

WORKSESSION

MEMORANDUM

April 15, 2009

TO: Public Safety Committee
 FROM: Justina J. Ferber, Legislative Analyst
 SUBJECT: Worksession - Executive's FY10 Recommended Operating Budget
Department of Liquor Control (including the Board of License Commissioners)

Those expected for this worksession:

- George Griffin, Director, Department of Liquor Control
- Kathie Durbin, Chief of Licensure, Regulation and Education, DLC
- Gus Montes de Oca, Chief of Operations, DLC
- Lynn Duncan, Administrative Specialist, DLC
- John Cuff, Management and Budget Specialist, OMB

The Department of Liquor Control (DLC) Budget is on pages 67-1 to 67-8 of the Executive's Recommended FY10 Operating Budget and at ©1.

Overview

For FY10, the Executive recommends total expenditures of \$44,495,260 for the Department of Liquor Control, a 13.4% increase or \$5,267,260 over the FY09 approved budget. Excluding debt service of \$5,300,000 for state transportation projects, DLC budget has only increased by 1%.

Liquor Control	FY08 Actual	FY09 Budget	FY10 CE Recommended	% Change FY09-FY10
Expenditures:				
Liquor Fund Expenditures	35,704,690	39,228,000	44,495,260	13.4%
Revenues	61,317,097	63,290,480	66,338,070	4.8%
Earnings Transfer - gen fund after indirect costs	19,723,700	27,452,610	23,210,750	15.50%
Positions:				
Full-time	260	264	256	-3.0%
Part-time	60	60	62	3.3%
TOTAL Positions	320	324	318	-1.9%
WORKYEARS	340.6	343.8	337.3	-1.8%

Same Services Adjustments

For FY10 the Executive recommends elimination of 9 full-time positions in administration, finance, technology and licensing and creation of 3 positions for the new retail store in Darnestown. One grant-funded position in Licensure, Education and Regulation is also eliminated.

Identified Same Services Adjustments:	
Debt Service for State Transportation Projects	\$ 5,300,000
Increase lease costs for retail stores	\$ 736,090
Annualization of Southlawn warehouse lease	\$ 730,140
Service increments	\$ 242,850
Group insurance adjustment	\$ 91,060
Warehouse utilities	\$ 85,180
Retirement adjustment	\$ 84,190
Motor pool rate adjustment	\$ (32,440)
Printing and Mailing adjustment	\$ 7,520
Occupational medical adjustment	\$ (12,170)
Annualization of Personnel Costs	\$ 78,630
Decrease cost of central duplicating	\$ (3,470)
Risk Management adjustment	\$ 42,460
Uniforms	\$ 5,000
Professional meetings hosted	\$ (5,000)
Decrease cost of computer equipment	\$ (34,240)
Decrease cost of misc operating expenses	\$ (70,000)
Abolish Fiscal Assistant and OSC	\$ (123,080)
Abolish Inspection and Enforcement Inspector	\$ (123,210)
Abolish 4 positions in Accounting and Inventory	\$ (279,770)
Abolish IT Expert and IT Technician	\$ (284,600)
Decrease cost of Professional computer services	\$ (285,180)
Decrease cost of Retirement Incentive Program	\$ (367,520)
Decrease cost of Retail store improvements	\$ (652,950)
NET SAME SERVICES ADJUSTMENT TOTAL	\$ 5,129,490

General Fund Transfer and Debt Service

The FY10 earnings transfer from the Liquor Fund to the General Fund is budgeted at \$23,210,750. This is a 15.5% reduction in the transfer from FY09. In addition to the FY10 transfer, debt service for DLC will increase by \$5,300,000 for state transportation projects.

The FY09 earnings transfer is budgeted at \$27,452,610 and DLC has transferred the quarterly amount budgeted for each of the first three quarters of FY09. Sales are usually slow in the fourth quarter so the county is not yet assured of the total \$27,452,610 transfer for FY09. DLC implemented various strategies to meet the FY09 recommended transfer. These strategies included efficiencies and cost savings, increased sales, inventory adjustments, targeted price increases, and drawing down the Liquor Fund balance.

Sunday Sales

During last year's budget discussions several Councilmembers asked that DLC retail stores open for sales on Sundays starting July 1, 2008. No decision has been made by the Executive on the issue of Sunday sales.

Executive's Working Capital Plan

The County Executive invites the Council's input for final County Executive decisions on the determination of adequate working capital within and use of resources in the Liquor Control Fund and net proceeds to be deposited to the General Fund. The DLC Working Capital Plan is the Executive's Recommended Operating Budget for DLC.

The Attorney General has written an opinion that states policy decisions of the Director of DLC are subject to the exclusive authority of the County Executive. DLC is subject to the same requirements and procedures as applicable under County law to any other County department except to the extent that ordinary County requirements or procedures would be inconsistent with the General Assembly's own decisions about DLC. Under state law, the DLC Director and the Finance Director -- with approval of the County Executive -- are authorized to determine the portion of DLC's "net profits" that are needed for working capital, after payment of debt service.

Lapse

Lapse in DLC is budgeted at \$337,216 and 5.9 workyears for FY10. Due to the need for continuous sales personnel for retail and delivery operations, DLC has found that the traditional County formula for lapse is not useful.

Annual Report

A copy of the Department of Liquor Control Annual Report is attached at ©9.

FY10 EXPENDITURE ISSUES BY PROGRAM

A. Warehouse Operations, p. 67-2, ©2

Warehouse Operations	
FY10 Expenditures \$7,988,440	FY10 66.9 Workyears
FY09 Expenditures \$7,508,210	FY09 66.4 Workyears
\$730,140	Annualization of Southlawn Warehouse lease
\$85,180	Increase cost for utilities (warehouse?)
-\$335,090, 0.5	Miscellaneous adjustments

Description: Management of the County's liquor warehouse including receipt and storage of over 10,000 different stock items and special orders by customers.

FY10 Discussion: There are not major changes for FY10 except the annualization of the lease for the Southlawn Warehouse.

B. Delivery Operations, p. 67-2, ©2

Delivery Operations	
FY10 Expenditures \$5,870,210	FY10 75.7 Workyears
FY09 Expenditures \$5,822,320	FY09 75.3 Workyears
\$5,000	Cost of uniforms
\$42,890; 0.4 wy	Miscellaneous adjustments

Description: Distribution of distilled spirits, wine and beer to licensees and County stores.

FY10 Discussion: Replacement of four delivery trucks is budgeted for FY10.

C. Retail Sales Operations, p. 67-3, ©3

Retail Sales Operations	
FY10 Expenditures \$17,971,740	FY10 153.5 Workyears
FY09 Expenditures \$17,504,260	FY09 151.9 Workyears
\$736,090	Increase cost for store leases/rentals
\$137,770; 3.1 wy	Add staff for new Darnestown store
-\$652,950	Decrease cost budgeted for store improvements
\$246,570; -1.5 wy	Miscellaneous adjustments

Description: Retail sales of distilled spirits, wine and beer are handled through 25 County-operated outlets. In 1997 a bill was adopted by the State Legislature limiting County contracting of DLC retail operations to four stores that were under contract at that time: Flower Avenue, Kensington, Muddy Branch, and Pike. The Kensington store reverted back to the County in December, 2001. The Muddy Branch and Pike stores reverted back to the County in 2005. The Flower Avenue store is the only County-contracted retail store.

FY10 Discussion: A portion of the increase in store leases is for the rental of the new Darnestown Store. Funding for the modernization program for retail stores has decreased. Council staff suggested the renegotiation of stores leases based on changes in the economy and the real estate market in particular. DLC did not feel this was a good idea.

D. Retail Contracted Operations, p. 67-3, ©3

Retail Contracted Operations	
FY10 Expenditures \$190,650	FY10 0.0 Workyears
FY09 Expenditures \$190,650	FY09 0.0 Workyears

Description: State Legislation permits the DLC Director to contract the operation of retail outlets with only those persons who had a contract in effect on January 1, 1997.

FY10 Discussion: The store operator receives a percentage of sales and the \$190,650 amount is for budgeting purposes.

E. Accounting and Inventory Systems, p. 67-3, ©3

Accounting and Inventory Systems	
FY10 Expenditures \$7,923,390	FY10 17.6 Workyears
\$7,923,390 less \$5,300,000 = \$2,623,390	
FY09 Expenditures \$2,979,290	FY09 23.6 Workyears
\$5,300,000	Debt service for state transportation projects
-\$123,080; -2.0 wy	Abolish Fiscal Assistant and Office Services Coordinator
-\$279,770; -4.0 wy	Abolish Program Manager II, Administrative Specialist II, Office Service Coordinator, and Principal Administrative Aide
\$46,950; 0.0 wy	Miscellaneous adjustments

Description: Provides accounting services for the department.

FY10 Discussion: Financing for some state transportation projects is appropriated through the Liquor Fund. \$5,300,000 represents the debt service payment budgeted for these projects. Most positions abolished were vacant.

F. Information Management, p. 67-3, ©3

Information Management	
FY10 Expenditures \$1,444,900	FY10 7.1 Workyears
FY09 Expenditures \$1,888,860	FY09 9.1 Workyears
-\$34,240	Decrease cost of computer equipment and accessories
-\$284,600; -2.0 wy	Abolish IT Expert and IT technician Vacant, unused positions
-\$285,180	Decrease cost of computer services
\$160,060; 0.0 wy	Miscellaneous adjustments

Description: This program provides for the operation, maintenance and protection of all information technology initiatives in the department.

FY10 Discussion: The new point-of-sale system (POS) has been piloted and should be fully implemented by November 2009.

G. Licensure, Regulation and Education, p. 67-4, ©4

Licensure, Regulation and Education	
FY10 Expenditures \$1,376,540	FY10 14.0 Workyears
FY09 Expenditures \$1,592,470	FY09 15.0 Workyears
\$0; -1.0wy	Eliminate grant-funded Tobacco Specialist charged to DHHS
-\$123,210; -1.0wy	Improve efficiency by abolishing Inspection and Enforcement Field Inspector position
-\$92,720; 1.0	Miscellaneous adjustments

Description: This program includes issuing beverage alcohol licenses; inspecting and investigating licensed facilities to ensure compliance with laws, rules and regulations. Also, this program works with the public, business, and County agencies to address alcohol control and education efforts.

FY10 Discussion: The division partners with the police, code enforcement, housing and HHS. The division has developed a better system to track enforcement efforts.

H. Office of the Director, p. 67-4, ©4

Director's Office	
FY10 Expenditures \$1,729,390	FY10 2.5 Workyears
FY09 Expenditures \$1,741,940	FY09 2.5 Workyears
-\$3,470	Decrease Cost of Central Duplication
-\$9,080	Miscellaneous adjustments

Description: This program provides the administration and supervision for the department.

DLC BUDGET RECOMMENDATIONS

Based on the 1998 Maryland Attorney General's opinion, the Council has determined that it is more effective to provide general comments on the DLC budget (Working Capital Plan) rather than recommending increases, decreases or deferring particular line items.

- **Council staff recommends approval of the Department of Liquor Control budget as submitted.**

Attachments: DLC Budget ©1
DLC Annual Report ©9

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 FY10 Operating Budget for the Department of Liquor Control is \$44,495,260, an increase of \$5,267,260 or 13.4 percent from the FY09 Approved Budget of \$39,228,000. Personnel Costs comprise 54.5 percent of the budget for 256 full-time positions and 62 part-time positions for 337.3 workyears. Operating Expenses, Capital Outlay, and Debt Service account for the remaining 45.5 percent of the FY10 budget.

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:

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

DEPARTMENT PERFORMANCE MEASURES

This table presents the department's headline measures or submeasures that relate to multiple programs including projections from FY09 through FY11. These estimates reflect funding based on the FY09 savings plan, the FY10 budget, and funding for comparable service levels in FY11.

Measure	Actual FY07	Actual FY08	Estimated FY09	Projected FY10	Projected FY11
Headline Measures					
Percentage of annual sales growth	5.5	5	5	5	5
Percentage of gross profit margin on sales	27.5	28	28	28	28
Percentage of retail customer satisfaction ¹	97	97	97	97	97
Wholesale customer satisfaction (rated on scale of 1-4) ²	NA	2.9	3.0	3.5	3.5
Retail sales as percentage of total sales	44	45	46	46	46
Sales per retail associate (\$ thousands)	600	630	660	660	660
Percentage of compliance checks that are failed ³	13	11	12	12	12
Number of annual alcohol compliance checks ⁴	393	600	600	600	600

¹ Rated satisfied and above

² Rated satisfied and above. A survey was not conducted in FY07 in order to undergo CountyStat review and to incorporate their recommendations. In FY08, surveys were distributed via mail to each of the Department's 940 wholesale customers and 178 were returned.

³ FY07 is the baseline year for this measure.

DLC has established a target of 600 compliance checks in partnership with Montgomery County Police Department. In total, DLC performed 5,124 inspections in FY08.

ACCOMPLISHMENTS AND INITIATIVES

- ❖ *Achieved targeted sales growth of 5 percent and targeted transfer of \$22 million to the General Fund in FY08.*
- ❖ *Hosted a state-wide alcohol regulatory forum for members of the various alcohol boards, inspectors, and administrators to share resources and trend information, and build a state-wide consensus of operating procedures and protocol.*
- ❖ *Developed and implemented several education campaigns aimed at business owners, potential business owners, and the general public to explain responsibility under the law and provide avenues for future assistance.*
- ❖ *Transfer \$26,375,850 to the General Fund in FY10.*
- ❖ **Productivity Improvements**
 - *Added more features to DLC's website, such as a web-accessed price change notification sheet, quick access to monthly sales, depletion information for vendors, and easy access to weekly and monthly sales.*
 - *Reengineered a number of processes to increase efficiency, such as the refining of the Escrow process to ensure deposits reflect 45 days worth of purchases and account replenishments occurs in a timely manner, and scanning licensing and accounts payable information for easy storage and retrieval.*
 - *Obtained grant funding from a variety of sources, which has allowed for the development and implementation of a number of education campaigns promoting safe sales and service of beverage alcohol.*

PROGRAM CONTACTS

Contact Lynn Duncan of the Department of Liquor Control at 240.777.1915 or Alison Dollar of the Office of Management and Budget at 240.777.2781 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.

FY10 Recommended Changes	Expenditures	WYs
FY09 Approved	7,508,210	66.4
Increase Cost: Southlawn Warehouse Lease Payment	730,140	0.0
Increase Cost: Utilities	85,180	0.0
Miscellaneous adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting more than one program	-335,090	0.5
FY10 CE Recommended	7,988,440	66.9

Delivery Operations

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

FY10 Recommended Changes	Expenditures	WYs
FY09 Approved	5,822,320	75.3
Increase Cost: Uniforms	5,000	0.0
Miscellaneous adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting more than one program	42,890	0.4
FY10 CE Recommended	5,870,210	75.7

Retail Sales Operations

This program oversees sales of distilled spirits, wine, and beer to retail customers through the operation of retail stores (24 County-staffed and operated and one contractor-operated) located throughout Montgomery County.

Program Performance Measures	Actual FY07	Actual FY08	Estimated FY09	Projected FY10	Projected FY11
Retail sales as percentage of total sales	44	45	46	46	46
Sales per retail associate (\$ thousands)	600	630	660	660	660

FY10 Recommended Changes	Expenditures	WYs
FY09 Approved	17,504,260	151.9
Increase Cost: Space Rentals for Retail Stores	736,090	0.0
Add: Staffing for Darnestown Store	137,770	3.1
Decrease Cost: Retail Store Improvements	-652,950	0.0
Miscellaneous adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting more than one program	246,570	-1.5
FY10 CE Recommended	17,971,740	153.5

Retail Contracted Operations

Article 2B of the Annotated Code of Maryland allows the County to hire contractors to operate County liquor stores. The County must retain title to all retail stock until sold. The County Council adopted Council Resolution No. 12-452 on November 12, 1991, mandating that the County contract with qualified contractors to operate selected stores. The Kensington, Muddy Branch, and the Pike sites were selected for contracting, and in the Fall of 1992, contractor staff replaced the County employees. In Fall 1994, the Flower Avenue store became a contractor-operated facility. In December 2000, the Kensington store reverted to County operation. State legislation allows the Director of the Department of Liquor Control to contract the operation of a retail outlet only with those persons who had a contract in effect on January 1, 1997. In fiscal year 2005, two of the three contractor-operated facilities (Rockville Pike and Muddy Branch) reverted to County-staffed and operated stores. Flower Avenue remains as the sole contractor-operated retail store.

FY10 Recommended Changes	Expenditures	WYs
FY09 Approved	190,650	0.0
FY10 CE Recommended	190,650	0.0

Accounting and Inventory Systems

This program provides accounting and financial services for the department. Staff performs day-to-day accounting functions, special analysis and reporting, and the preparation and monitoring of the department's budget.

FY10 Recommended Changes	Expenditures	WYs
FY09 Approved	2,979,290	23.6
Increase Cost: Debt Service: State Transportation Projects	5,300,000	0.0
Decrease Cost: Administration - Abolish Fiscal Assistant in Bill Payment and Office Service Coordinator in Customer Service	-123,080	-2.0
Decrease Cost: Administration - Abolish Program Manager II, Administrative Specialist II, Office Service Coordinator, Principal Administrative Aide	-279,770	-4.0
Miscellaneous adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting more than one program	46,950	0.0
FY10 CE Recommended	7,923,390	17.6

Information Management

This program provides for the design, operation, maintenance, and protection of all information technology initiatives of the Department. These initiatives include the warehouse inventory system, the retail point-of-sale system, and numerous personal computer applications.

FY10 Recommended Changes	Expenditures	WYs
FY09 Approved	1,888,860	9.1
Decrease Cost: Computer Equipment and Accessories	-34,240	0.0
Decrease Cost: Administration - Abolish IT Expert, IT Technician	-284,600	-2.0
Decrease Cost: Professional Computer Services	-285,180	0.0
Miscellaneous adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting more than one program	160,060	0.0
FY10 CE Recommended	1,444,900	7.1

Licensure, Regulation, and Education

This program includes issuing of beverage alcohol licenses inspecting and investigating licensed facilities to ensure compliance with all applicable laws, rules, and 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 partnership by defining issues and strategies, 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 FY07	Actual FY08	Estimated FY09	Projected FY10	Projected FY11
Percentage of compliance checks that are failed ¹	13	11	12	12	12
Number of annual alcohol compliance checks ²	393	600	600	600	600

¹ FY07 is the baseline year for this measure.

² DLC has established a target of 600 compliance checks in partnership with Montgomery County Police Department. In total, DLC performed 5,124 inspections in FY08.

FY10 Recommended Changes	Expenditures	WYs
FY09 Approved	1,592,470	15.0
Technical Adj: Eliminate Grant Funded Tobacco Specialist Charged to Department of Health and Human Services	0	-1.0
Decrease Cost: Licensure, Regulation, and Education - Abolish Inspection and Enforcement Field Inspector Position	-123,210	-1.0
Miscellaneous adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting more than one program	-92,720	1.0
FY10 CE Recommended	1,376,540	14.0

Office of the Director

Formally entitled "Administration", this program provides overall direction, administration, and supervision for the Department.

Program Performance Measures	Actual FY07	Actual FY08	Estimated FY09	Projected FY10	Projected FY11
Percentage of annual sales growth	5.5	5	5	5	5
Percentage of gross profit margin on sales	27.5	28	28	28	28
Percentage of retail customer satisfaction ¹	97	97	97	97	97
Wholesale customer satisfaction (rated on scale of 1-4) ²	NA	2.9	3.0	3.5	3.5

¹ Rated satisfied and above

² Rated satisfied and above. A survey was not conducted in FY07 in order to undergo CountyStat review and to incorporate their recommendations. In FY08, surveys were distributed via mail to each of the Department's 940 wholesale customers and 178 were returned.

FY10 Recommended Changes	Expenditures	WYs
FY09 Approved	1,741,940	2.5
Decrease Cost: Central Duplicating - Printing	-3,470	0.0
Miscellaneous adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting more than one program	-9,080	0.0
FY10 CE Recommended	1,729,390	2.5

BUDGET SUMMARY

	Actual FY08	Budget FY09	Estimated FY09	Recommended FY10	% Chg Bud/Rec
LIQUOR CONTROL					
EXPENDITURES					
Salaries and Wages	17,431,770	18,319,530	18,291,850	18,040,540	-1.5%
Employee Benefits	5,606,815	6,469,190	5,800,650	6,204,500	-4.1%
Liquor Control Personnel Costs	23,038,585	24,788,720	24,092,500	24,245,040	-2.2%
Operating Expenses	11,466,504	12,549,680	11,986,080	13,713,570	9.3%
Debt Service Other	436,331	500,000	500,000	5,800,000	1060.0%
Capital Outlay	763,270	1,389,600	731,020	736,650	-47.0%
Liquor Control Expenditures	35,704,690	39,228,000	37,309,600	44,495,260	13.4%
PERSONNEL					
Full-Time	260	264	264	256	-3.0%
Part-Time	60	60	60	62	3.3%
Workyears	340.6	343.8	343.8	337.3	-1.9%
REVENUES					
Vendor Registration Fee	13,110	0	0	0	---
Liquor Licenses	1,415,489	1,350,000	1,350,000	1,350,000	---
Miscellaneous/Investment Income	-75,548	100,000	100,000	100,000	---
Operating Revenue	59,637,113	61,501,980	61,501,980	64,549,570	5.0%
Liquor License Application Fees	158,800	160,000	160,000	160,000	---
Liquor Enforcement Fines	135,104	150,000	150,000	150,000	---
Tobacco Enforcement Fines	20,615	20,000	20,000	20,000	---
Publication Sales - Alcohol Regulation	729	0	0	0	---
Fingerprint Processing Fee	11,685	8,500	8,500	8,500	---
Liquor Control Revenues	61,317,097	63,290,480	63,290,480	66,338,070	4.8%
GRANT FUND MCG					
EXPENDITURES					
Salaries and Wages	9,410	0	0	0	---
Employee Benefits	670	0	0	0	---
Grant Fund MCG Personnel Costs	10,080	0	0	0	---
Operating Expenses	23,208	0	0	0	---
Capital Outlay	0	0	0	0	---
Grant Fund MCG Expenditures	33,288	0	0	0	---
PERSONNEL					
Full-Time	0	0	0	0	---
Part-Time	0	0	0	0	---
Workyears	0.0	0.0	0.0	0.0	---
REVENUES					
NABCA	5,840	0	0	0	---
Latino Server Training Initiative Grant	27,448	0	0	0	---
Grant Fund MCG Revenues	33,288	0	0	0	---
DEPARTMENT TOTALS					
Total Expenditures	35,737,978	39,228,000	37,309,600	44,495,260	13.4%
Total Full-Time Positions	260	264	264	256	-3.0%
Total Part-Time Positions	60	60	60	62	3.3%
Total Workyears	340.6	343.8	343.8	337.3	-1.9%
Total Revenues	61,350,385	63,290,480	63,290,480	66,338,070	4.8%

FY10 RECOMMENDED CHANGES

	Expenditures	WYs
LIQUOR CONTROL		
FY09 ORIGINAL APPROPRIATION	39,228,000	343.8
Changes (with service impacts)		
Add: Staffing for Darnestown Store [Retail Sales Operations]	137,770	3.1
Other Adjustments (with no service impacts)		
Increase Cost: Debt Service: State Transportation Projects [Accounting and Inventory Systems]	5,300,000	0.0
Increase Cost: Space Rentals for Retail Stores [Retail Sales Operations]	736,090	0.0
Increase Cost: Southlawn Warehouse Lease Payment [Warehouse Operations]	730,140	0.0
Increase Cost: Service Increment	242,850	0.0
Increase Cost: Group Insurance Adjustment	91,060	0.0
Increase Cost: Utilities [Warehouse Operations]	85,180	0.0
Increase Cost: Retirement Adjustment	84,190	0.0
Increase Cost: Annualization of FY09 Personnel Costs	78,630	0.0
Increase Cost: Risk Management Adjustment	42,460	0.0
Increase Cost: Printing and Mail Adjustment	7,520	0.0
Increase Cost: Uniforms [Delivery Operations]	5,000	0.0
Technical Adj: Eliminate Grant Funded Tobacco Specialist Charged to Department of Health and Human Services [Licensure, Regulation, and Education]	0	-1.0
Technical Adj: Workyears based on Approved Personnel Actions	0	1.4
Decrease Cost: Central Duplicating - Printing [Office of the Director]	-3,470	0.0
Decrease Cost: Professional Meetings Hosted	-5,000	0.0
Decrease Cost: Occupational Medical Services Adjustment	-12,170	0.0
Decrease Cost: Motor Pool Rate Adjustment	-32,440	0.0
Decrease Cost: Computer Equipment and Accessories [Information Management]	-34,240	0.0
Decrease Cost: Miscellaneous Operating Expenses	-70,000	0.0
Decrease Cost: Administration - Abolish Fiscal Assistant in Bill Payment and Office Service Coordinator in Customer Service [Accounting and Inventory Systems]	-123,080	-2.0
Decrease Cost: Licensure, Regulation, and Education - Abolish Inspection and Enforcement Field Inspector Position [Licensure, Regulation, and Education]	-123,210	-1.0
Decrease Cost: Administration - Abolish Program Manager II, Administrative Specialist II, Office Service Coordinator, Principal Administrative Aide [Accounting and Inventory Systems]	-279,770	-4.0
Decrease Cost: Administration - Abolish IT Expert, IT Technician [Information Management]	-284,600	-2.0
Decrease Cost: Professional Computer Services [Information Management]	-285,180	0.0
Decrease Cost: Retirement Incentive Program (RIP) Savings	-367,520	-1.0
Decrease Cost: Retail Store Improvements [Retail Sales Operations]	-652,950	0.0
FY10 RECOMMENDED:	44,495,260	337.3

PROGRAM SUMMARY

Program Name	FY09 Approved		FY10 Recommended	
	Expenditures	WYs	Expenditures	WYs
Warehouse Operations	7,508,210	66.4	7,988,440	66.9
Delivery Operations	5,822,320	75.3	5,870,210	75.7
Retail Sales Operations	17,504,260	151.9	17,971,740	153.5
Retail Contracted Operations	190,650	0.0	190,650	0.0
Accounting and Inventory Systems	2,979,290	23.6	7,923,390	17.6
Information Management	1,888,860	9.1	1,444,900	7.1
Licensure, Regulation, and Education	1,592,470	15.0	1,376,540	14.0
Office of the Director	1,741,940	2.5	1,729,390	2.5
Total	39,228,000	343.8	44,495,260	337.3

CHARGES TO OTHER DEPARTMENTS

Charged Department	Charged Fund	FY09		FY10	
		Total\$	WYs	Total\$	WYs
LIQUOR CONTROL					
Health and Human Services	Grant Fund MCG	72,130	1.0	0	0.0

FUTURE FISCAL IMPACTS

Title	CE REC.	(\$000's)				
	FY10	FY11	FY12	FY13	FY14	FY15
This table is intended to present significant future fiscal impacts of the department's programs.						
LIQUOR CONTROL						
Expenditures						
FY10 Recommended	44,495	44,495	44,495	44,495	44,495	44,495
No inflation or compensation change is included in outyear projections.						
Labor Contracts	0	120	120	120	120	120
These figures represent the estimated cost of service increments and associated benefits.						
Debt Service Other	0	0	-100	-100	-200	-200
Financing for the State Transportation Participation CIP Project No. 500722, the Glenmont Metro Parking Expansion CIP Project No. 500552, and the warehouse relocation.						
Retail Store Leases	0	150	138	141	145	149
The leases for 25 retail stores based on CPI assumptions.						
Retiree Health Insurance Pre-Funding	0	1,167	1,750	1,882	2,020	2,166
These figures represent the estimated cost of the multi-year plan to pre-fund retiree health insurance costs for the County's workforce.						
Southlawn Warehouse Lease	0	39	41	43	-985	-985
DLC's portion for 50,560 square feet of additional lease space at the Southlawn Warehouse.						
Subtotal Expenditures	44,495	45,972	46,444	46,581	45,595	45,744

FY10-15 PUBLIC SERVICES PROGRAM: FISCAL PLAN

DEPARTMENT OF LIQUOR CONTROL

FISCAL PROJECTIONS	FY09 ESTIMATE	FY10 REC	FY11 PROJECTION	FY12 PROJECTION	FY13 PROJECTION	FY14 PROJECTION	FY15 PROJECTION
ASSUMPTIONS							
Indirect Cost Rate	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
CPI (Fiscal Year)	4.1%	3.3%	2.8%	2.5%	2.5%	2.5%	2.5%
Investment Income Yield	0.013	0.011	0.0165	0.0255	0.031	0.0335	0.0335
BEGINNING FUND BALANCE	15,118,005	8,688,830	3,571,730	4,396,520	6,717,150	10,593,870	16,089,500
REVENUES							
Licenses & Permits	1,510,000	1,510,000	1,552,280	1,591,090	1,630,860	1,671,630	1,713,420
Charges For Services	8,500	8,500	8,740	8,960	9,180	9,410	9,650
Fines & Forfeitures	170,000	170,000	174,760	179,130	183,610	188,200	192,900
Miscellaneous	61,601,980	64,649,570	67,554,310	70,589,760	73,761,800	77,076,580	80,540,530
Subtotal Revenues	63,290,480	66,338,070	69,290,090	72,368,940	75,585,450	78,945,820	82,456,500
INTERFUND TRANSFERS (Net Non-CIP)							
Transfers To The General Fund	(30,410,060)	(26,375,850)	(22,493,280)	(23,603,940)	(25,127,560)	(27,854,830)	(29,532,310)
Technology Modernization CIP	(635,600)	(740,600)	(585,780)	(366,980)	0	0	0
Indirect Costs	(2,321,850)	(2,424,500)	(2,424,500)	(2,424,500)	(2,424,500)	(2,424,500)	(2,424,500)
Earning's Transfer	(19,723,700)	(23,210,750)	(19,483,000)	(20,812,460)	(22,703,060)	(25,430,330)	(27,107,810)
TOTAL RESOURCES	47,998,425	48,651,050	50,368,540	53,161,520	57,175,040	61,684,860	69,013,690
PSP OPER. BUDGET APPROP/ EXP'S.							
Operating Budget	(37,309,600)	(38,695,260)	(38,695,260)	(38,695,260)	(38,695,260)	(38,695,260)	(38,695,260)
Debt Service: Other	0	(5,800,000)	(5,800,000)	(5,700,000)	(5,700,000)	(5,600,000)	(5,600,000)
FFI - Labor Costs			(119,610)	(119,610)	(119,610)	(119,610)	(119,610)
FFI - Retiree Health Insurance Pre-Funding	n/a	0	(1,167,360)	(1,750,480)	(1,882,190)	(2,020,490)	(2,165,700)
FFI - Southlawn Warehouse Lease	n/a	n/a	(39,400)	(40,980)	(42,620)	985,030	985,030
FFI - Retail Store Lease	n/a	0	(150,390)	(138,040)	(141,490)	(145,030)	(148,660)
Subtotal PSP Oper Budget Approp / Exp's	(37,309,600)	(44,495,260)	(45,972,020)	(46,444,370)	(46,581,170)	(45,595,360)	(45,744,200)
OTHER CLAIMS ON CASH BALANCE	(2,000,000)	(584,060)	0	0	0	0	0
TOTAL USE OF RESOURCES	(39,309,600)	(45,079,320)	(45,972,020)	(46,444,370)	(46,581,170)	(45,595,360)	(45,744,200)
YEAR END CASH BALANCE	8,688,830	3,571,730	4,396,520	6,717,150	10,593,870	16,089,500	23,269,490
END-OF-YEAR RESERVES AS A							
PERCENT OF RESOURCES	18.1%	7.3%	8.7%	12.6%	18.5%	26.1%	33.7%

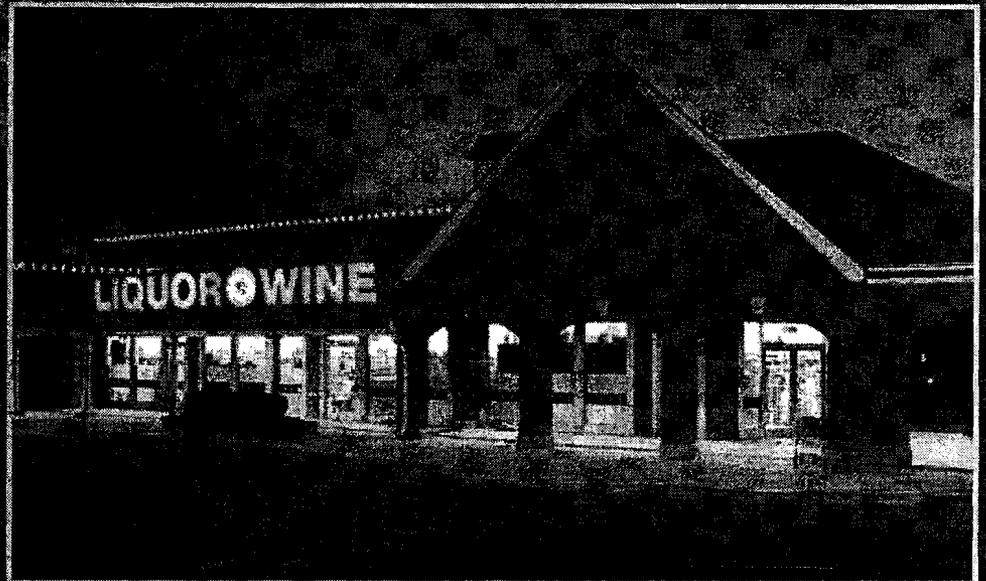
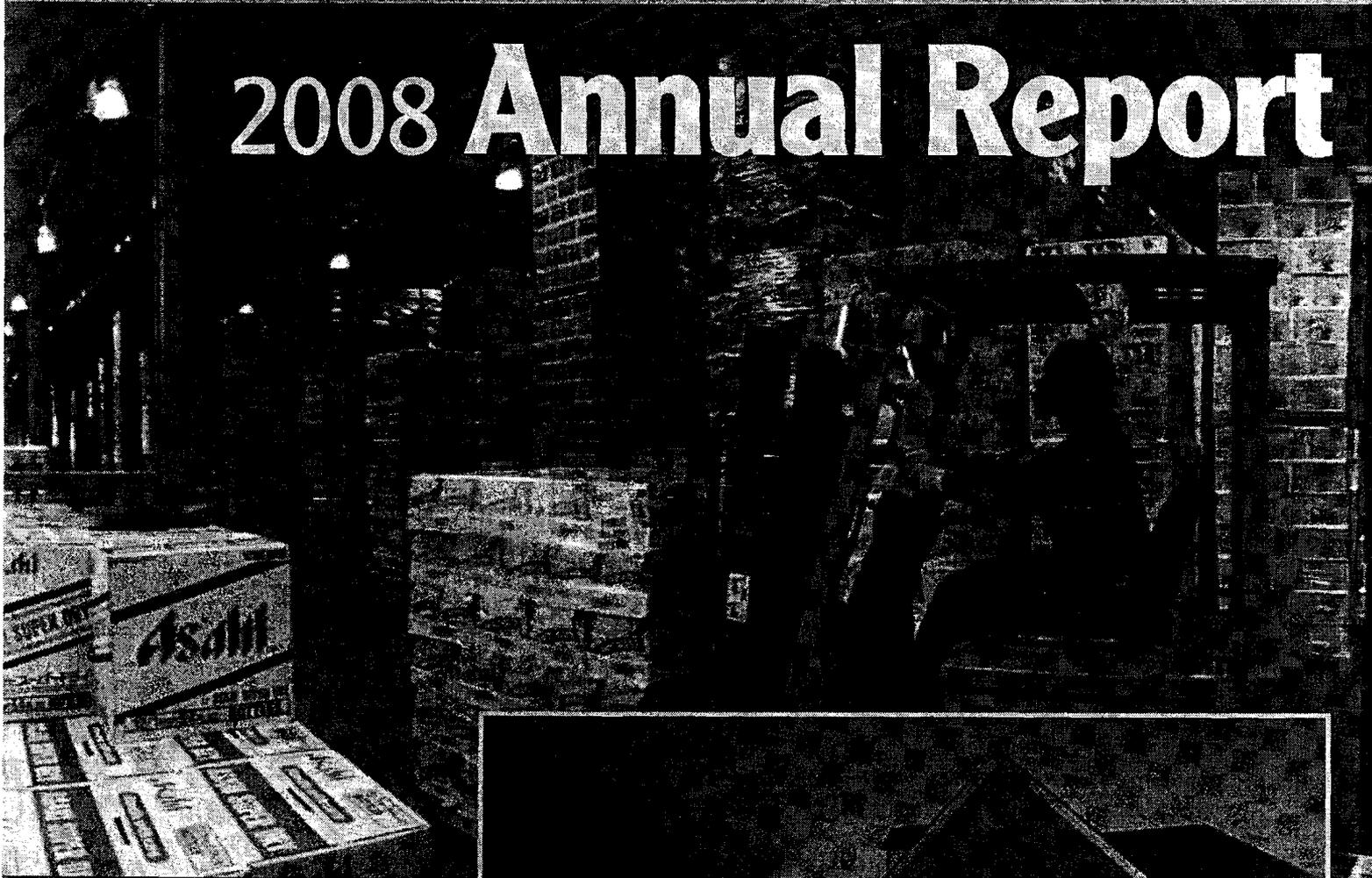
Assumptions:

- Ending Cash Balance = One month's Operating Expenses, One Payroll, and \$1.5M for Inventory.
- Net sales growth estimated at 4.5% per year.
- Operating Revenue growth estimated at 4.5% per year.
- Operating Expenses grow with Major Known Commitments and not CPI.
- The labor contract with the Municipal and County Government Employees Organization, Local 1994 expires at the end of FY10.
- Effective FY08, financing for State transportation projects is appropriated in the Department of Liquor Control.
- Effective FY10, financing for the warehouse relocation is appropriated in the Department of Liquor Control.



MONTGOMERY COUNTY, MARYLAND
Department of Liquor Control

2008 Annual Report





Montgomery County places a high priority on safe streets, secure neighborhoods and healthy and sustainable communities. County policies regarding the sale and consumption of beverage alcohol support moderation and responsibility, with the proceeds of sales benefiting residents rather than private sellers.

I am very pleased with the contribution the Department of Liquor Control makes to Montgomery County's quality of life—both with its innovative programs promoting responsible sales and service, and its professional acumen regarding a vast and diverse list of product offerings and customer service on the retail and wholesale levels.

The financial measure of the department's success is found in a steadily increasing transfer of funding to the County's General Fund, with a cumulative contribution of more than \$190 million over the last ten years. The money in the General Fund pays for important resident services, and the contributions from the Department of Liquor Control benefit every resident.

The work of the Department of Liquor Control contributes to our quality of life in Montgomery County, and I am proud of the service this department provides to our residents.

Isiah Leggett
Montgomery County Executive

Welcome to Montgomery County—a special place

Montgomery County is located adjacent to the nation's capital, Washington, D.C. It includes 497 square miles of land area and 10 square miles of lakes and streams.

With the finest restaurants, greatest shopping venues and fabulous entertainment spots sharing residents time with historical and cultural sites as well as nature and sports opportunities, Montgomery County is a special place indeed.

Some facts about our county and our residents:

■ The 2005 census estimates show Montgomery County with 16.6% of the total Maryland population. At the same time, Montgomery County holds just 5.1% of total land area in Maryland. The census reports that, in 2000, Montgomery County had 1,762.5 persons per square mile compared with 541.9 for Maryland as a whole.

■ 26.7% of those who live in Montgomery County were born outside the United States compared with 9.8% for all of Maryland.

■ 31.6% of the Montgomery County population over 5 years of age speak a language other than English at home compared with 9.8% for all Maryland.

■ 54.6% of the Montgomery County population over 25 years of age hold a bachelor's degree or higher compared with 31.4% for all Maryland.

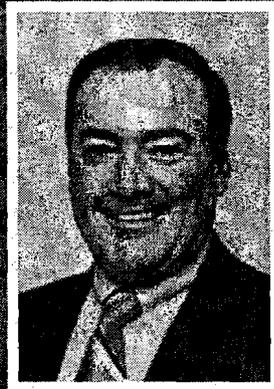
■ The estimated average household income for 2006 in Montgomery County was \$108,304, with 40% of the residents making \$100,000 per year or more.

Department of Liquor Control Mission

The mission of the Department of Liquor Control 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.

Organizational Chart



Director
George F. Griffin



Chief of Operations
Gus Montes de Oca



Chief of Administration
Sunil S. Pandya



**Chief of Licensure,
Regulation and Education**
Kathie Durbin

Purchasing and Portfolio
Management

Administration
(Budget, HR, Facilities)

Licensure and Staffing
for the Board of License
Commissioners

Wholesale Operations
(Sales, Warehousing,
Delivery)

Finance
(A/P, A/R, Pricing, Financial
Reporting)

Regulation
(Alcohol and Tobacco
Inspections)

Retail Operations
(Sales, Promotions,
Marketing)

Information Technology
(Wholesale, Retail LRE,
Financial)

Education, Training,
Development of Community
Alliances

Letter from the Director

We are pleased to say that FY08 was a year of record sales of \$211,914,002—an increase of 5.05% over the previous year. Wholesale operations accounted for approximately 55% of the total (\$116,497,216), while retail operations continues to contribute a growing slice of the total pie. The \$95,416,786 gross sales from our owned/operated retail stores represents 45% of the total, a percentage that has steadily increased in recent years.



Retail gross sales increased 6.18% over the previous year, while wholesale receipts grew by 4.14%. This performance allowed us to transfer over \$22 million to Montgomery County's General Fund as unrestricted revenue from net profits this year. (Net profit results directly from operations and is in addition to any taxes and fees generated, which benefit the state of Maryland.)

At the same time, we are playing a more comprehensive role in licensure, regulation and education. Last year, we implemented a reorganization that consolidated all alcohol-related government functions (licensing, inspections, enforcement, community outreach, etc.) into a single division within the Department of Liquor Control.

This reorganization has been a great success in that we are now providing much better service to our licensed establishments; working much more closely and extensively with our Police Department; and engaging the community to a greater degree than ever before.

We are gratified that the community is safer and better served than in years past; we are confident that we are fully meeting our mission; and we are convinced that the department is now properly aligned to best maximize the benefits the control model provides. Some very positive recognition has come from these improvements.

We are honored to have received a prestigious "2008 NACo Achievement Award" for our "Latino Business Alliance" program, which was recognized by NACo as a model program for counties and communities throughout the nation. We are also delighted to have been chosen to win the Washington Regional Alcohol Program's (WRAP) prestigious "2008 Youth Leadership Award."

We hope you enjoy reading this year's annual report for the Montgomery County, Maryland, Department of Liquor Control. We want you to get to know us better and recognize how important our mission is to each and every one of us.

George F. Griffin
Director, Montgomery County Liquor Control

\$22 million was transferred to Montgomery County's General Fund... from net profits this year

The Control Jurisdiction Advantage

With the repeal of national prohibition in 1933, the method of beverage alcohol regulation fell to the citizens, who decided by state and sometimes jurisdiction how they could best balance rights and responsibilities to better serve the community interest. For the individual who chose to drink responsibly, provision had to be made for the legal sale of alcohol beverages. At the same time, the substantial social risks and economic costs of alcohol abuse had to be considered.

A number of citizens chose to resume the legal sale of alcohol through licensed private sellers, but 18 states and several local jurisdictions opted for a different course—controlled distribution, whereby economic incentives for maximum

sales were eliminated and policies supporting moderate consumption were put in place. Seven decades later, those jurisdictions that initially chose the control model continue to use it. Such durability suggests that the wisdom of this method is sound.

Montgomery County is proud to be a control jurisdiction and believes that it has successfully achieved the delicate balance of—

- providing good-quality service to their customers,
- improving the overall safety of communities through education, regulation and enforcement; and
- generating revenue for transfer to the General Fund.

To date, the department continues to provide new and exciting products while offering responsible sales

\$0 No property, state, or local taxes are used to support the Department of Liquor Control

and service training to license holders, staff and others involved in the industry.

The department is self-supporting. No property, state or local taxes are used to support Montgomery County's Department of Liquor Control.

In addition, after paying its own expenses and retaining a small amount of working capital, the department has transferred more than \$190 million (\$191,690,398) to the county's General Fund. The Control State System works for Montgomery County the way Montgomery County wants it to work.

Timeline: 75 Years of Liquor Control in Montgomery County

1933: Liquor Board for Montgomery County was established after the end of Prohibition.

1937: The National Alcohol Beverage Control Association (NABCA) was established.

1951: The Liquor Board was split into the Department of Liquor Control (DLC) and

the Board of License Commissioners.

1958: The US Circuit Court of the District of Columbia affirmed the DLC's right to purchase all wines and liquors directly from the manufacturers.

1976: DLC moved from Wheaton, Maryland, to a new office/warehouse complex at 16650 Crabbs Branch Way in Rockville.

1994: DLC contracted for the management of four of its then existing 21 stores.

1999: DLC warehouse was expanded by a 10,000 square foot, climate-controlled keg warehouse.

2000: DLC took back management of one of the four contract stores and, in the years to come, took

back management of all but one contract store.

2003: DLC was honored with the **Montgomery's Best Partnership Award** for creating a Hospitality Resource Panel in Montgomery County.

2003: DLC lowered the markup on special-order wines by 10%.

2004: DLC was honored with both the **Montgomery's Best County Partnership Award** for the Gaithersburg Business Alliance and the **Executive's Safety Award**.

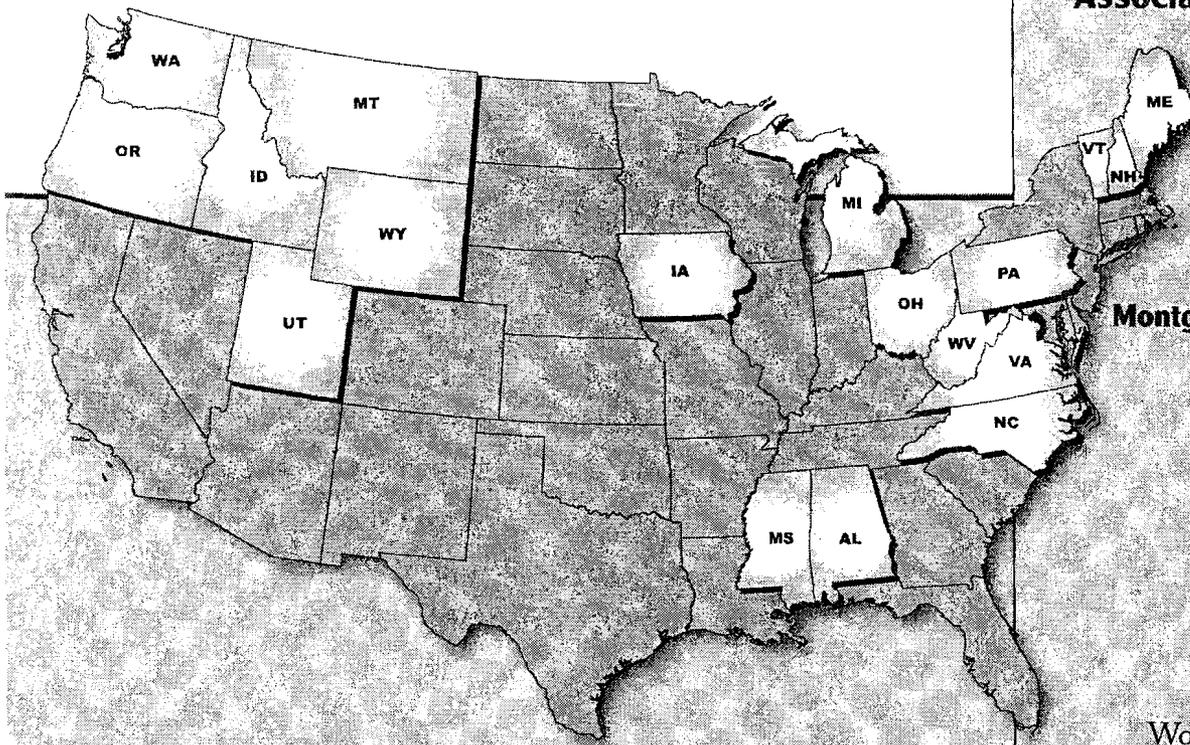
2004: DLC launched the **Parents Who Host Lose the Most Program**.

2004: DLC won the **Maryland Highway**

Safety Best Practices Award for its Excellence in Delivery Program.

2005: DLC was honored with a **County Partnership Award** for the Gaithersburg Business Alliance, a model created to promote intergovernmental and civic group commitment to improving beverage alcohol practices in the Gaithersburg area.

Members of the National Alcohol Beverage Control Association (NABCA)



- Alabama
- Idaho
- Iowa
- Maine
- Michigan
- Mississippi
- Montana
- Montgomery County, MD**
- New Hampshire
- North Carolina
- Ohio
- Oregon
- Pennsylvania
- Utah
- Vermont
- Virginia
- Washington
- West Virginia
- Worcester County, MD**
- Wyoming

28% of the total US population operates under the control model

2005: DLC director George F. Griffin received the county's **Drawing the Line on Under 21 Alcohol Use Captain Joseph A. Mattingly Memorial Spirit of Prevention Award.**

2005: Director George F. Griffin was chosen as chairman of the board of NABCA and focused on alcohol awareness

and education during his tenure.

2006: The county reorganized the enforcement and staffing of the Board of License Commissioners into a new division within the department, titled Licensure, Regulation and Education (LRE).

2007: DLC received both the **National Association of**

Counties (NACo) Award and the **Montgomery's Best Partnership Award** for the Latino Server Training Initiative; Kathie Durbin, chief of Licensure, Regulation and Education, was honored with the **Montgomery's BEST 2007 Exceptional Service** for sustained excellence. Ron Price won the **Drawing the Line**

on Under 21 Alcohol Use Captain Joseph A. Mattingly Memorial Spirit of Prevention Award.

2007: DLC partnered with the Bordeaux Wine Council to host a Bordeaux Press and Trade Day at the Marriott Hotel in Bethesda.

2008: DLC was honored with the Washington Regional

Alcohol Program's **WRAPPY 2008 Youth Leadership Award.**

Today: The department continues the traditions of the control jurisdiction system whereby policies supporting moderate and responsible consumption take the place of private economic incentives; continues to be self-

supporting, operate solely on revenue derived from beverage alcohol sales without using property, state or other local taxes; and continues to transfer the profit from the sales of beverage alcohol directly to the residents of Montgomery County through the General Fund.

Licensure, Regulation and Education Highlights

Business Alliance for Latino-Owned Establishments

The Department of Liquor Control developed and implemented a Business Alliance for Latino-owned businesses in 2007. The award-winning program has continued into 2008, building the capacity of local businesses by providing technical assistance, responsible alcohol policy training and increased enforcement efforts at no cost to the business. According to Emily DeTitta, outreach manager, "We heard from local enforcement that many businesses were not being trained in a culturally competent manner. This program does just that."

The Business Alliance provides free, culturally competent, state-certified alcohol training to business owners and their

employees in both English and Spanish, and is funded through an annual grant from the Maryland State Highway Administration. The curriculum includes training on how to spot fake IDs, how to refuse service to already-intoxicated customers and to those who are under the age of 21. "Our main goal is to educate sellers and servers and prevent alcohol issues in the community," said Sonia Nieves, a community outreach specialist.

As part of this program, staff assesses high-risk practices and makes recommendations. For example, to avoid over-consumption, servers are encouraged to look at the size of the glass they are using, offer high-protein foods and serve a glass of water with alcoholic drinks. Businesses are urged to have written policies concerning alcohol and review them often with employees.

Another component is the *Cops in Shops*® program from the Century Council, a unique partnership between retailers and law enforcement to help stop illegal sales of alcohol.



Dr. Sonia Nieves, community outreach specialist

■ **Latino Business Alliance** won the 2008 Achievement Award from NACo (National Association of Counties)

■ **Adults Who Host Lose the Most** public education campaign won the Washington Regional Alcohol Program's 2008 Youth Leadership WRAPPY Award

2008 Awards

Prior to implementation, the public is notified by a media campaign touting the fact that undercover officers will be working in stores. Once the program is operational, enforcement specialists are placed in and around participating retail outlets to assist sellers in ID reading and in denying service to already-intoxicated patrons. Simultaneously, volunteers trained by the Department of Police monitor and report violations occurring outside of businesses, such as open containers and public nuisance laws, as part of a Montgomery

County Police Program called *Extra Eyes*.

Preventing minors from trying to buy alcohol has long been a concern for retailers and they appreciate the help. According to Kathie Durbin, chief of Licensure, Regulation and Education at Liquor Control, "We're responding to the needs of our very diverse county by creating relationships with our retailers, providing the information they need to help ensure safe streets and vibrant, sustainable communities."



The Department of Liquor Control hosts a discussion on alcohol issues with the Department of Police, Department of Health and Human Services, and community organizations.

The Licensure, Regulation and Education team includes (seated) Emily DeTitta, Kathie Durbin (chief), Debbie Goodwin, Ron Price, (standing) Carlos Grajeda, Stephany Castellanos, Lee Williams, Missi Johns, Adrienne Reed, George Woo, and Jim Brady.

The Keeping it Safe Program

The *Keeping it Safe* campaign supports both the hospitality industry and the community with educational materials such as ID checking calendars, signage and a responsible hospitality newsletter. A social host responsibility campaign titled "Adults Who Host Lose the Most" is promoted throughout the year through print materials and speaking engagements. Aimed at changing the culture, social host responsibility promotes parental communication and zero tolerance for underage alcohol use.

An online newsletter, SAFEnet, is designed to address youth alcohol prevention. SAFEnet serves hundreds of county parents and all Montgomery County PTAs (e-mail safenet@montgomerycountymd.gov to sign up.)

In addition, the SAFEline (301-670-SAFE) is a dedicated phone line set up for residents to obtain information on hosting under-21, alcohol-free events and to report under-21 alcohol parties or providers in advance.



Adults Who Host Lose the Most Public Education Campaign

The social host responsibility campaign is a collaborative effort among Liquor Control, the Department of Police, Drawing the Line on Under 21 Alcohol Use (Montgomery County Coalition), Montgomery County Safe and Drug-free Schools, Montgomery County States Attorney's Office, Montgomery County Council of Parent Teacher Associations and Montgomery County Recreation Center. The program is funded by a grant from the Maryland Highway Administration's Highway Safety Office.



Carlos Grajeda leads an A.L.E.R.T. (Alcohol Law Education and Regulatory Training) class designed to educate servers, sellers, management and owners in alcohol beverage regulatory compliance.

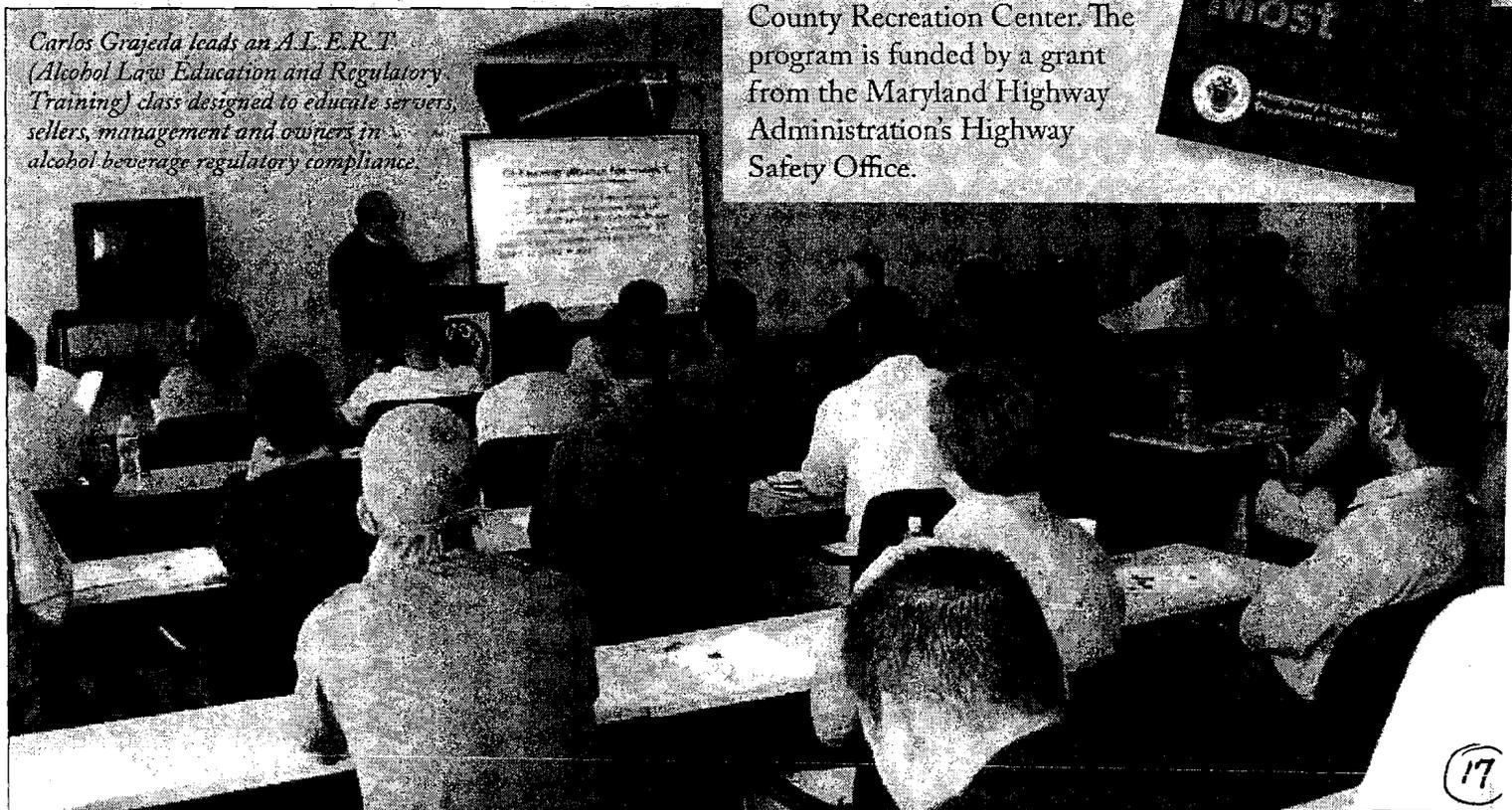


Photo by: Hannah R. Marsh



Spotlight on Dan Marsh

Dear Mr. Griffin,

I have been a customer at the Chevy Chase store for several months now and I would like to say that I'm absolutely delighted to find that you have a resident wine expert in Dan Marsh who is on par with anyone at Calvert Woodley, Cleveland Park Liquors or other well-known fine wine retailer.

Having shopped the other stores I am now a loyal customer who will routinely buy 2-3 bottles of wine weekly on Dan's recommendation. He shows a deep knowledge of the different styles and regions and has successfully made excellent suggestions in all price ranges. We bought a case of good but inexpensive wine for a party and were equally impressed at the suggestions for wines in the \$15-30 price range.

What impresses me most is Dan's absolute knowledge of wine and his ability to suggest the best value in each price range. Given the wide variety of wine styles he definitively informs you of the qualities and characteristics of each bottle and has considerably broadened my horizons and knowledge, not to mention enjoyment of fine wines.

A Chevy Chase Customer

Operations Highlights

Together, wholesale and retail operations provide beverage alcohol wholesale distribution services to more than 900 licensed establishments and retail shopping from 25 county-owned stores spread throughout Montgomery County. This impressive operation brought in \$211,914,002 in sales in FY08.

Providing excellent customer service is the driving force in both areas of the operation. Contributing to the success of that goal on the wholesale side is another year of 100% on-time deliveries for customers who call in promptly. Also contributing are adequate supplies of stock merchandise for immediate delivery and the ability to research and quickly obtain special-order items that are requested by licensed establishments.

In November 2007, the department partnered with the Bordeaux Wine Council to hold a well-attended Bordeaux Tasting Press and Trade day featuring a seminar and wine tasting at the Marriott Hotel in Bethesda and plans to take every

opportunity to educate licensees, members of the media and others regarding departmental methodology and product offerings.

On the retail side, each store has well-defined product-selection strategies to ensure the stocking of popular items, including specialty and allocated items specifically for their clientele. Also contributing to the goal of excellent customer service is fair frontline pricing; competitive sales; experienced, knowledgeable personnel; and professional store appearance.

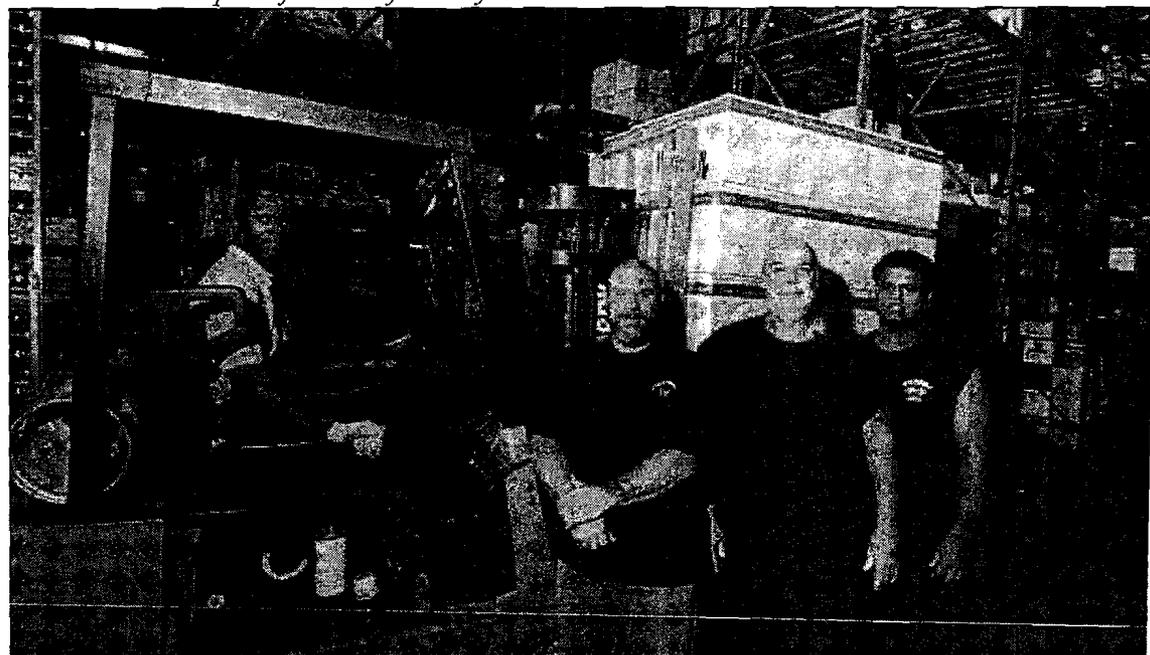
To enhance staff's product knowledge (an important quality as noted in retail surveys), the department invited Robert Cavanaugh, renowned professional wine educator to provide a comprehensive refresher to retail store management merit staff. Topics included methodology on judging and evaluating the wines of the world; a study in types styles, colors, balance and finish; the regions of France, Italy, Germany, Spain, Austria, Australia, New Zealand, Argentina, Chile, South Africa, Canada and the United States; decoding wine labels; and pairing wine with food.



Robert Cavanaugh holds certifications from the Wine and Spirits Education Trust of London (WSET), and The Court of Master Sommeliers



Kevin Bell, assistant warehouse supervisor, Richard Lee, George Hefner, and Siddarth Reddy ensure that products are warehoused and pulled for delivery correctly.



Store Information & Locations

Auburn Avenue

1800 Auburn Avenue
Bethesda, MD 20814
Phone: 240-773-2006
Hours: Mon-Sat 10:00 a.m. to 9:00 p.m.

Burtonsville

(UNDER RENOVATION)

Cabin John

11301 Seven Locks Road
Potomac, MD 20854
Phone: 240-773-2005
Hours: Mon-Sat 10:00 a.m. to 9:00 p.m.

Chevy Chase Center

11 Wisconsin Circle
Chevy Chase, MD 20815
Phone: 240-773-2009
Hours: Mon-Sat 10:00 a.m. to 8:00 p.m.

Cloverly

723 Cloverly Avenue
Silver Spring, MD 20905
Phone: 240-773-2010
Hours: Mon-Sat 10:00 a.m. to 9:00 p.m.

Diamond Square

24 Bureau Drive
Gaithersburg, MD 20877
Phone: 240-773-2011
Hours: Mon-Sat 10:00 a.m. to 9:00 p.m.

Flower Avenue

8701 Flower Avenue
Silver Spring, MD 20901
Phone: 301-565-5842
Hours: Mon-Sat 10:00 a.m. to 8:30 p.m.

Fallsgrove

14937-E Shady Grove Road
Rockville, MD 20850
Phone: 240-773-2018
Hours: Mon-Sat 10:00 a.m. to 9:00 p.m.

Gaithersburg

220 North Frederick Avenue
Gaithersburg, MD 20877
Phone: 240-773-2012
Hours: Mon-Sat 10:00 a.m. to 9:00 p.m.

Kensington

3733 University Boulevard
Kensington, MD 20895
Phone: 240-773-2013
Hours: Mon-Sat 10:00 a.m. to 9:00 p.m.

Kingsview

18323 Leaman Farm Road F-1
Germantown, MD 20874
Phone: 240-773-2014
Hours: Mon-Sat 10:00 a.m. to 9:00 p.m.

Leisure World

3824-26 International Drive
Silver Spring, MD 20906
Phone: 240-773-2015
Hours: Mon-Thurs 9:30 a.m. to 8:30 p.m.
Fri-Sat 9:30 a.m. to 9:00 p.m.

Milestone

20946 Frederick Road Unit D1
Germantown, MD 20876
Phone: 240-773-2016
Hours: Mon-Sat 10:00 a.m. to 10:00 p.m.

Montgomery Village

19233 Watkins Mill Road
Gaithersburg, MD 20760
Phone: 240-773-2017
Hours: Mon-Sat 10:00 a.m. to 9:00 p.m.

Montrose Crossing

12015-B Rockville Pike
Rockville, MD 20852

Phone: 240-773-2003

Hours: Mon-Thurs 10:00 a.m. to 9:00 p.m.
Fri-Sat 10:00 a.m. to 10:00 p.m.

Muddy Branch

866 Muddy Branch Road
Gaithersburg, MD 20878
Phone: 301-840-2356
Hours: Mon-Sat 10:00 a.m. to 10:00 p.m.

Olney

17825 Georgia Avenue
Olney, MD 20832
Phone: 240-773-2019
Hours: Mon-Sat 10:00 a.m. to 9:00 p.m.

Pike

832-836 Rockville Pike
Rockville, MD 20852
Phone: 301-279-1575
Hours: Mon-Sat 10:00 a.m. to 9:00 p.m.

Potomac

10132 River Road
Potomac, MD 20854
Phone: 240-773-2020
Hours: Mon-Sat 9:00 a.m. to 9:00 p.m.

Silver Spring

8715 Colesville Road
Silver Spring, MD 20910
Phone: 240-773-2021
Hours: Mon-Sat 10:00 a.m. to 9:00 p.m.

Twinbrook

2090 Viers Mill Road
Rockville, MD 20851
Phone: 240-773-2022
Hours: Mon-Sat 10:00 a.m. to 9:00 p.m.

Walnut Hill

16535 South Frederick Road
Gaithersburg, MD 20855
Phone: 240-773-2004
Hours: Mon-Sat 10:00 a.m. to 9:00 p.m.

Westwood

5432 Westbard Avenue
Bethesda, MD 20814
Phone: 240-773-2024
Hours: Mon-Sat 10:00 a.m. to 9:00 p.m.

Wheaton

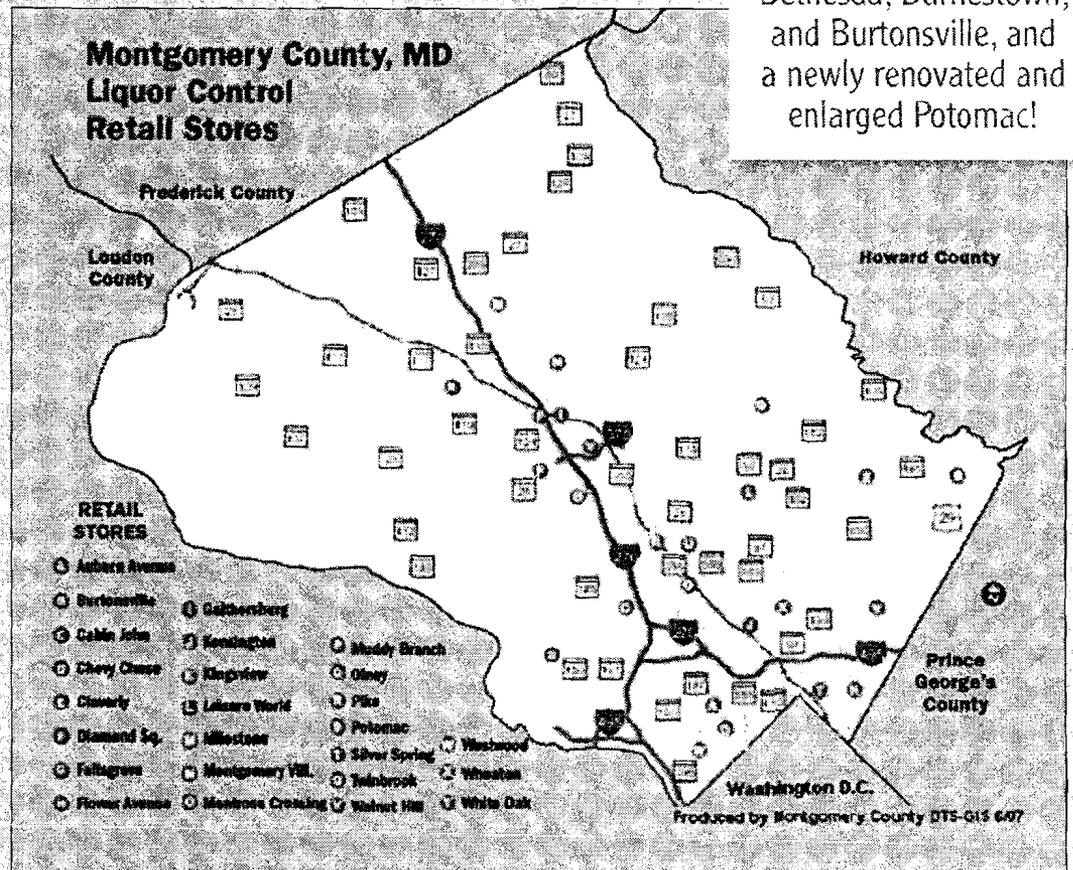
11407 Georgia Avenue
Silver Spring, MD 20902
Phone: 240-773-2025
Hours: Mon-Sat 10:00 a.m. to 9:00 p.m.

White Oak

11239 New Hampshire Avenue
Silver Spring, MD 20904
Phone: 240-773-2026
Hours: Mon-Sat 10:00 a.m. to 9:00 p.m.

Coming in 2008

New stores in Bethesda, Darnestown, and Burtonsville, and a newly renovated and enlarged Potomac!



Serving a Very Special Niche Market with Wine Futures

The grapes of the fields in France have yielded some of the world's best tasting and highest priced wines: the Bordeaux. It was in Bordeaux that wine futures began.

Wine Futures, or *En Primeur*, refers to buying wine after it is made, but before it is bottled. In the spring following the vintage, cask samples of wines are made available to writers and larger or special wholesalers to taste and evaluate and for the larger or special wholesalers to purchase "on future." The wine is generally bottled and shipped about two years later.

In good vintages, wine futures can offer the investor the greatest return; the initial release prices are usually (although not always) the lowest at which the wines will ever be sold. Commonly, the wines are released in a number of "tranches," with each release priced at a different level depending on how the previous one sold. For example, the Bordeaux 2000 vintage proved to be in great demand, and the first tranche was largely unavailable to all but the best customers. The second and third tranche prices were higher but still a great value.

The Bordeaux 2005 vintage is another acclaimed year, with industry experts such as The Wine Spectator and



Robert Parker declaring them, "record-breakers on every level," and "world-class wine."

Montgomery County secured a generous allotment of this wonderful vintage from a number of renowned Châteaux, thanks to the efforts of Diane Wurdeman, retail operations manager. Working with purchasing specialist John LaTorre and senior financial specialist Jim Kelley in the department and with our *negociant*, her success in obtaining these prime offerings has been incredible.

Some of the most sought-after acquisitions include:

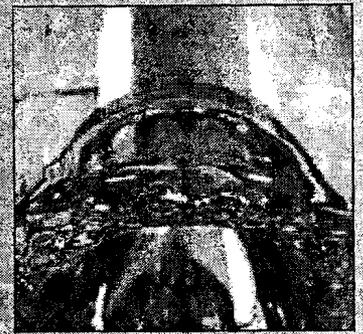
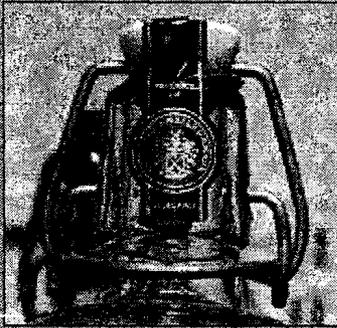
Château Margaux 1er Cru Margaux	100 points*
Château Lafite Rothschild Pauillac	98 points*
Château Cheval Blanc St. Emilion	97 points*
Château La Mission Haut Brion	97 points*
Château Mouton Rothschild	95 points*

*Ratings from *Wine Spectator*

Prices for the above wines run to more than \$1,000 a bottle, but the Montgomery County Department of Liquor Control has ensured a supply of fine 2005 Bordeaux wines in all price ranges.

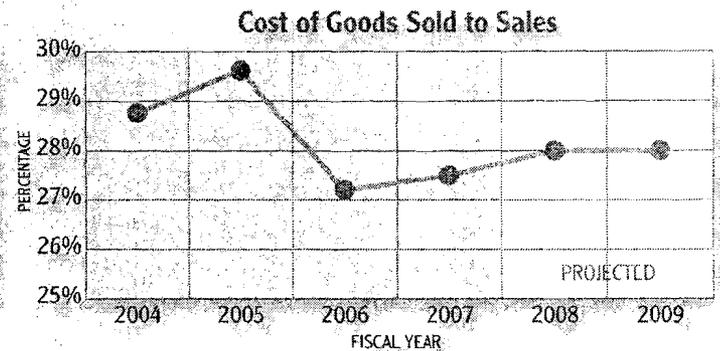
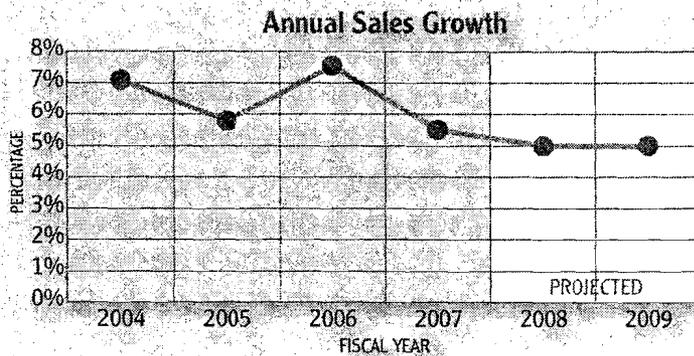


Diane Wurdeman, retail operations manager (left), and John LaTorre, purchasing specialist (right), display world-class wines bought "on future."



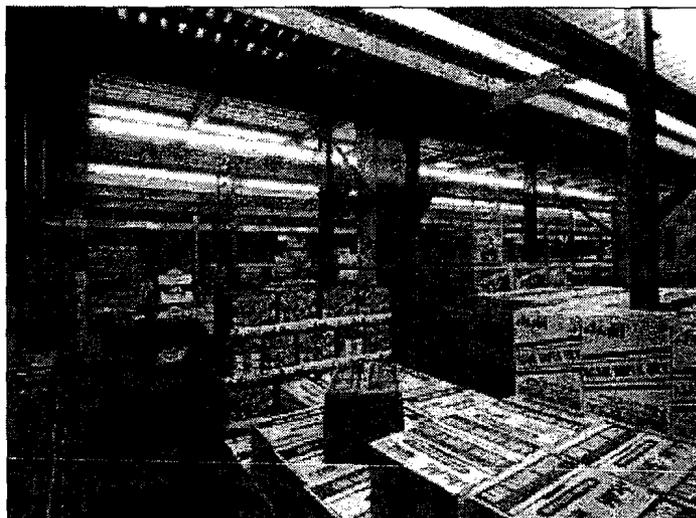
Management Discussion

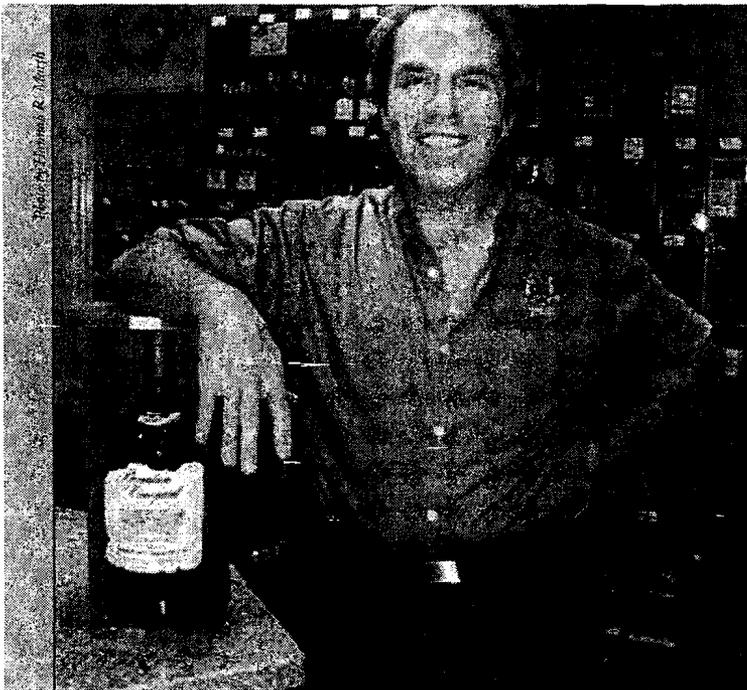
The mission of the Department of Liquor Control is to provide a wide selection of beverage alcohol products at competitive prices to shoppers in Montgomery County, while promoting moderation and responsible consumption of the beverage alcohol products offered for sale. To gauge our success, the department monitors the following headline measures:



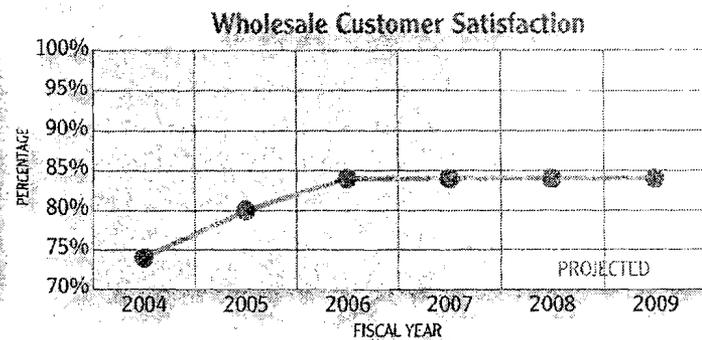
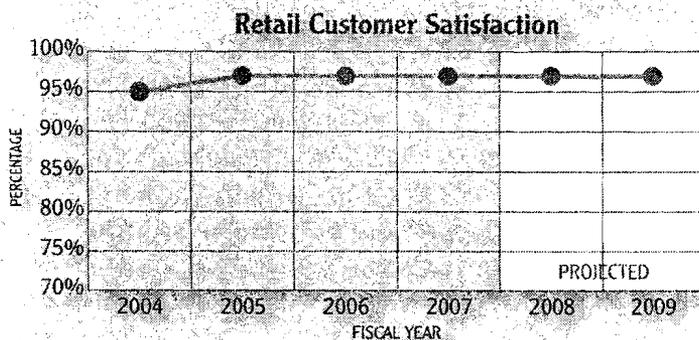
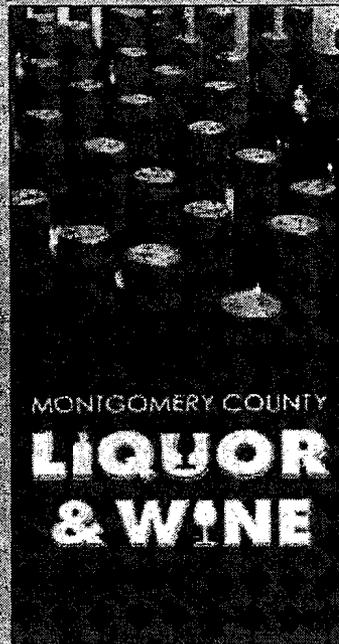
Annual Sales Growth—We project an annual sales growth of 5 percent. Contributing factors to meeting and even exceeding this growth target has been the high level of customer service satisfaction in its retail stores and wholesale delivery operations, while restricting factors include an overall national trend that points to flattening beer and liquor consumption and a limited advertising strategy that is a reflection of the county's role in this business operation.

Cost of Goods Sold to Sales—Cost of goods sold to sales is a measure of the gross profit margin from each dollar of sale. Our goal is to maintain a gross profit margin of 28 percent across all segments. Contributing factors are sound management of product selection, tight inventory control and competitive pricing, while restricting factors include the growing interest in more modestly priced items; in-house cost escalations such as funding negotiated compensatory expenses, which account for 65 percent of operating costs; and other increasing costs such as retail store leases, utility costs and transportation costs, which are rising well above the 5 percent increase in sales.





Jim Ferris, store manager



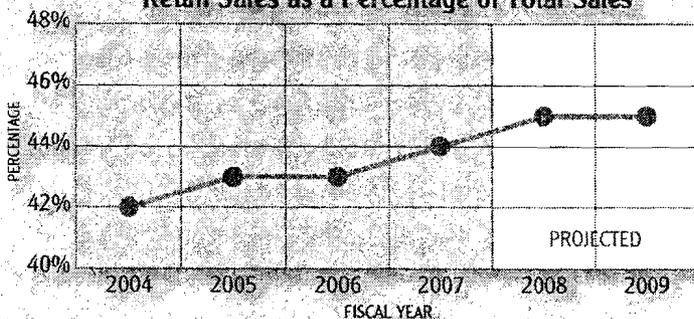
Retail Customer Satisfaction—Our goal is to provide a rewarding shopping experience for the retail customer. Contributing factors are product selection strategies, store cleanliness, and a knowledgeable staff, while restricting factors include a high turnover of part-time retail staff, the need for continuous training and limited store hours.

Wholesale Customer Satisfaction—Our goal is to ensure fair prices and excellent service to our wholesale customers. Contributing factors are product-selection strategies, quick turnaround on special order items and professional delivery staff, while restricting factors include the need for continuous training, and a move by retailers to offer a greater variety of products.

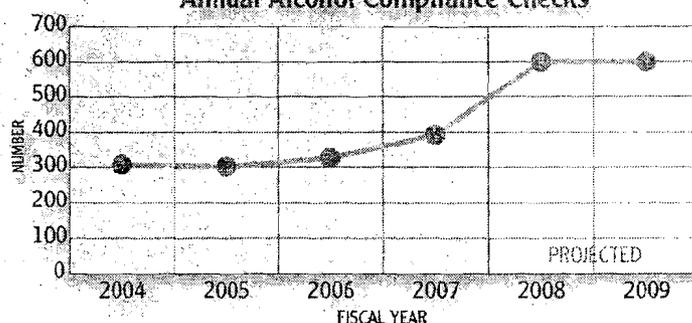




Retail Sales as a Percentage of Total Sales

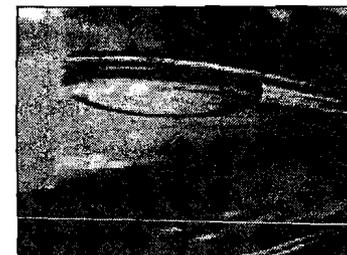


Annual Alcohol Compliance Checks



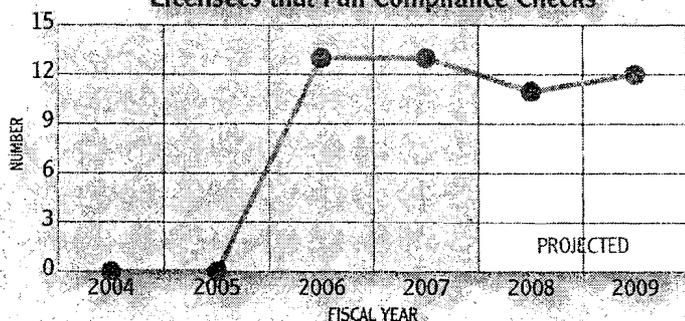
Retail Sales as a Percentage of Total Sales—Retail sales accounted for 45 percent of total sales in FY08, an increase from 44 percent in FY07. Sales at retail stores demonstrate acceptance by the citizens of the county. Strategy includes maintaining product availability, maintaining inventory control and using effective retail staff training, store promotions and marketing.

Number of Annual Alcohol Compliance Checks—In collaboration with the Montgomery County Department of Police, we conduct routine compliance checks to ensure that licensees comply with all state laws with respect to the purchase and sale of beverage alcohol products. We have committed to completing 600 checks each year, which is up more than 50% from FY07. Contributing factors include our commitment to becoming a strong presence in the community, adequate and targeted education and training programs and appropriate penalties for noncompliance, while restricting factors include the hours in the day, no increase in number of inspectors to offset the increased number of inspections and the high number of businesses that are run by individuals from cultures that have vast differences in the way they view beverage alcohol.





Licenses that Fail Compliance Checks



Percentage of Licenses that Fail Compliance Checks

Checks—Our goal to reduce the numbers of failures of compliance checks, which we see as a validation of our efforts in both regulation and education. Contributing factors are the provision of effective training and education to retailers, while restricting factors include a high turnover of trained licensee retail staff, an inadequate number of licensee retail associates to ensure adequate verification checks and a highly motivated underage clientele who wish to procure products. Of note is the possibility of initially higher incidences of failure, due to the increase in the number of inspections. After a possible initial spike, however, we expect to see a downward trend as offending licensees are educated and fined and repeat offenders are removed from the system.

Percentage of Licenses that Do not Come Into Compliance After a Failed Check

Our goal is to have a very low number of repeat offenses as we work to educate and train business owners in responsible sales and service. Repeat offenses warrant appropriate and escalating penalties for noncompliance. This headline measure is under construction.

Our plans

- Continue to focus on maintaining an optimum balance between sales, purchases and inventory levels to achieve the goal of a 28 percent gross profit margin ratio
- Continue to emphasize customer service by performing routine inspections of stores and evaluating them on an established set of criteria
- Continue to provide comprehensive product knowledge seminars to retail staff
- Continue to seek satisfactory locations to open additional stores to better serve increasingly populated and underserved areas of the county
- Continue our collaboration with the Alcohol Unit of Montgomery County Police and in our partnerships with private businesses and the community

Server Liability

Establishments need to be careful of over-serve, both for liability, in keeping patrons safe, and to keep customers enjoying themselves so they will come back.

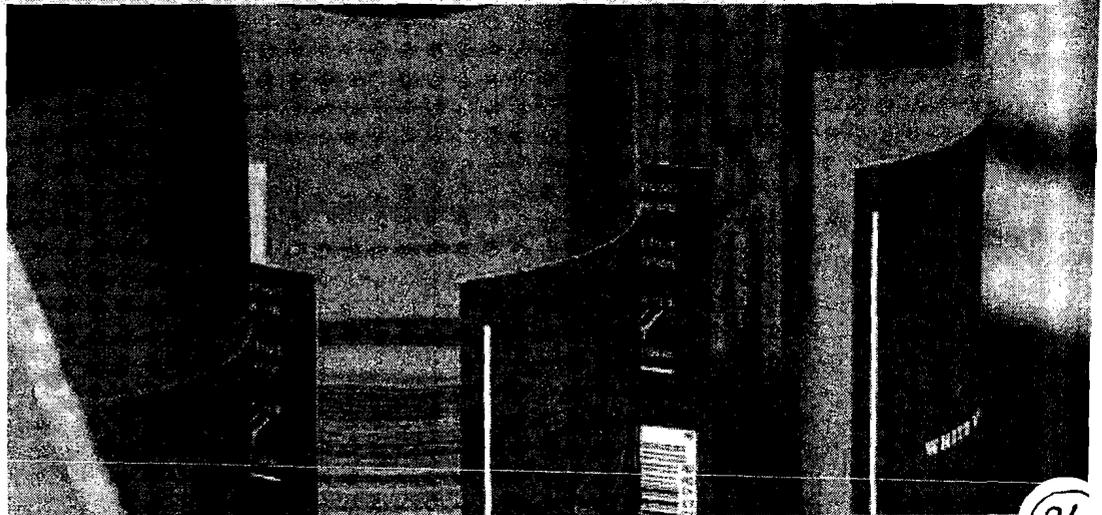


- Offer high-protein foods to patrons before consumption begins.
- Document the details of incidents such as refusing alcohol service, arranging transportation for a guest, retaining the tag ID of a minor and calling police to your establishment. An incident report can be helpful in the event of a lawsuit.
- Train servers to be aware of the alcohol content of different drinks. To keep on accurate counts, servers should use specific-size glasses, measuring jiggers or automatic pouring devices that dispense an exact amount of alcohol.
- Develop a policy for safe alcohol consumption.
- Create guidelines for handling intoxicated guests. Be sure to encourage safe. If the intoxicated guest refuses, get him away from other patrons to be safe by talking to privately.
- Servers need to be backed up by management when cutting off service to someone who has had too much to drink.



Financial Information

In the past 10 years, the Department of Liquor Control has made a cumulative contribution of \$191,690,398 to the General Fund to help pay for important resident services such as education, infrastructure and police and fire services. We have exceeded our growth target through our high level of customer service in both wholesale and retail, our competitive promotions and our availability to our customers for special assistance in product location, training and guidance. Restricting factors include the overall national trend that points to flattening consumption, the customer trading down and our limited advertising strategy, which reflects the county's role in this business operation.



Allocations

Wholesale/Retail Sales

The Department of Liquor Control sells beer, wine and liquor both as a wholesaler and a retailer. Of the \$211,914,002 in total sales in FY08, 55% are attributed to wholesale operations, while 45% are attributed to retail operations.

Percentage of Sales Allocated Among Wholesale Liquor/Wine, Wholesale Beer, and Retail

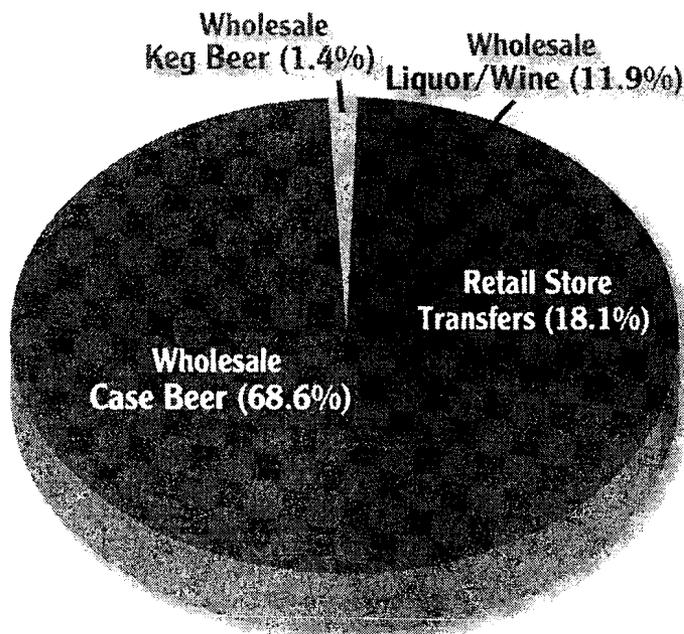


Howard Shriner and his fellow workforce leaders supervise drivers, ensuring timely delivery of products to licensed establishments.

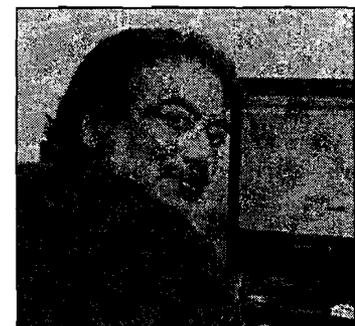
Warehouse Depletions

The Department of Liquor Control warehouse ships liquor, wine, case beer and keg beer. Of the 5,113,637 total cases/kegs of beverage alcohol shipped in FY08, 68.6% were case beer, 1.4% were keg beer, 11.9% were liquor/wine to licensed establishments, and 18.1% were transferred to county stores for resale.

Percentage of Case Depletions by Category



Benito Gonzalez, driver, provides friendly, efficient deliveries to licensed establishments and retail stores.

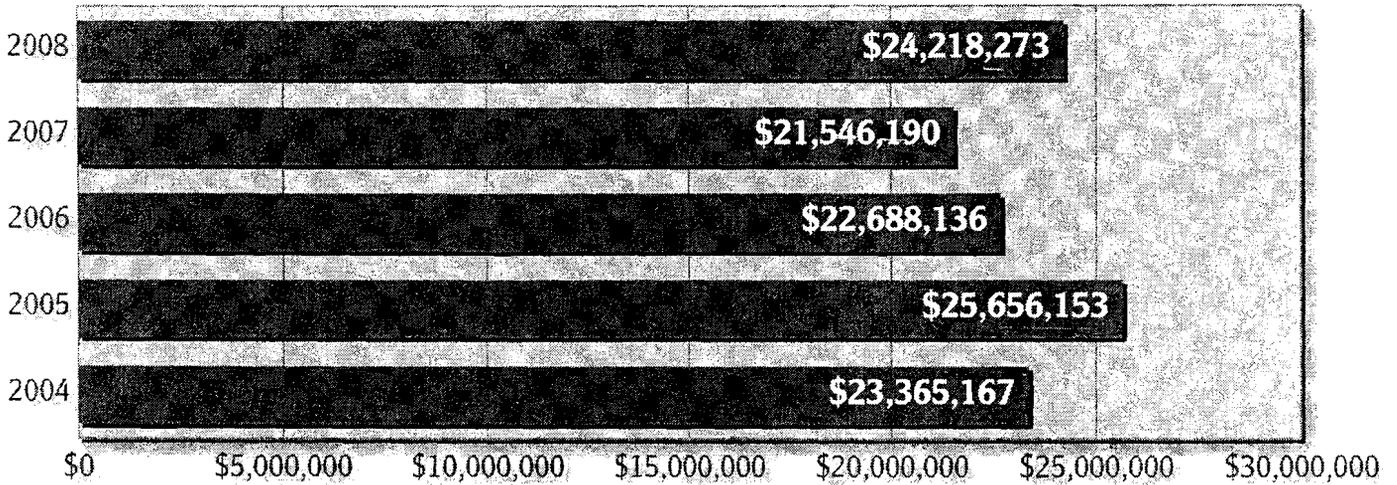


Brian Byrd, purchasing specialist, researches special orders and makes niche products available to individuals through retail stores and licensed establishments.

Results of Operations

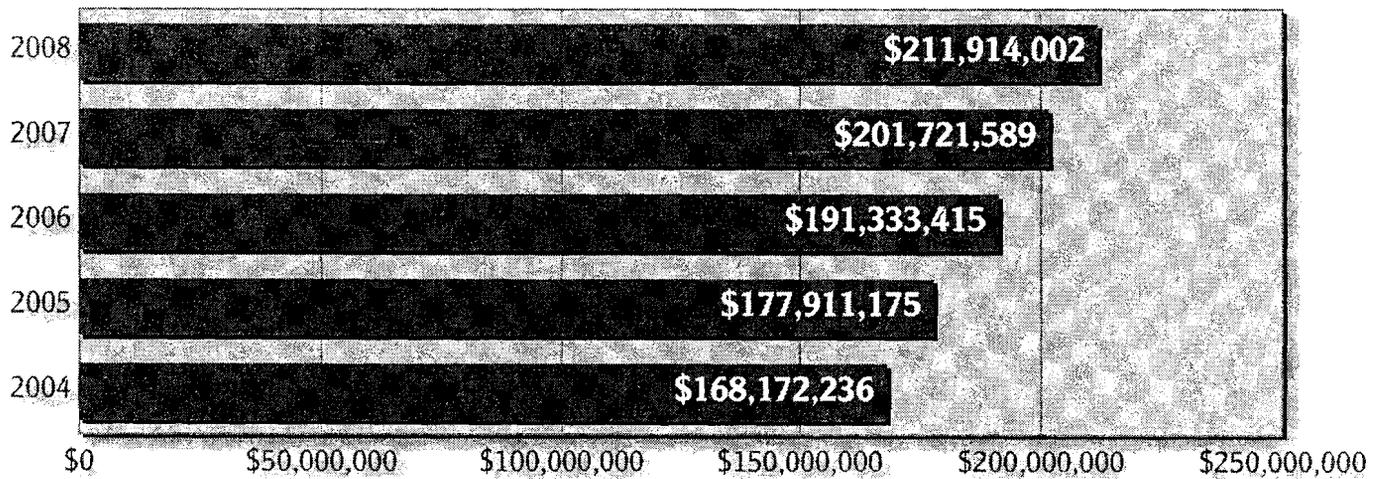
The Department of Liquor Control's income in FY08 was \$24,218,273.

Net Income, 2004–2008



The Department of Liquor Control's sales from continuing operations in FY08 were \$211,914,002.

Net Sales, 2004–2008

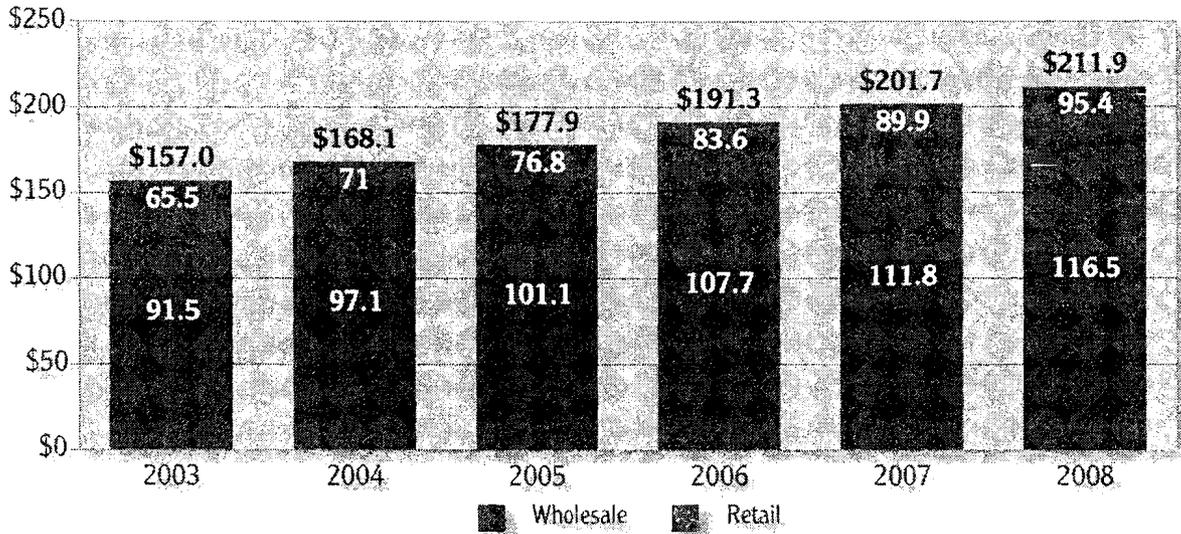


Jhason Abuan, IT manager, Kate Gelbard, Arnold Rodriguez, Ida Cole, Arnie Cabello, and Bola Odutayo keep the department's information technology running smoothly.

Sales Allocation Information

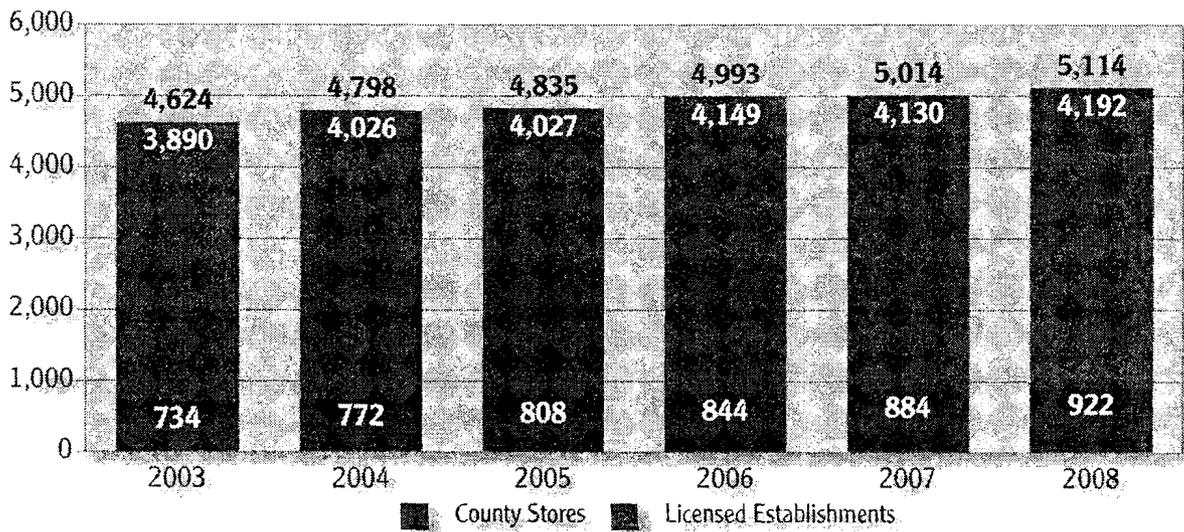
Retail and Wholesale Sales 2003–2008

(Dollars in Millions)



Annual Cases/Kegs Shipped from Warehouse 2003–2008

(Numbers in Millions)



Jim Ferris, store manager, Manning Autry and Dan Marsh focus on excellent service for retail customers.



Photo by Hannah R. Marsh

Sales in Total and by Division

Sales Analysis, FY 1999–2008

Fiscal Year	Total Sales	% Change	Retail Sales	% Change	Warehouse Total Sales	% Change	Warehouse Beer Sales	% Change	Warehouse Liquor/ Wine	% Change
2008	\$211,914,002	5.05%	\$95,416,786	6.18%	\$116,497,216	4.14%	\$69,301,376	4.76%	\$47,195,840	3.26%
2007	\$201,721,589	5.43%	\$89,859,669	7.45%	\$111,861,920	3.86%	\$66,154,446	2.17%	\$45,707,474	6.41%
2006	\$191,333,415	7.54%	\$83,628,976	8.86%	\$107,704,439	6.55%	\$64,752,051	5.99%	\$42,952,388	7.39%
2005	\$177,911,175	5.79%	\$76,823,377	8.16%	\$101,087,798	4.06%	\$61,089,995	2.62%	\$39,997,803	6.33%
2004	\$168,172,236	7.09%	\$71,024,249	8.41%	\$97,147,987	6.14%	\$59,530,471	5.61%	\$37,617,516	6.99%
2003	\$157,039,359	4.63%	\$65,512,134	8.75%	\$91,527,225	1.87%	\$56,366,974	-0.21%	\$35,160,251	5.40%
2002	\$150,085,202	6.69%	\$60,242,390	8.74%	\$89,842,812	5.36%	\$56,484,764	6.18%	\$33,358,048	3.99%
2001	\$140,675,770	6.74%	\$55,400,821	10.12%	\$85,274,949	4.66%	\$53,197,445	5.02%	\$32,077,504	4.08%
2000	\$131,788,958	9.04%	\$50,311,184	8.85%	\$81,477,774	9.15%	\$50,656,949	6.36%	\$30,820,825	14.09%
1999	\$120,863,585	5.30%	\$46,219,153	6.46%	\$74,644,432	4.59%	\$47,629,393	4.62%	\$27,015,039	4.54%

The Department of Liquor Control's three division chiefs work together to ensure the success of the department. Left to right: Sunil Pandya, chief of administration; Kathie Durbin, chief of licensure, regulation and education; and Gus Montes de Oca, chief of operations



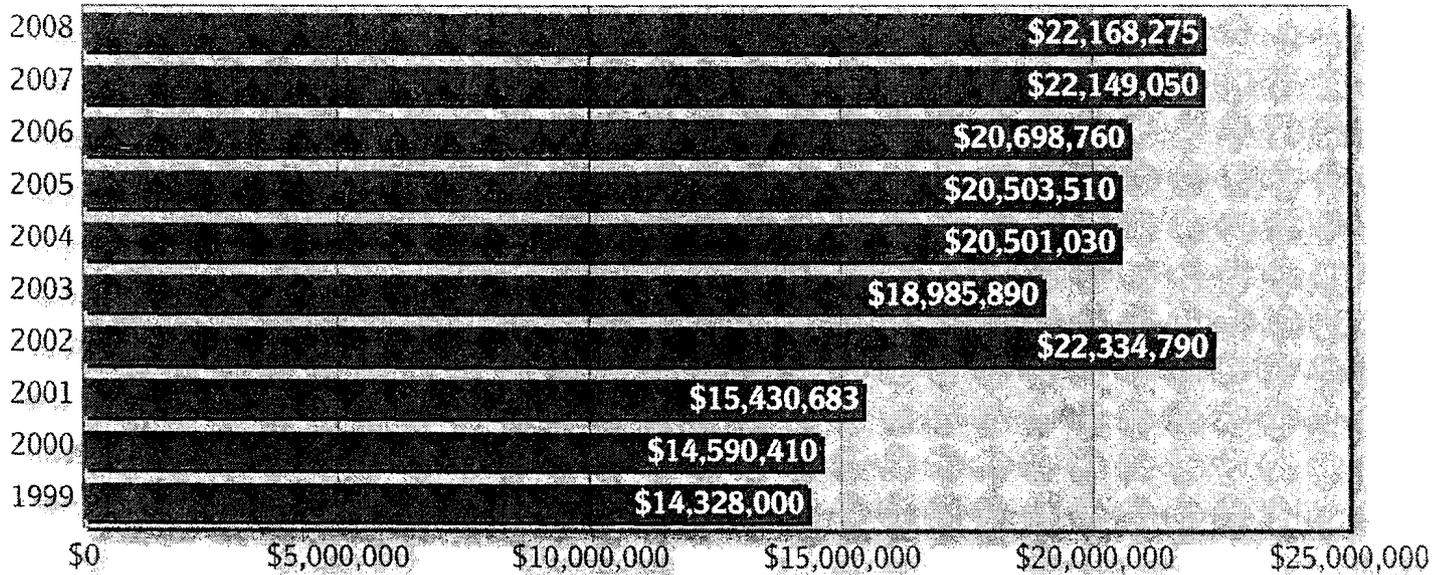
Net Sales by Cost Center, as of June 30, 2008, and 2007

Category		2008	2007	Increase/ Decrease	Percentage Change
RETAIL STORES	Auburn Avenue	3,948,134	3,836,451	111,683	2.91%
	Burtonsville	2,788,749	2,711,656	77,093	2.84%
	Cabin John	3,851,130	3,560,747	290,383	8.16%
	Chevy Chase	1,574,305	1,240,569	333,736	26.90%
	Cloverly	2,707,215	2,585,290	121,925	4.72%
	Diamond Square	1,705,054	1,569,115	135,939	8.66%
	Fallsgrove	3,994,364	3,609,932	384,432	10.65%
	Flower Avenue	2,121,300	1,929,657	191,643	9.93%
	Gaithersburg	1,640,740	1,562,523	78,217	5.01%
	Kensington	4,275,482	4,036,436	239,046	5.92%
	Kingsview	3,908,172	3,680,493	227,679	6.19%
	Leisure World	3,547,004	3,320,000	227,004	6.84%
	Milestone	6,403,978	5,879,093	524,885	8.93%
	Montgomery Village	3,110,041	3,074,588	35,453	1.15%
	Montrose	6,205,198	5,848,560	356,638	6.10%
	Muddy Branch	5,900,119	5,710,579	189,540	3.32%
	Olney	5,059,665	4,851,566	208,099	4.29%
	Pike	4,617,642	4,083,714	533,928	13.07%
	Potomac	5,591,622	5,543,473	48,149	0.87%
	Silver Spring	3,922,168	3,711,596	210,572	5.67%
Twinbrook	2,264,372	2,145,608	118,764	5.54%	
Walnut Hill	3,332,670	3,149,066	183,604	5.83%	
Westwood	6,043,392	5,756,446	286,946	4.98%	
Wheaton	3,356,011	3,151,698	204,313	6.48%	
White Oak	3,548,259	3,310,813	237,446	7.17%	
RETAIL STORE TOTAL	\$95,416,786	\$89,859,669	\$5,557,117	6.18%	
WAREHOUSES	Beer Warehouse	69,301,376	66,154,446	3,146,930	4.76%
	Liquor/Wine Warehouse	47,195,840	45,707,474	1,488,366	3.26%
	WAREHOUSE TOTAL	\$116,497,216	\$111,861,920	\$4,635,296	4.14%
GRAND TOTAL	\$211,914,002	\$201,721,589	\$10,192,413	5.05%	

General Fund Transfers

After paying all expenses and retaining a small amount of operating capital, the Department of Liquor Control transfers profits to the General Fund to pay for important citizen services. In FY08, Liquor Control transferred \$22,168,275; the cumulative contribution in the past 10 years amounted to \$191,690,398.

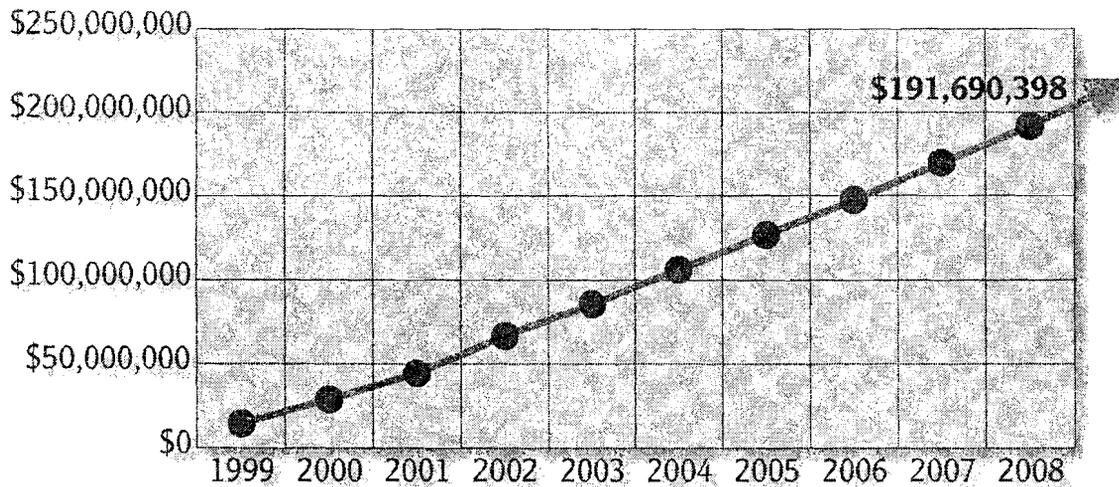
Transfers to General Fund, 1999–2008



Cash Transfers to the General Fund

Fiscal Year	Amount of Transfer per Year	Cumulative Transfer, 1999–2008
2008	22,168,275	191,690,398
2007	22,149,050	169,522,123
2006	20,698,760	147,373,073
2005	20,503,510	126,674,313
2004	20,501,030	106,170,803
2003	18,985,890	85,669,773
2002	22,334,790	66,683,883
2001	15,430,683	44,349,093
2000	14,590,410	28,918,410
1999	14,328,000	14,328,000

Cumulative Transfers to the General Fund, 1999–2008



\$191.6 million has been transferred to Montgomery County's General Fund to help pay for important resident services over the past 10 years



Eric Moore ensures merchandise is stored in its correct location.



Emily DeTitta, education manager, coordinates training in responsible sales and service for licensed establishments.



Diane Wurdeman, retail operations manager, oversees the success of the county-owned retail stores.



Looking Forward

To position ourselves for continued success in 2009 and beyond, the Department of Liquor Control intends to focus its efforts on operational effectiveness by continuing to strive for optimum balance between sales, purchases and inventory levels to ensure that we achieve our goal of a 28 percent gross profit margin ratio.

The department will continue to emphasize customer service by continuing to offer new items, providing on-time delivery, evaluating stores based on an established set of criteria and providing regular product-knowledge and customer-service seminars to its retail staff.

The number of county-owned retail stores has not increased proportionate to the increase in the county

population. To better serve our growing county, we will be opening a new, centrally located store on Hampden Lane in Bethesda, and a new store in Darnestown. We will be expanding the Potomac store to better accommodate customers. The Burtonsville shopping center is being totally redesigned and built, and the department will occupy a new store in that shopping center once construction is complete.

The Division of Licensure, Regulation and Education will continue its collaboration with the Department of Police Alcohol Unit and in partnership with private businesses and citizens groups to keep our communities safe and vibrant.

Gene Hanna, wholesale operations manager, oversees warehousing and distribution.



LOUIS JA

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NTEGRIVE

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ESTATE
CABERNET SAUVIGNON

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