MINUTES

MONTANA SENATE
52nd LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By Senator Mike Halligan, Chairman, on March 25, 1991, at 8:00 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)
Gene Thayer (R)
Thomas Towe (D)
Fred Van Valkenburg (D)
Bill Yellowtail (D)

Members Excused:

Francis Koehnke (D)

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 458

Presentation and Opening Statement by Sponsor:

Senator Thayer, District 19, sponsor, said SB 458 provides for the privatization of state retain liquor stores and agencies. The full text of his presentation is attached in Exhibit A.

Proponents' Testimony:

Denis Adams, Director, Department of Revenue, presented his testimony in support of the bill. He also presented supporting documents on commissions paid to agents for the year 1990 (Exhibit #1a) and the 1990 Financial Report of the Liquor Enterprise Fund (Exhibit #1b).

Mike Micone, Commissioner of Labor and Industry, presented his testimony in support of the bill (Exhibit #2).

Mark Staples, Attorney, Montana Tavern Association, presented his testimony in support of the bill (Exhibit #3).

Charles Brookes, Executive Director, Montana Retail Association, expressed support for the bill saying there are three points to be considered regarding privatization. The first point is whether this is something the people of the state are unwilling or unable to do for themselves. The second is the need to look at private and public monopolies. In closing, he said the free enterprise system is the basis of this nation and a free and competitive market place is the best market place.

James Tutwiler, Montana Chamber of Commerce, said the Chamber has an obligation to support private enterprise. Privatization is the most effective and cost efficient way of delivering a product or services to the public. That lesson is well supported by the problems seen today in the eastern bloc countries. He noted the Wall Street Journal recently ran statistics on privatization of essential services such as street repair, refuse collection, and emergency medical and ambulance services indicating privatization is increasing nationwide in all segments of business and community. A great deal of thought and care has gone into the bill. The transition has been carefully planned and the employees are taken care of and offered first option at ownership.

Opponents' Testimony:

Bob Heiser, United Food and Commercial Workers of Montana, presented his testimony in opposition to the bill (Exhibit #4). He also presented the committee with a highlighted copy of the Legislative Auditor's report on privatization (Exhibit 4a).

Rep. Bachini, District 14, said this legislation has been proposed several times in the past and it still works to the detriment of the state. He said this agency pays its own way completely and he expressed strong opposition to the bill.

Rep. Harrington, District 68, said the problem is not the liquor stores themselves, but rather the fact that deliveries to them have slowed their profits. They have accomplished what the state has asked them to do and they try to maintain their surplus. He also expressed strong opposition to the bill.

Mike Grunow, Agent, Lolo, presented his testimony in opposition to the bill (Exhibit #5).

Senator Rea, District 38, presented his testimony in opposition to the bill (Exhibit #6). He said he did a survey of banks as to financing of the stores and included letters of response in his testimony. He said this is a bad bill and should be killed.

Ray Trudel, President, United Food and Commercial Workers of Great Falls, presented his testimony in opposition to the bill (Exhibit #7).

Representative Menahan, District 67, cited the supply problems that liquor stores have encountered which have cut down their profits. He also expressed concern that young people are buying wine from retail groceries and stores now and the ramifications of liquor being that available are frightening. He said this is a ridiculous scheme and the public does not want it.

Douglas Bing, Store #190, said with a no value license there is nothing to work for. He said there is no reason for him to buy into the store as insurance and inventory costs will result in up to a 70% loss of profit.

John Hewitt, President, United Food and Commercial Workers, Missoula, presented his testimony in opposition to the bill (Exhibit #8).

Mary Schuler, Store Manager, Store #8, Livingston, presented her testimony in opposition to the bill (Exhibit #9).

Don Judge, Montana AFL-CIO, presented his testimony in opposition to the bill (Exhibit #10). He also submitted a petition from Meagher County containing 150 signatures which he said is a large number from such a small county (Exhibit #10a).

Martin Bates, Wilsall Store #8 Manager, said 80% of all agency store managers would not be able to buy the store and make a profit.

Tom Crane, United Food and Commercial Workers, Business Representative, Great Falls expressed opposition to the bill.

Marvin Alves, United Food and Commercial Workers of Missoula, said this is the worst version of privatization he has ever seen and urged the committee to table it.

Pam Miller, President, United Food and Commercial Workers of Butte, presented her testimony in opposition to the bill (Exhibit #11). She also presented a letter from three state liquor employees who were unable to attend (Exhibit #11a).

Questions From Committee Members:

Senator Gage asked how much property the state has in the stores.

Mr. Adams responded they have $1,466,000 in assets.

Senator Harp asked Mr. Grunow why he expected a drop of 40%-50% in revenue under this bill.

Mr. Grunow said the potential loss of bar and tavern business would amount to 46% on a yearly basis.

Senator Doherty asked about the fiscal note.

Senator Van Valkenburg echoed Senator Doherty's concern and left the committee to see if he could track it down.

Senator Doherty asked if Montana is out of the table wine business.

Mr. Adams responded affirmatively saying they only do 2% of the business in the state.

Senator Van Valkenburg presented the committee with the unsigned copy of the fiscal note (Exhibit #12).

Mr. Adams, in response to a question from Senator Towe, said that taverns and bars are receiving 56% of the product currently sold in the state. That would result in a 56% loss to the $42 million in sales.

Senator Towe asked Mr. Adams if the bars would buy through the warehouse rather than the retailers.

Mr. Adams replied he was sure they would.

Closing by Sponsor:

Senator Thayer closed by saying all the equipment in the state liquor store inventory has been depreciated to zero. He said under privatization people will be able to set their own hours and promote and market their own product. He felt that big taverns may buy from the warehouse, but small ones would probably stay with their local supplier. He felt aggressive marketing can retain the bulk of the retailers business. He acknowledged this is an emotional issue as it always is when you are dealing with peoples' lives and jobs. A great deal of time and effort went into mitigating the effects on store owners and employees in the bill. He noted a third to half of the employees will be retiring in the near future and those remaining will be given absolute preference for employment. He noted 100% financing is also being made available.

Senator Thayer asked the committee to consider the bill on its merits. He noted gas stations collect a gas tax, but the state does not own them and the same logic applies to oil, gas, and coal production. He said the state needs to be completely out of the liquor business. The only responsibility left would be to collect the taxes. He noted this is a phased in plan with the retail component the first step. He said his survey indicates that 71% of the people in Montana favor the privatization of the liquor business. He challenged the committee to check those statistics with their constituents.

ADJOURNMENT

Adjournment At: 10:00 a.m.

SENATOR MIKE HALLIGAN, Chairman

JILL D. ROHYANS, Secretary

MH\jdr

ROLL CALL

SENATE TAXATION COMMITTEE

DATE 3/25/91

52nd LEGISLATIVE SESSION

NAME	PRESENT	ABSENT	EXCUSED
SEN. HALLIGAN	X		
SEN. ECK	X		
SEN. BROWN	X		
SEN. DOHERTY	X		
SEN. GAGE	X		
SEN. HARP	X		
SEN. KOEHNKE			X
SEN. THAYER	X		
SEN. TOWE	X		
SEN. VAN VALKENBURG	X		
SEN. YELLOWTAIL	X		

Each day attach to minutes.

DATE 3/25/91

COMMITTEE ON Taxation

SB 458

VISITORS' REGISTER

NAME	REPRESENTING	BILL #	Check One Support	Oppose
Leo Thomas	Liquor Store #	458		✓
Claudette Reynolds	Liquor Store #9	458		✓
Roger O'Meditre	" " #12	458		✓
Dave Crosmer	UFCW Local #33	458		✓
Mary Scheuler	Liquor Store	458		✓
Robert Bentley	Anaconda MT Liquor Store	458		✓
[illegible]	Liquor Rep	458		✓
Charles R. Brooks	MT Retail Assn	458	✓	
Michael O'Leary	Store #170	458		✓
Sandy Lee	Store #171	458		✓
Douglas L. Bing	Store #190	458		✓
Chad L. Oullett	Store #190	458		✓
JoLean Bing	Store #190	458		✓
Stuart E. Harwood	# 189	458		✓
MARK LANGDORF	AFSCME	458		✓
Don Judge	MT STATE AFL-CIO	SB 458		✓
ONA WILSON	STORE #81	458		✓
Terry Minow	MFT / MFSE	458		✓
Stella J. Dulin	East Helena Liquor	458		✓✓✓
Margaret Nelson	Store #172 - Self	458		✓
Tom Schneider	MPEA	458		✓
Richard Nelson	STORE #172 -	458		✓

(Please leave prepared statement with Secretary)

DATE 3/25/91

COMMITTEE ON Taxation

SB 458

VISITORS' REGISTER

NAME	REPRESENTING	BILL #	Check One Support	Check One Oppose
MIKE GRUNOW	SELF	458		✓
Bob Gregorich				
Roger A. Giovanatti				
Owen Hughes	SELF			✓
Martin A. Bates	self	458		✓
Jeanne Sautter		458		✓
Tim Crane	UFCW Local 9	459		✓
Tom Miller	UFCW 4R	458		✓
Ray Trudel	UFCW 8	458		✓
E FENDERSON	MT ST BLg TRADE	458		X
JOHN HEWITT	UFCW 1981	458		✓
Bob Lemm	Wine & Spirits MtA	458		✓
Corlette Lucas	self	458		✓
Laura Dailey	self	458		✓
Marvin J Alme	U.F.C.W 1981	458		✓
Teresa Reardon	MFT/MFSE	458		✓
Bob Heiser	UFCW	458		✓
Angela Blaz	Ana. Liquor Store	458		✓
Mary Morin	Ana " "	458		✓
Wade Rea	Landlord			✓
Mike Micone	DLI	458	X	
Bob Bailey	Liquor			X
Joyce Taylor	Liquor	458		X
Mary Freed	Self	458		X
John Russell	self	458		X
JAMES TUTWILER	MT CHAMBER	458	✓	

(Please leave prepared statement with Secretary)

SENATE TAXATION
EXHIBIT NO. A
DATE 3/25/91
BILL NO. SB 458

OPENING REMARKS
SENATOR THAYER

The subject of this bill, SB458, has been before the legislature repeatedly, session after session. Proposals to privatize state retail liquor stores and agencies keep coming back because there is fundamental good sense in the concept:

-- the state doesn't belong in the business of selling liquor

-- the state doesn't belong in the business of being in direct competition with tax paying main street business people

-- the state doesn't belong in the business of making market decisions that are better effected through the open interplay of service and demand.

Experience in other states demonstrates that responsible state regulation of alcoholic beverages does not require a state to be directly involved with retailing liquor. In 37 states retail sales are handled entirely by the private sector. In fact, 32 states have no direct involvement with either wholesaling or retailing of liquor. All states, including Montana, regulate liquor retailers through the issuance of licenses.

We have tried to learn from past efforts to privatize retail liquor and from other states' experiences in drafting this legislation. We have also recognized that privatization cannot be done with the snap of the fingers. While privatizing the entire merchandising system would make eventual sense, we know that converting from 50 years of state operation will have to be implemented in stages. For that reason, the legislation does not propose getting the state out of the wholesale operation at this time but concentrates on a phased exit from the state's retail operations.

The perennial opponents of liquor retail privatization have already tried to characterize this bill as being no different from past privatization efforts. How wrong they are! This bill provides:

-- substantial time for existing store employees to plan alternative employment (18 months)

-- expanded reduction in force preferences and transfer rights to other Department of Revenue positions

-- employee and agent preferences for obtaining the new package licenses that would replace existing state stores and agencies

-- exclusive employee and agent license ownership options that encourage joint ventures, attraction of capital, A

and equity growth

-- no expansion on the total number of liquor retail outlets in each community.

The current system provides the State of Montana with substantial income. It generates about $9 million in taxes and $4 million in profits each year. The privatization proposal will produce the same amount of taxes and profits for the state. In addition, it will deposit to the general fund, on a on-time basis, $4 million currently held as store inventory. This in addition to the $4 million that is being deposited to the general fund this year due to changes in warehouse inventory management.

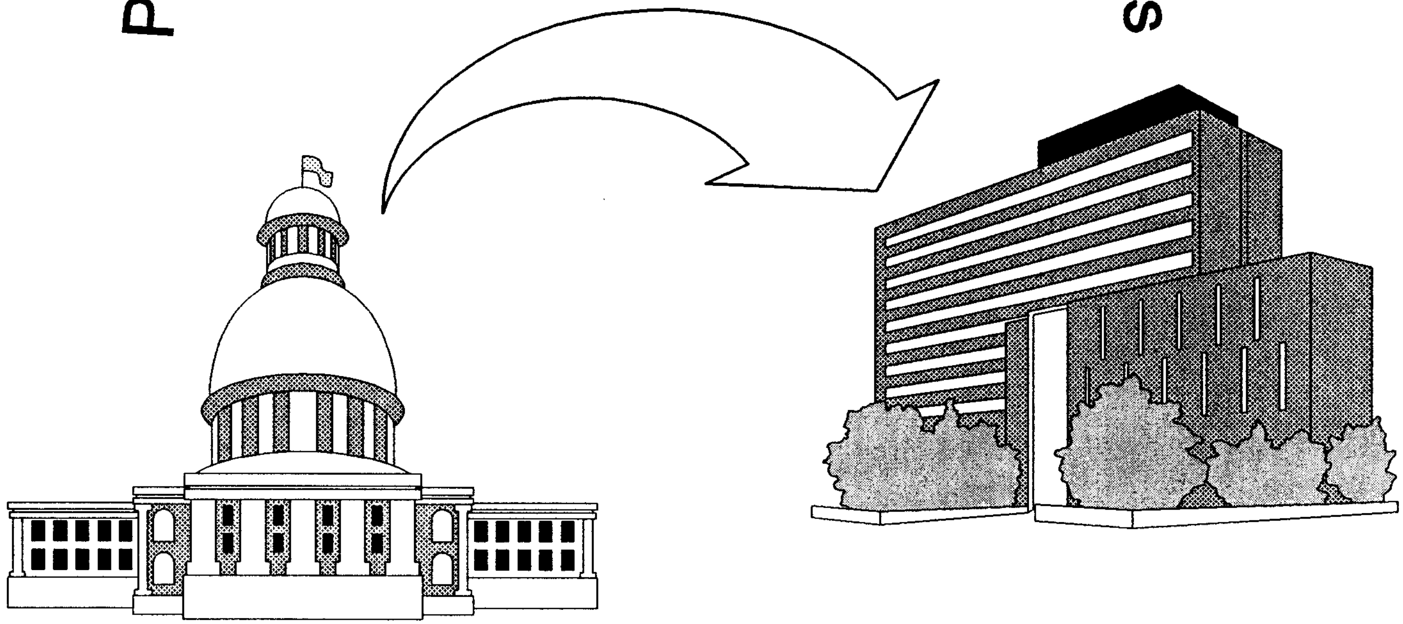
Section by Section

Denis Adams, Director of the Department of Revenue will explain how the proposed legislation would work.

Mike Micone, Commissioner of the Department of Labor will explain a special feature in the bill that builds on Montana's Employee Ownership Opportunity Act.

Sen. Taxation
Ex #1
3-25-91
S.B. 458

Privatization of State Liquor Retail Operations



Presentation Overview

- Reasons For Change
- Montana Liquor Sales History
- Benefits Of Privatization
- Maintaining Wholesale Operations
- Transition And Implementation
- Licensing Preferences
- Package Store License Restrictions

Reasons For Change

- Montana is one of two states where the state is in direct competition with private enterprise in the sale of liquor for off-premises consumption.
- Liquor sales represent 18% of the alcoholic beverages sold in Montana. Beer and wine sales handled by private enterprise account for $197 million of sales. Liquor sales handled by the state amounted to $43 million in FY90.
- The state's liquor operation is not permitted to be run in the most efficient and effective manner.
- Units sold have declined 37% over the past eight years.
- Profits have declined 17% over the past eight years.
- The retail sale of liquor is a non-essential state service. It can be and should be handled by the private sector where the market place dictates the price.

Reasons For Change

- The potential liability to the state from the sale of liquor is not worth the risk.
- The state can put its money to better use in providing essential services rather than investing it in liquor inventories across the state.
- Our proposal is not unique. It is modeled after the Wyoming system which has operated successfully for more than 50 years.

Montana Liquor Sales History

- Montana is one of 18 states exercising monopoly control over the distribution of liquor.
- Montana's history dates back to the repeal of prohibition when we adopted the Canadian system for distributing liquor through state-operated stores
- Today the number of state retail outlets stands at 125 compared to 200 in 1940.
- Since 1973, the number of state employee operated stores has steadily declined from 149 stores to 30 stores today.
- Today 95 retail outlets are operated by agents who receive commissions for selling liquor on behalf of the state.
- Today there are 207 locations out of a total of 474 locations in Montana where a Tavern is the only retail outlet.

Benefits of Privatizing Retail Operations

Privatizing Retail Liquor Operations Will:

- Reduce nonessential state services;
- Eliminate competition with the private sector;
- Reduce the size of state government;
- Save Montana Taxpayers $4 million in the next biennium.
- Reduce the price retailers pay for liquor;
- Give retailers a choice of where to purchase liquor within the state;
- Offer current retail stores and agencies a limited new package store license for off-premise consumption; and
- Award licenses on a one-for-one basis in communities where state stores and agencies now exist.

Wholesale Operations Are Maintained

- Montana's vast size and low population makes statewide wholesale distribution of liquor a costly proposition.
- The present centralized distribution system is efficient and cost effective.
- The "Bailment" warehouse recently created minimizes our investment in liquor products and assures adequate supplies of liquor are always on hand.
- The $2.7 million in cost savings will be deducted from current prices to provide a lower uniform wholesale price to retailers.
- The uniform prices will range from 2.7% to 7.6% less than current retail prices depending whether or not unbroken case purchases are made by retailers.
- Issues associated with privatizing the wholesale operation are complex and have more affected groups.

Where Does The $2.7 Million Come From?

Eliminate All Stores	($4,049,000)
Reduce Administrative Costs	($ 51,000)
Total Cost Reductions	($4,100,000)
Increased Freight Costs	$868,000
Increased Warehouse Costs	$485,000
Total Cost Increases	$1,353,000
Net Cost Savings	$2,747,000

Transition and Implementation

State Employee Transition

- Privatization will affect 95 state employees.
- To assist these individuals make the transition to new employment the Department will:
  - ✓ Provide over 18 months for employees to plan their futures;
  - ✓ Provide retraining opportunities to staff;
  - ✓ Provide transfer rights to other state positions throughout the state and in their own locales;
  - ✓ Provide an opportunity for employees to own the liquor stores where they work through the Montana Employee Ownership Opportunity Act (EOOA); and
  - ✓ Provide state liquor store employees, liquor store agents, and liquor store landlords with a first time selection preference for the new package stores.

Transition and Implementation
Retail Store Transition

- Following approval of legislation all state employee and and agency operated stores will be phased out.
- Before December 31, 1992 stores will be closed:
  - ✓ As agency contracts terminate;
  - ✓ When employees voluntarily terminate; and
  - ✓ As store leases come due.
- All state-operated stores will be phased out by December 31, 1992.
- Package store licenses will be limited to the number existing on the effective date of the legislation.
- If preferences are not involved, new licensees will be selected through the public hearing process as "all alcoholic beverages" licenses are today.

Transition and Implementation

Wholesale Transition

- Until December 31, 1992, retail licensees located within 35 miles of community in which a state or agency store has not been closed must purchase liquor from a state retail outlet.
- Once a state retail outlet is closed in a community or within a 35 mile radius of that community, all licensees in that community and the 35 mile radius may receive direct shipment from the state liquor warehouse in Helena.
- After December 31, 1992, all licensees will receive direct shipments from the state liquor warehouse.
- As of January 1, 1993, licensees may choose to purchase liquor from:
    - The state liquor warehouse;
    - Another "all beverages" license holder; or
    - A package store license holder.

Licensing Preferences

- Licensing preference will be given in communities where where state employee stores are operated will be in the order which follows:

    1. Absolute preference will be provided to Employee Ownership Corporations; then
    2. To displaced employees in the absence of Employee Ownership Corporations; and then
    3. To former landlords who apply for the license.

-ESOP

- Licensing preferences for communities currently served by agency stores will be in the following order:

    1. To agents with agency agreements in effect who apply and claim preference

Package Store License Restrictions

- Several restrictions apply to the new licenses:

  1. They cannot be located in or adjacent to grocery stores in communities with populations greater than 3,000 people;

  2. Local zoning ordinances and restrictions on proximity to schools and churches are the same as for other liquor licenses;

  3. Gambling will not be allowed;

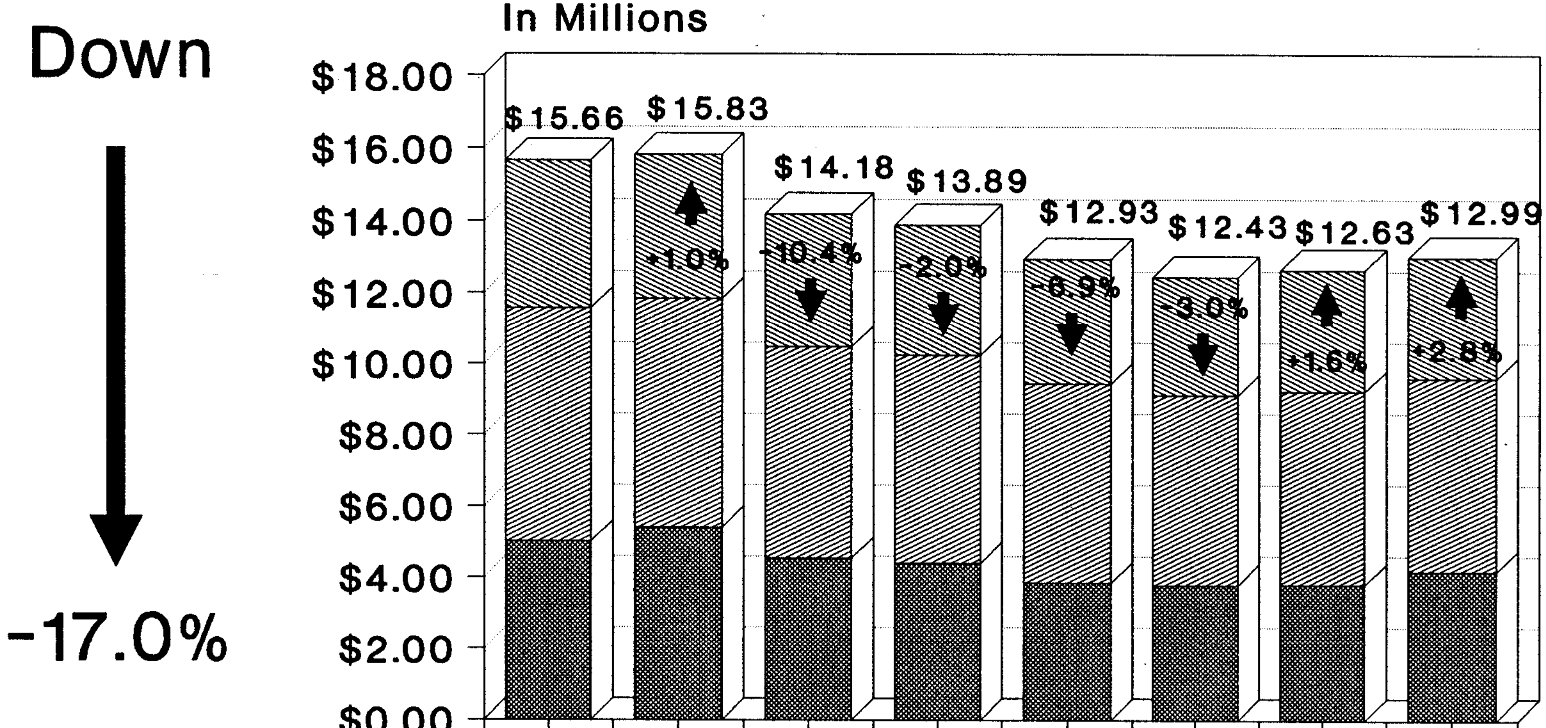
  4. The package store license is nontransferable and non-assignable;

  5. With the exception of Employee Ownership Corporations, no person can own more than one license.

$4 MILLION

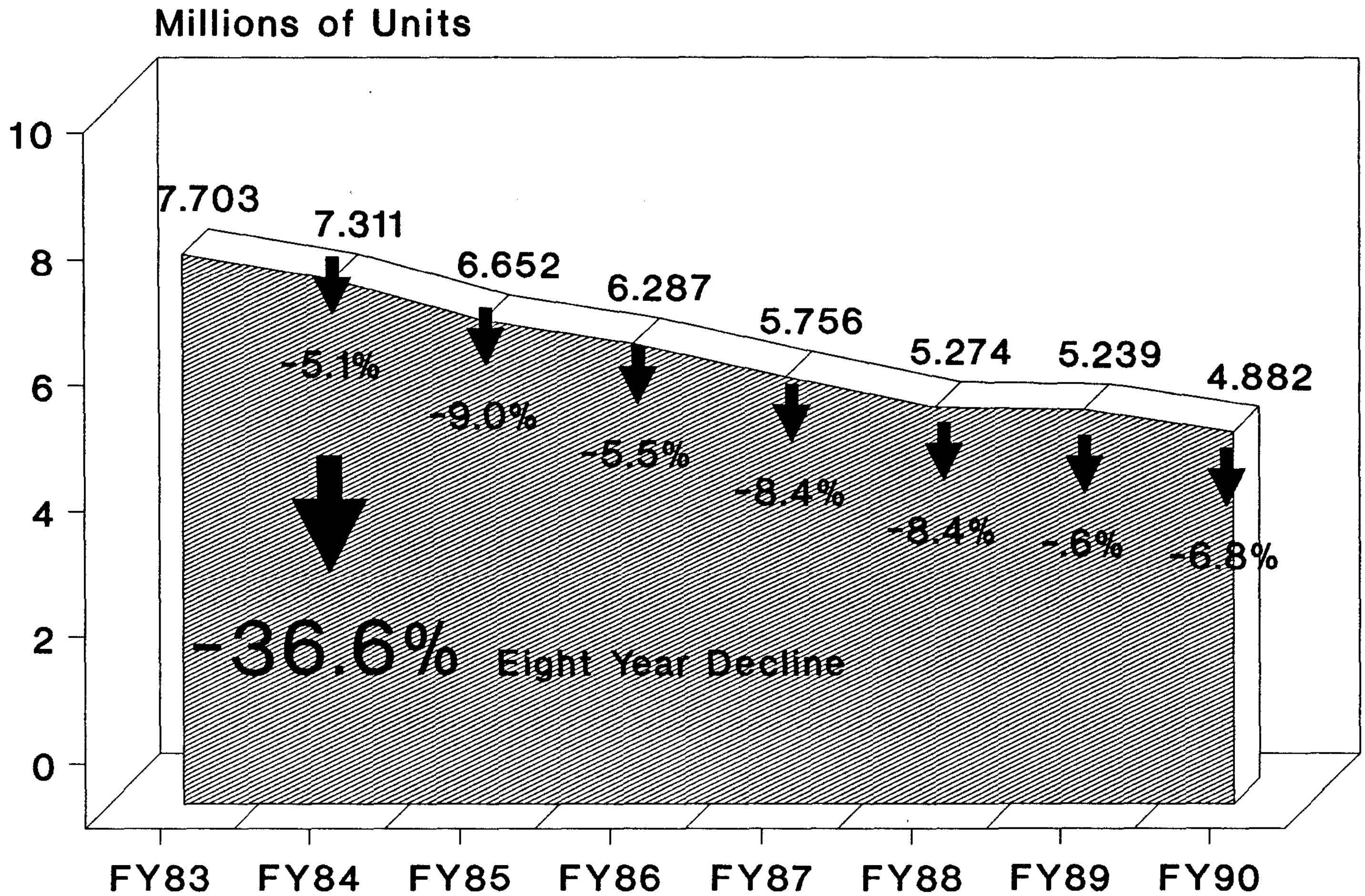
History of State Liquor Taxes and Profit

Fiscal Years 1983 To 1990



	1983	1984	1985	1986	1987	1988	1989	1990
License Taxes	$4.10	$4.01	$3.71	$3.65	$3.49	$3.32	$3.40	$3.40
Excise Taxes	$6.55	$6.42	$5.94	$5.83	$5.59	$5.32	$5.44	$5.43
Profits	$5.01	$5.41	$4.54	$4.41	$3.85	$3.79	$3.79	$4.16

Comparative Liquor Sales
Fiscal 1983 Through 1990



Taxation
Ex #1a
3-25-91
SB458

AGENTS AND COMMISSIONS CALENDAR YEAR 1990

Merna Reeser
State Liquor Store #7
Thompson Falls, MT 59873
Commission: $1,7570.60

Edna Rogerson
State Liquor Store #20
Terry, MT 59349
Commission: $5,286.33

Westgate Superior, Inc.
State Liquor Store #30
Superior, MT 59872
Commission: $9,285.75

Hysham Comm Elv Inc.
State Liquor Store #10
Hysham, MT 59038
Commission: $3,677.79

Valerie Lefdahl
State Liquor Store #22
Malta, MT 59538
Commission: $26,537.11

R & G Jovanovich
State Liquor Store #31
Fort Benton, MT 59442
Commission: $13,276.27

J & J Liquor Corp.
State Liquor Store #11
Deerlodge, MT 59722
Commission: $9,640.47

Zaida Wesa & Don Harris,
State Liquor Store #23
Forsyth, MT 59327
Commission: $34,045.33

Diane Vezina
State Liquor Store #32
Dillon, MT 59725
Commission: $38,957.75

Robert Maurer
State Liquor Store #16
Columbus, MT 59019
Commission: $10,066.95

Patricia Brooks
State Liquor Store #25
Philipsburg, MT 59858
Commission: $10,408.90

Daniel J. Felska (1)
Corporation
State Liquor Store #33
Conrad, MT 59425
Commission: $14,463.66

Leona Jacobs
State Liquor Store #17
Big Timber, MT 59011
Commission: $19,795.26

Ken Kuhr
State Liquor Store #28
Chinook, MT 59523
Commission: $17,272.20

Virginia Zwerneman
State Liquor Store #34
Choteau, MT 59422
Commission: $10,633.32

Cheers, Unlimited, Ptrshp.
State Liquor Store #18
Hamilton, MT 59840
Commission: $57,739.85

Dean Swank
State Liquor Store #29
Shelby, MT 59474
Commission: $28,908.62

C. W. Makowski
State Liquor Store #36
W Sulphur Spr., MT 59645
Commission: $9,787.55

J&B's Second Time Around, Partnership
Betty Christman
& Joann Potts
State Liquor Store #37
Hardin, MT 59034
Commission: $1,609.95

Sophia Bundren
State Liquor Store #38
Harlowton, MT 59036
Commission: $10,900.54

Ronald Olson
State Liquor Store #39
Winnett, MT 59087
Commission: $2,666.57

Ken & Della Greslin, Partnership (1)
Powder River Taxidermy
State Liquor Store #40
Broadus, MT 59317
Commission: $9,002.58

Helen Hughes
State Liquor Store #41
Ekalaka, MT 59324
Commission: $3,843.00

Virginia Gundlach
State Liquor Store #42
Baker, MT 59313
Commission: $12,837.49

George Woodhall
State Liquor Store #43
Stanford, MT 59479
Commission: $9566.06

Monty Sealy
State Liquor Store #44
Roundup, MT 59072
Commission: $13,191.69

Neal & Flora Paxson, Partnership (1)
State Liquor Store #46
Jordan, MT 59337
Commission: $4,392.92

Gina Drew
State Liquor Store #47
Circle, MT 59215
Commission: $4,758.61

Jeanne Sautter
State Liquor Store #49
Townsend, MT 59644
Commission: $16,805.51

Sax Inc.
Loren D. Sax
State Liquor Store #50
Sidney, MT 59270774
Commission: $27,684.30

Lyder Tande
State Liquor Store #51
Scobey, MT 59263
Commission: $13,886.34

Fox, Rathert, Smith, Partnership
Wolf Point Liquor Store
State Liquor Store #52
Wolf Point, MT 59201
Commission: $20,770.74

Ted & Eilee Grove, Partnership
State Liquor Store #53
Plentywood, MT 59254
Commission: $31,063.45

James Streib
State Liquor Store #56
Boulder, MT 59632
Commission: $13,315.94

Merle Adams, Jr.
State Liquor Store #59
W. Yellowstone, MT 59758
Commission: $21,727.97

Johnny & Sue France
State Liquor Store #60
Ennis, MT 59729
Commission: $21,320.28

Ex-6a

James Newman
State Liquor Store #61
Hot Springs, MT 59845
Commission: $4,879.32

Michael O'Conner
State Liquor Store #69
Eureka, MT 59917
Commission: $27,960.31

Carol Boyer
State Liquor Store #75
Frenchtown, MT 59834
Commission: $11,128.34

Maureen & Chris Byrd,
Partnership
State Liquor Store #62
Martin City, MT 59926
Commission: $26,429.80

Karla Hayes
State Liquor Store #70
Troy, MT 59935
Commission: $23,953.65

Francis Curtis
State Liquor Store #76
Belgrade, MT 59714
Commission: $23,536.73

Robert Helsen
State Liquor Store #63
Belt, MT 59412
Commission: $6,160.98

Norman E. Focher
State Liquor Store #71
Wisdom, MT 59761
Commission: $2,350.45

DeWayne McAlear
State Liquor Store #77
Twin Bridges, MT 59754
Commission: $6,124.34

Kurt Swallow
State Liquor Store #66
Martinsdale, MT 59053
Commission: $2,583.68

Estate of Joseph Callant
State Liquor Store #72
Three Forks
Commission: $9,711.16

Russ & Jan Sage,
Partnership
State Liquor Store #78
Valier, MT 59486
Commission: $5,694.27

Greg Philips
State Liquor Store #67
1274 Hwy. 2 East
Evergreen, MT 59901
Commission: $23,253.54

Jack Therrien
State Liquor Store #73
Columbia Falls, MT 59912
Commission: $32,745.95

Albert Lorang
State Liquor Store #79
Cascade, MT 59421
Commission: $7,722.62

Sandra Kroll
State Liquor Store #68
Drummond, MT
Commission: $5,816.87

Ken Hurt
State Liquor Store #74
St. Ignatius, MT 59865
Commission: $13,157.22

Ona & Clifford Wilson,
Partnership
State Liquor Store #81
Augusta, MT 59410
Commission: $6,163.19

T.& R. Enterprises
State Liquor Store #82
Lima, MT 59739
Commission: $5,595.81

Stella Dalin
State Liquor Store #83
East Helena, MT 59635
Commission: $26,103.28

Darrell Norell (2)
State Liquor Store #84
Arlee, MT 59821
Commission: $2,525.02

Robert Russell (2)
State Liquor Store #85
Darby, MT
Commission: 1,752.93

Timothy P. Hutslar (1)
State Liquor Store #90
Medicine Lake, MT 59247
Commission: $5,596.28

Gary Jacobson
State Liquor Store #91
Bridger, MT 59014
Commission: $5,630.28

Allan Ekness (2)
State Liquor Store #93
Westby, MT 59275
Commission: $328.76

Dan Shumay
State Liquor Store #95
Nashua, MT 59248
Commission: $4,300.16

Stanley J. Holmquist
State Liquor Store #97
Big Sandy, MT 59520
Commission: $7,802.93

Jay Parks
State Liquor Store #98
Harlem, MT 59526
Commission: $12,607.26

Sandra & Robert Klasner
State Liquor Store #99
Stockett, MT 59480
Commission: $9,232.25

B & W Hill Inc.
Beverly & Willard Hill
State Liquor Store #101
Ronan, MT 59864
Commission: $3,0921.67

Ruth Donoho
State Liquor Store #1[illegible]3
Saco, MT 59261
Commission: $5,202.39

Irene Buhl
State Liquor Store #104
Whitehall, MT 59759
Commission: $13,622.9[illegible]

Charles Rossiter
State Liquor Store #105
Sheridan, MT 59749
Commission: $13,657.5[illegible]

Sally Sears
State Liquor Store #10[illegible]
Plains, MT 59859
Commission: $15,608.06

Ray Christiaens
State Liquor Store #111
Kevin, MT 59454
Commission: $4,955.97

Laura Rogers
State Liquor Store #11[illegible]
Lincoln, MT 59639
Commission: $17,406.94

Ex #1a

B & B Grocery, Corporation
State Liquor Store #113
Dutton, MT 59433
Commission: $4,278.32

AROD Development, Inc. (1)
State Liquor Store #130
Fairfield, MT 59436
Commission: $4,546.40

Jennie Yates
State Liquor Store #167
Absarokee, MT 59001
Commission: $17,795.22

Alan Kelley
State Liquor Store #115
Stevensville, MT 59870
Commission: $9,616.71

Helen Campbell
State Liquor Store #131
Dupuyer, MT 59432
Commission: $3,243.32

Margaret Nelson
State Liquor Store #172
Victor, MT 59875
Commission: $35,327.75

Martin Bates
State Liquor Store #117
Wilsall, MT 59086
Commission: $4,495.61

Walkerville Liquor Store, Inc.
Leo McCarthy
State Liquor Store #137
Walkerville, MT 59702
Commission: $41,847.49

Jugtree Corporation
Sam Stephens
State Liquor Store #179
Big Fork, MT 59911
Commission: $38,991.33

Jack Alles
State Liquor Store #118
Worden, MT 59088
Commission: $11,816.24

John Austin
State Liquor Store #138
Alberton, MT 59820
Commission: $5,985.70

Mike Pacousky (2)
State Liquor Store #182
Bainville, MT
Commission: $913.32

Sandy Doucette
State Liquor Store #122
Seeley Lake, MT 59868
Commission: $19,562.99

Annette Sherman
State Liquor Store #156
Geyser, MT 59447
Commission: $1,435.40

Bertha Jean Crenshaw
State Liquor Store #185
St. Regis, MT
Commission: $15,583.46

Betty Grabenstein
State Liquor Store #129
Noxon, MT 59853
Commission: $3,802.80

Robert Heggem (2)
State Liquor Store #160
Winnifred, MT
Commission: $2,656.49

Nina Sparks
State Liquor Store 188
Jackson, MT
Commission: $1,449.40

Big Sky Spirits, Corporation
State Liquor Store #190
Big Sky, MT 59716
Commission: $16,557.04

Pearl Ann &
Richard T. Greenshields, Partnership
State Liquor Store #191
East Glacier, MT 59434
Commission: $5,979.94

Mike Grunow
State Liquor Store #192
Lolo, MT 59847
Commission: $52,171.85

TWN Inc.
State Liquor Store 197
Helena, MT
Commission: $64,999.66

(1) Agency changed hands during the year - reflects payments to more than one entity.

(2) Agency was not operated entire year - is or was closed a portion of the year

14

Responses To Margaret Nelson's Questions

1. **My first concern is the cost of liquor to the consumer. With retailers having the additional expense of insurance on inventory, the inventory expense itself...a bottle of liquor that costs $10.00 now will be well over $12.00.**

   Response:

   The cost of liquor will probably stay the same or be less for sales by taverns, bars and restaurants since current licensees would be able to obtain direct shipments from the state warehouse from between 2 1/2% and 7 1/2% less than they currently purchase product from state stores and agencies.

   The cost of liquor at the new package stores may very well be higher than current prices paid at existing state stores and agencies since package store licensees would be purchasing the product at the same price that other licensees do (i.e. 2 1/2% to 7 1/2% less than current prices).

   However, it should be noted that in the past walk-in customers at state liquor stores and agencies have purchased liquor at the same price that the state sells product to retailers; that is, walk-in customers have been able to purchase product at wholesale. In effect, the system has subsidized the price to walk-in customers. The proposed legislation will allow products to be more fairly marketed at true retail prices to all customers depending on each retailer's competitiveness.

2. **We already have an enormous loss of revenue to the state now, because a lot of people travel out of state, stock up on liquor and return.**

   Response:

   State law allows people to legally purchase 3 gallons of alcoholic beverages from out-of-state sources on any trip into the state but to have no more than 3 gallons in possession at any one time from out-of-state sources. Such purchases cannot be considered lost revenue since the law clearly allows this to occur.

3. **The price of liquor with the new system will only decrease 2 1/2%.**

   Response:

   The wholesale price of liquor will on average be 2 1/2% lower than the current state published price if licensees purchase in broken case lots. If they purchase in unbroken case lots, the price will on average be 7 1/2% lower.

4. **<u>The new package store license cannot be sold. However, when bars sell their businesses their licenses have value.</u>**

Response:

Under the proposed legislation the new package store licenses are intentionally restricted from being equity licenses that are saleable on the open market. This is done to prevent further contribution to a problem that results in inflated sales prices of liquor businesses due to artificially limited supply through the quota system.

While open market sale of the new licenses is not permitted, there is one provision that allows the sale and resale of corporate stock that has the effect of transfer of license ownership to new individuals. The proposed legislation allows the new package store license to be owned by a specially defined corporation that has 51% of its stock owned by employees of the corporation. Such corporations may sell their stock to new people from time to time provided they retain 51% in the hands of corporate employees. The result is that individual corporate employees can recapture their equity when they sell their shares in the corporation.

5. **<u>Our liability will be greater. There will be more non-sufficient fund checks. People are more reluctant to write bad checks to the Montana Department of Revenue. We would have to keep larger amounts of cash on hand to cash checks, leaving ourselves open to a greater risk of robbery.</u>**

Response:

The determination of whether to cash checks or not would be a business decision that would be in the hands of each individual licensee. Therefore, a licensee's liability would be directly proportional to the licensee's business practice. A licensee who is not careful about making check cashing decisions would have a greater potential liability than for one who is more careful.

6. **<u>Since bars are going to be able to buy directly from the state warehouse, it will decrease some liquor stores' business from 56% to 90%. This will cause many stores to close, leaving the rural customer only the bars to make purchases from or having to travel long distances.</u>**

Response:

Last year on a statewide average state liquor stores and agencies made 56% of their sales to retail licensees. Well over half of those sales were on a bottle-by-bottle basis, meaning that bars do not prefer to maintain most of their inventory themselves but prefer to buy the product they need frequently in small amounts. This obviously becomes a market opportunity for the new package store licensees to continue to be an inventory source for other retail licensees.

Nevertheless, some of the new licenses may not make a go of it with the result that customers in those areas would indeed have only bars to make purchases from. This is already the situation in 207 communities in the state and is a natural result of Montana losing rural population and gaining urban population. The fact that state liquor stores and agencies may currently exist in areas that ultimately may not be able to support them has to do with the fact that the current system subsidizes a local distribution system that does not necessarily bear a reasonable relationship to market demand.

7. **<u>The present system equalizes freight costs. It also provides a service to small Montana rural communities, the rural customer pays the same price as populated area, thus are not discriminated against.</u>**

Response:

Both the current system and the proposed system equalize freight costs. The wholesale price in Ekalaka would be the same as the price in Helena. The proposed system actually goes a step further in making services available to rural areas. Currently the 417 licensees located in 207 communities without a state store or agency must travel to a store or agency to buy the product they sell. The proposed law would allow them to get direct delivery from the state warehouse or to purchase from another retailer. Furthermore, the new package store licensees would not be prohibited from making off-premises deliveries to other retail licensees, another obvious marketing opportunity for the new licensees.

8. <u>**Some bars will not be able to meet the minimum balance require to place orders, thus causing them to have financial difficulty.**</u>

Response:

While a minimum delivery load hasn't been determined yet since that would depend on what the freight bidding process produces, there is no doubt that there will be a minimum size order that some bars will not be able to afford. For these bars the result would be to purchase in affordable amounts from other licensees which the proposed legislation allows. Among the licensees that could sell to these bars would be the new package store licensees. This becomes a marketing opportunity for package store licensees.

9. <u>**The governor calls this proposal privatizing; however, this is not completely true if the state is going to still control prices and what product is going to be available.**</u>

Response:

The bill specifically states that retail prices will <u>not</u> be set by the state but will be set by licensees. Also the state will <u>not</u> be determining what product is going to be available; retail demand will determine that.

10. <u>**How much of a savings is the state really going to save and why? Where does the figure $2.7 million come from? The state will have to hire more people in the warehouse, more people to take orders from 1200 licensees. Freight costs will triple.**</u>

Response:

Once the current system is phased out, the change in costs is as follows:

Eliminate cost of all stores	**($4,049,000)**
Reduce administrative costs	**($ 51,000)**
Increase freight costs	**$ 868,000**
Increase warehouse costs	**$ 485,000**
Net change	**($2,747,000)**

In addition, the state would no longer have to maintain inventory in stores. The average monthly inventory investment in stores is $4 million. As product sales turn over during the phase out of the current system the $4 million transfers as cash to the general fund on a one-time basis.

11. **<u>The state is already on a bailment system where the state does not have to pay for the liquor until it leaves the warehouse. I understood that was a $4 million dollar savings.</u>**

Response:

The implementation of the bailment warehouse system will produce a one-time transfer of $4 million dollars to the general fund this fiscal year. This is in addition to the $4 million transfer in the next biennium that would result from no longer maintaining inventory in state stores and agencies.

12. **<u>The Governor says privatizing will reduce non-essential state services. Not really. It will just create new ones. He says it will reduce the size of state government. Not really. People will have the opportunity to change jobs.</u>**

Response:

The privatization of state retail liquor operations under the proposed legislation would end the state's role as a retailer. No new state service would be created to replace this function. The state would have no assets or costs associated with this function once it is privatized. Liquor retailing would be entirely in the hands of private enterprise.

The result of privatization would be a reduction in the size of state government. Where there are currently 125 state stores and agencies there would be no state operation remaining after the phase out is completed. Where there are 95 individuals employed in state employee operated stores now there would be none employed in those jobs after the phase out is completed. While additional jobs would be opened up in the warehouse, there would still be a net decrease of over 50 FTE as a result of privatization.

The legislation does provide the opportunity for current employees to change jobs in state government. However, the transfer to other positions would be as vacancies occur and would not result from the addition of new jobs in state government.

13. **<u>We don't know how often we will be able to get delivery or even how often we will be able to order. State wide wholesale distribution will be costly, more fuel, more paper, more work for the state.</u>**

Response:

See # 8 and 10 above.

14. **Prices will be higher for some stores than others because their contracts will come up for renewal before others. This virtually could be in the same areas. So, why would a person want to invest in inventory if no one will buy it. Liquor will be at least $2.00 a bottle more than ten to fifteen miles down the road. No one will shop there.**

Response:

While the legislation prohibits the closure of agencies before their contracts come due before December 31, 1992, the solicitation of new package store licenses during the phase in period would be done on a regional basis for the purposes of efficient delivery from the warehouse and to maintain an even competitive field as much as possible. In any case, all outlets would be operating on the same wholesale basis after December 31, 1992.

15. **What will the actual cost be to the state to dismantle the current system, which the Governor agreed to in the legislative session back in 1989? How will the legislature and the administration justify the cost of both time and dollars spent these past two years complying with the previous legislature's decision to evolve into an agency system?**

Response:

Commitments by past legislatures have been embodied in agency contracts, leases for buildings and labor contracts which were newly let or renewed subsequently. Commitments cannot go beyond those agreements. There is nothing binding on subsequent legislatures to maintain initiatives of previous legislatures.

16. **What is to come of the investments in time and dollars that we as agents have spent up to this point? I personally acted in good faith when I entered into my agency agreement with the Department of Revenue, Liquor Division.**

Response:

The payment of a commission on sales in exchange for agency services rendered under the terms of the agency contract signed by both parties is fair compensation for the time and dollars that an agent has invested. There is nothing in any agency contract that can be construed to be a continuing commitment beyond the terms of the contract. Implementation of the proposed legislation would not cause a violation of any agency contract.

17. **Will the banking industry be willing to lend money in an industry which has a declining demand, a business which will loose more than 50% of its business, and the state controls price and the bulk of liquor sales? I think not. Banks were not willing to lend two years ago when this came up last time, and personally I have not found any who are anxious this time, either.**

Response:

The proposed legislation allows for a variety of enterprise arrangements that make the prospect of loans reasonable. Options such as jointly owned licenses and multiple enterprise establishments are ways to diversify these businesses and make them bankable. The option that allows for a corporation with 51% of its stock owned by employees of the corporation (see #4 above) has the added advantage of being able to sell up to 49% of its stock to those who are not employees in return for such benefits to a prospective investor as locating the license in an investor's existing business (e.g. a drug store). Loans to an employee-owned enterprise also give banks certain tax advantages on the interest they earn on these loans which is a further incentive to lend money under the proposed legislation.

18. **If we are going to privatize then we should do that. We should not have to be compromised with getting a slap in the face for a job well done. The agency system is working. It is making money for the state. Are we ready to give that up?**

Response:

The fact that the Governor is proposing legislation to privatize state retail stores is not a comment on the effectiveness of the current system. The point is that retailing liquor is not an essential state service. The role of government is not to do every job that can possibly be done in society. Government should only be doing jobs that cannot be properly done by private enterprise. Retailing liquor is a service that obviously should be handled by the private sector since more than half of that market is already being handled privately. Moreover, the state can make the same amount of money without operating these stores and produce $4 million for the general fund in addition by cashing in the inventory the state now maintains in stores.

- The 1933 Repeal of Prohibition (Twenty-First Amendment) gave individual States total discretion to regulate and restrict the distribution and sale of alcoholic beverages within their borders.

  As a result, there are 52 different Alcohol Beverage Control (ABC) laws in the nation which include:

  The fifty (50) states;

  The District of Columbia; and

  Montgomery County, Maryland.

- Over the years, state distribution systems have evolved into essentially two distinct regulatory structures.

  <u>Open License States and Control States - Refer To Page 2A</u>

  <u>Open License States</u>

  There are 32 States and the District of Columbia which operate under the Private Enterprise System of distribution.

  These States allow <u>direct shipment</u> from manufacturer's, bottler's, and importer's to wholesaler's who in turn distribute products to retailer's.

Control States

There are 18 States, plus Montgomery County, Maryland which exercise the power granted by the Twenty-First Amendment to the fullest extent.

Only the State can bring distilled spirits and generally wine into the State.

All of these State's "Monopolize" the wholesale function.

Manufacturer's, bottler's and importer's can only sell to the State.

There is but one source of supply to wholesaler's and retailer's -- The State.

Twelve (12) of the Control States carry this control to the consumer exclusively through state-owned-and-operated off-premises sale outlets -- State Liquor Stores

Five (5) States, Mississippi, Michigan, Wyoming, Iowa and most recently, West Virginia, limit the State's role exclusively to a wholesale function by licensing private enterprise.

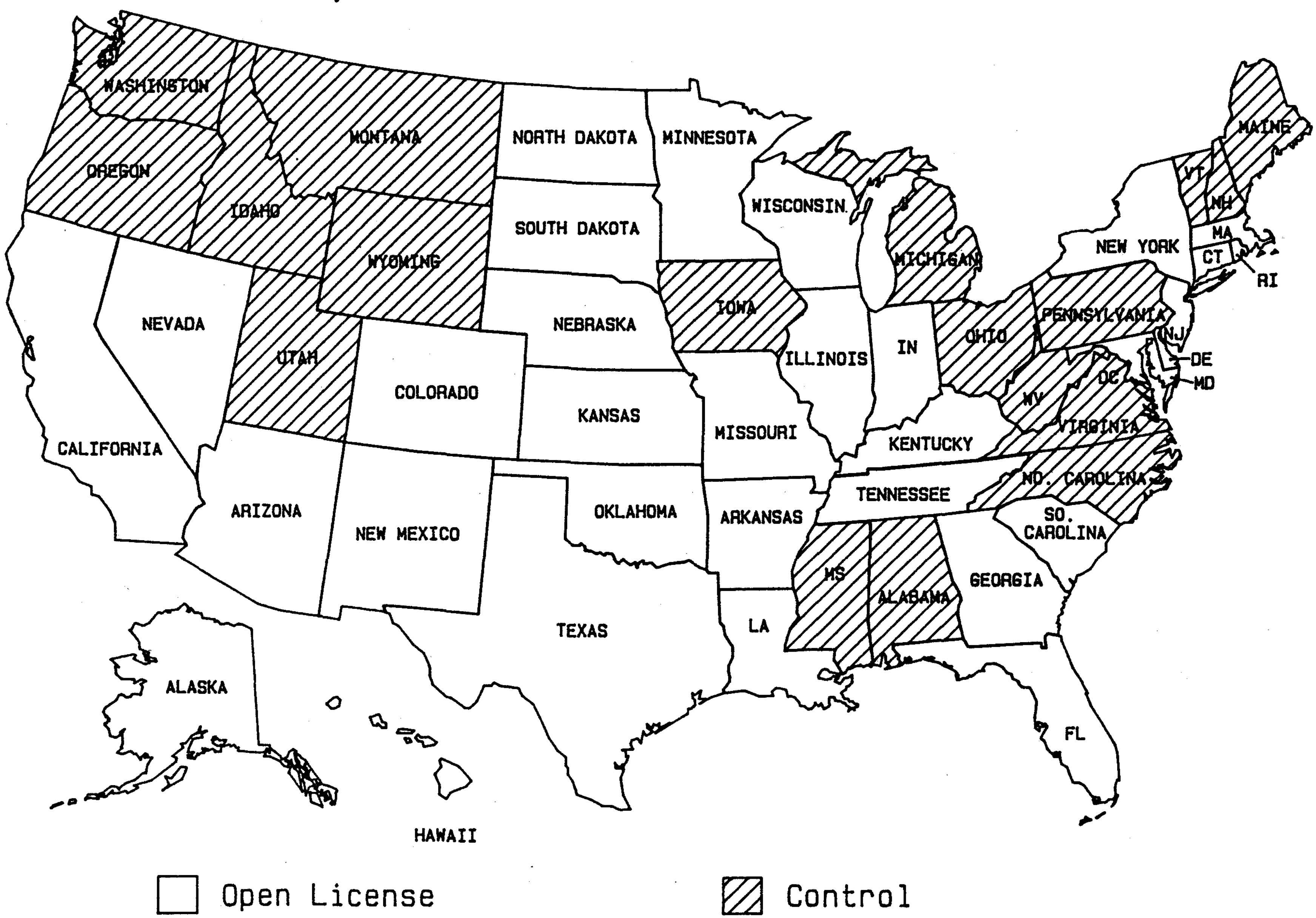
Only two (2) states, Alabama and Montana, are in direct competition with private enterprise in the Off Premises Sale of liquor.

Eight (8) Control States, including Montana, authorize privately owned "Agency Stores" to sell liquor by the package as part of another business.

All Control States license establishments for sale of liquor by-the-drink.

Three States, (Montana, Alabama, and Wyoming) allow combination "On and Off Premises" sale of liquor.

Liquor Regulation and Distribution in the United States
Open License and Control States



- The History of Montana's Liquor Control System

Before the prohibition amendment, Montana had only a few ineffectual laws to control the use of alcoholic beverages.

After repeal of prohibition, Montana became one of 18 states to establish monopoly control of the means of distributing wine and liquor beverage.

Montana also enacted regulatory law to control private distribution of beer and private sale of all alcoholic beverages.

In 1933, Montana adopted the Canadian system of distributing liquor through state operated stores which were the only retail outlets for the sale of liquor.

In 1937 private retailers (Taverns) were allowed to sell liquor but required to purchase the product they sold from state stores.

This continues to this day, with 56% of sales from state stores being to Tavern's.

The number of state stores grew to about 200 in 1940 and has declined over the years to the present 125 stores.

In the beginning, all the stores were operated by state employees.

Stores operated by agents under contract for a commission on sales began in 1973.

Now all but 30 of the largest stores are operated by agents.

In 1979, a major change was made in our liquor laws.

The law was changed to open up the distribution and sale of table wine.

Private distributors in addition to the state are allowed to purchase directly from wineries and sell directly to private retailers.

Table wine sales currently represent less than 2% of the state's gross sales.

Recently, the department made a major change in the way it maintains its liquor inventories called Bailment.

Briefly;

> Bailment is a system of holding liquor products in trust in a state owned warehouse, then transferring ownership of the products directly from the supplier to the state upon shipment to State and Agency retail stores.
>
> By doing this, the state avoids spending state funds to stock a warehouse with products that will sit idle for many months before being sold and returning cash to the state coffers.
>
> Many state's have recognized the financial benefits of this system which streamlines operations for inventory control by transferring responsibility for inventory control to suppliers.

The implementation of Bailment in Montana will allow a "one time" transfer of working capital of approximately $4 million to the State General Fund in fiscal year 1991.

- Montana operates two types of retail liquor outlets.

  State Employee Operated Stores

  There are 30 State Stores run by roughly 75 full time equivalent state employees.

  Most of these stores are located in the more highly populated areas of the state.

  These stores account for roughly 64.5% of all liquor sales in the State and 66% of all operating expenses in the Liquor Enterprise.

  State Agency Operated Stores

  There are 95 State Agency Stores operated by independent contractors.

  These stores with a few exceptions are located in the more rural areas of the state.

  These stores do not own the liquor inventory they sell and receive a commission of 10% in all instances except four (4).

  The agency commission rates which deviate from the norm are in communities exceeding 3,000 population and range from 6.90% to 8.99%.

  Usually, Agency Stores are operated in conjunction with another enterprise such as: video stores, hardware stores, grocery stores, etc.

  Agency Stores account for approximately 35.5% of liquor sales and 21% of total operating expenses.

- There are currently 75 Full Time Equivalent employees working in State Liquor Stores. The total number of store employees is 95.
    - 24 Part Time Employees
    - 71 Full Time Employees
- These employees range in age from early twenties to late sixties and range considerably in the number of year of service they have accumulated.

Age	Number of Employees	Years of Service	Number of Employees
30/under	9	5 or less	46
30-39	19	6 to 9	24
40-49	16	10 to 15	15
50-59	32	16 to 20	5
Over 60	16	Over 20	5
Unknown	3		
Total	95	Total	95

- Almost 40% of these individuals are eligible for retirement.

Type of Retirement	Number of Employees
Early Retirement	28
Regular Retirement	9
Total	37

- There is potential liability of the State should a violation of the alcoholic beverages law occur - particularly those dealing with sales to persons under legal age or intoxicated persons.
  - Third party liability is always a concern in these days of stricter DUI laws enforcement.
  - State law establishes the days of operation for State Retail Liquor Stores/Agencies. Every 2 to 3 years the Christmas and New Years Eves fall on a day the stores are required to be closed.
- Clearly this:
  - Constitutes an inconvenience to consumers during the holiday season.
  - Impacts revenues since these days are typically the retail trades largest selling days.
- Additionally,
  - Stores are closed Sundays and Mondays and, by union contract, on the following Tuesday if the holiday falls on those days they are closed.
- Limitations imposed on a state operated business precludes it from being operated in a true "retail" business sense of the word. This often conflicts with the level of service that may be provided consumers.
  - Policy does not allow the State to advertise, a retailers most valuable sales tool.
  - This policy was originally established as a method for the State to "control" alcohol sales and consumption.
  - Appropriations language adopted establishes the profit motive as an overriding concern - the two goals are in conflict with one another.

- Though the states losses from consumer and employee pilferage is lower than the average retailer it does constitute a cost to taxpayers to investigate and prosecute offenders.

- From a strictly philosophical standpoint many feel that State Government should not be involved in the sale of alcoholic beverages per se nor a retail business in competition with the private sector.

Objectives For Privatizing The Liquor Enterprise

- To minimize non-essential state services.
- To eliminate the state being in competition with local private enterprise.
- To reduce the size of state government.
- To transfer approximately $4 million (one time) to the general fund by eliminating inventory investment in state liquor stores.
- To return on an on-going basis the same level of state revenue that the current system generates while selling products at a wholesale price that is lower than the current state retail price.
- To offer and limit a new package store license for off-premises consumption only in place of stores and agencies on a one-for-one basis in each community where stores and agencies exist.
- To provide direct shipment of liquor products from the state warehouse to retail licensees at a uniform wholesale price regardless of location and to allow retail licensees to purchase liquor products from each other.
- To phase in the distribution of table wine exclusively through private wholesalers by eliminating further state purchases of table wine.
- To provide state store employees with considerable advanced notice of terminating employment with state liquor stores and with state hiring preferences in advance of their termination.
- To provide state store employees, liquor store agents and liquor store landlords with selection preferences for new package licenses.

How Will Privatization Be Accomplished?
And
What Are The Key Elements Of The Governor's Proposal?

- All agency and state employee operated stores would be phased out during an 18 to 21 month period following approval of legislation.

- All stores would be closed by December 31, 1992.

- Before that date stores would be closed as agency contracts terminate, and the others would be closed as a store lease comes due and all full-time employees who worked in the store when legislation was approved have voluntarily terminated employment.

- State employees who, on the effective date of legislation, worked at least an average of 20 hours a week in a capacity directly related to the operation of state liquor stores during the six preceding months would have RIF hiring preference upon approval of legislation.

- State liquor store employees, liquor store agents and liquor store landlords would have selection preferences for new package licenses.

- In place of agencies and state employee operated stores would be a new package license for off-premises consumption only.

- Existing retail licensees would get direct liquor shipments from the state warehouse at a uniform wholesale price once a state store is privatized in a community.

- All licensees would get direct shipments after December 31, 1992.

- Retail licensees would not be required to purchase liquor from the new package licensees. (Licensees are currently required to purchase liquor from agencies or stores.)

- **The state would phase out selling table wine as the current supply is sold.**

- **This legislation would result in a one-time transfer of approximately $4 million to the general fund by eliminating inventory investment in state liquor stores, maintenance of the current level of taxes and profit to the state, and the addition of approximately $50,000 a year in license fees.**

Key Elements Of The New Package Store License

- The number of licenses would be limited to the number of agencies and stores that were in a community when the legislation was approved. (There are 125 stores now.)
- The new licensees would be selected through advertising and the public hearing process just as existing licenses are. **However, current store employees, agents and landlords would have a first-time selection preference.**
- The new package licenses could not be located in or adjacent to grocery stores unless the license would be in a store currently operated in or adjacent to a grocery store.
- The new package licenses would be non-transferable and non-assignable as to ownership to avoid building equity in the licenses and the legal issues that surround valuable property.
- Gambling would not be allowed on these premises.
- The fee for these licenses would be $400 each year.

What Provisions Are Being Made For Affected Employee's?

- State employees affected by the eventual closure of state liquor stores will have at least 18 months advanced notice of their employment termination.

- Special provisions are being made for employees who will be affected by the closure of stores and who have worked an average of 20 hours a week during the 6 months preceding passage of legislation in a capacity directly related to the operation of stores:

  - The Department of Revenue will provide training to interested store-related employees to qualify for high turnover jobs in the Department.

  - Store-related employees will be able to transfer non-competitively to other Department openings for which they are qualified at or below their current salaries.

  - Store-related employees will receive reduction-in-force (RIF) hiring preference for any position for which they are qualified through state government.

- Absolute preference for the new package liquor store license will be given to displaced liquor store employees who worked an average of 20 hours a week during the 6 months preceding passage of legislation in the state employee operated store that gives rise to the license.

- Employees can become employee owners of the stores where they currently work by purchasing those businesses through participation in a corporation established under the Montana Employee Ownership Opportunity Act (EOOA).

- EOOA corporations have access to:

  - Low-cost financing;

  - Tax incentives; and

  - Retirement benefits.

- Additionally, the Department of Labor will assist employees in setting up workable EOOA's well in advance of the eventual termination date for state operated stores.

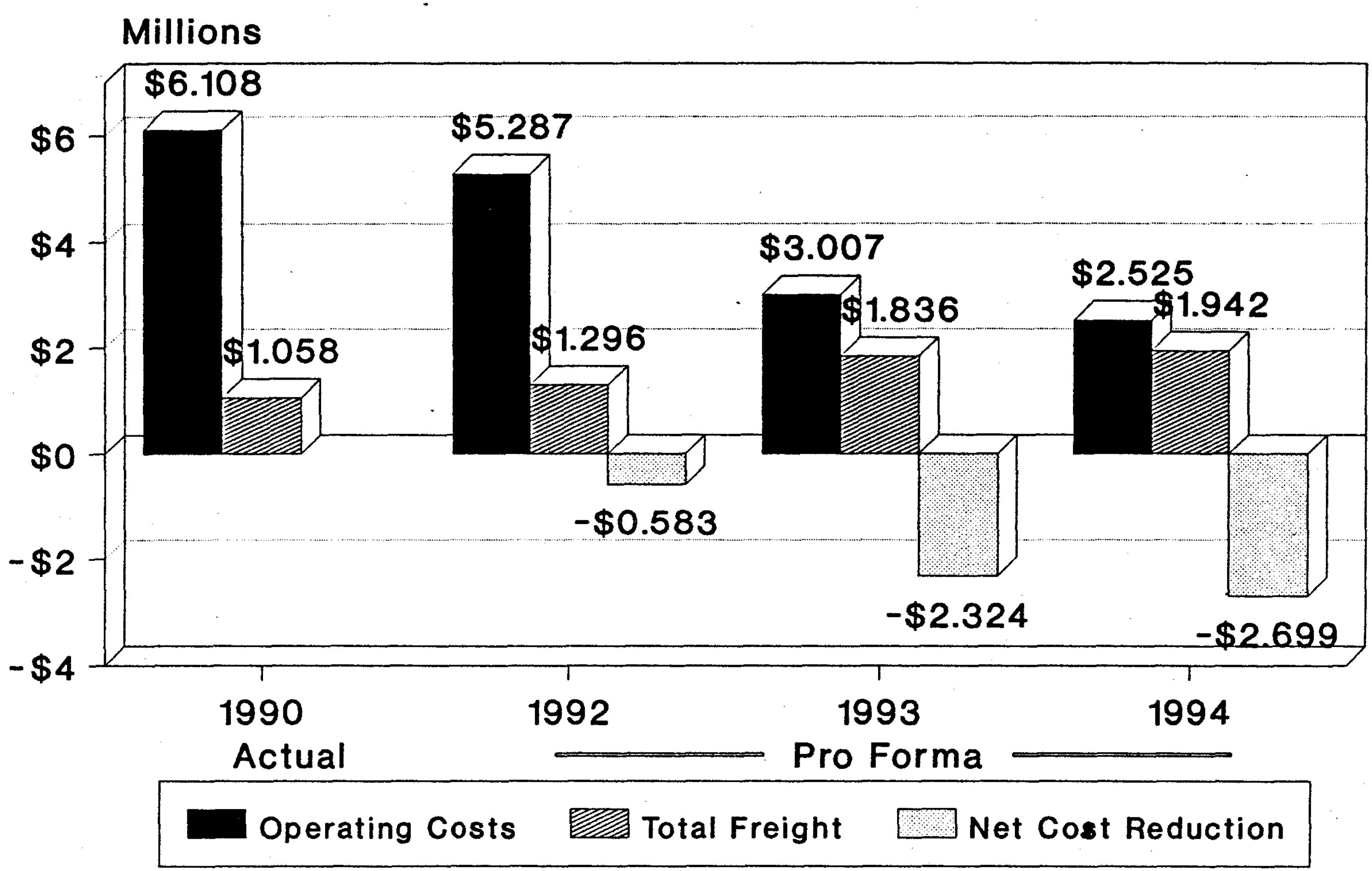
Department of Revenue – Liquor Enterprise Fund
Comparative Proforma Statement of Revenues and Expenses
For The Years Ended June 30, 1990 Through 1994

	1990 Actual	1992 Proforma	1993 Proforma	1994 Proforma
Gross Liquor & Wine Sales	$44,048,052	$44,111,525	$42,673,265	$42,347,083
Less Discounts Granted	542,200	601,670	962,333	1,043,809
Adjusted Gross Liquor & Wine Sales	$43,505,852	$43,509,855	$41,710,932	$41,303,274
Less Cost of Goods Sold				
Beginning Inventory, July 1	$7,540,066	$4,500,000	$3,168,000	$500,000
Liquor & Wine Purchases	26,059,379	22,451,081	21,035,714	23,674,384
Freight to Warehouse	629,897	641,899	639,757	638,966
Freight to Stores	428,212	654,557	1,196,017	1,303,131
Goods Available for Sale	$34,657,554	$28,247,537	$26,039,488	$26,116,481
Ending Inventory, June 30	10,261,069	3,168,000	500,000	500,000
Cost of Goods Sold	$24,396,485	$25,079,537	$25,539,488	$25,616,481
Gross Income from Liquor & Wine Sales	$19,109,367	$18,430,318	$16,171,444	$15,686,793
License Fee Revenue	1,661,818	1,661,818	1,661,818	1,661,818
Other Income	30,457	33,000	35,000	35,000
Gross Income	$20,801,642	$20,125,136	$17,868,262	$17,383,611
Operating Expenses:				
Administration	$236,612	$224,703	$193,257	$185,918
Licensing Bureau	217,175	217,916	218,307	217,175
Inventory Control Bureau	107,272	107,638	107,831	107,272
Warehouse Bureau	291,545	413,438	716,971	786,587
Distribution Bureau	310,145	311,202	311,761	310,145
State and State Agency Stores	4,027,728	3,091,096	536,089	0
Unallocated Expenses	917,696	920,825	922,478	917,696
Total Operating Expenses	$6,108,173	$5,286,818	$3,006,694	$2,524,793
Operating Income	$14,693,469	$14,838,318	$14,861,568	$14,858,818
Less Operating Transfers Out for Licenses & Taxes:				
Liquor License Fees	$1,661,818	$1,661,818	$1,661,818	$1,661,818
Liquor Excise Tax	5,434,746	5,548,000	5,571,000	5,571,000
Liquor License Tax	3,396,716	3,468,000	3,482,000	3,482,000
Wine Tax	37,843	19,500	2,750	0
Total Transfers	$10,531,123	$10,697,318	$10,717,568	$10,714,818
Net Income from Operations	$4,162,346	$4,141,000	$4,144,000	$4,144,000
Package Store License Fees	0	31,500	56,200	50,000
Asset Transfer – Liquor Store Inventory		1,332,000	2,668,000	0
Liquor Store Staff Training and Benefits		(60,000)	(30,000)	0
Net Income From All Sources	$4,162,346	$5,444,500	[illegible]	[illegible]

Department of Revenue – Liquor Enterprise Fund
Comparative Proforma Statement of Revenues and Expenses
For The Years Ended June 30, 1990 Through 1994

	1990 Actual		1994 Proforma	1990 to 1994 Total Change
Gross Liquor & Wine Sales	$44,048,052		$42,347,083	($1,700,969)
Less Discounts Granted	542,200		1,043,809	501,609
Adjusted Gross Liquor & Wine Sales	$43,505,852		$41,303,274	($2,202,578)
Less Cost of Goods Sold				
Beginning Inventory, July 1	$7,540,066		$500,000	($7,040,066)
Liquor & Wine Purchases	26,059,379		23,674,384	(2,384,995)
Freight to Warehouse	629,897		638,966	9,069
Freight to Stores	428,212		1,303,131	874,919
Goods Available for Sale	$34,657,554		$26,116,481	($8,541,073)
Ending Inventory, June 30	10,261,069		500,000	(9,761,069)
Cost of Goods Sold	$24,396,485		$25,616,481	$1,219,996
Gross Income from Liquor & Wine Sales	$19,109,367		$15,686,793	($3,422,574)
License Fee Revenue	1,661,818		1,661,818	0
Other Income	30,457		35,000	4,543
Gross Income	$20,801,642		$17,383,611	($3,418,031)
Operating Expenses:				
Administration	$236,612		$185,918	($50,694)
Licensing Bureau	217,175		217,175	0
Inventory Control Bureau	107,272		107,272	0
Warehouse Bureau	291,545		786,587	495,042
Distribution Bureau	310,145		310,145	0
State and State Agency Stores	4,027,728		0	(4,027,728)
Unallocated Expenses	917,696		917,696	0
Total Operating Expenses	$6,108,173		$2,524,793	($3,583,380)
Operating Income	$14,693,469		$14,858,818	$165,349
Less Operating Transfers Out for Licenses & Taxes:				
Liquor License Fees	$1,661,818		$1,661,818	$0
Liquor Excise Tax	5,434,746		5,571,000	136,254
Liquor License Tax	3,396,716		3,482,000	85,284
Wine Tax	37,843		0	(37,843)
Total Transfers	$10,531,123		$10,714,818	$183,695
Net Income from Operations	$4,162,346		$4,144,000	($18,346)
Package Store License Fees	0		50,000	50,000
Asset Transfer – Liquor Store Inventory			0	0
Liquor Store Staff Training and Benefits			0	0
Net Income From All Sources	$4,162,346	$0	$4,194,000	$31,654

Liquor Privatization Net Cost Savings
FY90 Actual Thru 1994 Proforma



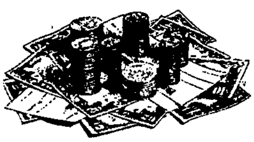
Ex # 1-6
S.B 458

February 1991

■ **STATE OF MONTANA**
Stan Stephens, *Governor*

■ **DEPT. OF REVENUE**
Denis Adams, *Director*

PRIVATIZATION OF STATE LIQUOR RETAIL OPERATIONS



"Montana is one of only two states that is in direct competition with private enterprise in the off-premises sale of liquor."

PROPOSED LEGISLATION

The Montana Department of Revenue proposes, over an eighteen month phase-in period ending December 31, 1992, to withdraw the state from retail liquor and table wine sales; create a package store license; and maintain current level revenue through wholesale operations.

Privatizing liquor retail operations will help trim the size of state government, eliminate a nonessential state service, and remove state government from competition with main street private enterprise. This proposal creates a net savings of $2.7 million to the Department of Revenue which will be used to lower the wholesale price to retailers. It also initially produces a onetime $4 million transfer to the state general fund by cashing in the existing state retail liquor store inventory.

This proposal:

- *maintains the same number of retail outlets statewide,*
- *generates the same amount of revenue to the State,*
- *honors all existing lease commitments,*
- *maintains the restrictions on liquor outlets in grocery stores, and*
- *provides for orderly employee transition to store ownership or new employment.*

MONTANA LIQUOR SALES HISTORY

Following prohibition repeal, Montana was one of 18 states to establish monopoly control over the distribution and retail sale of all alcoholic beverages.

In 1933, we adopted the Canadian system of distributing liquor through state-operated stores, the only retail outlets for the sale of liquor. In 1937, private retailers were allowed to sell liquor but were required to purchase that liquor from the state. This system continues today. Half of all sales from state stores are to private retailers.

The number of state retail liquor outlets has declined from about 200 in 1940 to 125 in 1991. In the beginning, all the stores were operated by state employees. In 1973 the state began to allow agents to contract operation of state stores for a commission on sales. Now all but 30 of the largest stores are operated by agents.

In 1979 the Montana Legislature authorized private distributors to purchase table wine directly from wineries and sell to private retailers.

The Montana Department of Revenue now recommends privatizing the retail sales of all liquor, while maintaining state control of wholesale distribution.

BENEFITS OF PRIVATIZING RETAIL OPERATIONS

Privatizing Montana's liquor retail operations will:

- *reduce nonessential state services;*
- *eliminate competition with the retail private sector;*
- *reduce the size of state government;*
- *return $4 million to the state general fund;*
- *reduce the price retailers pay for liquor; and*
- *give retailers a choice of where to purchase product within the state.*

The Department of Revenue will offer current retail liquor stores and agencies a limited new package store license for off-premises consumption. Licenses will be awarded on a one-for-one basis in communities where state stores and agencies now exist. Package liquor and fortified wine can still be purchased from licensed bars and other licensed establishments.

WHOLESALE OPERATIONS TO BE MAINTAINED BY DOR

While privatizing retail liquor operations creates benefits to the state and the public, privatizing state liquor wholesale operations would present a number of problems.

Montana's vast size and low population, combined with the retailer's desire to offer a wide variety of beverages, make statewide wholesale distribution a costly prospect. The state's present centralized system provides an efficient, cost-effective method of distributing product.

A statewide wholesale system allows for certain financially prudent measures. For example, the Department of Revenue recently convinced liquor suppliers to bill the Department only when the liquor is actually shipped to retail locations. Consequently, inventory in the warehouse is owned by the supplier until distributed, thus saving the state from investment in a stored product. State controlled wholesale operations will also assure continuity of supply.

A uniform wholesale price to retailers will be computed by subtracting the annual retail operating expense savings of $2.7 million from current prices. The wholesale markup, which will include a percentage of freight costs to retailers, will fund the cost of wholesale operations. The uniform wholesale price to private retailers will be less than the current retail price today.

Table wine, which accounts for only 2% of the state's gross liquor sales, will not be wholesaled by the state. Instead, it will be distributed exclusively through private wholesalers, as is the case with beer now.

TRANSITION AND IMPLEMENTATION

EMPLOYEE TRANSITION Privatization of the state liquor retail operation will directly affect approximately 95 state employees. To help these employees make the transition, the Department of Revenue will:

- *provide employees with time (18 months) to plan their futures before their jobs are terminated;*
- *provide retraining opportunities;*
- *provide transfer rights to other state positions throughout Montana including their own locales; and*
- *provide employees with the opportunity to own the stores where they work through the Montana Employee Ownership Opportunity Act (EOOA).*

License and processing fees collected during the biennium for package retail licenses will be used to offset the cost of compensating terminated workers for accrued annual leave and sick leave. The Department will use existing funds to retrain displaced staff in preparation for other employment.

State employees who, on the effective date of legislation, worked at least an average of 20 hours per week in a capacity directly related to the operation of state liquor stores during the six preceding months will have Reduction In Force (RIF) hiring preference.

Qualifying employees can become employee owners of the stores where they currently work by purchasing those businesses through participation in a corporation established under the Montana Employee Ownership Opportunity Act (EOOA). EOOA corporations will have access to low-cost financing to purchase those businesses, tax incentives and benefits, retirement benefits, store networking within their own organization, and continuation of their jobs under their own auspices.

EOOA corporations authorized by this legislation, state liquor store employees, liquor store agents, and liquor store landlords will have a first time selection preference for new package store licenses.

RETAIL STORE TRANSITION All agency and state employee operated stores will be phased out during an 18 month period following approval of the legislation. Stores will close as agency contracts terminate, employees voluntarily terminate, and as store leases come due. All state-operated retail liquor stores will be phased out by December 31, 1992.

The number of package store licenses will be limited to the number of agencies and stores in a community on the effective date of the legislation. Except when preference is involved, new licensees will be selected through advertising and public hearing process just as "all alcoholic beverages" licensees are now.

WHOLESALE TRANSITION Until December 31, 1992, retail licensees located within 35 miles of a community in which all existing state liquor stores or agencies are still operating must continue to purchase from state retail outlets. Once a state store has been closed in that locale, all the licensees in the area can then get direct delivery of liquor products from the state warehouse at the wholesale price. After December 31, 1992, all licensees will get direct shipments from the state liquor warehouse.

As of January 1, 1993, all state retail stores will be closed and private retailers, including "all alcoholic beverages" licensees can choose to purchase directly from the state liquor warehouse, from another "all alcoholic beverages" license holder, or from a package store license holder.

LICENSING PREFERENCES

In communities now served by a state employee operated retail outlet, absolute licensing preference will be given to EOOA corporations and displaced employees in that locale followed by preference to former liquor store landlords who apply.

In communities now served by a state retail liquor store agency, absolute preference will be given to agents with agency agreements in effect with the Department of Revenue on the effective date of the act, and who apply and claim preference.

PACKAGE STORE LICENSE RESTRICTIONS

The new package licenses cannot be located in or adjacent to grocery stores in communities with more than 3,000 population. They will also be subject to the same local zoning ordinances and proximity to church and school restrictions that exist for other liquor licensees. Gambling would not be allowed on the premises.

The new package store licenses would be nontransferable and non-assignable to prevent accumulating equity in the licenses and to avoid legal issues surrounding real property. The license fee would be $400 per year, plus $100 processing fee the first year. With the exception of an EOOA corporation authorized by this legislation, no person can own more than one license, and no person can own both a package store license and an all beverage license.

FOR MORE INFORMATION CONTACT:

Denis Adams, *Director*, Department of Revenue, Sam W. Mitchell Building, Helena, Montana 59620 (406) 444-2460.

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DEPARTMENT OF LABOR AND INDUSTRY

COMMISSIONER'S OFFICE

STAN STEPHENS, GOVERNOR

P.O.BOX 1728

STATE OF MONTANA

(406) 444-3555

HELENA, MONTANA 59624

Taxation
Ex #2
SB458
3-28-91

TESTIMONY BEFORE THE TAXATION COMMITTEE ON SENATE BILL 458

BY MIKE MICONE, COMMISSIONER OF LABOR AND INDUSTRY

Mr. Chairman and members of the committee.

I'm Mike Micone, Commissioner of Labor and Industry and I am here in support of Senate Bill 458.

First, let me say that the sale of retail liquor is a function that should not be in the hands of government. The State of Montana has the right and the responsibility to impose certain controls on the sale of alcohol, but the sale of the product is better left to the professionals knowledgeable in marketing.

The citizens expect government to deliver certain services. They also expect that we concentrate our efforts to improve the delivery of those services. They don't believe the sale of alcohol is one of the services to be provided by government.

Getting the State out of this business is long overdue and this legislature has the opportunity with SB 458 to not only make the right decision, but one that is popular.

The Department of Labor and Industry along with the Department of Revenue recently sponsored a series of informational sessions for retail liquor store state employees and agents. The purpose of these meetings was to explain provisions contained in this legislation to privatize retail liquor operations and the options available to state employees and agents.

Let me explain why the Department of Labor and Industry was involved in this effort as this was a question that continually arose from those attending the meetings.

Our involvement in this privatization plan comes from our long standing mission to respond to the needs of workers. We believe if we can intercede and prevent a worker dislocation from happening, then that worker is better served. For this reason, we began looking at the various options and came to the conclusion that if employees and agents chose to continue to operate the liquor stores, it was important that some protection be written into the legislation.

Because our investigations clearly indicated that if left on their own, all stores would not survive, we proposed an employee-ownership model for retail liquor stores. If the stores were operated as a cooperative, they would have the opportunity not only to survive but to prosper. Our conclusions are based on the assumption that historically the operations were profitable and that provisions in the legislation safeguard future profitability.

There are, in fact, several provisions in this legislation which attempt to do just that. For instance,

1. 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 or agents in that location choose to participate in the corporation.
2. The employee-owned corporation may hold multiple licenses--unique to the industry, but it would allow for the continuation of the business as individuals leave the corporation.
3. The ability for stores to add beer and wine sales to their operations, as well as limited food items.
4. A "multiple-enterprise store" which pairs a liquor store with other consumer goods or services that are needed and wanted in a particular community. Some stores presently are associated with hardware stores, pharmacies and video rentals. The operation will be limited only by the operator's imagination.

When the concept of expanded operations is combined with lifting the current restrictions on advertising and mandatory hours of operation, future profitability looks feasible. Talented marketing will help store owners recapture some of their market which would be lost by direct shipments from the state warehouse to bars and restaurants.

The department sees a number of benefits for an employee-owned corporation to operate retail liquor stores. Such a model would give current state employees and agents the opportunity for ownership in a business. Unlike the usual single-owner scenario, this model 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 could 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 employee-owned 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.

We believe the option for employee-ownership provides an exciting opportunity for state employees and agents to become successful entrepreneurs in our state; my department is committed to facilitating the implementation of one or more employee-owned corporations.

I should bring to your attentions some of the concerns that were raised at our meetings.

1. There would be a 56% loss of the sales volume to state and agency stores as a results of direct shipments to bars and restaurants. These establishments should still be required to purchase from a liquor store but not necessarily at a retail price.
2. If bars and restaurants are to be shipped directly from the state, they should not purchase liquor at the same price as the liquor store operators.
3. State employees should be allowed to roll funds from the present state retirement system into an employee-owned cooperation.

These items were reviewed as the legislation was developed although not included. The committee should give consideration to each and every concern to be raised, make whatever corrections are necessary to address legitimate concerns, and give concurrence for action by the full Senate. I ask your support of SB 458.

Sen. Tax
3-25-91
Ex #3
SB 458

TESTIMONY OF MARK STAPLES, ATTORNEY/LOBBYIST
FOR MONTANA TAVERN ASSOCIATION
BEFORE THE SENATE TAXATION COMMITTEE
ON MARCH 25, 1991
REGARDING SENATE BILL 458

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE: I AM THE ATTORNEY AND LOBBYIST FOR THE MONTANA TAVERN ASSOCIATION AND I RISE TODAY TO EXPRESS THE MTA'S SUPPORT FOR SENATE BILL 458.

THE DEPARTMENT OF REVENUE OF THE STATE OF MONTANA FIRST CAME TO OUR ORGANIZATION MANY MONTHS AGO AND ASKED FOR OUR INPUT INTO AND SUPPORT OF THIS LEGISLATION. IT HAS LONG BEEN THE MONTANA TAVERN ASSOCIATION'S POSITION THAT IT SUPPORTED, AT LEAST IN THEORY, THE PRIVATIZATION OF STATE RETAIL LIQUOR STORES, IF FOR NO OTHER REASON THAN TO ELIMINATE THE ANOMALY BY WHICH WE, AS RETAILERS, PURCHASE OUR PRODUCT AT RETAIL PRICES RATHER THAN WHOLESALE, IN CONTRAST TO ANY OTHER INDUSTRY THAT ONE CAN THINK OF. NEVERTHELESS, WHEN THE FIRST DRAFTS OF THIS LEGISLATION WERE PRESENTED TO US, WE EXPRESSED SERIOUS CONCERN ABOUT SEVERAL ASPECTS OF IT.

FIRST OF ALL, WE WERE APPREHENSIVE THAT BECAUSE THE LIQUOR WOULD NOW BE DELIVERED TO EACH OF OUR INDIVIDUAL TAVERNS, WHICH NUMBER SOMEWHERE AROUND 1800, AS OPPOSED TO DELIVERY TO 110 RETAIL STORES, THAT THE COST OF FREIGHT WOULD INCREASE PERHAPS DRAMATICALLY, AND IN TURN BE REFLECTED IN A CONSIDERABLE INCREASE IN THE COST OF PRODUCT, WHICH AGAIN IN TURN HAS HISTORICALLY LED

TO A DROP IN CONSUMPTION, WHICH MEANS A LOSS IN BUSINESS FOR US. TWO THINGS HAVE HAPPENED WHICH HAVE, TO A GREAT EXTENT, ALLEVIATED THAT PARTICULAR CONCERN.

THE FIRST IS THAT THE STATE IMPLEMENTED A SYSTEM CALLED "BAILMENT", WHERE THE MANUFACTURERS OF THE LIQUOR PRODUCTS OWN THEIR LIQUOR UNTIL IT'S SHIPPED OUT OF THE STATE WAREHOUSE, WHEREAS IT USED TO BE THAT THE STATE OWNED THE LIQUOR THAT WAS IN INVENTORY IN THE WAREHOUSE. THE STATE IMPLEMENTED THIS BAILMENT PROGRAM NINE MONTHS AGO AND WHEN THEY DID WE WERE QUITE CONCERNED THAT BECAUSE NATIONAL MANUFACTURERS MIGHT NO LONGER HAVE AN INCENTIVE TO POOL THEIR SHIPMENTS (NOW THAT THE STATE WASN'T CARRYING THE INVENTORY TAB), THAT THE LOSS OF POOLED SHIPMENTS WOULD RESULT IN AN INCREASED FREIGHT COST TO US. AFTER NEARLY A YEAR OF THE BAILMENT SYSTEM, WE HAVE NOT HEARD COMPLAINTS FROM OUR TAVERNS THAT WOULD SUGGEST THAT THEY ARE NOT GETTING PRODUCT, OR THAT THE PRICE OF THAT PRODUCT HAS INCREASED BEYOND THAT WHICH WAS MANDATED BY THE RECENT FEDERAL EXCISE TAX INCREASE. STILL, WE WERE NOT CONVINCED THAT THE PRICE OF FREIGHT WOULD NOT GO UP WITH THE IMPLEMENTATION OF RETAIL PRIVATIZATION ITSELF BECAUSE OF THE NEARLY TWENTY-FOLD INCREASE IN LOCATIONS TO WHICH PRODUCT WOULD BE DELIVERED. THE DEPARTMENT OF REVENUE AND THE ADMINISTRATION ASSURED US THAT THEIR FIGURES STATED THAT THOSE COSTS WOULD BE OFFSET BY SAVINGS FROM SALE INVENTORY, RENTS AND OTHER COSTS TO BE ELIMINATED THROUGH PRIVATIZATION. WE WERE NOT COMFORTABLE WITH THOSE ASSURANCES UNTIL WE RECENTLY SAW THE LEGISLATIVE FISCAL ANALYST'S REPORT THAT STATED THAT THE NUMBERS AND PROJECTIONS THAT THE DEPARTMENT WAS USING

SEEMED ACCURATE AND REASONABLE AND THAT INDEED AS FAR AS TAVERN OWNERS, THAT WE SHOULD SEE EVEN A DECREASE IN COST OF PRODUCT. THUS, OUR FIRST SERIOUS CONCERN HAS BEEN ANSWERED TO OUR SATISFACTION.

OUR SECOND OVER-RIDING CONCERN WITH THIS PROPOSED LEGISLATION WAS AN HISTORIC ONE FOR THE MONTANA TAVERN ASSOCIATION, THAT THESE NEW PACKAGE STORE LICENSES, WHICH WOULD BE ISSUED, WOULD END UP IN THE HANDS OF GROCERY STORES, AND PARTICULARLY, CONVENIENCE STORE CHAINS. GIVEN THAT THE MAJORITY OF THOSE ARE NEAR OFF-RAMPS TO OUR GROWING NUMBER OF SMALL COMMUNITIES IN THE STATE OF MONTANA, WE SAW A REAL POTENTIAL TO BASICALLY MAKE THE PACKAGE LIQUOR TRADE IN THE STATE OF MONTANA AN ADJUNCT TO THE INTERSTATE HIGHWAY SYSTEM, AND THEREBY FURTHER STRANGLE THE DOWNTOWN BUSINESS COMMUNITIES IN OUR CITIES AND TOWNS. ONCE AGAIN, THOSE CONCERNS HAVE BEEN TO A GREAT EXTENT ALLEVIATED BY THE FACT THAT, NUMBER ONE, THE FORMER EMPLOYEES OR OWNERS OF THE PRE-EXISTING PACKAGE STORES IN THOSE COMMUNITIES HAVE ABSOLUTE PREFERENCE. GIVEN THAT MANY OF THESE COMMUNITIES ONLY HAD ONE PACKAGE STORE, WE ARE HOPING THAT THIS WILL RESULT IN THOSE ENTITIES PICKING UP THOSE LICENSES RATHER THAN A CONVENIENCE STORE CHAIN. WE ARE ALSO, QUITE FRANKLY, CONCERNED THAT PERHAPS THERE WASN'T ENOUGH INCENTIVE FOR THOSE FORMER EMPLOYEES TO PURCHASE THESE STORES, THUS LEAVING THEM OPEN FOR PURCHASE BY THE BETTER CAPITALIZED CHAINS. THE ADDED FEATURES THAT WERE INCLUDED IN THE LEGISLATION TO MAKE EMPLOYEE PURCHASE MORE ATTRACTIVE WERE NOT NECESSARILY IN OUR BEST INTERESTS, BUT WE SEE THE FAIRNESS OF IT OVERALL IN CONTEXT OF THIS LEGISLATION AS IS.

THOSE FEATURES THAT WOULD MAKE THESE STORES MORE ATTRACTIVE FOR FORMER EMPLOYEES TO PURCHASE WOULD BE THAT THEY COULD NOW SELL BEER, WHICH THEY HAVE NEVER BEEN ABLE TO AND THAT THEY COULD ALSO COMPETE WITH OUR HOURS, NAMELY SEVEN DAYS A WEEK, FROM 8 TO 2. BOTH OF THOSE FEATURES, OF COURSE, ARE IN DIRECT COMPETITION WITH THE TAVERNS, BUT WE UNDERSTAND HOW THEY WOULD HAVE TO BE INCLUDED IN ORDER FOR THERE TO BE A REASON FOR THE FORMER EMPLOYEES AND THE AGENTS TO BAND TOGETHER TO PURCHASE THESE STORES. CERTAINLY THE MONTANA TAVERN ASSOCIATION'S PREFERENCE SHOULD THIS LEGISLATION PASS, IS THAT THE NEW PACKAGE STORES INDEED BE PURCHASED AND RUN BY THE FORMER EMPLOYEES AND AGENTS, BOTH FOR CONTINUITY'S SAKE AND AS I'VE SAID, TO KEEP THOSE STORES IN THE HANDS OF INDEPENDENT OPERATORS RATHER THAN GROCERY AND CONVENIENCE CHAINS.

WHILE THE TAVERNS WILL NOW HAVE THE OPPORTUNITY TO BUY DIRECTLY FROM THE STATE AND HAVE THEIR SHIPMENTS DELIVERED DIRECTLY TO THEM, WE FEEL THAT THERE WILL STILL BE A SIGNIFICANT PORTION OF BUSINESS DONE WITH THESE LICENSE PACKAGE STORES, GIVEN THE STATE'S INTENTION TO REQUIRE CASE LOT ORDERS OF 4 AND 5 CASES AT A TIME. MANY OF OUR TAVERNS SIMPLY DO NOT PURCHASE IN THAT VOLUME AND THUS, STILL WILL BE IN A POSITION TO HAVE TO BUY AT LEAST A PORTION OF THEIR INVENTORIES FROM THESE STATE LIQUOR STORES AND WE PREFER THAT THEY STAY IN THE HANDS OF INDEPENDENT OPERATORS.

IN SUMMARY, WE REALIZE THAT THERE IS A GREAT DEAL OF CONTROVERSY SURROUNDING THIS LEGISLATION, BUT IT WOULD BE HYPOCRITICAL OF THE TAVERN ASSOCIATION TO ABANDON A POSITION IT'S HELD FOR A NUMBER OF YEARS, THAT WE AS RETAILERS WOULD LIKE TO BE

IN A POSITION OF NOT HAVING TO PAY RETAIL PRICES OURSELVES. BECAUSE THIS SYSTEM ALLOWS US TO BUY AT WHOLESALE RATES DIRECTLY FROM THE STATE OF MONTANA, WE DO SUPPORT IT AND WE ENCOURAGE THIS COMMITTEE'S DO PASS RECOMMENDATION.

TESTIMONY OF BOB HEISER OPPOSING SENATE BILL 458

BEFORE THE SENATE TAXATION COMMITTEE, MARCH 25, 1991

Sen. Taxation
Ex. # 4
3-25-91
SB 458

Mr. Chairman, members of the Committee, for the record, my name is Bob Heiser and I'm here on behalf of over 3,000 United Food and Commercial Workers of Montana, and we rise in strong opposition to Senate Bill 458.

This bill has strong adverse effects on all liquor store clerks and agency store operators. Not only would it cost all 95 state store employees their jobs, they would also lose health and well-fare coverage for themselves and their families, and any opportunity to further build on their retirement plan, or for some to get vested in that same plan.

These employees are tax payers, not tax users. They hold down jobs, generate revenue for the state and contribute to Main Street business. In the event of privatization, they would draw unemployment benefits and perhaps other benefits, and would possibly become a drain on state welfare programs. They would no longer be contributing to the welfare of the state, but would become wards of the state.

This administration and the Department of Revenue have used the battle cry of privatization of non-essential state services in order to relieve stress on the general fund. However, according to the Department's own figures, state owned liquor stores have generated nearly $50 million in net profit over the last 10 years -- that's $50 million that has been available for you to spend, above and beyond what it costs to operate the stores.

In fiscal year 1990 alone, over four million dollars was generated to the general fund by these so-called "non-essential state services."

State-owned liquor stores and agency stores do not cost the state one dime. In fact, many of the public services that we take for granted are available thanks to the revenue generated by these dedicated state employees and agency store operators.

Senate Bill 458 is full of half-truths, illusions and smoke-screens, as illustrated and clearly defined by the Legislative Auditor's analysis. Copies of that analysis have been given to the committee.

At this time, I would like to turn your attention to several points in that report that are very important and should be closely scrutinized.

I call your attention to the points I have highlighted in the Legislative Auditor's report.

Senate Bill 458 represents a political promise that has no sound legislative basis. It will cut off a sound money supply for the state. It will not save anything in the long run. It will ruin many careers and cripple the lives of dedicated employees and their families.

This is bad legislation that will be hurtful, and all for no benefit other than a political promise. On behalf of the 3,000 members of our organization and their families, we urge you to table Senate Bill 458 as a bill whose time has not yet come.

Thank you.

Sen. Tax
Ex #4a
SB 458
3-25-91

Office of the Legislative Auditor

ELIMINATING THE AUTHORITY OF THE DEPARTMENT OF REVENUE TO ESTABLISH AND MAINTAIN STATE LIQUOR STORES.

Legislative Request 91L-57
March 5, 1991

In response to a request to review the Department of Revenue's plans to eliminate state liquor stores, we obtained a copy of draft legislation and documents used by the department to analyze and construct its proposal. The following sections address our review of the draft proposal.

Background

The bill as drafted would withdraw the state from the retail liquor and table wine sale business. The state would maintain the wholesale/warehouse system. The bill would create a package store license and provide for wholesale liquor markup and taxes.

Applicability of Privatization Review by Legislative Auditor

Since the proposed removal of the state from the retail liquor business does not transfer money from personal services into other services to provide the same function, it does not technically have to be reviewed by the Legislative Auditor under requirements of HB 100 of the 1989 Legislative Session. The proposal removes the state from the entire function of selling retail liquor. The state would not be contracting out this service.

Summary of Costs/Benefits

Cost Benefit to the State

There is no overall long-term cost benefit to the state due to the elimination of state liquor stores. The reduction in expenditures associated with the stores will be offset by increased expenditures in warehousing, transportation and discounts; and by a lower markup. The benefit comes from the elimination of state inventory. The liquor profit will remain at the same level it would have been at had the state remained in the retail liquor business. Any cost benefit to the state comes from recovering the costs of current liquor in inventory at state liquor stores because the state will not have to replace this asset. The department estimates the General Fund will receive $1.33 million in fiscal year 1992 and $2.67 million in fiscal year 1993 from the sale of current stores' inventory.

This cost benefit is in addition to a "one time" transfer of working capital of approximately $4 million to the General Fund during fiscal year 1991 because of bailment. Bailment is a system of holding liquor products in trust in the warehouse, then transferring ownership directly from the supplier to the state upon shipment to stores. In this way, the state avoids the inventory expense

E-#4.a

of stock in the warehouse sitting idle before being sold. Bailment is possible even if the state remains in the retail liquor business.

Cost to the Montana Consumer

Those purchasing liquor will be affected by the change. Bars and taverns who used to purchase from state liquor stores may now purchase from package stores or directly from the state warehouse. Purchasing directly from the warehouse will be less expensive than purchasing from package stores.

The case and bottle price will be a little over 2.5% cheaper from the warehouse than the current state store case and bottle price. Those selling to the public will place a retail markup on their product. It is unlikely the package stores or bars would have a retail markup less than 8.1% (Ratio of current retail price per bottle to new case discount cost of bottle). Contacts with other states in the wholesale liquor business indicate average retail markups of 17% to 33%. To return the same dollar amount on a bottle of liquor as a retailer does in Wyoming, the Montana retailer would have to markup the bottle 24.5%.

These factors, combined with the removal of retail price control and limiting the number of licenses in a community, will not have a positive effect on keeping the price of liquor at current levels. Therefore, the cost to "walk-in" customers to package liquor stores will more than likely be higher than the current state store retail price. The public is likely to see the same prices for drinks from bars and taverns buying directly from the warehouse. Prices of drinks could be higher if the drink is made from liquor purchased from package stores.

Assumptions Used by the Department of Revenue to Analyze Proposal

The following are the assumptions used by the department in performing its analysis and making a decision.

1. Package retail licensed stores will replace all state liquor stores. Sixty-three (63) package stores will be in place in fiscal year 1992 and sixty-two (62) will be in place in the first half of fiscal year 1993.

2. Wholesale distribution of liquor direct to licensees will be phased in as state-owned liquor stores are phased out.

3. The state will no longer purchase table wine and will sell out existing state-owned stock.

4. The volume of liquor and table wine sold will be no different under the proposal than under the current law.

5. The wholesale price of liquor will be lower than the current retail price of liquor by the proportion that operating expenses are reduced due to closure of state liquor stores, freight to stores and warehouse staff are increased due to direct shipment to licensees, and the fiscal year 1990 level of profit and taxes maintained.

6. Licensees will get a 5% case discount off the wholesale price for full case purchases. Purchase of repacked cases will be at the wholesale price.

7. The wholesale markup as a percentage of cost of goods F.O.B. state warehouse will yield the wholesale operating costs and the fiscal year 1990 level of profit.

8. The wholesale license tax as a percentage of cost of goods F.O.B. state warehouse will yield the same annual amount of license tax as does the retail license tax as a percentage of the cost of goods F.O.B. state stores and retail markup.

9. The entire cost value of inventory maintained in a state liquor store will be transferred to the general fund within six months after a store is closed.

10. Operating expenses in fiscal year 1992 and fiscal year 1993 will have the same relative distribution of total expenditures among responsibility centers and objects of expenditure as existed in fiscal year 1990 except where expenses will be reduced due to the phased in closure of state liquor stores and freight to stores and warehouse staff will be increased due to direct shipment to licensees.

11. Each package retail license will be issued for $400 each fiscal year plus $100 processing fee the first year for each licensee.

QUESTIONS AND ANALYSIS OF EACH ASSUMPTION

The following are questions which could arise when each of the assumptions is reviewed. The assumptions are listed again and the appropriate questions and answers follow.

Assumptions:

Package retail licensed stores will replace all state liquor stores. Sixty-three (63) package stores will be in place in fiscal year 1992 and sixty-two (62) will be in place in the first half of fiscal year 1993.

Each package retail license will be issued for $400 each fiscal year plus $100 processing fee the first year for each licensee.

1. What is a package liquor store?

   A package liquor store may sell all alcoholic beverages at retail for off-premises consumption only. A licensed package liquor store may purchase liquor from a state liquor store (until December of 1992), the state liquor warehouse, or another package liquor store. Beer and wine can be purchased from licensed wholesalers and distributors. The store may not be located in or contiguous to a food market in a community with population over 3,000. No gaming machines or live card games are allowed on the premises.

Ex #4a

2. How will the current stores be replaced?

A package liquor store license may be issued by the Department of Revenue only when all the state liquor stores in the community have been closed. No state liquor stores would be selling liquor or wine after December 31, 1992.

A state liquor store cannot be closed unless all department employees who are eligible for reduction-in-force rights no longer work at the store and the liquor store lease with the department has expired; or the agency agreement has terminated; or it is after December 31, 1992.

The Revenue Oversight Committee will be informed of all plans for closure of a state liquor store.

3. How many package liquor stores will there actually be?

The number of package liquor store licenses cannot exceed the number of state store licenses that existed in the community prior to the legislation. There is no guarantee that current communities will be served by a liquor store even though there is one there now. All locations would however be served by the warehouse. Since the new law also proposes delivery of liquor from the warehouse directly to premises that sell liquor (i.e. bars, taverns) the number of package liquor stores will most probably be less than the current 125 state stores. Bars and taverns with the ability to purchase and store the inventory may find it beneficial to buy directly from the state warehouse. Those establishments not wishing to carry much inventory and also not wanting to wait for state delivery from the warehouse may make arrangements with package liquor stores or other bars and taverns to buy stock. The number of licensees could reach 125 if the business or person holding a package liquor license are running other businesses (i.e. video stores, convenience, etc). Therefore, the liquor business would not have to fully support the operation.

4. Will the package liquor license have any "value"?

By law the package liquor license would not be transferable or assignable as to ownership. The license is only transferable as to location. The license can not be subject to mortgage, other valid liens or security interests.

A package store license may be transferred upon approval and consent of the department, between qualified businesses if new persons other than the licensee are not part of, or own stock in, the business to which the license is being transferred. A license may not be transferred to or from an employee-owned enterprise.

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5. <u>Who could obtain a package liquor store license?</u>

Following the closure of a state liquor store, absolute preference must be given to an employee-owned enterprise that has a stockholder who is an eligible state employee from a closed or about to be closed state liquor store. If there is no employee-owned enterprise applicant absolute preference will be given to displaced liquor store employees in the community who apply for the first license. If two employees apply for the same license, the applicant who would best serves public convenience and necessity will be granted the license.

The next preference would be given to former liquor store landlords in that community.

Following the closure of an agency-operated state liquor store, absolute preference must be given to an employee-owned enterprise that has a stockholder who is an eligible agent from a closed or about to be closed state liquor store. If there is no employee-owned enterprise applicant absolute preference will be given to the eligible agent in the community who apply for the first license.

These preferences can be claimed by partnerships or corporations which meet the requirements of the law. Licenses will cost $400 per year.

When more than one qualified applicant applies for a license, if no preference is claimed, the applicant who would best serves public convenience and necessity will be granted the license.

6. <u>Are there any statutory criteria for applicants for a package liquor store license?</u>

Yes. Individual applicants cannot possess an ownership interest in an establishment having an on-premises consumption license. Individuals or members of their immediate families cannot be receiving financing from or have any affiliation with a manufacturer, importer, bottler, or distributor of alcoholic beverages. The applicant has not been a convicted felon (rights have not been restored). In addition, the applicant's past and current status demonstrates that he/she is likely to operate the establishment in compliance with applicable laws. The applicant must be at least 19 years of age.

If the applicant is an employee-owned enterprise, the enterprise must be incorporated prior to January 1, 1993 and was organized for the purpose of operating package stores. Each owner of 10% or more of the outstanding stock meets the requirements listed previously for an individual applicant. For a first-time license the owners of at least 51% of the outstanding stock must be eligible state employees

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or agents. For a previously issued license, the enterprise must hold at least one initial package store license.

If the applicant is a corporation (not employee-owned enterprise), the owners of 51% of the outstanding stock must not have been convicted of a felony, each owner of 10% or more of the outstanding stock meets the requirements listed previously for an individual applicant, and the corporation is authorized to do business in Montana.

If the applicant is any other business entity (such as a combination of more than one of the above) the applicant must meet all appropriate requirements listed previously.

7. <u>Can someone be issued more than one package store license?</u>

An employee-owned enterprise may be issued more than one package store license.

8. <u>What are the department's plans for displaced employees?</u>

There are currently 75 FTE working in state liquor stores. These 75 FTE represent 95 employees: 24 part-time and 71 full-time.

An eligible department employee (at least 20 hour/week in last 6 months) is entitled to reduction in force rights for a period of one year. Reduction in force rights include, a hiring preference for any state position for which the employee is qualified and non-competitive transfer (if qualified) to another open department job at a lower or equal salary.

The department has budgeted $37,500 in the biennium for training displaced employees. The department also budgeted $81,500 for the biennium to cover additional benefits costs and other costs associated with the closure of the state stores.

Eligible employees also receive preference in applying for package liquor store licenses.

<u>Assumption:</u>
Wholesale distribution of liquor direct to licensees (package and retail) will be phased in as state-owned liquor stores are phased out.

1. <u>Who would the warehouse deliver to?</u>

Until December 31, 1992, existing retail licensees (bars, taverns) located within 35 miles of a community in which all state stores are still operating must continue to purchase from the state store. Once one state store is closed in that area, all licensees could get direct liquor shipment from the state warehouse.

All licensees (package and retail) would get direct shipments from the warehouse after December 31, 1992.

2. <u>Would retail licensees have to purchase liquor from package liquor stores?</u>

No. Retail licensees would be able to purchase directly from the warehouse. Currently 56% of sales from state stores is to retail licensees. Retail licensees may purchase liquor from package stores or other bars and taverns, if they wish.

3. <u>Are there increased costs to the warehouse operation?</u>

Yes. The department estimates the proposal would require additional staff at the warehouse. The salaries and benefits for these staff is estimated at $121,000 over current budget requests for fiscal year 1992 and $330,000 in fiscal year 1993. The cost of freight out is estimated to triple in two years. There are no other projected increases in operating expenses.

<u>Assumption:</u>
The state will no longer purchase table wine and will sell out existing state-owned stock.

1. <u>Why is the state discontinuing wine sales?</u>

With the change in liquor laws to allow for the retail sale of wine in locations other than state stores the volume of wine sales from state stores has reduced considerably.

<u>Assumption:</u>
The volume of liquor and table wine sold will be no different under the proposal than under the current law.

1. <u>Are there any factors in the proposal which would affect the volume of liquor and wine sales?</u>

The proposal only addresses liquor stores which sell liquor for off-premises consumption. There are both positive and negative factors. Volume may increase since package stores would be able to operate seven days a week. Current state stores are required to be closed on Sunday, Monday, and Holidays. Package stores would be able to advertise. Current policy does not allow the state to advertise.

Fifty-six percent (56%) of liquor sales is to retail licensees. The remaining sales are walk-in business. The location of the packaged liquor store may affect walk-in sales; however, with the option to replace current state/agency stores with package stores, high volume areas will probably retain access to stores. The lower volume stores may not be replaced by package stores in the same location in the community. This could affect sales, but since these would be low

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volume areas it does not appear it would greatly affect overall volume.

The retail price of the liquor may affect the volume of sales. The recent increase in liquor taxes caused a price increase. Assuming the price of liquor will be higher to package liquor store customers, this may also affect volume. There was no indication in any of the department's analysis that the price of liquor would affect volume.

It would be illegal to sell at retail any liquor which was not purchased wholesale from the state liquor warehouse.

2. Are the projections used by the department to estimate Cost of Goods reasonable? (All taxes and markup are a percent of Cost of Goods.)

The department's estimate of Cost of Goods for fiscal years 1992 and 1993 ($24.4 and $24.3 million) is higher than any of the actual costs in fiscal years 1988, 1989, and 1990. Cost of Goods decreased constantly from fiscal year 1984 to fiscal year 1988. Since then the cost has leveled at approximately $23.5 million; however, fiscal year 1990 had a higher than normal inventory balance. The Cost of Goods estimate is reasonable, but may be a little on the high side.

<u>Assumptions:</u>
The wholesale price of liquor will be lower than the current retail price of liquor by the proportion that operating expenses are reduced due to closure of state liquor stores, freight to stores and warehouse staff are increased due to direct shipment to licensees, and the fiscal year 1990 level of profit and taxes maintained.

Licensees will get a 5% case discount off the wholesale price for full case purchases. Purchase of repacked cases will be at the wholesale price.

The wholesale license tax as a percentage of cost of goods F.O.B. state warehouse will yield the same annual amount of license tax as does the retail license tax as a percentage of the cost of goods F.O.B. state stores and retail markup.

Operating expenses in fiscal year 1992 and fiscal year 1993 will have the same relative distribution of total expenditures among responsibility centers and objects of expenditure as existed in fiscal year 1990 except where expenses will be reduced due to the phased in closure of state liquor stores and freight to stores and warehouse staff will be increased due to direct shipment to licensees.

The wholesale markup as a percentage of cost of goods F.O.B. state warehouse will cover wholesale operating costs and yield the fiscal year 1990 level of profit.

1. <u>What factors make up the wholesale price?</u>

The wholesale price is fixed and determined by the department. It is the price paid by licensees for liquor purchased from the state warehouse.

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The wholesale price is the sum of the vendor base price (price state pays), wholesale markup, average cost of freight to all licensees, and any liquor excise or license taxes.

2. <u>Will the wholesale price of liquor be different in different parts of the state because of transportation costs?</u>

   No. Transportation costs will be averaged over all sales. Wholesale prices will be the same to all licensees.

   Liquor picked up by licensees at the warehouse will have the same wholesale price as if it was delivered to the licensees' premises.

3. <u>What will the wholesale markup be?</u>

   Wholesale markup will be set at 32.92% of vendor base price.

4. <u>How much below the current retail price will the proposed wholesale price be?</u>

   Using the top 20 products in terms of sales, the current average retail price per bottle is $9.79. The new wholesale price would be $9.53. Using case discounts the retail price is $9.30 and the wholesale is $9.05. The wholesale price is approximately 2.6% lower than current retail. The old retail price per bottle, if purchased by the bottle, is 8.1% higher than the new wholesale price per bottle when purchased by the case.

5. <u>Are the estimated reduction and increases in costs reasonable?</u>

   The reductions in costs estimated by the Department of Revenue come from eliminating all costs associated with its current stores program. There is also a reduction in overall department administration due to the closure of the stores. The increase in costs are associated with new warehouse staff necessary to process and package orders from the warehouse and higher transportation costs. The method used to estimate these costs and reductions was based on increasing current expenditures on a percentage basis. The methodology appears reasonable.

6. <u>How is the current markup adjusted to maintain the same level of profit and taxes?</u>

   Since the department will no longer be in the retail business the markup and taxes will be based upon a percentage of Cost F.O.B. (Freight on Board) of the liquor to Helena.

   The taxes and markup will be added to the cost of the liquor when it is sold to licensees.

   The liquor excise tax changes from 16% of <u>retail selling price</u> for most liquor to 22.81% of <u>vendor base price</u>. The liquor license tax changes from 10% of the <u>retail selling price</u> for most liquor to 14.25% of <u>vendor base price</u>. Both taxes are retained during the phase out period for state stores. The liquor purchased from state stores will be taxed at the old rate.

Based on the assumption that the cost of goods will be the same as current sales, these adjustments in the taxes should generate the same amount of revenue as the current taxes.

The profit level will be maintained by reducing expenses and adjusting the markup. Profits for fiscal years 1987 through 1990 have been approximately $4 million per year. To maintain this profit level expenses were reduced by approximately $700,000 in fiscal year 1992 and $2.5 million in fiscal year 1993. The markup is adjusted to maintain the remainder of the profit.

7. <u>Who will be affected by the change in taxes and markup?</u>

Those purchasing liquor will be affected by the change. Bars and taverns who used to purchase from state liquor stores may now purchase from package stores or directly from the state warehouse. Purchasing directly from the warehouse will be less expensive than purchasing from package stores. The case and bottle price will be a little over 2.5% cheaper from the warehouse. Those selling to the public will place a retail markup on their product. It is unlikely the package stores or bars would have a retail markup less than 8.1% (Ratio of current retail price per bottle to new case discount cost). We contacted five other states that operate wholesale liquor warehouses to determine the percentage of retail markup these states experience. The retail markup averaged from 17% to 33%. To return the same dollar amount on a bottle of liquor as a retailer does in Wyoming, the Montana retailer would have to markup the bottle 24.5%.

These factors, combined with the removal of retail price control and limiting the number of licenses in a community, will not have a positive effect on keeping the price of liquor at current levels. Therefore, the cost to "walk-in" customers will more than likely be higher than the current retail price. The public is likely to see the same prices for drinks from bars and taverns buying directly from the warehouse, and higher prices if the drink is made from liquor purchased from package stores.

<u>Assumption:</u>
The entire cost value of inventory maintained in a state liquor store will be transferred to the general fund within six months after a store is closed.

1. <u>Will all the inventory be sold?</u>

The transfer to the general fund is a one-time increase in profits since the state will not have to replace existing inventory. It assumes that all inventory will be sold. However, there is stock in current inventory which is slow moving. Packaged stores may not want to purchase slower moving items. It would not be to their benefit to hold these items in inventory. The state would have to return these items to the warehouse where they will continue to be slower moving items.

These slow moving items may have to be sold by the state through sales or other promotions. The proposed legislation eliminates the prohibition against reselling liquor at a price less than the state liquor store posted price. It would maintain the prohibition against unfair trade practices.

2. <u>How much is the value of the inventory that will not need to be replaced?</u>

The Department estimates the cost of the inventory to be approximately $4 million. Store inventory on record as of the end of December, 1990 was $4.4 million.

<u>Other Costs</u>:

1. <u>Are there other costs associated with the removal of the state from the retail liquor business?</u>

The reduction of 75 full-time and 20 part-time jobs could have costs associated with unemployment. It does not appear this reduction will have any effect on the Department of Revenue's Unemployment Insurance Rate. The Unemployment Insurance Fund would be affected. Benefits for ex-employees would have a maximum average payout of $4000/person for full-time employees. The "worst case" is that all 75 would collect maximum benefits worth approximately $300,000.

There will be liquor and other assets and equipment which will have to removed from state stores and either sold or returned to the state liquor warehouse or surplus property warehouse. There are costs associated with the removal, transport and sale of these items. These are one-time costs. There was no estimate available on these costs.

Ex 5
3-25-91
SB 455
Sen. Tay

January 5, 1991

TO WHOM IT MAY CONCERN:

RE: CHANGES TO THE EXISTING LIQUOR SYSTEM: (MONTANA)

1. What will the actual cost of dismanteling the current system be, and how will it affect all of the state employees, the agents and their employees?
   (a) what of the current leases and agreements that the state of Montana is party to?
   (b) What of the investments, in both time and dollars, made by the agents; based on the agency agreements with the state of Montana?
   (c) How will the legislature and the administration justify the cost of both time and dollars spent these past two years, complying with the previous legislature's decision.... [to evolve into an agency system if the state owned stores don't achieve a 10% profit level]
   (d) What will happen to the yearly "windfall" dollars being dumped into the general fund, after all tax is collected and all other expenses have been paid? How will these revenue dollars be recaptured, from the private sector, and at whose expense?
   (e) With the economy of Montana currently being so fragile, won't the administration's proposed changes potentially create a new round of business failures in the future?

2. The past legislatures of this state have repeatedly indicated and mandated that the liquor industry should be controlled to some extent.
   (a) this provides a service to the small, rural, Montana communities.
   (b) It tends to equalize freight costs and protect the rural consumer from paying much higher prices than consumers in the more populated areas of the state.

(c) Even during the worst of times, the retail liquor system has provided jobs, tax revenue, general fund contributions and a good selection of liquor products, in an otherwise declining industry.

(d) Why are we, once again, considering changes to the liquor system when, in fact, the previous legislature agreed unanimously that to let the current system evolve into an agency system would best serve the interest of the taxpayers of Montana......??????? (even the current Governor agreed on this legislation)

(e) What effects will the closing of stores, laying off of employees, loss of incomes, ultimately have on the WORK-COMP FUND and the UEC and WELFARE programs of this state?

3. Changing the current sysyem to a <u>Hybrid CONTROL system</u>, as per the administration's proposal will create several potential problems. Problems that need to be addressed prior to changing the current liquor system are:

(a) Product availability (to the public and bars) will diminish dramatically:

(b) Retail prices will probably increase due to higher costs, lower sales, and continued price controls by the state etc.......

(c) the logistics of shipping from a state maintained wharehouse(servicing 1500-1600 licensees) could be a nightmare and sales could be lost to the licensee or consumer if shipments of product get delayed or interrupted:

(d) A "one-time-windfall" of cash from the sale of the inventory is not necessarily correct: The prudent businessman will only purchase the items that move the quickest and will eliminate the slow-moving items: The liquor division is currently on the "BAILMENT" system and hasn't paid for their inventory, thus raising the question of how much cash will truly be saved, anyway..........

(e) How many of the agents or licensees can afford to purchase the inventory if made to do so?

(f) Can they afford to expand their operations and inventories to accommodate the added business, or for many of them, will it be the "straw that broke the camel's back"?

(g) Elimination of the licensee sales and servicing them out of the Helena warehouse would create major problems:

(1) State and agency stores would lose 40-80% of their business and sales base:

(2) the state of Montana would still control the pricing structure and the bulk of the liquor sales:

[Who will invest in an industry or business where the state controls the price and 40-80% of the sales?]

(h) If, in fact, there is no license to purchase and to appreciate in value, no incentive to increase sales in a declining market and no protection from the escalating liability problems associated with the liquor business, JUST WHO DOES THE ADMINISTRATION THINK IS GOING TO INVEST IN THIS INDUSTRY????

(i) Will the banking industry be willing to lend money for a new business in which the state maintains the price structure, the state controls 1/2 of the business, there are huge liability questions, and the sales are declining yearly? I think not............

(j) Will the "NEW" liquor retailer/businessman be forced to compete with the reservations for liquor sales as/with the current ciggarette sales?

(k) Who will service the "walk-in" traffic that refuses to go to a tavern or bar and buy their liquor "over-the-counter".....Especially in rural Montana.........

My suggestion is that until we have the answers to, and remedies for, the above questions and concerns, we allow the current liquor system to remain intact and to evolve into an agency system as/per the previous legislatures mandate.
If, however, privatization of the liquor system is this important to this state, than it should not be compromised and "piece-mealed" to individuals or lobbying groups. It should be done totally and completely without the state's involvment. Total privatization should not be undertaken without studying the possible affects and projecting the revenues and the costs to the state.(compared to the current liquor systems revenues and costs) ....

Sincerely,

Mike Grunow, Agent
LoLo, Montana 59847

Sen. Tax
Ex no. 6
3-25-91
SB 458

NORWEST BANKS

Norwest Bank Helena, N.A.
350 North Last Chance Gulch
Post Office Box 597
Helena, Montana 59624
406/447-2000

March 12, 1991

Mr. Wade Rea
P. O. Box 1106
Helena, MT 59624

Dear Wade:

Please consider this letter a follow-up to recent conversations you and I have had concerning possible financing of retail liquor store operations. Apparently, the Montana Department of Revenue is proposing sale of state owned liquor stores to individuals for marketing of retail liquor products. Your question of me, as I understand it, focuses on what a lending perspective may be on this type of business.

While all of this analysis should be considered speculative, as I do not have a completed application for review at this time, the following list would be considered with any proposed loan.

1. **Market area.** The bank would be interested in what market will remain after the proposed privatization. It is my understanding that these liquor stores would be purchasing inventory from the same source as bars and restaurants i.e. the State Liquor Warehouse. Under this assumption, it would appear that the market may be limited to carryout liquor sales only which may generate fewer sales than existing state or agency stores. This limitation would only be aggravated if there are restrictions on ancillary business conducted on the same premises. **I would question whether or not there is a viable market.**

2. **Sales.** Careful analysis would need to be made of sales volumes since it is likely the market will significantly change. You have indicated to me that sales volume may drop 60% or more as bars could buy directly from the state warehouse, effectively bypassing retail stores.

3. **Equity.** Equity requirements would need to be reviewed on a case-by-case basis but may range from 30% of cost to 50% or more. A possible scenario

for financing this type of business may be via a U.S. Small Business Administration loan.

4. **Repayment.** Repayment capacity will be a function of sales volume and may be difficult to project, given the "new" market involved. Projected income and expense would likely be required accompanied by justification of revenue figures (see Sales).

5. **Collateral.** Collateral analysis will be of paramount importance given the untested nature of the business (once again change in market). The nature of inventory i.e. most likely bottled liquor, would be subject to breakage, pilferage, perishability etc. type problems. This may require substantial collateral in excess of loan amounts (more equity) or the possibility of outside marketable collateral (such as pledging of other assets).

Wade, I must stress that much of this analysis is quite speculative in that particulars are not currently available. The subjects I have discussed above are questions that we would routinely ask of any credit application and have been adapted to the subject at hand as well as can be done without particulars.

Please contact me should you obtain more specific information or if I can clarify any items for you.

Sincerely,

Bradley G. Lancaster
Vice President

BL031101/bs

First Bank Helena

First National Bank and Trust Company
On Last Chance Gulch at Sixth Avenue
P.O. Box 1709
Helena, Montana 59624
406 442-2540

6

March 20, 1991

Mr. Wade Rea
PO Box 1106
Helena, MT 59624

Dear Mr. Rea:

Thank you for your inquiry regarding potentially loan funds availability under proposed legislation titled "Privatization of State Liquor Retail Operations" (SB458).

You stated that estimated inventory levels might be approximately $250,000 plus fixture and working capital needs.

First Bank Helena requires the following information to proceed with underwriting a loan of this nature:

- Current personal financial statement
- 3 years personal income tax returns (complete)
- Pro Forma balance sheet and income statements showing sufficient collateral and capacity margin(s) to service the proposed debt

Additionally, collateral other than inventory would be necessary for our bank to consider any loan of a turn nature (greater than 30 - 365 Days) which would have to be closely monitored with a borrowing base certificate.

Naturally, individuals with highly liquid financial assets would be able to borrow on those assets to invest in an enterprise such as this.

Please forward your proposal to us for our underwriting.

Sincerely,

David J. Brown

David J. Brown
Vice President

DJB/emh
2599v

~~Being~~ (OBJECTIVE) (NUTS/BOLTS OF BILL) ??

~~##~~ S.B. 458

SAVINGS ???

NOT Different —— (WORSE) Legislation

800,000 -

Approx 200,000 - USERS -

No Gambling —

- 75,000 Inventory — Investment

LOSE 40-50% Sales -

Driving Sales up @ Retail Level By 20-30%

TO consumer ←

~~As to~~ Rent a License / Ø ~~V~~alue -

→ Ø this isn't ESSS / Bread / Pop -

☆ Law enforcement outside Door

~~Primary~~ Legislature would Repeal -

☆ Best Case ~~Sce~~ Scenario -

4-5 Reservations -

* Refuse us not Alcohol
* STREET REPAIR
* GUARDS

Senate Tax.
Ex # 7
3-25-91
SB 458

TESTIMONY OF RAY TRUDEL AGAINST SENATE BILL 458, BEFORE THE SENATE TAXATION COMMITTEE, MARCH 25, 1991.

Mr. Chairman, members of the committee, my name is Ray Trudel and I am the President of United Food and Commercial Workers, Local 8 in Great Falls.

A majority of the employees currently working at the state liquor stores would be displaced if the Governor is allowed to privatize these stores. What are his plans for these 95 employees and their families? And what about the people who work in the agency stores, about another 85 families?

Under the terms of the bill, eligible employees would receive preference in applying for package liquor store licenses. The Montana Employee Opportunity Act would also allow current employees and agents to purchase these businesses. That sounds real nice, but that's the whole point: to make it sound nice.

Most of these employees are not particularly impressed with the terms of the buy-out being offered by the Governor, and are not necessarily financially able to take advantage of it.

First, a considerable capital investment, as much as $100,000 per site for inventory and licensing fees, would have to be raised before a person could open the doors to the public. How many retail store clerks do you know who could overnight get access to $100,000 in capital? Darn few.

But if they could get the doors open under a buyout, it's that, on average statewide, the package stores would lose 56 percent of the current wholesale business. This loss represents the amount of business coming from bars that could, under this bill, buy direct from the warehouse. There very likely would be even greater business losses to these new package stores because customers won't have any incentive to go to them if they can buy goods as cheap or cheaper at the bars.

So if you need $100,000 in capital, are you going to be able to get it if you have to admit up front that the business you're about to buy is going to lose as much as 60 percent of its cash flow? No way.

If you choose not to participate in this questionable buy-out plan, the state will provide a number of other minimal services.

An eligible department employee, which is someone who has worked at least 20 hours per week in the last six months, would be entitled to reduction in force rights for one year. Reduction in force rights include a hiring preference for any state position for which the employee is qualified and non-competitive transfer (if qualified) to another open department job at a lower or equal salary. That's another provision that is more window dressing than reality. The reality is that this governor campaigned on cutting the number of employees in state government, and he's working on doing that. Is it realistic to think that there are going to be jobs available for these displaced workers? If not, then the preferences are basically worthless window dressing.

I think these false promises and meaningless gestures are a real slap in the face to a staff of dedicated employees who currently are putting $4 million a year into the General Fund coffers -- $4 million a year in profits above and beyond the cost of running their operations.

With serious questions being raised about the fiscal soundness of privatization, and with serious questions being raised about the future of these workers and their families, there is no compelling reason to pass this bill. Rather, we believe there are many compelling reasons to table it, and I urge you to do so.

Sen. Tax
Ex # 8
3-25-91
SB 458

TESTIMONY OF JOHN HEWITT AGAINST SENATE BILL 458, BEFORE THE SENATE TAXATION COMMITTEE, MARCH 25, 1991.

Mr. Chair and Members of the Committee, for the record my name is John Hewitt, President of Local 1981 of the United Food and Commercial Workers, Missoula.

Taking the state out of the retail liquor business could be very expensive for the state of Montana for a variety of reasons.

The elimination of 95 state employees' jobs would, for example, significantly affect the Unemployment Insurance Fund. Benefits for former employees would have a maximum average payout of $4,000 per person for full-time employees. That means the UI Fund could see payouts of almost $300,000.

There will be liquor and other assets and equipment which will have to be removed from state stores and either sold or returned to the state liquor warehouse or surplus property warehouse. There are costs associated with the removal, transport and sale of these items. Although these are one-time expenses, the costs could be considerable.

The state is telling you that it will realize a one-time profit of approximately $4 million from the sale of its current inventory. That assumes, however, that the entire value of the inventory maintained in any of the state liquor stores will be transferred to the general fund within six months after a store is closed. This is an incorrect assumption for the following reason.

There is stock in current inventory which is slow moving. A new privately run store is not going to assume the former state store's supply of slow-moving items. Instead, those items are going to be shipped back to the warehouse, which will cost the state more money, and then they'll sit in the warehouse until a store or bar orders them. Only then will the state begin to realize the full $4 million in one-time savings that are being alleged. There is no telling how long this process might take, or whether the state might even be stuck with a supply of non-selling items.

We have no current figures on what it will cost the state to maintain this slow moving inventory, as the Governor has once again failed to give us the bad news along with the good when singing the praises of this privatization bill.

The "hidden costs" I've described are continuing to multiply as we explore this proposal, and those hidden costs are a good reason to oppose the bill. I would also like to remind the committee members that the workers and their families are a good reason to oppose this bill, because there is really nothing good in here for them or the state.

I urge you to table Senate Bill 458.

Thank you.

Sen Tax
Ex # 9
3-25-91
SB 458

WRITTEN TESTIMONY OF MARY J. SCHULER, STORE MANAGER, STATE LIQUOR STORE NO. 8, LIVINGSTON, MONTANA, ON SB 458 BEFORE THE MONTANA SENATE TAXATION COMMITTEE ON MONDAY, MARCH 25, 1991

Ladies and Gentlemen,

First and foremost, as a Montana Taxpayer I object to the continuing attempt of our state to removing the liquor industry from state control. Although as a store level employee I may not be knowledgeable in all areas affecting the attempt, I have read and studied SB 458 at some length. Based upon my nearly 16 years of experience as both a liquor store clerk and manager, I do not believe the citizens of Montana who constitute the clientele to whom we are providing the majority of our service will in any way benefit from this attempt at privatization. Although SB 458 may be revenue neutral (doubtful) it is beyond a doubt not cost neutral to the Montana consumers.

To take a little look at recent history, at the last legislative session those working in the state liquor stores were told by a committee evaluating that sessions attempt to privatize the liquor industry that individual stores must attain a profit margin of at least 10% in the future or expect those failing to be fair game for conversion to agency status. From my level of observation, that policy has been followed by the state in its administration of the retail segment of the liquor industry. For those stores still existing as State Liquor Stores, an obvious attainment of the 10% goal must have been achieved. Just as a matter of interest, Livingston Store No 8 has increased its level of net earnings from 11.6% to 14.4% since 1989. This increase came out of the efforts of the individuals working at the store level without involvement of state level personnel or policy changes. Was our effort made in a futile cause because your words were hollow and without conviction? Why is this one agency of state government singled out session after session to be attacked by the administration as a prime candidate for privatization? Are there anyother state agencies which pay there own way, contribute to indirect overhead cost here in Helena and still put an annual profit of over four million dollars into the State General Fund (1989 - before bailment).

From what the state has put out in their attempt to convince present state liquor industry employees that privatization is a once in a lifetime good deal, the only benefit to be derived is the one time sale of liquor inventory presently in the state stores to whoever is foolish enough to wish to enter the privatized package store business. Due to the bailment program already in place, the State does not purchase any liquor until ordered out by the managers. As the State proposes to wait seven days for its payment of liquor delivered to those presently holding an All Beverage Licenses, does that mean that the proposed package stores will be granted the same right? Where is the advantage to this proposed system? We are on a cash basis now whereby the receipts of the stores are deposited daily to the

State. Under the proposed system a delay of up to seven days will be normal. Is not excess cash within state activities invested at interest until needed? Is not a loss of earned interest revenue likely to occur with receipts being delayed under the new system?

In addition to lost interest revenue, is the proposal to make direct delivery to 37 separate locations in Park County (35 All Beverage locations and two package stores) going to be less expensive than current delivery to the two package liquor stores located in the county today? How often does the state intend to make deliveries? Weekly? Biweekly? Monthly? What a warehousing problem they could be creating for all of the now holders of an All Beverage License. Most of them now order on a weekly basis from the State Liquor Stores. Another question concerning All Beverage Licenses holders is how will the provision in the currently proposed law prohibiting co-location of package stores and gaming machines or live gambling impact their operations? No prohibition now exists and many bars now sell package liquor within feet of either or both gaming machines or live gambling.

The possibility exists that the move to privatize the liquor industry will result in the bankruptcy and elimination of many small bars. More than a few bars with which I presently work, buy on a frequent basis, only in small quantities when they have sufficient cash to pay for what they order. How are they going to convert to a less frequent order cycle, in larger quantities for which they have insufficient cash flow to handle? Is it the intent of SB 458 to add these business owners to our unemployed ranks? If so, this bill could be the proper vehicle to add not only the owners but those they presently employ to the ranks of our State's unemployeed.

The proposed bill contains provisions to allow liquor store employees first priority for other state jobs. Big deal. Most store employees are rooted into the locales where they now live. In this period of reducing state jobs to match declining ability to pay state employees from the General Fund, where are these jobs going to be available for those forced out of work by the adoption of SB 458? How many liquor store employees are going to be willing to relocate home and family to take those few jobs for which they may qualify? You know there are only so many highway maintenance, weight scales, welfare or job service jobs scattered across the state. No provision exists in the proposed bill for severance pay, early retirement or other possible benefits normally associated with an employer initiated reduction in force or does the State just not give a damm about the people who have served in faithfully for years?

In summary, if the State of Montana wants to give away an industry contributing not only all of its own costs to operate but which normally places more than four million dollars into the General Fund in further financial support of our State

Government, lets privatize. If we can benefit from putting present state employees earning a fairly decent wage out of work and replace them with individuals making wages at or slightly above minimum wage (also paying smaller amounts in state income tax which directly impacts on how much revenue the state has to spend), lets privatize. If our intent is to further encourage the out migration of Montana Citizens because the jobs available to them pay a wage insufficient to feed, clothe and educate a family, lets privatize. These analogies could be continued on and on, but I feel I've said enough. The final decision is yours and I sure what ever you decide will be in the best interest of those who elected you to represent them.

Thank you.

Mary J Schuler

Mary J. Schuler

Senate Tax
Ex # 10
3-25-91
SB 458

DONALD R. JUDGE
EXECUTIVE SECRETARY

110 WEST 13TH STREET
P.O. BOX 1176
HELENA MONTANA 59624

(406) 442-1708

TESTIMONY OF DONALD JUDGE, EXECUTIVE SECRETARY OF THE MONTANA STATE AFL-CIO, IN OPPOSITION TO SENATE BILL 458 BEFORE THE SENATE TAXATION COMMITTEE MONDAY, MARCH 25, 1991

Mr. Chairman and members of the Committee, for the record my name is Don Judge of the Montana State AFL-CIO, and I'm here to oppose Senate Bill 458.

I don't think there's anyone in the room who doesn't already know that the Montana State AFL-CIO and its member unions across the state are adamantly opposed to privatization of public services. I won't belabor that point with you, but I would like to make a few comments to put some of this debate in perspective.

The main problem with privatization is that its advocates, such as Gov. Stephens, believe as a matter of blind faith and ideology that government is generally and incurably incompetent.
And on the flip side, they are adamant in their belief that the private sector is economical, efficient and responsive.

We all know that neither of those statements is really true. There are gross examples of waste and incompetence in both the private sector and the government sector. Neither one has a monopoly on incompetence.

But at the same time, neither one has a monopoly on excellence. There are just as many examples of superior performance and value in government as there are in private enterprise.

The state-run retail liquor stores are an example of government programs that perform very very well. I don't think there could be any better proof of that fact than the $4 million in annual profits the retail liquor system pumps into the General Fund for this Legislature to spend every year.

We all know that Gov. Stephens campaigned on a promise to privatize whatever he could, so long as it saved money. Well, if the liquor store system makes profits for the state, how could privatizing it save money? It can't.

In fact, most of the Administration's privatization efforts have had significant questions raised on the fiscal savings that have been promised. In this case, even your own Legislative Auditor has said there won't be any savings. Let me just quote the pertinent sentence from that report:

"There is no overall long-term cost benefit to the state due to the elimination of state liquor stores."

That's as plain and as simple and as clear as it can get -- you don't save anything.

So what do you get? You get a lot of pain and suffering on the part of the employees and agents who are displaced. You get a lot of disruption in the lives of their families.

In our opinion, that disruption is intolerable -- it's hurtful. And that's something Stan Stephens promised wouldn't happen.

Let me quote from a newspaper interview with Governor-elect Stan Stephens on November 10, 1988 -- and this is a direct quote, not a paraphrase of what he said:

"Anybody that's worried about their job can put those fears behind them. All I can say to state employees is they ought to continue to do just what they're doing and not be unduly concerned about the way they will be treated."

Tell that to the capitol janitors who were laid off because of this painless privatization.

Tell that to the keypunchers who were laid off because of this "humane" privatization.

Tell that to the capitol guards whose jobs were privatized.

And tell that to the liquor store employees whose jobs will go down the tubes if this bill passes.

Privatization as envisioned by this administration has been anything but humane and anything but compassionate. It has been cold and calculating and uncaring.

And, at least in the case of the liquor stores, it has not met the test of the Stephens campaign's promises: it has not been cost-effective.

Ladies and gentlemen, this is a bad bill. It represents bad government, bad policy and bad planning. We urge you to table Senate Bill 458.

Thank you.

TESTIMONY OF PAM MILLER IN OPPOSITION TO SENATE BILL 458, BEFORE THE SENATE TAXATION COMMITTEE, MARCH 25, 1991.

Mr. Chair and members of the committee, my name is Pam Miller, President of United Food and Commercial Workers Local 4-R in Butte.

Senate Bill 458, the Governor's effort to privatize state liquor stores, would place additional costs on the consumer.

Currently, consumers can buy their package liquor directly from state-run retail stores or agency stores with a pre-determined markup that's the same statewide. That markup is a lot less than any privately run liquor store is going to charge. Let's look at Wyoming as an example. Under this bill, if Montana's new private stores want to match their Wyoming cousins' profits, they would have to mark up the bottle 24.5 percent over current retail prices.

Average retail markups in other states range from 17 percent to 33 percent.

When you look at the way markups are run in other states that use private stores, and when you consider the removal of retail price control and limiting the number of licenses in a community, the price of liquor cannot reasonably be expected to remain at current levels.

The cost of goods to "walk-in" customers will clearly be higher than the current state store retail prices.

Many communities could lose their packaged liquor outlet altogether with the passage of this bill. The number of package liquor store licenses cannot exceed the number of state store licenses that existed in the community prior to the legislation. There is no guarantee that current communities will be served by a liquor store even though there is one there now.

Since the new law also proposes delivery of liquor from the warehouse directly to premises that sell liquor such as bars and taverns, the number of package liquor stores will most probably be less than the current 125 state stores.

It's entirely possible that some package stores, under the new plan, could even be run out of business by bars that undersell them on package sales. As long as the bar continues to make its profits on drink sales, they could easily undermine the local package store, thus further reducing consumer choices.

I also want to remind the members of the committee that while we sit here talking about profits and prices and the Governor's campaign promises, those of us who work out in the field see another side of this issue: the people. Many people are going to be thrown out of work by this bill, plain and simple. Many families are going to be disrupted. And why? So the Governor can cash in on a campaign promise.

To me, that makes this a bad bill, and I urge you to table it.

Thank you.

SENATE TAXATION
EXHIBIT NO. 10a
DATE 3/23/97
BILL NO. SB 458

PETITION

FOR Present State Liquor Store Operation and AGAINST "Privatization"

The undersigned as residents of Meagher County (unless otherwise indicated) and as registered voters (unless otherwise indicated) express our support for the existing State Liquor Store and agency store and are AGAINST any privatization or change which we feel would deprive small communities and rural areas of the convenience and services which we now receive.

Signature	Address	Meagher County Resident	Registered Voter
Wayne Mangis	Box 363 W.S.S.	yes	yes
Henry Straugh	Box 252 W.S.S.	yes	yes
Viola Straugh	Bx 252 "	yes	yes
Pat Bergan	Box-140	yes	yes
Justin Nusel	Box 330 W.S.S.	yes	yes
Debbie Bodell	210 Jackson Lane	yes	yes
Judie Grant	Box 106 W.S.S.	yes	yes
[illegible]	Box 629 W.S.S.	yes	yes
Lucia Potter	Bx 629 W.S.S.	yes	yes
Sandra [illegible]	Box 24 W.S.S.	yes	yes
William B. Glover	Box 115 W.S.S.	yes	yes
Barbara Russell	Box 752 W.S.S.	yes	yes
Norman Johnston	Box 696 W.S.S.	yes	yes
Patty Bright	Box 745 W.S.S.	yes	yes
Melissa Mayn	150 Mayn Rd W.S.S.	yes	yes
Virginia Fowler	27 Hwy 360 W.S.S.	yes	yes
Kathy B. Johnston	P.O. Box 645 W.S.S.	yes	yes
Mary E. Hanson	654 Hwy 360 W.S.S.	yes	yes
Kevin Brown	2655 Hy 12 W.	yes	yes
Frederick C. Buckingham	Box 332	yes	yes
Kathleen E. Johnston	Box 81 W.S.S.	yes	yes
Crestina Armstrong	Box 349, W.S.S.	yes	yes
[illegible]	Box 494, W.S.S.	yes	yes
Arlene Bergan	Box 564 W.S.S.	yes	yes
Keith Teller	Box 191 W.S.S.	yes	yes
Grace E. Jibbly	Box 554 W.S.S.	yes	yes
Evalyn O. Hetter	Box 133 W.S.S.	yes	yes
Joyce Wofford	Box 647 W.S.S.	yes	yes
Michael B. Wofford	Box 647 W.S.S.	yes	yes
[illegible] Daniels	Box 784 W.S.S.	yes	yes
Rose McDaniels	Box 784 W.S.S.	yes	yes

722616

PETITION

FOR Present State Liquor Store Operation and AGAINST "Privatization"

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Signature	Address	Meagher County Resident	Registered Voter
Bud Makowski	P.O. Box 395 - White Sulphur Springs	yes	yes
Walt Lindeman	Box 775 WSS	yes	yes
Norma Walter	Box 459	yes	yes
Frank Bordewick	Der Del Marysville	No, L&C	Yes
Scott J. Blum	Box 260 W.S.S. Mt.	yes	yes
Elmer D. Hanson	Box 529 W.S.S. Mt	yes	yes
John Blum	Box 459 W.SS MT	yes	yes
Skip McDaniel	Box 592 WSS, MT	yes	yes
Warren B. Harden	P.O. 314 WSS MT	yes	yes
Marge J. VanOrman	Box E W.SS. Mt.	Yes	Yes
Annette Wilson	160 Burkey Rd W.S.S.	yes	no
Gretchen Rader	Box 141 - WSS, MT	yes	yes
Dorothy Novak	Box 239 W.S.S. Mt	yes	yes
Linda Dolan	Box 88 W.S.S. Mt	yes	yes
Michael J. Johnston	Box 4 W.S.S., MT	yes	yes
James M. Johnston Jr.	Box 766 W.S.S. MT	YES	YES
Helen Bair	Box 575 W.SS. Mt	yes.	yes.
Tom W. Dempsey	Box 583 W.S.S. MT.	YES	YES
Roger Heggen	Box 511 WSS MT.	yes	No
Jack Daggett	Box 670 WSS MT	yes	yes
Dave Dunkel	Box G WSS Mt	yes	yes
Yvonne Bockman	2118 National, Helena	no	yes
Randy Lawson	P.O Box 343 WSS-MT	Yes	Yes
Stanley Wilmot	Box 254 W.S.S.	Yes	Yes
Marlice Brewer	Ringling, Mt.	Yes	yes
Carla J. Fuhringer	Box 23, W.S.S, MT	Yes	Yes
I. M. Hereim	Box 391 W.SS. MT.	yes	yes
Charles A. Pat	2139 Hwy #89, NORTH	YES	YES
Delano Fore	Box 465 WSS. Mt.	Yes	Yes
John H. Matson	Box 314, WSS, MT	Yes	Yes

PETITION

FOR Present State Liquor Store Operation and AGAINST "Privatization"

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Signature	Address	Meagher County Resident	Registered Voter
Geraldine Zehntner	4383 Hiway 12 WSS	~~Meagher~~ yes	yes
Edwl Short	Box 417 WSS	yes	Yes
Marge Bilden	Box 495	Yes	yes
Virginia Staley	Box 689	yes	yes
Hugo Becker	Box 606	yes	yes
Fern Helmick	Box 735	Yes	Yes
Dorothy Mimm	" 361	Yes	Yes
Joe Welch	22	Yes	Yes
Sarah Foster	" 47	yes	yes
Vesta Lenling	"	yes	Yes
Lena G. Snediger	Box 75	yes	yes
Alvin Snediger	Box 75		
Norma Zimmerman	Martinsdale, Mt	yes	yes.
Clarence Ernst	WSS #300	Yes	Yes
Dale McAfee	Box 611, W.S.S.	Yes	Yes
Lucille Logan	Box 414 WSS	yes	yes.
Millie Haupe	Bx 493 W.S.S.	Yes	Yes
Stanley W Kavanagh	Box 322 WSS	Yes	yes
Helen Rostad	Martinsdale, Mt.	yes	yes
Doris Branchi	WSS	Yes	Yes
Donna Cornell	W.S.S.	yes	yes
Lois Owens	"	yes	yes
Marion Jones	Martinsdale Mt	Yes	Yes
Evelyn Walker	WSS	yes	yes
Clarissa McGuire	White S. Spgs	yes	yes
Marie Buckingham	White Sul. Spg.	yes	yes.
Florence Greener	Martinsdale	yes	yes
MADELEINE MEEMER	BOX 603 Wh. S. Spr.	NO	Switzerland NO
Joe Brennan	Box 432 "	Yes	Yes
J. Edward Spg	Box 781 W.S.S.	Yes	Yes

PETITION

FOR Present State Liquor Store Operation and AGAINST "Privatization"

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Signature	Address	Meagher County Resident	Registered Voter
Billie M. Thurnes	110 S. Central White Sulphur Springs	X	X
Debbie M Weiler	Box 605 WSS MT	X	X
Connie Kuyalt	Box 416 W.S.S. MT.	X	X
June Bergan	Box 140 W.S.S. Mont-	X	X
[illegible]	Box 525 W.S.S. MT. 59645	X	X
[illegible]	Box 625 WSSM 59645	X	X
Eloise Harden	Box 314 - W.S.S. MONT		
Pam Loney	Box 744 WSS	X	X
JuneCorr Reinhardt	Box 255 W.S.S.	X	X
Willard Reinhardt	Box 255 WSS.	X	X
Marlene Haley	Martinsdale	X	X
Judy Wildman	Martinsdale	X	
[illegible] Doak	Box 505 W.S.S. Mt.	X	X
Arcelia Rehletter	Box 545 - WSS. MT	X	X
Cheri Bailey	Box 41 W.S.S. Mt.	X	X
Eugene D. Clark	Box 446, W.S.S. Mt.	yes	yes
Lucille V. Edwards	Box 509 W.S.S. Mt.	X	X
J.R. Edwards	Box 509 W.S.S. Mt.	X	X
Beth Johnson Zeig	Box 470 WSS MT	X	X
[illegible]	Ringling	X	X
Laurie Lind	Box 9 WSS, MT	X	X
Cecelia M. Roma	Box 758 WSS, MT 59645	X	X
[illegible] Harr.	Box 225 W.S.S. Mt.	X	X
[illegible]	P.O. Box 768 WSS MT	X	X
Marshall A Hansen	654 Hwy 360 WSS MT	X	X
Nancy Keller	Box 381 WSS MT	X	X
[illegible]	Box 627 WSS Mt.	X	X
Janey M. Zieg	Box 490 W.S.S. Mt	X	X
Holly Manger	Box 57 WSS Mt	X	Y
Keith Deal	Box 728 W.S.S. MT	X	X
Chris Hedrich	PO Box 93 Ringling MT	✓	✓
Kevin Brewer	2655 Hyw. 12 W. WSS	✓	✓
Ronald E. Zieg, Sr.	Box 778 W.S.S., MT	X	X

PETITION

FOR Present State Liquor Store Operation and AGAINST "Privatization"

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Signature	Address	Meagher County Resident	Registered Voter
O H Keller	381 W.S.S	~~Yes~~	~~Yes~~
John [illegible]	Box 24 W.S.S.	yes	yes
Claudia Calander	Box 229 WSS	yes	yes
[illegible] Calander	" "	X	X
Donna Dupea	Box 526 "	X	X
Dan [illegible]	Box 141 "	yes	yes.
Edwin Calander	Box 161 "	-	-
Sandra McDaniel	Box 592 "	yes	yes
JoAnne Carter	Box 468 WSS	Yes	yes
Ron [illegible]	Box 468 WSS	Yes	yes.
Fay B. Fuller	698 Hwy 360 WSS	yes	yes
James L. Fuller	" " " "	Yes	Yes
[illegible]	Box K	yes	yes.
Therese McS Buckingham	W.S.S	yes	yes
[illegible]	W.S.S.	"	"
[illegible] McCurry	Box 155 Ringling	X	X
[illegible]	Box 629 WSS	yes	yes.
William [illegible]	Box 363 W.S.S	Yes	Yes
J C Musgrove	Box 317 WSS	Yes	Yes
John J. Weiler	Box 157 WSS	yes	yes
[illegible]	Dutton	no	-
Louis Anderson	W.S.S	Yes	yes.
Lewis Johnston	Box 607 WSS.	yes	yes
C Ervin [illegible]	Rt 2 WSS	yes	yes
[illegible]	401 W.S.S.	yes	yes

[redacted]
Sen. Tax
Ex # 11
3-25-91
SB 458

1990 ANNUAL FINANCIAL REPORT of the Liquor Enterprise Fund

MONTANA DEPARTMENT OF REVENUE

Sam W. Mitchell Bldg.
Helena, Montana

EXHIBIT NO. 11
DATE 3/25/91
BILL NO. SB458

TESTIMONY OF PAM MILLER IN OPPOSITION TO SENATE BILL 458, BEFORE THE SENATE TAXATION COMMITTEE, MARCH 25, 1991.

Mr. Chair and members of the committee, my name is Pam Miller, President of United Food and Commercial Workers Local 4-R in Butte.

Senate Bill 458, the Governor's effort to privatize state liquor stores, would place additional costs on the consumer.

Currently, consumers can buy their package liquor directly from state-run retail stores or agency stores with a pre-determined markup that's the same statewide. That markup is a lot less than any privately run liquor store is going to charge. Let's look at Wyoming as an example. Under this bill, if Montana's new private stores want to match their Wyoming cousins' profits, they would have to mark up the bottle 24.5 percent over current retail prices.

Average retail markups in other states range from 17 percent to 33 percent.

When you look at the way markups are run in other states that use private stores, and when you consider the removal of retail price control and limiting the number of licenses in a community, the price of liquor cannot reasonably be expected to remain at current levels.

The cost of goods to "walk-in" customers will clearly be higher than the current state store retail prices.

Many communities could lose their packaged liquor outlet altogether with the passage of this bill. The number of package liquor store licenses cannot exceed the number of state store licenses that existed in the community prior to the legislation. There is no guarantee that current communities will be served by a liquor store even though there is one there now.

Since the new law also proposes delivery of liquor from the warehouse directly to premises that sell liquor such as bars and taverns, the number of package liquor stores will most probably be less than the current 125 state stores.

It's entirely possible that some package stores, under the new plan, could even be run out of business by bars that undersell them on package sales. As long as the bar continues to make its profits on drink sales, they could easily undermine the local package store, thus further reducing consumer choices.

I also want to remind the members of the committee that while we sit here talking about profits and prices and the Governor's campaign promises, those of us who work out in the field see another side of this issue: the people. Many people are going to be thrown out of work by this bill, plain and simple. Many families are going to be disrupted. And why? So the Governor can cash in on a campaign promise.

To me, that makes this a bad bill, and I urge you to table it.

Thank you.

SENATE TAXATION
EXHIBIT NO. 119
DATE 3/25/91
BILL NO. SB 458

TO THE COMMITTEE:

We the undersigned, are State liquor employees, who are unable to attend this hearing. We do wish to go on record as opposing S.B. 458 the Privatization of State Liquor Stores. We have also contacted our own legislators and requested them to oppose this bill.

The present system works! We have our jobs and security; the public has access to the product with reasonable price controls in place; the assurance of responsible state employees that liquor is not being sold to minors, and probably the least considered but most important - this system produces considerable monies for the General Fund!

S.B. 458 will destroy jobs, security, price controls, access controls and in no way provides a system to replace the monies lost to the General Fund!

We do not feel the State has adequately studied the effects this bill would have upon us, our families, the public and the financial security of our government.

The State has not shown that changing the system will benefit anyone and the Governor's opinion that the State "should not be in the liquor business" should not be held relevant in light of the many adverse effects produced by this bill.

Please do not pass S.B. 458.

Bill Thrasher #116
Elsie Nugent #116
Corrie Bolton # 137

SENATE TAXATION
EXHIBIT NO. 12
DATE 3/29/91
BILL NO. SB458

STATE OF MONTANA - FISCAL NOTE
Form BD-15
In compliance with a written request, there is hereby submitted a Fiscal Note for SB0458, as introduced.

DESCRIPTION OF PROPOSED LEGISLATION:

An act eliminating the authority of the Department of Revenue to establish and maintain state liquor stores after December 31, 1992; phasing out existing state liquor stores by December 31, 1992; eliminating the authority of the Department of Revenue to purchase table wine; providing reduction-in-force rights for displaced Department of Revenue employees; establishing a package store license; providing for a preference in the issuance of a package store license; providing for a package store license fee; allowing for the sale of liquor between licensees; providing for wholesale liquor markup, prices, and taxes; eliminating the prohibition against reselling liquor at a price less than the state liquor store posted price while maintaining the prohibition against unfair trade practices; and providing an immediate effective date.

ASSUMPTIONS:

1. The volume of liquor and table wine sold will be no different under the proposed legislation than under current law. The volume of liquor and table wine previously sold by state stores will shift to existing licensees and new package store licensees.
2. The state will no longer purchase table wine and will only sell table wine until the existing state-owned supply is exhausted.
3. Wholesale distribution of liquor direct to licensees will be phased in as state liquor stores are phased out, community by community.
4. Licensed retail package stores will replace all 125 state liquor stores, one-for-one, in the communities in which state liquor stores are currently located. Sixty-three package store licenses will be in place in FY92 and an additional 62 will be in place in the first half of FY93.
5. Every retail package store license will be issued for $400 each fiscal year, plus a $100 processing fee the first year.
6. Operating expenses in FY92 and FY93 will have the same relative distribution of total expenditures among responsibility centers and objects of expenditure as existed in FY90, except where expenses will be reduced due to the phased closure of state liquor stores or increased as will be the case for freight to stores and increased warehouse staff due to direct shipments to licensees. Seventy-five FTE will be associated with the store closings.
7. The wholesale price of liquor will be lower than the current retail price by the proportion that operating expenses are reduced due to closure of state liquor stores, partially offset by the proportion that freight to stores and warehouse staff are increased due to direct shipment to licensees, and by maintaining the FY90 level of profit. The wholesale price will be approximately 2.5% lower than the current retail price.
8. Licensees will receive a 5% case discount off the wholesale price for full case purchases. The purchase of repacked cases will be at the wholesale price.

(continued on next page)

Rod Sundsted 3-26-91
ROD SUNDSTED, BUDGET DIRECTOR DATE
Office of Budget and Program Planning

GENE THAYER, PRIMARY SPONSOR DATE

ASSUMPTIONS-continued:

9. The wholesale markup as a percent of cost of goods F.O.B. state warehouse (32.92%) will yield the wholesale operating costs and the same level of profit as for FY90.
10. The wholesale excise tax as a percent of cost of goods F.O.B. state warehouse (22.81%), will yield the same annual amount of excise tax as does the current retail excise tax as a percent of the cost of goods F.O.B. state stores plus retail markup (16%).
11. The wholesale license tax as a percent of cost of goods F.O.B. state warehouse (14.25%), will yield the same annual amount of license tax as does the current retail license tax as a percent of the cost of goods F.O.B. state stores plus retail markup (10%).
12. The entire cost value of inventory maintained in a state liquor store will be transferred to the general fund within 6 months after a store is closed.
13. Liquor profit transfers are deposited in the state general fund.
14. Liquor excise tax receipts are deposited in the general fund.
15. Liquor license taxes are distributed 34.5% to local governments, and 65.5% to the Department of Institutions.
16. Wine taxes are distributed 59.26% to the general fund, 9.85% to local governments and 30.89% to the Department of Institutions.
17. Package store license fees would be deposited in the general fund.

FISCAL IMPACT:

see next page

FISCAL IMPACT:

	FY92			FY93			FY94		
	Current Law	Proposed Law	Difference	Current Law	Proposed Law	Difference	Current Law	Proposed Law	Difference
EXPENDITURES									
Liquor Enterprise:									
Personal Services	2,742,000	2,372,000	(370,000)	2,747,000	1,449,000	(1,298,000)	2,747,000	1,263,000	(1,484,000)
Operating Expenses	3,387,000	2,915,000	(472,000)	3,393,000	1,558,000	(1,835,000)	3,393,000	1,262,000	(2,131,000)
Cost of Goods Sold	24,935,000	25,080,000	145,000	24,993,000	25,539,000	546,000	24,993,000	25,616,000	623,000
Interfund Transfers	14,479,000	15,843,000	1,364,000	14,468,000	17,192,000	2,724,000	14,468,000	14,518,000	50,000
Total	45,543,000	46,210,000	667,000	45,601,000	45,738,000	137,000	45,601,000	42,659,000	(2,942,000)
Funding:									
Liquor Fund (06)	45,543,000	46,210,000	667,000	45,601,000	45,738,000	137,000	45,601,000	42,659,000	(2,942,000)
Alcohol Tax Distributions:									
Dept. of Institutions	2,680,000	2,680,000	0	2,673,000	2,673,000	0	2,673,000	2,673,000	0
Local Governments	1,326,000	1,326,000	0	1,326,000	1,326,000	0	1,326,000	1,326,000	0
Total	4,006,000	4,006,000	0	3,999,000	3,999,000	0	3,999,000	3,999,000	0
Funding:									
State Special Rev. (02)	4,006,000	4,006,000	0	3,999,000	3,999,000	0	3,999,000	3,999,000	0
REVENUES:									
Liquor Fund (06):									
Liquor Excise Tax	5,548,000	5,548,000	0	5,571,000	5,571,000	0	5,571,000	5,571,000	0
Liquor License Tax	3,468,000	3,468,000	0	3,482,000	3,482,000	0	3,482,000	3,482,000	0
Wine Tax	1,323,000	1,323,000	0	1,272,000	1,272,000	0	1,272,000	1,272,000	0
Package Store License Fees	0	32,000	32,000	0	56,000	56,000	0	50,000	50,000
Inventory Asset Transfer	0	1,332,000	1,332,000	0	2,668,000	2,668,000	0	0	0
Liquor Sales (net of taxes & discounts)	35,171,000	34,474,000	(697,000)	35,241,000	32,654,000	(2,587,000)	35,241,000	32,249,000	(2,992,000)
Other Income	33,000	33,000	0	35,000	35,000	0	35,000	35,000	0
Total	45,543,000	46,210,000	667,000	45,601,000	45,738,000	137,000	45,601,000	42,659,000	(2,942,000)
General Fund (01):	10,473,000	11,837,000	1,364,000	10,469,000	13,193,000	2,724,000	10,469,000	10,519,000	50,000
State Special Rev. (02)	4,006,000	4,006,000	0	3,999,000	3,999,000	0	3,999,000	3,999,000	0
NET IMPACT									
General Fund (01)	10,473,000	11,837,000	1,364,000	10,469,000	13,193,000	2,724,000	10,469,000	10,519,000	50,000
State Special Rev. (02)	0	0	0	0	0	0	0	0	0
Liquor Fund (06)	0	0	0	0	0	0	0	0	0
Total	10,473,000	11,837,000	1,364,000	10,469,000	13,193,000	2,724,000	10,469,000	10,519,000	50,000

LONG RANGE EFFECTS OF PROPOSED LEGISLATION:

The FY94 columns in the above table reflect the fiscal impact of SB0458 when fully implemented.

SENATE TAXATION COMMITTEE 24 MAR 91
STATE CAPITAL BLDG.
HELENA, MT.

WE RESPECTFULLY SUBMIT THE FOLLOWING FOR YOUR CONSIDERATIONS ON SENATE BILL 458.

WE STELLA J. DALIN, AND TIM AND BETTY DALIN, AGENT AND OPERATORS OF STATE LIQOUR STORE #83, LOCATED IN EAST HELENA, MT FEEL THAT PASSAGE OF BILL 458 WOULD HAVE MUCH MORE ADVERSE EFFECTS ON THE STATE OF MONTANA THAN THE VERY FEW GOOD EFFECTS.

1. WILL AFFECT THE PRIVATE CONSUMER DRASTICALLY. THERE WILL BE LESS LIQOUR SALES STORES IN EVERY LOCALITY IN MONTANA, EXCLUDING BARS. MANY CUSTOMERS WILL NOT PURCHASE THEIR PRIVATE PURCHASES FROM A BAR, AND THEY MAY NOT HAVE A STORE SALES WITHIN MILES. PLUS BAR SALES WILL BE HIGHER THAN STORES. THEREFORE THE POPULACE OF MONTANA WILL NOT BE SERVED FOR THE BETTER.

2. UNDER THE EXISTING SYSTEMS OF 100 PLUS LIQOUR STORES THE ORDERING AND DELIVERY EXISTING NOW IS NOT THE BEST TO SAY THE LEAST. UNDER THIS BILL YOU MAY HAVE 50 PLUS LIQOUR STORES PRIVATIZED AND 1500 PLUS BARS. IF THE PRESENT SYSTEM ISN'T THE BEST. HOW CAN YOU FEEL IT CAN BE AS GOOD AND NOT MORE PROBLEMS IN ORDERS AND SHIPPING THAT WILL RESULT IN POOR SELECTION AND VARIETY OF LIQOUR PRODUCTS AVAILABLE TO THE MONTANA CONSUMER.

3. IT SEEMS CLEAR TO US AS AGENT AND OPERATORS THAT THE STATE'S PRESENT OPERATION IN LIQOUR SALES IS WORKING FOR THE BEST AND MOST OF MONTANA'S POPULACE. SMALL OPERATIONS SUCH AS EAST HELENA PROVIDES THE SERVICE NEEDED TO THE CONSAMER AND BARS, BUT COULD NOT SURVIVE ON THE PRIVATIZATION PROPOSAL. NO BUSINESSMAN WOULD CONSIDER THE NECESSARY PURCHASE OF STOCK PLUS BUSINESS OVERHEAD TO HAVE A STORE IN EAST HELENA. AT PRESENT AN AGENY STORE CANNOT SURVIVE WITHOUT BEING IN CONJUNCTION WITH A SUCCESSFUL PRIMARY BUSINESS. TO SURVIVE, IN SMALLER RURAL AREAS AND TOWNS IT BE IMPOSSIBLE.

4. WE ALSO BELIEVE THAT PRIVATIZATION WILL INCUR A DRASTIC HARDSHIP ON MANY BARS. PRESENTLY THEY CAN ORDER AS THEIR NEEDS BE, INCLUDING DAILY. TO INSURE ADEQUATE STOCK AND VARIETY THEY WILL BE FORCED TO ORDER IN MUCH GREATER QUANTITIES AND HAVE TO HAVE LARGER INVENTORIES. THIS REQUIRES MUCH LARGER STOCK INVENTORY AND MUCH MORE CASH TO TIE UP IN THIS LARGE INVENTORY. ORDERS ARE GOING TO HAVE TO BE MADE WEEKS IN ADVANCE AND IN IF ORDER IS SHORTED THEY WILL BE RUN OUT OF NECESSARY ITEMS TILL REORDER CAN BE MADE AND RECEIVED. IS THIS A BETTER SERVICE TO OUR MONTANA BUSINESSMEN AND CONSUMERS.

5. AT PRESENT MONTANA'S AGENCY SYSTEM IS WORKING FOR THE BEST FOR THE STATE AND MONTANAS. IF ~~THE STATE~~ IS NOT MAKING THE NECESSARY PROFIT ON STATE STORES, THEY ARE OFFERED TO MONTANA'S TO APPLY AND BE GRANTED AN AGENT'S LICENSE TO OPERATE AN AGENCY STORE. ITS WORKING DON'T FIX IT!

6. WE CANNOT UNDERSTAND WITH ALL THE NEGATIVES AND A POSSIBLE ONE TIME SALE OF INVENTORY (WHICH WE FEEL IS GOING TO BE MUCH LESS AS THIS INVESTMENT IS NOT A GOOD INVESTMENT FOR A KNOWLEDGABE BUSNESSMAN, VERY FEW WILL INVEST AND CONTINUE LIQOUR STORES, PROBABLY ONLY IN MAJOR CITIES IN MONTANA) IS NOT GOING TO BE THAT BIG A DEAL.

7. THANKING YOU FOR YOUR CONSIDERATIONS IN THESE MATTERS, AND WITH THE MATTERS SUBMITTED BY OTHERS WE KNOW YOU WILL MAKE THE PROPER DECESION FOR THE BEST OF YOUR MONTANA'S AND NOT THE BEST FOR A PERSUASIVE FEW.

SINCERELY:
Stella J Dalin.

STELLA DALIN
TIM DALIN
BETTY DALIN

TESTIMONY OF DAVE CROSMER IN OPPOSITION TO SENATE BILL 458, BEFORE THE SENATE TAXATION COMMITTEE, MARCH 25, 1991

Mr. Chairman and members of the committee, for the record my name is Dave Crosmer, President of United Food And Commercial Workers Local 33 in Billings.

Senate Bill 458 would withdraw the state from the retail liquor business for no reason other than a political promise. The Governor, in an attempt to justify this privatization effort, has argued that this move would save the state of Montana a considerable amount of money. I strongly disagree with that assessment for the following reasons:

There is no overall long-term cost benefit to the state due to the elimination of state liquor stores. The reduction in expenditures associated with the stores will be more than offset by increased expenditures in warehousing, transportation and discounts; and by a lower markup. The only real economic benefit comes from the elimination of state-held liquor inventory, and that's not enough to offset the increased costs of the privatized system.

The liquor profit will remain the same as it would have had the state remained in the retail liquor business. Any cost benefit there is in this plan comes from recovering the costs of current liquor in inventory at state liquor stores because the state will not have to replace this asset. The department estimates the General Fund will receive $1.33 million in fiscal year 1992 and $2.67 million in fiscal year 1993 from the sale of current stores' inventory.

The state also indicates that it will gain an additional $4 million in fiscal year 1991 because of bailment. Bailment is a system of holding liquor products in trust in the warehouse, then transferring ownership directly from the supplier to the state upon shipment to stores. In this way, the state avoids the inventory expense of stock in the warehouse sitting idle before being sold. However, bailment is possible even if the state remains in the retail liquor business.

These cost savings are one-time savings that aren't enough to justify throwing all of the state liquor store employees and agents out of work.

There would also be increased costs to the state through their warehousing operation if this privatization occurs. The department estimates the proposal would require additional staff at the warehouse. The salaries and benefits for the additional staff are estimated at $121,000 over current budget requests for fiscal year 1992 and $330,000 in fiscal year 1993. That's almost a half a million dollars in extra personnel costs just at the warehouse.

It is estimated that the cost of shipping freight to vendors around the state will triple in the next two years. The state now ships to 125 locations. With this bill, they could ship to as many as 1,625 different locations, which obviously means additional work and additional cost. It also means that the cost per shipment is likely to go up, therefore affecting the end price of the product for the bars, stores and retail customers.

In conclusion, while the privatization of state liquor stores would probably provide for some one-time, short-lived profits for the state, it would not save any money in the long run and could conceivably cost the state a great deal more.

And that doesn't even begin to address the pain and disruption you'll cause to the workers and their families if you adopt this plan.

For these reasons I urge this committee to vote against Senate Bill 458.