



# Liquor Control

**Recommended FY18 Budget**

**\$65,161,319**

**Full Time Equivalents**

**438.20**

## 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. The Department strives to provide its customers with the added benefits inherent with the oversight provided by the Montgomery County Government.

## Budget Overview

The total recommended FY18 Operating Budget for the Department of Liquor Control is \$65,161,319, an increase of \$2,044,058 or 3.24 percent from the FY17 Approved Budget of \$63,117,261. Personnel Costs comprise 53.65 percent of the budget for 305 full-time position(s) and 143 part-time position(s), and a total of 438.20 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 46.35 percent of the FY18 budget.

The Department of Liquor Control began an organization-wide improvement effort in 2015 focused on customer service, retail, delivery, and warehouse operations. The recommended FY18 Operating Budget reflects a continued commitment to creating a customer focused and efficient operation.




In FY18, the Department of Liquor Control will transfer \$22.7 million to the General Fund and make \$10.9 million in debt service payments on Liquor Control Revenue Bonds for a total contribution of \$33.6 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**





## Department Performance Measures

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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 FY17 estimates reflect funding based on the FY17 approved budget. The FY18 and FY19 figures are performance targets based on the FY18 recommended budget and funding for comparable service levels in FY19.









## Initiatives

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-  In FY18, DLC will transfer \$22.7 million to the General Fund and make \$10.9 million in debt service payments on Liquor Control Revenue Bonds for a total contribution of \$33.6 million.
-  Rebrand DLC with a customer service focus
-  Establish additional customer service and product knowledge classes for retail staff
-  Improve marketing and pricing strategies




## Accomplishments

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-  Net sales for FY16 were \$292.5 million. This represents growth over the previous year of \$15.8 million or 5.71 percent
-  Hired a Director with private sector experience, a pricing team to improve accuracy and competitiveness, and an administrative team to improve oversight and analysis
-  Developed a Strategic Plan for Retail Operations
-  Developed a long-range plan for the replacement of delivery vehicles to reduce maintenance costs and improve delivery operations
-  Implemented a Communication Center in FY16 to centralize customer service inquiries and issues
-  Decreased overtime expenditures for the first two quarters of FY17 by 31 percent when compared to the same period in FY16.
-  Opened three new retail stores in FY17 featuring upscale designs to enhance the shopping experience and increase access to retail locations
-  Received two National Association of Counties (NACo) awards in FY17 for the Drunk Driving Prevention Program and the Mystery Shopping Incentive Program

## Innovations and Productivity Improvements

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-  Streamlined case movement and improved inventory management through new warehouse racking systems
-  Established a 24-hour order-to-delivery standard, replacing the previous 48-hour cycle, enabling licensees to receive merchandise more quickly
-  Implemented rigorous cycle counts to improve inventory control

## Collaboration and Partnerships

### \* DLC Action Plan and DLCStat

DLC worked with the County Executive's Office, CountyStat, Internal Audit, Technology Services, Finance, Office of Management and Budget, and General Services to implement an action plan for service improvement. DLCStat meetings are held every other month to review performance data and implementation updates.

### \* Communication Center

DLC and the Office of Public Information developed a Communication Center to respond to and track customer questions, comments and complaints.

### \* Centralized Accounts Payable and Accounts Receivable

DLC and Department of Finance centralized Accounts Payable and Accounts Receivable functions and related reporting requirements via a shared services model.

### \* Mystery Shopping Program

Partnered with the Responsible Retailing Forum to conduct a Mystery Shopping Program in the Bethesda area to ensure servers and sellers check IDs for all young buyers. Those who successfully checked IDs were rewarded with a small cash award paid from a National Alcohol Beverage Control Association grant.

## Program Contacts

Contact Courtney Orsini of the Department of Liquor Control at 240.777.1921 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

### \* Administration

This program provides accounting, financial, and information technology services for the department. Finance and accounting staff perform special analyses, reporting, and 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.

FY18 Recommended Changes	Expenditures	FTEs
<b>FY17 Approved</b>	<b>16,494,753</b>	<b>25.20</b>
Decrease Cost: IT Cost Savings	(28,354)	0.00
Decrease Cost: Finance Chargeback for Accounts Receivable Shared Services	(58,180)	(0.50)
Multi-program adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting multiple programs.	(433,084)	1.00
<b>FY18 Recommended</b>	<b>15,975,135</b>	<b>25.70</b>

## ☀ 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 FY15	Actual FY16	Estimated FY17	Target FY18	Target FY19
Inventory as a percent of Cost of Goods Sold (COGS)	15.9	14.6	14.5	14.5	14.5
Inventory as a Percent of DLC Sales	11.5	10.7	10.7	10.7	10.7

FY18 Recommended Changes	Expenditures	FTEs
<b>FY17 Approved</b>	<b>8,757,031</b>	<b>73.69</b>
Multi-program adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting multiple programs.	1,062,645	5.54
<b>FY18 Recommended</b>	<b>9,819,676</b>	<b>79.23</b>

## ☀ Delivery Operations

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

FY18 Recommended Changes	Expenditures	FTEs
<b>FY17 Approved</b>	<b>7,854,364</b>	<b>87.80</b>
Multi-program adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting multiple programs.	483,346	5.20
<b>FY18 Recommended</b>	<b>8,337,710</b>	<b>93.00</b>

## ☀ 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.

FY18 Recommended Changes	Expenditures	FTEs
<b>FY17 Approved</b>	<b>27,140,295</b>	<b>230.34</b>
Decrease Cost: Point of Sale System (POS)	(32,719)	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.	1,271,493	(2.46)
<b>FY18 Recommended</b>	<b>28,379,069</b>	<b>227.88</b>

## ☀ 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 FY15	Actual FY16	Estimated FY17	Target FY18	Target FY19
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)	4.92	4.7	5	5	5
Rating of licensees satisfied with Licensing Application Process (Average score on a 1-5 scale)	4.82	4.7	5	5	5

FY18 Recommended Changes	Expenditures	FTEs
<b>FY17 Approved</b>	<b>2,010,489</b>	<b>12.39</b>
Multi-program adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting multiple programs.	(70,626)	(3.00)
<b>FY18 Recommended</b>	<b>1,939,863</b>	<b>9.39</b>

## ☀ Office of the Director

This program provides the overall direction for the Department.

Program Performance Measures	Actual FY15	Actual FY16	Estimated FY17	Target FY18	Target FY19
Annual growth in DLC retail and wholesale sales (percent)	3.78	5.6	5	5	5
Gross profit margin of DLC retail and wholesale operations (percent)	27.9	26.9	26	26	26

FY18 Recommended Changes	Expenditures	FTEs
<b>FY17 Approved</b>	<b>860,329</b>	<b>3.00</b>
Multi-program adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting multiple programs.	(150,463)	0.00
<b>FY18 Recommended</b>	<b>709,866</b>	<b>3.00</b>

## BUDGET SUMMARY

	Actual FY16	Budget FY17	Estimate FY17	Recommended FY18	%Chg Bud/Rec
<b>LIQUOR CONTROL</b>					
<b>EXPENDITURES</b>					
Salaries and Wages	24,447,496	24,144,280	24,266,729	25,601,349	6.0 %
Employee Benefits	8,765,210	9,384,535	9,009,163	9,358,163	-0.3 %
<b>Liquor Control Personnel Costs</b>	<b>33,212,706</b>	<b>33,528,815</b>	<b>33,275,892</b>	<b>34,959,512</b>	<b>4.3 %</b>
Operating Expenses	18,140,953	18,494,065	21,593,004	18,470,926	-0.1 %
Capital Outlay	2,006,733	161,481	161,481	738,281	357.2 %
Debt Service Other	10,718,470	10,932,900	10,932,900	10,992,600	0.6 %
<b>Liquor Control Expenditures</b>	<b>64,078,862</b>	<b>63,117,261</b>	<b>65,963,277</b>	<b>65,161,319</b>	<b>3.2 %</b>
<b>PERSONNEL</b>					
Full-Time	294	296	296	305	3.0 %
Part-Time	160	160	160	143	-10.6 %

## BUDGET SUMMARY

	Actual FY16	Budget FY17	Estimate FY17	Recommended FY18	%Chg Bud/Rec
FTEs	426.72	432.42	432.42	438.20	1.3 %
<b>REVENUES</b>					
Bag Tax	8,027	0	0	0	—
Investment Income	27,920	76,670	16,750	28,710	-62.6 %
Liquor Licenses	1,805,302	1,570,197	1,570,197	1,570,197	—
Liquor Sales	80,949,860	84,542,843	82,532,427	86,212,495	2.0 %
Miscellaneous Revenues	46,183	0	0	0	—
Other Charges/Fees	19,220	8,740	8,740	8,740	—
Other Fines/Forfeitures	194,402	220,560	220,560	220,560	—
Other Licenses/Permits	88,220	156,000	156,000	156,000	—
<b>Liquor Control Revenues</b>	<b>83,139,134</b>	<b>86,575,010</b>	<b>84,504,674</b>	<b>88,196,702</b>	<b>1.9 %</b>
<b>GRANT FUND - MCG</b>					
<b>EXPENDITURES</b>					
Salaries and Wages	13,561	0	0	0	—
Employee Benefits	1,373	0	0	0	—
<b>Grant Fund - MCG Personnel Costs</b>	<b>14,934</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>—</b>
Operating Expenses	5,000	0	0	0	—
<b>Grant Fund - MCG Expenditures</b>	<b>19,934</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>—</b>
<b>PERSONNEL</b>					
Full-Time	0	0	0	0	—
Part-Time	0	0	0	0	—
FTEs	0.00	0.00	0.00	0.00	—
<b>REVENUES</b>					
Federal Grants	(337)	0	0	0	—
State Grants	5,000	0	0	0	—
<b>Grant Fund - MCG Revenues</b>	<b>4,663</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>—</b>
<b>DEPARTMENT TOTALS</b>					
<b>Total Expenditures</b>	<b>64,098,796</b>	<b>63,117,261</b>	<b>65,963,277</b>	<b>65,161,319</b>	<b>3.2 %</b>
<b>Total Full-Time Positions</b>	<b>294</b>	<b>296</b>	<b>296</b>	<b>305</b>	<b>3.0 %</b>
<b>Total Part-Time Positions</b>	<b>160</b>	<b>160</b>	<b>160</b>	<b>143</b>	<b>-10.6 %</b>
<b>Total FTEs</b>	<b>426.72</b>	<b>432.42</b>	<b>432.42</b>	<b>438.20</b>	<b>1.3 %</b>
<b>Total Revenues</b>	<b>83,143,797</b>	<b>86,575,010</b>	<b>84,504,674</b>	<b>88,196,702</b>	<b>1.9 %</b>

## FY18 RECOMMENDED CHANGES

	Expenditures	FTEs
<b>LIQUOR CONTROL</b>		

## FY18 RECOMMENDED CHANGES

	Expenditures	FTEs
<b>FY17 ORIGINAL APPROPRIATION</b>	<b>63,117,261</b>	<b>432.42</b>
<b><u>Changes (with service impacts)</u></b>		
Add: Operational Enhancements	1,906,460	0.00
<b><u>Other Adjustments (with no service impacts)</u></b>		
Increase Cost: FY18 Compensation Adjustment	816,506	0.00
Increase Cost: Annualization of FY17 Compensation Increases	315,804	0.00
Increase Cost: Annualization of FY17 Personnel Costs	189,716	0.00
Increase Cost: Retiree Health Insurance Pre-Funding	181,650	0.00
Increase Cost: Risk Management Adjustment	131,203	0.00
Increase Cost: Mid-Year Personnel Changes	128,081	6.28
Increase Cost: Motor Pool Adjustment	84,010	0.00
Increase Cost: Debt Service	60,000	0.00
Increase Cost: Retirement Adjustment	38,770	0.00
Decrease Cost: Printing and Mail	(14,297)	0.00
Decrease Cost: IT Cost Savings [Administration]	(28,354)	0.00
Decrease Cost: Point of Sale System (POS) [Retail Sales Operations]	(32,719)	0.00
Decrease Cost: Finance Chargeback for Accounts Receivable Shared Services [Administration]	(58,180)	(0.50)
Decrease Cost: FY18 Operational Savings	(1,674,592)	0.00
<b>FY18 RECOMMENDED</b>	<b>65,161,319</b>	<b>438.20</b>

## PROGRAM SUMMARY

Program Name	FY17 APPR Expenditures	FY17 APPR FTEs	FY18 REC Expenditures	FY18 REC FTEs
Administration	16,494,753	25.20	15,975,135	25.70
Warehouse Operations	8,757,031	73.69	9,819,676	79.23
Delivery Operations	7,854,364	87.80	8,337,710	93.00
Retail Sales Operations	27,140,295	230.34	28,379,069	227.88
Licensure, Regulation and Education	2,010,489	12.39	1,939,863	9.39
Office of the Director	860,329	3.00	709,866	3.00
<b>Total</b>	<b>63,117,261</b>	<b>432.42</b>	<b>65,161,319</b>	<b>438.20</b>

## FUTURE FISCAL IMPACTS

CE RECOMMENDED (\$000S)

Title	FY18	FY19	FY20	FY21	FY22	FY23
<b>LIQUOR CONTROL</b>						
<b>EXPENDITURES</b>						

## FUTURE FISCAL IMPACTS

CE RECOMMENDED (\$000S)

Title	FY18	FY19	FY20	FY21	FY22	FY23
<b>FY18 Recommended</b>	<b>65,161</b>	<b>65,161</b>	<b>65,161</b>	<b>65,161</b>	<b>65,161</b>	<b>65,161</b>
No inflation or compensation change is included in outyear projections.						
<b>Elimination of One-Time Items Recommended in FY18</b>	<b>0</b>	<b>(1,330)</b>	<b>(1,330)</b>	<b>(1,330)</b>	<b>(1,330)</b>	<b>(1,330)</b>
Items recommended for one-time funding in FY18, including operational enhancements, will be eliminated from the base in the outyears.						
<b>Debt Service</b>	<b>0</b>	<b>3</b>	<b>(32)</b>	<b>(290)</b>	<b>(512)</b>	<b>(512)</b>
Debt service estimates include Liquor Control Revenue Bonds, Master Lease Agreements for Forklifts, Delivery Trucks, and ERP system.						
<b>Retail Store Leases</b>	<b>0</b>	<b>153</b>	<b>309</b>	<b>469</b>	<b>631</b>	<b>631</b>
The leases for retail stores based on CPI assumptions (2.0%).						
<b>Retiree Health Insurance Pre-funding</b>	<b>0</b>	<b>9</b>	<b>34</b>	<b>41</b>	<b>52</b>	<b>52</b>
<b>Labor Contracts</b>	<b>0</b>	<b>354</b>	<b>354</b>	<b>354</b>	<b>354</b>	<b>354</b>
These figures represent the estimated annualized cost of general wage adjustments, service increments, and other negotiated items.						
<b>Subtotal Expenditures</b>	<b>65,161</b>	<b>64,350</b>	<b>64,496</b>	<b>64,405</b>	<b>64,356</b>	<b>64,356</b>



**FY18-23 PUBLIC SERVICES PROGRAM: FISCAL PLAN**

**Liquor Control**

FISCAL PROJECTIONS	FY17 ESTIMATE	FY18 REC	FY19 PROJECTION	FY20 PROJECTION	FY21 PROJECTION	FY22 PROJECTION	FY23 PROJECTION
<b>ASSUMPTIONS</b>							
Indirect Cost Rate	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
CPI (Fiscal Year)	1.7%	2.3%	2.3%	2.4%	2.5%	2.5%	2.5%
Investment Income Yield	0.70%	1.20%	1.70%	2.20%	2.70%	3.00%	3.00%
<b>BEGINNING FUND BALANCE</b>	<b>2,290,672</b>	<b>1,859,094</b>	<b>2,200,000</b>	<b>3,300,746</b>	<b>4,569,463</b>	<b>4,673,821</b>	<b>4,783,620</b>
<b>REVENUES</b>							
Licenses & Permits	1,726,197	1,726,197	1,765,900	1,807,398	1,851,679	1,897,971	1,945,421
Charges For Services	8,740	8,740	8,941	9,151	9,375	9,610	9,850
Fines & Forfeitures	220,560	220,560	225,633	230,935	236,593	242,508	248,571
Miscellaneous	82,549,177	86,241,205	88,408,477	90,629,633	92,906,018	95,234,233	97,613,295
<b>Subtotal Revenues</b>	<b>84,504,674</b>	<b>88,196,702</b>	<b>90,408,951</b>	<b>92,677,117</b>	<b>95,003,666</b>	<b>97,384,322</b>	<b>99,817,136</b>
<b>INTERFUND TRANSFERS (Net Non-CIP)</b>							
Transfers To The General Fund	(20,712,444)	(22,676,698)	(22,904,117)	(22,827,829)	(24,242,615)	(24,382,973)	(24,435,080)
Indirect Costs	(3,358,024)	(3,495,951)	(3,531,382)	(3,531,382)	(3,531,382)	(3,531,382)	(3,531,382)
Earnings Transfer	(17,185,388)	(19,011,715)	(19,372,735)	(19,296,447)	(20,711,233)	(20,851,591)	(20,903,698)
Telecommunications	(169,032)	(169,032)	0	0	0	0	0
<b>TOTAL RESOURCES</b>	<b>66,082,902</b>	<b>67,379,098</b>	<b>69,704,834</b>	<b>73,150,034</b>	<b>75,330,514</b>	<b>77,675,170</b>	<b>80,165,676</b>
<b>PSP OPER. BUDGET APPROP/ EXPS.</b>							
Operating Budget	(55,030,377)	(54,168,719)	(56,096,808)	(58,126,989)	(60,293,995)	(62,577,729)	(64,954,320)
Debt Service: Other (Non-Tax Funds only)	(10,932,900)	(10,992,600)	(10,995,600)	(10,960,900)	(10,703,200)	(10,480,500)	(10,480,500)
Labor Agreement	n/a	0	(354,311)	(354,311)	(354,311)	(354,311)	(354,311)
Elimination of One-Time Items	n/a	n/a	1,329,660	1,329,660	1,329,660	1,329,660	1,329,660
Retail Store Leases	n/a	n/a	(153,139)	(309,341)	(468,667)	(631,180)	(631,180)
Retiree Health Insurance Pre-funding	n/a	n/a	(8,890)	(33,690)	(41,180)	(52,490)	(52,490)
Adj for Bond Proceeds Applied to Debt Service	1,739,469	107,221	n/a	n/a	n/a	n/a	n/a
<b>Subtotal PSP Oper Budget Approp / Exp's</b>	<b>(64,223,808)</b>	<b>(65,054,098)</b>	<b>(66,279,088)</b>	<b>(68,455,571)</b>	<b>(70,531,693)</b>	<b>(72,766,550)</b>	<b>(75,143,141)</b>
<b>OTHER CLAIMS ON FUND BALANCE</b>	<b>0</b>	<b>(125,000)</b>	<b>(125,000)</b>	<b>(125,000)</b>	<b>(125,000)</b>	<b>(125,000)</b>	<b>(125,000)</b>
<b>TOTAL USE OF RESOURCES</b>	<b>(64,223,808)</b>	<b>(65,179,098)</b>	<b>(66,404,088)</b>	<b>(68,580,571)</b>	<b>(70,656,693)</b>	<b>(72,891,550)</b>	<b>(75,268,141)</b>
<b>YEAR END FUND BALANCE</b>	<b>1,859,094</b>	<b>2,200,000</b>	<b>3,300,746</b>	<b>4,569,463</b>	<b>4,673,821</b>	<b>4,783,620</b>	<b>4,897,535</b>
<b>END-OF-YEAR RESERVES AS A PERCENT OF RESOURCES</b>	<b>2.8%</b>	<b>3.3%</b>	<b>4.7%</b>	<b>6.2%</b>	<b>6.2%</b>	<b>6.2%</b>	<b>6.1%</b>

**Assumptions:**

1. These projections are based on the Executive's Recommended budget and include 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 expenditures grow with CPI.
4. Net profit growth is estimated at 2.5% per year.
5. Other Claims on Fund Balance include an annual set-aside for retail (\$25,000) and fleet (\$100,000) improvement plans.
6. Bond Proceeds from the 2013 Liquor Bond Series were applied to FY17 and FY18 debt service payments, as allowed under IRS regulations.
7. Removal of One-Time Expenses include: hardware, software, and retail store expenses.

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