



MONTGOMERY COUNTY COUNCIL

ROCKVILLE, MARYLAND

October 3, 2019

Marc Elrich
County Executive, Montgomery County
101 Monroe Street, 2nd Floor
Rockville, MD 20850

Dear County Executive Elrich,

As we all know, Montgomery County government holds a monopoly on the wholesale sales of beer, wine and spirits, as well as a monopoly on retail sales of spirits. Our Alcoholic Beverage Services Department (ABS), formerly known as the Department of Liquor Control, operates a central warehouse for wholesale distribution and 25 retail stores.

At the FY20 budget review before the Council's Public Safety Committee, ABS shared that they had recently made changes to their accounting practices to better track the profit and loss of each store. Based on the most recent profit and loss data provided by ABS, it has become clear that while the warehouse operation turns a healthy profit and contributes almost \$34 million per year to the County's finances (including debt service payments), **the retail operation actually loses more than \$5 million per year.**

Previously, this operating loss was obscured by an accounting practice that booked profits to the retail operation that really belong to the wholesale operation. Unlike private beer and wine retailers in the County, ABS stores were not charged a wholesale markup when purchasing product from the warehouse. They were allowed to book their inventory cost at the price the warehouse paid to the manufacturer. This makes the retail operation's inventory cost seem very low and the stores therefore to be artificially profitable.

ABS changed the practice so that now the stores must report their inventory at the same cost as private retailers -- the cost that includes the markup charged by the warehouse. This was a sound change to make because it enables the County to compare County stores to private retailers in an even handed way, and thereby judge the cost of providing the service and the efficiency of our operations.

Given the profound impact this has on the County's budget, please provide us with a detailed analysis of the reason(s) the stores are unprofitable and how you plan to address this issue. Please provide this information as soon as possible, but no later than by the end of 2019.

Sincerely,



Hans Riemer
Councilmember, At-large



Sidney Katz
Council Vice President



Evan Glass
Councilmember, At-large



Tom Hucker
Councilmember, District 5



Craig Rice
Councilmember, District 2