

Approved: 1-19-95
Date

MINUTES OF THE HOUSE COMMITTEE ON FEDERAL AND STATE AFFAIRS.

The meeting was called to order by Chairperson Garry Boston at 1:30 p.m. on January 18, 1995 in Room 526-S of the Capitol.

All members were present except:

Committee staff present: Mary Galligan, Legislative Research Department
Lynne Holt, Legislative Research Department
Mary Ann Torrence, Revisor of Statutes
June Evans, Committee Secretary

Conferees appearing before the committee: Jim Conant, Chief Administrative Officer, Department of Revenue, Division of Alcohol Beverage Control

Others attending: See attached list

Jim Conant, Chief Administrative Officer, Department of Revenue, Division of Alcohol Beverage Control, gave a briefing on the functions of the office. The Division administers and enforces the Liquor Control Act and related tax statutes and statutes governing the licensing and taxation of bingo games and the sale of cigarettes and other tobacco products in Kansas. The Division issues liquor licenses; collects gallonage taxes; conducts field enforcement activities, including auditing and inspection of bingo licensees and compliance checks for underage sale of tobacco products; and conducts administrative hearings on violations. The Division also houses the Kansas Department of Revenue's Criminal Tax Fraud Unit (CFU). This unit is responsible for investigating suspected criminal activity relating to the reporting and payment of drug, liquor, income, motor fuel and other taxes collected by the Department. The Division contains two organizational subprograms: Division Administration and the Enforcement Bureau. (See Attachment #1)

After discussion it was requested by a committee member that Mr. Conant prepare a comparison on the gallonage tax rates on motor fuel between Kansas and the border states.

Mr. Conant will prepare this information and distribute to the committee.

The meeting adjourned at 2:15 p.m.

The next meeting will be January 19, 1995.

ALCOHOLIC BEVERAGE CONTROL DIVISION OVERVIEW
PREPARED FOR
HOUSE FEDERAL AND STATE AFFAIRS COMMITTEE
JANUARY 18, 1995

The Alcoholic Beverage Control Division administers and enforces the Liquor Control Act and related tax statutes and statutes governing the licensing and taxation of bingo games and the sale of cigarettes and other tobacco products in Kansas. The Division issues liquor licenses; collects gallonage taxes; conducts field enforcement activities, including auditing and inspection of bingo licensees and compliance checks for underage sale of tobacco products; and conducts administrative hearings on violations. The Division also houses the Kansas Department of Revenue's Criminal Tax Fraud Unit (CFU). This unit is responsible for investigating suspected criminal activity relating to the reporting and payment of drug, liquor, income, motor fuel and other taxes collected by the Department. The Division contains two organizational subprograms: Division Administration and the Enforcement Bureau.

Division Administration performs general staff-support for the Director of Alcoholic Beverage Control and related work such as budget preparation, personnel record-keeping and coordination of the Division's activities. This subprogram also contains the Division's Licensing Section, Records Section and Legal Section.

- The Licensing Section processes license applications (3500+ annually) for retail liquor stores, distributors, farm wineries, microbreweries, on-premise establishments, temporary permits and nonbeverage user permits. The Section issues all salespersons and carrier permits, manages the cereal malt beverage stamp program, maintains all file information pertaining to businesses licensed to deal in alcoholic beverages and issues monthly and annual statistical reports. The Section functions as the first point of contact for businesses desiring to sell alcoholic beverages. Applications are received and, with the assistance of the Enforcement Bureau and other KDOR Divisions, verified against tax records, criminal history record information and various other records maintained by agencies such as the Secretary of State. Licenses are issued and renewed on an annual basis.
- The Records Section reviews and approves all suppliers desiring to do business in Kansas and products offered for sale. Brand registration is monitored at the supplier level, along with collection of necessary fees. The Section reviews and maintains records on all franchise agreements between suppliers and distributors. Records pertaining to the shipment of alcoholic beverages into and within the state are examined to ensure accurate collection of applicable taxes. The movement of all alcoholic beverages is tracked from the distributor's initial order from a supplier through shipment to retail liquor stores and on-premise establishments. These records are vital to the accurate collection of gallonage, enforcement and liquor excise taxes. They are also used for audit purposes to determine on-premise establishment compliance with the minimum food

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requirements. The Section also compiles statistical data on the types and brands of alcoholic beverages shipped into Kansas. The Section is currently implementing electronic reporting options intended to reduce the paperwork burden on both the industry and the agency.

- The Legal Section is staffed by an Assistant Attorney General who serves as a prosecutor for liquor-related hearings before the Director. The Attorney represents the Division at all appellant levels, assists in drafting administrative regulations, reviews agreements and responds to requests for legal interpretations. The Director, as hearing officer, and the Assistant Attorney General are responsible for disposition of all liquor-related administrative citations brought forth by the investigative activities of the Enforcement Bureau and other law enforcement agencies. Citations are issued for violations such as sale to a minor or allowing consumption by a minor, delinquent in payment of taxes and numerous other violations of state and federal law and rules and regulations.

The Enforcement Bureau provides field compliance and investigative support services for the ABC Division and the Department of Revenue. The Bureau is the only dedicated program for statewide enforcement of the Liquor Control Act. Field associates work with local law enforcement and elected officials, businesses licensed by the Department of Revenue and the general public. Major functions of the Enforcement Bureau may be classified as follows:

- Compliance inspections of bingo licensees and liquor licensees, including on-premise establishments, retail liquor stores and distributors. Compliance inspections are performed annually with additional follow-up inspections when violations are found. These inspections serve a dual purpose in providing licensees assistance in operating in a legal manner and encouraging voluntary compliance with the operational and tax statutes which govern these regulated industries.
- Criminal and civil investigations of illegal activities involving the sale and distribution of liquor and tobacco, violations of bingo and other gambling laws and tax violations. These investigations provide the Department with the ability to enforce statutes, rules and regulations by pursuing appropriate civil or criminal sanctions against violators or tax evaders. In addition to ongoing liquor, bingo and tax activity, the Division has recently implemented additional procedures to monitor and enforce retail compliance with the underage cigarette and tobacco products age laws.
- The Criminal Fraud Unit (CFU) has two major purposes: (1) collection of the tax on illegal drugs; and (2) investigation of criminal tax fraud for all taxes administered by the Department, including income and excise taxes. The unit has developed expertise in the areas of financial asset identification, net worth analysis and legal procedures to facilitate the seizure of drug dealers' assets and to identify instances of tax fraud. The unit works closely with local, state and federal law enforcement agencies as well as the Division of Taxation and other

operating divisions of the Department of Revenue in carrying out these activities. Most recently, internal procedures and additional training have been implemented in support of the Department's initiative to reduce motor fuel tax fraud in the state. The CFU will have primary responsibility for field investigation of suspected motor fuel tax fraud, providing additional incentive for voluntary compliance through an effective, visible enforcement presence.

- Management of office support for the activities of the field associates assigned to the Enforcement Bureau. Computerized data is used in this management program to monitor operational efficiency and responsiveness to the priorities assigned to the Bureau. Tracking data includes a case management system, a master name index of criminal history record checks and detailed associate activity information.

ABC DIVISION CUSTOMERS

External	Internal (KDOR)
Kansas liquor licensees Domestic & international brewers, distillers and other liquor suppliers Kansas bingo licensees Kansas retail cigarette licensees Local law enforcement agencies Kansas Dept. of Soc. & Rehab. Services Kansas Dept. of Human Resources Internal Revenue Service Kansas Bureau of Investigation Federal Bureau of Investigation Bureau of Alcohol, Tobacco & Firearms	Business Tax Bureau Dealer Licensing Bureau Driver Control Bureau Motor Fuel Tax Section Division of Collections Division of Vehicles Internal Audit Audit Services Income & Inheritance Tax Bureau

ABC REVENUE OVERVIEW

Direct ABC Collections - FY 94	
Gallonage Taxes	\$15,819,276
License, permit, reg. fees, etc.	2,465,455
Drug taxes	<u>949,088</u>
	\$19,233,819
Other Taxes (ABC enforced) - FY 94	
Liq. Enforcement (8%/package)	\$24,513,617
Liq. Excise (10%/drink)	18,019,715
Bingo	<u>1,077,464</u>
	\$43,610,796

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