HOUSE BILL REPORT
SSB 6237

As Reported by House Committee On:
Government Accountability & Oversight

Title: An act relating to license issuance fees imposed on former contract liquor stores.

Brief Description: Concerning license issuance fees imposed on former contract liquor stores.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Honeyford, Hewitt, Kohl-Welles, Hatfield and Hobbs).

Brief History:
Committee Activity:
Government Accountability & Oversight: 2/24/14 [DPA].

Brief Summary of Substitute Bill
(As Amended by Committee)

- Exempts former contract liquor stores with monthly gross receipts of $200,000 or less from paying a license issuance fee to the Liquor Control Board.
- Reduces the license issuance fee from 17 percent to 7 percent of retail spirits sales revenues for those former contract liquor stores with monthly gross receipts of $350,000 or less.
- Requires that former contract liquor stores with monthly gross receipts of more than $350,000 pay a license issuance fee of 17 percent of its retail spirits sales revenues.

HOUSE COMMITTEE ON GOVERNMENT ACCOUNTABILITY & OVERSIGHT

Majority Report: Do pass as amended. 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:

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.

Spirits Retailers and the Passage of Initiative 1183.
Initiative Measure 1183 (I-1183), passed by the voters in November 2011, transferred the responsibility for the distribution and retail sale of spirits (i.e. hard liquor) from the Liquor Control Board (LCB) to the private sector. Following the passage of I-1183, those private businesses licensed by the LCB to sell spirits at the retail level were designated as "spirits retail licensees." Such 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" that sold liquor on behalf of the state pursuant to contracts with the LCB prior to the passage of I-1183.

License Issuance Fees Applicable to Spirits Retail Licensees.
Large spirits retail licensees, with retail space exceeding 10,000 square feet, must pay to the LCB a license issuance fee equivalent to 17 percent of "*all spirit sales revenues under the license*. . ." The calculation of this fee includes revenues derived from sales to bars and restaurants and is in addition to any taxes collected on the sales of the spirits.

Beginning on June 30, 2013, former state liquor stores and former contract liquor stores were granted a limited exemption from the payment of the 17 percent license issuance fee for certain types of spirits sales. Specifically, such stores are exempt from payment of the 17 percent fee with respect to spirits sales to those retailers licensed to sell spirits for consumption on the premises (i.e., bars and restaurants).

Once collected by the LCB, license issuance fees are deposited into the Liquor Revolving Fund. Moneys in this fund are used for LCB expenses and "excess funds" are distributed to the State General Fund and to cities, towns, and counties.

Summary of Amended Bill:

The license issuance fee for spirits retail licensees who are former contract liquor stores are as follows:
- Licensees with monthly gross receipts of $200,000 or less are exempted from paying a license issuance fee.
- Licensees with monthly gross receipts of $350,000 or less must pay a license issuance fee of 7 percent of its retail spirits sales revenues.
- Licensees with monthly gross receipts of more than $350,000 must pay a license issuance fee of 17 percent of its retail spirits sales revenues.

Amended Bill Compared to Substitute Bill:

The amendment adds an emergency clause, changing the effective date of the bill to April 1, 2014.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Amended Bill: The bill contains an emergency clause and takes effect April 1, 2014.

Staff Summary of Public Testimony:

(In support) In addition to the former contract liquor stores, the original Senate bill also made former state liquor stores eligible for the reduction of the license issuance fee. However, the Senate amended the bill to exclude the former state liquor stores. The bill should be amended again to include the former state liquor stores. This bill will be of great benefit to the former contract liquor stores who are all struggling to survive. Without the exemption from the 17 percent fee, the former contract liquor stores cannot stay in business. Small liquor stores are able to control liquor theft, whereas theft has gotten out of control in the large stores. Small stores are subject to myriad disadvantages that threaten their survival. Sixty percent of the small stores have already gone out of business. Following the passage of the initiative, the small store owners were deceived as to how the market would operate. Large stores have huge marketing advantages, as do the tribal stores. Currently, the 17 percent fee is pushing the small stores over the edge. The small stores will fold if the bill does not pass.

(In support with concerns) By excluding the former state liquor stores, the bill creates an artificial divide between the types of small stores and which are all facing the same problems. The bill should be amended to include the former state liquor stores. The bill should be sent back to the Senate so as to allow the former state liquor stores to be included. Sixty percent of the small stores have already gone out of business, and the rest are doomed unless the state provides some help. Initiative 1183 was written by Costco and in the process the small stores got a very raw deal. Small stores have many competitive disadvantages that the state could help address with bills such as this. Small stores are subjected to stringent location limitations, whereas the large stores are not. Small stores pay out a huge percentage of gross revenue for taxes and fees. Large stores pay out a much smaller percentage. By omitting the former state liquor stores from the bill, the Legislature is imposing a death sentence upon them. Former state liquor stores are no different than former contract liquor stores, so they should be treated the same. Small stores cannot get volume discounts and state law will not allow them to obtain group discounts. Leases obtained by former state liquor stores after the auction were coercive and unfair. Inventory left in the stores was sub-par and inadequate. After the auction, many of the new owners wanted to rescind, but were threatened with litigation by the LCB. The LCB was deceptive during the auction process. Excluding the former state liquor stores from the bill is unfair and the bill should not be passed unless it includes them.

(Opposed) This is an ill-conceived bill and should not be passed. Creating tax preferences is wrong. There should be a level playing field with respect to taxes and fees. The bill is unfair and represents bad policy. Certain categories of competitors in the market should not be given special treatment.

Persons Testifying: (In support) Senator Honeyford, prime sponsor; Trent House, Independent Liquor Store Association; Rhiannon Buhre, Meridian Liquor and Wine Specialty

Liquor, LLC; Meru Belbayeva, Downtown Spirits; Gordon Boyd, Rainier Park Liquor; and Cathy Tarabulski.

(In support with concerns) Julian Mart, Fine Spirits and Wines; Martin Flynn, Michael Cho, and David Cho, Washington Liquor Store Association; Michale Bervi; Ekalo Teklehoimoriot; Solomon Seyorm, Aboe Business Solutions.

(Opposed) Amy Brackenbury, Washington Food Industry Association.

Persons Signed In To Testify But Not Testifying: None.