

Legislative Analysis



EXECUTIVE BUDGET RECOMMENDATION: INCREASE LIQUOR FEES AND NEW LIQUOR LICENSES

Mitchell Bean, Director
Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

House Bill 5056

Sponsor: Rep. Richard Hammel

Committee: Appropriations

Complete to 9-9-09

A REVISED SUMMARY OF HOUSE BILL 5056 AS INTRODUCED 6-9-09

As part of the FY 2009-10 Executive Budget Recommendation for the Department of Energy, Labor, and Economic Growth, Governor Granholm proposed doubling many retail liquor license fees, as well as creating new licenses allowing for liquor sales between 2 a.m. and 4 a.m. and on Sunday mornings. House Bill 5056 would enact the liquor license changes proposed by the Governor.

Late Night Sales Permit

The bill would create a new "late night" special activity permit enabling on-premise and off-premise licensees to sell alcoholic liquor between 2 a.m. and 4 a.m., subject to the approval of the Liquor Control Commission and the local unit of government. The LCC would issue a late night sales permit, upon application from a licensee, unless the local unit currently prohibits alcohol sales after 2 a.m. on Sundays or if the local unit adopts a resolution prohibiting the issuance of late night sales permits. A local unit could restrict late night sales permits to only one type of license (on-premise or off-premise). If a local unit does not currently prohibit sales after 2 a.m. on Sundays, separate authorization allowing late night sales wouldn't be required. The bill also permits local units to establish "entertainment districts" within which late night sales permits would be issued. The late night sales permit fee would be \$1,500.

Sunday Morning Sales Permit

The bill would also create a new Sunday morning special activity permit enabling on-premise and off-premise licensees to sell alcoholic liquor between 7 a.m. and 12 noon on Sundays. Similar to above, the LCC would issue a Sunday morning sales permit upon application from a licensee, unless the local unit currently prohibits alcohol sales after 2 a.m. on Sundays or if the local unit adopts a resolution prohibiting the issuance of Sunday morning sales permits. A local unit could restrict Sunday morning sales permits to only one type of license (on-premise or off-premise). If a local unit does not currently prohibit sales after 2 am on Sundays, separate authorization allowing late night sales wouldn't be required. The bill also permits local units to establish "entertainment districts" within which late night sales permits would be issued. The Sunday morning sales permit fee would be \$1,500.

Increase Liquor License Fees

The bill would double many liquor license fees, as follows:

- **Train Cars:** The current fee is \$100 per train. The bill changes the fee to \$200 per train. The license permits dining cars, railroad cars, or Pullman cars to sell alcoholic liquor.
- **Watercraft:** The current fee is \$1.00 per person per passenger capacity, with a minimum fee of \$100 and a maximum fee of \$500. The bill keeps the \$1.00 per person per passenger capacity fee, but increases the range to \$200 to \$1,000. A watercraft license permits watercraft licensed to carry passengers between predetermined geographical points to sell alcoholic liquor.
- **Specially Designated Merchants (SDM):** The current fee is \$100 per location. The bill increases the fee to \$200. The fee is imposed on each location, irrespective of whether the location is part of a system or chain of merchandising. A SDM license permits license holders to sell beer and wine for off-premise consumption.
- **Specially Designated Distributors (SDD):** The current fee is \$150, plus \$3.00 for each \$1,000 in excess of \$25,000 in purchases from the LCC. The bill changes the fee to \$300, plus \$6.00 for each \$1,000 in excess of \$25,000 in purchases from the LCC. A SDD license permits license holders to sell liquor and mixed drinks for off-premise consumption.
- **Class A Hotel:** The current minimum fee is \$250, plus \$1.00 for each bedroom above 20, subject to a maximum total fee of \$500. The bill changes the fee to a minimum of \$500, plus \$2 for each bedroom above 20, subject to a maximum total fee of \$1,000. A Class A Hotel license permits license holders to sell beer and wine for on-premise consumption and in guest rooms.
- **Class B Hotel:** The current is \$600, plus \$3.00 for each bedroom above 20. Each additional bar is \$350. The bill changes the fee to \$1,200, plus \$6.00 for each bedroom above 20, and \$700 for each additional bar. A Class B Hotel license permits license holders to sell beer, wine, liquor, and mixed spirit drinks for on-premise consumption and guest rooms.
- **Tavern:** The current fee is \$250. The bill increases the fee to \$500. A tavern license permits license holders to sell beer and wine for on-premise consumption.
- **Class C:** The current fee is \$600, plus \$350 for each additional bar. The bill changes the fee to \$1,200, plus \$700 for each additional bar. For municipally owned or supported facilities where nonprofit organizations operate concession stands, the fee for each additional bar is \$100. Under the bill each additional bar would be \$200. A Class C license permits license holders to sell beer, wine, liquor, and mixed spirit drinks for on-premise consumption.
- **Club:** The current fee is \$300, plus \$1.00 for each club member above 150, subject to a maximum total fee of \$750. The bill changes the fee to \$600, plus \$2.00 for each club member above 150, subject to a maximum total fee of \$1,500. A Club license permits license holders (private clubs) to sell beer, wine, liquor, and mixed spirits drinks to club members.
- **Special Licenses:** The current fee is \$50 per day, except in the case of organizations in existence for at least one year, in which case the fee is \$25 per day. The bill changes the

fee to \$50 per day, for every special license holder. The special license permits nonprofit organizations to hold 12 special licenses, with each license valid for one day.

- **Aircraft:** The current fee is \$600. The bill increases the fee to \$1,200. The license permits airlines licensed to carry passengers to sell alcoholic liquor.
- **Class G-1:** The current fee is \$1,000. The bill increases the fee to \$2,000. A Class G-1 license permits license holders to sell beer, wine, spirits, and mixed spirit drinks at a golf course with at least 18 holes and measuring at least 5,000 yards.
- **Motor sports Event:** The current fee is \$250. The bill increases the fee to \$500. The motor sports event license permits license holders to sell beer and wine for on-premise consumption during sanctioned motor sports events.

Distribution of Fee Revenue

In general, under the Liquor Control Code, retail liquor license fee revenue is to be used for LCC administration and enforcement (41.5%), re-distribution to local governments for enforcement of liquor laws (55%), and to support alcohol abuse prevention programs (3.5%). (All revenue from aircraft, train, and watercraft licenses are retained by the LCC.) Under the bill, revenue attributable to the fee increase and the new special activity permits would, instead, be retained by the LCC for licensing and enforcement. Revenue in excess of the amount expended by the LCC for licensing and enforcement would be credited to the General Fund at the end of each fiscal year.

FISCAL IMPACT:

Based on information provided by the State Budget Office, the bill would increase liquor license fee revenue by an estimated \$24.2 million on an annual basis. Under the FY 2009-10 DELEG Executive Recommendation, the additional revenue would be used to replace \$17.0 million from the Liquor Purchase Revolving Fund, which also supports the LCC operations. As a result, the LCC would be entirely supported by fee revenue. By statute, the surplus of the Liquor Purchase Revolving Fund at the end of the year is credited to the General Fund. By replacing LPRF with the increase liquor license revenue, the bill effectively increases the LPRF transfer to the General Fund by \$17.0 million. (For each of the past two years, the LPRF transfer to the General Fund has been about \$160 million.) Under the bill, excess revenue from these new or increased retail liquor license fees would be credited to the General Fund. Based on the fee changes contained in the bill, this amount would be \$7.2 million. The proposed early morning sales permit would generate an estimated \$4.6 million, the Sunday morning sales permit would generate an estimated \$9.2 million, and the increased fees would generate an estimated \$10.4 million.

The Senate FY 2009-2010 DELEG budget bill, SB 243, did not concur with the proposed fee changes, and continued to fund LCC operations with liquor license revenue (the 41.5% of retail license revenue designated for the LCC) and the Liquor Purchase Revolving Fund. The House Appropriations Subcommittee on Economic Development concurred with the Executive, in recommending the fee changes. During floor action, the House adopted an amendment by Representative Moss (amended by Representative Hammel) to utilize unspecified "State Restricted Funds" instead of the LPRF or increased Liquor License Revenue to support the LCC's operations. In some respects, this represents the midway point between the Executive proposal to change liquor fees and the Senate proposal to maintain the

status quo. Technically, the House of Representatives did not pass SB 243 (H-1) with \$17.0 million in new or increased liquor license fees. On the other hand, the bill doesn't technically maintain the status quo by partially supporting the LCC with LPRF either. If the bill, as passed by the House, is enacted by the Legislature, the "State Restricted Funds" fund source utilized in the bill would likely be the LPRF (in the absence of a fee increase) or Liquor License Revenue (if the Legislature agrees to the fee changes). The chart below shows the current year-to-date LCC appropriations, and all three FY 2009-10 budget proposals.

Appropriation Unit	FY 2009-2010 Proposals			
	FY 2009 YTD	Executive	Senate	House
Administration				
Liquor License Revenue	\$0	\$4,816,200	\$0	\$0
Liquor Purchase Revolving Fund	\$4,927,900	\$1,000	\$4,817,200	\$1,000
State Restricted Funds	\$0	\$0	\$0	\$4,816,200
Gross Appropriation	\$4,927,900	\$4,817,200	\$4,817,200	\$4,817,200
Liquor Control Commission	FY 2009 YTD	Executive	Senate	House
Direct Shipper Enhancement Fund	\$120,000	\$120,000	\$120,000	\$120,000
Liquor License Revenue	\$6,293,700	\$16,059,000	\$6,526,500	\$6,526,500
Liquor Purchase Revolving Fund	\$9,131,300	\$1,000	\$9,533,500	\$0
State Restricted Funds	\$0	\$0	\$0	\$9,533,500
Gross Appropriation	\$15,545,000	\$16,180,000	\$16,180,000	\$16,180,000
Administrative Hearings and Rules	FY 2009 YTD	Executive	Senate	House
Liquor License Revenue	\$0	\$122,200	\$0	\$0
Liquor Purchase Revolving Fund	\$120,800	\$1,000	\$123,200	\$1,000
State Restricted Funds	\$0	\$0	\$0	\$122,200
Gross Appropriation	\$120,800	\$123,200	\$123,200	\$123,200
Information Technology	FY 2009 YTD	Executive	Senate	House
Liquor License Revenue	\$0	\$2,489,500	\$0	\$0
Liquor Purchase Revolving Fund	\$2,534,600	\$1,000	\$2,490,500	\$1,000
State Restricted Funds	\$0	\$0	\$0	\$2,489,500
Gross Appropriation	\$2,534,600	\$2,490,500	\$2,490,500	\$2,490,500
Grand Total	\$23,128,300	\$23,610,900	\$23,610,900	\$23,610,900

Note: The FY 2009 YTD figure above does not include \$151,200 appropriated in the DELEG budget bill for the DMB, Office of the State Budget, Office of Internal Audit Services. For FY 2010 this funding is to be consolidated within a single internal audit line item within the DMB budget. Also, the Administration appropriations unit in each of the budgets does not include the \$100,000 in Liquor License Revenue that is appropriated in the Regulatory Efficiency Improvement line item, as there have been no actual expenditures recorded in that line item in the past several years. Funding for administration includes the salary and benefit of LCC Commissioners, property management costs, workers compensation costs, and central finance and administration costs.

Legislative/Fiscal Analyst: Mark Wolf

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.