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Senate Law and Justice Committee
Harrisburg, PA
Tuesday, June 4, 2013

Chairman McIlhinney, Sen. Ferlo and members of the Committee, thank you for inviting me to testify on behalf of the 3,500 men and women who work for the LCB whom I am proud to represent.

Beyond inviting me to appear, I want to thank you for convening this series of hearings. There is no doubt in my mind that members of this Committee and your Senate colleagues have learned a great deal about the true impact that privatization would have on your constituents and our Commonwealth as a whole. One witness after another has appeared before this Committee and provided members with accurate information; real facts backed up by data and research that make it clear: privatization is a bad deal for Pennsylvania.

You all know who I am and who I represent. And you all know where I stand on privatization. It is bad public policy. It makes absolutely no sense and that is why our members along with a majority of Pennsylvanians oppose it. I am going to repeat that, Mr. Chairman, because some people refuse to acknowledge the truth: a majority of Pennsylvanians oppose privatization because they recognize that it is a bad deal for Pennsylvania.

Some people in Harrisburg were surprised to see some of the latest polling. I was not. I have maintained for the past two years that the more people learn about privatization, and as more facts emerge and more evidence is presented, Pennsylvanians would reject schemes to dismantle this valuable asset. I am encouraged that so many members of the Senate understand that HB 790 – and any other privatization proposal – would be disastrous for our Commonwealth – and this is not just my opinion. As I will make clear later in my testimony, the privateers can spin all they want, but they provided not a single shred of evidence, not one honest-to-goodness fact, to back up their claims. In fact, it is clear to me that they haven't even bothered to read their own research. The facts are on our side.

The question is how did we get here? We're here because Mike Turzai, Gov. Corbett and the privateers have promised the moon and have consistently misled Pennsylvanians over the course of the last two years. Remember, Mike Turzai said the licenses could generate $6 billion. That was ridiculous when he said it, and it is ridiculous today.

Gov. Corbett and Representative Turzai continue to claim that the LCB is a failed model; that the agency is losing money; and the shops themselves are not profitable. They're dead wrong and you don't have to take my word for it. You can ask the governor's own Comptroller to come in here and testify about the financial results that she has certified. The interests who are driving this issue have been proven to be dead wrong on every single critical issue that this Committee and others have examined. They claim that prices will drop and convenience will improve. They haven't produced one study – not one single shred of credible evidence – to back up this claim.

They claim that there will be plenty of new jobs created. It's not true and their own experts whom they hired to make the case told them that at least 2,300 LCB employees will land on the unemployment line.

They ignore the experts and independent, peer-reviewed research that proves that privatization is bad public health policy.

Pennsylvanians get it. Support continues to drop because privatization just doesn't work – not for consumers, not for taxpayers, and not for our communities. I would like to touch on just a few of these critical areas and I will cite facts. I want to be as brief as possible to leave time for questions.

THE MATH

The privateers' math just does not add up. They claim that the wine and spirits shops are not profitable and that the agency's business model does not work. It's not true. A recent, independent audit by the Office of Auditor General – again – actual facts, data and evidence shows that they're just dead wrong: In addition, ladies and gentlemen, again, the governor's own comptroller has certified the LCB's results which tell a radically different story than the one Gov. Corbett has been peddling.

Here are just a few facts:

- The LCB had gross annual sales of nearly $2.1 billion in FY '11-'12 – a record number.
- Net sales increased by $86 million or 5.5 percent – the largest increase since 2007-2008.
- PLCB operating expenses increased by 0.3 percent in FY '11-'12 compared to '10-'11.
- The operating margin increased to 7.5 percent versus 6.6 percent the previous year.

- PLCB net income was $125.2 million before operating transfers. That is $21.2 million or 20.4 percent higher than the previous year.
- PLCB spirit and wine sales growth was above the national average by 60 basis points (bps) and 90 bps, respectively, for the year.
- For the year ended June 30, 2012, the PLCB was able to leverage the sales growth and expense control into a 19.7 percent increase in operating profit from state stores -- $124.7 million vs. $104.2 million.
- At the same time, personnel costs, which are 63.3 percent of PLCB operating costs, decreased by 1.7 percent.

The LCB is poised to deliver even greater returns for the Commonwealth this fiscal year. Revenue is up. Profit is up. This year, the agency is on a pace to deliver more than $700 million in taxes, profit and other transfers. That's a return that is $170 million more than the LCB contributed to the General Fund last year. The LCB is in position to transfer up to $125 million to the General Fund – again, up from $80 million last year.

This business model is sustainable – and we know this by looking at the Comptroller's certified financials. In fact, given historical growth rates and the trend line, the LCB will generate more than $1 billion dollars in the coming years, assuming a 5 percent sales growth rate.

Mike Turzai promised $6 billion for an auction of the licenses. Well, what happened? Where are we today? We're at $800 million over four years – and that, too, is a false number.

The wild estimates from an auction of licenses keep dropping and dropping. Corbett's own revised study, conducted by Public Financial Management, Inc. (PFM), issued this year is down significantly from the $1.3 to $1.9 billion promised in the initial PFM report issued just two years ago.

The estimates don't take into account the PFM study's estimated $1.4 billion in transition costs over five years, including unemployment compensation for laid off workers, expenses related to increased licensing and enforcement demands, and other costs to phase-out and liquidate the current system.

Corbett's own experts at Public Financial Management said that privatization would cost the state at least $1.4 billion in transition costs. And that does not even include increased social and criminal justice costs, or the negative multiplier effect on top of the

More Facts:

- The original Corbett PFM report calculates that there will be more than $64 million in unemployment compensation costs over the course of four years. It also calculates there will be an additional $14 million in paid leave costs for displaced employees. (Page 181-182).

- PFM's original report also estimates that there will be other residual PLCB costs, including police enforcement funding, controller operations, and transfers to Department of Health. This will be another $27-$35 million a year in costs. (Page 182)

Privatization will cost taxpayers hundreds of millions of dollars in lost revenue.

Again, if the privateers had a single study, report, audit – anything – this room would be papered to the ceiling. Where's their evidence to back up their claims? They don't have any.

The bottom line is that privatization is not revenue neutral. Privatizing even a slice at a time jeopardizes $103 million-plus in profits that the LCB transferred to the Commonwealth last year and is on pace to top that contribution this year. With the state already looking at a $500 million General Fund shortfall, does it make any sense to essentially dismantle an asset that generates that kind of money?

I would urge Committee members to look at the experiences in Iowa and West Virginia.

Let's look at Iowa first. 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 liquor privatization was equally disastrous. Retail liquor in Iowa was privatized in 1987. In the first year private control of liquor sales, the ABD's contribution dropped by $18 million to $46.3 million.

In West Virginia, funds from the West Virginia Alcohol Beverage Control Administration (ABCA) also were 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.

IMPACT ON CONSUMERS

Now, I'd like to focus on consumers – your constituents – the vast majority of whom do not, frankly, understand why we are even having this debate. The polls show that privatizing the LCB consistently ranks near the bottom of all issues that voters want Harrisburg to focus on.

The latest F&M poll put 11 issues to the voters and the bottom two in terms of priorities were privatizing the lottery and the LCB. Still, here we are. So, Gov. Corbett says that prices will go down and selection will improve. Not true:

- 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 Washington has been as high as 72 percent - more than double the PLCB. [*Reuters*, 6/2/12]
- After Iowa privatized, "Price increases were gradual and totaled 7.4 percent above what they would have been if the State had retained its stores". (PFM, Page 235)

Gov. Corbett proposes to eliminate the buying power of the PLCB. This will lead to higher acquisition prices for private wholesalers. Corbett's plan would impose a private wholesale markup, the 18 percent liquor tax, and a private retail markup on your constituents.

And this is not new: Gov. Ridge's 1997 Price Waterhouse Study projected the combined wholesale and retail markups under a privatized system to be at least 49 percent for wine and 44 percent for spirits. Those markups are significantly higher than the 30 percent markup under the current system

<u>JOBS</u>

Corbett and his allies say that displaced workers will find new jobs and until very recently – last month, in fact – the big chain stores were making the same claim: privatization will create jobs. Not true. Again, look at their own study: PFM says that 2,300 full-time equivalent employees will go on unemployment compensation and virtually no new jobs will be created. None.

PFM did not include the thousands of employees of our state's beer distributors who could lose their jobs. Here's what PFM told the governor in its report:

- QUOTE, "Minimal workforce will be hired by existing retailers, who will make up the majority of the licensees.
- 2,302 full-time equivalent employees who work for the PLCB will go on unemployment. (Page 179)
- "Employees in rural counties will have fewer opportunities for state reemployment." (Page 201)
- Big box/large grocers "have sufficient existing employees to manage the registers and will tend to reallocate store space." (Page 178)
- Drug Store/Convenience "will also reallocate store space and therefore hire additional minimal staff." (Page 179)
- Small retailers "will also be unlikely to create a large number of jobs." (Page 179)

- Other/Miscellaneous outlets "will also be unlikely to create a large number of jobs." (Page 179)
- "Since PLCB currently contracts out the majority of wholesale operations, the number of net jobs created is likely to be minimal." (Page 179)"

Beyond PFM, we know that there will be no wave of new jobs because we know what happened in West Virginia and Iowa and we know what is going in right now in Washington State.

We have provided back-up materials for the Committee's review. I do want to read one sentence from a recent media report from Washington State:

"According to the state Liquor Control Board, 19 small liquor stores have been forced to close their doors since last June, while 21 others never even opened. Two more small liquor stores on Whidbey Island are close to going under while a liquor store in Everett is just days away from closing up shop."

These small, Main Street businesses have been driven under by the big chain retail operations. When Gov. Corbett or the retailers' trade associations suggest that privatization will be great for small businesses, please ask them how PFM got it so wrong? Ask them why they expect the experience in PA to be any different? They have no evidence to back up their claims.

SOCIAL IMPACTS

And they can't begin to refute a mountain of independent studies and peer-reviewed research that clearly demonstrates that privatization is not good for our communities and is reckless public health policy.

The privateers apparently have decided to ignore the research – or in the case of the Commonwealth Foundation – to create new ways to conduct research so the results fit their political needs.

I am not asking you to believe me. I am not a public health professional and I am not independent. But I can read and I can listen. The Governor likes to say, and this is a quote, "I have not had one person . . . tell me this is a mistake." I hope he is listening by now because we've all heard from, among others: MADD, SADD, PA DUI ASSOCIATION, the NAACP, first responders, healthcare professionals, and clergy from every denomination concerned about the impact in our communities.

I am sure that every member of this Committee is aware of the U.S. Centers for Disease Control and Prevention Task Force's recommendation against privatization because it encourages binge drinking and negatively affects public health.

Right now, in Washington State, officials are dealing with the fallout:

- Increased liquor theft, especially among minors. Some cities have seen increases in liquor theft as high as 340 percent more than this time last year.
- Sales to minors, with the big box retailers in Washington such as Safeway, Fred Meyer, Walgreens and Walmart leading the way.
- Organized crime rings stealing liquor off the shelves, and then re-selling it to bars and taverns at lower prices.

MODERNIZATION

Mr. Chairman, the question I believe that is now before this Committee and the legislature is where do we go from here? How can we better serve our customers and your constituents? How can we ensure convenience in every part of the state, including our rural areas, while making sure that this valuable public asset continues to deliver badly-needed revenue for our Commonwealth, and by extension for all taxpayers?

Senate Bill 800 is a common sense approach to serving your constituents, while protecting all of the key stakeholders involved. We call it modernization. It provides more convenience, more access, and more revenue -- $75 to $150 million in additional revenue each year – to the taxpayers of Pennsylvania.

It is important to note that this issue reaches far beyond our customers. Studies show that only a small number of Pennsylvanians shop for alcoholic more than once a week. The fiscal impacts of any legislation you consider passing will touch every taxpayer. It only makes sense that this body considers the needs of all Pennsylvanians. SB 800, I believe, does just that.

It takes cares of your constituents, and takes care of those who are invested in this system – including my members. We hear about all the different stakeholders and those invested in it. I would like to remind the committee that Pennsylvanians who are invested in the system are sitting right here behind me. I would like to remind the committee of the 3,500 members I represent across the state who are invested in the system. My members, Pennsylvanians, invest in your districts, send kids to school in your districts, shop in your districts, and make their home in your districts.