

Exhibit No. 8

Date 8-27-15

Bill No. SB193



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

Bill # SB0193

Title: Revise agency liquor store laws

Primary Sponsor: Tutvedt, Bruce

Status: As Amended

- Significant Local Gov Impact
- Needs to be included in HB 2
- Technical Concerns
- Included in the Executive Budget
- Significant Long-Term Impacts
- Dedicated Revenue Form Attached

FISCAL SUMMARY

| | <u>FY 2016</u> <u>Difference</u> | <u>FY 2017</u> <u>Difference</u> | <u>FY 2018</u> <u>Difference</u> | <u>FY 2019</u> <u>Difference</u> |
|---|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Expenditures: | | | | |
| General Fund | \$0 | \$0 | \$0 | \$0 |
| State Special Revenue | \$16,780 | \$26,012 | \$27,425 | \$29,043 |
| Other | \$107,794 | \$55,721 | (\$122,903) | (\$237,702) |
| Revenue: | | | | |
| General Fund | \$157,556 | \$132,859 | (\$41,575) | (\$151,575) |
| State Special Revenue | \$33,560 | \$52,024 | \$54,850 | \$58,086 |
| Other | \$107,794 | \$55,721 | (\$122,903) | (\$237,702) |
| Net Impact-General Fund Balance: | <u>\$157,556</u> | <u>\$132,859</u> | <u>(\$41,575)</u> | <u>(\$151,575)</u> |

Description of fiscal impact: SB 193, as amended, affects state revenue from the sale of liquor in two ways. First, it increases the state markup on liquor from 40 percent to 40.5 percent. This affects revenue from both liquor profits and liquor tax. Second, it replaces the current method of calculating each agency liquor store's discount rate with an alternative method. SB 193 will also increase revenue available for the prevention and treatment of substance abuse disorders.

FISCAL ANALYSIS

Assumptions:

Department of Revenue (DOR)

1. The current markup for liquor sold from the state liquor warehouse to agency liquor stores is 40 percent. This does not include fortified wine or sacramental wine.
2. SB 193 increases the markup on liquor to 40.5 percent. This will have two effects on state revenue. First, it will increase state liquor profits due to the increased markup. Second, it will increase liquor and excise tax collections due to higher retail prices. These estimates are shown in the table below. This section of SB 193 has an effective date of November 1, 2015. Therefore, revenue for CY 2015 is shown for the two affected months. A total tax rate of 26 percent is assumed. The liquor excise and license tax growth rates from HJR2 and the Office of Budget and Program Planning are used to estimate future liquor sales.

| | Increase in Liquor Markup | | | Increase in Liquor Taxes | | |
|---------|---------------------------|--------------|------------|--------------------------|--------------|------------|
| | Current Law | Proposed Law | Difference | Current Law | Proposed Law | Difference |
| CY 2015 | 17,456,927 | 17,519,274 | 62,346 | 4,538,801 | 4,555,011 | 16,210 |
| CY 2016 | 108,407,519 | 108,794,689 | 387,170 | 28,185,955 | 28,286,619 | 100,664 |
| CY 2017 | 113,762,851 | 114,169,146 | 406,296 | 29,578,341 | 29,683,978 | 105,637 |
| CY 2018 | 120,474,859 | 120,905,126 | 430,267 | 31,323,463 | 31,435,333 | 111,870 |
| CY 2019 | 127,582,875 | 128,038,529 | 455,653 | 33,171,548 | 33,290,017 | 118,470 |

3. Currently there are three rates that make up the discount rate liquor stores are entitled to when purchasing liquor from the state. These are as follows:
 - a. Weighted average discount ratio;
 - b. Commission rate equal to 10% for small communities (less than 3,000 in population) and at competitive bidding for larger communities;
 - c. Commission based on sales volume in the previous fiscal year.
4. Under SB 193, these three rates are replaced with one rate that is based on the agency liquor store's prior calendar year liquor purchases. These rates are applied from the period of February 1 to January 31.
5. The new rates consist of 10 brackets ranging from 16 percent for purchases less than \$250,000 to 12.15 percent for purchases of more than \$7 million. The department is required to annually adjust the dollar values of the brackets based on the CPI.
6. The new rates are phased-in over a period of three years. The first phase-in rate takes effect February 1, 2016 and the new rates are fully phased-in starting February 1, 2018.
7. As an alternative, the rate may be established by competitive bidding which is guaranteed for three calendar years. This fiscal note assumes all current agency liquor stores are subject to the bracket rather than competitive bidding.
8. Agent discount estimates are shown in the table below. The new rates are effective February 1, 2016. Therefore, the CY 2015 increase in agent discounts is due to the increased markup and not a rate change. CPI estimates used are from IHS Global Insight.

| | Agent Discounts | | |
|---------|-----------------|--------------|------------|
| | Current Law | Proposed Law | Difference |
| CY 2015 | 2,772,173 | 2,782,074 | 9,901 |
| CY 2016 | 17,215,195 | 17,491,668 | 276,473 |
| CY 2017 | 18,224,089 | 18,629,640 | 405,552 |
| CY 2018 | 19,299,310 | 19,976,127 | 676,818 |
| CY 2019 | 20,437,969 | 21,122,476 | 684,507 |

9. The increase in liquor profits due to the increase in markup in assumption #2 is offset by the increase in agent discounts in assumption #8. The net increase in liquor profits is shown in the table below.

| Net State Revenue from the Markup and Agent Discounts | | | |
|---|---------------------|------------------------|-------------------|
| | <u>Posted Price</u> | <u>Agent Discounts</u> | <u>Difference</u> |
| CY 2015 | 62,346 | 9,901 | 52,446 |
| CY 2016 | 387,170 | 276,473 | 110,697 |
| CY 2017 | 406,296 | 405,552 | 744 |
| CY 2018 | 430,267 | 676,818 | -246,550 |
| CY 2019 | 455,653 | 684,507 | -228,854 |

10. The total net increase to state revenue is shown in the table below. This includes the increase in the markup, the increase in taxes, and agent discounts. The majority of this is general fund revenue with a small portion of the tax being distributed to DPHHS.

| Net State Revenue from the Markup, Tax, and Agent Discounts | | | |
|---|---------------------------|------------------------|-------------------|
| | <u>Markup and all Tax</u> | <u>Agent Discounts</u> | <u>Difference</u> |
| CY 2015 | 78,556 | 9,901 | 68,656 |
| CY 2016 | 487,834 | 276,473 | 211,361 |
| CY 2017 | 511,933 | 405,552 | 106,381 |
| CY 2018 | 542,137 | 676,818 | -134,681 |
| CY 2019 | 574,123 | 684,507 | -110,384 |

11. The assumptions in the fiscal note have been in terms of calendar year. Fiscal year impacts are determined by taking the average of these calendar years (a calendar year is split between two fiscal years).
12. Therefore, total increase in tax revenue is estimated to be \$66,542 in FY 2016, \$103,151 in FY 2017, \$108,753 in FY 2018, and \$115,170 in FY 2019 (CY tax revenue is shown in assumption #2).
13. A portion of this tax revenue is distributed to DPHHS. There are two sources of liquor tax with different distributions. The liquor excise tax (tax rate of 16 percent for the majority of sales) accounts for 61.5 percent of the total liquor tax and the liquor license tax (tax rate of 10 percent for the majority of sales) accounts for 38.5 percent of the total liquor tax. The liquor excise tax is distributed to the general fund. The liquor license tax is distributed 34.5 percent to the general fund and 65.5 percent to the Department of Public Health and Human Services (DPHHS). Therefore, the portion of tax revenue from assumption #12 that is distributed to DPHHS is \$16,780 in FY 2016, \$26,012 in FY 2017, \$27,425 in FY 2018, and \$29,043 in FY 2019.
14. Total increase in liquor profits is estimated to be \$107,794 in FY 2016, \$55,721 in FY 2017, -\$122,903 in FY 2018, and -\$237,702 in FY 2019. Liquor profits are initially deposited in the Liquor Enterprise Fund and net profits are transferred to the general fund (CY liquor profits is shown in assumption #9).
15. GenTax changes are necessary to accommodate changes to the store discount rates. These changes will have minimal impact on the department and will be absorbed as part of routine maintenance.

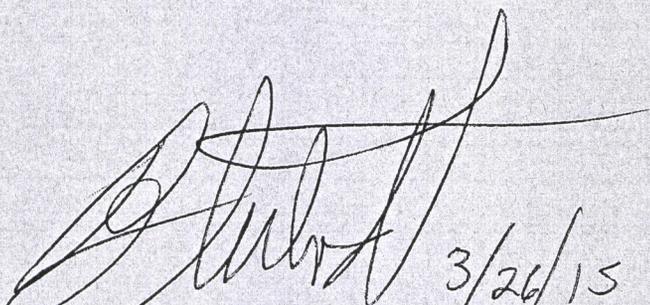
Department of Public Health and Human Services (DPHHS)

16. The expenditures equal the portion of the estimated tax revenues to be distributed to DPHHS.
17. Expenditures would be for the prevention and treatment of substance abuse disorders under MCA 16-1-404.

Fiscal Note Request – As Amended

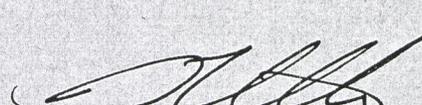
(continued)

| | <u>FY 2016</u> <u>Difference</u> | <u>FY 2017</u> <u>Difference</u> | <u>FY 2018</u> <u>Difference</u> | <u>FY 2019</u> <u>Difference</u> |
|---|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| <u>Fiscal Impact:</u> | | | | |
| <u>Expenditures:</u> | | | | |
| Local Assistance | \$16,780 | \$26,012 | \$27,425 | \$29,043 |
| Transfers | \$107,794 | \$55,721 | (\$122,903) | (\$237,702) |
| TOTAL Expenditures | <u>\$124,574</u> | <u>\$81,733</u> | <u>(\$95,478)</u> | <u>(\$208,659)</u> |
| <u>Funding of Expenditures:</u> | | | | |
| General Fund (01) | \$0 | \$0 | \$0 | \$0 |
| State Special Revenue (02) | \$16,780 | \$26,012 | \$27,425 | \$29,043 |
| Other | \$107,794 | \$55,721 | (\$122,903) | (\$237,702) |
| TOTAL Funding of Exp. | <u>\$124,574</u> | <u>\$81,733</u> | <u>(\$95,478)</u> | <u>(\$208,659)</u> |
| <u>Revenues:</u> | | | | |
| General Fund (01) | \$157,556 | \$132,859 | (\$41,575) | (\$151,575) |
| State Special Revenue (02) | \$33,560 | \$52,024 | \$54,850 | \$58,086 |
| Other | \$107,794 | \$55,721 | (\$122,903) | (\$237,702) |
| TOTAL Revenues | <u>\$298,910</u> | <u>\$240,604</u> | <u>(\$109,628)</u> | <u>(\$331,191)</u> |
| <u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u> | | | | |
| General Fund (01) | \$157,556 | \$132,859 | (\$41,575) | (\$151,575) |
| State Special Revenue (02) | \$16,780 | \$26,012 | \$27,425 | \$29,043 |
| Other | \$0 | \$0 | \$0 | \$0 |



 Sponsor's Initials 3/26/15

 Date



 Budget Director's Initials 3/25/15

 Date