

EXHIBIT 1  
DATE 1/9/2015  
*Dept presentation*



MONTANA DEPARTMENT OF REVENUE

# ***Montana Alcohol Beverage Control***

*Presentation for the 2015*

*House Business & Labor Committee*

*and*

*Senate Business, Labor, & Economic Affairs  
Committee*

## Montana is a Control State

### Montana Code Annotated (16-1-101)

It is the policy of the State of Montana, through the Montana Department of Revenue, to effectuate and ensure the entire control of the manufacture, sale, importation, and distribution of alcoholic beverages within the state.

Overall purpose of the code:

- Protect the welfare, health, and safety of the people of Montana.
- Promote temperance, create orderly markets, and aid in the collection of taxes.

### Alcohol Beverage Control

Montana is one of 17 states and 2 counties known as "Control Jurisdictions."

These jurisdictions control the sale of distilled spirits and, in some cases, beer and wine through government agencies at the wholesale level.

As a control state, Montana believes that moderation can best be achieved by neither promoting nor encouraging the consumption of alcohol but, instead by controlling it.

The purpose of control is to make liquor available to those adults who choose to drink responsibly, not to promote the sale of liquor.

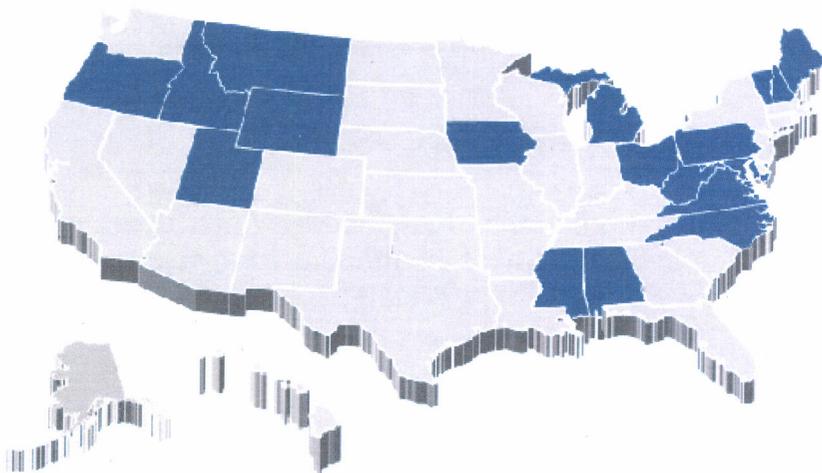
By participating in the marketplace, we are able to serve our citizens with a broader and more flexible range of policy options to promote moderation in the consumption of alcoholic beverages and reduce alcohol abuse.

Another value of the control distribution system is that it operates solely on the revenue derived from the sale of alcoholic beverages in its jurisdiction. No property, state, or other local taxes are used to support control distribution system operations.

### Contact Information:

Montana Department of Revenue – 406.444.6900  
Liquor Control Division – 406.444.4324

## The Control States



Alabama, Idaho, Iowa, Maine, Michigan, Mississippi, Montana, New Hampshire, North Carolina, Ohio, Oregon, Pennsylvania, Utah, Vermont, Virginia, West Virginia, Wyoming, Montgomery County (MD), Maryland Worcester County (MD)

## Control Benefits to Montanans

### Promote moderation

- Control systems promote moderation in consumption. Annual statistical data clearly shows that per capita consumption of distilled spirits is approximately 14.3% lower in control states than in open states.

### Support of alcohol programs

- Revenues from liquor taxes are distributed to the credit of the Department of Public Health and Human Services for the treatment, rehabilitation, and prevention of alcoholism and chemical dependency.

### Improve overall safety of communities through education, regulation and enforcement

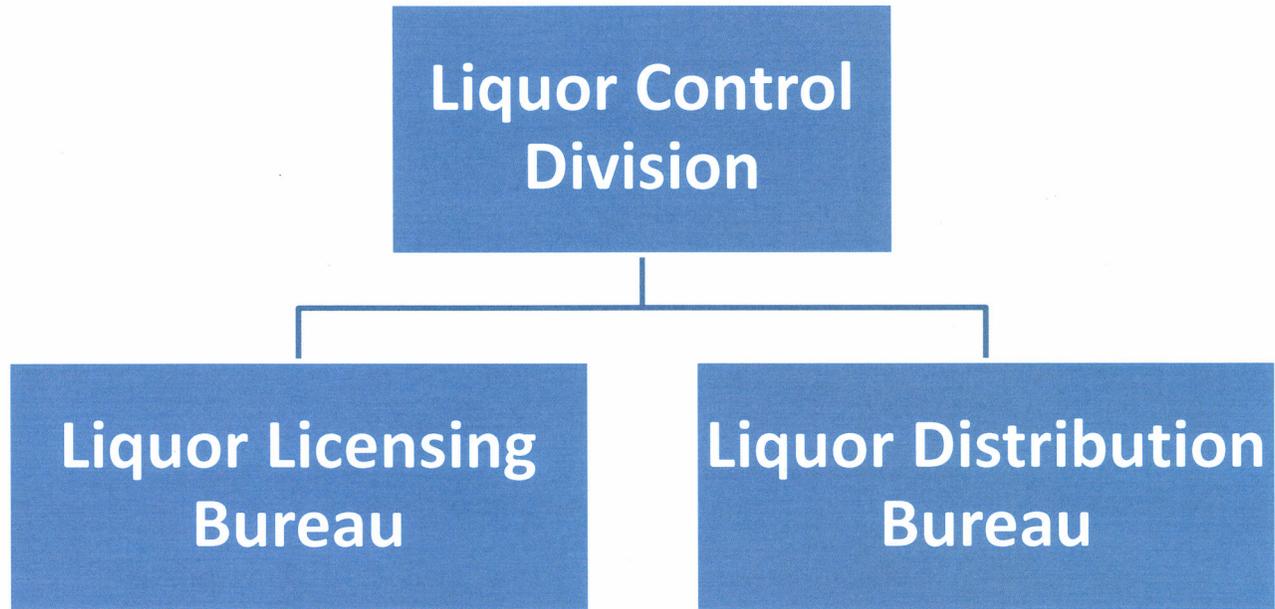
- The control state system continues to provide a regulatory environment that is better able to deter the ever-present risks and costs to the individual and the community of alcohol abuse.
- At one level, the uniform enforcement of applicable laws is made far more effective in a control state, where there are ordinarily fewer sales outlets and more importantly, where the economic incentive to violate those laws is greatly reduced.
- At another level, the control system itself serves both as a visible symbol of the public commitment to moderation and as a vehicle for the promotion of alcohol education and awareness programs to support that commitment.

### Major source of revenue

- Liquor sales provide a source of revenue to the State of Montana. The state uses these revenues to help fund state-government operations and to support several government programs.

## Department Structure for the Liquor Control Division

The Liquor Control Division is composed of two bureaus, Liquor Licensing and Liquor Distribution.



## Liquor Licensing Bureau

The Liquor Licensing Bureau is responsible to protect the public health and safety in the consumption of alcohol by properly licensing alcohol beverage businesses in a fair and uniformed manner. The bureau is generally responsible for overseeing compliance with the state's liquor laws in respect to the manufacturing, distributing and retailing of alcoholic beverages, as provided for in the Montana Alcoholic Beverage Code (Title 16).

### Duties and responsibilities include:

- Oversee and issue more than 4,600 licenses to manufacturers, importers, retailers and distributors of alcoholic beverages;
- Annually process renewal applications for these licenses;
- Review individual applicants for new licenses, transfer of ownership and transfer of location, including financial document information, and premises to determine applicant and premises meet standard requirements of the law;
- Educate licensees to ensure they understand the laws enacted by the legislature;
- Review investigative reports from local law enforcement and the Department of Justice and public complaints; and
- Ensure compliance with Montana's liquor laws.

The Department of Justice provides investigative and audit services for the Liquor Control Division under a Memorandum of Understanding.



## Alcohol Beverage License Types

### On-Premises Retail Licenses (Bars, Taverns and Restaurants)

This type of licensee may sell and serve alcoholic beverages for on-premises consumption or for off-premises consumption in the original packages, excluding restaurant beer and wine licenses who may only sell for on-premises consumption to patrons that order food.

Entities that primarily provide meals with table service and who are licensed to sell beer at retail or beer and wine at retail may upon approval by the department be granted a catering endorsement. This allows the business to cater a special event for on-premises consumption that would not otherwise be licensed to.

The Department of Revenue's Liquor Licensing Bureau and the Department of Justice's Gambling Control Division utilize a joint application to streamline the process to apply for certain on-premises licenses.

#### License Types

- All-Beverages Licenses
  - ◆ City – 998 issued (Quota)\*
  - ◆ County – 451 issued (Quota)\*
  
- Beer Licenses
  - ◆ City – 434 issued (Quota)\*\*
  - ◆ County – 67 issued (No Quota)\*
  
- Restaurant Beer and Wine Licenses – 242 issued (Quota)

#### Additional On-Premises License Types

- Fraternal or Veterans Licenses – All-beverages/beer – 107 (No Quota)\*
- Golf Course Beer and Wine License – 20 (No Quota)
- Resort Retail All-beverages Licenses – 22 (No Quota)\*
- Airport All-beverages Licenses – 7 (No Quota)\*
- Passenger Carrier Licenses – 5 (No Quota)
- Special Beer & Wine License for Nonprofit Arts Organization – 14 (No Quota)
- Seasonal Beer & Wine License Yellowstone Airport – 1 (Specific Purpose)
- MT Heritage Retail Alcoholic Beverage Licenses – 3 (Specific Purpose)

*\*Gaming is available with these licenses with minor exceptions. (A Floater License issued after July, 2007 which resulted from a lottery is not eligible to offer gambling.)*

*\*\*Gaming is available with these licenses with minor exceptions. (New beer licenses issued after 1997 may not be used for premises where gambling is conducted.)*

## Off-Premises Retail Licenses (Convenient Stores, Grocery Stores, Specialty Beer & Wine Stores and Drugstores licensed as a pharmacy)

This type of licensee may sell beer and table wine for off-premises consumption only. No consumption or tasting can occur on the licensed premises.

### License Types

- Beer License – 81 issued (No Quota)
- Wine License – 9 issued (No Quota)
- Beer and Wine License – 785 issued (No Quota)
- Sacramental Wine License – 3 issued (No Quota)

May be issued to an establishment located in or outside of Montana that sells sacramental wine at retail to rabbis, priests, pastors, ministers or other officials of churches or other established religious organizations exclusively for off-premises use as a sacramental wine or for other religious purposes.

- Agency Liquor Stores – 96 issued (Quota)

Not a license, but contractual franchise agreement. May sell distilled spirits, fortified wines and table wines.

## Manufacturer Licenses (Distillery, Brewery, Winery)

This type of licensee can manufacture, sell and distribute products they manufacture. A manufacturer licensed in the state that ships or sells directly to retailers or directly to consumers where allowed, is required to pay the tax on such products and provide the appropriate reporting forms to the department.

### License Types

- Domestic Distillery License – 14 issued

This type of licensee can manufacture, distill, rectify, bottle, process and store liquor for sale to the department. Domestic distilleries may not self-distribute their products.

- ◆ Microdistillery (14 qualify)

A distillery located in Montana that produces 25,000 gallons or less of liquor a year.

- May provide samples of liquor produced on the premises in a sample room located on the licensed premises.
- The samples may be provided with or without charge between the hours of 10 a.m. and 8 p.m.
- No more than 2 ounces of liquor may be provided to an individual customer during a business day for on-premises consumption.
- No more than 1.75 liters of liquor may be provided to an individual customer during a business day for off-premises consumption.
- At least 90 percent of the aggregate amount of liquor provided for on- or off-premises consumption in the sample room must have been produced at the microdistillery.
- All liquor provided in the sample room must contain alcohol that was distilled at the microdistillery.

- **Brewery License – 51 issued**

This type of licensee can manufacture, sell and deliver beer from their licensed premises to any beer wholesaler, retail licensee or to the public. The licensee can provide samples but without charge if they produce less than 60,000 barrels of beer a year.

- ◆ **Small Brewery (49 qualify)**

A brewery located in Montana that produces not less than 100 barrels or more than 10,000 barrels of beer a year.

- May provide samples of beer that were brewed and fermented on the premises in a sample room located on the licensed premises.
- The samples may be provided with or without charge between the hours of 10 a.m. and 8 p.m.
- No consumption and possession before 10 a.m. or after 9 p.m.
- No more than 48 ounces of beer can be sold or given to an individual customer during a business day.

- **Domestic Winery License – 19 issued**

This type of licensee can manufacture, sell and deliver wine from their licensed premises to any table wine distributor, retail licensee or to the public.

- ◆ May provide samples of wine that it produced in a sample room located on the licensed premises.
- ◆ No restrictions exist on the amount of samples that may be provided per individual customer during a business day.
- ◆ The samples may be provided with or without charge between the hours of 8 a.m. and 2 a.m.

- **Foreign Winery or Importer Registration – 1,119 issued**

A foreign winery registered in the state can ship to licensed table wine distributors and to consumers if the winery holds a direct shipment endorsement issued by the department (482 issued). A wine importer can only ship to licensed table wine distributors.

- **Out-of-State Winery License – 5 issued**

This type of licensee can ship limited quantities directly to retail liquor licensees, licensed table wine distributors and to consumers if the winery holds a direct shipment endorsement issued by the department. The limit on direct shipments of wine to licensed retailers is 4,500 cases annually.

### **Beer Wholesaler and Table Wine Distributor Licenses**

This type of licensee purchases beer and table wine either from a licensed brewery, winery, importer, beer wholesaler or table wine distributor for distribution and sell to retail licensees. This type of licensee may not sell to the public or allow consumption on their licensed premises.

#### **License Types**

- Beer Wholesaler License – 2 issued
- Table Wine Distributor License – 11 issued
- Beer Wholesaler and Table Wine Distributor License – 20 issued

**Connoisseur's Licenses – 2 issued**

This type of license allows an individual to receive direct shipments of beer from an out-of-state licensed brewery for the person's own consumption and not for resale. The individual is responsible for filing a semi-annual return and paying the tax for any shipments of beer received.

**Vendor Permits and Vendor Representative Registrations – 117 issued**

This type of permit allows a supplier of distilled spirits to have their products promoted within the state by registered representatives. The vendor is allowed to have up to 3 registered representatives promoting their products. All of whom must be residents of Montana.

**Special Permits – 474 issued**

A tax-exempt organization, non-profit organizations, accredited postsecondary school or a professional sporting contest may apply for a special permit to sell beer and table wine to patrons at the special event. The beer or wine must be consumed at the time and within the enclosed area. Most special permits can be obtained for \$10 per day. Sports leagues can obtain a special permit for \$1,000 to cover the length of the specified season of play.

## Licensing Fees

License Type	License Fee	Processing Fee	One-Time Fee	Renewal Fee
<b>On-Premises Retail</b>				
County All-Beverage	\$400	\$400		\$400
City All-Beverage	\$400 - \$800	\$400		\$400 - \$800
Beer	\$200	\$400		\$200
Beer with Wine Amendment	\$400	\$400		\$400
Restaurant Beer and Wine	\$400	\$400	\$5,000 - \$20,000	\$400
Veterans Club (County)	\$250	\$400		\$250
Veterans Club (City)	\$250 - \$650	\$400		\$250 - \$650
Golf Course Beer and Wine	\$400	\$400	\$20,000	\$400
Resort All-Beverage	\$2,000	\$400	\$20,000	\$2,000
Catering Endorsement				
All-Beverage	\$250	\$100		\$250
Beer	\$200	\$100		\$200
<b>Off-Premises Retail</b>				
Beer	\$200	\$200		\$200
Wine	\$200	\$200		\$200
Beer and Wine	\$400	\$200		\$400
Sacramental Wine	\$50	\$50		\$50
<b>Wholesaler/Distributor</b>				
Beer	\$400	\$200		\$400
Table Wine	\$400	\$200		\$400
Beer and Table Wine	\$800	\$200		\$800
Beer or Wine Sub-Warehouse	\$400	\$100		\$400
Beer and Wine Sub-Warehouse	\$800	\$100		\$800
<b>Manufacturer</b>				
Brewery (less than 20,000 barrels)	\$500	\$200		\$200
Brewery (more than 20,000 barrels)	\$500	\$200		\$500
Beer Storage Depot	\$500	\$100		\$500
Winery License	\$400	\$200		\$200
Winery Registration	\$0 - \$400			\$0 - \$400
Direct Shipment Endorsement	\$50			\$50
Distillery	\$600	\$200		\$600
<b>Connoisseur</b>				
Beer	\$50			\$25

## Quota System

- Quota system has been in place since 1947
- There are two types of quota areas: city and county
- Quota system for incorporated towns and counties
  - ◆ **All-beverage licenses**
    - Incorporated towns - based on population within city limits
    - Counties – based on population within county limits less population in incorporated towns.
  - ◆ **Beer licenses** (can add a wine amendment)
    - Incorporated cities – based upon population within the city limits
    - Counties – no limit

**City Quota Area** (City licenses can be located within the corporate city limit and within a distance of 5 miles from the corporate limits.)

### **All-Beverage License Quota Amounts**

- Population 500 or less = 2 licenses
- Population 501 - 3,000 = 3 licenses for first 1,000 inhabitants plus 1 for each additional 1,000 inhabitants
- Population 3,001 or more = 5 licenses for first 3,000 inhabitants plus 1 for each additional 1,500 inhabitants

### **Beer License Quota Amounts**

- Population 500 or less = 1 license
- Population 501 - 2,000 = 1 license for every 500 inhabitants
- Population 2,001 or more = 4 licenses for first 2,000 inhabitants, 2 licenses for the next 2,000 inhabitants and 1 additional license for every additional 2,000 inhabitants

### **Restaurant Beer and Wine (RBW) License Quota Amounts**

- Population 5,000 or less = 80% of beer quota
- Population 5,001– 20,000 = 160% of beer quota
- Population 20,001 – 60,000 = 100% of the beer quota
- Population 60,001 or more = 80% of the beer quota

## County Quota Area

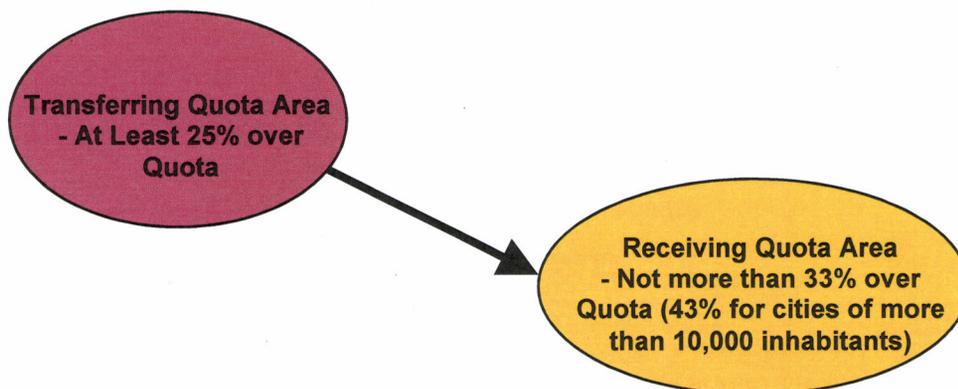
### **All-Beverage License Quota Amounts**

All populations: 1 license for 750 inhabitants of the county after excluding the population of incorporated cities and incorporated towns in the county. County All-Beverage Licenses can be located anywhere in the county except within the boundaries of the incorporated cities and town and within a 5 miles radius.

### **Beer License Quota Amounts**

No Limit

## Floating Licenses between Quota Areas [16-4-204, MCA]



### General Provisions

- Only All-beverages Licenses may be floated
- Must still meet Public Convenience & Necessity
- Floated licenses may not be transferred to another person for 5 years
- Floated licenses are not eligible to be floated again

### Lottery All-Beverage Floater Licenses

- Liquor statutes provide a mechanism for all-beverage licenses to float from an existing location that is technically over quota to a location that is technically under quota.
- As population fluctuates, the number of quota licenses is adjusted.
- This year, the following licenses have been added: two all-beverage floater licenses and one beer license in Billings, one beer license in Sidney, two all-beverage floater licenses in Broadwater County and four all-beverage floater licenses in Jefferson County.
- If more applicants apply than the number of licenses available, the lottery rules come into effect.

### Requirements for Lottery All-Beverage Floater Licenses

- Applicants cannot own an existing all-beverage license at the time of application.
- Applicants must provide a letter of credit of \$100,000.
- Applicants can apply for only one lottery a year.
- Successful applicants must open the business within 12 months of the lottery.
- Plus the gambling privilege is removed from the license.

## General Licensing Requirements

- Applicants holding a financial ownership of 10% or more must pass a background check by submitting their fingerprints.
- Applicants must be current with all Montana taxes.
- Applicants must be 19 years of age or older.
- Applicants must not have been convicted of a felony or, if the applicant has been convicted of a felony, the applicant's rights must have been restored.
- Applicants must be likely to operate the establishment in compliance with all applicable laws of the state and local governments.
- Business must be authorized to do business in Montana.
- All licensees and their employees that sell or serve alcoholic beverages must receive responsible alcohol sales and service training by a state approved training provider. *(SB 29 from the 2011 legislative session)*
- A licensee may not possess an ownership interest in more than three all-beverage licenses. A licensee may not possess an ownership interest in more than half the total number of allowable all-beverage licenses in any quota area. *(SB 120 from the 2013 legislative session)*
- An ownership interest in other alcohol beverage tiers is prohibited.

### Notice of Publication

#### Public Convenience and Necessity

- Department required to publish notices when new licenses, liquor license transfers and transfers of location are requested.
- Notice allows the public the opportunity to protest the approval of the license to the applicant and/or proposed location.
- Protests must equal 25% of the number of quota all-beverages licenses in the area located, but not less than 2 protests, in order to initiate a public hearing.
- Evidence needs to indicate that the license will "materially promote the public's ability to engage in the licensed activity."
- A license may not be issued if the department finds from a hearing that:
  - ◆ The welfare of the people residing or of retail licenses located in the vicinity of the premises for which the license is desired will be adversely and seriously affected;
  - ◆ The applicant or the proposed premises for licensing fail to meet the eligibility or suitability criteria;
  - ◆ A possible reason for denial listed in a conditional approval letter has been verified; or
  - ◆ The purposes of Montana Beverage Code will not be carried out by the issuance of the license.

### Alcohol Code Violations

- Upon a written verified complaint of a person, the Department of Revenue will request the Department of Justice to investigate a complaint.
- Upon reviewing the Department of Justice's investigation report or an admission from a licensee or receiving a local law enforcement agency's investigation report, the Department of Revenue may at its discretion take one or more of the following actions:
  - ◆ Reprimand the licensee,
  - ◆ Proceed to revoke the license of the licensee,
  - ◆ Suspend the license for a period of not more than 3 months,
  - ◆ Refuse to grant a renewal of the license after its expiration, or
  - ◆ Impose a civil penalty not to exceed \$1,500.
- All actions taken by the Department of Revenue are subject to the opportunity for a hearing under the Montana Administrative Procedures Act.

### The most common Alcohol Beverage Code violations are:

- Sale to a minor
- Open after hours
- Serving after hours
- Undisclosed ownership interest
- Alteration of premises without prior approval
- No management agreement
- Non-use without prior approval
- Sale to intoxicated person

## Licensing Application Processing Statistics

### Fiscal Year 2014 (July 1, 2013 to June 30, 2014)

- On-premises applications
  - ◆ 184 approved
  - ◆ 47 day average processing time
- Off-premises application
  - ◆ 92 approved
  - ◆ 31 day average processing time
- Miscellaneous applications (manufacturers & distributors)
  - ◆ 20 approved
  - ◆ 57 day average processing time
- Special permits
  - ◆ 474 issued
- Renewals
  - ◆ 4,510 processed

## License Revenue

### Consists of Licensing Fees, Annual Renewal Fees and Violation Revenue

FY2005	\$1,768,806
FY2006	\$2,091,179
FY2007	\$1,836,286
FY2008	\$3,155,184*
FY2009	\$2,291,039
FY2010	\$2,242,500
FY2011	\$2,289,747
FY2012	\$2,210,701
FY2013	\$2,239,151
FY2014	\$2,215,175

*\*Increase mainly due to issuance of New Restaurant Beer and Wine licenses based on 2007 legislation plus timing of collections renewal revenue in 2007 was extremely low.*

## Taxation of Alcoholic Beverages

### Distilled Spirits (Liquor)

The pricing on distilled spirits and fortified wines include both an excise tax and a license tax. The appropriate tax rate is determined by the total number of proof gallons the company manufactured, distilled, rectified, bottled, or processed and sold nationwide in the preceding calendar year. Listed below are the rate schedules.

- Liquor Excise Tax

<u>Rate</u>	<u>Production</u>
16%	More than 200,000 proof gallons
13.8%	50,001 to 200,000 proof gallons
8%	20,000 to 50,000 proof gallons
3%	Less than 20,000 proof gallons

- Liquor License Tax

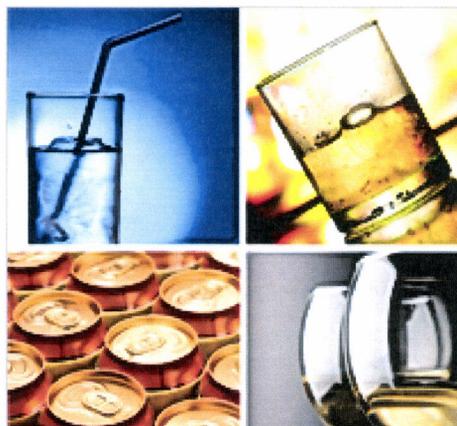
<u>Rate</u>	<u>Production</u>
10%	More than 200,000 proof gallons
8.6%	50,001 to 200,000 proof gallons
2%	50,000 or less proof gallons

### Beer

- Based upon barrels of beer produced annually (barrel = 31 gallons)
  - ◆ Up to 5,000 barrels \$1.30/barrel
  - ◆ 5,001 to 10,000 barrels \$2.30/barrel
  - ◆ 10,001 to 20,000 barrels \$3.30/barrel
  - ◆ Over 20,000 barrels \$4.30/barrel

### Wine

- 27 cents per liter of wine
- 3.7 cents per liter of hard cider



## Tax Revenue

### Liquor Excise Tax

FY2006	\$10,651,853
FY2007	\$11,716,614
FY2008	\$12,512,799
FY2009	\$12,989,225
FY2010	\$13,020,876
FY2011	\$13,411,139
FY2012	\$14,291,424
FY2013	\$14,876,139
FY2014	\$15,430,324

### Liquor License Tax

FY2006	\$6,658,036
FY2007	\$7,322,884
FY2008	\$7,820,502
FY2009	\$8,118,270
FY2010	\$8,138,240
FY2011	\$8,381,042
FY2012	\$8,931,713
FY2013	\$9,296,333
FY2014	\$9,642,234

### Beer Tax

FY2006	\$3,910,939
FY2007	\$4,026,969
FY2008	\$4,119,676
FY2009	\$4,150,186
FY2010	\$4,055,805
FY2011	\$3,964,264
FY2012	\$4,050,779
FY2013	\$4,049,346
FY2014	\$4,209,093

### Wine Tax (includes Hard Cider)

FY2006	\$2,441,272
FY2007	\$2,439,496
FY2008	\$2,700,346
FY2009	\$2,847,450
FY2010	\$2,859,927
FY2011	\$3,002,803
FY2012	\$3,122,989
FY2013	\$3,237,280
FY2014	\$3,358,802



## Liquor Distribution Bureau

The Liquor Distribution Bureau is responsible to efficiently maintain a regulated channel of distribution with an emphasis on customer service by fulfilling the public demand of distilled spirits and fortified wine through Agency Liquor Stores.

The bureau is generally responsible for overseeing and managing the effective receipt and distribution of alcoholic beverages in the state.

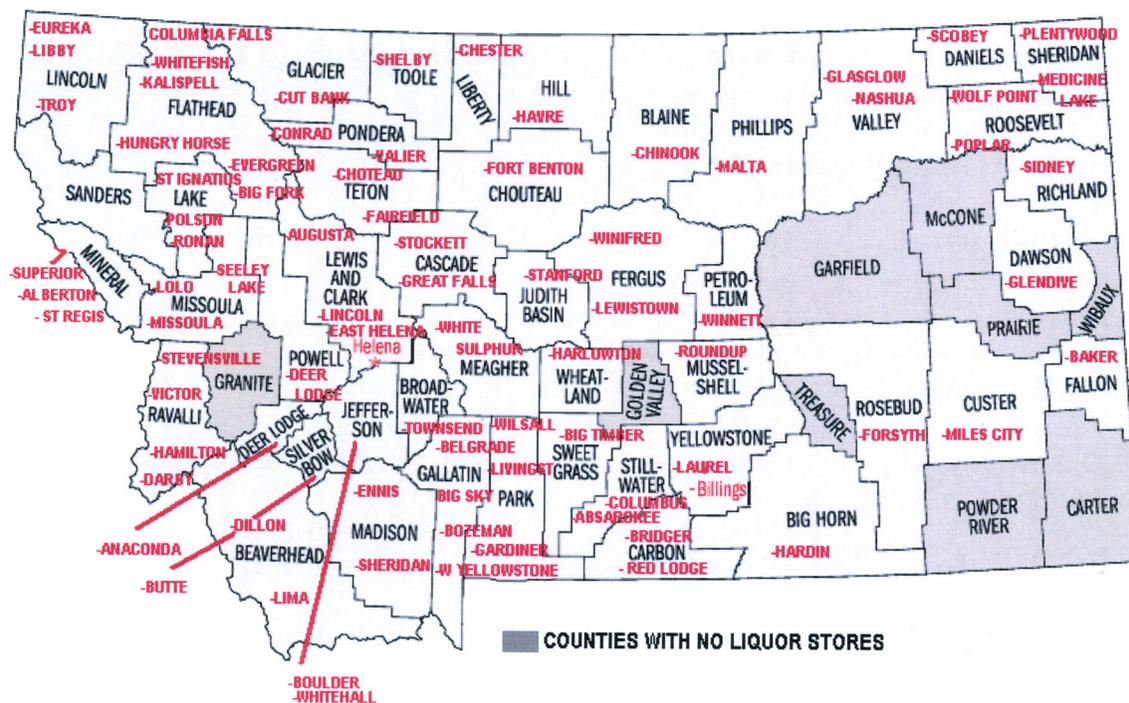
### Duties and responsibilities include:

- Operate the state liquor distribution center – more than a \$124 million dollar business;
- Order, maintain and monitor liquor warehouse inventories in a manner that balances state interests with liquor distribution outlet customers;
- Establish and post statutorily-defined prices for all liquor products distributed through the liquor warehouse; and
- Establish, maintain and monitor relationships, compliance issues, and state contracts with 96 separate agency liquor stores.



## Agency Liquor Stores

There are currently 96 Agency Liquor Stores located throughout the state of Montana. These Agency Liquor Stores and any new Agency Liquor Store is operated by an agent.



### Number of Agency Liquor Stores in a Community [16-2-109, MCA]

The number of agency liquor stores that may be located in a community will vary with the population in a community. For example there may be:

- One agency liquor store if the population is 0 – 12,000;
- Two agency liquor stores if the population is 12,001 – 52,000;
- Three agency liquor stores if the population is 52,001 – 92,000;
- Four agency liquor stores if the population is 92,001 – 132,000; or
- Five agency liquor stores if the population is 132,001 – 172,000; and
- One additional agency liquor store within increments of population of 40,000 inhabitants above 172,000.

### Location Limitations [16-2-109, MCA]

- New stores may not be located in a community that is within 35 miles to another community with an agency liquor store unless the population permits.
- In communities that may have more than one agency liquor store, they may not be located closer than a 1-mile radius of each other.
- May not be in or adjacent to a grocery store in communities greater than 3,000.

### **Selection of an Agent [ARM 42.11.310]**

- Selected according to competitive procedures under the Montana Procurement Act.
- For stores in communities with less than 3,000 population, an agent will be selected according to procedures for competitive sealed proposals as defined in ARM 2.5.602 and the agents commission will be initially established at 10% of adjusted gross sales.
- For stores in communities with a population of 3,000 or more, according to procedures for competitive sealed bids as defined in ARM 2.5.601 and the agents commission will be initially set at the percentage bid by the lowest responsive bidder.

### **Contracts may be Reassigned [16-2-101, MCA]**

- An agent may assign an agency franchise agreement to a person who, upon approval of the department, is named agent in the agency franchise agreement, with the rights, privileges, and responsibilities of the original agent for the remaining term of the agency franchise agreement.

### **Commissions and Discounts**

Agency Liquor Stores have 3 different commissions and discounts.

- **Commission Percentage Discount**
- **Volume of Sales Discount**
- **Weighted Average Discount**

#### **1. Commission Percentage Discount**

- 10% for communities in population 3,000 or less
- Established by competitive bidding in communities with 3,000 or more in population
- Can be adjusted every 3 years based on 2 methods:
  - Current commission is less than the average % being paid to stores with similar sales volume
  - If agent can demonstrate cost beyond the agents control

#### **2. Volume of Sales Discount (HB 348 from the 2001 legislative session)**

- The percentage rate is based upon annual dollar volume of sales in the previous fiscal year:
  - Rates are adjusted on an annual basis based on sales volume.
    - For FY15, a volume of sales of \$581,167 or more = 0.875%
    - For FY15, a volume of sales less than \$581,167 = 1.5%
  - Threshold adjusted annually (2009 legislative change) - An inflation factor is used to calculate the new volume of sales cutoff based on the 25 liquor products with the highest quantity of cases sold in the previous calendar year.

#### **3. Weighted Average Discount**

- Intended to compensate agency stores for some of the 8% discount provided to all-beverage licensees when purchasing full case lots.
- Determined by each store's ratio of the dollar value of discounts given by the store's gross sales during fiscal year 1994.

### Operation [16-2-101, MCA]

- Agency Liquor Stores must purchase all alcoholic beverages except for beer and table wine from the State Liquor Warehouse.
- Agency Liquor Stores may sell liquor, fortified wine and table wine. Table wine may be purchased from a distributor without an additional license.
- Agency Liquor Stores must be open for the sale of alcoholic beverages for a minimum of 6 hours per day between 8 a.m. and 2 a.m.
- Agency Liquor Stores must be closed Sundays, Mondays and legal holidays. They may be open on Mondays that are not legal holidays, if 51% of the all-beverage licensees in the community sign a petition to allow.
- Agency Franchise Agreements are effective for a 10-year period and must be renewed at the existing commission rate for additional 10-year periods if the requirements of the agency franchise agreement have been satisfactorily performed.
- Agency Liquor Stores are required to sell liquor to licensees at the state posted price for bottle purchases and at a reduction of 8% discount from posted price for full case purchases of regular listed products.
- Agency Liquor Stores are required to sell to all other persons at or above the posted price. The agent may establish a mark-up for their retail price.
- Agency Liquor Stores have weekly deliveries.
- The Department supplies a quarterly price book with the various classes, varieties and brands of liquor for sale with the state's posted price.
- Agency Liquor Stores have 60 days from the date of invoice to pay for liquor purchased from the State Liquor Warehouse.



## Cases Distributed to Agency Liquor Stores

The Liquor Control Division maintained inventories at the state liquor warehouse on more than 1,500 liquor and fortified wine products during fiscal year 2014. Another 1,600 liquor and fortified wine products are available on a case-by-case basis.

Over the past ten fiscal years, cases shipped from the state liquor warehouse have increased by more than 41 percent, from 535,635 in fiscal year 2005 to 752,977 in fiscal year 2014.

MONTH	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
July	59,206	59,415	54,717	62,974	68,250
August	58,352	63,485	70,912	73,327	70,996
September	53,402	58,330	54,031	52,547	53,154
October	55,713	54,406	60,717	67,958	69,426
November	60,647	57,532	61,901	62,292	62,060
December	65,495	66,833	69,054	70,705	78,332
January	38,578	40,725	47,622	49,680	47,337
February	45,064	49,442	52,917	52,825	53,001
March	55,813	59,664	57,699	54,526	57,249
April	48,610	48,504	57,050	59,568	59,317
May	55,754	59,051	67,174	62,640	63,406
June	63,595	65,445	68,519	63,182	70,449
<b>TOTAL</b>	<b>660,229</b>	<b>682,832</b>	<b>722,313</b>	<b>732,224</b>	<b>752,977</b>

## Liquor Distribution Revenues and Transfers

The Liquor Control Division distributed \$29.3 million to the State General Fund and \$6.2 million to the State Special Revenue Fund in fiscal year 2014.

	FY2010	FY2011	FY2012	FY2013	FY2014
<b>Gross Sales</b>	\$102,700,000	\$106,000,000	\$113,400,000	\$119,000,000	\$124,200,000
<b>Agents Total Commissions and Discounts</b>	\$12,600,000	\$13,100,000	\$14,000,000	\$14,700,000	\$15,500,000
<b>Operational Expenses</b>	\$1,700,000	\$1,600,000	\$1,800,000	\$1,800,000	\$1,900,000
<b>Net Profits</b>	\$9,000,000	\$9,000,000	\$9,500,000	\$10,500,000	\$10,500,000
<b>Taxes Transferred</b>	\$21,159,116	\$21,792,181	\$23,223,137	\$24,187,497	\$25,087,946

### Types of Revenue

Liquor wholesale operations generate two types of revenue: Taxes and Profits.

#### Taxes

Taxes are included in the sale price of each product. The tax is collected when the product is sold from the warehouse and payment is made from the agency liquor stores. The tax is then transferred to either the General Fund or State Special Revenue Fund. The taxes are washed through Liquor Enterprise Fund.

#### Profits

The standard mark-up applied to most liquor products is 40%; however, the 2011 legislative session allowed for a reduced mark-up of 20% on liquor products that have been manufactured, distilled, rectified, bottled or processed by a distillery that produces 25,000 proof gallons or less of liquor nationwide annually.

The mark-up in essence pays for the liquor distribution warehouse operations and the commission rates and discounts provided to the agency liquor stores. The remaining profits are then transferred to the general fund.

## Liquor Education

Liquor Education includes a wide variety of educational efforts designed to educate and inform sellers/servers, distributors, manufacturers of alcoholic beverages, law enforcement officials, city/county attorney's, the justice community and the general public, on topics such as the safe and responsible consumption of alcohol, sales and service of alcoholic beverages and enforcement of the liquor code.

### Duties and responsibilities include:

- Oversee the Responsible Alcohol Sales and Service Act.
- Manage the state's responsible alcohol sales and service training program called *Let's Control It*.
- Provide technical assistance to local law enforcement officials, city/county attorneys and the justice community.

