



# IOWA ALCOHOLIC BEVERAGES DIVISION LIQUOR QUARTERLY

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## OPPORTUNITY, OVERALLS & TAXPAYER SAVINGS!

*Opportunity is missed by most people because it is dressed in overalls and looks like work.*

*-Thomas Edison*

### I. Opportunity Knocks.

Much has been written lately about the Iowa Alcoholic Beverages Division's resumption of the warehouse operation for liquor distribution. In fact, the state had operated the warehouse from the end of Prohibition in 1934 to December 31, 1991. On that date, in order to reduce costs, the state contracted out the warehouse services to a private vendor, J.A. Jones Global Services, a German-held subsidiary headquartered in North Carolina.

That arrangement continued uninterrupted until last fall when J.A. Jones declared bankruptcy and was forced into receivership. The Division, in turn, was forced to quickly find an alternative method of delivery for Iowa's 480 Class "E" liquor licensees.

The Division subsequently determined that the task could be performed by the state at a significant savings for Iowa taxpayers. As such, the Division competed and prevailed in federal bankruptcy court against several out-of-state corporations for release from the remaining two years of the contract.

### II. Taxpayer Savings.

In so doing, the Division reduced the per case delivery costs from \$1.98 to \$1.43, a per case saving of 55¢ or, alternatively stated, a 28% reduction in costs. The overall net savings to Iowa taxpayers on the balance of the contract, minimally, is \$1.5 million and at least \$850,000 annually thereafter. Ironically, the state had gotten back into the warehouse operation for the same reason that it had gotten out – to save taxpayers money!

The saving is chiefly the result of two variables. First, the Division no longer is paying a profit to an out-of-state corporation; after all, one person's profit is another's expense. The monthly check previously mailed to North Carolina is now deposited directly into the state's general fund as an increased liquor fund transfer.

*"A million here and a million there, pretty soon you're talking real money."*

*-Senator Everett Dirksen*

### III. Inmate Labor.

The use of inmate labor also contributes to the savings. A crew of female inmates from the Iowa Correctional Facility for Women in Mitchellville helps in the warehouse. I agree with most people that inmates should work, but perhaps for different reasons.



I believe that the opportunity helps inmates gain valuable skills in a non-traditional field for women. The experience will ease their reentry into civilian life and will reduce their rate of recidivism. The work also affords the inmates the ability to earn income in order to pay off court-ordered restitution and child support. Finally, the job will help inmates foster a strong work ethic, as well as be contributing members of society while incarcerated.

The use of inmate labor is not new to state government. Their efforts have saved the state millions of dollars and contributed to numerous public works projects, including maintenance of state parks, lawn care on the capitol grounds and even general upkeep of the Iowa State Capitol. All inmates used in the liquor warehouse are prescreened, supervised by correction officers and subject to search and breath testing. Any inmate found in violation of workplace rules will not be welcome back.

### IV. Same Drivers, Same Trucks, Lower Costs!

As a result of J.A. Jones bankruptcy, all of the J.A. Jones employees lost their jobs. The state, however, was able to offer employment to the vast majority of the displaced workers. Moreover, contrary to public statements, no private sector trucking jobs were taken; all of the former J.A. Jones truck drivers were put to work for the state, enabling them to continue feeding their families. The state has also leased the same exact



vehicles used by J.A. Jones from the same Iowa trucking companies. Simply put, same drivers, same trucks, lower costs!

**V. Private Sector Opportunities.**

The private sector did have an opportunity to compete for the work on at least two occasions. As previously observed, the Division competed in federal bankruptcy court for the contract, a J.A. Jones asset; any interested corporation was free to participate in an open judicial proceeding. Also, J.A. Jones had successfully bid for the renewal of the contract in an open bidding process in 2001 and their bid was significantly lower than those of the other bidders. For these reasons, one cannot fairly claim that the private sector was not afforded an opportunity to compete for the work.

Nevertheless, the Division intends to provide an additional opportunity for private companies to compete for the work. A Request for Proposals will be issued this fall soliciting bids for the entire warehouse operation as well as an option for the various components of the project.

Of course, the hope is that the private sector will be able to help the Division further reduce expenses. One thing is certain: regardless of how the bid turns out, a private/public sector partnership in the operation of the liquor warehouse will emerge. At the least, the state will lease trucks from a private trucking company and the private operator will service and maintain the fleet.

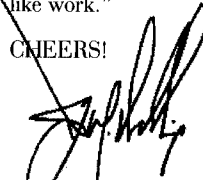
**VI. Customer Service.**

A key consideration, as the state proceeds, will be customer service. The Division will continue to explore ways of enhancing the service provided to all of the state's Class "E" liquor licensees. The Division's intent is to offer the best service possible at the lowest cost.

**VII. Closing.**

In short, the Iowa Alcoholic Beverages Division had an opportunity to save the state and its taxpayers a significant amount of money. The Division certainly wasn't going to miss out on the opportunity simply because it was "dressed in overalls and look[ed] like work."

CHEERS!









LYNN M. WALDING  
Administrator



*IowaABD.com Web Feature: The Price of Spirits*

The price of spirits in Iowa is comprised of several cost factors, including supplier costs, federal and state excise taxes and a variety of other charges. For instance, the final cost that an Iowa consumer could expect to pay, on average, for a 750 ML bottle of Jack Daniels Tennessee Whiskey, is \$19.99. That price includes the following elements:

	\$ .07	.35%	Bottle Deposit & Surcharge
	\$ .95	4.75%	State Sales Tax (5%)
	\$2.30	11.51%	Federal Excise Tax
	\$3.98	19.91%	Average Retail Mark-Up (26.5%)
	\$5.00	25.01%	State Excise Tax (50% Mark-Up)
	\$7.69	38.47%	Distiller Cost & Profit
	<b>\$19.99</b>		<b>Total Cost of Bottle</b>