

05.9.2019

To: Statesville ABC Board Members, City of Statesville,
NC ABC Commission, Media, Interested Parties

From: Tip Nicholson, General Manager

Date: May 9, 2019

Subject: 2019-20 Budget Message

The Annual Budget for the fiscal year July 1, 2019 through June 30, 2020 (FY19/20) has been prepared in accordance to North Carolina General Statute 18B-702 "Financial operations of local boards". The ABC Board determines, through adoption of an annual budget, the level of customer services that the ABC system will provide and the resources available for operations.

The primary drivers during the preparation of this budget included projected operating costs required to sustain acceptable levels of customer service during FY19/20 and the need for revenues sufficient to fund distributions to beneficiaries.

Projected operating revenues are estimated to increase slightly during FY19/20 while budgeted expenses are also expected to increase. The primary increase in budgeted expenses is to prepare for needed building and grounds work and increased personnel costs.

The budget consists of: projected revenues from liquor sales and other receipts of \$6,398,207; taxes related to income of \$1,457,920; cost of sales of \$3,314,335; operating expenses costs of \$1,110,801; and local distributions of \$290,302.

Highlights of Key Budget Elements Include:

- Sales are expected to increase slightly over the previous year.
- While the City of Statesville is not currently planning a salary increase, the City Manager's budget contained a revised salary schedule (July 2016). This position and salary schedule resulted in a 3.5% increase in the salary grades for the City of Statesville that were not incorporated into the Statesville ABC salary grades. As a

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result, this budget reflects no salary increases but a 3.5% adjustment to all salary grade levels.

- The entire amount for health insurance premiums for 7 full time staff persons has been budgeted. Currently, we have 1 full time staff person that is on Medicare that will retire in August. The board pays their Medicare supplement which is less than what would be paid for regular health insurance. As we add new full time employees, the waiting period is three months for health insurance. While the full amount of health insurance under the board's plan has been budgeted, we anticipate that there will be some cost savings in this line item. Maintaining the same coverage as last year will result in a \$100 per month per employee increase.
- There will be no significant increase in electric rates and water/sewer rates will increase approximately 3%. Additionally, there will be a new storm water fee that will be charged to each location.
- The largest capital expenditure will be the replacement of our point of sale and inventory management systems at both stores. The existing systems are built on old technology and while they have served their purpose, new technology will allow much better operation and control of our point of sale and inventory. The system will also have a built in ability to determine if identification cards are valid for purchase.
- The ABC Board will continue to closely watch its working capital. The NC ABC Commission issues guidelines for minimum and maximum working capital (defined below in the Priorities and Assumptions section). The actual amount is determined at the completion of the annual audit sometime in August of 2019. The board is not allowed to go under the minimum amount and if it does, it is allowed to withhold distributions until such time that the amount again exceeds the minimum. The Board goal is to try and maintain working capital at the mid-point range recommended by the NC ABC Commission. It is hoped that revenues will exceed projections and expenditures will be less than budgeted so that the working capital target can be met while also increasing local distributions.

The Board's Budget Process

During April and May, information was gathered regarding possible changes in budget lines for the new fiscal year. Once the City Manager released the budget message for FY19/20, the proposed budget was finalized. The Statesville ABC Board will hold a public hearing for the proposed budget on Tuesday May 28th at 11:00am at its regularly scheduled meeting. After hearing public comment, the board will continue to study the budget and then act on the FY19/20 budget at its June 25th meeting.

Priorities and Assumptions:

- The Board's primary source of revenue is through the sale of spirituous beverages. A key assumption is the amount of expected sales growth (which is estimated to increase slightly). Revenue projections are projected based on current economic factors combined with historic sales figures.
- The Board's books and records are maintained based on the Enterprise method of accounting which is different than the Fund method of accounting used by many government entities.
- The Board satisfies its obligation for law enforcement (minimum of 5% of net profits) by contracting for law enforcement services with the City of Statesville Police Department.
- Alcohol Education – The Statesville ABC Board believes strongly in its responsibility to help fund local organizations that work with alcohol and substance abuse services. The Board historically has funded alcohol education programs at more than the minimum of 7% as required by law.
- NC ABC Commission Rules (4 NCAC 2R.0902) define "working capital" as "the total cash, investments and inventory less all unsecured liabilities." Also, "a local Board shall set its Working Capital requirements at not less than two week's average gross sales of the latest fiscal year nor greater than four months' average gross sales of the latest fiscal year. Gross sales means gross receipts from the sales of alcoholic beverages less distributions as defined in G.S. 18B-805(b)(2), (3), and (4)." The Statesville ABC Board, while meeting these requirements, will continue to work to build its "working capital" to a level that will at least reach the midpoint of the minimum and maximum requirements.

Staffing Summary

The Board has authorized a total of 7 full-time positions. An additional 24 part time employees work a variety of hours and positions for the Board.

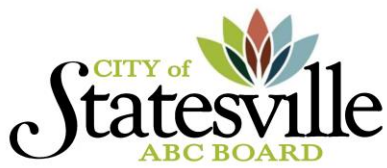
Conclusion

The budget reflects the Board's commitment to fulfill its mission based on known information.

Tip Nicholson

General Manager

Attached: Proposed Budget for Fiscal Year 2019/2020



PROPOSED 2019-20 FISCAL YEAR BUDGET
STATESVILLE ABC BOARD
July 1, 2019 – June 30, 2020

Section 1. Estimated Revenues.

It is estimated that the revenues listed below will be available during the fiscal year beginning July 1, 2019 and ending June 30, 2020 to meet the operational and functional appropriations as set forth in Section 2, in accordance with the chart of accounts prescribed by the state ABC Commission.

Estimated Revenues:

Sales	\$6,391,382
Other Income	\$6,825
Total	\$6,398,207

Section 2. Appropriations.

The following expenses are estimated for fiscal year 2019 – 2020 and are funded by the revenues made available through Section 1, herein.

Appropriations:

Taxes Based on Revenue	\$1,457,920
Cost of Sales	\$3,314,335

Operating Expenses:	Total
Salaries & Benefits	\$849,118
Board Salaries	\$5,400
Repairs & Maintenance	\$42,996
Utilities	\$32,967
Insurance – Building & Liability	\$13,570
Store/Office Supplies	\$48,238
Travel, Training & Conferences	\$10,013
Contracts & Professional Fees	\$45,642
Credit Card Fees	\$60,865
Contingencies/Miscellaneous	\$1,992
Total Operating Expense	\$1,110,801

Capital Outlay:	Total	
Point of Sale System	\$65,200.00	
Copy Machine	\$2,000	
CO Funding		
	(\$67,200)	
(From Administrative Reserve)		
Total Capital Outlay	\$0	\$0
Debt Service:		
Principal Payments on Store #2 Loan	\$33,000	
Interest Payments on Loan & Line of Credit	\$21,887	
Total Debt Service	\$54,887	\$54,887
Distributions:		
Mandatory Profit Distributions	\$212,312	
Law Enforcement	\$25,490	
Alcohol Education & Rehab.	\$52,500	
Total Distributions	\$290,302	\$290,302
Working Capital Retained/Administrative Reserve		\$169,962
Total Expense, Distributions & Reserve		\$6,398,207

Section 3. Copies of this Budget, once approved, shall be furnished to the appointing authority, the state ABC Commission, and to the Budget Officer and Finance Officer to be kept on file by them for their direction in the disbursement of funds.

The policy of the Statesville ABC Board is to maintain working capital at the mid-point of the minimum and maximum amounts as set by the State of North Carolina and the North Carolina ABC Commission. All remaining money once the mid-point is reached, is allocated to our distribution partners and local organizations that are working in the areas of alcohol and substance abuse education, prevention and treatment.