OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

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Ginanne M. Italiano
President & CEO
Bethesda-Chevy Chase Chamber of Commerce
7910 Woodmont Avenue
Bethesda MD 20814

Dear Ginanne,

Recently there has been considerable public discussion on Montgomery County's Local Liquor operations.

I wanted to reach out to you directly to let you know why both I and nearly the entire County Council strongly oppose any full privatization scheme.

As you know, all local jurisdictions "control" the sale of alcohol in some way and about one-third of Americans live in jurisdictions with systems similar to that of Montgomery County.

I believe our system does need some adjustments in order to better respond to concerns that have been expressed by some of our customers. I am not opposed, in principle, to privatization. Currently, I am privatizing the County's Economic Development Department and our Workforce Development efforts. I have also proposed an independent transit authority, which would place more control in the hands of the private sector in helping to meet our future transit needs.

However, this proposed privatization scheme for County liquor operations is, plainly put, reckless and irresponsible. This proposal would hurt – not help.

Consider the following:

- **The proposed privatization scheme would eliminate $30 million to the County – without the resources to replace it.** The State of Maryland and the private interests – not the County – would get all the revenue generated by any increased sales, sales taxes and the liquor tax.

- **Local liquor operations in Montgomery County doesn't cost taxpayers a dime. In fact, it contributes an average of $30 million to the county's budget.** This money stays in the County working for us. It helps us fund schools, transportation, and help for the vulnerable in our midst.

- There is **no** evidence that privatization would create any additional jobs – and certainly not nearly enough to compensate for the loss of $30 million annually.

- Replacing $30 million in the County budget will mean substantially cutting County programs and services and/or will mean increasing property taxes annually for every County household by an additional $100 or more.

- Over the years the County has issued more than $100 million in Local liquor bonds, pledged to be paid for by County liquor revenue. These bonds have supported important County road and infrastructure projects.

- Under the privatization scheme proposed the County would be in violation of our bond obligations. We would have to replace or repay the bond holders almost immediately using limited County resources since the ongoing revenue supporting those bonds would no longer exist.

- Not only would this $100 million impact negatively the County's capital spending on other projects, it would also hurt the County's bond rating, increasing County costs for future borrowing. I have attached with this letter a letter from the County's bond counsel warning against the impact of such an irresponsible move (pdf).

To those who might say that $30 million is "a drop in the bucket" and easily replaceable in a $5 billion budget, please be advised of the following:

- Over the last nine years, I have closed over $3.2 billion in budget gaps, made unprecedented cuts to keep County spending at about 2 percent annually – less than the rate of inflation, and reduced the number of County employees by 10%. Therefore major reductions to replace the lost $30 million would be very difficult.

- By far, the single largest use of revenues in the County is to support our outstanding education system. Together, MCPS and the College consume just less than 60 percent of the County expenditures. This is essentially mandated by State law.

- Public Safety expenditures consume an additional 13% and, given the tremendous needs in this area, it is difficult to significantly reduce.

- Legally-obligated current debt services account for up 8% of the total budget.

- An additional 3% is allocated for ensuring retiree health benefits. Furthermore, we currently spend 4% in building and maintaining a robust transportation system that helps underpin our economy.

- After all these legal and extremely difficult operational obligations are paid for the County is left with about 13% of the total tax-supported expenditures for libraries, recreation, health and human services, Park and Planning, housing programs and maintaining County infrastructure.

- A $30 million loss annually to the County from the liquor privatization scheme would come out of the remaining 13%, which would have a significant impact on our budgets.

Consider also that the Wynne case will cost the County $183 million over the next three years and $16 million annually every year thereafter.

Other things to keep in mind:

- **Privatization would not create real competition.** Under Maryland state law, two wholesalers may not distribute the same product in the same market at the same time. There is always one approved, designated wholesale distributor in a given market for each brand or product. Private liquor will have its own liquor monopoly.

- **Privatization would not allow grocery and chain stores to sell beer and wine.** Privatization of County liquor control would not affect that at all. **Such sales are illegal throughout the State** of Maryland, with the exception of some limited grandfathered locations.

- **Privatization would hurt public health and create additional enforcement challenges for County police.** According to the NIH website: "Privatization commonly results in increases in the numbers of off-premises outlets...Increased alcohol outlet density is also associated with increases in social harms, including interpersonal violence and vandalism." **When Washington State privatized their liquor system in 2012, the number of alcohol outlets increased from 328 to 1,415 – by more than 400 percent.** Ill effects to public health also skyrocketed.

- According to a presentation by Johns Hopkins to the County Council this year, **Montgomery County has the second lowest rate among all Maryland counties in alcohol-related treatment admissions and the second lowest rate of alcohol-related crashes.** In addition, the County has lower rates of youth binge drinking and alcohol-related hospitalizations and emergency room visits.

- **With Montgomery's Local Liquor operations, there are <u>not</u> "liquor stores on every corner"** – and yet the system includes nearly 200 mom-and-pop small businesses selling beer and wine, alongside County retail stores. The system provides a wide range of products at competitive prices – while having the power to exclude liquor industry products designed primarily to promote underage drinking. We make it harder for underage individuals to purchase and provides more education for the public and for servers as well.

- **Our Department of Liquor Control is working hard to improve its operations and to provide better service and better products. We have heard our customers loud and clear.** They want better selection and faster service both in the stores and in restaurants.

> DLC’s Action Plan is already producing significant, tangible results. **One strategy for expanding selection and service is legislation (Bill MC 7-16) that will reform “special orders” and give County restaurants and retail outlets more options for ordering higher-priced beer and wine products.**

I understand well how, on the surface, privatization of County liquor might seem acceptable. A closer look, however, clearly demonstrates that it would be harmful to the County in a number of ways with almost nothing as an offsetting benefit. I do not say this lightly but, for County finances, this privatization would be one of the most reckless and irresponsible things that could happen to our County.

Please feel free to share this information broadly with your members. I would be happy to meet with you directly to talk about this critically important issue.

Sincerely,

Ike Leggett
County Executive