



February 16, 2021

To: House Federal & State Affairs Committee  
From: R.E. "Tuck" Duncan  
General Counsel  
RE: HB 2252 Creating fulfillment house licenses to authorize storage and shipping services provided to winery special order shipping licensees.

Currently pursuant to K.S.A. 41-511, reports of alcoholic liquor shipped into the state; express companies or other common carriers that deliver any alcoholic liquors from outside the state for delivery in the state to consumers, shall prepare and file monthly with the director of alcoholic beverage control a report of known alcoholic liquors shipped by such carrier.

Alcoholic Beverage Control (ABC) Director Beaver reported to the Senate Federal & State Affairs Committee earlier this year that common carriers reported 198,556 shipments of known alcoholic liquor to Kansas residents in CY20. There is a deficiency in the collection of the information necessary to ensure taxes are being paid. A sufficient number of shipments are made through a Fulfillment House and as such the state does not know if the parties for whom they ship have a Kansas special shipping license and pay tax.

Wineries commonly use a Fulfillment House to warehouse, pack, and ship online, direct-to-consumer orders on behalf of the supplier. As defined in the bill a Fulfillment House is an entity "that handles logistics, including warehousing, packaging, order fulfillment or shipping services, on behalf of the holder of a special order shipping license issued pursuant to K.S.A. 41-350."

Currently there are 798 special order shipping licenses issued in Kansas.

Absent a reporting structure, orders shipped directly from a Fulfillment House can lack information regarding actual type of products shipped, volume, and most importantly the identity of the winery -- information the state currently receives from carriers when the shipments are made directly by the licensee.

Using an unlicensed Fulfillment House is an easy way to mask illegal shipments into a state and avoid paying taxes. Licensure and clear record keeping and reporting requirements, as well as minor penalties, will provide the ABC with the tools to uncover and take enforcement against non-compliant producers.

I have worked with both the Wine Institute, whose members are lawful shipping licensees, and the ABC Director in the drafting of this legislation. Several other states including North Dakota and Virginia have a similar requirement that works well in identifying legal and illegal shippers.

Please report HB2252 favorably for passage. *Thank you for your attention to and consideration of these matters.*