

Fifth Session - Thirty-Ninth Legislature
of the
Legislative Assembly of Manitoba
Standing Committee
on
Crown Corporations

Chairperson
Mr. Tom Nevakshonoff
Constituency of Interlake

Vol. LXIII No. 1 - 1 p.m., Monday, February 28, 2011

ISSN 1708-6604

MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Ninth Legislature

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LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON CROWN CORPORATIONS

Monday, February 28, 2011

TIME – 1 p.m.

LOCATION – Winnipeg, Manitoba

**CHAIRPERSON – Mr. Tom Nevakshonoff
(Interlake)**

VICE-CHAIRPERSON – Ms. Marilyn Brick (St. Norbert)

ATTENDANCE – 11 QUORUM – 6

Members of the Committee present:

Hon. Messrs. Chomiak, Mackintosh

Ms. Blady, Mr. Borotsik, Ms. Brick, Messrs. Cullen, Eichler, Graydon, Ms. Marcelino, Messrs. Martindale, Nevakshonoff

APPEARING:

Mr. David Faurschou, MLA for Portage la Prairie

Hon. Jon Gerrard, MLA for River Heights

Mr. Ken Hildahl, President and Chief Executive Officer, Manitoba Liquor Control Commission

Ms. Ingrid Loewen, Chief Financial and Strategy Officer, Manitoba Liquor Control Commission

MATTERS UNDER CONSIDERATION:

Annual Report of the Manitoba Liquor Control Commission for the fiscal year ending March 31, 2009

Annual Report of the Manitoba Liquor Control Commission for the fiscal year ending March 31, 2010

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Madam Vice-Chairperson: Good afternoon. Will the Standing Committee on Crown Corporations please come to order.

Before the committee can proceed with the business before it, it must elect a new Chairperson. Are there any nominations for this position?

Mr. Doug Martindale (Burrows): I nominate Mr. Nevakshonoff.

Madam Vice-Chairperson: Mr. Nevakshonoff has been nominated. Are there any other nominations?

Hearing no other nominations, Mr. Nevakshonoff, will you please take the Chair.

Mr. Chairperson: This meeting has been called to order to consider the annual reports of the Manitoba Liquor Control Commission for the years ending March 31st, 2009, and March 31st, 2010.

Before we get started, are there any suggestions from the committee as to how long we should sit this afternoon?

Mr. Martindale: I think we should sit until 3 o'clock and reassess at that time unless we have passed the report before that.

Mr. Chairperson: Any other opinions in that regard? Then, 3 o'clock it is. We will reassess at 3 o'clock. Okay.

Are there any suggestions as to the order in which we should consider the reports?

Mr. Rick Borotsik (Brandon West): Yes, if we can, please, I think it's probably best for the committee to look at the 2010 report presently, since 2009 is no longer too valid. So let's do the 2010 at the present time and see what happens with respect to passing the reports at the end of the committee.

Mr. Chairperson: Mr. Borotsik has said. What's the will of the committee? *[Agreed]*

Okay, does the honourable minister wish to make an opening statement, and would he please introduce the officials in attendance?

Hon. Gord Mackintosh (Minister charged with the administration of The Liquor Control Act): At the table is Carmen Neufeld, the chair of the board of commissioners, and Ken Hildahl, the president and chief executive officer of the commission.

Also with us today, and maybe they can stand up when I say their names, but Ingrid Loewen, the chief financial and strategy officer; Gerry Sul, the chief corporate services officer; Al Roney, director of retail operations; and Winston Yee, the director of regulatory services.

Also, I just want to welcome Jim Baker from the Manitoba Hotel Association who is a valued partner in responsible hospitality here in our province.

As we review the two fiscal years, you'll see that not only has the commission continued to increase its net profit for the provincial government, but it's done so while balancing social responsibility with outstanding customer service and commitment to its employees.

On the financial side, the MLCC's return to the government in fiscal 2010 was the highest ever in its 87-year history with 233 million, 677—well, \$233,677,000 in net profit returned to the Treasury. Expenses as a percentage of sales have remained steady over the past five years. A notable exception occurred in fiscal 2010 with an increase of only .7 per cent of sales, primarily due to an adjustment resulting from an actuarial review of the pension liability. Despite this increase, the MLCC continues to be one of the most efficient liquor jurisdictions in our country, and, indeed, I understand that we are about No. 1 or No. 2 in the country when it comes to expenses as a per cent of sales.

As a retailer, wholesaler and distributor, the commission continued to demonstrate that it's a major contributor to the provincial economy. The distribution centre continues to supply approximately 1,700 commercial customers and injects about \$1.6 million into the provincial transportation system for delivery services. One of the single largest buyers of beverage alcohol in the world, the commission purchases products from approximately 2,900 suppliers in 56 countries and offers over 4,100 listings of spirits, wine and beer products to its retail and wholesale customers. With 50 Liquor Marts throughout the province, the commission operates alongside some 271 privately owned beer vendors, 180 privately owned liquor vendors and eight private wine stores. It's a mixed public-private operation.

The commission takes a middle-of-the-road approach to overall alcohol pricing, although Manitobans have continued to enjoy some of, if not the lowest beer prices in the country for the past several years. The commission continues to conduct routine pricing comparisons across Canada while ensuring it remains competitive with Ontario and Saskatchewan particularly. While competitive pricing is appealing to its customers, the commission prides itself on efforts to ensure excellence in service, however. Through the use of customer surveys and professional shoppers, the commission

continues to receive high ratings from Liquor Mart customers for friendly, knowledgeable staff and prompt in-store service.

Improving services to rural Manitoba continues to be a priority for the commission and, in fiscal '09, two new Liquor Marts were opened in Brandon and Steinbach. Enhanced service to rural communities also continued through improvements in product selection and employee product knowledge as well as modernization of its stores. The MLCC also continued to work with private operators to ensure they meet standards for customer service, product selection and responsible sale and service of beverage alcohol.

The commission also continued to balance its commitment to retail operations with its commitment to social responsibility. Extensive staff training and public awareness helps to prevent minors from purchasing alcohol in Liquor Marts and licensed premises. Public education and awareness programs help shine a spotlight on alcohol-related issues, and partnerships with other agencies help to prevent the abuse of alcohol in our communities. In fiscals '09 and '10 public education and awareness programs such as the Be With Child—Without Alcohol program continued to promote awareness around alcohol consumption and pregnancy and its relationship to FASD and, indeed, a strengthened strategy has been launched by the commission, and I believe the public will be seeing the results of some of the stronger messaging beginning as early as this week.

The Be Undrunk program continues to address the issue of binge drinking among young adults with innovative and interesting advertising and messaging to reach this age group. Recognizing that parents have, by far, the biggest influence on their children, the commission also promoted its Be the Influence program which provides information and guidance to parents on talking to their children about alcohol.

At the retail level, approximately 300,000 proof-of-age requests were made in '09 and '10 to ensure that minors were not being sold alcohol. To that end, over 14,000 minors were refused service over the same fiscal years. The commission also continued to balance the educational needs of licensed and permit premises with the enforcement of the act. Approximately 3,000 licences and 11,000 permits were issued and liquor inspectors conducted over 27,000 inspections of licensed premises and approximately 1,500 inspections of permit events.

Alcohol-related concerns and issues were also addressed through partnerships with organizations such as law enforcement, the Manitoba Restaurant Association, the Manitoba Hotel Association, Manitoba Tourism Education Council and MPI. Indeed, just last Friday in Brandon, the commission was pleased and honoured to announce an event sponsored by Brandon Police Services of the 911 Report Impaired Drivers campaign that has been launched in the Wheat City.

* (13:10)

The MLCC also continued to promote the It's Good Business responsible service training program, now mandatory. The program ensures owners, managers and serving staff of licensed premises are trained in the responsible service of alcohol.

In fiscal 2010, the commission acted on the recommendations of the Giesbrecht inquest report on the death of Russell Cook and amended this program to include basic information about restraint and the dangers of restraining a person.

The commission's success is not only measured by its financial returns and its commitment to social issues, it's also measured by its dedicated workforce. In fiscal '09 the commission sought employee input into a three-year strategic plan, and in fiscal '10, shared that plan with all levels of the organization. The result is an engaged and dedicated workforce of over 900 full and part-time employees.

In '09 the commission was recognized for the third consecutive year as a top 20 employer in Manitoba and a top 100 employer in Canada. The commission continued to earn top employer recognition in 2010, with a top 25 placing in Manitoba.

I look forward to any questions, as do the staff that are in attendance today.

Mr. Chairperson: Thank you, Mr. Minister.

Does the critic for the official opposition have an opening statement?

Mr. Borotsik: Very brief. We've had a meeting with the Manitoba Liquor Control Commission as of September past so it's only been four months. So, I think, Mr. Hildahl probably couldn't have much time to make many changes to the organization, so there are some questions of the financials as of March 31, 2010.

Going over the report, it seems that MLCC is operating rather efficiently. I can say, anecdotally, we've heard from some of the licensees, some of the individuals who deal with MLCC and, anecdotally, they are quite pleased with the direction that MLCC is taking, and that of the new CEO. So I can pass that on as a bit of an accolade and then we'll get into the questions.

Thank you, Mr. Chairperson.

Mr. Chairperson: Thank you, Mr. Borotsik.

Do the representatives from the Manitoba Liquor Control Commission wish to make an opening statement?

Mr. Ken Hildahl (President and Chief Executive Officer, Manitoba Liquor Control Commission): No formal opening statement. But I do want to thank the honourable member for his kind remarks and I do look forward to answering the questions that the committee does put forward today and it should be a very interesting afternoon.

Mr. Chairperson: Thank you, Mr. Hildahl.

The floor is now open for questions.

Mr. Borotsik: I guess we should get right to the financials since it is a report that we're dealing with on March 31st, but I would ask that we do a bit of a global questioning. There are going to be other questions more so than just the financials, with respect to the operations of the corporation itself, so I assume the minister and CEO are prepared to do some global questions other than just simply the financials.

Financials, as the minister has indicated, there has been an increase in the net profit paid to the Manitoba government from 229 to 233 million. The gross profit has increased from 288 to 299, but I do notice that the administrative—general administrative expenses have increased by about 10 per cent. They went from 60.355 million in 2009 to 66.913 million in 2010.

If we go to the schedule—schedule 8—there are a couple of areas that I would like to have answered.

First of all—which is quite glaring—the salaries, benefits and pension costs rose 13.2 per cent, from \$36 million to \$41 million. Perhaps Mr. Hildahl would like to explain a 13 per cent increase in salaries and benefits?

Mr. Hildahl: Yes, it's a little bit confusing in that \$3.6 million of that is an actuarial adjustment on the

pension liability that we incurred. When we look at the true increase, a million dollars of that is taken up in general salary increases and new staff positions that were added in the fiscal year, all of those in accordance with provisions of the collective agreement. So the bulk of it is the \$3.6 million in pension adjustment.

Mr. Borotsik: And it's on schedule 8, and I noticed that, and I went over it and I assume that the explanation that's been given is the pension expense consists of benefits accrued, and then the interest accrued benefits of \$3.597 million, of which is being identified here, although, in 2009, there was \$3.453 million. So it's almost identical from 2009 to 2010, yet you still see a 10 or a 15–13.2 per cent increase from 2009–2010. Maybe you could try to explain that, because—

Floor Comment: Perhaps what the—

Mr. Chairperson: Mr. Hildahl.

Mr. Hildahl: Sorry. Should have learned that last time.

Perhaps it would be very helpful, with the indulgence of the committee, is to ask Ingrid Loewen, our CFO. It's a very complicated formula that the actuaries use here. She's right up to speed on it, and it'll give you the true indication of the differences.

Mr. Borotsik: Yes, I would really like to hear the explanation. As I said, the way I've analyzed and looked at it was we have a comparable from 2009–2010; they're almost identical. Yet, when you look at the totals, you're looking at a 13.2 per cent increase, almost \$15 million—I'm sorry, \$5 million increase, \$5-million increase from year to year. So please try to explain it for a layperson. Would you please?

Mr. Chairperson: First of all, is it the will of the committee that Ms. Loewen be allowed to present? *[Agreed]* Okay.

Ms. Ingrid Loewen (Chief Financial and Strategy Officer, Manitoba Liquor Control Commission): Yes, as Mr. Hildahl explained, there was an adjustment to the pension liability; that adjustment actually occurred in fiscal 2009. So if you go to—pardon me—if you go to page 31 of the annual report, which is the notes to the financial statements, you will see note 11. In fiscal 2009 the second line is a reduction of the pension liability of \$2 million, and that was based on an actuarial adjustment to the point in time of December 31st, 2007. So we find that

they're generally a few years behind in submitting actuarial reviews, and we process the adjustments as soon as they become known to us. So the quick answer in that case is that the 2009 pension expense was unusually low because of that windfall, if you want to call it that. So, in comparison, the 2010 expense appears to be high.

If you go to the pension liability, which is I believe what you were referring to before, the liability has not increased by that much, and that reflects the growth in our pension liability net of the benefit that we received in the previous year. In addition to that, the Province of Manitoba had transferred funds to the MLCC as repayment of a debt that had been set up to address the pension fund, and we had earnings on that amount which also reduced our expense in 2009. Our earnings were not as strong in 2010.

Also, there was an additional million dollars in salaries and benefits increase that were associated with the collective agreement, as Mr. Hildahl mentioned, and another 650-odd thousand dollars for additional positions to reflect the growth in the business.

Mr. Borotsik: I do really appreciate that explanation. It would've been nice to have had, perhaps, the breakdown as well with the collective agreement costs as well as the additional employees. Of the \$650,000 for additional employees, what does that mean in full-time equivalence?

Mr. Hildahl: We added 17.5 positions in the year we're referring to.

Mr. Borotsik: Is that—that there are no new facilities, new stores? There are new facilities. I take that back. There have been some renovated facilities but there are no new stores. Where were the majority of those 17.5 added?

Mr. Hildahl: Well, 9.5 were added in the stores to reflect the increased sales volumes. We added 4.5 positions in our IT department. The goal there—and we'll see that—we'll see the results of that, as we move forward, is to reduce our reliance on outside consulting firms, and a good example of that is we did a major software conversion over the New Year's holiday, given the closure of the stores, and we had initially budgeted \$260,000 for consulting fees; we ended up using up \$5,000 of that and we're able to use in-house staff. So we're already seeing the benefits of that—of those staff additions.

* (13:20)

The other positions, one was in internal audit, just a normal—as the work flows increase, as the stores get added on, we add positions in those areas.

Mr. Borotsik: Yes, you—the gross sales increased from 583 to 610 million. You say that a number of those employees were added because of the increase in gross sales. Was the increase in gross sales volume or was it price increases that contributed to that increase in the gross sales?

Mr. Hildahl: It'd be a combination of both. There would be some price or increase, obviously, reflected in that price but there's an increase in product sales as well.

Mr. Borotsik: I apologize, I haven't gone through that but is there a line item here that would identify exactly what the increase in volume or product sales would be—what product sales, not particularly price increase, but product sales itself?

Mr. Hildahl: Yes. There's a chart in the earlier part of the plan. It would be on page 7.

Mr. Borotsik: And speaking of that—with the sales of the gross profit just—okay, for example, Mr. Hildahl, the beer consumption—if you look at beer consumption on the bottom part of that page No. 7, beer consumption has not—well it's increased from 83 million—or 83 litres per capita in 2006 but it's almost identical from 2009-2010, from 88 litres to 88.3.

Has there been additional gross sales from the price of beer over that period of time, from 2009-2010, because, quite frankly, the consumption has not increased?

Mr. Hildahl: A .3 increase in consumption is fairly significant in litres but, yes, there was a price increase. I think, as we discussed back in September, we added a general price increase at the beginning of fiscal '10, so that accounts for some of the increase.

Mr. Borotsik: If I recall back to September of 2000—or September of last year, when we talk about beer prices, you had indicated at that time that you were going to look at some sort of a comparison. As a matter of fact, the minister, in his opening comments, said that we've got the lowest beer prices, perhaps the lowest or perhaps the second lowest beer prices throughout the—he probably said Commonwealth but I'm sure it's just the nation.

However, did you, Mr. Hildahl, do a comparable as to other jurisdictions across Canada as to whether we are, in fact, the second lowest or the first lowest?

Mr. Hildahl: Yes, we did and I believe I had sent that information to your office as—or to the—through the government to your office.

We are currently—and there's a lot of different categories in beer and to measure each and every one of them there's going to be some fluctuation. When we look at a standard 12-pack of bottles, 12 Labatt Blue, we're currently sitting second lowest in the country.

When we brought in our price increase approximately a year ago, Ontario went the other way. They reduced their price by a fairly significant amount in response to economic conditions in the province and a drop off in sales.

Mr. Borotsik: So I take it Ontario is the first lowest and we're the second lowest?

Mr. Hildahl: If you're buying a 12-pack of Labatt's Blue I'm afraid to say, yes, that's true. We still—our prices are extremely competitive and in some of the beer categories, whether it's a 15-pack of cans, whether it's a 24-pack of bottles, we'll be back and forth with Ontario on those categories.

Mr. Borotsik: Any anticipation of the price increase going forward?

Mr. Hildahl: Certainly not one that's initiated by the commission but there will be a—there has been an application or a notice served to us by both major brewers that they're going to have a suppliers' increase this year.

Mr. Borotsik: Is it not the norm when there's a suppliers' increase that there's usually an increase from the provider as well, MLCC? Are you not anticipating any kind of a margin increase on your own margin?

Mr. Hildahl: No, we're not.

Mr. Borotsik: It's in *Hansard*. That's good, thank you, Mr. Hildahl. I'm sure there'll be a lot of people very excited about that.

Back to Ms. Loewen, you did explain the pension. You also mentioned that there was \$650,000 for additional employees. You also mentioned a \$1-million increase with respect to the collective bargaining. It's a four-year agreement as I understand. The \$1 million reflected in the 2009 to 2010 increases—they're also an anticipated increase of this similar amount going forward to 2011? Or Mr. Hildahl?

Mr. Hildahl: No, the second year of the contract—I mean there will be—obviously be incremental increases due to merit increases that are contained within the collective agreement. The wage increase effective April 1st of last year was a zero per cent.

Mr. Borotsik: April 1st of this past year was zero; so the previous \$1 million was the previous contract. So I assume the four-year agreement signed was April the 1st of 2010 going forward four years. First year is zero? Could you expand a bit on what the other three years would entail?

Mr. Hildahl: It was a four-year deal. The first year wasn't a zero; the second year was the zero. The contract was concluded well after expiry dates so when we look at the cost of that collective agreement, there was some retroactivity included, and I believe the first-year salary increase was 2.5 per cent.

Mr. Borotsik: So 2.50 in the last two years of the contract?

Mr. Hildahl: Whoops—2.5 in year three; 2.5 in year four with a 1 per cent addition March 31st of this year.

Mr. Borotsik: One per cent addition March 31st this year is a bonus to all employees?

Mr. Hildahl: Not a bonus. When we were in the negotiations with the union, we were adamant on the zero per cent in the second year. The union was in a position to strike, so the result of the collective bargaining process, if you will, was a general salary increase of 1 per cent on the last day of the fiscal year.

Mr. Borotsik: Okay, I'm a little confused. So it wasn't actually a zero, then, in that particular year. There was a 1 per cent increase on the last day of the fiscal year, so you can't say that it was zero. Is that correct?

Mr. Hildahl: True.

Mr. Borotsik: Thank you. Semantics, I suspect. You negotiate a zero and then you pay 1 per cent at the final day of the fiscal year and we continue to say it's a zero, but it's really not a zero. So it was 2.5, 1, 2.5 and 2.5—is that correct?

Mr. Hildahl: Yes.

Mr. Borotsik: Thank you. Two other financials that I—I will get on to some of my other colleagues; I know that they're very, very excited about getting some questions answered.

But on page 29 which under general administrative expenses—we've talked about the salaries and benefits and I think I've got it straight about the pension, perhaps not totally, but I do know that there's a \$1.6-million increase in salaries and benefits as it had been explained by Ms. Loewen. The other \$2 million is pension funding going forward. So I think I have a handle on that one.

However, on advertising and promotions there's a 15 per cent increase. It went from \$452,000 to \$521,000. Any reason why there'd be a 15 per cent increase on advertising and promotions on a year obviously that you've been doing very well with gross sales? Where was the money expended?

* (13:30)

Mr. Hildahl: You know, a couple of factors there—one is the '09 figure reflects reduced spending due to a *Free Press* strike. The other part of this equation—when we look at our advertising we don't do pure advertising for MLCC. We partner in a lot of cases with the industry. You know, whether it's Diageo, whether it's Bacardi's, some of the wineries that are trying to distribute their product, and in a lot of cases we'll facilitate the ad. We'll do joint ads with a number of suppliers. They use it as an opportunity to, obviously, gain a bit of an advantage on their colleagues, but it's working co-operatively, if you will, with the industry, and some years if they're promoting particular products there may be additional advertising expenses.

Mr. Borotsik: The line item just below advertising and promotions is community support. That increased by 30 per cent from \$442,000 to \$577,000, and I do remember you providing a flow chart previously of the community supports that you had. Can you tell me why an increase of \$135,000 in the one year?

Mr. Hildahl: That varies from year to year depending on what's happening in the community, as we all know. Last year was Homecoming; we were very much involved in that. The province hosted the Scotties last year. We're a big supporter of those types of events. We had the RBC Anavet Cup up in Dauphin. So in one way, we became a victim of, I think, some very positive events in the province. It's very unusual for those types of events to happen all in the same year, and we've had it happen, by and large, two years back to back.

In looking at this year, we won't see the same type of national events occurring here in the

province, which will then probably mean a rollback in community sponsorships. But it's just part of our way of being involved in the community, supporting the community and being part of attracting these types of national events to the province, both Winnipeg and outlying cities.

Mr. Borotsik: I do recall on that category, that line item, previously that there was an additional million dollars, actually, if memory serves me correctly, that was with the human rights museum, and that came out of the community support. Is there any intentions or any thoughts of the Manitoba Liquor Control Commission making any contributions to other major facilities in the province of Manitoba?

Mr. Hildahl: We haven't—you're right. The museum decision, I believe, was about two, two and a half years ago. We haven't been approached with respect to any other facilities currently being considered in the province.

Mr. Borotsik: Not being approached is one thing. Has the board considered any contributions to any other major facilities that are anticipated in the province?

Mr. Hildahl: No, the board hasn't considered any other participation in any facilities.

Mr. Borotsik: In September we talked about the advertising contracts that you have and the advertising and promotion costs of \$521,000. There's an organization, a company by the name of ChangeMakers, and we talked about ChangeMakers and about the contract that they had. You had indicated at that time that there was going to be a tender going forward with respect to those types of organizations. Have the tenders gone out or do you anticipate the tenders going out any time soon, trying to achieve some savings in that particular area?

Mr. Hildahl: Yes, I think I'd indicated in the fall session that we'd be looking at that this spring. It's our intent to—we've got a number of contracts that would—there are open-ended contracts now that are, you know, whether it be ChangeMakers, whether it be our architectural services, whether it be our legal services, that we're reviewing and going to tender this spring.

Mr. Borotsik: Have the tenders been prepared? Do you have the terms of reference for any of those tenders going out in the springtime?

Mr. Hildahl: We're just starting on that process now. We've just completed the budget cycle and

we'll have the resources. So that's the—that's probably the next major item on the agenda moving forward.

Mr. Borotsik: You mentioned architectural. You mentioned ChangeMakers in this case, which is a promotions firm or an advertising firm. What other contracts, Mr. Hildahl, do you see going forward that are going to be tendered through the organization?

Mr. Hildahl: Probably the only other one at this point would be our legal services.

Mr. Borotsik: Do you tender accounting?

Mr. Hildahl: Yes, we do. That one's not up for—we've—that one was completed back in 2002. Two years ago, I'm sorry.

Mr. Borotsik: Can you tell me the length of term for that particular contract?

Ms. Loewen: Five years.

Mr. Borotsik: Based on that, would you be considering that length of term for the other contracts, whether they be your legal firm, your architectural or your advertising firm? Are you looking at a five-year agreement?

Mr. Chairperson: Mr. Loewen. Mr. Hildahl, sorry.

Mr. Hildahl: Sorry for the confusion. Yes. You know, my thought process on this is that they should be reviewed on a regular basis. They're ongoing programs, so you need the continuity for a period of time, but, certainly, they should be tested regularly.

Mr. Borotsik: One other area that we touched on very briefly in our September meeting, and I don't recall getting any answers back, and it's—and not—I know it's not earth shattering by any stretch of the imagination, but I have been approached by operators of limousines, and we talked about that where, in fact, in some jurisdictions, limousine operators have had the opportunity of providing alcohol in their own service. We can't in Manitoba. I'm told that, legislatively, we do have the opportunity to make that change. Have you had any further discussions or talk about allowing limousines to allow alcohol in their vehicles?

Mr. Hildahl: I think where we left it in the fall is I think I had extended an invitation for the operators to certainly give me a call and I'd be willing to meet with them. I have done a little bit of—had a little bit of dialogue with respect to the issue. There's been some other jurisdictions that have allowed this with mixed results that have created some problems. But

I'd be very interested in sitting down with the industry and having the discussion with them.

Mr. Borotsik: That should come from the industry? You haven't made any overtures at all, as an organization, to talk or open up the discussions with the industry?

Mr. Hildahl: No, I haven't to this point.

Mr. Borotsik: Last question I have, and then we'll open it up the—my other colleagues.

I find this interesting. It's a marketing—obviously, it's marketing that the Liquor Control Commission have. It's "we deliver," and it's not necessarily a bad thing.

Can you tell me the demographics? Do have any breakdown, any—have you analyzed it all as to the demographics and who—but, first of all, I'd ask, what's the uptake? Has there been an uptake? Has it been a fairly successful program? If it has, do you—have you analyzed the demographics on that particular program?

Mr. Hildahl: Yes. It's an established program that's been in place well back to—we tried to trace the history back, as a matter of fact, but, certainly, for the last 30, 40, 50 years. It's a service we offer. Primarily, the clientele for that service are the shut-ins, by and large tend to be seniors that aren't mobile and take advantage of that service. So it's—there is a cost attached to it because there is a delivery fee. So—but, primarily, if you're looking for a demographic, primarily it's the older client that we have.

Mr. Borotsik: And the delivery fee is a private company, I assume, that delivers the product. It's not done by a Manitoba Liquor Control Commission. I assume it's a private company that you've contracted with, or is it on a as-need basis or is it on an individual basis that the person who's asking for the service that they ask who to deliver, or how do you make that decision?

Mr. Hildahl: That's a tendered service that we provide. It's—we run that program out of our Dominion Centre just over the other side of the Norwood Bridge. So it's all coordinated out of the one store. We do a regular tender for that service. The reason for that is we want to make sure that when that alcohol gets delivered it's being done in a manner very consistent with the laws of the Province. So if there's somebody at the other end that's of questionable age, the product—the person is asked for identification and if they don't have the

proper identification the delivery isn't made. So we work very closely, we do a lot of training with those delivery staff. So it's not one of those where you can just phone a courier company and just have them do a pick-up. These are consistent drivers. They—and they get to know—the advantage to that is they get to know the clientele, and we've had instances in the past where you've worked with families—on family members that have had a problem with alcohol. So they're—you know, they do the delivery service, but it's not just a straight delivery service. They're operating very much in the fashion that we expect to see in our stores and in our liquor vendors in rural Manitoba.

* (13:40)

Mr. Borotsik: Any handle on what kind of volume there would be on that delivery service?

Mr. Hildahl: I don't have the precise—it has a steady following. I can get those numbers for you. It has a fairly consistent clientele base.

Mr. Borotsik: Is it available just in Winnipeg or is it available in other jurisdictions?

Mr. Hildahl: At this point just in Winnipeg that I'm aware of. I'll qualify that one—and Brandon.

Mr. Borotsik: I'm happy to hear that, but I've never taken advantage of the service. But you never know who—anything can happen, I suspect.

I would like, if possible, to find out what the volumes are, just what kind of volume there is.

And I guess the other thing is you obviously said that there's—you get to know the clientele, and I suspect that's true because there would be some repeat business. Do you have a specific marketing tool that markets to that type of customer? Do you have mail-outs that go with respect to specials or anything of that nature? I guess they're in a database, obviously. Are you marketing to that particular demographic?

Mr. Hildahl: No, we don't have any specific marketing strategies for that group. We do some awareness advertising just to let people know that we do have that, so if you're disabled or if you're infirm you do get the opportunity.

And I'll be pleased to provide you with the volumes—approximately \$1 million a year, I'm being told.

Mr. Borotsik: I'd just like to thank Ms. Loewen for her explanation, I think. I thank her for her explanation on the financials with respect to the pension side of it. But I do thank you for that and I turn it over to my colleagues.

Mr. Cliff Graydon (Emerson): Thank you, Mr. Chair, and, Mr. Hildahl, I have to congratulate you as well. The—a number of the people that are in my constituency have heaped some accolades on you as well, that things have moved along quite smoothly since you've taken over and they've appreciated the way you've approached your position, and so it's actually been good from their point of view. However, they did point out that the answer is always no, but it's a different way of delivering it, so.

At any rate, one of the issues that—I addressed this once before and I'd like to do it again just to see where we can find some middle ground. Throughout the rural Manitoba we have liquor outlets or MLCC outlets in various locations. Some will be in a Solo store or a Bigway and some are in a lumberyard, and they close at various times. Some of them, on a Saturday, they're only open till noon or till 4 o'clock, but the hotels in those areas are open much later.

Is there some way that we can incorporate the hotels that they would be able to sell bottled alcohol other than beer and be buying that from the outlet in their community but sell it perhaps at a premium rather than having people drive long distances perhaps even under the influence? By the time they get back, sometimes you have a thirst. But I think it's—it would be providing a service in the communities that isn't available at this point. Is there some way we can incorporate that?

Mr. Hildahl: It's a very complex issue and we're always looking for creative solutions. As an example, we're looking at the services provided by the rural vendor service, and by and large a very good service, but we do have, obviously, some concerns with the availability, the hours when the vendors are open, and we're constantly looking for solutions.

I've had conversations with the hotel association with respect to this and I would suspect that we'll continue to have dialogue looking for the right answer. It's not quite as easy as that, in that the moment we open up hotels to liquor sales the vendors are going to be looking for beer sales, and we get into a situation that disadvantages the hotels at a certain point. So if there's a way of finding some middle ground on the issue, whether it's expanding

the hours and making that an expectation of the vendor, we're going to continue to look for some sort of solution to this because it has been around for a long time. And we'll continue to have the dialogue with the vendors association and the hotel association to see what progress we can make.

Mr. Graydon: Well, thank you for that. I would suggest that if the vendor is closing that the—liquor vendor is closing, that selling beer would be not one of the issues that would come to the forefront. I think the beer can quite conceivably stay at the hotel. That's—that hasn't been an issue.

And I know that in our area—and it may have well been to you but it hasn't been an issue from the people that I have talked to. Of course, I probably only get one side of the story, but at the same time the hotel would not be selling liquor until the other vendor was closed. And if it was open till 8 o'clock then he couldn't sell before that and what it does—it eliminates a black-market trade, commonly referred to as bootlegging.

And I think it's to everybody's benefit then to find a solution to that that would be agreeable. And some of your vendors, I might say, do sell beer as well. I'm not sure if it's all kinds of beer or just certain kinds of beer but there is beer available at a number of your vendors where there is a hotel in a town.

Mr. Hildahl: A number of the vendors do sell beer, by and large, for two different—in two different categories. One, most of them will have imported beer as part of their product line. If there's no hotel in the town then there's a process to allow them to sell beer

The other issue, of course, that arises with this issue is the contracts that we have in place between the vendors and ourselves, so. But it is one that—as I say we're not prepared to ignore it. We're going to have some dialogue and see if there is some common ground that we can live with, that satisfies the needs of the vendors with respect to their contract and working closely with the hotel association.

Mr. Graydon: Well, I certainly appreciate that. I'd like to see MLCC working with the community as well. That's pretty important to me. That's part of the business of supplying a product. And so there are the three factors and I appreciate that you're going to carry on with that type of dialogue.

I just want to—just going through the report and its—there's some questions that have come to mind.

And the number of hotel registrations and licences seem to be fairly stagnant but have dropped a little bit in 2010. But I see the applications for licences have increased. How many of those new licences were granted?

Mr. Hildahl: I would venture to guess—I'm going to seek clarification from Winston Yee but I think, by and large, most licences are granted. Let me just double check.

It'd be very, very rare for one to be turned down and only if there's significant issues with the potential licensee, i.e. criminal background, et cetera.

Mr. Graydon: So then the drop in the numbers from year over year then is just people retiring or hotels burning down, or other factors? Like, it isn't because the licences were removed?

Mr. Hildahl: No, it'd be for economic reasons, you know, as you say. And in a lot of the rural hotels, in particular, they're fragile businesses at the best of times. So, you know, if they're—with the economy being what it is, people reach the retirement age, there may or may not be a suitable buyer, so.

*(13:50)

Mr. Graydon: Well, just for the record there's been about 150 different ownerships because of the new licences where 126 and 25 or so that were less in 2010 than they were in 2009. So it seems like that it's quite a large amount changing hands or people retiring and no one taking over and a new licence being issued somewhere else or is that actually what happens in the same location?

Mr. Hildahl: If we're talking purely licences, you know, versus hotels or a combination, a lot of licensees, you know, you come through a period of economic uncertainty like we have over the last two or three years, it's not uncommon to see the number of licensees drop and fluctuate, and as the economy improves over the next several years, we anticipate that that number of licensees would increase. And to that end, we're setting—we're doing a number of things. One is trying to reduce some of the bureaucracy in obtaining a liquor licence. You go back a year and a half, two years ago and you apply for a liquor licence, it would take you anywhere from 10 to 14 weeks to get that licence and, by and large, result in having to use legal counsel to get that licence. Then you got to sort through all of the local municipal bylaws, the city bylaws. We've now reduced that number down to six weeks to get a licence and we're looking to get it down to three to

five weeks for applying for a licence start to finish which, again, facilitates the small business opportunities in the city.

The other process that we've undertaken is we've changed our licensing department slightly. We've restructured it to have dedicated people to work with applicants, those that are applying for a liquor licence, to walk them through the licensing process, again, to eliminate, identify, and reduce some of the legalese, if you will, and reduce the need for outside counsel for those that are totally unfamiliar with it.

Mr. Graydon: Well, that's probably one of the reasons that the people in my area are happy with you since you've taken over, that you have reduced some of the red tape. And would, then, part of that educational process, would that be—is this licensee education sessions, is that something new that's been introduced or has it been ongoing? I haven't—I just see it here as a line in—

Mr. Hildahl: That's been an ongoing process. We take that responsibility very seriously. We continue to work with the industry to give them as much information as we can prior to just walking in and issuing a citation, for example. So we try and work very closely with the licensees here in the province. That has been going on for a number of years.

Mr. Graydon: I notice under public investigations that you've discontinued the photo ID. I wonder why you would do that if it was—perhaps it wasn't working but to me it seems like that would be a good program and would be beneficial to any of the vendors and their employees.

Mr. Hildahl: Yes. We discontinued that about a year and a half, two years ago and that's in response to the revised card that is being—and driver's licences that are being issued by MPI and it was just seen as a duplication. The problem with our cards, of course, is that they weren't to a level of security that we wanted to see. The whole field for false identification is becoming an industry unto itself and becoming very sophisticated and there's big dollars to be made in that industry, so we're looking for a way to have a standardized approach to IDs within the licensed establishments, and those talks are ongoing and will continue. I know the hotel associations has a policy with respect to that and a process that they would like to see in place, so we're going to consult with that group, and our goal in all of this is to come up with an identification that is as close to foolproof as possible. And quite unfortunately, ours wasn't at that level.

Mr. Graydon: Thank you for that. I sometimes wonder if MPI's is at that level either, and that the uptake on MPI's is going to be as great as what they had anticipated on. And, the other thing is, there's a number of people that don't have driver's licences, don't have a use for a driver's licence and, with the amount of bicycles I see on the streets in Winnipeg, there should maybe be some licences for those; but there aren't and so there won't be an ID there as well.

Mr. Hildahl: We're—I'm just in the process of initiating some discussions with MPI to see whether there's some improvements we can make. The driver's licence is certainly at a much higher standard than what we've seen in the past with the new one-piece identification. But, as I understand it, they have the ability or are currently making a photo ID that's fairly sophisticated, that doesn't require you to be a driver; so that's one of the avenues that we want to explore.

Mr. Graydon: I'd like to just go over to the board action, and I see that there's been a number of warnings; they're up only a little bit. The suspensions were up a little bit as well. But going down to other there's—what would other encompass? Like, we've gone through suspensions, warnings, cancellations and monetary penalty, what's the other?

Mr. Hildahl: Let me just consult with our director of inspections.

Those would be special conditions that the board applies to disciplinary hearings, such as reduced hours. There could be a whole host of issues. It's very rare. But it does come up from time to time; it's part of the hearing process.

Mr. Graydon: There has been some concern about the add-ons and specials that come with orders from vendors, and if the vendors aren't of a certain size they sometimes don't qualify. How does that field get—the level playing field get accomplished then in this situation?

Mr. Hildahl: How do you mean add-ons?

Mr. Graydon: A lot of times you'll buy a case of rum and it's got a small rum bottle hanging on it or Crown Royal or—I don't even know the alcohol brands or anything, but—

Mr. Hildahl: Yes, okay, now I understand. That is an issue. That's a supplier program. We don't add those to our bottles. They come in and they make the decision that they're going to do a promotion. They ask for permission to come in and add those to the

bottles that we have on the shelves; so it's entirely handled by the industry. One of the issues that we're working with is to—we see a lot of that type of activity in Winnipeg—whether it's add-ons, whether it's tastings in the stores—we're working with the industry to try and broaden their horizons, if you will, and get them out into rural Manitoba, and I think it just makes very good sense.

And we're seeing them now in Brandon. We're seeing them in Flin Flon, Pine Falls. Whereas before the industry, quite frankly, neglected those parts of the province, and we're strongly encouraging them to get out into other parts of the province and, as part of that, there's some fairly significant sized vendors out there that we'd like to see them working with. So we're working that. I can't promise any—we can't control what they do, but we can certainly direct them in the right direction.

Mr. Graydon: One of the other things that is a kind of a sticking point with the rural vendors is the fact that there's AIR MILES that are being offered in the city, and it is a bit of a disadvantage for those in rural Manitoba. They probably have AIR MILES in Brandon, but we don't consider that rural Manitoba.

* (14:00)

Mr. Hildahl: Brandon is becoming a full-fledged city and we'll give them the standing. That's an offer that's made through our Liquor Marts, so it's—and it's restricted to the Liquor Marts by the contract that—that's in place.

Mr. Graydon: Got a couple more questions. One of them would be the MLCC leases on page 32 of your report. And I'm just trying to better understand, and I do understand that they go from 2011 to 2028. At the same time, as we go through the years you expect that your leases are going to cost you a little bit more money. And as I look at 2011 down to 2015, for example, there's a significant drop in the cost of your leases. Can you give me a reason why that might be? Are you anticipating that you'll get a better deal every year?

Mr. Hildahl: No, we're not anticipating, but I believe that this is tied into the new IFRS accounting processes. But let me check with Ms. Loewen.

Okay, and under that we're only obligated to report until the end of the five-year obligation. But we're—we rent—we lease 45 properties throughout the province, and we, if anything, will probably see that numbers remain fairly constant over the next number of years.

Mr. Graydon: With the new centres that you have created, are the employees totally happy with the way they're being operated?

Mr. Hildahl: I—by and large, I spend a fair amount of time in the stores touring the stores. I try to get into each and every location at least twice a year, if not more. The feedback I get is, by and large, they're happy. There may very well be pockets where, you know, it's like every other workplace, not everybody's entirely happy. But I think, by and large, the employee mood, the employee morale, as I see it, overall, is at a very good level.

Mr. Graydon: I've seen in your advertisements—or in your advertising budget, what this is, but the sponsorships that you do for different events and—who makes the decisions? Where do the requests come from? Ultimately, the decision would be made at your desk in the end, but I'm—is there any direction given to you as a board?

Mr. Hildahl: By and large, the requests for sponsorships come directly from the organizations that are sponsoring the event. So if there's a charity involved, whoever's elected to promote that event is, by and large, the individual that we deal with. We have a set of criteria that we look to. We have an internal committee that operates within that criteria, and, you know, it's focused on social responsibility, community support. We like to make sure that if there's events happening up in northern Manitoba and western Manitoba that we're sensitive to other areas of the province, not just, again, not just Winnipeg.

Mr. Graydon: So I understand how you 'prioritize' these then by your internal procedure; is this balanced so that it treats the whole province equally?

Mr. Hildahl: We try to address it in that fashion. You know, in some years there may be some inequities. I'll give you a good example. A year and a half ago we had the Memorial Cup in Brandon. That was probably for that year our largest single sponsorship. So it's based on the type of event that's being run.

Mr. Graydon: Thank you for that, Mr. Hildahl. I appreciate your forthwith—forthcoming—or forthrightness with your answers. Thank you very much.

Mr. Ralph Eichler (Lakeside): Mine's on social events in specially rural Manitoba in regards to permits for weddings and that type of thing. My

understanding is there's been some changes there. Could you update the committee on those?

Floor Comment: Yeah, there—

Mr. Chairperson: Mr. Hildahl.

Mr. Hildahl: We changed our fee structure approximately a year ago. We went from a cumbersome, two-fee system to a reduced—to a one fee. So the base fee went up in price but we eliminated another fee that basically makes the program cost beneficial to the individual that's applying for the licence. Although we have come across the odd instance where it's worked to their disadvantage for very small events. And, where that's happened, we've worked very closely with the group or the individual to try and find a way to make it cost neutral.

Mr. Eichler: In particular, for weddings where there—normally don't charge. Is there a permit charge for those events?

Mr. Hildahl: Yes, there is.

Mr. Eichler: And the cost for those?

Mr. Hildahl: Let me just get the precise figure on that.

A no-sale permit is \$25.

Mr. Cliff Cullen (Turtle Mountain): Good afternoon.

Just a follow-up question on the line of questioning from my colleague from Emerson, and it has to do with vendors, and, primarily, in rural Manitoba, and this is a question that we get asked, I think, fairly regular.

Is the commission looking at reviewing the distances between vendors?

Mr. Hildahl: We haven't done and we're not doing an official study. And it's an area, quite frankly, that, depending on which side of the issue you sit, you're either for or against. And some vendors will argue strongly for it, other vendors will argue vehemently against the review. But, by and large, the approach that I've taken is that there is a need to review any policy or any regulation within the operating structure, that we should, at least, take a look at it and have some dialogue around it.

Mr. Cullen: I'm just wondering if you would have any idea of how many new applications for vendors you would have coming in on an annual basis.

Mr. Hildahl: There's very, very few on an annual basis. I know there's been a request in the past from a merchant in Headingley. Other than that, I can't recall one that's come to my desk.

Mr. Cullen: I'm interested in some of the product that you may be selling that's actually generated here in the province of Manitoba and, really, in terms of what role the commission plays in that regard.

What do we have currently, in terms of microbreweries, here in the province of Manitoba that are actually generating product?

Mr. Hildahl: There'd be one that's wholly owned by Manitobans and that's Half Pints brewery over in St. James. The other is Fort Garry Brewery which is now owned out of B.C.

Mr. Cullen: And what role does the commission play in terms of promoting additional material being developed here, whether we, I know, having other companies come into the province, and then set up breweries. In what role does the commission play in that regard?

Mr. Hildahl: Our role would be to try and work with them as they develop their business plan. You know, we see it in our relationship with Half Pints and Fort Garry, what we can do to work with them on marketing, we offer them reduced markups based on their volumes, which, again, encourages and gets them past the formative years of the business. So, we work very closely. Our marketing people work very closely with prospective producers whether it be in the beer, whether it be in wine or other district categories.

Mr. Cullen: In terms of the wine business, certainly I want to make mention of Rigby Estates out in Killarney who have, you know, in the process of developing more products for the market. And they do have a real number of quality products out there.

And again, what role does the commission play in that regard? Is it similar to what you're doing on the beer side?

Mr. Hildahl: Yes, very much so. Enhanced markups and whatever we can do to assist them in promoting their products, we offer them in our, obviously, in our distribution system, whether it be to our own stores or private vendors. So, we have a fairly wide distribution.

* (14:10)

Mr. Cullen: I wonder if you can give us a bit of a sense of how many wine-type operations we have here in existence in the province. Is that—is there a great number of those or are we pretty limited here in terms of the scope of that particular business?

Mr. Hildahl: We're extremely—our weather is not conducive, of course, to grape varietals. So the—we have sporadic attempts over the years at establishing wineries, by and large, focused on fruit wines. So Rigby is, you know, holding the course, so to speak. Leopold, they gave it a good go for a while, have now pulled out of the market and are looking to get back into the market at some point. We have another gentleman up north that's trying to develop. You know, so it's, where possible, we'll meet with them, work with them, but my—unless I'm mistaken, I believe Rigby is the sole wine producer and it's a fruit wine as opposed to grape.

Mr. Cullen: Thank you. Just a comment in closing, and certainly hope that—and those present will have an opportunity to try that product that Mr. Rigby puts out. It's a very good quality product.

Also, I want to mention Mr. Roney, here, in terms on the retail sales side. Mr. Roney and I grew up in Wawanesa, and it's good to see that some of our research in our younger days has paid off and we're able to contribute to the commission and to the dialogue here today. So I just want to congratulate Mr. Roney for that position.

Mr. David Fauschou (Portage la Prairie): I won't ask my honourable colleague to elaborate on the research he refers to.

Thank you very much, Mr. Chair. It's been a pleasure to once again ask questions of MLCC, and I will recommend the Rigby Estates wine that came on to the shelves in the late 1990s. And I tried to promote a little bit myself in bringing to Cabinet, at that time, samples to which—of Manitoba's first wine label, and it was—went over very, very well, and good to see Grant is still continuing with that.

In recognizing that your vendor numbers have gone up in report year over year, what are we looking at currently, the number of the vendors—173 in the '09 report, 177 in the '10 report—are we still increasing in keeping with that trend?

Mr. Hildahl: Yes, we're currently at 177, and we do see fluctuation from time to time. A number of that—they're not necessarily new vendors, but vendors that have closed and are reopening under new ownership. So the numbers have stayed fairly constant, certainly,

over the last two or three years that I've been involved.

Mr. Faurchou: Thank you, Mr. Chair.

Is there any assistance from the MLCC to a vendor to provide for some of the security, the displaying and keeping consistent in enhancing the business at least at the outset, for instance?

Mr. Hildahl: Yes, we have a set dollar amount that each vendor gets on an annual basis on top of their discounts that—where they make the money on the liquor. So, yes, we do provide them with some incentives. Part of, you know, when you go up to a liquor vendor, that's an extension of the Manitoba Liquor Commission, and we'd like to ensure that, where possible, those facilities are operated in the—as nice a fashion as possible, that they be clean, presentable, because it does reflect on the Province. So we try and work with the vendors as much as possible.

Mr. Faurchou: And do you also provide expertise to the vendors as to how to display the various product line, also, where one would access security equipment, and just overall expertise in and around the liquor business that the MLCC has, you know, assimilated with years of experience?

Mr. Hildahl: Yes, we're—we try to work—again—try and work as co-operatively with the industry as possible. We have a—we have four sales managers, two of which are assigned responsibility for the rural vendors. On top of that, and I'll give you an example, we had a new young couple take over the private vendor at West Hawk Lake, as an example. So the sales manager was encouraging the couple to enhance their selection to take advantage of some opportunities within that market. We had our manager from our Steinbach store go out and spend a day with the couple going through not just the products that they should be putting on the shelves but how to arrange the shelves, what's the proper display processes, talk about a number of the other issues with respect to the sale of alcohol beverage. So, and that's a service that we're prepared to offer as requested. We don't force ourself on the vendors but we certainly—it's been our—certainly our approach to provide whatever assistance we can to make it as successful an opportunity as possible.

Mr. Faurchou: It's nice to see that you do have that because it is a very specialized retail operation and years of acquired experience, such as you all have—that's not my proper English so hopefully my English

teacher's not listening—to share that with the new vendors.

Speaking of the West Hawk Lake, for instance, obviously there is a population shift in the summertime. There's a lot more residential increase in West Hawk, up along the lakeshores, inclusive of Portage la Prairie at Delta. Has there been any change or consideration of change? And I might direct that perhaps to the chair of the board, as to your distance and population ratio from one vendor to another, essentially safeguarding, if you will, a profitability or marketing area because there is a shift in population here in Manitoba during the summer months, and I personally do not believe that's being covered off enough with the number of people that do go to the cottage country.

Mr. Hildahl: You know, again, it's—you know, as I said earlier, it's something that we're not actively studying at this particular point but one that I'm not unfamiliar with, and I think it should be reviewed on a regular basis. There's a number of factors. As I said earlier, if we look at those mileage distances and make amendments to them, we're going to make some people very happy. You know, whether we expand them or contract them, we're going to make other people very unhappy. So it's a matter of again having some dialogue, seeing if there are—if there is substantive need for change, take a look at some of the volume numbers, and—but it's something I think that we always have to be mindful of and aware of but we also have to respect the contractual nature of the arrangement that we have with the current 177 vendors.

Mr. Faurchou: Appreciate the responsibility to existing vendors but also, too, want to look at customer satisfaction and that comes with a little closer to the cottage country and with the initiative of the government to find more than a thousand more cottage lots throughout the province. Again, that is something I think the MLCC should review as you have indicated that you are intending to do so.

On the topic of vendors still, I see quite a number of points referenced in your annual reports about renovations and improved sales—retail sales areas. Is Portage la Prairie on tap for renovation, expansion?

Mr. Hildahl: Funny you should bring up Portage la Prairie. We have had recent discussions with the mayor out there. When we look at particularly the rural locations now, it's our practice over the last year or two is to work closely with the mayor and

city or town council in terms of what would be the best approach in terms of the location of the store. So we've begun those discussions. I can't recall exactly what year the lease expires on the store but we will be doing either a new location or a substantive renovation to that store. So it's—I believe it's within the next two to three years, but the preliminary—it's a three-year process so the work is underway, is the short answer.

* (14:20)

Mr. Faurchou: I believe I asked that question a few years ago and said that Portage, because the sales volume versus the leased space area didn't really render that location a high priority, but then later learned that it has a complete basement and there's a lot of leased area, not so much retail area. So when you ask the question in a different format and say, retail area to sales, I would suggest Portage la Prairie would be quite high on the, you know, list to renovate and potentially expand retail sales area.

Mr. Hildahl: Point very well taken. Again, the approach that we're taking is we think that all of our stores should be at a similar standard. And my goal, as we move forward over the next five, eight years, as we do these renovations, is going to be based on achieving the standard, whether it's in Portage, whether it's in Killarney, whether it's in Thompson, that they—that, you know, based on our service levels and our service levels in Thompson are going to be the same as they are in Winnipeg. The service levels in Dauphin will be the same as they are in Winnipeg, as will the shopping experience.

Mr. Faurchou: On that point I would like to credit the MLCC and the training of the on-floor service personnel. I've seen a significant enhancement of their product knowledge and courtesy—and customer satisfaction very, very high, and compliments to yourselves and all employees of MLCC. So that's definitely something I've—myself and others have been aware of.

Now, in regards to the product line that is on the shelves, how many products would you say, on average, would leave the store shelves because of inadequate sales? How many new products would go? Would you be looking at other sales-related areas, whether it be Ontario, Saskatchewan, south of the border, to search out new product lines? Like—could you maybe just give the, you know, 40,000-foot bird's eye view of how you maintain your product line and customer satisfaction with the products that are on the line?

Mr. Hildahl: When we look at, I guess, the product selection within the stores there's a number of criteria. We carry somewhere in the neighbourhood of 4,000 different product. Some of those, of course, are products that are in each and every store, whether it be Smirnoff, whether it be Bacardi rums, but there's a lot of specialty items out there. When I look at the wine selection that we carry, for example, I believe we list somewhere in the neighbourhood of 1,800 different wines.

We're now at a point where there's well in excess of 100,000 different wines being produced on an annual basis. So it's always a challenge for all of us in the beverage alcohol business. So you have your constants.

We get into imported beers, just a whole variety. Yes, sales obviously dictate it but there'll be ethnic considerations, parts of the province that maybe have a high Ukrainian population. The selection available in that particular store will be slightly different than what's available in Grant Park, for example. So—and we review that on a regular basis.

Our approach, Manitoba products, by and large, have, obviously, a priority and a lot more of a—it's a lot more tolerance in terms of sales. We'll work with the local industry. But, by and large, sales will dictate the volumes and we're always looking for new specialty items.

The consumer out there is looking for variety. They want—in some cases there's a lot of us that have our staples and we don't change but there's a lot of our clients now and customers that are looking for—whether it's a new liqueur, whether it's a new beverage alcohol, whether it's a new wine. So we're constantly upgrading our selection to meet that.

In terms of overall changeover, year to year, probably less than 10 per cent of our product turns over in a year.

Mr. Faurchou: I'm probably one that likes to try—and on the record I shouldn't be admitting all of this, but—different brands of tequila, and I'm going to say there's a couple of brands that I do like that aren't on the shelves of the MLCC. So maybe I'll speak with your product development line at a later date.

Just now, though, wanting to ask some question as to the customer satisfaction and any concerns. I see that, obviously, in the reports that there's been no whistle-blower contacts to your office. Would like, though, to ask, is there any undergoing investigations by the Ombudsman at the present time?

Mr. Hildahl: No, there's no ongoing investigation by the Ombudsman or any other outside party that I'm aware of, certainly that we've been made aware of.

And if I can get back to your comment on your fondness for tequila, if there are brands that we don't list, don't—at two levels. One is we could probably look at a special order, if we don't carry it in our store, if it's available in the system. But secondly, don't hesitate to provide us that feedback, because our retail people are always looking to work with the population to meet their needs. So we can do it in two different ways, so.

Mr. Faurchou: Thank you very much for your answer, and we'll definitely pursue that.

Earlier on, my colleague asked the question of equality or—between urban and rural as far as sponsorship and support for charitable or not-for-profit organizations. You mentioned the United Way in both years of the reports before us. Could you elaborate, is that United Way Brandon, United Way Portage, United Way Winnipeg, or just exclusively the latter?

Mr. Hildahl: Primarily—I mean, obviously it's primarily Winnipeg, given its size, but we try to work with any of the rural United Ways that approach us. So it's not exclusive to the city, and we're constantly looking for sponsorship opportunities in rural Manitoba. So whether it be local charities or whether it be United Way, that's just the approach that we've adopted and we're going to continue to approach in that manner.

Mr. Faurchou: Well, thank you again, once again, for the answer. The central plains United Way, which serves Portage and surrounding areas, did fall significantly short of their goal this past year, and I was just wondering whether or not the MLCC had supported the United Way in the central region of Manitoba, but I can ask that question locally as well.

As a—move on here—just as far as business model, I know the current sitting chair of MLCC did conduct a province-wide investigation, if you will, a survey of the operations of MLCC about a decade ago. Is there any consideration of doing that once again, to plan one for the future and any directional changes by the MLCC?

And obviously, looking at the government in the deficit position, they're looking for additional revenues, and I'd like to ask the current government to perhaps evaluate the change that Alberta made a number of years ago where they maintained the

central depot and distribution but basically allowed for significant expansion at the retail level, and they added 30-plus per cent to the bottom line to—for the revenues of the government of Alberta. In fact, Alberta was—government cut back the percentage of tax on their products in order that the revenues did not get significantly larger than they did.

So I ask the question, are you—what's your plan and how do you develop it for the future?

Mr. Hildahl: I mean, we're always open to, again, to this discussion and dialogue. I don't think all of the things that have happened in Alberta are always positive, and there's—there are some downsides to that. But certainly we haven't had any direction to look at a change in direction. And from time to time, yes, you do consult with the public, and—but we haven't been asked to do that.

*(14:30)

Mr. Faurchou: Well, thank you very much for the questions this afternoon, and it's been a pleasure. I think this will be the last time I have a chance to address MLCC, as I've announced that I will not be seeking re-election come this fall. But it's truly been an honour and a privilege to work with the professional organization as the MLCC has always displayed at this table. Thank you.

Hon. Jon Gerrard (River Heights): Question for you on your alcohol education program. What proportion of the education expenses would be specific to fetal alcohol spectrum disorders and the prevention of it?

Mr. Hildahl: Our program is geared not so much at education as awareness, although it's, you know, it's a similar approach. We spend between 7 and 8 hundred thousand dollars a year on social responsibility programming. Some of that, obviously, is geared towards FASD, some of it's geared towards violence in bars, impaired driving, be the influence as a parent, so there's about eight different streams. Out of the 700 and—7 to 8 hundred thousand dollars, \$200,000 of that is directed towards FASD, and it's on the increase.

Mr. Gerrard: That social responsibility component, is that listed under the expenses under alcohol education or is it listed elsewhere?

Mr. Hildahl: It would be under alcohol education.

Mr. Gerrard: Yes, no, I just wanted to clarify that. It's not a trick question for you.

Mr. Hildahl: Yes, it is alcohol education.

Mr. Gerrard: Yes, can you tell us, of that \$200,000, a little more of the specifics of what is the program?

Mr. Hildahl: We do a number of awareness programs throughout the province. For example, we've launched a revamped educational program, information packages that we've developed in coordination with a number of different bodies, whether it's AFM, whether it's the federal department of Health, Ministry of Healthy Living, people involved in the issue of FASD. That has just been revamped, redesigned, information has been updated and is now being relaunched. That has now been translated into three different languages—we obviously had the English—it's French, we're going into two of the Aboriginal languages.

So we try to work very closely with providing as much information as we can to rural Manitoba. At the same time, we're launching a TV campaign, again, just around the issues of alcohol and its impact on maternity.

Mr. Gerrard: Is there any attempt to target that program toward areas where the incidence of FASD is higher? You know, I understand that, for example, that there's a report coming out in the *Free Press* tomorrow which may indicate that Transcona has a relatively higher incidence of FASD and been—there are other areas in the province which are well known. But has there been any attempt to focus the efforts in terms of particular areas where there is a higher incidence in the idea of making it more effective?

Mr. Hildahl: At this point, we're a support to the system in terms of the medical issue. Our goal is to try and make all Manitobans aware of the issue and, if there's a need to get more in-depth information, put them in touch with the medical people that can provide that assistance.

So are we targeting particular areas of the province? I suppose you could say that with our translation of the booklets into two of the Aboriginal languages, but, no, we don't break Winnipeg down. Our goal with these awareness programs, whether it be FSAD, whether it be impaired driving, whether it's Be the Influence, is to make all Manitobans aware of the concerns.

Mr. Gerrard: Yes, one of the things which you do which is to have a single price for—whether it's beer or wine or spirits all over the province. Do you have

any—can you give us any figures on what the effective subsidy is in order to be able to do that?

Mr. Hildahl: I haven't got that figure, but I can see if it is available and pass it on at some point.

Mr. Gerrard: Thank you. I look forward to getting that in due course.

In your AIR MILES program in 2010, the expenses related to that went up \$106,000 to \$1.288 million. The revenues went up only \$30,000, to \$957,000. Can you explain to us in terms of the nature of what is the expenses and the revenue from this program and, you know, why it's—the expense has been going up much more than the revenue?

Mr. Hildahl: Sure. It's—the revenue number is very, very clear, straightforward. We work very closely with various partners in the industry to provide them the opportunity to do programming within our stores. So that one is—that drives a certain amount of revenue.

What drives up the price of the base AIR MILES and the bonus points is there's been a general price increase from AIR MILES. But the piece of issue, you can't—what's not reflected in the statements is the increased sales volumes that we do that we estimate somewhere in the neighbourhood of 3 to 5 million dollars. And, again, you can't put your finger on it, but if you run an AIR MILES bonus in co-operation with Diageo, the sales for that particular product—and if it's a premium product—increase fairly substantially for the period of that AIR MILES bonus. So there's—that's where we get the return on the net \$330,000 expense for financials.

Mr. Gerrard: Just—thank you. Can you give us a little bit more sort of explanation as to why you feel that the AIR MILES program nets you an additional 3 to 5 million dollars?

Mr. Hildahl: We just look at our sales numbers following a promotion activity, again, working with the industry, and we do see a spike in sales. And is it scientific? No, but at the end of the day it does derive a certain amount of revenue.

You know, we use the same formulas, the same approach that Safeway would use in doing their analysis of their AIR MILES program.

Mr. Gerrard: When you do the promotional—and sometimes you will do it emphasizing the AIR MILES, and sometimes you will do it in other ways—and you're saying that when you do it particularly or

specifically focusing on AIR MILES you get a significant bump as opposed to general promotion?

Mr. Hildahl: Yes, we do. I mean, there's no question, we take a look at the trends. I mean, I don't think there's a—I mean, the—statistically in this room, the number of AIR MILES collectors would be very reflective of the general population. It's a very popular program and it does bring customers into the store, and if the supplier is offering a premium product there's no question that it adds to the bottom line.

The other area that we'll use AIR MILES is if we're renovating a store and we have a shift in clients, we'll use that as a way of bringing the clients back, letting them know that the renovation is finished.

* (14:40)

Mr. Gerrard: Yes, I noticed that your net profit as a per cent of sales has gone from 40.3 per cent in 2006 down to 38.3 per cent in 2010. Can you, you know, tell us why the profit as a per cent of sales has gone down significantly?

Mr. Hildahl: Yes, administrative costs have gone up. We touched on some of the factors earlier. Perhaps you weren't here, but there's been some pension impact actuarial reports that have impacted on those numbers. But, by and large, the cost of—admin costs compared to sales remain reasonably consistent over the years with the exception of these anomalies when we get adjustments in the pension.

Mr. Gerrard: When, earlier on, you indicated that you estimated that there was less than 10 per cent of product turnover in a year, is that correct?

Mr. Hildahl: Just my best guess from—you know, I'd have to get precise figures on how many products we list, delist, but it wouldn't—it certainly wouldn't exceed that I don't think.

Mr. Gerrard: What you're saying is that that's the different types of product in terms of the turnover; it's not the product in your store that's—

Mr. Hildahl: No, it's strictly, you know—and, by and large, as I went through earlier, that deals more with the specialty products, whether it's imported beers, which are very popular right now, or with some of the specialty wines, you want to rotate those to give people the opportunity to sample other products.

Mr. Gerrard: I note that the expense on bank charges has gone up from \$1.9 million to

\$2.34 million, an increase by over \$400,000. Can you—that seems a pretty big increase, like, I think, it's over 20 per cent.

Mr. Hildahl: That's a figure that's a huge concern of ours, as it is to most consumers, and it's one that's controlled entirely by the credit card industry, and when they decide to increase their rates at an unreasonable level, we have no recourse. So we'll get notice that their charges to us for handling Visa are going up, and we don't control that. They're incredible increases and, you know, it's being dealt with. They're discussed, certainly, at a national level, and it's an area that we're certainly concerned about.

Mr. Gerrard: Is that reflective of the fact that there's more—well, I guess people are not paying up their credit cards or it could be that there's more, you know, false credit cards being tried to pass or used or things like that? Do you know?

Mr. Hildahl: The main factor, of course, is the increases from the industry in terms of service charge and service fees. But, there's no question, we look at the—you know, we talked earlier about the AIR MILES phenomena, people are wild about collecting AIR MILES. So we see that in our stores as well, you know, people will use their credit card to garner the AIR MILES.

Mr. Gerrard: That's my questions for today. Thank you very much.

Mr. Graydon: Just a couple of follow-up questions, and one of them you did actually raise part of that, Mr. Hildahl, it was the flexibility of the distances between the vendors, and you did point out Headingley had made an application, and, if my memory serves me right, there's about 1,000 feet short of being the required distance between the vendors, but I think the demand—the populace demand and the service is probably there. Is that taken into consideration at all when you make your decision?

Mr. Hildahl: You know, I looked at that, as I was preparing, you know, quite candidly, I was preparing for this. I knew that question would come up. But you look at it—I mean, we got a couple of stumbling blocks. One is we do have agreements in place with the existing vendors that we would have to get beyond. But, having said that, I think that's one that we, quite frankly, if we can find a way of finding a resolution I think we need to, and I want to take a look at that with our folks over the next several months and see again if there's some sort of solution

we can find to that. But the problem we do have is with the agreements that we do have with other vendors. So—but I do want to take a look at it.

Mr. Graydon: You don't have any plans on building your own facility out there, do you?

Mr. Hildahl: I think that should be part of the study, but I, you know, I don't know. I haven't given it too much thought in terms of the detail other than it's probably time to revisit the issue and just see if there's other factors that have arisen that we should be looking at.

Mr. Graydon: One of the things that seems to be a bit of an aggravation point is when you change the price on some of the alcohol by two or three or four cents, but the amount of labour that goes into changing it in computers in every one of our outlets, it drives some people nuts.

Can you explain why it gets changed by two cents or three cents?

Mr. Hildahl: I'd have to look at the specifics, but, I mean, it's a huge, huge undertaking when we change product prices, so we try to minimize them as much as possible. You know, they can come from a number of different—but, by and large, the ones that we see are coming from suppliers and they generally don't tend to be two, three cents at a time. But it does arise. We try and minimize them and eliminate them where possible because it's a ton of work for our staff and, you know, at some point it just makes no sense.

Mr. Graydon: Well, you can certainly appreciate, then, where you have a mom and pop vendor that has the same type of work but they don't have the staff.

One other interesting avenue that we haven't talked about today, and it's—maybe there's a good reason for that, but in other jurisdictions, you can go to your grocery store and buy your groceries and you can buy your beer and your wine at the same time.

Is that something that we'll be looking at in the near future?

Mr. Hildahl: Those are, I mean, those are tough questions.

You know, you look at whether it's wine and beer in stores. Again, we have other partners out there that, you know, it's not as easy as just moving in that direction. We have agreements with the rural vendors. We have agreements with the Hotel Association, in terms of beer distribution, who would certainly have some input into this. Then we've got

the position of the various suppliers, the government. So it's not an easy issue.

Our goal, working within our mandate, is to provide as high a level of service as we can under the mandate that we're given. So if that means opening more convenient locations as opposed to the locations that exist, then we're prepared to look at that.

Mr. Graydon: Thank you very much for that answer, I—or non answer. I appreciate the sensitivity that—and the contractual arrangements that you do have with the other providers.

And I would say that that concludes the questions that I have for Mr. Hildahl this afternoon. Thank you very much.

Mr. Borotsik: Just a couple of additional questions, and one was triggered by my colleague from Emerson.

On the Headingley store, you had indicated that you have some contractual obligations or requirements. I assume that's with distance between vendors and other vendors. On the Headingley side, what vendor would there be a conflict with? As I understand, most of the liquor vendors right now are government owned, that would be in conflict, not private ones. Can you tell me which ones would be affected?

Mr. Hildahl: That could very well be the case. I just haven't looked at it and I want to make sure that we're respectful of vendor agreements and I'm aware of the internal policy with respect to MLCC stores. So, I think, as part of this, we should be looking at the whole approach.

Mr. Borotsik: I appreciate that because, as I understand it, it's, I think, a very small distance that MLCC is falling back on right now. I can't recall the actual distance but it's .1 or .2 of a kilometre at the present time. Again, I think that it encroaches on government stores, not anything that would be with respect to a contractual arrangement that you would have with other stores. So, that's certainly a variable that you have to look at when looking at the Headingley situation.

* (14:50)

And I do know that, with new eyes, perhaps you could look at better solutions and better services. As a matter of fact, I've heard a number of times today that it's all about service to the client, service to the customer. Well, this, in fact, would make that service

certainly much better in that area for those clients that you hold in such high esteem.

Last question. Again, triggered—in your financials you show that your gross profit, as a percentage of sales, is around the 49.1 per cent, and usually in retail it's around that 50 per cent. They call it keystone. What's the discount to rural operators at the present time? You talk about discount, I talk of margin, okay? So what is the margin available to rural vendors at the present time or what would the discount price be in a percentage basis that you would allow them to have?

Mr. Hildahl: They have to sell at the same price, obviously, that we do and I believe—and I'd have to get the precise figure—somewhere 15, 17 per cent. I'll get the precise number for you.

Mr. Chair, 11.75 discount. On liquor.

Mr. Borotsik: Yeah, 11.5 per cent discount—

Floor Comment: Seven five.

Mr. Borotsik: Mr. Chair, 11.75 per cent discount which I—you call it a discount because you discount the price. I call it margins because that's what they're getting. You get a—Manitoba Liquor Control Commission is run on a gross profit, percentage of sales of 49.1 per cent, yet they get 11.75 per cent. Can you tell me why the variable, why the difference?

Mr. Hildahl: I mean, there's obviously a lot of factors, distribution, et cetera. We work closely with the vendor association, back and forth, negotiating those rates. Matter of fact, we've just worked at them and increased it and we're, you know, continually reviewing that rate. Would they like more? Absolutely. Have we met with them and dealt with some of that? Yes, and we'll continue to do that.

Mr. Borotsik: I would suspect that 11.75 per cent discount or margin is perhaps fairly low because they do have overheads as well, and, as we've noticed, your overheads have increased by 15-point-some-odd per cent. I suspect that their overheads are increasing as well with respect to increasing costs, increasing staffing costs. So 11.75 per cent seems to be fairly low considering the Manitoba Liquor Control Commission is getting a 50 per cent gross profit of sales. So maybe you can just say why 11.75 is fair and equitable.

Mr. Hildahl: You know, who's to define what's fair and equitable? But you have to also—you also have to

look at, as mentioned earlier, they get the 11.75 but on top of that—and, by and large, the vendor sales aren't a huge number—although they do vary—but they also get another annual fee that we provide to them in terms of maintenance which would account for quite a number of more per cent, depending again on the size or the volume of sales in that particular vendor.

Mr. Borotsik: Yeah, that's interesting in itself. On an average what would the additional percentage be on volume if, in fact, you're going to be giving them additional—

Floor Comment: That's a flat rate.

Mr. Chairperson: Mr. Hildahl.

Mr. Hildahl: It's \$3,500 on an annual basis.

Mr. Borotsik: Doesn't matter what volume is? It's just \$3,500? For every one of the operations, it's \$3,500, doesn't matter what costs are, doesn't matter what their carrying costs are for inventories? Because I understand they have to pay you when they pick it up so they have to finance their inventories. They have to, obviously, pay their operating costs. So it's \$3,500, doesn't matter what the volume is?

Mr. Hildahl: Yes, it is.

Mr. Borotsik: Thank you. I learn something every time I come to these sessions. I really do. Whether I'd want to be a vendor of yours is debatable or not at 11.75 per cent but that's not been offered to me, anyway.

I do thank you and I'll echo some of the comments from some of my colleagues. MLCC certainly does operate in a professional fashion and I've always enjoyed dealings with MLCC over the past numbers of years. There's always room for improvement. As I understand it, some of those improvements had been made over the last numbers of years and I expect that others will be made in the future, and perhaps we'll look at different opportunities that might present themselves in the not-too-distant future. Thank you.

Mr. Hildahl: I just want to thank you for your remarks. And, absolutely, we're always looking to enhance the service levels and the opportunities in our store. And I'd also like to take the opportunity to wish the honourable member all the best in his retirement.

Mr. Chairperson: Thank you, Mr. Hildahl.

Seeing no further questions.

Annual Report of the Manitoba Liquor Control Commission for the year ending March 31st, 2009—pass.

Shall the Annual Report of the Manitoba Liquor Control Commission for the year ending March 31st, 2010, pass?

Some Honourable Members: Pass.

An Honourable Member: No.

Mr. Chairperson: No?

An Honourable Member: No.

Mr. Chairperson: The report is not passed. As this report hasn't passed, I request that the members leave their copies on the table.

The hour being 2:56, what is the will of the committee?

Some Honourable Members: Rise.

Mr. Chairperson: Committee rise.

COMMITTEE ROSE AT: 2:56 p.m.

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