Legislative Analysis

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MLCC: LIFT MAXIMUM DISTRIBUTION AGENT FEE

House Bill 5578
Sponsor: Rep. Hugh Crawford
Committee: Regulatory Reform

Complete to 9-29-14

A SUMMARY OF HOUSE BILL 5578 AS INTRODUCED 5-14-14

House Bill 5578 would amend Section 205 of the Michigan Liquor Control Code to eliminate the upper limit on the per-case fee paid to a vendor of spirits as an offset to the costs incurred by that vendor in contracting with an authorized distribution agent for the warehousing and delivery of spirits to retailers.

Currently, the statute prescribes a fee of not less than $4.50 but not more than $7.50 per case. The bill would remove the maximum amount. The fee is understood to be a pass-through to the authorized distribution agents. The adjustment of the per-case fee was proposed in the 2012 Office of Regulatory Reinvention report regarding liquor control in the state, as recommendation #65.

The bill also would strike language put in the code when the liquor distribution system was privatized in 1996 that required distributors to make a good faith effort to provide employment to the state employees who were losing their jobs in the privatization.

BACKGROUND INFORMATION:

The following information is from the Michigan Liquor Control Commission website:

> Michigan operates as a "control" state for the sale of spirits. That is, the Michigan Liquor Control Commission (MLCC) acts as the wholesaler for all spirit products. A "Vendor of Spirits" sells spirits to the MLCC. The MLCC then resells the spirits to both on and off premises retail licensees. Spirit products are warehoused and delivered to retail licensees by Authorized Distribution Agents (ADA). An ADA is required to be certified by the MLCC and is also required to have a contract with each Vendor of Spirits they represent to deliver their particular spirit products. Spirit products that are sold to consumers for off-premises consumption by licensed Specially Designated Distributors (SDD).

FISCAL IMPACT:

House Bill 5578, as introduced, would have an indirect fiscal impact on the state's General Fund (GF/GP) to the extent that any increases in the per case warehouse and delivery fee would be supported with revenue generated from the Liquor Control Commission's (LCC) wholesale mark-up of spirits sold to licensed retailers and deposited into the Liquor Purchase Revolving Fund (LPRF), the unexpended amounts of which lapse into the General Fund.

In FY 2012-13, the per case fee was $7.50, the total amount expended from the LPRF for warehouse and delivery fees to vendors of spirits contracting with authorized distribution agents (ADAs) was $55.4 million, and the unexpended revenue within the LPRF lapsing to the General Fund was $169.6 million. If the Legislature enacts HB 5578 and the LCC follows the recommendation of the Office of Regulatory Reinvention (ORR) to increase the per case fee to $8.12 (published on 06/29/12)—a 8.3% increase— the total amount that would be expended for warehouse and distribution fees to ADAs would be approximately $60.0 million; this would be an increase of approximately $4.6 million over the FY 2012-13 amount, resulting in an equivalent decrease in the amount lapsing to the General Fund.

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