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LICENSING AND REGULATORY AFFAIRS
CUSTOMER DRIVEN. BUSINESS MINDED.

House Regulatory Reform Committee

Representative Ray Franz
Chairman

Presentation by

Michigan Liquor Control Commission

Andy Deloney

Chairman

February 4, 2015

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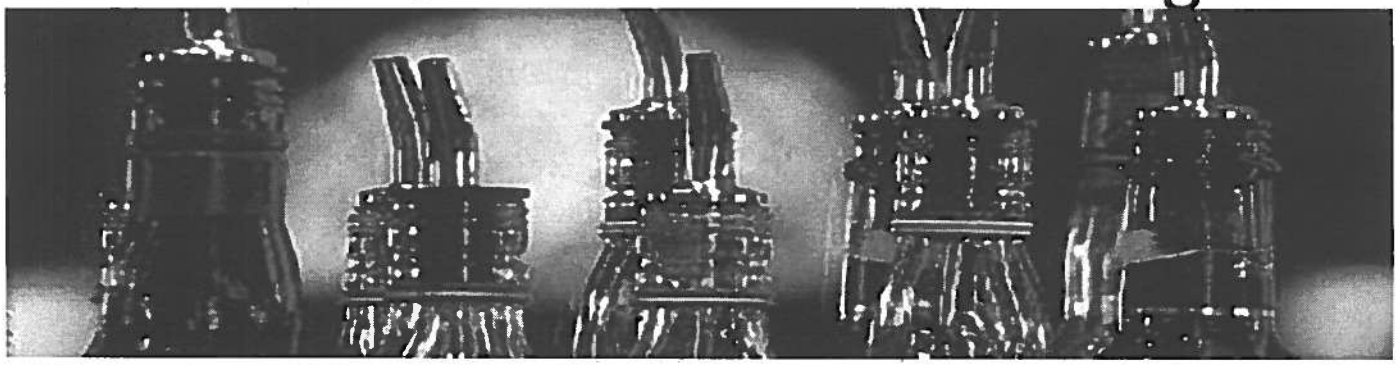
The **Michigan Liquor Control Commission** was created upon the repeal of Prohibition by the Legislature acting in special session in December of 1933.

The act creating it empowered the Commission to control all alcoholic beverage traffic within the state of Michigan.



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Under Article IV, Section 40, of the **Constitution of Michigan of 1963**, the Commission shall exercise complete control of the alcoholic beverage traffic within this state, subject to statute.

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The Michigan Liquor Control Commission is a **Type I agency** housed within the Department of Licensing and Regulatory Affairs (LARA).

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The mission of the Michigan Liquor Control Commission:

To make alcoholic beverages available for consumption while protecting the consumer and the general public through regulation of those involved in the sale and distribution of these alcohol beverage products.

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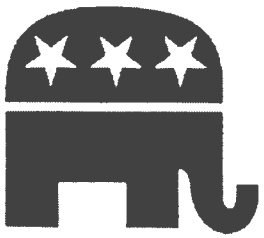
Under the Michigan Liquor Control Code, the Commission consists of **five (5) members** appointed by the Governor.

The five members each serve staggered **four-year terms**. No more than three of these members may be of the same political party.



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Two of the Commissioners are designated as **Hearing Commissioners** who preside over violation matters.

The other three are designated as **Administrative Commissioners** and act as an appeal board for decisions rendered by the hearing commissioners, and are also responsible for all matters pertaining to licensing, purchasing, merchandising, policy and enforcement.

The Governor designates one of the five Commissioners as the **Chairman**.

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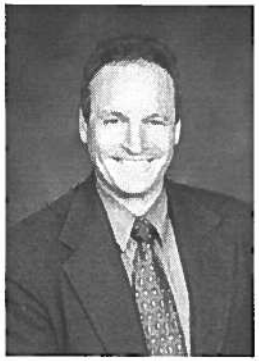

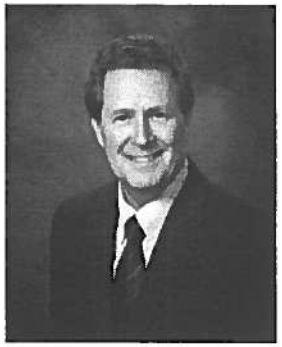

Currently the two Hearings Commissioners are:

Commissioner Ed Gaffney, Republican
(term expires June 2016)

Commissioner Ed Clemente, Democrat
(term expires June 2016)

The three Administrative Commissioners are:

Chairman Andy Deloney, Republican
(term expires June 2015)

Commissioner Dennis Olshove, Democrat
(term expires June 2018)

Commissioner Teri Quimby, Republican
(term expires June 2015)

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There are five (5) main functions of the Commission:

- Licensing
- Enforcement
- Hearings and Appeals
- Wholesale of distilled spirits products
- Revenue collection

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Licensing

This involves the annual processing of more than **10,400** applications for licenses and transfers, more than **17,100** renewals of existing retail-tier licenses, and more than **11,100** manufacturer-tier and wholesale-tier licenses). This includes licensing activity on all levels of the three-tier distribution system – retailers, wholesalers and manufacturers. There are presently approximately **15,219** retail businesses holding nearly **24,093** licenses in this state selling alcoholic beverages for on- or off-premises consumption. In addition, the Commission annually issues more than **7,200** special licenses (one-day licenses to non-profit organizations for special civic and charitable events, including political fund-raisers).

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Enforcement

The Commission enforces the Michigan Liquor Control Code and the Promulgated Rules of the Commission.

The Commission does not have enforcement authority over unlicensed entities, or over unlicensed areas and property.

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Hearings and Appeals

The Hearing Commissioners conduct hearings to adjudicate complaints of violations by licensed entities and assesses penalties prescribed by the liquor control code.

The Administrative Commissioners conduct appeal hearings regarding denials of license applications, appeals of violations, church and school hearings, show cause hearings, and any matters where an applicant or a licensee feels aggrieved by an official action of the Commission.

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Wholesale of distilled spirit products

As a "control state," the State of Michigan is the wholesaler of distilled spirit products.

The Commission purchases these products from the manufacturers and vendors and then sells them at wholesale to the licensed on- and off-premises retailers in the state. Prior to 1996, the State of Michigan operated wholesale warehouses throughout the state. By legislative action and approval by Gov. John Engler, the state outsourced the warehousing and delivery function of distilled spirit products to private authorized distribution agents (ADA).

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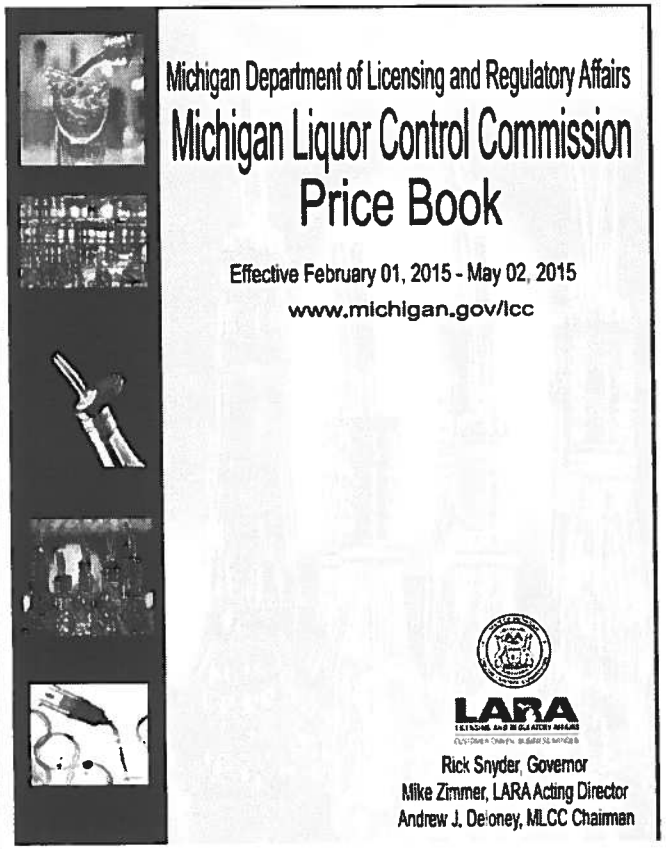

The Commission maintains the products list, and **all spirit products must be approved by the Commission** for inclusion on the list.

Michigan offers about **7,500** different spirit products, *far more* than any other control state.

Beer and wine are sold by the suppliers to **private beer and wine wholesalers**, who sell these products to licensed on- and off-premises retailers.

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Improvements to the Products List

The Commission has **improved** the use of instant rebate coupons for spirits, and modernized value-added products.

These changes make these products more marketable to our customers, resulting in **more sales and revenue to the state**.

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Products Sold by Michigan-licensed Small Distillers

Starting in January 2015, the Commission has created a special section in the products list of spirit products sold by Michigan-licensed small distillers. Currently, there are **more than 40 active small distiller licenses** in Michigan, and those licensees have **120 products** on the products list.

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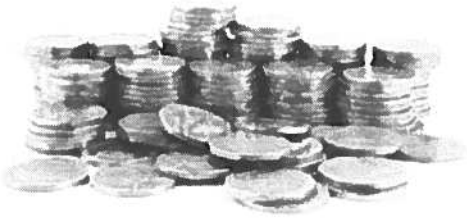
Revenue Collection

The beer and wine tax collection process was changed in 2014 by the Legislature to make the wholesale licensees responsible for the collection and payment of taxes, effective February 1, 2015.



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Fiscal Year 2012 Highlights

	Fiscal Year 2014	Change from 2013
Spirit Cases Sold	7,709,480	+2.3
Total Sales of Spirits	$1,153,000,427	+4.9
Net Profits from Spirit Sales	$171,506,959	+5.5
Spirit Taxes	$138,081,164	+4.9
Beer Taxes	$38,994,566	+1.3
Wine Taxes	$12,254,604	+0.7
License Fees	$16,156,510	+4.0
Sunday Morning Sales Fees	$1,376,281	+3.4
Fines and Penalties	$671,156	-0.3
TOTAL NET REVENUE	**$379,598,142**	**+4.5**

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Our focus at the Commission

Since my appointment and designation as Chairman, I have set the following main goals…

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Our focus at the Commission

1. A process of decision-making, governing and operating based on what the **statutes and the promulgated rules of the state allow** – and don't allow;
2. **Simple, fair, predictable, and certain processes** for licensing and permitting, giving more accountability and responsibility to applicants;
3. **Open and accountable** governance and operations;
4. A culture that fully enforces the laws of the state, but **fosters an environment** in which we work with our licensees, the regulated community, and the public to identify problems and develop solutions together;
5. An environment in which Commission **staff are able to share their ideas** and provide input.

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Our work is critical to the **reform and reinvention** of this state.

We have made numerous changes; some are very large in scope, some are much smaller, but all very important, to improve the licensing process.

And there's more in the works...

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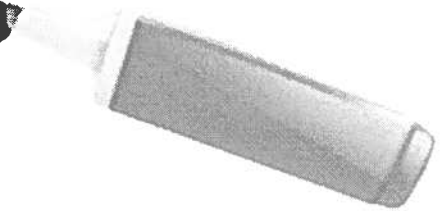
Licensing Process Reform Highlights



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- Initial creation of, and multiple expansions of, **consent agendas** for quick, oftentimes next-day approvals of many types of licenses, permits, and permissions. For this "invention," the Commission was awarded **LARA Reinventing Government Patent Award 2012-2**;
- Changes and consolidations of forms, resulting in the **elimination of more than 40 application and investigation forms;**
- **Complete elimination of numerous individual documents**, pieces of information, and other things that had been previously required, that are not required by the liquor control code or rules, that are not necessary;

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- **Detailed examination** of each single step of the licensing process, looking at what each individual employee is doing, why, and considering whether the individual tasks are necessary. The results of this work – which is ongoing – has already resulted in the elimination of backlogs.
- Consistent with **Governor Snyder's call for employee engagement**, whole menus of reforms in the areas of l, enforcement, hearings and appeals, manufacturing and wholesaling, and insurance – each made up entirely of staff!
- Enhanced 1-800 **customer phone line** to include voice prompts and phone tree, meaning customers talk to actual people, instead of being passed around from staff person to staff person.

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Commission licensing staff eliminated content in mailings, resulting in a **71 percent reduction in printing**.

This **saved more than $6,000** in printing and mailings alone.

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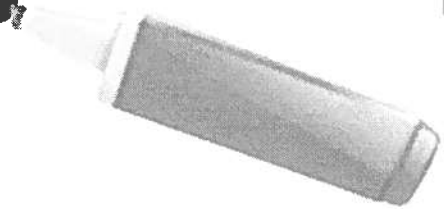
Enforcement Process Reform Highlights



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- Commission investigators established a **standard report template**, and a **standardized investigation process** that are now being utilized agency-wide.
- The template and standardized process provides consistency throughout the state, resulting in **more certainty for applicants**, and **shorter investigation periods**.
- Investigations had averaged 125 days in length, and are now 32 days in length – a **74 percent reduction!**

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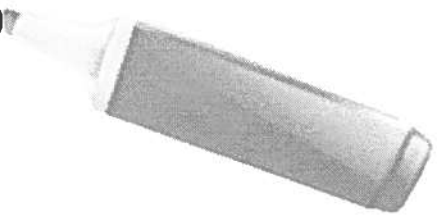
Technology Issues



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- A **continuing challenge** for the Commission is updating technology.
- Update to our COBOL-data based sales, purchasing, and inventory system for distilled spirits is **in the works**.
- When it comes to licensing, enforcement and other critical functions, we are largely **paper-centered**.
- Certainly we have certain internet-based capabilities, but they are **very limited**.
- Applications can be **printed but not submitted electronically**. The Commission is currently in the process of reviewing proposals received from an RFP so that a new, state-of-the-art electronic database system can be created. We know **what is possible** with updated technology for file and application management, investigation work, and other critical functions.

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So much more work needs to be done, and we are working daily on this critical effort.

More exciting reforms are in the works
even as we speak!

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The Three-Tier System

A part of Michigan's regulatory structure of beverage alcohol since the end of Prohibition.

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The liquor control code (MCL 436.1603) creates a three-tier system for the manufacture, distribution and retail sale of alcoholic beverages.

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The three tiers:

- The **manufacturing,** or supplier, tier
- The **wholesale** tier
- The **retail** tier

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In short, the statutory three-tier system, with certain exceptions, limits a person to inhabiting not more than one tier.

The code essentially states that a licensee in one tier "shall not have any direct or indirect interest" in a license in another tier.

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The Manufacturing, or Supplier, Tier

The liquor control code authorizes the Commission to issue numerous types of licenses in the supplier tier. The code authorizes these licensees to manufacture specific types of alcoholic beverages.

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The Wholesale Tier

The liquor control code authorizes the Commission to issue a wholesale license to a person for the purposes of wholesaling beer and wine.

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The Retail Tier

The liquor control code authorizes the Commission to issue numerous types of licenses in the retail tier, with two distinct divisions:

- on-premise retailer
- off-premise retailer

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Blending of the Tiers

Over the last few decades, the Legislature has authorized some "blending" of the tiers.

- Manufacturers have certain "on-premises" and distribution abilities.
- Retailers have certain manufacturing and supply abilities.

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Who to Contact at the MLCC

General Information:

- Phone: 866-813-0011
- Email: MLCCInfo2@michigan.gov
- Web: www.michigan.gov/lcc

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The Commission and our staff are ready to assist you!

We look forward to working with Chairman Franz and this committee in the 2015-16 legislative session.

Thank you!