
Committee Meeting

of

ASSEMBLY OVERSIGHT, REFORM, AND FEDERAL RELATIONS COMMITTEE

“The Committee will receive testimony from invited guests in the alcoholic beverage industry concerning whether and how the State should streamline the licensing system from an economic, social, and regulatory perspective”

LOCATION: Committee Room 11
State House Annex
Trenton, New Jersey

DATE: March 21, 2019
10:00 a.m.

MEMBERS OF COMMITTEE PRESENT:

Assemblyman Joe Danielsen, Chair
Assemblyman Eric Houghtaling, Vice Chair
Assemblywoman Annette Quijano
Assemblyman Ronald S. Dancer
Assemblyman Brian E. Rumpf



ALSO PRESENT:

Stephanie M. Wozunk
Office of Legislative Services
Committee Aide

Martin Sumners
Assembly Majority
Committee Aide

Derek DeLuca
Assembly Republican
Committee Aide

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Meeting Transcribed by
The Office of Legislative Services, Public Information Office,
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COMMITTEE NOTICE

TO: MEMBERS OF THE ASSEMBLY OVERSIGHT, REFORM AND FEDERAL RELATIONS COMMITTEE

FROM: ASSEMBLYMAN JOE DANIELSEN, CHAIRMAN

SUBJECT: COMMITTEE MEETING - MARCH 21, 2019

The public may address comments and questions to Stephanie M. Wozunk, Committee Aide, or make bill status and scheduling inquiries to Sophie Love, Secretary, at (609)847-3890, fax (609)777-2998 or e-mail: OLSAideAOF@njleg.org. Written and electronic comments, questions and testimony submitted to the committee by the public, as well as recordings and transcripts, if any, of oral testimony, are government records and will be available to the public upon request.

The Assembly Oversight, Reform and Federal Relations Committee will meet on Thursday, March 21, 2019 at 10:00 AM in Committee Room 11, 4th Floor, State House Annex, Trenton, New Jersey.

The Committee will receive testimony from invited guests in the alcoholic beverage industry concerning whether and how the State should streamline the licensing system from an economic, social, and regulatory perspective.

Issued 3/13/19

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pnf:1-76

ASSEMBLYMAN JOE DANIELSEN (Chair): Please rise for the Pledge of Allegiance. (all rise for the Pledge of Allegiance)

Could you please take the roll call?

MS. WOZUNK (Committee Aide): Assemblyman Rumpf.

ASSEMBLYMAN RUMPF: Here.

MS. WOZUNK: Assemblyman Dancer.

ASSEMBLYMAN DANCER: Here.

MS. WOZUNK: Assemblywoman Quijano.

ASSEMBLYWOMAN QUIJANO: Present.

MS. WOZUNK: Assemblywoman Lopez. (no response)

Vice Chair Houghtaling.

ASSEMBLYMAN ERIC HOUGHTALING (Vice Chair):

Here.

MS. WOZUNK: Chairman Danielsen.

ASSEMBLYMAN DANIELSEN: Here.

MS. WOZUNK: We have a quorum.

ASSEMBLYMAN DANIELSEN: Thank you.

Good morning, everybody.

And thank you, in advance, for appearing today before this Committee on this very critically important topic; which is 71 years in the making, and in need of retooling and reviewing, perhaps even rewriting.

As Chairman, I believe we can no longer, as a Committee, continue to review and release, every year, over 25 bills on the topic without reviewing their overall impact on the status that's currently in place.

That is why we will engage in an information-gathering hearing to seek potential solutions to the current situation we find ourselves in. Today we will begin that process in the first of, possibly, three hearings on the topic.

Here in New Jersey we have the most complex alcohol laws in the nation; with over 29 distinct liquor licenses for manufacturing, the wholesaling, retailing, warehousing, transporting. All this continues to create a far too complex and confusing situation; in addition to the oversight obligations. When we overlay this with our love of home rule, it sets in motion yet another layer of regulation; which allows municipalities, through ordinances, to regulate the sale and consumption within their jurisdictions.

However, we will not stop there; as we have a further layer that stipulates corporations can gain two retail distribution licenses, making for many smaller operators; an impractical situation to sell alcoholic drinks.

Adding to our current system is the allowance of hundreds of pocket licenses that are extended beyond their two-year limit. This waiver allowance, which has gone on for decades, makes this economic commodity a security instrument by the owner, to be held like a stock option, awaiting the perfect condition for its sale; clearly not the initial intent of that statute.

The landscape today is one in need of a fix and solutions; a system which -- while working for some, perhaps -- is not in the best interest of good public policy.

Our hearing today will start a new conversation, seven decades in the making, driven by all those who come forward with good intentions,

good ideas, and being a partner for a positive reform, wherever that may lead us.

The Committee meeting today has a stop time of no later than 12:30 p.m., due to a conference call we must participate in. Therefore, should you not be called forward today, I hope you would present yourself at our next meeting.

So, thank you again.

Before we begin, I would like to take any comments from Committee members; and then go on to our witness list.

Anything? (no response)

Okay; thank you.

I'd like to begin by calling up the New Jersey Restaurant and Hospitality Association.

I apologize; go ahead.

ASSEMBLYMAN RUMPF: I apologize, Mr. Chairman.

I would just like to say, at the outset, I can appreciate that there's always a need, as you suggest, for a review of existing licensing schemes. My primary concern going into this venture, however, is that we ensure that the licenses which presently exist -- which, for many small business owners, represent a substantial lifetime investment -- are protected.

As we look around the state, in many different communities, we see license holders who continue to struggle after having initially purchased a license in good faith. And I believe that this is one of these areas, within our State regulatory system, where one small move in the wrong direction can irreparably damage many existing license holders,

families, and individuals, who are struggling to make a living in this state, given the other constraints and high taxes that New Jersey is so famous for.

So I'd ask that we proceed with caution as we undergo this review, with an eye towards ensuring that we don't even inadvertently disrupt the lives of those who have followed the rules to date.

So I thank you for that, Mr. Chairman.

ASSEMBLYMAN DANIELSEN: That was well stated; I agree with everything you said.

ASSEMBLYMAN RUMPF: Thank you.

ASSEMBLYMAN DANIELSEN: Thank you for that comment.

Good morning.

MARILOU HALVORSEN: Good morning.

I'm Marilou Halvorsen; I am the President of the New Jersey Restaurant and Hospitality Association, representing 27,000 restaurants and hotels across the great Garden State.

Many of our members have liquor licenses, and we do have some who do not have a liquor license.

I'm here -- I'm going to be talking about just three issues, as I know many of my peers will also be talking about some other issues. So I'm just going to limit mine to three.

So I thank you, Chairman Danielsen, and members of the Committee, for allowing me to talk on this issue.

There's been much discussion on the inactive licenses; and you brought that up. And I want to tell you that that is a great place to start, because there are approximately 1,286 inactive licenses across New Jersey; and they're available in most every municipality in the state. We always

hear that they're not available in Princeton or Cherry Hill; and in fact, they are. There are actually 56 available liquor licenses available in Jersey City. So to say that we don't have licenses available is inaccurate; we have licenses available, we just need to re-engage them and put them back into circulation.

And finding the best way to do that, I think, is going to involve a topic that engages all the stakeholders, because there are some obstacles with that. But I do believe that that is probably the first direction.

And I do have a list of all the inactive licenses in the State of New Jersey.

Secondly, I wanted to talk about compensation, as there have been many bills that have been brought forward that touch on compensation -- how do we truly compensate those who have a liquor license? And that's fair, because they've invested anywhere from \$45,000 to over \$1 million for a license. And it's part of their balance sheet, it is part of their equity, and they've spent a lot of money, and they need to pay for that.

So we need to come up with what is a fair and realistic method of compensation; and unfortunately, I don't believe that the tax credits that have been outlined are really going to be able to do that. So until we can really, truly find a way to fairly compensate our existing license holders, you know, we need to make sure that we do our due diligence.

ASSEMBLYMAN DANIELSEN: Excuse me, Marilou.

MS. HALVORSEN: Yes?

ASSEMBLYMAN DANIELSEN: Just so I, and maybe someone else in the room, don't get lost, compensation for what? Can you elaborate on that?

MS. HALVORSEN: So the liquor licenses-- So there is a piece of legislation that is up that would compensate existing liquor licenses for their liquor license, in the form of tax credits. So if you paid \$1 million, let's just say, or \$500,000, you would get a fair market analysis; and then you would be compensated back for that in the form of tax credits over a period -- I'm sure someone else knows -- five to seven years, I think, is the calculation. That's just not realistic.

ASSEMBLYMAN DANIELSEN: Okay; so you're referring to Assemblyman's Burzichelli's--

MS. HALVORSEN: Burzichelli's Bill.

ASSEMBLYMAN DANIELSEN: --the R1/R2?

MS. HALVORSEN: Yes.

ASSEMBLYMAN DANIELSEN: Okay.

MS. HALVORSEN: And lastly, I just-- You know, they talk about that we need, obviously, more taxes; and if we have more alcohol available, more liquor will be sold. Well, since then we've had the increase in breweries and distilleries; and taxes from liquor have not increased at all over the last five years. So just because we have more liquor available to consumers does not mean that more liquor is being sold.

So again, there's a lot more. It's just, you know, these things are great to say; but sometimes when you go deep, there are some consequences to all of these actions.

So I thank you very much for taking this on, and listening to all of those who have concerns about this topic.

ASSEMBLYMAN DANIELSEN: Thank you, Marilou.

Any questions?

ASSEMBLYWOMAN QUIJANO: Yes; I would ask the Chairman if we could get a copy of all the inactive licenses.

MS. HALVORSEN: Absolutely.

ASSEMBLYWOMAN QUIJANO: If you could share it with the Committee?

MS. HALVORSEN: Yes, certainly.

ASSEMBLYWOMAN QUIJANO: Thank you very much.

Thank you, Chairman.

MS. HALVORSEN: Thank you.

ASSEMBLYMAN DANIELSEN: Anybody else? (no response)

Thank you.

Okay, our next witness -- I would like to call up the New Jersey New Jersey Gasoline, C-Store, Automotive Association, Sal Risalvato and Kashmir Gill.

SAL RISALVATO: Mr. Chairman, I have one other member who also put in a slip, who we ask--

ASSEMBLYMAN DANIELSEN: Go ahead; bring him up.

MR. RISALVATO: Mr. Chairman and members of the Committee, thank you very much for holding this hearing, and the promise of other hearings, as this does require a lot of information to be taken in; and this is the only way to accurately have it taken in.

It is long past the time that we need to address the issue of how New Jersey licenses retail establishments that sell alcoholic beverages.

My name is Sal Risalvato; I am the Executive Director of the New Jersey Gasoline, C-Store, and Automotive Association. As our name implies, we represent convenience stores; most of those are attached with gas stations, but that exemplifies exactly what they are: *convenience stores*. Everything that we do today, in our society, is gearing more and more towards convenience.

I want to address this issue from two different points. One of them is from the issue of the members I represent -- the small business entrepreneurs who actually are the quintessential small businesses of America; the general store from 200 years ago, the deli, the gas station. Well, the convenience store kind of fits right in there. These are the quintessential entrepreneurs of America, as are the retailers of liquor stores today. They, too, fit in that category; and we have an understanding of their position.

The other point of view that I want to talk about today is that of the actual motorists -- the people, the residents of the State of New Jersey -- who are seeking the convenience that is becoming more prevalent in every one of our lives, every single day.

So that is the aspect that I think we need to address. And the arcane nature of New Jersey's laws has prevented these things from progressing for the last 10 or 15 years. And it's gotten to the point where there's pressure building on all sides, understandably.

I'd like to point out that in the other states of the country, that 80 percent of the convenience stores -- and again, I underline those words

convenience stores -- sell beer and wine. We're not asking to be able to become a liquor store and sell all kinds of liquor. We want the convenience, a carved-out license that would permit us to sell beer and wine in our stores, so when you're filling up at the gas pump, you can go and get your cup of coffee, bag of chips, and a six-pack to bring home and have with your dinner. That is what we are asking for, and we don't think that is unreasonable.

I'd like to point out that, again with that convenience store, we have limited space. We don't have the shelf space of a grocery store. We want to just be able to have enough of a stock that we can provide that convenience. So we're not looking to fill our stores and replace the products we have now with the beer and the wine that we're asking for -- a special license. We want a suitable amount of space in our stores to be able to do that, and continue to sell all the other items of convenience.

I'd like to just read a description; because this is going to come up in discussion as this goes along in this hearing, or any other hearings that you have.

We are defining a convenience store -- and, of course, this can be tweaked -- as "a retail establishment whose primary business is the sale of groceries and other foodstuffs for, primarily, off-premises consumption; and may also include the sale of motor fuel, household items, tobacco products, lottery tickets; and are between 800 and 4,500 square feet in size." So we are, really, kind of just asking to come up with something that benefits the consumers in the State of New Jersey, and also helps the small business entrepreneurs assist their customers in finding that convenience and generating other revenues.

Yes, we understand the cost of a license; but that cost of a license is the result of an artificial marketplace on that license; the law of supply and demand. The fact that we have artificially created a marketplace for that license to be traded, and bought, and sold; and even, as we just heard, pocketed to just hold for the escalation in price, and keeping other competition out of the marketplace. The licenses that exist have already profited greatly by having the State guarantee that everybody goes to these licenses for these products. So this does have to come into the conversation, no question.

I represent small business entrepreneurs; I'm not looking to disadvantage or be unfair to other small business entrepreneurs as well. I believe we can all come to the table and figure something out. The longer it goes, the worse this problem will be. If we're still having this discussion 10 years from now, then that burden on the entrepreneurs who hold those licenses will be greater 10 years from now than it is today. We have to address this.

I thank you for taking this up. I hope we can all put people together in a room, and come up with a solution that's fair to the small business owners in the State of New Jersey and the consumers in the State of New Jersey.

Thank you very much.

I'm sorry, Mr. Chairman. I have several members here who would also like to just discuss how this impacts their business.

ASSEMBLYMAN DANIELSEN: Okay; just state your name.

K A S H M I R S. G I L L: Good morning, Chairman Danielsen and Committee members.

My name is Kashmir Gill. I own a few gas stations; and I'm also the President of the New Jersey Gasoline and C-Store Association.

I agree with Sal Risalvato. As a small businessman, I spent a lot of money buying into gas stations; we paid a lot of franchise money. America is all about change; about new opportunities. Today, my franchise value of the gas station is basically out of the window, because Wawa, Sheetz, and QuickCheks moved into the market. And they know how to sell food; and the only thing I know is how to sell fuel and some grocery items.

With the increase in the smoking age, our cigarette sales are out of the window; carbonated sales are down, because parents don't want their kids to drink soda. So the opportunities at the gas station and retail outlets have gone down big time.

With the new taxes that we came up with over the last year-and-a-half, we lost the advantage that we had over our neighboring states. So we are on the disadvantage side, because I have gas stations in New York, and I am able to sell wine and beer there without any problem. We are not interested in selling hard liquor; all we are looking for is to sell beer and wine. That will promote local breweries; we can, kind of, make it a law that we have to carry 10 to 15 percent of our inventory from local New Jersey breweries.

This will create an opportunity. I have family members who bought their medallions in New York, and spent \$1 million, \$1.5 million. As soon as Uber, Ola, and Lyft came into the marketplace, their franchise value -- medallion value went down to zero. But that created a lot of opportunities for new people to come into this business. And I talked to

my family members, “How much sales have you lost?” They said, “Really, we didn’t lose too many sales; but, you know, our franchise value has come down.”

Like I said in the beginning, America is all about change, about creating opportunities for new -- for creating new jobs. So I think it would be a good idea to cut out, carve out another license for convenience stores.

Thank you very much.

ASSEMBLYMAN DANIELSEN: Kashmir, you just made an example of -- if I’m getting it right-- Are you painting a picture where you are the new Uber of -- you want to be the Uber of the alcohol sales market?

MR. GILL: I think that would create an opportunity. And yes, you’re absolutely right.

ASSEMBLYMAN DANIELSEN: So that is the comparison you’re making.

MR. GILL: Yes.

ASSEMBLYMAN DANIELSEN: So are you recognizing what Uber has done to the value of those medallions that were purchased for \$1 million?

MR. GILL: Absolutely. And every business, unfortunately, goes through that change.

I will give you one example. I paid a franchise goodwill to somebody -- almost \$500,000, 10 years back -- for my gas station. That is on Route 10 in Whippany. Today, the franchise value of that station is basically zero; and the reason is because there is an entry of new competition. So I have to be ready for that new competition.

The lady before us -- she said there are a lot of inactive licenses, and there are enough licenses. I don't believe so. If I want to open up a restaurant, in the majority of the municipalities I can get a restaurant license. And then the number of licenses that one person can hold is very limited.

Thank you.

ASSEMBLYMAN DANIELSEN: Sir, my Vice Chair has a question for you.

ASSEMBLYMAN HOUGHTALING: Yes, you mentioned that you had a convenience -- or a store-gas station in New York. What was the process to get -- that you were able to sell alcohol at that gas station?

MR. GILL: So there is an application we filed with the New York State Liquor Authority. They checked our criminal record, credit history, and everything. There was a bond that we have to put up. And they gave us a license. It's, like, a 45-day process.

ASSEMBLYMAN HOUGHTALING: Is it an expensive process?

MR. GILL: No, no, it's not expensive at all; no.

ASSEMBLYMAN HOUGHTALING: Okay.

Thank you, Chairman.

V I K R A M K U M A R: Good morning, all.

My name is Vikram Kumar; I'm a small business owner.

Sal and Kashmir pretty much summed up all the points I had in my mind. I just want to make one quick point.

In the last few years, I've seen my sales go down, especially after the entry of bigger players like QuickCheks, Wawas, Royal Farms. I

obviously don't have the capacity that they have to put in the stores -- the kind of buildings they make. So I'm just looking for every other opportunity to stay afloat, since all aspects of the c-store business and gas business is going down.

We are low on margins, we are low in volume. The sales are down, and we have nothing else to offer to the customer.

And in every sense, if I was a customer I wouldn't come to my store; I would probably pull into a QuickChek or Wawa; or if I'm in New York, I would go to any place to buy everything I need.

I'm not asking for a full license, like they are. We just need some extra tools to survive in this volatile market. That's the only hope we have. I mean, we can't beat the competition in any other way; we're just asking to add some extra products.

I'm sure other states have done it. They also have separate liquor shops there, and they have c-stores and gas stations selling beer and wine there. They've survived; so I don't see why we can't survive the same way, if we work together.

That's all; thank you.

ASSEMBLYMAN DANIELSEN: Sal, let me ask you a question.

And it's more academic -- not that I have an agenda here -- so what are you proposing? How would the entry to the liquor sales -- for the c-stores and gas stations -- how would that happen?

MR. RISALVATO: Well, we-- One, we would propose a specific special license for convenience stores -- as I described them in my testimony -- that would permit them to sell beer and wine.

Yes, we expect that there should be some kind of a licensing fee; we're willing to pay a reasonable fee. What that is, I'm not prepared to say right now; but we would be willing to pay a reasonable fee in order to do that.

ASSEMBLYMAN DANIELSEN: So you're proposing a special license--

MR. RISALVATO: Completely special license.

ASSEMBLYMAN DANIELSEN: How would that special license be defined?

MR. RISALVATO: Well, if it was -- if we use the definition of the convenience store that I put forth -- and of course, you know, there's different variations of that, that we'd be willing to sit and talk about -- if we use something like that as a starting point, and issued a specific license for those convenience stores, I think the general public would benefit by it.

I'd like to just give you an example; I wasn't prepared to do this today, but-- Four weeks ago I had a lot of family members staying at a hotel up in Somerset County because my son got married. And on the morning we all arrived at the hotel, we were offered a space in the hotel to have a little pizza party for our guests. My wife and I scrambled to go out and get wine for our guests. I went to so many little different shopping malls that had groceries; you know, supermarkets, etc. I couldn't find one. Finally, somebody told me of a liquor store; I drove 20 minutes away to get it. And along the way, I passed about 10 gasoline-convenience stores and other types of 7-Elevens, and mini-marts, and things like that.

Had I been able to run in and grab a couple of bottles of wine, I would have saved a good hour of my time. That's a lot of convenience.

So that's the kind of situation that I'm describing. And there's the one where, you know, you want to stop and pick something up. I'm filling up with gas; I want to pick up my six-pack or my bottle of wine to have with dinner tonight. That is just a prevalent situation.

And I want to address something that Kashmir brought up, because I have many members -- and I'm sorry that I didn't bring this up sooner; I'm glad he did. I can't tell you the number of my members who have paid hundreds of thousands of dollars for their franchise, and were not able to sell it for near what they paid for it -- and in many instances, walked away from it, turned in a key to the oil company or distributor that was leasing the property to them; literally turned in the key. It happens in business. I do not want to see other small businesses in a situation like that.

There are going to be enterprise scenarios and marketplaces that are going to create this in every single marketplace. We are asking for the opportunity for our small business entrepreneurs -- let's come up with something; let's see what we can do to help those who may be put in that situation. We wouldn't want to see that happen to them, just like I don't want that to happen to my members, but it is. And there's nobody who has sat in front of any legislative committee, ever since I know it -- and on April 3, I'll be in this business for 41 years -- never once have I heard of anybody talking about what we can do to compensate people in the gasoline retail business for the loss of their franchise values because of what competition brought in and what they paid for their franchises.

So this is just prevalent all across all scopes of business.

Thank you.

ASSEMBLYMAN DANIELSEN: Thank you, Sal.

ASSEMBLYMAN RUMPF: Thank you, Chairman.

A quick question, if I may, for Sal.

Sal, under the licensing scheme that you may envision, would we anticipate having all the Wawas, and 7-Elevens, and QuickCheks with the ability to sell wine and beer as well? Or do you propose limiting it to independent gasoline retailers that have a convenience store?

MR. RISALVATO: This is America. We would be way out of bounds if we said, "Give it to us, and don't give it to them."

ASSEMBLYMAN RUMPF: So if every Wawa and QuickChek -- that have resulted in competition, that have really put your members on their heels -- have the same ability to have beer and wine, where is the advantage going to be?

MR. RISALVATO: We're not looking for an advantage; we're looking for an opportunity. This is America.

ASSEMBLYMAN RUMPF: All right.

MR. RISALVATO: Free enterprise.

ASSEMBLYMAN RUMPF: Thank you, Sal.

ASSEMBLYMAN DANCER: Thank you, Chairman.

Sal, if the State were to create and authorize a convenience license for, specifically, beer and wine, your thoughts on promoting the New Jersey industry of the craft breweries and the wineries that we now have in New Jersey. What are your thoughts of limiting that convenience store license for New Jersey wine and craft beer?

MR. RISALVATO: Assemblyman -- through the Chair, to respond to the Assemblyman -- we would think that it would be wrong to

limit us to only New Jersey craft breweries and wineries. But it would be okay and acceptable if we were required to have a percentage of New Jersey craft breweries and wineries.

I think that that is acceptable, because it sort of helps New Jersey industry as well. But to say *only* -- I think that that defeats what we're trying to do. Because if I drink, you know, Michelob -- what is that, Ultra, because it doesn't have any carbs? -- and I have to only put in, you know, particular craft beers, then I am not being inconvenienced at all by this new legislation. I still have to go out of my way to pick up that six-pack on my way home. My wife will be happy, but I would still prefer to stop at the convenience store on my way home and pick up the beer of my choosing.

ASSEMBLYMAN HOUGHTALING: Sal, my daughter lives in North Carolina; we go down there to visit quite often. And we go down there for parties and barbecues; and usually we end up going out for dinner and for lunch. And it seems like no matter where we go, or whatever my ask is, we have to go out and get the beer and wine. I can literally go anywhere to buy that; I can go to a gas station, I can go to a 7-Eleven, I can go to the drugstore. I mean, it's just -- everybody sells it, and everybody seems like they're in business. If I go out for lunch, we can go to a strip mall shopping center and get a pizza, and a beer and a wine with that as well.

My point is, you know, North Carolina started out differently than we did; and we are where we are right now. So, you know, this process that we have -- I'm understanding what you're saying -- is something I think is something that is nice to be able to -- the convenience that you're talking about. We just have to figure out how we can try and get there, because it

is something that-- Down in North Carolina, everybody's making money down there, actually. And it's great for everybody to go out and enjoy themselves; it's a lot easier than what we are, kind of, right here. I think we're restricted with a lot of stuff that we do.

So we have these antiquated laws that were created way back when; and I think that, through this hearing that we're having today, that we'll be able to, maybe, find some middle ground that makes some of these things happen.

MR. RISALVATO: May I make just a quick response?

ASSEMBLYMAN DANIELSEN: Yes.

MR. RISALVATO: I started my testimony: *convenience* store; *convenience*.

ASSEMBLYWOMAN QUIJANO: I think it depends on where you live. Because in Elizabeth, New Jersey, I have (indiscernible) going to the liquor store, because there are a lot of them. And we are heavily populated district.

So, whereas, you couldn't find your liquor, and you spent an hour; I could pinpoint something in my town, and everywhere I look I could find a liquor store. So there's convenience there. So it has to be, you know, whatever we decide we have to really look at it in broad strokes, and look at how it affects all parts of the state.

ASSEMBLYMAN DANIELSEN: So I have a question; I'm a little devil's advocate here.

So I recognize the value, the critical value convenience stores provide our communities; from trip generation to trip cycle, Americans love convenience.

And I also recognize convenience stores are forced, many times, to sell products at cost; which, really, *at cost* is a loss. And that's a fact that you share with liquor stores, you know? Liquor stores often sell their product at cost, which is really a loss in the end.

So the elephant in the room here is, the question -- if we're recognizing that your members are almost going out of business, some would say we're trying to save you at the cost of the livelihood of liquor store owners, and putting them further in jeopardy.

What do you say to that?

MR. RISALVATO: I, again, bring up the word *opportunity*. I totally agree; the selling something at cost is not just prevalent in my industry, but in many other industries.

We sell gasoline at incredibly small margins. People would be surprised-- I could take you to gas stations, right now, that are making 3 cents a gallon, okay? It doesn't pay the lights; it doesn't pay the help.

But if you come in and buy 10 gallons of gas, and go inside of my store and buy a cup of coffee, I make a buck and a half, and you only had to spend \$2 for me to make that buck and a half. That's America, that's marketing, that's why we do it.

I suggest to you that there are going to be beer brands where I believe the retail stores -- they hardly make anything on it. Yet they have other beer brands where they have a very good margin. I can't speak for them -- I'm sure they're going to speak here today -- and they'll tell you that.

So they have a lower margin on one product, so that while you're there you may consider buying something else. And if you do, they

make a larger margin. That is the nature of all retail, period. When you go into the supermarket, you see those flyers they send out every week. I go to ShopRite because it said “Broccoli crowns, 99 cents a pound.” I went to buy the broccoli, and I bought 10 other things that I’m sure they made a much bigger margin on. That is the nature of retail.

We are simply asking for opportunity; and at the same time, we’re saying, “Give us this opportunity, because look at the convenience to the customer.”

In response, Assemblywoman Quijano, with respect, I get you have that plethora of liquor stores. However, you may be able to go close by to get to that liquor store; but there’s nothing more convenient than when you’re filling up your car with gas, going inside, picking up the six-pack or the bottle of wine. That is even more convenient than knowing you have three or four liquor stores within a short period of time.

So we are asking-- Again, I just keep using that word *convenience*.

ASSEMBLYMAN DANIELSEN: Thank you, gentlemen.

Okay, I’d like to call up Michael DeLoreto and Bill Crosby, from the Retailers for Responsible Liquor Licensing and the New Jersey Food Council.

Good morning, gentlemen.

MICHAEL D. DeLORETO, Esq.: Good morning.

Good morning, Mr. Chairman, members of the Committee.

My name is Michael DeLoreto; I’m here today on behalf of my clients, the New Jersey Food Council and the Retailers for Responsible Liquor Licensing Coalition.

I appreciate the invitation to testify today.

And I'm going to focus my comments solely on the issue of the two-license limit that exists here in the state.

Joining me today is Dan (*sic*) Crosby from ACME Markets. He's the VP of Operations, and he's going to talk a little bit about the real-world examples of how the two-license limit impacts supermarkets.

You have our packets today. Our Executive Director of the Coalition, AJ Sabath--

ASSEMBLYMAN DANIELSEN: Excuse me one second.

Does everybody have this packet? (affirmative responses)

It's an impressive handout.

MR. DeLORETO: Thank you, Mr. Chairman.

This issue has been around for so long, we were able to generate a lot of materials to provide. So you can peruse at your leisure.

AJ Sabath, who is our Executive Director, was unable to be here today. You do have his testimony in the packets, and you also have mine. So I'm just going to summarize the key points from each.

One of the comments we get when we meet with legislators a lot is, what is this two-license limit? Because I see a lot of stores that operate under the same name.

And so we wanted to provide some specific examples in your packets. For example, there are 54 stores on the Buy-Rite website that are listed there. If you look at this entity -- it's Bottle King -- has 14 stores. And so we get asked a lot, "How is it possible that all these stores are listed on the website as being a Bottle King or a Buy-Rite?" And the issue is that

there is an ability for these entities to work around the two-license limit law.

The two-license limit law says that you cannot have a beneficial interest in more than two licenses per entity. So what these entities do is -- each one of these stores is either individually owned by a single person, or they own no more than two licenses; and then they enter into franchise agreements in order to operate under the *Buy-Rite* or *Bottle King* name.

The situation here is that, you know, while these entities -- perhaps they're owned by individual family members; you might have a wife, a husband, a sister-in-law, brother in law; you may have business partners who engage in this -- there are certain entities that can't use this structure, and that's why we're here today. Stores like ACME, Stop & Shop, Whole Foods, Kings supermarkets -- a New Jersey born and bred supermarket chain with 28 stores in the state -- those stores cannot use this structure. They're singular corporate entities. They can't franchise their name, they can't have separate owners because of the fact of their corporate structure.

And to be honest, there are even supermarkets that use this type of structure in order to have multiple licenses. And so within the supermarket industry, there's also an inequity that exists.

And so the reason why we're before you today is to ask whether or not it's equitable that an entity could act as a singular corporation, when they're not; even though there are good corporate citizens -- like ACME, that many of you probably asked to contribute to things in your community -- that can't obtain more than two licenses.

And that's why the members of the Coalition support Majority Leader Greenwald's Bill and Senator Cruz-Perez's Bill that would increase the two-license limit gradually, from two licenses to 10 over a 10-year period. This Bill does not create new licenses, it does not eliminate the three-tier system; and to Assemblymen Rumpf's point, we understand the value of licenses that people paid. And what we've seen in other states is that if you increase the number of licenses available to individuals to purchase, without increasing the pool of licenses, you're creating more demand for a limited supply, and that actually drives up the value of those individual licenses.

And Assemblywoman Quijano, you had mentioned about the population and how that impacts licenses. As the Committee may be aware, New Jersey can only issue one license for retail distribution for liquor stores per 7,500 people. So in a more densely populated area -- like Elizabeth, for example -- you have more individuals who live there and, therefore, there are more licenses that can be accessed. In the area where I grew up, in Readington Township in Hunterdon County, we have, I think, a population of about 20,000 people. So there are much fewer licenses that are there, and you do have to drive 15 or 20 minutes in order to get to a liquor store if you wanted to.

I think the thing that everyone here realizes is that alcohol has become part of the food shopping experience. And New Jersey consumers want to see beer, wine, and spirits in their supermarkets. In fact, there was a Monmouth University study done, many years ago, that showed that 76 percent of New Jerseyans want to have the ability to purchase alcohol at their local grocery store.

And what we're asking for is not out of the mainstream. And in fact, other states are doing what the Majority Leader's Bill has done. States do have the obligation to balance economic, social, and public welfare concerns when it comes to alcohol licensing, against the backdrop of cultural change. And that is a challenge, and that is one of the reasons why this Committee is examining this issue.

But the best example of reform that we can find is Massachusetts. Massachusetts actually enacted a model bill based off of Majority Leader Greenwald's Bill. They had a three-license limit, and they increase their license limit to nine over an eight-year period. It started in 2012, where they increased from three to five licenses; in 2016, the cap increased from five to seven; and in 2020, they will go up to nine licenses.

In Tab 3 of your packets, I provided you with the reports from the Massachusetts Division of Revenue. What those reports show is that during the same time period, from 2014 to 2018, Massachusetts actually saw an increase in their alcohol beverage excise tax; that is a fact. It increased by about \$8 million, from 2014 to 2018.

The state ABC also issued a report on the reforms that were made. And one of the recommendations that came out of that report was that, at this point in time, localities should be able to decide how many grocery stores or supermarkets should be able to obtain licenses. That report didn't show any impacts to the current license holders. There's no -- there may be anecdotes that are out there of individuals that were harmed; but the report itself doesn't demonstrate that.

Colorado -- another one of our states that we tend to, maybe, see ourselves as a peer state to -- they increased the number of licenses a

supermarket entity could own. And we provided you the University of Denver School of Business study. It concluded that Colorado consumers had more choices, there was a boost to economic growth, and there was no impact to existing liquor stores. Their report shows where there are liquor stores, and supermarkets with liquor licenses, that coexist already in Colorado.

And we do have examples right here in New Jersey. Behind me is a map of Paramus; Paramus has four supermarkets that have liquor stores. There are 30 other liquor stores that are just stand-alone stores that operate in that same five-mile radius.

At the end of the day, changes are happening nationwide; and they're happening either legislatively, they're happening at the ballot box through initiative and referendum, or they're happening through the courts. Oklahoma, Pennsylvania, Minnesota, Connecticut, Virginia, Maryland, and New Mexico all have either recently enacted reforms, or are holding hearings -- very similar to what this Committee is doing today -- on alcoholic beverage licensing reform, because they realized that many of these systems are antiquated. After the 21st Amendment was enacted, states essentially scrambled to get licensing schemes in place. And those licensing structures really haven't been updated; New Jersey's hasn't been updated in, as the Chairman said, 71 years.

I would note two recent court cases that I think are also something that the Committee should be aware of.

In South Carolina, their state Supreme Court found that their three-license limit law was unconstitutional; it was an unconstitutional economic protectionist statute. And the U.S. Supreme Court just heard

arguments in January on a Tennessee law that requires liquor license holders live in the state for more than two years before obtaining a license. What we've seen, from the legal community, is that there's a trend in the courts -- both at the State and Federal level -- to be more suspect of laws that appear to be done for economic protectionist measures.

So I'm going to ask Bill to explain the real-world impacts of how the two-license limit has impacted ACME and their locations.

BILL CROSBY: Good morning.

My name is Bill Crosby; I'm Vice President of Operations for ACME Markets.

We're in a unique situation. New Jersey is our largest geographical area in which we trade. Back in 2015, we acquired 71 A&P stores that -- the company went bankrupt; they were going out of business -- five of which had grandfathered liquor licenses. Allendale, Hoboken, Midland Park, Fort Lee; and the store in Little Silver had a dry beer license.

We purchased those stores with the anticipation of being able to activate the licenses. We kept all the employees at the time we purchased the stores; we kept their wages, their benefits, their vacation packages. Upon taking possession of the stores we were notified that we weren't allowed to use the liquor licenses because of the two-license limit in the state. We currently have a store in Cape May Courthouse, New Jersey, and one in North Cape May that sell liquor and have their liquor licenses.

The stores were negatively impacted. Our people are granted hours, or we budget hours in labor dollars, based on sales. There is not only the sale of the liquor, but there's also the halo effect. If you come in -- and the preceding witness talked about convenience -- and you buy something

when you go to get the gas; you buy some cheese, you buy some wine, you buy some grapes, you buy your dinner, you buy your meat. That halo effect directly impacts our 8,000 associates in the State of New Jersey.

We have a unionized workforce; we pay good union wages with benefits. Over the course of the time we were forced to adjust to the sales, and it's directly impacted our people.

We're asking for the ability to go back and use what we have -- what we thought, in good faith, we would be allowed to use -- those four licenses. The store in Little Silver -- we did sell the dry beer license. We had so many complaints from customers and the landlord about the convenience issue -- of being able to buy beer -- that we partnered with them to sell it to a local person, just to benefit the community.

We are not looking to sell anything that our customers don't want. If people didn't ask us for it, we wouldn't want to sell it. But the direct impact-- There's also a ripple effect; when you put beer and wine into the stores, not only does it increase our workforce, we have to increase refrigeration technicians, plumbing technicians. There's a capital investment back in the stores. Right now, the majority of our capital investment is being put into the state of Pennsylvania, because they recently changed their liquor licenses. We are -- on an average of \$2 million per store -- investing in the infrastructure of the stores, updating the stores, remodeling the stores. That not only generates the liquor sales, but the halo effect.

Again, I understand that people put money into buying these licenses; and, you know, the investment of local families. But you have to understand something. This is our people's families' investment; it is their

future. It directly impacts their pension, it directly impacts their health and welfare, it directly impacts their actual standard of living.

We're able to put on fulltime jobs, based on some of the increases. The average increase in the state of Pennsylvania, based on the introduction of just beer and wine, is approximately \$3,000 a week in wages. And for every dollar we spend in wages, we spend another additional 70 cents in benefits, fringe and tax. So there's a direct economic impact to not only the person, but to the state and the local municipality.

We compete directly, in the State of New Jersey, with beer distributors. And if you go to our North Cape May store, this building right next to it has a beer distributor. He competes every day with us.

We are-- We don't want to be the end-all and be-all; we don't have the space in the store to do that. We do sell liquor in the store; we sell more of the best brands, so to say, where they have more of a selection. If you want a different selection, you go next door.

So there is room in the marketplace for everyone. In the state of Pennsylvania, since they redid their laws, we compete directly with beer distributors right next door to us in at least four locations; one is three blocks from my house. We work with the landlord to make sure -- we stay in touch. We don't want anybody leaving the marketplace. In today's environment in retail, the last thing you want is dead space in your shopping center. Nobody wants to go to a half-full shopping center. So we make sure it's viable for everybody.

We try to be good partners with the community; we listen to the concerns of the local municipalities. If there are reasonable restrictions that they would like the place on us, we're more than willing to do that.

We train our people; we have RAMP -- what's called *RAMP certifications* -- *Responsible Alcohol Management Program*. We work with the states; we sell liquor in Maryland, we sell liquor in New Jersey, we sell liquor in-- And we will start selling liquor in Delaware, and we sell in New York. And we compete with everyone.

And we're not asking for anything different than being able to compete. There are supermarkets, quite honestly, that skirt the law. You know, as I said to my son, "You can do 80; the speed limit is 65 -- you can do 80 if you don't get caught." But is it about following the intent of the law or the letter of the law? The intent of the law is to keep everybody safe. We want an equal playing field -- that's all we're asking for -- we're asking for that on behalf of our 8,000 people who work in the State of New Jersey; we're asking for that for our 18,000 total associates who work for the company.

And again, we're not looking for a hand up; we're looking for an equal playing field. And those four licenses that are currently inactive in the State of New Jersey -- we're asking to be able to utilize them; we think it's fair.

ASSEMBLYMAN DANIELSEN: Let me jump in here.

So to be clear, what you're proposing is to increase the maximum number of licenses your corporation could own. Is that correct?

MR. DeLORETO: Correct. So it would be for supermarkets--

ASSEMBLYMAN DANIELSEN: And this would be for you to add alcohol to your shelves.

MR. CROSBY: Correct.

ASSEMBLYMAN DANIELSEN: What alcohol products do you -- in your store that you do have -- what do you sell?

MR. CROSBY: We sell the full gamut of total alcohol: whiskey, bourbon, wine, beer; it's a full alcohol store. We're able to sell all those things.

ASSEMBLYMAN DANIELSEN: Did that create any new job positions in your store?

MR. CROSBY: The ones we just did in Pennsylvania? Yes, absolutely.

ASSEMBLYMAN DANIELSEN: And then, and you're saying the impact of which was minimal or de minimis to the liquor stores in that area?

MR. CROSBY: Correct.

ASSEMBLYMAN DANIELSEN: Okay.

MR. DeLORETO: Mr. Chairman, if I could just add.

New Jersey has a full spectrum license; so it's beer, wine, and spirits. There is no carve-out; especially as Sal mentioned, you know, the supermarkets -- we're not advocating for a split of licenses; we're not advocating for that. We're not advocating for more licenses in the pool. All we're asking for is supermarkets to be able to increase the number of licenses that they can own, from 2 to 10 over a 10-year period. And we're limiting it to supermarkets that meet a specific definition.

ASSEMBLYMAN DANIELSEN: And you mentioned earlier about local control. So are you also proposing that, say, if we did increase the number of licenses you could have, that there will be a provision where

if a town did not want its supermarket to sell alcohol, that they could obstruct that license from being granted?

Is that what you're proposing?

MR. DeLORETO: So, on the local control side, that was in Massachusetts -- that example -- up there, where the state actually said that the localities, at this point forward, should be able to make those decisions.

New Jersey is a very home rule state; and the way that the license system works is that the licenses are issued at the local level. So we take no position on what should or shouldn't happen at the local level; we think that a store like ACME, if they came in and wanted to purchase a license, could make a very good case to the municipality as to why they should be granted that license. And we'd be happy to have that discussion at the local level. We take no position on the home rule situation.

ASSEMBLYMAN DANIELSEN: Okay.

One last thing -- for you to purport that there's no impact, or minimal impact, on local liquor stores; that is also to say that the sale -- the liquor sales that do occur in your stores are new sales -- sales that would not have otherwise happened. It's either that or it's just simply a shift of sales from the liquor store to your store; and thus it would have an impact.

Is that what you're saying?

MR. DeLORETO: So, you know, I think Bill can speak to the example that he had in Pennsylvania; I can speak to the overall public policy issue.

So, generally speaking, it has always been the thought that the pie does not increase; the pie is a set number, and that you are simply -- when you add a store or take away a store, the pie doesn't change. What

we've seen in Massachusetts tends to demonstrate that that's not the case; that the pie did increase. That's why its alcohol excise taxes did increase over the same period of time. There had to have been new sales in order for that to have occurred. I'm not aware of any tax changes that occurred in Massachusetts that would have generated increased revenue. So, therefore, we're looking at it solely as the concept that the pie did, in fact, grow; and we think it would be from ancillary sales. For example, you know, you go, you buy a steak; and then all the sudden you're like, "Boy, you know, I'd really like to have a glass of red wine with that tonight. Let me pick that up." You, otherwise, would not have bought that bottle of red wine had it not been at the location that you were at.

And so I don't know if you have any Pennsylvania--

MR. CROSBY: Well, Pennsylvania -- there were no new licenses issued. We purchased an existing license for a designated area -- municipality.

I can't tell you if there was an impact to other retailers; I'm specifically speaking to the retailer next to us, or adjacent to us in the shopping center. I don't have the information, as a whole; I can only tell you how it's impacted-- Because we watch closely, other retailers, in the centers that we're in.

ASSEMBLYMAN DANIELSEN: Okay, thank you.

ASSEMBLYMAN HOUGHTALING: You stated that you're only allowed to get -- that ACME is only allowed to get two licenses. How come if I go to, like, a Wegmans or a ShopRite -- they're chains too -- I think every one of their stores has a liquor license. Could you just explain how they're able to do that?

MR. DeLORETO: Absolutely.

They use a very similar system to what the Buy-Rites and Bottle Kings use. So in those examples, you know, you may have family members who are the owners of those licenses; therefore, they attempt to not have a beneficial interest there. And so, you know, even in those examples, there are several members of the supermarket industry who would love to see an increase in the cap, because they don't want to have to create these structures where I'm putting a license in my brother's name; I'm putting a license in my son's name. Those are assets. If you put a license in your wife's name, and you end up getting a divorce, that license belongs to your wife.

And so you have to make sure that you have a very good agreement in place before you think about that. And, in fact, we know of examples where there have been individuals who have needed to address those issues, and we've worked with them on the legal side.

We don't want to see that; we just want to see transparency. We just want to see a system that works for everyone. We think that the Majority Leader's Bill -- as has been demonstrated in Massachusetts, which has done the exact same thing -- has shown that this could work here in New Jersey, and that's why we're asking the Legislature to consider it.

ASSEMBLYMAN HOUGHTALING: Thank you, Chairman.

ASSEMBLYMAN DANIELSEN: Any member have anything else?

ASSEMBLYWOMAN QUIJANO: Michael, this question is for you.

You may be able to answer, or you may not be, today, okay?

So you provided us with a number of state reform efforts -- 11 states -- and you've used Massachusetts as an example. On the flip side, on those states that have changed their licenses, has there been an uptick on drunk driving and alcoholism?

MR. DeLORETO: I don't have the answer to that question, but we'd be happy to look into it and--

ASSEMBLYWOMAN QUIJANO: If you could, I'd appreciate it, through the Chair.

MR. DeLORETO: Absolutely.

ASSEMBLYWOMAN QUIJANO: Thank you.

MR. DeLORETO: Mr. Chairman, we'll provide you that information, so this way you can-- We'll get it to Martin and to the Chairman, so this way he can deliver that to the Committee members.

ASSEMBLYMAN DANIELSEN: Gentlemen, thank you very much.

MR. DeLORETO: Thank you very much, Mr. Chairman.

ASSEMBLYMAN DANIELSEN: Okay, I'd like to call up Alexis Degan, from the New Jersey Brewers Association.

Good morning.

ALEXIS DEGAN: Alexis Degan, New Jersey Brewers Association.

Chairman Danielson and members of the Committee, thank you again for inviting us to address you and discuss the challenges of operating a craft brewery in the State of New Jersey.

New Jersey's brewing industry has had meteoric growth over the last several years, since the Legislature passed the law, in 2012, creating the Limited Brewery License and expanding the Restricted Brewery License.

In fact, last year the state was tied with Kentucky for fastest-growing craft beer industry in the country.

This growth has had a net positive effect on the industry, on the industries that support craft beer production, and on the communities that host these economic engines. The brewers the Association represents have built relationships within their communities that support other businesses, help attract and retain residents, and drive local tourism.

One brewery opened under the promise of continuing the town's decades-long tradition of hosting open mic nights to preserve the town's artistic identity. Another has leveraged their location and resources to build up the town's Main Street development program. A third has helped a local farmer afford his cancer treatment because he feeds his animals with the spent grain that they produce. A group of breweries got together this past holiday season and raised over \$50,000 to support community food banks. And they're just getting started -- with collaborative efforts to raise money on behalf of nonprofits that benefit the region. I'd continue, but we'd be here all day.

The growth of the industry is all the more impressive given the hurdles placed in the path of startup breweries that other states do not see. If you look across our borders, New York and Pennsylvania have been doing it longer, for sure; but they have also been doing it better. Laws which allow for the sale of food on-site of premise, laws which do not require a tour at each brewery visit, or at any; and resources invested by the state in support of craft beverage-specific tourism have all contributed to these states being in the top five in the country for the economic impact the craft breweries provide. New Jersey's not; but we could be.

Because New Jersey law does not speak to how a tasting room can or should operate, the promulgation and enforcement of such rules have been left to the ABC. This enforcement has been inconsistent and confusing, leading to a wide variety of business models which have developed and thrived. Yet without legislation that protects these activities, the industry is bound to the different interpretations of one director to the next. Indeed, in the past, different breweries have received different messages as to what is permissible and what is not on their property. It is difficult to run your business when you operate in constant fear that the next director will negate your business model entirely.

Additionally, there is no consistency from one alcohol manufacturing licensee to the next, as to what activities are allowed and disallowed. While distilleries are very similar to breweries, cideries and meaderies may sell snacks and do not have to give a tour. Wineries are able to operate full kitchens, have no limit on in-house events, and may operate multiple off-site retail locations under one license.

The New Jersey Brewers Association is advocating for clarity in our laws, which protect the beverage tourism culture that has developed as a direct result of the 2012 law. These measures include allowing to continue, without impediment, the events and private parties which attract customers to the breweries, and also enable the breweries to become anchor institutions in their communities. Indeed, it is the local municipalities that are best situated to regulate whether these activities are desirable for those communities.

Additionally, laws that would allow the ability to sell snacks to consumers but, more importantly, to carry the menus of local restaurants

and to coordinate with locally owned food trucks benefit the communities, and assist with public health and safety issues.

We are advocating for a permit process which allows breweries to extend their premise -- to the sidewalk or into their parking lot -- to better participate in community events, like street fairs and festivals; additionally, the right to protect small businesses against unwieldy contracts and other such business engagements which squash competition.

Consumers do not really care about the nuances of law. They care about the experience they are expecting to have, based on what they see in other establishments and in other states. We witnessed this last year with the swift and powerful public response to a special ruling that was seen as overly burdensome to an industry which is widely enjoyed by the residents of the state. If we want to keep this trend of growth we must be willing to meet that expectation.

As always, the Association stands ready to answer any questions, or to work in any way to help further this discussion.

Thank you.

ASSEMBLYMAN DANIELSEN: Alexis, you mentioned clarity in our laws. Can you expand on that?

MS. DEGAN: Sure.

Currently, the law that regulates Limited Brewery licensees simply states you must give a tour and you may not sell food; it does not speak to anything else that happens on the premise. And over the course of the last six years -- since the law was passed -- that has led to a wide variety of interpretation by the directors which have overseen the ABC; by the investigators who have inspected the properties. As a result, breweries were

told different things were allowed and disallowed on their properties. And there's really, kind of, no consensus of what a brewery can or should look like.

ASSEMBLYMAN DANIELSEN: And what are you proposing?

MS. DEGAN: Well, I propose what is going on right now is appropriate (*sic*).

There were-- The special ruling last year had proposed a limit of events on site to 25; which would just be incredibly limiting to what is happening. You know, breweries have trivia nights or yoga nights; but they also have -- local nonprofits come in and host events. They have, you know -- Main Street Medford has a Destination Medford process going on. And if Lower Forge wants to participate in that, they want to say, "Oh, hey, you know, come into the brewery while you're doing that," is that considered an event? Hosting a local artist for an open mic night -- which was in certain breweries' business models when they applied to the ABC -- "We promised our town that we would have a weekly open mic night." Well, you would fill that up in the first quarter of the year. And so limiting those events, limiting those things which have drawn people to these towns would absolutely crush a business model that has proven to be successful for these breweries and, also, not detrimental to the current liquor licensees.

ASSEMBLYMAN DANIELSEN: So, right now, what you're saying -- a craft brewery must give a tour?

MS. DEGAN: Yes.

ASSEMBLYMAN DANIELSEN: And must provide food, or--

MS. DEGAN: No, is not allowed to provide food.

ASSEMBLYMAN DANIELSEN: Cannot-- All right.

MS. DEGAN: Cannot sell food.

ASSEMBLYMAN DANIELSEN: Tour, yes; food, no.

MS. DEGAN: Yes.

ASSEMBLYMAN DANIELSEN: So, as someone-- You know, I'm new to this discussion.

MS. DEGAN: Yes.

ASSEMBLYMAN DANIELSEN: So I see a craft brewery-- I mean, I would assume I just see the word *brewery*. So your job is to brew something--

MS. DEGAN: Right.

ASSEMBLYMAN DANIELSEN: --and then sell it. But now you're talking about yoga.

MS. DEGAN: Sure.

Yes; well, you know--

ASSEMBLYMAN DANIELSEN: It's a brewery.

MS. DEGAN: Sure.

ASSEMBLYMAN DANIELSEN: Why would we entertain yoga, or-- Are you also going to be dispensing gasoline and reading palms? Where does it end? (laughter)

MS. DEGAN: Sure, sure.

You know-- Well, the question is, you know, what about having a brewery, which has a retail component, negates your ability to then also provide services that are interesting to your consumers?

Yoga has proven to be something that breweries have success in bringing people into the brewery; which, you know-- So the original license existed already; a manufacturing -- a brewing manufacturing license existed

before 2012. The unique part of the 2012 law was the allowance for the retail space, which -- you know, for sale on site, for consumption on site, at the brewery.

So why, then, are we saying, "You can sell; you can have people come in, you can have people buy your beer, you can have people drink your beer on the site. But that's all they can do." There's nothing about the law, there's nothing about a liquor license that gives you the exclusive right to have those events. And so the question becomes why, then, are we parsing out which alcohol providers can do this; especially since there exists already, in the state, alcohol manufacturers that also have unlimited events? You look at a winery; the winery can do many, many things. And, you know, that's a great business model; we fully support that business model that has created, in the State of New Jersey, a wine culture that has become nationally recognized. That doesn't happen just because you make good wine; absolutely, that's part of it. But part of it is also the experience that you are providing to the consumers.

You look at our neighboring states; you look at any other state in the country, really, and these breweries are able to do these activities as well, and more so. When I say Pennsylvania and New York are doing it better -- you can go into a brewery in Pennsylvania and New York and purchase other Pennsylvania-made alcohol.

ASSEMBLYMAN DANIELSEN: Are the regulations on craft breweries applied differently than wineries?

MS. DEGAN: Yes.

ASSEMBLYMAN DANIELSEN: And what is that difference?

MS. DEGAN: Well, the wineries have clarity as to what they can do. And, you know-- And also the wineries are regulated by the Department of Agriculture to an extent; but, you know--

ASSEMBLYMAN DANIELSEN: The Department of what?

MS. DEGAN: Agriculture; there's a kind of a cohesion there.

But additionally, the wineries have been here longer, and they have advocated for these rights that they have; and they have fought well for them. And we're just looking to get some clarity in what we're able to do. And understanding that, you know, these are small business owners who are creating new tourism, new drives to these towns through being there.

ASSEMBLYMAN DANIELSEN: Okay.

Anybody have questions? (no response)

Okay; well, I learned something today. I would have really enjoyed being at that marketing meeting where someone decided, "Hey, let's partner up yoga with drinking booze." (laughter)

MS. DEGAN: You know, it--

ASSEMBLYMAN DANIELSEN: I mean--

MS. DEGAN: --the thing I'd like to say is that, you know, the most creative people are our brewers, because they're always coming up with new flavors, they're always coming up with new ideas. So you do find some very interesting things happening at our breweries.

I encourage you to stop by one sometime.

ASSEMBLYMAN DANIELSEN: Thank you.

MS. DEGAN: Thank you very much.

ASSEMBLYMAN DANIELSEN: I'd like to call up New Jersey New Jersey NAIOP, Tony Pizzutillo; Commercial Real Estate Development Association.

ANTHONY E. PIZZUTILLO: Good morning.

Thank you for giving me the opportunity to speak today.

My name is Tony Pizzutillo; I represent the commercial real estate industry, which is office and industrial -- NAIOP.

And Mr. Chairman, I'd like to take a little different perspective, and take the route of real estate economic development, and what is happening in this state.

I'd like to set the table, first of all, by providing you with some data; and that data is major findings from PlanSmart New Jersey's *Stranded Assets* study, which was a 2016 study, where they utilized CoStar -- which is a real estate gold standard database -- to examine stranded assets in the state.

And let me just give you -- if I may -- some data.

One out of three municipalities in New Jersey houses a stranded asset; one out of five large retail and office parks are stranded in New Jersey. That equates to about 339 stranded assets in New Jersey; equal to 25,000 square feet or more of retail, with at least 20 percent vacant for two consecutive years; or 100,000 square feet of commercial space with a vacancy rate of 14 percent over 5 years. So these were pretty conservative definitions, or standards, to establish.

I think it's important, also, to tell you that what they realized is that as a result of those vacancies, we're talking about \$300 million in lost annual ratables -- \$300 million a year in lost annual ratables.

And just to give you a few more pieces of data: We're talking about 7 million square feet of empty retail space in New Jersey; 7 million square feet, as of 2016 -- equivalent to 23 big-box superstores, in order to give you a visual.

In addition to that, 10,000 baby boomers in New Jersey are retiring every day; and they're not being replaced, at the same rate, by millennials in this state.

So we have a problem; we have a problem and, literally, I think now -- not to repeat a lot of what was stated earlier -- what the market has found-- And by the way, commercial industry, over the last 10 years, has transcended from what would be considered a *silo industry* -- where they would build concrete canyons, where people would go to work and employers would be tenants -- to more mixed-use, tenant-oriented destination areas, where people want to live, work, and play.

And as you all know, in today's market companies follow people; while in the past, people followed companies. So we're on the losing end here, because there is a net export of high knowledge, highly educated, high-paying jobs leaving the state, because of many reasons. And one of the reasons, of course, has to do with liquor, believe it or not. Our market data demonstrates that restaurants -- not chains; small niche restaurants -- are driving redevelopment in New Jersey, as well as across this country. So the market demands these small restaurants in strip malls, in other stranded assets that need to be repurposed. And as a result of that, New Jersey suffers because they can't participate, because we have post-

Prohibition laws in place that limit growth of liquor licenses to populations; which, therefore, inhibits economic real estate growth.

That's a problem. It doesn't exist in a number of states around us; it doesn't exist nationally in a number of other states. What's ironic is that today we deliberate whether or not we pass recreational marijuana legislation on Monday; but yet we can't make subtle changes to the liquor industry law in New Jersey to match the economy that existed in the past, and even today in the 21st century. Given the fact that-- I can tell you, and you all know this -- that zoning laws, local zoning laws typically lag economic trends. And by the time we make those changes in master plans and zoning plans, the economic cycle may have come and gone.

And it's pathetic; because New Jersey is blessed with more railroad stations -- both active and inactive -- than any other state in the union. And as a result of that, the reactivation of those railroad stations into destination areas is limitless. However, there are constraints, and I just mentioned one of them to you.

So as a result of that, the real estate industry has been working closely with Assemblyman Burzichelli, over the last number of years, to determine how we can, in an incremental way, make subtle changes that can stimulate economic development, especially in infill redevelopment areas; and especially in large commercial corporate parks, that are now being looked at to be turned and repurposed into a multi-use complexes where we want people to work, live, and play; where the millennials want to work, live, and play. They are the future.

Unfortunately, many of us around this table are not; and New Jersey needs to respond to that, and New Jersey needs to not be afraid to

compete. And therefore-- However, as Assemblyman Burzichelli states, the rules have been set, and we need to be respectful of those who have invested in consumption licenses; and create an incremental process where we can make these subtle changes, to demonstrate that and eliminate fear.

Because we can't stop change; change is going to happen. Everyone behind me -- who is looking to protect their license -- may do that in the short term. But eventually -- it may not be this Committee, it may not be this Legislature -- change will occur. We can't stop it.

And so, with that, Assemblyman Burzichelli has introduced legislation, that has been amended; and through this Committee, Mr. Chairman, amendments have been made to allow for municipal discretion for table service only; small restaurant service. No bar; no standing and drinking. It would not affect consumption licenses; and the large chains are not affected. This would be niche restaurants that would give small businesses-- This is a local economy bill -- as I've ever seen one, okay? -- to motivate, and invigorate, and revitalize downtowns. So that's a major point of his legislation.

Another major component of his legislation is that it establishes a compensation mechanism. Whatever you think about it, it is probably, I think, the only compensation mechanism in liquor license reform legislation that I've seen proposed -- I may be wrong, I don't read them all -- that would allow the aggrieved to follow a real estate appeal process comparable to -- as modeled by the real estate appeals process, for those who feel that they've been injured to be compensated for their loss; and that would be over a five-year period.

In addition to that, the third-most important component of that legislation is that it eliminates the 200-foot buffer that is required for alcohol to be served outside of where there is a church or a school. Because if we're interested in revitalizing Main Street, you tell me one Main Street that doesn't have a church or a school within 200 feet of where you would want to have a destination area. We want a walkable destination area, where people can walk to and enjoy New Jersey lifestyle.

Finally, I don't know if the Committee is aware of it -- is that the Office of Legislative Services, in 2016, certified John's Bill -- Assemblyman Burzichelli's Bill -- both on the fiscal impact side, and also on the compensation side. And that was very positive; and I can tell you what that is. The OLS fiscal impact of allowing for restricted local licenses, that are not transferable, not sellable, and that are renewed annually -- these are permits; these are not licenses -- would generate roughly \$32 million to \$130 million annually in only sales tax. That does not include the alcohol excise tax; they only looked at sales tax.

In addition to that, their worst-case scenario of 100 percent of the industry successfully feeling aggrieved over a five-year period, would generate about \$172 million in losses to the State as a result of payouts of the tax credit program that John has put forth. These are OLS' numbers; these are not my numbers, or the industry's numbers. These are OLS' numbers, based on their analysis.

So with that, I think-- You know, again, we've been working on this. I think the Assemblyman has been tremendously respectful of the industry; has been interested and willing to sit down with them to talk about how we can further -- he can further amend his Bill in order to allow

for an incremental change that will start to eliminate the fear of change that needs to happen in this state.

Thank you very much.

ASSEMBLYMAN DANIELSEN: Member Quijano.

ASSEMBLYWOMAN QUIJANO: How are you? Good.

You shared with us the large numbers of empty spaces, right? And you talked about the table service bill that Assemblyman Burzichelli has.

So here's the question: Did your organization do a survey? Because you said, "Enjoy New Jersey's lifestyle;" restaurants and alcohol are not the only items that we have in New Jersey's lifestyle; there are other items.

And you're right; I'm not a -- I can't even say the word--

MR. PIZZUTILLO: Millennial?

ASSEMBLYWOMAN QUIJANO: Yes; thank you.

I'm not one of those; I don't pretend to be. But my age group -- there are things that we're looking for, that we would like to walk to; and it doesn't necessarily have to be a restaurant or alcohol.

So did you do a survey of other industries that you could fill those spaces with?

MR. PIZZUTILLO: Well, that's an excellent question.

We certainly didn't do a survey on other industries. But what the literature shows is that what creates a walkable community, what creates a destination place is an ability to sit at an outside restaurant or sit at a restaurant. And it's that kind of walkability that actually enhances walkability and entry to local bars. This is seen in Greenpoint, Brooklyn;

and this is seen in a number of other redevelopment areas that have become successful -- where there is walkability, and where people can not only enjoy having something to eat, but also to purchase something; but also if they wish to go to a bar.

I think there was a BYOB group that spoke before this Committee, when the Burzichelli Bill was considered, that stipulated that, as a result of allowing for alcohol in restaurants -- I think it was in either Red Hook or Greenpoint -- actually created more business for the bars, because it created a pedestrian scene that you want to have; where there are people walking and living.

So what we want to do here is create the local economy -- that I think that you're getting to -- in many of the towns that exist in New Jersey, that have the ability to allow for people to walk and not only enjoy having something to eat or drink, but also to shop at a bookstore or another type -- or a clothing store, and to create the local economy that we would like.

ASSEMBLYWOMAN QUIJANO: You had mentioned the Committee hearing we had before. And I was there; and I asked then about the compensation for those who have licenses presently.

Who's going to pay those licensees -- the existing licensees; and where's the money coming from?

MR. PIZZUTILLO: Excellent point again.

The way the legislation is structured is that revenues would be generated from the local permits; and those revenues would be shared by both the locality and the State. And the money that goes into a sinking fund for the State would be the funds that would back the tax credits for compensation, if compensation is awarded.

ASSEMBLYWOMAN QUIJANO: One more question; and this is -- and I brought it up then.

MR. PIZZUTILLO: Sure.

ASSEMBLYWOMAN QUIJANO: What mechanism are we going to use for this compensation? Because it has to be fair. And I'm saying that as a daughter of a small business owner who, you know -- they mortgaged themselves for certain things for their licenses, and to make sure that individuals -- we don't do an eminent domain where you don't always get the fair value--

MR. PIZZUTILLO: Fair market value.

ASSEMBLYWOMAN QUIJANO: --fair market value.

MR. PIZZUTILLO: Yes; it would be-- Again, the legislation spells out the compensation scheme. But the way it would work is, it would be based similar to when you do a tax appeal, where you look at fair market value versus existing market value. And if there is a loss after this legislation is enacted, it would then be a consideration, and there would be two-- I'm lost here. But there would be a process where the ABC would then make a determination if there was value lost as a result of the impact of a local permit being approved.

Now remember, the legislation also provides total discretion to the municipality to determine how many of these local permits would be issued, and where they would be issued. The legislation was also amended to restricted restaurant districts, that were specifically targeted to distressed areas where we want to see this kind of redevelopment occur.

ASSEMBLYWOMAN QUIJANO: Thank you.

I haven't read the amended bill yet, but I will.

MR. PIZZUTILLO: Okay.

ASSEMBLYWOMAN QUIJANO: Thank you.

MR. PIZZUTILLO: Sure.

ASSEMBLYMAN DANIELSEN: Tony, this is an interesting concept to me. It's interesting to look at, to mentally wrestle with. It's certainly worth the review and analysis.

But, you know, I can't do that without giving tremendous amount of gravity and thought for the impact it would have on existing business.

MR. PIZZUTILLO: Absolutely.

ASSEMBLYMAN DANIELSEN: And thus, the compensation model-- You know, I think a lot of members are really wrestling with this, you know; a lot of people agree with me. It's an interesting concept; and maybe we need a pilot program.

I thought about this, and I'm thinking, "Maybe we need a region, or city, a county to try this out temporarily, and to see how this works out." Maybe that is a concept we should also talk about -- a pilot program.

MR. PIZZUTILLO: All good thoughts, Mr. Chairman.

ASSEMBLYMAN DANIELSEN: Anybody else on the Committee--

Vice Chair.

ASSEMBLYMAN HOUGHTALING: Yes; when does the compensation come in? I mean, when does that come into play?

You know, if this law went through, and we had the R1s and the R2s, and--

MR. PIZZUTILLO: Well, he changed-- There are no longer R1s and R2s; they're called *Restricted*-- Excuse me, Assemblyman; they're *Restricted Restaurant Permits*, local permits now.

ASSEMBLYMAN HOUGHTALING: Right.

MR. PIZZUTILLO: So where would the compensation-- It would come from an initial fee to the municipality, and an annual fee. So you would have to renew your permit every year; and that would generate the revenue.

ASSEMBLYMAN HOUGHTALING: Yes, but when would the compensation-- Let's say you have a restaurant in the area that they say, "Hey, my license has been devalued." When does that happen?

MR. PIZZUTILLO: Well, the aggrieved would have to initiate the action before the ABC; and then there would have to be an appeal process and a determination.

ASSEMBLYMAN HOUGHTALING: But even though they still have an active license -- that they still have--

MR. PIZZUTILLO: Yes.

ASSEMBLYMAN HOUGHTALING: --but it's been devalued, they would want compensation for the devalue of the license?

MR. PIZZUTILLO: Yes, if it was directly related to -- as a result of a local license having an adverse impact, correct.

ASSEMBLYMAN HOUGHTALING: Wouldn't that be the same as me buying my house, and the value of the house goes down?

MR. PIZZUTILLO: Well--

ASSEMBLYMAN HOUGHTALING: It's only valued down -- a house -- when I go and sell it.

MR. PIZZUTILLO: Respectfully, what we're trying to do here is change a culture. And I think the sponsor of the bill is trying to be respectful to those who currently own and hold a consumption license. So I see it a little differently.

ASSEMBLYMAN HOUGHTALING: Yes; well, we have an opportunity to disagree on that.

Thank you.

MR. PIZZUTILLO: Sure.

ASSEMBLYMAN DANIELSEN: Anybody? (no response)

Thank you, Tony.

MR. PIZZUTILLO: Thank you.

ASSEMBLYMAN DANIELSEN: Okay, I'd like to call up Mike Halfacre, Mark Kramer, Herb Konrad, and Chris Natale, from the New Jersey Beer Wholesalers Association.

M I C H A E L I. H A L F A C R E, Esq.: Good morning, Mr. Chairman, members of the Committee.

I'd like to begin by thanking you all, obviously, for the opportunity to be here today.

My name is Mike Halfacre; I'm the Executive Director of the Beer Wholesalers Association of New Jersey. I'm also a former elected official and former Director of the New Jersey ABC.

In my capacity as Executive Director, I represent the independent and family-owned beer distributors of New Jersey, and the more than 3,000 unionized jobs they provide.

With me today are my members -- a few of my members -- Mark Kramer, from Kramer Beverage in Hammonton and Ewing; Herb

Konrad, Jr., from Konrad Distributing in Deptford; and Chris Natale of Ritchie and Page in Robbinsville. You'll hear from them shortly.

New Jersey's beer wholesalers are active participants in civic, religious, charitable, and humanitarian events in the communities where they live and work. Their economic impact is substantial, resulting in the creation of over 3,000 well-paying, full-time jobs, and remitting over \$248 million in sales, excise, income, and property taxes to the State and Federal governments. We provide over \$548 million in wages and benefits to New Jersey residents. The latest available statistics also indicate that New Jersey's beer wholesalers were responsible for over \$4 million in charitable giving annually.

I'm going to, sort of, take a 30,000-foot view for you all, because this is not a specific piece of legislation we're addressing. But what I need to get across is that beer distributors are much more than simply distributors of a product. The beer wholesalers are the market makers for their products. They employ sales representatives who sell beer to retailers; they employ marketing professionals who create demand for their products through advertising; they employ warehouse workers, truck drivers, delivery laborers, promotions professionals who set up merchandise displays. When you walk into a bar, or restaurant, or liquor store, point of sale items -- like the coaster or napkin that your drink is served on, or the advertising signs on the walls or tabletops, even the glass you drink out of and the menu you order from -- have either been provided or had design input from the sales and marketing professionals employed by a beer wholesaler.

The wholesalers make the markets.

In addition, beer wholesalers act as a tax collector on behalf of the State. The latest available statistics from the Division of Taxation indicate that, based upon tax collections, 98 percent of all beer sold at retail, by volume, flows through New Jersey's beer wholesalers. Beer wholesalers play a vital role in the alcoholic beverage and hospitality industry in our communities and in your budget.

The premise of this hearing, as I understand it, is to examine the licensing system from an economic, social, and regulatory viewpoint. I would like to briefly explain how the system got to the place it is today, and I will tell you that none of it was by accident.

Alcoholic beverages are not bread or toilet paper, and should not be sold as if they were. In fact, alcohol and its regulation are inextricably intertwined with the history of the United States.

George Washington was a distiller; Thomas Jefferson collected wine, and grew wine (*sic*) at his estate in Virginia; the American Revolution was born in taverns across the colonies. Alcohol taxes were the primary source of funding for the Federal government until prohibition, when alcohol excise taxes were replaced with the income tax. Alcohol is the only subject important enough to have two constitutional amendments dedicated to it.

The passing of the 21st Amendment to end prohibition gave each state the primary role in regulating alcohol. The result was 51 different regulatory schemes -- counting the District of Columbia -- each with its own peculiar idiosyncrasies. It's easy to cherry-pick portions of a state's alcohol laws to ridicule; but all states have alcohol laws that are

unique to that state. The point of the 21st Amendment was to let states decide the best way to regulate alcohol.

Some of the testimony you've heard would have you believe that New Jersey's two-license limit and the population cap on licenses are silly and archaic. Yet there are 18 other states that have one or both of those protections. These are not random provisions; these provisions are intended to limit the concentration of ownership in a remote few out-of-state corporations, and to limit the density of alcohol outlets for the purpose of public safety and public health.

Multiple studies over the years have shown that greater density of outlets leads to more consumption, more crime, and more public health issues. These provisions serve valid and legitimate public policy goals.

To see the consequences of deregulation, one should look to Great Britain, where deregulation has resulted in an underage drinking rate twice ours; and the doubling of hospitalizations and disease due to alcohol in just 10 years. Four large chains control 75 percent of the market, resulting in price wars. In fact, some would say that the societal ills Great Britain is undergoing right now are eerily similar to what the United States went through prior to Prohibition.

Closer to home, in 2011, the state of Washington underwent massive deregulation. That has led to an increase in liquor stores, from 328 to over 1,700. At the same time, prices increased by more than 15 percent, and fewer brands were available. Small liquor stores began failing, small producers lost money, and shoplifting and underage drinking have increased.

Finally, I'd like to point out that the New Jersey alcoholic beverage laws are not any more archaic or static than our Federal or State Constitutions. All of them are amended, when appropriate. New Jersey's ABC laws have not been unchanged since 1935. The population cap did not exist until 1947; it was adjusted in 1960 and 1971. The two-license limit was enacted in 1962, and was also amended in 1971. New Jersey's wine industry benefited from changes to the law in 1981, 1985, 1989, and 2012.

New Jersey's craft brewers have taken advantage of a 2012 amendment that has seen their numbers increase more than five-fold in the past six-and-a-half years. Recently, this Legislature created mead licenses, cider licenses, and craft distillery licenses. The entire industry underwent a massive form of deregulation in 1980. There are literally hundreds of other examples of the evolution of alcohol regulation in our State.

New Jersey's alcoholic beverage law is anything but static and archaic. It is a living, breathing, economic engine that needs to be carefully maintained with thoughtful and deliberate action. The current system has led to unprecedented consumer choice and moderate pricing in New Jersey. There are more brands available in this state, at better prices, than virtually any other place in the country. Until this morning, I never heard someone say, "Gee, I wish there was a place I could get a drink around here."

There is no lack of opportunity for the purchase of alcoholic beverages. New Jersey's consumers are very well served by our system.

Having said that, the multibillion-dollar hospitality and alcoholic beverage industry deserves a thorough and thoughtful review. I urge this Committee to continue to thoroughly examine the alcohol

beverage regulatory scheme; but most importantly, carefully consider the unintended consequences of any action you may take.

Now I'd like you to hear from the guys who are actually in the business.

So Mark, do you want to go first?

M A R K K R A M E R: Mr. Chairman, members of the Committee, I would like to begin by thanking you for the opportunity to be here today.

My name is Mark Kramer, from Kramer Beverage, located in Hammonton, Atlantic County. And I'm here with Herb Konrad, from Konrad Distributors in Deptford, Gloucester County; and Chris Natale, from Ritchie and Page Distributing, in Robbinsville, Mercer County.

We are all multi-generational beer distributors in New Jersey, dating back to the end of Prohibition and earlier.

Kramer Beverages was founded in 1924 by my great-grandfather, Ben Kramer, in Atlantic City. It was still Prohibition then, so we started out as a soda bottler and distributor. It was shortly after the end of Prohibition that we signed on with Piels Beer, in 1934, which was the first of many breweries that we added to our list of products.

My grandfather and father followed into the business, and I started working on the delivery trucks in high school. Today we cover the lower eight counties of the state and employ over 300 people; over 160 of those folks are union members of Teamsters Locals 331 and 125. All of our employees make well in excess of the minimum wage, have access to health care, retirement benefits, vacation and personal days.

For one example, a fully loaded union hourly rate, with pay and benefits, is over \$43 an hour.

New Jersey's independent beer distributors are licensed by both the Federal and State governments, receive cases and kegs from a brewer or importer, and deliver to the shelf of your favorite store, local restaurant, or neighborhood bar through a safe, transparent, and accountable system.

We work to help new brands get to market and ensure that consumers can choose from a vast selection of beer. Thousands of labels of beer are available to New Jersey consumers today. However, independent beer distributors do more than buy, store, sell, and deliver beer. We are also small business owners, civic leaders, parents, and philanthropists, who are active in our communities.

New Jersey -- like every other state in the country -- operates on a three-tier system of alcohol distribution. The three-tier system is made up of brewers and importers, distributors, and retailers. New Jersey's independent beer distributors are a critical link in the three-tier distribution system. Beer distributors source beer from a wide variety of brewers and importers.

By working with numerous brewers -- local, regional, and national -- beer distributors provide a vehicle to market for all brewers; from the largest multinational beer brands, to start-up craft brewers down the street. Because of this system, consumers can buy craft beers from around the state and nation at their favorite restaurant or liquor store.

Our infrastructure includes hundreds and hundreds of thousands of square feet of state-of-the-art temperature-controlled warehouse, and fleets of trucks and other vehicles that deliver these

perishable products. Our employees handle warehousing, transporting, selling, and delivering all types of beer to local retailers, as well as sales and merchandising professionals to help promote each label of beer we sell.

Beer distributors provide a clean, clear chain of custody in the sale of beer. New Jersey's beer distributors are licensed by both the State and Federal governments. Distributors source fresh beer only from federally registered brewers and importers, and sell it only to State-licensed retailers, including restaurants and liquor stores.

The three-tier system is a system that works well for the craft brewer, the large brewer, the distributors, retailers, and, most importantly, the consumer.

Thank you for your time.

HERBERT KONRAD, Jr.: Mr. Chairman and members of the Committee, my name is Herb Konrad, and I am currently the owner of Konrad Beverage Company in Deptford, New Jersey.

I am also on the Board for NBWA; and I am also on the Board for New Jersey Beer Wholesalers Association.

My family has been in the business for as long as I can remember. My great-great-grandfather came from Germany, and was a brewer at Schlitz Brewery in Northeast Philadelphia. He bought a little bar in Mount Royal, New Jersey, called the Mount Royal Inn; and then my grandfather -- thank God he hated the nightlife -- traded it for a dollar for a beer wholesaler, in 1943.

He started a business called Laurel Beverage. At that time, we had two beers -- it was Ortlieb's -- which isn't around anymore -- and Geisenberger (phonetic spelling), a beer that's not around anymore either.

Then in 1964, a little brand called Budweiser knocked on my grandfather's door and asked if he would like to distribute his brand. And my grandfather said, "Sure." Now, currently I have 75,000 square feet of warehouse, right in Deptford; we've been there since 1967. I have 50 employees; of my 50 employees, 33 of them are union members of the Teamsters Local 830. They're all well-compensated; every one of them makes a wonderful living with us. We provide them with health care, we provide them with vacation and personal days; everything under the sun, almost better than the teachers. Sorry about that; it was just a little joke. (laughter)

But now I'd like to talk about New Jersey Beer Wholesalers, and the way we are -- how we interact within the alcohol industry.

New Jersey independent beer distributors are licensed by both the Federal and the State governments that -- you know, Mark mentioned already. We are the only tier within the three-tier system that is both licensed by the Federal government and the State government. No other tier has that licensing. And because of that, we're like the gatekeeper; we do a lot of responsibilities of collecting taxes, making sure our products are delivered properly, responsibly. And not only does it help the government -- it not only helps the brands, but it also helps the community.

Because we're able to collect taxes in a very meaningful and effective way, that helps the State; because we're able to do certain things -- provide services to our customers, provide beer cleaning. We clean all the beer lines; you know, it's a health aspect we, as beer wholesalers in every state, operate in this three-tier system.

So we, as independent beer distributors -- we source our beer from a wide variety of brewers and importers; local, regional, national. We provide a vehicle for the market for all brewers, from largest to smallest. Currently, we have 22 different vendors, or just suppliers, right now. I mean, some of them are local New Jersey guys, you know? I have Tuckahoe Brewery, a small little guy. I mean, we have Anheuser-Busch, we have some smaller ones, we have some regional ones out of California. But we provide all this variety; we're able to do that -- the system allows that.

Now, I'm direct competition with Mark. Do we see eye to eye on everything? No; but do we work together in the industry? We definitely work together in the industry. The industry is something that's generational; and it's something that we've all fought through and we've worked through. And in my opinion, it shouldn't really change much; and if there is a change, it needs to be thought out very, very precisely. Because one little adjustment of this change could really affect everything within the industry.

So I'm just asking you, Chairman, and also other Assembly -- when a change is made, we have to think through this very carefully. Because not only will it affect us local businessmen; my employees, my Teamsters, my town-- I mean, that's what we do, that's what we are.

So I just ask you to be very, very careful in anything that we do; and support the three-tier system. And what we're doing now is very, very important, and very important to the customer.

So I'd like to thank you for your time.

C H R I S T O P H E R N A T A L E: In the interest of time, and not duplicating what was said, I will be brief.

My name is Chris Natale; I own Ritchie and Page Distributing Company in Robbinsville, New Jersey.

And like Mark and Herb, half of my 140 employees are Teamsters. So we have a big union workforce, with fully loaded jobs that are well-paying. None of us have ever paid anywhere near minimum wage to any of our people; nor will we ever, as that minimum wage changes and escalates.

And it was interesting to me-- I've got something in my pocket that's pretty cool. It's my cellphone which, unfortunately, went off a little while ago. But I just looked, and within -- even in this complex, as many buildings that are here -- within two miles there are about 12 consumption licenses. You could walk to the closest one within two minutes, three minutes. And also within walking distance there are a plethora of restaurants that you can go to and have a product in.

Because of wholesalers -- we, as Mike said, bring 98 percent of beer to this market. If you travel this country -- and, in fact, this world -- you will never find more selection and availability than you will in the State of New Jersey, both on-premises and off-premise.

So with that -- and I echo Herb's words -- we have had dramatic change. I've done this all of my adult life. I'm 53 years old; I started when I was 18. The changes to the ABC regulations and the laws have been pretty impressive; and there has been a huge amount of change. And I still think there needs to be more change; it just needs to be very, very responsible. Because when you look at people who want only change for one thing and for one interest, sometimes there are unintentional and unintended consequences that don't serve the public interest. And I would

implore all of you to keep that in mind as we move forward on all these things that I do think need attention.

Thank you for your time.

ASSEMBLYMAN RUMPF: Thank you, Mr. Chairman.

Let me, if you don't mind, put Mr. Halfacre on the spot, and ask you this question.

I first acknowledge the manner in which you all conduct your business. About 8 or 10 years ago, Mr. Kramer -- I don't know if you remember -- but I toured your facility, and it was very impressive, with the work that you do.

If we were to change the licensing scheme, whereby suddenly beer and wine could appear on every supermarket or convenience store shelf, how would that impact the gentlemen who are with you here today?

MR. HALFACRE: As we heard earlier, the general consensus is that the amount of alcohol sold is a pie; and the pie doesn't increase or decrease, necessarily, over time. So our concern would be, with that scenario, that we're not going to sell more beer; but we're going to add more deliveries, and they're probably going to be smaller deliveries, and it will impact our bottom line, which ultimately impacts jobs.

You know, it could be a logistical difficulty servicing a number of new outlets without actually increasing our margin; and margin is important, because that's how you-- Not margin, necessarily, but it won't increase your volume. The volume will be spread thinner, which means the employees will be spread thinner, and the margins will be thinner; which means jobs, and we'll cut jobs. It's not pleasant.

There will be an adjustment, obviously; but our fear is that increasing a typical route, from 50 stops to 75 stops, without increasing the amount of volume that you sell, would have a significant impact on the business and, ultimately, on its employees.

I would actually give it over to one of the guys whose job it is to deliver the beer, to give a better answer, if I didn't hit it.

MR. KRAMER: I think Mike encapsulated it pretty well.

I mean, the other thing I would say is there are a couple different ways that the grocery stores or the convenience stores would be able to obtain these licenses. One of the suggestions was that they would buy it from existing licenses. And what my concern would be, if a license goes from a liquor store, even a medium-sized liquor store, to a convenience store, would be a net loss of jobs from the liquor store. A medium-sized liquor store will employ 8 to 10 people, and a larger liquor store -- which I know are represented behind me -- they could have dozens of people. And if some beer goes into a convenience store -- and it was mentioned by them -- they won't have a lot of room, those -- I could see that as a net loss of jobs, which I don't think would be a good deal for the overall economy.

MR. NATALE: I would just add one thing to that.

Anytime you're going to have a dramatic increase in licensing, you have a real concern. Whether it's craft breweries -- and we've seen this -- whether it's, you know, cashiers at supermarkets; and importantly, whether it would be very small licensed retailers, you have a public safety issue of -- are they trained, do they have the knowledge as to how to handle this product, and how to make sure that it's getting in the hands of the right people, relative to age and underage consumption?

We all spend a tremendous amount of time and money on responsible consumption. Any time you're going to change, dramatically, those things, you really need to look at public safety and what that will look like, relative to the people who are the gatekeepers of those products.

ASSEMBLYMAN DANCER: Thank you, Chairman.

With respect to the New Jersey craft beers, what type -- do you wholesale it? And if so, I'm interested in the volume and the increase -- if there is an increase; I'm assuming there is -- but could you just talk briefly on that?

MR. HALFACRE: Well, without naming any specific brands or anything, I can tell you that the volume of craft beer is, roughly, 12 to 15 percent by volume of all beer sold in the state in dollars. It's higher, statistically; but in volume, that's about what craft beer is. Every member of my Association -- of *the* Association; it's certainly not mine -- every member of the Association carries craft brewers from New Jersey; carries New Jersey craft brewers. New Jersey craft brewers have the luxury of choosing whether to self-distribute or to not self-distribute. But I can tell you that with the explosion we've seen-- As I said, in 2012, I was ABC Director when the law changed; and I think there were 15 craft breweries in the state in 2012, and today there are over a hundred. So that's a six- or seven- fold increase because of the law. Obviously, something's working.

But having said that, if you pull the statistics from the Division of Taxation, and you look at the taxes that are paid by beer wholesalers versus the taxes that are paid by craft brewers, 98-plus percent of all excise taxes are paid by beer wholesalers. So it's 10 to 12 percent by volume, it's

up to 20 percent by revenue; but for tax purposes, it's around 2 percent. So that's how big the business is.

I'm not sure if that answers your question, but those are the numbers that I have available.

ASSEMBLYMAN DANCER: (off mike) Thank you.

MR. HALFACRE: All of us -- all three wholesalers here -- represent many New Jersey craft brewers. We've been instrumental in helping New Jersey craft beer launch; we're very supportive of it. We've all had countless conversations with New Jersey craft brewers about how to go to market, how to market their products, what products to sell; you know, down to how they handle containers, and cartons, and so forth. You know, how they're going to handle the logistics of it, in terms of shipping; and how we're going to get the product-- In most cases, we pick up from them so they don't have to do it.

And many craft brewers -- as I'm sure you know -- distribute on their own, and they have that self-distribution component.

The other thing I would say is -- I've also had New Jersey craft brewers, that I represent, say, "Well, let's do something else," and they've moved to either self-distribution or distribution from someone else.

So we've been extremely involved with it; and this entire time -- particularly since 2012, when that major change did occur to the law -- the craft breweries in New Jersey, in number and in quantity of beer sold, has been astronomical. So it is truly thriving under the current situation.

ASSEMBLYMAN DANIELSEN: Mike, where in our laws is there room for improvement?

MR. HALFACRE: Any law, or alcoholic beverage law?

(laughter)

Listen, I don't think anyone -- no matter who they work with, what business they own, who they represent -- nobody is going to stand here and say the system is perfect. They're just not; it's not. It's not a perfect system; that's the whole point, I would guess, not just of this hearing, but of other things.

Are there opportunities for-- Let's start with the NAIOP convenience store-grocery store position. Are there opportunities for additional licenses? Yes, there probably are. But my concern -- and I know you've heard me say this before, Mr. Chairman -- is the problems require a scalpel; and the solutions that have been presented are a bulldozer. So we have to be very careful. I would argue that, you know, the best event -- not the best, obviously -- an option, an alternative, would be to sit down and say, "Look, there are 566 municipalities in New Jersey. I would say, roughly speaking, 90 percent of them are perfectly happy with the number of liquor licenses they have. They have no need for any more; they're okay with what they have." Some might feel they have too many, in certain parts of the state.

So let's sit down and identify the municipalities that genuinely feel they want a license, and economically can show that they need a license. And let's figure out a way to get licenses to those municipalities, instead of just a willy-nilly, shotgun approach to give everybody licenses.

And I don't think -- I'm not speaking, obviously, for anyone but myself; I might not even be speaking for the members of my Association at this point -- I don't think anyone would object to a very careful, surgical

strike that helps out local economies that are in need. That, to me, is the starting point.

ASSEMBLYMAN DANIELSEN: I tend to agree with exactly what you said.

So since you were a Director of the ABC, can you speak on these inactive licenses, the pocket license? Why is-- There seems to be a continuum culture of just allowing them to linger and flounder about in someone's dusty old pocket.

MR. HALFACRE: This is a-- I'm going to try and answer this delicately, Mr. Chairman.

But the experience at the ABC is that when they try to tighten up the renewals of the inactive licenses, someone who has a license that doesn't get renewed calls their legislator. And their legislator calls the ABC and says, "Why are you trying to take this license away?" And that's just an honest fact. No matter what you do, someone's unhappy; and it's a balancing act.

Now, I will tell you -- I haven't been at the ABC since 2015; but during my tenure, and continuing afterwards, a very, very concentrated effort had been made to get rid of some of the very old, inactive licenses. When I was there, there were licenses that had been inactive for 20 years. That simply is no longer the case. They have retired a bunch of inactive licenses. Many of the inactive licenses that exist now are a result of the 2008-- So, you know, it's approaching 10 years. But there are not many that go beyond that, or go past that. I'm sure the ABC could supply a more definitive answer.

But again, if you want to tighten up the renewals of inactive licenses, prepare to hear about it.

ASSEMBLYMAN DANIELSEN: Prepare what?

MR. HALFACRE: Prepare to hear about it from the owners of those inactive licenses. Because they're going to call and say, "The ABC is taking away my license." And all politics is local; I mean, you know that, you guys all know that. You all get those phone calls, or your staff does. And then the ABC gets those phone calls.

So it's a very tough, very difficult balancing act between, essentially, killing a license -- which is what you're doing when you-- So maybe I'm speaking-- I need to explain what I'm saying. So when someone-- A license can only be inactive for two years -- okay? -- two license terms. If it's inactive for more than two license terms, it has to go petition the town and the ABC to be renewed beyond two license terms.

The town gets to weigh in on the issue, and the ABC decides. The ABC can say, "You know what? He has a really good excuse; that makes a lot of sense. We're going to renew them beyond the two inactive terms." The ABC could decide, "That's not a very good excuse; we're going to kill the license." When the ABC starts killing those licenses, people start to get very upset and you hear about it. That's all it is; it's just a fact of life.

ASSEMBLYMAN DANCER: Mr. Chairman.

Explain to me -- because I thought that it was a process where both the municipality and the ABC make recommendations or determinations with respect after the two years.

MR. HALFACRE: That's true.

ASSEMBLYMAN DANCER: Okay.

MR. HALFACRE: That's true.

ASSEMBLYMAN DANCER: Say the ABC says, "We don't really think it's a good excuse." But on the other hand, the municipality says, "Oh, yeah, we do. We have plans; we have -- you know, there's a master plan change; there's going to be zoning, there's going to be redevelopment." Who makes the final determination, if there's a difference of opinion between the ABC and the municipality, as to whether it should be renewed?

MR. HALFACRE: Well, I wouldn't say-- The decision is the ABC's decision. It's appealable to Administrative Law, but it's the ABC's decision. But the ABC generally makes a big effort to accommodate the wishes of a municipality.

I will tell you that it is-- I haven't been there in a number of years; but it would be unusual -- I think it's an unusual case if a municipality is adamant about something, and the ABC acts contrary. It would be an unusual case, I think.

ASSEMBLYMAN HOUGHTALING: We heard some testimony about the Burzichelli Bill, with the small -- I guess it's, like, similar to a liquor license, but--

What would your thoughts be on something like that? I mean, I said I was down in North Carolina, and it seemed like no matter where you went -- if you went to a pizzeria, or if you went to a chicken place, or whatever, you could get a beer. It's not that -- it seemed like it wasn't that big of a deal; but in New Jersey, you know, it's impossible.

What would be your idea of a small person trying to get into the restaurant business, which is almost impossible now? Out by me, a

liquor license is probably \$1 million. So someone small, starting out, wants to have a restaurant -- how would you -- how could we make -- how could we do that for the State of New Jersey, and how can we help people like that?

MR. HALFACRE: Well, I think a lot of my earlier comments about, you know, just creating an untold number of new licenses, the impact that would have, apply to that.

I think that there are a lot of concerns, from a regulatory standpoint, in creating so many new licenses. The concerns I mentioned earlier about additional deliveries on behalf of the beer wholesalers without necessarily increasing volume; there are concerns about the impact that would have, obviously, on existing licensees. And frankly, I've heard -- I know the testimony hasn't been here -- but I've heard, anecdotally, that it's great to be able to open a terrific, chef-driven restaurant in New Jersey without having to worry about alcohol. You know, New Jersey does have something a lot of states don't, which is a thriving BYOB culture, and a restaurant scene that is not dominated by chain restaurants. So, I mean, there's that counterbalance.

I also know that there are people here who are way more qualified than me to speak towards the R1/R2 Bill. What I would come back to is, R1/R2-- Let me reverse; let me switch it around. Let me say, what is the problem we're trying to solve; and is the proposal as narrowly tailored as possible to solve it? And, to me, it seems like R1/R2 is being sold as a panacea for everybody, and I don't know if it is.

ASSEMBLYMAN HOUGHTALING: It just seems like, you know, with the testimony that I've heard, is that we have a system that is

just impossible to grow, for people to break into it; because it's like I said, where we live it's \$1 million for a liquor license. And that's -- I don't know how many people have \$1 million, but you have to have some kind of a group that you have to form, and it's a very difficult process. And it just seems that there is no way to break into that, on a smaller level. And I think there are a lot of people who do want to have that opportunity.

You know, a BYOB -- I go to them all the time. But a lot of them don't -- can't make it; I mean, it's hard to make a restaurant if you don't have alcohol; it's very hard to stay in business.

MR. HALFACRE: And again, as I indicated earlier, Assemblyman, I don't think anyone's disputing that. I think everyone would concede that there are ways and means to create the economic engine that you're looking for, short of what we've seen so far.

The Chairman mentioned a pilot program; sort of, you know, what I mentioned was -- let's find the municipalities that really need help downtown. If we want a good, local, downtown farm-to-table, brick-walled, cool light, train station restaurant, tell us, and let's give that one a license. Let's not give every Panera Bread, Dunkin' Donuts, Chinese restaurant, pizza slice place a license. Let's give the licenses to the genuine actor that's going to do what NAIOP says we need -- which is revitalize a downtown, save a strip mall; not give it to everybody.

ASSEMBLYMAN HOUGHTALING: Okay, thank you.

ASSEMBLYMAN DANIELSEN: I have one question -- the last question.

Direct sales of delivery services; what's your opinion in that area? Is that a problem; an area of concern; is that-- You know, should we worry about the Amazons and the Ubers of alcohol?

MR. HALFACRE: Well, let me be clear here. I've taken off my beer wholesalers Executive Director hat. (laughter)

ASSEMBLYMAN DANIELSEN: No, we took it off. (laughter)

MR. HALFACRE: I mean, I'm just kind of talking, because I love the alcohol industry; and I'd be happy to talk about it all day long, and then let's go out and partake.

But I don't think there's any objection to that. Now, you threw, sort of, a-- I think you threw a Drizly and an Amazon in together, and I think we need to parse that out a little bit.

Drizly works within the system as we all know it. Drizly partners up with local retailers, and the local retailer does the delivery and Drizly is a platform. I don't think anyone has too great an objection to a Drizly-type scenario; in fact, I'm pretty sure that those services are here in New Jersey now.

When you get beyond that, it's kind of like, "Well, I'll know it when I see it -- whether it's kosher or not." Because Amazon owns Whole Foods; Whole Foods delivers in New Jersey now, right? They could; I don't actually-- Let me amend that. A retail licensee in the State of New Jersey -- whether it's held by Whole Foods or by Bayway Liquors -- a retail licensee in New Jersey has the ability to do home deliveries now; always has. So a Drizly facilitates the interface between the home and the retailer. If I go on the Whole Foods website, and Whole Foods makes a delivery to my house, that's fine -- that's the way it's always been; they're allowed to do that.

So, I'm not sure if that answers your question; but I think as we get beyond that, where we're talking about, "Can I call Sparky's Lounge in Fargo, North Dakota, and have them ship to my house?" that's a much different question. The 21st Amendment, as I indicated, gives local states the ability to control alcohol trade within their states. So let's worry about within our state before we start worrying about what we're asking other states to do.

ASSEMBLYMAN DANIELSEN: Okay.

MR. NATALE: Just very quickly, to clarify on that.

And we're all fine with Internet sales through the existing regulatory system in New Jersey. And there are two ways to do it. Drizly would be -- they don't own licenses; they are basically a middleman that handles the computer side, and goes to retailers, and has an agreement with retailers to make that delivery.

Also, if it was, like, an Amazon model, where they had a New Jersey license, and they were licensed in New Jersey to deliver in New Jersey, that's within the parameters of laws now. So that infrastructure for Internet sales is there, and we don't have a problem with that.

ASSEMBLYMAN DANIELSEN: Okay.

Any other member? (no response)

Gentlemen, thank you very much.

MR. HALFACRE: Thank you for your time.

ASSEMBLYMAN DANIELSEN: I'm going to conclude the Committee meeting for the day. We will be having others, and I hope those who haven't been heard will present themselves at that time.

Thank you very much.

(MEETING CONCLUDED)