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April 20, 1998

Hon. Daniel E. Lungren
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Connie Lemus
Initiative Coordinator

Dear Attorney General Lungren:

Pursuant to Elections Code Section 9005, we have reviewed the proposed initiative statutory amendment entitled the "Club Legislation Act of 1998" (File No. SA 98 RF 0013, Amendment No. 1-S). The measure amends the Business and Professions Code to (1) allow specified business establishments to remain open and sell alcoholic beverages for an additional two hours on specified days, (2) establish a per-drink surcharge on all beverages sold during those two hours, (3) establish the "Club Legislation Fund" for deposit of the surcharge proceeds, and (4) continuously appropriate the proceeds to six committees and associated programs. As Section 9005 directs, our review addresses the potential effects of the measure on state and local government costs and revenues.

BACKGROUND

Under current law, business establishments that sell alcoholic beverages (either for on-site or off-site consumption) are licensed by the Department of Alcoholic Beverage Control (ABC) in accordance with the Alcoholic Beverage Control Act. License fees are assessed annually and vary with regard to the type of license. Currently, there are about 70,000 businesses licensed under 61 license categories. Also, under existing law, the sale

of alcoholic beverages (on-site or off-site) between the hours of 2 A.M. and 6 A.M. is prohibited. Local governments can specify an earlier closing time on the sale of alcoholic beverages by businesses under their jurisdiction.

PROPOSAL

Business Hours and Surcharge. The measure allows certain businesses licensed to sell on-site alcoholic beverages to apply for a license to remain open until 4 A.M. on specified days. (The measure would not change local government authority to require earlier closing times.) The measure imposes a state “surcharge” on all beverages (alcoholic and nonalcoholic) sold during those additional operating hours. Revenues from the surcharge are to be sent to the ABC and deposited in the Club Legislation Fund (created by the measure).

New Programs. The measure establishes six nine-member committees—Executive Governing, Drug Rehabilitation and Career Resource, School Finance, Affordable Housing, Summer Camp and Summer Job, and Community Mobile Medical and Monitoring—to operate the respective program functions as specified under the measure. Members of the Executive Governing Committee would be appointed by the Legislature and the Governor. Members of the other committees would be appointed by the Executive Governing Committee. All committee members would receive an annual salary of \$90,000 and committees could hire staff as necessary to undertake their respective programs.

Expenditure of Surcharge. Revenues deposited in the Club Legislation Fund would be available continuously without appropriation by the Legislature. Up to 10 percent of the annual revenues from the surcharge could be used by the ABC for administration and enforcement of the measure. The remaining revenues would be distributed to the programs, with up to \$21 million available annually for the operating costs of the six committees.

FISCAL IMPACTS

Surcharge Revenue

Under the measure, the surcharge would be 50 cents (\$1.50 for drinks costing \$12 or more) on alcoholic beverages and between 25 and 50 cents on nonalcoholic beverages sold between the hours of 2 A.M. and 4 A.M. The revenue from this surcharge is unknown, as it would depend on the number of participating businesses and the number

of beverages consumed during these hours. These revenues would support the programs designated by the measure.

State Regulatory Costs

The measure would require the ABC to monitor an additional type of license plus audit the assessment and collection of the surcharge. These costs would be dependent upon the number of participating businesses. The measure provides that up to 10 percent of the annual surcharge revenue would be available to fund the ABC's costs.

State and Local Enforcement Costs

State and local law enforcement agencies could experience an increase in costs as a result of the measure. The measure provides an unknown amount of surcharge revenue to law enforcement agencies for services provided during the extended hours of operation.

SUMMARY

The measure would have the following major fiscal impact:

- Unknown annual revenues from a surcharge on beverages consumed at businesses licensed to sell on-site alcoholic beverages between the hours of 2 A.M. and 4 A.M. Revenues would support a variety of programs.

Sincerely,

Elizabeth G. Hill
Legislative Analyst

Craig L. Brown
Director of Finance