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Privatization Hearings
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Thank you Chairman McIlhinney, Chairman Ferlo, distinguished members of the Law and Justice Committee and Executive Directors Reinard and Bruder. I appreciate having the opportunity to testify this morning.

My name is David Bender. I am the CEO of Compass Mark, a non-profit organization located in Lancaster County, which has received national recognition for reducing levels of addiction while building skills critical to the development of a strong, healthy and capable Commonwealth.

Over 25 years ago, I was enjoying the rewards of a successful career in finance when I found that many people close to me were destroying their lives with alcohol. I chose to leave that career, give my money to a treatment and prevention organization and devote my time to bringing about better methods of prevention and intervention. My financial background makes me a believer in the free enterprise system, and my work on behalf of communities makes me insist on accountability at those times when the freedoms of private enterprise conflict with the well-being of the citizens of the Commonwealth.

I understand that you have a difficult task ahead of you. All of us are here today to sort through competing values and goals. What do we do when the values of public health and citizen safety compete with equally cherished values of free trade, open markets and individual freedom? Must these values be mutually exclusive? I need to make it clear that Compass Mark is neither in favor of nor opposed to the idea of privatization. But details matter. Advantages and flaws exist in both the private and the public approaches. There are costs – both human and financial – involved in these decisions, and if we are not clear on what those costs are, we will make the wrong choices.

Good decisions rest on good facts and clear objectives. Yet, from the beginning of this most recent effort to privatize wine and spirits stores – going back to HB2350 two sessions ago – there have been no clear goals and few good facts. The reason this ball of privatization has not crossed the goal line is not because of overwhelming opposition, but because the ball-carriers keep running toward different goal lines. Now it has been lateraled to you in the hope you can figure out which way to run.

The first goal line was the $2 billion one-time license auction influx. It didn't seem realistic to me, so two years ago I contacted a business broker who found 250 liquor stores for sale in the states bordering Pennsylvania. I did a quick analysis on the profit margins and sales prices of those stores and realized that most investors would be hard-pressed to justify paying what was being projected for PA licenses. For the price of one license they could buy three complete operations – license, inventory, facility and all – in any one of the other states. Based partly on those figures, it seemed that the system would more likely bring $800 million at the max, and that's about where people are coming to agreement now.

Once $2 billion was no longer a goal, the message changed. The sale price didn't matter. What mattered was revenue-neutrality, and the ball carriers started running in that direction. Promises were made that HB11, the original HB790 and the Mustio-amended HB790 were revenue neutral. But no long-term analyses of fiscal impact were performed. The PFM Group ran a one-year estimate for the Governor's proposal, and the amended version was accompanied by a fiscal note providing some estimates of near-term revenues.

Again, I spent time to project revenue and expense growth into the future. I used conservative figures starting with those already estimated by PFM and the House Appropriations Committee and carried them out ten years. What happens is that a gap opens up between the annual funds generated by a privatized system versus the existing system. Depending on which assumptions I use, the Mustio bill results in the privatized system generating at least $315 million less than the existing system per year. A likely scenario is one that produces $444 million less per year.

Putting that number in real-life terms, the $444 million annual loss to the Commonwealth general fund is enough to completely fund the current annual budgets of the departments of:

- Health
- Drug & Alcohol Programs
- Agriculture
- Environmental Protection
- Emergency Management and
- The Attorney General

combined.

Alternatively, it would fund the current budgets of:

- The State Police
- Labor & Industry
- Military & Veterans Affairs and
- Conservation & Natural Resources

combined.

The Governor's proposal is somewhat less of a money loser. I estimated that proposal's drain on the Commonwealth general fund at $287 million per year. Even when giving proponents every benefit of the doubt, the existing system still outperforms the Governor's privatized one by $134 million per year.

As best I can tell, the only way to balance the scales would be to raise the liquor tax from its current 18% to approximately 26% under the Governor's plan or 32% under the Mustio version.

I have said this a hundred times; I will say it a hundred more: I do not have access to all of the information I would need to run more accurate figures. It is not my responsibility to do these calculations. Anyone putting forth a proposal needs to be accountable for that. There should be a ten-year analysis on the Governor's website now. There should be one for the Mustio version. There should be one for whatever comes out of the senate. No business owner worth his salt would make a decision of this magnitude without that information. The citizen owners of this asset should expect the same.

My concern is that the ball carriers have already begun running away from revenue neutrality. When I got in touch with a representative from my home delegation in the hours leading up to the Mustio vote he said the finances no longer mattered; consumer convenience was the only goal. He said if the finances were not right, the senate would fix them.

I do not think anyone is entitled to $444 million of convenience. Nor is anyone entitled to one half, one quarter or even one tenth of that amount. Any taxpayer money spent on making liquor more convenient would be better invested elsewhere. The real question that ought to be asked on the issue of convenience is this: Wouldn't our time and resources be better spent on making jobs more convenient? Education more convenient? Parks and bike paths and statewide access to Wi-Fi more convenient? Convenient access to clean air and water and healthy foods seems a lot more important to me than convenient access to vodka. No individual nor business is going to move out of Pennsylvania because of inconvenient liquor, but they already are moving out because of the other inconveniences. Is this the best that leadership can do?

We have issues in this Commonwealth considerably more important than how convenient or inconvenient it is to buy a bottle of vodka. While bridges crumble into ruin and families tumble into bankruptcy, why do we pave the legislative way for children to stumble into addiction? Why will we throw away $444 million per year to do that? Why aren't leaders asking these questions instead: Will easily accessed alcohol lead Pennsylvania to national and global excellence? Will shrinking the vegetable aisle to make room for the liquor aisle improve the health of our citizens? Will it raise workforce readiness? Will it enhance technological innovation? Will it improve academic performance? Will it foster the development of new cutting edge industries?

Imagine how rapidly our economy would grow if we pumped $444 million per year into better infrastructure or health, education or workforce readiness or into the industry groups already targeted by many Workforce Investment Boards across the Commonwealth. Investing profits in technology, agribusiness, advanced manufacturing and materials, transportation, life sciences, tourism and even film production will yield returns and generate high paying jobs at rates far greater than liquor retailing through chain box stores.

None of the proposed plans do that. Instead, they pick up one end of a table holding treasure that currently belongs to all of the citizens and send that money sliding into the pockets of a relatively small number of licensees and the large controlling distilleries in France, Britain, India, South Africa and China. They hit up hard-working Pennsylvanians to fill the ever deepening budget hole that's left behind.

The majority of Pennsylvanians are already burdened by the impact of alcohol. If you put 100 Pennsylvania adults in a room with 100 bottles of liquor and come back later, you'll find that 7 of them have finished off nearly half the bottles while the other 93 are cleaning up the mess.

The alcohol industry needs those 7. I don't mean that in a disparaging way. It's just the way the numbers shake out. They also need another 16 of them in the room who, along with the 7, drink 76 of the bottles. If you put adolescents in the room, they'd drink another 10. So 86% of the alcohol is consumed by adolescents or by adults who binge drink. Those of us in this room who drink in moderation are not the market. But for every 100 new adults exposed to alcohol, the industry will find its 7 biggest customers. And for every 100 new adolescents the alcohol industry will find its 19 binge drinking teens.

The existing system has contained some of those risks because the PLCB has been guided by principles of moderation. It is a likely reason why Pennsylvania has historically had the lowest rate of alcohol-induced death in the entire nation. Repeat: the entire nation.

It's nice to simply state the ideological position that government ought not to be in the business of both selling and controlling liquor. The only thing that really counts is how that statement plays out in real life. Having control at the point of sale makes a significant difference in terms of access, visibility, advertising, retail theft and the impact on impulse purchases. As we give up that control, consumption – along with addictive and abusive consumption – will increase. At Compass Mark, we are not of the opinion that privatization of wine and spirits sales will create dramatic overnight increases in adult or adolescent consumption, but make no mistake, increases will occur, and those societal costs will be added to the $444 million in lost revenue. Already, the CDC estimates Pennsylvania's annual cost of addictive and abusive drinking to be $9 billion.

Regardless of whether the system stays the same or changes, Pennsylvania can and should do more to prevent harm. Some of the most cost effective ways to do that are through evidence-based prevention programming, Screening, Brief Intervention and Referral to Treatment (SBIRT) and underage drinking compliance checks. Complementary legislation would also have positive impact, such as changes to Section 6310 of Title 18 to raise the penalty for provision of alcohol to minors but permit the court to reduce the penalty if the individual attends a court-approved program of education.

If we are serious about bringing down rates of harmful drinking and the enormous costs that accompany it, then a reasonable portion of the proceeds from excise taxes and license fees must be committed to that objective. It must be committed in writing as it was in Act 71 for compulsive gambling prevention, education and treatment.

At Compass Mark we believe the state needs to accept that neither privatization nor the control system will give it all that it wants. Privatization will not remove the conflict of interest, and state ownership will not prevent all harm. Through taxation, the state has a 52% interest in gaming and will retain at least a 24% interest in wine and spirits. In both arenas, it will do its share of both promotion and control. There are no simple ideological solutions.

From a purely public health standpoint we believe the wellbeing of the Commonwealth would be best served by remaining a control state but dividing the PLCB's current responsibilities among separate government agencies to allow for more focused and less conflicted attention to the distinct areas of sales, licensing and monitoring, auditing, enforcement, prevention and treatment. The state could privatize some of these elements if it wished, while still maintaining control.

From a more pragmatic standpoint, we can accept privatization that bears responsibility for its implications, and we will support the state in any actions that show by word, deed and dollars that it values the wellbeing of all above the profits of a few. Pennsylvanians should not be forced into making a decision for the benefit of any one sector. If, instead, we choose the wellbeing of the entire Commonwealth, define how we will measure it and then invest in the best possible ways to achieve it, we will arrive where Pennsylvania belongs: in a place of respect that attracts the world's attention, its talents and its investments.

I realize that I focused many of my comments on the financial aspects of the proposals to date. I did so because the proponents of them have shown only limited interest in addressing the health and social costs. But I'd be happy to answer any questions about what I've covered as well as more information on the social impact. Thank you for your time.