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## SENATE BILL NO. 1269

## FLOOR AMENDMENT IN THE NATURE OF A SUBSTITUTE

(Proposed by Senator Deeds

on January 27, 2015)

(Patron Prior to Substitute—Senator Deeds)

A *BILL to amend and reenact §§ 4.1-119, 4.1-201, 4.1-215, 4.1-325, and 4.1-325.2 of the Code of Virginia, relating to alcoholic beverage control; privileges of distiller's license; special events for manufacturers of distilled spirits.*

**Be it enacted by the General Assembly of Virginia:**

**1. That §§ 4.1-119, 4.1-201, 4.1-215, 4.1-325, and 4.1-325.2 of the Code of Virginia are amended and reenacted as follows:**

**§ 4.1-119. Operation of government stores.**

A. Subject to the requirements of §§ 4.1-121 and 4.1-122, the Board may establish, maintain and operate government stores for the sale of alcoholic beverages, other than beer and wine not produced by farm wineries, vermouth, mixers, and products used in connection with distilled spirits, including any garnish or garnishment applied to the rim of a glass of distilled spirits, as may be approved by the Board from time to time, in such counties, cities, and towns considered advisable by the Board. The Board may discontinue any such store.

B. With respect to the sale of wine produced by farm wineries, the Board may give preference to farm wineries that produce 2,500 cases or less of wine per year.

C. The Board shall fix the wholesale and retail prices at which the various classes, varieties and brands of alcoholic beverages and other Board-approved products that are sold in government stores. Differences in the cost of operating stores, and market competition and conditions may be reflected in the sale price of alcoholic beverages sold at government stores. The Board may sell alcoholic beverages to federal instrumentalities (i) authorized and operating under the laws of the United States and regulations of the United States Department of Defense and (ii) located within the boundaries of federal enclaves or reservations over which the United States has acquired jurisdiction, at prices which may be greater or less than the wholesale price charged other authorized purchasers.

D. Alcoholic beverages at government stores shall be sold by employees of the Board, who shall carry out the provisions of this title and Board regulations governing the operation of government stores and the sale of alcoholic beverages, except that the Board may appoint the holder of a distiller's license or its officers and employees as agents of the Board for the sale of spirits, manufactured by or for, or blended by such licensee on the licensed premises, at government stores established by the Board on the distiller's licensed premises, provided:

1. At least 51 percent of the agricultural products used by such licensee to manufacture the spirits are grown on the licensee's farm or land in Virginia leased by the licensee and no more than 25 percent of the agricultural products are grown or produced outside the Commonwealth. However, upon petition by the Department of Agriculture and Consumer Services, the Board may permit the use of a lesser percentage of products grown on the licensee's farm if unusually severe weather or disease conditions cause a significant reduction in the availability of agricultural products grown on the farm to manufacture the spirits during a given license year;

2. Such licensee is a duly organized nonprofit association holding title to real property, together with improvements thereon that are significant in American history, under a charter from the Commonwealth to preserve such property, and which association accepts no federal, state, or local funds;

3. Such licensee operates a museum whose licensed premises is located on the grounds of a local historic building or site;

4. Such licensee is an independently certified organic distillery, with such certification by a USDA-accredited certification agency;

5. Such licensee is employing traditional distilling techniques, including the use of copper or stainless steel pot stills to blend or produce spirits in any county with a population of less than 20,000; or

6. Such licensee is employing traditional techniques, including the maceration of natural fruits, nuts, grains, beans, and spices in neutral grain spirits to extract natural flavors used to produce or blend liqueurs and spirits.

Such agents shall sell the spirits in accordance with the provisions of this title, Board regulations, and the terms of the agency agreement between the Board and the licensed distiller.

For the purposes of this subsection, "blended" means the receipt by a licensed distiller of deliveries and shipments of alcoholic beverages, other than wine and beer, in accordance with subdivision 6 § 4.1-201 to be (i) additionally aged by the receiving distillery in order to increase the quality and flavor of such alcoholic beverages and (ii) bottled by the receiving distillery.

E. No Class 1 neutral grain spirit or alcohol, as defined by federal regulations, that is without distinctive character, aroma, taste or color shall be sold in government stores at a proof greater than 101 except upon permits issued by the Board for industrial, commercial, culinary, or medical use.

F. All alcoholic beverages sold in government stores, except for tasting samples pursuant to subsection G sold in government stores established by the Board on a distiller's licensed premises, shall be in closed containers, sealed and affixed with labels prescribed by the Board.

G. No alcoholic beverages shall be consumed in a government store by any person unless it is part of an organized tasting event conducted by (i) an employee of a manufacturer of distilled spirits or farm winery or (ii) an authorized representative of a manufacturer of distilled spirits or farm winery with a permit issued by the Board pursuant to subdivision A 15 of § 4.1-212, and the samples of alcoholic beverages provided to any consumer do not exceed the limits for spirits or wine set forth in subdivision A 5 of § 4.1-201.1. No sample may be consumed by any individual to whom alcoholic beverages may not lawfully be sold pursuant to § 4.1-304. ~~The Board shall establish guidelines governing tasting events conducted pursuant to this subsection.~~

*Notwithstanding the provision of this subsection to the contrary, an agent of the Board appointed pursuant to subsection D may give samples of beer, wine, or cider to persons to whom alcoholic beverages may be lawfully sold for on-premises consumption, provided that (i) the beer, wine, or cider samples are manufactured within the same licensed premises or on contiguous premises of such agent licensed as a brewery or winery; (ii) no single sample shall exceed four ounces of beer, two ounces of wine, or one-half ounce of spirits; and (iii) no more than four total samples of alcoholic beverage products shall be given or sold to any person per day. Nothing in this paragraph shall prohibit such agent from serving samples of spirits as a mixed beverage.*

*The Board shall establish guidelines governing tasting events conducted pursuant to this subsection.*

H. With respect to purchases by licensees at government stores, the Board shall (i) accept in payment for any purchase or series of purchases cash, electronic fund transfer, credit or debit card, or check payable to the Board, in the exact amount of any such purchase or series of purchases and (ii) provide notice to licensees on Board policies relating to the assignment of government stores from which licensees may purchase products and any procedure for the licensee to elect to make purchases from an alternative government store.

I. With respect to purchases by consumers at government stores, the Board shall accept cash in payment for any purchase or series of purchases. The Board may adopt regulations which provide for accepting a credit card or debit card as payment. Such regulations may provide for the collection, where appropriate, of related fees, penalties and service charges for the use of a credit card or debit card by any consumer.

**§ 4.1-201. Conduct not prohibited by this title; limitation.**

A. Nothing in this title or any Board regulation adopted pursuant thereto shall prohibit:

1. Any club licensed under this chapter from keeping for consumption by its members any alcoholic beverages lawfully acquired by such members, provided the alcoholic beverages are not sold, dispensed or given away in violation of this title.

2. Any person from having grain, fruit or fruit products and any other substance, when grown or lawfully produced by him, distilled by any distillery licensee, and selling the distilled alcoholic beverages to the Board or selling or shipping them to any person outside of the Commonwealth in accordance with Board regulations. However, no alcoholic beverages so distilled shall be withdrawn from the place where distilled except in accordance with Board regulations.

3. Any person licensed to manufacture and sell, or either, in the Commonwealth or elsewhere, alcoholic beverages other than wine or beer, from soliciting and taking orders from the Board for such alcoholic beverages.

4. The receipt by a person operating a licensed brewery of deliveries and shipments of beer in closed containers or the sale, delivery or shipment of such beer, in accordance with Board regulations to (i) persons licensed to sell beer at wholesale, (ii) persons licensed to sell beer at retail for the purpose of resale only as provided in subdivision B 4 of § 4.1-216, (iii) owners of boats registered under the laws of the United States sailing for ports of call of a foreign country or another state, and (iv) persons outside the Commonwealth for resale outside the Commonwealth.

5. The granting of any retail license to a brewery, distillery, or winery licensee, or to an applicant for such license, or to a lessee of such person, a wholly owned subsidiary of such person, or its lessee, provided the places of business or establishments for which the retail licenses are desired are located upon the premises occupied or to be occupied by such distillery, winery, or brewery, or upon property of such person contiguous to such premises, or in a development contiguous to such premises owned and operated by such person or a wholly owned subsidiary.

6. The receipt by a distillery licensee of deliveries and shipments of alcoholic beverages, other than wine and beer, in closed containers from other distilleries, or the sale, delivery or shipment of such alcoholic beverages, in accordance with Board regulations, to the Board and to persons outside the

Commonwealth for resale outside the Commonwealth.

7. The receipt by a farm winery or winery licensee of deliveries and shipments of wine in closed containers from other wineries or farm wineries located inside or outside the Commonwealth, or the receipt by a winery licensee or farm winery licensee of deliveries and shipments of spirits distilled from fruit or fruit juices in closed containers from distilleries located inside or outside the Commonwealth to be used only for the fortification of wine produced by the licensee in accordance with Board regulations, or the sale, delivery or shipment of such wine, in accordance with Board regulations, to persons licensed to sell wine at wholesale for the purpose of resale, and to persons outside the Commonwealth for resale outside the Commonwealth.

8. The receipt by a fruit distillery licensee of deliveries and shipments of alcoholic beverages made from fruit or fruit juices in closed containers from other fruit distilleries owned by such licensee, or the sale, delivery or shipment of such alcoholic beverages, in accordance with Board regulations, to persons outside of the Commonwealth for resale outside of the Commonwealth.

9. Any farm winery or winery licensee from shipping or delivering its wine in closed containers to another farm winery or winery licensee for the purpose of additional bottling in accordance with Board regulations and the return of the wine so bottled to the manufacturing farm winery or winery licensee.

10. Any farm winery or winery licensee from selling and shipping or delivering its wine in closed containers to another farm winery or winery licensee, the wine so sold and shipped or delivered to be used by the receiving licensee in the manufacture of wine. Any wine received under this subsection shall be deemed an agricultural product produced in the Commonwealth for the purposes of § 4.1-219, to the extent it is produced from fresh fruits or agricultural products grown or produced in the Commonwealth. The selling licensee shall provide to the receiving licensee, and both shall maintain complete and accurate records of, the source of the fresh fruits or agricultural products used to produce the wine so transferred.

11. Any distiller licensed under this title from serving as an agent of the Board for the sale of alcoholic beverages, other than beer and wine, at a government store established by the Board on the licensed premises of the distiller in accordance with subsection D of § 4.1-119.

12. Any retail on-premises beer licensee, his agent or employee, from giving a sample of beer to persons to whom alcoholic beverages may be lawfully sold for on-premises consumption, or retail on-premises wine or beer licensee, his agent or employee, from giving a sample of wine or beer to persons to whom alcoholic beverages may be lawfully sold for on-premises consumption, or any mixed beverage licensee, his agent or employee, from giving a sample of wine, beer, or spirits to persons to whom alcoholic beverages may be lawfully sold for on-premises consumption. Samples of wine shall not exceed two ounces, samples of beer shall not exceed four ounces, and samples of spirits shall not exceed one-half ounce. No more than two product samples shall be given to any person per visit.

13. 12. Any manufacturer, including any vendor authorized by any such manufacturer, whether or not licensed in the Commonwealth, from selling service items bearing alcoholic brand references to on-premises retail licensees or prohibit any such retail licensee from displaying the service items on the premises of his licensed establishment. Each such retail licensee purchasing such service items shall retain a copy of the evidence of his payment to the manufacturer or authorized vendor for a period of not less than two years from the date of each sale of the service items. As used in this subdivision, "service items" mean articles of tangible personal property normally used by the employees of on-premises retail licensees to serve alcoholic beverages to customers including, but not limited to, glasses, napkins, buckets, and coasters.

14. 13. Any employee of an alcoholic beverage wholesaler or manufacturer, whether or not licensed in the Commonwealth, from distributing to retail licensees and their employees novelties and specialties, including wearing apparel, having a wholesale value of \$10 or less and that bear alcoholic beverage advertising. Such items may be distributed to retail licensees in quantities equal to the number of employees of the retail establishment present at the time the items are delivered. Thereafter, such employees may wear or display the items on the licensed premises.

15. 14. Any retail on-premises wine or beer licensee, his agent or employee from offering for sale or selling for one price to any person to whom alcoholic beverages may be lawfully sold a flight of wines or beers consisting of samples of not more than five different wines or beers.

16. 15. Any restaurant licensed under this chapter from permitting the consumption of lawfully acquired wine by bona fide customers on the premises in all areas and locations covered by the license. The licensee may charge a corkage fee to such customer for the wine so consumed; however, the licensee shall not charge any other fee to such customer.

17. 16. Any winery, farm winery, wine importer, or wine wholesaler licensee from providing to adult customers of licensed retail establishments information about wine being consumed on such premises.

B. No deliveries or shipments of alcoholic beverages to persons outside the Commonwealth for resale outside the Commonwealth shall be made into any state the laws of which prohibit the consignee from

183 receiving or selling the same.

184 **§ 4.1-215. Limitation on manufacturers, bottlers and wholesalers; exemptions.**

185 A. Unless exempted pursuant to subsection B, no retail license for the sale of alcoholic beverages  
186 shall be granted to any (i) manufacturer, bottler or wholesaler of alcoholic beverages, whether licensed  
187 in the Commonwealth or not; (ii) officer or director of any such manufacturer, bottler or wholesaler; (iii)  
188 partnership or corporation, where any partner or stockholder is an officer or director of any such  
189 manufacturer, bottler or wholesaler; (iv) corporation which is a subsidiary of a corporation which owns  
190 or has interest in another subsidiary corporation which is a manufacturer, bottler or wholesaler of  
191 alcoholic beverages; or (v) manufacturer, bottler or wholesaler of alcoholic beverages who has a  
192 financial interest in a corporation which has a retail license as a result of a holding company, which  
193 owns or has an interest in such manufacturer, bottler or wholesaler of alcoholic beverages. Nor shall  
194 such licenses be granted in any instances where such manufacturer, bottler or wholesaler and such  
195 retailer are under common control, by stock ownership or otherwise.

196 Notwithstanding any other provision of this title, a manufacturer of malt beverages or wine, whether  
197 licensed in the Commonwealth or not, may obtain a banquet license for a special event as provided in  
198 § 4.1-209 upon application to the Board provided that such event is (a) at a place approved by the  
199 Board and (b) conducted for the purposes of featuring and educating the consuming public about malt  
200 beverage or wine products. Such manufacturer shall be limited to no more than four banquet licenses for  
201 such special events per year. Where the event occurs on no more than three consecutive days, a  
202 manufacturer need only obtain one such license for the event.

203 *Notwithstanding any other provision of this title, a manufacturer of distilled spirits, whether licensed*  
204 *in the Commonwealth or not, may obtain a banquet license for a special event as provided in*  
205 *subdivision A 4 of § 4.1-210 upon application to the Board, provided that such event is (1) at a place*  
206 *approved by the Board and (2) conducted for the purposes of featuring and educating the consuming*  
207 *public about the manufacturer's spirits products. Such manufacturer shall be limited to no more than*  
208 *four banquet licenses for such special events per year. Where the event occurs on nor more than three*  
209 *consecutive days, a manufacturer need only obtain one such license for the event. Such banquet license*  
210 *shall authorize the manufacturer to give samples of spirits to any person to whom alcoholic beverages*  
211 *may be lawfully sold in designated areas at the special event, provided that (A) no single sample shall*  
212 *exceed one-half ounce per spirits product offered and (B) no more than four spirits products may be*  
213 *offered to any patron. Nothing in this paragraph shall prohibit such manufacturer from serving such*  
214 *samples as a mixed beverage.*

215 B. This section shall not apply to:

216 1. Corporations operating dining cars, buffet cars, club cars or boats;

217 2. Brewery, distillery, or winery licensees engaging in conduct authorized by subdivision A 5 of  
218 § 4.1-201;

219 3. Farm winery licensees engaging in conduct authorized by subdivision 5 of § 4.1-207;

220 4. Manufacturers, bottlers or wholesalers of alcoholic beverages who do not (i) sell or otherwise  
221 furnish, directly or indirectly, alcoholic beverages or other merchandise to persons holding a retail  
222 license or banquet license as described in subsection A and (ii) require, by agreement or otherwise, such  
223 person to exclude from sale at his establishment alcoholic beverages of other manufacturers, bottlers or  
224 wholesalers;

225 5. Wineries, farm wineries, or breweries engaging in conduct authorized by § 4.1-209.1 or 4.1-212.1;  
226 or

227 6. One out-of-state winery, not under common control or ownership with any other winery, that is  
228 under common ownership or control with one restaurant licensed to sell wine at retail in Virginia, so  
229 long as any wine produced by that winery is purchased from a Virginia wholesale wine licensee by the  
230 restaurant before it is offered for sale to consumers.

231 C. The General Assembly finds that it is necessary and proper to require a separation between  
232 manufacturing interests, wholesale interests and retail interests in the production and distribution of  
233 alcoholic beverages in order to prevent suppliers from dominating local markets through vertical  
234 integration and to prevent excessive sales of alcoholic beverages caused by overly aggressive marketing  
235 techniques. The exceptions established by this section to the general prohibition against tied interests  
236 shall be limited to their express terms so as not to undermine the general prohibition and shall therefore  
237 be construed accordingly.

238 **§ 4.1-325. Prohibited acts by mixed beverage licensees; penalty.**

239 A. In addition to § 4.1-324, no mixed beverage licensee nor any agent or employee of such licensee  
240 shall:

241 1. Sell or serve any alcoholic beverage other than as authorized by law;

242 2. Sell any authorized alcoholic beverage to any person or at any place except as authorized by law;

243 3. Allow at the place described in his license the consumption of alcoholic beverages in violation of  
244 this title;

4. Keep at the place described in his license any alcoholic beverage other than that which he is licensed to sell;

5. Misrepresent the brand of any alcoholic beverage sold or offered for sale;

6. Keep any alcoholic beverage other than in the bottle or container in which it was purchased by him except (i) for a frozen alcoholic beverage, which may include alcoholic beverages in a frozen drink dispenser of a type approved by the Board; (ii) in the case of wine, in containers of a type approved by the Board pending automatic dispensing and sale of such wine; and (iii) as otherwise provided by Board regulation. Neither this subdivision nor any Board regulation shall prohibit any mixed beverage licensee from pre-mixing containers of sangria to be served and sold for consumption on the licensed premises;

7. Refill or partly refill any bottle or container of alcoholic beverage or dilute or otherwise tamper with the contents of any bottle or container of alcoholic beverage, except as provided by Board regulation adopted pursuant to § 4.1-111 B 11;

8. Sell or serve any brand of alcoholic beverage which is not the same as that ordered by the purchaser without first advising such purchaser of the difference;

9. Remove or obliterate any label, mark or stamp affixed to any container of alcoholic beverages offered for sale;

10. Deliver or sell the contents of any container if the label, mark or stamp has been removed or obliterated;

11. Allow any obscene conduct, language, literature, pictures, performance or materials on the licensed premises;

12. Allow any striptease act on the licensed premises;

13. Allow persons connected with the licensed business to appear nude or partially nude;

14. Consume or allow the consumption by an employee of any alcoholic beverages while on duty and in a position that is involved in the selling or serving of alcoholic beverages to customers.

The provisions of this subdivision shall not prohibit any retail licensee or his designated employee from (i) consuming product samples or sample servings of (a) beer or wine provided by a representative of a licensed beer or wine wholesaler or manufacturer or (b) a distilled spirit provided by a permittee of the Board who represents a distiller, if such samples are provided in accordance with Board regulations and the retail licensee or his designated employee does not violate the provisions of subdivision 1 f of § 4.1-225 or (ii) tasting an alcoholic beverage that has been or will be delivered to a customer for quality control purposes;

15. Deliver to a consumer an original bottle of an alcoholic beverage purchased under such license whether the closure is broken or unbroken except in accordance with § 4.1-210.

The provisions of this subdivision shall not apply to the delivery of:

a. "Soju." For the purposes of this clause, "soju" means a traditional Korean alcoholic beverage distilled from rice, barley or sweet potatoes; or

b. Spirits, provided (i) the original container is no larger than 375 milliliters, (ii) the alcohol content is no greater than 15 percent by volume, and (iii) the contents of the container are carbonated and perishable;

16. Be intoxicated while on duty or employ an intoxicated person on the licensed premises;

17. Conceal any sale or consumption of any alcoholic beverages;

18. Fail or refuse to make samples of any alcoholic beverages available to the Board upon request or obstruct special agents of the Board in the discharge of their duties;

19. Store alcoholic beverages purchased under the license in any unauthorized place or remove any such alcoholic beverages from the premises;

20. Knowingly employ in the licensed business any person who has the general reputation as a prostitute, panderer, habitual law violator, person of ill repute, user or peddler of narcotics, or person who drinks to excess or engages in illegal gambling;

21. Keep on the licensed premises a slot machine or any prohibited gambling or gaming device, machine or apparatus;

22. Make any gift of an alcoholic beverage, other than as a gift made (i) to a personal friend, as a matter of normal social intercourse, so long as the gift is in no way a shift or device to evade the restriction set forth in this subdivision; (ii) to a person responsible for the planning, preparation or conduct on any conference, convention, trade show or event held or to be held on the premises of the licensee, when such gift is made in the course of usual and customary business entertainment and is in no way a shift or device to evade the restriction set forth in this subdivision; (iii) pursuant to subsection C of § 4.1-209; or (iv) pursuant to subdivision A 42 11 of § 4.1-201. Any gift permitted by this subdivision shall be subject to the taxes imposed by this title on sales of alcoholic beverages. The licensee shall keep complete and accurate records of gifts given in accordance with this subdivision; or

23. Establish any normal or customary pricing of its alcoholic beverages that is intended as a shift or device to evade any "happy hour" regulations adopted by the Board; however, a licensee may increase

306 the volume of an alcoholic beverage sold to a customer if there is a commensurate increase in the  
307 normal or customary price charged for the same alcoholic beverage.

308 B. Any person convicted of a violation of this section shall be guilty of a Class 1 misdemeanor.

309 C. The provisions of subdivisions A 12 and A 13 shall not apply to persons operating theaters,  
310 concert halls, art centers, museums, or similar establishments that are devoted primarily to the arts or  
311 theatrical performances, when the performances that are presented are expressing matters of serious  
312 literary, artistic, scientific, or political value.

313 **§ 4.1-325.2. Prohibited acts by employees of wine or beer licensees; penalty.**

314 A. In addition to the provisions of § 4.1-324, no retail wine or beer licensee or his agent or  
315 employee shall consume any alcoholic beverages while on duty and in a position that is involved in the  
316 selling or serving of alcoholic beverages to customers.

317 The provisions of this subsection shall not prohibit any retail licensee or his designated employee  
318 from (i) consuming product samples or sample servings of beer or wine provided by a representative of  
319 a licensed beer or wine wholesaler or manufacturer, if such samples are provided in accordance with  
320 Board regulations and the retail licensee or his designated employee does not violate the provisions of  
321 subdivision 1 f of § 4.1-225 or (ii) tasting an alcoholic beverage that has been or will be delivered to a  
322 customer for quality control purposes.

323 B. For the purposes of subsection A, a wine or beer wholesaler or farm winery licensee or its  
324 employees that participate in a wine or beer tasting sponsored by a retail wine or beer licensee shall not  
325 be deemed to be agents of the retail wine or beer licensee.

326 C. No retail wine or beer licensee, or his agent or employee shall make any gift of an alcoholic  
327 beverage, other than as a gift made (i) to a personal friend, as a matter of normal social intercourse, so  
328 long as the gift is in no way a shift or device to evade the restriction set forth in this subsection; (ii) to  
329 a person responsible for the planning, preparation or conduct on any conference, convention, trade show  
330 or event held or to be held on the premises of the licensee, when such gift is made in the course of  
331 usual and customary business entertainment and is in no way a shift or device to evade the restriction  
332 set forth in this subsection; (iii) pursuant to subsection C of § 4.1-209; or (iv) pursuant to subdivision A  
333 42 11 of § 4.1-201. Any gift permitted by this subsection shall be subject to the taxes imposed by this  
334 title on sales of alcoholic beverages. The licensee shall keep complete and accurate records of gifts  
335 given in accordance with this subsection.

336 D. Any person convicted of a violation of this section shall be subject to a civil penalty in an  
337 amount not to exceed \$500.