Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986

Senate Bill 1171 (Substitute S-4 as reported)
Sponsor: Senator Bill Bullard, Jr.
Committee: Economic Development, International Trade and Regulatory Affairs

CONTENT

The bill would amend the Michigan Liquor Control Act to allow authorized distribution agents (ADAs) to distribute alcoholic liquor in the State, specify the eligibility criteria for appointment as an ADA, require written contracts or agreements between ADAs and suppliers of spirits, specify penalties for violations by ADAs, require ADAs to make a good faith effort to employ displaced State employees, prohibit a specially designated distributor from selling or delivering spirits to any person licensed to sell spirits for consumption on the licensed premises, and require the Liquor Control Commission to pay vendors a per-case offset.

MCL 436.3 et al. Legislative Analyst: L. Burghardt

FISCAL IMPACT

This bill would allow the Michigan Liquor Control Commission to privatize its Merchandising and Warehousing divisions. The bill would authorize the Commission to contract with private distribution companies, referred to in the bill as “authorized distribution agents”, to perform the functions of these divisions.

Under the current structure the Commission orders liquor from a distiller or manufacturer, which then ships the product to one of the two State warehouses located in Lansing and Lincoln Park. The Commission assesses a bailment charge of 83 cents per case on the manufacturer for storage, which is estimated to total about $4.0 million annually in revenue. The cost for performing this function is estimated to be $4.9 million annually. The product then is shipped from these warehouses to a third State warehouse in Escanaba and to the 63 regional warehouses located Statewide. Another 25 cents per case is charged to the distiller to cover this cost of distribution, which is estimated to total about $2.0 million in revenue annually. The cost for performing this function is estimated to be $1.6 million annually. All three State warehouses and the 63 regional stores are staffed by approximately 400 State employees. The State owns the Lansing and Lincoln Park warehouses and leases the Escanaba and the 63 regional warehouses from private owners. The Commission estimates that the cost of these leases and other contracts needed for maintenance and utilities is about $22.2 million annually.

If the Commission chose to privatize its warehousing and distribution functions, it would have to close the two State warehouses, terminate the leases on the Escanaba and the 63 regional warehouses, and lay off all State employees currently working out of these locations. The distillers and manufacturers would be responsible for setting up contractual agreements with private distribution companies, or authorized distribution agents, to warehouse and distribute the liquor to licensees. The Commission still would order and purchase the liquor from the distiller or manufacturer directly and would pay the distiller an additional per-case fee ranging from $4.50 to $7.50 to offset the cost to the distiller for distributing the product. This money would be used by the distiller to pay the cost of contracting with an authorized distribution agent for the warehousing and delivery of the distiller's product.

Under the proposed plan, the minimum per-case fee would be $4.50, which is $.04 per case lower than what it currently costs the State to distribute liquor. If the fee were set at a higher rate within the range, then the State reimbursement to the private sector for the distribution of liquor would exceed the current amount the State is paying for distribution. This cost could range from $2,308,963 annually, if the fee were set at $5.00 per case, to $14,808,963 annually, at the $7.50 level.

In addition to the costs outlined above, there also would be some one-time costs to the State for unemployment, severance pay, and annual and sick leave balance payoffs for some portion of the estimated 400 State employees who currently work in the State and regional warehouses. It is difficult to estimate the exact cost the State would incur as a result of these layoffs as there is no way to predict how many of these employees would be affected.

For a more detailed analysis, please see the summary dated 11-25-96.

Date Completed: 12-2-96 Fiscal Analyst: M. Tyszkiewicz

floor\sb1171