

The Florida Senate
BILL ANALYSIS AND FISCAL IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

Prepared By: The Professional Staff of the Committee on Regulated Industries

BILL: CS/SB 186

INTRODUCER: Regulated Industries Committee and Senator Latvala

SUBJECT: Malt Beverages

DATE: February 18, 2015

REVISED: _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Oxamendi</u>	<u>Imhof</u>	<u>RI</u>	<u>Fav/CS</u>
2.	_____	_____	<u>CM</u>	_____
3.	_____	_____	<u>FP</u>	_____

Please see Section IX. for Additional Information:

COMMITTEE SUBSTITUTE - Substantial Changes

I. Summary:

CS/SB 186 revises the requirements for qualifying as a vendor-licensed brewer. The bill authorizes the division to issue vendor's licenses to a manufacturer of malt beverages for the sale of alcoholic beverages on property consisting of a single complex that includes a brewery. It deletes the requirement that the licensed property must include "other structures which promote the brewery and the tourist industry of the state" in order to be eligible to be a vendor-licensed brewer. It also deletes the requirement that the property may be divided by no more than one public street or highway.

The bill limits the amount of malt beverages that can be transferred between breweries owned by the same brewer to 100 percent of the yearly production of the receiving brewery. The bill provides that all malt beverages and other alcoholic beverages that are not manufactured at a brewery owned by the brewer must be obtained through a distributor, an importer, sales agent, or broker. The bill also prohibits vendor-licensed brewers from making deliveries.

The bill deletes the prohibition against malt beverage tastings at locations licensed for off-premises sales only. It permits malt beverage tastings on the licensed premises of any vendor authorized to sell alcoholic beverages by the drink for consumption on the premises. A vendor authorized to sell alcoholic beverages only in sealed containers for consumption off the premises may have malt beverage tastings if: the premises has at least 10,000 square feet of interior space or the premises is a package store with a quota license that is licensed for off-premises sales only. The malt beverages tastings must be limited to and directed to members of the general

public of the age of legal consumption. The bill clarifies that vendors may conduct malt beverage tastings on their licensed premises with beverages from their own inventory.

The bill permits the filling and refilling of 32, 64, and 128 ounce malt beverage containers (known as “growlers”) at the point of sale. Current law does not permit the 64 ounce malt beverage container. The 32, 64, or 128 ounce malt beverage container may be filled at the point of sale by vendor- licensed brewers, vendor who hold a quota alcoholic beverage license for the sale of beer, wine, and liquor only in sealed containers for consumption off the premises, and vendors licensed to sell for consumption on the licensed premises, unless such license restricts the consumption of malt beverages to the premises only.

The bill requires that the growler must identify or be imprinted or labeled with information specifying the manufacturer, the brand of the malt beverage, and the anticipated percentage of alcohol by volume. The container must also have an unbroken seal or be incapable of being immediately consumed.

It provides that a violation of the provisions in the bill is a first degree misdemeanor. It also authorizes the Division of Alcoholic Beverage and Tobacco with the Department of Business and Professional Regulation to impose a fine of up to \$250 per violation.

II. Present Situation:

In Florida, alcoholic beverages are regulated by the Beverage Law,¹ which regulates the manufacture, distribution, and sale of wine, beer, and liquor by manufacturers, distributors, and vendors.² The Division of Alcoholic Beverages and Tobacco (division) within the Department of Business and Professional Regulation (department) administers and enforces the Beverage Law.³

Three Tier System

In the United States, the regulation of alcohol, since the repeal of Prohibition, has traditionally been through what is termed the “three-tier system.” The system requires that the manufacture, distribution, and sale of alcoholic beverages be separated. Retailers (vendors) must buy their products from distributors who in turn buy their products from the manufacturers. Manufacturers cannot sell directly to retailers or directly to consumers. The system is deeply rooted in the perceived evils of the “tied house” in which a bar is owned or operated by a manufacturer or the manufacturer exercises undue influence over the retail vendor.⁴

In the three-tier system, each license classification has clearly delineated functions. For example, in Florida, distributors are licensed to sell and distribute alcoholic beverages at wholesale to persons who are licensed to sell alcoholic beverages at retail.⁵ Only licensed vendors are

¹ The Beverage Law means chs. 561, 562, 563, 564, 565, 567, and 568, F.S. *See* s. 561.01(6), F.S.

² *See* s. 561.14, F.S.

³ Section 561.02, F.S.

⁴ Erik D. Price, *Time to Untie the House? Revisiting the Historical Justifications of Washington’s Three-Tier System Challenged by Costco v. Washington State Liquor Control Board*, a copy can be found at: http://www.lanepowell.com/wp-content/uploads/2009/04/pricce_001.pdf (last visited January 23, 2015).

⁵ Section 561.14(2), F.S.

permitted to sell alcoholic beverages directly to consumers at retail.⁶ Vendors are limited to purchasing their alcoholic beverage inventory from licensed distributors, manufacturer, or bottler.⁷ Licensed manufacturers, distributors, and registered exporters are prohibited from being licensed as vendors.⁸ In addition from being prohibited from having an interest in a vendor, manufacturers are also prohibited from distributing directly to a vendor other than to a vendor licensed under s. 561.221(2), F.S.⁹ However, a manufacturer of wine may be licensed as a distributor.¹⁰

There are some exceptions to this regulatory system. The exceptions include allowing beer brew pubs to manufacture malt beverages and to sell them to consumers,¹¹ allowing individuals to bring small quantities of alcohol back from trips out-of-state,¹² and allowing in-state wineries to manufacture and sell directly to consumers.¹³

Exception for Vendor-licensed Malt Beverage Manufacturers

There are two license options that permit malt beverage manufacturers to sell malt beverages directly to consumers. Section 561.221(2), F.S., permits a manufacturer of malt beverages to be licensed as a vendor, even if the manufacturer is also licensed as a distributor. To qualify for a vendor license, the manufacturer's property must consist of a single complex that includes a brewery and other structures that promote the brewery and the tourism industry of the state. The property may be divided by no more than one public street or highway. This type of license does not limit the amount of malt beverages that may be manufactured. It also does not limit the type of vendor license that the manufacturer may obtain, e.g., a license to sell beer, wine and liquor, and licenses that permit package sales of other alcoholic beverages.

Section 561.221(3), F.S., permits a vendor to also be licensed as a manufacturer of malt beverages if the vendor is engaged in brewing malt beverages at a single location in an amount that does not exceed 10,000 kegs per year.¹⁴ The malt beverages must be sold to consumers for consumption on the vendor's licensed premises or on contiguous licensed premises owned by the vendor. These vendors are known in the industry as "brew pubs."

⁶ Section 561.14(3), F.S. However, see discussion regarding the exceptions provided in s. 561.221, F.S.

⁷ Section 561.14(3), F.S. Vendors may buy from vendors in a pool buying group if the initial purchase was by a single purchase by a pool buying agent.

⁸ Section 561.22, F.S.

⁹ Section 563.022(14), F.S.

¹⁰ Section 561.221(1)(a), F.S.

¹¹ See s. 561.221(2), F.S., which permits the limited manufacture of beer by vendors (brew pubs).

¹² See s. 562.16, F.S., which permits the possession of less than one gallon of untaxed alcoholic beverages when purchased by the possessor out-of-state in accordance with the laws of the state where purchased and brought into the state by the possessor.

¹³ See s. 561.221, F.S.

¹⁴ Section 561.221(3)(a)1., F.S., defines the term "keg" as 15.5 gallons.

Vendor Licenses

Section 561.20, F.S., limits the number of alcoholic beverage licenses that permit the sale of liquor¹⁵ along with beer and wine that may be issued per county. The number of licenses is limited to one license per 7,500 residents within the county. These limited alcoholic beverage licenses are known as “quota” licenses. New quota licenses are created and issued when there is an increase in the population of a county. The licenses can also be issued when a county initially changes from a county which does not permit the sale of intoxicating liquors to one that does permit their sale. The quota license is the only type of alcoholic beverage license that is limited in number.

Section 565.02(1)(a)-(f), F.S., prescribes the license taxes for vendors who are permitted to sell any alcoholic beverages, including beer, wine and distilled spirits, regardless of alcoholic content.

On-Premises or Off-Premises Consumption Alcoholic Beverage Licenses

Section 563.02, F.S., distinguishes between places of business where a vendor is licensed to only sell malt beverages for on-premises consumption¹⁶ and places of business where such on-premises consumption is permitted.¹⁷ According to the department, vendors licensed to sell malt beverages for on-premises consumption can also sell alcoholic beverages in sealed containers for the customer to take away from the licensed premises for off-premises consumption. Vendors licensed to sell malt beverages for consumption “only” on the licensed premises are not permitted to sell alcoholic beverages for off-premises consumption.¹⁸ The license fee for a license that does not permit the sale of alcoholic beverages in sealed containers for off-premises consumption is 50 percent less than the license fee for a license that permits the sale of sealed containers for off-premises consumption.¹⁹

Vendors licensed under s. 564.02(1)(a), F.S., to sell malt beverages, wine, and fortified wine may only sell the beverages for consumption off the premises. Similarly, vendors licensed under s. 565.02(1)(a), F.S., to sell any alcoholic beverages (which includes liquor), may only sell the beverages in sealed containers for consumption off the premises. The license fees for these vendors are 50 percent and 75 percent of the license fee, respectively, compared to the fee for a license that permits the sale of sealed containers for consumption on and off the premises.

According to alcoholic beverage industry representatives and a representative for the division, vendors with on-premises licenses routinely fill containers with a malt beverage and seal them for customers to take off-premises for later consumption. They note that current law does not prohibit this practice. The vendors typically seal the beverage container before the consumer

¹⁵ Section 565.01, F.S., defines liquor as “[t]he words “liquor,” “distilled spirits,” “spirituous liquors,” “spirituous beverages,” or “distilled spirituous liquors” mean that substance known as ethyl alcohol, ethanol, or spirits of wine in any form, including all dilutions and mixtures thereof from whatever source or by whatever process produced.”

¹⁶ See s. 563.02(1)(a), F.S.

¹⁷ See s. 563.02(1)(b)-(f), F.S.

¹⁸ For example, the brew pub exemption under s. 561.221(3), F.S., permits sales for consumption only on the premises, but not sales for consumption off the premises.

¹⁹ See s. 563.02(1)(a), F.S.

leaves the premises so that the consumer will not violate any local ordinances that prohibit the carrying in public of open containers of alcoholic beverages or the state-law prohibition against the possession of open containers of alcoholic beverages in vehicles.²⁰ The beverage law does not define the term “sealed container.”

In 1995, the department repealed a rule which explicitly stated that an on-premises malt beverage licensee could sell malt beverages, for consumption off-premises, in “sealed containers” and could also sell wine and distilled spirits in the “original sealed containers as received from the distributor.”²¹

Malt Beverage Containers

Section 563.06(6), F.S., requires that all malt beverages that are offered for sale by vendors must be packaged in individual containers containing no more than 32 ounces (one quart). However, malt beverages may be packaged in bulk, kegs, barrels, or in any individual container containing one gallon or more of a malt beverage regardless of individual container type.

Prior to 2001, s. 563.06(6), F.S., provided that malt beverages could be sold by vendors only in 8, 12, 16, or 32-ounce individual containers. Chapter 2001-78, L.O.F., amended that section to allow vendors to sell malt beverages in individual containers of “no more than 32 ounces.”²² The current provision that allows containers of one gallon or more was unaffected by that amendment.

Section 563.06 (7), F.S., provides that any person, firm, or corporation, its agents, officers or employees, violating any of the provisions of s. 563.06, F.S., is guilty of a misdemeanor of the first degree, punishable as provided in s. 775.082 or s. 775.083, F.S.²³ It also provides that the license, if any, shall be subject to revocation or suspension by the division.

Growlers

Some states permit vendors to sell malt beverages in containers known as “growlers,”²⁴ which typically are reusable containers of between 32 ounces and one gallon that the consumer can fill with the vendor’s malt beverage for consumption off the licensed premises. According to a representative for several vendors who manufacture malt beverages, the national standard size for a growler is 64 ounces. Florida law does not permit the use of a 64-ounce growler, i.e., 64-ounce malt beverage containers.

²⁰ Section 316.1936, F.S.

²¹ Rule 7A-1.008, F.A.C., as amended on March 10, 1985. This rule was subsequently transferred to rule 61A-1.008, F.A.C., and then repealed on July 5, 1995.

²² See also *Review of the Malt Beverage Container Size Restrictions*, Interim Report No. 2000-65, Florida Senate Committee on Regulated Industries, September 1999.

²³ Section 775.082, F.S., provides that the penalty for misdemeanor of the first degree is punishable by a term of imprisonment not exceeding one year. Section 775.083, F.S. provides that the penalty for misdemeanor of the first degree is punishable by a fine not to exceed \$1,000.

²⁴ The term “growlers” is derived from the late 1800s and early 1900s practice in which fresh beer was carried from the local pub to one's home by means of a small-galvanized pail. When the beer sloshed around the pail, it created a rumbling sound as the carbon dioxide escaped through the lid. See “*The Growler: Beer-to-Go!*,” *Beer Advocate* (July 31, 2002). A copy of the article is available at: <http://beeradvocate.com/articles/384> (Last visited January 13, 2014).

Deliveries by Vendors

Section 561.57(1), F.S., permits all vendors to make deliveries away from their places of business of sales actually made at the licensed place of business. Telephone or mail orders received at vendor's licensed place of business are construed as a sale actually made at the vendor's licensed place of business. However, deliveries made by a vendor away from his or her place of business may only be made in vehicles which are owned or leased by the licensee. By acceptance of an alcoholic beverage licensee, the vendor is presumed to agree to the inspection of such without a search warrant for the purpose of ascertaining that all provisions of the alcoholic beverage laws are complied with.²⁵

Tied House Evil Prohibitions

Section 561.42(1), F.S., prohibits a licensed manufacturer or distributor from assisting any vendor by any gifts or loans of money or property of any description or by the giving of any rebates of any kind whatsoever. Specifically, s. 561.42(1), F.S., provides in part:

No licensed manufacturer or distributor of any of the beverages herein referred to shall have any financial interest, directly or indirectly, in the establishment or business of any vendor licensed under the Beverage Law; nor shall such licensed manufacturer or distributor assist any vendor by any gifts or loans of money or property of any description or by the giving of any rebates of any kind whatsoever. No licensed vendor shall accept, directly or indirectly, any gift or loan of money or property of any description or any rebates from any such licensed manufacturer or distributor; provided, however, that this does not apply to any bottles, barrels, or other containers necessary for the legitimate transportation of such beverages or to advertising materials and does not apply to the extension of credit, for liquors sold, made strictly in compliance with the provisions of this section. (Emphasis supplied.)

Section 561.42(8), F.S., authorizes the division to establish rules and require reports to enforce limitation on credits and other forms of assistance. This rulemaking authority does not extend to cash deposits on beer sales, as provided in s. 563.08, F.S.

Section 561.42, F.S., defines the types of items or services that may be provided to vendors. For example, s. 561.42(10), F.S., prohibits manufacturers, distributors, importers, primary American sources of supply,²⁶ or brand owners or registrants, or their brokers, sales agents or sales persons, from directly or indirectly giving, lending, renting, selling, or in any other manner furnishing to a vendor any outside sign, printed, painted, electric, or otherwise.

²⁵ Section 561.57(2), F.S.

²⁶ Section 564.045(1), F.S., defines the term "primary American source of supply" as the: manufacturer, vintner, winery, or bottler, or their legally authorized exclusive agent, who, if the product cannot be secured directly from the manufacturer by an American distributor, is the source closest to the manufacturer in the channel of commerce from whom the product can be secured by an American distributor, or who, if the product can be secured directly from the manufacturer by an American distributor, is the manufacturer. It shall also include any applicant who directly purchases vinous beverages from a manufacturer, vintner, winery, or bottler who represents that there is no primary American source of supply for the brand and such applicant must petition the division for approval of licensure.

Alcoholic Beverage Tastings

Section 561.42(14)(e), F.S., prohibits sampling activities that include the tasting of beer at a vendor's premises that is licensed for off-premises sales only. This prohibition applies to manufacturers, distributors, importers, brand owners or brand registrants of beer, and their sales agents or sales persons.

Section 564.08, F.S., permits licensed wine distributors and vendors to conduct wine tastings at any licensed premises authorized to sell wine or spirituous beverages by package or for consumption on premises without violating s. 561.42, F.S., provided that the conduct of the wine tasting is limited to and directed toward the general public of the age of legal consumption.

Section 565.17, F.S., permits licensed distributors of spirituous beverages and vendors to conduct spirituous beverage tastings at any licensed premises authorized to sell spirituous beverages by package or for consumption on premises without violating s. 561.42, F.S., provided that the conduct of the spirituous beverage tasting is limited to and directed toward the general public of the age of legal consumption.

III. Effect of Proposed Changes:

Vendor-Licensed Brewers

The bill amends s. 561.221(2), F.S., to revise the requirements for qualifying as a vendor-licensed brewer. The bill clarifies that the exemption for vendor-licensed brewers in s. 561.221(2), F.S., is notwithstanding the prohibitions in ss. 561.22 and 561.42, F.S., or any other provision in the Beverage Law.

The bill authorizes the division to issue vendor's licenses to a manufacturer of malt beverages for the sale of alcoholic beverages on property consisting of a single complex that includes a brewery. The bill deletes the requirement that a brewery must include "other structures which promote the brewery and the tourist industry of the state" in order to be eligible to be a vendor-licensed brewer. It also deletes the requirement that the property may be divided by no more than one public street or highway.

The bill amends s. 561.221(2), F.S., to limit the amount of malt beverages that can be transferred in a manufacturer-to-manufacturer transfer, as provided in s. 563.022(14)(d), F.S., to 100 percent of the yearly production of the receiving brewery. The bill also provides that all malt beverages and other alcoholic beverages that are not manufactured at a brewery owned by the brewer must be obtained through a distributor, an importer, sales agent, or broker. This requirement is the same as current law.²⁷

The bill also prohibits vendor-licensed brewers from making deliveries under s. 561.57(1), F.S.

²⁷ See 561.14(3), F.S.

Malt Beverage Tastings

The bill amends s. 561.42(14)(e), F.S., to repeal the prohibition against malt beverage tastings at locations licensed for off-premises sales only. The bill permits a manufacturer, distributor, importer, or contracted third-party agent thereof, to conduct malt beverage tastings to be held on:

- The licensed premises of any vendor authorized to sell alcoholic beverages by the drink for consumption on premises; or
- The licensed premises of any vendor authorized to sell alcoholic beverages only in sealed containers for consumption off premises if:
 - The licensed premises has at least 10,000 square feet of interior floor space exclusive of storage space; or
 - The licensed premises is a package store licensed under s. 565.02(1)(a) F.S.

The malt beverages tastings must be limited to and directed to members of the general public of the age of legal consumption.

The bill provides that s. 561.42(14)(e), F.S., does not preclude a vendor, including a vendor or manufacturer licensed under s. 561.221(2) or (3), F.S., from conducting a malt beverage tasting on its licensed premises with beverages from their own inventory.

Growler Sales

The bill creates s. 563.0614, F.S., to provide for the filling and refilling of growlers, including 32, 64, and 128 ounce growlers, by specified vendors.

Section 563.0614(1), F.S., permits malt beverages to be packaged in individual containers of 32 ounces, 64 ounces, or 128 ounces if the container is filled at the point of sale by any of following licensees:

- Vendor- licensed brewers licensed pursuant to s. 561.221(2), F.S.;
- Vendors holding a quota license under ss. 561.20(1) and 565.02(1)(a), F.S., i.e., vendors licensed to sell alcoholic beverages only in sealed containers for consumption off the premises; and
- A vendor holding a license under s. 563.02(1)(b)-(f), s. 564.02(1)(b)-(f), or s. 565.02(1)(b)-(f), F.S., which authorize consumption of malt beverages on the premises, unless such license restricts the consumption of malt beverages to the premises only.

Vendors licensed to sell beverages only for off premises consumption would not be authorized to sell growlers.

Section 563.0614(4), F.S., requires that the growler must identify or be imprinted or labeled with information specifying:

- The manufacturer;
- The brand of the malt beverage; and
- The anticipated percentage of alcohol by volume.

The bill also requires that the container have an unbroken seal or be incapable of being immediately consumed.

The bill provides that a violation of the provisions in s. 563.0614, F.S., are a first degree misdemeanor.²⁸ It also authorizes the division to impose a fine of up to \$250 for a violation.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Fiscal Impact Statement:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

None.

C. Government Sector Impact:

According to the Department of Business and Professional Regulation (department), the bill requires minimal increase in the department's workload which can be absorbed within existing resources.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Statutes Affected:

This bill amends sections 561.221 and 561.42, Florida Statutes.
This bill creates section 563.0614, Florida Statutes.

²⁸ *Supra* at n. 23.

IX. Additional Information:

- A. **Committee Substitute – Statement of Substantial Changes:**
(Summarizing differences between the Committee Substitute and the prior version of the bill.)

CS by Regulated Industries Committee on February 18, 2015:

The committee substitute (CS) is substantively different from SB 186 as follows:

The CS amends s. 561.221(2), F.S., to provide that the division may issue a vendor's license to a manufacturer of malt beverages for the sale of alcoholic beverage on property consisting of a single complex that includes a brewery. It deletes the requirements that property must include "other structures which promote the brewery and the tourist industry of the state" and the requirement that the property may be divided by no more than one public street or highway.

The CS also amends s. 561.221(2), F.S., to limit the amount of malt beverages that can be transferred in a manufacturer-to-manufacturer transfer, as provided in s. 563.022(14)(d), F.S., to 100 percent of the yearly production of the receiving brewery. The CS provides that all malt beverages and other alcoholic beverages that are not manufactured at a brewery owned by the brewer must be obtained through a distributor, an importer, sales agent, or broker. The CS also prohibits vendor-licensed brewers from making deliveries under s. 561.57(1), F.S.

The CS amends s. 561.42(14)(e), F.S., to repeal the prohibition against malt beverage tastings at locations licensed for off-premises sales only. It permits malt beverage tastings at locations licensed for on-premises consumption and off-premises consumption. It provides that a vendor authorized to sell alcoholic beverages only in sealed containers for consumption off the premises may have malt beverage tastings if the premises has at least 10,000 square feet of interior space or the premises is a package store with a quota license that is licensed for off-premises sales only. The malt beverages tastings must be limited to and directed to members of the general public of the age of legal consumption. The CS bill clarifies that vendors may conduct malt beverage tastings on their licensed premises with beverages from their own inventory.

The CS amends s. 563.0614(2), F.S., to require the labeling of the anticipated percentage of alcohol by volume.

- B. **Amendments:**

None.