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BILL ANALYSIS

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Senate Bill 456 (as reported without amendment)
Sponsor: Senator Alan Sanborn
Committee: Economic Development, Small Business and Regulatory Reform

Date Completed: 6-15-05

RATIONALE

The Michigan Liquor Control Commission sets the minimum prices at which packaged liquor may be sold for off-premises consumption by businesses in the State. Apparently, there are times, however, when sellers are unable to sell their entire stock of liquor because their customers are unwilling to buy a particular product at the State minimum price. Those establishments then have no means of disposing of their excess inventory of packaged liquor, which they already have paid for but cannot sell at a discount. Some people believe that the sellers of liquor for off-premises consumption should be allowed occasionally to reduce their prices, with the consent of the Commission, in order to dispose of liquor they are unable to sell at the State minimum price.

CONTENT

The bill would amend the Michigan Liquor Control Code to provide that the Liquor Control Commission could, by rule or order, allow a specially designated distributor (SDD) to sell alcoholic liquor at less than the minimum retail selling price in order to dispose of inventory at a price and under conditions and procedures established through that rule or order. (An SDD is a person licensed by the Commission to sell packaged liquor for off-premises consumption.)

Currently, the Commission may license a hotel or merchant, in places that the Commission may designate, to sell spirits for consumption off the premises, notwithstanding Section 233(1) of the Code (which requires the Commission to establish uniform prices for the sale of alcoholic liquor in State liquor stores and SDDs). If alcoholic liquor is sold by an SDD pursuant to the license, it may not be sold at less than the minimum retail selling price fixed by the Commission and pursuant to rules promulgated by the Commission. The bill would create an exception to this restriction.

MCL 436.1229

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

Public Act 407 of 2004 amended the Code to allow SDDs to sell liquor at a price equal to or higher than the minimum retail selling price set by the Commission. The Act also specifies, however, that liquor may not be sold at less than the minimum selling price and requires the Commission to set the retail selling price of a product using a formula based on its wholesale price. (Previously, the Code simply had required that liquors sold by SDDs be sold at a price fixed by the Commission.) By requiring the Commission to use a specific formula to determine the retail selling price of liquor sold by an SDD, the Code now prevents the Commission from approving price reductions by SDDs attempting to rid their shelves of surplus stock, as had been the practice before Public Act 407 of 2004 took effect. The bill once again would allow SDDs, under limited circumstances and with the approval of the Commission, to sell alcoholic liquor at less than the minimum retail selling price in order to dispose of inventory.

Legislative Analyst: J.P. Finet

FISCAL IMPACT

The bill would have a fiscal impact on State revenue, depending upon how price variations would affect the amount of liquor purchased. If consumption remained the same, and were completely unresponsive to any price decrease that would occur under the bill, the bill could reduce sales tax revenue. However, if consumption increased in response to the price decreases, either through the purchase of less expensive liquor or due to increased consumption of liquor, revenue to the School Aid Fund and the General Fund would be adjusted accordingly.

For example, inclusive of the Liquor Control Commission's 65% markup, $794.2 million of liquor is expected to be sold in Michigan during FY 2004-05. If the bill resulted in an average decrease in liquor prices of 10%, using a common assumed measure of price responsiveness, sales would increase by 5%. Net sales would be lower, at $750.5 million. However, the distribution of revenue would be changed.

Retailers receive revenue through a set percentage of the price set by the Commission, referred to as the discount. The discount comprises 17% of the price set by the Commission, not the retail price. In this example, if sales increased 5%, the discount would increase approximately $6.8 million. The amount of the markup received by the State would similarly increase by $8.9 million.

Liquor taxes and the sales tax are levied on the retail price of the liquor. Because the retail price would be lower under the bill, revenue under these taxes would decrease. In this example, sales tax revenue would fall by approximately $2.6 million, and would be split among the General Fund, the School Aid Fund, and revenue sharing. In the example, liquor tax revenue would decrease by $6.0 million, and the decrease would be distributed across the General Fund, the School Aid Fund, the Convention Facilities Fund, and the Liquor Purchasing Revolving Fund.

The net effect of all of these changes, is summarized in the following table.

Distribution of Revenue Effects of a 10% Liquor Price Decrease
Net Effect of Changes, with State Impact By Fund
(dollars in millions)

Fund	Fiscal Impact
General Fund	+ $7.1
School Aid Fund	- $3.7
Conv. Facilities Fund	- $1.7
Liquor Purch. Revolving Fund	- $0.8
Revenue Sharing	- $0.6
Liquor Retailers	-$33.0

To the extent that prices would decrease by more or less than the amount assumed in the example, the actual impact of the bill would be different. Generally, greater price decreases would make the increases in revenue higher and the losses in revenue (to the General Fund) greater. Similarly, smaller price decreases would reduce both the losses and gains to each fund or entity receiving liquor revenue.

This analysis is preliminary and will be revised as new information becomes available.

Fiscal Analyst: David Zin

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