

COMMONWEALTH OF PENNSYLVANIA
HOUSE OF REPRESENTATIVES

APPROPRIATIONS COMMITTEE HEARING

STATE CAPITOL
MAIN BUILDING
ROOM 140
HARRISBURG, PENNSYLVANIA

MONDAY, FEBRUARY 27, 2012
1:00 P.M.

PRESENTATION FROM
LIQUOR CONTROL BOARD

BEFORE:

HONORABLE WILLIAM F. ADOLPH, JR., MAJORITY CHAIRMAN
HONORABLE MARTIN T. CAUSER
HONORABLE GARY DAY
HONORABLE GORDON DENLINGER
HONORABLE BRIAN L. ELLIS
HONORABLE MAUREE GINGRICH
HONORABLE GLEN R. GRELL
HONORABLE DAVID R. MILLARD
HONORABLE MARK T. MUSTIO
HONORABLE BERNIE T. O'NEILL
HONORABLE MICHAEL PEIFER
HONORABLE SCOTT PERRY
HONORABLE SCOTT A. PETRI
HONORABLE TINA PICKETT
HONORABLE JEFFREY P. PYLE
HONORABLE THOMAS J. QUIGLEY
HONORABLE MARIO M. SCAVELLO
HONORABLE CURTIS G. SONNEY

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BEFORE (cont.'d):

- HONORABLE JOSEPH F. MARKOSEK, MINORITY CHAIRMAN
- HONORABLE MATTHEW D. BRADFORD
- HONORABLE MICHELLE F. BROWNLEE
- HONORABLE H. SCOTT CONKLIN
- HONORABLE PAUL COSTA
- HONORABLE DEBERAH KULA
- HONORABLE TIM MAHONEY
- HONORABLE MICHAEL H. O'BRIEN
- HONORABLE CHERELLE L. PARKER
- HONORABLE JOHN P. SABATINA
- HONORABLE STEVE SAMUELSON
- HONORABLE MATTHEW SMITH
- HONORABLE RONALD G. WATERS

ALSO IN ATTENDANCE:

- EDWARD J. NOLAN, REPUBLICAN EXECUTIVE DIRECTOR
- MIRIAM FOX, DEMOCRATIC EXECUTIVE DIRECTOR
- HONORABLE JOHN D. PAYNE
- HONORABLE JOHN TAYLOR
- HONORABLE KATHARINE M. WATSON
- HONORABLE ROBERT GODSHALL
- HONORABLE GEORGE DUNBAR
- HONORABLE MIKE TOBASH
- HONORABLE H. WILLIAM DeWEESE
- HONORABLE DANTE SANTONI, JR.
- HONORABLE PAMELA A. DeLISSIO

JEAN M. DAVIS, REPORTER
NOTARY PUBLIC

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1 P R O C E E D I N G S

2 * * *

3 MAJORITY CHAIRMAN ADOLPH: Good afternoon,
4 everyone. I'd like to call to order the House
5 Appropriations Committee Budget Hearing for the Liquor
6 Control Board.

7 Before we get started, it's my pleasure to
8 acknowledge the presence of the gentleman from
9 Philadelphia, Chairman John Taylor, Chairman of the Liquor
10 Control Committee and Chairman Markosek for
11 acknowledgements.

12 MINORITY CHAIRMAN MARKOSEK: Thank you,
13 Mr. Chairman.

14 First of all, we have members of our committee
15 that have arrived, Rep. Matt Smith from Allegheny County.
16 And also we have a very distinguished guest here, the
17 Democratic Chairman of the Liquor Control Committee, Rep.
18 Dante Santoni from Berks County.

19 Welcome.

20 MAJORITY CHAIRMAN ADOLPH: Thank you, Chairman.

21 We'd also like to mention that Rep. John Payne
22 from Hershey, a member of the Liquor Control Committee, is
23 also present. Thank you for attending.

24 Without further ado, I would like to welcome
25 Joseph Conti, former House member, former State Senator,

1 Executive Director of the Liquor Control Board.

2 Welcome, Mr. Conti. And would you please
3 introduce the gentlemen that are accompanying you at the
4 table.

5 MR. CONTI: Thank you.

6 Good afternoon, Chairman Adolph, Chairman
7 Markosek, Chairman Santoni, and Chairman Taylor. It's a
8 pleasure to be here.

9 To my left is August Hehemann. Aug is the
10 Director of our Office of Financial Affairs. He would be
11 our CFO. And to my right is Rodrigo Diaz, someone who I
12 think you've all seen before, Deputy Chief Counsel for the
13 Agency for many years now. He will be assisting me, if
14 needed, today with testimony.

15 We thank you for the opportunity to appear before
16 the Committee. You have my opening remarks. I do not
17 intend to read those remarks. They are there for your
18 review. I know you got them ahead of time. I would just
19 like to highlight a couple of things.

20 We had a very good year last year, a 4 percent
21 increase in sales. And I might mention that that 4 percent
22 increase in sales was without any price increases of any
23 kind from the suppliers nor from the Agency.

24 So that's all organic growth, as we like to say.
25 It probably could have been a little higher if we would

1 have had the normal price increases created in the year.

2 We were able to return 530 million total to the
3 General Assembly for their use in the tax, various taxes,
4 and transfer along with some of the alcohol funding. But
5 you'll see the bulk of my remarks today are on our fiscal
6 enhancement pieces of legislation.

7 I would like to thank Chairman Taylor and
8 Chairman Santoni. I believe six of the ten items in the
9 testimony are reported out of committee and ready for Floor
10 action. You can see that the enhancement would be about
11 \$71 million more if all the proposed legislation was
12 adopted. And I will say that that is a very conservative
13 estimate based on our 1.5 billion in sales of last year.

14 So we think we could increase our return by
15 something along those lines if we were able to get some
16 legislative review and the support from the Governor's
17 Office.

18 We went over this in the other side of the
19 building a couple weeks ago. And we were very pleased with
20 the reception we received, not only from the other Chamber
21 but also from the Office of the Governor.

22 So I think without further ado, Chairman, we're
23 happy to answer any questions you may have on the fiscal
24 enhancement proposals or our prior year's performance.

25 MAJORITY CHAIRMAN ADOLPH: Thank you, Mr. Conti.

1 I would like to start off the questioning with
2 the Governor's proposal of the \$80 million transfer from
3 the Liquor Control Board to the General Fund. Do you see
4 any problems reaching this \$80 million transfer?

5 MR. CONTI: No, Chairman, we do not see a
6 problem. And thank you for the question. It's always good
7 to digress for a moment and realize that the transfer is
8 different from the profit of the Agency.

9 So in our billion five of sales last year, you
10 know our profit was 83 million. The request of the
11 Governor's Office of 80 million for the first time in a
12 long time matches up with our profit. And we're very
13 pleased with that.

14 We've had a wonderful relationship with Governor
15 Corbett's Office of Budget. They really understand the
16 Agency. They're a great asset to us, particularly Aug
17 managing the fiscal affairs of the Agency.

18 We will be able to make the transfer. In fact,
19 it's my understanding that we may be making half of the
20 transfer within a week or two.

21 MAJORITY CHAIRMAN ADOLPH: The sooner, the
22 better.

23 MR. CONTI: Understood, Chairman. The sooner,
24 the better.

25 MAJORITY CHAIRMAN ADOLPH: Thank you.

1 Based upon some revenue figures that I received,
2 it looks like possibly the profit for 2012-2013, just an
3 estimate -- I don't know where these figures came from.
4 Maybe they're right from your website. -- is 120 million?

5 MR. CONTI: I think that's high from our
6 standpoint. I would think it would be more in the -- we're
7 thinking 80 to 90 million again.

8 MAJORITY CHAIRMAN ADOLPH: I was told that this
9 came right from your Department. But I will double-check
10 that. I was told that about a half-hour ago. Okay?

11 MR. CONTI: Yes.

12 MAJORITY CHAIRMAN ADOLPH: And my follow-up
13 question was, if your profit is 120 million and you're
14 transferring 80, what are you doing with the other 40?

15 MR. CONTI: Well, as I said, we'll both check.
16 If that's on our website, I apologize for it. Some of that
17 may have been in forecasting and modeling which we
18 anticipate price increases. The Board has not allowed
19 price increases, so that may have rationed down our
20 projections. But we think we're going to be right in the
21 80 to 90 million return again this year.

22 MAJORITY CHAIRMAN ADOLPH: I'm sure during this
23 hearing I will be able to find out where these figures came
24 from. That was my question. I appreciate your
25 explanation.

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MR. CONTI: Sure.

MAJORITY CHAIRMAN ADOLPH: The next question is by Chairman Markosek.

MINORITY CHAIRMAN MARKOSEK: Thank you, Chairman Adolph.

First of all, let me say that every time I walk into one of your stores and I see the Chairman's Special, I assume that's for me. So thank you.

MR. CONTI: Yes.

MINORITY CHAIRMAN MARKOSEK: Rep. Adolph and the other Chairs here feel the same way, I'm sure.

But I have a question about your home delivery program that you just started last November, I believe, towards the end of the year. And it's a new program and perhaps there's not a whole lot of data at this point in time. But can you share with us how that has gone so far and what the future, perhaps, will be for that program?

MR. CONTI: Yes. Our e-commerce store in the past was about \$1.2 million in sales. And that had to be delivered to a store of your choice.

The Board around Thanksgiving time did begin home delivery. It's an option that's available. We began this in a very conservative way. We were mostly worried about the technology of our website being able to hold up to a lot of hits. And it has worked out very well. So we

1 didn't do a lot of publicity, if you will, on this.

2 However, we're running between 20 and 30 percent
3 taking the home delivery. We charge for shipping. And the
4 charge is the actual cost of UPS, which we utilize from the
5 State contract, which is a very attractive rate. I am a
6 user of our e-commerce site myself and have been.

7 So we're going to assess this probably until
8 around April or May, take a good five- to six-month period.
9 We're going to take the results to the Board and then see
10 where we want to go in the future.

11 There's several thousand items available online
12 that are not available in our stores. So it's a different
13 profile of product that are in our stores in many cases.
14 In addition to those couple thousand items, there's also
15 the Chairman's Selection that's available online.

16 And if I may, in a shameless promo, along with
17 the introduction of home delivery, our application is out
18 on the iPhone and iPad. We urge you to take a look at
19 this. It's free. Fine wine and good spirits application.
20 And Android, we believe, is coming out this week, February
21 28th. We get final approval within a week or two on the
22 Android.

23 So you can peruse the products here and order
24 right from your iPad and iPhone. And you'll be able to do
25 that from the Android in the near future.

1 And perhaps the best feature of our application
2 is the scan bottle. If you're out to dinner someplace and
3 you enjoy a bottle of wine, if you have your iPhone --
4 probably not your iPad. But if you have your iPhone, you
5 can scan the bottle and it will come up what store it's
6 located in if it's part of our product line. It's quite a
7 nice feature.

8 So thank you for the opportunity to shamelessly
9 promote our new application on the iPad and iPhone, with
10 the Android to come.

11 MINORITY CHAIRMAN MARKOSEK: Thank you.

12 MAJORITY CHAIRMAN ADOLPH: Thank you, Chairman
13 Markosek.

14 The next question will be offered by Rep. Tina
15 Pickett.

16 REP. PICKETT: Thank you, Mr. Chairman.

17 Hello, Mr. Conti.

18 MR. CONTI: How are you?

19 REP. PICKETT: Good. Thank you.

20 My concern in opening here with questions is an
21 increase for the licensees. I notice that you had a
22 discussion or a proposal within your modernization
23 initiatives to increase the licensing fee.

24 Having been an owner of a few licenses over my
25 years, I thought I would just ask a comment on that. Maybe

1 you could talk a little bit more about it.

2 But from my viewpoint, I see small business
3 owners, largely many certainly, with these licenses --
4 company-sponsored events are down; the general economy is
5 down -- I'm sure their sales are not burgeoning.

6 And my recollection is that maybe the license fee
7 hasn't been increased in a long time, but it is a pricey
8 license. And not only the price of the license but the
9 requirements to put that license together and finally get
10 it in order and approved by the State.

11 And I recall every year it was very time
12 consuming and somewhat dollar consuming.

13 So when you think about doing that, first of all,
14 I would ask for your caution on that. But I'm wondering if
15 you would ever consider perhaps a two-year license and make
16 less cost on your side, less effort on the small business
17 owner side. Are there any comments you can make in that
18 area?

19 MR. CONTI: Oh, sure. We can talk for quite some
20 time.

21 Representative, I think you may remember, I'm a
22 bartender by birth and also a licensee in prior lives. So
23 I fully understand the impact of the fee and all that is
24 included in that.

25 I will say our fiscal enhancement agenda,

1 certainly fees and fines, particularly fees, is the most
2 difficult for you. And we will administer whatever
3 decisions you as the policymakers set in this regard.

4 We felt it was important that we point out to you
5 that these fees have not been raised since 1991. That's a
6 long time. Kind of the tradition of Pennsylvania is not to
7 raise fees for a long time and then raise them a lot. We
8 like to phase something in.

9 The legislation before you is our first attempt.
10 And it's a surcharge rather than an increase. But once
11 again, I think a phase-in, I think this is something you
12 should really deliberate on. And we would be happy to
13 implement whatever you recommend.

14 Since my testimony a couple weeks ago, I think I
15 have learned a little bit more on this. And as it turns
16 out, our Office of Licensing is about a \$13 million shop.
17 And we bring in about \$13 million.

18 Now, the problem is by code, we give 4 and a half
19 million of that back to municipalities yearly. So it nets
20 out about \$9 million to cover the 13 million of expenses in
21 administering the 52,000 license transactions a year we do.

22 So we leave this up to the purview of the
23 Assembly. We're pointing out to you that it's something
24 that probably should be addressed, a phase-in, and then
25 hopefully some kind of inflation kicker in the future

1 rather than having to come back and revisit.

2 But we understand the sensitivity to the
3 restaurants, taverns, and the folks involved.

4 Did I answer your question?

5 REP. PICKETT: Would you consider a two-year
6 license?

7 MR. CONTI: Sure. We'll consider anything.
8 We'll administer whatever decision you make in this area.
9 I think it's important something is done.

10 And, you know, we're about to put out our release
11 on our 4.5 million. You know, it's as low as \$25 to a
12 municipality. And I think the most is a million, to either
13 Pittsburgh or Philadelphia. I forget which.

14 I remember when I was a township supervisor in
15 Doylestown Township, the \$18,000 we got on an \$8 million
16 budget, I think we just put towards police overtime.

17 So you might even want to revisit that, that 4
18 and a half million that you send to municipalities. I
19 think there's been some press coverage of that, at least
20 here in Central PA, with municipalities not having police,
21 you know, in many parts of the state.

22 So I think there's a couple things you can look
23 at there, whether municipality reimbursement should
24 continue and then how to raise it. And if you decide you
25 want to do it every other year on the fees, we'll be happy

1 to administer that for you.

2 REP. PICKETT: Thank you.

3 Thank you, Mr. Chairman.

4 MR. DIAZ: Representative, one thing. We do
5 essentially have two-year licenses now. When you get the
6 license, it is for two years. In the middle, we have you
7 validate it so you don't have to pay everything upfront.
8 So it's a very streamlined process. So we probably have
9 something very similar to what you anticipate.

10 REP. PICKETT: Thank you.

11 MAJORITY CHAIRMAN ADOLPH: Thank you.

12 Rep. Parker.

13 REP. PARKER: Thank you, Mr. Chairman.

14 Hello, Mr. Conti and other members of the LCB.

15 I'm going to be very quick. You've sort of
16 alluded to revenue-enhancing proposals. And for the
17 benefit of the general public and those who have a life
18 outside of this building, can you just share with us a
19 brief summary of what those proposals are?

20 Many of us have coined them as being the part of
21 your modernization efforts. And that is definitely a term
22 from what we've seen promoted in this body. I mean,
23 everything was the big P, the big P, privatization,
24 privatization. Then we saw a move from the P over to the
25 big C, competition, competition. But all along the LCB has

1 been promoting modernization, modernization.

2 So give us just a quick summary of what that
3 means. In addition to that, it's always important for me,
4 for the record, for you to put a face to the LCB's
5 employee. Who is your employee? How many in the
6 Commonwealth? Where are they and so forth?

7 MR. CONTI: Sure. Thank you very much.

8 In the testimony, you will see Sunday sales is a
9 very important fiscal enhancement, maybe five to ten
10 million dollars. That actually was approved in the prior
11 session but was vetoed inadvertently in another bill. So
12 we would hope that we could get to that. That's really
13 taking the 25 percent cap off and going from 12 to 5 to 12
14 to 9 on Sundays.

15 Another very important initiative in the lion's
16 share of the fiscal enhancement is pricing. I don't think
17 it's very well known that when you go into our store and if
18 there's a dollar off a particular item, the supplier had to
19 give us that dollar off. We cannot act like a normal
20 retailer. So we're looking for price relief.

21 Chairman Taylor and Chairman Santoni had moved
22 this out of committee. And certainly there's great ways
23 that we can improve for the consumers of Pennsylvania in
24 addition to increasing our return with some pricing relief.

25 Personnel relief would be to get our retail shop

1 out of Civil Service, which I think would be an important
2 thing to consider. That legislation needs, I think, some
3 further refinement.

4 We will want to follow the State System of Higher
5 Education that was able to do this effectively over a
6 period of years where any new hires would not be Civil
7 Service. Those in the system would continue to finish
8 their careers in Civil Service. And at the time of
9 promotion, there would be an opportunity to move out of
10 Civil Service with a promotion. So probably over a five-
11 or ten-year period, we'd segue away from Civil Service in
12 the retail side.

13 Our regulatory side, you folks can decide whether
14 that should be Civil Service or not. That would be up to
15 you.

16 On the procurement, our RFP process takes us
17 anywhere from a year to 18 months. What we're proposing,
18 which I think is very good for the Assembly, is have us
19 promulgate our own regulations and procurement, pass them
20 through the Independent Regulatory Review Commission.

21 That would give you folks two opportunities to
22 review it, when you first pass that bill and then also when
23 the regulations go to IRRC, the standing committees have
24 purview over those regulations. That is simply a matter of
25 trying to streamline in retail.

1 In retail activities, the world can change in six
2 months to a year. And so you go out for a bid on something
3 and a price on something and things can change so
4 dramatically in the sector that it's just too time
5 consuming. That's another one.

6 The Lottery is an interesting one. The
7 Commission came to us several years ago about having the
8 self-tended machines only in our stores. It appears the
9 commissions could be about \$8 million. A 5 percent
10 commission to us would be \$8 million. So this wouldn't be
11 people waiting in line at our store, calling out the
12 numbers. This would only be the self-attended machines.

13 If you have been to any of the Gaming facilities
14 in Pennsylvania, they have integrated the Lottery machines
15 very nicely into the Gaming floors in a very appropriate
16 way. We think we can do that.

17 Fines and fees, I think we went over that. The
18 fines, about \$2 million was brought in. They haven't been
19 raised since '87. So I think you might want to look at
20 raising the fines, if you will, on that.

21 What am I missing here? Oh, the complement I'll
22 get to in the end. The consumer relations is simply a
23 loyalty program that we really would like to bring the best
24 practice of the retail into our stores. The code is very
25 specific. We can't induce people to drink. So we're not

1 going to be offering anything more than awareness of what
2 is available on our sales and the instant redeemable
3 coupons and things that are already out there.

4 You have to proactively sign into that program.
5 So you wouldn't be receiving things from us unsolicited.
6 You would have to sign up to become a part of that program.
7 That was also passed in the prior session and inadvertently
8 vetoed.

9 Bailment fees. Bailment fees is something we
10 would like you to consider. We have something called the
11 LTMF, our Logistics, Transportation, and Merchandise
12 Factor. That's part of our markup. We'd like to probably
13 change that and go to one simplified markup with a bailment
14 fee. That's something we have to continue to negotiate
15 with our suppliers, if you will. But that could bring in
16 12 to 14 million dollars a year based upon if the case is
17 sold, if we take a midpoint of other states that have a
18 bailment fee.

19 Now, as to the complement, thank you for the
20 question on complement. We currently have 5,701 employees.
21 And I think this is as of about two hours ago. About 3,276
22 are salary and 2,425 are total wage.

23 We are carrying vacancies. We have about 170
24 salary vacancies and 172 wage vacancies. And then
25 currently we also have 900 seasonal vacancies. By

1 contracts, seasonals are available in the summer months and
2 over the holidays to help cover vacations and also help
3 cover the busy time at Christmas. We do not have that in
4 today. We won't have them until, I think, it's May they
5 begin. So we have those vacancies.

6 We are very pleased with our staff. And I have
7 to really compliment the progress we have made in the last
8 five years. We have a long way to go. Please don't think
9 that we're satisfied with where we are.

10 But by putting some professional development in
11 that really was not taking place, we think we're making a
12 difference. And hopefully you're getting enhanced service
13 in your stores, in our stores.

14 Hopefully, you are being greeted. You're being
15 asked if there's any help that you need. You're being
16 asked if we can help you to the car with your product.
17 Those are the kind of things that we think we're seeing
18 some direct result in.

19 We're now getting into product professional
20 development as it relates to the wine and spirits. The
21 creation of a new wine, retail wine, specialist, which will
22 be in 65 of our stores, should greatly enhance the service.
23 But we could not do this without the spirit of cooperation
24 and collaboration with our staff, especially with our
25 clerks.

1 UFCW is intimately involved in these programs.
2 And there are other facilities in the supermarkets in
3 Pennsylvania and all their other places where they have
4 members has been a great partner in this professional
5 development that we have been working on.

6 And, you know, a lot of our jobs, Representative,
7 are entry-level jobs. And we're very proud of that. Our
8 seasonal folks are 10- and 11-dollar-an-hour folks that we
9 can help. And the part-time people is a nice way for some
10 to either begin a career with us or supplement some other
11 income that they have already.

12 And then we're also very proud of the
13 participation of the minorities and women. We are 45
14 percent women compared to 40 percent of other agencies.
15 And we're 20 percent minority as opposed to 13 percent of
16 other State agencies.

17 So I think we have a great workforce. I enjoy
18 working with them every day. It's quite a privilege. We
19 are improving. And with your support and with your help, I
20 think we'll continue to improve the service in our stores.

21 I think that answers your questions. I might
22 have missed something. I know I got a little long there.

23 REP. PARKER: Thank you.

24 Thank you, Mr. Chairman.

25 MAJORITY CHAIRMAN ADOLPH: Thank you.

1 Rep. Scott Petri.

2 REP. PETRI: Thank you, Mr. Chairman.

3 And I'll try and be brief so that other members
4 can ask questions. And then I'd asked to be placed in the
5 second or third round if necessary.

6 The point of sale system, there's been a lot of
7 vendors that have indicated it was a disaster. Can you
8 tell me from your perspective, is it working? And what was
9 the cost of implementing the point of sale system?

10 MR. CONTI: The cost of the point of sale was
11 just over \$20 million. I think we had budgeted about
12 fifteen or sixteen million. There was one cost overrun.
13 We are delighted with implementation.

14 In fact, just today in our executive meetings, if
15 you will, we had deemed it completed. And we are not aware
16 of any issues. Certainly, there were issues of training
17 that you would have in 609 implementations.

18 And you can always look back and say, we could
19 have done a little bit better job in training. But we have
20 them all done. We're delighted with the outcome. And I'm
21 frankly not aware of vendors that may be disappointed with
22 the program.

23 REP. PETRI: Let me ask you, Senator, the point
24 of sale system, would this system enable, if the PLCB and
25 the Legislature decided to induce somebody to complete an

1 entire transaction and have the basically the retailer,
2 let's say, it's a licensee, the licensee transmit an order
3 to go directly to the supplier and then we just receive the
4 tax revenue. Is it that sophisticated?

5 I know under current law all those bottles, other
6 than the home sale, have to come in to us. Is there a way
7 to modernize the transportation side of how we do business?

8 MR. CONTI: I'm sorry, Representative. I'm not
9 sure I understand your question.

10 REP. PETRI: I'll give you an example. I had a
11 client once that came to me and he was complaining that he
12 only made \$8,000 off this lumber order. And all he had to
13 do was fax it to his distributor. And he never even picked
14 up the product.

15 And I said to him, I bet you would like to make
16 \$8,000 on every transaction when all you did was slide a
17 piece of paper through the fax machine.

18 In other words, could a licensee say, this is the
19 order I want, slide it through a machine, go to the
20 supplier, the supplier then paid the Commonwealth the tax,
21 and the product would go directly from that distributor to
22 the licensee?

23 MR. CONTI: Interesting. Anything is possible.
24 I don't think that's so much a point of sale question as it
25 is part of our retail system. We can look into that. It

1 certainly is possible.

2 Our licensees do have the vendor portal that they
3 can place their orders in. That is working well. That was
4 difficult two or three years ago. It is now working well.
5 So there are ways to streamline the ordering process.

6 I would definitely like to look into delivery to
7 licensees as part of our agenda. If we're delivering to
8 the homes of consumers, I think we can deliver to the
9 businesses of our licensees. And we do have that on our
10 menu of things to look at in the future.

11 REP. PETRI: One of the criticisms that I've
12 heard is that the PLCB is top heavy as a percentage of too
13 many high-level employees.

14 Would you care to respond to that criticism?

15 MR. CONTI: I don't agree.

16 REP. PETRI: That's a fair answer. But have you
17 compared your numbers to -- not that there's a similar
18 model. But what would private industry -- how would they
19 compare, say, to a large distributor?

20 MR. CONTI: I would say if you benchmark -- we
21 actually put in our organization, we had the Hay Group come
22 in and do the benchmark of LCBL in Ontario, ABC Liquors in
23 Florida and I think it was Sheetz -- I can't remember. It
24 was five years ago, Representative. I'm sorry I don't
25 remember.

1 We did a pretty exhaustive study that created our
2 organization. And it was totally approved by the
3 Governor's Office of Administration at the time. So I
4 don't think we're top heavy. I think we did benchmark. We
5 used the very best professionals we could to advise us.
6 And I think we're in good shape.

7 REP. PETRI: Okay. One more two-part question
8 and then I'd better give up the microphone or I'll be
9 getting in trouble.

10 How many stores are currently unprofitable, and
11 the second part of it is, what is the industry standard on
12 markup for wine and spirits?

13 MR. CONTI: As of this moment, literally this
14 moment, we have 20 unprofitable stores. And those 20 are
15 generating less than \$29,000 total in loss. Five years
16 ago, we had 75 stores that lost money. And last year we
17 had 30 stores that lost money. And today we have 20 stores
18 losing money, less than 29,000 between the 20 of them.
19 When you add the taxes, I think all but one or two stores
20 are profitable.

21 So we've made great strides. Our store
22 operations people really deserve a lot of credit for
23 managing the expenses, controlling the hours, and making a
24 real difference in our profit of stores.

25 You know where they all exist, in the rural areas

1 where we have an informal rule to get that store within ten
2 miles of each other. So that's where these 20 locations
3 are.

4 And I already forgot your second question.

5 REP. PETRI: Just the standard industry markup
6 for wine and liquor since you're asking us to look at
7 variable pricing. I'm trying to get a sense of what the
8 industry markups are.

9 MR. CONTI: I'm trying to remember from our
10 testimony in August. You know, that ranges all over.
11 Other controlled states is one scenario. Open markets are
12 another. Then there's -- I don't think I can really --
13 we'll have to get you some -- if we can submit for the
14 record some other comparables in other states. I don't
15 have that off the top of my head.

16 REP. PETRI: Thank you, Mr. Chairman.

17 MAJORITY CHAIRMAN ADOLPH: Thank you,
18 Representative.

19 Chairman Markosek for an acknowledgment.

20 MINORITY CHAIRMAN MARKOSEK: Thank you,
21 Mr. Chairman.

22 The Chair would like to recognize the presence of
23 one of our Appropriations Committee members, Rep. Steve
24 Samuelson from Lehigh Valley. Welcome, Steve.

25 MAJORITY CHAIRMAN ADOLPH: Thank you, Chairman.

1 The next question will be offered by Rep Santoni.

2 REP. SANTONI: Thank you, Mr. Chairman. Thank
3 you for allowing me to join you today at the Appropriations
4 Committee hearings.

5 Senator and gentlemen, good afternoon. And thank
6 you for your service.

7 My question -- let's go back to the modernization
8 issue. I think that that has the best chance of moving in
9 2012. I think the Committee is focused on that. And I'm
10 looking forward to working with you on trying to get those
11 procedures and those initiatives through.

12 I'm going to focus on one that, according to your
13 testimony, brings in the most money, \$25 million. That's
14 the flexible pricing.

15 Could you talk a little bit more in detail about
16 that, Senator, about, you know, how that revenue is going
17 to be generated, how that impacts consumer pricing,
18 licensing pricing, and how it affects the products that are
19 frequently purchased through the system?

20 MR. CONTI: Sure. I would say, as I mentioned in
21 the beginning, that certainly it's not common knowledge
22 that we can't handle sales as traditional retailers again.

23 If we buy too much cherry vodka, we can't put it
24 on sale or if we buy too much wine. We are not able to act
25 as a normal retailer when it comes to pricing. This is

1 especially significant when we look at the competitive area
2 of the State in the Southeast.

3 We now take surveys of our 50 top wines and 50
4 top spirits. And the results are actually very good
5 everywhere but in the Southeast. And that's where we're
6 challenged, although we are a bit more competitive than you
7 might think, which I can get into if you'd like.

8 But certainly, in the idea of the ability to have
9 sales -- in our legislation is the proviso -- the price
10 would be the same all over Pennsylvania. So we're not
11 talking about variable pricing. We're not talking about
12 pricing by region.

13 That would be a true retailer's way of doing it.
14 Because, of course, it's much more competitive in the
15 Southeast and the prices should reflect that.

16 But I think in the interest to make the policy
17 decision a little bit easier for you folks, we can live
18 with the same price across the State. Just the ability to
19 do our own sales without the suppliers having to fund it
20 would be the No. 1 area.

21 And No. 2, when we did the surveys, we are very
22 competitive in spirits prices. Let me just quote you a
23 couple of comparisons. Of our top 50 items, we are 73
24 percent more competitive in spirits than New Jersey. We
25 are 66 percent more competitive on the spirits than what's

1 called the New York Metro Area. We're 71 percent more
2 competitive in pricing than Ohio. And we're 79 percent
3 more competitive than Virginia. That's on our top 50
4 spirits.

5 In wines we are about 50/50. So we're only more
6 competitive in about 52 percent of Ohio and 52 percent of
7 West Virginia. It drops dramatically.

8 The ability to mark up spirits differently than
9 wine, I think, is something that we want to look at also.
10 We don't have anything specific for you on that. But
11 clearly there's a lot more value in a bottle of liquor that
12 produces more drinks than a bottle of wine. I think the
13 public understands that. Our pricing may want to reflect
14 that.

15 The third area would be in e-commerce. If we
16 bring a product into three distributions centers and send
17 it out to 609 stores, that's a completely different set of
18 expenses than if we brought it into one site and sent it to
19 your home the next day. So we may want to have some relief
20 in how we price our e-commerce.

21 And then perhaps most importantly, you know, when
22 you really analyze the comments of Pennsylvanians about
23 other states, they tend to be focused on a
24 big-box-warehouse-type facility. We really can't do a
25 big-box-warehouse facility with the current pricing.

1 We are already to go. We have sites that we're
2 looking at. I mean, we are really ready to go with some
3 big boxes in this State that we would be able to run, but
4 we need the pricing relief. I mean, we really wouldn't
5 want to take our existing line of product into these bigger
6 facilities in the Southeast of the borders without the
7 pricing relief that the legislation would bring.

8 So when you put it all together, we're trying to
9 put together -- and we don't have it flushed out for you
10 yet -- a proposal that would impact the retail shelf price
11 as little as possible. I think it's just a change in the
12 menu mix, if you will, of how we can produce a profit.

13 We also have to be very sensitive to our
14 licensees. We really want to work with them. We do not
15 want to increase the cost to the licensees. We may need
16 your assistance on that.

17 It's about \$3.6 million of impact per licensee
18 discount. So they're at 10 percent now. If it's 11
19 percent, it's 3.6 more cost out of our profit, if you will.
20 We may jointly want to make a decision that that makes
21 sense for our partners, the licensees and the restaurants.

22 We would like to give more of a discount for sure
23 if they buy one of our licensee service centers as opposed
24 to our retail stores. But our retail stores focus on the
25 retail consumer and retail customer; but have our

1 licensees, the big hotels, the casinos, and the
2 restaurants, be able to go to one of our eight licensee
3 service centers and get a 12 percent discount there.

4 So I'm sorry to take a lot of time in the answer.
5 But there's some of the areas that we're looking at
6 initially if we can get the pricing relief.

7 REP. SANTONI: Thank you.

8 MAJORITY CHAIRMAN ADOLPH: Thank you.

9 The next question will be by Rep. Brian Ellis.

10 REP. ELLIS: Thank you, Mr. Chairman.

11 Thank you very much for coming in today. I have
12 a few thoughts. I just need a little bit of clarification.
13 Rep. Pickett pointed out that the fees going up \$14 million
14 will increase the cost to the small businesses. I look at
15 pricing as the same thing, \$25 million, so basically almost
16 a \$40 million hit to an industry.

17 Now, you indicated just now that you would like
18 them to purchase from eight licensees and not pass the fee
19 on to them. Who pays at the end? The person who is
20 consuming. Is that your thought process behind this?

21 MR. CONTI: This is a hard concept to get your
22 arms around. And we've had sessions with the Committee on
23 this, which I think is helpful.

24 I can't come up with a better description than
25 the menu mix of how we price may change. But the overall

1 cost to the consumer and to the licensee, I don't think
2 would. So if you're paying 20 cents more for a bottle of
3 cherry vodka but 40 cents less on a 1.50 Pinot Grigio -- I
4 mean, it all comes out in the wash. But we don't have
5 specifics on that yet.

6 Listen, it was only a month ago, maybe two months
7 ago, that the General Assembly sent our Agency a signal
8 that perhaps pricing was on the table by having it come out
9 of Committee. So this is a work in progress with us.

10 We are working with DISCUS, the Wine Institute.
11 I pledged in our Senate hearings I have to start to work
12 with the Restaurant Association and taverns more. We have
13 to work our way through this.

14 But I appreciate the nature of your question.
15 And I don't have more specifics for you.

16 REP. ELLIS: So you don't have a specific plan on
17 how you're going to get to \$25 million worth of savings?
18 It's just, if we did this, maybe we can try that, and we'll
19 work with the General Assembly to come up with that?

20 MR. CONTI: Correct.

21 REP. ELLIS: Wouldn't one scenario be to take the
22 higher-priced vodka and have less of a markup?

23 MR. CONTI: Yes.

24 REP. ELLIS: So in other words, give a tax break
25 to the rich?

1 MR. CONTI: Perhaps.

2 REP. ELLIS: But, I mean, so at the end of the
3 day, the well liquors are the ones that you'd be looking at
4 increasing?

5 MR. CONTI: Pricing by tiers is something we
6 could look at. I articulated the other areas we'd like to
7 look at first. Pricing by tiers is something the Agency
8 could look at.

9 But as I said, if you increase the licensee
10 discount, you will offset the hit to that stakeholder.
11 Now, as far as the retail customer, we'll have to work
12 through that together, Representative.

13 REP. ELLIS: Okay. I appreciate that. And to
14 continue along the same lines, as you know, Chairman, my
15 father owned a beer distributor. And we were out of the
16 business before Sunday sales came to be.

17 But in Butler, specifically the area that I
18 represent, we have eight beer distributors. And seven of
19 them were opposed to Sunday sales. They did not believe it
20 would actually generate any additional revenue.

21 You say that you're going to look at opening 65
22 additional locations? Is that the number you used?

23 MR. CONTI: It's not a finite number, but 50 to
24 75, yes.

25 REP. ELLIS: Now, where would you anticipate

1 those stores opening up that would magically increase sales
2 on Sunday to offset the additional costs of the employees
3 and opening for another day, which obviously has its costs,
4 that we can achieve \$10 million? Do you have a breakdown
5 on that yet?

6 MR. CONTI: We can get you something. It goes
7 across the board, some in urban areas, some in rural areas,
8 most in suburban areas. It's nothing I can give you an
9 answer to specifically today. But we can get you some
10 information on that.

11 REP. ELLIS: I would appreciate that. And then
12 if I can just touch on --

13 MR. CONTI: And may I just tell you, the 12 to 9
14 is much more important than relieving the cap.

15 REP. ELLIS: Okay.

16 MR. CONTI: We're at 12 to 5 now. And really if
17 we can be open another four hours, I would say that would
18 help us increase the revenue much more than the relief on
19 the 25 percent.

20 REP. ELLIS: When we expanded the Sunday sales,
21 did you see a sharp increase in revenues?

22 MR. CONTI: Yes.

23 REP. ELLIS: And do you believe that was because
24 people were shopping in Pennsylvania instead of elsewhere?

25 MR. CONTI: We're hearing from our partners, the

1 food merchants and the supermarkets, it's the second
2 biggest day of the week after Saturday. So, yes, we think
3 that it's a significant, important day for the consumers of
4 Pennsylvania to be able to shop for wine and spirits.

5 REP. ELLIS: Okay. And then finally,
6 Mr. Chairman, if I can just real quick.

7 The last time we were together, I had suggested
8 to you that a lot of the European countries were moving to
9 the private label style sales for wine and spirits. Have
10 we gone any further than that?

11 MR. CONTI: We absolutely have. We have several
12 wines available that we call our Merchant Label. And we do
13 have a vodka that's available in a Merchant Label. And
14 they're very, very successful.

15 REP. ELLIS: And are they profitable?

16 MR. CONTI: Yes.

17 REP. ELLIS: Okay. Thank you very much.

18 MR. CONTI: Sure.

19 REP. ELLIS: Thank you, Mr. Chairman.

20 MAJORITY CHAIRMAN ADOLPH: Thank you.

21 Rep. Costa.

22 REP. COSTA: Thank you, Mr. Chairman.

23 Hey, Joe.

24 MR. CONTI: How are you?

25 REP. COSTA: Good. First of all, I want to thank

1 you for the modernization progress that you're making,
2 particularly in the direct home line. I appreciate that.

3 But I want to follow up on the Representative
4 from Butler, the one I actually like from Butler, and his
5 comments.

6 You're going to raise and lower the prices. I
7 have an amendment that maxes your increase to 30 percent.
8 Are you guys going to be able to live within that? And if
9 you do, if you are able to live within that 30 percent, are
10 you still going to reach the profits that you believe?

11 MR. CONTI: Our markup is much more complicated
12 than the 30 percent. There's the 30 percent markup and
13 then there's the LTMF, the Logistics, Transportation, and
14 Merchandise Factor. It's really a handling fee.

15 For the purpose of discussions today, that's
16 approximately 17 percent. And then you add the 18 percent
17 Johnstown Tax, and then you add the 6, 7, or 8 percent
18 sales tax. So there's three or four components to that.

19 The LTMF is something that the Board would like
20 to not use anymore. I was trying to think of the right
21 term. We'd like to get rid of that.

22 It has not been changed until recently when we
23 made it the percentage. It used to be a bottle charge and
24 we made it a percentage charge. There's a tiny increase
25 involved in that. But it's about \$1 million a year to the

1 Agency. Let's just say it's a de minimis change, if you
2 will. But we would like to get rid of that.

3 The LTMF is really nothing more than a markup.
4 So let's just call it a markup. We are now using gap
5 compliant fiscal statements, which we didn't necessarily do
6 five to ten years ago. So we can account for our expenses
7 in the proper way with the gap accounting.

8 So if you take 30 percent and the 17 percent,
9 that's 47 percent. So I would say that the Board would
10 like to go in the direction of getting rid of the LTMF and
11 going to one markup.

12 Let me also say that we don't need legislation to
13 do that. The Board can make that decision currently.
14 Okay. But the flexible pricing, I think, is as important
15 as the Board making their decision on the LTMF.

16 So once again, I'm not sure I answered your
17 question. Oh -- can we live with the 30 percent? I mean,
18 it all depends on how you want to look at it. I mean, I
19 think something approaching a 50 percent total markup prior
20 to taxes is really where we are now. And I think we can
21 live with that now into the future, into the near future.

22 REP. COSTA: So basically staying where we're at
23 but there will be a discount from other bottles of wine or
24 liquor or whatever?

25 MR. CONTI: Right.

1 REP. COSTA: All right. I want to follow up also
2 on the Civil Service, that you're going to eliminate that.
3 As you know, the Civil Service, if you're a veteran, you
4 get preference points in the system, which rightfully so.

5 How would we continue to give benefits or
6 preference to veterans if we walk away from the Civil
7 Service? At least, how are you guys going to?

8 MR. CONTI: Well, at a minimum, we would want to
9 administer the law that exists in the private sector, which
10 really gives veterans preference in the private sector.

11 I wasn't as clearly aware of that as I was in
12 some hearings that were held on the Senate side. But the
13 veteran does have a preference outside of Civil Service.
14 At a minimum, we would want to continue that.

15 So we in no way are trying to do this in any
16 mean-spirited way towards the veterans who served our
17 country. But it is a big benefit in the Civil Service
18 system for the veterans preference. We would want to come
19 up with something that would ensure that the veterans of
20 Pennsylvania do, you know, still receive the benefit of
21 their service with our Agency.

22 REP. COSTA: Thank you very much. I appreciate
23 it.

24 Thank you, Mr. Chairman.

25 MAJORITY CHAIRMAN ADOLPH: Thank you,

1 Representative.

2 Rep. Gordon Denlinger.

3 REP. DENLINGER: Thank you, Mr. Chairman.

4 Good afternoon, gentlemen.

5 Rep. Costa, thank you for resolving the direct
6 consumer wine issue.

7 I'm not sure I fully understand all that's
8 happened there. Can you bring us up to speed on that
9 issue?

10 MR. CONTI: Yes.

11 REP. DENLINGER: Obviously, going back to 2005 in
12 a Supreme Court decision and then a subsequent Judge's
13 District Court opinion found PLCB not to be compliant with
14 Federal guidelines in terms of access to interstate wine
15 shipments.

16 Could you bring us, as a committee, up to speed
17 on that issue? I know we've got a lot of constituent input
18 on that and would appreciate your comments.

19 MR. CONTI: Absolutely. And then I will defer to
20 counsel to get into the appeals and all those kinds of
21 things.

22 Our Board is in complete support of direct
23 shipment. And I'm glad we had a chance to talk about home
24 delivery. Home delivery is separate and distinct from
25 direct shipment.

1 Direct shipment is where the people of
2 Pennsylvania could call a winery or a retailer in another
3 state and be able to have products shipped to their home.
4 Our Board is in favor of that. That's a change perhaps
5 from prior Boards, but our Board is in favor of that.

6 You can't want to be a modern retailer unless you
7 embrace competition. We embrace the competition. You will
8 find many times if you go to Napa and are able to procure a
9 wine in a winery there, when you get home, it's perhaps
10 more reasonably priced in our stores because of our bulk
11 buying power. So we enjoy the prospect of competition and
12 we look forward to that.

13 The Senate side is looking at the issue. The
14 holdup is the 18 percent tax. You all will have to make a
15 policy decision on the 18 percent tax. And we leave that
16 to you. Our Board is agnostic on the position. Whether
17 you want the 18 percent added or not will be up to you
18 folks. So our Board is in favor of that.

19 One final thought is the supplier/vendor/broker
20 community of Pennsylvania is not as happy about the
21 retailer being able to ship to homes. So our Board does
22 support that.

23 But that's a controversial area. So a private
24 store in Oregon, if you will, or in California being able
25 to ship, you know, around the Pennsylvania system is

1 another difficult policy decision for you. So I think the
2 two difficult policy decisions from your standpoint is the
3 18 percent tax and the retailer component.

4 I will now ask Counsel Diaz to answer the Cutner
5 Newman and the various court cases.

6 MR. DIAZ: The Pennsylvania case is called Cutner
7 v. Newman. And the way we have addressed it and the
8 Legislature addresses it more formally is that we need
9 available to out-of-state wineries the same licenses we
10 have made available to in-state wineries which authorizes
11 them to sell directly to consumers and to ship to
12 consumers' homes.

13 And we have, in fact, about a half-dozen
14 out-of-state wineries that have applied for it and hold
15 that license right now. So that's how we come into
16 compliance.

17 REP. DENLINGER: Would it be fair to characterize
18 that as saying that you actually placed more limitations on
19 in-state wineries to make it a level playing field there?

20 MR. DIAZ: I don't know that -- could you
21 elaborate on that?

22 REP. DENLINGER: Well, my understanding is that
23 in-state wineries had previously had more latitude and to
24 bring continuity to out-of-state and in-state per Federal
25 interstate commerce purposes that you actually put more

1 limitations on the in-state side of that equation.

2 MR. DIAZ: No. What happened was while the
3 Federal Court was deciding what to do, one of the possible
4 solutions we talked about, was we won't let anyone ship
5 directly.

6 And the Commonwealth Court said, you can't do
7 that. It's a regulatory right. You can't just by fiat
8 decide no one gets to ship. So that never really went into
9 effect. Everyone ships now.

10 But that may be what you heard, that one attempt
11 to address the issue before the final Federal Judge
12 decision. And what happened then is the Judge made his
13 decision, Commonwealth Court issued its injunction. We
14 consulted with the Office of Attorney General.

15 REP. DENLINGER: Very good. I appreciate that
16 clarification.

17 One last simple question. PLCB is currently the
18 second largest purchaser of alcoholic beverages in the
19 United States?

20 MR. CONTI: We don't feel we can make any of
21 those claims anymore. We think we're a major wine
22 purchaser, probably in the top five. But we do not make
23 any --

24 REP. DENLINGER: You don't put a number on that?

25 MR. CONTI: No. And I don't think anybody really

1 studies it. There's not an accounting firm, if you will,
2 or somebody who does that. We're still a significant buyer
3 of spirits and wines globally, certainly.

4 REP. DENLINGER: Certainly a lot of clout. Thank
5 you.

6 Thank you, Chairman Adolph.

7 MAJORITY CHAIRMAN ADOLPH: Thank you,
8 Representative.

9 The next question is from Rep. Mike O'Brien.

10 REP. O'BRIEN: Thank you, Mr. Chairman.

11 Welcome, Senator and company. Good to see all of
12 you.

13 As you know, I'm a huge fan of the new stores
14 that you're bringing online. And I have to say that the
15 recent opening in my district, you simply have outdone
16 yourself, simply, simply, simply have outdone yourself with
17 the variety and selection and with the quality of staff.

18 So I have to ask, is there some initiative that
19 you've put forward for the training of staff in these
20 stores? Their knowledge, their insights into different
21 varieties, it just blows me away. What are you guys doing?

22 MR. CONTI: Well, thank you for the question,
23 Rep. O'Brien. It is the beneficiary of our fifth
24 prototype, which is a wonderful -- we have one on Columbus
25 Boulevard, Second and Girard, Indiana, PA, and one here in

1 Harrisburg, which is our smaller prototype. And we're
2 delighted with the progress of those.

3 We're hoping to bring about 30 more online in the
4 next year throughout Pennsylvania. They worked out very
5 nicely.

6 The genesis of our professional development of
7 our staff was the very controversial \$173,000 RFP of a few
8 years ago that while we were being roundly criticized
9 predominantly in the Western PA press, major retailers
10 throughout the country were calling me and saying, where
11 did you get that price of a couple bucks per staff person
12 to train? And, of course, we had budgeted a million
13 dollars as opposed to \$173,000.

14 That program produced what we call huddles. And
15 a huddle was nothing more than a staff meeting that was
16 structured, it was held monthly. And that program was 24
17 months of huddles. We took the learning of that 24 months
18 of huddles working with our partners, UFCW. We now have
19 our in-house training. We're doing it all ourselves.

20 And I appreciate the spirit of the question. We
21 are actually quite proud of the process we are making.
22 But, you know, as an old restaurant guy, you're only as
23 good as your last meal. And until we get to 99.9 percent
24 approval, if you will, of our service, we're not going to
25 relent on the professional development that's needed.

1 It's really an ongoing thing. You're never
2 through development of your staff. It's an ongoing
3 process. But I think that's the genesis of why we are
4 making a difference, that hopefully you're seeing in your
5 stores.

6 REP. O'BRIEN: So with the increase in knowledge
7 of staff, what's the feedback from the customers in these
8 stores? Do you see an increase in business from previously
9 in that geographical area?

10 MR. CONTI: Well, the feedback from the customer
11 is -- I have one. I can give you approximate figures. In
12 our border-bleed study of Southeastern, PA, which was a
13 pretty big sample -- it was 3,000 people -- approval of our
14 service went from the mid-50s to, I believe, 79 percent.
15 And I believe that was over a year ago. But as I said, I'm
16 not pleased with 79 percent. We've got to get to 99
17 percent.

18 That's really the only tangible -- and we have
19 shared that with the committees. Certainly, the Liquor
20 Control Committee has seen that study. We'll be happy to
21 share it with the Appropriations Committee if you'd like to
22 see it. It was a very good study.

23 Now, we also have a secret shopper program that
24 we use internally. That helps us review the performance of
25 our stores. And we use that internally. We get some nice

1 responses on that. I mean, many of our stores are in the
2 90 to 95 percent rating.

3 I'm not sure that it would be appropriate to
4 share that. Counsel is about ready to gag me because I'm
5 not sure what is right to know and what isn't. But you can
6 appreciate knowing who is doing well and what stores may
7 not be the kind of information that would be appropriate
8 for everyone to know.

9 It's very specific. It'll be 4 o'clock in Aisle
10 4, you know, so-and-so handled my question on vodka nicely.
11 So we have the secret shopper program we use internally.
12 We had that one review, if you will, in the border-bleed
13 study. But we don't spend a lot of time and money
14 assessing that other than those two programs.

15 REP. O'BRIEN: And I would like to see that
16 study. Thank you very much.

17 Mr. Chairman, thank you.

18 MAJORITY CHAIRMAN ADOLPH: Thank you,
19 Representative.

20 Rep. Mario Scavello.

21 REP. SCAVELLO: Thank you, Mr. Chairman.

22 Good afternoon, Senator.

23 MR. CONTI: Representative, how are you?

24 REP. SCAVELLO: Pretty good.

25 First I want to comment about those unprofitable

1 stores. I know I had one of them in Stroudsburg and you
2 worked with us. That borough is going through tough times
3 with fires and all. And if we had pulled out at that time
4 we were talking about it, it would have affected that
5 borough even more. And I think the store is on the
6 profitable side now.

7 MR. CONTI: It is.

8 REP. SCAVELLO: And it's really appreciated the
9 fact that you didn't jump, because it really helped the
10 other businesses.

11 And I know you were probably waiting for this
12 question, so I have to throw it out, kiosk. Are we out of
13 the kiosk business?

14 MR. CONTI: We're done. We actually have a
15 report prepared that we will share with the Committee. The
16 final report, if you will -- the Board has ended the
17 initiative. We had about a million two in expenses that
18 are secured by letters of credit.

19 The innovator is somewhat contesting that. It
20 will go to the Board of Claims for final review. The Board
21 of Claims is the entity that reviews State contracts. But
22 from the Board's perspective, the kiosk program is over.
23 Innovation, there's risk in any innovation.

24 But we learned a lot. And we learned a lot about
25 the consumer wanting the convenience of food and wine and

1 spirits buying. So we got some good data from the
2 experience, but it is over.

3 REP. SCAVELLO: Any thought about putting a small
4 little wine store within those supermarkets rather than go
5 through a kiosk, a little bit of variety and you don't have
6 a machine? I'm sure those supermarkets wouldn't mind
7 because it's going to bring people.

8 MR. CONTI: We have 19 what we call one stops
9 that are within grocery stores. Interestingly enough, the
10 performance of the one stops is lower than the performance
11 of our other stores. For this reason, we need co-access to
12 the parking lot of the shopping center and to the
13 supermarket. Most of these are only through the
14 supermarket. I'm not sure folks want to walk through
15 produce to get their bottle of wine and/or their bottle of
16 vodka, spirits, if you will.

17 But we're looking at that. We do try to locate
18 wherever we can next to major supermarkets. That's a very
19 important thing to co-locate.

20 REP. SCAVELLO: You have the Mount Pocono store.
21 When you opened that one up compared to where you were and
22 it's co-access to the supermarket, I know that's fabulous.

23 Earlier you heard about Sunday stores. And I
24 know we spoke about this. In areas like where I am, where
25 we get 100,000 people visiting on any given weekend, it

1 really helps us.

2 I know that the Tannersville store -- I don't
3 know if we've opened it or not. I know you're handicapped
4 by legislation and we need to address it. That store can
5 do fabulous on Sundays and Sunday nights, especially when
6 Monday is a holiday, rather than tell them, hey, bring it
7 with you because you're not going to be able to buy it
8 here.

9 MR. CONTI: We agree with you, Representative.

10 REP. SCAVELLO: My background is supermarkets.
11 What's your average shrink in the stores?

12 MR. CONTI: Our shrink is .37 percent, which is
13 much less than, according to the National Retail
14 Association form, 1.37.

15 REP. SCAVELLO: That's pretty good.

16 MR. CONTI: I have it here. Our shrink is much
17 less than most retailers.

18 REP. SCAVELLO: That's very good. Thank you.

19 Thank you, Mr. Chairman.

20 MAJORITY CHAIRMAN ADOLPH: Thank you.

21 Rep. Tom Quigley.

22 REP. QUIGLEY: Thank you, Mr. Chairman.

23 I just have a question -- I know my colleague
24 from Butler County touched on this -- about the branding
25 initiative or the rebranding initiative involving, I

1 believe, the Table Leaf wine. Is that it?

2 MR. CONTI: Yes.

3 REP. QUIGLEY: Can you tell me what the total
4 cost of that initiative was from start to finish? How much
5 did LCB pay for the branding, you know, the idea of getting
6 it up and running?

7 MR. CONTI: Wow, that's an interesting question.
8 I almost can say there was no cost getting it up and
9 started. But unfortunately, the name Table Leaf is a name
10 that we researched and copyrighted, trademarked, for other
11 reasons and ended up using it for the wine.

12 So to be entirely accurate, there was a cost in
13 the Table Leaf name that was out of our store initiatives.
14 Beyond that cost -- and you know it was a 15,000 trademark.
15 It was tens of thousands of dollars, shall we say, cost for
16 the name Table Leaf. Beyond that, there really wasn't any
17 cost to the Agency.

18 Various suppliers brought in product. It was
19 sampled by not only the experts in our marketing office but
20 our wine and spirits Advisory Council, Pennsylvanians who
21 helped advise the Board from the industry, and just wine
22 aficionados, if you will. So there really was no cost.

23 And then the selection was made of the juice. We
24 were very fortunate to have a glut of juice in the world
25 over the last couple of years. That unfortunately may be

1 coming to a close. So we had a lot of people who wanted to
2 offer samples for the bottling of Table Leaf.

3 But it certainly was not a multi-million-dollar
4 fee. It was very low cost.

5 REP. QUIGLEY: I guess I have been provided with
6 some information about a right-to-know request that was
7 done -- maybe it's off base or maybe they don't have it
8 right. But I guess, according to this, they were saying
9 that LCB contracted with Bronco Wine Company and Majestic
10 Importers for production of the in-house wine.

11 MR. CONTI: They were the ones who were selected.
12 Yes. But I think the contract was just a PO. It was a
13 purchase order.

14 REP. QUIGLEY: Okay. All right. So again, do
15 you know the dollar amount attached to that?

16 MR. CONTI: No. We ordered as we needed it. We
17 can get that for you. I don't know what fee it was.

18 REP. QUIGLEY: So basically this whole in-house
19 initiative, could we look at it as though LCB is deciding
20 that it's a good idea to compete with the other wines that
21 they're selling that are available through your stores? Is
22 that a way to look at this? Overall is that the purpose of
23 the rebranding, to provide competition or to provide a
24 brand at a cheaper price or what?

25 MR. CONTI: Our goal is to provide our consumers

1 with the very best product at the lowest, most reasonable
2 price possible. And that's what this program accomplished.

3 REP. QUIGLEY: Now, this Table Leaf, these
4 bottles, do they go through the same pricing formula that
5 all the other brands that you sell would go through?

6 MR. CONTI: Yes.

7 REP. QUIGLEY: So then how would it be cheaper if
8 they all go through the same formula? What would make it
9 cheaper?

10 MR. CONTI: The lower supplier price.

11 REP. QUIGLEY: All right.

12 Thank you, Mr. Chairman.

13 MAJORITY CHAIRMAN ADOLPH: Thank you,
14 Representative.

15 At this time, I'd like to call upon the Chairman
16 of the Liquor Control Committee in the House of
17 Representatives, Chairman John Taylor of Philadelphia.

18 REP. TAYLOR: Thank you, Chairman Adolph, for
19 your hospitality here today. It's nice to be here.

20 And I would like to start, since we're at the
21 Appropriations Committee, with a question I know if I don't
22 ask, Rep. Payne is going to ask.

23 Our committee continues to try to do things that
24 make sense all the way across the board. And I think from
25 the time that I've been here, this question of the way we

1 transfer money to the General Fund from the Liquor Control
2 Board just makes no sense.

3 And I know Chairman Adolph talked initially in
4 the first question about whatever the Governor asks for.
5 And that has been the answer from any Administration and
6 the LCB, that we transfer what the Governor asks for.

7 And again, to me -- and I think -- I don't know
8 if I'm alone in this -- it doesn't make sense that we just
9 don't transfer that which is net in any given fiscal year,
10 whatever the LCB produces, that's what we transfer.

11 To do that, what has to happen? I mean, I know
12 it's tradition. It's the way we do things. It's been done
13 for a long time. Do we need legislation on that, do you
14 feel? I know it's sort of a relationship between the
15 Executive Office and the Board.

16 This is not the first time I've asked it. But we
17 continue to do it. And sometimes it's artificially high
18 and sometimes it's artificially low. Why can't we just
19 send the net, whatever that happens to be?

20 MR. CONTI: Well, my answer to your question
21 today is we are in a very good place working with the
22 current Office of the Budget and the current Governor's
23 Administration where they really somewhat embrace your
24 notion. And they're asking for what is basically our
25 profit. It certainly would be a good incentive for our

1 Agency to continue to improve our performance, if it was
2 tied to that.

3 It's interesting to note that if we go over the
4 last ten years, from 2000 to 2005, it was 50 million, 50
5 million, 54 million, 120 million, and 155 million. And
6 then the next five years was 80, 150, 80, 125, 105, and now
7 we're facing two 80s.

8 So it's been all over. And it's my understanding
9 that the Board just has to deliver what it can. So if a
10 Governor asks for 150 and we have only 85, that would be
11 what it is. There's no legislative code thing that
12 produces the deliverable, if you will.

13 So this is a policy decision for all of you. If
14 you would want to put in for the code the idea that you are
15 offering, that the transfer be the profit of the Agency, I
16 think that that would be fiscal sense. I don't know how
17 our Board would feel. I have a three-member Board that
18 would want to get their opinion on that.

19 But as I said, at this moment, we are in a very
20 good place as it relates to this whole topic because of the
21 really good relationship we have with the current Office of
22 Budget.

23 REP. TAYLOR: It would seem to me that we would
24 not want -- or any executive branch -- any agency called in
25 on the money they could turn over. So we wouldn't want

1 your receipts to be short.

2 At the same time, it certainly seems, from my
3 observation, that the end of the last Administration, we
4 were sending over money that then strapped the Agency and
5 strapped vendors. We were getting calls that vendors
6 weren't getting paid because we sent maybe too much money
7 to the Administration.

8 So again, I think, especially from this
9 Committee's point of view, that we need to get some
10 predictability. The general sales performance of any
11 business would be that and that's what the State would
12 realize. And that's why the numbers are so confusing.

13 But thanks for that answer.

14 MR. CONTI: Sure.

15 REP. TAYLOR: And I want to follow up in a
16 different way from Rep. O'Brien. I'm sure, as you do or as
17 all three of you do at the table, not only your business
18 life is consumed with this but your social life -- and I
19 don't get into any conversation without somebody offering
20 an opinion about the stores.

21 And certainly now for us in Philadelphia, the
22 South Philadelphia store and the new Girard store are the
23 talk of the town. And I'll talk to people in Ardmore and
24 Bryn Mawr who can't say enough about the system but it's
25 because of their stores. So I think people have an opinion

1 on not the system but their particular experience in that
2 one store. I do have constituents now who are very pleased
3 with Girard Avenue.

4 But it's the stereotypical store that you take
5 all the heat about. And there was a recent editorial that
6 talked about the committee delayed the ultimate demise of
7 the LCB. Therefore the LCB will go ahead and correct all
8 its problems as a result, which frankly, I think, it's a
9 good thing in the meantime.

10 I can tell you that in my area, it's universally
11 disappointed in the Aramingo Avenue store. And that's
12 where you get the negativity. But if they went to Girard
13 Avenue, they would be thrilled. And they're right next
14 door to each other. What can we do to get them all to that
15 same level?

16 MR. CONTI: Representative, I'm very much aware
17 of the Aramingo Avenue store. I do not know all 609 stores
18 in our system, but I'm getting close. But the Aramingo
19 Avenue store is a classic representation of how much
20 improvement we still have to make. I don't know if that's
21 the right location for that store.

22 But we were doing two ten-year leases
23 historically. So it really took years to consider moving
24 the store. I think most of that -- we started five years
25 ago doing five and five-year leases at the most. And

1 really we're doing five-year leases. It allows us to be
2 nimble. You know in that area there's been some new
3 supermarkets that have developed over the last couple of
4 years. We'd like to be closer to those locations, if you
5 will.

6 So changing how we do real estate transactions I
7 think is the best way to handle this. The Second and
8 Girard and the Columbus Boulevard store, any one of our
9 prototypical stores is about a 250 to 500,000 additional
10 cost. So that's a lot of money for the Board if they just
11 want to do what we call refurbishments and do them all
12 quickly.

13 We really have to wait for the lease to come due,
14 go into the landlord and negotiate with them, and then
15 perhaps have that package paid for over a five- or ten-year
16 period. That's the best way to have this be accomplished.

17 And we are seeing as high as 35 percent retail
18 sales increases in these prototypes, particularly at Second
19 and Girard and up in New Hope. That's the one I forgot to
20 mention before. New Hope, Pennsylvania, is easily a 35
21 percent increase in retail sales.

22 We also -- if you notice where Second and Girard
23 and Columbus Boulevard and New Hope are located, we can
24 really compete with New Jersey. I was in the New Hope
25 store a couple weekends ago and there were a lot of Jersey

1 tags in the parking lot. We can really compete.

2 Chairman Taylor, we have to improve that Aramingo
3 store facility for you.

4 Now, one thing I have learned -- and this is my
5 favorite part of the privilege I have -- is the people in
6 that Aramingo store are pretty good.

7 REP. TAYLOR: If you're going to buy the same
8 product every time you go in, you're going to be fine. But
9 if you want to shop, I think that's what we're all looking
10 for to give our consumers. If they want to shop for
11 different wines or spirits, they're not going to shop
12 there.

13 MR. CONTI: I understand. We have to do a better
14 job there. We've had discussions in the past. I've
15 pledged to continue to improve. And I don't know when that
16 lease is up. We'll take a look at that.

17 And your point about selection, that store is --
18 we have about five different clusters of stores with
19 different products. I think we can go up a cluster or two
20 in that location, maybe improve the selection a little bit.
21 And we'll do that as soon as we can.

22 REP. TAYLOR: I don't want to monopolize other
23 members' time, but as you know, we're going to continue, at
24 least the Liquor Committee, to deal with things like
25 special occasion permits and the whole issue of enforcement

1 and education as well as direct shipment.

2 We appreciate your efforts in working with us.
3 And we look forward to it.

4 MR. CONTI: And, Chairman Taylor and Chairman
5 Santoni, your staff have been great to work with
6 particularly on these permitting and licensing issues and
7 enforcement. We have a weekly meeting with them. And they
8 participate. I'm part of those meetings most of the time.
9 I think we have a great spirit of cooperation to try to get
10 these things right.

11 MAJORITY CHAIRMAN ADOLPH: Thank you, Chairman
12 Taylor.

13 For the members' information, that's the last of
14 the first round of questions. And we will now start on the
15 second round. And we'll go right back into the transfer of
16 the money.

17 I mentioned that set figure of \$120 million
18 estimate net profit. And the figure that was given to us
19 was an estimated net profit of 80 and then cash available
20 of 40 million. That's where that 120 came from.

21 And this is really a followup to Chairman
22 Taylor's question. And I appreciate, Mr. Conti, you going
23 through the history of transfers. And if you have a figure
24 for this Committee, what do you like to start out the year
25 with on cash balance?

1 MR. CONTI: Wow. It was a very pleasant
2 afternoon until now.

3 MAJORITY CHAIRMAN ADOLPH: This is the
4 Appropriations Committee.

5 MR. CONTI: I understand, Chairman. I'm going to
6 try to give my CFO a moment or two to think of an answer
7 for this. But let me also say that we also have the
8 comptroller who works for the Governor's Office of the
9 Budget who is in our Agency who is a good third-party
10 endorser of these matters. And you may want to also
11 discuss this with our comptroller because he is a great
12 asset that we have and can be helpful in this.

13 But I will now turn it over to Aug to try to
14 answer your questions here.

15 MAJORITY CHAIRMAN ADOLPH: Thank you.

16 MR. HEHEMANN: Our cash needs fluctuate by day.

17 MAJORITY CHAIRMAN ADOLPH: July 1st. How does
18 July 1st sound?

19 MR. HEHEMANN: July 1st is a good day. But
20 typically when you look at your cash, our best day as far
21 as cash flow are on Tuesdays when we get the weekend money.
22 We pay our vendors daily. The cash balance that we need on
23 hand in most months is probably around \$50 million.

24 And that would be able to cover our high water
25 mark. We pay the State sales tax of around \$30 million

1 towards the end of the month. And then you have typically
2 your vendor payments, which can fluctuate depending on the
3 time of the year. But figure \$50 million would really be
4 taking our cash balance to probably the lowest level. So
5 that's one piece.

6 Something that's probably a misconception as far
7 as net income goes, you know, last year we made \$80
8 million, give or take 3 million. And we transferred to the
9 State \$105 million.

10 Now, net income is literally net income following
11 the generally accepted accounting principles. But it's net
12 of expenses that are not only cash paid but also non-cash
13 charges or non-cash expenses. Examples of those would be
14 depreciation. Other large examples are accruing for future
15 benefits, pension payments, retiree health payments, etc.

16 So literally if we had an amount that we could
17 agree on with the State to go ahead and try to match what
18 we make per year with what we transfer, it probably
19 shouldn't be tied to net income. It should probably be
20 tied to net income plus non-cash charges, which gets you
21 closer to \$100 million versus that 80. That's probably the
22 disconnect.

23 So let's say last year we paid \$100 million or
24 \$105 million, including our non-cash charges, and had at
25 least 50 or 60 million dollars in the bank to cover our

1 high water expenses, then we would be close to being able
2 to operate.

3 MAJORITY CHAIRMAN ADOLPH: I appreciate your
4 answer. I'm looking forward to working with you between
5 now and the end of the year on coming to some type of
6 figure on there.

7 MR. HEHEMANN: Okay.

8 MAJORITY CHAIRMAN ADOLPH: Obviously, in these
9 tough budgetary times, anything that the Liquor Control
10 Board can do to help the overall budget is certainly
11 appreciative. I know you have in the past.

12 And, you know, I saw where your cash balance had
13 \$40 million. And not being familiar with your operation,
14 it's hard for me to figure out whether that's high or low
15 or whatever. I will find out whether July 1st is a
16 Saturday night or a Monday. But, you know, you have the
17 4th of July weekend right ahead. It might work out that
18 way.

19 Chairman Markosek.

20 MINORITY CHAIRMAN MARKOSEK: Thank you, Chairman.

21 I was looking at the brochure that you handed
22 out. And for lack of a better way to describe it, your
23 centerfold there are a whole bunch of statistics. It just
24 sort of grabbed my attention. I was going down the far
25 right column. The centerfold is sales by county and

1 category in dollars, your revenues per type of product that
2 you sell, and then the county total of revenues generated
3 in that county.

4 I was surprised. I would have thought it would
5 have been second. But my home county, Allegheny County,
6 was No. 1. And Philadelphia was about 22 million, \$21
7 million behind. I would have thought they would have been
8 No. 1.

9 Can you give me or us a little insight as to,
10 first of all, why would a county like Allegheny be first
11 instead of second? I can understand second. But what
12 would make up that sale? Is it because you sell more
13 higher-profit products in that particular county or, you
14 know, in another county where you have more people perhaps
15 because of the mix? Can you just run through some of that
16 marketing data for us?

17 MR. CONTI: Well, I'll try. What you have before
18 you is a marketing report that we do internally that is
19 really just pure marketing. It's kind of interesting to
20 note what are the big sellers, how store by store it's
21 sold. But this is in no way an annual-report, if you will,
22 type document. This is simply a marketing document.

23 I think the answer to your question -- and we
24 probably will want to get back to you a little bit -- on
25 Allegheny County versus Philadelphia is the more stores in

1 Allegheny County and the profile of those stores, probably
2 more premium collections.

3 I think I remember off the top of my head, we
4 have 57 stores in Philadelphia. And many of those are the
5 two- to three-million-dollar type neighborhood store.

6 When you think of Allegheny County, you know, we
7 only have three stores in downtown Pittsburgh. So
8 Allegheny County is a whole different demographic, if you
9 will, than the urban area of Philadelphia.

10 So I think somewhere in there is the answer to
11 your question. I don't think I can do any better than that
12 at this moment. But I think that's where we want to look.

13 MINORITY CHAIRMAN MARKOSEK: Okay. Thank you.

14 MAJORITY CHAIRMAN ADOLPH: Rep. Glen Grell.

15 REP. GRELL: Thank you.

16 A couple of times you mentioned problems with the
17 Procurement Code and how that affects your operations.
18 Procurement is a particular interest of mine. I'd be
19 interested in knowing, what is it about the Procurement
20 Code? Understanding that you're exempt with respect to the
21 purchase of wine and spirits. Am I correct?

22 MR. CONTI: Yes.

23 REP. GRELL: What is it about the Procurement
24 Code that's causing the problem of 12- to 18-month
25 procurements. And a secondary question, what is it about

1 working with DGS on lease locations that is problematic?

2 MR. CONTI: Well, let's see. The first part of
3 your question, it simply is the time that is mandated by
4 the State Procurement Code. I mean, there's probably a few
5 more procedures and steps along the way than we need. So
6 we would like to look at that.

7 Now, the real estate issue is actually something
8 we're going to begin in earnest to discuss with the
9 Governor's Administration.

10 After our Board agrees, our Board spends a lot of
11 time through our Bureau of Real Estate negotiating a lease.
12 Our Board approves it at a publicly advertised meeting. It
13 then has to go to the Building and Grounds Committee
14 through DGS, which is about half DGS, have the Treasurer
15 along with the Attorney General ultimately involved. And
16 that's a process that we're finding can take us six to
17 eight months, if not longer.

18 So we've made our decision, if you will, that we
19 have a good location next to the great supermarket in your
20 community where we want to be. And we're thinking it's
21 going to be three to six months after our Board agrees to
22 it and we have this other step. So that's something we'd
23 like to look at.

24 REP. GRELL: Can I interrupt you on that?

25 MR. CONTI: Sure.

1 REP. GRELL: Is that even for competitively
2 procured leases? I thought the Board was primarily
3 involved where you were going for a sole-source lease? Do
4 you have to run all of your leases through that Board?

5 MR. CONTI: Yes, sir.

6 REP. GRELL: Is it unusual that that takes that
7 long for the Board or is that fairly commonplace?

8 MR. CONTI: This Administration is doing a proper
9 due diligence of looking at everything again. I think it
10 would be fair to say that the prior several Gubernatorial
11 Administrations did not spend as much time. They kind of
12 relied on our Office of Real Estate to go through these
13 things.

14 I guess in the end, the people of Pennsylvania
15 are being well severed by having these things looked at
16 twice. But we are starting to lose leases. We are having
17 people reconsider. We had a dynamite location for a new
18 premium store where we think we could go from 10 to 15
19 million dollars in sales and the developer withdrew. It
20 was too long.

21 REP. GRELL: I would certainly be willing to work
22 with you if there are specific things in the Procurement
23 Code that ought to be changed.

24 MR. CONTI: Thank you. We appreciate that.

25 REP. GRELL: I do have one second question

1 dealing with I believe you stated in your written testimony
2 the Drug and Alcohol Support Program is about 4 and a half
3 million dollars. And I really don't know much about that
4 program. In fact, my county drug and alcohol group doesn't
5 know much about that program.

6 Could you just give me sort of a thumbnail of
7 what that's about and how that money gets distributed?

8 MR. CONTI: We have two programs. What I
9 referred to in the testimony, I believe, was the transfer
10 to the drug and alcohol programs. Just let me read this.

11 Very little of our money is designated. I won't
12 use the term earmarked. It goes to the General Fund for
13 you folks to use as you see accordingly. I think it's 1 or
14 2 percent of our money goes to drug and alcohol
15 specifically. That's one program. And there was a million
16 six seven four in the last fiscal year that went to that
17 drug and alcohol program.

18 So we can go to the Code and look at that and see
19 where that money goes. Off the top of my head, I'm just
20 not sure.

21 REP. GRELL: Is that in grants?

22 Or is it given to counties.

23 MR. DIAZ: The statute designates where our money
24 goes. It indicates we give that percentage to the
25 Department of Health.

1 MR. CONTI: Now, in addition to that, we have
2 about a million dollars in grants that the Board gives out.
3 And they are competitively sought. And I think we just got
4 in over a hundred applications for those grants. Many of
5 you advocate for those grants. And our Bureau of Alcohol
6 Education will put them through the process of review. And
7 generally by the summer a determination is made as to where
8 that money goes.

9 REP. GRELL: Are they for law enforcement?

10 MR. CONTI: They can be for a number of -- I
11 would say maybe half, off the top of my head, go to law
12 enforcement, particularly some of the in-college
13 situations. We are trying to add a little rigor of
14 collaboration in these grants. So, say, if a university
15 with a Borough Council with a police department, you know,
16 the more collaboration, the better.

17 The Board has decided to go to every-other-year
18 grants. That way we can double the amount of money. When
19 you add the three- or four-time match, instead of giving
20 out \$10,000 grants that maybe go to police overtime, if we
21 could get a twenty- or twenty-five-thousand-dollar grant
22 and then have that matched four or five times, I think we
23 can do a much more compelling initiative in the communities
24 to address these areas.

25 REP. GRELL: Finally, did I mishear? I thought I

1 heard a four-and-a-half-million-dollar and the two programs
2 you just gave me are about two and a half.

3 MR. CONTI: I don't know where you heard the four
4 and a half.

5 Oh, the municipality transfer. That's something
6 different.

7 REP. GRELL: That's what I'm asking.

8 MR. CONTI: Municipality transfer, that's also in
9 the Code. If you notice in our legislation, the increase
10 in the licensing fees, for you to consider, we have as a
11 surcharge, as an additional charge, if you will, so that
12 the component wouldn't have to go through the municipal
13 funding.

14 That's a recommendation to you. You all can
15 decide however you want. But by Code, that four and a half
16 million to municipalities must take place every year.

17 REP. GRELL: And that goes uniformly to them or
18 in accordance --

19 MR. CONTI: It's the legislative formula.

20 MR. DIAZ: We return the licensee fees to the
21 municipality based on where the licenses are located.

22 REP. GRELL: So that goes to the local
23 municipality that holds any of your licensees?

24 MR. CONTI: Right.

25 REP. GRELL: Thank you very much.

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MR. CONTI: Sure.

MAJORITY CHAIRMAN ADOLPH: Thank you,
Representative.

At this time, I'd like to acknowledge the
presence of Rep. Kathy Watson from Bucks County.

And Chairman Markosek.

MINORITY CHAIRMAN MARKOSEK: Yes, Chairman. Also
we have present with us today Rep. Bill DeWeese from Green
County.

MAJORITY CHAIRMAN ADOLPH: Thank you.

I'd like to have Rep. Ron Waters for the next
question.

REP. WATERS: Thank you, Mr. Chairman.

MAJORITY CHAIRMAN ADOLPH: Representative, you
are such a soft-spoken gentleman. You're going to have to
use your deeper voice and get closer to that microphone.

REP. WATERS: I'm not angry today. I can become
angry. I'm happy to be able to speak with the panel that
we have here, especially Senator Conti, and, as always, to
address concerns about people who enjoy spirits.

As you know, on 60th Street, we had a facility
there. The store closed. Now, I wasn't disappointed when
the store closed because the store was in very bad
disrepair. It was in bad shape. It was an eyesore, the
store itself. The State store had been there for years.

1 And the store really started looking bad. And the State
2 store moved out.

3 And as I listen to some of my colleagues here
4 speak about some of the fine operations that are -- those
5 609 stores throughout the State and maybe some of the ones
6 that had great service in terms of staff and education. Is
7 there any plans at all to have a facility like that in the
8 area where that State store is that closed down?

9 MR. CONTI: Unfortunately, no. And it pains me.
10 I've been personally involved in that neighborhood trying
11 to help. We looked at some former video stores. We looked
12 at co-locating with a supermarket.

13 And at this point, we do not have anything near
14 to share with you at this point. But that is an
15 underserved area. I apologize for the lack of service we
16 have in that area. We are just very much challenged out
17 there to be able to find a location.

18 REP. WATERS: So you believe that there is a
19 business opportunity out there, but just finding a location
20 is a problem?

21 MR. CONTI: Absolutely.

22 REP. WATERS: All right.

23 MR. CONTI: We enjoy working with you. And many
24 times you can give us some of our best leads on location.
25 So feel free to share any advice you have in that area.

1 REP. WATERS: Okay. Thank you for that, Senator.

2 I have heard people who shop in other states
3 where they don't have State stores. And I even heard some
4 people talk about the -- according to them, they can't get
5 their product into the store. And it may be because their
6 product may not be a good product or maybe not.

7 But how hard is it for a person to bring in
8 product that they have, a new product, to you for
9 consideration? Maybe you can explain that.

10 MR. CONTI: It can be difficult. We would be
11 happy to provide you a nice brochure, something like this,
12 now. This is something that's very understandable for
13 everybody to see what the process is to get something
14 listed or delisted.

15 Now, I'm assuming by the nature of your question
16 you're talking about getting the product into all 609
17 stores. That can be a very difficult process. Any
18 supplier and vendor can simply list for a modest fee
19 special liquor order products, which I think there's 27,000
20 we have available in the system. So that's an easy thing
21 to do.

22 And one of the things we also have is a limited
23 listing, which by negotiation, if you will, may make sense
24 to bring a product into 40 of our stores, 60 of our stores.
25 Many times it's regional. It's worked very well with the

1 PA wineries. We work with them to determine the right
2 location for their product.

3 Nobody is more disserved than if we take a
4 product into 609 locations and it doesn't sell. We also
5 have a delisting process. We try to be as accurate as we
6 can getting it out.

7 But the Board makes those decisions. They are
8 publicly advertised meetings twice a month. And there's an
9 evaluation process for action. But we'd be happy to share
10 with you that process.

11 REP. WATERS: Thank you, Senator.

12 And my last question before this microphone gives
13 out is the public input. I'm sure you don't want to put a
14 product on the market that's going to cost. You don't want
15 to buy a product and it's not going to move. Of course you
16 don't. So public input would probably be helpful in
17 determining demand. In what way can the public send a
18 message to you and maybe help you with your decision
19 making?

20 MR. CONTI: I've never been asked that before.
21 I'm certainly accessible. The Board is accessible. We
22 have an 800 number. We have a website that they can send
23 in and it will be attended. On our website we have live
24 chat. They can even go on our website with live chat and
25 share their observations.

1 So I think we have a number of ways that they can
2 deliver a message. But I want to be honest with you, if
3 somebody says, I want such and such a ginger vodka, you
4 know, other than a special liquor order which we would be
5 able to help them with in a matter of weeks, it's not
6 something that's going to take place, you know, quickly.

7 But there are various venues that they could make
8 their feelings known about a product they'd want. Not to
9 mention the fact, the store folks. Go in and ask for the
10 store manager and say, I'd really like this. We'll see
11 what's available.

12 And by the way, special liquor orders, we really
13 want to improve that program. But we have to work with our
14 partners in that, meaning the vendors, suppliers, and
15 brokers. We're really up to the requirements of them as to
16 what is available.

17 In other words, if you want one bottle of
18 something, the distributor may say, sorry, it has to be a
19 case only. That's not us saying that. So we really have
20 to share with the consumer, yes, we can get you one bottle
21 or there's a three-bottle minimum, there's a handling
22 charge, or it must be a case.

23 So of those 27,000 products, we don't have total
24 control of the distribution of those products. But we can
25 be very helpful.

1 REP. WATERS: As I end this line of questioning,
2 so there's not like a suggestion box or anything that you
3 have in the stores. But you do have a chat line that
4 people can go to and share their views.

5 MR. CONTI: And we do have an e-mail. We can get
6 to the Committee the e-mail, which I think is probably even
7 easier than the live chat. And you will get an answer by
8 sending an e-mail. It's on your regulatory site. We'll
9 get that to the Committee.

10 REP. WATERS: Thank you, Senator.

11 MR. CONTI: I'm so happy I didn't get you angry.

12 REP. WATERS: You never do.

13 MR. CONTI: Thank you.

14 MAJORITY CHAIRMAN ADOLPH: Thank you.

15 Rep. Scott Petri.

16 REP. PETRI: Thank you, Mr. Chairman.

17 I want to talk a little bit about the New Hope
18 store. Can you tell me, Senator, roughly what did the LCB
19 spend in fit-outs for that store?

20 MR. CONTI: I believe 278,000 in addition to the
21 package. The terms of the lease, I don't remember. We can
22 get you the specifics. But the enhanced package was one of
23 our first ones.

24 REP. PETRI: By the way, the information you gave
25 is very helpful. I particularly like the section where it

1 ranks by stores. What I noticed is that that New Hope
2 store has far surpassed already in ranking stores like
3 Richboro and Feasterville or for stores that have been in
4 existence for a long time.

5 MR. CONTI: Yes.

6 REP. PETRI: Are you able to track how much of
7 that expenditure really relates to that shopping and drives
8 it there? And do you have any sense of where that store
9 might go as far as rankings because of the improvements you
10 made?

11 MR. CONTI: It will be a top 20 store for sure
12 after a few years. The Board is going to target our
13 marketing efforts a bit more specifically in the coming
14 year. We are fully subscribed until June 30th as to our
15 spending in our marketing, if you will.

16 But we have a good work session with the Board I
17 believe in April where we're really going to want to target
18 to further enhance the success of the New Hope store and
19 the stores like that.

20 REP. PETRI: I'm familiar with the Newtown store.
21 I don't know if the Doylestown store also has the
22 Chairman's Selection and the various special marketings for
23 those programs. But those seem to be two really strong
24 stores. And the store in Richboro seems to be a little bit
25 lagging.

1 Are you able to barometer whether that Chairman's
2 Selection really tends to drive sales?

3 MR. CONTI: The Newtown and the Doylestown stores
4 are two of our finest in the State. The Richboro store
5 does not have the selection to match those two. It would
6 not be successful.

7 By the way, the aforementioned Doylestown store
8 was the one that we missed an opportunity to improve our
9 service in that area.

10 REP. PETRI: Does the LCB -- I know you must
11 track for accounting purposes your fit-out expenditures and
12 then I'm sure you depreciate them under the Tax Code.

13 I'm wondering, does the LCB have an idea of what
14 the total -- if you took the entire system, what the book
15 value or I should say market value of those fit-outs and
16 those lease locations might be?

17 MR. CONTI: Our total lease expenditures are 38
18 million. Let me give to it to Aug to answer. We don't
19 depreciate because they're in the lease cost.

20 MR. HEHEMANN: Typically, for New Hope the
21 fixtures were around \$135,000. And we write those off I
22 believe over five or seven years. In that particular
23 instance, our payback was under six months with the
24 incremental sales growth we got. In the accounting and
25 finance vernacular, it's a home run.

1 The rest of the cost that Joe referred to -- any
2 of the extra lighting package and items like that -- those
3 boxes are around \$400,000 beyond a plain vanilla box --
4 those are part of the negotiated lease price. We try to do
5 those over ten years. And we pay for those over the next
6 ten years.

7 REP. PETRI: The reason I'm asking this line of
8 questioning is, it seems to be, sitting on the Liquor
9 Committee when we talked about the sale of the assets, one
10 of the major assets that the taxpayer has paid for, that we
11 are missing in this equation are your lease-hold locations
12 and their improvements.

13 If you sell licenses, then you just close them,
14 that money all goes away. So I'm trying to get a handle
15 on, going forward, if we're going to consider sale of the
16 liquor store system, you know, how do you capture that on
17 those lease-hold locations?

18 Generally, the seller, a willing and able seller,
19 may or may not want those locations. But clearly, for
20 instance, you mentioned the Doylestown store and the
21 Newtown store, the New Hope store, you can see many stores,
22 the new Philadelphia stores, those would all be premium
23 locations. And you would think that there would be a way
24 of capturing the value of that.

25 Taxpayers paid for it. Why shouldn't they get

1 their money back if we're going to sell an asset that the
2 taxpayer owns? How do you do that?

3 MR. HEHEMANN: In a free market system, if you
4 put something up for sale -- I mean, in our case a retail
5 entity -- it would be in the form of a premium over book
6 value or in this case leased-hold rights.

7 Obviously, all that's based on what those
8 entities generate in cash flow.

9 REP. PETRI: Thank you. I didn't expect you to
10 have a hard and fast answer. I just think it's another
11 item to be contemplated as we move forward.

12 Thank you, Mr. Chairman.

13 MAJORITY CHAIRMAN ADOLPH: Thank you.

14 Rep. Mahoney.

15 REP. MAHONEY: Thank you, Mr. Chairman.

16 Good afternoon.

17 MR. CONTI: Representative.

18 REP. MAHONEY: A couple of softball questions.
19 How many licenses do you have active in the State of
20 Pennsylvania as far as taverns, restaurants, hotels, that
21 are active that aren't in safekeeping?

22 MR. CONTI: I believe it's 10,000. But we will
23 get the specific answers to that.

24 REP. MAHONEY: How many people work in the
25 license division?

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MR. CONTI: 160.

REP. MAHONEY: And just on a personal note, because every time I have a problem and I call over to Jerry's office, for 160 people to take care of 10,000 licenses, they are doing an incredible job. They usually get back within 24 hours and have the issue resolved one way or the other. And that's very appreciative in what we do for a living, being Representatives, is try to help a couple small businesspeople stay in business.

And on another note, we were looking to change -- and I was working with you all looking to change this one location of a State store to another location. Has that gone through?

MR. CONTI: Yes.

REP. MAHONEY: And it's going right next to the brand-new big supermarket?

MR. CONTI: Yes.

REP. MAHONEY: That has its own exit and entrance, right?

MR. CONTI: It's my understanding that's going to take place.

REP. MAHONEY: All right. Thank you very much. Thank you for all you do.

MR. CONTI: And thank you.

Director Jerry Walters many of you deal with, not

1 only is he a national leader in regulatory affairs but he
2 has what he calls the concierge service of -- he tries to
3 bring a lot of principles of the hospitality industry and
4 service to his licensing division and regulatory affairs.
5 And I'm glad that it's working from your perspective.

6 REP. MAHONEY: And he does an excellent job.

7 MR. CONTI: Thank you.

8 MAJORITY CHAIRMAN ADOLPH: Thank you.

9 Rep. Gary Day.

10 REP. DAY: Thank you, Mr. Chairman.

11 Should be easy questions. Thank you for your
12 testimony today so far. Should be easy. What's your head
13 count or complement of employees? How do you have that
14 broken down -- full time? part time?

15 MR. CONTI: 5,701.

16 REP. DAY: Thank you. What is your personnel
17 cost or expense?

18 MR. CONTI: Our personnel cost is basically 160
19 million in the wage, salary, and overtime; 40 million in
20 health insurance; 16 million in annuitants; and 11 million
21 in other pension benefits. So it's roughly \$225 million.

22 REP. DAY: Thank you.

23 You already mentioned I believe you said it was
24 38 million for your building or lease expense?

25 MR. CONTI: Yes.

1 REP. DAY: And for the most recent financial
2 period, I've looked through what you sent us and what we
3 had compiled. The most recent financial period identified,
4 total revenue, if you account for that I'm looking for all
5 operations, taxes, other income, revenue, however you
6 classify it, but all revenue from operations, all expenses
7 from operations, and the difference thereof, I think we
8 call it profit. I don't know if you call it profit.

9 MR. CONTI: I have before me our seven-month
10 financial statement, the end of January. Is that okay? Is
11 that what you're looking for?

12 REP. DAY: Yes.

13 MR. CONTI: And what you want are our gross sales
14 for that period?

15 REP. DAY: From all operations. What is the
16 revenue from all operations, everything that would be
17 considered coming in?

18 MR. CONTI: This doesn't include taxes.

19 REP. DAY: If you identify what you have, I'll
20 add in -- I wanted to make this as easy as possible. I
21 want to get your numbers.

22 MR. CONTI: Our gap statements do not include the
23 18 percent tax. So I don't really have -- and there is a
24 footnote in here. I'll let him formulate an answer while
25 you ask another question and then we'll get back to you.

1 We'll look and we'll get back to you.

2 REP. DAY: My last question is just I'm
3 interested in, what are the main metrics that you manage
4 by? When I managed a public budget, I was always
5 interested in the things that I just asked you, head count,
6 vehicles for our operations, things like that.

7 What do the metrics say? What do you keep in
8 your head all the time? Number of employees. I'll just
9 ask the open-ended question. What are the metrics that you
10 manage by?

11 MR. CONTI: Well, the metrics I manage by are
12 different than the metrics of the six executives that work
13 for me. Probably their metrics are more important than
14 mine actually. And we have had a presentation of all of
15 the directors to Committee earlier this session on what
16 they do.

17 Certainly, our bottom-line profitability is
18 important. We have to measure that on the customer
19 service, if you will. But the one thing that we are very
20 aggressive on is cost containment. For the seven months of
21 this year, our store operations people have spent less on
22 wages, salary, and overtime than the prior year.

23 I don't know if anybody has testified that way
24 yet this session. We have actually spent dollars less than
25 the prior seven months of the prior year.

1 So cost containment, we have a cost containment
2 initiative that's prevalent for all our bureaus. And we
3 try to manage as best we can.

4 REP. DAY: Thank you. In your comments, you had
5 asked for us to consider certain things to make operations
6 more profitable. One of those is a customer relationship
7 management mechanism.

8 It's my understanding that a system like that
9 would use the existing patrons to the stores and push more
10 volume to existing patrons. Would you agree that would be
11 the main mission and goal of a customer relationship
12 management?

13 MR. CONTI: Perhaps. We went over this earlier
14 in the hearing where folks have to proactively opt in to
15 that program. So just because you are a customer in our
16 store, we are not getting into that privacy issue of just
17 sending you something through your credit card. We're not
18 buying credit card lists or anything like that.

19 But if you want to be become part -- and we don't
20 have a name yet because it hasn't been passed. But if you
21 want to become part of the PLCB loyalty program, you'd
22 proactively let us know that and we will then begin to
23 share with you the various programs.

24 REP. DAY: The other component was expanding
25 hours. You had mentioned earlier today that you would be

1 more interested in longer hours during the existing days
2 but also looking into Sundays as well.

3 Do you have data that shows -- a lot of times in
4 a retail operation, when you expand the number of hours, as
5 you expand the hours, sales do not necessarily go up. Do
6 you have data that shows that sales would go up, the
7 volume?

8 MR. CONTI: We have some data on Sundays. We do
9 not have legislative code inhibiting our store hours on
10 Monday through Saturday. Our store hours are different all
11 over. We have some stores that are 11 to 7. We have some
12 that are only two days a week. Our premium stores are 9 in
13 the morning until 10 at night. We're all over the block.

14 We do have some data. The first Sunday sales
15 bill was 10 percent. And then it was raised to 25 percent.
16 So we certainly have a lot of data from the difference from
17 10 to 25 percent of the restriction on Sunday sales. But
18 we don't have a lot of Monday through Saturday data.

19 REP. DAY: That's the end of my questions.

20 I don't know if you have an answer to my other
21 question.

22 MR. CONTI: For the record, this is Joe Lawruk,
23 our comptroller.

24 MR. LAWRUK: Here today the profit for the seven
25 months through January was 58.7 million. But that does not

1 include the liquor tax collected of over 177 million. The
2 State sales tax collected was 69 million.

3 REP. DAY: Joe, would you mind providing me other
4 periods back three or four years?

5 MR. LAWRUK: Absolutely.

6 REP. DAY: I'd appreciate that.

7 Thank you, Mr. Chairman. That's the conclusion
8 of my questions.

9 MR. CONTI: I mentioned that 4 percent increase.
10 We are running about 4.4 percent increase in dollars this
11 year. So we're a little ahead of last year.

12 MAJORITY CHAIRMAN ADOLPH: That information,
13 Mr. Conti, if you could send it to the Appropriations
14 Committee.

15 MR. CONTI: We certainly will, Chairman.

16 MAJORITY CHAIRMAN ADOLPH: Thank you.

17 The next question is by Rep. Tom Quigley.

18 REP. QUIGLEY: Thank you, Mr. Chairman.

19 Senator, just to follow up on the branding
20 initiative with the Table Leaf wine and how over time that
21 will be more profitable. It's the generic brand. If the
22 other initiative that you were talking about, the flexible
23 pricing, if that were to be approved for you, would there
24 be a danger that the out-of-state wines could be at a
25 disadvantage with the flexible pricing combined with this

1 generic brand in house being sold in Pennsylvania?

2 MR. CONTI: I would hope not.

3 REP. QUIGLEY: But it could?

4 MR. CONTI: I would hope not. I don't think so.
5 But I would hope not.

6 REP. QUIGLEY: Okay. Thank you.

7 MAJORITY CHAIRMAN ADOLPH: Thank you.

8 Rep. Mario Scavello.

9 REP. SCAVELLO: Thank you, Mr. Chairman.

10 And good afternoon again. Just quickly, you're
11 looking at building a brand-new warehouse and take the
12 three and combine them?

13 MR. CONTI: We have an active RFP that I can't
14 comment on much, but yes.

15 REP. SCAVELLO: I wish you'd look at Monroe.
16 We're near the highway and all that. So if anybody hasn't
17 made a plug yet, let me be the first.

18 MR. CONTI: Fortunately, Representative, I'm not
19 on that committee. I know nothing.

20 REP. SCAVELLO: But you have a little power
21 there. Push them towards Monroe. We could use the jobs.

22 Are you considering natural gas for the trucks?

23 MR. CONTI: No, that was not in the RFP.

24 REP. SCAVELLO: But are you considering that for
25 your trucks?

1 MR. CONTI: We don't own trucks. They're in the
2 RFP by contract. I'm not familiar with the RFP enough to
3 know if there's some incentive in there for natural gas.

4 REP. SCAVELLO: That's going to be a lower cost.

5 MR. CONTI: I don't think we have anybody here to
6 answer that question. But I don't think it was in the RFP.

7 REP. SCAVELLO: And I did read that they're
8 looking at fees, possibly increasing the fees. I would
9 hope you reconsider that. I know some of the members spoke
10 about that. In this economy especially, a lot of folks out
11 there are hurting. So anything you can do not to do that
12 would be appreciated.

13 Thank you.

14 MR. CONTI: We understand.

15 MAJORITY CHAIRMAN ADOLPH: Thank you.

16 Rep. Costa.

17 REP. COSTA: Thank you, Mr. Chairman.

18 I wasn't going to ask a question, but you brought
19 up something. Your tax is collected to this point, this 6
20 percent sales. Did you say it's 115 million? Is that the
21 right number?

22 MR. CONTI: Sales tax is 60 million. We're
23 confusing the 18 percent Johnstown.

24 REP. COSTA: The sales tax is 60 million over
25 seven months?

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MR. CONTI: Yes.

REP. COSTA: And you don't remit the 1 percent.
So that's actually like another \$6 million that's coming to
the State.

MR. CONTI: Yes.

REP. COSTA: I just wanted to be clear.

Thank you.

MAJORITY CHAIRMAN ADOLPH: Thank you,
Representative.

Seeing no other questions, I'd like to thank you
for spending the afternoon with us. Your answers were very
informative. And I'm sure we're going to be in touch with
you between now and the time the budget is set to go.

MR. CONTI: Thank you.

MAJORITY CHAIRMAN ADOLPH: Thank you very much.

(The hearing concluded at 2:55 p.m.)

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I hereby certify that the proceedings and
evidence are contained fully and accurately in the notes
taken by me on the within proceedings and that this is a
correct transcript of the same.

Jean M. Davis
Notary Public