

**STATE and LOCAL
FISCAL IMPACT**

Drafting Number: LLS 10-0527
Prime Sponsor(s): Rep. McFadyen
 Sen. Williams

Date: March 22, 2010
Bill Status: House Business Affairs and Labor
Fiscal Analyst: Harry Zeid (303-866-4753)

TITLE: CONCERNING THE OWNERSHIP OF A LICENSE TO SELL ALCOHOL BEVERAGES AT RETAIL, AND, IN CONNECTION THEREWITH, ALLOWING A GROCERY STORE TO APPLY TO TRANSFER OWNERSHIP AND CHANGE LOCATION OF A RETAIL LIQUOR STORE LICENSE AND TO CONVERT THE RETAIL LIQUOR STORE LICENSE TO A LIQUOR-LICENSED DRUGSTORE LICENSE.

Fiscal Impact Summary	FY 2010-2011	FY 2011-2012
State Revenue		
General Fund	(\$925)	(\$1,480)
Cash Funds		
Liquor Enforcement Division and State Licensing Authority Cash Fund	19,500	10,700
State Expenditures		
FTE Position Change		
Effective Date: August 11, 2010, assuming the General Assembly adjourns May 12, 2010, as scheduled and no referendum petition is filed. The bill applies to applications to transfer ownership, change location, and convert a class of license submitted by grocery stores on or after January 1, 2011.		
Appropriation Summary for FY 2010-2011: None required.		
Local Government Impact: See the Local Government Impact section.		

Summary of Legislation

Beginning January 1, 2011, grocery stores may apply to state and local licensing authorities for conversion of a retail liquor store license to a liquor-licensed drugstore license. A grocery store business may obtain an unlimited number of licenses to operate in multiple locations. The new license allows a grocery store to sell full-strength beer, wine, and hard liquor. Conditions of the conversion include:

- the retail liquor store and the grocery store must be within the jurisdiction of the same local licensing authority;
- the grocery store obtaining the license may not be located within 1,000 feet of another retail liquor store within the jurisdiction of the same local licensing authority; and
- at the time of application, the grocery store must provide evidence that its revenue from food sales during the prior 12 months have been at least 51 percent of its total revenue.

The grocery store would pay an application fee to both the state licensing authority and the local licensing authority. The local license fee for a transfer of ownership, change of location, and conversion of class of license may not exceed \$5,000.

State Revenue

Background. Data compiled by the Department of Revenue show 652 grocery store locations in the state that could qualify for the right to receive a transfer ownership of a retail liquor store license to a liquor-licensed drugstore license. The number of stores likely to apply for a new license during the first two years is expected to be relatively small for several reasons: (1) a grocery store must first enter into an agreement to purchase an eligible liquor store business within the same licensing jurisdiction as the grocery store; (2) it may not be cost effective for many grocery store locations to seek a liquor license conversion; (3) the cost to purchase an eligible liquor store location and conversion of grocery store shelf space to accommodate alcohol sales will be significant; (4) liquor store lease terms and the years remaining on the lease will be considered as part of any negotiated buyout; (5) since food sales must represent at least 51 percent of the store's total sales, big box stores and club-type stores will be ineligible to apply for a liquor-licensed drugstore license; and (6) in order to qualify for a liquor-licensed drugstore license, the grocery store must also be licensed by the State Board of Pharmacy.

License Fee Revenue. Table 1 summarizes the expected number of applications and the combined impact of licenses and fees on state revenue. The bill applies to applications to transfer ownership, change location, and convert a class of license beginning January 1, 2011. Generally, the increase in applications for conversion to new **liquor-licensed drugstore licenses** by grocery stores will be offset by a corresponding decrease in renewals of **retail liquor store licenses**. Grocery stores that obtain a liquor-licensed drugstore license will no longer require a **fermented malt beverage license** (a license to sell 3.2 percent beer). Thus, there will be a slight revenue reduction to the General Fund and to local licensing authorities due to the reduced number of fermented malt beverage license renewals.

Table 1. State Fee Revenue Summary Under HB10-1186

	FY 2010-11	FY 2011-12
Number of New Applicants	20	12
Number of Renewals	<u>n/a</u>	<u>20</u>
Total Number of Applications	20	32
State Revenue		
General Fund	(\$925)	(\$1,480)
Liquor Enforcement Division CF	<u>19,500</u>	<u>10,700</u>
Total	\$18,575	\$9,220

General Fund Revenue. In total, General Fund revenue is expected to decrease by \$925 in FY 2010-11, and by \$1,480 in FY 2011-12. This will occur since the approved grocery stores will no longer need to obtain a license to sell 3.2 percent beer once the liquor-licensed drugstore license is granted.

Liquor Enforcement and State Licensing Authority Cash Fund. A net increase of \$19,500 in FY 2010-11, and \$10,700 in FY 2011-12 is anticipated to the Liquor Enforcement and State Licensing Authority Cash Fund from new grocery store applications. This includes the impact of \$1,025 per applicant application fee, as well as the anticipated reduction in grocery store license applications for 3.2 percent beer sales.

Impact on Liquor Sales. It is recognized that over time, the bill will lead to increased access and convenience related to alcohol purchases by Colorado consumers. In the short term, however, no significant change in alcohol purchases are expected to occur. Since the number of locations available to purchase alcohol will not change as a result of the bill, sales tax and excise tax on alcohol purchases are expected to remain constant. Any reduction in 3.2 percent beer purchases at grocery stores will be offset by a corresponding increase in full-strength beer sales. On balance, the impact to alcohol sales statewide is expected to be minimal.

State Expenditures

Given the limited time necessary to process each liquor-licensed drugstore license application, any additional workload for the Liquor Enforcement Division can be absorbed within existing division resources. It is assumed that a maximum of 20 grocery store locations will apply for a liquor-licensed drugstore license in FY 2010-11, and that 12 grocery store locations will apply for a license in FY 2011-12 and succeeding years.

Local Government Impact

An annual fee of \$150 is assessed for each annual liquor-licensed drugstore license that is issued. The fee is \$250 if the location is outside of municipal boundaries. Fifteen percent is retained by the local government and 85 percent is remitted to the state. As is the case with a slight reduction in state General Fund revenue, local governments will experience a revenue reduction of about \$450 in FY 2010-11 due to a reduction in the number of 3.2 percent beer licenses issued.

Local license authorities may also impose an additional application fee to cover actual and necessary expenses. The bill limits this fee for the transfer of ownership, change of location, and conversion of class of license to \$5,000.

Departments Contacted

Revenue Local Affairs