



GOVERNOR
BRIAN SCHWEITZER
STATE OF MONTANA

LIQUOR REVENUE SECTION 6

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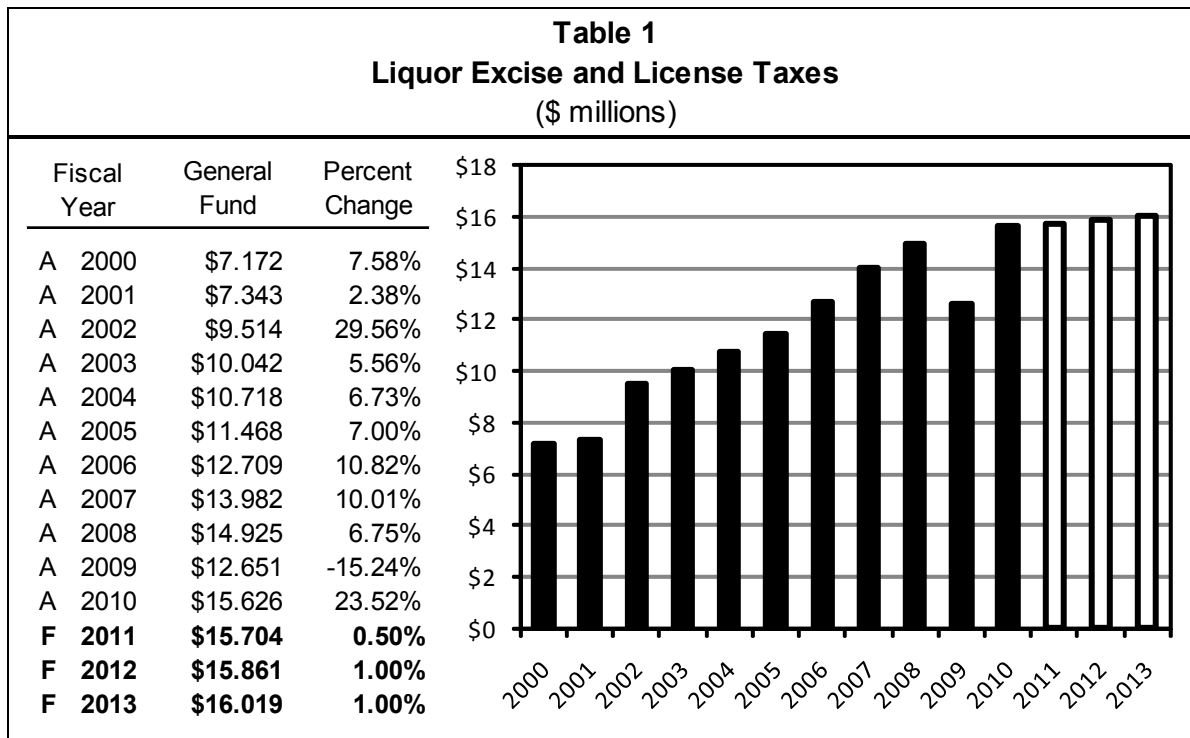


GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Revenue Description

According to 16-1-401 and 16-1-404, MCA, the Department of Revenue is directed to collect an **excise** tax of 16% and a **license** tax of 10% of the retail selling price on all liquor sold and delivered in the state and manufactured by distillers producing 200,000 or more proof gallons of alcohol annually. Both the excise and license tax rates are smaller for distillers that produce less than 200,000 proof gallons of alcohol. Currently, all Montana liquor is supplied by distillers that produce at least 200,000 proof gallons of alcohol annually.

Section 16-1-404, MCA, states that 65.5% of the liquor **license** tax is deposited to the Department of Public Health and Human Services (DPHHS) to fund treatment, rehabilitation and prevention of alcoholism and chemical dependency. Three Indian tribes have an agreement with the state, and a portion of the remaining revenue from both the excise and license tax is shared with tribes that have a revenue sharing agreement with the state. The remaining revenue is deposited to the general fund.



HB 124 (2001 Session) changed the distribution of the liquor license tax. Prior to FY 2002, 30% of the liquor license tax was distributed to local governments. Beginning in FY 2002, 65.5% of liquor license tax revenue is distributed to DPHHS and 34.5% is distributed to the state general fund. This change explains the 29.6% growth in state general fund revenue in FY 2002 from this source.

Risk and Significant Factors

- Liquor units sold experienced an average annual increase of 3.85% between 2000 and 2010.
- Cost per liquor unit sold experienced an average annual increase of 2.21% between 2000 and 2010.
- The Fort Peck, Fort Belknap, and Blackfeet Indian Reservations have a revenue sharing agreement with the state. The revenue sharing agreement distributes revenues to the tribes based on the per capita general fund revenue multiplied by the number of enrolled tribal members. Tribal revenue is estimated to be 1.96% of the non DPHHS liquor revenue for FY 2011 through FY 2013.

Forecast Methodology

The general fund share of the liquor excise and license tax is prepared in five steps:

Step 1. Calculate gross sales.

Step 2. Calculate retail selling value.

Step 3. Calculate gross liquor excise and license tax collections.

Step 4. Calculate tribal portion of revenue.

Step 5. Calculate liquor excise and license tax general fund revenue.

Distribution

Table 2 shows liquor license tax is first distributed to DPHHS, then revenue from the liquor excise tax is added. Finally, tribal revenues are subtracted to obtain general fund revenue.

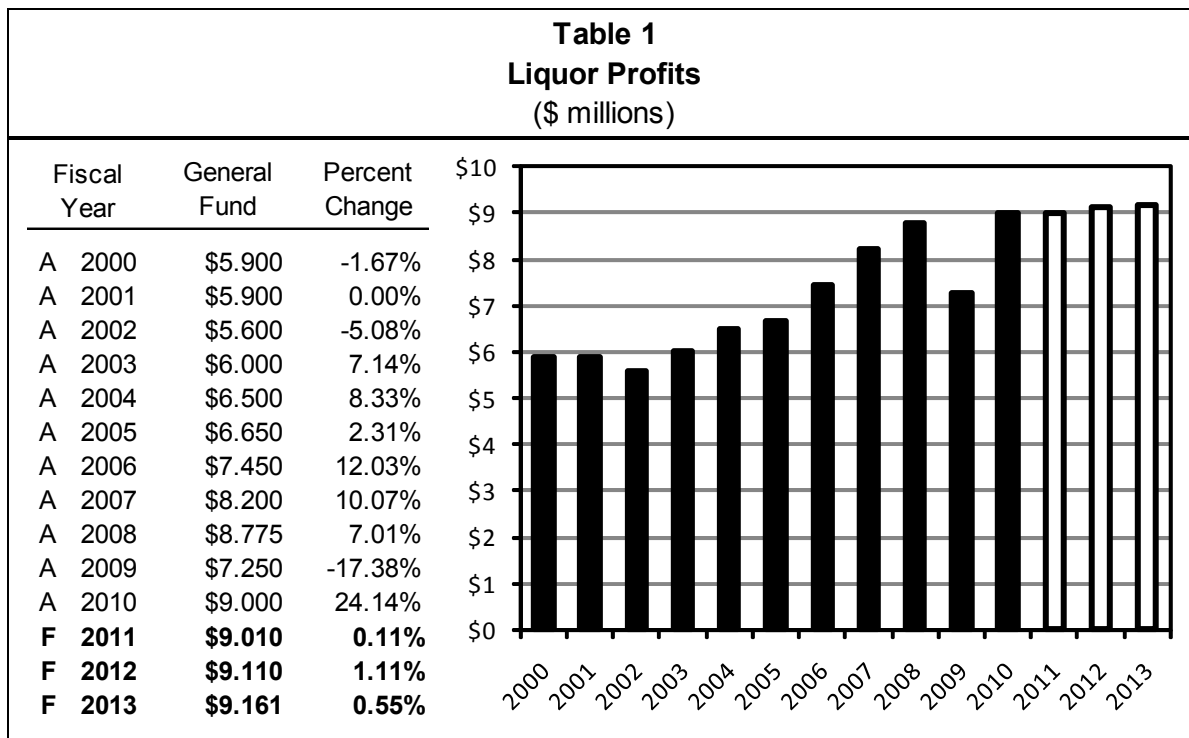
Table 2			
Liquor Excise and License Tax Revenue Allocation			
Description	Projected FY 2011	Projected FY 2012	Projected FY 2013
Liquor License Tax	\$8,235,058	\$8,317,409	\$8,400,583
Less DPHHS Share (65.5%)	<u>\$5,393,963</u>	<u>\$5,447,903</u>	<u>\$5,502,382</u>
	\$2,841,095	\$2,869,506	\$2,898,201
Liquor Excise Tax	<u>\$13,176,093</u>	<u>\$13,307,854</u>	<u>\$13,440,932</u>
Non DPHHS Liquor Tax Revenue	\$16,017,188	\$16,177,360	\$16,339,133
Less Tribal Share (1.96%)	<u>\$313,599</u>	<u>\$316,735</u>	<u>\$319,902</u>
General Fund Revenue	<u>\$15,703,589</u>	<u>\$15,860,625</u>	<u>\$16,019,231</u>

Data Sources

Data is from the Department of Revenue monthly cost of sales report, the Department of Revenue Liquor Distribution annual financial schedules, and SABHRS.

Revenue Description

Title 16, chapters 1 through 6, MCA, directs the Department of Revenue to administer liquor laws relating to alcoholic beverage control, sale, and distribution, and the licensing of alcoholic beverage manufacturers, wholesalers, and retailers. Agency franchisees purchase liquor products from the state liquor warehouse. A 40% markup on the state's base costs covers the operating costs of the state liquor system and provides a net profit. All liquor profit net revenue is transferred to the general fund at fiscal year end.



The state privatized liquor retailing operations in FY 1996. Liquor profit transfers to the general fund have gradually increased since that time. The relatively small increase of less than 5% in FY 2008 and FY 2011 is due to the renegotiation of liquor store owner's commission rates in 2008 and FY 2011. Increasing the commission rates will reduce the state liquor profits revenue transferred to the general fund.

Risks and Significant Factors

- Liquor gross sales have experienced an average annual increase of 6.4% between 2002 and 2010.
- Sales commissions are paid to liquor store owners by the State of Montana. The commission rate was negotiated with liquor store owners when privatization occurred in 1996, and varies among store owners. In compliance with the law, the commission rates are negotiated between the Department of Revenue and the store owners every three years. SB 348 (2001 Session) increased the commission rates over a three-year period based on the annual sales volume by agency liquor stores. The SB 348 rates and new negotiated commission rates increase went into effect in FY 2008. In FY 2008, the commission rate increased to 9.40% (from 9.15%) for FY 2008 through FY 2010. Commission rates will be negotiated again in FY 2011.
- Discounts are offered to liquor store owners on purchases of unbroken case lots as provided for in Section 16-2-201, MCA. HB 348 (2001 session) provided for certain additional discounts, mainly related to volume.

Forecast Methodology

The liquor profit transfer to the general fund is based on the net income from liquor operations for the fiscal year.

Step 1. Net income from liquor operations is calculated as gross liquor sales less the cost of goods sold, liquor taxes (liquor excise tax and liquor license tax), commissions, discounts, and liquor operating expenses.

Step 2. The calculations for gross liquor sales, cost of goods sold, and liquor taxes are ascertained through the process of forecasting *Liquor Excise and License Tax General Fund Revenue*.

Table 2 summarizes the calculations of commissions, discounts, operating expenses, and profits.

Distribution

Table 2 shows liquor profit forecasts for FY 2011 through FY 2013. Gross liquor sales are added to a small amount of other revenue. The profits are then adjusted for the changes to the net assets of the liquor control division, and the remainder is transferred to the general fund.

Fiscal Year	Gross Sales	Other Revenue	Commissions	Discounts	Cost of Goods Sold	Liquor Taxes	Operating Expenses	Profit	Changes in Net Assets	Transfer to General Fund
A 2005	\$75.687	+ \$0.552	- \$6.913	- \$2.249	- \$42.693	- \$15.616	- \$2.105	▶ \$6.662	- \$0.012	= \$6.650
A 2006	\$83.916	+ \$0.475	- \$7.683	- \$2.464	- \$47.324	- \$17.310	- \$2.167	▶ \$7.443	- \$0.007	= \$7.450
A 2007	\$92.301	+ \$0.487	- \$8.450	- \$2.681	- \$52.142	- \$19.039	- \$2.143	▶ \$8.333	- \$0.133	= \$8.200
A 2008	\$98.595	+ \$0.583	- \$9.266	- \$2.848	- \$55.688	- \$20.333	- \$2.256	▶ \$8.786	- \$0.011	= \$8.775
A 2009	\$102.342	+ \$0.715	- \$9.615	- \$2.943	- \$57.704	- \$21.107	- \$2.361	▶ \$9.327	- \$2.065	= \$7.262
A 2010	\$102.734	+ \$0.740	- \$9.667	- \$2.950	- \$57.881	- \$21.159	- \$2.536	▶ \$9.282	- \$0.272	= \$9.010
F 2011	\$103.762	+ \$0.747	- \$9.854	- \$2.979	- \$58.452	- \$21.371	- \$2.561	▶ \$9.292	- \$0.282	= \$9.010
F 2012	\$104.799	+ \$0.755	- \$9.953	- \$3.009	- \$59.037	- \$21.584	- \$2.587	▶ \$9.385	- \$0.275	= \$9.110
F 2013	\$105.847	+ \$0.762	- \$10.052	- \$3.039	- \$59.627	- \$21.800	- \$2.612	▶ \$9.479	- \$0.318	= \$9.161

Data Sources

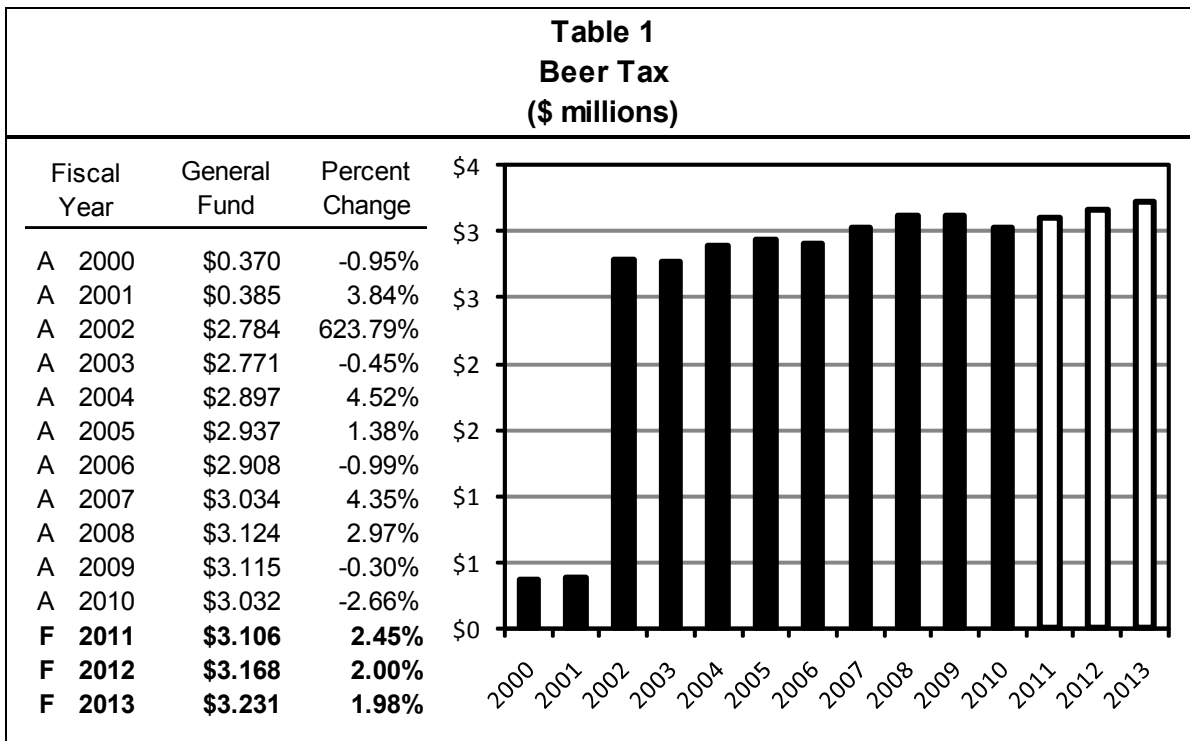
Gross liquor sales data and other related data comes from the Department of Revenue Liquor Services Division Annual Financial Report. Other data is from SABHRS and MBARS.

Revenue Description

According to 16-1-406, MCA, the Department of Revenue is directed to collect a tax on each barrel (31 gallons) of beer sold in Montana by a wholesaler at the following rate:

<u>Barrels Produced by a Brewer</u>	<u>Tax Rate Per Barrel</u>
Less than or equal to 5,000	\$1.30
5,001 to 10,000	\$2.30
10,001 to 20,000	\$3.30
Greater than 20,000	\$4.30

From total beer tax revenue, 76.74% is distributed to the state general fund and 23.26% is distributed to the Department of Public Health and Human Services (DPHHS) to fund alcohol treatment programs. A small portion of the beer tax revenue allocated to the general fund (approximately 2%) is remitted to the Blackfeet, Fort Peck, and Fort Belknap Reservations in compliance with revenue sharing agreements with the tribes.



HB 166 (1997 Special Session) decreased the general fund share of beer tax revenue from 41.86% to 11.63%, which caused a large drop in general fund revenue for FY 1998 through FY 2001. The significant increase in general fund beer tax revenue since FY 2002 is due to HB 124 (2001 Session), which raised the general fund share of beer tax revenue from 11.63% to 76.74%.

Risks and Significant Factors

- Per capita beer consumption is virtually flat, increasing an average of only 0.01% between 2002 and 2010.
- Montana population over age 20 experience an average annual increase of 1.33% between 2002 and 2010.
- Montana population age 20 and over was used for this forecast because, according to a statistical analysis, this demographic tracked total beer consumption over time better than changes in other age demographics such as total population, the population between 30 and 60 years old, etc.

- Tribal payments averaged 1.95% of the non-DPHHS tax allocation from FY 2006 through FY 2010 and are estimated to remain constant at 1.95% of the non-DPHHS allocation for FY 2011 through FY 2013.

Forecast Methodology

The general fund share of the beer tax is prepared in three steps:

Step 1. Calculate per capita consumption of beer.

Step 2. Total revenue is projected by multiplying per capita consumption by total Montana population.

Step 3. Total revenue is allocated to the general fund, DPHHS, and the tribes, per the revenue sharing agreements.

Distribution

Table 2 shows the projected allocation of beer tax revenue to the general fund, DPHHS, and the tribes. DPHHS revenue allocation is subtracted from total beer tax revenue to obtain total general fund and tribe share. Tribe share is then calculated and subtracted to obtain estimated beer tax revenue for the general fund.

Table 2				
Beer Tax Revenue Allocation				
(\$ Millions)				
Description	FY 2010	FY 2011	FY 2012	FY 2013
Total Revenue	\$ 4.046	\$ 4.128	\$ 4.211	\$ 4.294
Less DPHHS Share (23.26%)	\$ (0.941)	\$ (0.960)	\$ (0.979)	\$ (0.999)
General Fund and Tribes' Share	\$ 3.105	\$ 3.168	\$ 3.232	\$ 3.295
Less Tribes' Share (1.95%)	\$ (0.061)	\$ (0.062)	\$ (0.063)	\$ (0.064)
General Fund	\$ 3.044	\$ 3.106	\$ 3.168	\$ 3.231

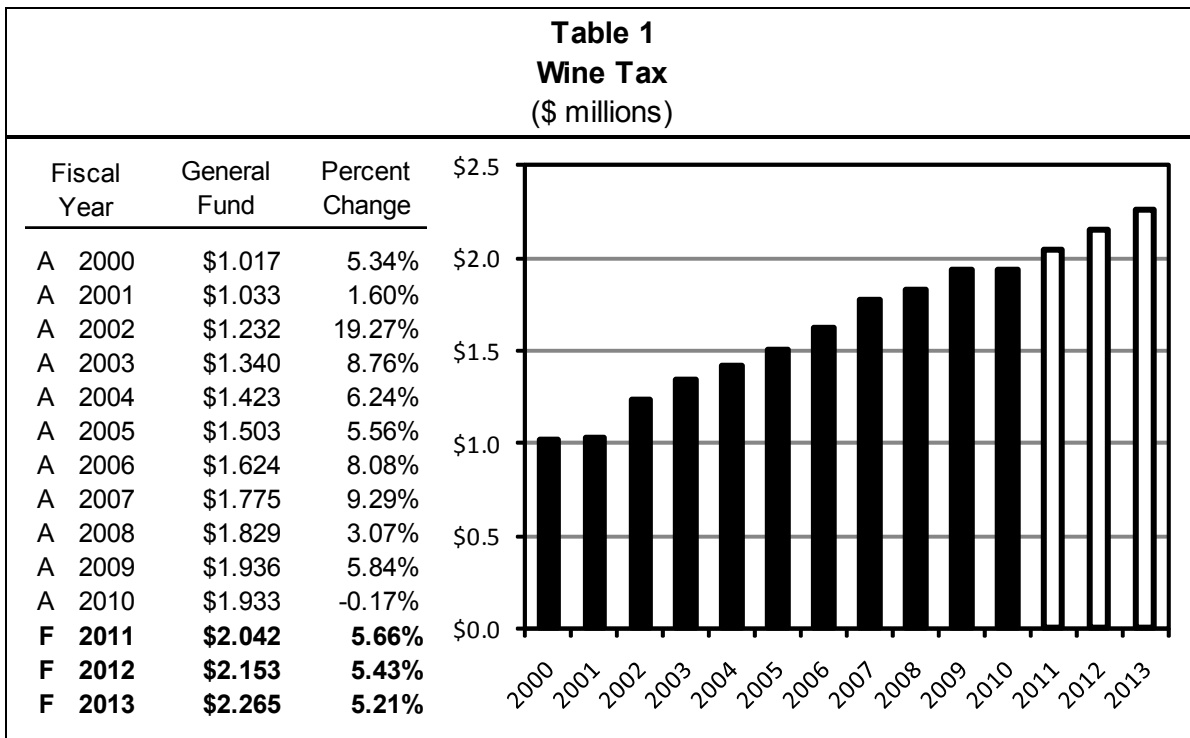
Data Sources

SABHRS provided historical beer tax revenue and allocation information. Global Insight Research Service provided historical and projected Montana population data.

Revenue Description

According to 16-1-411, MCA, the Department of Revenue is directed to collect a tax of 27 cents on each liter of table wine and 3.7 cents on each liter of hard cider imported by a distributor or the department. Additionally, a tax of 1 cent per liter of wine is levied on table wine sold by a table wine dealer to an agent, pursuant to 16-2-301, MCA.

Wine tax revenues are distributed 69% to the state general fund and 31% to the Department of Public Health and Human Services (DPHHS) for the treatment, rehabilitation, and prevention of alcoholism and chemical dependency. Approximately 2% of the wine tax revenue allocated to the general fund is remitted to the Blackfeet, Fort Peck, and Fort Belknap Reservations in compliance with revenue sharing agreements with the tribes.



FY 2002 wine tax revenue increased 19.27% due to HB 124 (2001 Session), which increased the general fund share of wine tax revenue from 59% to 69%. This forecast projects the per capita consumption of wine in Montana will grow at a rate of 0.562 liters per person between FY 2011 and FY 2013. This growth is the result of a statistical regression analyzing the growth in per capita wine consumption from FY 2002 through FY 2010. Table 1 shows actual wine tax revenue transferred to the general fund for FY 2000 to FY 2010 and forecasted revenues for FY 2011 through FY 2013.

Risks and Significant Factors

- Per capita consumption experienced an average annual increase of 3.77% between 2002 and 2010, although consumption decreased 1% in 2010.
- Montana population age 20 and over was used for this forecast because, according to a statistical analysis, this demographic tracked total wine consumption over time better than changes in other age demographics such as total population or the population between 30 and 60 years old.
- Montana population age 20 and over has experienced an average annual increase of 1.33% between 2002 and 2010.

Forecast Methodology

The general fund share of the wine tax is prepared in three steps:

Step 1. Estimate liters of per capita wine consumption for FY 2011 through FY 2013 using per capita consumption from FY 2002 through FY 2010.

Step 2. Multiply the estimates of per capita consumption by population and the tax rate (\$0.27/liter) to obtain estimates of total tax revenue through FY 2013.

Step 3. Determine the wine tax allocation to the general fund.

Distribution

Table 2 shows the estimated revenue distribution for FY 2011 through FY 2013. Of the total revenue, 31% is first distributed to the DPHHS. The tribe revenue allocation payment (1.87%) is then extracted from the remaining revenue for FY 2011 through FY 2013. All revenue which remains after DPHHS and tribe payments have been subtracted is deposited to the general fund.

Description	FY 2011	FY 2012	FY 2013
Total Revenue	\$3.018	\$3.182	\$3.348
Less DPHHS Share (31%)	-\$0.936	-\$0.986	-\$1.038
General Fund and Tribes' Share	\$2.082	\$2.195	\$2.310
Less Tribes' Share (1.87%)	-\$0.040	-\$0.043	-\$0.045
General Fund	\$2.042	\$2.153	\$2.265

Data Sources

SABHRS provided historical wine tax revenue and allocation information. Global Insight Research Service provided historical and projected Montana population data.