

Department of Legislative Services
Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
Third Reader

House Bill 307
Economic Matters

(Montgomery County Delegation)

Education, Health, and Environmental Affairs

Montgomery County - Alcoholic Beverages - Limited Distilleries - Class B and
Class D Licenses
MC 6-17

This bill authorizes the Comptroller to issue a Class 9 limited distillery license to a holder of a Class B beer, wine, and liquor (BWL) (on-sale) license or a Class D BWL (on-sale) license in Montgomery County. The holder of a Class 9 limited distillery license may sell its distilled products for on- and off-premises consumption.

The bill takes effect July 1, 2017.

Fiscal Summary

State Effect: General fund revenues increase by \$500 annually for each Class 9 limited distillery license issued as a result of the bill, beginning in FY 2018; however, the total impact is expected to be minimal. Alcoholic beverages and sales tax revenues may also increase by a minimal amount. The Comptroller's Office can issue additional licenses with existing resources.

Local Effect: To the extent that the bill results in the issuance of additional Class B BWL and Class D BWL licenses in Montgomery County, revenues increase due to application filing fees and annual license fees; however, any such impact is expected to be minimal. Montgomery County can handle any additional monitoring and enforcement activities with existing resources.

Small Business Effect: Potential meaningful positive impact for any small business that applies for and obtains a Class 9 limited distillery license and is, therefore, able to distill and sell its own products.

Analysis

Current Law:

Limited Distillery License

Chapter 308 of 2016 authorized the Comptroller to issue a Class 9 limited distillery license to a Class B BWL license holder or a Class D BWL license holder in any jurisdiction in the State if the Class B BWL or Class D BWL license authorizes sales for both on- and off-premises consumption. Prior to this change, a Class 9 limited distillery license could only be issued to the holder of a Class D BWL 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.

Background: As of January 2017, there are two Class 9 limited distillery licenses and 20 Class 1 distillery licenses issued in the State. Montgomery County advises that there are no Class 1 or Class 9 distillery licenses issued for use in the county.

State Revenues: 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 1 proof over 100 proof. Revenues from these taxes and licensing fees are deposited into the general fund.

Local Revenues: Beginning in fiscal 2018, Montgomery County revenues increase by:

- \$600 for each application for a new license, due to application fees;
- \$2,500 annually for each Class B BWL license issued due to licensing fees;
- \$3,000 annually for each Class D BWL license issued due to licensing fees; and
- \$100 annually for each new license issued due to administrative renewal fees.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Montgomery County; Comptroller's Office; Department of Legislative Services

Fiscal Note History: First Reader - February 1, 2017
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Analysis by: Richard L. Duncan

Direct Inquiries to:
(410) 946-5510

(301) 970-5510