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House Bill 4842 (Substitute S-1)  
Sponsor: Representative Pat Outman  
House Committee: Regulatory Reform  
Senate Committee: Regulatory Reform

Date Completed: 4-19-22

### **CONTENT**

**The bill would amend the Michigan Liquor Control Code to do the following:**

- **Beginning July 1, 2022, and each subsequent July 1, allow a small distiller or an out-of-State entity that was the substantial equivalent of a small distiller to file an application with the Department of Agriculture and Rural Development (MDARD) to be certified as a qualified small distiller, i.e., a distiller that produced at least 40% of its distilled base distillate from distilled grain grown and harvested in Michigan.**
- **Specify that for each bottle of spirits produced by a qualified small distiller, the price for each bottle would have to return a profit to the Michigan Liquor Control Commission of 32.5%, beginning January 1, 2023.**
- **Require MDARD to submit to the Commission an annual report that included the name of each qualified distiller.**
- **Prescribe penalties, including a misdemeanor penalty, for a small distiller or an out-of-State entity that was the substantial equivalent of a small distiller that knowingly provided false information to the Commission.**
- **Require a qualified small distiller to keep certain records and accounts of all transactions pertaining to the operation of its distillery.**

#### Qualified Small Distiller; Certification

Specifically, no later than July 1, 2022, and each July 1 thereafter, a small distiller or an out-of-State entity that was the substantial equivalent of a small distiller could file an application with MDARD to be certified as a qualified small distiller. The application would have to be on a form prescribed and furnished by MDARD. The Department also could charge a reasonable certification fee.

"Qualified small distiller" would mean a small distiller or an out-of-State entity that is the substantial equivalent of a small distiller certified by MDARD as having at least 40% of the base distillate of the small distiller or the out-of-State entity that is the substantial equivalent of a small distiller distilled from distilled grain grown and harvested in the State. "Distilled grain" would mean any of the following: dry barley, malted barley, oats, a small grain, a cereal grain, potato, corn, fruit, sugar beets, or honey.

Beginning January 1, 2023, for each bottle of spirits produced by a qualified small distiller of which at least 40% of the base distillate was distilled from grain grown and harvested in

Michigan as determined by MDARD, the price for each bottle would have to return a gross profit to the Michigan Liquor Control Commission of 32.5%.

The Department would have to certify that an applicant was a qualified small distiller if it determined that the base distillate of the small distiller or the out-of-State entity that was the substantial equivalent of a small distiller was at least 40% distilled from distilled grain grown and harvested in Michigan.

No later than November 1, 2022, and each November 1 thereafter, MDARD would have to submit a report to the Commission. The report would have to include the name of each qualified small distiller certified under the bill.

A qualified small distiller certificate would expire on July 1 following the date of issuance.

### Penalties

A small distiller or an out-of-State entity that was the substantial equivalent of a small distiller that knowingly supplied false information to MDARD or the Commission would be guilty of a misdemeanor punishable by imprisonment for up to one year or a fine of not more than \$3,000, or both. The offending entity also would have to pay the Commission the difference between the gross profit the Commission would have received if it were not a qualified small distiller, as determined by the Commission.

### Records & Accounts

A qualified small distiller would have to keep a complete and accurate set of records and accounts of all transactions pertaining to the operation of its distillery, including records and accounts of all distilled grain received in or withdrawn from the distillery, all acknowledgment forms and Michigan certification of origination statements in the distiller's possession, copies of all contracts, and acknowledgement forms returned to and settled by the qualified small distiller. The Department and the Commission could examine the records and accounts pertaining to the qualified small distiller's distilled grain handling business at any time during normal business hours.

"Acknowledgment form" would mean a scale weight ticket, a load slip, or any other evidence of deposit issued by a small distiller, an out-of-State entity that is the substantial equivalent of a small distiller, or the authorized representative of a small distiller or out-of-State entity that is the substantial equivalent of a small distiller to a depositor that identifies the distilled grain being transferred from possession of the depositor to the possession of the small distiller or the out-of-State entity that is the substantial equivalent of a small distiller. "Michigan certification of origination statement" would mean a signed statement from a depositor or producer on an acknowledgement form that deposited distilled grain was grown and harvested in Michigan. "Depositor" would mean either of the following:

- A person that delivers distilled grain to a small distiller or an out-of-State entity that is the substantial equivalent of a small distiller for storage, processing, shipment, or sale and that has title to distilled grain at the time of delivery.
- A person that owns or that is the legal holder of an acknowledgement form issued by a depositor for distilled grain

MCL 436.1233

Legislative Analyst: Eleni Lionas

## **FISCAL IMPACT**

The bill would have an overall negative fiscal impact on the MLCC within the Department of Licensing and Regulatory Reform (LARA) and on several State funds, including the School Aid Fund and the General Fund. The bill also contains provisions that could generate fee revenue for the State. The proposed misdemeanor would have an indeterminate fiscal impact on local units of government.

The bill would establish an application process for the certification of small distillers within MDARD, which would affect LARA and specifically the MLCC. The Liquor Purchase Revolving Fund (LPRF) is the enterprise fund used by the MLCC to conduct the State's business as the sole wholesaler of distilled spirits. Each year, the profit generated through this activity lapses to the General Fund.

Under the bill, the gross return on each bottle of spirits from a qualified small distiller would be set at 32.5% instead of the current 65.0%. The number of small distillers that could be certified by MDARD and affected by this change is unknown. However, as of March 2022, there were 169 small distillers licensed by the MLCC who could qualify for certification by MDARD if they also met the sourcing criteria.

Recent data on the number of bottles sold by qualified small distillers are unavailable. The bill would result in an unknown reduction in revenue to the LPRF, which would result in a decrease in funds' lapsing to the General Fund. A portion of the LPRF also is used for MLCC administrative activities. Revenue to the School Aid Fund, the Convention Facility Fund, and the General Fund would decrease separately from the LPRF. While the change could have a notable impact on the LPRF, overall, the reduction likely would not significantly affect State finances because of the small number of qualifying entities. Administrative activities undertaken by MLCC as a result of the bill likely would be covered by existing appropriations.

In addition, the bill would result in costs to MDARD, including the hiring of 1.0 FTE auditor position at an estimated cost of \$150,000 for salary and other expenses. The Department could receive applications from small distillers to qualify as a "qualified small distiller" and would be allowed to charge a reasonable certification fee (in an unspecified amount). The Department then would have to certify an applicant as a qualified small distiller if it determined that at least 40% of the small distiller's base distillate met the bill's requirements. The actual amount of revenue provided from application fees to MDARD to support certification activities would depend upon the amount of the fee and the number of distillers applying for certification. The Department estimates that if all 136 small distillers applied for the certification, the fee would have to be approximately \$1,100 in order to cover the estimated administrative cost. Any restricted funding amounts that fell short of the actual cost of administering the bill's provisions would have to be supported with General Fund revenue.

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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.