



LEGISLATIVE BRIEF: ABC SYSTEM

Background

Over the past several months, a handful of local ABC boards have come under scrutiny for perceived ethical issues, leading to more calls to reform the ABC system. Currently, there are 167 local ABC boards that operate 410 stores, which are in 98 of the 100 counties. Cities and counties annually receive approximately \$40 million-\$60 million in revenues from the local ABC boards. The state ABC Commission determines which products will be sold, sets the prices and houses the inventory in a state warehouse. The local ABC boards order their products through the warehouse and then pay the distillery directly upon delivery.

In 2008, the N.C. General Assembly asked its Program Evaluation Division (PED) to study the current ABC system. The PED released its evaluation in December 2008. Its study concluded that the state ABC Commission lacked the ability to effectively and efficiently manage the ABC system and made numerous recommendations to improve the system, many of which would grant more centralized control and authority to the state ABC Commission.

Earlier this year there was significant talk of possible privatization of the ABC system, but this has now been delayed at least through the short session. Responding to calls for reform to the current system, President Pro Tempore of the Senate Marc Basnight (Dare) and Speaker of the House Joe Hackney (Orange) appointed a special legislative committee to review the ABC system and make recommendations for reform. Hertford County Commissioner Howard Hunter was appointed to represent the NCACC on this committee.

The study committee met and produced several different versions of proposed legislation. The most recent version, released May 1, 2010, had several provisions that caused great concern. One provision required that all local ABC boards give 2 percent of gross receipts to the state ALE Division for statewide law enforcement. Not only would this deprive local governments and local government programs of approximately \$14 million, it would also impact the ability of ABC Boards to use local law enforcement officers for alcohol enforcement. In addition, the proposed legislation required ABC Board members and their employees to be covered by the State Ethics Act rather than the Local Government Ethics Act.

Thanks to the efforts of Commissioner Hunter and other members of the committee, specifically Sen. Dan Blue (Wake) and Rep. Pryor Gibson (Anson), amendments were offered, debated and passed that address both of these key issues and other issues as well. The amended bill that passed the committee and has been presented to the General Assembly does not contain any form of the gross receipts provision and requires ABC board members and employees to comply with the Local Government Ethics Act instead of the State Act. This issue will be addressed during the short session. The amended bill still permits the State ABC Commission to set performance standards and to seize local assets if those performance standards are not met. The NCACC has concerns about this provision and will continue to work to revise it during the session.

Outlook for 2010

As a result of the ABC Study Committee's recommendations, S1112 and H1717 were introduced during the first week of the short session. We will be carefully watching the development of these reform bills, and we will strongly oppose any provision that will dilute county revenues, impact the ability of local governments to contract for local law enforcement efforts, or impact the autonomy of counties in the oversight of the ABC system.