

THE McCord Report

A quarterly look at Pennsylvania's economic vital signs



Welcome to this special edition of *The McCord Report*.

We have dedicated this entire issue to one topic: privatization of the state's liquor store system.

There has been a great deal of discussion recently about this topic in Harrisburg and across the state. As the Commonwealth's chief investment officer and a fiscal watchdog for Pennsylvania's taxpayers, I'm concerned with the fiscal impact such an action could have on the state and the services it provides.

We first visited this topic in *The McCord Report's* second edition. This issue presents additional information. It also introduces an online calculator that allows users to adjust variables associated with the sale and privatization of the state store system to see for themselves how a private system must be structured in order to maintain the \$400 million total benefit the Commonwealth received under the current state-run system.

My goal – and the goal of *The McCord Report* – is to ensure that citizens and lawmakers have accurate and unbiased information to help inform their decisions about timely issues.

As always, we appreciate your feedback. Please do contact us at McCordReport@patreasury.org with your thoughts and ideas for future topics.

Yours in service,


Rob McCord
Pennsylvania State Treasurer

Sales Tax Revenues from Licensees vs. Consumers

Under Pennsylvania's current system, sales taxes are assessed on bulk wine and spirit purchases made by a license holder – such as a restaurant or tavern – and not on individual drink purchases by the consumer. Below is the estimated increase in revenue if Pennsylvania collected county and state sales tax revenues on wine and spirit purchases from the consumer, rather than from the licensee, which has been proposed.

County & State Sales Taxes (FY 09-10)

Current collection system:
\$111.05 million

Proposed end-user collection system:
\$216.77 million

Difference:
\$105.72 million

Step 1: Decide how much of the proceeds from a one-time sale of the state liquor control system the Commonwealth would retain for investing. Explain this	Sale Proceeds	\$1,700,000,000
Step 2: Decide what rate of return those invested funds could earn. Explain this	Interest Rate	4.00%
<i>That investment would generate this annual revenue.</i>	Interest Income	\$68,000,000
Step 3: Assume future annual sales volumes, expressed as a percentage of sales in FY 2009-10. Explain this	Future Sales as % of Current Sales	100.00%
	Future Sales (gallons)	Wine 17,143,638 Liquor 18,950,180 Total 36,093,818
Step 4: Determine tax rates to impose on each gallon of wine and liquor sold (excludes sales tax). Explain this	Gallonage Tax	Wine \$9.12 Liquor \$9.12 Ratio 1.00
<i>Those tax rates would generate this annual revenue from alcohol sales.</i>	Revenue From Gallonage Tax	Wine \$156,349,979 Liquor \$172,825,642 Total \$329,175,620
Calculator Revenue: Based on the factors you entered, the Commonwealth would generate this amount of total annual revenue. This amount includes gallonage tax revenues and interest earned from the invested proceeds of a one-time sale.		\$397,175,620 <input type="button" value="Recalculate"/> <input type="button" value="Reset"/>
Current Revenue of Existing State-Run System: Explain this		\$397,000,000
Difference: How does your total compare to the \$397 million the Commonwealth receives under the existing state-run system?		\$175,620

Find the Liquor System Revenue Calculator at: www.patreasury.org.

Price for 750 ML Bottle

(sales taxes not included)

The following chart illustrates prices for the top five selling brands of liquor (by dollars) in Pennsylvania, compared to the prices found in neighboring states.



SOURCES: DE - Kreston's Wine & Spirits (Wilmington, DE); MD - Montgomery Plaza Liquors (Cantonsville, MD); NJ - Millstone Wine and Liquor (Millstone Boro, NJ); NY - Westchester Wine Warehouse (Greenburgh, NY); OH - OH Liquor Control Commission Minimum Pricing; PA - PA Liquor Control Board Website; WV - Top Shelf Liquors (Berkley Springs, WV)

State Revenue Per Alcohol Gallon Sold, 2008

The graphic below illustrates how Pennsylvania compares to neighboring states in terms of the amount of revenue it generates, on average, for every alcohol gallon sold.

SPIRITS REVENUE (Per Alcohol Gallon)							
1	2	3	4	5	6	7	8
OH	PA	DC	NY	WV	NJ	MD	DE
\$69.80	\$58.86	\$46.84	\$46.08	\$40.25	\$37.59	\$17.79	\$9.22

TABLE WINE REVENUE (Per Alcohol Gallon)							
1	2	3	4	5	6	7	8
PA	WV	DC	NJ	NY	OH	MD	DE
\$99.12	\$52.17	\$42.95	\$32.83	\$26.82	\$24.10	\$21.63	\$9.77

SOURCE: Distilled Spirits Council of the United States

NOTE: Federal excise taxes not included. State and local revenue collections are for fiscal or calendar year. A wine gallon is equivalent to a standard U.S. bulk or liquid gallon. An alcohol gallon is a standard U.S. Gallon of pure ethyl alcohol. For purposes of converting wine gallons to alcohol gallons, distilled spirits is assumed to be 40% alcohol by volume (a.b.v.); wine, 11% a.b.v.; beer, 4.7% a.b.v.

Alcohol Consumption Per State Adult Population, 2008

This graphic compares current alcohol consumption among Pennsylvania adults to those in neighboring states. In this comparison, consumption is expressed as a measure of alcohol gallon sales divided by the adult population of the respective state.

SPIRITS CONSUMED (Alcohol Gallon/Adult)							
1	2	3	4	5	6	7	8
DC	DE	NJ	MD	NY	PA	OH	WV
1.68	1.42	0.95	0.94	0.74	0.66	0.64	0.48

TABLE WINE CONSUMED (Alcohol Gallon/Adult)							
1	2	3	4	5	6	7	8
DC	DE	NJ	NY	MD	OH	PA	WV
0.97	0.56	0.54	0.44	0.34	0.25	0.22	0.10

SOURCES: Spirits consumption, Distilled Spirits Council of the United States; Wine consumption, Adams Handbook Advance; Beer Consumption, The Beer Institute. An alcohol gallon is a standard U.S. Gallon of pure ethyl alcohol. For purposes of converting wine gallons to alcohol gallons, distilled spirits is assumed to be 40% alcohol by volume (a.b.v.); wine, 11% a.b.v.; beer, 4.7% a.b.v.