



Senate Fiscal Agency
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BILL ANALYSIS



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House Bill 4581 (Substitute H-3 as passed by the House)
Sponsor: Representative Kathy Crawford
House Committee: Regulatory Reform
Senate Committee: Regulatory Reform

Date Completed: 12-2-15

CONTENT

The bill would amend the Michigan Liquor Control Code to increase from \$7.50 to \$8.25 the maximum allowed per-case offset fee that the Liquor Control Commission may pay when it purchases a case of spirits from a vendor of spirits.

The Code permits the Commission to pay a vendor of spirits a per-case offset fee in addition to the acquisition price for the purchase of spirits. The fee is used to offset the costs being incurred by a vendor of spirits in contracting with an authorized distribution agent for warehousing and delivering spirits to retailers. The fee may not be less than \$4.50 or more than \$7.50 per case. The bill would increase the maximum to \$8.25.

The Code defines "authorized distribution agent" as a person approved by the Commission to do one or more of the following:

- Store spirits owned by a supplier of spirits or the Commission.
- Deliver spirits sold by the Commission to retail licensees.
- Perform any function needed to store spirits owned by a supplier of spirits or by the Commission or to deliver spirits sold by the Commission to retail licensees.

"Spirits" means any beverage that contains alcohol obtained by distillation, mixed with potable water or other substances, or both, in solution, and includes wine containing an alcoholic content of more than 21% by volume, except for sacramental wine and mixed spirit drink.

The bill would take effect 90 days after enactment.

MCL 436.1205

BACKGROUND

According to the Michigan Liquor Control Commission, the State operates as a "control" state for the sale of spirits, which means that the Commission acts as the wholesaler for all spirit products, excluding mixed spirit drinks. The Commission purchases spirits from a vendor of spirits and then adds the statutory mark-up and specific taxes. Through authorized distribution agents, the Commission resells the spirits to licensed retailers, who in turn may sell to consumers. A manufacturer of spirits must register with the Commission as a "vendor of spirits" in order to sell its spirit products to the Commission. Vendors of spirits are responsible for registering product lines and filing quotations with the Commission.

Any manufacturer of spirits must contract with an authorized distribution agent (ADA) to warehouse and deliver spirits to retailers through the Commission's spirit distribution system. An ADA is required to be certified by the Commission to store and deliver spirits. An ADA is responsible for collecting payment from retail licensees on behalf of the Commission.

Legislative Analyst: Drew Krogulecki

FISCAL IMPACT

The bill could have a negative fiscal impact on the State General Fund, and no fiscal impact on either the Michigan Liquor Control Commission (MLCC) within the Department of Licensing and Regulatory Affairs or local units of government. Under the bill, the MLCC would be allowed to increase the statutory per-case payment to authorized distribution agents for the warehousing and delivery of spirits from \$7.50 per case to \$8.25 per case. These payments are made from the Liquor Purchase Revolving Fund (LPRF) which is the enterprise fund used by the MLCC for the purchase and sale of all spirits in Michigan. Each year the LPRF generates a profit that lapses to the State General Fund. In FY 2013-14, that lapse was about \$176.5 million. An increase in what the MLCC pays to ADAs would reduce the amount of future LPRF lapses. In FY 2013-14, the MLCC paid a total of \$57.8 million in these fees; if the fee had been \$8.25 per case, that amount would have been \$63.6 million, which would have reduced the lapse to the State General Fund by about \$5.8 million.

Fiscal Analyst: Josh Sefton

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