



Thomas Jefferson

LEGISLATIVE POLICY BRIEF

HB 142/ The ABC Franchise Act: Testing the Waters for Private Ownership

Issue:

Can future ABC stores be privatized, thus increasing entrepreneurial opportunities for Virginians, without reducing enforcement or revenue to the Commonwealth of Virginia?

Background:

Virginia operates under a three-tier system of alcohol distribution. The state's Alcohol and Beverage Control Board serves as the sole wholesaler of distilled spirits, buying directly from the manufacturer and, in turn, selling those spirits exclusively through state-operated ABC Stores. Those stores also sell Virginia wines. Beer and wine (including Virginia wine) are sold through grocery and convenience stores that, in turn, purchase these products from wholesalers that are licensed by the state ABC Board. The ABC Board collects a wide range of sales and excise taxes. HB 142 would not affect the distribution of beer and non-Virginia wine.

Key Bill Provisions:

- Ends future growth of government liquor stores and requires the ABC Board to enter into franchise agreements for ownership and operation of franchised retail establishments in those jurisdictions considered advisable by the Board, subject to the provisions of any local referendum prohibiting sales in that jurisdiction. Government stores already operating would continue to be maintained.
- No individual may operate more than five percent of the total number of retail franchises to be granted. Applicants must obtain prior approval of the local governing body in which the franchised establishment would be located, and the retail franchise may not be transferred without prior approval of the ABC Board.
- Creates a non-reverting Retail Franchise Fund for monies received from retail franchise agreements, to be used solely for school construction, school renovation, major school maintenance, capital outlay, and debt service of any public school.
- Franchise stores would operate under the same rules as government stores. State taxes on distilled spirits, general sales taxes, and wine liter taxes would continue to be collected by the state. In addition, franchise stores would pay all appropriate local business taxes.

Rationale:

Virginia is one of only 14 states directly controlling retail liquor sales; in the remaining 36 states, retail distilled spirits distribution is private. A 1993 ABC Board study concluded that splitting markups with private retailers would cost the state revenue. Six 1994-1996 ABC Board reviews indicated it was possible to franchise state stores and increase state revenues, partly by reducing overhead. A 2003 Virginia Retail Merchants Association study agreed with those conclusions. Ohio began private sales of liquor in 1997, while retaining the wholesale role. This action has saved the state \$21.4 million annually, and profits have gone up 46 percent while the number of outlets, rates of consumption and alcohol-related incidents remained the same.

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