



COMMONWEALTH of VIRGINIA

Department of Alcoholic Beverage Control

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October 15, 2015

The Honorable Terrence R. McAuliffe
Governor of Virginia
Patrick Henry Building, 3rd Floor
1111 East Broad Street
Richmond, Virginia 23219

Virginia General Assembly
Members of the Virginia General Assembly
General Assembly Building
Richmond, Virginia 23219

Dear Governor McAuliffe and Members of the General Assembly:

As chairman of the Board of the Department of Alcoholic Beverage Control, I am pleased to submit the attached report regarding the department's operating and administrative expenses for review by the Governor and the members of the General Assembly. This report is required by Enactment Clause 14 of Chapters 730 and 38 of the 2015 Acts of the Assembly, legislation that provided for the transition of the department to an Authority. This report must be submitted by the department by October 15 each year.

Sincerely,



Jeffrey L. Painter
Chairman

Enclosure

Adopted during the 2015 Session of the General Assembly, Chapter 730 (House Bill 1776) and Chapter 38 (Senate Bill 1032) provide for the transition of the Department of Alcoholic Beverage Control (Virginia ABC) to an Authority.

Enactment Clause 14 of the legislation requires:

That by October 15 each year, the Department of Alcoholic Beverage Control or its successor shall, for the purposes of identifying the total costs of the operation and administration of the Department or its successors to be funded from the revenues generated by such entity, submit to the General Assembly a report detailing the total percentage of gross revenues required for the operation and administration of the Department, excluding expenditures made for the purchase of distilled spirits, for the prior fiscal year, and a relative comparison to the three prior fiscal years.

As requested, Table 1 below demonstrates that, with the exception of FY 2012, Virginia ABC’s operating and administrative costs, excluding alcohol purchases, have been consistently about 19.8 percent of Virginia ABC’s total revenues.

Table 1. Annual Operating Costs for the Department of Alcoholic Beverage Control, FY 2011 to FY 2014: Excluding Expenditures for the Purchase of Distilled Spirits				
Operating Expenses	Amount Fiscal Year 2014	Amount Fiscal Year 2013	Amount Fiscal Year 2012	Amount Fiscal Year 2011
Personal services	\$96,016,888	\$91,151,356	\$83,223,807	\$81,396,498
Continuous charges	\$26,238,093	\$25,209,421	\$24,687,763	\$23,848,628
Contractual services	\$27,263,123	\$26,498,703	\$25,737,133	\$24,373,121
Supplies and materials	\$3,401,478	\$3,437,872	\$2,885,166	\$2,852,422
Depreciation	\$2,573,170	\$2,101,808	\$1,958,032	\$3,175,843
Expendable equipment	\$2,209,117	\$2,066,725	\$1,869,571	\$1,560,795
Other	\$500,030	\$860,993	\$812,313	\$536,134
Total Operating Expenses (Excluding the Purchase of Distilled Spirits)	\$158,201,900	\$151,326,878	\$141,173,786	\$137,743,441
ABC Gross Revenues	\$800,649,114	\$768,107,697	\$733,468,156	\$692,670,626
Operating Costs as Percentage of Gross Revenues	19.8 percent	19.7 percent	19.3 percent	19.9 percent

Table 1 also contains information about the individual components of Virginia ABC’s operating and administrative costs, representing 28.6 percent of Virginia ABC’s total operating budget (See Table 2 below). The largest category of costs is Personal Services, which includes expenses associated with employees. Increases in personal services expenses can be partially attributed to additional hiring for new and expanding stores. Additionally, Virginia ABC hired 900 part-time employees during FY 2014 due to turnover among these positions caused by the 29-hour employment limit. Other factors contributing to expenses include the

continuing growth in healthcare costs and additional compensation actions such as the gubernatorial-approved bonuses offered to employees in FY 2011 and FY 2013.

Just as personal service costs increased because of new store employment needs, Virginia ABC’s operating and administrative costs have also increased in the categories of Continuous Charges and Contractual Services due to the need to make lease payments on new stores, potential escalation rates within rental agreements, and additional utility costs.

In order to provide complete information, this report also includes the department’s costs for alcohol and lottery tickets in addition to the information contained in Table 1. This complete information, shown below in Table 2, is also included in the department’s annual reports.

Table 2 demonstrates the percentage of Virginia ABC’s total operating costs including the purchase of alcohol and lottery tickets. Table 2 demonstrates that agency total operating and administrative costs are consistently between 68 and 69 percent of total revenues.

Examining the detailed information in Table 2, the cost for the purchase of alcohol is generally about 71 percent of the Virginia ABC’s operating budget and 48.6 percent of its gross revenues. The cost of alcohol purchased by Virginia ABC increased by \$51.5 million, or 15.3 percent, between FY 2011 and FY 2014. This cost increase is due in part to supplying new and expanding Virginia ABC stores, as well as price increases passed on to the agency by suppliers.

Operating Expenses	Amount Fiscal Year 2014	Amount Fiscal Year 2013	Amount Fiscal Year 2012	Amount Fiscal Year 2011
Costs of sales, alcohol	\$389,204,362	\$374,356,481	\$357,374,917	\$337,689,682
Cost of sales, lottery	\$2,339,885	\$2,424,746	\$2,522,930	\$2,327,548
<i>Product Costs Subtotal</i>	<i>\$391,544,247</i>	<i>\$376,781,227</i>	<i>\$359,897,846</i>	<i>\$340,017,230</i>
Personal services	\$96,016,888	\$91,151,356	\$83,223,807	\$81,396,498
Continuous charges	\$26,238,093	\$25,209,421	\$24,687,763	\$23,848,628
Contractual services	\$27,263,123	\$26,498,703	\$25,737,133	\$24,373,121
Supplies and materials	\$3,401,478	\$3,437,872	\$2,885,166	\$2,852,422
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Expendable equipment	\$2,209,117	\$2,066,725	\$1,869,571	\$1,560,795
Other	\$500,030	\$860,993	\$812,313	\$536,134
<i>Operating Costs Subtotal</i>	<i>\$158,201,900</i>	<i>\$151,326,878</i>	<i>\$141,173,786</i>	<i>\$137,743,441</i>
Total Operating Expenses	\$549,746,146	\$528,108,106	\$501,071,632	\$477,760,671
ABC Gross Revenues	\$800,649,114	\$768,107,697	\$733,468,156	\$692,670,626
Total Operating Costs as Percentage of Total Sales	68.7 percent	68.7 percent	68.3 percent	69.0 percent

The picture of Virginia ABC's operating budget depicted in Table 2 is a more comprehensive depiction of operating budget than the operating and administrative costs shown in Table 1, due to inclusion of all expenses incurred by the agency. In an effort to provide as much information as possible, Virginia ABC generated Table 2 for inclusion in this report.

This report provides the information required within Enactment Clause 14 of Chapters 38 and 760 of the Acts of Assembly of 2015 regarding the percentage of Virginia ABC's operating and administrative costs supported by Virginia ABC's gross revenues. In addition, Virginia ABC has also included similar information depicting the total percentage of Virginia ABC's total operating expenses, including alcohol and lottery ticket purchases, supported by Virginia ABC's gross revenues. As was stated previously, Virginia ABC believes that the presentation of Virginia ABC's total operating expenses, as depicted in its annual reports, is the most complete picture of its operations.