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DEPARTMENT OF ADMINISTRATIVE & FINANCIAL SERVICES
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SERVING THE PUBLIC AND DELIVERING ESSENTIAL SERVICES TO STATE GOVERNMENT

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LD 2014, An Act Regarding Spirits Price Regulation

Sponsored by Senator Craig Hickman
To the Joint Standing Committee on Veterans and Legal Affairs

Senator Hickman, Representative Supica, and members of the Joint Standing Committee on Veterans and Legal Affairs, I am Anya Trundy, Chief of Legislative and Strategic Operations for the Department of Administrative and Financial Services.

I want to start by thanking the proponents of this bill for being forthcoming about the detail of their intended proposal. Last week they shared with me a bullet point draft amendment that most notably would replace the State's current spirits pricing formula with a uniform 65% mark-up. Based on that, I asked Maine Spirits to apply a 65% mark-up to FY23 sales by volume to model the impact of such a change across each and every listed SKU and overall. I understand that the proponents' proposal remains fluid and that 65% may not be the specific uniform percentage markup in play at the moment. However, in crafting my testimony for today, I made a conscious decision to still apply the 65% for the purpose of giving the Committee a starting reference point and stakeholders some real numbers to ground the forthcoming conversation. That being said, the Department of Administrative and Financial Services does oppose LD 2014 based on its projected negative impact on State revenues, agency liquor store proceeds, and retail price of certain products. After spending the 3-day weekend submersed in spreadsheets, I will tell you that: 1) there are umpteen different ways to cut the data, 2) how people regard the exact same data will depend upon the competing business interest they represent, and 3) a 65% mark-up doesn't cut cleanly across suppliers, spirits types, bottle sizes, or price points—the same will also be true but manifest differently at other percentages. The Department is willing to have a data-based discussion, but is committed to protecting the State's business interest.

Over the course of the last decade, Maine Spirits (which is the business partnership between BABLO and our current spirits vendors Pine State) has delivered a dependable, stable revenue stream for the State of Maine. At the outset of the current spirits contract, spirits revenues were dedicated toward retiring the debt service on the bonds issued to pay off the hospital debt. Once that obligation was satisfied, lump sums of accumulated liquor revenues have for several years been transferred to the General Fund to fund on-time expenses. In last

year's biennial budget and going forward, the first \$7M in spirits revenues were allocated to the General Fund, with amounts in excess allocated to the Highway Fund in order to close the Highway Fund's structural gap. The State Budget relies upon spirits revenues, and any change in the spirits pricing formula that disrupts sales and destabilizes revenues is of grave concern to the State Budget. In FY23, Spirits Revenues (sales minus COGS) was \$70,091,597 and after deducting operating expenses \$66,680,803 was deposited in the Maine Municipal Bond Bank and transferred to the GF and HWYF as described. Application of a uniform 65% mark-up is preliminarily estimated to have an -\$18M fiscal impact on the Highway Fund, reopening the hole that was just closed.

In FY23, the Liquor and Lottery Commission listed 4,806 different spirits SKUs. Just like any business with nearly 5,000 SKUs in their inventory, each has its own margin and uniquely contributes to the overall profitability of the business. Most businesses do not apply a uniform percentage mark-up to every product in their inventory, not even to like products, because the only variable it considers is each product's COGS. In the Bureau's spirits pricing formula, the type of spirits and bottle size are variables also considered to achieve the State's desired profit margins.

Just to give the Committee a sense of how diverse the State's spirits business is: the Top 25 Selling Spirits Products by Volume range in retail price from \$1.79 (Fireball Cinnamon Whiskey, 50mL) at #21 to \$59.99 (Jameson Irish Whisky, 1.75L) at #20. The #1 selling spirits product (Tito's Vodka, 1.75L) retails for \$34.99 and accounts for 5.15% of the total volume sold. Most of the Top 25 were 1.75L bottles (18) and their average retail price was \$27.10. Most of the Top 25 are base spirits (vodka, rum, whiskey), with Mainer's affinity for Allen's Coffee Brandy and Fireball Cinnamon Whiskey in multiple sizes standing out.

Within those brands that comprise the Top 10 are five 1.75L vodkas (80 proof). The impact of both the current spirits pricing formula and a uniform 65% mark-up are shown in both percentage and straight dollar terms in the table below. The question of which method yields the fairer result across different price points for the same essential product is likely to depend upon who you ask.

Brand	Bottle Cost	Current Retail	Percent Mark-up	Straight Mark-up	Proposed Retail	Percent Mark-up	Straight Mark-up
Tito's	\$21.14	\$34.99	66%	\$13.85	\$34.99	66%	\$13.85
Pinnacle	\$14.50	\$24.99	72%	\$10.49	\$23.99	65%	\$9.49
Crown Russe	\$6.30	\$14.99	138%	\$8.69	\$10.49	67%	\$4.19
Smirnoff	\$15.32	\$25.99	70%	\$10.67	\$25.49	66%	\$10.17
Absolute	\$22.33	\$36.99	66%	\$14.66	\$36.99	66%	\$14.66

The State has the unenviable task of holding our own business interests, as well as those of our suppliers, our agency liquor stores, consumers and public health in tension with each other. For the work session, I intend to supply additional data on the anticipated negative impact on agency liquor store proceeds, and reduction in retail price of certain products that concerns us with respect to our responsibility to public health.

Thank you for your time and consideration. I will do my best to answer any questions the Committee may have at this time and can come back to you at the work session with any answers I can't provide today.