

MEMORANDUM

October 15, 2019

TO: Councilmembers

FROM: Craig Howard, Senior Legislative Analyst

SUBJECT: **Follow-up on ABS FY19 Retail Store Data**

Recently five Councilmembers sent a letter to the County Executive regarding the profitability of Alcohol Beverage Services (ABS) retail operations. In advance of any additional questions that might arise on that issue, this memorandum summarizes some background information and context as well as Council staff's initial analysis of the recent FY19 data provided by ABS (attached).

Background

- During FY19 and FY20 budget worksessions, ABS staff provided updates to the Public Safety Committee on accounting enhancements it was implementing for County retail stores to more accurately determine the profitability of each store. As was discussed at the worksessions, the primary difference is that ABS now charges each store for products purchased from the warehouse no different than it would a private store.
- As a result of these changes, total ABS profits did not change but the profits are more accurately distributed between ABS' wholesale and retail operations. This profit distribution issue was identified and discussed by the Council in conjunction with OLO Report 2015-6, *Review of Alcohol Control in Montgomery County*¹, however the accounting system in place at the time did not allow for a more detailed breakdown.
- ABS staff informed the Public Safety Committee that once they began implementing the new accounting structure in FY18, they learned that many of the retail stores were operating at a loss. ABS provided the Committee with FY18 data on the retail stores and discussed strategies it was pursuing to increase retail store profitability. Some of the identified strategies included:
 - Hiring a new retail operations manager;
 - Renovating and/or remodeling stores;
 - Establishing a new training program for retail store staff; and
 - Enhancing marketing and outreach efforts.

New FY19 Retail Store Data

- ABS staff informed the Committee during FY20 budget worksessions that, similar to FY18, many retail stores were also likely to end FY19 in deficit. This fall, after the close of the fiscal year, Council staff asked ABS to provide the year-end FY19 profit and loss data for the retail stores.

¹ https://www.montgomerycountymd.gov/OLO/Resources/Files/2015_Reports/OLOReport2015-6.pdf, pg. 40

- The data provided by ABS shows a total net loss of \$5.1 million for ABS retail operations in FY19. This is based on total retail gross sales profit and revenue of \$23.8 million and total retail operating expenses of \$28.9 million as detailed in the table below.

| FY19 ABS Retail Store Profit and Loss (all stores) | |
|---|-----------------------|
| Gross Sales Profit and Revenue | |
| Gross Sales | \$126,637,893 |
| Cost of Goods Sold | (\$102,949,893) |
| Subtotal Gross Sales Profit | \$23,688,000 |
| Store revenue from new licensee product handling fees | \$166,279 |
| Total Gross Sales Profit and Revenue | \$23,854,279 |
| Operating Expenses | |
| Personnel | (\$16,388,129) |
| Leases | (\$6,645,300) |
| Other operating expenses | (\$5,911,921) |
| Total Operating Expenses | (\$28,945,350) |
| Net Profit (Loss) | (\$5,091,071) |

- Overall, six of the 25 ABS retail stores showed a profit and 19 showed a loss in FY19. The performance of individual stores varied – ranging from a high of \$298,575 in profit to a low of \$470,279 in losses.
- On average, the 25 ABS retail stores showed a loss of \$148,341 per store in FY19 (excluding the costs associated with retail administration). Among the six stores showing a profit, the average profit per store was \$131,910. Among the 19 stores showing a loss, the average loss per store was \$236,841.

Operating Budget Impact

- The overall net loss for ABS retail operations in FY19 does not require any changes to the FY20 approved budget (including the planned \$34 million in debt service payments and unrestricted earnings transfer to the General Fund), as ABS incorporated these losses into its budget request.
- Any future increase in ABS retail store profitability could lead to a corresponding increase in revenue available for transfer to the General Fund. For example, if the retail stores had broken even in FY19, the earnings transfer to the General Fund could have been up to \$5 million higher.

Council staff will continue to work collaboratively with ABS staff in reviewing ABS financial data, and please feel free to contact me with any additional questions.