

Liquor Distribution in Alabama



Certified Public Manager® Program
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Certified Public **Manager**® Training

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The research, findings, and recommendations presented in this white paper do not represent the views of any agency or organization, but rather the collective educational research and analysis from a diverse team of participants in the Certified Public Manager training program.

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Introduction

The Alabama Alcohol Beverage Control Board has been regulating liquor in the state since 1937. Alabama is one of seventeen states that has implemented a control model that regulates liquor distribution, licensing, and sales. Alabama adopted a hybrid control model in which the state controls the wholesale distribution, as well as the retail distribution of alcohol. The distribution is accomplished through the operation of retail ABC stores throughout the state. Our Solutions Alabama team was tasked with examining the history and economic impact of Alabama's liquor distribution model for the citizens of Alabama in comparison to models of surrounding states, and recommend any strategies to further positively impact the citizens of Alabama. In this process, our team interviewed multiple subject matter experts and stakeholders, while conducting our own research and analysis of this topic.

History

The manufacturing, transportation, selling and importing of alcohol in the United States was prohibited for a period of 14 years from 1919-1933. However, Alabama enacted its Prohibition in 1907 (Downs, 2019). Prohibition, also referred to as the "Noble Experiment" was the only time in the nation's history when an Amendment to the U.S. Constitution was repealed (Rosenberg, 2019). The purpose of prohibition was to eliminate problems that were considered to be the result of alcohol consumption. Problems such as violence, accidents in the workplace, and husbands spending their income on alcohol were considered to be society's ills that were all blamed on the consumption of alcohol.

Despite the fact that alcohol sales and production were outlawed by the 18th Amendment, it did not outlaw the consumption. A number of illegal moonshine stills were built across Alabama. Some moonshine stills contained lead toxins, embalming fluid, and creosote resulting in the blindness, paralysis, and death of consumers in some cases (Hanson, 2019). Instead of restoring morale, the Noble Experiment created more problems that involved bootlegging, smuggling, deaths, corrupt politicians and law enforcement agencies (Hanson, 2019). The law also deprived the state of tax revenue, while causing increased spending for the enforcement of prohibition. Law enforcement, court costs, and jail costs were at the burdens of the taxpayers (Hanson, 2019). Prohibition was abolished by the ratification of the 21st Amendment to the United States Constitution by repealing the 18th Amendment in 1933, ushering in an end of prohibiting alcohol in the United States (Editors, 2010).

Once the federal government was relinquished of its authority over alcohol sales and distribution of alcohol in America, it was then handed over to the state and local governments to decide how to regulate alcohol within its borders.

The liquor control models in the United States can be divided into two categories: license jurisdictions or control jurisdictions. The National Conference of State Liquor Administrators (2020) defines license jurisdictions as private businesses that conduct wholesale and retail sales of distilled spirits, wine, and malt beverages. A control state, which is usually government run, conducts the wholesale sales and distribution of distilled spirits. A good number of these control states also control the retail package sales, which makes them considered hybrid. There are 35 license states and 17 control states in the United States (National Conference of State Liquor Administrators, 2020).

“The Alabama Alcoholic Beverage Control Board was established by the passage of the Alabama Beverage Control Act in February 1937. Title 28, Chapter 3, Section 2 of the Alabama Alcoholic Beverage Control Act provided for a police power for the “protection of the public welfare, health, peace and morals” of the people of Alabama and prohibited transactions in liquor, alcohol, malt and brewed beverages, taking place within the State, except by and under control of the Board.” (State of Alabama Alcoholic Beverage Control Board Annual Report, 2017-2018, p. 5).

“The ABC Board controls alcoholic beverages through controlled distribution, licensing, regulation, law enforcement, and education” in Alabama (State of Alabama Alcoholic Beverage Control Board Annual Report, 2017-2018, p. 5). “It is the ABC Board’s goal to maintain a safe, reliable, and efficient distribution network of controlled products, while maintaining an extremely professional level of public safety programs to insure responsibility in the distribution, possession and consumption of these products” (State of Alabama Alcoholic Beverage Control Board Annual Report, 2017-2018, p. 5).

Mississippi

Mississippi controls the wholesale distribution of alcohol to private retailers, who in turn sell to consumers (Department of Revenue State of Mississippi, n.d.). Mississippi state law requires localities to opt in for the sale of alcoholic beverages within their county jurisdiction. As of 2015, there are approximately 34 (of 82 total) counties that are dry counties, the remaining counties are considered wet counties (Department of Revenue State of Mississippi, n.d.). In the counties that allow the sale of alcohol, the alcohol sales are not permitted to be sold in convenience and grocery stores. However, beer and light wine are permitted.

During fiscal year 2017-2018, Mississippi's alcohol model generated \$114 million, which includes product mark up, licenses, fees, and tax. Mississippi has a single distribution warehouse located in South Madison County (Annual Report, 2018, p. 111). According to population estimates from the US Census Bureau, Mississippi's population in 2018 was 2,976,149 (State Population Totals, 2010-2019). Funds distributed per capita in 2018 were \$38.38. A report from February 2019 showed that three million cases of spirits and wines were distributed throughout the state (NABCA, 2020). Currently the tax per standard drink is as follows: spirits \$0.044, wine \$0.087 and beer \$0.040. State law requires the state to mark up the wholesale price by 27.5% which generates the state about \$32,000,000 in revenue annually. According to Mississippi's 2019 Annual Report (NABCA, 2020), alcohol sales attributed to 1.41% of the state's general fund. The revenue is distributed into four categories, sales tax (22%), Department of Mental Health (6.8%), Municipalities and Counties (2.7%), and the General Fund (68.5%) (NABCA, 2020).

Georgia

The distribution of alcohol in Georgia is controlled by the Georgia Department of Revenue (GDOR) and its three-tier system. The system operates like a pyramid beginning with a few large suppliers, through a wholesale middle stage and ending with a wide range of retailers (Smith, 2019). GDOR contains the Licensing and Permits Unit which accepts and reviews applications for alcoholic beverages and tobacco products from importers, retailers, manufacturers and wholesalers (Revenue, Alcohol Licenses & Permits, 2020). Any person desiring to sell, manufacture or distribute alcoholic beverages must apply for a license which will include the forfeiture of personnel statements, their employees and applicable certificates (Georgia, 2020). As of December 2014, there were 13 (of 159 total) dry counties in Georgia with the other wet counties (NABCA Research, 2014). Georgia law gives the county the deciding authority of alcohol sales, with wet sales allowed in dry counties. Dry counties do allow the sale of beer and wine.

Georgia wholesalers are operated by a few private entities who apply for a license through the Georgia Secretary of State's office and furnish a copy of the lease agreement, keep inventory records on premises, and keep alcoholic beverages separate from any other products sold by wholesaler (Georgia R. a., 2020). According to the Georgia Department of Revenue 2018 Fiscal Report, Alcohol Beverage Tax revenues totaled \$195.7 million (Annual Statistical Report, 2018, p. 7). According to population estimates from the US Census Bureau, Georgia's population in 2018 was 10,511,131 (State Population Totals, 2010-2019). Funds distributed per capita in 2018 were \$18.58. Currently the tax per standard drink is as follows: malt beverages

\$1.08 per standard case of twenty-four, twelve-ounce cans; table wines, eleven cents per liter for instate wines; out of state forty cents per liter. Out of state distilled spirits \$1.40 per liter, in state seventy cents per liter (Revenue, FY2019 Statistical Report, 2019).

Tennessee

In 1838, Tennessee became the first state in the US to pass a prohibition law. It would be a misdemeanor to sell alcoholic beverages from stores or taverns. The 18th amendment enacted a nationwide prohibition in 1917. Prohibition was then repealed by the 21st amendment in 1933 (Glass, 2009). The Tennessee Alcoholic Beverage Commission was established in 1963 to enforce the liquor laws and rules of Tennessee (DeBusk, 1998). Tennessee has a licensing model for distributing alcoholic beverages. Licensed retailers may only purchase alcoholic beverages from a licensed wholesaler, who may only purchase alcoholic beverages from a licensed manufacturer/importer, and neither a licensed manufacturer/importer, nor licensed wholesaler may sell alcohol beverages to a consumer (Tennessee Department of Revenue, 2020).

Tennessee Department of Revenue imposes three different taxes on alcoholic beverages manufactured or distributed in the state: 1) a brand registration/registration renewal tax, 2) an alcoholic beverage gallonage tax, and 3) an alcoholic beverage wholesale tax (Tennessee Department of Revenue, 2020). The brand registration/brand renewal tax is levied on every alcoholic beverage brand distributed in the state and each are required to be registered with the Tennessee Department of Revenue. The manufacturer/importer pays \$250 per brand of distilled spirits, \$250 per brand for 50+ cases distilled spirits annually, and \$100 per brand for less than 50 cases distilled spirits annually. An alcoholic beverage gallonage tax is levied on every gallon of alcoholic beverage sold or distributed in the state. This tax is usually paid by wholesale distributors. The tax rate is \$4.40 per gallon of distilled spirits

with alcohol content of more than 7% and \$1.10 per gallon of alcoholic beverages with alcohol content of 7% or less, paid monthly. An alcoholic beverage wholesale tax is imposed at a rate of \$0.15 monthly, on each case of alcoholic beverages sold at wholesale in the state. Wholesalers are responsible for paying this tax (Tennessee Department of Revenue, 2020). Tennessee also has a liquor-by-the-drink tax. The liquor-by-the-drink tax rate is 15% of the sales price of all alcoholic beverages sold for consumption on the premises and is paid for by the consumer (Tennessee Department of Revenue, 2020).

According to Tennessee Department of Revenue Annual Report 2017-2018, Tennessee's alcohol licensing control model generated \$203,575,064 with a revenue per capita of \$30.06. During fiscal year 2018-2019, Tennessee Department of Revenue reported their alcohol licensing control model generated an economic impact of over \$222 million for the state coffers, composed of the following taxes:

- Liquor by the drink tax in Tennessee for fiscal year 2018-2019 generated \$134 million and was used to fund education and local municipalities.
- The alcohol beverage tax in Tennessee for fiscal year 2018-2019 generated \$71 million and primarily funded the state's general fund.
- Beer taxes in Tennessee for fiscal year 2018-2019 generated \$17 Million, which also funded the general fund, transportation/litter control and local municipalities.

Alabama

Through the Alabama Alcoholic Beverage Control (ABC) Board, sales of liquor are regulated by a hybrid control model, meaning that the control model contains various elements from different control models. All liquor manufacturers must sell their product to the ABC Board (Annual Report, 2017-2018, p. 5). The Board then marks up and wholesales product to state-controlled ABC stores, which then sells to consumers (Annual Report, 2017-2018, p. 7). Alabama allows wholesale sales from ABC stores as well (Annual Report, 2017-2018, p. 11). The Board also permits the operation of private retail liquor stores (About Us, 2020). The ABC Board licenses the sale of alcohol through its Licensing and Compliance Division. All retail establishments offering sale of alcohol must be approved for a license before operating. License fees vary and are subject to the type of business (Licensing & Compliance, 2020). The Licensing and Compliance Division of ABC offers education to the public regarding the effects of alcohol consumption (Annual Report, 2017-2018, p. 13).

Profits from the licensing of establishments as well as from the wholesale and retail sales of liquor are distributed to various state agencies who provide numerous services for the citizens of Alabama. According to the ABC Board's Annual Report for fiscal year 2017-2018, resources generated by the Board totaled \$263,049,360.54 (Annual Report, 2017-2018, p. 20). According to population estimates from the US Census Bureau, Alabama's population in 2018 was 4,887,681 (State Population Totals, 2010-2019). Funds distributed per capita in 2018 were \$53.82. From fiscal year 2014-2015 through fiscal year 2017-2018, total distributions from the ABC Board were \$995,438,768.06, an average of \$248,859,692.02 per year.

Revenue Comparison by State for 2017-2018

Table 1: State Comparison

State	Control Model	Revenue Generated	\$ Per Capita
Alabama	Hybrid	263,049,355	53.82
Tennessee	License	203,575,064	30.06
Georgia	License	195,339,000	18.58
Mississippi	Wholesale	114,232,526	38.38

(State of Alabama Alcoholic Control Board Annual Report, 2017-2018, 2017-2018) (Mississippi Revenue Department of Revenue Annual Report, 2018) (State of Georgia Department of Revenue Annual Statistical Report, 2018) (Tennessee Department of Revenue Annual Report, 2017-2018)

In an effort to flatten the curve of the coronavirus, on March 20, 2020 Governor Ivey shut down non-essential businesses across the state. Examples of non-essential businesses included: bars, restaurants, concert venues, bowling alleys, racetracks, casinos, museums, barber shops, gyms, and nail salons. During the closing of non-essential businesses, bars, restaurants and breweries were prohibited from allowing on-premise consumption. As a result, the ABC Board implemented an emergency order to allow curbside pickup sales of alcoholic beverages for bars and restaurants that have a liquor license. Bottles of liquor, wine or beer were included in the order. Restaurants would also be able to sell beer or drinks, in sealed containers, along with food takeout (Stuart, 2020). The order was amended in July 2020 to allow for curbside alcohol sales to last through September 15, 2020 (Stuart, 2020). The ABC Board reported an increase in liquor sales in March 2020 of 11.6 percent compared to March 2019, possibly due to Covid-19 and stay-at-home orders. ABC stores had \$54.6 million in sales in March 2020 compared to \$48.9 million in sales in March 2019. Privately owned liquor stores also saw an increase in sales in March 2020 compared to March of 2019. Some store owners reported an increase of about 50% in sales and also welcomed new customers (WAFF 48 Digital Staff, 2020).

The Alabama ABC Board regulates the laws surrounding the sale and distribution of alcohol in the state. Amid the coronavirus outbreak, the ABC Board authorized their emergency powers to allow relaxation of certain laws surrounding the sale of alcohol in restaurants and bars under Emergency Rule 20-X-6-.19 (ABC, 2020). Under the Emergency Rule, restaurants and bars could sell alcohol in an unopened/sealed container (ABC, 2020). The purpose of the rule was to relieve economic stress by generating a new source of revenue that would be beneficial for owners and the state of Alabama.

Summary of Findings

As our team examined liquor distribution in Alabama in comparison to surrounding states, and through interviewing subject matter experts and conducting our own research, we discovered the profitability and responsible distribution of Alabama's liquor distribution model benefits citizens across the state. Compared to neighboring states, Alabama ranked number one in revenue despite it being the only state with a hybrid model. The hybrid model allows the state to control the distribution, licensing, and enforcement of alcoholic beverages. Alabama has proven that since prohibition, the current model continues to work. We would like to thank the individuals and organizations who lent their expertise through our discovery process.

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