

# GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2009

## Legislative Fiscal Note

**BILL NUMBER:** House Bill 1595 (Second Edition)

**SHORT TITLE:** Malt Beverage Special Permit.

**SPONSOR(S):** Representatives Tillis and Ross

<b>FISCAL IMPACT</b>					
	<b>Yes (X)</b>	<b>No ( )</b>	<b>No Estimate Available ( )</b>		
	<b><u>FY 2009-10</u></b>	<b><u>FY 2010-11</u></b>	<b><u>FY 2011-12</u></b>	<b><u>FY 2012-13</u></b>	<b><u>FY 2013-14</u></b>
<b>REVENUES</b>	<b>\$101,700</b>	<b>\$44,325</b>	<b>\$53,925</b>	<b>\$65,800</b>	<b>\$80,100</b>
<b>EXPENDITURES</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>POSITIONS (cumulative):</b>					
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> ABC Commission					
<b>EFFECTIVE DATE:</b> October 1, 2009					

### **BILL SUMMARY:**

H.B. 1595 amends G.S. 18B-902(d) to establish an application fee for a new malt beverage special event permit (\$200) and a malt beverage tasting permit (\$100). The bill adds a new section G.S. 18B-1001(18) defining the conditions for a malt beverage tasting permit, which involve providing samples of beverages in amounts of no more than two ounces each, without charge. It establishes further guidelines for the tasting and includes liability provisions. H.B. 1595 also amends G.S. 18B-1100 to authorize the Alcoholic Beverage Control (ABC) Commission to issue a malt beverage special event permit and adds a new section G.S. 18B-1114.5 defining the conditions for such an event, which involves providing free tastings and selling beverages at trade shows, conventions, festivals, and other similar events approved by the Commission. Finally, the bill provides that such permits are valid only in jurisdictions that have approved the establishment of ABC stores or have approved the sale of malt beverages. The Second Edition of H.B. 1595 adds nonresident malt beverage vendors and malt beverage importers to the permit holders eligible to receive a malt beverage special event permit.

Source: *Adapted from the Bill Digest H.B. 1595 (05/05/2000).*

## **Background**

The Alcoholic Beverage Control Commission issues over 62 different types of permits, all established in statute. There are two main types of permits – retail permits for establishments selling alcohol to the general public (this would include restaurants and bars, as well as grocery stores and corner markets) and commercial permits for establishments either making alcohol products (wineries, breweries, or distilleries) or selling those products to retail outlets for resale to the general public (liquor importers, malt beverage wholesalers, etc.). Commercial permits require a one-time initial license fee and remain valid indefinitely. Retail permits require an initial license fee, and in most cases require an annual renewal or registration fee. Proceeds from the sale of permits go to the General Fund.

## **ASSUMPTIONS AND METHODOLOGY:**

This bill creates two new retail permits in G.S. 18B-902(d), a malt beverage special event permit and a malt beverage tasting permit.

### **Malt Beverage Special Event Permit**

The malt beverage special event permit would be available to brewery, malt beverage importer, and nonresident malt beverage vendor permit holders. The malt beverage special event permit is identical to the permit available for wine special events. Winery special events permits are available to holders of unfortified and limited winery permits, wine producer permits, and viticulture or enology course permits. In order to estimate the number of breweries that would apply for special events permits, the ratio of unfortified and limited winery permit holders, wine producers permit holders, and viticulture/enology course permit holders to winery special event permits was calculated. In 2009, there are 88 unfortified winery permits, no limited winery permits, 17 wine producer permits, and one viticulture/enology course permit, for a total of 106 permit holders eligible for the special event permit. However, only 86 winery special event permits have been issued in 2009. Therefore, based on current permit holders, 81% of those eligible for a wine special event permit applied for one.

In 2009, the ABC Commission has issued 40 brewery permits, five malt beverage importer permits, and 40 nonresident malt beverage vendor permits. If 81% of those permit holders applied for a special event permit, 62 permits might be issued. The bill establishes a permit fee of \$200 for the malt beverage special event permit. Therefore, the new permit will generate \$12,400 in permit fees. (\$200 multiplied by 62 permits equals \$12,400.) To the extent that the number of special event permit holders estimated is incorrect, this figure may be over- or underestimated. Since the malt beverage special event permit is a commercial permit, there is no renewal or registration fee associated with it. Therefore, no permit fees will be generated in addition to the initial permit fee.

To determine the rate at which the number of permit holders might increase over the next five years, a history of winery special event permits was examined. The table below provides the number of winery special event permits held each year, along with the percent increase in number of permit holders over the prior year. The average percent increase over this five year period was 19%.

<b>Winery Special Event Permits Since FY 2004-05</b>					
<b>Fiscal Year</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>
<b>Winery Special Event Permits</b>	43	54	67	80	86
<b>Increase Over Prior Year</b>		26%	24%	19%	8%

The following table shows the number of new permits that would be issued each year if the malt beverage special event permits increased at the same average rate as the winery special event permits. This table also provides the estimated revenue that would be generated from those new permits assuming the fee remained \$200.

<b>Estimated Malt Beverage Special Event Permits</b>					
<b>Fiscal Year</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>
<b>Malt Beverage Special Event Permits</b>	62	12	14	17	20
<b>New Permit Revenue Generated</b>	\$12,400	\$2,400	\$2,800	\$3,400	\$4,000

### **Malt Beverage Tasting Permits**

The tasting permit would be available to holders of malt beverage off-premise permits. In order to estimate the number of malt beverage off-premise permit holders that would apply for tasting permits, the ratio of off-premise unfortified wine permit holders to wine tasting permits was calculated. (Both unfortified and fortified wine permit holders are eligible to obtain a wine tasting permit. However, in many cases, establishments hold both types of permits. In order to avoid double counting, for the purposes of this note, only unfortified wine permits were used to determine the rate of wine tasting permits issued.) In 2009, there are 6,074 establishments with off-premise unfortified wine permits, and 747 with wine tasting permits. Therefore, based on current permit holders, 12% of those eligible for a wine tasting permit applied for one.

There are currently 7,449 off-premise malt beverage permit holders in the State. If 12% of those establishments applied for a malt beverage tasting permit, 893 permits might be issued. The bill establishes a permit fee of \$100 for the malt beverage tasting permit. Therefore, the new permit will generate \$89,300 in initial permit fees. (\$100 multiplied by 893 permits equals \$89,300.) To the extent that the number of tasting permit holders estimated is incorrect, this figure may be over- or underestimated. Since the malt beverage tasting permit is a retail permit, the renewal fee each year will be 25% of the initial permit fee, or \$25.

To determine the rate at which the number of permit holders might increase over the next five years, a history of wine tasting permits was examined. The table below provides the number of wine tasting permits held each year, along with the percent increase in number of permit holders over the prior year. The average percent increase over this five year period was 22%.

<b>Wine Tasting Permits Since FY 2004-05</b>					
<b>Fiscal Year</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>
<b>Wine Tasting Permits</b>	344	411	460	566	747
<b>Increase Over Prior Year</b>		19%	12%	23%	32%

The following table shows the number of new permits that would be issued each year if the malt beverage tasting permits increased at the same average rate as the wine tasting permits. This table also provides the estimated revenue that would be generated from those new permits assuming the fee remained \$100, and the amount generated by permit renewals, assuming a 100% renewal rate.

<b>Estimated Malt Beverage Tasting Permits Since FY 2004-05</b>						
<b>Fiscal Year</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	
<b>Malt Beverage Tasting Permits</b>	893	196	240	292	357	
<b>New Permit Revenue Generated</b>	\$89,300	\$19,600	\$23,900	\$29,200	\$35,600	
<b>Permit Renewal Revenue Generated</b>	\$0	\$22,325	\$27,225	\$33,200	\$40,500	

The following table shows the total estimated revenue that will be generated by the two new permits authorized by H.B. 1595. The total estimated revenue in the first year will be \$95,700. This estimate assumes the permit fees will remain the same for the next five years and that all tasting permit holders will renew their permits. To the extent that these assumptions are incorrect, this revenue estimate may be over- or underestimated.

<b>Total Estimated Revenue Resulting from H.B. 1595</b>						
<b>Fiscal Year</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	
<b>Malt Beverage Special Events Permits</b>	\$12,400	\$2,400	\$2,800	\$3,400	\$4,000	
<b>Malt Beverage Tasting Initial Permits</b>	\$89,300	\$19,600	\$23,900	\$29,200	\$35,600	
<b>Malt Beverage Tasting Permit Renewal</b>	\$0	\$22,325	\$27,225	\$33,200	\$40,500	
<b>Total</b>	<b>\$95,700</b>	<b>\$43,125</b>	<b>\$52,525</b>	<b>\$64,000</b>	<b>\$78,100</b>	

All ABC permits are issued by the Alcoholic Beverage Control (ABC) Commission. The Commission has indicated that there will be no additional operating expenses resulting from this bill. Therefore, no expenditures are anticipated.

**SOURCES OF DATA:** ABC Commission

**TECHNICAL CONSIDERATIONS:** None

**FISCAL RESEARCH DIVISION:** (919) 733-4910

**PREPARED BY:** Kristine Leggett

**APPROVED BY:** Marilyn Chism, Director  
Fiscal Research Division

**DATE:** June 2, 2009



**Signed Copy Located in the NCGA Principal Clerk's Offices**