

HOUSE BILL REPORT

HB 2364

As Reported by House Committee On:
Government Accountability & Oversight

Title: An act relating to sales by craft and general licensed distilleries of spirits for off-premise consumption and spirits samples for on- premise consumption.

Brief Description: Concerning sales by craft and general licensed distilleries of spirits for off-premise consumption and spirits samples for on-premise consumption.

Sponsors: Representatives Hurst, Blake, Pettigrew, Manweller, Pollet and Vick.

Brief History:

Committee Activity:

Government Accountability & Oversight: 1/23/14, 1/27/14 [DPS].

Brief Summary of Substitute Bill

- Increases the annual spirits production limit for craft distillers from 60,000 gallons to 150,000 gallons.
- Eliminates the three liter per day per person limit on the sale of spirits by a craft distiller for off-premises consumption.
- Authorizes a craft distillery to charge customers a fee for spirits samples of one-half ounce or less served to them on premises.
- Authorizes any licensed distillery to: sell spirits of its own production for consumption off the premises; contract with, and sell spirits to other licensed distillers and manufacturers; and provide for free, or for a charge, spirits samples of one-half ounce or less to customers on the premises, subject to a daily maximum of two ounces per person per day.
- Requires a distillery that sells spirits for off-premises consumption to comply with all laws and regulations applicable to liquor retailers.
- Authorizes special occasion licensees to pay for spirits immediately following a special occasion event.
- Authorizes a special occasion licensee to charge reasonable booth fees to a distillery participating in the event.

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.

HOUSE COMMITTEE ON GOVERNMENT ACCOUNTABILITY & OVERSIGHT

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Hurst, Chair; Wylie, Vice Chair; Condotta, Ranking Minority Member; Holy, Assistant Ranking Minority Member; Blake, Kirby, Moscoso, Shea and Vick.

Staff: Thamas Osborn (786-7129).

Background:

Distilleries and Craft Distilleries.

Individuals seeking to distill spirits in Washington must obtain a license from the Liquor Control Board (LCB). The annual fee for a distillery license is \$2,000 and for a craft distillery the fee is \$100. To qualify as a craft distillery, the distiller must produce no more than 60,000 gallons of spirits, with at least half of the raw materials used in the production grown in Washington. Craft distilleries can sell spirits of their own production for consumption off the premises in amounts up to three liters per person per day. They may also provide free spirits samples of one-half ounce or less, up to a maximum of two ounces per day per person, to persons on the distillery premises. Craft distilleries may not sell spirits directly to in-state retailers, distributors, or manufacturers.

Distilleries not licensed as a craft distillery may not sell spirits to the public for off-premises consumption nor may they provide free samples of spirits to customers.

"Spirits" means any beverage which contains alcohol obtained by distillation, except flavored malt beverages, and includes wines exceeding 24 percent of alcohol by volume.

Spirits Supplier Regulations.

A distiller producing less than 60,000 gallons per year of spirits may not act as a spirits "supplier" and, therefore, cannot enter into distribution contracts with wholesale distributors. This prohibition also applies to authorized representatives of one or more distillers which, in aggregate, produce less than 60,000 gallons of spirits per year.

Special Occasion Licensees.

Nonprofit organizations can currently be issued a retailer's special occasion license to sell spirits, beer, and wine by the individual serving for on-premises consumption at specified events. The date and place must be specified. The fee for a special occasion license is \$60 per day. Sales are limited to no more than 12 calendar days per year for such events. Exceptions to the 12-calendar day limit are allowed for qualifying agricultural county and area fairs.

Summary of Substitute Bill:

Craft Distillery Regulations.

The annual spirits production limit for craft distillers is increased from 60,000 gallons to 150,000 gallons. Accordingly, to qualify as a craft distiller, a distiller must produce no more than one hundred thousand gallons of spirits annually, with at least half of the raw materials used in production grown in Washington.

The three liter per day per person limit on the sale of spirits by a craft distiller for off-premises consumption is eliminated. Therefore, sales of spirits to individuals by craft distillers for off-premises consumption are no longer subject to limitations. In addition, a craft distillery may charge customers a fee for spirits samples of one-half ounce or less served to them on premises.

Regulations Applicable to all Distilleries.

Any licensed distillery may:

- sell spirits of its own production for consumption off the premises;
- contract with, and sell spirits to, other licensed distillers and manufacturers; and
- provide for free, or for a charge, spirits samples of one-half ounce or less to customers on the premises, subject to a daily maximum of two ounces per person per day.

A distillery that sells spirits for off-premises consumption must comply with all laws and regulations applicable to liquor retailers.

Distilleries and Special Occasion Licensees.

Special occasion licensees are authorized to pay for spirits immediately following the special occasion event. Also, a special occasion licensee is authorized to charge reasonable booth fees to a distillery participating in the event.

Substitute Bill Compared to Original Bill:

The substitute bill amends the original bill to increase the annual spirits production limit for craft distillers from 100,000 gallons to 150,000 gallons.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) This is a good bill that is widely supported and will provide needed benefits to spirits distillers, both large and small. Spirits distillers are proliferating in Washington and provide both jobs and considerable tax revenue. There are currently 83 spirits distillers in this state that, in 2013, paid approximately \$16 million in state taxes. Raising the production limit from 60,000 gallons to 150,000 gallons of spirits per year for craft distillers will enable them to be much more competitive. Large distillers are able to produce much more than this

per day and will continue to dominate regardless of the production increases allowed to craft distillers. Bill provisions authorizing unlimited on-premises sales and tasting make sense and will increase the viability of the spirits distillery business. It makes no sense to limit on-premises sales. Many struggling distillers will be able to stay in business by virtue of being able to sell spirits on premises and provide tasting facilities. All distillers will be greatly benefitted by this bill.

(Opposed) None.

Persons Testifying: Kathryn Hedrick, Washington Distillers Guild; Eric Tognetti, Letterpress Distillers; Jeff Steicken, Batch 206 Distillery; Orlin Sorenson, Woodinville Whiskey; and Bob Bellreng, Black Sam Distillery.

Persons Signed In To Testify But Not Testifying: None.