

Spirits Pricing in Maine: A Primer
(all citations to Title 28-A of the Maine Revised Statutes)

A. Retail Price of Spirits:

The “retail price” is the price paid *by a consumer* who purchases spirits for off-premises consumption from an agency liquor store or Maine distillery *or by an on-premises retailer* who purchases spirits from a reselling agent (a subset of agency liquor stores) for resale to consumers.

Under §1651(1), the **retail price is established by the State Liquor and Lottery Commission** based on a recommendation from BABLO. The retail price is set using a pricing formula that considers the type of spirits (vodka, gin, etc.), product size (750 mL, 1.75L, etc.) and whether the product was manufactured in Maine. By statute, the retail price amount must be sufficient to cover:

- 1) The cost (paid by the State) to purchase the spirits product from the supplier
- 2) The profit of the agency liquor store/reselling agent (see discussion of “discount rate” below)
- 3) The State spirits tax (“consumer’s tax” in §1651), which is an amount sufficient to pay:
 - a) BABLO’s spirits-related administrative expenses, including contract fees paid to Pine State Spirits under the spirits administration and marketing contracts (see below)
 - b) Payments to the Liquor Operation Revenue Fund in the Maine Municipal Bond Bank.
 - c) The “premium tax” required by §1703—\$1.25 per proof gallon—paid to the General Fund for substance use disorder prevention and treatment services

B. Wholesale Price of Spirits:

The “wholesale price” is the price paid by an off-premises retailer when purchasing spirits from the State for resale to consumers and on-premises retailers. These off-premises retailers include agency liquor stores and Maine small distilleries who sell the spirits products they produce directly to consumers at their manufacturing facilities for off-premises consumption.

Under §83-C and §606(1-C), **BABLO establishes the wholesale price of spirits** as a certain percentage “discount” off of the retail price established by the commission.

This **discount rate** (percentage off of the retail price) represents the profit that the off-premises retailer earns when it sells spirits to a consumer. *Retail price - wholesale price = profit.*

- Under §606(4-A), the *minimum* **discount rate for spirits sold by agency liquor stores** is 12% off of the retail price, but BABLO may establish “graduated discount rates” above 12%.
 - **By rule**, BABLO established two *minimum* discount rates: 12% for spirits with a retail price ≤ \$24.99 and 14% for spirits with a retail price ≥ \$25.00. The rules also include a growth incentive program for agency liquor stores that can lead to higher discount rates.
 - Effective July 1, 2020, the two discount rates for agency liquor stores are 16% and 18%
- Under §606(4-B), the **discount rate for spirits produced and sold by Maine small distilleries** directly to consumers at their facilities for on- or off-premises consumption is 22.75%.

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C. Spirits Administration and Marketing Contracts

Under §90, BABLO must enter two, 10-year contracts. After competitive bidding, both contracts were awarded to Pine State Trading Co. (“Pine State Spirits”) for July 1, 2014 – June 30, 2024.

- Spirits Administration Contract. Pine State Spirits must provide specific spirits administration services, including warehousing, twice-weekly delivery service to agency liquor stores, establishment and maintenance of an IT System (including a reporting system and systems for tracking and managing all products, prices, finances, orders, and inventory), bottle redemption services, financial administration services, etc. Pine State Spirits is compensated for its contract services through payment of a “Services Fee.”

Spirits Administration Services Fee = set percentage of (total net sales + bailment revenue)

- *Total net sales* = revenue collected based on the *wholesale price* of products sold by the State to off-premises retailers.
- *Bailment revenue* = amounts suppliers are charged for certain warehouse services.

The original Spirits Admin. Services Fee was 4.70%; on July 1, 2015 it was increased to 4.95%.

- Spirits marketing contract: Pine State Spirits must provide specific trade marketing activities, including: floor layout designs & implementation, point of sale marketing, off-shelf displays, store ads, flyers & circulators (including electronic), value pack promotion design & production, annual marketing plan & calendar, media plan design & implementation including digital marketing, social media, radio, etc., and sale pricing tags. Pine State Spirits is compensated for its contract services through payment of a “Services Fee”

Marketing Services Fee = 2.25% of total net sales (this % has not changed during the contract)

Division of spirits revenues: Under the spirits administration contract, Pine State Spirits must invoice and collect all amounts, including the total net sales and bailment fees paid by suppliers. These amounts are ultimately allocated as follows:

	Total Net Sales	Bailment Revenue
Pine State Spirits	7.2% *	4.95%
State	92.8%	95.05%

Recap: The State Share of total net sales and bailment revenues is allocated to the following:

- **Suppliers** for cost of goods sold (depletions from warehouse = when State buys & takes title)
- **Administrative costs of BABLO** for personal services & other expenses
- **Liquor Operation Revenue Fund** (in Maine Municipal Bond Bank) to pay hospital bond debt and ancillary costs. If excess funds above the required bond payments exist in any year, up to \$7 million may be used for (1) revolving loan funds for drinking water systems–DHHS; (2) revolving loans for wastewater treatment–DEP; and (3) highway/bridge construction–DOT.
- **Premium Tax** to General Fund for substance use disorder prevention and treatment services

* 4.95% (from spirits administration contract) + 2.25% (from spirits marketing contract) = 7.2% of total net sales.

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D. Summary and Examples

Retail price = Wholesale Price (Cost of product from supplier + State spirits tax)
+
Discount rate (Profit of off-premises retailer: agency liquor store or small distillery)

Example 1: Spirits sold by an agency liquor store (750 mL bottle of non-Maine-made bourbon)

- **Supplier Price:** Out-of-state distillery sells its product to State for \$19.00
- **Retail Price:** \$33.99 = paid by consumer or on-premises retailer
The State Liquor and Lottery Commission sets this \$33.99 retail price.
After the retail price is set, BABLO calculates the wholesale price below using the 18% discount rate. In this example, an 18% discount off of the retail price = \$6.12 and is the profit that the agency liquor store makes when it sells the product to a consumer or on-premises retailer.
- **Wholesale Price:** \$27.88 = paid by agency liquor store to State
Based on the wholesale price, Pine State Spirits receives \$2.01 (7.2%) and the State receives \$25.87 (92.8%). The State uses this \$25.87 to pay the distillery \$19.00 for the product and retains \$6.87 for BABLO's admin. costs, the Liquor Operations Revenue Fund and premium tax.
Note: Pine State Spirits and the State also receive shares of bailment revenue, not discussed here.

Example 2: Spirits sold by a Maine small distillery (750 mL bottle of Maine-made bourbon)

- **Supplier Price:** Maine small distillery sells its product to State for \$19.00
- **Retail Price:** \$31.99 = paid by consumer to small distillery
The State Liquor and Lottery Commission sets this \$31.99 retail price.
After the retail price is set, BABLO calculates the wholesale price below using the 22.75% discount rate applicable when small distilleries sell their products directly to consumers. In this example, a 22.75% discount off of the retail price = \$7.27 and is profit for the small distillery.
- **Wholesale Price:** \$24.71 = paid by small distillery to State
Although the small distillery is not required to physically send the bottle of spirits to the state warehouse before selling it to a consumer,¹ it must send the State the difference between the supplier price and the wholesale price for each bottle sold = \$5.71 per bottle in this example.
Based on the wholesale price, Pine State Spirits receives \$1.78 (7.2%) and the State receives the remaining \$3.93 of the amount paid by the small distillery to purchase the bottle. This \$3.93 is applied to BABLO's administrative costs and the Liquor Operations Revenue Fund.

¹ See §1355-A(5)(G), (H). If the small distillery's products are sold in an agency liquor store, then the small distillery must send those products physically to through the state warehouse distribution system. Because it is not the retailer in this scenario, its only profit derives from selling the product to the State at the "supplier price" and not from the discount rate.