MINUTES

MONTANA SENATE
52nd LEGISLATURE - 1st SPECIAL SESSION

COMMITTEE ON TAXATION

Call to Order: By Chairman Mike Halligan, on January 10, 1992, at 9:05 a.m.

ROLL CALL

Members Present:
- Mike Halligan, Chairman (D)
- Dorothy Eck, Vice Chairman (D)
- Robert Brown (R)
- Steve Doherty (D)
- Delwyn Gage (R)
- John Harp (R)
- Francis Koehnke (D)
- Gene Thayer (R)
- Thomas Towe (D)
- Fred Van Valkenburg (D)
- Bill Yellowtail (D)

Members Excused: None.

Staff Present: Jeff Martin (Legislative Council)

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Announcements/Discussion: None.

HEARING ON SENATE BILL 3

Presentation and Opening Statement by Sponsor:

Senator Bob Brown, District 2, told the Committee SB 3 is an act to eliminate the authority of the Department of Revenue (DOR) to establish and maintain state employee operated liquor stores after December 31, 1992. He said he believes it is a good concept, and read from an October 17, 1991 article in the Great Falls Tribune and an article from the Bozeman Chronicle (Exhibits #1 and #2).

Senator Brown explained that most other states have gotten out of the liquor business. He stated that a "fact sheet", distributed in the Capitol this week, has since been repudiated by its source, so he would not be refuting that information. Senator Brown commented that he hoped the opponents would use constructive criticism in the public interest.

Senator Brown advised the Committee that DOR requested and drafted the bill. He referred to a chart on liquor enterprises from 1975 with projections through 1995 (Exhibit #3), and said the 1991 $46 million projection was expected to continue through 1995. Senator Brown explained that total revenue is about $15 million, and is projected to continue at that level. He alluded to the one-time $4 million revenue gain from the bill, and said there should be no change in revenue to the state.

Senator Brown said he believes the bill will free up other revenue, and reported that there are 95 agency stores now, 30 of which are still being operated by the state. He explained that the Governor seems committed to the concept of privatization, and that the Legislature could probably not accomplish a major overhaul of the tax system during special session.

Senator Brown added that he believes SB 3 is feasible, and asked the Committee's careful consideration and realizes the bill may require modifications. He told the Committee although the entire $4 million may not be realized during this biennium, "the bill, kinda like the Montana cowgirl, might look better at closing time".

Proponents' Testimony:

Dennis Adams, Director, DOR, read from prepared testimony, and referred to graphs (Exhibit #4), the first of which showed the historical perspective and liquor tax income from 1975. He advised the Committee that 108 stores have been discontinued since 1975, and that between one-fourth and one-third of remaining stores could also be lost.

Mr. Adams made reference to a graph on the Liquor Enterprise, noting that the 337 full time employees (FTE) in 1975 presently number 125 (Exhibit #5). He then referred to graphs on "What SB 3 Won't Do" and "What SB 3 Will Do" (Exhibits #6 and #7). Mr. Adams stated that the bill won't decrease state revenue or affect existing agency stores, but will affect the only warehouse owned by the Liquor Enterprise Fund. He continued, stating that SB 3 will not increase gambling outlets, and that there is not a projected increase in sales of liquor. Mr. Adams explained the liquor sales resulted in 18 percent of alcohol sold in Montana.

Mr. Adams advised the Committee that SB 3 will prevent a tuition increase for about 22,000 college students in Montana. He further advised that it will provide employment preference for Liquor Division employees to other jobs, or to become franchise agents. Mr. Adams explained there would be a limit of one franchise per community, and that passage of the bill would mean better service, and new jobs for communities.

Jack Ellery, Deputy Director of Operations, Liquor Division, DOR, said he believes SB 3 is the best liquor proposal in the seven years he has been with DOR. He commented that diversification of sales is the key to this proposal, which also provides for the sale of beer, wine, prepared foods, and other retail products at liquor stores.

Mr. Ellery read from a statement of the NABCA (Exhibit #8). He said one of the significant assumptions of SB 3 is a full case discount of 5 percent, and that freight costs to the state would be increased by 50 percent. He said a $5 charge would be made to franchises for mixed-product cases.

Mr. Ellery told the Committee he believed that 29 stores would opt to become franchises. He explained control of inventory debt service, and said no payment would be required on inventory delivered for 30 days after delivery to franchises. Mr. Ellery further explained that the state would not lose interest earnings as it is also on a 30-day schedule, but would incur one-time expenses in FY92-93. He stated that the money would come from existing investments.

Mike Micone, Commissioner, Department of Labor and Industry (DOLI), told the Committee he supported a similar proposal in 1991 during the 52nd Legislature. He stated that an employee-owned corporation may hold multiple contracts, and that current restrictions and mandatory hours for stores would be lifted. Mr. Micone went on to state that staff would already be trained and have a guaranteed market. He said profits would be shared by employee-owned corporations, and would be repurchased when employees terminated employment.

Mr. Micone explained that 51 percent must be held by employees, but 49 percent can be sold to attract venture capital. He said he believes the investment of coal revenue is an excellent investment, and that SB 3 is good for Montana.

Dave Lewis, Executive Director, State Board of Investments (BOI), referred to page 51 of SB 3, citing discretionary language on loans to employee-owned enterprises. He explained that there must be equity and sufficient collateral in loan applications.

Kirk Lacy, President, Montana Associated Students, offered his appreciation to Senator Brown for the relief to students in SB 3, and said he believes this legislation is critical. He also thanks the Legislature for trying to minimize the tuition impact to students, and said the students had no position on any specific proposal, as they have been on winter break.

Mr. Lacy stated that the system would receive approximately $17 million over the last biennium, as recommended by the Appropriations Committee, but millions of dollars more were already committed to the university system and cannot be given back. He said there would be severe cuts in courses, faculty, staff, and library services, as well as tuition increases, if SB 3 does not pass.

James Burke, a junior in political science at Montana State

University, told the Committee history shows government-owned production will not work, and that he believes the Governor's proposal is a very progressive idea. He stated he would face a $400-plus increase in tuition next year, if the situation is not corrected, and asked the Committee to approve the bill.

Edward Wallace, a junior at Montana State University, said he believes most students are in favor of the bill, and that SB 3 shows the Legislature is serious. He commented that he believes the government is wrong to be involved in private industry.

Christopher Warden, a senior at University of Montana, and a senator in student government, said he is concerned with this issue becoming a partisan one, and that he believes the bill is a good common-sense idea. He asked the Committee to give SB 3 favorable consideration.

John Alorn, Miles City Community College, told the Committee he is already working long hours to continue his education, and that increased tuition would make matters worse for him. He said he believes it is the duty of the state to make sure students have an opportunity for education, and that he did not want to leave Montana. Mr. Alorn further stated that if tuition does increase, he would leave Montana to get his money's worth in pursuing his education, and urged the Committee to support SB 3.

Opponents' Testimony:

Robert VanDerVere, private citizen, Helena, said he believes the liquor set-up is working well, and should not be changed. He stated that editorials are one person's opinion, and not that of the public. Mr. VanDerVere told the students he felt for their situation, and said his granddaughter (also a college student) asked him to testify against the bill.

Jerry Strong, Montana outfitter and construction businessman, told the Committee that, although he is not a bar owner or liquor store operator, he obtained flow charts on the liquor stores and took them to his accountant (a CPA) to review. He explained that the CPA said he could make it if he raised prices 40 percent, but believed purchasing a state-owned liquor store would be a losing proposition. Mr. Strong commented that his CPA suggested he ask Mr. Blewett and Mr. Adams to be his partners, if he decided to purchase a store. He advised the Committee that Montana is third among the states in alcohol consumption now, and asked why the state would want to throw away any profit it is making now.

Representative Dan Harrington, District 68, advised the Committee that his 1987 bill set the percentage of profit, and that he believes the government should recognize the fact that it is working. He told the Committee that SB 3 might work in the future, but won't right now, and commented that he sensed a move in the state to change liquor to a private monopoly.

Representative Harrington commented that if SB 3 passes, supermarkets will control liquor sales, and he believes this would be detrimental to the industry. He further commented that he believes the state has reached the point where profit is going to be, unless state population increases. He asked the Committee to defeat the bill.

Representative Don Larson, District 65, told the Committee he is a rural tavern owner in Seeley Lake, and that half of the 1500 taverns in the state are rural and would be negatively impacted by this bill. He explained that most liquor stores garner the majority of their revenue from local taverns, and that the bill would probably put about 93 "mom and pop" operations in the state out of business. He said it would also close off an option for freight haulers, and asked that the Legislature wait for the task force recommendations in 1993.

Bob Lemm, Montana liquor broker, and Director, Montana Liquor Association, provided a fact sheet from Ted Harris and Associates, who does statistical work for the Association (Exhibit #9). He read from prepared text and said Montana is enjoying a revenue advantage of 31 cents on every dollar of liquor sold. Mr. Lemm explained that Montana received $15.65 in revenue per proof gallon of pure spirits sold, against $11 in other states.

Mr. Lemm advised the Committee that Iowa closed its state-run operations in 1987, and moved to a 75 percent mark-up at wholesale, then to a 60 percent mark-up, and is at 50 percent now. He explained that they were at $28.2 million in operating revenue, and were down to $21.9 million in 1990. Mr. Lemm commented that sales of distilled spirits are not priced realistically, and that he believes privatization is a problem.

Mike Grunow, liquor store agent in Lolo, Montana, advised the Committee that liquor sales in the state is a $43 million industry. He said he believes the proposals in the bill would eventually fail and self-destruct, and asked that the Committee hold SB 3 until something further is considered. Mr. Grunow went on to state that the privatization mechanism is already in place. He explained that the requirements in RFPs have changed, and would be nearly impossible to meet by most agents and landlords, as most are currently under month-to-month contracts.

Margaret Nelson, Liquor Store #172, Victor, Montana, said she was speaking to the changes going on now in stores. She advised the Committee that she had heard the state may not renew currently expiring contracts for five years on the same terms, and may renew only on month-to-month contracts. Ms. Nelson told the Committee that sales doubled under her management, and that stores are supposed to experience eight inventory turnovers per year (Exhibit #10).

Mary Schuler, Liquor Store #8, Livingston, Montana, said she sympathizes with the university system situation, but is against privatization.

Leo Thomas, Liquor Store #1, Helena, advised the Committee he is running at a 16.3 percent profit, and has been there 20 years. He explained that if SB 3 passes, he stands to lose retirement he could have earned by working 10 more year. He also advised the Committee that the store in Arlee was closed three times, and the store in Belt, twice.

Sandra Lee, Missoula Liquor Stores, said she hasn't been sent a copy of the bill, and can't see the state's concerns. She told the Committee that six stores in her area closed within a year, and that she is running on a ten percent profit, and didn't understand how private stores could make money.

Mike Lemm, liquor representative in Montana, said NAPCA figures are up 2.4 percent for over 10,000 cases. He stated that November, 1991 was up 6.51 percent, with increased sales and profit at the same time (Exhibit #11). Mr. Lemm asked why the state closed out wines on January 1, 1992, and provides $600,000 in annual revenue, and commented that the state pays on 21 days and not 30 days as stated by DOR.

Marv Alves, United Food and Commercial Workers Union, Local 1981, Missoula, asked the Committee to oppose SB 3 (Exhibit #12).

Chad Ouellette, Liquor Store #190, Big Sky, said the system works as it is, and that he is against the bill.

Mark Staples, Montana Tavern Association, said he received a letter at the end of November from DOR, asking him to participate in a task force on the pros and cons of privatization and read from that letter. He told the Committee that there has been one meeting of the task force, at which this plan was dropped, and said he was very uncomfortable with it. Mr. Staples advised the Committee that Senators Kennedy and Rye, and Representative Stang are also on the task force, and said the task force needs to be left to do its work in a timely manner.

Ray Trudel, United Food and Commercial Workers Union, Local 8, told the Committee he is an employee representative. He explained that there is a hiring freeze in state government right now, and asked them not to support the bill (Exhibit #13).

John Blair, Reno Club, Billings, said the bill would virtually make liquor stores into grocery stores.

Don Judge, Executive Secretary of the Montana State AFL-CIO told the Committee that the AFL-CIO supports students and a cap to raise on-going revenue for the state. He stated that the students would be back next year, as SB 3 is a one-time fix and won't work. Mr. Judge further stated that DOR is no friend to state employees who operate state-owned stores. He reminded the

Committee that Governor Stephens made a campaign promise in 1988 to privatize as much as possible, and advised them of a letter and fact sheet they would receive from his office later today. Mr. Judge asked the Committee to look at employees who would be cut out of state personnel, and that the task force be allowed to do its work.

Questions From Committee Members:

Senator Thayer asked Dennis Adams to respond to the opposing statement made by Jerry Strong. Mr. Adams replied he probably should go into business with Mr. Strong, and asked that Jack Ellery respond. Mr. Ellery stated that the issue of inventory is mitigated to the extent that it allows 30 days, so the only inventory a store would be looking at is slow-moving items. He said a store could order split cases for those items, so its real inventory investment is somewhat smaller. Mr. Adams added that DOR went to individual tax returns of the more successful agents to check profit margins.

Senator Thayer asked about employees who feared losing their retirement. Jack Ellery replied that employees who purchase stores would be the main beneficiaries. Senator Thayer asked Bob Lemm if he had explained the administration's proposal to liquor store employees, and said he did not believe this assumption was correct.

Senator Thayer commented to Jack Ellery that he understood the answer had to do with Iowa getting entirely out of the liquor business. Mr. Ellery replied that was correct, and said the fact sheet spoken of earlier does not relate to conversion.

Senator Doherty asked whose idea it was to exempt DOR from the privatization criteria adopted by a previous legislature. Mr. Ellery replied that the DOR intent was that it would be highly debatable.

Senator Doherty asked if one entity in Great Falls could own all the franchises in that area. Mr. Ellery replied it could own all the franchises in Montana, and that they are transferable.

Senator Doherty asked if that would create a new quota system for those pieces of paper (ownership), and whether the state or the paper owner would get that value. Mr. Ellery replied that the paper owner would get the value.

Senator Doherty commented that one of the costs of doing business is overhead, and asked if the bill prevents any FTE from being changed to part-time and thus receiving no benefits.

Senator Doherty asked Dennis Adams to respond to an earlier statement that SB 3 would sabotage the current system. Mr. Adams replied that the current bid process has evolved over years, for the protection of the state, and that changes are not made to existing agreements, but are made as they are re-bid.

Senator Doherty asked Kirk Lacy, if all the students wanted was tuition relief. Mr. Lacy replied that was correct.

Senator Towe asked about the question of monopoly on liquor licenses, and if the state would be creating a new system with the same problems. Dennis Adams replied that the terms of agreement would be ten years, and that the state could have more control over these agreements.

Senator Towe asked what these licenses would sell for. Mr. Adams replied he had no feel as to what the market may be.

Senator Towe asked about page 29 of the bill. Dennis Adams replied that one section deals with statute, and the other deals with DOR.

Senator Towe asked if the projected $4 million in income would come from the initial sale of inventory. Mr. Adams replied it would.

Senator Towe asked what a person in Billings would pay for inventory on an initial purchase. Jack Ellery replied it would be about $62,000 for a low-turning store, and significantly higher for a high-turning store, and said the store would have 30 days to sell that inventory.

Senator Towe stated his concern that there won't be enough inventory to make even $3.5 million. Jack Ellery replied that, occasionally, slow-moving products are sold for less than retail right now. He said the bill assumes that 29 store would be bought, but the projection is now somewhat less, or about $3.5 million instead of $4 million.

Senator Towe asked if there were any guarantee of getting the commission anticipated in bids. Mr. Ellery replied that would vary by community, but is a 6.5 average for 30 stores. He stated that DOR would publish a standard maximum it would pay in communities.

Senator Towe asked if anyone exercising the preference would get the maximum. Mr. Ellery replied they would.

Senator Van Valkenburg asked if this largely depends on the agency ten-year relationship. Mr. Adams replied it does not.

Senator Van Valkenburg asked if the Board of Investments (BOI) method of financing is there, realistically, to say that employees have a method of ownership. Mr. Adams replied it is to facilitate the ability of employee-owned enterprises.

Senator Van Valkenburg commented that this means a ten-year, or potentially a 20-year commitment, and if DOR expected the

Legislature to do this in one week. He asked how the state would get out of this situation, if it decides such a move is a mistake. Mr. Adams replied there is no evidence in the past 16-17 years that this would happen.

Senator Van Valkenburg asked Senator Brown if he accepted the validity of Representative Larson's arguments. Senator Brown replied that he is not proficient in the tavern owners business, but he believes there are certain costs in transporting liquor that local agents might not have now under the current system.

Senator Van Valkenburg commented that the people represented by Mark Staples believe this is a bad bill. He asked if increasing the hours liquor can be sold is for the purpose of increasing liquor sales. Senator Brown replied that taverns are open from 12 noon to 2 a.m. now, and that the bill would allow new entrepreneurs to operating during these same hours.

Senator Van Valkenburg asked if these new entrepreneurs would advertise more to promote greater liquor sales. Senator Brown replied he believed they would, and said he didn't believe the bill would change the per capita consumption of liquor in Montana.

Senator Van Valkenburg commented that the House Appropriations Committee has "decoupled" contingency language for students from this proposal. Senator Brown replied he was aware of this action.

Senator Gage asked about personnel reductions. Gary Blewett, Administrator, Liquor Division, DOR, replied that the vast majority of reductions were employees in stores.

Senator Gage asked for the actual number of reductions since 1977, and Mr. Blewett said he would bring this information to the Committee.

Senator Gage asked about the 20 percent increase in commissions, and current mark-up. Mr. Ellery replied that prices are the same to state or agency stores.

Senator Gage asked where the 20 percent comes from. Mr. Ellery replied that, currently, 10 percent commission is paid to stores to sell, and that they will be given 12 percent if they purchase the inventory.

Senator Gage asked if all stores are getting 10 percent now. Mr. Ellery replied that all communities with populations under 3,000 get 10 percent. He explained that all communities with populations of more than 3,000 are competitively bid.

Senator Gage asked if DOR looked into the cost to the private sector. Mr. Blewett replied he looked at current leases, and was keeping them on fairly short terms in case privatization came through, and to leave the state without additional liability. He commented that landlords are at risk by this change, but are being evaluated for better deals now anyway.

Senator Gage asked about line 25, on page 6, concerning the definition of a grocery store. Mr. Blewett replied that in communities with more than 3,000 population, current law says a grocery store can't be in or adjacent to a liquor store. He explained that a liquor store can still sell certain things sold in a grocery store, but cannot turn into a grocery store.

Senator Gage asked if the addition of a fresh fruit stand would constitute a grocery store. Mr. Blewett replied he believed it would.

Senator Gage asked if the state motor pool could be privatized, and said the Legislature is concerned that the direct loan capabilities of the Board of Investments is not directed to this particular conversion. Dennis Adams responded that the loans could be available to any privatization of public functions.

Senator Gage asked if liquor stores are currently required to have bonds. Mr. Blewett replied that they are required to carry $3,000 bonds.

Senator Gage asked if this is sufficient for large stores. Mr. Blewett replied is it not, and that DOR is presently looking at this. He stated they no longer have state insurance, except through rule-making.

Senator Harp referred to Senator Doherty's concern about development of another quota system, and asked if an agency store can transfer its existing inventory to another. Mr. Blewett replied there is no law opposing this, but this stipulation is put into current contracts.

Senator Towe asked what will happen if no one is willing to bid at DOR's level. Mr. Ellery replied he hadn't anticipated this.

Senator Towe, referring to Iowa's loss of $7-8 million or a $22 million reduction, asked if this is where the figures from other states come in. Mr. Ellery replied it would be contingent upon receiving a bid of the standard maximum for that community.

Senator Towe asked for figures for Billings, and Mr. Ellery agreed to supply them.

Senator Towe asked Dave Lewis if direct loans could not be made to individuals right now. Mr. Lewis replied that they could not, and said Science and Technology can make such loans now from the coal trust, so there is some precedent.

Senator Towe asked if that is not a dangerous precedent. Mr. Lewis replied he believes DOR indicated it had checked with commercial lenders who weren't interested in these types of loans. He commented that it is working well at present, as it is.

Senator Towe asked if there were any reason to include this language. Mr. Adams replied it was included to facilitate employee-owned enterprises for those who may not have a prior financial track record, i.e., new business.

Senator Towe commented that there is not a fiscal note, and questioned the figures estimated. He asked how the state will get from $3.5 to $4 million. Mr. Ellery replied that $4 million was the original estimate derived from the estimated sale of 29 stores, and that DOR has now found the figure to be more like $3.5 million.

Senator Towe asked if there were any long term leases beyond December 31, 1992. Mr. Blewett replied he did not believe there are.

Senator Eck asked what projections are for the next few years concerning closing of stores and month-to-month contracts. Mr. Adams replied he did not anticipate any significate change in the numbers of existing agencies.

Senator Eck commented that she did not see any changes. Mr. Adams replied that the holder of the agency store in Missoula could not put a satellite in Victor, and is limited by the number of outlets now allowed.

Senator Eck said she was concerned with the future - the cost to the state of health care, welfare, medicare, and corrections, all of which are associated with alcohol and continue to grow rapidly. She asked if the state could reimburse these agencies a small amount for the cost of consumption. Mr. Adams said he believes there would be opposition to increasing the wholesale cost of liquor, but that Senator Eck has a valid concern.

Senator Halligan asked if preference provisions would be honored as contracts come up for renewal. Mr. Adams replied that there are a number of different renewal agreements, and that they would need to be looked at.

Senator Halligan asked why DOR is looking at this issue now, when the task force is looking to make proposals next session. Mr. Adams replied that the task force would still address other issues.

Senator Halligan asked about the fiscal note. Mr. Adams replied he would get it for the Committee.

Senator Yellowtail asked about the doubt that proposed employee-operators may not be able to get commercial financing. He asked if DOR could assure the Legislature that the Board of Investments would apply less stringent conditions. Dave Lewis replied that the BOI would apply the same conditions as commercial lenders. He stated contracts would be based on estimated profit, and loans would be based on that value. Mr. Lewis said commercial lenders may not have understood this when they were approached by DOR.

Senator Yellowtail asked if this is not a necessary assurance to these people. Mr. Lewis replied it was.

Closing by Sponsor:

Senator Brown thanked proponents, opponents, students, questioners and answerers for their concerns about the turnover of inventory, and the ability to meet the fiscal note projections of the bill. He said he believes the bill will generate a significant amount of revenue.

Senator Brown advised the Committee that the way the state has managed liquor has been in transition for a period of time, and that he is aware employees and operators are concerned about the proposed change. He said the Legislature could wait, but he believes the problems will continue, and that there will still be a move toward privatization. Senator Brown suggested that the Chairman place the bill in a subcommittee for further work, and said the proposal is not perfect, but is viable.

ADJOURNMENT

Adjournment At: 11:37 a.m.

Mike Halligan

MIKE HALLIGAN, Chairman

Joann Bird

JOANN T. BIRD, Secretary

MH/jtbl

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ROLL CALL

SENATE TAXATION COMMITTEE

DATE 1-10-92

52nd LEGISLATIVE SESSION ___ Special session

NAME	PRESENT	ABSENT	EXCUSED
SENATOR BOB BROWN	✓		
SENATOR STEVE DOHERTY	✓		
SENATOR DELWYN GAGE	✓		
SENATOR JOHN HARP	✓		
SENATOR FRANCIS KOEHNKE	✓		
SENATOR GENE THAYER	✓		
SENATOR TOM TOWE	✓		
SENATOR FRED VAN VALKENBURG	✓		
SENATOR BILL YELLOWTAIL	✓		
SENATOR DOROTHY ECK, V CHR	✓		
SENATOR MIKE HALLIGAN, CHAIR	✓		

Each day attach to minutes.

ADVERSE

SENATE STANDING COMMITTEE REPORT

Page 1 of 1
January 13, 1992

MR. PRESIDENT:

We, your committee on Taxation having had under consideration Senate Bill No. 3 (first reading copy -- white), respectfully report that Senate Bill No. 3 do not pass.

Signed: ______________________
Mike Halligan, Chairman

See opposite page

1-13-92
Amd. Coord.

1-13-92
Sec. of Senate

POOR COPY

[illegible] ROLL CALL

[illegible]ATE TAXATION COMMITTEE DATE 1-10-92

52nd LEGISLATIVE SESSION Special Session

NAME	PRESENT	ABSENT	EXCUSED
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ADVERSE

SENATE STANDING COMMITTEE REPORT

Page [illegible]
January [illegible]

MR. PRESIDENT:
We, your committee on Taxation having had under consideration Senate Bill No. 3 (first reading copy -- white), respectfully report that Senate Bill No. 3 do not pass.

Signed: Mike Halligan, Chairman

1-13-92
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POOR COPY

Ex. 1
1/10/92
SB3

3696

8A Great Falls Tribune
Thursday, October 17, 1991

State should get out of the liquor business

The Stephens administration is moving again to get out of the liquor business, and we encourage that effort.

Privatization gets the state out of a business it shouldn't be in. It provides new energy for private enterprise. And it will be better for the public.

In the mid-1970s, for example, one-quarter of the state's liquor sales were for table wine. But in 1978, state voters decided that wine should be sold in grocery stores as well. And private enterprise ran the state out of business.

Last week, the state said that its wine sales had dropped from 25 percent to 1 percent of its business, that it would discontinue wine sales in state stores.

The reasons are less for price than consumer convenience. Buying wine with groceries makes life a little simpler. And the stores can sell wine twice as many hours a week as the state stores, which are only open daylight hours five days a week.

If liquor were available in groceries, we believe the same thing would happen.

Montana is in a minority of states (about 18) selling liquor through state stores. And the $4 million in profits from that operation doesn't seem worth the bother to the state or inconvenience to the public.

Obviously, there will be opposition to the administration's proposal.

Bureaucrats are firmly entrenched in the state stores. And tavern owners, who currently buy about half of the state's liquor for by-the-drink as well as package sales, are reluctant to have the local grocery as a competitor for hard liquor sales.

We think Revenue Director Denis Adams is wise in setting up a task force of the vested interests to reach some agreement on how to proceed in giving this business back to private enterprise.

Our readers' opinion

Good management decision

In Charles S. Johnson's article regarding the State Revenue Department's decision to deplete its inventory of table wine and champagne, former Rep. Paul Pistoria blasted the decision as "terrible."

What is so terrible about a state revenue department deciding to delete a segment of its business that only contributes 1 percent of its sales but a much larger percentage of its space and inventory investment? I call that a good management decision — especially for a state government agency.

Pistoria should know that for every liter of wine sold to a tavern, restaurant, or store, a state tax of 27 cents is collected. Each wine wholesaler is levied the tax on his sales and mails a check to the Department of Revenue each month. The collection system is simple, efficient and has no cost to anyone but the wholesaler.

In 1990, the two Great Falls wine wholesalers paid $184,369 in taxes on sales for the benefit of the citizens of Montana. Statewide, wholesalers paid $1,348,000 in state wine taxes and stock many types and styles of wine available that the state stores did not carry.

Pistoria should stop complaining about a Revenue Department decision that is prudent, logical, good government, and a benefit to Montana taxpayers.

Imagine the world if all government agencies based their decisions on what would benefit those who foot the bill — the taxpayers.

[illegible], [illegible] 4th Ave. N.

[illegible]a State AFL-CIO
[illegible] Executive Secretary
[illegible]t, P.O. Box [illegible], Helena, Montana [illegible]

SB3

[illegible] SHEET IN OPPOSITION TO SENATE BILL 3

[illegible] A BARREL: SELLING OFF STATE LIQUOR STORES

BACKGROUND

[illegible]s 30 liquor stores, employing about 90 workers. These stores account [illegible] liquor sales in Montana. Most of these stores are located in the state's [illegible]

[illegible]onths ending Sept. 30, 1991 jumped 23 percent over the previous 12 [illegible] from $4.19 million to $5.17 million. Historically, liquor sales have [illegible] annually into the state general fund.

[illegible] 12 months ending Sept. 30, 1991 totaled $9.88 million, up 12 percent [illegible] taxes collected in the previous 12-month period.

[illegible]erated by independent contractors, account for about a third of liquor [illegible]ncy stores generally range from 6.9 percent to 8.99 percent. State-[illegible] requ[illegible] at le[illegible] [illegible]cent pr[illegible] [illegible]ore #17[illegible] [illegible]ned a 16.8 percent profit in the 12-month period [illegible] Sept. 30, 19[illegible] [illegible]g the same period include state store #141 in Great Falls, 16.1 percent; [illegible] and state store #193 in Bozeman, 14.9 percent.

FACT SHEET IN OPPOSITION TO SENATE BILL 3

BOOZE OVER A BARREL: SELLING OFF STATE LIQUOR STORES

BACKGROUND

The state currently operates 30 liquor stores, employing about 90 workers. These stores account for about 65 percent of all liquor sales in Montana. Most of these stores are located in the state's more populous areas.

Liquor profits for the 12 months ending Sept. 30, 1991 jumped 23 percent over the previous 12 month-period, increasing from $4.19 million to $5.17 million. Historically, liquor sales have pumped about $4 million annually into the state general fund.

Liquor taxes paid for the 12 months ending Sept. 30, 1991 totaled $9.88 million, up 12 percent from the $8.83 million in taxes collected in the previous 12-month period.

The 87 agency stores, operated by independent contractors, account for about a third of liquor sales. Profits in larger agency stores generally range from 6.9 percent to 8.99 percent. State-owned liquor stores are required to make at least a 10-percent profit. State store #171 in Missoula, for example, earned a 16.8 percent profit in the 12-month period ending Sept. 30, 1991. Other profit margins during the same period include state store #141 in Great Falls, 16.1 percent; state store #4 in Billings, 15.9 percent; and state store #193 in Bozeman, 14.9 percent.

Montana's retail liquor sale policy says "that it is necessary to further regulate and control the sale and distrib[illegible] [illegible]holic bev[illegible] [illegible] in the sta[illegible] [illegible]sure the e[illegible] control of the sale of liquor in the Department of [illegible]

PROMISES

and the projected deficit may point to the wave of the future — fewer public services and fewer public sector jobs. 90 families may be displaced in this move alone, and lose access to state health and retirement plans. Does that jibe with the governor's 1988 interview with the Missoulian? "I want to reduce the size of government in an intelligent, compassionate way." Hiring rights exclude preference for higher paying jobs, even though no other barrier may stand in the way.

*The Legislative Auditor predicts that slow-moving liquor may not be bought by agency operators, while noting the state may obtain a fraction of the $4 million in one-time revenue projected by the Stephens administration through the sale of inventory.

"Based upon current commercial lending rates, the retail price of liquor, proposed commission rates, and salaries being paid current liquor store employees it does not appear new agents would be able to continue to pay wages at current levels, provide benefits, and cover operating expenses (including loan payments)," the auditor's report says. "Some new operators may be able to make the new agency stores profitable if they offer wages and benefits well below current levels."

*It appears to state workers that this administration has been consistently throwing roadblocks into the profitability of state liquor stores. Shipments arrive late, orders are fouled up and liquor shortages have left shelves empty, making it difficult for the stores to achieve appropriate profit levels.

*Ted Harris & Associates Inc. of Alexandria, Va., has studied the issue, and concluded: "To privatize and still generate equivalent state revenue would require a substantial price increase — because somewhere in the new price structure current state profits and new private seller markups would have to be accommodated."

*This e[illegible] [illegible]ply the fi[illegible] [illegible]ting th[illegible] [illegible]n Monta[illegible] [illegible]hore mo[illegible] through whom all liquor will pass. (Who will be the new Liquor King?) is [illegible] abolis[illegible] liquor policy and surrendering control of liquor sales and distribution?

Ex. 1
1/10/92
SB3

3696

State should get out of the liquor business

The Stephens administration is moving again to get out of the liquor business, and we encourage that effort.

Privatization gets the state out of a business it shouldn't be in. It provides new energy for private enterprise. And it will be better for the public.

In the mid-1970s, for example, one-quarter of the state's liquor sales were for table wine. But in 1978, state voters decided that wine should be sold in grocery stores as well. And private enterprise ran the state out of business.

Last week, the state said that its wine sales had dropped from 25 percent to 1 percent of its business, that it would discontinue wine sales in state stores.

The reasons are less for price than consumer convenience. Buying wine with groceries makes life a little simpler. And the stores can sell wine twice as many hours a week as the state stores, which are only open daylight hours five days a week.

If liquor were available in groceries, we believe the same thing would happen.

Montana is in a minority of states (about 18) selling liquor through state stores. And the $4 million in profits from that operation doesn't seem worth the bother to the state or inconvenience to the public.

Obviously, there will be opposition to the administration's proposal.

Bureaucrats are firmly entrenched in the state stores. And tavern owners, who currently buy about half of the state's liquor for by-the-drink as well as package sales, are reluctant to have the local grocery as a competitor for hard liquor sales.

We think Revenue Director Denis Adams is wise in setting up a task force of the vested interests to reach some agreement on how to proceed in giving this business back to private enterprise.

Our readers' opinion

Good management decision

In Charles S. Johnson's article regarding the state Revenue Department's decision to deplete its inventory of table wine and champagne, former Rep. Paul Pistoria blasted the decision as "terrible."

What is so terrible about a state revenue decision to delete a segment of its business that only contributes 1 percent of its sales but a much larger percentage of its space and inventory investment? I call that a good management decision — especially for a state government agency.

Pistoria should know that for every liter of wine sold to a tavern, restaurant, or store, a state tax of 27 cents is collected. Each wine wholesaler is levied the tax on his sales and mails a check to the Department of Revenue each month. The collection system is simple, efficient and has no cost to anyone but the wholesaler.

In 1990, the two Great Falls wine wholesalers paid $154,358 in taxes on sales for the benefit of the citizens of Montana. Statewide, wholesalers paid $1,345,000 in state wine taxes and made many types and styles of wine available that the state stores did not carry.

Pistoria should stop complaining about a Revenue Department decision that is prudent, logical, good government, and a benefit to Montana taxpayers.

Imagine the world if all government agencies based their decisions on what would benefit those who foot the bill — the taxpayers.

KEVIN DEVINE, 3015 4th Ave. N.

Ex. 2
1/10/92
SB 3

OUR OPINION

Bail out of the booze biz

Bozeman

1-7-92

Sell those state liquor stores now; we'll argue about the money later

The privatization of state liquor stores is an idea whose time just keeps on coming.

Enough, already. It's here. Arguments against getting out of the liquor business are hard to swallow in light of the overriding consideration: Why are we, the taxpayers — through our state government — in the business of selling liquor, anyway?

Taxation? Regulation of a vice? State government successfully taxes and regulates the sale of at least one other vice, tobacco, without owning and operating tobacco stores. The state also taxes gasoline and other fuels without running service stations.

Still the proposal is threatened by Helena politics.

Gov. Stan Stephens, the idea's latest standard bearer, has hog-tied his proposal to get out of the liquor business by threatening a veto it if the money raised ($4 million by his estimate) is used for anything but offsetting a tuition increase for state college students.

Critics of the plan wasted no time homing in on that little bit of extortion as reason to bulldog the whole idea.

Others have gotten the jitters over the 90 employees in the remaining state-owned liquor stores.

The state jobs in question are a bogus issue. Even in the private sector, clerks and managers will be needed. If fewer are needed, so be it. And, under Stephens' plan, the existing employees would get first shot at purchasing the private franchises.

And the issue of how the money is spent should be dealt with after the deed is done.

The privatization of liquor stores has actually been evolving for 17 years. Govs. Ted Schwinden and Tom Judge started the ball rolling until, today, there are only 30 state-owned liquor stores left with the remaining 95 outlets, or "agency" stores, operated by private vendors.

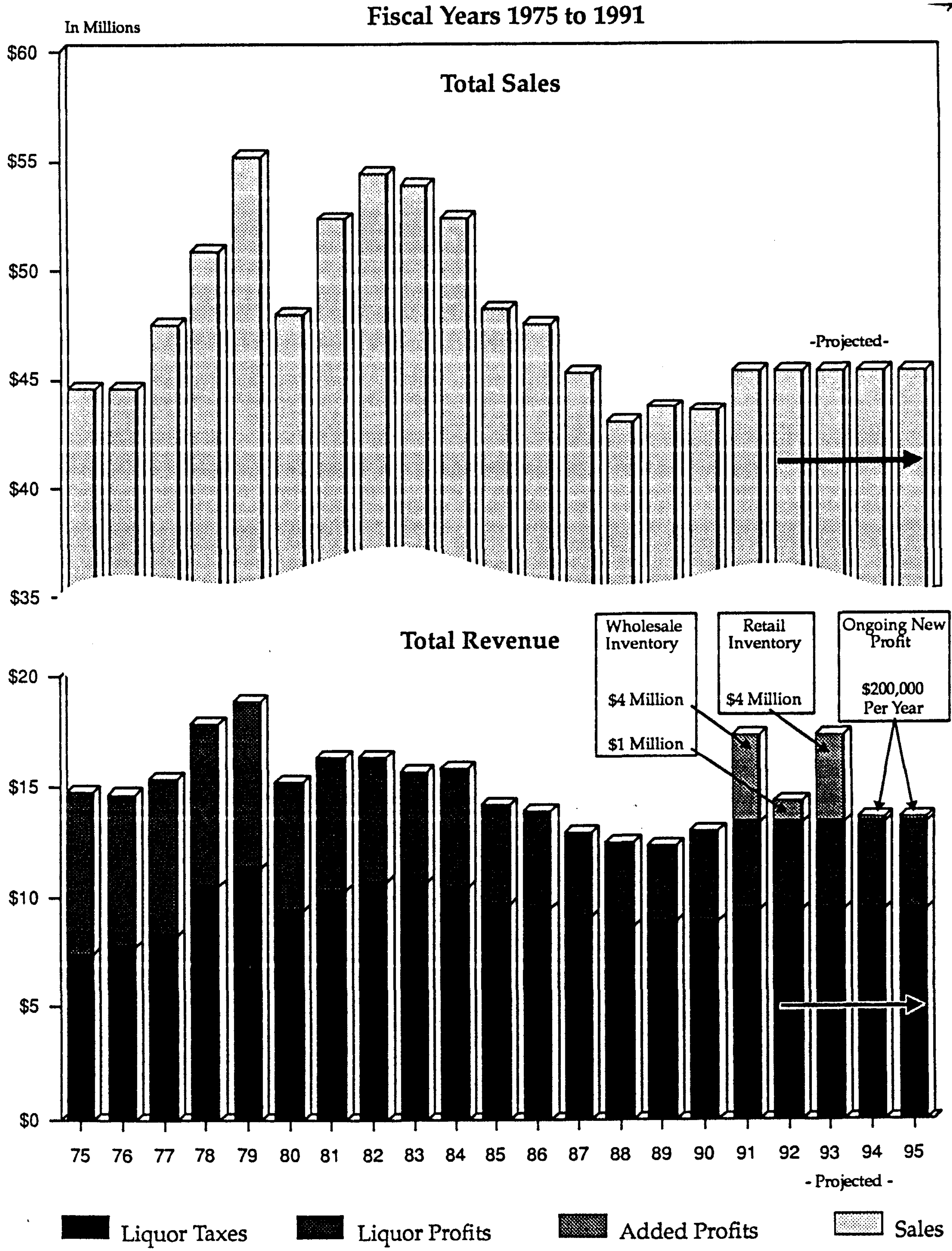
Let's get out of limbo. State liquor vending is an anachronism. It makes little to no sense anymore. It is a needless arm of bureaucracy that would be better handled in the private sector.

As critics point out, Stephens' plan would create a one-time revenue gain, but it's money that should not be sniffed at. It makes sense to get out of the liquor business in the first place. After that's done, we'll worry about how to spend the loot.

Exhibit #3
1/10/92 SB 3

Liquor Enterprise

Historical Sales and Revenue Trends
Fiscal Years 1975 to 1991



Source: Enterprise Financial Statements

Exhibit # 4
1/10/92 SB 3

EX #4
1-10-92
SB3
DOR

State Employee Operated Stores Compared To Agency Stores "A Historical Perspective"

	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91
Total Stores	147	147	146	147	146	138	148	144	143	138	138	136	132	130	125	126	123
Agency Stores	9	15	21	25	43	55	73	68	70	79	85	84	92	90	90	96	93
Employee Stores	138	132	125	122	103	83	75	76	73	59	53	52	40	40	35	30	30

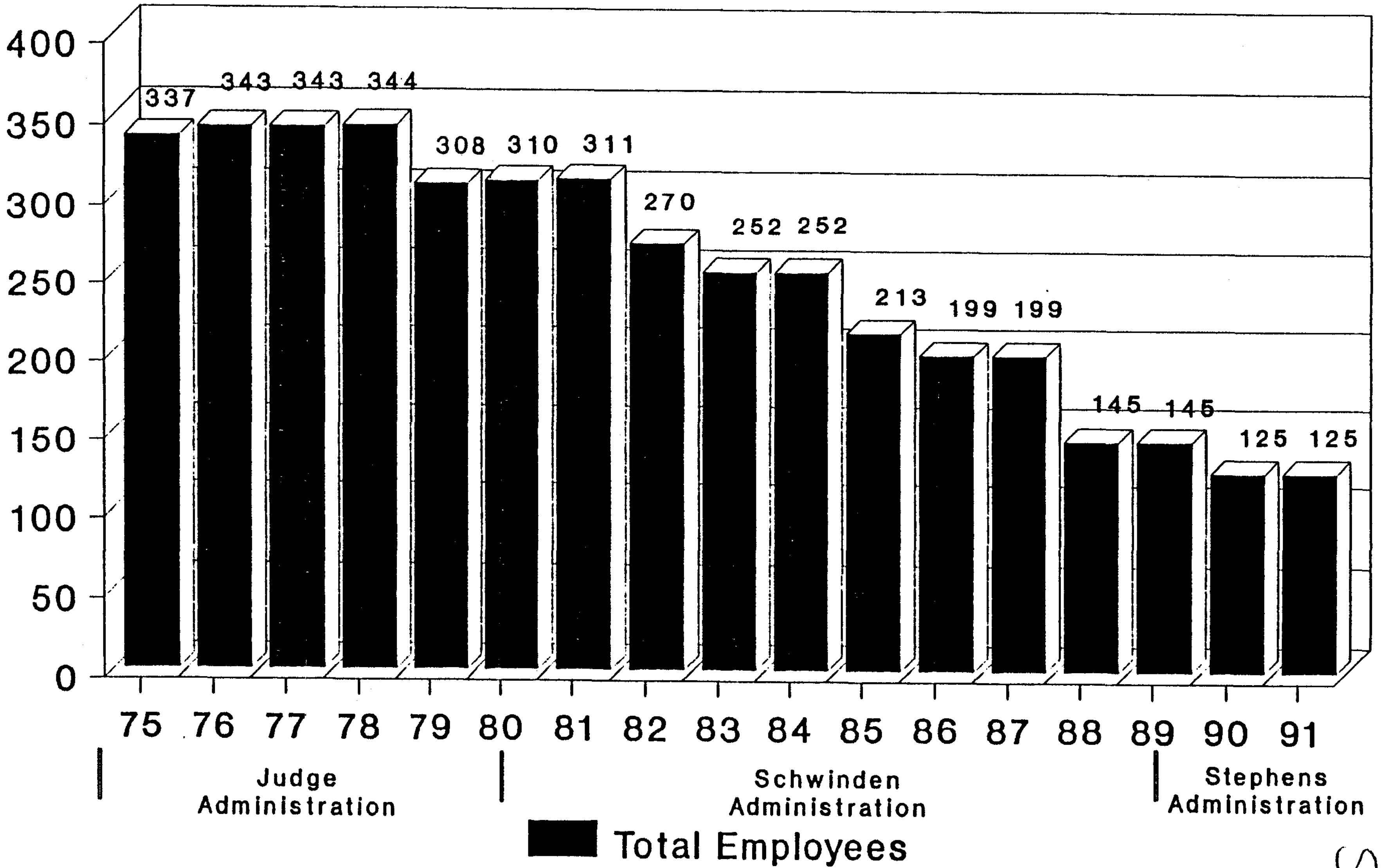
Judge Administration (75–80) | Schwinden Administration (81–88) | Stephens Administration (89–91)

Source: Enterprise Financial Statements

Exhibit #5
1/10/92 SB 3

EX #5
1-10-92
SB3

Total Authorized FTE
For The Liquor Enterprise
"A Historical Perspective"



Source: Biennial Appropriations Reports

Exhibit # 6
1/10/92 SB 3

What Senate Bill 3 Will Not Do

- IT WILL NOT RESULT IN HIGHER PRICES TO CONSUMERS OR LICENSEES
- IT WILL NOT RESULT IN LIQUOR BEING SOLD IN GROCERY STORES
- IT WILL NOT DECREASE STATE REVENUES
- IT WILL NOT AFFECT EXISTING AGENCY STORES IN ANY WAY
- IT WILL NOT PRIVATIZE THE LIQUOR ENTERPRISE
- IT WILL NOT DO ANYTHING SUGGESTED IN THE *"FACT SHEET"* CIRCULATED BY THE MONTANA LIQUOR REPRESENTATIVES ASSOCIATION

Ex #6
1-10-92
SB3

Exhibit # 7
1/10/92 SB 3

What Senate Bill 3 Will Do

- PREVENT TUITION INCREASES IN 1992 FOR 22,000 COLLEGE STUDENTS
- PROVIDE BETTER SERVICE TO CONSUMERS
- PROVIDE BETTER SERVICE TO LICENSEES
- INCREASE ONGOING REVENUE TO THE STATE
- MAINTAIN CURRENT RETAIL PRICES TO THE CONSUMER
- PROVIDE ABSOLUTE EMPLOYMENT PREFERENCES TO EMPLOYEE
- CREATE NEW JOBS IN EACH COMMUNITY
- LIMIT THE NUMBER OF AGENCY FRANCHISES TO ONE PER COMMUNITY
- PROVIDE THE OPTION FOR EXISTING AGENTS TO BECOME FRANCHISE AGENTS AND RECEIVE A 20% INCREASE IN THEIR COMMISSION RATE

EX 7
1-10-92
SB 3

EX #8
1-10-92
SB-3

NABCA

NATIONAL ALCOHOLIC BEVERAGE CONTROL ASSOCIATION, INC.

4216 KING STREET WEST • ALEXANDRIA, VIRGINIA 22302-1507 • (703) 578-4200
FAX (703) 820-3551

January 9, 1992

Mr. Jack Ellery
Deputy Director, Operations
Montana Department of Revenue
Liquor Division
2517 Airport Road
Helena, MT 59601

Dear Jack,

I can understand your irritation with the letter from our consultant, Ted Harris, a copy of which he sent to one of our supplier members in response to an urgent request for "anything you've got on privatization of liquor control in Montana".

Obviously, any informational response should have come from my office by way of the Montana Department of Revenue, Liquor Division, and I view this as a serious breach of our procedures to always work in concert with the official department of a control state on matters such as this. That fact has been made quite clear to Ted Harris. Unfortunately, this situation developed while NABCA senior staff members were conducting a Board of Directors Meeting out of the city. This, however, should not have occurred and established procedures were not followed.

The Harris letter follows an analytic model prepared to clarify the revenue and price implications of privatization as it might apply generally in the control states. What we're attempting to do is respond to recent requests for such an analysis from a number of control states. The analysis is not intended (nor can it be expected) to apply to the specifics of any particular proposals to re-organize control state operations.

As you may note, the Harris letter was prepared prior to the issuance of proposals to extend agency operations in Montana. It does not address those proposals and is, therefore, clearly irrelevant to those proposals.

Exhibit # 8
1/10/92 SB 3

I regret any attempt to use the Harris letter or any part of it in a context for which it was not intended.

You may rest assured that NABCA's position is not to interfere with the rightful prerogatives of the individual states as it relates to how they conduct their respective liquor operations, but to assist them in bringing about the type of operation they believe is in the best interests of all the citizens of their respective states.

You have our sincerest apology and assurance that this type of miscommunication will not occur in the future.

Sincerely,

Paul C. Dufek
NABCA Executive Vice President

PCD/mpg

DEPARTMENT OF LABOR AND INDUSTRY

COMMISSIONER'S OFFICE

STAN STEPHENS, GOVERNOR

P.O.BOX 1728

STATE OF MONTANA

(406) 444-3555
FAX (406) 444-1394

HELENA, MONTANA 59624

Exhibit # 8A
1/10/92 SB 3

January 10, 1992

TESTIMONY BEFORE THE SENATE TAXATION COMMITTEE ON SENATE BILL 3

BY MIKE MICONE, COMMISSIONER OF LABOR AND INDUSTRY

Mr. Chairman and members of the committee.

I am Mike Micone, Commissioner of the Department of Labor and Industry. I am here in support of Senate Bill 3.

I appeared at the regular session of the Legislature last year in support of the proposal that was before you to remove the State of Montana from the retail sale of liquor. The Department's involvement in that legislation is identical to our appearing today in support of this legislation. That is, our mission to respond to the needs of workers. We have long held the view that the prevention of a worker dislocation serves the worker more than providing short term benefits or retraining that worker.

We believe today, just as we did a year ago, that consideration be written into the legislation for the existing retail store employees. That has been done. All employees are given absolute preference in acquiring the retail operation. We believe an employee-ownership model that is operated somewhat as a cooperative, would have the opportunity not only to survive but to prosper. We base this assumption that historically the operations have been profitable and that provisions in the legislation safeguard future profitability.

An employee-owned corporation, as defined in the Montana Employee Ownership Opportunity Act and created as a result of this legislation, has preference for licenses if employees choose to participate in the corporation.

The employee-owned corporation may hold multiple licenses---which is unique to the industry. This would allow for the continuation of the business as individuals leave the corporation.

Retail stores will have the ability to add beer and wine, limited food items and other products determined to add to the success of the operation. Lifting the current restrictions on advertising and mandatory hours will allow stores to market their products and to meet the needs of their customers.

We see a number of benefits for an employee-owned corporation to operate retail liquor stores. It would give current state employees the opportunity for ownership in a business. Unlike the usual single-owner scenario, the employee-owner corporation would create a large pool of skills, abilities and talents of many workers---workers who have the experience and have demonstrated that they can operate stores successfully. Together, these workers can build an even more prosperous retail operation.

The cooperative operation of the retail stores would mean corporate-wide profits. Under this approach, not only would profits be shared, but risks would be spread and minimized.

An employee-owned corporation would also provide retirement benefits for the workers in the form of stock earned in the corporation. This stock would be repurchased by the corporation when the individual terminated employment.

The employee-owned corporation can also be an excellent financing vehicle to acquire start-up capital. While the corporation would require 51% of the company to be held by workers, up to 49% of the company could be sold to attract venture capital. And financing can be supported through the Board of Investments.

The Department of Labor and Industry is committed to facilitating the implementation of one or more employee-owned corporations, as we believe the option for employee-ownership provides an exciting opportunity for state employees.

We also believe the investment of coal revenues in such an endeavor is an excellent investment in the future of our state and the employees who have served us well.

Senate Bill 3 is a good piece of legislation. It is good for the employee and it is good for the State of Montana. I urge your support. Thank you.

EX #9
1-10-92
SB3

FACT SHEET

Regarding SB 2, the Governor's Bill
to Privatize Liquor Stores

This report shows that the Legislative Fiscal Analyst's office was correct. The Governor's bill **doesn't make good sense** for the State of Montana.

We respectfully request that you please take time to read through this document.

SOURCE: The National Alcoholic Beverage Control Assn., Inc.
4216 King Street West
Alexandria, Virginia 22302-1507

The NABCA monitors all liquor and wine sales monthly for the controlled states.

Ted Harris & Associates have been retained by the NABCA to determine the revenues produced by these controlled states, of which there are fourteen.

MONTANA LIQUOR REPRESENTATIVES ASSOCIATION
2475 Cook Street - Helena, MT 59601

Exhibit # 9
1/10/92 SB 3

th

TED HARRIS & ASSOCIATES, INC. · 214 North Lee Street · Alexandria, Virginia 22314 · 703-683-4848

January 3, 1992

Mr Paul C Dufek
NABCA
4216 King Street, West
Alexandria, VA 22302

Dear Paul:

Per your request, I submit the following analysis of liquor control operations in Montana and of the revenue and price implications of proposals to privatize those operations.

The Liquor Enterprise Fund operates as Montana's exclusive wholesaler of distilled spirits, which it also retails (along with limited wine sales) through thirty state stores and some one hundred agency outlets.

Operating results for FY 90 can be summarized as follows (in millions).

net sales	$43.5	
cost of sales	24.4	
gross profit	19.1	(44%)
expenses, adj'd	5.6	(13%)
operating profit	13.5	(31%)

The above figures do not include the revenues collected as taxes on beer and wine sold outside the control system and as license and other fees. On the other hand, the figures do include $8.9 million in excise taxes on product sold through the control system -- because those taxes are an integral part of the pricing structure in Montana and in practical effect become part of the composite LEF mark-up.

Expenses shown are those allocated from the total for FY 90 ($6.1 million) as applicable to merchandising operations of the LEF.

[redacted]
Exhibit # 9
1/10/92 SB 3

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TED HARRIS & ASSOCIATES, INC. · 214 North Lee Street · Alexandria, Virginia 22314 · 703-683-4848

A first observation would be that a gross profit margin of 44% is very much in line with industry norms on a consolidated basis -- ie, a margin of 20% at wholesale and 24% at retail. A second observation would be that an operating profit margin of 31% is very much better than industry norms. Major retail chains generally operate on net margins of 5-7% and only rarely exceed 10%. The key factor in the case of Montana's LEF is the attractively low expense margin of only 13%.

Montana is obviously enjoying the revenue advantages inherent in its control state system -- integrated distribution (wholesale and retail), economies of scale and the market power of a monopoly supplier. In efficiently capitalizing on those advantages, the LEF is generating substantial operating revenues for the state -- thirty-one cents on every dollar sold.

There are, of course, other measures of revenue efficiency. DISCUS figures for 1989, for example, show that Montana derives $15.65 in revenue per proof gallon of distilled spirits sold -- against the average among all states of only $11.07.

Proposals to privatize control state systems usually seek (or at least, promise) "revenue neutrality." The idea is to get rid of the expenses but keep the profits. Iowa, which closed out its state-run retail operations in 1987, is a case in point.

To maintain existing reveues on a wholesale only basis, Iowa moved from a 75% composite mark-up on distilled spirits to a 60% mark-up at wholesale (since reduced to 50% under licensee pressure). The result: in FY 86, the last full year of state retail operations, the Iowa ABC delivered $28.2 million in operating revenue; in FY 90, it delivered $21.9 million (a decline of 22%). Not quite revenue neutral.

[redacted]
Exhibit # 9
1/10/92 SB 3

TED HARRIS & ASSOCIATES, INC. · 214 North Lee Street · Alexandria, Virginia 22314 · 703-683-4848

Iowa "converts" will argue that, in fact, the decline in state revenue would have been worse with state retail in place, because of a parallel decline in sales volume. That argument, of course, suggests an inability to control costs at retail, which may have been the case. But that argument also misses a more crucial point.

A 50% mark-up at wholesale may not be enough for revenue neutality but it is claerly too much to keep Iowa retailers competitive, especially at the borders. Some facts. Iowa has a population of 2.9 million; Montana, 0.8 million. In 1990, Iowa shipped 990,000 cases of distilled spirits or .34 per capita. Montana shipped 430,000 cases or .53 per capita. Iowa's operating profit in FY 90 of $21.9 million translates to $7.55 per capita; Montana's $13.5 million to $16.90 per capita.

Using FY 90 as a base year, we can examine the probable outcome in revenue and prices if Montana were to privatize. The cost of goods sold (excluding freight out of $1.1 million) amounted to $23.3 million. To achieve revenue neutrality, taxes of $13.5 million would have to be applied on that amount -- or 58% as compensation for operating profits foregone. The impact on prices would be dramatic. A hypothetical $4.00 of distilled spirits delivered to the LEF now retails in Montana at $7.20. Under privatization, that same $4.00 would arrive at retail at a pro forma $10.27. To illustrate:

delivered cost to LEF	$4.00
compensatory tax (58%)	2.32
wholesale cost	6.32
wholesale price (25% mark-up)	7.90
retail price (30% mark-up)	10.27

The net effect of total privatization, then, is to impose a price penalty of more than 40% on the consumers of Montana.

[redacted]

Exhibit #9
1/10/92 SB 3

TED HARRIS & ASSOCIATES, INC. · 214 North Lee Street · Alexandria, Virginia 22314 · 703-683-4848

The policy goal of revenue neutrality, of course, could be tempered. A more even distribution of penalties between consumers and tax payers could be struck by imposing more limited excise taxes on distilled spirits and then raising other taxes to cover the remaining LEF revenue shortfall. But that doesn't change the basic privatization question: why?

Advocates often claim de-control will bring increased sales, because private sellers would more aggressively promote their products. In turn, those higher volumes supposedly would reduce the taxes needed to balance revenues.

The de-control of wine sales in Iowa provides a notable example. Advocates predicted sales gains of over 100%, which would have increased state revenues by way of a new gallonage tax on wine. In fact, wine sales rose a more modest 16% (1985-88), and as a result revenues fell.

The Iowa experience illustrates another point. Projections of the results of privatization moves do not have to prove out. To be successful, they need only persuade. For once a control system is voted out, the steps taken are irreversible. No matter how actual results differ from those projected, private businesses will have been established that no legislature can vote away.

To sum up -- Montana generates substantial revenues on the sale of distilled spirits. It does this by operating efficiently as a monopoly supplier at both wholesale and retail. To privatize and still generate equivalent state revenue would require a substantial price increase -- because somehwere in the new price structure current state prifits and new private seller mark-ups would have to be accomodated. Because the sales of distilled spirits are not price inelastic, it is very reasonable to anticipate that the end result of privatization in Montana would be both higher prices and lower state revenues.

Sincerely,

Ted Harris

Ted Harris

EX #10
1-10-92
SB 3

TAXATION COMMITTEE CHAIRMAN & MEMBERS:

- I am an agent for Victor #172 State Liquor Agency.

- My contract expires at the end of this month, however does have a five year renewal clause with the same terms.

- I have heard rumors that the state is not going to renew my contract.

- I have heard renewals will be on a month to month basis.

- I have acted in good faith and was with the understanding that if I performed as a honest, reliable and capable agent my contract would be renewed on the same terms for the next five years.

- My stores sales of liquor have doubled as an agency store under my management.

- I have maintained eight inventory turns or better.

- My landlord called and asked what my plans are for renewing my lease, I have no answer for them at this time.

- I am asking the Department of Revenue, Liquor Division and the Legislative Assembly to honor the extension provided in my present contract and to not change the bid requirements, as I have proved myself as a first rate agent for the State of Montana.

Respectively submitted,

Margaret Nelson
Victor Liquor Agency - Store #172
P.O. Box 670
Victor, MT. 59875
642-3805

EX # 11
1-10-92
5

NABCA VENDOR SUMMARY

Vendor / Brand	Class	Last 12 Months This Year	Last 12 Months Prior Year	% Change	This Year to Date	Last Year to Date	% Change	Current Month This Year	Current Month Last Year	% Change
CELLA LAMBRUSCO	ITL LAMBRUSCO	315	276	14.13	277	232	19.40	10	25	60.00-
CELLA ASTI SPMT	ITL SPARKLING	179	110	62.73	151	83	81.93	26	8	225.00
TOTAL VENDOR		615	557	10.41	531	464	14.44	36	46	21.74-
WALKER HIRAM										
WALKERS DELUXE	STRT BOURBON	1	1	.00	1	1	.00			.00
WALKERS DELUXE	STRT BOURBON	6644	7347	9.57-	5726	6445	11.16-	576	630	8.57-
BALLANTINES	SCTCH BTL FGN	109	110	.91-	94	98	4.08-	8	10	20.00-
TEACHERS HL CRM	SCTCH BTL FGN	6	2	200.00	5	2	150.00			.00
CAN CLB COMM BT	CANDN BTL CAN	261	26	903.85	240	26	823.08	10	26	61.54-
CANADIAN CLUB	CANDN BTL CAN	4013	4315	7.00-	3399	3762	9.65-	355	364	2.47-
BEEFEATER	GIN IMPORTED	1255	1184	6.00	1116	1053	5.98	80	80	.00
HIRAM WALKER	SLOE GIN	1		100.00	1		100.00			.00
H WLK CHOC ALMD	SPECIALTY LIQ	1	1	.00	1	1	.00			.00
H WLK COCO RHUM	SPECIALTY LIQ	31		100.00	31		100.00	9		100.00
KOKOMO LIQUEUR	SPECIALTY LIQ		2	100.00-		2	100.00-			.00
HIRAM WALKER	PPMNT SCHNPPS		131	100.00-		115	100.00-			.00
H WLK HAZELNUT	OTHER SCHNAPP	92	120	23.33-	75	111	32.43-	7	13	46.15-
H WLK ORCH ORNG	OTHER SCHNAPP		3	100.00-		1	100.00-			.00
H WLK RED HOT	OTHER SCHNAPP	135	138	2.17-	119	120	.83-	16	18	11.11-
H WLK WLD STWBY	OTHER SCHNAPP	1		100.00	1		100.00			.00
B AND B DOM	IM PROP SPCLY	76	79	3.80-	57	64	10.94-	6	5	20.00
BENEDICTINE DOM	IM PROP SPCLY	59	63	6.35-	50	53	5.66-	6	5	20.00
IRISH MIST GIFT	IM PROP SPCLY		3	100.00-			.00			.00
IRISH MIST LIQ	IM PROP SPCLY	86	91	5.49-	67	71	5.63-	9	8	12.50
KAHLUA MEX LIQ	IM COF FL CRD	4361	4644	6.09-	3593	3990	9.95-	420	418	.48
OPAL NERA SAMB	IM OTH SPCLTS	1		100.00	1		100.00			.00
TUACA DEMI SEC	IM OTH SPCLTS	10	3	233.33	8	3	166.67	1	2	50.00-
ARANDAS	IM TEQ WHITE	867	1078	19.57-	771	989	22.04-	58	70	17.14-
ARANDAS	IM TEQ GOLD	289	255	13.33	253	230	10.00	15	17	11.76-
HARVEY AMTILLDO	IMP SHRRY REG	1		100.00	1		100.00			.00
HARVEY BRST CRM	IMP SHRRY CRM	117	141	17.02-	93	112	16.96-	16	16	.00
HARVEY BR MILK	IMP SHRRY OTH	1		100.00	1		100.00			.00
TOTAL VENDOR		18418	19737	6.68-	15704	17249	8.96-	1592	1682	5.35-
WHITEROCK DIST										
S FRN CKIES&CRM	CREMES OTHER	218	17	1182.35	169	17	894.12	30	17	76.47
CA BR PNK LMNDE	OTHER SCHNAPP	185	105	76.19	168	105	60.00	8	18	55.56-
CA BRND BTRSCTH	OTHER SCHNAPP	13		100.00	13		100.00	1		100.00
CA BRND LEMNADE	OTHER SCHNAPP	414	906	54.30-	362	776	53.35-	17	38	55.26-
MAUI BLACK CHRY	OTHER SCHNAPP	130	12	983.33	108	12	800.00	7	12	41.67-
MAUI BLUE HAWAI	OTHER SCHNAPP	262	121	116.53	238	121	96.69	18	31	41.94-
MAUI TROPICAL	OTHER SCHNAPP	1947	2484	21.62-	1715	2226	22.96-	131	169	22.49-
TOTAL VENDOR		3169	3645	13.06-	2773	3257	14.86-	212	285	25.61-
WILDMAN SONS										
CHARTREUSE GRN	IM PROP SPCLY		1	100.00-		1	100.00-			.00
WM & H DRY SACK	IMP SHRRY DRY	60	67	10.45-	50	59	15.25-	4	4	.00
TOTAL VENDOR		60	68	11.76-	50	60	16.67-	4	4	.00
WINE GROUP										
ISC PREM WHITE	WHT ZINFANDEL	48	71	32.39-	33	59	44.07-		3	100.00-
ISC CAL RHNSKLR	RHINE		65	100.00-		57	100.00-			.00
MASSON DBL DRY	DOM VRMTH DRY	699	772	9.46-	625	694	9.94-	58	61	4.92-
PAUL MASSON	DOM VRMTH SWT	640	673	4.90-	567	612	7.35-	55	63	12.70-
TOTAL VENDOR		1387	1581	12.27-	1225	1422	13.85-	113	127	11.02-
WINE WORLD EST										
GOLD OKT PSP MC	GRM MOSELLE		21	100.00-		13	100.00-			.00
TOTAL VENDOR			21	100.00-		13	100.00-			.00
DISTILLED SPIRITS TOTALS		430749	420587	2.42	373878	370338	.96	37639	35340	6.51
WINE & VERMOUTH TOTALS		29687	36676	19.06-	25739	31933	19.40-	2343	2658	11.85-
GRAND TOTAL		460436	457263	.69	399617	402271	.66-	39982	37998	5.22

EX #12
1-10-92
SB-3

CHARTERED BY
UNITED FOOD & COMMERCIAL WORKERS INTERNATIONAL UNION
AFL-CIO & CLC

TESTIMONY OF MARV ALVES ON SENATE BILL 3, HEARING OF THE SENATE TAXATION COMMITTEE, JANUARY 10, 1992

Mr. Chairman and members of the Senate Taxation Committee, for the record, I am Marv Alves, president of United Food and Commercial Workers Union Local 1981 from Missoula. I am here today to express my opposition to Senate Bill 3, the state liquor store privatization plan.

We've been down this road before, and I'll keep my testimony short and to the point.

This is a bad bill. It would dump a profitable operation -- state liquor stores -- for a highly questionable plan that even the Legislative Auditor says likely won't raise the money the Stephens administration says it will.

And the timing of it couldn't be worse -- during a recession. Senate Bill 3 threatens to put 90 state employees out of work.

Governor Stephens says his bill would take care of the workers affected through preferential hiring for state jobs at the same or lower wages.

But look at what's happening in state government right now. Legislators are cutting programs and holding open jobs authorized by the 1991 Legislature. The administration is holding the ax of potential unemployment over the heads of 90 workers who have families to feed and kids to put through school.

The administration's plan to allow store employees to buy out the store also is a big question mark. It's hard to see how a state store manager could afford to buy a store and its inventory in these recessionary times, make a decent living and pay his or her employees a decent wage and benefits. Everybody's going through this economic crunch right now.

The Legislative Auditor's report on the administration's bill says, "Some new operators may be able to make the new agency stores profitable if they offer wages and benefits well below current levels."

Liquor stores are profitable now, and after taxes earn some 5 million dollars in profit for the state.

Ex #12

Senate Bill 3 is just a one-time fix to hold off a tuition increase for university and vo-tech students. What's going to happen six months down the road? Where are they going to get the money to hold down future tuition hikes? Sell off some other state operation for a one-time shot to the budget?

Privatizing state liquor stores isn't the answer, and the $5 million in liquor profits should be sent to the state general fund.

Sandy Lee, manager of state store #171 in Missoula, says she opposes the administration plan because store owners would have to cut selection and go for volume sales. She also says liquor prices would have to be raised to make a profit.

There are just too many question marks surrounding this bill, least of which is what is going to happen to dedicated state employees dislocated by this plan. It's a dubious short-term fix.

We urge you to kill this bill.

EX # 6
1-10-92
SB3

CHARTERED BY
UNITED FOOD & COMMERCIAL WORKERS INTERNATIONAL UNION
AFL-CIO & CLC

TESTIMONY OF RAYMOND TRUDEL ON SENATE BILL 3, HEARING OF THE SENATE TAXATION COMMITTEE, JANUARY 10, 1992

Mr. Chairman and members of the Senate Taxation Committee, for the record, I am Ray Trudel, president of the United Food and Commercial Workers Union Local 8 in Great Falls. I'm here today to oppose Senate Bill 3, which could put 90 state employees out of work, all to raise money the Legislative Auditor says might not be there.

Listen to what one state liquor store clerk told the local newspaper recently: "I'm 45 and it took me a long time to find this job. It'd be great if private liquor store operators would hire us. But there's no guarantee they will. And if the state controls the profit level, they won't be able to offer us the same living wages and benefits the state does."

Another clerk told the newspaper: "I'm trying to do the best I can to be a taxpayer instead of a tax taker, on unemployment or welfare."

That's the point. This bill is built on shifting sand, and there are no guarantees. Where's the governor going to get 90 jobs when state government just doesn't have them, as evidenced by this special session.

And the money the administration says will be collected in one-time savings by selling the liquor inventory is play money right now.

The Legislative Auditor has pointed out that the savings just might not be there. There's no guarantee the money from savings will be there, there's no guarantee the jobs will be there for displaced workers and there's no guarantee new agency stores will make a profit and be able to pay employees a decent wage.

What there is is doubt, and plenty of it. The administration is gambling with 90 families' lives, and would sell off a profitable enterprise that these hard-working state employees have helped build up.

You don't sell a profitable enterprise for a one-time revenue shot, especially if you can't guarantee the profits and can't guarantee that jobs will be there for displaced employees.

Ex. #13

We and these workers aren't asking for a handout. Through their hard work, they pay their wages through liquor sales, not through tax dollars.

In the 12 months ending Sept. 30 last year, Great Falls state store #141 made a net profit of $246,837, a profit margin of 16.1 percent.

Now why convert a state store to an agency store when the Legislative Auditor warns that the savings likely won't be there. The auditor said the same thing in 1991, when the administration tried a similar plan. The auditor wrote then: "There is no overall long-term cost benefit to the state due to the elimination of state liquor stores."

The governor is a businessman. He should know better. When you're looking at a bad investment, you don't make it.

This bill is a bad investment. It would wipe out significant and historic financial benefits to the state and could end up costing the state money in the long run through lost profits and drains on the welfare and unemployment systems.

It just doesn't make sense economically. And those workers out there, who are making profits for the state, deserve better than to be dragged through the Legislature every time it meets.

We adamantly oppose this bill, and urge this committee to kill it and put these employees' fears to rest.

We and these workers aren't asking for a handout. Through their hard work, they pay their wages through liquor sales, not through tax dollars.

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We adamantly oppose this bill, and urge this committee to kill it and put these employees' fears to rest.

EX #14
1-10-92

Montana State AFL-CIO

Donald R. Judge
Executive Secretary

110 West 13th Street, P.O. Box 1176, Helena, Montana 59624

406-442-1708

SB3

FACT SHEET IN OPPOSITION TO SENATE BILL 3

BOOZE OVER A BARREL: SELLING OFF STATE LIQUOR STORES

BACKGROUND

The state currently operates 30 liquor stores, employing about 90 workers. These stores account for about 65 percent of all liquor sales in Montana. Most of these stores are located in the state's more populous areas.

Liquor **profits** for the 12 months ending Sept. 30, 1991 jumped 23 percent over the previous 12 month-period, increasing from $4.19 million to $5.17 million. Historically, liquor sales have pumped about $4 million annually into the state general fund.

Liquor **taxes** paid for the 12 months ending Sept. 30, 1991 totaled $9.88 million, up 12 percent from the $8.83 million in taxes collected in the previous 12-month period.

The 87 agency stores, operated by independent contractors, account for about a third of liquor sales. Profits in larger agency stores generally range from 6.9 percent to 8.99 percent. State-owned liquor stores are required to make at least a 10-percent profit. State store #171 in Missoula, for example, earned a 16.8 percent profit in the 12-month period ending Sept. 30, 1991. Other profit margins during the same period include state store #141 in Great Falls, 16.1 percent; state store #4 in Billings, 15.9 percent; and state store #193 in Bozeman, 14.9 percent.

Montana's retail liquor sale policy says "that it is necessary to further regulate and control the sale and distribution of alcoholic beverages within the state and to ensure the entire control of the sale of liquor in the Department of Revenue."

PROMISES

Gov. Stan Stephens' proposal to privatize liquor stores is simply a fulfillment of a campaign promise to do so. Fulfilling that promise threatens current profits, state control of liquor distribution and the jobs of state liquor store employees.

Senate Bill 3 **appears** to go further than any other proposal to consider the welfare of the workers who would be displaced by converting state-owned liquor stores to privately run agency stores.

The legislation **appears** to grant current workers absolute preference for bidding on state-run liquor stores.

The state **appears** to be willing to grant workers preferential treatment in obtaining other state government jobs at the same or lower pay.

FACTS

*Senate Bill 3 would exempt from state requirements that the Legislative Auditor analyze the costs and benefits of privatization plans. (See Page 21, lines 6-11 of bill.) That would ignore legislative intent established in the 1991 Legislature and affirmed by the governor.

*The state Revenue Department will still control the conditions of contracts to successful bidders, and such conditions appear to make it more difficult for agency stores to make a profit. According to the Legislative Auditor, "It does not appear profitable for the agents to buy the inventory and operate the stores under current conditions."

*Job preference? What jobs? Montana lawmakers currently are cutting government services, and the projected deficit may point to the wave of the future -- fewer public services and fewer public sector jobs. 90 families may be displaced in this move alone, and lose access to state health and retirement plans. Does that jibe with the governor's 1988 interview with the Missoulian? "I **want to reduce the size of government in an intelligent, compassionate way.**" Hiring rights exclude preference for higher paying jobs, even though no other barrier may stand in the way.

*The Legislative Auditor predicts that slow-moving liquor may not be bought by agency operators, while noting the state may obtain a fraction of the $4 million in one-time revenue projected by the Stephens administration through the sale of inventory.

"Based upon current commercial lending rates, the retail price of liquor, proposed commission rates, and salaries being paid current liquor store employees it does not appear new agents would be able to continue to pay wages at current levels, provide benefits, and cover operating expenses (including loan payments)," the auditor's report says. "Some new operators may be able to make the new agency stores profitable if they offer wages and benefits well below current levels."

*It appears to state workers that this administration has been consistently throwing roadblocks into the profitability of state liquor stores. Shipments arrive late, orders are fouled up and liquor shortages have left shelves empty, making it difficult for the stores to achieve appropriate profit levels.

*Ted Harris & Associates Inc. of Alexandria, Va., has studied the issue, and concluded: "To privatize and still generate equivalent state revenue would require a substantial price increase -- because somewhere in the new price structure current state profits and new private seller markups would have to be accommodated."

*This effort is simply the first step in setting the stage for a Montana liquor store monopoly, through whom all liquor will pass. (Who will be the new Liquor King?) Is Montana abolishing its liquor policy and surrendering control of liquor sales and distribution?

*The bill proposes a one-time quick fix for the university system. It's questionable at best and offers no long-term solution to the university and vo-tech tuition increases.

THE MONTANA STATE AFL-CIO AND AFFILIATED UNIONS
ADAMANTLY OPPOSE SENATE BILL 3
AND URGE YOU TO KILL THE BILL!

Exhibit # 15
1/10/92 SB 3

1-3-92

Dear Legislator,

The Governor's proposal to sell the retail liquor division has many flaws. The four to five million dollar <u>one time</u> gain seems very small compared to the every year profit of 4.1 million dollars the stores generate now. The legislative fiscal analyst agreed with this position at the last session. What has changed?

There are many non-money issues which say not to sell the retail stores. The loss of jobs is obvious. Where will these employees find work in the present economy? The liquor division gives money to at least two social programs before there net profit is figured. Where will this money come from? Most analysts feel the price of liquor will go up. This can only hurt both small business and the tourist industry. Law enforcement officials are very concerned over possible problems with under aged drinking from privatization.

The one positive effect of the Governor's proposal is the infusion of money, one time, into the university system. A better proposal would be to give the net profits <u>each</u> year to our education system. This four to five million dollars could be generated each year to help education if we stay in the retail business.

There is no reason the state could not continue to make many millions each year to help education if sound business decisions are made. The state must stay in the wine business. A grocery store could not lose its meat section without over all sales falling. If the same store moved every three years profits would also drop. If the legislature will move to keep the state in the retail and wine business as well as look at the new bidding procedure for store location the state will continue to make millions of dollars each year.

Sincerely,

[illegible]

[illegible] I sent you an extra copy in case you want to make [illegible] to pass out while in Helena.

Bob.

The Big Sky Country

MONTANA HOUSE OF REPRESENTATIVES

REPRESENTATIVE PATRICK G. GALVIN

HOUSE DISTRICT 40

HELENA ADDRESS:
CAPITOL STATION
HELENA, MONTANA 59620

HOME ADDRESS:
105 29TH AVE., NW
GREAT FALLS, MONTANA 59404

COMMITTEES:
HIGHWAYS & TRANSPORTATION
HUMAN SERVICES & AGING
STATE ADMINISTRATION

1-6-92

Legislators:

Mr. Mihlhoff owns the building which Houses the State Liquor Store in House District 40. He stated that this one store cleared $250,000.00 in 1990.

Pat Galvin

Exhibit # 16
1/10/92 SB 3

SPIRITS FOR MONTANA

WHOLESALERS

?

FACT SHEET

Exhibit # 16
1/10/92 SB 3

FACT SHEET

Number of retail outlets in the current system - 130

100 agency stores
30 State stores

Distribution of sales

Agency stores approximately 47%
State stores approximately 53%

Compensation to agency store - negotiated on an individual basis up to 10% of gross sales.

Montana ranks 38th in alcohol sales coming from spirits with 29.2% coming from spirits, 61% from beer and 9.8% from wine.

ON GALLONS

Sales trends for spirits from 89 to 90 showed an increase of 5% but a decrease from 88.

Revenues from the sale of spirits in the last calendar year were:

Gross revenue	$43,894,903
Profit	$ 4,483,348
Taxes collected	$ 8,958,946

TAXES 26% AFTER 40% MARKUP BY STATE

Sales Trends

1986 - 462,414
1987 - 431,302
1988 - 422,905
1989 - 404,557
1990 - 426,810

GALLON

QUESTIONS

&

ANSWERS

Exhibit #16
1/10/92 SB 3

SPIRITS FOR MONTANA WHOLESALERS

CONCEPT QUESTIONS AND ANSWERS

Q. What is the real possibility of a free enterprise liquor system in Montana?

A. Presently there are many issues to be addressed before this could be accomplished. Issues like no loss in revenue, maintaining an adequate supply in rural markets,and the status of retail outlets need to be resolved before there can be any possibility of changing the current system.

Q. What steps need to be taken in order to pursue this concept?

A. First and most importantly we need to organize, setting aside our differences, devise a strategy and work together toward a common goal.

Q. What can be done in my own market to promote this concept?

A. You need to be willing to contact your legislators and to contact proponents to solicit support and to present our ideas and justification. you need to be willing to talk to any opponents and present an alternative point of view without being controversial.

Q. Have other states made a similar change in their system of sales and distribution of distilled spirits?

A. No state has repealed a "controlled system" since 1933 when prohibition was repealed.

Q. What groups or organizations might be opposed to a change away from our current system?

A. First groups with a vested interest like the AFL-CIO (representing State employees) and the NABCA (National Alcoholic Beverage Control Association) followed by State agency store owners and conceivably the MTA. Also groups or organizations may have a moral or philosophical basis for opposition. This could be groups like the PTA, MADD and any number of other religious social organizations.

Q. What are the moral philosophical issues?

A. Those concerns are numerus but, the more prevalent are:

Would changing the system result in increased alcohol abuse?

Would teenage use of alcohol increase?

Would the incidence of DWI increase?

SPIRITS FOR MONTANA WHOLESALERS

WHOLESALING QUESTIONS AND ANSWERS

Q. How could liquor sales / distribution contribute to my operation?

A. Much of this business would be incremental and would help to reduce delivery cost and to broaden your sales base. Maintaining selection and variety could prove to be difficult and expensive. Requirements placed upon wholesalers by suppliers regarding minimum quantities for shipment could also be costly particularly in low volume markets.

Q. How does the liquor business differ from the wine business?

A. Although several similarities do exist a couple of key differences do exist:

First percentage of profitability are typically lower.

Second inventory costs are higher and inventory turns are fewer.

Spirit companies tend to be more aggressive with their distributors in terms leveraging weak brands with strong brands to force distribution.

Q. What are the typical margins that can be expected at the wholesale level?

A. Adjusted gross margins typically run around 15 to 20%

Q. What might I expect to invest in inventory?

A. The average FOB of a case of spirits will probably be around $70 to $75. Depending on the size of the market, an investment of from $50,000 to $250,000 is not inconceivable.

Q. How are current retails determined?

A. The current formula is:
FOB Helena X 140% (mark up) X 126% (tax).

Q. Would front line pricing be lower in a non controlled or free enterprise system?

A. Not necessarily. It would depend on how much of the revenue requirements could be shifted to alternative sources.

Q. Would the annual volume of liquor increase as it did with wine in 1979?

A. Yes, but probably not to the same extent. The retail price would influence the rate of change as well as a more restrictive approach to outlets.

SB 3
1-10-92

Dear Francis: Thur. Dec. 12, 1991

Francis Bardonouve, chairman of the House appropriation Committee & the members.

I read & heard on T.V. that Governor Stan Stephens & his administration will introduce a Bill to get the State out of the Liquor Business at the Jan. 6th, 1992 Special Session, which I was always AGAINST doing that. I am now against doing that again.

This enclosed material in this Packet are the same copies that I used AGAINST the State getting out of the Liquor Business, when I was House State Representative during the years 1977 through 1987 & Recently the WINE issue.

Each time the Bills were all Defeated, in which this testimony of mine helped to get them Defeated.

Therefore, due to my health, I am not able to testify against the Bill at the Jan. 6th, 1992 Special Session. Instead I am using this same material that I used previously to help you why that this Bill should be Defeated again for the State to get out of the Liquor Business.

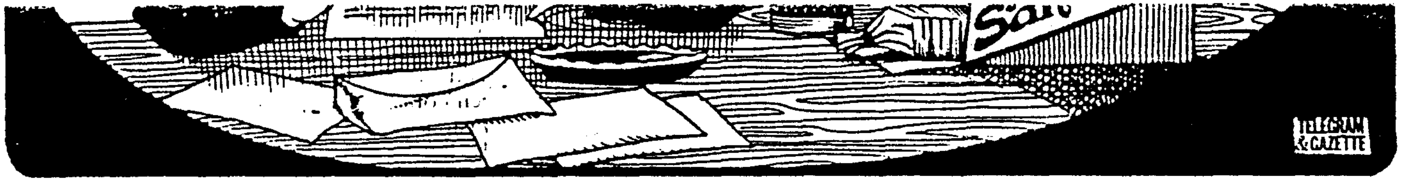
I believe this information will give enough source to help you to again Defeat Governor Stan Stephens & his administrations Bill for the State to get out of the Liquor Business. Please, Listen old man Pistoria.

Thank you.

Sincerely yours,
Paul G. Pistoria,
Former 6 term-12 year State Representative-from District #36.
2421-Central ave.
Great Falls, MONT-59401

P.S. - Gov. Stephens doesn't tell us how he will get the 4 million dollars by getting out of the Liquor Business. No doubt it will come from the inventory. thus handing it over to the whole-salers & the chain stores (the conglomerates). He doesn't tell us we will lose 12 million dollars by doing so per year. (It is Terrible)
Paul

SB 3
1-10-92



MISSOULIAN EDITORIAL

Liquor idea hits the spot

Governor's right: State has no business selling booze

In the days and weeks ahead, prepare to hear a lot of ideas coming out of Helena on ways to cut the state budget. The governor and Legislature must undertake another exercise in belt tightening following a judge's ruling that spending cuts ordered by Gov. Stan Stephens this fall were based on an unconstitutional law.

Of all the ideas that'll be advanced, it's doubtful that any will make as much sense as the governor's proposal to further extract state government from the retail liquor business. On Monday, Stephens suggested the Legislature expand earlier measures designed to phase the state Department of Revenue out of the liquor business.

Stephens' plan is to convert 30 state-owned liquor stores to so-called "agency operations" – quasi-private businesses that sell state-owned liquor and pay overhead costs in exchange for a percentage of the profits. Ninety-five liquor stores throughout the state have already been converted to agency operations. Converting the remaining 30 state-owned stores would save an estimated $1 million to $4 million of your taxes a year, according to the governor.

The only problem with the Stephens proposal is that it stops short of getting out of the liquor business altogether. The state has about as much business selling wholesale and retail as it does selling cars or hardware. Stephens' earlier efforts to extract the state from the liquor business ran into tough opposition in the Legislature, however.

Stephens proposes to spend the money that would be saved by converting the 30 state stores to agency operations on the university system, using the money to stave off emergency tuition increases scheduled to go into effect Jan. 1.

The benefit to students and higher education would be temporary, to be sure. The one-time savings offered by the governor's liquor-store proposal won't substitute for sustained, adequate funding of higher education. But the governor's proposal does highlight the outrageous priorities reflected in state spending: Colleges and universities are being short-changed, and students and their parents are being asked to pay higher fees for education that is vital to the future of individuals and the state. Meanwhile, state government wastes resources on what is, at best, the lowest possible priority – socialized liquor stores.

SB 3
1-10-92

ANOTHER BUNGLE BY GOVERNOR VETO STEPHENS' ADMINISTRATION.

PAUL G. PISTORIA

GARY BLEWETT and STAN STEPHENS are determined to get the STATE out of the LIQUOR BUSINESS.

I have to tell our CITIZENS what they are doing. YES, they are getting out of the WINE BUSINESS. They have sold out to the CONGLOMERATES!

The WINE INITIATIVE passed in 1978. In the 1979 session the Legislature amended the INITIATIVE with S.B. 99 which passed the Legislature affirming that the State will continue in the WINE business.

Therefore, how can they get out of the WINE business without the Legislature acting on it? That is truly breaking the law when they make a change enacted by the Legislature without the Legislature rescinding it. They just CANNOT do that. TRUE!

When the WINE INITIATIVE passed in 1978 the people of the State of Montana lost approximately three million dollars per year in revenue. If the STATE would get out of the LIQUOR business now we would lose approximately ten to twelve million dollars in revenue per year. Then, the conglomerates would have to raise their prices on liquor and wine if the State made all of them pay a tax to make up the loss in Revenue. No doubt that would have to happen!

The loss of the liquor business would cost many State employees their jobs and it would be hard for them to obtain another job to protect the pension plans with the State of Montana. This loss of jobs would also adversely affect Workers' Compensation. The CONGLOMERATES would not hire these workers.

The State maintains that the WINE business takes up too much space and does not make enough money. I do not believe that $600,000 is a small sum of money. Do you?

Why doesn't the State advertise their WINE as the CONGLOMERATES do? The State always has had good quality wine and the prices have been competitive.

When Howard Heffelfinger had charge of the Liquor Department there was little controversy and and sales were up in volume.

As a legislator for six terms I can remember that in every session some Republicans would submit a Bill for the State to get out of the LIQUOR business, but each session the bills failed. Bruce Simon from Billings tried several times but his bills always lost.

Therefore, I ask the legisators to contact Governor "VETO" Stephens, Gary Blewett and the Revenue Department to withdraw their policy of not stocking wine in the Liquor Stores. This action is in violation of S.B. 99 which passed in the 1979 Legislative Session.

This ad is the only means I have in informing the fine citizens of the State of Montana as to what is happening on this issue. You have a right to the TRUTH!

Donations in any amount ($1.00) will be appreciated to help with the cost of this ad. Thank you!

Sincerely yours,
Former 6 Term State Representative
Paul G. Pistoria
Paul. G. Pistoria

Pol. Ad. Pd. for by Paul G. Pistoria
2421 Central Ave., Great Falls, MT 59401

WITNESS STATEMENT

To be completed by a person testifying or a person who wants their testimony entered into the record.

Dated this 10 day of Jan, 1991.

Name: Robert Van Der Ven

Address: 2300 Wilder Helena

Telephone Number: 442-3252

Representing whom?

Self

Appearing on which proposal?

Senate Bill #3

Do you: Support?_____ Amend?_____ Oppose? X

Comments:

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY

WITNESS STATEMENT

To be completed by a person testifying or a person who wants their testimony entered into the record.

Dated this 10 day of Jan, 1991.

Name: Chad L Ouellette

Address: Big, Sky

Telephone Number: 995-4343

Representing whom?

Store #190 Big Sky

Appearing on which proposal?

Senate bill #3

Do you: Support?_____ Amend?_____ Oppose?_____

Comments:

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY

WITNESS STATEMENT

To be completed by a person testifying or a person who wants their testimony entered into the record.

Dated this 10 day of JAN., 1991.

Name: MIKE GRUNOW

Address: Lolo, MT

Telephone Number: 273-0199

Representing whom?

Liquor Agents

Appearing on which proposal?

SB-3

Do you: Support?_____ Amend?_____ Oppose? ✓

Comments:

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY

DATE 1-10-92

COMMITTEE ON Senate Taxation 1 of 2

VISITORS' REGISTER

NAME	REPRESENTING	BILL #	Check One Support	Oppose
JERRY STRONG	Self	3		✓
Robert Lemm		3		✓
Christopher K. WARDEN	SELF	3	✓	
Tye A. Deines	Self	3	✓	
MIKE CETRANO	SELF VILLAGIO PIZZA RIALTO BAR -	3		✓
ROSE BULLOCK	SELF SILVER MOON -	3		✓
CHESTER BULLOCK	" "	3		✓
D.A. Keck	SELF	3		✓
Jack 'Doc' Rea	Senator	3		✓
Michael Lemm	Liquor Rep	3		✓
[illegible]	Lold			
Jim Smith	SELF	3		✓
Margaret Nelson	Liquor STORE # 172	3		✓
[illegible]	U.F.C.W. 1981	3		✓
Ron Miller	UFCW 4R	3		✓
[illegible]	UFCW 1981	3		✓
John Alon	Self	3	✓	
Roy Trudel	UFCW	3		✓
Edward Wallace	Self	3	✓	
James Burke	Self	3	✓	
Don Judge	MT STATE AFL-CIO	SB 3		✓
Dave Cross	UFCW	SB 3		✓
[illegible] Bailey	Liquor Store #4			✓
Joyce Taylor	Liquor Store #196	SB3		✓
[illegible]	" " "			✓
Rep Pat Galvin	HD 40	✓		✓

(Please leave prepared statement with Secretary)

DATE 1-10-92

COMMITTEE ON Senate Taxation 2of2

VISITORS' REGISTER

NAME	REPRESENTING	BILL #	Check One Support	Check One Oppose
John [illegible]	Self	SB3		✓
John Hooper	Self	"		✓
Mary O Schuler		SB3		✓
Riley Johnson	NFIB	SB3	✓	
Terry Minow	MT Fed of Teachers MT Fed State Employees	SB3		✓
Mike Mecome	DLI	SB3	✓	
Kirk Lacy	Mont. Assoc Students	SB3		

(Please leave prepared statement with Secretary)