

**House Appropriations Committee
February 27, 2019**

**Written Remarks Submitted for the Record
On Behalf of the Pennsylvania Liquor Control Board (PLCB)**

**Tim Holden, Chairman, testifying with
Mike Negra, Board Member
Charlie Mooney, Executive Director**

Chairman Saylor, Chairman Bradford, House Liquor Control Committee Chairman Pyle, Chairman Deasy, and members of the House Appropriations Committee, the PLCB appreciates the opportunity to provide written remarks to highlight the agency's financial performance and operational and regulatory activities in fiscal year (FY) 2017-18 and outline the PLCB's plans for the upcoming year.

In contrast to most state agencies, the PLCB is a self-funded agency. The operations of the PLCB are primarily supported by the revenues derived from the distribution and sale of wine and spirits in the Commonwealth. In addition to supporting our own operations, the agency's significant cash transfer (\$185.1 million) and tax revenue contributions to the General Fund (\$517.5 million)—as well as grant programs and funding to other state agencies—help to support critical programs and initiatives throughout Pennsylvania.

The Commonwealth's beverage alcohol marketplace has been transformed by momentous legislative changes to the Liquor Code during the past few years. Throughout this time of transition the PLCB has remained committed to providing exceptional customer service, working collaboratively with the licensee and supplier communities, and maximizing financial returns for the benefit of all Pennsylvanians. As a result of this dedication, the PLCB once again achieved record sales and record net income in FY 17-18.

PLCB sales in FY 17-18 totaled \$2.59 billion (including taxes), which represented a 2.7 percent increase over the previous year. Gross profit from sales improved by \$36.1 million, which contributed to a \$54.9 million increase in operating income, bringing total operating income to \$185.8 million at the end of FY 17-18. Improvements in gross margin, expired restaurant license auction revenue, and a reduced assessed contribution rate for retiree health benefits helped the agency achieve a record \$158.2 million in

“net income” (i.e., income after enforcement transfer/ before other transfers), an increase of \$53.4 million over the prior year.

As a state agency, the PLCB encounters many costs that are outside of our control; however, the board challenges our executive team to maintain cost discipline across the agency’s business and regulatory areas. For example, in FY 17-18 the agency decreased information technology consulting and contractual service costs by \$4.3 million.

Record sales in FY 17-18 supported substantial PLCB contributions to state, local, and community beneficiaries, which totaled approximately \$753 million. The breakdown of these distributions is as follows:

- \$371.5 million in liquor taxes remitted to the General Fund
- \$146 million in state sales tax remitted to the General Fund
- \$185.1 million in cash transfers to the General Fund
- \$30.5 million to support the operations of the Pennsylvania State Police Bureau of Liquor Control Enforcement (BLCE)
- \$9.4 million in local sales taxes remitted to Allegheny and Philadelphia counties
- \$4.6 million in licensing fees returned to local communities
- \$2.5 million to fund programs at the Department of Drug and Alcohol Programs
- \$1.8 million in grants to bolster the Pennsylvania wine and beer industries as recommended by the Pennsylvania Wine Marketing and Research Program Board and the Malt and Brewed Beverage Industry Promotion Board
- \$1.2 million in alcohol education grants awarded to reduce underage and dangerous drinking

The PLCB also transferred approximately \$15 million to other state agencies to pay for Commonwealth provided services:

- \$6.2 million to Comptroller
- \$3.1 million to the Auditor General
- \$3 million to the Office of Administration for consolidated data services, classification and pay services, strategic services/SEAP, SAP-based services, and telecommunication charges
- \$1.1 million to the Civil Service Commission

- \$1.3 million to the Department of General Services for real estate and shared services, employee self and tort insurance, and Capitol Complex services
- \$0.2 million to Treasury

The PLCB recognizes the importance of our alcohol education role, and during FY 17-18 we formally launched the *Know When. Know How.* education and prevention campaign. This program educates parents about the importance of initiating conversations with their children at a young age about the dangers of underage drinking and continuing those conversations as the child grows and matures. This campaign offers a wealth of online resources to give parents the information, tools and confidence they need to engage their kids in an ongoing and effective dialogue about the risks of underage drinking. The YouTube channel for the campaign has received 4.8 million views since its inception in June 2018. Additionally, as of December 2018, approximately 53,000 Pennsylvania-based visitors and 80,000 link clicks have been recorded on the *Know When. Know How.* website. We are also proud that the *Know When. Know How.* campaign has won 19 national and international awards for advertising excellence.

The agency is also responsible for licensing and regulating approximately 20,000 alcohol retailers, producers, and handlers. During the past year the PLCB continued to refine the Licensee Compliance Program (LCP), which the PLCB created in response to Act 44 of 2017.

Under Act 44, the PLCB can suspend a licensee's authority to sell alcohol if, upon inspection, the premises fails to meet certain requirements for the license including: square footage, seating, food, health license, or rooms. In December 2018, the PLCB updated several elements of the LCP. Most notably, the agency clarified that the statutorily required seating must be immediately available and accessible to the public, meaning it may not be concealed or locked behind doors or walls. In the event of repeated deficiencies in meeting basic license requirements, extended license suspension timeframes have been established. Between Jan. 1, 2018 and Feb. 1, 2019, the PLCB has received 141 complaints under the LCP and attempted 145 inspections. Inspections resulted in 86 licensees compliant with requirements, 39 license suspensions, and 20 instances where the inspection could not be completed (generally due to the establishment being closed at the time). In addition, 36 re-inspections have been completed. The PLCB has worked closely with BLCE and local government authorities to coordinate these inspections.

The PLCB continues to prioritize customer service, convenience, and responsiveness to retail trends in our operation of Fine Wine & Good Spirits (FW&GS) stores. The PLCB remains committed to modernizing and renovating stores across the Commonwealth to improve the customer experience. In FY 17-18, the PLCB completed 67 branding projects. One of the most significant agency initiatives this past year was the relocation and expansion of the PLCB's e-commerce fulfillment center. The new e-commerce warehouse is approximately 30,000 square feet, which is about seven times bigger than the previous facility. This larger warehouse has allowed the PLCB to expand the selection of products offered through our retail website. In the past, FineWineAndGoodSpirits.com featured a collection of about 1,500 products, primarily high-end, niche, and limited-availability wines and spirits. Today's e-commerce fulfillment center carries nearly 5,300 items, including all our best-selling products, online exclusives and even specialty packages that were only ever offered in-store in the past. And consumers continue to respond very favorably to the convenience of ordering from a wider selection of items. While e-commerce sales grew a respectable 21.5 percent year-over-year in FY 17-18, more impressive is the growth we have achieved since opening the new fulfillment center last fall and promoting a wider e-commerce selection of products. Each of the last four months saw unit sales increase between 95.4 percent and 123.4 percent over the same month the prior year, while dollar sales have grown between 68.4 percent and 131.0 percent each month.

To take e-commerce to the next level, the PLCB is currently in the process of upgrading and completely redesigning FineWineAndGoodSpirits.com, providing a mobile-friendly and consumer-centric user experience that will further improve the customer experience and facilitate continued e-commerce sales growth.

The PLCB is also pursuing the implementation of a same-day delivery service. This program will provide customers with the convenience of delivery directly to their doors. In late 2018, the agency issued a request for proposals for third-party delivery vendors, and responses are currently under evaluation with hopes to introduce a same-day delivery pilot program in southeast Pennsylvania later this year.

FY 17-18 was the first full fiscal year that wine expanded permit (WEP) holders have been selling wine to go. The Office of Wholesale Operations was created by the PLCB in response to Act 39 to meet the needs of WEP holders, who purchase wine from the PLCB at a 10 percent discount. Both the number of WEP holders and PLCB sales to those licensees continued to grow. More than 900 WEP holders are currently licensed in Pennsylvania, including about 700 grocery and convenience stores, as well as traditional restaurants and hotels. In FY 17-18, PLCB wine sales to WEP holders totaled approximately \$106 million. Limited wineries can sell their products directly

to retail licensees, so PLCB sales figures do not reflect those sales, nor do we have any way of detailing wine sold by WEP holders at retail.

Over the last year Wholesale Operations has expanded to serve a broader audience of licensees through effective forecasting, specialized product offerings, efficient product acquisition, and customized fulfillment and distribution options. Licensees are encouraged to obtain product through Licensee Service Centers and the Licensee Delivery program, both of which are designed specifically to meet licensees' needs and provide distribution efficiencies for the PLCB. In FY 17-18, product volume moving through the Licensee Delivery Program increased 106 percent in units and 104 percent in dollars, while sales through Licensee Service Centers grew 15.6 percent in units and 16 percent in dollars.

Direct wine shipping also continued to grow during FY 17-18. Almost 1,100 DWS license holders are currently licensed in Pennsylvania. According to sales data reported by DWS license holders to the PLCB, more than \$62.5 million of wine was shipped into Pennsylvania during 2018. To ensure that direct shipped wine is received by customers who are 21 years of age or older, the PLCB requires that DWS license holders both utilize a delivery service that verifies a consumer's age upon delivery and employ an "age gate" that requires a customer to confirm that he or she is 21 years of age or older prior to making an online purchase. The PLCB implemented this policy in consultation with DWS license holders, which include many Pennsylvania limited wineries.

The PLCB provides significant support to Pennsylvania alcohol producers through our PA Proud Wine and Spirits program in FW&GS stores and the industry promotion grants created by Act 39 of 2016. Most FW&GS stores prominently feature a "Made in Pennsylvania" section to highlight local products. The PA Proud program allows Pennsylvania limited wineries and limited distilleries to place up to 10 products in 10 stores, which provides a tremendous opportunity for these small businesses to increase customer access to their products. Further, in FY 17-18, the PLCB funded approximately \$1 million in grants, which were recommended by the Pennsylvania Wine Marketing and Research Program Board, to support the Pennsylvania wine industry. Approximately \$800,000 in grants, which were recommended by the Malt and Brewed Beverage Industry Promotion Board, were funded by the PLCB to bolster the Pennsylvania beer industry. These grants supporting the home-grown wine and beer industries ranged from supporting several viticulture studies to creating industry marketing and promotion opportunities, such as the creation of a digital ale trail app.

Under the authority of Act 39 of 2016, the PLCB has conducted seven auctions of restaurant liquor licenses—one in October 2016, three in 2017, and three in 2018—which has thus far resulted in winning bids on 235 licenses. A total of \$24.5 million has been realized in total auction revenue as of Feb. 4. An additional \$4.5 million in revenue remains in escrow pending the completion of the license transfer application process. In early 2019, the PLCB announced the eighth license auction, and bids are due by March 25 for the 25 available licenses.

Thank you for this opportunity to discuss the PLCB's financial contributions and ongoing initiatives. We look forward to answering questions from the members of the Appropriations Committee.