



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2015 Biennium

Bill #	HB0284
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Title:	Provide increases to commissions for agency liquor stores
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Primary Sponsor:	Cook, Rob
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Status:	As Amended in House Committee
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|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2014 Difference</u>	<u>FY 2015 Difference</u>	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Other (Enterprise)	(\$506,667)	(\$1,037,883)	(\$1,028,862)	(\$1,077,812)
Revenue:				
General Fund	(\$506,667)	(\$1,037,883)	(\$1,028,862)	(\$1,077,812)
Other (Enterprise)	(\$506,667)	(\$1,037,883)	(\$1,028,862)	(\$1,077,812)
Net Impact-General Fund Balance:	<u>(\$506,667)</u>	<u>(\$1,037,883)</u>	<u>(\$1,028,862)</u>	<u>(\$1,077,812)</u>

Description of fiscal impact: HB 284 as amended increases the volume of sales commission rate given to agency liquor stores. The commission rate each store is eligible for is determined by four volume of sales brackets: less than \$1.1 million, between \$1.1 million and \$3.1 million, between \$3.1 million and \$5.1 million, and greater than \$5.1 million. This would decrease liquor profits and will therefore decrease transfers to the general fund.

FISCAL ANALYSIS

Assumptions:

- Agency liquor stores receive a portion of their commissions based on their volume of sales. In FY 2010, agency liquor stores with a volume of sales greater than \$560,000 received a commission rate of 0.875%. Agency liquor stores with a volume of sales less than \$560,000 received a commission rate of 1.5%.

2. Each year the Department of Revenue adjusts this threshold level of volume of sales based on an inflation factor of the top 25 liquor products in the state. The current threshold value is \$574,379. The inflation factor used for this estimate was 1.57772%, which was the average percent increase in cost for the top 25 selling liquor products in the state.
3. HB 284 as amended proposes to increase the volume of sales commission as shown in the table below. For cities with more than one agency liquor store, each store is granted the same volume of sales commission rate as the store with the lowest commission rate.

Volume of Sales	Volume of sales commission rate in FY 14	Volume of sales commission rate beginning in FY 15
sales < \$1.1 million	2.25%	3.0%
\$1.1 million < sales < \$3.1 million	1.375%	1.875%
\$3.1 million < sales < \$5.1 million	1.0%	1.125%
sales > \$5.1 million	0.875%	1.0%

4. With these new rates, the threshold level will continue to adjust annually similar to current law starting in FY 2015. Rules for cities with more than one agency liquor store remain in place.
5. Agency liquor stores receive their volume of sales commissions in the form of a discounted price when they purchase liquor from the liquor warehouse. The increase in the commission rate will decrease the amount owed for liquor purchases and therefore decrease liquor profits. Liquor profits are initially deposited in the Liquor Enterprise Fund and net profits are transferred to the general fund at the end of the fiscal year. Therefore, any increase in commissions paid will result in a loss of revenue to the general fund.
6. The new rates would become effective July 1, 2013. The table below shows forecast gross liquor sales as projected in SJ2 for FY 2014 and FY 2015 with OBPP growth rates applied for FY 2016 and FY 2017, the projected agency volume of sales commissions under current law, and the projected volume of sales commissions under HB 284.

	FY 2014	FY 2015	FY 2016	FY 2017
Forecast Gross Liquor Sales	127,236,000	134,787,000	142,679,586	150,525,391
Agency Liquor Store Sales Volume Commissions - Current Law	1,200,390	1,255,541	1,312,777	1,384,965
Agency Liquor Store Sales Volume Commissions - HB 284	1,707,047	2,293,424	2,341,639	2,462,777
Increase in Agency Liquor Store Sales Volume Commissions under HB 284	506,657	1,037,883	1,028,862	1,077,812

7. The projected increase in commissions paid in FY 2016 is less than in FY 2015. This is due to projected sales growing faster than the estimated threshold value. In FY 2016, fewer agency liquor stores have volume of sales eligible to receive the higher commission rates as they did in FY 2015.

	<u>FY 2014</u> <u>Difference</u>	<u>FY 2015</u> <u>Difference</u>	<u>FY 2016</u> <u>Difference</u>	<u>FY 2017</u> <u>Difference</u>
<u>Fiscal Impact:</u>				
<u>Expenditures:</u>				
Transfers (to General Fund)	(\$506,667)	(\$1,037,883)	(\$1,028,862)	(\$1,077,812)
TOTAL Expenditures	<u>(\$506,667)</u>	<u>(\$1,037,883)</u>	<u>(\$1,028,862)</u>	<u>(\$1,077,812)</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
Other (Enterprise)	(\$506,667)	(\$1,037,883)	(\$1,028,862)	(\$1,077,812)
TOTAL Funding of Exp.	<u>(\$506,667)</u>	<u>(\$1,037,883)</u>	<u>(\$1,028,862)</u>	<u>(\$1,077,812)</u>
<u>Revenues:</u>				
General Fund (01)	(\$506,667)	(\$1,037,883)	(\$1,028,862)	(\$1,077,812)
Other (Enterprise)	(\$506,667)	(\$1,037,883)	(\$1,028,862)	(\$1,077,812)
TOTAL Revenues	<u>(\$1,013,334)</u>	<u>(\$2,075,766)</u>	<u>(\$2,057,724)</u>	<u>(\$2,155,624)</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$506,667)	(\$1,037,883)	(\$1,028,862)	(\$1,077,812)
Other	\$0	\$0	\$0	\$0

Technical Notes:

1. On page 3, line 4 and line 7, the change of (4)(A)(II) should be (4)(a)(ii).
2. In section 16-2-101(4)(b), MCA, it is recommended to clarify which commission rate should be taken into consideration when it mentions “store with the lowest commission rate.” When determining this in the past (and for purposes of this fiscal note), the DOR has used the volume of sales commission rate. With the additional brackets for volume of sales that HB 284 as amended proposes, this creates more confusion for cities with stores in multiple sales brackets.

Sponsor’s Initials

Date

Budget Director’s Initials

Date