

# Liquor Privatization Benefits for Pennsylvania

## Analysis of Constitutional Amendment to End Government-Run Alcohol Sales

### THE CONSTITUTIONAL AMENDMENT PROCESS

[House Bill 2272](#) proposes an amendment to Article 3, Section F of the Constitution of the Commonwealth of Pennsylvania stating, “The Commonwealth shall not manufacture or sell, at wholesale or retail, liquor.”<sup>1</sup>

- Article 11 of the Constitution says all proposed constitutional amendments must pass both House and Senate in consecutive sessions before appearing in front of voters as a ballot referendum.
  - If the amendment passes during the current and next legislative sessions, it could be on the ballot as early as May 2023 for voter approval. The amendment would not take effect until 18 months after voter approval. Thus, the earliest possible effective date would be November 2024.

### METHODOLOGY

There are different models that can be used to project the fiscal impact of privatization. Some models favor more upfront revenue, while others favor more recurring revenue or more consumer convenience. Our analysis uses the [Fiscal Note](#) for [House Bill 466](#) of 2015—legislation passed by the General Assembly, but vetoed by Gov. Wolf, which would have divested the commonwealth from wholesale and retail alcohol sales. We adjusted for the difference in sales from Fiscal Year (FY) 2014–15 to FY 2020–21,<sup>2,3</sup> accounting for inflation and product demand. Sales increased by 24.47 percent in this time.

- Adjusted for sales, the state could expect to see \$635.9 million in one-time, upfront revenue by moving to a license system of wholesale and retail sales.
- Our model assumes that the state sales and liquor taxes will remain at current rates. This tax revenue goes to the General Fund. Additional tax revenue would come from reducing border bleed (estimated \$57.9 million in state sales and liquor tax revenue) and increased business profits (estimated \$2.9 million in income tax revenue).
  - The Fiscal Note provided a wide range for border bleed; between \$24 and \$72 million in 2015 dollars. Our model uses the middle range of this estimate: \$48 million. This amounts to \$57.9 million when adjusted for sales.
  - The Fiscal Note provided a range of \$2.4 to \$5.0 million in additional tax revenue from increased business profits. Our model uses the low-end of that estimate: \$2.9 million after sales adjustment.
- Our model assumes that the current privatization plan will not reduce the wholesale lease license renewal rate after 10 years.

- Our model assumes that the Administrative and Regulatory Affairs Departments would be the only remaining PLCB departments in a private system.

## FINANCIAL IMPACT

The current government liquor monopoly is a liability to the state. The PLCB holds a \$1.3 billion balance-sheet deficit, according to its [2020-2021 Fiscal Year Report](#).<sup>4</sup> The current system provides about \$764.4 million in revenue to the General Fund and \$34.5 million to other state government programs (Pennsylvania State Police and other Drug and Alcohol Enforcement Programs).

- Of the General Fund Revenue, \$589.4 million (or 77%) is liquor tax and sales tax revenue that would remain in a private system.
- Privatization would net the state \$635.9 million in one-time revenue.
  - One-time revenue could be deposited into protected state funds or used to pay off taxpayer liabilities.
- The PLCB's operating costs would decrease from \$469 million to about \$25, following divestiture.
  - Most of the PLCB's operating costs deal with wholesale and retail operations.
- Privatization would fully fund the State Police and other Drug and Alcohol Enforcement programs and provide the General Fund with an extra \$33.9 million annually.

# STATE FISCAL IMPACT OF PRIVATIZATION

	Current System (2020-21)	Private System
<b>Recurring Revenues</b>		
Sales Tax Revenue	\$163,900,000	\$178,375,000
Liquor Tax Revenue	\$415,800,000	\$459,225,000
Additional Business Income Tax	\$ 0	\$2,900,000
<b>Total Tax Transfer to General Fund</b>	<b>\$579,700,000</b>	<b>\$640,500,000</b>
PLCB Markup Revenue	\$743,476,000	N/A
License Fees	\$21,889,007	\$217,940,000
Operation Costs	\$469,467,000	\$25,229,000
Operating Income	\$264,858,000	\$192,711,000
<b>Recurring Expenses</b>		
State Police/Drug and Alcohol Program Transfer	\$34,500,000	\$34,500,000
Fixed Transfer to General Fund	\$185,100,000	\$158,211,000
<b>Annual Transfer to General Fund</b>	<b>\$764,800,000</b>	<b>\$798,711,000</b>
<b>One Time Revenue Sources</b>	<b>\$0</b>	<b>\$635,920,000</b>

Source: PLCB FY 2020-21 Annual Report: <https://www.lcb.pa.gov/About-Us/News-and-Reports/Documents/PLCB%20FY%202020-21%20Annual%20Report%20Web.pdf>

2015-16 House Bill 466 Fiscal Note: <https://www.legis.state.pa.us/WU01/LI/BI/FN/2015/0/HB0466P1985.pdf>

## CONSUMER IMPACT

The current system in Pennsylvania is not consumer friendly:

**Limited Locations:** Pennsylvania law makes it **impossible** to buy beer, wine, and liquor at the same location.<sup>5</sup> For many Pennsylvanians, it is easier to travel to another state, where liquor is **cheaper** and more accessible.<sup>6</sup> This phenomenon, known as border bleed, is a **well-documented** problem.<sup>7</sup> In March of 2020, closed liquor stores caused Pennsylvanians to **travel long distances** to purchase alcohol, inconveniencing other states' residents and jeopardizing safety.<sup>8</sup>

- Current quotas that limit liquor licenses to [1 per 3,000 residents](#) make it difficult for consumers to find the products they need.<sup>9</sup> Pennsylvania is one of 18 states with a quota on licenses, and only seven states restrict access to licenses more than Pennsylvania does.<sup>10</sup> Currently, 85 percent of Pennsylvanians live in a county with low liquor store density (defined as less than 1.77 liquor stores per 10,000 population).<sup>11</sup>
  - The 2015 privatization proposal mandated that private retail and grocery licenses must be double the number of state stores in each county. This would put alcohol retailers closer to consumers and thus more accessible.

**Higher Prices:** The PLCB received flexible pricing power in 2016. Prior to flexible pricing, every item had a fixed 30 percent markup.

- The PLCB's recent financial report shows that the average product markup has increased to 47 percent.
  - There were 372 products with increased prices, while only 96 had price cuts.
- Since receiving flexible pricing power, the PLCB's net income has more than doubled, while its fixed General Fund contribution has decreased by 3.9 percent. Consumers are paying the price but not seeing any benefits from the current system.

**Bureaucratic Boondoggles:** The PLCB has [a laundry list](#) of blunders and scandals from the past 17 years.<sup>12</sup>

- The organization has botched numerous retail endeavors, from [wine kiosks](#) to a [complete inventory failure](#).<sup>13,14</sup> Other scandals include an [internationally ridiculed](#) victim-blaming sobriety ad campaign and five PLCB officials who [violated](#) state ethics laws.<sup>15,16</sup>

The PLCB's adverse impact on consumers explains why a majority of Pennsylvanians have [supported](#) privatization since 2002.<sup>17</sup> In a [2020 poll](#), 61 percent of likely voters said that they would support liquor privatization.<sup>18</sup>

## OPPOSITION

United Food and Commercial Workers (UFCW) Local 1776 is the main opponent of privatization. The UFCW Local 1776 has spent more \$5 million of its members' dues on political activities since 2011.

- Wendell Young IV, the union executive for UFCW Local 1776 and vice president of UFCW International, has a long history of playing [fast and loose](#) with the law, often counting time lobbying lawmakers as a representational activity.<sup>19</sup> This blatantly violates Pennsylvania's lobbying laws.
  - Recently, Young's union has been sued for [not allowing](#) workers to opt-out of union representation and for making [union membership](#) a prerequisite of employment.<sup>20,21</sup>
- Opponents of privatization say that the plan will eliminate thousands of family-sustaining jobs.
  - Privatization would create thousands of private sector jobs from new business investments. Any state store employee that loses their job would be highly qualified for a new job in a private liquor retail store. The 2015 proposal made it easier for these displaced workers to find jobs in other

state agencies, offering them three extra points on civil service exams and preference over other candidates for non-civil service jobs.

- Some opponents are concerned that private sales would lead to more unsafe behaviors related to alcohol consumption, such as drunk driving and binge drinking.
  - In 2016, Act 39 allowed grocery stores, convenient stores, hotels, and restaurants to sell wine. Since then, data on car accidents involving underage drinking show **decreases**, except for a blip up in 2020, which was still well below the numbers in 2016. And binge drinking and general alcohol consumption **dropped** from 2015 to 2017.<sup>22,23</sup> In addition, PLCB would continue to enforce legal restrictions on alcohol and educate on the dangers of over consumption.

## CONCLUSION

Privatization is a win for both the state and consumers. A plan like the one vetoed in 2015 implemented after a successful constitutional amendment, would erase the PLCB's massive deficit with minimal impact on General Fund revenue. It would provide consumers with more accessible stores and cheaper prices, keeping more liquor sales in state. Contrary to claims made by UFCW's Young, privatization would lead to thousands of new private sector jobs with no adverse impact on public safety.<sup>24</sup>

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<sup>1</sup> Rep. Natalie Mihalek, House Bill 2272, January 21, 2022,

<https://www.legis.state.pa.us/cfdocs/billInfo/billInfo.cfm?sYear=2021&slnd=0&body=H&type=B&bn=2272>

<sup>2</sup> House Committee on Appropriations, Fiscal Note House Bill 466, Printers Number 1985, Pennsylvania House of Representatives, June 30, 2015, <https://www.legis.state.pa.us/WU01/LI/BI/FN/2015/0/HB0466P1985.pdf>.

<sup>3</sup> Rep. Mike Turzai, "Regular Session 2015-2016 House Bill 466," July 20, 2015,

<https://www.legis.state.pa.us/cfdocs/billInfo/billInfo.cfm?sYear=2015&slnd=0&body=H&type=B&bn=466>.

<sup>4</sup> Pennsylvania Liquor Control Board, "Fiscal Year 2020-2021 Annual Report," November 2021, <https://www.lcb.pa.gov/About-Us/News-and-Reports/Documents/PLCB%20FY%202020-21%20Annual%20Report%20Web.pdf>.

<sup>5</sup> Nick Vadala, "Pennsylvania's Weird Liquor Laws, Explained," *Philadelphia Inquirer*, July 13, 2021, <https://www.inquirer.com/philly-tips/pennsylvania-liquor-laws.html>.

<sup>6</sup> Nickolaus Hines, "This Is How Much a Bottle of Alcohol Costs in Each State," *Thrillist*, July 20, 2018, <https://www.thrillist.com/culture/how-much-bottle-alcohol-costs-every-state>.

<sup>7</sup> Commonwealth Foundation, "Millions Blown in Border Bleed," April 8, 2013, <https://www.commonwealthfoundation.org/2013/04/08/millions-blown-in-border-bleed/>.

<sup>8</sup> Peter Suderman, "Pennsylvania Has Made It Both Difficult and Dangerous to Buy Liquor," *Reason Magazine*, April 7, 2020, <https://reason.com/2020/04/07/pennsylvania-has-made-it-both-difficult-and-dangerous-to-buy-liquor/>.

<sup>9</sup> Pennsylvania Liquor Control Board, "The Retail Liquor License Quota," <https://www.lcb.pa.gov/Licensing/Topics-of-Interest/Pages/Quota-System.aspx>.

<sup>10</sup> Marathon Strategies, "Liquor Store Density by State," December 10, 2014, <http://thecapitolist.com/wp-content/uploads/2017/04/Liquor-Stores-in-Non-Quota-Non-Control-States.pdf>.

<sup>11</sup> HOPE Initiative, "Pennsylvania: Low Liquor Store Density," <https://www.hopeinitiative.org/state/pennsylvania>.

<sup>12</sup> Elizabeth Stelle, "Top 10 PLCB Boondoggles," Commonwealth Foundation, June 9, 2020, <https://www.commonwealthfoundation.org/commentary/2020/06/09/top-10-plcb-boondoggles/>.

<sup>13</sup> Sue Gleiter, "PLCB Pulls the Plug on Wine Kiosks in Grocery Stores," *PennLive*, September 21, 2011, [https://www.pennlive.com/midstate/2011/09/plcb\\_pulls\\_the\\_plug\\_on\\_wine\\_ki.html](https://www.pennlive.com/midstate/2011/09/plcb_pulls_the_plug_on_wine_ki.html).

<sup>14</sup> Commonwealth Foundation, "AG Audit Finds Rampant PLCB Waste and Mismanagement," August 1, 2011, <https://www.commonwealthfoundation.org/2011/08/01/ag-audit-finds-rampant-plcb-waste-and-mismanagement/>.

<sup>15</sup> Beth Stebner, "'She couldn't say no': The shocking state date-rape ad pulled amid anger over suggestions that drunken victims are to blame," *Daily Mail UK*, December 9, 2011, <https://www.dailymail.co.uk/news/article-2071890/She-say-Pennsylvania-Liquor-Control-Board-pulls-controversial-ad-blames-date-rape-victims-victims-friends-receiving-hundreds-complaints.html>.

<sup>16</sup> Kari Andren, "Fifth former LCB official accused of violating state ethics laws," *TribLive*, June 12, 2015, <https://archive.triblive.com/news/fifth-former-lcb-official-accused-of-violating-state-ethics-laws/#axzz3e0FAw6I4>

<sup>17</sup> Dan McQuade, "Pa. Senator: I'll Introduce New Liquor Privatization Bill," *Philly Mag*, April 2, 2015, <https://www.phillymag.com/city/2015/04/02/pennsylvania-liquor-privatization-state-store-lcb-scott-wagner/>.

<sup>18</sup> Susquehanna Polling and Research, 715 Likely Voters June 15–23, 2020, June 2020, <https://infogram.com/1py2rw9zyn56wea3yx9d01nqegbmgv35ml?live>

<sup>19</sup> Nathan Benefield, "Government Union CEOs Make Their Own Rules," Commonwealth Foundation, May 15, 2014, <https://www.commonwealthfoundation.org/2014/05/15/government-union-ceos-make-their-own-rules/>.

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<sup>20</sup> The Fairness Center, “Knabb v. UFCW, Local 1776 Keystone State Case Summary,” October 2021, <https://www.fairnesscenter.org/knabb-v-united-food-commercial-workers-union-local-1776-keystone-state/>

<sup>21</sup> The Fairness Center, “Kabler v. UFCW, Local 1776 Case Summary,” May 2020, <https://www.fairnesscenter.org/cases/kabler-v-ufcw-local-1776/>

<sup>22</sup> Pennsylvania DUI Association, “Alcohol Related Crashes,” <https://www.padui.org/crash-facts/>.

<sup>23</sup> Pennsylvania Liquor Control Board, “Report on Underage and High-Risk Drinking,” May 2019, <https://www.lcb.pa.gov/About-Us/News-and-Reports/Documents/002552.pdf>.