

Department of Legislative Services
 Maryland General Assembly
 2018 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 311 (The President, *et al.*) (By Request - Administration)
 Education, Health, and Environmental Affairs

Alcoholic Beverages - Manufacturer's License Fees - Alteration

This Administration bill changes the license fees for all alcoholic beverages manufacturers in the State to a one-time initial license fee of \$200. The bill also repeals the additional application and renewal fees for manufacturer’s licenses and specifies that a manufacturer’s license does not expire. **The bill takes effect July 1, 2018.**

Fiscal Summary

State Effect: General fund revenues decrease by at least \$195,300 annually as existing licensees no longer pay annual license and renewal fees. Revenues further decrease annually as new licensees pay a reduced initial license fee and no longer pay annual license and renewal fees; however, this impact cannot be reliably estimated. Expenditures are not materially affected.

(in dollars)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
GF Revenue	(\$195,300)	(\$195,300)	(\$195,300)	(\$195,300)	(\$195,300)
Expenditure	0	0	0	0	0
Net Effect	(\$195,300)	(\$195,300)	(\$195,300)	(\$195,300)	(\$195,300)

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

Local Effect: The bill does not materially affect local government operations or finances.

Small Business Effect: The Administration has determined that this bill has a meaningful impact on small business (attached). The Department of Legislative Services (DLS) generally concurs with this assessment, as discussed below.

Analysis

Bill Summary: Exhibit 1 summarizes the bill's fee changes. All of the State's alcoholic beverages manufacturer's license fees are changed from an annual fee to a one-time fee or \$200 paid at the time the license is issued.

Exhibit 1 Proposed Changes to Alcohol Manufacturer's License Fees

<u>License Type</u>	<u>Current Annual Fee</u>	<u>Proposed One-Time Fee</u>	<u>Difference</u>
Class 1 Distillery	\$2,000	\$200	(\$1,800)
Class 2 Rectifying	600	200	(400)
Class 3 Winery	750	200	(550)
Class 4 Limited Winery	200	200	-
Class 5 Brewery	1,500	200	(1,300)
Class 6 Pub-Brewery	500	200	(300)
Class 7 Micro-Brewery	500	200	(300)
Class 8 Farm-Brewery	200	200	-
Class 9 Limited Distillery	500	200	(300)

Source: Department of Legislative Services

Current Law/Background: In Maryland, alcoholic beverages manufacturers and wholesalers are regulated by the Comptroller's Office (State level), while alcoholic beverages retailers are regulated by local boards of license commissioners. Specific to manufacturers, the Comptroller's Office considers applications and issues and oversees licenses through two offices: the Revenue Administration Division (RAD) and the Field Enforcement Division (FED). RAD is responsible for receiving and processing the tax returns and payments from alcoholic beverages manufacturers, and FED is responsible for enforcing the State's alcoholic beverages laws through inspection and oversight.

In November 2017, DLS published a report on [Regulation of the Alcoholic Beverages Industry in Maryland](#). The report summarizes the current manner in which alcoholic beverages are regulated in the State, with a focus on alcoholic beverages manufacturers.

The section below contains a brief overview of the nine types of manufacturer's licenses in the State and some of the differences between each type of license.

Beer Manufacturer Licenses

A Class 5 brewery license authorizes the brewing and sale of any amount of beer. A Class 5 brewery may serve samples of beer to an individual who participates in a guided tour of the brewery or attends a scheduled promotional event and may sell beer for on- and off-premises consumption under certain conditions.

A Class 6 pub-brewery license may only be issued to the holder of a Class B beer, wine, and liquor (on-sale) license that is issued for use at a restaurant. The brewery must be located adjacent to the restaurant, and it may brew up to 2,000 barrels of beer each year either for consumption at the restaurant or off-premises if the beer is sold in a refillable container.

Similar to the Class 6 license, a Class 7 micro-brewery license may only be issued to the holder of a Class B beer, wine, and liquor (on-sale) license that is issued for use at a restaurant. The license authorizes the brewing and sale of up to 22,500 barrels of beer each year. Beer may be sold directly by the brewery for off-premises consumption, and up to 4,000 barrels of beer may be sold for on-premises consumption, with specified restrictions.

A Class 8 farm-brewery license authorizes the brewing and sale of up to 15,000 barrels of beer each year; however, that beer must be manufactured with an ingredient from a Maryland agricultural product. Beer may be sold for on-premises consumption under specified conditions.

Wine Manufacturer Licenses

A Class 3 winery license authorizes the sale and production of any amount of wine, as well as the importing of bulk wine from out-of-State. The winery may also provide samples to visitors at the winery and directly sell up to one quart of wine at retail to each individual each year.

By far the more popular of the two winery licenses, the Class 4 limited winery license is designed for license holders who seek to ferment and bottle wine from available Maryland agricultural products. A Class 4 limited winery may produce any amount of wine but is limited in the amount of pomace brandy that may be produced and the amount of wine that may be imported. The winery is authorized to serve and sell its product and certain types of food for on-premises consumption.

Liquor Manufacturer Licenses

A Class 1 distillery license authorizes the production and sale of an unlimited amount of liquor. A license holder may sell up to 2.25 liters of products for off-premises consumption to a person on a guided tour of the distillery, with specified restrictions.

Rather than producing liquor directly, a Class 2 rectifying license only authorizes a license holder to rectify, blend, and bottle liquor. A license holder may do so for any amount of liquor and is authorized to sell its product for on- and off-premises consumption during planned tours and promotional events.

Established by Chapter 449 of 2015, a Class 9 limited distillery license authorizes the production and sale of up to 100,000 gallons of liquor each year. The license may only be issued to the holder of a Class D or Class B beer, wine, and liquor license, and the license holder may directly sell up to 15,500 gallons of liquor at retail each year for on- or off-premises consumption.

State Revenues: Under the bill, alcoholic beverages manufacturer’s licensees are no longer required to pay an annual license fee, the corresponding application fee, or the annual renewal fee. Based on the number of licenses issued as of February 2018, general fund revenues decrease by at least \$195,320 annually as existing licensees stop paying these fees. The total revenue loss by license type is summarized in **Exhibit 2**.

Exhibit 2
Revenue Loss from Existing Licenses
As of February 2018

<u>License Type</u>	<u>Licenses Currently Issued</u>	<u>Current Annual Fee</u>	<u>Revenue Loss</u>
Class 1 Distillery	24	\$2,000	\$48,000
Class 2 Rectifying	60	600	36,000
Class 3 Winery	4	750	3,000
Class 4 Limited Winery	93	200	18,600
Class 5 Brewery	41	1,500	61,500
Class 6 Pub-Brewery	1	500	500
Class 7 Micro-Brewery	29	500	14,500
Class 8 Farm-Brewery	20	200	4,000
Class 9 Limited Distillery	2	500	1,000
Annual Renewal Fees	274	30	8,220
		Total Annual Revenue Loss:	\$195,320

Source: Department of Legislative Services; Comptroller’s Office

Revenues further decrease as future applicants for licenses (1) pay a lower initial license fee for many types of manufacturer's licenses and (2) do not pay annual license and renewal fees after a license is issued. However, any such impact is not included in this analysis because it depends on the number and types of licenses issued in future years and, therefore, cannot be reliably estimated.

Small Business Impact: DLS generally concurs that the bill reduces fees paid by small business alcoholic beverages manufacturers. DLS notes, however, that the bill's impact is likely to be significant for small business licensees with licenses that are more expensive under current law (for example, an existing Class 1 distillery licensee saves \$2,030 annually under the bill) and minimal for licensees with licenses that are not as expensive under current law (for example, an existing Class 4 winery saves only \$230 annually under the bill). Exhibit 1 illustrates the bill's fee changes for each class of license.

Additional Information

Prior Introductions: None.

Cross File: HB 357 (The Speaker, *et al.*) (By Request - Administration) - Economic Matters.

Information Source(s): Comptroller's Office; Department of Legislative Services

Fiscal Note History: First Reader - February 20, 2018
mag/tso

Analysis by: Richard L. Duncan

Direct Inquiries to:
(410) 946-5510
(301) 970-5510

ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Alcoholic Beverages - Manufacturers License Fees - Alteration

BILL NUMBER: SB311/HB357

PREPARED BY: Mark Newgent

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

Reducing alcoholic beverage manufacturing license fees will have a significant positive impact on Maryland, brewers, distillers and vintners. Altering these fees reduces the cost of doing business in the state, and allows alcoholic beverage manufacturers to reinvest those savings into their business. For example, reducing the licensing fees would save distillers \$1,800, and brewers \$1,300, per-year respectively. The savings realized by brewers and distillers from reducing these fees would be invested into their operations, such as purchasing ingredients for their products, grain, hops, or malt.