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Pa. House takes another step in long march to liquor privatization

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A measure that would allow beer distributors to sell liquor and wine joined several others sent from the state House to the Senate over the last month.

House Bill 1033, which passed the House by a 103-91 margin earlier this week, would allow beer distributors and wholesalers to obtain a permit to sell unlimited amounts of wine and liquor.

A fiscal analysis by the House Committee on Appropriations estimated that it would bring in $6 million in license fees and another $6 million in tax revenues in its first full year of implementation.

On the other end, however, it would likely reduce the state stores' gross margin from liquor and wine sales by nearly $31 million.

"It is assumed that the PLCB will modify its current retail footprint by reducing operating costs accordingly to mitigate the loss of its gross margin as additional retail outlets begin selling wine and spirits," the analysis concluded.

Last month, the House passed a succession of bills designed to nudge the state closer to privatizing its state-run alcohol distribution system. They included measures that would:

- "Free the wine" by allowing grocery stores to apply for a permit to sell wine without any seating requirement. It would also allow retailers with an R license to purchase wine through private wholesalers instead of the state Liquor Control Board.
- Divest the PLCB from its wholesale wine and spirits operation entirely and open the door for private wholesalers.
- Allow R license holders to sell up to four bottles of liquor to sell, in addition to the wine sales permitted by Act 39.

Gov. Tom Wolf and Senate Republican leaders, however, have been reluctant to enact such changes following last year's sweeping Act 39 reforms.

A proposed amendment that would have reciprocated HB1033's expansion by allowing state-run liquor stores to sell beer was not added to the final version of the House bill.

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It's time to get government out of the liquor business: Nathan Benefield

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Have your trips to the liquor store been leaving your wallet a little lighter? That's because the Pennsylvania Liquor Control Board, the agency behind our state-run liquor system, recently raised prices on 422 wine and liquor products. While no one wants to pay more to buy wine for dinner, it's the reason for these price hikes that's worrisome.

The PLCB, it turns out, failed to meet net revenue goals and is now more than $350 million in the red. Despite these sorry finances, Gov. Tom Wolf hatched a scheme to borrow more than $1 billion against PLCB revenue to balance the state budget.

Under this plan to "monetize" our liquor system, the state's General Fund would receive a one-time cash infusion, then use future liquor "profits" to repay the loan — which could take as long as 20 years.

As proof of the state's ability to repay, the Wolf administration pointed to the PLCB's $210 million transfer to the state's General Fund in 2016 — an amount "far in excess of the annual amount necessary to make payments on this loan." But the truth is, the PLCB had to withdraw $114 million from its reserves to make this payment.

In other words, the PLCB didn't generate enough net income — or supposed "profit" — to make its payment to the state.

Banking on future profits of a debt-ridden agency is risky at best, downright ridiculous at worst. What's more, past attempts to generate more revenue from the government monopoly have fallen flat.

Last year, for example, the state Legislature passed a law to "modernize" antiquated liquor stores. In addition to letting restaurants (and grocery stores with restaurant licenses) sell bottles of wine, this law let government-run stores "operate more like a business."

Modernization was supposed to boost liquor sales — through longer store hours, coupon offerings for customers, and flexible pricing — generating millions in additional revenue. But PLCB numbers show this modernization has been a financial flop.

Alcohol sales revenue grew a mere 3.8 percent — due to inflation and economic growth, not a better business plan. That's less growth than the prior two years.

Meanwhile, gross profits rose a meager $16 million, while operating expenses grew by $30 million. That's not the trend lenders will want to see.

Far from a bankable asset, the PLCB is an unaffordable regulatory monstrosity whose extinction is far overdue.

Instead of trying to manipulate this broken system to fill the budget hole, it's time to get government out of the liquor business entirely. Modernization was a financial failure. Monetization is an even riskier bet. The solution is privatization.

This year, the state House passed multiple bills to let private sector stores sell wine and spirits. These proposals include creating licenses for wine and liquor retail stores and privatizing the PLCB's wholesale operations.

Such changes would begin to deliver the competition, choice, and convenience consumers want while helping erode the border bleed that costs Pennsylvania business and revenue.

For example, new regulations require restaurants to pay the full cost up front for special liquor orders, days before they are allowed to pick up these orders at state-run stores. In contrast, private wholesalers might deliver directly to restaurants.

Furthermore, in a 2011 survey, the PLCB found 45 percent of residents in Philadelphia and the surrounding counties purchased wine or liquor outside the state, costing Pennsylvania $220 million in sales and taxes in the southeast alone.

The House proposals could improve convenience and generate hundreds of millions of dollars, including both up-front and recurring revenue, while reducing PLCB operating costs.

It's a win-win scenario. In contrast, any plan to monetize profits from our state-run liquor system is a major loss. Tying the PLCB to a long-term loan would make privatization efforts vastly more difficult.

More than 66 percent of Pennsylvanians want to see an end to the government-run liquor stores. It's time we give consumers what they want and get out of the booze business entirely before its financial problems become even more dire.

Nathan Benefield is vice president and COO of the Commonwealth Foundation, Pennsylvania's free-market think tank.