

Changing How North Carolina Controls Liquor Sales Has Operational, Regulatory, and Financial Ramifications

A presentation to the Joint Legislative
Program Evaluation Oversight Committee

February 11, 2019

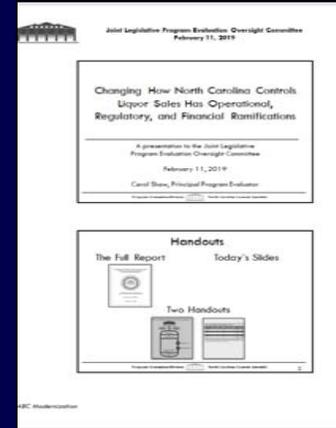
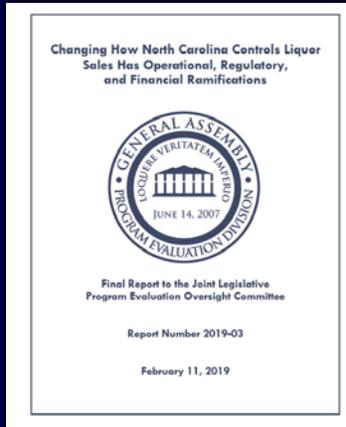
Carol Shaw, Principal Program Evaluator



Handouts

The Full Report

Today's Slides



Two Handouts

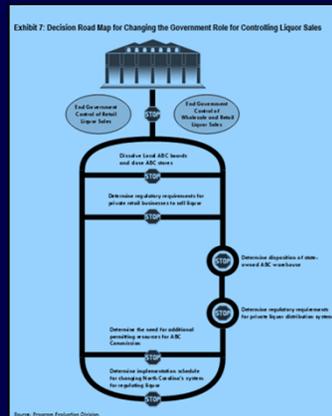


Exhibit 19: Counties Served by One ABC Board Had More Profitable and Efficient Operations than Similar Counties with Multiple ABC Boards During Fiscal Year 2016-17

County	Number of ABC Boards	Number of ABC Board Members	Total Annual ABC Board Compensation	Number of ABC Stores	County Output During FY 16-17 (ABCs)	County Profit %	County Operating Margin %
Rowan County	1	20	\$28,140	11	1.12	7.9%	14.3%
Carteret County	1	8	\$	6	1.18	13.4%	13.4%
Bladen County	7	28	\$24,312	8	.82	3.4%	19.4%
Wayne County	1	8	\$ 8,000	3	.84	6.1%	14.4%
Catawba County	3	12	\$11,000	2	1.19	8.4%	14.7%
Watauga County	1	8	\$ 8,000	2	.81	12.1%	12.1%

Notes: Bladen County was compared to Carteret County because both counties are rural, located on the same inter-county boundary, Carteret County was compared to this County because both counties are rural, located in western North Carolina, and are rural Appalachians. Rowan County was compared to Wayne County because both counties are rural, located in western North Carolina, and have similar populations. The Carteret County ABC Board does not commission its Board members.

Source: Program Evaluation Division based on information from the ABC Commission.



Our Charge

- **Directive:** Joint Legislative Program Evaluation Oversight Committee Work Plan
- **Charge:** Examine whether NC's alcohol beverage control system needs further modernization and whether other systems are appropriate
- **Report reviewed by**
 - Alcohol Beverage Control Commission
- **Team:** Carol Shaw, Joanne Brosh, Sidney Thomas

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Overview: Findings

1. Among southeastern states, North Carolina collects the most public revenue per gallon of liquor sold, has the lowest liquor outlet density, and has the second lowest adult per capita liquor consumption
2. Regulatory and operational modifications would be necessary if North Carolina decided to change how it controls liquor sales



Overview: Findings

3. Changing North Carolina's system for regulating liquor sales would also have financial implications for state and local government revenues
4. Opportunities exist to further modernize North Carolina's alcohol beverage control system



Overview: Recommendations

If the General Assembly wishes to change North Carolina's system for regulating liquor sales, it should appoint a joint legislative commission to determine how state and local government roles in regulating liquor sales would change



Overview: Recommendations

If instead it wishes to modernize the current system, the General Assembly should

1. Direct local ABC boards located in counties with two or more boards to consolidate local ABC operations and establish merged ABC boards
2. Eliminate the purchase-transportation permit requirement in state law
3. Direct the ABC Commission to report on the process for obtaining a new contract to operate the ABC warehouse and distribution system



Overview: Recommendations

4. Direct the ABC Commission to allow ABC stores to provide less than a full case of special order product for customers
5. Modify state law to permit ABC boards to charge mixed beverage permittees a delivery fee
6. Consider allowing local government the option to permit ABC stores to be open on Sundays
7. Enact state law to allow in-store liquor tastings in ABC stores in accordance with existing permit requirements



Background



17 States Control Liquor Distribution and Sales

<u>Retail Control States</u> Government operates retail liquor stores	<u>All Control States</u> Government controls wholesale distribution, determines brands and pricing of liquor sold, and maintains a warehouse	<u>Combination States</u> Government operates some retail liquor stores and contracts with or licenses private stores
<u>Agency Store States</u> Government contracts with agency stores to sell liquor		<u>Wholesale States</u> Government licenses private retail businesses to sell liquor

North Carolina is a retail control state, but is unique in that local government operates retail liquor stores



Licensure States Do Not Directly Participate in Liquor Sales

- Private businesses regulated by state government conduct wholesale and retail liquor sales
- These states do regulate various aspects of the liquor industry including
 - Where liquor is sold
 - Days and hours of operation
 - License quotas and fees
 - Limitations on store location
 - Local option

Southeastern States	
Control States	Licensure States
Alabama	Arkansas
Mississippi	Florida
North Carolina	Georgia
Virginia	Kentucky
West Virginia	Louisiana
	South Carolina
	Tennessee



Implementation of PED's 2008 Recommendations Has Improved Profitability and Efficiency of Most Local ABC Boards

Providing the ABC Commission with management tools for better oversight through performance standards has increased

- Overall profit percentage for the ABC system from 8.5% to 11.2%
- Percentage of ABC boards with profit margins of 5% or more from 44% to 72%
- Percentage of ABC boards with operating margins that match or exceed private liquor retailers from 31% to 62%

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Findings



Finding 1

Among southeastern states, North Carolina collects the most public revenue per gallon of liquor sold, has the lowest liquor outlet density, and has the second lowest adult per capita liquor consumption

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Finding 2

Regulatory and operational modifications would be necessary if North Carolina decided to change how it controls liquor sales

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How Would the Government's Role in Controlling Liquor Sales Change?

Two
choices



End Government
Control of Retail
Liquor Sales



End Government
Control of
Wholesale and Retail
Liquor Sales

Assumes local option continues



Dissolving Local ABC Boards and Closing ABC Stores

- Board Employees (2,870 full-time and part-time)
 - Employment terminated
 - Pension and post-employment benefit obligations
- Local ABC Boards
 - Capital and cash reserves accrue to the local appointing authority
 - Outstanding debts must be resolved before ceasing operations
 - Liquor stock disposition

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Regulatory Requirements for Private Retail Businesses to Sell Liquor

- What types of stores?
 - Potential retail venues include package liquor stores, drug stores, grocery stores, and gas stations
 - Most southeastern licensure states authorize package stores to sell liquor
- How many stores?
 - Some southeastern state control the number of stores licensed to sell liquor
 - Population ratios, fixed number, moratoriums

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Regulatory Requirements for Private Retail Businesses to Sell Liquor

- Where would stores be located?
 - Role of ABC Commission and local government in regulating location of liquor stores
- When would stores be open?
 - Most southeastern states limit operating hours for liquor sales
 - Some states allow local governments to determine operating hours including Sunday sales

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ABC Commission Operations

- ABC Commission may need additional permitting resources to issue permits to private wholesale and retail businesses
- ABC warehouse operations would be affected under both options
 - Warehouse disposition would be necessary if state ends control of wholesale liquor sales
 - Warehouse contract may need changes to accommodate increased sales
- Transition planning is important to ensure citizen access and maintain government revenues

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Public Opinion Favors Closing Government-Operated ABC Stores

Response Options	Elon University Poll (n=379)	High Point University Poll (n=827)
Support closing ABC	52%	47%
Oppose closing ABC	32%	34%
Don't know/Refused	16%	N/A
Don't know	N/A	19%

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Public Opinion Favors Issuing Permits to Sell Liquor to Any Store that Sells Beer and Wine

Response Options	Elon University Poll (n=379)	High Point University Poll (n=827)
Any store that sells beer or wine should receive permit to sell liquor	56%	49%
Stores that only sell liquor should receive a permit to sell liquor	31%	32%
Something else	4%	6.5%
Don't know/Refused	9%	12.5%

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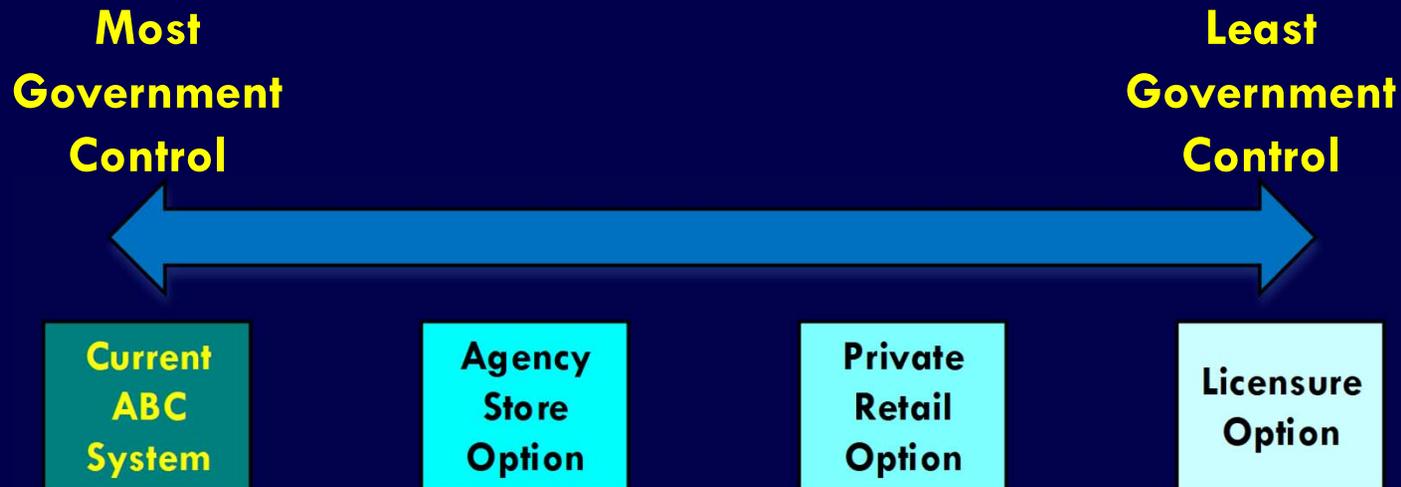
Finding 3

Changing North Carolina's system for regulating liquor sales would also have financial implications for state and local government revenue

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Three Options for Reducing Direct Government Control of Liquor Sales



- **Agency Store** - ABC Commission controls wholesale distribution and would contract with agency stores to sell liquor
- **Private Retail** - ABC Commission controls wholesale distribution and would license private retail business to sell liquor
- **Licensure** - ABC Commission would end direct involvement with selling liquor and would license private wholesalers and retailers



Financial Ramifications of Changing NC's System for Regulating Liquor Sales

- ABC Commission and warehouse funding
 - Replacement funding for Commission would be needed under the licensure option
- State and local government revenue
 - Revenue can be sustained with adjustments to the markup formula or by increasing excise taxes
- Liquor consumers
 - Access to liquor stores would increase with more stores
 - Liquor consumption would also increase with more stores
- Mixed beverage permittees
 - Choose where to purchase liquor

Appendices A - C
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Financial Ramifications of Changing NC's System for Regulating Liquor Sales

- Liquor suppliers
 - Continue to ship product to ABC warehouse under agency store and private retail options
 - Ship product to private wholesalers under licensure option
- Liquor Pricing

Liquor Pricing Estimates	Agency Store Option	Private Retail Option	Licensure Option
Retail	Decreases by 14.8%	Decreases by 1.3%	Increases by 15.7%
Mixed Beverage	Decreases by 12.8%	Decreases by 1.1%	Increases by 13.5%

Appendices A - C

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Finding 4

Opportunities exist to further modernize North Carolina's alcohol beverage control system

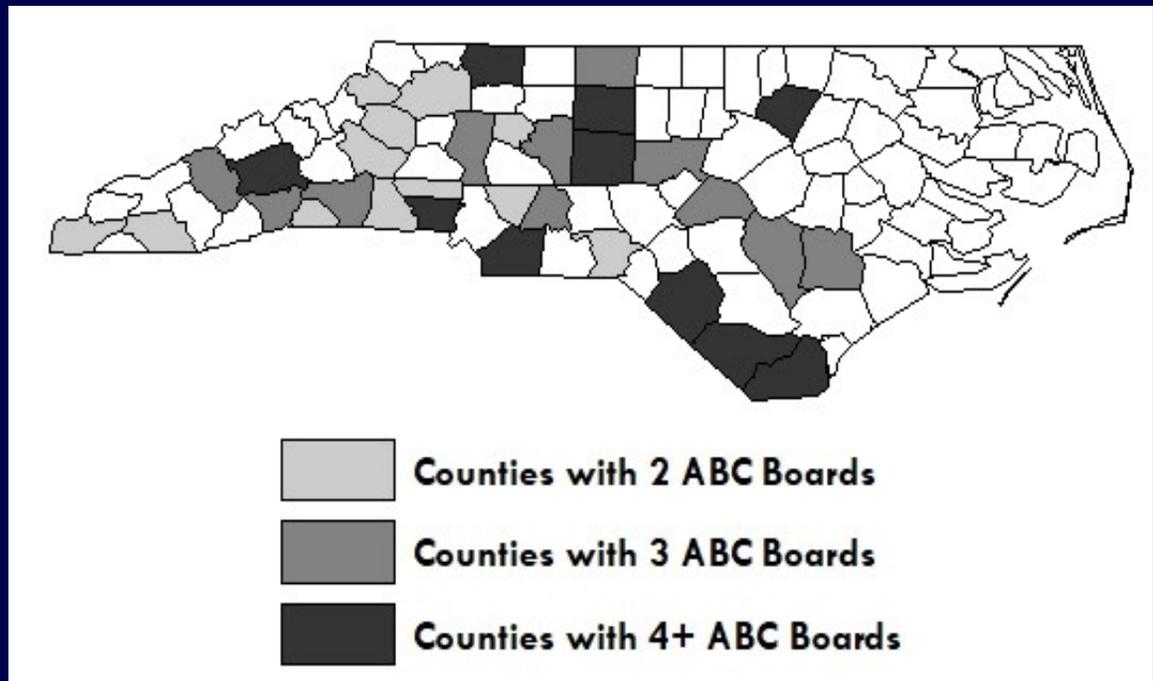
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Streamlining Local ABC Operations Could Improve the Efficiency of the ABC System In NC

Single-county ABC boards have more profitable and efficient operations than counties with multiple boards

- 170 boards serve 98 counties
- 33 counties have 2 or more boards



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Streamlining Local ABC Operations Could Improve the Efficiency of the ABC System In NC

- Board mergers reduce operating costs and increase profitability, but ABC Commission cannot mandate board consolidation or mergers to improve the system
- Purchase-transportation permits for liquor are antiquated and create unnecessary hassles for customers and ABC boards
- Opportunities exist to improve ABC warehouse operations

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Improving Customer Services at ABC Stores

- Special order process – Customers must order a case of unlisted liquor; they do not have option to buy a single bottle
- Mixed beverage permittees – Wish to have liquor deliveries, but local ABC boards cannot charge fees
- Opening ABC stores on Sundays – 42 states allow Sunday liquor sales including 20 states delegating authority to local governments
- Liquor tastings in ABC stores – Liquor consumption is prohibited in ABC stores so boards cannot offer liquor tastings for customers

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Recommendations



Recommendation

If the General Assembly wishes to change North Carolina's system for regulating liquor, it should appoint a joint legislative commission to determine how state and local government roles in regulating liquor would change



Recommendation 1

Direct local ABC boards located in counties with two or more boards to consolidate ABC operations and establish a merged ABC board

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Recommendation 1

- Modify existing state law
 - to mandate mergers in counties with two or more local ABC boards that are not participating in a merged board
 - to require cities and counties that wish to dissolve their merged ABC operations to join a different merged ABC board rather than resume separate operations
- Mandate that all mergers be completed no later than June 30, 2021

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Recommendation 2

Eliminate the purchase-transportation permit requirement for liquor in N.C. Gen. Stat. §§ 18B-303 and 18B-403

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Recommendation 3

Direct the ABC Commission to report on the process for obtaining a new contract for receipt, storage, and distribution of liquor by an independent contractor

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Recommendation 3

- Quarterly report should include
 - Schedules for developing and issuing the RFP and transitioning to the new contract
 - Identification of state agencies and other entities providing technical assistance
 - Description of ABC Commission consultation with local ABC boards
 - Copies of RFP and final ABC warehouse contract
- First report submitted by October 15, 2019

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Recommendation 4

Direct the ABC Commission to allow ABC stores the flexibility to provide less than a full case of product to a special order customer and sell the remaining product in the ABC store

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Recommendation 5

Modify existing state law to permit local ABC boards to charge mixed beverage permittees a delivery fee

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Recommendation 6

Consider enacting state law to allow local governments the option to open ABC stores on Sundays

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Recommendation 7

Enact state law to allow in-store liquor product tastings in ABC stores in accordance with the permit requirements in N.C. Gen. Stat. § 18B-1114.7

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Summary: Findings

- Changing how North Carolina regulates liquor sales would
 - Require regulatory and operational adjustments to the current system and
 - Affect state and local revenue received from liquor sales
- Opportunities exist for further modernization of North Carolina's system for regulating liquor sales



Summary: Recommendations

If the General Assembly wishes to change North Carolina's system for regulating liquor, it should appoint a joint legislative commission to determine how state and local government roles in regulating liquor would change



Summary: Recommendations

If the General Assembly wishes to modernize the current system, it should

- direct ABC boards located in counties with multiple boards to form merged ABC boards
- eliminate the purchase-transportation permit
- monitor the new ABC warehouse contract process
- provide local ABC boards with flexibility to charge delivery fees, serve special order customers, open ABC stores on Sundays, and offer in-store tastings



Summary: Response

- Response from the Alcohol Beverage Control Commission
- Reported general agreement with report findings and recommendations



Report available online at
www.ncleg.net/PED/Reports/reports.html

