

COUNTY OF ORANGE
ALCOHOLIC BEVERAGE CONTROL BOARD

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AGENDA # 3a(2)

Board Members
BILL BRASHEAR
HOWARD LUNSFORD
BILL THORPE

C. DAVIS WALTERS, Chair
MARGI S. RICE, Vice Chair
DANIEL W. SYKES, Gen. Mgr.

April 12, 2002

Mayor Kevin Foy
Town of Chapel Hill
306 North Columbia Street
Chapel Hill, NC 27516

Dear Mayor Foy:

I need help from the Town of Chapel Hill in the form of a resolution in support of the present system of alcoholic beverage control.

Senator Howard Lee (D-Orange) is sponsoring legislation to study the benefits and costs of different systems of selling liquor, including private franchises. This means that privatization of the ABC stores may be in the future of North Carolina. I have contacted Senator Lee on two occasions requesting to hear his side of the story in writing, but he refuses to put anything in writing. However, he has agreed to a meeting or a telephone conversation. In my opinion, in today's society of mass communication, a telephone call or a private meeting does not disseminate the information to the public adequately.

He was quoted in the Durham Herald-Sun newspaper on Monday March 25, 2002 as saying, "The amazing thing to me is that the only people who are opposed to it are the ABC Commission and county commissions, and they don't know why they oppose it because they haven't heard the arguments". It is true, I have not heard his arguments and I am not sure who has. I would prefer to read and study his arguments to see if he fully understands how the ABC system operates in North Carolina and possibly dispel any misconceptions that he may have.

I recently invited Senator Lee to join us for our April 16th Board meeting. I will forward any information that I obtain. In the meantime, it would be greatly appreciated if you could put this resolution on your agenda (a draft copy is attached). Also attached is a sheet entitled, "Questions and Answers regarding Privatization".

Thank you in advance for your support and cooperation.

Sincerely,


Dan Sykes
General Manager

Enclosures

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Liquor store study stirs up ABC boards

A panel will look at the benefits, costs of various ways of selling alcohol

Associated Press

RALEIGH — A legislative study of private liquor stores in North Carolina has kicked up opposition from ABC boards and counties even before the study begins.



LEE

Sen. Howard Lee, D-Orange, sponsor of the legislation that passed with little attention in December. The study is to examine the benefits and costs of different systems of selling liquor, including private franchises.

A 13-member committee will look at other ways to improve the N.C. Alcohol Beverage Control Commission, from changes in budget and staffing to price-setting and taxes.

The committee, which is expected to be appointed as early as this summer, could issue a report next year.

In North Carolina, all bottles of liquor sold to restaurants, bars or the public must be purchased in locally operated ABC stores. Last year, profits from 400 stores generated \$141 million for law enforcement, the state and local governments.

Lee said he thought privatization has the potential to earn much more money for the state — maybe \$500 million to \$750 million — through taxes, franchise fees and state-controlled warehousing.

“No one today, including myself, would be willing to say we should privatize,” Lee said. “We should evaluate the possibility.”

About 20 local ABC boards have asked elected officials for resolutions in favor of making no changes.

“If [Sen. Lee] truly wants to look into the ways to make ABC boards better, I support that,” said William F. Hester, the chief executive manager of the Mecklenburg County ABC Board, the state’s largest. “But again, if we’re talking about privatization, we’re going to have a fight.”

Leaders in the ABC system say the amount of money currently pumped into city, county and state government by liquor sales is one of the biggest arguments against privatization.

Besides the \$106 million in taxes collected by the state, law enforcement and alcohol education programs collected \$10.7 million during the fiscal year ending June 2001. Cities and counties collected more than \$31 million.

“We want the local governments to know this is another attempt by the state to grab our money,” said Hester, a former head of the state ABC Commission.

Such assessments are premature, Lee said.

“The amazing thing to me is that the only people who are opposed to it are the ABC Commission and county commissions, and they don’t know why they oppose it because they haven’t heard the arguments,” he said.

While some ABC stores raise a substantial amount of money, others fail to make a profit year after year. Seven ABC boards in the state were in the red last year.

The average profit for all 153 ABC boards was 10 percent of income. But 41 boards made less than 4 percent profit, according to the ABC Commission.

DURHAM



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CALL & VIEW

120 MORRIS STRE

LAST MINUTE ARTS & CRAFTS SPRING

Fundamentals of Drawing a Saturdays, 9 AM to 12 PM, Apr

Beginning Book Making 33! Mondays, 7:30 pm to 9:30 pm,

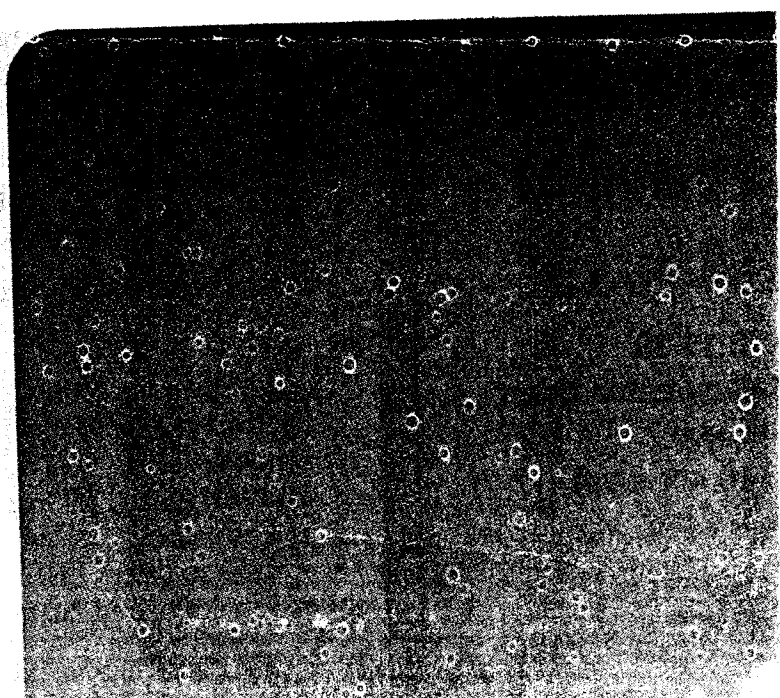
Beginning Handweaving 30 Tuesdays, 4:00 pm to 6:00 pm,

Collage 333.3 Thursdays, 7:30 pm to 9:30 pm

Introduction to Interior De Wednesdays, 7 pm to 9 pm, A

Exploring Dance (4-5 yrs) Saturdays, 11:15 AM to 12:00

FULL DESCRIPTIONS ONLI



**A RESOLUTION
IN SUPPORT OF THE PRESENT SYSTEM OF
ALCOHOLIC BEVERAGE CONTROL**

WHEREAS, the people of the Town of Chapel Hill, Orange County, North Carolina voted to permit the sale of spirituous liquor through the establishment of the Orange County ABC Board, which is part of the State's control system for the sale of spirituous liquors; and

WHEREAS, the Orange County ABC Board makes spirituous liquor available to consumers through local ABC stores while curtailing the intemperate use of alcohol through control over the distribution, sale and advertisement of spirits; and

WHEREAS, the State's ABC system is self-sufficient in that consumers of spirits pay for the costs of operating the State ABC Commission and for the distribution and sale of spirits; and

WHEREAS, the Orange County ABC Board generates substantial revenue for Orange County and contributed in the most recent fiscal year which ended June 30, 2001, \$ 400,000.00 to its general fund, \$63,300.00 for alcohol education and rehabilitation, and \$63,300.00 for alcohol law enforcement; and

WHEREAS, the North Carolina General Assembly recently created the Legislative Alcoholic Beverage Control Study Commission (ratified Senate Bill 166) which is required to study and address, among other things, the benefits of a "control" system and a "license" system for spirituous liquor, including privatization of alcoholic beverage sales.

NOW THEREFORE, IT IS HEREBY RESOLVED THAT:

The Town of Chapel Hill, North Carolina supports the present control system for the sale and distribution of spirituous liquor and desires to retain the Orange County ABC Board.

By: _____

Attest:

_____ Date: _____

Questions and Answers regarding Privatization
Prepared by the N.C. Association of ABC Boards, Inc.

Why are we talking about privatization? In 2001, the General Assembly established the Legislative Alcohol Beverage Control Study Commission. This Commission is required to address the benefits of "control" and "license" systems, including *privatization* of alcoholic beverage control

What is privatization? While it can take many forms, privatization generally means that the distribution and sale of liquor is by private for-profit persons or companies, rather than by the State, or its cities, towns or counties.

What is a control state? A "control" state is one in which the state is directly involved with the distribution and sale of alcoholic beverages. As a control state, North Carolina is unique in that the sale of spirituous liquor at retail is through local ABC Boards. Local ABC Boards members are typically appointed by the county commissioners or town council for the jurisdiction in which the local voters have approved such method of the sale of liquor.

What is a license state? A "license" state, also known as an "open state", such as South Carolina, is one in which the state regulates the sale of liquor, but either grants licenses to, or establishes agency relationships with private business parties for the sale of liquor at retail.

What are some of differences between a control and license state? In a control state, the objective is to control the intemperate use of alcohol through control over the distribution, sale and advertisement of spirits, while making liquor available to the people who have voted to have it available through local ABC stores, and to generate revenue for the state and its cities and counties. In a license state, the private business is motivated by profits from the sale of spirits.

What will privatization bring to North Carolina?

1. An end to a successful era of control over the sale of spirits that has been in place since Prohibition was repealed;
2. An override of the peoples' prior votes to establish ABC stores in their town or county;
3. North Carolina would have 3,366 retail outlets, or one store for each 2,272 residents (using the 1992 average of 44 retail liquor outlets for each 100,000 residents in a "license" state). The majority of these outlets would probably be operated by existing wine and beer off-premise licensees. North Carolina presently has 392 ABC stores.
4. Greater access, availability, and accessibility of liquor due to the increased number of liquor outlets, the extended hours of operation, and the profit motive of the private businesses.
5. Liquor being available in convenience stores, pharmacies, grocery stores, and at drive-through locations, with the advertising and other promotion that naturally follows.
6. An increase in the use of liquor, an increase in underage drinking, an increase in the need for additional law enforcement;
7. A reduction of needed revenues for alcohol law enforcement, alcohol education and rehabilitation and for the State and its subdivisions;
8. A reduction in the selections of spirits available to consumers;
9. An increase in urban retail outlets, and a decrease in rural retail outlets

What are some of the benefits of North Carolina's control system? A comparison of North Carolina, a control state, with South Carolina, a license state, shows the benefits of North Carolina's control system:

1. North Carolina has almost twice the revenues from the sale of liquor. In 1999, NC's state and local revenue from the sale of liquor was \$152.5 million, while SC's state and local revenue from the sale of liquor was \$81.2 million. With about the same population, NC's revenue was almost twice that of SC.
2. South Carolina has a greater number of liquor outlets per each resident. In 2000, NC had 392 county/municipal ABC stores serving a population of 7.65 million, or one liquor store for every 19,515 residents, while SC had 896 off-premise liquor outlets serving a population of 7.12 million, or one liquor outlet for every 7,946 residents.
3. South Carolina has greater consumption of liquor per capita. In 1999, NC averaged 1.45 gallons of liquor consumption per each resident (41st in the nation), while SC averaged 1.99 gallons (19th in the nation).

Does the State own any ABC stores? No. Local ABC Boards either own or lease their ABC stores. The State does not own any of the 392 local ABC stores. North Carolina is unique in that the sale of spirituous liquor at retail is through local ABC Boards, whose members are typically appointed by the county commissioners or town council for the jurisdiction in which the local voters have approved such method of the sale of liquor.

How does the warehouse function? Does the State own any liquor? North Carolina has a central warehouse in Raleigh, adjacent to the North Carolina ABC Commission. The warehouse is operated by a private contractor under the oversight of the North Carolina ABC Commission. The contractor is responsible for the receipt, storage and distribution of products throughout the entire state. The contractor's fee is paid indirectly by the purchasers of liquor. The warehouse operates under a bailment system where the ownership of the product remains with the distillery until it is delivered to the local ABC board. The State does not own any liquor.

*For further information, contact Jon Carr at the N.C. Association of ABC Boards, Inc.
(919) 828-2501 or Jcarr@jordanprice.com*