

JLBC Fiscal Note

BILL # HB 4001

TITLE: alternative nicotine products; regulation.

SPONSOR: Weninger

PREPARED BY: Nate Belcher

STATUS: As Amended by Senate RAGE

REVISED

Explanation of Revision

This revised note includes feedback from the Department of Liquor Licenses and Control (DLLC) and also includes a description of the Senate Regulatory Affairs and Government Efficiency (RAGE) Committee amendment.

Description

The bill would establish licensure requirements under the Department of Liquor Licenses and Control for businesses manufacturing or distributing alternative nicotine products and would require a minimum purchase age of 21 years old, among other sales regulations.

The "alternative nicotine products" newly regulated by HB 4001 are generally nicotine products that are able to be chewed, ingested or inhaled without combustion. This definition excludes any medical drugs or products regulated by the federal Food and Drug Administration (FDA).

Current state law regulates the sale of standard tobacco products (such as cigarettes and chewing tobacco) and noncombustible heated liquid tobacco-derived products (known as vapor products). HB 4001 removes various statutory references related to the sale of tobacco-derived vapor products and instead also classifies those as "alternative nicotine products" subject to DLLC regulation. The Senate RAGE Committee amended the bill to include alternative nicotine products in the existing statutes establishing penalties for the sale of tobacco to underage persons rather than codifying a separate set of penalties.

Estimated Impact

We estimate that the bill would increase the Department of Liquor Licenses and Control's spending from the Liquor Licenses Fund. DLLC estimates that enforcing the bill would cost about \$1.8 million one-time and \$3.6 million annually for costs associated with hiring 26 new full-time employees (FTEs) to enforce the bill. While the bill would require DLLC to inspect distributor and manufacturing facilities and enforce the retail sales age requirements, DLLC submitted insufficient information for us to validate the 26 FTE estimate.

The bill would also increase revenues to the Liquor Licenses Fund. However, this level of increased revenues cannot be determined, as the bill does not establish specific license fees. Ultimately the net change in DLLC revenues and spending would impact the Liquor Licenses Fund balance. This in turn would affect General Fund revenues. Statute requires the annual transfer of any Liquor Licenses Fund balance over \$700,000 to the General Fund.

Analysis

The bill has 4 potential fiscal impacts:

- 1) Federal law already prohibits sales of alternative nicotine products to persons under the age of 21. If there is already 100% compliance with federal law, the bill would not affect the sales level of these products and the corresponding Transaction Privilege Tax collections (TPT). If there is less than 100% compliance and the bill increases compliance, the sales level of the products and the associated TPT collections would decline.
- 2) Under federal law, the receipt of the federal Substance Use Prevention, Treatment and Recovery Services Block Grant (SUBG) is tied to a state's enforcement of the 21 year old minimum age limit on sales of tobacco products. If Arizona is currently in compliance with this federal regulation, then the bill would not affect the state's level of federal grants. If Arizona is currently deemed non-compliant with this federal regulation, and the bill leads to sufficient enforcement and federal compliance, then the bill would increase the level of SUBG federal funding the state receives.

- 3) By creating distributor license and manufacturing license fees, the bill would increase deposits into the Liquor Licenses Fund. Since the fee levels are not established in the bill, DLLC would determine the fee levels.
- 4) Depending on how they implement the bill, DLLC would incur enforcement costs. The department estimates these enforcement costs would total roughly \$1.8 million one-time and \$3.6 million annually for hiring 26 FTEs. For context, the department currently has 35 filled FTE positions for its alcohol-related enforcement activities.

4/17/26