MEMORANDUM

TO: Ad Hoc Committee on Liquor Control

FROM: Craig Howard, Senior Legislative Analyst, OLO
      Leslie Rubin, Senior Legislative Analyst, OLO
      Justina J. Ferrisi, Legislative Analyst, Council Staff

SUBJECT: Worksession – Review of Alcohol Control in Montgomery County
          Public Health and Safety and Other Items

The Ad Hoc Committee on Liquor Control will discuss public health and safety issues, the Inspector General report on DLC Warehouse Inventory Management (to be released March 26, 2015) and OLO survey results. The following is the agenda for the meeting:

AGENDA

9:30 AM to 10:30 AM – Public Health and Safety Issues

- David Jernigan, PhD. – Dr. Jernigan is the Director of the Center on Alcohol Marketing and Youth (CAMY) and an Associate Professor in the Department of Health, Behavior and Society at the Johns Hopkins Bloomberg School of Public Health. He has worked as an advisor to the World Health Organization (WHO) and the World Bank on alcohol issues. He has authored numerous articles and co-authored WHO’s recent Global Status Report on Alcohol. He has trained thousands of public health advocates in media and advocacy and alcohol-problems prevention.

- Leslie Rubin – Overview from OLO Report – Excise Tax and Public Health Impacts (memo p.2)

County Role in Public Health and Safety Issues

Dr. Ulder Tillman, Chief and Health Officer, Public Health Services, Department of Health and Human Services
- George Griffin, Director, Department of Liquor Control (DLC)
- Kathie Durbin, Chief, Licensure, Regulation and Education (LRE)
- Lee Williams, Inspector, LRE
- Captain Michael Didone, Montgomery County Police Department

10:30 AM to 11:00 AM – Briefing By Inspector General Edward Blansitt
   Final Report: DLC Warehouse Inventory Management

11:00 AM to 11:30 AM – OLO Survey Results – Craig Howard – (memo p.2 & ©2)
Impact of Alcohol Excise Tax Increases on Alcohol-Related Harms

This section provides additional information for the Committee’s consideration about research on the public health impacts of increasing alcohol excise taxes. OLO Report 2015-6 describes a wholesale distribution fee on alcohol sales in the County by private wholesalers as a mechanism for generating new revenue — either as a variable charge based on the quantity of alcohol delivered in the County or as a fixed per product fee. A distribution fee could mimic an excise tax if the County instituted a fee based on the volume of alcohol distributed in the County.

An extensive body of public health research has shown that increasing excise taxes on alcohol reduces consumption and reduces alcohol-related harms by increasing the price of alcohol for consumers. And a Maryland-specific analysis has shown that increasing alcohol excise taxes in Maryland would decrease alcohol consumption, while (1) creating new State revenue, (2) increasing economic productivity, and (3) reducing health-related consequences of alcohol consumption. The text box to the right raises for consideration the question of whether instituting a distributor fee in Montgomery County would increase the retail price of alcohol in the County.

Alcohol Excise Tax Impacts on Public Health. The public health community focuses research and policy development on alcohol consumption because “excessive alcohol consumption is the third-leading actual cause of death in the U.S., and each year it accounts for approximately 79,000 deaths and 2.3 million years of potential lost life....” The Community Preventive Services Task Force – established by the U.S. Department of Health and Human Services to identify population health interventions that are scientifically proven to save lives, increase lifespans, and improve quality of life – recommends “increasing taxes on the sale of alcoholic beverages, on the basis of strong evidence of the effectiveness of this policy in reducing excessive alcohol consumption and related harms.” Specifically:

Increasing alcohol excise taxes has been specifically recommended as a public health intervention by the IOM, Partnership for Prevention, the WHO, and the expert panel convened for the Surgeon General’s Workshop on Drunk Driving. These recommendations are based on studies showing that increased alcohol taxes are associated with decreased overall consumption, decreased youth consumption, decreased youth binge drinking, reduced alcohol-related motor-vehicle crashes, reduced mortality from liver cirrhosis, and reduced violence.

Would a County Distribution Fee Raise Alcohol Prices?

If Montgomery County transferred some portion of alcohol distribution to private wholesalers while implementing a distribution fee, it is unclear how such changes would impact pricing. Because Maryland law currently prohibits wholesalers from charging different retailer sellers of alcohol different prices for the same product, if wholesalers raised prices because of a Montgomery County fee, they would have to raise prices for all Maryland retail purchasers, not those just in Montgomery County.

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2 Jernigan, David, et al., The Potential Economic Effects of Alcohol Excise Tax Increases in Maryland, at pp. 1-10 (2011).
3 Tax Policy Interventions at p. 217 [hereinafter “Excise Tax Increases in Maryland”].
5 Tax Policy Interventions at p. 218.
The Centers for Disease Control and Prevention has found that higher alcohol prices or taxes lead to:

- Fewer motor vehicle crashes and fatalities,
- Less alcohol-impaired driving;
- Fewer deaths from liver cirrhosis,
- Less violence, sexually-transmitted diseases, and alcohol dependence.\(^6\)

In a report to Congress on underage drinking, the National Research Council and Institute of Medicine made increasing excise taxes a central recommendation because “evidence also indicates that alcohol tax increases will lead to reductions in the quantity and frequency of drinking among youth, who are among the most price-sensitive consumers.”\(^7\)

**Maryland Alcohol Excise Taxes.** A 2011 paper written by researchers from the Johns Hopkins Bloomberg School of Public Health and from the Boston University School of Public Health specifically examined public health and economic impacts of raising Maryland’s alcohol excise tax rates, and concluded that a $0.10 per drink increase in Maryland’s excise tax would:

- Decrease alcohol consumption by 4.25%,
- Create $215.6 million in new State revenue,
- Generate an additional $225.2 million in cost savings for Maryland’s economy, and
- Result in $131.7 million in annual increased economic productivity in Maryland.\(^8\)

At the same time, the researchers concluded that increasing Maryland’s excise tax rate by $0.10 per drink is “highly unlikely” to shift sales across borders to Maryland’s neighboring jurisdictions.\(^9\)

For perspective on how Maryland’s excise tax rates compare to other states’, the charts on the next three pages compare state alcohol excise tax rates for beer, wine, and liquor. Maryland, the black bar in each chart, has some of the lowest alcohol excise tax rates in the Country.

\(^{6}\) Ibid. at p. 2.
\(^{7}\) Excise Tax Increases in Maryland at p. 5.
\(^{8}\) Excise Tax Increases in Maryland at p.ii.
\(^{9}\) Ibid. at p. 17.
State Excise Tax Rates for Beer (Jan. 1, 2015)

Source: Federation of Tax Administrators
Source: Federal Tax Administrators

Note: The five states that control the sale of wine are not included in these data.

State Excise Tax Rates for Wine (Jan 1, 2015)
State Excise Tax Rates for Liquor (Jan. 1, 2015)

Note: The 17 states that control the sale of liquor are not included in these data.
Source: Federation of Tax Administrator
OLO Follow-Up on Survey of Licensees

OLO Report 2105-6 summarized feedback from alcoholic beverage license holders on OLO’s operations and performance, including the results of a survey distributed to 389 licensees in October. At the February 27th Ad Hoc Committee worksession, the Committee requested that OLO re-distribute the survey to gain additional licensee feedback because OLO now has email contact information for all licensees.

On March 9th, OLO re-distributed the survey to 808 Class A, B, D, and H alcoholic beverage license holders. The survey was open for two weeks, until March 23rd. OLO received 157 responses for a 19% response rate. Overall, the March survey had a slightly lower response rate than the October survey (19% compared to 25%), but had a higher number of responses (157 compared to 96).

Overall, the results of the March survey are similar (and for some questions mirror) the results of the October survey. The strong response rates for both surveys and the similarities of the two datasets confirms OLO’s belief that the October survey provided an accurate representation of the views and perceptions of Montgomery County alcoholic beverage license holders. Tables that provide detailed results from the March survey for each question are attached at ©2. The remainder of this section highlights results from the March survey on OLO’s wholesale operations, product availability, ordering and delivery processes, and qualitative feedback.

1. Survey Feedback on OLO’s Wholesale Operations

The March survey included two general questions about licensee’s satisfactions with OLO’s performance as the wholesaler of alcoholic beverages in Montgomery County – overall and by product type. Over one-half of respondents indicated dissatisfaction with OLO’s performance as the sole wholesaler of alcoholic beverages in the County, with similar responses by product type.

Overall, how satisfied are you with OLO’s performance as the sole wholesaler of alcoholic beverages in Montgomery County? (n=145)

<table>
<thead>
<tr>
<th>Satisfied/ Very Satisfied</th>
<th>Neutral</th>
<th>Dissatisfied/ Very Dissatisfied</th>
</tr>
</thead>
<tbody>
<tr>
<td>28%</td>
<td>19%</td>
<td>54%</td>
</tr>
</tbody>
</table>

How satisfied are you with OLO’s wholesale operations for...

<table>
<thead>
<tr>
<th>Product Type</th>
<th>Satisfied/ Very Satisfied</th>
<th>Neutral</th>
<th>Dissatisfied/ Very Dissatisfied</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beer (n=145)</td>
<td>33%</td>
<td>17%</td>
<td>50%</td>
</tr>
<tr>
<td>Wine (n=144)</td>
<td>29%</td>
<td>15%</td>
<td>56%</td>
</tr>
<tr>
<td>Spirits (n=88)</td>
<td>28%</td>
<td>27%</td>
<td>46%</td>
</tr>
</tbody>
</table>

10 OLO sent the March survey to 846 licensees, and had 38 emails bounce back resulting in 808 licensees ultimately receiving the survey.
2. Survey Feedback on Product Availability

OLO's survey asked about satisfaction with the availability and selection of products. Overall, 37% of respondents expressed satisfaction and 40% expressed dissatisfaction. Respondents expressed the highest level of dissatisfaction with the availability of special order products.

| How satisfied are you with the availability and selection of alcohol products from the Department of Liquor Control? (n=118) |
|---|---|---|
| Satisfied/Very Satisfied | Neutral | Dissatisfied/Very Dissatisfied |
| 37% | 24% | 40% |

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

<table>
<thead>
<tr>
<th>DLC's section of stock products is adequate for my business needs (n=132)</th>
<th>Agree/Strongly Agree</th>
<th>Neutral</th>
<th>Disagree/Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>35%</td>
<td>28%</td>
<td>37%</td>
<td></td>
</tr>
</tbody>
</table>

The availability of "special order" beer/wine/spirits through DLC is adequate for my business needs (n=124)

<table>
<thead>
<tr>
<th>The availability of &quot;special order&quot; beer/wine/spirits through DLC is adequate for my business needs (n=124)</th>
<th>Agree/Strongly Agree</th>
<th>Neutral</th>
<th>Disagree/Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>21%</td>
<td>19%</td>
<td>59%</td>
<td></td>
</tr>
</tbody>
</table>

3. Feedback on DLC's Ordering and Delivery Processes

OLO asked about DLC's ordering and delivery processes, and in both cases responses were most unfavorable about the ordering and delivery of special order products.

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

<table>
<thead>
<tr>
<th>DLC's ordering process for beer/wine/spirits works well for my business.</th>
<th>Agree/Strongly Agree</th>
<th>Neutral</th>
<th>Disagree/Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock (n=132)</td>
<td>38%</td>
<td>23%</td>
<td>39%</td>
</tr>
<tr>
<td>Special Order (n=125)</td>
<td>23%</td>
<td>13%</td>
<td>64%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>The time it takes DLC to deliver beer/wine/spirits after I place an order is reasonable</th>
<th>Agree/Strongly Agree</th>
<th>Neutral</th>
<th>Disagree/Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock (n=132)</td>
<td>54%</td>
<td>20%</td>
<td>26%</td>
</tr>
<tr>
<td>Special Order (n=122)</td>
<td>11%</td>
<td>16%</td>
<td>62%</td>
</tr>
</tbody>
</table>
4. Qualitative Feedback – Licensee Suggestion for Improvement

As with the October survey, OLO included five open-ended response questions asking licensees for any suggestions for improving:

- DLC's product ordering or product delivery system;
- The supply and availability of alcohol products in Montgomery County;
- DLC's wholesale pricing;
- DLC's communications, information delivery, and/or customer service; and
- State and/or County law or policy governing the system of alcohol control and distribution in Montgomery County.

OLO did not publish the entire list of results from the October survey as part of OLO Report 2015-6, but did incorporate responses into the qualitative portion of the feedback chapter and as part of developing the five options for structural change.

At the February 27th worksession, DLC representatives suggested that having specific improvement recommendations from licensees would be helpful. Accordingly, OLO has pulled out all the open-ended responses from the March survey for each question, and can provide them upon request. While many issues are covered in the responses, two topic areas that frequently came up as needing improvement are:

- The new Oracle/iStore ordering system; and
- Ordering and receiving special order products.

One specific issue related to the new Oracle/iStore system identified by licensees is that the automated ACH deductions of funds from licensees' bank accounts are not matching up with invoices for the products delivered.

Written comments to be distributed Friday –

Rebecca Ramirez, Chair, Montgomery County Alcohol Beverages Advisory Board

Ms. Ramirez has worked in the field of alcohol policy implementation and evaluation for 15 years, and currently serves as the Executive Director of the National Liquor Law Enforcement Association. She also provides technical assistance on law enforcement strategies as part of her work with the Maryland Collaborative to Reduce College Drinking and Related Problems.

Speakers and others have been invited to provide written comments for the Committee. Comments submitted after the packet deadline will be distributed Friday.

Councilmembers may wish to bring copies of OLO Report 2015-6 and the PFM Strategic Business Plan to the meeting. The list of five options presented in the OLO report can be found on ©1.

This packet contains:

<table>
<thead>
<tr>
<th>Circle #</th>
</tr>
</thead>
<tbody>
<tr>
<td>Report Summary, OLO Report 2015-6</td>
</tr>
<tr>
<td>OLO Report Summary of Results from March 2015 OLO Survey of Alcoholic Beverage License Holders</td>
</tr>
</tbody>
</table>
OVERVIEW

This report responds to the Council’s request for an examination of the alcoholic beverage distribution system in Montgomery County and the County’s Department of Liquor Control (DLC). Montgomery County is the only “control jurisdiction” in Maryland – controlling the wholesale sales of alcohol to retail businesses and controlling the retail sales of packaged liquor at 25 County-run stores. Based on our review, OLO developed a continuum of five options for changes to Montgomery County’s alcohol structure for Council consideration. Each option estimates the budgetary/fiscal impact and the impact on County positions of the specific change.

OLO Contacts:
Craig Howard 240.777.7985
Leslie Rubin 240.777.7998

FINDINGS

- Maryland law regulates all facets of the manufacture and sale of alcoholic beverages. Changes to the County system require changes to State law.
- DLC’s gross profit ($75.8 million in FY14) pays DLC operating expenditures, debt service for Liquor revenue bonds, and a transfer to the General Fund ($20.9 million in FY14).
- Feedback from a sample of over 100 licensees indicates many are dissatisfied with DLC’s operations, processes, and performance as the sole wholesaler of alcoholic beverages in the County and particularly dissatisfied with the availability of wine and special order products.

OPTIONS FOR COUNCIL CONSIDERATION

- **Option 1** Fully deregulate the alcohol system in Montgomery County and allow private wholesale distribution and private retail sale of beer, wine, and liquor.
- **Option 2** Allow private wholesale distribution of beer, wine and liquor, maintain County control of the off-premise retail sale of liquor.
- **Option 3** Allow private wholesale distribution of beer and wine, maintain County control of the wholesale and off-premise retail sale of liquor.
- **Option 4** Allow private wholesale distribution of special order beer and wine, maintain the current wholesale and retail structure for all other alcohol products.
- **Option 5** Increase DLC’s efficiency and effectiveness within the current structure.
Summary of Results from March 2015 OLO Survey of Alcoholic Beverage License Holders

OLO re-distributed a survey on DLC performance and operations to 846 Class A, B, D, and H alcoholic beverage license holders on March 9, 2015. The survey was open for two weeks, until March 23, 2015. After accounting for email bouncebacks, 808 licensees received the survey. OLO received 157 responses for a 19% response rate. Overall, the 2nd survey had a slightly lower response rate than the initial survey (19% compared to 25%), but had a higher number of responses (157 compared to 96).

Survey Respondent Profile

<table>
<thead>
<tr>
<th>Liquor License</th>
<th>% of Survey Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>What type of Liquor License do you have? (n=157)</td>
<td></td>
</tr>
<tr>
<td>Class A (primarily beer/wine stores)</td>
<td>15%</td>
</tr>
<tr>
<td>Class B – Beer and Wine Only (primarily restaurants)</td>
<td>41%</td>
</tr>
<tr>
<td>Class B – Beer, Wine and Liquor (primarily restaurants)</td>
<td>34%</td>
</tr>
<tr>
<td>Class D (restaurants, markets, or beer/wine stores)</td>
<td>5%</td>
</tr>
<tr>
<td>Class H (primarily restaurants)</td>
<td>5%</td>
</tr>
<tr>
<td>Unsure/Other</td>
<td>5%</td>
</tr>
<tr>
<td>What zip code(s) is your business located in? (n=139)</td>
<td></td>
</tr>
<tr>
<td>Silver Spring Area</td>
<td>26%</td>
</tr>
<tr>
<td>Rockville-Potomac Area</td>
<td>23%</td>
</tr>
<tr>
<td>Bethesda-Chevy Chase Area</td>
<td>19%</td>
</tr>
<tr>
<td>Gaithersburg Area</td>
<td>19%</td>
</tr>
<tr>
<td>Germantown-Clarksburg Area</td>
<td>6%</td>
</tr>
<tr>
<td>All Other</td>
<td>7%</td>
</tr>
<tr>
<td>How many liquor licenses do you or your business have in the County? (n=153)</td>
<td></td>
</tr>
<tr>
<td>One</td>
<td>85%</td>
</tr>
<tr>
<td>Two</td>
<td>7%</td>
</tr>
<tr>
<td>Three or more</td>
<td>8%</td>
</tr>
<tr>
<td>What is the approximate dollar value of your business’ annual alcohol sales?</td>
<td></td>
</tr>
<tr>
<td>Less than $3,500</td>
<td>3%</td>
</tr>
<tr>
<td>$3,501 to $10,000</td>
<td>7%</td>
</tr>
<tr>
<td>$10,001 to $25,000</td>
<td>9%</td>
</tr>
<tr>
<td>$25,001 to $100,000</td>
<td>11%</td>
</tr>
<tr>
<td>$100,001 to $250,000</td>
<td>15%</td>
</tr>
<tr>
<td>$250,001 or higher</td>
<td>55%</td>
</tr>
</tbody>
</table>

Note: Numbers may not sum to 100% due to rounding.
Summary of Results from OLO March 2015 Survey of Alcoholic Beverage License Holders

A. Overall Satisfaction with DLC's Wholesale Operations

Q1: Overall, how satisfied are you with DLC's performance as the sole wholesaler of alcoholic beverages in Montgomery County? (n=145)

<table>
<thead>
<tr>
<th>Very Dissatisfied</th>
<th>Dissatisfied</th>
<th>Neutral</th>
<th>Satisfied</th>
<th>Very Satisfied</th>
</tr>
</thead>
<tbody>
<tr>
<td>37%</td>
<td>17%</td>
<td>19%</td>
<td>15%</td>
<td>13%</td>
</tr>
</tbody>
</table>

Q2: How satisfied are you with DLC's wholesale operations for...

<table>
<thead>
<tr>
<th>Product Type</th>
<th>Very Dissatisfied</th>
<th>Dissatisfied</th>
<th>Neutral</th>
<th>Satisfied</th>
<th>Very Satisfied</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beer (n=145)</td>
<td>31%</td>
<td>19%</td>
<td>17%</td>
<td>22%</td>
<td>11%</td>
</tr>
<tr>
<td>Wine (n=144)</td>
<td>33%</td>
<td>23%</td>
<td>15%</td>
<td>19%</td>
<td>10%</td>
</tr>
<tr>
<td>Spirits (n=88)</td>
<td>30%</td>
<td>16%</td>
<td>27%</td>
<td>13%</td>
<td>15%</td>
</tr>
</tbody>
</table>

B. DLC Communications and Customer Service

Q3: In general, how satisfied are you with...

<table>
<thead>
<tr>
<th>The overall communication DLC provides to licensees? (n=126)</th>
<th>Very Dissatisfied</th>
<th>Dissatisfied</th>
<th>Neutral</th>
<th>Satisfied</th>
<th>Very Satisfied</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>21%</td>
<td>23%</td>
<td>20%</td>
<td>25%</td>
<td>10%</td>
</tr>
<tr>
<td>DLC's customer service? (n=125)</td>
<td>26%</td>
<td>15%</td>
<td>22%</td>
<td>22%</td>
<td>15%</td>
</tr>
</tbody>
</table>

Q4: DLC adequately informs licensees about....

<table>
<thead>
<tr>
<th>Pricing changes (n=125)</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>22%</td>
<td>14%</td>
<td>32%</td>
<td>26%</td>
<td>7%</td>
</tr>
<tr>
<td>Changes to the availability of stock products (n=125)</td>
<td>28%</td>
<td>22%</td>
<td>25%</td>
<td>18%</td>
<td>7%</td>
</tr>
<tr>
<td>Changes to the availability of special order products (n=121)</td>
<td>35%</td>
<td>22%</td>
<td>19%</td>
<td>19%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Q5: DLC provided licensees adequate information prior to implementing its new Oracle-based inventory and product ordering system (n=125)

<table>
<thead>
<tr>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>20%</td>
<td>17%</td>
<td>26%</td>
<td>26%</td>
<td>11%</td>
</tr>
</tbody>
</table>
C. Selection and Availability of Products

Q6: In general, how satisfied are you with the availability and selection of alcohol products from the Department of Liquor Control? (n=118)

<table>
<thead>
<tr>
<th>Very Dissatisfied</th>
<th>Dissatisfied</th>
<th>Neutral</th>
<th>Satisfied</th>
<th>Very Satisfied</th>
</tr>
</thead>
<tbody>
<tr>
<td>18%</td>
<td>22%</td>
<td>24%</td>
<td>23%</td>
<td>14%</td>
</tr>
</tbody>
</table>

Q7: DLC’s selection of products is adequate for my business.

<table>
<thead>
<tr>
<th>DLC’s section of stock products is adequate for my business needs (n=132)</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>20%</td>
<td>17%</td>
<td>28%</td>
<td>22%</td>
<td>13%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DLC typically does not run out of “stock” beer/wine/spirits that I routinely order (n=131)</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>25%</td>
<td>26%</td>
<td>20%</td>
<td>23%</td>
<td>6%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>The availability of “special order” beer/wine/spirits through DLC is adequate for my business needs (n=124)</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>36%</td>
<td>23%</td>
<td>19%</td>
<td>15%</td>
<td>6%</td>
<td></td>
</tr>
</tbody>
</table>

Q8: Compared to my business(es) in other jurisdiction(s), the availability and selection of beer/wine/spirits in Montgomery County is... (n=27)

<table>
<thead>
<tr>
<th>Much Worse</th>
<th>Worse</th>
<th>Similar</th>
<th>Better</th>
<th>Much Better</th>
</tr>
</thead>
<tbody>
<tr>
<td>14 (52%)</td>
<td>7 (26%)</td>
<td>5 (19%)</td>
<td>1 (4%)</td>
<td>0 (0%)</td>
</tr>
</tbody>
</table>

D. DLC’s Ordering Process

Q9: DLC’s ordering process for beer/wine/spirits works well for my business.

<table>
<thead>
<tr>
<th>Stock (n=132)</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>20%</td>
<td>19%</td>
<td>23%</td>
<td>27%</td>
<td>11%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Special Order (n=125)</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>42%</td>
<td>22%</td>
<td>13%</td>
<td>16%</td>
<td>7%</td>
<td></td>
</tr>
</tbody>
</table>

Q10: Compared to my business(es) in other jurisdiction(s), the convenience and ease of ordering beer/wine/spirits in Montgomery County is... (n=27)

<table>
<thead>
<tr>
<th>Much More Difficult</th>
<th>More Difficult</th>
<th>Similar</th>
<th>Easier</th>
<th>Much Easier</th>
</tr>
</thead>
<tbody>
<tr>
<td>16 (59%)</td>
<td>5 (19%)</td>
<td>2 (7%)</td>
<td>4 (15%)</td>
<td>0 (0%)</td>
</tr>
</tbody>
</table>
Summary of Results from OLO March 2015 Survey of Alcoholic Beverage License Holders

E. DLC’s Delivery Process

Q11: The time it takes DLC to deliver beer/wine/spirits after I place an order is reasonable

<table>
<thead>
<tr>
<th></th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock (n=132)</td>
<td>17%</td>
<td>9%</td>
<td>20%</td>
<td>36%</td>
<td>18%</td>
</tr>
<tr>
<td>Special Order (n=122)</td>
<td>43%</td>
<td>19%</td>
<td>16%</td>
<td>19%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Q12: Compared to my business(es) in other jurisdiction(s), the timeframe for beer/wine/spirits product deliver in Montgomery County is...

<table>
<thead>
<tr>
<th></th>
<th>Much Slower</th>
<th>Slower</th>
<th>Similar</th>
<th>Faster</th>
<th>Much Faster</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock (n=27)</td>
<td>12 (44%)</td>
<td>8 (30%)</td>
<td>6 (22%)</td>
<td>1 (4%)</td>
<td>0 (0%)</td>
</tr>
</tbody>
</table>

Q13: Contents of DLC Deliveries...

<table>
<thead>
<tr>
<th></th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>I typically know ahead of time the type and quantity of products that I will receive in a scheduled DLC delivery (n=133)</td>
<td>34%</td>
<td>17%</td>
<td>11%</td>
<td>23%</td>
<td>15%</td>
</tr>
<tr>
<td>DLC typically informs me when a “special order” product has arrived and is scheduled for delivery (n=123)</td>
<td>56%</td>
<td>12%</td>
<td>14%</td>
<td>11%</td>
<td>7%</td>
</tr>
</tbody>
</table>

Q14: My orders are typically delivered correctly, without mistakes...

<table>
<thead>
<tr>
<th>Product Type</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beer (n=131)</td>
<td>22%</td>
<td>21%</td>
<td>8%</td>
<td>34%</td>
<td>15%</td>
</tr>
<tr>
<td>Wine/Spirits (n=125)</td>
<td>30%</td>
<td>17%</td>
<td>11%</td>
<td>27%</td>
<td>15%</td>
</tr>
</tbody>
</table>

Q15: DLC’s process for resolving mistakes or problems in orders or deliveries is efficient (n=127)

<table>
<thead>
<tr>
<th></th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock (n=132)</td>
<td>35%</td>
<td>13%</td>
<td>16%</td>
<td>28%</td>
<td>9%</td>
</tr>
<tr>
<td>Special Order (n=122)</td>
<td>28%</td>
<td>15%</td>
<td>25%</td>
<td>21%</td>
<td>11%</td>
</tr>
</tbody>
</table>

Q16: DLC’s new ACH payment method works well for my business (n=130)
Summary of Results from OLO March 2015 Survey of Alcoholic Beverage License Holders

F. DLC Pricing

**Q17:** The system where all licensees pay the same wholesale price for the same product produces a fair business system (n=123)

<table>
<thead>
<tr>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>13%</td>
<td>11%</td>
<td>24%</td>
<td>29%</td>
<td>22%</td>
</tr>
</tbody>
</table>

**Q18:** The wholesale price of DLC products is comparable to the wholesale price I would pay if purchasing from a private distributor (n=123)

<table>
<thead>
<tr>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>40%</td>
<td>26%</td>
<td>13%</td>
<td>19%</td>
<td>2%</td>
</tr>
</tbody>
</table>

**Q19:** Percent of Respondents who think DLC's wholesale pricing is...

<table>
<thead>
<tr>
<th>Product Type</th>
<th>Very Low</th>
<th>Low</th>
<th>Reasonable</th>
<th>High</th>
<th>Very High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beer (n=125)</td>
<td>2%</td>
<td>3%</td>
<td>51%</td>
<td>26%</td>
<td>17%</td>
</tr>
<tr>
<td>Wine (n=122)</td>
<td>3%</td>
<td>3%</td>
<td>37%</td>
<td>23%</td>
<td>34%</td>
</tr>
<tr>
<td>Liquor (n=76)</td>
<td>3%</td>
<td>8%</td>
<td>57%</td>
<td>24%</td>
<td>9%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Special Order</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Beer (n=116)</td>
<td>2%</td>
<td>3%</td>
<td>39%</td>
<td>28%</td>
<td>29%</td>
</tr>
<tr>
<td>Wine (n=115)</td>
<td>3%</td>
<td>3%</td>
<td>37%</td>
<td>23%</td>
<td>34%</td>
</tr>
<tr>
<td>Liquor (n=69)</td>
<td>6%</td>
<td>3%</td>
<td>52%</td>
<td>25%</td>
<td>14%</td>
</tr>
</tbody>
</table>

**Q20:** Compared to the price I pay in other jurisdiction(s), DLC's wholesale pricing is...

<table>
<thead>
<tr>
<th>Product Type</th>
<th>Much Lower</th>
<th>Lower</th>
<th>Similar</th>
<th>Higher</th>
<th>Much Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beer (n=27)</td>
<td>1 (4%)</td>
<td>1 (4%)</td>
<td>8 (30%)</td>
<td>9 (33%)</td>
<td>8 (30%)</td>
</tr>
<tr>
<td>Wine (n=27)</td>
<td>1 (4%)</td>
<td>0 (0%)</td>
<td>7 (26%)</td>
<td>11 (41%)</td>
<td>8 (30%)</td>
</tr>
<tr>
<td>Liquor (n=23)</td>
<td>1 (4%)</td>
<td>0 (0%)</td>
<td>10 (43%)</td>
<td>9 (39%)</td>
<td>3 (13%)</td>
</tr>
</tbody>
</table>
### Summary of Results from OLO March 2015 Survey of Alcoholic Beverage License Holders

#### G. Structural Changes to Montgomery County Liquor System

**Q21**: Indicate whether you would favor or oppose changes to State of Maryland and/or Montgomery County laws or policies to:

<table>
<thead>
<tr>
<th>Option</th>
<th>Strongly Oppose</th>
<th>Oppose</th>
<th>Neutral</th>
<th>Favor</th>
<th>Strongly Favor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allow private distributors to engage in the wholesale of beer, wine, and spirits in Montgomery County (n=123)</td>
<td>12%</td>
<td>4%</td>
<td>11%</td>
<td>15%</td>
<td>57%</td>
</tr>
<tr>
<td>Allow private distributors to engage in the wholesale of beer and wine (but not spirits) in Montgomery County (n=119)</td>
<td>14%</td>
<td>7%</td>
<td>18%</td>
<td>17%</td>
<td>44%</td>
</tr>
<tr>
<td>Allow off-premise, beer/wine store licensees to also sell spirits in Montgomery County (n=118)</td>
<td>9%</td>
<td>4%</td>
<td>23%</td>
<td>15%</td>
<td>48%</td>
</tr>
<tr>
<td>Allow licensees in Montgomery County to purchase “special order” beer and wine directly from private distributors (n=122)</td>
<td>7%</td>
<td>1%</td>
<td>9%</td>
<td>11%</td>
<td>71%</td>
</tr>
<tr>
<td>Allow individuals and/or businesses to hold more than one off-premise, beer/wine store license in Montgomery County (n=119)</td>
<td>14%</td>
<td>4%</td>
<td>27%</td>
<td>15%</td>
<td>39%</td>
</tr>
<tr>
<td>Allow large chain stores to sell beer/wine in Montgomery County (n=122)</td>
<td>36%</td>
<td>13%</td>
<td>11%</td>
<td>12%</td>
<td>28%</td>
</tr>
<tr>
<td>Allow grocery stores to sell beer/wine in Montgomery County (n=121)</td>
<td>36%</td>
<td>13%</td>
<td>9%</td>
<td>17%</td>
<td>26%</td>
</tr>
</tbody>
</table>
TO:  Ad Hoc Committee on Liquor Control  
FROM:  Justina J. Ferber, Legislative Analyst, Council Staff  
SUBJECT:  Worksession – Review of Alcohol Control in Montgomery County  
Public Health and Safety and Other Items  

After the Committee packet went to print, Council staff received additional materials. The Final Report of the Department of Liquor Control Warehouse Inventory Management from Product Receipt through Delivery, Report #OIG-15-005 and comments from Fred Silverman, member of the Alcohol and other Drug Abuse Advisory Council.

The Liquor Control Warehouse Inventory Management Report #OIG-15-005 can be found at:  

This packet contains:  
DLC Warehouse Inventory Management, Report in Brief  
Fred Silverman comments  

Circle #  
1  
5
Final Report

Department of Liquor Control Warehouse Inventory Management

from Product Receipt through Delivery

Report # OIG-15-005

February 19, 2015

Montgomery County Maryland
Office of the Inspector General
The Montgomery County Department of Liquor Control (DLC) internal controls over warehouse inventory need improvement. Various warehouse employees routinely use informal, handwritten notes to instruct DLC staff to change inventory quantities in the electronic perpetual inventory system. Although the adjustments are both positive and negative, the net adjustments resulted in significant decreases in the recorded quantities of warehouse inventories in FY2013 and FY2014. While there are many potential causes for such variations, DLC has done little to no investigation or analysis to determine why quantities of the physical warehouse inventory differ from those reflected in the electronic inventory. DLC’s ability to track inventory is complicated by the omission of the actual physical location of all products within the warehouse from the electronic inventory records. This omission may increase the difficulty of researching variances, as well as the risk of errors and undetected losses of product. Although a July 2014 report by a consultant to the County Office of Internal Audits recommended that inventory records include all physical locations, as of the date of our review, no corrective actions have been taken.

Documented controls over the delivery process were well designed but in practice, procedures were not consistently followed or enforced. DLC had analyzed little of the information collected regarding reported inventory returns, incorrectly loaded delivery trucks, or product breakage, creating greater vulnerability to inaccurate or false reports of missing products. Recently, DLC has implemented several measures to improve the implementation of control procedures. However, an established, regular management reporting mechanism is needed to ensure that these procedures remain in effect.

In February 2015, DLC converted to a new Enterprise Resource Planning (ERP) electronic inventory system. While the new system is expected to provide scanning capability that should facilitate inventory management, it does not significantly modify procedures or internal information addressed in this report. In order to adequately track and investigate inventory variances and inaccuracies in loading delivery vehicles, DLC management would have to change the way in which they use the data that they already collect.

We noted that no formal productivity goals or performance metrics have been developed regarding warehouse and delivery operations. Without goals and metrics, DLC management cannot measure the efficiency of operations, productivity of staff, or the financial and labor resources needed.

We found that DLC’s current policy of delivering special order product to the warehouse and then redistributing it to the customer placing the order increases DLC’s cost and risk while delaying delivery to the customer. We believe DLC can avoid the cost and related risk while reducing customer delivery times by processing such orders as “drop shipments” in which orders placed through DLC are shipped directly to the customer from the distributor or direct supplier. DLC would continue to process the orders, control distribution, and receive payment from the licensee.
What We Recommend

1. DLC should at a minimum adopt the following practices:
   a. Maintain an electronic inventory system which accurately reports the quantity and type of product in each location within the warehouse.
   b. Mark physical product locations, including overflow areas, with the unique location code reflected in the electronic inventory system.
   c. Initiate a program of routinely performing physical inventory test counts on random samples of products by individuals whose responsibilities do not include general warehouse operations (i.e., handling or distribution of product inventory).
   d. Ensure that requested inventory adjustments are validated and that inventory variances above set thresholds are reviewed, investigated, and approved by an authorized individual outside of warehouse operations prior to adjustment of the electronic inventory system.
   e. Develop a process to log and research daily variances in order to implement corrective procedures.

2. DLC should revise written policies and procedures to reflect new warehouse operations, including proper documentation and justification for adjustments to the electronic inventory.

3. DLC should implement a routine management reporting mechanism to ensure that controls over the delivery process are consistently performed and remain in effect.

4. DLC should develop and implement a written, defined productivity measurement system including relevant performance metrics for the receiving, safeguarding, picking, loading, delivery, and return of warehouse goods as well as control of operating costs.

5. DLC should explore delivering special order product via drop shipment, thus freeing up warehouse space and reducing the associated cost and risk to DLC.

6. DLC should employ a consultant with expertise in alcoholic beverage distribution systems to train and assist DLC managers in promptly implementing recommendations 1-5.

---

1 The online Merriam-Webster Dictionary defines the term "drop-ship" as a transitive verb meaning, "to ship (goods) from a manufacturer or wholesaler directly to a customer instead of to the retailer who took the order."
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Six Comments regarding Alcoholic Beverage Policy Considerations

Date: February 24, 2015

From: Fred Silverman

To: Montgomery County Council Alcohol Policy Ad Hoc Committee

1. An economic context for the County’s alcohol policy questions seems to be missing.

   Decisions about County alcohol policy and practices deserve to be seen in a context larger than DLC activities or marketplace anecdotes and complaints. Doing so would help prevent otherwise unforeseen consequences. Debate about revenue replacement should comprehend that changes to alcoholic beverage policy unavoidably cascade into a larger economic pool that includes jobs, business revenue, private investment, retail occupancy, consumer choice and the degree of difficulty running small alcohol related businesses. This larger context is one of the two opposing aspects of all alcohol policy: economic vitality and negative social effects. To help manage the latter, knowledge about the former is required.

2. DLC’s history indicates that it may cause significant economic friction, some unwanted.

   An appreciation of economic friction should be added. Not part of PFM’s work even though labeled “strategic,” economic friction is market inefficiency caused by an integral part of the market, not to be confused with operational inefficiency. Any market player, but especially a monopoly, that delays or fails to match environmental changes causes economic friction, expensive and hard to see in the present tense. Some may be appropriate for social or legal reasons like limiting access to alcohol. In effect, Article 2b mandates some in its call for abstinence. But the extent of economic friction should be fully informed. Here are some actual specifics from recent history to consider. The County’s drinking age population grew 14% between 2004 and 2013. Of course, its composition changed, too, in terms of age, geographic and ethnic distribution. During that period, DLC’s sales rose 53% in absolute terms, but 34% indexed to thousands of 21+ persons. Volumes in thousands of gallons fell by 6%. How? During the period, relatively low priced DLC beer volume fell 11% while higher priced wine volume grew 7% and still higher priced liquor volume grew 18%, all while the number of dispensaries fell by over 12% (all indexed). The decade’s change in population composition likely delivered a shift of consumption appetites, both geographically and in product tastes. Is it reasonable to assume that DLC’s product mix and delivery system matched these shifts in demand routinely, optimizing market efficiency (after thoughtfully allowing for the legal and social imperatives to
constrain access to some articulated degree)? Or is it possible that DLC lagged the demand change over years? An accidental lag that existed (or possibly persists) would result in underperforming operating expenses, rising service complaints and, most important, unrecorded lost sales and profits for purchases that didn’t happen, investments that might have been made by prospective license holders that went elsewhere instead, jobs that weren’t added. Any of those beyond a deliberate level of restraint is economic friction that should be avoided with a more informed attention to market changes.

3. Reliance on labels favored by “control” jurisdiction defenders muddles policy discussion.

Referring to others as “license” jurisdictions obscures two central facts. First, nearly all jurisdictions, but including every single “control” jurisdiction, rely on licensing, law enforcement and taxation, three of the four strategies used to suppress alcohol’s social costs by restricting access and supporting consumption prices. The fourth, government market operation, functionally displaces private sector actors and generates revenue in lieu of tax. It is the only distinguishing characteristic of “control” jurisdictions, but hardly the sole source of actual control. Second, the habitual use of “control” and “license” jurisdiction labels blurs much research and reporting, perhaps not an accident. Stringent police work, tight licensing and restrictive taxation are often ignored as independent variables affecting community outcomes. Put locally, our relatively good social outcomes are due to our high-performing MCPD and State Police, our particular blend of State and local licensing, and our County-operated wholesale and retail businesses (also our tax substitute). It is not proven which of these strategies deserves which part of the credit. Certainly, no one of them deserves all of it. Research that just compares total jurisdiction results and assigns it to whether government market operations exist says little about how the results were created. Please note the last phrase (bolded) from this American Journal of Drug and Alcohol Abuse (1991, Vol 17, #2, p 199-214) abstract (reprinted in full below) about a study called The Role of Formal Law in Alcohol Control Systems: A Comparison among States.

Formal laws and regulations governing activities of state alcohol beverage control agencies in the United States were classified into 10 categories of physical availability and four categories of economic availability. These categories were subjected to similarity analysis to determine variation among states. Kruskal’s stress-one measure revealed three major dimensions of alcohol control laws: forms of retail sales, administrative penalties for violations of alcohol control laws, and price restrictions. This finding suggests that the license/monopoly distinction frequently used to categorize state alcohol control systems is inadequate to characterize the variations in control systems.
4. DLC wholesale and retail business activities should be plainly visible, but aren’t.

In your attempt to fairly consider alternatives to complement DLC operations, you will undoubtedly evaluate the effects on County revenue and expense. Those are not the only impacts, however. Alterations to either DLC’s “retail” or “wholesale” businesses need to be clear to see the effect of change on the served markets. Today, the internals of those businesses including true revenue, costs and profitability are, more or less, unknown. For example, an unpublished study of all $146M of 2011 Montgomery County licensee purchases showed that 63% of distilled liquor purchases by license holders (and 6.8% of wine and 1.2% of beer) were made at dispensaries, not from the warehouse, and not for retail prices. Were one option to privatize dispensaries, how would such crucial access to licensees be affected? Since these purchases were $13.3M and 12% of all dispensary sales made at less than retail prices, what is the profit from the actual “retail” business of selling to consumers? Shouldn’t dispensary costs be allocated among the two in some way? It is obviously tempting to equate warehouse with wholesale and dispensaries with retail, but misleading. The “retail” business seen as dispensaries is overstated in revenue, both over and understated in costs, leaving profit unknown. The “wholesale” business is understated in revenue and also under and overstated in costs if the warehouse is its proxy. Even though DLC revenue, most expense and profit totals are clear, not the OLO nor PFM nor any routine DLC reporting to either the State or County helps you see the pieces well. They must be constructed from data swimming in the financial minestrone of DLC’s warehouse, delivery and dispensary costs and revenues. And some expenses, impossible to ignore by any normal business measures like inventory carrying costs, are missing altogether. Perhaps we’re content with DLC serving as an ATM. Looking behind its cash drawer isn’t necessary. Or those who do look forget or don’t appreciate DLC as a $250M goliath that would get far greater scrutiny as a private entity. Fair treatment of today’s “wholesale” monopoly business would track the sale of inventory to dispensaries, charging them wholesale prices as if they were class A licensees. The dispensaries would properly reflect their own inventories and the various elements of their revenues: sales to consumers at retail, sales to licensees or even sales to other dispensaries at various prices, some marked up and some discounted. Dispensary costs would be allocated to the “retail” and “wholesale” businesses. Delivery operations would properly be fully charged as a cost of the “wholesale” business, perhaps with some delivery revenue in some instances.

5. A better way to substitute DLC revenue.

Few alcohol consumers or even wholesale licensees object to Federal ad valorem and State excise taxes being in the price of every alcoholic beverage, either because they don’t know the taxes are there or that they are fair. Consumers and licensees are certainly aware of
sales tax, however, an already stiff 9%. An excise surtax embedded in the price, while equally tainted with the dreaded “tax” word, would still be more digestible compared with an add-on sales tax that raises the same amount of revenue. The same kind of Article 2b changes (and resistance that might exist) is needed either way, but one approach calls attention to itself with every purchase and the other does not.

NOTE: SORRY FOR THE LENGTH OF THIS COMMENT. IT IS IMPORTANT, HOWEVER, SO I URGE YOU TO PRESS ON THROUGH. [FS]

6. Is the County mistakenly operating contrary to State law and getting less for doing so?

Maryland’s Article 2b, the law that governs 100% of alcoholic beverage regulation everywhere in the State, spells out its two core objectives:

“...to obtain respect and obedience to law and to foster and promote temperance”

Whether you prefer today’s common meaning of “temperance” – *moderation* - or its older more righteous abstinence from alcohol, you get an instant sense of 2b’s degree of difficulty. It (grudgingly) allows, but sternly restrains alcoholic beverages. Its severe style shows when it specifically adds respect for the law as an umbrella goal of the hundreds of pages of convoluted instructions that follow. 2b requires a regulatory structure in every county, a Board of License Commissioners, and permits an optional structure to conduct market operations, a Liquor Control Board (in 1951 renamed DLC). 2b gives no power to either to govern the other where both exist (emphasized in AG Gansler’s 2010 Opinion 950AG164 about Wicomico County). 2b imposes two crucial limiters (paraphrased): for something to be legal, it must be explicitly allowed and also not be explicitly prohibited. Silence cannot be interpreted as permission, but rather must be interpreted as prohibition. AG Opinion 97-13 was solicited by then CE Duncan who asked two questions. AG Curran strongly affirmed the CE’s sole, complete and unfettered authority over DLC, so complete as to put DLC beyond the reach of the Council’s legislative powers, overriding the County Charter. If the CE wants DLC to paint its warehouse and trucks pink and can find the money to do it, the Council will have no say. Curran explained that 2b explicitly extended this power to the CE, and is silent on the Council. The Council may request and receive reports, offer advice and exercise its say over budgets and funding, but has no legislative authority over DLC. The second question CE Duncan asked was whether DLC could let private contractors operate dispensaries for DLC (note: DLC dispensaries are unlicensed). Given the CE’s unlimited reign over DLC, one might expect the AG would say “Sure.” But, he instead said “No.” Yes, CE, you have authority over DLC. But 2b prohibits any unlicensed entity that isn’t specifically allowed. And, yes, 2b specifically allows unlicensed government operated
dispensaries in Montgomery County. But it does not specifically allow private unlicensed dispensaries. So “No” was the AG’s answer to CE Duncan’s question.

This brings us to my assertion that a mistake was made in 2007. It has the County operating outside the law. From 1933 to 2006, the County’s Board of License Commissioners was an independent agency with its own staff. Perhaps with Council assent, in 2007 the County embedded the Board inside DLC administratively. Did the Board ask for this or agree to it? The Board’s staff and inspectors became the nucleus of DLC’s LRE department. Perhaps the County was dissatisfied with the Board, its staff or both, or the Board was unhappy with its own situation. The Board could have sought new staff leadership. The CE and Council could have replaced absent or dysfunctional license commissioners. The common goal could have been to reconstitute a strong, effective independent Board with a competent staff. Instead, legitimate CE authority over DLC was presumably interpreted to mean authority over all-things-alcohol including licensing. But just as with private unlicensed dispensary operators, no matter how convenient or efficient, 2b must explicitly allow it to be legal. 2b explicitly gives all things license-related to each County’s Board of License Commissioners. License commissioners are State officers. Their only function is serve State law (the Governor appoints most other license commissioners throughout the State), and there is no County prerogative. 2b gives the Montgomery County Executive the power to appoint and remove license commissioners with Council approval. 2b further says that the Board’s rules of procedure (no mention of Regulations) are subject to County Council approval (no mention of the CE). 2b explicitly reserves review of any Board decision for Circuit Court. 2b instructs license commissioners about what decisions to make and how to make them and, importantly, tells the Board to create whatever rules it deems necessary, subject to no local authority. While 2b stipulates that the chair of the Board sit on DLC’s Advisory Board, it provides for no Board advisory group nor any CE or DLC involvement in Board matters. 2b says that the Board “may have” a staff and inspectors. The County presumably reads this to mean that the CE and/or Council can decide whether the Board “may have” a staff and inspectors. Another reading is that the Board “may have” a staff or inspectors if it wants and as it wants. The Board might foolishly elect to have no staff or request that it be staffed by another department like the police (some state license authorities are administratively served by their State Police agency). The point, though, is that the structural decision rests with the Board, not the CE or Council.

What I believe is a legal and structural mistake has costs. First and foremost, it’s an outright failure to honor one of 2b’s prime directives, respect and obedience to law. Even though 2b is convoluted and troublesome, for a government to not observe its requirements sets a bad example for the people. Seek to change it. Follow it. But don’t flaunt it. There may be a temptation to assume that DLC monitors the Board and keeps it performing at a high level. Even were that true, it’s beside the point. And it may not be true. What periodic reviews of
Board activity or licensing issues have occurred? What communication has there been between the CE, the Council and the Board? What training is provided license commissioners before and as they exercise their considerable punitive and license granting powers? What reports does anyone get about licensee behavior, violations, geographic distribution or hearings activity? I was once told a prophetic anecdote by a very senior County officer. The anecdote was attributed to some previous staff director for the Board. His strategy was to treat license commissioners like mushrooms. They are to be kept in the dark and covered with manure. Did he have the interests of the County at heart? Was I told this so I’d understand not just a joke or an obsolete approach, but the County’s actual attitude? If so, I am a terrible mushroom.

The current arrangement yields extensive confusion and misdirected expectations. To the disadvantage of the citizens, it allows and even cultivates Board passivity regarding its obligations (making rules, for example, or seeking corrective legislation) instead of vigilance. This has forced at least one well-intended County officer to appear compromised, the subject of not one, but two recent IG reports that explored license related aberrations. The IG, believing that DLC is the responsible authority, missed the cause: missing and incomplete Board rules and procedures. The Board (certainly some of its commissioners) was oblivious (in the dark) and DLC didn’t think to involve it. The OLO mistakenly gives DLC credit for license fees, fines and rules even though 2b gives those only to the Board. DLC engenders confusion with a “mission statement” that says it “provide(s) licensing.” DLC reports licensing revenue with no attribution to the Board. The Board of License Commissioners is made to appear a DLC appendage. Unlike treatment afforded other statutory organs, whether State or County, (e.g., Ethics Commission, Board of Appeals), the County’s website does not list the Board of License Commissioners as part of government but as one of dozens of mostly advisory groups. The Board’s existence is fragmented and essentially buried inside DLC’s own web pages. Since the CE rules over DLC and the Board appears as part of DLC, it’s not hard to see why this would be inferred as correct. CE representatives, for example, presume to guide Board decisions to support CE aims for complaint avoidance and the promotion of a welcome business climate. The County’s master contact list provided to the State shows the Board as a subsidiary of DLC and flatly states that the Board “assists” DLC.

The greatest cost to the County is that the current arrangement undercuts the likelihood, let alone the legal fulfilment, of a strong and independent regulatory agency now and into the future. Given County consideration of more and different private actors to augment DLC, as well as more licensees of increasing diversity, a quality Board would have growing value to protect communities as the State’s law envisioned and expressed.
MEMORANDUM

March 27, 2015

TO: Ad Hoc Committee on Liquor Control

FROM: Justina J. Ferber, Legislative Analyst, Council Staff

SUBJECT: Worksession – Review of Alcohol Control in Montgomery County Public Health and Safety and Other Items

Attached are the presentations made at this morning’s Committee worksession.

David Jernigan PhD – Privatization: What the Research Literature Says
Kathie Durbin, Chief Licensure, Regulation and Education
Captain Michael Didone, Montgomery County Police
Alcohol Initiatives Section
Inspector General – DLC Warehouse Inventory Management
Written Testimony – Rebecca Ramirez, MPH, Chair, Montgomery County Alcoholic Beverages Advisory Board

Circle #

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F:\FERBER\Ad Hoc Committee On Liquor Control 2015\Comm Packet 3-27-15 Addendum #2
Privatization: What the research literature says

Presentation to Montgomery County Ad Hoc Committee on Liquor Control

David H. Jernigan PhD
March 27, 2015
Disclaimer

• Testifying today as a private citizen, and my testimony does not necessarily represent the views of the Johns Hopkins University
Background: Alcohol and Public Health

- Alcohol is the third leading actual cause of death and disability in the US (WHO, Mukhdad et al.)
- Responsible for 88,000 deaths per year (CDC)
- Leading drug among young people in Maryland (CDC):
  - 61% of Maryland high schoolers have tried alcohol
  - 31% drank in the past month
  - 17% binged (5+ within 2 hours) in the past month
- "No ordinary commodity"
Background: Alcohol and the Economy

• Cost of alcohol (annual) to Maryland (CDC):
  – $4.17 billion
  – $1.96 per drink
  – $2.9 billion in lost productivity
  – $470 million from underage drinking

• Cost of alcohol to MD governments:
  – $1.86 billion,
  – $.87 per drink
  – $331 per capita
Current Montgomery County Statistics

• 2nd lowest alcohol treatment admissions rate per 1000 population in the state
• 2nd lowest rate of alcohol-related crashes as percentage of all motor vehicle crashes (all ages)
• Below the state average for binge drinking among 12-20 year-olds
• Well below the state average for alcohol-related inpatient hospitalizations and ED visits per 100 events

Source: Maryland Jurisdictional Epidemiological Profiles Chartbook, 2014
Privatization – what happens?

Intervention
- Privatization of retail sale of an alcoholic beverage

Intermediate outcomes
- Density of off-premises outlets
- Availability: days/hours of sale
- Availability: beverage brand
- Alcohol price
- Alcohol advertising
- Enforcement/compliance with legal requirements
- Access

Demand for privatized beverage and beverage substitution

Goals
- Excessive alcohol consumption
- Alcohol-related health, social, and economic problems

Hahn et al., AJPM 2012
CDC Summary of Studies on Privatization

• 17 studies of sufficient quality looked at effects of privatization; one looked at re-monopolization

• Median increase in per capita sales of the privatized beverage across studies was 44.4%

• Median decline in sales of non-privatized beverage was 2.2%
Privatization: health and economic consequences

• Privatization associated with increased liver cirrhosis and drinking-driving mortality; harmful effects decline substantially with re-monopolization

• One study looked at economic effects – concluded that costs of privatization exceeded the tax and mark-up revenue from increased sales of the privatized beverage
Privatization and price

• Many studies find prices *increase* after privatization – possibly because of relative inefficiencies of scale, such as change in overhead costs, more small outlets, etc.

• Does this mean price is not a variable in increased consumption of alcohol after privatization?

• Comparisons of prices between control and license states poor and usually based on very few brands
Privatization and price: Siegel et al.  
*Addiction*, 2013

- Looked at average prices for 74 brands of distilled spirits found to be available in 13 control states and a sample of 50 stores from 17 of the 32 license states and the District of Columbia.
- Used on-line prices with random in-store validity check.
- Mean price in control states was $29.82; mean price in license states was $27.79.
- Difference in mean price was approximately $2.00, and was statistically significant.
- Price may be a mediating variable in holding down alcohol consumption in control states.
- PUBLIC HEALTH IMPACT: more drinking, more underage drinking.
Privatization, price and products

New study: Young drinkers who consume supersized alcopops more likely to report heavy episodic drinking, injuries after drinking.

Source: Albers et al. 2015
Privatization and availability

- Privatizing commonly results in increases in the number of off-premise outlets and days and hours of sale, all of which have been shown to be associated with increases in excessive alcohol consumption and related harms.
  - Washington State privatized in 2012 and the number of off-premise outlets increased from 328 to 1,415.

- PUBLIC HEALTH IMPACT: Increased outlet density is also associated with increases in social harms, including interpersonal violence and vandalism.
Alcohol outlet density and underage drinking

- Paschall et al. (2012 - 50 California cities)
  - Adolescent alcohol use and heavy drinking appear to be influenced by enforcement of underage drinking laws, alcohol outlet density, and adult alcohol use.

- Chen et al. (2009 - California)
  - Zip code alcohol outlet density significantly and positively related to likelihood and frequency of getting alcohol.

- Treno et al. (2003 - Oregon)
  - Alcohol outlet density associated with both youth drinking and driving and riding with drinking drivers, especially for younger and female respondents.

- Other studies in university neighborhoods, New Zealand, Switzerland.

- BALTIMORE: Alcohol outlets in communities are strongly related to poor outcomes for youth (e.g., school performance, violence exposure, and drug use; Milam, et al, 2013).
Privatization – what happens to enforcement of alcohol laws?

• If enforcement resources are not increased to reflect the increase in the number of licensed outlets, there will be less vigilant enforcement of sales regulations, including enforcement of the minimum legal drinking age.

• PUBLIC HEALTH IMPACT: more youth drinking
Specific examples

- Iowa, Alabama, Idaho, Maine, Montana privatized wine sales
  - Increase in wine sales ranged from 42% to 150%
  - In some cases beer and spirits sales affected, but never enough to counter the increase in wine sales – bottom line is consistently led to greater alcohol consumption

- Finland privatized beer sales
  - 242% increase in beer sales

- Sweden – took medium-strength beer out of grocery stores
  - Alcohol problems in young people declined significantly
CONCLUSION

• County control appears protective of public health in Montgomery County

• Studies from other jurisdictions show that privatization generally leads to:
  - Lower prices
  - Less control over dangerous products
  - More outlets
  - Enforcement more thinly stretched
  - More drinking and alcohol-related problems, including among youth
Questions?

Contact information:
David H. Jernigan PhD
1 410 502 4096
djernigan@jhu.edu
Montgomery County
Department of Liquor Control
Licensure, Regulation and Education

Along with the sale & distribution of alcohol comes the responsibility to educate and enforce alcohol laws and regulation to ensure safe, vibrant communities
Concierge Governing

- Responsible Hospitality Institute
- Montgomery County Community Outreach Office - HRP
- RHI's Sociable City Model
  - Nighttime Economy Management
  - Destination Marketing

Licensure

- Over 1000 annual alcoholic beverage licenses
- 36 License Types
- Emerging trends- layered, local & craft
- Wrap Around Services- Case Manager (interventions, risk and protective factors), ART, EAT, ALERT, Ambassadors, Regional Safety Alliance
- Legislation- NETF, limited licenses (art gallery, salons, theater), Festivals
Special Event Licensing

- Special One day license
- Performing Arts
- Wine festival
- Beer festival

Partners

- **Local**: Project Prom, Limo Training, KIS Coalition, Tobacco Coalition, Alcohol Unit, WRAP, CVB, Government agencies, (sheriff, police, permitting services, HHS) Municipalities and Chambers
- **State**: MD Highway Safety, MALA, GOCCP
- **National**: BeMyDD, NABCA, NLLEA, RHI, RRF, SAMSHA
Other Programs & Education

- Cops in shops - police (county and municipality)
- ALERT, Store ALERT & Community ALERT
- Security and ID Training
- College and University presentations
- Roll call trainings
- Funding - Approx. $100,000 FY15 grants and awards

Resources

- Calendars
- ID Tools - ID Book, scanners, key chain cards, black lights
- Point of Sale Material
- Website
- Social Media
- Newsletters
Alcohol Inspections

5 Types of Inspections:

• **Final Compliance** final check of an establishment before issuance of license for new and transferred licenses.

• **Routine Inspection** is a state mandated check of each establishment twice a year.

• **Monthly Inspection** for those with a liquor privilege; monthly checks for the first year are done. Annually after 1st year.

• **Notice Inspection** is a directive issued by the Board, Division Chief, or an Inspector which generally results in a 48 hour deadline to comply.

Compliance Checks

• Team Members: ATES, MC Police, Sheriff, UV and KIS, Project Prom

• Types of Compliance Checks:
  
  • Under 21 sales: Youth under the age of 20 using their own ID, attempting to purchase alcohol at a licensed establishment.

  • Under 21 room service: Youth under the age of 20 using their own ID, attempting to purchase alcohol through room service at a hotel or motel.

  • Keg Registration: Enforcement specialist in plain clothes using their own ID, attempting to purchase a keg in order to witness the clerks keg registration policies.

  • Sales to Intoxicated Patron: Enforcement specialists in plain clothes within a facility conducting surveillance for sales to visibly intoxicated patrons.
Compliance Check Results
Underage Alcohol Sales

- FY13

<table>
<thead>
<tr>
<th>Compliance Checks for Underage Alcohol Sales</th>
<th>Number Passed</th>
<th>Number Sold</th>
<th>Compliance Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>401</td>
<td>113</td>
<td>72%</td>
</tr>
</tbody>
</table>

- FY14

<table>
<thead>
<tr>
<th>Compliance Checks for Underage Alcohol Sales</th>
<th>Number Passed</th>
<th>Number Sold</th>
<th>Compliance Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>400</td>
<td>77</td>
<td>81%</td>
</tr>
</tbody>
</table>

- FY15 YTD

<table>
<thead>
<tr>
<th>Compliance Checks for Underage Alcohol Sales</th>
<th>Number Passed</th>
<th>Number Sold</th>
<th>Compliance Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>303</td>
<td>59</td>
<td>81%</td>
</tr>
</tbody>
</table>

MS Spot the Shopper
Responsible Retailing Forum

Bethesda Compliance Checks reported a 72% pass rate in FY13

<table>
<thead>
<tr>
<th>ROUND</th>
<th># Visits</th>
<th>Green</th>
<th>Red</th>
<th>Pass Rate</th>
<th>Spotted the Mystery Shopper</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROUND 1</td>
<td>37</td>
<td>33</td>
<td>4</td>
<td>85%</td>
<td>14 (38%)</td>
</tr>
<tr>
<td>ROUND 2</td>
<td>40</td>
<td>39</td>
<td>1</td>
<td>98%</td>
<td>10 (25%)</td>
</tr>
</tbody>
</table>

- Positive feedback
- Incentives to alcohol sellers/servers
- Increased communication
Thank you

www.montgomerycountymd.gov/dlc
Kathie.Durbin@montgomerycountymd.gov
240-777-1917
Alcohol Initiatives
Section

Montgomery County Police Department
Opening Thoughts

• MCPD/DLC have a positive and productive relationship. This is a rarity in the State and Nation

• The ability to issue, renew and control licenses is also huge in ensuring we continue to have responsible service within our County and maintain the tools to revoke/not renew those who act irresponsibly

• There is nothing more frustrating to an police department or community the an out-of-control restaurant/bar because it exhausts tremendous resources and energy to address the problem after it has begun

• Underage drinking parties can be particularly problematic because of the numbers of drinkers involved and the large quantizes of alcohol consumed. Reports of alcohol poisonings, traffic collisions, property damage, community disturbance, violence and sex assaults are all too common...
AIS Purpose

- First formed in 1994
- Has changed slightly throughout the years, but main purpose is still the same:
  - Deterrence
  - Education
  - Enforcement
Who are we?

- Composed of five officers and a Sergeant
- Fall under the Traffic Division
- Not just a DUI unit
- A comprehensive initiative that has been nationally recognized for best practices
Modern Day Alcohol Problems

- Underage Drinking
- Driving Under the Influence of Alcohol
- Overuse/abuse of alcohol
Scope of the problem

- **Underage drinking**
  - Alcohol is the most commonly abused drug by persons under 21 years of age
  - Responsible for 4,300 annual deaths amongst youths
  - Youth consume more per drinking occasion than adults
  - Montgomery County has 1-2 hospital visits on any given weekend for alcohol poisoning for a person under the legal drinking age
  - Average least 40-60 parties a year
Scope (continued)

• **Driving Under the Influence of Alcohol**
  - Montgomery County Police lead the State in arrests behind MSP for DUIs
  - Currently arresting between 3100 – 3400 DUIs / year
  - MVA penalties as well as penalties determined by the court
  - DUIs are incarcerable traffic offence but rarely happens in M.C.
  - Alcohol is a factor in 25-35% of the fatal collisions in the past two years
Scope (continued)

- **Overuse / Abuse**
  - Common problem in Montgomery County for both juveniles and adults
  - Check on patrol for establishments that are overserving and cite if need be
  - Make certain to complete paperwork for subsequent offenders for harsher penalties
  - Educate on dangers of overconsumption
Education

10th grade health classes
Gator-Ade
Summer school lectures
Over 200 hours per year instructing police cadets
PTA panels
Teen court
Assist SAO
Enforcement

Underage party enforcement (aka Controlled Dispersal)

Impaired driving enforcement (DUI / DUID)

Traffic related enforcement (Traffic Division)

Assist Department of Liquor Control
  - Underage sales
  - Compliance checks
  - Establishment enforcement
Compliance Checks

- Ensures that establishments don’t sell to underage persons
- Holds businesses and employees accountable
- Partnership between police and Department of Liquor Control
- 400 establishments checked annually
Alcohol Policies/Laws

- Most alcohol charges are civil violations:
  - Possession of alcohol by a minor
  - Consumption of alcohol in passenger area of MV
  - Possession of a fake ID to purchase alcohol

- Some alcohol charges are criminal:
  - Furnishing
  - Hosting (Adult Responsibility)
Deterrence, Education, Enforcement

• These contribute to this…
Prevention
Montgomery County Department of Liquor Control
Warehouse Inventory Management
from Product Receipt through Delivery

Report #OIG-15-005
March 27, 2015
Reported Findings

- Internal Control of Physical Inventory Needs Improvement
- The DLC delivery process is well designed, but controls have been poorly implemented
- DLC has no productivity goals or performance metrics over warehouse and delivery operations
- Receiving special order product at the warehouse prior to delivery to the licensee increases risk to DLC and adds time and administrative cost
Internal Control of Physical Inventory Needs Improvement

DLC should at a minimum adopt the following practices:

- Maintain an electronic inventory system which accurately reports the quantity and type of product in each marked location
- Implement routine physical inventory test counts (cyclical counts)
- Research and track daily inventory variances
- Investigate inventory adjustments above set thresholds
- Update written policies and procedures
Internal Control of Physical Inventory Needs Improvement

Image 1: Warehouse assigned location numbers 101, 102, 103, & 104. (Primary product locations which match APPX assigned location)

Image 2: Overflow Areas for products with assigned primary location 102 and 103 within APPX. (Warehouse assigned location numbers do not match APPX location assignment.)
Montgomery County Department of Liquor Control
Warehouse Inventory Management

Internal Control of Physical Inventory Needs Improvement

Above: Resulted in a reduction in the electronic perpetual inventory by 3 cases, 1 each of products no. 48663, 70333, 82281. (Total Value: -$279.74)

Left: Resulted in an increase in the electronic perpetual inventory by 951 cases of product no. 90468 and 1,076 cases of product no. 91979. (Total Value: +$28,931.32)
## Internal Control of Physical Inventory Needs Improvement

<table>
<thead>
<tr>
<th>Adjustment Code/Reported Purpose</th>
<th>FY2013</th>
<th>FY2014</th>
<th>Partial FY2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>(Jan. 1 - Nov 7, 2014)</td>
</tr>
<tr>
<td>97160 - Beer Daily Adjustment Code</td>
<td>$ (86,240.94)</td>
<td>$ (145,927.24)</td>
<td>$ (26,370.46)</td>
</tr>
<tr>
<td>97152 - Wine/Liquor Daily Adjustment Code</td>
<td>$ (149,732.78)</td>
<td>$ (60,854.36)</td>
<td>$ (26,871.92)</td>
</tr>
<tr>
<td>97101 - Wine/Liquor Physical Count Code on Count Dates</td>
<td>$ (714,911.80)</td>
<td>$ (66,877.05)</td>
<td>$ (36,285.12)</td>
</tr>
<tr>
<td>97101 - Wine/Liquor Outside Scheduled Counts</td>
<td>$ 50,213.02</td>
<td>$ (100,101.12)</td>
<td>$ (207,932.20)</td>
</tr>
<tr>
<td>97098 - Beer Physical Count Code on Count Dates</td>
<td>$ (359,560.11)</td>
<td>$ (68,496.37)</td>
<td>$ (31,773.30)</td>
</tr>
<tr>
<td>97098 - Beer Outside Scheduled Counts</td>
<td>$ 14,567.10</td>
<td>$ 158,528.89</td>
<td>$ 18,693.96</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$ (1,245,665.51)</td>
<td>$ (283,727.25)</td>
<td>$ (310,539.04)</td>
</tr>
</tbody>
</table>

$ of DLC Warehouse Inventory Adjustments Outside of Normal Purchasing, Sales, and Breakage
The DLC delivery process is well designed, but controls have been poorly implemented

As previously reported in December 2014 Preliminary Inquiry Memorandum...

- Drivers and checkers fail to ensure that delivery trucks are properly checked in upon return to warehouse.
- DLC does not analyze available information regarding reported inventory returns, shortages, overages, or breakage.

Newly identified in this report...

- Drivers’ returns and shorts are added back into the perpetual inventory system without assurance that the product is present in the warehouse.

DLC should implement a routine management mechanism to ensure that controls over the delivery process are consistently performed and remain in effect
DLC has no productivity goals or performance metrics over warehouse and delivery operations

<table>
<thead>
<tr>
<th>DLC Performance Measures Related to Warehouse and Delivery Operations</th>
<th>Examples of Common Warehouse Performance Measures Based on Industry Publications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory as a % of &quot;Cost of Goods Sold&quot;</td>
<td>1. % On Time Deliveries</td>
</tr>
<tr>
<td>Inventory as a % of DLC Sales</td>
<td>2. % Orders Filled by Target Date</td>
</tr>
<tr>
<td></td>
<td>3. Order Entry Accuracy</td>
</tr>
<tr>
<td></td>
<td>4. Pick Accuracy</td>
</tr>
<tr>
<td></td>
<td>5. Delivery Accuracy</td>
</tr>
<tr>
<td></td>
<td>6. Inventory Adjustments</td>
</tr>
<tr>
<td></td>
<td>7. Inventory Accuracy</td>
</tr>
<tr>
<td></td>
<td>8. Space Utilization</td>
</tr>
<tr>
<td></td>
<td>9. Labor Productivity</td>
</tr>
<tr>
<td></td>
<td>10. Order Return Rate</td>
</tr>
</tbody>
</table>
Receiving special order product at the warehouse prior to delivery to the licensee increases risk to DLC and adds time and administrative cost.

DLC should explore delivering special order product via drop shipment, thus freeing up warehouse space and reducing the associated cost and risk to DLC.

**CAO Response:** “We are currently exploring options and developing alternative scenarios to address the entire issue of special order items from both a management and logistical standpoint. The County is consulting with the Maryland Office of the Comptroller, the Attorney General, and others to ensure that any proposed changes (including drop shipment options) are legally permitted...”
Warehouse Inventory Management

*DLC should employ a consultant with expertise in alcoholic beverage distribution systems to train and assist DLC managers in promptly implementing recommendations 1-5.*

*CAO Response:* “We agree with all the recommendations offered in this report and will certainly perform all the necessary work and follow through to fully implement them.”
March 26, 2015

Montgomery County Council
Ad Hoc Committee on Liquor Control
Attn: Hans Riemer, Committee Chair
    George Leventhal, Council President
    Marc Elrich, Public Safety Committee Chair
100 Maryland Ave., 5th Floor
Rockville, MD 20850

Esteemed Councilmembers Riemer, Leventhal, and Elrich:

Thank you for inviting me to submit written testimony regarding my thoughts on options for the control and distribution of alcohol within Montgomery County, Maryland. As the Chair of the Montgomery County Alcoholic Beverages Advisory Board (ABAB) and a Montgomery County resident for 14 years, I welcome the opportunity to provide my perspective on some of the proposed changes as outlined in the OLO report, "Review of Alcohol Control in Montgomery County" released in February, 2015.

In order to provide a context, the mission of ABAB (per Maryland Annotated Code, Article 2B, Section 159C, Chapter 832) is to report to the County Executive and County Council on recommendations for improvement of alcoholic beverage control and enforcement issues in the County. Members serve four-year terms without compensation and must be residents and registered voters of Montgomery County. ABAB is a five-person board, with three members from the general public; one holder of either a Class B or C beer, wine and liquor license in Montgomery County and one holder of any other class license in Montgomery County.

While I have not been able to attend all of the previous hearings, I did attend the March 20th hearing in which various concerns and complaints were expressed by retailers in Montgomery County, specifically in relation to the ordering and delivery of special order products within the County. As Chair of ABAB, I was surprised to learn about these problems. I have served on ABAB since 2008, and to my knowledge none of the issues described have been brought before the Board in the time that I have served on the Board. The issues that we have discussed and made recommendations on as a Board include the following:

- The quality of the fleet trucks used to deliver products to licensees in the County, with retailers receiving damaged products due to water getting into the trucks during rain and snow
- Opening County stores on Sundays
- One individual retailer who came to a couple meetings to discuss the mark-up process for products within the County

It is my hope that retailers as well as community members at large would see ABAB as an appropriate forum for expressing their concerns and recommendations for improving the
Department of Liquor Control (DLC). In addition, we also currently have a vacancy on the Board at this time for a holder of a Class B or C license in the County. The position was first opened in January, and no applications were received. The position was re-opened in March, with the closing date of March 23, and I have not yet heard whether any applications were received. Since this Board is required to exist by state law, I encourage license holders to become active on the Board so that their concerns can be represented and hopefully resolved in a more proactive manner before attempting to overhaul the entire Department of Liquor Control. I am in complete agreement that customer service and modernization of the DLC system is in order, and it is my belief that ABAB can help provide guidance and recommendations to the County Executive and County Council on these matters. Unfortunately, no one has reached out to us to ask for this assistance or our feedback for either the OLO report or the DLC strategic business plan.

I understand that a new software system was rolled out in February 2015 to hopefully improve some of the quality control issues with ordering and receiving products. I encourage the County Council members to give the Department of Liquor Control adequate time to see if this system is going to eliminate some of the past concerns. In addition, if this system is not appropriate for the sale and distribution of alcoholic beverages, the DLC must have the authority to run more like a business by purchasing software systems that meet their needs and by extension, the needs of retailers and consumers within the County. In this sense, I am most in support of Option 5 (Increase Efficiency within Current Structure) as outlined in the OLO report, and can state that the ABAB members will assist in as helpful a manner as possible to make the recommendations in the Long-Range Strategic Business Plan become a reality.

I was pleased to hear Councilmember Riemer state at the last hearing (on March 20) that there seems to be consensus to not change the manner in which distilled spirits are distributed and sold within the County. It appears that Option 4 (Private Wholesale Distribution of Special Order Beer and Wine) is the direction in which the Ad Hoc Committee is most interested in exploring, and I was specifically asked to provide my thoughts on that option. From a public health perspective, here are the questions/concerns I have with Option 4:

- What mechanisms would be put in place to define what constitutes a special order product? The DLC would need to have oversight of these product lists and the quantities being ordered, so as to preclude almost all beer and wine products from being listed as “special orders.”
- How will potentially dangerous new products be prevented from being included on a product order list by distributors? In the past, the DLC has had the authority to choose not to list products (e.g., Four Loko, jello shots, etc.) that can either be potentially attractive to youth or have dangerous serving sizes or other concerns (e.g., stimulants mixed with alcohol, product labeling that makes it appear that the product isn’t an alcoholic beverage, etc.)
- Will the DLC (and by extension the Board of License Commissioners) have the regulatory authority to license, enforce, and if necessary, adjudicate violations by
distributors should there be undue influence by private distributors on retailers that prevents a fair, yet competitive, market?

In summary, I encourage retailers to become more active in ABAB; I believe that Option 5 should be implemented before considering other options, and I have concerns that Option 4 will eventually result in the complete private distribution of alcoholic beverages in Montgomery County. I hope that my feedback on the suggested proposals and role of ABAB in future discussions is helpful. Please feel free to contact me should you wish to discuss any of these ideas in more detail.

Sincerely,

Rebecca L. Ramirez, MPH
Chair, Montgomery County Alcoholic Beverages Advisory Board