



New York State Division of Budget
Town Hall Hearings

Written Testimony for the Record
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Paul Francis and New York State Division of Budget:

Thank you very much for allowing Whole Foods Market the opportunity to submit testimony for consideration in preparation for the 2008-2009 Budget.

I'm sure, over the past couple of weeks, you have heard an abundant amount of testimony as to the many needs of numerous organizations throughout New York that rely on State funding to provide critical services to the people of New York. It is hard to imagine how difficult the process must be to try and find adequate amount of funding to meet all of the needs presented. To that end, Whole Foods Market would like to offer its support for an opportunity for New York State to generate new revenue by allowing the sale of wine in grocery stores.

As you know, New York, unlike most other states, does not permit the sale of wine in food and drug stores. Instead, the sale of wine for off-premises consumption is limited to liquor and wine stores licensed by the State Liquor Authority.¹ An amendment to New York's Alcoholic Beverage Control Law has been proposed that would permit the sale of wine in food and drug stores. The proposed legislation would increase State and local government revenues in New York, in several ways:

- Increased licensing fees, due to a major increase in the number of retail outlets permitted to sell wine;
- Increased excise and sales taxes, due to an increase in the volume and value of wine sales; and
- Other tax revenues generated by increased employment and other economic activity related to the sale of wine.

¹ The Alcoholic Beverage Control Law permits the sale of beer and wine coolers (mixed drinks containing wine, fruit juice and soda) in food stores and drug stores, but not wine.

Taking these various elements into account, we estimate that *the increase in State and local revenues in the first full year of operation could total approximately \$70 million – and, if the State also chooses to impose a one-time “franchise fee” on stores when they receive their initial license, could be as high as \$133 million.*

On an ongoing, annualized basis, state and local revenues would in the future exceed those realized without the sale of wine in food and drug stores by approximately \$31 million – and this margin could be expected to grow over time.

Licensing and franchise fees

The largest share of increased revenue would come from the initial payment of licensing fees by food and drug stores that would be licensed to sell wine. Assuming that the State would charge \$3,000 for a three-year license, we estimate that the increase in filing and licensing fees during the first year of implementation would be approximately \$56 million.

The State might also choose (as several other states do) to impose a one-time franchise fee on each store that wants to sell wine – in effect, a one-time, up-front fee for entry into the business. Based on a hypothetical schedule of franchise fees (shown below in Table 1) we estimate that the State could realize a one-time gain of as much as \$62 million. (For stores with very high sales volumes, this proposed schedule might in fact understate the market value of the right to sell wine; our estimate of potential franchise-fee revenue might thus be understated.)

On an ongoing, annual basis, we estimate that filing and licensing fees would generate approximately \$19 million in revenue each year.

Table 1: Franchise Fee Schedule and Revenue Generated from Food and Drug Stores, 2007

<i>Annual Sales at NYS Location</i>	<i>Franchise Fee per Location</i>	<i>Food and Drug Stores</i>	<i>Total Collected from Participating Retailers</i>	
Less than \$10,000	\$1,000	3	\$	2,673
\$25,000	\$1,000	41	\$	38,307
\$50,000	\$1,000	171	\$	159,462
\$100,000	\$1,000	616	\$	572,816
\$250,000	\$1,000	2,649	\$	2,463,200
\$500,000	\$1,000	3,384	\$	3,147,373
\$1,000,000	\$2,000	3,388	\$	6,301,872
\$2,500,000	\$2,000	3,264	\$	6,070,251
\$5,000,000	\$5,000	1,735	\$	8,066,646
\$10,000,000	\$10,000	1,279	\$	11,892,846
\$25,000,000	\$15,000	1,235	\$	17,224,582
\$40,000,000	\$20,000	275	\$	5,113,478
Over \$40,000,000	\$25,000	51	\$	1,180,376
<i>TOTAL</i>		<i>18,090</i>	<i>\$</i>	<i>62,233,882</i>

Excise and sales taxes

The State also imposes a per-gallon excise tax on the sale of wine. Based on previous research conducted by the American Economics Group, we estimate that the availability of wine in food and drug stores would increase total sales volume by approximately 18.5 percent.

The State and local governments also collect sales taxes on wine sold at retail. Following AEG's analysis, we assume that the dollar value of retail sales of wine will increase by 8.1 percent.

Based on these assumptions, we estimate that authorizing the sale of wine in food and drug stores would increase annual excise and sales tax revenues by approximately \$9.5 million. Moreover, because sales in food stores represent the fastest-growing element of the retail wine market, we estimate that the additional excise and sales tax revenues realized by the State will gradually increase over time.

The impact of increased economic activity

Finally, authorizing the sale of wine in food and drug stores would generate new employment. This would include new jobs in food and drug stores, and in other sectors as well – trucking, advertising, wineries, etc. We estimate that in the first stabilized year after initial implementation, sale of wine in food and drug stores would generate approximately \$57 million in new economic activity in New York, and more than 700 full-time-equivalent jobs. This activity would in turn generate approximately \$2.5 million in State and local tax revenues.

Taking into account recurring licensing fees, direct excise and sales taxes, and other taxes derived from the economic impact of increased wine sales, we estimate annual state and local revenues generated by the sale of wine in food and drug stores would total approximately \$31 million annually.

The first-year impact of authorizing the sale of wine in food and drug stores is summarized below in Table 2.

Table 2: First-Year Impact of Wine Sales

	<i>Current</i>	<i>Incremental</i>	<i>Total</i>
Outlets to sell wine	2,612	18,090	20,702
Wine sales (gallons)	52,901,890	10,442,616	63,344,506
Wine sales (dollars)	\$ 1,395,000,000	\$ 120,566,212	\$ 1,515,566,212
Revenue Impacts			
Filing fee		\$ 1,809,000	\$ 1,809,000
License fee			
\$1,000	\$ -	\$ 18,090,000	\$ 18,090,000
\$3,000	\$ -	\$ 54,270,000	\$ 54,270,000
Excise tax	\$ 9,911,093	\$ 1,976,787	\$ 11,887,880
Sales taxes	\$ 110,728,125	\$ 9,569,943	\$ 120,298,068
Franchise fee	\$ -	\$ 62,233,882	\$ 62,233,882
Taxes from Employment			
State and local taxes	\$ 14,952,754	\$ 689,407	\$ 15,642,161
Indirect/Induced	\$ 4,587,021	\$ 1,103,715	\$ 5,690,736
Property taxes	\$ 7,251,118	\$ 768,895	\$ 8,020,013
TOTAL			
State and local revenue			
\$1000 License Fee	\$ 147,430,112	\$ 96,241,628	\$ 243,671,740
\$3000 License Fee	\$ 147,430,112	\$ 132,421,628	\$ 279,851,740
New Economic Activity			
Direct economic impact			
Output	\$ 232,921,488	\$ 31,910,362	\$ 264,831,850
Jobs	3,854	528	4,382
Compensation	\$ 150,064,537	\$ 7,592,903	\$ 157,657,440
Indirect/Induced impact			
Output	\$ 137,629,419	\$ 24,972,537	\$ 162,601,956
Jobs	1,093	174	1,267
Compensation	\$ 45,348,000	\$ 8,319,654	\$ 53,667,654
TOTAL			
Economic Output	\$ 370,550,907	\$ 56,882,899	\$ 427,433,806
Jobs	4,947	702	5,649
Compensation	\$ 195,412,537	\$ 15,912,557	\$ 211,325,094

Beyond these immediately quantifiable impacts, the proposed legislation would benefit the state's economy in several other ways as well:

- Benefits to consumers in the form of increased convenience and lower prices totaling \$80 to \$90 million annually;
- Recapturing for the State retail sales that might otherwise be lost to out-of-state vendors via the Internet;
- Creating an opportunity for more effective marketing of New York State wines in New York City – the nation's leading wine market;
- Benefiting areas of the State, such as the Erie-Niagara region, that have lagged economically in recent years;
- Making New York a more attractive place for major food retailers to invest and expand.

In summary, we believe that the proposed legislation makes sense on several levels: it is good public policy, it will benefit consumers, it will create jobs throughout the state, and it will generate needed revenues for the State and its local governments.

Given these conclusions, we respectfully request that the Governor include additional revenues in his 2008-09 Executive Budget proposal by allowing the sale of wine in grocery stores.

Again, Whole Foods Market appreciates your time and looks forward to continuing discussions concerning this issue.

Christina Minardi
Northeast Regional President
Whole Foods Market