Testimony before the Senate Law and Justice Committee

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Latest Proposed Fee Increase Obscures Real Issue

- PLCBs proposal to implement a variable rate LTMF is fundamentally an effort to increase revenue recieved from consumers.
- July 2010 PLCB wanted bottle fee increases in the 50-60% range.
- PLCB presents *this* proposed bottle fee increase as reasonable.
- Obscures fact that current pricing formula *should* be more than adequate to cover cost and earn reasonable profit for the state.

Proposed Fee Increase Would 3rd Ad Valorem Assessment

- PLCB has two ad valorem taxes/fees that automatically increase PLCB and state's gross profits when suppliers increase prices.
- 30% mark-up (MU) is ad valorem – amount of mark-up increases whenever supplier prices or transportation costs go up (MU is on delivered costs).
- 18% tax is applied to both mark-up *and* LTMF
- New LTMF would be a *third* ad valorem fee imposed on spirits and wine – excluding sales tax.

PLCB Should Be More Than Revenue Adequate

- Private sector is a logical comparison for PLCB
  - We all have to be benchmarked against something
- Combining PLCB 30% MU, 18% tax yields total MU of +/- 56% (18% tax is applied to bottle fee).
  - Bottle fee revenues are in addition to 56%.
  - With bottle fee total MU will vary, but easily 65-70%
- Combined private sector wholesaler and retailer MU is +/- 56% (includes impact of state excise taxes.)
  - From private sector 56% both wholesaler & retailer cover costs and earn profit – *no additional bottle fee!*
- PLCB/state should be *more than* revenue adequate.

Why Is PLCB Cost Structure So High?

- If PLCB were private sector expenses would have to be covered from 56% - *without a bottle fee!*
- Private sector wholesaler costs around $4/case.
  - Wholesalers have union wage scale as well.
- Current spirits LTMF generates $9.30/case on 1.75*l* bottles, $14.40/case on 750 *ml* bottles.
  - Wine $15.60/case on 750 *ml*.
- Without variable rate LTMF fees are already high.
- PLCB should explain why costs structure is so high; where are economies of scale?

Bailment Pushes Costs onto Suppliers

- PLCB costs should be coming down because of bailment system.
- Bailment system transfers the cost of holding and managing inventory to suppliers.
  - Suppliers ship to PLCB warehouse, but are not paid until product is shipped to stores.
  - PLCB will see cost savings.
- At the very time that PLCB is shifting costs onto suppliers, it is attempting to raise consumer costs.

Variable LTMF: Confusing, Discriminatory

- Proposed fee system will cause LTMF fees to vary by brand.
- Will force PLCB to track thousands of different LTMF rates.
  - Confusion on part of PLCB and suppliers.
- Fees charged on individual products will vary, but operating costs per bottle will not.
  - Highly discriminatory – charging different cost for same services.

PLCB Benefits from Supplier Investment

- PLCB notes that suppliers raise prices.
- But, PLCB *benefits* from price increases because of ad valorem mark-up and taxes.
- PLCB also benefits when suppliers develop new products and "trade-up" consumers.
- Suppliers invest millions in product development, marketing and advertising.
- When new products succeed, supplier and PLCB win.
- If new product fails, supplier take all losses.

Summary

- Current PLCB MU and tax formula should be more than adequate.
- 30% MU and 18% tax translates to 56% total MU
  - Including bottle fee total MU 65%-70%.
- Private operator total MU 56% +/-, no bottle fee!
  - Must cover expenses, earn profit from 56% only.
- Why is PLCB cost structure so high?
- PLCB pushing costs on suppliers through bailment
- New LTMF will be confusing, discriminatory.
- Proposed LTMF increase not justified.