EXHIBIT 2
DATE 3-10-2011
SB 215

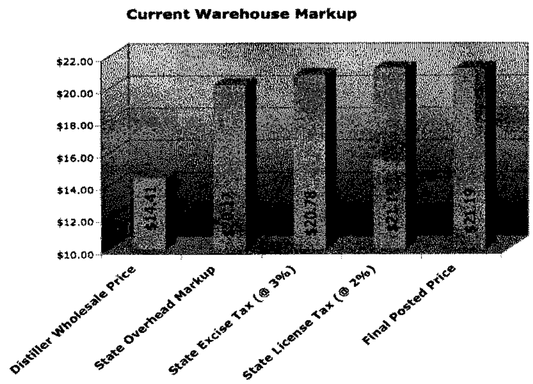
MONTANA DISTILLERS GUILD

SB-215: "AN ACT PROVIDING FOR A REDUCTION IN THE DEPARTMENT OF REVENUE MARKUP ON LIQUOR SOLD BY THE STATE BASED UPON THE PERCENTAGE OF MONTANA-PRODUCED INGREDIENTS USED IN THE PRODUCTION OF THE LIQUOR; AND PROVIDING RULEMAKING AUTHORITY."

History:

Montana is a "Closed State", meaning that all liquor sales to end-consumers must flow through the Department of Revenue, Liquor Division. In order to support the operations of the liquor warehouse, distribution to liquor stores, alcohol abuse education and treatment, and others, the Department levies a "Warehouse Overhead Rate" of 40% for each bottle sold. Additionally for Micro-Distilleries (those producing less than 25,000 gallons annually) an Excise Tax of 3% and then a License Tax of 2% are also levied.

The example to the right illustrates how a single bottle of liquor with a Wholesale Price of $14 eventually is sold to a liquor store for $21.



Proposed:

SB-215 proposes in exchange for Micro-Distilleries using a majority of Montana Grow Raw Materials (such as Grain, Barley, Wheat, Sugar Beet Sugar, and others) those Micro-Distilleries receive a sliding scale reduction in the Department of Revenue Liquor Warehouse Overhead Rates.

Percent Montana Produced Ingredients	Reduction in Standard Markup
50% to 64%	50%
65% to 74%	75%
75% to 100%	100%

The Standard Markup Sliding Scale Reduction, as proposed, is shown to the left. If a distillery anywhere in the nation uses a majority of MT grown raw materials, they receive the corresponding Standard Markup reduction.

An analysis of the proposed change was performed using the "2009 Department of Revenue Annual Report" & utilizing Montana Micro-Distillery Sales through October 2010. The table below illustrates the change to the DoR General Fund Transfer as a result of each Montana Micro-Distillery using each of the 3 scales proposed. As presented in the associated fiscal note, the full potential impact to the General Fund Transfer is **$49,755 or .13%** ***(1/10th of 1%)*** of the $30,500,000 transferred to the general fund from liquor sales in 2009.

As a comparison, Headframe Spirits, Inc projects a minimum annual grain bill, purchased solely from Montana Agriculture Sources, will generate $26,000. Extrapolated to include the 9 Montana Distilleries, the potential income to Agriculture will be greater than $180,000. As such MT Agriculture and associated economic industries (fuel providers, fertilizer suppliers, farm equipment providers, malting and grain storage industries, etc) could contribute an excess of greater than $140,000 to MT revenues based on MT Micro-Distilleries alone vs. the change to the General Fund of ~$49,000. These figures do not include revenue generated by distilleries outside of Montana, who may also choose to benefit from this proposed legislation.

FISCAL SUMMARY

	FY 2012 Difference	FY 2013 Difference	FY 2014 Difference	FY 2015 Difference
Expenditures:				
General Fund	$0	$0	$0	$0
State Special Revenue	$0	$0	$0	$0
Revenue:				
General Fund	($49,755)	($50,750)	($51,765)	($52,801)
State Special Revenue	($730)	($745)	($760)	($775)
Net Impact-General Fund Balance:	($49,755)	($50,750)	($51,765)	($52,801)

Sources:

1. Montana Department of Revenue Fiscal Year 2009 Liquor Enterprise Fund Annual Financial Report
2. 2010 Jan – Oct Montana Micro-Distillery Sales Data