2 MAJORITY CHAIRMAN SAYLOR: I wanted to,  
3 before we proceeded to the next questioner,  
4 recognize we've been joined by Representative Kortz  
5 and Representative Burns, who are not on the  
6 committee but are here to observe as well.

7 I do want to recognize two former  
8 members that are here: Honorable John Payne and  
9 Representative Bill Dewese, who are in our  
10 audience as well.

11 With that, we will move to  
12 Representative Krueger-Braneky.

13 REPRESENTATIVE KRUEGER-BRANEKY: Thank  
14 you, Mr. Chairman. Thank you so much for joining  
15 us here today before the Appropriations Committee  
16 in the House.

17 So one of the more beneficial part of  
18 having our wine and spirit system is the advantage  
19 of purchasing product in bulk, so that you're able  
20 to get better prices for consumers here in  
21 Pennsylvania. And I personally think you get some  
22 great variety as well in the Chairman's Selection.  
23 And that's one of the programs that does this.

24 Can you explain, for the benefit of the  
25 members who sit on this committee, what the program

1 -- what the program is for and how much in sales  
2 are derived specifically from the Chairman's Select  
3 program and other programs like it?

4 MR. MOONEY: I'll take it. Thank you  
5 for the question.

6 Our Chairman's program is one of the  
7 most popular sections of our stores that we have.  
8 It's been successful for many years and getting  
9 much better. We have tremendous sales in our  
10 Chairman. We have two programs: Our Chairman's  
11 Selection, which has been around for several years.  
12 We also have a program called Chairman's Advantage.  
13 The Chairman's Advantage line are under \$10 as  
14 programs parameters. We're doing really well in  
15 that also.

16 Sales of our -- in '16-17, the selection  
17 -- the Chairman's Selection sales were over  
18 \$60 million for the year. The Advantage, which  
19 started off much later, and like I said, gaining  
20 popularity, has -- is about \$8.8 million.

21 REPRESENTATIVE KRUEGER-BRANEKY: Okay.  
22 And how does that compare to the previous year for  
23 the selection program?

24 MR. MOONEY: Both programs are up  
25 double-digit growth.

1           REPRESENTATIVE KRUEGER-BRANEKY: To what  
2 do you contribute that double-digit growth?

3           MR. MOONEY: Well, we are increasing the  
4 stores that are carrying the products. The  
5 customers are requesting the product. We've  
6 increased the amount of our SKUs of the Advantage  
7 program, but the Chairman's Selections, we're  
8 always buying -- whenever we can find a good deal  
9 in a wholesale price and then put it out on the  
10 floor to a consumer advantage price point. We are  
11 in 350 stores, and we're increasing the presence of  
12 our Chairman's program as many stores as we could.

13           REPRESENTATIVE KRUEGER-BRANEKY: And I  
14 have to tell you, when I walk into one of our state  
15 stores, I pretty much only go to the Chairman's  
16 Selection area because I know it's going to be good  
17 value and good quality, and that you've done my  
18 work for me if I need to take a good bottle of wine  
19 home for a dinner party.

20           Second question for you. So one of the  
21 more beneficial parts of our state system is the  
22 fact that it contributes money back to our drug and  
23 alcohol programs, to our state police.

24           In your annual report it says you  
25 contributed 2.89 billion to our General Fund over

1 the last five years. So, can you break that out  
2 for us? How much has been specifically for drug  
3 and alcohol programs and how much for state police  
4 for liquor enforcement?

5 MR. NEWSOME: I'll take that.

6 First of all, that does not include  
7 state police.

8 REPRESENTATIVE KRUEGER-BRANEKY: Okay.

9 MR. NEWSOME: The numbers that we're  
10 reporting right now are two and a half million for  
11 drug and alcohol programs, and another 2.2 million  
12 in grants. And 2 million of that, of course, is  
13 Act 30 -- Act 39 requirements.

14 REPRESENTATIVE KRUEGER-BRANEKY: Okay.

15 MR. NEWSOME: State police number is  
16 \$28 million.

17 REPRESENTATIVE KRUEGER-BRANEKY:  
18 28 million for liquor enforcement specifically,  
19 correct?

20 MR. NEGRA: Correct.

21 MR. NEWSOME: Yes.

22 REPRESENTATIVE KRUEGER-BRANEKY: Okay.  
23 And are you aware of any other state agencies that  
24 we've got right now who generate this kind of  
25 revenue for key programs like alcohol education or

1 state police enforcement?

2 MR. NEGRA: No, we're not aware of any  
3 other -- any other programs that contribute.

4 MR. NEWSOME: I'm not aware of any.

5 REPRESENTATIVE KRUEGER-BRANEKY: Okay.  
6 Thank you so much, gentlemen, for your testimony.

7 MR. NEGRA: Thank you.

8 MR. MOONEY: Thank you.

9 MAJORITY CHAIRMAN SAYLOR:  
10 Representative, I hope you're buying all  
11 Pennsylvania wines.

12 REPRESENTATIVE KRUEGER-BRANEKY: I  
13 actually, really like the Buy Local section where  
14 you can find Pennsylvania-brand products.

15 MAJORITY CHAIRMAN SAYLOR: I love that  
16 section myself. Thank you.

17 With that, Representative Jamie Santora.

18 REPRESENTATIVE SANTORA: Thank you. I  
19 apologize. My technology is not working here. I'm  
20 trying to be more efficient.

21 Generally speaking, can you provide an  
22 update on how plans are coming along for the stores  
23 that you've been renovating, doing remodels?

24 In the past, what's coming up -- For  
25 example, I went to my liquor store the other day,

1 and there was a big sign on it that said closed, in  
2 Drexel Hill. I think that's a good thing, because  
3 I heard that it's gonna be remodeled, and in the  
4 next seven to nine weeks it will reopen.

5 With that, is it -- are you seeing an  
6 increase in business? Are we wasting money? Are  
7 we doing the right thing here? That's what I'm  
8 trying to dig into.

9 MR. MOONEY: Yeah. Representative,  
10 Drexel Hill's store is closed for renovations. It  
11 was long overdue. Really needed --

12 REPRESENTATIVE SANTORA: Yes, it was.

13 MR. MOONEY: Really needed a lift face.  
14 It will come out with our new branding concept.

15 We have branded -- we call branded 235  
16 of our stores at this point, and we are very  
17 selective in our ROI. On each and every one of  
18 those projects, there's a market analysis done to  
19 see is the spent worth the effort and is there an  
20 ROI in the market?

21 We also look at the stores in that  
22 market to make sure we're just not cannibalizing  
23 the sales and spreading them around. We're so far  
24 averaging between 3 and 4 percent growth in our  
25 branded stores, but we are -- we are looking at

1       them very judiciously, and we're taking them one at  
2       a time.

3                   REPRESENTATIVE SANTORA:   Okay.   And I  
4       appreciate what you're saying, and I think that's  
5       important, and I'm glad to see that there's an  
6       increase and, hopefully, it's making up for the  
7       cost over time.   Hopefully, you're negotiating with  
8       the landlords' extensions, and they're actually  
9       paying for the remodel or at least giving you T.I.  
10      dollars towards it.

11                   So, my question is, and I think you'll  
12      probably remember this question from last year, are  
13      we negotiating longer-termed leases to get a better  
14      deal for the taxpayers of Pennsylvania?

15                   MR. MOONEY:   We are.   All our stores are  
16      leased, so on a branded action -- we would call a  
17      remodeled branded action or relocation, the  
18      standard term is 10 years.

19                   REPRESENTATIVE SANTORA:   Okay.

20                   MR. MOONEY:   Generally, we try to get  
21      two five-year options on that, which are our  
22      options.   We'll take a five, we'll take two threes  
23      where we are amortizing the cost over the term of  
24      the 10 years.

25                   REPRESENTATIVE SANTORA:   That's great.

1 If you're 10 years, I'm satisfied with that answer.

2 And my last question is: What's the  
3 customer's response? Are you getting positive  
4 feedback? Are they saying -- What are you doing?

5 MR. NEGRA: Oh, I think that overall  
6 it's a very positive experience, if you've been in  
7 any of our new branded stores.

8 REPRESENTATIVE SANTORA: I have if it's  
9 the one on 202 near Route 1. If that's a  
10 re-branded store, it's a good-looking store.

11 MR. NEGRA: It's a beautiful store. And  
12 so, what you're talking about is being able to  
13 expand the number of SKUs that are -- that are in  
14 our store. We've added the "Made in Pennsylvania".  
15 There's more spirits, more Chairman's Select.

16 The product mix is something that we're  
17 constantly play with, because, to be honest with  
18 you, as the wine expanded permits and the grocery  
19 stores that now allowed to sell wine, that  
20 certainly impacted the traffic in our stores. It's  
21 impacted our, I'll say more everyday wine.

22 And so, we've got to reinvent ourselves,  
23 which is all part of the retail experience. We're  
24 constantly looking at product mix and trying to  
25 invite people into our stores and create, you know,

1 more welcoming experience. I think our customers  
2 like that. The feedback that we've gotten is  
3 certainly positive.

4 REPRESENTATIVE SANTORA: I like to hear  
5 words like the customer experience. It's not what  
6 you normally hear out of government. So, that's a  
7 good term.

8 Switching over to revenue and  
9 contributions, are you -- We get tax revenue, we  
10 get contri -- you know, we get the dollars that you  
11 put in every year to the General Fund. Are there  
12 any other programs you're doing? Are we doing  
13 anything with alcohol and drug awareness, or any  
14 other things with the police? Do you contribute to  
15 enforcement, or is that all coming from this side  
16 of the table?

17 MR. NEWSOME: We just -- We just alluded  
18 to some of that previously. We certainly do.

19 In addition to the half billion dollars  
20 in liquor taxes and sales taxes that go to -- to  
21 the Commonwealth, we last year sent \$217 million to  
22 the General Fund; 28 million as we --

23 REPRESENTATIVE SANTORA: Hold on one  
24 second. I'm going to ask you to finish, but I'm  
25 going to ask my last question because I saw the

1 yellow come on.

2 MR. NEWSOME: Okay.

3 REPRESENTATIVE SANTORA: Do you feel now  
4 that there's wine in other stores that you guys are  
5 becoming more competitive? So when you're done  
6 with that, I'd like someone to answer this.

7 MR. NEWSOME: Sure, sure.

8 The 28 million to the state police, we  
9 -- we -- 13 million services that are provided from  
10 other Commonwealth agencies and departments goes  
11 out each year, as well as the \$5 million we just  
12 talked about in grants and alcohol and drug  
13 programs. So those types of things are what we do  
14 on a regular basis. It totals almost  
15 three-quarters of a billion dollars that are coming  
16 out of this agency.

17 Member Negra just mentioned about the  
18 wine expanded permits that were allowed through Act  
19 39. We have -- That's a two-inch sword for us. We  
20 kind of look at it from a standpoint of, we have a  
21 customer on one side, which we have to serve, and  
22 we have a competitor on the other side which we  
23 technically compete against.

24 I think considering that dilemma that we  
25 have, I think we're doing extremely well in

1 handling that. I don't think we're getting very  
2 many, if any, complaints from the wine expanded  
3 permit holders about the service that we provide.  
4 And, of course, the margins and prices that we  
5 provide are much, much less than what we would get  
6 to traffic in our stores.

7 We're dealing with that. We're dealing  
8 with that, and I think it's working out well. But  
9 we also have to take another look at how we are  
10 stocking our stores in order to be able to meet  
11 that competition.

12 REPRESENTATIVE SANTORA: Thanks for your  
13 answers and comments. But I'd get slapped on the  
14 wrist by the Chairman. Thanks.

15 MAJORITY CHAIRMAN SAYLOR:  
16 Representative Bullock.

17 REPRESENTATIVE BULLOCK: Thank you,  
18 Chairman.

19 Good afternoon, gentlemen.

20 MR. NEGRA: Good afternoon.

21 REPRESENTATIVE BULLOCK: I have two sets  
22 of questions. I'm going to ask them upfront, and  
23 then you can answer them following that.

24 The first thing I'd like to say, thank  
25 you for all of your work with the community and

1 with legislators, particularly from Philadelphia,  
2 and the Philadelphia Health Department and law  
3 enforcement around the issue of stop-and-goes.  
4 Last year we were able to get stop-and-go  
5 enforcement legislation, which is a particular type  
6 of operation under the restaurant licenses of  
7 liquor establishments that tends to operate in  
8 Philadelphia, but across the Commonwealth.

9           And I heard that we have some good news  
10 in regards to the inspections, and I would like for  
11 you to share what the first month and a half under  
12 the new act has been like, and what do you see  
13 going forward and whether we can bring those  
14 businesses in line, and particular how you've been  
15 working on outreach and education to those  
16 businesses because, we don't necessarily want to  
17 shut them down. We want to bring those businesses  
18 in line.

19           My second line of question is with  
20 regard to your workforce. I'd like to know, what  
21 is the -- how large is your workforce? What is the  
22 breakdown of that workforce as far as diversity  
23 level, management level?

24           And also, I understand that you're  
25 reducing your complement this year. And if you can

1 explain to me why -- or the reasoning behind the  
2 reduction in your workforce this year as well.

3 MR. NEGRA: Charlie, you want to do  
4 that?

5 MR. MOONEY: Yeah, I can go.

6 MR. NEGRA: I'm looking for the numbers  
7 for the stop-and-goes.

8 But, first of all, thank you, thank you  
9 for the complement. I'd be remiss if I didn't say  
10 thank you to our licensing and legal and  
11 legislative affairs group that's spent an awful lot  
12 of time in going back and forth from Harrisburg and  
13 helping -- and helping work with representatives  
14 and senators and to address the problem.

15 Currently, and I think I can speak  
16 correctly to this, we have no complaints sitting in  
17 any backlog. I think we've been in the -- or right  
18 around 70. And I apologize. I can't find the  
19 number, but that's okay. I think I know them.

20 (Document handed to Mr. Negra).

21 MR. NEGRA: Thanks.

22 But we've had -- we had 70 total  
23 inspections done. We had two in Dauphin County,  
24 one in Delaware, one in Lackawanna County and 66 in  
25 Philadelphia. Forty-nine of them passed

1 inspections.

2 Keep in mind that, the reason an  
3 inspection occurs from the LCB is because of a  
4 complaint. It's all complaint driven, all right?  
5 So we're not just going out and picking on people.  
6 It's the idea that a community group or a  
7 representative, or whomever, calls in and says,  
8 hey, they are not compliant. They don't have  
9 chairs. They don't have a health room. They're  
10 not offering food. Any of those -- Any of those  
11 things are reason for us to go in.

12 We do not deal with, they've been  
13 serving to minors. That's a criminal activity that  
14 we would, in turn, pass along to the Liquor Control  
15 Enforcement agency.

16 Seven places that we went to we were  
17 unable to conduct inspections. Fourteen that we  
18 went to we suspended. The suspended reasons might  
19 run from food or no health permit; not enough  
20 seating. Out of the 14 reinspections, all passed.

21 So, I think what came out of that is  
22 the idea of, hey, we're not fooling around, okay?  
23 You've got to come into compliant. Here are the  
24 rules of the game if you want to be in the game.  
25 And I feel very good about it.

1           You know, I'm not there on a day-to-day  
2 basis, so that's really up for the community groups  
3 and the action groups to tell us what's going on.  
4 But I think that it's worked.

5           REPRESENTATIVE BULLOCK: I think the  
6 story that those numbers tell us that enforcement  
7 works and in collaborating with the community  
8 works. And --

9           MR. NEGRA: Exactly.

10          REPRESENTATIVE BULLOCK: -- for years  
11 the community has been crying out that we weren't  
12 seeing the enforcement that we would have liked to  
13 see in our communities. So, getting them in line  
14 through the outreach and through the inspections  
15 and reinspections brought the results that we  
16 wanted to see. So, thank you.

17          MR. NEGRA: You're welcome.

18          Charlie, I think in answer -- the other  
19 part of that.

20          MR. MOONEY: Representative Bullock, I  
21 would also add to Mr. Negra, we would like to thank  
22 the Pennsylvania Liquor Control Enforcement in that  
23 effort. Every inspection included our team and the  
24 BLCE at the same time. It was safer.

25          I also talked to Representative Harris

1 this morning, who asked similar questions that you  
2 just did, and we are sitting on zero complaints  
3 right now. So, as they come in, we have a resource  
4 encounter, a phone number, we will take the action  
5 within 24 to 30 hours. But, so far so good.

6 I'd also like to compliment the staff  
7 behind us: Chief Counsel Diaz, Tish Albert,  
8 regulatory, and Chris Herrington, who came down to,  
9 as you know, several committee meetings.

10 We have not decreased our workforce. We  
11 are sitting today at 5,420 filled positions; 2,406  
12 full time, 1,693 part time. It is a fluctuating  
13 number based upon the stores and the administrative  
14 field offices and our Central Office, but we are  
15 not --

16 Our goal is not to decrease the  
17 workforce. We adjust it. If stores move, stores  
18 close, the store employees are put into different  
19 -- located stores in the surrounding areas. The  
20 only time we reduce staff systematically is through  
21 nutrition and retirement.

22 MR. NEWSOME: I think part of the  
23 question was regarding the complement as well. I  
24 believe our complement is over -- is over 6,000.

25 MR. NEGRA: 6,400.

1 MR. NEWSOME: 6,400. So we are about a  
2 thousand employees below the complement.

3 Just to add a couple items to the  
4 demographics, about 52 percent of our employees are  
5 male, 48 percent are female. About 24 percent of  
6 our employees are minorities, with 20 percent of  
7 them being African-American.

8 As you know, it's not just the numbers  
9 that are important. What's really important is, do  
10 we have the kind of environment that welcomes all  
11 folks that treat everyone equally and fairly? And  
12 that's something that this board is very much  
13 concerned about. We certainly are constantly  
14 reminding folks that this has to not only represent  
15 the PLCB, but it has to represent the entire  
16 Commonwealth.

17 So, we work -- We're very happy with the  
18 way things are going, and we also are looking at  
19 areas where we can continue to put individuals into  
20 position of being able to grow into management and  
21 into executive positions.

22 I hope that answers your questions.

23 REPRESENTATIVE BULLOCK: It does. Thank  
24 you. Thank you, Chairman.

25 MAJORITY CHAIRMAN SAYLOR: You're

1 welcome. Representative Helm.

2 REPRESENTATIVE HELM: Thank you, Mr.  
3 Chairman.

4 I have a question on expired licenses.  
5 The PLCB has successfully held four auctions of 199  
6 expired restaurant liquor licenses generating  
7 14 million to date, with another 9 million in  
8 escrow. How long, generally, does it take for  
9 these license transfers to be completed, or how  
10 long is the money actually held in escrow?

11 MR. NEGRA: Around six months.

12 REPRESENTATIVE HELM: I hear lots of  
13 complaints it takes longer, but I hope that --

14 MR. NEGRA: They have to file for their  
15 license within six months after -- after providing  
16 us with the money, I believe. So, they get two  
17 weeks after they win the auction to provide us with  
18 the cash. Then the clock starts ticking for six  
19 months for the -- for the license to be submitted.  
20 It can be submitted on a -- on a previously-  
21 approved basis if they're building.

22 There are some -- some little nuances  
23 when it comes -- when it comes to that. But they  
24 can work as fast as they can, and it all comes down  
25 to their -- Sometimes there's hoops they have to

1 jump through when it comes to municipality approval  
2 and so forth.

3 MR. NEWSOME: We have to make sure we  
4 understand the question. The six months is the  
5 maximum time, whereby, they have to apply --

6 MR. NEGRA: Absolutely.

7 MR. NEWSOME: -- for the license. So,  
8 it doesn't mean it has -- necessarily it happens  
9 within six months, but they have six months to  
10 actually to -- to apply. And then our folks will  
11 take over and go from there. It certainly doesn't  
12 take six months for them to get a license.

13 MR. NEGRA: Oh, no, no. I'm talking  
14 about the auction and the process. It could happen  
15 as fast as -- If they had a space and they were  
16 ready to go, there's a 30-day posting period, and  
17 we're off -- we're off and running.

18 MR. NEWSOME: Right.

19 REPRESENTATIVE HELM: Let's talk about  
20 some funds here. Through fiscal year 2022-23, that  
21 meant there will be at least \$8 million per year  
22 from the auction of expired licenses. Once the  
23 backlog has expired, or license has reduced, what's  
24 the estimate of the amount of annual revenue that  
25 the PLCB will realize from future auctions?

1 MR. NEWSOME: Did you say the year  
2 '22-23?

3 REPRESENTATIVE HELM: Yeah, supposed to  
4 be at least 8 million per year from the auction of  
5 expired licenses, but after that, what do you think  
6 --

7 MR. NEWSOME: That's a projection. We  
8 have 800 licenses left, and these licenses are  
9 actually doing very well right now. We're not sure  
10 what those numbers will look like down the road.  
11 That's a good base holder.

12 We are looking for this fiscal year  
13 about \$14 million that would be recorded in our  
14 books. With that nine in escrow right now, and we  
15 have a fifth auction going on right now, we expect  
16 the number for the next fiscal year to kind of  
17 approach that.

18 But, as we go forward, we notice we're  
19 showing a reduction because -- Because we have a  
20 number of licenses, we're not sure how we'll  
21 continue to -- to -- the bids will continue to come  
22 in.

23 REPRESENTATIVE HELM: I have a question  
24 on your stores that make a profit and don't make a  
25 profit. Like, I know that you have some that do

1 and some that don't. Why do you keep the ones that  
2 don't? Is it just because you want them in a  
3 location to serve people, or what's the purpose for  
4 keeping a store that doesn't make a profit?

5 MR. MOONEY: As we've reported in  
6 previous, um, previous years in these hearings, we  
7 have four -- we're sitting on 14 stores out of 606  
8 today that are technically unprofitable. If you  
9 add the taxes back in, the 18 percent back into  
10 that number, there are no stores unprofitable. But  
11 if you back the taxes out, pure on the business of  
12 these particular stores, there's 14.

13 The reason they're open is that they're  
14 in very isolated rural communities, and some of the  
15 stores have 20 to 25 miles between the next  
16 community. And most of these stores -- Most of  
17 these stores are north of Interstate 80 and west of  
18 State College; up in the very rural area; some in  
19 Central Pennsylvania; very little in the southeast.  
20 It's geography, Representative Helm.

21 REPRESENTATIVE HELM: Good answer,  
22 because we have to serve everyone. Thank you.

23 MR. MOONEY: You're welcome.

24 MAJORITY CHAIRMAN SAYLOR:  
25 Representative Kinsey.

1           REPRESENTATIVE KINSEY: Thank you, Mr.  
2 Chairman. Good afternoon, gentlemen.

3           (Good afternoon response in unison).

4           REPRESENTATIVE KINSEY: First I want to  
5 echo the sentiments that my colleague,  
6 Representative Bullock, shared. I also come from  
7 the City of Philadelphia, and really appreciate the  
8 fact that you had the department come down for a  
9 series of hearings that we had in the city  
10 regarding stop-and-go and, of course, with the  
11 enactment of the law.

12           So, again, I want to say thank you very  
13 much for working with us to address a major issue  
14 in the City of Philadelphia.

15           Board Member Newsome, I want to go back  
16 over I think some of the things you mentioned  
17 earlier. You were talking about some of the  
18 numbers.

19           I have documents here that state that,  
20 in the fiscal year '16-17, you finished with record  
21 sales of over \$2.5 billion; is that correct?

22           MR. NEWSOME: That includes taxes as  
23 well --

24           REPRESENTATIVE KINSEY: Okay.

25           MR. NEWSOME: -- so our sales were just

1 over 2 billion, and taxes and liquor -- liquor  
2 taxes and sales taxes were half a billion.

3 REPRESENTATIVE KINSEY: I've sat -- sat  
4 on this committee -- This is my fourth year sitting  
5 on the committee. I think, and please correct me  
6 if I'm wrong, but I think each of the years that  
7 I've sat here and heard presentation from the LCB,  
8 that each year there's been an increase in regards  
9 to sales. Is that correct also? Over the past  
10 four years I'm looking at. And if I'm not correct,  
11 can you sort of correct that record for me?

12 MR. NEWSOME: I believe you're correct.

13 MR. NEGRA: Oh, sure.

14 MR. NEWSOME: Sure.

15 REPRESENTATIVE KINSEY: So there's been  
16 an increase in sales --

17 MR. NEWSOME: Yes.

18 REPRESENTATIVE KINSEY: -- each year.

19 So each has been like -- Each succeeding  
20 year has pretty much been like a record sales? Is  
21 that what we're looking at as well?

22 MR. NEWSOME: I assume that would be --  
23 that would be-- that would follow, sure.

24 REPRESENTATIVE KINSEY: So, if we were  
25 looking at last year, which was a record sale, and

1 where we are currently with this year, where are we  
2 compared to last year? Are we basically on point  
3 to exceed that sale, or are we lagging behind just  
4 in regards to sales again?

5 MR. NEWSOME: As far as sales are  
6 concerned, we are up -- up -- over 2 percent from  
7 over last year, through seven months.

8 REPRESENTATIVE KINSEY: Through seven  
9 months we're over.

10 And, Mr. Newsome, I was writing down  
11 some numbers, and you were talking a little bit  
12 quickly. But I want to go back over some of these  
13 numbers because, again, these numbers in and of  
14 themselves were impressive.

15 I think you mentioned that \$217 million  
16 are returned to the General Assembly; in addition,  
17 28 million to the state police; 13 million to other  
18 agencies, and at least 5 million for grant  
19 programs.

20 MR. NEWSOME: That's correct. We are  
21 talking approximately, yes.

22 REPRESENTATIVE KINSEY: And that's on  
23 ann -- pretty much?

24 MR. NEWSOME: The two seventeen was an  
25 anomaly, I'll call it. It was a request from the

1 Budget Office that we were able to make, and we're  
2 happy to make. It was -- It was that number has  
3 now changed to one eighty-five, so when you hear  
4 that one eighty-five number, that would be  
5 comparable to the two seventeen from the previous  
6 year.

7 So, not only have we agreed to provide  
8 the 185 million this year, we have already provided  
9 that. So, we've already met that requirement for  
10 this fiscal year.

11 The discussion going forward was, can we  
12 sustain that type of number, and we feel pretty  
13 good about the next year. We have to continue to  
14 look at our operations and --

15 REPRESENTATIVE KINSEY: Sure.

16 MR. NEWSOME: -- profitability. It's a  
17 number that -- When I first joined was what--two  
18 years ago?--the number was a hundred million, and  
19 the year before that it was only 80 million.

20 REPRESENTATIVE KINSEY: Well, I think  
21 when I joined four years, I recall the 80 million  
22 or 85 -- somewhere around 80 or 85. So, I mean,  
23 just looking at it from four years, looking at 80,  
24 85 million, and where we are today, I think that  
25 that in and of itself is pretty impressive, you

1 know, in regards to the expectation of what the LCB  
2 has contributed to, not only to the Commonwealth,  
3 but to the hard-working taxpayers of this  
4 Commonwealth as well. So I just wanted to make  
5 note of that.

6 I think I still have a little bit more  
7 time.

8 Can you talk a little bit about how your  
9 sales numbers, do they finance your retail and  
10 wholesale operations?

11 MR. NEGRA: Yes.

12 MR. NEWSOME: To summarize, we have put  
13 a couple comments together regarding all of this.  
14 We finance everything that we do. We -- We are an  
15 ongoing concern. We are a business. So our  
16 sales --

17 REPRESENTATIVE KINSEY: I'm sorry. You  
18 said you finance everything you do and still give  
19 money back to the Commonwealth?

20 MR. NEWSOME: Yes, we -- I mean, we do.  
21 We have profit. We create profit and we -- we  
22 generate cash.

23 REPRESENTATIVE KINSEY: All right.

24 Mr. Newsome, I appreciate you sharing  
25 that. Again, I just don't want to underscore the

1 importance of what the LCB is doing to support the  
2 Commonwealth. I mean -- So I don't want to  
3 underscore that.

4 I mean, I appreciate you sharing this  
5 because, again, we don't -- It's not often that we  
6 sit in front of a department that talks about  
7 having the ability to pretty much  
8 self-sustain themselves, as well as submit money to  
9 the Commonwealth.

10 I see that my time is up. And,  
11 Mr. Chairman, maybe if there's a second round, I  
12 can come back with some additional questions.

13 Thank you all.

14 MAJORITY CHAIRMAN SAYLOR:  
15 Representative Greiner.

16 REPRESENTATIVE GREINER: Thank you, Mr.  
17 Chairman. And good afternoon, gentlemen.

18 I must admit, I'm not nearly as  
19 impressed as my colleague prior on the financial  
20 situation. With my background, I've said this  
21 before, as a CPA you can have all the sales you  
22 want. But bottom line, the amount of cash, cash  
23 flow at the end to me is quite important.

24 I do have a question. I'm looking at  
25 the financial statements here; looking at the

1 disbursements under LCB expenses. Can you tell me  
2 what the breakdown of LCB expenses are?

3 MR. NEWSOME: What --

4 REPRESENTATIVE GREINER: What are LCB  
5 expenses?

6 MR. NEWSOME: Are you looking at the --

7 MR. NEGRA: Personnel?

8 MR. NEWSOME: -- last fiscal year?

9 REPRESENTATIVE GREINER: Well, when you  
10 have your -- I'm looking at the cash flow receipts  
11 and disbursements worksheet from this year, moving  
12 into a few more years. And I was wondering what,  
13 the LCB expense number, for instance, available for  
14 '17 to '18 was 556,950. Well, that's in millions.

15 MR. NEWSOME: Okay. I have some numbers  
16 in front of me. I'm not sure which ones you have.

17 MR. NEGRA: I have the number.

18 MR. NEWSOME: Okay.

19 MR. NEGRA: And that's under general  
20 operations.

21 MR. NEWSOME: Correct.

22 MR. NEGRA: That would be payroll --

23 REPRESENTATIVE GREINER: All right.

24 MR. NEGRA: -- benefits.

25 REPRESENTATIVE GREINER: Let me ask you

1 a question. Because, as you look out over the  
2 number of years, the percentage -- the percentage  
3 -- that number increases a percentage of total  
4 receipts every year. It grows from about 19 or  
5 20 percent to 22 percent.

6 And I was wondering, in -- As you said,  
7 you operate as a business. As that increases, most  
8 businesses have to try to control that. What --  
9 What's the reason for that being a larger increase  
10 of the -- the operations of the business over the  
11 years?

12 MR. NEGRA: Well, benefits -- benefits  
13 and payroll, unfortunately, are not under our  
14 control. So, it's really as simple as that when  
15 you look at just -- at just that line -- just that  
16 line item.

17 REPRESENTATIVE GREINER: Eventually,  
18 isn't that going to probably stabilize, though? I  
19 mean, haven't we done some things here in the state  
20 with the retirement plan and everything that would  
21 also impact your business, also?

22 MR. NEGRA: We hope so. That begins,  
23 what, January 1st, 2019. I think it's gonna take  
24 some time for that -- for that aspect of -- of  
25 retirement.

1                   But you've also got other  
2 post-employment benefits, workers' comp, a variety  
3 of other things that, again, are out of our -- out  
4 of our control. We'd like to have a little bit  
5 more control of them as a business, but currently  
6 we don't.

7                   REPRESENTATIVE GREINER: Can I ask you,  
8 I know one my colleagues at the beginning, we talk  
9 about the ending cash balance here in '15-16 was  
10 about 275 million. By '21-22 it's around 92  
11 million, so we're seeing a steady decline in cash  
12 -- cash flow in -- in -- in -- in the --

13                  MR. NEWSOME: Sure.

14                  REPRESENTATIVE GREINER: -- in your fund  
15 balance, I'll call it.

16                  MR. NEGRA: Correct.

17                  REPRESENTATIVE GREINER: Is this gonna  
18 be -- I mean, are we going to have problems after  
19 '20-22. I know there's a small pop it looks like,  
20 but isn't that going to be a long-term problem with  
21 the --

22                  Then I'm gonna tell you what else, the  
23 transfers to the General Fund haven't changed  
24 either. It isn't like there's -- you might have  
25 increased sales, now the increase to General Fund

1 isn't happening. I mean, it's great that we're  
2 transferring money to our General Fund, but I'd  
3 like to see an increase if we're gonna have an  
4 increase in sales. That's all I'm saying.

5 MR. NEWSOME: And I think those are all  
6 good points. And the point that was made earlier  
7 is that, we went from 100 million to 217 million in  
8 one year. And then that number was moving back to  
9 one eighty-five. Frankly, we thought it was gonna  
10 stay at two seventeen.

11 Now, we don't pick those numbers. We  
12 get the request from the Budget Office and we try  
13 to meet those requests. We don't know essentially  
14 what they're gonna ask. I'm surprised the number  
15 wasn't escalating from year to year, and we'll have  
16 to deal with it each year as it comes up.

17 You make a great point, but we're not  
18 sitting there deciding how much goes. We simply  
19 meet the request.

20 MR. NEGRA: Technically, it's your  
21 money. So, you could take our bank account down to  
22 zip if you wanted to.

23 REPRESENTATIVE GREINER: Well, I  
24 understand that, and I don't think that's our -- I  
25 wouldn't think that would be our goal here.

1 I do have a question. Even here as  
2 we're working through the budget, you know, it's  
3 complex, it's challenging. You did a projection  
4 here, and I'm looking at the costs -- the future  
5 costs for the controller and the payments to the  
6 state police, and, you know, they've remained  
7 constant.

8 I just didn't know whether, when you did  
9 this project -- when whoever, your staff or whoever  
10 worked on this, whether that was actually -- was  
11 that done in a pragmatic way? I mean, I would have  
12 thought I would have seen some kind of an increase  
13 over the next five years or so in that number.

14 Maybe you can explain why -- why they  
15 were -- they remain level funded in your  
16 projections.

17 MR. NEWSOME: Great question. As we go  
18 through all of this and we try to project going  
19 forward, contrary to what a number of folks may be  
20 thinking, we're constantly looking at these  
21 numbers. We're constantly looking at ways to  
22 reduce costs.

23 Member Negra ran a business. I ran a  
24 business. We look for ways to reduce expenses.  
25 And in some instances, we are challenging other

1 departments and other folks, get your costs down.  
2 In other words, we're not going to increase this.  
3 We actually want to see a decrease.

4 So, this is a way that we're trying to  
5 meet the requirements that are being placed upon  
6 us, and there will continue to be challenges from  
7 this board not only within the agency, but we're  
8 challenging those that receive funds from us to  
9 keep their costs down as well. So that number was  
10 done on purpose; to -- We'd like to see a decrease  
11 rather than an increase.

12 REPRESENTATIVE GREINER: Understood. I  
13 appreciate that answer.

14 Thank you, Mr. Chairman, for your time.  
15 Like I said, we're all trying to do the right  
16 thing. I want to make sure we're looking at the  
17 right financial information. I appreciate it.

18 MAJORITY CHAIRMAN SAYLOR:  
19 Representative Donatucci.

20 REPRESENTATIVE DONATUCCI: Thank you,  
21 Mr. Chairman.

22 Thank you, gentlemen, for being here  
23 today. I hate to go back to the nuance liquor and  
24 the enforcement and compliance, but we've been  
25 debating expansion of privatization bills in the

1 General Assembly for the last few years. And one  
2 of my questions always is, are we appropriately  
3 funding the liquor enforcement.

4 So over the last five years, funding  
5 from your agency for liquor enforcement increased  
6 from 23 to 28 million. Is it the agency's goal to  
7 continue to increase this level of funding as we  
8 deal with increases in alcohol outlets?

9 MR. NEGRA: That number comes from the  
10 state police. Is it my goal to pay them more? I  
11 guess we pay them what we're told to pay 'em. So,  
12 I don't think we have a goal, other than what  
13 Member Newsome said, is to try and control our  
14 expenses and have accountability for -- for what  
15 money we're paying out. That number comes from the  
16 state police and comes through -- through the  
17 Appropriations Committee?

18 REPRESENTATIVE DONATUCCI: Okay. So, in  
19 case we were to divest the PLCB and there was no  
20 more, wouldn't we still have to find funding for  
21 enforcement from our General Fund?

22 MR. NEGRA: Yes.

23 REPRESENTATIVE DONATUCCI: Do you think  
24 this lack of guaranteed funding would cause  
25 additional problems in our communities, such as

1 underage sales, crime, violence, less enforcement?

2 MR. NEGRA: Well, I'd be surprised if it  
3 wasn't guaranteed funding. It's the state police.  
4 So, no, I --

5 That's -- That's pure conjecture, to be  
6 honest. I think, obviously, that would have to  
7 have licensing and we'd have to have enforcement.  
8 And, quite possibly, depending upon how that  
9 privatization would occur, you might require more  
10 enforcement if there's more outlets. So, it's  
11 really hard to say.

12 REPRESENTATIVE DONATUCCI: Okay. I'm  
13 going to make a comment now first.

14 I love your app, the Pennsylvania wine  
15 and spirit app. I don't know if people know about  
16 it or if you use it. I think it's great. I save  
17 all my stores. I look for my products; I find the  
18 hours. The reason I'm talking about the hours is  
19 that, I know with Act 39, you had the opportunity  
20 to expand the hours of operation. I know where I  
21 live, I think it's really late at night to several  
22 stores to purchase liquor.

23 So, as a result of the additional store  
24 hours, have you hired additional staff, and are you  
25 making more money with the added hours?

1 MR. MOONEY: Representative Donatucci,  
2 we did expand our hours particularly on Sundays.  
3 Act 39 gave us the ability to -- we were limited to  
4 25 percent prior. It was a welcomed adjustment.

5 So, we are open in 325 stores now on  
6 Sunday. Hours used to be 12 to 5. They're now  
7 generally 11 to 7, so we have expanded our hours.  
8 We have hired additional help in order to cover  
9 those shifts and -- because we certainly don't want  
10 to use a lot of overtime. That's an expensive hour  
11 of labor.

12 However, we are also looking at, since  
13 we're into this Act 39 now, 16, 17 months, we're  
14 able to look at our sales and see how they're  
15 distributing. So as I mentioned earlier, we are --  
16 we are really looking at all the stores and  
17 adjusting to where sales are responding or not  
18 responding as well.

19 But, in general, yes, stores are open a  
20 lot longer and additional Sunday hours.

21 REPRESENTATIVE DONATUCCI: Yeah, I think  
22 it's great. I know some stores are opened on  
23 Saturday night until 9:30. It's good in  
24 Philadelphia.

25 One last question. Last year you

1 discussed the PLCB educational grant program. Can  
2 you tell me how many grants have been awarded  
3 through this program recently, who is primarily a  
4 client for them, and what is the premise of the  
5 majority of the programs?

6 MR. NEGRA: What grants are -- Are we  
7 talking about the malt beverage grant, the winery  
8 grants, the -- the educational grants?

9 MR. NEWSOME: Yeah, educational is what  
10 you're saying.

11 MR. MOONEY: Representative Donatucci,  
12 we -- I think you're referring to the alcohol  
13 education grants that we send out. We sent out  
14 approximately this last fiscal year 70 grants in  
15 the amount of 1.1 million. We also send out other  
16 grants.

17 I'd like to let everybody know on this  
18 committee that we had a public board meeting today,  
19 in which members Newsome and Negra and Tim Holden  
20 came in by phone, and we approved the malt grants  
21 today. Thirteen requests came -- a lot of requests  
22 came in. The board considered 13 today and  
23 approved them for the amount of \$704,000. That was  
24 completed this morning.

25 REPRESENTATIVE DONATUCCI: Great. Thank

1 you.

2 MR. MOONEY: Thank you.

3 MAJORITY CHAIRMAN SAYLOR:

4 Representative Quinn.

5 REPRESENTATIVE QUINN: Thank you.

6 Over here, gentlemen, and thanks for  
7 being here today. I am curious. I was asking some  
8 questions earlier about DGS, about the employer  
9 (sic) liability self-insurance program. Is the  
10 PLCB part of this?

11 MR. NEWSOME: There's a question,  
12 liability of self-insurance.

13 MR. NEGRA: Yes, we are.

14 REPRESENTATIVE QUINN: What this is is a  
15 fund that one is -- an agency is assessed per  
16 employee, however that assessment is derived. It's  
17 a self-insurance risk plan. So you may be more  
18 familiar with it; if a bottle falls off the shelf,  
19 hits someone in the toe --

20 MR. NEWSOME: Workers' comp; workers'  
21 comp.

22 REPRESENTATIVE QUINN: No, it's not  
23 workers' comp. You're talking about --

24 MR. NEGRA: Personal liability, right?  
25 That's what you're talking about?

1           REPRESENTATIVE QUINN: It basically  
2 would cover an employee against a claim up to  
3 \$250,000.

4           MR. MOONEY: We do participate.

5           REPRESENTATIVE QUINN: Do you know your  
6 assessment for that program on an annual basis?

7           MR. NEGRA: No. That's something we can  
8 get back to you with.

9           REPRESENTATIVE QUINN: Thanks. Do you  
10 know if you've had claims paid out? What I'd like  
11 to know is your assessment versus the amount of  
12 claims paid out.

13          MR. NEGRA: Again --

14                   (All testifiers speaking at once).

15          REPRESENTATIVE QUINN: If you can get  
16 back to me, that would be great.

17          MR. NEGRA: We can get you those  
18 numbers.

19          REPRESENTATIVE QUINN: Since this covers  
20 individual employees, do you know if it also covers  
21 -- you've got a high complement of employees, but  
22 many of them are part time. What does that -- Does  
23 this cover a part-time employee? And if it does,  
24 does it cover for the full amount of \$250,000?

25          MR. NEWSOME: I would -- I would think

1 it covers anyone who would be in our employ at any  
2 time; not only part time, but even seasonal folks  
3 because they would be part of our workforce.

4 REPRESENTATIVE QUINN: Thanks. You  
5 gentlemen might not be aware, but part of my  
6 questions, we've just come to realize in the past  
7 couple of months that dollars have been paid out,  
8 really over employee claims of, be it sexual abuse  
9 or unfair treatment in the workplace.

10 As a member of the General Assembly, to  
11 see that be a hundred thousand dollars or two fifty  
12 per claim, or whatever the congregate number is,  
13 it --

14 MR. MOONEY: Representative Quinn, we're  
15 cognizant of the subject matter. It's been  
16 prominent in the last six months or year. We've  
17 been in -- We've been in the press about this  
18 subject matter.

19 We've had 60 cases of sexual harassments  
20 over the last 16 months. However, our agency is  
21 very large. As I reported earlier, we have over  
22 5,400 employees working. The Liquor Control Board  
23 has not paid out a claim in the last -- at least in  
24 the last five years.

25 REPRESENTATIVE QUINN: Let me ask this:

1 And I did not know that. I had not done any  
2 homework, so this was not a gotcha moment.

3 What I'm trying to do is figure out  
4 where, if there is a problem and a liability, where  
5 does the buck stop. So earlier, Secretary Topper  
6 told me that that claim is limited to \$250,000 per  
7 employee; whether it was negligence of putting  
8 something on a shelf or something, or of the nature  
9 that you just brought up.

10 And my question was: If their -- If  
11 they've hit that claim in the self-insurance --  
12 employee liability self-insurance program, where --  
13 what's the backstop? And I was told it's the  
14 agencies.

15 So then, I'm curious, do the agencies  
16 carry some type of reinsurance plan; you know, what  
17 is it? Or, if you were to be found caught off  
18 guard and suddenly had claims, are you putting a  
19 buck on every bottle, which goes back to the  
20 taxpayers?

21 I'm really trying to assess our ultimate  
22 liability in this because, given the focus, I would  
23 not be surprised, sadly, if there's more claims  
24 than we've had in the history.

25 MR. MOONEY: We would -- We didn't

1 prepare for that question, and we could certainly  
2 dig into all of this for you. Our finance director  
3 is sitting behind us and he's whispering a few  
4 things. I know a little bit about it. It's the  
5 work --

6 We have a claim in the store, as you  
7 refer to as a clerk, or this or that or this thing  
8 or that happened, first thing we determine is,  
9 since we lease our stores, is it the landlord's  
10 fault --

11 REPRESENTATIVE QUINN: Right.

12 MR. MOONEY: -- or is it our fault? If  
13 it's an act of God and something in our store, and  
14 it's not negligence on behalf of the landlord, then  
15 sometimes we do file a claim against the workmen's  
16 -- the self-insured workmen's fund.

17 REPRESENTATIVE QUINN: Okay. So when  
18 you said you've never paid out a claim, though, it  
19 wouldn't be yours to pay.

20 MR. MOONEY: That was related to sexual  
21 harassment.

22 REPRESENTATIVE QUINN: Okay. But it  
23 would not have been yours to pay. Wouldn't it come  
24 out of the employee liability self-insurance  
25 program?

1 (Pause).

2 REPRESENTATIVE QUINN: It would have.

3 A VOICE: Yes.

4 REPRESENTATIVE QUINN: I would have  
5 given you these questions in advance had I thought  
6 of them before, an hour ago. You see where I'm  
7 going? I'm really curious about what levels of  
8 protection are there.

9 I'm gonna move to another subject,  
10 lottery. I bet you welcome this one. Roughly, out  
11 of your stores, how many of them have lottery  
12 machines?

13 MR. NEGRA: Um, 300?

14 MR. MOONEY: 315.

15 REPRESENTATIVE QUINN: When the Lottery  
16 Department was in here last week, I went up  
17 afterwards and said, I've been in our wine and  
18 spirit store. I've seen a line for that machine.  
19 I've seen machines where -- and myself included  
20 didn't quite -- I got caught up on a glitch. And  
21 when I asked the employees they said, we have no  
22 training here.

23 I respect your -- the nice questions,  
24 did you find everything you needed? I'd love see  
25 the question tacked on, would you like a lottery

1 ticket? What I was told last week is that, that  
2 would be union rules that would -- they thought it  
3 was union rules that would not allow one agency to  
4 encourage the purchase of lottery tickets, or it  
5 seems like even learn how to work the darn machine,  
6 so --

7 MR. MOONEY: That's incorrect.

8 REPRESENTATIVE QUINN: I'm glad to  
9 hear that.

10 MR. MOONEY: I'd like to know what store  
11 that was, and we'll have a little discussion with  
12 some of those employees.

13 REPRESENTATIVE QUINN: Sure.

14 MR. MOONEY: All of our employees were  
15 trained from -- in -- from the Lottery -- from the  
16 Department of Revenue and Lottery before any  
17 machines went into the stores. There were  
18 satellite locations set up all over the state, down  
19 to our part-timers. Every one of them was trained.

20 We empty those machine every day. We're  
21 versed on how they work. We welcome it, but that  
22 was the wrong answer from that clerk.

23 REPRESENTATIVE QUINN: Okay. I think  
24 that there's potential increased Lottery by even  
25 asking the question, the pot is big. Do you want

1 to buy?

2 MR. MOONEY: I agree. They just changed  
3 all the machines; they've upgraded them. I'm not  
4 going to speak out of turn here. In the next  
5 75 days there's more -- I better be careful here.  
6 There's newer games gonna come out.

7 REPRESENTATIVE QUINN: How exciting.  
8 Thank you.

9 MAJORITY CHAIRMAN SAYLOR: I just -- The  
10 Chairman's prerogative here is, members of the  
11 General Assembly on both sides of the aisle, due to  
12 things that are going on in the media you're all  
13 aware of, are getting more and more questions from  
14 taxpayers about liability, who's paying what. And  
15 so, it -- So the members of the General Assembly  
16 have more response, we're trying to dig into some  
17 of the things we've heard, who's responsible,  
18 what's going on.

19 Representative Quinn has been the  
20 leading advocate for getting to the bottom of these  
21 issues. As I'm sure, there's others on both sides  
22 of the aisle have a real interest in this issue,  
23 because it is somewhat perplexing.

24 Members of the House and the Senate -- I  
25 know the House--I'll speak that way--go through

1 ethic training. We've heard this morning from  
2 Representative Topper -- or Secretary Topper.  
3 Representative Topper -- Secretary Topper that the  
4 state employees are as well. We just want to make  
5 sure that we get to the bottom of this so we can  
6 answer the questions for the taxpayers as well.

7 I thank Representative Quinn for delving  
8 into that and trying to get to the bottom of those  
9 issues.

10 With that, I recognize Representative  
11 Schweyer.

12 REPRESENTATIVE SCHWEYER: Thank you, Mr.  
13 Chairman.

14 Good afternoon, folks. A couple of  
15 things for you. First and foremost, I want to talk  
16 a little bit about your eCommerce sales and your  
17 online sales. I think your sales are up 10 and a  
18 half, 11 percent over previous years; somewhere  
19 along those lines. And I notice in one of your  
20 reports it was reported that a number of those  
21 sales were actually from folks from out of state.

22 Do you know about how much of that? Can  
23 you expand on that at all a little bit?

24 MR. NEGRA: You know, from an online  
25 standpoint, I can't -- I can't give you how many --

1     how many of our sales or what percentage is from  
2     out of state. I do know that we can't ship out of  
3     state. Those people that are buying from out state  
4     from our online store are coming into Pennsylvania  
5     --

6             REPRESENTATIVE SCHWEYER: Understood.

7             MR. NEGRA: -- and then picking it up at  
8     a store. I have seen some percentages through, I  
9     believe it's the American Express, that talked to  
10    us about what sort of percentage of our sales was  
11    -- came from an out-of-state card. That's probably  
12    more along the lines of Philadelphia, Delaware, and  
13    that percentage I want to say is around  
14    2.6 percent.

15            REPRESENTATIVE SCHWEYER: I'm sorry?

16            MR. NEGRA: About 12 percent.

17            REPRESENTATIVE SCHWEYER: About  
18    12 percent of American Express sales of your online  
19    come from a card from out of state.

20            MR. NEGRA: Out of state, exactly.

21            REPRESENTATIVE SCHWEYER: I'm trying to  
22    read faces behind you at the same time here, so I  
23    apologize.

24            MR. NEWSOME: Pay no attention to those  
25    folks behind us.

1 MR. NEGRA: Excuse me. It's not  
2 American Express. That's total sales.

3 REPRESENTATIVE SCHWEYER: Total sales,  
4 okay. So 12 percent of sales online, so it's a  
5 growth industry for us.

6 The reason why I'm interested about  
7 this, number specific, of course, but more  
8 importantly is the narrative, because I've heard in  
9 my now four years of being a legislator that you  
10 can't compete with Delaware or other states because  
11 of high tax rates in the way that we have the  
12 individual state system created.

13 The online sales is actually telling us  
14 the exact opposite. Twelve percent of people are  
15 purchasing product from a Pennsylvania wine and  
16 spirit store because of either where they are  
17 vacationing or hanging out, or availability or a  
18 cause or something along those lines.

19 I'm going to move forward quickly to one  
20 other question, and that's how you hire your  
21 employees. This was a question that I had for the  
22 Secretary of the Administration yesterday. I  
23 represent the City of Allentown, by the way. I'm  
24 still trying to figure out why you have one less  
25 store in Allentown now and one more store in

1 Bethlehem, but that's a conversation for another --

2 MR. MOONEY: We'll have the conversation  
3 later.

4 REPRESENTATIVE SCHWEYER: We can have  
5 that question. We are the third largest city in  
6 the Commonwealth of Pennsylvania, I'll have you  
7 know.

8 Anyway, outside of that, there is no --  
9 there is no Civil Service test center in the Lehigh  
10 Valley. For a person to get a civil service  
11 position from anywhere from across Lehigh Valley,  
12 they have to drive to the wonderful cities of  
13 Philadelphia, Harrisburg or Scranton, which is  
14 great, but they're all an hour and a half to two  
15 hours away, based on traffic.

16 And so, I understand there's a new  
17 process in place for perspective clerks to apply  
18 for a Civil Service job. I was wondering if you  
19 could expand upon that a little bit.

20 MR. MOONEY: I can. Within the last six  
21 to eight months, we are trying a new process with  
22 the cooperation of Secretary Minnich and the  
23 cooperation of Civil Service. Instead of going --  
24 I'm familiar with that pain in Allentown and Lehigh  
25 Valley with --

1           The center was closed years ago. Our  
2 district managers were driving employees to testing  
3 centers in Harrisburg. But now they're able to --  
4 we are scoring an application, so all they need to  
5 do is send in an application. The application gets  
6 scored, and then a list is developed from the  
7 application.

8           There is no test for our entry-level  
9 part-time positions at this time.

10           REPRESENTATIVE SCHWEYER: I appreciate  
11 that. The first time I heard about this was  
12 yesterday, and a little frustrating as a member  
13 because this is something that we have been talking  
14 about for a while.

15           MR. MOONEY: It's working.

16           REPRESENTATIVE SCHWEYER: Good. Do we  
17 have any partnership with our Workforce Investment  
18 Board or CareerLink or any of those other  
19 organizations in Lehigh Valley.

20           MR. MOONEY: All of it. We've used the  
21 facilities for different interviews. But right now  
22 our test used to have, say, 10 people on there, and  
23 you had rigorous rules of -- I can't get into the  
24 weeds here, but there's a thing called rule of  
25 three and a rule of this and a rule of that.

1           Right now we get 125 or 150 people on  
2 these lists for 15 positions or 16 positions, and  
3 it's opened up the workforce and it's given us a  
4 broader perspective of who's available there, and  
5 it's quicker. It's more efficient, because when a  
6 district manager has 10 vacancies, then we're  
7 paying overtime and that's too much spent. We  
8 would rather fill the vacancies as quick as  
9 possible, and through, as I said, the cooperation  
10 of Secretary Minnich and Civil Service, we have  
11 been able to achieve that.

12           REPRESENTATIVE SCHWEYER: And when you  
13 open up another store in the City of Allentown,  
14 we'll have a bigger work pool to choose from. I'm  
15 kidding. Thank you very much. I appreciate it.

16           Thank you, Mr. Chairman.

17           MR. MOONEY: Thank you.

18           MAJORITY CHAIRMAN SAYLOR:

19 Representative Roae.

20           REPRESENTATIVE ROAE: Thank you, Mr.  
21 Chairman. And thank you, gentlemen.

22           I want to kind of go back to some  
23 testimony; some ques -- a line of questioning that  
24 was gone over a little bit ago.

25           At the beginning of this fiscal year,

1 your cash balance was \$189 million. Five years  
2 from now, that's projected to be all the way down  
3 to below \$93 million. That's on this thing here;  
4 your statement of cash receipts and disbursements.  
5 So, you're averaging \$19 million a year, that your  
6 cash balance is shrinking.

7 So, when you look at that 92-million-  
8 dollar cash balance in 2022, if that's reduced by  
9 19 million a year after that, that means five years  
10 after that date, or in 2027, you're insolvent. So,  
11 what's the plan after 2027?

12 MR. NEWSOME: Let's talk about that word  
13 insolvent first.

14 REPRESENTATIVE ROAE: I mean, you're  
15 going to be out of money. Your expenses are more  
16 than what you have to pay your expenses.

17 MR. NEWSOME: First of all, this is a  
18 projection.

19 Second of all, it is based upon sending  
20 \$185 million to the General Fund on an annual  
21 basis.

22 REPRESENTATIVE ROAE: Well, hold on.  
23 Every time we talk about privatizing the system,  
24 everybody that works there, everybody on the board,  
25 all the managers, they always say, well, they're

1 giving the state 185 million a year.

2 So, if we don't privatize the system,  
3 you're saying that we aren't necessarily gonna keep  
4 getting that 185 million a year?

5 MR. NEWSOME: No. What I'm saying is,  
6 this projection reflects \$185 million a year going  
7 to the General Fund.

8 What we're not saying is, we -- it's  
9 simply a projection at this point. As couple  
10 members of the committee have indicated, some of  
11 these numbers are flat. We get through this year  
12 and the next year, actually, there will be another  
13 -- we'll sit before you a year from now and these  
14 number will be different.

15 REPRESENTATIVE ROAE: Now, if money gets  
16 tight--I think I know the answer to these  
17 questions, but I just want to make sure--no matter  
18 what, you guys are going to pay your paychecks to  
19 the employees, right?

20 MR. NEWSOME: This is --

21 REPRESENTATIVE ROAE: Right?

22 MR. NEWSOME: This has nothing to do  
23 with our paychecks.

24 REPRESENTATIVE ROAE: I'm saying, if the  
25 LCB starts running out of money, the money that you

1 do have, you'll absolutely pay the paychecks to the  
2 employees, right?

3 MR. NEGRA: Sure. I think we have an  
4 obligation to do that.

5 REPRESENTATIVE ROAE: Okay. And I  
6 thought that's what the answer --

7 I assume you're going to pay your  
8 vendors. When you buy liquor, you'll pay your  
9 vendors, right?

10 MR. NEGRA: Yes.

11 REPRESENTATIVE ROAE: Okay. And then  
12 you'll pay the rent on the stores that you rent,  
13 right?

14 MR. NEGRA: Yes.

15 REPRESENTATIVE ROAE: Okay. And you'll  
16 pay the 185 million a year to the state, right?

17 MR. NEWSOME: Not necessarily.

18 REPRESENTATIVE ROAE: Okay. That's what  
19 I'm getting at. So --

20 MR. NEWSOME: And that's where I want to  
21 go with this as well. At some point in time, which  
22 is basically every year, we have a conversation  
23 with the Budget Office, and these numbers --

24 Simply, we don't put these numbers in  
25 here. These are the numbers that they are

1 requesting of us. And we've had these internal  
2 conversations.

3 REPRESENTATIVE ROAE: Excuse me. I  
4 apologize, sir. But we only have a limited amount  
5 of time with the clock.

6 I guess my point is, sales are at 2.097  
7 this year. They're gonna grow to 2.78 million by  
8 2022. So they're going to have go up, you know,  
9 \$381 million, but this year we're gonna get  
10 185 million transferred to the General Fund. In  
11 five years from now we're going to get 185 million  
12 transferred to the General Fund. The sales are  
13 going up, but what we get isn't going up.

14 I mean, it looks like the salaries and  
15 benefits going up. The rent the landlords get,  
16 that's going up. The vendors that you buy alcohol  
17 from, that's going up.

18 How come we're stuck at 185 million, and  
19 everybody else is getting more from your higher  
20 sales?

21 MR. MOONEY: Representative, what we  
22 haven't gotten on the record, and nobody's asked us  
23 today is, what are you doing in response to that.  
24 So, we're not sitting back looking at these numbers  
25 and say, this is going to be tough.

1           We are looking at changing the marketing  
2           direction. We are looking at putting a new  
3           eCommerce platform together. Our eCommerce sales  
4           are \$2 million beyond a year. Frankly, I'm going  
5           to be, as executive director, that's pathetic. We  
6           want to grow that to 50 million.

7           We're opening up a 26,000-square-foot  
8           new eCommerce store by Labor Day. We want to do  
9           third-party delivery. We want to do same-day  
10          delivery in the stores. We want to attract new  
11          customers and get foot traffic back in the store.  
12          Everybody wants it delivered to their doors and  
13          their houses and their apartments. Nobody wants to  
14          drive.

15                 REPRESENTATIVE ROAE: Sir, we're almost  
16          out of time, but I just want to ask one last  
17          question.

18                 Can you guys guarantee -- If we do not  
19          privatize you, the stores, can you guarantee us  
20          that we're gonna keep getting 185 million a year  
21          transferred to the General Fund? Yes or no?

22                 MR. NEWSOME: No.

23                 MR. NEGRA: No.

24                 REPRESENTATIVE ROAE: Okay. That's what  
25          I thought. Thank you.

1 MAJORITY CHAIRMAN SAYLOR:

2 Representative Briggs.

3 MR. NEWSOME: Answered the question.

4 MR. NEGRA: We did.

5 MAJORITY CHAIRMAN SAYLOR:

6 REPRESENTATIVE BRIGGS: Thank you,

7 Chairman.

8 I just want to thank the board members  
9 and Charlie for all the work you do for us. I know  
10 every time I call with a question or a challenge,  
11 you always get back to me with a very helpful  
12 response.

13 The King of Prussia's store is blooming.  
14 The economy is booming, King of Prussia, and more  
15 and more restaurants keep opening, so I want to  
16 thank you for that. The question -- And also, send  
17 along my regards to my former boss, Chairman  
18 Holden. Maybe he's watching, I'm not sure.

19 MR. MOONEY: He's watching.

20 REPRESENTATIVE BRIGGS: So, I had a  
21 question about, the King of Prussia store has a  
22 wine specialty. I think it's specialist expert.  
23 As somebody who did support the modernization  
24 effort and see the future as -- with direct  
25 shipping at homes, and as you were saying, the

1 eCommerce, I still think there's a very valuable  
2 component to go to in a store and shopping and  
3 getting help.

4           Could you tell us a little bit about how  
5 many stores might have that specialist, and what  
6 kind of effort is being put into that program?

7           MR. MOONEY: Yeah. We have --  
8 Representative Briggs, we have about eight -- 95  
9 stores that have what we call a retail wine  
10 specialist. They're identified by the green aprons  
11 in the store. They're very popular. Anybody who  
12 shops our stores knows that classification, and  
13 that person is very knowledge in wine, all kinds of  
14 wine, and will help you tremendously. We are  
15 looking to -- We are expanding that program.

16           Our bigger stores in your area, King of  
17 Prussia, would be a prime example: Ardmore, Fox  
18 Chapel. All the big stores, we're putting two  
19 retail wine specialists into each of those stores,  
20 so that way you're covered from basically  
21 10 o'clock in the morning until 9 o'clock at night.  
22 We have somebody that's on staff that can help you  
23 with a wine selection.

24           All our staff can help you with a wine  
25 selection. But if you're looking to do very

1 different wines, very limited luxury wines, that's  
2 our go-to person in the stores, our retail wine  
3 specialist. Very popular.

4 REPRESENTATIVE BRIGGS: And I -- Was it  
5 80 -- How many stores did you say?

6 MR. MOONEY: 95.

7 REPRESENTATIVE BRIGGS: 95 stores. And  
8 then that -- I think I asked about this when  
9 Ardmore had one a couple years ago, and it was a  
10 much smaller number, like six. It was a very small  
11 number.

12 So, you're just hoping to continue to  
13 grow that. That's great. The constituents in my  
14 area definitely like the steps that we've made, but  
15 they comment a lot about being able to go to the  
16 retail store and get a lot of help. So, I want to  
17 thank you for that.

18 And thank you, Chairman, for allowing me  
19 to ask a question.

20 MAJORITY CHAIRMAN SAYLOR:

21 Representative Boback.

22 REPRESENTATIVE BOBACK: Thank you, Mr.  
23 Chair.

24 Gentlemen, one of you had mentioned  
25 grants. And when you were asked specific, you

1 asked (sic) education grants, but it inferred that  
2 there were different kinds of grants that you give  
3 out. What are they for? Is it like money that you  
4 hand over to students? What are the grants you're  
5 talking about?

6 MR. NEGRA: I'll --

7 MR. MOONEY: I'll start it.

8 As we said this morning, Act 39 requires  
9 us to assist the wine -- the wine advisory -- the  
10 wine industry and also the malt industry. So,  
11 they're allocated. There's a million dollars per  
12 year for both of those entities, and we started  
13 that process with the malt beverage board this  
14 morning.

15 We return money to municipalities  
16 through our licensing fees that are collected in  
17 the application fees. We do that on a -- every two  
18 years. We're getting ready to do that again this  
19 year.

20 Grants? The drug and alcohol industry,  
21 we have 2 point -- I think Member Newsome,  
22 \$2.5 million we give to -- it's DDAP, and they use  
23 the funds as they see fit for education and for  
24 rehabilitation and treatment.

25 REPRESENTATIVE BOBACK: So when you

1 talked about the malt grants that you awarded or  
2 you will be awarding decided on today, what does  
3 that go to? Like, a new -- somebody who is just  
4 beginning a malt business in the state --

5 MR. NEGRA: No.

6 REPRESENTATIVE BOBACK: -- and this will  
7 assist them?

8 MR. NEGRA: Various tourism type of  
9 grants for, like, brewery tours, or little short  
10 movies; something that can help drive people into  
11 Pennsylvania and promote the malt beverage industry  
12 much like what we do with the wine industry.

13 We also -- Getting back to grants,  
14 there's a lot of education grants that will give  
15 various -- various school groups. At one point in  
16 time -- I'm from State College. So we had RA  
17 grants that would help educate and help try and  
18 reduce binge drinking.

19 A lot of our newest program that we have  
20 done in alcohol and education has to do with a  
21 program called Know When. Know How, and that is  
22 really focusing on children from the years 8 to 12,  
23 and trying to reduce their alcohol intake. You  
24 might go, whoa, wait a minute. What are you  
25 talking about, 8 to 12 years old?

1           There's about a third -- I believe the  
2           number is a third of kids who are 8 years old have  
3           tried alcohol. So what we're trying to do is  
4           provide the parents of those kids another tool and  
5           to help them start that conversation with those  
6           children. So, there's grants that go out to  
7           various community groups throughout the state that  
8           helps them deliver that message as well.

9           REPRESENTATIVE BOBACK: I'm happy to  
10          hear that. And you said that all came through Act  
11          39?

12          MR. NEGRA: No. We've been doing this  
13          for -- for a while. I've only been on the board  
14          for four years, but I'm not sure exactly how long  
15          we've been doing that. But that money has always  
16          been targeted as part of our mission.

17          MR. NEWSOME: And don't forget, we have  
18          -- we have full-time employees that are dedicated  
19          to alcohol education. So we -- we've been doing  
20          this for many, many years. You're just talking  
21          about grants, but this is an ongoing program for  
22          us.

23          MR. NEGRA: Act 39, the grants that came  
24          out of Act 39 was the wine tourism, and then what  
25          came in behind that is another act was the malt

1 beverage. Both of those are a million dollars per;  
2 per year.

3 REPRESENTATIVE BOBACK: Thank you.  
4 Thank you for your explanation.

5 Thank you, Mr. Chairman.

6 MAJORITY CHAIRMAN SAYLOR:  
7 Representative Flynn.

8 REPRESENTATIVE FLYNN: Thank you, Mr.  
9 Chairman.

10 My question for the board is, how many  
11 employees does the PLCB employ?

12 MR. NEWSOME: We -- We have full time  
13 5,400 right now, roughly.

14 REPRESENTATIVE FLYNN: So that's total  
15 employees?

16 MR. NEWSOME: Oh, full time, that's a  
17 different number.

18 MR. NEGRA: Total employees as of today  
19 is 5,400.

20 REPRESENTATIVE FLYNN: I kept hearing  
21 you say over and over again, the PLCB operates like  
22 a business; an independent business. So that's  
23 around 5,000 employees. What's the average salary?

24 MR. MOONEY: That's a good question.  
25 Starting salary is \$12.36. I believe a Clerk 1,

1 which is the first full-time level in the store, is  
2 around 18, 18.50 an hour. Then you get into  
3 management. That goes up into -- There's grades of  
4 management. The point is, it goes up into the high  
5 20s; up into the 30s and 40s.

6 REPRESENTATIVE FLYNN: So these jobs  
7 actually become family-sustaining jobs; not like  
8 cashier jobs that are part time for high schoolers  
9 or a Walmart-type cashier? These are family-  
10 sustaining jobs that are operating independently  
11 that are owned by the state, basically. It's an  
12 independent business.

13 What are the -- For our viewers, what is  
14 this costing the taxpayer for, let's say, pension;  
15 let's say health care? How much is this weighing  
16 down the taxpayer?

17 MR. NEGRA: Percentage-wise, I think  
18 we're at 79 percent of benefits to -- benefits to  
19 wages. So, for every dollar in a wage, the  
20 benefits behind that are 79 percent. Keeping in  
21 mind that we pay that.

22 However, on our balance sheet -- Our  
23 balance sheet is a microcosm of the Commonwealth as  
24 a whole. You see long-term liabilities that have  
25 stretched into the millions and multi -- hundreds

1 of millions of dollars. How that's calculated is a  
2 great question.

3 It's not necessarily -- If we were an  
4 independent agency, period, with our expenses only,  
5 I don't know. I've never done that exercise, but I  
6 would be very interested to see where our balance  
7 sheet would be.

8 Does that answer your question?

9 REPRESENTATIVE FLYNN: What's it costing  
10 the taxpayer?

11 MR. MOONEY: Representative, we're  
12 self-funded. We pay our own payroll. We pay our  
13 own rent. We pay all our expenses, and we do it  
14 just like any other businesses with sales in,  
15 expenses, gross profit, expenses in, net profits;  
16 all expenses paid by the liquor board. There's no  
17 taxpayer dollars come into the Liquor Control  
18 Board.

19 REPRESENTATIVE FLYNN: Thank you.

20 MAJORITY CHAIRMAN SAYLOR:

21 Representative Costa.

22 REPRESENTATIVE P. COSTA: Thank you, Mr.  
23 Chairman. And thank you for allowing me to  
24 participate in these hearings.

25 Gentlemen, thank you all for being here.

1 Tim, if you're out there watching, get well. I  
2 have a couple of questions for you.

3 The first one is: For several years,  
4 you gentlemen have approached us about flexible  
5 pricing. We finally were able to give that to you.  
6 Can you tell me how it's going and how we can  
7 actually improve on that?

8 MR. NEWSOME: It's going very well. I  
9 don't exactly -- I'm sure someone has transcripts  
10 of what we said last year. But it probably went  
11 something like this: Give us some time to have it  
12 work into our business, and we'll report to you  
13 next year.

14 REPRESENTATIVE P. COSTA: I guess my  
15 question is, that's one of the things that you guys  
16 have always requested. What are some other things  
17 that we can do to help you increase your profits  
18 and convenience to the consumers?

19 MR. NEWSOME: Great question.

20 The flexible pricing allowed us to -- to  
21 actually have flexible pricing on our top 150  
22 brands. The one thing we'd like -- We'd like to  
23 have that flex -- flexible pricing on all of our  
24 products. That's something that we think is very  
25 important to, not only help us manage our business

1 the way we're doing the top 150 brands, but even  
2 working with our suppliers. It gives us an  
3 opportunity to be consistent across the board. So  
4 that's one area that would really be helpful.

5 REPRESENTATIVE P. COSTA: Thank you.  
6 We'll work with my Chairman and see if we can help  
7 on that end.

8 Next I'd like to talk about the dead  
9 licenses. I call them zombie licenses. So far I  
10 know we've had four auctions, and we're in the  
11 process of having the fifth. Now, I also know  
12 that, during that process, not every license was  
13 bid on.

14 So, when you guys finish doing your  
15 cycle of the auction process, is there an  
16 opportunity to move those licenses to other areas  
17 and auction them off again?

18 MR. NEGRA: Well, I think that's your  
19 call. I mean, if you tell us that that's -- that  
20 that's what's going to happen, then -- then we'll  
21 do that. I think it's problematic on a number of  
22 different levels.

23 If we're moving auction -- say licenses  
24 out of Elk County into -- into Bucks County, first  
25 of all, Bucks County might not -- might not like

1 that. They might say no, I don't want those  
2 licenses.

3 REPRESENTATIVE P. COSTA: Good point.

4 MR. NEGRA: And then the guy that has --  
5 that has an R license in Elk -- in Elk County that  
6 might only be worth 10,000 or 15,000 might raise  
7 his hand and go, hey, can I sell my license to  
8 somebody in Bucks County on an individual basis?

9 So, I think it's problematic. But, I  
10 think that -- that's why you get paid the big  
11 bucks.

12 (Laughter).

13 REPRESENTATIVE P. COSTA: I wish. Then  
14 my last part is more of a comment than a question.

15 But, I've been Democratic Chair. This  
16 is my sixth Appropriations Committee with the  
17 liquor control. I'm looking back at the records,  
18 and six years ago you guys were asked to present  
19 \$85 million to the General Fund, and there was  
20 questions back then, could you make that payment?  
21 Now we're already up, the last year was  
22 217 million. So, I'm fully confident that you guys  
23 will be able to move forward.

24 Nobody can predict the future. Five  
25 years from now, you guys may be delivering direct,

1 you know, from your store to homes. You may be  
2 selling marijuana. I mean, there could be several  
3 things could be happening in five years now. So,  
4 to answer the previous question -- See where I'm  
5 going there?

6 MR. NEGRA: We're ready.

7 REPRESENTATIVE P. COSTA: Who can  
8 predict what's going to happen five years from now.  
9 And I think that would be a great move.

10 Gentlemen, once again, thank you so much  
11 for participating today.

12 MR. MOONEY: Representative Costa, we  
13 have the infrastructure in place.

14 REPRESENTATIVE P. COSTA: I've always --

15 MR. MOONEY: We want to talk about  
16 cannabis, the stores are ready to go. We'll carve  
17 out some room.

18 But, all seriousness, we're in  
19 discussion with an organization we call NACA, which  
20 is an organization, all the control states across  
21 the country. There are many of those states  
22 looking into cannabis.

23 We've talked to the LCBO several times a  
24 year up in Canada and Toronto. They are currently  
25 setting up 150 outlets for cannabis, and they

1 decided to do it outside their exiting store  
2 structure. So, I think, my opinion, we'll been one  
3 of the last, if ever, to go in that direction, but  
4 it is on a national discussion from corner to  
5 corner.

6 REPRESENTATIVE P. COSTA: And I echo  
7 what you said. I said that all along that we, in  
8 Pennsylvania, already have the infrastructure set  
9 up with the over 600 stores that you have to be 21  
10 to come in. You do have purchasers. We have the  
11 whole system set up. We can operate in day one if  
12 it ever does become legal.

13 So, thank you, gentlemen.

14 Thank you, Mr. Chairman.

15 MAJORITY CHAIRMAN SAYLOR: Paul, I think  
16 you -- Representative Costa, I think you may have  
17 just wrote the headlines for tomorrow--  
18 Representative Costa says the LCB is selling  
19 marijuana. Anyway --

20 MR. NEGRA: Have to change our signs.  
21 That's all.

22 MAJORITY CHAIRMAN SAYLOR: -- be ready  
23 for those media calls.

24 Chairman Adam Harris.

25 CHAIRMAN HARRIS: Good afternoon.

1 That's a tough act to follow.

2 Let's talk a little bit more about the  
3 wine expanded permits. Obviously, that was a big  
4 change here in Pennsylvania. It might seem  
5 incremental for other states, but for us to have  
6 wine in our grocery stores was a big deal.

7 You had mentioned is probably hurt foot  
8 traffic. I'm sure you said it may hurt the  
9 everyday wine sales. What about the spirit sales?  
10 Have we seen those decline? Obviously, if I was in  
11 the spirits business, and the 606 stores were my  
12 only game, I would be very concerned if those  
13 products were now dragging people out of those 606  
14 stores and hurting our sales.

15 MR. NEWSOME: Well, the numbers from  
16 '16-17, they were up, but certainly not up as much  
17 as we would have expected. Foot traffic,  
18 obviously, impacts the spirits sales.

19 Wine sales were up for the last fiscal  
20 year 5 percent. Spirit sales were up 3 percent.  
21 But we -- we anticipate a slowing of that increase.

22 MR. NEGRA: I mean, it's taken a hit. I  
23 mean, if you're in our store and that was the only  
24 place you could buy wine, and you saw a bottle of  
25 gin or vodka or whatever, you said, oh, my bar

1 needs that, then you'd make -- you quite possibly  
2 could make that impulse purchase.

3 Now if you're buying that wine from a  
4 Wegmans, a Giant, Giant Eagle, or whatever, you're  
5 not in our store and now it's a separate trip. And  
6 so, by all means, we've been impacted. Are we  
7 down? No. Are we up as much we were? No.

8 REPRESENTATIVE HARRIS: Okay. That's  
9 somewhat good to know, but, obviously, watching  
10 that forward will be important.

11 One other question -- or question I had  
12 is, for me as a consumer I'm very happy with the  
13 system. I make probably a couple dozen trips a  
14 year, I can find the things. But when I talk to  
15 licensees a lot of times, their issues are more  
16 complex. And certainly, what they've been asking  
17 for is some sort of eCommerce system where we can  
18 ship directly to them.

19 I know you had mentioned something. If  
20 you could maybe elaborate a little bit on what you  
21 said was opening before Labor Day. Obviously, they  
22 come to us and they say, I have my food shipped to  
23 me. I have my beer shipped to me. I would love to  
24 have my LCB products available in that same format.

25 MR. MOONEY: Representative Harris, we

1 -- we ship today. We have an eCommerce store  
2 that's functional and working. We've been in  
3 operation for seven or eight years. You can go on  
4 there today and have products shipped either to  
5 your local store or shipped right to your house.

6 We just need to do it better. We need  
7 to put a better -- we're limited to, like, 1500  
8 SKUs, and we're in a small location. We need to  
9 put our whole portfolio in there.

10 MR. NEGRA: And on the note as far as  
11 licensees are concerned, we've -- we've had Doug  
12 Hitz, who's in charge of our wholesale operation.  
13 We've charged him with the idea of coming up with a  
14 third-party delivery concept so that we can deliver  
15 directly to our licensees. Whether that's going to  
16 come from our eCommerce platform, more than likely  
17 it needs to be. It needs to have a foundation in  
18 terms of where that comes through. LOOP can't  
19 handle that.

20 REPRESENTATIVE HARRIS: That is  
21 absolutely what we hear from our licensees. The  
22 LOOP is not adequately handling what they're trying  
23 to do.

24 MR. NEGRA: Exactly.

25 MR. MOONEY: We agree.

1           MR. NEGRA: So but we're making moves.  
2 ECommerce is our number 1 priority in terms of --  
3 from an I.T. standpoint. We're spending a lot of  
4 money on it.

5           REPRESENTATIVE HARRIS: You led me  
6 directly to my last and final question. I know  
7 this is a big upgrade. Do you have any -- I mean,  
8 it's early in the game. It's probably hard to  
9 ballpark. Do you have any idea how much this will  
10 likely cost?

11          MR. NEGRA: The entire eCommerce lift?  
12 I hate -- I'd like to get back to you on it, to be  
13 honest. I can give you a range.

14          REPRESENTATIVE HARRIS: That's fair. A  
15 range would be fair.

16          MR. NEGRA: It's probably somewhere  
17 between a 5 and 7-million-dollar lift.

18          REPRESENTATIVE HARRIS: Okay.

19          MR. NEGRA: Now, on top of that might be  
20 customer -- customer relations management. You  
21 know, as -- In typical I.T. projects, you get this  
22 and you go, gosh, I want that, and we're going to  
23 stay away from customerization. We're going to  
24 make this as efficient as possible.

25                 But there are things that we need to do

1 and so many of the initiatives that Charlie talked  
2 about are all tied to that. And so, that's why  
3 it's our first priority. Serving our licensees,  
4 they're 25 percent of our business. It's an  
5 important part of the mix that we have going  
6 forward -- or today and going forward, and we want  
7 to make sure that that relationship is a win-win  
8 scenario.

9 MR. MOONEY: Representative, as Mike  
10 mentioned, too, we have a wholesale division set  
11 up, bureau set up. The webs, the grocery stores  
12 have -- the number of grocery stores opening per  
13 six months or per quarter has leveled off to some  
14 degree. The grocery stores took all the easy  
15 stores and put the wine in. Now they're looking at  
16 infrastructure cost to put a section of wine in.  
17 It slowed down.

18 My point is, our wholesale operation is  
19 reaching out to larger licensees and talking to  
20 them individually. We have talked to the parent  
21 companies of Applebee's and TGI Fridays and all the  
22 large ones, and we're now going down into the  
23 smaller ones and saying, what can we do for you?

24 REPRESENTATIVE HARRIS: Great. One last  
25 question quickly if I could. What number are we up

1 to on the webs now? What's the most current?

2 MR. MOONEY: We are at, total 362.

3 That's 260 grocery stores and a hundred convenience  
4 stops -- shops.

5 REPRESENTATIVE HARRIS: Excellent.

6 Thank you all very much.

7 MAJORITY CHAIRMAN SAYLOR:

8 Representative Markosek.

9 MINORITY CHAIRMAN MARKOSEK: Thank you,  
10 gentlemen. I just want to say, the best thing you  
11 ever did was put in the Chairman's Select because,  
12 as soon as I walk in the store, I figure, hey, I'm  
13 the Chairman --

14 (Laughter).

15 MINORITY CHAIRMAN MARKOSEK: -- so thank  
16 you.

17 MAJORITY CHAIRMAN SAYLOR: Not that our  
18 egos ever get ahead of us here in the General  
19 Assembly.

20 MR. NEGRA: That's your last --

21 MAJORITY CHAIRMAN SAYLOR: I don't know  
22 what he's going to say next year when he's no  
23 longer here and he's not Chairman anymore. We'll  
24 have to create a special section called the Joe  
25 Markosek section.

1                   But, anyway, I want to thank the  
2 gentlemen for coming in. We are going to have a  
3 second round with Representative Kinsey, but since  
4 he's not back, we're going to adjourn this hearing  
5 until 3 o'clock when we will have the Department of  
6 Veterans and Military Affairs before us.

7                   Gentlemen, again, thank you very much  
8 and send our best wishes to Mr. Holden.

9                   MR. NEGRA: Thank you.

10                  MR. MOONEY: Thank you, Chairman.

11                  MR. NEWSOME: Thank you.

12                  (Whereupon, the Appropriations hearing  
13 concluded).

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C E R T I F I C A T E

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