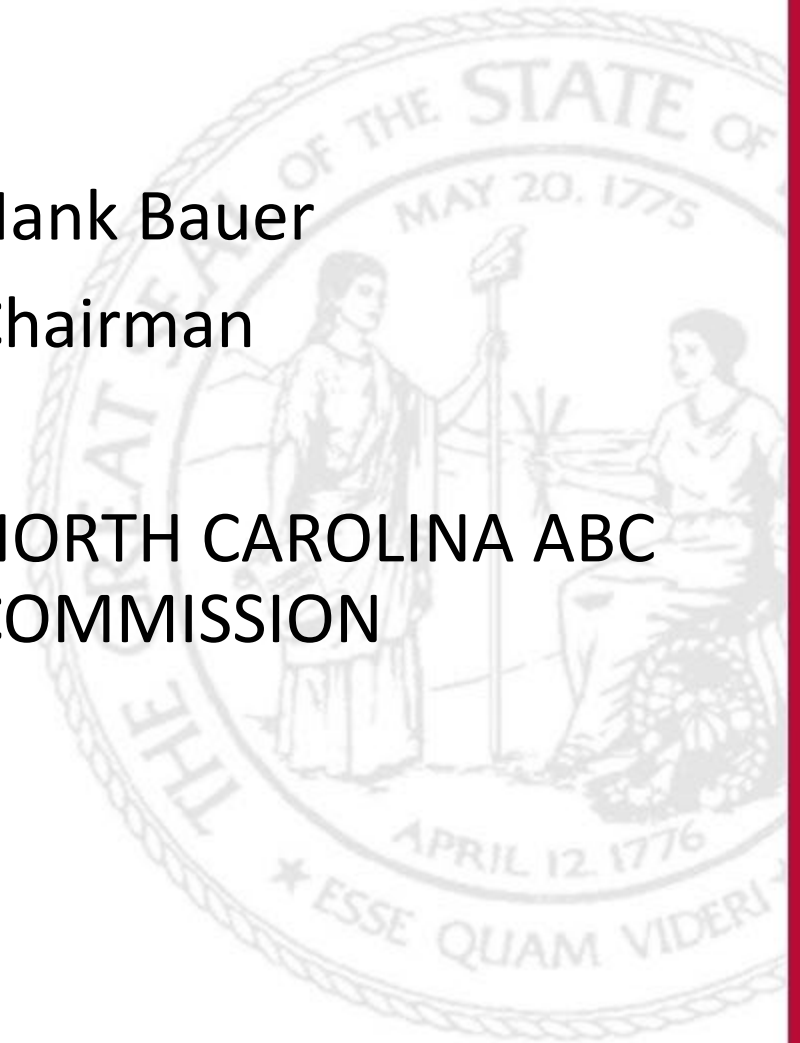




House Select Committee on Government Efficiency

Hank Bauer
Chairman

NORTH CAROLINA ABC
COMMISSION



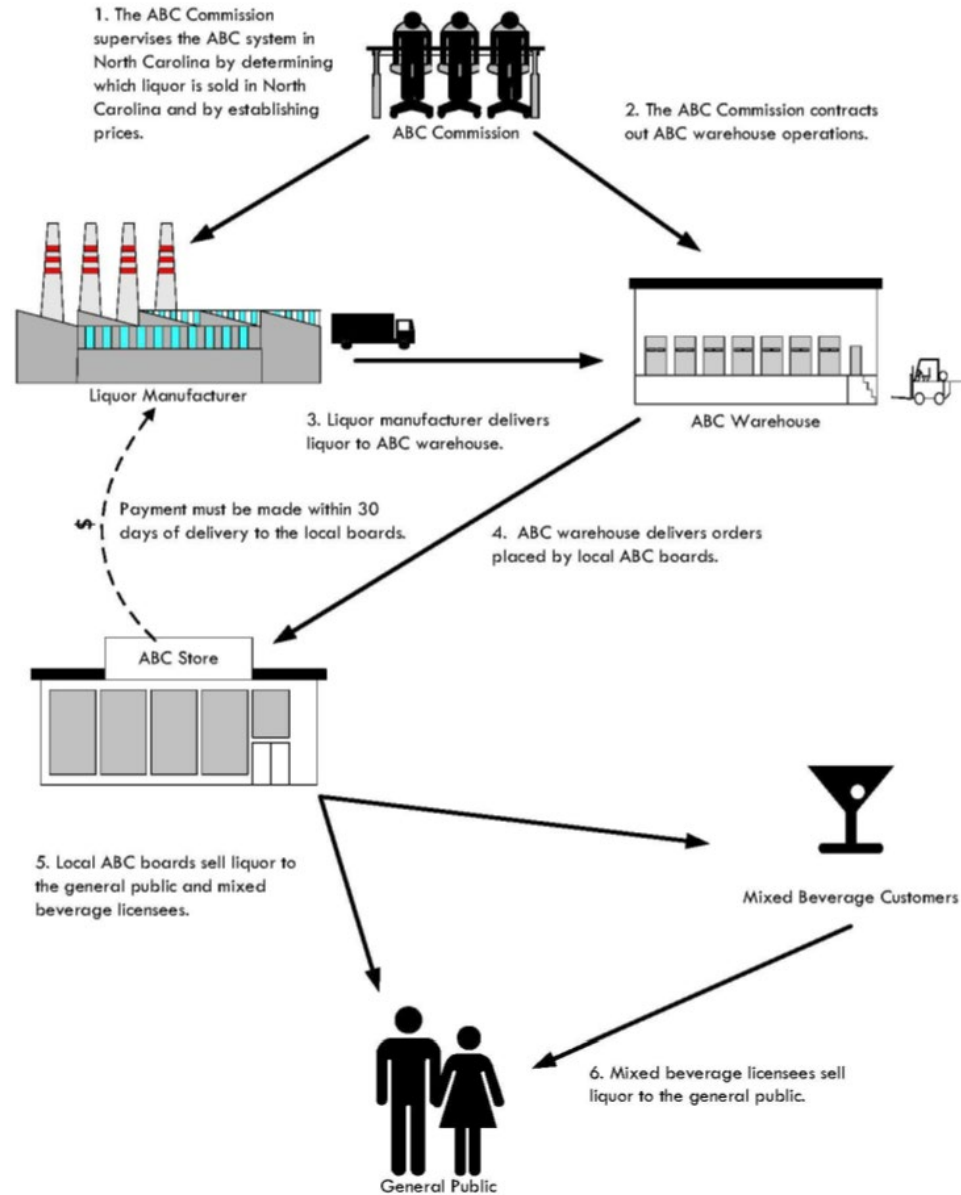


NC ABC System

- We use a bailment and surcharge system where suppliers ship their products to the state warehouse, at no charge to the state or ABC Commission. Currently \$116 million of spirits are in state facilities, readily available for local ABC Boards to order.
- ABC Boards place orders with a contracted vendor that delivers spirits to the Board's stores. An ABC Board has 30 days to pay suppliers for the products. ABC Boards pay a bailment fee (\$2.75 per case) and surcharge fee (\$1.15 per case) for the delivery of the spirits.
- The bailment fees cover warehouse costs and vendor contract. Surcharge fees cover the ABC Commission's budget. The ABC Commission provides a range of services, including permitting, audits and investigations, point-of-sale training, legal services, products and pricing, and other functions.

ABC

COMMISSION
NORTH CAROLINA





Fiscal Year 2024/25 Results

- Sales revenue 2024/25 - \$1,889,743,712.
- Projected general fund contribution - \$540,466,702.
- Projected local distribution - \$169,798,764.
- Projected total revenue distribution - \$710,265,465.
- Projected 5-year total distribution - \$3,404,895,840.

- ZERO tax dollars are required to run the ABC system because bailment and surcharge fees cover costs.

- Numbers based on Fiscal Year 2025 projections. 2025 ABC Board audits due September 30th, 2025.

Direct Shipments from Suppliers

Q. Is it possible to do direct shipments to stores?

- We are currently doing a few direct shipments during the summer months for full truckloads of RTD's. The ABC Commission receives bailment and surcharge fees for these deliveries.
- However, these loads include only one brand.
- It would be logistically impossible for suppliers to direct ship their spirits to local boards. North Carolina has 268 spirit suppliers, and they cannot ship to every store due to product mix and volume constraints.

Impacts of Privatization

Q. What are the implications of privatizing the system? Could it be done in a revenue neutral manner for the State and local governments?

- The General Fund contribution (projected \$540 million this year) would drastically decrease, and local contributions (projected \$170 million this year) would be eliminated. Taxes would need to increase substantially to account for the hundreds of millions lost annually.
- What would replace the current system would be a duopoly (Southern Glazer/Republic National).
- The number of retail stores would increase significantly, but the state would have to account for the increase in underage drinking, DWI, violent crime, and other alcohol-use related consequences. Currently, ABC Boards are funding alcohol law enforcement, education, treatment, recovery, and other municipal services. In a privatized system, these costs would fall on the state and local governments.

Impacts of Privatization

continued

- Approximately 1/3 of alcohol-related violations the Commission receives are for sales to underage children at privately permitted businesses. This would increase significantly if liquor stores were privatized.
- Washington State is the only control state to privatize. The citizens of Washington did not reap the expected benefits of privatization and have shown regret for that ballot measure (*See Alcohol Deregulation by Ballot Measure in Washington State Report*)
 - Wholesalers had to pay \$105 million in shortfall fees on top of \$150 million in licensing fees.
 - Washington State saw a 15.5% increase in spirits prices and only a \$24 million revenue gain over the first 16 months.
- Control state growth is higher than open states.



Efficiency Opportunity

- North Carolina needs a new automated warehouse to manage our sales volume growth for the next 50 years.
- The current board fill rate is 92%. Additionally, 57% of all cases are transferred from the backup warehouse, which is over 400,000 cases per month. A new warehouse could increase sales revenue by \$132.3 million and add \$37.8 million to the General Fund contribution.
- In fiscal year 2025, we processed 41,000 special orders for 250,000 cases sold. Warehousing those items would increase revenue by \$20.2 million.
- Fund the new facility from the State Capital Infrastructure Fund and authorize the ABC Commission to refund the one-time transfer from annual ABC permit fees.