ALCOHOLIC BEVERAGE CONTROL AUTHORITY

Authority Transition – Enactment Clause 14

The Alcoholic Beverage Control Authority (the "Authority") has developed a summary table and a brief narrative as a response to Enactment Clause 14 in Chapter 730 of the 2015 Virginia Acts of Assembly for the Alcoholic Beverage Control Authority legislation.

Enactment Clause 14 of Acts of Assembly Chapter 730

Enactment Clause 14 of Acts of Assembly Chapter 730 requires that by October 15 of each year, the Authority or its successor shall, for the purposes of identifying the total costs of the operation and administration of the Authority 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 Authority, 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			
	FY 2024	**FY 2023**	**FY 2022**	**FY 2021**	**FY 2024**	**FY 2023**	**FY 2022**	**FY 2021**
Sales	$ 1,472.5	$ 1,443.9	$ 1,376.6	$ 1,333.6	100.0%	100.0%	100.0%	100.0%
- Excise tax	243.3	238.9	227.7	220.4	16.5%	16.5%	16.5%	16.5%
+ Other revenue	29.1	28.5	41.5	24.2	2.0%	2.0%	3.0%	1.8%
Net revenue	$ 1,258.3	$ 1,233.5	$ 1,190.4	$ 1,137.4	85.5%	85.5%	86.5%	85.3%
Cost of goods sold	708.4	693.3	660.7	642.9	48.1%	48.0%	48.0%	48.2%
Operation costs	210.3	213.2	202.2	177.5	14.3%	14.8%	14.7%	13.3%
Administrative costs	70.2	83.1	63.8	62.0	4.8%	5.8%	4.6%	4.7%
Regulatory costs	26.0	23.3	20.1	17.7	1.8%	1.6%	1.5%	1.3%
Net Profit	$ 243.4	$ 220.6	$ 243.6	$ 237.3	16.5%	15.3%	17.7%	17.8%

Notes:

1. All support costs (e.g., Human Resources, Information Technology, Finance, etc.) for Regulatory and Operations are included in the Administrative Costs category.
2. The Authority's total operating costs exclude the year-end VRS pension liability adjusting entries, GASBS No. 75 liability adjusting entries for other postemployment benefit (OPEB), and the federal grant entries because they are non-operational costs. However, these costs were included in the year-end financials.

The Authority has opted to include a more detailed chart than what is required by the legislation. This detail 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 (i.e., purchase of distilled spirits) data allows the General Assembly to see the full picture of the Authority's 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 the Authority incurs to purchase the distilled spirits that are sold in the ABC stores. The Operation Costs includes the costs to operate the Authority's stores (personnel cost, store rentals, utilities, etc.), the costs to operate the Authority's Distribution Center, 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 the administrative functions that are necessary to support the business. These include Information Technology, Internal Audit, Procurement and Support Services, Strategy and Analytics, Community Health and Engagement, Marketing, Human Resources, Financial Management Services, Digital Operations, Communications, the Authority's Leadership, Real Estate and Facilities Management, and charges for services from other state agencies. The Regulatory Costs category represents the costs to operate the Authority's Enforcement division and the Hearings & Appeals function. Enforcement operates under a separate appropriation than the rest of the Authority; however, Enforcement division remains a part of the overall costs that affects the Authority's profits. In addition, there are approximately 2,100 new licensees each year that require a full investigation to include a background check of the owners, corporate structure review, complete financial review, and deciding 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 2024, Cost of Goods Sold represents 48.1% of the sales revenue collected. This percentage is consistent with previous years.

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 products from the warehouse to the stores.

Administrative Costs decreases are primarily driven by lower IT related spend as project activity has been reduced significantly and lower marketing costs in line with planned reductions in media spend. These costs support revenue generating activities and continued business operations.

In fiscal year 2025, Operation Costs, Administrative Costs, and Regulatory Costs are expected to increase principally due to higher compensation costs as a result of the state pay and benefit increases as well as Fair Labor Standards Act impacts on minimum pay for exempt salaried workers. Credit card and outbound freight costs also continue to increase. The Authority will implement a retail staffing plan focused on efficient use of labor hours to operate the stores while continuing to maintain customer service as top priority, eliminate unnecessary vacant positions, continue to prioritize active projects and initiatives by leveraging existing Virginia ABC systems, and limit discretionary spending to maintain accountability for cost efficiencies. In addition, the Authority restructured its workforce job functions across multiple divisions, to fully align with fiscal year 2025 strategic goals.