

Department of Legislative Services
 Maryland General Assembly
 2015 Session

FISCAL AND POLICY NOTE
 Revised

House Bill 689

(Delegates Carozza and Otto)

Economic Matters

Education, Health, and Environmental Affairs

Worcester County - Alcoholic Beverages - Limited Distillery License

This bill establishes a Class 9 limited distillery license to be issued by the Comptroller. The annual license fee is \$500. The license must be issued only to a holder of a Class D beer, wine, and liquor license in Worcester County for use only on the premises for which the underlying alcoholic beverages license was issued. The Class 9 limited distillery license authorizes the holder to establish and operate a plant in Maryland for distilling, rectifying, and bottling specified products, subject to specified restrictions. A license holder must abide by all trade practice restrictions applicable to distilleries.

The bill takes effect July 1, 2015.

Fiscal Summary

State Effect: General fund revenues increase by \$500 annually for each Class 9 limited distillery license issued in Worcester County beginning in FY 2016. Alcoholic beverages and sales tax revenues may also increase minimally. General fund expenditures increase by \$48,000 in FY 2016 at the Comptroller’s Office for one-time programming expenses.

(in dollars)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Revenue	-	-	-	-	-
GF Expenditure	\$48,000	\$0	\$0	\$0	\$0
Net Effect	(\$48,000)	\$0	\$0	\$0	\$0

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: This bill does not materially affect Worcester County operations or finances.

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

Bill Summary:

Permitted Activities

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 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.

Restrictions

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 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.

Current Law:

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. A Class 1 distillery license must be obtained for each trade name and for each distillery in the State. It permits a distiller to manufacture alcoholic beverages in the name of another person or under a trade name,

provided that a distillery license has been issued to that other person or under that trade name, as the case may be. It also permits the license holder to (1) acquire bulk alcoholic beverages from the holder of distillery, rectifying, or winery license in the State or from the holder of a nonresident dealer's permit; (2) conduct guided tours; (3) serve samples; and (4) subject to specified restrictions, sell up to three 750-milliliter bottles of products manufactured on the licensed premises, for consumption off the licensed premises, and related merchandise, to persons of legal drinking age who participate in a guided tour of the licensed premises.

Class 2 Manufacture's Licenses (Rectifying License)

A Class 2 rectifying license is issued by the Comptroller and authorizes the holder to, among other things, (1) establish and operate a plant for rectifying, blending, and bottling alcohol beverages and (2) sell and deliver alcoholic beverages to specified entities. The annual license fee is \$600.

Class D Beer, Wine, and Liquor License

The Worcester County Board of License Commissioners may only issue a Class D beer, wine, and liquor license in specified locations. The annual license fee is \$3,750 for a six-day license and \$4,250 for a seven-day license. Seven-day license holders may sell beer, wine, and liquor on-sale and off-sale. All license fees must be paid into the county's general fund; however, if the licensed premises is within a municipality, 75% of the fees must be paid to that municipality.

Background: In fiscal 2014, there were 32 Class D beer, wine, and liquor licenses issued in Worcester County. Worcester County advises that there is only one establishment likely to seek and obtain a Class 9 limited distillery license as a result of the bill.

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

State Expenditures: The Comptroller's Office incurs a one-time expenditure increase of \$48,000 in fiscal 2016 to create new license forms and make reporting changes.

Additional Information

Prior Introductions: None.

Cross File: SB 523 (Senator Mathias) - Education, Health, and Environmental Affairs.

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

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