

Department of Legislative Services
Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 9

(Senator Reilly)

Education, Health, and Environmental Affairs

Economic Matters

**Anne Arundel County and the City of Annapolis - Alcoholic Beverages - Limited
Distillery License**

This emergency bill authorizes the Comptroller to issue a Class 9 limited distillery license to a holder of a Class D beer, wine, and liquor license in Anne Arundel County and the City of Annapolis.

Fiscal Summary

State Effect: General fund revenues increase by \$500 annually for each Class 9 limited distillery license issued in Anne Arundel County beginning in FY 2016. Alcoholic beverages and sales tax revenues may also increase by a minimal amount. Expenditures are not materially affected.

Local Effect: The bill does not materially affect the finances or operations of Anne Arundel County or the City of Annapolis.

Small Business Effect: Minimal overall, but potential meaningful positive impact for any small business that applies for and obtains a Class 9 limited distillery license.

Analysis

Current Law:

Limited Distillery License

Chapter 449 of 2015 established a Class 9 limited distillery license in the State. The license must be issued by the Comptroller and only to the holder of a Class D beer, wine, and liquor license in Worcester County for use on the licensed premises. A Class 9 limited distillery license authorizes the user to distill, rectify, bottle, or sell no more than 100,000

gallons of brandy, rum, whiskey, alcohol, and neutral spirits under specified conditions. The annual license fee is \$500.

A holder of a Class 9 limited distillery license may establish and operate a plant in Maryland for distilling, rectifying, and bottling brandy, rum, whiskey, alcohol, and neutral spirits if the holder meets specified conditions. A license holder may (1) acquire bulk alcoholic beverages from the holder of a distillery or rectifying license or from the holder of a nonresident dealer's permit; (2) after acquiring an individual storage permit, store products manufactured on the licensed premises; (3) sell and deliver those products to specified entities; (4) sell the products at retail in a manner consistent with the underlying Class D license; (5) conduct guided tours of the licensed premises, as specified; and (6) serve not more than three one-half ounce samples of the products to persons who have attained the legal drinking age, participated in a guided tour of the premises, and are present in the portion of the premises used for the limited distillery operation.

A license holder may not (1) apply for or possess a wholesaler's license; (2) sell bottles of the products on that part of the premises used for the distillery operation; (3) distill, rectify, bottle, or sell more than 100,000 gallons of product in a calendar year; (4) sell at retail on the premises of the Class D license, for on- or off-sale consumption, more than 15,500 gallons of the products manufactured under the Class 9 limited distillery license each calendar year; and (5) own, operate, or be affiliated in any manner with another manufacturer.

To distill more than 100,000 gallons per calendar year, a holder of a Class 9 limited distillery license must divest itself of any Class D retail license and obtain a Class 1 manufacturer's (distillery) license.

Class 1 Manufacturer's License (Distillery License)

A Class 1 distillery license is issued by the Comptroller's Office and authorizes the establishment and operation of a plant for distilling brandy, rum, whiskey, alcohol, and neutral spirits. It also authorizes the sale and delivery of those alcoholic beverages, with specified restrictions. The annual license fee is \$2,000.

Class D Beer, Wine, and Liquor License

In the State, a Class D beer, wine, and liquor license authorizes the license holder to sell or provide beer, wine, and liquor for on- or off-premises consumption as specified on the license. Commonly, such licenses are issued for use in a bar or tavern, and a license may not be issued for any drugstore.

In Anne Arundel County, there are two types of Class D beer, wine, and liquor licenses. The first is a limited license that authorizes the sale of alcoholic beverages for consumption only on the licensed premises; its annual license fee is \$1,080. The second authorizes the

sale of alcoholic beverages for consumption on or off the licensed premises; its annual license fee is \$1,200.

In the City of Annapolis, the annual license fee for a Class D beer, wine, and liquor license may be \$420, \$1,070, or \$3,090 depending on the authorized days and hours of sale for the license.

Background: In fiscal 2015, there were 109 Class D beer, wine, and liquor licenses issued in Anne Arundel County and 1 Class D beer, wine, and liquor license issued in the City of Annapolis.

State Fiscal Effect: General fund revenues from license fees increase by \$500 annually for each Class 9 limited distillery license issued by the Comptroller. Alcoholic beverages and sales tax revenues may increase minimally from additional liquor being produced and sold by limited distilleries. Any increase in tax revenues cannot be reliably estimated and depends on the amount of product distilled; however, it is not anticipated to be significant. The sales tax on alcoholic beverages is 9%, and the alcoholic beverages tax on distilled spirits is \$1.50 per gallon. If the distilled spirits contain a percentage of alcohol greater than 100 proof, an additional tax of 1.5 cents per gallon is added for each one proof over 100 proof. Revenues from these taxes and licensing fees are deposited into the general fund.

Chapter 449 of 2015 required the Comptroller's Office to establish the limited distillery license in Worcester County, and the fiscal and policy note for that bill advised that the Comptroller's Office needed a one-time expenditure increase of \$48,000 in fiscal 2016 to create and program the new license forms into its system. Due to the previous establishment of this license, any additional expenditure increase for the Comptroller's Office to allow applicants in Anne Arundel County and the City of Annapolis to obtain the license is expected to be minimal.

Additional Comments: The Comptroller's Office advises that, despite the bill's emergency status, the limited distillery license for Anne Arundel County may not be established until October 1, 2016 at the earliest, due to programming delays and the same is likely true for the City of Annapolis. However, as volume is expected to be low in both jurisdictions, the office may be able to hand key any applicant information into its system relatively quickly before the programming changes take place.

Additional Information

Prior Introductions: SB 812 of 2015 passed the Senate, but no further action was taken.

Cross File: None.

Information Source(s): Anne Arundel County, Comptroller's Office, Department of Legislative Services

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