

Department of Legislative Services
Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

House Bill 227

(Delegate Elmore)

Economic Matters

Education, Health, and Environmental Affairs

Somerset County - Liquor Control Board - Borrowing Limit

This bill increases the aggregate amount of funds that may be borrowed by the Somerset County Liquor Control Board from \$50,000 to \$150,000.

The bill takes effect June 1, 2009.

Fiscal Summary

State Effect: None.

Local Effect: Potential increase in debt service expenditures for the Somerset County Liquor Control Board. Potential increase in county and municipal revenues from profits realized from the liquor control board.

Small Business Effect: Minimal.

Analysis

Current Law: The Liquor Control Board of Somerset County is authorized to borrow up to \$50,000. The county commissioners have the authority to borrow upon the credit of the county in order to advance funds it feels are necessary for the liquor control board to maintain adequate working capital, and can issue notes, certificates of indebtedness, and/or bonds as it sees fit for this purpose. Funds/debts are repaid from receipts of sales at the county liquor dispensary or branch dispensaries.

Background: In general, most Maryland counties permit the sale of alcoholic beverages through a three-tier system in which retail alcoholic beverage licensees 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. Of these counties, only Montgomery County is not subject to statutory borrowing limits. The borrowing limit for the remaining three counties is \$50,000 in Somerset County, \$500,000 in Wicomico County, and \$5 million in Worcester County.

Somerset County has three dispensaries located in Crisfield, Princess Anne, and the Pocomoke area. For the fiscal year ending April 30, 2008, the three dispensary stores had net profits of \$145,268. The county advises that increasing the limit of aggregate funds that may be borrowed by the county liquor control board will allow the county to take advantage of bulk purchases directly from alcoholic beverage suppliers at a discounted rate. Somerset County could not determine the maximum amount the liquor control board has borrowed. However, the board did not have any debt at the end of fiscal 2007 and 2008.

Local Fiscal Effect: Any increase in the board's debt service expenditures would depend on the amount of additional debt incurred, the term of the debt, and the amount of time to repay the debt. The county advises that the interest rate for its current debt varies by debt instrument, but averages around 4.25%. *For illustrative purposes*, if the county borrows the full \$150,000 authorized by this bill and the interest rate remains at 4.25%, the liquor control board could pay approximately \$6,375 in interest in fiscal 2010.

As required by law, 25% of net proceeds generated by the dispensaries in Crisfield and the West Princess Anne election district in excess of the reserve fund are divided equally between the City of Crisfield and the Town of Princess Anne. The remaining 75% goes to the county commission. All of the net proceeds generated by the dispensary in the Dublin election district (Pocomoke dispensary) in excess of the reserve fund go to the county commission. Buying inventory at discount prices from suppliers may increase the net profits of the county liquor board, resulting in additional revenues for Somerset County, the City of Crisfield, and the Town of Princess Anne.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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