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December 14, 2010

Speaker Joe Hackney
410 Martin Luther King Jr Blvd.
Chapel Hill, NC 27514

Re: Oppose Privatization of the ABC System for Spirits

Dear Speaker Hackney:

As lobbyist for the NC Association of ABC Boards, I am writing to ask you to oppose any effort to privatize the current ABC system for the sale and distribution of spirits. Governor Perdue's BRAC Commission has been reviewing this issue, and the State has ordered a valuation of the ABC system from an appraiser. The North Carolina League of Municipalities, the North Carolina Association of County Commissioners, and the North Carolina Association of Chiefs of Police all oppose privatization. When all of the facts are known, it becomes clear that this is a change North Carolina does not need and cannot afford.

NC has controlled spirits since the repeal of prohibition and is unique among other control states in that ABC boards are established by town or county elections and the profits flow to that local government unit. North Carolina ranks 3rd among the 50 states and the District of Columbia in revenue per capita from the sale of spirits and 48th in per capita consumption. NC's control system for the sale of spirits works, and accomplishes important public health and revenue objectives.

Privatization would not result in any downsizing of State government. No State funds are spent to distribute or sell spirits. Yet, the system generates substantial revenue for the State and local governments, all while engaging in responsible sales: State excise Tax - \$152 million; State sales Tax - \$45 million; other taxes \$16.7 million; distributions to counties and cities - \$46 million; boards also pay for law enforcement (\$6.8 million) and make distributions for alcohol education and rehabilitation (\$8.9 million)(FYE 2010). Consumers pay for the ABC Commission's operations (\$3.8 million) and its warehouse (\$5 million) through levies on spirits.

The Program Evaluation Division (PED) of the North Carolina General Assembly issued a report in December 2008 about the ABC System. The PED was asked to examine privatization, but the PED did not recommend privatization. The PED Report examined NC's system in

comparison to other control states and in comparison to certain other license or open states. As noted by the PED Report, among the other 18 control states, NC ranks 12th lowest in the number of retail outlets, 4th highest in revenue per gallon, and 3rd lowest in adult per capita consumption. In comparison to 12 license or "open" states who are similar to NC in that they limit sales of spirits to package stores (that are privately owned), NC has the fewest retail outlets (except for Delaware), receives the most public revenues/gallon, and has the lowest per capita consumption. The PED Report found that states may not convert from a control system to a license system because reduction in state revenues is likely, in that control states received an average of \$25.36 per wine gallon (a means of measurement) in state and local revenues in 2006 while license states received an average of only \$11.65 per wine gallon.

Privatization will result in a loss of revenue to local governments who receive profits from the system and whose budgets are already being cut. Assuming those local governments are "held harmless", the price of the product would be increased to include the private wholesaler and private retailers profit margins. Local alcohol education efforts and local rehabilitation facilities that currently receive funds from ABC operations would not likely be funded by the State.

Studies have shown that privatization will result in a marked increase in the number of outlets (currently there are 418 ABC stores while there are thousands of outlets for off-premises sales of beer and wine), longer hours of sale, greater advertising and more promotion and significantly more consumption. Greater consumption results in greater harms and greater costs to society. The cost of alcohol abuse in this State is estimated to be \$6.4 billion/year (using the national costs cited by the National Institutes of Health for 1998 and applying the per person costs to North Carolina's 2009 population, and without accounting for increased costs). The North Carolina Institute of Medicine reported to the General Assembly that the consequences of underage drinking alone cost the State \$1.2 billion in 2005. In 2006, the National Center on Addiction and Substance Abuse at Columbia University found that alcohol abuse and addiction cost the nation \$220 billion in 2004, more than cancer (\$196 billion) or obesity (\$133 billion).

Privatization would mean a loss of jobs for ABC board employees and significant expense for unemployment benefits for those employees. There were 1,337 full-time and 1,042 part-time ABC board employees as reported to the ABC Commission for FYE 2010. It would also strand local board investment in real property and long-term leases and mortgage obligations. There are approximately 169 ABC boards that operate 418 stores.

Privatization is a complex and controversial issue, as we have recently seen in other states. Referenda to privatize, backed by millions of dollars from big box retailers, were defeated in state-wide votes in Washington State this fall. The Washington State Auditor reported that with privatization there would be 3,300 outlets selling spirits (compared to the current 315 state run liquor stores in that state).

In Virginia, where the state owns the ABC stores, Governor McDonnell has made ABC privatization a top priority for many months, but has yet to formulate a workable plan that does not cause significant annual revenues losses, and has pulled back on plans for a special session to act on the issue. The plan proposed to replace 332 state-owned ABC stores in Virginia with

1,000 retail outlets for distilled spirits, with 600 of the licenses to be auctioned to big-box retailers.

Privatization does not make sense for North Carolina from a public health, public safety or economic standpoint. Thank you for your consideration of this very important issue to the citizens of North Carolina.

Sincerely yours,

JORDAN PRICE WALL GRAY JONES & CARLTON



Jon P. Carr

Lobbyist, NC Association of ABC Boards