

Department of Legislative Services
Maryland General Assembly
2011 Session

FISCAL AND POLICY NOTE
Revised

House Bill 1237

(Delegates McDermott and Conway)

Economic Matters

Education, Health, and Environmental Affairs

**Worcester County - Department of Liquor Control - Wine and Liquor Purchasing
Option**

This bill abolishes the Liquor Control Board for Worcester County and replaces it with the Worcester County Department of Liquor Control. The Department of Liquor Control is designated as a unit of the county government with the powers of a liquor control board. The bill authorizes an alcoholic beverages licensee in the county, beginning on May 1, 2016, to elect to purchase wine and liquor from licensed wholesalers in addition to or instead of from the department of liquor control by providing written notice to the department. The bill repeals the minimum price for specified merchandise that the department must charge to licenses.

The bill takes effect July 1, 2011.

Fiscal Summary

State Effect: None.

Local Effect: Worcester County revenues and expenditures for the former liquor control board will continue through FY 2015 under the newly established department of liquor control. Worcester County revenues may decrease beginning in FY 2016 to the extent licensees purchase alcoholic beverages directly from wholesalers rather than from the county dispensaries. Net income from county dispensaries totaled \$410,600 in FY 2009 and \$111,700 in FY 2010.

Small Business Effect: Potential meaningful. Licensees may be able to purchase alcoholic beverages at a lower cost, beginning in FY 2016, than under current law. However, the actual amount of any savings cannot be reliably estimated.

Analysis

Current Law: 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. In Worcester County, the sale of alcoholic beverages is regulated by the county liquor control board.

Background: 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. According to the Comptroller's *Alcohol and Tobacco Tax Annual Report*, for 2010, the county's six dispensary stores realized net operating profits of \$304,000 in fiscal 2010. Additionally, the county received \$725,300 in gross license receipts, for total revenues of \$1.03 million. The report also indicates that there are two beer licensees; 106 beer and wine licensees; and 187 beer, wine, and liquor licensees in the county.

Local Fiscal Effect: The bill abolishes the Worcester County Liquor Control Board and replaces it with the Worcester County Department of Liquor Control. It is assumed that county revenues and expenditures for the former liquor control board will continue through fiscal 2015 under the newly established department. The county advises that it plans to operate the department of liquor control as a self-supporting county enterprise fund.

Worcester County revenues may decrease beginning in fiscal 2016 to the extent retailers elect to purchase alcoholic beverages from wholesalers rather than from county dispensaries. However, the amount of any decrease cannot be reliably estimated. Net income from county dispensaries totaled \$410,600 in fiscal 2009 and \$111,700 in fiscal 2010 as discussed below.

Annual revenues (net sales) for the board totaled \$14.4 million in fiscal 2010; whereas, annual expenditures totaled \$14.1 million. Annual expenditures include \$11.2 million for product costs and \$2.9 million in operating expenses. Operating expenses include personnel, rent, utilities, supplies, insurance, and interest payments. Personnel expenses totaled \$862,700 or roughly 30% of the board's operating expenses. After accounting for product costs, operating expenses, and related financial expenses, the board had a net income of \$111,700 in fiscal 2010. Net income is distributed to the county government and its four municipalities.

As shown in **Exhibit 1**, net income is distributed almost evenly between the county and the municipalities. Net income totaled \$410,615 in fiscal 2009 and \$111,705 in fiscal 2010. 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 Income from Worcester County Liquor Control Board

| | <u>FY 2009</u> | <u>FY 2010</u> |
|-----------------------------|-----------------------|-----------------------|
| Net Profits from Operations | \$624,539 | \$304,044 |
| Other Income (Expenses) | (213,924) | (192,339) |
| Net Income | \$410,615 | \$111,705 |
| Worcester County | 168,625 | 55,853 |
| Berlin | 69,741 | 14,339 |
| Ocean City | 136,401 | 22,661 |
| Pocomoke City | 20,730 | 14,483 |
| Snow Hill | 15,118 | 4,368 |

Profits realized by the liquor control board typically 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.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Worcester County, Comptroller's Office, Department of Legislative Services

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Analysis by: Erik P. Timme

Direct Inquiries to:
(410) 946-5510
(301) 970-5510