



DEPARTMENT OF ALCOHOLIC BEVERAGE SERVICES ACCOUNTABLE BUDGET REVIEW

BUSINESS, ECONOMIC DEVELOPMENT, AND LABOR APPROPRIATIONS SUBCOMMITTEE

ISSUE BRIEF

SUMMARY

JR3-2-501 as amended in HJR 18, 2019 General Session requires each appropriations subcommittee to “create an accountable process budget for approximately 20% of the budgets that fall within the subcommittee’s responsibilities” ensuring “that each of the budgets for which the appropriations subcommittee has responsibility is the subject of an accountable budget process at least once every five years.” Subcommittees first implemented this rule during the 2019 Interim. During the 2020 Interim, the Legislature suspended the rule due to the heightened scrutiny budgets were already receiving in the pandemic.

The Business, Economic Development, and Labor (BEDL) Appropriations Subcommittee oversees budgets for 9 areas of state government: Department of Community and Culture (CCE), Governor's Office of Economic Opportunity (GO Utah), Utah State Tax Commission, Department of Alcoholic Beverage Services, Labor Commission, Department of Commerce, Department of Insurance, Public Service Commission, and Department of Financial Institutions (DFI).

Here is the approved schedule of review for each respective entity

Interim Year	Entity Reviewed
2019	Cultural and Community Engagement
2021	GOEO
2022	Commerce, Financial Institutions
2023	DABS, Insurance, Public Service Commission
2024	Labor Commission, Tax Commission

This brief is intended to assist BEDL members’ review the DABS budget, answer detailed questions on the policies that drive the budget, and provide recommendations on the extent to which funding should be included in a base budget bill for Fiscal Year 2025.

By the end of the of the October 10, 2023 interim meeting the Analyst recommends that after review, the Subcommittee vote on a base budget based on a review of the DFI budget and make any appropriate changes. Changes could include:

- Improved performance indicators
- Possible budget reductions or increases based on research
- Possible budget internal reallocations – for example, between revenue sources and programs
- Possible budget realignments – for example, creating new line item for a specific function or eliminating/combining line items
- Holding back a function’s base budget until conditions are met
- Agency follow up report on specific issue
- Suggested Intent Language
- Other special motions
- Other technical changes

Throughout this process, staff may make recommendations that include action items described above or the subcommittee and Legislature could take other action independent, or in addition to any analyst recommendations. These changes would be included in the FY 2025 base budget.

OVERVIEW

Utah is one of seventeen liquor control states and one of two totally state-run systems. The Department of Alcoholic Beverage Services (DABS) operates 48 State stores and over 100 package agencies. These state stores and package agencies are the exclusive retailers of liquor and wine. The department administers liquor laws and licenses on-premise businesses, temporary event permits, manufacturers, beer wholesalers, warehouses, and liquor representatives.

The department regulates the manufacture, sale, and use of alcoholic beverages. Without promoting the sale or consumption of alcoholic beverages, the department operates as a public business generating revenue for state and local government programs. The department licenses and regulates the sale of alcoholic beverages, as directed by statute, at prices that reasonably satisfy the public demand while also protecting the public interest.

Liquor sales provide more than \$100 million annually to the State's General Fund. Net profits are deposited in the General Fund and used to support state government operations. State law also requires a transfer of 10 percent of gross sales to support the school lunch program and one percent to the Department of Public Safety to support alcohol-related law enforcement officers. A portion of the tax on beer goes to local governments to help cover their costs of liquor law enforcement.

The major source of funding is from the Liquor Control Fund. The primary use of funding is staff support for state-owned liquor stores and package agencies.

BACKGROUND

The Department of Alcoholic Beverage Services has been in existence since 1935. In that year, the Utah State Legislature created the department by statute and charged it with the responsibility of conducting, licensing, and regulating the sale of alcoholic beverages in a manner and at prices that reasonably satisfy the public demand and protect the public interest. The Legislature also mandated that the department be operated as a public business using sound management principles and practices.

The department operates a statewide network of state stores and package agencies that sell all alcoholic beverages, except beer containing less than four percent alcohol by volume (which is sold in grocery and convenience stores).

By state statute, the total number of stores is tied to the state population, one store is permitted for every 48,000 citizens.

The department also administers liquor laws and alcohol education and regulates the sale, service, storage, manufacture, distribution, and consumption of alcoholic products.

Oversight of the department is provided by the Alcoholic Beverage Services Commission. The Alcoholic Beverage Services Commission is comprised of seven part-time members appointed by the governor with the advice and consent of the Senate. The commission acts as the policy-making body on the subject of alcoholic product control. The commission sets policy and makes rules, and is responsible for the issuance of licenses and permits, and the suspension or revocation of existing licenses for infractions of the law. As a commission, they act as a governing board in reviewing the activities of the staff on the day-to-day operations of the department. Funding changes are to the Liquor Control Fund unless otherwise noted. Any changes to this fund affect the General Fund.

KEY TERMS

The Budgetary Procedures Act (UCA Title 63J Chapter 1) governs how agencies use legislative appropriations. The act defines several key terms that will be helpful while reviewing DFI's budget. These include:

"Dedicated credits" means collections by an agency that fund agency operations. Dedicated credits include fees, donations, assessments, sales, fines, and other revenues.

"Federal revenues" means collections by an agency from a federal source that are deposited into an account for expenditure by the agency.

"Line item" means a unit of accounting within an agency, that contains one or more programs. An appropriation or any surplus of any appropriation may not be diverted from any line item to any other line item unless approved by the Legislature.

"Program" means a unit of accounting included on a schedule of programs within a line item used to track budget authorizations, collections, and expenditures on specific purposes or functions. An agency may transfer money appropriated to it from one program to another program if the agency revises its budget execution plan with the Division of Finance.

"Restricted revenue" means collections that are deposited, by law, into a separate fund, sub-fund, or account, and designated for a specific program or purpose.

Legislative Joint Rule 3-2-402 instructs that in a base budget, appropriations from the General Fund, the Education Fund, and the Uniform School Fund shall be set as follows: 1) if the next fiscal year ongoing revenue estimates are equal to or greater than the current fiscal year ongoing appropriations, the new fiscal year base budget is not changed; 2) if the next fiscal year ongoing revenue estimates are less than the current fiscal year ongoing appropriations, the new fiscal year base budget is reduced by the same percentage that projected next fiscal year ongoing revenue estimates are lower than the total of current fiscal year ongoing appropriations.

DABS ACCOUNTABLE BUDGET REVIEW

BUDGET ORGANIZATION

The DABS budget is organized into 3 line items and their main operations line item contains various programs. Their line items and programs are organized as follows:

1. DABS Operations:
 - a. Administration
 - b. Executive Director
 - c. Operations
 - d. Stores and Agencies
 - e. Warehouse and Distribution
2. Parents Empowered
3. State Store Land Acquisition Fund

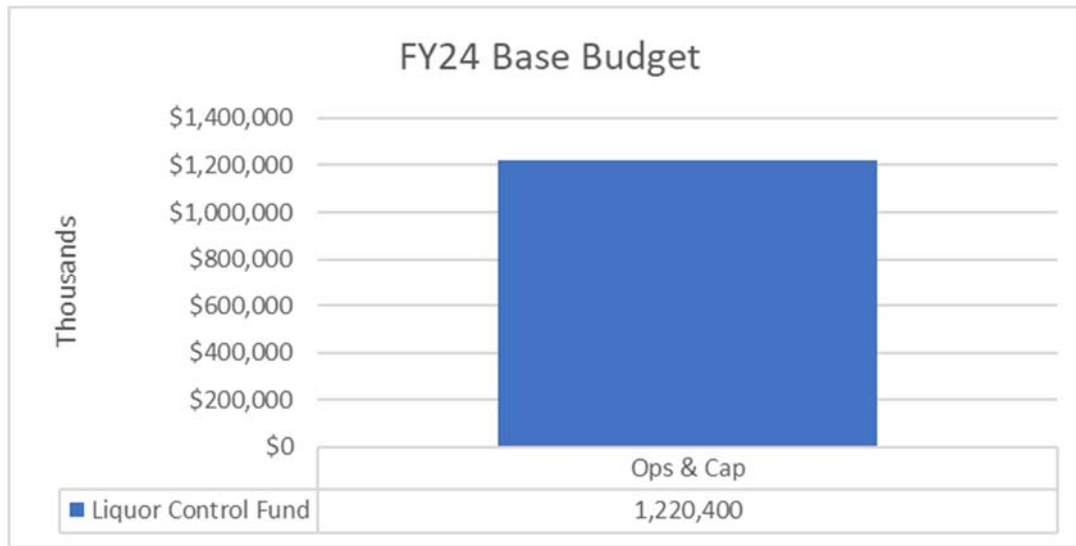
Below is an overall view of these line items/programs and how they compare in terms of budget size and employee counts.

			FY 2024 Appropriated				
			Total Funds	Program % of Total Funds	Program % of Total GF/EF Funds	Budget ed FTEs	FTEs %
1a	DABS - Operations	Administration (VFB)	1,220,400	0.5%	0.5%	7	1.3%
1b	DABS - Operations	Executive Director (VFA)	5,735,900	2.5%	2.5%	33	5.9%
1c	DABS - Operations	Operations (VFC)	2,448,100	1.1%	1.1%	-	0.0%
1d	DABS - Operations	Store and Agencies (VFE)	68,282,300	30.1%	30.1%	465	83.8%
1e	DABS - Operations	Warehouse and Distribution (VFD)	5,875,800	2.6%	2.6%	50	9.0%
2	DABS - Parents Empowered	Parents Empowered (VFK)	3,320,300	1.5%	1.5%	-	0.0%
3	DABS - State Store Land Acq. Fund	State Store Land Acquisition Fund	140,000,000	61.7%	61.7%	-	0.0%
		Total	226,882,800	100.0%	100.0%	555	100.0%

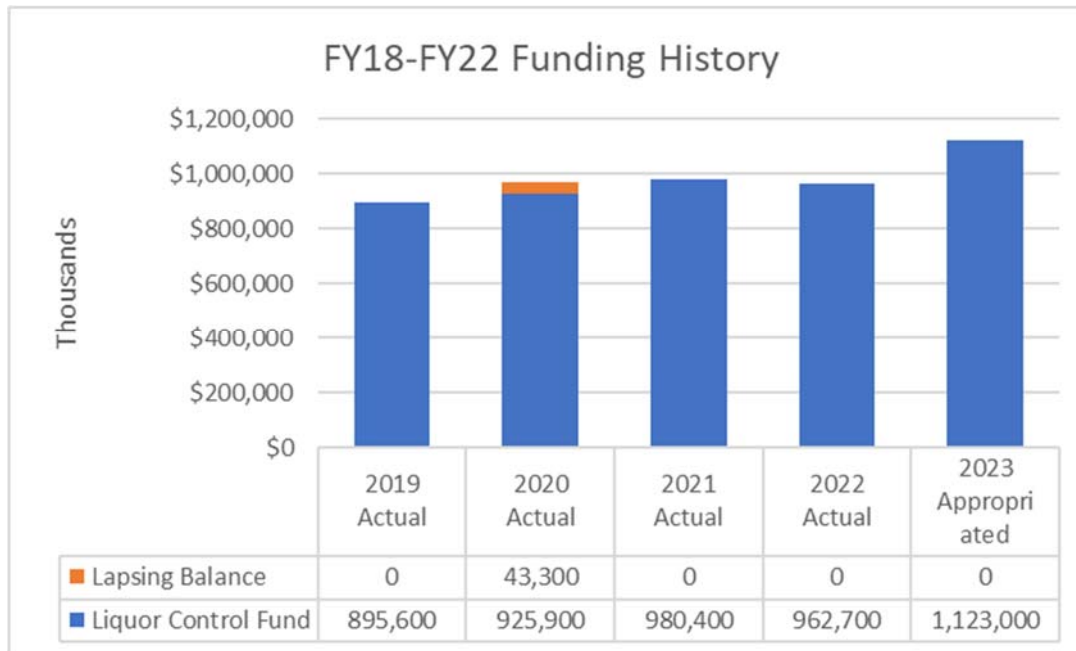
Please refer to the [Compendium of Budget Information](#) (COBI) and the attached Budget Deep Dive Checklists for additional detail about each program.

FY 2023 BASE BUDGET BY LINE ITEM/PROGRAM

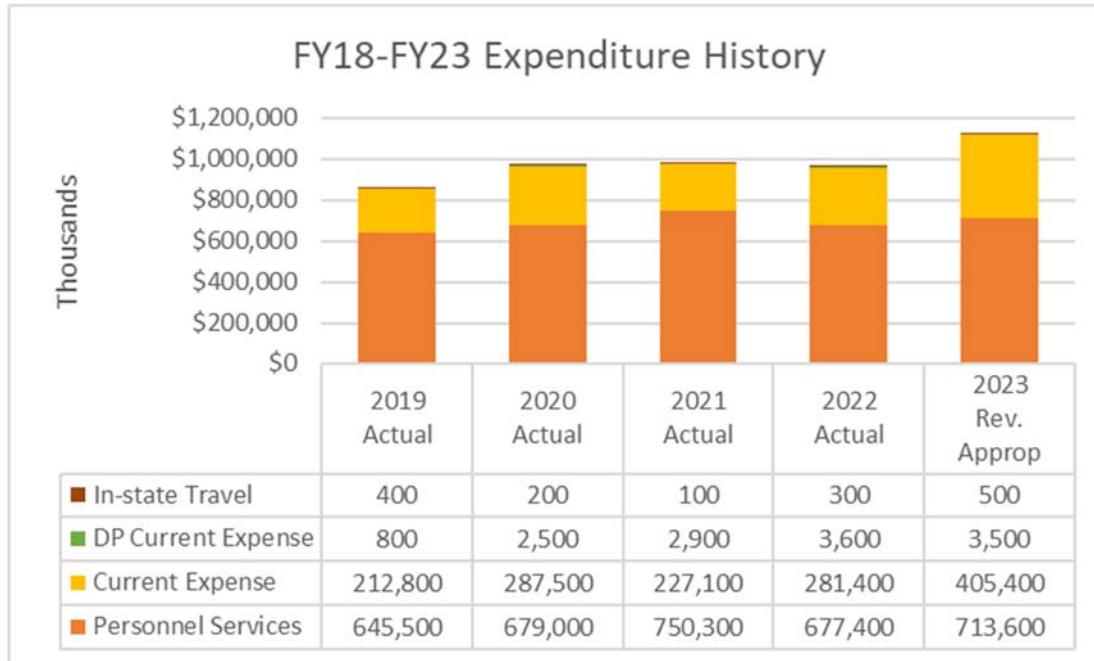
1a. DABS Operations – Administration



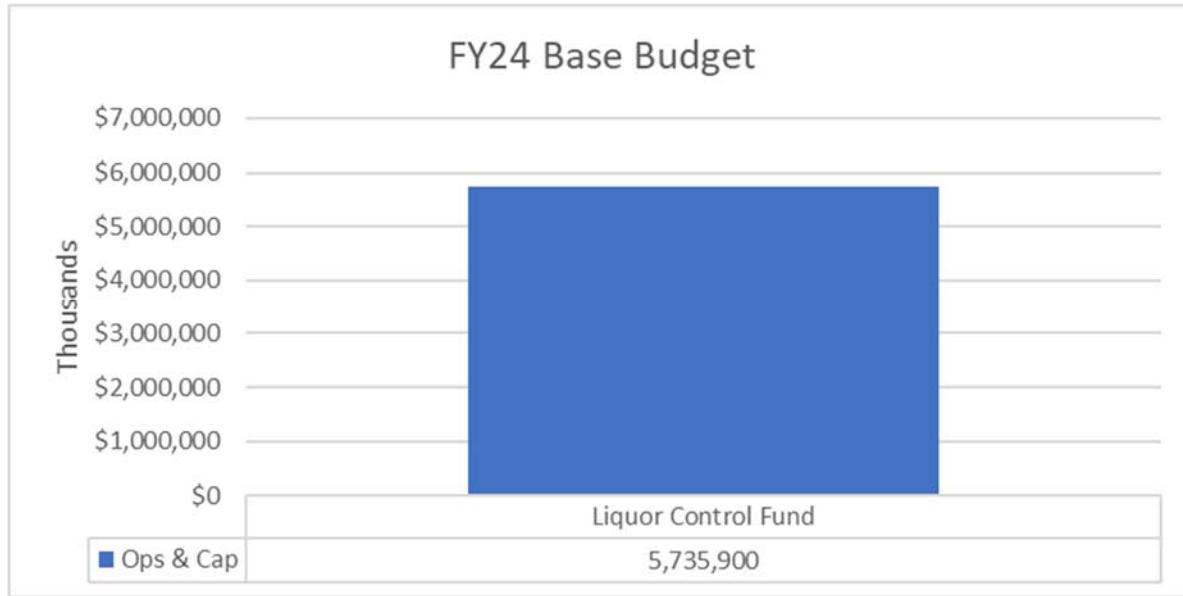
Funding History



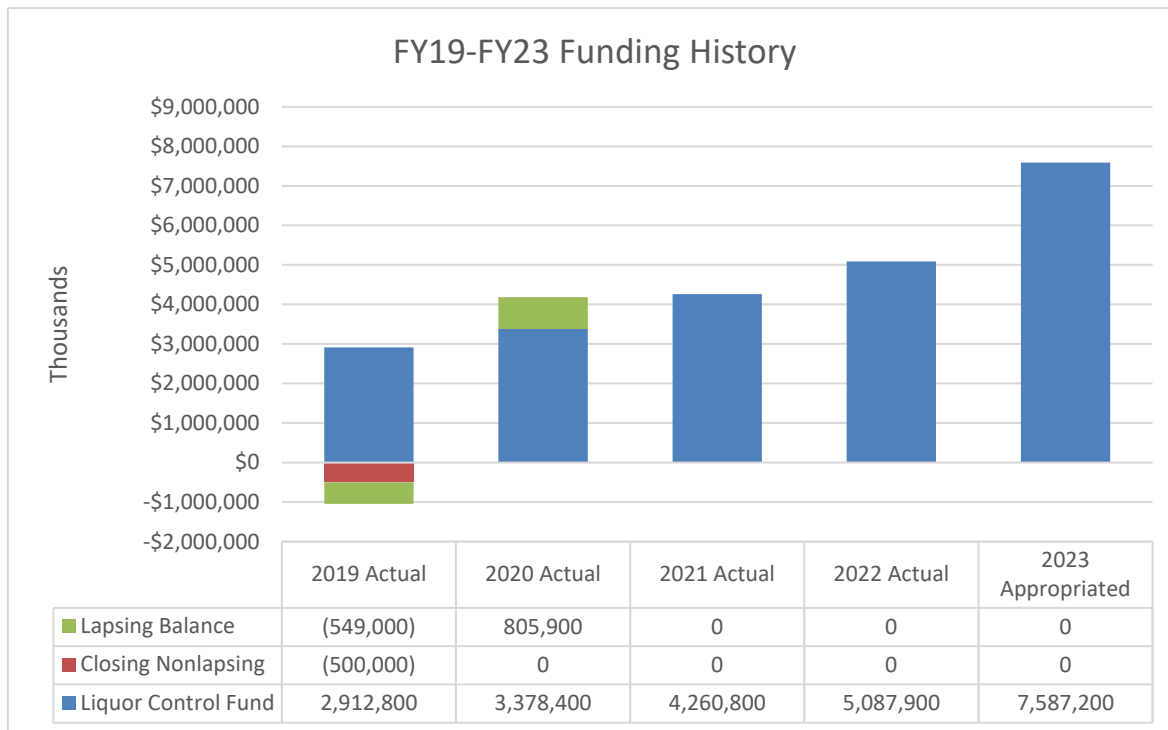
Expenditure History



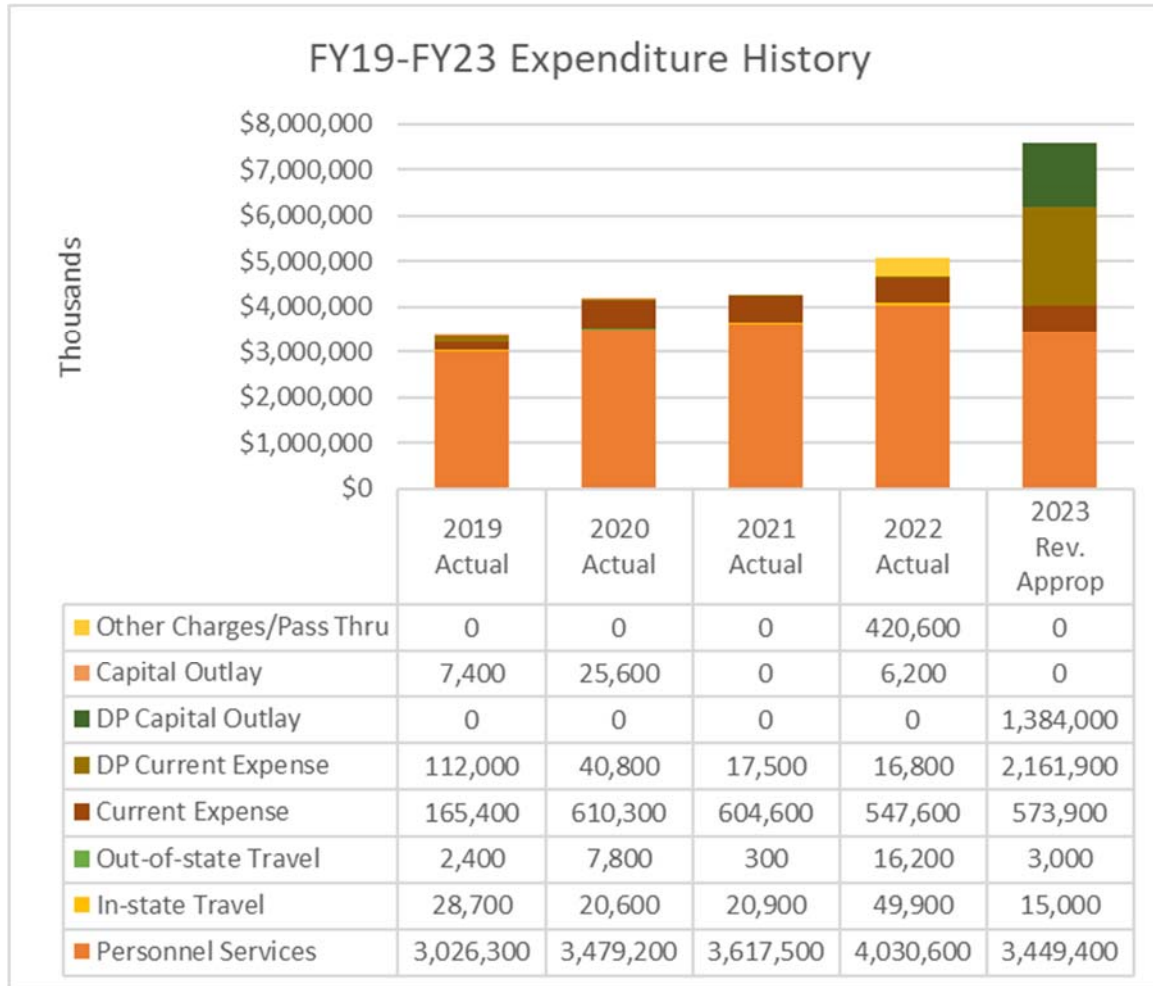
1b. DABS Operations – Executive Director



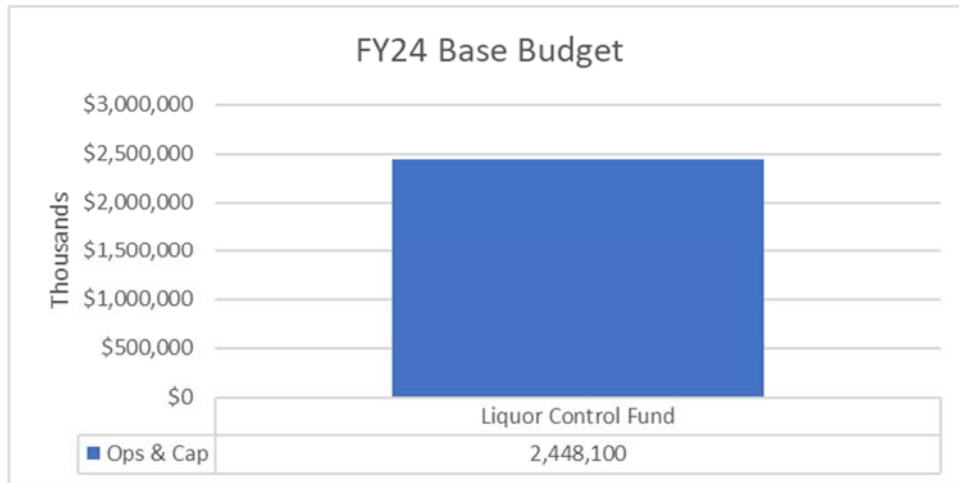
Funding History



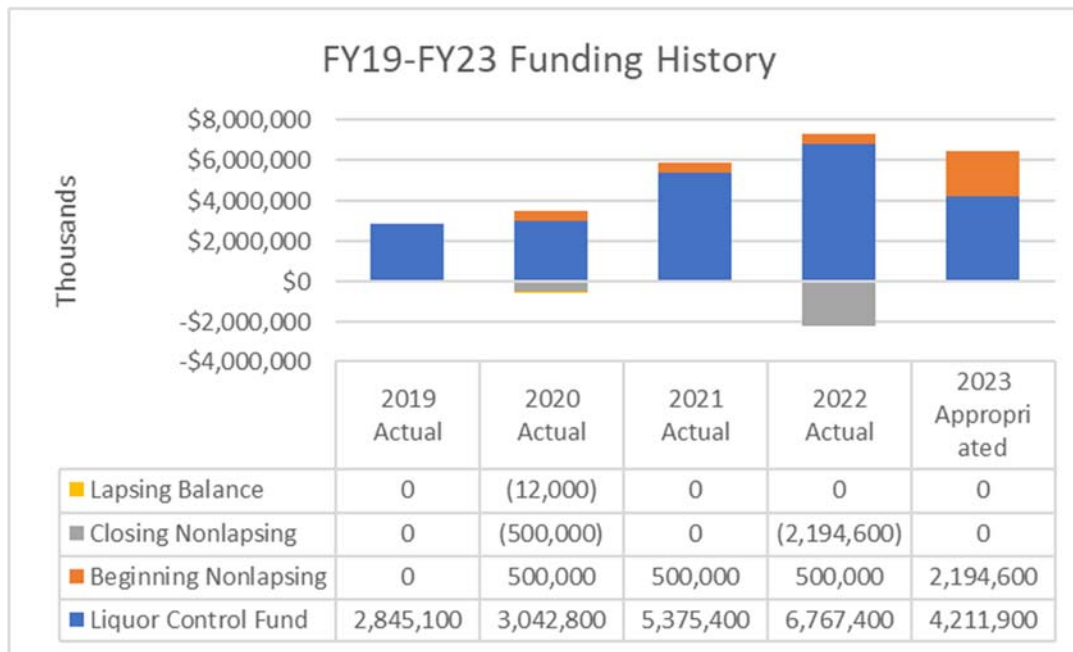
Expenditure History

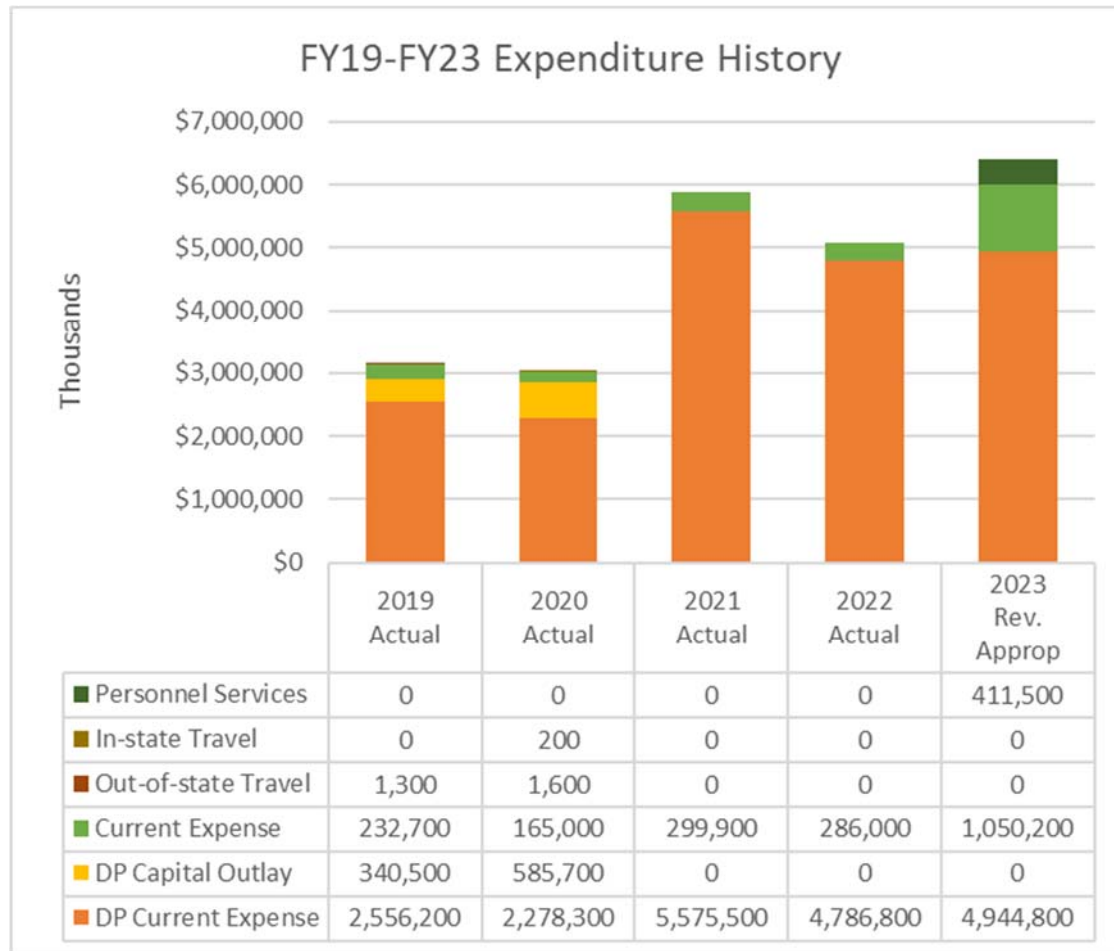


1c. DABS Operations – Operations

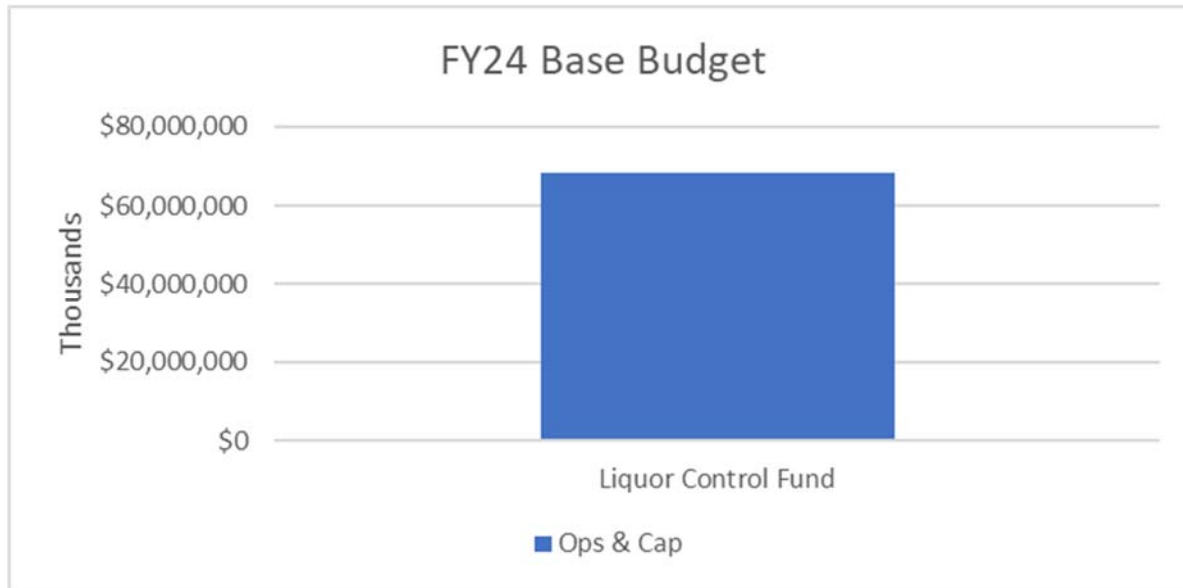


Funding History

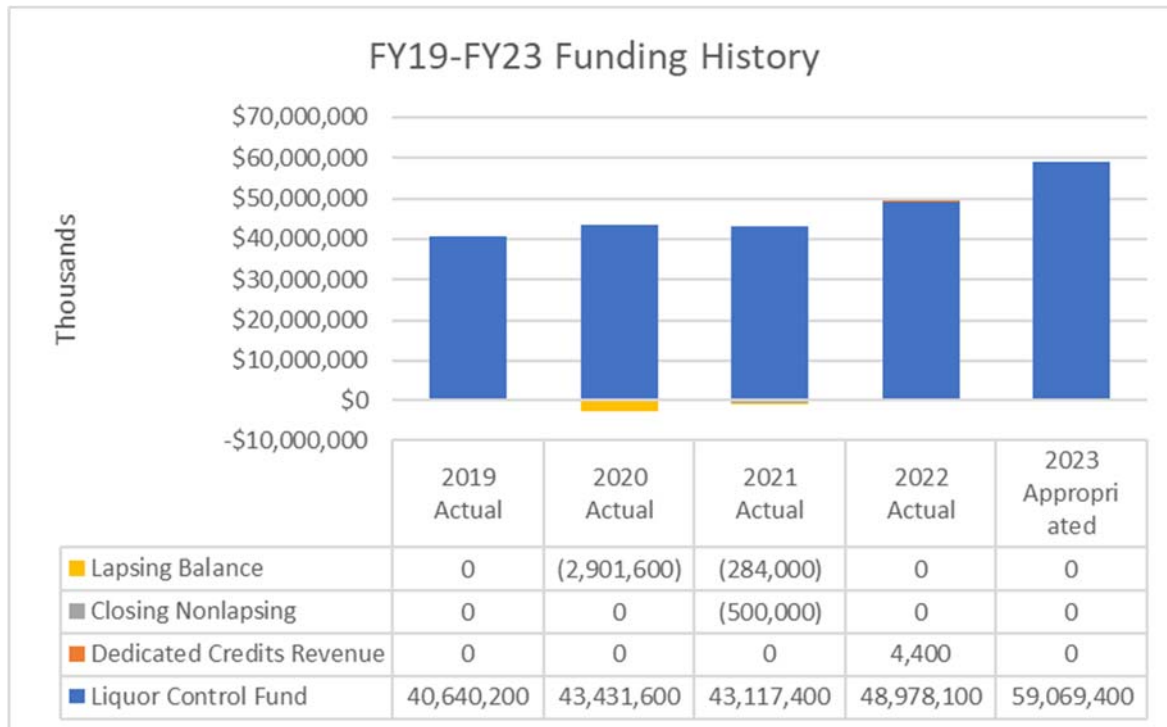


Expenditure History

1d. DABS Operations – Stores and Agencies

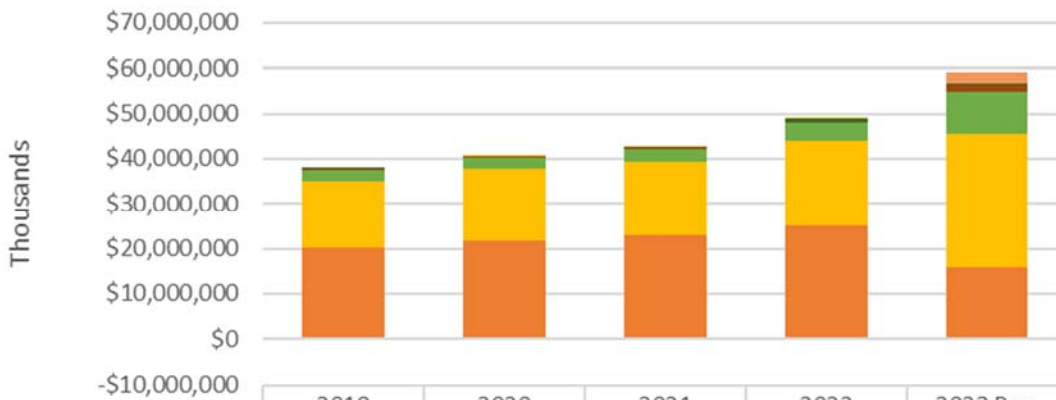


Funding History



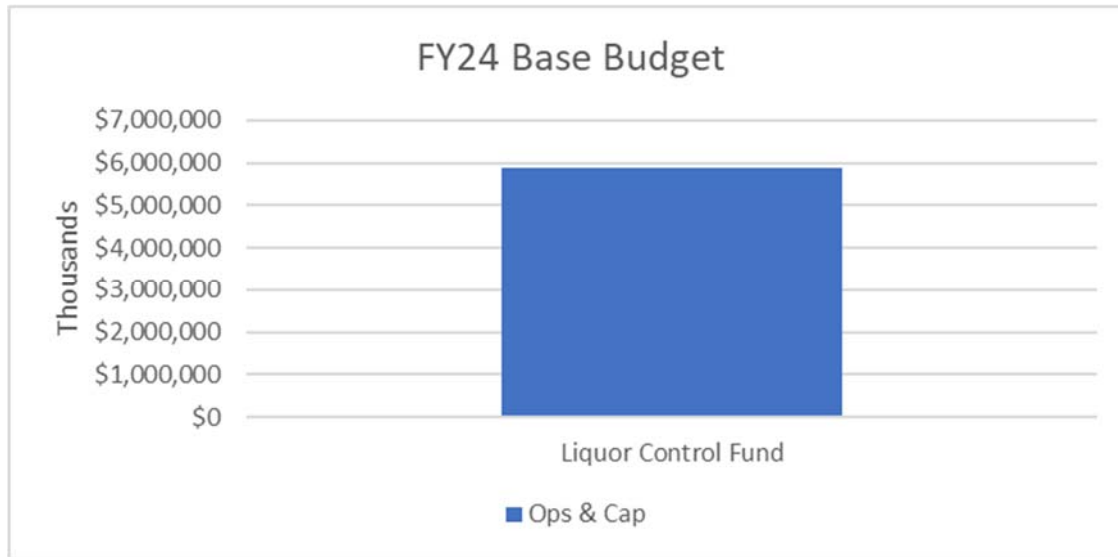
Expenditure History

FY19-FY23 Expenditure History

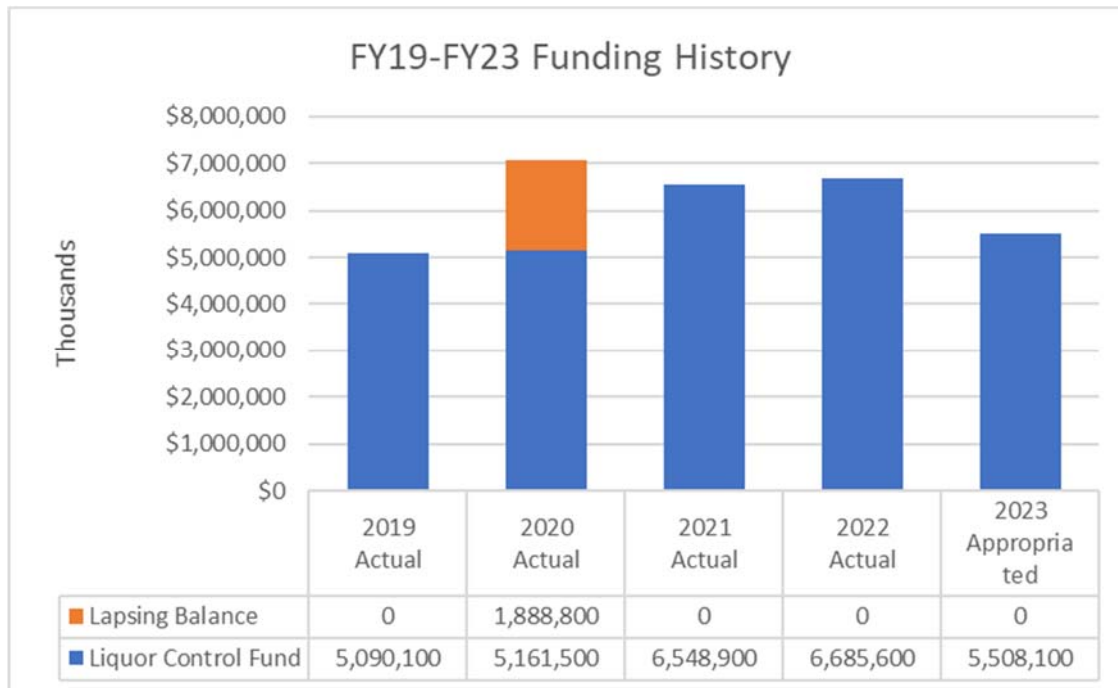


	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Rev. Approp
■ Out-of-state Travel	(700)	900	0	1,900	0
■ DP Capital Outlay	0	0	0	0	2,515,800
■ Capital Outlay	22,100	31,300	(14,700)	867,700	250,000
■ In-state Travel	31,800	28,900	16,300	54,900	41,500
■ DP Current Expense	162,700	160,000	148,400	173,800	1,396,600
■ Cost of Goods Sold	2,638,600	2,497,500	2,924,300	3,861,200	9,195,600
■ Personnel Services	14,737,300	16,104,300	16,187,700	18,878,400	29,823,200
■ Current Expense	20,153,800	21,707,100	23,071,400	25,144,600	15,846,700

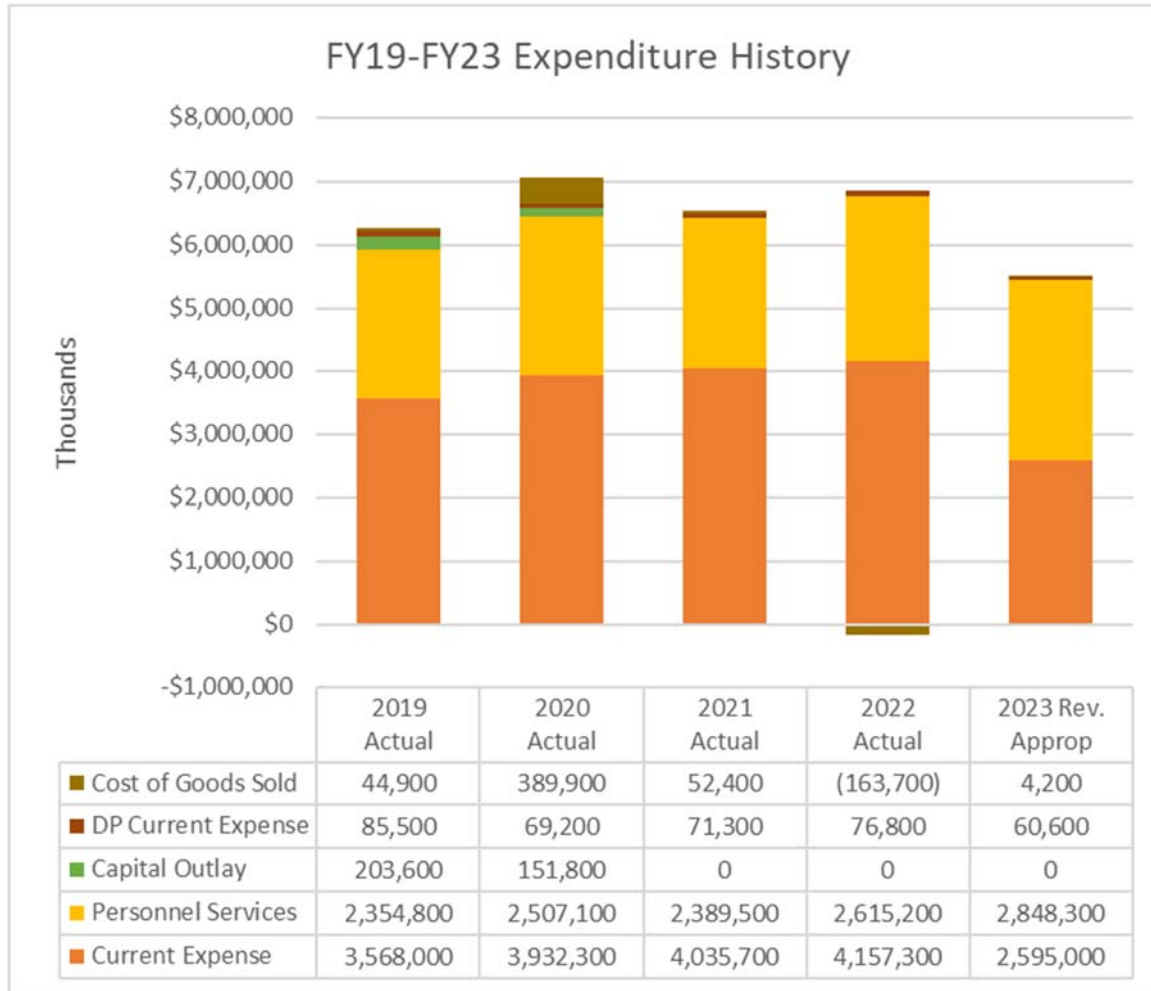
1e. DABS Operations – Warehouse and Distribution



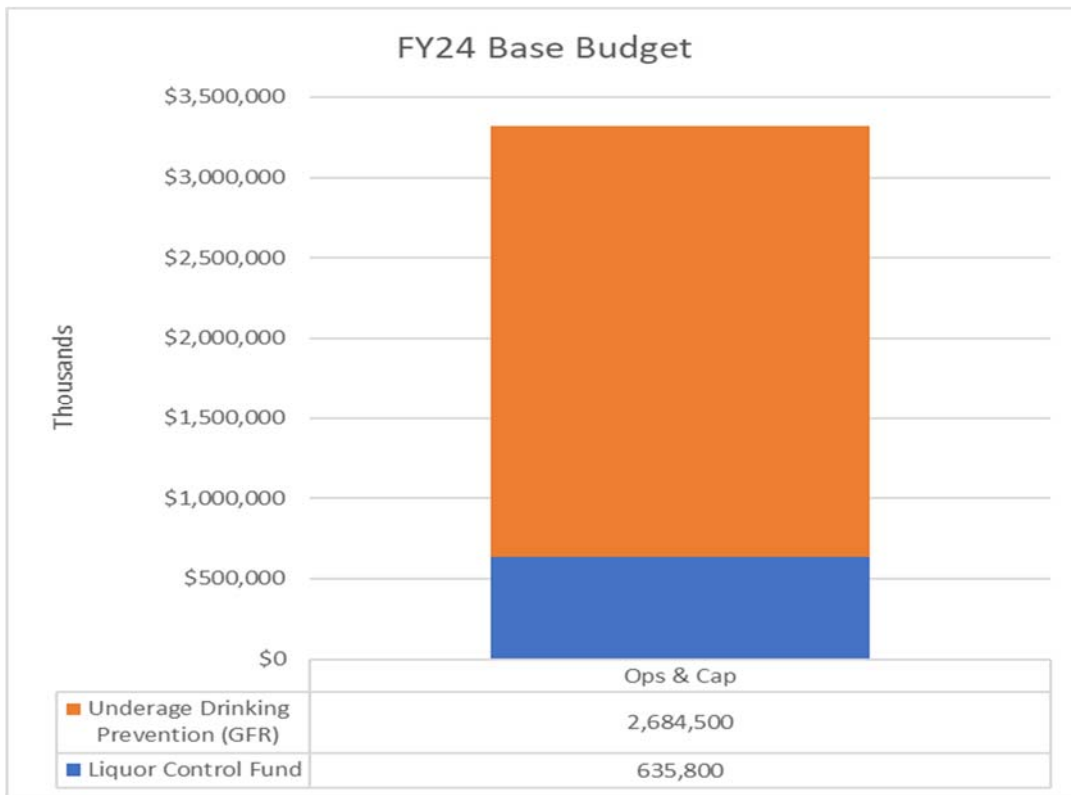
Funding History



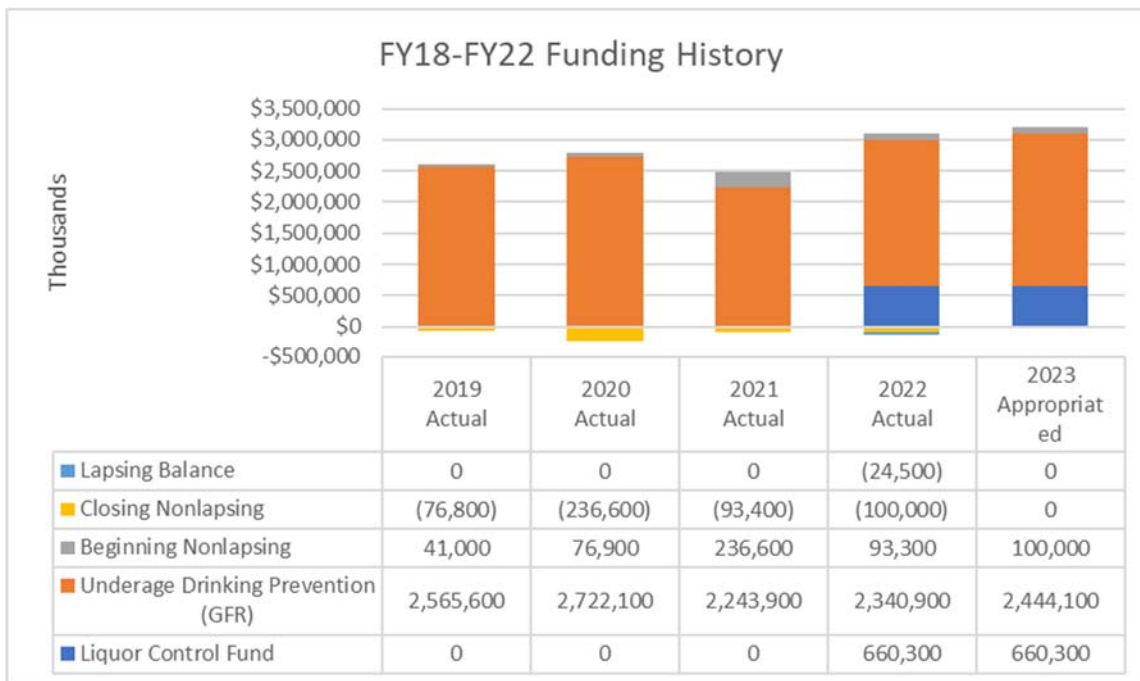
Expenditure History



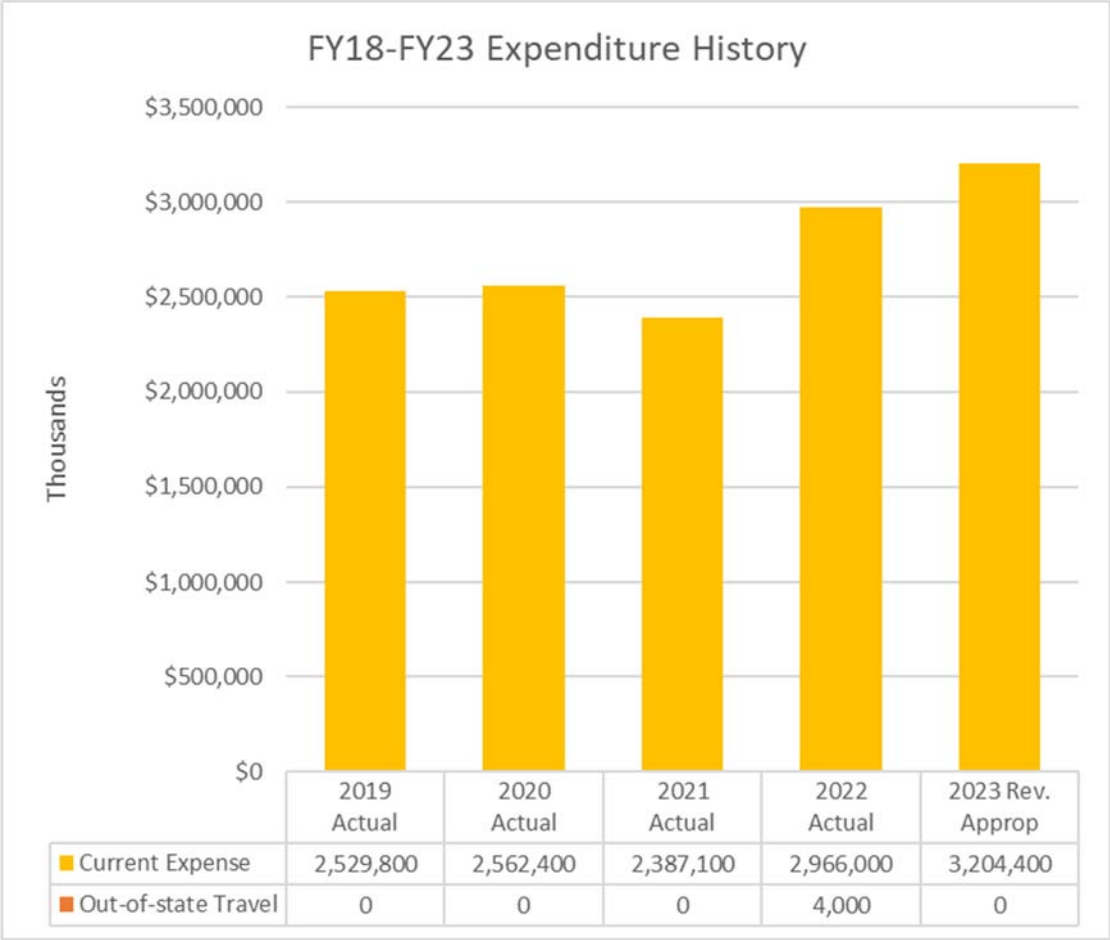
2. Parents Empowered



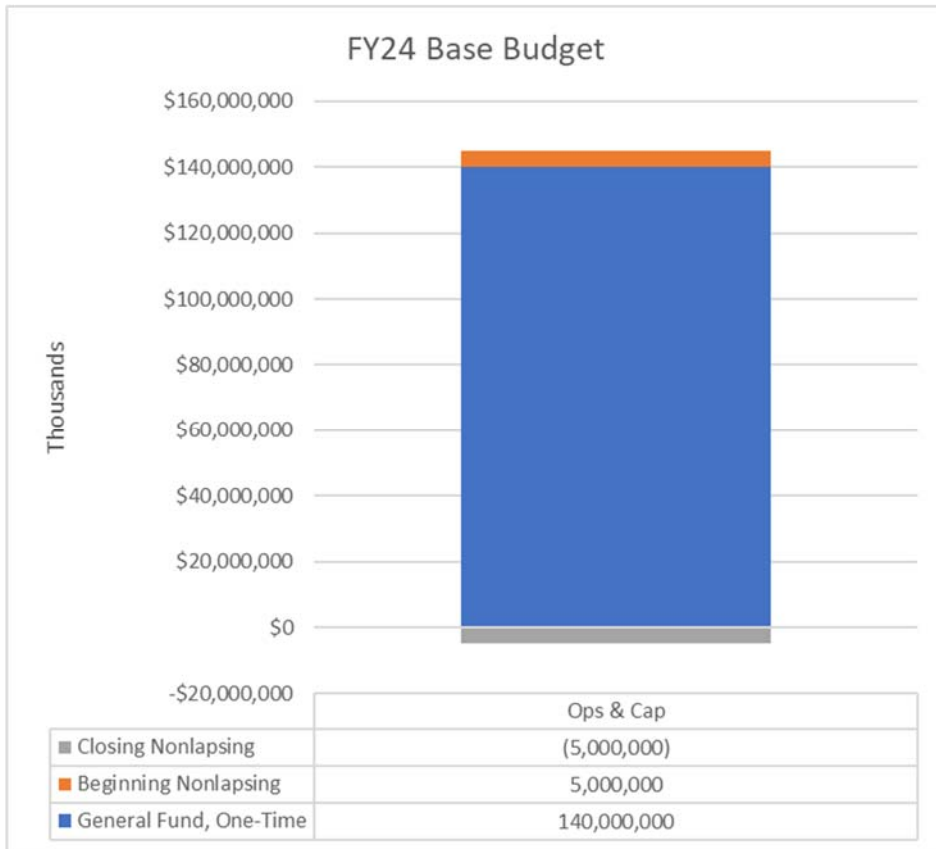
Funding History



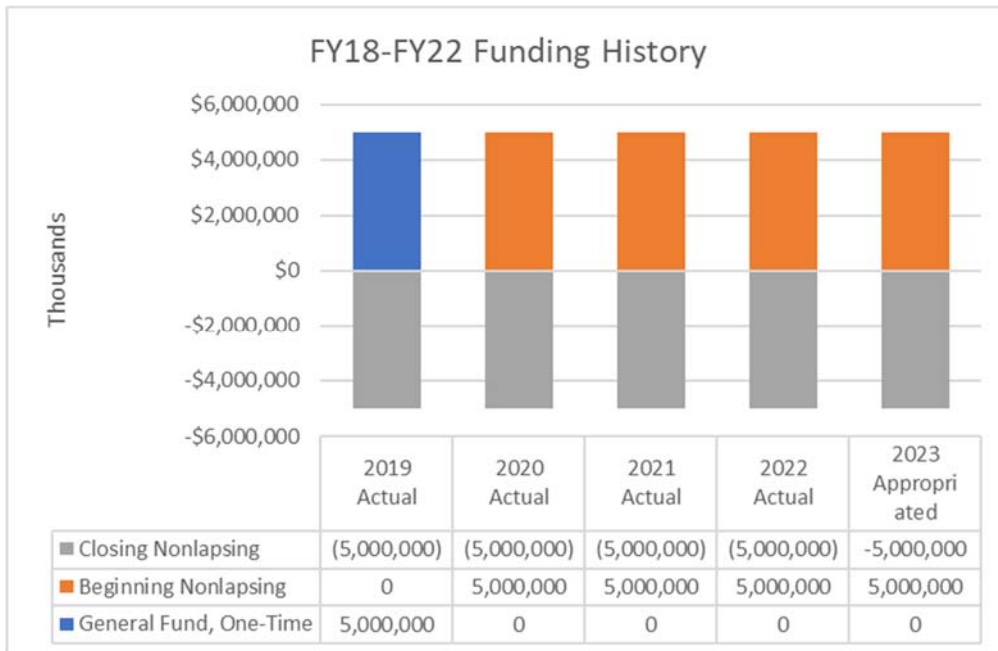
Expenditure History



3. State Store Land Acquisition Fund



Funding History



Expenditure History

No Expenditure history for this program as there were no expenditures over this time period.

Performance Measures and other Data

For FY 2023, the department is to report on the following performance measures:

Performance Measure Name	Target	Bill	Item #
Alcoholic Beverage Control			
DABC Operations			
On premise licensee audits conducted	85%	S.B. 2	60
Percentage of net profit to sales	23%	S.B. 2	60
Liquor payments processed within 30 days of invoices received	97%	S.B. 2	60
Supply chain in stock	97%	S.B. 2	60
Parents Empowered			
Ad awareness of the dangers of underage drinking and prevention tips	70%	S.B. 2	61
Ad awareness of "Parents Empowered"	60%	S.B. 2	61
Percentage of students who used alcohol during their lifetime	16%	S.B. 2	61

The Legislature could determine whether these performance measures align with the statutory purpose of the agency and make adjustments where necessary.

Budget Deep Dive Checklist for (Insert Program Name)

Purpose: Budget deep dives are intended to allow legislators a more thorough review of program outcomes, spending, and finance in the legislative interim session.

What We Are Accomplishing

1. What authorizes delivery/provision of the function (statute, intent, rule)? List specific statutory/other references.
2. What other activities are undertaken without explicit authority and what are the costs of those activities?
3. What outcomes is this function trying to accomplish?
4. What alternative government and non-government resources exist to achieve these outcomes? Why is the state involved?
5. What organizations are associated with this function?
6. What are the missions of the organizations associated with that function?
7. How are appropriations structured to accomplish this function? (a simple response is fine)
8. To whom is performance data reported other than the Legislature and Governor? (board, public, etc.)
9. What decisions are made within your organization based on reporting data?
10. How might you recommend the authorization, mission, or statute change?

What We Are Buying

11. What is the largest category of expenditure for the organization and how big is it?
12. How does this expenditure support the above justification/authorization?
13. What is that category of expenditure buying (how many/costs per unit)?
14. How does the above relate to units of output?
15. How has the expenditure changed over five years relative to the units of output?
16. Are there any outliers/anomalies in current or budgeted spending in this category?
17. Does the amount of expenditure for a category change significantly in accounting period 12 or 13? Why?
18. How might you recommend this expenditure category change based on the above?

REPEAT 14-21 FOR OTHER SIGNIFICANT EXPENDITURE CATEGORIES FROM LARGEST TO SMALLEST

How We Are Paying For It

19. What is the largest fund or account from which resources are drawn to support the above expenditures and how big is it?
 20. What are the revenue sources for that fund or account and what are their relative shares?
 21. Is the source one-time or ongoing and do ongoing sources match or exceed ongoing expenditures?
 22. How has the source changed over time relative to expenditures and units of output?
 23. Are there any outliers/anomalies in current or budgeted periods for this source?
 24. Are there unencumbered balances in a source that relate directly to his function/organization? If so, how have those balances changed over time?
 25. What is a reasonable balance and why?
 26. Is the availability of sources (grants or previous "building blocks"), rather than mission or objective, driving expenditures?
 27. Are other sources available to support the same expenditure?
 28. How might you recommend this revenue category change based on the above?
- REPEAT 22-31 FOR OTHER SIGNIFICANT SOURCES OF APPROPRIATION FROM LARGEST TO SMALLEST

Do We Balance?

29. What are total expenditures and total sources? Do they equal one another?
30. Have all appropriated or authorized sources been expended at year-end?
31. How have nonlapsing appropriation balances (if any) changed over time?
32. Are fees or taxes supporting a function, and are those fees or taxes reasonable?

Internal Controls

33. What are you doing to address repeat findings (if applicable) in your annual state audit (<https://reporting.auditor.utah.gov/searchreports/s/>)?
34. Please provide the evaluation and results required by [UCA 63J-1-903\(11\)](#).
35. What statutory nonlapsing authority do you have in <https://le.utah.gov/xcode/Title63J/Chapter1/63J-1-S602.1.html> and <https://le.utah.gov/xcode/Title63J/Chapter1/63J-1-S602.2.html>? Is that nonlapsing authority still needed? Why or why not?