

Department of Legislative Services
Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

House Bill 112
Economic Matters

(Delegate Elmore) (By Request)

Education, Health, and Environmental
Affairs

Somerset County - Alcoholic Beverages - Liquor Control Board - Reserve Fund -
County Dispensaries

This bill increases the maximum aggregate limit on the amount of the reserve fund that can be maintained by the Somerset County Liquor Control Board from \$48,000 to \$150,000. Additionally, it increases the limit on the amounts each of the county dispensaries receives from the reserve fund to \$50,000 each. The bill renames the Hi-Way dispensary as the dispensary in the Dublin election district.

The bill takes effect July 1, 2005.

Fiscal Summary

State Effect: None.

Local Effect: Somerset County revenues would decrease by \$27,500 beginning in FY 2006. City of Crisfield and Town of Princess Anne revenues would each decrease by \$3,750 beginning in FY 2006. Expenditures would not be affected.

Small Business Effect: None.

Analysis

Current Law: The State has authorized the Somerset County Liquor Control Board to maintain a reserve fund in order to provide adequate working capital and to meet any losses sustained by the board in the operation of the dispensaries. The board is allowed

to have a reserve fund with up to \$48,000; from which the Hi-Way dispensary will receive up to \$45,000, and the dispensaries in Crisfield and the West Princess Anne election district will receive up to \$35,000 each.

Chapter 424 of 1997 repealed the limitation on the amount of store reserves that can be maintained by the Somerset County Liquor Control Board; this provision of Chapter 424 terminated on June 30, 1999, and the reserve fund limit of \$48,000 was reinstated. Additionally, Chapter 424 contained provisions by which the limit on the amount each store can receive from the reserve fund was gradually increased from \$15,000 for the dispensaries in Crisfield and the West Princess Anne election district to \$22,000 each on July 1, 1997, \$29,000 on July 1, 1999, and \$35,000 on July 1, 2001. Similarly, the reserve fund limit for the Hi-Way dispensary was increased from \$18,000 to \$27,000 on July 1, 1997, \$36,000 on July 1, 1999, and \$45,000 on July 1, 2001.

Background: In general, most Maryland jurisdictions permit the sale of alcoholic beverages through a three-tier system in which retail alcoholic beverage licensees purchase alcoholic beverages from licensed Maryland wholesalers who purchase alcoholic beverages from licensed manufacturers and import companies. In Montgomery, Somerset, Wicomico, and Worcester counties, however, the counties operate dispensary systems through which they act as the wholesalers for retail alcoholic beverage licensees in their respective jurisdictions.

The Somerset County Liquor Control Board operates three dispensaries (Crisfield, West Princess Anne election district, and the Hi-Way dispensary.) For the fiscal year ending April 30, 2004, the three dispensaries had combined net proceeds of \$101,888.

Somerset County advises that the increase in the maximum amount to be held in the reserve fund for each dispensary is necessary so that the dispensaries can build up necessary inventory levels. The county further advises that this would allow it to take advantage of favorable prices by buying alcoholic beverages in bulk.

Local Revenues: Under current law, 25% of all combined net proceeds generated by the dispensaries in Crisfield and the West Princess Anne election district, in excess of the mandated reserve funds, must be remitted to the City of Crisfield and the Town of Princess Anne in equal amounts (12.5% each.) The remaining 75% is remitted to Somerset County. The county also receives 100% of all net proceeds from the Hi-Way dispensary in excess of the mandated reserve funds.

Despite the fact that the county is only authorized to maintain an aggregate reserve fund of \$48,000, it has been fully maintaining each of the dispensary reserve funds for an aggregate amount of \$115,000. Increasing the aggregate limit and the reserve funds at

the three dispensaries would result in an overall decrease in county revenues of \$27,500. By increasing the reserve fund amount by \$15,000 each at the Crisfield and West Princess Anne election district dispensaries, net profits generated by each of these dispensaries would decrease by a corresponding amount. Since the county receives 75% of net proceeds generated by these two dispensaries, county revenues would decrease by \$22,500 (75% of \$30,000.) Similarly, revenues for the City of Crisfield and the Town of Princess Anne would decrease by \$3,750 each (12.5% of \$30,000.) Additionally, county revenues would decrease by \$5,000 as a result of the increase of the Hi-Way dispensary reserve fund, since the county receives 100% of the net proceeds generated by this dispensary.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Somerset County, Department of Legislative Services

Fiscal Note History: First Reader - February 2, 2005
n/ljm

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