

Alcoholic Beverage Control in Mississippi: Warehouse Operations and Policy Considerations for Regulation

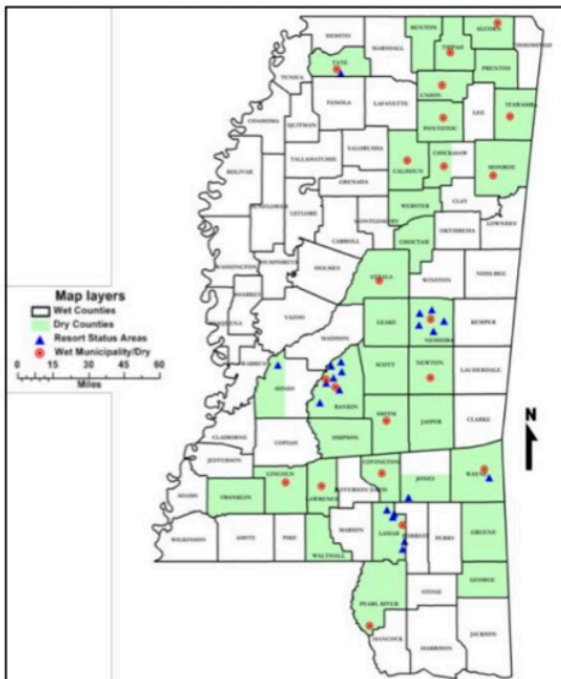
CONCLUSION: The Department of Revenue (DOR) should improve ABC warehouse operations by implementing a preventative maintenance plan, addressing worker safety policies, analyzing warehouse product storage and placement issues, tracking and analyzing customer service calls, and analyzing the feasibility of purchasing additional warehouse space. The Legislature and the DOR should consider the future of alcoholic beverage regulation through three forms of privatization – i.e., full divestiture, partial divestiture, or private contract. In addition, the DOR could consider the viability of direct-to-consumer wine shipments and the capping of the total number of retail package store permits.

Background:

In 1966, the Legislature re-announced prohibition of the manufacture, sale, distribution, transportation, and possession of intoxicating liquor as the policy of the state in MISS. CODE ANN. § 67-1-3 (1972). However, this statute also provides counties, judicial districts, and certain municipalities procedures to “opt out” of prohibition for those areas.

MISS. CODE ANN. § 67-1-19 created the Alcoholic Beverage Control (ABC) Division within the DOR. In addition, MISS. CODE ANN. § 67-1-41 grants the Mississippi DOR sole authority to regulate and wholesale alcoholic beverages throughout the state. MISS. CODE ANN. § 67-1-5 defines an alcoholic beverage as containing more than 5% alcohol by weight and excludes light wine and beer.

Mississippi is one of seventeen control states in the United States. Mississippi regulates alcoholic beverages through licensing of vendors and retailers, taxation at wholesale and retail levels, and wholesaling both distilled spirits/liquor and wine throughout the state. Mississippi is one of five control states that wholesales both distilled spirits/liquor and wine. Mississippi is also one of five control states that only controls alcoholic beverages at the wholesale level.



How does the state administer alcoholic beverage control?

The Alcoholic Beverage Control Division (ABC) of the Mississippi Department of Revenue (DOR) regulates and wholesales alcoholic beverages throughout Mississippi to licensed ABC permittees. The ABC warehouse operates on a bailment system, which allows vendors of alcoholic beverages to store their products in the state’s warehouse without the state having to purchase the product. The ABC warehouse processes orders through each permittee’s Taxpayer Access Point (TAP) account. Once orders are placed and processed, the ABC warehouse utilizes two contracted shipping companies to transport product to permittees.

As of July 2019, the ABC warehouse employed 106 employees. The warehouse also held 427,709 cases of alcohol and can ship a maximum capacity of approximately 20,000 cases per day. In FY 2018, ABC warehouse expenditures totaled just over \$5 million. Regarding total revenues, approximately 55% comes from the state markup on the direct sales of alcoholic beverages, 40% comes from taxes, and 5% comes from permit and other fees. In FY 2018, ABC warehouse revenues totaled approximately \$114 million.

How could the state improve efficiency and effectiveness at the ABC warehouse?

As the sole alcoholic beverage wholesaler, the ABC should focus on both maximizing revenue while providing a high level of customer service. PEER identified several areas for improvement. The implementation of a preventative maintenance plan could increase overall productivity. Equipment failures can create delays in both order processing and shipping operations. The ABC warehouse lacks formal workplace safety policies. Workplace injuries in the warehouse create a direct cost to the state in Workers’ Compensation claims. The ABC should maximize efficient use of its warehouse space. The ABC should also document customer service issues in order to identify weaknesses in overall operations. The ABC should conduct a formal study prior to implementing any changes to overall warehouse operations and logistics.

Warehouse Operations Recommendations:

- The ABC warehouse should create a preventative maintenance plan and track instances in which equipment becomes inoperable and repair parts must be procured.
- The ABC warehouse should create standard operating procedures with an emphasis on safety for warehouse employees.
- The ABC warehouse should determine an equitable storage level for all bailment products stored in the warehouse, and should consider setting a minimum stock level policy for bailment items.
- The ABC warehouse should develop a written facility usage and logistics plan prior to purchasing an additional warehouse facility.

How will the ABC utilize an additional warehouse facility?

The Mississippi Legislature provided the DOR with additional appropriation authority in Senate Bill 3024, 2019 Regular Session, to purchase additional warehouse space for warehousing needs. The DOR has not created a formal, logistical plan for the usage of the additional warehouse facility. While studies commissioned by the DOR showed that the current ABC warehouse was quickly approaching its maximum storage capacity, none of these studies analyzed how an additional warehouse facility could be incorporated into current ABC warehouse operations. The DOR should ensure that incorporating an additional facility to be used solely for bulk product storage is a viable method for increasing ABC efficiency.

The ABC commissioned several studies from 2015-2016 to review warehouse operations. These studies determined the warehouse was quickly running out of space for additional product to be stored.

What are policy considerations for the regulation of alcoholic beverages in Mississippi, including the possibilities for maximizing revenue potential?

PEER evaluated policy options for the future of regulating alcohol beverages in Mississippi. Included in these policy options were three methods of privatization. These privatization options were judged for feasibility against three criteria:

- Each option should give the state at least the same amount, or more, of revenue than it currently receives from the wholesaling of liquor and wine.
- Each option should not cause a significant increase in alcohol consumption in the state or rely on a significant increase in alcohol consumption to meet the first criteria of revenue generation.
- Each option should provide permittees and consumers at least the same level of service through wholesale sales and distribution.

Policy Conclusions and Recommendations:

Privatization Options:

- Fully divesting the wholesale of liquor and wine would remove the state from being the wholesaler of alcoholic beverages, making private wholesalers responsible for wholesaling alcoholic beverages throughout the state. Academic studies show that control states collect higher amounts of revenue from alcohol sales than license states. PEER determined that converting to a license state would likely reduce the overall revenue collected for the state from alcoholic beverage sales.
- Contracting out wholesale operations would allow a contracted warehouse operator to assume operations of the ABC warehouse including receiving product and shipping orders to ABC permittees. Private companies would be responsible for staffing the warehouse and the DOR would still have administrative oversight of the ABC warehouse operations. Any monies saved from removing state employees from working within the ABC warehouse would likely be used to pay the contract with the private company that would operate the warehouse. PEER determined that this option could likely be revenue neutral, but would likely not save the state a minimum of 10% compared to current operational costs.
- Partially divesting wholesale operations would allow private wholesalers to be responsible for wholesaling wine throughout the state. Partial divestment would allow the state to remain the wholesaler of liquor. PEER determined this option would likely reduce the amount of overall revenue collected, but could benefit warehouse operations.

While current Mississippi Law does not specifically prohibit direct-to-consumer wine shipment, it does make the DOR the sole wholesaler of alcoholic beverages throughout the state.

Other Policy Options:

PEER reviewed direct-to-consumer wine shipment in Mississippi. Direct-to-consumer wine sales are not specifically prohibited by Mississippi Law; however, current law does make the DOR the sole wholesaler of alcoholic beverages in the state. PEER also reviewed capping the overall number of retail package store permits. Studies show that capping permits could provide a more equitable package store outlet density. The DOR would need to further review these options to ensure their feasibility in the state. If they yield positive results, the DOR should recommend to the Legislature any CODE sections that would need amendment in order to implement either of these policy options.

