

## LIQUOR PROFITS

### Revenue Description

The Department of Revenue administers liquor laws relating to alcoholic beverage control, sale, and distribution, and the licensing of alcoholic beverage manufacturers, wholesalers, and retailers (Title 16, Chapters 1 through 6, MCA). 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 revenue is transferred to the general fund at fiscal year end.

### Historical and Projected Revenue

Table 1 shows actual general fund revenue from liquor profits for FY 1996 through FY 2006 and forecast revenue for FY 2007 through FY 2009.

<b>Table 1</b>		
<b>Liquor Profits Historical and Forecast Transfers to General Fund</b>		
<b>(\$ millions)</b>		
Fiscal Year	General Fund	Percent Change
A 1996	6.300	78.12%
A 1997	4.675	-25.79%
A 1998	5.400	15.51%
A 1999	6.000	11.11%
A 2000	5.900	-1.67%
A 2001	5.900	0.00%
A 2002	5.600	-5.08%
A 2003	6.000	7.14%
A 2004	6.500	8.33%
A 2005	6.650	2.31%
A 2006	7.450	12.03%
<b>F 2007</b>	<b>7.765</b>	<b>4.23%</b>
<b>F 2008</b>	<b>7.908</b>	<b>1.85%</b>
<b>F 2009</b>	<b>8.391</b>	<b>6.11%</b>

  

**Liquor Profits**

Fiscal Year	General Fund Revenue (\$ millions)
1996	6.300
1997	4.675
1998	5.400
1999	6.000
2000	5.900
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2002	5.600
2003	6.000
2004	6.500
2005	6.650
2006	7.450
2007	7.765
2008	7.908
2009	8.391

Liquor profit transfers to the general fund have fluctuated over the years, spiking in FY 1996, the year in which the state privatized liquor-retailing operations. Liquor profit transfers to the general fund are forecast to increase 4.23% in FY 2007, 1.85% in FY 2008, and 6.11% in FY 2009. The increase of less than 2% in FY 2008 is due to the renegotiation of liquor store owner's commission rates in 2008. Increasing the commission rates will reduce the state liquor profits revenue.

## Forecast Methodology and Projection Calculation

The liquor profit transfer to the general fund is based on the net income from liquor operations for the fiscal year. 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. The calculations for gross liquor sales, cost of goods sold, and liquor taxes are in the Liquor Excise and License Tax General Fund Revenue Estimate. This analysis will show the calculation of commissions, discounts, operating expenses, and profits.

### Sales Commissions, Discounts, and Operating Expenses

Table 2 shows commission, discount, and operating expenses as a percentage of gross liquor sales for FY 2000 through FY 2006.

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, 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 last SB 348 rate increase went into effect in FY 2005, as did the new negotiated commission rates. The commission rate negotiated in FY 2005 averaged 9.16%, which is expected to continue in FY 2007. In FY 2008, the commission rate is expected to increase to 9.51% for FY 2008 and FY 2009. The increase of 0.37% is the average increase in commission rates.

Discounts are offered to liquor store owners on purchases of unbroken case lots as provided for in 16-2-201, MCA. Also, HB 348 (2001 Session) provided for certain additional discounts, mainly related to volume. These discounts went into effect in FY 2003. Prior to HB 348 the store-owner discount rate averaged 1.97% of gross liquor sales. After HB 348 the ratio of discounts increased to where it was 2.97% in FY 2005 and 2.94% in FY 2006. The discount rate is assumed to be equal to the average of FY 2005 through FY 2006, or 2.95%.

Since FY 2000, operating expenses (excluding permit application

<b>Table 2</b>			
<b>Commission, Discount, and Operating Rates</b>			
<b>FY 2000 - FY 2009</b>			
Fiscal Year	Commission Rate	Discount Rate	Operating Expenses
A 2000	8.48%	1.97%	2.02%
A 2001	8.46%	1.97%	2.21%
A 2002	8.90%	1.97%	2.35%
A 2003	8.89%	2.35%	2.23%
A 2004	8.88%	2.65%	2.11%
A 2005	9.13%	2.97%	2.05%
A 2006	9.16%	2.94%	1.97%
Average Growth Rate =			2.14%
F 2007	9.16%	2.95%	2.14%
F 2008	9.51%	2.95%	2.14%
F 2009	9.51%	2.95%	2.14%

expenses) have averaged 2.14% of gross liquor sales. This rate is expected to remain constant through FY 2009.

Table 3 shows the calculation for commissions, discounts, and operating expenses.

<b>Table 3</b>			
<b>Projected Commissions and Discounts and Operating Expenses</b>			
<b>FY 2007 through FY 2009</b>			
<u>Description</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Gross Sales	\$89,040,837	\$94,478,112	\$ 100,247,414
Multiplied by: Commission Rate (% of Gross Sales)	9.16%	9.51%	9.51%
<b>Projected Commissions</b>	<b>\$ 8,156,141</b>	<b>\$ 8,984,868</b>	<b>\$ 9,533,529</b>
Gross Sales	\$89,040,837	\$94,478,112	\$ 100,247,414
Multiplied by: Discount Rate (% of Gross Sales)	2.95%	2.95%	2.95%
<b>Projected Discounts</b>	<b>\$ 2,630,270</b>	<b>\$ 2,790,888</b>	<b>\$ 2,961,313</b>
Gross Sales	\$89,040,837	\$94,478,112	\$ 100,247,414
Multiplied by: Operating Expenses (% of Gross Sales)	2.14%	2.14%	2.14%
<b>Projected Operating Expenses</b>	<b>\$ 1,901,985</b>	<b>\$ 2,018,130</b>	<b>\$ 2,141,367</b>

### Liquor Profit Transfers to the General Fund

Table 4 shows liquor profit calculations for FY 2007 through FY 2009. Liquor profit transfers to the general fund are forecast to be \$7.7 million in FY 2007, \$7.9 million in FY 2008, and \$8.4 million in FY 2009. The small increase in FY 2008 is due to the expected increase in the liquor store operator's commission rates, which will reduce liquor profit revenue.

<b>Table 4</b>			
<b>Liquor Profits Calculation Summary</b>			
<b>FY 2007 through FY 2009</b>			
<u>Description</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Gross Liquor Sales	\$89,040,837	\$94,478,112	\$100,247,414
Less:			
Cost of Goods Sold	50,214,099	53,280,421	56,533,988
Liquor Taxes	18,373,506	19,495,483	20,685,974
Commissions	8,156,141	8,984,868	9,533,529
Discounts	2,630,270	2,790,888	2,961,313
Operating Expenses	1,901,985	2,018,130	2,141,367
<b>Profit Transfers</b>	<b>\$7,764,836</b>	<b>\$7,908,322</b>	<b>\$8,391,243</b>

### **Data Sources**

Gross liquor sales data for FY 2007 through FY 2009 comes from the Liquor Excise and License Tax write-up. Other data is from SABHRS Report MTGL0109 and the Department of Revenue Liquor Services Division.