



MONTGOMERY COUNTY GOVERNMENT

**Analysis of the Maryland State Bureau of Revenue Estimates Report:  
*Economic Impact Analysis, Private Sector Competition, Montgomery  
County Alcohol Sales & Distribution***

**January 15, 2016**

## EXECUTIVE SUMMARY

A detailed analysis is offered below, but the overarching concerns are as follows:

1. The analysis provided is not detailed enough to be able to independently validate its claims;
2. Most of the assumptions are not backed up by data, and certain relevant data points are excluded from the analysis;
3. The approach used to predict future economic growth is overly simplistic for such a complex issue. The report implies that the sole impediment is the County's monopoly on alcohol distribution while ignoring any number of plausible factors that can and likely do contribute to the current level of alcohol sales and consumption in the County (location, demographics, income, personal tastes, etc.) ; and
4. The benchmark jurisdictions that were selected are not the ideal comparators for the County from a demographic or geographic standpoint; also problematic is the use of Howard County as the primary benchmark, relying on a flawed assumption that median household income is the primary determinant of alcohol sales.

On balance, it appears that the result of these flaws is an unrealistic and overly optimistic picture of what the future might hold in terms of economic growth. However, the report in its current form is difficult to evaluate due to the omissions and potentially erroneous assumptions throughout.

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### 1) ASSUMPTIONS NOT BACKED BY DATA AND EVIDENCE

Much of the analysis is predicated on assumptions which are not backed up by evidence, specific data, or independent outside sources, and in numerous instances the analysis confuses correlation with causation. To provide just one example, the report argues that Table 5 "demonstrates" that "consumers are satisfying their demand by crossing the County's borders." However it conflates lower alcohol shipments to the County with the number of residents who work in Washington DC, a poor proxy for determining what share of County residents purchase alcohol outside of the County.

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### 2) OMISSION OF RELEVANT DATA: "WINE AND DISTILLED ALCOHOLIC BEVERAGE" WHOLESALERS MISSING FROM THE ANALYSIS

The report uses an incomplete set of affected industry codes in its analysis, which undermines the analysis. The methodology (as documented on page 7) states that the study uses the NAICS industry code 424810 for "*beer and ale merchant wholesalers*," but fails to include its sister NAICS industry code 424820 for "*wine and distilled alcoholic beverage merchant wholesalers*." This ignores roughly half of the impacted wholesaler industry (when looking at state-wide data). More importantly, the absence of this code inflates the expected economic benefits of privatization since DLC and its employees appear to be classified under this ignored code: for Montgomery County, 6 of its 8 wholesaler firms are classified as "wine and distilled" vs. only 2 for "beer and ale." The number of employees differs even more substantially, with "100-249" employees listed under "wine and distilled" and only "0-19" under "beer and ale."

**3) SELECTION OF BENCHMARK JURISDICTION FAILS TO ACCOUNT FOR THE INTENSE COMPETITION FROM THE DISTRICT OF COLUMBIA; MONTGOMERY COUNTY ACTUALLY PERFORMS MUCH BETTER THAN PRINCE GEORGE'S COUNTY AND, IN SOME CASES, FAIRFAX COUNTY WHEN THESE ARE INCLUDED IN THE ANALYSIS**

The report argues that policy changes will push up Montgomery County's alcohol deliveries and alcohol retail establishments to the average of "neighboring jurisdictions"—without spelling out which specific jurisdictions are used for these calculations. Earlier in the methodology section, the report lists "Frederick, Howard, and Prince George's Counties, and...the District of Columbia." This benchmarking group, if used, is highly problematic. The report never references Fairfax County, despite it being the most similar jurisdiction to Montgomery County in terms of demographics and connectivity to DC. Including Frederick and Howard skews the analysis since neither have easy access to Washington, DC and do not have to compete with downtown DC (an urban tourist destination). Comparing Montgomery to Howard County makes the flawed assumption that median household income is the dominant determinant of alcohol sales.

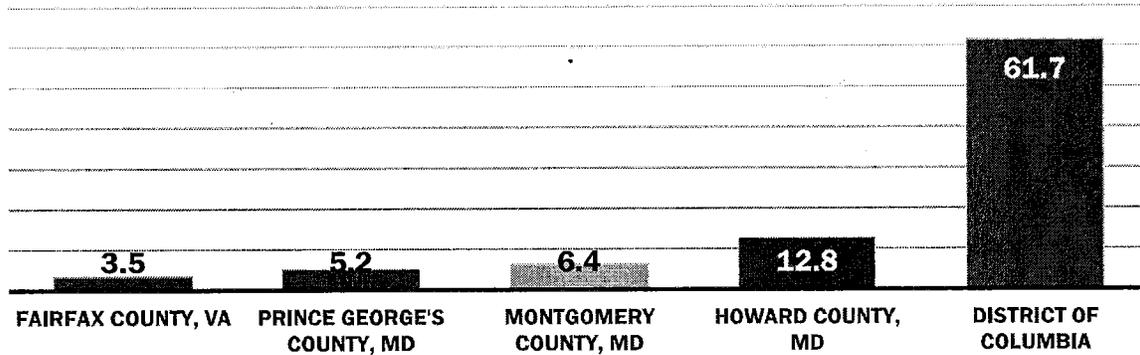
**Eating and Drinking Establishments – employees per 1,000 residents**

The data below shows that Montgomery County performs better than two counties bordering the District of Columbia in terms of "drinking places" employees per capita — and also performs far better than Prince George's in "full-service restaurants" employees. Again, the District is an outlier in that it is an urban tourist destination.

The data additionally shows that both Fairfax and Prince George's are also outperformed by Howard (and the averages for the state, not shown in the chart). The reason for Howard's higher rate: no easy, direct access to DC, which has a high concentration of both drinking and eating establishments. It is hard to see how changes in County regulations alone would help drive up our averages to those of Howard, DC, and other jurisdictions as the study assumes — or how this predicted growth could take place within just 2-3 years as again assumed by the study.

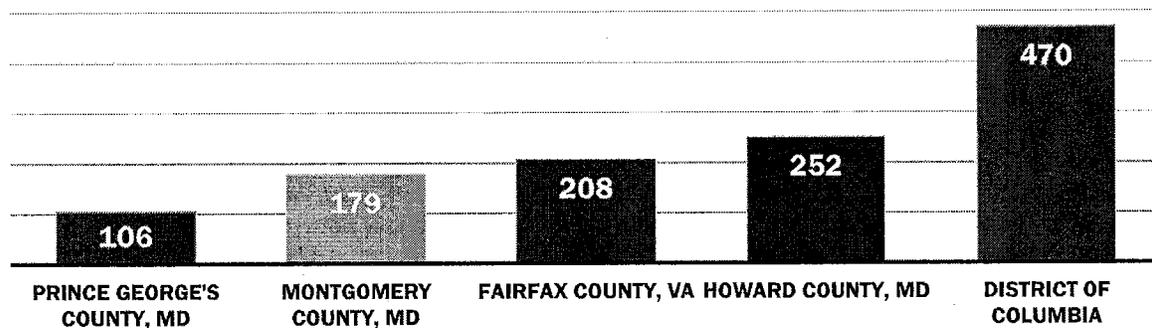
It is also worth noting that Howard County outperforms Montgomery County on a number of other "retail employees per capita" measures far beyond bars and restaurants, including, for instance, for department stores. This is likely because, again, residents in Howard County do not have the ease of access to the shopping centers in the immediate vicinity of DC.

**Drinking places (i.e. Bars): Employees per 10,000 residents, 21+**



*Source: 2013 US Census County Business Patterns and 2014 Population Projections*

**Full-service restaurants: Employees per 10,000 residents, 21+**



*Source: 2013 US Census County Business Patterns and 2014 Population Projections*

**4) THERE IS EVIDENCE TO INDICATE THAT THE COUNTY MAY IN FACT SIMPLY HAVE LOWER INTRINSIC DEMAND FOR ALCOHOL**

The study is predicated on the assumption that Montgomery County residents cannot possibly have different alcohol consumption patterns, and that the only reason for the County's low alcohol sales must therefore be that residents purchase their alcohol elsewhere. The study also seems to suggest that the only variable that drives differences in alcohol consumption is median household income (hence the heavy reliance on comparisons to Howard County). Both assumptions are questionable and not backed by evidence. In fact, there are a number of credible causes for the County's "anomalous demand for distilled spirits and beer" beyond the County's alcohol distribution system:

- 70% of alcohol is purchased and consumed by 10% of the population nationwide (<http://www.ncbi.nlm.nih.gov/pubmed/18046720>). Per capita consumption is therefore bound to be driven by heavy drinkers. Data from the Institute for Health Metrics and Evaluation (2012—<http://www.healthdata.org/us-health/data-download>) suggests that Montgomery County residents are relatively moderate drinkers relative to the state average (6.8% are heavy drinkers vs. 7.5% in the state; 17.2% are binge drinkers vs. 18.5% the state), which would bring down our per capita consumption. In fact, Montgomery County ranks last in the state for the proportion of drinkers who are heavy drinkers and second-to-last for the proportion of drinkers that are binge drinkers. This data also suggests that Howard and DC are not good benchmarks as their rates of heavy and binge drinking are quite a bit higher than Montgomery County's:

	<b>% Heavy drinkers (2012)</b>	<b>% Binge drinkers (2012)</b>
<b>Montgomery County</b>	6.8%	17.2%
<b>State of Maryland</b>	7.5%	18.5%
<b>Howard County</b>	8.2%	19.1%
<b>Washington, DC</b>	10.8%	22%

- The report concludes that alcohol consumption in DC and the County are perfect substitutes and that alcohol regulations are the primary determinant of where our residents purchase and consume alcohol. But, in fact, many residents choose to dine and drink in downtown DC because that is where they work (i.e. convenience, proximity, social time with co-workers, etc.) or enjoy spending an evening. DC has vast competitive advantages given its unique cultural and recreational amenities and a rich selection of restaurants and bars that are bound to attract a large number of our residents (as well as residents from Prince George's and Fairfax—which the earlier charts seem to bear out). On a related note, the County does not have the large professional or college stadiums that generate significant alcohol delivery and consumption. Prince George's County has FedEx Field and the University of Maryland, Baltimore City has Oriole Park at Camden Yards and M&T Bank Stadium, Anne Arundel County has the Navy-Marine Corps Memorial Stadium, and DC has the Verizon Center, Nationals Park, and RFK Stadium.

## **5) OVERESTIMATED IMPACT ON FULL-SERVICE RESTAURANTS AND DISTRIBUTION**

The study assumed that, were it not for the County's alcohol distribution and regulatory system, it would have as many alcohol wholesalers, bars and restaurants, and off premise retail establishments as "neighboring jurisdictions" on a per capita basis. This is a flawed assumption not backed by any evidence or data, and fails to acknowledge that there are a wide range of factors that contribute to the current level of alcohol sales and consumption in the County.

A particular issue is full-service restaurants, which are a large share of the impacted industries identified by the report (at the state level, full-service restaurants outnumber all the other categories combined by a factor of 2 to 1). Accordingly, much of the report's projected economic benefits come from the anticipated growth in the full-service restaurant category. Yet the link between DLC privatization and the anticipated growth in the number of establishments is particularly weak for this

category, since alcohol is only one aspect of a full-service restaurant (in fact, there are many full-service restaurants, such as IHOP and Denny's, that do not even offer alcohol). This is problematic because the category for which the study's assumptions are the weakest is also by far the largest.

Similarly, it is not clear whether private wholesalers would choose to locate in the County or even in the State – the report notes that both Fredrick and Howard counties do not have a single wholesaler in their jurisdiction. Census data shows a heavy concentration in just two counties: Baltimore and, to a lesser extent, Prince George's. Outside of the state, both Fairfax and the District of Columbia have high levels of employment in these sectors and could potentially service Montgomery County from these locations outside of the state.

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**6) OVERLY SIMPLISTIC USE OF AVERAGES DESPITE THE FACT THAT MOST JURISDICTIONS DEVIATE WILDLY FROM THE STATEWIDE AVERAGE OF PER-CAPITA WHOLESAL DELIVERIES IN GALLONS (TABLE 5); STUDY SHOULD USE A MUCH MORE SOPHISTICATED MODEL**

The assumption that the County would revert to some average of neighboring jurisdictions upon privatization is flawed because this average ignores significant diversity across counties. For instance, despite both having privatized distribution, Anne Arundel (3.98) and Prince George's (1.53) differ substantially from the State average (2.50) and from one another in per capita wine deliveries—much more so, in fact, than Montgomery County (2.43). This high variance across counties with privatized distribution demonstrates that there are many other factors—factors that a more robust study would identify and take into account. A basic average of other jurisdictions is a poor guide for predicting the impact from privatization when this average is not particularly representative of most other Maryland counties with private distribution. Rather, a proper study would need to rely on a much more robust and multi-faceted model than the oversimplified approach used in the current version.

In addition, the reliance on a beer industry-sponsored economic study to determine the multiplier for indirect economic activity is rather suspect.

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**7) THE STUDY CONVENIENTLY OVERLOOKS THE FACT THAT THE COUNTY'S WINE DELIVERIES ARE ON PAR WITH THE STATE AVERAGE DESPITE OPERATING UNDER THE SAME "RESTRICTIVE MARKETPLACE"**

The County's reported wine sales disprove the study's own assumption. The report argues that the County's "restrictive marketplace" produces "anomalous demand" for beer and liquor, conveniently overlooking the fact that the demand for wine is actually right at the state average (2.43 gallons per capita vs. 2.5 for statewide). This leads to the question, not asked by the study: why would the County's "restrictive marketplace" impact beer but not wine when both are distributed in essentially the exact same manner? The reason, of course, is that consumption and sales patterns of alcohol are driven by a wide range of factors, of which the distribution and regulatory system is but one. Yet the study is uninterested in identifying and considering these other potential factors in its analysis.

One potential factor is our highly diverse population. Montgomery County is a “minority majority” county. Readily available data from the National Survey on Drug Use and Health (<http://www.samhsa.gov/data/sites/default/files/NSDUH-DetTabsPDFHTML2013/Web/HTML/NSDUH-DetTabsSect2peTabs43to84-2013.htm#tab2.46b>) and polling data from Gallup (<http://www.gallup.com/poll/156770/majority-drink-alcohol-averaging-four-drinks-week.aspx>) demonstrate that white Americans drink far more than non-White Americans (70% vs. 57%). The County also has a very high share of Asian residents, who are the least likely to consume alcohol (37%). This data provides ample evidence that there is in fact plenty of reason to believe that the County’s demand for alcohol may be lower than other jurisdictions that do not share our demographics.

