

## **Testimony to the House Liquor Control Committee**

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Chairman Metzgar, Chairman Deasy and members of the House Liquor Control Committee:

Thank you for the opportunity today to testify on behalf of my members, the nearly 3,500 women and men who work for Pennsylvania's Fine Wine and Good Spirits stores. These are the workers who have helped generate an \$813 million return to taxpayers last year. These are the women and men who – during incredibly challenging times during this pandemic – kept the Fine Wine and Good Spirits stores running. These are the folks who ensure that minors and inebriated persons don't get their hands on alcohol and provide the valuable customer service for Pennsylvanians across this Commonwealth.

In terms of the constitutional amendment to privatize both the wholesale and retail distribution of wine and spirits in the Commonwealth, which we understand is the goal, that amendment would have to address or result in:

- the elimination of thousands of jobs
- revenue losses to the Commonwealth
- impacts on family-run beer distributors
- impacts on thousands of licensees in the state
- revenue transfers to the Pennsylvania State Police, drug alcohol programs and college universities
- major changes on pricing and taxes
- a potential loss of service in rural areas of the state because we do not know how viable full service liquor stores in those areas,
- the impact on the state pension system and the cost to taxpayers,
- impacts on public health and safety
- new challenges for law enforcement
- the impact on licensing
- the impact on the three tier system and so much more.

It is extremely difficult to provide any analysis or testimony without understanding what former or future privatization bill the legislature is basing its constitutional amendment approach off of. Also, we would want to know how it would address all of those issues I previously listed so we could give you an accurate analysis how it impacts each area.

But we will try our best to provide answers to your questions. What we can summarize very quickly is testimony we submitted in 2011 in the House Liquor Control Committee and in 2013 in the Senate Law and Justice Committee on what we saw were the flaws in both of those privatization attempts during that period. We have submitted our past testimony from both hearings for the record.

Since this a House hearing, I'll focus in on that series of hearings then. In 2011, the privatization bill that received the most attention was House Bill 11 where a series of 4 hearings were held by then Chairman

John Taylor to vet that legislation. During that time, former Governor Corbett hired a firm – PFM – to analyze the impact of House Bill 11 on Pennsylvania. Through testimony and their report, the following was found:

- House Bill 11 replaced the current tax structure on wine and spirits by substituting in what was called a “gallonage tax”. Through hearings and testimony, this would have increased prices and taxes on Pennsylvania consumers and taxpayers as a result of that provision. **PFM – the firm hired by then Governor Corbett to evaluate liquor privatization – stated “a converted gallonage tax to raise the same amount of revenue as existing taxes would be the highest in the nation for wine, and for spirits would rank 14<sup>th</sup>”.**
- They also said that, in the event that any tax structure would be placed in a privatization bill, that “as noted, in the section on taxes, the order of operations (where taxes are calculated in relationship to the price of the product) can have a material impact on the tax burden and final price to consumers”
- PFM stated: “A review of Iowa’s experience 10 years after privatization reached the following conclusions: Price increases were gradual and totaled 7.4 percent above what they would have been if the state retained their stores”.
- PFM stated: “In locations with less competition, markups and final prices would likely be higher” showing disparity on rural communities versus more populated areas.
- PFM stated: “Consumer convenience does not, by itself, guarantee broad selection to the consumer. For example, big box stores, membership club stores, drug stores, and convenience stores would likely stock popular brands with a smaller selection beyond them”.
- PFM also stated it would cost the state \$1.4 billion in transition costs over 5 years to unwind the system. We’ve included the full report for your review.

Of course throughout 2011 until now, various privatization bills have been introduced, vetted and analyzed. Without knowing what iteration of privatization you are proposing, it is impossible to give you further analysis other than what other states experienced. I’ll point to the experience in the last 3 states that did go through with privatization:

Let’s look at Iowa first from the 1980s. In just three years, after wine was privatized, revenues dropped by \$20 million annually. Revenue dropped by \$4 million in Year One; by \$12 million in Year II and, finally, by \$20 million in the third year of private control.

Iowa’s experience in privatizing the sale of spirits was equally disastrous. Retail liquor in Iowa was privatized in 1987. In the first year private control of liquor sales, the Iowa Alcohol Beverage Department’s contribution back to the state dropped by \$18 million to \$46.3 million.

In West Virginia, funds from the West Virginia Alcohol Beverage Control Administration (ABCA) were also steadily increasing before wine privatization in 1981. Between 1970-71 and 1980-81, ABCA’s contribution to the state rose from \$13.6 million to \$21.8 million.

In the first year under a private system, ABCA’s contributions dropped by more than \$2 million to \$19.1 million. By 1989-90, the last year before West Virginia also went to retail liquor privatization, the contribution plummeted to \$9.7 million.

Washington State was the most recent to privatize and the results were disastrous: higher prices, more shoplifting and the highest spirits taxes in the nation. A quick Google search of Washington State liquor privatization shows the aftermath of that experience. I will cite just two of the many media reports out there:

- Voters in Washington State are paying anywhere from 10 percent to 30 percent more for wine and spirits since that state privatized last year. [Huffington Post, 6/2/12]
- The private wholesale markup in WA has been as high as 72% - more than double the PLCB. [Reuters, 6/2/12]

In fact, a study conducted by the Alcohol Research Group five years after the state of Washington privatized their liquor stores stated:

“Washington State residents who voted in favor of privatizing liquor sales were eight times more likely to express a desire to change their original vote than residents who voted against the measure, according to a study from the Alcohol Research Group, a program of the Public Health Institute, published today in the Journal of Studies on Alcohol and Drugs.

Findings suggested that 20 percent of individuals who voted in 2011 to end the government monopoly on liquor sales have changed their minds after living with the impact of the initiative for the past few years. Initiative 1183, which came into effect in July 2012, called for closing state-run liquor stores and allowing state licensing of private retailers.

“Our study not only shows that many people changed their minds about privatization, but more importantly, those who now say they wish they had voted no might have been a large enough group to defeat the measure in 2011, had they known its real impact at the time,” said lead author Meenakshi Sabina Subbaraman, Ph.D., a biostatistician with the Alcohol Research Group.”

There is so much more we could go into. Once there is an actual proposal to analyze, we hope this committee will schedule more hearings and allow for more public input. This would be consistent with the process from prior sessions when full privatization was discussed as a significant policy issue.

There is a lot more ground I could cover here, but this is what I wanted to end on: this is a significant, major policy issue that has many facets. Scores of Pennsylvania businesses, thousands of workers and their families and hundreds of millions in state revenue face enormous impacts under any privatization scheme.

We simply ask that this process be reconsidered. We are happy to testify at any time about any issue, and our members will continue to welcome being brought into the legislative process as long as we are invited. Thank you.