

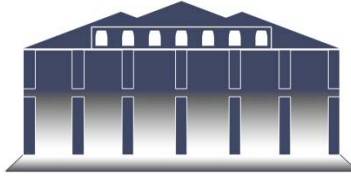
**Changing How North Carolina Controls Liquor
Sales Has Operational, Regulatory,
and Financial Ramifications**



**Final Report to the Joint Legislative
Program Evaluation Oversight Committee**

Report Number 2019-03

February 11, 2019



Program Evaluation Division
North Carolina General Assembly
Legislative Office Building, Suite 100
300 North Salisbury Street
Raleigh, NC 27603-5925
919-301-1404
www.ncleg.net/PED

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NORTH CAROLINA GENERAL ASSEMBLY
Legislative Services Office

Paul Coble, Legislative Services Officer

Program Evaluation Division
300 N. Salisbury Street, Suite 100
Raleigh, NC 27603-5925
Tel. 919-301-1404 Fax 919-301-1406

John W. Turcotte
Director

February 11, 2019

Senator Brent Jackson, Co-Chair, Joint Legislative Program Evaluation Oversight Committee
Representative Craig Horn, Co-Chair, Joint Legislative Program Evaluation Oversight Committee

North Carolina General Assembly
Legislative Building
16 West Jones Street
Raleigh, NC 27601

Honorable Co-Chairs:

The 2018 Work Plan of the Joint Legislative Program Evaluation Oversight Committee directed the Program Evaluation Division to examine whether North Carolina's alcohol beverage control (ABC) system needs further modernization and whether other systems are appropriate for North Carolina.

I am pleased to report that the ABC Commission cooperated with us fully and was at all times courteous to our evaluators during the evaluation.

Sincerely,

A handwritten signature in black ink, appearing to read "John W. Turcotte".

John W. Turcotte
Director

Mandatory Evaluation Components

Report 2019-03: Changing How North Carolina Controls Liquor Sales Has Operational, Regulatory, and Financial Ramifications

N.C. Gen. § 120-36.14 requires the Program Evaluation Division to include certain components in each of its evaluation reports, unless exempted by the Joint Legislative Program Evaluation Oversight Committee. The table below fulfills this requirement and, when applicable, provides a reference to the page number(s) where the component is discussed in the report.

N.C. Gen. § 120-36.14 Specific Provision	Component	Program Evaluation Division Determination	Report Page
(b)(1)	Findings concerning the merits of the program or activity based on whether the program or activity		
(b)(1)(a)	Is efficient	<p>The Program Evaluation Division found that providing the North Carolina ABC Commission with management tools for better oversight of local ABC boards has increased profitability and efficiency of operations for most boards. Since the ABC Commission initiated performance standards in 2011, local ABC board compliance with the standards has increased</p> <ul style="list-style-type: none"> • the overall profit percentage of the ABC system from 8.5% to 11.2%, • the percentage of boards with profit margins of 5% or greater from 44% to 72%, and • the percentage of local ABC boards with operating margins that match or exceed private liquor retailers from 31% to 62%. 	8
(b)(1)(b)	Is effective	<p>The Program Evaluation Division found that the ABC Commission and local ABC boards are effectively controlling the sale of liquor. 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.</p>	13–14
(b)(1)(c)	Aligns with entity mission	<p>The ABC Commission's mission is to control the sale, purchase, transportation, manufacture, consumption, and possession of alcoholic beverages in North Carolina. In 2008, the Program Evaluation Division found that North Carolina did not clearly define the mission of local ABC boards. In 2010, the General Assembly responded to this finding by defining the mission of local ABC boards as controlling the sale of liquor and promoting customer-friendly, modern, and efficient stores.</p>	5–6
(b)(1)(d)	Operates in accordance with law	<p>The ABC Commission and local ABC boards operate in accordance with Chapter 18B of the North Carolina General Statutes.</p>	5
(b)(1)(e)	Does not duplicate another program or activity	<p>Under state law, the ABC Commission is the only entity to oversee the sale of liquor in North Carolina, and local ABC boards are the only entities that can operate ABC stores.</p>	5–6
(b)(1a)	Quantitative indicators used to determine whether the program or activity		

(b)(1a)(a)	Is efficient	The Program Evaluation Division's efficiency determination is based on the profitability and operating efficiency of local ABC boards. Profitability is an important performance measure because higher profits allow boards to distribute more money to their communities. Controlling operating costs is a component of profitability because efficient boards are more likely to have higher profit margins.	8
(b)(1a)(b)	Is effective	The Program Evaluation Division identified three performance indicators for measuring the effectiveness of state government liquor regulation and used them to determine effectiveness of North Carolina's ABC system for liquor: <ul style="list-style-type: none"> • Public revenue per wine gallon. This indicator measures how state government maximizes revenue from liquor sales by measuring the amount of public revenue collected per wine gallon of liquor sold in a state. • Outlet density per 10,000 adults. This indicator measures how state government regulation affects access to liquor sales outlets. Low outlet density indicates state government operates or licenses fewer outlets. • Adult per capita liquor consumption. This indicator measures how much liquor is consumed in each state by dividing the total amount of liquor (in wine gallons) sold by the number of adults. Low adult per capita liquor consumption indicates less liquor is being sold. 	12–13
(b)(1b)	Cost of the program or activity broken out by activities performed	During Fiscal Year 2016–17, expenses for the ABC system included \$16.9 million for the ABC Commission and warehouse operations and \$171.1 million for local ABC boards' operating expenses and working capital.	27
(b)(2)	Recommendations for making the program or activity more efficient or effective	Recommendations 1 through 7 provide opportunities to further modernize the current system for controlling liquor sales by <ul style="list-style-type: none"> • directing local ABC boards located in counties with multiple boards to form merged ABC boards; • eliminating the purchase-transportation permit for liquor; • monitoring the selection of a new ABC warehouse contract; and • providing local ABC boards with more flexibility to charge delivery fees, serve special order customers, open ABC stores on Sundays, and offer in-store tastings of liquor products. 	44–48
(b)(2a)	Recommendations for eliminating any duplication	The Program Evaluation Division did not find evidence of duplication in wholesale and retail liquor sales by the ABC Commission and local ABC boards.	N/A
(b)(4)	Estimated costs or savings from implementing recommendations	None of the Program Evaluation Division's recommendations will require additional costs nor yield savings.	N/A



PROGRAM EVALUATION DIVISION

NORTH CAROLINA GENERAL ASSEMBLY

February 2019

Report No. 2019-03

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

Summary

The Joint Legislative Program Evaluation Oversight Committee's 2018 Work Plan directed the Program Evaluation Division to examine whether North Carolina's alcohol beverage control (ABC) system needs further modernization and whether other systems are appropriate for the State.

Changing how North Carolina regulates liquor sales would require major regulatory adjustments. North Carolina could end government control of retail liquor sales or end government control of both wholesale and retail liquor sales. Both options require decisions related to dissolving local ABC boards and closing ABC stores, determining regulatory requirements for private retail businesses to sell liquor, and developing an implementation schedule. Ending government control of wholesale liquor sales would additionally require establishing regulatory requirements for a private liquor warehouse and distribution system.

Changing North Carolina's regulatory system would also affect state and local revenue received from liquor sales. The Program Evaluation Division identified three options that each assumed local ABC boards would be abolished and local governments would no longer be responsible for operating local ABC stores. These options have important financial ramifications for the State and would affect the ABC Commission, state and local government revenue, and liquor suppliers and consumers.

In lieu of overhauling North Carolina's system for regulating liquor sales, the State could choose to further modernize the current system. Streamlining local ABC board operations could increase efficiency and profitability. Local ABC boards and other stakeholders identified several ideas for modernizing the current system.

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 sales would change. If it wishes to modernize the current system, the General Assembly should

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

Purpose and Scope

The Joint Legislative Program Evaluation Oversight Committee's 2018 Work Plan directed the Program Evaluation Division to examine whether North Carolina's alcohol beverage control (ABC) system needs further modernization and whether other systems are appropriate for North Carolina. The Program Evaluation Division's 2008 report *North Carolina's Alcohol Beverage Control System Is Outdated and Needs Modernization* recommended that the General Assembly consider whether the current system of alcohol beverage control needed further modernization, and this report provides information to assist with such consideration.

Two research questions guided this evaluation:

1. What are the ramifications of changing how North Carolina controls the sale of liquor to a wholesale control model or to a licensure control model?
2. What options exist for improving North Carolina's current system for controlling the sale of liquor?

The Program Evaluation Division collected and analyzed data from several sources, including

- current and past North Carolina ABC laws and rules;
- fiscal and operational data for local ABC boards;
- interviews with
 - North Carolina ABC Commission members and staff,
 - management of the state ABC warehouse, and
 - staff and board members at 10 local ABC boards;
- queries from stakeholder organizations and associations, including
 - North Carolina Association of ABC Boards,
 - North Carolina Association of County Commissioners,
 - North Carolina League of Municipalities,
 - North Carolina Restaurant and Lodging Association,
 - NC Spirits Association,
 - Distillers Association of North Carolina,
 - North Carolina Beer and Wine Wholesalers Association,
 - North Carolina Retail Merchants Association, and
 - Christian Action League;
- data on other states and national systems and trends from
 - evaluations and studies of ABC systems conducted in other states,
 - the National Alcohol Beverage Control Association,
 - the Distilled Spirits Council of the United States, and
 - *Beverage Information Group Fact Book 2016: Beverage Alcohol State Facts and Regulation*;
- a survey of the 168 local ABC boards operating one or more stores;
- on-site inspections of 11 ABC stores operated by 10 local ABC boards; and
- two citizen surveys conducted by the Elon University Poll and High Point University Poll.

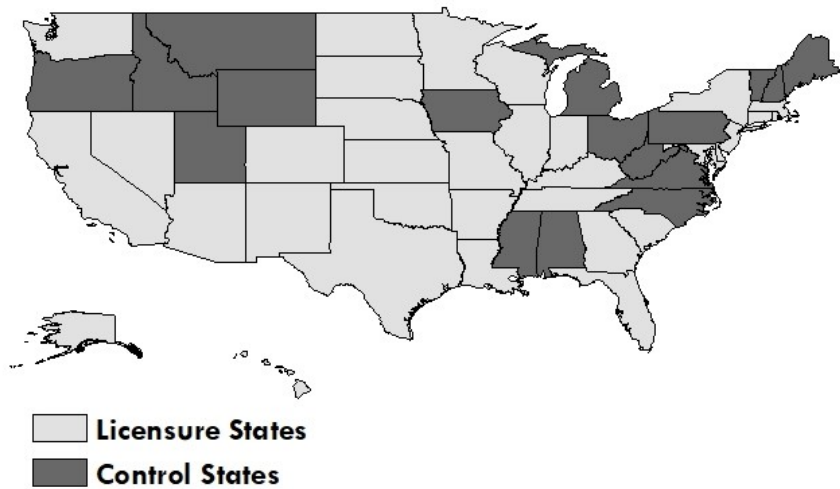
Background

Since Prohibition ended in 1933, state governments have been individually responsible for regulating the sale and distribution of alcoholic beverages. Systems of regulation vary among states.

State governments regulate alcohol through one of two models: control or licensure. Exhibit 1 illustrates the distribution of states according to these two models. Control states regulate through licensing and tax collection but also directly control distribution by providing alcoholic beverages directly to consumers at government-operated retail stores or as wholesalers through retail establishments. Licensure states regulate the distribution of alcoholic beverages by licensing suppliers, wholesalers, and retail businesses selling alcoholic beverages and by collecting taxes on these beverages; however, these states do not control distribution. Today, there are 33 licensure states and 17 control states, including North Carolina.¹

Exhibit 1

North Carolina Is 1 of 17 Control States



Source: Program Evaluation Division based on information from the National Alcohol Beverage Control Association.

Currently there are 17 states that maintain direct control over the distribution and sale of liquor. North Carolina is considered a control state because it directly controls the distribution of liquor at the retail and wholesale level. Control states license and regulate all individuals in the alcoholic beverage industry that conduct business, including manufacturers, importers, wholesalers, and on/off-premises retailers. Control states may use one of four methods to control the sale of liquor.

- **Retail control states.** State government controls the wholesale and retail distribution of liquor and, in some cases, wine. State government also determines brands and pricing of liquor sold and maintains a warehouse for distribution. The retail sale of alcoholic beverages takes place in stores owned, maintained, and operated by state government or, in the case of North Carolina, local government.

¹ Two counties in Maryland operate alcohol beverage control systems: Montgomery and Worcester Counties.

- **Agency store states.** State government controls the wholesale and retail distribution of liquor and sometimes wine, but the retail sale of alcoholic beverages is handled by contracted agency stores selling liquor on behalf of the government. Under this model, state governments pay agency or contract stores a commission or sell alcoholic beverages to agency stores at a discount. Agency stores are usually retail establishments that set aside a portion of their store to sell liquor or wine. The state determines brands and pricing of liquor sold and maintains a warehouse for distribution to agency stores.
- **Combination States.** State government controls the wholesale and retail distribution of liquor and sometimes wine, but the retail sale of alcoholic beverages is handled by a combination of stores operated by state government and agency stores or private retail businesses. In these states, agency stores are usually located in rural areas with populations that cannot support a stand-alone liquor store. By contracting with an outlet such as a convenience store, state government can ensure residents in rural areas have access to liquor and wine without having the expense of maintaining a store. The state determines the brands and pricing of liquor sold and maintains a warehouse for distribution to state-owned and agency stores.
- **Wholesale States.** Under this model of control, state government controls the wholesale distribution of liquor and, in some cases, wine. The retail sale of liquor is handled by private retail businesses licensed by the state. The state determines brands and pricing of liquor sold in the state and maintains a warehouse for distribution to private retail businesses. The state may limit the location and number of retail outlets.

Exhibit 2 summarizes which method is used by the 17 control states. North Carolina is considered a retail control state, but is unique in mandating local government control rather than state government control of retail sales. In the two other retail control states, Pennsylvania and Virginia, state government operates Alcohol Beverage Control (ABC) stores.

Exhibit 2

Methods of Alcohol Beverage Control in the 17 Control States

Retail	Agency
North Carolina Pennsylvania* Virginia	Maine Montana Ohio Oregon Vermont
Combination	Wholesale
Alabama Idaho New Hampshire* Utah*	Iowa Michigan Mississippi* West Virginia Wyoming*
Notes: Asterisks denote states that also control the distribution of wine. Two counties in Maryland operate alcohol beverage control systems: Montgomery and Worcester Counties.	

Source: Program Evaluation Division based on data from the National Alcohol Beverage Control Association.

The North Carolina Alcohol Beverage Control Commission (ABC Commission) oversees the sale of liquor in North Carolina under Chapter 18B of the North Carolina General Statutes. The Commission’s responsibilities include licensing and regulating all members of the alcoholic beverage industry that conduct business in North Carolina, including manufacturers, importers, wholesalers, and on/off-premises retailers. The ABC Commission consists of three members appointed by the Governor, with one commissioner serving as chair in a full-time capacity and two other members serving on a per diem basis as required. The chair controls all matters related to the ABC Commission’s responsibilities and personnel functions. An administrator, who is appointed by the ABC Commission, works at its direction and oversees day-to-day operations.

In addition to oversight of local boards, the ABC Commission is responsible for issuing and controlling permits for the consumption and sale of beer, wine, and mixed beverages. The ABC Commission has the following duties and powers related to the oversight and operation of local boards:

- administering ABC laws;
- setting prices for alcoholic beverages sold in ABC stores;
- requiring reports and audits from boards;
- determining what brands of alcoholic beverages may be sold by stores;
- contracting for state ABC warehousing operations;
- disposing of damaged alcoholic beverages;
- removing, for cause, any member or employee of a board;
- supervising purchasing by a board;
- approving rules adopted by any board;
- authorizing the opening and location of ABC stores;

- fixing bailment charges and surcharges assessed on liquor shipped from the ABC Commission warehouse; and
- collecting bailment charges and surcharges from boards.²

The ABC Commission receives no general fund appropriations. Its budget is funded solely from a bailment surcharge that is added to the cost of liquor sold to ABC stores.

The ABC Commission owns a central liquor warehouse in Raleigh and contracts with a private company to conduct warehouse operations. The warehouse contractor's responsibilities include receipt, storage, and distribution of liquor to local ABC boards. All liquor sold in North Carolina must first come through the state ABC warehouse. Payment for the warehouse contract comes from a bailment system in which ownership of liquor remains with the distillery until it is delivered to local ABC boards. This bailment charge is added to the cost of liquor sold to ABC stores and pays for the warehousing and transporting of liquor.

Local boards operate retail stores for North Carolina's ABC system. Each board has the legal authority to operate one ABC store that sells liquor within its jurisdiction. Additional stores may be operated with the approval of the ABC Commission. In addition to retail liquor sales directly to the general public, some local boards are authorized to supply liquor to mixed beverage businesses such as restaurants and bars. The State's 170 local ABC boards operate 433 stores across North Carolina. See Exhibit 3 for maps showing the location of local ABC boards and ABC stores.

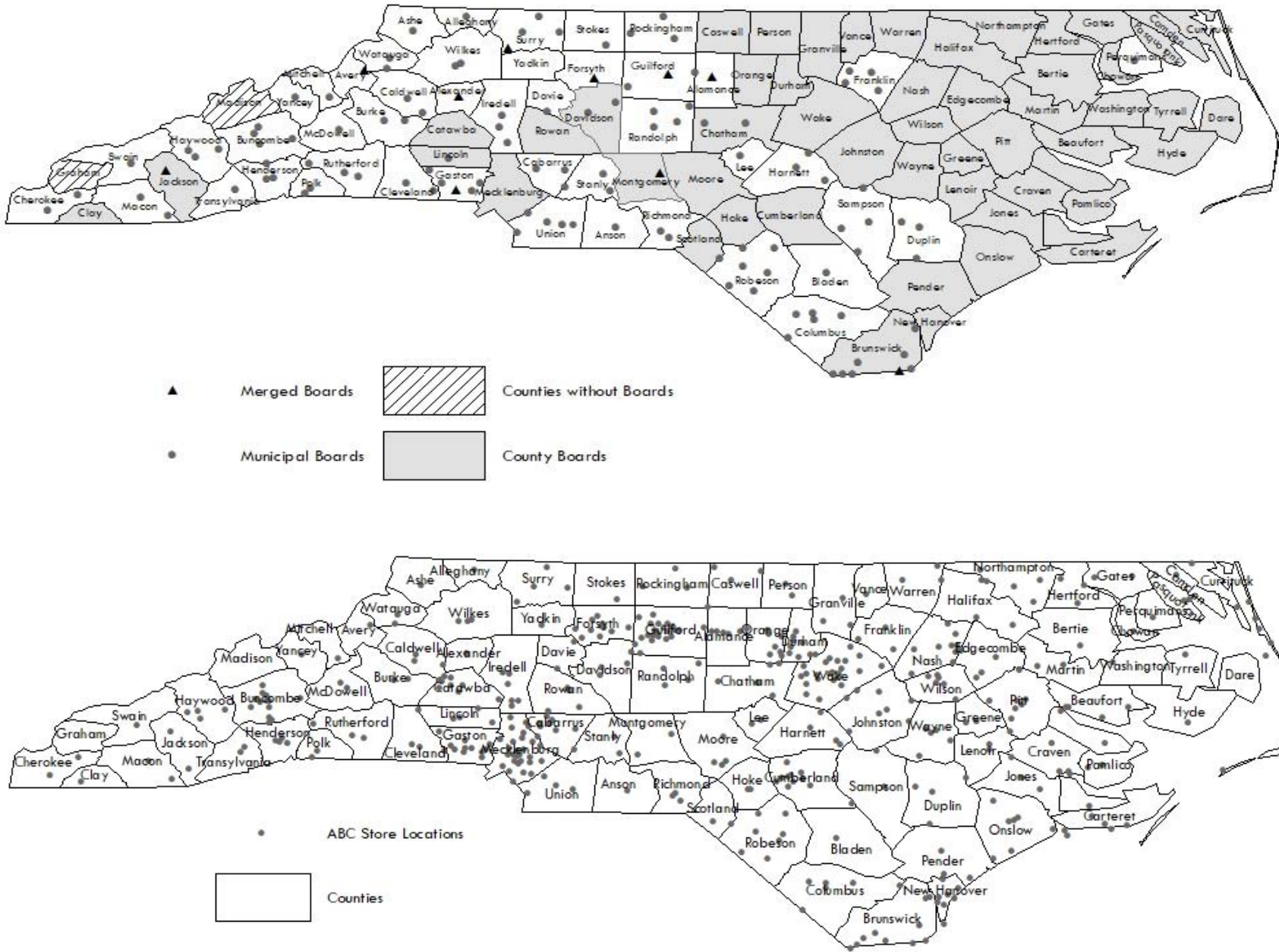
The majority of boards operate only one ABC store, but 40% of boards operate multiple stores within their jurisdictions. Boards employ 2,870 full-time and part-time employees. During Fiscal Year 2016–17, ABC stores sold 79 million bottles of liquor.³

In 2008, the Program Evaluation Division evaluated the effectiveness of the ABC system and identified improvement options. The evaluation, entitled *North Carolina's Alcohol Beverage Control System Is Outdated and Needs Modernization* (2008), found North Carolina's ABC system was outdated because it had not kept pace with demographic and economic changes and because state statutes limited effective management. Local ABC boards did not have clearly defined missions, and some boards used this lack of a clear mission to justify ineffective and inefficient store operations. The report recommended modernizing the ABC system by defining the mission of local boards, providing management tools for better oversight, and modifying outdated statutes.

² Bailment charges and surcharges are imposed on each case of liquor shipped from the ABC warehouse. The revenue from these charges is used to support ABC warehouse and Commission operations.

³ See the Program Evaluation Division report entitled *Follow-Up Report: Implementation of PED Recommendations Has Improved Local ABC Board Profitability and Operational Efficiency* for detailed descriptive and financial information for local ABC boards in operation as of March 1, 2018.

Exhibit 3: Location of ABC Boards and Stores



Source: Program Evaluation Division based on data from the North Carolina ABC Commission.

In 2010, the General Assembly enacted legislation to modernize the North Carolina ABC system based on Program Evaluation Division recommendations.⁴ The legislation included the following statutory additions or changes:

- provided the ABC Commission with management tools for better oversight of local boards and
- increased the number of registered voters needed in order for a city to hold an ABC store election.

The legislation also directed the ABC Commission to promulgate rules establishing performance standards for local ABC boards and required boards to comply with the standards. In 2008, the Program Evaluation Division had found that state law did not allow the ABC Commission to enforce minimum standards for operations and profitability for local ABC boards. As a result, the ABC Commission could not mandate changes to improve local boards' operating efficiency or profitability. The Program Evaluation Division recommended that the ABC Commission should develop performance standards, use the standards to measure the performance of local ABC boards, and require low-performing boards to improve. The General Assembly responded by authorizing the ABC Commission to promulgate rules for local ABC boards that addressed enforcement of ABC laws, store appearance, operating efficiency, solvency, and customer service. State law also mandated that local boards meet all standards for performance and directed the ABC Commission to ensure that all local boards comply with established performance standards by conducting performance audits and inspections.

Providing the North Carolina ABC Commission with management tools for better oversight of local ABC boards has increased profitability and efficiency of operations for most boards. Profitability is an important performance measure because higher profits allow boards to distribute more money to their communities. Controlling operating costs is an important component of profitability because efficient boards are more likely to have higher profit margins. Since the ABC Commission initiated performance standards in 2011, local ABC board compliance with the standards has increased

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

However, legislation increasing the voter registration threshold to hold a municipal ABC store election has not eliminated inefficiencies resulting from too many ABC stores operating in close proximity. Also in 2010, the General Assembly increased the registered voter threshold to hold a municipal ABC store election from 500 to 1,000 voters. Despite the change, the Program Evaluation Division observed that unnecessary

⁴ Session Law 2010-122.

competition among local ABC boards is still occurring in dry counties where new boards begin operating ABC stores.⁵

During the past 10 years, North Carolina’s ABC system has seen substantial changes. More counties and municipalities have voted to authorize a local ABC board to operate ABC stores. Local option allows voters in counties, cities, or towns to decide whether liquor is available for sale in their communities. The number of ABC stores across the state has increased as new local ABC boards have opened stores and existing boards added stores. Total revenues from the sale of liquor has grown considerably, including a significant increase in revenue distribution to state and local governments. Exhibit 4 summarizes the growth in North Carolina’s ABC system since 2008.

Exhibit 4

North Carolina’s ABC System Experienced Substantial Growth During the Past Decade

ABC System Changes	2008	2018
Local ABC boards	158	170
Counties with local ABC boards	95	98
Local ABC boards with mixed beverage sales	78.5%	94%
ABC stores	405	433
Total revenue from liquor sales	\$691,969,293	\$1,129,132,692
Revenue distributions to state and local government	\$226,083,588	\$406,129,069

Notes: Information for local ABC boards is current as of January 1, 2019. Revenue information for 2008 and 2018 comes from Fiscal Years 2006–07 and 2016–17, respectively. Unrelated to the 2008 Program Evaluation Division report, the State excise tax on liquor increased from 25% to 30% on September 1, 2009. To compare equivalent data across fiscal years, the Program Evaluation Division did not include in the 2008 revenue distribution number any retained mixed beverage taxes, which were included in the 2008 report.

Source: Program Evaluation Division based on data from the North Carolina ABC Commission.

The ABC system experienced a net increase of 12 local ABC boards.

During the past 10 years, 12 municipalities and two counties have elected to open an ABC store and appoint a local ABC board:

- Asheboro
- Belmont
- Burnsville
- Marshville
- Indian Trail
- Pilot Mountain
- Ramseur
- Spruce Pine
- Troutman
- Valdese
- Weaverville
- Wingate
- Clay County
- Davidson County

⁵ For more information on the effects of local ABC board proliferation, see pages 15–18 of the Program Evaluation Division report, *Follow-Up Report: Implementation of PED Recommendations Has Improved Local ABC Board Profitability and Operational Efficiency*.

Three of the five counties that did not have an ABC board in 2008 now have one: Clay County, Mitchell County (Spruce Pine), and Yancey County (Burnsville). As of 2018, Graham and Madison Counties are the only North Carolina counties that do not have an ABC store. Four local ABC board have merged since 2008.⁶ The Garland ABC Board in Sampson County closed in 2016; Sampson County still has three other municipalities with local ABC boards.

Most municipalities and counties with local ABC boards have authorized mixed beverage sales in their communities. Mixed beverage sales continue to be an important source of revenue for boards and their communities. Mixed beverage businesses pay a \$20 surcharge per four liters or \$3.75 per 750 milliliter bottle of liquor purchased.⁷ Only 10 rural boards do not offer mixed beverage sales. Many municipalities and counties, both with and without an ABC store, have elected to authorize mixed beverage sales in the years since 2008 because the General Assembly eliminated the requirement that a city must operate an ABC store or hold an ABC store election in order to hold a mixed beverage election. This change was based on a recommendation in the Program Evaluation Division's 2008 report, *North Carolina's Alcohol Beverage Control System Is Outdated and Needs Modernization*.

North Carolina's ABC system has seen few changes since its initial authorization in 1937 when legislation created a state monopoly for the sale of liquor. This evaluation provides an opportunity to examine whether the current system of alcohol beverage control for liquor needs further modernization and to explore the ramifications of changing how North Carolina controls liquor sales.

⁶ The Taylorsville ABC Board in Alexander County chose to merge with the Catawba County ABC Board. Three other mergers occurred because of new ABC store elections. The Sylva ABC Board merged with the Jackson County ABC Board after county voters elected to have an ABC store. The Yadkin Valley ABC Board formed after the Elkin ABC Board in Surry County agreed to create a merged board with Jonesville in Yadkin County. The Mocksville-Cooleemee ABC Board formed after the Cooleemee ABC Board agreed to create a merged board with Mocksville in Davie County.

⁷ The distribution of surcharge revenue is defined in statute; the board retains 45% and the State receives the remainder.

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.

As shown in Exhibit 5, five of 12 southeastern states, including North Carolina, are control states, whereas 7 are licensure states.

Exhibit 5

Five Southeastern States Are Control States and Seven Are Licensure States

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

Source: Program Evaluation Division based on information from the National Alcohol Beverage Control Association and the Beverage Information Group Fact Book 2016: Beverage Alcohol State Facts and Regulation.

Among the five control states, only North Carolina and Virginia sell liquor through government-operated retail stores. In North Carolina, retail stores are owned by local ABC boards and staffed with board employees. In Virginia, retail stores are owned by state government and staffed with state employees. Alabama is a combination state in which liquor is sold by both state-owned stores and licensed retail businesses. Mississippi and West Virginia are wholesale states that control the wholesale distribution of liquor but license private retail businesses to sell liquor.

Unlike control states, licensure states do not directly participate in the sale of alcoholic beverages. In these states, private businesses regulated by state government conduct wholesale and retail sales of liquor. The seven southeastern licensure states regulate all aspects of the alcoholic beverage industry by mandating a three-tier system in which all members of the industry are involved in no more than one tier. The system consists of

- manufacturers that provide alcoholic products to wholesalers;
- wholesalers that distribute the products to retailers; and
- retailers that sell to consumers.

The North Carolina ABC Commission uses the three tier system to regulate the sale and distribution of wine and malt beverages in North Carolina.

Whereas licensure states do not directly control the distribution of liquor, they do regulate various aspects of the liquor industry. The amount of regulation varies among southeastern licensure states, but regulations target the following areas:

- **Where liquor is sold.** Licensure states determine what types of retail businesses can sell liquor. Venues where liquor can be sold include liquor stores (also known as package stores), drug stores, grocery stores, and gas stations or convenience stores. Most

southeastern licensure states limit the sale of liquor to package stores, but Louisiana allows liquor sales in all venues.

- **Days and hours of operations.** Licensure states set hours of operation for the sale of liquor, though Georgia, Florida, and Kentucky allow local option determination. Sunday sales are regulated, with some states prohibiting Sunday sales or allowing local option determination.
- **License quotas.** Some southeastern states limit the number of stores authorized to sell liquor. Limitations include establishing a fixed number of available licenses, using a population ratio, identifying when citizens are adequately served by the existing number of stores, or imposing a moratorium.
- **License fees.** All southeastern licensure states require a license fee for the off-premises sale of liquor. Annual license fees range from \$100 to \$1,365.
- **Limitation on store location and size.** Most licensure states have regulations limiting where liquor stores can be built or delegate the responsibility to local government through zoning regulations. Limitations include consideration of distance from places of worship and schools.
- **Local option.** Most southeastern licensure states have some form of local option authorizing local government to hold elections to determine whether liquor is sold in their communities. As in North Carolina, some licensure states have dry areas where no alcohol is sold. For example, Arkansas has 34 dry counties out of 75.

The Program Evaluation Division identified three performance indicators for measuring the effectiveness of state government liquor regulation.

Exhibit 6 provides comparative information for these indicators for the 12 southeastern states.

- **Public revenue per wine gallon.** This indicator measures how state government maximizes revenue from liquor sales by measuring the amount of public revenue collected per wine gallon of liquor sold in a state.⁸ Liquor pricing is higher in states that collect more revenue per gallon of liquor sold.
- **Outlet density per 10,000 adults.** This indicator measures how state government regulation affects access to liquor sales outlets. Low outlet density indicates that state government operates or licenses fewer outlets.
- **Adult per capita liquor consumption.** This indicator measures how much liquor is consumed in each state by dividing the total amount of liquor sold (in wine gallons) by the number of adults.⁹ Low adult per capita liquor consumption indicates less liquor is being sold.

⁸ A wine gallon is equivalent to a standard United States bulk or liquid gallon.

⁹ An adult is defined as a person of legal drinking age (21 or older).

Exhibit 6

Among Southeastern States, North Carolina Collected the Most Public Revenue per Wine Gallon from Liquor Sales During 2015

Southeastern States	Liquor Sales Outlets 2016–17		Public Revenue From Liquor Sales 2015		Adult Per Capita Liquor Consumption (Wine Gallons) 2015
	Total Outlets	Outlets Per 10,000 Adults	Total Revenue	Revenue per Wine Gallon	
North Carolina	428	.58	455,829,000	36.79	1.72
Virginia	360	.59	381,155,000	35.45	1.77
Alabama	762	2.15	203,730,000	32.98	1.75
Mississippi	763	3.50	92,047,000	20.49	2.12
West Virginia	176	1.32	32,424,000	18.19	1.27
Kentucky	1,271	3.92	113,192,000	16.77	2.08
Florida	2,135	1.42	651,908,000	15.83	2.73
Tennessee	552	1.14	153,005,000	15.69	2.09
Georgia	1301	1.73	191,379,000	13.91	1.89
South Carolina	986	1.72	106,567,000	13.70	2.17
Arkansas	445	2.04	56,825,000	12.98	2.03
Louisiana	5,356	15.67	83,474,000	9.18	2.69

Notes: Control states are shaded light gray. A wine gallon is equivalent to a standard United States bulk or liquid gallon. An adult is defined as a person of legal drinking age (21 or older), and the adult population is estimated as of July 1, 2015 by the United States Bureau of the Census.

Source: Program Evaluation Division based on information from the National Alcohol Beverage Control Association and the Distilled Spirits Council of the United States

North Carolina collected the most public revenue per gallon of liquor sold among southeastern states during 2015. At \$36.79 per wine gallon, North Carolina collected four times as much revenue per gallon as Louisiana, which collected the lowest revenue per gallon among southeastern states. Nationally, North Carolina generated the fourth highest public revenue per gallon of liquor sold during 2015. Only Washington (\$42.49), Utah (\$41.08), and Vermont (\$37.18) collected more per gallon public revenue. Both Utah and Vermont are control states; Washington was a control state until 2012, when it became the only control state to convert to licensure.

The five southeastern control states all collected more public revenue than the seven licensure states. Control states are in a better position to collect more revenue from liquor because in addition to taxation they control liquor pricing and can increase revenue by using a higher price markup. North Carolina, Virginia, and Alabama collected the most revenue among southeastern control states because they have government-operated liquor stores and also control the retail price of liquor. Mississippi and West Virginia collected comparatively less revenue because they only control the

wholesale price of liquor. Licensure states typically collect less revenue than control states because they can only generate revenue through taxation.

North Carolina had the lowest liquor outlet density among southeastern states during Fiscal Year 2016–17. At 0.58 liquor stores per 10,000 adults, North Carolina had the second lowest outlet density nationwide. Only Ohio had a lower outlet density with 0.55 liquor stores per 10,000 adults. Most other southeastern states had one or more liquor stores per 10,000 adults except for Virginia, which had an outlet density similar to North Carolina with 0.59 liquor stores per 10,000 adults. Louisiana had the highest outlet density nationally with 15.67 stores per 10,000 adults.

Comparing outlet density among southeastern states shows that the regulatory framework does not necessarily determine outlet density.

Three southeastern control states had the lowest outlet density—North Carolina, Virginia, and West Virginia. However Alabama and Mississippi, two other control states, had higher outlet density than four southeastern licensure states. Tennessee, Florida, South Carolina, and Georgia all had fewer than two liquor stores per 10,000 adults. Outlet density reflects each state’s policy for regulating the number of stores operated or licensed by state government.

North Carolina had the second lowest adult per capita liquor consumption among southeastern states for 2015. At 1.72 gallons of liquor per adult, North Carolina had the third lowest adult per capita liquor consumption nationwide. Only West Virginia (1.27 gallons) and Utah (1.54 gallons) had lower rates of consumption. Overall, southeastern control states had lower adult per capita liquor consumption than southeastern licensure states. Florida (2.73 gallons) and Louisiana (2.69 gallons) reported the highest adult per capita liquor consumption in the southeast.

Changing how North Carolina regulates liquor could affect its performance on these indicators measuring the effectiveness of state control of liquor sales. If the General Assembly decides to modify how the State controls the sale of liquor, it may want to consider how policy changes are likely to affect North Carolina’s performance on public revenue collection from liquor sales, outlet density, and adult liquor consumption. For example, the Program Evaluation Division conducted an analysis that found a correlation between liquor outlet density and liquor consumption. States with higher outlet density are more likely to have higher liquor consumption.¹⁰ Likewise, modifying government policies that increase or decrease liquor pricing, such as taxation, has also been shown to affect liquor consumption. Academic studies comparing alcohol price and overall alcohol consumption indicate higher prices are associated with lower consumption.

¹⁰ The Program Evaluation Division conducted a linear regression to investigate the relationship between outlet density per 10,000 adults and adult alcohol consumption in gallons across states using 2016 data. A scatterplot of the data revealed that the assumption for linearity was not met, indicating that a log transformation of the y-axis (adult alcohol consumption) was needed. Ordinary Least Squares (OLS) regression on the transformed data showed a significant relationship ($p < 0.001$) between outlet density and alcohol consumption ($\log y = 0.68 + 0.34x$), with an R2 value of 0.29. The R2 value indicates 29% of the variation in consumption is explained by the model containing only outlet density.

Finding 2. Regulatory and operational modifications would be necessary if North Carolina decided to change how it controls liquor sales.

Some control states have changed how they regulate liquor sales and provide examples of how North Carolina could change its system. The Program Evaluation Division found that several control states have ended government control of retail liquor sales by licensing private retail businesses to sell liquor or contracting with agency stores to sell liquor. These states are still considered control states because they continue to control wholesale liquor sales and maintain warehouse operations. Washington is the only control state that has wholly ended government control of wholesale and retail liquor sales and converted to a licensure model.

- **Ending government control of retail liquor sales.** Iowa closed its state-run stores in 1987 and licensed private retail businesses to sell liquor. Liquor stores, drug stores, and grocery stores were initially licensed to sell liquor, with convenience stores authorized to receive licenses in 2010. Additionally, West Virginia ended the sale of liquor in state-operated stores in 1990 and 1991. State liquor stores in West Virginia were bid out to allow the private sector to purchase retail liquor outlet stores in assigned market zones. Every 10 years, market zones and the existing number of retail liquor outlet stores in the state are reviewed and the state rebids licenses. Both Iowa and West Virginia control the wholesale price of liquor, but Iowa does not set the retail liquor price and West Virginia prohibits retail prices from being lower than 110% of the wholesale price of liquor.

Ohio, Vermont, and Montana also closed their state-operated stores during the 1990s, but these states chose to contract with agency stores to sell liquor. Each of these three states still controls wholesale liquor sales by selecting liquor products sold in the state and determining liquor pricing.

- **Ending government control of wholesale and retail liquor sales.** Initiative 1183 directed the Washington State Liquor Control Board to close its state-run liquor warehouse and retail stores and privatize the sale and distribution of liquor. Major retail stores such as Costco and Trader Joes initiated the referendum, which was not directed by legislative action. Fifty-nine percent of Washington voters approved the initiative in November 2011. Washington's 330 state-run and agency liquor stores and the state distribution center closed in May 2012 and were replaced by licensed privately owned liquor retail stores and distribution systems. Prior to privatization, the Washington State Liquor Control Board employed 1,012 state employees to operate its retail stores and distribution center. These positions were terminated and board administrative costs were substantively reduced. As of December 2018, Washington had 1,432 active retail liquor licenses. To maintain state revenue, liquor distributors pay a 5% distribution fee

and liquor retailers pay a 17% fee on liquor sold. These fees are built into the shelf price of liquor. In addition, liquor consumers pay a 20.5% retail sales tax on off-premises liquor purchases. Washington collected the most public revenue in the nation from liquor sales both pre- and post-privatization. Academic research found that liquor prices in Washington have increased substantially following privatization with a much larger increase seen for 750 ml liquor bottles and with wide variation across store types.

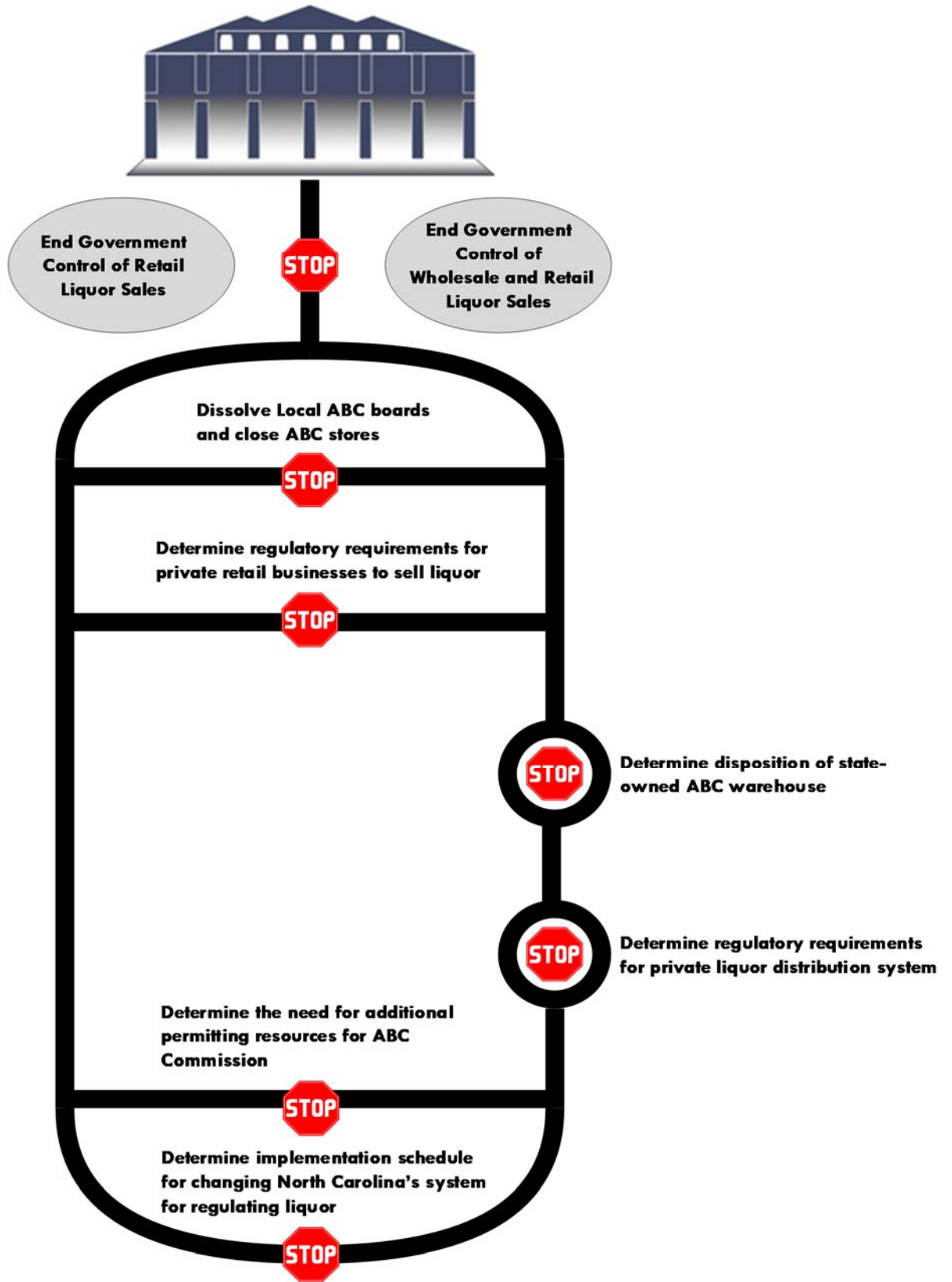
Changing how North Carolina regulates liquor sales would require consideration of major regulatory modifications. This finding examines the legislative decisions that would be necessary for changing North Carolina's alcohol beverage control system for liquor. When considering any changes to the system governing how the State controls liquor sales, the Program Evaluation Division assumed that North Carolina's local option process for determining whether liquor is sold in counties and municipalities would be maintained; in other words, liquor would only be sold in areas of the state that have voted to have ABC stores and mixed beverage sales.

The first legislative consideration would be determining how the government's role in controlling liquor sales would change. Based on the experience of other control states, North Carolina has two choices for changing the government's role:

- end government control of retail liquor sales or
- end government control of wholesale and retail liquor sales.

This initial decision would guide legislative consideration of the regulatory and operational modifications that would be necessary for implementing change. As shown in Exhibit 7, both options require decisions related to dissolving local ABC boards and closing ABC stores, determining the regulatory requirements for private retail businesses to sell liquor, identifying whether the ABC Commission needs additional resources for permitting and implementing changes to the system, and determining an implementation schedule. Ending government control of wholesale liquor sales would require additional legislative considerations for the disposition of the state-owned ABC warehouse and establishing regulatory requirements for a private liquor warehouse and distribution system.

Exhibit 7: Decision Road Map for Changing the Government Role for Controlling Liquor Sales



Source: Program Evaluation Division.

Ending government control of retail liquor sales would entail dissolving local ABC boards and closing their stores. Unlike other states that control retail liquor sales, North Carolina has delegated control of retail liquor sales to local ABC boards that are established and appointed by county or municipal governments within the state. This delegation would end if the legislature decides to end government control of retail liquor sales and transfers this responsibility to private retail businesses. The following issues would require legislative consideration if local ABC boards were dissolved and their stores closed:

- **Local ABC board employees.** Based on the most recent data from the ABC Commission, local ABC boards employ 2,870 full-time and part-time employees. Their employment would be terminated if local ABC stores were closed, and each local ABC board would be responsible for managing the reduction in force based on its personnel policies. The legislature could consider establishing a system-wide process for managing the reduction in force of local board employees and direct the ABC Commission to oversee it.
- **Pension and post-employment benefit obligations.** Most local ABC boards participate in the Local Governmental Employees' Retirement System (LGERS) and contribute to pensions for full-time board employees. Dissolving local ABC boards would terminate local ABC board participation in LGERS. The General Assembly recently enacted state law establishing procedures for employing units that would be allowed by the General Assembly to cease participation in LGERS.¹¹ The law requires an employer withdrawing from LGERS to pay the actuarial valuation of the unfunded pension liability for their employees at the time of withdrawal. The estimated amount of this liability for local ABC boards could exceed \$100 million.¹² The legislature would need to request that LGERS produce a withdrawal payment estimate for each local ABC board, and the legislature would need to determine if local ABC boards would be required to make these payments when they cease operations.

Some local ABC boards provide other post-employment benefits for their full-time employees such as retiree health insurance. If local ABC boards providing these additional benefits have not made arrangements with their appointing authority for providing these benefits, the legislature could consider requiring these boards to determine how to fulfill their obligations following dissolution of the boards.

- **Local ABC board capital assets.** Local ABC boards have capital assets including buildings, land, equipment, and vehicles. Based on Fiscal Year 2016–17 financial statements, the estimated value of these assets was \$254 million. The actual value of these assets would depend on market conditions in local ABC board communities. Under state law, these assets would accrue to the local

¹¹ N.C. Gen. Stat. § 128-30(i).

¹² The Fiscal Research Division provided this initial estimate.

government with appointing authority after all board debts were paid.¹³ The local government appointing authority would determine the disposition of capital assets including whether stores would be sold to private retail business authorized to sell liquor. No action by the legislature would be necessary for the transfer of board capital assets to the appointing authority.

- **Local ABC working capital accounts.** Under state law, local ABC boards may set aside a portion of gross receipts, within the limits set by the rules of the Commission, as cash for operations.¹⁴ With the approval of the appointing authority, a local ABC board also may set aside funds for specific capital improvements. Based on financial statements for Fiscal Year 2016–17, local ABC boards had collectively retained \$24.6 million in working capital. Under state law, working capital funds would accrue to the local appointing authority after all board debts are paid.¹⁵ No action by the legislature would be necessary for working capital funds to accrue to the appointing authority.
- **Local ABC board debt.** State law authorizes local ABC boards to borrow money for the purchase of land, buildings, equipment, and liquor stock needed for store operation.¹⁶ A local board can pledge a security interest in any real or personal property it owns other than alcoholic beverages. The local government appointing authority cannot be held responsible for board debts. If local ABC boards are dissolved, boards with outstanding debts would have to resolve their debts before ceasing operation. Debts could be paid from working capital funds or liquidation of capital assets. No action by the legislature would be necessary to direct local ABC boards to pay their debts.
- **Liquor stock disposition.** Under North Carolina’s bailment system, liquor ownership remains with the distillery until liquor is delivered to local ABC boards, which means each board owns its liquor stock. If local ABC boards are dissolved, the legislature would need to establish a process for boards to dispose of and receive compensation for any liquor stock that remains in their possession when they cease operations.

Terminating government control of retail liquor sales would require enactment of regulatory requirements for private retail businesses to sell liquor. Consideration of the following four questions would assist the legislature in determining the appropriate requirements for private retail businesses that wish to sell liquor in North Carolina:

1. What types of stores would be authorized to sell liquor?
2. How many stores would be authorized to sell liquor?
3. Where would stores selling liquor be located?

¹³ N.C. Gen. Stat. §§ 18B-801(d) and 18B-805.

¹⁴ N.C. Gen. Stat. § 18B-805(d).

¹⁵ N.C. Gen. Stat. § 18B-805(d).

¹⁶ N.C. Gen. Stat. § 18B-702(r).

4. When would stores be authorized to sell liquor?

What types of stores would be authorized to sell liquor? In North Carolina, liquor is sold exclusively in ABC stores that are similar to the privately-owned package liquor stores that operate in licensure states. By contrast, beer and wine can be sold in drug stores, grocery stores, and gas stations. The legislature could consider authorizing privately-owned package liquor stores or extending liquor sales to stores permitted to sell beer and wine.

The Program Evaluation Division found that most southeastern states authorize package stores to sell liquor. Exhibit 8 compares where liquor is sold among southeastern control and licensure states. In North Carolina and Virginia, liquor is only sold in liquor stores operated by local and state government, respectively. Alabama operates state liquor stores but also permits bars and taverns to sell packaged liquor for off-premises consumption. Most southeastern states allow other alcoholic beverages to be sold with liquor, though some states only include wine. Three states allow liquor to be sold in other retail venues such as drug stores, grocery stores, and gas stations that also are permitted to sell other alcoholic beverages.

Exhibit 8

Most Southeastern Licensure States Only Authorize Package Stores to Sell Liquor for Off-Premises Consumption

Southeastern States	State Store	Package Store	Drug Store	Grocery Store	Gas Station
Alabama	✓	✓	✗	✗	✗
Arkansas*	✗	✓	✗	✗	✗
Florida*	✗	✓	✗	✗	✗
Georgia*	✗	✓	✗	✗	✗
Kentucky*	✗	✓	✓	✗	✗
Louisiana*	✗	✓	✓	✓	✓
Mississippi*	✗	✓	✗	✗	✗
North Carolina	✓	✗	✗	✗	✗
South Carolina	✗	✓	✗	✗	✗
Tennessee*	✗	✓	✗	✗	✗
Virginia	✓	✗	✗	✗	✗
West Virginia*	✗	✓	✓	✓	✓

Notes: Control states are shaded light gray. Asterisks designate states that allow other alcoholic beverages to be sold along with liquor. Convenience stores that sell gasoline would fall under the Gas Station designation.

Source: Program Evaluation Division based on information from the National Alcohol Beverage Control Association and the Beverage Information Group Fact Book 2016: Beverage Alcohol State Facts and Regulation.

How many stores would be authorized to sell liquor? Currently, local ABC boards have the authority and duty to operate one ABC store. Additional stores may be operated with the approval of the ABC Commission. If government control of retail liquor sales ends, the legislature could consider whether to control the number of stores licensed to sell liquor.

The Program Evaluation Division found that the following southeastern states can limit the number of stores authorized to sell liquor:

- **West Virginia** sells liquor licenses every 10 years and determines a fixed number of stores for the state and allocates them regionally.
- **Florida** limits the number of liquor stores in each county based on a ratio of 1 store per 7,500 people residing in a county and holds quota lotteries when population increases allow for new licenses within a county.
- **Kentucky** limits the number of liquor stores in each county to a ratio of 1 store per 2,300 people residing in a county. In 2018, the Kentucky Alcohol Beverage Control Board proposed ending the population-based license quota for retail package liquor stores because it limited competition. The Kentucky General Assembly responded to this proposal by enacting state law to preserve the quota.
- **South Carolina** authorizes its alcohol regulatory agency to limit the further issuance of retail dealer licenses in a political subdivision if it determines that the subdivision's citizens are more than adequately served because of the number of existing retail stores, the location of the stores within the subdivision, or other reasons.
- **Tennessee** enacted a three-year moratorium on the issuance of new retail package store licenses in 2018.

As shown in Finding 1, North Carolina has the lowest outlet density among southeastern states with 0.58 stores per 10,000 adults. All southeastern licensure states have more than 1 store per 10,000 adults. Kentucky and Louisiana have the highest outlet densities in the southeast because in those states liquor is sold in stores other than package stores. Using outlet density per 10,000 adults could be an option for determining how many retail businesses would be permitted to sell liquor.

In addition to controlling the number of stores, some states limit the number of liquor store licenses that can be held by an individual or business. The following southeastern states impose license caps:

- **Arkansas.** State law provides that no person shall have an interest in more than one retail liquor permit.
- **Georgia.** State law provides that no person shall be issued more than two off-premises spirits licenses or have a beneficial interest in more than two of these licenses, with a "person" defined to include all members of a retail dealer licensee's family. State law includes

a grandfather clause and a provision for licenses held prior to marriage.

- **South Carolina.** State law provides that one licensee can hold four retail liquor dealer licenses. This limit will increase to five licenses in 2020 and to six licenses in 2022.
- **Tennessee.** State law prohibits off-premises retail liquor licensees from directly or indirectly operating more than two licensed retail liquor businesses.

Where would stores selling liquor be located? In North Carolina, a local ABC board may choose the location of the ABC stores within its jurisdiction, subject to the approval of the ABC Commission. If a municipality objects to the location of a proposed ABC store, the local ABC board may request that the ABC Commission approve the proposed ABC store location notwithstanding the objection of the municipality. The Commission has final authority to determine if the operation of an ABC store at the contested proposed location is suitable after providing the municipality an opportunity to submit objections. Local ABC boards may close a store, and the ABC Commission can order a store closed if necessary to protect the health and safety of the community. The ABC Commission has rules prohibiting new ABC stores in certain areas including areas that are primarily residential or in unreasonable proximity to a church, school, or similar institution.

If North Carolina ended government control of retail liquor sales, the legislature could consider how to regulate the location of liquor stores within counties and municipalities that have approved liquor sales. Regulating the location of liquor stores could include determining the roles of the ABC Commission and local governments. In queries provided to the Program Evaluation Division, both the North Carolina League of Municipalities and the North Carolina Association of County Commissioners emphasized maintaining local government involvement in regulating location of retail outlets subject to local zoning ordinances to preserve local government's role in maintaining public health, safety, and welfare.

When would stores be authorized to sell liquor? In North Carolina, state law directs that liquor for off-premises consumption can be sold from 9 A.M. until 9 P.M. daily except for Sundays, New Year's Day, the Fourth of July, Labor Day, Thanksgiving, and Christmas. A local board may otherwise determine opening and closing hours of its stores and the days on which its stores shall be closed. State law directs that beer and wine can be sold for off-premises consumption from 7 A.M. until 2 A.M. Monday through Saturday and 12 P.M. until 2 A.M. on Sundays. If government control of liquor sales ends, the legislature could consider whether to maintain the same operating hours for private retail business selling liquor or change them.

The Program Evaluation Division found that most southeastern states limit operating hours for liquor sales. Exhibit 9 compares when liquor can be sold among southeastern states. Louisiana is the only southeastern state that does not limit when liquor can be sold for off-premises consumption on

Monday through Saturday. In Florida, Georgia, and Kentucky, operating hours for liquor sales are set by local governments. In four states, including North Carolina, liquor stores are closed on Sundays, whereas six states allow local governments to determine Sunday liquor sales.

Exhibit 9

Most Southeastern States Limit Operating Hours for Off-Premises Liquor Sales

Southeastern States	Operating Hours for Liquor Sales	
	Monday – Saturday	Sunday
Alabama	State Stores: 9 A.M. – 9 P.M. Licensed Package Stores 6 A.M. – 2 A.M.	Closed Local Option
Arkansas	7 A.M. – 1A.M., M-F 7 A.M. – Midnight, Sat.	Local Option
Florida		Local Option
Georgia		Local Option
Kentucky		Local Option
Louisiana	12 A.M. – 12 A.M.	Local Option
Mississippi	10 A.M. – 10 P.M.	Closed
North Carolina	9 A.M. – 9 P.M.	Closed
South Carolina	9 A.M. – 7 P.M.	Closed
Tennessee	8 A.M. – 11 P.M.	10 A.M. – 11 P.M.
Virginia	10 A.M. – 9 P.M.	1 P.M. – 6 P.M.
West Virginia	8 A.M. – Midnight	Closed

Note: Control states are shaded light gray.

Source: Program Evaluation Division based on information from the National Alcohol Beverage Control Association and the Beverage Information Group Fact Book 2016: Beverage Alcohol State Facts and Regulation.

Establishing a three-tier system for liquor sales would be necessary if the legislature ended government control of wholesale liquor sales in addition to retail liquor sales. Under the three-tier system for regulating alcoholic beverages, manufacturers provide alcoholic products to wholesalers, who distribute the products to retailers, who sell to consumers. No one entity can be involved in more than one tier under most state models, and each tier is regulated and licensed separately. In North Carolina, state and local government control the wholesale and retail tiers for liquor sales, thereby eliminating the need for a three-tier regulatory system for liquor sales. North Carolina already has a three-tier system for beer and wine sales, and the legislature could consider using the state law for regulating beer and wine sales as a guide for establishing a three-tier system for liquor sales. For example, state law and regulations include permit requirements for beer and wine wholesalers, and permitting for liquor wholesalers would be needed if the General Assembly ended government control of wholesale liquor sales. In addition, liquor suppliers,

including North Carolina distilleries, would need to establish relationships with licensed private wholesalers to sell their products in North Carolina.

Determining the disposition of the state-owned ABC warehouse is another consideration that would accompany ending government control of wholesale liquor sales. North Carolina would no longer need a warehouse to store and distribute liquor if government control of wholesale liquor sales ended. The contract for operating the ABC warehouse and for performing liquor distribution would be terminated and the responsibility would be transferred to private wholesalers.

The legislature could consider several options for ABC warehouse disposition including:

- allowing another state agency to use it,
- leasing it to a private business, or
- selling it.

Transferring the ABC warehouse to another state agency would allow the State to retain the asset for future needs. Leasing the ABC warehouse would provide ongoing revenue for state government, whereas selling it would provide one-time revenue. If government control of wholesale liquor is maintained, the legislature would not need to take action on the disposition of the ABC warehouse. However, if government control of retail liquor sales is ended, the ABC Commission may need to modify the contract for warehouse operations to accommodate potential changes in the quantity of liquor sold by private retail businesses and the distribution system needed to deliver liquor to an increased number of stores.

Changing how North Carolina controls liquor sales also would affect ABC Commission permitting operations and warehouse operations. Currently, the ABC Commission has permitting staff that evaluate and issue permits for the alcoholic beverage industry in North Carolina. Under the current system of government control of wholesale and retail liquor sales, the Commission does not need to issue permits to private wholesale and retail businesses to sell liquor. Ending government control of retail liquor sales would require the ABC Commission to begin issuing permits to private retail businesses to sell liquor. Permits for private liquor wholesalers also would be necessary if government control of wholesale liquor sales ends. Existing permitting staff may be able to handle the increased workload, but making such a determination would be dependent on the number of retail businesses permitted to sell liquor and the renewal schedule for those permits. The legislature could consider requesting that the ABC Commission evaluate whether additional permitting resources would be necessary.

A transition plan and implementation schedule would be necessary to ensure that citizens can continue to purchase liquor as North Carolina reduces or ends government control of liquor sales. A transition plan for ending government control of retail liquor sales would establish when local ABC boards would close ABC stores and when private retail businesses would open. A transition plan for ending government control of wholesale liquor sales would address when the ABC warehouse would cease operation and when private wholesalers would begin liquor distribution. Transition planning is important to ensure citizen access and maintain

government revenue derived from liquor sales. The legislature could enact an implementation schedule and direct the ABC Commission to manage the transition.

Polling indicates a preference for allowing private retail businesses to sell liquor. Before deciding to change North Carolina’s system for regulating liquor sales, the General Assembly may want to consider public opinion regarding the issue. To understand how North Carolina citizens would view altering government control of liquor sales, the Program Evaluation Division sought out public opinion on whether or not private businesses should be allowed to sell liquor and the types of private businesses that should receive permits to sell liquor. The Elon University Poll and the High Point University Poll conducted the citizen surveys.

As shown in Exhibit 10, the majority of citizens polled by Elon University said they would support a proposal that would close ABC stores and instead allow private businesses to sell liquor; this option was also the most popular in the High Point University poll.

Exhibit 10

Public Opinion Favors Closing Government-Operated ABC Stores and Instead Allowing Private Businesses to Sell Liquor

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%

Notes: The Elon University Poll used a blended online-phone sample for its survey, but the ABC questions were only asked of phone respondents to allow for confirmation that respondents were registered voters in North Carolina. The margin of error on these results is $\pm 5\%$. The High Point University Poll also used a blended online-phone sample for its survey, but the ABC questions were asked to both online and phone respondents. The online sampling is derived from a panel of respondents, and therefore their participation does not adhere to usual assumptions associated with random selection. Because of the blended design, the High Point University Poll provided a credibility interval of ± 5.4 percentage points to account for a traditional 95 percent confidence interval for the estimates (± 3.4 percentage points) and a design effect of 1.6 (based on the weighting).

Source: Program Evaluation Division based on data provided by Elon University and High Point University Polls.

As shown in Exhibit 11, when asked what types of businesses should receive permits to sell liquor, the majority of citizens polled by Elon University said they thought any store that currently sells beer and wine should be able to receive a permit to sell liquor; this option was also the most popular in the High Point University poll.

Exhibit 11

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

Response Options	Elon University Poll (n=3 79)	High Point University Poll (n=827)
Any store that currently sells beer or wine should receive a 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%

Notes: "Something else" was recorded for other responses such as grocery stores, drug stores, or government stores. The Elon University Poll used a blended online-phone sample for its survey, but the ABC questions were only asked of phone respondents to allow for confirmation that respondents were registered voters in North Carolina. The margin of error on these results is ±5%. The High Point University Poll also used a blended online-phone sample for its survey, but the ABC questions were asked to both online and phone respondents. The online sampling is derived from a panel of respondents, and therefore their participation does not adhere to usual assumptions associated with random selection. Because of the blended design, the High Point University Poll provided a credibility interval of ±5.4 percentage points to account for a traditional 95 percent confidence interval for the estimates (±3.4 percentage points) and a design effect of 1.6 (based on the weighting).

Source: Program Evaluation Division based on data provided by Elon University and High Point University Polls.

In summary, changing how North Carolina regulates liquor sales would require consideration of major regulatory adjustments. The first legislative consideration would be to determine how the government's role in controlling liquor sales would change. Based on the experience of other control states, North Carolina could end government control of retail liquor sales or end government control of both wholesale and retail liquor sales. This decision would guide legislative consideration of any subsequent regulatory and operational modifications that would be necessary.

Finding 3. Changing North Carolina's system for regulating liquor sales would also have financial implications for state and local government revenues.

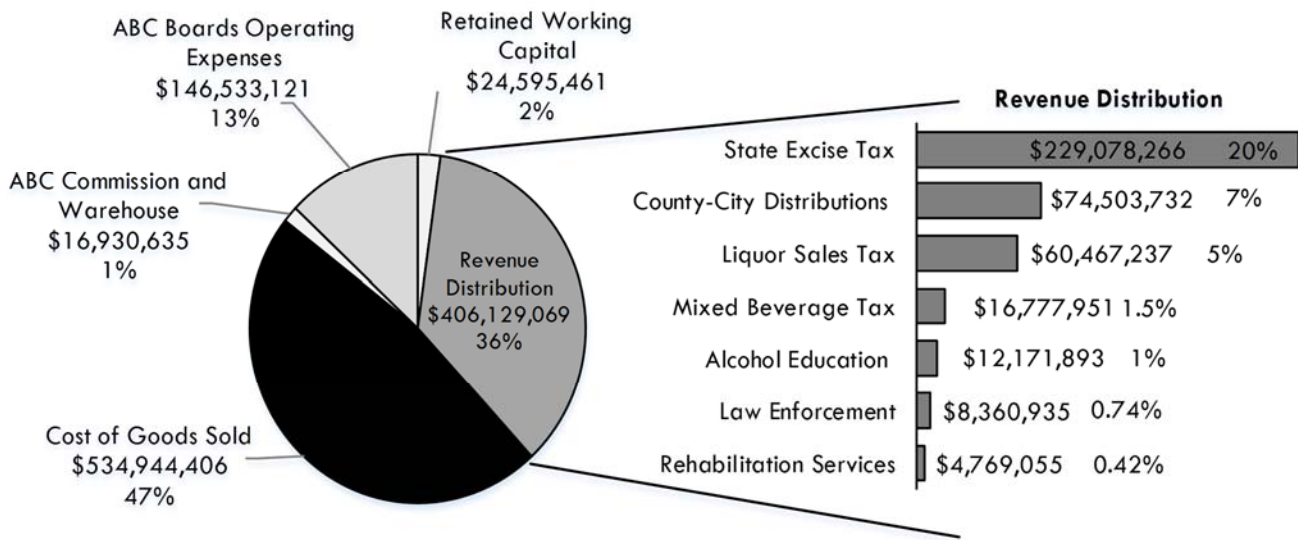
North Carolina's liquor monopoly plays an important role in the State's economy by providing revenue for the State and for local governments that have authorized liquor sales. Total revenue from liquor sales was \$1.1 billion in Fiscal Year 2016–17, with 81% of sales coming from purchases by the general public at ABC stores and 19% of sales coming from purchases by retail businesses for resale as mixed beverages. Since Fiscal Year 2006–07, total revenue from liquor sales has increased 63%.

State excise, sales, and mixed beverage taxes from the sale of liquor are deposited in the General Fund to support the operation of state government. North Carolina received \$306.3 million in Fiscal Year 2016–

17 from liquor sales, an increase of 83% since Fiscal Year 2006–07.¹⁷ Additional charges and profits from the sale of liquor pay for law enforcement, alcohol education, and rehabilitation services provided by counties and the Department of Health and Human Services. Services provided by city and county government also are supported by profits from liquor sales, thereby reducing the need to raise property taxes or request financial assistance from North Carolina state government.

Exhibit 12 summarizes the distribution of revenue to state and local governments from the sale of liquor.

Exhibit 12: Distribution of \$1.1 Billion Revenue from the ABC System for Fiscal Year 2016–17



Source: Program Evaluation Division based on data from the North Carolina ABC Commission.

State law determines the pricing calculation for liquor sold in North Carolina and the distribution of the resulting revenue.¹⁸ Exhibit 13 identifies

- each liquor price component,
- who sets the rate,
- the current rate,
- where the revenue goes, and
- how the revenue can be used.

¹⁷ Unrelated to the 2008 Program Evaluation Division report, the State excise tax on liquor increased from 25% to 30% on September 1, 2009.

¹⁸ N.C. Gen. Stat. § 18B-804.

Exhibit 13: Summary of Liquor Pricing Components in North Carolina and the Distribution of Revenue Generated from Liquor Sales

Liquor Price Component	Who Sets Rate	Current Rate	Where the Revenue Goes	How Revenue is Used
Cost of liquor sold	Distiller	Varies	Distiller	<ul style="list-style-type: none"> • Distiller operations and profit
Bailment fee	ABC Commission	\$1.50	ABC Commission Fund	<ul style="list-style-type: none"> • ABC warehouse operations
Bailment surcharge fee	ABC Commission	\$1.15	ABC Commission Fund	<ul style="list-style-type: none"> • ABC Commission operations
Local ABC board markup	ABC Commission	39.6%	Gross receipts of ABC board	<ul style="list-style-type: none"> • ABC board operating expenses and working capital • 7% for substance abuse research, education, or treatment • 5% for alcohol law enforcement • Local government General Fund
Additional local markup	State law	3.5%	Local government General Fund	<ul style="list-style-type: none"> • No restrictions on use
State excise tax	State law	30%	Department of Revenue	<ul style="list-style-type: none"> • State General Fund
Bottle charge	State law	1¢ and 5¢	Local government restricted funds	<ul style="list-style-type: none"> • Substance abuse research, education, and treatment
Additional bottle charge	State law	1¢ and 5¢	Local government General Fund	<ul style="list-style-type: none"> • No restrictions on use
State sales tax	State law	7%	Department of Revenue	<ul style="list-style-type: none"> • State General Fund • Assessed on liquor sold by ABC stores and distilleries
Mixed beverage surcharge (assessed on liquor sold for resale)	State law	\$20 per 4 liters	<ul style="list-style-type: none"> • 50% to Department of Revenue • 45% to gross receipts of ABC board • 5% to Department of Health and Human Services 	<ul style="list-style-type: none"> • State General Fund • Same as local markup uses • Substance abuse research, education, and treatment
Guest room surcharge (assessed on liquor sold for resale)	State law	\$20 per 4 liters	<ul style="list-style-type: none"> • 50% to Department of Revenue • 45% to gross receipts of ABC board • 5% to Department of Health and Human Services 	<ul style="list-style-type: none"> • State General Fund • Same as local markup uses • Substance abuse research, education, and treatment

Source: Program Evaluation Division based on N.C. Gen. Stat. §§ 18B-804 and 805 and information from the ABC Commission.

The ABC Commission is authorized to determine the rates for the bailment charge and the bailment surcharge, which pay for the operations of the ABC warehouse and the ABC Commission. The ABC Commission sets the local ABC board markup to support board operating expenses and provide revenue for local governments that have authorized liquor sales in their jurisdictions. State law sets the rates for the other liquor pricing components. Suppliers set their own prices and calculate the standard markup that determines the shelf prices of their products.

Under state law, local ABC boards distribute revenue from their gross receipts, defined as proceeds from liquor sales, investments, interest earned on deposits, and any other source.¹⁹ As shown in Exhibit 13, gross receipts pay local ABC board expenses, after which revenue is distributed to the ABC Commission, the Department of Revenue, the Department of Health and Human Services, and local governments.

The retail price of liquor sold in ABC stores and permitted distilleries is uniform throughout the State. The pricing formula starts with the distiller's liquor price, which already includes the federal excise tax, and then a series of markups, fees, and taxes are added to determine the retail price. A mixed beverage tax is assessed for liquor sold to a mixed beverage permittee for resale in a mixed beverage. Retail customers pay sales tax on their liquor purchases, but mixed beverage permittees do not pay sales tax because they assess sales taxes when a mixed beverage is sold. Exhibit 14 provides an example of liquor pricing using the formula provided in state law.

Exhibit 14

North Carolina's Formula for Liquor Pricing

\$151.52	Distiller's price (12 bottle case/80 proof, includes federal excise tax)
<u>+\$1.50</u>	Bailment Fee
\$153.02	Subtotal case cost
<u>+60.60</u>	Local ABC board markup (39.6%)
\$213.62	Subtotal case cost
+64.08	State excise tax (30%)
<u>+7.48</u>	Additional local government markup (3.5%)
\$285.177253	Case cost to six decimals
<u>+1.15</u>	Bailment surcharge
\$286.327353	Subtotal case cost
<u>÷12</u>	Divide above number by number of bottles in case
+0.05	Bottle charge for rehabilitation
<u>+0.05</u>	Bottle charge for profit distribution
\$23.9606	Round the result to an integer divisible by five cents (\$.05)
\$23.95	Retail price per bottle
<u>+\$1.68</u>	State sales tax (7%)
\$25.63	Selling price per bottle to an individual.
\$23.95	Retail price per bottle
<u>+\$3.75</u>	Mixed beverage tax (\$3.75 for 0.75 liters)
\$27.70	Selling price to mixed beverage permittee (No sales tax on liquor resold as mixed beverage)

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

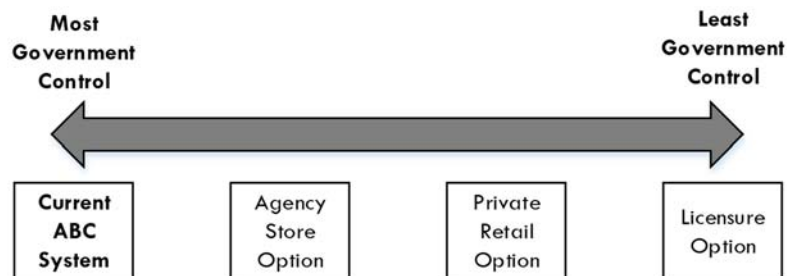
¹⁹ N.C. Gen. Stat. § 18B-805.

The Program Evaluation Division examined three options for changing North Carolina’s alcohol beverage control system for liquor in order to illustrate the financial implications of transitioning to a different model. As discussed in Finding 2, several control states have closed state-operated retail liquor stores and switched to contracting with agency stores or licensing private retail businesses to sell liquor. These states continue to control the wholesale distribution of liquor, and their experiences guided the development of the agency store and private retail store options. The licensure option assumes that North Carolina relinquishes direct control of both the wholesale and retail market for liquor and licenses private wholesalers and retail business to sell liquor. Washington’s conversion to state licensure and southeastern states’ approach to licensing guided development of the licensure option. These options assume that local ABC boards would be abolished and local governments would no longer be responsible for operating local ABC stores. In addition, the Program Evaluation Division assumed that North Carolina’s local option process would be maintained and thus liquor would only be sold in areas of the state that have voted to have ABC stores and mixed beverage sales.

Direct government involvement in liquor sales would be reduced under each option. The agency store and private retail options eliminate government-run ABC stores, but the ABC Commission would still control the wholesale liquor operations including liquor selection. The ABC Commission still controls retail liquor prices under the agency store option, but would only control the wholesale price under the private retail model. Under the licensure model, the ABC Commission would no longer have direct involvement with selling liquor and would regulate the liquor industry by licensing private wholesalers and retailers to sell liquor in North Carolina. Exhibit 15 shows where each option would be located on a continuum from most to least government control.

Exhibit 15

Direct Government Control of Liquor Sales Would Be Reduced If North Carolina Changes Liquor Regulation



Source: Program Evaluation Division.

Exhibit 16 describes in more detail how each option would affect North Carolina’s alcohol beverage control system and compares the options to North Carolina’s current system for controlling liquor sales.

Exhibit 16: ABC Commission Role in Regulating Liquor Sales Changes Depending on the Control Option Selected

Option Attributes	Current ABC System	Agency Store Option	Private Retail Option	Licensure Option
Wholesale Liquor Distribution				
ABC Commission controls central liquor warehouse	✓	✓	✓	✗
ABC Commission licenses private wholesalers to distribute liquor	✗	✗	✗	✓
Retail Liquor Sales				
Local governments operate ABC stores	✓	✗	✗	✗
ABC Commission contracts with agency stores to sell liquor	✗	✓	✗	✗
ABC Commission licenses private retail stores to sell liquor	✗	✗	✓	✓
Liquor Selection				
ABC Commission determines liquor selection	✓	✓	✓	✗
Private wholesaler determines liquor selection	✗	✗	✗	✓
Private retail store determines liquor selection	✗	✗	✗	✓
Liquor Pricing				
ABC Commission determines wholesale liquor prices	✓	✓	✓	✗
Private wholesalers determine wholesale liquor prices	✗	✗	✗	✓
ABC Commission determines retail liquor prices	✓	✓	✗	✗
Private retail businesses determine retail liquor prices	✗	✗	✓	✓
Mixed Beverage Sales				
MXB permittees purchase liquor from ABC stores	✓	✗	✗	✗
MXB permittees purchase liquor from agency stores	✗	✓	✗	✗
MXB permittees purchase liquor from private retail stores	✗	✗	✓	✓
MXB permittees purchase liquor from private wholesalers	✗	✗	✗	✓

Notes: MXB stands for mixed beverage.

Source: Program Evaluation Division.

Changing how North Carolina regulates liquor sales would have important financial ramifications for the State. Predicting the exact outcome of altering North Carolina's current system for regulating liquor sales is not possible. However, the Program Evaluation Division conducted analysis to address the following financial questions regarding possible changes to North Carolina's system for regulating liquor sales:

- How would funding for the ABC Commission and warehouse be affected?
- Could North Carolina sustain a similar level of state and local government revenue?
- What changes would consumers experience when purchasing liquor?

The analysis used estimated liquor sales and revenue data from the ABC Commission for Fiscal Year 2017–18 to estimate the financial implications of changing North Carolina's system for regulating liquor to each of the

three options previously outlined. Specifically, the goal of the analysis was to maintain Fiscal Year 2017–18 estimated revenue distributed to the State and to local governments for each option, as well as revenue for the ABC Commission and warehouse operations for options that require their operation. Appendices A–C provide a detailed analysis of the various financial and operational considerations and ramifications that would accompany a decision to change North Carolina’s current system to one of these three options. For each option, Exhibit 17 summarizes the financial ramifications, which are discussed in more detail below.

Exhibit 17: Financial Ramifications of Changing How North Carolina Regulates Liquor Sales

Financial Ramifications	Agency Store Option	Private Retail Option	Licensure Option
ABC Commission funding	Maintains bailment surcharge for Commission		No bailment surcharge would be charged by Commission; replacement funding source would be necessary
ABC warehouse operations	Maintains bailment fee to fund ABC warehouse operations		No bailment fee would be charged by Commission
State government revenue	No change to pricing formula	Maintained by adding 1% markup to state pricing formula	Maintained by increasing state excise tax on liquor from 30% to 33.6%
Local government revenue	Maintained by increasing 3.5% local government markup to 12%		Maintained by establishing a 12% state excise tax for local governments
Local ABC markup	Eliminates 39.6% local ABC board markup		
Private retail liquor stores	Assumes agency stores receive 10% commission	Assumes private retails stores add 25% retail markup	Assumes private retails stores add 25% retail markup
Private wholesale operations	No change		Assumes private wholesalers add 20% wholesale markup
Access to liquor stores	Increases as more liquor stores results in higher outlet density		
Retail liquor consumption	Increases by estimated 20% with higher outlet density		
Retail liquor price	Decreases by estimated 14.8%	Decreases by estimated 1.3%	Increases by estimated 15.7%
Mixed beverage liquor price	Decreases by estimated 12.8%	Decreases by estimated 1.1%	Increases by estimated 13.5%

Note: See Appendices A through C for more information on how ramifications for each options were determined.

Source: Program Evaluation Division.

Financial ramifications for the ABC Commission, state and local government revenues, liquor consumers, mixed beverage permittees, and distilleries vary depending on the option:

- Funding for the ABC Commission and warehouse.** Under the agency store and private retail options, the ABC Commission and warehouse would continue to be funded through bailment fees. The licensure option eliminates the need for the bailment fee for the ABC warehouse, but leaves no mechanism to assess the bailment

surcharge to fund the ABC Commission because the Commission would no longer operate a liquor warehouse.

Under the licensure option, the General Assembly would need to appropriate funds to support the ABC Commission or identify a different mechanism to pay for Commission operations. Currently, the ABC Commission is wholly supported by the liquor industry, so the General Assembly could consider a funding mechanism that would include all alcoholic beverages regulated by the ABC Commission: beer, liquor, and wine.

- **State and local government revenue.** Under all three options, state and local government revenue can be sustained by making adjustments to the markup formula or by increasing excise taxes. The precise amount of growth in liquor sales would affect the adjustments necessary to sustain state and local government revenue. The Program Evaluation Division assumed a 20% increase in sales. A growth rate lower than 20% would increase the adjustment needed to sustain revenue, whereas a higher growth rate would reduce it.

Permit fees from agency stores or private retail businesses licensed to sell liquor and private wholesalers licensed to distribute liquor also would provide revenue to the State's General Fund. The amount of revenue would vary depending on the amount of the permit fees and the number of stores licensed to sell liquor. For example, if North Carolina levied a \$1,000 annual permit fee for 1,000 private liquor stores, the General Fund would receive \$1 million.

- **Liquor consumers.** Under all three options, consumer access to liquor stores would increase because the number of retail locations selling liquor would increase (the Program Evaluation Division's analysis assumed 1,000 stores for each option). Retail liquor consumption would increase as a result of higher outlet density (analysis assumed an increase from 0.58 to 1.35 stores per 10,000 adults), which means that state and local revenue from liquor sales could be maintained with a smaller increase in markup or excise taxes. Liquor pricing would vary depending on the option; prices are estimated to decrease under the agency store and the private retail options and increase under the licensure option. Prices increase under the licensure option because private wholesalers must add a markup in order to profit from liquor distribution. Under the private retail and licensure options, liquor pricing would no longer be uniform statewide because the ABC Commission would not control retail liquor pricing.
- **Mixed beverage permittees.** Under all three options, mixed beverage permittees would be able to choose where they want to purchase liquor because they would no longer be assigned a specific local ABC board. Under the licensure model, mixed beverage permittees could choose to purchase liquor from a private retailer or wholesaler. Similar to liquor pricing for

consumers, liquor pricing for mixed beverage permittees also would vary depending on the option. Under the private retail and licensure options, liquor pricing would no longer be uniform statewide; as a result, some mixed beverage permittees may get better pricing if they purchase large quantities of liquor on a regular basis.

- **Liquor suppliers.** Under the agency store and private retail models, liquor suppliers would continue to ship their products to a central warehouse controlled by the ABC Commission. Liquor brokers would continue to represent liquor suppliers to agency stores or private retailers. Under the licensure model that follows the three-tier model, liquor suppliers, including North Carolina distilleries, would sell their products to private wholesalers. The liquor brokerage system would no longer be needed because private liquor wholesalers would sell liquor to private retailers and mixed beverage permittees.

In summary, changing how North Carolina regulates liquor sales would affect state and local revenues received from the sale of liquor. The Program Evaluation Division identified three options for changing North Carolina's alcohol beverage control system for liquor based on the experience of other states. These options assume that local ABC boards would be abolished and local governments would no longer be responsible for operating local ABC stores. Direct government involvement in liquor sales would be reduced under each option. Changing how North Carolina regulates liquor sales has important financial ramifications for the State and would affect the ABC Commission, state and local government revenues, and liquor consumers.

Finding 4. Opportunities exist to further modernize North Carolina's alcohol beverage control system.

As discussed previously, changing North Carolina's system for regulating liquor sales would require significant regulatory and operational modifications and would affect state and local government revenues. As an alternative, the current system could be modernized, which could include streamlining local ABC board operations and allowing local ABC boards greater flexibility in improving customer access and service.

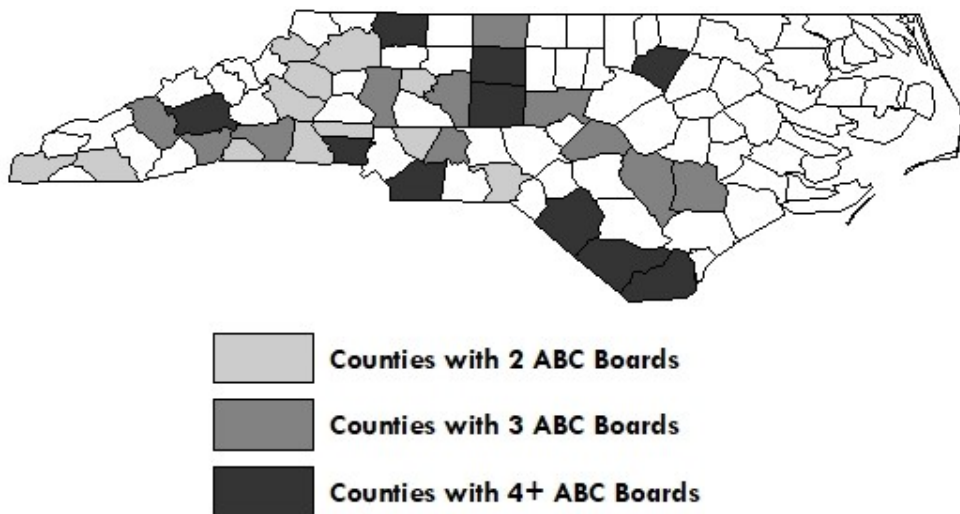
Increasing the registered voter threshold for holding a municipal ABC store election has not eliminated inefficiencies resulting from too many boards operating ABC stores in close proximity. The Program Evaluation Division found in 2008 that the low threshold for holding a municipal ABC store election caused a proliferation of local boards in dry counties.²⁰ To reduce unnecessary competition and inefficiencies caused by too many boards operating ABC stores in close proximity, the Program Evaluation Division recommended that the registered voter threshold be increased from 500 to 5,000 so that communities would have a large enough population to sustain an ABC store and not affect the profitability of other

²⁰ A county is considered "dry" if the county or any municipalities in it have not voted to allow the sale of any alcoholic beverages.

local ABC boards located in a dry county. Instead, the General Assembly increased the registered voter threshold to hold a municipal ABC store election to 1,000 voters. Nine communities located in dry counties have voted to have an ABC store since the registered voter threshold was increased to 1,000.²¹ Three communities—Belmont, Ramseur, and Troutman—appointed a local ABC board and opened an ABC store. The Program Evaluation Division found that gross liquor sales decreased for other nearby boards when these communities opened their stores, which indicates that the new boards reduced sales for nearby boards as opposed to generating new sales.²²

Thirty-three North Carolina counties have multiple ABC boards, causing inefficiencies. Currently, 170 local ABC boards serve 98 counties.²³ Of these boards, 108 are located in 33 counties. The remaining 65 counties with local ABC boards are served by a single county ABC board, merged ABC board, or municipal ABC board. As shown in Exhibit 18, among the 33 counties with multiple ABC boards, 12 counties have two boards, 11 counties have three boards, and 10 counties have four or more boards.

Exhibit 18: Thirty-three North Carolina Counties Are Served by Two or More Local ABC Boards



Note: Graham and Madison Counties do not have ABC boards.

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

Single-county ABC boards have more profitable and efficient operations than some counties with multiple boards. The Program Evaluation Division calculated the countywide profitability and operating margins for Fiscal Year 2016–17 for three counties with multiple local ABC boards: Brunswick, Columbus, and Robeson Counties. Performance for these counties was compared to similar counties served by a single county ABC board. Exhibit 19 shows the comparison.

²¹ The effective date for the 1,000 registered voter threshold was October 1, 2010.

²² For more information on the effects of local ABC board proliferation, see pages 15–18 of the Program Evaluation Division report, *Follow-Up Report: Implementation of PED Recommendations Has Improved Local ABC Board Profitability and Operational Efficiency*.

²³ Graham and Madison Counties do not have ABC boards.

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 Outlet Density Per 10,000 Adults	County Profit %	County Operating Margin %
Brunswick County	9	29	\$38,160	11	1.13	7.9%	16.5%
Carteret County	1	5	\$ 0	6	1.15	12.6%	12.9%
Robeson County	7	25	\$24,512	8	.82	2.6%	19.6%
Wayne County	1	5	\$ 3,600	5	.54	8.1%	16.6%
Columbus County	5	15	\$11,800	5	1.19	5.6%	18.7%
Hoke County	1	3	\$ 3,600	2	.51	12.1%	12.1%

Notes: Brunswick County was compared to Carteret County because both counties are rural, located on the coast, and have similar outlet densities. Columbus County was compared to Hoke County because both counties are rural, located in eastern North Carolina, and have similar populations. Robeson County was compared to Wayne County because both counties are rural, located in eastern North Carolina, and have similar populations. The Carteret County ABC Board does not compensate its board members.

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

Overall, each of the three counties with multiple ABC boards had lower profits and higher operating margins than their comparison county with a single county board. Two of the seven ABC boards in Robeson County were barely profitable during Fiscal Year 2016–17 and also had operating margins above 20%.²⁴ In Columbus County, the Lake Wacamaw ABC Board experienced 0.13% profit and an operating margin over 23%. Lower profits and higher operating margins mean that local appointing authorities receive lower distributions from liquor sales. During Fiscal Year 2016–17, the Maxton, Red Springs, and Rowland ABC Boards in Robeson County and the Lake Wacamaw ABC Board in Columbus County were all unable to distribute funds to their communities.

With eight municipal boards and a county board, Brunswick County has the most local boards in North Carolina. Currently, its nine boards operate 11 stores. Although all local boards in Brunswick County are profitable because the county is a tourist destination, having numerous boards creates inefficiencies and forces unnecessary competition. However, Carteret County, which also is a tourist destination, has only one board, and it is more profitable and efficient than the nine boards in Brunswick County. In Fiscal Year 2016–17, the Carteret County ABC Board distributed \$1.6 million or 11% of total sales of \$14.3 million to the county and

²⁴ The Maxton ABC Board experienced 1.3% profit and a 22.4% operating margin. The Red Springs ABC Board experienced 0.9% profit and a 23.2% operating margin. The Lumberton ABC Board also reported 0.4% profit, though its operations were affected by Hurricane Michael in 2017.

municipalities in comparison to \$1.3 million or 6% of total sales of \$21.6 million that was distributed by the nine boards in Brunswick County.

Streamlining local ABC board operations could improve efficiency of the alcohol beverage control system in North Carolina. Each local ABC board has between three and five members, which means that counties with multiple ABC boards appoint many more ABC board members than counties with only one ABC board. Most ABC boards provide compensation to their board members. As shown in Exhibit 19, the nine ABC boards in Brunswick County have 29 total board members who were paid a combined \$38,160 for their services during Fiscal Year 2016–17. By contrast, the Carteret County ABC Board has five members and chooses not to offer compensation to its board members, which results in a cost savings for the board. Whereas the seven ABC boards in Robeson County spent \$24,512 to compensate their board members, the Wayne County ABC Board only spent \$3,600.

Each local ABC board also employs a general manager to oversee operations and sometimes to serve as finance officer for the board. General manager compensation varies among ABC boards with smaller boards tending to pay lower salaries. ABC boards in Brunswick County collectively paid over \$420,000 to compensate nine general managers in Fiscal Year 2016–17, whereas the Carteret County ABC Board paid about \$75,000 to compensate one general manager. Operating expenses, including compensation and per diem for board members and compensation for general managers, detracts from the local revenue available for the board to distribute to local appointing authorities.

Board proliferation limits opportunities resulting from economies of scale. Boards with two or more stores are more likely to have a central warehouse to store liquor and also are likely to have more frequent deliveries because their volume of sales are higher. The two most common local board complaints reported to the Program Evaluation Division were

- frequency or dates of warehouse deliveries, and
- availability of product in the warehouse when ordering.

Under current operating standards, warehouse orders are first-come, first-served and delivery is scheduled based on sales volume. When boards leverage sales and storage space across a county, they are able to increase the number of monthly deliveries and the probability of receiving popular or hard-to-get items. In addition, local ABC boards with a central warehouse or more storage space are able to stock up when liquor products go on sale, thereby increasing their profits.

Board mergers reduce operating costs and increase profitability. In 2008, the Program Evaluation Division found that merging ABC boards resulted in increased efficiencies. The High Country ABC Board formed when three ski resort communities located in close proximity to each other decided to merge three boards because their three separate stores were struggling financially. The High Country ABC Board closed two stores and opened a new store that was centrally located among the ski resorts. As a result, operating margins and profitability improved.

The Triad Municipal ABC Board is the largest merged board with 14 stores serving Winston-Salem and six other communities located in Forsyth, Davie, Guilford, and Yadkin Counties. During a 2008 site visit, board staff noted that merged operations generate more revenue for each community because savings are achieved through combined managerial, administrative, financial, warehousing, and law enforcement functions.

Since 2008, only four merged ABC boards have formed, bringing the State's total to 11 merged boards.²⁵ As shown by the experiences of the High Country and Triad Municipal ABC Boards, board consolidation is a proven way to reduce operating costs and control store proliferation. Three of the most recent board mergers occurred as a result of a new community voting to have an ABC store. Jonesville chose to merge with the Elkin ABC Board to form the Yadkin Valley ABC Board, with a single store serving both communities. Mocksville merged with Cooleemee in Davie County to form the Mocksville-Cooleemee ABC Board; this merged board is planning to open an ABC store in Mocksville. Finally, the Jackson County ABC Board merged with the Sylva ABC Board after the former county voted to have an ABC store.

The Program Evaluation Division found that merged boards were more likely to outperform ABC boards in terms of profit and operating margins. Exhibit 20 provides the number of stores, profitability percentages, and operating margins for merged ABC boards. Whereas 19.6% of all local ABC boards in North Carolina have a profit margin of 10% or higher, 40% of merged boards have a profit margin of 10% or higher.

²⁵ In addition to the mergers resulting from a new community voting to have an ABC store, the Taylorsville ABC Board in Alexander County chose to merge with the Catawba County ABC Board.

Exhibit 20

Merged Boards Are More Likely to Outperform Other ABC Boards in Profit and Operating Margins

Merged ABC Board	Number of Stores	Profit Margin	Operating Margin
Alamance Municipal	5	6.2%	18.6%
Catawba County	11	7.3%	16.9%
Gastonia	5	9.2%	15.7%
Greensboro	15	10.7%	14.5%
High Country	1	10.1%	15.0%
Jackson County	2	12.5%	12.6%
Montgomery Municipal	2	2.9%	22.1%
Oak Island	1	8.8%	16.2%
Triad Municipal	14	12.1%	12.6%
Yadkin Valley	1	8.6%	14.4%

Note: The Mocksville-Cooleemee ABC Board was not included in this analysis because its merger occurred in 2018.

Source: Program Evaluation Division from data provided by the ABC Commission.

For another point of comparison, the Program Evaluation Division found that private liquor retailers in South Carolina and Florida had operating margins between 14% and 18% during the 2008 evaluation of the ABC system. Whereas 62% of all local ABC boards match or exceed private liquor stores in South Carolina and Florida, 80% of merged local ABC boards have operating margins that match or exceed private liquor stores in these two states.

The ABC Commission cannot mandate board consolidations or mergers to improve the ABC system. According to ABC statutes, the ABC Commission can approve mergers, but it does not have the authority to compel consolidation to improve system efficiency.²⁶ If all ABC boards located in a county were required to merge into one board with one general manager, the resulting merged board would use a smaller percentage of operating costs for compensation and per diem and subsequently distribute a higher proportion of revenue than multiple boards located in the same county. Based on the experience of merged ABC boards, moving to a system with a single board would reduce operating costs and increase profitability for counties with multiple ABC boards.

Purchase-transportation permits are a holdover from an era of greater concern over bootlegging and do not reflect current attitudes about access to alcoholic beverages. The purchase-transportation permit requirement was a provision of the 1937 Act establishing North Carolina's ABC system and was intended to deter bootlegging, a pervasive problem during Prohibition. Although the Program Evaluation Division recommended its elimination during its 2008 evaluation, the statute remains, limiting the

²⁶ N. C. Gen. Stat. § 18B-100.

amount of liquor that can be purchased without a permit to 8 liters or 10 bottles (750 milliliters). During the course of this evaluation, the Program Evaluation Division again found that local boards thought the purchase-transportation permit requirement was antiquated, hindered sales, and created unnecessary hassles for customers, particularly those who make large purchases infrequently. Several boards recommended the permit be eliminated or the amount of liquor requiring a permit be increased.

Opportunities exist for improving state warehouse operations and contract requirements. The warehouse contractor's responsibilities include receipt, storage, and distribution of liquor to all ABC boards across the state. The current annual contract costs \$8 million and is paid through bailment fees. In 2018, the State Auditor found that the ABC Commission did not procure, administer, and monitor the contract with LB&B Associates for the warehousing and distribution of liquor in accordance with state policies and best practices, resulting in unjustified costs to the State.²⁷ In response to the audit, the current Chairman of the ABC Commission accepted all findings and promised to implement all necessary changes to ensure efficiency in ABC operations. As part of these changes, the ABC Commission will openly bid for warehouse services before the expiration of the current contract in 2021. The ABC Commission plans to work with the Division of Purchasing and Contract in the Department of Administration, the Attorney General's Office, and others who have expertise in developing similar Requests for Proposal (RFPs) and contracts. The Commission plans to develop RFP requirements and establish the implementation timeline in 2019. The Program Evaluation Division surveyed local ABC boards and found widespread interest in issues surrounding warehouse services, including the delivery schedule and billing.

A contracted service of this scale and complexity is unique in North Carolina state government and may require specialized logistical planning and expertise beyond what the Division of Purchasing and Contract and Attorney General's Office can provide. As the ABC Commission prepares to rebid North Carolina's liquor warehouse contract, other control states with private warehouse arrangements may be a resource for technical assistance.

The Program Evaluation Division found that control states have a variety of liquor warehousing arrangements. Overall, most control states own and operate their liquor warehouses with government employees. Several states, like North Carolina, own at least one warehouse but contract with a private company to operate the warehouse and distribute liquor to stores. Two states, Michigan and Ohio, do not own liquor warehouses and contract for warehouse services. Exhibit 21 provides information on warehouse arrangements for each control state.

²⁷ Office of the State Auditor. (2018, August). *Alcoholic Beverage Control Commission Warehouse Contract*. Performance Audit. Raleigh, State of North Carolina.

Exhibit 21: Most Control States Own and Operate Their Liquor Warehouses

Control State	Bailment Fees?	Number of warehouses	Who owns warehouse?	Who operates warehouse?	Distribution System
Alabama	Yes	1	State	State	Private
Idaho	Yes	1	State	State	State
Iowa	Yes	1	State	State	State
Maine	Yes	1	Private	Private	Private
Michigan	Yes	0	Private	Private	Private
Mississippi	Yes	1	State	State	State
Montana	Yes	1	State	State	Private
New Hampshire	Yes	2	State, Private	State, Private	State, Private
North Carolina	Yes	2	State, Private	Private	Private
Ohio	Yes	4	Private	Private	Private
Oregon	Yes	2	State	State	State
Pennsylvania	No	3	State	Private	Private
Utah	Yes	1	State	State	State
Vermont	Yes	1	State	State	State
Virginia	Yes	1	State	State	State
West Virginia	Yes	1	State	State	Private
Wyoming	No	1	State	State	State

Note: States received "State, Private" designation when both state government and private contractors own or operate the warehouse or distribution system.

Source: Program Evaluation Division based on information from the National Alcohol Beverage Control Association.

Special order process. Liquor products that are not listed on the approved state price listing may be special ordered. A retail or mixed-beverage customer must contact a local ABC board and make a request to purchase a case of unlisted liquor. The local ABC board then makes a request to the ABC Commission. The Commission contacts the vendor for the price and advises the local board, which then advises the customer as to how much each case will cost. Customers do not have the option to buy a single bottle of special order liquor; they are required to buy a case. The special order must be prepaid by the customer to the local ABC board, which places the order with the Commission. During this evaluation, the Program Evaluation Division heard the contention that local ABC boards should be allowed to let customers purchase a bottle of special order liquor and then sell the remaining bottles in the case on store shelves at their discretion. This change would allow local ABC boards to better serve their retail and mixed-beverage customers who cannot afford or do not need a full case of special order liquor. The ABC Commission does not currently charge an administrative fee for managing the special order process for local ABC

boards because the number of special orders is limited by the requirement that a customer must purchase a full case. Under a more flexible process, the number of special orders would be expected to increase, and the ABC Commission noted that more staff resources might be needed to manage special orders.

Services for mixed beverage permittees. State law prevents local ordinances from requiring additional permits or fees beyond those established in law, which means that local ABC boards cannot charge mixed beverage permittees a delivery fee.²⁸ The Program Evaluation Division heard from local ABC boards and stakeholder groups that mixed-beverage permittees would prefer to have liquor delivered to them. In order to remedy the inconvenience, some local boards reported that they provide a free delivery service to mixed beverage permittees despite associated costs. If local ABC boards had the authority to charge a delivery fee, more boards would be likely to offer the service to mixed-beverage permittees.

Opening ABC stores on Sundays. State law prohibits local boards from selling alcoholic beverages between the hours of 9:00 P.M. and 9:00 A.M. and on Sundays.²⁹ The Program Evaluation Division heard from some local ABC boards and stakeholders that communities should have the option to open ABC stores on Sundays. Stakeholders noted that state law allows packaged beer and wine to be sold in retail stores on Sundays starting at noon and that some consumers prefer to shop on Sundays.

Currently, 42 states and the District of Columbia allow Sunday liquor sales including 20 states that authorize local governments to decide whether to allow or prohibit Sunday sales. As shown in Exhibit 10 in this report, four southeastern states prohibit Sunday off-premises liquor sales: Mississippi, North Carolina, South Carolina, and West Virginia. Other than Tennessee, which allows Sunday liquor sales throughout the state, the other southeastern states allow local governments to regulate Sunday liquor sales.

To understand how North Carolina citizens would view Sunday sales of liquor by ABC stores, the Program Evaluation Division sought out public opinion as to whether ABC stores should be open or closed on Sundays. As shown in Exhibit 22, the majority of citizens polled by Elon University said that they thought ABC stores should remain closed on Sundays; this option was also the most popular among respondents to the High Point University poll.

²⁸ N. C. Gen. Stat. § 18B-100.

²⁹ N. C. Gen. Stat. § 18B-802.

Exhibit 22

Public Opinion Favors Keeping ABC Stores Closed on Sundays

Response Options	Elon University Poll (n=379)	High Point University Poll (n=827)
ABC stores open on Sundays	37%	45%
ABC stores closed on Sundays	52%	46%
Don't know/Refused	11%	9%

Notes: The Elon University Poll used a blended online-phone sample for its survey, but the ABC questions were only asked to phone respondents to allow for confirmation that respondents were registered voters in North Carolina. The margin of error on these results is $\pm 5\%$. The High Point University Poll also used a blended online-phone sample for its survey but the ABC questions were asked to both online and phone respondents. The online sampling is derived from a panel of respondents, and therefore their participation does not adhere to usual assumptions associated with random selection. Because of the blended design, the High Point University Poll provided a credibility interval of ± 5.4 percentage points to account for a traditional 95 percent confidence interval for the estimates (± 3.4 percentage points) and a design effect of 1.6 (based on the weighting).

Source: Program Evaluation Division from data provided by Elon University and High Point University Polls.

Liquor tastings in ABC stores. State law prohibits consumption of liquor on the premises of an ABC store, which means ABC stores cannot offer in-store liquor tastings for customers.³⁰ The Program Evaluation Division heard from liquor suppliers and brokers and some local ABC boards that boards should have the option to offer in-store tastings with appropriate regulation of the activity. They said that customers wanted the opportunity to try liquor products before purchasing them, especially expensive ones. The Program Evaluation Division found that 37 states allow retail stores to offer liquor tastings. Exhibit 23 shows that most southeastern states allow in-store liquor tastings. Florida, Georgia, and North Carolina are the only southeastern states that prohibit in-store tastings.

³⁰ N. C. Gen. Stat. § 18B-301(f)(1).

Exhibit 23

Most Southeastern States Allow In-Store Liquor Tastings

Southeastern States	Allow In-Store Tastings
Alabama	✓
Arkansas	✓
Florida	✗
Georgia	✗
Kentucky	✓
Louisiana	✓
Mississippi	✓
North Carolina	✗
South Carolina	✓
Tennessee	✓
Virginia	✓
West Virginia	✓

Note: Control states are shaded light gray.

Source: Program Evaluation Division based on information from the 2016 Fact Book: Beverage Alcohol State Facts and Regulations by the Beverage Information Group.

State law already allows North Carolina distilleries to provide liquor tastings, and permitting liquor tastings in ABC stores would offer liquor consumers the opportunity to try liquor products from out-of-state distilleries.³¹

In summary, in lieu of changing North Carolina's system for regulating liquor sales, the State could choose to further modernize its current system. Streamlining local ABC board operations could increase efficiency and profitability, including through board mergers in counties with multiple ABC boards. In addition, purchase-transportation permits do not reflect current attitudes about access to alcoholic beverages. Local ABC boards and other stakeholders identified several other ideas for modernizing the current system for regulating liquor in North Carolina including modifying the special order process, allowing ABC stores to be open on Sundays, and allowing ABC stores to offer in-store liquor tastings.

³¹ N. C. Gen. Stat. § 18B-1001(19)

Recommendations

North Carolina's ABC system has seen few changes since its initial authorization in 1937 when legislation created a state monopoly for the sale of liquor. Legislative consideration of potentially changing how North Carolina regulates liquor sales would involve wide-ranging deliberation.

The first legislative consideration would be determining how the government's role in controlling liquor sales would change. Based on the experience of other control states, this evaluation identified two options for changing the government's role:

- ending government control of retail liquor sales or
- ending government control of wholesale and retail liquor sales.

This initial decision would guide legislative consideration of the regulatory, operational, and financial modifications to the current system that would be subsequently necessary.

If the General Assembly decides to change how North Carolina regulates liquor sales, the Program Evaluation Division would recommend appointing a joint legislative commission to determine how state and local government roles in regulating liquor sales would change. As a starting point for the joint legislative commission, this evaluation provides a road map to guide legislative decisions for existing and new components of the alcohol beverage control system for liquor (see Exhibit 7 on page 16).

If the General Assembly decides not to pursue changing North Carolina's system, the Program Evaluation Division makes the following seven recommendations to further modernize the current system for controlling liquor sales.

Recommendation 1. The General Assembly should direct local ABC boards located in counties with two or more boards to consolidate local ABC operations and establish a merged ABC board.

As discussed in Finding 4, the Program Evaluation Division found that counties with only one ABC board have more profitable and efficient operations than counties served by multiple boards. Board mergers have reduced operating costs and increased profitability for the 11 merged boards currently in existence, and merged boards were more likely to outperform other ABC boards in terms of profit and operating margins. According to ABC statutes, the ABC Commission can approve mergers but does not have the authority to compel consolidation to improve system efficiency. If all local ABC boards located in a county with multiple boards were required to merge into one board, the resulting merged boards would be more efficient and likely distribute a higher proportion of revenue back to the community compared to multiple boards operating in the same county.

To increase the profitability and efficiency of the ABC system, the General Assembly should direct local ABC boards located in counties with two or more boards to consolidate local ABC operations and establish a merged board. Existing state law (N. C. Gen. Stat. § 18B-703) already addresses

the merger of local ABC operations. This law should be modified to mandate mergers in counties with two or more local ABC boards that are not already participating in a merged ABC board. In addition, the language in state law that allows cities and counties to dissolve their merged operation at any time and resume their prior separate operations should be modified so that dissolution can only happen if a city or county chooses to join a different merged ABC board.

To ensure that board mergers occur within a reasonable timeframe, the General Assembly should mandate that all mergers must be completed no later than June 30, 2021.

Recommendation 2. The General Assembly should eliminate the purchase-transportation permit requirement for liquor in N.C. Gen. Stat. §§ 18B-303 and 18B-403.

The Program Evaluation Division recommended in its 2008 evaluation, *North Carolina's Alcohol Beverage Control System Is Outdated and Needs Modernization*, that the purchase-transportation permit requirement limiting the amount of liquor a consumer can purchase at one time be eliminated. The General Assembly did not take action on this recommendation. As discussed in Finding 4 of this report, purchase-transportation permits were originally established to deter bootlegging, which is no longer a serious problem in North Carolina. Local ABC boards reported that these permits impose an administrative burden on ABC stores and liquor customers.

To improve services for liquor customers and reduce the administrative burden on local ABC boards, the General Assembly should eliminate the purchase-transportation permit requirement for liquor in N.C. Gen. Stat. §§ 18B-303 and 18B-403.

Recommendation 3. The General Assembly should 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.

The ABC Commission will bid for warehouse services prior to the expiration of its current contract in 2021. To ensure that concerns identified by the State Auditor are addressed, the General Assembly should monitor the Request for Proposal (RFP) process for the warehouse contract until the ABC Commission selects a contractor to operate the ABC warehouse and liquor distribution system.

The General Assembly should direct the ABC Commission to report quarterly to the Joint Legislative Oversight on Justice and Public Safety Committee on its process for selecting a contractor to operate the ABC warehouse and liquor distribution system. At a minimum, the quarterly report should include

- a schedule for developing and issuing the RFP, including how the ABC Commission is meeting the milestones identified in the schedule;
- identification of state agencies and other entities providing the ABC Commission with technical assistance on RFP development and

- contract negotiation, including a description of the technical assistance that is being provided;
- description of ABC Commission consultation with local ABC boards to ensure the latter's concerns and expectations are addressed during RFP development and contract negotiations;
- a copy of the RFP when it is released;
- a copy of the final ABC warehouse contract and financial terms; and
- an implementation schedule for transitioning from the existing ABC warehouse contract to the new contract.

The ABC Commission should be directed to submit its first report on October 15, 2019. Subsequent reports should be submitted 15 days after the end of each quarter until the final ABC warehouse contract has been awarded.

Recommendation 4. The General Assembly should 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.

During this evaluation, the Program Evaluation Division heard that local ABC boards should be permitted to allow a customer to purchase a bottle of special order liquor and then sell the remaining bottles in the case on store shelves at their discretion. This adjustment would allow local ABC boards to better serve their retail and mixed-beverage customers who are interested in purchasing a special order liquor product but cannot afford or do not need a full case of it.

To increase the availability of special order liquor products for retail and mixed-beverage liquor customers, the General Assembly should direct the ABC Commission to modify administrative rules to allow ABC stores the flexibility to provide less than a full case of product to special order customers and sell the remaining product in the ABC store. In addition, the General Assembly should authorize the ABC Commission to charge local ABC boards an administrative fee to cover the cost of managing the special order process.

Recommendation 5. The General Assembly should modify existing state law to allow local ABC boards to charge mixed beverage permittees a delivery fee.

As discussed in Finding 4, the Program Evaluation Division found that state law prevents local ordinances from requiring additional permits or fees beyond those established in law, and as a result local ABC boards cannot charge mixed beverage permittees a delivery fee. Both local ABC boards and stakeholder groups mentioned that mixed beverage permittees would prefer to have liquor delivered to their establishments. Permitting local ABC boards to charge a delivery fee would make it financially feasible for more boards to offer a delivery service for their mixed beverage

permittees. The General Assembly should enact state law that specifically authorizes local ABC boards to charge a fee for delivery services provided to mixed-beverage permittees in their jurisdiction.

Recommendation 6. The General Assembly should consider enacting state law to allow local governments the option to open ABC stores on Sundays.

The Program Evaluation Division heard from some local ABC boards and stakeholders that communities should have the option to open ABC stores on Sundays. Currently, 20 states authorize local governments to decide whether to allow or prohibit Sunday package or off-premises liquor sales. In 2017, the General Assembly enacted state law authorizing counties and municipalities to adopt ordinances to allow on-premises alcoholic beverage permittees to serve beer, wine, and mixed beverages beginning at 10:00 A.M. on Sundays.

To allow communities the flexibility to decide whether ABC stores should be open on Sundays, the General Assembly should enact state law authorizing counties and municipalities to adopt ordinances directing the local ABC board serving their jurisdiction to open ABC stores on Sundays. Local governments should be required to consult with the local ABC board serving their community prior to adoption of the ordinance.

Recommendation 7. The General Assembly should 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.

The Program Evaluation Division heard from liquor suppliers and brokers and some local ABC boards that boards should have the option to offer in-store tastings of liquor products with appropriate regulation of the activity. State law already allows North Carolina distilleries to provide liquor tastings, and permitting liquor tastings in ABC stores would offer liquor consumers the opportunity to try liquor products from both in-state and out-of-state distilleries.

The General Assembly should enact state law to allow local ABC boards the option to offer in-store liquor product tastings in ABC stores in accordance with the permit requirements already in state law.

Appendices

Appendix A: Financial and Operational Considerations for Three Alternative Liquor Regulatory Systems

Appendix B: Estimated Revenue Calculations for Current Liquor Regulatory System and Three Alternative Systems

Appendix C: Comparison of Estimated Liquor Pricing for Current Regulatory System and Three Alternative Systems

Agency Response

A draft of this report was submitted to the ABC Commission for review. Its response is provided following the appendices.

Program Evaluation Division Contact and Acknowledgments

For more information on this report, please contact the lead evaluator, Carol Shaw, at carol.shaw@ncleg.net.

Staff members who made key contributions to this report include Joanne Brosh and Sidney Thomas. John W. Turcotte is the director of the Program Evaluation Division.

Appendix A: Financial and Operational Considerations for Three Alternative Liquor Regulatory Systems

Analysis Attribute	Why the Attribute matters	Agency Store Option	Private Retail Option	Licensure Option	Additional Comments
ABC Commission Attributes					
ABC Commission funding	The ABC Commission charges a bailment surcharge to support the cost of ABC Commission operations.	PED assumed that the \$1.15 bailment surcharge would continue because the Commission would control wholesale liquor distribution.		PED assumed that the bailment surcharge would end because the State would no longer control wholesale liquor distribution.	The current bailment surcharge fully supports ABC Commission operations so PED did not change it for the analysis. Under the licensure option, the ABC Commission would need replacement funding to cover the cost of operations.
ABC warehouse operations	The ABC Commission charges a bailment fee to support the cost of the ABC warehouse and distribution system.	PED assumed that the \$1.50 bailment fee would continue because the Commission would control wholesale liquor distribution.		PED assumed that the bailment fee would end because the State would not control wholesale distribution.	The current bailment fee fully supports warehouse operations so PED did not change it for the analysis.
Number of retail licenses	Licenses determine the number of retail liquor stores.	PED assumed that the ABC Commission would contract with or license 1,000 retail businesses to sell packaged liquor.			This assumption would increase the statewide outlet density for liquor from 0.58 stores per 10,000 adults to 1.35 stores per 10,000 adults.
Liquor consumption growth rate	There is a correlation between liquor density and liquor consumption. States with higher outlet density are more likely to have higher liquor consumption	<p>For each option, the initial cost of goods sold for home consumption for Fiscal Year 2017–18 was increased by 20% to reflect estimated consumption growth.</p> <p>PED used the following formulas to estimate the growth in liquor consumption if outlet density was increased.</p> <p>Adult liquor consumption = $(0.35)(\ln(\text{outlet density per 10,000 adults})) + 1.96$</p> <p>$2.07 = (0.35)\ln(1.35) + 1.96$</p> <p>$(\text{Increased adult liquor consumption} - 2015 \text{ liquor consumption}) / 2015 \text{ liquor consumption}$</p> <p>$(2.07 - 1.72) / 1.72 = .2035$ rounded to 20%</p>			PED conducted a linear regression to investigate the relationship between outlet density per 10,000 adults and adult liquor consumption across states using 2015 and 2016 data. The assumption for linearity was not met, indicating that a log transformation of the y-axis (adult liquor consumption) was needed. Ordinary Least Squares (OLS) regression on the transformed data showed a significant relationship ($p < 0.001$) between outlet density and liquor consumption ($\log y = 0.68 + 0.34x$), with an R^2 value of 0.29. The R^2 value indicates 29% of the variation in consumption is explained by the model containing only outlet density.
Initial cost of goods sold	Liquor revenues were calculated on the initial cost of goods sold.	<p>PED used the Fiscal Year 2017–18 estimated cost of goods sold provided by the ABC Commission minus the bailment fee and bailment surcharges for the analysis.</p> <p>$\\$564,698,166 = \\$581,037,960 \text{ COGS} - (\\$7,090,854 + 9,248,940)$</p> <p>For each option, 80.3% of estimated cost of goods sold (retail sales for home consumption) was increased by 20% to reflect higher liquor consumption resulting from more liquor stores. Mixed beverage sales were not adjusted (19.7% of estimated cost of goods sold).</p>			Under the licensure model, private wholesalers may or may not be able to get liquor at the same price as the State—the cost of goods may vary across the state.

Analysis Attribute	Why the Attribute matters	Agency Store Option	Private Retail Option	Licensure Option	Additional Comments
State Revenue Attributes					
State excise tax on liquor	Revenue from the excise tax on liquor goes to the State General Fund.	Currently, the State excise tax on liquor is 30%, and PED assumed that the tax rate would not change for the agency store and private retail options.		PED assumed that the state excise tax on liquor would increase from 30% to 33.6% to maintain state revenue.	Under the agency store and private retail options, state revenue could be maintained by adding a state markup percentage to the pricing formula instead of increasing the excise tax on liquor. Under the licensure model, the ABC Commission would not control liquor pricing which means the only mechanism to maintain state revenue is to increase the State excise tax.
State sales tax on liquor	Revenue from the sales tax on liquor goes to the State General Fund.	Currently, the sales tax on liquor is 7%, and PED assumed that the tax rate would not change for the three options. The cost of goods sold to mixed beverage permittees is excluded from sales tax calculations because the permittees do not pay sales tax. PED found that 19.7% of Fiscal Year 2017–18 total liquor sales in North Carolina were purchased by mixed beverage permittees. Estimated sales tax for each option is calculated for 80.3% of estimated total liquor sales for Fiscal Year 2017–18.			The amount of sales tax revenue collected under each option differs because the amount is determined by the estimated cost of liquor prior to the sales tax calculations.
Mixed beverage tax	Revenue (55%) from the mixed beverage tax goes to the State General Fund and the Department of Health and Human Services.	<p>Currently, the mixed beverage tax is \$20 per four liters or \$3.75 per 750 ml bottle of liquor sold to mixed beverage permittees. PED assumed that the tax would not change for the three options, and that tax revenue would continue to go to the State General Fund (50%) and the Department of Health and Human Services (5%).</p> <p>PED estimated the mixed beverage tax collections were \$36.4 million during Fiscal Year 2017–18. The estimate was calculated by determining the growth in mixed beverage sales during Fiscal Year 2017–18 as compared to Fiscal Year 2016–17.</p> <p>Growth in MBX sales = (2017–18 MBX sales minus 2016-17 MBX sales)/2016–17 MBX sales. $(221,872,475 - 204,631,073)/204,631,073 = 8.4\%$.</p> <p>Estimated MBX taxes for FY2017–18 = (MBX taxes for FY2016–17 x 8.4%) $33,555,726 \times 1.084 = 36,374,560$.</p>			PED assumed that private retailers and/or wholesalers would collect the mixed beverage tax and submit it to the State when liquor is purchased by a mixed beverage permittee.
State liquor markup	The current ABC Commission pricing formula does not include a state markup for the General Fund, but a state markup would be necessary to maintain state revenues under the private retail option.	PED found that a state liquor markup was not needed to maintain revenue under this option.	PED assumed a 1% markup under the state pricing formula that would be deposited in the General Fund to maintain state revenue.	Not applicable because the ABC Commission would no longer control liquor pricing under this option	PED added a state markup under the Private Retail option because the ABC Commission controls the pricing formula for liquor.

Analysis Attribute	Why the Attribute matters	Agency Store Option	Private Retail Option	Licensure Option	Additional Comments
State liquor revenue	The State General Fund receives tax revenue from liquor taxes.	<p>During Fiscal Year 2016–17, the State General Fund received \$306.3 million from liquor taxes. For this analysis, PED estimated that Fiscal Year 2017–18 State General Fund revenue from liquor taxes was \$319.6 million and used this number when estimating how each option would affect state revenue and what changes would be necessary to maintain state revenue.</p> <p>The Fiscal Year 2017–18 State liquor excise tax revenue estimate was derived using the following formula:</p> <p>2017–18 State Liquor Excise Tax Revenue = (2017–18 Estimated Cost of Goods Sold + Estimated Bailment Fee Revenue + Local ABC Board Markup) x 30%</p> <p>The Fiscal Year 2017–18 liquor sales tax revenue estimate was derived using the following formula:</p> <p>2017–18 State Liquor Sales Tax Revenue = (2017–18 Cost of Goods Sold for Home Consumption + Estimated Bailment Fee Revenue + Local ABC Board Markup + Bailment Fee Surcharge Revenue + Additional Local Government Markup + Bottle Charge Revenue for Rehabilitation + Bottle Charge Revenue for Local government) x 7%</p>			PED found that the amount of state revenue collected is affected by how much the initial cost of goods sold is marked up prior to the calculation of liquor taxes. For example, the current State excised tax on liquor is applied after the bailment fee (\$1.15 per case) and local ABC board markup (39.6%) has been added to the initial cost of goods sold. Decreasing or increasing the markup prior to applying the State excise tax on liquor affects the amount of revenue collected.
Local Government Revenue Attributes					
Local ABC Board Markup	The ABC Commission sets the local ABC markup to cover the cost of ABC store operations and revenue distributions for local government.	Currently, the local ABC board markup is 39.6%. PED assumed that the local ABC board markup would be eliminated under each option.			PED assumed that the local ABC boards would be dissolved and their stores closed which would eliminate the need for the local ABC board markup.
Bottle charge for rehabilitation	Revenue from this bottle charge must be spent on substance abuse research, education, or treatment.	Currently, the bottle charge for rehabilitation is 1¢ per bottle of 50 ml or less and 5¢ per bottle over 50 ml. PED assumed that the bottle charge for rehabilitation would continue under each option and that the revenue would be used by local governments for substance abuse research, education or treatment.			Revenue from both bottle charges would increase under all options because liquor consumption is estimated to increase. PED assumed that revenue from both bottle charges would be distributed based on where the liquor is sold.
Additional bottle charge for local governments	Revenue from this bottle charge goes to local government General Funds and is unrestricted.	Currently, the additional bottle charge for local government is 1¢ per bottle of 50 ml or less and 5¢ per bottle over 50 ml. PED assumed that the bottle charge for local governments would continue under each option and that the revenue would be unrestricted and go to local government General Funds.			
Mixed beverage tax	45% of mixed beverage revenue goes local ABC Boards' gross receipts for operating costs and profit distribution.	Currently, the mixed beverage tax is \$20 per four liters or \$3.75 per 750 ml bottle of liquor sold to mixed beverage permittees. PED assumed that the tax would not change for the three options and that the mixed beverage tax would go directly to local government General Funds instead of local ABC board gross receipts.			PED assumed that revenue from the mixed beverage tax would be distributed based on where liquor is sold.

Analysis Attribute	Why the Attribute matters	Agency Store Option	Private Retail Option	Licensure Option	Additional Comments
Local government markup	Revenue from the local government markup set by the ABC Commission goes to local government General Funds and is unrestricted.	Currently, the local government markup is 3.5%. PED assumed that the local government markup would increase from 12% under the agency store and private retail options.		Not applicable because the ABC Commission would no longer control liquor pricing under this option.	PED assumed that the revenue from the local government markup would be distributed based on where liquor is sold.
State excise tax for local governments	A State excise tax for local government would be needed under the licensure option because the ABC Commission would not control liquor pricing.	Not applicable because the local government markup controlled by the ABC Commission would allow local governments to maintain revenue under the agency store and private retail options.		PED assumed that a 12% State excise tax for local government would be established under the licensure option.	PED assumed that the revenue from the State excise tax for local governments would be distributed based on where liquor is sold.
Local Government Revenue	Local governments receive revenue from local ABC board profit distributions, local government markup, bottle charges, and the mixed beverage tax.	During Fiscal Year 2016–17, local governments received \$98 million from local ABC board profit distributions, local government markup, bottle charges, and the mixed beverage tax. For this analysis, PED estimated that local governments received \$105 million during Fiscal Year 2017–18 and used this number when estimating how each option would affect local government revenue and what changes would be necessary to maintain revenue.			PED assumed that all liquor revenue for local governments would be distributed based on where liquor is sold.
Private Retail and Wholesale Attributes					
Agency store commission fee	Commission fees compensate agency stores for selling liquor on behalf of state government.	PED assumed a 10% commission fee under the agency store option.		Not applicable under the private retail and licensure options.	PED reviewed commission fees for control states that contract with agency stores to sell liquor. The fees ranged from 6% to 14% of retail liquor sales. Some states offer incentives for higher sales or paid a higher commission on a base level of sales and lowered the commission as sales increased. PED assumed a flat commission fee of 10% to simplify calculations.
Private retail store markup	Markup allows private retailers to profit from liquor sales.	Not applicable under the agency store option.		PED assumed a 25% private retail markup for the private retail and licensure options.	According to the Distilled Spirits Council of the United States, the national average for private retail markup is 25% for small to medium package liquor stores.
Private wholesale markup	Markup allows private wholesalers to profit from liquor distribution.	Not applicable because the ABC Commission would continue to control wholesale liquor distribution under the agency store and private retail options.		PED assumed a 20% wholesale markup and applied the markup after State excise taxes were calculated.	According to the Distilled Spirits Council of the United States, the national average for wholesale markup is 20%.

Source: Program Evaluation Division.

Appendix B: Estimated Revenue Calculations for Current Liquor Regulatory System and for Three Alternative Systems

Current ABC System: Estimated Revenue Calculations for Fiscal Year 2017–18

Pricing Component	Rate	Amount	Distribution to
Cost of Goods Sold	n/a	\$ 564,698,166	Liquor suppliers
+ Bailment Fee	\$1.50 per case	9,248,940	ABC Commission Fund
Subtotal 1		\$ 573,947,106	
+ Local ABC board markup	39.6%	227,283,054	Local ABC board gross receipts
Subtotal 2		\$ 801,230,160	
+ State Excise Tax	30%	240,369,048	State General Fund
+ Additional Local government markup	3.5%	28,043,056	Local government General Fund
+ Bailment surcharge	\$1.15 per case	7,090,854	ABC Commission Fund
+ Rehabilitation bottle charge	Bottles 50ml or less - 1¢/bottle Bottles over 50ml - 5¢/bottle	4,404,832	Local government restricted funds for rehabilitation
+ Local government bottle charge	Bottles 50ml or less - 1¢/bottle Bottles over 50ml - 5¢/bottle	4,404,832	Local government General Fund
Subtotal 3		\$1,085,542,781	
+ Sales tax on retail product	7%	61,018,360	State General Fund
+ Mixed beverage tax	\$10/4 liters	18,187,280	State General Fund
	\$9/4 liters	16,368,552	Local ABC board gross receipts
	\$1/4 liters	1,818,728	Department of Health and Human Services
Total Gross Revenue		\$1,182,935,701	

Distributed to	Revenue
Liquor suppliers	\$ 564,698,166
State General Fund	319,574,688
Local ABC board gross receipts	243,651,606
Local governments general funds	32,447,887
ABC Commission Fund	16,339,794
Local government restricted funds for rehabilitation	4,404,832
Department of Health and Human Services	1,818,728
Total Revenue Distribution	\$ 1,182,935,701

Source: Program Evaluation Division based on estimated Fiscal Year 2017–18 financial data from the ABC Commission.

Agency Store Option: Estimated Revenue Calculations Based on Fiscal Year 2017–18 Data

Pricing Component	Rate	Amount	Distribution to
Cost of Goods Sold (COGS)	n/a	\$ 655,388,691	Liquor suppliers
+ Bailment Fee	\$1.50 per case	9,248,940	ABC Commission Fund
Subtotal 1		\$ 664,637,631	
+Agency store commission	10%	66,463,763	Agency stores
+ Local government markup	12%	79,756,516	Local government General Fund
Subtotal 2		\$ 810,857,910	
+State Excise Tax	30%	243,257,373	State General Fund
+ Bailment surcharge	\$1.15 per case	7,090,854	ABC Commission Fund
+ Rehabilitation bottle charge	Bottles 50ml or less - 1¢/bottle Bottles over 50ml - 5¢/bottle	5,193,153	Local government restricted funds for rehabilitation
+ Local government bottle charge	Bottles 50ml or less - 1¢/bottle Bottles over 50ml - 5¢/bottle	5,193,153	Local government General Fund
Subtotal 3		\$1,071,592,444	
+ Sales tax on retail product	7%	60,234,211	State General Fund
+ Mixed beverage tax	\$10/4 liters	18,187,280	State General Fund
	\$9/4 liters	16,368,552	Local ABC board gross receipts
	\$1/4 liters	1,818,728	Department of Health and Human Services
Total Gross Revenue		\$ 1,168,201,215	

Distributed to	Revenue
Liquor suppliers	\$ 655,388,691
State General Fund	321,678,864
Agency Stores	66,463,763
Local governments general funds	101,318,221
ABC Commission Fund	16,339,794
Local government restricted funds for rehabilitation	5,193,153
Department of Health and Human Services	1,818,728
Total Revenue Distribution	\$ 1,168,201,215

Source: Program Evaluation Division based on estimated Fiscal Year 2017–18 financial data from the ABC Commission.

Private Retail Option: Estimated Revenue Calculations Based on Fiscal Year 2017–18 Data

Pricing Component	Rate	Amount	Distribution to
Cost of Goods Sold (COGS)	n/a	\$ 655,388,691	Liquor suppliers
+ Bailment Fee	\$1.50 per case	9,248,940	ABC Commission Fund
Subtotal 1		\$ 664,637,631	
+State government markup	1%	6,646,376	State General Fund
+ Local government markup	12%	79,756,516	Local government General Fund
Subtotal 2		\$ 751,040,524	
+State Excise Tax	30%	225,312,157	State General Fund
+ Bailment surcharge	\$1.15 per case	7,090,854	ABC Commission Fund
+ Rehabilitation bottle charge	Bottles 50ml or less - 1¢/bottle Bottles over 50ml - 5¢/bottle	5,193,153	Local government restricted funds for rehabilitation
+ Local government bottle charge	Bottles 50ml or less - 1¢/bottle Bottles over 50ml - 5¢/bottle	5,193,153	Local government General Fund
Subtotal 3		\$ 993,829,841	
+ Private retail markup	25%	248,457,460	Private retailers
Subtotal 4		\$1,242,287,302	
+ Sales tax on retail product	7%	69,828,969	State General Fund
+ Mixed beverage tax	\$10/4 liters	18,187,280	State General Fund
	\$9/4 liters	16,368,552	Local government General Fund
	\$1/4 liters	1,818,728	Department of Health and Human Services
Total Gross Revenue		\$1,348,490,831	

Distributed to	Revenue
Liquor suppliers	\$ 655,388,691
State General Fund	319,974,783
Private retailers	248,457,460
Local governments general funds	101,318,221
ABC Commission Fund	16,339,794
Local government restricted funds for rehabilitation	5,193,153
Department of Health and Human Services	1,818,728
Total Revenue Distribution	\$1,348,490,831

Source: Program Evaluation Division based on estimated Fiscal Year 2017–18 financial data from the ABC Commission.

Licensure Option: Estimated Revenue Calculations Based on Fiscal Year 2017–18 Data

Pricing Component	Rate	Amount	Distribution to
Cost of Goods Sold (COGS)	n/a	\$ 655,388,691	Liquor suppliers
+State Excise Tax	33.6%	220,210,600	State General Fund
+State excise tax for local government	12%	78,646,643	Local government General Fund
Subtotal 1		\$ 954,245,935	
+Private wholesale markup	20%	190,849,187	Private wholesalers
Subtotal 2		\$1,145,095,122	
+ Rehabilitation bottle charge	Bottles 50ml or less - 1¢/bottle Bottles over 50ml - 5¢/bottle	5,193,153	Local government restricted funds for rehabilitation
+ Local government bottle charge	Bottles 50ml or less - 1¢/bottle Bottles over 50ml - 5¢/bottle	5,193,153	Local government General Fund
Subtotal 3		\$1,155,481,428	
+ Private retail markup	25%	288,870,357	Private retailers
Subtotal 4		\$1,444,351,785	
+ Sales tax on retail product	7%	81,187,014	State General Fund
+ Mixed beverage tax	\$10/4 liters	18,187,280	State General Fund
	\$9/4 liters	16,368,552	Local government General Fund
	\$1/4 liters	1,818,728	Department of Health and Human Services
Total Gross Revenue		\$1,561,913,359	

Distributed to	Revenue
Liquor suppliers	\$ 655,388,691
State General Fund	319,584,894
Private wholesalers	190,849,187
Private retailers	288,870,357
Local governments general funds	100,208,348
Local government restricted funds for rehabilitation	5,193,153
Department of Health and Human Services	1,818,728
ABC Commission Fund	0
Total Revenue Distribution	\$1,561,913,359

Source: Program Evaluation Division based on estimated Fiscal Year 2017–18 financial data from the ABC Commission.

Appendix C: Comparison of Estimated Liquor Pricing for Current Regulatory System and for Three Alternative Systems

Per Bottle Price Estimate	Current System	Agency Store Option	Private Retail Option	Licensure Option
Retail	\$25.63	\$21.83	\$25.31	\$29.64
Mixed beverage	\$27.70	\$24.15	\$27.40	\$31.45

Current Liquor Pricing Formula	
\$151.52	Distiller's price (12 bottle case/80 proof, includes federal excise tax)
<u>+\$1.50</u>	Bailment Fee
\$153.02	Subtotal case cost
<u>+60.60</u>	Local ABC board markup (39.6%)
\$213.62	Subtotal case cost
<u>+64.08</u>	State excise tax (30%)
<u>+7.48</u>	Additional local government markup (3.5%)
\$285.177253	Case cost to six decimals
<u>+1.15</u>	Bailment surcharge
\$286.327353	Subtotal case cost
<u>÷12</u>	Divide above number by number of bottles in case
<u>+0.05</u>	Bottle charge for rehabilitation
<u>+0.05</u>	Bottle charge for profit distribution
\$23.9606	Round the result to an integer divisible by five cents (\$.05)
\$23.95	Retail price per bottle
<u>+\$1.68</u>	State sales tax (7%)
\$25.63	Selling price per bottle to an individual.
\$23.95	Retail price per bottle
<u>+\$3.75</u>	Mixed beverage tax (\$3.75 for 0.75 liters)
\$27.70	Selling price to mixed beverage permittee (No sales tax on liquor resold as mixed beverage)

Agency Store Option Pricing Formula	
\$151.52	Distiller's price (12 bottle case/80 proof, includes federal excise tax)
<u>+\$1.50</u>	Bailment fee
\$153.02	Subtotal case cost
<u>+15.30</u>	Agency store commission (10%)
<u>+18.36</u>	Local ABC board markup (12%)
\$186.68	Subtotal case cost
<u>+56.01</u>	State excise tax (30%)
\$242.689720	Case cost to six decimals
<u>+1.15</u>	Bailment surcharge
\$243.837920	Subtotal case cost
<u>÷12</u>	Divide above number by number of bottles in case
\$20.3200	
<u>+0.05</u>	Bottle charge for rehabilitation
<u>+0.05</u>	Bottle charge for profit distribution
\$20.4200	Round the result to an integer divisible by five cents (\$.05)
\$20.40	Retail price per bottle
<u>+\$1.43</u>	State sales tax (7%)
\$21.83	Selling price per bottle to an individual.
\$20.40	Retail price per bottle
<u>+\$3.75</u>	Mixed beverage tax (\$3.75 for 0.75 liters)
\$24.15	Selling price to mixed beverage permittee (No sales tax on liquor resold as mixed beverage)

Private Retail Pricing Formula

\$151.52	Distiller's price (12 bottle case/80 proof, includes federal excise tax)
<u>+\$1.50</u>	Bailment fee
\$153.02	Subtotal case cost
+1.53	State government markup (1%)
<u>+18.36</u>	Local ABC board markup (12%)
\$172.91	Subtotal case price
<u>+51.87</u>	State excise tax (30%)
\$224.786380	Case cost to six decimals
<u>+1.15</u>	Bailment surcharge
\$225.936380	Subtotal case price
<u>+56.48</u>	Private retailer markup (25%)
\$282.420475	Case cost to private retailer
<u>÷12</u>	Divide above number by number of bottles in case
\$23.5350	
+0.05	Bottle charge for rehabilitation
<u>+0.05</u>	Bottle charge for profit distribution
\$23.6350	Round the result to an integer divisible by five cents (\$.05)

\$23.65	Retail price per bottle
<u>+\$1.66</u>	State sales tax (7%)
\$25.31	Selling price per bottle to an individual.

\$23.65	Retail price per bottle
<u>+\$3.75</u>	Mixed beverage tax (\$3.75 for 0.75 liters)
\$27.40	Selling price to mixed beverage permittee (No sales tax on liquor resold as mixed beverage)

Licensure Option Pricing Formula

\$151.52	Distiller's price (12 bottle case/80 proof, includes federal excise tax)
+50.91	State Excise Tax (33.60%)
<u>+18.18</u>	State excise tax for local government (12%)
\$220.61	Subtotal case cost
<u>+44.12</u>	Private wholesale markup (20%)
\$264.74	Private wholesaler case price
<u>+66.18</u>	Private retailer markup (25%)
\$330.92	Private retailer case price
<u>÷12</u>	Divide above number by number of bottles in case
\$27.5766	
+0.05	Bottle charge for rehabilitation
<u>+0.05</u>	Bottle charge for profit distribution
\$27.6766	Round the result to an integer divisible by five cents (\$.05)

\$27.70	Retail price per bottle
<u>+\$1.94</u>	State sales tax (7%)
\$29.64	Selling price per bottle to an individual.

\$27.70	Retail price per bottle
<u>+\$3.75</u>	Mixed beverage tax (\$3.75 for 0.75 liters)
\$31.45	Selling price to mixed beverage permittee (No sales tax on liquor resold as mixed beverage)

Note: Under the licensure option, the private wholesalers may or may not be able to purchase liquor at the same price as the State. This pricing analysis used the State price because the actual price that private wholesalers would pay cannot be determined.



State of North Carolina
ALCOHOLIC BEVERAGE CONTROL COMMISSION

A. D. "ZANDER" GUY, JR.
CHAIRMAN

4307 MAIL SERVICE CENTER
RALEIGH, NC 27699-4307

COMMISSION MEMBERS:
NORMAN A. MITCHELL, SR.
CHARLOTTE

AGNES C. STEVENS
ADMINISTRATOR

(919) 779-0700
FAX (919) 661-5927

January 18, 2019

Mr. John W. Turcotte,
Director
N.C. General Assembly Legislative Services Office
Program Evaluation Division
300 N. Salisbury Street,
Suite 100 LOB Raleigh, NC 27603-5925

Dear Director Turcotte:

Thank you very much for the opportunity to review the preliminary draft report related to the current North Carolina Alcoholic Beverage Control system and the potential ramifications of making changes to the system.

As the report notes, the state of North Carolina does not own the liquor or the retail stores where the liquor is sold in our state. However, our citizens enjoy the public health benefits as well as the recurring public revenue that are both hallmarks of our current control system. In fact, the first finding of the report is that "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."

This finding validates North Carolina's current system and would prompt me to have concerns about making significant changes to a model that has worked so well for eight decades and continues to work well for the people of the state. I also believe that organizations always can be improved, and I accept the PED recommendations for modernization as reasonable ideas to consider.

I will note that the Commission is already under way on some of the modernization recommendations, including the process of contract review and engaging third-party assistance in rebidding the contract for future warehouse services.

Last, I would like to thank your staff for their thoroughness and professionalism. The ABC system is complex, and your team has presented its review in a way that I believe is fair and accurate. Please let me know if I can be of assistance in the future.

A handwritten signature in black ink, appearing to read "Zander", written over a circular stamp or mark.

A.D. "Zander" Guy
Chairman