Budget Cuts Effecting Liquor Stores

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Introduction

When the government is running a retail business budget cuts are made, resulting in stores making a reasonable amount of money closing to make their budget (Time to drop liquor stores?, 2011). It is unavoidable that there are going to be state budget cuts in a tough economy. Government auditors have to find where they can cut without losing too much money. Sometimes their decisions are supported and other times people petition against them. In this case, over the past two years, they have been cutting funds from The Utah Department of Alcoholic Beverage Control. They closed the liquor store on 1457 South Main Street and will be closing up to nine more liquor stores (Across The Board Budget Cuts May Not Bring Real Savings, 2011). There are many issues surrounding decisions from legislature such as: If closing stores will save money, possibly privatizing liquor stores, and if it is beneficial to keep stores open.

Benefits of Closing Liquor Stores

In 2010 the Department of Alcoholic Beverage Control (DABC) had a budget increase from $29 million to $31 million to help to DABC with bond payments, operation costs, and maintenance costs. The operating budget was reduced by about $653,000. The Department of Alcoholic Beverage Control assumes that there is going to be a 3.5 percent decrease in sales. This is just a prediction, there is no proof that will support or disprove the assumption that the sales will decrease 3.5 percent (A limited review of the effects of DABC budget cuts on state revenue, 2010). The DABC is choosing to make twelve hour stores to ten hour stores, cut part time workers, eliminate bonuses and incentives, and reduce department expenditures. The DABC thinks that because of “last minute” purchases it will lose the 3.5 percent in sales, but legislative auditors have other suggestion on where the DABC can cut operation costs. Legislative auditors suggest closing smaller, lower performing store to close; the business for the smaller store will relocate to another, nearby liquor store. One store closure suggestions are to close one of the stores in St. George; the smaller (4,740 square foot) is costing up to $356,000 for operating costs. The small liquor store is only 2.35 miles from the new bigger (10,000 square foot) liquor store (A limited review of the effects of DABC budget cuts on state revenue, 2010). Another option is cutting full-time workers hours to part-time instead of part-time employees because if they don’t have as many full-time workers they lower the cost for employee benefits (state auditors suggest closing some Utah liquor stores).

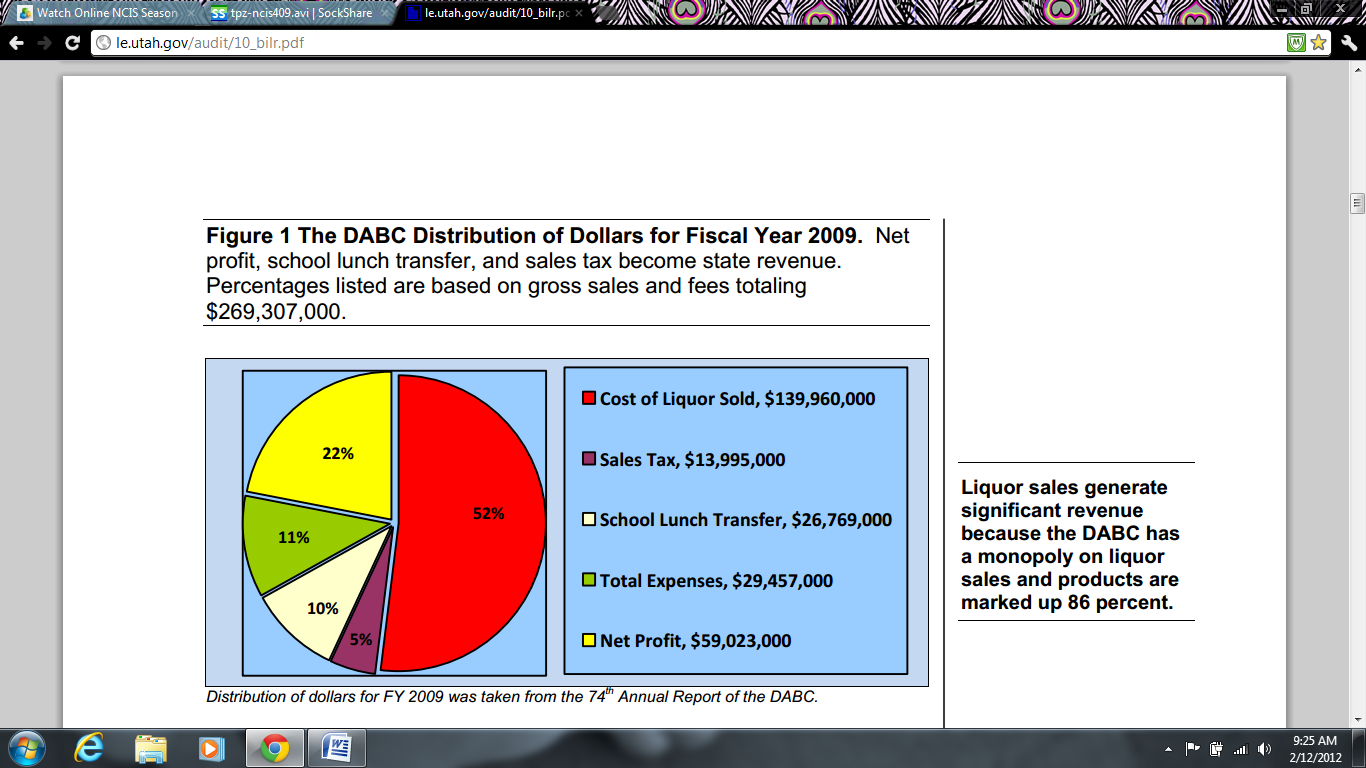
Other reasons for closing liquor stores is because it will improve alcohol related problems such as less drunk drivers out on the roads and less minors consuming liquor (House, Utah won't save money with closed liquor stores, 2011). The state concluded that closing less profitable stores would see the money made up at bigger stores (Peek, 2010).

Privatization of Liquor Stores

Privatization has been proposed by several representatives because it is projected to save the state money. Representative Ryan Wilcox is working on a proposal that will allow the state to still distribute alcoholic drinks but requiring it to sell all state owned retail liquor stores to private operator. Rep Ryan Wilcox insists that the state will not lose tax revenue; yet allowing the liquor market, without budgets, be a success or a failure (Piccolo, 2011). No matter if liquor stores were state owned or privately owned; people that want to drink will drink (Time to drop liquor stores?, 2011). If privatization did happen it would make alcohol more accessible by more stores with longer hours, which could possibly increase consumption.

Benefits of Keeping Liquor Stores

No one has a reasonable explanation why the state is cutting a money making operation during a recession. The liquor department has had several necessary budget cuts that legislation has asked them to cut. However, legislative auditors have criticized their business plan for closing profitable stores (Time to drop liquor stores?, 2011). They have cut a few liquor stores in the past two years. The liquor department has closed: the main street location in Salt Lake, the Provo location, and the Orem location. The Provo store had $5.8 million in sales yearly and returned $2.6 million to the state. At the Orem location they had $3.7 million in annual sales and returned $1.6 million back to the state (Liquor store Closures, 2011). The Salt Lake location made $3 million yearly and returned about $1.3 million to the government. The estimated cost of wages and operation costs for the Salt Lake store was only $216,000 (House, State lost money after closing Salt Lake City liquor store, 2011).

 Since closing the Salt Lake City liquor store the state is losing about $2,364 in daily sales. It dropped revenue twenty-five percent that was generated by the store. The state is also losing more money because of taking out bonds to build the Main Street located in Salt Lake City that won’t be paid off until 2019. The first month after the main street liquor store closed two other stores (205 W 400 S and Sugarhouse) together saw an increase of daily sales of $7,125. That didn’t reach the daily average totaling $10,400 for the closed Main Street location (House, State lost money after closing Salt Lake City liquor store, 2011). Law makers dispute that people will shift their business to other stores nearby; But when you ask Business people, they will tell you that when it becomes less convenient the number of customers will decrease; which has happened by closing the Main street store (Liquor store Closures, 2011).

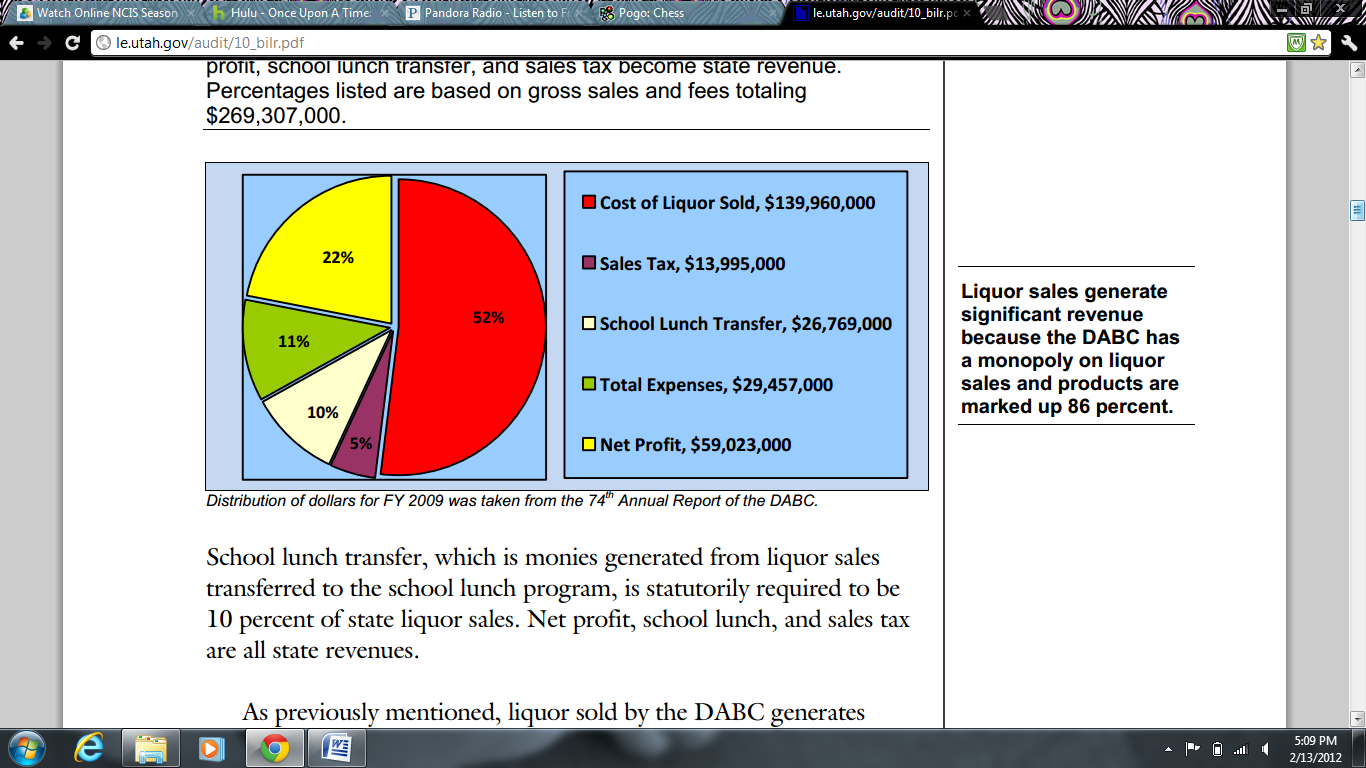


Figure . Where money goes from liquor store sales in 2009

Conclusion

Some benefits of closing liquor stores are to save on operating costs and save money spent on wages for employees. The operating costs for liquor stores are anywhere between $216,000 (House, State lost money after closing Salt Lake City liquor store, 2011) and $356,000 per year. Estimated wages paid annually for part-time employees is about $380,000. By cutting the part-time employees there are going to be about fifty-five people out of work. So if they closed one liquor store they wouldn’t have to cut nearly as many employees. Legislative auditors suggest cutting full-time employee’s hours down so that no one will lose their jobs and they won’t have to pay for employee benefits (A limited review of the effects of DABC budget cuts on state revenue, 2010).

Privatization wouldn’t be a good option for the state knowing they wouldn’t get nearly as much tax revenue as they do controlling having state owned stores. People will drink no matter of the state supplies alcohol or if privately owned stores supply it. If privatization happened the state wouldn’t be able to control consumption; due to longer hours because stores would be open later and at more locations across the valley (Piccolo, 2011).

There are definite benefits that come with keeping liquor stores open. The 44 liquor stores open in Utah make over $100 million annually (Piccolo, 2011). When the Main street location closed in Salt Lake City, the state has lost up to $2,364 in daily sales (House, State lost money after closing Salt Lake City liquor store, 2011). Even though two other stores, 205 W. 400 S. and Sugarhouse, saw an increase of combined sales of $7,125; the Main street location’s average daily sales totaled $10,400. Before closing the Main street location, they saw an average of $3 million annually and returned about $1.3 million to the government (House, State lost money after closing Salt Lake City liquor store, 2011). The Provo liquor store had made $5.8 million in sales yearly and returned about $2.6 million to the state and local government. In Orem, they had about $3.7 million in sales and returned $1.6 million (Liquor store Closures, 2011). People that don’t drink want liquor stores to stay because they pay for state funded programs such as the school lunch program (Across The Board Budget Cuts May Not Bring Real Savings, 2011).

There are many different arguments that the Department of Alcoholic Beverage Control and Legislative auditors make. If closing one or two liquor stores will help the DABC with budget cuts, it is a viable option (A limited review of the effects of DABC budget cuts on state revenue, 2010). Research has not been conducted on either side, Legislative or Department of Alcoholic Beverage Control, to support their claims. Until further research is done they are keeping all liquor stores open (House, Utah won't save money with closed liquor stores, 2011).

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