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# EXTEND LIQUOR LICENSE ISSUANCE

**Senate Bill 586 (Substitute H-1)**
**First Analysis (6-1-99)**

**Sponsor: Sen. Bill Bullard, Jr.**
**House Committee: Regulatory Reform**
**Senate Committee: Economic Development, International Trade and Regulatory Affairs**

## *THE APPARENT PROBLEM:*

Under the Liquor Control Code of 1998, licenses for the on-premises consumption of alcoholic beverages are generally limited by population; only one such license per 1,500 people can be issued within any governmental unit. There are, however, a number of exceptions. One significant exception is the issuance of "resort licenses" above and beyond the quota. In 1952, 550 resort licenses were made available statewide and a fixed number have been made available each year since 1964. Currently, the LCC may issue 10 additional resort licenses each year to establishments whose business and operation, as determined by the commission, are designed to attract and accommodate tourists and visitors to the resort area, and whose primary purpose is not the sale of alcoholic beverages. Additionally, the commission may issue another 25 resort licenses to businesses with a capital investment of over $1.5 million and whose primary purpose is not the sale of alcoholic beverages. Under the code, the commission is prohibited from issuing a resort license where an on-premise license remains available under the quota system or if a readily available escrowed license exists, but this requirement can be waived. The LCC may also issue 10 package liquor licenses to established merchants whose business and operation are designed to attract and accommodate tourists and visitors to a resort area that are located in local governmental units with a population under 50,000 people and in which the package liquor license quota has been exhausted.

These additional licenses have been made available partly in recognition of the fact that the fixed population of an area does not always accurately reflect the volume of economic activity, particularly in areas where there are sizable seasonal populations. However, the commission's authority to issue additional resort licenses expires soon. Legislation has been introduced to extend the authority of the commission to issue additional resort licenses.

## *THE CONTENT OF THE BILL:*

The bill would amend the Michigan Liquor Control Act to extend through 2000 the authority of the Liquor Control Commission (LCC) to issue a limited number of resort licenses each year. The bill contains the following provisions regarding resort licenses for 1999 and 2000:

**Up to 10 licenses would be available for establishments whose business and operation are designed to attract and accommodate tourists to a resort area, and whose primary business is not the sale of liquor. The bill would establish a new requirement for these ten licenses by requiring a minimum capital investment for improvements of $75,000.

**Up to 20 (decreased from 25 as in previous years) licenses could be issued for businesses with a capital investment of over $1.5 million, whose primary business is not the sale of alcohol, and whose operation is designed to attract and accommodate visitors to a resort area.

**Up to a total of 10 specially-designated distributor (SDD) licenses for the sale of package liquor, including spirits, would be available in local units of governments with populations under 50,000 in which the package liquor license quota has been exhausted.

## *HOUSE COMMITTEE ACTION:*

A technical amendment was adopted by the committee for the purpose of clarity.

## *FISCAL IMPLICATIONS:*

According to a fiscal note by the Senate Fiscal Agency, the bill would have no fiscal impact on state or local government. (5-12-99)

## ARGUMENTS:

### For:
Continuing the practice of issuing resort liquor licenses would help boost the tourism and recreation industries throughout the state, particularly in northern Michigan, and thus create jobs for Michigan people. Without these licenses being available, the quota system would inhibit business expansion in some areas where all the quota licenses have been allocated and no escrowed licenses are available, but additional businesses are needed to serve a large, but fluctuating, seasonal population. Both large and small businesses could benefit by the bill.

### Response:
Rather than having to introduce legislation almost every year to extend the Liquor Control Commission's authority to issue additional resort licenses, the provision should be made a permanent part of the liquor code.

### Rebuttal:
There are compelling reasons to continue to revisit this issue on a regular basis. Conceivably, there could come a time when the state has reached the limit on how many liquor establishments it can support. Sunsetting the provision relating to additional resort licenses affords the opportunity to verify the need for additional licenses, or to reduce the number of available licenses, as Senate Bill 586 would do (the bill reduces the number of economic development resort licenses from 25 a year to 20 for each of the next two years).

### Against:
The current market price to buy an on-premise liquor license from an established business or a license in escrow averages about $40,000 to $50,000, but can run as high as $300,000. Yet, businesses that get one of the new resort licenses only have to pay the commission $650, which is the regular license fee. This creates a hardship for existing businesses that had to pay a higher price for a license only to compete against a new business that only had to pay the regular license fee. In a way, it is like the state is subsidizing some businesses (which often are part of a national chain) at the expense of others. With concern over drunk driving, access by minors, and other alcohol-related issues, competition between liquor establishments could lead to such things as businesses lowering drink prices to bring in customers, possibly exacerbating those alcohol-related problems. Businesses receiving resort licenses should be required to pay the market price for liquor licenses for the area they are settling in, with the amount in excess of the regular license fee of $650 going to fund programs that would address abuses of alcohol (e.g., better training programs for waitstaff to minimize the incidents of minors or intoxicated patrons being served).

### Response:
A business applying for a resort economic development license has to make a capital investment of at least $1.5 million to qualify for licensure, and the bill would require a business applying for the additional resort licenses to have a capital investment of $75,000. So, where these businesses may have to pay a lower license fee, it is offset by the investment required to even apply for a license. Further, it must be remembered that unlike other businesses with liquor licenses, the sale of liquor cannot be the primary business of a resort or resort economic development licensee.

### Rebuttal:
Since the capital outlay requirement includes the price of the property, these thresholds are not difficult to meet. It still creates an undue hardship on existing businesses that invested thousands of dollars for a license on top of buying the building, and so on, and that must now face increased competition for customers.

### Against:
Some persons believe that increasing the availability of alcohol leads to an increase in alcohol-related problems. The bill represents a further erosion of the liquor law's restrictions on the availability of on-premises licenses and runs contrary to the public policy that lies behind a population quota system for liquor licenses. In the past, moreover, some people have expressed concern that continuing to allow additional resort licenses will harm existing businesses.

### Response:
It may be that the population-based restriction no longer serves any useful purpose, except perhaps to protect existing licensees. There are quite a few exceptions to the quota in statute that render it less

than fully effective or consistent. It might be best to revisit the issue of retail liquor licensing in its entirety.

### ***POSITIONS:***

The Michigan Restaurant Association supports the bill. (5-27-99)

The Michigan Grocers Association supports the bill. (5-27-99)

The Spartan Stores support the bill. (5-27-99)

The Michigan Hotel, Motel, and Resort Association supports the bill. (5-27-99)

The Michigan Golf Course Owners Association supports the bill. (5-27-99)

The Michigan Licensed Beverage Association does not oppose the bill. (5-27-99)

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