Legislative Analysis

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

SPECIAL LIQUOR LICENSES: INCREASE ANNUAL NUMBER PER ORGANIZATION

House Bill 5853 (Substitute H-3)
Sponsor: Rep. Rick Jones
Committee: Regulatory Reform

First Analysis (8-7-06)

BRIEF SUMMARY: The bill would increase, from five to twelve, the number of special liquor licenses available to organizations each year.

FISCAL IMPACT: According to the Liquor Control Commission, about 5,000 special one-day licenses are issued annually. The current annual revenue base of approximately $250,000.00 should increase by no more than $350,000.00 if every organization took full advantage of the additional licenses available. The actual number of additional licenses which will be issued is indeterminate.

THE APPARENT PROBLEM:

For years, many organizations that hold a club license for the sale of alcohol to their members at their licensed location (i.e., V.F.W., Loyal Order of Moose) have on occasion held special dinners open to the public or have rented their facilities to nonmembers for wedding receptions, anniversary parties, and other gatherings. Under a strict interpretation of the state's liquor laws, this practice is illegal, as a club liquor license only authorizes sales of alcoholic beverages to bona fide members of the club. Sales and service of alcohol to the general public constitute a violation of the liquor code. However, until recently, this provision of the code was not routinely enforced. More recently, the Liquor Control Commission has cracked down on numerous organizations that have served alcohol to the general public (i.e., at public "fish frys") and when nonmembers rented their halls.

Some feel the law should be changed. They argue that in small or rural communities, the affected halls may be the only halls available for rent in which to hold receptions and parties. In addition, the small amount of money that an organization may receive for the sale of alcohol can be used to defray taxes, make needed building repairs, or be donated to charity. According to testimony offered by a representative of the American Legion, the 250 Legion posts in the state collected over $600,000 last year and donated it to several charities including scouting programs and hospices.

One solution being proposed would be to increase the number of special liquor licenses that nonprofit organizations can apply for each year. A special license authorizes an organization to sell alcohol at retail for consumption on the premises only for a limited period of time.

THE CONTENT OF THE BILL:

The bill would amend the Michigan Liquor Control Code to increase, from five to twelve, the number of special licenses available to an organization, including an auxiliary of the organization, in a calendar year.

[Special licenses authorize a person to sell alcoholic liquor at retail for consumption on the premises only for a limited period of time and, under departmental rules, are available only to nonprofit organizations. Profits derived from the sale of alcohol must go to the organization itself and not to any individual. (R 436.574 of the Michigan Administrative Code) The fee for a special license is $50 per day. The fee for a license or permit issued to a bona fide nonprofit association, duly organized and in existence for at least a year, is $25.]

MCL 436.1525

ARGUMENTS:

For:

Many veteran's groups and fraternal organizations own halls that are used primarily for activities involving their members. As private clubs, they are eligible for club licenses, which allow for the sale of beer, wine, and spirits to members for consumption on the premises. For decades, however, some groups have operated public Friday night fish frys and other events, or rented the hall to nonmembers. Selling alcohol to nonmembers in this fashion is a violation of the liquor laws and subjects the club to sanctions or license revocation. However, until recently, the Liquor Control Commission has not routinely enforced the provision.

The bill is needed so that the affected groups can still hold some public events or rent their halls for wedding receptions and other large gatherings. As some groups do not have a large membership, the money derived from the sale of alcohol at these events are often needed to make building repairs, pay taxes, or support charitable activities. In many communities, a V.F.W. hall; American Legion post; or Moose, Elk, or Eagle hall may be the only building available to rent for gatherings. Increasing the number of special licenses available to these groups would allow them a few more opportunities a year to legally hold public events at which alcohol was sold or to sell alcohol to a person leasing the hall for a wedding reception or other gathering.

Response:

Though not opposed in principle to increasing the number of special licenses a nonprofit organization could apply for each year, the Liquor Control Commission has expressed a concern that the current fee level for a special license is insufficient to support the administrative costs associated with an increased number of applications for special licenses. For example, two full-time employees were needed to process the more than 5,000 special license applications in 2005, yet the revenue retained from application fees generated only slightly more than the salary and benefits of one of the employees. With department-wide staff shortages, there would not be adequate personnel to process the number of applications likely to be generated by the bill. In order to support the bill's additional administrative costs, an increase in the application fee for a special license may be necessary.

POSITIONS:

A representative of the American Legion testified in support of the bill. (7-26-06)

The Fraternal Order of Eagles/Charlotte indicated support for the bill. (7-26-06)

The Michigan Licensed Beverage Association indicated neutrality on the bill. (7-26-06)

The Michigan Restaurant Association indicated neutrality on the bill. (7-26-06)

The Michigan Liquor Control Commission opposes the bill as introduced, but is not opposed in principle to the H-3 substitute reported by the committee. (7-26-06)

Legislative Analyst: Susan Stutzky
Fiscal Analyst: Richard Child