Economic Analysis of the Impact on Market Structure and State Tax Revenues of New Jersey A1325 and S2009

Prepared for:
New Jersey Liquor Store Alliance
New Jersey Wine and Spirits Wholesalers Association

By:
GRAND INSTITUTE
Government Research and Development Sciences
Mount Laurel, New Jersey

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EXECUTIVE SUMMARY

The proposed legislation A1325/S2009 removing plenary retail distribution license limits for certain stores has the strong probability of negatively impacting State tax revenues and incurring direct and indirect job losses.

Background

A1325 was sponsored and introduced by Assembly Majority Leader Louis Greenwald (D-Camden) on January 5, 2012 and on June 25, 2012 Senator Jim Beach (D-Camden) introduced the Senate companion bill S2009. The bills have been referred to the Assembly Regulatory Oversight and Gaming Committee and to the Senate Economic Growth Committee respectively.

- The New Jersey Legislature may soon be asked to determine if the number of alcohol retail licenses permitted to be owned by a single entity should be increased from the current two (2) licenses to as many as ten (10) licenses over a multi-year incremental timeframe.

It is important to note that, while public discussions of A1325/S2009 refer to the bills as the "grocery store bills," the bills also have a Section 2 that allows owners of stores selling at least 90% alcoholic beverages to also own 10 package store licenses. This opens the door wide for chain stores like Wal-Mart and wholesale clubs like Costco to dominate the marketplace – displacing local retailers, causing State revenue losses and job losses, and higher downtown vacancy rates.

The intent of this analysis is to understand the statewide market structure of alcohol and grocery consumption at a household level, and extrapolate those findings into a reasonable simulation of the economic impact of regional based Big Box stores dominating heretofore community-based Independent Liquor Store markets.

- This report utilizes current year 2011 data from the New Jersey Department of Treasury Division's of Revenue and Enterprise Services and Taxation; Department of Law and Public Safety's Division of Alcoholic Beverage Control; and The Nielsen Company's, "*Claritas Consumer Expenditure Patterns and Opportunity Gap Reports.*" Nielson Claritas was the Independent Grocers Alliance 2011 Red Oval Partner of the Year.

Key Findings

Valid economic studies have identified a 17% to 32% market shift from Independent Liquor Stores to Big Box stores and a 1.4 employee net loss for every new employee hired, with a strong probability of small store closures and long-term negative direct and indirect upstream/downstream effect on tax, income, employee and wealth multipliers.[1] /[2] In smaller markets, Big Box Store dominance can equate 50% or more, forcing short-term small Independent Liquor Store closings.

- The $15 billion grocery industry accrues only 1% income subject to taxation (or $165 million in 2011), while the 12x smaller retail alcohol industry ($1.2 billion) accrues 8.5% income subject[3] to taxation (or $95 million); **for every $1 million dollars in gross liquor sales that transfers from small liquor stores to Big Box grocery stores the State will realize $75,000 dollars less in income subject to taxation.** [4]

- The 2,258 Independent Liquor Stores supplying packaged goods in 329 municipalities provide more location convenience for consumers than the 1,000 regional Big Box grocery stores; offering more product options, providing increased community policing activities, and afford State and community benefits by encouraging private enterprise and managing social welfare.

- In 2011 alcohol beverage wholesalers sold: 143 million gallons of beer, 16 million gallons of liquor, and 33 million gallons of wine, with gallons sold remaining relatively flat over the last several years. Given current alcoholic beverage gallonage totals, public dialogue questioning the need for more alcohol availability is raised especially in difficult-to-police and regulate locations.[5]

- The transfer of Independent Liquor Store market share from local Independent Liquor Stores to regional based Big Box Stores will have significant economic impact on towns surrounding the Big Box Store. They will incur lost revenues from business property taxes, rental income loss, potential job loss and decreased local buying power.

Current Statute

For over 50 years the current law has provided social and financial safeguards for the benefit of all residents, yet encouraging the economic advantages of competition. Two previous challenges upheld the current law in the 1964 NJ Supreme Court and 1996 US Federal Court decisions; and 2007 proposed legislative action to repeal the Two License Limitation Act failed to garner necessary support.

- In 1964, Governor Hughes stated, *"Absentee ownership or domination of retail establishments by distillers or economically powerful interests, or the concentration of retailing in the hands of an economically powerful few, would intensify the dangers of sales stimulations and other abuses and would be inimical to temperance and trade stability,"*

- Governor Hughes further stated, "*The Legislature, being aware of the threatened growth of chain liquor stores, including those associated with well-known supermarkets and discount establishments, need not wait until the evils have become flagrant and the State's liquor control policy has been impaired.*"

- During 2011-2012, New York Governor Andrew Cuomo successfully opposed grocery stores selling alcoholic beverages because it would destroy independent, family-owned businesses across New York State.[6]

"I think it would be disruptive to many stores, mom-and-pop shops," Cuomo said. "I don't think the benefit outweighs the cost."

Andrew Cuomo
Governor, New York State
Lower Hudson Journal News
January 26, 2012

Recent Developments in Neighboring States

Most recently, in June of 2012, Governor Andrew Cuomo of the State of New York unequivocally rejected the grocery industry's attempt to sell alcoholic beverages. Governor Cuomo stated: "I think it would be disruptive to many stores, mom-and-pop shops. I don't think the benefit outweighs the cost."

In the Spring of 2012, the State of Connecticut recently amended its own Two License Limitation Law from 2 to 3 licenses. The State of Rhode Island has an outright ban on any chain stores whatsoever – grocery or otherwise. Rhode Island successfully defended this chain store ban from a legal challenge mounted by Big Box grocers and chain store owners in the 2007 Federal First Circuit case *Wine and Spirits Retailers Inc, v. Rhode Island.*

The New York metropolitan area trend is clear: the public interest is well-served by the current, time-tested system of alcoholic beverage distribution.

Current Distribution System

The current alcohol distribution system has provided social and financial safeguards for the benefit of all residents, and has provided responsible tax revenues even in very competitive markets.

- The current three-tier distribution system (producers>wholesalers>retailers) and the highly-regulated and self-policing retail system, encourages the economic vitality of private enterprise *and* manages social impact.

- Prudent public policy, particularly for regulated products, seeks the optimal balance between the consumer's interest in low prices and availability; the public's legitimate need for tax revenues, and the potential social costs associated with the irresponsible distribution and use of alcohol.

- The two-license rule is not anticompetitive or discriminatory, and the visible hand of government must be careful as to not disrupt social and economic order (i.e., trade stability and temperance).

Economic Consequences

Legislation with high-stakes economic impact requires a valid and comprehensive research effort, beyond the fiscal note provided by the Office of Legislative Services (OLS). In its fiscal note, the Office of Legislative Services quotes from an industry-financed report on the possible benefits to State revenues, yet qualifies the statement with "*there may be an indeterminate revenue impact on the State*."[7] New Jersey Division of Taxation data clearly shows A1325/A2009's pronounced negative impact on State tax revenues and jobs.

- New Jersey's State government offices have sufficient data including formation, license, tax, and employee statistics for a valid economic impact analysis. Legislation should not be based on multiple economic guesses when business and market specific data is easily available from State agencies for analysis.

The Competitive Market

Illogically, the current dialogue challenging the two-license rule has morphed into an anti-competition, consumer convenience, food desert, and government revenue enhancement issue. These issues are without merit in context to the law and current market structure.

- There are now over 100 Big Box stores selling alcohol in their aisles, including grocery, convenience and farm stands. These licenses were purchased competitively and were not restricted by government agency.[8]

- Some Big Box stores currently have multiple locations selling alcohol in New Jersey, by utilizing owner-family-members purchasing two licenses as a legal loophole circumventing the two license rule.

- The anti-competition claim is without merit, unless one considers a ten (10) license rule to be discriminatory because it is not inclusive of small independent owners with limited resources (i.e., in Governor Hughes terms, it benefits the powerful few).

- There are currently 149 inactive plenary retail distribution licenses available, many of these are in towns without a Big Box retailer. The Food Marketing Institute identifies that 10% of existing licenses will be transferred or approximately 225 licenses, suggesting the demand for licenses will exceed supply only if the government intervenes. Free market economics dictates that government should not intervene unless the market goes horribly wrong.[9]

- A review of the anti-competition literature does not identify limiting licenses as anti-competitive if all firms have a fair competitive market to acquire licenses and transact additional business.

Consumer Convenience

- There are currently over two (2.5) times as many independent liquor store licenses (2258) as there are Big Box grocery stores (1000), and a larger number of convenience stores (2700). The Food Marketing Institute report notes the large number of independent liquor stores within reasonable distance of regional Big Box grocery stores, clearly identifying that a consumer in a suburban or urban market would pass five (5) times as many liquor stores to reach a regional Big Box grocery store.

- Independent liquor stores are predominantly located on well-traveled roads in commercial facilities, often next to a grocery or convenience store. The convenience argument in this bill is without merit, unless convenience is very narrowly defined as within the same retail establishment that you buy groceries or other merchandise. Yet there is no provision for independent liquor stores to be able to expand product offerings to include food staples; meeting the same consumer convenience criteria established in the proposed legislation.

Governmental Revenue and Jobs

- Anecdotal and scientific evidence suggests that independent retail stores are greatly impacted when Big Box stores open in their market, evidenced by the devastation of downtown shopping areas and empty strip malls.[10]

- A recent National Bureau of Economic Research study identified the 1.4 employee net loss for every Big Box employee hired.[11]

- The 1% net-profit margin of the Big Box store would contribute significantly less money to income tax revenues, both corporate and personal, than the 8.5% net-profit margin independent liquor store. Many Big Box stores are owned by out-of-state proprietors who pay very little, if any, State taxes.

The Food Desert Issue

- The US Department of Agriculture defines areas as "food deserts" if the population meets low-income and low-access criteria; and live more than one-mile from a supermarket or large grocery store (10 miles in non-metropolitan census tracts).[12]

- A New York Times article – "*Studies Question the Pairing of Food Deserts and Obesity*" dated April 17, 2012 quotes recent RAND Corporation report and Yale University – Rudd

Center for Food Policy and Obesity studies, finding a saturation of convenience and grocery stores in poor urban neighborhoods and questioning the connection between grocery store accessibility and sound nutrition.

- There are more New Jersey residents in food deserts located in rural and suburban communities than there are in the twenty (20) largest cities. A review of five (5) cities identified food deserts existing predominantly in high-commercial areas, with typically high rents and limited retail space availability.

- In February of 2010 the Obama Administration announced the Healthy Food Financing Initiative requesting an appropriation of $400 million in the 2011 federal budget. When the 2011 Federal Budget was enacted through an omnibus continuing resolution, funding remained at 2010 levels and new programs were placed on hold. In the 2012 Federal Budget, the Administration requested and received an appropriation of $32 million for the Healthy Food Financing Initiative. Of the $32 million, $22 million was allocated to the Department of the Treasury to be awarded to community development financial institutions (CDFIs) who will in turn lend to retail food outlets expanding food access in food deserts.[13]

- During the 2010-2011 session of the New Jersey Legislature S3089/A4309 was introduced by Senator Donald Norcross, Assemblyman Gilbert Wilson and Assemblyman Angel Fuentes. The proposed legislation established the New Jersey Food Access Initiative, modeled after the Federal Healthy Food Financing Initiative, utilizing certain sales tax revenues from Urban Enterprise Zones for a period of 5 years. The legislation passed both houses and received a pocket veto from the Governor on January 17, 2012. The proposed legislation was reintroduced in the 2012-2013 session as S531/A1397 by the same sponsors.[14]

KEY ECONOMIC ISSUES

Changing the two-license rule has a very high probability of restructuring one of the last independent retail sectors remaining in New Jersey. There is a preponderance of data supporting valid concerns that the short and long term impact of changing the two-license rule can have undesirable social and economic effects on both municipalities and the State as a whole. Valid research identifies a 17% to 32% market transfer impact from independent liquor stores to Big Box stores. In small competitive markets, market transfer from Independent Liquor Stores to regional Big Box Stores can exceed 50%, forcing small Independent Liquor Store closings in the short term. It is for the reasons presented below that we recommend that the Governor ad State Legislature reject A1325/S2009.

The Current Alcoholic Beverage System Has a Higher Ratio of Income Taxes [15]

For every dollar of gross income, independent liquor stores remit 7.5 times more than grocery stores for income subject to taxes.

- In 2011, the New Jersey Division of Taxation reported $165 million in income subject to taxation for grocery stores, and $95 million for independent liquor stores.
- Grocery sales are projected to total $15 billion vs. $1.2 billion for independent liquor stores.
- An indeterminate amount of grocery income moves to out-of-state corporate offices, where predominantly independent liquor stores income remains within the State.
- New Jersey's 2,258 independent liquor stores average 8.5% net income compared to grocery stores less than 1% net income.

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Independent Liquor Stores Require More Employees than Big Box Stores (Relative Scale Inefficient)

- Big Box Stores would focus on limited aisle high-demand/high-profit inventory having minor impact on their employee floor services.
- Market share transfer of liquor from independent liquor store to Big Box stores would equate to direct job losses for the State of New Jersey and nominal gains for the Big Box store due to optimized employee productivity.

- Average independent liquor store employee wages are similar to Big Box stores salaries.

Existing Big Box stores would require nominal, if any, new employees; yet eliminate .5 to 1.5 employees per every store in the Big Box store's regional marketplace.[16]

Convenience Store Inclusion Is Unreasonable and Predatory On Independent Liquor Stores

- Convenient stores have been included in the proposed legislation if 65% of store sales are food stuffs, yet independent liquor stores remain at a requirement of 90% liquor and only complimentary products.[17]
- The convenience store market size, in locations and consumer demand, is close to the entire independent liquor store market.
- Convenience stores with limited aisle space will be more likely to limit liquor to high-demand/high-profit items; cherry-picking neighboring independent liquor stores' major profit items.
- Convenience stores operate in similar locales as liquor stores; sometimes with adjacent locations. Inclusion in the proposed legislation change provides no additional benefits to the State or to consumers.

Convenience stores providing limited grocery and merchandise service, would be difficult to monitor for 65% grocery sales, and offer no location convenience benefits over independent liquor stores.

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The Current Distribution System Has Not Failed To Provide Controls

- From 2009 to 2011, alcoholic beverage gallonage increases include beer at 1.5%, liquor at 5.5%, still wines with no increase, and sparkling wines at 17%.[18]

- In 2011, Beer accounted for 75% of gallons sold and 13% sales tax revenue; liquor for 8% of gallons sold and 65% of sales tax revenue; still wines for 16% of gallons sold and 22% of sales tax revenue; and sparkling wines for less than 1% of gallons sold and sales tax revenue.

Current system has furthered State policy promoting price stability and moderating consumption, providing responsible excise and income tax growth.

The Current System Promotes Competition

The two types of licenses analyzed in this section are "Type 44" and "Type 32". A "Type 44" license permits the sale of packaged goods for consumption off the licensed premises. In a "Type 32" license an establishment selling alcohol for on premises consumption may also sell packaged goods for consumption off the licensed premises and display and market goods in the same manner as a package goods store.[19]

- There are currently 1700 "Type 44" (101 inactive) and 430 "Type 32" (49 inactive) active licenses.[20]
- In New Jersey 278 municipalities have two or more "Type 44" licenses and 94 municipalities have two or more "Type 32" licenses.
- An additional 204 municipalities have at least one "Type 44" license and most have at least one "Type 32" license.
- There are 4,823 households per "Type 44" license, based on 3.2 million households within the State (grandfathered <7,500).

There are two (2) times more independent liquor stores than Big Box stores, and independent liquor store location convenience in miles is better than grocery stores. Most consumers most drive past a couple of liquor stores to reach a grocery store.

The Current Distribution System Has Promoted Locally Produced Wines

- From 2009 to 2011, local New Jersey wine sales increased from 177,000 gallons and $138,000 in excise taxes, to 259,000 gallons and $227,000 in excise taxes.[21]
- A Cornell University study identified a decline in locally produced wine sales when Big Box stores are permitted to sell wine.[22]

The current system has furthered recent legislative initiatives to promote State wine production and distribution.

Projected Statewide Liquor Demand Grows Only 3% from 2012-to-2016 [23]

- A host of demographic and psychographic variables drive overall consumer demand, including values, attributes, lifestyle, interests, income and age.
- Alcohol consumption has achieved commodity status; where availability, price and income changes demonstrate little impact on gallonage demands.

Strong probability that statewide alcoholic beverage growth will not exceed projections, supporting the contention that there is no need to create social and economic instability through passage of the proposed legislation.

Economic Property Rights and Wealth Transfer

- Security of property rights is an outcome of policy choices and social institutions, and government can easily define and support, but also abrogate, those rights.
- At issue is whether the legislative intervention is applying the rule of law equally, or to benefit the few, particularly in the case of a regulated product.

There is a critical need to understand the impact of wealth transfer from resident owners of independent liquor stores to absentee out-of-state owners of Big Box stores, at the municipal and state-wide levels.

Social Concerns

Addiction and public safety literature primarily relates increased alcohol availability to increases in serious crime, domestic abuse and auto accidents. The literature also identifies the social resource impact to society to manage alcohol-related health concerns, including costly public health and education programs. **As recently as June 2012, Baltimore, MD, as a result of a Johns Hopkins Medicine study, will begin to eliminate "non-conforming" licenses throughout the city particularly in high-crime areas.**[24]

- The inclusion of addiction, public safety, and public health issues into the legislative dialogue is warranted.

- At a time when large cities are considering removing licenses, such as Baltimore's "non-conforming" license elimination to improve the public welfare, New Jersey should not aspire to an opposite direction making alcohol acquisition too convenient and potentially increase consumption.

  Public input is a reasonable expectation for expanding regulated product availability. Unlike drugs and firearms that require a legal processes prior to purchase, alcohol and tobacco's open availability and convenience can result in socially undesirable outcomes that a majority of non-consuming residents may not support.

ECONOMIC CRITIQUE OF FOOD MARKETING INSTITUTE REPORT

The Food Marketing Institute (FMI) commissioned a report, "*The Economic Impact of New Jersey A-2591: An Act to Increase Retail Liquor Distribution License Limits for Certain Retailers*", released June 2011. A review of this report, utilizing typical input-output econometric models which are not transparent for casual reader understanding, does not provide enough information on variable and model structure to comfortably support its conclusions. Respectfully to fellow economists, below are the GRAND Institutes' responses to this report (Note: "page" notations reference the FMI report):

1. The current two (2) license limitation law does not "restrict grocery retailers and particularly corporately-owned supermarkets from offering beer, wine and spirits to their customers" (FMI: page 1). In fact, the report later states that over 100 grocery stores, including convenience stores, currently offers beer, wine and spirits; and there are many instances of convenience and merchandise stores also selling alcohol. Noteworthy, 100 grocery stores is about 10% of all grocery stores; clearly the two (2) license rule is not restrictive (FMI: page 3).

2. Corporately owned supermarkets are not restricted. Several have found novel ways to exceed the two (2) license limitation. (FMI:page 1). (see Documents Cited: page 25 - 3)

3. Benefits to towns when grocers purchase inactive licenses. The transfer fee is not a definite, and its impact is purely guesswork. Removing the two (2) license limit will have little impact on the 141 inactive package goods licenses, many of which have been inactive for long periods, and reside in urban centers that large grocery chains have ignored. (FMI: Page 1)

4. The FMI paper documents the beneficial impact of Big Box stores on surrounding retail establishments. Unfortunately, when a new Big Box store opens, the net job loss is 1.4 employees for every 1 employee hired in new stores. For existing stores, a few aisles of liquor product will likely not incur more than 1 or 2 Full Time Equivalent (FTE) new employees, at a loss of at least 1.4 for every independent liquor store in their market area. Estimates allowing grocery stores can have up to a 30% gross sales impact on independent liquor stores (FMI: pages 1-2). (See Documents Cited: page 25 – 6/8)

5. The Food Marketing Institute report states that "about 30% of grocery store employees are part-time workers. (FMI: page 1) Although we do not have statistics for the liquor store sector, creating 400 part-time jobs based upon their estimate of 200 full-time-equivalent hires, is not a long-term employment fix. The report also stated that 78 additional jobs would be created at supplier and induced businesses for a total 278 new jobs. We disagree with the new job creation numbers.

6. The report states that there will be an additional $3.6 million in business and employment taxes. To achieve $3.6 million in business (income) taxes at 1% net profit and 9% corporate tax rate, this computes to a market expansion of $4.2 billion (1% net profit=$42 million x 9%=$3.8 million) yet the entire package goods liquor market is only $1.2 billion statewide.

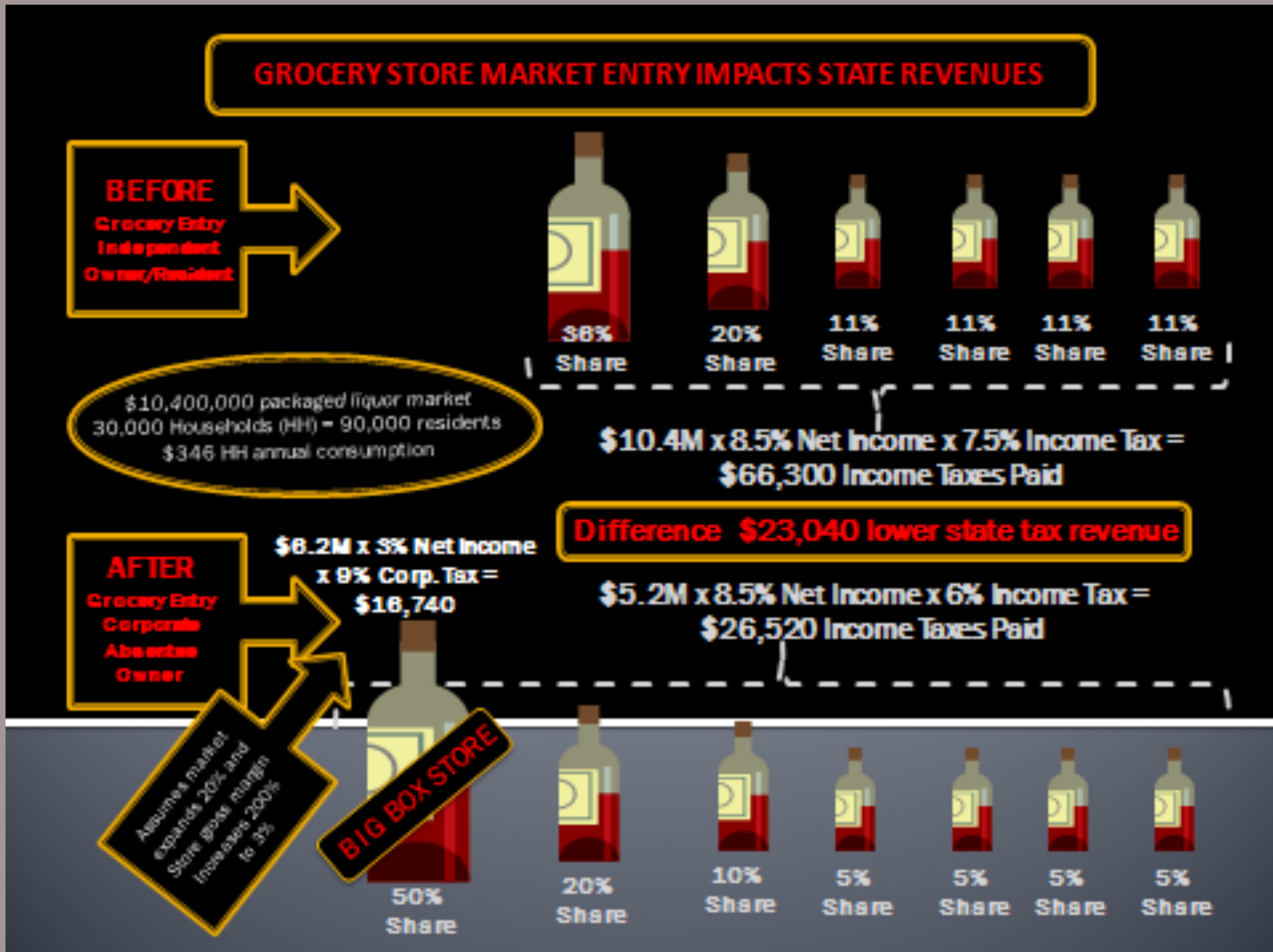
7. If all 278 new employees made $50,000 annual (highly unlikely), that computes to $13.9 million in wages. Assuming a 6.75% income tax rate at full earnings, this computes to $938,000 in employee income taxes. (The report used $7.6 million in wages for 192 grocery employees or $19.50 per hour also highly unlikely).

8. For a market to expand by even $10 million dollars - which is 25,000 households - this would equate to an additional $400 per household, when the average household only consumes $350 annually in package goods. Is the assumption that alcohol consumption will double in most markets (highly unlikely) and even if it did, what is the social cost? The United Kingdom's recent law change allowing grocers to sell alcoholic beverages at cost has resulted in an alarming increase of public drunkenness, alcoholism and crime.

9. The report states that excise and sales tax revenues will grow by $6.7 million; assuming half for each category (5.5% excise tax vs. 7% sales tax is pretty close), then $3.4 million in sales taxes equate to $48.5 million in additional revenues (see #6 above). $48 million at 1% is only $480,000 income subject to taxation (not $3.6 million as stated).

10. The FMI consultants may not be aware that New Jersey's grocery stores <u>combined</u> had income subject to taxation of $165 million (or <1% of $15 billion gross sales); yet the package goods industry had $95 million in income subject to taxation on only $1.2 billion in sales.[25]

THE LIKELY IMPACT OF AN EXISTING GROCERY STORE ACQUIRING A PACKAGE GOODS LIQUOR LICENSE



* A full explanation for the chart can be found on page 14.

CHART

The chart located on page 15 is based on the premise of a multi-municipality marketplace with 30,000 households – a typical New Jersey suburban scenario. Using the Nielsen Claritas data of $346 per household in annual package goods purchases; this computes to a $10.4 million marketplace for package goods.

Based upon the current estimate of 5,000 households for each package goods license, the current market has 6 independent liquor stores. These independent liquor stores act as multi-product market makers, providing price and social stability. They also earn reasonable industry net profits of 8.5%, and contribute $66,300 in owner income taxes (either Corporate or Sub-S).

Now an existing Big Box store enters the market, by purchasing an existing inactive license. There are now seven (7) packaged goods stores, serving the same market size. The Big Box store realizes volume discounts from the cherry-picked high-profit products they stock, and price discounts and stabilizes at 50% market share after two years. The Big Box store also realizes consumer hoarding behavior from its price discounting, for 20% market growth on its share, or $1mm additional gross sales.

Old Market = $66,300 in tax revenue

New Market = $43,260 in tax revenue

$23,000 tax revenue loss
to the State of New Jersey!

The six package goods store gross sales is cut to $5.2 million from $10.4 million, and they eliminate 6 of their 23 employees (see below) to maintain an 8.5% net income. They now contribute $26,520 in owner income taxes on the 50% small share, a loss of $39,800 to State revenues (original $66,300 less $26,520 new contribution). But the Big Box store contribution has to be added in; the Big Box store that does $20 million in grocery/merchandise revenues at 1%, and an additional $6.2 million ($5.2 million 50% share plus $1million in hoarding share) at 10% gross profit, realizes a combined 3% net, which equates to $16,740 in corporate tax revenues. The new market structure pays $43,260 in State income taxes (26,520 + $16,740 = $43,260).

There is also the employee wage impact. The old market structure of six stores had 4 non-owner employees each, for a total of 24 employees. The existing Big Box store requires 4 employees to manage their increased liquor sales, resulting in a 6 employee loss (1.4 lost to every new employee), and assuming the lost employees were hired by the existing Big Box store the net employee loss is 2 employees.

Assuming that none of the independent liquor stores close in the first two years, the two employee net loss would be approximately $50,000 (@ $12/hour), and at a 1.75% income tax rate would lower employee income tax revenue by $875.

The benefit for the Big Box store: the high-profit alcohol sales will increase their net significantly. Example: The Big Box store does $20 million at 1% = $200,000 net profit, add alcohol sales of $6 million at 10% gross profit = $600,000, where $800,000 net profit over $25 million in sales = 3%. For a small grocery store, $10 million at 1% = $100,000 net income, plus $1.5 million alcohol at 10% = $150,000 net income, would increase net profit to 2% level ($1.5 million in alcohol produces more profits than $10 million in food).

The detriment to the independent liquor stores: reduction of high-profit high-volume sales and increased price competition pressures profits, leading to reductions in employees (people or hours), inventory reductions, and owner profits (reductions in wealth and taxes). Ultimately, an independent liquor store doing $650,000 gross with $55,000 net will find better opportunities for capital and close operations. Downstream effects will be felt by wholesalers and suppliers and real estate taxes (or indirect rents) would impact local municipal coffers. State tax revenues on the same gallonage sold will be dramatically and negatively impacted.

MARKET REVIEW

As stated, the grocery 1% and liquor 8.5% net margins are based on *statewide* average; each market can have different margin levels. Below is an exploration of several markets, based upon 2011 NJ Division of Taxation and Nielsen Claritas data. The data shown is for the specific municipality only, and does not estimate cross-border sales or income subject to taxes.

Bridgewater

Grocery stores had $578,000 in income subject to tax. The demand estimate for grocery is $55 million. Independent liquor stores had $300,000 income subject to taxes. The demand estimate for package goods is $6.7 million.

Cherry Hill

Grocery stores had $104,000 in income subject to tax. The demand estimate for grocery is $143 million. Independent liquor stores had $1.3 million income subject to taxes. The demand estimate for package goods is $10.2 million.

Gloucester City

Grocery stores had $31,000 in income subject to tax. The demand estimate for grocery is $20 million. Independent liquor stores had $85,000 income subject to taxes. The demand estimate for package goods is $1.3 million.

Hamilton Township

Grocery stores had $531,191 in income subject to tax. The demand estimate for grocery is $173.9 million. Independent liquor stores had $1,067,693 income subject to taxes. The demand estimate for package goods is $12.1 million.

Jackson Township

Grocery stores had $972,000 in income subject to tax. The demand estimate for grocery is $101 million. Independent liquor stores had $463,000 income subject to taxes. The demand estimate for package goods is $6.9 million

Manalapan

Grocery stores had $15,000 in income subject to tax. The demand estimate for grocery is $78 million. Independent liquor stores had $149,000 income subject to taxes. The demand estimate for package goods is $5.5 million.

Montclair

Grocery stores had $68,710 in income subject to tax. The demand estimate for grocery is $72.7 million. Independent liquor stores had $328,728 income subject to taxes. The demand estimate for package goods is $5.7 million.

Mount Laurel

Grocery stores had $36,000 in income subject to tax. The demand estimate for grocery is $84 million. Independent liquor stores had $125,000 income subject to taxes. The demand estimate for package goods is $6.3 million.

Secaucus Borough

Grocery stores had $59,909 in income subject to tax. The demand estimate for grocery is $30.6 million. Independent liquor stores had $124,656 income subject to taxes. The demand estimate for package goods is $2.3 million.

Union Township

Grocery stores had $28,421 in income subject to tax. The demand estimate for grocery is $96.9 million. Independent liquor stores had $439,587 income subject to taxes. The demand estimate for package goods is $6.7 million.

Woodbridge

Grocery stores had $678,000 in income subject to tax. The demand estimate for grocery is $173 million. Independent liquor stores had $654,000 income subject to taxes. The demand estimate for package goods is $12 million.

It is clear from the above municipal reviews: independent liquor stores have as much income subject to taxation and in several cases more than the much larger grocery stores. This data suggests that any change in independent liquor store market share to a grocery or other Big Box store, will likely have negative tax revenue implications for the State.

LITERATURE REVIEW

The Literature Review focuses on a number of key research documents utilized for the "*Economic Analysis of the Impact on Market Structure and State Tax Revenues for New Jersey A1325 and S2009*." The documents include two recent compelling working papers by the American Association of Wine Economists, a non-profit, educational organization dedicated to encouraging and communicating economic research and analyses in wine economics. The review also includes the Food Marketing Institute's report on the Impact of New Jersey A2591, now A1325, which served a a basis for the Office of Legislative Service's fiscal impact statement.

I. *Introducing Wine into Grocery Stores: Economic Implications and Transitional Issues*. Dr. Bradley Rickard. Working Paper 48. American Association of Wine Economists: October 2009.

In this paper Dr. Bradley Rickard introduces a simulation model that assesses the likely effects of commencing wine sales in grocery stores in New York State. Results suggest that benefits would be generated for out-of-state wineries, government revenues, and in most cases the in-state wineries; wine sales at liquor stores would fall by 17% to 32% with this policy change. This finding highlights that any proposed changes to the way wine is sold will lead to welfare changes that are not distributed equally, and policy makers need to consider transitional issues within this industry. (Note: With wine sales accounting for 22% of excise tax revenue, an average 25% wine sales decline can be $40,000 on a $1 million gross sales, and market transfer of $40,000 from a 8.5% net profit store to a 1% net profit store has significant tax revenue implications.) Dr. Bradley Rickard is an Assistant Professor in the Dyson School of Applied Economics and Management at Cornell University, and Director of Cornell's Horticultural Business and Policy Program.

II. *The Demand for Beer, Wine and Spirits: Insights from a Meta Analysis Approach*. Dr. James Fogarty. Working Paper 31. American Association of Wine Economists: November 2008.

In this paper Dr. James Fogarty finds that the demand for alcoholic beverages has become less inelastic since the mid-1950's and that the income elasticity has been falling since the mid-1960's. The author also found support for the idea that alcohol as a commodity group is a necessity, and that consumers respond to price discounting with inventory behavior rather than true substitution behavior. He identifies a trend towards less inelastic own-price elasticity estimates as suggestive of falling profit margins for the industry, and should the trend continue to more elastic demand for alcoholic beverages, it is reasonable to expect industry consolidation to continue. (Note: industry consolidation will have considerable impact on consumer convenience and choice, and drag on profit margins will negatively impact direct and indirect income effects, including income tax revenue and community multiplier effects.) Dr. James

Fogarty is an Assistant Professor in the School of Agricultural and Resource Economics at the University of Western Australia, with an active research agenda on alcohol tax rate policy.

III. *The Economic Impact of New Jersey A2591: An Act to Increase Retail Liquor Distribution License Limits for Certain Retailers*. John Dunham and Associates. Food Marketing Institute Report: June 2011.

This paper was written in consideration of A2591, a 2010-2011 session version of the current proposed legislation A1325, most of the premises and findings presented would not change under the current bill version. This paper presents a 275 job gain, $6.7 million in additional sales and excise tax revenues, and $3.6 million in business and employment taxes. It also identifies improvement in quality, choice, and costs-savings. The paper identifies the addition of only 6 grocery stores that would obtain liquor licenses, each would sell $.3.6 million in alcohol products, and produce $18.6 million in additional sales, and would only result in a loss of $1.9 million for liquor stores. It also assumes that the size of liquor outlets could become large if a change were made to make licensing provisions less restrictive. (Note: There is disagreement on many premises and findings of this paper, which are identified in the Economic Critique of Food Marketing Institute Report on page 12 of this paper.

IV. *Studies Question the Pairing of Food Deserts and Obesity*. Gina Kolata. New York Times, April 17, 2012.

The article references studies by the RAND Corporation and Public Policy Institute of California. The studies found that poor urban neighborhoods “not only have more fast food restaurants and convenience stores than more affluent ones, but more grocery stores, supermarkets and full-service restaurants, too.” Camden, NJ was referenced, identifying three places with abundant produce including a Pathmark, Save-A-Lot and a fresh produce stand “wedged” in among fast-food restaurants and convenience stores.

V. The Effects of Wal-Mart on Local Labor Markets. Neumark, Zhang and Ciccarella. National Bureau of Economic Research: Revised November 2007.

This economic study estimated the effects of Wal-Mart stores on county level retail employment and earnings. The employment results indicate that a Wal-Mart store opening reduces county level retail employment by about 150 workers, implying that each Wal-Mark worker replaces approximately 1.4 retail workers. This represents a 2.7 percent reduction in average retail employment, and the payroll results indicate that Wal-Mart store openings lead to declines in county-level retail earnings of about $1.4 million, or 1.5%.

DATA REFERENCES

The following data references are from Nielson Claritas' Municipal-Level 2011 estimates unless otherwise noted.

Statewide Market Scope

Based on current New Jersey Department of Taxation data, income subject to taxation from grocery and specialty grocery store, excluding convenience stores, was $163.7 million in FY2011 and $165.7 in FY2010. Based upon the 2011 Nielsen Claritas Consumer Expenditure Survey, total grocery expenditures are estimated at $15.9 billion, equating to a 1% net profit margin.

Conversely, the income subject to taxation from the independent liquor store segment was $95.2 million in FY2011 and $98.6 in FY2010.[26] Based upon the 2011 Nielsen Claritas Consumer Expenditure Survey, total independent liquor store expenditures are estimated at $1.1 billion, equating to an 8.5% net profit margin. The NJ Taxation calculation based upon excise sales tax data is higher at $1.6 billion, but this includes undetermined level of wholesaler inventory.

Although the convenience store sector income subject to taxation could not be determined by the New Jersey Department of Taxation, this sectors gross sales estimate is $801.3 million, and estimates of income subject to taxation at liquor-sector net profit level (8.5%) equates to $68 million.

Food Deserts Maps

Based upon information from the U.S. Department of Agriculture, (http://www.ers.usda.gov/data-products/food-desert-locator/go-to-the-locator.aspx), the maps identify the census tracts that meet the food deserts criteria of poverty and access. The maps reviewed covered North and South Jersey, and the municipalities of Atlantic City, Camden, Perth Amboy, and Trenton. Camden is comprised of four (4) census tracts, which include neighborhoods adjacent to Cooper Hospital and Wiggins Waterfront Park. These Camden tracts include 7.300 residents. Atlantic City has six (6) food desert census tracts without sufficient grocery stores; four of the tracts are in the most commercially developed area of the city, which received incentives for casino construction but not for grocery stores. Trenton has four (4) food desert census tracts, including the Islands community and three (3) tracts adjacent to Lawrence and Hamilton townships, both containing many grocery stores. Perth Amboy has only one (1) food desert census tract, of less than 900 people who meet the criteria, and is located along the busy Route 9 corridor.

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2. Reported Tax Receipts of Alcoholic Beverage Sales by SIC code. NJ Department of Treasury, Division of Taxation.
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4. John Durham and Associates. The Economic Impact of New Jersey A-2591. Food Marketing Institute Report: June 3, 2011.
5. Neumark, Zhang and Ciccarella. The Effects of Wal-Mart on Local Labor Markets. National Bureau of Economic Research: Revised November 2007.
6. Rickard, Bradley. Introducing Wine into Grocery Stores: Economic Implications and Transitional Issues. Working Paper 48. Cornell University: October 2009.
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8. Food Desert Maps. US Department of Agriculture: 2012.
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11. Kolota, Gina. Studies Question the Pairing of Food Deserts and Obesity. New York Times: April 17, 2012.

ENDNOTES

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[1] Rickard, Bradley. Introducing Wine Into Grocery Stores: Economic Implications and Transitional Issues. Working Paper 48. Cornell University: October 2009.

[2] Neumark, Zhang and Ciccarella. The Effects of Wal-Mart on Local Labor Markets. National Bureau of Economic Research: Revised November 2007.

[3] The 1% and 8.5% profit margins are based upon statewide levels. Individual markets may vary.

[4] Computed as 3,220,567 households * $356 expenditure = $1.14 Billion.

[5] Reported Tax Receipts of Alcoholic Beverage Sales by SIC code. New Jersey Department of Treasury, Division of Taxation.

[6] Albany News. Lower Hudson Journal News. January 26, 2012.

[7] A2591 with fiscal note. NJ State Legislature: 2010-2012 legislative session.

[8] John Durham and Associates. The Economic Impact of New Jersey A-2591. Food Marketing Institute Report: June 3, 2011.

[9] Alcohol Beverage Tax Revenue Report: Licenses – Active and Inactive. NJ Division of Alcohol Beverage Control: March 12, 2012.

[10] See 2 above.

[11] See 2 above.

[12] United States Department of Agriculture. Food Desert Locator. www.ers.usda.gov/data-products/food-desert-locator.aspx .

[13] US Department of Treasury, Healthy Food Financing Initiative, HR1473 – 2011 Continuing Resolution /Omnibus Appropriations Bill, HR2055 – 2012 Consolidated Appropriations Act.

[14] New Jersey Legislature, Bill History S3089/A4309 (2010-2011 session) and S531/A1397 (2012-2013 session), www.njleg.state.nj.us .

[15] Reported Tax Receipts of Alcoholic Beverage Sales by SIC code. NJ Department of Treasury, Division of Taxation: March 2012.

[16] liquor employee reduction assumes 17-32% Wine Economist (see 1 above) market share transfer.

[17] A1325 with fiscal note. NJ State Legislature: 2012-2013 legislative session.

[18] NJ Division of Taxation-Revenue Section, excise tax collection data.

[19] NJ Division of Alcoholic Beverage Control, Alcoholic Beverage Control Handbook for Municipal Issuing Authorities, page 25.

[20] see 11 above.

[21] Ibid

[22] Regulating The Availability Of Beer, Wine, And Spirits In Grocery Stores. Cornell University: December 2011.

[23]see 1 and 18 above.

[24] Aidan, City Ends Grandfathering of Liquor Stores in Residential Areas. Baltimore Sun – Neighborhood News: July 12, 2012.

[25] See 5 and 14 above.

[26] See 5 above.