North Carolina’s Alcohol Beverage Control System is Outdated and Needs Modernization

A presentation to the Joint Legislative Program Evaluation Oversight Committee

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North Carolina’s ABC system:

- has not kept pace with demographic and economic changes in the state;
- is governed by statutes that limit system management;
- has not clearly defined the mission of local boards; and
- regulates the sale of liquor differently than other states.
Alcohol Beverage Control System

Overview

Modernize the current Alcohol Beverage Control system by:

• defining the mission of local boards;
• providing management tools for better oversight of local boards;
• modifying outdated statutes for ABC store elections and purchase-transportation permits; and
• considering whether other regulatory systems are appropriate for NC.
Alcohol Beverage Control System: Background and Scope
Alcohol Beverage Control System: Evaluation Scope

- How can the NC Alcohol Beverage Control system be improved?
- How does NC’s system compare to control and licensing systems in other states?

See report p. 2
Alcohol Beverage Control System: Data Collection

• Interviews with key stakeholders
• Information from local ABC Boards, including:
  – Fiscal, operations, and survey data from all 158 Boards
  – Site visits to 31 Boards and on-site inspections of 54 stores
• Interviews with representatives from private liquor store chains
• Review of related laws and rules
• Data on alcohol beverage control and licensure in other states

See report p. 2
The NC ABC System Today

- History influences how NC’s ABC system has evolved.
- NC ABC Commission oversees the sale of liquor and controls the central liquor warehouse.
- Only local ABC boards are authorized to operate retail stores and sell liquor in NC.

See report pp. 2-10
Alcohol Beverage Control System: Important to NC’s Economy

$692 million business in FY 2006-07

• Important source of revenue
  – $238 million in Fiscal Year 2006-07

• The effectiveness and efficiency of the ABC system affects revenue collection

See report p. 11
Alcohol Beverage Control System
Findings
Finding 1: NC’s ABC System Has Not Kept Pace with Demographic and Economic Changes in NC

• NC has changed significantly since the ABC system was created in 1935.
  – No longer dominated by small towns and villages
  – Growth concentrated in urban centers, surrounding counties, and tourist areas
  – Population shifts are affecting local board profitability

See report pp. 12-17
Finding 1: NC’s ABC System Has Not Kept Pace

- Equal distribution of retail opportunities no longer exists across counties in NC.
  - People used to shop where they live
  - Increased mobility allows people to shop in areas with large concentration of stores
  - Some counties are losing retail business to other counties
  - Changing shopping patterns affect local board profitability

See report pp. 12-17
Finding 1: NC’s ABC System Has Not Kept Pace

The low threshold for ABC Store elections causes a proliferation of ABC Boards in dry counties.

Buncombe County Experience

See report pp. 12-17
Finding 1: NC’s ABC System Has Not Kept Pace

Woodfin ABC Board reduced sales for Asheville ABC Board rather than generating new sales.

Buncombe County Experience

See report pp. 12-17
Percent Growth in Gross Liquor Sales

- **All ABC Boards - Buncombe County**
- **Asheville ABC Board**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>All ABC Boards</th>
<th>Asheville ABC Board</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>10.03%</td>
<td>9.78%</td>
</tr>
<tr>
<td>2007</td>
<td>9.44%</td>
<td>9.40%</td>
</tr>
<tr>
<td>2008*</td>
<td>9.47%</td>
<td>-2.36%</td>
</tr>
</tbody>
</table>

Woodfin ABC Store
Opened 07/2007

Program Evaluation Division
North Carolina General Assembly

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Finding 1: NC’s ABC System Has Not Kept Pace

• Outdated statutes do not reflect the changed attitudes about access to alcohol:
  – ABC store requirement for mixed beverage elections
  – Purchase-transportation permits to deter bootlegging

See report pp. 12-17
Finding 2: Statutes Limit the Ability of the ABC Commission to Effectively and Efficiently Manage the ABC System

• Statutes do not allow the ABC Commission to
  – enforce minimum standards for operation and profitability of ABC boards;
  – effectively assist boards in making changes to improve operations; and
  – mandate board consolidations or mergers to improve the ABC system.

See report pp. 18-25
Local ABC Board Profit Margins for FY 2006-07

Municipal Board Percent Profit
- ▲ less than 5.0%
- ● 5.0% - 9.9%
- ★ 10.0% or more
- ◦ Open less than 1 year

County Board Percent Profit
- less than 5.0%
- ▲ 5.0% - 9.9%
- ★★ 10.0% or more

Program Evaluation Division
North Carolina General Assembly
Finding 2: Statutes Limit System Management

Some ABC boards have higher operation costs when compared to private liquor retailers.

See report pp. 18-25
Finding 2: Statutes Limit System Management

Merged boards have seen increased profitability.

Example:
High Country ABC Board

Banner Elk, Seven Devils, and Sugar Mountain merged in 1999 to form High Country ABC Board

See report pp. 18-25
Banner Elk, Seven Devils, and Sugar Mountain merged in 1999 to form High Country ABC Board.
Finding 3: NC Has Not Clearly Defined the Mission of Local Boards

• Neither ABC statutes nor administrative rules define the mission or purpose of local boards.
• Other control states have clear mission and purpose statements: Virginia and New Hampshire.
• The lack of a clear mission allows local boards to justify ineffective and inefficient store operations.

See report pp. 25-27
Finding 4: NC’s System for Regulating the Sale of Liquor Is Different from Other States

- Control states regulate by distributing alcoholic beverages to consumers at state-operated retail stores or as wholesalers through retail establishments.

- Licensing and control states regulate by collecting taxes and licensing suppliers, wholesalers, and retail businesses.

North Carolina is a control state.

See report pp. 27-32
# State Control Models

<table>
<thead>
<tr>
<th>Retail</th>
<th>Agency</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Hampshire</td>
<td>Maine</td>
</tr>
<tr>
<td>North Carolina</td>
<td>Montana</td>
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<tr>
<td>Pennsylvania</td>
<td>Ohio</td>
</tr>
<tr>
<td>Virginia</td>
<td>Oregon</td>
</tr>
<tr>
<td>Montgomery County, Maryland*</td>
<td>Vermont</td>
</tr>
<tr>
<td>Worcester County, Maryland*</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Combination</th>
<th>Wholesale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alabama</td>
<td>Iowa</td>
</tr>
<tr>
<td>Idaho</td>
<td>Michigan</td>
</tr>
<tr>
<td>Utah*</td>
<td>Mississippi</td>
</tr>
<tr>
<td>Washington</td>
<td>West Virginia</td>
</tr>
</tbody>
</table>

*Note: Asterisks denote the state or county controls the distribution of wine.*
Recommendation 1-A: Modernize NC’s ABC System by Defining the Mission of Local Boards

- A mission statement should emphasize the following elements:
  - Efficient store operation
  - Profitability and revenue
  - Convenient access
  - Excellent customer service
  - Appropriate control

See report pp. 32-35
Recommendation 1-B: Modernize NC’s ABC System by Providing Management Tools for Better Oversight of Local Boards

Authorize the ABC Commission to use the following management tools:

- Performance standards
- Local board mergers
- Technical assistance
- Financial incentives
- Agency stores

See report pp. 32-35
Recommendation 1-C: Modernize NC’s ABC System by Modifying Outdated Statutes

- Increase registered voter threshold for city ABC store elections from 500 to 5,000
- Eliminate ABC store requirement to hold mixed-beverage elections
- Eliminate purchase-transportation permit requirement for liquor

See report pp. 32-35
Recommendation 2: Consider Whether Other Systems for Alcohol Beverage Control Are Appropriate for North Carolina

• Changing the system could affect:
  – State and local revenues from liquor sales
  – Liquor selection and pricing
  – Warehouse ownership and operation

• Changing the system would mean local boards no longer own and operate ABC stores.

See report pp. 32-35
Evaluation Summary

• NC’s Alcohol Beverage Control System is outdated and needs modernization.

• Statutory changes will improve the effectiveness and efficiency of the Alcohol Beverage Control system.

• A more effective and efficient ABC system may increase revenue for North Carolina and local governments.

• The North Carolina ABC Commission concurs with the Program Evaluation Division’s recommendations.
Report available online
http://www.ncleg.net/PED/Reports/Topics/GovernmentOperations.html

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