



Department of Alcoholic Beverage Control

**Presentation to Senate Finance  
Public Safety Subcommittee**

**January 22, 2010**

# Topics of Discussion

- ABC Overview of Operations
- Fiscal Year 2009 Financial Performance
  - Sources and Uses of Funds
  - Cost Control and Financial Performance
- Budget Bill Requirements
- Outlook for 2010-2012
  - Sales performance this fiscal year
  - Budget bill requirements

# VA ABC's Mission

To control the distribution of alcoholic beverages; operate efficient, conveniently located retail outlets; enforce the laws of the Commonwealth pertaining to alcoholic beverages and youth access to tobacco products; and provide excellent customer service, a reliable source of revenue, and effective public safety.

## Control



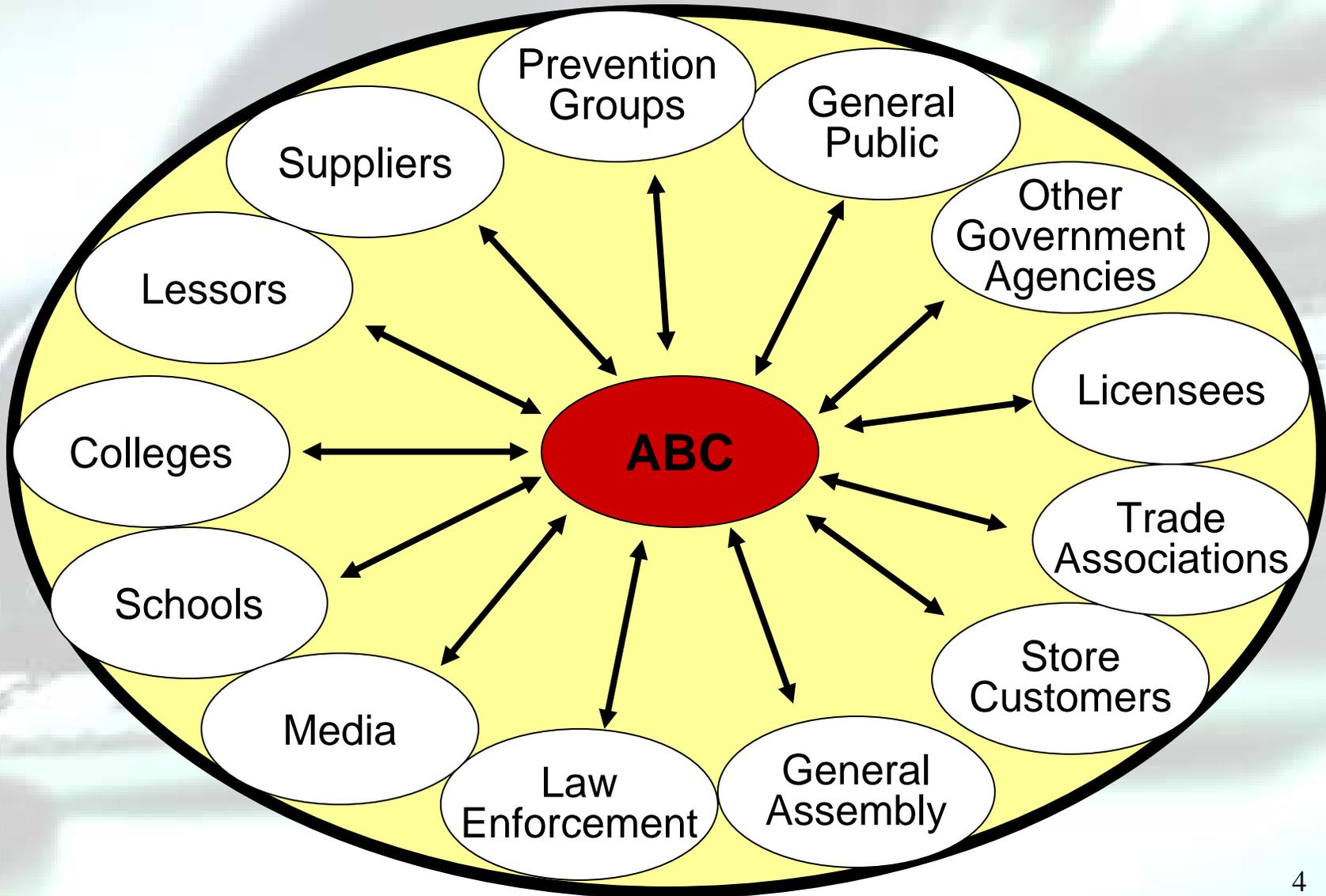
## Service



## Revenue



# Stakeholders



# Mission-Critical Service Areas

**Licensing  
Regulation  
Law Enforcement  
Adjudication**



**Warehouse  
Stores Operations**



**Central Office  
Support Services**



# Licensing and Law Enforcement Activities

- **Licensee Compliance with ABC laws and regulations**

- Underage Liquor Consumption Laws

- Completed almost 5,000 compliance checks in the private sector (90% compliance rate)
- Checked all ABC stores (97% compliance rate)

- Underage Tobacco Purchase Laws

- Completed over 4,000 compliance checks (87% compliance rate)

- Compliance with other state laws (e.g. narcotics, financial fraud, etc.)

- **Illegal Manufacture and Distribution**

- (Moonshine, Bootlegging and Nip Joints)

- **Investigate and Process License Applications**

- Over 15,000 one-day and almost 2,000 retail/wholesale license applications processed
- ABC collected \$11.3M in license and permit fees in FY 2009

# Education and Judicial Activities

- **Education Responsibilities**

- Conferences

- Alcohol and Aging
    - 24<sup>th</sup> Annual College Conference
    - 25<sup>th</sup> Annual Youth Alcohol and Drug Abuse Prevention Project

- Licensee Training

- Speaker's Bureau

- Publications (almost 350,000 distributed)

- **Administrative Case Processing**

- Objections for license applications (71), disciplinary proceedings (1,015) and franchise cases (8)
  - Decisions can be appealed to Board and Circuit Court (4-8%)
  - ABC collected \$1.5M in fines and penalties in FY 2009

# The Product Distribution Process



ABC serves as the wholesaler and retailer of distilled spirits. Over 300 wine & liquor vendors supply products to VA ABC



Suppliers transport their product to VA ABC's Warehouse in Richmond, VA



Product is received into VA ABC's Warehouse



ABC has a highly automated warehouse operation to process store orders.



ABC takes ownership of the product when it is shipped to a store. Transportation is provided via a contract carrier, Estes Trucking



ABC Stores receive weekly shipments of product.

# Store Operations

- Of the 334 stores currently in operation throughout the state, 19 are owned and the remaining 315 are leased
- The stores employ approximately 600 full time and 1,500 part time employees
- ABC operates 134 stores on Sundays
- Have over 2,600 items on the price list with the average store stocking over 1,000 items
- Currently involved in Point of Sale replacement project required to meet Payment Card Industry Security Standards

# Picture of the Average Store

	Median	Comments
Gross Sales	<b>\$1.8M</b>	Of the <b>334</b> stores, 23% do less than \$1M 15% do more than \$3M Average store does 9% licensee sales but system wide licensees account for 20% of sales
Cost of Goods Sold	<b>\$873,000</b>	
Store Expenses	<b>\$236,000</b>	Includes staffing, rent, utilities, supplies but does not include any G & A such as trucking, store communications, central office, etc. The average store has an expense to sales ratio of 13%.
Profits Before G & A	<b>\$388,000</b>	G & A includes all direct charges such as shipping and W/R management and 75% Central Office expenses. G & A averages approximately 6% of sales and does not include any licensing or enforcement charges
Profits After G & A	<b>\$273,000</b>	
Rate of Return on Net Sales	<b>33.3%</b>	(Excise Taxes + Profits)/Net Sales
Sales per Square Foot	<b>\$607</b>	Equivalent to large chain stores like Wal-mart
Number of Items	<b>1,116</b>	Varies widely by location: 12% carry more than 1,500 items and 15% carry less than 700 items
Staffing Hours	<b>8,500</b>	Average store has less than 2 full time positions. Over 60% of store labor hours are from P-14's
Number of Customers	<b>69,400</b>	24.2M customers served in FY 2009. Average customer spends \$25.98 each transaction.
Bottles Sold	<b>128,000</b>	System-wide, sell 44M bottles. Average bottle costs \$13.97.

# Central Administration & Support Functions

- Consists of:
  - Financial Management Services
  - Procurement & Support Services
  - Information Technology
  - Human Resources
  - Property Management
  - Internal Audit
  - Policy, Planning and Analysis
  - Public Affairs

# Enterprise Fund Operations are different than most agencies

- ABC operates as an “Enterprise Fund” agency. Simply means that we act and operate much like a private business.
- Also means we are a non-general fund agency. The state budget only gives us authority to spend what we earn. No General Fund dollars allocated.
- Since our appropriation is not ‘real money’, it cannot be transferred to other initiatives. The only way the General Fund can receive direct benefits is through the generation of increased profits and taxes.
- ABC’s accounting methods vary from most agencies allowing ABC to depreciate capital improvements over their useful life.

# Total Agency Revenue Collections

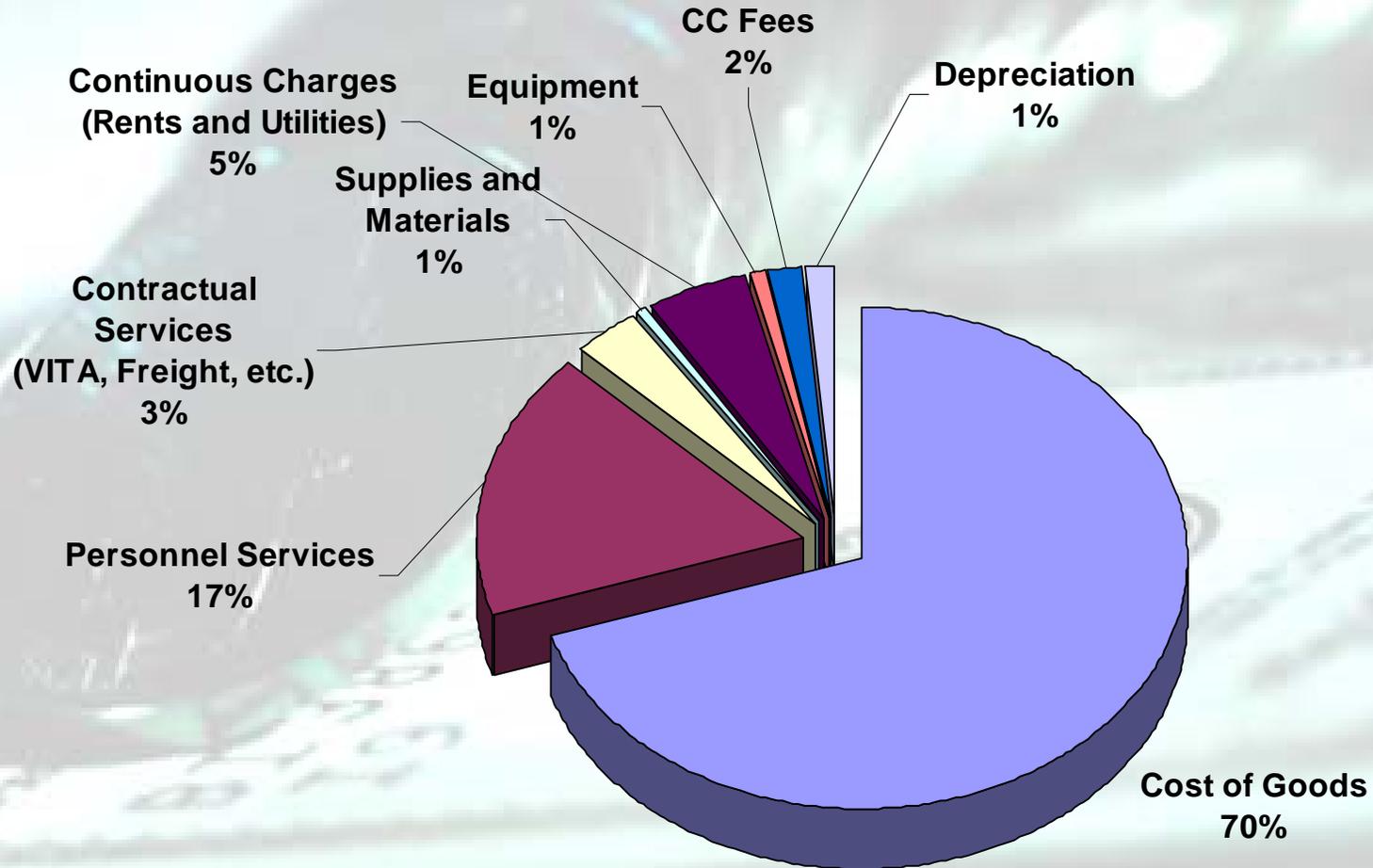
Sources of Revenue in FY 2009 <i>(in millions)</i>	
Store Sales	\$665.5
General Sales Tax	\$26.2
Wine Taxes <i>(including ABC's share)</i>	\$32.8
Malt Beverage Taxes	\$44.6
License Taxes & Penalties	\$12.8
Miscellaneous	\$4.6
Grand Total	\$786.5M

# Where does the money go?

Uses of Funds in FY 2009 <i>(in millions)</i>	
Purchase of Merchandise	\$326.0
Return to the Commonwealth	\$322.3
Store & Warehouse Operations	\$103.0
Administrative Operations	\$23.3
Enforcement	\$11.9
Grand Total	\$786.5M

# How are funds spent?

*(Not including Cost of Merchandise)*



# A Look at Cost Control...

- **Already generating increased profits because of spending control**
  - Annual budget review of every division by the Board
  - Approval of any expenditure over \$5,000 by the CFO and COO
  - Very limited discretionary spending (e.g. training, travel, equipment, etc.)
  - Holding discretionary positions vacant
  - Deferring maintenance and other non-revenue producing projects when practical (e.g. parking lot repair)
  - Actively negotiating price reductions in contracts and leases
- **Overall, expenses continue to grow. Key drivers include:**
  - Technology
    - POS replacement (need to depreciate)
    - Store Administrative Computers
    - Information Security
    - Telecommunications (PCI/Security)
    - Total VITA charges alone approaching \$8M per year
  - Automatic Rent Escalation Clauses (renegotiating every lease that nears renewal)
  - Credit Card Fees (currently almost 48% of ABC's sales are made through credit/debit cards up from 39% in 2006)
  - Freight costs (over \$3M per year)

# Financial Performance

- Record profits and contributions every year since 1999.
- Last five years, ABC has generated almost \$500M in profits and \$1.5B in total revenue contributions to the Commonwealth.
- ABC has met its revenue forecasts for more than a dozen years in a row.
- Transfers don't always equal profits because of the requirement to transfer June profits before the books are closed.
- FY 2010-2012 very challenging for ABC because the economy also takes its toll on store sales.

# What does the budget bill contain?

- Budget includes 2% increase in mark-up effective February 1, 2010. *Note: A 2% increase in mark-up equates to a 1.2% increase in costs for the consumer.*
- FY 2010
  - Additional profits of \$1.6M from mark-up
  - Additional profit requirements of \$1.6M from cost reductions
- FY 2011-12
  - Additional profits of \$4.0M each year from mark-up
- Budget bill contains no new positions or funding initiatives with the exception of the purchase of merchandise for resale

# Outlook for 2010-2012

*(Governor's Budget includes 2% mark-up increase effective 2/1/2010)*

- FY 2010

- Currently on pace for sales of \$675M, \$10M more than FY 2009
- Sales are still at record levels but growth is at its slowest pace in a decade, largely because of decline in the restaurant sector
- Budget bill includes additional revenues from 2% mark-up increase starting February 1, 2010

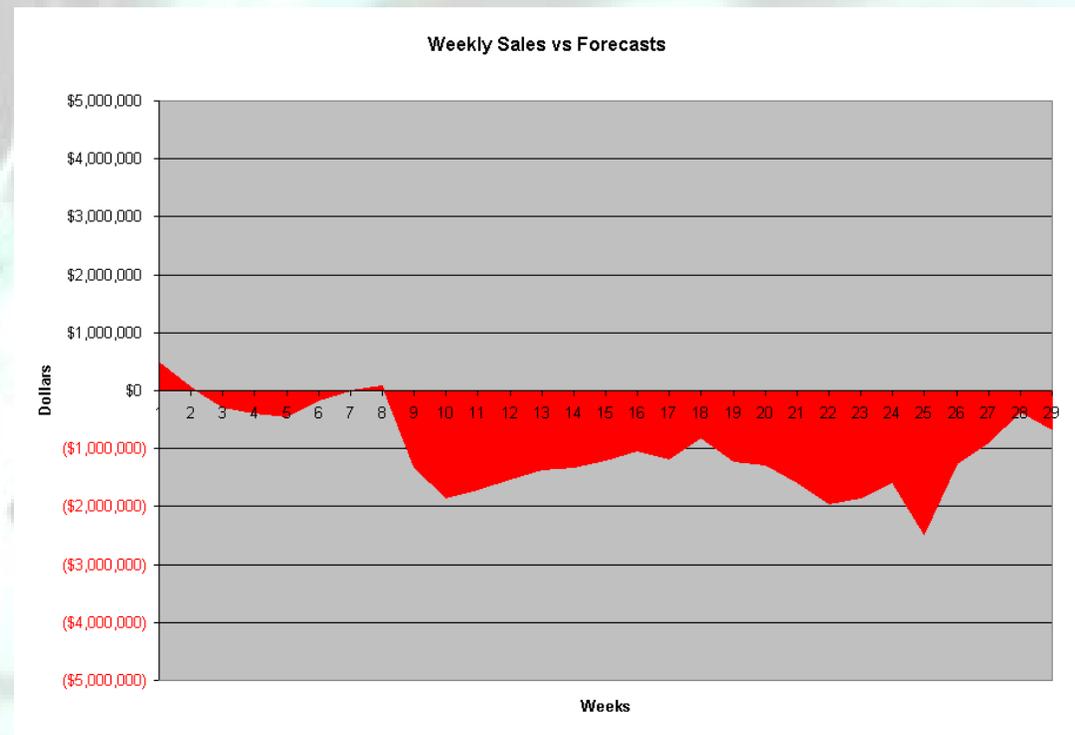
- FY 2011 and 2012

- Very difficult to forecast, depends considerably on rebound in restaurant sector
- Planning for some slight rebound (2.8%) but nowhere near growth rates of the last 5+ years (4-6% annual rates)
- Budget bill includes revenues from 2% mark-up increase

# How are sales tracking this year?

July 1, 2009 – January 16, 2010

- Holiday sales met expectations but are still slightly below forecast through last week.
- Retail customers tracking above forecast but restaurants are in a severe slump (down 3-5% over last year). Translates into \$8M loss of sales from original expectations.
- Starting to see some trade downs as customers feel the pinch of the economy
- Sunday sales continue to grow in popularity (up 5.5% through last week)



# Mark-up Percentages by Size

*(including proposed 2%)*

Size	Mark-up %
1.75L	66%
Liter/750ML	71%
375ML	75%
100/200ML	81%
50ML	51%
Wines	54%
Vermouth	69%
Non-Alcoholic Items	59%

# The Bottom Line

- Mark-up increase allows ABC to maintain/slightly increase profit stream in FY 10-12 despite slumping sales and escalating costs.
- ABC is constantly monitoring financial position.
  - Sales vs. Forecast Monitored Weekly
  - Profits vs. Forecast Monitored Monthly
  - Transfers Monitored Quarterly
- For FY 2010, With over 50% of the year complete, ABC is on track to meet the fall forecast. FY 11/12 will be revisited during the fall revenue forecasting process.
- Transfers in FY 2010 are slightly ahead of schedule because of carry over from FY 2009. (June Guesstimate transfer is the cause of the carry over).