

Department of Legislative Services
Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
Third Reader

House Bill 1337

(Delegate Barkley)

Economic Matters

Education, Health, and Environmental Affairs

Alcoholic Beverages - Liquor - Manufacturer's and Wholesaler's Licenses and Permits

This bill establishes a nonresident distillery permit and a Class 8 liquor wholesaler's license. A dispensary, restaurant, or other retail dealer authorized to sell liquor in Montgomery County may purchase liquor from a nonresident distillery permit or a Class 8 liquor wholesaler's license holder instead of the Montgomery County Department of Liquor Control (DLC), and a nonresident distillery permit or a Class 8 liquor wholesaler's license holder may sell or deliver its own liquor to those establishments.

Fiscal Summary

State Effect: General fund revenues increase by \$100 for each Class 8 liquor wholesaler's license and nonresident distillery permit that is issued, beginning in FY 2017. In addition, sales tax revenues and alcoholic beverages tax revenues increase beginning in FY 2017 for liquor sold in the State by nonresident distillery permit holders. General fund expenditures in the Comptroller's Office increase by \$68,400 in FY 2017 for a field enforcement investigator to issue and monitor nonresident distillery permits and Class 8 liquor wholesaler's licenses.

| (in dollars) | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 |
|----------------|------------|------------|------------|------------|------------|
| GF Revenue | - | - | - | - | - |
| GF Expenditure | \$68,400 | \$60,600 | \$63,100 | \$65,700 | \$68,400 |
| Net Effect | (\$68,400) | (\$60,600) | (\$63,100) | (\$65,700) | (\$68,400) |

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

Local Effect: Dispensaries, restaurants, or other retail dealers purchasing liquor directly from a nonresident distillery permit holder or a Class 8 liquor wholesaler rather than from DLC does not have a material impact on Montgomery County revenues.

Small Business Effect: Small businesses that obtain a Class 8 liquor wholesaler's license benefit from additional avenues in which to sell their liquor.

Analysis

Bill Summary: The Comptroller's Office may issue a nonresident distillery permit to a person who does not have a nonresident dealer's permit, produces no more than 100,000 gallons of liquor annually, and is licensed to do so outside of the State. The nonresident distillery permit holder may sell and deliver the permit holder's own liquor from a location outside the State to an authorized retail license holder or permit holder in the State. The permit holder must comply with specified State law and regulations. The permit fee is \$100.

The Comptroller's Office may issue a Class 8 liquor wholesaler's license to a person that holds a Class 1 distillery license and produces no more than 100,000 gallons of liquor annually. The license holder may sell and deliver its own liquor produced on the license holder's premises to specified retail license or permit holders. The license holder may not distribute more than 27,500 gallons of its own liquor annually. The annual license fee is \$100, plus an additional \$100 for each additional location approved by the Comptroller that the license holder uses for the warehousing, sale, and delivery of liquor.

Current Law: 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 a 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.

In Montgomery County, the liquor control board is authorized to sell any kind of alcoholic beverage, and the county may sell alcoholic beverages through the use of a county liquor dispensary. Furthermore, in Montgomery County, no person, firm, or corporation may keep for sale any alcoholic beverage not purchased from DLC. Unless otherwise specified by law, no retailer may sell or deliver any alcoholic beverage in Montgomery County for

resale except to a county liquor dispensary. Holders of a Class 6 limited wine wholesaler's license or a nonresident winery permit may sell or deliver wine directly to a restaurant, county liquor dispensary, or other retail dealer in Montgomery County, and the holder of a direct wine shipper's permit may ship wine directly to consumers in Montgomery County.

Background: There are currently 14 Class 1 distillery licenses issued in the State.

State Revenues: General fund revenues increase by \$100 for each Class 8 liquor wholesaler's license and nonresident distillery permit that is issued, beginning in fiscal 2017. In addition, sales tax revenues and alcoholic beverages tax revenues increase beginning in fiscal 2017 for liquor sold in the State by nonresident distillery permit holders.

State Expenditures: General fund expenditures increase by \$68,448 in fiscal 2017, which accounts for the bill's October 1, 2016 effective date. This estimate reflects the cost of hiring one field enforcement officer within the Comptroller's Office to issue and monitor the new permits and licenses. It includes a one-time expenditure increase of \$19,100 in fiscal 2017 to create new permit and license forms and make reporting changes. It also includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

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|---|-----------------|
| Position | 1 |
| Salaries and fringe benefits | \$44,533 |
| IT expenses | 19,100 |
| Operating expenses | <u>4,815</u> |
| Total FY 2017 State Expenditures | \$68,448 |

Future year expenditures reflect a full salary with annual increases and employee turnover as well as annual increases in ongoing operating expenses

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 18, 2016
md/hlb

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