

**NORTH CAROLINA GENERAL ASSEMBLY**

**LEGISLATIVE FISCAL NOTE**

**BILL NUMBER:** House Bill 1592 (First Edition)

**SHORT TITLE:** Medicaid Supplement Act

**SPONSOR(S):** Representatives M. Crawford and Insko

<b>FISCAL IMPACT</b>					
	<b>Yes (X)</b>	<b>No ( )</b>	<b>No Estimate Available ( )</b>		
	<b>(\$million)</b>				
	<b><u>FY 2002-03</u></b>	<b><u>FY 2003-04</u></b>	<b><u>FY 2004-05</u></b>	<b><u>FY 2005-06</u></b>	<b><u>FY 2006-07</u></b>
<b>REVENUES</b>					
General Fund					
Excise Tax	38.87	59.96	61.64	63.15	64.67
Sales Tax	1.92	2.77	2.85	2.93	3.01
Local Govt.					
Sales Tax	.54	1.04	1.06	1.08	1.09
<b>EXPENDITURES</b>					
General Fund					
HHS - Medicaid	29.15	59.55	61.22	62.77	64.29
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> Department of Revenue, Department of Health and Human Services (HHS), and Alcoholic Beverage Control Commission					
<b>EFFECTIVE DATE:</b> Section 1 (tax increase) is effective October 1, 2002, and applies to sales made on or after that date. Sections 2 and 3 (fund distribution) become effective March 31, 2004, and apply to distributions made on or after that date. The remainder of the act is effective when it becomes law.					

**BILL SUMMARY:** The bill increases the excise tax on beer, wine and liquor beginning October 1, 2002, and earmarks the increased revenue collected for Medicaid programs. The first distribution to the Department of Health and Human Services for Medicaid is within 60 days of March 31, 2003. The first distribution will be for the 6-month period October 2002 to March 2003. A full year distribution will begin March 31, 2004, for the period April 2003 to March 2004.

The proposed additional excise taxes on alcoholic beverages are as follows:

- 1) 22.823¢ per gallon on malt beverages,
- 2) 5¢ per liter on fortified wine,
- 3) 5¢ per liter on unfortified wine, and
- 4) 5% on distiller's price of liquor plus ABC charges.

**BACKGROUND:** The current excise taxes on alcoholic beverages are shown in the table below. The 2001 General Assembly reduced the excise tax on liquor from 28% to 25%, but imposed a 6% state sales tax on the retail price of liquor. The sales tax became effective on December 1, 2001 and the excise tax reduction became effective February 1, 2002. The last increase in the excise tax on wine was 1979 and the last increase in the beer excise tax was 1969. There was a minor change in the beer tax in 1998 when two rates based on differing container size were combined into one revenue neutral rate.

	<b>Excise Tax Rate</b>	<b>Tax per Average Container Size</b>
Beer	\$.53177 per gallon	5 cents per 12 oz bottle/can
Unfortified Wine	\$.21 per liter	3 cents per 5 oz glass
Fortified Wine	\$.24 per liter	3.5 cents per 5 oz glass
Liquor	25% of distiller's price	

A portion of the state excise tax on beer and wine is shared with local governments as follows:

Beer	23.75%
Unfortified Wine	62%
Fortified Wine	22%

These funds are disbursed to local governments within 60 days of March 31 of each year for the 12-month period ending on March 31. Governor Easley withheld \$26,778,672 in alcohol excise tax disbursements in 2002 in order to balance the General Fund budget.

**ASSUMPTIONS AND METHODOLOGY:**

**Current Tax Revenue**

The Fiscal Research Division (FRD) General Fund Revenue Forecast for fiscal years 2002-03 through 2006-07 alcoholic beverage excise taxes is shown on the next page. This May 2002 forecast correlates alcohol sales growth directly with state personal income growth for the five-year period. The forecast is adjusted for the income elasticity of each beverage.

	<b>Excise Tax Rate</b>	<b>FY 02-03 Est.</b>	<b>FY 03-04 Est.</b>	<b>FY 04-05 Est.</b>	<b>FY 05-06 Est.</b>	<b>FY 06-07 Est.</b>
Beer	\$0.53177	\$89,250,000	\$90,950,000	\$92,660,000	\$94,160,000	\$95,670,000
Unfortified wine	\$0.21	\$9,200,000	\$9,430,000	\$9,660,000	\$9,860,000	\$10,060,000
Fortified wine	\$0.24	\$1,570,000	\$1,570,000	\$1,570,000	\$1,570,000	\$1,570,000
Liquor	25%	\$87,437,500	\$91,767,857	\$96,232,143	\$100,294,643	\$104,446,429
		<b>\$187,457,500</b>	<b>\$193,717,857</b>	<b>\$200,122,143</b>	<b>\$205,884,643</b>	<b>\$211,746,429</b>

**Proposed Excise Tax Revenue**

Using the FRD forecast as the base, revenue for the increased excise tax rate is computed. With an October 1, 2002, effective date, the revenue collected in FY 2002-03 will be for only eight months due to a 15-day lag in collections that pushes one month’s collection into the next fiscal year. No adjustment is made in the five-year projection of tax revenue for the price sensitivity of consumers, since there is uncertainty about the impact of higher prices on alcoholic beverage consumption. Economic literature is inconclusive about the consumer response to price increases because of the “substitution effect” for alcoholic products. Instead of reducing demand due to higher prices, consumers may choose a lesser-priced product or choose a different type of alcoholic beverage. Since the proposed tax increases are relatively low (12 cents per 12 ounce beer six pack and 3.75 cents per 750 ml. bottle of wine) and the excise taxes are built into the shelf prices, most consumers may not notice the price increase. The projected revenue due to HB 1592 is shown below.

	<b><u>Excise Tax Rate</u></b>	<b><u>FY 02-03 Est.</u></b>	<b><u>FY 03-04 Est.</u></b>	<b><u>FY 04-05 Est.</u></b>	<b><u>FY 05-06 Est.</u></b>	<b><u>FY 06-07 Est.</u></b>
Beer	\$0.76	\$114,786,764	\$129,984,768	\$132,428,682	\$134,572,466	\$136,730,541
Unfortified wine	\$0.26	\$10,660,317	\$11,675,238	\$11,960,000	\$12,207,619	\$12,455,238
Fortified wine	\$0.29	\$1,788,056	\$1,897,083	\$1,897,083	\$1,897,083	\$1,897,083
Liquor	30%	\$99,095,833	\$110,121,428	\$115,478,572	\$120,353,572	\$125,335,715
		<b>\$226,330,970</b>	<b>\$253,678,518</b>	<b>\$261,764,337</b>	<b>\$269,030,740</b>	<b>\$276,418,578</b>
<b>Additional Funds</b>		<b>\$38,873,470</b>	<b>\$59,960,661</b>	<b>\$61,642,194</b>	<b>\$63,146,097</b>	<b>\$64,672,149</b>
<b>Medicaid Distribution</b>		<b>\$29,155,103</b>	<b>\$59,548,047</b>	<b>\$61,221,810</b>	<b>\$62,770,121</b>	<b>\$64,290,636</b>

**Excise Tax Distribution**

All additional revenue from this excise tax increase is to be used for Medicaid. Since the fund distribution period is from April 1 to March 31 instead of the customary July 1 to June 30, the FY 2002-03 distribution to the Department of Health and Human Services for Medicaid will be for 6 months or \$29.15 million. Also, since the annual distribution includes 3 months revenue from the prior fiscal year and 9 months of revenue from the current fiscal year, the distributed amount each March will be less than the actual collections each fiscal year.

As stated in the background section of this memo, local governments receive a portion of the beer and wine excise tax. The current ratios in GS 105-113.82 are shown below.

	<b><u>State Percentage</u></b>	<b><u>Local Percentage</u></b>
Beer	76.25%	23.75%
Unfortified wine	38.0%	62.0%
Fortified wine	78.0%	22.0%
Liquor excise	100.0%	0

This bill holds the state and local budgets harmless by adjusting the distribution to allocate the new funds to Medicaid.

	<b>State Percentage</b>	<b>Local Percentage</b>	<b>Medicaid Percentage</b>
Beer	53.4%	16.6%	30.0%
Unfortified wine	30.7%	50.1%	19.2%
Fortified wine	64.6%	18.2%	17.2%
Liquor excise	83.3%	0	16.7%

**Sales Tax Revenue**

All beer and wine purchases are subject to the 6.5% state and local sales tax (7% Mecklenburg) and liquor is subject to a 6% state sales tax. This fiscal note assumes the increased excise tax on beer, wine, and liquor will be added to the shelf price of the alcoholic products and will result in increased state and local sales tax receipts. Since the bill does not earmark the additional sales tax revenue from beer, wine, and liquor sales to Medicaid, the projected state gain in sales tax will remain in the General Fund.

The FY 2002-03 revenues are based on eight months of collections due to the October effective date. The state sales tax is assumed to be 4.5% in FY 2002-03 and 4% in the following fiscal years. The local sales tax is assumed to be 2% in FY 2002-03 and 2.5% in the following fiscal years.

	<b>State Sales Tax</b>	<b>Local Sales Tax</b>
FY 02-03	\$1,924,181	\$544,302
FY 03-04	\$2,765,498	\$1,040,177
FY 04-05	\$2,850,616	\$1,059,894
FY 05-06	\$2,927,022	\$1,077,179
FY 06-07	\$3,004,672	\$1,094,572

**SOURCES OF DATA:** NC Department of Revenue

**TECHNICAL CONSIDERATIONS:** 1) The October effective date may prove a hardship for the NC Alcoholic Beverage Control Commission because its pricing list is updated and published quarterly on August 1, November 1, February 1 and May 1. 2) While funds are credited to the Department of Health and Human Services within 60 days of March 31 each year, the money may not be available for Medicaid in the same fiscal year. Section 4(c) of the bill states that "These funds may be used only for Medicaid purposes pursuant to appropriation by the General Assembly."

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