

Testimony of Patrick Conway
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Senate Law & Justice Committee
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Harrisburg, PA

Chairman Pippy, Chairman Ferlo and members of the Senate Law & Justice Committee, thank you for the opportunity to provide testimony on flexible pricing as outlined in Senate Bill 1287. The Pennsylvania Restaurant Association (PRA) embraces the idea of the Pennsylvania Liquor Control Board (PLCB) becoming a more efficient operation, but flexible pricing would have a negative impact on licensees, and we ask that you consider our concerns regarding that today.

Prices on PLCB products are subject to five levels of taxes and fees, as a result, we are paying too much for our raw materials. Each product is subject to the 30 percent markup, a bottle charge, the 18 percent Johnstown Flood Tax, a round up component to the nearest nine, and the 6 percent sales tax (7 percent in Allegheny and Philadelphia counties).

Flexible pricing would permit the PLCB to increase or decrease its standard 30 percent markup by item and without restriction, so long as the price is uniform across the Commonwealth. Some items would cost more, others less, but overall this proposal is expected to raise prices for wine and spirits significantly for both consumers and licensees.

This ability to arbitrarily raise prices would have a serious impact on licensees. The PLCB has previously stated that flexible pricing will allow the board to increase yearly revenue up to \$75 million. Plainly stated, flexible pricing is a price increase and licensees will be the most severely impacted. Restaurants operate on razor-thin margins—about 4 percent profit in good economic times—and are extremely sensitive to any changes in pricing for their raw materials.

We suggest if the PLCB is to have flexible pricing, cap the markup at the current rate of 30 percent. This solution provides the PLCB with the ability to adjust its markup of items within a range that licensees can accommodate and with no increase in taxes. Licensees cannot run a business that is successful without the ability to predict the price of raw goods, and flexible pricing is too much of an unknown for any business owner to operate with.

The PLCB recently converted its Logistics, Transportation and Manufacturing Factor (LTMF), also known as a bottle charge, from a flat fee to a percentage system. The PLCB changed to the percentage LTMF system after Governor-elect Corbett and legislators at the time protested a 2010 LTMF flat-fee increase. This switch allows the PLCB to collect more money through this percentage each time it approves a price increase. On the 313 products that were recently approved, the PLCB will be receiving \$5 million more in revenue per year, \$2 million of which is in taxes. This is a tax increase, and the price of items will go even higher as more vendors request to increase their base price. We respectfully ask your support in our efforts to roll back this tax increase imposed by the PLCB.

Licensees are the wholesale partners of the PLCB and account for nearly 30 percent of total sales. Our members support a more efficient PLCB operation, and would hope to, in fact, benefit from it, but a significant price increase from flexible pricing and a percentage calculated LTMF will hurt our businesses, their customers and Pennsylvania consumers.

Thank you for taking time to consider the views of the Pennsylvania Restaurant Association and for the opportunity to provide testimony.