OLO Report 2015-6 February 10, 2015

Review of Alcohol Control in Montgomery County

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Office of Legislative Oversight

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Executive Summary

This report responds to the Council's request for an examination of the alcoholic beverage distribution system in Montgomery County and the County's Department of Liquor Control (DLC). Montgomery County is the lone "control" jurisdiction in Maryland – DLC controls the wholesale distribution of all alcoholic beverage products (with limited exceptions) and the retail sale of all packaged liquor products in the County. In so doing, the County generates annual revenue that funds DLC operations, pays debt service, and provides transfers into the County's General Fund. All other Maryland counties are "license" jurisdictions – where private sector businesses receive licenses to sell alcoholic beverages at wholesale and retail.

Based on our review, OLO finds that changes and/or improvements to the current structure are warranted. This report provides a continuum of five options for changing Montgomery County's alcohol control structure, and offers revenue alternatives because changes to the structure could reduce annual revenue available to the County.

Maryland Legal Framework for Sale of Alcoholic Beverage

Maryland law regulates all facets of the manufacture and sale of alcoholic beverages (beer, wine, and liquor/spirits) in the State. As a result, most changes to Montgomery County's alcohol control system require changes to State law. Maryland's alcoholic beverage control framework stems from the end of Prohibition in 1933 and consists of a complex patchwork of different structures for each county, with hundreds of specific county-by-county provisions.

Maryland's alcohol distribution system has three levels: 1) manufacturers/producers, 2) wholesalers/distributors, and 3) retail sellers. The Comptroller of Maryland has primary responsibility for administering and enforcing State laws related to alcoholic beverages, and issues licenses for alcoholic beverage manufacturers and wholesalers. Montgomery County's Board of License Commissioners issues licenses for retail sellers of alcohol in the County (beer and wine stores, restaurants, bars, etc.).

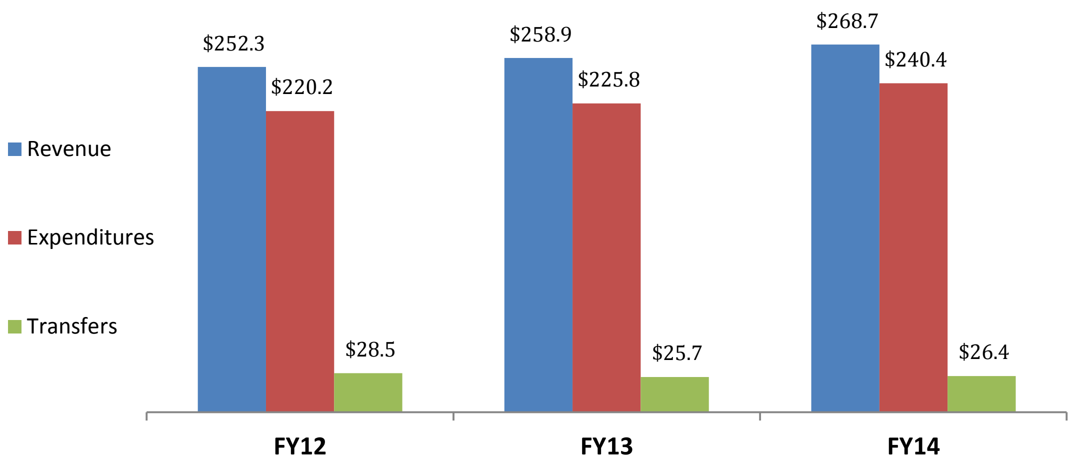
Some key Statewide and Montgomery County-specific provisions from Maryland law include:

Applies…	Key Provisions in Maryland State Law
Statewide	• **License Limits**: Limit of one alcoholic beverage license per person, with some exceptions. • **"Grocery Store" Prohibition**: Supermarkets, chain stores, discount houses, and large stores (10K+ sq. ft.) are prohibited from receiving licenses for the retail sale of alcohol. • **Uniform Pricing**: Producers/wholesalers must sell products at the same price to similar purchasers. Volume discounts are allowed if offered uniformly to all purchasers. • **Sales and Excise Taxes**: Only the State can tax the sale of alcoholic beverages.
MoCo-Specific	• **Restaurant License Limits:** A single individual in the County can hold up to 10 alcoholic beverage licenses for restaurants (i.e., Class B beer/wine/liquor on-sale licenses). • **Gas Station Prohibition:** Gas stations in Montgomery County cannot receive alcoholic beverage licenses. • **Wholesale Distribution:** Licensees in Montgomery County can purchase alcohol only from DLC, and cannot purchase alcohol from private wholesalers (except as noted below). • **Limited Self-Distribution:** Small beer or wine producers can obtain a limited wholesalers' license from the State to sell and distribute their products directly to licensees in Montgomery County only.

Department of Liquor Control – Financial, Product, and Program Data

Each year, the County Government's Liquor Enterprise Fund receives revenue from DLC's wholesale and retail alcohol sales, license and permit fees, and fines and penalties; pays expenditures for DLC programs and services, inventory costs to purchase alcoholic beverages, and other non-program obligations; and makes transfers to the General Fund and for debt service payments. From FY12-FY14, the Liquor Fund averaged a net profit (before transfers) of $32.2 million. At the end of FY14, the Liquor Fund had a fund balance of $37.2 million, or 15.5%.

FY12-FY14 Liquor Fund Financial Summary ($ millions)



Topic	Detail	
Number of Licenses Of the 1,000+ alcoholic beverage licenses issued in the County, approximately 80% are for restaurants and similar businesses and 15% are for retail beer/wine stores as of Sept. 2014.	**Number of Licensees** (Sept. 2014) 1,024	
Number of Products Sold by DLC All DLC beer, wine, and liquor items are categorized as stock or special order. Stock products are stored in the DLC warehouse and typically are on-hand when ordered. Special order products are purchased on request and are not stored at the warehouse. Of the 29,000+ products available for order, approximately 15% are stock products and 85% are special order.	**Total Products** Wine Beer Liquor **Total**	 21,143 4,735 3,512 **29,390**
Gross Profit on Alcohol Sales DLC's gross profit on alcohol sales is the total sales revenue minus the cost of goods sold, and excludes operating expenditures. While DLC tracks the total gross profit, OLO estimated the gross profit for wholesale and retail sales.	**FY14 Gross Profit on Alcohol Sales** Wholesale Retail **Total**	 $33.7 million (est) $42.1 million (est) **$75.8 million**
DLC Program Costs Personnel costs account for approximately 60% of DLC's annual program costs. Costs are divided into six program areas – Wholesale Operations; Delivery Operations; Retail Sales Operations; Administration; Licensure, Regulation and Education; and Office of the Director.	**FY15 Program Costs** Personnel Costs Operating Costs **Total**	 $28.1 million $18.1 million **$46.2 million**
DLC Personnel DLC's approved personnel complement for FY15 includes 337 FTE and over 400 positions. Among filled positions, 205 (50%) work in DLC's 25 retail stores; 108 (26%) work in delivery operations; and 57 (14%) work in warehouse operations.	**Filled Positions** (Nov. 2014) Full-Time Part-Time **Total**	 247 165 **412**
Transfer to General Fund Annual transfers to the General Fund are used to help pay for other County programs and services. Over the past five years, DLC's transfer to the General Fund has averaged $25.7 million – however the FY14 transfer of $20.9 million is the smallest over that time period.	**General Fund Transfers, FY10-FY14** Total Annual Average	 $128.7 million $25.7 million
Liquor Control Revenue Bonds The County issued Liquor Control revenue bonds in 2009, 2011, and 2013 to fund transportation and DLC facility projects. DLC must make annual debt service principal and interest payments from alcohol sales net profits prior to making General Fund transfers.	**Balance on Liquor Revenue Bonds** Principal Interest **Total**	 $114.1 million $51.4 million **$165.5 million**

DLC Wholesale and Retail Sales – by Alcohol Type and Category

DLC's wholesale operations sells beer and wine (for on- and off-premise consumption) and liquor (for on-premise consumption) to alcoholic beverage license holders for resale to individual consumers. Beer products lead DLC's wholesale sales, both in terms of sales revenue and quantity sold. DLC's retail operations sell liquor, wine, and a limited selection of beer directly to consumers at DLC's 25 retail stores for off-premise consumption. Liquor products drive DLC retail sales revenue, while wine products lead retail sales by quantity. DLC's special order sales are small by quantity sold but account for approximately one-fifth of both wholesale and retail sales revenue.

Alcohol Type and Product Category	FY14 Wholesale		FY14 Retail	
	Sales Revenue	Cases Sold	Sales Revenue	Cases Sold
Beer	**$69.9 million** **51%**	3.5 million 82%	$8.5 million 7%	297K 27%
Wine	$50.7 million 37%	618K 15%	$46.0 million 36%	414K 37%
Beer Kegs	$9.0 million 7%	90K* 2%	--	--
Liquor	$6.3 million 5%	40K 1%	**$72.5 million** **57%**	396K 35%
Stock Products	**$107.8 million** **79%**	3.9 million 93%	**$105.4 million** **83%**	1.0 million 91%
Special Order Products	$28.2 million 21%	300K 7%	$21.9 million 17%	105K 9%

*Number of kegs sold

Feedback on the Department of Liquor Control

Through informational interviews and a formal survey of Montgomery County alcohol license holders, OLO received feedback on the Department of Liquor Control's performance and operations as well as the overall structure of liquor control in Montgomery County. Key feedback themes include:

Topic	Key Finding
Overall DLC Operations	In general, licensees are dissatisfied with DLC's operations, processes, and performance as the wholesaler of alcoholic beverages in Montgomery County.
Product Availability	Licensees' are dissatisfied with the availability of products from DLC, particularly wine and special order products, and with the time it takes to receive special order products.
Wholesale Prices	In general, licensees think DLC's wholesale prices for beer and liquor are reasonable but prices for wine, especially special order wine, are too high.
Changes to Structure of Alcohol Control	Many licensees support changing Montgomery County's liquor control system to allow some or all private wholesale distribution of alcoholic beverages.

DLC Improvement Initiatives

DLC is implementing a new warehouse management system (as of February 1, 2015) that will substantially change processes for product ordering, inventory management, financial tracking, and data reporting. DLC believes this system will improve communications and the ordering process for licensees, particularly for special order products. DLC also recently developed a draft long-range strategic business plan that offers strategies and recommendation to improve DLC's fleet management practices, retail store operations, and overall operational structure.

Options for Changes to Montgomery County's Alcohol Control Structure

In December 2014, the Council created an Ad Hoc Committee on Liquor Control to "review alternative models and construct a recommendation that better aligns Montgomery County's alcohol regulations and policies with our economic development, quality of life, and public safety goals." Potential benefits to changing the structure of alcohol control in the County include enhancing economic development opportunities for local businesses. At the same time, changing the structure could reduce annual revenue available to the County and impact County jobs.

OLO developed a continuum of five options for changes to Montgomery County's alcohol control structure for the Council's review. Each option, described below, includes an estimate of the budgetary/fiscal impact and the estimated impact on County positions if DLC functions change. Most options would require State law changes.

Option	Est. Fiscal Impact, $ millions		Est. County Position Reductions	
Option 1 Full Deregulation Fully deregulate the alcohol control system in Montgomery County and allow private wholesale distribution and private retail sale of beer, wine, and liquor	One-Time Ongoing Annual	+$66-$76 ($32-$43)	**Total** Full-Time Part-Time	**393** 236 157
Option 2 Private Wholesale of Beer/Wine/Liquor Allow private wholesale distribution of beer, wine, and liquor to alcoholic beverage licensees, while maintaining County control of the off-premises retail sale of liquor	One-Time Ongoing Annual	+$29-$39 ($18-$21)	**Total** Full-Time Part-Time	**165** 134 31
Option 3 Private Wholesale of Beer/Wine Allow private wholesale distribution of beer and wine to alcoholic beverage licensees, while maintaining County control of the wholesale and off-premises retail sale of liquor	One-Time Ongoing Annual	+$2-$3 ($18-$23)	**Total** Full-Time Part-Time	**123** 99 24
Option 4 Private Wholesale of Special Order Beer/Wine Allow private wholesale distribution of special order beer and wine products, while maintaining County control of the wholesale and retail structures for all other alcohol products	One-Time Ongoing Annual	+$0.17 ($4-$6)	**Total** Full-Time Part-Time	**15** 11 4
Option 5 Increase Efficiency within Current Structure Maintain the current structure of liquor control and enhance DLC's effectiveness and efficiency by adopting recommendations made as part of DLC's long-range strategic business plan	None specified		None specified	

Revenue Alternatives

Because Options 1-4 would reduce annual revenue generated by DLC by varying degrees, the table below identifies four alternatives to replace lost revenue if a structural change was made. Each would require State law changes.

	Revenue Alternative 1	Revenue Alternative 2	Revenue Alternative 3	Revenue Alternative 4
Description	Enact a variable or flat fee wholesale distribution charge	Increase the licensing fee for private retail liquor sellers	Sell or auction the rights to operate liquor stores for a specified period	Enact a dedicated County sales tax on retail sales
Estimated Annual Revenue	$7-$29 million	$229,000	$4.8-$5.3 million (per sale or auction period)	~$3 million for every 1% in tax rate
Applicable to Change Option(s)	1, 2 ,3, 4	1	1	1, 2, 3, 4

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Chapter 1. Authority, Scope, and Organization of Report

A. Authority

Council Resolution 17-1183, *Fiscal Year 2015 Work Program of the Office of Legislative Oversight,* adopted July 29, 2014.

B. Purpose and Scope of Report

The Montgomery County Department of Liquor Control (DLC) provides licensing, wholesale, and retail sales of alcoholic beverage products in the County. DLC's annual revenue fully funds the Department's expenses while also transferring, on average, more than $20 million annually to the General Fund. The purpose of this report is to review the operations and services of the Department of Liquor Control as well as the overall structure of alcohol control within Montgomery County and the State of Maryland. Specifically, this report:

- Summarizes the State and County legal structure that governs the system of alcohol control in Montgomery County;
- Reviews DLC's operational policies and practices;
- Analyzes financial, budget, and personnel data on DLC and the Liquor Enterprise Fund;
- Presents feedback on DLC's wholesale operations from alcoholic beverage license holders in the County; and
- Provides the Council with a detailed analysis of costs and benefits for a continuum of five potential option for changes to the structure of liquor control in Montgomery County.

C. Methodology

Office of Legislative Oversight (OLO) staff members Craig Howard and Leslie Rubin conducted this study, with assistance from Carl Scruggs and Stephanie Bryant. OLO gathered information through document reviews and interviews with staff from the County Government's Department of Liquor Control and Office of the County Attorney; interviews with business owners/managers, liquor license holders and other stakeholders; a formal survey that was sent to nearly 400 Montgomery County liquor license holders; and general literature and document searches.

D. Acknowledgements

OLO received a high level of cooperation from everyone involved in this study. OLO appreciates the information shared and the insights provided by all staff who participated. In particular, OLO thanks: Fariba Kassiri, Assistant Chief Administrative Officer; George Griffin, Sunil Pandya, Gus Montes de Oca, Kathie Durbin, and Lynn Duncan from the Department of Liquor Control; Richard Melnick and Kathryn Lloyd from the Office of the County Attorney; and the numerous stakeholders and liquor licenses holders from Montgomery County restaurants, beer and wine retail stores, or other establishments that participated in OLO's interviews and survey.

Chapter 2. Legal Framework of Alcohol Control in Maryland

Federal law authorizes individual states to develop a governance structure for how alcohol is made and sold within their borders. Accordingly, Maryland State law establishes the framework and structure for alcohol control in Maryland counties. Maryland's alcohol control framework (established in Article 2B of the Maryland Annotated Code) is a complex patchwork of different structures for each county detailed over hundreds of pages of law with hundreds of specific county-by-county provisions. Like alcohol laws in many states, Maryland's law harkens back to the era immediately following the end of Prohibition in 1933 and many sections of the law reflect the sentiments of that era.[1]

This chapter reviews the statewide structure of alcohol control in Maryland, as well as the Montgomery County-specific provisions, structures, and authorities established in Article 2B. Montgomery County law and the regulations of the Montgomery County Board of License Commissioners provide additional details on the sale of alcoholic beverages in Montgomery County. However, because County law and regulations do not expand or change the County's authority beyond that established under State law, this chapter primarily summarizes State law.

- **Section A** of this chapter describes the framework established under State law for the manufacture, distribution, and sale of alcoholic beverages; and
- **Section B** of this chapter identifies legal issues and provisions specifically relevant to the sale of alcohol in Montgomery County.

A. Overview of Maryland Legal Framework for Alcohol

Maryland law defines "alcoholic beverages" as the types of liquors, liquids, or compounds expressly noted by the legislature that are "fit for beverage purposes" and contain at least 0.5% alcohol by volume.[2] Alcoholic beverages include wine, beer, and a variety of spirits/liquor (such as whiskey, vodka, rum, gin, etc.). This report primarily refers to alcoholic beverages in three general categories: beer, wine, and liquor/spirits.

Article 2B of the Maryland Code – Alcoholic Beverages – defines the types of businesses that can make, distribute, and sell alcohol in Maryland and gives the Comptroller of Maryland primary responsibility for administering and enforcing State laws related to alcoholic beverages.

[1] See, e.g., Maryland Annotated Code Article 2B – Alcoholic Beverages – § 12-110(a), which states that "[a] licensee under the provisions of this article, or any of his employees, may not knowingly sell, barter, furnish, or give any intoxicating beverages to a habitual drunkard, or to a mentally deficient person, or to any person whose parent or parents, guardian, husband, wife, son, daughter, brother, or sister shall have given notice in writing, that such person is of intemperate habits, or of unsound mind, or on account of his or her physical condition and request the licensee in writing, not to sell, barter, furnish or give any intoxicating beverages to him or her…."
[2] Maryland Annotated Code, Article 2B – Alcoholic Beverages – § 1-102(a)(2) (hereinafter "MD Code").

The alcohol control system in Maryland has three levels. *Manufacturers/producers* make alcoholic beverages and sell them to *wholesalers/distributors,* who sell them, in turn, to *retail businesses* that sell the alcoholic beverages directly to the public. Retail businesses include both stores that sell closed containers of alcohol for consumption elsewhere (referred to as "off-sale"), as well as restaurants, clubs, and other venues that sell alcoholic beverages for consumption at the business (referred to as "on-sale"). State law requires licenses for businesses at each level. The Maryland Comptroller issues manufacturers' and wholesalers' licenses.[3] All other licenses, including retail business licenses, are issued by the County licensing board in the jurisdiction where a business or other licensee is located.

Montgomery County's alcohol distribution framework – a "control jurisdiction" – is unique in Maryland and atypical among counties in other states. As a control jurisdiction, the County Government is the exclusive wholesaler of alcoholic beverages in the County – buying beer, wine, and liquor from producers (and sometimes other wholesalers or retailers) and reselling to retail outlets in the County. Montgomery County also has exclusive authority over the retail sale of liquor, which it sells at 25 County-owned and -operated stores.

Only 17 states and a few other counties in the United States have a "control" system for alcohol distribution. All other states, and all other Maryland counties, are "license jurisdictions" – the jurisdiction issues licenses to private businesses to operate all levels of the alcohol production and distribution system.

1. Manufacturing Alcoholic Beverages

The Maryland Comptroller issues licenses that allow businesses to manufacture alcoholic beverages.[4] Chapter 2B authorizes eight different types of licenses, described in the table below.

Table 1. Maryland Alcoholic Beverage Manufacturing Licenses

Class	License Type	Allows
Class 1	Distillery	Distillation of brandy, rum, whiskey, alcohol and neutral spirits
Class 2	Rectifying	Rectifying, blending and bottling of alcoholic beverages
Class 3	Winery	Operation of a plant to ferment and bottle wine
Class 4	Limited Winery	Operation of a plant to ferment and bottle wine made from available Maryland agricultural products
Class 5	Brewery	Operation of a plant to brew and bottle malt beverages
Class 6	Pub-Brewery	Operation of a restaurant to brew and sell malt beverages for consumption at the restaurant
Class 7	Micro-Brewery	Brewing and bottling of up 22,500 barrels of malt beverage per year
Class 8	Farm Brewery	Selling and delivery of beer manufactured on a licensed farm from a Maryland agricultural product produced on the farm

Source: Maryland Code Article 2B, §§ 2-201 to 2-209

[3] MD Code § 10-101(a).
[4] MD Code § 10-101.

In most circumstances, with exceptions such as the sale of alcohol to consumers during tours of manufacturing premises, State law requires alcohol manufacturers to sell their products to wholesalers (described in the next section) that, in turn, sell the products to retail licensees. A holder of a Maryland Direct Wine Shipper's permit is another exception to this rule; this permit, established in 2011, allows manufacturers of wine – both in and outside of Maryland – to ship wine directly to a purchaser in Maryland.[5]

In addition to describing the type of alcohol permitted for manufacture, and to whom the manufacturer may sell the alcohol, the law outlines details such as times and days when a manufacturer may conduct tours of licensed premises and restrictions on the size of samples and the amount of alcohol sold directly to the public during a tour.

2. Distributing Alcoholic Beverages

Distributors (or wholesalers) are businesses that purchase alcoholic beverages from manufacturers, importers, and/or authorized dealers for resale to licensed retail businesses. The Maryland Comptroller issues distributor licenses in Maryland. There are different licenses based on the type(s) of alcohol that a company distributes – beer/wine/liquor, wine/liquor, beer/wine, beer, or wine. This section highlights key components of the State law governing alcohol distribution.

Uniform Pricing. State law requires that alcohol producers and distributors (and dealers, and nonresident winery permit holders) sell alcohol at the same price to like purchasers. In other words, a producer or distributor must charge every retailer in the state the same price for the same item.[6] Producers and distributors can offer discounts for volume purchases, but must offer the same discount to all purchasers.

Liquor Control Boards. State law establishes a Liquor Control Board in each county authorized to purchase alcohol for resale and sell it at "county liquor dispensaries" – retail stores that sell alcohol "off-sale" to consumers.[7] Liquor Control Boards in most Maryland counties have three members appointed by the Governor who serve two-year terms.[8] Montgomery County's Department of Liquor Control, established by State law on July 1, 1951, has the power granted to Liquor Control Boards in other Maryland counties.[9]

Like the uniform pricing requirement for distributors, the price of alcohol for sale in county dispensaries must be the same at all dispensaries in a county.[10] In addition to Montgomery County, only Somerset, Wicomico, and Worcester Counties currently have liquor dispensaries – Somerset has three, Wicomico has three, and Worcester has five.

[5] MD Code § 7.5-101 et seq.
[6] MD Code § 12-102.
[7] MD Code § 15-203(a), § 15-205(b).
[8] MD Code § 15-201(b), (c).
[9] MD Code § 15-201(a).
[10] MD Code § 15-205(c).

Wholesale in Montgomery County. As indicated above, the Montgomery County Department of Liquor Control (DLC), an Executive Branch department, is the distributor of alcohol to retail licensees in the County (with limited exceptions). State law explicitly prohibits holders of retail licenses ("retail licensees") from selling alcohol that was not purchased from DLC.[11] State law allows DLC to purchase alcohol for resale from any source, and DLC's alcohol purchases are not subject to the County's procurement laws and regulations.[12] Like all other distributors in the State, DLC cannot charge different licensees or different classes of licensees different prices for the same product.[13] As of July 1, 2014, State law allows small producers of wine or beer to obtain limited wholesalers' licenses to sell and deliver their products directly to liquor stores, restaurants, and other retail license holders in Montgomery County.[14]

3. Selling Alcoholic Beverages to the Public

Businesses that sell alcoholic beverages to the public must obtain (and annually renew) a retail license from a county's Board of License Commissioners, a county-based alcoholic beverage licensing authority (described in more detail below).[15] Retail licenses typically allow the sale or distribution of alcoholic beverages from a specific location, such as a restaurant or a retail store. State law includes different licenses for specific types of businesses.

The most commonly issued licenses in Montgomery County are for retail stores and restaurants and are described in the table below. Several other less commonly used licenses allow the sale or consumption of alcoholic beverages at venues such as: art galleries and theaters; private clubs, veteran's organizations, and service organizations; and on railroad cars and airplanes. Caterers can also hold both statewide and Montgomery County alcoholic beverage licenses. Licenses that allow the sale of beer, wine, and liquor cost more than licenses allowing for the sale of only beer and wine, only beer, or only wine.

Table 2. Most Common Montgomery County Alcoholic Beverage Retail Licenses

License	Description	Primary Licensees	Cost
Class A	Allows sale of closed beer and wine products at a retail store for consumption off-premises	Held primarily by beer and wine stores	Up to $250
Class B	Allows sale of beer, wine and liquor at a restaurant, hotel, corporate training facility, or performing arts facility for consumption on-premises	Held primarily by restaurants	Up to $2,500
Class D	Allows sale of beer and wine for consumption on-premises or elsewhere	Held by restaurants that only serve beer and wine, markets, beer and wine stores	Up to $400
Class H	Allows sale of beer and wine at a restaurant or hotel for consumption on-premises	Held primarily by restaurants	Up to $400

[11] MD Code § 12-216.
[12] MD Code § 15-205(k).
[13] MD Code § 2-301(g)(4).
[14] MD Code § 15-204(b).
[15] MD Code § 10-301(a), (l).

Many of the retail licenses include restrictions and/or special conditions. These restrictions often differ from county to county. Examples of restrictions include:

- Limiting the types of businesses that can hold licenses,
- Limiting the location of businesses that hold licenses (e.g., distance from schools or places of worship),
- Limiting the days and/or times of day when a business can sell alcohol,
- Setting ratios for food to alcohol sales in restaurants and other similar businesses, and
- Establishing the minimum age for selling alcohol in Maryland.

State law requires that applicants for local licenses must affirm that they are citizens of the United States.[16] Exceptions include Prince George's, Baltimore, and Howard counties, which have provisions in State law allowing legal aliens who are not citizens to obtain licenses.[17]

The holder of a retail alcohol license that sells alcoholic beverages from a bar (or designee) – and in Montgomery County the holder of a caterer's license – must complete training every four years from an alcohol awareness program approved by the Comptroller.[18] In Montgomery County, a licensee or a supervisor of the licensed business who has completed an alcohol awareness program must be present at the licensed premises during the hours in which alcohol is sold.[19]

Boards of License Commissioners (Boards). Authority to issue and revoke retail licenses to sell alcohol rests with the Board of License Commissioners in each county.[20] A Board also can deny, revoke, suspend, and reclassify licenses it has issued.[21] Most county Boards have three-members appointed for two-year terms by the Governor.[22] Montgomery County's Board has five members appointed by the County Executive and approved by the County Council.[23] Montgomery County Board members serve four-year terms and are prohibited from having any financial interest in any businesses or premises connected to the manufacture or sale of alcoholic beverages.[24]

State law sets restrictions on businesses that receive alcohol beverage licenses and allows local Boards to do the same. With certain exceptions in areas like Takoma Park, Rockville Town Center, and Burtonsville, the Montgomery County Board of License Commissioners is prohibited from issuing a license to sell alcohol within 300 feet of an elementary or secondary school, a place of worship, or a youth center operated or sponsored by the government.[25] Gas stations cannot have alcoholic beverage licenses in Montgomery County.[26] Local Boards can develop standards to determine a

[16] MD Code § 10-103(b)(3).
[17] MD Code § 10-103(b)(3).
[18] MD Code § 13-101(b), (c).
[19] MD Code § 13-101(c).
[20] MD Code § 15-112(a).
[21] MD Code § 15-104(c).
[22] MD Code § 15-101(a).
[23] MD Code § 15-104(c).
[24] MD Code § 15-112(q).
[25] MD Code § 9-216.
[26] MD Code § 9-216(g).

sufficient number of licenses for a neighborhood, and a Board can divide a county into districts and restrict certain districts from having alcoholic beverage licenses.[27]

An applicant for a license, an existing licensee, or a group of ten or more residents in the precinct or voting district where a licensed business is proposed or operated can appeal a decision of a Board to the circuit court in the county.[28]

Department of Liquor Control Retail Stores in Montgomery County. DLC operates 25 dispensaries throughout the County that sell liquor. These stores also sell wine and unrefrigerated beer.[29] In addition, DLC retail stores can sell ice, bottled water, and items associated with serving or drinking alcohol (e.g., bottle openers, corkscrews, drink mixes).[30] State law prohibits DLC stores from selling snacks or soft drinks.

At one point, State law allowed DLC to hire contractors to staff County stores; and, at that time, contractors operated three DLC stores. The State changed the law in 1994 to prohibit DLC from hiring contractors to operate the stores after January 1, 1997.[31] At that time, the law permitted DLC to continue to contract for the operation of a store with an existing contract until that contract ended. DLC's final contract ended in FY14.

B. Other Issues Relevant to the Sale of Alcohol

State law includes provisions that govern other relevant aspects of the County alcohol control system. This section describes the law related to:

- Alcohol taxes,
- Disposition of Montgomery County Department of Liquor Control funds,
- Montgomery County liquor bonds,
- Prohibitions on selling alcohol in grocery stores and other stores, and
- Limits on alcoholic beverage licenses.

1. Taxes and Taxing

Maryland law authorizes the State to tax alcoholic beverages and specifically prohibits all political subdivisions (e.g., counties, municipal corporations, etc.) from taxing alcoholic beverages.[32] Alcoholic beverages are subject both to State excise taxes and sales taxes. Excise taxes typically are paid by producers or sellers of goods. Sales taxes typically are paid by consumers when they purchase a product.

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[27] MD Code § 9-201.
[28] MD Code § 16-101(b).
[29] MD Code § 15-203(a). State law limits what can be sold in liquor dispensaries in certain counties. Worcester County, for example, cannot sell beer in its liquor dispensaries.
[30] MD Code § 15-203(d)(5).
[31] MD Code § 15-203(d)(3), (4).
[32] MD Code § 1-101(a)(4), Maryland Code Article – Tax – General, § 5-102(c).

The table below lists the State excise and sale tax rates for alcoholic beverages in Maryland.

Table 3. Maryland Excise Tax and Sales Tax Rates for Alcoholic Beverages

Type of Alcohol	Excise Tax Rate ($ per gallon)	Sales Tax Rate (% of cost)
Beer	$0.09	9%
Wine	$0.40	
Liquor	$1.50	

Source: Maryland Code Article – Tax – General, § 5-105

2. Spending of Department of Liquor Control Funds

State law identifies how Montgomery County must distribute net profits from the sale of alcohol, in order of priority. The County must:

- Pay current interest and retirement charges on notes, certificates of indebtedness, and bonds issued for the system,
- Keep adequate working capital to run the system, and
- Transfer the balance of net proceeds to the general fund.[33]

3. Liquor Control Revenue Bonds

State law gives municipalities, like Montgomery County, the power to issue revenue bonds – where the principal and interest are paid from the proceeds of a revenue-producing project of the municipality.[34] In turn, the Montgomery County Revenue Bond Act in the Montgomery County Code authorizes the County to issue revenue bonds.[35]

In 2008 and 2009, the Council passed resolutions authorizing the sale of up to $138 million in revenue bonds and guaranteed the payment of principal and interest on the bonds with the net revenues from the Department of Liquor Control.[36] The County authorized the bonds to fund: (a) the purchase and renovation of DLC's current warehouse, and (b) additional County transportation projects. See Chapter 5 for data about DLC revenue bonds issued by the County.

[33] MD Code § 15-207(e).
[34] Maryland Code, Local Government Article, § 19-302.
[35] Montgomery County Code §§ 20-47 to 20-54.
[36] See Council Resolutions 16-676 (July 29, 2008) and 16-863 (February 24, 2009).

4. Prohibition on Selling Alcohol at Supermarkets, Chain Stores, and "Large" Stores

Under State law, a County Board of License Commissioners cannot issue an alcoholic beverage license to a store with a premises more than 10,000 square feet devoted to off-sale use.[37] State law also specifically prohibits supermarkets, chain stores, and "discount houses" from having liquor licenses, although stores that had alcoholic beverage licenses before the legislature enacted the prohibition were able to keep their licenses and can continue to sell alcoholic beverages today.[38] Stores that do have licenses cannot expand the space devoted to the sale of alcohol beyond 10,000 square feet.[39]

5. Limits on Alcohol Beverage Licenses

Alcohol beverage licenses in Maryland are only issued to individuals, not in the name of a business.[40] In Montgomery County, at least one applicant for a license must reside in the County.[41] For licenses issued by the state (producer and distributor licenses), at least one applicant must be a registered voter and have lived in the state for at least two years prior to application.[42]

In addition, with several exceptions, State law allows a person to hold only one alcoholic beverage license.[43] Practically, this means that an individual can only own and operate one business in the entire State that sells alcoholic beverages. A Montgomery County exception allows a person to hold up to ten Class B beer/wine/liquor on-sale licenses – which are licenses for restaurants.[44]

[37] MD Code § 9-108(c).
[38] MD Code § 9-102(a-1).
[39] MD Code § 9-108(e).
[40] MD Code § 9-101(a)(1).
[41] MD Code § 9-101(a)(2)(i).
[42] MD Code § 9-101(a)(6).
[43] MD Code § 9-102.
[44] MD Code § 9-102.1.

Chapter 3. Research on Alcohol Control and Social Costs

A common issue debated when comparing "control" versus "license" frameworks for alcohol regulation in state and local jurisdictions is whether one structure or the other is "better" at preventing and/or mitigating negative public health and safety costs associated with excessive alcohol consumption. This chapter reviews research, publications, and data around these issues and is organized as follows:

- **Section A** defines control and license jurisdictions, and describes models used in the current control states;
- **Section B** reviews data on alcohol outlet density and consumption rates in license jurisdictions compared to control jurisdictions; and
- **Section C** summarizes research studies and publications that discuss the impact on various public health or public safety issues from deregulating alcohol control.

A. Definition of Control versus License Jurisdictions

At the end of prohibition in 1933, the 21st Amendment divested power from the Federal government to the states to regulate, sell, and distribute alcoholic beverages. State alcohol regulations established in the 1930s persist today. While current systems represent a control continuum, states are routinely categorized into one of two types of jurisdictions: control (monopoly) or license (open). In both control and license jurisdictions, states or local jurisdictions can regulate the sale of alcohol products by setting hours of operation, taxes, number and type of licenses, enforcement programs, and other policies.

Control Jurisdiction. Under a control jurisdiction, a state regulates beer, wine, and/or spirits through government-owned wholesale and/or retail operations. The entire process may come under state control or, more typically, a state will only control one operation (wholesale or retail) or will only control a certain product type (e.g., a state will control liquor but not beer and wine).

License Jurisdiction. In license jurisdictions, states transfer control to private sector businesses (by issuing licenses to operate in a jurisdiction) to manage the wholesale and retail operations for beer, wine, and liquor.

In 2015, 33 states operate as license jurisdictions (64%) and 17 states are classified as control jurisdictions (34%).[1] Maryland is considered a license state, even though Montgomery County is a control jurisdiction. Table 4 shows the 17 control states and which operations (wholesale or retail) and which alcohol types (beer, wine, and/or liquor) they control. Ten of the 17 control states operate under the same model – controlling the wholesale and retail sale of liquor while licensing the wholesale and retail sale of beer and wine to the private sector.

[1] National Alcohol Beverage Control Association (2014), http://www.nabca.org/States/States.aspx

Table 4. Control Jurisdiction Breakdown by Operation and Alcohol Type

Operation	Type of Alcohol	States
Wholesale and Retail	Beer, Wine, and Liquor	• Pennsylvania • Utah
	Wine and Liquor	• Mississippi • New Hampshire
	Liquor	• Alabama • Idaho • Maine • Montana • North Carolina • Ohio • Oregon • West Virginia • Vermont • Virginia
Wholesale	Wine and Liquor	Wyoming
	Liquor	• Iowa • Michigan

Source: National Alcohol Beverage Control Association

Since the 1930s, states have progressively privatized alcohol operations, moving away from control systems. Shifting priorities, led by a refocus of funding streams from alcohol sales to alcohol tax revenue, caused many states to abandon the control jurisdiction model in the 1980s.[2] In 2012 Washington State became the latest state to transition from a control to a license system.

B. Density of Alcohol Retail Outlets and Consumption Rates: License vs. Control

Research correlates the density of retail alcohol outlets and consumption rates with alcohol-related harms. This section reviews data and information comparing outlet density and consumption rates in control and license jurisdictions.

Density of alcohol retail outlets. Alcohol retail density is defined as the "number of physical locations in which alcohol beverages are available for purchase either per area or per population."[3] Multiple studies have concluded that increased alcohol outlet density "is associated with increased alcohol consumption and related harms, including medical harms, injury, crime, and violence."[4]

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[2] Paul Gruenewald, "Regulating Availability: How Access to Alcohol Affects Drinking and Problems in Youth and Adults" NIH *Alcohol Research & Health*, Vol. 34, No. 2 (2011), p. 250.

[3] "Regulating Alcohol Outlet Density: An Action Guide," Community Anti Drug Coalitions of America and the Center for Alcohol Marketing and Youth (John Hopkins Bloomberg School of Public Health), p. 10, http://www.camy.org/action/Outlet_Density/_includes/Outlet%20Density%20Strategizer_Nov_2011.pdf

[4] Carla Alexia Campbell, Robert A. Hahn, Randy Elder, et al. "The Effectiveness of Limiting Alcohol Outlet Density as a Means of Reducing Excessive Alcohol Consumption and Alcohol-Related Harms," *American Journal of Preventative Medicine* (2009) Vol. 37, No. 6, p. 561.

Some believe that control structures better regulate outlet density than license structures. Supporting this assumption are the basic characteristics of control and license systems. State monopolies give a government the power to decide the number, size, and location of retail outlets (especially state-run stores). In comparison, under license systems, the market often controls the location of retail outlets. With a focus on profitability, broader government concerns (e.g., underage drinking) may be excluded from consideration.[5]

However, a 2011 report prepared by the Alcohol Research Group (published by the National Beverage Control Association) actually found that the data is mixed. Specifically, control jurisdictions have a higher density of beer and wine outlets while license jurisdictions have a higher density of liquor outlets, as shown in the table below.[6]

Table 5. Density of Alcohol Retail Outlets

Regulatory Framework	Number of Retail Outlets (per 100,000 residents)		
	Beer	Wine	Liquor
Control Jurisdiction	110	81	14
License Jurisdiction	69	61	30
Difference (Control minus License)	**+41**	**+20**	**-16**

Source: Alcohol Research Group

These data suggest that other factors may play a role in outlet density. Research on best practices for limiting outlet density cite local zoning ordinances and local authority over the number of retail licenses as key factors.[7]

Consumption rates. Increased alcohol consumption rates are often associated with negative public health and public safety impacts, including underage and/or binge drinking, alcohol related deaths, and alcohol related traffic deaths. In general, proponents of "control" models cite data that per capita consumption rates are 7% lower in control jurisdictions than license jurisdictions.[8] At the same time, proponents of "license" models cite evidence suggesting that other factors impact consumption rates and that "control of alcohol markets does not imply control of alcohol consumption."[9] Table 6 provides data on per capita consumption rates from the 2011 Alcohol Research Group report.[10]

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[5] David Campanella and Greg Flanagan, "The Economic and Social Consequences of Liquor Privatization in Western Canada," Parkland Institute, 2012, p. 21, http://www.sgeu.org/webfm_send/286

[6] "Alcohol Control Systems and the Potential Effects of Privatization," Alcohol Research Group, 3rd ed., December 2011, p. 4, http://www.nabca.org/Resources/Files/2012131124314.pdf

[7] "Excessive Alcohol Use," Prevention Status Reports (Centers for Disease Control and Prevention, 2013), http://www.cdc.gov/psr/alcohol/#3

[8] "State Control of Alcohol: Protecting the Public's Health," Alcohol Justice: The Industry Watchdog, January 2014, https://alcoholjustice.org/images/factsheets/StateControlPublicHealth2014.pdf

[9] John Pulito and Antony Davies, "Government-Run Liquor Stores: The Social Impact of Privatization," Commonwealth Foundation, Vol. 21, No. 3 (October 2009), p. 9.

[10] Alcohol Research Group, 2011, p. 4.

Table 6. Per Capita Consumption Rates (gallons of ethanol) by Level of State Control

Regulatory Framework	Beer	Wine	Liquor	Total
Control Jurisdiction	1.18	0.27	0.62	2.07
License Jurisdiction	1.15	0.35	0.71	2.21
Difference (control minus license)	**+0.03**	**-0.08**	**-0.09**	**-0.14**

Source: Alcohol Research Group

Researchers also note that multiple factors other than a jurisdiction's control or license status have been linked with alcohol consumption rates. These include pricing, store hours, alcohol-related advertising and marketing, as well as social and cultural traditions within a community.[11,12]

C. Research on Health and Safety Impacts of Alcohol Control

This section summarizes studies or publications that review the impact on public health and public safety from privatizing the wholesale or retail sales of alcohol. The overall conclusions on these issues, however, are mixed. Data in some studies show increases in negative public health and safety measure from deregulating alcohol control, while other studies reach opposite results or conclude that status as a license or control jurisdiction is not a causal factor in these outcomes. OLO notes that many of the research studies and publications summarized below come from an advocacy perspective – either from proponents of government control or proponents of privatization.

Community Preventive Services Task Force Report. The Community Preventive Services Task Force, an independent group that is affiliated with (but not part of) the US Centers for Disease Control, conducted a review of 17 prior studies that examined changes in per capita alcohol consumption following privatization. The Task Force recommends "against privatization of alcohol retail sales in settings with current government control of retail sales, based on strong evidence that privatization results in increased per capita consumption of alcoholic beverages, a well-established proxy for excessive consumption and related harms."[13] The Task Force did not review data on public health or safety impacts, instead relying on consumption and outlet density as proxies for negative externalities. Specific findings from the Task Force, published in 2012, include:

- Studies consistently indicate a substantial increase in consumption of privatized beverages.
- Privatization of retail sale of alcoholic beverages commonly results in an increase in the number of off-premises outlets, increased advertising, and more days and/or hours of sale.
- Privatization also may be associated with more lax enforcement of sales regulations and changes in the price of alcoholic beverages.
- Government control over retail alcohol sales generally results in lower alcohol outlets density.

[11] Alcohol Research Group, 2011.
[12] William Kerr, "Categorizing U.S. State Drinking Practices and Consumption Trends," *International Journal Environment Research and Public Health*, January 2010, Vol. 7 No.1, pp. 269-283.
[13] Ibid.

- Maintenance of government control of off-premises sale of alcoholic beverages is one of many effective strategies to prevent or reduce excessive consumption, which is a leading cause of preventable death and disability.[14]

Michigan Study. In 2013, researchers from the University of Michigan Institute for Research on Labor, Employment, and the Economy published a report that analyzed the fiscal and social effects of state alcohol control systems. The study, which was funded in part by a grant from the National Alcohol Beverage Control Association, reviewed alcohol control systems between the late 1970s and 2010 in the context of four primary areas: alcohol consumption, alcohol-related revenues, alcohol-related vehicular fatalities, and crime. The report concluded:

> In sum, state alcohol monopolies have the potential to generate two to three times the alcohol-related revenue as states with a private license system. Most of this gain is through state ownership of wholesale spirits distribution. Judged by finances alone, state ownership of retail provides an incremental gain to the states. The more valuable advantage in state ownership of retail is a reduction in alcohol-related social harm, especially alcohol-related vehicular fatalities and some types of crime. States that divested from ownership of the alcohol retail sector since the late 1970s did not improve their financial performance. Moreover, the privatization of retail alcohol outlets likely exacerbated alcohol-related harm.[15]

Some of the key findings from the Michigan report include:[16]

- State ownership equates with lower wine (10% to 61% less) and spirits consumption (12% to 15% less), with the specific amount varying by control model.
- Specific policies that had an effect on lowering wine or spirits consumption were restrictions on billboard advertising, restrictions on magazine and radio advertising, and dram shop laws. Days and hours of retail operation did not appear to affect wine and spirits consumption.
- Alcohol monopolies generate substantial alcohol-related revenues, with states that own wholesale receiving about 82% higher alcohol-related revenue than license states.
- Monopoly states that did divest from retail stores in the 1980s-1990s did not gain financially, and states that divested and managed to retain alcohol-related income did so by controlling wholesale and instituting new sales taxes.
- State ownership of retail and dram shop laws were associated with lower rates of alcohol-related vehicular fatalities, but stiffer penalties for DWI convictions were not.
- Of 23 crime categories tested, state control over retail was associated with lower per capita crime rates for aggravated assaults, fraud, domestic abuse, and vandalism. Other factors associated with lower crime in some categories were restrictions on off-premise and on-premise retail sales hours and dram shop laws.

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[14] Community Preventive Services Task Force, "Recommendations on Privatization of Alcohol Retail Sales and Prevention of Excessive Alcohol Consumption and Related Harms," *American Journal of Preventive Medicine*, April 2012, Vol. 42 No. 4, pp. 428-429.
[15] Roland Zullo, Xi Bi, Yu Xiaohan, and Zehra Siddiqui, *The Fiscal and Social Effects of State Alcohol Control Systems*, University of Michigan Institute for Research on Labor, Employment, and the Economy, May 2103.
[16] Ibid.

Pulito and Davies Research. John Pulito and Antony Davies are two Duquesne University researchers[17] that have written a series of papers on the impacts of alcohol privatization published by the Commonwealth Foundation and the Mercatus Center at George Mason University. In general, their research indicates that there is not a clear link between privatization of alcohol control and increased public health or public safety problems. A 2011 article reviewing other prior studies on liquor control and consumption concluded:

> These and other studies suggest that there is no clear evidence that privatization of alcohol markets leads to decreased social measures – whether consumption, underage drinking, or DUI fatalities. Studies that show relationships are counterbalanced by other studies, of the same data, that show no relationship. Some studies that show relationships may suffer from unaddressed statistical anomalies that bias results in favor of finding relationships where none exist. Studies that show relationships also suffer from unaddressed causality, making the results useless for guiding policy makers. Future studies can correct some of these shortcomings by employing more rigorous statistical techniques, though the issue of causality may never be adequately addressed. Nonetheless, even if causality were left unaddressed, a preponderance of statistically defensible results in one direction or the other would go a long way to informing policy.[18]

In a 2009 Commonwealth Foundation Policy Brief, Pulito and Davies report that a comparison of states with varying degrees of privatization in retail and wholesale alcohol markets from 1970 through 2006 suggests that privatization is associated neither with increased alcohol consumption nor increased traffic fatalities involving impaired drivers. Specific findings from the 2009 study include:[19]

- States that recently privatized their liquor industries experienced a significant decline in per-capita alcohol consumption.
- While states that have liquor controls experience somewhat lower consumption of alcohol, the authors find no evidence that the degree of control matters. Among privatized (license) states and states with varying degrees of control, state with controls on wholesale markets only had the lowest consumption rates.
- States that have liquor controls experience significantly higher DUI-related fatality rates than states without controls.
- Adjusting for DUI enforcement, states with the highest degree of liquor control exhibited the same alcohol-related driving deaths as did license states.
- Evidence shows there is no significant reduction in underage drinking among control states versus license states.

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[17] Pulito is a Commonwealth Foundation Fellow and Davies is an Associate Professor of Economics.
[18] Antony Davies, *A Review of Studies on Liquor Control and Consumption*, Commonwealth Foundation Policy Brief, 2011. http://www.antolin-davies.com/research/liquorreview.pdf
[19] Pulito and Davies, 2009. pp. 1-2.

Chapter 4. Overview of the Department of Liquor Control

The mission of the Department of Liquor Control (DLC) 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."[1] This chapter provides an overview of the structure and functions of DLC, and describes key policies and practices of the department.

- **Section A** reviews the organizational structure and responsibilities of the Administration; Operations; and Licensure, Regulation, and Education Divisions; and
- **Section B** describes key operational structures, policies, and practices of DLC – including DLC's implementation of a new inventory and accounting management system

A. DLC Organizational Structure and Responsibilities

The Director of DLC (appointed by the County Executive and confirmed by the County Council) leads the organization and provides overall direction, oversight and management for the department. The department is organized into three divisions that report to the DLC Director: 1) Administration Division; 2) Operations Division; and 3) Licensure, Regulation, and Education Division.

Administration Division. The Administration Division provides internal service and other functions through five sections: administration, financial administration, information technology administration, purchasing, and ordering. The purchasing and ordering sections were moved under the Administration Division during FY15 from the Operations Division. Specific functions within each section include:

- **Administration** – budgeting, human resources, and facilities management.
- **Financial administration** – financial reporting, accounts payable, accounts receivable, and pricing.
- **Information technology administration** – design, operation, maintenance, and protection of all DLC information technology initiatives, systems, and applications.
- **Purchasing** – direct buying of all alcohol product inventory (beer, wine, liquor) for wholesale and retail sales.
- **Ordering** – receiving and placing orders for stock and special order products from County alcoholic beverage license holders. The ordering section was previously referred to as the customer service section under the Operations Division.

[1] https://reports.data.montgomerycountymd.gov/reports/BB_FY15_APPR/DLC

Operations Division. The Operations Division is organized into three sections: warehouse operations, delivery operations, and retail operations. The functions and programs under each section are briefly described below.

- **Warehouse operations** – this section is responsible for receiving, storing, and preparing for delivery of beer, wine, and liquor products sold in the County. All alcoholic beverage products in Montgomery County must pass through DLC's warehouse, with the exception of some wine and beer from small producers.[2] The DLC warehouse is split into two sides, with one for beer products and the other for liquor and wine products. The staffing for the warehouse is also split by product type, with a beer warehouse operations team, a liquor/wine warehouse operations team, and an administrative team overseeing the entire operation.

- **Delivery operations** – this section delivers beer, wine, and liquor orders to licensees and County retail stores. Deliveries also are separated by product type, with a beer delivery team and a liquor/wine delivery team. Additionally, beer deliveries are split into keg deliveries and case deliveries. All delivery staff are full- or part-time County employees, and deliveries are made using a fleet of 42 vehicles owned and operated by DLC. Truck loading is done by a combination of County staff and contract staff. All liquor and wine delivery trucks are loaded by County employees, while beer delivery trucks are loaded by contractors. DLC's Chief of the Operations Division noted that beer truck loading has been contracted out by DLC for approximately the past 25 years.

- **Retail operations** – this section operates DLC's 25 retail stores that sell liquor, wine, and unrefrigerated beer. DLC stores have the exclusive right to sell liquor for off-site consumption in the County. Each DLC store is staffed with a team of 7 to 11 full- and part-time County employees. DLC opened two new stores during FY14, and in FY15 resumed operating the Flower Avenue store that had been run by a contractor since 1994.

Licensure, Regulation, and Education (LRE) Division. The LRE Division is responsible for processing and issuing alcohol beverage licenses, ensuring licensees comply with all applicable laws and regulations, and conducting community outreach and education efforts. The division is organized into three sections: Licensure Office, Regulation Office, and Community Outreach/Education Office.

- **Licensure office** – this office processes alcoholic beverage license applications (new, transfer, one-day, renewals) in compliance with Maryland State law and the rules and regulations of the County Board of License Commissioners (BLC). Licensure staff also assist applicants throughout the application process and provide general staff support to the BLC, issue violation letters, collect fines, and schedule showcause hearings before the BLC.

[2] Beginning in 2014, the State passed a law allowing small breweries and wineries to "self-distribute" their product directly to liquor license holders in Montgomery County without going through DLC.

- **Regulation office** – this office conducts alcohol beverage and tobacco inspections and surveillance investigations to ensure that facilities licensed to sell alcoholic beverages or tobacco products are in compliance with applicable State and County laws, rules, and regulations. Regulation staff run the County's compliance check program in coordination with the County's Police Department to enforce alcohol and tobacco age-of-sale laws. Staff issue citations for any violations and must testify at BLC and/or court hearings regarding the citations issued.

- **Community Outreach/Education office** – this office works with businesses and residents to increase awareness of alcohol laws and promote responsible hospitality practices among county licensees. Specific programs and services offered include: Alcohol Law Education and Regulatory Training (ALERT), a free program designed to educate servers, sellers, management and owners of licensed County businesses in alcohol beverage regulatory compliance; establishing Business Alliances to implement comprehensive prevention, education and enforcement programs that address alcohol abuse, drinking in public and related community concerns; public education campaigns and the development of outreach materials and resources; and monthly newsletters.

B. DLC Policies and Practices

This section highlights key policies and practices within DLC's administrative, wholesale, and retail sales operations. Additionally, it discusses the planned implementation of a new warehouse management system that will have an impact on several components of DLC's operations and DLC's draft long-range strategic plan.

Implementation of New Warehouse Management System. DLC has spent the last two years designing a new ERP warehouse management system that will "modernize all warehouse processes including pricing, purchasing, ordering, receiving and storage of inventory, routing and delivery."[3] Additionally, because the new system uses the same ORACLE platform as the rest of the County, it will integrate all the warehouse functions with the County's accounting and financial systems and allow for greatly enhanced data collection and reporting. After several delays, DLC reports that the new system is on schedule to go live on February 1, 2015.

From an accounts payable and financial reporting perspective, DLC staff report that the system will create a "fundamental" shift in practices because it will create three-way matching between purchase orders, inventory, and payments. Currently, the warehouse purchase order and inventory data are not linked with the financial data, and staff have to manually make journal entries to record transactions. Under the ORACLE system, all inventory and financial data will be automatically integrated and updated daily. Additionally, DLC staff will have to login to the new system using their County user name and password, enhancing the accountability of transactions.

[3] DLC 2013 Annual Report, pg. 14
http://www.montgomerycountymd.gov/DLC/Resources/Files/AnnualReportFY2013.pdf

Several anticipated changes to other DLC functions, policies, and practices from the implementation of the new warehouse management system are detailed in each section below.

1. DLC Inventory: Stock vs. Special Order

All DLC beer, wine, and liquor inventory items are categorized as stock or special order. Stock items "are carried at all time and ordered by DLC on a recurring basis to ensure an appropriate volume is available on hand to fulfill projected retail demand."[4] Stock items are stored in the DLC warehouse and are on-hand for delivery to licensees or retail stores when ordered. DLC reports that stock item orders typically are delivered on a licensee's next scheduled delivery day. Some stock products, however, are only offered seasonally by the manufacturer (e.g., Oktoberfest or pumpkin-style beers). For these products, DLC stocks the item while it is available and fulfills orders until its supply is depleted.

Special order items are not regularly carried as inventory in DLC's warehouse, but instead are purchased by DLC in response to a specific order from a licensee, retail store, or customer at a retail store. The time it take for DLC to receive special order items from manufacturers or distributors is highly variable. DLC staff report that sometimes special orders arrive quickly, and other times it takes many weeks to months. DLC staff report that they can and will purchase a special order product for a licensee as long as that product is licensed for sale in the State of Maryland. DLC notes that when they are unable to purchase a special order product, it is typically because the manufacturer has chosen not to sell that product in Maryland.

DLC has a Product Selection Committee that meets once a month to determine whether products should be carried as stock or special order. The Committee consists of the Chief of Administration, Chief of Operations, one representative from retail store operations, and two representative from the purchasing section. The Committee can decide to make a special order item a stock item, and can also return a product to special order status if it is not selling fast enough as a stock item. DLC staff report that in the past when they have moved high-demand special order items to stock status, sales have slowed and the products have been moved back to special order.

2. DLC Pricing and Markups

DLC applies standardized markups at both the wholesale and retail level based on category (stock or special order), product type (beer, wine, or liquor), and/or size. The markup is applied to each product based on DLC's purchase price. The table below shows DLC's markup percentages at the wholesale and retail levels. Private beer and wine stores in the County are free to set their own markup for retail sale. DLC publishes a price book that is distributed to licensees each month that lists current stock and special order items and the wholesale price.

[4] Montgomery County Department of Liquor Control Inventory Management, prepared by Watkins Meegan LLC for the Montgomery County Office of Internal Audit, July 9, 2014. p. 41.

Table 7. DLC Wholesale and Retail Markups (as of December 2014)

Product	Wholesale Markup	Retail Markup
Beer		
Stock or Special Order	35%	23%
½ Keg	45%	n/a
¼ Keg or 1/6 Keg	43%	n/a
Wine		
Stock	35%	28%
Special Order (<$18/bottle)	25%	28%
Special Order ($18+/bottle)	15%	28%
Liquor		
1 L	30%	20%
750 mL, 1.75 L	27%	18%
300 mL, 500 mL	21%	18%
50 mL, 100 mL, 200 mL	60%	18%

Source: DLC

State taxes. DLC pricing also incorporates the State of Maryland excise taxes. Maryland excise taxes are paid by the County at the wholesale level and incorporated into the price of the product. Current Maryland alcohol tax rates are detailed in Chapter 2.

3. Purchasing and Receiving

Purchasing. DLC has a team responsible for buying stock and special order beer, wine, and liquor products. The purchasing team used to report to the Chief of Operations, but during FY15 the function was moved to the Administration Division. The purchasing team only buys the products, they do not participate in receiving the items into the warehouse. A 2014 Office of Internal Audit report on DLC's Inventory Management describes the purchasing process as follows:

> Buyers for stock items use forecasting models and historical sales volumes reports, combined with their knowledge and experience, to predict demand and order sufficient quantities to ensure that there are no product shortages for stock item. This requires maintaining a minimum on-hand inventory quantity of stock products…Generally, the DLC guideline for stock items is to carry at least 45 days' sales of inventory on hand for domestic products and 75 days' sales of inventory for imported items. Buyers must account for delivery lead times, shipping and freight costs, minimum required order quantities, supplier promotions and discounts, and past sales history, amongst other factors, when monitoring on-hand inventory balances and determining the appropriate quantities to order each week. Special order products are sourced by DLC buyers as customer or licensee orders are received.[5]

[5] Ibid., p. 42

Every Friday, DLC buyers cut a purchase order for each supplier from which they are ordering stock or special order products that week. Suppliers do not lock in DLC orders until DLC cuts the purchase order every Friday. DLC staff report that the ORACLE system will lead to several improvements from a purchasing perspective, including:

- The new system has additional features to help buyers plan for stock inventory purchases.
- Suppliers will have immediate access to purchase orders as soon as the DLC buyer inputs the order into the iSupplier module.
- The Business Intelligence dashboard will show DLC buyers what products are on sale at retail stores, providing greater information on what products may need to be replenished.
- Purchasing information and data trends will be available to all DLC staff, as opposed to the small number who are experts in the current IT system.

Receiving. After receiving orders from DLC buyers, suppliers work directly with warehouse staff to schedule product deliveries. The current receiving process is described in the 2014 Internal Audit report as follows:

> There are currently four individuals stationed at the warehouse loading bays for receiving and two clerks who are responsible for entering product receipt details into the inventory system once the products being unloaded are verified, counted, and inspected. When a truck is in a bay for unloading, the truck manifest and product orders are reviewed by the supervisors to ensure the delivery contains the product(s) and quantities ordered. As items are moved off the truck to the staging area, the supervisor checks off the items and marks the product with a location identifier indicating where in the warehouse the items should be stored.[6]

As with purchasing, DLC staff anticipate several process improvements upon implementation of the ORACLE system:

- DLC staff will be able to scan products as they are unloaded and the system will automatically identify where the product needs to go in the warehouse instead of manually having to identify those locations. This will help eliminate inventory being placed on the wrong shelves in the warehouse;
- The inventory system will independently match purchase orders with the actual products received, and DLC staff will no longer be able to accept any extra or incorrect products delivered by a supplier;
- Suppliers will no longer have to separate cases by licensee. Once DLC scans in products in the ORACLE system, staff will know where those cases are going automatically so suppliers can package cases together if desired.

[6] Ibid., p.42

4. Ordering

Under the outgoing ordering system, licensees have two ways to order wholesale products: via DLC's online ordering system or via phone by calling DLC purchasing or customer service staff. DLC also allows product sales representatives from private producers or wholesalers to submit orders on behalf of a licensee. For stock products, DLC's online ordering system informs a licensee whether a product is available, but not the quantity available. The system also does not allow back-ordering, so a licensee cannot order a stock item unless it is available at the DLC warehouse. Stock orders are filled by DLC on a first come, first serve basis.

For special orders, licensees can place an order at any point but do not know when or if the item will be delivered. All unfulfilled special orders in the DLC system automatically cancel after one month. DLC staff report that a significant problem with special orders is that many of those products have limited supply. When the quantity of a special order product ordered exceeds the amount available, the supplier, not DLC, decides how to distribute the product among licensees that placed orders.

The new ordering system within ORACLE, which DLC is calling iStore, will have several enhancements for ordering both stock and special order products. First, iStore will be programmed with lead times for all products, i.e., the expected time for DLC to receive a product if it is not already in stock. DLC staff note that they will initially input lead times based on educated estimates, but will be able to refine the lead times going forward based on actual order and delivery dates that the new system will collect. Other improvement for stock items include:

- The iStore system will accept orders that exceed current inventory (i.e., back-orders) and give licensees an expected delivery date for the back-order; and
- If the warehouse has some, but not all, of the quantity of a product a licensee would like to order, the system will allow a licensee to split an order into two (one for the current quantity in stock and one for the remainder on back-order) or leave it as a single order for the entire amount on back-order.

For special orders, in addition to lead time, licensees will also get a weekly report providing the status of an outstanding order and a tentative delivery date. If a licensee did not receive a special order and it is no longer on the weekly report, it means that the product arrived but the orders exceeded supply and the licensee did not receive an allocation. Suppliers will maintain the ability to allocate the product if orders exceed supply. If the supplier does not notify DLC how the product is to be allocated, DLC will allocate the orders based on when they were received. On November 4, 2014, DLC distributed a memorandum that detailed the following process for special orders effective February 2, 2015:[7]

[7] http://www.montgomerycountymd.gov/DLC/Resources/Files/licensees/ERP/20141104_SpecialOrders_Licensee.pdf

Special Order Process for Department of Liquor Control Licensees

1) Special order products can be ordered by several methods:
    a. Ordering online using the new iStore feature, calling and/or faxing the Order Section.
    b. Sales reps may order on your behalf.
2) Based on product availability, each supplier will decide which licensee special order will be fulfilled. DLC does not have access to product availability data and therefore processes all orders and forwards the information to the supplier for fulfillment. DLC will cancel the special orders that cannot be fulfilled by the supplier.
3) DLC encourages all licensees to work closely with your supplier and sales reps on the availability of special orders to ensure that your order will be filled.
4) DLC will provide licensees weekly reports on your open orders via your email address in iStore. In reviewing these reports, if you do not see your special order listed, that indicates that your order was not able to be filled and the order was subsequently cancelled.
5) If you would like to cancel your order, please call the Order Section and provide them the order number and line number of the item you want cancelled.

5. Deliveries

DLC makes deliveries to licensees and retail stores Monday through Friday, and does not schedule deliveries for weekends. Deliveries are split by beer, beer keg, and liquor/wine so a licensee or store could receive multiple deliveries per week depending on the products ordered. Licensees set up specific delivery days with DLC for each product type, but DLC staff note that at times they will make special deliveries for certain locations if needed. Delivery vehicles are loaded at night for delivery the next day, and staff load the trucks in a specific order based on the sequence of the delivery route. All stock and special order items for a licensee are loaded and delivered together.

At the time of delivery, licensees can refuse to accept all or a portion of an order if it is incorrect, broken or damaged, or it they no longer want an item. When DLC delivery drivers return to the warehouse after completing their route, returned items are entered back into the inventory system. Returned stock items are put back into the warehouse for the next order, and returned special order items are sent back to the supplier. Licensees also can return incorrect or damaged/broken items that are discovered after an order has been accepted. In these cases, DLC drivers typically pick up the return items when they make a licensee's next regularly scheduled delivery to the location and the licensee's account is appropriately credited. DLC accepts all returns from licensees without charging any penalty or fee, and similarly, suppliers accept returns of special order products without charging DLC a fee.

Licensees also have the ability to pick up products at the DLC warehouse. Stock items can be picked up without a prior order, but special order products must have been ordered previously.

DLC maintains a designated room in the warehouse for damaged or broken products (whether that occurs during delivery or during the warehouse loading and unloading process). If individual bottles within a case are still intact, they are saved until a full case can be made for single bottles of the same product. For wine and liquor, DLC keeps the necks of all broken bottles and receives monthly State excise tax credits for those broken products.

Delivery fleet. DLC owns and operates a fleet of 42 delivery trucks. DLC has not purchased any new vehicles since 2008, and purchased nearly half the fleet (19 of the 42 vehicles) before 2000. A recent report prepared by the PFM Group for DLC to develop a Comprehensive Long-Range Strategic Business Plan (described on the next page) found that DLC's fleet was "outdated" and had "uneven utilization" that "suggests that a significant portion of the fleet is out of service at any given point in time."

6. Payment policies

DLC requires payment from licensees at the time of delivery, typically referred to as a cash-on-delivery policy. Prior to implementation of the iStore system, delivery drivers were responsible for collecting payment from licensees via check, money order, or cash. Some licensees have escrow accounts where the licensees pay a monthly deposit and the cost of individual deliveries are drawn against that balance.

With iStore, DLC will maintain a "cash-on-delivery" policy but will require licensees to use ACH (Automated Clearing House) to pay for deliveries via electronic debits from registered bank accounts. Under the new ACH policy, DLC drivers will no longer accept any payments (cash or check) at the time of delivery. Instead, DLC staff report that the ACH transactions will occur as detailed below:

- After a delivery is made and the DLC driver brings a copy of the invoice back to the warehouse, financial staff will input the transaction and initiate the debit.
- DLC will provide a one business-day grace period for the debit, so a licensee's account will be debited on Wednesday for a Monday delivery, Thursday for a Tuesday delivery, etc. This grace period means that a Friday delivery will not be debited until the following Tuesday, which allows licensees to deposit proceeds from the weekend into their bank account prior to the debit occurring.
- Licensees will not be debited for items that they do not accept or that they return at the time of delivery. Licensees will have to fill out a return form for any items they do not accept, and the driver will turn that form into DLC financial staff along with the invoice. Financial staff will then delete the non-accepted items, re-issue a corrected invoice, and initiate the account debit for the corrected amount.
- If a licensee accepts an order when delivered and discovers an error after the fact, they will be debited for the original order amount and then receive a subsequent credit after DLC processes the return.

If a licensee does not want to sign-up for ACH, they can still order products but will have to pick up orders at the DLC warehouse and provide payment at that time.

7. Retail Stores

DLC operates 25 retail stores that sell liquor, beer, and wine. DLC stores are the only locations in the County for consumers to buy bottles of liquor for off-premise consumption in the County. DLC retail stores only sell unrefrigerated specialty beers and full cases of domestic beer. DLC staff report that the beer availability of the retail stores is constrained to in order to limit competition to the private beer and wine stores. DLC sells both stock and special order wine in the retail stores.

The pricing of items in DLC stores is established centrally by DLC operations and finance staff so the prices for each product are uniform across all 25 stores. Any products that go "on sale" are also uniform across the stores, both for the type of product and the sale price. DLC staff report that products are often put on sale at the request of the supplier, who then provides DLC with promotional credits to cover the loss in sales revenue from the decreased sales price.

Each store maintains a set inventory level, and DLC staff report that they typically aim to have about one week's worth of inventory on hand. However, the storage capacity differs between stores. DLC stores have the ability to monitor the inventory in other stores and can arrange transfers between stores if necessary.

Retail licensees can purchase items directly in DLC retail stores at either the wholesale price or a discounted price instead of ordering through DLC's warehouse. While DLC only sells wholesale orders in cases, a licensee can purchase individual bottles of a product at a retail store. For wine, licensees can purchase entire cases from a DLC store for the wholesale price or individual bottles for the equivalent wholesale price per bottle. For liquor, licensees can purchase entire cases for the wholesale price or individual bottles for 10% off the retail price or for the sale price, whichever is lower. DLC stores also can place special orders for individual consumers. The store places the requested order with the warehouse, and contacts the customer once the order arrives.

8. DLC Draft Long-Range Strategic Plan

In July 2014, DLC released a draft Comprehensive Long-Range Strategic Business Plan prepared by the PFM Group. The purpose of this project was to: (1) prepare a comprehensive strategic business plan that focused on DLC's wholesale and retail operations, and (2) to consider alternatives to DLC vehicle fleet structure (particularity related to options for leasing fleet vehicles).

The draft strategic plan includes several findings related to DLC's business environment, business results, general operations, wholesale operations, and retail operations. Based on their review, PFM offered several strategies and recommendations for DLC – summarized on the next page.[8]

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[8] Montgomery County Department of Liquor Control, *Draft Final Report: Comprehensive Long-Range Strategic Business Plan*, July 11, 2014. Prepared by the PFM Group.

Recommendations in DLC's Draft Comprehensive Long-Range Strategic Business Plan, July 2014 (Prepared by the PFM Group)
Fleet Recommendations • Revise delivery priority policies • Review fleet configuration and size • Develop a comprehensive plan for vehicle replacement • Determine approach to fleet recapitalization • Evaluate outsourcing the delivery function • Consider "mini-warehouses" in regional superstore • Consider delayed posting of licensee accounts to smooth deliveries **Operations Recommendations** • Seek opportunity to become an Authority • Obtain dedicated, in-house resources for building supervision and management • Perform a cost-benefit analysis on different methods of overnight loading **Retail Recommendations** • Adopt new store opening and store location criteria • Create one or more regional superstores • Close or relocate the Chevy Chase store • Locate additional stores to split over-extended markets • Develop a plan to open three to five additional store locations • Expand the consistent use of the DLC brand • Establish store look guidelines to be incorporated into store design and refurbishment

Chapter 5. DLC Budget and Financial Summary

This chapter reviews budget and financial data for the County's Liquor Enterprise Fund and the Department of Liquor Control. Data in this chapter cover some or all of the time period between FY10 and FY15, and the chapter is organized as follows:

- **Section A** provides a financial summary of the Liquor Enterprise Fund for FY10-14;
- **Section B** reviews revenue deposited into the Liquor Fund for FY10-14, including detailed data from FY12-14 on alcohol sales by source (wholesale vs. retail), product type (beer vs. wine vs. liquor), and product category (stock vs. special order);
- **Section C** analyzes data on DLC expenditures and staffing levels from FY10-15, including detailed data for DLC's warehouse, delivery, and retail store operations;
- **Section D** reviews the County's Liquor Control revenue bonds, including the total owed and the current repayment schedule;
- **Section E** examines DLC gross and net profit for FY10-14, including an estimate of gross profit margin from wholesale vs. retail operations; and
- **Section F** summarizes DLC's total assets and liabilities as detailed in the County's FY14 Comprehensive Annual Financial Report (CAFR).

A. Financial Summary of Montgomery County Liquor Enterprise Fund

The County's Liquor Fund is a self-supporting enterprise fund that uses revenue from alcohol sales to fund the operations of the Department of Liquor Control, pay certain debt service obligations, and provide annual transfers to other County funds. Specifically:

- Annual revenue in the Liquor Fund comes from the wholesale of alcoholic beverages to County liquor license holders, retail sales of alcoholic beverages at County-owned stores, license and permit fees to sell alcoholic beverages in the County, and fines and penalties assessed to County liquor license holders for violations of laws or regulations.
- Annual expenditures from the fund include the personnel and operating costs for DLC, the costs for purchasing the inventory of alcoholic beverages offered for wholesale and retail sale, and other obligations such as interest expenses and OPEB pre-funding payments.
- Annual transfers from the fund – which only occur after all expenditures are paid – include an undesignated transfer into the County's General Fund, and a transfer specifically earmarked for debt service costs from prior-year revenue bond issuance.

Table 8 (on the next page) provides summary financial data on the Liquor Control fund from FY10-14, including total annual revenue and expenditures; annual transfers out of the fund; the beginning and ending fund balance; and the ending fund balance as a percent of annual expenditures. The table shows:

- The Liquor Fund averaged an annual profit prior to transfers of $29 million between FY10 and FY14, ranging from a low of $25 million to a high of $33 million;

- Over the past five years, DLC has transferred $25.7 million to the general fund each year on average – however, the FY14 general fund transfer of $20.9 million is the smallest over that time period; and
- Debt service payments represent an increasing proportion of the annual transfer from the Liquor Fund. In FY14, 21% of the dollars transferred to the General Fund were for debt service compared to 4% in FY10.

Table 8. Summary of Liquor Enterprise Fund, FY10-14

Liquor Fund	FY10	FY11	FY12	FY13	FY14
Beginning Balance	$35.0 million	$29.8 million	$24.6 million	$28.2 million	$35.4 million*
Revenue	$229.3 million	$242.6 million	$252.3 million	$258.9 million	$268.7 million
Expenditures	$204.4 million	$215.4 million	$220.2 million	$225.8 million	$240.4 million
Profit/(Loss)	**$24.9 million**	**$27.2 million**	**$32.1 million**	**$33.1 million**	**$28.3 million**
Transfers					
General Fund Transfer	$29.1 million	$31.3 million	$25.1 million	$22.3 million	$20.9 million
Debt Service Transfer	$1.1 million	$1.1 million	$3.4 million	$3.4 million	$5.5 million
Total Transfers	**$30.2 million**	**$32.4 million**	**$28.5 million**	**$25.7 million**	**$26.4 million**
Ending Balance	$29.8 million	$24.6 million	$28.2 million	$35.6 million	$37.2 million
% of Expenditures	14.6%	11.4%	12.8%	15.8%	15.5%

*The FY13 CAFR shows an ending balance of $35.6 million in the Liquor Fund, while the FY14 CAFR reports a beginning balance "as restated" of $35.4 million.
Source: FY10-14 Montgomery County Comprehensive Annual Financial Report (CAFR)

B. Review of DLC Revenues, FY10-14

This section summarizes annual DLC revenue by source, then breaks down available data on alcohol sales by category (wholesale vs. retail), product type (beer vs. wine vs. liquor), and product category (stock vs. special order).

1. Annual DLC Revenue by Source

DLC receives revenue from three primary sources: 1) alcohol sales (the value of DLC's wholesale and retail sales of beer, wine, and liquor); 2) licenses and permits (fees for obtaining a license to sell or serve alcoholic beverages in the County); and 3) fines and penalties (revenue from licensees due to violations of County liquor laws, e.g., sale-to-minor violations, etc.). Table 9 shows data on DLC revenue by source from FY10-14. The data show:

- Alcohol sales provide approximately 99% of DLC's annual revenue into the Liquor Fund. Overall, revenue from total alcohol sales grew by 17% from FY10 to FY14, with annual growth rates ranging from 2.6% to 5.8%.

- While both wholesale and retail sales increased each year, the five-year rate for growth for retail sales (21%) was higher than for wholesale sales (14%).
- Annual growth rates were higher in FY11-12 compared to FY13-14. For the retail stores, this may reflect (at least in part) the addition of Sunday retail hours that began in FY11.

Table 9. Summary of Liquor Enterprise Fund, FY10-14

Revenue Source	FY10	FY11	FY12	FY13	FY14
Wholesale Sales % change	$121.1 million --	$126.9 million 4.8%	$130.4 million 2.8%	$134.4 million 3.1%	$137.8 million 2.5%
Retail Sales % change	$106.2 million --	$113.6 million 7.0%	$120.0 million 5.6%	$122.5 million 2.1%	$128.9 million 5.2%
Total Alcohol Sales % change	**$227.3 million --**	**$240.5 million 5.8%**	**$250.4 million 4.1%**	**$256.9 million 2.6%**	**$266.7 million 3.8%**
Licenses and permits	$1.6 million	$1.8 million	$1.7 million	$1.7 million	$1.7 million
Fines and penalties	$251,285	$248,113	$267,058	$232,499	$216,243
Other*	$145,633	$20,983	$19,160	$20,078	$20,996
Total Revenue	**$229.3 million**	**$242.6 million**	**$252.3 million**	**$258.9 million**	**$268.7 million**

*Includes charges for services, investment income, and miscellaneous non-operating revenue
Source: CAFR and DLC FY13 Annual Report

2. Alcohol Sales by Type and Category

DLC provided OLO with a more detailed breakdown of alcohol sales than is available in the annual CAFR or DLC's budget documents. This subsection reviews DLC's wholesale and retail sales data by alcohol type (beer, wine, liquor) and product category (stock or special order).[1] The multi-year data in this subsection covers FY12-14, because FY12 was the first year DLC was able to provide full-year data on retail sales after implementation of a new point-of-sale system in all retail stores.

The data include both sales revenue and quantity sold, which DLC measures and reports based on the number of cases sold. A case typically consists of 24 cans or bottles for beer; and six or 12 bottles for wine and liquor depending on the bottle volume. DLC only sells products by the case at the wholesale level, while the DLC retail stores sell individual bottles of wine and liquor and six-packs of certain beers.

Wholesale Sales. DLC's wholesale sales revenue consists of the liquor, wine, and beer sold to Montgomery County alcoholic beverage license holders (i.e., beer/wine stores, restaurants, bars, etc.) for subsequent sale to individual consumers. Table 10 details FY14 data on wholesale sales revenue and quantity sold. The data show:

[1] Due to the structure of DLC's financial management and inventory systems during this reporting period, as well as how certain expenditures are accounted as part of year-end financial reporting, the retail and warehouse sales revenue data by type and category may not sum to the exact total sales data in the previous section.

- Beer (cans and bottles) accounted for the majority of DLC wholesale sales in FY14 (51% of sales revenue and 82% of cases sold). However, beer also had the lowest average sales revenue per case sold of $20.
- At the wholesale level, liquor represents 5% of FY14 sales revenue and 1% of quantity sold.
- Special order products represent 21% of wholesale sales revenue and 7% of the total cases sold in FY14. Special order products provide a much higher average sales revenue per case, $92 compared to $27 for stock products.

Table 10. Value and Quantity of FY14 DLC Wholesale Sales by Alcohol Type and Product Category

Wholesale Sales	Total Sales Revenue		Total Cases Sold		Avg. Sales Revenue per Case Sold
	$'s	%	#	%	
Total	**$136.0 million**	**100%**	**4,238,396**	**100%**	**$32**
By Alcohol Type					
Beer	$69.9 million	51%	3,490,083	82%	$20
Wine	$50.7 million	37%	618,353	15%	$82
Beer Keg	$9.0 million	7%	89,870*	2%	$100*
Liquor	$6.3 million	5%	40,090	1%	$157
By Product Category					
Stock Products	$107.8 million	79%	3,930,069	93%	$27
Special Order Products	$28.2 million	21%	308,327	7%	$92

*Beer keg quantities refer to the number of kegs sold.
Source: DLC

Table 11 provides a further breakdown of stock and special order wholesale sales between FY12 and FY14 by alcohol type. Each year since FY12, just less than one-half of wholesale wine sales revenue (46-47%) has been for special order products. In comparison, beer, beer keg, and liquor sales at the wholesale level are primarily from stock products. Overall, stock and special order wholesale sales increased at a similar rate between FY12-14.

Table 11. FY12-14 DLC Wholesale Sales Revenue by Alcohol Type and Category

Alcohol Type and Product Category	FY12		FY13		FY14	
	$'s	%	$'s	%	$'s	%
Beer Sales	**$65.8 million**	**100%**	**$66.5 million**	**100%**	**$69.9 million**	**100%**
Stock	$63.7 million	97%	$64.0 million	96%	$67.1 million	96%
Special Order	$2.1 million	3%	$2.5 million	4%	$2.8 million	4%
Wine Sales	**$47.8 million**	**100%**	**$50.2 million**	**100%**	**$50.7 million**	**100%**
Stock	$25.8 million	54%	$27.1 million	54%	$26.8 million	53%
Special Order	$22.0 million	46%	$23.1 million	46%	$23.9 million	47%
Beer Keg Sales	**$8.1 million**	**100%**	**$8.6 million**	**100%**	**$9.0 million**	**100%**
Stock	$7.6 million	94%	$7.9 million	92%	$8.2 million	91%
Special Order	$0.5 million	6%	$0.7 million	8%	$0.8 million	9%
Liquor Sales	**$5.5 million**	**100%**	**$5.8 million**	**100%**	**$6.3 million**	**100%**
Stock	$4.9 million	89%	$5.2 million	90%	$5.6 million	89%
Special Order	$0.6 million	11%	$0.6 million	10%	$0.7 million	11%
Total Sales	**$127.2 million**	**100%**	**$131.1 million**	**100%**	**$136.0 million**	**100%**
Stock	$102.0 million	80%	$104.2 million	80%	$107.8 million	79%
Special Order	$25.2 million	20%	$26.9 million	20%	$28.2 million	21%

Source: DLC. Data may not add to totals due to rounding.

Retail Sales. DLC retail sales revenue consists of the liquor, wine, and beer sold directly to consumers for off-premise consumption through DLC's 25 retail stores. DLC stores are the only locations in the County for consumers to buy packaged liquor products. Table 12 provides FY14 data on total retail sales revenue and quantities sold by alcohol type and by product category (i.e., stock or special order). The data show:

- Liquor accounts for the largest proportion of retail sales revenue (57%), while wine (37%) and liquor (35%) account for the largest proportion of cases sold.
- The majority of sales revenue (83%) and cases sold (91%) in DLC retail stores are stock products. In total, special order products accounted for $21.9 million (17%) of retail sales in FY14.

Table 12. Value and Quantity of FY14 DLC Retail Sales by Alcohol Type and Product Category

DLC Retail Sales	Total Sales Revenue		Total Cases Sold		Avg. Sales Revenue per Case Sold
	$'s	%	#	%	
Total	**$127.3 million**	**100%**	**1,118,871**	**100%**	**$114**
By Alcohol Type					
Liquor	$72.5 million	57%	395,690	35%	$183
Wine	$46.0 million	36%	414,128	37%	$111
Beer	$8.5 million	7%	297,377	27%	$29
Misc.	$0.4 million	<1%	11,676	1%	$34
By Product Category					
Stock Products	$105.4 million	83%	1,013,921	91%	$104
Special Order Products	$21.9 million	17%	104,950	9%	$209

Source: DLC. Data may not add to totals due to rounding.

Table 13 provides a further breakdown of stock and special order retail sales between FY12 and FY14 by alcohol type. Of note, retail sales of special order liquor products increased by $3.5 million between FY12 and FY14, growing from 17% to 21% of all retail liquor sales.

Table 13. FY11-14 DLC Retail Sales Revenue by Alcohol Type and Category

Alcohol Type and Product Category	FY12		FY13		FY14	
	$'s	%	$'s	%	$'s	%
Liquor Sales	**$67.2 million**	**100%**	**$69.7 million**	**100%**	**$72.5 million**	**100%**
Stock	$55.8 million	83%	$56.9 million	82%	$57.6 million	79%
Special Order	$11.4 million	17%	$12.8 million	18%	$14.9 million	21%
Wine Sales	**$44.5 million**	**100%**	**$44.5 million**	**100%**	**$46.0 million**	**100%**
Stock	$38.7 million	87%	$38.2 million	86%	$39.1 million	85%
Special Order	$5.8 million	13%	$6.3 million	14%	$6.9 million	15%
Beer Sales	**$8.3 million**	**100%**	**$8.1 million**	**100%**	**$8.5 million**	**100%**
Stock	$8.2 million	99%	$8.0 million	99%	$8.4 million	99%
Special Order	$0.1 million	1%	$0.1 million	1%	$0.1 million	1%
Total Liquor, Wine, Beer	**$120.0 million**	**100%**	**$122.7 million**	**100%**	**$127.3 million**	**100%**
Stock	$102.7 million	86%	$103.5 million	84%	$105.4 million	83%
Special Order	$17.3 million	14%	$19.2 million	16%	$21.9 million	17%

Source: DLC. Data may not add to totals due to rounding.

C. Review of DLC Expenditures and Staffing, FY10-15

This section provides an overview of DLC expenditures and staffing, then provides a more detailed review of DLC's warehouse, delivery, and retail operations program areas. The overview includes data from FY10-15, while the detailed program data focuses on FY13-15.

1. Overview of DLC Expenditures

Total Expenditures. Annual expenditures from the Liquor Fund include the personnel costs (salaries and wages, benefits) and operating costs (contracts, supplies, rent, utilities, etc.) appropriated for specific DLC programs and services; the "cost of goods sold" (i.e., the expenditures to purchase the alcohol inventory that is then sold at the wholesale or retail level); and other expenditures not directly tied to specific programs. Table 14 shows total expenditures from the Fund for FY10-14, as well as the budgeted DLC program costs in FY15. The data show:

- Overall, total Liquor Fund expenditures grew by 17% from FY10 to FY14, from $204.4 million to $240.4 million.
- The total growth was driven by the cost of goods sold, which increased by $28.5 million or 17.5% during that period.
- DLC program costs increased by $5.1 million or 12.3% from FY10 to FY14. Personnel costs account for approximately 60% of DLC's annual program costs.

Table 14. DLC Program and Non-Program Expenditures from the Liquor Fund, FY10-15

Expenditure Type	FY10	FY11	FY12	FY13	FY14	FY15 Budget
DLC Program Costs	**$41.5 million**	**$40.9 million**	**$40.3 million**	**$42.3 million**	**$46.6 million**	**$46.2 million**
Personnel Costs	$24.7 million	$24.5 million	$23.9 million	$25.2 million	$27.1 million	$28.1 million
Operating Costs	$16.8 million	$16.4 million	$17.4 million	$17.1 million	$19.5 million	$18.1 million
Cost of Goods Sold	$162.4 million	$173.6 million	$177.5 million	$181.9 million	$190.9 million	--
All other	$0.5 million	$0.9 million	$2.4 million	$1.6 million	$2.9 million	--
Total	**$204.4 million**	**$215.4 million**	**$220.2 million**	**$225.8 million**	**$240.4 million**	**--**

Sources: FY10-14 CAFRs, MCG Business Intelligence Reporting Dashboard

DLC Staffing. The next table shows DLC's total personnel complement for FY10 through FY15, including both the total approved FTEs and the number of full- and part-time positions DLC uses to fill the FTE complement. The total FTEs also accounts for temporary staff, which do not show up in the position count. Of note, the number of part-time positions increased substantially in FY15 (from 63 to 155) while the total FTEs decreased by two. This resulted from an agreement between the County and the MCEGO Local 1994 to convert temporary employees (primarily in retail stores) who have worked for DLC for 18 months or more to permanent employees.

Table 15. DLC FY10-15 Personnel Complement

DLC Staffing Levels	FY10	FY11	FY12	FY13	FY14	FY15 Budget
Total Approved FTE's	337	313	323	324	339	337
Personnel Costs/FTE	$73,294	$78,275	$73,994	$77,778	$79,941	$83,383
Positions						
Full-Time Positions	257	248	245	246	254	255
Part-Time Positions	62	58	57	55	63	155

Source: FY12-15 DLC Approved Operating Budget

2. DLC Program Expenditures and Staffing

Table 16 shows the total personnel and operations costs for each of DLC's six program areas, as well as the staffing complement for each program area and the associated personnel costs per FTE. Retail Sales Operations is DLC's largest cost component, representing 53% of budgeted program expenditures in FY15. DLC staff note that some increases in FY15 operating costs (e.g., in Administration) are due to costs that are budgeted in one program but accrue to another when reporting actual expenditures.

Table 16. DLC Program Expenditures and Staffing, FY10-14 Actuals and FY15 Budgeted

Program	FY10 Actual	FY11 Actual	FY12 Actual	FY13 Actual	FY14 Actual	FY15 Budget
Warehouse Operations	**$8.9 million**	**$8.7 million**	**$9.3 million**	**$9.2 million**	**$8.6 million**	**$8.7 million**
Operating Costs	$4.0 million	$3.7 million	$4.2 million	$3.8 million	$2.9 million	$3.6 million
Personnel Costs	$4.9 million	$5.0 million	$5.1 million	$5.4 million	$5.7 million	$5.1 million
Staffing (FTE's)	67	63	65	66	68	64
Personnel Costs/FTE	$73,134	$79,365	$78,462	$81,818	$83,824	$79,688
Delivery Operations	**$5.1 million**	**$4.9 million**	**$4.6 million**	**$5.0 million**	**$5.2 million**	**$6.2 million**
Operating Costs	$0.3 million	$0.3 million	$0.3 million	$0.3 million	$0.4 million	$1.5 million
Personnel Costs	$4.8 million	$4.6 million	$4.3 million	$4.7 million	$4.8 million	$4.7 million
Staffing (FTE's)	76	72	77	74	68	68
Personnel Costs/FTE	$63,158	$63,889	$55,844	$63,514	$70,588	$69,118
Retail Sales Operations	**$17.8 million**	**$18.0 million**	**$18.2 million**	**$18.9 million**	**$20.8 million**	**$24.6 million**
Operating Costs	$7.1 million	$7.0 million	$7.1 million	$7.3 million	$8.0 million	$10.1 million
Personnel Costs	$10.7 million	$11.0 million	$11.1 million	$11.5 million	$12.7 million	$14.4 million
Staffing (FTE's)	154	143	144	145	165	170
Personnel Costs/FTE	$69,481	$76,923	$77,083	$79,310	$76,970	$84,706
Administration*	**$6.6 million**	**$3.1 million**	**$2.7 million**	**$2.8 million**	**$2.9 million**	**$4.5 million**
Operating Costs	$3.9 million	$0.9 million	$0.8 million	$0.8 million	$0.6 million	$3.5 million
Personnel Costs	$2.7 million	$2.2 million	$1.9 million	$2.1 million	$2.3 million	$2.2 million
Staffing (FTE's)	25	20	21	21	22	21
Personnel Costs/FTE	$108,000	$110,000	$90,476	$100,000	$104,545	$104,762
Licensure, Regulation, and Education	**$1.3 million**	**$1.3 million**	**$1.2 million**	**$1.3 million**	**$1.3 million**	**$1.6 million**
Operating Costs	$0.1 million	$0.1 million	$0.1 million	$0.1 million	$0.1 million	$0.3 million
Personnel Costs	$1.2 million	$1.2 million	$1.1 million	$1.2 million	$1.2 million	$1.3 million
Staffing (FTE's)	14	12	13	15	14	12
Personnel Costs/FTE	$85,714	$100,000	$84,615	$80,000	$85,714	$108,333
Office of the Director	**$1.8 million**	**$5.2 million**	**$5.3 million**	**$5.2 million**	**$7.9 million**	**$0.6 million**
Operating Costs	$1.4 million	$4.8 million	$5.0 million	$4.8 million	$7.5 million	$0.2 million
Personnel Costs	$0.4 million	$0.4 million	$0.4 million	$0.4 million	$0.4 million	$0.4 million
Staffing (FTE's)	3	2	3	3	2	2
Personnel Costs/FTE	$133,333	$200,000	$133,333	$133,333	$200,000	$200,000

*Does not include $10.1 million for debt service in FY15 that is included in Administration for budget purposes only.
Sources: FY12-15 DLC Approved Operating Budget, MCG Business Intelligence Reporting Dashboard

3. DLC Warehouse Operations

DLC's Warehouse Operations program includes five budget subdivisions – Wholesale Administration, Purchasing, Customer Service, Beer Warehouse Operations, and Liquor/Wine Warehouse Operations. For each division, Table 17 shows the actual expenditures for FY13-14 and the budgeted expenditures for FY15, and the number of full-time (FT) and part-time (PT) positions in FY15. As noted in Chapter 4, during FY15 the purchasing and customer service divisions moved into the Administration program.

Overall, the liquor/wine subdivision accounts for approximately one-half of warehouse operations expenditures each year as well as one-half of the filled positions in FY15. The beer operations subdivision has fewer staff and lower personnel costs, as the loading of beer trucks at the warehouse is done by contract staff instead of County staff.

Table 17. FY13-15 Actual and Budgeted Warehouse Operations Expenditures

Division and Cost Type	FY13 Actual	FY14 Actual	FY15 Budget*	FY15 Positions (as of 11/14)		
				FT	PT	Total
Wholesale Administration	**$2,501,704**	**$1,230,739**	**$475,261**			
Personnel Costs	$560,167	$401,714	$475,261	3	-	**3**
Operating Costs	$1,941,537	$829,025	--			
Purchasing	**$595,796**	**$611,716**	**$596,323**			
Personnel Costs	$595,192	$609,062	$596,323	9	-	**9**
Operating Costs	$604	$2,653	--			
Customer Service	**$181,425**	**$235,691**	**$240,321**			
Personnel Costs	$180,448	$233,882	$240,321	4	-	**4**
Operating Costs	$977	$1,809	--			
Beer Warehouse Operations	**$1,518,997**	**$1,751,438**	**$3,099,108**			
Personnel Costs	$568,276	$713,967	$736,352	5	7	**12**
Operating Costs	$950,721	$1,037,471	$2,362,756			
Liquor/Wine Warehouse Operations	**$4,380,641**	**$4,719,647**	**$4,303,895**			
Personnel Costs	$3,489,690	$3,737,577	$3,025,580	8	9 merit 12 temp	**29**
Operating Costs	$890,951	$982,070	$1,278,315			
Total Warehouse Operations	**$9,178,564**	**$8,549,231**	**$8,714,908**			
Total Personnel Costs	$5,393,773	$5,696,202	$5,073,837	29	16 merit 12 temp	**57**
Total Operating Costs	$3,784,791	$2,853,028	$3,641,071			

*The variation in operating costs between FY14 actuals and the FY15 budget is primarily due to costs that are budgeted in one division but accrue to a different division as actual expenditures.
Sources: MCG Business Intelligence Reporting Dashboard, MCTime (Nov. 2014), FY15 DLC Personnel Complement

4. Delivery Operations

DLC's Delivery Operations program includes two budget subdivisions – Beer Delivery Operations and Liquor/Wine Delivery Operations. Table 18 shows the actual expenditures for FY13-14 and the budgeted expenditures for FY15 for each subdivision, as well as the number of full-time (FT) and part-time (positions) for each. Delivery operations expenditures primarily consist of personnel costs, and nearly all the 108 staff are full-time positions.

Table 18. FY13-15 DLC Delivery Operations Expenditures

Division and Cost Type	FY13 Actual	FY14 Actual	FY15 Budget	FY15 Positions (as of 11/14)		
				FT	PT	Total
Beer Delivery Operations	**$3,917,620**	**$3,882,722**	**$4,490,222**	53	2	**55**
Personnel Costs	$3,772,620	$3,711,108	$3,481,953			
Operating Costs	$145,000	$171,614	$1,008,269			
Liquor/Wine Delivery Operations	**$1,044,493**	**$1,293,263**	**$1,728,460**	52	1 temp	**53**
Personnel Costs	$899,493	$1,086,167	$1,174,385			
Operating Costs	$145,000	$207,096	$554,075			
Total Delivery Operations	**$4,962,113**	**$5,175,985**	**$6,218,682**	105	2 merit 1 temp	**108**
Total Personnel Costs	$4,672,113	$4,797,275	$4,656,338			
Total Operating Costs	$290,000	$378,710	$1,562,344			

Source: MCG Business Intelligence Reporting Dashboard, MCTime (Nov. 2014), FY15 DLC Personnel Complement

5. Retail Sales Operations

DLC's Retail Sales Operations program includes separate budget divisions for each DLC store and one for overall administration. Table 19 shows the actual expenditures for FY13-14, budgeted expenditures for FY15, and the number of full-time (FT) and part-time (PT) positions in FY15. When developing the budget for each fiscal year, DLC puts the operating costs for all the retail stores into the retail administration line-item and then allocates those costs to each individual store as they occur. As a result, the retail administration line-item in FY15 appears unusually large compared to the FY13-14 actual expenditures.

Overall, DLC will spend approximately $25 million to operate its retail stores in FY15 and fund 205 positions – 80 full-time and 125 part-time. The total staff assigned to each store ranges from seven to 11.

Table 19. FY13-15 DLC Retail Sales Operations Expenditures

Division and Cost Type	FY13 Actual	FY14 Actual	FY15 Budget	FY15 Positions (as of 11/14)		
				FT	PT	Total
Retail Administration*	($184,720)	($159,706)	$14,144,367	3	1	**4**
Burtonsville	$517,079	$542,961	$144,548	3	4	**7**
Cabin John	$670,822	$746,193	$374,622	3	4 merit 1 temp	**8**
Chevy Chase Center	$981,996	$1,020,403	$524,558	3	6 merit 1 temp	**10**
Clarksburg Village	--	$321,837	$500,373	3	4	**7**
Cloverly	$691,723	$751,603	$271,009	3	5	**8**
Darnestown	$1,028,096	$1,201,804	$534,934	4	4	**8**
Diamond Square	$287,545	$275,875	--	--	--	**--**
Fallsgrove	$824,958	$864,943	$446,992	4	3 merit 1 temp	**8**
Flower Avenue**	$491,157	$376,913	--	--	--	**--**
Goshen Crossing	$685,915	$819,729	$314,416	3	5	**8**
Hamden Lane	$818,132	$841,497	$267,302	2	6	**8**
Kensington	$747,537	$771,885	$418,787	3	5	**8**
Kingsview	$750,674	$786,701	$486,396	3	5	**8**
Leisure World	$633,140	$805,255	$425,765	3	5	**8**
Milestone	$912,726	$979,760	$477,890	4	5	**9**
Montrose	$947,495	$977,930	$501,388	4	5 merit 1 temp	**10**
Muddy Branch	$984,002	$964,434	$581,786	4	6 merit 1 temp	**11**
Olney	$732,990	$973,738	$503,817	3	5	**8**
Pike	$976,238	$1,220,597	$498,869	4	5	**9**
Potomac	$1,138,475	$948,830	$605,522	4	5	**9**
Seneca Meadows	--	$345,789	$453,200	3	5	**8**
Silver Spring	$895,948	$843,245	$458,284	3	5	**8**
Twinbrook	$152,405	$159,736	--	--	--	**--**
Walnut Hill	$590,156	$873,785	$368,364	3	5	**8**
Westwood	$970,519	$819,030	$417,701	4	5	**9**
Wheaton	$734,582	$885,416	$453,024	1	6	**7**
White Oak	$879,683	$806,138	$385,207	3	6	**9**
Total Retail Sales Operations	**$18,859,273**	**$20,766,321**	**$24,559,121**	**80**	**120 merit 5 temp**	**205**

* Retail Administration also includes some miscellaneous personnel and operating costs.
** Flower Avenue store (moved and re-opened during FY15) was budgeted after the approved budget process via Executive Change Memorandum and as a result that data is not separated out in this table.
Sources: MCG Business Intelligence Reporting Dashboard, MCTime (Nov. 2014), FY15 DLC Personnel Complement

D. Liquor Control Revenue Bonds

The County issued Liquor Control revenue bonds in 2009, 2011, and 2013 to fund transportation and DLC facility projects. As a result, each year DLC must make annual debt service principal and interest payment from net profits prior to making any transfers to the General Fund. Tables 20 and 21 summarize the current status of the liquor control revenue bonds, the total payments made since FY10, and the schedule of repayment as of June 30, 2014. The data show:

- The County has issued a total of $125.4 million in liquor control revenue bonds since 2009, with $114.1 million in principal balance remaining on those bonds at the end of FY14.
- Since FY10, the county has paid $29.9 million in principal and interest toward the liquor control revenue bonds, and owes $165.5 million through the end of FY34.
- The County owes $9.8 million in bond payments in each of the next five fiscal years.

Table 20. Summary of Outstanding Liquor Control Revenue Bonds

Liquor Control Revenue Bonds	Date Issued	Maturity	Interest Rate	Amount Originally Issued	Balance as of June 30, 2014
Liquor Control & Transportation 2009	5/12/09	2010-29	3-5%	$46,765,000	$38,460,000
Liquor Control & Transportation 2011	4/28/11	2012-31	2-5%	$32,020,000	$30,840,000
Liquor Control & Transportation 2013	8/15/13	2014-33	3.1-5%	$46,645,000	$44,835,000
Total				**$125,430,000**	**$114,135,000**

Source: FY14 CAFR

Table 21. Liquor Control Revenue Bond Debt Service Repayment Schedule

Fiscal Year Ending June 30….	Principal	Interest	Total
2010	$1,745,000	$2,024,478	$3,769,478
2011	$1,550,000	$2,108,248	$3,658,248
2012	$2,825,000	$3,530,455	$6,355,455
2013	$2,790,000	$3,561,750	$6,351,750
2014	$4,725,000	$5,038,843	$9,763,843
Total Paid	**$13,635,000**	**$16,263,774**	**$29,898,774**
2015	$4,640,000	$5,134,501	$9,774,501
2016	$4,865,000	$4,923,013	$9,788,013
2017	$5,060,000	$4,716,076	$9,776,076
2018	$5,295,000	$4,484,189	$9,779,189
2019	$5,520,000	$4,258,989	$9,778,989
2020-2024	$31,665,000	$17,137,723	$48,802,723
2025-2029	$39,560,000	$9,160,234	$48,720,234
2030-2034	$17,530,000	$1,584,950	$19,114,950
Total Owed	**$114,135,000**	**$51,399,675**	**$165,534,675**

Source: Montgomery County Debt Service Program FY14

E. Summary of DLC Profit

DLC uses the gross profit margin of its wholesale and retail operations as a measure of performance, and has a target margin of 28%. The gross profit margin as calculated by DLC simply measures the cost of goods sold against total sales revenue, it does not account for the personnel and operating expenditures required to run the Department. DLC's FY13 Performance and Accountability Report for CountyStat describes the gross profit margin goal as follows:

> In FY13, the Department continues to seek its gross profit margin (cost of goods sold to sales) target of 28%. A gross profit margin of 28% will ensure that the Department meets its cost of operations and transfers a predetermined amount of profit to the General Fund. The Department and the Office of Management and Budget jointly establish a profit transfer goal. Because markups and sale prices are standardized, the Department gets a standardized output. This measure is less of a plan than it is a broad measure to watch to ensure we are on track.[2]

Table 22 below shows both DLC's annual gross profit margin from FY10-14, as well as the annual net profit (calculated as using all revenues and expenditures, prior to any transfers for debt service or to the County's general fund). The data show:

- DLC achieved its 28% gross profit margin target each year since FY10.
- DLC's net profit margin ranged from 11% to 13%, with a 2.3% decrease from FY13 to FY14.
- On average, DLC's net profit margin from FY10-14 was about 17% lower than the gross profit margin.

Table 22. DLC Gross and Net Profit Margin, FY10-14

DLC Profit Margin	FY10	FY11	FY12	FY13	FY14
Total Alcohol Sales	\$227.3 million	\$240.5 million	\$250.4 million	\$256.9 million	\$266.7 million
Total Cost of Goods Sold	\$162.4 million	\$173.6 million	\$177.5 million	\$181.9 million	\$190.9 million
Gross Profit	\$64.9 million	\$66.9 million	\$72.9 million	\$75.0 million	\$75.8 million
Gross Profit Margin: Profit/Total Sales	**28.6%**	**27.8%**	**29.1%**	**29.2%**	**28.4%**
Total DLC Revenue	\$229.3 million	\$242.6 million	\$252.3 million	\$258.9 million	\$268.7 million
Total DLC Expenditures	\$204.4 million	\$215.4 million	\$220.2 million	\$225.8 million	\$240.4 million
Gross Profit	\$24.9 million	\$27.2 million	\$32.1 million	\$33.1 million	\$28.3 million
Net Profit Margin: Profit/Total Revenue	**10.9%**	**11.2%**	**13.2%**	**12.8%**	**10.5%**

Source: FY10-14 CAFR

[2] http://montgomerycountymd.gov/countystat/Resources/Files/DLCFY13%20Final(3).pdf, pg.5

DLC currently does not regularly track profit by wholesale and retail operations, nor by alcohol or product type. DLC staff note that the accounting system does not disaggregate the cost of goods sold into these distinct components, but the new Oracle-based inventory and accounting system scheduled for implementation as of February 1, 2015 will begin tracking these data.

To estimate the amount of gross profit associated with DLC's wholesale and retail operations, OLO used data on the FY13 total cost of goods sold for DLC retail stores published in the 2014 Comprehensive Long-Range Strategic Business Plan developed for DLC by PFM Group consultants. PFM reported that the total cost of goods sold for the DLC retail stores in FY13 was $82.7 million, or 45% of the total cost of goods sold. OLO applied this same 45% retail, 55% wholesale assumption to the cost of goods sold data from FY12 and FY14 to develop an estimated gross profit margin separately for wholesale and retail sales as shown in the table below.

OLO estimates that the gross profit margin for DLC retail stores was about 6-8% higher than for wholesale operations in FY12-14, as shown in Table 23 below. A higher gross profit margin for retail stores is likely attributable, at least in part, to the fact that the retail sales price include both a wholesale and a retail markup.

Table 23. OLO Estimate of DLC Wholesale and Retail Gross Profit Margin, FY12-14

Revenue Source	FY12	FY13	FY14
Wholesale Sales			
Total Sales	$130.4 million	$134.4 million	$137.8 million
Estimated Costs of Goods Sold	$96.8 million	$99.2 million	$104.1 million
Estimated Gross Profit	$33.6 million	$35.2 million	$33.7 million
Estimated Wholesale Gross Profit Margin: Profit/Sales	**25.8%**	**26.2%**	**24.5%**
Retail Sales			
Total Sales	$120.0 million	$122.5 million	$128.9 million
Estimated Costs of Goods Sold	$80.7 million	$82.7 million	$86.8 million
Estimated Gross Profit	$39.3 million	$39.8 million	$42.1 million
Estimated Retail Gross Profit Margin: Profit/Sales	**32.8%**	**32.5%**	**32.7%**

F. Summary of DLC Assets and Liabilities

The FY14 CAFR lists the total assets and liabilities for the Liquor Fund. These include both "current" (i.e., assets that are reasonably expected be converted into cash within one year or liabilities that are due within one year) and "noncurrent" (i.e., long-term assets or liabilities where the value or cost will not be realized within the next year) assets and liabilities. Table 24 summarizes the assets and liabilities of the Liquor Fund as June 30, 2014. Of note:

- The value of DLC's capital assets (net of accumulated depreciation) is $54.8 million, including $26.2 million for DLC's warehouse facility; $9.2 million for equipment and machinery; and $3.4 million for DLC's vehicle fleet.
- The largest liability is $44.8 million in long-term debt obligations for revenue bonds.

Table 24. Liquor Fund Assets and Liabilities as of June 30, 2014

Category	Value
Assets	
Current Assets	
Inventory of Supplies	$31,652,440
Equity and cash	$13,765,554
All other	$3,902,255
Subtotal	**$49,320,249**
Noncurrent Assets	
Buildings	$26,208,903
Improvements (non-buildings)	$14,524,264
Furniture, equipment, machinery	$9,285,102
Land	$7,033,656
Construction in progress	$4,051,605
Automobiles and trucks	$3,409,382
Accumulated depreciation	($9,718,771)
Subtotal	**$54,794,141**
Total Assets	**$104,114,390**
Liabilities	
Current Liabilities	
Accounts payable	$11,569,783
All other	$6,814,545
Subtotal	**$18,384,328**
Noncurrent Liabilities	
Revenue bonds payable	$44,820,979
All other	$3,734,694
Subtotal	**$48,555,673**
Total Liabilities	**$66,940,001**

Source: FY14 CAFR

Chapter 6. Feedback on DLC's Performance and Operations

In order to gain feedback on the Department of Liquor Control's performance and operations, as well as the overall structure of liquor control in Montgomery County, OLO: 1) conducted informational interviews with a variety of business owners/managers, liquor license holders and other stakeholders in the community; and 2) developed a formal survey that was sent to nearly 400 Montgomery County liquor license holders.

Overall, OLO received feedback and insight from over 100 different DLC customers (restaurants, bars, beer and wine stores, etc.) through the interviews and the survey. This feedback effort focused on the views and perceptions of DLC's wholesale customers, and OLO did not seek feedback on DLC retail stores from customers. This chapter identifies the common themes and observations from OLO's interviews, and summarizes the formal survey results. As such, the feedback presented reflects the common views and perceptions among interviewees and survey respondents, and does not necessarily reflect the views of every individual licensee or stakeholder. This chapter is organized as follows:

- **Section A** provides background information about OLO's survey;
- **Section B** summarizes the feedback and common themes heard by OLO in interviews and conveyed through the survey; and
- **Section C** reviews survey respondents' views on potential structural change to the Montgomery County liquor system.

A. Feedback Mechanisms and Survey Methodology

Survey Design. OLO designed, organized, and distributed an online, 28-question "Survey of Liquor License Holders" via the survey development website SurveyMonkey on October 27, 2014. The survey included both multiple choice and open-ended questions intended to solicit feedback from Montgomery County liquor licenses holders about their experiences working with DLC. See the appendix at ©1 for a complete copy of the survey questions.

Potential survey recipients came from a list provided by DLC of all Montgomery County Class A, Class B, Class D and Class H (primarily restaurants, bars, beer/wine stores) retail liquor license holders. DLC's license data included 973 Class A, B, D and H licensees, but the data included very few emails. OLO staff reviewed, where possible, businesses' websites to obtain email addresses and from that research, compiled a list of 428 licensees who were sent the survey.

After 39 emails bounced back, 389 licensees ultimately received the survey. OLO received 96 responses (a 25% response rate) consisting of 77 complete responses and 19 partial responses (OLO did not require that a respondent answer every question). The number of responses was in line with OLO's expectations and points to a strong interest among liquor license holders in these issues. While OLO does not consider the response rate to be high enough to draw statistically valid conclusions, the results provide useful insights into the perceptions of DLC's performance and operations among County licensees.

Survey Respondent Profile. OLO asked several demographic questions of respondents on type of liquor license held, zip code of their business location, number of liquor licenses held in Montgomery County, and the approximate dollar value of annual alcohol sales. Responses to the demographic information questions are summarized below. Of note:

- 90% of respondents hold liquor licenses for eating and drinking establishments,
- 88% of respondents hold one liquor license, and
- 50% of respondents have annual alcohol sales of $100,000 or greater.

Table 25. Demographic Summary of Survey Respondents

Liquor License	% of Survey Respondents
What type of Liquor License to you have? (n=96)	
Class A (primarily beer/wine stores)	5%
Class B – Beer and Wine Only (primarily restaurants)	40%
Class B – Beer, Wine and Liquor (primarily restaurants)	44%
Class D (restaurants, markets, or beer/wine stores)	8%
Class H (primarily restaurants)	2%
Unsure/Other	2%
What zip code(s) is your business located in? (n=90)	
Rockville-Potomac Area (20850, 20852, 20854, 2055)	23%
Silver Spring Area (20901, 20902, 20904, 20906, 20910)	23%
Bethesda-Chevy Chase Area (20814, 20815, 20816, 20817)	20%
Gaithersburg Area (20877, 20878, 20879, 20882)	18%
Germantown-Clarksburg Area (20871, 20874)	6%
All Other (20705, 20832, 20861, 20895, 20912)	10%
How many liquor licenses do you or your business have in the County? (n=94)	
One	88%
Two	8%
Three or more	3%
What is the approximate dollar value of your business' annual alcohol sales? (n=92)	
Less than $3,500	8%
$3,501 to $10,000	12%
$10,001 to $25,000	4%
$25,001 to $100,000	26%
$100,001 to $250,000	12%
$250,001 or higher	38%

Note: Numbers may not sum to 100% due to rounding.

Informational Interviews. OLO conducted 12 informational interviews with Montgomery County restaurant owners/managers, beer and wine store owners/managers, brewers/manufacturers, and other business sector stakeholders. During these interviews, OLO sought general information and feedback on interactions with DLC, what they liked and did not like about working with DLC, and what aspects of DLC's operations or the liquor control system they would like to see changed or retained.

B. Summary of Feedback and Common Themes

This section summarizes the survey responses and other feedback received by OLO among the following seven topic areas:

- Overall satisfaction with DLC's Wholesale Operations,
- DLC Communications and Customer Service,
- Selection and Availability of Products,
- DLC's Ordering Process,
- DLC's Delivery Process,
- DLC Pricing, and
- DLC Retail Stores.

1. Overall Satisfaction with DLC's Wholesale Operations

OLO's survey included two general questions about licensees' satisfaction with DLC's performance as the wholesaler of alcoholic beverages in Montgomery County. Among the survey respondents, 49% were dissatisfied or very dissatisfied with DLC's performance as a wholesaler; 32% were satisfied or very satisfied; and 19% were neutral.

Overall, how satisfied are you with DLC's performance as the sole wholesaler of alcoholic beverages in Montgomery County? (n=88)

Very Dissatisfied	Dissatisfied	Neutral	Satisfied	Very Satisfied
27%	22%	19%	19%	13%

Survey responses on satisfaction by product type were similar. Approximately one-half of respondents were dissatisfied or very dissatisfied with DLC beer and wine wholesale operations. Approximately 40% of respondents were satisfied or very satisfied with DLC's beer wholesale operations, with one-third satisfied or very satisfied with wine and liquor. Liquor had a higher proportion of neutral responses and a lower proportion (42%) of dissatisfied or very dissatisfied responses.

How satisfied are you with DLC's wholesale operations for…

Product Type	Very Dissatisfied	Dissatisfied	Neutral	Satisfied	Very Satisfied
Beer (n=89)	29%	18%	13%	22%	17%
Wine (n=88)	28%	19%	18%	19%	15%
Spirits (n=62)	24%	18%	24%	24%	10%

Feedback from interviews in general matched that of the survey. Many of those interviewed think that DLC's wholesale operations need improvement. The most common areas cited for improvement were DLC's wine wholesale and special order operations. Comments were more positive on DLC's liquor wholesale performance, and multiple long-time liquor license holders noted that DLC's overall performance as a wholesaler has improved over the years.

2. DLC Communications and Customer Service

Many people that OLO met with spoke about DLC's communications and customer service. Because DLC acts in the stead of a private distributor, DLC's customers indicated that they expect DLC to operate in the same way. A common theme among those interviewed is that DLC's communications and customer service are not what they expect from a business, particularly as it relates to the ordering and delivery processes.

The data from the survey show that 44% of respondents were satisfied or very satisfied with the overall communication DLC provides to licensees, compared to 33% that were dissatisfied or very dissatisfied. For DLC's customer service, 45% of respondents expressed satisfaction and 38% expressed dissatisfaction.

In general, how satisfied are you with…

	Very Dissatisfied	Dissatisfied	Neutral	Satisfied	Very Satisfied
The overall communication DLC provides to licensees? (n=79)	19%	14%	23%	35%	9%
DLC's customer service? (n=79)	15%	23%	18%	37%	8%

Some of the specific communication- and customer service-related items brought up during the interviews concerned providing up-to-date information on inventory, ordering, and pricing, including:

- DLC does not provide timely information to licensees about inventory changes (e.g., new items, discontinued items) and pricing changes.
- DLC customer service staff do not have and, therefore, cannot provide to licensees, information about when DLC will restock out-of-stock items.
- DLC does not proactively notify licenses about pricing changes for individual products.

Several licensees reported that they have good working relationships with specific DLC staff members and can call those staff for information or help with problems. By contrast, other licensees perceive DLC staff to be "unhelpful" when they call about a problem, issue, or question. OLO included survey questions related to DLC communications on product availability and pricing changes. Overall:

- 37% of respondents think DLC provides adequate communication about pricing changes, while 35% disagreed and 29% were neutral.
- 44% of respondents disagreed or strongly disagreed that DLC adequately informs licenses about changes to availability of stock products; and

- 57% of respondents disagreed or strongly disagreed that DLC adequately informs licenses about changes to availability of special order products.

DLC adequately informs licensees about….

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Pricing changes (n=77)	21%	14%	29%	29%	8%
Changes to the availability of stock products (n=76)	24%	20%	28%	25%	4%
Changes to the availability of special order products (n=73)	36%	21%	25%	16%	3%

Many people in OLO's interviews also commented that they did not think they received sufficient information about upcoming changes to DLC's ordering system. In OLO's survey, about a third of respondents thought they had received adequate information (33%), another third of respondents (32%) were dissatisfied with the amount of information received about the upcoming changes, and the final third were neutral.

DLC has provided adequate information about the upcoming changes to its product ordering system (n=79)

Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
16%	17%	33%	21%	12%

3. Selection and Availability of Products

OLO's interviews elicited much discussion about the availability and selection of DLC's products, and OLO also included questions in the survey about these issues. Common perceptions among licensees interviewed include that DLC does not maintain an adequate selection of products (particularly wine), that special order products are unreasonably difficult to obtain, and that the selection and availability of products in Montgomery County is inferior to what is available in nearby jurisdictions.

As part of the survey, OLO asked about licensees' satisfaction, in general, with DLC's product availability and selection. Of respondents, 46% expressed that they were dissatisfied or very dissatisfied while 33% stated that they were satisfied or very satisfied.

In general, how satisfied are you with the availability and selection of alcohol products from the Department of Liquor Control? (n=72)

Very Dissatisfied	Dissatisfied	Neutral	Satisfied	Very Satisfied
21%	25%	21%	22%	11%

Stock and special order items. Survey respondents also reported general dissatisfaction when asked about selection of stock and special order products separately. When asked if DLC's selection of stock items is adequate for the licensee's business, "not adequate" responses were 10% higher than "adequate" responses (44% compared to 34%). Additionally, approximately one-half of respondents indicated that DLC runs out of stock items that they routinely order.

When asked the same question about the availability of special order items, "not adequate" responses were 40% higher than "adequate" responses (61% compared to 21%). Further, 36% of all respondents strongly disagreed that the availability of special order products is adequate. By contrast, only 8% of respondents strongly agreed that the availability of special order products is adequate.

DLC's selection of products is adequate for my business.

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
DLC's section of stock products is adequate for my business needs (n=81)	25%	19%	23%	25%	9%
DLC typically does not run out of "stock" beer/wine/spirits that I routinely order (n=82)	23%	26%	24%	20%	7%
The availability of "special order" beer/wine/spirits through DLC is adequate for my business needs (n=76)	36%	25%	18%	13%	8%

Other feedback from interviewees related to the availability and selection of stock or special order products includes:

- Higher overall satisfaction with the selection and availability of liquor products than beer and wine products.
- Interest in DLC listing all Maryland-made craft beers as stock items to increase availability and to help local breweries distribute their products more widely. Some local breweries have begun self-distributing beer rather than selling through DLC.
- Overall dissatisfaction at the special order wine options and the difficulty this poses for restaurants that are attempting to maintain a specific wine list.
- OLO heard from several licensees that they order no or less special order wine than they otherwise would because the process of getting special order wine from DLC is too unreliable. One licensee gave survey feedback stating: "My special orders would be closer to 100% if they didn't take so long to get. I end up having a bad and boring selection of products because the special orders are so inefficient and slow."

Comparison with other jurisdictions. Seventeen survey respondents indicated that they have one or more liquor licenses outside of Montgomery County and answered additional questions about their experience compared to other jurisdictions. Regarding availability and selection, 12 (70%) of respondents indicated that the availability and selection of alcohol in Montgomery County is worse or much worse than in the other jurisdiction(s) where they hold liquor licenses.

**Compared to my business(es) in other jurisdiction(s),
the availability and selection of beer/wine/spirits in Montgomery County is… (n=17)**

Much Worse	Worse	Similar	Better	Much Better
7 (41%)	5 (29%)	4 (24%)	0 (0%)	1 (6%)

4. DLC's Ordering Process

OLO asked survey respondents generally whether DLC's ordering process works well for respondents' businesses. For DLC's stock products, approximately 40% of respondents thought the process works well for them and 38% thought it does not work well. For special order products, however, 61% of respondents reported that the ordering process does not work well for their businesses.

DLC's ordering process for beer/wine/spirits works well for my business.

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Stock (n=82)	18%	22%	22%	29%	9%
Special Order (n=77)	34%	27%	17%	16%	6%

For the 17 survey respondents who have a liquor license in Montgomery County and in another jurisdiction, 11 (65%) indicated that it is more difficult or much more difficult to order alcohol in Montgomery County compared to their other location. During interviews, two restaurant owners noted having to employ an additional staff member in restaurants in Montgomery County (compared to restaurants in surrounding jurisdictions) specifically to manage the restaurants' alcohol purchasing because of the complicated process for ordering and obtaining alcohol from DLC – especially wine.

**Compared to my business(es) in other jurisdiction(s), the convenience
and ease of ordering beer/wine/spirits in Montgomery County is… (n=17)**

Much More Difficult	More Difficult	Similar	Easier	Much Easier
9 (53%)	2 (12%)	4 (24%)	2 (12%)	0 (0%)

Another common feedback comment from the interviews was that the inability to order wine by vintage (i.e., produced in a specific year) through DLC's online ordering system is problematic. Businesses report that DLC delivers the vintage of wine currently in stock in DLC's warehouse and that the vintage of a specific wine can change from delivery to delivery. Business owners noted that for "fine wines," the specific vintage often is important to wine drinkers. One restaurant owner reported having to reprint wine lists whenever DLC delivers a wine on the menu that is a different vintage.

5. DLC's Delivery Process

Feedback on DLC's delivery process from the interviews and survey focuses on the timing of DLC deliveries, the accuracy of deliveries, and DLC's payment policy for licensees of "cash on delivery."

Timing of Delivery. The feedback from interviews and from the survey about the time it takes for DLC to delivery orders was very similar. In general, many licensees reported that DLC's delivery time for stock items was acceptable. The primary concern expressed about delivery of stock items was in comparison to private distributors' delivery processes. Where DLC typically delivers orders to licensees on a set day once each week for beer and once each week for wine/spirits, OLO was told that private distributors will deliver orders the next day after an order is placed. At the same time, some licensees expressed appreciation for only having one or two deliveries per week at established times.

Among survey respondents, 54% agreed or strongly agreed that DLC's delivery time for stock products is reasonable. Licensees' assessment of DLC's delivery time for special order products differed sharply, however. Sixty-five percent of survey respondents disagreed or strongly disagreed that DLC's delivery time for special order products is reasonable. Interviewees reported to OLO that special order items can take from days to weeks to months to be delivered and that DLC does not tell licensees when a specific special order item will arrive.

The time it takes DLC to deliver beer/wine/spirits after I place an order is reasonable

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Stock (n=81)	15%	16%	15%	38%	16%
Special Order (n=77)	35%	30%	9%	17%	9%

Of the 17 survey respondents who have businesses in other jurisdictions, 10 (59%) indicated that DLC's product delivery time is slower or much slower compared to the other jurisdiction. Six (35%) indicated that delivery times are similar between jurisdictions.

Compared to my business(es) in other jurisdiction(s), the timeframe for beer/wine/spirits product deliver in Montgomery County is… (n=17)

Much Slower	Slower	Similar	Faster	Much Faster
9 (53%)	1 (6%)	6 (35%)	0 (0%)	1 (6%)

Several licensees also reported that DLC delivery staff do not deliver to a licensee at a specified time of day, but rather, can show up at any time on a licensee's scheduled delivery day. Several restaurant owners reported receiving deliveries during the middle of lunch rushes when restaurants are busy and when it is difficult for staff to take time to process a delivery.

Contents of Deliveries. In interviews with OLO, licensees reported that they do not know what the contents will be of any given DLC delivery before it arrives because DLC does not provide this information to licensees. Additionally, licensees reported that they do not receive notification when a stock item they ordered is out of stock, learning the status only when a product is not delivered.

In the survey, 43% of respondents agreed that they typically know what items they will receive in a delivery and 46% disagreed. However, 72% report that they are not typically informed by DLC when a special order product has arrived and is scheduled for delivery.

Contents of DLC Deliveries…

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
I typically know ahead of time the type and quantity of products that I will receive in a scheduled DLC delivery (n=82)	20%	26%	12%	28%	15%
DLC typically informs me when a “special order” product has arrived and is scheduled for delivery (n=74)	49%	23%	11%	9%	8%

Accuracy of DLC Deliveries. For both beer and wine/liquor deliveries, approximately half of survey respondents indicated that their deliveries from DLC typically are correct. Fewer than a third of respondents indicated that deliveries typically included mistakes.

My orders are typically delivered correctly, without mistakes…

Product Type	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Beer (n=80)	14%	14%	23%	35%	15%
Wine/Spirits (n=78)	19%	9%	22%	39%	12%

The primary concern expressed by licensees who met with OLO is the length of time that it takes DLC to resolve mistakes when there are problems with deliveries. Several licensees reported that it can take DLC two to four weeks to resolve mistakes. Forty-nine percent of survey respondents do not think that DLC’s process for resolving mistakes or problems is efficient. Conversely, 35% of survey respondents agreed that DLC has an efficient process for resolving mistakes and problems.

DLC’s process for resolving mistakes or problems in orders or deliveries is efficient (n=78)

Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
22%	27%	17%	26%	9%

A few licensees who produce alcohol reported that they have begun self-distributing their product to retail licensees in Montgomery County, as allowed by a recent change in State law, because of their perception that DLC cannot reliably deliver their products.

Cash on Delivery. Overall, most licensees OLO interviewed do not like DLC's policy that licensees pay cash on delivery (COD) (by cash or check) for items when they are delivered.[1] Several licensees indicated that they would like DLC to extend credit to licensees for payments. Licensees provided several reasons for disliking the system. For example:

- DLC's COD policy requires restaurants with more than one location to authorize an employee at each location to sign checks. These restaurants often have to set up an additional checking account for each restaurant for the purpose of paying for DLC alcohol.
- DLC's COD policy provides DLC funds right away when selling the alcohol to licensees, whereas DLC has an extended period of time to pay its bill (on credit) for purchasing the same alcohol.
- Licensees cannot accurately predict the cost of any delivery because they often do not know what items will be delivered at a given time.

In response to a survey question about the COD policy, the results were mixed. While 46% of respondents think that the COD policy does not work well for their business, 36% think that it does work well and 18% are either neutral or have no opinion.

DLC's payment policy of "cash on delivery" works well for my business

Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
27%	19%	18%	26%	10%

6. DLC Pricing

A common feedback component among licensees is support for DLC's policies and practices to have uniform wholesale and retail product pricing. Among survey respondents, 50% expressed agreement that DLC's uniform wholesale pricing produces a fair business system, while only 19% disagreed.

The system where all licensees pay the same wholesale price for the same product produces a fair business system (n=79)

Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
10%	9%	32%	37%	13%

Among those interviewed, several licensees commented that DLC's prices for liquor and beer are relatively competitive with prices from private distributors but DLC's prices for wine are much higher. Overall, only 15% of survey respondents agree that DLC's wholesale prices are comparable to wholesale prices from private distributors.

[1] DLC notes that the COD policy for beer is required under State law.

The wholesale price of DLC products is comparable to the wholesale price I would pay if purchasing from a private distributor (n=74)

Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
30%	28%	26%	14%	3%

OLO also asked survey respondents specifically about their perception of DLC's wholesale prices for stock and special order beer, wine, and liquor. With respect to DLC's prices for beer, respondents' perceptions are reversed when comparing prices for stock beer and special order:

- Stock beer – 59% think prices are reasonable, while 40% think prices are high or very high.
- Special order beer – 41% think prices are reasonable, while 57% think prices are high or very high.

With respect to wine, respondents' perceptions are split on whether stock wine prices are reasonable or too high and are more in agreement that special order wine prices are too high:

- Stock wine – 50% think prices are reasonable, and 47% think prices are high or very high.
- Special Order – 38% think prices are reasonable, and 59% think prices are high or very high.

For liquor products, over 50% of respondents indicated that the prices for stock (58%) and special order (52%) products are reasonable.

Percent of Respondents who think DLC's wholesale pricing is…

Product Type	Very Low	Low	Reasonable	High	Very High
Stock					
Beer (n=78)	0%	1%	59%	17%	23%
Wine (n=76)	0%	3%	50%	21%	26%
Liquor (n=53)	0%	6%	58%	21%	15%
Special Order					
Beer (n=71)	1%	0%	41%	25%	32%
Wine (n=73)	0%	3%	38%	25%	34%
Liquor (n=46)	0%	4%	52%	24%	20%

Among the survey respondents who also hold liquor licenses in other jurisdictions, most think that DLC's wholesale prices are similar or higher than what they pay in other locations. Between 6 (38%) and 8 (47%) respondents think DLC's prices are similar for each type of alcohol while between 7 (41%) and 9 (53%) think DLC's prices are higher or much higher. Additionally, 3 (19%) think DLC's prices for liquor are lower or much lower compared to other locations.

Compared to the price I pay in other jurisdiction(s), DLC's wholesale pricing is…

Product Type	Much Lower	Lower	Similar	Higher	Much Higher
Beer (n=17)	0 (0%)	1 (6%)	7 (41%)	5 (29%)	4 (24%)
Wine (n=17)	1 (6%)	1 (6%)	8 (47%)	2 (12%)	5 (29%)
Liquor (n=16)	1 (6%)	2 (13%)	6 (38%)	3 (19%)	4 (25%)

7. DLC Retail Stores

Many people who met with OLO spoke about DLC's retail stores. Several licensees commented positively about certain aspects of the DLC stores. For example:

- Some DLC stores will keep certain types of alcohol in stock for restaurant licensees.
- Licensees can purchase products from DLC stores at wholesale or discounted prices, which can help licensees that need a product right away and can't wait for a DLC delivery or for licensees who do not want to purchase a whole case of alcohol (as required for purchases from DLC's warehouse).

Many licensees, however, have the perception that DLC, through its stores, actively competes with private beer and wine stores and that DLC stores have unfair advantages. For example, OLO heard:

- DLC competes with private stores by selling special order wine in DLC stores.
- DLC sometimes undercuts private beer and wine stores on prices.
- DLC stocks its stores before making products available to private beer and wine stores, including limited seasonal products.
- DLC has an unfair advantage because it has paid a lower price for the items that it stocks in its stores (i.e., DLC's cost for its retail stock is simply DLC's cost to purchase the stock from a producer or other distributor; private stores' cost for retail stock is DLC's cost plus DLC's wholesale markup).
- DLC stores have an unfair advantage because it has easier access to products and better knowledge about product availability.

C. Survey Responses on Structural Changes to Montgomery County Liquor System

OLO's licensee survey asked licensees to indicate their level of support for a range of options for potential changes to the Montgomery County liquor system. The survey asked licensees to indicate whether they strongly favored, favored, opposed, strongly opposed, or were neutral about the options and also allowed respondents to indicate that an option was not applicable.

The options ranged from allowing private distributors to engage in the wholesale of alcohol in Montgomery County to allowing grocery stores to sell wine and beer. The data in the next table show that the two options that received the most support from licensees would allow private distributors to engage in the wholesale of alcohol in Montgomery County:

- 87% of respondents favor allowing licensees to purchase special order beer and wine from private wholesalers (74% strongly favor this option). Only 2% of respondents oppose this option.
- 83% of respondents favor allowing private distributors to engage in the wholesale of all alcohol in Montgomery County (61% strongly favor this option). Only 5% of respondents oppose this option.

Indicate whether you would favor or oppose changes to State of Maryland and/or Montgomery County laws or policies to:

Option	Strongly Oppose	Oppose	Neutral	Favor	Strongly Favor
Allow private distributors to engage in the wholesale of beer, wine, and spirits in Montgomery County (n=77)	1%	4%	12%	22%	61%
Allow private distributors to engage in the wholesale of beer and wine (but not spirits) in Montgomery County (n=71)	3%	4%	20%	20%	54%
Allow off-premise, beer/wine store licensees to also sell spirits in Montgomery County (n=75)	7%	8%	24%	11%	51%
Allow licensees in Montgomery County to purchase "special order" beer and wine directly from private distributors (n=77)	1%	1%	10%	13%	74%
Allow individuals and/or businesses to hold more than one off-premise, beer/wine store license in Montgomery County (n=74)	9%	4%	31%	11%	45%
Allow large chain stores to sell beer/wine in Montgomery County (n=75)	27%	4%	25%	16%	28%
Allow grocery stores to sell beer/wine in Montgomery County (n=76)	25%	3%	24%	13%	36%

More than half of survey respondents favor or strongly favor three additional options:

- 74% favor allowing private distributors to engage in the wholesale of beer and wine (but not liquor) in the County (54% strongly favor the option, 7% oppose or strongly oppose the option).
- 62% favor allowing private beer and wine stores to also sell liquor (51% strongly favor the option, 15% oppose or strongly oppose the option).
- 56% of respondents favor allowing individuals to hold more than one license to operate a private beer/wine store (45% strongly favor the option, 13% oppose or strongly oppose the option).

The two options that received the most opposition are allowing large chain stores to sell beer/wine in Montgomery County and allowing grocery stores to sell beer/wine in the County – 31% and 28% of respondents oppose these options, respectively.

Chapter 7. Data on Alcohol Licenses, Products, Pricing, and Consumption

This chapter summarizes a variety of data and information to provide additional context to the liquor control system in Montgomery County. It is organized as follows:

- **Section A** details the number and type of alcoholic beverage licensees in Montgomery County;
- **Section B** reviews the total number of alcoholic beverage products sold by DLC, and the number of type of vendors DLC purchases from;
- **Section C** provides data on DLC pricing for stock and special order items, compares a small sample of DLC prices with private wholesalers in Maryland, and summarizes limited data on beer pricing in Montgomery County compared to nearby jurisdictions; and
- **Section D** compares Montgomery County per capita alcohol consumption rates with neighboring jurisdictions.

A. Montgomery County Alcoholic Beverage Licensees

As of September 2014, the County Board of License Commissioners had issued 1,024 alcoholic beverage licensees. Almost 80% of the licenses (817) are for restaurants and other similar businesses – Classes B, D, and H. Another 15% of the licenses (156) are Class A licenses – primarily private beer and wine stores.

Table 26. Montgomery County Alcoholic Beverage Licensees, as of September 2014

License Class	Business Type	Licensees	
		#	%
A	Primarily beer/wine stores	156	15%
B	Primarily restaurants	578	56%
C	Country and other clubs	40	4%
D	Restaurants serving beer/wine only, markets, beer/wine stores	86	8%
H	Primarily restaurants	153	15%
CAT, S, T	Caterers, theaters, art venues	11	1%
Total		**1,024**	**100%**

Source: DLC

B. DLC Products and Vendors

DLC divides its products into two categories: stock items and special order items. Stock items are DLC's most commonly-purchased items, which DLC keeps in stock at its warehouse. DLC obtains special order items only when a licensee (or a customer in a retail store) places an order for an item and only purchases the specific amount in the special order. These items are not kept in stock at DLC's warehouse.

DLC's product list includes over 29,000 different items for purchase. Of these items:

- Around 15% (4,405) are stock items and 85% (24,895) are special order items;
- Wine products represent 72% (21,143) of all DLC items available for purchase, with 10% (2,123 items) in stock; and
- DLC keeps in stock 31% of all beers available for purchase.

Table 27. Number of Products Sold by DLC, by Stock and Special Order

Product Type	Stock	Special Order	Total	Stock Products as % of Total Product Type
Beer	1,486	3,249	**4,735**	31%
Wine	2,123	19,020	**21,143**	10%
Liquor	796	2,716	**3,512**	23%
Total	**4,405**	**24,985**	**29 ,390**	**15%**

Source: DLC

DLC purchases the products it sells from more than 300 sources – alcoholic beverage producers, wholesalers, and retailers. DLC pays the least amount for products purchased directly from producers because those items do not include any wholesale and/or retail markup. Purchasing items from wholesalers or retailers raises prices for DLC (and for subsequent purchasers) because those middlemen incorporate their own mark-up that DLC must pay. OLO's analysis of DLC purchasing data show that:

- 55% of DLC's vendors for stock items and 42% of vendors for special order items are producers; and
- 82% of stock items are available from producers whereas only 15% of DLC's special order items are available directly from producers.

Table 28. Count of DLC Vendors and Source of Items

	Stock Items		Special Order Items	
DLC Product Vendors	**#**	**%**	**#**	**%**
Producers	107	55%	135	42%
Wholesalers/Retailers	84	43%	178	55%
Other	3	2%	11	3%
Total Vendors	**194**	**100%**	**324**	**100%**
DLC Items Purchased from…	**#**	**%**	**#**	**%**
Producers	3,614	82%	3,864	15%
Wholesalers/Retailers	778	18%	20,337	81%
Other	13	0%	784	3%
Total Items	**4,405**	**100%**	**24,985**	**100%**

In FY14, the County Government paid $191.0 million to DLC vendors. Of that, approximately two-thirds ($130 million) was paid to alcoholic beverage producers and one-third ($58 million) was paid to wholesalers or retailers.

Table 29. Summary of DLC Payments to Vendors, 2014

Vendor Type	# of Vendors	$ (millions)	%
Producer	141	$130.0	68%
Wholesaler/Retailer	141	$58.3	31%
Shipping	12	$2.4	1%
Other	7	$0.3	0%
Total	**301**	**$191.0 million**	**100%**

Source: spendingMontgomery, OLO

C. DLC Pricing

DLC marks up items by specific percentages for sale to retail licensees. Items for sale in DLC retail stores are marked up an additional amount over the wholesale price. The data in the next table show the average wholesale and retail prices per case for all DLC items, by product type and stock vs. special order. For both DLC's wholesale and retailing pricing, the average price for special order beer and wine cases is almost twice the average price for stock items, while for liquor products, the average price for special order cases is 50% higher.

Table 30. Average Wholesale and Retail Prices (per case) of DLC Products

Product Type	Wholesale			Retail		
	Stock	Special Order	% Difference	Stock	Special Order	% Difference
Beer	$52.45	$102.22	95%	$66.88	$130.25	95%
Wine	$97.61	$190.98	96%	$125.23	$244.33	95%
Liquor	$157.10	$233.69	49%	$186.42	$276.51	48%
Total	**$93.12**	**$184.08**	98%	**$116.60**	**$232.99**	100%

Source: DLC

Feedback from OLO's interviews and survey included that the structure of DLC's operations leads to higher product costs for Montgomery County alcoholic beverage licensees and for consumers. While comprehensive data on all wholesale and retail alcohol pricing is not available, OLO identified several proxies to compare prices between DLC and private wholesalers and between Montgomery County businesses and businesses in neighboring jurisdictions. This section:

- Compares DLC's wholesale prices for its top 30 beer, wine, and liquor sellers – both for stock and special order – with published wholesale prices from Maryland private sector wholesalers.

- Compares the publicly-listed beer prices for 10 restaurants in Montgomery County that have companion locations in Washington DC and/or Virginia.
- Summarizes data from a comparison of wine prices in retail stores done by the Washington Consumer's Checkbook in the Spring of 2014.

DLC Wholesale Pricing. DLC provided OLO with its top 30 beer, wine, and liquor items by sales volume. OLO compared DLC's wholesale prices with the published wholesale prices of the same products from private Maryland wholesalers.[1] For this comparison, OLO obtained private wholesale prices from the *Maryland Beverage Journal*, a monthly publication that lists wholesale prices for many private distributors in the State. This data is intended to provide context to the feedback on how DLC's pricing compares with private wholesalers for a limited sample of products; it is not a comprehensive pricing analysis.

Because not all wholesalers publish their prices in the *Beverage Journal*, OLO was able to obtain private wholesale data for 56 stock items and 41 special order items. In particular, very few private wholesale prices for the top-selling beers were readily available. The data show that:

- Except for special order beer, private wholesalers' prices for a case of product were between 2% and 10% higher than DLC's wholesale prices.
- Private wholesalers' prices for special order beer were 14% lower than DLC's prices.

Table 31. Difference between DLC and Private Distributor Average Wholesale Prices for DLC Top 30 Sellers

Product Type	# of Products in Calculation	Average Wholesale Price		
		DLC	Private Distributor	% Difference, DLC vs. Private
Stock				
Beer	5	$24.01	$24.66	-3%
Wine	27	$73.88	$75.44	-2%
Spirits	26	$170.31	$178.61	-5%
Special Order				
Beer	3	$33.60	$28.74	+14%
Wine	12	$87.84	$93.46	-6%
Spirits	26	$251.59	$277.67	-10%

Source: DLC, *MD/DC Beverage Journal*

[1] Note that wholesalers in Maryland have exclusive rights to sell the products of brands that they represent. For example, only one company sells Sam Adams beer to licensees in Maryland. While the right to sell a brand may switch from one wholesaler to another, the right never lies with more than one wholesaler at a time.

Comparison of Retail Beer Prices in Restaurants in Montgomery County and Other Jurisdictions. OLO also heard feedback from restaurant owners who have locations in both Montgomery County and a neighboring jurisdiction that they have to charge higher prices for alcoholic beverages at their Montgomery County location due to DLC pricing. OLO looked at the websites for 21 restaurants than have locations both in Montgomery County and Washington DC or Virginia and found comparable beer prices on the websites of ten. OLO compared prices for identical beers (controlling for differences in beverage size in different locations).

This data is intended to provide context to the feedback of how restaurant's price beer products in their Montgomery County location compared to other locations, it is not a comprehensive pricing analysis. It is possible that restaurants may charge the same prices for a product in multiple locations to provide consistency for customers despite paying different wholesale prices in each jurisdiction – thus earning a different profit margin. The data show that:

- For the 173 beers compared, over one-half (53%) were priced the same in both jurisdictions.
- 36% of beers were more expensive in Montgomery County restaurants compared to Washington DC, while only 8% were more expensive compared to restaurants in Virginia.
- 37% of beers were less expensive in Montgomery County restaurants compared to Virginia, while only 14% were less expensive compared to restaurants in Washington DC.

Table 32. Beer Prices in Montgomery County Restaurants
Compared to Prices in Counterpart Restaurants in Washington DC and Virginia

Compared to other jurisdictions, beer prices in Montgomery County restaurants are…	DC		VA		Total	
	# of Beers	%	# of Beers	%	# of Beers	%
More expensive	31	36%	7	8%	38	22%
Same Price	43	50%	48	55%	91	53%
Less Expensive	12	14%	32	37%	44	25%
Total	**86**	**100%**	**87**	**100%**	**173**	**100%**

Source: Restaurants' websites

The data in the next table show the number of beers compared between Montgomery County and the other location(s) for each restaurant and the price differences. Three restaurants have locations in all three jurisdictions for a comparison of Montgomery County restaurants with 13 other locations. Overall:

- Prices were higher in five of seven restaurants in Montgomery County compared to locations in Washington DC and only in one of six restaurants compared to Virginia locations; and
- Three restaurants have the same prices in Montgomery County as in the other locations – two with locations in Washington DC and one in Virginia.

Table 33. Beer Prices in Montgomery County Restaurants
Compared to Prices at the Same Restaurants' Locations in Washington DC and/or Virginia*

Restaurant	DC Locations		VA Locations	
	# of Beers Compared	Montgomery County Price Difference	# of Beers Compared	Montgomery County Price Difference
Restaurant 1	33	+1.5%		
Restaurant 2	7	+3.3%	14	(1.3%)
Restaurant 3			19	(3.2%)
Restaurant 4	4	0.0%		
Restaurant 5	2	+14.0%		
Restaurant 6	18	+1.6%		
Restaurant 7	18	0.0%	16	0.0%
Restaurant 8			14	(4.8%)
Restaurant 9			20	0.0%
Restaurant 10	4	(1.8%)	4	+4.5%

Source: Restaurants' websites

Washington Consumer Checkbook Wine Price Comparison. In the Spring 2014 edition, Washington Consumers' Checkbook's *Checkbook Update* compared the price of 14 wines purchased in 20 different retail stores in Montgomery County (4 stores), Washington DC (5 stores), and Northern Virginia (11 stores). Three of the 20 stores stocked all 14 wines, the remaining stores stocked between two and 11 of the wines. Table 34 shows the results of this price comparison. Of note:

- The wine prices at the four Montgomery County were typically higher than the average, by 7% to 22%;
- The prices at the five Washington DC locations were typically lower than the average, by 1% to 14%; and
- The wine prices at the 11 Virginia locations varied, with the prices at five locations at or lower than the average (0% to 20%) and the prices at six location higher than the average (6% to 35%).

Table 34. Comparison of Wine Prices in Washington Consumers' Checkbook *Checkbook Update*, Spring 2014

Stores	# of Wines Available	Average Price Difference
Montgomery County		
Pike Wine & Liquor	14	6.8%
Cork 57 Beer & Wine	6	17.0%
Giant Food	6	17.7%
Fenwick Beer/Wine	3	22.4%
Washington DC		
Calvert Woodley Wine/Spirits	10	-13.5%
Schneider's of Capitol Hill	2	-13.3%
Costco	10	-7.1%
Whole Foods	5	-5.4%
Safeway	11	-1.4%
Virginia		
Wegmans	14	-19.1%
BJ's Wholesale Club	8	-16.6%
Total Wine & More	14	-15.5%
Sam's Club	7	-2.9%
Trader Joe's	7	-0.2%
Shoppers Food	10	5.7%
Arrowine	4	10.5%
SuperTarget	9	10.8%
Walmart Supercenter	4	11.6%
Food Lion	9	13.7%
Red White & Bleu	5	35.3%

Source: http://www.checkbook.org/cgi-bin/memberonly/newsletter/spring-2014/wine-prices/wdc/default.cfm

D. Cross-Border Alcohol Sales

Many stakeholders believe that county businesses lose alcoholic beverage sales revenue to stores and restaurants in neighboring jurisdictions (particularly Washington DC and Virginia) due to better availability, selection, and pricing of alcohol in those locations. State data show that Montgomery County has some of the lowest per capita alcohol consumption rates in the State based on the volume of deliveries to retail licensees. Montgomery County's comparatively low per capita alcohol consumption rates compared to its neighboring counties likely reflect, at least in part, the purchase and/or consumption of alcoholic beverages in other jurisdictions by Montgomery County residents.

OLO estimated the magnitude of the difference of Montgomery County's per capita consumption rates for beer, wine, and liquor compared to its neighboring Maryland counties. The data in the next table show that the 2014 average per capita consumption of alcoholic beverages for Frederick, Howard, and Price George's Counties combined was 18.5 gallons per person – 5.6 gallons more than Montgomery County's annual per capita consumption of 12.9 gallons.

Table 35. Per Capita Consumption of Alcohol, 2014

Jurisdiction	2014 Per Capita Consumption (gallons)			
	Beer	Wine	Liquor	Total
Montgomery County	9.5	2.4	1.1	12.9 gallons
Prince George's County	13.7	1.5	1.7	16.9 gallons
Howard County	12.2	3.0	1.5	16.7 gallons
Frederick	17.6	2.7	1.7	22.0 gallons
Neighboring Counties' Average	**14.5**	**2.4**	**1.6**	**18.5 gallons**

Source: Maryland Alcohol & Tobacco Tax Annual Report, Fiscal Year 2014

Based on Montgomery County's population in the Comptroller's *2014 MD Alcohol and Tobacco Tax Annual Report* (1.0 million), Montgomery County residents consume approximately 5.6 million gallons less alcohol annually, on average, compared to our neighboring counties. If Montgomery County's actual per capita consumption is closer to its neighbors, the difference in consumption rates could be reflective of Montgomery County residents buying alcohol in other jurisdictions.

Chapter 8. Recent Changes to Alcoholic Beverage Control Systems

States and local jurisdictions frequently make adjustments to the structure of alcoholic beverage control systems. Recently, both Washington State and Worcester County, Maryland have deregulated their control systems to become license jurisdictions – significantly changing the sale of liquor in those jurisdictions. Montgomery County also has worked with the Maryland legislature in recent years to make changes to the County's system that loosen the County's monopoly in certain ways. This chapter describes these changes and summarizes data from the State of Washington on financial and other significant impacts stemming from the changes.

- **Section A** summarizes the deregulation of Washington State's control system and resulting impacts;
- **Section B** describes the changes in Worcester County; and
- **Section C** summarizes recent changes to Montgomery County's alcohol control system.

A. Washington State Deregulation of Liquor

Before 2012, Washington State was a control jurisdiction for liquor – maintaining a monopoly on both the wholesale and retail sale of liquor. In November 2011, Washington State voters approved Initiative 1183, a ballot measure that ended the State's wholesale and retail monopoly on liquor. Initiative 1183 required the State to completely end its business of selling liquor.[1] It:

- Allowed private distributors to begin selling liquor directly to licensed businesses,
- Allowed private businesses to begin selling liquor to the public at retail for off-premises consumption,
- Increased business fees on licensees' profits, and
- Required the State to auction off the rights to operate state-operated liquor stores.

With limited exceptions, Initiative 1183 limited retail liquor licenses to businesses with a location of at least 10,000 square feet.[2]

The Washington State Office of Financial Management has issued a draft report on the impact of Initiative 1183. The report found that:

> Privatization of the retail liquor market in Washington State has changed the retail market [for] liquor dramatically. Sales of liquor have increased by approximately 13 percent; revenue collections have increased by approximately 18 percent; the number of liquor stores has increased by approximately 327 percent; and one proxy for liquor store employment … has increased by approximately 91 percent.[3]

[1] https://www.sos.wa.gov/elections/initiatives/text/i1183.pdf
[2] Costco was a major proponent of the Initiative.
[3] Draft Report – *Privatization of Liquor: The Impact of Initiative 1183*, Washington State Office of Financial Management, at p. 13 (Nov. 2014).

The draft report acknowledges that some of the growth may have occurred absent deregulation, but suggests that the trend data likely show otherwise. In addition, liquor prices have increased, which many reports attribute to the increased fees on licensees' profits.[4] The sections below describe changes since liquor deregulation in licensees, license fees and taxes, sales and revenue, employment, and social impacts.

1. Licensees

Between 2011 and 2013, Washington saw the total number of alcohol licensees increase by 25% following the State's deregulation of liquor. This compares to a 7% increase in licensees between 2009 and 2011, the two year period immediately prior to deregulation. The data capturing the State's transition from a control jurisdiction for liquor to a full license jurisdiction, show notable differences in the increase of businesses that produce or distribute alcohol (non-retail licensees) compared to the increase of licensees that sell alcohol directly to the public (retail licensees) – such as stores, restaurants, clubs, etc.

Non-retail licensees. Between 2011 and 2013, non-retail licenses grew by 65%, compared to 16% from 2009 to 2011. The two fastest-growing categories of non-retail licensees were distributors or importers and registered out-of-state breweries and wineries, which increased by 130% and 110%, respectively. At the same time, the number of in-state breweries increased 48%. This increase in non-retail licensees represents an increase in the types of alcohol available for purchase by *retail licensees*, not by the general public.

Retail licensees. From 2011 to 2013, retail licensees grew by 15%, compared to 5% from 2009 to 2011. The most significant growth in retail licensees was the addition of 1,415 businesses selling liquor for off-premises consumption, a 330% increase from the number of retail stores selling liquor in 2011, when the state operated 166 retail liquor stores and contracted for the operation of 162 additional stores run by small business owners (primarily in rural areas). Representatives from the Washington State Department of Liquor Control report that the vast majority of the businesses to receive liquor licenses were existing stores that already had licenses to sell beer and wine.

The data in the next table summarize changes in the number of retail and non-retail licenses in Washington State from 2009-2013.

[4] http://www.wsj.com/articles/SB10000872396390444772804577621673117805522#printMode; http://www.oregonlive.com/opinion/index.ssf/2012/07/washington_states_liquor_lesso.html

Table 36. Number of Washington State Alcohol Licensees, 2009-2013

Alcohol Licensees	2009	2010	2011	2012	2013	% Change 2009-2011	% Change 2011-2013
Retail Licensees	**13,040**	**13,450**	**13,628**	**15,064**	**15,655**	**4.5%**	**14.9%**
Grocery Stores	5,041	5,275	5,397	5,424	5,534	7.1%	2.5%
Nightclubs, B/W/L Restaurants	4,676	4,745	4,888	4,953	5,029	4.5%	2.9%
Beer/Wine Only Restaurants	2,726	2,825	2,676	2,891	2,938	–1.8%	9.8%
Liquor Retailers (Off-Premises)	n/a	n/a	n/a	1,056	1,415		
B&Bs, Hotels/Motels, & Other	597	605	667	740	739	11.7%	10.8%
Non-Retail Licensees	**2,798**	**3,015**	**3,244**	**4,916**	**5,364**	**15.9%**	**65.4%**
In-State Wineries	620	686	739	751	794	19.2%	7.4%
In-State Breweries	115	127	151	168	223	31.3%	47.7%
Distributors/Importers	205	224	219	429	504	6.8%	130.1%
Out-of-State Breweries/Wineries	1,305	1,388	1,422	2,776	2,990	9.0%	110.3%
Warehouses, Distilleries, Other	553	626	713	792	853	28.9%	19.6%
Total Licensees	**15,838**	**16,501**	**16,872**	**19,980**	**21,019**	**6.5%**	**24.6%**

Source: Washington State Liquor Control Board Annual Report, FY13

2. Taxes and License Fees

In order to generate revenue for the State to replace lost liquor sales revenue, Initiative 1183 instituted new fees for alcohol distributors and retailers. The Initiative included a "license issuance fee," shown in the table below, that is calculated as a percentage of a business' total revenue.

Table 37. Washington State License Issuance Fees

Business	License Issuance Fee (% of Total Revenue)
Distributors	• 10% (first two years) • 5% (subsequent years)
Retailers	17%

Source: Washington State Department of Revenue

The Initiative did not change the sales or other taxes associated with alcohol sales, which were already among the highest in the nation. The next table summarizes taxes for alcohol purchases.

Table 38. Summary of Washington State Taxes on the Sale of Liquor (Spirits)

Purchaser	Subject to These Taxes	
	Spirits Sales Tax	Spirits Liter Tax (per liter)
General Public	20.5%	$3.7708
On-Premises Licensees (e.g., restaurants)	13.7%	$2.4408
Off-Premises Licensees (e.g., retail stores)	n/a	n/a

Source: Washington State Liquor Control Board

3. Alcohol Sales, Price and Revenues

Washington State has seen an increase in liquor sales and revenue since deregulation. At the same time, the average price of liquor increased. 2013 saw the most significant increases – liquor sales increased 14%, average price per liter increased 8%, and revenue increased 18%. The next table summarizes these data.

Table 39. Washington State Retail Liquor Sales, Average Price, and Tax Revenue, 2010-2014

Year	Liters Sold (millions)	Average Price (per liter)	Revenue Collected ($ millions)	Annual % Change
2010	25.4	$22.45	$178.1	--
2011	26.1	$22.28	$181.7	2.0%
2012	27.8	$22.48	$194.1	6.9%
2013	31.6	$24.20	$229.3	18.1%
2014	31.4	$24.52	$230.0	0.3%

Source: Draft Report – *Privatization of Liquor: The Impact of Initiative 1183*, Washington State Office of Financial Management (Nov. 2014)

4. Employment

The Washington State Office of Financial Management used data on employment at beer, wine, and liquor stores (only a portion of the relevant employment market) as a comparison for changes before and after deregulation. In the first quarter of 2012, 714 people worked in beer, wine, and liquor stores. That number increased to 1,362 by the second quarter of 2013, a 91% increase. The report acknowledges that the growing economy following the great recession may also have had an impact on the employment growth.[5]

[5] Draft Report – *Privatization of Liquor: The Impact of Initiative 1183*, Washington State Office of Financial Management, at p. 11 (Nov. 2014).

To further analyze the potential impact on employment in the State of Washington, OLO reviewed first quarter employment data from the Bureau of Labor Statistics from 2012, 2013, and 2014 for three different industry categories: 1) beer, wine, and liquor stores; 2) food services and drinking places; and 3) alcoholic beverage merchant wholesalers. Table 41 below shows the data for Washington State as well as the comparable annual percent change for the entire US. The data show:

- Washington's increases in beer, wine, and liquor store employment post-deregulation were sustained through the first quarter of 2014, although the rate of increase slowed down considerably compared to the prior year.
- Deregulation of liquor does not appear to have had a significant impact on Washington's food services and drinking places industry.
- Washington experienced growth in the alcoholic beverage merchant industry after deregulation that exceeded the nationwide growth.

Table 40. Washington Data on Establishments and Employment in Selected Industries

	2012 1st Quarter		2013 1st Quarter		2014 1st Quarter	
	Establishments	Employment	Establishments	Employment	Establishments	Employment
Beer, wine, and liquor stores						
Washington	185	712	271	1,293	293	1,320
% change	--	--	46%	82%	8%	2%
US % change	--	--	2%	3%	2%	1%
Food services and drinking places						
Washington	13,968	189,247	14,308	195,950	14,921	206,945
% change	--	--	1%	4%	6%	6%
US % change	--	--	1%	4%	2%	4%
Alcoholic beverage merchant wholesalers						
Washington	122	4,319	135	4,656	148	4,671
% change	--	--	11%	8%	10%	0%
US % change	--	--	4%	4%	5%	3%

Source: BLS

5. Public Health and Social Impacts

Public Health Law Research, a program of the Robert Wood Johnson Foundation, funded a study by researchers to analyze positive and negative effects that resulted from Initiative 1183.[6] The *Impact Findings Summary* examined data on enforcement activities, changes in alcohol sales, changes in adult alcohol consumption, and indicators related to youth alcohol consumption.

[6] *Impact of Washington State Initiative 1183 (I-1183) Changes in Liquor Laws: Findings Summary – Interim Study Results, Part I* (Dec. 1, 2014) [hereinafter "*Impact Findings Summary*"].

Enforcement Activity on Sales to Minors. The *Impact Findings Summary* found that the rate of compliance for private store sales to minors following implementation of Initiative 1183 remained steady. The compliance rate for licensed liquor retailers was consistently higher than compliance rates related to the sale of beer and wine to minors. The table below summarizes these data.

Table 41. Private Store Compliance Rate for Enforcement Checks on Sales to Minors

Time Period	Compliance Rate	
	Beer/Wine Sales	Liquor Sales
2012-Q1	73%	--
2012-Q2	83%	--
Implementation of Initiative 1183		
2012-Q3	84%	94%
2012-Q4	89%	90%
2013-Q1	86%	93%
2013-Q2	86%	91%
2013-Q3	85%	88%
2013-Q4	90%	89%
2014-Q1	84%	96%

Source: *Impact Findings Summary* at p. 7

Adult Alcohol Consumption. The researchers looked at a variety of measures of adult alcohol consumption. Data show a moderate increase in alcohol use, summarized in the next table.

Table 42. Measures of Adult Alcohol Consumption Pre- and Post-Implementation of Initiative 1183

Indicator	Jun-Dec 2011 (Pre-1183)	Jun-Dec 2012 (Post-1183)
Alcohol Use in Adult Population	59.5%	61.4%
Average Maximum Drinks per Occasion	3.3	3.5
Average Maximum Drinks per Occasion – Men	3.9	4.3

Source: *Impact Findings Summary* at p. 9-11

The report provided several findings showing movement in certain measures of adult alcohol use, including:

- A statistically significant increase in alcohol use in the adult population.
- An increase in the average maximum number of drinks per occasion.
- In King County, a statistically significant increasing trend in alcohol-related emergency department visits by adults in the 16 months post-implementation.
- A statistically significant increase in the rate of single vehicle nighttime car crashes (a proxy for measuring impaired driving) for male drivers ages 51+. However, there were no statistically significant changes in other age and gender groups or in overall crash numbers.

Youth Alcohol Consumption. The researchers also looked at measures of youth alcohol consumption and predictors for future alcohol consumption. The data showed a decline between 2008 and 2012 in 6th, 8th, 10th, and 12th grade youth having at least one drink in the past 30 days and showed declines in binge drinking (5+ drinks on one occasion in the past two weeks).[7] The number of days per month that 12th grade boys reported using alcohol did increase between 2010 and 2012, following a decline between 2008 and 2012. The number of days per month that 12th grade girls reported using alcohol, however, declined from 2008 to 2010 and continued the decline in 2012.[8]

The researchers did see increases in some measures used to predict later use of alcohol among youth. These data are summarized in the next table.

Table 43. Changes in Certain Measures Used to Predict Later Use of Alcohol among Youth

Measure	% Answering "Very Wrong"	
	2010	**2012**
My parents would think it was very wrong for me to drink alcohol – 12th Graders	61%	52%
My parents would think it was very wrong for me to drink alcohol – 10th Graders	72%	70%
It is very wrong for someone my age to drink – 8th Graders	39%	28%

Source: *Impact Findings Summary* at p. 12-14

In addition to the data in the *Impact Findings Summary*, the Washington State Liquor Control Board publishes annual data on alcohol-related retail violations in the state. The data in the next table show that between 2011 and 2013, violations for sales to minors increased sharply, while violations for sales to intoxicated persons and for disorderly conduct dropped.

Table 44. Washington State Top Three Alcohol-Related Retail Violations, FY11, FY13

	2011	2013	% Change, FY11-FY13
Sales or Service to Minors	443	596	34.5%
Sales to Apparently Intoxicated Persons	318	261	–17.9%
Disorderly Conduct	153	128	–16.3%

Source: Washington State Liquor Control Board Annual Report, FY11, FY13 (note: data not available in FY12 report)

[7] *Impact Findings Summary*, at p. 11.
[8] Ibid. at p. 12.

B. Worcester County, MD

Before July 1, 2014, retail licensees in Worcester County, MD could purchase beer and light wine from licensed private wholesalers but had to purchase liquor and wine from the Worcester County Department of Liquor Control. As of July 1, 2014, retail licensees can buy liquor and wine either from the Worcester County DLC or from private wholesalers.

The circumstances prompting this change stem from a 2010 investigation of the Worcester County Board of License Commissioners (the predecessor to the current Worcester County Department of Liquor Control) by the State Comptroller revealing liquor sales to different buyers at different prices and other practices in violation of State law. In 2011, the State enacted legislation dissolving the Board of License Commissioners and replacing it with the Worcester County DLC. The change to State law also set July 1, 2016 as the date when retail licensees could begin purchasing wine and liquor directly from private wholesalers (or the Worcester County DLC). Subsequent changes to the law in 2013 moved up that date to July 1, 2014.

Unlike in Montgomery County, where the DLC purchases much of its inventory directly from producers, the Worcester County DLC purchases its inventory from private wholesalers – resulting in a four-tiered system for liquor and wine in the County.

Data from the Maryland Comptroller's two most recent Alcohol and Tobacco Tax Annual Reports, show that Worcester County's gross profit from the sale of alcohol was approximately 6% lower in FY14 compared to FY13 – decreasing from $3.5 million in FY13 to $3.3 million in FY14.

C. Montgomery County

In recent years, DLC's Licensure, Regulation, and Education Division has worked with County businesses and State legislators to amend provisions of State law pertaining to Montgomery County's liquor control system. OLO heard feedback from DLC representatives and from Montgomery County business owners that relaxing certain legal provisions has helped entrepreneurs pursue new businesses models or expand current businesses in Montgomery County. Changes include:

- Allowing smaller breweries to sell and deliver their beer to County restaurants and retailers, rather than selling their products through DLC;
- Extending the time of day that certain retail licensees (primarily restaurants) may serve alcoholic beverages;
- Allowing certain retail licensees (primarily restaurants) to sell draft beer in refillable containers for consumption off-premises; and
- Expanding the group of restaurant licensees permitted to allow patrons to bring their own bottles of wine to a restaurant to drink.

Chapter 9. Findings

This chapter presents findings from OLO's review of the Department of Liquor Control and the structure of alcohol control in Montgomery County, organized by topic area.

Alcohol Control in Maryland and Montgomery County

Finding 1 Maryland State law regulates all facets of the manufacture and sale of alcoholic beverages in the State. As a result, most changes to the structure of alcohol control in Montgomery County must occur at the State level.

Initially established following the end of Prohibition in 1933, Maryland's alcohol control framework is a complex patchwork of different structures for each county with hundreds of specific county-by-county provisions. While county law can complement requirements in State law, counties cannot change the basic structure for the manufacture and sale of alcohol in their jurisdictions without changes to State law.

The alcohol control system in Maryland has three levels. Manufacturers/producers make alcoholic beverages and sell them to wholesalers/distributors, who sell them, in turn, to retail businesses for sale directly to the public. Retail businesses include both stores that sell closed containers of alcohol for consumption elsewhere (referred to as "off-premise sale"), as well as restaurants, clubs, and other venues that sell alcoholic beverages for consumption at the business (referred to as "on-premise sale"). Key provisions of Maryland law for alcohol control include:

Maryland State law requires licenses for businesses at each level. Authority to license businesses in the manufacture and sale of alcoholic beverages is shared between the State and Montgomery County – the Maryland Comptroller issues licenses for manufacturers and wholesalers of alcoholic beverages and the County Board of License Commissioners issues licenses for retail sellers (stores, restaurants, and other venues) within the County.

State law sets restrictions and/or special conditions on businesses that hold alcoholic beverage licenses. Some State law restrictions on retail businesses apply in all jurisdictions, including:

- A prohibition on retail licenses for supermarkets, chain stores, and discount houses;
- A limit of 10,000 sq. ft. in a premises dedicated to off-sale purposes; and
- A limit of one liquor license per person for off-sale businesses (retail stores).

Some types of restrictions vary from county-to-county, but State law establishes a standard for each County. Examples include limits on the days and times businesses can sell alcoholic beverages and the location of businesses (e.g., distance from schools or places of worship). Some provisions or restrictions in State law apply only to Montgomery County. For example:

- Gas stations in Montgomery County cannot get alcoholic beverage licenses;
- A licensee in Montgomery County can hold up to ten Class B beer/wine/liquor on-sale licenses – which are licenses for restaurants; and
- As of July 1, 2014, small wine or beer producers can obtain limited wholesalers' licenses to sell and deliver their products directly to County liquor stores, restaurants, and other retail license holders in Montgomery County.

Alcoholic beverage producers and wholesalers must sell alcohol at the same price to like purchasers. Specifically, a producer or distributor must charge every retailer in the state the same price for the same item. Producers and distributors can offer discounts for volume purchases, but must offer the same discount to all purchasers.

Only the State can tax the sale of alcoholic beverages – both at the wholesale and retail levels. Alcoholic beverages are subject both to State excise taxes and sales taxes. Maryland excise taxes, typically are paid by producers or sellers of goods, are $0.09 per gallon for beer, $0.40 per gallon for wine, and $1.50 per gallon for liquor. Maryland's sales tax on alcohol is 9%.

Finding 2 Montgomery County is a control jurisdiction – the County Government's Department of Liquor Control controls the wholesale of all alcoholic beverages in the County (with limited exceptions) and controls the retail sale of all liquor. All other Maryland counties are license jurisdictions.

Montgomery County's alcohol control system was established immediately following the end of Prohibition in 1933. Montgomery County's Department of Liquor Control was established in State law and began operating on July 1, 1951.

DLC, an Executive Branch department, is the wholesale distributor of alcohol to retail licensees in the County (with limited exceptions) and State law explicitly prohibits retail licensees from selling alcohol that was not purchased from DLC. Like all other distributors in the State, DLC cannot charge different license holders or different classes of license holders different prices for the same product.

DLC also operates 25 dispensaries (stores) throughout the County that sell liquor, non-chilled beer, and wine. These stores are the only places in the County where retail customers can purchase packaged liquor products.

As of July 1, 2014, all other Maryland counties are license jurisdictions – where the State and counties issue licenses to private sector businesses to manage the wholesale and retail operations for beer, wine, and liquor. Before July 2014, Worcester County, Maryland controlled the wholesale sale of wine and liquor in the county. Now, retail licensees in Worcester County can buy wine and liquor from private distributors.

Finding 3 Data and research comparing license to control jurisdictions and the impact of regulating alcohol distribution on public health and safety issues show mixed outcomes.

Control jurisdictions are often cited as having a better ability to control the density of alcohol retail outlets and have lower per capita alcohol consumption rates – both factors that are correlated with alcohol-related harms. A 2011 report prepared by the Alcohol Research Group found that these factors are not uniform and vary by product type:

- Control jurisdictions have a higher density of beer and wine outlets while license jurisdictions have a higher density of liquor outlets; and
- Control jurisdictions have higher per capita consumption of beer, while license jurisdictions have higher per capita consumption of wine and liquor.

A second group of studies and publications reviews the impact on public health and public safety from privatizing the wholesale or retail sales of alcohol – with mixed conclusions. Data in some studies show increases in negative public health and safety measure from deregulating alcohol control, while other studies reach opposite results or conclude that status as a license or control jurisdiction is not a causal factor in these outcomes. OLO notes that many of these research studies and publications come from an advocacy perspective – either from proponents of government control or proponents of privatization.

The experience in Washington State in its first year after changing from a control to license jurisdiction showed few indicators of increased negative public health or social impacts. However, the change in Washington State only impacted liquor – wine and beer were already distributed and sold entirely via the private sector.

Finding 4 Montgomery County has 1,024 retail alcoholic beverage licensees. Almost 80% of the licenses are for restaurants and other similar businesses and another 15% are for primarily private beer and wine stores.

The table below summarizes the number of Montgomery County retail licensees as of September 2014.

License Class	Business Type	Licensees	
		#	%
A	Primarily beer/wine stores	156	15%
B	Primarily restaurants	578	56%
C	Country and other clubs	40	4%
D	Restaurants serving beer/wine only, markets, beer/wine stores	86	8%
H	Primarily restaurants	153	15%
CAT, S, T	Caterers, theaters, art venues	11	1%
Total		**1,024**	**100%**

Source: DLC

DLC Operations and Finances

Finding 5 The County Liquor Fund receives revenue from DLC's wholesale and retail alcohol sales, and those profits fund DLC's operations, a portion of County debt service costs, and an annual undesignated transfer to the General Fund. The Liquor Fund averaged an annual profit of $29 million from FY10-14.

In FY14, the Liquor Fund covered $72 million in budgeted County expenditures – $46.2 million in DLC program costs and $26.4 million in transfers. The table below summarizes financial data for the Liquor Fund from FY10-14, including total annual revenue and expenditures; annual transfers out of the Fund; the beginning and ending fund balance; and the ending fund balance as a percent of annual expenditures.

Over the past five years, DLC transferred $25.7 million from the Liquor Fund to the General Fund each year on average – the FY14 General Fund transfer of $21 million, however, is the smallest over that time period. Debt service payments represent an increasing proportion of the annual transfer from the Liquor Fund. In FY14, 21% of the dollars transferred to the General Fund were for debt service compared to 4% in FY10.

Summary of Liquor Enterprise Fund, FY10-14

Liquor Fund	FY10	FY11	FY12	FY13	FY14
Beginning Balance	$35.0 million	$29.8 million	$24.6 million	$28.2 million	$35.4 million*
Revenue	$229.3 million	$242.6 million	$252.3 million	$258.9 million	$268.7 million
Expenditures	$204.4 million	$215.4 million	$220.2 million	$225.8 million	$240.4 million
Profit/(Loss)	**$24.9 million**	**$27.2 million**	**$32.1 million**	**$33.1 million**	**$28.3 million**
Transfers					
General Fund Transfer	$29.1 million	$31.3 million	$25.1 million	$22.3 million	$20.9 million
Debt Service Transfer	$1.1 million	$1.1 million	$3.4 million	$3.4 million	$5.5 million
Total Transfers	**$30.2 million**	**$32.4 million**	**$28.5 million**	**$25.7 million**	**$26.4 million**
Ending Balance	$29.8 million	$24.6 million	$28.2 million	$35.6 million	$37.2 million
% of Expenditures	14.6%	11.4%	12.8%	15.8%	15.5%

*The FY13 CAFR shows a ending balance of $35.6 million in the Liquor Fund, while the FY14 CAFR reports a beginning balance "as restated" of $35.4 million.

Source: FY10-14 Montgomery County Comprehensive Annual Financial Report (CAFR)

Finding 6 Program expenditures for the Department of Liquor Control total $46.2 million in FY15 and DLC employs over 400 people. Nearly 50% of DLC's employees work in its 25 retail stores.

DLC divides its operations between its wholesale and retail functions, and further divides its wholesale functions into warehouse operations and delivery operations. The table below shows the FY15 approved funding and FTE's by DLC division, as well as the filled full-time, merit part-time, and temporary part-time positions as of November 2014.

- **Retail:** DLC will spend approximately $25 million to operate its retail stores in FY15 and funds 205 positions – 80 full-time and 125 part-time. The total staff assigned to each store ranges from seven to 11.
- **Delivery:** DLC's Delivery Operations program includes two subdivisions – Beer Delivery Operations and Liquor/Wine Delivery Operations. Delivery operations expenditures primarily consist of personnel costs, and nearly all the 108 staff are full-time positions.
- **Warehouse:** DLC's Warehouse Operations program includes five budget subdivisions – Wholesale Administration, Purchasing, Customer Service, Beer Warehouse Operations, and Liquor/Wine Warehouse Operations. Overall, the liquor/wine subdivision accounts for approximately one-half of warehouse operations expenditures each year as well as one-half of the filled positions in FY15.

FY15 DLC Program Expenditures and Staffing

Program	FY15 Approved		Filled Positions (as of 11/14)		
	Budget	FTE's	Full-Time	Part-Time	Total
Retail Sales Operations	$24.6 million	170	80	120 merit 5 temp	205
Warehouse Operations	$8.7 million	64	29	16 merit 12 temp	57
Delivery Operations	$6.2 million	68	105	2 merit 1 temp	108
Administration	$4.5 million	21	20	1 merit	21
Licensure, Regulation, and Education	$1.6 million	12	11	8 temp	19
Office of the Director	$0.6 million	2	2	--	--
Total	**$46.2 million**	**337**	**247**	**139 merit 26 temp**	**412**

Sources: FY15 DLC Approved Operating Budget, MCG Business Intelligence Reporting Dashboard

Finding 7 In FY14 beer products led DLC's wholesale sales in both revenue and number of cases sold. In DLC's retail business, liquor brought in the most revenue while wine products lead retail sales by quantity. Special order products accounted for 21% of wholesale revenue and 17% of retail sales revenue.

Overall, DLC's wholesale and retail alcohol sales totaled $266.7 million in FY14, an increase of 17% over FY10. DLC's wholesale sales revenue consists of the liquor, wine, and beer sold to Montgomery County alcoholic beverage license holders (i.e., beer/wine stores, restaurants, bars, etc.) for subsequent sale to individual consumers. DLC retail sales revenue consists of the liquor, wine, and beer sold directly to consumers for off-premise consumption through DLC's 25 retail stores throughout the County.

The next table summarizes FY14 data on: 1) wholesale and retail sales revenue; and 2) quantities sold – both by alcohol type and product category.

Value and Quantity of FY14 DLC Wholesale and Retail Sales by Alcohol Type and Product Category

Alcohol Type and Product Category	FY14 Wholesale		FY14 Retail	
	Sales Revenue	Cases Sold	Sales Revenue	Cases Sold
Beer	**$69.9 million** **51%**	3.5 million 82%	$8.5 million 7%	297K 27%
Wine	$50.7 million 37%	618K 15%	$46.0 million 36%	414K 37%
Beer Kegs	$9.0 million 7%	90K* 2%	--	--
Liquor	$6.3 million 5%	40K 1%	**$72.5 million** **57%**	396K 35%
Stock Products	**$107.8 million** **79%**	3.9 million 93%	**$105.4 million** **83%**	1.0 million 91%
Special Order Products	$28.2 million 21%	300K 7%	$21.9 million 17%	105K 9%

*Beer kegs quantities refer to the number of kegs sold.
Source: DLC. Data may not add to totals due to rounding. Sales revenue by alcohol and product type may not equal the wholesale and retail totals due to the structure of DLC's financial accounting and reporting system.

Finding 8 Wine products drive DLC wholesale special order sales, accounting for 85% of all wholesale special order revenue in FY14. DLC's retail special order sales primarily come from liquor products – generating nearly 70% of retail special order revenue.

Wholesale. Special order wine products generated $23.9 million in sales revenue in FY14, almost half of all wholesale wine revenue (47%) and 85% of total special order wholesale sales. In comparison stock products drove beer, beer keg, and liquor sales wholesale sales in FY14. Overall, FY14 special order sales data by product type was consisting with trends since FY12.

Retail. Special order liquor products generated $14.9 million in retail sales revenue in FY14, representing 21% of all retail liquor sales revenue and 68% of total special order retail sales. Between FY12 and FY14, the proportion of DLC retail liquor sales that were special order products increased from 17% to 21%.

FY14 DLC Wholesale and Retail Sales Revenue by Alcohol Type and Product Category

Alcohol Type and Product Category	FY14 Wholesale Sales		FY14 Retail Sales	
	$'s	%	$'s	%
Beer Sales	**$69.9 million**	**100%**	**$8.5 million**	**100%**
Stock	$67.1 million	96%	$8.4 million	99%
Special Order	$2.8 million	4%	$0.1 million	1%
Wine Sales	**$50.7 million**	**100%**	**$46.0 million**	**100%**
Stock	$26.8 million	53%	$39.1 million	85%
Special Order	$23.9 million	47%	$6.9 million	15%
Beer Keg Sales	**$9.0 million**	**100%**	**--**	**--**
Stock	$8.2 million	91%	--	--
Special Order	$0.8 million	9%	--	--
Liquor Sales	**$6.3 million**	**100%**	**$72.5 million**	**100%**
Stock	$5.6 million	89%	$57.6 million	79%
Special Order	$0.7 million	11%	$14.9 million	21%
Total Sales	**$136.0 million**	**100%**	**$127.3 million**	**100%**
Stock	$107.8 million	79%	$105.4 million	83%
Special Order	$28.2 million	21%	$21.9 million	17%

Source: DLC. Data may not add to totals due to rounding.

Finding 9 DLC achieved a gross profit on alcohol sales of $75.8 million in FY14. While DLC does not directly track profit of wholesale and retail operations, OLO estimates gross wholesale profit of $33.7 million and gross retail profit of $42.1 million in FY14.

DLC uses the gross profit margin of its wholesale and retail operations as a measure of performance, and has a target margin of 28%. The gross profit margin measures the cost of goods sold against total sales revenue, it does not account for the personnel and operating expenditures required to run the Department. The table below shows DLC's annual gross profit value and margin from FY12-14.

DLC Gross Profit, FY12-14

DLC Profit	FY12	FY13	FY14
Gross Profit	$72.9 million	$75.0 million	$75.8 million
Gross Profit Margin (Profit/Total Sales)	29.1%	29.2%	28.4%

Source: FY10-14 CAFR

DLC currently does not track profit by wholesale and retail operations (nor by alcohol type or product type) but will be able to do so under the new inventory and accounting system. As a result, OLO estimated the gross profit for DLC's wholesale and retail operations by distributing 45% of the total cost of goods sold to retail and 55% to wholesale – finding DLC retail stores' gross profit margin was about 6-8% higher than wholesale profit in FY12-14.

OLO Estimate of DLC Wholesale and Retail Gross Profit Margin, FY12-14

Revenue Source	FY12	FY13	FY14
Wholesale Sales			
Total Sales	$130.4 million	$134.4 million	$137.8 million
Estimated Costs of Goods Sold	$96.8 million	$99.2 million	$104.1 million
Gross Profit	$33.6 million	$35.2 million	$33.7 million
Estimated Wholesale Gross Profit Margin: Difference/Sales	**25.8%**	**26.2%**	**24.5%**
Retail Sales			
Total Sales	$120.0 million	$122.5 million	$128.9 million
Estimated Costs of Goods Sold	$80.7 million	$82.7 million	$86.8 million
Gross Profit	$39.3 million	$39.8 million	$42.1 million
Estimated Retail Gross Profit Margin: Difference/Sales	**32.8%**	**32.5%**	**32.7%**

Source: DLC

Finding 10 DLC is implementing a new warehouse management system as of February 1, 2015 that will substantially change processes for product ordering, inventory management, financial tracking, and data reporting.

DLC has spent the last two years designing a new ERP warehouse management system that will "modernize all warehouse processes including pricing, purchasing, ordering, receiving and storage of inventory, routing and delivery" (DLC 2013 Annual Report). Additionally, because the new system uses the same ORACLE platform as the rest of the County, it will integrate all the warehouse functions with the County's accounting and financial systems and allow for greatly enhanced data collection and reporting. Anticipated benefits of the new system include:

- Direct matching of purchase orders, inventory, and payments to enhance accounting and financial reporting;
- The ability to track and report wholesale and retail sales and quantity data by alcohol type (beer, wine, liquor) and product type (stock or special order); and
- Improved communication with licensees with order status and anticipated delivery dates for both stock and special order items.

Feedback from Stakeholders and DLC Licensees

Finding 11 Many licensees are dissatisfied with DLC's operations, processes, and performance as the wholesaler of alcoholic beverages in Montgomery County.

Through informational interviews and a formal survey of Montgomery County alcohol license holders, OLO received feedback and insight from over 100 different DLC wholesale customers (restaurants, bars, beer and wine stores, etc.) on the Department of Liquor Control's performance and operations, as well as the overall structure of liquor control in Montgomery County. OLO's 28-question survey, distributed to 389 licensees via the survey development website SurveyMonkey in October and November 2014, received 96 responses (a 25% response rate).

- **Overall, licensees were more dissatisfied with DLC's performance than satisfied.** Half of respondents to OLO's survey reported dissatisfaction with DLC's performance as the wholesaler of alcoholic beverages in Montgomery County. One third of respondents were satisfied.

Overall, how satisfied are you with DLC's performance as the sole wholesaler of alcoholic beverages in Montgomery County? (n=88)

Very Dissatisfied	Dissatisfied	Neutral	Satisfied	Very Satisfied
27%	22%	19%	19%	13%

- **Licensees are dissatisfied with the availability of products, particularly wine and special order products.** Most interviewees expressed dissatisfaction with DLC's process for ordering special order products – reporting that it could take weeks to months for DLC to receive and deliver items. Several retail licensees reported a desire to stock items that are available only through special order, but indicated they stock fewer or no special order products because of the difficulties and time involved in getting the products. When asked in the survey about the "availability" of special order items, "not adequate" responses were 40% higher than "adequate" responses (61% compared to 21%). Further, 36% of all respondents strongly disagreed that the availability of special order products is adequate. By contrast, only 8% of respondents strongly agreed that the availability of special order products is adequate.

DLC's selection of products is adequate for my business.

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
DLC's section of stock products is adequate for my business needs (n=81)	25%	19%	23%	25%	9%
The availability of "special order" beer/wine/spirits through DLC is adequate for my business needs (n=76)	36%	25%	18%	13%	8%

- **Licensees believe DLC's wholesale prices often are too high.** Between 36% and 47% of respondents believe that DLC wholesale prices for stock items are high or very high, while between 46% and 59% believe special order prices are high or too high.

Percent of Respondents who think DLC's wholesale pricing is…

Product Type	Very Low	Low	Reasonable	High	Very High
Stock					
Beer (n=78)	0%	1%	59%	17%	23%
Wine (n=76)	0%	3%	50%	21%	26%
Liquor (n=53)	0%	6%	58%	21%	15%
Special Order					
Beer (n=71)	1%	0%	41%	25%	32%
Wine (n=73)	0%	3%	38%	25%	34%
Liquor (n=46)	0%	4%	52%	24%	20%

OLO's comparison of a limited sample of DLC and private sector wholesale prices did show that in many instances the DLC prices were lower than private sector prices.

Finding 12 Many licensees support changing Montgomery County's liquor control system to allow some or all private wholesale distribution of alcoholic beverages.

OLO's survey asked respondents to indicate whether they favor or oppose seven different options for changes to the structure of Montgomery County's liquor control system. The two options that received the strongest support are:

- Allowing licensees to purchase special order beer and wine from private wholesalers (74% strongly favor this option, 87% overall favor). Only 2% of respondents oppose this option.
- Allowing private distributors to engage in the wholesale of all alcohol in Montgomery County (61% strongly favor this option, 83% overall favor). Only 5% of respondents oppose this option.

Sixty-two percent of respondents also support ending DLC's monopoly on the retail distribution of liquor.

Indicate whether you would favor or oppose changes to State of Maryland and/or Montgomery County laws or policies to:

Option	Strongly Oppose	Oppose	Neutral	Favor	Strongly Favor
Allow private distributors to engage in the wholesale of beer, wine, and spirits in Montgomery County (n=77)	1%	4%	12%	22%	61%
Allow private distributors to engage in the wholesale of beer and wine (but not spirits) in Montgomery County (n=71)	3%	4%	20%	20%	54%
Allow off-premise, beer/wine store licensees to also sell spirits in Montgomery County (n=75)	7%	8%	24%	11%	51%
Allow licensees in Montgomery County to purchase "special order" beer and wine directly from private distributors (n=77)	1%	1%	10%	13%	74%
Allow individuals and/or businesses to hold more than one off-premise, beer/wine store license in Montgomery County (n=74)	9%	4%	31%	11%	45%
Allow large chain stores to sell beer/wine in Montgomery County (n=75)	27%	4%	25%	16%	28%
Allow grocery stores to sell beer/wine in Montgomery County (n=76)	25%	3%	24%	13%	36%

Data on Licenses, Purchasing, and Consumption Rates

Finding 13 DLC lists over 29,000 products for sale – 15% are stock items and 85% are special order items. The average wholesale price for a case of special order beer or wine is about twice the average price for a case of stock beer and wine. The average price for a case of special order liquor is about 50% higher than for a case of stock liquor.

Stock items are DLC's most commonly-purchased items, which DLC keeps in stock at its warehouse. DLC obtains special order items only when a licensee (or a customer in a retail store) places an order for an item and only purchases the specific amount in the special order.

- Wine products represent 72% (21,143) of all DLC items available for purchase. Of these, 10% are listed as stock items and 90% are listed as special order.
- Beer products represent 16% (4,735) of all DLC items. Of these, 31% are available as stock products and 69% are listed as special order.
- Liquor products represent 12% (2,716) of all DLC items. Of these, 23% are available as stock items and 77% are listed as special order.

The table below shows the average wholesale and retail prices per case for all DLC items, by product type and stock vs. special order.

Average Wholesale and Retail Prices (per Case) of DLC Products

Product Type	Wholesale			Retail		
	Stock	Special Order	% Difference	Stock	Special Order	% Difference
Beer	$52.45	$102.22	95%	$66.88	$130.25	95%
Wine	$97.61	$190.98	96%	$125.23	$244.33	95%
Liquor	$157.10	$233.69	49%	$186.42	$276.51	48%
Total	**$93.12**	**$184.08**	98%	**$116.60**	**$232.99**	100%

Source: DLC

Finding 14 DLC purchases 82% of stock items directly from producers while sourcing 81% of special order items from alcoholic beverage wholesalers or retailers. In FY14, two-thirds of DLC vendor payments went to producers and one-third went to wholesalers or retailers.

DLC pays the least amount for products purchased directly from producers because those items do not include any wholesale and/or retail markup. Purchasing items from wholesalers or retailers raises prices for DLC (and for subsequent purchasers) because those middlemen incorporate their own mark-up that DLC must pay. OLO's analysis of DLC vendor and payment data indicate that:

- DLC purchases 82% of stock items (3,614 out of 4,405 items) from producers.
- DLC purchases 15% of special order items (3,864 out of 24,985 items) items from producers.

As a result, in FY14 DLC purchased approximately $138 million (or 68%) worth of alcohol products directly from producers and approximately $58 million (or 31%) worth of alcohol products from other wholesalers or retailers.

Summary of DLC Payments to Vendors, 2014

Vendor Type	# of Vendors	$ (millions)	%
Producer	141	$130.0	68%
Wholesaler/Retailer	141	$58.3	31%
Shipping/Other	19	$2.7	1%
	301	**$191.0 million**	**100%**

Source: spendingMontgomery, OLO

Finding 15 In FY14, Montgomery County residents consumed approximately 5.6 million gallons less alcohol annually, on average, compared to our neighboring counties. The County's comparatively low consumption rates likely reflects, at least in part, the purchase of alcoholic beverages in other jurisdictions by County residents.

State data show that in FY14, the average per capita consumption of alcoholic beverages for Frederick, Howard, and Prince George's Counties combined was 18.5 gallons per person – 5.6 gallons more than Montgomery County's annual per capita consumption of 12.9 gallons.

FY14 Per Capita Consumption of Alcohol (in gallons)

Jurisdiction	Beer	Wine	Liquor	Total
Montgomery County	9.5	2.4	1.1	12.9 gallons
Prince George's County	13.7	1.5	1.7	16.9 gallons
Howard County	12.2	3.0	1.5	16.7 gallons
Frederick	17.6	2.7	1.7	22.0 gallons
Neighboring Counties' Average	**14.5**	**2.4**	**1.6**	**18.5 gallons**

Source: Maryland Alcohol & Tobacco Tax Annual Report, Fiscal Year 2014

Based on Montgomery County's population in the Comptroller's *Fiscal Year 2014 MD Alcohol and Tobacco Tax Annual Report* (1.0 million), Montgomery County residents consumed approximately 5.6 million gallons less alcohol in FY14, on average, compared to our neighboring counties. Assuming that Montgomery County's actual per capita consumption is closer to its neighbors, the difference in consumption rates likely reflects, in part, County residents buying alcohol in other jurisdictions.

Chapter 10. Options to Change Montgomery County's Alcohol Control Structure

Montgomery County is the only jurisdiction in Maryland that controls the wholesale distribution of all alcohol beverage products and retail sale of all liquor products. In so doing, the County generates annual revenue that funds the operations of the Department of Liquor Control, pays debt service on revenue bonds issued for facility and transportation capital projects, and provides an undesignated transfer into the General Fund.

Some believe that this structure, dating back to the end of prohibition, is outdated and inefficient, hurts the competitiveness of County restaurants and retail beverage establishments compared to neighboring jurisdictions, and inhibits potential economic development activity in the County. Others find that the government control of the alcoholic beverage system provides an important "check and balance" that benefits the entire community, and that the annual revenue generated is critical to help fund needed public services.

In December 2014, the Council formed an Ad Hoc Committee on Liquor Control to "review alternative models and construct a recommendation that better aligns Montgomery County's alcohol regulations and policies with our economic development, quality of life, and public safety goals."[1] OLO recommends that the Ad Hoc Committee consider a continuum of five options to change Montgomery County's alcohol control structure. For each option, OLO describes required changes and outlines potential costs and benefits. Some of the costs and benefits are easily quantifiable, while others are more conceptual and difficult to measure. Of note, because the structure of alcohol control in Maryland is rooted in State law, the first four options would require State law changes and, as such, are not entirely within the County's direct sphere of authority.

As with other longstanding County issues, the form and structure of alcohol control in the County has been debated many times over the years. OLO believes that the continuum of options in this chapter, while certainly not the only possible options, provide the Council with the basis for a transparent and thorough review of potential changes to the structure of alcohol control.

Because changes to the structure of alcohol control could reduce annual revenue available to the County, this chapter also describes potential options to replace some or all of the revenue. The chapter is organized as follows:

- **Part A - Structural Change Options,** describes a continuum of five potential changes to the structure of alcohol control in the County and compares the potential costs and benefits of each in terms of budget and financial impact, impact on County employees, and discusses significant implementation issues or considerations.
- **Part B – Revenue Alternatives,** details four potential alternatives for replacing lost DLC revenue if structural changes are made to the alcohol system.

[1] December 2, 2014 memorandum to the County Council from Councilmember Reimer, Council President Leventhal, and Councilmember Elrich.

Part A – Options for Structural Change

Part A describes a continuum of five options for changes to the County alcohol control system. The options, ordered from largest to smallest structural change, are:

Option 1 Full deregulation of Montgomery County's alcohol control system
Option 2 Private wholesale distribution of beer, wine, and liquor
Option 3 Private wholesale distribution of beer and wine
Option 4 Private wholesale distribution of special order beer and wine
Option 5 Increase efficiency within the current structure

Each option includes a section describing:

- **Changes to legal authority and DLC's operations.** For each option, OLO includes a summary of how current operational authority would change and how DLC functions would change (i.e., which current functions would be eliminated, retained, or changed under each option).

- **Budgetary/fiscal impacts.** Options 1-4 all would impact annual County revenues and expenditures. Several options would result in the same types of impacts, but to differing degrees – such as loss of annual revenue, decreases in expenses from eliminating functions, etc. For each option, OLO estimates the potential fiscal impacts (one-time and ongoing) based on the most recently available data and describes assumptions underlying the estimates.

- **Impact on County jobs.** Changes to the structure of Montgomery County's alcohol control system could have a substantial impact on County employees. For each option, OLO estimates the reduction in full-time, merit part-time (i.e., part-time positions eligible for benefits), and/or temporary part-time positions that could result. If the County pursues an option that reduces positions, some reductions could occur through natural attrition (retirements and other types of voluntary separations) while other employees could be placed in other County positions. However, many of DLC's functions are not replicated in other County departments. At the same time, deregulating some or all of the alcohol control structure could increase the number of similar private sector jobs – as was Washington State's experience when it deregulated its wholesale and retail monopoly of liquor in 2011. The pay and benefit structure of private companies, however, may differ from the County Government.

- **Implementation issues (if any).** A summary of additional issues or considerations, for example the impact an option may have on existing liquor revenue bonds.

In addition to the immediate impacts from each option referenced above, changes to the structure of the County's alcohol control system could potentially create other indirect or long-term impacts on the County's economy and/or on negative social costs associated with alcohol consumption. Because the specific impact of these changes and/or the degree to which they may occur are difficult to quantify, these impacts are described below but not repeated for each option.

Economic Development. Many stakeholders believe that removing or reducing government control of the County's alcohol system will have significant, positive impact on economic development in Montgomery County. Specifically, stakeholders assert that it would:

- Improve availability, selection, and pricing for alcohol products for both consumers and retailers;
- Enhance profitability and competitiveness of current restaurants and retail establishments in the County; and
- Enhance the desirability of Montgomery County as a location for new restaurant and retail establishments.

In turn, the County could achieve general economic benefits from a more profitable and vigorous food service and alcohol retail industry. While the exact nature and/or value of these benefits are impacted by multiple variables, benefits that could accrue include:

- **Increasing private employment in the alcohol wholesale, retail sale, and/or restaurant sectors.** Altering the structure for wholesale and/or retail sale of alcohol in Montgomery County could lead to increased employment from the establishment of new retail or dining locations, greater staffing needs for existing establishments, and/or a need for employees to cover a new Montgomery County wholesale distribution market.
- **Recapturing alcohol sales and revenue currently lost to neighboring jurisdictions.** Many stakeholders believe that county businesses lose sales revenue to stores and restaurants in neighboring jurisdictions (particularly Washington DC and Virginia) due to better availability, selection, and pricing of alcoholic beverages in those locations. Montgomery County's comparatively low per capita consumption rates compared to other Maryland counties may in part reflect lost sales.
- **Enhance development of the County's "nighttime economy."** A more vibrant food service industry could help the County's efforts to enhance its nighttime economy by providing new dining and entertainment options that encourage people to spend their time and money in Montgomery County instead of neighboring jurisdictions, and encourage millennials to live and work in the County.

Social Costs. Some stakeholders believe that deregulating County alcohol control at the wholesale and/or retail level can increase negative "social costs" associated with excessive alcohol consumption such as: underage and binge drinking; alcohol related deaths or accidents; and alcohol-related crime. The research and data on these issues, however, is mixed. Data in some studies show increases in these measure associated with varying degrees of regulation of alcohol control, while other studies indicate that status as a license or control jurisdiction is not a causal factor in these outcomes.

The experience in Washington State in its first year after changing from a control to license jurisdiction showed few indicators of increased negative public health or social impacts. However, the change in Washington State only impacted liquor – wine and beer were already distributed and sold entirely via the private sector. Despite the lack of clarity in the research, potential impacts on public health and safety should be considered with each option.

Option 1 FULL DEREGULATION

Fully deregulate the alcohol control system in Montgomery County and allow private wholesale distribution and private retail sale of beer, wine, and liquor

This option would deregulate the system of alcohol control in Montgomery County and make the County a full "license" jurisdiction like other Maryland counties. The wholesale and retail sale of alcoholic beverages would lie exclusively with private sector businesses. Implementing this model in Montgomery County would involve the following:

Changes to Legal Authority

- Removing the County's authority as the single wholesaler of alcoholic beverages, allowing private wholesale distribution of beer, wine, and liquor products.
- Removing the County's exclusive authority to sell liquor in its retail stores for off-premise consumption, allowing private retail licensees to sell all alcoholic beverage products (beer, wine, and liquor).

Changes in DLC Operations

- Eliminating the wholesale, retail, delivery, and associated functions of DLC.
- Retaining the functions performed by DLC's Licensure, Regulation, and Education Division and the Board of License Commissioners.

Implementation Issues

This option would require substantial legal changes at the State level. A change of this magnitude would also require detailed planning and a structured implementation, and would likely need a minimum transition period of three to five years. In Worcester County, the State initially established a five year transition period for eliminating the County's sole authority to wholesale wine and liquor, then subsequently reduced the period to three years.

Revenue Bonds. Montgomery County has issued revenue bonds that are backed by a pledge of annual revenue from the Liquor Fund. Options for deregulating the County's alcohol system would eliminate this source of revenue, in whole or part. Therefore, when considering any potential options for deregulation, the County must address the tax and legal requirements of the revenue bonds. The legal framework available for restructuring the bonds may also help shape how the various options could be implemented.

Representatives from the Department of Finance (Finance) note that the County's options regarding potential sale or disposition of the DLC warehouse are also subject to legal and tax considerations because the revenue bonds used to pay for the warehouse were issued as tax exempt debt – restricting the warehouse use to governmental purposes only (i.e., no "private use").

In exploring various sale or lease scenarios, Finance representatives note that the County will need to analyze the legal and tax options for removing private use restrictions based on the particular facts of each scenario; options involving redeploying the warehouse to another government use would generally not involve the same level of complexity.

Examples of options relating to the revenue bonds and warehouse provided by the Department of Finance include:

- Refund existing revenue bonds by issuing general obligation bonds payable from the County General Fund. This change would not remove restrictions on private use of the warehouse, but would remove the pledge of the revenues in the Liquor Fund.
- Sell the facilities (including the warehouse) financed with tax exempt debt to a private party and use the proceeds, as required under tax law, to purchase other similar tax exempt facilities for another County government use. This would leave the bonds outstanding with bond payments pledged from the Liquor Fund, requiring the flow of other revenue sources into the Liquor Fund to make the future debt payments. This option may require the County to make other pledges or guarantees for repayment of the bonds.
- Leave the bonds outstanding and enter into qualified management contracts with private parties to operate all or part of the County's alcohol system.
- Refund the outstanding bonds with taxable bonds (typically at higher interest rates) supported by the Liquor Fund, which would remove the restrictions on private use of the warehouse.
- Dedicate enough of the annual revenues of the Liquor Fund that normally would flow into the General Fund and place the funds in escrow to make future bond payments, thereby removing the pledge of revenues on the Liquor Fund and the private use restrictions on the warehouse.

As noted above, a variety of solutions are available to address the outstanding tax exempt revenue bonds and private use restrictions on the warehouse built with those bonds. The viability of any solution will depend on the specific facts of the options being considered, in consultation with the County's bond counsel.

Budgetary/Fiscal Impacts

Deregulating the County's alcohol control system would have a significant impact on the County budget – eliminating the majority of the Department of Liquor Control and ending the annual flow of DLC profits to the County's general fund and to pay for debt service. Under this option the Liquor Fund would no longer exist and remaining expenditures or revenue would accrue to the County's General Fund.

The data in the table on the next page estimate potential one-time profit of $66-$76 million and potential annual losses of $32-$43 million from this option. Information and assumptions used to estimate the fiscal impacts follow the table.

Option 1: Fully deregulate alcohol control system	Estimated Fiscal Impact	
	One-Time	**Ongoing**
Revenues Loss of gross profit from DLC wholesale and retail sales Maintain revenue from licenses, permits, fines, and penalties		($73-$76 million) +$2 million
Expenditures Reduction in expenditures for eliminated DLC functions Maintain expenditures for remaining DLC functions Maintain debt service payments for Liquor Bonds		+$43-$48 million ($1-$2 million) ($8-$10 million)
Balance Transfer Transfer of balance in Liquor Fund	+$37 million	
Capital Assets Sale of whole DLC vehicle fleet Sale of DLC warehouse/equipment Lease of DLC warehouse/equipment	+$3 million +$26-$36 million	value unknown
Total	**+$66-$76 million**	**($32-$43 million)**

Revenue impacts. Eliminating DLC's wholesale and retail operations would eliminate the annual gross profit (sales revenue minus the cost of goods sold) from these functions. From FY12-14, DLC's gross profit ranged from $72.9 million to $75.8 million. This option would not impact annual revenue from licenses, permits, fines, and penalties. These revenues totaled between $1.9 and $2.0 million from FY12-14.

Expenditure impacts. Annual expenditures for most DLC functions would be eliminated, and expenditures for remaining functions and debt service would need to be funded through the General Fund. Expenditures for DLC functions that would be eliminated – Warehouse, Delivery, Retail Sales, Administration, and Director's Office Divisions – ranged from $42.9 million to $48.2 million from FY13-15. Expenditures for remaining functions of the Licensing, Regulation, and Enforcement Division totaled $1.3-$1.6 million from FY13-15.

The County Government uses a portion of the profits from alcohol sales in the Liquor Fund to pay debt service on the Liquor Control Revenue Bonds issued in 2009, 2011, and 2014. FY14 debt service payments totaled $7.9 million and the FY15 budget projects debt service costs of $10.1 million. Based on the most recent debt service repayment schedule for the liquor control revenue bonds, annual payments will remain at these levels until 2029.

Liquor Fund balance transfer. DLC maintains a fund balance in the Liquor Enterprise Fund of approximately 15% of annual operating expenditures – totaling $37.2 million at the end of FY14. Eliminating DLC's revenue generating operations would make the Liquor Fund's balance available for a one-time transfer into the General Fund.

Capital assets. DLC would no longer needs its fleet of 42 delivery vehicles or its liquor warehouse. The vehicle fleet – valued at $3.4 million in the FY14 CAFR – could be sold by the County, resulting in one-time revenue.

The County could transition the DLC warehouse to a different use or sell or lease it for private sector use, pursuant to the revenue bond tax and legal requirement noted in the implementation issues. Selling the warehouse would result in one-time revenue, while leasing the warehouse would result in ongoing revenue. The FY14 CAFR lists a value of $26.2 million for DLC “buildings” and $9.3 million for “furniture, fixtures, equipment, and machinery.”

Impact on County Positions

Fully deregulating the County alcohol control system would substantially impact DLC employees by eliminating the need for nearly all current DLC positions. Because the County would retain alcoholic beverage licensing, regulation, and enforcement functions, Option 1 would not eliminate the 11 full-time and eight temporary part-time positions in the LRE Division. The data in the table below show the potential full-time, merit part-time, and temporary part-time positions that could be eliminated under this option by affected DLC Division or Program (based on DLC’s filled positions as of November 2014).

Estimate of Potential DLC Position Reductions under Option 1

DLC Division/Program	Full-Time	Merit Part-Time	Temporary Part-Time	Total
Retail Operations	80	120	5	**205**
Delivery Operations	105	2	1	**108**
Warehouse Operations	29	16	12	**57**
Administration	20	1	--	**21**
Director’s Office	2	--	--	**2**
Total	**236**	**139**	**18**	**393**

Option 2 PRIVATE WHOLESALE DISTRIBUTION OF BEER, WINE AND LIQUOR

Allow private wholesale distribution of beer, wine, and liquor to alcoholic beverage licensees, while maintaining County control of the off-premises retail sale of liquor

Option 2 would allow private wholesalers to distribute beer, wine, and liquor in Montgomery County. DLC would retain its retail sales operations and control of all off-premises retail liquor sales. Implementing this model would involve the following:

Changes to legal authority

- Removing the County's authority as the single wholesaler of alcoholic beverages, and instead allowing private wholesale distribution of beer, wine, and liquor products.
- Retaining the County's exclusive authority to sell liquor in its retail stores for off-premise consumption.

Changes in DLC operations

- Eliminating DLC's wholesale, delivery, and associated functions.
- Retaining the County's retail sales operations to sell liquor, wine, and beer.
- Retaining the functions performed by DLC's Retail Operations Division; Licensure, Regulation, and Education Division; and the Board of License Commissioners.

Implementation Issues

This option would require substantial legal changes at the State level. A change of this magnitude would also require detailed planning and a structured implementation, and would likely need a minimum transition period of three years. In Worcester County, the State initially established a five year transition period for eliminating the County's sole authority to wholesale wine and liquor, then subsequently reduced the period to three years.

Revenue Bonds. Montgomery County has issued revenue bonds that are backed by a pledge of annual revenue from the Liquor Fund. Options for deregulating the County's alcohol system would eliminate this source of revenue, in whole or part. Therefore, when considering any potential options for deregulation, the County must address the tax and legal requirements of the revenue bonds. See Option 1 for a further description.

Budgetary/Fiscal Impacts

This option would also have a significant impact on County revenues and expenditures, but to a lesser degree than Option 1. The data in the next table estimates potential one-time profit of $29-$39 million and potential annual losses of $18-$21 million. Information and assumptions used to estimate the fiscal impacts follow the table.

Option 2: Private wholesale distribution of beer, wine, and liquor products	Estimated Fiscal Impact	
	One-Time	Ongoing
Revenues Loss of gross profit from DLC wholesale sales		($33-$35 million)
Expenditures Reduction in expenditures for eliminated DLC functions		+$14-$15 million
Capital Assets Sale of whole DLC vehicle fleet Sale of DLC warehouse/equipment Lease of DLC warehouse/equipment	+$3 million +$26-$36 million	value unknown
Total	**+$29-$39 million**	**($18-$21 million)**

Revenue impacts. Eliminating DLC's wholesale operations would eliminate the annual net revenue (sales revenue minus the cost of goods sold) from those functions. While DLC does not currently track profit by wholesale versus retail operations, OLO estimated the gross profit for wholesale sales between FY12-14 ranged from approximately $33.6 million to $35.2 million. Under this option, DLC's annual net revenue from retail sales and from licenses, permit, fines, and penalties would not be impacted and would still accrue to the Liquor Fund. This revenue estimate assumes DLC revenues from retail operations remain the same, however this option could impact retail revenue if DLC costs for purchasing store inventory increase.

Expenditure impacts. This option would reduce current DLC personnel and operating expenditures for wholesale and delivery operations. Annual expenditures for these functions between FY13-15 ranged from $13.8 million to $14.9 million. Additionally, a portion of annual expenditures from the Office of the Director and Administration Division may no longer be needed under this option. Annual expenditures for DLC's remaining functions and debt service would not be impacted and would still accrue to the Liquor Fund.

Capital assets. DLC would no longer needs its fleet of 42 delivery vehicles or its liquor warehouse. The vehicle fleet – valued at $3.4 million in the FY14 CAFR – could be sold by the County, resulting in one-time revenue. The County could transition the DLC warehouse to a different use or sell or lease it for private sector use, pursuant to the revenue bond tax and legal requirement noted in the implementation issues. Selling the warehouse would result in one-time revenue, while leasing the warehouse would result in ongoing revenue. The FY14 CAFR lists a value of $26.2 million for DLC "buildings" and $9.3 million for "furniture, fixtures, equipment, and machinery."

Impact on County Positions

Deregulating the wholesale sale and distribution of beer, wine, and liquor would have a substantial impact on current County DLC employees, potentially eliminating 165 filled positions, or 40% of DLC's current workforce. Specifically, positions associated with warehouse wholesale operations and delivery operations would no longer be needed. The data in the table below show the potential full-time, merit part-time, and temporary part-time positions that could be eliminated under this option by affected DLC Division or Program (based on DLC's filled positions as of November 2014).

Estimate of Potential DLC Position Reductions under Option 2

DLC Division/Program	Full-Time	Merit Part-Time	Temporary Part-Time	Total
Delivery Operations	105	2	1	**108**
Warehouse Operations	29	16	12	**57**
Total	**134**	**18**	**13**	**165**

Additionally, other positions within the Administration Division that provide internal service functions may no longer be needed if DLC is not involved in wholesale distribution.

Option 3 PRIVATE WHOLESALE DISTRIBUTION OF BEER AND WINE

Allow private wholesale distribution of beer and wine to alcoholic beverage licensees, while maintaining County control of the wholesale and off-premises retail sale of liquor

This option would limit DLC's wholesale authority to liquor, allowing the private wholesale distribution of beer and wine in Montgomery County. DLC would retain control of all off-premises retail liquor sales, and retain its current retail store operations. Implementing this model would involve the following:

Changes to legal authority

- Removing the County's authority as the single wholesaler of beer and wine products – allowing private wholesale distribution.
- Retaining the County's authority as the sole wholesaler of liquor/distilled spirits products.
- Retaining the County's exclusive authority to sell liquor in its retail stores for off-premise consumption.

Changes in DLC operations

- Eliminating the wholesale, delivery, and associated functions of DLC for wine and beer products.
- Retaining the wholesale, delivery, and associated functions of DLC for liquor/distilled spirits.
- Retaining the County's retail sales operations to sell liquor, wine, and beer.
- Retaining the functions performed by DLC's Licensure, Regulation, and Education Division; and the Board of License Commissioners.

Implementation Issues

This option would require substantial legal changes at the State level. A change of this magnitude would also require detailed planning and a structured implementation, and would likely need a transition period. In Worchester County, the State initially established a five year transition period for eliminating the County's sole authority to wholesale wine and liquor, then subsequently reduced the period to three years.

Revenue Bonds. Montgomery County has issued revenue bonds that are backed by a pledge of annual revenue from the Liquor Fund. Options for deregulating the County's alcohol system would eliminate this source of revenue, in whole or part. Therefore, when considering any potential options for deregulation, the County must address the tax and legal requirements of the revenue bonds. See Option 1 for a further description.

Budgetary/Fiscal Impact

OLO estimates that Option 3 would produce one-time revenue of $2-$3 million, and potential annuals losses of $18-$23 million from elimination of DLC's beer and wine wholesale sales. Information and assumptions used to estimate the fiscal impacts follow the table.

Option 3: Private wholesale distribution of beer and wine products	Estimated Fiscal Impact	
	One-Time	**Ongoing**
Revenues Loss of gross profit from DLC beer and wine wholesale sales		($31-$33 million)
Expenditures Reduction in expenditures for beer and wine warehouse/delivery functions		+$10-$12 million
Capital Assets Sale of a portion of DLC vehicle fleet Lease of DLC warehouse/equipment	+$2-$3 million	value unknown
Total	**+$2-$3 million**	**($18-$23 million)**

Revenue impacts. Eliminating DLC's beer and wine wholesale operations would eliminate the annual gross profit (sales revenue minus the cost of goods sold) from those functions. While DLC does not currently track profit by product type, OLO estimated that the gross profit margin on wholesale sales over the past three years ranged from 24.5% to 26.2%. Applying these ratios to DLC's annual wholesale beer and wine sales data, OLO estimates that this option would reduce gross profit by a range of $31.4-$32.8 million annually. DLC's annual gross profit from retail store sales and the wholesale of liquor products, and the revenue from licenses, permit, fines, and penalties would not be impacted and would still accrue to the Liquor Fund.

Expenditure impacts. This option would reduce DLC personnel and operating expenditures by an estimated $10-$12 million annually by eliminating beer warehouse and delivery operations and reducing liquor/wine warehouse and delivery operations. Total DLC beer warehouse and delivery expenditures ranged from $6-$8 million between FY13-15. Wine accounted for 70% of all liquor/wine cases processed through DLC's warehouse and delivered to DLC retail stores or licensees in both FY13 and FY14. Based on total liquor/wine warehouse and delivery expenditures per case ($3.73 in FY13, $4.10 in FY14), OLO estimates that eliminating wine wholesale operations would reduce annual expenditure by $3.8-$4.2 million. Annual expenditures for DLC's remaining functions and debt service would not be impacted and would still accrue to the Liquor Fund.

Capital assets. DLC would no longer needs its entire delivery fleet of 42 delivery vehicles and could achieve one-time revenue by selling a portion of the fleet. Because beer and wine products account for 99% of all cases delivered by DLC in FY14, OLO estimates DLC could reduce its fleet and potentially achieve approximately $2-3 million in one-time revenue. DLC would still use the warehouse to stock and distribute liquor products, but part of the warehouse could be transitioned to use for a different County function, or could be leased for private-sector use pursuant to the revenue bond tax and legal requirement noted in the implementation issues.

Impact on County Positions

If Montgomery County no longer provided wholesale sale and distribution of beer and wine products, an estimated 123 DLC positions (30% of its current workforce) would no longer be needed. OLO assumes that all beer warehouse and delivery positions would be eliminated and that 70% of liquor/wine warehouse and delivery positions could be eliminated (because wine accounts for 70% of all liquor/wine cases processed and delivered by DLC in FY14). The data in the table below show the potential full-time, merit part-time, and temporary part-time positions that could be eliminated under this option by affected DLC Program (based on filled positions as of November 2014).

Estimate of Potential DLC Position Reductions under Option 3

DLC Division/Program	Full-Time	Merit Part-Time	Temporary Part-Time	Total
Beer Warehouse Operations	5	7	--	**12**
Beer Delivery Operations	53	2	--	**55**
Liquor/Wine Warehouse Operations	5	6	8	**19**
Liquor/Wine Delivery Operations	36	--	1	**37**
Total	**99**	**15**	**9**	**123**

Option 4 PRIVATE WHOLESALE DISTRIBUTION OF SPECIAL ORDER BEER AND WINE

Allow private wholesale distribution of special order beer and wine products, while maintaining County control of the wholesale and retail structures for all other alcohol products

This option would allow private wholesalers to distribute special order beer and wine products directly to licensees. DLC would remain the exclusive wholesaler of all liquor products and for stock beer and wine. This option addresses feedback from licensees that the beer and wine special order process is one of the most problematic areas of DLC's operations. Implementing this model would involve the following:

Changes to legal authority

- Removing the County's authority as the single wholesaler of certain beer and wine products, allowing private wholesale distribution of items designated as special order by the County.
- Retaining the County's authority as the sole wholesaler of liquor/distilled spirits products.
- Retaining the County's exclusive authority to sell liquor in its retail stores for off-premise consumption.

Changes in DLC operations

- Eliminating the wholesale, delivery, and associated functions of DLC for special order wine and beer products.
- Retaining the wholesale, delivery, and associated functions of DLC for stock beer and wine and all liquor/distilled spirits.
- Retaining the County's retail sales operations to sell liquor, wine, and beer.
- Retaining the functions performed by DLC's Licensure, Regulation, and Education Division and the Board of License Commissioners.

Implementation Issues

Allowing private wholesalers to sell special order items to licensees would necessitate a structured process for designating products as special order vs. stock in order to avoid conflict or confusion. This could involve allowing DLC to continue to decide which items are stock and which are special order, or it could be based on a different factor that would qualify a product as stock or special order (such as the volume of a product produced, or the volume of a product available for distribution in the County).

Budgetary/Fiscal Impact

OLO estimates that Option 4 would lead to annual losses of $4-6 million, and a minor amount of one-time revenue. Information and assumptions used to estimate the fiscal impacts follow the table.

Option 4: Private wholesale distribution of special order beer and wine products	Estimated Fiscal Impact	
	One-Time	Ongoing
Revenues Loss of gross profit from DLC special order beer and wine wholesale sales		($5-$7 million)
Expenditures Reduction in expenditures for beer warehouse/delivery functions		+$1 million
Capital Assets Sale of a portion of DLC vehicle fleet	+$170,000	
Total	**+$170,000**	**($4-$6 million)**

Revenue impacts. Eliminating DLC's special order beer and wine wholesale operations would result in the loss of annual gross profit (sales revenue minus the cost of goods sold) from these products. While DLC does not currently track profit by product category, total special order beer and wine wholesale sales ranged from $24.6-$27.5 million from FY12-14. Based on OLO's estimate of DLC gross profit margin for all wholesale sales over the past three years (ranging from 24.5% to 26.2%) and DLC's wholesale markups for special order beer and wine, OLO estimates the reduction in gross profit from this option would be around $5-7 million annually. Revenue could be reduced further if licensees choose to substitute current purchases of stock items from DLC for special order items from private distributors. DLC's annual gross profit from retail store sales and the wholesale of liquor, stock beer, and stock wine products; and the revenue from licenses, permit, fines, and penalties would not be impacted and would still accrue to the Liquor Fund.

Expenditure impacts. This option would reduce DLC personnel and operating expenditures related to special order beer and wine products by an estimated $1 million annually. DLC does not track expenditures directly associated with special order products, and does not assign staff specifically to special order versus stock products. Because special orders represent only 2% of beer cases/kegs processed through the DLC warehouse and delivered to licensees or DLC retail stores in FY14, OLO estimates that the expenditures for beer warehouse and delivery operations would be relatively unchanged – a reduction of approximately $100K. Wine special orders accounted for 19% of all liquor/wine cases processed through DLC's warehouse and delivered to DLC retail stores or licensees in FY14. Based on total liquor/wine warehouse and delivery expenditures per case ($4.10 in FY14), OLO estimates that reducing wine wholesale operations would reduce annual expenditure by $1.1 million. Annual expenditures for DLC's remaining functions and debt service would not be impacted and would still accrue to the Liquor Fund.

Capital assets. OLO estimates that under this option DLC could reduce its fleet by approximately 5% to reflect fewer deliveries. The extra vehicles could be sold, equating to approximately $170K in one-time revenue, or DLC could reduce future vehicle expenditures by this same amount by replacing fewer vehicles and maintaining a smaller fleet.

Impact on County Positions

If Montgomery County no longer provided the wholesale sale and distribution of special order beer and wine products, it would likely have a smaller impact on County jobs compared to the other options. Beer special orders only represents 2% of cases sold and delivered in FY14, so the staffing needs for the beer warehouse operations and beer delivery operations would likely be unchanged. Wine special orders represent 19% of all wine/liquor processes and delivered in FY14. If staffing needs were reduced by an equivalent 19% in liquor/wine warehouse and delivery operations, it could result in eliminating approximately 15 positions (4% of DLC's current workforce). The data in the table below show the potential full-time, merit part-time, and temporary part-time positions that could be eliminated under this option by affected DLC Division or Program (based on DLC's filled positions as of November 2014). It is also possible the DLC could reduce these positions over time through natural attrition.

Estimate of Potential DLC Position Reductions under Option 4

DLC Division/Program	Full-Time	Merit Part-Time	Temporary Part-Time	Total
Liquor/Wine Warehouse Operations	1	2	2	**5**
Liquor/Wine Delivery Operations	10	--	--	**10**
Total	**11**	**2**	**2**	**15**

Option 5 INCREASE EFFICIENCY WITHIN CURRENT STRUCTURE

Maintain the current structure of liquor control and enhance DLC's effectiveness and efficiency by adopting recommendations made as part of DLC's long-range strategic business plan

This option would maintain the current structure and legal authority for alcohol distribution and sale in Montgomery County, while working to enhance DLC's effectiveness and ability to act as a "business" by adopting changes to its business practices. One measure already under way that may improve DLC's effectiveness and efficiency is the Oracle inventory management and ordering system. Many potential changes were identified in DLC's draft long-range strategic business plan that was released in July 2014, including:

Recommendations in DLC's Draft Comprehensive Long-Range Strategic Business Plan, July 2014 (Prepared by the PFM Group)

Fleet Recommendations
- Revise delivery priority policies
- Review fleet configuration and size
- Develop a comprehensive plan for vehicle replacement
- Determine approach to fleet recapitalization
- Evaluate outsourcing the delivery function
- Consider "mini-warehouses" in regional superstore
- Consider delayed posting of licensee accounts to smooth deliveries

Operations Recommendations
- Seek opportunity to become an Authority
- Obtain dedicated, in-house resources for building supervision and management
- Perform a cost-benefit analysis on different methods of overnight loading

Retail Recommendations
- Adopt new store opening and store location criteria
- Create one or more regional superstore
- Close or relocate the Chevy Chase store
- Locate additional stores to split over-extended markets
- Develop a plan to open three to five additional store locations
- Expand the consistent use of the DLC brand
- Establish store look guidelines to be incorporated into store design and refurbishment

Additionally, based on feedback from licensees, OLO recommends that DLC work to enhance its customer service operations. Specifically, issues to consider include:

- With appropriate safeguards, allowing a 30 day grace- or float-period between ordering and payment as is done by some private wholesale distributors in other locations;
- Decreasing the timeframe between ordering and delivery for items that are in stock;
- Providing proactive and timelier communications on pricing changes, inventory changes, ordering changes, etc.
- Improving the timeliness for resolving problems or mistakes in orders or deliveries.

Implementation Issues

Many of the potential changes or efficiency improvements could be implemented by DLC directly, while others would require more work. For example, improving DLC's operational flexibility by reorganizing DLC as an independent revenue authority, similar to the Montgomery County Revenue Authority that operates golf courses and the County's airpark, would require legislative changes at the State and/or County level.

Budgetary/Fiscal Impact

The specific impact would vary for each potential change. Some recommended changes related to DLC's retail operations and customer service operations would likely require additional expenditures, at least initially. The PFM report notes the potential for long-term savings from different models for fleet management compared to the current practices.

Personnel Impact

Unlike Options 1-4, this Option would not eliminate any of DLC's current function and therefore would not directly impact existing jobs. One of the fleet recommendations from the strategic plan is to evaluate outsourcing of DLC's delivery function. This recommendation, if pursued, would have a substantial impact on current DLC positions.

Part B – Revenue Alternatives

Because profits from the County's sale of alcoholic beverages fund all DLC operations, pay debt service costs, and contribute to the General Fund each year, the second part of this chapter reviews potential options to replace some or all of that revenue if structural changes are made to the County's alcohol control system. As with the options for structural change, the potential revenue alternatives would also require changes to State law.

Other states that have transitioned away from government control of alcohol sales have sought to replace lost revenue with new or additional taxes and/or new or additional fees for licensing or distribution rights. In Maryland, the State collects excise and sales tax revenue from the sale of alcoholic beverages – counties and municipalities are not allowed to tax the sale of alcoholic beverages.

Revenue Alternative 1

Wholesale Distribution Charge

Potential Annual Revenue: $7-$29 million

The County could enact a wholesale distribution charge that would require private distributors to pay a fee to distribute alcoholic beverage products in the County. The County could set the fee as a flat annual charge or as a variable charge based on the quantity of products distributed to County licensees during the year.

To estimate possible revenue from a variable fee, the data in the table projects revenue based on three different fee levels assessed per ounce of alcohol delivered in the County. State data show that 13.2 million gallons (1.7 billion ounces) of alcohol were delivered to the County in FY14. The data show that a fee of one cent per ounce would yield $16.8 million in revenue and a fee of one and a half cents per ounce would yield $25.3 million, based on FY14 delivery data.

Estimates of Revenue from a per ounce Wholesale Distribution Fee

FY14 Volume Delivered in Montgomery County	Fee Rate per Ounce	Estimated Revenue
1.7 billion ounces	$0.01	$16.8 million
	$0.0125	$21.1 million
	$0.015	$25.3 million

Instituting a wholesale fee on private distributors in Montgomery County that differs from fees in other Maryland counties may provide an incentive for distributors to raise the wholesale price of products for Montgomery County businesses. State law, however, requires distributors to charge all customers the same price for products, which would prevent distributors from increasing prices only in Montgomery County.

The County Government could also establish a flat fee structure with a fixed fee per product offered for sale in the County. In FY14, DLC had over 29,000 products available for sale. However, many of the products are the same item (e.g., the same brand and type of beer) sold in different sized containers. Without knowing the exact number of different products for sale, the table below exemplifies the amount of revenue that could be generated from a flat fee of $1,000 per product offered based on 25% increments of the 29,000 products.

Estimates of Revenue from a Flat "Per-Product" Wholesale Distribution Fee

Flat fee per Product	Products Offered for Sale	Estimated Revenue
$1,000	7,250	$7.3 million
	14,500	$14.5 million
	21,750	$21.8 million
	29,000	$29.0 million

Revenue Alternative 2

Retail Liquor Licensing Fee

Potential Annual Revenue - $229,000

The County could establish a new license that would give new or existing off-premises beer and wine stores the ability to sell liquor (distilled spirits) and charge an accompanying licensing fee. If the County instituted an additional liquor licensing fee for Class A, B and D licenses and quadrupled the cost of the current license fees for those classes, OLO estimates that the County could raise approximately $229,000 in revenue annually if all current eligible license holders applied for a liquor license. The next table summarize these data.

Estimate of Revenue from a Retail Liquor Licensing Fee

License Class	Estimated # of Existing Businesses	Current License Fee	Additional Liquor Licensing Fee	Estimated Additional Revenue
Class A	155	$250	$1,000	$155,000
Class B	1	$2,500	$10,000	$10,000
Class D	40	$400	$1,600	$64,000
Total	**196**			**$229,000**

Revenue Alternative 3

Sell/Auction Rights to Operate County Retail Stores

Potential Periodic Revenue - $4.8 - $5.3 million

The County could sell via a fixed price or auction off the right to operate the County's 25 retail stores. The right to operate these stores could be an attractive investment for entrepreneurs if these stores retain the exclusive right to sell liquor in the County. When Washington State deregulated liquor sales in 2011, it auctioned off the right to take over and operate 167 state-run liquor stores. Similarly, the State of West Virginia auctions off every 10 years the right to privately operate liquor stores – the most recent auction happening in 2010.

In Washington State, other retail stores also received licenses to sell liquor (for a total of approximately 1,406 retail liquor stores in the state in Nov. 2014) whereas in West Virginia, the 178 licenses auctioned off in 2010 are the only liquor stores in the state. If Montgomery County opened up the right to sell liquor to existing beer and wine stores, in addition to the 25 County-operated stores, the value of the County-operated stores would decrease. Washington State received $31.9 million in one-time revenue from the auction of its state-owned stores. In its most recent auction, the State of West Virginia received $38.0 million in revenue. The next table summarizes these data.

Summary of State Revenue from Auction of Licenses to Operate Liquor Stores

State Auction	# of Retail Stores	Total Auction Revenue	Average Auction Revenue per Store
Washington	167	$31.9 million	$191,018
West Virginia			
1990	not available	$15.3 million	n/a
2000	168	$22.4 million	$133,308
2010	178	$38.0 million	$213,660

Source: Washington State Liquor Control Board Annual Report FY12; West Virginia Alcohol Beverage Control Administration Annual Report FY12

If Montgomery County auctioned off licenses to privately operate its 25 liquor stores with auction proceeds approximating those in Washington State or West Virginia, the County could expect to generate approximately $4.8 million to $5.3 million. Granting a liquor license for a limited period of time, like West Virginia, would provide ongoing, as opposed to one-time, revenue.

Estimate of Revenue from Sale/Auction of Liquor Store Operating Rights

# of DLC Stores	Estimate of Revenue Per License	Estimated Revenue
25	$191,018	$4.8 million
	$213,660	$5.3 million

Revenue Alternative 4

Enact a County Alcohol Sales Tax

Potential Annual Revenue - ~$3 million for every 1% increase in tax rate

Montgomery County could ask the State to authorize a local sales tax on alcoholic beverages with the tax revenue going to the County. Currently, individuals pay a 9% state sales tax on the purchase of alcoholic beverages at the point-of-sale. A County "piggyback" alcohol sales tax would be in addition to the current 9% tax. To illustrate the revenue that could be collected under this option, OLO estimated sales tax revenue generated from DLC FY14 wholesale and retail sales.

In FY14, DLC generated sales revenue of $266.7 million – $137.8 million from wholesale sales and $128.9 million from retail stores. DLC retail stores would have collected $11.6 million in sales tax (at 9%) from the $127.4 million in sales. Using the $128.9 million in wholesale sales as a proxy for sales generated by Montgomery County licensees, licensees would have collected an additional $12.4 million in sales tax on $139.3 million.

The data in the table below estimate that each addition 1% of sales tax would generate approximately $2.7 million in sales tax revenue. Note that these calculations do not assume any retail price markup by licensees on the wholesale sale. The revenue estimate, therefore, is low.

Revenue Estimate from a County Tax on the Retail Sale of Alcoholic Beverages

FY14 DLC Sales Revenue	Sales Tax Rate	Total Tax Revenue	Additional Revenue to County
$266.7 million	9%	$24.0 million	--
	10% (9% MD, 1% County)	$26.7 million	$2.7 million
	12% (9% MD, 3% County)	$32.0 million	$8.0 million
	14% (9% MD, 5% County	$37.3 million	$13.3 million

Chapter 11. Agency Comments

The Office of Legislative Oversight circulated a final draft of this report to the Chief Administrative Officer for Montgomery County. OLO appreciates the time taken by County Government representatives to review the draft report and provide comments. OLO's final report incorporates technical corrections provided by County staff.

The written comments received from the Chief Administrative Officer are attached in their entirety, beginning on the following page.

OFFICE OF THE COUNTY EXECUTIVE

Isiah Leggett
County Executive

Timothy L. Firestine
Chief Administrative Officer

MEMORANDUM

February 4, 2015

TO: Chris Cihlar, Director, Office of Legislative Oversight

FROM: Timothy L. Firestine, Chief Administrative Officer Timothy L. Firestine

SUBJECT: OLO Draft Report 2015-6: Review of Alcohol Control in Montgomery County

Thank you for providing a copy of the Office of Legislative Oversight's (OLO's) Draft Report 2015-6, Review of Alcohol Control in Montgomery County. The report recommends options to privatize the sale of alcohol in Montgomery County. However, in our opinion, local liquor control has served Montgomery County well. The Department of Liquor Control (DLC) contributes an average of $30 million in annual profit to the County – helping us to fund schools, transportation, help for the vulnerable in our midst, and more. It helps to keep taxes lower. We have lower alcohol consumption and higher revenue for public purposes than other jurisdictions. There are not liquor stores on every corner. Our system makes it harder for underage individuals to purchase alcohol and provides more education for the public and for servers as well. It protects the public health. DLC continues to work hard to improve its operations and to provide better service and better products. There are a number of other efficiencies that we will be capturing through the implementation of the ERP system that will improve service at both the retail and wholesale levels

We agree with the report's recommended Option #5, "Increase efficiency within current structure," which is consistent with the recommendations found in The PFM Group's Strategic Plan Report, the County "Nighttime Economy Task Force Report," and the County Council's own Organizational Reform Commission. Additionally, one option that is unstated in the OLO report – but worth exploring – is the possibility of leasing rather than buying DLC delivery trucks and, indeed, contracting out DLC's delivery operation to the private sector. However, we have concerns with some of the information and methodology in the draft report.

1. **The report does not acknowledge that the overwhelming body of evidence supports the positive public health and safety benefits of public control of alcohol.** The widely-accepted public health and safety advantages of local Liquor Control are supported by the extensive public health body of evidence consistently developed over a long period of time. This body of evidence is primarily scientifically-based, peer-reviewed, published studies

from a wide variety of sources, presented in respected journals and venues, which have become accepted and established sources of public policy information.

While the OLO does cite in Chapter 3 of the report (beginning on page 10) a few recognized reports and studies on the subject, it also cites studies commissioned by the Commonwealth Foundation of Pennsylvania disputing the overwhelming body of evidence. The Commonwealth Foundation is a conservative, free-market political advocacy group. It is not primarily an alcohol research group, and has generated no known studies of the subject on its own.

While the Commonwealth Foundation certainly represents one point of view on the deregulation debate, it hardly provides an equal counter weight to the established science. It seems that giving undue influence to the non-science based minority viewpoint also leads to the report's "Finding #3," found on page 73, which we believe to be misleading.

2. **The report contains inaccurate information on DLC pricing.** On page 20 of the report, a clarification regarding DLC pricing is needed. DLC pricing does not incorporate any sales tax in the price of products. Excise taxes are included in the wholesale price of products in Montgomery County, just as they are with every other wholesale distributor. Also, page 58 states "DLC does not offer volume discounts to licensees." In fact, DLC routinely does offer these discounts to all licensees.

3. **The survey results described in Chapter 6 of the report, beginning on page 42, are questionable.** The feedback for this report is based upon interviews and survey responses with a selected group of Montgomery County licensees. However, only 12 licensees were interviewed. Well less than half of the nearly 1,000 licensees were sent the survey, and only 96 out of the nearly 1,000 responded. Indeed, page 42 states that even "...OLO does not consider the response rate to be high enough to draw statistically valid conclusions." The information presented in this section is, therefore, strictly anecdotal. The identity and location of each Montgomery County licensee is known. More representative feedback from the business community could have been captured and presented for this report.

4. **The report does not include the discussion, debate, and recent decisions by our neighboring states of Pennsylvania and Virginia to reject privatization.**

5. **The pricing comparison section of the report, beginning on page 55, does not compare wholesale prices under the current system or potential future systems on an "apples to apples" basis, despite readily available access to such information.** The wholesale price of each product sold to licensees by DLC is documented and published. Each Montgomery County licensee pays the exact same price for each identical item sold at wholesale. Each of

those products is also currently represented and distributed by a licensed Maryland wholesaler. Those prices are also readily available from each wholesaler. Therefore, the comparison data that would be most useful for this report (and the anticipated discussion it will generate), would be a detailed side-by-side display of wholesale prices from DLC and the private Maryland wholesalers for the same items. Such a comparison would show where comparable prices are lower, higher, or about the same.

Instead, OLO researched the retail prices of similar products offered by licensed establishments in various jurisdictions. Listed menu or retail shelf prices for similar products introduces a wide array of potential additional variables that are not the subject of this report (rents, taxes, non-product overhead costs, market forces, business models, etc.). The retail prices charged to the consumer by licensees does not directly reflect the wholesale cost of products. Indeed, five Montgomery County businesses could very likely charge five different prices on the same day for the exact same item, yet we know each of those businesses paid the exact same price at wholesale for those identical items.

6. **The report contains invalid assumptions about County per capita alcohol consumption.** On page 61, the report cites higher per capita consumption in Howard, Frederick, and Prince George's counties as evidence that County businesses lose alcohol beverage sales to stores in neighboring jurisdictions. Yet there is no evidence presented by OLO to support this assumption. Possible demographic and venue location differences with these jurisdictions are not addressed. Fairfax County per capita consumption of distilled liquor is even lower than that of Montgomery County.

7. **To operate outside of the current DLC structure and authority could have the immediate as well as long-term effect of raising product cost.** The first four options that OLO advances to "make up" for the $30 million in revenue lost for the County, in part or whole, involve increasing fees and costs to County licensees and/or imposing (requiring State approval) a County liquor "piggyback" tax. Though all would raise product costs in the County, no mention is made that this might reduce the competitiveness of Montgomery County in comparison to other jurisdictions.

8. **The potential impact of each of the five options presented at the end of the report will have to be explored and developed in detail.** Legal, legislative, regulated trade practice provisions, operational, and logistical elements will all have to be researched in detail to provide a realistic forecast of any structural business changes. Of critical importance is ensuring that any analysis of Options 1 through 4, which involve privatization in whole or part, involves a thorough and complete analysis of the complex legal and tax considerations involving the outstanding revenue bonds, and the private use restriction on the warehouse built with the bonds. That analysis should integrally involve the County's bond counsel, to ensure the specific provisions of this revenue bond structure are considered. There is also

approximately $1.6 million of short-term debt outstanding that was used to pay for certain DLC equipment and systems. The legal and tax implications of that debt would need to be considered under Options 1 through 4 which involve the sale of all or part of the fleet.

Particularly in need of expert analysis are the "Estimated Fiscal Impact" sections associated with the various option scenarios. The potential financial benefit to be captured by the sale of the existing delivery fleet, for instance, appears to be questionable. The report cites the value of the fleet from the County's annual financial statements; however, those reported values are depreciated values required for financial reporting, and may bear no reasonable relationship to the estimated market value of the fleet that could be generated upon sale. As noted above, the report also does not reference the fact that equipment notes are outstanding, which may affect the fiscal impact cited. Also, under Option 1, all administrative costs are assumed to be eliminated; however the report does not address whether the administrative support functions currently provided to the Licensing, Regulation, and Enforcement Division would be absorbed at no cost by another County department, or if additional support costs could be required. We believe that input or analysis from private sector experts would be valuable to this discussion.

The Maryland wholesalers, who would automatically assume operational control of the Montgomery County market under several of the proposed options, are currently operating in other parts of the State under existing state law, and are regulated by the Office of the Comptroller of Maryland. Their wholesale prices are published, and their sales and delivery practices are well-known and experienced by Maryland licensees every day. Similarly, the role and business practices of product suppliers are well established in the Maryland marketplace. These private sector entities and other interested parties could have been included in the development of this OLO study, and should be invited to provide input to the County Council Ad Hoc Committee.

We stand ready to assist OLO and the Council's Ad Hoc Committee on Liquor and look forward to providing more detailed information and analysis as needed. Thank you for the opportunity to review the draft report and present our comments.

TLF:gg

cc: Joseph Beach, Director, Department of Finance
George Griffin, Director, Department of Liquor Control
Jennifer Hughes, Director, Office of Management and Budget
Fariba Kassiri, Assistant Chief Administrative Officer
Patrick Lacefield, Public Information Officer

Appendix

OLO Report 2015-6

Office of Legislative Oversight Survey of Montgomery County Liquor License Holders

Welcome to OLO's Survey

Thank you for taking the time to complete this online survey.

This survey is intended to gather information from liquor license holders in Montgomery County related to your experiences and satisfaction with the County's Department of Liquor Control and the overall structure of alcohol distribution in the County. Your feedback on these issues is very important.

This research survey is administered by the Montgomery County Council's Office of Legislative Oversight (OLO), as part of a broader study OLO is conducting on the operations and services of the Department of Liquor Control. Your answers to this survey are completely confidential and no survey response will be tied to individual respondents or email addresses. The Department of Liquor Control and Board of License Commissioners are not involved in the administration of this survey, and will not have access to individual survey responses.

Depending on your experience, the survey should take approximately 15 minutes to complete. Please complete the survey no later than November 19, 2014.

Introductory Questions

Please answer the following questions to the best of your ability:

1. What zip code(s) is your business located within? (include all that apply)

***2. What type of liquor license(s) do you have? (check all that apply)**

- ☐ Class A - All Types
- ☐ Class B - Beer and Wine only
- ☐ Class B - Beer, Wine and Liquor
- ☐ Class D - All Types
- ☐ Class H - All Types
- ☐ Unsure or Other

3. How many liquor license(s) do you or your businesses have in Montgomery County?

4. Approximately how many years have you held a liquor license in Montgomery County?

5. What is the approximate dollar value of your business' annual alcohol sales?

- Less than $3,500
- $3,501 to $10,000
- $10,001 to $25,000
- $25,001 to $100,000
- $100,001 to $250,000
- $250,001 or higher

General Satisfaction with the Department of Liquor Control (DLC) as a Whole...

6. Please answer the following questions:

	Very dissatisfied	Dissatisfied	Neutral	Satisfied	Very satisfied	Not applicable
Overall, how satisfied are you with DLC's performance as the sole wholesaler of alcoholic beverages in Montgomery County?						
How satisfied are you with DLC's wholesale operations for beer?						
How satisfied are you with DLC's wholesale operations for wine?						
How satisfied are you with DLC's wholesale operations for spirits?						

Department of Liquor Control (DLC) Product Ordering and Delivery

7. Please provide your opinion on the following statements:

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Not applicable
DLC's ordering process for "stock" beer/wine/spirits works well for my business.	○	○	○	○	○	○
DLC's ordering process for "special order" beer/wine/spirits works well for my business.	○	○	○	○	○	○
The time it takes DLC to deliver "stock" beer/wine/spirits after I place an order is reasonable.	○	○	○	○	○	○
The time it takes DLC to deliver "special order" beer/wine/spirits after I place an order is reasonable.	○	○	○	○	○	○
I typically know ahead of time the type and quantity of products that I will receive in a scheduled DLC delivery.	○	○	○	○	○	○
DLC typically informs me when a "special order" product has arrived and is scheduled for delivery.	○	○	○	○	○	○
DLC's payment policy of "cash on delivery" works well for my business.	○	○	○	○	○	○
My beer orders are typically delivered correctly, without mistakes.	○	○	○	○	○	○
My wine/spirits orders are typically delivered correctly, without mistakes.	○	○	○	○	○	○
DLC's process for resolving mistakes or problems in orders or deliveries is efficient.	○	○	○	○	○	○

8. Do you have any suggested changes to improve DLC's product ordering or product delivery system?

Supply/Availability of Alcohol from the Department of Liquor Control (DLC)

9. In general, how satisfied are you with the availability and selection of alcohol products from the Department of Liquor Control?

Very dissatisfied	Dissatisfied	Neutral	Satisfied	Very satisfied	Not applicable
○	○	○	○	○	○

10. Please provide your opinion on the following statements:

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Not applicable
DLC's selection of "stock" beer/wine/spirits is adequate for my business needs.	○	○	○	○	○	○
DLC typically does not run out of "stock" beer/wine/spirits that I routinely order.	○	○	○	○	○	○
The availability of "special order" beer/wine/spirits through DLC is adequate for my business needs.	○	○	○	○	○	○
I routinely have private sales representatives place "special orders" with DLC on my behalf.	○	○	○	○	○	○

Supply/Availability of Alcohol from the Department of Liquor Control (DLC)

Please answer the following questions to the best of your ability:

11. What percentage of your typical beer inventory is "special order" products?

- ○ 0 - 25%
- ○ 26 - 50%
- ○ 51 - 75%
- ○ 76 - 100%

12. What percentage of your typical wine inventory is "special order" products?

- 0 - 25%
- 26 - 50%
- 51 - 75%
- 76 - 100%

13. What percentage of your typical spirits inventory is "special order" products?

- 0 - 25%
- 26 - 50%
- 51 - 75%
- 76 - 100%

14. Do you have any suggested changes to improve the supply and availability of alcohol products in Montgomery County?

Wholesale Pricing of Alcohol

15. Please provide your opinion on the following statements:

	Very low	Low	Reasonable	High	Very high	Not applicable
On average, DLC's wholesale pricing for "stock" beer is…	○	○	○	○	○	○
On average, DLC's wholesale pricing for "special order" beer is…	○	○	○	○	○	○
On average, DLC's wholesale pricing for "stock" wine is…	○	○	○	○	○	○
On average, DLC's wholesale pricing for "special order" wine is…	○	○	○	○	○	○
On average, DLC's wholesale pricing for "stock" spirits is…	○	○	○	○	○	○
On average, DLC's wholesale pricing for "special order" spirits is…	○	○	○	○	○	○

16. Please provide your opinion on the following statements:

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Not applicable
DLC's pricing policy of a fixed percent wholesale markup for "special order" beer/wine/spirits is reasonable.	○	○	○	○	○	○
The wholesale price of DLC products is comparable to the wholesale price I would pay if purchasing from a private distributor.	○	○	○	○	○	○
The system where all licensees pay the same wholesale price for the same product produces a fair business system.	○	○	○	○	○	○

17. Do you have any suggested changes to improve DLC's wholesale pricing?

Department of Liquor Control (DLC) Communications and Information Delivery

18. Please answer the following questions:

	Very dissatisfied	Dissatisfied	Neutral	Satisfied	Very satisfied	Not applicable
In general, how satisfied are you with the overall communication DLC provides to licensees?	○	○	○	○	○	○
In general, how satisfied are you with DLC's customer service?	○	○	○	○	○	○

19. Please provide your opinion on the following statements:

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Not applicable
DLC adequately informs licensees about changes to the availability of "stock" beer/wine/spirits.	○	○	○	○	○	○
DLC adequately informs licensees about changes to the availability of "special order" beer/wine/spirits.	○	○	○	○	○	○
DLC adequately informs licensees about pricing changes.	○	○	○	○	○	○
DLC has provided adequate information about the upcoming changes to its product ordering system.	○	○	○	○	○	○

20. Do you have any suggested changes to improve DLC's communications, information delivery, and/or customer service?

Licensed in Other Jurisdictions

***21. Do you (or your business, partnership, corporation, etc.) have one or more liquor license(s) in a jurisdiction outside of Montgomery County?**

○ Yes

○ No

Licensed in Other Jurisdictions

22. If yes, what jurisdiction(s)?

Licensed in Other Jurisdictions

23. Compared to my business(es) in other jurisdiction(s), the convenience and ease of ordering beer/wine/spirits in Montgomery County is...

Much more difficult	More difficult	Similar	Easier	Much easier	Not applicable
○	○	○	○	○	○

24. Compared to my business(es) in other jurisdiction(s), the availability and selection of beer/wine/spirits in Montgomery County is...

Much worse	Worse	Similar	Better	Much better	Not applicable
○	○	○	○	○	○

25. Compared to my business(es) in other jurisdiction(s), the timeframe for beer/wine/spirits product delivery in Montgomery County is...

Much slower	Slower	Similar	Faster	Much faster	Not applicable
○	○	○	○	○	○

26. Please provide your opinion on the following statements:

	Much lower	Lower	Similar	Higher	Much higher	Not applicable
Compared to the prices I pay in other jurisdiction(s), DLC's wholesale pricing for beer is…	○	○	○	○	○	○
Compared to the prices I pay in other jurisdiction(s), DLC's wholesale pricing for wine is…	○	○	○	○	○	○
Compared to the prices I pay in other jurisdiction(s), DLC's wholesale pricing for spirits is…	○	○	○	○	○	○

Office of Legislative Oversight Survey of Montgomery County Liquor License Holders

Changes to Legal Structure

27. Please indicate whether you would favor or oppose changes to State of Maryland and/or Montgomery County laws or policies that would:

	Strongly oppose	Oppose	Neutral	Favor	Strongly favor	Not applicable
Allow private distributors to engage in the wholesale of beer, wine, and spirits in Montgomery County.	○	○	○	○	○	○
Allow private distributors to engage in the wholesale of beer and wine (but not spirits) in Montgomery County.	○	○	○	○	○	○
Allow off-premise, beer/wine store licensees to also sell spirits in Montgomery County.	○	○	○	○	○	○
Allow licensees in Montgomery County to purchase "special order" beer and wine directly from private distributors.	○	○	○	○	○	○
Allow individuals and/or businesses to hold more than one off-premise, beer/wine store license in Montgomery County.	○	○	○	○	○	○
Allow large chain stores to sell beer/wine in Montgomery County.	○	○	○	○	○	○
Allow grocery stores to sell beer/wine in Montgomery County.	○	○	○	○	○	○

28. Do you have any other suggested changes to State and/or County law or policy to improve the system of alcohol control and distribution in Montgomery County?

End of Survey

M E M O R A N D U M

June 10, 2015

TO: Ad Hoc Committee on Liquor Control

FROM: Craig Howard, Senior Legislative Analyst
Leslie Rubin, Senior Legislative Analyst
Office of Legislative Oversight

SUBJECT: **Follow-up to OLO Report 2015-6: Further Analysis of Option 4 – Private Wholesale Distribution of Special Order Beer and Wine**

OLO Report 2015-6, *Review of Alcohol Control in Montgomery County*, provided the Council's Ad Hoc Committee on Liquor Control with a continuum of five options for changes to the County's alcohol control structure. At its May 8 worksession, the Committee requested that OLO provide additional information on "Option 4" – allowing private wholesale distribution of special order beer and wine while maintaining County control of the wholesale for stock beer and wine products and the wholesale and retail for all liquor products.

Specifically, the Committee requested an analysis of potential implementation methods and issues if the Council were to endorse this structural change. This memorandum uses information originally published as part of OLO Report 2015-6 as well as additional or updated information provided by the Department of Liquor Control (DLC) or other stakeholders since the report's release. It is organized as follows:

- **Section A** defines special order and stock items within DLC's system, and provides the most recent inventory, sales, and cost/pricing data for special order products;
- **Section B** summarizes the problems and issues identified by licensees related to DLC's current operations and structure for special order products and summarizes feedback from licensees and Maryland wholesalers/distributors related to Option 4;
- **Section C** analyzes two different implementation methods – completely deregulating the special order market ("Open Distribution" method) or allowing private wholesale delivery of special orders ("Drop Ship" method);
- **Section D** analyzes alternatives to replace DLC revenue that may be lost if private wholesalers were able to distribute special order products.

A. DLC Special Order Products – Definition and Data

All DLC beer, wine, and liquor inventory items are categorized as stock or special order. Stock items "are carried at all times and ordered by DLC on a recurring basis to ensure an appropriate volume is available on hand to fulfill projected retail demand."[1] Stock products are DLC's most commonly-purchased items and typically are available in DLC's warehouse for delivery on a licensee's next scheduled delivery day. Special order items are not regularly carried as inventory in DLC's warehouse, but instead are purchased by DLC in response to a specific order from a licensee (or a customer at a DLC retail store). Some stock and special order products, however, are only offered seasonally or in limited quantities by the manufacturer.

DLC has a Product Selection Committee that meets once a month to determine whether products should be carried as stock or special order. The Committee consists of the Chief of Administration, Chief of Operations, one representative from retail store operations, and two representative from the purchasing section. The Committee can decide to make a special order item a stock item, and can also return a product to special order status if it is not selling fast enough as a stock item.

Number of Special Order and Stock Products. As of March 3, 2015, DLC's product list includes 27,491 different beer and wine items available for purchase, with 23,709 (86%) categorized as special order (and potentially impacted by Option 4). As shown in Table 1, around 90% of wine products, 65% of beer products sold in cases (i.e., bottles and cans), and 73% of beer kegs are listed as special order.

Table 1. Stock and Special Order Beer and Wine Products Listed for Sale by DLC

Product Type	Total Products	Stock	Special Order
Wine	22,481	2,165 (10%)	20,316 (90%)
Beer – Cases	3,398	1,181 (35%)	2,217 (65%)
Beer – Kegs	1,612	436 (27%)	1,176 (73%)
Total	**27,491**	**3,782 (14%)**	**23,709 (86%)**

Source: DLC

Special Order Wholesale Sales, Markups, and Profit. In FY14, special order wine, beer, and liquor products accounted for $28.2 million (21%) of DLC's total wholesale sales revenue and 308,327 (7%) of the total cases of alcohol sold by DLC to licensees. Table 2 shows the sales value and quantity separately for wine, beer cases, and beer kegs. Of note, special orders represents nearly one-half of DLC wholesale revenue from wine products and 38% of the wine cases sold.

[1] Montgomery County Department of Liquor Control Inventory Management, prepared by Watkins Meegan LLC for the Montgomery County Office of Internal Audit, July 9, 2014. p. 41.

Table 2. Value and Quantity of FY14 DLC Wholesale Beer and Wine Sales – Stock and Special Order

Wholesale Sales	Stock Products		Special Order Products	
	Total Sales	# of Cases Sold	Total Sales	# of Cases Sold
Wine	$26.8 million	384,239	$23.9 million	234,114
Beer – Cases	$67.1 million	3.4 million	$2.8 million	62,684
Beer – Kegs	$8.2 million	84,234*	$782,575	5,636*

*Beer keg quantities refer to the number of kegs sold.
Source: DLC

DLC applies standardized wholesale markups for special order products – 35% for beer cases, 43% or 45% for beer kegs, and 25% (if <$18 per bottle) or 15% (if $18+ per bottle) for wine cases. The markup is applied to each product based on DLC's purchase price, and does not change whether DLC purchased the product from a manufacturer/supplier or from another wholesaler/distributor.

DLC purchases the products it sells from more than 300 sources – alcoholic beverage producers, wholesalers, and retailers. DLC pays the least amount for products purchased directly from producers because those items do not include any wholesale and/or retail markup. Purchasing items from wholesalers or retailers raises prices for DLC (and for subsequent purchasers) because those middlemen incorporate their own mark-up that DLC must pay.

OLO's analysis of DLC vendor data shows that approximately 81% of all special order products (including liquor) are purchased from other wholesalers or retailers while 15% are purchased directly from producers. In comparison, only 18% of stock products are purchased from other wholesalers/retailers.[2] As a result, many of DLC's special order products have two wholesale markups incorporated into the overall cost of those products (sometime described to as creating a "fourth tier" in the typical three-tier alcohol distribution system).

B. Issues with Special Orders and Stakeholder Feedback on Option 4

Special orders were a frequent topic of frustration, concern, and complaint from licensees in OLO's surveys and interviews and from the licensees, distributors and manufacturers who participated in the Ad Hoc Committee's March 20 worksession. This section briefly summarizes the problems identified with special orders and reviews the written comments the Committee has received from stakeholders specifically related to Option 4.

1. Summary of Stakeholder Concerns with DLC Special Orders

Insufficient availability of special order products. Approximately 60% of respondents in both of OLO's surveys indicated that the availability of special order products through DLC is inadequate for their business needs. Multiple individuals expressed concerns to the Committee about how DLC handles and stores specialty beer and wine products – and reported that some specialty product producers decline to sell their product in the County based on these concerns.

[2] OLO Report 2015-6, pg. 56.

Slow and unreliable timing and delivery of special orders. Approximately 65% of respondents in both of OLO's surveys indicated that the time is takes DLC to deliver special order products is unreasonable. OLO specifically heard from several licensees that they would purchase more special order products if the process for getting those products were quicker. For example, one licensee provided survey feedback stating: "My special orders would be closer to 100% if they didn't take so long to get. I end up having a bad and boring selection of products because the special orders are so inefficient and slow."[3]

Poor ordering process and customer service. Over 60% of respondents in both surveys indicated that DLC's ordering process for special order produces does not work well for their business. When they order special order products, several licensees report that they do not know when they will receive the products, that the products are delivered in the wrong quantities, and the products do not show up when they are expected because they get "lost" at DLC's warehouse. DLC's new Oracle-based iStore ordering system, used for both stock and special order products, was a specific source of frustration for licensees.

Pricing/cost of special orders is too high. In both surveys, over 50% of respondents reported that DLC's wholesale pricing for special order beer and wine products is "high" or "very high." In comparison, respondents were more likely to categorize wholesale pricing for stock products as "reasonable."

2. Written Comments on Option 4 from Stakeholders

In both of OLO's surveys, licensees were asked whether they would favor or oppose various changes to the current structure of liquor control in Maryland and/or Montgomery County. Allowing licensees to purchase special order products directly from private distributors received the most support – 82% of respondents favored that change in the first survey, and 87% of respondents favored that change in the second survey.

In addition to participating in Committee worksessions, several stakeholders submitted written comments to the Committee that specifically addressed Option 4. Included in the table below are:

- Comments received in advance of the Committee's March 20 worksession that were included in the worksession packet (from two licensees and one private wholesaler); and
- Comments sent in after the March 20 worksession (from the County Alcoholic Beverages Advisory Board, one licensee, and four private wholesalers).

The complete text of all the comments summarized in the table are attached beginning at ©1.

[3] OLO Report 2015-6, pg. 47.

Written Comments on Option 4 published in March 20th worksession packet	
Mike Hill ***Adega Wine Cellers and Café***	I like the idea of privatizing special order items, and leaving the stock items to the County. This seems like each side is giving a little, and this would be a win-win for smaller specialty stores like Adega.
Justin McInerny ***Capital Beer and Wine***	In the short-term, I am strongly in favor of Option 4 of the report "Private Wholesale of Special Order Beer/Wine."
Bob Mutschler ***Republic National Distributing Company***	• I'm responding to your request by simply pointing out two areas that directly affect my business in the county and I am not offering any opinions on a direction to go to in the future. • Concerning option #4, private distributors to fill and distribute special orders, would alleviate a major licensee compliant. Assuming that the Maryland Beverage Journal would apply, licensees would have a greater selection of wines, lower prices by eliminating a tier of mark up, quantity deals that might be available and probably credit terms. Special orders are very difficult to manage in the DLC warehouse because when they are received, they have no warehouse location, therefore when pulled to be delivered are difficult to find.
Written Comments on Option 4 received after March 20th worksession	
Rebecca Ramirez, Chair ***Montgomery County Alcoholic Beverages Advisory Board***	From a public health perspective, here are the questions/concerns I have with Option 4: • What mechanisms would be put in place to define what constitutes a special order product? The DLC would need to have oversight of these product lists and the quantities being ordered, so as to preclude almost all beer and wine products from being listed as "special orders." • How will potentially dangerous new products be prevented from being included on a product order list by distributor? In the past, DLC has had the authority to choose not to list products (e.g., Four Loko, jello shots, etc.) that can either be potentially attractive to youth or have dangerous serving sizes or other concerns. • Will the DLC (and by extension the Board of License Commissioners) have the regulatory authority to license, enforce, and if necessary, adjudicate violations by distributors should there be undue influence by private distributors on retailers that prevents a fair, yet competitive, market? In summary…I have concerns that Option 4 will eventually result in the complete private distribution of alcoholic beverages in Montgomery County.
Johnna Gilchrist ***Gilly's Craft Beer & Fine Wine***	• My business is 95% special order…our customers come to us for the newest, most limited and exclusive products available. We have to support the core brand all year long in order to be eligible to get these products. If the distributor could deliver the product in a safe, controlled and timely manner, that would be fantastic. As it is now, with the way the timing in the county works we are about 3 weeks behind the rest of the country on limited release items (it's quite embarrassing). I would happily pay a tax or fee to the county if I was sure that my product would be delivered correctly, on time and intact. Option #4 of the OLO sounds perfect. • In closing, the revenue from the DLC each year goes towards some good things in the county. I realize this. I would be in support of option #4 to start. It would be the best scenario, for the group of licensees who seem to really be having the most trouble with the DLC in its current state.

Licensed Beverage Distributors of Maryland, Inc. James Smith Kevin Dunn ***Reliable-Churchill LLP*** Joel Polichene Thomas White ***Republic National Distributing Company***	• Under Option 4, a wholesaler would have to make a special trip to the licensee making a special order. Simple economics makes this impractical and impossible. The expense of diverting a driver and truck to a distant location for the delivery of a special order, which by its nature is a small order such as a case of wine, far exceeds the profit of such a delivery. A wholesaler could not charge a special delivery fee in Montgomery County because it has to charge all Maryland licensees the same price for the product and delivery no matter the location of the licensee. (There is a minimum order requirement for regular customers, but it would not cover the expense of a special order delivery in Montgomery County.) • Having wholesalers make the special order deliveries also would not necessarily eliminate wait time…If there is a lag time in the final step of the process, it could be solved by the licensee picking up the product from the Department or the creation of a special order delivery vehicle at the Department which would make deliveries the day the product arrives at the Department. • Option 4 will not work for a simple reason: wholesalers are not required to make a money losing delivery simply because an order is placed. Wholesalers most likely would not deliver a special order because they would lose money. In short, Option 4 is not the solution to the special order issue in the County.
Matthew Tucker ***The Country Vintner***	• Contrary to assertions made by the Licensed Beverage Distributors of Maryland, Option 4 is economically viable and there would be no extraordinary financial burden associated with making special order deliveries directly to retailers in Montgomery County, just as deliveries are made direct to retailers in the ordinary course in every other locality in the State. • If adopted, Option 4 would be beneficial to Montgomery County because it would remove a labor intensive and burdensome line of distribution from the County and would give TCV direct access to retail licensees, which in turn would provide greater access to a variety of products and increased ability to compete within the regional market. • The ability of wholesalers to make the special order deliveries would make products available to retail licensees and ultimate consumers much more quickly and efficiently since the licensee would not have to wait for the DLC to deliver the special order as part of its regularly-scheduled delivery. • Implementing Option 4 would provide DLC with an increased opportunity to focus on and implement other strategies to help ensure the long-term success of its remaining operations.
Erin Tyler, ***Legends Limited***	• Distributing and storing beer properly is different than distributing wine or spirits. Wine and spirits have a much longer shelf life, does not require cold storage, does not incur a large seasonal or special release packages and does not have the high rate or rotation of tap line in bars or package placements at retail. This presents special issues for the Montgomery County Department of Liquor Control and Legends. Legends has had difficulty in the past with our special order stock going out of code in the DLC's warehouse, abiding to proper credit terms and getting delivery to the retailer in a timely manner. • Under Option 4, wholesalers such as Legends would deliver special orders directly to the licensee. Option 4 could be economically viable. It may be worth the investment by Legends to invest in an additional truck and personnel to make special order deliveries directly to retailers in Montgomery County, just as deliveries are made direct to retailers in the ordinary course in every other locality in the state. This option would allow better control of our products and further guarantee a timely delivery for our customer in the county.

C. Implementing Option 4

This memo describes two potential implementation methods for Option 4:

"Open Distribution" Method	Require or allow private wholesale ordering, processing, and delivery of special order beer and wine products
"Drop Ship" Method	Maintain County ordering and processing while requiring or allowing private wholesale delivery of special order beer and wine products

In addition, as part of its Operational and Business Action Plan, DLC currently is analyzing a third method for solving problems associated with special orders: enhancing internal effectiveness and efficiency within the current structure. DLC plans to provide details on this "Internal Improvement" approach when it updates the Committee on its Action Plan.

This section provides detail on both the open distribution and drop ship methods, identifies various implementation issues/questions associated with each, discusses ways to implement changes, and analyzes the extent to which the methods would address the problems identified with the current special order process for beer and wine.

1. Open Distribution Method

Open distribution would privatize all aspects of the special order beer and wine wholesale distribution process in Montgomery County. Specifically, private Maryland licensed wholesalers would control the sale and distribution of special order beer and wine products – including ordering, processing, billing/payment, delivery, returns, disbursement of excise taxes to the State, etc. – as they do in other Maryland counties.

The County could require wholesalers to participate in open distribution (i.e., private wholesalers would have to distribute special order products for that product to be available in Montgomery County) or could give wholesalers the option to participate (i.e., private wholesalers would choose whether to self-distribute their special order products or whether to continue to provide their products through DLC as the wholesaler). Providing private wholesalers the option to participate in an open distribution system (rather than requiring participation) would provide the most flexibility for wholesalers.

The open distribution method would model the changes made to the State law (effective July 1, 2014) that give certain small breweries and wineries the option to self-distribute products directly to Montgomery County licensees instead of going through DLC. Since that law has gone into effect, some small breweries have chosen to self-distribute, while others have chosen to continue distribution through DLC.

a. Open Distribution – Defining "Special Order”

Allowing private wholesalers to sell and distribute special order items requires criteria for designating products as special order vs. stock. OLO recommends giving DLC the authority to control the designation of items as stock vs. special order, or otherwise creating a specific threshold or standard to designate products. The alternative – giving private wholesalers control of the designation – could result in a de facto deregulation of the entire system if wholesalers designated all of their products as special order.

The Committee could endorse one of several approaches to designating items as stock vs. special order, such as:

- Giving DLC authority to designate items as stock or special order once or twice a year, with the option to change items from one designation to the other at that time (and designating new items as stock or special order when they are listed for sale).
- Basing the designation of stock or special order on the amount of a product sold in the County (either by volume or number of cases/kegs sold) – products that exceed a threshold of cases or volume sold the prior year would be designated as stock items and products below the threshold would be special order.
- Freezing DLC’s stock order list as it currently exists, and listing all other items as special order (including all new items added in the future).

OLO recommends the first approach, giving DLC authority to periodically determine whether items are stock or special order. Internally, DLC should establish clear criteria and standards for designating items as stock or special order. If DLC designates an item as stock, it should be expected that the item is typically available for a licensee’s next scheduled delivery when ordered except in unusual or extraordinary circumstances. Additionally, DLC should establish performance criteria for delivery of stock items. If DLC cannot meet those criteria, the item should then be moved to special order status.

Private wholesalers may express concern that, over time, DLC could re-classify popular and profitable special order products as stock items. DLC, however, always will be limited in making such changes by the capacity of its warehouse. Additionally, as detailed in OLO’s report, DLC staff report that when they have moved high-demand special order items to stock status in the past, sales often slowed considerably and DLC re-designated the products as special order.[4] To address this in a clear and transparent manner, the Council could require that DLC develop specific criteria that would have to be met before a special order product could be switched to stock.

Under this model, DLC would also maintain its current process for approving a product for sale in Montgomery County and thus retain the ability to prevent dangerous products from being sold.

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[4] OLO Report 2015-6, pg. 19.

b. Open Distribution – What if a supplier refuses to sell a product in Montgomery County unless it is special order?

Keeping the stock or special order distinction under the control of DLC would address any issue of a supplier refusing to sell a product in Montgomery County unless the product was designated as special order. If a company did not agree with DLC's categorization of their product as stock or special order, they could choose not to sell their product in Montgomery County – just as they can do under the existing structure.

Currently, an alcohol supplier or producer can decide not to sell their product via the DLC in Montgomery County (forgoing any sales revenue for the product) even if they distribute through private wholesalers in other areas of Maryland. Some speakers at the Committee's March 20 worksession, as well as some stakeholders that have submitted written correspondence, indicated that in their experience some producers do not sell their products in Montgomery County because of the County's distribution structure and practices.

Under Option 4, many suppliers may want a product categorized as special order so they can use their existing private wholesalers for distribution instead of the DLC. It is unlikely, however, that a company currently selling stock products to DLC (and presumably making a profit) would choose to remove itself from the Montgomery County market entirely (and forgo its current profit) if DLC refused to change a product categorization to special order.

c. Open Distribution – Economic Viability for Private Wholesalers

Whether an open distribution system for special order beer and wine would be economically viable for private wholesalers is a question for individual wholesalers. Accordingly, OLO suggests that participation in an open distribution system be optional for wholesalers, allowing each wholesaler to determine whether it makes sense for their business to distribute special order products to retail licensees or to continue to sell products directly to DLC. The intent behind an open distribution model is not to force any private wholesaler to participate in a potentially unprofitable system.

If participation in an open distribution system is optional for private wholesalers, OLO recommends requiring a private wholesaler to declare – via a distribution permit or some other formal mechanism – if it will distribute special order products directly to Montgomery County licensees. If it chooses to do so, the private wholesaler would be responsible for all aspects of distributing special order products it is licensed to sell in the State of Maryland. Additionally, a wholesaler would have to charge Montgomery County licensees the same price as it charges in the rest of the state for each product. Any stock products or liquor products purchased from that same wholesaler would still be distributed through DLC.

Alternatively, the County could allow retail licensees to choose whether to order a special order product through DLC or the private wholesaler. While providing greater flexibility for the licensee, OLO believes this approach would have a greater potential for confusion and mistakes (as well as more work from a coordination, logistical, and record-keeping perspective) if two different wholesalers (DLC and a private company) had the authority to distribute the same product in the County.

Many private Maryland wholesalers have minimum order requirements, requiring purchasers to order a minimum dollar amount (e.g., $150) or a minimum number of cases (e.g., 3 cases or more) in any given order – presumably to ensure that an order is economically beneficial to the wholesaler. OLO recommends ensuring that private wholesalers retain the ability to set and/or maintain minimum order requirements for orders by Montgomery County licensees should the County institute an open distribution system for special order beer and wine.

As noted previously on page 6, the Ad Hoc Committee has received formal correspondence from four private distributors that comment on the potential economic viability of Option 4. Two of the distributors, The Country Vintner and Legends Limited, indicated that it would be economically viable; while the other two other distributors, Reliable Churchill and Republic National Distributing Company (writing jointly as the Licensed Beverage Distributors of Maryland, Inc.) indicated that it would not.

d. <u>Open Distribution – Implementation Schedule</u>

The open distribution method would require changes to state law. The earliest a potential bill could be introduced in the General Assembly would be the next legislative session beginning January 2016. If a bill were passed by the General Assembly and signed by the Governor in the next session, the earliest it could take effect would likely be FY17.

e. <u>Open Distribution – Addressing Concerns Identified with Special Orders</u>

As evidenced by OLO's surveys as well as feedback provided at Ad Hoc Committee worksessions, there is strong support for Option 4 among licensees. The open distribution method could address the concerns about special orders detailed on pages 3-4 as follows:

Product Availability. Beer and wine manufacturers that currently do not sell their products in Montgomery County because of concerns about DLC would be more likely to distribute their product in the County via private wholesalers that sell their products throughout the rest of the State and/or region.

Timing and Delivery. Wholesalers could deliver products directly to licensees without the product having to go first to DLC and then wait until DLC's next scheduled delivery date for that licensee. Eliminating this extra step would get special order products to licensees more quickly.

Ordering and Customer Service. Private wholesalers employ sales representatives who are familiar with the products they sell and, presumably, could provide a higher level of service to Montgomery County licensees as they have a stronger incentive than DLC to maintain or increase sales of their particular products. Additionally, licensees could order special order products directly through private wholesalers instead of through DLC's iStore system.

Price and Cost. An open distribution system should reduce the price of products for licensees for most or all special order products DLC currently purchases from another wholesaler. Purchasing directly from a private wholesaler would eliminate DLC's markup (ranging from 15% to 45% depending on the product).

f. Open Distribution – Impact on County Jobs

In Report 2015-6, OLO estimated that implementing Option 4 could lead to a reduction of up to 15 positions in DLC. This estimate assumed all special order beer and wine products would be distributed privately. If the County implemented an optional open distribution system for special order beer and wine, the actual impact on DLC positions would likely be smaller depending on the level of private wholesaler participation. It is likely that any position reductions resulting from implementation of Option 4 could occur via natural attrition. Additionally, DLC intends to open three new stores in the near future, adding approximately 22 retail positions. These added positions would more than offset any positions eliminated due to implementation of Option 4.

2. Drop Ship Method

The drop ship method would require or allow private wholesalers to deliver special order beer and wine products directly to licensees in Montgomery County, while DLC maintains responsibility for all ordering, processing, and billing/payment functions. Once DLC received and processed a special order, a private wholesaler could then deliver the product directly to a licensee's place of business.

Similar to open distribution, the County could require private wholesalers to participate in a drop ship system (i.e., private wholesalers would be required to deliver all special order products directly to licensees) or could give private wholesalers an option to participate (i.e., private wholesalers could choose whether to deliver special orders directly to licensees or continue to deliver them through DLC).

Because different wholesalers may have different views on the economic benefit of Option 4 to their specific business model, the more reasonable and flexible approach is to make this provision optional to wholesalers – giving them the opportunity to decide for themselves whether delivering special order products makes sense for their businesses. DLC likely would substantially reduce (but still charge) its markup on special order products delivered via drop ship because DLC delivery costs would be reduced.

DLC currently is seeking feedback from the State Comptroller's Office on the legality of the drop ship method under current state law. At issue is the "come to rest" provision of State law, which requires that "[b]efore any sale and delivery to a retail licensee, any alcoholic beverages acquired by a wholesaler from any source shall first come to rest on the licensed premises of the wholesaler."[5] If the Comptroller's Office determines that the drop ship method is not legal under current law, implementing a drop ship system would also require changes to State law.

a. Drop Ship – Defining "Special Order"

Under the drop ship method, DLC would maintain its current process and structure for categorizing products as stock or special order, as well as approving products for sale. The only change would be that private wholesalers could deliver special order products directly to a licensee instead of to DLC's warehouse.

[5] Md. Code, Article 2B, §2–301F(2)

b. Drop Ship – What if a supplier refuses to sell a product in Montgomery County unless it is special order?

As with the open distribution method, keeping the stock or special order distinction under the control of DLC would address any issue of a supplier refusing to sell a product in Montgomery County unless the product was designated as special order. If a company did not agree with DLC's categorization of their product as stock or special order, they could choose not to sell their product in Montgomery County – just as they can do under the existing structure. OLO believes it is unlikely that suppliers would remove products currently for sale in Montgomery County as stock items (and thus give up current profits) merely to control the means of delivery.

c. Drop Ship – Economic Viability for Private Wholesalers

As with open distribution, whether a drop ship system for special order beer and wine would be economically viable for private wholesalers is a question for those businesses. Accordingly, OLO suggests that participation in a drop ship system be optional for wholesalers because the intent behind this potential change is not to force a private wholesaler to participate in a system that a wholesaler may consider unprofitable.

As with open distribution, DLC could require a private wholesaler to declare – via a delivery permit or some other formal mechanism – if it will deliver special order products directly to Montgomery County licensees. If it chooses to do so, the private wholesaler would be responsible for all aspects of delivering products once an order is received from DLC. Any stock products or liquor products from that same wholesaler would still be distributed through DLC.

The formal correspondence from distributors (summarized on pages 5-6) did not directly address the drop ship method as compared to the open distribution method as this idea was presented after publication of OLO Report 2015-6.

A drop ship system raises a somewhat different question of economic viability than the open distribution method. Specifically, whether allowing private wholesalers to deliver special order products without also allowing them to manage the other parts of the distribution process would provide enough benefits to be worthwhile (i.e., profitable) for the wholesaler. Private wholesalers would likely accrue additional costs to make deliveries and would need to increase prices or increase sales volume to achieve commensurate economic benefits.

Because private wholesalers are set up to manage the entire distribution process as opposed to just the delivery process, it is not clear whether the drop ship method would provide enough economic efficiencies over the current structure for private wholesalers to participate.

d. Drop Ship – Implementation Schedule

One advantage to the drop ship method is that it potentially could be implemented in FY16 if the State Comptroller determines it does not require a change in State law. If not, the implementation schedule would mirror that of the open distribution method – the earliest a State law change could be introduced would be January 2016 and the earliest implementation would likely be in FY17.

e. Drop Ship – Addressing Concerns Identified with Special Orders

As evidenced by OLO's surveys and feedback provided at Committee worksessions, there is strong support for Option 4 among licensees. The drop ship method would address many of the identified special order issues, but in some cases to a lesser extent than the open distribution method.

Product Availability. Beer and wine manufactures that currently do not make their product available in Montgomery County because they do not believe DLC would handle their product in their preferred manner would be more likely to distribute their product via private wholesalers who also handle their product throughout the rest of the State. However, private wholesalers may be less likely to participate under the drop ship method because they would control only delivery.

Timing and Delivery. Wholesalers could deliver products directly to licensees without the product having to go first to DLC and then wait until DLC's next scheduled delivery date for that licensee. Eliminating this extra step would get special order products to the licensees more quickly.

Ordering and Customer Service. Private wholesalers employ sales representatives who are familiar with the products they sell and, presumably, could provide a higher level of service to Montgomery County licensees because they have a stronger incentive than DLC to maintain or increase sales of their particular products. However, licensees would still have to use DLC's Oracle system to order special order products. Additionally, the drop ship could create new customer service issues or confusion by separating the billing and payment functions from the delivery and return functions.

Price and Cost. Retail licensees' wholesale costs for special order wine and beer would likely decrease if DLC lowered its markup for special order products delivered by private wholesalers under the drop ship method.

f. Drop Ship – Impact on County Jobs

In Report 2015-6, OLO estimated that implementing Option 4 could lead to a reduction of up to 15 positions in DLC. This estimate assumed all special order beer and wine products would be distributed privately. Under the drop ship method the actual impact on DLC positions would likely be smaller depending on the level of private wholesaler participation. It is likely that any position reductions resulting from implementation of Option 4 could occur via natural attrition. Additionally, DLC intends to open three new stores in the near future, adding approximately 22 retail positions. These added positions would more than offset any positions eliminated due to implementation of Option 4.

D. Alternative Revenue Generation

Allowing the private wholesale distribution of special order beer and wine would reduce County profit from the sale of these products. This section describes ways to replace some or all of the lost revenue by charging fees to distributors for the ability to sell alcohol directly to retail licensees in Montgomery County. State law prohibits local jurisdictions from taxing the sale of alcoholic beverages, so the methods for revenue generation are fee-based, not tax-based. Each method would require changes to State law to authorize the County to institute the fees.

1. **Annual Gross Profit from Special Order Beer and Wine Sales - $5-$7 million annually**

Between FY12 and FY14, the sale of special order beer and wine generated approximately 20% of DLC's wholesale revenue annually and 10% of DLC's total revenue. As part of the budgetary/fiscal impact for Option 4 included in OLO Report 2015-6, OLO estimated a potential loss of gross profit from DLC special order beer and wine of $5-$7 million per year. OLO developed this estimate using data on FY14 sales and DLC's special order markups, shown in the table below.

Table 3. Estimated Gross Profit from DLC FY14 Wholesales Special Order Beer/Wine Sales

Wholesale Sales	Wine	Beer – Cases	Beer – Kegs	Total
Total Sales	$23.9 million	$2.8 million	$782,575	$27.5 million
DLC Markup	15% - 25%	35%	43% - 45%	--
Est. Gross Profit (sales x markup)	**$3.6-$6.0 million**	**$980K**	**$337K-$352K**	**$4.9-$7.4 million**

How much revenue might DLC lose under Option 4? While DLC's total estimated gross profit is $5-$7 million for special order beer and wine, it is unlikely that DLC would lose the entire amount. Factors that would impact how much profit DLC might lose if Option 4 were implemented include:

- **Implementation Method.** The open distribution method provides the most "risk" to current DLC profit from special orders because DLC would no longer receive any revenue for special order products distributed by private wholesalers. Under the drop ship method, DLC would still be able to charge a markup but it would likely be much lower. For example, if DLC charged a flat 5% markup for all special order products the gross profit in FY14 would have been approximately $1.4 million.
- **Participation by Private Wholesalers.** As detailed in the correspondence to the Ad Hoc Committee, some private wholesalers believe Option 4 is economically viable for their business model while others do not. As a result, if given the option, some private wholesalers may not participate (under either implementation method). DLC would maintain the revenue from any special order products that continue to go through DLC's wholesale operations. For example, if only one-half of special order beer and wine products switched to private wholesale, the potential gross profit loss may also decrease by half, to $2.5-$3.5 million.
- **Potential Revenue Offsets.** DLC's FY16 approved operating budget includes plans to open three new retail stores. According to DLC's Long-Range Strategic Plan document, its retail stores produce a net annual income of approximately $800,000 on average. As a result, once these new stores are up and running, DLC may achieve an additional $2.4 million in annual profits that offsets some or all of the lost revenue from Option 4.

2. Replacing Lost Revenue

This section describes two methods for generating revenue based on fees on private wholesalers selling special order beer and wine products in the County. The first method would generate revenue based on the volume of alcohol that private wholesalers distribute in the County. The second method would generate revenue based on required fees for registering products for sale in the County.

a. Volume-Based Distribution Fee

A volume-based distribution fee – a per unit fee for alcohol sold in the County – would require wholesalers to pay a fee based on the amount of alcohol distributed to licensees in the County. To estimate potential revenue from a volume-based distribution fee, OLO used DLC data on the number of cases and/or kegs of special order beer and wine sold by DLC's wholesale division in FY14.[6] Table 4 estimates revenue using three variations for assessing a distribution fee based on the amount of alcohol sold by a private wholesaler. The methods are:

- **Flat fee per ounce of alcohol distributed in the County.** A flat per ounce distribution fee would generate an estimated $1 million for every 1¢ of the fee. A 1¢ fee equates to about 72¢ per six-pack of beer and 25¢ per 750 mL bottle of wine.
- **Variable fee per ounce of alcohol distributed in the County.** A variable per ounce distribution fee that charges three times as much for wine (3¢ per ounce) as for beer (1¢ per ounce) – similar in concept to the State's alcohol excise tax structure – would generate an estimated $2.4 million. A 3¢ fee for wine equates to about 75¢ per 750 mL bottle.
- **Per-case or per-keg fee, varying by the type of alcohol sold.** A per case distribution fee was suggested by a licensee who participated in OLO's survey. A variable fee of $3 per case of beer, $5 per case of wine, and $20 per keg (a ½ keg of beer is equivalent to a little over six cases) would generate an estimated $1.5 million.

The revenue estimates shown in the next table are based on the specified fee increment and can be adjusted up or down to achieve a different revenue level. Additionally, if implementing Option 4 (under either the open distribution method or the drop ship method) led to increased purchases of special order products by licensees and/or recapturing of cross-border sales, the total fee-based revenue would increase (perhaps significantly based on the estimated value of cross-border sales).

Table 4. Estimated Revenue from a Fee on the Private Wholesale Distribution of Alcohol

Method	Revenue from Beer	Revenue from Wine	Total Revenue
1¢ per ounce of alcohol	$292,000	$714,000	**$1.0 million**
1¢ per ounce of beer, 3¢ per ounce of wine	$292,000	$2.1 million	**$2.4 million**
$3 per case of beer, $5 per case of wine, $20 per keg	$301,000	$1.2 million	**$1.5 million**

[6] For estimation purposes, OLO assumed all cases of beer were 12 ounce cans/bottles (288 ounces per case); all cases of wine were 750 mL bottles (304.8 ounces per case); and all kegs were ½ keg size (1,984 ounces per keg). A portion of DLC's actual special order wholesale sales in FY14 are for different sized cases or kegs.

b. Brand Label Registration Fee

A product-based registration fee would require private wholesalers to register each product that they want to sell in the County. Many states require alcohol producers, wholesalers, and/or importers to register the products that they sell in a state and charge a registration fee– typically referred to as "brand registration" or "brand label registration". Some states require a one-time registration fee while other states require an annual registration fee. The table below summarizes the brand registration fees in certain states.

Table 5. Summary of Some State Brand Label Registration Fees

State	Fee
Annual or Semi-Annual Fee	
Florida	Beer – $30 per label annually Wine – $15 per label annually Liquor – $30 per label annually
Minnesota	$40 per label for initial registration good for three years, $30 per label renewal fee
New York	$50 per label annually
Tennessee	Beer – $100 per label annually Wine – $250 per label annually Liquor – $250 per label annually
One-Time Fee	
Connecticut	$200 per label ($15 per label for products manufactured in CT by a CT manufacturer)
New Jersey	$23 per product
South Dakota	Beer – $25 per label Wine – $25 per label ($17.50 per label after the first label) Liquor – $50 per label
Virginia	$30 per label

Source: State online codes and tax records

OLO Report 2015-6 estimated the potential revenue from a flat $1,000 product registration fee for all DLC stock and special order products. This section applies a potential registration fee to special order products only, and uses a lower per product fee similar to the state fees shown above. As of March 2015, DLC lists 3,393 special order beer products and 20,136 special order wine products for wholesale purchase. Table 6 estimates revenue from brand label registration at different fee levels, assuming all special order beer and wine products are registered.

Table 6. Estimated Revenue from a Brand Label Registration Fee

Method	Revenue from Beer	Revenue from Wine	Total Revenue
Flat Fee – $30 per brand (same as Virginia)	$102,000	$609,000	**$711,000**
Flat Fee – $50 per brand	$170,000	$1.0 million	**$1.2 million**
Variable Fee – $50 per beer, $100 per wine	$170,000	$2.0 million	**$2.2 million**

The total revenue estimated for each method in Table 6 could be increased or decreased by adjusting the amount of the fee. Additionally, if implementing Option 4 (under either the open distribution method or the drop ship method) increased the amount of special order products made available for sale in the County, the total revenue for each method would increase.

3. Impact of Distribution Fees on the Wholesale Price of Alcohol in Montgomery County

One concern raised about enacting a distribution fee on special order products under Option 4 is that, depending on the fee structure, it would raise overall alcohol prices when high prices for special orders are already a frequent complaint among licensees. Instituting a wholesale fee on private distributors in Montgomery County that differs from other Maryland counties may provide an incentive for distributors to raise the wholesale price of products for Montgomery County businesses. Current state law, however, requires distributors to charge all customers the same price for products, which would prevent distributors from increasing prices only in Montgomery County.

Additionally, eliminating the DLC markup on special orders distributed by private wholesalers could mitigate the cost impact of a distribution fee. This would be particularly true for special order products that DLC purchases from other wholesalers that have two wholesale markups incorporated into the price that licensees pay. Examples of the cost impact from a distribution fee compared to DLC's markup for special order beer and wine cases are shown below, based on the fee increments used in Table 4.

- **Beer case (consisting of 24 12-ounce bottles/cans).** A distribution fee of 1¢ per ounce would add \$2.88 per case or 72¢ per six pack of beer. In comparison, DLC's 35% markup for the top selling special order beer case in FY14 adds \$9.12 per case or \$2.28 per six pack (calculation based on DLC's wholesale price of \$35.30 per case for this product minus the 20¢ in State excise taxes included in the wholesale price).
- **Wine case (consisting of 12 750-mL bottles).** A distribution fee of 1¢ per ounce would add \$3.04 per case or about 25¢ per bottle, and a fee of 3¢ per ounce would add \$9.14 per case or about 76¢ per bottle. In comparison, DLC's 25% markup for a top-5 selling special order wine case in FY14 adds \$13.71 per case or \$1.14 per bottle (calculation based on DLC's wholesale price of \$69.48 per case for this product minus the 95¢ in State excise taxes included in the wholesale price).

List of Attachments

Hill
Adega Wine Cellars/Cafe

Subject: FW: Liquor Control Meeting on Friday, March 20

From: Michael Hill [mailto:mike@adegawinecellars.com]
Sent: Saturday, March 14, 2015 6:09 PM
To: Heyboer, Tommy
Subject: Re: Liquor Control Meeting on Friday, March 20

Good afternoon Tommy. Thank you for taking my feedback into consideration, and thank you for making such significant progress in attempting to improve a very broken and flawed system. I look forward to seeing you on Friday.

To answer your questions:

1. What is your current relationship with the Montgomery County DLC? What kind of business do you do with them?

We are a cafe/retailer licencee through the county. We purchase beer and wine with roughly 85%-90% of our items purchased being special order.

2. What is your experience like working with the DLC? What challenges do you face? If applicable, what are the differences you see between doing business with the DLC and doing business with private distributors in other jurisdictions? Do you think the DLC makes it easier, harder, or neutral for you to do business in the County?

My experience with the DLC has been mostly poor. My greatest challenges are consistent errors with my deliveries, and a lack of communication as to why they consistently drop the ball. The inability for the DLC to deliver items that our loyal customers wait weeks upon weeks for greatly affects our top line. The inconsistencies (3 cases of XYZ wine ordered, 7 cases delivered; 5 cases of 123 wine ordered, 11 bottles delivered!!!) are a major issue.

I had a much easier time as a buyer for a DC restaurant. I even had a much easier time as a buyer in the heart of the bible belt in Atlanta, GA, where I lived for 6 years!!! As a customer, I hate to admit it, but it's much easier buying alcoholic beverages in DC and P.G. County due to lower prices and better selection.

The DLC definitely makes it more difficult for me as I have to explain to my customers why certain items continue to be out of stock, etc. Again, top line revenue is directly affected.

One good note, the delivery drivers have improved dramatically ever since the 'Beer Bust' report!

3. The Committee is considering, at least, five different reform proposals for the DLC. You can view them here: http://www.montgomerycountymd.gov/COUNCIL/Resources/Files/AdHocComm/DLCReportSummary.pdf What do you think of each option? Which option would you most prefer? Least prefer?

1. I would fully support a complete deregulation. I realize that this will create a drastic drop in tax revenue collected by the county and the loss of hundreds of union-backed jobs, so Leggett will want nothing to do with this option!
2. Option 2 is a good one. Public safety concerns will diminish if the county still has control of off-premise liquor sales. This will also counter the myth that 'A liquor store will be on every block'...
3. Since we are beer/wine only, I have no preference whether liquor is privatized or not.
4. I like the idea of privatizing special order items, and leaving the stock items to the county. This seems like each side is giving a little, and this would be a win-win for smaller specialty stores like Adega
5. Giving the DLC even more resources to 'function more efficiently' is easily the worst option of the five! The county needs to get out of the alcohol business!

4. The Committee has discussed Option 4 (allowing private distributors to fill and deliver "special orders") at some length. What do you think about Option 4? What would the Committee need to consider to make this option work well for you?

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I think option 4 will work. I would be curious as to whether the County Liquor stores would also be able to carry special order items in addition to their normal stock? The two closest county stores have a significant special order craft beer selection, in addition to some special order wines. How would privatization affect the county stores' inventories?

5. Broadly, the Committee would like to discuss how alcohol distribution affects the County's economy and quality of life. From your perspective, what, if any, is the relationship between these?

Most licencees exercise best practices to avoid serving minors and those intoxicated already. I can't imagine anything less that zero tolerance if the county moves towards privatization. Alcohol distribution is a major tax revenue generator for the county, but I can only imagine that the revenue loss from the elimination of 'junk fees' will be offset by the gain due to increased spending due to increased item availability. I for one will spend less in surrounding counties and DC, and keep my money in the county if we move towards privatization.

As far as quality of life is concerned, I don't see that being affected. I don't anticipate an increase in alcoholism, or alcohol-related illness. I don't anticipate an increase in alcohol related fatalities. I don't think the two have any correlation.

Thank you for your time,

MH

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Mike Hill
Adega Wine Cellars & Cafe
Store Manager
8519 Fenton Street
Silver Spring. Md 20910
301.608.2200
301.608.8900(f)

On Thu, Mar 12, 2015 at 12:08 PM, Heyboer, Tommy <Tommy.Heyboer@montgomerycountymd.gov> wrote:

Hi Mike —

Thank you for being willing to share your experience with the Montgomery County Liquor Control Committee. In anticipation of the worksession next week, I wanted to share some information with you.

First, the logistics of the worksession are as follows:

Time/Date: 9:30am, Friday, March 20, 2015

Location: Council Office Building

3rd Floor Hearing Room

100 Maryland Ave.

Rocvkille, MD 20850

McInerny
Capital Beer & Wine

Subject: FW: comments for Ad Hoc Committee on Liquor Control

From: justin@capitalbeerwine.com [mailto:justin@capitalbeerwine.com]
Sent: Thursday, February 26, 2015 9:54 AM
To: Riemer Hans
Cc: Heyboer, Tommy
Subject: comments for Ad Hoc Committee on Liquor Control

Dear Councilmember Riemer,

Thank you for asking me to contribute to the Council's Ad Hoc Committee on Liquor Control. The Department of Liquor Control (DLC) is a monopoly. My thoughts are best summed up Article 41 of the Maryland Declaration of Rights:

"monopolies are odious, contrary to the spirit of a free government and the principles of commerce, and ought not to be suffered."

I have read the Office of Legislative Oversight's report (the Report) as well as the plan commissioned by the DLC. In the short term, I am strongly in favor of Option 4 of the Report "Private Wholesale of Special Order Beer/Wine". In the long term, I am in favor of Option 1 "Full Deregulation".

I have lived most of my life in Montgomery County where it has been legal for me to consume and purchase beer and wine since my eighteenth birthday in 1980. Although I am a lawyer, I am also a beer and wine merchant. First as a consumer and now as a merchant, I have found Montgomery County's alcoholic beverage regulatory structure to be both anti-consumer and anti-business. As a consumer, I rarely shopped for beer and wine in Montgomery County unless I was very short on time. In most instances I would shop at retailers in nearby jurisdictions, typically Northwest, DC. Now as a merchant, I am wholly frustrated by the shortcomings of a dysfunctional, unnecessarily cumbersome system which does not need to exist.

The Report is comprehensive and satisfactorily calls attention to practically all of my concerns with the DLC. This e-mail is only meant to highlight a few points from my view as a retailer.

DLC stores practice predatory pricing - A predatory price is a price that is "profit maximizing only because of its exclusionary or other anticompetitive effects". The DLC stores' standard retail wine prices are 28% over wholesale. This is a 21.88% margin which is unsustainable by the average retailer. The DLC stores regularly put wines on sale which yield a 15% margin. Again, this margin is unsustainable by an average retailer. The DLC stores' wine prices are so low that I, and many of my fellow retailers, will carry few, if any, of the same products which the DLC stores carry. This is because a customer will easily note that our prices are significantly higher than the DLC's prices for the same products. As a specialty retailer, my focus is on brands which are not widely available. Nevertheless, many customers still want to purchase some recognizable

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brands such as Kendall Jackson. However, I scrupulously avoid carrying brands such as Kendall Jackson because I do not want to look like I am price gouging at my normal mark up. The DLC's retail wine pricing practices effectively exclude national brands from my shelves. This is brazenly anti-competitive and if this were the practice of a private sector retailer, then it would likely seen as a violation of state and Federal anti-trust laws.

Many items listed as special order are not available – This is a small point but I want to note that the Report states that roughly 85% of the DLC's products are special order. Just to clarify, the list of products in the DLC's system is enormous. The fact that a product is listed in the DLC's system only means that the product was at one point available. Many products come and go quickly with the season, market demand, production limits and other factors. The DLC periodically purges its system of the unavailable/discontinued products but it is a never ending process due to the nature of the alcoholic beverages business. Hence, a significant percentage of products which are listed in the DLC's system are not available and will never again be available. Likewise, a significant percentage of products listed in the DLC's system might only be unavailable for a few months or a few weeks until the supply is replenished depending on various factors such as manufacturer's production schedules and the time of year.

In closing, my remarks could go on at length and I hope to engage with the Council further. Thank you for considering my comments. I look forward to continuing this dialogue and participating in the process of addressing the Report's proposals.

Sincerely,

Justin McInerny
Capital Beer & Wine
7903 Norfolk Ave.
Bethesda, MD 20814
store (301) 656-8855
cell (301) 300-8947
follow me on twitter

(4)

Mutschler
Republic National
Distributing Company

From: Mutschler, Bob <Bob.Mutschler@RNDC-USA.COM>
Sent: Tuesday, March 17, 2015 10:31 AM
To: Ferber, Justina
Subject: RE: March 20th Meeting

Justina,

Unfortunately, I can't be part of your panel, but I would like to offer some opinions based upon my everyday experiences working with the DLC..

I've worked close to 20 years in MoCo representing as a broker wine, beer and spirits. My company also is a supplier of primarily special order wines totaling about $4,000.000 annually. I'm responding to your request by simply pointing out two areas that directly affect my business in the county and I am not offering any opinions on a direction to go to in the future.

Concerning option #4. private distributors to fill and distribute special orders, would alleviate a major licensee complaint. Assuming that the Maryland Beverage Journal would apply, licensees would have a greater selection of wines, lower prices by eliminating a tier of mark up, quantity deals that might be available and probably credit terms. Special orders are very difficult to manage in the DLC warehouse because when they are received, they have no warehouse location, therefore when pulled to be delivered are difficult to find. Because of this, my reps get hammered when expected deliveries are not received on time.

The differences between DLC and private distributors are more than a few, but it's only the customer service function that is severely lacking in MoCo. At best the DLC customer service department is an order department with very little customer service. They do not have the ability to answer any questions concerning an order once it is placed. I gave up on that department years ago. Under the new system begun February, when my rep is asked by a licensee where their order is, we end up called a warehouse manager or the Director of Operations, There is no go to person and because getting answers to licensee questions is difficult, it reflects negatively on my reps

Similar to the distributor I work for, there are many good loyal hard working people working for the DLC. My opinion and that of my seven reps, fix special orders and create a real customer service department.

Bob Mutschler

From: Ferber, Justina [mailto:Justina.Ferber@montgomerycountymd.gov]
Sent: Thursday, March 12, 2015 10:29 AM
To: Mutschler, Bob
Subject: FW: March 20th Meeting

Thank you for being willing to share your experience with the Montgomery County Liquor Control Committee. In anticipation of the worksession March 20, I wanted to share some information with you.

First, the logistics of the worksession are as follows:

Time/Date:	9:30am, Friday, March 20, 2015
Location:	Council Office Building 3rd Floor Hearing Room 100 Maryland Ave. Rockville, MD 20850
Parking:	There is a public parking lot adjacent to the Council Office Building that you may use.
Metro:	The Council Office Building is a 5-10min walk from the Rockville Red Line Station
Contact:	Tommy Heyboer in Councilmember Riemer's Office

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March 26, 2015

Montgomery County Council
Ad Hoc Committee on Liquor Control
Attn: Hans Riemer, Committee Chair
George Leventhal, Council President
Marc Elrich, Public Safety Committee Chair
100 Maryland Ave., 5th Floor
Rockville, MD 20850

Esteemed Councilmembers Riemer, Leventhal, and Elrich:

Thank you for inviting me to submit written testimony regarding my thoughts on options for the control and distribution of alcohol within Montgomery County, Maryland. As the Chair of the Montgomery County Alcoholic Beverages Advisory Board (ABAB) and a Montgomery County resident for 14 years, I welcome the opportunity to provide my perspective on some of the proposed changes as outlined in the OLO report, "Review of Alcohol Control in Montgomery County" released in February, 2015.

In order to provide a context, the mission of ABAB (per Maryland Annotated Code, Article 2B, Section 159C, Chapter 832) is to report to the County Executive and County Council on recommendations for improvement of alcoholic beverage control and enforcement issues in the County. Members serve four-year terms without compensation and must be residents and registered voters of Montgomery County. ABAB is a five-person board, with three members from the general public; one holder of either a Class B or C beer, wine and liquor license in Montgomery County and one holder of any other class license in Montgomery County.

While I have not been able to attend all of the previous hearings, I did attend the March 20th hearing in which various concerns and complaints were expressed by retailers in Montgomery County, specifically in relation to the ordering and delivery of special order products within the County. As Chair of ABAB, I was surprised to learn about these problems. I have served on ABAB since 2008, and to my knowledge none of the issues described have been brought before the Board in the time that I have served on the Board. The issues that we have discussed and made recommendations on as a Board include the following:

- The quality of the fleet trucks used to deliver products to licensees in the County, with retailers receiving damaged products due to water getting into the trucks during rain and snow
- Opening County stores on Sundays
- One individual retailer who came to a couple meetings to discuss the mark-up process for products within the County

It is my hope that retailers as well as community members at large would see ABAB as an appropriate forum for expressing their concerns and recommendations for improving the

Department of Liquor Control (DLC). In addition, we also currently have a vacancy on the Board at this time for a holder of a Class B or C license in the County. The position was first opened in January, and no applications were received. The position was re-opened in March, with the closing date of March 23, and I have not yet heard whether any applications were received. Since this Board is required to exist by state law, I encourage license holders to become active on the Board so that their concerns can be represented and hopefully resolved in a more proactive manner before attempting to overhaul the entire Department of Liquor Control. I am in complete agreement that customer service and modernization of the DLC system is in order, and it is my belief that ABAB can help provide guidance and recommendations to the County Executive and County Council on these matters. Unfortunately, no one has reached out to us to ask for this assistance or our feedback for either the OLO report or the DLC strategic business plan.

I understand that a new software system was rolled out in February 2015 to hopefully improve some of the quality control issues with ordering and receiving products. I encourage the County Council members to give the Department of Liquor Control adequate time to see if this system is going to eliminate some of the past concerns. In addition, if this system is not appropriate for the sale and distribution of alcoholic beverages, the DLC must have the authority to run more like a business by purchasing software systems that meet their needs and by extension, the needs of retailers and consumers within the County. In this sense, I am most in support of Option 5 (Increase Efficiency within Current Structure) as outlined in the OLO report, and can state that the ABAB members will assist in as helpful a manner as possible to make the recommendations in the Long-Range Strategic Business Plan become a reality.

I was pleased to hear Councilmember Riemer state at the last hearing (on March 20) that there seems to be consensus to not change the manner in which distilled spirits are distributed and sold within the County. It appears that Option 4 (Private Wholesale Distribution of Special Order Beer and Wine) is the direction in which the Ad Hoc Committee is most interested in exploring, and I was specifically asked to provide my thoughts on that option. From a public health perspective, here are the questions/concerns I have with Option 4:

- What mechanisms would be put in place to define what constitutes a special order product? The DLC would need to have oversight of these product lists and the quantities being ordered, so as to preclude almost all beer and wine products from being listed as "special orders."
- How will potentially dangerous new products be prevented from being included on a product order list by distributors? In the past, the DLC has had the authority to choose not to list products (e.g., Four Loko, jello shots, etc.) that can either be potentially attractive to youth or have dangerous serving sizes or other concerns (e.g., stimulants mixed with alcohol, product labeling that makes it appear that the product isn't an alcoholic beverage, etc.)
- Will the DLC (and by extension the Board of License Commissioners) have the regulatory authority to license, enforce, and if necessary, adjudicate violations by

distributors should there be undue influence by private distributors on retailers that prevents a fair, yet competitive, market?

In summary, I encourage retailers to become more active in ABAB; I believe that Option 5 should be implemented before considering other options, and I have concerns that Option 4 will eventually result in the complete private distribution of alcoholic beverages in Montgomery County. I hope that my feedback on the suggested proposals and role of ABAB in future discussions is helpful. Please feel free to contact me should you wish to discuss any of these ideas in more detail.

Sincerely,

Rebecca L. Ramirez

Rebecca L. Ramirez, MPH
Chair, Montgomery County Alcoholic Beverages Advisory Board

Gilly's Craft Beer and Fine Wine

Hello,

Thanks for taking the time and effort to listen to the licensees on 3/20. I was supposed to speak in lieu of the Quarry House but did not get in touch in time to be up on the panel. I own Gilly's in Rockville which is a class D on/off premise establishment. I was born, raised, and currently live in Montgomery County, we went to public school and will be sending all 3 of our children to public school as well. We are appreciative of the quality schooling/police that this county has to offer. We have 14 fantastic employees at Gilly's. In 2014 our Beer/Wine Cost of Goods Sold was well over $500,000.00. We are small in size but I would say a very good customer of the DLC. The culture of the DLC is that we (licensees) are a pain in their ass and we just need to shut up and take what we get. I will say that the licensing department has been a pleasure - I call them when no one else is answering the phone, which is often.

The licensees on the panel brought up some good points, however I was a little disappointed with some of their arguments. Rather than get involved in small things like glassware. timing of drivers and whether or not DLC is "unamerican" there were some major issues that did not get enough attention.

1. **New Online Ordering System** - complete shambles and waste of money thus far. We are getting communication from the DLC that they are working on items, they have even provided a "hotline" phone # to call about delivery questions. The first thing I did was call the hotline - no answer - as I suspected. With the license we have, finding a suitable POS system has been a challenge. I cannot imagine what sort of system would be needed for the DLC - although I know there is one out there. This is a square peg in a round hole situation. Lets cut our losses and move on, it's been a few months of utter disaster!

2. **COD Payments** - Payment terms would be fair, even if it was 15 days. Or some sort of discount for paying COD. Budgeting is near impossible. Also with this new system, having money yanked from our bank account is not ideal. Not one of my deducted payments has matched up to what our invoice says it should be (even after doing the math with all of the shorted cases and broken bottles). I could hire a full time person just to keep track of DLC deductions in my bank account. So, not only can I not live by a budget, I am having to wait for credits which is more of my cash tied up unnecessarily.

3. **Special Orders** - my business is 95% special order. No one discussed quality control at the DLC - there is none. When they moved to the new temperature controlled warehouse - last summer we heard from several drivers that they (powers that be) did not use the air conditioning in the warehouse in order to save money!!! Our customers come to us for the newest, most limited and exclusive products available. We have to support the core brand all year long in order to be eligible to get these products. If the distributor could deliver this product in a safe, controlled and timely manner, that would be fantastic. As it is now, with the way the timing in the county works, we are about 3 weeks behind the rest of the country on limited release items (it's quite embarrassing). I would happily pay a tax or fee to the county if I was sure that my product would be delivered correctly, on time and in tact. Option #4 of the OLO sounds perfect. I speak to many breweries on a daily basis - begging them to consider coming into the county. Do you know that the way we (MOCO DLC) handle business makes us laughing stock of the industry? We are often called the third world country of the beer/wine world. Very sad.

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4. **DLC Retail Stores** - Direct competition with private stores, they are selling refrigerated product, non alcoholic product, advertising, and carrying special order items and retailing said product at basically our cost. How are we to compete and run a successful business? At least sell product at what the private stores are selling it for (win/win). I also think that DLC stores should not be able to be located within a certain mileage of private competition, especially retail stores. This would obviously be hard to track as stores come and go every day but an attempt at a non-compete option would be great. Several years ago in the early 2000's, there was a rule that the DLC retail stores were not permitted to sell anything but "stock" non-refrigerated alcohol. Why did this rule change?

5. **Liquor** - Most breweries are now diving head first into the liquor business. The DLC stores are not carrying any of these specialty/craft liquors that the consumers are looking for. Truly a missed opportunity to make some serious money. I would love to sell liquor retail at Gilly's - just the craft stuff. I would love to offer tastings of it, I would not be interested in selling liquor drinks, however I think a Class D License should have the option to sell liquor drinks in addition to beer wine. Maybe make this an addendum to the license with a new fee just as it was done with the growler law.

6. **Grocery Stores and Total Wine** - I am adamantly against these two huge entities being anywhere near this county. I live in Olney and saw what the Safeway did to the small stores in that community. I believe the wine sales at the DLC retail store in Olney also suffered a loss of business, good thing they had their liquor sales to fall back on. Our store would not have survived a "safeway" coming anywhere close to us. I understand the 1 license for big corporate business in the county and am fine with that but if every location were able to obtain a license, we would have a serious problem with maintaining small business.

In closing, the revenue from the DLC each year goes towards some good things in the county. I realize this. I would be in support of option #4 to start. It would be the best scenario, for the group of licensees who seem to really be having the most trouble with the DLC in it's current state. I am proud to say that we follow the rules given to us, I am a proud resident and business owner of MOCO. As a consumer and a business owner, I would like to be treated with a little more respect in regards to the alcohol industry. I would like to keep my money in this county and not have to shop in other counties and states for the items that should be available to us but are not (for no good reasoning!!).

Please don't hesitate to get in touch regarding this issue. I have two toddlers and another on the way so my time is a bit divided, but I will happily make this issue my priority in order to get these important changes made.

Thank you,

Johnna Gilchrist
301-661-4612 (cell)
Gilly's Craft Beer & Fine Wine
2009 Chapman Ave.
Rockville, MD 20852
Gilly's Website

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LICENSED BEVERAGE DISTRIBUTORS OF MARYLAND, INC.
Leadership in Industry Cooperation
P.O. Box 1668
Annapolis, MD 21401

<u>Members</u>
RELIABLE CHURCHILL LLP
REPUBLIC NATIONAL DISTRIBUTING COMPANY, LLC

ROBERT C. DOUGLAS, Counsel

March 19, 2015

Councilmember Hans Riemer
Council Office Building
100 Maryland Avenue
Rockville, MD 20850

Councilmember Marc Elrich
Council Office Building
100 Maryland Avenue
Rockville, MD 20850

Councilmember George Levanthal
Council Office Building
100 Maryland Avenue
Rockville, MD 20850

Dear Councilmembers of the Ad Hoc Committee on Liquor Control,

The Licensed Beverage Distributors of Maryland have followed your conscientious review and discussion of the Montgomery County Department of Licensed Beverage Control (the "Department") by the Ad Hoc Committee (the "Committee"). As you know, we deliver more than 95% of the wine and spirits to licensees across Maryland. Our role in Maryland gives us special insight into the alcoholic beverage industry. As such, we are writing to provide information on how the wholesale industry operates thinking that information may help in your deliberations and efforts to improve the system in the County.

First, as the report of the Office of Legislative Oversight notes, Maryland has a three-tier system. The first tier are the suppliers of beverages (mainly distillers, brewers or wineries). The second tier are the wholesalers who distribute to retailers, who are the third tier, and sell to consumers. Wholesalers are licensed in Maryland to deliver requested alcoholic beverages to licensed retailers (on-premise and off-premise establishments, including bars, restaurants and package good stores). The delivered alcoholic beverages are purchased by a wholesaler from a licensed supplier, usually a winery, distillery or brewer, who form the first tier The wholesaler collects on behalf of the state the excise tax imposed on all the alcoholic beverages by Maryland law. The excise tax is then paid to the state by the 10th of the following month.

In Montgomery County, deliveries to licensees in the County are made by the Department. Under Maryland law, the Department can purchase directly from a supplier and thereby eliminate the private wholesale tier. This enables the Department to purchase goods at the same price as a private wholesaler because Maryland law requires suppliers to charge the same price to all

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purchasers. The Department thereby purchases at a price lower than if it had purchased from a wholesaler. This enables the Department to generate higher profits.

Licensed wholesalers deliver to the Department beverages not usually carried by the Department but ordered special by a licensee. The special orders first are placed by retailers with the Department, transmitted to the wholesaler and then the special ordered beverages are delivered by the wholesaler as part of the next regular delivery to the department. These deliveries are made at least once per week. The special order is then delivered to the licensee by the Department on its regular delivery schedule to the licensee.

It is our understanding that the Committee is considering several options which would affect the existing wholesale delivery system. The options include:

Option	Est. fiscal Impact $ Millions	Est. County Position Reductions
Option 1 Full Deregulation Fully deregulate alcohol control system in Montgomery County and allow private wholesale distribution and private retail sale of beer, wine and liquor	One-Time +$66-$76 Ongoing Annual ($32-$43)	**Total** 393 Full-time 236 Part-time 157
Option 2 Private Wholesale of Beer/Wine/Liquor Allow private wholesale distribution of beer, wine, and liquor to alcoholic beverage licensees, while maintaining County control of the off-premises retail sale of liquor	One-Time +$29-$39 Ongoing Annual ($18-$21)	**Total** 165 Full-Time 134 Part-Time 31
Option 3 Private Wholesale of Beer/Wine Allow private wholesale distribution of beer and wine to alcoholic beverage licensees, while maintaining County control of the wholesale and off-premises retail sale of liquor	One Time +$2-$3 Ongoing Annual ($18-$23)	**Total** 123 Full-Time 99 Part-Time 24
Option 4 Private Wholesale of Special Order Beer/Wine Allow private wholesale distribution of special order beer and wine products, while maintaining County control of the wholesale and retail structures for all other alcohol products	One Time +$0.17 Ongoing Annual ($4-$6)	**Total** 15 Full Time 11 Part Time 4

Option 5 Increase Efficiency within Current Structure **Maintain the current structure of liquor control and enhance DLC's effectiveness and efficiency by adopting recommendations made as part of DLC's long-range strategic business plan**	None specified	None specified

Here is how each of these options would function based on state-wide wholesale practices.

Options 1, 2 and 3 are consistent with existing operating procedures elsewhere in the State. Private wholesalers deliver wine, beer or spirits directly to retailers, bars or restaurants in all other jurisdiction of the State. Option 3 is the wholesale model employed in Worcester County prior to July 1, 2014 when the private wholesalers were allowed also to deliver spirits to licensees.

Option 4 does not work with existing wholesale practices. It appears that Option 4 contemplates that wholesalers would deliver special orders directly to the licensee. This would require the wholesaler to make a special trip to whomever placed a special order. In other jurisdictions, special orders are simply part of the regular order process and delivered during the regularly-scheduled stop. There are no regularly-scheduled stops by private wholesalers in Montgomery County other than to the Department because regular deliveries to licensees are made by the Department. Under Option 4, a wholesaler would have to make a special trip to the licensee making a special order. Simple economics makes this impractical and impossible. The expense of diverting a driver and truck to a distant location for the delivery of a special order, which by its nature is a small order such as a case of wine, far exceeds the profit of such a delivery. A wholesaler could not charge a special delivery fee in Montgomery County for special orders because it has to charge all Maryland licensees the same price for the product and delivery no matter the location of the licensee. (There is a minimum order requirement for regular customers, but it would not cover the expense of a special order delivery in Montgomery County.)

Having wholesalers make the special order deliveries also would not necessarily eliminate a wait time. The special order is delivered to the Department by the licensee and then within a week the wholesaler delivers the special order to the Department as part of its regularly-scheduled delivery. In any event, there is a waiting period for receipt of a special order. In the current system, the wholesaler has no involvement with the delivery to the licensee once the product is delivered to the Department. The special order is delivered to the licensee by the department. If there is a lag time in the final step of the process, it could be solved by the licensee picking up the product from the Department or the creation of a special order delivery vehicle at the Department which would make deliveries the day the product arrives at the Department. In either case, the licensee would not have to wait for the delivery once the product is on the Department shelf.

The bottom line is that Option 4 will not work for a simple reason: wholesalers are not required to make a money-losing delivery simply because an order is placed. Wholesalers most likely would not deliver a special order because they would to lose money. In short, Option 4 is not the solution to the special order issue in the County.

As a final discussion, we would like to provide insight on the suggested revenue plans. Any increase in the cost of a beverage product will reduce sales in the County because it is so easy to go elsewhere and purchase the same product for less. Montgomery County is bordered by several jurisdictions with lower prices and any increase in prices will further erode sales in the County. As such, an increase in sales or excise taxes, imposing a special fee based on volume or charging wholesalers a fee, is counter-productive. The report by the Office of Legislative Oversight begins with a discussion of cross-border sales and estimates that Montgomery County loses between $46 million and $186 million in sales because residents shop for lower prices out of the County. Increasing the cost of alcoholic beverages will not solve this problem, rather it will accelerate losses. In other words, Montgomery County cannot increase its profits by making is products more expensive in a competitive marketplace.

We appreciate the thoroughness and thoughtfulness of the Committee's work. If there is any other information we may provide to help the Committee in its deliberations, please let us know.

Sincerely,

James M. Smith
Kevin Dunn
Reliable-Churchill LLLP

Joel Polichene
Thomas White
Republic National Distributing Company

Cc: Robert C. Douglas, Esquire

The Country Vintner

A member of The Winebow Group

May 4, 2015

Councilmember Hans Riemer
Council Office Building
100 Maryland Avenue
Rockville, MD 20850

Councilmember George Levanthal
Council Office Building
100 Maryland Avenue
Rockville, MD 20850

Councilmember Marc Elrich
Council Office Building
100 Maryland Avenue
Rockville, Maryland 20850

Dear Councilmembers of the Ad Hoc Committee on Liquor Control:

I am writing to you on behalf of The Country Vintner, LLC (TCV) in response to a request by Councilman Hans Riemer's office for input regarding the feasibility of various options under consideration to change Montgomery County's alcohol control structure as discussed in the Office of Legislative Oversight Report 2015-6 (OLO Report) dated February 10, 2015. For your information, TCV currently sells stock and special order items to the Montgomery County Department of Liquor Control (DLC) and through that relationship has made fine wine and craft spirit products available to Montgomery County retail licensees and consumers for more than 10 years.

As summarized in the OLO Report, Montgomery County, through the County's DLC, is the only "control" jurisdiction in Maryland. As a control jurisdiction, DLC is the exclusive wholesaler of alcoholic beverages in the county buying beer, wine and liquor from producers (and sometimes other wholesalers and importers) and reselling to retail outlets in the County. Montgomery County also has exclusive authority over the retail sale of liquor which it sells at 25 County-owned and operated stores. All other Maryland counties are "license" jurisdictions where private sector businesses receive licenses to sell alcoholic beverages at wholesale and retail. Thus, in contrast to every other county in Maryland, deliveries to retail licensees in Montgomery County are made by the DLC, and not by licensed wholesalers.

DLC inventory is categorized as stock or special order. Stock items are carried routinely and ordered by DLC on a recurring basis to fulfill projected retail demand and are typically delivered on a licensee's next scheduled delivery day. Special order items are not regularly

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carried as inventory in DLC's warehouse, but are purchased by DLC in response to a specific order from a licensee, retail store, or customer at a retail store. The time it takes for DLC to receive and deliver special order items is highly variable.

We understand that the Committee is in the process of reviewing and several options for structural changes to Montgomery County's existing wholesale delivery system, as well as the budgetary/fiscal impact of the proposed changes. To the extent that change is deemed warranted by the Committee, we advocate Option 4 below as the best of the proposed options.

Option	**Est. fiscal Impact $ Millions**	**Est. County Position Reductions**
Option 1 Full Deregulation Fully deregulate alcohol control system in Montgomery County and allow private wholesale distribution and private retail sale of beer, wine and liquor	One-Time +$66-$76 Ongoing Annual ($32-$43)	**Total 393** Full-time 236 Part-time 157
Option 2 Private Wholesale of Beer/Wine/Liquor Allow private wholesale distribution of beer, wine, and liquor to alcoholic beverage licensees, while maintaining County control of the off-premises retail sale of liquor	One-Time +$29-$39 Ongoing Annual ($18-$21)	**Total 165** Full-Time 134 Part-Time 31
Option 3 Private Wholesale of Beer/Wine Allow private wholesale distribution of beer and wine to alcoholic beverage licensees, while maintaining County control of the wholesale and off-premises retail sale of liquor	One Time +$2-$3 Ongoing Annual ($18-$23)	**Total 123** Full-Time 99 Part-Time 24
Option 4 Private Wholesale of Special Order Beer/Wine Allow private wholesale distribution of special order beer and wine products, while maintaining County control of the wholesale and retail structures for all other alcohol products	One Time +$0.17 Ongoing Annual ($4-$6)	**Total 15** Full Time 11 Part Time 4
Option 5 Increase Efficiency within Current Structure Maintain the current structure of liquor control and enhance DLC's effectiveness and efficiency by adopting recommendations made as part of DLC's long-range strategic business plan	None specified	None specified

As summarized above, Option 4 would allow the private wholesale distribution of special order beer and wine products, while maintaining County control of the wholesale and retail structures for all other alcohol products. Under Option 4, wholesalers such as TCV would deliver special orders directly to the licensee. Contrary to assertions made by the Licensed Beverage Distributors of Maryland, Inc., Option 4 is economically viable and there would be no extraordinary financial burden associated with making special order deliveries directly to retailers in Montgomery County, just as deliveries are made direct to retailers in the ordinary course in every other locality in the state. Although DLC special order sales are relatively small by quantity sold, they account for approximately one-fifth of both wholesale and retail sales revenue ($28.2 million in wholesale sales revenue for FY14; $21.9 million in retail sales revenue in FY14) (OLO Report p. 31). Of 29,000 different items available for purchase on DLC's product list, approximately 85% (24,895) are special order items. (OLO Report p. 56). If adopted, Option 4 would be beneficial to Montgomery County because it would remove a labor intensive and burdensome line of distribution from the County and would give TCV direct access to retail licensees, which in turn would provide greater access to a variety of products and increased ability to compete within the regional market.[1] The citizens of Montgomery County will also benefit from increased access to a greater variety of high quality products, and from the increase in tax revenue generated within the county associated with the sale of these products.

Not only does TCV favor Option 4, but the licensee survey conducted by OLO indicated that 87% of respondents favor allowing licensees to purchase special order beer and wine from private wholesalers. (OLO Report p. 53). This option received the most support of all of the options considered.[2] (OLO Report p. 81). The ability of wholesalers to make the special order deliveries would make products available to retail licensees and ultimate consumers much more quickly and efficiently since the licensee would not have to wait for the DLC to deliver the special order as part of its regularly-scheduled delivery. Although it had been hoped that DLC's new warehouse management system implemented on February 1, 2015 would improve communications and the ordering process, particularly for special order products, there is continuing frustration with the new system and an increase in delays associated with getting special order products to retail licensees and the ultimate consumers. Implementing Option 4 would provide DLC with an increased opportunity to focus on and implement other strategies to help ensure the long-term success of its remaining operations.

In addition to the above, Option 4 is expected to have the least financial impact on the County of any of the other options proposing structural change to Montgomery County's alcohol distribution structure. It is also expected to have a much smaller impact on county jobs compared to other options affecting structure (estimated total of 15 jobs lost as compared to the Options 1, 2 or 3 which range from 123 to 393 jobs lost).[3] Although there would be some relatively minimal revenue loss associated with the implementation of Option 4, we believe that these losses would be offset by improved availability, selection, and pricing for alcohol products

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1 It is believed that Montgomery County retail licensees lose sales revenue to stores and restaurants in neighboring jurisdictions (particularly Washington, D.C. and Virginia) due to better availability, selection and pricing of alcoholic beverages in those locations. (OLO Report p. 86).

2 OLO Report indicated that most interviewees expressed dissatisfaction with DLC's process for ordering special order products reporting that it could take weeks to months for DLC to receive and deliver items. (OLO Report p. 80). Several retail licensees reported a desire to stock items that are available only through special order, but indicated they stock fewer or no special order products because of the difficulties and time involved in getting the products (OLO Report p. 80).

3 It is also possible that DLC could reduce these positions over time through natural attrition. (OLO Report p. 99).

for retailers and consumers; enhanced profitability and effectiveness of current restaurants and retail establishments in the County; enhanced desirability of Montgomery County as a location for new restaurant and retail establishments; and a more profitable and vigorous food service and alcohol retail industry. (OLO Report p. 86). For the record, we would not be in favor of increasing the cost of beverage products through taxation or otherwise since this would likely erode sales in Montgomery County where cross-border sales (mentioned above) have been identified as a serious concern.

Thank you for your dedicated review and consideration of the OLO Report and our comments set forth above. Please do not hesitate to contact me should you have any questions or need any additional information.

Sincerely,

Matthew Tucker
Vice President of Business Development
North Mid-Atlantic

A Sheehan Family Company

May 28, 2015

Councilmember Hans Riemer
Council Office Building
100 Maryland Avenue
Rockville, MD 20850

Councilmember George Levanthal
Council Office Building
100 Maryland Avenue
Rockville, MD 20850

Councilmember Marc Elrich
Council Office Building
100 Maryland Avenue
Rockville, Maryland 20850

Dear Councilmembers of the Ad Hoc Committee on Liquor Control:

I am writing to you on behalf of Legends Limited Beer Distributing to provide feedback relating to various options to change Montgomery County's alcohol control structure set forth in the Office of Legislative Oversight Report 2015-6 ("OLO Report) dated February 10, 2015. For your information, Legends currently sells only special order items to the Montgomery County Department of Liquor Control (DLC).

In 1994, Legends Limited stated when Pat and Sherri Casey could not find a distributor in the Maryland that would carry their imported European beer brands. So Pat and Sherri decided to start a beer distributing business themselves. Legends' first warehouse was located at the old National Brewery building in Brewers Hill, Baltimore. We began servicing the Washington D.C. market in 2006. In 2009 we were acquired by the Sheehan Family Companies. We are now the 7th largest Maryland distributor, based on employees. Today, Legends portfolio now represents over 100 brewers not only from Europe but from other counties around the world such as Lebanon, Russia, Keyna, Brazil, El Salvador and India. We have also embraced the rise in craft brewers right here in the our own region and across the country representing brands such as

Stillwater and Union Craft Brewing from Baltimore, Blue Mountain from Virginia, DC Brau, from Washington, DC. We also distribute Allagash from Maine, to Lagunitas from California and many in between. The rise in craft beer has allowed Legends to grow and create new good paying jobs with full benefits within Maryland.

As summarized in the OLO Report, Montgomery County, through the County's DLC, is the only "control" jurisdiction in Maryland. As a control jurisdiction, DLC is the exclusive wholesaler of alcoholic beverages in the county buying beer, wine and liquor from producers (and sometimes other wholesalers and retailers) and reselling to retail outlets in the County. Montgomery County also has exclusive authority over the retail sale of liquor, which it sells at 25 County-owned and –operated stores. All other Maryland counties are "license" jurisdictions where private sector businesses receive licenses to sell alcoholic beverages at wholesale and retail. Thus, in contrast to every other county in Maryland, deliveries to retail licensees in Montgomery County are made by the DLC, and not by licensed wholesalers.

DLC inventory is categorized as stock or special order. Stock items are carried routinely and ordered by DLC on a recurring basis to fulfill projected retail demand and are typically delivered on a licensee's next scheduled delivery day. Special order items are not regularly carried as inventory in DLC's warehouse, but are purchased by DLC in response to a specific order from a licensee, retail store, or customer at a retail store. The time it takes for DLC to receive and deliver special order items is highly variable. **Every one of Legends products is considered a special order.**

Distributing and storing beer properly is different than distributing wine or sprits. Wine and spirits have a much longer shelf life, does not require cold storage, does not incur a large seasonal or special release packages and does not have the high rate of rotation of tap lines in bars or package placements at retail. This presents special issues for the Montgomery County Department of Liquor Control and Legends. Legends has had difficulty in the past with our special order stock going out of code in the DLC's warehouse, abiding to proper credit terms and getting delivery to the retailer in a timely manner.

We understand that the Committee is in the process of reviewing and several options for structural changes in Montgomery County's existing wholesale delivery system, as well as the budgetary/fiscal impact of the proposed changes. To the extent that change is deemed warranted by the Committee, we advocate for Option 5 and Option 4 as the best of the proposed options.

Option 5 "Increase Efficiency within Current Structure" should be undertaken as soon as possible regardless of the other four options. There are many ways to increase the efficiencies of the warehouse and deliveries by embracing and using commonly used systems that are currently used by private distributors such as Legends. Increase efficiency means increased profits and in the end an increased revenue stream for Montgomery Country and its residents.

Option 4 "Private Wholesale of Special Order Beer/Wine" would allow private wholesale distribution of special order beer and wine products, while maintaining County control of the wholesale and retail structures for all other alcohol products. With the difference noted above between beer and spirits and wine the county should seriously consider implementing this options as well. Under Option 4, wholesalers such as Legends would deliver special orders directly to the licensee. Option 4 could be economically viable. It may be worth the investment by Legends to invest in an additional truck and personnel to make special order deliveries directly to retailers in

Montgomery County, just as deliveries are made direct to retailers in the ordinary course in every other locality in the state. This option would allow better control of our products and further guarantee a timely delivery for our customer in the county.

Thank you for your dedicated review and consideration of the OLO Report and our comments set forth above. Please do not hesitate to contact me should you have any questions or need any additional information.

Sincerely,

Erin Tyler
General Manager
Legends
A Sheehan Family Company