

SENATE BILL REPORT

SB 5006

As of January 24, 2017

Title: An act relating to allowing beer and/or wine specialty shop licensees to sell products made by distillers that produce sixty thousand gallons or less of spirits per year.

Brief Description: Allowing beer and/or wine specialty shop licensees to sell products made by distillers that produce sixty thousand gallons or less of spirits per year.

Sponsors: Senators Keiser, King, Hunt, Wellman and Rolfes.

Brief History:

Committee Activity: Commerce, Labor & Sports: 1/18/17.

Brief Summary of Bill

- Authorizes a beer and/or wine specialty shop licensee to sell spirits produced by a state licensed distillery with set provisions.
- Requires a licensee who obtains the spirits sales endorsement to pay a license issuance fee of 17 percent of all spirits sales revenues and to provide specified training to managers and employees.
- Authorizes a doubling of penalties for licensees with a spirits sales endorsement for legal or regulatory violations related to spirits sales.

SENATE COMMITTEE ON COMMERCE, LABOR & SPORTS

Staff: Richard Rodger (786-7461)

Background: The Liquor and Cannabis Board (LCB) issues various types of commercial liquor licenses, including those for beer and/or wine specialty shops, wineries, distilleries, microbreweries, domestic breweries, restaurants, and nightclubs.

Beer and/or Wine Specialty Shop License. This license authorizes the shop to sell beer, strong beer, and/or wine at retail in bottles, cans, and original containers, which may not be consumed upon the premises. These licensees may provide, free or for a charge, single-serving samples of two ounces or less to customers for the purpose of sales promotion. The annual fee for the beer and/or wine specialty shop license is \$100 for each store.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Upon approval by the LCB, a beer and/or wine specialty shop licensee who exceeds 50 percent beer and/or wine sales may also receive an endorsement to permit the sale of beer to a purchaser in a growler, which must be filled at the tap by the licensee at the time of sale.

Spirits Retail License Issuance Fee. Spirit retail licensees are authorized to sell spirits at the retail level. The licensees generally fall into two categories: (1) Grocery stores and other large retail establishments encompassing at least 10,000 feet of retail space; and (2) smaller liquor stores that are either former state-owned liquor stores or former contract liquor stores. Spirits retail licensees are required to pay an annual license issuance fee equivalent to 17 percent of all spirit sales revenues, with the exception of certain sales by owners of the former state liquor stores and former contract liquor stores. The calculation of this fee is exclusive of taxes collected by the shop on such sales.

Craft Distillery Regulations. As the result of legislation passed during the 2014 session, the annual spirits production limit for craft distillers increased from 60,000 gallons to 150,000 gallons. Accordingly, to qualify as a craft distiller, a distiller must produce no more than 150,000 gallons of spirits annually, with at least half of the raw materials used in production grown in Washington.

Summary of Bill: A beer and/or wine specialty shop licensee (licensee), that exceeds 50 percent of their revenue from liquor sales, may receive a licensing endorsement from the LCB to sell spirits produced by a state licensed distillery provided: (1) the licensee maintains an inventory of beer and/or wine worth at least \$3,000 at wholesale; (2) the licensee operates out of licensed premises of less than 10,000 square feet; (3) the licensee obtained its license prior to January 1, 2016; and (4) the distillery producing the spirits has an annual production of 60,000 gallons or less.

A licensee receiving an endorsement authorizing spirits sales also:

- must pay a license issuance fee of 17 percent of all spirits sales revenues. However, sales of spirits on which a license issuance fee has already been incurred under a spirits retail license [per RCW 66.24.630(4)(a)] must not be included in the calculation of the license issuance fee imposed under this act;
- must provide specified training to managers and employees involved in spirits sales; and
- is subject to a doubling of penalties for legal or regulatory violations related to spirits sales.

Appropriation: None.

Fiscal Note: Available. OFM requested ten-year cost projection pursuant to I-960.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony: PRO: Our small, independent beer and/or wine specialty shop licensees need some assistance to help them compete. You don't see these

businesses in the audience today as so many of them have gone out of business. It is too late for the business in my community, but it may help other communities. This bill will not really have a big economic impact on the big spirits retailers, but will greatly assist these small specialty shops. The bill will also help the in-state craft distillers.

CON: Initiative 1183 provided that the existing private contract liquor stores would be exempt from the 10,000 square foot of retail space requirement. The state was also required to sell off the state-owned liquor stores which retained the rights to sell craft spirits. The value of both these stores is in the rights that were granted or sold to the owners. This bill damages the value of these businesses, which are already struggling. Individuals paid hundreds of thousands of dollars to get the rights and allow them to create a local customer base. We are working 70-80 hours a week just to keep our businesses viable. This bill will be the first of many to come that will follow, each damaging our small businesses. The existing, small community grocery stores that are under 10,000 square feet are not currently allowed to sell these products. This new carve out for smaller stores will hurt the existing businesses. Our association is not concerned with the particular provisions of this bill but with annual proliferation of bills granting greater access to alcohol.

OTHER: The bill references a 60,000 gallon limit on production, but should reference the updated level of 150,000 proof gallons.

Persons Testifying: PRO: Karen Keiser, Prime Sponsor; Senator Curtis King, Sponsor.

CON: Seth Dawson, Washington Association for Substance Abuse Prevention; Brad Tower, Washington Liquor Store Assn; Jay Smiley; PD Sandhu, Pacific Liquor; Raj Singh, Burien Liquor and Wine; Holli Johnson, Washington Food Industry Association.

OTHER: Jim Hedrick, Washington Distillers Guild.

Persons Signed In To Testify But Not Testifying: No one.