FISCAL IMPACT FOR INITIATIVE 1105

Fiscal impact cannot be precisely estimated because the private market will determine spirits bottle cost and markup. Using a range of assumptions, total state revenues decrease an estimated $486 million–$520 million and total local revenues decrease an estimated $205 million–$210 million, both over five fiscal years. One-time net state revenue gain of $27.8 million is estimated from sale of the state liquor distribution center. One-time state costs are estimated at $39.2 million.

GENERAL ASSUMPTIONS

- The initiative uses the term “spirits” to describe alcoholic beverages that are distilled instead of fermented. For purposes of the fiscal impact statement, the term “liquor” is used for “spirits” to maintain consistent terminology. Beer and wine are not spirits or liquor.
- Estimates are described using the state’s fiscal year (FY) of July 1 through June 30.
- A new liquor distributor license is available October 1, 2011, and a new liquor retail license is available November 1, 2011; licensees can begin making sales of liquor on these dates. There is no limit on the number of licenses that can be issued.
- By November 15, 2011, the state will no longer operate the state liquor distribution center or state liquor stores.
- Estimates assume 3,357 licensed liquor retailers, based on the January 2010 State Government Performance Review by the Washington State Auditor (State Auditor review). Estimates assume 177 licensed liquor distributors based on the number of current Washington State Liquor Control Board (LCB) licensed beer and wine distributors.
- Estimates of impacts are measured against the June 2010 LCB revenue forecast (forecast).
- Retail liquor liter sales are estimated to grow 5 percent from increased access to liquor. This assumption is based on an academic study and growth experienced in Alberta, Canada, after converting from state liquor stores to private liquor stores. Additional growth in liquor liter sales is estimated using the forecast price elasticity assumption of 0.49 percent. Price elasticity is a method used to calculate the change in consumption of a good when price increases or decreases. For every 1 percent increase/decrease in price, liquor liter sales increase/decrease 0.49 percent. Growth from increased access and price elasticity is in addition to normal 3 percent growth in liquor liter sales assumed in the forecast.

STATE AND LOCAL REVENUES

Actual fiscal impacts depend on liquor bottle cost in the private market and the markup applied by both private liquor distributors and retailers. Therefore, there is a wide range of potential fiscal impacts. Using the LCB forecast’s average bottle price for a liter of liquor (before taxes and markup) and a range of total private distributor/retailer markup (at 25 percent, 39.2 percent and 45 percent), a range of potential state and local revenue impacts is estimated.

The range of markup was selected from the following sources:

- 25 percent is based on U.S. Internal Revenue Service data (sales revenue minus cost of goods) of retail food, beverage and liquor stores throughout the United States.
- 39.2 percent is forecasted state markup beginning July 1, 2011.
- 45 percent is the total liquor markup contained in the State Auditor review and is based on information from the Distilled Spirits Council of the United States.

State Revenue

Over five fiscal years, total state revenues are estimated to decrease in the range of $486 million to $520 million.

Total State Revenues

Fiscal Year	2011	2012	2013	2014	2015	TOTAL
State Revenue – 25% Markup	($0)	($25,076,000)	($156,695,000)	($164,793,000)	($173,204,000)	($519,768,000)
State Revenue – 39.2% Markup	($0)	($21,257,000)	($150,120,000)	($157,886,000)	($165,947,000)	($495,210,000)
State Revenue – 45% Markup	($0)	($19,731,000)	($147,640,000)	($155,281,000)	($163,210,000)	($485,862,000)

Local Revenue

Under current law, counties and cities receive a share of state liquor board profits, state liquor excise tax collections. The initiative eliminates these revenue sources on April 1, 2012. Beginning April 1, 2012, retail sales tax would apply to sales of liquor. Many local governments are authorized to impose a local sales tax. Local sales tax will offset some of the revenue lost to counties and cities from the elimination of LCB profits and state liquor excise tax sharing. Other local governments authorized to impose a local sales tax, such as transit districts and public facilities districts, will gain new revenue. Below is a table that shows the net revenue impact to local governments statewide:

Total Local Revenues

Fiscal Year	2011	2012	2013	2014	2015	TOTAL
Local Revenue – 25% Markup	($0)	($29,227,000)	($55,095,000)	($60,257,000)	($65,667,000)	($210,246,000)
Local Revenue – 39.2% Markup	($0)	($28,897,000)	($53,989,000)	($59,095,000)	($64,446,000)	($206,427,000)
Local Revenue – 45% Markup	($0)	($28,765,000)	($53,571,000)	($58,656,000)	($63,985,000)	($204,977,000)

Below are tables that show the impacts by revenue source. Because it is not known where liquor distributor and retailer licensees will locate, the amount of revenue generated from local sales tax cannot be determined by local jurisdiction. Local revenues are a statewide estimate based on an assumption of a 2.392 percent statewide average local sales tax rate with county sales tax representing 33 percent of the rate, cities representing 34 percent of the rate and other jurisdictions authorized to impose a sales tax representing 33 percent of the rate. Sales tax revenue is dependent on volume of liquor liter sales. Therefore, the revenue impact to each local jurisdiction will vary depending on the total markup applied by both liquor distributors and retailers.

City and County Revenues from Liquor Profits, Liquor Excise Tax and other Revenue

Fiscal Year	2011	2012	2013	2014	2015	TOTAL
City/County Revenues	($0)	($32,646,000)	($70,877,000)	(76,826,000)	($83,063,000)	($263,412,000)

Local Retail Sales Tax Revenues

Fiscal Year	2011	2012	2013	2014	2015	TOTAL
Local Revenue – 25% Markup	($0)	$3,419,000	$15,782,000	$16,569,000	$17,396,000	$53,166,000

Local Revenue – 39.2% Markup	($0)	$3,749,000	$16,888,000	$17,731,000	18,617,000	$56,985,000
Local Revenue – 45% Markup	($0)	$3,881,000	$17,305,000	$18,170,000	$19,078,000	$58,434,000

Additional State and Local Revenue Assumptions

The range of Total State Revenues and Total Local Revenues is the sum of revenue gains, revenue losses or no revenue impact from the following assumptions:

- The initiative provides that LCB must set a reasonable annual license fee for liquor distributors and liquor retailers. For purposes of this fiscal impact statement, the fee is assumed to be $4,000 for a liquor distributor license and $2,000 for a liquor retailer license. The number of licenses is assumed to be constant for each fiscal year.
- Liquor distributor licensees are assumed to be subject to the wholesaling business and occupation (B&O) tax. Liquor retailer licensees are assumed to be subject to the retailing B&O tax.
- Liquor liter taxes and liquor sales taxes are repealed by the initiative on April 1, 2012. It is assumed that liquor retailer licensees will collect and remit liquor liter taxes and liquor sales tax until March 31, 2012. Beginning April 1, 2012, liquor sales will be subject to state and local retail sales tax.
- Each liquor distributor licensee must agree to pay, for deposit into the State General Fund, an amount equivalent to 1 percent of the licensee's gross annual liquor sales for a five-year period commencing on the date of the licensee's first sale of liquor. Likewise, each liquor retailer licensee must agree to pay, for deposit into the State General Fund, an amount equivalent to 6 percent of the licensee's gross annual liquor sales for a five-year period commencing on the date of the licensee's first sale of liquor.
- Except for the loss of sales in state liquor stores, estimates do not assume any change in pricing or volume of sales of beer and wine.
- State liquor stores sell Washington State Lottery products to the public. The estimate assumes 25 percent of these sales will be lost and remaining sales will occur in other outlets selling Washington State Lottery products.
- Estimates of sales by current restaurant licensees who sell liquor at retail are limited to changes from price elasticity and the loss of the state's 15 percent quantity price discount to these licensees.
- Estimates do not assume any change in sales by liquor stores operated on military bases. Such sales are assumed not to be subject to liquor liter taxes, liquor sales taxes or B&O tax.
- Estimates of sales by liquor stores operated by tribes are limited to changes from price elasticity. Such sales are assumed to be subject to liquor liter taxes and liquor sales taxes based on current agreements between tribes and LCB. Sales to non-tribal members are subject to retail sales tax. All sales are not subject to B&O tax.
- No additional change is assumed for tax avoidance/non-compliance by consumers or migration of sales in and out of state by consumers. These items are assumed in the forecast price elasticity assumption.
- Revenue from the state markup used to pay for the state liquor distribution center and state liquor store costs are netted to zero. The initiative eliminates both the revenue (markup) and the costs (state liquor distribution center and state liquor stores), which results in no additional revenue to the state.
- Totals amount includes other decreased distributions from the Liquor Revolving Fund.

- Approximately 38 cities and towns impose a local B&O tax. Because it is not known where liquor distributor and liquor retailer licensees will locate, the amount of revenue generated from local B&O tax is indeterminate and not included in the estimate.

The sale of the state liquor distribution center is estimated to generate a potential net $27.8 million in revenue. Because sale date cannot be precisely determined, this revenue is stated separately and excluded from the Total State Revenue estimates above. The value of the state liquor distribution center is estimated to be $20.8 million, based on King County Assessor's Office 2010 assessed value of the property. The sale of the equipment in the state liquor distribution center is estimated to be $8 million, based on the Washington State Auditor report, which assumed the sale of $16 million in assets would return about $8 million. Costs to sell the state liquor distribution center are estimated to total $1 million at the time of sale.

STATE AND LOCAL EXPENDITURES

Total state revenues will be deposited into three state accounts: the State General Fund, the State Opportunity Pathways Account and the Performance Audits of Government Account. The revenue gain to the Performance Audits of Government Account is expected to be minimal, and therefore is not included in the estimates. The following tables show the estimated net revenue impact to the State General Fund and the State Opportunity Pathways Account. Revenue to the State Opportunity Pathways Account is not dependent on the total private liquor distributor/retailer markup, and therefore the estimated revenue loss to this account will not vary.

In addition to revenue from liquor board profits and liquor excise taxes, revenue from beer, wine and other business enterprise activities are deposited into the Liquor Revolving Fund. A portion of revenues in the Liquor Revolving Fund in excess of LCB expenses are deposited into the State General Fund according to a statutory formula. The impact to the State General Fund shown in the table below exceeds Total State Revenues because distributions that would otherwise be deposited into the State General Fund are assumed to remain in the Liquor Revolving Fund for LCB expenses. The amount is estimated at $7 million for each fiscal year beginning in FY 2012. State General Fund revenue can be used for any governmental purpose, and therefore, the impact of decreased revenue on state expenditures will be determined by the Legislature.

State General Fund Impact

Fiscal Year	2011	2012	2013	2014	2015	TOTAL
State General Fund – 25% Markup	($0)	($31,875,000)	($163,373,000)	($171,462,000)	($179,863,000)	($546,573,000)
State General Fund – 39.2% Markup	($0)	($28,056,000)	($156,799,000)	($164,555,000)	($172,606,000)	($522,016,000)
State General Fund – 45% Markup	($0)	($26,530,000)	($154,319,000)	($161,950,000)	($169,869,000)	($512,668,000)

The initiative requires liquor license revenue to be used only for purposes of the administration and enforcement of liquor licenses and reducing underage or abusive consumption. Therefore, an estimated $7.4 million each fiscal year is assumed to be spent on LCB liquor license administration and enforcement activities.

Washington State Lottery proceeds in excess of expenses are deposited into the State Opportunity Pathways Account to support programs such as State Need Grant, State Work Study awards, Washington Scholars and Washington Award for Vocational Excellence. Funds from the account may also be used to support early learning programs. Over five fiscal years, it is estimated that funds to this account will decrease $1,194,000.

State Opportunity Pathways Account Impact

Fiscal Year	2011	2012	2013	2014	2015	TOTAL
State Opportunity Pathways Account	($0)	($201,000)	($321,000)	($331,000)	($341,000)	($1,194,000)

Like the State General Fund, counties and cities receive a share of revenue from the Liquor Revolving Fund. Therefore, in addition to decreased liquor profits and liquor excise taxes, other reduced distributions from the Liquor Revolving Fund affect counties and cities. The amount is estimated at $7 million for each fiscal year beginning in FY 2012. RCW 70.96A.087 requires each county and city to spend 2 percent of its share of state liquor board profits and state liquor excise taxes on alcohol and chemical dependency services, and these expenditures will decrease. The remaining revenue from state liquor profits and state liquor excise tax sharing can be used for any allowable local government purpose. Local sales tax must be used as allowed by state law. Therefore, the impact on local government expenditures will be determined at the local level or by state law.

Total Local Impact

Fiscal Year	2011	2012	2013	2014	2015	TOTAL
Local Revenue – 25% Markup	($0)	($29,227,000)	($55,095,000)	($60,257,000)	($65,667,000)	($210,246,000)
Local Revenue – 39.2% Markup	($0)	($28,897,000)	($53,989,000)	($59,095,000)	($64,446,000)	($206,427,000)
Local Revenue – 45% Markup	($0)	($28,765,000)	($53,571,000)	($58,656,000)	($63,985,000)	($204,977,000)

STATE AND LOCAL COST ESTIMATE – ASSUMPTIONS

This fiscal impact statement does not estimate state costs or state savings due to social impacts from approval of the initiative.

One-Time Costs

Assuming a closure date of November 15, 2011, LCB will incur one-time state costs associated with managing the closure of the state liquor distribution center and state liquor stores. There will be additional one-time costs for issuing new licenses and revenue collection activities. These state costs are estimated to total $30.6 million during FYs 2012 and 2013:

- Unemployment, sick leave and vacation buyout costs are estimated at $11.8 million.
- Staff and information technology changes to issue new licenses and collect revenues estimated at $5.3 million.
- Staffing costs to coordinate the sale of existing inventory, termination of contract store leases, and to surplus store fixtures estimated at $10.2 million.
- Final audits of each state and contract liquor store estimated at $1.9 million.
- Project management and additional human resource staff estimated at $1.4 million.

The Washington State Department of Revenue will assume administration of the liquor excise tax collection from 3,534 licensed liquor distributors and retailers through April 1, 2012. Costs include additional staff, information technology changes, rule making and policy activities, taxpayer mailings and workshops, supplies and materials. Total state costs are estimated at $313,000 during fiscal years 2011 and 2012.

There is $8.32 million in debt service costs for a Certificate of Participation bond for the state liquor distribution center that is scheduled to be paid by December 1, 2013. This one-time state cost is assumed in FY 2012.

Ongoing Costs

The LCB costs at current levels for the licensing, enforcement and administration for all entities licensed by LCB are assumed to be paid from other revenue sources deposited into the Liquor Revolving Fund. No state costs from increased enforcement activities are assumed in the estimate.

State costs associated with the state liquor distribution center and state liquor stores operations are not assumed as savings because the revenue source (state markup) used to pay these costs is eliminated by the initiative. These costs are netted out of the revenue impacts.

The Washington State Department of Revenue will have no additional ongoing costs from the initiative. Local governments will incur costs for local sales tax collection. The Washington State Department of Revenue collects sales tax for local governments, and is allowed to deduct 1 percent of local sales tax collections for this service for deposit in the State General Fund.