49TH LEGISLATURE, SECOND SPECIAL SESSION
MINUTES OF THE MEETING
BUSINESS AND INDUSTRY COMMITTEE
MONTANA STATE SENATE

March 28, 1986

The Business and Industry Committee meeting was called to order on the above date, in Room 410 of the State Capitol Building, at 3:30 p.m. by Vice Chairman Christiaens.

ROLL CALL: All members present except Senator Halligan, Boylan and Neuman. They were at other meetings and came in later.

CONSIDERATION OF HOUSE BILL 14: Representative Jerry Driscoll, HD 92, Billings, explained the bill. The bill addresses the closure of the liquor stores that were voted on and announced by the Revenue Oversite Committee in February. This bill stops the closures until the next session the Legislature can meet to decide what to do with the liquor stores. It also requires the Department to reopen the closed stores. The people are still being paid and the lease is still being paid. The only cost would be freight to Helena, East Helena and across town in Great Falls. It returns the agency stores to 10% profit or 10% of gross sales.

PROPONENTS: Representative J. D. Lynch,District 34 and representing Butte and Anaconda thought this is the time for the Legislature to say, "Listen, Executive Branch of the government, we are an equal part, 1/3 of this team, and when we give you our direction, you should follow it." The Department asked the Revenue Oversite Committee their advice on the closure of these liquor stores. A unanimous, bi-partisan vote of 8-0 came across instructing Mr. LaFaver not to close them. They immediately closed the three they could close and gave advice to the other four as to when their lease would expire. Senator Lynch thought their haste was somewhat questionable in so far as the Legislature was going to be here this week. He said the State of Montana should be committed to being good business partners and, when it comes to the agency stores and the way they have mishandled these people, it is a shame.

He said he felt the State was probably in line for a big law suit because of the way they are treating these people. The fellow running the agency store in Walkerville has changed the 5% losers to a 9.2% winner; a 14% change of a private individual, not a State employee. He figured that added up to pretty good business.

Representative Bud Gould, HD 61 Missoula, told the Committee that his problem with the Liquor Department goes way back with Senator Lynch to 1975. He had been discussing this problem with Mr. LaFaver since yesterday and did not feel the Legislature would hear any objections from him if one amendment is adopted. He did not feel the Department had taken into consideration the fact that the agency liquor stores are under the same liability problems the tavern owners are in regarding liability. The Lolo store in his area is a convenience store as far as the public is concerned, a major factor, and it is a premier store in the State of Montana as far as being an agency store. He asked Mr. LaFaver to work with the Oversite Committee to come up with some guidelines and rules for what is equitable and fair for all. They do have to make a profit and, if the plan presented is acceptable, the amendment before the Committee will terminate this bill. Amendment attached as Exhibit #1. He said they had gotten 100 signatures in 2 hours to open a special session for this issue.

In 1981 he had gotten a bill passed which makes a 10% incentive bonus for any State employee who comes up with an idea or invention which will save the State money. He will be requesting Mr. LaFaver to send letters to every employee, not just talk to bureau chiefs and supervisors, but send out a letter explaining the 10% bonus plan. He felt that, if these people in the State of Montana are going to stay in the liquor business they should have some ideas and may very well put money in their pockets.

Senator Richard E. Manning, SD 18 Great Falls, representing the down town business area, senior citizens and lower part of Great Falls, which encompasses his entire district. In the hearing with the Revenue Oversite Committee he appeared on behalf of some of the employees in the possibility their jobs would be in jeopardy. Since that time his store has been closed. The important thing is they were open Tuesday, closed Wednesday, and he started getting phone calls from some of the aforementioned people. Operators feel they were dealt with unfairly, were not given a chance to speak for or against on an opportunity to appeal their case.

Representative Dan Harrington, SD 68 Butte. As a member of the Revenue Oversite Committee he had been connected with this situation for a number of weeks. He felt HB 14 is going in the right direction. The Department of Revenue has a number of problems. Most of these stores ran between 9 and 11% profit. As far as the closure was concerned, one of the things that was brought out in the testimony before the Revenue Oversite Committee was that they were going to try to cut into what we call the convenience factor as far as serving these stores. These stores were allowed to close and other agency stores were allowed to drop their percentage from 10 to 8%. It is going to hurt some of these people drastically. We will lose up to 20% of their income in the agency stores. Many of these agency stores are not going to make it under this situation. They are going to be that close. It is wrong the way the Department went ahead with these closures. They announced 10 stores, came back in with a brand new 7 out of the clear sky and closed these 7 and announced the percentage cutback. He asked the Committee to look favorably upon this bill.

Patti Scott, East Helena, co-owner of the State liquor store in East Helena which was closed. On February 21, John LaFaver brought the plan to the Revenue Oversite Committee that included several proposals. In the testimony he presented at that time there was a document from the Department that showed the profits to be at 12.9% The Legislative language for that division says "shall attempt to reach 13%", so the profit was at 12.9% half way through FY 86. She pointed out that, even though the profit had declined in the past few years, the $4.3 million brought in last year is not to be sneezed at. The stores that brought in this profit are the very foundation of the whole program. She handed out Exhibit #2, attached.

The map also shows the valley. While Mr. LaFaver had assumed the East Helena trade would go to the Helena stores, in actuality they had a walk-in trade of 51% They have 23% of the valley population and most of their sales are between 5 and 6 p.m. at night and on Saturdays.

The fourth page of her handout shows a breakdown of the tax revenues received from some of the major cities and counties off liquor sales. Refer to exhibit for figures. She said the walk-in traffic and increase in sales in the towns has something to do with what is returned back to the cities. The City of East Helena lost $3,000 off the top when their doors were shut last week, based on the walk-in traffic. This money is earmarked to their law enforcement fund.

On the fifth page she itemized out in FY 85 what all the profits were from the stores going to closure. The total revenue all these stores brought in was $1,410,786.88. If all those sales aren't recouped in the other stores, there is going to be an adverse effect not only to the money that comes back to cities and towns but to the general fund money as well. She questioned the month to month leases.

Her store entered into a 5 year lease with the State of Montana 2 1/2 years ago and went into a mortgage situation for a new building in East Helena. The Department exercized their option to pull out of the lease, sent her a notice Friday (2 weeks ago today), came in on Tuesday, closed the store to the public, it's all cleared out right now, and technically the lease isn't up until the 13th. She is being paid right now for an empty building and also a State employee (her manager) is being paid because her contract says she has to be paid for 15 days. She was upset because there is no plan to take this to the private sector. The stores are just simply closed.

Dan Faulkner, Walkerville, agent for the Walkerville Liquor Store, said he is for closing none of the stores. His store is turning a profit, as shown in his handouts attached as Exhibit #3. He pointed out that the Butte store, by comparison, showed less profit than his. Their gross was larger than his, total expenses larger, expense per unit larger, expense of adjusted gross larger, average sales per unit lower than his store. The profit per unit is lower, yet his is targeted for closure. This issue has never been addressed and he has never been told why the Department is closing his store.

Mike Grynow, agent for the liquor store in Lolo, gave some handouts, Exhibit #4, attached. He has been slated for closure and previous to this was slated for reduction of commission from 10% to 8%. He has been in business in this State since 1973 and in the liquor business since 1979. He negotiated a 10 year agreement. To keep to the agreement with the State he had signed a long term lease, bought equipment, hired employees, was tested, investigated, scrutinized and approved as an agent for the State of Montana. With what has happened, he feels it is time to put some things into perspective in regard to his store and the other stores they are talking about today. He pointed out that even with an isolated spot, in the past 4 1/2 years, his store has done $1,771,000 in sales and returned to the State in total cash revenues $348,117 for a percentage return of 19.66%. These numbers come from the DOR. The bottom line net profit he returned $157,000 to the State which represents almost a 9% net return after all expenses, including his commission. If you add those two figures together it amounts to $505,000 or 1/2 million returned to the State -- 28 1/2%. He said he could not see how anyone on a committee or in the State should have the power to ruin the fruit of his efforts.

He was asked whether this is politics or business. He is raising a family in Lolo, paying taxes in Lolo and the State, supports the businesses in Lolo, serves the other businesses in Lolo, has the only liquor store in Missoula county that is open on holidays, Mondays, the day after Monday when it is a holiday, are open from 8 until 9 at night, they serve the customers when they need them. Now they face a problem that will force the customers out of their community into the community of Missoula. He proposed that the Legislature address the liquor business as a whole in the 86 or 87 Legislature, take time to study the details and issues at hand and don't allow a random closing of 7 or 8 stores based on some perfect assumption.

Don Judge, Montana AFL-CIO and associated local unions, encouraged the Committee to give HB 14 a do pass recommendation.

OPPONENTS: John LaFaver, DOR, handed out Exhibit #5, attached to the minutes. He said he opposed this bill formally in the House, and was really not here to oppose the bill as much as to express some frustrations of a beat up bureaucrat in the past few days. Senator Lynch layed out his concern that somehow the DOR had usurped the bonafide legislative responsibility. That was not his intention. He thought he was following legislative orders. It is a long history of the Legislature making more and more specific the operating requirements expected of the Liquor Division. In 1985 the Legislature required the Liquor Division to return 13% profit to the general fund and to control spending to 15% of total sales. He had taken that very seriously because the Appropriations Subcommitee had spent a lot of time in regard to what those numbers should be and how that language should be expressed.

As we got into the biennium it became obvious that unless some changes were made we were going to be $2 million short in the profits that were anticipated in coming back to the general fund. The Legislature used that $2 million dollars in their revenue estimate and essentially spent it in the appropriations you made in 1985. He said he had advised Governor Schwinden several months before the falloff in oil prices that something pretty substantial be done or we would be $2 million short in the revenue estimate.

The bill you have before you removes all profit objectives and spending limits from the DOR. He would be willing to carry out what the Legislature wanted done, but felt they should take a hard look at the bill and see if that was really what they want. $2 million in revenue in times when we had a lot of money and big surpluses isn't a lot of money. $2 million in the situation we are in now translates itself into a hundred pretty good paying jobs whether that is in institutions, universities or all the areas in public schools, etc., that state government supports.

The handout, attached as Exhibit #5, is an attempt to summarize the rationale they used in choosing the 7 stores they did and how they came out with the fiscal estimates. On page 4 he would go through a few numbers. The Kalispell market area is the most important. At the bottom of the column in "profit margin" you can see if we operate 3 stores in the Kalispell area we earn a profit margin of 12.1%, or we would have in '85. Two columns over you see our expense ratio in Kalispell is 16.7% You can contrast that with the objective you've written into your Appropriation Act that we are attempting to follow. If we did nothing, Kalispell would not meet your objective. There must be higher profits and lower costs in the major market areas to meet the overall objective.

He said, should this bill pass, he suggested it be sunsetted as of June 30 of this year. That the profit mandate would be reinstated and there be a mandate between now and then in preparation for the fiscal special session for the DOR to work with the Revenue Oversite Committee to present a plan that we could all support. If we don't do that we are, in a very short period of time, not going to have any profit at all from these liquor stores. The consequence will be that we will have to raise taxes 4 to 5 million dollars a year to make up for the revenue that the liquor enterprise is capable of contributing to the state general fund.

Senator Goodover rose to talk as an opponent to the bill itself. Having been a businessman all his life, when he hired a manager, that manager did what he wanted him to do or else. John LaFaver works for the Governor who was elected by the people. The Governor is in charge of all the agencies and the Legislature should not intervene or conflict with that responsibility. The bill has mischief in it on page 2, line 8. The political reality is that the liquor stores are a patronage operation. He said he hasn't found many Republicans working in liquor stores or managing them nor owning buildings that have those. He went into detail about a liquor store in Columbia Falls operated by a Mr. Elliott.

Senator Goodover liked Senator Lynch's presentation for the man from Walkerville. He said that is the best indication of private enterprise. He questioned why the other stores under government operation weren't doing the same thing. He said he has gone into liquor stores and people were sitting around doing nothing. He said these people can't afford to have that kind of help any more. If they are an agency store, they hire people who are going to work or they work it themselves, like the man from Lolo and his wife does. Rather than make an issue of closing these stores, why don't we try something different. Why doesn't this Legislature, either in June or January of next year, put these people on a private enterprise basis. They have the building, the people buying from them, let them have the liquor on these stores that are being closed by the State and let them run as free enterprise. Then two years down the line compare the results from these stores as to the liquor stores owned by the State. He said he thought you would find there would be an awful lot of difference and the profits to the State would be that much more. In regard to the gentlemen from Lolo, he is open when people want to buy. What other liquor stores are open when you want to buy. Walkerville said they were. Senator Goodover said they are open on holidays, sundays, that is private enterprise and he congratulated those people on doing that.

He referred to line 8, page 2 saying "Once established, a store may not be closed by the department", does that mean a hundred years from now all the stores are going to be run by Democrats? He didn't think that was the intent of this. He thinks a new governor will use that as patronage.

There were no further opponents.

COMMITTEE QUESTIONS: Senator Fuller asked John LaFaver if he had looked at the new performance audits and how many had been implemented. Mr. LaFaver answered he felt all of them had been implemented to some extent. One of the primary things he read in the audit was it said the Legislature should make up its mind as to what the Division should do.

Senator Fuller said that was the point. He asked Mr. LaFaver his rationale in closing these stores in light of what he just said. He could not understand the logic in not waiting for the audit, or the Legislature which was meeting in a short time, to get some direction. Mr. LaFaver said 3 stores were closed before the audit recommendation was even made. He had no objection with the audit committee working with them and bringing recommendations to the June session.

At this point, Senator Halligan resumed the chair.

Senator Fuller said Mr. LaFaver had not answered his question. If you believe your statement that the Legislature should give you direction, then Senator Fuller was astounded that he moved so quickly and didn't let that opportunity come up right now or in June. Mr. LaFaver answered that the law that existed was explicit and he still thinks it is "shall attempt to make 13%, shall limit spending to 15%". He assumed that meant to meet the revenue estimate and not come in $2 million short.

Senator Fuller asked if any of the stores were offered the opportunity to move to agency stores? Mr. LaFavor said no. There is no rationale he knew of to operate an agency store in the market area of a State store. If you did, you would be paying the agent 10% off the top of sales you could make out of the State store and not pay the 10%.

Representative Gould commented on what Senator Goodover had to say. His intention with this is only for a period of approximately 90 days. It is not a period of 100 years or anything like that. He said they are trying to bring fairness and equitability. If this can be done, and they come up with a good solution, they hope to have the problem over by July 1 of this year.

Senator Goodover had no problem with that. He was asking that we try a new direction. He said the Governor's Advisory Committee advised them years ago to get out of the liquor business. This could be a beginning. Here are 3 areas, Lolo, Walkerville and East Helena that could show what private enterprise could do.

Senator Thayer asked if the 10% commission the agency people get was a statute. Mr. LaFaver said no, but has been in place for some time. Contracts that have expired in the past several months have been negotiated down to 8%. As part of their recovery plan they have proposed moving them all to 8 percent.

Senator Thayer liked Senator Goodover's idea and wondered what would be wrong with this going out on a bid basis. Mr. LaFaver said there is only one state that operates on a total agency basis. To a large extent over half the liquor sold in the state is sold through the bars. They buy from the store, and to that extent we already have a lot of agents. To convert to all agency stores would essentially be the Oregon system. They had researched the option pretty hard last fall. The Oregon staff seemed to be warning them that they weren't happy with it as the agency owners seemed to have enough political power with the legislature that they could get their percentage up higher and higher to where the system couldn't make money. That is why the department didn't recommend to the Revenue Oversite Committee a movement to an all agency system.

Senator Kolstad asked Mr. LaFaver about the Kalispell area where they had 3 stores and with some closed they would jump the profit margin to 17%. Was that actuarial or a factual thing he had proven, or an assumption on his part that the other two stores will absorb all of that, or what? Mr. LaFaver answered it was maybe a little of both. It is based on what happened to sales when we opened that store. That store is only 4 or 5 years old. The liquor sales in the Kalispell area continued to follow about the same pattern that they saw state-wide whether they opened a new store or not. Sales in the old stores fell and sales in the new store came up. As the sales in the new store came up they clearly came at the expense of the old store.

Senator Kolstad said he guessed he was not used to dealing in profits of 12%. In agriculture, if we had to close every farm in Montana that was not making 12%, we would have zero farms.

Senator Williams asked how many leases were changed from yearly to monthly. Was this all of them in the state or just the targeted stores. Mr. LaFaver said he could not say how many stores were in the major market areas that expired within the past several months. They had simply gone monthly realizing this was going to be an issue.

Senator Williams said if the Lolo store has a 17.7% expense rate and shows a 19.66% net profit he didn't quite understand this. It looked to him as if the Lolo store is turning a good profit, regardless of the expense ratio. Were the other two stores returning the same profit? Mr. LaFaver said maybe they are not looking at the same numbers. The Lolo store is turning a 10.7% profit. Our profit mandate is 13. Their expense ratio is 17.7%, the department's mandate is 15.

Senator Williams wondered if he is misinterpreting the figures. Mr. LaFaver said he's looking at the profit he makes. The department is looking at the profit the state earns off his store.

Senator Williams asked how he defined negotiate. Did the Department negotiate with each individual operator or was it a blanket mandate - this is in regard to the 10% to 8%. Mr. LaFaver said it is a blanket policy for contracts that have turned over. He suggested a more comprehensive amendment regarding this. He said if the Legislature is talking about looking at this again in June of this year, he has given a proposed amendment to Senator Halligan that would line out the process the Department would use in dealing with the Revenue Oversite Committee. It would leave the profit objectives in place but would not allow them to go any further in terms of reducing agency commissions or closing any further outlets. The plan would be on hold and they would work with the Revenue Oversite Committee to present a plan to the June session.

Representative Driscoll closed by saying that he knew the Senate had not dealt with this matter in the last session but the House did and there was a bill in the House to close the State liquor stores which was defeated 73 to 27. The policy decision as to whether we have liquor stores State run or free enterprise is the Legislature's and not the Governor's. We made that decision in 1985. The decision here is whether we are going to have good faith and fair dealing with the people who signed contracts with the State of Montana. People who signed 10 year contracts and, at the end of 5 years are closed in 60 days. There is a little bookkeeping trick in the appropriations bill, you take salaries that they paid to liquor inspectors who inspect bars, not liquor stores, and charge that against the liquor stores. He said they tried to remove that last time, but it was lost in the shuffle. (that was in regard to the part of making 13% or not).

Now, if you took the $500,000 and put it in and made a realistic assumption of what the State is making off the liquor stores, you would have a true picture and they would be making more than 13%. Prior to '85 the law said they <u>shall</u> return 13%. Recognizing the fact we passed a lot of laws about drinking and due to economic conditions, that was changed to <u>shall attempt to</u>. The Committee was very adamant that they would attempt to do their best, but there was no mandate in HB 500.

The hearing was closed on HB 14. The Committee will not act on the bill now since the amendments are quite extensive. The meeting was adjourned until 7:00 p.m.

SENATOR MIKE HALLIGAN, Chairman

ROLL CALL

BUSINESS & INDUSTRY COMMITTEE

49th LEGISLATIVE SESSION -- 1986 Date 3/28/86

SENATE SEAT #	NAME	PRESENT	ABSENT	EXCUSED
#40	SENATOR HALLIGAN, Chairman	✓		
#16	SENATOR CHRISTIAENS, V.Chrmn.	✓		
#50	SENATOR BOYLAN			
#43	SENATOR FULLER	✓		
#12	SENATOR GAGE	✓		
#24	SENATOR GOODOVER	✓		
#10	SENATOR KOLSTAD	✓		
#17	SENATOR NEUMAN			
#33	SENATOR THAYER	✓		
#39	SENATOR WILLIAMS	✓		
	SENATOR WEEDING	✓		

Each day attach to minutes.

DATE March 28, 1986

COMMITTEE ON Business and Industry

VISITORS' REGISTER

H.B. 14

NAME	REPRESENTING	BILL #	Check One: Support	Oppose
Mike Grunow	LoLo Liquor Store	14	✓	
L. Madison Jensen	AFSCME	14	✓	
R Budd Gould	Dist 61	14	✓	
Sandra Heffelfinger	Self	14	✓	
Bob Durkee	MTLA	14	✓	
Don Judge	MT STATE AFL-CIO	14	✓	
Pattie Scott	E H Liquor Store			
Casey Robinson	" " "			
Howard Heffelfinger	Self	14	✓	
Marie E Durkee	MTA Helena	14	✓	
Laura Rogers	LIQUOR STORE	14	✓	
Sandra Knoll	Drummond Liq. Store	14	✓	
Dan Harrington	State Rep. Dist 68	14	✓	
Bud Campbell	#46			
Gary Blewett	Dept. Revenue	14		
JACK ELLERY	" "	14		
[illegible]	OBPP	14		
[illegible]	WALKERVILLE	✓	✓	
JOHN LAFAVER	DOR			
Dan Faulkner	Walkerville	14	✓	
TOM [illegible]	Helena	14	✓	
J. D. Lynch	SD 34	14	✓	
Senator Richard Manning	Senate District #18	14	✓	
Rep Bob Cartwright	H.D. # 70	14	✓	
R M Nelson	H.D 6	14	✓	

(Please leave prepared statement with Secretary)

BUSINESS AND INDUSTRY COMMITTEE
MARCH 28, 1986
HB 14
EXHIBIT #1

Amendments to HB 14

1. Title, line 14
Strike: "1987"
Insert: "1986"

2. Page 3, line 24
Strike: "1987"
Insert: "1986"

3. Page 4, line 12
Strike: "1987"
Insert: "1986"

HM2/hm/HB 14 Gould

BUSINESS & INDUSTRY COMMITTEE
MARCH 28, 1986
HB 14
EXHIBIT #2

March 21, 1986

Dear Members of the Legislature:

The Director of Revenue, John LaFaver, is claiming the Liquor Operation is on the verge of collapse. He would have you believe the profits are falling far short of the "required 13%." Mr. LaFaver presented this claim to the Revenue Oversight Committee last February 21, 1986 in Helena. He presented several proposals to "save" the system which included closing 10 stores: East Helena #83, Helena #197, Butte #2, Kalispell #195, Billings #5, Bozeman #9, Great Falls #141, Missoula #171, Evergreen Agency and Walkerville Agency. Other stores on the "hit list" are Hungry Horse, Lolo, Belgrade, Ronan, and Victor.

As it turns out, LaFaver decided to close 7 stores: East Helena #83, Kalispell #195, Great Falls #140, Bozeman #193, ~~Missoula #170~~ Billings #5, Walkerville and Lolo Agencies.

At the February 21st meeting, the Revenue Oversight Committee UNANIMOUSLY rejected the proposal and moved that no stores be closed until the 1987 Session had a chance to review the matter. Members of the Committee are: Rep. Mel Williams, Chairman, Rep. Gerry Devlin, Rep. John Harp, Rep. Dan Harrington, Sen. Tom Hager, Sen. Joe Mazurek, Sen. Bill Norman, Sen. Bruce Crippen, and Sen. Bob Brown. Absent from this meeting were Rep. Jack Ramirez and Sen. Tom Towe.

Reasons for rejection of LaFavers proposal were varied, but the following facts played an important part:

1. A Revenue Department document verified the net profit as of December 31, 1985 (half-way through FY86) was 12.92%. The legislative language states the Division "shall attempt" to return a 13% profit. It was obvious profits were at the required level.

2. LaFaver claimed 100% (all) of the sales in the stores proposed for closure would immediately go to the remaining stores. The Committee questioned this "assumption." At a time when revenue is sorely needed by the State General Fund, now is not the time to test LaFaver's theory.

3. Declining sales are a problem, but the State is still making a profit. It is not the same profit it made 10 years ago, nor will it ever be again. But there is clearly no emergency that merits closing profitable stores. Closing stores and making the product less available will not help declining sales.

LaFaver has not done any kind of "economic impact" study regarding all these closures. There is no plan for private industry to take over. Loss of sales will mean less tax revenues for cities and counties. East Helena lost approx. $3000 per year when they shut the doors to the public. This is based on our walk-in traffic. Normally, East Helena would receive $10,000 per year from tax revenues off the liquor, beer and wine sales. If sales go down state-wide, East Helena will lose more, as will every city and county in Montana.

And sales will go down, because store closures will not stop with these seven stores. We believe Helena #197 will close in November, when its' lease expires. Why should Helena have two stores, when there will only be one store left in Missoula, Bozeman, and Great Falls. We believe [illegible] targeted for closure between now [illegible] ask him and see what he says.

[illegible]

East Helena's official closure date is April 13, 1986. And yet, **the store was closed to the public on March 18, and COMPLETELY CLEARED OUT BY MARCH 20.** So the State is paying for a vacant building for the next three weeks and the manager's wages for another 10 days. We assume she'll sit in the empty building. We believe LaFaver wanted us closed before we could get help from the Special Session. East Helena gave LaFaver aggressive oposition before the Revenue Oversight Committee, so he is getting us out of the way now.

How is it a salaried employee can have so much power to affect so many people? Why is he allowed to defy the Legislature? LaFaver obviously has nothing to lose - the Legislature can't fire him. We don't know John LaFaver personally, or his background. We have always believed a person is only as good as his word. The State made a committment to us for five years in a lease agreement. In return, we built the State a new building in East Helena from which the State could operate the East Helena Liquor Store. We still have 2½ years left on the lease. We feel the State has an obligation in this matter. LaFaver has chosen to ignore this obligation. To some it might be "good" business that LaFaver did not pay off these leases. To us, we feel we were "shafted."

Finally, every store proposed for closure, including East Helena, is making a profit. Rep. Joe Quilici, Chairman of the Appropriations Sub-Committee on Revenue issued a statement to the Revenue Oversight Committee reitterating it is NOT LEGISLATIVE INTENT TO CLOSE PROFITABLE STORES, especially since no emergency exists.

At some point, declining sales may not return enough of a profit to make it feasible for the State to stay in the business. BUT THIS IS A DECISION OF THE LEGISLATURE, NOT A SALARIED EMPLOYEE.

PLEASE SUPPORT LEGISLATION TO STOP LAFAVER AND STORE CLOSURES!

Sincerely,

Patti Scott / Esther C. Schneiter

Patti Casey Scott and
Esther Casey Schneiter
Building Owners
East Helena Liquor Store
P.O. Box 777
East Helena, MT 59635
227-5740

Over

Most Sales: Between 5-6pm
and Saturdays, when the
population is at home.

16-1-101 "for the protection
of the welfare, health, peace,
,morals, and safety of the people
of the state..."

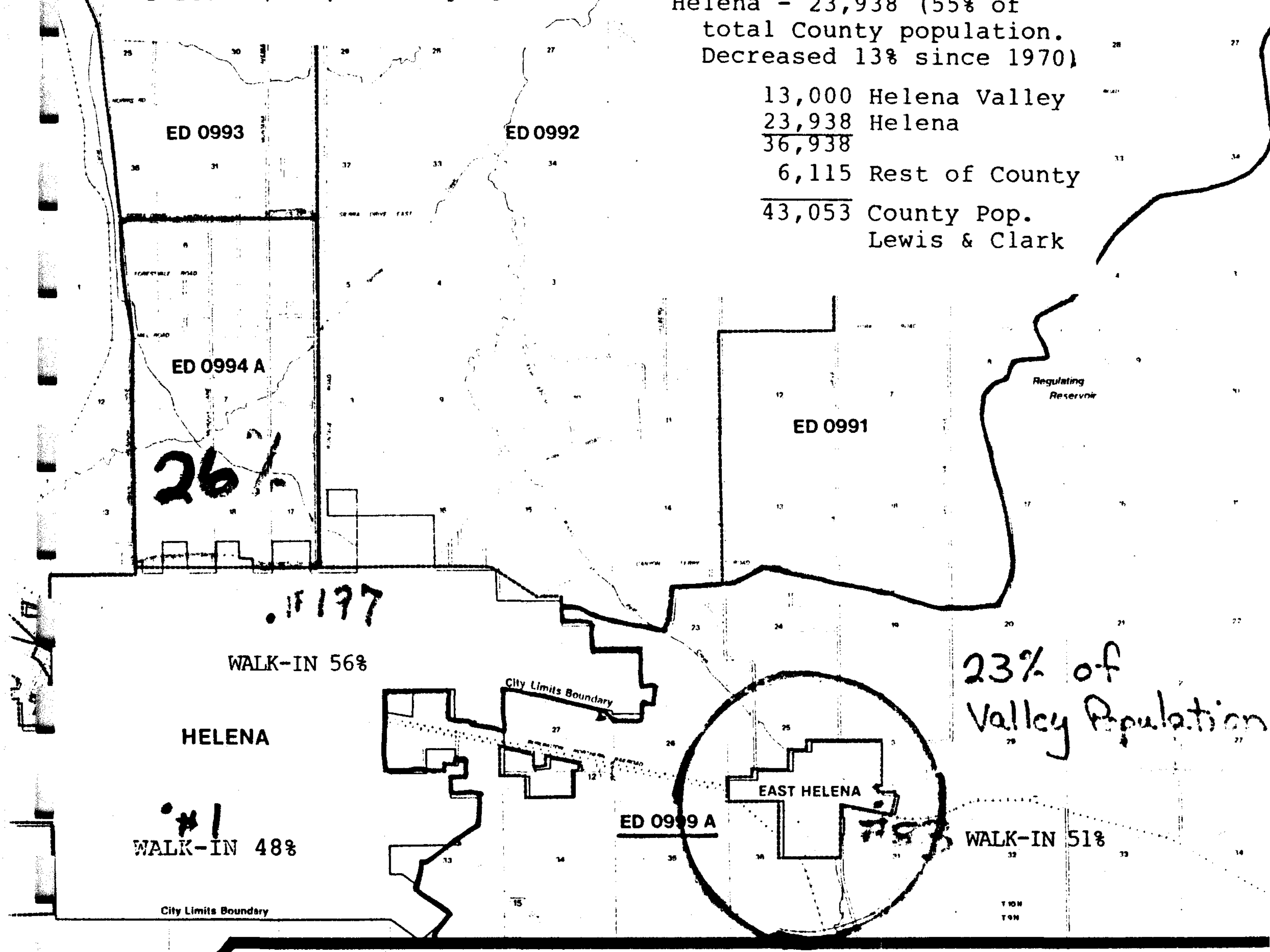
39,938 Population
3 Stores
1 Store / 12,312.66 people

Helena and Helena Valley
Population as of
1980 Census

Valley - 13,000 (30% of
total County population.
Increased 12% since 1970.)

Helena - 23,938 (55% of
total County population.
Decreased 13% since 1970)

13,000	Helena Valley
23,938	Helena
36,938	
6,115	Rest of County
43,053	County Pop. Lewis & Clark



CENSUS ENUMERATION DISTRICTS

Helena Valley

ED0999A - 2,677
City of East Helena - 1,647
4,324

Scale 0 2000 4000 / 1000 3000 FEET

Census Enumeration District Boundaries (1980)

Figure 7

Revenues received to Counties and Cities from Liquor Sales

	FY84	FY85
Missoula County		
Wine	$ 7,297	$ 7,303
Liquor	17,376	16,458
Missoula (City)		
Wine	5,766	5,771
Beer	91,939	88,271
Liquor	115,844	109,720
Yellowstone County		
Wine	10,371	10,380
Liquor	26,331	24,415
Billings		
Wine	11,536	11,546
Beer	183,940	176,601
Liquor	164,145	152,292
Cascade County		
Wine	7,747	7,753
Liquor	18,977	17,204
Great Falls		
Wine	9,796	9,804
Beer	156,201	149,969
Liquor	122,460	110,861
Silver Bow County		
Wine	3,656	3,659
Liquor	9,618	8,916
Butte		
Wine	6,425	6,430
Beer	102,450	98,362
Liquor	59,359	53,084
Lewis & Clark County		
Wine	4,131	4,135
Liquor	10,899	10,340
Helena		
Wine	4,134	4,137
Beer	65,916	63,286
Liquor	67,536	63,544
East Helena		
Beer-Wine	4,820	4,639
Liquor	5,123	5,387*

*Received more because sales up

Walkerville

FY83 -6.2% prof.

Liq-$4,281
Wine- $2,658

FY84 +8.8 prof.

Liq $4,764
Wine $2,595

FY85 +9.1 prof.

Liq $6,357
Wine $2,498

East Helena would only receive approximately half or less of the Liquor Tax if we had no store in East Helena. This is because 51% of the profit is walk-in. Without a store, we would have no walk-in sales, only tax money received from our three bar purchases and a portion of county-wide sales, which is based on population for the city. If stores are closed, and the sales are not picked up 100% in the other stores, cities and counties as well as the General Fund will lose, because these figures are based on sales.

Exhibit #2
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Stores Proposed for Closure - [illegible]

	Name	Total Sales	Tax $ +	Net Profit to State =	Total Revenue	Expenses (Savings)	Net Profit FY85 / Closure,
140	Gr.Falls	$1,359,696.75	$273,090.63	$161,060.58	$434,151.21	$149.161.27	11.8% / 12.9%
193	Bozeman	$ 825,159.75	$163,589.44	$ 74,144.50	$237,733.94	$115,587.97	9.0% / 10.2%
195	Kalispell	$ 671,995.26	$135,985.52	$ 37,825.89	$173,811.41	$114,686.38	5.6% / 7.3%
5	Billings	$ 936,399.67	$187,524.75	$ 80,277.33	$267,802.08	$130,525.58	8.6% / 10.3%
	Walkerville Agency	$ 384,969.85	$ 78,177.88	$ 35,142.16	$113,320.04	$ 51,823.09	9.1% / 10.2%
	Lolo Agency	$ 382,925.75	$ 76,785.78	$ 32,824.76	$109,610.54	$ 54,184.17	8.6% / 9.6%
83	East Helena	$ 296,469.09	$ 60,091.25	$ 14,266.41	$ 74,357.66	$ 53,579.60	4.8% / 7.7%
		$4,857,616.12	$975,245.25	$435,541.63	$1,410,786.88	$669,548.06	

Month to Month Leases as of 1-2-86

1.	Deer Lodge #11	Since Dec 1985
2.	Malta #22	Since Jan 1985
3.	Forsyth #23	" Dec 1985
4.	Fort Benton #31	" Aug 1985
5.	Conrad #33	" Sept 1985
6.	Troy #70	" July 1985
7.	Ronan #101	" Nov 1985
8.	Victor #172	" Sept 1985
9.	Butte #2	" Nov 1985
10.	Libby #6	" Nov 1985
11.	Kalispell #195	" June 1985 (earliest)

Why are all these leases month to month?

Exhibit #2
3-28-86

Every store proposed for closure is making a profit. Rep. Joe Quilici, Chairman of the Appropriations Sub-Committee on Revenue issued a statement to the Revenue Oversight Committee and John LaFaver reitterating it is NOT LEGISLATIVE INTENT TO CLOSE PROFITABLE STORES, ESPECIALLY SINCE NO EMERGENCY EXISTS. He asked that closures be delayed until the 1987 Session has a chance to review.

Sen. Dave Fuller - asked for follow-up audit to review all options before closures.

All Information on This Sheet has been Verified By Centralized Services:

Store	Adjusted Gross	Total Expense	Expenses per Unit	Expense of Adj Gross	Average Sales/unit	Profit per Unit
Butte #2	$735,428	$118,442	$1.17	16.10%	$7.24	$0.52
Walkerville #137	$384,969	$51,823	$1.02	13.46%	$7.61	$0.69

Every Sale generated from Butte #2 Store to Walkerville, The State recognizes $0.17 more profit

Average Unit Sells for more at Walkerville

Expenses of Adjusted Gross are lower at Walkerville

PERCENT OF PROFIT

	FY85	FY84	FY83	FY82
East Helena #83	4.8	1.4	4.7	5.6
Helena #197	10.6	10.5	8.1	4.6
Helena #1	10.8	9.8	10.8	13.9
Butte #2	7.2	8.1	7.1	9.2
Butte #116	11.2	12.1	12.4	14.7
Walkerville #137	9.1	8.8	(6.2-)	.5
Bozeman #9	10.6	10.4	10.0	12.0
Bozeman #193	9.0	9.3	10.1	9.6
Kalispell #12	11.6	11.7	9.7	11.0
Kalispell #195	5.6	6.8	5.7	6.8
Evergreen #67	11.1	10.8	8.5	10.4
Missoula #170	11.4	12.1	12.1	12.6
Missoula #171	12.0	11.6	10.9	12.3
Great Falls #141	11.6	11.2	10.9	14.1
Great Falls #140	11.8	12.0	11.9	12.7
Great Falls #139	10.7	10.3	10.6	12.9
Billings #3	12.4	12.4	12.4	14.5
Billings #4	11.0	11.7	11.4	13.3
Billings #196	11.7	10.4	9.3	8.2
Billings #5	8.6	8.0	7.8	10.9
All Stores Average	9.4	9.4	8.8	10.6

East Helena had the LARGEST INCREASE in Percent of Profit of all the stores listed here - a 3.4% increase. As of December 31, 198[illegible] half-way into FY86, the Percent of Profit is 7.02%.

The following stores are all questionable as to their profitability and should be considered FIRST for closure, before a PROFITABLE STORE IS:

	FY85	FY84
Browning 189	.8	1.9
Colstrip	(1.9-)	6.3
Gardiner	(.3-)	4.9
St. Ignatius	(5.5-)	(2.7-)
Jackson	(9.4-)	9.0
Victor	.2	.6
Westby	2.5	6.1

"Nonprofitable or marginally profitable state stores are to be closed or converted to agency stores in an orderly manner. Agency stores are to be closed if the division considers them marginally profitable and other state stores or agencies are located within a reasonable distance."

When a store pays all its expenses, makes a profit, has increased its profits from prior years, keeps people working, contribut[illegible] to the business climate of a community, **WHY SHOULD IT BE CLOSED?**

Is this Governor Schwinden's idea of helping the small business people, and the people of Montana? What ever happened to "Build Montana?"

BUSINESS & INDUSTRY COMMITTEE
MARCH 23, 1986
HB 14 - EXHIBIT #3

WALKERVILLE STORE #137

	FY1985	FY1984	FY1983	FY1982
Sales Units	50,584	31,483	24,368	30,297
Total Sales	392,477.60	236,435.80	168,402.50	213,615.25
Discount	7,507.75	3,259.11	1,790.00	3,038.29
Adj Gross Sales	384,969.85	233,176.69	166,612.50	210,576.96
Cost of Sales	219,826.72	132,220.10	95,724.10	119,726.36
Gross Profit	165,143.13	100,956.59	70,888.40	90,850.00
Operating Expenses				
Salaries		724.15	34,143.42	34,045.79
Cont Services	38,961.03	23,288.23	3,097.50	2,970.60
Supplies	211.62 - Store pays	174.12	296.42	762.67
Comm-Trans	3,071.47 - Division pays	2,216.20	1,907.68	2,108.97
Travel				158.00
Rent			1,200.00	1,200.00
Utilities			1,566.14	1,532.92
Repairs				98.25
Other Expense				487.05
Breakage-Shortage	129.90 - Store - Shortage chg	39.93		53.03
Adm Costs	9,449.07 - Division	6,926.26	5,360.96	3,847.87
TOTAL EXPENSE	51,823.09	33,368.89	47,572.28	47,265.15
TOTAL REVENUE	113,320.04	67,587.70	23,316.28	43,585.45
Less Transfers Out for Taxes	78,177.88	47,168.61	33,656.54	42,452.22
Net Profit after Taxes and Profit to General Fund	35,142.16	20,419.09	10,340.26-	1,133.23
PERCENT OF PROFIT	9.1	8.8	6.2-	.5

Agency Stores are charged 18.68¢ of unit sales. This is the same charge the Department assesses against state stores. Agency stores are less work for the Department, and should be charged less.

3/20/86

(1)

TO WHOM IT MAY CONCERN:
this is TO SUMMARIZE THESE STATEMENTS:

SALES	F/Y YEAR END	6/30/82	= 400,684.00
		6/30/83	= 338,136.00
		6/30/84	= 387,502.00
		6/30/85	= 388,418.00
	7/1/85 — 12/31/85		= 256,415.00
ABOVE TOTAL SALES			= $ 1,771,155.00

TAXES PROVIDED TO STATE FROM ABOVE LIQUOR SALES: (SAME PERIODS)

F/Y YEAR END	6/30/82	= 78,234.00
	6/30/83	= 65,988.00
	6/30/84	= 76,403.00
	6/30/85	= 76,785.00
7/1/85 — 12/31/85		= 50,706.00

TOTAL TAXES TO STATE FROM ABOVE LIQUOR SALES: $348,117.00

NET PROFIT TO STATE AFTER ALL OPERATING EXPENSES AND BEFORE TAXES ARE DEDUCTED FROM THE ABOVE SALES = 19.66%

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CONTINUED
(2)

NET PROFIT TO STATE FROM SALES;
1. AFTER ALL EXPENSES DEDUCTED
2. AFTER TAXES ARE DEDUCTED FROM SALE

NET PROFIT:
FYTD END : 6/30/82 = 37,599.00
6/30/83 = 26,794.00
6/30/84 = 30,468.00
6/30/85 = 32,824.00
7/1/85 — 12/31/85 = 29,431.00

TOTAL NET PROFIT AFTER ALL EXPENSES & ALL TAXES: $157,117.00

AVERAGE TOTAL NET PROFIT = 8.88 %

1. WE have contributed $348,117.00 in TAXE TO THE STATE FROM OUR LIQUOR SALES; (FOR THE PERIODS SHOWN)

2. WE HAVE ALSO CONTRIBUTED $157,116.00 IN NET INCOME, AFTER TAX REVENUES TO THE STATE, FROM OUR SALES;

IF YOU ADD THE ABOVE TOTALS ($505,233.00 IN REVENUES) AND DIVIDE BY TOTAL SALES (1,771,155.00) THE % OF REVENUE RETURNED TO THE STATE BY OUR STORE IS 28.53%

MO9

DatagraphiX.

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STATE OF MONTANA
DEPARTMENT OF REVENUE

LIQUOR DIVISION

STORES QUARTERLY OPERATING STATEMENT 12-31-1985

STORE NO 192 LOCATION LOLO GRADE AG LEASE DATE 09/14/89

	1ST QUARTER		2ND QUARTER		3RD QUARTER		4TH QUARTER		FY TO DATE		PRIOR YR TO DATE	* (1)
SALES UNITS	16,642		16,555						33,197		25,787	11.4 %
TOTAL SALES	127,478.50		128,937.30						256,415.80		219,921.10	16.6 %
DISCOUNT	2,347.55		1,617.00						3,964.55		3,034.60	30.6 %
ADJ GROSS SALES	125,130.95		127,320.30						252,451.25		216,886.50	16.4 %
COST OF SALES	71,817.17		72,679.08						144,496.25		124,086.81	16.4 %
GROSS PROFIT	53,313.78		54,641.22						107,955.00		92,799.69	16.3 %
OPERATING EXPENSES		* (2)		* (2)		* (2)		* (2)		* (2)		* (2)
SALARIES												
CONTRACTED SERVICES	6,761.83	5.4%	12,649.49	9.9%					19,411.32	7.7%	16,711.38	7.7%
SUPPLIES	15.98	%	34.42	%					50.40	%	147.62	.1%
COMM - TRANS	1,036.49	.8%	1,104.13	.9%					2,140.62	.8%	1,776.48	.8%
TRAVEL												
RENT												
UTILITIES												
REPAIRS												
OTHER EXPENSE												
BREAKAGE-SHORTAGE	14.96	%							14.96	%	27.30	%
ADM. COSTS	3,108.72	2.5%	3,092.47	2.4%					6,201.19	2.5%	5,564.20	2.6%
TOTAL EXPENSE	10,937.98	8.7%	16,883.51	13.3%					27,811.49	11.0%	24,224.78	11.2%
%ADJ SALE	8.7		13.3						11.0		11.2	
TOTAL REVENUE	42,375.80		37,760.71						80,136.51		66,574.91	
% ADJ SALES	33.9		29.7						31.7		31.6	
TAXES	25,176.13		25,529.90						50,706.03		43,345.13	
NET PROFIT	17,199.67		12,230.81						29,430.48		25,229.78	
PERCENT OF PROFIT	13.7		9.6						11.7		11.6	

NOTE-1: * (1) ARE PERCENTAGES OF INCREASE ( ), OR DECREASE (-), OF INCOME FROM LAST YEAR TO DATE TO THE CURRENT YEAR TO DATE.

NOTE-2: * (2), ARE PERCENTAGES OF EXPENSES, TO THE ADJUSTED GROSS SALES FOR THE QUARTER.

NOTE-3: ADMINISTRATIVE COSTS ARE COMPUTED ON 16.68% OF UNIT SALES.

DatagraphiX.

STATE OF MONTANA
DEPARTMENT OF REVENUE

LIQUOR DIVISION

STORES QUARTERLY OPERATING STATEMENT 06-30-1985

STORE NO 192 LOCATION LOLO GRADE AG LEASE DATE 09/14/89

	1ST QUARTER		2ND QUARTER		3RD QUARTER		4TH QUARTER		FY TO DATE		PRIOR YR TO DATE	* (1)
SALES UNITS	12,390		17,397		10,414		12,654		52,855		53,739	1.6-%
TOTAL SALES	91,913.45		128,007.65		74,584.55		93,912.50		388,418.15		387,502.50	.2 %
DISCOUNT	1,203.45		1,825.15		1,071.26		1,386.52		5,492.40		5,695.31	3.6-%
ADJ GROSS SALES	90,708.00		126,178.50		73,513.27		92,525.98		382,925.75		381,803.19	.3 %
COST OF SALES	[illegible]		[illegible]		[illegible]		[illegible]		215,[illegible].04		215,[illegible].27	.[illegible]-%
GROSS PROFIT	30,613.86		54,1[illegible]		31,[illegible]		35,6[illegible].60		16[illegible]		16[illegible].92	1.2 %
OPERATING EXPENSES		* (2)		* (2)		* (2)		* (2)		* (2)		* (2)
SALARIES												
CONTRACTED SERVICES	6,049.53	6.7%	10,661.85	8.4%	10,978.05	14.9%	11,683.56	12.6%	39,372.99	10.3%	38,070.26	10.0%
SUPPLIES	15.98	%	127.44	.1%	28.84	%	159.70	.2%	331.96	.1%	216.15	.1%
COMM - TRANS	841.76	.9%	930.70	.7%	1,445.46	2.0%	1,316.90	1.4%	4,544.86	1.2%	4,69[illegible].62	1.2%
TRAVEL												
RENT												
UTILITIES												
REPAIRS					20.60	%			20.60	%	42.49	%
OTHER EXPENSE												
BREAKAGE-SHORTAGE	10.39	%	10.91	%	13.17	%			40.47	%	110.15	%
ADM. COSTS	2,314.45	2.6%	3,245.75	2.6%	1,945.33	2.6%	2,363.76	2.6%	[illegible]	2.6%	11,[illegible].58	3.1%
TOTAL EXPENSE	[illegible]	10.2%	14,9[illegible].65	11.9%	14,43[illegible].47	19.6%	15,5[illegible].92	16.8%	54,164.17	14.2%	54,9[illegible]	14.4%
%ADJ SALE	10.2		11.9		19.(		16.8		14.2		14.4	
TOTAL REVENUE	29,383.75		39,191.16		16,947.95		24,087.68		109,610.54		106,872.67	
% ADJ SALES	32.4		31.1		23.1		26.0		28.6		28.0	
TAXES	18,227.60		25,117.53		14,715.38		18,725.27		76,785.78		76,403.82	
NET PROFIT	11,156.15		14,073.63		2,232.57		5,362.41		32,824.76		30,468.85	
PERCENT OF PROFIT	12.3		11.2		3.0		5.8		8.6		8.0	

NOTE-1: * (1) ARE PERCENTAGES OF INCREASE ( ), OR DECREASE (-), OF INCOME FROM LAST YEAR TO DATE TO THE CURRENT YEAR TO DATE.

NOTE-2: * (2), ARE PERCENTAGES OF EXPENSES, TO THE ADJUSTED GROSS SALES FOR THE QUARTER.

NOTE-3: ADMINISTRATIVE COSTS ARE COMPUTED ON 16.68% OF UNIT SALES.

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STORES QUARTERLY OPERATING STATEMENT 06-30-1984

STORE NO 192 LOCATION LOLO GRADE A6 LEASE DATE 09-16-09

	1ST QTR	2ND QTR	3RD QTR	4TH QTR	YR TO DATE	PRIOR YR TO DATE
SALES UNITS	14,835	15,678	10,609	12,617	53,739	46,845
TOTAL SALES	106,774.90	115,196.40	76,927.40	86,603.80	387,502.50	336,136.65
DISCOUNTS	1,733.74	1,586.25	1,132.96	1,246.34	5,695.31	6,756.36
ADJ GROSS SALES	107,041.16	113,610.15	75,794.42	85,357.46	381,803.19	333,377.99
COST OF SALES	61,195.25	66,706.31	43,525.45	50,531.26	215,956.27	190,535.83
GROSS PROFIT	45,845.91	46,903.84	32,266.97	34,826.20	161,846.92	146,856.16
OPERATING EXPENSES						
SALARIES						
CONTRACTED SERVICES	6,387.91	11,123.41	9,586.09	10,976.85	38,076.26	32,535.23
SUPPLIES	75.10	117.12		23.93	216.15	264.81
COMM - TRANS	952.12	1,240.63	1,376.48	1,125.39	4,694.62	6,487.84
TRAVEL						
RENT						
UTILITIES						
REPAIRS			21.83	20.66	42.49	
OTHER EXPENSE						
BREAKAGE-SHORTAGE	33.85		70.87	13.43	118.15	41.23
ADM.COSTS	3,263.70	3,449.16	2,333.98	2,775.74	11,822.58	10,745.90
TOTAL EXPENSE	10,712.66	15,930.32	13,391.25	14,936.00	54,972.25	46,075.01
% ADJ SALE	10.0	14.0	17.6	17.5	14.3	14.4
TOTAL REVENUE	35,133.23	32,973.52	16,877.72	19,888.20	106,872.67	92,783.15
% ADJ SALES	32.8	29.0	24.9	23.2	27.9	27.8
TAXES	21,497.13	22,656.96	13,218.73	17,031.00	76,403.82	65,988.35
NET PROFIT	13,636.10	10,316.56	3,658.99	2,857.20	30,468.85	26,794.80
PERCENT OF PROFIT	12.7	9.1	4.8	3.3	8.0	8.0

Datagraphix

DatagraphiX

STORES QUARTERLY OPERATING STATEMENT 06-30-1983

STORE NO 192 LOCATION LOLO GRADE A6 LEASE DATE 09-14-89

	1ST QTR	2ND QTR	3RD QTR	4TH QTR	FY TO DATE	PRIOR YR TO DATE
SALES UNITS	13,542	15,116	9,388	10,799	48,845	56,675
TOTAL SALES	96,420.85	102,774.45	64,627.25	74,314.10	338,136.65	400,684.30
DISCOUNTS	1,697.10	1,252.48	817.05	992.03	4,758.66	7,512.33
ADJ GROSS SALES	94,723.75	101,521.97	63,810.20	73,322.07	333,377.99	393,171.97
COST OF SALES	54,477.36	56,873.83	36,722.48	42,446.16	192,515.83	225,640.89
GROSS PROFIT	40,246.39	44,648.14	27,087.72	30,875.91	140,856.16	167,531.08
OPERATING EXPENSES						
SALARIES						
CONTRACTED SERVICES	6,333.76	8,919.61	8,440.11	8,841.75	32,535.23	39,206.13
SUPPLIES	55.90	94.30	71.61	43.00	264.81	317.20
COMM - TRANS	993.45	1,295.44	1,001.85	1,197.10	4,487.84	4,928.19
TRAVEL						
RENT						
UTILITIES						
REPAIRS						
OTHER EXPENSE						
BREAKAGE-SHORTAGE		41.23			41.23	26.29
ADM.COSTS	2,979.24	3,325.52	2,065.36	2,375.78	10,745.90	7,222.08
TOTAL EXPENSE	10,362.35	13,676.10	11,576.93	12,457.63	48,075.01	51,897.89
% ADJ SALE	10.9	13.4	18.1	16.9	14.4	13.1
TOTAL REVENUE	29,884.04	26,972.04	15,508.79	18,418.28	92,783.15	115,833.19
% ADJ SALES	31.5	26.5	24.3	25.1	27.6	25.5
TAXES	18,864.60	19,953.17	12,640.37	14,530.21	65,988.35	78,234.53
NET PROFIT	11,019.44	9,018.87	2,868.42	3,888.07	26,794.80	37,596.66
PERCENT OF PROFIT	11.6	8.9	4.5	5.3	8.0	9.6

Exhibit #4
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STORE NO	192 LOCATION LOLO	STORES QUARTERLY OPERATING STATEMENT	GRADE	06-30-1982 A6 LEASE DATE 09-14-89		
	1ST QTR	2ND QTR	3RD QTR	4TH QTR	FY TO DATE	PRIOR YR TO DATE
SALES UNITS	13,944	17,030	11,849	13,832	56,675	56,251
TOTAL SALES	96,592.00	117,646.95	85,517.00	96,926.35	400,684.30	361,817.05
DISCOUNTS	2,061.30	1,993.40	1,696.32	1,755.31	7,512.33	7,426.69
ADJ GROSS SALES	94,530.70	115,653.55	83,816.68	97,167.04	392,171.97	354,390.36
COST OF SALES	53,175.15	66,697.02	47,936.62	55,830.10	225,640.89	202,205.70
GROSS PROFIT	41,355.55	48,956.53	35,880.06	41,336.94	167,531.08	151,185.66
OPERATING EXPENSES						
SALARIES						
CONTRACTED SERVICES	6,792.49	9,133.50	10,451.74	12,826.40	39,206.13	32,906.49
SUPPLIES	1,402.50	52.30	32.10	1,165.70-	311.20	626.05
COMM - TRANS	947.44	1,215.88	1,170.08	1,590.79	4,928.19	3,207.63
TRAVEL						
RENT						
UTILITIES						
REPAIRS						
OTHER EXPENSE						
BREAKAGE-SHORTAGE	15.31			8.98	24.29	56.67
ADM.COSTS	1,564.51	2,234.77	1,571.45	1,831.35	7,222.08	6,086.94
TOTAL EXPENSE	10,722.25	12,660.45	13,225.37	15,085.82	51,697.89	45,385.76
% ADJ SALE	11.1	10.9	15.7	15.5	13.1	12.1
TOTAL REVENUE	30,633.30	36,296.08	22,654.69	26,247.12	115,833.19	106,218.88
% ADJ SALES	31.7	31.3	27.0	27.0	29.4	30.3
TAXES	19,340.45	22,856.74	16,730.92	19,306.42	78,234.53	70,592.46
NET PROFIT	11,292.85	13,441.34	5,923.77	6,940.70	37,596.66	37,626.42
PERCENT OF PROFIT	11.7	11.6	7.1	7.1	9.6	10.6

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Datagraphix.

BUSINESS & INDUSTRY COMMITTEE
MARCH 28, 1986
EXHIBIT #5

DEPARTMENT OF REVENUE

TED SCHWINDEN, GOVERNOR

MITCHELL BUILDING

STATE OF MONTANA

HELENA, MONTANA 59620

DEPARTMENT OF REVENUE

INFORMATION FOR LEGISLATORS

ON

Liquor Store Closures

The Department has taken action to close 7 liquor stores to help earn revenue planned last session.

The store closures are just one part of a five part plan to overcome what would be a $2 million short fall if nothing is done. Store closures will contribute $560,000 to this plan.

The Department is working within Legislative criteria enacted in HB500 last session.

The Liquor Division operates under an open ended appropriation. The only limits to what the Division can spend are performance criteria written in HB500. Authority to close stores is granted.

"During the 1987 biennium, the division shall attempt to return at least 13 percent of net sales. Net sales are gross sales less discounts and all taxes collected. The division shall limit operational expenses of the liquor merchandising system to not more than 15 percent of net sales. Operational expenses may not include product costs, freight charges, or expenses allocable to other divisions or licensing bureau expenses.

"The division retains full authority to determine store operating hours and the number and location of stores and employees. Nonprofitable or marginally profitable state stores shall be closed or converted to agency stores in an orderly manner. Agency stores shall be closed if the division considers them marginally profitable and other state stores or agencies are located within a reasonable distance."

The 1982 performance audit (Office of the Legislative Auditor) urged the legislature to clarify the mission of the Liquor Merchandising Program.

The audit report stated: "The Legislature has given the Division confusing signals as to whether it should operate as a service organization or a profit-making business. We believe the Legislature needs to statutorily define the Division's role."

The audit report listed 4 questions that the Legislature needed to answer:

- Should the Division try to maximize profits to the General Fund?

- Should the state operate its own or agency stores in each community regardless of profitability?

- Should the state advertise prices?

- Should the state stock a wide variety of products in each store regardless of profitability?

The Department has taken the position that its responsibility is to maximize profit to the General Fund consistent with adequate service. This means, among other actions, reducing overhead costs in multi-store market areas.

After carefully examining the major Liquor market areas, we have concluded General Fund revenues can be significantly enhanced by closing seven state liquor stores and agencies. Two basic factors underlay this action. First, dollars sales declined by 11.5% from Fiscal 1982 to 1985, representing a reduction of $6,375,325. During the same period, unit sales (actual number of bottles) dropped 17.6%, from 8,071,108 in Fiscal 1982 to 6,651,387 in Fiscal 1985. Clearly the marketing structure appropriate for selling 8 million units does not work for selling only 6.6 million.

Second, in our larger market areas throughout the state there are several state retail liquor outlets. The distance between them generally ranges from several blocks to a few miles. By closing one store in each market area, local customers will not be inconvenienced by having to travel a short added distance to purchase spirits or wine at the state price. Total sales in these areas are expected to shift to the remaining outlets thus increasing the market area profitability and state revenues.

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The following describes the basis for restructuring our retail outlets in seven primary market areas.

Butte Market Area

The Butte market area is served by three stores: Uptown Butte #2, Harrison Avenue #116, and Walkerville Agency Store #137. The three stores sold $2 million of liquor in FY85 earning a profit of $245,848 or 12.18 percent of sales.

We are closing the Walkerville Agency. If this action had been taken in FY85, profits would have increased to $288,223 annually or 14.28 percent of sales. The Table below illustrates the effect of this closure.

STORE	FY85 UNIT SALES	FY85 NET SALES	FY85 NET PROFIT	FY85 PROFIT MARGIN	FY85 TOTAL EXPENSES	FY85 EXPENSE RATIO	ESTIMATED PROFIT INCREASE
BEFORE:							
BUTTE 2	101,599	$586,956	$53,304	9.08%	$118,442	20.18%	
BUTTE 116	177,150	$1,124,156	$157,402	14.00%	$164,531	14.64%	
WALKERVILLE 137	50,584	$306,792	$35,142	11.45%	$51,823	16.89%	
	329,333	$2,017,904	$245,848	12.18%	$334,796	16.59%	
AFTER:							
BUTTE 2	152,183	$893,748	$130,821	14.64%	$127,891	14.31%	
BUTTE 116	177,150	$1,124,156	$157,402	14.00%	$164,531	14.64%	
	329,333	$2,017,904	$288,223	14.28%	$292,422	14.49%	$42,375

Bozeman Market Area

The Bozeman market area is served by two stores: the downtown store #9 and the 7th Avenue store #193. The two stores sold $1.7 million in FY85 and earned profits of $205,633 or 12.41% of sales.

We are closing Store #193. If this action had been taken in FY85, profits would have increased to $280,660 annually or 16.94 percent of sales.

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STORE	FY85 UNIT SALES	FY85 NET SALES	FY85 NET PROFIT	FY85 PROFIT MARGIN	FY85 TOTAL EXPENSES	FY85 EXPENSE RATIO	ESTIMATED PROFIT INCREASE
BEFORE:							
BOZEMAN 9	173,416	$995,367	$131,489	13.21%	$153,743	15.45%	
BOZEMAN 193	111,977	$661,570	$74,144	11.21%	$115,587	17.47%	
	285,393	$1,656,937	$205,633	12.41%	$269,330	16.25%	
AFTER:							
BOZEMAN 9	285,393	$1,656,937	$280,660	16.94%	$194,306	11.73%	$75,027

Kalispell Market Area

The Kalispell market area is served by three stores: The Store #12, located in the shopping center, Store #195 located adjacent to the Outlaw Inn, and the Evergreen Agency located two miles from the number 12 store. The three stores sold $1.7 million of liquor in FY85 earned and profits of $206,728 or 12.1% of sales.

We are closing Store #195. If this action had been taken in FY85, profits would have increased to $305,626 annually or 17.88 percent of sales. The table below illustrates the effect of this closure.

STORE	FY85 UNIT SALES	FY85 NET SALES	FY85 NET PROFIT	FY85 PROFIT MARGIN	FY85 TOTAL EXPENSES	FY85 EXPENSE RATIO	ESTIMATED PROFIT INCREASE
BEFORE:							
KALISPELL 12	162,975	$967,815	$140,374	14.50%	$138,846	14.35%	
KALISPELL 195	84,539	$536,010	$37,825	7.06%	$114,686	21.40%	
EVERGREEN 67	34,896	$205,288	$28,529	13.90%	$31,922	15.55%	
	282,410	1,709,113	206,728	12.10%	285,454	16.70%	
AFTER:							
KALISPELL 12	247,514	$1,503,825	$280,049	18.62%	$151,685	10.09%	
EVERGREEN 67	34,896	$205,288	$25,577	12.46%	$34,874	16.99%	
	282,410	$1,709,113	$305,626	17.88%	$186,559	10.92%	$98,898

Billings Market Area

The Billings area is served by four stores: two downtown and two in shopping centers in the western part of town. The area had liquor sales of $5.1 million in FY85, earning profits of $724,804 or 14.05 percent of sales.

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We are closing Store #5 located in a parking facility in downtown Billings. If this action had been taken in FY85, profits would have increased to $812,005 annually, or 15.74 percent of sales. The table below illustrates the effect of the closure.

	STORE	FY85 UNIT SALES	FY85 NET SALES	FY85 NET PROFIT	FY85 PROFIT MARGIN	FY85 TOTAL EXPENSES	FY85 EXPENSE RATIO	ESTIMATED PROFIT INCREASE
BEFORE:								
	BILLINGS 3	264,318	$1,648,198	$254,298	15.43%	$216,041	13.11%	
	BILLINGS 4	325,959	$1,691,781	$233,547	13.80%	$234,728	13.87%	
	BILLINGS 5	126,696	$748,875	$80,277	10.72%	$130,525	17.43%	
	BILLINGS 196	179,959	$1,071,553	$156,682	14.62%	$147,973	13.81%	
		896,932	$5,160,407	$724,804	14.05%	$729,267	14.13%	
AFTER:								
	BILLINGS 3	327,666	$2,022,636	$341,215	16.87%	$234,525	11.60%	
	BILLINGS 4	389,307	$2,066,219	$319,770	15.48%	$253,927	12.29%	
	BILLINGS 196	179,959	$1,071,553	$151,019	14.09%	$153,636	14.34%	
		896,932	$5,160,407	$812,005	15.74%	$642,088	12.44%	$87,201

Helena Market Area

The Helena market area is served by three stores: downtown Store #1, Northgate shopping center Store #197, and East Helena Store #83. The area sold $2.2 million of liquor in FY85 and earned profits of $281,695 or 12.66 percent of sales.

We are closing the East Helena store. If this action had been taken in FY85, profits would have increased to $327,851 annually, or 14.74 percent of sales. The table below illustrates the effect of this closure.

	STORE	FY85 UNIT SALES	FY85 NET SALES	FY85 NET PROFIT	FY85 PROFIT MARGIN	FY85 TOTAL EXPENSES	FY85 EXPENSE RATIO	ESTIMATED PROFIT INCREASE
BEFORE:								
	HELENA 1	202,376	$1,211,702	$163,864	13.52%	$181,640	14.99%	
	HELENA 197	130,227	$776,694	$103,565	13.33%	$119,884	15.44%	
	EAST HELENA 83	39,762	$236,378	$14,266	6.04%	$53,579	22.67%	
		372,365	$2,224,774	$281,695	12.66%	$355,103	15.96%	
AFTER:								
	HELENA 1	202,376	$1,211,702	$159,392	13.15%	$186,114	15.36%	
	HELENA 197	169,989	$1,013,072	$168,459	16.63%	$122,837	12.13%	
		372,365	$2,224,774	$327,851	14.74%	$308,951	13.89%	$46,156

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Great Falls Market Area

The Great Falls market area is served by three stores: #140 downtown, #141 on the west side, and #139 on Tenth Avenue South. The area sold $3.5 million of liquor in FY85 and earned $499,212 in profits, or 14.25% of sales.

We are closing Store #140 downtown. If this action had been taken in FY85, profits would have increased to $593,884 or 16.95% of sales. The table below illustrates the effect of this closure.

STORE	FY85 UNIT SALES	FY85 NET SALES	FY85 NET PROFIT	FY85 PROFIT MARGIN	FY85 TOTAL EXPENSES	FY85 EXPENSE RATIO	ESTIMATED PROFIT INCREASE
BEFORE:							
GREAT FALLS 139	199,167	$1,192,575	$159,481	13.37%	$185,617	15.56%	
GREAT FALLS 140	186,361	$1,086,606	$161,060	14.82%	$149,161	13.73%	
GREAT FALLS 141	210,429	$1,225,440	$178,671	14.58%	$168,955	13.79%	
	595,957	$3,504,621	$499,212	14.24%	$503,733	14.37%	
AFTER:							
GREAT FALLS 139	304,382	$1,805,295	$305,275	16.91%	$213,638	11.83%	
GREAT FALLS 141	291,576	$1,699,326	$288,609	16.98%	$195,426	11.50%	
	595,957	$3,504,621	$593,884	16.95%	$409,064	11.67%	$94,672

Missoula Market Area

The Missoula market area is served by three stores: the downtown Store #170, the south side Store #171, and the Lolo agency Store #192. The area sold $3.5 million of liquor in FY85 earning a profit of $495,805, or 14.35 percent of sales.

We are closing the Lolo agency. If this action had been taken in FY85, profits would have increased to $530,296, or 15.34 percent of sales. The table below illustrates the effect of this closure.

STORE	FY85 UNIT SALES	FY85 NET SALES	FY85 NET PROFIT	FY85 PROFIT MARGIN	FY85 TOTAL EXPENSES	FY85 EXPENSE RATIO	ESTIMATED PROFIT INCREASE
BEFORE:							
MISSOULA 170	227,008	$1,405,918	$201,249	14.31%	$201,917	14.36%	
MISSOULA 171	299,214	$1,743,776	$261,731	15.01%	$239,896	13.76%	
LOLO 192	52,855	$306,140	$32,825	10.72%	$54,184	17.70%	
	579,077	$3,455,834	$495,805	14.35%	$495,997	14.35%	
AFTER:							
MISSOULA 170	279,863	$1,712,058	$278,826	16.29%	$211,352	12.34%	
MISSOULA 171	299,214	$1,743,776	$251,470	14.42%	$250,159	14.35%	
	579,077	$3,455,834	$530,296	15.34%	$461,511	13.35%	$34,491

Exhibit #