

**Department of Planning and Budget
2011 Fiscal Impact Statement**

1. Bill Number: SB1417

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

2. Patron(s): Obenshain and Watkins

3. Committee: Senate Committee on Rehabilitation and Social Services

4. Title: Alcoholic beverage control (ABC); retail privatization.

5. Summary: Provides for the full implementation of retail privatization of distilled spirits by January 1, 2013. Under the provisions of the bill, the ABC Board is to develop a plan for the discontinuation of government stores by December 31, 2011, at which time the process of auctioning of retail licenses for distilled spirits will begin. The ABC Board will still operate the warehouse for the wholesale sale of distilled spirits and wine produced by farm wineries. The bill creates a new distilled spirits retail license, which will be granted to successful bidders at an auction conducted by the ABC Board, and sets out the privileges of the license and the rates for the annual state and local license taxes. Under the provisions of the bill, these new licenses are transferable, are categorized by tier depending on square footage of the retail space and shelf space of the successful bidder, and are limited in number to one license per 8,000 people in each locality. Among other things, the bill (i) allows the new licensees the ability to set prices in accordance with their own individual business plans and in response to market conditions; (ii) provides that no one business entity shall be awarded more than 25 percent of the total number of distilled spirits retail licenses granted in any one tier, nor shall more than 25 percent of the total number of distilled spirits retail licenses in any one tier be held by businesses under common control; and (iii) provides that all revenue generated from the initial auction of distilled spirits retail licenses shall be deposited in the Transportation Trust Fund. The bill contains numerous technical amendments and has a delayed effective date to coincide with the full implementation of retail privatization by January 1, 2013.

6. Budget Amendment Necessary: Yes, Item 373

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

8. Fiscal Implications:

The proposed legislation requires the state to discontinue operation of government stores as well as the disposition of all real property owned or leased by the board used for government stores by December 31, 2011. The Department currently operates 334 stores throughout the Commonwealth. Of these, 17 stores are owned by the Commonwealth with an assessed value of approximately \$16.9M. The remaining 315 stores are leased from private entities. All leases contain an opt-out clause should ABC cease its retailing functions. The agency would continue to be the exclusive wholesale source for distilled spirits in the Commonwealth and would continue to operate the warehouse and distribution system to

deliver spirits to retail outlets. The bill caps the number of licenses at one license per 8,000 residents in each Virginia locality which would be approximately 1,000 stores statewide. It is not anticipated that the increase in stores, from 334 to approximately 1,000, would create a significant number of additional outlets because existing wine and beer establishments are expected to seek distilled spirits licensure. Under the current system, mixed beverage licensees purchase distilled spirits directly from ABC government stores. Under this proposal, those licensees would make their distilled spirits purchases from retailers.

The fiscal impacts to the Commonwealth were derived from an analysis conducted by Public Financial Management, Inc. (PFM) based on information, including sales and cost data, provided by ABC:

- 1) The ABC board will develop a bid formula that would guarantee receipts to the Commonwealth with no less than \$200 million in payments by successful bidders. PFM estimated that \$300M (+/- \$100M) was a reasonable forecast for up front auction revenues. These revenues would go to the Transportation Trust Fund.
- 2) A portion of the bid payments will be used to pay the entire cost of the Workforce Transition Act (WTA) obligation for the 591 classified and 1,500 wage positions that would be eliminated. Preliminary estimates for the maximum WTA benefits paid are approximately \$28M million.
- 3) The annual license fees will be based on four tiers and range from \$500-\$4,000. Revenues from annual license payments will be earmarked for hiring and training at least 22 additional ABC law enforcement agents.
- 4) PFM estimated that annual revenues would increase by approximately \$13M because of decreased state retail operating costs and an average 5 percent increase in sales volume. These revenues would be in addition to the currently budgeted revenues from ABC operations, presently assumed as transfers to the general fund.

The full PFM report can be found at:

http://www.reform.virginia.gov/docs/VA_ABC_Final_Report_January_10_2011.pdf

9. Specific Agency or Political Subdivisions Affected: Department of Alcoholic Beverage Control

10. Technical Amendment Necessary: No

11. Other Comments: Same as HB2456

Date: January 21, 2011

Document: G:\2011 FIS\SB1417.Doc Reginald Thompson

c: