PROPOSAL
CONVERSION
to
BAILMENT WAREHOUSING
ALCOHOLIC BEVERAGES

DIRIGO

MAINE

Report
to
Governor Joseph E. Brennan

THE GOVERNOR'S MANAGEMENT TASK FORCE

APRIL 1984

Joseph E. Brennan
Governor

State of Maine
GOVERNOR'S MANAGEMENT TASK FORCE
Transportation Building
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Thacher E. Turner
Acting Chairman

April 5, 1984

Joseph E. Brennan, Governor
State House
Augusta, Maine 04333

Dear Governor Brennan:

The Governor's Management Task Force is pleased to present a factual and in-depth study of the State Liquor Commission's warehousing operations, and strongly recommends favorable action on this report by the Liquor Commission and all other agencies involved.

This report is submitted based upon numerous meetings and discussions with the Liquor Commission, the Department of Finance and Administration, and the private sector; and the recommendations contained in the report, if implemented, will result in a substantial savings in operating costs.

The Governor's Management Task Force is pleased to have been of service and looks forward to continuing review of other activities which may provide improvement and increase efficiencies in operations within Maine State Government.

Sincerely,

Thacher E. Turner

Thacher E. Turner, Acting Chairman
Governor's Management Task Force

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OFFICE OF
THE GOVERNOR

NO. 8FY 79/80
DATE October 15, 1979

GOVERNOR'S MANAGEMENT TASK FORCE

WHEREAS, it is important that government services be provided in the most efficient, economical and expeditious manner possible, and

WHEREAS, government should continually seek to use every possible means to closely examine the way in which it operates to make use of new techniques of management and operation, and

WHEREAS, the experience of business and industry in the private sector can provide numerous examples of improved methods of management and operation that may be of benefit to government, and

WHEREAS, government and the private sector should cooperate in the improvement of the efficiency of government operations and should improve their understanding of the unique problems of providing some types of services,

NOW, THEREFORE, I, Joseph E. Brennan, Governor of the State of Maine, do hereby establish the Governor's Management Task Force.

The Task Force shall consist of persons with business experience appointed by the Governor to serve at his pleasure. It shall work closely with the Governor and the Commissioner of Finance and Administration to:

1. Recommend ways to improve the efficiency and reduce the costs of services;

2. Recommend improvements in managerial and operational techniques;

3. Recommend changes in organization which would improve services or make their delivery more efficient;

4. Seek to improve understanding between the public and private sectors and improve public confidence in government.

It is anticipated that the Task Force will continue its work over an extended period of time and from time to time will augment its membership with other members of the business community who have special expertise in areas being reviewed.

Joseph E Brennan

JOSEPH E. BRENNAN
Gov...

Revised 3/9/84

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INTRODUCTION

A sub-committee of the Governor's Management Task Force composed of Thacher Turner, Chairman, Edward J. Kearney, and Charles Canning have reviewed the warehousing operations of the Bureau of Alcoholic Beverages. It is apparent to this sub-committee that the state-owned facility in Hallowell is outdated, inefficient, and inadequate as a liquor warehouse.

It is obvious to the Task Force Committee that handling and warehousing of liquor by private enterprise would at this time provide optimum service to the residents of Maine at a reasonable cost.

The proposal submitted by the Bureau of Alcoholic Beverages that a bailment warehousing operation be implemented is recommended for the following reasons:

- May be initiated immediately
- No Legislative input required
- Implementation by 7/1/84
- Substantial immediate and continuing savings
    - Reduction of inventory carrying costs
    - Elimination of warehousing operating expenses - $440,000 each year
    - Avoidance of future warehouse expense increases (51.9% increase 80-83)
    - Reduction in working capital advance from General Fund $1,000,000
    - Elimination of freight costs
    - Funding and space for increased discount buying
    - Availability of building for alternate State uses
- Facilitation of later phases to further improve liquor operations

In accordance with memorandum attached, it has been generally agreed by the Department of Finance & Administration, the Maine State Liquor Commission and the Task Force, that this bailment warehousing proposal be implemented.

It is our opinion that the recommendations and savings outlined in this report will result in significant improvements and increased efficiencies in the operations of the Maine State Liquor Commission.

ECONOMIC IMPACT

	With Bailment	Without Bailment
Working Capital required	$3,500,000	$4,500,000
Cost of New Warehousing Facility	- 0 -	1,500,000
Cost of Warehouse Operation	- 0 -	400,000
	$3,500,000	$6,440,000
Minimal savings if bailment is implemented	2,940,000	

As indicated above, $1,000,000 can be returned to General Fund Surplus and beginning with July 1, 1985, at least $440,000 can be added annually to the funds transferred from the Liquor Commission to the General Fund.

In summary, if the bailment warehousing option is implemented, an increase of $1,000,000 in the General Fund Surplus will be available for appropriation by the Legislature; and as of July, 1985, a minimum of $440,000 per year will be available for transfer from Liquor Operations to the General Fund. In addition, the $1,500,000 estimated cost of constructing a new efficient warehousing facility will be avoided.

INTER-DEPARTMENTAL MEMORANDUM

SUBJECT: Bailment Proposal

DATE: February 23, 1984

TO: Thacher E. Turner, Chairman, Bailment Warehousing Subcommittee

FROM: Rodney L. Scribner, Commissioner, Department of Finance and Administration
Guy A. Marcotte, Director, Bureau of Alcoholic Beverages

This memorandum is the culmination of a series of proposals, questions, discussions and answers initiated by the plan for bailment warehousing of liquor presented by the Bureau of Alcoholic Beverages to the Governor's Management Task Force.

As a result of the Task Force's recommendation to the Governor that the bailment warehousing proposal be implemented, the Commissioner of Finance and Administration was requested to examine the proposal, and to report his findings to the Governor. Due to time constraints and the summary nature of the original proposal, Commissioner Scribner's December 13 report concentrated on questions about certain key aspects of the proposal.

While the Bureau of Alcoholic Beverages was given the opportunity to comment on Commissioner Scribner's memorandum before it was submitted to the Governor, it felt that time available for its comments was insufficient to allow for preparation of a complete and indepth response. Consequently, the Bureau addressed the questions raised by Commissioner Scribner's report in a February 2, 1984, memorandum to the Task Force.

To be certain there were no unresolved questions of fact, Thacher Turner, Chairman of the Task Force Subcommittee examining the bailment proposal, requested that representatives of the Bureau of Alcoholic Beverages and Commissioner Scribner's Office meet and issue a joint statement.

This meeting was held on February 7 at the Department of Finance and Administration, attended by Guy Marcotte, Rodney Scribner, and others.

Conclusions reached at this meeting follow.

(1) The forecasts presented in the February 2 Bureau memorandum with respect to potential savings from a bailment facility located in southern Maine have been found to be reasonable in all essential respects.

(2) Vendor response to bailment has been elicited individually from each vendor serving Maine by Guy Marcotte, and, based

continued - - -

on these conversations, no vendor resistance or service interruption is anticipated.

(3) Adequate plans for disposal of existing warehouse stocks have been formulated.

(4) Costs of personnel transfers, seniority bumping, or layoffs arising from the proposed warehouse closing are to be determined by the Bureau of Alcoholic Beverages in conjunction with the Department of Personnel.

(5) Maximization of potential savings projected to result from vacating the storage area of the Hallowell warehouse is dependent upon the nature of any subsequent use of the space. Uses other than storage will require appropriate funding to prepare this area for non-storage purposes. No such funding is currently budgeted.

(6) Uncommitted working Capital of approximately $4.5 million is expected to become available for other uses. A first-year contribution of at least $1 million will be made to the General Fund, with $500,000 transferred immediately on vacating the Hallowell warehouse and an additional $500,000 or more transferred within one year from the date of the initial transfer. Further substantial cash contributions are anticipated following periodic reviews of working capital required to take full advantage of discount buying opportunities.

(7) Sums previously allocated by the Legislature to fund warehouse operating costs ($440,000 in FY 83) will not be required after FY 1984.

(8) Additional income from discount purchases of product by the Bureau depends on less than the full amount of such discounts being passed through to the customer.

(9) While cost comparisons of state/private storage and handling costs are based on reasonable assumptions and projections, anticipated savings from bailment will be realized only to the extent these assumptions/projections prove reliable.

(10) Any political or philosophical implications of implementing bailment which are not factual in nature are agreed to be outside of the scope of this joint memorandum.

RLS/GAM:pkg
cc: David Redmond
Task Force Members
Chairman & Members, State Liquor Commission

TO: George N. Campbell, Jr., Chairman
Governor's Management Task Force

FROM: Guy A. Marcotte, Director
Bureau of Alcoholic Beverages

SUBJECT: Proposal for Conversion to Bailment Warehousing of Alcoholic Beverages

DATE: February 2, 1984

This memorandum is in response to that submitted by the Department of Finance and Administration dated December 13, 1983.

Many of the same sources cited by the December 13th F & A memorandum were relied on in preparation of these comments, including review of the original proposal and pertinent Bureau of Alcoholic Beverages records and financial statements, further discussions and correspondence with officials of bailment states referred to in the F & A report, and study of the cautions and concerns raised by Finance and Administration.

Results of this extensive review strongly support the original recommendation that the Bureau of Alcoholic Beverages move immediately to replace its existing warehousing at state cost with bailment warehousing.

Economic benefits to the state from bailment warehousing may realistically be expected in the range of $650,000 + annually. Additional savings in year one of $600,000 can be realized from using the existing Hallowell warehouse for other state agencies' needs, rather than having B.P.I. build a planned new warehouse.

Substantial additional annual savings may be anticipated from shorter, more efficient delivery routes made possible by warehouse relocation. Due to the time required to fully re-examine the original warehousing proposal, however, projected transportation savings have not yet been quantified.

In summary, the review resulted in the following findings:

(1) Conversion Timetable- The issues of vendor resistance, stock disruptions and loss of control of stock ordering are relevant only in jurisdictions with mixed bailment/state warehousing and will not affect the Maine plan. Due to the fact that 39% of both vendors and volume are already in voluntary bailment in Maine, the three month conversion timetable is sufficient to insure an orderly transition with minimal disruption.

(2) Market Distribution- Analysis of delivery routes to retail outlets clearly confirms the greater cost effectiveness of the recommended Portland location.

(3) Working Capital- Bailment as proposed by the Bureau will result in making the entire amount of currently committed working capital (approximately $4.5 million) available for other uses deemed appropriate by the Maine State Liquor Commission.

(4) Warehousing Costs- The entire $440,000 cost of warehousing would not only be saved in bailment, but would be returned to the state with a markup for profit. Offsets calculated by F & A as diminishing these savings, such as cost of storage of post-off purchases owned by the state, are more properly included in other catagories.

(5) Discount Purchases- Total discount purchase contribution to state income of approximately $470-500,000 could be realistically anticipated in bailment under current conditions, up from the present $322,000. In a period of renewed inflation, this could be as much as doubled.

(6) Cost of Freight- The "problem" perceived by F & A in certain components of the state pricing formula originally related to freight is semantic. No actual difficulty exists.

(7) Storage/Handling Cost Comparison- Inclusion of costs inadvertently omitted from the F & A calculations shows that state warehousing is 37.9% more expensive per case than bailment. This overlooks entirely, however, the more important point that in bailment all warehouse costs become a part of the cost of goods and are recovered, in retail prices, with a margin of profit rather

than being, as at present, a cost deducted from state income.

(8) Policy Considerations- Bailment would add to state income, position the Bureau for more efficient operation in changing future circumstances, and initiate the process of withdrawing the state from non-essential aspects of the business of alcoholic beverages. The policy implications of all of these are entirely positive.

The inescapable conclusion presented by the findings set forth in this memorandum is that bailment is indeed in the best interests of the State and the people of Maine, and that to further delay implementation would be improper.

Conversion Timetable

Due to the totally different circumstances associated with bailment in other states, it is improper to attempt to conclude that partial data from these states may be used to evaluate the proposal from the Maine Bureau of Alcoholic Beverages. (Letters from Directors in other control states are attached to this memo, all marked as Exhibit N).

In some of the jurisdictions appearing in the August 1983 NABCA survey, bailment has not been given a high priority; in others, it has been mandatory for years, and in still others was in the process of becoming mandatory and state warehousing abandoned at the time the survey was taken.

In addition, extreme differences in volume of sales, population density, distribution requirements, political input and attitudes, pricing policies, geographical size, and a myriad of other factors go into the unique situation which is encountered by each state as it determines how to deal with warehousing and distribution of liquor within its boundaries.

This general principle must be borne in mind, for example, in deciding if New Hampshire is in "transition" to full bailment, or simply intends, as its Director has repeatedly expressed, to maintain a mix of state and private facilities.

For the same reason, states may quickly change their policies or their practices, rendering information which was valid a short time ago worthless. Ohio is a perfect illustration of this, having shifted to 100% bailment and closed all state warehouses as of January 1, 1984. At this point, there are <u>no</u> state employees or state warehouses involved in handling liquor for the Ohio Liquor Commission, and the state is, in fact, now relying totally on private facilities.

Another reason for approaching attempted comparisons with other states with caution is the degree to which raw statistics may omit information. In Ohio, where F & A found 71% of the state's volume to be in bailment at the time of the survey, 95% of all vendors were using bailment. Thus, only a handful of high-volume products not yet in bailment created the impression of greater resistance to the concept than facts actually warranted.

The concern regarding vendor participation is entirely the result of confusion between vendors' preferences in jurisdictions where both state warehouses and bailment warehouses are available, and those in which no state warehousing is available. In North Carolina, where bailment is mandatory, there is no "resistance" whatsoever to conforming to the requirements of the state. It must be firmly fixed in mind that in a control state the only buyer for vendors' goods is the state, and vendors are thus confronted with meeting the legitimate demands of their only possible customer or abandoning the market. It cannot be overemphasized that there is no evidence, from any source, to indicate that vendors will abandon an entire state market rather than go into bailment warehousing. As noted in "Warehousing Costs", the only expense vendors generally incur in bailment is for time spent in maintaining adequate stock in inventories which were previously maintained by state staff at the state's expense. In Maine, due to the effect of the LCL component in the pricing formula (discussed in "Cost of Freight"), even this is largely, if not totally, offset by reductions in other costs to vendors.

In summary:

(1) There is no basis for anticipating any "vendor resistance", or disruption of supplies.

(2) Disposition of warehouse overstocks, to the extent any truly exist (see "Discount Purchases"), would be the same with or without bailment. Bailment would simply make storage of any such goods less costly to the state while they were being disposed of.

(3) Transfer plans have been prepared, as the letter attached as Exhibit M shows.

(4) Likewise, the Bureau of Public Improvement's letter (Exhibit K) addresses alternative uses of the Hallowell warehouse.

(5) Delays in other states have been the result of conditions unique to those states. Maine's planned allowance of approximately three months for transition from state to bailment warehousing is, for conditions in Maine, perfectly adequate. (For example, among other things, about 39% of both vendors and volume in Maine are already voluntarily using bailment).

Market Distribution

A proper analysis of market distribution cannot be based on a cumlative total of isolated distribution point-to-delivery point mileage measurements. Such an approach is inadequate since a rational distribution scheme would not assume delivery of a partial truckload of product from Hallowell to Portland, then returning to Hallowell for another partial load for Westbrook, then returning for yet another load for Falmouth, and so on.

Instead, as was done in arriving at the recommendation of Portland as a distribution point, a delivery route which maximizes truck utilization and minimizes total miles and driver overtime must be designed, and a warehouse location chosen on the basis of what provides optimal route efficiency. Proper design of any such route must also consider both current and reasonably projected future needs, and this, too, was done in reaching the Bureau's conclusion.

A side benefit of route analysis is to eliminate unrealistic delivery locations, even though they may technically fall within the service area. Thus, those coastal locations which would require going into the northern sector to reach by road (N.E. Harbor, S.W. Harbor, Stonington) were never included in the southern zone, since access only through the northern zone clearly places them outside the radius of a rationally designed route. (Exhibit C)

Before an efficient route can be designed, of course, the service area of the proposed route must be identified. In this case, the state was divided into northern and southern areas by a line extending from the northern edge of the Augusta city limits east to Penobscot Bay and west to the New Hampshire border. (Consistent with local understanding and useage, Hallowell and Augusta were considered as a single urban entity, although this was not specifically pointed out by the Bureau.) As noted above, coastal locations requiring passage through the northern area of the state for access were treated as northern.

The rationale for a N-S division at Hallowell/Augusta was simple statistical analysis, similar to that done by F & A in its report. However, the Bureau's numbers, as shown below, vary significantly from those produced by F & A. The full set of calculations and sources of base numbers, together with the actual delivery routes proposed, and a state map showing the N/S division, appear in Exhibits A - G, attached.

	% South of Hallowell	% North of Hallowell
# of Bottles Sold in State Stores	59.3	40.7
$ Volume of Sales in State Stores	60.1	39.9
# of State Stores	43.1	56.9
# of Agency Stores	40.3	59.7
Population (per 1980 Census)	56.8	43.2

Compared with Hallowell deliveries to the south, Portland deliveries save 16,588 route miles per year and nine hours driver time per week. Futhermore, since goods to be distributed from Hallowell to the south must pass through the south enroute to Hallowell, then on delivery retrace the Portland - Hallowell leg (approximately 57 miles each way), inbound freight costs on shipments from vendors run about 10% higher to Hallowell than costs for the same shipments to Portland. As pointed out in "Costs of Freight", full freight costs are recovered and marked up by the state in bailment. However, to unnecessarily escalate those costs and raise consumer prices for no apparent reason seems unjustifiable.

There is ample reason at an even more fundamental level for adopting a N-S division at Hallowell/Augusta.

South of Hallowell there is sufficient population density to allow reasonable delivery routes; north of Hallowell such routes, while possible, rapidly deteriorate into gross inefficiency due to lower population and longer distances between delivery points.

As divided, the southern portion of the state encompasses approximately 17% of the total state land area of 30,995 square miles, and 56.8% of the 1,124,660 population, for a density of 121.24 per square mile. The northern sector has 83% of the land area and 43.2% of the population, for a density of 18.89 per square mile.

In addition, State Planning Office figures project a higher rate of growth in the southern section of the state than in the northern, resulting by the year 2000 in a population of 763,700 in the south, or 144.74 per square mile, and 557,027 in the north, or 21.65 per square mile.

While accurate figures on current and projected tourist traffic are difficult to obtain, studies of the subject are in agreement that tourism in Maine, particularly in the peak summer sales season, is concentrated and growing at a more rapid rate in the south.

The radically different character of the two sectors means that profitability of the state's liquor operation will be enhanced by high-efficiency route deliveries in the south, and common carrier LTL shipments in the north. Accordingly, the optimal shipping point in the south with adequate facilities was recommended by the Bureau as the location for warehousing to replace the state's present grossly inadequate facilities.

Working Capital

A straightforward analysis of bailment, using the same figures[1] as used by F & A, makes the bailment advantage perfectly clear:

Current Practice

4,481,381	whse (2 month inv.)
3,918,619	stores (2 week inv.)
8,400,000	total inv.
(4,817,800)	payable
3,582,200	committed working capital

Bailment

0	whse (no longer state owned)
3,918,619	stores (2 week inv.)
3,918,619	total inv.
(3,918,619)	payable
0	committed working capital

Much is made in the F & A analysis of the present 45-60 day carrying period for accounts payable as a foundation of the state's advantage under current practice. Several points must be noted in this regard. First, vendors' statements are all issued on the usual business basis of net

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[1] F & A figures understate store inventory by almost one-quarter of a million dollars. This has been corrected in this analysis, but does not in any event affect the validity of the conclusion. Actual store inventories as found in the FY 83 year end statement prepared by A & C are $3,918,619.00, not the $3,700,000.00 used in the F & A memorandum.

30 days payable.[2] In fact, the state's own accounting practices now recognize this by showing sums owed vendors for product purchases as payables 30 days after the invoice date. Second, the state should not base its liquor business on a practice which, whether deliberate or not, is an unethical and abusive use of the state's monopoly position. Further, it is possible that legislative recognition of the fundamental impropriety of this practice may terminate it shortly in any event. See LD 1833, pending in the current session, attached to this document as Exhibit H. Third, and perhaps most importantly, bailment allows the state to get all the benefits of extended payables while avoiding both questionable business practices and conflict with vendor's normal payment terms.

Bailment produces this desirable result by simply eliminating warehouse inventories, allowing store inventories, which are on an approximate two-week turn basis, to be financed from sales receipts, since the 30 day payable period begins only when the goods are actually withdrawn from storage and shipped to stores.

Of the current inventory of $8.4 million, approximately 42.7% or $3,586,800, has actually been paid for, with the balance payable.

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[2] The degree to which vendors are likely to offer "strong resistance" to bailment, as alleged by F & A, may be seen in the degree of resistance offered to the present extended payable period - that is, despite their perfectly understandable displeasure, no resistance at all.

Obviously, since store inventory is older than warehouse inventory, store inventory constitutes the preponderance of purchased inventory, i. e., that to which working capital has actually been committed. Applying working capital to warehouse inventories, as F & A has done, is at variance with the standard accounting practice of the state(FIFO), and distorts the analysis of working capital impact as well.

The approximate store inventory number of $3.9 million and the approximate working capital committment of $3.6 million reflect this relationship between the two, although, as footnoted earlier, errors in the F & A numbers preclude total accuracy in these calculations.

Regardless of the particular inventory financed by working capital, bailment allows the entire amount to be recovered and dedicated to other uses, such as post-off purchases.

The mechanics of recovery are extremely simple. Current store inventories would be sold and payables due for current warehouse inventories covered, as they are now, from the proceeds. The warehouse inventory would then move into the stores as paid inventory. When sold, this inventory would leave the Commission with cash against which no payables were due, since, unlike current practice, the Commission would have required that vendors put replacement stock into bailment at no expense to the state.

As the bailment stock subsequently left the warehouse and entered the stores, it would be sold, consistent with present practice, within two weeks, and payables covered out of the proceeds. New stock would be continually drawn from bailment as needed. The full amount of working capital committed under present practice, having become unnecessary for routine inventory maintenance, would be available for whatever use the Commission deemed appropriate.

Warehousing Costs

If less than case lot order picking ("bottle picking") and storage of merchandise bought by the state on post-off for its own account are included, it is true that 100% of warehouse costs cannot be recovered. However, the Bureau proposal elected to treat these two functions as separate from warehousing for three reasons:

(1) Bottle picking is not accounted for as warehousing under present state practice, but as a store operation. (Store #3). In order to compare the proposal with existing accounting, Store #3 costs should neither be added to warehouse costs, which would overstate them, or deducted from them, as F & A did, to arrive at per case costs, thereby understating them. (See "Storage and Handling Cost Comparisons").

(2) Benefits of post-off purchasing can be evaluated only net of warehousing costs. However, such costs cannot be both netted against post-off benefits and included in warehousing costs without double counting such costs. The Commission has elected to net these costs against post-offs to more accurately show these benefits.

(3) By far the greatest percentage of warehouse activity is routine storage and handling.

The other points raised by F & A in this section may be addressed in brief as follows:

(1) Less than case lot orders (bottle picking) has been guaranteed to the Bureau at a cost no greater than that experienced by the Bureau in FY 83 by the public warehouse already serving as a bailment facility for 39% of the distillers selling to Maine.

(2) The minimum withdrawal from the existing bailment facility has been set at one case. As noted above, less than case withdrawal is readily available as needed.

(3) Shipping to individual stores is already included in the quoted price pre-paid by vendors at the bailment warehouse. No additional arrangements or costs would be incurred if 100% of all orders were originating from bailment.

(4) Because the state buys only as product is withdrawn from bailment for shipment to stores, all warehouse costs will normally be borne by vendors, regardless of the length of storage. This will not apply only on post-offs, which will become a state responsibility for storage costs after they are purchased. In most cases, however, the vendor will have paid for the month in which the goods are received and the state will assume the obligation only in the second

month. (An example of costs for post-off bailment is attached as Exhibit I.

(5) Maine would pay <u>nothing</u> for warehousing (other than the relatively minor costs of storage of post-off purchases) under bailment as proposed by the Bureau. No conclusion can be drawn regarding the significance for Maine of costs equalling a certain percentage of transfers by Ohio or New Hampshire to their general funds without much greater detail about the exact nature and source of the costs involved, and the degree to which their operations resemble that proposed for Maine.

(6) As of December 31, 1983, Ohio had <u>no</u> state warehouse employees, and costs have been correspondingly reduced. F & A failed to point out that Ohio decided to maintain a full dual system of state and bailment warehouses until complete elimination of state warehousing, as planned, on December 31, 1983.

(7) The suggestion that distillers will dictate inventory mix and levels to Maine in bailment is pure nonsense. It is conceivable that in states having a mixed state/bailment warehousing system an inducement of this sort may have been offered to particular vendors. In full bailment, however,

the choice is not between voluntary use of bailment rather than state facilities, but between bailment and carefully timed deliveries to the shipping point dock for integration into outbound loads. Most vendors would probably find bailment more attractive than dealing with multiple precisely-timed shipments. Nothing in the experience of any mandatory bailment state (N.C. or Ohio, for example) would support the suggestion that companies will forego selling in a state-wide market due to a change in warehousing practices. Since bailment costs are added to costs of goods by vendors, and they therefore lose nothing (other than incurring a little more time spent managing inventory), it is easy to see why the perception that vendors will attempt to dictate terms or withdraw is absurd.

(8) The suggestion by F & A that Maine will incur extra charges for preparing orders for shipment to stores is erroneous. All costs of packing/shipping case orders have already been included in the current rates of the warehouse being used by 39% of the states' vendors. No additional costs would be incurred in implementing full case shipping to stores. As noted above, bottle picking could be added at a cost to the

state guaranteed not to exceed last years' state cost. Since this cost will be equal to or less than that the state will incur in its own facility, it is essentially a wash figure which is irrelevant assessing the potential benefits of bailment.

(9) Any bailment arrangement in private facilities will always be subject to a state decision to build its own warehouse, and to competition from other private warehouses. Given these factors, there is little chance of unchecked price escalation and no risk to the state whatsoever. In addition, it must be remembered that bailment costs are billed directly to vendors, any of which may singly or in concert decide to change warehouses or build their own if circumstances in the existing facility are unsatisfactory.

(10) No use of net savings from warehouse operation is envisioned other than contribution to the state general fund. It is anticipated the legislature will not disapprove of this.

Discount Purchases

Five points are crucial to understanding potential discount purchase benefits to the State of Maine:

(1) FY 83 discount purchases could have been increased by 38% had there been adequate facilities to accomodate these buys.(Exhibit J)

(2) After deduction of costs of warehousing in a private facility, the increase would have netted the state an additional $122,378.00.

(3) Among major distillers, discounting is increasing in use for top of the line products, as well as in frequency of offerings.

(4) The post-bailment discount buying practices of other states cannot be related to Maine, since these states have had conditions quite different from those presently affecting Maine practice. For example, other states may have had adequate space for full utilization of discounts prior to bailment, or may for reasons of internal policy have had different criteria for determining when post-offs are to be purchased and what portion of them, if any, is passed through to consumers.

(5) Every aspect of post-off buying, including the decision to buy or not buy, the quantity purchased, and whether to pass through any or all

of the savings to consumers is strictly within the Commission's discretion.

The speculation of the F & A report with respect to what base price the statutory mark-up requirement applies to entirely overlooks the Commission's full statutory latitude in pricing (so long as it marks up at least 75%).

In the absence of express statutory guidance, discretionary authority is legally presumed to be bound only to be exercised in reasonable pursuit of the legitimate purposes of the agency. In this case, since the only guidance is the "not less than 75%" markup requirement, the Commission is by any reasonable interpretation of its statutory authority free to treat post-off pricing as it deems appropriate. This is, of course, the manner in which the Commission has dealt with post-offs since its inception, and no question has ever been raised by competent legal counsel in the Attorney General's office, the Legislature, or from outside government of the correctness of this approach.

In addition to formal post-offs, buying products in greater than usual quantities immediately prior to increases in vendor's base prices has in the past allowed the state to benefit from the additional margin created by selling these lower-cost goods at retail prices reflecting, as they must, the new, higher vendor's base price quote.

At the peak of the inflation of the recent past, almost 50% of all vendor's quotes were rising at each quarterly opportunity to re-price. Unfortunately, inadequate space prevented the Bureau from taking full advantage of the opportunities for increased earnings this situation presented.

While the level and frequency of vendors' increases have diminished as inflation has slowed, most are still raising prices occasionally, and, of course, the inherent flexibility of bailment would automatically position the Bureau to take full advantage of not only these increases, but also those which will certainly come if inflation again rises. Total benefits from pre-increase buying in an inflationary phase could equal or exceed the $445,000 annual addition to profits anticipated from post-offs.

Taken together, the potential benefit to the state during an inflationary price expansion could easily be, as suggested earlier by the Bureau, in the range of $900,000 to $1,000,000.

Of course, with inflation at current moderate levels, the total benefit from full post-off utilization of approximately $445,000 and pre-increase purchases of perhaps $25 - 50,000 would be in the $470 - 500,000 range. Even this figure compares quite favorably with the $322,000 achieved in existing facilities.

Significant erosion of savings from either post-offs or pre-increase buying due to long warehouse stays is highly improbable. For example, a $3.00 per case post-off (or equivalent through pre-increase buying), calculated for 1,000 cases put into a public warehouse and shipped out in more or less equal monthly withdrawals over the course of one full year would still produce a benefit to the state treasury of $1.96 per case, or $1,961 total. The full calculation of this schedule appears in Exhibit I, attached.

Finally, because bailment allows for prompt payment of invoices, (see "Working Capital") legitimate use of the 2%, 30-day payment discount offered by some vendors could produce further savings.

The F & A allegation of heavy overstocked of certain items does not hold up under scrutiny.

Of the 193 items identified by F & A as overstocked, 72 were new listings for which there was insufficient sales data to evaluate proper stock levels; 58 were scheduled for delising by the Commission (subsequently done); 11 were bought in greater than usual volume to take advantage of post-off discounts; 15 were "test" items being tried out in the state stores with $1 million plus sales; and 42 were slow moving items for which minimum order quantities dictate more-than-average stock be on hand if they are to continue to be listed.

The total of all items so identified by F & A was, in any event, only 12,100 cases from a total inventory of more than 162,000 cases, or 7.5%.

Cost of Freight

Under present practice, two very distinct "freight costs" are associated with product delivered for sale in Maine. The first, an actual cost of doing business, is invoiced by the carrier of goods for services in bringing the goods to Maine. This is what the Bureau referred to as "Freight Costs". The other, the so-called LCL charge, originated as a freight-related cost but has long since lost its character as such and has become merely a statutorily mandated markup component of the state pricing formula, as F & A correctly points out.

The semantic confusion generated by LCL's origin obscures the distinct character of each of the two costs, and creates an appearance of redundancy which does not accord with the facts.

The FY 83 year end report prepared by F & A shows trucking expense of $394,765.

Review of the formula used by the Commission in setting retail prices reveals, however, that only the base cost of the goods themselves, not including freight, is used in the formula.

In view of the fact that the statement shows freight as an unrecovered cost under current practice, it is misleading to imply that these costs are being recovered through LCL.

Since LCL must be charged by law, treatment of actual freight costs under bailment has no effect on LCL at all.

To suggest that recouping the state's out-of-pocket freight costs plus using LCL amounts to a "double assessment" is ironic. In fact, LCL is not even a single assessment, since it is not charged to vendors at all. LCL is a cost added to the state pricing formula which only shows up in shelf prices. Surely no one would argue that the state is not at liberty, once it has bought the vendor's goods, to resell them for any price it deems appropriate, and to use the formula of its choice in arriving at that price. That an element of such formula may be called LCL or have originated in relation to freight costs no more affects its propriety than if it had no specific designation or origin and was seen simply as a component of the formula.

If this so-called "double assessment" of freight costs is repugnent to vendors, it is indeed odd that fully 39% of all vendors selling to Maine are now voluntarily using bailment facilities in Maine under precisely such an arrangement.

Although the Commission does not presume to judge the rationality of the legislative mandate to require an LCL factor, it is obvious that its elimination and replacement by another mechanism which maintained prices at current levels would produce no significant change from the viewpoint of either the state or the vendors.

Examples of means by which LCL might be replaced include adding Federal tax to the base on which markup is calculated (Maine is the sole state not doing so, according to Michael Mosher, National Sales Administravor for Glenmore

Distilleries), increasing the percentage markup (statutorily required only to be not less than 75%), or providing a separate markup percentage for actual freight costs and another for cost of product.

Given the Commission's broad statutory discretion in pricing, the importance of the issue seems relatively minor. It is clear, however, that how the Commission elects to deal with LCL is irrelevant in an analysis of bailment, which will, as originally suggested, allow for recovery of actual freight costs where it is not now possible.

Storage/Handling Cost Comparisons

Discussion of storage costs in bailment is in fact theoretical, since all costs of bailment are added by vendors to the base price of their products, and passed through by the state, marked up, to the consumer. The state thus changes its current practice of absorbing warehousing costs into a source of revenue. (See the similar discussion in "Cost of Freight").

If this fact is overlooked and storage costs analyzed as if real, it quickly becomes obvious that the apparent storage cost advantage of the state warehouse is an illusion made possible only by the assumption, employed in all Bureau financial statements, that the Hallowell warehouse is occupied free. It is true that the Bureau pays no rent per se to the state, so the accounting is not fictitious in that sense. It is nonsensical, however, to maintain the same assumption in a cost/benefit analysis of the Bureau's operations from the perspective of the state as a whole. If nothing else, occupancy of the Hallowell facility prevents the state from earning the income the building would generate if leased on the open market. Based on Augusta-area lease rates for comparable facilities, the value of the warehouse portion of Hallowell facility (<u>not</u> including office space) is approximately $2.25 per sq. ft., or $105,750 annually.

Another equally valid measure of true cost to the state is avoided cost, or the amount which the state would not have to spend for other facilities if the Hallowell warehouse were available for other state needs. This is not a theoretical measure, as the attached letter from Leighton Cooney, Director of the Bureau of Public Improvements, asserts.(Exhibit K)

Taking the market-rate figure of $105,750 as representative of real costs to the state, and dividing it by the 1,709,357 cases stored in FY 83 reveals an additional cost of .10 per case which must be added to the .067 proposed by F & A, for a real total cost of .167 per case.

In other words, far from offering a .093 per case advantage, state storage in FY 83 cost the state $7,329 more than the same storage would have cost in a private warehouse at current rates.

Handling costs for the state are likewise understated in the F & A report by a significant amount as a result of the erroneous deduction of $70,598 presumed to be allocable to the state's bottle-picking operation. In fact, the <u>entire</u> cost of the bottle-picking operation is accounted for as a specialized store operation (Store #3). The details of this mistaken calculation, as well as those of the correct one, appear in Exhibit L , attached.

Adding back the improperly subtracted $70,598 to direct warehousing costs and then dividing the resulting number by the total cases purchased and sold in FY 83 (1,709,357) yields an actual per case cost of .217 in and .217 out, not the .167 stated by F & A.

The net result of the understatement of both storage and handling costs relative to costs in a private bailment facility are seen in the following comparison:

	Quoted Commercial Cost Per Case	FY 1983 Real State Cost Per Case
In-Bound Handling	$.10	$.217
Three Month' Storage:		
at $.16	$.48	
at $.167		$.504
Out-Bound Handling	$.10	$.217
Total	$.68	$.938

State Cost Disadvantage: 25.8 cents (37.9%) per case.

Likewise, the suggestion that utilization of bailment warehousing for state-owned goods could "dramatically escalate" costs is totally mistaken. As the calculation appearing in Exhibit I shows, slightly more than 65% of a $3.00 per case discount is net to the state even if the product is bought in sufficient quantity to last a whole year. If the discount drops to $2.00 per case, the state still nets 48% after a full year of distribution from a private warehouse. Both these examples are, of course, exagerated in that purchase of a full year's worth of goods is quite rare, and, in addition, the first (and consequently most expensive) month of storage, and all handling, is commonly paid for by the vendor.

State audit requirements for a physical inventory are consistent with requirements of virtually all public warehouse users, and present no difficulty. The key to proper inventory is not, as suggested by F & A, unnecessary and costly physical movement of state goods to a segregated area (obviously, the entire warehouse is secure, or there would be no goods to be moved), but is permanent identification of the goods as having changed title from the vendor to the state. This is readily and inexpensively accomplished for numerous warehouse customers already on the basis of slot location identification, marking of pallets of goods with stickers, or other simple, fast, and low-cost methods.

Since all bailment costs are passed through in shelf prices, in a sense neither the current costs of bailment nor possible future increases are of great importance. Even if these costs are presumed to be important, however, they are automatically held in check, as pointed out in "Warehouse Costs", by competition among private warehouse companies and, ultimately, by the ability of the state to build its own facility if bailment should prove unsatisfactory.

It is interesting to note that the 772% price increase pointed to during Mississippi's "experiment" with bailment was over a period of 18 years. Over the same period of time, at the rate of increase in costs of the Hallowell warehouse operation between 1980 and 1983, the increased expense to the state would be 1238%!

Contrary to F & A's assumption that handling costs are inflated, misallocation of warehouse support personnel cost in the Bureau's financial statement would suggest that such costs are more probably understated. F & A is correct, however, in noting that the state's warehouse labor force cannot be adjusted to correspond with actual needs, and this is, in fact, one of the major factors strongly supporting utilization of the greater flexibility and cost-effectiveness of bailment warehousing.

Policy Considerations

The "peripheral issues" noted by F & A in its report, when examined closely, all point toward the soundness of the Bureau's recommendation of bailment.

(1) As discussed in detail in "Warehouse Costs", the idea that the state would lose any of its present ability to buy only what it wants, both in quantity and selection, is total nonsense.

(2) There has been no suggestion of entering into an agreement with any bailment warehouse operator, since bailment is an arrangement between a bailment warehouse and a vendor, not the warehouse and the state or the vendor and the state. Bailment means, expressly, that the state doesn't own the product until it's withdrawn from the warehouse , and so needn't waste state time or resources on warehousing. The sole exception, as noted elsewhere in the memo, is the relatively small percentage of goods, generally post-off merchandise, owned by the state.

(3) Absolute control over the distribution process is retained by the state in bailment. Nothing leaves the bailment warehouse except for sale to the state, on the state's order, and the state continues just as before bailment in its role as the monopoly wholesaler of liquor in Maine.

(4) It is clear the legislative grant of broad discretionary authority to the Commission was made to insulate alcoholic beverage sales in Maine from political pressures of the sort to which the legislature is subjected. The Commission would be defeating the very reason for its independent existence if it sought legislative participation before acting on matters clearly in the interest of the state.

Exhibit A

Routes orignating from and returning to Portland

Tractor Trailer Deliveries - 585 mi/wk [3]

Monday	Tuesday	Wednesday	Thursday	Friday
Kittery(34) [1]	So. Portland(54)	Kittery(34)	Turner(149)	Kittery(34)
Moody(108)	So. Portland(33)	Biddeford(2)	So. Paris(EOW)(82)	Cape Elizabeth(126)
Wells(106)	Portland(44)	Old Orchard(21)	Oxford(140)	Scarboro(150)
Kennebunk(70)	Portland(4)	Saco(116)	Mechanic Falls(EOW)(73)	W. Buxton(128)
Sanford(23)	Portland(87)	Saco(118)	Lewiston(1)	Gorham(125)
Acton(EOW)(148) [2]	2 trips		Lewiston(59)	Westbrook(152)
			Auburn(84)	Westbrook(117)

Straight truck deliveries - 686 mi/wk [3]

Monday				
Washington(120)	Damariscotta(51)	Brunswick(37)	Gardiner(24)	Gray(131)
Camden(60)	Wiscassett(124)	Freeport(133)	Augusta(5)	N. Windham(76)
Rockland(13)	Boothbay(35)	Yarmouth(153)	Augusta(88)	Naples(155)
Waldoboro(EOW)(75)	Bath(18)	Falmouth(79)	Winthrop(49)	Bridgton(EOW)(42)
Lisbon Falls(EOW)(68)	Richmond(136)		Monmouth(145)	Lovell(EOW)(146)
				Fryeburg(EOW)(129)
				Cornish(EOW)(141)
				E. Sebago(132)

Note 1 - Store numbers are included in parenthesis
Note 2 - (EOW) indicates every other week delivery as at present
Note 3 - All mileages were taken from M-I-H tariffs

Exhibit B

Routes originating from and returning to Hallowell

Tractor Trailer Deliveries - 987 mi/wk [3]

Monday	Tuesday	Wednesday	Thursday	Friday
Kittery(34) [1]	So. Portland(54)	Kittery(34)	Turner(149)	Kittery(34)
Moody(108)	Portland(4)	Biddeford(2)	So. Paris(EOW)(82)	Cape Elizabeth(126)
Wells(106)	Portland(87)	Old Orchard(21)	Oxford(140)	Scarboro(150)
Kennebunk(70)		Saco(116)	Mechanic Falls(EOW)(73)	W. Buxton(128)
Sanford(23)		Saco(118)	Lewiston(1)	Gorham(125)
Acton (EOW)(148) [2]			Lewiston(59)	Westbrook(152)
Portland(44)			Auburn(84)	Westbrook(117)

Straight Truck Deliveries - 603 mi/wk [3]

Monday	Tuesday	Wednesday	Thursday	Friday
Waldoboro(EOW)(75)	Richmond(136)	Falmouth (79)	Monmouth(145)	Gray(131)
Rockland(13)	Bath(18)	Yarmouth(153)	Winthrop(49)	N. Windham(76)
Camden(60)	Wiscassett(124)	Freeport(133)	Augusta(5)	Naples(155)
Washington(120)	Boothbay(35)	Brunswick(37)	Augusta(88)	Bridgton(EOW)(42)
	Damariscotta(51)	Lisbon Fls(EOW)(68)	Gardiner(24)	Lovell(EOW)(129)
				Fryeburg(EOW)(146)
				E. Sebago(132)
				Cornish(EOW)(141)
				So. Portland(33)

Note 1 - Store numbers are included in parenthesis
Note 2 - (EOW) indicates every other week delivery as at present
Note 3 - All mileages were taken from M-1-H tariffs

Exhibit C

Northern Section

25,726 sq. miles

485,853 population

18.89 people/sq. mile

78 total stores

39.9% total sales $

Southern Section

5,269 sq. miles

638,807 population

121.24 people/sq. mile

56 total stores

60.1% total sales $

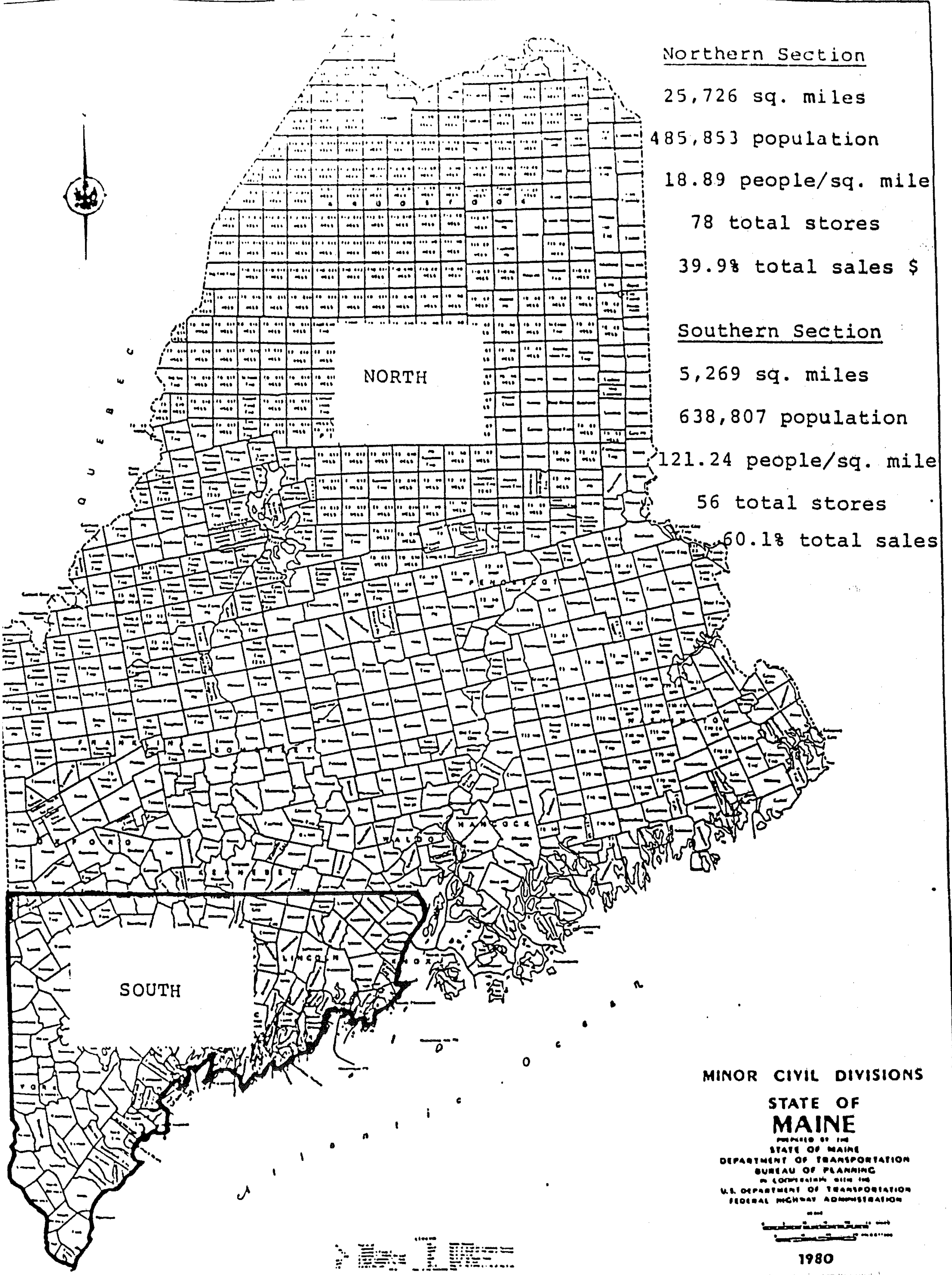

Exhibit D

South of Augusta State Stores

Store #	City/Town	Net Sales
34	Kittery	$ 7,974,204
70	Kennebunk	822,324
23	Sanford	898,775
2	Biddeford	700,460
21	Old Orchard Beach	789,161
33	South Portland	1,003,232
54	South Portland	1,544,851
4	Portland	1,564,653
44	Portland	789,515
87	Portland	1,949,932
79	Falmouth	880,165
76	North Windham	749,179
37	Brunswick	1,421,768
18	Bath	1,148,797
35	Boothbay	826,591
68	Lisbon Falls	319,824
51	Damariscotta	713,932
75	Waldoboro	330,792
13	Rockland	1,472,797
60	Camden	753,099
1	Lewiston	2,002,265
59	Lewiston	765,674
84	Auburn	963,689
73	Mechanic Falls	157,624
42	Bridgton	298,231
82	South Paris	387,599
24	Gardiner	677,544
49	Winthrop	424,691
5	Augusta	942,736
88	Augusta	1,256,193
3	Hallowell	55,540
	South of Augusta State Store Total	$34,585,837

Exhibit E

South of Augusta Agency Stores

Store #	City/Town	Net Sales
103	Moody	$ 67,914
106	Wells	297,432
[illegible]	Acton	0
[illegible]	Saco	201,559
118	Saco	659,480
126	Cape Elizabeth	2,238
[illegible]	Scarboro	305,403
128	W. Buxton	147,074
125	Gorham	446,701
[illegible]	Westbrook	793,741
[illegible]	Westbrook	389,977
[illegible]	Yarmouth	331,784
[illegible]	Cornish	183,629
[illegible]	East Sebago	99,053
131	Gray	230,124
133	Freeport	87,863
[illegible]	Wiscassett	336,789
[illegible]	Richmond	92,989
155	Naples	216,433
[illegible]	Fryeburg	68,376
[illegible]	Lovell	21,341
140	Oxford	437,652
149	Turner	231,024
[illegible]	Monmouth	97,114
[illegible]	Washington	250,249
	South of Augusta agency total	$ 5,995,939 (59%)
	State store total	$34,585,837 (60.1%)
	South of Augusta grand total	$40,581,776 (60%)

North of Augusta State Stores

tore #	City/Town		New Sales
7	Belfast	$	712,391
7	Livermore Falls		418,126
6	Waterville		1,519,108
9	Winslow		359,205
2	Rumford		457,071
5	Mexico		414,105
2	Farfield		521,606
1	Farmington		642,446
[illegible]	Pittsfield		414,119
0	Skowhegan		690,124
9	Madison		324,246
[illegible]	Newport		303,998
[illegible]	Rangeley		239,665
[illegible]	Dexter		352,857
[illegible]	Dover-Foxcroft		377,628
5	Milo		240,182
8	Greenville		311,025
4	Stonington		204,483
5	Bar Harbor		617,102
2	Busksport		637,704
4	Ellsworth		1,285,689
3	Milbridge		259,429
3	Machias		417,891
6	Brewer		1,235,476
7	Bangor		1,780,654
7	Bangor		1,348,278
6	Old Town		498,383
4	Woodland		361,175
6	Calais		706,061
0	Lincoln		432,475
9	Millinocket		534,209
3	Patten		124,039
8	Houlton		708,692
5	Presque Isle		884,871
2	Ashland		153,441
2	Fort Fairfield		268,601
7	Caribou		802,763
6	Limestone		109,873
1	Van Buren		244,368
8	Madawaska		562,823
6	Fort Kent		455,800
			$22,932,182

Exhibit G

North of Augusta Agency Stores

Store #	City/Town	Net Sales
122	Bethel	$ 102,690
157	Belfast	118,845
127	Belgrade Lakes	125,966
123	Andover	0
114	Wilton	248,955
137	Unity	151,871
158	Avon	92,632
144	Harmony	74,219
151	Bingham	122,268
101	Carrabassett	106,891
103	Abbot Village	172,035
135	Jackman	109,183
102	Southwest Harbor	253,396
107	Northeast Harbor	82,418
147	Seal Harbor	44,587
112	Blue Hill	241,755
156	Sullivan	53,154
139	Jonesport	54,881
154	Columbus Falls	141,922
113	Hampden	348,079
110	Orono	180,654
111	Orono	248,503
119	Lubel	185,786
115	Eastport	167,448
104	Howland	123,837
105	East Millinocket	213,787
130	Portage	47,219
142	Eagle Lake	61,633
138	Lille	5,709
143	Saint Agatha	86,655
109	Saint Francis	54,280
121	Rockwood	0
134	Sherman Mills	47,876
159	Palermo	61,306
160	Canton	18,589
161	Castine	14,053
162	Pembroke	12,079
	North of Augusta Agency Total	$4,175,161 (41%)
	State Store Total	$22,932,182 (39.9%)
	North of Augusta Grand Total	$27,107,343 (40%)

SECOND REGULAR SESSION

ONE HUNDRED AND ELEVENTH LEGISLATURE

Legislative Document No. 1833

H.P. 1411 House of Representatives, January 4, 1984

Reference to the Committee on State Government. Ordered printed and sent up for concurrence.

Approved for introduction by the Legislative Council pursuant to Joint Rule 26.

EDWIN H. PERT, Clerk

Presented by Representative Mitchell of Vassalboro.

Cosponsors: Senator Violette of Aroostook, Representative Pouliot of Lewiston and Senator Dutremble of York.

STATE OF MAINE

IN THE YEAR OF OUR LORD
NINETEEN HUNDRED AND EIGHTY-FOUR

AN ACT to Require the State of Maine to Pay Late Fees on Overdue Payments.

Be it enacted by the People of the State of Maine as follows:

5 MRSA, c. 144 is enacted to read:

CHAPTER 144

PAYMENT OF INVOICES RECEIVED FROM BUSINESS CONCERNS

§1551. Purpose

The purpose of this chapter is to promote prompt payment of obligations incurred by agencies of State Government. It is the intent of the Legislature to prevent hardship for any business concern due to late payment of proper invoices for obligations incurred by state agencies. It is also the intent of the Legislature to encourage business concerns to provide prompt, dependable services and products of a high quality and at a reasonable cost to State Government.

§1552. Definitions

As used in this chapter, unless the context otherwise indicates, the following terms have the following meanings.

1. Business concern. "Business concern" means a person, partnership or corporation engaged in providing property, products or services for the purpose of gain, benefit or advantage, either direct or indirect, whether or not the concern is organized for profit or not for profit.

2. Commissioner. "Commissioner" means the Commissioner of Finance and Administration.

3. Controller. "Controller" means the State Controller.

4. Improper invoice. "Improper invoice" means an invoice which is:

A. Incorrectly calculated;

B. Received for property, products or services that are unsatisfactory with respect to quantity or quality; or

C. Received for property, products or services for which there is no request.

5. Proper invoice. "Proper invoice" means an invoice for property, products or services deemed to be satisfactory in quality and quantity, in conformance with the request of the state agency and on which the amount due has been correctly calculated.

6. State agency. "State agency" means any body of State Government authorized by law to adopt rules, to issue licenses or to take final action in adjudicatory proceedings, including, but not limited to, every authority, board, bureau, commission, depart-

ment or officer of the State Government so authorized; but the term does not include the Legislature, Governor, courts, University of Maine, Maine Maritime Academy, school districts, special purpose districts or municipalities, counties or other political subdivisions of the State.

§1553. Standards

The commissioner shall require state agencies to assure prompt payment by means of the following standards.

1. Required payment date. The required payment date for any proper invoice for which a state agency has incurred an obligation to a business concern shall be no more than 30 days from the date the state agency receives a proper invoice or from the date of receipt of the property, products or services, whichever is later, unless the agency and the business concern have agreed to another payment date.

2. Notice of receipt of improper invoice. In the event the state agency receives an improper invoice, the agency shall immediately notify the business concern in writing. This written notice shall reasonably describe why the invoice is deemed to be improper. Disputes shall be handled under section 1510-A.

3. Specifications of a required payment date for corrected invoices. In the event that an improper invoice is received by a state agency, it shall be returned within 15 days of receipt to the business concern for correction. Upon receiving a corrected invoice, payment shall be made in accordance with subsection 1.

4. Procedure for submitting invoices to controller. An expeditious procedure shall be developed for the submission of invoices received by a state agency to the controller. In the event that obligations of an agency are not paid through the controller, a procedure shall be developed by the commissioner to ensure prompt payment.

§1554. Payment of late fees

In the event that a proper invoice is not paid within 30 days after receipt of the invoice, or within 15 days following another date agreed to by the state agency and the business concern, the agency shall be liable to pay a late fee on the amount due on the invoice.

The late fee shall be computed at the same interest rate established by the State Treasury pursuant to Title 36, section 505, subsection 4.

§1555. Period of time for which late fees are imposed

The late fee shall apply to the period beginning on the day after the required payment date and ending on the date on which payment of the amount due on the invoice is made. An amount of a late fee which remains unpaid at the end of any 30-day period shall be added to the principal amount of the debt and, thereafter, late fees shall accrue on the added amount.

§1556. Source of payment for late fees

Any late fee authorized by this chapter to be applied to a proper invoice shall be paid from funds made available for the administration or operation of the program or state agency for which the obligation was incurred.

§1557. Late fees and improper invoices

With respect to an improper invoice, the late fee shall apply to the period beginning on the day after the required payment date is due as specified on the corrected and proper invoice and ending on the date on which payment of the amount due on the invoice is made.

§1558. Annual report

The State Controller shall annually report on the amount of late fees incurred by the various state agencies.

STATEMENT OF FACT

The purpose of this bill is to prevent any hardships that a business concern may incur as a result of late payments from State Government. This bill uses the federal statute, Public Law 97-177, adopted May 21, 1982, as a guide. Over 20 states have now adopted some form of prompt pay legislation.

This bill requires the Commissioner of Finance and Administration to direct state agencies to ensure prompt payment of obligations incurred by the State. Any proper invoice that is not paid within 30 days from the date the agency receives the invoice is subject to late fees. The late fee will be determined by reference to the interest rate established by the Treasurer of State from municipalities on delinquent taxes.

4821120183

Discount Purchases - Exhibit

Example: Assume the State of Maine buys 1,000 cases of liquor at $3.00 off per case, and holds the product in a bailment warehouse for one year, drawing out approximately one-twelfth of the 1,000 cases each month.

Month	# Cases on Hand	Storage Cost
1	1,000	$160.00
2	917	146.72
3	833	133.28
4	750	120.00
5	666	106.56
6	583	93.28
7	499	79.84
8	416	66.56
9	332	53.12
10	249	39.84
11	165	26.40
12	82	13.12
Total Cost of Bailment:		$1,038.22
Total Discount		3,000.00
Less Bailment		(1,038.22)
Net Advantage to Maine:		$1,961.28
Per Case:		$1.96

Post-Off (Discount) Buying Formulas[1]

1, 2 or 3 discounts offered per year $[(c/2R)-c/2(S)+1.5(c/2S)]x=V$

4 or more discounts offered per year $[(c/4R)-5/4(S)+.5(c/4S)]=V$

When:

- c = cases sold annually
- S = storage cost for one month
- R = average price reduction
- x = number of promotions per year
- V = savings per product to the state

[1] The total cost of warehousing has been deducted in order to provide net discount savings for each product.

Additional possible income from discount purchases was calculated on the basis of vendors' post-offs during FY 83. For those vendors offering four or more discounts on a given product, it was assumed that three month's worth of inventory, was purchased per offer; for fewer than quarterly post-offs, it was assumed that six month's inventory was bought.

LEIGHTON COONEY
DIRECTOR

TELEPHONE 207/289-[illegible]

EXHIBIT K

State of Maine
Bureau of Public Improvements
Augusta, Maine 04333

January 26, 1984

Guy Marcotte, Director
Alcaholic Beverages
Augusta, Maine 04333

Dear Guy;

In response to your telephone call, today, requesting confirmation of a real State need for your Liquor Commission offices and warehouse should you relocate either or both, I am pleased to confirm the State's needs for this building.

The 1982-83 Capitol Construction and Repairs Budget included $600,000 for construction of a storage building to begin an orderly program of managed storage for State Government. I have delayed that project and in fact the funds have now been lapsed and will have to be rebudgeted. I did not want to build a new storage building when you might be excessing a similar structure.

Up until this time, the State has had no orderly storage program and is currently using high quality office space for storage as well as entire buildings that could be rehabilitated to higher and better uses if they could be cleared of stored materials. Your facility is a well designed building in a very central location. I cannot imagine a better sequence of events than your program excessing the warehouse and our immediate reuse for a State storage program.

The savings and cost avoidances to the State, given your facility are substantial. First, we will save $600,000 for a new building. Second, we will save thousands of dollars now being paid for leased storage space. And finally, thousands of square feet of valuable office space will be freed up for program use. Therefore, the answer to your question is a clear and compelling yes. We need your facility now.

Yours truly,

Leighton Cooney
Director

LC:smc

Exhibit L

HALLOWELL WAREHOUSE HANDLING CALCULATIONS

A & F Handling:

A & F salary and benefit allocation	$353,225
A & F workman's compensation	17,373
	$370,598

Less:

A & F estimated bottle pick cost*	-70,598
A & F total handling cost	$300,000
Total cases purchased	#895,000
Total cases sold	814,357
Total cases handled	#1,709,357

$300,000(total cost) ÷ 1,709,357(total cases) = <u>$.176 per case</u>

A & F was mistaken in its deduction of this cost. In fact, bottle picking is fully accounted for, including all associated warehousing costs, as a special store operation (store #3). No store costs (including store #3) are properly includable in warehousing.

Total inbound cost 895,000 x $.176 =	$157,520
Total outbound cost 814,357 x $.176 =	$143,327
Total handling (rounded) =	$300,847

Actual handling (store #3 cost not erroneously deducted):

A & F salary and benefit allocation	$353,225
A & F workman's compensation	17,373
	$370,598

$370,598 (total cost) ÷ 1,709,357 (total cases) = <u>$.217 per case</u>

Total inbound cost $895,000 x $.217 =	$194,215
Total outbound cost 814,357 x $.217 =	176,715
Total handling (rounded) =	$370,930

EXHIBIT M

STATE OF MAINE

Inter-Departmental Memorandum Date January 3, 1984

To George Viles
Gary Mather — Dept. Personnel

From David S. Campbell, Director — Dept. Administrative Services Division, F&A

Subject CONFIDENTIAL

Attached is the additional information you requested regarding the Bureau of Alcoholic Beverages. The numbers are the same as in our December 7, 1983 memorandum with the exception of one Clerk Typist for whom we believe we can place in the Department.

In summary form, the attached shows the names, position title and the Bureau from which the lay-offs are likely to occur.

Following the summary form, we present the individual actions which may occur.

DSC:dmb

cc: Rodney L. Scribner

Attachments

Exhibit M

NAME	BUREAU	CLASS
L. Johnson	Purchases	Warehouse Superintendent
F. Rowlette	"	Storekeeper I
S. Campbell	"	Heavy Equipment Operator
C. Thomas	"	Laborer I
D. Nixon	Public Improvements	Laborer I
G. Brann	"	Laborer I
E. Nichols	"	Laborer I
R. MacKenzie	"	Laborer I
M. Chasse	"	Laborer I
R. A. Dostie, Jr.	Alcoholic Beverages	Retail Store Clerk
R. Austin	"	Heavy Equipment Operator
F. Swan	"	Stores Clerk
E. Michaud	"	Stores Clerk
V. Tourtelotte	"	Warehouseman
L. Piper	"	Warehouseman
J. Spaulding	"	Warehouseman
M. Pomerleau	"	Warehouseman
J. Tompkins	"	Warehouseman
R. Williams	"	Warehouseman
R. Gerard	"	Warehouseman
D. Lessard	"	Warehouseman
F. Watson	"	Warehouseman

Exhibit M

The two Acting Capacity employees in the Bureau of Alcoholic Beverages (BAB) would be laid off, terminated, as they have no status.

Todd Wardwell and David Coulombe, Warehouseman class.

Six seasonal employees, Warehouseman (BAB) would be laid off as they have no rights for permanent full time positions.

Daniel Colby
Joseph St. Amand
John Smith
Daniel Mullens
Jason Couture
Daniel Tibbs

The following will generally describe the impact on permanent full time employees in the Department.

Warehouse Superintendent, L. Leclair, BAB, could displace L. Johnson, same class in the Bureau of Purchases. L. Johnson would be laid off due to lack of seniority. Storekeeper II, P. Spiro, BAB could displace G. Christie, same class in the Bureau of Purchases. G. Christie could displace R. Dostie, Public Improvements, Storekeeper I; R. Dostie could displace R. A. Dostie Jr., Retail Store Clerk, in the Rockland liquor store, who would be laid off.

Storekeeper II, R. Chasse, BAB could displace F. Rowlette, Purchases, Storekeeper I; F. Rowlette would be laid off.

Heavy Equipment Operator, G. Dawbin, BAB could displace S. Campbell, same class, Bureau of Purchases. S. Campbell would be laid off due to lack of seniority.

Heavy Equipment Operator, P. Beaudoin, BAB could displace M. Chasse, Public Improvements to the lower related class of Laborer II, a three range reduction. M. Chasse could replace a Laborer I, D. Nixon, Public Improvements who would be laid off.

Heavy Equipment Operator, R. Austin, BAB would be laid off.

Stores Clerk, E. Levasseur, BAB, could displace Laborer II, R. MacKenzie, Public Improvements; MacKenzie could displace G. Brann, Public Improvements, Laborer I, who would be laid off.

Stores Clerk, F. Swan, BAB would be laid off due to lack of seniority.

Stores Clerk, E. Michaud, BAB would be laid off due to lack of seniority.

Warehouseman, J. Guzman, BAB could displace E. Nichols, Public Improvements, Laborer I who would be laid off.

Warehouseman, D. Robie, BAB could displace C. Thomas, Purchases, Laborer I who would be laid off.

Warehouseman, BAB, nine will be laid off - V. Tourtelotte, L. Piper, J. Spaulding, M. Pomerleau, J. Tompkins, R. Williams, R. Gerard, B. Lessard and

Warehouseman, W. Locke, BAB will displace R. MacKenzie Public Improvements, Laborer I who will be laid off.

Warehouseman, H. Webber, BAB will displace M. Chasse, Public Improvements as a Laborer I, M. Chasse will be laid off.

UTAH LIQUOR CONTROL COMMISSION

1625 SOUTH 900 WEST • P.O. BOX 30408 • SALT LAKE CITY, UTAH 84130-0408 • (801) 973-7770

SCOTT M. MATHESON
GOVERNOR

January 26, 1984

Mr. Guy Marcotte, Director
Maine Bureau of Alcoholic Beverages
State House, Station #8
Augusta, Maine 04333

Dear Guy:

The State Liquor Commission succeeded in getting legislation passed in 1979 to allow the Commission to license local warehouses for the receipt, storage and shipment of liquor. The intent behind this legislation was to license warehouses so liquor and wine suppliers would place inventory in bailment and we could draw from that inventory.

The drawback to this idea was that we didn't want to pay increased prices as a result of the supplier bailment charges and suppliers were very reluctant to use the bailment idea. We have not pursued the concept and presently only have one or two suppliers keeping inventory in bailment in our State. Of course those suppliers have an advantage of never being out of stock, but they are paying bailment charges.

I hope this information helps your management committee review. If you have any questions, please call me.

Yours very truly,

UTAH LIQUOR CONTROL COMMISSION

Kenneth F. Wynn, Director

KFW/cf

/2XH/18/7 Al

State of North Carolina

ALCOHOLIC BEVERAGE CONTROL COMMISSION

JAMES B HUNT JR
GOVERNOR

MARVIN L. SPEIGHT, JR.
CHAIRMAN

P. O. BOX 25249
RALEIGH, N. C. 27611
PHONE 733-3051

BOARD MEMBERS
CLARK S. BROWN
WINSTON-SALEM
JOHN A POWELL
ASHEVILLE

January 27, 1984

Mr. Guy Marcotte
Director and NABCA Director
Maine Bureau of Alcoholic Beverages
State House
Station No. 8
Augusta, Maine 04333

Dear Guy:

In reference to our telephone conversation yesterday, the following information is an attempt to explain the North Carolina ABC System pertaining to bailment and warehousing of spirituous liquor. In 1933 when the Twenty-First Amendment was added to the Constitution, the North Carolina General Assembly created a local government option by counties. Under this local option, counties could vote on establishing local ABC stores for the sale of spirituous liquor to the public.

The North Carolina General Assembly mandated by General Statute that this liquor inventory would be handled under a bailment concept in which the state tax revenues would not be tied up in liquor inventory. Since 1935 with the establishment of the first ABC store in Wilson, North Carolina, never has the State of North Carolina or its ABC Commission purchased a single case of liquor. All liquor is handled under the bailment concept.

In the early 1940's, the State ABC Commission established a central warehouse privately owned in the Capital City area. For more than 40 years, the State ABC Commission has operated a bailment warehouse with a private contractor allowed to operate the warehouse under a State system of competitive bidding. Our present contractor, Dyneteria, Inc., has operated our State ABC Warehouse system since 1975.

In 1982, the State ABC Commission was notified by the owner of our leased State ABC Warehouse that the rent would be approximately doubled effective February 1, 1984. At that time, the State ABC Commission and my staff began an all-out effort to persuade our Governor and General Assembly that the State should

EXHIBIT N

build its own warehouse facility from the receipts of liquor sales by local ABC stores. In 1983, this became a reality. The North Carolina General Assembly allowed the State ABC Commission to sell Public Revenue Bonds in an amount of $5.5 Million to build a new State-owned warehouse which encompasses 200,000 square feet, and a new State ABC office building, which encompasses more than 20,000 square feet. To pay this bond debt reserve, the State ABC Commission was empowered with the responsibility of setting a "bailment surcharge" per case to cover the bond retirement. In addition, the ABC Commission's annual budget of approximately 3/4 million dollars would also be paid for by this "bailment surcharge". The amount of money determined to initiate this legislative mandate was 66¢ per case, which translates into approximately 5¢ per bottle the consumer would have to pay for this warehouse and administrative budget of the ABC Commission.

In conclusion, the State of North Carolina and its ABC Commission have been satisfied with our method of bailment and bailment surcharge pertaining to the distribution of spirituous liquor. I sincerely hope this information will help you to better understand the North Carolina ABC System that we discussed on the telephone.

Yours very truly,

Marvin L. Speight, Jr.

Marvin L. Speight, Jr.
Chairman

MLSjr:ehb

TO: George N. Campbell, Jr., Chairman
Governor's Management Task Force

FROM: Guy A. Marcotte, Director
Bureau of Alcoholic Beverages

SUBJECT: Proposal for Conversion to Bailment Warehousing
Alcoholic Beverages

DATE: February 23, 1984

Following the recommendation of the Governor's Management Task Force that the State liquor warehouse be closed and a system of bailment warehousing adopted, the Commissioner of Finance and Administration raised certain questions about the proposal in a memorandum to the Governor dated December 13, 1983.

These questions were answered by a responsive memorandum to the Task Force from the Bureau of Alcoholic Beverages dated February 2, 1984, as verified by a joint memorandum from Rodney L. Scribner, Commissioner of Finance and Adnimistration, and Guy A. Marcotte, Director of the Bureau of Alcoholic Beverages, dated February 23, 1984.

This summary memorandum is a substantial condensation of the Bureau memo of February 2, with detail omitted which responded to Finance and Administration questions at greater length than necessary for a basic understanding of the rationale for the Task Force recommendation.

FOR A FULLY DETAILED EXPLANATION OF THE PROPOSAL THE FEBRUARY 2 BUREAU MEMORANDUM MUST BE READ IN CONJUNCTION WITH THE DECEMBER 13 FINANCE AND ADMINISTRATION MEMORANDUM AND THE JOINT MEMORANDUM DATED FEBRUARY 23.

In summary, review of the questions raised by Finance and Administration in its memo of December 13, 1983 resulted in the following findings:

(1) Working Capital- Bailment as proposed by the Bureau will result in making approximately $4.5 million in currently committed working capital available for other uses.

(2) Projected Savings- Economic benefits to the state from bailment warehousing may realistically be expected in the range of $650,000 + annually. Additional savings in year one of $600,000 can be realized from using the existing Hallowell warehouse for other state agencies' warehousing needs, rather than having the Bureau of Public Improvements build a planned new warehouse.

Substantial additional annual savings may be anticipated from shorter, more efficient delivery routes made possible by warehouse relocation.

(3) Conversion Timetable- Due to the fact that 39% of both vendors and volume are already in voluntary bailment in Maine, the three month conversion timetable is sufficient to insure an orderly transition with minimal disruption. No vendor resistance or stock problems are anticipated.

(4) Market Distribution- Analysis of delivery routes to retail outlets clearly confirms the greater cost effectiveness of the recommended Portland location.

(5) Warehousing Costs- The entire $440,000 cost of warehousing would be saved by bailment.

(6) Discount Purchases- Total discount purchase contribution to state income of approximately $470-500,000 could be realistically anticipated in bailment under current conditions, up from the present $322,000. In a period of renewed inflation, this could be as much as doubled.

(7) Storage/Handling Cost Comparison- State warehousing is 37.9% more expensive per case than

bailment. More importantly, in bailment all warehouse costs become a part of the cost of goods and are recovered in retail prices with a margin of profit, rather than being, as at present, a cost deducted from state income.

(8) Policy Considerations- Bailment would add to state income, position the Bureau for more efficient operation in changing future circumstances, and initiate the process of withdrawing the state from non-essential aspects of the business of alcoholic beverages. The policy implications of all of these are entirely positive.

Conversion Timetable

(1) Maine's planned alowance of approximately three months for transition from state to bailment warehousing is, for conditions in Maine, perfectly adequate. Delays in other states have been the result of conditions unique to those states.

(2) There is no basis for anticipating any vendor resistance, or disruption of supplies.

(3) Disposition of warehouse overstocks, if any, would be the same with or without bailment. Bailment would simply make storage of any such goods less costly to the state while they were being disposed of.

(4) Personnel impact studies have been prepared by the Department of Personnel. Some transfers, bumping, and layoffs will follow transition to bailment.

(5) The Bureau of Public Improvements has confirmed alternative use of the Hallowell warehouse would be advantageous to the State.

Working Capital

A straightforward analysis makes the bailment advantage clear:

Current Practice

4,481,381	whse (2 month inv.)
3,918,619	stores (2 week inv.)
8,400,000	total inv.
(4,817,800)	payable
3,582,200	committed working capital

Bailment

0	whse (no longer state owned)
3,918,619	stores (2 week inv.)
3,918,619	total inv.
(3,918,619)	payable
0	committed working capital

In addition, the presently uncommitted balance of the total Bureau working capital of $4.5 million would become accessible.

A first-year contribution of at least $1 million will be made to the General Fund, with $500,000 transferred immediately on vacating the Hallowell warehouse and an additional $500,000 or more transferred within one year from the date of the initial transfer. Further substantial cash contributions are anticipated following periodic reviews of working capital required to take full advantage of discount buying opportunities.

Bailment produces this desirable result by simply eliminating warehouse inventories, allowing store inventories, which are on an approximate three-week turn basis, to be financed from sales receipts, since the 30 day payable period begins only when the goods are actually withdrawn from storage and shipped to stores.

The mechanics of recovery are extremely simple. Current store inventories would be sold and payables due for current warehouse inventories covered, as they are now, from the proceeds. The warehouse inventory would then move into the stores as paid inventory. When sold, this inventory would leave the Commission with cash against which no payables were due, since, unlike current practice, the Commission would have required that vendors put replacement stock into bailment at no expense to the state.

As the bailment stock subsequently left the warehouse and entered the stores, it would be sold, consistent with present practice, within three weeks, and payables covered out of the proceeds. New stock would be continually drawn from bailment as needed. The full amount of working capital committed under present practice, having become unnecessary for routine inventory maintenance, would be available for whatever use the Commission deemed appropriate.

Discount Purchases

(1) FY 83 discount purchases could have been increased by 38% had there been adequate facilities to accomodate these buys.

(2) After deduction of costs of warehousing in a private facility, the increase would have netted the state an additional $122,378.00.

(3) Among major distillers, discounting is increasing in use for top of the line products, as well as in frequency of offerings.

In addition to formal post-offs, buying products in greater than usual quantities immediately prior to increases in vendor's base prices has in the past allowed the state to benefit from the additional margin created by selling these lower-cost goods at retail prices reflecting, as they must, the new, higher vendor's base price quote.

While the level and frequency of vendors' increases have diminished as inflation has slowed, most are still raising prices occasionally, and, of course, the inherent flexibility of bailment would automatically position the Bureau to take full advantage of not only these increases, but also those which will certainly come if inflation again rises. Total benefits from pre-increase buying in an inflationary phase could equal or exceed the $445,000 annual addition to profits anticipated from post-offs.

Taken together, the potential benefit to the state during an inflationary price expansion could easily be, as suggested earlier by the Bureau, in the range of $900,000 to $1,000,000.

Of course, with inflation at current moderate levels, the total benefit from full post-off utilization of approximately $445,000 and pre-increase purchases of perhaps $25 - 50,000 would be in the $470 - 500,000 range. Even this figure compares quite favorably with the $322,000 achieved in existing facilities.

Significant erosion of savings from either post-offs or pre-increase buying due to long warehouse stays is highly improbable. For example, a $3.00 per case post-off (or equivalent through pre-increase buying), calculated for 1,000 cases put into a public warehouse and shipped out in more or less equal monthly withdrawals over the course of one full year would still produce a benefit to the state treasury of $1.96 per case, or $1,961 total.

Warehousing Costs

Maine would pay nothing for warehousing other than the relatively minor costs of storage of post-off purchases under bailment as proposed by the Bureau. Because the state buys only as product is withdrawn from bailment for shipment to stores, all warehouse costs will normally be borne by vendors, regardless of the length of storage. This will not apply only on post-offs, which will become a state responsibility for storage costs after they are purchased. In most cases, however, the vendor will have paid for the month in which the goods are received and the state will assume the obligation only in the second month. Picking and preparation of orders for shipping to individual stores is already included in the quoted price pre-paid by vendors at the bailment warehouse. Trucking costs are of course, another category of expense not related to or covered by warehouse fees.

Any bailment arrangement in private facilities will always be subject to a state decision to build its own warehouse, and to competition from other private warehouses. Given these factors, there is little chance of unchecked price escalation and no risk to the state whatsoever. In addition, it must be remembered that bailment costs are billed directly to vendors, any of which may individually or in concert decide to change warehouses or build their own if circumstances in the existing facility are unsatisfactory.

Storage/Handling Cost Comparisons

Discussion of storage costs in bailment is in fact theoretical, since all costs of bailment are added by vendors to the base price of their products, and passed through by the state, marked up, to the consumer. The state thus changes its current practice of absorbing warehousing costs into a source of revenue.

If storage costs are analyzed as if real, the storage cost advantage of bailment warehousing may be seen in the following comparison:

	Quoted Commercial Cost Per Case	FY 1983 Real State Cost Per Case
In-Bound Handling	$.10	$.217
Three Month' Storage:		
at $.16	$.48	
at $.167		$.504
Out-Bound Handling	$.10	$.217
Total	$.68	$.938

State Cost Disadvantage: 25.8 cents (37.9%) per case.

Market Distribution

A proper analysis of market distribution must be based on design of rational delivery routes.

Portland as a route distribution point maximizes truck utilization and minimizes total miles and driver overtime, taking the following figures into account:

	% South of Hallowell	% North of Hallowell
No. of Bottles Sold in State Stores	59.3	40.7
$ Volume of Sales in State Stores	60.1	39.9
No. of State Stores	43.1	56.9
No. of Agency Stores	40.3	59.7
Population (per 1980 Census)	56.8	43.2

Compared with Hallowell deliveries to the south, Portland deliveries save 16,588 route miles per year and nine hours driver time per week. Futhermore, since goods to be distributed from Hallowell to the south must pass through the south enroute to Hallowell, then on delivery retrace the Portland - Hallowell leg (approximately 57 miles each way), inbound freight costs on shipments from vendors run about 10% higher to Hallowell than costs for the same shipments to Portland.

South of Hallowell there is sufficient population density to allow reasonable delivery routes; north of Hallowell such routes, while possible, rapidly deteriorate into gross inefficiency due to lower population and longer distances between delivery points.

As divided, the southern portion of the state encompasses approximately 17% of the total state land area of 30,995 square miles, and 56.8% of the 1,124,660 population, for a density of 121.24 per square mile. The northern sector has 83% of the land area and 43.2% of the population, for a density of 18.89 per square mile.

In addition, State Planning Office figures project a higher rate of growth in the southern section of the state than in the northern, resulting by the year 2000 in a population of 763,700 in the south, or 144.74 per square mile, and 557,027 in the north, or 21.65 per square mile.

While accurate figures on current and projected tourist traffic are difficult to obtain, studies of the subject are in agreement that tourism in Maine, particularly in the peak summer sales season, is concentrated and growing at a more rapid rate in the south.

The radically different character of the two sectors means that profitability of the state's liquor operation will be enhanced by high-efficiency route deliveries in the south, and common carrier LTL shipments in the north.