



Montgomery County Government

MEMORANDUM REPORT

January 22, 1997

TO: County Council

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

SUBJECT: OLO Memorandum Report: FY 96 Financial Activity for Department of Liquor Control Contracted Stores

This report provides an update on the FY 96 financial activity of the Department of Liquor Control (DLC) program to contract retail outlets. Based on revenue and expenditure information obtained from DLC, the Office of Legislative Oversight (OLO) prepared several statements that compare and contrast financial activity of the four contracted stores. The contracted stores are: Kensington, Muddy Branch, Pike, and Flower Avenue.

There are two sets of financial statements attached. The first set (Circles 1-5) show financial activity for the four contracted stores for FY 96 as compared to the average activity for all DLC stores and for each contracted store for FY 96 as compared to store performance in FY 95. The second set of statements (Circles 6-9) display the financial history of the contracted stores for one year prior to contracting and for each year since the stores were contracted. There is one statement for each of the four contracted stores.

The financial statements for FY 96 include the following:

- ◆ Comparison of contracted stores to the average activity of all 21 DLC stores (Circle 1);
- ◆ Financial activity from FY 95 to FY 96 for the Kensington store (Circle 2);
- ◆ Financial activity from FY 95 to FY 96 for the Muddy Branch store (Circle 3);
- ◆ Financial activity from FY 95 to FY 96 for the Pike store (Circle 4);
- ◆ Financial activity from FY 95 to FY 96 for the Flower Avenue store (Circle 5).

The statements showing the financial history of the contracted stores include the following:

- ◆ Financial activity from FY 92 through FY 96 for the Kensington store (Circle 6);
- ◆ Financial activity from FY 92 through FY 96 for the Muddy Branch store (Circle 7);
- ◆ Financial activity from FY 92 through FY 96 for the Pike store (Circle 8);
- ◆ Financial activity from FY 94 through FY 96 for the Flower Avenue store (Circle 9);

At Attachment A is a copy of the OLO memorandum report that compared financial activity for the contracted stores from FY 94 through FY 95. At Attachment B is a copy of the OLO memorandum report that compared financial activity for the contracted stores from FY 93 through FY 94. The detailed financial statements originally attached to those reports are not included in this packet distribution, but are available upon request.

Comparison of Contract Store Performance Against Average

The first financial statement (Circle 1) shows financial activity of each of the four contracted stores for FY 96 and the average for all 21 DLC stores, which includes the contracted stores. Highlights of the statement include:

- Three of the four contracted stores were above-average in gross sales, as shown below:

Average for 21 stores	\$1,914,250
Kensington	2,470,406
Muddy branch	2,384,605
Pike	3,119,290
Flower Avenue	997,074

- Sales to licensees were above-average for two of the contracted stores, as demonstrated by the level of discounts given by the contractors:

Average for 21 stores	\$ 34,240
Kensington	35,518
Muddy Branch	47,111
Pike	76,142
Flower Avenue	6,666

- Net income for three of the contracted stores was higher than the average in both dollars and as a percent of net sales. Net income amounts in FY 96 for the average liquor store and the contracted stores were:

Store average	\$190,896	10.15 percent of net sales
Kensington	357,510	14.68 percent of net sales
Muddy Branch	412,364	17.64 percent of net sales
Pike	332,046	10.91 percent of net sales
Flower Avenue	29,027	2.93 percent of net sales

- Of the four contracted stores, the Muddy Branch store returned the highest net income to the County, even though the store did not have the highest net sales. This may be explained in part by the lower rental expenses incurred at the Muddy Branch store as compared to the Kensington and Pike stores. Note that rental expense for the Pike store was more than twice that for the average store, due to the size and location of the Pike store.
- For comparison purposes, commissions paid to 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 store contractors in FY 96 were:

	<u>Kensington</u>	<u>Muddy Branch</u>	<u>Pike</u>	<u>Flower Avenue</u>
Contractor Commissions	\$208,346	\$182,563	\$283,268	\$127,609
DLC Personnel Costs	<u>14,637</u>	<u>10,643</u>	<u>26,522</u>	<u>12,398</u>
Totals	<u>\$222,983</u>	<u>\$193,206</u>	<u>\$309,790</u>	<u>\$140,007</u>

Comparison of Kensington Retail Store Financial Activity

The second financial statement (Circle 2) shows financial activity of the Kensington store for FY 96 compared to FY 95. The store began operation under contract as of October 19, 1992. Contractor commission rates on regular sales are calculated at 9.20 percent, and commissions on sales to licensees are 2.00 percent.

The FY 95 and FY 96 activity shown in the financial statement represent 12 full months of contractor performance each year. The first pair of columns show FY 95 activity; the second pair show FY 96 activity; and the third pair show the change from FY 95 to FY 96. Highlights of the statement include:

- Net sales increased from FY 95 to FY 96 by \$190,447 (8.49 percent).
- Total operating expenses increased by \$27,243 (6.55 percent) from FY 95 to FY 96. Major changes in expenses included: a new expense in FY 96 for credit card service fees was charged to the Muddy Branch store in the amount of \$7,783; personnel services/contractor commissions increased by \$14,177, primarily due to additional sales at the store; risk management charges decreased by \$2,111; miscellaneous expenses increased by \$1,439, and warehouse expenses allocated to the store increased by \$5,461 because sales revenues increased during the year.
- Even though operating expenses were higher for the Kensington store in FY 96, higher sales revenues more than offset the additional expenses, so net income to the County increased by \$31,943 (9.81 percent) over FY 95.

Comparison of Muddy Branch Retail Store Financial Activity

The third financial statement (Circle 3) shows financial activity of the Muddy Branch store for FY 96 compared to FY 95. This store began operation under contract on December 7, 1992. Contractor commission rates on regular sales were calculated at 8.50 percent, while commissions on sales to licensees are 2.00 percent.

The FY 95 and FY 96 activity shown in the financial statement represent 12 full months of contractor performance each year. The first pair of columns show FY 95 activity; the second pair show FY 96 activity; and the third pair show the change from FY 95 to FY 96.

Highlights of the statement include:

- Net sales increased from FY 95 to FY 96 by \$84,239, or 3.74 percent.
- Discounts given (mostly to licensees) increased by \$5,673 (10.75 percent) over discounts given in FY 95.
- Total operating expenses increased by \$13,488 (3.65 percent) from FY 95 to FY 96. Major changes in expenses included: a new expense in FY 96 for credit card service fees was charged to the Muddy Branch store in the amount of \$7,812; rental expenses increased by \$3,300; and warehouse expenses allocated to the store increased by \$2,241, because sales revenues increased during the year.
- Even though operating expenses were higher for the Muddy Branch store in FY 96, higher sales revenues more than offset the additional expenses, so net income to the County increased by \$17,469 (4.42 percent) over FY 95.

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 96. This store began operation under contract on October 26, 1992. Contractor commission rates on regular sales are paid at a rate of 10.75 percent, and commissions on sales to licensees are 2.00 percent.

The FY 95 and FY 96 activity shown in the financial statement represent 12 full months of contractor performance each year. The first pair of columns show FY 95 activity; the second pair show FY 96 activity; and the third pair show the change from FY 95 to FY 96.

Highlights of the statement include:

- Net sales increased from FY 95 to FY 96 by \$163,255 (5.67 percent).
- Discounts given (mostly to licensees) increased by \$20,928 (21.56 percent) over discounts given in FY 95.

- Total operating expenses increased from FY 95 to FY 96 by \$46,129, or 7.35 percent. Major changes in expenses included: a new expense in FY 96 for credit card service fees was charged to the Pike store in the amount of \$13,326; personnel services/contractor commissions increased by \$20,979, primarily due to additional sales at the store; rental expenses increased by \$6,199; utilities expense increased by \$4,654; risk management charges decreased by \$1,768; and warehouse expenses allocated to the store increased by \$4,265, because sales revenues increased during the year. Commissions and warehouse expenses are based on net sales, so these expenses naturally increase when sales increase.
- 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 95.

Comparison of Flower Avenue Retail Store Financial Activity

The fifth financial statement (Circle 5) shows financial activity of the Flower Avenue store for FY 95 compared to FY 96. This store began operation under contract on September 19, 1994. Sales commission rates are paid to the contractor based on the following terms:

- 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

Since the store was contracted out in September 1994, activity shown in the financial statement represents approximately 10 ½ months of contractor performance for FY 95 and a full year of performance for FY 96. The first pair of columns show the FY 95 activity; the second pair show FY 96 activity; and the third pair show the change from FY 95 to FY 96. Highlights of the statement include:

- Net sales increased from FY 95 to FY 96 by \$131,235, or 15.27 percent.
- Discounts given (mostly to licensees) showed a slight change of \$271 (3.91 percent) less than discounts given in FY 95.
- Total operating expenses increased by \$8,957 (3.08 percent) from FY 95 to FY 96. Major changes in expenses included: a new expense in FY 96 for credit card service fees was charged to the Flower Avenue store in the amount of \$3,475; rental expenses increased by \$3,405; and warehouse expenses allocated to the store increased by \$3,324, because sales revenues increased during the year.

- There was also a net decrease in the personnel services/contractor commissions of \$3,275 (2.29 percent). Although contractor commissions rose substantially during FY 96 due to higher store sales, DLC personnel costs declined to a greater extent. Details are as follows:

<u>Category</u>	<u>FY 95</u>	<u>FY 96</u>	<u>Change</u>	<u>% Change</u>
DLC personnel services	\$ 51,985	\$ 12,398	\$ (39,587)	-76.15
Contractor commissions	<u>91,297</u>	<u>127,609</u>	<u>36,312</u>	39.78
Totals	<u>\$143,282</u>	<u>\$140,007</u>	<u>\$ (3,275)</u>	2.29

- Due to higher sales revenue in FY 96 that more than offset a slight increase in operating expenses, the County recognized a profit from operation of the Flower Avenue store for the first time since FY 93. For the partial year of contracted operation in FY 95, the store experienced a loss of \$13,093. For FY 96, the store returned a net profit of \$28,997 to the County. This change in the profit/loss picture represents a savings of \$42,090 (321.47 percent) over FY 95 operation of the store.

Financial History of the Contracted Stores

There are four statements at Circles 6-9, one for each of the contracted stores. Each statement shows financial activity for each year and the cumulative effects of performance since the store was contracted out. At Circles 6-8 are statements for the Kensington, Muddy Branch, and Pike that store show activity for FYs 92 through 96. All three stores were contracted out during FY 93, so the financial activity shown for that fiscal year represents between seven to nine months of contractor performance (contracts began October 19, 1992; October 26, 1992; and December 7, 1992). FY 92 was used as the base year for comparison, since that was the last full year the County operated the three stores.

The fourth store is Flower Avenue, which was contracted out during FY 95 (the contract began September 19, 1994). The statement at Circle 9 shows financial activity for this store for FYs 94 through 96. FY 94 was used as the base year for comparison, since that was the last full year the County operated the Flower Avenue store.

The tables that follow highlight key results of the FY 96 operation of each of the four contracted stores as compared to the last full year of County operation.

Changes in key indicators for the Kensington store from FY 92 to FY 96 include:

	FY 92	FY 96	Change	
Net Sales	1,903,894	2,434,888	530,994	27.9% increase
Cost of Goods Sold	1,240,016	1,618,802	378,786	
Operations Gross Profit	663,878	816,086	152,208	
Deduct: Operating Expenses	412,921	443,240	30,319	
Depreciation	17,101	15,336	(1,765)	
Net Operating Income	233,856	357,510	123,654	
Add/Deduct: Other	2,134	(75)	(2,209)	
Net Income	\$ 235,990	\$ 357,435	\$ 121,445	51.5% increase

(Detail for FYs 92 through 96 and the cumulative effects on net income for the Kensington store are shown in the statement at Circle 6.)

Changes in key indicators for the Muddy Branch store from FY 92 to FY 96 include:

	FY 92	FY 96	Change	
Net Sales	1,729,544	2,337,494	607,950	35.2% increase
Cost of Goods Sold	1,109,306	1,528,821	419,515	
Operations Gross Profit	620,238	808,673	188,435	
Deduct: Operating Expenses	334,253	382,640	48,387	
Depreciation	14,760	13,669	(1,091)	
Net Operating Income	271,225	412,364	141,139	
Add/Deduct: Other	1,948	(68)	(2,016)	
Net Income	\$ 273,173	\$ 412,296	\$ 139,123	50.9% increase

(Detail for FYs 92 through 96 and cumulative effects on net income for the Muddy Branch store are shown in the statement at Circle 7.)

Changes in key indicators for the Pike store from FY 92 to FY 96 include:

	FY 92	FY 96	Change	
Net Sales	1,773,538	3,043,148	1,269,610	71.6% increase
Cost of Goods Sold	1,158,263	2,023,417	865,154	
Operations Gross Profit	615,275	1,019,731	404,456	
Deduct: Operating Expenses	507,049	673,410	166,361	
Depreciation	14,832	14,275	(557)	
Net Operating Income	93,394	332,046	238,652	
Add/Deduct: Other	1,989	506	(1,483)	
Net Income	\$ 95,383	\$ 332,552	\$ 237,169	248.6% increase

(Detail for FYs 92 through 96 and cumulative effects on net income for the Pike store are shown in the statement at Circle 8.)

Changes in key indicators for the Flower Avenue store from FY 94 to FY 96 include:

	FY 94	FY 96	Change	
Net Sales	823,431	990,408	166,977	<i>20.3% increase</i>
Cost of Goods Sold	553,602	653,855	100,253	
Operations Gross Profit	269,829	336,553	66,724	
Deduct: Operating Expenses	329,383	300,073	(29,310)	
Depreciation	5,325	7,453	2,128	
Net Operating Income	(64,879)	29,027	93,906	
Add/Deduct: Other	447	(30)	(477)	
Net Income	\$ (64,432)	\$ 28,997	\$ 93,429	<i>145.0% increase</i>

(Detail for FYs 92 through 96 and cumulative effects on net income for the Flower Avenue store are shown in the statement at Circle 9.)

If you have any questions about this memorandum report or would like to receive a full copy of one of the previous reports, please call me (X7995).

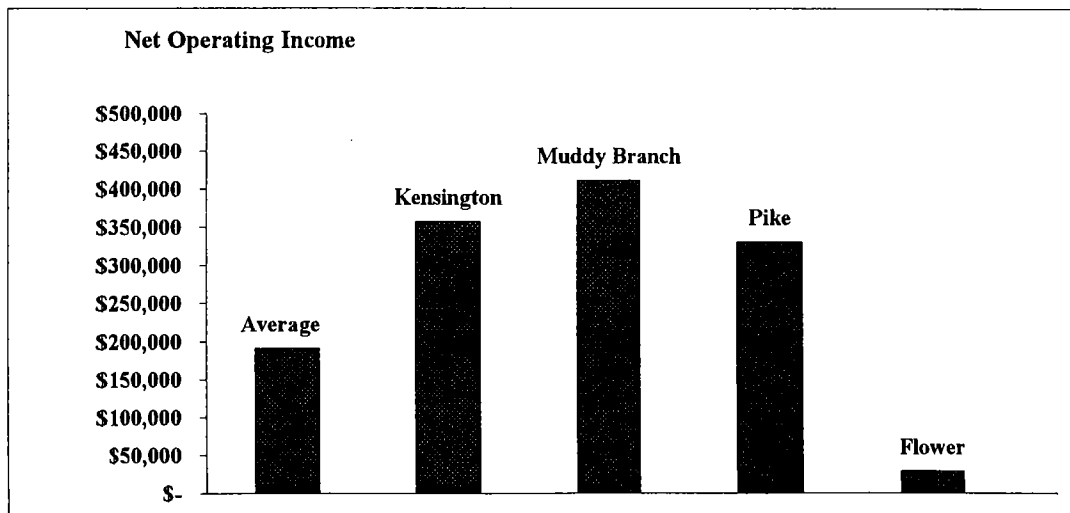
Attachments

Joan/DLC/FY96/REPORT96.DOC

- c: Bruce Romer, County Administrative Officer
- Steve Farber, Council Staff Director
- Justina Ferber, Legislative Analyst
- Frank Orifici, Acting Director of DLC
- Liquor Policy Committee

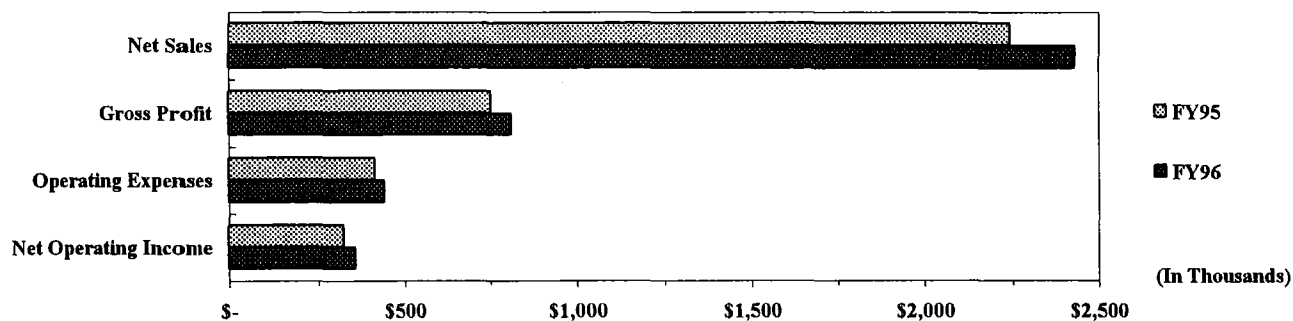
Comparison of Pilot Store Performance Against Average Retail Store Financial Activity
For the 12-Month Period of July 1, 1995 Through June 30, 1996

	AVG - 21 STORES			KENSINGTON			MUDDY BRANCH			PIKE			FLOWER		
Gross Sales	1,914,250	101.82%		2,470,406	101.46%		2,384,605	102.02%		3,119,290	102.50%		997,074	100.67%	
Add Container Tax	n/a	n/a	P	n/a	n/a	P	n/a	n/a	P	n/a	n/a	P	n/a	n/a	P
Minus Discounts	(34,240)	-1.82%	e	(35,518)	-1.46%	e	(47,111)	-2.02%	e	(76,142)	-2.50%	e	(6,666)	-0.67%	e
Net Sales	1,880,010	100.00%	r	2,434,888	100.00%	r	2,337,494	100.00%	r	3,043,148	100.00%	r	990,408	100.00%	r
Cost of Goods Sold:			c			c			c			c			c
Beginning Inventory	208,101	11.07%	e	214,109	8.79%	e	221,067	9.46%	e	293,975	9.66%	e	193,704	19.56%	e
Purchases	10,908	0.58%	n	18,645	0.77%	n	12,948	0.55%	n	17,538	0.58%	n	6,571	0.66%	n
Transfers from Whse	1,250,755	66.53%	t	1,624,720	66.73%	t	1,553,498	66.46%	t	2,085,682	68.54%	t	667,161	67.36%	t
Goods Available for Sale	1,469,764	78.18%		1,857,474	76.29%		1,787,513	76.47%		2,397,195	78.77%		867,436	87.58%	
Minus Ending Inventory	(225,628)	-12.00%	o	(238,672)	-9.80%	o	(258,692)	-11.07%	o	(373,778)	-12.28%	o	(213,581)	-21.56%	o
Cost of Goods Sold	1,244,136	66.18%	f	1,618,802	66.48%	f	1,528,821	65.40%	f	2,023,417	66.49%	f	653,855	66.02%	f
Operations Gross Profit	635,874	33.82%		816,086	33.52%		808,673	34.60%		1,019,731	33.51%		336,553	33.98%	
Operating Expenses:			N			N			N			N			N
Personnel/Commissions	236,031	12.55%	e	222,983	9.16%	e	193,206	8.27%	e	309,790	10.18%	e	140,007	14.14%	e
Professional Services	794	0.04%	t	794	0.03%	t	794	0.03%	t	794	0.03%	t	794	0.08%	t
Communications	2,385	0.13%		2,385	0.10%		2,384	0.10%		2,384	0.08%		2,385	0.24%	
Data Processing	0	0.00%		0	0.00%		0	0.00%		0	0.00%		0	0.00%	
Motor Pool Charges	630	0.03%	S	630	0.03%	S	630	0.03%	S	630	0.02%	S	631	0.06%	S
Repairs/Maintenance	4,616	0.25%	a	4,781	0.20%	a	5,070	0.22%	a	6,009	0.20%	a	5,409	0.55%	a
Rental Expenses	100,381	5.34%	l	105,547	4.33%	l	80,063	3.43%	l	211,732	6.96%	l	98,853	9.98%	l
Utilities	10,617	0.56%	e	9,820	0.40%	e	9,033	0.39%	e	20,045	0.66%	e	12,988	1.31%	e
Risk Management Charges	4,336	0.23%	s	0	0.00%	s	736	0.03%	s	0	0.00%	s	0	0.00%	s
Office Supplies	1,256	0.07%		1,613	0.07%		1,549	0.07%		2,016	0.07%		656	0.07%	
Credit Card Service Charges	7,061	0.38%		7,783			7,812	0.33%		13,326	0.44%		3,475	0.35%	
Miscellaneous	15,437	0.82%		20,006	0.82%		18,184	0.78%		23,066	0.76%		7,854	0.79%	
Admin Expenses Allocated	n/a	n/a		n/a	n/a		n/a	n/a		n/a	0.00%		n/a	n/a	
Whse Expenses Allocated	51,414	2.73%		66,898	2.75%		63,179	2.70%		83,618	2.75%		27,021	2.73%	
Total Operating Expenses	434,958	23.14%		443,240	18.20%		382,640	16.37%		673,410	22.13%		300,073	30.30%	
Income From Operations Before Depreciation	200,916	10.69%		372,846	15.31%		426,033	18.23%		346,321	11.38%		36,480	3.68%	
Depreciation	7,272	0.39%		11,767	0.48%		10,256	0.44%		9,693	0.32%		5,987	0.60%	
Whse Depr Allocated	2,748	0.15%		3,569	0.15%		3,413	0.15%		4,582	0.15%		1,466	0.15%	
Total Depreciation	10,020	0.53%		15,336	0.63%		13,669	0.58%		14,275	0.47%		7,453	0.75%	
Net Operating Income	190,896	10.15%		357,510	14.68%		412,364	17.64%		332,046	10.91%		29,027	2.93%	
Other Income:															
Investment Income	127	0.01%		165	0.01%		158	0.01%		206	0.01%		67	0.01%	
Miscellaneous Income	0	0.00%		0	0.00%		0	0.00%		0	0.00%		0	0.00%	
Bond Interest Expense	(184)	-0.01%		(240)	-0.01%		(226)	-0.01%		(300)	-0.01%		(97)	-0.01%	
Total Other Income (Expense)	(57)	0.00%		(75)	0.00%		(68)	0.00%		(94)	0.00%		(30)	0.00%	
Net Income	190,839	10.15%		357,435	14.68%		412,296	17.64%		331,952	10.91%		28,997	2.93%	



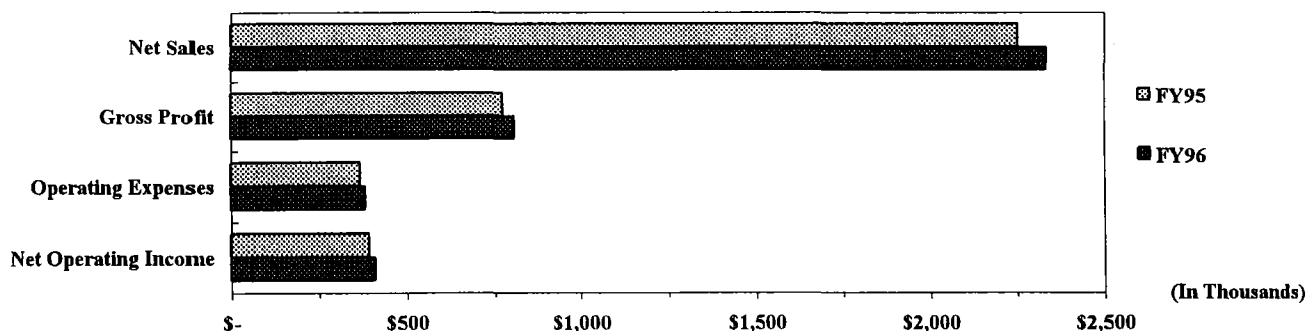
Comparison of Kensington Retail Store Financial Activity FY 95 to FY 96

	7/01/94-6/30/95			7/01/95-6/30/96			Changes from FY95		
Gross Sales	2,284,278	101.77%		2,470,406	101.46%		186,128	8.15%	
Add Container Tax	n/a	n/a	P	n/a	n/a	P	n/a	n/a	P
Minus Discounts	(39,837)	-1.77%	e	(35,518)	-1.46%	e	4,319	-10.84%	e
Net Sales	2,244,441	100.00%	r	2,434,888	100.00%	r	190,447	8.49%	r
Cost of Goods Sold:			c			c			c
Beginning Inventory	175,933	7.84%	e	214,109	8.79%	e	38,176	21.70%	e
Purchases	19,530	0.87%	n	18,645	0.77%	n	(885)	-4.53%	n
Transfers from Whse	1,508,094	67.19%	t	1,624,720	66.73%	t	116,626	7.73%	t
Goods Available for Sale	1,703,557	75.90%		1,857,474	76.29%		153,917	9.04%	o
Minus Ending Inventory	(214,109)	-9.54%	o	(238,672)	-9.80%	o	(24,563)	11.47%	f
Cost of Goods Sold	1,489,448	66.36%	f	1,618,802	66.48%	f	129,354	8.68%	
Operations Gross Profit	754,993	33.64%		816,086	33.52%		61,093	8.09%	C
Operating Expenses:			N			N			h
Personnel Services/Commissions	208,806	9.30%	e	222,983	9.16%	e	14,177	6.79%	a
Professional Services	855	0.04%	t	794	0.03%	t	(61)	-7.13%	n
Communications	1,777	0.08%		2,385	0.10%		608	34.21%	g
Motor Pool Charges	985	0.04%	S	630	0.03%	S	(355)	-36.04%	
Repairs/Maintenance	5,650	0.25%	a	4,781	0.20%	a	(869)	-15.38%	F
Rental Expenses	105,049	4.68%	l	105,547	4.33%	l	498	0.47%	r
Utilities	8,959	0.40%	e	9,820	0.40%	e	861	9.61%	o
Risk Management Charges	2,111	0.09%	s	0	0.00%	s	(2,111)	-100.00%	m
Office Supplies	1,798	0.08%		1,613	0.07%		(185)	-10.29%	
Credit Card Service Charges	0	0.00%		7,783	0.32%		7,783	100.00%	
Miscellaneous	18,567	0.83%		20,006	0.82%		1,439	7.75%	F
Admin Expenses Allocated	n/a	n/a		n/a	n/a		n/a	n/a	Y
Whse Expenses Allocated	61,437	2.74%		66,898	2.75%		5,461	8.89%	9
Total Operating Expenses	415,994	18.53%		443,240	18.20%		27,246	6.55%	5
Income From Operations									
Before Depreciation	338,999	15.10%		372,846	15.31%		33,847	9.98%	
Depreciation	11,847	0.53%		11,767	0.48%		(80)	-0.68%	
Whse Depr Allocated	3,111	0.14%		3,569	0.15%		458	14.72%	
Total Depreciation	14,958	0.67%		15,336	0.63%		378	2.53%	
Net Operating Income	324,041	14.44%		357,510	14.68%		33,469	10.33%	
Other Income:									
Investment Income	570	0.03%		165	0.01%		(405)	-71.05%	
Miscellaneous Income	970	0.04%		0	0.00%		(970)	-100.00%	
Bond Interest Expense	(89)	0.00%		(240)	-0.01%		(151)	100.00%	
Total Other Income (Expense)	1,451	0.06%		(75)	0.00%		(1,526)	-105.17%	
Net Income	325,492	14.50%		357,435	14.68%		31,943	9.81%	



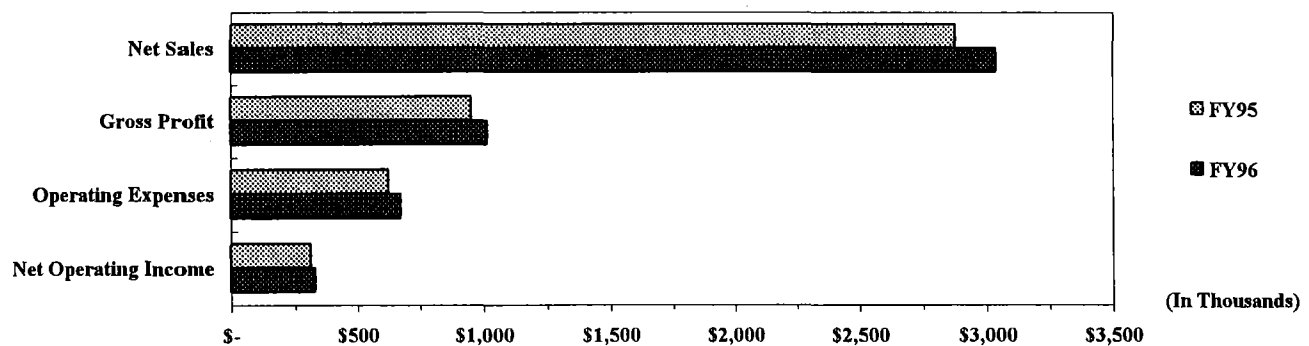
Comparison of Muddy Branch Retail Store Financial Activity FY 95 to FY 96

	7/01/94-6/30/95			7/01/95-6/30/96			Changes from FY95		
Gross Sales	2,306,039	102.34%		2,384,605	102.02%		78,566	3.41%	
Add Container Tax	n/a	n/a	P	n/a	n/a	P	n/a	n/a	P
Minus Discounts	(52,784)	-2.34%	e	(47,111)	-2.02%	e	5,673	-10.75%	e
Net Sales	2,253,255	100.00%	r	2,337,494	100.00%	r	84,239	3.74%	r
Cost of Goods Sold:			c			c			c
Beginning Inventory	178,872	7.94%	e	221,067	9.46%	e	42,195	23.59%	e
Purchases	11,106	0.49%	n	12,948	0.55%	n	1,842	16.59%	n
Transfers from Whse	1,508,430	66.94%	t	1,553,498	66.46%	t	45,068	2.99%	t
Goods Available for Sale	1,698,408	75.38%		1,787,513	76.47%		89,105	5.25%	o
Minus Ending Inventory	(221,067)	-9.81%	o	(258,692)	-11.07%	o	(37,625)	17.02%	f
Cost of Goods Sold	1,477,341	65.56%	f	1,528,821	65.40%	f	51,480	3.48%	
Operations Gross Profit	775,914	34.44%		808,673	34.60%		32,759	4.22%	C
Operating Expenses:			N			N			h
Personnel Services/Commissions	193,192	8.57%	e	193,206	8.27%	e	14	0.01%	a
Professional Services	855	0.04%	t	794	0.03%	t	(61)	-7.13%	n
Communications	1,764	0.08%		2,384	0.10%		620	35.15%	g
Motor Pool Charges	985	0.04%	S	630	0.03%	S	(355)	-36.04%	
Repairs/Maintenance	5,937	0.26%	a	5,070	0.22%	a	(867)	-14.60%	F
Rental Expenses	76,763	3.41%	l	80,063	3.43%	l	3,300	4.30%	r
Utilities	7,322	0.32%	e	9,033	0.39%	e	1,711	23.37%	o
Risk Management Charges	916	0.04%	s	736	0.03%	s	(180)	-19.65%	m
Office Supplies	1,830	0.08%		1,549	0.07%		(281)	-15.36%	
Credit Card Service Charges	0	0.00%		7,812	0.33%		7,812	100.00%	
Miscellaneous	18,650	0.83%		18,184	0.78%		(466)	-2.50%	F
Admin Expenses Allocated	n/a	n/a		n/a	n/a		n/a	n/a	Y
Whse Expenses Allocated	60,938	2.70%		63,179	2.70%		2,241	3.68%	9
Total Operating Expenses	369,152	16.38%		382,640	16.37%		13,488	3.65%	5
Income From Operations Before Depreciation	406,762	18.05%		426,033	18.23%		19,271	4.74%	
Depreciation	10,282	0.46%		10,256	0.44%		(26)	-0.25%	
Whse Depr Allocated	3,112	0.14%		3,413	0.15%		301	9.67%	
Total Depreciation	13,394	0.59%		13,669	0.58%		275	2.05%	
Net Operating Income	393,368	17.46%		412,364	17.64%		18,996	4.83%	
Other Income:									
Investment Income	572	0.03%		158	0.01%		(414)	-72.38%	
Miscellaneous Income	975	0.04%		0	0.00%		(975)	-100.00%	
Bond Interest Expense	(88)	0.00%		(226)	-0.01%		(138)	100.00%	
Total Other Income (Expense)	1,459	0.06%		(68)	0.00%		(1,527)	-104.66%	
Net Income	394,827	17.52%		412,296	17.64%		17,469	4.42%	



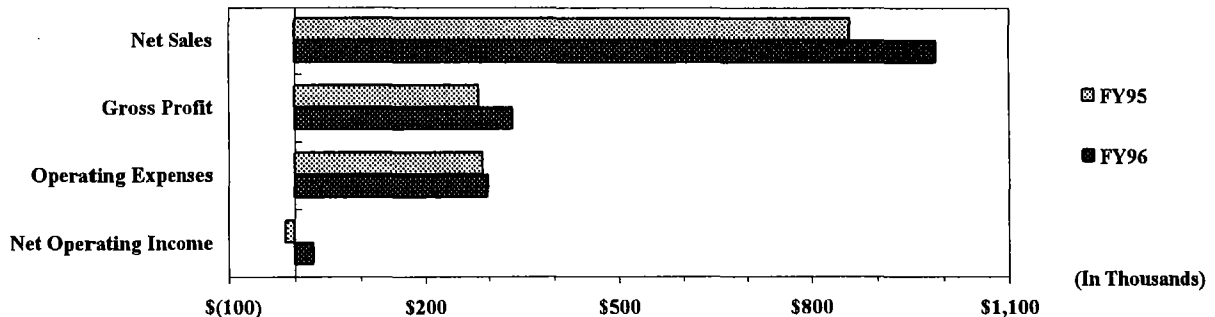
Comparison of Pike Retail Store Financial Activity FY 95 to FY 96

	7/01/94-6/30/95			7/01/95-6/30/96			Changes from FY94		
Gross Sales	2,976,963	103.37%		3,119,290	102.50%		142,327	4.78%	
Add Container Tax	n/a	n/a	P	n/a	n/a	P	n/a	n/a	P
Minus Discounts	(97,070)	-3.37%	e	(76,142)	-2.50%	e	20,928	-21.56%	e
Net Sales	2,879,893	100.00%	r	3,043,148	100.00%	r	163,255	5.67%	r
Cost of Goods Sold:			c			c			c
Beginning Inventory	291,303	10.12%	e	293,975	9.66%	e	2,672	0.92%	e
Purchases	20,154	0.70%	n	17,538	0.58%	n	(2,616)	-12.98%	n
Transfers from Whse	1,906,349	66.20%	t	2,085,682	68.54%	t	179,333	9.41%	t
Goods Available for Sale	2,217,806	77.01%		2,397,195	78.77%		179,389	8.09%	o
Minus Ending Inventory	(293,975)	-10.21%	o	(373,778)	-12.28%	o	(79,803)	27.15%	f
Cost of Goods Sold	1,923,831	66.80%	f	2,023,417	66.49%	f	99,586	5.18%	
Operations Gross Profit	956,062	33.20%		1,019,731	33.51%		63,669	6.66%	C
Operating Expenses:			N			N			h
Personnel Services/Commissions	289,605	10.06%	e	310,584	10.21%	e	20,979	7.24%	a
Professional Services	855	0.03%	t	0	0.00%	t	(855)	-100.00%	n
Communications	1,740	0.06%		2,384	0.08%		644	37.01%	g
Motor Pool Charges	985	0.03%	S	630	0.02%	S	(355)	-36.04%	
Repairs/Maintenance	5,942	0.21%	a	6,009	0.20%	a	67	1.13%	F
Rental Expenses	205,533	7.14%	l	211,732	6.96%	l	6,199	3.02%	r
Utilities	15,391	0.53%	e	20,045	0.66%	e	4,654	30.24%	o
Risk Management Charges	1,768	0.06%	s	0	0.00%	s	(1,768)	-100.00%	m
Office Supplies	2,305	0.08%		2,016	0.07%		(289)	-12.54%	
Credit Card Service Charges	0	0.00%		13,326	0.44%		13,326	0.00%	
Miscellaneous	23,804	0.83%		23,066	0.76%		(738)	-3.10%	F
Admin Expenses Allocated	n/a	n/a		n/a	n/a		n/a	n/a	Y
Whse Expenses Allocated	79,353	2.76%		83,618	2.75%		4,265	5.37%	9
Total Operating Expenses	627,281	21.78%		673,410	22.13%		46,129	7.35%	5
Income From Operations Before Depreciation	328,781	11.42%		346,321	11.38%		17,540	5.33%	
Depreciation	9,717	0.34%		9,693	0.32%		(24)	-0.25%	
Whse Depr Allocated	3,933	0.14%		4,582	0.15%		649	16.50%	
Total Depreciation	13,650	0.47%		14,275	0.47%		625	4.58%	
Net Operating Income	315,131	10.94%		332,046	10.91%		16,915	5.37%	
Other Income:									
Investment Income	732	0.03%		206	0.01%		(526)	-71.86%	
Miscellaneous Income	1,246	0.04%		0	0.00%		(1,246)	-100.00%	
Bond Interest Expense	(114)	0.00%		300	0.01%		414	100.00%	
Total Other Income (Expense)	1,864	0.06%		506	0.02%		(1,358)	-72.85%	
Net Income	316,995	11.01%		332,552	10.93%		15,557	4.91%	



Comparison of Flower Avenue Retail Store Financial Activity FY 95 to FY 96

	7/01/94-6/30/95			7/01/95-6/30/96			Changes from FY95		
Gross Sales	866,110	100.81%		997,074	100.67%		130,964	15.12%	
Add Container Tax	n/a	n/a	P	n/a	n/a	P	n/a	n/a	P
Minus Discounts	(6,937)	-0.81%	e	(6,666)	-0.67%	e	271	-3.91%	e
Net Sales	859,173	100.00%	r	990,408	100.00%	r	131,235	15.27%	r
Cost of Goods Sold:			c			c			c
Beginning Inventory	152,257	17.72%	e	193,704	19.56%	e	41,447	27.22%	e
Purchases	5,855	0.68%	n	6,571	0.66%	n	716	12.23%	n
Transfers from Whse	610,007	71.00%	t	667,161	67.36%	t	57,154	9.37%	t
Goods Available for Sale	768,119	89.40%		867,436	87.58%		99,317	12.93%	o
Minus Ending Inventory	(193,704)	-22.55%	o	(213,581)	-21.56%	o	(19,877)	10.26%	f
Cost of Goods Sold	574,415	66.86%	f	653,855	66.02%	f	79,440	13.83%	
Operations Gross Profit	284,758	33.14%		336,553	33.98%		51,795	18.19%	C
Operating Expenses:			N			N			h
Personnel Services/Commissions	143,282	16.68%	e	140,007	14.14%	e	(3,275)	-2.29%	a
Professional Services	855	0.10%	t	794	0.08%	t	(61)	-7.13%	n
Communications	1,741	0.20%		2,385	0.24%		644	36.99%	g
Motor Pool Charges	985	0.11%	S	631	0.06%	S	(354)	-35.94%	
Repairs/Maintenance	5,886	0.69%	a	5,409	0.55%	a	(477)	-8.10%	F
Rental Expenses	95,448	11.11%	l	98,853	9.98%	l	3,405	3.57%	r
Utilities	10,089	1.17%	e	12,988	1.31%	e	2,899	28.73%	o
Risk Management Charges	1,342	0.16%	s	0	0.00%	s	(1,342)	-100.00%	m
Office Supplies	691	0.08%		656	0.07%		(35)	-5.07%	
Credit Card Service Charges	0	0.00%		3,475	0.35%		3,475	100.00%	
Miscellaneous	7,100	0.83%		7,854	0.79%		754	10.62%	F
Admin Expenses Allocated	n/a	n/a		n/a	n/a		n/a	n/a	Y
Whse Expenses Allocated	23,697	2.76%		27,021	2.73%		3,324	14.03%	9
Total Operating Expenses	291,116	33.88%		300,073	30.30%		8,957	3.08%	5
Income From Operations Before Depreciation	(6,358)	-0.74%		36,480	3.68%		42,838	673.77%	
Depreciation	6,031	0.70%		5,987	0.60%		(44)	-0.73%	
Whse Depr Allocated	1,259	0.15%		1,466	0.15%		207	16.44%	
Total Depreciation	7,290	0.85%		7,453	0.75%		163	2.24%	
Net Operating Income	(13,648)	-1.59%		29,027	2.93%		42,675	312.68%	
Other Income (Expenses):									
Investment Income	218	0.03%		67	0.01%		(151)	-69.27%	
Miscellaneous Income	371	0.04%		0	0.00%		(371)	-100.00%	
Bond Interest Expense	(34)	0.00%		(97)	-0.01%		(63)	100.00%	
Total Other Income (Expense)	555	0.06%		(30)	0.00%		(585)	-105.41%	
Net Income	(13,093)	-1.52%		28,997	2.93%		42,090	321.47%	



Kensington Retail Store Financial Activity FYs 1992 Through 1996

	<u>FY 92</u>		<u>FY 93</u>		<u>FY 94</u>		<u>FY 95</u>		<u>FY 96</u>	
Gross Sales	1,925,633		2,032,429		2,152,869		2,284,278		2,470,406	
Minus Discounts	(21,739)		(29,615)		(39,447)		(39,837)		(35,518)	
Net Sales	<u>1,903,894</u>	100.0%	<u>2,002,814</u>	100.0%	<u>2,113,422</u>	100.0%	<u>2,244,441</u>	100.0%	<u>2,434,888</u>	100.0%
Cost of Goods Sold:										
Beginning Inventory	143,271		174,572		200,156		175,933		214,109	
Purchases	19,844		17,558		16,252		19,530		18,645	
Transfers from Whse	<u>1,251,473</u>		<u>1,319,290</u>		<u>1,350,727</u>		<u>1,508,094</u>		<u>1,624,720</u>	
Goods Available for Sale	1,414,588		1,511,420		1,567,135		1,703,557		1,857,474	
Minus Ending Inventory	(174,572)		(200,156)		(175,933)		(214,109)		(238,672)	
Cost of Goods Sold	<u>1,240,016</u>	65.1%	<u>1,311,264</u>	65.5%	<u>1,391,202</u>	65.8%	<u>1,489,448</u>	66.4%	<u>1,618,802</u>	66.5%
Operations Gross Profit	<u>663,878</u>	34.9%	<u>691,550</u>	34.5%	<u>722,220</u>	34.2%	<u>754,993</u>	33.6%	<u>816,086</u>	33.5%
Operating Expenses:										
Personnel Services/Commissions	243,984		232,189		211,280		208,806		222,983	
Rental Expenses	88,343		106,295		103,508		105,049		105,547	
Utilities	9,378		9,208		8,639		8,959		9,820	
Repairs/Maintenance	8,575		7,980		6,427		5,650		4,781	
Risk Management Charges	337		3,622		11,374		2,111		0	
Other Expenses	15,988		19,498		23,873		23,982		33,211	
Whse Expenses Allocated	46,316		51,008		61,222		61,437		66,898	
Total Operating Expenses	<u>412,921</u>	21.7%	<u>429,800</u>	21.5%	<u>426,323</u>	20.2%	<u>415,994</u>	18.5%	<u>443,240</u>	18.2%
Income From Operations										
Before Depreciation	250,957	13.2%	261,750	13.1%	295,897	14.0%	338,999	15.1%	372,846	15.3%
Depreciation	<u>17,101</u>		<u>16,244</u>		<u>17,144</u>		<u>14,958</u>		<u>15,336</u>	
Net Operating Income	233,856	12.3%	245,506	12.3%	278,753	13.2%	324,041	14.4%	357,510	14.7%
Other Income (Expenses)	<u>2,134</u>		<u>378</u>		<u>1,150</u>		<u>1,451</u>		<u>(75)</u>	
Net Income	<u>235,990</u>	12.4%	<u>245,884</u>	12.3%	<u>279,903</u>	13.2%	<u>325,492</u>	14.5%	<u>357,435</u>	14.7%

Changes

\$9,894 @ four
years = \$39,576

\$34,019 @ three
years = \$102,057

\$45,589 @ two
years = \$91,178

\$31,943 @ one
year = \$31,943

\$264,734 ADDITIONAL NET INCOME SINCE FY 92

NOTE: This store has been managed by a contractor since October 19, 1992.
Therefore, DLC operated the store during all of FY 92 and for approximately three and one-half months during FY 93.

Muddy Branch Retail Store Financial Activity FYs 1992 Through 1996

	<u>FY 92</u>		<u>FY 93</u>		<u>FY 94</u>		<u>FY 95</u>		<u>FY 96</u>	
Gross Sales	1,754,599		1,885,990		2,128,801		2,284,278		2,384,605	
Minus Discounts	(25,055)		(29,749)		(41,323)		(39,837)		(47,111)	
Net Sales	<u>1,729,544</u>	100.0%	<u>1,856,241</u>	100.0%	<u>2,087,478</u>	100.0%	<u>2,244,441</u>	100.0%	<u>2,337,494</u>	100.0%
Cost of Goods Sold:										
Beginning Inventory	149,432		149,083		159,949		175,933		221,067	
Purchases	13,475		11,507		11,136		19,530		12,948	
Transfers from Whse	<u>1,095,482</u>		<u>1,201,376</u>		<u>1,369,719</u>		<u>1,508,094</u>		<u>1,553,498</u>	
Goods Available for Sale	1,258,389		1,361,966		1,540,804		1,703,557		1,787,513	
Minus Ending Inventory	<u>(149,083)</u>		<u>(159,949)</u>		<u>(178,872)</u>		<u>(214,109)</u>		<u>(258,692)</u>	
Cost of Goods Sold	<u>1,109,306</u>	64.1%	<u>1,202,017</u>	64.8%	<u>1,361,932</u>	65.2%	<u>1,489,448</u>	66.4%	<u>1,528,821</u>	65.4%
Operations Gross Profit	<u>620,238</u>	35.9%	<u>654,224</u>	35.2%	<u>725,546</u>	34.8%	<u>754,993</u>	33.6%	<u>808,673</u>	34.6%
Operating Expenses:										
Personnel Services/Commissions	192,304		200,363		193,790		208,806		193,206	
Rental Expenses	71,030		74,641		77,737		105,049		80,063	
Utilities	5,986		7,311		7,198		8,959		9,033	
Repairs/Maintenance	8,537		7,989		6,586		5,650		5,070	
Risk Management Charges	288		2,921		6,785		2,111		736	
Other Expenses	14,672		18,141		23,678		23,982		31,353	
Whse Expenses Allocated	<u>41,436</u>		<u>46,773</u>		<u>59,934</u>		<u>61,437</u>		<u>63,179</u>	
Total Operating Expenses	<u>334,253</u>	19.3%	<u>358,139</u>	19.3%	<u>375,708</u>	18.0%	<u>415,994</u>	18.5%	<u>382,640</u>	16.4%
Income From Operations										
Before Depreciation	285,985	16.5%	296,085	16.0%	349,838	16.8%	338,999	15.1%	426,033	18.2%
Depreciation	<u>14,760</u>		<u>14,083</u>		<u>15,132</u>		<u>14,958</u>		<u>13,669</u>	
Net Operating Income	271,225	15.7%	282,002	15.2%	334,706	16.0%	324,041	14.4%	412,364	17.6%
Other Income (Expenses)	<u>1,948</u>		<u>236</u>		<u>1,136</u>		<u>1,451</u>		<u>(68)</u>	
Net Income	<u>273,173</u>	15.8%	<u>282,238</u>	15.2%	<u>335,842</u>	16.1%	<u>325,492</u>	14.5%	<u>412,296</u>	17.6%

Changes

\$9,065 @ four
years = \$36,260

\$6,604 @ three
years = \$19,812

\$58,985 @ two
years = \$117,970

\$17,469 @ one
year = \$17,469

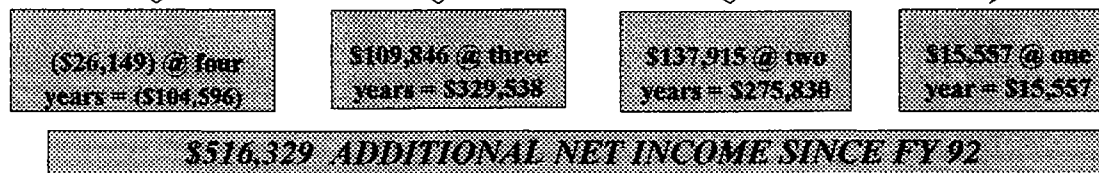
\$332,511 ADDITIONAL NET INCOME SINCE FY 92

NOTE: This store has been managed by a contractor since December 7, 1992.
Therefore, DLC operated the store during all of FY 92 and for approximately five and one-quarter months during FY 93.

Pike Retail Store Financial Activity FYs 1992 Through 1996

	<u>FY 92</u>		<u>FY 93</u>		<u>FY 94</u>		<u>FY 95</u>		<u>FY 96</u>	
Gross Sales	1,806,039		1,807,019		2,362,785		2,284,278		3,119,290	
Minus Discounts	(32,501)		(32,501)		(64,554)		(39,837)		(76,142)	
Net Sales	<u>1,773,538</u>	100.0%	<u>1,774,518</u>	100.0%	<u>2,298,231</u>	100.0%	<u>2,244,441</u>	100.0%	<u>3,043,148</u>	100.0%
Cost of Goods Sold:										
Beginning Inventory	182,738		223,516		205,181		175,933		293,975	
Purchases	17,082		13,811		18,104		19,530		17,538	
Transfers from Whse	<u>1,181,959</u>		<u>1,136,444</u>		<u>1,580,312</u>		<u>1,508,094</u>		<u>2,085,682</u>	
Goods Available for Sale	1,381,779		1,373,771		1,803,597		1,703,557		2,397,195	
Minus Ending Inventory	<u>(223,516)</u>		<u>(205,181)</u>		<u>(291,303)</u>		<u>(214,109)</u>		<u>(373,778)</u>	
Cost of Goods Sold	<u>1,158,263</u>	65.3%	<u>1,168,590</u>	65.9%	<u>1,512,294</u>	65.8%	<u>1,489,448</u>	66.4%	<u>2,023,417</u>	66.5%
Operations Gross Profit	<u>615,275</u>	34.7%	<u>605,928</u>	34.1%	<u>785,937</u>	34.2%	<u>754,993</u>	33.6%	<u>1,019,731</u>	33.5%
Operating Expenses:										
Personnel Services/Commissions	242,765		238,797		262,673		208,806		309,790	
Rental Expenses	184,974		192,012		200,066		105,049		211,732	
Utilities	11,803		12,779		18,547		8,959		20,045	
Repairs/Maintenance	8,937		8,939		6,730		5,650		6,009	
Risk Management Charges	432		3,237		11,495		2,111		0	
Other Expenses	14,928		17,456		25,673		23,982		42,216	
Whse Expenses Allocated	<u>43,210</u>		<u>45,484</u>		<u>66,551</u>		<u>61,437</u>		<u>83,618</u>	
Total Operating Expenses	<u>507,049</u>	28.6%	<u>518,704</u>	29.2%	<u>591,735</u>	25.7%	<u>415,994</u>	18.5%	<u>673,410</u>	22.1%
Income From Operations										
Before Depreciation	108,226	6.1%	87,224	4.9%	194,202	8.5%	338,999	15.1%	346,321	11.4%
Depreciation	<u>14,832</u>		<u>13,759</u>		<u>16,372</u>		<u>14,958</u>		<u>14,275</u>	
Net Operating Income	93,394	5.3%	73,465	4.1%	177,830	7.7%	324,041	14.4%	332,046	10.9%
Other Income (Expenses)	<u>1,989</u>		<u>147</u>		<u>1,250</u>		<u>1,451</u>		<u>506</u>	
Net Income	<u>95,383</u>	5.4%	<u>73,612</u>	4.1%	<u>179,080</u>	7.8%	<u>325,492</u>	14.5%	<u>332,552</u>	10.9%

Changes



NOTE: This store has been managed by a contractor since October 26, 1992.
Therefore, DLC operated the store during all of FY 92 and for approximately five and three-quarter months during FY 93.

Flower Avenue Retail Store Financial Activity FYs 1994 Through 1996

	<u>FY 94</u>		<u>FY 95</u>		<u>FY 96</u>	
Gross Sales	831,576		866,110		997,074	
Minus Discounts	(8,145)		(6,937)		(6,666)	
Net Sales	823,431	100.0%	859,173	100.0%	990,408	100.0%
Cost of Goods Sold:						
Beginning Inventory	135,999		152,257		193,704	
Purchases	5,632		5,855		6,571	
Transfers from Whse	564,228		610,007		667,161	
Goods Available for Sale	705,859		768,119		867,436	
Minus Ending Inventory	(152,257)		(193,704)		(213,581)	
Cost of Goods Sold	553,602	67.2%	574,415	66.9%	653,855	66.0%
Operations Gross Profit	269,829	32.8%	284,758	33.1%	336,553	34.0%
Operating Expenses:						
Personnel Services/Commissions	181,126		143,282		140,007	
Rental Expenses	91,018		95,448		98,853	
Utilities	11,452		10,089		12,988	
Repairs/Maintenance	6,528		5,886		5,409	
Risk Management Charges	3,825		1,342		0	
Other Expenses	11,072		11,372		15,795	
Whse Expenses Allocated	24,362		23,697		27,021	
Total Operating Expenses	329,383	40.0%	291,116	33.9%	300,073	30.3%
Income From Operations						
Before Depreciation	(59,554)	-7.2%	(6,358)	-0.7%	36,480	3.7%
Depreciation	5,325		7,290		7,453	
Net Operating Income	(64,879)	-7.9%	(13,648)	-1.6%	29,027	2.9%
Other Income (Expenses)	447		555		(30)	
Net Income	(64,432)	-7.8%	(13,093)	-1.5%	28,997	2.9%

Changes

**\$51,339 @ two
years = \$102,678**

**\$42,090 @ one
year = \$42,090**

\$144,768 ADDITIONAL NET INCOME SINCE FY 94

NOTE: This store has been managed by a contractor since September 19, 1994.
Therefore, DLC operated the store during all of FY 94 and for approximately two and two-thirds months during FY 95.



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 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
Justina Ferber, Legislative Analyst
Frank Orifici, Acting Director of DLC
Liquor Policy Committee



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	<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.

- 3 -

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

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