

# 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 2025	FY 2024	FY 2023	FY 2022	FY 2025	FY 2024	FY 2023	FY 2022
Sales	\$ 1,451.7	\$ 1,472.5	\$ 1,443.9	\$ 1,376.6	100.0%	100.0%	100.0%	100.0%
- Excise tax	239.8	243.3	238.9	227.7	16.5%	16.5%	16.5%	16.5%
+ Other revenue	29.3	29.1	28.5	41.5	2.0%	2.0%	2.0%	3.0%
Net revenue	\$ 1,241.2	\$ 1,258.3	\$ 1,233.5	\$ 1,190.4	85.5%	85.5%	85.5%	86.5%
Cost of goods sold	697.8	708.4	693.3	660.7	48.1%	48.1%	48.0%	48.0%
Operation costs	214.3	210.3	213.2	202.2	14.8%	14.3%	14.8%	14.7%
Administrative costs	58.8	70.2	83.1	63.8	4.1%	4.8%	5.8%	4.6%
Regulatory costs	28.2	26.0	23.3	20.1	2.0%	1.8%	1.6%	1.5%
Net Profit	\$ 242.1	\$ 243.4	\$ 220.6	\$ 243.6	16.7%	16.5%	15.3%	17.7%

#### 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 include 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, 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 fund than the rest of the Authority; however, Enforcement division remains a part of the overall costs that affect the Authority’s 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 deciding about the suitability of the applicant to possess an ABC license in Virginia.

Cost of Goods Sold changes are primarily driven by sales volume. In fiscal year 2025, 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, store rentals (with rent escalation clauses), utilities, and freight to transport products from the warehouse to the stores.

Administrative Cost decreases are primarily driven by operating efficiencies, lower personnel costs due to the restructuring and lower IT related expenses as project activity has been reduced significantly. These costs support revenue generating activities and continued business operations.

In fiscal year 2026, 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. Outbound freight costs are also expected to continue to increase. The Authority's management is committed to continuing its focus on its core business systems, continue to support revenue growth activities, and continue to enhance regulatory services to ABC licensees. The Authority will continue to closely monitor retail staffing to focus on efficient use of labor hours to operate the stores while continuing to maintain customer service as top priority, eliminate unnecessary vacant positions by assessing and aligning job functions before hiring or filling a position, assess necessity of active projects and initiatives to divert focus and resources to use existing Virginia ABC systems effectively and efficiently, and analyze based on their quantitative and qualitative return on investments. Upper management will continue to be hands-on in monitoring and approving procurements and expenditures to limit discretionary spending and to maintain accountability to promote operating efficiencies. No new store locations are planned for the foreseeable future but instead focus on revamping store layouts to enhance and engage the customer shopping experience.