Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Commerce & Gaming Committee

HB 2438

Brief Description: Concerning gradually increasing the local government share of excess liquor revenues until the percentage-based method for distributions is restored.

Sponsors: Representatives Nealey, Reykdal, Wylie, Vick, Orcutt, Senn, Wilcox, Kirby, Condotta, Hudgins, Stokesbary, Schmick, Tharinger, Rodne, Magendanz, Zeiger, Walsh, Muri, Rossetti, Springer, Sells, McBride, Kuderer, Bergquist, Hargrove and Goodman.

Brief Summary of Bill

- Increases the distribution of excess liquor revenues to local jurisdictions, incrementally adding to the fixed annual amount.
- Changes the fixed annual distribution amount to a percentage-based formula for local distributions of excess liquor revenues beginning in fiscal year 2024.

Hearing Date: 1/26/16

Staff: Dominique Meyers (786-7150).

Background:

Liquor Fee Revenue Distributions.
Initiative 1183 (I-1183), which was approved by the voters in November 2011, privatized the purchase, distribution, and sale of liquor in Washington State. Prior to I-1183, the Liquor and Cannabis Board (LCB) handled the purchase, distribution, and sale of liquor through a state-owned distribution center, state-owned stores, and certain contract stores.

Under the pre-I-1183 system, the liquor was marked-up and taxed prior to sale. A portion of the markup supported the operation of the state retail liquor stores. The excess profits from sales were deposited into the Liquor Revolving Fund (Fund), and excess funds were distributed by a statutory formula. Three-tenths of 1 percent were distributed from the Fund to border areas. The remaining excess funds were distributed as follows:

- 50 percent to the state;

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- 10 percent to the counties; and
- 40 percent to incorporated cities and towns.

Initiative 1183 eliminated state collection of liquor profits and instead created two license fees. One fee is paid by distributors and another is paid by retailers. All licensure fees are deposited into the Fund.

Initiative 1183 specified that amounts distributed from the Fund to border areas, counties, cities, towns, and the municipal research center must be made in a manner that provides each category of recipient an amount that is no less than that received from liquor profits in the Fund during comparable periods prior to December 8, 2011, plus an additional $10 million distributed from the Fund for public safety.

Since fiscal year 2013, distributions from the Fund to these local governments are no longer based on a statutory formula but rather a fixed amount determined by distributions during a comparable period prior to December 8, 2011, plus the $10 million specified in the initiative. Any amounts remaining in the Fund after these distributions are deposited into the state general fund. The total fixed amount is $49.4 million per year.

Summary of Bill:

Beginning fiscal year 2018 additional revenues, above the current fixed amount of $49.9 million per year, from the Fund will be distributed to local governments as follows:
- for the 2017-19 biennium, $7.5 million in additional revenue from the Fund;
- for the 2019-21 biennium, $17.5 million in additional revenue from the Fund; and
- for the 2021-23 biennium, $27.5 million in additional revenue from the Fund.

The additional revenues must be distributed using the following formula. Three-tenths of 1 percent distributed to border areas, and of the remaining revenues:
- 20 percent to the counties; and
- 80 percent to the cities.

For fiscal year 2024 and beyond, the distribution of revenues in the Fund reverts back to a statutory formula as follows. Three-tenths of 1 percent distributed to border areas, and of the remaining revenues:
- 50 percent to the State General Fund;
- 10 percent to the counties; and
- 40 percent to the cities.

The distributions made using the formula are in addition to the required $10 million for public safety.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on July 1, 2016, except for section 3, relating to the future distribution formula, which takes effect on July 1, 2023.