

North Carolina's Alcohol Beverage Control System is Outdated and Needs Modernization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

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- **modifying outdated statutes for ABC store elections and purchase-transportation permits; and**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



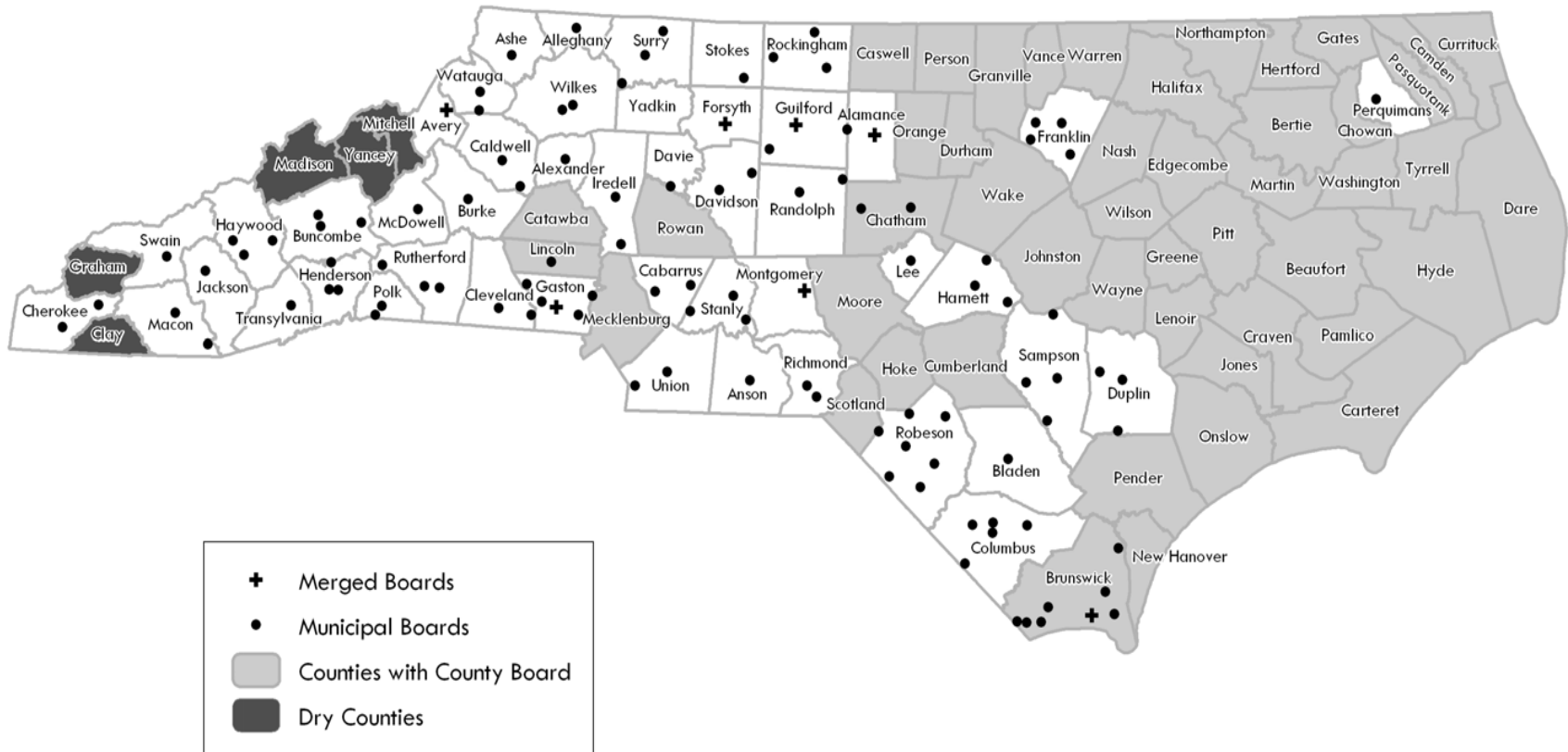
The NC ABC System Today

- 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

North Carolina Local ABC Boards



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



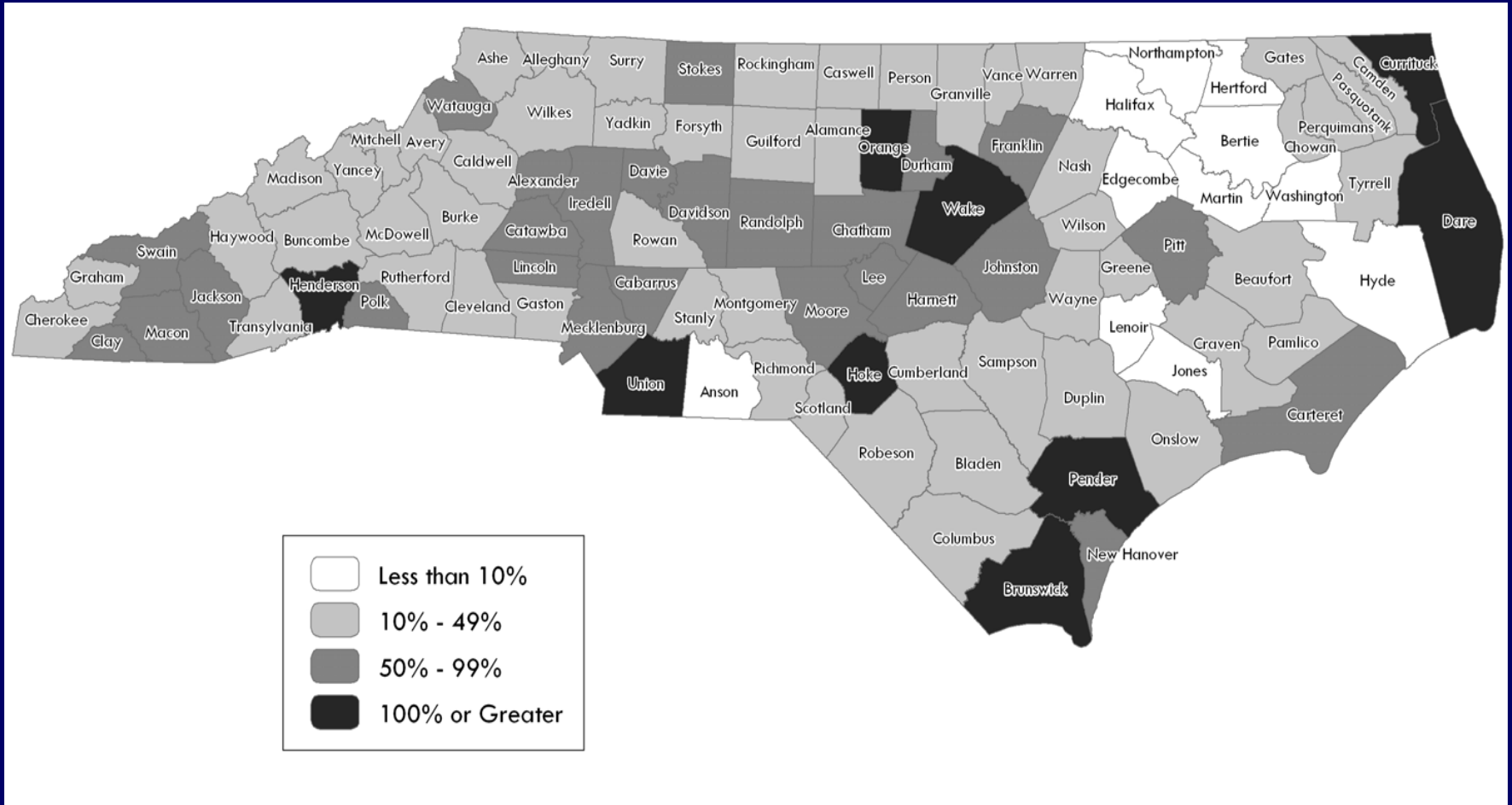
Finding 1: NC's ABC System Has Not Kept Pace with Demographic and Economic Changes in NC

- 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

Changes in NC's Total Population 1970 -2000



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

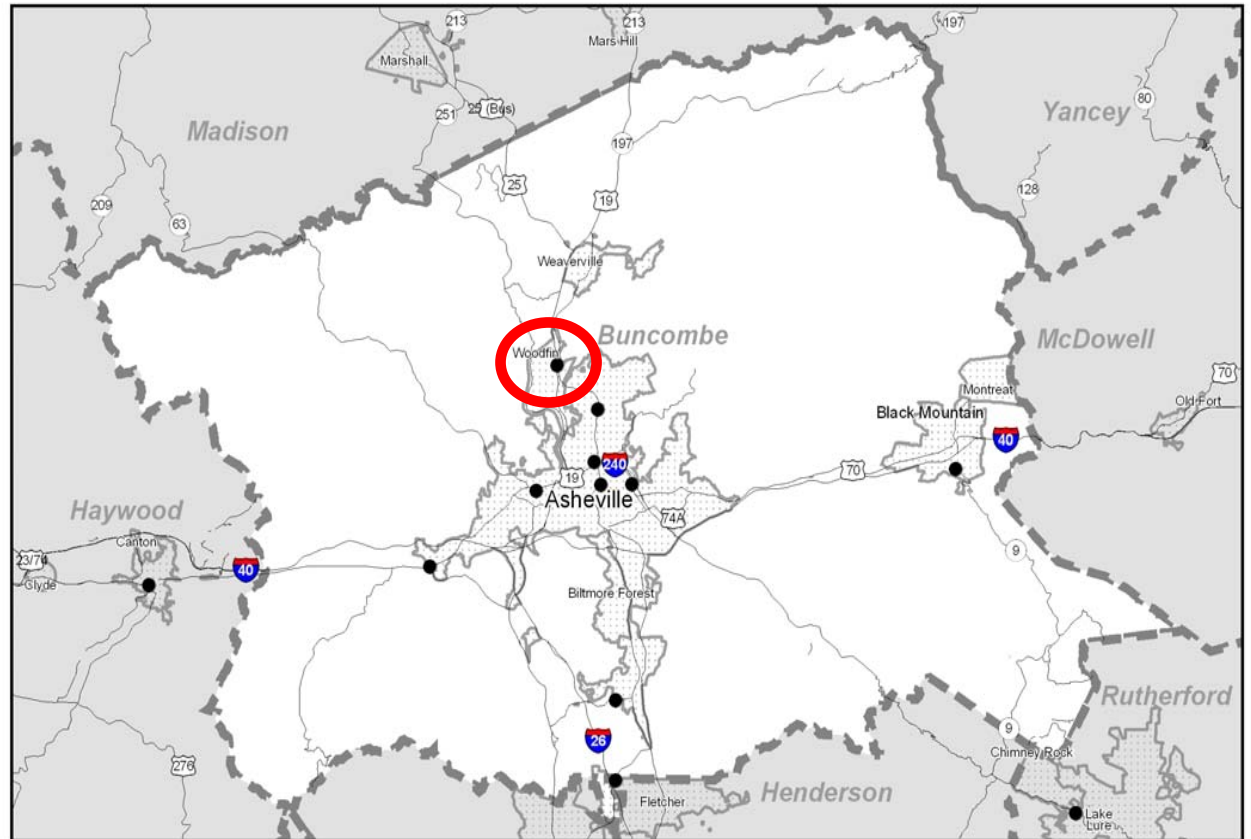
- **Equal distribution of retail opportunities no longer exists across counties in NC.**
 - People used to shop where they live
 - Increased mobility allows people to shop in areas with large concentration of stores
 - Some counties are losing retail business to other counties
 - Changing shopping patterns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



See report pp. 12-17

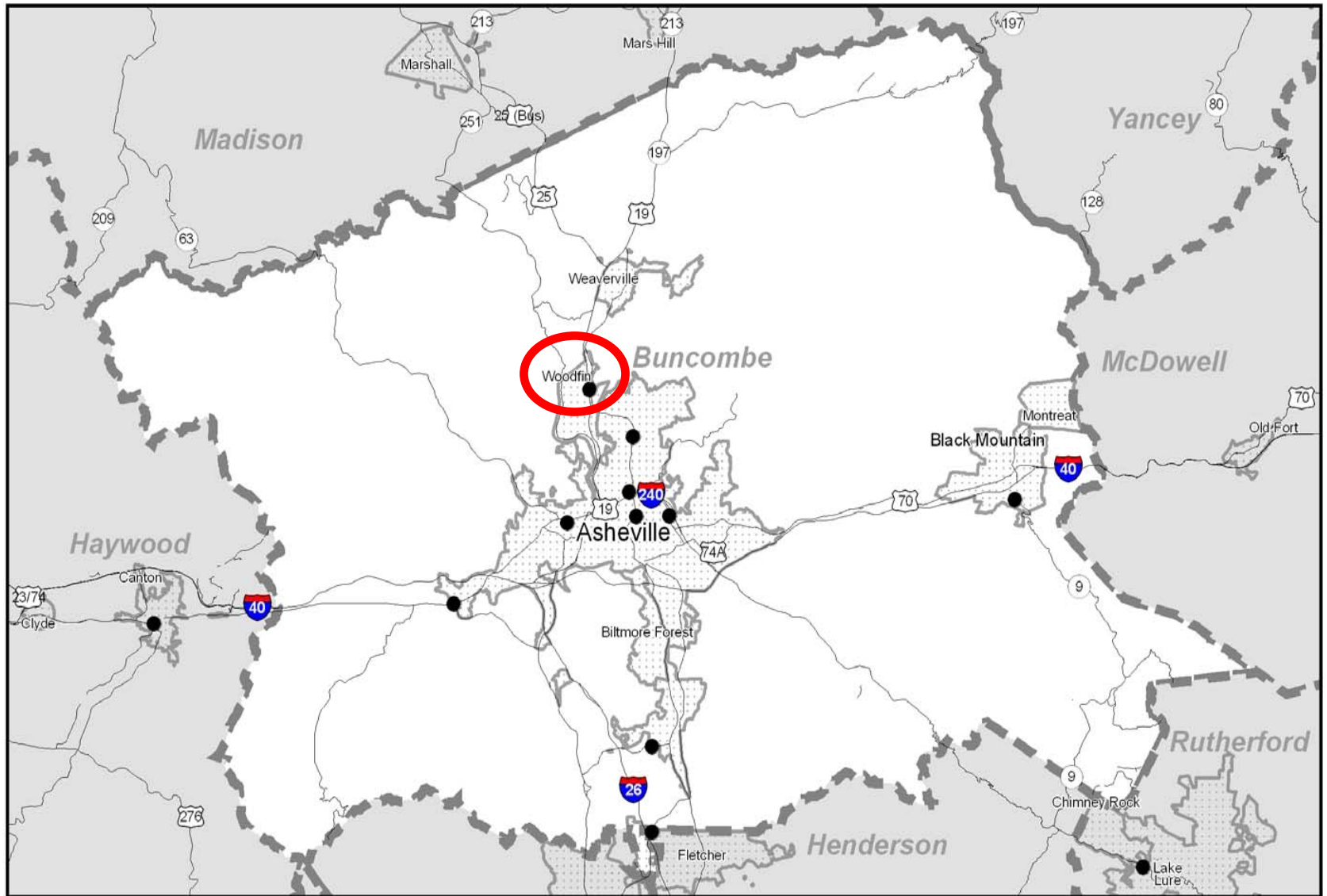
Finding 1: NC's ABC System Has Not Kept Pace

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



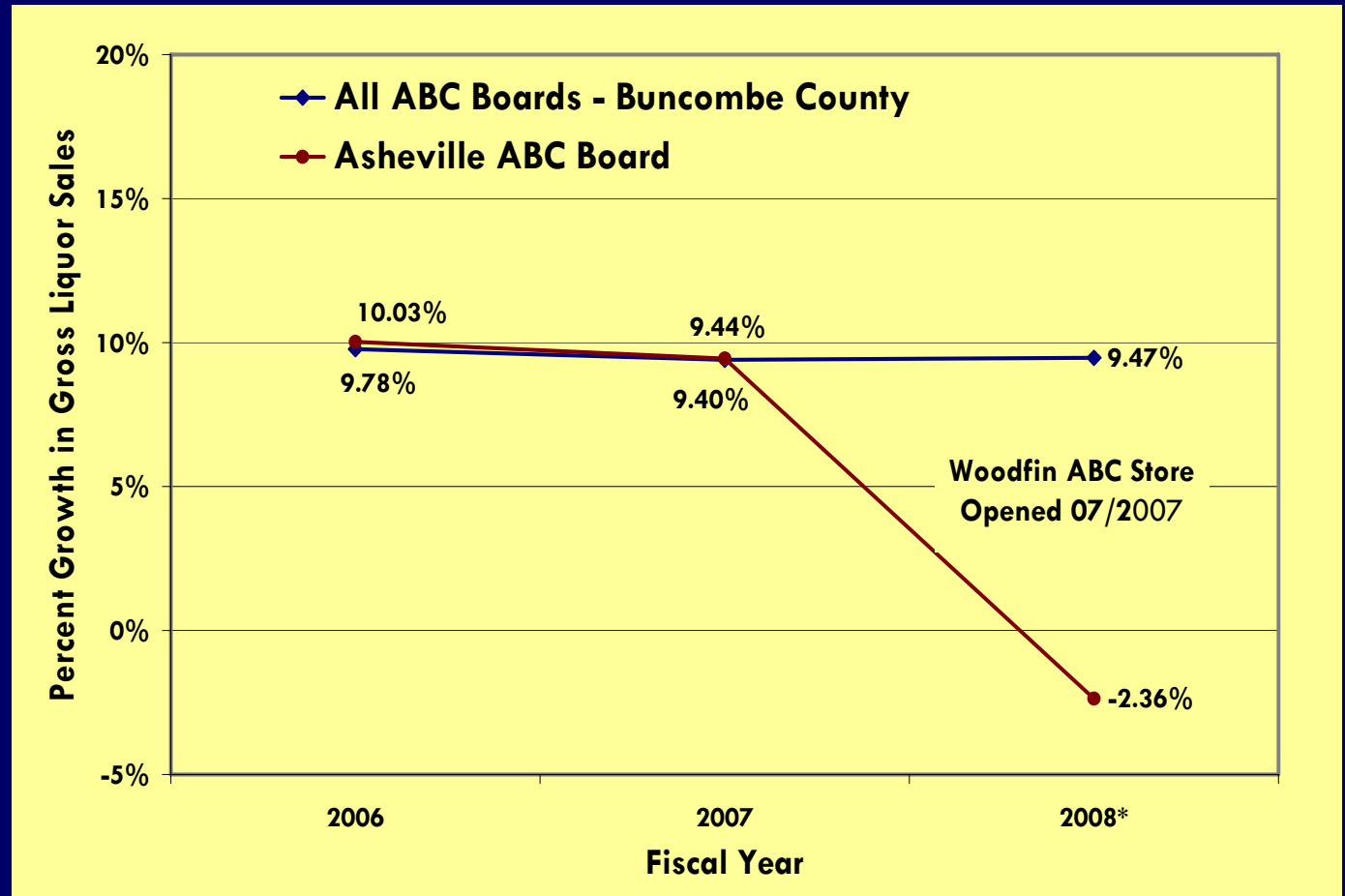
Buncombe County Experience

See report pp. 12-17



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

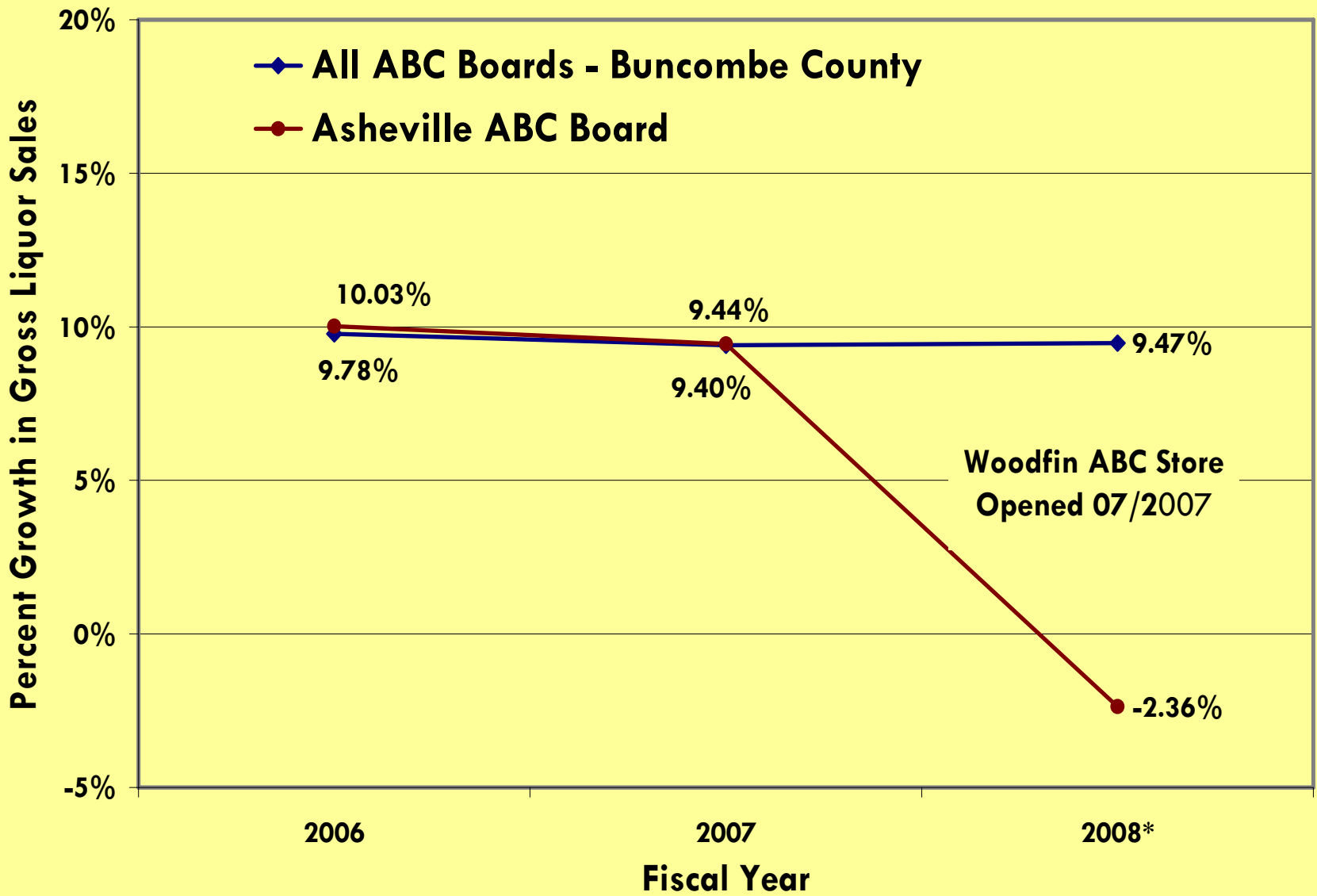
Woodfin ABC Board reduced sales for Asheville ABC Board rather than generating new sales.



Buncombe County Experience

See report pp. 12-17





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

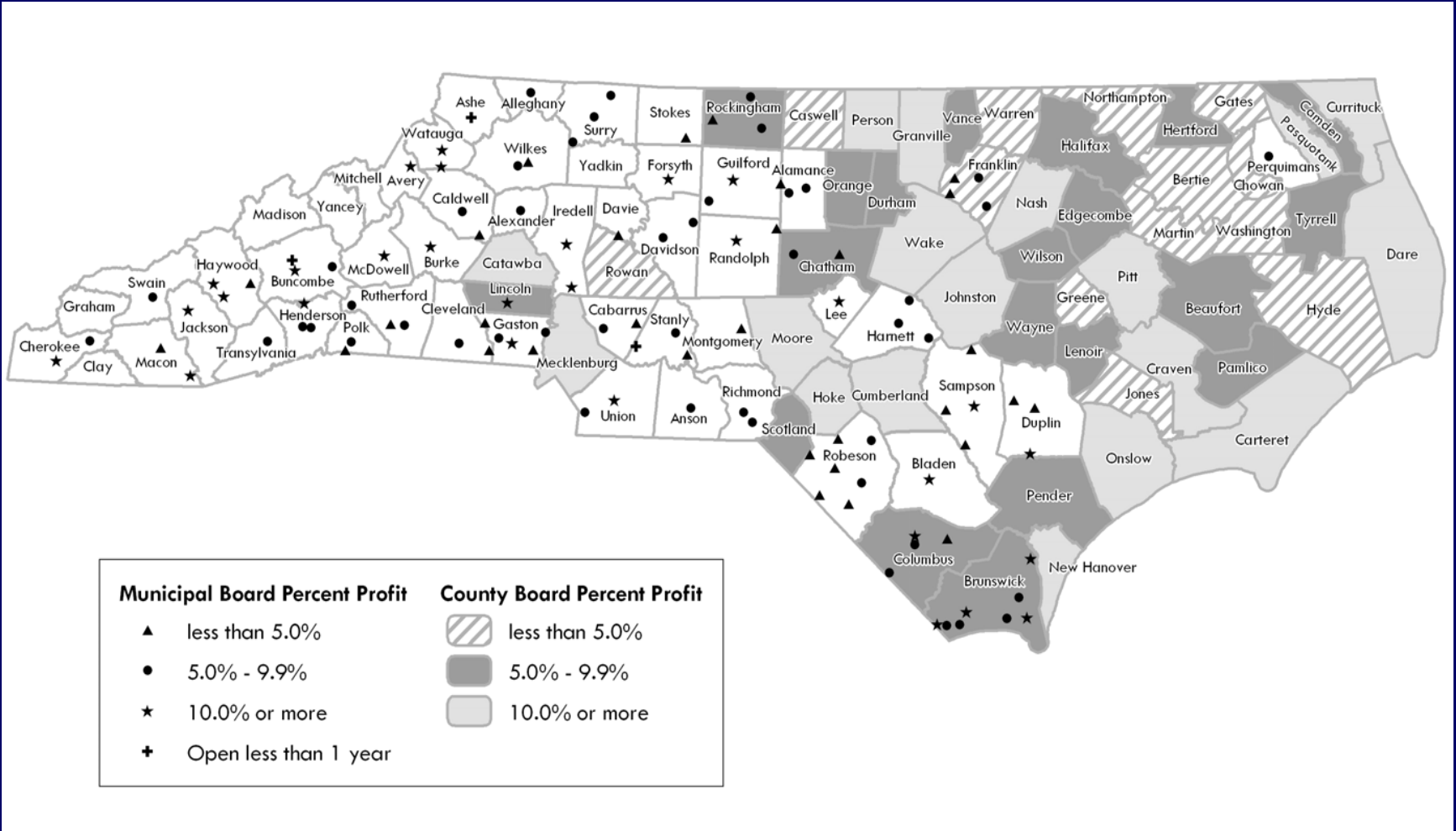
Finding 2: Statutes Limit the Ability of the ABC Commission to Effectively and Efficiently Manage the ABC System

- **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

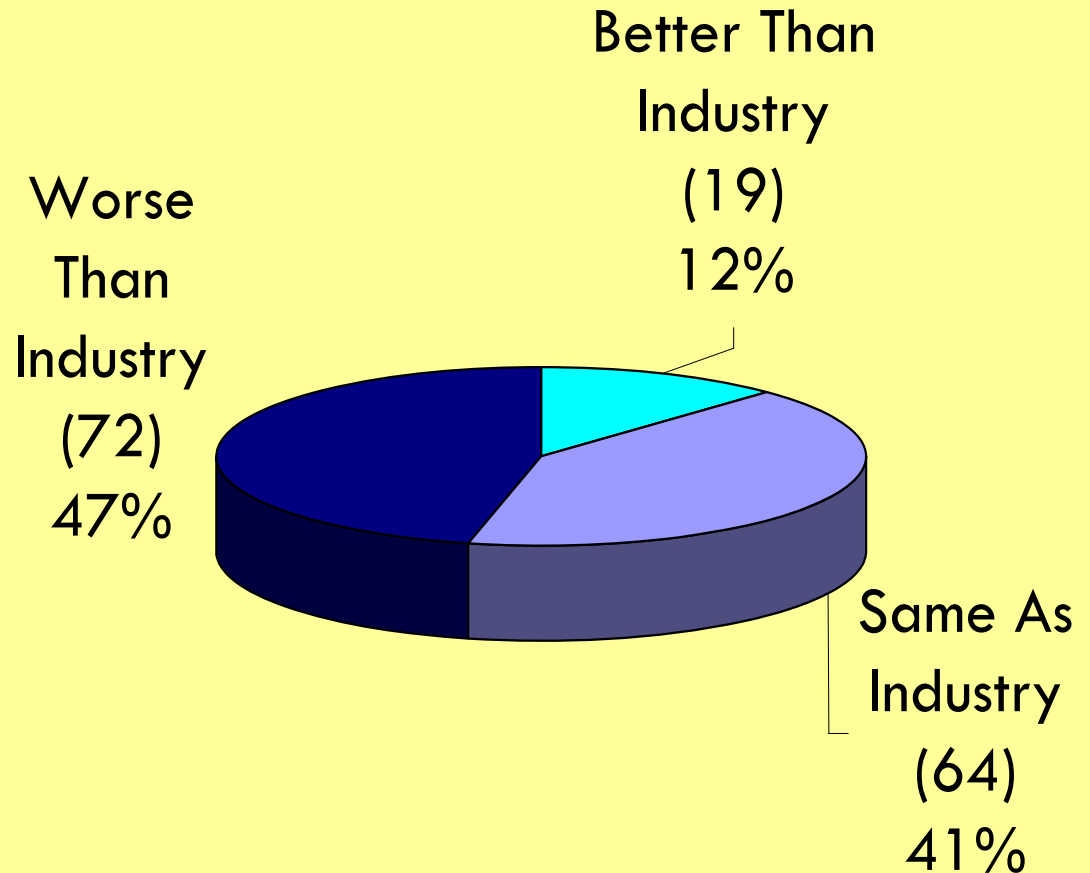


Local ABC Board Profit Margins for FY 2006-07



Finding 2: Statutes Limit System Management

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

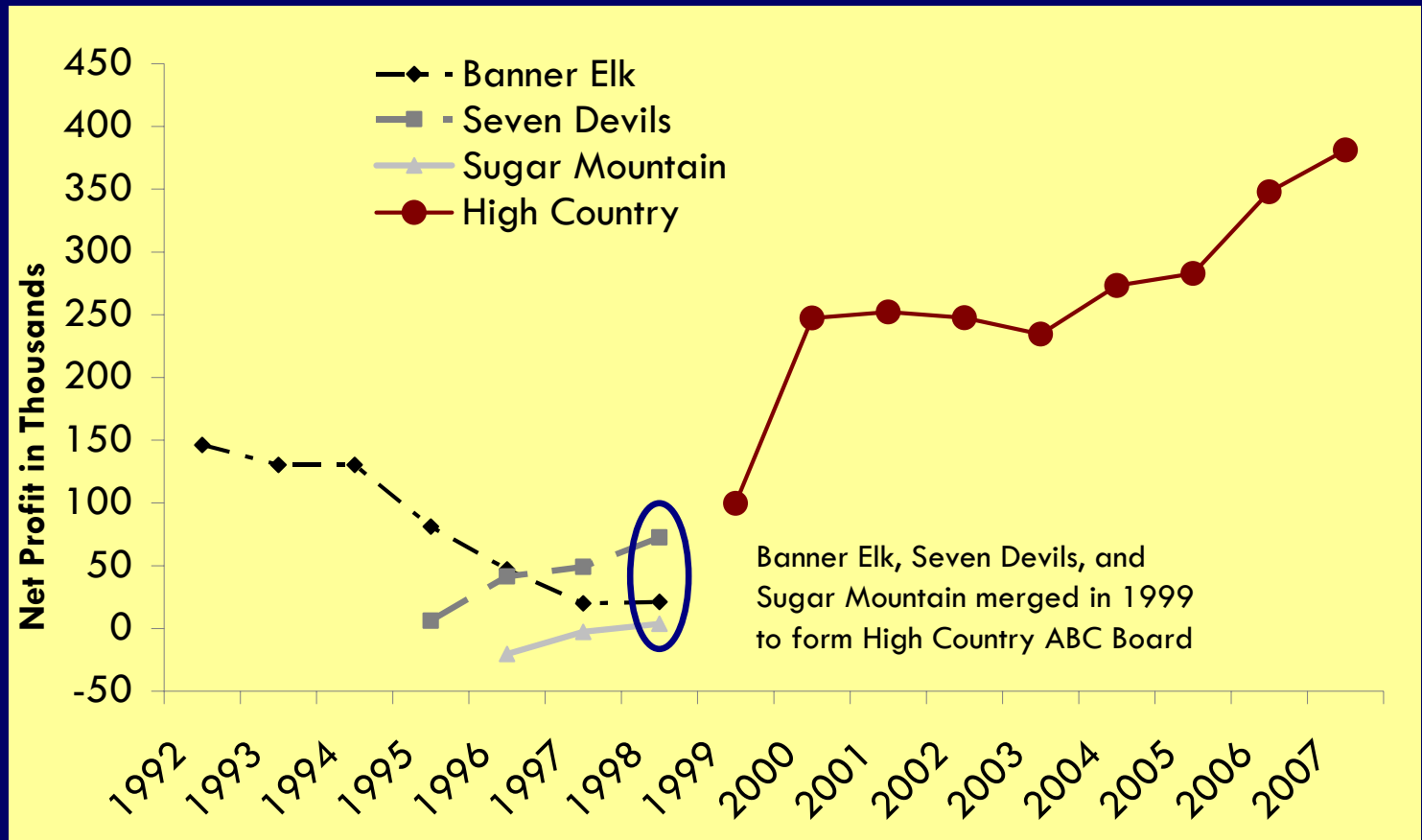


See report pp. 18-25

Finding 2: Statutes Limit System Management

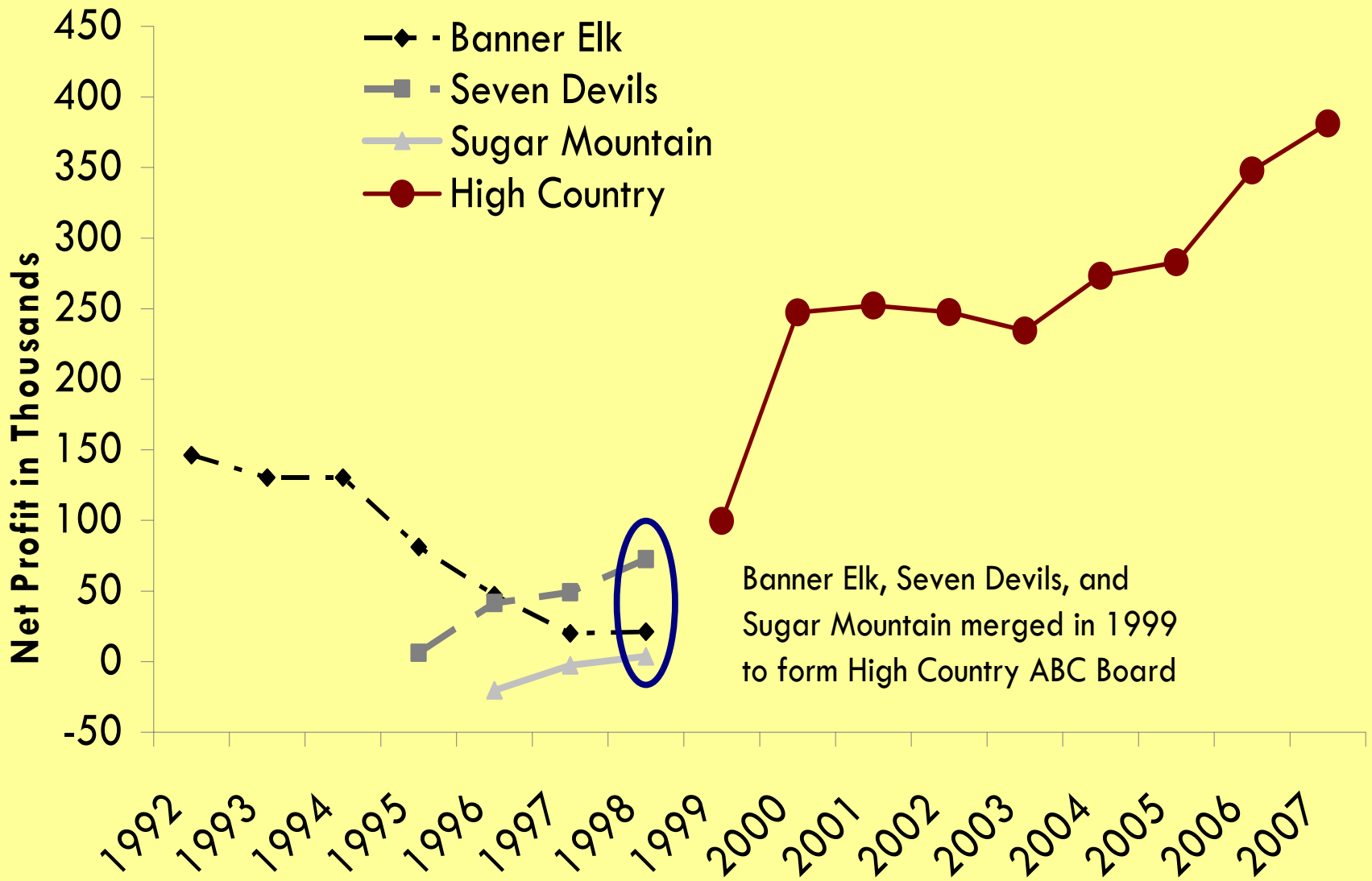
Merged boards have seen increased profitability.

Example:
High
Country
ABC Board



See report pp. 18-25





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

Retail	Agency
New Hampshire North Carolina Pennsylvania Virginia Montgomery County, Maryland* Worcester County, Maryland*	Maine Montana Ohio Oregon Vermont
Combination	Wholesale
Alabama Idaho Utah* Washington	Iowa Michigan Mississippi West Virginia

Note: Asterisks denote the state or county controls the distribution of wine.



Alcohol Beverage Control System: Recommendations



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.**

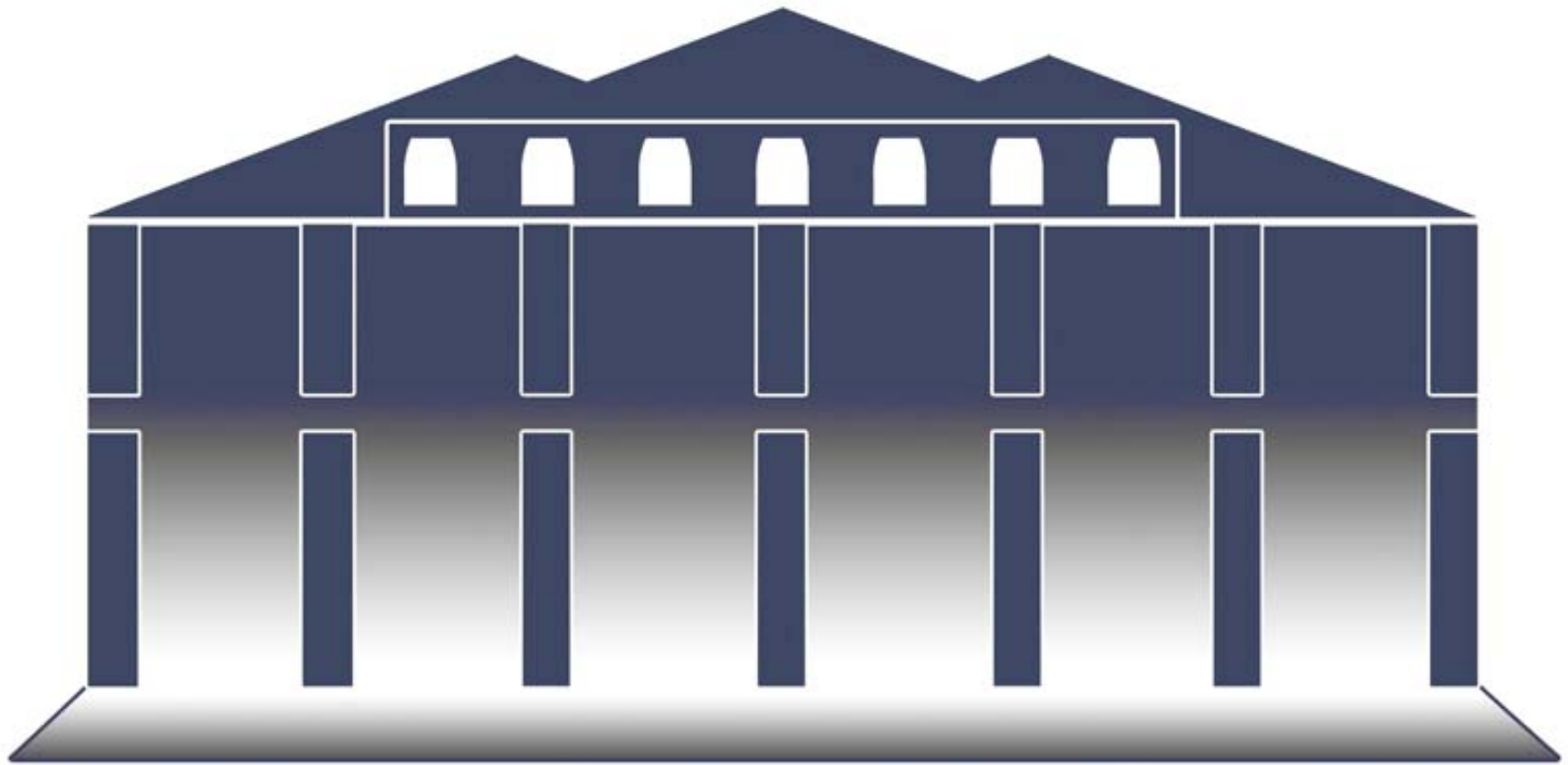


Report available online

<http://www.ncleg.net/PED/Reports/Topics/GovernmentOperations.html>

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PROGRAM EVALUATION DIVISION
NORTH CAROLINA GENERAL ASSEMBLY

