

**Department of Alcoholic Beverage Control  
Authority Transition  
Enactment Clause 14**

The Virginia Department of Alcoholic Beverage Control (ABC) has developed a summary table and a brief narrative as a response to Enactment Clause 14 for the Alcoholic Beverage Control Authority legislation.

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.*

	In Millions				As a Percentage of Sales			
	FY2017	FY2016	FY2015	FY2014	FY2017	FY2016	FY2015	FY2014
Sales	940.1	897.6	848.1	800.5	100.0%	100.0%	100.0%	100.0%
- Excise Tax	154.6	147.9	139.9	132.1	16.4%	16.5%	16.5%	16.5%
+ Other Revenue	22.0	22.0	21.9	21.1	2.3%	2.5%	2.6%	2.6%
Net Revenue	807.5	771.8	730.0	689.4	85.9%	86.0%	86.1%	86.1%
Cost of Goods Sold	452.0	432.8	411.7	391.1	48.1%	48.2%	48.5%	48.8%
Operation Costs	123.1	116.5	110.7	105.5	13.1%	13.0%	13.1%	13.2%
Administrative Costs	43.8	40.4	37.8	35.0	4.7%	4.5%	4.5%	4.4%
Regulatory Costs	16.9	17.3	17.9	17.9	1.8%	1.9%	2.1%	2.2%
Profit	171.7	164.8	152.0	140.0	18.3%	18.4%	17.9%	17.5%

Note: All support costs (e.g. Human Resources, Information Technology, Finance, etc.) for Regulatory and Operations are included in the Administrative Costs category.

ABC has opted to include a more detailed chart than what is required by the legislation. This will permit the General Assembly to be familiar with the magnitude of our business and have the percentage of revenue data that was requested. Inclusion of the cost of goods sold (purchase of distilled spirits) data allows the General Assembly to see the full picture of ABC operations and a high level Statement of Revenues, Expenses, and Changes in Net Position (Profit and Loss).

There are four major categories of ABC costs: Cost of Goods Sold, Operation Costs, Administrative Costs, and Regulatory Costs. The Cost of Goods Sold is simply the cost that ABC incurs to purchase the distilled spirits that are sold in the ABC stores. The Operation Costs includes the costs to operate the ABC stores (employees, store rentals, utilities, etc.), the costs to operate the ABC Distribution Center (Warehouse), and the overhead costs of the leadership and support functions that are directly linked to either the store operations or the Distribution Center. The Administrative Costs are the most diverse cost group as it includes all

of the administrative functions that are necessary to support the business. These include Information Technology, Internal Audit, Procurement, Policy & Planning, Education, Marketing, Human Resources, Financial Management, Public Relations, Property Management, Agency Leadership, and charges for services from other state agencies (i.e. Cardinal fees). The Regulatory Costs category represents the costs to operate the ABC Enforcement division and the Hearings & Appeals function. Enforcement operates under a separate appropriation than the rest of the agency; however, the Enforcement division remains a part of the overall costs that affects the ABC profits. In addition, there are approximately 2,000 new licensees each year that require a full investigation to include a background check of the owners, corporate structure review, complete financial review, and making a determination about the suitability of the applicant to possess an ABC license in Virginia.

Cost of Goods Sold increases are primarily driven by sales volume. In fiscal year 2017, the Cost of Goods Sold represents 48.1% of the sales revenue collected. This is on a slight downward trend due to the effect of a price increase.

Operation Costs, Administrative Costs, and Regulatory Costs are all primarily driven by personnel needs (salary, healthcare, retirement, etc.). In addition, Operation Costs include new stores, store rentals (with rent escalation clauses), utilities, and freight to transport product from the warehouse to the stores. Administrative Costs increases are primarily driven by the cost of Information Technology, support provided by VITA, new store construction costs, an aging central office & warehouse facility (repairs), and the increased focus on Marketing and Communications over the past few years (to communicate information about the agency and its products). Administrative Costs are expected to increase in the future as ABC implements new technologies to replace the aging Information Technology systems throughout the agency. Regulatory Costs are also expected to increase due to the growth in number and the diversity of manufacturing and retail licensees.