

Department of Planning and Budget 2016 Fiscal Impact Statement

1. **Bill Number:** HB1375

House of Origin Introduced Substitute Engrossed
Second House In Committee Substitute Enrolled

2. **Patron:** Freitas

3. **Committee:** House Committee on General Laws

4. **Title:** Alcoholic beverage control; privileges of distiller's license

5. **Summary:** Allows distiller's licensees to (i) sell at retail the brands of alcoholic beverages that the licensee owns at premises described in the license for on-premises consumption and in closed containers for off-premises consumption and (ii) offer samples of such products to individuals visiting the licensed premises. Under current law, distiller's licensees may only sell such alcoholic beverages at government stores established by the Alcoholic Beverage Control Board on the distiller's licensed premises. The bill levies on alcoholic beverages sold by distiller's licensees to consumers at retail a tax of 20 percent of the price charged.

6. **Budget Amendment Necessary:** Yes, Front Page

7. **Fiscal Impact Estimates:** Preliminary (see Item #8)

8. **Fiscal Implications:** This bill eliminates the Alcoholic Beverage Control Board's authority to appoint distiller licensees to operate distillery stores on behalf of the agency for the purpose of the sale of spirits. Currently, the Department of Alcoholic Beverage Control (ABC) enters into contracts with interested distilleries that meet the criteria to operate a distillery store. As a part of the contract, ABC pays the distiller a commission payment. In FY 2015 and years prior, the commission payment was a percentage of gross retail sales receipts. Currently, the commission payment is a flat 8 percent of the distiller's monthly sales totals. In the most recently completed fiscal year, ABC paid a total of \$253,768 in commission payments to its 12 contracted distillery store operators. In FY 2016, the number of contracted distillery stores has increased to 19 with the expectation that the number will continue to grow.

This bill would allow any distiller licensee to operate a private distillery store. ABC estimates there are roughly 40 distillery licensees that meet the criteria to open a store under the provisions of this bill. Distiller licensees would be permitted to sell at retail the brands of alcoholic beverages that the distillery owns at premises described in the license for on-premises consumption and in closed containers for off-premises consumption. Distillery stores would set their own pricing and keep all the profits for products sold on-premises. Currently, distillery store sales and profits are deposited with ABC. According to ABC, the

elimination of profit collection from distillery stores by ABC will result in lost profits of approximately \$1 million in FY 2017 with the annual loss expected to grow to more than \$3.5 million per year by FY 2022. It is possible that product price variances between distillery stores and ABC retail stores could arise. Therefore, the potential lost sales due to price competition cannot be quantified. The bill does not impact the 20 percent state tax that is currently collected on all distillery store sales.

Due to the projected continued growth of distilleries and the additional responsibility of monitoring and enforcement of private retail stores on the distillery's licensed premises, ABC believes two additional compliance agents will be needed by FY 2018. Salary and benefits for each compliance agent is about \$90,000 a year. In addition, the monthly remittance of the state tax by distiller's licensees will necessitate the hiring of an additional tax examiner. Salary and benefits for a tax examiner is about \$60,000 a year.

9. Specific Agency or Political Subdivisions Affected: Department of Alcoholic Beverage Control

10. Technical Amendment Necessary: No

11. Other Comments: Similar to SB714