SFA BILL ANALYSIS
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Senate Bill 37 (Substitute S-2 as passed by the Senate)
Sponsor: Senator Fred Dillingham
Committee: Regulatory Affairs

Date Completed: 6-14-89

RATIONALE

The prices consumers pay in Michigan for bottled liquor are established by the Liquor Control Commission. The Commission applies a markup, or minimum guaranteed gross profit, to the cost of the product to the State. Those businesses licensed to sell bottled liquor at the retail level, known as specially designated distributors (SDDs), as well as establishments licensed to sell liquor for consumption on the premises, purchase the liquor from the State, but receive a discount on the price established by the Commission. (Specially designated distributors are licensed to sell liquor other than beer and wine for off-premises consumption, and include package liquor stores, drug stores, and supermarkets.) Both the size of the markup, 51%, and the size of the retailer discount, 17%, are fixed in statute. The 17% discount, then, is the SDDs' gross profit. (There is no regulation of prices of liquor sold by the glass.) It has been suggested that because of rising expenses for licensees, and because many licensees have experienced increased costs for increasing or maintaining levels of liability insurance, the discount percentage allowed retailers should be increased.

Currently, under the Commission's rules, an SDD is prohibited from displaying more than three bottles of any one code number. It has been suggested that the restriction on liquor displays be placed in statute, and that this provision be expanded to allow an SDD to display more than three bottles at one time.

CONTENT

The bill would amend the Liquor Control Act to raise from 17% to 19% the discount rate allowed for purchases of liquor from the State by specially designated distributors and establishments licensed to sell for consumption on the premises. The bill also would increase from 51% to 56% the percentage of the Liquor Control Commission's markup on the delivered case cost (distiller's price plus Federal excise tax plus freight) of alcoholic liquor.

Further, the bill would prohibit the Commission from restricting the number of bottles of spirits that specially designated distributors may display for sale, as long as a display did not exceed five cases of spirits, although there could be only one display for each brand and for each code number. The maximum number of displays would be 25 during November and December and 15 during the rest of the year.

The bill also would prohibit a specially designated distributor from displaying liquor bottles behind a lunch counter, snack bar, or soda counter, or placing bottles in any window display. Currently, these provisions are in the Commission's rules.

The bill would allow the Commission to sell alcoholic liquor that had not met the Commission's sales standards for six months for a price lower than that set by the Act, for the purpose of depleting its existing inventory. Currently, to lower a price to deplete inventory, the Commission has to have the price approved by the State Administrative Board.

The bill would require the Commission to promulgate rules to allow for entry into the State of alcoholic liquor that was not available in the State as of December 31, 1988. The liquor could not be for resale to the general public, and could only be used for personal consumption in the conduct of proceedings by a fraternal nonprofit organization. The total volume of such liquor for any one organization could not exceed 12 gallons, or 45 liters, per year.

The bill would take effect July 30, 1989.

MCL 436.16 et al.

FISCAL IMPACT

The bill would have a fiscal impact of approximately $6,200,000 increased revenue to the State and no fiscal impact on local government. This assumes liquor sales would remain at current levels, although the State and national trend in liquor sales has been decreasing.

Note: The bill would provide a 15.47% increase in the discount (i.e., profit) to the licensees and a 4.07% increase in profit on sales (before taxes) to the State. Example: using a $1.00 bottle of liquor,

	Current Profit	SB 37 Profit	Increase	Percent Change
Licensee	$.2567	$.2964	.0397	15.47%
State	$.2533	$.2636	.0103	4.07%

ARGUMENTS

Supporting Argument

The cost of doing business for liquor retailers continues to rise as do the costs of other businesses. Since liquor prices are controlled by the State, however, SDDs cannot respond to increases and raise prices unless the Liquor Control Act is amended. As with other businesses, liquor retailers are pinched by increased costs for taxes, labor, utilities, advertising, and leasing; in addition, they have been hit particularly hard by increased costs for liability insurance. The retailer's discount--the gross profit of the retailer--has been raised from time to time (last in 1980, and five years prior to that) and it is time to raise it again. Further, according to the Commission, for every percentage point increase in the discount rate, a corresponding increase of approximately two percentage points in the State's gross profit rate is required in order to maintain the State's ratio of profit to cost. In other words, if the discount rate were increased but the State's gross profit margin were not, the amount of money the State collects on the sale of liquor would decrease. The bill properly addresses the problems of both the retailers and the State.

Opposing Argument

The discount rate, although fixed in statute, does not need to be raised periodically because it is applied to a steadily increasing base price for liquor that reflects inflation. Further, no matter how persuasive the economic arguments are for increasing the profit margins of the State and retailers, the bottom line is that the consumers end up paying for the increases in what many consider to be a State where prices are already significantly higher than neighboring states. In addition, because any markup is added to the price the Commission pays for a case of liquor before taxes are assessed, each rise in the markup increases the effect that existing taxes, or further tax increases, have on the price to consumers--in effect, increasing the markup increases the amount of liquor taxes the State collects.

Opposing Argument

Why is there a need for larger displays of alcohol in the stores, and what is the reason for allowing even more displays during November and December? Currently, only three bottles of one code number can be displayed; however, the bill would allow up to five cases of one brand. Is this really necessary? There are those who believe that alcohol is the most dangerous and harmful of all drugs because of its ready availability and legality. In addition, there have been many efforts lately by government, community, and religious leaders to alert the public to the dangers of alcohol, particularly in relation to driving. The bill, by allowing larger displays, would likely result in greater sales of alcohol and thus fly in the face of efforts to encourage prudent alcohol use.

Response: There are many new products available, and many of those are lower in alcohol content than traditional brands. It is unfair to the manufacturers and marketers of new products to limit display of the products to only three bottles per display. Further, there have always been those who decry the evils of alcohol, yet it remains a popular choice for much of society. The best way to control the use of alcohol is through education and regulation--fair and reasonable regulation. The bill is a compromise between those who believe there should be no displays of liquor, and those who believe there should be no restrictions on displays.

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