VERMONT

Department of Liquor Control

Report to the General Assembly on Act 146 (H792) Section B.6 Increasing General Fund Revenues through Innovative Changes in the Administration of Sales of Alcoholic Beverages

January 15, 2011

State of Vermont *Michael J. Hogan, Commissioner*
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January 15, 2011

Chair, House Committee on General, Housing and Military Affairs

Chair, Senate Committee on Economic Development, Housing and General Affairs

Pursuant to Section B6 of Act 146 (H.792) of 2010, there is enclosed our Department's report on increasing general fund revenue through innovative changes in the administration of sales of alcoholic beverages.

Sincerely,

Michael J. Hogan
Commissioner of Liquor Control

Act No. 146 (H792)

Sections . B6. (3) (4) DEPARTMENT OF LIQUOR CONTROL

Due: 1/15/11 to the House General, Housing and Military Affairs and Senate Economic Development, Housing and General Affairs Committees

- It is the goal of the general assembly to increase general fund revenues through innovative changes in the administration of sales of alcoholic beverages.

- The intent is not to increase consumption of alcoholic beverages, but, rather, to reclaim sales lost to neighboring states and to increase sales to out-of-state consumers who would otherwise make their purchases in other states, and to achieve this goal by creating new approaches for marketing and more flexible strategies in pricing and taxation.

- To achieve this goal, the department of liquor control shall take the following steps:

(1) Create its proposed gift card program, which is projected to be revenue-neutral in fiscal year 2011, and is expected to generate revenue in fiscal year 2012 and after.

(2) Take steps to create more flexibility in pricing, to the extent allowed by current law, which will help to reclaim the lost sales.

(3) Analyze how coordinated changes in taxation and pricing could lead to increased sales and increased revenue contribution to the state's general fund, while meeting the goals expressed in this section.

- The department shall consider whether reducing or eliminating the current 25 percent tax on gross revenues, and implementing flexibility in pricing, could lead to this increased sales and revenue.
- The department shall report its findings and recommendations to the house committee on general, housing and military affairs and the senate committee on economic development, housing and general affairs by January 15, 2011.

(4) Report by January 15, 2011, to the house committee on general, housing and military affairs and the senate committee on economic development, housing and general affairs a proposal on how to evaluate the effect of the department of liquor control's policies on substance abuse in this state.

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Executive Summary

The 2010 legislature under the Charter Units Challenge requested the Department of Liquor Control to report on ways to increase general fund revenue through innovative changes in the administration of sales of alcoholic beverages. The intent being not to increase consumption, but rather, to reclaim lost sales to neighboring states and to increase sales to out-of-state consumers who would otherwise make their purchases in other states, and to achieve this goal by creating new approaches for marketing and more flexible strategies in pricing and taxation.

Background:
If you were to drive through New Hampshire and stop at one of their many interstate liquor stores, I think you would be surprised to see multiple Vermont cars in their parking area. Why is that? Well, one reason is that New Hampshire has no tax on liquor and Vermont has a 25% retail tax. Not only that, an additional sales tax was added in 2009.

This has had a negative effect on retailers in the Connecticut River Valley and has created a perception state wide that everything is cheaper in New Hampshire. We do know through many reports that when the Vermont sales tax was implemented in 1969, it started the shift of customers going across the river. Each time the sales tax increased, sales per capita in New Hampshire increased.

"In the early 1970's sales peaked for liquor sales. In 1974, the state converted from a gallonage tax to a retail tax of 24%, and then raising it again in 1981 to 25%. The imposition of the retail tax was done in a revenue neutral way, and had no immediate impact on sales. However, the retail (ad valorem) tax was not indexed or adjusted to retain a competitive pricing position. Over time, Vermont's prices became increasingly noncompetitive, and consumers began to buy their spirits elsewhere, particularly in New Hampshire, which has no tax on distilled spirits.

Reflecting this and changing societal patterns of alcohol consumption, by the early 1990s the DLC's annual cases sold were less than half the early 1970s level. Beginning in the late 1990s, the State began to see renewed growth in sales, as the move to contract agencies versus State stores enabled Sunday sales hours, and the DLC implemented sales programs, such as Prime Focus, to retain its customer base. Demand remains highly seasonal, with December being the peak month." **(Source: MAI Study January 2005 Vol. II Page 24- updated to reflect current financial information) See exhibits 1-4 on pages 18-21 reflecting sales decline after moving away from a gallonage tax)**

The sales program instituted in 1996 did bring back more New Hampshire bound customers to Vermont. An emphasis on deep discounts of national brands with varying sales periods started to turn things around. Vermont's tax collections have increased 71% during 1996-2010. These programs do work, but creative changes in the way liquor is taxed and marketed could reap more financial benefits for the state.

"DLC's biggest problem is not that Vermont's prices are universally too high; in many cases our prices appear quite competitive. The key factor is that Vermont is located adjacent to the most competitive, most aggressively marketed of the control states, and has a geographical advantage that is perfect for travelers and tourists driving through New England".

"The big question to ask is whether the State of Vermont wants to reduce its tax rate on distilled spirits in order to try to encourage increase sales". **Vermont made a mistake when it did not adjust its tax rates on a periodic basis to adjust for inflation**. **This would have kept the real value of the original tax intact over time and raise additional revenues for the state**.

Developing a more effective manner to compete will not happen overnight. This report attempts to look at various options that will help the state meet the goals of Act 146. I would caution that our current economy is still very fragile and any major change in taxes might have a negative impact.

Therefore, it is important that a discussion begin to recommend some innovative changes in the administration and sale of alcohol beverages. Here are some recommendations:

- **Make changes to the current sales program that started in 1996.**

- **Leave the current 25 % tax in place until the economy rebounds and focus on categories where most profit can be realized. Adjust variable markup schedule.**

- **Consider the gallonage tax approach in lieu of the 25% ad valorem tax after a detailed study of the differences.**

- **Hire an independent consultant from the liquor industry to do a detailed analysis of Vermont's pricing system and make recommendations for any tax changes to be enacted in 2012.**

- **Move forward with various marketing recommendations that are listed on pages 11-17.**

<u>Recommended Options:</u>

1. Create a gift card program. See Detailed Information Section

2. Make changes to the current sales program that started in 1996: see attached recommendations. **See attached exhibits showing case sales from 1970-2010 – Exhibits 1-4. Exhibit 5 will detail FOB approach.**

3. Continue marketing efforts with emphasis on Spirits Magazine, Chamber Magazine, on-line customer lists, out of state advertising, on-line special orders, expanding number of liquor outlets, promoting in state distilleries.

4. Expand the department's web site with the emphasis on the retail section to reflect DLC's marketing objectives. Consider using Facebook as a vehicle for news and marketing efforts.

5. Should the state change the 25% retail tax in an unstable economy? Leave the tax alone and focus on categories where most profit can be realized. Make adjustments to the variable markup schedule. **See Exhibit 8** – sales projected through 2020.

6. Gallonage tax options**. See Exhibit 7**

7. Repealing the 25% tax and going to a flat or flexible markup**. See Exhibit 6**

8. Hire an independent consultant from the liquor industry to do a detailed analysis of Vermont's pricing system and make recommendations for any tax changes to be enacted in 2012.

9. Consider benchmarking $15 million as a base of revenue to the GF. Any revenue above that could be distributed to DLC to pay for any improvements such as a new POS/ERP system, or Licensing & Enforcement system upgrade. This was a recommendation of the MAI Study.

10. Report by January 15, 2011, to the house committee on general, housing and military affairs and the senate committee on economic development, housing and general affairs a proposal on how to evaluate the effect of the department of liquor control's policies on substance abuse in this state.
    - This is outside the department's ability or expertise and should be either evaluated by an outside contractor such as PIRE which has the experience in evaluating substance abuse or by a recommendation from the Vermont Department of Health. Here is a little of their background. Their website is: http://www.pire.org

Mission

The mission of the Pacific Institute for Research and Evaluation (PIRE) is to promote, undertake, and evaluate activities, studies, and programs that improve individual and public health, welfare, and safety. In support of this mission, we create and support an environment within which skilled, innovative, and dedicated researchers and practitioners work to extend the leading edges of their respective fields.

History

PIRE was founded in the early 1970s when a group of allied scientists were among the first to recognize the dangers inherent in the emergence of widespread drug use. The Institute developed and disseminated some of the earliest prevention strategies. Since then, PIRE has broadened its scope to encompass many of the most serious threats to human health and safety.

Vision

The synergy between PIRE's attractive organizational culture and our growing base of talent and expertise will spark creative collaboration across the Institute and invite strategic and productive partnerships with others. The resulting creative output will dramatically advance prevention science and practice and fulfill the promise latent within PIRE of producing a truly significant positive impact on community and national well-being.

Focus

PIRE scientists and practitioners continually focus on the design and implementation of complex program evaluation strategies and the conduct of research related to health and social issues, including criminal justice. PIRE provides training and technical assistance in many health-related areas to states and communities that are attempting to mitigate the effects of alcohol and other drug abuse.

Introduction: Background Information

The Department of Liquor Control operates as an enterprise fund, which uses the revenues generated by sales of distilled spirits, in addition to monies obtained from licenses. Exhibit 1-4 displays sales trend, in cases sold, from 1970-2010. This chart shows that sales peaked, in terms of sales, in the early 1970s. In 1974, the State converted from a gallonage tax on alcohol beverages to a retail tax (of 24% at the time, 25% since 1981). The imposition of the retail tax was done in a revenue neutral way, and had no immediate impact on sales. However, the retail (ad valorem) tax was not indexed or adjusted to retain a competitive pricing position.

For example, if a supplier raises the price on a $20 bottle of spirits by one dollar, the price to the consumer goes up by $1.25 with a 25 percent retail tax. **In a neighboring state with a gallonage tax, the price would go up by only one dollar, since the tax is based on the volume of alcohol not the end price.**

Over time, Vermont's prices became increasingly noncompetitive, and consumers began to buy their spirits elsewhere, particularly in New Hampshire, which has no state tax on distilled spirits. Reflecting this and changing societal pattern of alcohol consumption, by the early 1990s the DLC's annual cases sold were less than half the early 1970s level. Beginning in the late 1990s, the State began to see renewed growth in sales, as the move to contract agencies versus State stores enabled Sunday sales hours, and the DLC implemented sales programs, such as Prime Focus, to retain its customer base. Demand remains highly seasonal, with December being the peak month.

The State's revenue from the sale of distilled liquor has two components, the retail tax and the DLC's markup. The retail tax, as noted above, is 25 percent of the retail price. In FY2010, this tax generated approximately $15 million, which went to the general fund. Also, in 2009, the legislature imposed a sales tax of 6% on liquor that gained an additional $2.7 million, but also caused a slight drop in case sales.

(Source: MAI Study January 2005 Vol. II Page 48- updated to reflect current financial information)

In Control States, where the government acts as the wholesaler and/or retailer as well as the state taxing authority, the distinction between the official mark-up and the stated tax rate is meaningless. Both mark-ups and taxes are rolled into the retail price and the state claims any profits or taxes.

Vermont's excise tax is already an ad valorem tax- whenever the state's costs increase, so does the tax that is collected. Over the past several years as suppliers offered more and more premium products Vermont's revenue per case climbed from $123 in FY2000 to $150 in FY2008- a 22% increase.

Because of increased sales volume and higher priced product offerings, tax collections have increased 48% since 2000- an annual rate of 5% per year. Over the same period, Vermont's total General Fund revenue increased only 34%, around 3.7% per year.

Current zip code marketing/sales surveys from New Hampshire show that 6% of New Hampshire's $300 million gross income comes from Vermont. This is equivalent to 11% of their walk in traffic, as opposed to licensee sales. This number was much larger before we started the sales program in 1996.

22% of Vermont's walk-in customers come from out of state. Of that number, 75% are from New York. Due to high tax rates in New York, consumers are very watchful of Vermont's prices and look for our ads in local papers.

Vermont continues to be competitive with its neighboring states on national brands. It would be advantageous for Vermont to analyze its current tax on liquor and find ways to generate more revenue from an industry that is growing despite the economic slowdown.

History of State Liquor Regulation

In 1920, the 18th Amendment created the "Volstead Act" (Prohibition). Prohibition banned the manufacture, sale, or transport of intoxicating liquor. In 1933, after 12 years of prohibition, the 21st Amendment to the U.S. Constitution ended prohibition. With the repeal of prohibition, control of the sale and distribution of alcohol was placed with state governments. Because of this decentralization, there is great variation in regulation and enforcement mechanisms used by the states to prevent the misuse of alcohol. However, there are two distinct types of alcohol distribution: control (monopoly) or license (open).

All states regulate the distribution and sale of alcohol, through licensing of outlets, limitations of hours of operation, taxation and other policies. What distinguishes control states from license states is the fact that the state takes ownership of the product at some point and becomes the exclusive seller in a particular sector of the business.

Vermont along with seventeen other states and Montgomery County, MD directly control the sale of liquor at the wholesale level. Twelve of these states also control retail sales, which means their citizens purchase liquor at a state liquor store or designated agency outlet. The remaining states and the District of Columbia operate under what is called the "license" or "open" system. In license states revenue is derived from license fees and any taxes that are imposed. All profits from the sale of liquor stay with the private liquor storeowner.

Recommended Options: Detailed Information

1. Create a Gift Card Program:

Initiative:
To implement a gift card sales program in our liquor agencies. Customers will be able to purchase and recharge gift cards which can be redeemed for purchases of liquor at any State Liquor Agency.

Background:
After the legislative approval of Act 146 relating to the Challenges for Change, DLC:

- Identified and contacted potential gift card providers
- Defined the resources necessary to implement the program
- Created and refined the design of the project

Early in the project, it became clear that there would essentially be two distinct components of the program:

1.) Identifying and contracting with a program provider or processor

2.) Finding a programmer who could write the code necessary to connect the DLC's in-house POS system with the provider's system

DLC worked with the Office of Purchasing & Contracting on an RFP for a provider, outlining the specifications of work to be done, which was issued in August. Simultaneously, an SOW (Statement of Work) for a programmer was issued to all appropriate businesses already under contract with the State (following the advice of the Department of Information and Innovation).

Current Status of the Project
The RFP for a gift card program provider received just one respondent - TD Bank - with other potential providers declining to respond, after realizing the relatively small size of the proposed program. Unfortunately, the SOW for the necessary programming received no respondents, though repeated requests were issued to potential suppliers. With the aim of opening up the bid process to a broader market, an RFP for a temporary, contracted programmer was issued in October. Only one company – ten7ten – responded. Both TD Bank and ten7ten will require contracts for services rendered. Currently, a contract with ten7ten is in process. When complete, we can begin the next phase of our project. Simultaneously, DLC will need to contract with TD Bank. Once this second contract is in place, TD Bank (the processor) can work with ten&ten (the

programmer) to finish the project and create a system that can issue and redeem gift cards at all 77 liquor outlets around the state.

At this point, no funds for the project have been requested from the Challenges for Change initiative. It is estimated that start up costs will be around $65,000 ($12,000 to the card processor and $53,000 for the programming). Below is the updated Investment versus Dollars Spent/Committed grid:

Investment	Target	Spent/ Committed	Comments
FY 2011	Revenue Neutral	$0	An RFP for a card processor was issued and we had one respondent (TD Bank). Another RFP was issued for a programmer to link the processor's system to our point of sale system and we received one response (ten7ten). Currently, we are in the contracting process with ten7ten, however the contract has not been finalized therefore, no funds have been formally committed to date.
FY 2012	$50,000	$0	

<u>Performance Measures</u>

The performance measures included in this report are:

- Tracking "Total Sales Dollars" FY 2011 versus FY2010 as a measure of increased "Entrepreneurial Revenue."
- Recording Case Sales FY10 and FY11 as an indicator of increased volume (establishing a baseline before the gift card program is implemented and recording + or – total sales volume after the program is in place).
- Calculating Profit to Cost Ratios, comparing the costs of the program (card costs and transaction, hosting, and annual fees, etc.) with the revenues generated by the program.

2. **Make changes to the current sales program: see recommendations below. Basing retail prices on FOB as a percentage. (Attached Exhibit #5 with examples of retail approach vs % fob- helps increase offers for lower price items) Also see the effects of overall program with Exhibits 1-4**

How Current Sales Program Works:

Best Buys, Prime Focus started July 1995 (FY2006).

- This is a ten day sales programs that primarily fall on the busiest weeks of the year.
- Brokers have to offer, a minimum 7% of the current retail price a special purchase allowance for cases purchase for the program, to be considered.
- Best Buys the department will match exactly the amount of the offer.
- Prime Focus the department will put as much as necessary to reach a favorable price with our neighboring states.
- The brokers, in the following weekly newspapers in the state, advertise items accepted for either program. Barton Chronicle, Bennington Penny Saver, Buyers Digest, (St Albans area), Brattleboro Town Crier, Deerfield Valley News (Springfield area), Herald of Randolph, Islander (Grand Isle), Message, Mountain Times, Stowe Reporter, Valley Reporter (Sugarbush Valley), Valley Voice (Middlebury Addison County), Vermont Times (Burlington Area), Washington Word(Washington County).
- In order for the sales program to be successful and have the outlets cooperation, the board voted to pay commission on the list (every day) price not the discounted price. In addition, DLC advertises the "Prime Focus" items in the adjacent towns in New York, and Western Mass. as our prices are favorable to the people living in those areas.
- In addition in July 1995 DLC started the "Special Savings" program. This program again requires the broker to offer a minimum of 7% of retail however this is only on cases sold. In this program the department adds 50% of what the brokers offer to help reach a favorable price. There is no o advertising in newspapers for this program. However there are in store display material for these items.

- After meeting with our Liquor Agents the Board asked to have the Special Savings program adjusted to help sales during this program. In January 2003, 3 items were included in this program and we called them "Super Savings". Like the Prime Focus program the items selected have to be on purchase allowance not on what is sold. These items are also advertised in state just as they are in the Prime Focus program.

10 Day DA Sale – funded by Supplier & VTDLC

Best Buy
Maximum 48 offers
from SWS (4 x 12)
1 to 1 matching
VT Rejects, Accepts
or moves to Prime Focus
Sale →

Prime Focus
VTDLC selects
5 Best Buy offers
to elevate to Prime Focus
1 to 1**+** matching
Huge Savings!

Special Savings
Maximum 48 offers
from SWS (4 x 12)
1 to **1/2** matching
VT Rejects or Accepts
Offer

Super Special Savings
Maximum 20 offers
from SWS (4 x 5)
VT selects 5 from all offers
1 to **1+** matching
Huge Savings!

SPA Sale – funded by supplier only – VTDLC buys in – whole month

Recommendation: Going from a percentage of retail to a percentage of fob (freight on board).

- **Suppliers will make offers for 14% of the current fob. The department will match that offer and more if necessary to be competitive with neighboring states. All the details of this change are currently being worked on by the department with brokers and suppliers. When finalized by the Liquor Board, it should be implemented by spring 2011.**

3. **Continue marketing efforts with emphasis on Spirits Magazine, Chamber Magazine, on-line customer lists, out of state advertising, on-line special orders, expanding number of liquor outlets, promoting in state distilleries.**
    - **Spirits Magazine printed quarterly and available in states rest areas and welcome centers. Marketing effort to reach out to out of state customers, tourists and instate customers and licensees.**

The first issue of the Spirits Quarterly came out one year ago. McLean Communications has its own sales team who contact the suppliers. I provide them with a list of the new items and which companies have committed to ads, if their product is listed. McLean also publishes the price guide magazines for the NH Liquor Commission and Maine's BABLO, offering advertising discounts for multiple ads (either in all issues for one state or ads for more than one state). We have invited all liquor companies, in-state distillers, agency stores, and all third class licensees to advertise. So far, only the liquor companies and the in-state distillers have participated.

Currently, 17,000 issues are printed with 5,000 going to BGS for distribution to all the rest areas and tourist centers around the state. Several thousand are sent to those on our mailing list and the remaining issues are delivered to our 77 stores. A digital version is posted at our website.

The feature articles have included educational materials on several categories of spirits – vodka and rum - the history of classic cocktails, and holiday gift giving ideas. We always include a calendar of Vermont events, numerous safety messages, a map of and location information about all our agencies, and a welcome message from the Commissioner. New items receive special attention and new Vermont products are always featured. When appropriate, in-state mixologists are contacted for popular local drink recipe ideas (Chris Benjamin from the Free Press and other bartenders around the state have contributed to past issues.

The new magazine is professional, eye-catching, and is placed to draw the attention of tourists, as well as legal drinking-age residents. While social media (twitter and Facebook) may be effective marketing tools in more urban areas, print ads are still very effective in our rural environment.

- **Chamber Magazine printed with agency outlet locations**

DLC run ads in each of the Vermont Chamber of Commerce's two annual issues of their Vacation Guide. The summer/fall issue has a distribution of 200,000 and the winter issue has a distribution of 100,000. This magazine reaches potential travelers outside the state, as well as those traveling through the state. In each ad, we feature Vermont locations (Topnotch, Leunig's, the Burlington Bay Marriott, Splash, etc.) and Vermont distilled products, along with all our agency stores. Links are posted on our website.

- **Update Automated Special Order program via department web site. Over 800 codes available for order.**
- **Increase out of state advertising in multiple newspapers in Mass and New York**
- **Increase state weekly newspapers paid for by liquor brokers**
- **Sales flyers mailed to over 1,800 people, 9,000 sent to outlets**

4. **Expand the department web site with the emphasis on the retail section to reflect DLC's marketing objectives.** Using New Hampshire as an example that works in conjunction with main site but with an emphasis on the business side. We may also consider whether social marketing is appropriate for the DLC and whether other state publications may want to exchange ads (e.g. we run an advertisement for Vermont Life magazine and they run one for us.)
5. **Effects of changing the 25% retail tax in an unstable 20111 economy. Leave the tax alone and focus on categories where most profit can be realized.** Look at growth from 1996 and see the gains. Small changes can sustain what we have and also increase revenue at a reasonable growth level.
    - **Make adjustments to the variable markup schedule**
    - **Expand categories to consider flavored vodkas, premium brands, and super premium brands.**
    - **Chart showing normal growth patterns through 2020-** $88,290,489 sales and $27,370,052 in tax revenue. (**See Exhibit 8 on page 25)**

6. **Gallonage Tax- See three models- Exhibit 7 Page 24.** Best approach, but will take more detailed analysis. Can be made to be indexed to inflation or be made subject to arbitrary increases. The demand for spirits is relatively inelastic (and less elastic than demand for malt and vinous beverages). Start at a revenue neutral base and go from there.
    - Three scenarios were looked at to get some levels of tax per gallon to analyze. Using Fy10 as a base for current tax revenue of $14,903,804 or $15.78 per gallon:

- Sales of $66,720,322 would give $22,789,748 in tax revenue. Tax per gallon of $17.66
- Sales of $61,054,957 would give $16,780,351 in tax revenue. Tax per gallon of $16.16
- Sales of $58,380,024 would give $13,950,939 in tax revenue. Tax per gallon of $15.45

7. **Repealing the 25% tax and go to a flat or flexible markup.** We currently have a flexible markup that has not had many adjustments since the start of the sales program. It will take a lot of analysis to go to a tiered markup by category and price ranges. (**See Current markups for some Control States in the Appendix.)** See flat markup schedule at flat 65% to gain what was sold in FY2010- net result will be more revenue as the categories are an average of all the sizes) **Exhibit #6 on Page23**. You would have to start out at a revenue neutral base and go from there.

8. **Hiring a consultant from the liquor industry to do a detailed analysis of Vermont's pricing system and make recommendations for any tax changes to be enacted in 2012.** Due to the complexity of the markup system, and the thousands of prices, it will take a thorough examination of various pricing mechanisms.

9. Consider benchmarking $15 million as a base of revenue to the GF. Any revenue above that could be distributed to DLC to pay for any improvements such as a new POS/ERP system, or Licensing & Enforcement system upgrade. This was a recommendation of the MAI Study.

10. **Report by January 15, 2011, to the house committee on general, housing and military affairs and the senate committee on economic development, housing and general affairs a proposal on how to evaluate the effect of the department of liquor control's policies on substance abuse in this state.**
    - This is outside the department's ability or expertise and should be either evaluated by an outside contractor such as PIRE which has the experience in evaluating substance abuse or by a recommendation from the Vermont Department of Health. See PIRE information in executive summary on page 7. Their website is: http://www.pire.org

Exhibit #1

Comparison of Cases Sold, Sales Dollar, and Tax Revenue Generated in Fiscal Years 1970-2010

Year	Cases Sold	Sales Dollars	Tax Revenue	
1970	520,991	$27,959,762	$7,017,703	
1971	542,340	$29,518,548	$7,309,765	
1972	595,283	$32,910,775	$8,074,747	
1973	637,961	$35,845,667	$8,700,167	
1974	620,407	$34,918,541	$8,422,820	Gallonage tax $5.60/gal
1975	649,895	$37,200,196	$8,899,679	Retail tax 24% in 2/74
1976	637,356	$36,959,474	$8,869,256	
1977	617,156	$36,096,710	$8,661,842	
1978	607,340	$35,982,446	$8,633,904	
1979	615,109	$37,438,196	$8,984,303	
1980	589,265	$37,737,672	$9,055,312	
1981	573,318	$38,935,761	$9,342,798	Retail tax 25% in 7/81
1982	540,891	$39,672,992	$9,915,896	
1983	507,422	$38,131,620	$9,530,201	
1984	506,344	$38,348,663	$9,584,572	
1985	482,522	$37,618,444	$9,401,529	
1986	465,783	$39,190,399	$9,794,567	
1987	451,067	$39,283,287	$9,817,797	
1988	431,331	$38,621,544	$9,653,004	
1989	415,883	$38,515,952	$9,619,625	
1990	395,464	$37,699,429	$9,412,842	Bottle deposit in 1/90
1991	380,823	$37,628,726	$9,393,048	Credit cards and Federal Excise Tax increase of $1 per 100 proof gallon
1992	364,643	$37,730,454	$9,421,801	
1993	351,344	$36,983,222	$9,236,597	
1994	333,087	$35,727,441	$8,919,251	Sunday sales in 6/94
1995	320,084	$35,659,130	$8,902,662	
1996	307,523	$34,931,651	$8,715,446	New sales program
1997	302,593	$35,390,039	$8,842,640	
1998	305,031	$35,979,833	$8,995,369	
1999	305,125	$36,630,780	$9,153,178	
2000	313,274	$38,657,203	$9,638,865	
2001	320,374	$40,896,816	$10,230,657	
2002	326,691	$42,559,547	$10,658,133	
2003	329,782	$43,984,500	$11,012,818	
2004	342,035	$46,962,360	$11,757,556	
2005	351,018	$50,256,155	$12,584,613	
2006	362,760	$52,895,612	$13,244,297	
2007	369,863	$54,760,115	$13,690,027	
2008	378,037	$56,907,846	$14,247,693	
2009	376,344	$59,198,937	$14,797,260	6% Sales tax on Spirits in 7/09
2010	376,704	$59,645,891	$17,717,486	

Exhibit #2

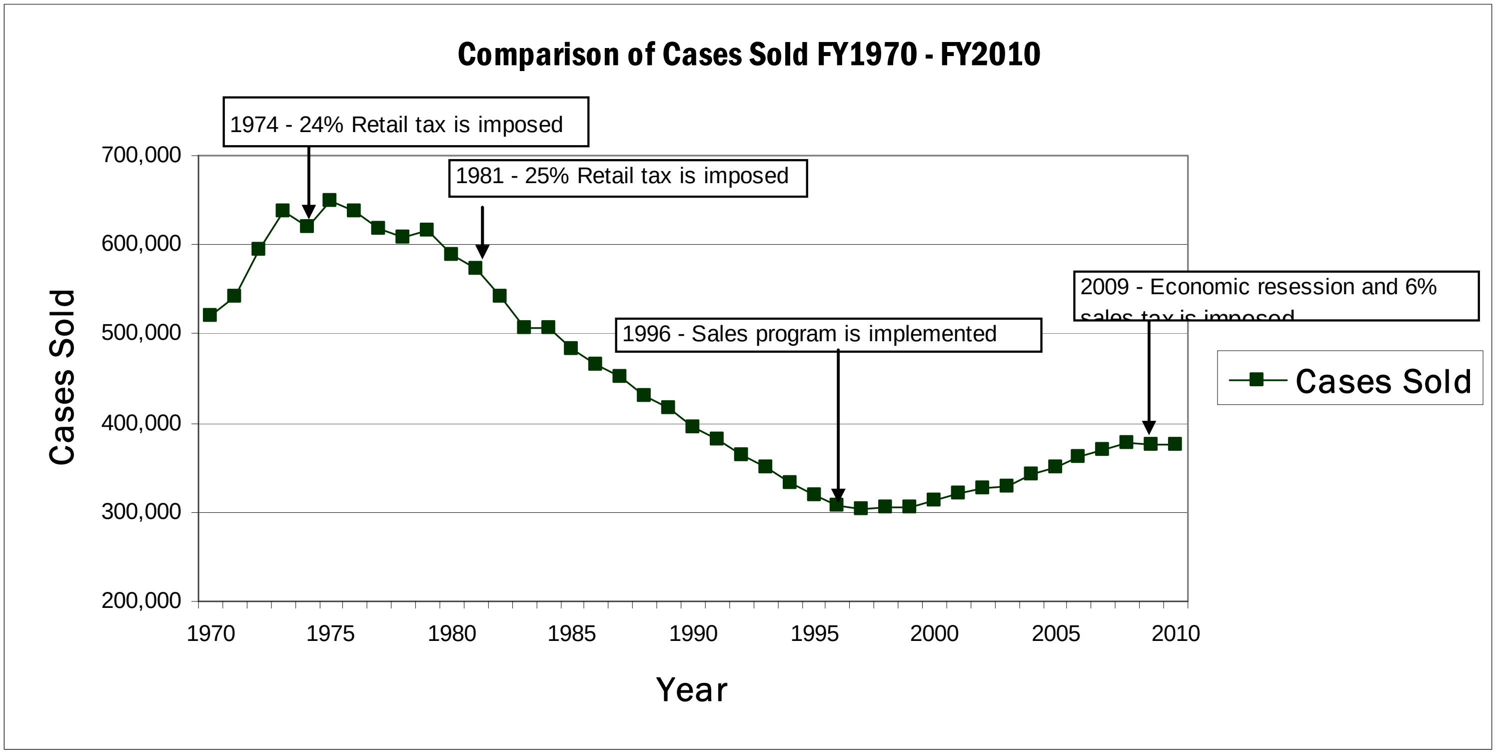
Comparison of Cases Sold FY1970 - FY2010
1974 - 24% Retail tax is imposed
1981 - 25% Retail tax is imposed
1996 - Sales program is implemented
2009 - Economic resession and 6%
Cases Sold
700,000
600,000
500,000
400,000
300,000
200,000
1970
1975
1980
1985
1990
1995
2000
2005
2010
Year
Cases Sold

Exhibit #3

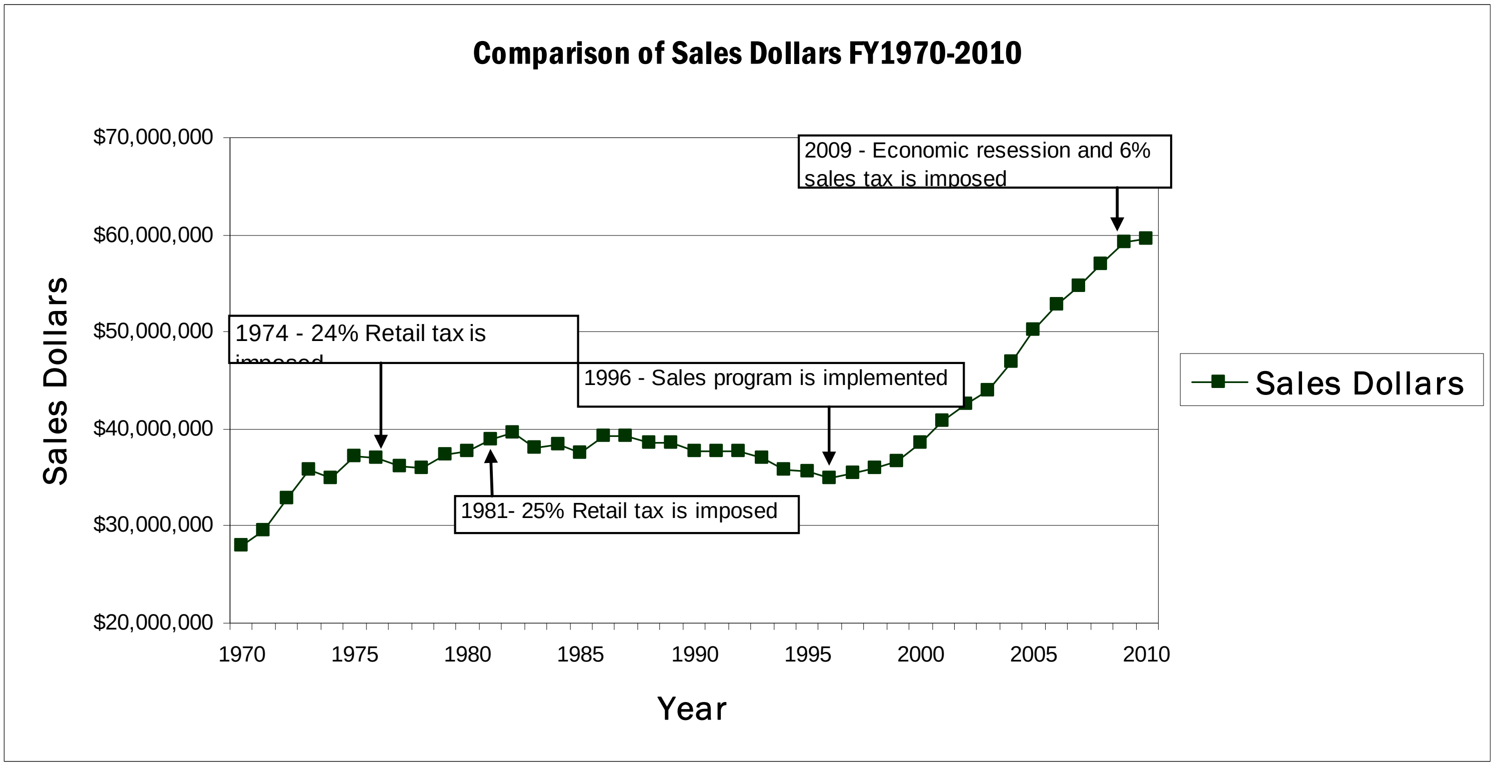
Comparison of Sales Dollars FY1970-2010
$70,000,000
$60,000,000
$50,000,000
$40,000,000
$30,000,000
$20,000,000
Sales Dollars
1970
1975
1980
1985
1990
1995
2000
2005
2010
Year
Sales Dollars
2009 - Economic resession and 6% sales tax is imposed
1974 - 24% Retail tax is imposed
1996 - Sales program is implemented
1981- 25% Retail tax is imposed

Exhibit #4

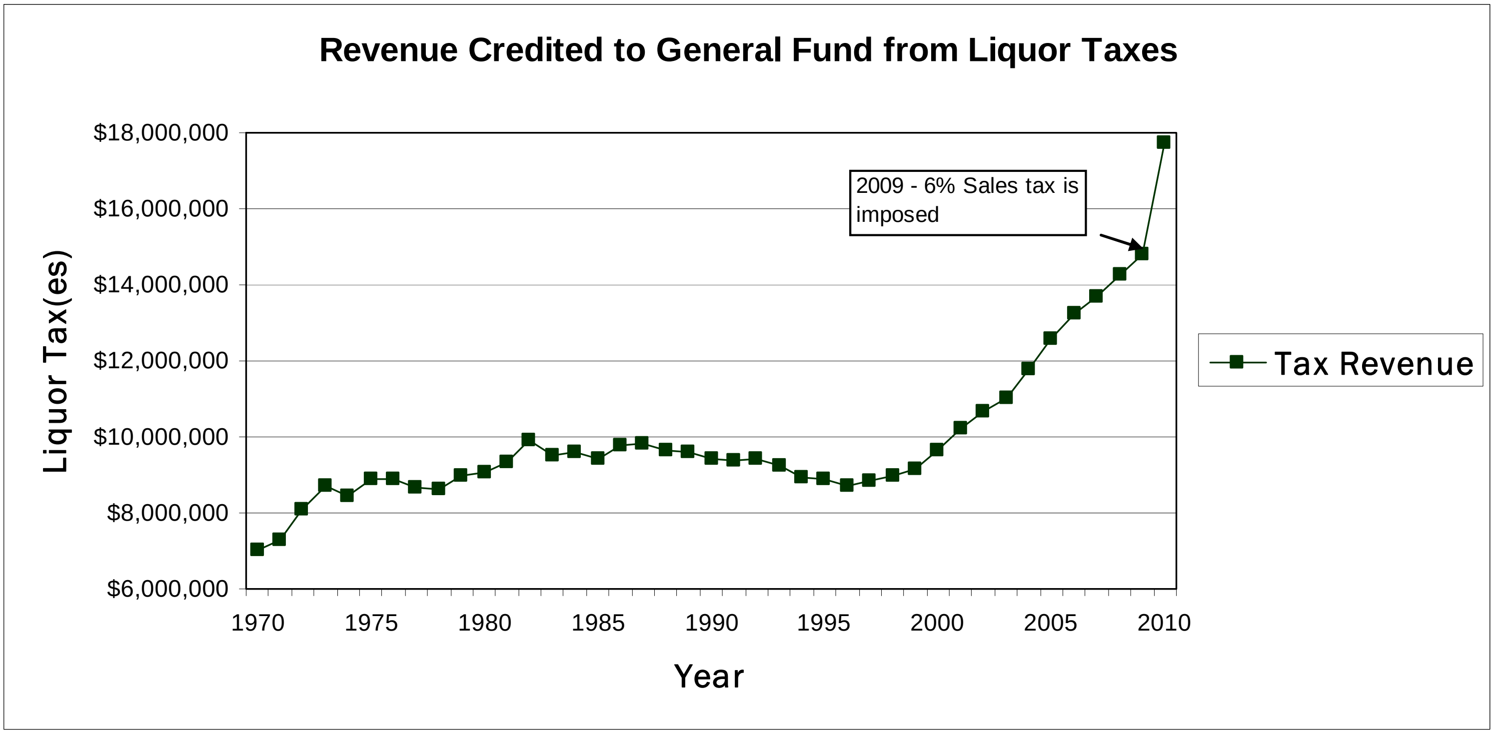
Revenue Credited to General Fund from Liquor Taxes
$18,000,000
$16,000,000
$14,000,000
$12,000,000
$10,000,000
$8,000,000
$6,000,000
Liquor Tax(es)
2009 - 6% Sales tax is imposed
Tax Revenue
1970
1975
1980
1985
1990
1995
2000
2005
2010
Year

Exhibit #5

CODE	Brand	Size	Retail	14% of FOB Btl	7% of Retail	Diff	btls sold FY10
43336	Captain Morgan Spiced Rum	750ML	14.90	1.25	1.04	0.21	74,403
26826	Jack Daniel's Old #7 Black	750ML	20.30	1.73	1.42	0.31	70,701
43338	Captain Morgan Spiced Rum	1.75L	31.90	2.68	2.23	0.44	55,646
34433	Grey Goose Original Vodka	750ML	34.30	2.52	2.40	0.12	55,042
34006	Absolut Vodka	750ML	21.90	1.60	1.53	0.07	54,975
12408	Canadian LTD	1.75L	17.50	1.24	1.23	0.01	43,758
89196	Jose Cuervo Especial Gold Tequila	750ML	18.90	1.38	1.32	0.06	43,673
67526	Kahlua Coffee Liqueur	750ML	19.90	1.68	1.39	0.29	42,033
35917	Five O'Clock Vodka	LITER	7.80	0.56	0.55	0.01	41,249
43126	Bacardi Light-Dry Rum	750ML	13.5	1.15	0.95	0.20	38,538
11296	Crown Royal	750ML	22.90	1.87	1.60	0.27	38,461
37996	Smirnoff Vodka	750ML	13.90	1.01	0.97	0.04	35,970
35648	Crown Russe Vodka	1.75L	12.1	0.89	0.85	0.04	35,766
65256	Jagermeister	750ML	19.80	1.67	1.39	0.29	35,460
15626	Jameson Irish Whiskey	750ML	22.90	1.87	1.60	0.26	35,021
68036	Bailey's Original Irish Cream	750ML	20.30	1.73	1.42	0.31	34,422
36108	Gilbey's Vodka	1.75L	15.9	1.17	1.11	0.06	29,871
37418	Popov Vodka	1.75L	14.30	1.05	1.00	0.05	29,707
35418	Burnett's Vodka	1.75L	15.40	1.13	1.08	0.05	29,706
36188	Gordon's Vodka	1.75L	18.90	1.40	1.32	0.07	29,067
37728	S. S. Pierce Vodka	1.75L	14.80	1.09	1.04	0.06	28,802
28866	Tanqueray Gin	750ML	20.30	1.73	1.42	0.31	28,622
19066	Jim Beam Bourbon	750ML	14.90	1.25	1.04	0.21	28,492
34456	Ketel One Vodka	750ML	24.80	1.81	1.74	0.08	27,335
35918	Five O'Clock Vodka	1.75L	12.90	0.95	0.90	0.05	23,808
37998	Smirnoff Vodka	1.75L	27.90	2.06	1.95	0.11	23,302
43128	Bacardi Light-Dry Rum	1.75L	26.50	2.17	1.86	0.32	23,121
10628	Canadian Club	1.75L	27.90	2.12	1.95	0.16	20,877
4866	Dewar's White Label Scotch	750ML	20.30	1.73	1.42	0.31	18,912
11788	Black Velvet	1.75L	20.40	1.57	1.43	0.14	18,861

Exhibit # 6

Category	Current retail	Avg. Markup	New retail	Markup	New retail	Markup	New retail	Markup	New retail
Brandy	1,962,359	43%	1,618,923	50%	1,698,170	60%	1,811,382	65%	1,867,988
Cocktails	715,752	50%	533,919	50%	533,919	60%	569,514	65%	587,311
Cordial	7,357,684	42%	6,460,786	50%	6,824,774	60%	7,279,759	65%	7,507,252
Cordial-Crème	1,336,578	42%	1,204,756	50%	1,272,629	60%	1,357,471	65%	1,399,892
Fortified Wines	776,738	46%	608,192	50%	624,855	60%	666,512	65%	687,340
Gin	3,247,793	44%	2,953,793	50%	3,076,867	60%	3,281,992	65%	3,384,554
Rum	7,272,065	42%	6,631,023	50%	7,004,602	60%	7,471,575	65%	7,705,062
Tequila	3,686,791	48%	2,975,942	50%	3,016,158	60%	3,217,235	65%	3,317,773
Vermouth	281,046	49%	232,062	50%	233,619	60%	249,194	65%	256,981
Vodka	15,860,832	48%	13,719,644	50%	13,905,044	60%	14,832,047	65%	15,295,549
Vodka Flvrd	1,076,762	43%	893,298	50%	937,026	60%	999,494	65%	1,030,728
Whiskey	14,390,610	45%	13,131,360	50%	13,584,165	60%	14,489,776	65%	14,942,582
	57,965,010		50,963,696		52,711,829		56,225,951		57,983,012

Special Order

Category	Current retail	Avg. Markup	New retail		New retail		New retail		New retail
Alcohol	10,564	39%	11,388	50%	12,289	60%	13,108	65%	13,518
Brandy	97,395	45%	87,059	50%	90,061	60%	96,065	65%	99,067
Cocktails	3,934	61%	3,032	50%	2,824	60%	3,013	65%	3,107
Cordial	190,572	48%	158,333	50%	160,473	60%	171,171	65%	176,520
Cordial-Crème	155,221	51%	153,066	50%	152,053	60%	162,190	65%	167,258
Fortified Wines	12,838	46%	10,366	50%	10,650	60%	11,360	65%	11,715
Gin	29,817	46%	25,317	50%	26,010	60%	27,744	65%	28,611
Rum	280,720	48%	230,685	50%	233,802	60%	249,389	65%	257,183
Tequila	114,293	49%	90,268	50%	90,874	60%	96,932	65%	99,961
Vermouth	2,386	55%	1,949	50%	1,886	60%	2,012	65%	2,075
Vodka	240,992	52%	192,625	50%	190,091	60%	202,763	65%	209,100
Vodka Flvrd	17,703	50%	14,121	50%	14,120	60%	15,062	65%	15,533
Whiskey	485,756	44%	424,541	50%	442231	60%	471713	65%	486,454
	1,642,191		1,402,750		1,427,365		1,522,523		1,570,101
	59,607,201		**52,366,446**		**54,139,194**		**57,748,473**		**59,553,113**

Exhibit #7

Summary of F/Y 2010
Sales of Currently Listed Items

Total Retail Sales	$59,623,173
Tax	$14,903,804
Total Cost	$36,051,709
Gross Income	$8,667,660
Total Bottles Sold	4,271,847
Total Gallons Sold	944,540
Total Case Sold	376,588
Avg. Retail Per Bottle	$13.96
Avg. Tax Per Bottle	$3.49
Avg. Gallon Per Bottle	0.2211
Tax Per Gallon	$15.78
Tax Per Ounce	$0.12

Cost Per Gallon	Tax Per Gallon	Number of Codes	Cost Per Gallon	Tax Per Gallon	Cost Per Gallon	Tax Per Gallon
$0.00 thru $19.99	$12.50	202	$0.00 thru $19.99	$9.00	$0.00 thru $19.99	$7.50
$20.00 thru $39.99	$16.50	473	$20.00 thru $39.99	$12.25	$20.00 thru $39.99	$10.20
$40.00 thru $59.99	$25.50	357	$40.00 thru $59.99	$18.75	$40.00 thru $59.99	$15.50
$60.00 thru $99.99	$40.50	397	$60.00 thru $99.99	$30.00	$60.00 thru $99.99	$25.00
$100.00 and up	$81.00	341	$100.00 and up	$60.00	$100.00 and up	$50.00
		1770				

Results		**Results**		**Results**	
Retail Sales	$66,720,322	Retail Sales	$61,054,958	Retail Sales	$58,380,024
Retail Tax	$16,680,080	Retail Tax	$15,263,740	Retail Tax	$14,595,006
Gross Income	$9,391,684	Gross Income	$9,386,426	Gross Income	$9,386,426
Gallonage Tax	$22,789,748	Gallonage Tax	$16,780,351	Gallonage Tax	$13,950,939
Avg. Retail per Bottle	$14.05	Avg. Retail per Bottle	$12.90	Avg. Retail per Bottle	$12.34
Avg. Tax per Bottle	$3.51	Avg. Tax per Bottle	$3.23	Avg. Tax per Bottle	$3.08
Avg. Gallon per Bottle	0.20	Avg. Gallon per Bottle	0.20	Avg. Gallon per Bottle	0.20
Tax Per Gallon	17.66	Tax Per Gallon	16.16	Tax Per Gallon	15.45
Tax Per Ounce	0.14	Tax Per Ounce	0.13	Tax Per Ounce	0.12
Projected Bottle Sold	4,748,943	Projected Bottle Sold	4,732,462	Projected Bottle Sold	4,732,462

Exhibit 8

Comparison of Cases Sold, Sales Dollar, and Tax Revenue 1970-2020

Year	Cases Sold	Sales Dollars	Tax Revenue	
1970	520,991	$27,959,762	$7,017,703	
1971	542,340	$29,518,548	$7,309,765	
1972	595,283	$32,910,775	$8,074,747	
1973	637,961	$35,845,667	$8,700,167	
1974	620,407	$34,918,541	$8,422,820	Gallonage tax $5.60/gal
1975	649,895	$37,200,196	$8,899,679	Retail tax 24% in 2/74
1976	637,356	$36,959,474	$8,869,256	
1977	617,156	$36,096,710	$8,661,842	
1978	607,340	$35,982,446	$8,633,904	
1979	615,109	$37,438,196	$8,984,303	
1980	589,265	$37,737,672	$9,055,312	
1981	573,318	$38,935,761	$9,342,798	Retail tax 25% in 7/81
1982	540,891	$39,672,992	$9,915,896	
1983	507,422	$38,131,620	$9,530,201	
1984	506,344	$38,348,663	$9,584,572	
1985	482,522	$37,618,444	$9,401,529	
1986	465,783	$39,190,399	$9,794,567	
1987	451,067	$39,283,287	$9,817,797	
1988	431,331	$38,621,544	$9,653,004	
1989	415,883	$38,515,952	$9,619,625	
1990	395,464	$37,699,429	$9,412,842	Bottle deposit in 1/90
1991	380,823	$37,628,726	$9,393,048	Credit cards and Federal Excise Tax inc of $1 per 100 proof gallon
1992	364,643	$37,730,454	$9,421,801	
1993	351,344	$36,983,222	$9,236,597	
1994	333,087	$35,727,441	$8,919,251	Sunday sales in 6/94
1995	320,084	$35,659,130	$8,902,662	
1996	307,523	$34,931,651	$8,715,446	New sales program
1997	302,593	$35,390,039	$8,842,640	
1998	305,031	$35,979,833	$8,995,369	
1999	305,125	$36,630,780	$9,153,178	
2000	313,274	$38,657,203	$9,638,865	
2001	320,374	$40,896,816	$10,230,657	
2002	326,691	$42,559,547	$10,658,133	
2003	329,782	$43,984,500	$11,012,818	
2004	342,035	$46,962,360	$11,757,556	
2005	351,018	$50,256,155	$12,584,613	
2006	362,760	$52,895,612	$13,244,297	
2007	369,863	$54,760,115	$13,690,027	
2008	378,037	$56,907,846	$14,247,693	
2009	376,344	$59,198,937	$14,797,260	6% Sales tax in 7/09 Economic Downturn
2010	376,704	$59,645,891	$17,717,486	
2011	384,238	$62,031,727	$19,229,835	
2012	391,923	$64,512,996	$19,999,029	
2013	399,761	$67,093,516	$20,798,990	
2014	407,757	$69,777,256	$21,630,949	

2015	415,912	$72,568,346	$22,496,187
2016	424,230	$75,471,080	$23,396,035
2017	432,714	$78,489,923	$24,331,876
2018	441,369	$81,629,520	$25,305,151
2019	450,196	$84,894,701	$26,317,357
2020	459,200	$88,290,489	$27,370,052

Summary:

Today's liquor business is quite different than when I started in 1986. Many of the large well known suppliers like Seagram's are gone. In place are new international conglomerates whose other interests overshadow liquor. Automated warehouses and point of sale equipment are at the forefront on any state run liquor authority.

A difficult economy in 2009 caused many buyers to switch to value brands from premium brands that caused the unprecedented growth of the previous ten years. Vodka, the odorless drink became the number one spirit as flavors were introduced and the cocktail had a new birth.

States that had high deficits were now turning to alcohol taxes and profits to reduce those numbers. Vermont is no different, but is in a better position than most states. It has a growing market for spirits and has seen a recent infusion of in state distilleries that will be a great economic asset over the years to come.

Additional revenues will be generated due to the innovative changes the department is recommending. They will also offer the consumer a marketplace that can meet their needs for alcohol purchases. The Department has made many changes over the years and the future looks bright.

Conclusion:

Developing a more effective manner to compete will not happen overnight. This report attempts to look at various options that will help the state meet the goals of Act 146. Our current economy is still very fragile and any major change in taxes might have an unintended effect.

Therefore, it is important that a discussion begin to recommend some innovative changes in the administration and sale of alcohol beverages. It should be done methodically with goals and objectives and industry data supporting the change.

The department has a very good system in place that is creating revenue for the state and has the potential to make even more. This report is a good first step!

Michael J. Hogan
Commissioner of Liquor Control
January 15, 2011

Appendix:

Markup Information for Control States

Maine

Individual product prices will be determined collaboratively by the Director and Merchandising Manager, and approved by the Commission. The criteria applied will include:

1. A brand's standing by competitive position in Maine, New Hampshire and regionally.
2. A brand's gross profit performance, historical and potential.
3. Anticipated consumer response to product pricing.
4. The vendor's landed cost to the state.
5. The level of vendor promotional support for the brand.

The Bureau's overall price and marketing strategy will determine the merchandise mix and individual price lines and price points required to both satisfy customer demand and meet the revenue objectives of the state.

Montgomery County, Maryland

	SPIRITS	WINE
Delivered Case Cost (FOB)	$60.00	$36.00
State Tax (750 ML)	$3.57	$0.96
Wholesale Mark-up	$17.16	$12.94
Percentage of Wholesale Mark-up	27%	35%
Rounding	$0.27	$0.38
Wholesale Case Price	$81.00	$50.28
Wholesale Bottle Price	$6.75	$4.19
Percentage of Retail Mark-up	18% - $14.58	28% - $14.08
Rounding	$0.30	$0.32
Retail Case Price	$95.88	$64.68
Retail Bottle Price	$7.99	$5.39
Composite Mark-up (Retail price divided by case cost + state tax)	50.80%	75%

Montana

SPIRITS		FORTIFIED WINE	
Delivered Case Cost	$60.00	**Delivered Case Cost**	$36.00

Freight to Stores	$1.24	**Freight to Stores**	$1.24
a) Mark-up 40%	$24.50	**a) Mark-up 51%**	$18.99
b) 26% tax	$22.29	**1) 26 % tax**	$14.62
1) Liquor excise tax 16%		**1) Liquor excise tax 16%**	
2) License tax 10%		**2) License tax 10%**	
c) Case Price	$108.03	**c) Case Price**	$70.85
d) Bottle Price	$9.00	**d) Bottle Price**	$5.90
1) Based on 750ml – 12 Pack		**1) Liquor excise tax 16%**	
		2) License tax 10%	
e) Round to nearest nickel	$9.00	**3) Round up to nearest nickel**	$5.90

New Hampshire

	SPIRITS	**WINE**
Delivered Case Cost	$60.00	$36.00
Bailment	$0.78	$0.78
Bottle Cost	$5.07	$3.07
Bottle Mark-up Formula	46% - 47.5%	35% - 66%
Bottle Mark-up	$2.36	$2.03
Round Per State Formula	$7.59	$5.29
Corporate Per State Formula	49.70%	72.30%

Note: On-premises licensees receive 10% discount on warehouse purchases (spirits and wine).

Off-premises licensees receive 20% discount on warehouse purchases (wine).

Ohio

Spirits 750 ML Case of 12 bottles		**Retail**	**Wholesale**
Delivered Case Cost at Bailment Warehouse		$60.00	$60.00
Freight Case Cost to Deliver to Contract Sales Agents		$0.92	$0.92
Operating Cost Factor	12.35% of case cost	$7.41	$7.41
Total Cost of Operation		$68.33	$68.33
Mark-up	30% (retail accounting method)	$29.28	$29.28
Ohio Liquor Gallonage Tax	$3.38	$8.05	$8.05
Intermediate Price		$105.66	$105.66
User-charge	5%	$5.28	$5.28
Retail Base Case Price		$110.94	$110.94
Wholesale Discount to On-premises Permit Holders	6%		$6.65

Retail Sales Tax: example @ 6.5% county	(State 5.0% plus local 1.5%)	$7.21	$7.21	
Case Price Before Round-up		$118.15	$104.29	
Bottle Price Before Round-up		$9.85	$8.69	
NABCA Composite Mark-up Calculation		96.90%	61.80%	

Less 15% Discount to Licensees

Case SPA is applied as reduction after regular retail base price computation. Military sales are not processed through ODLC. Spirits 42 proof-and-under are sold by private sector businesses, regulated by ODLC, no minimum mark-up, but cannot sell below cost. Wine and fortified wine are sold by private sector businesses, regulated by ODLC. Supplier-to-Wholesaler minimum mark-up 18% to 33%; Wholesaler-to-Retailer minimum mark-up 33.3%; Retailer-to-Consumer minimum mark-up 50%.

Pennsylvania

Item	SPIRITS BASED ON 750 ML BOTTLE		WINE BASED ON 750 ML BOTTLE		
	On-premises Licensees	Consumers	On-Premises Licensees		Consumers
Delivered Cost Warehouse (a)	$60.00	$60.00	$36.00		$36.00
Price per Bottle (b)	$5.00	$5.00	$3.00		$3.00
Mark-up @ 30%	$1.50	$1.50	$0.90		$0.90
PLCB 0perational Cost (c)	$1.20	$1.20	$1.30		$1.30
Intermediate Bottle Price	$7.70	$7.70	$5.20		$5.20
State Liquor Tax @ 18%	$1.39	$1.39	$0.94		$0.94
Bottle price	$9.09	$9.09	$6.14		$6.14
Retail Bottle Price Rounded to the Final Nine	$9.09	$9.09	$6.19		$6.19
Wholesale Discount @ 10% (d)	$0.91		$0.62		
Wholesale Bottle Price	$8.18		$5.57		
Sales and Use Tax @ 6.21% (e)	$0.49	$0.55	$0.33		$0.37
Total Bottle Price - Consumers		$9.64			$6.56
Total Bottle Price - Licensee	$8.67		$5.90		

(a) If delivered cost at warehouse reflects early payment discounts, these are re-added before mark-up is calculated. (b) Rounded to next higher cent. (c) PLCB operational cost component is a per unit charge based upon product category and size: Spirits: 50 ml $0.50; 200ml-375ml $1.05; 750ml, 4/200ml, 1.00L $1.20; 1.75L $1.55. Wines: 2/187ml, 375ml, 2/200ml $1.10; 3/187ml, 4/187ml, 750ml, 1.00L, 4/355ml $1.30; 1.50L $1.50; 3.00L, 4.00L, 5.00L, 6.00L $2.00. (d) Sale must be minimum $50 at retail for the discount to apply. (e) Sales and use tax removed from shelf price 5/29/91. Tax added at register on total purchase. There is an additional 1% Local Sales Tax on purchases in Philadelphia & Allegheny Counties.

Vermont

DELIVER CASE COST RANGE	GROUP	750ML 9 L	1.75L 10.5L	1.0L 12L	375ML 9L	200ML 9.6L	50ML 6L
$550 and Over	A	34% Retail Mark-up For All Sizes					
$450.01 – $550	B2	$316.40	$362.50	$420.00	$325.40	$334.40	$192.85
$300.01 – $450.00	B1	$235.20	$268.60	$325.40	$245.30	$248.00	$142.10
$225.01 – $300.00	C2	$154.40	$173.60	$203.80	$162.60	$161.50	$91.35
$149.01- $225.00	C1	$120.60	$134.50	$159.80	$129.60	$130.20	$71.05
$125.01 – $149.00	D	$87.40	$95.90	$114.70	$95.20	$90.50	$50.75
$99.01 – $125.00	E	$75.40	$81.90	$98.70	$83.10	$82.20	$43.34
$69.01 – $99.00	F	$58.20	$61.30	$74.60	$66.00	$56.90	$32.18
$49.01 – $69.00	G2	$48.60	$51.30	$63.00	$57.50	$50.20	$27.10
$30.01 – $49.00	G1	$45.80	$48.20	$31.00	$55.80	$48.10	$26.09
Under $30	H	$36.00	$35.60	$46.50	$43.80	$38.50	$35.00
Under $20	I	$25.60	$23.10	$32.10	$34.60	$25.10	$25.00

All Vodka 45.50%, All Tequila 45.50%, Imported Fortified Wine 41.75%, American Fortified Wine 46.75%, Alcohol 16%. Add .20 to computed retail on 750ML, liter, add .50 to 375ML.

When applying a percentage to cost – example, Vodka: 750 ml case cost $51.00 + .60 (.05 bottle redemption handling fee)/ 12 = 4.30/54.5% = 7.89 round up to next $.10 to 7.90 + .20 = $8.10.

When applying a liter to cost – example, Scotch FB: 750 ml case cost $98.41 + .60 (.05 bottle redemption handling fee) + 75.40 = 174.41 / 12 = 14.53 round up to next $.10 to $14.60.

The mark-up schedule for all special orders will be calculated by adding $.50 per bottle to the above mark-up schedule.

West Virginia

	SPIRITS	
Delivered Case Cost	$60.00	
Mark-up	28%	
Per Case Delivery Fee	$1.25	
Delivered Case Cost to Retailer	$78.05	