

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



**CORRECTED
FISCAL NOTE**

SB 120 - HB 1158

December 16, 2009

SUMMARY OF BILL: Creates an additional class of licenses allowing the sale of wine at certain retail food stores.

ESTIMATED FISCAL IMPACT:

On December 2, 2009, we issued a corrected fiscal note for this bill. The fiscal note contained an error in two assumptions. The erroneous assumptions have been corrected. The fiscal impact is unchanged.

(CORRECTED)

Increase State Expenditures –
\$510,000/One-Time/Alcoholic Beverage Commission (ABC)
\$1,327,800/Recurring/ABC

Increase State Revenue –
\$819,000/One-Time/ABC
\$2,475,600/Recurring/ABC
\$11,545,100/Recurring/General Fund

Increase Local Revenue - \$2,758,800/Recurring
\$6,600,000/Recurring/Permissive

Assumptions:

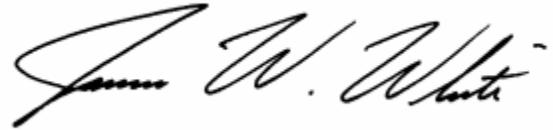
- The licenses shall be issued by the ABC and only to qualified food stores in jurisdictions which have approved the sale of alcoholic beverages.
- There are approximately 7,000 qualifying food stores in the state of Tennessee. Approximately 52 percent of these are in localities that have authorized the sale of alcoholic beverages and 75 percent of stores in these localities will apply for the license ($7,000 \times 52\% \times 75\% = 2,730$) resulting in 2,730 stores statewide authorized to sell wine.
- Each license costs \$850 with a \$300 one-time fee. This will result in a recurring increase in state revenue to the ABC Fund of \$2,320,500 ($2,730 \times \850) and a one-time increase in state revenue to the ABC Fund of \$819,000 ($2,730 \times \300).

- The ABC will need 20 additional agents to assist in regulating and investigating the new licensees.
- ABC will require 10 new administrative staff positions to assist in the administrative duties necessary for the new licensees.
- Each agent would receive a salary of \$29,040 plus benefits of \$14,960 ($20 \times \$44,000 = \$880,000$); a \$25,000 one-time expenditure for a car, camera, rifle, vest, etc., for each agent totaling \$500,000 ($20 \times \$25,000$); \$5,000 for maintenance, travel, hotels, etc. totaling \$100,000 ($20 \times \$5,000$). The total recurring increase in state expenditures for these new positions is \$980,000 ($\$880,000 + \$100,000 = \$980,000$). The total one-time increase in state expenditures is \$500,000.
- The estimated cost for each administrative position is \$19,800 for salary and \$10,200 for benefits. The recurring cost for computer access, phones, etc., for each position is \$4,780. The one-time cost for equipment for each position is \$1,000. The total recurring increase in state expenditures is \$347,800 [$(\$30,000 \times 10) + (\$4,780 \times 10) = \$347,800$]. The one-time increase in state expenditures is \$10,000 ($\$1,000 \times 10$).
- The excise tax on wine, state sales tax, local sales tax, the enforcement tax on the sale of alcoholic beverages, and municipal inspection fees will be impacted by this bill.
- The provisions of the bill will result in an increase in all taxes and fees identified above; however, determining a precise estimate for such an increase is difficult due to a number of unknown factors. A conservative 33 percent increase in taxes and fees has been used for calculating the increase in revenues to state and local governments.
- According to the Department of Revenue, 8.4 million gallons of wine were sold in Tennessee in 2008 with approximately \$342 million in total sales. With a sales tax rate of seven percent, the State collected \$24,000,000 in sales tax revenue.
- The average bottle of wine is 750 ml according to The 2009 Wine Handbook published by The Beverage Corporation.
- 8.4 million gallons equals 31,797,444,000 ml ($8,400,000 \times 3,785.41$ ml)
- Approximately 42,396,592 bottles ($31,797,444,000 / 750$) were sold in Tennessee in 2008. The average price per bottle sold in Tennessee in 2008 was \$8.06 ($\$342,000,000 / 42,396,592$).
- The 2009 Wine Handbook reported 700.6 million gallons of wine sold in the United States in 2008. Total wine sales equaled \$27,030,000,000.
- The average price per gallon in the United States was \$38.60 ($\$27,030,000,000 / 700,600,000$). There are, on average, five bottles per gallon. The average national price per bottle in 2008 was \$7.72 ($\$38.60 / 5$).
- The 2009 Wine Handbook records state sales in 9 liter cases, equal to 12 bottles or approximately 2.377 gallons per case ($9 / 3.785$ liters).
- North Carolina allows the sale of wine in grocery stores. According to the U.S. Census Bureau, North Carolina's population is 48% greater than Tennessee's (9,222,414 vs. 6,214,888 in 2008).
- In 2008, North Carolina sold 6,612,980 nine liter cases while Tennessee sold 3,376,690 cases.
- North Carolina has 96 percent more gross sales ($3,376,690 / 6,612,980$) in 2008 than Tennessee.

- In 2008, Tennessee had per capita sales of 0.54 cases (3,376,000 / 6,214,000) while North Carolina had per capita sales of 0.72 cases (6,612,000 / 9,222,000).
- On a per capita basis, North Carolina had 33% more sales (0.72 / 0.54) than Tennessee in 2008.
- Assuming the increased per capita wine sales in North Carolina are attributable to sale of wine in grocery stores, it is assumed that Tennessee would experience a similar per capita increase in wine sales.
- The state sales tax and local sales tax revenue figures are discounted by five percent (equal to 95 percent of sales tax) to account for a reduction in the retail price of wine resulting from increased competition among retailers.
- Wine sales are subject to a \$1.21 per gallon excise tax. According to the Department of Revenue, FY09-10 collections are estimated to be approximately \$10,570,000.
- The increase in state revenue from additional excise tax collections is estimated to be \$3,488,100 ($\$10,570,000 \times 33\%$).
- FY09-10 state sales tax collections for wine are estimated to be \$25,700,000 under current law.
- The recurring increase in state sales tax revenue is estimated to be \$8,057,000 ($\$25,700,000 \times 33\% \times 95\%$).
- FY08-09 local sales tax collections from wine sales were \$8,454,000.
- According to Department of Revenue estimates, total local sales tax collections are estimated to be \$8,800,000. The recurring increase to local sales tax revenue is estimated to be \$2,758,800 ($\$8,800,000 \times 33\% \times 95\%$).
- Current law authorizes a \$0.15 per case enforcement tax upon the sale of alcoholic beverages sold at wholesale in Tennessee. FY09-10 collections attributable to wine sales are estimated to be approximately \$470,000.
- The recurring increase in state revenue associated with the enforcement tax is estimated to be \$155,100 ($\$470,000 \times 33\%$). This amount is credited to the ABC Fund rather than the General Fund.
- Local governments are authorized by Tenn. Code Ann. § 57-3-501 to charge a permissive municipal inspection fee of a variable percentage (based on population) of the wholesale price of alcoholic beverages supplied by wholesalers. This fee is paid by licensed retailers within the municipality.
- Based upon a survey of local governments conducted by the Fiscal Review Committee (responses from 82 out of 90 local governments that authorize the sale of alcoholic beverages), in excess of \$20,000,000 is collected by municipalities statewide each year.
- Assuming a 33 percent increase in municipal inspection fee revenue, there will be a permissive recurring increase in local revenue exceeding \$6,600,000 ($\$20,000,000 \times 33\% = \$6,600,000$).
- Any increase in state or local sales tax collections due to the expanded list of items authorized to be sold in liquor stores is estimated to be not significant.
- The enactment of 2009 Public Chapter 348 (authorizing a wine manufacturer or supplier licensed in Tennessee or in any other state to ship up to nine liters of wine per month and up to 27 liters per year directly to a Tennessee resident) will divert some wine sales from liquor stores and retail food stores. Had Public Chapter 348 not been enacted, the estimated increase in sales from passage of this bill would have been greater.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, reading "James W. White". The signature is written in a cursive style with a large initial "J" and a distinct "W".

James W. White, Executive Director

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