ECON #3
February 20, 2025
Worksession

MEMORANDUM

February 18, 2025

TO: Economic Development (ECON) Committee

FROM: Naeem M. Mia, Legislative Analyst

SUBJECT: Alcohol and Beverage Services (ABS) - Updates

PURPOSE: Receive a briefing

Expected Attendees:

- Kathie Durbin, Director, ABS
- John (Marty) Utermohle, Chief of Administrative Services, ABS
- Amy Samman, Chief of Licensure, Regulation, and Education, ABS
- Kevin Hutchinson, Chief of Wholesale Division, ABS
- Sean Peters, Chief of Retail Division, ABS
- Courtney Orsini, Management and Budget Specialist, ABS

A. Summary

The purpose of today's briefing is to receive an update from ABS on the below topics. The Executive recommended a CIP amendment for the ABS Retail Store Refresh project[1]; this amendment will be reviewed alongside the recommended ABS operating budget later this spring.

B. Fiscal Update

Council staff requested updated financial information covering FY24 actual revenues and expenditures (for the fiscal year ending on June 30, 2024) and FY25 year-to-date (through December 31, 2024).

Table 1 below shows aggregated FY24 data for both the wholesale and retail divisions (from 27 ABS retail locations); more detailed data by retail location can be found on circle 1.

[1] Link to recommended CIP:
http://www.montgomerycountymd.gov/OMB/Resources/Files/omb/pdfs/fy26/ciprec/P852101.pdf

Table 2 below shows aggregated FY25 data (through December 31, 2024).

Table 1. FY24 Actuals Sales and Expenditures by Division (July 1, 2023 – June 30, 2024)

	Total ABS	Wholesale Division	Retail Division
Sales	309,412,949	281,757,119	132,542,865
Cost of Goods Sold	209,174,121	209,174,121	103,187,259
Gross Profit	**100,238,828**	**72,582,998**	**29,355,606**
Other Income	3,220,997	(413,735)	1,112,244
Personnel Costs	43,676,102	17,079,060	19,099,581
Operating Costs	28,483,498	5,274,935	15,299,269
Total Expenditures	**72,159,600**	**22,353,995**	**34,398,850**
Net Income	**31,300,225**	**49,815,268**	**(3,931,000)**

Table 2. FY25 Sales and Expenditures by Division (July 1, 2024 - December 31, 2024)

	Total ABS	Wholesale Division	Retail Division
Sales	158,641,429	143,468,740	68,655,808
Cost of Goods Sold	105,889,452	105,889,452	52,453,394
Gross Profit	**52,751,977**	**37,579,288**	**16,202,414**
Other Income	1,302,785	(211,333)	287,383
Personnel Costs	23,531,126	9,122,154	10,271,935
Operating Costs	12,681,229	2,281,728	5,729,628
Total Expenditures	**36,212,355**	**11,403,882**	**16,001,563**
Net Income	**17,842,407**	**25,964,073**	**488,234**

Council Staff comments: The Committee may wish to discuss what recent revenue and expenditure trends ABS is experiencing (especially in light of completed store refreshes and relocations) and any risks or opportunities the department is considering.

ABS has provided the following comments on this topic:

- ABS retail stores have shown positive growth in the first two quarters of FY25, and the remodeled Oak, Barrel & Vine stores have shown significant growth in sales over the same period from FY24 to FY25.

- The Gaithersburg store is showing positive growth in the first two quarters of FY25 with current sales in the period through December at $1.2 million. Total reported sales for this location in all of FY24 were $1.67m.

- The Cabin John and Montrose Oak Barrel & Vine locations are up 6% and 11% respectively in the same period as compared to the first half of FY24.

- When comparing Q1/Q2 FY 24 and FY25, ABS retail stores show an average of 2% growth year over year. Removing the high and low anomalies of Gaithersburg (+44%) and Westbard (-83%) (which was closed for most of FY24 until it recently reopened), ABS retail stores are showing a 4% mean growth rate.

- Additionally, ABS will be transferring operations of White Oak and Wheaton locations to brand new Oak Barrel & Vine buildouts, with openings slated for mid-March of 2025 in the Wheaton Town Center and Westfield Wheaton mall respectively. These new locations will provide increased access, new fixtures and an enhanced customer shopping experience.

- FY 24 and FY 25 saw a downward trend in alcohol purchasing and consumption nationally, which was felt in Montgomery County as well. Data from the National Alcohol Beverage Control Association shows overall trends coming back to pre-pandemic levels from the former highs enjoyed during the pandemic and in months that followed.

- Labor costs in general, and in Montgomery County government specifically, have continued to grow with three wage increases over FY 24 and 25, thus increasing overall personnel costs by approximately $5m dollars in ABS.

- These personnel cost increases, coupled with national trends of falling alcohol consumption had a significant impact in the profitability of the retail stores.

C. Expansion of Sales of Ready-to-Drink (RTD) Cocktails to Private Retail

In early 2025, ABS permitted the sale of ready-to-drink (RTD) cocktails (e.g., spirits-based mixed drinks) by private retailer in the County. Allowable ready-to-drink (RTD) distilled spirit beverages are defined as liquor-based products mixed with other nonalcoholic liquids containing not more than 8% alcohol by volume in a single-serve container.

ABS has set up an online licensing portal (RTD Connect) to allow interested retailers to participate.[2] License classes ABW, ABWS, BBWHR, BDBWL, and DBW are eligible to apply. The cost for the RTD privilege is $200 per licensing year or any portion of the year. 2025 contracts will run through April 30, 2026, which means the initial contract will be slightly longer than one year. After that, the privilege expires on April 30 each year and will be renewed automatically unless the licensed establishment is found guilty of certain violations of the Rules and Regulations of the Board of License Commissioners, including selling alcohol to a person under 21 or purchasing alcohol from an unauthorized source.

According to ABS, the decision to expand/allow sales to private retailers is due to the significant growth in the RTD cocktail industry, "boasting a 104% growth rate over the past two years. In the previous five years, the segment has grown to 12% of the U.S. alcohol sales volume and now outsizes the country's wine mark. Market researchers anticipate steady growth over the next several years. The estimated value of the American RTD alcohol market is expected to hit $40 billion by 2027.

Similar to the rest of the country, Montgomery County has seen growth in the RTD space. While customers have enjoyed selling malt-based seltzers, many were interested in adding spirit-based RTD's. In response to requests from license holders, the ABS team worked closely with the Office of the County Attorney (OCA) to create a permit allowing beer and wine stores to sell ready-to-drink (RTD) products with 8% or less alcohol content. This initiative aligns with similar programs and best practices adopted around the country. Currently, 150 businesses have been approved for RTD sales and feedback has been positive."

D. Update on the Highly-Allocated Products (HAL) Program

The Committee received a briefing last spring on the HAL program which was launched in March 2024. The HAL program provides for special releases of products, including sought-after bourbons, whiskies, and other small-batch spirits, to individuals.

Retail customers can purchase HAL products released on the second Saturday of each month on a first-come, first-served basis. Purchases of HAL products will be limited to one bottle each of two different items for a maximum of two bottles per customer per day. ABS will publicly post on its website[3] a list of available HAL products and the stores where they will be sold. Customers can view the products 48 hours in advance. To maximize fairness, customers will not be permitted to place a hold on HAL products. For extremely limited products, a lottery drawing is conducted.

More recently, ABS made two changes in the last year to expand opportunities to participate. ABS revamped its extremely popular Second Saturday HAL releases to include four Sundays per year to accommodate customers who are unable to participate on Saturdays for various reasons, most notably religious observances. The Sunday releases will occur in March, June, September, and December.

[2] Link to RTD Connect website: https://www.montgomerycountymd.gov/abs/licensees/rtd.html/
[3] Link to HAL products (posted Thursday before release): https://www.montgomerycountymd.gov/ABS/HAL/

ABS also offered a special lottery that was open to Montgomery County residents only, in addition to its annual lotteries for Montgomery County and Maryland residents. More than 7,800 County residents have entered the special lottery.

Council Staff comments: The Committee may wish to discuss whether any additional changes have been requested by customers and future options that ABS is considering to meet customer demand.

E. Updates on Racial Equity and Social Justice (RESJ) Initiatives

For its FY25 operating budget, ABS was scored 5 (out of 11) by the Office of Racial Equity and Social Justice (RESJ). The narrative accompanying the scoring stated the following:

> The Department of Alcohol Beverage Services demonstrates a commitment to advancing racial equity and social justice in Montgomery County. While it is clear that the department's CORE Team remains committed to advancing racial equity and social justice through continued engagement, **a robust accounting of ongoing and new efforts was not detailed that could have showcased the department's commitments through its budget.**
>
> However, the partnership between the HR Unit and CORE Team to develop a racial equity vision statement demonstrates that the Department is still active and engaged in racial equity and social justice efforts. Some of these efforts include training and other professional development for racial equity and social justice practitioners.
>
> Efforts to engage employees and external stakeholders through a survey to identify areas of strength and opportunity in recruiting, retaining, and advancement of a diverse and representative workforce were mentioned, but additional details were not provided on this effort. However, future developments in this area will help the Department operationalize its commitment to advancing racial equity and social justice and improve workforce outcomes.

Council Staff requested information on RESJ initiatives the department is undertaking or plans to undertake in the future, as well as demographic data on employees. ABS reports the following:

> The Alcohol Beverage Services (ABS) department reflects a strong commitment to advancing racial equity and social justice through various initiatives aimed at creating equitable access to services, promoting inclusive growth, and supporting marginalized communities.
>
> ABS manages 27 retail stores across Montgomery County, ensuring that alcohol outlets are distributed fairly, with one store for every 29,000 residents—well below the national average of one store per 10,000. This distribution model helps mitigate risks associated with alcohol access, particularly in historically marginalized neighborhoods, where high concentrations of alcohol outlets can contribute to violence and social inequality. By maintaining a control model of alcohol distribution, ABS ensures that no community is

overburdened by alcohol outlets while offering equal access to quality liquor dispensaries across the county. Additionally, ABS's efficient system for licensing and support—through online ordering, a call center, and retail stores—boosts economic development and aids small and minority-owned businesses, further promoting racial equity

Language and Accessibility: ABS is also dedicated to normalizing practices that support diverse communities. Through its **Language Access Plan**, the department is **translating vital documents into the six most spoken languages to ensure that all residents**, regardless of English proficiency, can access alcohol licensing information.

ABS [also] offers a range of language services, including telephonic interpretation and in-person translation for Board of License Commissioner hearings, **further eliminating barriers for non-English-speaking individuals**. The department also ensures equal access to educational resources through the ALERT (Alcohol Law and Regulatory Training) and FYI (First Year Intervention) programs, which provide **culturally relevant outreach and training to businesses across Montgomery County**, helping them navigate the complex alcohol licensing process.

Engagement Efforts: Furthermore, ABS is dedicated to engaging with BIPOC, low-income communities, and other historically marginalized groups. The department is committed to renovating all 27 stores to the same high standards, ensuring that every community receives the same level of quality, regardless of the store's revenue potential. **ABS also prioritizes the inclusion of products created or represented by minority and female business owners, as well as those supporting social justice causes**. These products have become central to the department's sales strategy, aligning with Montgomery County's mission to support equity and uplift communities facing the greatest challenges.

Internal Department Efforts: Internally, ABS fosters a culture of growth and connectivity among its employees. Through the quarterly "Breakfast Club," employees can network, engage with county resources, and learn about ABS innovations, including programs offered through the Racial Equity and Social Justice (RESJ) and the Office of Human Resources (OHR). These in-person events have received positive feedback.

This year **ABS will focus on building a strong CORE team to extend RESJ and Sustainability initiatives**. ABS remains steadfast in its dedication to racial equity and social justice, continuously striving to enhance its capacity to support diverse communities and promote staff development.

Tables 3a and 3b provide demographic information of current staff by gender and race, respectively.

Table 3a. Employee Demographic Data by Gender

Female	Male	Total
89	353	442

Table 3b. Employee Demographic Data by Race

	African American	Asian	Hispanic	Native American	Native Hawaiian / Pacific Islander	Other	Two or More Races	White	**Totals**
Management/MLS	5	1	0	0	0	0	0	6	**12**
Non-Management/Non-MLS	134	34	78	1	1	67	6	109	**430**
Totals:	**139**	**35**	**78**	**1**	**1**	**67**	**6**	**115**	**442**
%:	31%	8%	18%	0%	0%	15%	1%	26%	**100%**

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1. Sales and Expenditures by Retail Location 1

#	Location	FY24 Sales	FY24 COGS	Gross Profit	Other Income	Personnel Costs	Operating Costs	Total Expenditures	Net Income
1	Aspen Hill	5,339,790	4,164,023	1,175,767	26,630	684,340	679,065	1,363,405	(161,008)
2	Burtonsville	3,121,627	2,411,275	710,352	14,272	743,691	322,351	1,066,042	(341,418)
3	Cabin John	5,838,886	4,499,895	1,338,991	13,851	739,278	674,404	1,413,682	(60,840)
4	Clarksburg	4,415,781	3,430,877	984,904	12,883	746,657	547,632	1,294,289	(296,502)
5	Cloverly	3,349,230	2,615,721	733,509	20,315	633,297	309,200	942,497	(188,673)
6	Darnestown	6,867,921	5,282,665	1,585,256	17,518	833,290	676,801	1,510,091	92,683
7	DT Rockville	5,755,041	4,511,112	1,243,929	26,842	608,202	655,074	1,263,276	7,495
8	Fallsgrove	4,214,049	3,280,277	933,772	17,258	627,651	390,263	1,017,914	(66,884)
9	Flower	2,392,310	1,835,976	556,334	16,946	575,284	230,459	805,743	(232,463)
10	Gaithersburg	1,667,384	1,302,260	365,124	10,787	553,517	569,566	1,123,083	(747,172)
11	Goshen	6,188,677	4,870,948	1,317,729	15,774	797,612	358,657	1,156,269	177,234
12	Hampden Lane	8,130,555	6,257,705	1,872,850	41,712	735,430	631,900	1,367,330	547,232
13	Kensington	7,260,947	5,559,267	1,701,680	23,830	784,819	398,846	1,183,665	541,845
14	King Farm	3,091,255	2,411,820	679,435	6,733	509,323	370,742	880,065	(193,897)
15	Kingsview	5,601,271	4,387,796	1,213,475	13,457	746,847	406,022	1,152,869	74,063
16	Leisure World	4,348,040	3,371,769	976,271	9,100	612,112	455,678	1,067,790	(82,419)
17	Montrose	8,491,276	6,613,049	1,878,227	568,539	793,918	495,099	1,289,017	1,157,749
18	Muddy Branch	6,673,228	5,119,885	1,553,343	67,747	756,923	535,713	1,292,636	328,454
19	Olney	5,349,007	4,249,226	1,099,781	17,010	675,301	255,966	931,267	185,524
20	Poolesville	884,453	722,488	161,965	900	310,177	114,311	424,488	(261,623)
21	Potomac	6,946,146	5,340,743	1,605,403	17,280	732,181	654,228	1,386,409	236,274
22	Seneca Meadows	7,432,604	5,811,507	1,621,097	33,632	731,361	555,875	1,287,236	367,493
23	Silver Spring	4,336,791	3,367,432	969,359	72,517	574,826	432,105	1,006,931	34,945
24	Walnut Hill	4,162,307	3,303,226	859,081	11,500	618,869	265,386	884,255	(13,674)
25	Westwood	2,424,286	1,946,432	477,854	2,366	416,680	568,148	984,828	(504,608)
26	Wheaton	4,448,242	3,514,096	934,146	13,460	686,189	260,759	946,948	658
27	White Oak	3,811,434	3,006,016	805,418	19,538	686,520	377,137	1,063,657	(238,701)
	Other Expenditures	-	-	-	-	1,185,286	3,107,882	4,293,168	(4,293,168)
	Totals:	**132,542,538**	**103,187,486**	**29,355,052**	**1,112,397**	**19,099,581**	**15,299,269**	**34,398,850**	**(3,931,401)**