February 27, 1979

Report by the Montgomery County Chambers' of Commerce Volunteer Committee on Management and Operations of the Department of Liquor Control.

Introduction

1. This report is submitted by the Volunteer Committee of the Montgomery County Chambers' of Commerce in response to a request by the County Council to review the management and operations of the Department of Liquor Control. The report is organized as follows:

I. General/Background

II. Statement of Purpose and Overall Recommendations

III. Recommended Immediate Improvements in Warehouse and Stores Operations

IV. Recommended Possible Future Improvements

V. Recommended DLC Public Information Program

VI. Summary

2. The Volunteer Committee acknowledges the cooperation and support of the Department of Liquor Control, the Department of Finance and the Office of Management Information Services in the compilation of data used in this report.

Charles B Buscher

Charles B. Buscher
Chairman, Volunteer Committee

I. General/Background

1. In July 1977, the County Council solicited volunteers from the Montgomery County business community to conduct a thorough management study of the Department of Liquor Control (DLC). The solicitation was sent to the Montgomery County Chamber of Commerce and eight local chambers within the County. The chambers accepted the invitation and a Volunteer Committee comprising members from several County Chambers was established under the chairmanship of Charles B. Buscher.

2. At the same time, Council approved Resolution 8-1418, the FY 78 Work Program of the Office of Legislative Oversight (OLO), and directed that office to sponsor the evaluation of DLC by the Volunteer Committee of the chambers. Although not participating in the actual study, OLO provided administrative support and served as an interface between the Volunteer Committee and various County departments.

3. On March 21, 1978, the Volunteer Committee submitted an Interim Report to the Council which concluded that DLC had not been able to maintain an appropriate degree of efficiency and economy in warehouse and distribution operations. The report included twelve recommendations for improving DLC warehouse operations. The report concentrated on warehouse operations because the Division of Auditing (Department of Finance) had recently undertaken a detailed performance audit of DLC stores operations. (Department of Liquor Control retail outlets are referred to in various documents as "stores," "dispensaries" and "outlets." This report will refer to them as stores). The Division of Auditing report was published in June 1978, and presented detailed recommendations for improving the efficiency and economy of stores operations.

4. As a follow-on to the Chambers' Interim Report, a gratis warehouse safety and security evaluation was conducted in May 1978, by George P. Morse & Associates, consultants in protection. The Morse report, which was provided to Council and the executive branch, identified several safety, security and fire prevention problems. Several months later, in December 1978, a report by the Office of Risk Management (Department of Finance) confirmed that many of the safety and security problems identified in the Morse report were still present in the DLC warehouse.

5. Finally, the Office of Planning and Capital Programming (Department of Community and Economic Development) initiated a study on marketing areas and store locations. As of this writing, the study had not been completed. The Volunteer Committee believes that the study would be a valuable asset to DLC management and should be completed.

II. Purpose and Overall Recommendations

1. Montgomery County exercises monopoly control over the wholesale purchase, warehousing, distribution and sale of alcoholic beverages within the County. For the fiscal year ended June 30, 1978, the Department of Liquor Control had net earnings of $4,559,966 and a net operating revenue of $54,074,046* Under alcoholic beverages are included distilled spirits (liquor), wine and beer. Within the County, four election districts and certain municipalities are "dry." (See Exhibit A). The retail sale of liquor by the bottle is exclusively controlled by the County through 23 stores. Sale of wine, beer and other alcoholic beverages by the drink is permitted to licensees, of which there are currently over 400. In addition to Montgomery County, there are 18 states which exercise monopoly control over the sale of of liquor and wine.

*Reference Exhibit F-4, Montgomery County Annual Financial Report, FY 1978.

2. While the Chamber does not encourage the consumption of alcoholic beverages, it strongly encourages those in Montgomery County who do purchase alcoholic beverages to do so within the County. Unfortunately, all indications are that a considerable quantity of alcoholic beverages are purchased by County residents at outlets outside the County. According to the official report of the Maryland Comptroller, the consumption of liquor and wine in Montgomery County is the third lowest in Maryland, and Montgomery County has the lowest consumption of beer in Maryland (See Exhibit B). The Volunteer Committee believes Montgomery County consumption figures are inaccurate and too low for the following reasons:

a) The consumption rates are determined on alcoholic beverages tax revenues from sales within each jurisdictions. Thus, alcoholic beverages purchased <u>outside</u> a given jurisdiction are not credited to that jurisdiction's consumption figures--although the alcoholic beverages could, in fact, have been consumed in the jurisdiction.

b) The ratio of consumption to population is considerably out of proportion. For example, Montgomery County has approximately 15% less population than Prince Georges County but according to the Maryland Comptroller's report (Exhibit B) consumes 44% less liquor/wine and 39% less beer. However, a comparison of distribution of tobacco tax revenue between Montgomery and Prince Georges Counties reveals that Montgomery receives approximately 15% less revenue--matching the percentage difference in population.

c) Another example would be to compare Frederick and Montgomery Counties. Montgomery County has six times the population of Frederick County, but according to the Comptroller's tax revenue report, consumes less liquor, wine and beer.

3. The Volunteer Committee Interim Report, the subsequent report by George P. Morse & Associates and reports by County agencies have isolated problems in DLC management and operations. These problems concern the inventory, excessive delays in filling special orders, loss and breakage, distribution and delivery, customer dissatisfaction and safety and security. It is the Volunteer Committee's understanding that DLC management and the executive branch is aware of these problems and that the Chief Administrative Officer is personally reviewing the resolution of operational, financial and safety issues on a priority basis.

4. This final report of the Chamber will concentrate on issues and recommendations concerning: immediate improvements in DLC warehouse and store operations; possible future improvements; and a recommended DLC public information program.

5. The overall recommendations of the Volunteer Committee are:

a) Montgomery County should retain present control over ordering, warehousing and distribution of liquor and wine to County operated stores and licensees and study the feasibility of transferring all beer operations to the private sector.

b) A policy decision is necessary to define the relationship between the County's control function and the degree DLC should be a revenue producing enterprise for the benefit of the general fund.

c) The County Executive should institute some immediate improvements in warehouse and stores operations.

d) The County Executive and County Council should initiate studies on possible future improvements in DLC operations.

6. Many recommendations for immediate improvements and long range studies will result in reduced direct expenditures for personnel, equipment and administrative overhead. The Chamber unequivically recommends that all reductions in merit personnel be through normal attrition or transfer to comparable positions in other County departments. It is the Volunteer Committee's understanding that the turnover rate for DLC in FY 77 (the latest year for which figures were available) was approximately 10% for the stores and over 14% for the warehouse.

III. Recommended Immediate Improvements in Warehouse and Stores Operations

WAREHOUSE OPERATIONS

1. General. Nine immediate improvements are recommended which affect warehousing and distribution operations. These are briefly discussed in subsequent paragraphs.

2. Price lists. The Volunteer Committee recommends that DLC publish a maximum of four retail price changes a year. Quarterly publication is practiced in all other control states. This improvement would benefit the consumer and allow the licensee to better manage ordering and pricing.

3. Half-pints, miniatures and pints of fortified wines. The Volunteer Committee recommends that half-pints (or their metric equivalent) and miniatures of distilled spirits be discontinued. Furthermore, it is recommended that DLC discontinue stocking and selling pints (or their metric equivalent) of fortified or dessert wines. Excluded from this recommendation are cordials and speciality items. The results of the above recommended actions would be to: increase warehouse and retail store shelf space; reduce inventory; and to remove those sizes which are most vulnerable to loss, breakage and sale to itinerant, daytime drinkers. The needs of those licensees who have a demonstrated requirement to stock these recommended discontinued sizes can be satisfied through special orders. Although data is unavailable to determine an exact dollar savings, it is estimated that discontinuance of these sizes will save approximately $100,000 annually.

4. Accountants. It is recommended that the accountants who handle the Liquor Control Fund be physically moved from the County Office Building in Rockville to the DLC warehouse so as to be more responsive to the Director's needs. The accountants are funded from the Liquor Control Fund.

5. Warehouse modifications. The Volunteer Committee notes that there is $60,000 in the FY 79 DLC budget to extend the warehouse mezzanine. It is suggested that this modification be deferred until decisions are made on the several recommendations relating to the warehouse contained in this report.

6. Eliminate delivery of partial and mixed case orders. The elimination of deliveries of partial and mixed case orders from the warehouse to licensees and stores would have the immediate affect of reducing warehouse personnel, reducing the greatest cause of loss and breakage and free-up critically needed warehouse space. Licensees would continue to purchase partial and mixed case liquor and wine from DLC stores or direct from the warehouse at an adjusted discount.

7. Reduce inventory. The current inventory should be purged to eliminate slow moving items. A suggested guideline would be that any brand and/or size which did not sell five or more cases per month would be eliminated as a regularly listed item. Any demand for an eliminated item could be satisfied by special orders. In addition to freeing-up warehouse and shelf space in the stores, this action would reduce the inventory with a concomitant investment savings. It should be noted that at the end of FY 78, the DLC inventory was over $6 million.

8. Eliminate cash collection by drivers. The current policy whereby drivers collect cash and check payments should be eliminated with licensees placed on a 30-day pay basis. The immediate result of changing this policy would be to remove the immediate and real possibility for loss and robbery. For those licensees where credit may be in question, escrow accounts could be established.

9. Establish a wholesale store in the warehouse. Currently, some wholesale transactions are made at the warehouse. This practice should be enlarged and encouraged to reduce delivery requirements with the concomitant reduction in personnel and trucks. The warehouse wholesale store would benefit industrial purchasers and help alleviate problems during peak holiday periods. Wholesale distribution at warehouses are currently used in the control states of Virginia, New Hampshire and Maine.

10. Contract with a commercial carrier for distribution to stores and licensees. Finally, the Chamber recommends that DLC follow the example of 17 of the 18 control states and contract with a bonded commercial carrier for delivery to licensees and stores. The advantages of using a commercial carrier include: reduced requirement for an expensive truck fleet with its direct and indirect costs; reduced number of employees; and reduced costs to deliver a case of liquor/wine/beer. Based on other control states, distribution costs range from 26 cents to 45 cents per case. From information available to the Volunteer Committee it is estimated that it costs DLC a minimum of

approximately 85 cents to warehouse and distribute a case of alcoholic beverages. Based on recent sales, savings to DLC could reach $1,000,000 annually. Converting to commercial carrier should be in phases, with distribution to licensees first. Of course, a qualified and responsible commercial carrier would be selected through public bid in accordance with current purchasing and contracting laws.

STORES OPERATIONS

1. General. Seven immediate improvements are recommended which affect stores operations. These are briefly discussed in subsequent paragraphs.

2. Discontinue retail sale of chilled and unchilled beer in stores. The Volunteer Committee notes that DLC stores currently do not sell kegs of beer and six packs of domestic beer. With the licensing of wine and cheese shops and private retail beer outlets, DLC should discontinue retail sale of beer in its stores. This action would not only remove a long standing complaint from licensees, but would free-up space in stores for liquor/wine products.

3. Discontinue selling of mixes and non-alcoholic items in stores. Admittedly, it is a convenience to customers to be able to buy some mixes in the DLC stores; however, the convenience is outweighed by the cost in both providing that service and the competition with licensees and other retail outlets. The direct benefits, in addition to removing a cause of long standing complaint from licensees, would be to free-up warehouse and stores space, eliminate the requirement to distribute non-alcoholic items and reduce inventory.

4. Eliminate coolers in stores. The direct and positive result of implementing this recommendation would be to increase space in stores; lower utility, maintenance and rental costs; and eliminate a popular complaint from licensees. Although no cost-benefit analysis was conducted, it is estimated that cooler utility, rental and maintenance costs probably exceed profits from the sale of chilled wines and beer in some stores.

5. Weekend specials. The Volunteer Committee suggests that weekend specials be confined to distilled spirits, leaving wine and beer specials to the private off-premises licensees.

6. Increase use of part-time employees. The increased use of part-time stores employees, especially on weekends and holidays, would reduce the number of full-time sales personnel, fringe benefits and overtime costs. It is also recommended that Montgomery College consider establishing a retail sales course in conjunction with DLC which parallels hotel and management courses.

7. Adjust store hours. Individual stores hours should be adjusted to satisfy demonstrated customer needs in each community. Consideration should also be given to keeping only those stores open past 6:00 or 7:00 p.m. where sales justify the later hours.

8. Store lease responsibility. Currently, the DLC negotiates and manages all lease arrangements for its 23 stores. It is recommended that all lease negotiations and property management functions presently performed by DLC be transferred to the Property Management Section of the Department of Facilities and Services.

IV. Recommended Possible Future Improvements

1. General. The Chamber recommends that six possible future improvements be studied for feasibility and analyzed for cost benefits. The nature of these recommendations are such that one or more may be found to be beneficial either singularly or in combination with another. While it is recognized that these possible future improvements may appear to some to be drastic, and that some require legislation before implementation, all of them will require study and adherence to current purchasing and contracting laws. In the final analysis, the Volunteer Committee recommends that County control over wine and liquor should be retained and the feasibility of transferring beer operations to the private sector be studied.

2. Number of stores: Study the feasibility of reducing the number of stores from 23 to approximately 8-10 large stores located in major communities carrying a full line of products. In the lesser populated communities, it is further recommended that smaller stores or privately-owned agencies be established to carry an abbreviated inventory of fast moving items.

a) Necessary legislation to establish agencies will be required and should include provisions that their retail prices would be the same as for the large DLC operated stores.

b) This recommended arrangement of large DLC stores and smaller agency operated outlets has been successfully inaugurated in the control states of Maine, Washington and Oregon.

c) The benefits of reducing the number of large stores include savings in personnel, lease rentals, reduced distribution routes and administrative overhead.

3. Bailment warehouses. Study the feasibility of establishing a warehouse bailment procedure for all special orders, new listings (new products) and changes in sizes; with other items converted to bailment at the discretion of the Director, DLC.

a) Under bailment, the commercial distiller would be responsible for shipping, warehousing and other costs associated with maintaining an inventory of his products available in the Metropolitan Washington Area. The DLC would control the release of products from the distiller's inventory and incur a charge when the product is transferred to DLC control at the time of release from the distiller's local warehouse.

b) A direct result would be more timely service to the licensees and, in turn, the consumer. The cost savings with bailment warehousing are estimated to be $1,000,000 annually. Other benefits: less inventory and reduced requirement for warehouse personnel. It is also contemplated that the County would benefit from distillers utilizing warehouses located in the County.

c) Bailment procedure is currently operating in the control states of Mississippi, Ohio, North Carolina, Michigan and New Hampshire-- with other control states considering its adoption.

4. Retail sale of wine. Study the feasibility of transferring the retail sale of all wine to the private sector. This recommendation could be accomplished in one of several ways; however, in each case the County would retain policy control.

a) One way would be to have the County retain responsibility for wholesale purchase, warehousing and distribution. This policy is followed in the control states of Mississippi, Oregon and Wyoming.

b) Another way would be to authorize individual wholesalers under DLC control to sell directly to the wine licensees, a procedure which is followed in nine other control states.

c) Still another way would be a combination of the above two which is used in four control states: Virginia, New Hampshire, Alabama and Washington.

5. Control over beer. Study the feasibility of removing control over all activities associated with beer to the private sector. This is the policy in all fifty states (which includes the 18 control states) as well as all counties and/or municipalities.

6. DLC only a wholesale operation. Study the feasibility of the County becoming a distilled spirits and wine wholesale operation only, thereby transferring the retail sale of those alcoholic beverages to the private sector while keeping wholesale control. This policy is presently being followed in two states and eight others are gradually working toward this type of operation. (This may be necessitated if the retail store operations' costs continue to increase over and above a dollar level where the County cannot remain competitive with D.C. and surrounding Maryland Counties. The recommended FY 79 budget for stores of $ 4,281,000 was an 18.6% increase over FY 78 budget).*

7. Private sector operate DLC warehouse. The sixth recommended possible future improvement is to study the feasibility of transferring the operation of the warehouse to a private warehouse company with the County retaining policy control over alcoholic beverages.

8. Each of the above six recommended possible future improvements has been successfully implemented in various combinations in control

*Reference page OF 19, Montgomery County Recommended Budget for FY 79.

tes. In studying the feasibility of each of these, procedures and data for cost-benefit analysis could be furnished the County by the specific control state. A careful study of the above recommendations would reveal that implementation could result in annual substantial cash savings without a loss of control. Most recommendations would result in reductions of warehouse personnel and equipment, reduced investment in inventory, and fewer DLC operated stores.

V. Recommended DLC Public Information Program

1. General. The Volunteer Committee recognizes a critical need for DLC to improve its public information program to increase public awareness of its operation and an appreciation for its control function.

2. Outlined below are some recommended improvements in a DLC public information program.

a) Provide speakers for the various civic and service clubs to acquaint their members with DLC operation.

b) Acquaint citizens that revenue from DLC operations benefits them by reducing tax burden. Using FY 78 data, it would have required an additional 6.7¢ on the property tax to equal the DLC net earnings of $4,559,966.*

c) Establish an education program in Montgomery County senior and junior high schools with emphasis on proper approach to liquor consumption and harmful effects of drinking by minors.

d) Utilize the Washington Birthday sale tradition to clear out slow moving items from the inventory with the added benefit of familiarizing County citizens with DLC operations.

e) Conduct wine courses for the public in conjunction with the Wine and Cheese Shops.

f) Set up an advisory committee from among the beverage, wine and restaurant licensees within Montgomery County to advise the Director, DLC and Advisory Board.

g) Utilize stores display space to promote Montgomery County industry and community life.

h) Utilize the services of the existing Advisory Board on Alcoholic Beverages in making selections of new items, as well as weekend specials.

i) Conduct warehouse tours for various civic service and business groups.

ised on revenue assumption that a decrease of 1¢ of property tax is equivalent to $680,000 reductionin revenue.

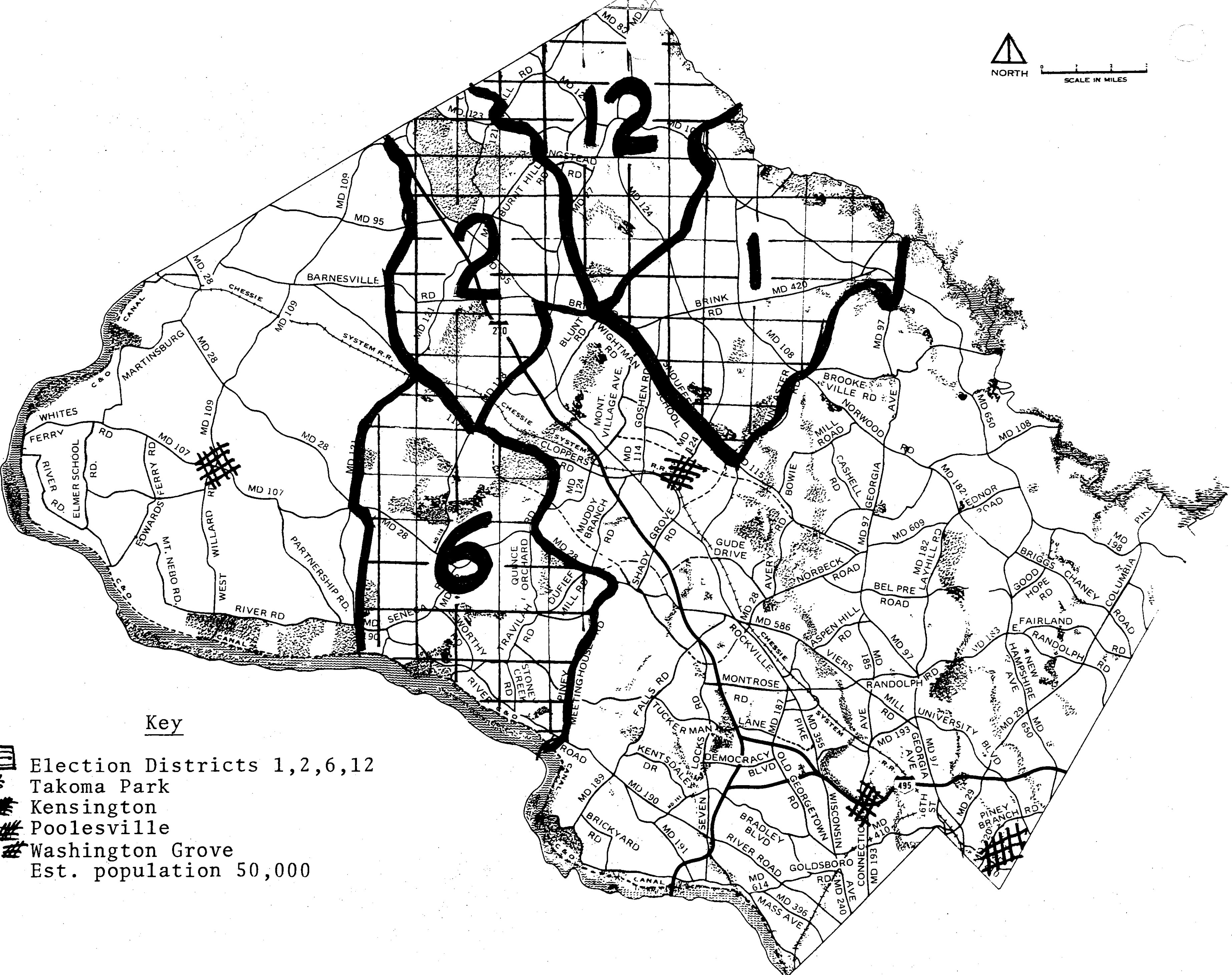
VI. Summary

1. This report by the Volunteer Committee of the Montgomery County Chambers' of Commerce recommends several specific improvements which should improve the efficiency and economy of DLC operations and management without sacrificing policy control over the sale of alcoholic beverages within the County.

2. The Volunteer Committee also recommends that six possible future improvements be studied for feasibility and cost-benefit analysis. Five of these recommendations would retain County control over all alcoholic beverages. The sixth would release control over beer by turning all beer operations over to the private sector.

3. The Volunteer Committee suggests that the Board of License Commissioners and the Alcoholic Beverages Advisory Board closely review the policy on the number of licenses to be issued within the County. The number of licensees in Montgomery County as a ratio to the population (as of April 30, 1977) was 1:1,293 (449 licensees) while in Prince Georges County it was 1:1,374 (496 licensees). (Source of data on population and number of licensees is from the Maryland Comptroller's Annual Report of the Alcohol and Tobacco Tax Division.)

4. Throughout the report are estimates of cost savings and increased revenues. These are truly only estimates, although conservative, as data with which to determine more exact cost information was not available. It should be further noted that estimates refer to direct costs. The Volunteer Committee has not included in its cost estimates the significant savings associated with the following indirect costs and administrative overhead: motor pool, MIS, utilities, rental, insurance, etc. The Volunteer Committee included cost estimates because it believes that the County Council and County Executive must develop policy concerning the degree of control over alcoholic beverages to be exercised by the County and the revenue input into the general fund from the exercise of that control.



Key

Election Districts 1,2,6,12
Takoma Park
Kensington
Poolesville
Washington Grove
Est. population 50,000

EXHIBIT A

Sample of Per Capita Consumption in Gallons of Distilled Spirits and Beer in Maryland FY 1977[a]

County	Area[c]	Pop[d]	Distilled Spirits and Wine	Beer
Montgomery[b]	494	580,900	1.50	13.50
Anne Arundel	417	351,100	2.51	26.15
Baltimore	610	642,400	2.58	23.46
Baltimore City	79	832,500	3.02	23.54
Frederick	664	98,800	2.23	23.34
Howard	251	105,000	1.75	16.98
Prince Georges	485	681,600	2.67	22.20
Washington, D.C.	67	708,000	6.18	(unavail)

Notes: a) Source: All data except information for Washington D.C. is from the State of Maryland Comptroller of the Treasury, 1977 Annual Report--Alcohol and Tobacco Tax Division

b) No Maryland County has a per capita consumption of beer less than Montgomery County. Only two Maryland counties have a per capita consumption of distilled spirits less than Montgomery County: Harford (.72) and Carroll (1.48).

c) Estimate

d) Population is Maryland State Department of Health estimate for July 1, 1975

EXHIBIT B