

**House Appropriations Committee
February 25, 2020**

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

**Tim Holden, Chairman, testifying with
Mike Negra, Board Member
Mary Isenhour, 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 Pennsylvania Liquor Control Board (PLCB) appreciates the opportunity to submit written remarks for the agency's fiscal year 2020-21 budget hearing.

The PLCB is committed to its mission of responsibly selling wine and spirits as a wholesaler and retailer, regulating Pennsylvania's alcohol industry, promoting alcohol education and social responsibility, and maximizing financial returns for the benefit of all Pennsylvanians. The agency's fiscal year 2020-21 budget reflects the PLCB's goals of increasing profitability, enhancing the consumer experience for wholesale and retail customers, and modernizing the agency's organizational infrastructure and technology.

During fiscal year 2018-19, the PLCB contributed more than \$769.9 million to the General Fund, state and local governments, and other beneficiaries. The agency's total annual contribution to state, local, and grant recipients has increased by more than \$142.6 million since fiscal year 2015-16, the last full fiscal year before the enactment of Act 39 of 2016. Notably, in fiscal year 2018-19, these contributions included \$381.9 million in liquor taxes and \$150.2 million in state sales tax remitted to the General Fund; \$185.1 million in cash transfers to the General Fund; \$31.3 million to support the Pennsylvania State Police Bureau of Liquor Control Enforcement (BLCE); \$9.7 million in local sales taxes to Allegheny and Philadelphia Counties; \$4.5 million in licensing fees returned to local communities; \$3.8 million to fund initiatives at the Department of Drug and Alcohol Programs; and \$3.5 million disbursed in alcohol education and industry promotion grants.

The PLCB also transferred \$14.6 million to other state agencies to pay for Commonwealth-provided services in fiscal year 2018-19. The transfers included

\$5.9 million to the Office of the Comptroller; \$3.0 million to the Department of the Auditor General; \$2.9 million to the Office of Administration; \$1.1 million to the Civil Service Commission; \$1.4 million to the Department of General Services; and \$0.2 million to the Treasury.

In fiscal year 2018-19, the PLCB achieved record sales and net income. Sales increased by 2.9 percent over the prior year, which resulted in total sales of \$2.67 billion (including taxes). Sales by product category also grew. Spirits sales increased by 4.3 percent and wine sales grew by 1.1 percent. Unit sales increased by 4.3 percent. Net income for fiscal year 2018-19 totaled \$191.0 million, which represented a 20.7 percent increase and exceeded the agency's \$185.1 million in cash transfers to the General Fund.

The PLCB initially projected fiscal year 2019-20 sales to increase by 2.7 percent; however, through December 2019, total sales have exceeded expectations and increased by 3.3 percent over the prior year. Spirits sales have grown by 5.1 percent and wine sales have increased by 1.0 percent. The agency expects to end the current fiscal year with sales growth that surpasses our initial projection. Additionally, strong sales have contributed to a \$11.7 million increase in gross profit through the first six months of the fiscal year. The PLCB will transfer \$185.1 million to the General Fund in the current fiscal year, and net income, which has increased by approximately \$29.1 million through December 2019, is once again projected to exceed this amount.

Looking forward to fiscal year 2020-21, the agency projects continued sales growth. The PLCB anticipates that sales will improve by 2.75 percent over the previous year. Additionally, in fiscal year 2020-21, the agency will provide \$185.1 million in cash transfers to the General Fund for a fourth consecutive year.

The PLCB's budget request for fiscal year 2020-21 is \$624,440,000 for its general operations, which is a 5.5 percent increase over the previous year. Most of the budgetary increase is associated with higher operational costs associated with projected freight expenses, store leases and credit/debit card transaction fees. It is important to highlight that the agency does not receive an appropriation from the General Fund. Instead, the PLCB's budget is supported by its own operations through an executive authorization to expend funds from the State Stores Fund. Some expense increases, such as Commonwealth-negotiated wage and benefit costs, are outside of the direct control of the PLCB; however, the agency actively works to limit expense growth and identify operational efficiencies. The agency's budget also

includes continued investment in business operations to engender future growth and enhance customer service and convenience.

In 2020 the PLCB anticipates launching a redesigned FineWineAndGoodSpirits.com with improved functionality for customers. E-commerce sales remain a small portion of total PLCB sales; however, this segment has grown exponentially in recent years. Between the opening of a new, larger PLCB e-commerce fulfillment center in October 2018 and June 2019, e-commerce sales increased 54 percent over the same period the prior year. The agency expects to sustain significant e-commerce sales growth through a variety of monthly promotions, special releases of high-demand products, and the enhanced customer experience from the new website.

The PLCB is currently exploring upgrading its enterprise resource planning (ERP) platform, which provides the core information technology infrastructure to operate the wholesale, retail and finance functions of the agency. The primary goals of modernizing the ERP platform are to provide improved business functionality and to reduce costs associated with the ongoing maintenance and operation of the current ERP platform.

The PLCB also plans to continue its efforts to modernize Fine Wine & Good Spirits stores across the Commonwealth. In fiscal year 2018-19, the agency completed 36 store refreshes, 26 remodeling/relocation projects, three new stores, and two licensee service centers. We also opened our first two Taste & Learn Centers in fiscal year 2018-19, and there are now five of these dedicated education spaces for tastings and special events across the state. Through the end of the fiscal year, more than 300 Fine Wine & Good Spirits stores were remodeled, and there were 105 premium stores.

Assuring that Fine Wine & Good Spirits stores and licensees, including wine expanded permit (WEP) holders, have timely access to products is an essential function of the PLCB's Office of Supply Chain. In order to continue to meet these needs, the PLCB, in partnership with a new third-party logistics provider, will open a new, state-of-the-art distribution center in 2020 to service the southeast Pennsylvania region. The new distribution facility will replace an outdated warehouse that no longer meets the warehousing and distribution needs of the PLCB.

In calendar year 2019 the PLCB's wholesale business continued its rapid expansion since the passage of Act 39 of 2016. The number of approved WEP holders at the close of 2019 grew to more than 1,150, including about 900 actively selling grocery

stores, convenience stores and mass merchants. PLCB wine sales to all WEP holders totaled \$135.9 million in fiscal year 2018-19, about 13 percent of total PLCB wine sales. It is important to recognize that these sales do not include wine that a WEP holder purchased directly from limited wineries for resale. While the rate of increase in WEP holders slowed from the previous year, the PLCB expects significant growth in WEP holders to continue through 2020.

The PLCB Office of Wholesale Operations works directly with wholesale customers to identify areas of improvement that are mutually beneficial, including product assortment, promotional planning, and logistics. One example of PLCB collaboration with wholesale partners is data sharing. The Wholesale Operations team has provided aggregated PLCB sales data to licensees, particularly WEP holders, to assist them in identifying best-selling products in different market areas across the state.

In addition to financial results and business operations, it is also important to highlight the PLCB's regulatory operations. Under the Licensee Compliance Program, as authorized by Act 44 of 2017, the PLCB can suspend a licensee's authority to sell alcohol if an inspection of the licensed premises identifies a failure to meet certain requirements for the license. Between January 2018 and December 2019, the PLCB received 163 complaints, which resulted in 54 suspensions. Subsequently, 53 licensees passed upon re-inspection. The agency partners with the BLCE and appropriate local government entities to coordinate License Compliance Program inspections.

The PLCB's alcohol education and social responsibility mission remains a core priority for the agency. In fiscal year 2018-19, the *Know When. Know How.* alcohol education campaign continued to spread awareness to parents about the importance of early conversations with children about the dangers of underage drinking. From its January 2018 launch through June 30, 2019, the campaign totaled 36.7 million digital impressions, resulting in more than 70,000 Pennsylvania-based visitors to KnowWhenKnowHow.org. Additionally, the advertising campaign has won 30 national and international awards.

In fiscal year 2018-19, the PLCB awarded \$1.1 million in grants to reduce underage and dangerous drinking to 66 grantees, including more than 40 grants funding community law-enforcement efforts for targeted underage patrols, training and equipment; 17 grants for initiatives such as Project Alert, Project Northland, the Strengthening Families Program and Project Sticker Shock; three to primary and secondary schools to fund programs designed to reach students, such as enforcement

during school special events and programs including Alcohol Wise, MADD's Power of Parents® and Parents Who Host, Lose the Most®; and 22 college and university grants to help schools develop strategies to reduce underage and dangerous alcohol use through surveys and assessments, enforcement efforts, attendance at alcohol education conferences, training for resident assistants, peer education programs and evidence-informed programs like CHOICES and Operation Buzzkill.

The PLCB supported the Pennsylvania beer and wine industries in fiscal year 2018-19 by authorizing \$1.8 million in grants for research and marketing projects recommended by the Pennsylvania Wine Marketing and Research Board and the Pennsylvania Malt and Brewed Beverages Industry Promotion Board. These grants, which were created by Act 39 of 2016, supported a diverse range of projects, from research regarding the impact of the spotted lanternfly on wine production to tourism promotion efforts for beer and wine trails.

In fiscal year 2018-19, the PLCB conducted three auctions of expired restaurant licenses, awarding 67 licenses and achieving bids totaling \$5.8 million. Through December 2019 and dating back to the first auction in 2016, revenue recognized from license auctions totaled \$29.3 million. The agency is currently accepting bids on 25 licenses that are included in the tenth license auction. Bids are due March 16. As the pool of available expired licenses in counties with high demand diminishes, the PLCB expects the gradual decline of annual revenue from the license auction to continue.

Thank you for the opportunity to provide written remarks highlighting our financial results, ongoing initiatives and commitment to continually improve how we serve Pennsylvania consumers, licensees, supplier partners and other industry stakeholders. We look forward to answering questions from the members of the committee.