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Privatized liquor could cost province millions: Report

Regina — The Saskatchewan government maintains that their proposed privatization of the province's liquor retailing system will not result in diminished government revenues. However, a new joint study by Alberta's Parkland Institute and the Saskatchewan Office of the Canadian Centre for Policy Alternatives demonstrates that even with the existing mark-up and taxation regime in place, the government stands to lose millions in potential revenue under a privatized liquor system. *A Profitable Brew: A Financial Analysis of the SLGA and its Potential Privatization* by David Campanella challenges a number of the government's economic assumptions in regards to private liquor sales. Highlights of the report include:

- Looking at just the last five years, if the SLGA had earned the same Return on Investment (ROI) that Alberta's private system provides the AGLC, Saskatchewan would have forgone more than a quarter of a billion dollars in lost government revenue.
- If the four private liquor stores in Saskatoon and Regina have comparable sales revenue to the urban-based SLGA stores, SLGA will forego annual profits of between \$3.5 million to \$7.5 million.
- Because the majority of high-value urban SLGA stores are leased rather than owned, the potential proceeds from any asset sale would be negligible. The five most valuable SLGA properties in urban centres have an assessed market value of less than \$5.5 million - less than 0.2% of the province's forecasted core debt at the end of the fiscal year.
- Only a handful of private retailers, operating in the major cities, would achieve the profits necessary to pay the province's 12% corporate income tax rate. The majority of private stores would only be subject to the 2% small business tax rate, substantially reducing anticipated tax receipts from private stores.
- The four recently privatized rural liquor stores had not been costing the SLGA money. Each store earned more in sales revenue than it cost the SLGA to stock the shelves and operate the stores. These four stores earned the SLGA \$4.36 million over the last five fiscal years. The Langenburg, Ituna and Kerrobert stores each netted over a

million dollars each over that time period.

- The integrated distribution systems of Saskatchewan and Manitoba have had much lower growth in the cost of liquor than the fully private and mixed retail systems of Alberta and British Colombia. Since 2004, the cost of good sold (COGS) has increased 42% in Alberta and only 17% in Saskatchewan.
- Any financial gains Alberta initially accrued from freeing itself of managing their retail stores was quickly evaporated and reversed when the increased complexity and need to appease the new private liquor industry meant higher wholesaling costs, reduced mark-ups and lower gross profit margins for the public liquor agency.

Given the superior profitability of the current public system and the potential loss of revenue that privatization could bring, the report recommends the following:

1) Maintain public ownership of an integrated wholesale and retail liquor distribution system;

2) Do not license any more private retail stores, and task the SLGA with studying the financial implications of purchasing the four private retail stores already operating in the province;

3) Allow the SLGA to expand its network of retail stores in a way that balances its objectives of fiscal stewardship, customer service, and social responsibility. This will require the Treasury Board to leave the SLGA with the necessary retained earnings to fulfill a long-term capital plan.

Join us for a press conference with the report's author, David Campanella on Wednesday, December 3, at 10:00 a.m. at the Ramada Hotel in Regina, in the Maple Room.

To speak with the report's author, David Campanella: (587) 718-2267

The full report will be available at 10am on Wednesday, December 3rd. Find the report here:

www.policyalternatives.ca/offices/saskatchewan