

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

House Bill 1264 (Delegate Harrison) (By Request)
Economic Matters

Worcester County - Liquor Control Board - Repeal of Monopoly Control

This bill repeals the absolute monopoly control of the Liquor Control Board of Worcester County with respect to the sale and distribution of liquor and sparkling or fortified wine.

Fiscal Summary

State Effect: None.

Local Effect: Revenues for Worcester County and its four municipalities would decrease by approximately \$805,000 in FY 2009 due to the elimination of net profits from the county liquor control board. The Worcester County Liquor Control Board would realize a reduction in both operating revenues and expenses, including \$846,500 in personnel cost.

Small Business Effect: Small business expenses could increase if commercial distributors do not provide products at prices below the liquor control board; to the extent commercial distributors provide lower prices, small businesses will benefit.

Analysis

Current Law: The 21st Amendment to the U.S. Constitution provides states with broad powers and authority to regulate the sale and distribution of alcohol within their borders, in addition to federal requirements. Each state created its own unique system of alcoholic beverage control, which fall into two general classifications: control states and license states. Control states (18 states) directly control the sale and distribution of alcoholic beverages within its borders. Control states also license those activities outside of the state's direct involvement in the sale of alcoholic beverages. License states (32 states) do

not participate in the sale of alcoholic beverages and regulate through the issuance of licenses to industry members that do business within their states.

Maryland has a bifurcated system with two active county dispensaries in Montgomery and Worcester counties. County liquor control boards, as dispensaries, have an absolute monopoly in the sale and distribution of particular alcoholic beverages. In Worcester County, the county dispensaries must make wholesale sales of all liquors at a markup of not more than 15% above the operating cost to the dispensary to any licensee of a Class A, B, C, beer, wine, and liquor license.

Background: The Worcester County Liquor Control Board operates as a nonprofit entity through which proceeds from liquor and wine are distributed back to the county for support of alcohol awareness programs or other general fund programs. The liquor control board advises that other distributors are considered commercial distributors headquartered in Alabama and New York.

Local Fiscal Effect: The Worcester County Liquor Control Board operates six retail operations: three in Ocean City, and one each in Berlin, Pocomoke, and Snow Hill. The wholesale and administrative office is also located in Snow Hill.

Annual revenues (net sales) for the board are estimated at \$14.5 million in fiscal 2008; whereas, annual expenditures are estimated at \$13.7 million. Annual expenditures include \$10.9 million for product costs and \$2.8 million in operating expenses. Operating expenses include personnel, rent, utilities, supplies, insurance, and interest payments. Personnel expenses are estimated at \$846,500 or roughly one-third of the board's operating expenses. After accounting for product costs and all operating expenses, the board is projected to realize a net profit of \$792,000 in fiscal 2008. Net profits are distributed to the county government and its four municipalities.

As shown in **Exhibit 1**, net profits are distributed almost evenly between the county and the municipalities. Net profits totaled \$866,469 in fiscal 2006 and \$702,587 in fiscal 2007 and are projected to total approximately \$792,000 in fiscal 2008 and \$805,000 in fiscal 2009. Liquor control board distributions support educational efforts targeting responsible consumption, underage drinking, alcohol abuse, driver awareness as well as other general fund programs.

Exhibit 1
Distribution of Net Profits from Worcester County Liquor Control Board

	<u>FY 2006</u>	<u>FY 2007</u>
Worcester County	\$460,861	\$363,442
Berlin	112,877	117,495
Ocean City	244,351	168,664
Pocomoke City	36,259	42,214
Snow Hill	12,121	10,772
	\$866,469	\$702,587

Profits realized by the liquor control board occur over the summer months of May through September when tourists travel into the county. In the remaining months of the year, operations run at a loss. The liquor control board has a base staff of approximately 45 employees; however, additional staff is hired during the summer months to support the high tourist and hospitality season.

Small Business Effect: To the extent the liquor control board provides competitive prices to small businesses relative to commercial distributors, small businesses will be harmed. To the extent commercial distributors can provide products at prices below that of the liquor control board, benefits may accrue to small businesses.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Sources: Worcester County, Worcester County Liquor Control Board, Department of Legislative Services

Fiscal Note History: First Reader - February 17, 2008
ncs/hlb

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