Department of Planning and Budget
2018 Fiscal Impact Statement

1. **Bill Number:** SB 803

House of Origin	☒	Introduced	☐	Substitute	☐ Engrossed
Second House	☐	In Committee	☐	Substitute	☐ Enrolled

2. **Patron:** Reeves

3. **Committee:** Senate Committee on Rehabilitation and Social Services

4. **Title:** Disposition of markup profits on sales on distiller license premises

5. **Summary:** Provides that any reasonable markup imposed by the Alcoholic Beverage Control Board (ABC) pursuant to subdivision A 2 of §4.1-235 on spirits sold at a government store established on a distiller's licensed premises shall be retained by such distiller.

6. **Budget Amendment Necessary**: No

7. **Fiscal Impact Estimates:** Preliminary (see Item 8)

8. **Fiscal Implications:** Under the proposed legislation, profits on distillery store sales that now go to the state general fund would be retained as income by distillery stores.

   A business holding an ABC-issued distillery license is allowed to manufacture distilled spirits and sell the manufactured spirits to ABC, the government or any entity outside the Commonwealth of Virginia legally authorized to receive the product. ABC is the wholesale distributor and sole retailer for all distilled spirits sold in Virginia. As shown in the table below, the number of distillery stores has steadily increased in recent years and ABC anticipates this market sector will continue to grow.

Fiscal Year	Number of Distillery Stores
2010	4
2014	9
2017	28
2018 (to date)	38

   Distilled spirits sold by distillery stores are purchased by ABC for resale in those distillery stores. Consequently, all of these distilled spirits are subject to the collection of spirit and wine taxes and a reasonable markup is applied to all of these distilled spirits. The markup on distilled spirits provides the profits that ABC uses to cover its operating expenses and meet the profit requirement set out in the Appropriation Act.

   Under the proposed legislation, the Commonwealth would continue to receive the spirit and wine taxes, however, it would no longer receive profits from distillery stores sales and ABC would have to cover the approximately $200,000 in expense it incurs in supporting distillery stores. Distillery store sales were almost $3.9 million in FY 2017, and are expected to

increase to an estimated $7.2 million in FY 2019, and $9.9 million in FY 2020. Based on ABC estimates of distillery store sales, it is expected ABC profit contributions to the state general fund would decrease by the amounts shown below:

Fiscal Year	Estimated decrease in profits to the general fund
FY 2019	-$1,690,858
FY 2020	-$2,316,476
FY 2021	-$3,173,572
FY 2022	-$4,347,793

Currently, distillery stores operating within the Commonwealth must enter into a contractual agreement with ABC. Distillery stores are paid a 8 percent commission on their sales volume and reimbursed the $2 case handling charge on bottles sold at their stores. In FY 2017, ABC reimbursed approximately $300,000 in commissions and $33,000 in case handling charges. If the proposed legislation is enacted, it is assumed commission payments and case handling charge reimbursements would be discontinued.

9. Specific Agency or Political Subdivisions Affected: ABC

10. Technical Amendment Necessary: No

11. Other Comments:
Code of Virginia § 2.2-1802 states "Every state department, division, officer, board, commission, institution or other agency owned or controlled by the Commonwealth, whether at the seat of government or not, collecting or receiving public funds, or moneys from any source, belonging to or for the use of the Commonwealth, or for the use of any state agency, shall hereafter pay the same promptly into the state treasury. All fees of office and commissions accruing to the State Treasurer shall be paid into the state treasury." Accordingly, it is assumed ABC will continue to be responsible for collecting all sales revenue, calculating each distillery's share and refunding the markup amount.