



Senate Fiscal Agency
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BILL ANALYSIS



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Senate Bill 671 (Substitute S-2 as reported)
Sponsor: Senator Goeff Hansen
Committee: Regulatory Reform

Date Completed: 4-5-16

RATIONALE

The Grape and Wine Industry Council provides the Michigan grape and wine industry with support through research, information regarding the sale and treatment of wine grapes and wines, surveys, analyses, promotions, and financial aid. The Council is funded through nonretail liquor license fees. Although brewers and distillers are among those who pay fees, they have no representation on the Council. It has been suggested that the Council membership and activities be increased to include brewer and distiller interests, as well as agricultural interests besides grapes.

CONTENT

The bill would amend the Michigan Liquor Control Code to codify and expand provisions of Executive Reorganization Order 2014-2 regarding the Grape and Wine Industry Council. Specifically, the bill would do the following:

- **Rename the Grape and Wine Industry Council as the Grape, Wine, Brewing, and Distilling Industries Council.**
- **Increase the membership of the Council.**
- **Require the Council to provide for research on apples, hops, barley, beer, and spirits.**
- **Require the Council to provide the wine industry with information relative to proper methods of handling and selling apples, in addition to wine grapes and wines.**
- **Require the Council to provide the brewing and distilling industries with information relative to proper methods of handling and selling hops, barley, beer, and spirits.**
- **Require the Council to provide for market surveys and analyses, and promote the sale of apples, hops, barley, beer and spirits, in addition to Michigan wine grapes and wines, for purposes of expanding existing markets and creating new markets.**
- **Require the Council to provide for the promotion of the sale of apples, hops, barley, beer, and spirits, in addition to Michigan wine grapes and wines, for the purpose of maintaining or expanding present markets and creating new markets.**
- **Require the Council to develop parameters to identify wineries, breweries, and distilleries that qualify for promotion.**
- **Require the Council to develop and administer financial aid programs to apple, hops, and barley growers to encourage increased planting in Michigan of desirable varieties.**
- **Prohibit the Council from engaging in lobbying.**

Council Name & Composition

Executive Reorganization Order 2014-2 abolished the former Grape and Wine Industry Council and created a new Council with the same title. The bill would rename the Council as the Grape, Wine, Brewing, and Distilling Industries Council and amend language in the Code to reflect that change.

Under the Executive Order, the Council consists of the following members:

- Three wine makers, appointed by the Governor.
- A wine grape grower, appointed by the Governor.
- The chief executive officer of the Michigan Economic Development Corporation, or his or her designee.
- The Director of the Department of Agriculture and Rural Development, or his or her designee, who serves as chairperson of the Council.
- A staff member of Michigan State University appointed by, and serving at the pleasure of, the dean of the College of Agriculture and Natural Resources.
- The chairperson of the Liquor Control Commission, or his or her designee, as an ex officio member.
- A person who operates a retail food establishment that holds a specially designated merchant license and sells Michigan wines, or a person who operates a restaurant that holds a class C license and serves Michigan wines, appointed by the Governor.
- A beer and wine wholesaler who markets Michigan wine, appointed by the Governor.
- Two members of the public, appointed by the Governor.

Under the bill, excluding the wine grape grower, the members listed above would be members of the Grape, Wine, Brewing, and Distilling Industries Council, and the appointments by the Governor would remain the same. However, the bill would require one of the three wine makers to be a manufacturer of wine made with fruit other than grapes. In addition to those members, the bill would include the following as members of the Council, who would be appointed by the Governor:

- A brewer.
- An individual who represents the interests of the agriculture industry and who works with wine makers.
- An individual who represents the interests of the agriculture industry and who works with brewers, distillers, or both.
- A distiller.
- A beer and wine wholesaler who markets Michigan beer.
- An individual who operates a retail food establishment that holds a specially designated merchant license and sells Michigan beer or an individual who operates a restaurant that holds a class C license and serves Michigan beer or spirits.

(A class C license authorizes the retail sale of beer, wine, mixed spirit drink, and spirits for on-premises consumption. A specially designated merchant license authorizes the retail sale of beer or wine, or both, for off-premises consumption.)

Council Term Limits

Executive Order 2014-2 provided for the following members to serve from May 10, 2014, until February 1, 2016: the wine grape grower, the operator of a retail food establishment that holds a specially designated merchant license and sells Michigan wines, or the operator of a restaurant that holds a class C license and serves Michigan wines, one of the three wine makers, and one of the two members of the public.

Two of the three wine makers, the beer and wine wholesaler who markets Michigan wine, and one of the two members of the public are to serve from May 10, 2014, until February 1, 2017.

All terms beginning after January 1, 2016, are for three years. A member may not serve for more than two consecutive terms, but must continue to serve until a qualified successor has been appointed. A vacancy on the board must be filled in the same manner as the original appointment.

Excluding the wine grape grower, the bill would codify the appointees' terms and term limits as described above.

Council Requirements

Under the Executive Order, the Council is given certain responsibilities as outlined under the Liquor Control Code. The Council is required to do the following:

- Provide for research on wine grapes and wines, including methods of planting, growing, controlling insects and diseases, charting microclimates and locations for growing desirable varieties of wine grapes, marketing, processing, distribution, advertising, sales production, and product development.
- Provide the wine industry, including growers, wineries, distributors, and retailers, with information relative to proper methods of handling and selling wine grapes and wines.
- Provide for market surveys and analyses for the purposes of expanding existing markets and creating new and larger markets for wine grapes and wines.
- Provide for the promotion of the sale of Michigan wine grapes and wines for the purpose of maintaining or expanding present markets and creating new and larger domestic and foreign markets.
- Develop and administer financial aid programs to wine grape growers to encourage the increased planting in Michigan of desirable grape varieties in microclimates determined to provide the best conditions for producing quality wines.

In addition to those requirements, the bill would require the Council to do the following:

- Provide for research on apples, including methods of planting, growing, controlling insects and diseases, charting microclimates and locations for growing desirable varieties of apples (in addition to wine grapes).
- Provide for research on hops, barley, beer, and spirits, including methods of planting, growing, controlling insects and diseases, marketing, processing, distribution, advertising, sales production, and product development.
- Provide the wine industry, including growers, wineries, distributors, and retailers, with information relative to proper methods of handling and selling apples (in addition to wine grapes and wines).
- Provide the brewing and distilling industries, including growers, brewers, distillers, distributors, and retailers, with information relative to proper methods of handling and selling hops, barley, beer, and spirits.
- Provide for market surveys and analyses for purposes of expanding existing markets and creating new and larger markets for hops, barley, beer and spirits (in addition to grapes and wines).
- Provide for the promotion of the sale of apples, hops, barley, beer, and spirits (in addition to Michigan wine grapes and wines) for the purpose of maintaining or expanding present markets and creating new and larger domestic and foreign markets.
- Develop and administer financial aid programs to apple growers to encourage the increased planting in Michigan of desirable apple varieties in microclimates determined to provide the best conditions for producing quality wines.
- Develop and administer financial aid programs to hops and barley growers to encourage increased planting in Michigan of desirable hops and barley varieties, respectively, in microclimates determined to provide the best conditions for producing quality beer.

The Council also would be required to develop parameters to identify wineries, breweries, and distilleries that qualify for promotion. The parameters could differ between industries, but at least 50% of the wineries, breweries, and distilleries would have to qualify for promotion.

Lobbying

Under the bill, the Council could not engage in lobbying as defined under the lobbyist registration law.

("Lobbying" under that law means communicating directly with an official of the State executive or legislative branch for the purpose of influencing legislative or administrative action. Lobbying does not include the providing of technical information by a person other than a lobbyist agent or an employee of a lobbyist agent when appearing before an officially convened legislative committee or executive department hearing panel.)

MCL 436.1303 & 436.1543

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

The Michigan Grape and Wine Industry Council provides an important forum for collaboration in research, promotion, and professional development to meet the changing needs of the industry. According to a 2015 annual report regarding the Council from the Department of Agriculture and Rural Development, the Council has established a goal to increase the size of the industry to 10,000 wine grape acres by the year 2024. The latest data, from 2014, show a total of 2,900 acres of wine grapes. The report also states that 66% of the wineries recognized by the Council participated in one or more partnership activities with the Council, and the Council spent \$100,123 on research projects at Michigan State University to advance knowledge of wine grape growing and winemaking to serve the industry in the future.

While wine producers and grape growers clearly represent an important component of Michigan's agricultural industry, the beer and distillery industries also play a significant role and help support the economy at the State and local levels. According to the Michigan Brewers Guild, for example, the State's craft beer industry directly provided 5,101 jobs and had a direct economic impact of \$277.0 million in 2014 (based on data from the Brewers Association Economic Impact Study). In addition, the Michigan Craft Distillers Association reports that Michigan ranks third nationally in the number of craft distilleries, and projects that "this rapidly-growing industry could contribute upwards of \$400 million to the state's economy".

The bill would provide fair and equal representation for the brewing and distilling industries whose members pay license fees but are not represented on the Council. In addition, other fruit and agricultural industries that contribute to the creation of alcoholic beverages would be fairly represented. The bill would extend to those industries the support that is currently provided to the wine and grape industry, supplying the necessary tools to enhance Michigan's brewing and distilling industries.

Response: The Department of Agriculture and Rural Development has expressed concerns about funding for the Council, as it would be expanded under the bill. According to the Department, with the limited funds that the Council receives and the proposed members, the current services would not be sustained at the current level.

Legislative Analyst: Drew Krogulecki

FISCAL IMPACT

The bill would have a minimal fiscal impact on the Department of Agriculture and Rural Development, the department in which appropriations for the Council are provided. Currently, the administration and activities of the Council are funded only by annual restricted revenue from nonretail liquor fees, obtained through the Liquor Control Commission. According to the most recent report of the Council, for FY 2013-14, \$797,831 in total restricted revenue was spent on the Council. That amount includes \$373,295 designated for departmental salaries to assist in achieving the objectives of the Council; \$151,473 for research and grower education; \$149,535 for promotional activity; \$22,732 for a conference; \$10,101 for travel; \$44,394 for administrative costs; and \$22,500 for a Pure Michigan partnership.

Without the identification of a new source of revenue or a greater amount of existing revenue, the bill would provide a revised Council with increased membership and broader responsibilities, with a continuance of the current approximately \$800,000 in annual support.

Fiscal Analyst: Bruce Baker

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.