



Nick Jordan, Secretary
Dean Reynoldson, Director

Sam Brownback, Governor

MEMORANDUM

TO: Representative Steve Brunk, Chairman, House Committee on Federal and State Affairs

FROM: Dean Reynoldson, Director of Kansas Alcoholic Beverage Control

DATE: 03 February 2015

SUBJECT: House Bill 2089

Mr. Chairman and members of the committee. Thank you for introducing this bill for consideration at our request.

House Bill 2089 would make a person who has previously owned a liquor business without being on the license ineligible to hold a liquor license in the future.

ABC is increasingly encountering "hidden ownership" situations where a person chooses not to disclose his ownership interest in a liquor business. Reasons include:

- ✓ Not a U.S. citizen
- ✓ Has had a liquor license revoked in the past
- ✓ Avoid existing liquor tax debt
- ✓ Ownership interest in another tier of the liquor industry
- ✓ Illegally avoid paying income taxes on the liquor business
- ✓ Avoid legal liability of the liquor business in the event of a law suit
- ✓ Hide assets or income from government, business associates or ex-spouse
- ✓ Launder money from illegal activity
- ✓ Creating a front for illegal activity

In these instances, an individual will wish to own a liquor business, but for a variety of reasons, chooses not to disclose his ownership interest. These individuals will utilize "straw persons" on the application for a liquor license. These "straw people" are typically not actually involved with the license or business in any way, but are merely "clean" names on the application so it goes through the process unscathed. When these hidden ownership situations are discovered after a license has been issued, ABC will initiate proceedings to revoke the license. If the license is eventually revoked, that revocation serves as a permanent disqualifier for future licensure, but the problem is that it is a disqualifier for the *licensee*, who in cases of hidden ownership is the straw person and not the actual "hidden owner." Therefore, the hidden owner is essentially free to repeat the process, finding a new straw person and applying again, or, if the previous hidden owner meets the statutory requirements in K.S.A. 41-311, he can obtain a liquor license despite defrauding the agency previously with the hidden ownership.

House Bill 2089 would make the hidden owner ineligible to hold a liquor license as well. This would be accomplished by adding a new disqualifying factor: A finding of hidden ownership during a hearing before the Director.

Hidden ownership is a growing problem, and severely hinders ABC's ability to provide sufficient regulation of the industry by preventing unqualified licensure. Keeping the industry clean is among our top priorities. We believe this bill is an important step forward in doing that.

Thank you Mr. Chairman for the opportunity to testify in support of this bill.