

Montgomery County belt tightening can be fun

The county's services, excluding education, cost about \$2,000 for every resident (\$2 billion operating budget for 1 million people). Compare that to my hometown of Chicago, which spends just \$1,000 per resident. Are the county's safety and transportation services twice as good as Chicago's?

I'm an accountant so I'll stick to the numbers and argue that it's probably the scope of services that's out of whack. For example, Chicago's ethnically diverse citizens enjoy a free market solution to the distribution and sale of alcohol, with a wide selection of alcohol products, sold at convenient locations and hours. This generates \$46 million in taxes and licensing revenues, and the citizens seem pleased.

Not so in Montgomery County, whose Department of Liquor Control has operated a monopoly over alcohol distribution and sales since 1933 and has only \$2 million in licensing revenues. This antiquated government model yields higher costs for anything that's not popular, and less convenience and selection. Also, since the department both sells liquor and enforces liquor laws, it has a conflict of interest that Chicago doesn't have.

The county argues that services are OK, and besides, the cost of operations is more than offset by profits from distribution and sales. But, the county's financial statements say the liquor fund does not follow generally accepted accounting principles in computing profits, nor does it absorb allocations of indirect costs. My estimates show that over half of the claimed profits are chewed up by these and unallocated capital costs, which are subsidized by the general fund (taxpayers). Revenue recognition and liquor cost variances could reduce those reported profits even further.

My analysis shows that privatizing this "government service" would not only reduce the county's budget by the \$200 million it costs to operate the department, but generate additional licensing and property tax revenues that would more than offset the department's profits. Just as Virginia's analysis of a similar opportunity shows, additional county licenses would be sold because of greater sales opportunities and higher profits from more competitively distributed liquor. Higher property taxes would be realized from privatizing assets like the \$50 million warehouse the county just built. This would generate new revenues for needed county services, while also eliminating millions in capital costs spent to keep this ever expanding government operation afloat. The state would even get \$9 million in new business taxes as well as higher excise tax revenues.

Going on a diet can be fun, profitable, and good for our health. Letting the market take on the operations, interest rate and credit risks associated with liquor distribution and sales would help reduce the budget deficit, increase services to citizens, and allow the county to enforce liquor laws without a conflict of interest.

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