

Multiple Agency Fiscal Note Summary

Bill Number: 5375 S SB	Title: Low-proof beverages/tax
-------------------------------	---------------------------------------

Estimated Cash Receipts

Agency Name	2023-25			2025-27			2027-29		
	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total
Liquor and Cannabis Board	0	0	2,745,118	0	0	2,745,118	0	0	2,745,118
Total \$	0	0	2,745,118	0	0	2,745,118	0	0	2,745,118

Estimated Operating Expenditures

Agency Name	2023-25				2025-27				2027-29			
	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total
Department of Revenue	Fiscal note not available											
Liquor and Cannabis Board	.5	0	0	448,678	.0	0	0	0	.0	0	0	0
Total \$	0.5	0	0	448,678	0.0	0	0	0	0.0	0	0	0

Estimated Capital Budget Expenditures

Agency Name	2023-25			2025-27			2027-29		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Department of Revenue	Fiscal note not available								
Liquor and Cannabis Board	.0	0	0	.0	0	0	.0	0	0
Total \$	0.0	0	0	0.0	0	0	0.0	0	0

Estimated Capital Budget Breakout

NONE

--

Prepared by: Amy Hatfield, OFM

Phone:
(360) 280-7584

Date Published:
Preliminary 3/ 3/2023

Individual State Agency Fiscal Note

Bill Number: 5375 S SB	Title: Low-proof beverages/tax	Agency: 195-Liquor and Cannabis Board
-------------------------------	---------------------------------------	--

Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

ACCOUNT	FY 2024	FY 2025	2023-25	2025-27	2027-29
Liquor Revolving Account-State 501-1	1,372,559	1,372,559	2,745,118	2,745,118	2,745,118
Total \$	1,372,559	1,372,559	2,745,118	2,745,118	2,745,118

Estimated Operating Expenditures from:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.9	0.0	0.5	0.0	0.0
Account					
Liquor Revolving Account-State 501-1	448,678	0	448,678	0	0
Total \$	448,678	0	448,678	0	0

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact: Alia Kennedy	Phone: 360-786-7405	Date: 02/16/2023
Agency Preparation: Colin O Neill	Phone: (360) 664-4552	Date: 02/23/2023
Agency Approval: Aaron Hanson	Phone: 360-664-1701	Date: 02/23/2023
OFM Review: Amy Hatfield	Phone: (360) 280-7584	Date: 02/23/2023

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

Section 1(26) defines “low-proof beverage” as any beverage that is 16oz or less and that contains more than 0.5% alcohol by volume and less than 7% alcohol by volume, but does not include wine, malt beverages, or malt liquor.

Section 2 adds a tax on the sale of low-proof beverages equal to \$2.50/gallon, payable by a spirits distributor, distillery, craft distillery, and spirits COA with direct ship endorsement.

Section 3(10d): For the purposes of subsections (3), (5), (6)(c), (7), and (8) of this section, the term "spirits" does not include low-proof beverages as defined in RCW 66.04.010.” This has the effect of exempting low proof beverages from the spirit liter taxes, BUT spirit sales tax still applies. Retail sales taxes DO apply to sales by retailers to consumers (subsection 8).

Changes made by the substitute:

- Old Section 2 (66.24.630 – Spirits retail license) – DELETED
- Old Section 3 – renumbered as Section 2
- Old Section 4 (66.24.055 – Spirits distributor license) – DELETED
- Old Section 5 – renumbered as Section 3
- Effect of the changes above: Low Proof beverages are now subject to the spirit retailer license issuance fee and spirit distributor license issuance fee (current law).

Section 3(10c): RCW 82.08.150

- language changed from:
 - “For the purposes of this section, the term "spirits" does not include low-proof beverages as defined in RCW 66.04.010” TO
 - “For the purposes of subsections (3), (5), (6)(c), (7), and (8) of this section, the term "spirits" does not include low-proof beverages as defined in RCW 66.04.010.”
- Effect of language change: low-proof beverages are exempted from the spirit liter taxes, BUT spirit sales tax still applies. Retail sales taxes DO apply to sales by retailers to consumers (subsection 8).

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

BACKGROUND:

Section 1(26) defines “low-proof beverage” (LPB) as any beverage that is 16oz or less and that contains more than 0.5% alcohol by volume and less than 7% alcohol by volume (ABV), but does not include wine, malt beverages, or malt liquor. Section 2 levies a new tax on the sale of LPB equal to \$2.50/gallon, payable by a spirits distributor, distillery, craft distillery, and spirits COA with direct ship endorsement.

Sales of LPB would now be exempt from spirit liter taxes, BUT spirit sales tax still applies. Retail sales taxes would now apply to sales of LPB by retailers to consumers.

TABLE ASSUMPTIONS:

Industry data on retail sales of spirits that are categorized as “premixed cocktails” and “spirits seltzer centric” and also fall into the 0.5%-7% ABV range shows that these made up approximately 4% of the total spirits volume in Washington state

in FY 2022.

Using spirit sales tax and liter tax collections data from DOR for FY2021 for retail sales to consumers, it is calculated that the \$2.50/gallon tax on LPB could bring in \$1,214,849 in annual revenue.

The FY2022 industry data does not include sales by licensees (restaurants, bars, etc). However, if it is assumed that the market share of the licensee spirit purchases is also 4%, then the \$2.50/gallon tax on LPB could bring in an additional \$157,711 in annual revenue.

Total revenue from the \$2.50/gallon tax is therefore anticipated to be \$1,372,559/yr.

Please see the attached “5375 SSB Low proof beverages - LPB calculations.pdf” for the calculations used.

FURTHER ANALYSIS:

Another spirits industry report shows that between FY2020 and FY2021, that the cocktail category of spirits (as opposed to gin, vodka, rum, etc) grew 87.4%. This would include those above 7% ABV as well. However, this shows that the LPB market is growing rapidly.

If that 87.4% growth rate were applied to the 4% market share referenced above, then it is not unreasonable to predict that the LPB market share of spirits could grow to 7.5% or higher ($187.4\% \times 4\% = 7.5\%$). In this scenario, the \$2.50/gallon tax could bring in \$2,276,626 from retail sales and \$295,550 from licensee sales - \$2,572,176 per year.

However, this is not the full picture of the revenue impact of this legislation. The Department of Revenue collects spirit sales and liter taxes, retail sales taxes, and B&O taxes. As noted earlier, sales of LPB would be exempt from spirit liter taxes, but be subject to retail sales taxes (on sales to consumers).

Please refer to DOR’s fiscal note for the impact that this legislation would have on the other taxes.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

INFORMATION TECHNOLOGY DIVISION:

The division will have onetime staff costs to implement this bill, due to needing to modify the agency's internal spirits reporting system, and oversight by OCIO quality assurance.

0.9 FTE IT App Development - Senior/Specialist - \$139,753 (\$138,790 salary/benefits, \$963 in associated costs, \$1,725 for equipment purchases).

IT Investments – Approval and Oversight. The Office of the Chief Information Officer (OCIO) defines a major technology investment as one having a total cost that includes a combined level of effort of more than \$500,000 OR has a duration longer than 4-months.

If the agency fiscal note analysis anticipates one or both of these criteria being met, the agency is required under OCIO Policy #121 to submit an online self-assessment via OCIO’s Information Technology Assessment Tool (ITPA) speaking to effort size, risk and expected impact on citizens and state operations. If the agency assumes that OCIO’s formal decision is to place the project/effort under formal OCIO oversight, the agency would be required under OCIO Policy #132 to have external Quality Assurance (QA) services present at all stages of the project, from feasibility through implementation.

The agency currently estimates that cost at \$160/hr over the estimated lifetime of the project/effort.

OCIO QA Oversight: 1,920 hours x \$160/hr = \$307,200.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2024	FY 2025	2023-25	2025-27	2027-29
501-1	Liquor Revolving Account	State	448,678	0	448,678	0	0
Total \$			448,678	0	448,678	0	0

III. B - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.9		0.5		
A-Salaries and Wages	106,845		106,845		
B-Employee Benefits	31,945		31,945		
C-Professional Service Contracts	307,200		307,200		
E-Goods and Other Services	988		988		
G-Travel					
J-Capital Outlays	1,700		1,700		
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total \$	448,678	0	448,678	0	0

III. C - Operating FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2024	FY 2025	2023-25	2025-27	2027-29
IT App Development - Senior/Specialist	118,716	0.9		0.5		
Total FTEs		0.9		0.5		0.0

III. D - Expenditures By Program (optional)

Program	FY 2024	FY 2025	2023-25	2025-27	2027-29
INFORMATION TECHNOLOGY DIVISION (070)	448,678		448,678		
Total \$	448,678		448,678		

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

5375 SSB "Low proof beverages" - LPB Calculations

Sales to Consumers	WA FY22 data - Spirits Ready-To-Drink	Growth rate 87.4% 2020- 2021
Low Proof Beverages	138,767	260,049
Spirits Total	3,406,302	6,383,410
LPB Pct of Total	4.00%	7.50%
Number of Taxed Liters Sold to Consumers*	45,987,000	45,987,000
Prorated LPB liters	1,839,480	3,447,186
Convert LPB Liters to Gallons**	485,939	910,651
\$2.50/gallon LPB tax revenue (retail sales)	\$ 1,214,849	\$ 2,276,626

Sales to Licensees	WA FY22 data - Spirits Ready-To-Drink	Growth rate 87.4% 2020- 2021
Low Proof Beverages	138,767	260,049
Spirits Total	3,406,302	6,383,410
LPB Pct of Total	4.00%	7.50%
Number of Taxed Liters Sold to Licensees*	5,970,000	5,970,000
Prorated LPB liters	238,800	447,511
Convert LPB Liters to Gallons**	63,084	118,220
\$2.50/gallon LPB tax revenue (sales to licensees)	\$ 157,711	\$ 295,550

Total \$2.50/gallon LPB tax revenue \$ 1,372,559 \$ 2,572,176

*Collections data from DOR (Spirit Sales to Consumers and Licensees) - FY2021

**using 3.78541 liters/gallon