

**Final Report
of the**

**SELECT COMMISSION TO STUDY THE OPENING OF A
DISCOUNT STATE LIQUOR STORE IN FORT KENT**

December 28, 1998

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Representative Joseph Driscoll, Co-Chair
Senator Norman K. Ferguson, Jr.
Senator Lloyd P. LaFountain, III
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I. INTRODUCTION

The Select Commission to Study the Opening of a Discount State Liquor Store in Fort Kent was established by 1997 Public Law chapter 755. That law directed a 13-member commission to explore the feasibility and benefits of locating a discount state liquor store in Fort Kent. The study was contained in a bill directing the state Bureau of Alcoholic Beverages to open a discount store in Calais.

The Commission was composed of three members of the Senate, 10 members of the House of Representatives, the Director of the Bureau of Alcoholic Beverages and Lottery Operations, and two business people from Fort Kent.

Commission co-chairs Senator Judy Paradis and Representative Joseph Driscoll convened the first meeting of the Commission in Augusta on October 6th, 1998. At that meeting, members received information from the Director of the Bureau of Alcoholic Beverages and Lottery Operations about liquor sales trends and about the recently-opened Calais discount liquor store. Commission staff also presented information about agency stores in the Fort Kent area and about liquor sales trends in the State and in the bordering Canadian province of New Brunswick. The meeting concluded with a plan to hold the next meeting in Fort Kent and with requests for additional information to be presented at that meeting.

For its final meeting, the Commission met in Fort Kent to tour the area, hold a public hearing and vote on recommendations. The tour was organized in cooperation with the Greater Fort Kent Area Chamber of Commerce.

Public comment received at the November meeting is summarized in section II part D of the report and commission recommendations are reported in section III.

II. BACKGROUND

To evaluate the feasibility and impact of opening a discount state liquor store in Fort Kent, the commission gathered information relating to factors that would impact sales at the store, the likely impact on economic development of the area, and the experience with the Calais discount liquor store.

A. Sales Factors

The factors the commission examined the following factors that impact liquor sales in the Fort Kent area: population, vehicle traffic, existing liquor stores, New Brunswick liquor pricing and policies.

1. Population: The population of Fort Kent and the surrounding Maine towns in a twenty mile radius is estimated to be approximately 8,000 persons (according to Fort Kent Economic Planning and Development). Fort Kent serves as a service hub for many of the small communities to the west and halfway to Madawaska to the east and south. Grocery stores, hardware stores, dentist offices, banks and credit unions are the types of essential services available that draw persons from surrounding areas to Fort Kent. Thus, approximately 8,000 Maine residents use Fort Kent as their “downtown.”

2. Traffic: Commission members hoped to determine how much sales volume would be generated by New Brunswick residents and persons traveling north or south using Fort Kent as their border crossing point. However, it was difficult to draw any conclusions or make assumptions based on available traffic figures.

| | |
|------------------------------------------------------|------|
| Daily average vehicle crossings at Fort Kent..... | 1670 |
| Daily crossings into Canada..... | 835 |
| Percentage of crossings by Canadians (vehicles)..... | 65% |

(Traffic figures based on estimates by the Department of Transportation and U.S. Customs.)

Fort Kent, in comparison to a border point like Calais, is not a high traffic crossing for travelers heading for popular Maine or Maritime Province destinations.

3. Liquor Stores: There are nine Maine State Agency liquor stores in the Fort Kent area. Two agencies are located in Fort Kent itself, three in Madawaska, one in St. Agatha, one in Frenchville, one in St. Francis and one in Eagle Lake. These agency liquor stores are contained in either a supermarket or gas/convenience-type establishment. Liquor sold at these agencies is sold at a price determined by the Bureau of Alcoholic Beverages and Lottery Operations and the price would be higher than the same product at a State discount liquor store.

At one time, three United States-based duty free shops sold discount liquor along Maine’s Northern border. One Ammex store was located in each of the following towns: Madawaska, Van Buren and Fort Kent. During the past four years, each has closed due to lack of sales according to employees at the Ammex store located in Calais.

4. New Brunswick: Within 20 miles of Fort Kent, on the Canadian side of the border, there is one liquor store. Overall, liquor prices in the Canadian province of New Brunswick are not competitive with those of the Maine agency stores. Canadian brands of liquor, such as Canadian Club and Seagrams VO, are priced slightly lower than the same brands in Maine. Prices for all brands of liquor at a Maine discount liquor store are considerably less than those at a New Brunswick store. (See Attachment C)

New Brunswick collects a harmonized sales tax (HST) on the purchase of liquor, which is included in the displayed price. The tax is divided, with 7% going to the Federal government and 8% to the Province. New Brunswick consumers do not recognize a significant savings when purchasing larger bottles of liquor. In fact, the largest size stocked for most brands is 1.14 liters compared with 1.75 liter bottles available in Maine. In addition, New Brunswick pricing policies do not offer much savings

when purchasing “bar brand” or the lower shelf brands of liquor. Typically, these bar brands are sold at a price less than one dollar below that of the premium brands.

5. Customs: In order for a person to bring liquor into Canada from the United States, duty-free, the person must have stayed in the U.S. for at least 48 hours. With a 48-hour stay, a person may bring up to \$200 (Canadian) worth of purchases across the border without paying duty or taxes. This may include up to 40 ounces of liquor or wine or a case of beer (24 12 oz. bottles/cans). With a seven-day stay, a person may cross with \$500 in purchases without paying duty or taxes. (Provincial age restrictions apply to liquor).

An American may bring up to one liter of liquor when crossing from Canada, duty-free, if the person is at least 21 years of age and has been in Canada for at least 48 hours. If the person has not visited Canada for that long, he or she is only permitted to transport four fluid ounces of duty-free liquor across the border.

6. Advertising: Maine law places several limitations on advertising by state and agency liquor stores. The form of advertisements must be approved by the Bureau of Liquor Enforcement (part of the Department of Public Safety). Only one sign is permitted outside the premises of a liquor store. Agency store signs are limited to one printed to read “Agency Liquor Store” in 18 inch letters. (See Attachment D)

Other states have very different laws and policies relating to the advertisement state liquor stores. The commission looked at New Hampshire’s in particular. According to Director of Marketing and Merchandising for the New Hampshire Liquor Commission, the New Hampshire commission’s budget for advertising is between \$725,000 and \$750,000 per year. These figures include radio and newspaper advertising. New Hampshire has 72 state liquor stores (five on interstate highways) and two agency stores (located in the most isolated parts of the state). The New Hampshire director was not aware of any state laws which would place limitation on liquor store advertising.

B. Economic Development

The commission focused a significant portion of its attention on the economic impacts that might be realized by the Fort Kent area if a State discount liquor store were operated there. Particularly, it looked at the estimated impacts on employment, spending and area agency stores. Based on discussions with Fort Kent Economic Planning and Development, a public municipal agency, the commission concluded that the potential impact to the area as a whole would be minimal. Opening a discount store would not be sufficient to attract new business or new outside spending. The store itself may perform well, but the economic contribution to the area would insignificant. Negative impacts to existing businesses loom as a more likely possibility.

1. Employment: An increase in the number of jobs available in Fort Kent with the operation of a discount liquor store would be minimal if not non-existent. Any new employment would be limited to operating the State discount store itself. Currently, at state liquor stores the number of employees needed correlates with the number of bottles sold. For each 1,000 bottles sold per week, one employee is needed. Thus, if the store sold 3,000 bottles per week it would employ three individuals to run the store.

2. Spending: Most residents of the greater Fort Kent area visit the town frequently to pay bills, shop and conduct general errands because that is where those services are available. Thus, spending by

residents of these areas outside the town of Fort Kent would not be likely to increase. The benefit realized by locating a discount store in Fort Kent would be availability of a product at lower price.

3. Agency Stores: There are two agency stores operating in the town of Fort Kent. According to Fort Kent Economic Planning and Development, it is likely that sales of liquor and incidentals at these establishments would decrease with the operation of a discount store. Unlike discount liquor stores, these agency stores sell other products aside from liquor, a consumer patronizing the store to purchase liquor may also decide to pick up an “extra” item, such as a bag of chips, a magazine or lottery ticket. These sales could potentially be lost if the consumer decided to patronize the discount store instead of the agency store. The impact of the loss of these “extra” sales is difficult to estimate.

C. Calais Experience

In August of 1998, the state opened a state discount liquor store in Calais, Maine pursuant to Public Law 755. This store was located in the same space that just prior to its opening housed a state liquor store. The commission thought it would be helpful to look at the liquor sales and other economic impacts in the Calais area since the opening.

The discount liquor store in Calais has experienced an overall increase in the number of bottles sold but a decrease in the amount of income contributed to the General fund. (For trends and a graphic comparison see Attachment E). Since the operation of the discount store began, sales as a whole in the area have increased but profits have decreased.

***Calais Discount Store July to October July to October Percent 1997 1998 Change**

Sales \$416,259 \$498,390 19.7 %

Profit \$179,825 \$174,195 - 3.1 %

* Discount store operated as state store in 1997.

Source: Bureau of Alcoholic Beverages and Lottery Operations

Agency stores, individually, have experienced the most dramatic impact since the opening of the Calais store. There are two agency stores in the general Calais area. Both have realized a significant decrease in sales since its opening.

Sales July to October July to October Percent Calais Area Agency Stores 1997 1998 Change

Agency #209 \$62,263 \$27,643 - 55.6 %

Agency #226 \$90,262 \$53,169 - 41.1 %

Source: Bureau of Alcoholic Beverages and Lottery Operations

This decrease in sales by the Calais area agency stores resulted in a loss to the General Fund of more than \$7,000.

D. Public Comment

Most of the testimony at the public hearing focused on the impact that a discount state liquor store would have on existing agency stores. Typical of the testimony was that of Bob Williams, owner of Bob's Neighborhood Store in Madawaska. Mr. Williams told the commission that agency store owners spend money and time to compete for and win bids for a liquor license and they devote time, money and selling space to operate the liquor business at their stores. He felt it would be unfair for the state to take away or diminish that business by selling liquor at a price lower than the wholesale price the agency store pays to buy liquor from the State.

Many who testified said that the discount store would not attract enough additional business from Canada to make up for the loss of sales and low-cost sales that the discount store would create. The unfavorable exchange rate means that few Canadians will come across the border to shop. Loss of sales at agency stores would mean layoffs of staff and reduced income. Lowered sales and lower-cost sales at the discount store would also impact the state's revenues, as seen with the Calais discount store.

III. RECOMMENDATIONS

The Select Commission to Study the Opening of a Discount State Liquor Store in Fort Kent recommends:

1. That no discount state liquor store be opened in Fort Kent.

Information presented to the commission indicates that a discount state liquor store will not increase the volume of liquor sales enough to offset the loss to state revenues from the lower prices charged at such a discount store. Traffic moving through Fort Kent on the way to and from Canada is not sufficient to bring a great number of people to the store. Lower prices at the liquor store are not enough to draw Canadians into the State, partly because the exchange rate is unfavorable to Canadians.

We are also concerned that agency stores in the area would be adversely affected by the presence of a discount state liquor store in Fort Kent. Those businesses have invested significant amounts of time and money to serve the local market and it would be unfair for the State to now take over that market by offering prices against which the agency stores cannot compete.

2. That the Bureau of Alcoholic Beverages and Lottery Operations re-evaluate the operation of a discount state liquor store in Calais and report its findings to the Legislature.

Although the number of bottles sold at the state liquor store in Calais has increased since the store offered discount prices, the increase in sales has not been enough to offset the losses resulting from the lower prices. The gross profit realized in October of 1998 was 16% less than the year before. In addition, sales at agency stores in the area have decreased dramatically. It does not appear that the area is benefiting from the location of the Calais store. We therefore recommend that the Bureau of Alcoholic Beverages and Lottery Operations present information to the Joint Standing Committee of the Legislature with jurisdiction over liquor issues to assist the committee in determining whether

public interests are served by the continuation of that store. The committee should be authorized to report out legislation following its review of that information.

3. That the Bureau of Alcoholic Beverages and Lottery Operations explore alternative pricing mechanisms that would allow agency stores to increase their profits.

Under current law, agency liquor stores purchase liquor from the state for 8% below the retail list price, and sell that liquor at retail for no more than the list price. 28-A MRSA §606. The law limits the amount of profit that an agent can derive from liquor sales to 8% of the list price. Some store owners believe the state pricing policy should allow agency stores to make a greater profit than 8% on their sales.

Prior to 1987, the state marked down its liquor by 10% to agency stores, thus allowing at least a 10% profit on agency store sales. The state at one time also allowed agents to sell above the retail list price if they so chose. The commission believes that the bureau should examine ways to enable agency stores to derive a greater profit from their liquor sales and report its findings to the joint standing committee of the Legislature with jurisdiction over liquor matters.

APPENDIX A

**1997 Public Law chapter 755
established**

**The Select Commission to Study the Opening of a
Discount State Liquor Store in Fort Kent**

APPENDIX B

Select Commission Membership List

APPENDIX C

**Liquor Pricing Chart
New Brunswick vs Maine**

APPENDIX D

**Department of Public Safety
Bureau of Liquor Enforcement
Chapter 7 Advertising and Signs Applicable to all License Holders**

APPENDIX E

Calais Trends in Sales and Gross Margins

APPENDIX F

**Fort Kent Liquor Store Study
State and Agency Stores in Aroostook County**

APPENDIX G

**Memorandum on Liquor Pricing
November 16, 1998**

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