Economic Impact Analysis

Private Sector Competition

Montgomery County Alcohol Sales & Distribution

Prepared by the Bureau of Revenue Estimates

December 22, 2015

Economic Impact Analysis
Private Sector Competition
Montgomery County Alcohol Sales & Distribution

Under current law, wholesale purchases of alcoholic beverages in Montgomery County may only be made by the Department of Liquor Control (DLC). Furthermore, retail purchases of distilled spirits for off premise consumption may only be made from stores operated by the DLC. By removing these barriers to brand competition, it is expected that Maryland would experience an estimated $193.7 million in new economic activity. Moreover, it is estimated that 1,364 jobs will be created, generating $52.6 million in new wages. This new activity is expected to generate an estimated $22.8 million in state and local taxes and fees once fully implemented.

Economic Growth and New Revenue

It is expected that the changes will result in Montgomery County's employment and economic activity in the alcohol industry increasing to per capita levels which are comparable with its neighboring jurisdictions. The majority of the new demand is expected to be from sales which would otherwise occur in Washington, D.C. (the District) instead of from other Maryland jurisdictions. As a result, the changes are expected to result in net increases in economic activity and state revenues.

Given the underlying assumptions, the proposed changes will directly boost economic activity for alcohol wholesalers, bars, alcohol retailers and restaurants; increasing net direct jobs in Maryland's alcohol industry by 909 workers, wages by $35.0 million, business receipts by $129.1 million, and establishments by 159 locations. Employees and owners of these businesses will experience higher incomes and spend more in the State, leading to indirect economic growth outside of the alcohol industry, with estimated net indirect gains of 455 jobs, $17.5 million in wages, $64.6 million in receipts and 53 additional establishments.

The industry receiving the greatest direct growth in wages is expected to be the alcohol wholesale industry, with a net increase of $20.0 million in wages, 342 jobs, and $56.6 million in business receipts with six new establishments. This industry offers the highest average wages of any of the affected industries, at an average annual salary of $58,500. On premise establishments (bars, restaurants, taverns, etc.) will see the highest gain in jobs and second highest net gains in wages, at 374 net jobs, $7.7 million in added wages, respectively, along with $24.4 million in receipts. The average wage of employees in this industry is expected to be the lowest at $20,600, although these wages are expected to be supplemented by tips. The third largest net job growth will be in the off premise retail industry (liquor stores, etc.) at 193 jobs and $7.3 million in wages; however, it is expected that receipts of retailers will experience the second largest growth of any industry at $48.2 million.

Table 1
Privatization of Montgomery County Alcohol Sales & Distribution
Net Economic Impact
($$ in Millions)

Calendar Year	2018	2019	2020
New Jobs	446	900	1,364
New Establishments	52	105	159
New Salaries & Wages	$16.5	$34.0	$52.6
New Economic Activity	$63.3	$127.8	$193.7

Table 2
Privatization of Montgomery County Alcohol Sales & Distribution
Net Impact by Industry
Calendar Year 2020
($$ in Thousands)

Industry	Wholesalers	Bars & Restaurants	Off Premise Retail	Total w/ Indirect
New Jobs	342	374	193	1,364
New Establishments	6	32	68	159
New Salaries & Wages	$20,005	$7,707	$7,335	$52,570
New Economic Activity	$56,561	$24,361	$48,202	$193,684

State and local revenues are expected to increase by over $22.8 million. The State will receive over 90% of the revenue, 99% of which is attributable to the General Fund. The largest net revenue increase will be from the sales tax, both the 9% sales tax on alcohol beverages as well as the 6% sales tax from new business purchases and indirectly induced sales of non-alcohol items, at approximately $15.9 million. Income taxes will provide the second largest gain at $2.7 million to the General Fund. The excise tax is expected to provide the third highest revenue source at $2.1 million.

Table 3
Privatization of Montgomery County Alcohol Sales & Distribution
Net Revenue Impact
($$ in Thousands)

Fiscal Year	2018	2019	2020	2021
General Fund	$536	$13,042	$17,252	$21,027
Higher Education Investment Fund	$1	$4	$6	$7
Transportation Trust Fund	$7	$14	$20	$20
Local Income Tax	$271	$831	$1,424	$1,754
Total	$816	$13,891	$18,702	$22,807

Table 4
Privatization of Montgomery County Alcohol Sales & Distribution
Net General Fund Revenue Impact by Revenue Type
($$ in Thousands)

Fiscal Year	2018	2019	2020	2021
Sales Taxes	$0	$10,186	$12,990	$15,874
Excise Taxes	$0	$1,335	$1,704	$2,084
Income Taxes	$415	$1,275	$2,185	$2,695
License Fees	$122	$246	$373	$377
Total	$536	$13,042	$17,252	$21,027

Maximizing the Opportunity

While basic economics dictate that removal of the barriers to brand competition will generate additional economic opportunity, the impact to both the State as well as Montgomery County is amplified by geographical considerations. Montgomery County's neighbors include the District; therefore, the cannibalization of economic activity that is currently occurring elsewhere in Maryland is substantially lower relative to the same scenario for a county only bordered by Maryland jurisdictions or where fewer of its residents regularly cross the border.

Available data clearly indicates that Montgomery County residents are forgoing activity within their own jurisdiction, favoring consumption from other areas, principally the District. Nowhere is this better depicted than the annually reported figures from the Comptroller of Maryland's office, which show per capita alcohol deliveries by type of alcohol and by county. The following table juxtaposes Montgomery County with the statewide average as well as with several of the larger jurisdictions.

Table 5
Average Per Capita Wholesale Deliveries in Gallons
Fiscal Years 2013-2015

	Distilled Spirits	Wine	Beer
Montgomery County	1.06	2.43	9.42
Statewide	1.79	2.50	15.88
Anne Arundel County	2.27	3.98	19.73
Baltimore County	1.96	2.77	15.25
Baltimore City	2.33	2.30	17.73
Howard County	1.50	3.00	12.00
Frederick County	1.72	2.63	17.82
Prince George's County	1.70	1.53	13.56

Source: Comptroller of Maryland Alcohol Tax Annual Reports

With the exception of wine consumption, Montgomery County is an outlier; per capita consumption for both distilled spirits and beer are almost 41.0% below statewide averages. Additionally, given the anomalous demand for distilled spirits and beer, it is reasonable to assume that, in the absence of a restricted marketplace, wine consumption might look more like that of jurisdictions with similar median household income, like that of Howard County or Anne Arundel County. It is highly unlikely that the county's residents have such different consumption patterns; the more likely scenario, as demonstrated in Table 5 above, is that consumers are satisfying their demand by crossing the county's borders.

Nowhere in the State is the opportunity to purchase from an outside jurisdiction more convenient than it is for Montgomery County residents. Not only do so many of their residents live within either a short drive of the District or a short walk to readily available public transportation, but Montgomery County is a net exporter of its residents for purposes of work, particularly to the District. The below table, a summary of commuter data available from the U.S. Bureau of Census's American Community Survey, shows that 111,136 Montgomery County residents commute into the District. Each commuter has the opportunity to avoid the centralized alcohol restrictions of the county without incurring any significant inconvenience.

Montgomery County Workforce

40.4%
Work Outside Montgomery County

21.4%
Work in Washington D.C

Table 6
Where Montgomery County Residents Work

Location of Work	Number Of Commuters
Montgomery County	310,261
District of Columbia	111,136
Other Maryland Jurisdictions	57,285
Virginia	37,361
Other	4,182
Total	520,225

Source: U.S. Census Bureau; Bureau of Revenue Estimates

Naturally, as monopolistic constraints have served to shift demand to other jurisdictions, there are relatively fewer establishments providing such goods and services within the county. Several data sources show discrepancies based on various measures; however, nowhere is this more apparent than in the number of establishments and employees per capita for relevant industries. The below charts include the statewide figures as well as those for Howard County, Maryland's county that is most relatable in terms of income.

Table 7
Establishments Per Capita (2014)

	Bars & Restaurants		Off Premise Retailers	
	Number	Relative To State Average	Number	Relative To State Average
Montgomery County	0.00170	-7.5%	0.000107	-46.1%
Statewide	0.00183	NA	0.000198	NA
Howard County	0.00171	-6.9%	0.000158	-20.0%

Sources: U.S. Bureau of Labor Statistics; U.S. Census Bureau; Bureau of Revenue Estimates

Table 8
Employment Per Capita (2014)

	Bars & Restaurants		Off Premise Retailers	
	Number	Relative To State Average	Number	Relative To State Average
Montgomery County	0.0285	-11.5%	0.00034	-63.1%
Statewide	0.0322	NA	0.00092	NA
Howard County	0.0353	+9.5%	0.00081	-11.8%

Sources: U.S. Bureau of Labor Statistics; U.S. Census Bureau; Bureau of Revenue Estimates

Montgomery County has 7.5% fewer on premise retailers (bars and restaurants) and 11.5% fewer employees per capita than the state average; Howard County has fewer establishments as well, but more employment, indicative of larger-scale operations. For off premise retail stores, Montgomery has 46.1% fewer locations and 63.1% fewer employees per capita, whereas Howard County actually has 20.0% fewer locations but just 11.8% fewer employees.

Given the disparity in per capita levels of alcohol consumption between Montgomery County and its neighboring jurisdictions, it appears likely that revenues and economic activity in Montgomery County remain depressed due to the controls placed on the distribution and sale of alcoholic products. It is assumed that consumers have chosen to make purchases in neighboring jurisdictions rather than lower overall intake, with Washington, D.C., in particular, receiving the vast majority of this demand. Because a large portion of the increase in demand is expected to come from purchases that would otherwise be made outside of the State, it is anticipated that the changes would lead to net annual gains in economic activity and state revenues of approximately $193.7 million and $22.8 million, respectively.

Methodology

In order to determine the impact of the law changes on revenues and the economy, it is assumed that Montgomery County's per capita (age 21 and older) consumption is artificially low because alcoholic beverages are frequently purchased in the county's neighboring jurisdictions- Frederick, Howard and Prince George's Counties, and predominantly in the District of Columbia. Therefore, we expect purchases of alcoholic beverages in Montgomery County, as well as the related economic activity, to rise to the average of those neighbors. It is assumed that new establishments will open over a three-year period and that half of the revenues will be received during the first fiscal year and the remainder in the second.

New Establishments

To determine the potential expansion and/or creation of establishments in Montgomery County, data on existing establishments in the Drinking Place (NAICS code 722410), Full-Service Restaurant (722511), Beer and Ale Merchant Wholesaler (424810), and Beer, Wine & Liquor Store (445310) industries was drawn from the U.S. Census data on County Business Patterns. For each industry, the average number of establishments per capita (age 21 and older) of the neighboring jurisdictions was multiplied by Montgomery County's population to determine the number that would ultimately be operating within Montgomery without monopolistic constraints. The net increase in establishments was used in many of the revenue and economic estimates, outlined below.

Sales Tax and Excise Tax

Using data from the Montgomery County Office of Legislative Oversight's *Review of Alcohol Control in Montgomery County,* per capita consumption rates of beer, wine and spirits in Montgomery County were raised to the level of the average rates of Montgomery's neighboring counties. These figures were then multiplied by population from the U.S. Census to approximate the increase in purchases expected in Montgomery County as a result of the passage of this legislation. The adjusted Montgomery County per capita consumption rates were then converted to total gallons consumed (to get to the excise tax estimate), total cases consumed, and to the total number of standard items consumed (a standard item being a 750 mL bottle for either wine or spirits and a six-pack of 12 oz. bottles for beer).

To get to the net increase in alcohol sales tax revenue, the average price per standard item was calculated using additional data from the *Review of Alcohol Control in Montgomery County*. The DLC's fiscal year 2014 wholesale revenue was divided by the number of cases sold to calculate the wholesale price per case. This price was marked up using the DLC's markup percentages to calculate the retail price which was then adjusted for the effect of the DLC monopoly using an average of price differences from Washington, D.C., and Virginia. Montgomery County retail sales were calculated by multiplying the average price by the number of standard items consumed in Montgomery County and confirmed against the alcohol tax receipts data from the Comptroller's *Alcohol and Tobacco Comparative Summary*.

To determine the potential expansion's additional non-alcohol sales and use tax revenue—the additional tax revenue to be collected largely on food sales and purchases of business equipment outside of the state—the number of new establishments was multiplied by the fiscal year 2015 average sales and use tax paid per establishment. Because on premise and off premise retailers fall under the same industry code (109 – package liquors and taverns), the same average sales and use tax paid was multiplied by both the number of new on premise and off premise retailers expected under the new expected conditions. The average sales and use tax paid by businesses in industry code 112 (restaurants and night clubs selling beer, wine or liquor) was multiplied by the estimated number of new restaurants.

Jobs, Wages, and Personal Income Tax Revenue

The number of establishments was multiplied by data from the U.S. Census: Montgomery's average salaries and wages per establishment to determine the potential annual payroll and by average jobs per establishment to determine the total jobs. Montgomery's existing wages and jobs were subtracted from the potential total payroll and employment figures to determine the potential increase in Montgomery's wages and jobs. A certain percent were assumed to be from Frederick, Howard, Prince George's and Washington, D.C. depending on industry. Of the jobs and salaries, 10% was assumed from Frederick, 10% from Howard, 10% from Prince George's, and 50 % from Washington, D.C. for all industries except the wholesale industry, which assumed 20% from Prince George's and 50% from Washington, D.C. as Census data indicates there are no beer and ale wholesalers in Frederick and Howard. The wages and jobs that were cannibalized from other Maryland counties were subtracted when determining the total increase to Maryland (the gain to Maryland is effectively the amount pulled from non-Maryland areas such as Washington, D.C. and Virginia, or increased demand). An effective state income tax rate of 4.75% and local income tax rate of 3.2% was applied to the net change in wages to determine the effect on personal income tax revenue.

It was assumed that 50% of the new establishments are pass-through entities. The average income tax paid by pass-through entities in the alcohol industry was multiplied by 50% of the net new establishments and included in the personal income tax estimate. The numbers were increased by 3% per year: 2% for wage growth and 1% for population growth.

Corporate Income Tax, Business Receipts, and License Fees

As noted above, a 50/50 split between corporate and pass-through is assumed for the new business entities. The average income tax reported on corporate tax returns by relevant industry code was multiplied by the number of new corporate entities to determine the effect on corporate income tax revenue. The average receipts attributable to Maryland reported on these corporate returns was multiplied by the total number of new entities (both corporate and pass-through) to determine the increase in business activity. It is assumed that the per capita (population age 21 and older) number of Class A licenses that will be issued in Montgomery County will ultimately equal the average of the three neighboring counties.

Indirect Economic Activity Multiplier

All of this direct activity—new jobs, new and expanded establishments and new spending—is expected to generate additional economic activity. Based on *Beer Serves America*, a beer industry economic contribution study prepared for the Beer Institute and the National Beer Wholesalers Association, a multiplier of 1.5 was used to estimate the revenues that would be generated by this indirect activity.

Bureau of Revenue Estimates 80 Calvert Street Annapolis, Maryland 21401