



# HOUSE COMMITTEE ON APPROPRIATIONS

## FISCAL NOTE

HOUSE BILL NO. 1075

PRINTERS NO. 1274

PRIME SPONSOR: Turzai

### COST / (SAVINGS)

FUND	FY 2016/17	FY 2017/18
General Fund	\$0	See fiscal impact
State Stores Operating Fund	\$0	See fiscal impact

**SUMMARY:** House Bill 1075, printer's number 1274, amends the act of April 12, 1951 (P.L. 90, No. 21), as reenacted and amended, known as The Liquor Code, to provide for the divestiture by the Commonwealth of the wholesale wine and spirits distribution business, and to establish the State Stores Operating Fund and for moneys to be paid into the State Stores Operating Fund.

Effective date is 30 days after enactment.

**ANALYSIS:** The bill amends the Liquor Code to provide for Wholesale Permits and after ten years, Wholesale Licenses.

The bill proposes to insert a new section in the Liquor Code to direct the Pennsylvania Liquor Control Board (PLCB) to accept applications from licensed importers, within 30 days of the effective date of the act, for wholesale permits for the purpose of distributing wholesale wine or spirits to the PLCB, licensees, and to United States Armed Forces facilities located on United States Armed Forces installations within the Commonwealth. The PLCB shall approve the issuance of a wholesale permit within 60 days of receipt of the application if the applicant meets the specified requirements. Wholesale permit applicants must provide a list of the brands of wine and spirits it will distribute. Once in receipt of a wholesale permit, the permittee must post a schedule of prices with the PLCB on a monthly basis. Wholesale permit holders may not engage in variable pricing, unfair or deceptive trade practices, or intentionally exclude competing brands. All wine and spirits products shipped into the Commonwealth must be delivered to the licensed wholesaler's premises and must remain on the premises for 48 hours before delivery.

Initial wholesale permit fees are 10% of the cost of goods sold. Cost of goods sold shall be determined as the purchase price the PLCB paid to the licensed importer for products sold by the PLCB in the most recent twelve month period. An additional application fee of \$2,500 shall be submitted for each new brand of liquor the wholesale permit holder would like to add to its distribution list. New brands of wine or spirits are those that were not previously sold by the PLCB at Liquor Stores or through special liquor orders. Annual renewal fees shall be equal to 10% of the wholesale permit holder's gross receipts for each calendar quarter upon commencement of wholesale operations. Renewal fees are due and payable on the twentieth day of April, July, October and January. All fees and renewals shall be deposited in the General Fund.

At the conclusion of a ten year period of wholesale permits, the Commonwealth's wholesale wine and spirits system shall be divested. A holder of a wholesale permit shall be granted a wholesale license to continue operations. Annual renewal fees shall be equal to 5% of the wholesale license holder's gross receipts.

Wholesale permit holders and wholesale licensees shall be considered a State Liquor Store for the purposes of collecting and remitting the 6% State sales tax and the 18% emergency State tax. The emergency State tax shall be included in the retail price of wine or spirits offered for sale by the wholesale permit holder/licensee.

The bill also adds a section to the Liquor Code to establish a non-lapsing special fund, the State Stores Operating Fund. All moneys from the sales of liquor and alcohol at Pennsylvania Liquor Stores including any moneys above and beyond the cost of product sold to wine expanded permit licensees shall be deposited in the State Stores Operating Fund. The moneys in the State Stores Operating Fund shall be used solely for operation of Pennsylvania Liquor Stores. No funds shall be transferred into the State Stores Operating Fund from any other source.

**FISCAL IMPACT:** Enactment of this legislation is estimated to generate an additional \$182.4 million in license fees and quarterly renewal fees in fiscal year 2017-18 assuming full divestiture of wholesale wine and spirits in the Commonwealth. As required by the legislation, the license fees shall be deposited in the General Fund. The legislation moves the point of taxation for the 18% Liquor Tax from the retail transaction to the wholesale transaction for purchases of wine and spirits which results in a net loss of tax revenues deposited into the General Fund estimated to be \$5.7 million in 2017-18 when coupled with anticipated increased sales of wine and spirits. The PLCB gross margin is estimated to be \$84.1 million less in 2017-18 assuming complete divestiture of the wholesale wine and spirits in the Commonwealth. The net loss of tax revenue and loss of PLCB gross margin for 2017-18 assume 6 months of operations from the new wine wholesalers. Finally, it is assumed that the PLCB will modify its current wholesale footprint by reducing operating costs accordingly in 2017-18 to mitigate the loss of its gross margin as the wholesale licensees begin operating in the Commonwealth.

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**DATE:** April 24, 2017

*Estimates are calculated using the best information available. Actual costs and revenue impact incurred may vary from estimates.*