



Liquor Control

Mission Statement

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.

Budget Overview

The total recommended FY17 Operating Budget for the Department of Liquor Control is \$63,168,686, an increase of \$3,836,438 or 6.47 percent from the FY16 Approved Budget of \$59,332,248. Personnel Costs comprise 53.16 percent of the budget for 296 full-time position(s) and 160 part-time position(s), and a total of 432.42 FTEs. Total FTEs may include seasonal or temporary positions and may also reflect workforce charged to or from other departments or funds. Operating Expenses account for the remaining 46.84 percent of the FY17 budget.

The increase of \$3.84 million primarily consists of annualized costs for new retail stores, Oracle Enterprise Resource Planning (ERP) contractors, and continued implementation of the Department's Improvement Action Plan. The Liquor Fund's Fiscal Plan shows a negative fund balance in FY16 resulting from an organization-wide improvement effort in 2015 and 2016. The Liquor Fund is projected to return to its fund balance policy in FY18.

In FY17, the Department of Liquor Control will transfer \$20.7 million to the General Fund and make \$10.9 million in debt service payments on Liquor Control Revenue Bonds for a total contribution of \$31.6 million.

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

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

Linkage to County Result Areas

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

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

Department Performance Measures

Performance measures for this department are included below (where applicable), with multi-program measures displayed at the front of this section and program-specific measures shown with the relevant program. The FY16 estimates reflect funding based on the FY16 approved budget. The FY17 and FY18 figures are performance targets based on the FY17 recommended budget and funding for comparable service levels in FY18.

Initiatives

- ★ In FY17, Liquor Control will transfer \$20.7 million to the General Fund and make \$10.9 million in debt service payments on Liquor

Control Revenue Bonds for a total contribution of \$31.6 million.

- ★ Continue to improve operations as outlined in the Improvement Action Plan (June 2015). DLC's priority areas include customer service, warehouse operations, special orders, retail operations, delivery and fleet operations, and financial controls and general operations.
- ★ Implement Phase II of the Communication Center including analyzing service requests and performing outbound calls to licensees and suppliers to proactively address order and delivery issues.
- ★ Provide Alcohol Law Education and Regulatory Training (ALERT) that instructs sellers and servers on safe, legal practices and requirements.

Accomplishments

- ✓ Net sales for FY15 were \$276.7 million. This represents growth over the previous year of \$10.1 million or 3.79 percent.
- ✓ Implemented the Oracle ERP system (February 2015) which has enhanced DLC's inventory controls and reporting capabilities.
- ✓ Completed a reorganization to improve operations:
 - The Operations Division was split into a Wholesale Division and a Retail Division.
 - The number of management positions was increased to improve oversight of operations.
 - A Communication Center was established to centralize customer inquiries and issues.
- ✓ In collaboration with the County Executive's Office, CountyStat, Department of Technology Services, ERP, Department of Finance, Office of Management and Budget, and Office of Human Resources, DLC developed a detailed Improvement Action Plan and began monthly "DLCStat" meetings led by the Chief Administrative Officer to track the implementation effort and its effect on performance measures.
- ✓ Identified locations for three new retail stores scheduled to open during the Summer of 2016.
- ✓ Procured six delivery trucks to replace the oldest vehicles in DLC's fleet. The new vehicles will have lower operating and maintenance costs and improve delivery operations.

Productivity Improvements

- ★ Reorganized the special orders area of the warehouse by customer instead of product and incorporated the use of scanners and labels to streamline special order deliveries.
- ★ In collaboration with Department of Technology Services, DLC customized iStore and iSupplier (comprehensive online portals) based on feedback from licensees, suppliers, and DLC staff to improve the user's experience and provide easy access to data on deliveries and returns, payments, quantity on hand and on order, open orders, and sales trends. Monthly training was also conducted to encourage the use of iStore and iSupplier. Increased use of these online systems will reduce the number of calls to the Order Section and allow DLC staff to be more efficient and responsive.
- ★ Established a standard email address for major business functions (Accounts Payable, Accounts Receivable, Cashiers, Ordering and Licensing/Regulation) to facilitate easier access to the respective team and quicker response coordination.
- ★ Modified business practices and processes with the advent of the Oracle ERP system (February 2015) to streamline operations.

Program Contacts

Contact Lynn Duncan of the Department of Liquor Control at 240.777.1915 or Jennifer Nordin of the Office of Management and Budget at 240.777.2779 for more information regarding this department's operating budget.

Program Descriptions

Warehouse Operations

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

Program Performance Measures	Actual FY14	Actual FY15	Estimated FY16	Target FY17	Target FY18
Inventory as a percent of Cost of Goods Sold (COGS)	16.6	15.9	15.0	15.0	15.0
Inventory as a Percent of DLC Sales	11.87	11.5	11.0	11.0	11.0
Wholesale customer satisfaction rating based on the DLC customer survey results (average score on a 1-4 scale) ¹	2.5	NA	3.0	3.3	3.5

¹ A wholesale customer survey was not conducted in Fall 2015. The survey will be reinstated in Fall 2016.

FY17 Recommended Changes	Expenditures	FTEs
FY16 Approved	8,316,529	71.46
Increase Cost: Department of Technology Services (DTS) Chargeback for Oracle Contractors	1,128,000	0.00
Multi-program adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting multiple programs.	(687,498)	2.23
FY17 Recommended	8,757,031	73.69

Delivery Operations

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

FY17 Recommended Changes	Expenditures	FTEs
FY16 Approved	6,663,620	75.80
Add: Master Lease for Six Delivery Trucks	34,000	0.00
Multi-program adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting multiple programs.	278,145	3.00
FY17 Recommended	6,975,765	78.80

Retail Sales Operations

This program oversees sales of distilled spirits, wine, and beer to retail customers through the operation of retail stores that are located throughout Montgomery County.

Program Performance Measures	Actual FY14	Actual FY15	Estimated FY16	Target FY17	Target FY18
Retail customer satisfaction rating based on the DLC customer survey results (average score on a 1-4 scale)	3.1	3.3	3.5	3.6	3.7

FY17 Recommended Changes	Expenditures	FTEs
FY16 Approved	26,742,687	242.87
Increase Cost: Annualized Costs for Three New Retail Stores	1,024,500	0.00
Increase Cost: Retail Store Leases	164,403	0.00
Decrease Cost: Point of Sale System (POS)	(19,457)	0.00
Decrease Cost: Elimination of One-Time Items	(300,000)	0.00
Multi-program adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting multiple programs.	406,762	(3.53)
FY17 Recommended	28,018,895	239.34

Licensure, Regulation, and Education

This program includes issuance of beverage alcohol licenses, inspecting, and investigating licensed facilities to ensure compliance with all

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

Program Performance Measures	Actual FY14	Actual FY15	Estimated FY16	Target FY17	Target FY18
Annual alcohol compliance checks to minors (under 21)	400	400	400	400	400
Rating of licensees satisfied with ALERT Training (Average Score on a 1-5 Scale)	4.86	4.92	5.00	5.00	5.00
Rating of licensees satisfied with Licensing Application Process (Average score on a 1-5 scale)	4.82	4.82	5.00	5.00	5.00

FY17 Recommended Changes	Expenditures	FTEs
FY16 Approved	1,876,998	11.39
Multi-program adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting multiple programs.	133,491	1.00
FY17 Recommended	2,010,489	12.39

Office of the Director

This program provides the overall direction for the Department.

Program Performance Measures	Actual FY14	Actual FY15	Estimated FY16	Target FY17	Target FY18
Annual growth in DLC retail and wholesale sales (percent) ¹	3.79	3.78	3.00	5.89	3.00
Gross profit margin of DLC retail and wholesale operations (percent)	28.0	27.9	28.0	28.0	28.0

¹ The FY17 growth rate is projected to be higher than average due to three new retail stores opening at the end of FY16.

FY17 Recommended Changes	Expenditures	FTEs
FY16 Approved	554,223	2.00
Multi-program adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting multiple programs.	357,530	1.00
FY17 Recommended	911,753	3.00

Administration

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

FY17 Recommended Changes	Expenditures	FTEs
FY16 Approved	15,178,191	23.20
Increase Cost: Department of Finance Chargeback	159,290	1.00
Multi-program adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting multiple programs.	1,157,272	1.00
FY17 Recommended	16,494,753	25.20

Budget Summary

	Actual FY15	Budget FY16	Estimate FY16	REC FY17	%Chg Bud/Rec
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LIQUOR CONTROL EXPENDITURES

	Actual FY15	Budget FY16	Estimate FY16	REC FY17	%Chg Bud/Rec
Salaries and Wages	22,092,102	22,147,818	23,694,365	24,195,704	9.2 %
Employee Benefits	8,069,847	9,009,104	8,872,715	9,384,536	4.2 %
Liquor Control Personnel Costs	30,161,949	31,156,922	32,567,080	33,580,240	7.8 %
Operating Expenses	16,376,379	17,067,076	19,269,125	18,494,065	8.4 %
Debt Service Other	7,938,245	11,002,600	10,123,000	10,932,900	-0.6 %
Capital Outlay	0	105,650	0	161,481	52.8 %
Liquor Control Expenditures	54,476,573	59,332,248	61,959,205	63,168,686	6.5 %

PERSONNEL

Full-Time	255	294	294	296	0.7 %
Part-Time	155	160	160	160	---
FTEs	336.82	426.72	426.72	432.42	1.3 %

REVENUES

Bag Tax	7,819	0	0	0	---
Investment Income	23,735	30,060	53,670	76,670	155.1 %
Liquor Licenses	1,702,657	1,570,197	1,570,197	1,570,197	---
Liquor Sales	77,199,898	81,463,676	79,846,676	84,542,843	3.8 %
Miscellaneous Revenues	138,303	0	0	0	---
Other Charges/Fees	15,222	8,740	8,740	8,740	---
Other Fines/Forfeitures	159,606	220,560	220,560	220,560	---
Other Licenses/Permits	53,540	156,000	156,000	156,000	---
Liquor Control Revenues	79,300,780	83,449,233	81,855,843	86,575,010	3.7 %

GRANT FUND - MCG

EXPENDITURES

Salaries and Wages	12,601	0	0	0	---
Employee Benefits	985	0	0	0	---
Grant Fund - MCG Personnel Costs	13,586	0	0	0	---
Operating Expenses	28,000	0	0	0	---
Grant Fund - MCG Expenditures	41,586	0	0	0	---

PERSONNEL

Full-Time	0	0	0	0	---
Part-Time	0	0	0	0	---
FTEs	0.00	0.00	0.00	0.00	---

REVENUES

Federal Grants	5,275	0	0	0	---
State Grants	2,337	0	0	0	---
Grant Fund - MCG Revenues	7,612	0	0	0	---

DEPARTMENT TOTALS

Total Expenditures	54,518,159	59,332,248	61,959,205	63,168,686	6.5 %
Total Full-Time Positions	255	294	294	296	0.7 %
Total Part-Time Positions	155	160	160	160	---
Total FTEs	336.82	426.72	426.72	432.42	1.3 %
Total Revenues	79,308,392	83,449,233	81,855,843	86,575,010	3.7 %

FY17 Recommended Changes

Expenditures FTEs

LIQUOR CONTROL

FY16 ORIGINAL APPROPRIATION

59,332,248 426.72

Changes (with service impacts)

Enhance: Reorganization and Additional Staffing to Improve Oversight and Operations	631,520	3.00
Add: Master Lease for Six Delivery Trucks [Delivery Operations]	34,000	0.00

Other Adjustments (with no service impacts)

	Expenditures	FTEs
Increase Cost: Department of Technology Services (DTS) Chargeback for Oracle Contractors [Warehouse Operations]	1,128,000	0.00
Increase Cost: Annualized Costs for Three New Retail Stores [Retail Sales Operations]	1,024,500	0.00
Increase Cost: FY17 Compensation Adjustment	594,778	0.00
Increase Cost: Annualization of FY16 Personnel Costs	461,604	1.70
Increase Cost: Group Insurance Adjustment	264,555	0.00
Increase Cost: Retail Store Leases [Retail Sales Operations]	164,403	0.00
Increase Cost: Department of Finance Chargeback [Administration]	159,290	1.00
Increase Cost: Motor Pool Adjustment	121,938	0.00
Increase Cost: Printing and Mail	4,729	0.00
Decrease Cost: Retiree Health Insurance Pre-funding	(320)	0.00
Decrease Cost: Debt Service	(3,000)	0.00
Decrease Cost: Point of Sale System (POS) [Retail Sales Operations]	(19,457)	0.00
Shift: Telecommunications to the Telecommunications Non-Departmental Account	(105,200)	0.00
Decrease Cost: Risk Management Adjustment	(111,473)	0.00
Decrease Cost: Retirement Adjustment	(213,429)	0.00
Decrease Cost: Elimination of One-Time Items [Retail Sales Operations]	(300,000)	0.00
FY17 RECOMMENDED	63,168,686	432.42

Program Summary

Program Name	FY16 APPR		FY17 REC	
	Expenditures	FTEs	Expenditures	FTEs
Warehouse Operations	8,316,529	71.46	8,757,031	73.69
Delivery Operations	6,663,620	75.80	6,975,765	78.80
Retail Sales Operations	26,742,687	242.87	28,018,895	239.34
Licensure, Regulation, and Education	1,876,998	11.39	2,010,489	12.39
Office of the Director	554,223	2.00	911,753	3.00
Administration	15,178,191	23.20	16,494,753	25.20
Total	59,332,248	426.72	63,168,686	432.42

Future Fiscal Impacts

Title	CE RECOMMENDED (\$000s)					
	FY17	FY18	FY19	FY20	FY21	FY22
LIQUOR CONTROL						
EXPENDITURES						
FY17 Recommended	63,169	63,169	63,169	63,169	63,169	63,169
No inflation or compensation change is included in outyear projections.						
Master Lease Payment for Replacement Delivery Trucks	0	60	60	60	60	60
The annualized costs of a master lease for six replacement delivery vehicles procured in FY16.						
Point of Sale System (POS)	0	(47)	(9)	9	(14)	0
These figures represent cost savings realized from the POS System.						
Retail Store Leases	0	168	340	515	695	878
The leases for 28 retail stores based on CPI assumptions (2.2%).						
Retiree Health Insurance Pre-funding	0	(73)	(155)	(197)	(243)	(243)
These figures represent the estimated cost of pre-funding retiree health insurance costs for the County's workforce.						
Labor Contracts	0	596	596	596	596	596
These figures represent the estimated annualized cost of general wage adjustments, service increments, and other negotiated items.						
Subtotal Expenditures	63,169	63,873	64,001	64,152	64,263	64,460

FY17-22 PUBLIC SERVICES PROGRAM: FISCAL PLAN

Liquor Control

FISCAL PROJECTIONS	FY16 ESTIMATE	FY17 REC	FY18 PROJECTION	FY19 PROJECTION	FY20 PROJECTION	FY21 PROJECTION	FY22 PROJECTION
ASSUMPTIONS							
Indirect Cost Rate	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
CPI (Fiscal Year)	0.8%	1.8%	2.3%	2.5%	2.7%	2.7%	2.7%
Investment Income Yield	0.35%	0.50%	1.00%	1.50%	2.50%	2.50%	3.00%
BEGINNING FUND BALANCE	4,306,913	(366,109)	2,327,771	4,327,772	4,327,772	4,327,772	4,327,772
REVENUES							
Licenses & Permits	1,726,197	1,726,197	1,765,900	1,810,047	1,858,918	1,909,109	1,960,655
Charges For Services	8,740	8,740	8,941	9,165	9,412	9,666	9,927
Fines & Forfeitures	220,560	220,560	225,633	231,274	237,518	243,931	250,517
Miscellaneous	79,900,346	84,619,513	86,809,754	89,052,834	91,350,075	93,702,830	96,112,487
Subtotal Revenues	81,855,843	86,575,010	88,810,228	91,103,320	93,455,923	95,865,536	98,333,586
INTERFUND TRANSFERS (Net Non-CIP)							
Transfers To The General Fund	(24,569,660)	(20,712,444)	(21,068,157)	(23,181,018)	(23,173,472)	(23,391,485)	(23,447,042)
Indirect Costs	(3,115,690)	(3,358,024)	(3,394,024)	(3,394,024)	(3,394,024)	(3,394,024)	(3,394,024)
Earnings Transfer	(21,453,970)	(17,185,388)	(17,505,101)	(19,786,994)	(19,779,448)	(19,997,461)	(20,053,018)
Telecommunication NDA Transfer	n/a	(169,032)	(169,032)	n/a	n/a	n/a	n/a
TOTAL RESOURCES	61,593,096	65,496,457	70,069,842	72,250,074	74,610,223	76,801,823	79,214,316
PSP OPER. BUDGET APPROP/ EXP'S.							
Operating Budget	(51,242,805)	(52,235,786)	(54,105,096)	(56,154,175)	(58,397,988)	(60,736,781)	(63,174,744)
Debt Service: Other (Non-Tax Funds only)	(10,716,400)	(10,932,900)	(10,992,600)	(10,995,600)	(10,960,900)	(10,703,200)	(10,480,500)
FFI - Labor Agreement	n/a	0	(596,296)	(596,296)	(596,296)	(596,296)	(596,296)
FFI - Retail Store Leases	n/a	n/a	(168,019)	(339,736)	(515,230)	(694,585)	(877,886)
FFI - Retiree Health Insurance Pre-Funding	n/a	n/a	72,730	154,740	197,370	243,060	243,060
FFI - POS	n/a	n/a	47,211	8,765	(9,407)	13,751	(178)
Subtotal PSP Oper Budget Approp / Exp's	(61,959,205)	(63,168,686)	(65,742,070)	(67,922,302)	(70,282,451)	(72,474,051)	(74,886,544)
TOTAL USE OF RESOURCES	(61,959,205)	(63,168,686)	(65,742,070)	(67,922,302)	(70,282,451)	(72,474,051)	(74,886,544)
YEAR END FUND BALANCE	(366,109)	2,327,771	4,327,772	4,327,772	4,327,772	4,327,772	4,327,772
END-OF-YEAR RESERVES AS A							
PERCENT OF RESOURCES	-0.6%	3.6%	6.2%	6.0%	5.8%	5.6%	5.5%

Assumptions:

1. These projections are based on the Executive's Recommended budget and include the revenue and resource assumptions of that budget. The projected future expenditures, revenues, and fund balances may vary based on changes not assumed here to fee or tax rates, usage, inflation, future labor agreements, and other factors.
2. Fund balance policy equals one month's operating expenses, one payroll, and \$1,500,000 for inventory in cash balance.
3. Operating budget expenditures grow with CPI.
4. Net profit growth is estimated at 2.5% per year.

Major Issues:

1. The Liquor Fund is projected to end FY16 with a negative fund balance due to expenses related to an organization-wide improvement effort. The fund is projected to return to its fund balance policy in FY18.

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