

WORKSESSION

MEMORANDUM

April 25, 2012

TO: Public Safety Committee
FROM: Justina J. Ferber,  Legislative Analyst
SUBJECT: Worksession - Executive's FY13 Recommended Operating Budget
Department of Liquor Control (including the Board of License Commissioners)

Those expected for this worksession:

George Griffin, Director, Department of Liquor Control
Sunil Pandya, Chief of Administration
Kathie Durbin, Chief of Licensure, Regulation and Education, DLC
Gus Montes de Oca, Chief of Operations, DLC
Amy Wilson, Management and Budget Specialist, OMB

The Executive's Recommended FY13 Operating Budget for the Department of Liquor Control (DLC) is on ©1.

For FY13, the Executive recommends total expenditures of \$50,698,380 for the Department of Liquor Control, an 8.0% increase over the FY12 approved budget of \$46,953,280. In FY13, DLC will make an earnings transfer of 19.4 million to the General Fund and will make \$8.1 million in debt service payments on Liquor Control Revenue Bonds for a total of \$27.5 million.

Overview

Accomplishments and initiatives for DLC are listed on ©1-2.

Total Gross Sales for FY07 to FY11 are shown on the chart at ©9. DLC's total income for FY11 exceeded \$241.3 million, an increase of 6.15% over FY10.

DLC had a mini-reorganization by combining the Information Management Division and the Accounting and Financial Systems Division into one Administration Division.

Liquor Control	FY10 Actual	FY11 Actual	FY 12 Budget	FY13 CE Recommended	% Change FY11-FY12
Expenditures:					
Liquor Fund Expenditures	42,645,289	40,315,416	46,953,280	50,698,380	8.0%
Revenues	66,967,168	69,095,496	70,284,780	73,473,616	4.5%
Earnings Transfer	27,043,280	31,291,320	25,066,800	22,297,140	-12.40%
after deductions	23,878,180	28,412,620	22,411,610	19,400,000	-15.50%
Debt Service		3,525,091	6,703,490	8,080,920	20.50%
Positions - FTEs	337.3	312.9	323	324	0.30%
Full-time	257	248	245	246	0.4%
Part-time	62	58	57	55	-3.5%

The earnings fund transfer for FY13 is budgeted at \$22,297,140 before chargebacks. The transfer after chargebacks of \$2,512,740 plus \$384,400 for technology modernization is budgeted at \$19,400,000.

FY13 Budget Adjustments

Changes with Service Impacts	FTEs	Cost
Increase Debt Service	0	\$1,725,460
Increase Personnel Cost for Sunday Sales	0	\$895,000
Increase Retail Store Renovations	0	\$157,340
Increase Shift4 Processing Fees	0	\$86,900
Add Point of Sale Systems	0	\$20,000
Adjustments with no Service Impacts	FTEs	Cost
Lump Sum Wage Adjustment	0	\$585,208
Group Insurance Adjustment	0	\$494,512
Retirement Adjustment	0	\$421,476
Increase cost of ERP – warehouse System	0	\$180,260
Last year it was \$540,220		
Increase cost of Retail Store Leases	0	\$173,190
Motor Pool Rate Adjustment	0	\$139,440
Increase in cost of warehouse night security	0	\$37,900
Risk management adjustment	0	\$30,230
Longevity Adjustment	0	\$29,718
Increase Cost of Point of Sale System	0	\$700
Tech Adjustment – conversion to FTE from WY	-1.8 FTE	0
Tech Adjustment – Reorganization of Licensure/Reg Division	1.0 FTE	0
Tech Adjustment – Reconcil FTE in BASIS & Hyperion	1.4 FTE	0
Shift Help Desk to Support from Desktop Computer Mod NDA	0	-\$740
Printing and Mail Adjustment	0	-\$14,130
Shift Occupational Medical Services chargeback to OHR	0.20 FTE	-\$48,274
Rent Savings at Leisure World Store in FY13	0	-\$136,000
Decrease warehouse relocation costs	0	-\$150,000
Decrease cost of retiree health insurance pre-funding	0	-\$151,050
Electricity Rate Savings	0	-\$273,380
Discontinue Cost of Peapod payments	0	-\$458,660

Executive's Working Capital Plan

The County Executive invites the Council's input for final County Executive decisions on the determination of adequate working capital within and use of resources in the Liquor Control Fund and net proceeds to be deposited to the General Fund. The DLC Working Capital Plan is the Executive's Recommended Operating Budget for DLC.

The Attorney General has written an opinion that states policy decisions of the Director of DLC are subject to the exclusive authority of the County Executive. DLC is subject to the same requirements and procedures as applicable under County law to any other County department except to the extent that ordinary County requirements or procedures would be inconsistent with the General Assembly's own decisions about DLC. Under state law, the DLC Director and the Finance Director -- with approval of the County Executive -- are authorized to determine the portion of DLC's "net profits" that are needed for working capital, after payment of debt service.

Debt Service

According to the Fiscal Plan at ©10, \$8,080,920 is recommended for total debt service for FY13. Attached at ©11 is a breakdown of revenue bonds by project.

Annual Report

A copy of the Department of Liquor Control Annual Report for 2011 is attached at ©12-29.

FY12 EXPENDITURE ISSUES BY PROGRAM

A. Warehouse Operations, ©2

Warehouse Operations	
FY12 Expenditures \$7,884,580	FY12 65.29 FTEs
FY13 Expenditures \$8,391,204	FY13 66.19 FTEs
\$180,260	Increase Cost for ERP Warehouse Management System
\$37,900	Increase Cost for Warehouse night Security Services
-\$150,000	Decrease cost for DLC Relocation
\$438,464; 0.9 FTE	Multi-program adjustments including compensation and benefits and conversion to the Hyperion budgeting system

Description: Management of the County's liquor warehouse including purchase, receipt and storage of over 20,000 different stock items and special orders by customers.

FY13 Discussion: Additional costs for relocation to the new warehouse are no longer included. DLC hopes to move to the new warehouse by the end of the year. The holiday season, DLC's busiest time of year, has to be considered when timing the move.

B. Delivery Operations, ©2

Delivery Operations	
FY12 Expenditures \$5,584,090	FY12 76.70 FTEs
FY13 Expenditures \$6,739,250	FY13 74.0 FTEs
\$1,155,160; -2.7 wy	Multi-program adjustments including compensation and benefits and conversion to the Hyperion budgeting system

Description: Distribution of distilled spirits, wine and beer to licensees and County stores.

FY13 Discussion: DLC is exploring the use of leased trucks for the delivery fleet. DLC has successfully replaced forklifts in the warehouse by using a lease-purchase program and is evaluating whether leasing is a good option for replacing delivery trucks.

C. Retail Sales Operations, ©3

Retail Sales Operations	
FY12 Expenditures \$18,003,360	FY12 144.3 FTEs
FY13 Expenditures \$20,392,567	FY13 145.13 FTEs
\$895,000	Increase cost for personnel for Sunday sales
\$173,190	Increase cost for retail store leases
\$157,340	Store renovations costs – see below
\$86,900	Increase in Shift4 Processing fees - - Facilitates credit card transactions
\$20,000	Phase 2 for Point of Sale Systems - Enhancements to the POS system
\$700	Increase costs for Point of Sale Systems - Materials for gift cards
-\$136,000	Rent savings at Leisure World store
\$1,192,077; 1.0 FTE	Multi-program adjustments including compensation and benefits and conversion to the Hyperion budgeting system

Description: Retail sales of distilled spirits, wine and beer are handled through 23 County-operated outlets. In 1997 a bill was adopted by the State Legislature limiting County contracting of DLC retail operations to four stores that were under contract at that time: Flower Avenue, Kensington, Muddy Branch, and Pike. The Kensington store reverted back to the County in December, 2001. The Muddy Branch and Pike stores reverted back to the County in 2005. The Flower Avenue store is the only County-contracted retail store.

FY13 Discussion: Liquor Control completed the successful design and implementation of a new Point-of-Sale system for Retail Operations that has been audited by an external agency hired by the Office of Internal Audit and was deemed a success by that agency. The success of the implementation has been made into a case study by MicroSoft and IBM Corporations.

Liquor Control has leveraged the new software technology associated with the recently implemented Retail Operations Point-of-Sale systems to create an online, real-time web application (www.montgomerycountymd.gov/dlcsearch) that enables licensees and the public to view inventory at each of the County retail stores.

Below is a chart showing store renovations planned for FY13.

White Oak	counters	\$11,500.00
White Oak	replace remaining tile floor	\$24,400.00
White Oak	replace old shelf and wall units	\$34,700.00
Walnut Hill	counters	\$11,940.00
Wheaton	counters	\$11,200.00
Wheaton	remove carpet and lay tile	\$16,800.00
Leisure World	reconfigure and replace counters	\$14,480.00
Leisure World	demo/move office to back room and add more shelving to store area (increased business and customer flow)	\$9,800.00
Montrose	counters	\$13,120.00
Montrose	move office to back room and add more shelving to store area (increased business and customer flow)	\$9,400.00
Total		\$157,340.00

Sunday Sales: The information below from DLC shows sales trends for Sunday sales in County retail stores:

- Total sales for 39 Sundays: \$6,396,681.25
- Total sales profit (Total Sales – Cost of Goods Sold): \$1,971,345.35
- Average total profit per Sunday: \$33,624
- Average Percentage of total sales from Licensees for 29 Sundays: 5.28%

D. Retail Contracted Operations, ©3

Retail Contracted Operations	
FY12 Expenditures \$190,650	FY12 0.0 Workyears
FY13 Expenditures \$190,650	FY13 0.0 Workyears

Description: State Legislation permits the DLC Director to contract the operation of retail outlets with only those persons who had a contract in effect on January 1, 1997.

FY13 Discussion: The store operator receives a percentage of sales and the \$190,650 amount is for budgeting purposes. The only contracted store is the Flower Avenue store.

E. Licensure, Regulation and Education, ©3

Licensure, Regulation and Education	
FY12 Expenditures \$1,266,830	FY12 13.0 FTEs
FY13 Expenditures \$1,607,773	FY13 15.0 FTEs
\$0; 1.0 FTE	Technical adjustment for Division reorganization (abolished a position and created 2, adding an inspector)
\$34,620; 0.7 wy	Multi-program adjustments including compensation and benefits and conversion to the Hyperion budgeting system

Description: This program issues beverage alcohol licenses; inspects and investigates licensed facilities to ensure compliance with laws, rules and regulations. This program works with the public, business, and County agencies to address alcohol control and education efforts.

FY13 Discussion: The division supports multi-agency education and enforcement efforts through grant writing and reporting. Grant programs include: funding for a Cops-in-Shops program in downtown Silver Spring; ID Checking Calendars for retailers; a Responsible Hospitality Institute Night-time Economy Study of downtown Wheaton; a Responsible Retailing Over-service project in downtown Bethesda; hosting an Annual Maryland State Alcohol Beverage Forum; production and distribution of ID Checking tools such as black lights and educational keychain cards; and staff attendance at state and national conferences. Additionally, in-kind materials from partners, such as 3,000 ID books, "We Don't Serve Teens" materials and other educational resources were solicited and distributed during monthly educational trainings. These in-kind services are valued at over \$50,000.

DLC offers free alcohol regulatory education and regulation training (A.L.E.R.T.) twice a month as a resource for businesses licensed to sell alcohol. Stressing the importance of checking identification is an essential component of this educational effort. In FY11, Liquor Control trained over 900 people.

DLC released its "Alcohol Compliance Check Program Report" for FY11 that focuses on the results of efforts to reduce the availability of alcohol to anyone under 21 years of age. The report validates that outreach programs have proven successful and compliance rates in the county have remained steady over the past several years. When tested, approximately eight out of ten licensed facilities refused service to the underage volunteer. The compliance check program is a collaborative effort between Liquor Control alcohol enforcement agents, the Police Department, Sheriff's Office, State's Attorney's Office and trained high school students. The team has an annual target to check at least 400 businesses a year.

F. Administration, ©4

Administration	
FY12 Expenditures \$11,126,990	FY12 20.68 Workyears
FY13 Expenditures \$12,405,497	FY13 20.50 Workyears
\$1,725,460	Additional debt service for FY13
-\$458,660	Discontinue Relocation assistance to Peapod
\$11,707; -0.18	Multi-program adjustments including compensation and benefits and conversion to the Hyperion budgeting system

Description: Provides accounting, financial and information technology services for the department.

FY13 Discussion: DLC had a mini-reorganization by combining the Information Management Division and the Accounting and Financial Systems Division into one Administration Division.

Financing for some state transportation projects and for the new warehouse is appropriated through the Liquor Fund - \$1,725,460 represents the FY13 additional debt service budgeted for these projects. See the chart on ©11.

G. Office of the Director, ©4

Director's Office	
FY12 Expenditures \$2,896,780	FY12 3.2 Workyears
FY13 Expenditures \$971,439	FY13 3.2 Workyears
-\$1,925,341	Multi-program adjustments including compensation and benefits and conversion to the Hyperion budgeting system Decrease redistributes funding for OPEB from the Director's Office across all programs

Description: This program provides the administration and supervision for the department.

During discussions of the FY12 budget and the Organizational Reform Commission recommendations, the Public Safety Committee requested DLC to provide:

1. An update on its progress to administratively move forward with operational efficiencies through signed "Memorandum of Understanding" agreements between DLC and County departments; and
2. Cost estimates for the performance audit and warehouse contracting study.

DLC has provided the following update:

DLC has not conducted an outsourcing and a performance study as recommended by the County Council due to limited resources after meeting its core business requirements. However, the Department has initiated a number of service enhancements in coordination with other County agencies to improve the Department's productivity:

Department of Technology Services:

- DLC has meet with key IT Managers in DTS and are aware of the higher than expected Service Level Agreement (SLA) that is required to support the business operation.
- It has been verbally agreed that DTS will provide their best effort to resolve issues that occur after normal business hours which includes evenings, weekends and holidays. The DLC IT Manager has direct mobile phone access to all key senior IT managers for escalation purposes in the event of an outage during this time.
- The DLC is in the process of drafting a SLA memorandum to formalize this arrangement

Department of General Services:

- DLC has implemented a direct service agreement to procure HVAC services for its 23 retail stores thereby reducing HVAC failures and ensuring a pleasant shopping experience for its customers. The cost of the HVAC in the long run will be cheaper than contacting DGS on every incident.

Office of Human Resources:

- DLC has not initiated any major changes in its hiring process via OHR due to a number of reasons. Employee attrition has slowed down materially due to the current state of the economy. Several vacancies within DLC have been filled with employees faced with a Reduction-In-Workforce (RIF).

Point of Sale (POS) implementation Audit:

- The County Executive Office conducted an internal audit on the implementation of the POS system in DLC's 23 retail stores. The audit was performed by a contractor at a cost of \$25,000 and validated the successful implementation of the POS system. The retail stores generated almost 47 percent of all sales in the Department. The Department was asked to present it's planning and implementation process at the NABCA's Administrators Conference which was attended by representatives of 17 control states.

Implementing a Lease Purchase to replace aging Forklifts:

- DLC, in coordination with the office of Procurement and Office of Management and Budget, replaced 12 aging forklifts via a lease purchase program. The cost of the program is \$62,476 annually per year for seven years and will be paid for with cost savings from the maintenance budget of the current fleet of forklifts. This program was a successful remedy to address competing budget resource requirements.

Status of DLC Fund Balance:

- At the end of FY11, the DLC Fund balance was \$1.7 million dollars below the fund balance policy level of \$3.3 million. A number of initiatives had to be postponed such as store renovations and truck replacements to ensure that the fund balance is not depleted further.
- OMB and DLC have a common goal to ensure that the fund balance is restored to the level recommended in the fund balance policy in the next few fiscal years.

Maintaining a Performance Dashboard via County Stat:

- The Department tracks ten key operational measures on the County Stat dashboard. In addition, the Department meets regular with CountyStat for detailed reviews of the performance measures.

DLC BUDGET RECOMMENDATIONS

Based on the 1998 Maryland Attorney General's opinion, the Council has determined that it is more effective to provide general comments on the DLC budget (Working Capital Plan) rather than recommending increases, decreases or deferring particular line items.

Staff Recommendations

- **Approve the Department of Liquor Control FY13 operating budget as submitted by the County Executive for \$50,698,380.**
- **Ask DLC to provide periodic updates as additional changes are made to improve productivity.**

This packet contains:

	<u>Circle #</u>
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Liquor Control

MISSION STATEMENT

The mission of the Department of Liquor Control is to provide licensing, wholesale and retail sales of beverage alcohol products, enforcement and effective education and training programs, while promoting moderation and responsible behavior in all phases of distribution and consumption. The department diligently promotes, enforces and obeys all laws and regulations governing beverage alcohol while generating revenue for the benefit of Montgomery County's General Fund.

BUDGET OVERVIEW

The total recommended FY13 Operating Budget for the Department of Liquor Control is \$50,698,380, an increase of \$3,745,100 or 8.0 percent from the FY12 Approved Budget of \$46,953,280. Personnel Costs comprise 49.6 percent of the budget for 246 full-time positions and 55 part-time positions for 324.02 FTEs. Operating Expenses, Capital Outlay, and Debt Service account for the remaining 50.4 percent of the FY13 budget.

The above projections and proposed expenditures form the basis for working capital decisions concerning the Liquor Enterprise Fund.

The following information is provided to facilitate County Council and public input for final County Executive decisions on the determination of adequate working capital within, and use of resources in, the Liquor Enterprise Fund and net proceeds to be deposited to the General Fund. Consistent with Article 2B, Section 15-207, the County Executive must make resource allocation decisions for the Fund.

LINKAGE TO COUNTY RESULT AREAS

While this program area supports all eight of the County Result Areas, the following are emphasized:

- ❖ ***A Responsive, Accountable County Government***
- ❖ ***Healthy and Sustainable Neighborhoods***
- ❖ ***Safe Streets and Secure Neighborhoods***
- ❖ ***Strong and Vibrant Economy***

DEPARTMENT PERFORMANCE MEASURES

Performance measures for this department are included below, with multi-program measures displayed at the front of this section and program-specific measures shown with the relevant program. The FY12 estimates reflect funding based on the FY12 approved budget. The FY13 and FY14 figures are performance targets based on the FY13 recommended budget and funding for comparable service levels in FY14.

ACCOMPLISHMENTS AND INITIATIVES

- ❖ ***In FY13, Liquor Control will make an earnings transfer of \$19.4 million to the General Fund and will make \$8.1 million in debt service payments on Liquor Control Revenue Bonds for a total of \$27.5 million.***
- ❖ ***Liquor Control's total income for FY11 exceeded \$241.3 million dollars, an increase of 6.15% over the prior year.***
- ❖ ***Liquor Control completed the successful design and implementation of a new Point-of-Sale system for Retail Operations that has been audited by an external agency hired by the Office of Internal Audit and was deemed a success by that agency. The success of the implementation has been made into a case study by MicroSoft and IBM Corporations.***
- ❖ ***Liquor Control's Division of Licensure, Regulation and Education supports multi-agency education and enforcement efforts through grant writing and reporting. Grant programs include funding for a Cops-in-Shops program in downtown Silver Spring; ID Checking Calendars for retailers; a Responsible Hospitality Institute Night-time Economy Study of downtown Wheaton; a Responsible Retailing Over-service project in downtown Bethesda;***

hosting an Annual Maryland State Alcohol Beverage Forum; production and distribution of ID Checking tools such as black lights and educational keychain cards; and staff attendance at state and national conferences. Additionally, in kind materials from partners, such as over 3,000 ID books, "We Don't Serve Teens" materials and other educational resources were solicited and distributed in monthly educational trainings. These in-kind services are valued at over \$50,000.

- ❖ **Liquor Control released its "Alcohol Compliance Check Program Report" for FY11 that focuses on the results of efforts to reduce the availability of alcohol to anyone under 21 years of age. The report validates that outreach programs have proven successful and compliance rates in the county have remained steady the past several years. When tested, approximately eight out of ten licensed facilities refused service to the underage volunteer. The compliance check program is a collaborative effort between Liquor Control alcohol enforcement agents, the Police Department, Sheriff's Office, State's Attorney's Office and trained high school students. The team has an annual target to check at least 400 businesses a year.**
- ❖ **Liquor Control offers free alcohol regulatory education and regulation training (A.L.E.R.T.) twice a month as a resource for businesses licensed to sell alcohol. Stressing the importance of checking identification is an essential component of this educational effort. In FY11, Liquor Control trained over 900 people.**
- ❖ **Productivity Improvements**
 - **Liquor Control has leveraged the new software technology associated with the recently implemented Retail Operations Point-of-Sale systems to create an online, real-time web application (www.montgomerycountymd.gov/dlcsearch) that enables licensees and the public to view inventory at each of the County retail stores.**

PROGRAM CONTACTS

Contact Lynn Duncan of the Department of Liquor Control at 240.777.1915 or Amy Wilson of the Office of Management and Budget at 240.777.2775 for more information regarding this department's operating budget.

PROGRAM DESCRIPTIONS

Warehouse Operations

This program involves management of the County's beverage alcohol warehouse and includes the purchase, receipt, and storage of over 20,000 different stock and special order items.

Program Performance Measures	Actual FY10	Actual FY11	Estimated FY12	Target FY13	Target FY14
Inventory as a Percent of 'Cost of Goods Sold' (COGS)	16.4	16.4	16.4	16.4	16.4
Inventory as a Percent of DLC Sales	11.7	11.6	12	12	12
Satisfaction rating of wholesale customers based on the DLC customer survey results ¹	2.91	2.95	2.95	2.95	2.95

¹ Average score on a 1-4 scale

FY13 Recommended Changes	Expenditures	FTEs
FY12 Approved	7,884,580	65.29
Increase Cost: ERP - Warehouse System	180,260	0.00
Increase Cost: Warehouse Night Security Services	37,900	0.00
Decrease Cost: DLC Relocation Costs	-150,000	0.00
Multi-program adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting multiple programs. Other large variances are related to the transition from the previous mainframe budgeting system to Hyperion.	438,464	0.90
FY13 CE Recommended	8,391,204	66.19

Delivery Operations

This program includes the distribution of distilled spirits, wine, and beer to licensed establishments and County retail stores.

FY13 Recommended Changes	Expenditures	FTEs
FY12 Approved	5,584,090	76.70
Multi-program adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting multiple programs. Other large variances are related to the transition from the previous mainframe budgeting system to Hyperion.	1,155,160	-2.70
FY13 CE Recommended	6,739,250	74.00

Retail Sales Operations

This program oversees sales of distilled spirits, wine, and beer to retail customers through the operation of retail stores (currently 22 County-staffed and operated and one contractor-operated) that are located throughout Montgomery County.

Program Performance Measures	Actual FY10	Actual FY11	Estimated FY12	Target FY13	Target FY14
Retail sales as percentage of total sales	46	46	46	46	46
Satisfaction rating of retail customers based on the DLC customer survey results ¹	3.41	3.41	3.41	3.41	3.41

¹ Average score on a 1-4 scale

FY13 Recommended Changes	Expenditures	FTEs
FY12 Approved	18,003,360	144.13
Enhance: Personnel Costs - Sunday Sales	895,000	0.00
Increase Cost: Retail Store Leases	173,190	0.00
Enhance: Retail Store Renovations	157,340	0.00
Enhance: Shift4 Processing Fees	86,900	0.00
Add: Point of Sale Systems (Phase 2)	20,000	0.00
Increase Cost: Point of Sale System (POS)	700	0.00
Decrease Cost: Negotiated rent savings at Leisure World store in FY13	-136,000	0.00
Multi-program adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting multiple programs. Other large variances are related to the transition from the previous mainframe budgeting system to Hyperion.	1,192,077	1.00
FY13 CE Recommended	20,392,567	145.13

Retail Contracted Operations

Article 2B of the Annotated Code of Maryland allows the County to hire contractors to operate County liquor stores. The County must retain title to all retail stock until sold. The County Council adopted Council Resolution No. 12-452 on November 12, 1991, mandating that the County contract with qualified contractors to operate selected stores. The Kensington, Muddy Branch, and the Pike sites were selected for contracting, and in the Fall of 1992, contractor staff replaced the County employees. In Fall 1994, the Flower Avenue store became a contractor-operated facility. In December 2000, the Kensington store reverted to County operation. State legislation allows the Director of the Department of Liquor Control to contract the operation of a retail outlet only with those persons who had a contract in effect on January 1, 1997. In fiscal year 2005, two of the three contractor-operated facilities (Rockville Pike and Muddy Branch) reverted to County-staffed and operated stores. Flower Avenue remains as the sole contractor-operated retail store.

FY13 Recommended Changes	Expenditures	FTEs
FY12 Approved	190,650	0.00
FY13 CE Recommended	190,650	0.00

Licensure, Regulation, and Education

This program includes issuing of beverage alcohol licenses inspecting and investigating licensed facilities to ensure compliance with all applicable laws, rules, and regulations and serving as support staff and providing expert testimony at hearings for issuance, fining, suspension, or revocation of licenses. This program also encompasses community partnership by defining issues and strategies and monitoring efforts with various agencies, departments, civic organizations, businesses, and individuals to provide and coordinate innovative programs and measures to ensure safe and vibrant communities relative to the service and consumption of beverage alcohol.

Program Performance Measures	Actual FY10	Actual FY11	Estimated FY12	Target FY13	Target FY14
Annual alcohol compliance checks to minors (under 21) ¹	550	400	400	400	400

¹ DLC performs different types of inspections. This measure is under-age compliance checks, which comprise part of the total. The number of inspections may vary by type from year to year.

FY13 Recommended Changes	Expenditures	FTEs
FY12 Approved	1,266,830	13.00
Technical Adj: Division of Licensure, Regulation and Education reorganization	0	1.00
Multi-program adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting multiple programs. Other large variances are related to the transition from the previous mainframe budgeting system to Hyperion.	340,943	1.00
FY13 CE Recommended	1,607,773	15.00

Office of the Director

This program provides the overall direction for the Department.

Program Performance Measures	Actual FY10	Actual FY11	Estimated FY12	Target FY13	Target FY14
Percentage of Annual Sales Growth	3.9	6.6	3.5	3.5	3.5
Gross profit margin of DLC retail and wholesale operations (percent)	28	28.3	28	28	28

FY13 Recommended Changes	Expenditures	FTEs
FY12 Approved	2,896,780	3.20
Multi-program adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting multiple programs. Other large variances are related to the transition from the previous mainframe budgeting system to Hyperion.	-1,925,341	0.00
FY13 CE Recommended	971,439	3.20

Notes: Decrease is primarily due to the redistribution of OPEB funding from the Director's Office across all programs.

Administration

This program provides accounting, financial and information technology services for the department. Finance and accounting staff performs day-to-day accounting functions, special analysis and reporting, and the preparation and monitoring of the department's budget. Information and technology staff provide the design, operation, maintenance and protection of all information technology initiatives for the Department.

FY13 Recommended Changes	Expenditures	FTEs
FY12 Approved	11,126,990	20.68
Enhance: Debt Service Other	1,725,460	0.00
Decrease Cost: Peapod Payments	-458,660	0.00
Multi-program adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting multiple programs. Other large variances are related to the transition from the previous mainframe budgeting system to Hyperion.	11,707	-0.18
FY13 CE Recommended	12,405,497	20.50

BUDGET SUMMARY

	Actual FY11	Budget FY12	Estimated FY12	Recommended FY13	% Chg Bud/Rec
LIQUOR CONTROL					
EXPENDITURES					
Salaries and Wages	18,522,864	17,564,280	18,380,430	18,834,103	7.2%
Employee Benefits	5,938,996	5,247,720	5,848,250	6,293,297	19.9%
Liquor Control Personnel Costs	24,461,860	22,812,000	24,228,680	25,127,400	10.1%
Operating Expenses	12,287,212	17,332,140	17,774,795	17,384,410	0.3%
Debt Service Other	3,525,091	6,703,490	6,703,490	8,080,920	20.5%
Capital Outlay	0	105,650	0	105,650	—
Liquor Control Expenditures	40,274,163	46,953,280	48,706,965	50,698,380	8.0%
PERSONNEL					
Full-Time	248	245	245	246	0.4%
Part-Time	58	57	57	55	-3.5%
FTEs	312.90	323.00	323.00	324.02	0.3%
REVENUES					
Investment Income	5,483	30,000	10,000	20,000	-33.3%
Liquor Licenses	1,566,870	1,419,000	1,419,000	1,419,000	—
Liquor Sales	67,100,741	68,450,480	71,007,226	71,649,316	4.7%
Miscellaneous Revenues	-122,687	0	0	0	—
Other Charges/Fees	16,750	8,740	8,740	8,740	—
Other Fines/Forfeitures	248,113	220,560	220,560	220,560	—
Other Licenses/Permits	238,973	156,000	156,000	156,000	—
Liquor Control Revenues	69,054,243	70,284,780	72,821,526	73,473,616	4.5%
GRANT FUND MCG					
EXPENDITURES					
Salaries and Wages	5,625	0	0	0	—
Employee Benefits	373	0	0	0	—
Grant Fund MCG Personnel Costs	5,998	0	0	0	—
Operating Expenses	35,255	0	0	0	—
Capital Outlay	0	0	0	0	—
Grant Fund MCG Expenditures	41,253	0	0	0	—
PERSONNEL					
Full-Time	0	0	0	0	—
Part-Time	0	0	0	0	—
FTEs	0.00	0.00	0.00	0.00	—
REVENUES					
Federal Grants	30,368	0	0	0	—
Other Intergovernmental	10,885	0	0	0	—
Grant Fund MCG Revenues	41,253	0	0	0	—
DEPARTMENT TOTALS					
Total Expenditures	40,315,416	46,953,280	48,706,965	50,698,380	8.0%
Total Full-Time Positions	248	245	245	246	0.4%
Total Part-Time Positions	58	57	57	55	-3.5%
Total FTEs	312.90	323.00	323.00	324.02	0.3%
Total Revenues	69,095,496	70,284,780	72,821,526	73,473,616	4.5%

FY13 RECOMMENDED CHANGES

	Expenditures	FTEs
LIQUOR CONTROL		
FY12 ORIGINAL APPROPRIATION	46,953,280	323.00
Changes (with service impacts)		
Enhance: Debt Service Other [Administration]	1,725,460	0.00
Enhance: Personnel Costs - Sunday Sales [Retail Sales Operations]	895,000	0.00
Enhance: Retail Store Renovations [Retail Sales Operations]	157,340	0.00
Enhance: Shift4 Processing Fees [Retail Sales Operations]	86,900	0.00
Add: Point of Sale Systems (Phase 2) [Retail Sales Operations]	20,000	0.00
Other Adjustments (with no service impacts)		
Increase Cost: Lump Sum Wage Adjustment	585,208	0.00
Increase Cost: Group Insurance Adjustment	494,512	0.00
Increase Cost: Retirement Adjustment	421,476	0.00
Increase Cost: ERP - Warehouse System [Warehouse Operations]	180,260	0.00
Increase Cost: Retail Store Leases [Retail Sales Operations]	173,190	0.00
Increase Cost: Motor Pool Rate Adjustment	139,440	0.00
Increase Cost: Warehouse Night Security Services [Warehouse Operations]	37,900	0.00
Increase Cost: Risk Management Adjustment	30,230	0.00
Increase Cost: Longevity Adjustment	29,718	0.00
Increase Cost: Point of Sale System (POS) [Retail Sales Operations]	700	0.00
Technical Adj: Conversion of WYs to FTEs in the New Hyperion Budgeting System; FTEs are No Longer Measured for Overtime and Lapse	0	-1.18
Technical Adj: Division of Licensure, Regulation and Education reorganization [Licensure, Regulation, and Education]	0	1.00
Technical Adj: Reconcile FTEs in BASIS and Hyperion	0	1.40
Shift: Help Desk - Desk Side Support to the Desktop Computer Modernization NDA	-740	0.00
Decrease Cost: Printing and Mail Adjustment	-14,130	0.00
Shift: Remove Occupational Medical Services Chargeback from OHR	-48,274	-0.20
Decrease Cost: Negotiated rent savings at Leisure World store in FY13 [Retail Sales Operations]	-136,000	0.00
Decrease Cost: DLC Relocation Costs [Warehouse Operations]	-150,000	0.00
Decrease Cost: Retiree Health Insurance Pre-Funding	-151,050	0.00
Decrease Cost: Electricity Rate Savings	-273,380	0.00
Decrease Cost: Peapod Payments [Administration]	-458,660	0.00
FY13 RECOMMENDED:	50,698,380	324.02

PROGRAM SUMMARY

Program Name	FY12 Approved		FY13 Recommended	
	Expenditures	FTEs	Expenditures	FTEs
Warehouse Operations	7,884,580	65.29	8,391,204	66.19
Delivery Operations	5,584,090	76.70	6,739,250	74.00
Retail Sales Operations	18,003,360	144.13	20,392,567	145.13
Retail Contracted Operations	190,650	0.00	190,650	0.00
Licensure, Regulation, and Education	1,266,830	13.00	1,607,773	15.00
Office of the Director	2,896,780	3.20	971,439	3.20
Administration	11,126,990	20.68	12,405,497	20.50
Total	46,953,280	323.00	50,698,380	324.02

FUTURE FISCAL IMPACTS

Title	(S000's)					
	CE REC. FY13	FY14	FY15	FY16	FY17	FY18
This table is intended to present significant future fiscal impacts of the department's programs.						
LIQUOR CONTROL						
Expenditures						
FY13 Recommended	50,698	50,698	50,698	50,698	50,698	50,698
No inflation or compensation change is included in outyear projections.						
Elimination of One-Time Lump Sum Wage Adjustment	0	-585	-585	-585	-585	-585
This represents the elimination of the one-time lump sum wage increases paid in FY13.						
Debt Service Other	0	2,437	2,435	2,439	2,436	2,434
Financing for the State Transportation Participation CIP Project No. 500722, the Glenmont Metro Parking Expansion CIP Project No. 500552, and the warehouse relocation.						
ERP- Warehouse System	0	-426	-480	-480	-480	-480
These figures represent the debt service, maintenance costs, and personnel costs to implement and maintain the ERP warehouse system.						
Leisure World Store Rent Adjustment	0	136	136	136	136	136
One-time, negotiated, rent adjustment at the Leisure World store.						
Longevity Adjustment	0	2	2	2	2	2
This represents the annualization of longevity wage increments paid during FY13.						
Point of Sale System (POS)	0	1	2	2	3	4
These figures represent required maintenance of the POS System.						
Retail Store Leases	0	172	351	521	696	875
The leases for 23 retail stores based on CPI assumptions.						
Retiree Health Insurance Pre-Funding	0	-301	-777	-807	-817	-817
These figures represent the estimated cost of the multi-year plan to pre-fund retiree health insurance costs for the County's workforce.						
Subtotal Expenditures	50,698	52,135	51,781	51,927	52,089	52,267

FY13-18 PUBLIC SERVICES PROGRAM: FISCAL PLAN		Department of Liquor Control					
FISCAL PROJECTIONS	FY12 ESTIMATE	FY13 REC	FY14 PROJECTION	FY15 PROJECTION	FY16 PROJECTION	FY17 PROJECTION	FY18 PROJECTION
ASSUMPTIONS							
Indirect Cost Rate	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
CPI (Fiscal Year)	3.1%	2.7%	2.9%	2.9%	2.7%	2.7%	2.7%
Investment Income Yield	0.2%	0.3%	0.4%	0.9%	1.6%	2.4%	2.9%
BEGINNING FUND BALANCE	1,745,340	793,110	1,271,210	3,978,300	4,047,170	4,114,500	4,180,920
REVENUES							
Licenses & Permits	1,575,000	1,575,000	1,579,520	1,584,090	1,588,460	1,592,950	1,597,650
Charges For Services	8,740	8,740	8,740	8,740	8,740	8,740	8,740
Fines & Forfeitures	220,560	220,560	220,560	220,560	220,560	220,560	220,560
Miscellaneous	71,017,226	71,669,316	74,007,920	76,412,200	78,894,620	81,457,720	84,114,120
Subtotal Revenues	72,821,526	73,473,616	75,816,740	78,225,590	80,712,380	83,279,970	85,941,070
INTERFUND TRANSFERS (Net Non-CIP)							
Transfers To The General Fund	(25,066,800)	(22,297,140)	(19,239,680)	(22,851,920)	(23,421,740)	(23,982,740)	(24,511,740)
Indirect Costs	(2,281,200)	(2,512,740)	(2,512,740)	(2,512,740)	(2,512,740)	(2,512,740)	(2,512,740)
Technology Modernization CIP	(373,990)	(384,400)	(280,940)	(231,180)	0	0	0
Earnings Transfer	(22,411,610)	(19,400,000)	(16,446,000)	(20,108,000)	(20,909,000)	(21,470,000)	(21,999,000)
TOTAL RESOURCES	49,500,066	51,969,586	57,848,270	59,351,970	61,337,810	63,411,730	65,610,250
PSP OPER. BUDGET APPROP/ EXP'S.							
Operating Budget	(42,351,500)	(42,617,460)	(44,352,850)	(46,141,060)	(47,913,740)	(49,759,100)	(51,705,080)
Debt Service: Other (Non-Tax Funds only)	(6,355,460)	(8,080,920)	(10,517,700)	(10,515,450)	(10,520,200)	(10,517,200)	(10,514,800)
Annualizations and One-Time	n/a	n/a	583,140	583,140	583,140	583,140	583,140
FFI Retiree Health Insurance Pre-Funding	n/a	n/a	301,170	777,440	807,180	817,450	817,450
FFI-ERP Warehouse			425,510	479,640	479,640	479,640	479,640
FFI-POS			(800)	(1,600)	(2,400)	(3,200)	(4,000)
FFI-Retail Store Leases			(308,440)	(486,910)	(656,930)	(831,541)	(1,010,870)
Subtotal PSP Oper Budget Approp / Exp's	(48,706,960)	(50,698,380)	(53,869,970)	(55,304,800)	(57,223,310)	(59,230,811)	(61,354,520)
TOTAL USE OF RESOURCES	(48,706,960)	(50,698,380)	(53,869,970)	(55,304,800)	(57,223,310)	(59,230,811)	(61,354,520)
YEAR END FUND BALANCE	793,110	1,271,210	3,978,300	4,047,170	4,114,500	4,180,920	4,255,730
END-OF-YEAR RESERVES AS A							
PERCENT OF RESOURCES	1.6%	2.4%	6.9%	6.8%	6.7%	6.6%	6.5%

Assumptions:

1. These projections are based on the Executive's Recommended budget and include the revenue and resource assumptions of that budget. The projected future expenditures, revenues, and fund balances may vary based on changes not assumed here to fee or tax rates, usage, inflation, future labor agreements, and other factors not assumed here.
2. Fund Balance Policy equals one month's operating expenses, one payroll, and \$1,500,000 for inventory in cash balance.
3. Operating budget expenditures grow with CPI.
4. Net profit growth is estimated at 3.25% per year.

Gross Sales Totals

This slide is to provide a sense of the scope of operations of DLC with its 25 retail locations and wholesale operations.

Fiscal Year	Total Gross Warehouse Sales	Year to Year % Change	Total Gross Retail Sales	Year to Year % Change	Total Gross Sales	Year to Year % Change
FY07	\$111,861,920		\$89,859,669		\$201,721,589	
FY08	\$116,497,216	4.1%	\$95,416,786	6.2%	\$211,914,002	5.1%
FY09	\$118,708,597	1.9%	\$100,041,953	4.8%	\$218,750,580	3.2%
FY10	\$121,087,617	2.0%	\$106,247,721	6.2%	\$227,335,338	3.9%
FY11	\$127,073,615	4.9%	\$115,341,177	8.6%	\$242,414,792	6.6%



FY13-18 PUBLIC SERVICES PROGRAM: FISCAL PLAN

Department of Liquor Control

FISCAL PROJECTIONS	FY12 ESTIMATE	FY13 REC	FY14 PROJECTION	FY15 PROJECTION	FY16 PROJECTION	FY17 PROJECTION	FY18 PROJECTION
ASSUMPTIONS							
Indirect Cost Rate	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
CPI (Fiscal Year)	3.1%	2.7%	2.9%	2.9%	2.7%	2.7%	2.7%
Investment Income Yield	0.2%	0.3%	0.4%	0.9%	1.6%	2.4%	2.9%
BEGINNING FUND BALANCE	1,745,340	793,110	1,271,210	3,978,300	4,047,170	4,114,500	4,180,920
REVENUES							
Licenses & Permits	1,575,000	1,575,000	1,579,520	1,584,090	1,588,460	1,592,950	1,597,650
Charges For Services	8,740	8,740	8,740	8,740	8,740	8,740	8,740
Fines & Forfeitures	220,560	220,560	220,560	220,560	220,560	220,560	220,560
Miscellaneous	71,017,226	71,669,316	74,007,920	76,412,200	78,894,620	81,457,720	84,114,120
Subtotal Revenues	72,821,526	73,473,616	75,816,740	78,225,590	80,712,380	83,279,970	85,941,070
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Indirect Costs	(2,281,200)	(2,512,740)	(2,512,740)	(2,512,740)	(2,512,740)	(2,512,740)	(2,512,740)
Technology Modernization CIP	(373,990)	(384,400)	(280,940)	(231,180)	0	0	0
Earnings Transfer	(22,411,610)	(19,400,000)	(16,446,000)	(20,108,000)	(20,909,000)	(21,470,000)	(21,999,000)
TOTAL RESOURCES	49,500,066	51,969,586	57,848,270	59,351,970	61,337,810	63,411,730	65,610,250
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Debt Service: Other (Non-Tax Funds only)	(6,355,460)	(8,080,920)	(10,517,700)	(10,515,450)	(10,520,200)	(10,517,200)	(10,514,800)
Annualizations and One-Time	n/a	n/a	583,140	583,140	583,140	583,140	583,140
FFI Retiree Health Insurance Pre-Funding	n/a	n/a	301,170	777,440	807,180	817,450	817,450
FFI-ERP Warehouse			425,510	479,640	479,640	479,640	479,640
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FFI-Retail Store Leases			(308,440)	(486,910)	(656,930)	(831,541)	(1,010,870)
Subtotal PSP Oper Budget Approp / Exp's	(48,706,960)	(50,698,380)	(53,869,970)	(55,304,800)	(57,223,310)	(59,230,811)	(61,354,520)
TOTAL USE OF RESOURCES	(48,706,960)	(50,698,380)	(53,869,970)	(55,304,800)	(57,223,310)	(59,230,811)	(61,354,520)
YEAR END FUND BALANCE	793,110	1,271,210	3,978,300	4,047,170	4,114,500	4,180,920	4,255,730
END-OF-YEAR RESERVES AS A PERCENT OF RESOURCES	1.6%	2.4%	6.9%	6.8%	6.7%	6.6%	6.5%

Assumptions:

1. These projections are based on the Executive's Recommended budget and include the revenue and resource assumptions of that budget. The projected future expenditures, revenues, and fund balances may vary based on changes not assumed here to fee or tax rates, usage, inflation, future labor agreements, and other factors not assumed here.
2. Fund Balance Policy equals one month's operating expenses, one payroll, and \$1,500,000 for inventory in cash balance.
3. Operating budget expenditures grow with CPI.
4. Net profit growth is estimated at 3.25% per year.

Funding Detail by Revenue Source, Department/Agency and Project (\$000s)

Revenue Bonds: Liquor Fund

Project	Total	Thru FY11	Rem. FY12	6 Year Total	FY13	FY14	FY15	FY16	FY17	FY18	Beyond 6 Years
<i>Liquor Control</i>											
850900 DLC Liquor Warehouse	53,119	34,600	18,519	0	0	0	0	0	0	0	0
Sub-Total	53,119	34,600	18,519	0	0	0	0	0	0	0	0
<i>Transportation</i>											
500722 State Transportation Participation	64,521	19,997	20,051	24,473	17,681	6,792	0	0	0	0	0
500929 Bethesda Metro Station South Entrance	5,000	0	5,000	0	0	0	0	0	0	0	0
Sub-Total	69,521	19,997	25,051	24,473	17,681	6,792	0	0	0	0	0
<i>W.M.A. T.A.</i>											
500552 Glenmont Metro Parking Expansion	9,969	0	9,969	0	0	0	0	0	0	0	0
Sub-Total	9,969	0	9,969	0	0	0	0	0	0	0	0
Revenue Source Total	132,609	54,597	53,539	24,473	17,681	6,792	0	0	0	0	0



ANNUAL REPORT

FISCAL YEAR 11



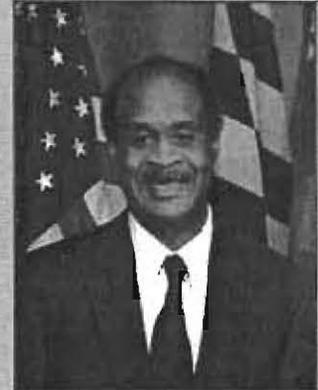
Montgomery County
Department of Liquor Control
16650 Crabbs Brach Way
Rockville, MD 20855
240-777-1900
www.montgomerycountymd.gov/dlc

LIQUOR CONTROL



A NOTE FROM THE HONORABLE ISIAH LEGGETT, MONTGOMERY COUNTY EXECUTIVE

Amongst Montgomery County's highest priorities are ensuring we have safe streets, secure neighborhoods and healthy, sustainable communities. To achieve those goals, County policies on the sale and consumption of alcoholic beverages promote moderation and responsibility.



I am very pleased with the contribution the Department of Liquor Control makes to our quality of life here in the County. Its nationally-recognized, innovative programs promote responsible sales and service. Its professional acumen in choosing and marketing a vast and diverse product line provides a wide range of choices for consumers. Its emphasis on customer service and its commitment to working with the business community promotes responsible sales practices.

The financial measure of the department's success is evident when considering the more than \$240 million it has contributed to the County's General Fund in the last decade. These monies help pay for important services, including the salaries and benefits of teachers, police and firefighters; protection of the environment; important health initiatives; and much more.

I am proud of the work done by staff in the Department of Liquor Control. With an emphasis on the responsible sale of alcohol, they consistently provide a valuable service to the residents of Montgomery County.

Isiah Leggett
Montgomery County Executive



Montgomery County, MD

Montgomery County is located adjacent to the nation's capital, Washington, D.C., and includes 497 square miles of land area and 10 square miles of lakes and streams. The County is the second largest jurisdiction in the region, accounting for eight percent of total population in the Washington, D.C. metro area.

People come to Montgomery County because of its renowned quality of life. Our residents value our urban centers, our agricultural communities, and our suburban neighborhoods.

LIQUOR CONTROL AT A GLANCE

Montgomery County's Department of Liquor Control operates facilities for the wholesale and retail distribution of alcoholic beverages in Montgomery County, MD.

The department controls the wholesale distribution of all beverage alcohol in the County, and (subject to one grandfathered exception) the retail sale of all distilled spirits for off-site consumption. The department shares the retail sale of beer and wine with approximately 950 licensed retailers.



Department Highlights:

\$0

No property, state or local taxes are used to support the department.

\$32.4 Million

Over 32 million dollars were transferred to the General Fund in 2011 to pay for important services.

\$240 Million

Over 240 million dollars were transferred to the General Fund in the last 10 years

ORGANIZATIONAL CHART



Director
George F. Griffin



Chief of Operations
Gus Montes de Oca

Purchasing and Customer Service

Wholesale Operations
(sales, warehousing and delivery)

Retail Operations
(sales, promotions and marketing)



Chief of Licensure, Regulation and Education
Kathie Durbin

Licensure and Staffing for the Board of License Commissioners

Regulation
(alcohol and tobacco inspections)

Education, Training, Development of Community Alliances



Chief of Administration
Sunil Pandya

Administration
(budget, HR, facilities)

Finance
(A/P, A/R, pricing, financial reporting)

Information Technology
(wholesale, retail, LRE and financial)

MISSION STATEMENT

The mission of the Department of Liquor Control is to provide licensing, wholesale and retail sales of beverage alcohol products, enforcement and effective education and training programs, while promoting moderation and responsible behavior in all phases of distribution and consumption.

The department diligently promotes, enforces and obeys all laws and regulations governing beverage alcohol while generating revenue for the benefit of Montgomery County's General Fund.

LETTER FROM THE DIRECTOR



The year that ended on June 30, 2011 was a relatively successful one for the Montgomery County Department of Liquor Control: in fact, more successful than we had any reasonable expectations of achieving. The 2011 Fiscal Year (July 1, 2010 through June 30, 2011) was a year of "adapting to the new reality." That new reality is the long-term, systemic reorganization of government operations and expenditures that is playing out in various degrees across the United States – in response to fundamental changes in the public revenue stream. In Montgomery County, this new reality has most directly impacted us in the areas of employment and wage & benefit conditions. Although DLC is not tax-supported and operates as an "enterprise fund," we still had to deal with the realities of hiring freezes and service cuts. This year marked the third consecutive year of no salary or wage increases. FY11 also brought us mandatory employee furloughs for the first time. Our current fiscal year is bringing permanent structural reductions to employee benefits in the areas of retirement and

health insurance coverage. In this environment we have had to plan for closing lower-performing retail stores, deferring the opening of new retail stores, and maintaining service to a growing customer base with a shrinking workforce. It has not been easy.

In spite of these challenges, we had a productive year on a number of fronts. Our year-end financials revealed that our total gross sales grew by a robust 6.15% over FY10 as we had \$241,382,809 in sales. This resulted from an increase in wholesale sales to licensees of 5.42% for a total of \$127,790,517. Our retail stores continued to exhibit strong growth with an annual increase of 6.97% for a total of \$113,652,292 in total cash register retail sales to the public. This robust revenue growth was matched with outstanding targeted management of inventory and operational expense levels. DLC was able to end the year with a gross profit margin of 28.30% (our goal is 28%). These surprisingly strong figures in a weak economy were not merely gratifying – they allowed us to make our targeted revenue transfers to the Montgomery County General Fund. DLC transferred a total of \$32,422,543 in net profit to the General Fund. In addition, we paid \$4,583,250 in debt service from our net profits for the Montgomery County Department of Liquor Control Revenue Bonds. These bonds were issued by Montgomery County over the last two years to benefit specific County-wide capital projects, and are unrelated to the County's own General Obligation and Capital Improvement Project bonds. These bonds (approximately \$80 Million have been sold) are a new revenue source for the County and are backed exclusively by the operations of DLC. The result is that between unrestricted General Fund transfers and bond debt service payments, DLC contributed over \$32 Million to Montgomery County this past year.

While adjusting to the "new reality" and increasing our contributions to the County General Fund, we were also able to achieve a few notable operational accomplishments during the course of the year. FY11 saw the introduction of Sunday sales in County retail stores. We also successfully procured and deployed a new point-of-sale system for our DLC retail stores. The new POS system includes hardware and software, and the process involved a number of initiatives to integrate technology across our Department, improve efficiency in stores and create a more satisfying shopping experience for our customers.

In later pages we discuss these things and more in more depth. As always, I hope you enjoy reading this year's annual report. It shows strong results from the work done by our dedicated employees.

A handwritten signature in cursive script that reads "George Griffin". The signature is written in dark ink on a light background.

George Griffin

Director, Montgomery County Department of Liquor Control

Feature: CONTROL JURISDICTION ADVANTAGE

Alcohol is a very special and sometimes controversial commercial product that deserves particular care. With the repeal of national prohibition in 1933, the method of beverage alcohol regulation fell to the citizens who decided by state, and sometimes by jurisdiction, how they could balance rights and responsibilities to best serve the community interest. For the individual who chose to drink responsibly, provision had to be made for the legal sale of beverage alcohol while, at the same time, the substantial social risks and economic costs of alcohol abuse had to be considered.

While a number of citizens chose to resume the legal sale of alcohol through licensed private sellers, 18 states and several local jurisdictions opted for a different course - control jurisdiction, where economic incentives for maximum sales were replaced with policies supporting moderate consumption. Seven decades later, jurisdictions continue to use the control method, and such durability suggests that the wisdom of this method is sound.

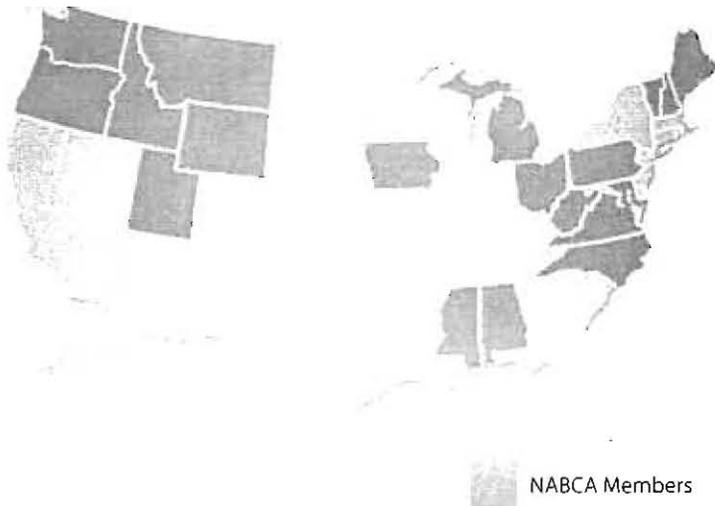
Montgomery County is proud to be one of those control jurisdictions and believes that it has successfully achieved the delicate balance of...

- providing high-quality products and services to customers;
- improving the overall safety of communities through education, regulation and enforcement; and
- generating revenue for transfer to the General Fund to pay for important resident services.

28 percent

Today, 28 percent of the total U.S. population operates under the control mode.

MEMBERS OF THE NATIONAL ALCOHOL BEVERAGE CONTROL ASSOCIATION



REVENUE GENERATED

The Control Systems Generate 102% MORE Per Gallon Revenue Than License States.
 Control States: \$22.18 per gallon (spirits)
 License States: \$10.53 per gallon (spirits)

SOCIAL COSTS REDUCED

The Control Systems Consume 15.8% LESS Distilled Spirits Than License States.
 Control States: 1.6 gallons per capita (spirits)
 License States: 1.9 gallons per capita (spirits)

LIVES SAVED

The Control Systems Experience 9.3% LESS Under 21 Impaired Driving Deaths Than License States.

Focus: LICENSURE, REGULATION AND EDUCATION (LRE)

DIVISION OVERVIEW

The Montgomery County Department of Liquor Control (DLC), as a "control jurisdiction" facilitates the wholesale distribution of beer, wine and spirits to over 950 licensed establishments in the County. Along with the sale and distribution of a controlled substance comes a responsibility to educate and support the establishments served to ensure the safety of Montgomery County residents and the vitality of licensed businesses. The Division of Licensure, Regulation and Education (LRE) is one the three divisions within the DLC. Within this division there are three offices that work closely together, the Licensure Office, the Regulation Office and the Community Outreach/Education Office.



LICENSURE OFFICE



The Licensure Office processes alcoholic beverage license applications (new, transfer, one-day, renewals) in compliance with Article 2B of Maryland state law and the Rules and Regulations of the Board of License Commissioners (County Board). Licensure staff assist applicants throughout the application process from initial inquiry through license issuance and beyond, and provides staff support to the Board. The Licensure Office is also involved in issuing violation letters, collecting fines, and scheduling show-cause hearings before the Board.

MONTGOMERY COUNTY BOARD OF LICENSE COMMISSIONERS

The Board of License Commissioners is charged with regulating the sale and distribution of alcohol in accordance with Article 2B of the Annotated Code of Maryland and has full power and authority to adopt such reasonable rules and regulations as the board deems necessary to enable it to effectively discharge the duties imposed upon it by Article 2B.

FY11 Board Members:

- Donald R. Gilchrist, Commissioner
- Dee Metz, Commissioner
- Eugene M. Thirof, Chair
- Maria Peña-Faustino, Commissioner
- Keith Um, Commissioner



Focus: ON CUSTOMER SERVICE & COLLABORATION

ALCOHOL LAW EDUCATION AND REGULATORY TRAINING

The LRE team at Liquor Control developed and provides a free-of-charge ALERT (Alcohol Law Education and Regulatory Training) program. Designed to educate servers, sellers, management and owners of licensed County businesses in alcohol beverage regulatory compliance, the training program is offered twice a month to all County businesses (or potential businesses). This program has been recognized as a valuable resource to the business community, and is being mandated by the Board of License Commissioners and by District Court judges hearing cases of those businesses and/or individuals cited with alcohol violations. In Fiscal Year 2011, over 600 individuals were trained in ALERT by the LRE team. This is up almost 200 people from Fiscal Year 2010.



COMMUNICATION ENHANCEMENT

Fiscal Year 2011, DLC continued with updating/improving its website, www.montgomerycountymd.gov/dlc, to allow for better information flow. Applications are continuously updated as interactive forms to enable licensees to complete the forms online. Also on the DLC website our free resources including sample business and alcohol plans, newsletters, legislation, licensing, education/training, and regulation news.

FINGERPRINTING

Montgomery County Department of Liquor Control provides fingerprinting services to alcohol license applicants and managers. Fingerprinting

is offered every Wednesday from 2:00 - 4:00 PM in the Licensure, Regulation and Education (LRE) Main Office. The cost is \$30. In FY 11 almost 300 individuals were fingerprinted.



'HOW TO APPLY' BROCHURE

The "How to Apply for a New or Transfer Annual Alcoholic Beverage License in Montgomery County, Maryland" brochure is available on the department's website or in hard copy from the licensing office. The brochure consolidates a great deal of information that helps applicants for new or transfer annual licenses as they go through the application process.

COLLABORATING WITH OTHERS

The Division of Licensure, Regulation and Education hosted national and statewide forums, spoke at national conferences, and organized community meetings in fiscal year 2011. Some of the events/conferences included the 9th Annual Responsible Retailing Forum National Meeting, Maryland Alcohol Licensing Association (MALA) Conference, Rockville Town Center Community and Business Meeting, Silver Spring Community Meeting, and the Maryland Statewide Alcohol Beverage Forum.



Focus: ON SAFETY**KEEPING IT SAFE**

MONTGOMERY COUNTY IS KEEPING IT SAFE
FISCAL YEAR 2011
ALCOHOL AND TOBACCO COMPLIANCE CHECKS

Alcohol Regulation

Recognizing that alcohol licensed businesses are the first line in defense to reduce the availability of alcohol to youth under 21 years of age, and/or intoxicated individuals; and to maintain keg registration a comprehensive compliance, DLC developed an effective compliance check program. A compliance check involves youth under the age of 20, using their own ID, who attempt to purchase alcohol at a licensed establishment or through room service at a hotel or motel. Alcohol Inspectors and Police conduct compliance checks in tandem delivering both an administrative violation against the liquor licensee and a criminal citation to the individual seller/server for failed compliance.

Protocol- Maintaining a consistent protocol is the basis of a successful compliance check program. All underage volunteers are checked to ensure the only belongings on their person at the time of an attempted purchase is their valid ID, a cell phone for safety and buy money funded by the Licensure, Regulation and Education Division of the Department of Liquor Control. Age enhancements such as facial hair, provocative clothing, and sun glasses are unacceptable. UV's attend an extensive training that includes detailed protocol as well as role playing.

Findings- While compliance for underage alcohol sales fell (1%) from 80% in 2010 to 79% in FY2011, there was a positive (21%) rise in compliance for sales to intoxicated individuals, from 48% in FY2010 to 69% in FY2011. Total alcohol compliance rates rose (1%) from 78% in 2010 to 79% in 2011.

Tobacco Regulation

Annually, the Montgomery County Department of Liquor Control conducts tobacco compliance checks to reduce tobacco sales to minors under the age of 18; and to ensure product placement laws are followed. As in FY2010, tobacco sales were found to be higher amount young female purchasers than among males. With 54 tobacco buys made illegally among 15 female under age volunteers; and 9 illegal tobacco purchases made by 17 male under age volunteers. Compliance was up 8% from 71% in FY2010 to 79% in FY2011.

Compliance Team: Montgomery County Department of Liquor Control, Montgomery County Police Department, Montgomery County Sheriff's Office, and the Montgomery County State's Attorney's Office.

Compliance Checks for Underage Alcohol Sales

Number Checked	400
Number Sold	83
Compliance Rate	79%

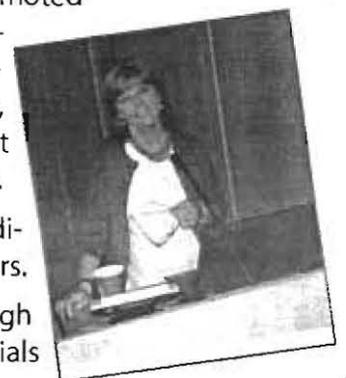
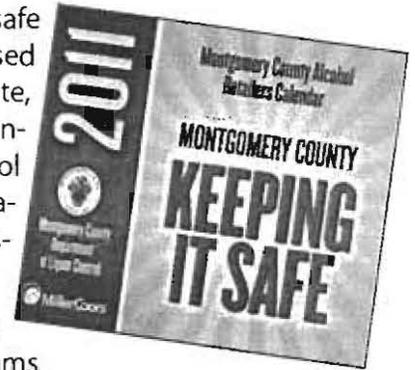
Compliance Checks for Underage Tobacco Sales

Number Checked	300
Number Sold	63
Compliance Rate	79%

Focus: ON COMMUNITY

Along with the sale and distribution of a controlled substance comes a responsibility to educate and support the establishments served. The Community Outreach/Education Office consults with and assesses establishments to keep businesses on track. Helping communities flourish through the promotion of alcohol laws, public awareness and responsible hospitality practices are priorities. Below is a partial listing of programs and efforts.

- The Community Outreach Office builds Business Alliances to support safe and vibrant communities. Business Alliances serve as a community based umbrella organization under which local business owners work with State, County and City governments to customize and implement comprehensive prevention, education and enforcement programs that address alcohol abuse, drinking in public and related community concerns. Alliance initiatives have a direct impact on the neighborhood's alcohol related social issues.
- The Outreach Office supports multi agency efforts through grant writing and reporting. In FY 2011, grant funding totaled \$53,972. Grant programs include funding for a Cops in Shops® Program in downtown Silver Spring, ID Checking Calendars for Retailers, a Responsible Hospitality Institute Night time Economy Study of downtown Wheaton, a Responsible Retailing Over Service Project in downtown Bethesda, hosting an Annual Maryland State Alcohol Beverage Forum, production and distribution of ID Checking tools such as black lights and educational keychain cards, as well as staff attendance at state and national conferences. Additionally, in kind materials from partners, such as over 3,000 ID books, We Don't Serve Teens materials and other educational resources were solicited and distributed in monthly educational trainings. These in kind services are valued at over \$50,000.
- Safety Alliance meetings are coordinated through the Outreach Office, where we serve as a liaison between businesses and county code enforcement. Networking and community trends are discussed and as needed, the Outreach Office disseminates this essential public safety information to licensees.
- Throughout the year, the Outreach Office creates and promotes the "Keeping it Safe" public education campaign. This campaign outreaches to both the hospitality industry and the community with educational materials such as ID checking calendars, signage and a responsible hospitality newsletter. A social host responsibility campaign titled "Adult Host Responsibility" is promoted through out the year through print materials and speaking engagements. Aiming at changing the culture, social host responsibility promotes parental communication and zero tolerance for underage alcohol use. An online e-newsletter, Safenet, is geared towards county parents on youth alcohol prevention. Safenet currently serves hundreds of county parents and all Montgomery County PTAs.
- The Outreach Office distributes monthly newsletters targeting different audiences including SAFEnet, LRE Bulletin, Newslink, and one page resource tip flyers.
- Point of sale materials are available to all county licensees at no charge through the Outreach Office and include: ID Checking Calendars, Point of Sale Materials such as the "We Check ID's" stickers, and brochures on different alcohol topics.



Focus: ON OPERATIONS

CASE STUDIES AND PRESENTATIONS ON THE POINT OF SALE (POS) SYSTEM

The success of the Retail Point-of-Sales solution has been nationally recognized by a number of organizations such as Stateways Magazine, the National Alcohol Beverage Control Association (NABCA), IBM, and Microsoft. In fact IBM and Microsoft have conducted an extensive case study highlighting the efficiencies, security, unique customization, and reliability of our end-to-end solution. In addition Diane Wurdeman (Retail Operations Manager) and Jhason Abuan (Information Technology Manager) have given a presentation of the County's success at the annual NABCA administrator's conference and IBM Retail Store Solution Sale Summit.



DLC AUDITOR'S REPORT

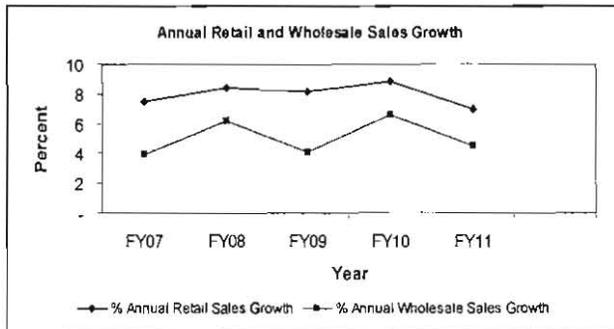
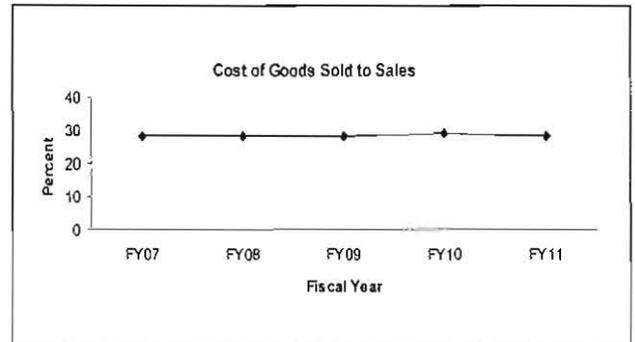
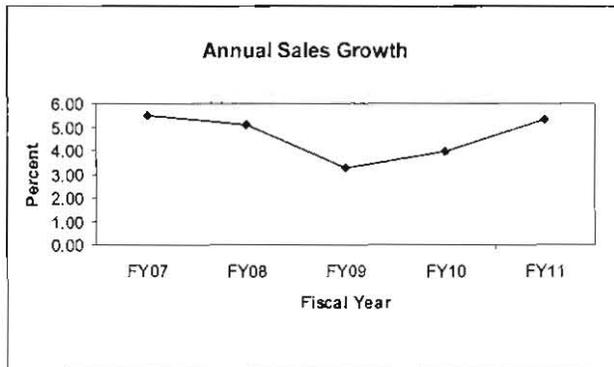
Positive aspects/direct quotes stated in the Auditor Report on POS implementation.

- DLC has significantly improved the accuracy, timeliness, internal control, and customer service of the POS
- Implementation of the POS system, including fourteen customizations, was executed successfully
- DLC met the essential goal of implementing all stores well in advance of the 2010 holiday season
- When amendments were necessary (six signed so far), DLC followed appropriate change management processes
- The new system has increased functionality including real-time inventory, availability of reporting, and superior system availability, all of which has improved customer service compared to the prior system
- Controls were properly designed and implemented to ensure accuracy, validity, and completeness of data converted from the old POS system to the new POS system
- Based on interview results, store managers view the new system favorably
- Adequate balance and control processes are in place within DLC for the posting of cash, checks, credit card transactions, and escrow transactions



Results: SYSTEMATIC PLANNING AND REVIEW

The department provides a wide selection of beverage alcohol products at competitive prices to shoppers in Montgomery County while promoting moderation and responsible consumption of the beverage alcohol products offered for sale. To gauge our success, the department monitors several headline measures:

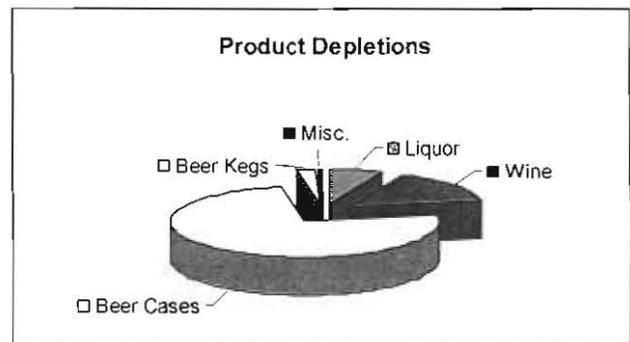


COST OF GOODS SOLD TO SALES

Cost of goods sold to sales is a measure of the gross profit margin. Our goal is to maintain a gross profit margin of twenty-eight percent across all segments. Contributing factors are sound management of product selection, tight inventory control and competitive pricing; while restricting factors include the growing interest in more modestly priced items, in-house cost escalations such as funding negotiated compensatory expenses, and other increasing costs such as retail store leases and utility costs, which are rising well above any increase in sales.

ANNUAL GROWTH SALE

Contributing factors to meeting growth targets are the high level of customer satisfaction in retail stores and wholesale delivery operations, while restricting factors include an overall national trend that point to flattening consumption, tight economic restraints, and our limited advertising strategy that reflects the County's role in this business operation.



PRODUCT DEPLETIONS

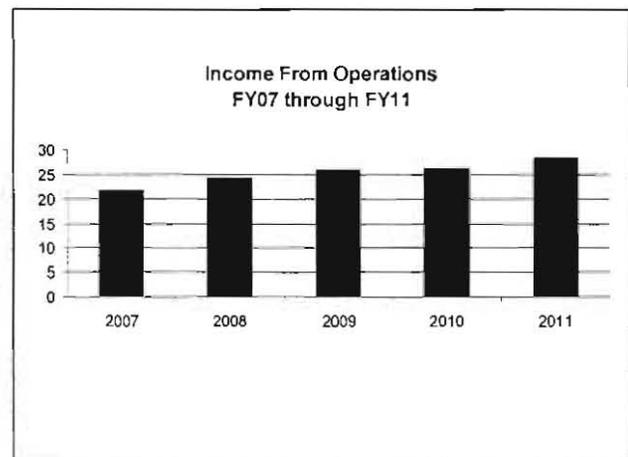
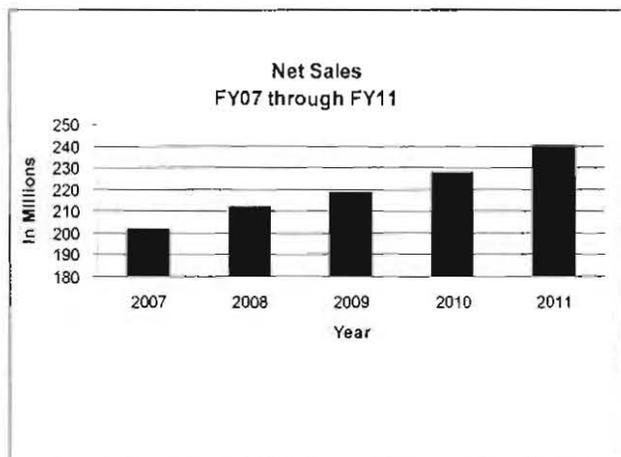
Beer-Case	3,740,261
Wine-Case	988,823
Liquor-Case	400,196
Beer-Keg	85,329
Miscellaneous-Case	24,683

Results: FINANCIAL INFORMATION

In the past 10 years, the department has made a cumulative contribution of over \$240 million (\$240,348,970) to the General Fund to help pay for important resident services such as education, infrastructure and police and fire services.

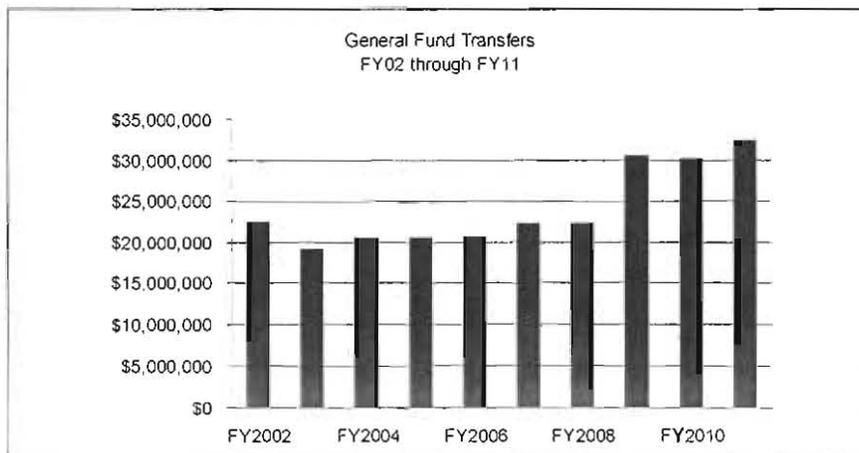
Contributing factors are a high level of customer service in both wholesale and retail; operations competitive product promotions; and availability to customers for special assistance in product location, training and guidance. Restricting factors include the overall national trend that points to flattening consumption; the economy; and the department's limited advertising strategy, which reflects the County's role in this business operation.

RESULTS OF OPERATION



Liquor Control's sales from continuing operations in FY 2011 were \$241.3 million

Liquor Control's income in FY 2011 was \$28.4 million



Liquor Control's transfer to the General Fund in FY 2011 was \$32,422,543

Results: FINANCIAL INFORMATION

SALES IN TOTAL AND BY DIVISION, FY 2002-2011

Fiscal Year	Total Sales (\$)	% Change	Retail Sales (\$)	%	Warehouse Sales (\$)	% Change	Warehouse Beer Sales (\$)	% Change	Warehouse Liquor/Wine Sales (\$)	% Change
2011	241,382,809	6.15	113,652,292	6.97	127,790,517	5.42	75,310,623	7.72	52,419,895	6.45
2010	227,408,026	3.96	106,247,721	6.20	121,160,305	2.07	71,917,442	1.80	49,242,883	2.45
2009	218,750,580	3.23	100,041,953	4.85	118,708,597	1.90	70,643,269	1.94	48,065,328	1.84
2008	211,914,002	5.05	95,416,786	6.18	116,497,216	4.14	69,301,376	4.76	47,195,840	3.26
2007	201,721,589	5.43	89,859,669	7.45	111,861,920	3.86	66,154,446	2.17	45,707,474	6.41
2006	191,333,415	7.54	83,628,976	8.86	107,704,439	6.55	64,752,051	5.99	42,952,388	7.39
2005	177,911,175	5.79	76,823,377	8.16	101,087,798	4.06	61,089,995	2.62	39,997,803	6.33
2004	168,172,236	7.09	71,024,249	8.41	97,147,987	6.14	59,530,471	5.61	37,617,516	6.99
2003	157,039,353	4.63	65,512,134	8.75	91,527,225	1.87	56,366,974	-0.21	35,160,251	5.40
2002	150,085,202	6.69	60,242,390	8.74	89,842,812	5.36	56,484,764	6.18	33,358,048	3.99



Results: FINANCIAL INFORMATION

GENERAL FUND TRANSFERS

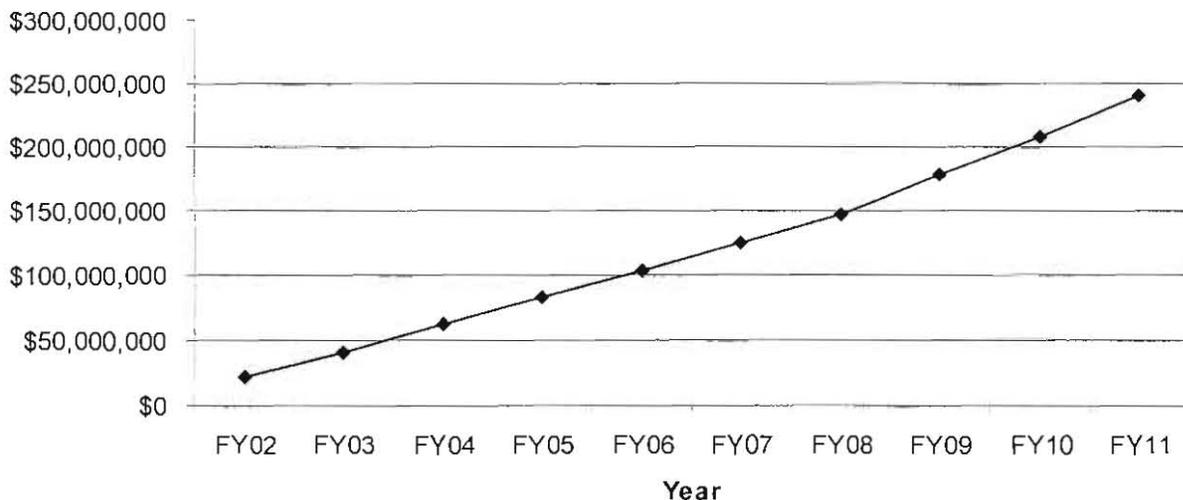
Fiscal Year	Transfer	Cumulative Transfer
2011	\$32,422,543	\$240,348,970
2010	\$30,175,062	\$207,926,427
2009	\$30,410,060	\$177,751,365
2008	\$22,168,275	\$147,341,305
2007	\$22,149,050	\$125,173,030
2006	\$20,698,760	\$103,023,980
2005	\$20,503,510	\$82,325,220
2004	\$20,501,030	\$61,821,710
2003	\$18,985,890	\$41,320,680
2002	\$22,334,790	\$22,334,790

After paying all expenses and retaining a small amount of operating capital, Liquor Control transfers profits to the General Fund to pay for important county services. In Fiscal Year 2011, Liquor Control transferred \$32,422,543; the cumulative contribution in the last 10 years amounted to \$240,348,970.

\$240 Million

Liquor Control contributed over \$240 million to the General Fund in the last 10 years.

**Cumulative General Fund Transfers
FY02 through FY11**



Vision: LOOKING TOWARD THE FUTURE

The department looks forward to its move to the new warehouse location towards the end of FY12/beginning of FY13; to the implementation of Phase II of the point-of-sale system, which includes check verification and gift cards; and to continuing to serve the residents of Montgomery County with varied products at fair prices and a healthy transfer to the General Fund.





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