

Privatization of State ABC Monopolies: Policy Issues and Outlook



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Context: ABC Systems & Privatization



- After repeal of Prohibition in 1933, 32 states opted for private sector wholesale and retail for alcohol
- 18 states have maintained wholesale and/or retail alcohol monopolies
 - *Spirits*: 18 states
 - *Wine*: 4 states (MS, NH, PA, UT)
 - *Beer*: 1 state (UT)
- Wholesale spirits monopolies in 17 states
 - Maine 10-year contract w/private operator for wholesale system

Context: ABC Systems & Privatization



- Retail in Control States
 - State-run stores: 8 (AL, ID, NH, NC, PA, UT, VA, WA)
 - *Exclusively use state stores: 3 (NC, PA, VA)*
 - Agency/Contract stores: 9 (ID, ME, MT, NH, OH, OR, UT, VT, WA)
 - *Exclusively use agency/contract stores: 5 (ME, MT, OH, OR, VT)*
 - Private Outlets: 6 (AL, IA, MI, MS, WV, WY)
- Wholesale in Control States
 - 5 states wholesale only (IA, MI, MS, WV, WY); no retail
 - Two of these states—Iowa (1987) & West Virginia (1990)—have transitioned to entirely privatized ABC retail operations

What's Driving Interest in ABC Privatization Now?



Prior to 2009, little major action outside of WV, IA & ME. What changed?

- *Widespread state fiscal crises*
 - NCSL: projected state deficits of \$149.4B through FY2013
 - NGA/NASBO: “lost fiscal decade” for states
 - Renewed focus on government streamlining, reducing government involvement in non-core activities
- *Governments increasingly leveraging/monetizing assets*
 - Examples: Indiana Toll Road, PA Turnpike, Chicago Skyway, muni parking systems (Chicago, Indy), muni water systems
- *In tough economy, growing sentiment that government should not compete against private enterprise (e.g., “getting government out of the business of business”)*

Recent State Activity on ABC Privatization



WA State

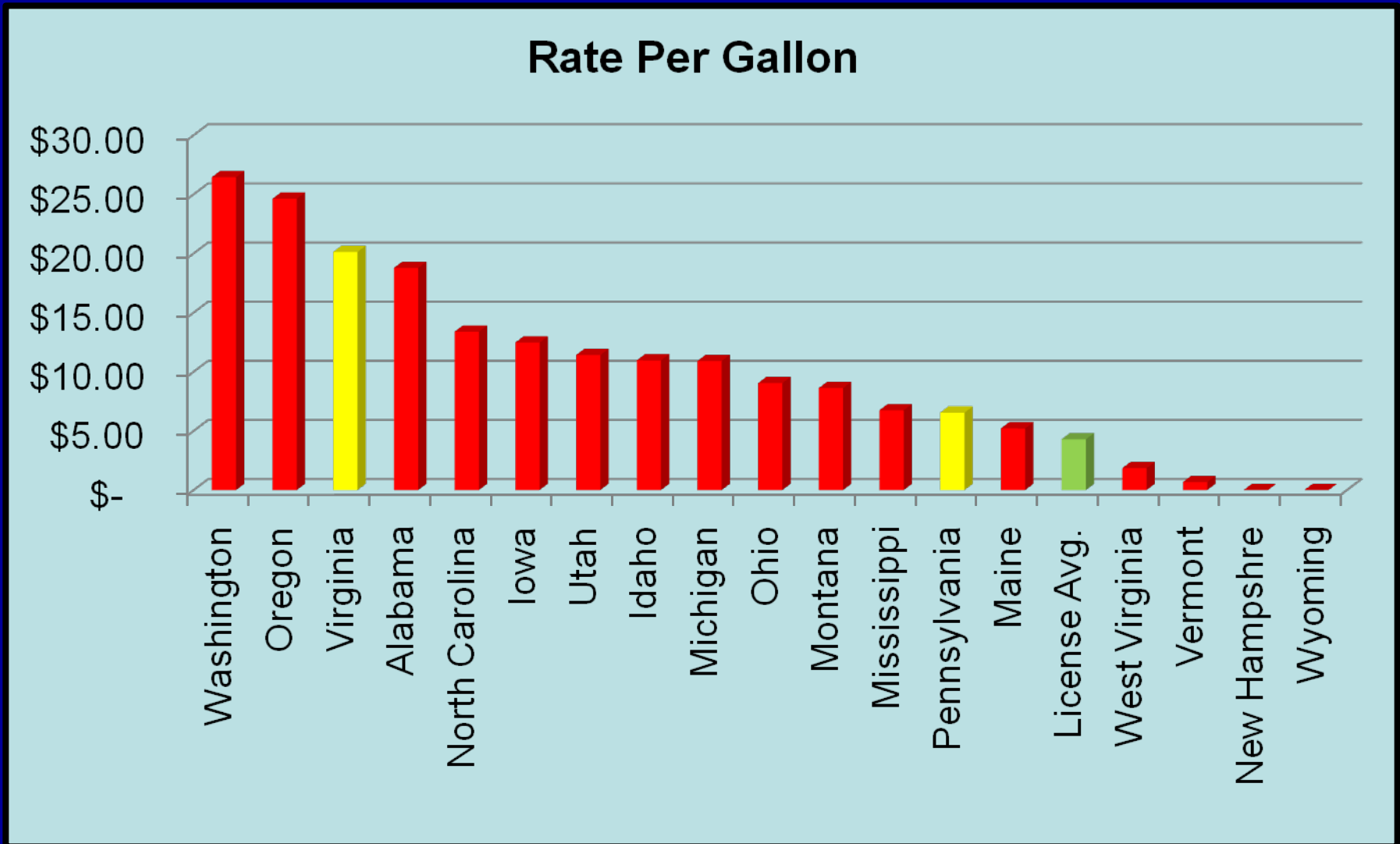
- Two ballot measures (I-1100, I-1105) defeated in Nov 2010
- 2011 legislation introduced

Virginia

- Original 2010 McDonnell administration proposal for full wholesale and retail privatization failed to advance
- PFM Group report to Gov. McDonnell (2011):
 - Recommended full retail privatization over contract-agent model
 - Reduce state markup from 69% to 50%
 - *Upfront Payments*: license auctions would net an estimated \$200-400M (one-time)
 - *Revenue Neutrality*: estimated fiscal benefit of \$13M in additional receipts annually.
- 2011 legislation stalled in Gen. Assembly



Implied Excise Tax Rates: VA vs. PA



Source: DISCUS testimony to Gov. McDonnell's Commission on Government Reform and Restructuring, Sept. 2010.

Myth: “Privatization = Loss of State Control”



- All states control alcohol
 - Some use state wholesale/retail monopolies (control states)
 - Others use direct regulation (license states)
- Control states only control a small % of alcohol sold
 - Beer: ~54% of pure alcohol sold in the U.S.; 64% in PA
 - Hence, PLCB only controls 36% of alcohol sold in PA.
- Monopoly system limits access and keeps prices high?
 - In the 32 license states, regulations limit the number of alcohol outlets that are allowed.
 - License states influence pricing through state excise taxes.
- Hence, advancing wholesale/retail privatization need not imply a loss in state control.

Myth: “State sponsored monopolies generate more alcohol dollars for states”



- Revenue earned from the sale of distilled spirits is only a portion of total revenue generated from beverage alcohol (spirits + wine + beer)
- Ignores high variability among states. Average control state generated \$91.05 in alcohol-related revenues per adult in 2008, however:
 - Highest per capita revenue: Washington D.C. (license jurisdiction, \$192.64/adult)
 - 7 license states generated more alcohol revenue per adult than the control state average
 - 6 monopoly states generated less alcohol revenue per adult than the regulatory state average (\$75.83).
- 1999 Iowa Alcohol Beverage Division report:
 - Retail privatization "was a good idea and has been a financial success as well."
 - Profits increased by >\$125M in first 11 years relative to state operation.

Key Policy Issues in ABC Privatization



- **Structure**
 - retail, wholesale, both?
 - full, partial, stepped?
 - license, lease, IPO, hybrid?
- **Fiscal**
 - if/how to replace markup, excise taxes?
 - ongoing revenues to the state before and after
 - use of upfront proceeds
- **Social**
 - conflicting evidence on social “benefits” to control structure
 - operational, marketing restrictions
 - addressing local jurisdictional concerns
- **Licensing**
 - caps or no caps?
 - tiering/market balance
 - auction vs. formula?
 - minimum bids?
 - shelf space requirements?
 - retail density regs?
- **ABC 2.0**
 - transitions for current ABC employees (hiring preferences, mandates, etc.)
 - regulatory and enforcement role post-privatization
- **State Products**
 - promotion/treatment of in-state wine and spirits?



Looking Forward on ABC Privatization

- Recent political shifts suggest sustained interest in privatization
 - But details will always matter for public acceptance
- Ongoing revenues pre/post-privatization matter, perhaps more than social cost concerns
 - Use of upfront proceeds also important for public/policymaker acceptance (pensions? infrastructure? budget?)
- Prime mover could set stage for other states
 - But odd alliances of opponents—e.g., social interests, public employee unions, various industries—are a likely counterforce
- Growing acceptance of argument for non-discriminatory policies among classes of alcohol
 - “Alcohol is alcohol—why treat spirits, beer & wine differently?”

Questions?



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