



# Montgomery County Government

## MEMORANDUM REPORT

December 6, 1994

TO: County Council

FROM: *JMP* Joan M. Pedersen, Program Evaluator  
Office of Legislative Oversight

SUBJECT: OLO Memorandum Report: FY94 Financial Activity for Department of Liquor Control Pilot Stores

This memorandum report provides an update on the FY94 financial activity of the Department of Liquor Control (DLC) pilot program to contract retail outlets. Based on revenue and expenditure information obtained from DLC, the Office of Legislative Oversight (OLO) prepared four financial statements that compare and contrast financial activity of the pilot stores. These statements are attached for your information.

### Comparison of Pilot Store Performance Against Average

The first financial statement (Circle 1) shows financial activity of each pilot store for FY94 as compared to each other and to the average for 21 stores. Highlights of the statement include:

- All three pilot stores were above-average in gross sales.
- Sales to licensees were above-average, as demonstrated in the level of discounts given by the pilot stores.
- For comparative purposes, commissions paid to contractors of the pilot stores were combined with DLC personnel costs for inventory audits and displayed on the same line as the DLC personnel costs associated with operation of the average store. DLC personnel costs and contractor commissions for the pilot stores in FY94 were:

	Kensington	Muddy Branch	Pike
Contractor Commissions	\$194,262	\$177,130	\$241,026
DLC Personnel Costs	17,018	16,660	21,647
Totals	<u>\$211,280</u>	<u>\$193,790</u>	<u>\$262,673</u>

- Net income for Kensington and Muddy Branch was much higher than average in both dollars and as a percent of net sales.
- Pike's gross sales were above average, yet net income was about average in dollars and below average as a percent of net sales. This may be explained in part by the high rental expense, which was twice the average due to the size and location of the Pike store.

### **Comparison of Kensington Retail Store Financial Activity**

The second financial statement (Circle 2) shows financial activity of the Kensington store for FY94 as compared to FY93. The store began operation under contract as of October 19, 1992, so the FY93 activity includes 8 1/2 months of contractor performance. The first pair of columns is FY93 activity; the second pair is FY94 activity; and the third pair is the change from FY93 to FY94. Highlights of the statement include:

- Net sales increased from FY93 to FY94 by \$110,608 (5.52 percent).
- Total operating expenses decreased by \$3,477 (.81 percent) from FY93 to FY94. Note that Personnel Costs/Commissions decreased significantly, and Repairs/Maintenance and Rental Expenses were down somewhat. However, Risk Management Charges, Miscellaneous, and Warehouse Expenses Allocated were higher than the previous year. (The warehouse expense allocation is based on net sales, so this expense naturally increases when sales increase).
- Due to the combination of increased sales and decreased expenses, net income to the County increased in FY94 by \$34,019 (13.84 percent) over FY93.

### **Comparison of Muddy Branch Retail Store Financial Activity**

The third financial statement (Circle 3) shows financial activity of the Muddy Branch store for FY94 as compared to FY93. This store began operation under contract as of December 7, 1992, so the FY93 activity includes 6 3/4 months of contractor performance. The first pair of columns is FY93 activity; the second pair is FY94 activity; and the third pair is the change from FY93 to FY94. Highlights of the statement include:

- Net sales increased from FY93 to FY94 by \$231,237 (12.46 percent).
- Total operating expenses increased by \$17,569 (4.91 percent) from FY93 to FY94. Note that Personnel Costs/Commissions and Repairs/Maintenance expenses decreased somewhat. However, Risk Management Charges, Rental Expenses, Miscellaneous, and Warehouse Expenses Allocated showed increases.
- Due to an increase in net sales that more than offset the higher operating expenses, net income to the County increased in FY94 by \$53,604 (18.99 percent) over FY93.

### Comparison of Pike Retail Store Financial Activity

The fourth financial statement (Circle 4) shows financial activity of the Pike store for FY94 as compared to FY93. This store began operation under contract as of October 26, 1992, so the FY93 activity includes 8 1/4 months of contractor performance. The first pair of columns is FY93 activity; the second pair is FY94 activity; and the third pair is the change from FY93 to FY94. Highlights of the statement include:

- Net sales increased from FY93 to FY94 by \$528,091 (29.83 percent).
- Total operating expenses increased from FY93 to FY94 by \$73,031 (14.08 percent). Note that Personnel Costs/Commissions increased substantially, as did Rental Expenses, Utilities, Risk Management Charges, Miscellaneous, and Warehouse Expenses Allocated. The only expense to decrease was the Repairs/Maintenance category.
- Due to a dramatic increase in net sales that more than offset the higher operating expenses, net income to the County increased in FY94 by \$109,846 (158.66 percent) over FY93.

### Update on Contracting of Retail Stores

All three contracts for the original pilot stores have recently been extended for two additional years. Commission rates on regular sales will be continued as originally agreed: Muddy Branch at 8.50 percent; Kensington at 9.20 percent; and Pike at 10.75 percent. However, commissions on sales to licensees have been reduced to 2.00 percent.

A contract was awarded for management of the Flower Avenue store, effective September 19, 1994. The contract was awarded for three years initially and allows for one 4-year renewal then one 5-year renewal period. The contractor is responsible for all insurance costs and for the acquisition and cost of office and janitorial supplies. The contractor held a beer and wine off-sale license, but has removed his name from the license and agreed to list the business for sale with a broker. Sales commission rates are:

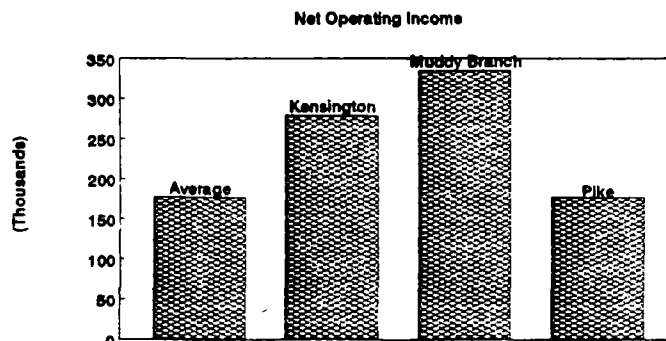
- 13.50% on regular sales to \$999,999
- 10.00% on regular sales in range \$1,000,000-1,249,999
- 8.00% on regular sales in range \$1,250,000-1,999,999
- 6.50% on regular sales at \$2,000,000 or over
- 2.00% on licensee and ride-on bus farecard sales

JMP/tb  
994/1-3

c: Alastair McArthur, Acting CAO  
Steve Farber, Council Staff Director  
Justina Ferber, Legislative Analyst  
Frank Orifici, Acting Director of DLC  
Liquor Policy Committee

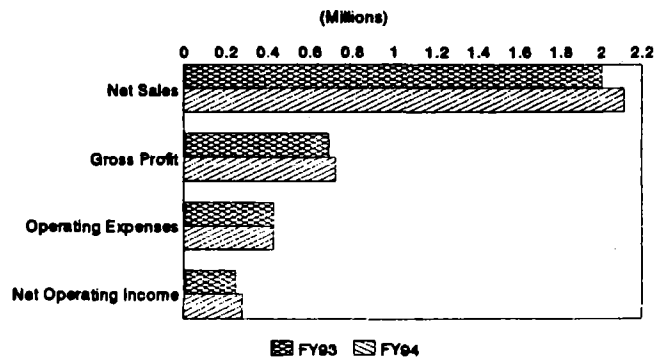
**COMPARISON OF PILOT STORE PERFORMANCE AGAINST AVERAGE RETAIL STORE FINANCIAL ACTIVITY  
FOR THE 12-MONTH PERIOD OF JULY 1, 1993 THROUGH JUNE 30, 1994**

	AVG - 21 STORES			KENSINGTON			MUDDY BRANCH			PIKE	
Gross Sales	1,782,888	101.83%		2,152,869	101.87%		2,128,801	101.98%		2,362,785	102.81%
Add Container Tax	n/a	n/a	P	n/a	n/a	P	n/a	n/a	P	n/a	n/a
Minus Discounts	(32,125)	-1.83%	e	(39,447)	-1.87%	e	(41,323)	-1.98%	e	(64,554)	-2.81%
Net Sales	1,750,763	100.00%	r	2,113,422	100.00%	r	2,087,478	100.00%	r	2,298,231	100.00%
Cost of Goods Sold:			c			c			c		
Beginning Inventory	178,463	10.19%	e	200,156	9.47%	e	159,949	7.66%	e	205,181	8.93%
Purchases	11,105	0.63%	n	16,252	0.77%	n	11,136	0.53%	n	18,104	0.79%
Transfers from Whse	1,143,091	65.29%	t	1,350,727	63.91%	t	1,369,719	65.62%	t	1,580,312	68.76%
Goods Available for Sale	1,332,659	76.12%	o	1,567,135	74.15%	o	1,540,804	73.81%	o	1,803,597	78.48%
Minus Ending Inventory	(184,718)	-10.55%		(175,933)	-8.32%		(178,872)	-8.57%		(291,303)	-12.68%
Cost of Goods Sold	1,147,941	65.57%	f	1,391,202	65.83%	f	1,361,932	65.24%	f	1,512,294	65.80%
<b>Operations Gross Profit</b>	<b>602,821</b>	<b>34.43%</b>		<b>722,220</b>	<b>34.17%</b>		<b>725,546</b>	<b>34.76%</b>		<b>785,937</b>	<b>34.20%</b>
Operating Expenses:			N			N			N		
Personnel Services/Commissions	222,621	12.72%	e	211,280	10.00%	e	193,790	9.28%	e	262,673	11.43%
Professional Services	642	0.04%	t	643	0.03%	t	643	0.03%	t	643	0.03%
Communications	1,444	0.08%		1,480	0.07%		1,458	0.07%		1,445	0.06%
Data Processing	1,765	0.10%		2,130	0.10%		2,104	0.10%		2,317	0.10%
Motor Pool Charges	787	0.04%	S	777	0.04%	S	777	0.04%	S	777	0.03%
Repairs/Maintenance	7,075	0.40%	a	6,427	0.30%	a	6,586	0.32%	a	6,730	0.29%
Rental Expenses	98,319	5.62%	l	103,508	4.90%	l	77,737	3.72%	l	200,066	8.71%
Utilities	9,269	0.53%	c	8,639	0.41%	c	7,198	0.34%	c	18,547	0.81%
Risk Management Charges	5,675	0.32%	s	11,374	0.54%	s	6,785	0.33%	s	11,495	0.50%
Office Supplies	1,399	0.08%		1,681	0.08%		1,686	0.08%		1,828	0.08%
Miscellaneous	14,824	0.85%		17,162	0.81%		17,010	0.81%		18,663	0.81%
Admin Expenses Allocated	n/a	n/a		n/a	n/a		n/a	n/a		n/a	n/a
Whse Expenses Allocated	50,517	2.89%		61,222	2.90%		59,934	2.87%		66,551	2.90%
Total Operating Expenses	414,336	23.67%		426,323	20.17%		375,708	18.00%		591,735	25.75%
<b>Income From Operations Before Depreciation</b>	<b>188,485</b>	<b>10.77%</b>		<b>295,897</b>	<b>14.00%</b>		<b>349,838</b>	<b>16.76%</b>		<b>194,202</b>	<b>8.45%</b>
Depreciation	7,926	0.45%		12,819	0.61%		10,746	0.51%		11,312	0.49%
Whse Depr Allocated	3,660	0.21%		4,325	0.20%		4,386	0.21%		5,060	0.22%
Total Depreciation	11,586	0.66%		17,144	0.81%		15,132	0.72%		16,372	0.71%
<b>Net Operating Income</b>	<b>176,899</b>	<b>10.10%</b>		<b>278,753</b>	<b>13.19%</b>		<b>334,706</b>	<b>16.03%</b>		<b>177,830</b>	<b>7.74%</b>
Other Income:											
Investment Income	573	0.03%		692	0.03%		683	0.03%		752	0.03%
Miscellaneous Income	462	0.03%		558	0.03%		551	0.03%		607	0.03%
Asset Disposal	(80)	-0.00%		(100)	-0.00%		(98)	-0.00%		(109)	-0.00%
Bond Interest Expense	(83)	-0.00%									
Total Other Income (Expense)	872	0.05%		1,150	0.05%		1,136	0.05%		1,250	0.05%
<b>Net Income</b>	<b>177,771</b>	<b>10.15%</b>		<b>279,903</b>	<b>13.24%</b>		<b>335,842</b>	<b>16.09%</b>		<b>179,080</b>	<b>7.79%</b>



## COMPARISON OF KENSINGTON RETAIL STORE FINANCIAL ACTIVITY

	7/01/92-6/30/93			7/01/93-6/30/94			Change From FY93		
	2,032,429	101.48%		2,152,869	101.87%		120,440	5.93%	
Gross Sales									
Add Container Tax	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
Minus Discounts	(29,615)	-1.48%	(39,447)	-1.87%	9,832	33.20%			
<b>Net Sales</b>	<b>2,002,814</b>	<b>100.00%</b>	<b>2,113,422</b>	<b>100.00%</b>	<b>110,608</b>	<b>5.52%</b>			
Cost of Goods Sold:									
Beginning Inventory	174,572	8.72%	200,156	9.47%	25,584	14.66%			
Purchases	17,558	0.88%	16,252	0.77%	(1,306)	-7.44%			
Transfers from Whse	1,319,290	65.87%	1,350,727	63.91%	31,437	2.38%			
<b>Goods Available for Sale</b>	<b>1,511,420</b>	<b>75.46%</b>	<b>1,567,135</b>	<b>74.15%</b>	<b>55,715</b>	<b>3.69%</b>			
Minus Ending Inventory	(200,156)	-9.99%	(175,933)	-8.32%	(24,223)	-12.10%			
<b>Cost of Goods Sold</b>	<b>1,311,264</b>	<b>65.47%</b>	<b>1,391,202</b>	<b>65.83%</b>	<b>79,938</b>	<b>6.10%</b>			
<b>Operations Gross Profit</b>	<b>691,550</b>	<b>34.53%</b>	<b>722,220</b>	<b>34.17%</b>	<b>30,670</b>	<b>4.43%</b>			
Operating Expenses:									
Personnel Services/Commissions	232,189	11.59%	211,280	10.00%	(20,909)	-9.01%			
Professional Services	0	0.00%	643	0.03%	643	100.00%			
Communications	1,356	0.07%	1,480	0.07%	124	9.14%			
Data Processing	2,143	0.11%	2,130	0.10%	(13)	-0.61%			
Motor Pool Charges	781	0.04%	777	0.04%	(4)	-0.51%			
Repairs/Maintenance	7,980	0.40%	6,427	0.30%	(1,553)	-19.46%			
Rental Expenses	106,295	5.31%	103,508	4.90%	(2,787)	-2.62%			
Utilities	9,208	0.46%	8,639	0.41%	(569)	-6.18%			
Risk Management Charges	3,622	0.18%	11,374	0.54%	7,752	214.03%			
Office Supplies	941	0.05%	1,681	0.08%	740	78.64%			
Miscellaneous	14,277	0.71%	17,162	0.81%	2,885	20.21%			
Admin Expenses Allocated	n/a	n/a	n/a	n/a	n/a	n/a			
Whse Expenses Allocated	51,008	2.55%	61,222	2.90%	10,214	20.02%			
<b>Total Operating Expenses</b>	<b>429,800</b>	<b>21.46%</b>	<b>426,323</b>	<b>20.17%</b>	<b>(3,477)</b>	<b>-0.81%</b>			
<b>Income From Operations Before Depreciation</b>	<b>261,750</b>	<b>13.07%</b>	<b>295,897</b>	<b>14.00%</b>	<b>34,147</b>	<b>13.05%</b>			
Depreciation	12,258	0.61%	12,819	0.61%	561	4.58%			
Whse Depr Allocated	3,986	0.20%	4,325	0.20%	339	8.50%			
<b>Total Depreciation</b>	<b>16,244</b>	<b>0.81%</b>	<b>17,144</b>	<b>0.81%</b>	<b>900</b>	<b>5.54%</b>			
<b>Net Operating Income</b>	<b>245,506</b>	<b>12.26%</b>	<b>278,753</b>	<b>13.19%</b>	<b>33,247</b>	<b>13.54%</b>			
Other Income (Expense):									
From Investments	1,628	0.08%	692	0.03%	(936)	-57.49%			
Miscellaneous	591	0.03%	558	0.03%	(33)	-5.58%			
Asset Disposal	(1,557)	-0.08%	0	0.00%	1,557	-100.00%			
Bond Interest	(284)	-0.01%	(100)	-0.00%	184	-64.79%			
<b>Total Other Income (Expense)</b>	<b>378</b>	<b>0.02%</b>	<b>1,150</b>	<b>0.05%</b>	<b>772</b>	<b>204.23%</b>			
<b>Net Income</b>	<b>245,884</b>	<b>12.28%</b>	<b>279,903</b>	<b>13.24%</b>	<b>34,019</b>	<b>13.84%</b>			



Prepared by OLO  
20-Nov-94

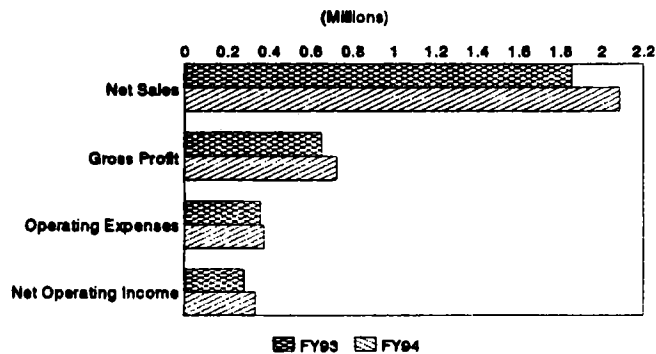
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COMPARISON OF MUDDY BRANCH RETAIL STORE FINANCIAL ACTIVITY

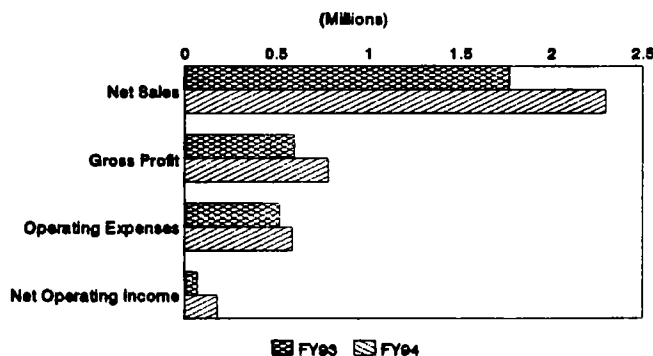
	7/01/92-6/30/93		7/01/93-6/30/94		Change From FY93	
Gross Sales	1,885,990	101.60%	2,128,801	101.98%	242,811	12.87%
Add Container Tax	n/a	n/a	n/a	n/a	n/a	n/a
Minus Discounts	(29,749)	-1.60%	(41,323)	-1.98%	11,574	38.91%
Net Sales	1,856,241	100.00%	2,087,478	100.00%	231,237	12.46%
Cost of Goods Sold:						
Beginning Inventory	149,083	8.03%	159,949	7.66%	10,866	7.29%
Purchases	11,507	0.62%	11,136	0.53%	(371)	-3.22%
Transfers from Whse	1,201,376	64.72%	1,369,719	65.62%	168,343	14.01%
Goods Available for Sale	1,361,966	73.37%	1,540,804	73.81%	178,838	13.13%
Minus Ending Inventory	(159,949)	-8.62%	(178,872)	-8.57%	18,923	11.83%
Cost of Goods Sold	1,202,017	64.76%	1,361,932	65.24%	159,915	13.30%
<b>Operations Gross Profit</b>	<b>654,224</b>	<b>35.24%</b>	<b>725,546</b>	<b>34.76%</b>	<b>71,322</b>	<b>10.90%</b>
Operating Expenses:						
Personnel Services/Commissions	200,363	10.79%	193,790	9.28%	(6,573)	-3.28%
Professional Services	0	0.00%	643	0.03%	643	100.00%
Communications	1,323	0.07%	1,458	0.07%	135	10.20%
Data Processing	1,984	0.11%	2,104	0.10%	120	6.05%
Motor Pool Charges	781	0.04%	777	0.04%	(4)	-0.51%
Repairs/Maintenance	7,989	0.43%	6,586	0.32%	(1,403)	-17.56%
Rental Expenses	74,641	4.02%	77,737	3.72%	3,096	4.15%
Utilities	7,311	0.39%	7,198	0.34%	(113)	-1.55%
Risk Management Charges	2,921	0.16%	6,785	0.33%	3,864	132.28%
Office Supplies	834	0.04%	1,686	0.08%	852	102.16%
Miscellaneous	13,219	0.71%	17,010	0.81%	3,791	28.68%
Admin Expenses Allocated	n/a	n/a	n/a	n/a	n/a	n/a
Whse Expenses Allocated	46,773	2.52%	59,934	2.87%	13,161	28.14%
Total Operating Expenses	358,139	19.29%	375,708	18.00%	17,569	4.91%
<b>Income From Operations Before Depreciation</b>	<b>296,085</b>	<b>15.95%</b>	<b>349,838</b>	<b>16.76%</b>	<b>53,753</b>	<b>18.15%</b>
Depreciation	10,458	0.56%	10,746	0.51%	288	2.75%
Whse Depr Allocated	3,625	0.20%	4,386	0.21%	761	20.99%
Total Depreciation	14,083	0.76%	15,132	0.72%	1,049	7.45%
<b>Net Operating Income</b>	<b>282,002</b>	<b>15.19%</b>	<b>334,706</b>	<b>16.03%</b>	<b>52,704</b>	<b>18.69%</b>
Other Income (Expense):						
From Investments	1,507	0.08%	683	0.03%	(824)	-54.68%
Miscellaneous	547	0.03%	551	0.03%	4	0.73%
Asset Disposal	(1,557)	-0.08%	0	0.00%	1,557	-100.00%
Bond Interest	(261)	-0.01%	(98)	-0.00%	163	-62.45%
Total Other Income (Expense)	236	0.01%	1,136	0.05%	900	381.36%
<b>Net Income</b>	<b>282,238</b>	<b>15.20%</b>	<b>335,842</b>	<b>16.09%</b>	<b>53,604</b>	<b>18.99%</b>



Prepared by OLO  
19-Nov-94  
A:FY94/MUDBR94.WK1

COMPARISON OF PIKE RETAIL STORE FINANCIAL ACTIVITY

	7/01/92-6/30/93			7/01/93-6/30/94			Change From FY93		
Gross Sales	1,807,019	102.08%		2,362,785	102.81%		555,766	30.76%	
Add Container Tax	n/a	n/a	P	n/a	n/a	P	n/a	n/a	P
Minus Discounts	(36,879)	-2.08%	e	(64,554)	-2.81%	e	27,675	75.04%	e
Net Sales	1,770,140	100.00%	r	2,298,231	100.00%	r	528,091	29.83%	r
Cost of Goods Sold:			c			c			c
Beginning Inventory	223,516	12.63%	e	205,181	8.93%	e	(18,335)	-8.20%	e
Purchases	13,811	0.78%	n	18,104	0.79%	n	4,293	31.08%	n
Transfers from Whse	1,136,444	64.20%	t	1,580,312	68.76%	t	443,868	39.06%	t
Goods Available for Sale	1,373,771	77.61%		1,803,597	78.48%		429,826	31.29%	
Minus Ending Inventory	(205,181)	-11.59%	o	(291,303)	-12.68%	o	86,122	41.97%	o
Cost of Goods Sold	1,168,590	66.02%	f	1,512,294	65.80%	f	343,704	29.41%	f
<b>Operations Gross Profit</b>	<b>601,550</b>	<b>33.98%</b>		<b>785,937</b>	<b>34.20%</b>		<b>184,387</b>	<b>30.65%</b>	
Operating Expenses:			N			N			C
Personnel Services/Commissions	238,797	13.49%	e	262,673	11.43%	e	23,876	10.00%	h
Professional Services	0	0.00%	t	643	0.03%	t	643	100.00%	a
Communications	1,350	0.08%		1,445	0.06%		95	7.04%	n
Data Processing	1,891	0.11%		2,317	0.10%		426	22.53%	g
Motor Pool Charges	781	0.04%	S	777	0.03%	S	(4)	-0.51%	c
Repairs/Maintenance	8,939	0.50%	a	6,730	0.29%	a	(2,209)	-24.71%	
Rental Expenses	192,012	10.85%	l	200,066	8.71%	l	8,054	4.19%	F
Utilities	12,779	0.72%	c	18,547	0.81%	c	5,768	45.14%	r
Risk Management Charges	3,237	0.18%	s	11,495	0.50%	s	8,258	255.11%	o
Office Supplies	835	0.05%		1,828	0.08%		993	118.92%	m
Miscellaneous	12,599	0.71%		18,663	0.81%		6,064	48.13%	
Admin Expenses Allocated	n/a	n/a		n/a	n/a		n/a	n/a	
Whse Expenses Allocated	45,484	2.57%		66,551	2.90%		21,067	46.32%	F
Total Operating Expenses	518,704	29.30%		591,735	25.75%		73,031	14.08%	Y
<b>Income From Operations Before Depreciation</b>	<b>82,846</b>	<b>4.68%</b>		<b>194,202</b>	<b>8.45%</b>		<b>111,356</b>	<b>134.41%</b>	9
Depreciation	10,325	0.58%		11,312	0.49%		987	9.56%	
Whse Depr Allocated	3,434	0.19%		5,060	0.22%		1,626	47.35%	
Total Depreciation	13,759	0.78%		16,372	0.71%		2,613	18.99%	
<b>Net Operating Income</b>	<b>69,087</b>	<b>3.90%</b>		<b>177,830</b>	<b>7.74%</b>		<b>108,743</b>	<b>157.40%</b>	3
Other Income (Expense):									
From Investments	1,436	0.08%		752	0.03%		(684)	-47.63%	
Miscellaneous	521	0.03%		607	0.03%		86	16.51%	
Asset Disposal	(1,557)	-0.09%		0	0.00%		1,557	-100.00%	
Bond Interest	(253)	-0.01%		(109)	-0.00%		144	-56.92%	
Total Other Income (Expense)	147	0.01%		1,250	0.05%		1,103	750.34%	
<b>Net Income</b>	<b>69,234</b>	<b>3.91%</b>		<b>179,080</b>	<b>7.79%</b>		<b>109,846</b>	<b>158.66%</b>	



Prepared by OLO  
20-Nov-94

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