

To: General Law Committee Members

2/23/2016

From: Patrick Monteleone (Owner)
Harry's Wine and Liquor Market
2094 Post Road
Fairfield, Ct. 06824

Senator Leone, Representative Baram, Senator Wtikos, Representative Carter and the members of the General Law Committee:

Thank you for giving me the opportunity to speak to you regarding Bill#SB14. Over the past four years, this is second time that I have testified in General Law and the fourth time that I have travelled to Hartford to fight proposed changes to Connecticut's liquor laws or budget attachments intended to generate more State revenue. There has been little evidence that changes to the State's liquor laws over the past four years such as Sunday Sales, extended hours and increased permits per owner have had any appreciable impact on State revenues. Similarly, there is no reason to believe that Bill #SB14 would increase State revenues. But, there is no doubt that, if the Bill were to become law, it would have far reaching consequences on our State's small businesses, employment in the wine and liquor industry and consumer product selection.

I am against Bill #14 for three primary reasons:

1. Should the Bill become law it will have a catastrophic impact on small businesses and their employees;
2. No effective means of enforcing the pricing required under the Bill has been proposed; and
3. The Bill would not achieve its stated goal of increasing State Revenue

First, whatever else this Bill might accomplish, there is a no doubt that its enactment would be devastating to small business. The retail liquor business in the State of Connecticut is a competitive business and margins are already slim. Minimum bottle pricing allows us to offer competitive pricing to the consumer, cover our overhead and, hopefully, make a small profit. A reduction of minimum bottle price to "cost of acquisition" would mean that after paying rent, insurance, staff and our other overhead costs, we would be losing money on every sale. While a chain store would be more than able to run its Connecticut stores at a loss until the competition is eliminated, small stores would be forced out of business.

My store employs 18-24 people depending on the time of year. There are more than a dozen other stores in my town alone. If each employs even 6, that is more than seventy five employees in the Town of Fairfield alone. There are 169 towns in our state and, with the exception of Easton, each town has small stores. The math is easy. The loss of traditional package stores will result in the loss of thousands of jobs across the State. If a corporation employing this many of our residents were leaving our state and we were

Proposed Minimum Bottle Repeal Bill #SB14 **Opposed**

potentially losing thousands of jobs, we would be working very hard and offering incentives trying to keep them here.

Moreover, these store closures and job losses will have a multiplier effect. Owners and employees of package stores live in their local communities where profits and wages are reinvested. Other local businesses including insurance agents, accountants, printers, and repairmen and more provide services to these package stores. Merchandise is purchased from distributors that employ truck drivers, sales people, accountants, office staff and more. Many package stores and package store owners are valuable members of their community and do their part to give back to local charities and religious organizations. All of this economic activity would be undone if this Bill is enacted.

The impact of the loss of small liquor stores and their employees will not just exact an economic toll. Alcohol is a controlled substance. It is addictive and many people suffer from alcoholism. The attempt by minors to purchase alcohol is pervasive. Small liquor stores such as ours have a vested interest in enforcing the State's liquor laws. We don't take chances on serving minors. We don't serve intoxicated people. We simply can't chance breaking the law. Being fined or shut down for business for a day or a week is devastating, and our reputations are too important to us.

The second reason that I oppose this Bill is that there is no effective means of ensuring that retailers are selling at their "cost of acquisition".

As an example, wholesale pricing for the 1.75 liter size of Ketel One Vodka who's minimum bottle pricing has been consistent at \$39.99 for more than a year in the State of Connecticut is currently set forth as follows:

	Case Cost	Case Discount	Bottle Cost
Base Case Cost	\$263.46	\$0.00	\$43.91
Short Post Case Cost (January)	\$239.46	\$24.00	\$39.91
Deep Post Case Cost (February)	\$201.46	\$62.00	\$33.57
Deepest Post Case Cost (June 2016)	\$187.96	\$75.50	\$31.32

How is the cost of acquisition going to be determined? Is it the price that the retailer actually paid? Is it the current price? Is it the lowest price? Who is going to determine the price that an individual retailer paid to acquire this product? Who is going to monitor the sale price of every product in every store?

As you can see monitoring compliance with this law, not to mention enforcing it would be an administrative nightmare.

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The final reason that I oppose this bill is that it is unlikely to achieve its objective of increasing State revenue.

We have been led down this path before. Four years ago we were told that a change in the liquor law to allow sales on Sunday would make Connecticut more competitive with neighboring states and would increase the overall sale of alcohol in Connecticut thereby increasing tax revenue. Despite the widely held belief at the time that the reason for any loss of business across the border was the result of the highest taxes in the region on alcohol and not the loss of sales on Sundays, Package Store owners did not oppose Sundays sales as a concession to avoid the far more damaging changes proposed in minimum bottle pricing and other far reaching changes to the industry as a whole. A task force was set up by this body comprised of a panel made up of members on every side of the issue in fair proportion and it returned a finding that these proposals have no merit. Four years later, we are fighting the battle for the fourth time even though there is no evidence to suggest that Sunday sales or any of the other changes that have been enacted have meaningfully increased State tax revenues.

Proponents of Bill #14 seem to be arguing that lowering prices on alcohol will lead to increased sales of alcohol which will in turn lead to greater tax revenue. Why? Is the premise that the reduced prices will make us more competitive with neighboring states? Or, is this just a basic economic argument that as price is decreased, consumption will increase?

I have conducted my own price comparison with neighboring states on Wine Searcher (Wine Searcher is the number 1 tool used to search for alcohol online by consumers around the globe). A comparison of top brands showed minimal price discrepancies among Connecticut, Massachusetts, and Rhode Island and in several cases Connecticut offered the lowest price on an item. Further, to the extent that Connecticut pricing is higher than neighboring states, the reason has more to do with our taxes being higher than with minimum bottle pricing.

Apart from the argument that the Bill will allow Connecticut retailers to be more competitive with neighboring states, the economic argument that lower prices will create more demand for alcohol thereby increasing tax revenue makes no sense. In the short term, as the chain stores look to eliminate the competition, prices to the consumer will most certainly decrease. Do advocates of the Bill believe that these lower prices will encourage Connecticut's declining population to purchase and consume more alcohol? I would suggest that is highly unlikely, but even if I am wrong, is greater alcohol consumption per capita something that the State wants to encourage through lower prices? In any event, over the longer term, once the competition has been eliminated, prices will increase. Fewer stores will sell more mass produced and private label product squashing the craft movement which has been the source of so much sales growth within the industry.

Connecticut's fiscal situation is dire. I understand that new sources of revenue need to be identified as part of the plan to reduce our State's deficit. However, I do not see any evidence that Bill #SB14 would result in increased tax revenue. At best, lower prices in the

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near term will temporarily result in increased sales which may result in a short term marginal increase in tax revenue. But any increased revenue from liquor sales will be more than offset by the permanent loss of payroll, income and consumption taxes resulting from the closure of hundreds of small liquor stores and the layoff of thousands of employees. Connecticut's minimum bottle pricing laws have provided for a competitive retail environment which has ensured greater product selection and favorable pricing for the consumer. The cost of changing this law will dwarf any possible benefit. I urge you to vote against Bill #SB14.

Thank you for your consideration,

Patirck Monteleone

Action	Description	Cost	Total
Employee	6 hours	\$ 10.50	\$ 73.50
DoAg License		\$ 100.00	\$ 100.00
Social Security			\$ 3.91
Medicare			\$ 0.91
Fed Income Tax			\$ 3.49
State Income Tax			\$ 1.13
Total			
Insurance			
Auto			\$ 7.50
General Liability			\$ 3.20
Liquor Liability			\$ 6.41
Workmans Comp			\$ 3.47
Auto-Truck	25	\$ 0.55	\$ 6.60
Mileage	25	0.55/mi	\$ 6.60
Wine For Free Tasting	6 Bottles	\$ 20.00	\$ 120.00
Cost of Six Hour Pouring of Wine Off Premises			\$ 336.72