

Office of the
Legislative Fiscal Analyst

FY 2001 Budget Recommendations

Joint Appropriations Subcommittee for
Commerce and Revenue

Department of Alcoholic Beverage Control

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1.0 Department of Alcoholic Beverage Control

Summary

Utah is one of eighteen liquor control states and one of two totally State run systems. The Department operates 36 State stores and approximately 80 package agencies. These State stores and package agencies are the exclusive retailers of liquor, wine and heavy beer (more than 4 percent alcohol by volume) in the State. The Department also administers liquor laws and licenses on-premise businesses, manufacturers, wholesalers, warehousemen, importers, and liquor representatives.

Mission Statement

The mission of the Department is to regulate the manufacture, sale and use of alcoholic beverages in a manner that serves the citizens and tourist population of Utah. Without promoting or encouraging the sale or consumption of alcoholic beverages, the Department operates as a public business using sound management principles and practices. It generates sales revenue to support State and local government programs. The Department licenses and regulates the sale of alcoholic beverages in a manner and at prices that reasonably satisfy the public demand while also protecting the public interest, including the rights of the citizens who do not wish to consume alcoholic products.

Income From Liquor Sales

Liquor sales provide a major source of income to the State's General Fund. In FY 1999, gross sales totaled \$127,952,863, with a net profit of \$26,959,556. This profit was deposited in the General Fund and used to support State government operations. The FY 2000 and FY 2001 liquor profit is estimated to continue this increasing trend. The Analyst's budget recommendation is not included in the profit transfer.

Liquor sales support several special government programs through profits and sales taxes. These include school lunch and local government alcohol and drug abuse programs.

	Analyst FY 2001 Base	Analyst FY 2001 Changes	Analyst FY 2001 Total
Financing			
Liquor Control Fund	\$13,798,600		\$13,798,600
Total	\$13,798,600		\$13,798,600
Programs			
Executive Director	\$901,400		\$901,400
Administration	981,300		981,300
Operations	1,563,300		1,563,300
Warehouse and Distribution	788,900		788,900
Stores and Agencies	9,563,700		9,563,700
Total	\$13,798,600		\$13,798,600
FTE	286.5		286.5

2.0 Budget Highlights: Department of Alcoholic Beverage Control

- 2.1 Analyst Commentary** The Analyst recommendations are not made to promote the sale of alcoholic beverages. Utah is a liquor control State and the Analyst recommendations are to enhance efficiency of operations maximizing the effectiveness of the dollars allocated to the Department for the distribution and control of alcoholic beverages. The items recommended below do not in and of themselves generate income, but are part of a business enterprise that does generate revenue. In many cases, the recommendation could lower expenses to the Department. These items would become part of “the cost of doing business” expense. All funding recommendations are from the Liquor Control Fund.
- 2.2 Enterprise Hardware and Software** Ongoing funding is recommended for the purpose of upgrading and replacing the enterprise equipment. This funding should finance additional disk space, processors, memory and periodic upgrades to the machine room enterprise servers. The funds are required to establish a three year replacement cycle for the Hewlett Packard and Data General mini-computers, local area network servers and related machine room equipment. The Analyst recommendation is \$60,000 ongoing funding from the Liquor Control Fund.
- 2.3 Tractor, Trailer, FTE Package** The Department uses a combination of State employees and contractual services to deliver product to the various stores. A contractor delivers cases to the stores at a cost of approximately \$1.00 per case. The cost for the Department to make the same delivery is approximately \$.40 a case. The cost of an additional tractor and trailer is \$113,000 (one-time). Funding for one FTE to staff the vehicle would be 31,000 ongoing funding. The Analyst recommends these items be placed on the priority list for funding.
- 2.4 Warehouse Package** Technology has moved to the warehouse. An ongoing request has been made to cover the recurring costs of repairing and replacing warehouse hand-held radio scanners, RF transmitters and related information technology equipment. The Department had requested \$30,000. The Analyst recommends that the Committee consider \$20,000 ongoing funding to be placed on the priority list.
- 2.5 Point-of-Sale Software Maintenance** A \$40,000 ongoing base budget increase is recommended for additional software maintenance fees. These fees are:
- | | |
|-----------------|--|
| \$10,000 / year | - GERS radio frequency warehousing application |
| 22,000 / year | - Oracle Bronze support |
| 1,500 / year | - Sungard PreCovery planning software |
| 6,500 / year | - Delphi upgrades |
- 2.6 EDI Consulting** Methods to implement EDI (Electronic Data Interchange) have been evaluated by the Department. The Department has submitted a one-time request for \$290,000 for consultants with expertise in developing electronic data interchange/electronic commerce applications and web – enabled business applications. This is an attempt to continue to improve the efficiency of operations and to further maximize profit without promoting the sale of alcoholic beverages.

**2.7 Warehousing
Operations**

Case sales have increased by 22 percent since FY 1995. The number of cases being handled by the warehouse staff is increasing. The Department had originally requested two additional warehouse workers and three new pallet jacks. The Analyst recommends the committee consider one additional FTE (\$22,000 ongoing funding) and two new pallet jacks (\$18,000).

**2.8 Package
Agency Funding
Adjustment**

The Department has traditionally requested an increase for the package agencies. A “cost of living” adjustment is recommended for Type III package agencies. These type of stores are contracted to sell merchandise in areas too small to justify a State store. Funding of \$39,600 would provide a 4 percent “cost of living” adjustment.

3.1 Programs: Department of Alcoholic Beverage Control - Executive Director’s Office

Recommendation The Analyst recommends funding of \$901,400 from the Liquor Control Fund.

Financial Summary

	FY 1999	FY 2000	FY 2001	Est/Analyst
Financing	Actual	Estimated	Analyst	Difference
Liquor Control Fund	\$866,000	\$907,400	\$901,400	(\$6,000)
Total	\$866,000	\$907,400	\$901,400	(\$6,000)
Expenditures				
Personal Services	\$847,800	\$877,000	\$868,500	(\$8,500)
In-State Travel	3,200	3,200	3,200	
Out of State Travel	4,200	4,200	4,200	
Current Expense	10,800	23,000	25,500	2,500
Total	\$866,000	\$907,400	\$901,400	(\$6,000)
FTE	15.0	16.0	16.0	

Summary The Executive Director’s Office sets policies and procedures for the Department. It provides information to the part-time Commission for their use to decide where to locate liquor stores, product mark-up, and issuance of licenses and permits. Liquor license officers investigate compliance with Utah’s liquor laws and make recommendations regarding license applications, suspensions, and revocations.

The Department of Public Safety also has liquor enforcement officers who police the private clubs and restaurants. They are funded separately.

Performance Measures Performance measures for this Department are listed in profit and loss as with a retail business. The Department does no advertising. Retail sales continue to increase. Expenses are maintained at a low cost. Net profits are added to the General Fund annually.

Many activity measures are collected to assure profitability, but are not reported separately. Section 3.6 summarizes the Department sales and income performance. FY 1999 continued the increasing profit transfer of over \$26.9 million. Sales for the first six months of FY 2000 indicates the trend is continuing to increase. Some contributing factors are increased population and immigration of people from out-of-state.

3.2 Programs: Department of Alcoholic Beverage Control - Administration

Recommendation The Analyst recommends a budget of \$981,300. The main changes are due to personal service and internal service fund adjustments.

Financial Summary

	FY 1999	FY 2000	FY 2001	Est/Analyst
Financing	Actual	Estimated	Analyst	Difference
Liquor Control Fund	\$825,700	\$986,200	\$981,300	(\$4,900)
Total	\$825,700	\$986,200	\$981,300	(\$4,900)
Expenditures				
Personal Services	\$378,000	\$405,500	\$401,500	(\$4,000)
In-State Travel	900	1,100	1,100	
Out of State Travel	300	300	300	
Current Expense	446,500	579,300	578,400	(900)
Total	\$825,700	\$986,200	\$981,300	(\$4,900)
FTE	9.0	9.0	9.0	

Summary

Administration provides the centralized administrative services to the other programs within the Department. This activity includes budgeting, accounting, and auditing of stores and package agencies for the Department.

3.3 Programs: Department of Alcoholic Beverage Control - Operations

The Analyst recommends a continuing budget of \$1,563,300 Liquor Control Fund. The difference between the FY 1999 Actual and the FY 2001 recommendation is due to one-time funding for computers and “point-of-sale” systems and implementation of the same.

Financial Summary

	FY 1999	FY 2000	FY 2001	Est/Analyst
Financing	Actual	Estimated	Analyst	Difference
Liquor Control Fund	\$2,594,300	\$1,675,100	\$1,563,300	(\$111,800)
Beginning Nonlapsing	100,000	100,000		(100,000)
Closing Nonlapsing	(100,000)			
Lapsing Balance	(240,300)			
Total	\$2,354,000	\$1,775,100	\$1,563,300	(\$211,800)
Expenditures				
Personal Services	\$1,049,400	\$1,002,600	\$992,000	(\$10,600)
In-State Travel	900	900	900	
Out of State Travel	4,700	2,500	2,500	
Current Expense	62,200	28,100	26,900	(1,200)
DP Current Expense	1,205,800	541,000	441,000	(100,000)
DP Capital Outlay	31,000	200,000	100,000	(100,000)
Total	\$2,354,000	\$1,775,100	\$1,563,300	(\$211,800)
FTE	15.0	15.0	15.0	

Summary

Operations provides data processing to the Department and manages the operation of the warehouse, stores and package agencies. (The budgets for the warehouse, distribution system, stores and package agencies are considered separately.) All liquor from delivery to the warehouse, until it is sold to the consumer, is traceable by computer. This results in a loss rate of less than 1/10th of one percent.

Point of Sale System Update

The Department has purchased and developed a new point-of-sale system with one-time funds appropriated by the Legislature in previous years. All State stores have the new system. Reports to the Analyst from the stores indicate that the system is working well and that customer service for the system is prompt and effective when problems are encountered. Implementation of the new system has improved efficiency and should contribute to additional net profit. No Y2K problems were experienced.

Systems Completion

The Department has replaced the entire point-of-sale system in all the State owned liquor stores. The warehousing system has also been replaced. Enhancements are currently being made to the system. It is projected that system changes and upgrades will continue into FY 2000.

The Information Technology budget now includes adequate funding for the routine replacement of office systems hardware and the retail stores "Point-Of-Sale" equipment.

Enterprise Hardware and Software

No funding is available for the enterprise hardware. Ongoing funding is recommended for the purpose of upgrading and replacing the enterprise equipment. This funding should finance additional disk space, processors, memory and periodic upgrades to the machine room enterprise servers. The funds are required to establish a three year replacement cycle for the Hewlett Packard and Data General mini-computers, local area network servers and related machine room equipment. The funding request is ongoing \$60,000 from the Liquor Control Fund.

Point-of-Sale Software Maintenance

A \$40,000 ongoing base budget increase is recommended for software maintenance fees. These fees are:

- \$10,000 / year - GERS radio frequency warehousing application
- 22,000 / year - Oracle Bronze support
- 1,500 / year - Sungard PreCOVERY planning software
- 6,500 / year - Delphi upgrades

The will enable the Department to maintain the software that supports retail sales to the public.

EDI Consulting

The Alcoholic Beverage Industry (ABI) Electronic Data Interchange (EDI) Group has been testing the use of various EDI transaction sets in performing business processes that were previously paper based. The results have been positive and the ABI EDI Group is attempting to have all control states and suppliers implement EDI in their day-to-day operations.

Methods to implement EDI (Electronic Data Interchange) have been evaluated by the Department. The Department has submitted a one-time request for \$290,000 for consultants with expertise in developing electronic data interchange/electronic commerce applications and web – enabled business applications. This is an attempt to continue to improve the efficiency of operations and to further maximize profit without promoting the sale of alcoholic beverages.

This dollar amount is calculated as 1933 hours at \$75 / hour times two consultants. The consultants will supplement the Department's in-house staff.

3.4 Programs: Department of Alcoholic Beverage - Warehouse and Distribution

Recommendation The Analyst recommends a budget of \$788,900 from the Liquor Control Fund. The only budgetary difference between FY 2000 and the FY 2001 recommendation is the personal services.

Financial Summary

	FY 1999	FY 2000	FY 2001	Est/Analyst
Financing	Actual	Estimated	Analyst	Difference
Liquor Control Fund	\$805,800	\$796,000	\$788,900	(\$7,100)
Total	\$805,800	\$796,000	\$788,900	(\$7,100)
Expenditures				
Personal Services	\$664,700	\$723,000	\$715,900	(\$7,100)
Out of State Travel	100	100	100	
Current Expense	67,700	72,900	72,900	
Capital Outlay	73,300			
Total	\$805,800	\$796,000	\$788,900	(\$7,100)
FTE	18.0	20.0	20.0	

Summary This program includes the delivery and the warehousing of the liquor and wines. Distribution is under the control of the Operations Division. During FY 1982, the warehouse was expanded to enable the Department to handle its increasing inventory. The Department now delivers over 98 percent of the merchandise. This contributes to the savings due to less product breakage and less employee theft.

Tractor, Trailer, FTE Package The Department uses a combination of State employees and contractual services to deliver product to the various stores. The volume of product to be delivered has increased 22 percent since FY 1995. A contractor delivers cases to the stores at a cost of approximately \$1.00 per case. The cost for the Department to make the same delivery is approximately \$.40 a case. The Analyst recommends the Committee to place a request for one additional tractor, trailer and FTE on the priority list. The cost of an additional tractor and trailer is \$113,000 (one-time). Funding for one FTE to staff the vehicle would be 31,000 ongoing funding.

Warehouse Package Technology has moved to the warehouse. An ongoing request has been made to cover the recurring costs of repairing and replacing warehouse hand-held radio scanners, RF transmitters and related information technology equipment. The Department had requested \$30,000. The additional hardware will address the increased sales volume and services. The Analyst recommends that the Committee consider \$20,000 ongoing funding to be placed on the priority list.

**Warehousing
Operations**

Case sales have increased by 22 percent since FY 1995. The number of cases being handled by the warehouse staff is increasing. This increase is 267,400 cases. All cases are handled twice, once in receiving and again in shipping. The Department had originally requested two additional warehouse workers and three new pallet jacks. The Analyst recommends the committee consider one additional FTE (\$22,000 ongoing funding) and two new pallet jacks (\$18,000).

3.5 Programs: Department of Alcoholic Beverage Control - Stores and Agencies

Recommendation The Analyst recommends a base budget of \$9,563,700 Liquor Control Fund.

Financial Summary

	FY 1999	FY 2000	FY 2001	Est/Analyst
Financing	Actual	Estimated	Analyst	Difference
Liquor Control Fund	\$8,906,100	\$9,623,700	\$9,563,700	(\$60,000)
Total	\$8,906,100	\$9,623,700	\$9,563,700	(\$60,000)
Expenditures				
Personal Services	\$5,955,900	\$6,225,400	\$6,167,300	(\$58,100)
In-State Travel	13,300	13,300	13,300	
Current Expense	2,908,100	3,384,100	3,382,200	(1,900)
DP Current Expense	900	900	900	
Capital Outlay	27,900			
Total	\$8,906,100	\$9,623,700	\$9,563,700	(\$60,000)
FTE	228.5	226.5	226.5	

Summary Stores and Agencies are overseen by the Operations Division. This program manages the operation of the retail outlets for the sale of liquor and wine to the consuming public. Liquor is sold through several channels in the State, among those being State stores, package agencies, private clubs, and restaurants.

Utah is a Liquor Control State Utah is one of eighteen liquor control States and one of only two that have totally State run systems. (Pennsylvania is the other State.) Utah buys from the manufacturer, stores, distributes and sells the product and collects the sales and excise taxes in State-run stores.

State Stores The State operates 36 stores throughout the State. These stores are located in large and medium-sized communities where the volume of business is high enough to support the costs of operating a store. The State owns 24 stores and leases the other 12. Employees working in the stores are State employees.

Package Agencies Liquor package agencies make up the remainder of the regular retail outlets. In smaller communities, the Department operates package stores which are normally located in an established business. The agency operator, who is not a State employee, contracts with the Department to sell liquor in compliance with State rules, regulations and operating procedures. These agencies have enabled the Department to meet the needs of the citizens in smaller communities where the expenses of a regular store would not be justified. Reimbursement is made based on levels of case volume, not on a one-to-one basis. Pricing is done to discourage the promotion of liquor sales.

**Package Agency
Funding
Adjustment**

The Department has traditionally requested an increase for the package agencies. Cost of living adjustments for rent, salary and other business expenses are not addressed on a regular basis. A “cost of living” adjustment is recommended for Type III package agencies. There are more than 80 package agencies throughout Utah. They account for approximately 1.0 percent of total liquor sales in Utah.

Funding of \$38,900 would provide a 4 percent “cost of living” adjustment.

Funding for adjustments have been made periodically in the past. No adjustment has been made in the last five years.

A bill has been sponsored in the House that would give a 14 percent adjustment to the Type III package agencies to “catch them up”. This would cost approximately \$136,000.

3.6 Programs: Department of Alcoholic Beverage Control-Performance

4.0 Tables: Department of Alcoholic Beverage Control

	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
Financing	Actual	Actual	Actual	Estimated	Analyst
Liquor Control Fund	\$11,517,100	\$13,684,300	\$13,997,900	\$13,988,400	\$13,798,600
Beginning Nonlapsing	100,000	51,000	100,000	100,000	
Closing Nonlapsing	(51,000)	(100,000)	(100,000)		
Lapsing Balance	(99,500)	(10,300)	(240,300)		
Total	\$11,466,600	\$13,625,000	\$13,757,600	\$14,088,400	\$13,798,600
% Change		18.8%	1.0%	2.4%	-2.1%
Programs					
Executive Director	\$807,800	\$836,200	\$866,000	\$907,400	\$901,400
Administration	812,400	773,600	825,700	986,200	981,300
Operations	1,293,000	2,606,300	2,354,000	1,775,100	1,563,300
Warehouse and Distribution	844,700	843,600	805,800	796,000	788,900
Stores and Agencies	7,708,700	8,565,300	8,906,100	9,623,700	9,563,700
Total	\$11,466,600	\$13,625,000	\$13,757,600	\$14,088,400	\$13,798,600
Expenditures					
Personal Services	\$7,718,600	\$8,384,100	\$8,895,800	\$9,233,500	\$9,145,200
In-State Travel	24,200	24,300	18,300	18,500	18,500
Out of State Travel	6,000	4,400	9,300	7,100	7,100
Current Expense	3,062,100	3,503,000	3,495,300	4,087,400	4,085,900
DP Current Expense	367,800	816,300	1,206,700	541,900	441,900
DP Capital Outlay	83,600	745,700	31,000	200,000	100,000
Capital Outlay	204,300	147,200	101,200		
Total	\$11,466,600	\$13,625,000	\$13,757,600	\$14,088,400	\$13,798,600
FTE	259.5	285.5	285.5	286.5	286.5