
Recommendations

North Carolina's ABC system has seen few changes since its initial authorization in 1937 when legislation created a state monopoly for the sale of liquor. Legislative consideration of potentially changing how North Carolina regulates liquor sales would involve wide-ranging deliberation.

The first legislative consideration would be determining how the government's role in controlling liquor sales would change. Based on the experience of other control states, this evaluation identified two options for changing the government's role:

- ending government control of retail liquor sales or
- ending government control of wholesale and retail liquor sales.

This initial decision would guide legislative consideration of the regulatory, operational, and financial modifications to the current system that would be subsequently necessary.

If the General Assembly decides to change how North Carolina regulates liquor sales, the Program Evaluation Division would recommend appointing a joint legislative commission to determine how state and local government roles in regulating liquor sales would change. As a starting point for the joint legislative commission, this evaluation provides a road map to guide legislative decisions for existing and new components of the alcohol beverage control system for liquor (see Exhibit 7 on page 16).

If the General Assembly decides not to pursue changing North Carolina's system, the Program Evaluation Division makes the following seven recommendations to further modernize the current system for controlling liquor sales.

Recommendation 1. The General Assembly should direct local ABC boards located in counties with two or more boards to consolidate local ABC operations and establish a merged ABC board.

As discussed in Finding 4, the Program Evaluation Division found that counties with only one ABC board have more profitable and efficient operations than counties served by multiple boards. Board mergers have reduced operating costs and increased profitability for the 11 merged boards currently in existence, and merged boards were more likely to outperform other ABC boards in terms of profit and operating margins. According to ABC statutes, the ABC Commission can approve mergers but does not have the authority to compel consolidation to improve system efficiency. If all local ABC boards located in a county with multiple boards were required to merge into one board, the resulting merged boards would be more efficient and likely distribute a higher proportion of revenue back to the community compared to multiple boards operating in the same county.

To increase the profitability and efficiency of the ABC system, the General Assembly should direct local ABC boards located in counties with two or more boards to consolidate local ABC operations and establish a merged board. Existing state law (N. C. Gen. Stat. § 18B-703) already addresses

the merger of local ABC operations. This law should be modified to mandate mergers in counties with two or more local ABC boards that are not already participating in a merged ABC board. In addition, the language in state law that allows cities and counties to dissolve their merged operation at any time and resume their prior separate operations should be modified so that dissolution can only happen if a city or county chooses to join a different merged ABC board.

To ensure that board mergers occur within a reasonable timeframe, the General Assembly should mandate that all mergers must be completed no later than June 30, 2021.

Recommendation 2. The General Assembly should eliminate the purchase-transportation permit requirement for liquor in N.C. Gen. Stat. §§ 18B-303 and 18B-403.

The Program Evaluation Division recommended in its 2008 evaluation, *North Carolina's Alcohol Beverage Control System Is Outdated and Needs Modernization*, that the purchase-transportation permit requirement limiting the amount of liquor a consumer can purchase at one time be eliminated. The General Assembly did not take action on this recommendation. As discussed in Finding 4 of this report, purchase-transportation permits were originally established to deter bootlegging, which is no longer a serious problem in North Carolina. Local ABC boards reported that these permits impose an administrative burden on ABC stores and liquor customers.

To improve services for liquor customers and reduce the administrative burden on local ABC boards, the General Assembly should eliminate the purchase-transportation permit requirement for liquor in N.C. Gen. Stat. §§ 18B-303 and 18B-403.

Recommendation 3. The General Assembly should direct the ABC Commission to report on the process for obtaining a new contract for receipt, storage, and distribution of liquor by an independent contractor.

The ABC Commission will bid for warehouse services prior to the expiration of its current contract in 2021. To ensure that concerns identified by the State Auditor are addressed, the General Assembly should monitor the Request for Proposal (RFP) process for the warehouse contract until the ABC Commission selects a contractor to operate the ABC warehouse and liquor distribution system.

The General Assembly should direct the ABC Commission to report quarterly to the Joint Legislative Oversight on Justice and Public Safety Committee on its process for selecting a contractor to operate the ABC warehouse and liquor distribution system. At a minimum, the quarterly report should include

- a schedule for developing and issuing the RFP, including how the ABC Commission is meeting the milestones identified in the schedule;
- identification of state agencies and other entities providing the ABC Commission with technical assistance on RFP development and

- contract negotiation, including a description of the technical assistance that is being provided;
- description of ABC Commission consultation with local ABC boards to ensure the latter's concerns and expectations are addressed during RFP development and contract negotiations;
 - a copy of the RFP when it is released;
 - a copy of the final ABC warehouse contract and financial terms; and
 - an implementation schedule for transitioning from the existing ABC warehouse contract to the new contract.

The ABC Commission should be directed to submit its first report on October 15, 2019. Subsequent reports should be submitted 15 days after the end of each quarter until the final ABC warehouse contract has been awarded.

Recommendation 4. The General Assembly should direct the ABC Commission to allow ABC stores the flexibility to provide less than a full case of product to a special order customer and sell the remaining product in the ABC store.

During this evaluation, the Program Evaluation Division heard that local ABC boards should be permitted to allow a customer to purchase a bottle of special order liquor and then sell the remaining bottles in the case on store shelves at their discretion. This adjustment would allow local ABC boards to better serve their retail and mixed-beverage customers who are interested in purchasing a special order liquor product but cannot afford or do not need a full case of it.

To increase the availability of special order liquor products for retail and mixed-beverage liquor customers, the General Assembly should direct the ABC Commission to modify administrative rules to allow ABC stores the flexibility to provide less than a full case of product to special order customers and sell the remaining product in the ABC store. In addition, the General Assembly should authorize the ABC Commission to charge local ABC boards an administrative fee to cover the cost of managing the special order process.

Recommendation 5. The General Assembly should modify existing state law to allow local ABC boards to charge mixed beverage permittees a delivery fee.

As discussed in Finding 4, the Program Evaluation Division found that state law prevents local ordinances from requiring additional permits or fees beyond those established in law, and as a result local ABC boards cannot charge mixed beverage permittees a delivery fee. Both local ABC boards and stakeholder groups mentioned that mixed beverage permittees would prefer to have liquor delivered to their establishments. Permitting local ABC boards to charge a delivery fee would make it financially feasible for more boards to offer a delivery service for their mixed beverage

permittees. The General Assembly should enact state law that specifically authorizes local ABC boards to charge a fee for delivery services provided to mixed-beverage permittees in their jurisdiction.

Recommendation 6. The General Assembly should consider enacting state law to allow local governments the option to open ABC stores on Sundays.

The Program Evaluation Division heard from some local ABC boards and stakeholders that communities should have the option to open ABC stores on Sundays. Currently, 20 states authorize local governments to decide whether to allow or prohibit Sunday package or off-premises liquor sales. In 2017, the General Assembly enacted state law authorizing counties and municipalities to adopt ordinances to allow on-premises alcoholic beverage permittees to serve beer, wine, and mixed beverages beginning at 10:00 A.M. on Sundays.

To allow communities the flexibility to decide whether ABC stores should be open on Sundays, the General Assembly should enact state law authorizing counties and municipalities to adopt ordinances directing the local ABC board serving their jurisdiction to open ABC stores on Sundays. Local governments should be required to consult with the local ABC board serving their community prior to adoption of the ordinance.

Recommendation 7. The General Assembly should enact state law to allow in-store liquor product tastings in ABC stores in accordance with the permit requirements in N.C. Gen. Stat. § 18B-1114.7.

The Program Evaluation Division heard from liquor suppliers and brokers and some local ABC boards that boards should have the option to offer in-store tastings of liquor products with appropriate regulation of the activity. State law already allows North Carolina distilleries to provide liquor tastings, and permitting liquor tastings in ABC stores would offer liquor consumers the opportunity to try liquor products from both in-state and out-of-state distilleries.

The General Assembly should enact state law to allow local ABC boards the option to offer in-store liquor product tastings in ABC stores in accordance with the permit requirements already in state law.

Appendices

Appendix A: Financial and Operational Considerations for Three Alternative Liquor Regulatory Systems

Appendix B: Estimated Revenue Calculations for Current Liquor Regulatory System and Three Alternative Systems

Appendix C: Comparison of Estimated Liquor Pricing for Current Regulatory System and Three Alternative Systems

Agency Response

A draft of this report was submitted to the ABC Commission for review. Its response is provided following the appendices.

Program Evaluation Division Contact and Acknowledgments

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