Attachment F

Economic Impact of House Bill 09-1192:
Extending Full-strength Beer Sales to Grocery and Convenience Stores

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Summary of Findings

- Based on experiences in Colorado and in other states, extending full-strength beer sales to grocery and convenience stores can occur without the widespread closings of liquor stores predicted by opponents of House Bill 09-1192. Consumer choice will determine any decline in existing sales, or the resulting increase in sales at convenience and grocery stores (which have been adversely affected by the recent "Sunday sales" law).

- With this legislation, economic theory predicts increased convenience to consumers, and lower prices over time to all beer consumers. Meanwhile, improved performance at grocery and convenience stores will promote continued employment levels at these stores.

- Many states with more lenient liquor laws than Colorado's — permitting grocery and convenience store sales of full-strength beer, wine and spirits — have higher per-capita incidence of liquor stores.

- Research prepared by the American Economics Group found that with respect to sales, 1) on average nationwide, wine sales per capita are greater in states with more wine outlets, and 2) liquor sales per capita are slightly greater in states with more wine outlets. Thus, in other states, greater competition has not reduced the number of stores that sell alcohol.

- Because the retail profit margin of wine and spirits exceeds that of beer, the impact of HB 09-1192 on existing liquor stores depends on the mix of beer, wine, and spirits sold in each location. While many liquor stores report that beer is the most popular sale/revenue item, it is not likely that beer contributes proportionately to liquor stores' profits.

- If HB 09-1192 passes, State and local governments should expect an increase in tax revenue from full-strength beer sales. Because the supply of some types of beer will be increased, it is reasonable to expect a drop in prices.

- Meanwhile, the status quo scenario is significantly reducing the sales of 3.2 beer. As current sellers of 3.2 beer limit this inventory, this improves the monopoly selling position of liquor stores and, as a result, it is reasonable to expect a marginal increase in beer prices in the future.

This study was prepared in response to a request for research and information regarding the economic impact of allowing the sale of full-strength beer at grocery stores and convenience stores as contained in House Bill 09-1192. We note the valuable assistance of Mr. David Reitz with our research. We focus our analysis on the following issues:

- the consumer benefits of competition;
- the experiences of other states;
- Colorado's experience with large retailers that sell alcohol; and
- the impact on various areas of public finance.

Consumers Benefit from Competition and Increased Convenience

Economic theory is straightforward with the benefits of competition. Competitive markets tend to drive down prices as sellers compete for business. As prices fall, consumers benefit in the form of savings or costs avoided. If HB 09-1192 becomes law, it is reasonable to expect a price decline in full-strength beer. At the same time, the lower prices may promote an increase in sales. Separately, since the passage of last year's "Sunday sales" law, there has been an increase in beer purchases in liquor stores; the expanded availability and opportunity to purchase alcohol has increased sales. We would expect similar results with the passage of HB 09-1192. Therefore, state and local governments should expect a marginal increase in tax collections.

Meanwhile, if consumers are able to purchase full-strength beer at grocery and convenience stores, any avoided trips will represent a savings of time and other resources. Based on the value of time lost to traffic congestion in a recent Colorado study, each hour saved represents approximately $24 in just time; this ignores other resources such as motor fuel and other consumables.

Experience in and Comparison with Other States

Because Colorado is one of only five states with 3.2% beer, direct comparisons with other states that have made a similar change to the one proposed in HB 09-1192 are not possible. Thus, it is difficult to model precisely the impact of the change in HB 09-1192 on existing liquor stores. However, it is possible to understand the potential impact by comparing Colorado (where wine and spirits are not available in grocery stores) to those states where wine and/or spirits is/are sold in grocery stores. For the purposes of this study, these more lenient states represent selling environments that would provide the greatest amount of competition between liquor stores and grocery stores for alcohol sales. Under the proposal in HB 09-1192, competition between grocery/convenience stores would increase, but not to the same degree as in other states.

Academic research is sparse on the subject of liquor laws. In 2004, the American Economics Group (AEG) prepared a study on behalf of the Food Marketing Institute. The purpose of that study was to investigate the impact of selling wine at grocery stores on existing liquor stores. One of the key findings was the following: *"There is ample evidence from states that permit wine sales in food stores that a large number of wine*

and liquor outlets can mutually exist. In fact, there is a general statistical relationship that states with more wine outlets also support more liquor outlets."

In 2006, a study by the Northbridge Group in Massachusetts, displayed similar results during a debate on allowing grocers to sell wine.

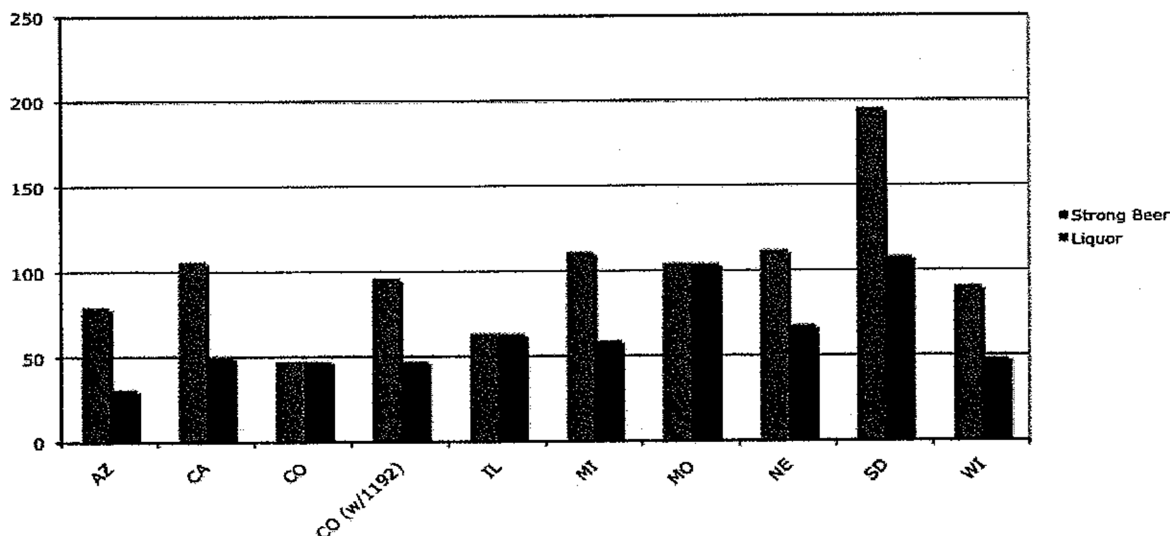
In particular, the AEG study found that in states selling wine in supermarkets, there were an average of 1,455 liquor stores and 4,539 wine stores. In those states without wine in supermarkets, the averages were 744 liquor stores and 743 wine stores.

On a per capita basis, the results were similar. In states selling wine in supermarkets the number of liquor stores (per 100,000 of 21 and older population) was 40.7 and the number of wine stores was 108.3. In states without wine in supermarkets, the number of per capita liquor stores was 36.5 and the number of wine stores was 36.1.

With respect to sales, the AEG study found 1) that on average nationwide, wine sales per capita are greater in states with more wine outlets, and that 2) liquor sales per capita are slightly greater in states with more wine outlets.

Even though the AEG study is a few years old, more recent data (2008) from a sampling of states that permit not only the sale of full-strength beer in grocery stores, but also wine and spirits, maintain the findings. Chart 1, below, shows the average number of strong beer outlets per 100,000 adults in eight states plus Colorado's total if HB 09-1192 becomes law (blue bars). At 47.6 outlets per 100,000 adults, Colorado is 56% below the average of the other 8 states (107.6 outlets/100,000), and even if the bill passes would be still below the average by 11%. These data are from the National Alcohol Beverage Control Association's 2008 survey book.

Chart 1
Per Capita Strong Beer and Liquor Stores
Selected States



Except for Colorado, all of the states shown on Chart 1 allow liquor and wine to be sold at grocery and convenience stores. Colorado's per capita ratio of liquor and wine outlets (red bars) is the lowest of all of these states except Arizona. *Thus, the more lenient laws in those states have not prevented liquor stores from operating at higher levels per capita than they do here.*

Colorado-specific Experience

Local evidence shows that grocery store full-strength beer, wine and liquor sales do not inhibit the presence of liquor stores. Colorado law allows one liquor license per licensee. As such, vendors like Target and Safeway are allowed one liquor license each. For example, based on a search with Google Maps and cross-checked with other sources, there are six retail liquor stores and one wine store within a mile of the Target store that sells alcohol; four of these are within half a mile. With Safeway, there are two retail liquor stores within half a mile and several more including a wine store within two miles.

Separately, observational evidence shows that stores that sell only wine are feasible operations in Colorado. If the profit margins for beer were comparable, one would expect to see beer-only operations. Based on our interviews with experts on the retail liquor market in metro Denver, we were not able to identify a beer-only operation.

Thus, based on the research in this report as well as those studies performed in other states, even under more lenient alcohol sales laws, liquor stores and supermarkets selling wine have found a balance where both can operate. Because HB 09-1192 represents a less aggressive change to Colorado's liquor laws (than a move to allowing wine at supermarkets), we believe the experience of other states shows that liquor stores will certainly continue to exist and thrive in Colorado.

However, because full-strength beer will be available at more locations, the amount sold at liquor stores can be expected to drop in some instances. The impact of this drop on individual stores will be dependent on the profit margins on beer, wine, and liquor and the proportion of sales each comprise for each vendor. Based on discussions with leading grocery chains that sell beer, wine, and liquor in stores outside of Colorado and on statistics from the AC Nielsen company, we believe the following characteristics of the retail liquor business are relevant to this discussion: First, beer and liquor sales represent approximately 37 percent each of all sales and wine represents roughly 26 percent. Second, the retail profit margin on wine ranges from five to seven percentage points higher than beer, and the retail profit margin on liquor can range between six and 12 percentage points higher than beer.

Based on the AC Nielsen company statistics of sales and using the following ranges of profit margins for beer (16%-22%) and wine and liquor (21%-29%), we conducted the following analysis of a hypothetical scenario based on Colorado average alcohol sales.

- Assuming $100,000 in combined sales, the blended profit margin falls between 19.2% and 26.4%. Thus, dollar profits range between **$19,150 and $26,400**. Of

this amount beer-related profits range between $5,920 and $8,140; each 10% drop in beer sales would therefore reduce profits from $592 to $814.

- Research by the opponents of HB 09-1192 asserts that its passage will result in a 50% drop in beer sales at liquor stores. If this occurs, the dollar profit range becomes **$16,190 to $22,340** compared with the baseline range above.

- Even when we conduct the analysis with a mix of sales of beer (50%), wine (25%), and liquor (25%), the 50% decline in beer sales still results in a range of profits from **$14,500 to $20,000** compared with the baseline above.

As shown in the analysis, even in the case of the severe declines in beer sales at liquor stores, average profits remain near 20% of the $100,000 baseline. In our view, the predictions of severe sales declines leading to mass store closures implicitly assume a grossly disproportionate amount of beer sales for most liquor stores, and a limited ability for existing store owners to change the mix of inventory or to compete for business based on other factors.

Additionally, the experiences of other states contradict the projections of store closings as discussed earlier. Also, the two examples here in Colorado (Target and Safeway) of large retailers selling alcohol further demonstrate that there can be co-existence with traditional liquor stores. We also note that we do not have a recent example of a proposal similar to HB 09-1192 for our study.

Public Finance Issues

If HB 09-1192 becomes law we expect several impacts to revenue streams that affect public finance. For those entities with increased sales, profits will increase and those benefits will accrue to any Colorado shareholders of those entities, and these profits will add to taxable income for the State of Colorado. For those entities with reduced sales, the opposite will be true.

To the extent some sales at existing liquor stores decline, there may be an increase in the amount of unemployment claims. These may be offset by increased employment or the avoidance of layoffs by those entities experiencing declining business from Sunday sales. Because the number of liquor stores is roughly equal to the number of grocery and convenience stores, the jobs lost in one area may be offset by the retention in another area.

There may be an impact to landlord income if the change from the status quo results in outright closure of some existing liquor stores.

Conclusion

In summary, our research finds that claims of widespread closures of existing liquor stores from passage of legislation such as House Bill 09-1192 are not supportable. Specifically, many other states with laws that allow wine and liquor in addition to full-strength beer at grocery and convenience stores have higher per-capita incidence of liquor stores. Evidence from within Colorado shows that liquor stores and large retailers selling alcohol are able to coexist. The expansion of the number of outlets that can sell full-strength beer will affect some existing sales, but there are other economy-wide offsets to these declines. These include: improved sales and continued employment levels at those stores negatively affected by "Sunday sales", increased consumer convenience, and lower prices to consumers from increased competition.