

March 12, 2015

The attached letter dated January 30, 2015 was submitted to the Province of Saskatchewan liquor retailing public consultation process and was intended to be made public.

I am grateful to Minister McMorris' office for answering questions I had about the public consultation process and directing me to the SLGA for additional financial information. I greatly appreciate the assistance I received from the SLGA.

Please note: Footnote 6 in the attached letter shows a calculation for the estimated net income for 75 SLGA owned retail liquor stores. The SLGA provided closer approximations of the 2013-14 cost of goods sold for their 79 stores (four stores were converted near the end of the 2013-14 fiscal year), which I have used to estimate net income below. The figures below are approximations.

Sean Tucker

Net income from sales to retail customers

Approximate cost of product sold to retail customers at 79 stores: \$154,700,000*

Approximate net income from retail customers at SLGA stores: \$141,350,000**

Net income from sales to retail customers, franchisees, commercial permittees, and special occasion permittees

Approximate cost of product sold to retail customers, franchisees, commercial permittees, and special occasion permittees at 79 stores (excluding SLGA mark-up): \$196,529,000*

Approximate cost of product sold to retail customers, franchisees, commercial permittees, and special occasion permittees at 79 stores (including SLGA mark-up): \$447,138,000*

Approximate net income from retail customers, franchisees, commercial permittees, and special occasion permittees at 79 stores: \$197,356,000*

* Provided by the SLGA

** Calculated by the author. Net income is an estimate because cost of product sold is based on cost of product sold at 79 stores while other expenses and sales are based on figures from 75 stores.

Hon. Don McMorris
Minister Responsible for Saskatchewan Liquor and Gaming Authority
Room 302, Legislative Building
2405 Legislative Drive
Regina, SK
S4S 0B3

30 January 2015

Re: Liquor Retailing in Saskatchewan Survey and Public Consultation

Dear Minister McMorris:

I would like to thank you for providing members of the public with the opportunity to offer feedback on the future of liquor retailing in Saskatchewan.

Recently, my colleague, Dr. Andrew Stevens and I conducted an in-depth investigation of a flawed public opinion poll conducted by a major Canadian market research company. This experience has led me to more closely scrutinize public opinion polls, the wording of key survey questions, and the reporting of survey results related to public policy questions. I am keenly interested in promoting accurate and unbiased measurement of public preferences for public policy options.

Please allow me to share a couple of observations on a key part of the consultation process, the "Future Liquor Retailing in Saskatchewan Survey." First, it seems that two of the survey questions suggest that the provincial government a) provides investments to the operation of SLGA liquor stores and b) such investments in operations limit the ability of the government to invest in other public priorities such as health care.¹ However, the evidence that the operation of SLGA liquor stores receive investments from the provincial government and that SLGA's retail liquor business constraints government investments in other public priorities is very weak.² On the contrary, the evidence suggests that the SLGA's liquor retail business generates sustained

¹ The related survey statements are: 1) "The government should focus on investing in other public priorities instead of investing in the operation of government liquor stores" and 2) "How would you rate the importance of the following when considering potential changes to liquor retailing in Saskatchewan?... Increasing the ability for the government to reinvest in other priorities (i.e., health care, roads, education, etc.)."

² In 2013, the SLGA received a loan of \$125 million from the government for mostly non-liquor retailing upgrades (e.g., new VLT's, IT improvements). Campanella notes that this amount "...was almost entirely for its gambling operations..." and "the SLGA could have easily financed the capital investment itself with its own operating funds, as it has done in the past." See page 12, https://www.policyalternatives.ca/sites/default/files/uploads/publications/Saskatchewan%20Office/2014/12/Profile_Brew_SK.pdf

and significant net income for the government and that at current levels this net income is sufficient for self-financing future investments in SLGA liquor retailing.

The SLGA's 2014 annual report notes that the SLGA contributed \$478 million to the provinces' General Revenue Fund (GRF).³ Moreover, the province's 2014/15 budget does not specify government investments in the operations of SLGA-owned and operated liquor stores. Rather, the budget notes: "While continuing to ensure liquor and gaming are managed responsibly, the SLGA is forecast to provide net income of \$491.8 million from the sale of liquor and from gaming proceeds, to help fund key programs and services."⁴

The financial information contained in the government's liquor retailing consultation paper⁵ shows that the SLGA's retail stores are profitable. By my rough calculation SLGA's net income from its 75 retail liquor outlets is currently about \$132.8 million,⁶ which represents about 28% of SLGA's total contribution to the government's GRF. Overall, it would seem that SLGA's retail liquor business is quite profitable such that the SLGA could easily self-finance future investments in its liquor retailing business while continuing to make significant contributions to the GRF.

I am concerned that these two survey statements (see footnote 1) create an impression among those who complete the survey and other key stakeholder groups that the provincial government makes investments to the operations of SLGA retail liquor outlets, and that the existence of such retail outlets somehow restricts the amount of funds available to public services. As evidence of this confusion, the Retail Council of Canada noted in its recent submission to the liquor retailing consultation process (letter dated January 23, 2015) that "tax dollars" are used to build SLGA retail liquor stores:

*"[A]llowing private retailers to solely take on the responsibility for liquor retailing in Saskatchewan would provide consumers with far greater convenience and product selection while benefiting Saskatchewan taxpayers by allowing the government to dedicate capital resources to key public capital priorities rather than spending tax dollars building retail liquor stores."*⁷ (emphasis added)

³ See <http://www.slga.gov.sk.ca/Prebuilt/Public/SLGA%20Annual%202014.pdf>

⁴ See page 12, <http://www.finance.gov.sk.ca/budget2014-15/2014-15SKProvincialBudget.pdf>.

⁵ <https://www.saskatchewan.ca/~media/files/government/have%20your%20say/liquor%20retail%20in%20saskatchewan/future%20options%20for%20liquor%20retailing%20in%20saskatchewan.pdf>.

⁶ Revenue (\$349,500,000) – Expenses (Store operations \$49,300,000 + Store capital costs \$4,150,000 + Cost of product \$163,170,014) = \$132,879,986. Note: Cost of product = [(Total SLGA-owned liquor store sales/Total SLGA liquor sales)* Total cost of product sold]. [(\$349,500,000/\$632,300,000)* \$295,200,000] = \$163,170,014. Source pages 16-19, <https://www.saskatchewan.ca/~media/files/government/have%20your%20say/liquor%20retail%20in%20saskatchewan/future%20options%20for%20liquor%20retailing%20in%20saskatchewan.pdf>

⁷ <https://www.saskatchewan.ca/government/have-your-say/future-options-for-liquor-retailing-in-saskatchewan/stakeholder-submissions>.

My second concern relates to how responses to the survey questions will be interpreted in terms of gauging relative public support for each of the liquor retailing options proposed by the government: that is, 1) status quo; 2) expanded private retail system; 3) fully private retail system; 4) managed transition to fully private retail; and 5) expanded government retail system. Respondents to the survey are not given a simple way to rank the five options from, for instance, most preferred to least preferred. Further, it is not clear how responses to the survey questions could be used to differentiate public support for options 2, 3, and 4, which seem to be relatively closely related.

In closing, I believe it is important to use accurate and unbiased survey instruments to assess public opinion related to potential changes to public policy. Overall, in my opinion, the results of the current liquor retailing survey should be interpreted with caution given the limitations of the survey.

Thank you for considering these comments as part of the public consultation process.

Sincerely,



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