

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE
Revised

House Bill 1208 (Worcester County Delegation)

Economic Matters

Referred to Economic & Environmental Affairs

Worcester County - Alcoholic Beverages (Liquor Dispensary System and Licenses)

This amended bill provides for the termination of the Liquor Control Board and dispensary system in Worcester County upon approval by the registered voters at the November 1998 election. The bill establishes Class A and Class H beer, wine, and liquor licenses in the county. The bill also corrects the license fees for various alcoholic beverages licenses. In addition, the bill imposes certain restrictions on the Liquor Control Board.

Upon passage of the referendum, the Liquor Control Board must submit a written plan by March 1, 1999 for the disposal of its assets to the county commissioners. This provision is effective from January 1, 1999 to July 1, 1999. Upon termination of the Liquor Control Board and dispensary system, the county's personnel office must assume the responsibilities for health and other personnel-related functions for the board's retired employees. The county must also give preferential consideration in the hiring of the board's employees whose employment is terminated.

Fiscal Summary

State Effect: None.

Local Effect: Potential decrease in revenues for Worcester County and four municipalities (Berlin, Ocean City, Pocomoke City, and Snow Hill). Potential expenditure increase for the county.

Small Business Effect: Potential meaningful effect on small businesses as discussed below.

Fiscal Analysis

Bill Summary: The bill requires the Liquor Control Board to submit its budget to the county commissioners at the same time as the county presents its budget. The bill also prohibits the board from spending any funds in an attempt to influence the outcome of the referendum at the November 1998 election.

If the voters approve the termination of the board and dispensary system, the Board of License Commissioners may issue a Class A beer, wine, and liquor license. Beginning May 1, 1999 the license fee is \$5,000, plus an additional license fee which varies by district. Beginning May 1, 2002, the additional license fee will be reduced by 20% each year. If a licensee is located within a municipality, the municipality receives one-half of the additional license fee. The county receives the remaining one-half. The board may issue up to ten Class A beer, wine, and liquor licenses throughout the county. A person is limited to only one such license.

In addition, the bill imposes an additional license fee on top of the existing annual license fees for Class B, C, D, and H beer, wine, and liquor licenses. The additional fee varies depending upon the amount of wholesale purchases of spirituous liquors by a licensee.

The bill also establishes a Class H beer, wine, and liquor license for hotels and restaurants. The annual license fees are: (1) \$1,700 for a six-day license; and (2) \$2,400 for a seven-day license.

Background: For the year ended April 30, 1996, the Worcester County dispensary system had gross profits of \$1.6 million, expenses of \$1.0 million, and net profits of \$0.6 million. Under current law, the county receives 50% of the net profits in excess of the board's reserve funds. The remaining 50% is paid to the municipalities of Berlin, Ocean City, Pocomoke City, and Snow Hill in proportion to the net profits of the dispensaries located in each of the municipalities. In 1996 the county received approximately \$350,000 and the municipalities were paid \$300,000 in aggregate.

In calendar 1996 approximately 160,800 gallons of distilled spirits were delivered to retailers in Worcester County. The Board of License Commissioners issued 292 retail alcoholic beverages licenses during the year. These licenses generated approximately \$542,200 in license fees.

Local Revenues: If the Liquor Control Board and dispensary system are terminated, Worcester County and municipal revenues would be impacted. It is expected that the Board of License Commissioners will issue ten Class A beer, wine, and liquor licenses in fiscal 1999. Thus, the revenue increases in fiscal 1999 from the Class A licenses for the county and the four municipalities are as shown in **Exhibit 1**.

Exhibit 1
Revenues From Class A BWL Licenses (Additional License Fees)
FY 1999

| Government | Class A BWL License | Revenue Increase |
|---------------|---------------------|------------------|
| Berlin | 1 | \$30,000 |
| Ocean City | 4 | 140,000 |
| Pocomoke City | 1 | 30,000 |
| Snow Hill | 1 | 21,000 |
| County | 3 | 100,000 |

The county would also receive \$50,000 in basic license fees for Class A beer, wine, and liquor licenses. Thus, county revenues would increase by \$150,000 in fiscal 1999.

Beginning May 1, 2002, the additional fee is reduced by 20% annually. Thus, revenues from the additional fee will decrease by 20% each year.

Worcester County revenues would also increase by \$344,000 in fiscal 1999 due to the additional license fees imposed on Class B, C, D, and H beer, wine, and liquor licenses. This estimate reflects the varying amount of wholesale purchases by licensees at the additional license fees. Beginning May 1, 2002, these fees will be reduced by 20% annually.

In fiscal 2000 the dispensary system will terminate upon approval of the registered voters. The proceeds from the dissolution cannot be reliably estimated.

If the dispensary system is in operation in fiscal 2000, the county estimates that net profits would be similar to the net profits in fiscal 1996. Based on this, three of the governments would experience a decrease in revenues under the termination plan. The county and the Town of Snow Hill would experience increases in revenues. **Exhibit 2** shows the difference between the revenues from the net profits of the dispensary system under current law and revenues under the bill.

Exhibit 2
Difference in Revenues Between Current Law and HB 1208
FY 2000

| Government | Dispensary System | HB 1208 | Difference |
|---------------|-------------------|-----------|------------|
| Berlin | \$32,400 | \$30,000 | (\$2,400) |
| Ocean City | 234,000 | 140,000 | (94,000) |
| Pocomoke City | 34,400 | 30,000 | (4,400) |
| Snow Hill | 13,300 | 21,000 | 7,700 |
| County | \$354,400 | \$494,000 | \$139,600 |

Worcester County revenues would also increase by \$1,700 for each six-day Class H beer, wine, and liquor license issued, and by \$2,400 for each seven-day license.

Future revenues would depend upon the number of licenses issued and the amount of spirituous liquors purchased.

Local Expenditures: Worcester County expenditures would increase by approximately \$43,000 annually due to the hiring of one Permit Clerk to enforce compliance with the spirituous liquors reporting requirement and the payment of the additional annual fees.

Small Business Effect: In 1996 there were 292 retail alcoholic beverages licensees in Worcester County. The vast majority of these were small businesses. The county also operated seven dispensaries. The bill abolishes the Liquor Control Board and the dispensary system upon approval of the registered voters. In its place, the Board of License Commissioners may issue up to ten Class A beer, wine, and liquor licenses. If this occurs, small businesses that receive the Class A licenses would benefit from the sale of alcoholic beverages in packages. It could also (1) create additional job opportunities in the county either through the expansion of existing businesses or the creation of new businesses; and (2) increase the level of competition in the county.

Currently, all distilled spirits must be purchased from the Liquor Control Board. Under the bill's provisions, retail licensees could buy from other suppliers. Thus, small business licensees could be impacted depending upon the difference between the purchase prices for distilled spirits at the county's dispensary and from other suppliers.

In addition, the bill creates a Class H beer, wine, and liquor license for hotels and restaurants. Small business licensees would benefit from the sale of alcoholic beverages, but it may increase the level of competition between hotels and restaurants. Some establishments may benefit at the expense of others.

The bill also establishes an additional license fee in addition to the annual license fee. Thus, small business licensees could be negatively impacted by higher annual fees.

Information Source(s): Office of the Comptroller, Worcester County, Department of Fiscal Services (Office of Legislative Audits)

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Analysis by: Thomas Himler

Reviewed by: John Rixey

Direct Inquiries to:

John Rixey, Coordinating Analyst

(410) 841-3710

(301) 858-3710