

WINE AND SPIRITS WHOLESALERS OF CONNECTICUT, INC.

Peter A. Berdon
Executive Director and General Counsel
peter.berdon@bymlaw.com

March 9, 2015

TESTIMONY OF WINE AND SPIRITS WHOLESALERS OF CONNECTICUT

In Opposition to Sections 41, 42 & 43 of S. B. 946 AN ACT CONCERNING REVENUE ITEMS TO IMPLEMENT THE GOVERNOR'S BUDGET

The members of the Wine and Spirits Wholesalers of Connecticut ("WSWC") **oppose** Sections 41, 42 and 43 of S. B. 946 AN ACT CONCERNING REVENUE ITEMS TO IMPLEMENT THE GOVERNOR'S BUDGET. The members of the WSWC believe that if these proposals were to pass that they will harm local Connecticut business, lead to less consumer choice and will reduce, rather than raise, state revenues.

I. Summary Of Relevant Provisions.

Each of the changes proposed in Sections 41, 42 and 43 seek to modify the way in which beverage alcohol is sold within the state.

Section 41 seeks to modify Section 30-48a of the Connecticut General Statutes to as to increase the number of package stores a single owner may control from 3 to 6. This limitation was most recently increased in 2012 from 2 to 3. The bill attributes no increase in state revenue to this change.

Section 42 seeks to modify section 30-91 by increasing the hours that grocery stores and pack stores may sell alcohol from 9 pm to 10 pm Monday through Saturday and from 5 pm to 8 pm on Sunday. The hours that a grocery store and package store can sell were most recently increased in 2012 when sales on Sunday were allowed. The bill attributes Five Hundred Thousand (\$500,000) Dollars to this change.

Section 43 seeks to modify section 30-68m to allow a package store to sell alcohol at a price equal to its cost, irrespective of when purchased. The bill attributes Two Million Nine Hundred Thousand (\$2,900,000) Dollars to this change.

II. Reasoning.

Section 41: License increase from 3 to 6 licenses per person.

- The Governor's office attributes no revenue increase to this proposal. We believe the fiscal impact on the state will be negative as large chain/big box stores take a larger share of the market place.
- Large chain/big box stores will take their profits out of the state, resulting in lost jobs and less tax revenue to the state. In Delaware, a large chain store was able to capture 20% of the retail market with just two stores. In the year following the opening of the second store six of the largest surrounding retailers saw a 50% decline in revenues. With the introduction of large chain stores (with currently only one operating location) in Connecticut, retailers are experiencing a similar effects. Limiting large out of state chain retailers and supporting local Connecticut businesses will ensure that their profits remain here and benefit all Connecticut residents.
- Large chain stores will hurt consumers through less product selection and higher prices for lower quality goods.

Section 42. Increased Store Hours.

- The budget attributes one half million dollars to this proposal. We believe the fiscal impact on the state will be negative as large chain/big box stores take a larger share of the market place.
- Since store hours have increase in 2012 state excise tax gallonage reports show:
 - While there were increases in grocery store beer sales, there was a corresponding decrease in package store beer sales.
 - During the same period there has been a reduction in wine sales—likely attributable to less package store foot traffic due to increase grocery store hours.
 - Overall there has been no increase in state excise tax collections (when controlled for population increases and the 20% increase in excise taxes for FY 2012). In FY 2011 CT residents over the age of 21 consumed 2.73 pfGals of alcohol in FY 2014 it was unchanged at 2.74 pfGals.¹
 - Unadjusted excise tax collections decreased by \$80,000 from FY 2013 to FY 2014.

¹ State of Connecticut, Department of Revenue Services, Alcohol Excise Tax Gallonage Reports: US Census data.

- Increasing Grocery Store hours further will only result in a greater shift away from package store sales and from wine to beer as well resulting in less excise taxes and less sales taxes. The main reason that spirits has not experienced a similar decline during this same time period is due to the innovation of new brands and products particularly in the brown goods (ie burboun) category.

Section 43: Sales at Actual Cost

- This provision will hurt most local Connecticut package stores as they will not be able to take advantage of inventory buying opportunities due to physical space constraints and capital requirements.
- Additionally, while the budget attributes \$2.9M to this proposal. We believe the fiscal impact on the state will be negative. Since revenue rates will remain constant any projected increase in revenue must be predicated upon an increase in volume presumably driven by lower prices. Three factors, however, call this analysis in to question. First, Connecticut already ranks high in its presumptive consumption of beverage alcohol in the wine (7th) and spirits category (15th)² and it is unlikely that Connecticut can capture even more sales. True for beer the state ranks second to last among the states, but this proposal would have minimal effect on beer since it can already be sold at the "case price" for the current month. Secondly, because the ratio of sales taxes to excise taxes for off premises sales (package stores) is nearly 2 to 1 (\$82.293M sales taxes vs \$47.557M excise taxes)³ it seems highly improbable that any price reduction will spur sufficient increases in demand and hence corresponding increases in excise tax and sales tax collections to offset the reduction in sales taxes due to any price decrease. This conclusion is supported by a 1997 Nelson study that found, that despite popular convention, "...relatively unresponsive price elasticities ... [for beverage alcohol] with an overall price elasticity of -0.52."⁴ Thirdly, only large stores with sufficient capital and storage space who capitalize on the cyclical discount patterns would benefit. These stores are more likely than not going to be out-of-state chain stores which will result in additional dollars being siphoned from the state's economy.

² Beer Institute, 6/5/2011.

³ Derived from Cain & Associates, LLC, *The Economic Impact*, March 2012 and State of Connecticut, Department of Revenue Services, Alcohol Excise Tax Gallonage Reports.

⁴ Nelson, J.P. *Economic and demographic factors in U.S. alcohol demand: A growth-accounting analysis*. Empirical Econ 22(1):83-102, 1997.

March 9, 2015

Wine & Spirits Wholesalers or Connecticut, Inc.

RE: SB 946

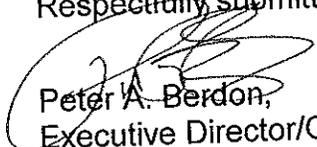
- Furthermore, there will be likely no benefit to Connecticut Consumers. In a 2012 pricing study, Dunham and Associates concluded that Connecticut's excise tax structure and its high business taxes were a leading contributor to any price discrepancies when there were any. Significantly this study reviewed the pricing of 60 wine brand and 60 spirits brands, in a sampling of price categories (value, mid, premium and ultra), across a year-long period (8/11 to 8/12), not isolated antidotal examples. If these larger tax issues as identified in this study are not addressed, then consumers are unlikely to see any benefit in terms of lower shelf prices.⁵

Who are the WSWC Members? The members of the Wine and Spirits Wholesalers of Connecticut are a key link in the 3-Tier System which controls the distribution of beverage alcohol in this country. They purchase beverage alcohol from suppliers and manufacturers and then market and sell those products to licensed retailers – restaurants and package stores. The members of the WSWC:

- are licensed and regulated by the state of Connecticut and the federal government;
- are responsible to insure that the wines and spirits brought in to the state by manufacturers and importers are sold and distributed only to licensed retailers (package stores and restaurant);
- pay to the state in excess of \$60,287,000 million dollars in state excise taxes annually;
- assist the Department of Revenue Services in the collection of Sales and Use Taxes, in excess of \$141 Million Dollars annually;
- provide in excess of 1,400 direct jobs to Connecticut residents; and
- contribute in excess of \$175 million dollars per annum in direct and in direct benefits to the state's economy.

The members of the WSWC are committed to ensuring that the best possible safeguards to prevent the sale of beverage alcohol to minors are in place and adults of legal drinking age consume beverage alcohol responsibly, while at the same time providing an efficient method of distribution which provides access to a wide variety of quality wine and spirits from all over the world.

Respectfully submitted,


Peter A. Berdon,

Executive Director/General Counsel

⁵ John Dunham and Associates, *A Comparison of Regional Beverage Alcohol Prices*, September 2012.