



NORTH CAROLINA GENERAL ASSEMBLY

2023 Session

Fiscal Analysis Memorandum

CONFIDENTIAL

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RE: ABC Omnibus 2023

SUMMARY TABLE

PARTIAL FISCAL IMPACT OF PCS S527-CSTQxf-35, V.1 (\$ in millions)

	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>FY 2025-26</u>	<u>FY 2026-27</u>	<u>FY 2027-28</u>
State Impact					
Tax Revenue					
Mixed Beverage Tax Revenue					
General Fund Allocation	(2.6)	(2.7)	(2.9)	(3.1)	(3.3)
DHHS Allocation	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Less Expenditures		See Fiscal Analysis Section.			
General Fund Fee Revenue		See Fiscal Analysis Section.			
PARTIAL NET STATE IMPACT*	(\$2.9)	(\$3.0)	(\$3.2)	(\$3.4)	(\$3.6)
Local Impact					
Mixed Beverage Tax Revenue	(2.3)	(2.5)	(2.6)	(2.8)	(2.9)
Less Local Expenditures	-	-	-	-	-
PARTIAL NET LOCAL IMPACT*	(\$2.3)	(\$2.5)	(\$2.6)	(\$2.8)	(\$2.9)

**Note: These revenue estimates represent the direct impact in the reduction in excise tax proposed in Section 1 of the bill. The remaining sections of the bill may have an indirect impact on State and local revenues, but this impact cannot be estimated. Please see the Fiscal Analysis Section for additional details.*

FISCAL IMPACT SUMMARY

Section 1 of this bill reduces excise tax revenue by exempting ready-to-drink pre-mixed cocktails from the mixed beverages charge. This exemption is estimated to reduce General Fund revenue by approximately \$3 million annually. It is also expected to reduce revenue allocated to the Department of Health and Human Services (DHHS) by \$300,000 annually, and mixed beverage tax revenue ordinarily retained by local ABC boards by \$2 to \$3 million annually.

Several of the remaining sections of the proposed legislation would have a potential impact on sales of alcoholic beverages or other items by ABC stores. These changes could indirectly increase general fund revenue via alcoholic beverage taxes, enterprise fund revenue for the ABC

Commission via increased sales, and local revenues from ABC store revenue distributions. However, the number of local governmental entities choosing to adopt these changes, as well as the expected rate of additional consumption of alcoholic beverages, is unknown. As such, Fiscal Research is unable to estimate the net impact of these changes at this time. The ABC Commission has provided some sales projections where available, and those have been included in this fiscal memo for reference.

FISCAL ANALYSIS

Section 1 of this bill exempts businesses holding mixed beverage permits from the mixed beverage charge levied on “pre-mixed cocktails,” which are typically single-serving, ready-to-drink beverages containing between 0.5% and 13% spirituous liquor that are served in the manufacturer’s original container. The North Carolina ABC Commission provided estimated sales volume of pre-mixed cocktails. While sales of this type of beverage have surged recently, this analysis expects future growth consistent with historical trends in sales of other mixed beverages. This exemption is estimated to reduce General Fund revenue by \$2.6 million in FY 2023-24 and \$2.7 million in FY 2024-25. It is also expected to reduce revenue allocated to the Department of Health and Human Services for alcoholism and substance abuse treatment, research, and education, as well as the remaining revenue retained by local ABC boards. The table below presents the revenue impact on each statutory allocation of the mixed beverage tax.

Mixed Beverage Tax - Revenue Impact	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	2027-28
General Fund	(2.6)	(2.7)	(2.9)	(3.1)	(3.3)
DHHS	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Retained by Local ABC Boards	(2.3)	(2.5)	(2.6)	(2.8)	(2.9)
Total Impact	(5.2)	(5.5)	(5.8)	(6.2)	(6.5)

The remaining sections of the bill would likely have an indirect fiscal impact. However, Fiscal Research is unable to estimate the net impact of these changes. The ABC Commission has provided some sales projections where available, and those have been included in this fiscal memo for reference.

Section 3 would provide local ABC boards with the option of opening stores seven days a week and on New Year’s Day, the Fourth of July, and Labor Day. Because the policy to open additional days of the week is optional, and the impact on consumption is unknown, neither the ABC Commission nor **Fiscal Research can determine the potential revenue impact of this policy.** The ABC Commission provided scenarios assuming 25%, 50%, and 100% of stores with projected revenue ranging from **\$32.7 million to \$130.7 million**, the highest of which would represent a 7% increase in overall sales.

Section 5 would allow to-go and delivery sales of mixed beverages and wine by the glass. **Fiscal Research is unable to project** the fiscal impact of this section as the sales data from the temporary allowance of these types of sales during the COVID-19 pandemic is not publicly available.

Section 9 would change regulations regarding discounted prices for spirituous liquor. Under current law, when an industry member offers a discounted price for a spirituous liquor that is then offered at a reduced price at the ABC store, local boards are allowed to purchase the product at that discounted price for 30 days prior to the price reduction and for 30 days while the price reduction is in effect. This section would require the Commission to notify local boards 60 days prior to the effective date of any price reduction, which the ABC Commission projects will result in **increased sales of between 1% and 3%.**

Section 10 would allow ABC stores to sell some products in addition to spirituous liquor, included branded consumer specialty items, physical or electronic gift cards, and empty barrels or parts of barrels, as well as allowing the Commission to approve a separate retail price for liquor packaged with a specialty item (for example, when the manufacturer packages a bottle with a branded drinking glass). The ABC Commission estimates this section would increase revenue by **approximately \$100,000 to \$150,000.**

Section 12 would expand the number of rail lines in the State that are eligible to sell malt beverages, unfortified wine, and fortified wine. This section is likely to have a **minimal impact.**

Section 13 would allow the holder of a spirituous liquor special event permit to sell two mixed beverages to a customer in a single calendar day, compared to the current one per customer. This section is likely to have a **minimal impact.**

Section 14 would change regulations related to the transition period for ABC permittee ownership, safe harbor and late renewal fees, and temporary permit changes. The ABC Commission estimates that they would need to hire **8 additional compliance officers**, along with necessary equipment, for implementation of this section. All positions at the ABC Commission are receipt-supported, and Fiscal Research estimates that these costs **could be absorbed by existing revenues.**

Section 16 would establish the Malt Beverage Shop permit, which would provide the same legal benefits of the existing Wine Shop permit but for businesses focused on selling malt beverages for consumption off the premises and regularly and customarily educating consumers through tastings, classes, and seminars about the selection, serving, and storing of malt beverages. As with the Wine Shop permit, the Malt Beverage Shop permit would cost \$100 initially with a \$500 annual renewal fee. The ABC Commission estimates that **1-2 new positions** may be required to comply with this section, the costs of which would **be covered by existing ABC revenues.** The ABC Commission also notes that it is possible this provision would result in a decrease in permit fee revenue if certain businesses opt for the new Malt Beverage Shop permit over the more expensive on- or off-premises malt beverage permits and the on- or off-premises fortified/unfortified wine permits. However, **Fiscal Research is unable to project** any displacing effect or change in business permitting behavior that may arise from this provision.

Section 17 would establish two new permits (a cotenant permit and a bring-your-own-beverage permit). Neither Fiscal Research nor the ABC Commission can project the number of permits that may be issued as a result of this bill, and as such **cannot provide a projection** for any revenue they may generate.

Section 18 would establish the mobile bar services permit. Neither Fiscal Research nor the ABC Commission can project the number of permits that may be issued as a result of this bill, and as such **cannot provide a projection** for any revenue they may generate.

Section 24 would establish minimum prices for spirituous liquor. Under current law, there is no minimum price. Instead, prices are set by a formula based on the distiller's price. This provision would set a minimum price for spirituous liquor based on the size of the container and would allow the ABC Commission to adopt rules to set higher minimum prices for different categories of spirituous liquor. The ABC Commission projects that this will result in **at least \$3.6 million** in additional revenue, with potentially higher revenues in the event that the Commission adopts higher prices for different categories.

Section 27 would allow purchasers of single containers of spirituous liquor with a purchase price of at least \$50,000 to apply for a direct pay permit and remit the tax due directly to the Department of Revenue and exempt the seller from collecting and remitting the tax. It would also reduce sales and excise tax revenue by capping the tax due on a single container of such luxury liquor at \$1,000, but the impact is likely to be minimal.

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

North Carolina Alcoholic Beverage Control (NC ABC) Commission

FISCAL ANALYSIS MEMORANDUM – PURPOSE AND LIMITATIONS

This document is a fiscal analysis of a bill, draft bill, amendment, committee substitute, or conference committee report that is confidential under Chapter 120 of the General Statutes. The estimates in this analysis are based on the data, assumptions, and methodology described in the Fiscal Analysis section of this document. This document only addresses sections of the bill that have projected direct fiscal impacts on State or local governments and does not address sections that have no projected fiscal impacts. This document is not an official fiscal note. If a formal fiscal note is requested, please email your request to the Fiscal Research Division at FiscalNoteRequests@ncleg.net or call (919) 733-4910.