

FISCAL NOTE
 LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2019-20		FY 2020-21	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	\$437,023	(\$1,199,165)	\$124,260	(\$1,598,886)
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	\$437,023	(\$1,199,165)	\$124,260	(\$1,598,886)

Any Fiscal Notes received from state agencies and political subdivisions are attached following the Legislative Fiscal Analyst Estimate.

LB 682 amends the Nebraska Liquor Control Act to change the method of taxing spirits from gallons to proof gallons. A “proof gallon” is defined as a gallon of spirits that is 50% alcohol. The bill requires the Nebraska Liquor Control Commission (NLCC) to create a mechanism to identify alcohol by volume of spirits, which can be a brand or label registration system. Proof gallons is calculated by multiplying the gallons per case of spirits by the alcohol percentage divided by 50%.

Revenue:

NLCC estimates the provisions of LB 682 result in a reduction in General Fund revenue of approximately \$1.6 million per fiscal year. Due to the operative date, the Legislative Fiscal Office estimates the reduction in revenue in FY 19-20 to be \$1,199,165.

Expenditures:

NLCC estimates the following expenditures to implement the bill:

- A one-time charge of \$150,000 to OCIO in FY 19-20 to revise online reporting systems to accommodate proof gallon reporting;
- A one-time charge of \$150,000 to OCIO in FY 19-20 to create a brand or label registration system and maintenance costs of \$30,000 per year thereafter; and
- Expenditures for 2.0 FTE Accountant I each year for oversight and compliance for a total cost of \$137,023.

There is no basis to disagree with these estimates.

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE		
LB: 682	AM:	AGENCY/POLT. SUB: Nebraska Liquor Control Commission (035)
REVIEWED BY: Joe Wilcox	DATE: 01/31/2019	PHONE: (402) 471-4178
COMMENTS: No basis to dispute the Nebraska Liquor Control Commission estimate of potential Fiscal Impact to the Agency from LB 682.		

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2019

LB⁽¹⁾ 682

FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾ Nebraska Liquor Control Commission

Prepared by: ⁽³⁾ LeAnna Prange Date Prepared: ⁽⁴⁾ 1/30/19 Phone: ⁽⁵⁾ 402-471-4892

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2019-20</u>		<u>FY 2020-21</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	437,023	-1,598,886	124,260	-1,598,886
CASH FUNDS	0	0	0	0
FEDERAL FUNDS	0	0	0	
OTHER FUNDS	0	0	0	0
TOTAL FUNDS	437,023	-1,598,886	124,260	-1,598,886

Explanation of Estimate:

NLCC is proposing \$437,023 expenditure to amend all affected online reporting systems to the proposed proof gallon means of reporting spirit excise taxes. This includes the cost of implementing a mechanism to identify alcohol by volume of spirits distributed in Nebraska. This mechanism may be a brand or label registration system as allowed in the proposed LB. This is an estimate only.

The total gallons used in calculation is the total gallons reported for excise tax in 2018. However, the total gallons were amended to a 70%/30% split: 70% calculated at 40 ABV and 30% at 55 ABV. It is estimated that 70% of the spirits in the industry are at a 40 ABV; and 30% would be at a higher than 50 ABV, and 55 ABV was selected due to the high proof gallon products reported being sold in lower volumes. The results of this calculation is spirits excise taxes would decrease \$1,598,886 which is a decrease of approximately 11%.

It is a concern of NLCC that the definition and calculation of proof gallons as provided in LB 682 is not 100% identical to Federal TTB Regulations. NLCC does not anticipate it to be problematic.

The Revenue decrease is outlined in this table:

Based on 2018 reported gallons to NLCC					
	Beer	Spirits	Wine	Farm Wine	Total Revenue
Gallons	44,803,876	3,876,088	3,394,878	93,138	
Current rate	\$0.31	\$3.75	\$0.95	\$0.06	
Current Revenue	\$13,889,201.56	\$14,535,330.00	\$3,225,134.10	\$5,588.28	31,655,254
Proposed: change to proof gallons	\$0.31	\$3.75	\$0.95	\$0.06	
Difference of rate	\$0.00	\$0.00	\$0.00	\$0.00	
30% of total spirit gallons at 55 ABV	(NO CHANGE)	1,279,109	(NO CHANGE)	(NO CHANGE)	
70% of total spirit gallons at 40 ABV		2,170,609			
Total Proof gallons		3,449,718			
Total Excise Tax Revenue by Proof Gal.		\$12,936,444			
Reduction of Spirit Excise Tax		-1,598,886			
	\$13,889,201.56	\$12,936,443.70	\$3,225,134.10	\$5,588.28	30,056,368
TOTAL DECREASE OF REVENUE if LB 682 passes (assuming consumption remains identical to 2018)					-1,598,886

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2019-20</u>	<u>2020-21</u>
	<u>19-20</u>	<u>20-21</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
Accountant I	2	2	78,462	78,462
Benefits.....			25,798	25,798
Operating.....			300,000	20,000
Travel.....			0	0
Capital outlay.....			32,763	0
Aid.....			0	0
Capital improvements.....			0	0
TOTAL.....			437,023	124,260

NLCC has 2 online reporting systems that collect spirit excise taxes. These online reporting systems will require revision to accommodate proof gallon method of reporting spirit gallons for excise tax. There is a cost estimate of \$150,000 associated with these reporting issues. It would be NLCC's preference that the process be automated to confirm proof gallons entering into the State be identical to the proof gallons being sold in the state. However, there is no cost included in this fiscal note for this type of automation.

NLCC has confirmed with OCIO regarding the creation of a mechanism to identify the alcohol by volume of spirits distributed in Nebraska. The OCIO provided a quote of \$150,000 for the creation of brand or label registration with maintenance costs annually the following years.

Lastly NLCC is requesting 2 FTE for oversight and implementation of proof gallon spirit reporting and cross checking required to maintain full compliance. Total cost of 2 FTE positions is \$137,023.