

STATE AUDITOR DOUG HOFFER

PRESS RELEASE

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Auditor questions state role in liquor sales

MONTPELIER, VT – Vermont State Auditor Doug Hoffer today released the findings of an audit into the Vermont Department of Liquor Control’s (DLC) purchasing, warehousing, distribution, and sales of liquor.

The audit first examined the financial impacts of privatizing or partially privatizing the sale of liquor in Vermont. The SAO’s financial modeling suggests that full or partial privatization of liquor sales may yield a neutral budget impact, but there are other considerations.

Second, the State Auditor’s Office (SAO) investigated ways to increase the profitability of the current system and the audit team identified areas where the DLC may be able to improve fiscal performance.

Vermont is one of 17 states that control the sale of liquor at the wholesale and/or retail levels, and the DLC sells alcohol through 78 privately-owned retail businesses that contract with the department.

As the exclusive seller of liquor in Vermont, DLC sets retail prices, including a 65- to 85-percent markup. In fiscal year 2013, the DLC generated almost \$30 million in net liquor revenue, of which \$18 million was paid to the State in excise taxes and other fees. The remainder was used to fund its sales operations and enforcement functions. In estimating the privatized or partially privatized scenarios, the audit team assumed an increase to the existing excise tax rate (in order to cover the expected profit margins of private sellers) and a reduced operating cost at DLC.

“The estimated fiscal impact of privatization does not argue for a change to the State’s current system, but there are other factors to consider,” Auditor Hoffer said. “It may be timely for legislators and other policymakers to reflect on whether liquor sales are a core function of State government and whether the sale of liquor could be licensed to the private sector, as it is for beer and wine. There is an inherent conflict of interest associated with one department being responsible for promoting and regulating the use of the same product.”

While the DLC asserts that state control of liquor sales is essential to ensure responsible consumption and fewer negative social impacts, this is not supported by the evidence. Studies

consistently show that enforcement measures more effectively reduce alcohol-related injuries and mitigate driving under the influence of alcohol, regardless of whether sales are controlled by the states.

With regard to the current system, there may be actions that the DLC could take to improve profitability, but the DLC has not performed the necessary analyses to determine the costs and benefits of these actions. Although the DLC claims to want greater warehouse space, higher markups, and more contract retail stores, the department has not conducted analyses to determine the need for a new warehouse and an efficient number and location of retail stores. Additionally, the department has taken few measures to review its pricing practices, and its strategies for markups date back to 1996 – strategies that the department can't explain the rationale behind.

For a broader analysis of these issues and others, [click here](#) to read the full report.

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