

Department of Legislative Services
 Maryland General Assembly
 2022 Session

FISCAL AND POLICY NOTE
Enrolled - Revised

House Bill 854 (Delegate Wilkins)
 Economic Matters and Ways and Means Education, Health, and Environmental Affairs

Alcoholic Beverages – Maryland Alcohol Manufacturing and Promotion

This bill establishes the Advisory Commission on Maryland Alcohol Manufacturing (ACMAM) and the Maryland Alcohol Manufacturing Promotion Fund (MAMPF) in the Department of Commerce. The Comptroller generally must distribute alcohol tax revenues from alcohol produced by breweries, distilleries, and wineries in Maryland to MAMPF. The Secretary of Commerce may award grants from MAMPF to nonprofit organizations and State or local governmental units for promoting State breweries, distilleries, and wineries, as specified. ACMAM is the successor of the Advisory Commission on Maryland Wine and Grape Growing, which is repealed. The Maryland Wine and Grape Promotion Fund (MWGPF) is also repealed, and revenue generated from the tax on wine produced at wineries licensed in the State is no longer distributed to MWGPF. Money in MWGPF at the end of June 30, 2022, must be transferred MAMPF. **The bill takes effect July 1, 2022.**

Fiscal Summary

State Effect: General fund revenues decrease by \$1.59 million in FY 2023 and net special fund revenues and expenditures increase correspondingly from redirecting specified alcohol tax revenue to MAMPF, creating a grant program, and repealing MWGPF. Additionally, in FY 2023, general fund expenditures and MAMPF revenues and expenditures increase by \$250,000. Future years reflect alcohol tax revenue growth. Special fund revenues and expenditures may increase further to the extent State agencies are awarded MAMPF grants. **This bill establishes a mandated distribution beginning in FY 2023.**

(\$ in millions)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
GF Revenue	(\$1.59)	(\$1.61)	(\$1.62)	(\$1.64)	(\$1.66)
SF Revenue	\$1.84	\$1.61	\$1.62	\$1.64	\$1.66
GF Expenditure	\$0.25	\$0	\$0	\$0	\$0
SF Expenditure	\$1.84	\$1.61	\$1.62	\$1.64	\$1.66
Net Effect	(\$1.84)	(\$1.61)	(\$1.62)	(\$1.64)	(\$1.66)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: Local revenues and expenditures increase beginning in FY 2023 to the extent that local jurisdictions apply for and are awarded MAMPF grants.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary:

Advisory Commission on Maryland Alcohol Manufacturing

The bill details the membership, term limits, and governance of ACMAM. To the extent practicable, members must reasonably reflect the geographic, racial, ethnic, cultural, and gender diversity of the State. Commerce must provide staff for the advisory commission. Advisory commission members may not receive compensation but are entitled to reimbursement for expenses. ACMAM must (1) advise and recommend to the Secretary of Commerce the allocation of monies from MAMPF to eligible applicants for programs considered necessary or advisable to accomplish the purposes of the bill; (2) provide a forum to address relevant issues; and (3) identify strategies to facilitate growth of viticulture and other products used in manufactured alcohol. ACMAM must issue an annual report to the Governor, the Senate Education, Health, and Environmental Affairs Committee, and the House Economic Matters Committee on the commission's findings and recommendations.

Maryland Alcohol Manufacturing Promotion Fund

The purpose of MAMPF is to provide grants that promote the advantages and attributes of State breweries, distilleries, and wineries and their products manufactured in the State. MAMPF is a special, nonlapsing fund with any interest earnings of the fund credited to the general fund. The State Treasurer must hold the fund separately, and the Comptroller must account for the fund. The fund consists of alcoholic beverage tax revenue on beer, wine, and distilled spirits produced by specified brewery, winery, and distillery license holders; money appropriated in the State budget; and money from any other source. Funds may be used for grants to eligible applicants and administrative expenses.

Grants

The Secretary of Commerce must award grants to eligible applicants from MAMPF based on ACMAM's advice. An eligible applicant may not use a grant provided under the bill to satisfy any part of another State grant's matching fund requirement or to pay for activities

related to lobbying. Subject to the availability of funds, the Secretary may award grants to eligible applicants to:

- foster the creation and expansion of State breweries, distilleries, and wineries;
- attract new visitors to State breweries, distilleries, and wineries;
- encourage and create incentives for special events to promote State breweries, distilleries, and wineries;
- educate the public about alcohol manufacturing in the State;
- conduct research on, develop incentives for, and promote the growth of State agricultural products used in State manufactured beer, wine, and spirits; or
- support the expansion of minority ownership and participation in the operation of State breweries, distilleries, and wineries.

Other Provisions

The Secretary of Commerce may adopt regulations to implement the bill. The bill specifies how the succession of the Advisory Commission on Maryland Wine and Grape Growing to ACMAM works, such as how it affects employment status and properties.

Current Law: MWGPF is a special fund in the Maryland Department of Agriculture (MDA). The purpose of the fund is to provide grants to nongovernmental organizations and to conduct other activities for the purpose of promoting (1) the production and consumption of Maryland wine in the State and (2) the production of grapes in the State. The fund receives alcoholic beverage tax revenue from wine produced at licensed wineries in the State.

MDA is authorized to deduct up to 2% of proceeds paid into the fund for administrative purposes. The fund may only be used for the following purposes related to the production and consumption of Maryland wine and production of grapes in the State: (1) grants; (2) marketing; (3) research; (4) advertising; (5) retailer promotions; (6) festival promotions; and (7) educational seminars.

The 10-member Governor's Advisory Commission on Maryland Wine and Grape Growing consists of Legislative and Executive Branch officials, industry representatives, and a representative of the College of Agriculture and Natural Resources at the University of Maryland, appointed to three-year terms by the Governor. The commission must recommend to the Secretary of Agriculture the allocation of funds from MWGPF to specified projects. The commission must provide a forum to address issues relevant to wineries and grape growers, identify strategies to facilitate growth of viticulture of the State, study other states' policies on wine and grape industries, and issue an annual report to the Governor on the commission's findings and recommendations.

Alcoholic Beverage Tax

The alcoholic beverage tax rate for wine is \$0.40 per gallon, whereas the alcoholic beverage tax rate for beer and mead is \$0.09 per gallon. The alcoholic beverage tax rate for distilled spirits is generally \$1.50 per gallon. Generally, alcoholic beverage tax revenue is deposited into the general fund after making a distribution to an administrative cost account for costs associated with administering the alcoholic beverages tax laws. However, as noted above, alcoholic beverage tax revenue from wine produced at licensed wineries in the State is distributed to MWGPF.

State Fiscal Effect:

General Fund Revenues

The Comptroller advises that it lacks data on alcohol tax revenue generated by specific types of license holders to determine how much alcohol tax revenue the bill redirects from the general fund to MAMPF. However, the Department of Legislative Services notes that approximately 1% of the alcohol tax revenue from wine is currently distributed to MWGPF and approximately 16.6 million gallons of beer are produced at Maryland breweries. After accounting for alcohol tax revenue that is currently distributed to MWGPF and assuming approximately 1% of alcohol tax revenue from distilled spirits is distributed to MAMPF, and \$1.4 million of alcohol tax revenue attributable to breweries is distributed to MAMPF, general fund revenues decrease by approximately \$1.6 million annually beginning in fiscal 2023 (decreasing by \$1.7 million in fiscal 2027, assuming 1% growth in tax revenues).

Maryland Department of Agriculture

The fiscal 2023 budget, as enacted, includes \$200,000 in MDA to MWGPF, and special fund revenues to the fund from the alcohol tax on wineries are projected to be \$71,496 in fiscal 2023 with an estimated carryover fund balance of \$128,504 at the start of fiscal 2023. Thus, special fund revenues and expenditures for MDA decrease by \$200,000 in fiscal 2023 as a result of repealing MWGPF and transferring any remaining fund balance in MWGPF to MAMPF within Commerce. Special fund revenues and expenditures decrease in future years for MDA by the amount of alcohol tax on wine produced at wineries that is deposited to MWGPF, which is approximately \$72,000 annually.

Current law authorizes MDA to deduct up to 2% of proceeds paid into MWGPF for administrative purposes. However, MDA advises that it has not withdrawn funds for administrative expenses, and the one 0.5 full-time-equivalent staff who oversees MWGPF and staffs the Advisory Commission on Maryland Wine and Grape Growing will be reassigned to other responsibilities within MDA. Thus, despite the bill allowing for transfer

of any positions related to this commission and MWGPF to Commerce for ACMAM and MAMPF, this analysis assumes the part-time staff is maintained at MDA – all necessary files and records associated with the current program are transferred, however.

Commerce

The fiscal 2023 operating budget, specifically Supplemental Budget No. 4, includes \$250,000 in general funds for MAMPF within Commerce, contingent on the enactment of this bill or Senate Bill 698 of 2022. Special fund revenues and expenditures for Commerce increase by \$2.0 million in fiscal 2023, which accounts for the bill’s July 1, 2022 effective date. This estimate reflects the projected carryover balance in MWGPF, the budgeted MAMPF amount for fiscal 2023, the continued distribution of alcohol tax revenue from wineries – albeit to the fund in Commerce, and the newly mandated distribution of alcohol tax revenue from breweries and distilleries; these tax revenues are assumed to increase by 1% annually. Expenditures include the cost of hiring one fund advisor to administer MAMPF. The estimate includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses, along with \$1.9 million for grants to nonprofit organizations and State or local governments.

Position	1.0
Salary and Fringe Benefits	\$89,804
Grants	1,944,358
Operating Expenses	<u>7,608</u>
Total FY 2023 State Expenditures	\$2,041,770

Future year expenditures reflect annual increases and employee turnover as well as annual increases in ongoing operating expenses and grants of approximately \$1.6 million (a higher funding level for grants is available in the first year due to budgeted funds and transfer of fund balance from MWGPF).

Other State Agencies

To the extent that State agencies are recipients of MAMPF grants, special fund revenues and expenditures increase.

Local Fiscal Effect: Local revenues and expenditures increase beginning in fiscal 2023 to the extent that local jurisdictions apply for and are awarded grants.

Small Business Effect: Small businesses that are distilleries, wineries, and breweries may benefit from additional revenue due to promotional activities.

Additional Information

Prior Introductions: None.

Designated Cross File: SB 698 (Senator Zucker) - Education, Health, and Environmental Affairs.

Information Source(s): Department of Commerce; Comptroller's Office; Maryland Department of Agriculture; Governor's Office of Small, Minority, and Women Business Affairs; Alcohol and Tobacco Commission; Department of Legislative Services

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