SFA BILL ANALYSIS
Senate Fiscal Agency • Lansing, Michigan 48909 • (517) 373-5383

Senate Bill 951 (as reported without amendment)
Sponsor: Senator Fred Dillingham
Committee: Regulatory Affairs

Date Completed: 11-14-88

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, that the discount percentage allowed retailers should be increased.

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 a spirit of any one code number. Currently, Commission rules prohibit the display of more than three bottles of any one code number.

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.

MCL 436.16 et al.

FISCAL IMPACT

The bill would have a fiscal impact of approximately $6,399,522 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.

The bill would have the following impact on taxes and revenues collected:

	Current Markup/Discount 51%/17%	S.B. 951 Markup/Discount 56%/19%	Change Due to S.B. 951
Cost of Liquor Sold (in FY 1986-87)	$336,436,198	$336,436,198	$ 0
Mark-Up	171,582,461	188,404,271	16,821,810
Gross Sales	508,018,659	524,840,469	16,821,810
Less Discount	86,363,172	99,719,689	13,356,517
NET SALES	421,655,487	425,120,780	3,465,293
Less Cost of Liquor Sold	336,436,198	336,436,198	0
NET PROFIT	85,219,289	88,684,582	3,465,293
Liquor Tax Revenue	68,292,948	70,554,304	2,261,356
Sales Tax Revenue	20,320,746	20,993,619	672,873
TOTAL REVENUE INCREASE FOR THE STATE			$ 6,399,522

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

$1.00 + $.51 current markup = $1.51
$1.51 x 17% = Discount of $.2567

vs. $1.00 + $.56 proposed markup = $1.56
$1.56 x 19% = Discount of $.2964

.2964 - .2567 = .0397
.0397 divided by .2567 = 15.47% increased profit

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 insurance costs for liability. 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.

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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 will 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 <u>before</u> 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.

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.