



# Montgomery County Government

## MEMORANDUM REPORT

February 26, 1996

**TO:** County Council

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

**SUBJECT:** OLO Memorandum Report: FY 95 Financial Activity for Department of Liquor Control Pilot Stores

This report provides an update on the FY 95 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 three pilot stores. In addition, a fifth statement was prepared to examine financial activity of the Flower Avenue store, which was contracted out during FY 94. These statements are attached at Circles 1-5. At Attachment A is a copy of the OLO memorandum report that compared FY 94 pilot store financial activity to FY 93 activity. The detailed financial statements originally attached to that report are not included in this packet distribution, but are available upon request.

### Comparison of Pilot Store Performance Against Average

The first financial statement (Circle 1) shows financial activity of each of the three pilot stores for FY 95 for comparison to one another and to the average for 21 stores. Highlights of the statement include:

- All three pilot stores were above-average in gross sales, as shown below:

Store average	\$1,803,339
Kensington	2,284,278
Muddy Branch	2,306,039
Pike	2,976,963

- Contractor sales to licensees were generally above-average, as demonstrated by the level of discounts given at the pilot stores.

Store average	\$ 35,736
Kensington	39,837
Muddy Branch	52,784
Pike	97,070

- Net income for the three pilot stores was much higher than average in both dollars and as a percent of net sales. Net income amounts in FY 95 for the average liquor store and the contracted pilot stores were:

Store average	\$169,636	9.60 percent of net sales
Kensington	325,492	14.50 percent of net sales
Muddy Branch	394,827	17.52 percent of net sales
Pike	316,995	11.01 percent of net sales

- Of the three contracted stores, the Muddy Branch store showed the highest net income, even though the store did not have the highest net sales. This may be explained in part by the higher rental expenses incurred at the Kensington and Pike stores. Note that the rental expense for the Pike store was twice that for the average store, due to the size and location of the Pike store.
- For comparison purposes, commissions paid to pilot store contractors were combined with DLC personnel costs (for time spent on audits of inventory) and displayed on the same line as personnel costs associated with operation of the average store. Personnel costs incurred by DLC and commissions paid to pilot store contractors in FY 95 were:

	<u>Kensington</u>	<u>Muddy Branch</u>	<u>Pike</u>
Contractor Commissions	\$193,206	\$181,716	\$270,419
DLC Personnel Costs	<u>15,600</u>	<u>11,476</u>	<u>19,186</u>
Totals	<u>\$208,806</u>	<u>\$193,192</u>	<u>\$289,605</u>

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

The second financial statement (Circle 2) shows financial activity of the Kensington store for FY 95 compared to FY 94. The store began operation under contract as of October 19, 1992, and the contract was extended during FY 95. Contractor commission rates on regular sales were continued at 9.20 percent, while commissions on sales to licensees were reduced to 2.00 percent.

The FY 94 and FY 95 activity shown in the financial statement represent 12 full months of contractor performance each year. The first pair of columns show FY 94 activity; the second pair show FY 95 activity; and the third pair show the change from FY 94 to FY 95.

Highlights of the statement include:

- Net sales increased from FY 94 to FY 95 by \$131,019 (6.20 percent).
- Total operating expenses decreased by \$10,329 (2.42 percent) from FY 94 to FY 95. Note that Risk Management charges decreased significantly (\$9,263, or 81.44 percent). When the contract was renewed during FY 95, DLC passed responsibility for certain insurance expenses to the contractor.
- Due to the combination of increased sales and decreased expenses, net income to the County increased in FY 95 by \$45,767 (16.35 percent) over FY 94.

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

The third financial statement (Circle 3) shows financial activity of the Muddy Branch store for FY 95 compared to FY 94. This store began operation under contract as of December 7, 1992, and the contract was extended during FY 95. Contractor commission rates on regular sales were continued at 8.50 percent, while commissions on sales to licensees were reduced to 2.00 percent.

The FY 94 and FY 95 activity shown in the financial statement represent 12 full months of contractor performance each year. The first pair of columns show FY 94 activity; the second pair show FY 95 activity; and the third pair show the change from FY 94 to FY 95.

Highlights of the statement include:

- Net sales increased from FY 94 to FY 95 by \$165,777, or 7.94 percent.
- Discounts given (mostly to licensees) increased by \$11,461 (27.74 percent) over discounts given in FY 94.
- Total operating expenses increased by \$6,556 (1.74 percent) from FY 94 to FY 95. Note that Risk Management charges decreased significantly (\$5,869, or 86.50 percent). When the contract was renewed during FY 95, DLC passed responsibility for certain insurance expenses to the contractor.
- Increased net sales in FY 95 that more than offset higher operating expenses, provided additional net income to the County of \$58,985 (17.56 percent) over FY 94.

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

The fourth financial statement (Circle 4) shows financial activity of the Pike store for FY 95 compared to FY 94. This store began operation under contract as of October 26, 1992, and the contract was extended during FY 95. Contractor commission rates on regular sales were continued at 10.75 percent, while commissions on sales to licensees were reduced to 2.00 percent.

The FY 94 and FY 95 activity shown in the financial statement represent 12 full months of contractor performance each year. The first pair of columns show FY 94 activity; the second pair show FY 95 activity; and the third pair show the change from FY 94 to FY 95.

Highlights of the statement include:

- Net sales increased from FY 94 to FY 95 by \$528,091 (25.31 percent).
- Discounts given (mostly to licensees) increased by \$32,516 (50.37 percent) over discounts given in FY 94.
- Total operating expenses increased from FY 94 to FY 95 by \$35,546, or 6.01 percent. Personnel Services/Commissions increased substantially (\$26,932, or 10.25 percent), as did and Warehouse Expenses Allocated (\$12,802, or 19.24 percent) and Miscellaneous (\$5,141, or 27.55 percent). Commissions and warehouse expenses are based on net sales, so these expenses naturally increase when sales increase.

The higher expenses were somewhat offset by decreases in Utilities (\$3,156, or 17.02 percent) and in Risk Management charges (\$9,727, or 84.62 percent). When the contract was renewed during FY 95, DLC passed responsibility for certain insurance expenses to the contractor.

- Due to a dramatic increase in net sales that more than offset higher operating expenses, net income to the County increased in FY 95 by \$137,915 (77.21 percent) over FY 94.

#### **Additional Store Contracted During FY 95 (Flower Avenue Comparison)**

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. Sales commission rates are:

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

The fifth financial statement (Circle 5) shows the financial activity of the Flower Avenue store for FY 95 compared to FY 94. Since the store began operation under contract in September 1994, the financial statement compares the contractor's financial performance for most of FY 95 to DLC's in-house operation during FY 94.

The FY 94 activity shown in the financial statement represents 12 full months of DLC in-house operation. The FY 95 activity represents approximately 10 ½ months of contractor performance. The first pair of columns show FY 94 activity; the second pair show FY 95 activity; and the third pair show the change from FY 94 to FY 95. Highlights of the statement include:

- Net sales increased from FY 94 to FY 95 by \$34,534, or 4.34 percent.
- DLC personnel costs during FY 95 were \$51,985 and commissions paid to the contractor were \$91,297, for a total of \$143,282 for the Personnel Services/Commissions category shown in the financial statement. This total represents a decrease of \$37,844 (20.89 percent) from the cost of personnel services in FY 94.
- Other operating expenses remained fairly steady overall. Risk Management charges decreased (\$2,483, or 64.92 percent), as did Utilities expenses (\$1,363, or 11.90 percent). However, the decreases were offset by higher Rental Expenses (\$4,430, or 4.87 percent).
- The store experienced a loss for FY 94 of \$64,432, which was reduced to a \$13,093 loss during FY 95. Due to a slight increase in sales and a decrease in operating expenses, the net loss to the County decreased in FY 95 by \$51,339 (79.68 percent), which represents a savings over the FY 94 operation.

### **Update on Contracting of Retail Stores**

During 1994, all three contracts for the original pilot stores were extended for two additional years. In addition, the Flower Avenue store was contracted out for an initial three year period. Each of the contracted stores showed an improvement in sales, accompanied by a reduction in operating expenses for FY 95.

During 1995, requests for proposals were released on two occasions to solicit contractors to operate two to three additional stores, but no contracts were awarded. In addition, a request for expressions of interest was drafted for a contracted new store in the Poolesville area, but the document was not finalized.

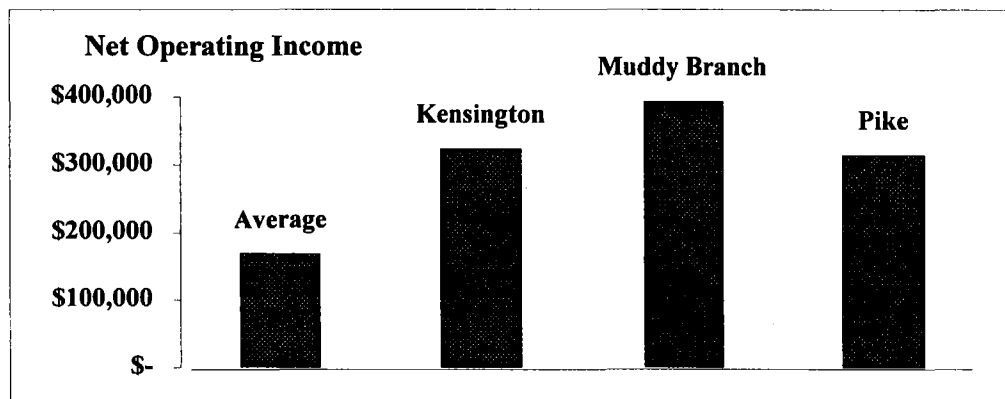
In his State of the County speech of December 5, 1995, the County Executive announced plans to form an advisory group to recommend a strategy for transitioning the County out of the retail liquor business. To date, the advisory group has not been appointed.

Joan/DLC/FY95/report95.doc

c: Bruce Romer, County Administrative Officer  
Steve Farber, Council Staff Director  
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Liquor Policy Committee

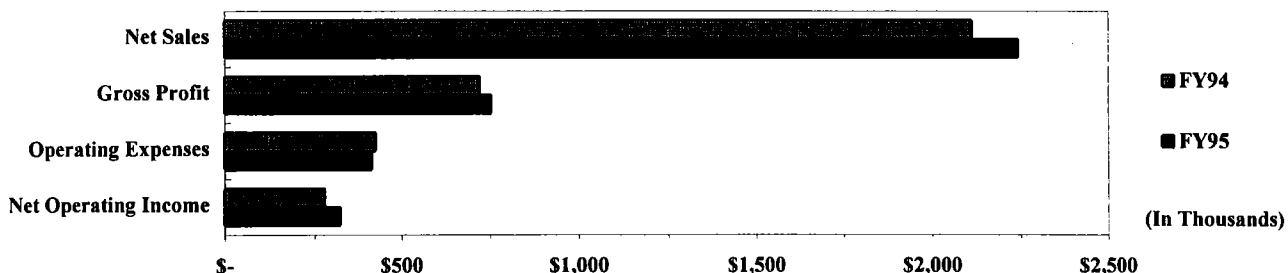
**Comparison of Pilot Store Performance Against Average Retail Store Financial Activity**  
**For the 12-Month Period of July 1, 1994 Through June 30, 1995**

	AVG - 21 STORES		KENSINGTON		MUDDY BRANCH		PIKE	
Gross Sales	1,803,339	102.02%	2,284,278	101.77%	2,306,039	102.34%	2,976,963	103.37%
Less: Container Tax	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Minus Discounts	(35,736)	-2.02%	(39,837)	-1.77%	(52,784)	-2.34%	(97,070)	-3.37%
<b>Net Sales</b>	<b>1,767,603</b>	<b>100.00%</b>	<b>2,244,441</b>	<b>100.00%</b>	<b>2,253,255</b>	<b>100.00%</b>	<b>2,879,893</b>	<b>100.00%</b>
Cost of Goods Sold:								
Beginning Inventory	184,718	10.45%	175,933	7.84%	178,872	7.94%	291,303	10.12%
Purchases	11,077	0.63%	19,530	0.87%	11,106	0.49%	20,154	0.70%
Transfers from Whse	1,182,133	66.88%	1,508,094	67.19%	1,508,430	66.94%	1,906,349	66.20%
<b>Goods Available for Sale</b>	<b>1,377,928</b>	<b>77.95%</b>	<b>1,703,557</b>	<b>75.90%</b>	<b>1,698,408</b>	<b>75.38%</b>	<b>2,217,806</b>	<b>77.01%</b>
Minus Ending Inventory	(208,101)	-11.77%	(214,109)	-9.54%	(221,067)	-9.81%	(293,975)	-10.21%
<b>Cost of Goods Sold</b>	<b>1,169,827</b>	<b>66.18%</b>	<b>1,489,448</b>	<b>66.36%</b>	<b>1,477,341</b>	<b>65.56%</b>	<b>1,923,831</b>	<b>66.80%</b>
<b>Operations Gross Profit</b>	<b>597,777</b>	<b>33.82%</b>	<b>754,993</b>	<b>33.64%</b>	<b>775,914</b>	<b>34.44%</b>	<b>956,062</b>	<b>33.20%</b>
Operating Expenses:								
Personnel Services/Commissions	230,893	13.06%	208,806	9.30%	193,192	8.57%	289,605	10.06%
Professional Services	855	0.05%	855	0.04%	855	0.04%	855	0.03%
Communications	1,792	0.10%	1,777	0.08%	1,764	0.08%	1,740	0.06%
Data Processing	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Motor Pool Charges	985	0.06%	985	0.04%	985	0.04%	985	0.03%
Repairs/Maintenance	6,081	0.34%	5,650	0.25%	5,937	0.26%	5,942	0.21%
Rental Expenses	99,791	5.65%	105,049	4.68%	76,763	3.41%	205,533	7.14%
Utilities	8,053	0.46%	8,959	0.40%	7,322	0.32%	15,391	0.53%
Risk Management Charges	5,875	0.33%	2,111	0.09%	916	0.04%	1,768	0.06%
Office Supplies	1,421	0.08%	1,798	0.08%	1,830	0.08%	2,305	0.08%
Miscellaneous	15,476	0.88%	18,567	0.83%	18,650	0.83%	23,804	0.83%
Admin Expenses Allocated	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Whse Expenses Allocated	48,249	2.73%	61,437	2.74%	60,938	2.70%	79,353	2.76%
<b>Total Operating Expenses</b>	<b>419,471</b>	<b>23.73%</b>	<b>415,994</b>	<b>18.53%</b>	<b>369,152</b>	<b>16.38%</b>	<b>627,281</b>	<b>21.78%</b>
<b>Income From Operations before Depreciation</b>	<b>178,306</b>	<b>10.09%</b>	<b>338,999</b>	<b>15.10%</b>	<b>406,762</b>	<b>18.05%</b>	<b>328,781</b>	<b>11.42%</b>
Depreciation	7,374	0.42%	11,847	0.53%	10,282	0.46%	9,717	0.34%
Whse Depr Allocated	2,439	0.14%	3,111	0.14%	3,112	0.14%	3,933	0.14%
<b>Total Depreciation</b>	<b>9,813</b>	<b>0.56%</b>	<b>14,958</b>	<b>0.67%</b>	<b>13,394</b>	<b>0.59%</b>	<b>13,650</b>	<b>0.47%</b>
<b>Net Operating Income</b>	<b>168,493</b>	<b>9.53%</b>	<b>324,041</b>	<b>14.44%</b>	<b>393,368</b>	<b>17.46%</b>	<b>315,131</b>	<b>10.94%</b>
Other Income:								
Investment Income	449	0.03%	570	0.03%	572	0.03%	732	0.03%
Miscellaneous Income	764	0.04%	970	0.04%	975	0.04%	1,246	0.04%
Asset Disposal	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Bond Interest Expense	(70)	0.00%	(89)	0.00%	(88)	0.00%	(114)	0.00%
<b>Total Other Income (Expense)</b>	<b>1,144</b>	<b>0.06%</b>	<b>1,451</b>	<b>0.06%</b>	<b>1,459</b>	<b>0.06%</b>	<b>1,864</b>	<b>0.06%</b>
<b>Net Income</b>	<b>169,636</b>	<b>9.60%</b>	<b>325,492</b>	<b>14.50%</b>	<b>394,827</b>	<b>17.52%</b>	<b>316,995</b>	<b>11.01%</b>



## Comparison of Kensington Retail Store Financial Activity

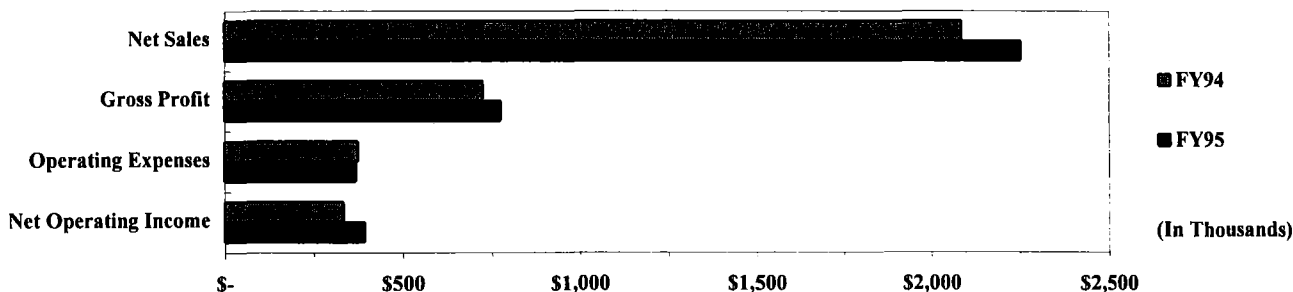
	7/01/93-6/30/94		7/01/94-6/30/95		Changes from FY94	
	Amount	%	Amount	%	Amount	%
Gross Sales	2,152,869	101.87%	2,284,278	101.77%	131,409	6.10%
Add Container Tax	n/a	n/a	n/a	n/a	n/a	n/a
Minus Discounts	(39,447)	-1.87%	(39,837)	-1.77%	(390)	0.99%
<b>Net Sales</b>	<b>2,113,422</b>	<b>100.00%</b>	<b>2,244,441</b>	<b>100.00%</b>	<b>131,019</b>	<b>6.20%</b>
Cost of Goods Sold:						
Beginning Inventory	200,156	9.47%	175,933	7.84%	(24,223)	-12.10%
Purchases	16,252	0.77%	19,530	0.87%	3,278	20.17%
Transfers from Whse	1,350,727	63.91%	1,508,094	67.19%	157,367	11.65%
<b>Goods Available for Sale</b>	<b>1,567,135</b>	<b>74.15%</b>	<b>1,703,557</b>	<b>75.90%</b>	<b>136,422</b>	<b>8.71%</b>
Minus Ending Inventory	(175,933)	-8.32%	(214,109)	-9.54%	(38,176)	21.70%
<b>Cost of Goods Sold</b>	<b>1,391,202</b>	<b>65.83%</b>	<b>1,489,448</b>	<b>66.36%</b>	<b>98,246</b>	<b>7.06%</b>
<b>Operations Gross Profit</b>	<b>722,220</b>	<b>34.17%</b>	<b>754,993</b>	<b>33.64%</b>	<b>32,773</b>	<b>4.54%</b>
Operating Expenses:						
Personnel Services/Commissions	211,280	10.00%	208,806	9.30%	(2,474)	-1.17%
Professional Services	643	0.03%	855	0.04%	212	32.97%
Communications	1,480	0.07%	1,777	0.08%	297	20.07%
Data Processing	2,130	0.10%	0	0.00%	(2,130)	-100.00%
Motor Pool Charges	777	0.04%	985	0.04%	208	26.77%
Repairs/Maintenance	6,427	0.30%	5,650	0.25%	(777)	-12.09%
Rental Expenses	103,508	4.90%	105,049	4.68%	1,541	1.49%
Utilities	8,639	0.41%	8,959	0.40%	320	3.70%
Risk Management Charges	11,374	0.54%	2,111	0.09%	(9,263)	-81.44%
Office Supplies	1,681	0.08%	1,798	0.08%	117	6.96%
Miscellaneous	17,162	0.81%	18,567	0.83%	1,405	8.19%
Admin Expenses Allocated	n/a	n/a	n/a	n/a	n/a	n/a
Whse Expenses Allocated	61,222	2.90%	61,437	2.74%	215	0.35%
<b>Total Operating Expenses</b>	<b>426,323</b>	<b>20.17%</b>	<b>415,994</b>	<b>18.53%</b>	<b>(10,329)</b>	<b>-2.42%</b>
<b>Income From Operations Before Depreciation</b>	<b>295,897</b>	<b>14.00%</b>	<b>338,999</b>	<b>15.10%</b>	<b>43,102</b>	<b>14.57%</b>
Depreciation	12,819	0.61%	11,847	0.53%	(972)	-7.58%
Whse Depr Allocated	4,325	0.20%	3,111	0.14%	(1,214)	-28.07%
<b>Total Depreciation</b>	<b>17,144</b>	<b>0.81%</b>	<b>14,958</b>	<b>0.67%</b>	<b>(2,186)</b>	<b>-12.75%</b>
<b>Net Operating Income</b>	<b>278,753</b>	<b>13.19%</b>	<b>324,041</b>	<b>14.44%</b>	<b>45,288</b>	<b>16.25%</b>
Other Income:						
Investment Income	692	0.03%	570	0.03%	(122)	-17.63%
Miscellaneous Income	558	0.03%	970	0.04%	412	73.84%
Asset Disposal	0	0.00%	0	0.00%	0	0.00%
Bond Interest Expense	(100)	0.00%	(89)	0.00%	11	100.00%
<b>Total Other Income (Expense)</b>	<b>1,150</b>	<b>0.05%</b>	<b>1,451</b>	<b>0.06%</b>	<b>301</b>	<b>26.17%</b>
<b>Net Income</b>	<b>279,903</b>	<b>13.24%</b>	<b>325,492</b>	<b>14.50%</b>	<b>45,589</b>	<b>16.29%</b>



(In Thousands)

### Comparison of Muddy Branch Retail Store Financial Activity

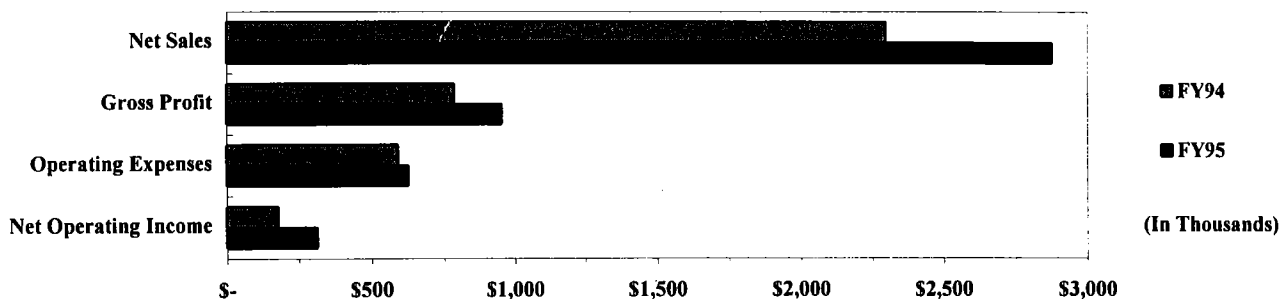
	7/01/93-6/30/94		7/01/94-6/30/95		Changes from FY94	
Gross Sales	2,128,801	101.98%	2,306,039	102.34%	177,238	8.33%
Add Container Tax	n/a	n/a	n/a	n/a	n/a	n/a
Minus Discounts	(41,323)	-1.98%	(52,784)	-2.34%	(11,461)	27.74%
Net Sales	2,087,478	100.00%	2,253,255	100.00%	165,777	7.94%
Cost of Goods Sold:						
Beginning Inventory	159,949	7.66%	178,872	7.94%	18,923	11.83%
Purchases	11,136	0.53%	11,106	0.49%	(30)	-0.27%
Transfers from Whse	1,369,719	65.62%	1,508,430	66.94%	138,711	10.13%
Goods Available for Sale	1,540,804	73.81%	1,698,408	75.38%	157,604	10.23%
Minus Ending Inventory	(178,872)	-8.57%	(221,067)	-9.81%	(42,195)	23.59%
Cost of Goods Sold	1,361,932	65.24%	1,477,341	65.56%	115,409	8.47%
<b>Operations Gross Profit</b>	<b>725,546</b>	<b>34.76%</b>	<b>775,914</b>	<b>34.44%</b>	<b>50,368</b>	<b>6.94%</b>
Operating Expenses:						
Personnel Services/Commissions	193,790	9.28%	193,192	8.57%	(598)	-0.31%
Professional Services	643	0.03%	855	0.04%	212	32.97%
Communications	1,458	0.07%	1,764	0.08%	306	20.99%
Data Processing	2,104	0.10%	0	0.00%	(2,104)	-100.00%
Motor Pool Charges	777	0.04%	985	0.04%	208	26.77%
Repairs/Maintenance	6,586	0.32%	5,937	0.26%	(649)	-9.85%
Rental Expenses	77,737	3.72%	76,763	3.41%	(974)	-1.25%
Utilities	7,198	0.34%	7,322	0.32%	124	1.72%
Risk Management Charges	6,785	0.33%	916	0.04%	(5,869)	-86.50%
Office Supplies	1,686	0.08%	1,830	0.08%	144	8.54%
Miscellaneous	17,010	0.81%	18,650	0.83%	1,640	9.64%
Admin Expenses Allocated	n/a	n/a	n/a	n/a	n/a	n/a
Whse Expenses Allocated	59,934	2.87%	60,938	2.70%	1,004	1.68%
Total Operating Expenses	375,708	18.00%	369,152	16.38%	(6,556)	-1.74%
<b>Income From Operations Before Depreciation</b>	<b>349,838</b>	<b>16.76%</b>	<b>406,762</b>	<b>18.05%</b>	<b>56,924</b>	<b>16.27%</b>
Depreciation	10,746	0.51%	10,282	0.46%	(464)	-4.32%
Whse Depr Allocated	4,386	0.21%	3,112	0.14%	(1,274)	-29.05%
Total Depreciation	15,132	0.72%	13,394	0.59%	(1,738)	-11.49%
<b>Net Operating Income</b>	<b>334,706</b>	<b>16.03%</b>	<b>393,368</b>	<b>17.46%</b>	<b>58,662</b>	<b>17.53%</b>
Other Income:						
Investment Income	683	0.03%	572	0.03%	(111)	-16.25%
Miscellaneous Income	551	0.03%	975	0.04%	424	76.95%
Asset Disposal	0	0.00%	0	0.00%	0	0.00%
Bond Interest Expense	(98)	0.00%	(88)	0.00%	10	100.00%
Total Other Income (Expense)	1,136	0.05%	1,459	0.06%	323	28.43%
<b>Net Income</b>	<b>335,842</b>	<b>16.09%</b>	<b>394,827</b>	<b>17.52%</b>	<b>58,985</b>	<b>17.56%</b>





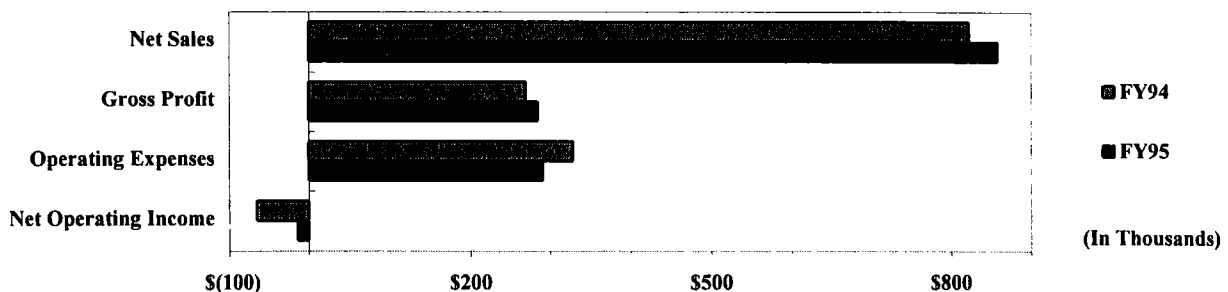
### Comparison of Pike Retail Store Financial Activity

	7/01/93-6/30/94		7/01/94-6/30/95		Changes from FY94	
Gross Sales	2,362,785	102.81%	2,976,963	103.37%	614,178	25.99%
Add Container Tax	n/a	n/a	n/a	n/a	n/a	n/a
Minus Discounts	(64,554)	-2.81%	(97,070)	-3.37%	(32,516)	50.37%
Net Sales	2,298,231	100.00%	2,879,893	100.00%	581,662	25.31%
Cost of Goods Sold:						
Beginning Inventory	205,181	8.93%	291,303	10.12%	86,122	41.97%
Purchases	18,104	0.79%	20,154	0.70%	2,050	11.32%
Transfers from Whse	1,580,312	68.76%	1,906,349	66.20%	326,037	20.63%
Goods Available for Sale	1,803,597	78.48%	2,217,806	77.01%	414,209	22.97%
Minus Ending Inventory	(291,303)	-12.68%	(293,975)	-10.21%	(2,672)	0.92%
Cost of Goods Sold	1,512,294	65.80%	1,923,831	66.80%	411,537	27.21%
<b>Operations Gross Profit</b>	<b>785,937</b>	<b>34.20%</b>	<b>956,062</b>	<b>33.20%</b>	<b>170,125</b>	<b>21.65%</b>
Operating Expenses:						
Personnel Services/Commissions	262,673	11.43%	289,605	10.06%	26,932	10.25%
Professional Services	643	0.03%	855	0.03%	212	32.97%
Communications	1,445	0.06%	1,740	0.06%	295	20.42%
Data Processing	2,317	0.10%	0	0.00%	(2,317)	-100.00%
Motor Pool Charges	777	0.03%	985	0.03%	208	26.77%
Repairs/Maintenance	6,730	0.29%	5,942	0.21%	(788)	-11.71%
Rental Expenses	200,066	8.71%	205,533	7.14%	5,467	2.73%
Utilities	18,547	0.81%	15,391	0.53%	(3,156)	-17.02%
Risk Management Charges	11,495	0.50%	1,768	0.06%	(9,727)	-84.62%
Office Supplies	1,828	0.08%	2,305	0.08%	477	26.09%
Miscellaneous	18,663	0.81%	23,804	0.83%	5,141	27.55%
Admin Expenses Allocated	n/a	n/a	n/a	n/a	n/a	n/a
Whse Expenses Allocated	66,551	2.90%	79,353	2.76%	12,802	19.24%
Total Operating Expenses	591,735	25.75%	627,281	21.78%	35,546	6.01%
<b>Income From Operations Before Depreciation</b>	<b>194,202</b>	<b>8.45%</b>	<b>328,781</b>	<b>11.42%</b>	<b>134,579</b>	<b>69.30%</b>
Depreciation	11,312	0.49%	9,717	0.34%	(1,595)	-14.10%
Whse Depr Allocated	5,060	0.22%	3,933	0.14%	(1,127)	-22.27%
Total Depreciation	16,372	0.71%	13,650	0.47%	(2,722)	-16.63%
<b>Net Operating Income</b>	<b>177,830</b>	<b>7.74%</b>	<b>315,131</b>	<b>10.94%</b>	<b>137,301</b>	<b>77.21%</b>
Other Income:						
Investment Income	752	0.03%	732	0.03%	(20)	-2.66%
Miscellaneous Income	607	0.03%	1,246	0.04%	639	105.27%
Asset Disposal	0	0.00%	0	0.00%	0	0.00%
Bond Interest Expense	(109)	0.00%	(114)	0.00%	(5)	100.00%
Total Other Income (Expense)	1,250	0.05%	1,864	0.06%	614	49.12%
<b>Net Income</b>	<b>179,080</b>	<b>7.79%</b>	<b>316,995</b>	<b>11.01%</b>	<b>137,915</b>	<b>77.01%</b>



### Comparison of Flower Avenue Retail Store Financial Activity

	7/01/93-6/30/94		7/01/94-6/30/95		Changes from FY94	
Gross Sales	831,576	100.99%	866,110	100.81%	34,534	4.15%
Add Container Tax	n/a	n/a	n/a	n/a	n/a	n/a
Minus Discounts	(8,145)	-0.99%	(6,937)	-0.81%	1,208	-14.83%
Net Sales	823,431	100.00%	859,173	100.00%	35,742	4.34%
Cost of Goods Sold:						
Beginning Inventory	135,999	16.52%	152,257	17.72%	16,258	11.95%
Purchases	5,632	0.68%	5,855	0.68%	223	3.96%
Transfers from Whse	564,228	68.52%	610,007	71.00%	45,779	8.11%
Goods Available for Sale	705,859	85.72%	768,119	89.40%	62,260	8.82%
Minus Ending Inventory	(152,257)	-18.49%	(193,704)	-22.55%	(41,447)	27.22%
Cost of Goods Sold	553,602	67.23%	574,415	66.86%	20,813	3.76%
<b>Operations Gross Profit</b>	<b>269,829</b>	<b>32.77%</b>	<b>284,758</b>	<b>33.14%</b>	<b>14,929</b>	<b>5.53%</b>
Operating Expenses:						
Personnel Services/Commissions	181,126	22.00%	143,282	16.68%	(37,844)	-20.89%
Professional Services	643	0.08%	855	0.10%	212	32.97%
Communications	1,444	0.18%	1,741	0.20%	297	20.57%
Data Processing	830	0.10%	0	0.00%	(830)	-100.00%
Motor Pool Charges	777	0.09%	985	0.11%	208	26.77%
Repairs/Maintenance	6,528	0.79%	5,886	0.69%	(642)	-9.83%
Rental Expenses	91,018	11.05%	95,448	11.11%	4,430	4.87%
Utilities	11,452	1.39%	10,089	1.17%	(1,363)	-11.90%
Risk Management Charges	3,825	0.46%	1,342	0.16%	(2,483)	-64.92%
Office Supplies	655	0.08%	691	0.08%	36	5.50%
Miscellaneous	6,723	0.82%	7,100	0.83%	377	5.61%
Admin Expenses Allocated	n/a	n/a	n/a	n/a	n/a	n/a
Whse Expenses Allocated	24,362	2.96%	23,697	2.76%	(665)	-2.73%
Total Operating Expenses	329,383	40.00%	291,116	33.88%	(38,267)	-11.62%
<b>Income From Operations Before Depreciation</b>	<b>(59,554)</b>	<b>-7.23%</b>	<b>(6,358)</b>	<b>-0.74%</b>	<b>53,196</b>	<b>-89.32%</b>
Depreciation	3,518	0.43%	6,031	0.70%	2,513	71.43%
Whse Depr Allocated	1,807	0.22%	1,259	0.15%	(548)	-30.33%
Total Depreciation	5,325	0.65%	7,290	0.85%	1,965	36.90%
<b>Net Operating Income</b>	<b>(64,879)</b>	<b>-7.88%</b>	<b>(13,648)</b>	<b>-1.59%</b>	<b>51,231</b>	<b>-78.96%</b>
Other Income:						
Investment Income	270	0.03%	218	0.03%	(52)	-19.26%
Miscellaneous Income	217	0.03%	371	0.04%	154	70.97%
Asset Disposal	0	0.00%	0	0.00%	0	0.00%
Bond Interest Expense	(40)	0.00%	(34)	0.00%	6	100.00%
Total Other Income (Expense)	447	0.05%	555	0.06%	108	24.16%
<b>Net Income</b>	<b>(64,432)</b>	<b>-7.82%</b>	<b>(13,093)</b>	<b>-1.52%</b>	<b>51,339</b>	<b>-79.68%</b>





# Montgomery County Government

## MEMORANDUM REPORT

December 6, 1994

TO: County Council

FROM: Joan M. *JMP* 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	<u>17,018</u>	<u>16,660</u>	<u>21,647</u>
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  
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Frank Orifici, Acting Director of DLC  
Liquor Policy Committee