

Testimony Provided By  
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Senate Law and Justice Committee  
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Chairman Pippy, Chairman Ferlo, and Members of the Senate Law & Justice Committee, thank you for the opportunity to provide testimony on the Pennsylvania Liquor Control Board's (PLCB) proposal to allow market-based or flexible pricing. My name is Bill Kohl and I am speaking for the Pennsylvania Restaurant Association (PRA).

Amidst the public policy debate over privatization of wine and spirits sales, the PLCB has proposed a series of amendments to the Liquor Code to modernize liquor sales in Pennsylvania. While the Pennsylvania Restaurant Association embraces the idea of the PLCB becoming more efficient, we have concerns with several of the PLCB's modernization proposals including flexible pricing, increased licensing fees and penalties, and a consumer relations marketing program that doesn't include the PLCB's wholesale partners – Pennsylvania's licensees. Our biggest concern is flexible pricing and we respectfully ask that you oppose this initiative.

Flexible pricing would permit the PLCB to raise or lower its standard 30 percent markup by product category. Some items would cost more, others less, but overall this proposal is expected to raise prices for wine and spirits significantly for both consumers and licensees. The PLCB has estimated that flexible pricing could easily lead to an increase of \$25 to \$75 million per year. Clearly, the additional revenue is expected to come from higher overall prices that will be paid by your constituents and local business owners.

Licensees, in particular, are sensitive to a price increase because we operate on slim profit margins averaging just 4 percent even in good economic times. In addition, wine and spirits are raw materials for our businesses, so we buy products in volume quantities and we have no choice but to pay the prices set by the PLCB. Because of our volume purchasing of these raw materials, a price increase like this would cost Pennsylvania's restaurants and taverns a lot of money that would quickly consume whatever small profit margins are left for thousands of businesses across the Commonwealth.

Prices on PLCB products are already subject to five levels of taxes and fees, making these products more expensive in Pennsylvania than in most other states. As a result, we are already paying too much for our raw materials. Each PLCB product is subject to the 30 percent markup, a bottle charge, the 18 percent Johnstown Flood Tax, a round up component to the nearest nine, and the 6 percent sales tax (7 percent in Allegheny and Philadelphia counties). We simply cannot afford to pay more for these products when we purchase them from the PLCB.

In closing, the Pennsylvania Restaurant Association embraces the idea of the PLCB becoming more efficient. As wholesale partners of the PLCB we would expect to benefit from a more efficient operation. However, a significant price increase resulting from market-based, flexible pricing will hurt our businesses, our customers, and all Pennsylvania consumers. We

respectfully ask that you oppose flexible pricing and any other modernization proposal that would increase prices or impose additional fees. Thank you for considering our views and for the opportunity to provide testimony.