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PERFORMANCE AUDIT

PENNSYLVANIA LIQUOR CONTROL BOARD

Volume II

*PLCB Background Information and Appendix Materials
Related to Volume I Performance Audit Findings*

May 1992

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I. INTRODUCTION

The Legislative Budget and Finance Committee (LB&FC) has conducted a performance audit of the Pennsylvania Liquor Control Board (PLCB). This audit of the PLCB was initiated pursuant to Section 143 of Act 1987-14, and the Sunset Act, Act 1981-142, as amended. However, the Sunset Act expired in December 1991. The LB&FC subsequently authorized the LB&FC staff to complete and release this report under the statutory authority granted to the Committee by Act 1959-195. The audit objectives focused on the specific criteria from Act 1981-142.

Findings and recommendations resulting from this audit are presented in Volume I of this report. Because of the length of Volume I, the background information on the Liquor Control Board and appendix materials related to the audit findings and recommendations have been presented separately in this second report volume. A third volume contains information on the implementation status of recommendations which resulted from the 1985 sunset performance audit of the Board. Together, these three volumes constitute the LB&FC's report on a performance audit of the PLCB.

This volume consists of three chapters: Chapter I, Introduction, discusses the audit authority and structure and format of the audit report; Chapter II presents background information on the Liquor Control Board and its functions; and Chapter III, Appendix Materials, contains various data and information which is related to and supplements the findings presented in Volume I, including the PLCB and other responses to the report.

The audit staff expresses appreciation to the members of the Pennsylvania Liquor Control Board and to the Board staff for the cooperation and assistance they provided during this audit. Special thanks are extended to Board Chairman James A. Goodman, Board Members Robert P. Fohl and Oliver L. Slinker, PLCB Director of Administration Charles J. Woods, who served as audit liaison to the LB&FC staff, and PLCB Director of Marketing Joseph F. Hamilton. Also acknowledged is the cooperation and assistance which was received from the staff of the PLCB and the PLCB Comptroller's Office.

LB&FC staff involved in the performance audit of the Pennsylvania Liquor Control Board was under the direction of the LB&FC Executive Director, Philip R. Durgin, and Chief Analyst John H. Rowe. The audit team leaders were Senior Analysts Mark K. Stine and Charles H. Perrine. Senior Analysts Marianne E. Guidos and Joan E. Hellmann, and Analysts Richard W. George, Robert L. Hollings, and Randal E. Mortimore also worked on the audit on a full-time basis.

IMPORTANT NOTE:

This report was developed by the Legislative Budget and Finance Committee (LB&FC) staff. The release of this report should not be construed as an indication that members of the LB&FC necessarily endorse all the findings and recommendations contained in the report.

Any questions or comments regarding the contents of this report should be directed to Philip R. Durgin, Executive Director, Legislative Budget and Finance Committee, P.O. Box 8737, Harrisburg, Pennsylvania 17105-8737.

II. BACKGROUND DESCRIPTIVE INFORMATION ABOUT THE PENNSYLVANIA LIQUOR CONTROL BOARD

Legal Background

In November 1933, Pennsylvania was among the 37 states that voted for the adoption of the Twenty-first Amendment to the United States Constitution which repealed National Prohibition. Of those Pennsylvanians voting, 76 percent favored the repeal amendment.

By the terms of the 21st Amendment, individual states were free to adopt their own systems of alcoholic beverage control. Adoption of this amendment permitted states to restrain or regulate the sale of alcohol within their boundaries to whatever extent and through whatever administrative and regulatory means they chose. Thus, the regulation of liquor consumption, manufacture, and transportation was placed within the purview of the state governments.

According to historical accounts, the form which liquor control would take in Pennsylvania was at issue "with the Pennsylvania State Legislature and Governor Gifford Pinchot very actively engaged in debating the issues of a liquor control system for the Commonwealth."¹ Several pieces of alcoholic beverage-related legislation emerged from this process. Primary among these were the Liquor Control Act and the Beverage License Law. Also emerging from the process was the PA Liquor Control Board, an independent administrative board charged with carrying out the provisions of these laws and related legislation.

As created in 1933, the Board had three basic responsibilities --operating stores to sell wine and liquor in the original package, licensing private entities to sell wine and liquor by the drink, and enforcing laws and regulations to govern traffic in alcoholic beverages. When the control legislation was consolidated under the PA Liquor Code in 1951, the Board retained control of transactions in liquor, alcohol, and malt and brewed beverages and gained control of their manufacture.

The stated intent of the Liquor Code, 47 P.S. §1-101 et seq., is that the PLCB function to protect "the public welfare, health, peace and morals of the people of the Commonwealth . . ." and ". . . to prohibit the manufacture of and transactions in liquor, alcohol and malt or brewed beverages which take place in this Commonwealth, except by and under the control of the board"

1/Pennsylvania and the Liquor Business, A Study of the Pennsylvania Liquor Control Board, M. Nelson McGeary, Ph.D., 1948.

During 1985, the Liquor Control Board underwent a sunset performance audit and legislative review. The Board was subsequently reestablished by Act 1987-14 for a period of five years, at which time a second sunset review would occur. However the Sunset Act, 71 P.S. §1795.1 et seq., (Act 1981-142, as amended) expired in December 1991 and has not been reauthorized.

Act 1987-14 made many changes to the Liquor Code. For example, pursuant to Act 1987-14, the Office of Administrative Law Judge was created to preside at all citation and other enforcement hearings. Additionally, the Bureau of Wine was established to be responsible for the purchasing and the wholesale and retail marketing of premium wines, and the Bureau of Consumer Relations was created. The enforcement function was also transferred from the PLCB to the PA State Police (Bureau of Liquor Control Enforcement) to enforce the provisions of the Liquor Code and any regulations promulgated pursuant to the Liquor Code.

There have been several acts passed since Act 1987-14 which have affected the operations of the Board. These include:

- Act 1987-61 permits the manufacture, storage, transportation, and delivery to points out-of-state by manufacturers of confectionery containing alcohol. The sale of confectionery containing alcohol or liquor is prohibited within the Commonwealth.
- Act 1988-183 prohibits Board members and employees from holding stock exceeding five percent in a liquor or alcohol related business or being a manager of a licensed premises. Out-of-state driver's licenses, armed forces identification cards, valid passports, and travel visas containing the holder's photograph may now be accepted as an identification card.
- Act 1989-5 requires that applicants for stadium and arena permits in cities of the third class designate at least 15 percent of the stadium or arena seating capacity as an area in which the sale of malt or brewed beverages is not authorized.
- Act 1990-67 amended the Administrative Code of 1929 to increase liquor license and permit fees.
- Act 1990-160 eliminated the use of hearing examiners; effective June 1992, the Administrative Law Judges will preside at all licensing hearings, in addition to citation and other enforcement hearings.
- Act 1990-160 also regulates the manner in which prices of malt or brewed beverages are changed by the manufacturers and distributors and changes the limits on the number of licenses that may be issued in a municipality.

Board Mandate and Functions

The Board's primary mandate involves the control of alcoholic beverages through:

. . . regulating and restricting the manufacture, purchase, sale, possession, consumption, importation, transportation, furnishing, holding in bond, holding in storage, traffic in and use of alcoholic liquors, alcohol and malt and brewed beverages and the persons engaged or employed therein. (Act 1987-14)

The Board carries out this responsibility through its marketing, licensing, and adjudicatory functions.

- The Sale of Alcoholic Beverages (Marketing function)
The Pennsylvania Liquor Control Board is directed to operate and maintain a network of State Liquor Stores and is empowered to buy and sell wine, liquor, and alcohol and to fix the wholesale and retail prices of merchandise sold in the stores. (47 P.S. §§2-207 and 3-301)
- The Licensing of Restaurants, Hotels, and Clubs Which Sell Alcoholic Beverages (Licensing function) Authority is given to the Liquor Control Board to issue licenses and permits to qualified individuals and corporations to sell, store, manufacture, or transport liquor or malt or brewed beverages. (47 P.S. §4-401)
- Adjudicatory Authority (Adjudicatory function) The Pennsylvania Liquor Control Board has the power to license and regulate all transactions in alcoholic beverages throughout the Commonwealth. The agency promulgates regulations, hears appeals, and issues licenses. The Office of Administrative Law Judge (judicially autonomous, administratively dependent) is empowered to revoke, suspend, and impose fines upon licensees found in violation of the alcoholic beverage laws. The Board is empowered to hear appeals of the Administrative Law Judge decisions. (47 P.S. §§2-207 and 2-212)

Board Powers and Duties

The Liquor Code gives the Liquor Control Board the following powers and duties:

- To buy, import, possess, and sell liquor/alcohol according to the Liquor Code.
- To control the manufacture, possession, sale, consumption, importation, use, storage, transportation, and delivery of liquor, alcohol, and malt or brewed beverages.

- To fix the wholesale and retail prices at which liquor and alcohol shall be sold at Pennsylvania Liquor Stores.
- To determine the municipalities and locations where Pennsylvania Liquor Stores will be established.
- To grant, issue, suspend, and revoke licenses and permits under the Liquor Code.
- To determine the nature, form, and capacity of all packages and original containers to be used for containing liquor, alcohol, or malt or brewed beverages.
- To promulgate regulations.
- To provide for, by regulation, a computerized referral system to assist consumers in locating special items at Pennsylvania Liquor Stores and for the use of electronic transfer of funds and credit cards for the purchase of liquor and alcohol.
- To conduct hearings on violations of licensees and license refusals.
- To lease and furnish/equip buildings and rooms needed for the operation of the Liquor Code.
- To appoint, fix the compensation, and define the powers and duties of managers, officers, inspectors, examiners, and clerks.

Board Member Composition, Activities, and Related Information

The Pennsylvania Liquor Control Board, an independent administrative board, consists of three members appointed by the Governor by and with the advice and consent of two-thirds of the Senate. No more than two members may be from the same political party as the Governor. Members serve four-year terms, and no member, upon the expiration of his term, shall continue to hold office until his successor is duly appointed and qualified. Members receive an annual salary of \$40,000, except the chairman, who receives \$42,000 annually.

Each member must be a citizen of the United States, a resident of the Commonwealth, and shall have been a qualified elector for at least one year preceding his appointment. Members must also be at least 21 years of age. Members may not hold any other office or position whose duties are incompatible with his Board duties. Each member is required, before beginning his duties, to execute and file a bond of at least \$10,000 payable to the Commonwealth and conditioned for the faithful performance of the duties imposed by law.

EXHIBIT 1. SUMMARY OF PRIMARY ACTIVITIES CARRIED OUT BY THE
MEMBERS OF THE PENNSYLVANIA LIQUOR CONTROL BOARD

<u>Brief Description of Activity</u>	<u>Percentage of Total Board Effort</u>
1. Coordination with Directors of Marketing and Administration and program directors regarding policy questions (all functions)	45%
2. Development and initiation of new program concepts and marketing strategies (all functions)	15
3. Holding of regular public meetings (usually one bi-weekly) to review and decide questions regarding operation of the agency (all functions)	10
4. Meeting with associates, individuals, or vendors regarding marketing, regulatory, community, or other concerns	8
5. Reviewing and making determinations on personnel actions (all functions)	5
6. Reviewing and making determinations as to licensing questions (Licensing function)	5
7. Granting retail and wholesale licenses and permits and renewals (Licensing function)	5
8. Promulgation of regulations necessary for the efficient administration of the Liquor Code (all functions)	5
9. Reviewing and deciding licensee appeal actions and determination of penalties (Adjudicatory function)	<u>2</u>
Total	100%

Source: Developed by LB&FC staff from information supplied by the PLCB in response to a pre-audit survey questionnaire.

Two members constitute a quorum, and any action of the Board requires the approval of at least two members. Public Board meetings occur generally on a biweekly basis.

Exhibit 1 provides a summary listing of Board member activities as reported by the Board in response to a pre-audit survey questionnaire. These are arranged according to percentage of total Board effort. As shown on the exhibit, a large percentage of Board member time (45 percent) is reportedly spent in consultation with the PLCB Directors of Marketing and Administration on policy matters. Other major areas of Board member activity relate to the development and initiation of new program concepts and marketing strategies and involvement in regular public meetings to review and decide questions related to agency operations.

Board Staffing, Organizational Structure, and Activities

Staffing of the PLCB includes two categories of employees: administrative and retail management or store personnel. As of June 30, 1991, the PLCB had a full-time salaried complement of 3,042 filled positions and 1,238 filled part-time wage positions. As shown on Table 1, about 78 percent of the filled salaried positions were state store employees and nearly 98 percent of the part-time wage positions were in the stores. The Board staff is organizationally structured into nine bureaus with numerous divisions, and regional and field office locations. Four bureaus report to the Board's Director of Administration and five to the Director of Marketing. This organizational structure is illustrated on Exhibit 2.

The PLCB has undergone major staffing changes and organizational restructuring since the 1985 sunset performance audit was conducted. Some of these changes were a result of Act 1987-14 while others occurred as part of an internal/business plan initiated by the PLCB. For example, Act 1987-14 transferred the responsibility for enforcement of Liquor Code provisions and regulations from the PLCB to the Pennsylvania State Police, Bureau of Liquor Control Enforcement. This Bureau specifically conducts investigations and issues citations and has the power to arrest, and search for and seize any liquor, alcohol, or malt or brewed beverages unlawfully possessed, manufactured, sold, imported, or transported. These were functions previously performed by a Bureau of Enforcement within the PLCB.

Other major organizational changes include the replacement of the PLCB executive director position with separate directors for marketing and administration, the reorganization of the PLCB's licensing structure, and the creation of new bureaus of wine and consumer relations.

The day-to-day activities of the PLCB staff can be grouped into 14 separate areas. These are listed on Exhibit 3 along with

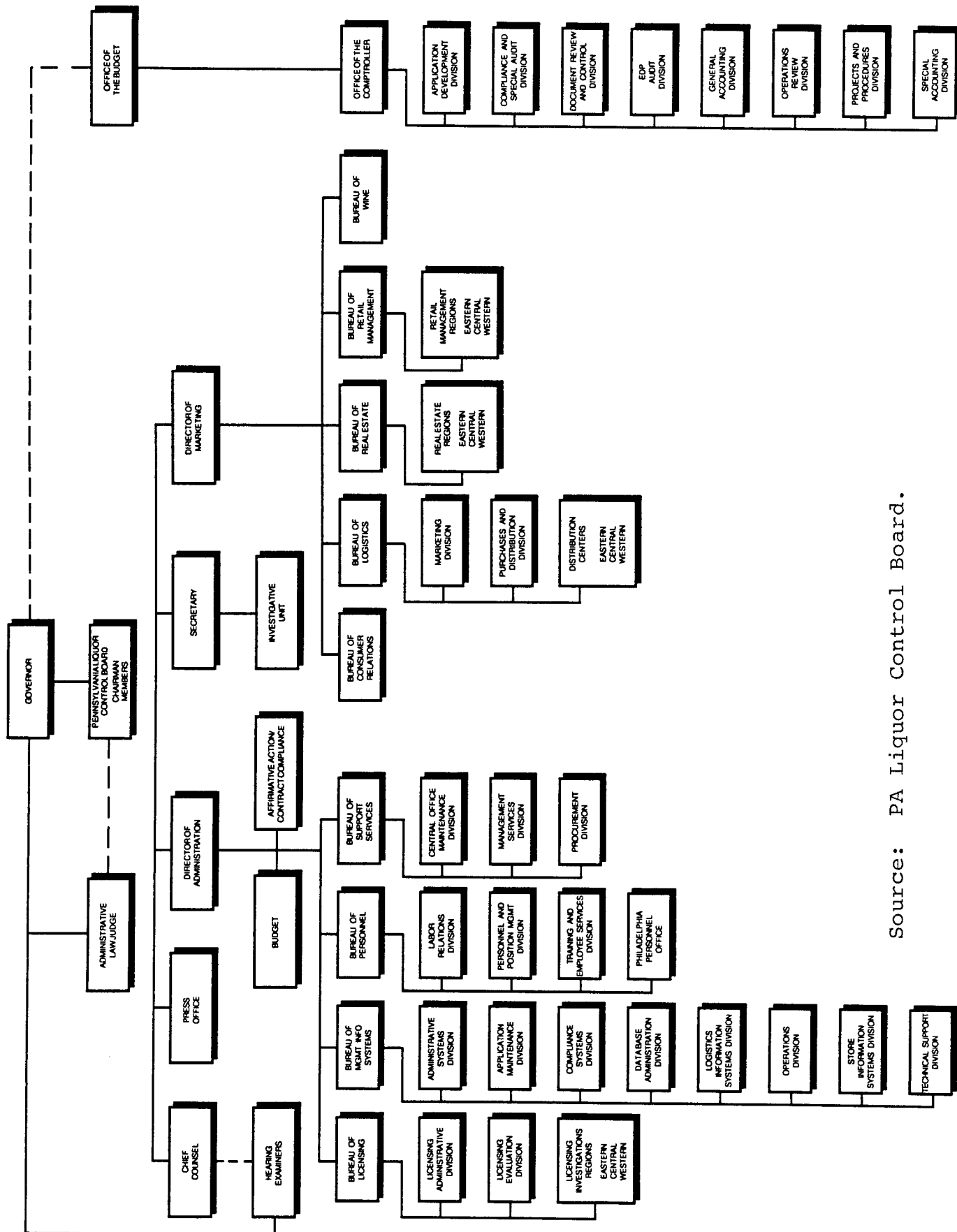
TABLE 1. STAFF COMPLEMENT OF THE PENNSYLVANIA LIQUOR CONTROL BOARD AS OF JUNE 30, 1991

	Salaried Full-Time Employees		Part-Time Wage Employees	
	<u>Authorized</u>	<u>Filled</u>	<u>Authorized</u>	<u>Filled</u>
<u>Administrative Staff,</u> <u>by Bureau</u>				
LCB/Secretary	12	11	0	0
Chief Counsel	31	27	2	2
Administrative Law Judge .	24	23	3	2
Press Office	2	2	0	0
Administration	15	10	0	0
Marketing	6	5	6	3
Licensing	172	149	11	10
Investigative Unit	10	9	0	0
Retail Management	100	95	0	0
Logistics	47	39	1	1
Real Estate	100	95	2	1
Personnel	46	43	3	1
M.I.S.	92	83	6	4
Support Services	83	77	4	4
Wine	<u>8</u>	<u>7</u>	<u>1</u>	<u>1</u>
Subtotal	748	675	39	29
<u>Retail Management</u>				
Store Employees	<u>2,582</u>	<u>2,367</u>	<u>1,261</u> ^{a/}	<u>1,209</u> ^{a/}
Totals	3,330	3,042	1,300	1,238

a/Includes 282 authorized (257 filled) seasonal part-time liquor store clerks who work only during the summer months as vacation replacements and during November and December for the increased holiday business. These positions are generally not filled during other times of the year.

Source: Developed by LB&FC staff from information obtained from the PLCB.

EXHIBIT 2. PA LIQUOR CONTROL BOARD ORGANIZATION CHART



Source: PA Liquor Control Board.

EXHIBIT 3. SUMMARY OF PRIMARY ACTIVITIES CARRIED OUT BY THE
PENNSYLVANIA LIQUOR CONTROL BOARD STAFF

<u>Brief Description of Activity</u>	<u>Percentage of Total PLCB Staff Effort</u>
1. The purchase, inventory control, and sale of alcoholic beverages (Marketing function) ...	79%
2. Advising the Board as to the issuance of retail and wholesale liquor licenses (Licensing function)	6
3. The maintenance of a management information system (all functions)	3
4. The providing of support in the form of communications, automotive equipment, management services, and supplies (all functions)	2
5. The establishment, operation, and maintenance of state liquor stores (Marketing function) ...	2
6. The leasing, furnishing, and equipping of building accommodations as required (all functions)	2
7. The maintenance of an ongoing program of staffing, training, labor relations, manpower planning, and counseling (all functions)	2
8. Advising the Board as to the determination of locations of state liquor stores (Marketing function)	1
9. The representation of the Board in all court cases and advising of the Board with respect to legal matters (all functions)	1
10. The dissemination of information to the public (all functions)	a/
11. The maintenance of an in-house printing operation to provide forms, training materials, and other graphic services (all functions)	a/

EXHIBIT 3 (CONTINUED)

<u>Brief Description of Activity</u>	<u>Percentage of Total PLCB Staff Effort</u>
12. The procurement, for consumers, of wine and liquors not regularly stocked (Marketing function)	a/
13. The maintenance of a complete system of quality control through a fully equipped and staffed chemical laboratory (Marketing function)	a/
14. The investigation of citizens' complaints with respect to marketing/licensing related matters (Marketing/Licensing function)	a/

a/Less than one percent.

Source: Developed by LB&FC staff from information supplied by
the PLCB in response to a pre-audit survey questionnaire.

an estimated percentage of total PLCB staff effort devoted to each of the activity areas. This classification of PLCB staff activities is based upon information provided by the Board in response to an LB&FC pre-audit survey questionnaire.

As shown on Exhibit 3, the majority of staff effort (79 percent) involves the purchase, inventory control, and sale of alcoholic beverages. The issuance of retail and wholesale liquor licenses accounts for an estimated 6 percent of total staff effort.

Functional Descriptions for PLCB Organizational Units

The current PLCB organizational structure is shown on Exhibit 2. This section provides brief functional descriptions for the major organizational units under the staff jurisdiction of the Director of Administration and the Director of Marketing. Much of the information in this section is adapted from a PLCB document entitled, "An Overview of the Pennsylvania Liquor Control Board," December 1989.

Director of Administration - The Director of Administration is responsible for supervising the overall planning, organization, coordination, and direction of operations and management activities of the Bureau of Personnel, Bureau of Licensing, Bureau of Support Services, Bureau of Management Information Systems, Contract Compliance Office, and Budget Office. Additionally, the Director of Administration develops, recommends, and directs the implementation of Board policies, procedures, and regulations pertaining to the aforementioned functional areas and, accordingly, serves as principal advisor to the Board on all matters pertaining to such functional areas.

Director of Marketing - The Director of Marketing is responsible for supervising the overall planning, organization, coordination, and direction of operations and management activities of the Bureau of Logistics, Bureau of Real Estate, Bureau of Retail Management, Bureau of Wine, and Bureau of Consumer Relations. Additionally, the Director of Marketing develops, recommends, and directs the implementation of Board policies, procedures, and regulations pertaining to all liquor purchasing and distribution, real estate, store operations, and consumer relations, and serves as principal advisor to the Board on all matters pertaining to these functional areas.

Board Secretary - The Board Secretary is responsible for managing the administrative details of all Board meetings and presenting to the Board all items of business requiring official action. This individual directs the preparation and distribution of official minutes and records of actions of the Board. The Board Secretary is assigned the additional duty of legislative liaison. In this capacity, the Board Secretary and his/her staff appear at, and testify before, legislative hearings and meetings held by

legislative oversight committees in the State Senate and House of Representatives. Analyses of pending bills are prepared stating the Board's position and the fiscal impact, if any, of the proposed legislation. In his/her capacity as Administrative Agent of the Board, the Board Secretary receives and confers with individuals having business with the Board in order to reduce each Board member's workload. Additionally, the Board Secretary meets with community groups and speaks at public meetings to educate and inform the public of important departmental plans and programs.

Press Office - Under the supervision of the Press Secretary, the Press Office is responsible for developing and administering a public information program. The Office creates and implements media programs to highlight agency activities such as enforcement, state stores, merchandising/marketing, finance, and special priorities, all of which are coordinated with the appropriate agency liaisons.

Office of Chief Counsel - The Chief Counsel, who is appointed by the Board, is responsible for the administration of the Office of the Chief Counsel which includes supervision and coordination of six assistant counsels assigned to the Philadelphia and Harrisburg offices. The Chief Counsel also supervises hearing examiners who are responsible for conducting licensing hearings and providing their findings to the Board. The hearing examiner function will be assumed by the Office of Administrative Law Judge effective June 30, 1992, pursuant to Act 1990-160.

The Office provides counsel and legal advice to the Board and the various bureaus functioning under the Board's control. The Office consults with Board members and bureau directors concerning preparation of Board regulations, matters pertaining to liquor store operations, personnel matters, enforcement appeals, and licensing matters.

The Office of Administrative Law Judge - The Office of Administrative Law Judge (OALJ) was created as an autonomous office in the PLCB by Act 1987-14. The OALJ, under the direction of the Chief Administrative Law Judge, presides at all citation and other enforcement hearings required or permitted under the Liquor Code. Act 1990-160 also assigns the OALJ responsibility for all licensing hearings effective June 30, 1992. ALJs are required to be members in good standing of the bar of the Supreme Court of Pennsylvania and devote full time to their official duties. The OALJ maintains field offices in Philadelphia, Allentown, Harrisburg, and Pittsburgh.

Bureau of Consumer Relations - This Bureau is responsible for handling all consumer complaints and suggestions in regard to the liquor store system. Examples of activities for which the Bureau is responsible include developing and maintaining a customer complaint/suggestion tracking and monitoring system, developing and

distributing consumer education materials, evaluating the quality of information received from consumers, preparing written responses to consumer inquiries, and conducting consumer surveys.

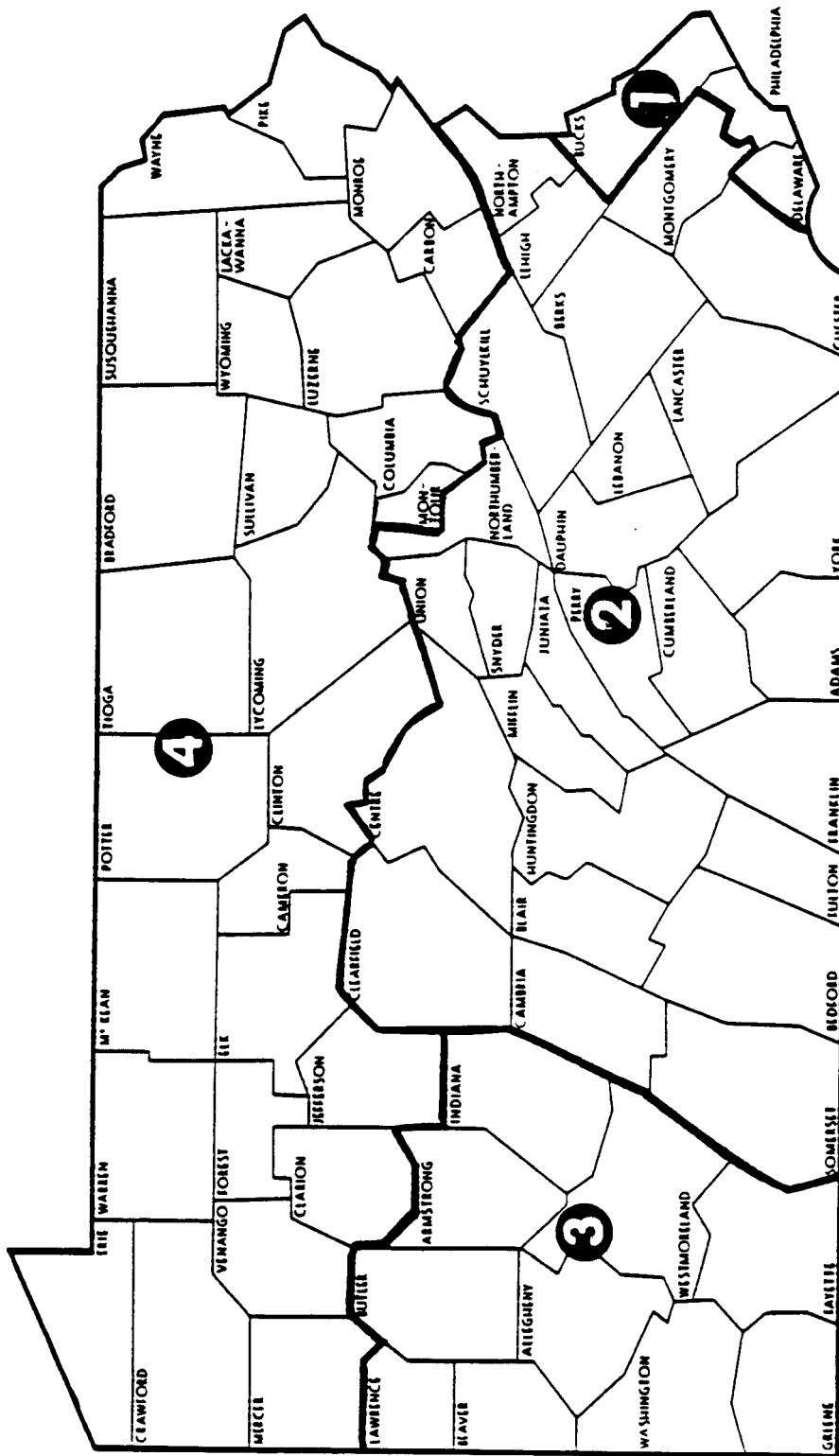
Bureau of Licensing - This Bureau is responsible for administering a program of selective licensing under the Pennsylvania Liquor Code and PLCB regulations. The Bureau receives, records, examines, and institutes investigations of applications for licenses and permits authorizing the manufacture, storage, transportation, and sale of liquor, alcohol, and malt and brewed beverages. Generally stated, the Licensing Bureau is responsible for processing all applications for all licenses through the various stages until they are either approved or refused. It also maintains files on all licensees and licensed establishments and investigates applications for new licenses, renewals, transfers, and other changes in license status. In addition, the Bureau investigates and audits breweries, distillers, and importers engaged in the sale and manufacture of alcoholic beverages.

The Bureau of Licensing is organized into three divisions: the Licensing Evaluation Division, the Licensing Administrative Division, and the Licensing Investigations Division. The Investigations Division includes three regional offices and a satellite office in Wilkes-Barre. (The satellite office is to be closed December 31, 1992.)

Bureau of Logistics - The Bureau of Logistics is responsible for acquiring and distributing all alcoholic beverages sold through the Liquor Store System. This responsibility involves the Bureau in market analysis, inventory analysis, the acquisition of stock and special order merchandise, and the development of an overall store and distribution center inventory policy. The Bureau presents vendor proposals for product listings, and price increases, as well as Bureau recommendations for product delistings to the Board for consideration and serves as a liaison between the Board and representatives of the liquor industry. The Bureau of Logistics controls the flow of merchandise from the time it leaves the vendor's premises until it reaches state stores by supervising and maintaining distribution centers operated by private contractors and ensuring the delivery of merchandise using public carriers. (Exhibit 6 is a map of the PLCB's Distribution Center Districts.) Finally, this Bureau is responsible for testing all items sold through the system to ensure product uniformity and conformance with federal and state laws and regulations.

Bureau of Management Information Systems - The Bureau of Management Information Systems provides all of the information systems support and operational data processing support for the Board. The scope of this support encompasses EDP application consulting, application design and development, development of automated procedures, analysis of and consulting on Board information requirements, data administration, data base management, computer processing, data security and recovery responsibilities, maintenance and

EXHIBIT 4. PLCB LICENSE DISTRICTS

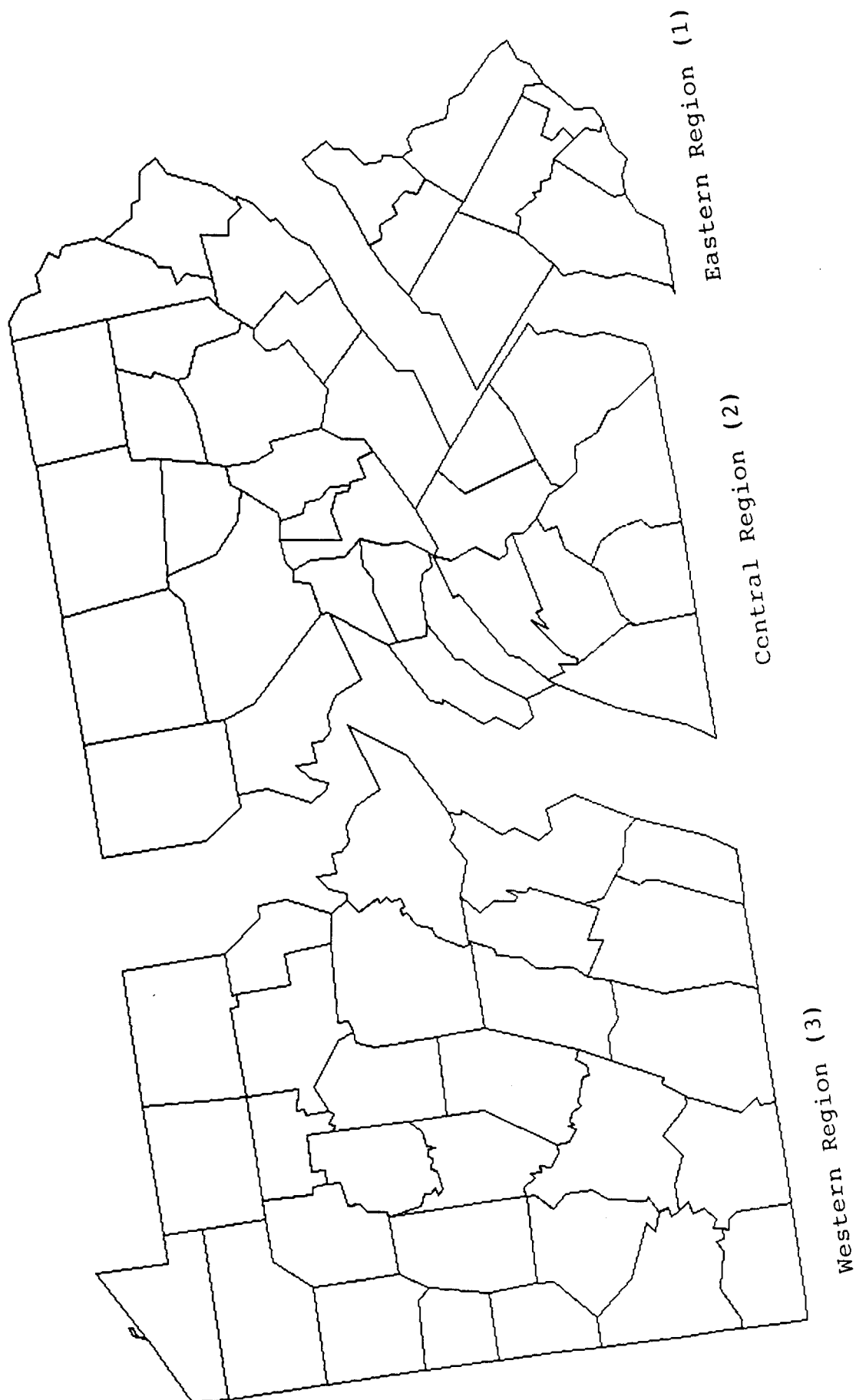


Hotel, Restaurant, Club Liquor, Retail Dispenser and Malt/Brewed Beverage Distributor and Importing Distributor Licenses issued by the Pennsylvania Liquor Control Board are assigned staggered expiration dates, by district, as indicated below, in order to even out the workload experienced by the Bureau of Licensing over the calendar year.

Expiration Dates:	
District #1	October 31
District #2	January 31
District #3	April 30
District #4	July 31

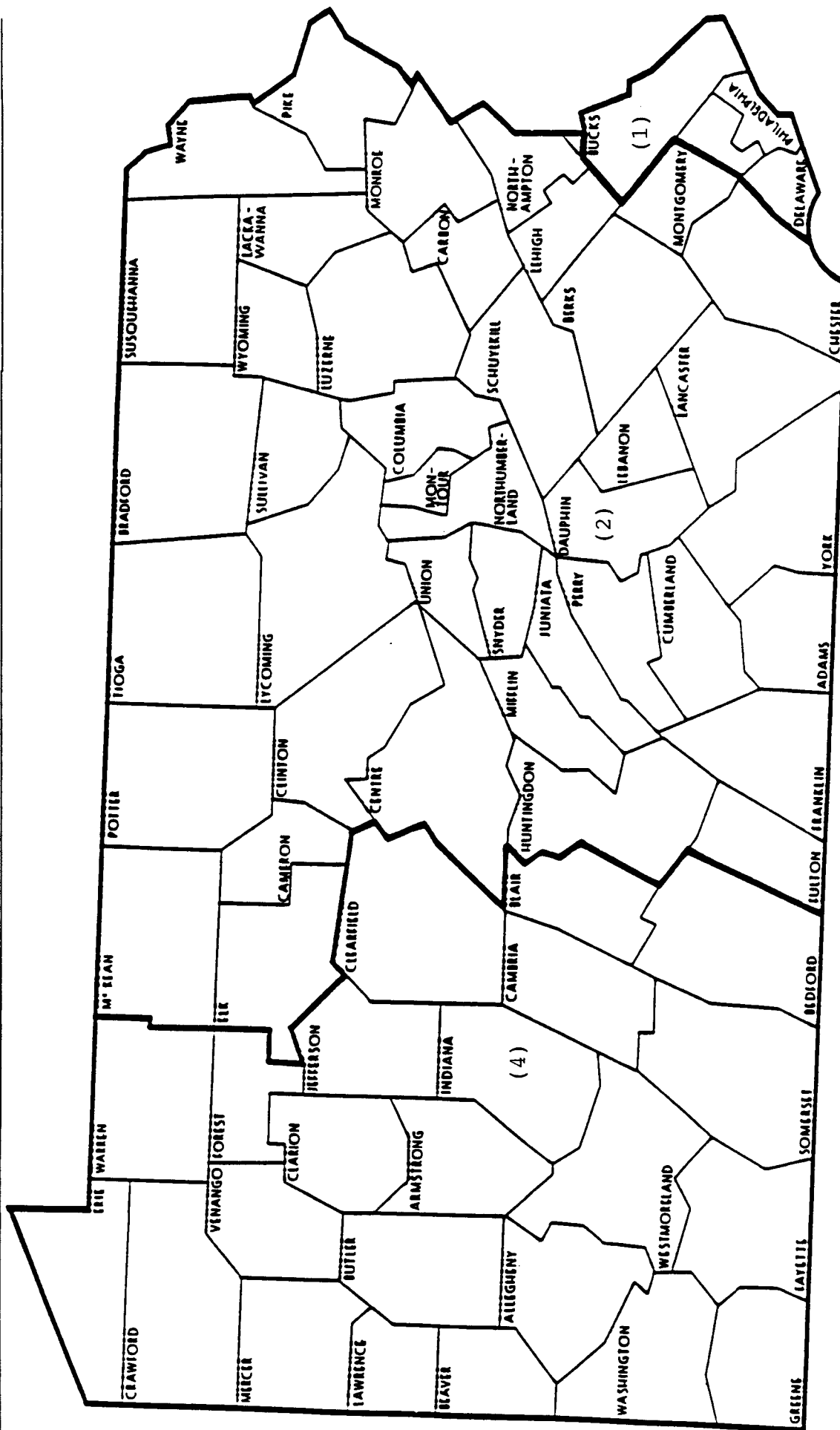
Source: PA Liquor Control Board.

EXHIBIT 5. PLCB BUREAU OF LICENSING INVESTIGATION REGIONS



Source: PA Liquor Control Board.

EXHIBIT 6. PLCB DISTRIBUTION CENTER DISTRICTS



NOTE: Since 1989, the number of PLCB Distribution Center Districts has been reduced from five to three.

Source: PA Liquor Control Board.

support of application software and systems software, computer communications management, support and training for user programming and computer decision making through the use of host-based and microcomputer-based software, support for office automation, word processing, and electronic mail.

Bureau of Personnel - The general responsibilities of the Bureau of Personnel include: directing the Board's personnel program involving all phases of recruitment, employment, compliance with Affirmative Action policies, staffing, classification and pay, complement control, performance evaluations, training, orientation, manpower planning and development, promotion, compensation, and other general personnel management functions.

Other functions involve implementation of agency personnel directives, personnel actions, employee assistance, and other rehabilitation programs, labor relations and other related liaisons with the Office of Administration's Bureau of Labor Relations, contract administration, and union negotiations.

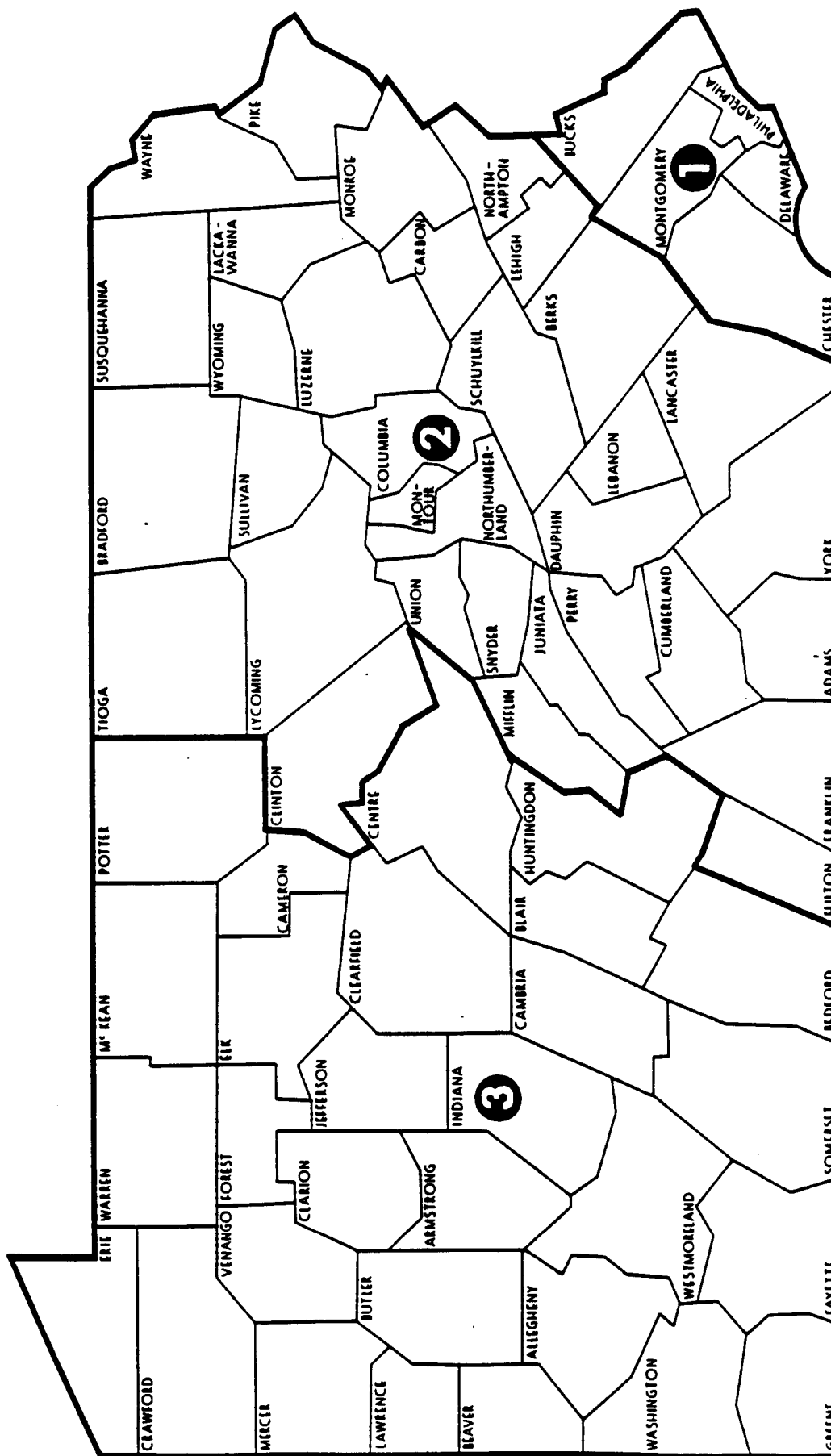
Bureau of Real Estate - The Bureau of Real Estate is responsible for recommending, developing, and conducting a program to accomplish the marketing goals and objectives as set forth by the Board and the Directors of Administration and Marketing. The Bureau supervises and coordinates the total leasing activity of the PLCB throughout the Commonwealth, recommends the establishment and closings and/or consolidations of "wine & spirits shoppe" stores in market areas based upon demographics and profit/loss statements, makes inspections of both potential facility sites and sites under lease, and performs maintenance. The Bureau also prepares and approves specifications and design layouts for self-service and wholesale stores as well as administrative offices and other PLCB facilities.

The operation is divided into three districts with offices located in Philadelphia, Harrisburg, and Pittsburgh and is coordinated through the Central Office in Harrisburg. See Exhibit 7 for a map of the PLCB's real estate districts.

Bureau of Retail Management - As of December 1989, the Bureau of Retail Management was responsible for the operation of 683 State Stores (many of which are now referred to as "wine and spirits shoppes"). The Bureau is directly responsible for all activities involving store personnel, customer service, sales policies, ordering of merchandise, stock arrangement, inventory control, proper housekeeping, and inter-store transfers of merchandise.

The Bureau of Retail Management is organized into three regions (Philadelphia, Harrisburg, and Pittsburgh) and thirty districts, which are under the direction of regional managers and district managers, respectively:

EXHIBIT 7. PLCB REAL ESTATE DISTRICTS



Source: PA Liquor Control Board.

<u>Region</u>	<u>Counties</u>	<u>Districts</u>	<u>Stores</u>
1	5	10	198
2	33	9	216
3	<u>29</u>	<u>11</u>	<u>269</u>
Total ...	67	30	683

A map showing the PLCB's retail management regions and districts is shown as Exhibit 8.

Bureau of Support Services - This Bureau provides administrative management and technical services to all operating segments of the PLCB. This involves supportive services such as: automotive equipment fleet management and services; procurement, storage, and disbursement of supplies and equipment; contracting for services; mail, messenger, and telephone and facsimile services; and custodial and housekeeping, security, maintenance, and repair services for Central Office Board facilities. This Bureau is also responsible for planning, organizing, directing, and coordinating the Board's store operating equipment management plan, fire safety and energy conservation programs, and energy management activities.

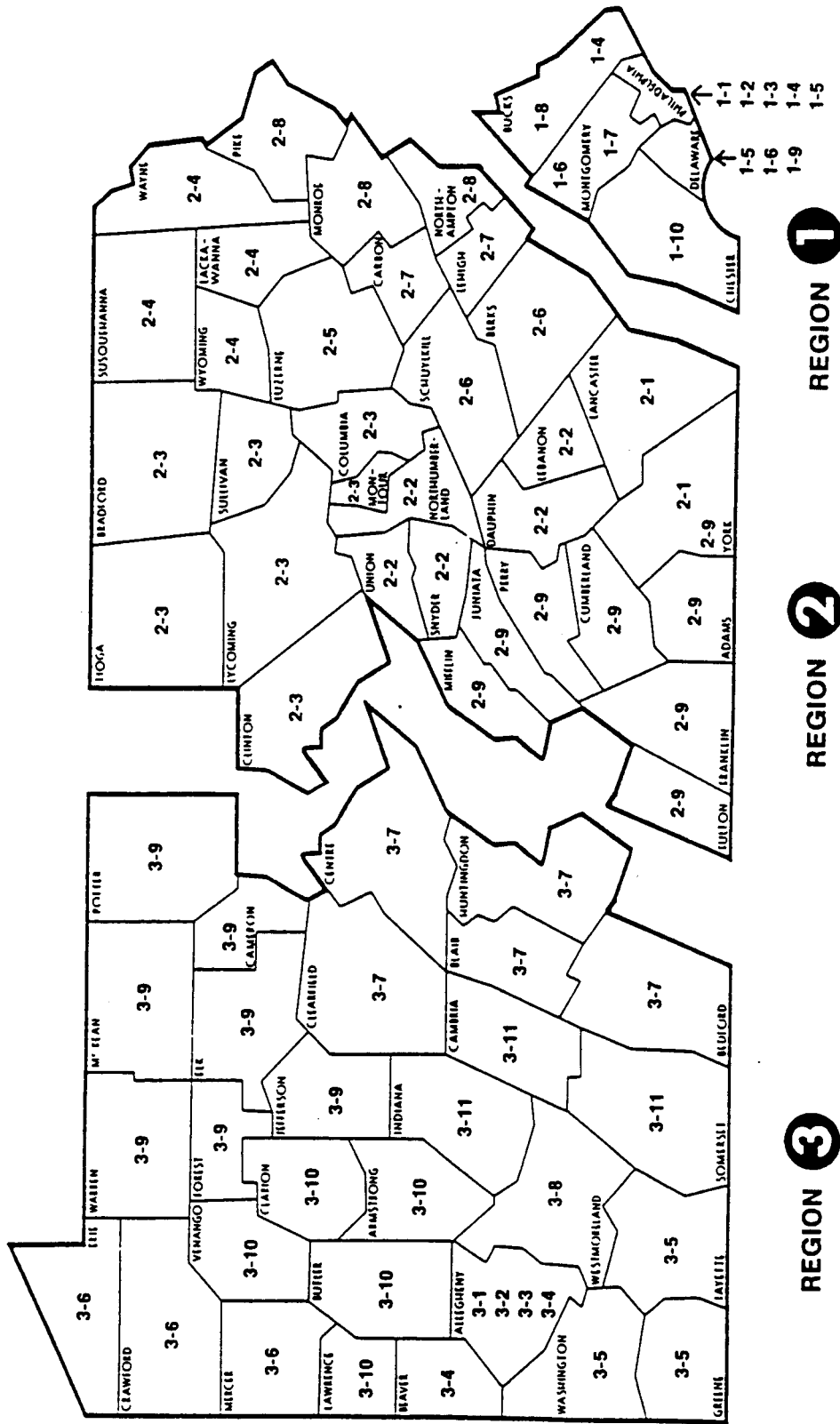
Bureau of Wine - In conjunction with the Bureau of Retail Management, the Bureau of Wine is responsible for the purchasing and the wholesale and retail marketing of premium wines in the Commonwealth. Specific functions include coordinating the marketing of premium wines at competitive prices to Pennsylvania consumers, assisting in the development and maintenance of liquor stores designated for the sale of premium wines, and developing marketing strategies for premium wines which benefit the consumer and maximize gross profit for the Board. The Bureau also prepares demographic and sales reports for the purpose of evaluating existing premium wine outlets and establishing new outlets.

Office of the Comptroller - The Comptroller is appointed by the Governor to monitor the fiscal operations of the PLCB. The Comptroller serves as the chief financial officer of the PLCB and provides accounting, financial reporting, and auditing services to the Board. He assures that accounting practices and guidelines are adhered to and that all funds administered by the Board are expended and accounted for properly.

Overview Description of the State Store System

The Liquor Code authorizes the Board to establish, operate, and maintain "Pennsylvania Liquor Stores" at locations throughout the state. The Board is required to determine the municipalities within which such stores shall be established and the locations of the stores within these localities. The PLCB's Bureau of Real

EXHIBIT 8. PLCB RETAIL MANAGEMENT REGIONS AND DISTRICTS



Estate is responsible for store siting and related recommendations while administration and actual operation of the State Stores is the responsibility of the Bureau of Retail Management.

As of mid-September 1991, there were 679 State Stores (now generally referred to by the PLCB as Wine and Spirits Shoppes) in operation across the Commonwealth. Of this number, 546 or about 80 percent were self-service State Stores, 83 were conventional "counter" store operations, 23 were "specialty stores" which offer "specialty" codes or products of limited availability (i.e., these stores provide greater selection of inventory within certain product categories, namely premium wines), 6 were "counteramas" (i.e., a mix between a self-service and a conventional store), and 5 were wine-only shoppes. Included within the self-service category is one retail outlet referred to by the Board as a "superstore." This store, which is located in Allentown, "carries" approximately 2,200 to 2,300 listed products, in excess of 1,000 premium wine products, and a variety of limited available decanters and collector items for a total of over 3,400 items from which to select. The Board also operates 16 wholesale stores.

The Board has plans to open additional superstores in the future. These stores will be large in physical size, ranging from 7,000 to 10,000 square feet.

Board Goals and Objectives

The Liquor Control Board listed the following goals and objectives in a pre-audit survey questionnaire:

- To "normalize" the retail shopping experience by providing convenient locations, broad product selection at the lowest possible prices, at convenient hours with a high level of customer service.
- To meet predetermined fiscal goals of the Agency for annually scheduled profit transfers to the General Fund including limiting annual budget increases to 3 percent or less.
- To adhere to a long-term strategic plan for Agency profitability (Business Plan).
- To overhaul and streamline the licensing process.
- To minimize warehouse inventory investment while maintaining adequate store inventory.
- To "fast track" conversion of conventional stores to self-service.

Board Revenues and Expenditures

PLCB revenues are derived primarily from the sale of goods in State Liquor Stores. Board revenues are also generated through license and permit fees, fines and penalties, losses and damages recovered, and other miscellaneous sources. The Board also receives an advance from the General Fund to provide working capital.

Board revenues are deposited into one of two special funds. The State Stores Fund, which serves as the general operating fund for the Liquor Control Board, receives receipts from all of the revenue sources listed above except for fees for hotel, restaurant, and club liquor and/or beer licenses. Receipts from these fees are deposited in the Liquor License Fund. This fund serves as a pass-through account for the semi-annual return of fees to the municipalities in which the liquor licensees are located. Statements of cash receipts and disbursements for the State Stores Fund and the Liquor License Fund are presented on Tables 2 and 3.

As shown on these tables, disbursements from the State Stores Fund and the Liquor License Fund were approximately \$897.6 million during FY 1990-91. As noted earlier, expenditures from the State Stores Fund cover all costs associated with the operation and administration of the State Stores system and enforcement of the Liquor Code. In FY 1990-91, expenditures for Board operations were \$869.2 million. Included in this amount is repayment of a loan from the General Fund.^{2/}

Expenditures for State Police liquor law enforcement totaled \$11.7 million in FY 1990-91.^{3/} Monies were also paid to the Governor's Office (restricted monies for payroll deductions) and to the Department of Health for alcohol abuse programs. Also,

^{2/}The PLCB maintains an operating line of credit through an annual advance (loan) from the General Fund. This is used to provide working capital for the State Stores Fund. According to the PLCB Comptroller's Office, it is necessary due to the limitation placed on the retention of retained earnings as a result of mandated profit transfers to the General Fund. The advance is limited to 12 percent of gross sales in dollars from the preceding year. For example, the limit for FY 1990-91 would have been \$93.7 million. In recent years, this amount has been \$66 million.

^{3/}This amount, reported in the PLCB FY 1992-93 Budget Request, is approximately \$150,000 less than the amount reflected on the PLCB's FY 1990-91 Financial Statements due to year-end adjustments.

a total of \$5.3 million was paid from the Liquor License Fund to 2,583 Pennsylvania municipalities.^{4/}

PLCB operational expenses in FY 1990-91 were \$175.3 million. Breakdowns of these expenditures by PLCB organizational unit and major and minor object of expenditure are shown on Tables 4 and 5, respectively.

^{4/}This amount, reported in the PLCB FY 1992-93 Budget Request, is approximately \$160,000 more than the amount reflected on the PLCB's FY 1990-91 Financial Statements which lists check refunds separately.

TABLE 2. STATE STORES FUND: CASH RECEIPTS AND DISBURSEMENTS,
FY 1988-89 THROUGH FY 1990-91

	(\$000)		
	FY 1988-89 <u>Actual</u>	FY 1989-90 <u>Actual</u>	FY 1990-91 <u>Actual</u>
Beginning Cash Balance	\$ 22,521	\$ 46,698	\$ 25,170
<u>Receipts:</u>			
Fees	6,023	6,012	8,455
Fines and Penalties	1,411	1,972	1,756
Sale of Goods	775,290	781,608	802,550
Recovered Losses and Damages	1,232	1,041	1,330
General Fund Advance	66,000	66,000 ^{a/}	66,000 ^{a/}
Other	14,379	20,857	18,203
Total Receipts	<u>864,335</u>	<u>877,490</u>	<u>898,294</u>
Total Funds Available	\$886,856	\$924,188	\$923,464
<u>Disbursements:</u>			
Executive Offices	11,072	11,195	10,824
State Police	12,219	11,464	11,682
Health	392	442	633
Liquor Control Board ^{b/}	816,475	875,917	869,232
Total Disbursements	<u>840,158</u>	<u>899,018</u>	<u>892,371</u>
Ending Cash Balance	\$ 46,698	\$ 25,170	\$ 31,093

^{a/}Outstanding loan balances at June 26, 1990, and June 25, 1991, were \$66 million. However, during the year, at the request of the Governor's Budget Office, portions of the General Fund advance were repaid and then later returned to the State Stores Fund. These amounts were \$50 million in FY 1989-90 and \$20 million in FY 1990-91.

^{b/}Includes repayment of General Fund Loan.

Source: Developed by LB&FC staff from the Governor's FY 1991-92 Executive Budget and PLCB Budget Request for FY 1992-93.

TABLE 3. LIQUOR LICENSE FUND: CASH RECEIPTS AND DISBURSEMENTS,
FY 1988-89 THROUGH FY 1990-91

	(\$000)		
	FY 1988-89 <u>Actual</u>	FY 1989-90 <u>Actual</u>	FY 1990-91 <u>Actual</u>
Beginning Cash Balance	\$2,525	\$2,628	\$2,653 ^{a/}
<u>Receipts:</u>			
Liquor License Fees	5,094	5,044	4,934
Beer License Fees	124	126	122
Other	<u>7</u>	<u>8</u>	<u>13</u>
Total Receipts	<u>5,225</u>	<u>5,178</u>	<u>5,069</u>
Total Funds Available	7,750	7,806	7,722
<u>Disbursements:</u>			
Liquor Control Board	<u>5,122</u>	<u>5,153</u>	<u>5,263</u>
Total Disbursements	<u>5,122</u>	<u>5,153</u>	<u>5,263</u>
Ending Cash Balance	\$2,628	\$2,653	\$2,459

^{a/}Amount differs from the amount shown in the PLCB's FY 1992-93 budget request by \$1,000 due to rounding.

Source: Developed by LB&FC staff from the Governor's FY 1991-92 Executive Budget and the PLCB's Budget Request for FY 1992-93.

TABLE 4. PLCB OPERATIONAL BUDGETARY EXPENDITURES, BY ORGANIZATIONAL UNIT FYS 1989-90 AND 1990-91 (\$000)

Organizational Unit	FY 1989-90	Percent of Total	FY 1990-91	Percent of Total
Bureau of Retail Management	\$120,347.5	70%	\$121,817.9	70%
Bureau of Logistics	15,605.4	9	14,826.0	8
Bureau of Management Information Systems ...	10,714.4	6	12,681.2	7
Bureau of Licensing	7,185.1	4	7,426.4	4
Executive Office ^{a/}	6,970.8	4	6,215.9	4
Bureau of Real Estate	4,044.1	2	4,181.3	2
Bureau of Support Services	3,277.1	2	3,297.8	2
Bureau of Personnel	1,657.0	b/	1,671.1	b/
Legal Office	1,466.3	b/	1,393.8	b/
Office of Administrative Law Judge	1,192.9	b/	1,266.5	b/
Bureau of Wine	352.7	b/	384.4	b/
Press Office	95.4	b/	103.4	b/
Total ^{c/}	\$172,908.7	100%	\$175,265.6 ^{d/}	100%

^{a/}Includes expenditures for the Bureau of Consumer Relations; \$45,532 in FY 1990-91.

^{b/}Less than one percent.

^{c/}Does not include PLCB expenditures to support liquor law enforcement activities carried out by the Pennsylvania State Police or audit activities carried out by the Comptroller's Office.

^{d/}Does not add due to rounding.

Source: Developed by LB&FC staff from information obtained from the PLCB.

TABLE 5. BREAKDOWN OF FY 1990-91 PA LIQUOR CONTROL BOARD
OPERATIONAL BUDGETARY EXPENDITURES, BY MAJOR
AND MINOR OBJECT

<u>Major/Minor Object Code</u>	<u>Expenditures</u>
<u>100 - Personnel Services</u>	
111 - Salaries	\$ 71,876,727.52
112 - Overtime	1,909,252.09
113 - Shift Differential Pay	13,196.27
118 - Higher Classification Pay	312,690.47
121 - Wages	8,307,955.65
140 - Employees' Health and Welfare Fund	3,218,033.67
141 - Employees' Hospitalization Insurance	7,921,072.71
142 - Annuitants' Hospitalization Insurance	2,629,206.79
143 - Social Security Contributions	6,422,085.82
144 - Retirement Contributions	10,460,776.00
145 - State Workmen's Insurance Premium Payments	2,138,784.53
146 - Employees' Group Life Insurance	199,056.21
147 - Out-Service Training	44,389.98
148 - Unemployment Compensation	212,701.88
149 - General Pay Increase - Cash Payment	997,519.00
150 - Sick Leave Payout	353,521.56
151 - Conference Registrations	8,054.00
152 - In-Service Training	79,208.70
155 - Annual Leave Payout	493,155.63
160 - Active Military Reservists Stipend	400.00
170 - Litigation/Arbitration Payouts	150.00
Subtotal - Personnel Services	\$117,597,938.48
<u>300 - Operational Expenses</u>	
301 - Non-Specified Operational Expenses	\$ 13,299.51
302 - Auditor General Services	2,641,804.00
304 - Civil Service Commission Services	535,088.92
305 - Contracted Repairs	135,683.60
306 - Classification and Pay Services	136,478.62
307 - Purchasing Services	126,548.25
308 - EDP Contractual Services (Commonwealth) ...	45,493.42
309 - Consultant Fees	2,389.00
310 - Specialized Services	5,038,887.55
311 - Treasury Department Services	38,965.68
312 - Legal Fees	115,744.25
316 - Conference Expenses	9,409.34

TABLE 5 (CONTINUED)

Major/Minor Object Code	Expenditures
320 - Printing	\$ 97,751.56
325 - Advertising	93,882.46
328 - Toll Free Phone Service	47,576.05
329 - Interest/Utility Late Charge Penalties	21,038.17
330 - Postage	389,521.46
331 - Freight	9,880,122.74
332 - Telephone and Telegraph Monthly Costs	751,750.26
333 - Long Distance Toll Charges	122,751.93
334 - Telephone and Telegraph Equipment - Installation	108,311.36
335 - Travel	507,981.93
336 - Radio Equipment - Lease	6,357.00
337 - Miscellaneous Telecom Equipment - Lease ...	7,204.50
338 - PA Telephone Network Proration	186,516.67
340 - Water and Sewerage	73,053.72
341 - Electricity	4,367,494.98
342 - Heating Fuel	684,519.95
345 - EDP Contractual Services (Vendor)	262,639.34
346 - EDP Equipment - Rental	26,480.35
348 - EDP Software - Vendor Provided	280,426.05
350 - Subscriptions	27,684.43
351 - Membership Dues	1,843.00
355 - Insurance, Surety, and Fidelity Bonds	336,468.04
360 - Motorized Equipment Supplies	202,109.73
361 - Motorized Equipment Repairs	39,294.87
365 - Contracted Maintenance Services - Data Processing	585,188.78
366 - Contracted Maintenance Services - Telephone Equipment	2,845.18
367 - Contracted Maintenance Services - Buildings and Grounds	779,355.83
368 - Contracted Maintenance Services - Office Equipment	81,954.29
369 - Contracted Maintenance - Other	16,808.74
370 - Rent of Real Estate	16,412,761.02
375 - EDP Equipment Rental - Computers	6,504.00
376 - Motorized Equipment Rental	155,432.00
377 - Other Equipment Rentals	111,202.15
380 - Laboratory Supplies	1,531.46
381 - Medical Supplies (Other Than Drugs)	(1.91)
384 - Housekeeping Supplies	830,473.00
385 - Office Supplies	883,868.39
390 - Maintenance Materials and Supplies	539,980.61
396 - Other Services and Supplies	955,120.00
Subtotal - Operational Expenses	\$ 48,725,596.23

TABLE 5 (CONTINUED)

<u>Major/Minor Object Code</u>	<u>Expenditures</u>
<u>400 - Fixed Assets</u>	
413 - Trucks	\$ 318,355.90
425 - Purchased EDP Equipment, Computer and Peripheral	6,477,130.99
426 - Purchased EDP Equipment, DC&M	48,444.25
427 - Purchased EDP Equipment, Word Processing ..	9,119.01
428 - Purchased EDP Software	1,157,847.00
430 - Equipment and Machinery	373,516.49
432 - Office Equipment	117,639.69
435 - Telephone Equipment - Purchase	453.00
437 - Miscellaneous Telecom Equipment	2,589.50
440 - Furniture and Furnishings	311,894.73
470 - Nonstructural Improvements	125,087.64
Subtotal - Fixed Assets	<u>8,942,078.20</u>
Total ^{a/}	\$175,265,612.91

a/Does not include PLCB expenditures for liquor law enforcement activities carried out by the PA State Police or audit activities carried out by the Comptroller's Office.

Source: Developed by LB&FC staff from information obtained from the PLCB.

III. APPENDIX MATERIALS RELATED TO VOLUME I AUDIT FINDINGS

APPENDIX A. METHODOLOGY USED IN ANALYSIS OF ALCOHOL CONSUMPTION
 RATES AND MEASURES OF PUBLIC HEALTH AND SAFETY RISKS

LB&FC staff collected and analyzed interstate comparative data on alcohol consumption and seven indicators of public health and safety risks. The goal of this analysis was to determine what relationship, if any, exists between the restrictiveness of a state's retail system for the sale of alcohol for off-premise consumption and alcohol consumption and the prevalence of alcohol-related public health and safety risk effects.

The measures of public health and safety risks were selected by reviewing previous studies conducted of liquor control agencies (including the PLCB), related industry literature, and discussions and contacts with the PLCB, Pennsylvania State Police, Pennsylvania Department of Health, Distilled Spirits Council of the United States, National Alcoholic Beverage Control Association, and others.

The measures selected for analysis were (1) apparent consumption of liquor, wine, and beer (as measured in gallons of absolute alcohol); (2) apparent consumption of liquor and wine only; (3) arrests for driving under the influence of alcohol; (4) other alcohol-related arrests; (5) alcohol-related traffic fatalities; (6) deaths attributed to cirrhosis; (7) deaths attributed to alcohol-dependent syndrome (alcoholism); (8) alcohol-related homicides; and (9) alcohol-related suicides.

Data on these measures was collected for each state (the District of Columbia was excluded) from a variety of sources including the Distilled Spirits Council of the United States (DISCUS), the Federal Bureau of Investigation's Uniform Crime Report, the National Highway Traffic Safety Administration's Fatal Accident Reporting System (FARS), the National Institute of Alcohol Abuse and Alcoholism (NIAAA), the U.S. Department of Health and Human Services, and the U.S. Bureau of Census. The data was for calendar year 1989, except for the health data obtained from the United States Department of Health and Human Services on cirrhosis, alcoholism, homicides, and suicides which were five-year averages (1979, 1980, and 1983-85). The measures for each state are shown on the following pages.

Additionally, LB&FC staff collected information through a telephone survey (later verified in writing) of all states on the types of retail outlets at which alcohol can be sold within that state. This information is presented in Appendices K and L.

APPENDIX A (CONTINUED)

Analysis of variance (ANOVA) was used to test the statistical significance of the difference in means when the states were grouped together by type of state (license vs. control) and by the types of retail outlets from which alcohol can be purchased. This analysis found no statistically significant differences (at the .05 level of significance) between control states and license states in alcohol consumption or in any of the seven indicators of health and safety risks.

Comparing the states by their level of restrictiveness in the type of retail outlets in which alcohol can be purchased (i.e., "narrow" - alcohol only available in package stores; "broad" - wine and/or beer available in grocery and convenience stores but spirits only available in package stores; and "broadest" - wine, beer, and spirits available in grocery and convenience stores) also yielded no statistically significant differences at the .05 level of significance. The data demonstrating these relationships is presented in this appendix.

Reliable data was not available to determine the number of retail outlets at which alcohol can be purchased in each of the states, hours of store operations, advertising, consumer attitudes toward drinking, enforcement of DUI laws, or other factors which may affect alcohol consumption. Therefore, we could not determine what relationship, if any, may exist between these factors and alcohol consumption or the measures of public health and safety.

APPENDIX A (CONTINUED) PER CAPITA RATES OF
ALCOHOL CONSUMPTION AND PUBLIC
HEALTH AND SAFETY RISKS, BY STATE

STATE	TYPE	DISTRIB.	Consumption ^{a/} Total Alcohol		Consumption ^{a/} Liquor and Wine		Alcohol-Related Traffic Fatalities	
			Per Capita	RANK	Per Capita	RANK	Per 100,000	RANK
AL	Control	Broad	1.449	44	0.574	39	11.608	6
AK	License	Narrow	2.343	4	1.180	3	8.729	24
AZ	License	Broad	2.205	9	0.899	16	10.236	13
AR	License	Broad	1.381	45	0.525	45	18.412	2
CA	License	Broadest	2.146	10	1.080	9	9.311	18
CO	License	Broadest	1.968	17	0.893	18	7.205	33
CT	License	Broadest	2.004	15	1.113	6	6.113	41
DE	License	Narrow	2.259	5	1.137	5	9.510	17
FL	License	Broadest	2.354	3	1.084	8	11.743	5
GA	License	Broad	1.844	26	0.875	20	10.612	10
HI	License	Broadest	2.115	12	0.896	17	8.004	26
ID	Control	Broad	1.585	40	0.612	36	7.298	32
IL	License	Broadest	1.972	16	0.874	21	7.102	36
IN	License	Broadest	1.591	39	0.623	35	6.955	37
IA	Control	Broadest	1.522	41	0.498	47	7.465	31
KS	License	Narrow	1.373	46	0.500	46	7.203	34
KY	License	Broadest	1.352	47	0.530	44	8.962	23
LA	License	Broadest	1.785	32	0.688	31	7.873	28
ME	Control	Broad	1.884	22	0.904	15	5.728	43
MD	License	Broadest	2.030	13	1.007	12	6.306	40
MA	License	Broadest	2.226	7	1.165	4	5.581	44
MI	Control	Broadest	1.842	28	0.819	25	7.969	27
MN	License	Narrow	1.877	23	0.863	22	6.432	39
MS	Control	Broad	1.522	42	0.549	42	5.151	45
MO	License	Broadest	1.724	33	0.661	33	9.110	22
MT	Control	Broad	1.968	18	0.744	28	11.538	7
NE	License	Broadest	1.693	34	0.608	37	6.642	38
NV	License	Broadest	3.807	1	1.989	1	14.581	3
NH	Control	Broad	3.397	2	1.899	2	9.304	19
NJ	License	Broadest	2.029	14	1.107	7	4.511	50
NM	License	Broadest	1.921	19	0.666	32	20.615	1
NY	License	Broad	1.838	29	0.936	13	4.518	49
NC	Control	Broad	1.618	37	0.705	30	10.516	11
ND	License	Broadest	1.862	25	0.758	26	4.848	47
OH	Control	Broadest	1.619	36	0.544	43	5.932	42
OK	License	Narrow	1.323	48	0.493	48	8.530	25
OR	Control	Broad	1.872	24	0.859	23	9.681	15
PA	Control	Narrow	1.679	35	0.572	40	7.193	35
RI	License	Narrow	2.128	11	1.012	11	4.709	48
SC	License	Broad	1.901	21	0.819	24	9.710	14
SD	License	Broadest	1.600	38	0.627	34	11.329	8
TN	License	Broad	1.502	43	0.554	41	10.466	12
TX	License	Broadest	1.843	27	0.601	38	9.122	21
UT	Control	Broadest	0.971	50	0.400	49	4.862	46
VT	Control	Broad	2.206	8	1.037	10	9.524	16
VA	Control	Broad	1.787	31	0.725	29	7.494	30
WA	Control	Broad	1.917	20	0.932	14	9.284	20
WV	Control	Broadest	1.279	49	0.370	50	12.116	4
WI	License	Broadest	2.244	6	0.886	19	7.828	29
WY	Control	Broadest	1.789	30	0.752	27	10.947	9

APPENDIX A (CONTINUED)

STATE	TYPE	DISTRIB.	Deaths from		Deaths from		Deaths from	
			Alcoholism		Alcohol-Related		Alcohol-Related	
			Per 100,000	RANK	Suicide		Homicide	
					Per 100,000	RANK	Per 100,000	RANK
AL	Control	Broad	2.2	25	11.0	37	12.3	6
AK	License	Narrow	2.8	12	13.1	17	10.0	14
AZ	License	Broad	4.1	4	17.1	5	8.8	21
AR	License	Broad	0.9	49	12.2	27	9.6	18
CA	License	Broadest	2.1	26	14.5	10	11.7	8
CO	License	Broadest	1.7	30	17.2	4	5.9	28
CT	License	Broadest	2.8	13	8.7	48	4.5	37
DE	License	Narrow	3.1	10	10.9	39	5.5	30
FL	License	Broadest	3.2	8	16.0	7	12.7	5
GA	License	Broad	3.5	6	12.2	26	12.8	4
HI	License	Broadest	0.6	50	10.8	40	4.9	34
ID	Control	Broad	1.2	45	14.3	11	3.5	40
IL	License	Broadest	1.4	41	10.0	45	10.8	11
IN	License	Broadest	1.4	40	11.3	34	6.3	24
IA	Control	Broadest	1.2	44	11.3	35	2.3	47
KS	License	Narrow	1.4	38	12.0	29	5.3	32
KY	License	Broadest	2.0	28	13.0	18	7.8	23
LA	License	Broadest	1.6	34	12.7	21	14.5	2
ME	Control	Broad	2.4	20	13.8	12	2.5	45
MD	License	Broadest	3.1	11	11.0	38	9.1	19
MA	License	Broadest	1.4	39	8.9	47	3.7	39
MI	Control	Broadest	1.6	32	12.1	28	10.5	13
MN	License	Narrow	1.5	36	10.7	42	2.2	48
MS	Control	Broad	1.8	29	9.9	46	12.3	7
MO	License	Broadest	1.3	42	12.8	20	9.8	16
MT	Control	Broad	2.7	14	16.1	6	4.8	35
NE	License	Broadest	1.3	43	10.2	44	3.4	42
NV	License	Broadest	4.2	3	23.7	1	12.8	3
NH	Control	Broad	1.6	33	11.9	31	1.7	50
NJ	License	Broadest	1.5	35	7.7	50	6.1	27
NM	License	Broadest	6.8	1	17.8	3	11.0	10
NY	License	Broad	2.6	15	8.2	49	11.0	9
NC	Control	Broad	4.5	2	12.3	25	9.7	17
ND	License	Broadest	2.3	21	11.2	36	2.1	49
OH	Control	Broadest	1.2	46	11.9	30	6.1	26
OK	License	Narrow	3.3	7	13.5	14	9.0	20
OR	Control	Broad	2.5	16	15.0	9	4.6	36
PA	Control	Narrow	1.4	37	11.5	33	5.7	29
RI	License	Narrow	3.9	5	10.7	41	4.2	38
SC	License	Broad	3.2	9	10.6	43	10.6	12
SD	License	Broadest	2.4	18	11.9	32	3.4	41
TN	License	Broad	2.2	24	12.9	19	9.8	15
TX	License	Broadest	1.1	47	12.6	23	14.8	1
UT	Control	Broadest	1.1	48	13.2	16	3.4	43
VT	Control	Broad	1.7	31	15.1	8	2.5	46
VA	Control	Broad	2.5	17	13.3	15	8.3	22
WA	Control	Broad	2.2	23	13.7	13	5.1	33
WV	Control	Broadest	2.0	27	12.6	24	6.3	25
WI	License	Broadest	2.4	19	12.6	22	3.2	44
WY	Control	Broadest	2.3	22	19.5	2	5.4	31

APPENDIX A (CONTINUED)

STATE	TYPE	DISTRIB.	Alcohol-Related				Deaths From	
			DUI Arrests		Arrests, 1989		Cirrhosis	
			Per 1,000	RANK	Per 1,000	RANK	Per 100,000	RANK
					Other than DUI			
AL	Control	Broad	6.325	18	11.482	7	9.4	30
AK	License	Narrow	7.461	8	7.655	23	8.5	40
AZ	License	Broad	6.199	19	10.076	12	13.4	10
AR	License	Broad	6.806	15	11.375	8	7.9	44
CA	License	Broadest	11.509	1	8.197	20	16.6	3
CO	License	Broadest	10.272	2	9.436	13	9.4	31
CT	License	Broadest	4.812	30	11.339	9	12.4	14
DE	License	Narrow	0.327	50	9.361	14	13.4	11
FL	License	Broadest	3.756	34	N.A	50	16.3	4
GA	License	Broad	4.586	31	0.692	49	10.7	22
HI	License	Broadest	6.957	13	1.441	47	7.2	49
ID	Control	Broad	8.819	4	5.687	32	7.3	48
IL	License	Broadest	3.340	40	9.074	15	12.7	12
IN	License	Broadest	3.642	36	6.633	29	9.2	35
IA	Control	Broadest	6.032	21	10.645	11	7.7	47
KS	License	Narrow	5.687	23	4.575	38	7.8	45
KY	License	Broadest	4.979	28	9.002	17	9.4	32
LA	License	Broadest	2.674	45	3.924	41	9.5	29
ME	Control	Broad	7.323	9	4.014	40	12.7	13
MD	License	Broadest	7.298	10	2.376	45	11.1	19
MA	License	Broadest	3.178	43	2.818	44	13.6	7
MI	Control	Broadest	5.686	24	6.159	30	14.2	6
MN	License	Narrow	6.651	16	6.900	28	8.3	41
MS	Control	Broad	3.145	44	6.123	31	8.1	43
MO	License	Broadest	4.339	33	4.089	39	8.9	37
MT	Control	Broad	1.952	49	1.499	46	10.6	23
NE	License	Broadest	7.190	11	8.248	19	7.7	46
NV	License	Broadest	5.273	26	9.008	16	18.2	2
NH	Control	Broad	7.104	12	8.014	22	11.6	17
NJ	License	Broadest	5.312	25	7.251	25	15.1	5
NM	License	Broadest	8.074	5	8.913	18	13.5	9
NY	License	Broad	3.556	37	4.983	36	18.4	1
NC	Control	Broad	3.257	41	3.324	43	10.4	25
ND	License	Broadest	3.208	42	5.608	33	8.8	38
OH	Control	Broadest	2.491	46	5.054	35	10.5	24
OK	License	Narrow	6.165	20	12.968	5	9.2	33
OR	Control	Broad	9.279	3	7.631	24	12.0	16
PA	Control	Narrow	2.251	48	7.215	26	12.1	15
RI	License	Narrow	2.341	47	4.892	37	13.6	8
SC	License	Broad	3.407	39	14.705	3	9.7	27
SD	License	Broadest	3.408	38	5.326	34	9.6	28
TN	License	Broad	3.686	35	8.019	21	8.8	39
TX	License	Broadest	5.882	22	12.544	6	9.2	34
UT	Control	Broadest	5.197	27	10.785	10	6.5	50
VT	Control	Broad	4.861	29	1.356	48	10.8	20
VA	Control	Broad	7.607	7	13.387	4	10.3	26
WA	Control	Broad	6.386	17	3.685	42	10.8	21
WV	Control	Broadest	4.354	32	6.912	27	11.2	18
WI	License	Broadest	6.848	14	18.954	1	9.1	36
WY	Control	Broadest	7.794	6	15.160	2	8.1	42

a/As measured by apparent consumption in gallons of absolute alcohol; i.e., 1.00 gallon means one gallon of 100% pure alcohol.

Source: Developed by LB&FC staff from the various data sources listed on the first page of this Appendix.

APPENDIX A (CONTINUED)

Per Capita Consumption (All Alcohol)
by Type of State and Retail Distribution System
(In Gallons of Absolute Alcohol)

	<u>License</u>	<u>Control</u>	<u>Total</u>
Narrow	1.88 (6)	1.68 (1)	1.85 (7)
Broad	1.78 (6)	1.87 (12)	1.84 (18)
Broadest	<u>1.92 (19)</u>	<u>1.55 (5)</u>	<u>1.84 (24)</u>
	1.89 ^{a/} (31)	1.77 (18)	1.84 (49)

Per Capita Consumption (Spirits and Wine Only)
by Type of State and Retail Distribution System
(In Gallons of Absolute Alcohol)

	<u>License</u>	<u>Control</u>	<u>Total</u>
Narrow	0.86 (6)	0.57 (1)	0.82 (7)
Broad	0.77 (6)	0.83 (12)	0.81 (18)
Broadest	<u>0.84 (19)</u>	<u>0.60 (5)</u>	<u>0.79 (24)</u>
	0.83 ^{a/} (31)	0.75 (18)	0.80 (49)

Alcohol-Related Arrests Other Than DUI,
by Type of State and Retail Distribution System
(Per Thousand Population)

	<u>License</u>	<u>Control</u>	<u>Total</u>
Narrow	7.73 (6)	7.22 (1)	7.65 (7)
Broad	8.31 (6)	6.09 (12)	6.83 (18)
Broadest	<u>7.51 (18)</u>	<u>9.56 (5)</u>	<u>7.96 (23)</u>
	7.71 ^{a/} (30)	7.12 (18)	7.49 (48)

APPENDIX A (CONTINUED)

Fatalities From Alcoholism by Type of State and Retail Distribution System (Per 100,000 Population)

	<u>License</u>	<u>Control</u>	<u>Total</u>
Narrow	2.67 (6)	1.40 (1)	2.49 (7)
Broad	2.75 (6)	2.28 (12)	2.43 (18)
Broadest	<u>2.13 (19)</u>	<u>1.48 (5)</u>	<u>1.99 (24)</u>
	2.35 ^{a/} (31)	2.01 (18)	2.22 (49)

Fatalities From Alcohol-Related Homicide by Type of State and Retail Distribution System (Per 100,000 Population)

	<u>License</u>	<u>Control</u>	<u>Total</u>
Narrow	6.03 (6)	5.70 (1)	5.99 (7)
Broad	10.43 (6)	6.13 (12)	7.57 (18)
Broadest	<u>7.67 (19)</u>	<u>5.54 (5)</u>	<u>7.23 (24)</u>
	7.89 ^{a/} (31)	5.94 (18)	7.17 (49)

Fatalities for Alcohol-Related Suicide by Type of State and Retail Distribution System (Per 100,000 Population)

	<u>License</u>	<u>Control</u>	<u>Total</u>
Narrow	11.82 (6)	11.50 (1)	11.77 (7)
Broad	12.20 (6)	13.25 (12)	12.90 (18)
Broadest	<u>12.15 (19)</u>	<u>13.60 (5)</u>	<u>12.45 (24)</u>
	12.10 ^{a/} (31)	13.25 (18)	12.52 (49)

^{a/}Values for license states in this table may differ from those in Finding A of Volume I because the LB&FC staff was unable to categorize the State of Nevada's retail distribution system. Therefore, the data for this state is not included in the above calculations. Nevada, a license state, is unique in that it does not have an alcoholic beverage control law and, for the most part, licensing and control of retail liquor establishments are determined at the local level.

APPENDIX A (CONTINUED)

Alcohol-Related Traffic Fatalities
by Type of State and Retail Distribution System
(Per 100,000 Population)

	<u>License</u>	<u>Control</u>	<u>Total</u>
Narrow	7.52 (6)	7.19 (1)	7.47 (7)
Broad	10.66 (6)	9.10 (12)	9.62 (18)
Broadest	<u>8.38 (19)</u>	<u>7.44 (5)</u>	<u>8.18 (24)</u>
	8.65 ^{a/} (31)	8.53 (18)	8.61 (49)

DUI Arrests by Type of State
and Retail Distribution System
(Per Thousand Population)

	<u>License</u>	<u>Control</u>	<u>Total</u>
Narrow	4.77 (6)	2.25 (1)	4.41 (7)
Broad	4.71 (6)	5.87 (12)	5.48 (18)
Broadest	<u>5.61 (19)</u>	<u>5.44 (5)</u>	<u>5.58 (24)</u>
	5.28 ^{a/} (31)	5.55 (18)	5.38 (49)

Fatalities From Cirrhosis by Type of State
and Retail Distribution System
(Per 100,000 Population)

	<u>License</u>	<u>Control</u>	<u>Total</u>
Narrow	10.13 (6)	12.10 (1)	10.41 (7)
Broad	11.48 (6)	10.43 (12)	10.78 (18)
Broadest	<u>11.02 (19)</u>	<u>9.40 (5)</u>	<u>10.68 (24)</u>
	10.94 ^{a/} (31)	10.24 (18)	10.68 (49)

APPENDIX B. METHODOLOGY FOR AN LB&FC STAFF SURVEY OF STATE STORE CUSTOMER SATISFACTION

BACKGROUND

LB&FC performance audits typically involve contacts with clients or "customers" of the agency being audited. For example, both the 1985 PLCB sunset performance audit and this audit involved the distribution of questionnaires to a sample of PLCB licensees. However, the 1985 audit did not include a formal survey of PLCB customers. The failure to conduct such a survey was questioned by the Senate Law and Justice Committee during the 1985 sunset hearing process.

SURVEY OBJECTIVE

The objective of this audit activity was to conduct a survey of a representative sample of customers in selected PLCB state stores/wine and spirits shoppes statewide. The primary focus of this survey was on gauging the level of customer satisfaction with the PLCB's operation of the state's retail liquor stores. Survey questions concentrated on such areas as accessibility (e.g., store location and hours of operation), appearance, quality of service, selection, and overall satisfaction. The survey was also designed to determine if customers perceived changes (positive and/or negative) in store operations and service in recent years. (A copy of the survey instrument used by LB&FC staff is included in this appendix.)

SAMPLE SELECTION

The sample selection goal was to derive a sample that was sufficient to provide a 95 percent confidence level with a margin of error of approximately 3 percent. To accomplish this, it was determined that a total of at least 60 stores should be included in the sample.

Stores at which the survey were to be administered were selected in representative proportions from Philadelphia and Allegheny counties, all other urban counties, and all rural counties. Provision was also made to include proportional numbers of self-service and counter stores in the sample.

Using a listing of state liquor stores provided by the PLCB, the number of stores in each Pennsylvania county was determined. Urban counties (excluding Philadelphia and Allegheny) were

APPENDIX B (CONTINUED)

identified by determining which counties were located within Metropolitan Statistical Areas as identified by the United States Census Bureau. It was determined that of the 682 state liquor stores as of June 1990, 90 were located in Allegheny County, 89 were located in Philadelphia County, 386 were located in other urban counties, and 117 were located in rural counties.

Because 13 percent of all state liquor stores are in Allegheny County, 13 percent of the survey sample was drawn from that county. Therefore, using a listing of the stores in Allegheny County and a random number generator, eight stores were selected. The same selection process resulted in the selection of eight stores in Philadelphia.

A "cluster" sampling technique was used to select the other counties in the state that would be included in the survey sample. Individual rural and urban population "clusters" (counties) were selected based on the number of liquor stores within those counties.

For example, because it was determined that 57 percent of all state liquor stores are in urban counties other than Allegheny and Philadelphia, it was necessary for 34 stores to be selected from these counties. Four clusters were necessary to obtain the number of stores required for the sample. Therefore, four counties were randomly selected from the listing of urban counties. Individual stores were then randomly selected from listings of state liquor stores located in these counties.

Seventeen percent of all state liquor stores are located in counties classified as rural, and 12 stores were randomly selected from three of these counties.

The following counties were identified for sampling based on the selection methodology outlined above:

Allegheny and Philadelphia (8 stores in each)

Other Urban Counties: Bucks, Erie, Lackawanna, and York (34 stores total)

Rural Counties: Crawford, Northumberland, and Schuylkill (12 stores total)

SURVEY ADMINISTRATION

The survey questionnaire was administered by LB&FC staff during late August 1991. Responses were obtained using two methods:

APPENDIX B (CONTINUED)

(1) the exit interview (during which the respondent was interviewed by LB&FC staff outside the State Store), and (2) the mail-in questionnaire (in which the identical questions were given in written form to customers at State Stores to answer and return in the mail to the LB&FC staff).

LB&FC staff administered the survey for three hours at each selected State Store. This process was carried out on a mix of days (Monday through Saturday) and hours to ensure that both weekday and weekend shoppers as well as morning, afternoon, and evening shoppers were all included in the survey.

SURVEY RESPONSES

A total of 554 exit interviews were completed. Additionally, 903 mail-in questionnaires were distributed of which 164, or 18 percent, were returned. A tabulation of the results of the survey appears later in this Appendix.

LB&FC CUSTOMER SATISFACTION SURVEY INSTRUMENT**DEAR CUSTOMER:**

You have an opportunity to participate in a legislative review of the Pennsylvania Liquor Control Board (PLCB).

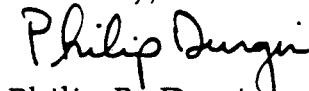
State law requires that the Legislative Budget and Finance Committee do a performance audit of the PLCB. As part of this audit we are asking customers to answer a few questions about customer convenience and services available at retail liquor stores operated by the PLCB.

The information obtained through this survey will be considered during the upcoming sunset review of the PLCB. Such reviews are based on the idea that government agencies need to be periodically evaluated to determine if they are serving a needed purpose and how their operations could be improved.

Your participation in this survey would be very helpful. Please complete the attached card and mail it directly to us. The card is pre-addressed and is postage-paid.

Thank you very much.

Sincerely,



Philip R. Durgin
Executive Director
Legislative Budget and Finance
Committee

1. How would you rate the location of this store?
Excellent Good Fair Poor Very Poor
☐ ☐ ☐ ☐ ☐
2. Do you find this store's business hours satisfactory?
☐ Yes ☐ No
3. How would you rate the overall appearance and attractiveness of this store?
Excellent Good Fair Poor Very Poor
☐ ☐ ☐ ☐ ☐
4. Do you find the personnel at this store to be:
• Courteous and friendly?
☐ Yes ☐ No ☐ No Opinion
• Knowledgeable about wine and spirits?
☐ Yes ☐ No ☐ No Opinion
5. How would you rate the selection and variety of items available at this store?
Excellent Good Fair Poor Very Poor
☐ ☐ ☐ ☐ ☐
6. How would you rate your overall satisfaction with this store?
Excellent Good Fair Poor Very Poor
☐ ☐ ☐ ☐ ☐
7. Over the past five years, do you think Pennsylvania's liquor stores have, in general:
☐ Improved
☐ Remained About the Same
☐ Declined

Comment _____

8. Do you have any other comments or suggestions concerning PLCB store operations and service?

Source: Developed by LB&FC staff.

APPENDIX B (CONTINUED)

SUMMARY OF RESULTS OF STATE LIQUOR STORE CUSTOMER SATISFACTION SURVEY CONDUCTED BY LB&FC STAFF

Question and Question # on LB&FC Survey	Exit Interviews ^{a/}			Mail-Returned Questionnaires ^{b/}		
	Excellent Or Good #	Fair #	Poor or Very Poor %	Excellent or Good #	Fair #	Poor or Very Poor %
How would you rate the location of this store? (#1)	489	51	9%	138	22	1%
How would you rate the overall appearance and attractiveness of this store? (#3) .	503	44	8	133	24	1
How would you rate the selection and variety of items available at this store? (#5)	485	57	10	128	23	7
How would you rate your overall satisfaction with this store? (#6)	526	23	4	141	16	4
Do you find this store's business hours satisfactory? (#2) ..	Exit Interviews ^{a/}			Mail-Returned Questionnaires ^{b/}		
	Yes	No	Opinion	Yes	No	Opinion
Do you find the personnel at this store to be:	485	49	--	135	27	--
a. Courteous and friendly? (#4) .	538	3	13	151	5	6
b. Knowledgeable about wines and spirits? (#4)	437	4	113	108	12	34

APPENDIX B (CONTINUED)

Question and Question # on LB&FC Survey	Exit Interviews ^{a/}			Mail- Returned Questionnaires ^{b/}		
	Improved # %	Remained Same # %	Declined # %	Improved # %	Remained Same # %	Declined # %
Over the past five years, do you think Pennsylvania's liquor stores have, in general: (#7)	288 54%	211 40%	31 6%	88 55%	62 39%	9 6%

a/A total of 554 exit interviews were conducted at 62 PLCB stores. The number of valid responses to individual survey questionnaires ranged from 530 to 554.

b/A total of 903 questionnaires were distributed at the 62 PLCB stores. LB&FC staff received a total of 164 completed questionnaires through the mail, a response rate of 18 percent. The number of valid responses to individual survey questionnaires ranged from 150 to 163.

Source: Developed by LB&FC staff from information obtained from a survey of PLCB State Store customers conducted in August and September 1991.

APPENDIX C. REPORTED STATUS OF REVENUE ENHANCEMENT AND COST
 REDUCTION TECHNIQUES CONTAINED IN THE PLCB'S
 1988 BUSINESS PLAN

A. STATUS OF REVENUE ENHANCEMENT TECHNIQUES

1. **Development of Comprehensive Pricing Structure.** *Develop marketing strategies designed to provide for attractive and equitable retail prices. Employ marketing concepts of the private sector.*

FY88-89: A comprehensive pricing strategy analysis was completed by the PLCB marketing staff and submitted to the Board. Implementation of selected recommendations was anticipated for FY 1989-90. The pricing strategy considered market factors and pricing surveys conducted in adjacent states.

FY89-90: Revised handling charges and modified retail price rounding options were implemented. Analysis of pricing strategy continued.

FY90-91: The markup; i.e., the pricing component adjusted to account for expenses and profits was increased and retail prices were rounded-up to the nearest \$0.n9. Analysis of pricing strategy continued.

2. **Increasing Markup.** *Increase markup as component of new comprehensive pricing strategy.*

FY88-89: The markup was an integral component of the pricing strategy analysis referred to in #1 above.

FY89-90: No change.

FY90-91: The markup was increased from 25 to 27 percent.

3. **Altering Current Handling Charge.** *Alter current handling charge per unit and per ounce as components of markup formula. The handling charge is the pricing component used to adjust for the agency expense of stocking and displaying merchandise.*

FY88-89: PLCB handling charges were included in the pricing strategy analysis.

FY89-90: Per unit handling charges were increased. The charge per ounce on large bottles was reduced.

FY90-91: No change.

APPENDIX C (CONTINUED)

4. **Rounding Retail Prices.** *Consider rounding retail prices up or down to ninth cent or next higher .05 increment.*

FY88-89: Retail price rounding was included in the pricing strategy analysis.

FY89-90: The Board decided to round up or down on all retail prices.

FY90-91: Effective May 29, 1991, all retail prices were rounded up to the nearest \$0.n9.

5. **Reduction of Licensee Discount.** *Reduce licensee discount from 12.5 percent to 10 percent.*

FY88-89: The licensee discount was reduced by the Board from 12.5 to 7 percent on November 16, 1988. The change was to put the licensee discount on the same basis as the average licensee discount in the other control states.

FY89-90 and FY90-91: No change.

6. **Discontinuation of Current Retail Discount Policy.** *Discontinue the current retail discount policy; i.e., 1 case equals 5 percent up to 10 percent for 6 cases, in favor of percentage discount based on total cost per sale; e.g., 2 percent discount if sale totals \$100 or more.*

FY88-89: Retail discounts were eliminated by the Board on November 16, 1988.

FY89-90 and FY90-91: No change.

7. **Retention of Additional Earnings From Special Purchases.** *Retain additional earnings realized through parallel or other special purchases rather than passing total amount of savings to the consumer; accelerate parallel purchases.*

FY88-89: Earnings from special purchases were included in the pricing strategy analysis.

FY89-90: The Board eliminated the issue from consideration. The parallel market was not considered a reliable enough source for continual supply.

FY90-91: The merchandising staff solicited vendors for more One Time Buy Programs and increased the profit margin on these programs to cover the cost of eliminating unsold goods. The merchandising staff also solicited vendors for

APPENDIX C (CONTINUED)

increased use of free goods. Free goods are an alternative to discounts for Special Purchase Allowances. Free goods allow the PLCB to recoup both the cost of the item and the markup.

8. **Application of Markup After Freight Markup.** *Apply markup and handling on entire Special Liquor Order cost after freight charges instead of before. Would require Legislative change to Section 305(a) of the PA Liquor Code.*

FY88-89 Through FY90-91: No action was taken. A revenue enhancement of \$1.4 million was projected for this initiative.

9. **Changing 18 Percent Emergency Tax to a Proof Gallon Basis.** *Develop a long-range plan directed at seeking to legislatively change the 18 percent Emergency Tax to a proof gallon basis; i.e., a revenue neutral tax program based on the alcoholic content of the product.*

FY88-89: The issue was included in the pricing strategy analysis.

FY89-90 and FY90-91: No action.

10. **Revision of License Fees.** *Develop a plan by January 1989 to gradually increase license fee revenues over a three-year period beginning July 1989 (accompanied by a multi-year licensing cycle).*

FY88-89: In June 1989, the PLCB submitted a second License Fee report to the Legislature in accordance with Act 1987-14.

FY89-90: Act 1990-67 adopted most of the fees recommended by the PLCB and incorporated in the Commonwealth Fee Report. The new fees became effective July 1, 1990.

FY90-91: Fee collections for FY 1990-91, the first year the new fee schedule was in effect, resulted in a \$2,330,212 increase in revenues. The Board published proposed changes to regulation-based fees on March 30, 1991.

11. **Elimination of License Fee Returns to Municipalities.** *Eliminate all or a portion of hotel, restaurant, and club license fees returned to municipalities.*

FY88-89: The issue was included in the License Fee Report to the Legislature.

FY89-90 and FY90-91: No action.

APPENDIX C (CONTINUED)

12. **Elimination and Replacement of Reciprocal Sales Permit Fees.** *Seek legislation to eliminate the reciprocal fee provision (sales permit fee) and replace it with a label fee applicable to all classes of vendors exempting only Special Liquor Orders and specialty merchandise. Set fee to at least cover the cost of maintaining vendor records.*

FY88-89 Through FY90-91: No action.

13. **Limited Sale of Related Products.** *Engage in the limited sale of ancillary or complementary products such as corkscrews, home bar supplies, etc.*

FY88-89: The Commonwealth Court affirmed an Attorney General opinion that the Liquor Code did not permit the sale of ancillary items.

FY89-90 and FY90-91: No change.

14. **Delivery Fee Charge.** *Establish an equitable fee structure for PLCB delivery of merchandise to licensees. The fee schedule should incorporate both distance and volume considerations.*

FY88-89: Based on a FY 1986-87 pilot delivery program to licensees in Monroe County, delivery was established to these licensees from store #4508.

FY89-90: No change.

FY90-91: On January 2, 1991, the delivery rate schedule in Monroe County was adjusted to reflect fuel and salary increases. The program was not expanded to other counties due to lack of interest by licensees.

15. **Enhancement of the Demographic Model.** *Develop a more detailed demographic model incorporating as many facets as possible to be used in the store location decision process.*

FY88-89: A revised site evaluation program using enhanced demographic factors and weighted site criteria was placed in effect. The development of a computer based system was under study.

FY89-90: A site analyst specialist was hired. Upon receipt of EDP equipment, access to current demographic information will be available.

APPENDIX C (CONTINUED)

FY90-91: An RFP for demographics services was developed. Office of Administration approval on how to proceed to obtain services is still required.

16. **Conversion of Additional Stores Into Discount Outlets.** *Convert three to five additional state stores into discount outlets. Move closeout merchandise to these stores as promotion items.*

FY88-89: Based on the Business Plan initiative, an ongoing pilot study was continued. The pilot was started in 1985 at store #0604 located in the Morgantown Outlet Mall. Lack of continued availability of vendor close-out merchandise and special purchase offers along with excessive transportation costs to reship agency close-outs ended consideration for additional discount outlets.

FY89-90 and FY90-91: No change.

17. **General Inventory Investment Reduction.** *Reduce overall average investment in inventory by 10 percent through more efficient monitoring and ordering procedures while providing acceptable levels of service particularly with respect to fast-moving codes (changed to Cost Reduction Technique #48).*

FY88-89: The inventory was reduced by approximately \$21.3 million through a drawdown of stock codes and sales of delisted codes.

FY89-90: The inventory was increased by \$17.9 million due to over-correction for out-of-stock items, warehouse closings/relocations and buy-aheads for special purchases.

FY90-91: The inventory was reduced by \$23.9 million from the prior year's end levels.

18. **Listing and Delisting Procedures.** *Refine the standards for listing and delisting determination. Attempt to develop a more sophisticated approach to determining a product's sales potential.*

FY88-89: Changes to the PLCB's listing instructions which required more extensive supporting data were disseminated to vendors on January 4, 1989. Vendors were required to provide detailed market analysis concerning projected short and long term sales, competitive brands and marketing strategy.

FY89-90: Further review and evaluation on category distribution levels was undertaken to standardize listing criteria.

APPENDIX C (CONTINUED)

FY90-91: A new listing program was designed which set performance standards based upon sales of similar categories of products. Distribution levels were measured relative to case sales of 80 percent of the category to which the product belonged. Tracking of six periods of data began in July 1991.

19. **Increase in Listing Proposal Fees.** *Increase current application fees for vendors who want to list products.*

FY88-89: A fee increase from \$50 to \$150 was approved by the Board on February 15, 1989. The rulemaking approval process was initiated.

FY89-90: The fee increase became effective July 1, 1989.

FY90-91: No change.

20. **Establishment of a Fee for Vendor Record Changes.** *Establish a fee schedule to cover the cost of updating vendor records for administrative reasons such as name changes or corporate restructuring.*

FY88-89: The initiative was under study.

FY89-90: This fee was increased from \$50 to \$150 effective July 1, 1989.

FY90-91: No change.

21. **Increase in Charges for Information.** *Increase charges for PLCB statistical and other information (both paper and electronic) provided through Comptroller, Store Operations, and Licensing.*

FY88-89: A revised fee schedule for these fees was implemented.

FY89-90 and FY90-91: No change.

22. **Investment of Store Receipts in Interest Generating Instruments.** *Discontinue investment in non-interest-bearing certificates of deposit at various banks and transfer funds into the Commonwealth Treasury Department's short-term investment portfolio.*

FY88-89: This concept was implemented January 1, 1989. (Six month earnings in FY 1988-89 were \$30,092.)

FY89-90 and FY90-91: No change. (Fiscal Year 1989-90 earnings were \$71,320; FY 1990-91 earnings were \$53,106.)

APPENDIX C (CONTINUED)

23. **Credit Interest on Monies in Liquor License Fund to the State Stores Fund.** *Credit interest on monies in the Liquor License Fund to the State Stores Fund and not the General Fund.*

FY88-89 Through FY90-91: Legislative change to the Administrative Code is required to enact this initiative. No action.

B. STATUS OF COST REDUCTION TECHNIQUES

1. **Accelerated Installation of Electronic Point-of-Sale Data Capture Cash Registers.** *Expedite implementation of electronic Point-of-Sale (POS) technology resulting in ancillary cost savings from improved inventory control, reduced personnel expenses, reduced postal costs, and increased productivity.*

FY88-89: The Board authorized contract award on January 18, 1989, and IBM was awarded the contract on March 3, 1989. Fifty top-volume stores were scheduled for POS installation by November 1989.

FY89-90: The first pilot store was brought on-line on September 25, 1989. POS Phase I programming and system hardware were installed and operational in 176 high retail sales volume stores across the state. The Phase II pilot was scheduled for installation in mid-August.

FY90-91: The Phase II software pilot was conducted in three stores in August 1990 and full implementation began in September 1990. Two hundred and forty-seven stores were upgraded from Phase I to Phase II from September 1990 through March 1991. POS and Phase II software were installed in three hundred and twenty new stores. A total of five hundred and sixty-seven stores were operating with POS at the end of the fiscal year. POS hardware was installed in all stores as of October 1991.

2. **Closing of Unprofitable Stores.** *Close unprofitable and unnecessary stores located within three miles of an existing or new store in urban areas and within ten miles of an existing store in rural areas.*

FY88-89: Fifteen stores were closed with elimination of total operating expenses of \$1,174,656. The inventory valuation of these stores totaled \$1,029,383.

APPENDIX C (CONTINUED)

FY89-90: Eleven additional stores were closed with elimination of \$945,155 in aggregate fiscal year operating costs.

FY90-91: Three stores were closed with aggregate fiscal year operating costs of \$279,206 and aggregate inventory valuation of \$158,912.

3. **Credit Card Discount Policy.** *Implement revised discount policy so that credit card services are paid for by licensees who use credit cards.*

FY88-89: All wholesale stores were on-line for credit card sales as of March 4, 1989.

FY89-90 and FY90-91: No legislative action was taken relative to this issue; i.e., a different discount rate for licensees to account for the cost of providing credit card services. Senate Bill #1093 proposed that discount rates could be set by regulation.

4. **Revision of Store Manpower Assignments.** *Revise store manpower assignment formula through greater use of part-time personnel in place of full-time personnel in areas where help is available, devise ways to eliminate shift overlap and consider revision of the unit quota.*

FY88-89: Quota recalculations were completed on August 6, 1988 (recommended a 55 position reduction) and January 21, 1989 (recommended a 179 position reduction). One hundred and eighty-two positions were removed and not replaced in the fiscal year.

FY89-90: The February 1990, requota resulted in a reduction of 136 full-time positions without replacement.

FY90-91: Store requotas completed during this fiscal year resulted in the elimination of 54 full-time positions. Greater use of part-time positions to continue service levels is an offsetting factor.

5. **Retail Discount Policy.** *Discontinue across-the-board retail discount policy. Restrict significant discounts to clearance prices for slow moving items.*

FY88-89: Across-the-board discounts were discontinued by the Board.

FY89-90 and FY90-91: No change.

APPENDIX C (CONTINUED)

6. **Reduction in Armored Car Pick-Up Service at Stores.** *Reduce the number of stores, statewide, that are currently utilizing armored car pick-up service.*

FY88-89: Fifteen stores were eliminated from the requirement for armored car pick-up service.

FY89-90: Thirteen additional stores were eliminated from the contract for armored car pick-up service.

FY90-91: A change in the contract now has the armored car contractor providing change rather than the banks. As a result, annual savings of approximately \$95,000 have been reported. The total number of stores receiving armored car service did not change in FY 1990-91, as eight stores were eliminated and eight stores were added.

7. **Elimination of Free Gift Cartons.** *Eliminate gift cartons provided free-of-charge to the customers at the PLCB's expense.*

FY88-89: Vendor inability to provide sufficient quantities of gift-pack merchandise, along with adverse customer reaction to limiting white gift boxes caused the Board to reverse its position on this initiative.

FY89-90: Gift carton inventories remaining in stores and warehouses were used to meet needs along with an additional 300,000 cartons purchased at a cost of \$19,500.

FY90-91: Gift cartons were distributed to stores based on a survey of needs for the peak holiday sales season only. Each store was issued a limited preset quantity to meet customer demand during peak sales periods 6 and 7. This limited supply was made available due to numerous customer requests and the decreasing availability of vendor gift packaged items. An additional 225,000 cartons were purchased at a cost of \$15,300.

8. **Change in Hours for Low Volume Stores.** *Reduce hours of operation in selected store sites wherever possible.*

FY88-89: Hours of operation were reduced in 10 of the 29 targeted stores.

FY89-90: One hundred and twenty stores had their hours of operation increased to be consistent with the surrounding business community.

APPENDIX C (CONTINUED)

FY90-91: Hours of operation were significantly reduced in seven low-volume stores. Hours of operation were changed in numerous additional stores in reaction to consumer buying activity which was tracked through hourly sales reports. Most stores had hours expanded by reducing shift overlap, at no cost to the agency.

9. **Elimination of Duplicative Store Audit Functions Performed by the PLCB Comptroller and the Auditor General. Eliminate duplicative in-store audit functions currently performed by Auditor General.**

FY88-89: Discussions were held with the Auditor General, with no agreement reached.

FY89-90: No reportable progress with the Auditor General.

FY90-91: No further action.

10. **Long-Range Plan for "Agency Store" Concept. Develop a long-range plan for the adoption of an "Agency Store" concept for unprofitable stores.**

FY88-89: The Board decided not to implement the agency store concept.

FY89-90 and FY90-91: No change.

11. **Reduction of Inventory Investment in Specialty Items Through the Establishment of Strict Purchasing Parameters. Reduce inventory levels and purchasing outlays by establishing better defined guidelines for purchasing specialty codes.**

FY88-89: The Bureau of Wines developed purchasing parameters in conjunction with implementation of a new wine store program.

FY89-90 and FY90-91: No change.

12. **Reduction in Store System Management and Administrative Costs Through Elimination of Unnecessary Supervisor and Training Manager Positions. Reduce the number of store supervisors by two to five positions, and the number of training managers by two to five positions.**

FY88-89: Two district manager positions were eliminated on April 4, 1989. Three administrative positions were eliminated and three specialty coordinator positions were transferred to the Bureau of Wines.

APPENDIX C (CONTINUED)

FY89-90: No change.

FY90-91: One district manager position was eliminated in Region III, one administrative position was eliminated in Region I and one visual merchandiser position was eliminated in each of the three regions. Two training manager positions are planned for elimination in Region III during FY 1991-92.

13. **Utilization of Bags Carrying Advertisements. Solicit vendors to provide shopping bags with advertising, thereby defraying the annual cost of paper bags.**

FY88-89: Outside entities expressed no interest in the concept. The Pennsylvania Department of Transportation and the Lottery Commission also declined to participate.

FY89-90: The Board is investigating the feasibility of including public service/public awareness ads in future bag contracts.

FY90-91: The new order of bags will contain the following public service/awareness message on both gallon paper bags and on 1/7BBL poly bags: "Drink sensibly. But never drink and drive." Message printing to be provided by vendor at no additional cost to Board. Receipt of bags began August 1991.

14. **Examination and Restructuring of Current Distribution Center Network. Examine restructuring the distribution center network to provide increased efficiencies at acceptable service levels.**

FY88-89: Based on the recommendation of a special Warehouse Review Group, the PLCB's distribution center network was downsized from five to three warehouses and rebid under competitive bidding procedures. The transition was expected to occur between August 1, 1989, and February 1, 1990. The Erie warehouse was closed in June 1989. The northwest stores were combined with the southwest region to form one region in that area. The eastern region was competitively rebid on August 15, 1988.

FY89-90: The Kingston warehouse (northeast region) was closed in August 1989. The northeast region was combined with the southcentral region (Lebanon warehouse) and rebid as a central distribution center when the Lebanon distribution center was closed in March 1990. The central distribution region is now located at Taylor, PA, near Scranton.

APPENDIX C (CONTINUED)

FY90-91: Current or upcoming improvements to the distribution system include Bottle-Pick and the automated purchase order system (LOGSPLUS). Both improvements are expected to have a significant impact on inventory reduction. In addition, bailment is under study.

15. **Termination of the Northwest Distribution Center. Terminate the operation of the Northwest (Erie) Distribution Center by combining operations with the Southwest Distribution Center facility.**

FY88-89: The Erie distribution center closed June 1989 and its operations were combined with the southwest region.

FY89-90 and FY90-91: No change.

16. **Restructuring of Warehouse Jobs. Redesign the job responsibilities of PLCB personnel assigned to warehouses regardless of warehouse restructuring. Attempt to eliminate eight to twelve positions.**

FY88-89: Twenty-eight warehouse positions were eliminated. Personnel excess to these positions were transferred to other agencies or bureaus within the PLCB.

FY89-90: No change.

FY90-91: Four liquor distribution manager positions were eliminated in the Central Office. Two liquor distribution manager level 1 positions at the distribution centers were eliminated and replaced with lower level clerical positions.

17. **Warehouse Direct Delivery of Specialty Merchandise. Discontinue central delivery of specialty store items and replace by warehouse or direct delivery.**

FY88-89: Action pending outcome of distribution center network restructuring.

FY89-90: Not implemented. Distribution Center 1 will begin to move specialty codes (full cases) across the state in 1991.

FY90-91: Receipt and delivery of specialty merchandise through distribution centers began May 13, 1991. Integration into the distribution center "availability" inventory and accounting system was completed as of September 1991. Projected savings are reported to be \$62,000.

APPENDIX C (CONTINUED)

18. **Issuance of Blanket Purchase Orders.** *Issue blanket purchase orders for alcoholic beverages to reduce the administrative costs of ordering liquor products.*

FY88-89: Under review by Bureau of Logistics. Warehouse restructuring necessary prior to implementation.

FY89-90: No change.

FY90-91: The Bureau of Logistics "strategic initiatives" is based on a purchasing software package (LOGSPLUS) which includes numerous functions to reduce the administrative costs of ordering liquor products. The \$600,000 software was installed in September 1991.

19. **Downsizing of Laboratory Testing Operations.** *Downsize laboratory testing operations through use of other agency labs or by contract.*

FY88-89: Two positions were eliminated. Analysis of operational procedures to continue.

FY89-90: No change.

FY90-91: A chemist 3 position was eliminated and a chemist 2 position was downgraded to the chemist 1 level. The laboratory is now 75 percent as large as it was four years ago. Analysis of operational procedures to continue.

20. **Special Liquor Order Quotations.** *Require Special Liquor Order quotations to remain in effect for a set period of time.*

FY88-89: The initiative was not placed in effect. Long-term price guarantees by vendors would limit PLCB capability to buy on the spot market for limited quantities. Also, vendors would likely increase prices on current quotes to account for future price increases.

FY89-90 and FY90-91: No change.

21. **Restructure Current Hearing Examiner System.** *Discontinue the present hearing examiner system and develop less costly alternatives (e.g., transfer existing hearing examiners to Harrisburg or bill out to other agencies).*

FY88-89: The Legal Office developed an interagency agreement to provide for the use of hearing examiners by other agencies on a billed basis. The Office of Administration and Office of General Counsel are reviewing the agreement.

APPENDIX C (CONTINUED)

FY89-90: Hearing examiners were used by the PSP and the Bureau of Corrections. Other agencies have expressed an interest in using the services of the hearing examiners. Senate Bill #1772 would transfer the functions of the hearing examiners to the OALJ.

FY90-91: Hearing examiners were used on a contract basis by the PSP and Bureau of Corrections. The PLCB is negotiating contracts with other agencies for their services. Act 140 of 1991 transfers the functions of the hearing examiners to the OALJ effective June 30, 1992.

22. **Restructuring, Consolidation, and Closing of Investigative Field Offices.** *Close, or further downsize, the remaining six field offices for licensing investigations by directing investigators to work out of their homes.*

FY88-89: Three of the nine licensing investigative offices were closed.

FY89-90: Six licensing investigative offices were converted to three field and three pilot satellite offices in June 1990.

FY90-91: The satellite offices in Erie and Allentown were closed in December 1991.

23. **Extension of License Terms.** *Develop a plan to extend license terms to two or three years which would significantly decrease staffing needs.*

FY88-89: Recommended in the License Fee Report submitted to Legislature.

FY89-90 and FY90-91: No legislative action.

24. **Limitation of PSP Vehicle Costs.** *Limit PSP vehicle costs to base-year plus five percent for 158 vehicles. (Note: These vehicles are those transferred to the PSP, Bureau of Liquor Control Enforcement, from the PLCB and include 29 department-owned and 129 leased vehicles.)*

FY88-89: The PSP was requested to limit PSP vehicle expense borne by the PLCB. Agreement was reached that fifteen of 28 vehicles will not be paid for by the State Stores Fund.

FY89-90 and FY90-91: The PSP agreed to pay for vehicles using PSP operating funds. No change.

APPENDIX C (CONTINUED)

25. **Elimination of Enforcement Officer Retirement Subsidy.** *Eliminate contribution of one-half of all application, filing and transfer fees to the Enforcement Officer's (EO) Benefit Account.*

FY88-89: This recommendation was included in the License Fee report submitted to the Legislature (1987-88 session).

FY89-90: House Bill #2779 addressed the elimination of the EO subsidy. The House considered the Bill twice, but it was not reported out of the House Appropriations Committee.

FY90-91: House Bill #611 proposes elimination of the EO subsidy. The Bill has been considered twice and was in the House Appropriations Committee as of December 1991.

26. **Elimination of Unnecessary Monthly Licensee Reports.** *Eliminate the submission of unnecessary monthly licensee reports.*

FY88-89 and FY89-90: Under review.

FY90-91: PLCB Advisory Notices 2 through 8 eliminated numerous monthly licensee reports.

27. **Reduction in Field Site Maintenance Staff.** *Reduce site maintenance staff by imposing greater responsibilities upon lessors of these properties, or by contracting with local craftsmen and small businesses.*

FY88-89: Four site maintenance staff positions were eliminated. One clerical support position was eliminated.

FY89-90 and FY90-91: No change.

28. **Redefinition and Refinement of Agency Vehicle Policy.** *Review assignment of agency vehicles and withdraw those vehicles not being exclusively used for business purposes. When necessary, pay mileage for use of personal autos.*

FY88-89: Thirty-nine vehicles were removed from the PLCB vehicle fleet. Further reductions or vehicle pools were considered.

FY89-90: Four additional vehicles were removed from the vehicle fleet. District vehicle pools were placed on hold pending completion of POS training.

APPENDIX C (CONTINUED)

FY90-91: Eleven additional vehicles were removed from the vehicle fleet. Sub-compacts are also being phased in and used more extensively than in the past.

29. **Reduction of Mail Services and Costs.** *Reduce mailroom service and costs. Have stores send mail to Central Office only once per week.*

FY88-89: Four positions were eliminated with no reported degradation of service.

FY89-90: Pre-sorting of mail reportedly resulted in additional monetary savings.

FY90-91: Non-priority outgoing mail was sent to stores only three times a week instead of five times. First class mail was presorted and prebarcoded under contract with Jetson Direct Mail Services. Between April 15, 1991, when the contract began, and July 19, 1991, there were 90,356 pieces of mail handled at a net savings of \$3,195 which projects to annual savings of \$12,780.

30. **Downsizing the Existing Centralized Warehouse Operation for Supplies Distribution.** *Downsize existing centralized warehouse operation for supplies by expanding use of direct delivery via field limited purchase orders and Department of General Services' Central Warehouse (DGSCW).*

FY88-89: The warehouse inventory was reduced by 110 lines. Three full-time positions were eliminated. One delivery truck was transferred to Real Estate.

FY89-90: No change.

FY90-91: The transportation of supplies was competitively bid and the low bidder began deliveries on October 8, 1990. A vacant position was not filled. Complement reduction totaled four positions or 40 percent of original strength. Allocated warehouse space for the supply function was reduced from 22,660 to 13,056 sq. ft., a 42 percent reduction.

31. **Downsizing of the Board's In-House Graphic Arts Division.** *Downsize the in-house Graphic Arts Division by transferring routine projects which can be completed by contract or the Department of General Services (DGS) at less cost.*

FY88-89: Five positions were eliminated. Analysis of DGS printing support was conducted. The analysis concluded that PLCB in-house printing was more cost effective than DGS support.

APPENDIX C (CONTINUED)

FY89-90 and FY90-91: No change.

32. **Reduction of Maintenance, Mailroom, and Automotive Staffs.** *Reduce maintenance, mailroom, and automotive staffs by three to five positions.*

FY88-89: One maintenance, one automotive, and four mail room positions were eliminated.

FY89-90: One additional automotive position was eliminated.

FY90-91: Two maintenance repairmen positions were eliminated.

33. **Reassignment of Central Office Janitorial Staff to Daylight Shift.** *Convert to a daylight janitorial shift for the Central Office with only major maintenance left to the evening shift.*

FY88-89: Seven positions were converted to the daylight shift effective November 28, 1988. Five positions were eliminated.

FY89-90: The project was modified. Three more positions were eliminated. The remaining complement of 12 personnel is allocated as follows: 3 persons on dayshift and 9 persons on nightshift.

FY90-91: The complement remains at 12, allocated as above.

34. **Elimination of 24-Hour In-House Security Service.** *Eliminate requirement for a 24-hour security service and transfer the security responsibility for the Northwest Office Building to the Capitol Police.*

FY88-89: Capitol police assumed Central Office security responsibilities on September 16, 1988. Ten positions were eliminated.

FY89-90 and FY90-91: No change.

35. **Reduction of Air Conditioning.** *Reduce air conditioning in Northwest Office Building at 5:30 p.m. to 6:00 p.m.*

FY88-89: Effective June 29, 1988, the air conditioning was reprogrammed to turn off at least two hours earlier. Annual savings are estimated at \$6,160.

FY89-90 and FY90-91: No change.

APPENDIX C (CONTINUED)

36. **Reduction of Divisional Delineations Within the Agency.** *Reduce the number of divisional and field district delineations in the Agency where possible, including Real Estate, Support Services, Licensing, Personnel, and Investigations through elimination or merger, thus providing for the eventual elimination of up to 20 positions.*

FY88-89: The Bureau of Support Services reduced six divisions to three. Graphic arts, communications, and automotive were combined under Management Services. The assistant director position was eliminated.

The Bureau of Personnel reduced four divisions to three. Employee Services and Training were combined.

The Bureau of Logistics reduced five divisions to two. Purchases and Distribution replaced Laboratory, Special Liquor Purchases, Regular Liquor Purchases, Traffic and Inventory Management, and Distribution Center Operations. The assistant director position was eliminated.

Real Estate was elevated to bureau status. The two existing divisions were eliminated and replaced with a director's staff. The assistant director/facilities position was eliminated.

The Bureau of Licensing assimilated Licensing Investigations as a result of Act 1987-14. This function is managed by an assistant director with three field offices under his responsibility. In Central Office, Licensing was reduced from five divisions to two; the Administrative and Evaluation divisions.

FY89-90: The Bureau of Licensing reorganized six investigative regions into three field and three satellite offices.

FY90-91: A review of the agency organization continued, with changes considered in MIS, Licensing, and other bureaus. Two of the three satellite licensing offices were closed.

37. **Implementation of a 5 Percent Reduction-in-Force.** *Implement a 5 percent Reduction-in-Force throughout the agency.*

FY88-89: Two hundred and forty positions were eliminated without replacement during the fiscal year. A 5 percent reduction of the total complement would have required a 182 position reduction.

FY89-90: Eliminated 156 filled positions.

APPENDIX C (CONTINUED)

FY90-91: Eliminated 58 filled positions (10 via furlough action).

38. **Across-the-Board Expenditure Reductions.** *Impose a 1 to 5 percent across-the-board reduction in spending related to selected minor object codes. These categories of expenses can be considered as "controllable operating expenses."*

FY88-89: Thirty minor object codes were selected for monitoring. The agency experienced a 5 percent reduction in expenses related to these codes (\$885,229).

FY89-90: The 1989-90 controllable expenses compared to 1988-89 increased by \$2,198,277, or 10.7 percent. Closer analysis reveals the following:

- Total agency operating expenses increased \$1,899,644, or 1.1 percent.
- Salaries expense, which is not included in the controllables, decreased \$2,439,949, or 3.1 percent.
- Major increases in the controllables occurred in overtime (+\$619,290), wages (+\$742,299), and in other services/supplies (+\$557,016 for credit/debit card processing costs).

The increases in overtime and wages (part-time employees) were largely in the stores and resulted from the reduction of 121 full-time positions in response to the continuing decline in unit sales. Increased costs for credit/debit card processing reflect the agency's commitment to improving customer service and convenience. The three major increases cited above total \$1,918,535. Eliminating these increases from the total, the controllables would have shown an aggregate increase of \$279,742, or 1.4 percent, which is within the 1989-90 goal of 3 percent.

FY90-91: The controllable operating expenses through 11 accounting periods in 1990-91 vs. 1989-90 increased by \$1,720,816, or 9.2 percent.

Total agency operating expenses for the same time period increased \$3,192,170, or 2.2 percent.

Major increases in the controllables were:

- Overtime (+\$186,159) and wages (+\$554,632) increased as the agency continued to reduce full-time complement. During 1990-91, the number of filled positions decreased by 75.

APPENDIX C (CONTINUED)

- A posting error of \$52,450 resulted in a charge to Professional Fees (a controllable) which should have been to Freight (not included in the controllables).
- The cost of stores' security contracts increased by \$192,867. These contracts provide guard service at inner city stores for the protection of the consumers and the employees.
- Travel costs increased by \$119,082. The majority of the increase (\$108,000) occurred in Retail Management and in Real Estate. The increases were related to the implementation of the point-of-sale systems in the stores and to the ongoing program of converting all stores to self-service outlets.
- Electricity costs in the stores increased by \$261,656, +7.8 percent, as a result of higher utility rates.
- Office Supplies expense increased by \$96,049. The majority of the increase was in the stores and was related to the initial stocking of supplies (computer paper, diskettes, ribbons, etc.) needed for operating the point-of-sale systems.

These major increases total \$1,462,895. Offsetting these against the total increase in controllables of \$1,720,816, the remaining increase in controllables is \$257,921, or 1.4 percent. This is within the 1990-91 goal of holding controllables to a 3 percent increase.

39. ***More Detailed Billing Justification. Require more detailed justification as a condition of payment for billings received from the Office of the Budget (Comptroller), PSP, Auditor General, Civil Service Commission, Office of Administration and other state agencies.***

FY88-89: Agency investigation resulted in correction to Civil Service billing to reflect only classified service employees. Executive Directives restricted the PLCB from requiring other agencies to provide detailed justifications.

FY89-90 and FY90-91: No change.

40. ***Implementation of a Modified Duty Policy. Return employees, who are partially incapacitated from an injury or illness, to productive employment on a modified duty basis.***

FY88-89: A modified duty policy was implemented on February 1, 1989.

APPENDIX C (CONTINUED)

FY89-90: Seventy-three employees were returned to modified duty work in FY 1989-90. A total of 3,363 days were worked in modified duty status.

FY90-91: Eighty-nine employees were returned to modified duty in FY 1990-91. A total of 4,059 days were worked in modified duty status.

41. **Deferment of Filling of Position Vacancies.** *Defer filling vacancies for 30-90 days, even if approved for filling, to save salary/benefit dollars.*

FY88-89: Bureau directors were required to justify filling vacancies and indicate how long the hiring can be deferred. All hiring actions were reviewed by the Bureau of Personnel and Directors of Administration and Marketing.

FY89-90 and FY90-91: The policy continues.

42. **Change of Parking Space Locations.** *Consider acquiring parking spaces on City Island accompanied by Board provided shuttle service.*

FY88-89: Fifty-eight in-town parking spaces were vacated. City Island parking was investigated with no employee interest.

FY89-90 and FY90-91: No change.

43. **Conversion of Current Hardcopy Licensing Files.** *Convert Licensing Applications and other files to microfilm.*

FY88-89: Based on the Office of Administration's Bureau of Management Services study, a program to convert records to an image processing format was initiated.

FY89-90: The initial RFP process resulted in three bids which were considered excessive. The rebid process was initiated with a \$3 million budget cap.

FY90-91: A contract was awarded April 24, 1991. Peripheral hardware was delivered in September 1991. The remaining work stations and image hardware are due by February 1992. The system is projected to be fully operational by July 31, 1992.

44. **Reduction of Store Security Guard Coverage.** *Determine what efficiencies may be gained by cutting back or eliminating security guard coverage in certain stores.*

APPENDIX C (CONTINUED)

FY88-89: Security guard coverage was changed in 13 stores. Service was terminated in four stores, converted from armed to unarmed coverage in eight stores and reduced in hours of coverage for one store. Extra holiday coverage was reduced by 45 percent.

FY89-90: Security guard coverage was eliminated in two additional stores, hours of coverage reduced in three stores and coverage changed from armed to unarmed in three stores.

FY90-91: Ongoing security guard coverage was added to six stores (one store was a restoration of previous service) due to physical assaults on customers/employees and armed robberies.

45. **Reduction in Liquor Store Overtime Costs.** *Reduce overtime expenditures in state liquor stores by approximately 10 percent or \$180,000.*

FY88-89: Overtime expenses were decreased by \$648,485 or 34 percent.

FY89-90: Overtime expenses increased by \$619,290 or 48 percent. Total overtime hours only increased by 18,748 or 20.74 percent. Overtime costs increased at a greater rate (47.56 percent) due to the impact of the Fair Labor Standards Act, as straight time decreased by 23 percent and time and half increased by 102 percent. Time and half has increased to the point where it represents 59 percent of total overtime hours expended. Contributory factors for the increase in overtime include covering existing hours of operation while reducing the permanent workforce, extending hours on Monday and Tuesday in 46 stores, covering for store personnel utilized as POS installers/trainers and for employees receiving training prior to POS installation into their respective store, having difficulty in filling vacant full time positions in many areas of the state, difficulty in hiring hourly employees in certain areas of the state, and supplementing employees on extended sick leave.

FY90-91: Overtime increased by \$160,876 or 9.3 percent. Overtime was needed to cover existing hours of operation with a steadily declining work force. In addition, overtime was utilized as replacement time, when required, to cover for the accelerated POS installation and training program, and for the number of other training programs offered to store employees this fiscal year.

APPENDIX C (CONTINUED)

46. **Reduction in Number of Store Managers.** *Examine possibility of reducing management in areas where stores are in close proximity.*

FY88-89: A pilot program was under development. Implementation was anticipated during the fall, 1989.

FY89-90: The pilot began January 29, 1990. Reduced employee costs were insufficient to return affected stores to a profitable condition, however aggregate losses were reduced by 76.4 percent.

FY90-91: Two additional stores were placed on the One Manager-Two Store program thereby eliminating one general manager position this fiscal year. Four stores were in operation under this concept. The reduced employee costs associated with this program continue to be insufficient to return the affected stores to a profitable condition, although total losses have been reduced.

47. **Reduction in Store Staffing.** *Reduce store staffing in line with quota adjustment of August 6, 1988.*

FY88-89: One hundred and eighty-two full-time positions were eliminated during the fiscal year.

FY89-90: One hundred and twenty-six full-time positions were vacated and not filled.

FY90-91: Fifty-four full-time positions were eliminated, which resulted in nine full-time filled positions being vacated by the end of the fiscal year. Through attrition, numerous positions are expected to be vacated during the upcoming fiscal year.

48. **General Inventory Investment Reduction.** *Reduce overall average investment in inventory by 10 percent through more efficient monitoring and ordering procedures while providing for acceptable levels of service particularly with respect to fast-moving codes (also Revenue Enhancement #17).*

FY88-89: Inventory was reduced by approximately \$21.3 million through a drawdown of stock codes and sales of delisted codes.

FY89-90: Inventory was increased by \$17.3 million due to over-correction for out-of-stock items, warehouse closings/relocations and "buy-aheads" for special purchases.

APPENDIX C (CONTINUED)

FY90-91: Inventory was reduced by \$23.9 million from prior year ending.

Source: Developed by LB&FC staff from information contained in internal PLCB "Business Plan Status Reports" supplemented with meetings with pertinent PLCB officials and staff and, in some cases, examination of related file documentation.

APPENDIX D. METHODOLOGY FOR LB&FC STAFF SURVEYS OF SPIRIT AND
 WINE PRICES IN STATES BORDERING PENNSYLVANIA

Selection of Spirit and Wine Items

For purposes of a price survey, LB&FC staff selected a sample of spirit and wine items based on their volume of total PLCB sales. Two constraints were placed on the selection process. First, the universe from which the spirits and wines were selected included only items which accounted for the top 50 percent of total PLCB sales in FY 1990-91. This restriction increased the chance that items selected would be available in other states. Secondly, LB&FC staff deleted items which differed only by size from an item of the same label with greater sales volume. This restriction allowed a greater variety of items to be selected.

The PLCB provided LB&FC staff with the number of cases sold for each spirit and wine item on the PLCB price list in FY 1990-91. For each item, LB&FC staff calculated its percentage of sales by dividing the number of cases sold of each item by the total number of cases sold. The calculation was done separately for spirit and wine sales.

LB&FC staff then arranged the items in descending order of sales and calculated the cumulative percent of sales for each item. For example, the 27 wine items with the greatest number of cases sold accounted for the top 25 percent of wine sales, while the 16 top-selling spirit items accounted for the top 25 percent of spirit sales.

For both surveys, LB&FC staff randomly selected 8 items from the top 25 percent of sales and 4 items from the second 25 percent of sales. The selection method was designed to allow the probability of selection to be proportional to an item's percent of sales. For the selection, random numbers which represented an item's cumulative percent of sales were generated. An item was selected if the random number drawn was less than or equal to the cumulative sales associated with it, but greater than the previous item's cumulative sales.

For example, during FY 1990-91, the two top-selling spirit products were Bacardi Silver Rum with 2.54 percent of total sales and Windsor Canadian Supreme Whiskey with 2.48 percent of total sales. Cumulatively, the products represented the top 5.02 percent of all sales. Random numbers between 0000 and 0254 would be associated with the Windsor Canadian Supreme product, while random numbers greater than 0254 and up to 0502 would be associated with the Bacardi Silver Rum product. As the example illustrates, those

APPENDIX D (CONTINUED)

items with greater volumes of sale would have more random numbers associated with them and would have a greater chance of being selected.

Initially, 12 spirits and 12 wines were randomly chosen for the survey. However, due to problems with surveying some brands of spirits and wines in other states and the unavailability of specific sizes of wines in other states, substitutions were made. LB&FC staff replaced 3 spirit items and 3 wine items. All substitute items were chosen in the same manner as the initial items. LB&FC staff also added smaller sizes of three wines to the survey. If a store did not carry the larger size of wine, the interviewer asked for the price of the smaller size. The survey samples contained 12 spirit items and 15 wine items. The spirit and wine items included in the samples are listed on the following page.

Selection of Stores

LB&FC staff obtained names, addresses, and telephone numbers for retail outlets which sell spirits and wines in Delaware, Maryland, New Jersey, New York, and Ohio from a private telemarketing business which compiles this information. The same information for stores in West Virginia was obtained from the West Virginia Alcohol Control Board. Since Ohio is a control state and sets the prices of spirits, LB&FC staff obtained Ohio spirit prices directly from state price lists and spirit prices presented for Ohio are actual prices, not averages of surveyed prices. Also, Ohio prices include only the 5 percent state sales tax; local municipalities may add up to 2 percent to the cost of a spirit. Therefore, some Ohio prices may be 2 percent higher than that reported by the LB&FC. Since wine prices in Ohio are not controlled by the state, LB&FC staff obtained Ohio wine prices by the normal survey process.

Implementation of the Survey Process

Statewide Survey. One of the main objectives of the survey was to attain a 95 percent certainty that a price difference of at least \$.20 between Pennsylvania's prices and any other states' prices could be measured. Under this condition and using standard statistical formulas for normal populations, LB&FC staff determined that a minimum sample of 174 wine and 246 spirit prices were needed. However, in order to obtain a better depiction of price variation within states, LB&FC staff decided to increase the minimum number of observations to 360 for spirits and 432 for wines. For each item in the sample, LB&FC staff were to obtain a minimum of 6 observations in each state.

APPENDIX D (CONTINUED)

SPIRIT AND WINE ITEMS INCLUDED IN LB&FC STAFF COMPARATIVE PRICE SURVEYS

<u>Item Description</u>	<u>Size</u>	<u>PA Price^{a/}</u>
<u>Spirits</u>		
Bacardi Silver Puerto Rican Rum	750 ml	\$ 9.53
Windsor Canadian Supreme Whiskey	750 ml	8.57
Seagram's V.O. Whiskey	750 ml	11.44
Seagram's 7 Crown American Blended Whiskey	750 ml	8.79
Dekuyper's Peachtree Schnapps	750 ml	7.84
Dewars White Label Scotch	750 ml	16.95
Jim Beam Straight Bourbon	750 ml	8.90
Gordon's Dry Gin	750 ml	8.47
Gordon's Vodka	750 ml	7.41
Baileys Irish Cream	750 ml	19.07
J & B Rare Scotch	750 ml	16.64
Christian Brothers Brandy	750 ml	9.43
<u>Wines</u>		
E & J Gallo White Zinfandel	1.5 L	\$ 8.05
Sutter Home White Zinfandel Vintage 1990	750 ml	5.29
Carlo Rossi's Chablis	4.0 L	9.96
Riunite Bianco	1.5 L	8.79
Paul Masson Chablis	4.0 L	11.12
Riunite Lambrusco	1.5 L	8.79
Martini & Rossi Asti Spumante	750 ml	12.29
Inglenook Navalle Chablis	4.0 L	11.12
Martini & Rossi Sweet Vermouth	1.0 L	8.26
Canei White	1.5 L	9.32
Elmo Pio Asti Spumante	750 ml	9.53
Cribari Chianti	4.0 L	10.59
Carlo Rossi's Chablis	1.5 L	5.29
Paul Masson Chablis	1.5 L	6.45
Inglenook Navalle Chablis	1.5 L	6.35

^{a/} Prices shown were effective August 21, 1991, to November 12, 1991. No survey items were on sale in Pennsylvania during the time of the survey which occurred September 11-17, 1991. Prices shown include 6 percent sales tax.

Source: Developed by LB&FC staff from prices published in Pennsylvania's Official Wine and Liquor Quarterly, Fall 1991 edition.

APPENDIX D (CONTINUED)

Stores were selected randomly from a listing of liquor and package stores in adjacent states. LB&FC staff contacted randomly selected stores and asked for prices for a set of 3 of the 12 items. The sampling system used to collect prices was based on replications of eight stores, i.e., every eighth store was asked for prices for the same set of codes. For example, Stores 1, 9 and 17 were asked for prices for Items 1, 2, and 3, while Stores 2, 10, and 19 were asked for prices for Items 4, 5, and 6.

Before initiating the actual survey, LB&FC staff pretested the survey method to determine whether store representatives would provide reliable information. LB&FC staff visited 12 stores in adjacent states and obtained prices for selected spirit and wine products. This price information was then provided to a second LB&FC staff member. This second staff member then telephoned the stores visited and requested prices for the same products. Of the 32 prices checked in this manner, only three were reported incorrectly. The main reasons for the three inconsistencies were attributed to language/communication problems and/or a hesitancy to reveal any prices. Prior to the actual survey, interviewers were instructed on methods to address these potential problems.

Six members of the LB&FC staff served as interviewers for the survey. The survey was conducted over a one-week period in mid-September 1991. The interviewers contacted over 500 stores for wine prices and 283 stores for spirit prices. Of these stores, 306 provided wine prices and 205 provided spirit prices.

After the survey was completed, the pricing data was purged of any discrepant data. This step was taken in order to ensure that unusual or questionable prices were identified and deleted from the data. Prices were deemed to be unusual or questionable if they scored excessively high or low compared to the average differences in prices. As a result of the data verification process, 16 observations were dropped from the wine survey and 12 observations were dropped from the spirits survey. The final data set for wine included 595 observations and the final data set for spirits included 495 observations. Based on the prices obtained from other states, LB&FC staff calculated an average price for each item. These average prices, along with the standard deviations and number of observations per item per state, are shown on the following four pages of this Appendix.

Border Store Survey. The objective of this phase of the process was to survey stores located near the Pennsylvania border to determine whether prices in these stores differed from prices in other stores throughout the respective states. The spirit and wine items included in this survey were the original 27 spirit and wine items included in the survey of stores in adjacent states.

APPENDIX D (CONTINUED)

In order to obtain prices for these items, LB&FC staff first identified stores located within 20 miles of the Pennsylvania border and contacted several of these stores to ask permission to visit the stores. In mid-October, LB&FC staff visited six stores in Delaware, four stores in New Jersey, six stores in Maryland, three stores in West Virginia, and three stores in Ohio. LB&FC staff did not obtain spirit prices from stores in Ohio, since these prices are controlled by the state and do not vary. Also, LB&FC staff did not visit stores in New York. Instead, LB&FC staff telephoned 31 border stores in New York to obtain prices in the same manner as previously described.

In order to make the data comparable to the adjacent state survey data, the same data verification process was applied to the border store survey. Discrepant and unusual observations were dropped from the data set. As shown below, LB&FC staff obtained 188 prices for wine in border stores and 240 prices for spirits from border stores.

Border Store Survey Results. After the price data from the neighboring states had been collected and cleaned, LB&FC staff calculated average prices for the individual items by state. LB&FC staff determined overall differences in prices between Pennsylvania and neighboring states and tested the statistical significance of the differences found. Using the data collected from border states, LB&FC staff compared prices in these stores to prices throughout the state and found little difference.

NUMBER OF PRICES OBTAINED FROM BORDER STORES IN ADJACENT STATES

<u>State</u>	<u>Number of Wine Prices</u>	<u>Number of Spirit Prices</u>
Delaware	37	72
New Jersey	31	34
New York	31	38
Ohio	28	a/
West Virginia	23	36
Maryland	<u>38</u>	<u>60</u>
Total	188	240

a/Spirit prices in Ohio are controlled by the state.

Source: Developed by LB&FC staff from field visits and telephone calls to a sample of border stores in adjacent states.

APPENDIX D (CONTINUED)

AVERAGE PRICES FOR SPIRIT ITEMS OBTAINED THROUGH THE LB&FC STAFF SURVEY,
BY STATE (STANDARD DEVIATION IN PARENTHESIS, N = NUMBER OF OBSERVATIONS)

Item Description	Size	PA ^{a/}	Delaware	New Jersey	New York	West Virginia	Maryland	Ohio ^{b/}
Bacardi Silver Puerto Rican Rum	750 ML	\$ 9.53	\$10.60 (.46) N=11	\$10.82 (.83) N=8	\$12.00 (.84) N=8	\$ 9.79 (.76) N=10	\$ 9.59 (.49) N=9	\$ 9.85
Windsor Canadian Supreme Whiskey	750 ML	8.58	9.12 (.57) N=8	10.73 (.06) N=2	9.76 (0) N=1	8.75 (.85) N=6	8.22 (.24) N=10	8.70
Seagram's V.O. Whiskey ..	750 ML	11.44	12.31 (.55) N=12	12.35 (1.30) N=6	13.71 (1.14) N=6	11.78 (.96) N=5	11.15 (.39) N=6	11.90
Seagram's 7 Crown American Blended Whiskey	750 ML	8.79	9.80 (.37) N=9	10.39 (.85) N=9	11.21 (.79) N=11	8.93 (.76) N=10	8.74 (.71) N=9	9.00
Dekuyper's Peachtree Schnapps	750 ML	7.83	8.92 (.64) N=11	10.10 (.86) N=6	8.57 (.70) N=6	7.88 (.54) N=8	7.71 (.30) N=7	7.90
Dewars White Label Scotch	750 ML	16.95	16.40 (.68) N=11	17.76 (1.31) N=11	19.22 (.67) N=13	18.65 (1.21) N=8	15.90 (.55) N=10	17.95
Jim Beam Straight Bourbon	750 ML	8.89	9.64 (.53) N=11	10.68 (.69) N=7	11.49 (.66) N=6	9.05 (.52) N=11	9.14 (.77) N=11	9.15

APPENDIX D (CONTINUED)

Item Description	Size	PA ^{a/}	Delaware	New Jersey	New York	West Virginia	Maryland	Ohio ^{b/}
Gordon's Dry Gin	750 ML	\$ 8.47	\$ 8.78 (.65) N=11	\$ 9.59 (.90) N=7	\$10.30 (.95) N=10	\$ 7.75 (.65) N=10	\$ 8.15 (1.07) N=8	\$ 7.85
Gordon's Vodka	750 ML	7.41	7.60 (.64) N=11	7.84 (.44) N=6	9.00 (.72) N=10	7.13 (.76) N=10	6.87 (.58) N=7	6.85
Baileys Irish Cream	750 ML	19.07	21.58 (1.85) N=4	22.07 (2.01) N=6	19.85 (1.15) N=8	20.10 (1.15) N=6	19.43 (1.02) N=5	--
J & B Rare Scotch	750 ML	16.63	15.95 (.98) N=8	17.95 (1.27) N=7	19.02 (.73) N=10	17.64 (1.73) N=9	16.63 (1.44) N=11	17.65
Christian Brothers Brandy	750 ML	9.42	10.13 (.94) N=8	10.63 (1.28) N=8	10.65 (.83) N=7	9.21 (.57) N=6	9.34 (.93) N=9	9.70

Number of PA Prices Which Are Lower Than
Average in Other State 10 12 9 3 9

Number of PA Prices Which Are Higher Than
Average in Other State 2 0 0 3 2

a/Actual price.

b/Spirit prices in Ohio are controlled by the state; figures shown are actual prices.

Source: LB&FC staff survey of 205 stores in Delaware, Maryland, New Jersey, New York, and West Virginia. Ohio prices from Ohio's Liquor Quarterly, Fall 1991.

APPENDIX D (CONTINUED)

AVERAGE PRICES FOR WINE ITEMS OBTAINED THROUGH THE LB&FC STAFF SURVEY,
BY STATE (STANDARD DEVIATION IN PARENTHESES, N = NUMBER OF OBSERVATIONS)

Item Description	Size	PA ^{a/}	Delaware	New Jersey	New York	West Virginia	Maryland	Ohio
E & J Gallo White								
Zinfandel	1.5 L	\$ 8.05	\$ 7.84 (.91) N=10	\$ 7.55 (.53) N=12	\$ 7.76 (.38) N=7	\$ 8.18 (1.11) N=6	\$ 8.03 (.56) N=13	\$ 6.62 (1.70) N=13
Sutter Home White								
Zinfandel	750 ML	5.29	5.24 (.48) N=16	5.71 (1.16) N=10	5.94 (.91) N=12	6.09 (.51) N=5	5.63 (.34) N=10	5.78 (.51) N=12
Carlo Rossi's Chablis ...	4.0 L	9.95	9.31 (.97) N=14	9.00 (1.57) N=8	9.34 (1.14) N=12	10.72 (.39) N=3	8.39 (.51) N=13	8.90 (1.73) N=6
Riunite Bianco	1.5 L	8.79	8.52 (.95) N=21	9.69 (1.74) N=10	8.52 (1.02) N=13	9.80 (.87) N=9	7.91 (1.19) N=15	9.19 (1.41) N=12
Paul Masson Chablis	4.0 L	11.12	10.49 (.71) N=2	10.72 (1.30) N=7	12.20 (1.46) N=7	11.09 (0) N=1	9.06 (1.35) N=3	11.33 (1.09) N=5
Riunite Lambrusco	1.5 L	8.79	8.45 (.91) N=15	9.71 (1.76) N=11	8.52 (1.41) N=12	9.89 (.80) N=7	7.79 (1.17) N=11	9.17 (.60) N=12
Martini & Rossi Asti								
Spumante	750 ML	12.29	13.35 (.97) N=16	13.31 (1.79) N=11	14.02 (2.07) N=11	14.34 (.87) N=9	13.57 (1.62) N=16	15.67 (.54) N=16
Inglennook Navelle								
Chablis	4.0 L	11.12	12.59 (.53) N=3	10.69 (1.24) N=7	11.32 (1.33) N=4	12.86 (2.51) N=2	10.06 (1.43) N=7	10.60 (2.07) N=4
Martini & Rossi								
Sweet Vermouth	1.0 L	8.26	8.28 (.25) N=2	8.59 (.63) N=10	9.49 (.40) N=7	7.59 (.19) N=3	9.37 (1.05) N=4	8.75 (2.31) N=8

APPENDIX D (CONTINUED)

<u>Item Description</u>	<u>Size</u>	<u>PA^a</u>	<u>Delaware</u>	<u>New Jersey</u>	<u>New York</u>	<u>West Virginia</u>	<u>Maryland</u>	<u>Ohio</u>
Canei White	1.5 L	\$ 9.32	\$ 9.10 (1.09) N=8	\$ 8.81 (1.68) N=9	\$ 8.67 (1.29) N=11	\$10.76 (0) N=1	\$ 8.58 (.91) N=10	\$ 8.23 (.89) N=14
Elmo Pio Asti Spumante ..	750 ML	9.53	8.99 (0) N=1	7.75 (.39) N=2	N/A	N/A	N/A	9.53 (.00) N=1
Cribari Chianti	4.0 L	10.59	13.01 (.27) N=3	11.22 (0) N=1	12.35 (.68) N=2	N/A	9.23 (0) N=1	10.47 (.74) N=3
Carlo Rossi's Chablis ...	1.5 L	5.29	6.74 (1.06) N=2	N/A	N/A	N/A	4.87 (.22) N=2	7.78 (2.92) N=2
Paul Masson Chablis	1.5 L	6.46	6.69 (.51) N=6	7.48 (0) N=1	N/A	9.98 (0) N=1	6.33 (.44) N=5	8.01 (2.11) N=2
Inglennook Navelle Chablis	1.5 L	6.35	6.49 (0) N=1	6.41 (0) N=1	N/A	7.76 (0) N=2	7.40 (1.39) N=5	4.97 (.32) N=3
Number of PA Prices Which Are Lower Than Average in Other State			7	8	5	10	4	8
Number of PA Prices Which Are Same as or Higher Than Average in Other State			8	6	6	2	10	7

a/Actual price.

Source: LB&FC survey of 306 stores in Delaware, Maryland, New Jersey, New York, Ohio, and West Virginia.

APPENDIX E. DESCRIPTION AND RESULTS OF AN LB&FC STAFF SURVEY OF SPIRIT PRICES IN PA AND SELECTED CONTROL STATES

OBJECTIVE

As a supplement to the survey of prices in states bordering Pennsylvania, LB&FC staff also compared Pennsylvania's prices to prices in a sample of 13 other control states. Twelve control states (Alabama, Idaho, Maine, Montana, New Hampshire, North Carolina, Ohio, Oregon, Utah, Vermont, Virginia, and Washington) operate state-owned spirit stores, and like Pennsylvania, control the prices of spirits in these stores. Michigan does not operate retail state stores, but does control the statewide price for spirits. Because many of these states do not control the sale of wine, LB&FC staff surveyed only spirit prices in these 13 states.

METHODOLOGY

Selection of Spirit Items

LB&FC staff selected 50 spirit items from the PLCB's price list to include in the survey. Two limitations were placed on the selection of products. First, items with the same labels which differed only by size from an item with higher sales were deleted from the listing. Secondly, since it was important that products be available in other control states, items with less than .01 percent of all case sales in PA were not selected. The procedure for selecting products was identical to that used for the price survey in neighboring states. (See Appendix D.)

Thirty items were selected from items in the top 50 percent of all PLCB sales and 20 items were selected from the bottom 50 percent of all sales. The 50 items selected represent 36 percent of the PLCB's total sales of spirits in FY 1990-91.

LB&FC staff selected July 31, 1991, as the date for the survey. All prices were obtained from control state price lists. Of the 14 states (including PA), 13 provided price lists with price data effective for that date; Virginia's pricing guide was effective August 1, 1991.

Implementation of the Survey Process

LB&FC staff reviewed pricing lists obtained from liquor control agencies in the 13 control states in the sample and noted the price for each item in each state. No sale prices were included in this survey. Since control states set the price for spirits, a

APPENDIX E (CONTINUED)

possible 50 prices could be collected from each state. However, not all items were available in all states. In all, 444 prices for the 50 items were obtained from other control states. Prices include all relevant federal and state taxes.

SURVEY RESULTS

Based on the LB&FC staff survey, spirit prices in Pennsylvania are competitive with prices in other control states. Overall, when compared to the 13 other control states, prices in Pennsylvania were lower than 56.8 percent of the 444 spirit prices obtained. As with the adjacent state survey, the relationship between prices varied by state. For example, Pennsylvania's prices were lower on all items when compared to Alabama and Oregon, but higher on all items when compared to New Hampshire.

The results of a standard t-test applied to the control state data also indicate Pennsylvania is competitive with other control states. Of the nine control states with statistically significant price differences, only two states had lower prices than Pennsylvania. Prices in New Hampshire averaged \$2.33 less per item than prices in Pennsylvania while prices in Vermont averaged \$1.47 less. In contrast, Pennsylvania's average prices were lower than prices in Alabama, Idaho, Maine, Ohio, Oregon, Utah, and Washington. The average price differences for these seven states ranged from \$2.49 per item when compared to Alabama to \$.59 per item when compared to Ohio. (See data shown on the next page.)

APPENDIX E (CONTINUED)

AVERAGE DIFFERENCE BETWEEN PRICES FOR SELECTED SPIRIT
ITEMS IN PENNSYLVANIA AND A SAMPLE OF OTHER CONTROL STATES

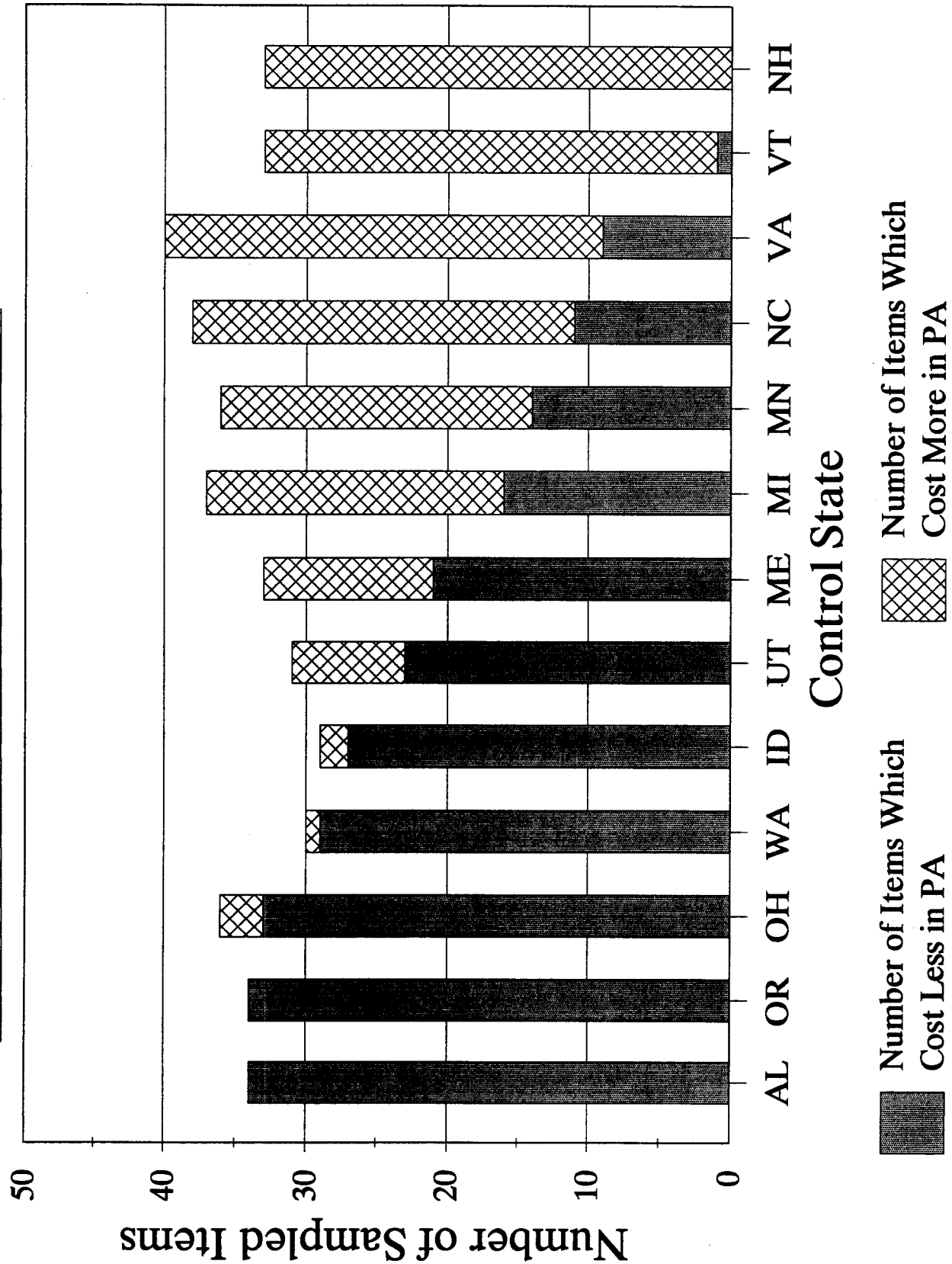
<u>State</u>	<u>Average Price Difference</u>	<u>Probability</u>	<u>State</u>	<u>Average Price Difference</u>	<u>Probability</u>
AL	\$(2.49)	.000 ^{a/}	OH	\$(0.59)	.001 ^{a/}
ID	(0.64)	.000 ^{a/}	OR	(1.73)	.000 ^{a/}
ME	(0.67)	.045 ^{a/}	UT	(0.90)	.000 ^{a/}
MI	(0.21)	.299	VT	1.47	.000 ^{a/}
MT	(0.16)	.359	VA	0.07	.635
NH	2.33	.000 ^{a/}	WA	(1.19)	.000 ^{a/}
NC	0.0	.988			

a/Significant at the .05 level.

Source: Developed by LB&FC staff from price lists obtained from other control states, effective July 31 and August 1, 1991.

LB&FC staff also made a "market basket" comparison of the surveyed spirit items which were available in Pennsylvania and all of the 13 sample control states. Nineteen items which were available in all 13 control states were included in the market basket. As shown on the next page, market basket prices in 4 of the 13 other control states were lower than the price in Pennsylvania, and prices in nine of the states were higher. The total market basket price ranged from \$202 in New Hampshire to \$294 in Alabama. The market basket price in Pennsylvania was \$248.

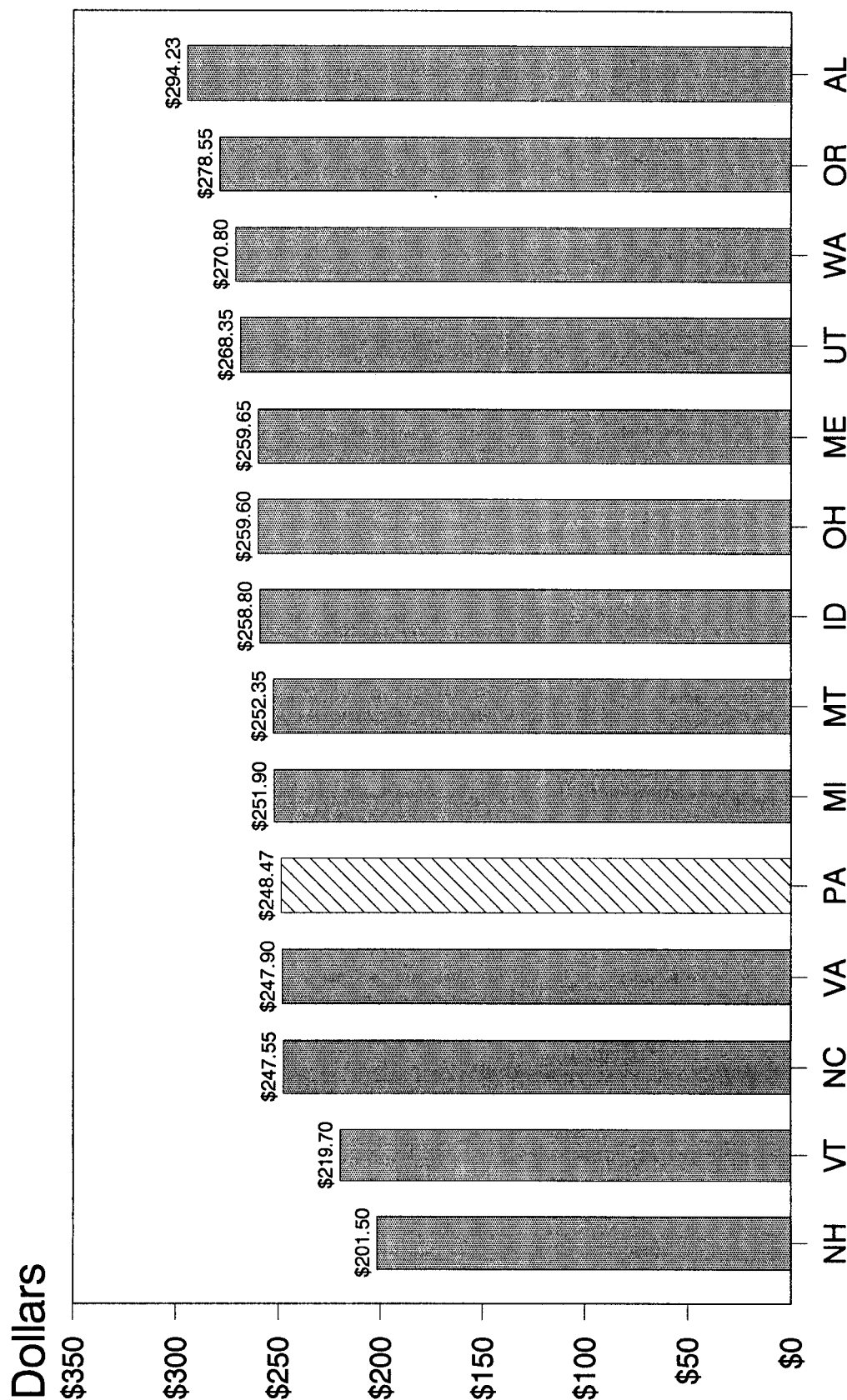
PRICES FOR A SAMPLE OF SPIRIT ITEMS IN OTHER
CONTROL STATES COMPARED TO PRICES IN PENNSYLVANIA



Source: Developed by LB&FC staff from a review of liquor pricing lists from other control states.

APPENDIX E (CONTINUED)

MARKET BASKET COST FOR A SAMPLE OF SPIRIT
ITEMS, PA AND THIRTEEN SELECTED CONTROL STATES*



*/Market basket cost represents the total cost for 19 of the 50 surveyed spirit items which were available in all states; 31 remaining items were not available in all states and were not included in the market basket.

Source: Developed by LB&FC staff from an examination of price lists obtained from the control states, effective July 31 and August 1, 1991.

APPENDIX F. PLCB LICENSES AND PERMITS: NUMBER IN EFFECT, FEE AMOUNT, AND AUTHORIZING
STATUTE OR REGULATION, BY TYPE

	Number in Effect (12/31/90)	License or*/ Permit Fee	Authorizing Sections of the Liquor ** Code and/or Regulations
<u>Retail Liquor Licenses</u>			
Restaurant	11,779	\$250 - \$700 ^{a/}	\$4-401
Hotel	1,791	\$250 - \$700 ^{a/}	\$4-401
Club	3,632	\$150	\$4-401
Airport Restaurant	13	\$250 - \$700 ^{a/}	\$4-401
Municipal Golf Course			
Restaurant	8	\$250 - \$700 ^{a/}	\$4-401
Privately Owned Public Golf			
Course Restaurant	54	\$250 - \$700 ^{a/}	\$4-401
Privately Owned Private Golf			
Course Catering Club	8	\$250 - \$700 ^{a/}	\$4-401
Off-Track Wagering Restaurant ...	2	\$250 - \$700 ^{a/}	\$4-405(e)
Stadium Restaurant	2	\$700	\$4-408.2
Performing Arts	14	\$675	\$4-408.3
Trade Show and Convention	4	\$675	\$4-408.1
Public Service	24	\$65, \$260 ^{b/}	\$4-408
Total Retail Liquor Licenses ..	17,331		
<u>Retail Malt Beverage Licenses</u>			
Eating Place	590	\$200 - \$400 ^{a/}	\$4-432
Hotel	3	\$200 - \$400 ^{a/}	\$4-432
Club	55	\$125	\$4-432
Municipal Golf Course Eating			
Place	8	\$200 - \$400 ^{a/}	\$4-432

APPENDIX F (CONTINUED)

	Number in Effect (12/31/90)	License or */ Permit Fee	Authorizing Sections of the Liquor ** Code and/or Regulations
Privately Owned Public Golf			
Course Restaurant	3	\$200 - \$400 ^a /	\$4-432
Stadium or Arena	12	\$150	\$4-433.1
Stadium and Restaurant	2	\$250 - \$700 ^a /	\$4-408.2
Brewery Pub	4	\$200 - \$400 ^a /	\$4-446
Public Service	0	\$40, \$55, \$160 ^c /	\$4-433
Total Retail Malt Beverage Licenses	677		
<u>Wholesale Licenses</u>			
Distributor	1,093	\$600	\$4-431
Importing Distributor	358	\$1,350 ^d /	\$4-431
Distillery	1	\$5,400 ^d /	\$5-505
Brewery	11	\$1,425 ^d /	\$4-431
Importer	59	\$265 ^e /	\$4-410
Importer's Warehouse	1	\$65	\$4-410
Sacramental Wine	18	\$265 ^d /	\$4-409
Bonded Warehouse	2	\$265 ^d /	\$5-505
Bailee for Hire	8	\$265 ^d /	\$5-505
Winery	1	\$385 ^d /	\$5-505
Limited Winery	52	\$385 ^d /	\$5-505
Transporter for Hire "A"	222	\$265	\$5-505
Transporter for Hire "B"	162	\$160	\$5-505
Transporter for Hire "C"	1	\$265	\$5-505
Total Wholesale Licenses	1,989		
<u>Permits</u>			
Sunday Sales (Liquor)	6,673	\$300	\$4-406(a)(3)
Sunday Sales (Malt)	397	\$300	\$4-406(a)(3)
Amusement (Liquor)	8,371	1/5 ann. lic. fee	\$4-493(10)

APPENDIX F (CONTINUED)

	Number in Effect (12/31/90)	License or */ Permit Fee	Authorizing Sections of the Liquor ** Code and/or Regulations
Amusement (Malt)	111	1/5 ann. lic. fee f/ \$30 or \$85 per day	\$4-493(10)
Special Occasion	1,347	\$175	\$4-408.4
Distillery Certificate Broker ...	2		\$7-703
Distillery Certificate Broker			
Agent's Registration	391	\$65	\$7-721
Broker's Registration	35		
Sales Permit - Reciprocal	52	\$5,000g/	\$2-207(b)
Vendor's Permit	121	\$265	\$2-208, \$13.71
Vehicle Insignia	26,012	\$5	\$9.24
Alcohol Permit	375	\$5	\$11.21
Department of Defense	6	No charge	\$3-305
Hospital Permit	77	No charge	\$11.51(b)
Bulk Purchase	16	\$10	\$11.72
Manufacturing Pharmacists and			
Chemist	2	\$5	\$11.62
Special Entertainment	5	\$25	\$4-493(10)
Brandy Permit	3	\$10	\$11.121
Total Permits	43,996		
Total Licenses and Permits	63,993		

* /These fees have been set by Act 1990-67, effective July 1, 1990.

** /The Liquor Code, 47 P.S. §1-101 et seq.; and regulations at 40 Pa. Code §1.1 et seq.

a /Fee depends on population.

b /The first fee is for railroad cars; the second fee is for vessels or air carriers.

c /The first fee is for railroad cars, the second fee is for air carriers, and the third fee is for vessels.

d /Prorated quarterly.

e /Each warehouse.

f /Without investigation; with investigation.

g /To be set by the Board not to exceed \$5,000.

Source: Developed by LB&FC staff.

APPENDIX G. DESCRIPTION OF THE OPERATION OF THE PLCB'S NUISANCE
 BAR PROGRAM

Step 1:

Approximately three months prior to the beginning of each license district's renewal period, the PLCB's Bureau of Licensing begins analyzing licensee operations. It solicits input by letter and/or memo from legislators, local police, and the PA State Police Bureau of Liquor Control Enforcement (PSP-BLCE) regarding any knowledge they may have of complaints or citations filed against licensees within that district.

The PSP-BLCE no longer provides the PLCB with bluesheets or testimony of unadjudicated citations. However, the Bureau does provide the Board with a 30-day notice of violation letter listing the allegations and the dates of the possible violations which resulted in the issuance of the citation "to assist the Board in the evaluation of unadjudicated citations."

The PLCB Bureau of Management Information Systems (MIS) conducts a computerized search of the current licensee citation database using a schedule of 64 different averments to flag records. A printout is made of all licensees identified as having three or more citations (adjudicated and unadjudicated) for these averments within the last two years. A separate printout is created for those licensees with drug citations.

A clipping service provides the Bureau of Licensing with newspaper articles about situations that may not be reported by any of the above sources or that may involve a licensee and the Office of Attorney General (OAG) (drug violation forfeiture) or the Federal Bureau of Alcohol, Tobacco, and Firearms (BATF).

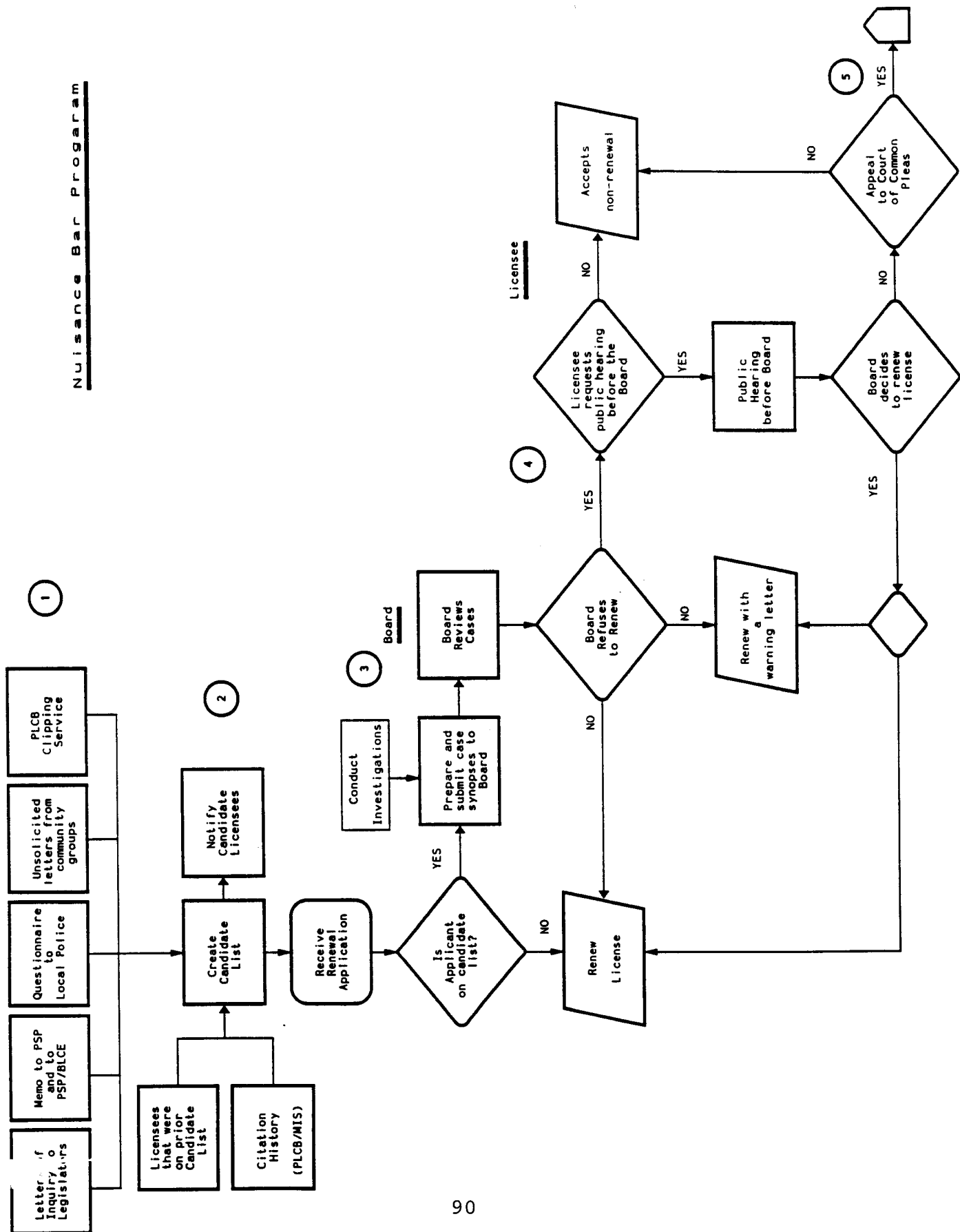
Licensing personnel also take into consideration letters of complaint they have received from individuals and neighborhood or community groups as well as the length of time the licensee has held the license, the timing of the citations, any pattern of abuse suggested by a combination of citations, who was actually cited, whether or not the licensee has previously received a non-renewal warning letter, etc. In some instances it may be necessary for investigators to obtain additional information.

Step 2:

Based on their analysis of all of this information, the Bureau of Licensing develops a list of possible non-renewal

APPENDIX G (CONTINUED)

Bureau of Licensing



APPENDIX G (CONTINUED)

candidates for further scrutiny. These licensees are notified by letter that they will be undergoing further scrutiny prior to the processing of their application for renewal.

Step 3:

The PLCB Bureau of Licensing classifies those licensees that it considers to have abused their privilege to hold a license into three tiers: Tier 1 cases are those declared as common nuisances by the courts under §6-611 of the Liquor Code, Tier 2 cases are those with three or more citations within the past 24 months which may directly or indirectly impact upon the public, and Tier 3 cases are those with less than three citations within the past 24 months which may directly or indirectly impact upon the public.

The Bureau prepares a synopsis of each case for the Board and makes a recommendation based upon the strength of the evidence for each case. The Board reviews this information then decides to (a) renew the license, (b) renew the license but also issue a warning letter to the licensee that next year's renewal may be in jeopardy, or (c) refuse to renew the license (initial refusal).

Step 4:

If the Board decides to non-renew, the licensee is notified by letter within ten days of the initial refusal and has twenty days to request an appeal hearing before the Board. At the public hearing before the Board, the licensee, as well as other individuals or groups, may present additional evidence for consideration. The Board will then make its final decision to renew or refuse.

Step 5:

At this point, if the license is refused, the licensee has the right of appeal to the Court of Common Pleas.

Source: Developed by LB&FC staff from information obtained from the PA Liquor Control Board.

APPENDIX H. KEY FEATURES OF PENDING LIQUOR SYSTEM PRIVATIZATION BILLS

1.	Administrative Entity	Commission	Board	Department of Revenue				
	HB 929	x ^a /						
	HB 1795		x ^b /					
	HB 2238		x ^b /					
	SB 320		x ^b /					
	SB 495			x ^c /				
	SB 1073		x ^b /					
	SB 1358		x ^b /					
2.	Sell-Off Features	Phased Deregulation	Public Sale	Minimum Bid Established for Stores	Required Purchase of Remaining Stock			
	HB 929	x ^d /	x		x			
	HB 1795	x ^e /	x	x	x			
	HB 2238	x ^f /	x	x	x			
	SB 320							
	SB 495	x ^g /	x		x			
	SB 1073	x ^h /	x	x	x			
	SB 1358	x ⁱ /	x	x	x			
3.	Restrictions	Number of Licenses Available	Number Held by Individual/Corporation	Location	Age of Employees	Licenses	Marketing Regions	Certain Restrictions Lifted
	HB 929	x ^j /	x ^k /	x ^l /		x		x
	HB 1795	x ^m /	x ⁿ /	x ^o /	x	x	x	x
	HB 2238	x ^m /	x ⁿ /	x ^o /	x	x	x	x
	SB 320					x		
	SB 495	x ^p /	x ^k /	x ^l /		x		
	SB 1073	x ^m /	x ^q /	x ^l /		x		x
	SB 1358	x ^m /	x ^r /	x ^o /	x	x	x	

APPENDIX H (CONTINUED)

4. Types of Licenses					
	Retail Wine	Wholesale Wine	Retail Liquor	Wholesale Liquor	
HB 929					
HB 1795	X	X	X	X	
HB 2238	X	X	X	X	
SB 320	X	X	X	X	
SB 495	X	X	X	X	
SB 1073	X	X	X	X	
SB 1358	X	X	X	X	
5. Provision for Current Employees					
	Best Effort to Place With State or Local Government	Best Effort to Place With Private Industry	Additional Service Credited	Loan Fund Established for Purchase of License	
HB 929				X ^{s/}	
HB 1795	X	X			
HB 2238					
SB 320					
SB 495				X ^{s/}	
SB 1073		X	X		
SB 1358	X				
6. Taxation and Fees					
	Spirituous and Vinous Liquor Tax Maintained	Tax Reform Code of 1971 Tax Maintained	Tax Imposed on Liquor/Wine	New Fees Established	License Fee Established
HB 929	X	X	t/		
HB 1795	X	X	Xu/	X	X
HB 2238	X	X	Xu/	X	X
SB 320	X	X	Xv/	X	X
SB 495	X	X	Xt/		
SB 1073	X	X	Xt/	X	X
SB 1358	X	X	Xu/	X	X
					Emergency Tax Repealed (18%)

APPENDIX H (CONTINUED)

7. Disposition of Funds	General Fund	Education	Loan Fund	Repayment of Working Capital to General Fund	Tax Reduction Fund
HB 929		X	X		
HB 1795				X	
HB 2238	X			X	X ^{w/}
SB 320	X				
SB 495		X	X		
SB 1073	X			X	
SB 1358	X			X	X ^{x/}

8. Miscellaneous	Local Option Provided	Advertising Authorized	Sales of Related Merchandise	Prohibits Licensing of Establishment Which Sells Motor Fuels
HB 929	X	X	X	X
HB 1795	X	X	X	X
HB 2238	X	X	X	X
SB 320	X	X	X	
SB 495	X	X	X	X
SB 1073	X	X	X	X
SB 1358	X	X	X	X

a/Establishes an independent, five-member alcoholic beverage commission.
b/Retains Liquor Control Board.

c/Creates the Alcoholic Beverage Control Coordinating Council as an advisory board within the executive office of the Governor to provide planning, oversight and coordination between the state agencies involved in the regulation of alcohol. Expires in two years.

d/Deregulation of retail and wholesale liquor sales occurs in phases over a five-year period of time.
e/Deregulation of retail and wholesale liquor sales occurs in overlapping phases over a one-year period of time.

f/Deregulation of retail and wholesale liquor sales occurs in phases over a twelve-month period.
g/Deregulation of retail and wholesale liquor sales occurs in phases over a five-year period of time.
h/Deregulation of retail and wholesale liquor sales occurs in overlapping phases over an eighteen-month period of time.

APPENDIX B (CONTINUED)

i/Deregulation of retail and wholesale liquor sales occurs in phases over an eighteen-month period of time.
j/A license to replace each state store operating on January 1, 1992, will be offered for sale.
k/Initially restricted to ten licenses for any single individual, corporation, or association. Within two years the successful bidder can apply for one additional license to operate a store within the county in which the original license was granted or in a contiguous county.
l/The retail store shall be located within a one-mile radius of the state store it replaces in an urban area, a four-mile radius in a Standard Metropolitan Statistical Area (SMSA), and a ten-mile radius in all other circumstances.
m/A license to replace each state store operating on July 1, 1991, will be offered for sale.
n/Any single individual, corporation, or association shall hold no more than 10 percent of all private retail store licenses and no more than 20 percent in any one county.
o/The private retail store shall be located in the same county as the state store it replaces.
p/A license to replace each state store operating on January 1, 1991, will be offered for sale.
q/Any single individual, corporation, or association shall hold no more than ten licenses.
r/Any single individual, corporation, or association shall hold no more than five licenses and no more than 20 percent of the licenses in any one county.
s/Appropriation of \$10 million from the monies received from the sale of stores to the Department of Commerce to guarantee loans to former employees of state stores for the purpose of acquiring licenses.
t/Tax of 17 percent imposed on the net price of all liquors sold by private retail stores.
u/Tax of 18 percent imposed on the net price of all liquors sold by private retail stores.
v/Tax of \$.70 per wine gallon imposed on all wine sold by a Pennsylvania manufacturer, the first wholesale wine licensee importing such wine purchased from a nonresident registrant into this Commonwealth or by the Board.
w/All monies received from the sale of the retail and wholesale wine and liquor system shall be deposited in the Taxpayers' Dividend Fund and used to provide equal per return tax credits for all persons who file tax returns under Article III of the "Tax Reform Code of 1973."
x/All monies received from the sale of the retail and wholesale wine and liquor system shall be deposited into a tax reduction fund and transferred to the General Fund to offset reductions in General Fund revenue resulting from reductions in the personal income tax rate. Such reduction in the personal income tax rate should be based upon the amount of funds raised by the sale.

Source: LB&FC staff review of pending liquor system privatization bills, March 1992.

APPENDIX I. SUMMARY OF PENDING LEGISLATION RELATING TO THE LIQUOR CONTROL BOARD, AS OF
FEBRUARY 25, 1992*

<u>Bill Number</u>	<u>Current Printer's Number</u>	<u>Description</u>	<u>Current Status</u>
<u>House Bills:</u>			
45	34	Amending the Crimes Code, providing for the purchase, consumption, possession, and transportation of alcohol, as related to minors.	House Judiciary Committee
51	40	Providing for special occasion permits for local arts agencies.	House Liquor Control Committee
81	1245	A Resolution requesting the PLCB to refrain from issuing any additional retail licenses for the sale of liquor or malt or brewed beverages in the City of Philadelphia until an investigation is conducted.	House Rules Committee
132	129	Requiring holders of special occasion permits to enclose with fencing the area wherein liquor or malt beverages are sold.	House Liquor Control Committee
137	1883	A Resolution urging the PLCB to investigate the cost of printing "If You Drink, Don't Drive" on all carryout bags used in State Stores and, if cost effective, to print the slogan on the bags.	Adopted
197	207	An Act providing for the posting of signs relating to the danger of consumption of alcohol by pregnant women; and imposing duties on the Health Department and the PLCB.	House Liquor Control Committee

*/Unless otherwise indicated in the description, bill amends the Liquor Code, 47 P.S. §1-101 et seq.

APPENDIX I (CONTINUED)

<u>Bill Number</u>	<u>Current Printer's Number</u>	<u>Description</u>	<u>Current Status</u>
233	242	Requiring final administrative law judge adjudication of all citations within 90 days of issuance.	House Liquor Control Committee
234	243	Providing for sales by importing distributors to distributors.	House Liquor Control Committee
235	244	Providing for limitations on retail sales by importing distributors.	House Liquor Control Committee
300	316	Amending the Crimes Code prohibiting the transportation or possession of alcoholic beverages in public places.	House Liquor Control Committee
358	379	Providing for the issuance of extended hours food licenses.	House Appropriations Committee
405	432	Providing for the sale of malt and brewed beverages on credit.	House Liquor Control Committee
452	511	Prohibiting the sale of liquor and malt and brewed beverages at certain functions held by institutes of post-secondary education.	House Liquor Control Committee
493	2819	Expanding the enforcement powers of liquor control enforcement officers.	House Appropriations Committee
581	647	Requiring hearings on citations to be held within 180 days of the issuance of the citation.	House Liquor Control Committee

1/A House resolution was presented to discharge the Appropriations Committee from consideration of the bill. As of February 25, 1992, no action was taken on this motion.

APPENDIX I (CONTINUED)

<u>Bill Number</u>	<u>Current Printer's Number</u>	<u>Description</u>	<u>Current Status</u>
582	648	Authorizing the sale or purchase of wine in kegs.	House Liquor Control Committee
589	655	Amending the Crimes Code to require certain evidence to substantiate violations relating to the purchase, consumption, possession, or transportation of liquor or malt or brewed beverages by minors.	House Judiciary Committee
592	658	Providing for the issuance of special occasion permits for "Monte Carlo Night" for religious and charitable organizations and volunteer fire companies.	House Liquor Control Committee
611	614	Eliminating the transfer of funds to the Enforcement Officers' Retirement Account.	House Appropriations Committee
695	3087	Permitting the sale of liquor and malt or brewed beverages on Super Bowl Sunday by those licensees who do not possess a Sunday sales permit; requiring participation in recycling program; providing for club extended hour food permits.	Senate Law and Justice Committee
709	786	Providing for the sale of malt or brewed beverages at boxing and wrestling events.	House Liquor Control Committee
863	952	Requiring the PLCB to post notices of citation hearings at affected establishments.	House Liquor Control Committee
864	953	Establishing a new license to be known as a tavern liquor license.	House Liquor Control Committee

APPENDIX I (CONTINUED)

Bill Number	Current Printer's Number	Description	Current Status
929	1041	Establishing a private liquor system. ^{2/}	House Liquor Control Committee
1023	1160	Prohibiting unlawful acts involving lewd, immoral or improper entertainment.	House Liquor Control Committee
1053	1196	Providing for a deposit on containers sold by a State Liquor Store.	House Liquor Control Committee
1112	1262	Providing for sales by limited winery licensees.	House Liquor Control Committee
1134	3018	Providing for proper supervision of minors on a licensed premises; providing for special occasion permits; providing for administrative law judges; reestablishing the hearing examiner positions; providing for license districts and for public service licenses.	Senate Law and Justice Committee
1202	1376	Providing for licenses issued in resort areas.	House Liquor Control Committee
1203	1377	Prohibiting license transfers to municipalities where the number of licenses exceeds the quota for such municipality by more than 20%.	House Liquor Control Committee
1352	1570	Removing the requirement that empty liquor containers must be broken.	House Liquor Control Committee
1406	1645	Authorizing BLCE officers to arrest persons violating provisions of the Crimes Code.	House Liquor Control Committee

^{2/}Please see Appendix H for more detailed information relating to liquor system privatization pending legislation.

APPENDIX I (CONTINUED)

<u>Bill Number</u>	<u>Current Printer's Number</u>	<u>Description</u>	<u>Current Status</u>
1473	1700	Permitting clubs to serve, in addition to its members, any member of a national veterans organization, whether or not such person is a member of the respective club.	House Liquor Control Committee
1542	1812	Permitting patrons of licensed premises to leave the premises possessing sealed containers of malt or brewed beverages purchased before the legal closing time.	House Liquor Control Committee
1547	2586	Amending the Crimes Code to include assaults against Liquor Enforcement Officers under the definition of aggravated assault.	Senate Judiciary Committee
1610	1892	Permitting sales of wine in stainless steel kegs.	House Liquor Control Committee
1620	2594	An act repealing certain obsolete laws relating to liquor.	Senate Law and Justice Committee
1677	1987	Requiring the PLCB to revoke a license in a first class city if the licensee has more than one violation on the license. The PLCB may never issue the license again within that first class city and shall never issue another license to that licensee.	House Liquor Control Committee
1783	2092	Permitting junior fire fighters who are at least 16 years old to frequent clubs without supervision if such club is owned or operated by a volunteer fire company. The junior fire fighter is not permitted to consume alcohol.	House Liquor Control Committee

APPENDIX I (CONTINUED)

<u>Bill Number</u>	<u>Current Printer's Number</u>	<u>Description</u>	<u>Current Status</u>
1795	2148	Establishing a private liquor system. ^{2/}	House Liquor Control Committee ^{3/}
1830	2193	Granting police powers to liquor control enforcement officers and investigators.	House Liquor Control Committee.
1831	2194	Providing for the revocation of licenses and a moratorium on the issuance of retail licenses in counties currently exceeding the statutory limit.	House Liquor Control Committee
1832	2195	Providing for capitalization and property ownership or lease requirements for applicants for liquor licenses.	House Liquor Control Committee
1834	2208	Requiring administrative law judges to revoke a liquor license in a first class city if the licensee has more than three violations. The PLCB is not permitted to issue another license to that licensee for five years.	House Liquor Control Committee
1835	2209	Providing for actions to enjoin nuisances.	House Liquor Control Committee
1836	2210	Granting standing to certain nonprofit corporations who object to license applications in cities of the first class when the nonprofit corporation is within a one-mile radius of the proposed licensed premises.	House Liquor Control Committee
1837	2211	Requiring the PLCB to hold hearings upon petitions to intervene.	House Liquor Control Committee

3/A House motion was presented to discharge the Liquor Control Committee from further consideration of the bill. The motion failed upon its consideration.

APPENDIX I (CONTINUED)

<u>Bill Number</u>	<u>Current Printer's Number</u>	<u>Description</u>	<u>Current Status</u>
1838	2212	Prohibiting the PLCB to issue or transfer a retail license for a premises that is within one thousand feet of another licensed premises.	House Liquor Control Committee
1839	2213	Prohibiting the transfer of a license until after an enforcement proceeding against the licensee is complete.	House Liquor Control Committee
1840	2214	Requiring citations to follow the license upon transfer.	House Liquor Control Committee
1841	2215	Requiring a license transfer hearing when corporate stock is sold by the corporation holding the license.	House Liquor Control Committee
1842	2216	Prohibiting appeals from acting as supersedeas involving license hearings in cities of the first class.	House Liquor Control Committee
1843	2217	Providing for the safekeeping of licenses.	House Liquor Control Committee
1856	2227	Increasing certain penalties for violations of §4-493.	House Liquor Control Committee
1879	2259	Establishing the Excess Liquor License Purchase Act.	House Liquor Control Committee
1939	2339	Providing that a warning on the consumption of alcohol during pregnancy must be conspicuously displayed at State Stores, by distributors and retail licensees.	House Liquor Control Committee
1947	2374	Disallowing supersedeas in nonrenewal of license appeals; providing for citations to be carried with a transferred license; further defining nuisances; and increasing penalties.	House Liquor Control Committee

APPENDIX I (CONTINUED)

<u>Bill Number</u>	<u>Current Printer's Number</u>	<u>Description</u>	<u>Current Status</u>
1952	2393	Providing that a citation for a violation must be issued at the time the alleged violation is committed.	House Liquor Control Committee
2096	2620	Repealing certain obsolete laws relating to liquor.	House State Government Committee
2101	2630	Providing for special occasion permits.	House Liquor Control Committee
2238	2816	Establishing a private liquor system. ^{2/}	House Liquor Control Committee
2370	3034	Providing for the expungement of certain violations from the records of certain licensees.	House Liquor Control Committee
<u>Senate Bills:</u>			
71	71	Establishing the Local Option Liquor License Small Games of Chance Act.	Senate Finance Committee
211	220	Providing for the shipment of certain alcoholic beverages into Pennsylvania.	Senate Law and Justice Committee
256	265	Providing for the safekeeping of licenses.	Senate Law and Justice Committee
286	296	Limiting the liability of licensees who rely on certain drivers' licenses as proof of age.	Senate Law and Justice Committee
320	330	Providing for private wholesale and retail sale of wine. ^{2/}	Senate Law and Justice Committee

APPENDIX I (CONTINUED)

<u>Bill Number</u>	<u>Current Printer's Number</u>	<u>Description</u>	<u>Current Status</u>
321	331	Providing for private sales of wine.	Senate Law and Justice Committee
361	371	Providing for notice to an affected municipality regarding a hearing on new or transfer of licenses.	Senate Law and Justice Committee
387	400	Providing for the submission of a referendum to the electors of the Commonwealth relating to the establishment of a private system for the sale of wine and liquor.	Senate Law and Justice Committee
492	521	Requires that all records of the PLCB be open to public inspection and review.	Senate Law and Justice Committee
493	522	Providing for hearings on license applications.	Senate Law and Justice Committee
495	524	Establishing a private liquor system. ^{2/}	Senate Law and Justice Committee
540	569	Providing for the transfer of club licenses.	Senate Law and Justice Committee
555	584	Providing for special occasion permits to be issued to medical centers.	Senate Law and Justice Committee
753	798	Providing for special occasion permits to be valid for use on five days during a 12-month period.	Senate Law and Justice Committee
776	821	Providing for bonded warehouse and winery licenses.	Senate Law and Justice Committee

APPENDIX I (CONTINUED)

<u>Bill Number</u>	<u>Current Printer's Number</u>	<u>Description</u>	<u>Current Status</u>
850	1248	Deleting the requirement for a certain percentage of wine specialty stores; authorizing the limited exchange of certain hotel licenses for restaurant licenses; providing for special occasion permits including the length of validity; and providing for the selling of liquor or malt or brewed beverages at certain boxing and wrestling events, bowling tournaments and contests.	House Appropriations Committee
867	936	Requiring licensees to recycle when located in communities with a recycling program.	Senate Law and Justice Committee
919	990	Requiring licensees to recycle when located in municipalities with a recycling program.	Senate Law and Justice Committee
1016	1110	Expanding the powers and duties of BLCE officers by authorizing them to arrest for crimes enumerated in the Crimes Code.	Senate Law and Justice Committee
1025	1119	Providing for unlawful acts relative to liquor, malt, and brewed beverages and licenses.	Senate Law and Justice Committee
1073	1190	Establishing a private liquor system. ^{2/}	Senate Law and Justice Committee
1358	1576	Establishing a licensed private liquor and wine wholesale and retail system.	Senate Law and Justice Committee
1457	1765	Providing for the quantity of beverages to be sold by distributors.	Senate Law and Justice Committee
1512	1842	Providing for the disposition of forfeited property.	Senate Law and Justice Committee

APPENDIX I (CONTINUED)

<u>Bill Number</u>	<u>Current Printer's Number</u>	<u>Description</u>	<u>Current Status</u>
1526	1862	Requiring that all wine shipped into and manufactured in the Commonwealth be in containers specified in the Standards of Fill for Wine prescribed by the U.S. Department of Treasury; requiring the PLCB to adopt federal regulations relating to such standards.	Senate Law and Justice Committee
1543	1900	Establishing the Liquor Container Recycling Act.	Senate Law and Justice Committee

Source: Developed by LB&FC staff from a review of pending legislation.

APPENDIX J. REPORTED USE OF LIQUOR PROFITS TRANSFERRED TO THE
PA DEPARTMENT OF HEALTH FOR DRUG AND ALCOHOL
PROGRAMS, FOR FY 1988-89 TO FY 1990-91*

Fiscal Year 1988-89: Total Transfer - \$423,749

<u>Use of Funds</u>	<u>Amount</u>
Applied against alcohol treatment and prevention expenditures incurred by the Single County Authorities ..	\$365,984
Contracted out to the Philadelphia Health Management Corporation to evaluate drug and alcohol services to pregnant teenagers and teen parents	55,251
Contracted out to a training facility to conduct a conference for the drug and alcohol field on higher education	<u>2,514</u>
Total	\$423,749

Fiscal Year 1989-90: Total Transfer - \$469,412

Applied against alcohol treatment and prevention expenditures incurred by the Single County Authorities ..	\$392,915
Purchased educational materials for Office of Drug and Alcohol Program's (ODAP) Educational Needs Clearinghouse which distributes drug and alcohol educational information throughout the state	16,790
Applied against expenditures incurred by training facilities which hosted ODAP's fall and spring training institutes	<u>59,707</u>
Total	\$469,412

Fiscal Year 1990-91: Total Transfer - \$632,761

Applied against alcohol treatment and prevention expenditures incurred by the Single County Authorities ..	\$632,761
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*/The Liquor Code, 47 P.S. §8-802(c), provides that 2 percent of annual profits from the sale of liquor and alcohol shall be annually transferred to the Department of Health for use by the Office of Drug and Alcohol Programs for the following purposes (1) treatment and rehabilitation of persons addicted to the excessive use of alcoholic beverages; (2) promotion of education, prevention, and early intervention programs designed to eliminate abuse and addiction to alcohol or other mood-altering substances or secure appropriate treatment for the already addicted; and (3) study of the problem of addiction.

Source: Obtained from the Office of Drug and Alcohol Programs, PA Department of Health.

APPENDIX K. RETAIL OUTLETS FOR THE SALE OF SPIRITS, WINE, AND BEER IN CONTROL STATES*

State	Does the State Operate State Stores? Retail Wholesale Both		Alcoholic Beverages Sold by State				Other Retail Outlets Which Sell		
			Retail Stores		Beer		Spirits	Wine	Beer
			Spirits	Wine	Beer	Beer			
Alabama	Yes	Yes	X	X	--	--	Package	Package Grocery Drug	Package Grocery Drug
Idaho	Yes	Yes	X	X	X ^{a/}	--	--	Package Grocery Drug	Package Grocery Drug
Iowa	No	Yes	--	--	--	--	Package Grocery Drug Convenience	Package Grocery Drug Convenience	Package Grocery Drug Convenience
Maine	Yes	Yes	X	X ^{b/}	--	--	Agency	Agency ^{b/} Package Grocery Drug Convenience	Package Grocery Drug Convenience
Michigan	No	Yes	--	--	--	--	Package Grocery Drug Convenience	Package Grocery Drug Convenience	Package Grocery Drug Convenience
Mississippi	No	No ^{c/}	--	--	--	--	Package	Package	Grocery Convenience
Montana	Yes	Yes	X	X	--	--	Agency	Agency Package Grocery Drug Convenience	Package Grocery Drug Convenience

APPENDIX K (CONTINUED)

State	Does the State Operate State Stores?		Alcoholic Beverages Sold by State				Other Retail Outlets Which Sell		
	Retail	Wholesale	Both	Spirits	Wine	Beer	Spirits	Wine	Beer
New Hampshire ...	Yes	Yes	Yes	X	X	x ^{d/}	--	Package Grocery Convenience Drug	Package Grocery Convenience Drug
North Carolina ^{e/} .	Yes	Yes	Yes	X	--	--	--	Grocery Drug Convenience	Grocery Drug Convenience
Ohio	Yes	Yes	Yes	x ^{f/}	--	--	Agency ^{f/} Package Grocery Convenience	Package Grocery Convenience	Package Grocery Convenience
Oregon	Yes ^{g/}	Yes ^{h/}	Yes	X	--	--	--	Package Grocery Convenience	Package Grocery Convenience
PENNSYLVANIA	Yes	Yes	Yes	X	X	--	--	--	Licensed Distributors
Utah	Yes	Yes ^{h/}	Yes	X	X	x ^{i/}	Package ^{g/} Grocery ^{g/}	Package ^{g/} Grocery ^{g/}	Package ^{g/} Grocery ^{g/}
Vermont	Yes	Yes ^{h/}	Yes	X	x ^{b/}	--	Agency ^{g/}	Agency ^{g/} Grocery Convenience	Grocery Convenience
Virginia	Yes	No	No	X	x ^{j/}	--	--	Grocery Drug Convenience	Grocery Drug Convenience
Washington	Yes	No	No	X	X	x ^{k/}	--	Grocery Convenience	Grocery Convenience

APPENDIX K (CONTINUED)

State	Does the State Operate State Stores? Retail Wholesale Both		Alcoholic Beverages Sold by State				Other Retail Outlets Which Sell		
			Retail Stores		Spirits		Spirits	Wine	Beer
			Spirits	Wine	Beer	Beer			
West Virginia ... No ^{1/}	Yes	No	--	--	--	--	Package Grocery Drug	Package Grocery Drug	Package Grocery Drug
Wyoming	No	Yes	--	--	--	--	Package Grocery Drug	Package Grocery Drug	Package Grocery Drug

^{1/}Off-premises consumption outlets only. Excludes establishments that permit both on- and off-premises consumption of alcohol (e.g., restaurants, taverns, etc.).

a/Beer over 5 percent alcohol.

b/Wine over 16 percent alcohol.

c/Mississippi operates one warehouse facility for all alcohol products over 4 percent alcohol.

d/Beer over 6 percent alcohol.

e/Alcoholic beverage control stores are operated by individual counties and municipalities, not the state government.

f/Distilled spirits over 42 proof.

g/Operated by individual agents contracted with the state.

h/Licensees purchase spirits from state retail liquor stores, no wholesale price discount.

i/Beer over 3.2 percent alcohol.

j/Only wine produced in Virginia.

k/Specialty beers only.

l/Retail sales of spirits privatized. However, as of April 1992, the state still operates one retail liquor store.

Source: Developed by LB&FC staff from a telephone survey of state alcoholic beverage control agencies conducted in July 1991. Supplementary information was also obtained from Industry Profiles, 1990-91 edition, published by the Beverage Media Group, Ltd.

APPENDIX L. RETAIL OUTLETS FOR THE SALE OF SPIRITS, WINE, AND BEER
IN LICENSE STATES*

<u>State</u>	Kinds of Establishments Which May Make Package Sales of:		
	<u>Spirits</u>	<u>Wine</u>	<u>Beer</u>
Alaska	Package	Package	Package
Arizona	Package	Package Convenience ^{1/} Drug	Package Convenience Drug
Arkansas	Package	Package	Package Convenience Drug Grocery
California	Package Grocery Convenience Drug	Package Grocery Convenience Drug	Package Grocery Convenience Drug
Colorado	Package Drug	Package Drug	Package Drug Grocery ^{2/} Convenience ^{2/}
Connecticut	Package Drug	Package Drug	Package Grocery Drug
Delaware	Package	Package	Package
District of Columbia	Package	Package Grocery Convenience Drug	Package Grocery Convenience Drug
Florida	Package ^{3/} Grocery ^{3/} Convenience ^{3/} Drug ^{3/}	Package Grocery Convenience Drug	Package Grocery Convenience Drug

APPENDIX L (CONTINUED)

<u>State</u>	Kinds of Establishments Which May Make Package Sales of:		
	<u>Spirits</u>	<u>Wine</u>	<u>Beer</u>
Georgia	Package	Package Grocery Convenience Drug	Package Grocery Convenience Drug
Hawaii	Package Grocery Convenience Drug	Package Grocery Convenience Drug	Package Grocery Convenience Drug
Illinois	Package Grocery Convenience Drug	Package Grocery Convenience Drug	Package Grocery Convenience Drug
Indiana	Package Drug	Package Grocery Convenience Drug	Package Grocery Convenience Drug
Kansas	Package	Package	Package ^{2/} Grocery ^{2/} Convenience ^{2/} Drug ^{2/}
Kentucky	Package ^{3/} Grocery ^{3/} Drug	Package ^{3/} Grocery ^{3/} Drug	Package Grocery Drug Convenience
Louisiana	Package Grocery Convenience Drug	Package Grocery Convenience Drug	Package Grocery Convenience Drug
Maryland	Package Grocery Convenience Drug	Package Grocery Convenience Drug	Package Grocery Convenience Drug
Massachusetts ..	Package ^{3/} Grocery ^{3/} Convenience Wholesale Clubs	Package ^{3/} Grocery ^{3/} Convenience Wholesale Clubs	Package ^{3/} Grocery ^{3/} Convenience Wholesale Clubs

APPENDIX L (CONTINUED)

<u>State</u>	Kinds of Establishments Which May Make Package Sales of:		
	<u>Spirits</u>	<u>Wine</u>	<u>Beer</u>
Minnesota	Package	Package	Package ^{2/} Grocery ^{2/} Convenience ^{2/} Drug
Missouri	Package Grocery Convenience Drug	Package Grocery Convenience Drug	Package Grocery Convenience Drug
Nebraska	Package Grocery Convenience Drug	Package Grocery Convenience Drug	Package Grocery Convenience Drug
Nevada ^{4/}	Package Grocery Convenience Drug	Package Grocery Convenience Drug	Package Grocery Convenience Drug
New Jersey	Package Grocery Convenience Drug	Package Grocery Convenience Drug	Package Grocery Convenience Drug
New Mexico	Package Grocery Convenience Drug	Package Grocery Convenience Drug	Package Grocery Convenience Drug
New York	Package	Package	Package Grocery Convenience Drug
North Dakota ...	Package Grocery Convenience Drug	Package Grocery Convenience Drug	Package Grocery Convenience Drug
Oklahoma	Package	Package	Package ^{2/} Grocery ^{2/} Convenience ^{2/} Drug

APPENDIX L (CONTINUED)

<u>State</u>	Kinds of Establishments Which May Make Package Sales of:		
	<u>Spirits</u>	<u>Wine</u>	<u>Beer</u>
Rhode Island ...	Package	Package	Package
South Carolina .	Package	Package Grocery Convenience Drug	Package Grocery Convenience Drug
South Dakota ...	Package Grocery Convenience Drug	Package Grocery Convenience Drug	Package Grocery Convenience Drug
Tennessee	Package	Package	Package Grocery Convenience Drug
Texas	Package Grocery Convenience Drug	Package Grocery Convenience Drug	Package Grocery Convenience Drug
Wisconsin	Package Grocery Convenience Drug	Package Grocery Convenience Drug	Package Grocery Convenience Drug

*/Off-premises consumption outlets only. Excludes establishments that permit both on- and off-premises consumption of alcohol (e.g., restaurants, taverns, etc.).

1/For purposes of this table, "convenience stores" may include establishments that are also gasoline/service stations.

2/Beer less than 3.2 percent alcohol.

3/Liquor sales outlet section must have separate entrance.

4/Nevada does not have a state alcoholic beverage law. Licensing and control of retail liquor establishments are left to incorporated cities and counties.

Source: Developed by LB&FC staff from a telephone survey of state alcoholic beverage control agencies conducted in July 1991. Supplementary information was also obtained from Industry Profiles, 1990-91 edition, published by the Beverage Media Group, Ltd.

APPENDIX M. ESTIMATES OF POTENTIAL ONE-TIME REVENUE FROM
PRIVATIZATION OF PA'S STATE STORE SYSTEM

Several bills pending in the General Assembly would privatize Pennsylvania's State Store System. Under these bills, one-time revenues would be generated for the Commonwealth through the sale of wholesale and retail liquor franchises; the sale of inventory, real estate, and machinery; and the repayment of a working capital loan from the General Fund.

This appendix provides information on the estimated amounts of one-time revenue which could result from privatization under three of the pending bills (SB 1073, SB 1358, and HB 2238). Estimates and related assumptions are drawn from materials issued in conjunction with the proposed privatization legislation, information obtained from the PLCB, an analysis by Charles A. Jaffee, Business Editor of the Allentown Morning Call, and "Privatizing Liquor Sales in Pennsylvania," the Commonwealth Foundation, Temple University, June 1991.

As shown below, potential one-time revenue estimates associated with the privatization of both wholesale and retail sales range from \$198 million to \$655 million. Estimates accompanying SB 1073, SB 1358, and HB 2238 are at the upper end of the range while estimates by the PLCB are at the lower end. Estimates by the Allentown Morning Call business consultant and the Commonwealth Foundation fall between the two.

<u>Revenue Source</u>	<u>Estimated One-Time Revenues</u> (\$ Millions)		
	<u>Current Bills</u>	<u>PLCB</u>	<u>Business Analyst^{a/}</u>
Sale of Wholesale Liquor Franchises	\$213-\$255	\$50	\$136.5
Sale of Retail Liquor Franchises	\$137-250	\$49-140	\$150
Sale of Inventory	\$108	\$13	\$10-53
Loan Repayment to General Fund	\$66	\$66	\$66
Sale of Real Estate, Machinery, Etc.	\$22-39	\$20	\$40-53
Range of Estimates	\$546-\$655	\$198-\$289	\$402.5-\$458.5

^{a/}Charles A. Jaffee, Allentown Morning Call.

APPENDIX M (CONTINUED)

In addition to these estimates, in a 1991 report the Commonwealth Foundation estimated that the state could realize \$357 to \$405 million through the sale of ten-year wholesale and retail licenses, and an additional \$163 million from the sale of PLCB assets (\$109.8 million from the sale of inventory and \$53.2 million from the disbursal of cash and other tangible property).

The following is a discussion of one-time revenues resulting from sale of the State Store system as estimated by sponsors of the current privatization bills, the PLCB, and a business analyst from the Allentown Morning Call.

Sale of Wholesale Liquor Franchises - Under these privatization bills, the PLCB would sell private wholesale wine and liquor distribution licenses to holders of current importing distributor licenses (there were 329 such licenses in FY 1989-90). Each licensee would have to pay the PLCB an initial franchise fee based on the net profit of each product line multiplied by a specified factor (two bills specify a factor of five, another six). Net profit for each product line would be determined by an independent accounting firm retained by the PLCB for this purpose. These bills project revenue from the sale of wholesale liquor franchises to range from \$213 to \$255 million. However, according to a business analyst who analyzed the privatization estimates, the figures may be overstated since they appear to have been computed using a formula based on PLCB retail profit rather than wholesale. This business analyst believes that the fee based on retail profit would be more than a wholesaler would be willing to pay, but that the PLCB estimate of \$50 million is too low. The business analyst estimated the sale of wholesale liquor franchises could generate \$136.5 million.

Sale of Retail Liquor Franchises - According to the proposed bills, retail liquor franchises would be sold at public sale to the highest responsible bidders. The minimum bid for the franchises would be based on the wholesale cost of the liquor and wine inventory for each store, plus a percentage of the average gross sales for the last two consecutive years of operation (SB 1073 specifies 20 percent; HB 2238 specifies 25 percent; and SB 1358 specifies 29.2 percent, plus a percentage of the wholesale cost of liquor and wine inventory for each county). For SB 1073, the estimated revenue is derived using methodology developed in 1985 by the auditing firm Deloitte Haskins & Sells. For SB 1358, the 29.2 percent figure is based on the revenue that West Virginia realized from the sale of its state stores at 29.2 percent of annual gross sales.

APPENDIX M (CONTINUED)

The bills project revenue from the sale of retail liquor franchises of \$137 to \$250 million. The Allentown Morning Call business analyst believes that a \$150 million return would not be unrealistic using a "rule of thumb" franchise selling price of 20 percent of gross sales. He noted, however, that the franchise price would go up if the privatization legislation were to make the licenses more attractive (e.g., by limiting competition and expansion, selling market territories in blocks, or allowing large companies to purchase larger numbers of stores). On the other hand, franchise values would decrease significantly if the legislation were to make the franchises less attractive (e.g., by prohibiting the sale of alcohol at any location that sells gasoline or mandating local referenda that would allow communities to bar liquor sales). The current bills contain a number of conditions and restrictions. (See Appendix H.) The PLCB believes that the sale of retail liquor franchises would produce revenue ranging from \$49 million (based on West Virginia's net proceeds of \$15 million from the sale of 214 retail outlets) to \$140 million (based on a \$137 million estimate in the 1985 LB&FC/Deloitte Haskins & Sells report) if no conditions are attached to the value of the franchise.

Sale of Inventory - These legislative proposals provide that each successful bidder for a retail license must agree to purchase liquor and wine from Board inventories for a specified time period. The purchase price for the inventory would be the wholesale price to the Board plus a percentage markup and delivery charge (two bills specify a 10 percent markup, another 13 percent). Each bill assumes that \$108 million will be received from the sale of inventory. However, this figure does not appear to take into account outstanding liabilities. The PLCB estimates that one-time liquidation of the entire inventory would yield approximately \$13 million once outstanding liabilities are met. A business analyst who analyzed the estimates placed the inventory figure at between \$10 million and \$53 million after outstanding bills for inventory are paid.

Loan Repayment to General Fund - All three bills provide that the PLCB would repay the General Fund a \$66 million working capital loan and include this amount in total estimated one-time revenues. The PLCB contends that including this amount is accurate but somewhat misleading because the \$66 million would replace a loan receivable in the asset column with another asset, cash. Overall, the PLCB believes that there would be no actual increase in General Fund assets. The business analyst who examined the estimates also notes that eliminating the state control system would not create a new \$66 million though it does represent a one-time benefit of \$66 million because it makes these monies available for other purposes.

APPENDIX M (CONTINUED)

Sale of Real Estate, Machinery, Etc. - These legislative proposals do not contain specific provisions for the sale of real estate, machinery, etc. However, estimates of potential revenues from the sale of real estate and equipment range from \$22 to \$39 million. The PLCB estimates this revenue at \$20 million based on the Commonwealth sale of the Philadelphia Distribution Center, plus other items of equipment. The Allentown Morning Call business analyst believes that the sale of the PLCB's real estate and fixed assets (assuming franchise rights are sold separately from the physical equipment), and the disbursal of cash currently in the system would likely net between \$40 and \$53 million.

Source: Developed by LB&FC staff from materials related to SB 1073, SB 1358, and HB 2238, information obtained from the PLCB, and an analysis made by the business editor of the Allentown Morning Call.

APPENDIX N. ORGANIZATIONS FROM WHICH LB&FC STAFF SOLICITED INPUT
DURING THE PLCB PERFORMANCE AUDIT

Pennsylvania Wine and Spirits Association
Pennsylvania Wine Association
Pennsylvania Licensed Beverage Association
Malt Beverage Distributor's Association
Pennsylvania Restaurant Association
Pennsylvania Beer Wholesalers Association
Tri-County Tavern Association
United Tavern Owners of Philadelphia
Pennsylvania State Brewers' Association
Pennsylvania Council of Churches
Drug and Alcohol Service Providers Organization of Pennsylvania
Pennsylvania Council on Alcohol Problems
Pennsylvania Alliance of Drug and Alcohol Organizations
Pennsylvania Alcohol Education Foundation
Mothers Against Drunk Driving
Campus Boulevard Corporation
National Women's Christian Temperance Union
Manheim Chemical People
Pennsylvania Academy of Family Physicians
Philadelphia School District
Pennsylvania Chiefs of Police Association
National Temperance and Prohibition Council
Pennsylvania DUI Association
Students Against Drunk Driving
The Salvation Army
Pennsylvania Chemical Abuse Certification Board
Independent State Store Union
United Food and Commercial Workers Union
Assoc. of Federal, State, County, & Municipal Employees (AFSCME)
Fraternal Order of Police

Source: Developed by LB&FC staff.

APPENDIX O. AMENDMENTS TO THE LIQUOR CODE PROPOSED BY THE PA LIQUOR CONTROL BOARD

Affected Section	PLCB Proposed Amendment	PLCB Rationale/Comments
2-207(b)	Remove reciprocal fee requirements on out-of-state liquor manufacturers and possibly replace with a label registration fee.	Currently, the reciprocal fee is extremely difficult to administer (e.g., to identify what the reciprocal costs would be in another state or country is difficult and time consuming). This amendment would establish a fee which is easier and less costly to administer.
2-211	Authorize the Bureau of Liquor Control Enforcement (BLCE) officers to arrest minors who have false identification and are attempting to purchase or possess alcoholic beverages. Additionally, authorize BLCE officers to search for fake identification when they suspect minors to possess it.	The Crimes Code, 18 Pa.C.S.A. §6310.3, makes it a criminal offense for any person under the age of 21 to possess falsified identification. The current language of the Liquor Code restricts the ability of BLCE officers to deal with minors using false identification.
2-211	Provide separate funding, perhaps through the General Fund, to cover BLCE operations.	PLCB officials believe this would simplify the accounting procedures and more accurately reflect the profits of the PLCB.
2-214	Authorize the PLCB to contract with common carriers for transport of liquor, wine or malt or brewed beverages.	Technical change.
2-215 ^{a/}	Revise requirements for wine marketing to eliminate requirement that 5 percent of all state stores within a metropolitan area be wine specialty stores.	Wine specialty stores have generally not been profitable and a decision has been made to not open any additional stores of this type at this time.
2-215 ^{a/}	Allow the sale of premium spirits in wine specialty stores.	PLCB officials believe that this is necessary if the wine stores are to be financially viable.

APPENDIX O (CONTINUED)

Affected Section	PLCB Proposed Amendment	PLCB Rationale/Comments
3-305(a)	Authorize Board to include the cost of shipping or freight before applying markup and taxes to special order merchandise.	Inconsistent with other Code provisions.
3-305(b)	Accept checks from vendors for purchases for industrial accounts and samples.	Request from suppliers.
3-306 ^{a/}	Specify which audits are required to be conducted of the PLCB, the manner in which the audits are to be conducted, and which state agencies are to conduct the audits.	Prevent duplicative and costly audit functions by separate state agencies and take advantage of new technology (POS system) available to the PLCB.
4-401	Add a new subsection to authorize the Board to investigate and determine all qualifications of applicant or licensee as provided by the Liquor Code and Board regulations.	PLCB officials believe this would clarify the authority of the Board relative to the review of tax records.
4-402 and Other Sections	Provide for multiple-year licensure for hotels, restaurants, and clubs. Expand license terms for special class retail licenses such as performing arts facilities, art museums, stadiums, etc. Allow for some mid-term nonrenewal review to identify nuisance bars.	Reduce peak processing workloads for the Bureau of Licensing.
4-403(b) and 4-433.1(b) and Other Sections	Remove U.S. citizenship requirement for licensees.	Would bring Code into conformance with Attorney General Opinion.
4-406 and 4-492(5)	Increase fee for Sunday sales permit by \$100.	Increase in fee would generate additional revenue.
4-406(a)(6)	Make New Year's Eve and St. Patrick's Day hours coincide with regular Sunday sales hours.	Currently these hours are inconsistent with regular Sunday sales hours.
4-408(c)	Change requirement for public service licenses from "aircraft" to "airline."	Technical change.

APPENDIX O (CONTINUED)

Affected Section	PLCB Proposed Amendment	PLCB Rationale/Comments
4-408.4	Revise special occasion permit language to allow the use of five nonconsecutive days at any time within the calendar year. Currently, the use of the non-consecutive days must occur within three months of the date of the first day. Clarify the word "auxiliary" in reference to the organizations permitted under Act 1972-71.	Requested by licensees and applicants. The definition would provide parameters for the issuance of these permits.
4-431 and Others	Eliminate calendar year issuance requirements for specified classes of licenses to permit staggering of license renewals.	Reduce peak processing workload for the Bureau of Licensing.
4-439	Parallel §4-405(d) provisions for dishonored payments which impose a penalty of five dollars per hundred dollars, or fraction thereof, against the maker of such drafts.	Establish consistent conditions for both malt/brewed beverage licensees and liquor licensees.
4-464 and 4-471	Provide for a uniform 30-day period for all appeals.	Sections are inconsistent.
4-471	Authorize the Board to reverse the decision of the ALJ based on an error of law.	Currently the Board is required to affirm the decision of the ALJ if it is based on substantial evidence. This would provide additional flexibility to the Board members when they believe an error of law has been made. (The OALJ strongly opposes this amendment.)
4-471	Clarify that the one-year time frame to issue a citation runs from when the BLCE learns of the violation rather than from when the actual violation occurs.	This would amend the Liquor Code to reflect a recent Commonwealth Court interpretation.

APPENDIX O (CONTINUED)

Affected Section	PLCB Proposed Amendment	PLCB Rationale/Comments
4-491(5)	Eliminate licensee bottle breaking requirement.	Currently inconsistent with recycling requirements of the law.
4-492(4)	Restrict hours of sales by beer distributors and imported distributors.	Currently permitted to remain open 24 hours daily except from 12 midnight Saturday through 2:00 a.m. the following Monday.
4-492(5)	Permit malt beverage licensees to conduct sales on St. Patrick's Day as well as on New Year's Eve.	Technical correction. The amendment which authorized the sale of liquor on St. Patrick's Day failed to include the sale of malt and brewed beverages.
4-493(18)	Clarify the meaning of "any advertisement whatsoever referring, directly or indirectly, to the price at which the licensee will sell liquor or malt or brewed beverages."	This has been interpreted to refer to the medium used to advertise, e.g., radio, handbills, etc., or to include a general statement, e.g., guaranteed lowest price. Clarifying the term would reduce adjudications of this issue.
4-496	Require notification of a dishonored check to apply to the BLCE.	Technical correction as the BLCE is responsible for enforcement matters.
4-497	Allow the Board along with licensees to use the "dram shop" defense to provide a shield against third-party liability. Shield/limit Board/licensee liability resulting from sales to minors.	Would permit Board to avail itself of the same defense currently applicable to licensees with respect to service of visibly intoxicated persons.
5-505.2	Authorize limited wineries to acquire a limited number of permits for temporary authority to sample and sell wines at wine and food festivals and restaurant and wine trade events.	The Liquor Code restricts limited wineries to five outlets in addition to the licensed premises. Participation at wine and food events requires time-consuming administrative action.

APPENDIX O (CONTINUED)

Affected Section	PLCB Proposed Amendment	PLCB Rationale/Comments
8-801(b)	Eliminate fee returns to municipalities which have no police force and are protected by the PSP.	Original purpose of the fee returns was to provide assistance to local police in enforcing the liquor laws. The PSP are already funded by the PLCB.
8-801 and 8-802	Provide that fees collected for licenses be deposited in the State Stores Fund and subsequently transferred to the Liquor License Fund immediately prior to the refunding to municipalities.	Retention of interest gained on Liquor License Fund would provide additional revenue to the PLCB.
8-802(b) ^{a/}	Eliminate requirement for transfer of one-half of all application filing and transfer fees to the State Employees Retirement Board for Enforcement Officers Benefit Account.	Account already fully funded.
New Section ^{a/}	Authorize the OALJ to impose costs for hearings.	Off-set costs of OALJ by placing part of the burden on licensees found to have violated the Liquor Code.
New Section ^{a/}	Authorize early retirement option for Board Enforcement Officers affected by Act 1987-14 (Class C employees) similar to ^{f/} that provided for Class A employees.	Allow for phasing out of this classification and replacement with an alternative classification at a lower salary and benefit cost.

^{a/}This proposed amendment is addressed in more detail elsewhere in this report. Please refer to the table of contents.

^{b/}This amendment has been proposed by Senate Bill 850.

^{c/}This amendment has been proposed by Senate Bill 753.

^{d/}This amendment has been proposed by Senate Bill 867, Senate Bill 919, and House Bill 1352, and Senate Bill 1543, the Liquor Container Recycling Act. While Senate Bill 1543 does not directly amend the Liquor Code, the purpose of this recommended amendment would be accomplished.

^{e/}This amendment has been proposed by House Bill 611.

^{f/}This amendment has been implemented by Act 1991-23.

Source: Compiled by LB&FC staff based on a review and analysis of proposed amendments provided by the PLCB and discussion with the individual members of the PLCB and the OALJ.

APPENDIX P. AMENDMENTS TO THE LIQUOR CODE PROPOSED BY THE OFFICE OF ADMINISTRATIVE LAW JUDGE (OALJ)

<u>Affected Section</u>	<u>OALJ Proposed Amendment</u>	<u>OALJ Rationale/Comments</u>
2-212(a)	Provide separate appropriation to cover Office of Administrative Law Judge (OALJ) operations.	OALJ believes current situation creates inappropriate conflicts and appearances to the public. (Board concurs with the caveat that there be some oversight of the budget of the OALJ.)
2-212(c)	Delete recusal requirement or limit to one year prior to the enforcement or licensing matter under consideration. (Act 1990-160 transferred the licensing hearings to the OALJ beginning June 30, 1992. This requirement would require an ALJ to remove himself/herself from a licensing case whenever he/she has heard a prior enforcement matter involving the same licensee and vice versa.)	OALJ considers current requirement to be unduly restrictive. (Board members concur with this proposed amendment.)
4-403(h)	Clarify whether this section as it applies to false statements intentionally made in a license application is penal in nature and subject to only the jurisdiction of the criminal justice system or if it is to be adjudicated as part of the Code.	Current language is inconsistent with the blanket jurisdictional statement in §4-471(a) which does not necessarily require intentional violation or one being graded as criminal in nature. (Board members concur with this proposed amendment.)
4-404	Include §4-404, other pecuniary interests, in the enhanced penalty provisions of the Liquor Code in certain circumstances.	Would be applicable where licensed business is shown to be a front for organized crime or connected with others involved with illegal activities. (Board members do not concur. The Board believes the option is already provided in the language of the Liquor Code to impose a greater penalty at the discretion of the ALJ.)

APPENDIX P (CONTINUED)

<u>Affected Section</u>	<u>OALJ Proposed Amendment</u>	<u>OALJ Rationale/Comments</u>
4-444(d)	Make citation procedures for out-of-state manufacturers the same as for everyone else.	Current language inconsistent with §4-471. (Board members concur with this proposed amendment.)
4-465(a), (d)(4), (d)(5), (d)(6), and (d)(7)	Increase bond amounts to \$5,000 for each type of license.	Act 1987-14 increased penalties but did not increase the bond amount. (Board members concur with this proposed amendment.)
4-465(b)	Permit licensee to continue the same deposit from year to year on each renewal of the license at the discretion of the Board.	Automatic rollover may not provide adequate funds if there is a pending citation from a previous year which could end up with a revocation and bond forfeiture. (Board members concur with this proposed amendment.)
4-471	Where suspension/revocation referenced, specifically include suspension/revocation of permits as appropriate.	Would clarify current interpretation used by the OALJ. (Board members concur with this proposed amendment.)
4-471	Delete requirement that the Bureau of Liquor Code Enforcement (BLCE) send copies of citation hearing notices to the municipality in which the premises is located.	Could be misinterpreted as giving the municipality standing to intervene at the hearings. (Board members concur with this proposed amendment.)
4-471 and Others	Limit the authority of the BLCE to appeal decisions.	The OALJ believes the current language gives the BLCE unfettered ability by citation to impose their interpretations upon a licensee and then subject the licensee to extensive litigation by appeal. (Board members do not concur with this proposed amendment.)

APPENDIX P (CONTINUED)

<u>Affected Section</u>	<u>OALJ Proposed Amendment</u>	<u>OALJ Rationale/Comments</u>
4-471	Clarify 30-day notice provisions to state that no citation shall issue unless the Bureau notifies the licensee of the nature of the violation within 30 days of completion of the investigation.	As currently written, no penalty may be ordered, although a citation may be issued with no penalty imposed. This could affect the imposition of a mandatory suspension/revocation. (Board members concur with this proposed amendment.)
4-471(b)	Change fine range for enhanced penalty violations from \$1,000-\$5,000 to \$50-\$5,000.	Would allow more discretion to the ALJ to impose a penalty commensurate with the circumstances and facts of the case. (Board members concur with this proposed amendment. The Board members also propose authorizing the OALJ to issue warning letters. The OALJ does not believe the use of warning letters by the OALJ is appropriate.)
4-471(b)	Include conviction in federal court or in any court of record regarding possession, transportation, sale or delivery or manufacture of amphetamines, controlled substances, or drugs.	This would ratify current interpretation used by the OALJ. (Board members concur with this proposed amendment.)
4-471(b)	Have appeals from the Board go directly to Commonwealth Court instead of the Court of Common Pleas.	Would allow for uniformity of decisions and eliminate de novo review. (Board members concur with this proposed amendment.)
4-471(b)	Allow ALJ to consider an offense de minimis, i.e., impose no fine.	Current language does not provide adequate discretion for very minor cases. (Board members concur with this proposed amendment. The Board members also propose authorizing the OALJ to issue warning letters. The OALJ does not believe the use of warning letters by the OALJ is appropriate.)

APPENDIX P (CONTINUED)

<u>Affected Section</u>	<u>OALJ Proposed Amendment</u>	<u>OALJ Rationale/Comments</u>
4-471(c)	Eliminate mandatory suspension/revocation of license after three Liquor or Crimes Code violations in four years.	Would allow discretion to the ALJ to impose a penalty commensurate with the circumstances and facts of the case. (Board members concur with this proposed amendment.)
4-471(c) ^{a/}	Include violations of certain regulations for purposes of mandatory suspension/revocation.	The OALJ believes violations of certain regulations can be as serious as violations of the Liquor Code. (Board members concur with this amendment and acknowledge that it would be moot if the above amendment was adopted.)
4-471(c) ^{a/} 1 2 ∞	Clarify as to whether multiple dates of violations or multiple counts of violations whereby a citation was issued is one violation or more than one violation for purposes of mandatory suspension/revocation.	Current language ambiguous for purposes of imposing mandatory license suspension/revocation. (Board members have no opinion regarding this proposed amendment.)
4-491(10)	Include §4-491(10), fortifying, altering, or contaminating liquor, in the enhanced penalty provisions of the Liquor Code.	The OALJ believes the public has no way of knowing what they are drinking and should be able to rely on the fact that when they order a specific drink or brand, they are getting the same. (Board members do not concur with this proposed amendment. In their opinion, the OALJ already has the authority to suspend or revoke a license at its discretion, and in this particular instance, the problems with contaminating liquor have generally involved fruit flies.)
4-493(1)	Include §4-493(1), serving visibly intoxicated persons, in the enhanced penalty provisions of the Liquor Code.	The OALJ believes that this is as serious a violation as serving a minor. (Board members do not concur with this proposed amendment.)

APPENDIX P (CONTINUED)

<u>Affected Section</u>	<u>OALJ Proposed Amendment</u>	<u>OALJ Rationale/Comments</u>
5-515	Make appeal procedures for out-of-state licensees where distilleries, wineries, warehouses, bailees-for-hire and transporters-for hire are involved the same as for everyone else.	Current language inconsistent with other appeal provisions of the Liquor Code. (Board members concur with this proposed amendment.)
5-516	Delete language which allows offers in compromise to the ALJ in cases involving wineries, warehouses, bailees-for-hire and transporters-for-hire.	Not provided for elsewhere in the Code. (Board members do not concur with this proposed amendment. In their opinion, this is an acceptable business method to handle particular outstanding enforcement matters.)
New Section ^{a/}	Authorize the OALJ to impose costs for hearings.	Off-set costs of OALJ by placing part of the burden on licensees found to have violated the Liquor Code. (Board members concur with this proposed amendment.)

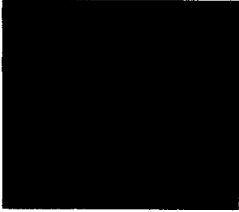
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a/This proposed amendment is addressed in more detail elsewhere in this report. Please refer to the table of contents.

Source: Compiled by LB&FC staff based on a review and analysis of proposed amendments provided by the OALJ and discussion with the individual members of the PLCB.

Appendices Q Through T Are Responses
to This Report Submitted by the:

PA Liquor Control Board	Appendix Q
PLCB Office of Administrative Law Judge	Appendix R
PA State Police	Appendix S
PA Office of the Auditor General	Appendix T



IN THE PUBLIC INTEREST

PENNSYLVANIA LIQUOR CONTROL BOARD

Harrisburg, Pennsylvania 17124-0001

JAMES A. GOODMAN
CHAIRMAN

May 22, 1992

(717) 787-5230

Philip R. Durgin, Executive Director
Legislative Budget and Finance Committee
Room 400 Finance Building
Harrisburg, PA 17105-8737

Dear Mr. Durgin:

Attached you will find the Pennsylvania Liquor Control Board's response to the Legislative Budget and Finance Committee's recent audit. We have responded to Volume I, II and III.

The professionalism displayed by your staff during the audit was commendable. They should be congratulated.

We want to take this opportunity to also thank the Committee for allowing us to comment on the report.

The PLCB has made a great deal of progress, since the completion of the last report. We look forward to implementing the many good suggestions contained in this report.

Sincerely,

James A. Goodman
James A. Goodman
Chairman

Attachments

cc: O. L. Slinker
R. P. Fohl
C. J. Woods
J. F. Hamilton
F. X. O'Brien
D. M. Pinkham

PLCB COMMENTS ON PERFORMANCE AUDIT OF
PENNSYLVANIA LIQUOR CONTROL BOARD
VOLUME I

FINDING A - RELATIONSHIP TO PUBLIC HEALTH, SAFETY, AND WELFARE

This covers not only the issue of public health, safety and welfare but related topics including the 1985 Sunset Review Report and the subsequent Senate Law and Justice Committee Report, Status of PLCB Business, Marketing, and Reorganization efforts to respond to the 1985 report, Net Income Status and Profit Transfer Status, and privatization legislation in other states and Pennsylvania. The finding does not contain any recommendations.

The Board generally agrees, and has few additional comments in Finding A relative to Status of PLCB Initiatives in Response to 1985 Sunset Audit and Senate Law and Justice Report, Net Income and Profit Transfer Status, and the reported status of privatization legislation in Pennsylvania.

We are pleased to note the LBFC report finds the PLCB has been responsive to the broad directives contained in the 1985 Sunset Report, as well as those contained in the Senate Law and Justice Committee report. The PLCB responded aggressively to the legislative call for "fundamental changes in PLCB administration and operations".

In fact, as noted, nearly three-fourths of all recommendations have been implemented to date. We suspect this is a record few agencies have achieved relative to their sunset findings and recommendations.

We are also operating "more like an free enterprise endeavor", as envisioned by the General Assembly in the 1985 report. This is independently and objectively detailed in this report through profit and transfer trends, the impressive results of the LBFC Consumer and Price Surveys, the quantum leap in retail store "normalization" efforts, and the ongoing program to revise the licensing review process.

Public Health, Safety, and Welfare

The PLCB does want to clarify some of the analysis done by the LBFC on matters of public health, safety and welfare.

The report suggests there may not be a strong statistical correlation between the type of state (control or license) and the level of resulting social problems by analyzing seven major variables. By regrouping states into narrow, broad and broadest categories, the report also makes a good-faith effort to measure the impact of more widely available wine and beer.

The LBFC finding contains three basic conclusions:

- . Pennsylvania has substantially lower rates when compared to all the other groupings analyzed including the national average, control and license states groups, and narrow-

APPENDIX Q (CONTINUED)

broad-broadest groupings. The lower rates included the following seven of eight reported categories;

- . Apparent Per Capita Consumption
 - . Alcohol Related Traffic Fatalities
 - . DUI Arrests
 - . Alcohol Related Arrests
 - . Alcohol Related Homicide
 - . Alcohol Related Suicide
 - . Death From Alcoholism
- . Neither the type of state regulatory system nor the types of outlets at which alcohol is sold were found to be statistically significant variables affecting the various measures of public health, safety and welfare in other states. Pennsylvania was acknowledged as having rates better than either the other control states or license states.
- . Factors such as advertising, consumer attitudes toward drinking, hours of operation, and the number of outlets may also play an important role in influencing the effect of alcohol laws on public health, safety and welfare rankings.

We cannot ignore the benefits of the unique control system we have in Pennsylvania, as outlined in this finding. According to the LBFC report, the national cost of alcohol abuse was about \$137 BILLION in 1990. Indeed, alcohol is involved in 50% of all traffic fatalities, 49% of all murders, 50% of all spousal abuse cases, 68% of manslaughter charges, between 20-35% of all suicides, 62% of assaults, 52% of rapes, and 38% of child abuse fatalities.

Pennsylvania, with 5% of the nation's population, is estimated to absorb about \$7.8 billion of the national cost for adverse health, safety and welfare consequences of alcohol abuse. A 1% increase in our hidden public health and safety costs represents a \$75 million price tag for the Commonwealth, and its citizens.

The finding verifies Pennsylvania's per capita consumption of wine and spirits to be about 30% lower than the national average. Research has repeatedly shown as per capita alcohol consumption increases, overall problems due to alcohol increase as well (Smith 1990). This is evident here in Pennsylvania where per capita consumption is lower, and our subsequent alcohol related problems are also much lower than many other states.

The report also analyzes consumption data through use of a system of categorizing states into Narrow, Broad, and Broadest types of retail distribution. The report indicates neither the type of regulatory system nor the type of retail distribution system in other states made a statistically significant difference in the amount of alcohol consumed within each state. If such a relationship doesn't exist, we ask why are Pennsylvanians drinking

APPENDIX Q (CONTINUED)

2,999,500 fewer gallons of absolute alcohol (wine & spirits) on a per capita basis than the national average.

The LBFC Report answers this question by stating, "Factors such as advertising, consumer attitudes toward drinking, hours of store operation, and number of outlets through which alcohol can be sold were not analyzed but may play an important role in alcohol consumption". Because these factors were not considered in the analysis, the conclusions are limited, as noted in the report.

Pennsylvania has a unique control system which includes high taxes on wine and liquor, bans on price advertising and does not permit alcohol sales in grocery and convenience stores. Pennsylvania also has a fraction of the number of wine and spirits outlets compared to license states. Stores are open fewer hours and we simply do not promote wine and liquor sales outside the store. People have controlled access to alcohol and consequently drink less in Pennsylvania. There is available research to support this theory. (Rush et al. 1986)

The questions analyzed should not be the relationship of Narrow, Broad, and Broadest distribution systems of alcoholic beverage sales to social problems in other states, but rather does the current system benefit the citizens of the Commonwealth by making Pennsylvania a safer state to live? The answer to this question is YES and this finding helps prove the point.

Let's look at Pennsylvania's status in another way. When comparing Pennsylvania to the national average, as indicated on Table 4, the following results could occur if the Pennsylvania average were to be as high as the national average. We conclude, if Pennsylvania were to liberalize its control laws, and move closer to the national average, an additional 627 Pennsylvanians would DIE each year due to alcohol related causes.

- . PA has 3.12 per 1000 population fewer D.U.I. arrests. This amounts to 37,434 fewer alcohol impaired drivers on Pennsylvania roads each year.
- . PA has 1.53 per 100,000 population fewer alcohol related auto fatalities. This amounts of 184 fewer Pennsylvanians dying each year in alcohol related traffic accidents.
- . PA has 1.59 per 100,000 population fewer alcohol related homicides. This amounts to 191 fewer Pennsylvanians dying each year.
- . PA has 1.24 per 100,000 fewer alcohol related suicides. This amounts to 149 fewer Pennsylvanians dying each year.

APPENDIX Q (CONTINUED)

- . PA has .86 per 100,000 fewer deaths due to alcoholism. This amounts to 103 fewer Pennsylvanians dying each year.

The finding on the relationship to public health and safety is too complex to completely analyze in this or any other report. However, this report shows the control system - as practiced in Pennsylvania - clearly makes the Commonwealth a safer and healthier state compared to other states. We continue "to play an important role in safeguarding the health, safety, and welfare of the citizens of Pennsylvania.

Privatization Actions in Other States

We also want to comment on the portion of Finding A relating to privatization efforts in other states. At a time when the Surgeon General of the United States is calling upon states to "not adopt policies that result in increased availability of alcoholic beverages without careful analysis and public debate", and "to strengthen laws (not weaken) concerning hours of sale, characteristics and density of outlets, and other factors relating to availability of alcoholic beverages", the PLCB feels efforts to change the current system could increase consumption, and otherwise, adversely affect public health, safety and welfare. Certainly Pennsylvania's standing, in having comparatively lower rates for all but one of the public health and safety categories, will be jeopardized.

The primary motivational factor behind privatization efforts is the singular concentration on revenue generation. In this era of budgetary shortfalls, it is easy to understand the focus of public policy makers on this subject. However, we suggest the financial benefit arising from a state's method of alcohol distribution should not be the principal or sole factor upon which such policy decisions are made.

In the case of both Iowa and West Virginia, we now have available actual quantifiable results of the effects of divestiture or retail operations in these two states. A recent study in the Journal of Studies on Alcohol in 1991, examined the effects of privatization in these two states. This study, conducted by Alexander C. Wagennar, Ph.D. and Harold D. Holder, Ph.D., reviewed sales/consumption statistics before and after privatization. The study found that privatization of wine sales was followed by a significant increase in sales of wines in both states, as well as a measurable net increase in absolute alcohol consumption involving wine, spirits and beer.

More specifically, the study noted:

- . Iowa's privatization resulted in a 93% increase in wholesale wine sales.
- . West Virginia's privatization resulted in a 47.2% increase in wine sales.

APPENDIX Q (CONTINUED)

- . Absolute alcohol consumption increased by 28,602 liters per month in Iowa following privatization.
- . Absolute alcohol consumption increased by 25,235 liters per month in West Virginia following privatization.
- . Increases in sales and consumption were attributed to more aggressive private sector promotion and competition, increased numbers of outlets including accessibility through outlets selling other more routinely purchases consumer goods, and enhanced credit purchase arrangements.
- . Increased consumption rates are related to increased problems including alcohol impaired driving and cirrhosis deaths.
- . Examination of wine sales statistics in states adjacent to Iowa and West Virginia revealed no identifiable decreases in wine sales in border states following privatization - thus discounting the theory of customers purchasing significant quantities out-of-state prior to privatization.
- . Potential effects of privatization on consumption should be a major issue in policy decisions regarding privatization.
- . Major changes to alcohol distribution systems may significantly affect alcohol related disease, damage and injury.
- . Before policy modifications regarding privatization of alcohol distribution are implemented in other jurisdictions, potential increases in alcohol use and associated problems should be compared with perceived benefits of such changes.

Additionally, based upon analysis of information concerning both states we have collected, the PLCB arrived at the following conclusions related to privatization in Iowa and West Virginia.

- . Two-thirds of minors in West Virginia are being served alcoholic beverages according to a December, 1991 sweep of outlets in the state by law enforcement officials.
- . Privatization led to higher retail prices in both states.
- . Revenue projections related to divestiture did not fully materialize in either state.
- . Annual state revenue levels (wholesale profits) are now threatened because of lobbying efforts of private retailers.
- . Selection is not uniform and tends to be severely limited to only fast moving high profit items in most outlets in both states.
- . Rural areas are not adequately serviced because low sales volume potential does not attract private enterprise.
- . Upwards of 90% of former state store employees did not find employment in other state jobs or with private retailers.
- . Out-of-state large chain retailers tend to get the best locations with highest sales potential. Profits from these locations leave the state.

APPENDIX Q (CONTINUED)

Any decision to change Pennsylvania's current system of controlled wine and spirits sales to a private system should take all aspects of the Iowa and West Virginia experience into consideration. To divest Pennsylvania's current system in the interest of a "windfall", revenue continues to be debatable both in terms of the accuracy of projections which have been made, and more importantly, in terms of the long-range implications of such a move.

Iowa and West Virginia stayed revenue neutral only by remaining in the wholesale business with markups of 50% and 25% respectively. Revenue neutrality on an annual basis, given the privatization proposals introduced in Pennsylvania, is simply not possible. The two control states who have divested themselves prove the point.

In Pennsylvania, we have been able to strike a very real, workable balance in terms of significant revenue generation, while maintaining the proper emphasis on moderation and control. We trust future legislative debates on this issue will take all of these factors into consideration, and ultimately sound judgement based first and foremost on public health considerations will prevail.

FINDING B - OPPORTUNITIES FOR PUBLIC INPUT AND PARTICIPATION IN BOARD ACTIVITIES HAVE INCREASED BUT COULD BE FURTHER IMPROVED.

The PLCB generally agrees with the findings in this section. As indicated, the Board has taken many steps to open communications with customers, licensees, and the general public. Concerning the PLCB 1990 Retail Price Survey, we note our findings are identical to those contained in the LBFC survey as reported in Finding G of this report.

We also agree with the five recommendations. Recommendations 1, 2, and 3 are either implemented or are in the process of being implemented. (Please also see related Consumer Affairs comments under Finding P).

FINDING C - THE PLCB HAS MADE SUBSTANTIAL PROGRESS IN "NORMALIZING" RETAIL SHOPPING AT STATE LIQUOR STORES.

We agree with both the tone and content of this finding. The PLCB has invested significant resources into upgrading our physical facilities, improving employee training, and purchasing the necessary automated technology to make the shopping experience equal to or better than what is found in the private sector. We estimate between \$30 and \$35 million has been spent on rebuilding the infrastructure of the agency including investing in a Point-of-Sale system and upgrading or converting nearly 200 retail stores in the last four years.

APPENDIX Q (CONTINUED)

It's most gratifying to know our customers, as explained in this finding, believe our stores and store employees have generated a high level of customer satisfaction with prices, selection, location, store hours, and general customer service.

We agree with both recommendations contained in this finding.

FINDING D - IMPLEMENTATION OF A BUSINESS PLAN HAS HAD A POSITIVE IMPACT ON PLCB PROFITABILITY.

The Board agrees with the findings. The Board undertook dozens of initiatives to propel the agency toward a more business-like operation under our first Business Plan. The Business Plan and the attendant reorganization helped the Board reach most of its business goals over the last four years. We note, as reported by the LBFC, the vast majority of all Business Plan initiatives are either completed or in progress.

Two points of clarification are needed. First, the LBFC reported three initiatives in the Business Plan where "No Action" was taken. In September 1988, with the release of the 1988 Business Plan, the Board publicly advocated the General Assembly take legislative action to adopt a multiple year license, eliminate the unnecessary payment to the Enforcement Officer Retirement Account, and eliminate duplicative audit functions.

In subsequent months and years, the Board has written or discussed these recommendations several times with the General Assembly. The initiatives were recommended again, as recently as March 24, 1992, in letters to both the House and Senate committees with Liquor Code jurisdiction.

In addition, we have written both the Governor and the Auditor General advocating legislative action be taken.

As the LBFC indicated, we would like to reiterate "No Action" did not mean the Board failed to respond. Rather, each initiative required action by the General Assembly prior to implementation. In all three of the recommendations, legislation permitting the Board to implement these recommendations was not introduced or approved.

Secondly, the goal of the PLCB Business Plan was to reduce the dollars invested in overall store and warehouse inventory levels by a minimum of 10%. The report indicated their analysis on the reduction was inconclusive.

The PLCB feels, on a per case basis, inventory was reduced 20%, using a 13 period average.

APPENDIX Q (CONTINUED)

Inventory Reduction in Cases

<u>FY Ending</u>	<u>Store Cases</u>	<u>%Chg</u>	<u>Whse Cases</u>	<u>%Chg</u>	<u>Total Cases</u>	<u>%Chg</u>
88	1,436,620		1,496,898		2,933,518	
89	1,358,862	-5.4%	1,244,342	-16.9%	2,603,204	-11.3%
90	1,326,925	-2.4%	1,200,674	-3.5%	2,527,599	-2.9%
91	1,247,346	-6.0%	1,107,155	-7.8%	2,354,501	-6.8%
Overall % Change		-13.2%		-26.0%		-19.7%

The general PLCB inventory philosophy is to maintain minimum levels of product while at the same time satisfying our customer needs.

With the implementation of single bottle pick, we will be able to make even more dramatic inventory reductions. With this system in place, it will no longer be necessary to deliver a full case of product to a store. This will reduce both store and warehouse inventories.

Maintaining minimum inventory is an ideal goal, but there are instances where increasing inventory levels can be advantageous from a profit standpoint.

To illustrate, since the PLCB initiated its aggressive marketing policies in 1989, there have been many instances where we would agree to buy "x" number of cases from a supplier at a savings of "x" dollars per case. While this buy may temporarily inflate inventory, the profit to the Board and savings to our customers more than offsets any additional inventory costs.

Also, when vendors take quarterly price increases, the PLCB has "bought-in" an additional number of cases on select brands at the lower price, eventually selling them at the higher price, thus creating additional profit.

Our on-going goal is to achieve further efficiencies in inventory management while at the same time maximizing profit potential as opportunities occur.

We fully agree with the three recommendations contained in the finding.

FINDING E - PLCB NET INCOME HAS INCREASED AND THE AGENCY'S PROFIT MARGIN COMPARES FAVORABLY WITH PRIVATE RETAIL BUSINESSES.

The PLCB fully agrees with the finding and plans to implement the one suggested recommendation. A multiple year profit target will be included in our forthcoming "Strategic Plan".

We are pleased to note, the LBFC has independently documented the following:

- . Net income of the PLCB has climbed for three successive years.
- . Net income of nearly \$40 million in 1990-91 was the highest in nearly 10 years.
- . Our 6.2% profit margin in 1990-91 was the highest since 1981-82 even though case and unit sales are down nearly 40% since 1980.
- . Net income to sales ratio surpasses some of the better run retailers in the United States.
- . Operating costs for the last three fiscal years have been kept under 3% per annum.

These impressive results were achieved through an aggressively planned cost reduction effort, and new marketing initiatives. The PLCB used flexibility contained in Act 14 to "become more enterprising in its overall mission of providing revenues for the state", as was suggested in the last Sunset Report.

FINDING F - SPECIAL PURCHASE DISCOUNTS ALLOW THE PLCB TO REDUCE PRICES ON SELECTED ITEMS.

The PLCB agrees with the finding with several clarifications. There are no attached recommendations to this finding.

First, the SPA bank analysis does not include discounts received for free goods or for discounts passed along to customer for closeout sales. Our SPA report is currently being changed to reflect these added discounts passed along to our customers.

Secondly, the finding does a thorough job of analyzing the growth in SPA dollars received, SPA dollars passed to the consumer, the percentage of top selling items now covered by SPA dollars, and the number of dollars passed through to the consumer. All were up markedly in the last three years.

APPENDIX Q (CONTINUED)

The report speculates the demise of affirmation may have had something to do with the better buys obtained over the last three years by the PLCB. The PLCB agrees.

The demise of affirmation was a major factor now working to our benefit. The demise of affirmation, or at a minimum, the perception that affirmation was being challenged, combined with aggressive changes in our merchandising strategies (which, in turn, led to radical changes in the vendor of record for many suppliers) were the key ingredients in bringing about lower supplier prices.

There is little doubt in our minds, the challenging of affirmation played a key role in initiating changes necessary to allow the PLCB to achieve a 148% increase in SPA dollars over the last three years.

Our consumer prices reflect lower supplier prices, as indicated by the favorable survey results from surrounding states and from other control states.

FINDING G - PLCB SPIRIT AND WINE PRICES ARE COMPETITIVE WITH THOSE IN NEIGHBORING STATES.

The PLCB agrees with the finding and plans to continue surveying surrounding states.

This finding independently verifies the results of our own pricing surveys. With the demise of affirmation, Pennsylvania's pricing of spirit and wine products is highly competitive with surrounding markets except Maryland. As explained in Finding F, our progress in increasing SPA money's is a major reason why Pennsylvania prices are increasingly competitive with surrounding markets.

We want to reemphasize Pennsylvania's state taxes on spirit products are three times higher than Maryland's and five times greater than Maryland's tax on wine products. We are not advocating a change in the tax structure, but it's important to note the only surrounding state with consistently lower prices is Maryland who has a tax rate 3-5 times lower compared to Pennsylvania.

FINDING H - REVENUES GENERATED FROM PLCB LICENSE AND PERMIT FEES FALL FAR SHORT OF COVERING THE COSTS OF LICENSING AND ENFORCEMENT.

Act 1987-14 required the PLCB to recommend fee increases to the General Assembly sufficient to offset the costs of liquor licensing and enforcement. As pointed out in the report, the PLCB met this obligation twice during the audit period.

APPENDIX Q (CONTINUED)

The shortfall developed over a period of about 40 years. Today the difference between costs and licensee revenues are made up through higher shelf prices in our retail stores.

In reality, the cost of enforcement and licensing is being paid for by those who create some of the demand-the consumer of wine and spirits. The cost is directly borne by those who purchase wine and spirits in retail stores, as opposed to indirectly through higher beverage prices licensees would charge, if their fees were increased to cover the shortfall.

We agree with the recommendations in this finding. We also point out, we will have a fee management system in place later in 1992, with the full implementation of our Image Processing System, as referenced on the last page of this finding and in Volume III of this report.

FINDING I - PREMIUM WINE SHOPPE CONCEPT HAS NOT BEEN PROFITABLE AND THE PLCB DOES NOT PLAN TO OPEN ADDITIONAL STORES OF THIS TYPE.

The PLCB agrees with this finding. The Board opened five premium wine only stores in the urban areas of the Commonwealth. While most of the stores continue to build additional sales, the long range profitability of these stores is not strong, as indicated in the report.

The Board feels its current strategy of opening more specialty stores, and expanding the premium wine and spirits selection in our self service stores through bottle pick and plannogramming, is a more cost effective way of providing greater premium wine selection in proven markets. Selection in our stores is now viewed as good or excellent by nearly nine out of ten of our customers, as reported in the LBFC survey.

We agree with the recommendation to modify the existing requirement to open about 35 premium wine stores.

FINDING J - COST SAVINGS COULD BE REALIZED THROUGH BETTER COOPERATION BETWEEN THE AUDITOR GENERAL'S OFFICE AND THE COMPTROLLER'S OFFICE ON PLCB AUDITS.

The PLCB is in full agreement with this finding, and generally supportive of the two accompanying recommendations. However, we feel the duplication will not be eliminated through further discussion but by legislative action .

The Board publicly called for the elimination of the duplicative audits in September, 1988. Subsequently, the Board met with the Auditor General and discussed the unnecessary duplicity with the Secretary of the Office of Budget. Both feel in-store audits of inventory are a part of their statutory duties.

APPENDIX Q (CONTINUED)

The Board feels spending upwards of four million annually (estimated \$2.5 million for Auditor General and \$1.5 million for OB-Office of the Comptroller) is an excessive amount especially in light of our recent investment of about \$20 million in a state-of-the art Point-of-Sale System (POS). The POS system provides a perpetual inventory function very close in accuracy to the previous methodology of inventory accounting.

The Comptroller is the agency's internal auditor. Typically, external auditors rely on the audit findings of the internal auditors. The OB-Comptrollers Office performs similar inventory functions within other agencies of state government and the Auditor General relies on their work. The PLCB is peculiar only to the extent that we fully fund the upwards of \$2.5 million annually used by the Auditor General principally to perform in-store inventory counts annually in each store.

We recommend this matter be legislated to conclusion to save the taxpayers millions of dollars in duplicative audit expenses.

FINDING K - ANNUAL PLCB PAYMENTS TO A RETIREMENT ACCOUNT FOR LIQUOR LAW ENFORCEMENT OFFICERS ARE NOT LONGER NECESSARY.

The PLCB is in full agreement with this finding and the accompanying two recommendations. We have sought to terminate these unnecessary payments through legislation since adopting the Business Plan in 1988. A brief synopsis of our efforts to end this unnecessary loss of income to the General Fund, through liquor fund transfers, is included above under the response to Finding D.

FINDING L - SOME LICENSEES WITH THREE OR MORE LIQUOR CODE VIOLATIONS ARE NOT RECEIVING MANDATED LICENSE SUSPENSIONS OR REVOCATIONS.

The PLCB prefers not to comment on the finding or recommendations at this time. A direct response from the Administrative Law Judge should be the primary source of comment.

FINDING M - THE PLCB'S "NUISANCE BAR PROGRAM" IS RESPONSIVE TO PUBLIC CONCERNS REGARDING CHRONIC LIQUOR LAW VIOLATORS.

No other program has brought as much immediate relief to our neighborhoods and communities, as was achieved with the development of the Nuisance Bar Program. The PLCB takes special pride in agreeing with the findings and the recommendations contained in this report.

APPENDIX Q (CONTINUED)

We do have several comments on the findings content. What has been colloquially referred to as the Liquor Control Board's nuisance bar program - actually the program in which the Board determines whether a licensee has abused the privilege of holding a license - is presently undergoing some revision to reflect uncertainties caused by the Pennsylvania Supreme Court's recent ruling in the case of Lyness v. Commonwealth, State Board of Medicine, No. 174 E.D. Appeal Docket 1990 (March 18, 1992). While the Board expects further clarification on the issues by the Pennsylvania appellate courts, for the present time the Board has directed the Bureau of Licensing to make the initial review of a licensee's performance. Thereafter, the licensee's case may go to a hearing, and the Board will make its final decision based upon the record of the hearing.

The LBFC report did not accurately state the manner in which the Board previously handled the initiation of the non-renewal process. Based upon its review of the file in a matter, the Board, in appropriate cases, would initially decline to renew a license, thereby setting the stage for a full hearing in the matter. The Board never made a final determination prior to a full hearing of the issues raised. Moreover, when unadjudicated citations were included among the objections to the renewal of the license, at the time of the hearing on the question of renewal, the Board attorney presented the facts underlying the unadjudicated citation, thereby putting into evidence the substance of the alleged wrongful act. The Board has never used an unadjudicated citation issued against a licensee as a basis in whole or in part to make the final decision to refuse renewal of the license.

FINDING N - MULTI-YEAR LIQUOR LICENSING HAS POTENTIAL BENEFITS BUT NEEDS FURTHER STUDY.

We agree with the finding and both recommendations and feel we have partially implemented them already.

The PLCB has publicly advanced the potential of multiple year licensing for the last four years. Beginning with the Business Plan in 1988, our recommendations in the 1989 fee report to the General Assembly, and several individual letters to the House Liquor and Senate Law and Justice Committee's, the Board has been a strong proponent of the concept.

We feel, if the workload for annual renewals is cut in half, a similar level of savings equating to 10-12 positions can be achieved in the Division of Evaluation (Bureau of Licensing). Image Processing, and the resulting economies, will primarily affect the Division of Administration in the same Bureau. Annual savings in the neighborhood of \$500-800,000 will directly result from instituting a multiple-year program.

APPENDIX Q (CONTINUED)

More importantly, licensees with no tax problems or nuisance bar concerns will not have to incur the cost or time to apply annually for a license.

The barriers to the program are easily identified and surmountable including invoking an annual tax clearance and nuisance bar review, prior to issuing the subsequent year(s) letter of authority. In our opinion, this does not require significant additional study; only the development of the proper procedures once the program is legislated.

FINDING O - PA'S LIQUOR MANUFACTURER'S SALES PERMIT IS INEQUITABLE AND DIFFICULT AND COSTLY TO ADMINISTER.

The PLCB is in agreement with the finding to eliminate the reciprocal fee permit and replace it with a simplified label fee. As indicated, the Board endorsed this concept with the adoption of the Business Plan in September, 1988. The same recommendation is now in place for handling malt beverage product brand registrations.

The Board also supports the recommendation to allow the agency to set the fee amount by regulation.

FINDING P - THE PLCB'S BUREAU OF CONSUMER RELATIONS IS INADEQUATELY STAFFED TO CARRY OUT ITS DUTIES AND RESPONSIBILITIES.

The PLCB has added a full time secretary. The Board will further review the need for additional staffing to adequately perform the functions of the bureau as envisioned in Act. 14.

PLCB Customer Comment Card Program

As noted by the LBFC, the customer comment card responses have decreased from a high of 4600 in 1988 to approximately 1000 in 1991.

This was a natural decline with the creation of the consumer 1-800 hot line in 1988. This enabled customers to call toll free to express their comments, complaints and suggestion. These calls have increased from 822 in 1989 to over 2000 in 1991, as the awareness of this vehicle became more prevalent.

We also feel that with the acknowledged improvement in our efforts to "normalize" the customer shopping experience, there has been a marked decline in total consumer complaints.

APPENDIX Q (CONTINUED)

Since October 1991, Retail Management has reconfirmed to all stores the importance of making the revised customer comment card available and highly visible. We have also posted a 14" x 24" sign in each store pointing out the availability of both the customer comment cards and the toll free consumer hot line.

Consumer Relations Staffing

We agree with the recommendation in this finding, and have added a full time secretary as of February 1992.

With the addition of this person more initiatives have been assigned to this area. Among these will be the creation of an automated tracking system to monitor the timely referral and resolution of all appropriate customer comment cards and consumer hot line programs. A deadline has been established to answer all consumer inquiries no later than 30 days by the appropriate agency personnel. Also, all materials developed by the Administrative or Marketing areas to address educational or responsible use of alcohol for store distribution will include Consumer Relations.

Public Education/Service Initiatives

The PLCB has dedicated the equivalent of 2-3 additional persons to related public information programs. While Consumer Relations has dealt primarily with our in-store customers and their issues, the Marketing and Administrative staffs have initiated and implemented numerous consumer-oriented and general programs dealing with public education and the responsible use of alcohol. These efforts, combined with those directly accomplished by the Consumer Relations Bureau, indicate a resource commitment not acknowledged in the finding. The Board is considering a coordinator of these functions. Following is a summary of some of the more important initiatives:

1. Last year, 5,133,100 pieces of literature with various alcohol abuse messages were printed by the LCB and distributed across Pennsylvania.
 - . We have developed a portable display program and use volunteer staff to participate at various shows. The Bloomsburg Fair, York Fair, Pennsylvania State Farm Show, three major auto shows, statewide restaurant shows, Pennsylvania Wine Festival, and the Pennsylvania Home Builders Show are examples of shows we attended. The shows we attended have a combined estimated attendance of nearly three million.
 - . In addition to consumer trade exhibitions, the PLCB also participates in wellness and safety fairs for public and private employer programs.

APPENDIX Q (CONTINUED)

- . A youth display targeted to middle and high schools was developed and marketed to the immediate four county region. Currently booked through June, and it's anticipated this program will visit over 25 schools between February and June 1992.
 - . Over 1,000 man-hours were volunteered by PLCB employees who served as agency public information ambassadors at these events.
 - . Our instore efforts feature monthly bag stuffers with appropriate anti-abuse messages.
2. PLCB staff is readily available to the public to answer questions and provide information on various alcohol abuse topics.
- . Two toll-free 800 numbers are advertised (800-453-PLCB) and (800-272-PLCB) to answer the public's questions.
 - . Speaker's Forum. Approximately 100 volunteer speakers have honored requests for various subjects at about 120 functions.
 - . The PLCB acts as an alcohol information clearinghouse for for the National Clearinghouse for Alcohol and Drug Information, PA Dept. of Health-Single County Authorities, and PA school districts, both public and private.
 - . The PLCB participates in, and provides literature and materials for sobriety checkpoints in cooperation with several police departments in central Pennsylvania.
3. Several newsletters aimed at licensees, alcohol enforcement agencies, employees and consumers were developed and produced.
- . In the Public Interest: About 3,600-4,000 copies are distributed quarterly to various public health and safety groups and interested individuals.
 - . Front Line: 3,800 copies are distributed quarterly to our employees.
 - . License Business Quarterly: 24,000 copies are distributed quarterly to each and every licensee. Topics range from marketing news to server training developments.
 - . Shoppe Talk: over 100,000 copies are distributed quarterly to consumers on our mailing list.
4. The PLCB developed numerous cooperative programs targeting alcohol abuse with various agencies in the Commonwealth including:

APPENDIX Q (CONTINUED)

- . Department of Education (Alcohol Education Program)
 - . Department of Transportation (Safety Belts and Alcohol Abuse)
 - . Turnpike Commission (Holiday Planner)
 - . Department of Health (Alcohol Education Program)
 - . Pennsylvania Fish and Board Commission (Boating Safety)
5. Surveys have been completed by the LCB to determine perceptions about:
- . Wine & Spirits Shoppes (retail store customers)
 - . Wholestore (wholesale store customers-licensees)
 - . Licensee Information Center (licensees)
6. Information is available in the stores to aid consumers.
- . Revised bulletin boards are displayed with information on wines and liquors. In addition, rebate slips are also posted for consumer's convenience.
 - . Test program in some of the stores where consumers can type into a computer to find out more about a product.
 - . Wholesale centers are in each of the 16 wholesale stores to better service licensees. These centers include forms and brochures to make it easier for licensees to comply with regulations.

FINDING Q - LACK OF ASSURANCE THAT LIQUOR LICENSE MONIES RETURNED TO MUNICIPALITIES ARE BEING USED FOR ENFORCEMENT PURPOSES.

We agree with the finding and accompanying two recommendations. In our License Fee Reports, the Board discussed the logic of returning licensing fees to municipalities with no law enforcement departments. Historically, as the LBFC report verifies, the original intent of returning license fees was to assist local governments with licensees in enforcing the liquor code in their respective communities.

Those communities with no law enforcement departments rely on the PSP for Liquor Code enforcement. The cost of the PSP is borne directly by the LCB. In effect, there are hundreds of municipalities who are "doubly covered" by the funding mechanism for Liquor Code enforcement.

FINDING R - THE PLCB HAS CUT OPERATIONAL COSTS BY CLOSING TWO OF ITS THREE "SATELLITE" LICENSING OFFICES.

We agree with the finding. The Wilkes-Barre satellite office will close on or about July 1, 1992. In addition, the now existing three regional offices will be realigned into two regional offices (Eastern based in Philadelphia and Western based in Pittsburgh) sometime early in the 92-93 year.

Our experience with the pilot offices proved they were not needed. The same conclusion was recently reached in reference to the Central Regional Office currently based in Harrisburg.

FINDING S - PLCB ADMINISTRATIVE LAW JUDGES ARE NOT AUTHORIZED TO IMPOSE COSTS.

As indicated, the PLCB supports the imposition of court costs. Therefore, we agree with both the finding and the recommendations.

FINDING T - THE NUMBER OF RETAIL LIQUOR LICENSES IN MOST MUNICIPALITIES EXCEEDS THE STATUTORY QUOTA DUE PRIMARILY TO A "GRANDFATHER" PROVISION.

The "Grandfather Provision" is the primary reason there continues to be many more licenses in effect than what the quota law allows.

Historically, the number of total retail licenses declined 20% since peaking in 1960. Since 1980, the loss of 2,200 retail licenses can be attributed to the declining amount of liquor consumption, more stringent enforcement of tax delinquency laws, and the Nuisance Bar Program.

Nonetheless, with a new quota effective with the passage of Act 1990-160, the real problems created by too many licenses does not involve the over quota number itself, but the relative inexpensive cost associated with purchasing a liquor license because they are so plentiful.

The large number of available liquor licenses is especially problematic in urban areas. Recently, in a letter to members of the Philadelphia delegation in the Pennsylvania House of Representatives, the Board stated its support of efforts to effectively reduce the number of licenses available in municipalities. In fact, we recommend several additional ways beyond purchasing licenses from safekeeping, on approved resort area pleas, to accomplish a real reduction.

APPENDIX Q (CONTINUED)

In over quota municipalities, a liquor license is relatively inexpensive to purchase. Because of intense competitive pressure and a relative lack of economic value, these same licensees can become more prone to sloppy operations on the part of the licensee or it's management. To support this theory, we estimate about 99% of those licensees not renewed in the first two years of the LCB's Nuisance Bar Program were located in the 49% of the political subdivisions which exceed the quota.

Problems resulting from too many licenses are especially acute in Philadelphia County with its limited amount of geographical space. While Philadelphia has 4.11 licenses for each 3,000 residents, there are 40 counties with MORE licenses per capita throughout the Commonwealth. However, Philadelphia has 17 licenses per square mile; more than 5 times the number of Allegheny County which is the second most concentrated county in terms of licenses per square mile.

We agree with the LBFC recommendations one and two. Since the LCB, or the Court of Common Pleas, has allowed resort licenses in 57 counties, the effectiveness of the third recommendation is limited. The only true means of applying a clearer definition or more specific criteria would be through legislative amendment.

It's important to note several things relative to resort area please. First, the Board urges all resort area plea applicants to buy and existing license, if one is available in safekeeping. This has resulted in several being purchased and transferred. Secondly, the Board has approved about 60% of resort plea requests since 1987 which added only 97 licenses. This constitutes two-tenths of one percent of retail licenses in effect. Were more specific criteria in place, the effect would have been inconsequential compared to the overall problem of a system that is 70% over quota.

Much more aggressive action is needed than what is recommended by the LBFC, if the over quota problem is going to be resolved.

FINDING U - PLCB LICENSEES CANNOT OBTAIN BINDING ADVISORY OPINIONS REGARDING THE LIQUOR CODE AND REGULATIONS.

Getting "advisory opinions" into the hands of licensees is a necessary matter of "fine-tuning" which remains from the 1987 transfer of enforcement duties to the PSP. While the Board periodically issues information to licensees in the form of bulletins, a void remains in the area of opinions relative to the overall operations of licensees.

The Board is already on record supporting the need for advisory opinions. The Board also feels the PLCB should issue the advisory opinions.

APPENDIX Q (CONTINUED)

We also are in general agreement with both recommendations included with this finding, with the footnote concerning having the PLCB issue advisory opinions.

FINDING Y - LIQUOR CODE AMENDMENTS PROPOSED BY THE PLCB AND THE OFFICE OF ADMINISTRATIVE LAW JUDGE.

The list of recommended legislative changes listed in the report remains a necessary component to continuing improvements in the area of regulating the sale and distribution of alcoholic beverages.

FINDING W - LIQUOR CODE IS IN NEED OF RECODIFICATION.

Recodification is mandatory if the LCB, PSP, our licensees, the General Assembly and the general public is to clearly and easily understand the Liquor Code. The former Board endorsed the need to revise and recodify the liquor Code, and the current Board fully concurs with this finding, and the attendant two recommendations.

PLCB COMMENTS ON PERFORMANCE AUDIT OF
PENNSYLVANIA LIQUOR CONTROL BOARD
VOLUME II

Volume II provides background information and support materials related to the findings in Volume I.

The PLCB has several clarifying comments. On page 39, it's important to note Pennsylvania is the only control state listed under the "narrow" pattern of distribution. In nearly every one of the nine tables presented, Pennsylvania (Narrow-Control) had a significantly lower rate (greater than .05) than any of the other groupings of states.

In addition, if all the table results contained on pages 36 through 38 were combined to form a single rating, there would be 40 states with cumulative rankings worse than Pennsylvania. While the type of retail system used in other states has little effect, the control system in Pennsylvania appears to be working.

This favorable comparison holds up against either group of License or Control States, the National Average (presented as "Total") or any of the new categories developed by the study team (Narrow, Broad and Broadest). The statistical difference between Pennsylvania and the other groups was significant averaging between 10-30% lower in eight of the nine categories.

The only exception was the chart on cirrhosis which is a complex medical problem with many causes including alcohol abuse. In fact, newly released data (1988) from the U. S. National Center for Health Statistics indicates even Pennsylvania's cirrhosis rate has slipped to 10.3 per 100,000 people which is now below the national average of 10.7 cases. The cirrhosis data used in the report was from 1979 through 1985.

In addition to the health, safety, and welfare indicators presented in the methodology outlined in Appendix A, there are other important variables the study did not include. A summary follows. In all cases, the Pennsylvania average is significantly below the national average.

APPENDIX Q (CONTINUED)

Additional Comparative Alcohol Related Statistics⁽¹⁾

	<u>Pennsylvania</u>	<u>National Average</u>
Occurrence of alcoholism as a percent of total population ⁽²⁾	4.60%	5.89%
D.U.I. Arrests of Minors per 100,000 minors ⁽¹⁾	109	220
Drunkenness per 100,000 ⁽¹⁾	281	370
Drunkenness under 21 per 100,000 under 21 ⁽¹⁾	65	145
Alcohol related accidents per 100,000 16-20 year olds ⁽⁴⁾	336	401
Drivers killed in alcohol related accidents per 100,000 16-20 population ⁽⁴⁾	14.82	25.24
Alcohol related deaths per 100,000 minors under 21 ⁽⁴⁾	3.97	5.65
Minors who regularly drink ⁽³⁾	47%	57%

(1) FBI Uniform Crime Report 1990, PA Uniform Crime Report, 1990

(2) PA Department of Health, 1985, Alcohol Health/Research World

(3) Governors Drug Policy Council, 1991

(4) FARS, 1990, PADOT, 1990

Finally, in Appendix M, the estimates of one-time revenues provided by the PLCB are indeed the ones we have publicly produced. We want to reemphasize, the PLCB does not believe the \$66 million loan repayment will do anything for the General Fund bottom line. Therefore, it should not be used to calculate one-time revenue gains for the Commonwealth treasury.

PLCB COMMENTS ON PERFORMANCE AUDIT OF
PENNSYLVANIA LIQUOR CONTROL BOARD
VOLUME III

This volume reports on the status of recommendations from the prior Sunset Report. The PLCB feels the status report, with a few minor clarifications, accurately reflects the status of the recommendations.

We note the Board implemented nearly 75% of all the recommendations from the previous Sunset Report.

The first clarification involves Finding F-1. The PLCB feels we currently have a manual capability of tracking costs associated with processing each type of licensee, as evidenced by the costs outlined in the 1989 License Fee Report to the General Assembly. We agree we have no ongoing system at this time but hasten to add we will indeed have this capability beginning in August, 1992 with the implementation of the image processing system.

A second area of clarification involves Recommendation E-4 and E-5. The position of the PLCB is owning and operating warehouses with PLCB employees may well be more expensive than through contract. This option was generally discussed and rejected by the Board in 1988 during discussions with the Warehouse Review Group. This is not just the personal opinion of the Director of Administration.

The remaining status items accurately reflect the status of the 77 recommendations, as of December, 1991.

Concerning the deployment of enforcement officers, the PLCB offers the following observations. The LCB believes the PSP should deploy principally based on the frequency of citations per license in an enforcement district. In other words, more EO's deployed in districts where licensees have shown a propensity to more frequently violate the Liquor Code in contrast to the current approach where EO's are deployed based on a percentage of licenses to total licenses for each enforcement district.

The citation history should also be weighted so deployment for enhanced Liquor Code violations (e.g. sales to minors, after hours, sales to intoxicated persons) are given more weight than other less serious procedural violations.

We don't feel it's effective to use manpower citing clubs, volunteer fire companies, etc., for procedural or paperwork matters, when urban areas with very serious liquor code violations are comparatively understaffed.



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA LIQUOR CONTROL BOARD
OFFICE OF ADMINISTRATIVE LAW JUDGE
HARRISBURG, PENNSYLVANIA 17110-2119

GERALD E. RUTH
CHIEF JUDGE

May 22, 1992

SUITE A
2973 JEFFERSON ST.
(717) 783-9887

Mr. Philip Durgin, Executive Director
Legislative Budget and Finance Committee
400 Finance Building
Harrisburg, PA

RE: Performance Audit

Dear Mr. Durgin:

Per your letter of May 8, 1992, enclosed please find the Office of Administrative Law Judge's comments for inclusion in the final version of the report.

SUGGESTED CHANGES TO VOLUME I

II-B

At Page 41, the following hearing sites were omitted from the report; they are: Altoona, Erie, Wilkes Barre, Williamsport.

II-L

At Page 154, the statements in the last two sentences of the last paragraph attributed to me improperly implies a willful intention of our office to disregard the statutory mandate. "Our office imposes mandatory suspensions whenever our Judges consider it mandated by the Liquor Code regardless of the number of cases it applies to or whether the violation is minor in nature. Our office carries out what we believe is the intent of the legislature within the law."

- (a) All licensees have a thirty (30) day right of appeal after initial determination of committing a violation. Therefore, such a prior violation determination has to be over thirty (30) days old and not appealed to be counted toward mandate consideration.
- (b) Prior to 1985, multiple violations included in one citation often were consolidated and only a maximum of \$1,000 cumulative fine was imposed. No comment was made regarding this practice in the 1985 Sunset Review.

APPENDIX R (CONTINUED)

page 2

Performance Audit

II-N

At Page 179, Multi-year licensing proposal. I recommend the following be added as a 3rd sentence under recommendations. "Particular attention should be given to the bonding of licensees in view of revocation and bond forfeiture. How can the total of a multi-year bond be forfeited when a violation occurred only in one year?"

II-R

At Page 199, I suggest adding ALJ is now acting in information capacity, supplying forms and information for licensee/attorneys in Allentown since licensing has closed operations.

II-S

At Page 203, I suggest adding to the end of the first paragraph of summary, "ALJ imposed \$2,140,372 in fines and forfeited \$286,000 in bonds during CY 1991."

At Page 203, I suggest adding to footnote 1 the following, Act 1990-160 establishing recusal rights will increase time and costs. (See suggestions of OALJ to delete recusal Vol. II, Page 125, referring to section 2-212(c) of Code).

SUGGESTED CHANGES TO VOLUME II

At Page 14, Under title "The Office of Administrative Law Judge", I suggest adding at the end of the last sentence, "... and also holds hearings in Williamsport, Wilkes Barre, Altoona and Erie.

Very truly yours,



Gerald E. Ruth
Chief Administrative Law Judge

GER:tad

cc: Board Members
Chuck Woods

LB&FC Staff Note: Changes were made on page 154 of Volume I to reflect the Chief ALJ's concerns regarding mandatory suspensions and revocations.

APPENDIX S



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA STATE POLICE
1800 ELMERTON AVENUE
HARRISBURG, PA. 17110

COLONEL GLENN A. WALP
COMMISSIONER

May 21, 1992

Mr. Philip R. Durgin
Executive Director
Legislative Budget and Finance
Committee
Post Office Box 8737
Harrisburg, Pennsylvania 17105-8737

Dear Mr. Durgin:

This letter is in response to your recent correspondence concerning the Legislative Budget and Finance Committee performance audit of the Pennsylvania Liquor Control Board.

We appreciate the opportunity to review the report and offer our comments relative to the audit recommendations. Our comments concerning several of the recommendations are provided below for review by the Legislative Budget and Finance Committee.

A-2.* ENFORCEMENT OFFICER COMPLEMENT LEVEL

The position of investigative auditor would enhance the ability of the Bureau of Liquor Control Enforcement to perform in-depth audit functions. There are currently eleven Liquor Enforcement Officers performing auditing functions throughout the Commonwealth; however, the officers do not have the required accounting skills or the proper qualifications to present necessary and, often times, complicated testimony. The expertise of an accountant to make complex determinations relative to pecuniary interests and corrupt organization cases would further our investigative efforts in these areas. An available position exists within the Bureau's personnel complement which may be utilized for an investigative auditor. We anticipate filling this position in the near future.

*/LB&FC Staff Note: The letter references in this response refer to sections in Volumes I and III of this report. A-2, A-4, A-6, A-7, A-10, A-16, B-1, and G-2 are in Volume III; M, U, and W are references to audit findings in Volume I.

Letter to Mr. Philip R. Durgin

May 21, 1992

Page 2

A-4. ENFORCEMENT MANPOWER

As of May 1, 1992, there are 16 enlisted State Police members and 157 Liquor Enforcement Officers assigned to the Bureau. Eleven of the enforcement officers are assigned to conduct special investigations or auditing functions. A chart reflecting the distribution of personnel based on the number of licensed establishments is attached. The Pennsylvania State Police, Bureau of Research and Development has initiated a manpower allocation study for the Bureau which will provide a comprehensive analysis of the personnel needs of each District Enforcement Office to determine distribution of enforcement personnel.

A-6. STATE LIQUOR STAMP FOR ENFORCEMENT PURPOSES

In addition to being an effective enforcement tool while investigating licensed establishments, the mandatory use of liquor stamps would greatly assist the Bureau in investigations of speakeasies and other non-licensed activities. As indicated by Pennsylvania Liquor Control Board officials, problems relative to the importation of untaxed liquor could be addressed through intensified spot checking and auditing procedures.

A-7. LIQUOR CODE VIOLATION PROSECUTION POLICY

The Bureau evaluates all Liquor Code violations to determine which violations warrant criminal prosecution in addition to administrative prosecution through the citation process. Since each violation involves unique circumstances, it is difficult to establish fixed guidelines. Currently, evaluations are made by command personnel in conjunction with the prosecuting agency. Thus, decisions on criminal prosecutions are made on a case by case basis.

A-10. LIQUOR LICENSE CONSOLIDATION OF CITATIONS RELATING TO
SUSPENSIONS/REVOCATIONS

As indicated in the report, it is very rare for the Bureau to consolidate two separate citations. Although a citation may contain more than one violation, each citation is the result of a single investigation. To consolidate citations would require that separate and distinct investigations, and their accompanying reports, also be consolidated. The State Police do not advocate

consolidation because of the distinction that exists between the separate investigations.

A-16. ILLEGAL IMPORTATION OF LIQUOR

From July 1, 1987 to April 30, 1992, a total of 663 arrests were made by the Bureau as a result of our border patrol program. There were 29 vehicles seized during border patrol investigations along with a substantial amount of untaxed liquor and beer.

B-1. ENFORCEMENT AUDITS OF LICENSEES

The Bureau of Liquor Control Enforcement has proposed to the Department of Revenue that they provide the Pennsylvania Liquor Control Board with income tax information on licensees who have applied for a Sunday Sales Permit. The Bureau of Licensing would then conduct an accounting of income data. This information is presently determined only through enforcement audits conducted subsequent to the issuance of the Sunday Sales Permit. If the Department of Revenue accepts our proposal, the personnel and budgetary resources devoted to the auditing function will be greatly reduced. The State Police would then redirect the affected personnel to enforce other provisions of the Liquor Code.

G-2. CITATIONS/AVERMENTS

The Pennsylvania State Police believes that judicial discretion by the Office of Administrative Law Judge concerning the assessment of penalties should be limited, not expanded. Furthermore, such penalties should be mandatory.

M. THE PENNSYLVANIA LIQUOR CONTROL BOARD'S "NUISANCE BAR PROGRAM" IS RESPONSIVE TO PUBLIC CONCERNS REGARDING CHRONIC LIQUOR LAW VIOLATORS

The Department agrees with the proposed legislation which would require violations to follow a transferred license. The implementation of this procedure would prevent "sham" transfers, e.g., husband to wife, which are commonly attempted or accomplished in order to clear a record of prior citations, thereby allowing the transferring licensee an opportunity to maintain control of the licensed premises while enjoying a clear record.

Letter to Mr. Philip R. Durgin

May 21, 1992

Page 4

U. PENNSYLVANIA LIQUOR CONTROL BOARD LICENSEES CANNOT OBTAIN
BINDING ADVISORY OPINIONS REGARDING THE LIQUOR CODE AND
REGULATIONS

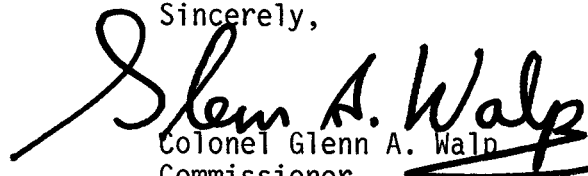
The Bureau of Liquor Control Enforcement has implemented a procedure whereby licensees may request information relative to the liquor laws and related regulations. Similar requests concerning the Bureau's enforcement policy relative to these laws are also answered. Licensees must be specific in their descriptions of proposed events. Upon receipt of a request, the Bureau issues private letter rulings to the requesting licensee. A copy of the licensee's original letter, along with the Bureau's response, is furnished to all District Enforcement Offices. This procedure accomplishes two objectives. It advises the licensee and all District Enforcement Offices of Bureau interpretations about a specific statute. This procedure also provides a defense for the licensee if a citation is issued contrary to the Bureau's interpretation. The Bureau is in favor of the recommendation of the Office of Administrative Law Judge that Section 471 of the Liquor Code be amended to provide that no penalty will be imposed if a licensee is cited contrary to an opinion from the Bureau and an Administrative Law Judge subsequently rules that a violation has, in fact, occurred.

W. LIQUOR CODE IS IN NEED OF RECODIFICATION

The Department firmly supports the need for recodification of the Liquor Code. Furthermore, the Liquor Code should be incorporated with Title 40 into a single enforceable Code. This action would eliminate much of the ambiguity found in the existing statute.

Thank you for your attention to our concerns. If further information or clarification is required, please do not hesitate to contact me.

Sincerely,


Colonel Glenn A. Walp
Commissioner

APPENDIX S (CONTINUED)

COMPLEMENT - January, 1992Percentage of Manpower Versus Number and Percentage
of Licensees Per District Enforcement Office

<u>District Enforcement Office</u>	<u>Number of Licensees</u>	<u>Percentage of Licensees</u>	<u>Manpower Distribution LEO - SUPV</u>		<u>Percentage of Manpower</u>
Philadelphia	3,750	18 %	26	3	18 %
Wilkes-Barre	2,461	12 %	13	2	10 %
Harrisburg	1,714	8 %	13	2	10 %
Pittsburgh	4,919	24 %	32	3	22 %
Altoona	1,192	6 %	7	1	5 %
Williamsport	1,010	5 %	7	1	5 %
Punxsutawney	965	5 %	7	1	5 %
Erie	1,290	6 %	8	1	6 %
Allentown	3,343	16 %	17	2	12 %
Special Investigations	-	-	11		7 %
TOTALS	20,644	100 %	141	16 (157)	100 %

APPENDIX T



COMMONWEALTH OF PENNSYLVANIA
OFFICE OF THE AUDITOR GENERAL
HARRISBURG, PA 17120-0018

May 21, 1992

BARBARA HAFFER
AUDITOR GENERAL

Mr. Philip R. Durgin
Executive Director
Legislative Budget and Finance Committee
400 Finance Building
Harrisburg, Pennsylvania 17105-8737

Dear Mr. Durgin:

Pursuant to your letter of May 13, 1992, please find the response of the Auditor General to your committee's performance audit of the Pennsylvania Liquor Control Board (PLCB). In particular, our response relates to part J. of your report entitled "Cost Savings Could Be Realized Through Better Cooperation Between The Auditor General's Office and the Comptroller's Office on PLCB Audits."

Generally accepted auditing standards stress the importance of being independent during an engagement to allow the auditor to express an opinion on the fairness of the presentation of financial statements. The second general standard requires that an auditor be independent not only in activities they audit but also in appearance. This standard states in part:

It is of utmost importance to the profession that the general public maintain confidence in the independence of independent auditors. Public confidence would be impaired by evidence that independence was actually lacking, and it might also be impaired by the existence of circumstances which reasonable people might believe likely to influence independence.... Independent auditors should not only be independent in fact; they should avoid situations that may lead outsiders to doubt their independence.

The auditors of the Department of the Auditor General are part of an organization headed by an independently-elected official, and thus are independent from the entity as denoted by professional standards. Comptroller's Office internal audit personnel ultimately report to the Governor's Office. Because the Governor also appoints board members to the PLCB, the Comptroller's Office internal audit staff is not truly independent of the entity. Although your interest in the Department of the Auditor General is commendable, your timing is transparent. Please remember that the purpose of assessing the performance of internal auditors should be directed to improving their efficiency. Therefore, to avoid duplicate procedures and to promote cost-efficiency, the internal audit staff of the PLCB Comptroller's Office should be relieved from performing both physical inventory and cash examination.



APPENDIX T (CONTINUED)

Concerning the issue of apparent duplication of audit effort between the Auditor General's Bureau of Liquor Audits and the Comptroller's Office, you state, "If the Auditor General relied more extensively on the work of the Comptroller's Office, the PLCB audit costs could be reduced, and more monies would be available from the State Stores Fund for transfer to the General Fund". You continue to say that "Many private accounting firms, in an attempt to minimize the audit fee, are increasingly using internal auditors".

While performing audits in accordance with generally accepted auditing standards, we consider the work of internal auditors and how it might affect the auditing procedures to be performed during an audit of an entity's financial statements. The importance of efficient and economical auditing procedures cannot be underestimated in an engagement. Nevertheless, a high quality, yet efficient, audit of the PLCB requires that the auditor understand the agency's operations, and which areas of the financial statements present the greatest audit risk, to allow for an efficient and effective audit.

While generally accepted auditing standards allow external auditors to use the work of internal auditors, these professional standards are clarified by the Statement on Auditing Standards No. 65, "Auditor's Consideration of Internal Audit Function in an Audit of Financial Statements" issued by the Auditing Standards Board, the senior technical body of the American Institute of Certified Public Accountants (AICPA) designated to issue pronouncements on auditing matters, which states in part:

Even though the internal auditors' work may affect the auditor's procedures, the auditor should perform procedures to obtain sufficient, competent, evidential matter to support the auditor's report. Evidence obtained through the auditor's direct personal knowledge, including physical examination, observation, computation, and inspection, is generally more persuasive than information obtained indirectly.

The responsibility to report on the financial statements rests solely with the auditor. Unlike the situation in which the auditor uses the work of other independent auditors, this responsibility cannot be shared with the internal auditors. Because the auditor has the ultimate responsibility to express an opinion on the financial statements, judgments about assessments of inherent and control risks, the materiality of misstatements, the sufficiency of tests performed, the evaluation of significant accounting estimates, and other matters affecting the auditor's report should always be those of the auditor.

As the above statements show, evidence obtained directly by our auditors is more critical than information obtained indirectly through internal auditors. In addition, because we have the ultimate responsibility for the report on the PLCB's financial statements, significant auditing matters such as the degree of reliance placed on the internal auditors at the PLCB's Comptroller's Office is a judgment to be made by us.

APPENDIX T (CONTINUED)

In judging whether we can rely on the internal auditing staff of the Comptroller's Office to do the major portion of inventory observation, we again refer to SAS No. 65, which states in part:

In making judgments about the extent of the effect of the internal auditors' work on the auditor's procedures, the auditor considers the materiality of financial statement amounts - that is, account balances or classes of transactions.... As the materiality of the financial statement amounts increase and either the risk of material misstatement or the degree of subjectivity increases, the need for the auditor to perform his or her own tests of the assertions increases....

The following information shows the significance of inventory to the PLCB financial statements:

<u>Fiscal Year</u>	<u>Inventory Balance at Cost</u>	<u>% of Total Assets</u>
1990-91	\$ 95,032,370	59%
1989-90	108,533,707	67%

Because state stores liquor inventory constitutes the PLCB's largest asset (most material), and is easily subject to manipulation (and thus material misstatement), following professional standards dictates that while it may be possible for internal auditors to assist us in nonsignificant portions of our audit work, clearly the majority of our inventory observation test work must be performed by us. Because it is the position of the Auditor General to increase professionalism to better serve the taxpayers, it is imperative that this department perform the inventory observations to conform to professional standards.

In addressing what other audit areas exist where we could rely on internal auditors, we must consider their competency and objectivity. During our audit of the PLCB, there was no mechanism in place for the internal auditors to detect significant errors in financial statement preparation. In order for the Department of the Auditor General to rely on the work of the internal auditors we would need to have more direct input into the function of the internal auditors. Comptroller operations would need to show a willingness to accept such direction.

Further, we have continually become more efficient in performing physical inventory and cash examinations at state stores while maintaining high standards of quality. For instance, we have reduced our examination hours from 106,000 during fiscal year 1988-89 to 89,000 during fiscal year 1990-91 while increasing our physical inventory examinations. During the current fiscal year we anticipate completing 613 examinations while decreasing our hours to 77,500. In addition, we are confident that we will achieve even greater efficiencies in subsequent years as we begin using sampling procedures on stores' inventory.

APPENDIX T (CONTINUED)

Thank you for providing us the opportunity to review and comment on a finding of the Legislative Budget and Finance Committee's performance audit of the PLCB. We look forward to continue to work with your committee regarding sunset performance audits.

Sincerely,

A handwritten signature in cursive script that reads "Charles P. Mackin, Jr.".

Charles P. Mackin, Jr.
Deputy Auditor General

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