



Liquor Control

RECOMMENDED FY19 BUDGET

\$63,990,451

FULL TIME EQUIVALENTS

442.20

 ROBERT DORFMAN, DIRECTOR

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 FY19 Operating Budget for the Department of Liquor Control is \$63,990,451, a decrease of \$1,170,868 or 1.80 percent from the FY18 Approved Budget of \$65,161,319. Personnel Costs comprise 54.63 percent of the budget for 307 full-time position(s) and 148 part-time position(s), and a total of 442.20 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 45.37 percent of the FY19 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 FY19 Operating Budget reflects a continued commitment to creating a customer focused and efficient operation.





In FY19, the Department of Liquor Control will transfer \$28.2 million to the General Fund and make \$11.4 million in debt service payments on Liquor Control Revenue Bonds for a total contribution of \$39.6 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 FY18 estimates reflect funding based on the FY18 approved budget. The FY19 and FY20 figures are performance targets based on the FY19 recommended budget and funding for comparable service levels in FY20.





INITIATIVES

-  In FY19, DLC will transfer \$28.2 million to the General Fund and make \$11.4 million in debt service payments on Liquor Control Revenue Bonds for a total contribution of \$39.6 million.
-  Establish training programs for new employees.
-  Enhance the iStore website to improve the user experience.
-  Improve retail operations by consolidating and renovating select stores.

ACCOMPLISHMENTS

-  Net sales for FY17 were \$296.2 million. This represents growth over the previous year of \$3.7 million or 1.3 percent.
-  Hired a Director with private sector experience; a Senior Marketing Officer to build a customer focused culture and improve retail programming; a Pricing Team to improve accuracy and competitiveness; and an Administrative Team to improve oversight and analysis.
-  Completed the DLC Improvement Action Plan in 2017. Progress and results were tracked through accountability meetings led by the Chief Administrative Officer and the County Executive's CountyStat Office.
-  The DLC Legislative Outreach Program received the 2017 National StateWays Best Practices Award.
-  The Licensing, Regulation, and Education Division received the 2017 National Regulator of the Year Award.

INNOVATIONS AND PRODUCTIVITY IMPROVEMENTS

-  Installed software to improve reporting capabilities in the Licensing, Regulation, and Education Division.
-  Implemented scanning and voice picking software to improve speed and accuracy in the DLC warehouse.
-  Replaced 16 delivery trucks to improve delivery operations and lower fleet maintenance costs.
-  Replaced contracted warehouse operations with County staff to improve internal controls.

COLLABORATION AND PARTNERSHIPS

* "I Take It Personally" Campaign

DLC and Police launched a public awareness campaign to prevent drunk driving and patron over-consumption.

Partners

Department of Police

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.

FY19 Recommended Changes	Expenditures	FTEs
FY18 Approved	15,975,135	25.70
Increase Cost: Debt Service	382,800	0.00
Technical Adj: Finance Chargeback	0	(1.00)
Decrease Cost: Contract Savings	(87,000)	0.00
Decrease Cost: Lapse Sr. IT Specialist Position	(116,970)	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.	(585,017)	(2.00)
FY19 Recommended	15,568,948	22.70

* Warehouse Operations

This program involves management of the County's beverage alcohol warehouse and includes the purchase, receipt, and storage of over 35,000 different stock and special order items.

Program Performance Measures	Actual FY16	Actual FY17	Estimated FY18	Target FY19	Target FY20
Inventory as a percent of Cost of Goods Sold (COGS)	14.6	15.6	15.5	15.5	15.5
Inventory as a Percent of DLC Sales	10.7	11.4	11.5	11.5	11.5

FY19 Recommended Changes	Expenditures	FTEs
FY18 Approved	9,819,676	79.23
Decrease Cost: Warehouse Division Overtime	(42,010)	0.00

FY19 Recommended Changes	Expenditures	FTEs
Decrease Cost: Eliminate Full-Time Warehouse Worker Position	(56,998)	(1.00)
Decrease Cost: Utilities Savings	(140,000)	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.	(690,468)	18.00
FY19 Recommended	8,890,200	96.23

Delivery Operations

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

FY19 Recommended Changes	Expenditures	FTEs
FY18 Approved	8,337,710	93.00
Decrease Cost: Delivery Division Overtime	(65,640)	0.00
Decrease Cost: Fleet Maintenance Savings	(100,000)	0.00
Re-align: Fleet Replacement Strategy	(576,000)	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.	(284,026)	(10.00)
FY19 Recommended	7,312,044	83.00

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.

FY19 Recommended Changes	Expenditures	FTEs
FY18 Approved	28,379,069	227.88
Technical Adj: Credit Card Fees	2,200,000	0.00
Enhance: Retail Store Renovations	440,000	0.00
Decrease Cost: Retail Division Overtime	(107,650)	0.00
Decrease Cost: Eliminate Assistant Store Manager Position and Lapse Five Part-Time Clerk Positions	(321,634)	(1.00)
Eliminate: Consolidate Two Retail Stores	(1,225,106)	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.	(362,988)	(2.00)
FY19 Recommended	29,001,691	224.88

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	Actual	Estimated	Target	Target
------------------------------	--------	--------	-----------	--------	--------

	FY16	FY17	FY18	FY19	FY20
Rating of licensees satisfied with Licensing Application Process (Average score on a 1-5 scale)	4.7	4.7	5	5	5
Annual alcohol compliance checks to minors (under 21)	400	400	400	400	400
Rating of Licensed Businesses satisfied with ALERT Training (Average Score on a 1-5 Scale)	4.7	4.7	5	5	5

FY19 Recommended Changes	Expenditures	FTEs
FY18 Approved	1,939,863	9.39
Decrease Cost: Operating Expenses	(20,000)	0.00
Decrease Cost: Lapse Program Specialist I Position	(78,301)	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.	(22,250)	1.00
FY19 Recommended	1,819,312	10.39

Office of the Director

This program provides the overall direction for the Department.

Program Performance Measures	Actual FY16	Actual FY17	Estimated FY18	Target FY19	Target FY20
Annual growth in DLC retail and wholesale sales (percent)	5.6	1.3	1.8	1.2	0.9
Gross profit margin of DLC retail and wholesale operations (percent)	26.9	27.1	28.9	29.4	30.0

FY19 Recommended Changes	Expenditures	FTEs
FY18 Approved	709,866	3.00
Multi-program adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting multiple programs.	688,390	2.00
FY19 Recommended	1,398,256	5.00

BUDGET SUMMARY

	Actual FY17	Budget FY18	Estimate FY18	Recommended FY19	%Chg Bud/Rec
LIQUOR CONTROL					
EXPENDITURES					
Salaries and Wages	25,120,583	25,601,349	26,301,192	25,293,311	-1.2 %
Employee Benefits	8,933,710	9,358,163	9,020,298	9,663,233	3.3 %
Liquor Control Personnel Costs	34,054,293	34,959,512	35,321,490	34,956,544	—
Operating Expenses	21,209,193	18,470,926	19,345,227	17,136,826	-7.2 %
Capital Outlay	3,561,174	738,281	738,281	521,681	-29.3 %
Debt Service Other	9,909,371	10,992,600	10,992,600	11,375,400	3.5 %
Liquor Control Expenditures	68,734,031	65,161,319	66,397,598	63,990,451	-1.8 %
PERSONNEL					
Full-Time	296	305	305	307	0.7 %
Part-Time	160	143	143	148	3.5 %
FTEs	432.42	438.20	438.20	442.20	0.9 %

BUDGET SUMMARY

	Actual FY17	Budget FY18	Estimate FY18	Recommended FY19	%Chg Bud/Rec
REVENUES					
Bag Tax	7,693	0	0	0	—
Investment Income	78,759	28,710	129,290	183,160	538.0 %
Liquor Licenses	1,848,400	1,570,197	1,570,197	1,570,197	—
Liquor Sales	80,282,178	86,212,495	87,014,065	89,558,487	3.9 %
Miscellaneous Revenues	180,406	0	0	0	—
Other Charges/Fees	17,830	8,740	8,740	8,740	—
Other Fines/Forfeitures	218,464	220,560	220,560	220,560	—
Other Licenses/Permits	65,400	156,000	156,000	156,000	—
Liquor Control Revenues	82,699,130	88,196,702	89,098,852	91,697,144	4.0 %

GRANT FUND - MCG

EXPENDITURES					
Salaries and Wages	10,479	0	0	0	—
Employee Benefits	746	0	0	0	—
Grant Fund - MCG Personnel Costs	11,225	0	0	0	—
Operating Expenses	20,801	0	0	0	—
Grant Fund - MCG Expenditures	32,026	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	3,332	0	0	0	—
Miscellaneous Revenues	(6,699)	0	0	0	—
Other Intergovernmental	25,000	0	0	0	—
Grant Fund - MCG Revenues	21,633	0	0	0	—

DEPARTMENT TOTALS

Total Expenditures	68,766,057	65,161,319	66,397,598	63,990,451	-1.8 %
Total Full-Time Positions	296	305	305	307	0.7 %
Total Part-Time Positions	160	143	143	148	3.5 %
Total FTEs	432.42	438.20	438.20	442.20	0.9 %
Total Revenues	82,720,763	88,196,702	89,098,852	91,697,144	4.0 %

FY19 RECOMMENDED CHANGES

	Expenditures	FTEs
LIQUOR CONTROL		

FY19 RECOMMENDED CHANGES

	Expenditures	FTEs
FY18 ORIGINAL APPROPRIATION	65,161,319	438.20
<u>Changes (with service impacts)</u>		
Enhance: Retail Store Renovations [Retail Sales Operations]	440,000	0.00
Eliminate: Consolidate Two Retail Stores [Retail Sales Operations]	(1,225,106)	0.00
<u>Other Adjustments (with no service impacts)</u>		
Technical Adj: Credit Card Fees [Retail Sales Operations]	2,200,000	0.00
Increase Cost: FY19 Compensation Adjustment	1,047,571	0.00
Increase Cost: Debt Service [Administration]	382,800	0.00
Increase Cost: Annualization of FY18 Personnel Costs	133,582	0.00
Increase Cost: Motor Pool Adjustment	82,531	0.00
Increase Cost: Retail Store Leases	81,500	0.00
Increase Cost: Risk Management Adjustment	21,769	0.00
Increase Cost: OPEB Adjustment	8,890	0.00
Increase Cost: Printing and Mail	2,155	0.00
Technical Adj: Finance Chargeback [Administration]	0	(1.00)
Decrease Cost: IT Cost Savings	(4,060)	0.00
Decrease Cost: Operating Expenses [Licensure, Regulation and Education]	(20,000)	0.00
Decrease Cost: Warehouse Division Overtime [Warehouse Operations]	(42,010)	0.00
Decrease Cost: Eliminate Full-Time Warehouse Worker Position [Warehouse Operations]	(56,998)	(1.00)
Decrease Cost: Delivery Division Overtime [Delivery Operations]	(65,640)	0.00
Decrease Cost: Lapse Program Specialist I Position [Licensure, Regulation and Education]	(78,301)	0.00
Decrease Cost: Contract Savings [Administration]	(87,000)	0.00
Decrease Cost: Fleet Maintenance Savings [Delivery Operations]	(100,000)	0.00
Decrease Cost: Retirement Adjustment	(107,270)	0.00
Decrease Cost: Retail Division Overtime [Retail Sales Operations]	(107,650)	0.00
Decrease Cost: Lapse Sr. IT Specialist Position [Administration]	(116,970)	0.00
Decrease Cost: Utilities Savings [Warehouse Operations]	(140,000)	0.00
Decrease Cost: Misc. Operating Expense Savings	(250,000)	0.00
Decrease Cost: Eliminate Assistant Store Manager Position and Lapse Five Part-Time Clerk Positions [Retail Sales Operations]	(321,634)	(1.00)
Re-align: Fleet Replacement Strategy [Delivery Operations]	(576,000)	0.00
Re-align: Mid-Year Personnel and Operating Changes	(943,367)	7.00
Decrease Cost: Elimination of One-Time Items Approved in FY18	(1,329,660)	0.00
FY19 RECOMMENDED	63,990,451	442.20

PROGRAM SUMMARY

Program Name	FY18 APPR Expenditures	FY18 APPR FTEs	FY19 REC Expenditures	FY19 REC FTEs
--------------	---------------------------	-------------------	--------------------------	------------------

PROGRAM SUMMARY

Program Name	FY18 APPR Expenditures	FY18 APPR FTEs	FY19 REC Expenditures	FY19 REC FTEs
Administration	15,975,135	25.70	15,568,948	22.70
Warehouse Operations	9,819,676	79.23	8,890,200	96.23
Delivery Operations	8,337,710	93.00	7,312,044	83.00
Retail Sales Operations	28,379,069	227.88	29,001,691	224.88
Licensure, Regulation and Education	1,939,863	9.39	1,819,312	10.39
Office of the Director	709,866	3.00	1,398,256	5.00
Total	65,161,319	438.20	63,990,451	442.20

FUTURE FISCAL IMPACTS

CE RECOMMENDED (\$000S)

Title	FY19	FY20	FY21	FY22	FY23	FY24
LIQUOR CONTROL						
EXPENDITURES						
FY19 Recommended	63,990	63,990	63,990	63,990	63,990	63,990
No inflation or compensation change is included in outyear projections.						
Elimination of One-Time Items Recommended in FY19	0	(440)	(440)	(440)	(440)	(440)
Items recommended for one-time funding in FY19, including retail store improvements, will be eliminated from the base in the outyears.						
Annualized Savings from Store Consolidation	0	(589)	(589)	(589)	(589)	(589)
Annualized savings from the consolidation of two stores in FY19.						
Debt Service	0	(15)	(192)	(335)	(628)	(758)
Debt service estimates include Liquor Control Revenue Bonds, Master Lease Agreements for Forklifts, Delivery Trucks, and ERP system.						
Restore One-Time Lapse Increase	0	458	458	458	458	458
Restoration of one-time lapse adjustment in the budget development year						
Retail Store Leases	0	138	279	423	570	719
The leases for retail stores based on CPI assumptions (2.0%).						
Retiree Health Insurance Pre-funding	0	25	32	44	44	44
Labor Contracts	0	551	551	551	551	551
These figures represent the estimated annualized cost of general wage adjustments, service increments, and other negotiated items.						
Subtotal Expenditures	63,990	64,118	64,089	64,102	63,956	63,975

FY19-24 PUBLIC SERVICES PROGRAM: FISCAL PLAN									
Liquor Control									
FISCAL PROJECTIONS	FY18 ESTIMATE	FY19 REC	FY20 PROJECTION	FY21 PROJECTION	FY22 PROJECTION	FY23 PROJECTION	FY24 PROJECTION		
ASSUMPTIONS									
Indirect Cost Rate	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
CPI (Fiscal Year)	1.6%	2.0%	2.1%	2.2%	2.3%	2.4%	2.4%	2.4%	2.4%
Investment Income Yield	0.012	0.017	0.022	0.027	0.032	0.032	0.032	0.032	0.032
BEGINNING FUND BALANCE	2,427,629	2,707,801	2,243,031	2,700,000	3,300,000	3,800,000	3,800,000	3,800,000	4,539,204
REVENUES									
Licenses & Permits	1,726,197	1,726,197	1,761,929	1,800,692	1,842,108	1,885,950	1,931,778	1,981,778	1,931,778
Charges For Services	8,740	8,740	8,921	9,117	9,327	9,549	9,781	9,549	9,781
Fines & Forfeitures	220,560	220,560	225,126	230,078	235,370	240,972	246,828	246,828	246,828
Miscellaneous	87,143,355	89,741,647	92,416,272	95,169,519	98,003,747	100,867,517	103,817,199	100,867,517	103,817,199
Subtotal Revenues	89,098,852	91,697,144	94,412,247	97,209,406	100,090,552	103,003,987	106,005,586	103,003,987	106,005,586
INTERFUND TRANSFERS (Net Non-CIP)	(24,828,303)	(28,171,463)	(28,097,404)	(28,909,318)	(29,881,010)	(30,581,450)	(31,998,397)	(30,581,450)	(31,998,397)
Transfers To The General Fund	(24,828,303)	(28,171,463)	(28,097,404)	(28,909,318)	(29,881,010)	(30,581,450)	(31,998,397)	(30,581,450)	(31,998,397)
Indirect Costs	(3,495,951)	(3,495,951)	(3,550,721)	(3,550,721)	(3,550,721)	(3,550,721)	(3,550,721)	(3,550,721)	(3,550,721)
Earnings Transfer	(21,163,320)	(24,506,777)	(24,546,683)	(25,358,597)	(26,330,289)	(27,030,729)	(28,447,676)	(27,030,729)	(28,447,676)
Telecommunications NDA	(169,032)	(169,032)	0	0	0	0	0	0	0
TOTAL RESOURCES	66,698,178	66,233,482	68,557,874	71,000,088	73,509,542	76,222,537	78,546,393	76,222,537	78,546,393
CIP CURRENT REVENUE APPROP.	0	0	0	0	0	0	0	0	0
PSP OPER. BUDGET APPROP/ EXP'S.									
Operating Budget	(55,405,198)	(52,615,051)	(54,354,412)	(56,225,822)	(58,222,832)	(60,343,062)	(62,577,376)	(60,343,062)	(62,577,376)
Debt Service: Other (Non-Tax Funds only)	(10,992,400)	(11,375,400)	(11,375,400)	(11,375,400)	(11,375,400)	(11,375,400)	(11,375,400)	(11,375,400)	(11,375,400)
Labor Agreement	n/a	n/a	(550,665)	(550,665)	(550,665)	(550,665)	(550,665)	(550,665)	(550,665)
FFI - Annualize Savings From Store Consolidation	n/a	n/a	589,068	589,068	589,068	589,068	589,068	589,068	589,068
FFI - Removal of FY19 One-time Expenses	n/a	n/a	440,000	440,000	440,000	440,000	440,000	440,000	440,000
FFI - Debt Service	n/a	n/a	14,700	192,400	335,100	628,250	758,400	628,250	758,400
FFI - Retiree Health Insurance Pre Funding	n/a	n/a	(24,800)	(32,290)	(43,600)	(43,600)	(43,600)	(43,600)	(43,600)
FFI - Retail Store Leases	n/a	n/a	(138,249)	(279,263)	(423,097)	(569,808)	(719,453)	(569,808)	(719,453)
FFI - Reinstated Lapsed Positions	n/a	n/a	(458,116)	(458,116)	(458,116)	(458,116)	(458,116)	(458,116)	(458,116)
Bond Proceeds Applied to Debt Service	107,221	107,221							
Subtotal PSP Oper Budget Approp / Exp's	(66,290,377)	(63,990,451)	(65,857,874)	(67,700,088)	(69,709,542)	(71,683,333)	(73,937,142)	(71,683,333)	(73,937,142)
OTHER CLAIMS ON FUND BALANCE	2,407,221	0	0	0	0	0	0	0	0
TOTAL USE OF RESOURCES	(63,883,156)	(63,990,451)	(65,857,874)	(67,700,088)	(69,709,542)	(71,683,333)	(73,937,142)	(71,683,333)	(73,937,142)
YEAR END FUND BALANCE	2,815,022	2,243,031	2,700,000	3,300,000	3,800,000	4,539,204	4,609,251	4,539,204	4,609,251
END-OF-YEAR RESERVES AS A PERCENT OF RESOURCES	4.2%	3.4%	3.9%	4.6%	5.2%	6.0%	5.9%	6.0%	5.9%

Assumptions:

- 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.
- Fund balance policy equals one month's operating expenses, one payroll, and \$1,500,000 for inventory in cash balance.
- Operating expenditures grow with CPI.
- Net profit growth is estimated at 3.0% per year.
- Bond Proceeds from the 2013 Liquor Bond Series were applied to FY17 and FY18 debt service payments, as allowed under IRS regulations.
- Removal of One-Time Expenses include select store renovations.
- Annualized savings from the consolidation of two retail stores in FY19.

THIS PAGE INTENTIONALLY LEFT BLANK