ECONOMIC ANALYSIS OF THE IMPACT ON MARKET STRUCTURE AND STATE TAX REVENUES FOR NEW JERSEY A1325 AND S2009

OVERVIEW

The proposed legislation, A1325/S2009, removing retail plenary distribution license limits for certain stores has the strong probability of negatively impacting State tax revenues, incurring significant job losses and eradicating a vibrant marketplace.

In its current form the legislation, A1325/S2009, increases the number of licenses a single entity can hold from two (2) to as many as ten (10) implemented over a multi-year incremental timeframe. Grocery stores, convenience stores and warehouse clubs all qualify under the proposed legislation.

Examined within the Economic Analysis was a snapshot of the current statewide market structure for alcohol and grocery consumption at the household level, and extrapolating those findings into a simulation of the economic impact of Big Box stores dominating the heretofore community based Independent Liquor store markets.

The report utilized current 2011 data from the New Jersey Department of the Treasury; Division of Alcoholic Beverage Control; and the Nielson Caritas Consumer Expenditure Patterns and Opportunity Gap reports. Also utilized in developing the report were previous analyses and papers from the National Bureau of Economic Research; Cornell University; American Association of Wine Economists and the US Department of Agriculture.

STATE TAX REVENUES

A conclusion can be drawn from the economic analysis conducted on the proposed legislation, A1325/S2009, that the enactment of this bill will negatively impact State tax revenues. As the market is restructured from higher profit independent liquor stores to lower profit Big Box retailers, the State will experience a decline in tax revenues from alcoholic beverage sales.

- The $15 billion Big Box industry accrued only 1% income subject to taxation or $165 million in 2011, while the twelve (12) times smaller $1.2 billion retail independent liquor store industry accrues 8.5% income subject to taxation or $95 million[1]. For every $1 million dollars in gross liquor sales transferred from Independent Liquor stores to Big Box stores, the State will realize $75,000 dollars less in income subject to taxation[2]. When 50% of package store sales shift to big box and convenience store retailers, the State of New Jersey will lose $45 million dollars in income subject to taxation in addition to the a large proportion of the net tax yield going to other states and countries.
- Many of the Big Box stores are owned by out-of-state corporations causing monies to flow to these out-of-state company headquarters limiting the amount of revenue realized from taxable income within New Jersey. Independent Liquors stores are predominantly locally owned businesses with taxable income remaining in the State.
- In 2011 alcoholic 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. In a stable marketplace with gallons sold at stagnant rate; income subject to taxation will not increase.[3]

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

[2] Reported Tax Receipts of Alcoholic Beverage Sales by SIC Codes. New Jersey Department of the Treasury, Division of Taxation: 2012.

[3] New Jersey Department of Law and Public Safety, Division of Alcoholic Beverage Control: 2011.

JOB LOSS

Existing Big Box stores would require nominal, if any, new employees to accommodate the addition of alcoholic beverages to their shelves; yet eliminate .5 to 1.5 Independent Liquor store employees in every store throughout their regional marketplace.[4]

- Based on the National Bureau of Economic Research's "Wal-Mart Study" in 2007, for every five (5) people hired by the Big Box stores seven (7) market jobs are lost. Although some of the lost market jobs may be negated by Big Box store hiring displaced independent liquor store employees and the end result will be the loss of two (2) Full Time Equivalent (FTE) positions eliminated from the marketplace.[5]

- With the 2012 New Jersey unemployment rate increasing by .4% from 9.2% in May to 9.6% in June; the state cannot afford legislation that eliminates marketplace jobs.[6]

THE MARKETPLACE

The current dialogue challenging the two (2) license limit has become an anti-competition and consumer convenience issue. These issues are without merit in the context of the current law and market structure.

- There are currently 100 Big Box stores in New Jersey selling alcohol in their aisles including grocery, convenience and farm stands. These licenses were purchased competitively, and were not restricted by government agency.[7]

- There are currently 149 inactive plenary retail distribution licenses available, many in municipalities without a Big Box store.

- Independent Liquor stores are predominantly located on well traveled roads in commercial facilities often next to a Big Box or convenience store. The convenience argument in the legislation is without merit unless the convenience is very narrowly defined as within the same location as where you purchase groceries or other merchandise. While the bill advocates convenience for Big Box stores it does nothing to provide the same for Independent Liquor stores by allowing them to expand their product offerings to include food staples, groceries or other merchandise.

- In New Jersey there are currently two (2) times as many Independent Liquor store licenses, numbering 2260, as there are grocery stores at 1000 locations; but fewer than convenience stores totaling 2700 locations.

CONCLUSION

Changing the two (2) license limit will result in a restructuring of one of the last independent retail sectors remaining in New Jersey. The new market structure will negatively impact State tax revenues. Jobs will be lost increasing New Jersey's already higher than the national average unemployment rate. The current market place already provides convenience for the consumer with a high number of Independent Liquor stores located near or adjacent to Big Box or convenience stores. Based on the results of this economic impact analysis, it is apparent that A1325/S2009 does not provide the benefits espoused by proponents of the legislation.

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

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

[6] Major Indicators of Labor Market Activity for New Jersey. NJ Department of Labor and the Workforce. Updated July 2012.

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