



## Alcoholic Beverage Control

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## EXECUTIVE SUMMARY

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### Need for New ABC Warehouse

The ABC Commission is requesting funding for a new warehouse for the North Carolina ABC system. The state of North Carolina continues to grow rapidly, and a new warehouse is urgently needed to maximize revenues to the General Fund and local municipalities. A new warehouse is also needed to guarantee robust service and product selection to ABC boards and their customers. The NC General Assembly appropriated \$4.7 million in 2023-2024 to the Commission for advanced planning on the new office and warehouse campus. The Commission has engaged in its advance planning.

### Warehouse at Max Capacity

Storage space in the current ABC warehouse is completely exhausted. The warehouse is owned by the state of North Carolina and was originally constructed in 1984. Warehouse features are outdated and do not meet the demands of the modern marketplace. The current warehouse holds 3,800 listed items (warehouse locations available). However, 7,600 unique items were sold in the state in FY24. With adequate warehouse space (locations for 10K+ items), the state could bring more products to market quickly.

Short-term storage and racking solutions have already been implemented, and a long-term solution is needed.

### Why Does This Matter?

The Commission is unable to list new liquor products without moving other products to special order status (shipment to warehouse only upon order request). All bin locations are being used. 223 national brands and 194 North Carolina brands were shifted to special order status during 2023, and no new products were listed in Fall 2024 because of space constraints.

Transfers to the state warehouse from contracted overflow warehouse space in Clayton are costly and inefficient. Currently, 59% of all cases shipped must be transferred. The reduced fill rate could cost the state up to \$93 million in lost sales annually, which will only increase as the volume of liquor ordered by and shipped to the ABC boards increases.

The warehouse is behind industry standards and not optimized for modern receiving and shipping logistics. The ABC board order fill rate decreased from 95% in July 2022 to 92% in July 2024. The new warehouse would utilize MHE (material handling equipment) and WMS (warehouse management systems) which achieve a fill rate of 99.9% accuracy. A new conveyor system would be able to handle greater volume with less manpower and in less space.

## Solution

The Commission's vision for the build is a 600,000 sq ft warehouse with a 40-foot-tall ceiling to accommodate an automated storage system. Having 600,000 sq ft would provide enough space to handle 50+ years of growing volume for North Carolina.

## Projected Costs

The estimated total cost for the warehouse project and related 60,000 sq feet of office space for Commission operations is \$304,886,760. This does not include the cost of land acquisition.

Estimated Construction Cost	\$234,078,125
Design Fee	\$23,407,813
Commissioning Fee	\$2,340,781
Special Inspections/Materials	\$2,925,977
Sustainability	\$7,022,344
Advance Planning	\$4,681,563
Contingencies	\$7,022,344
Escalation Cost Increase	\$23,407,813
<b>Total Estimated Cost</b>	<b>\$304,886,760</b>

## Draft Legislation – Temporary Transfer from SCIF

Attached to this Executive Summary is draft legislation proposed by the Commission to fund the warehouse project without the necessity of an appropriation. The legislation provides for a one-time temporary transfer from the State Capital Infrastructure Fund (SCIF) to the Commission for the construction of the warehouse. The Controller would replenish the SCIF with transfers of all permit fees and the increases in General fund contributions by the ABC Commission over the prior year, until the funds transferred from the SCIF are replenished in the SCIF.

The temporary transfer and repayment schedule makes this funding approach very feasible and the SCIF transfer indeed temporary. The 99% fill rate with a new warehouse is estimated to result in increased sales of \$93 million which produces \$26 million/year for the General Fund. Combining the permits fees (\$30 million/yr) and increased revenue from the fill rate (\$26 million/yr) results in replenishment of all SCIF funds transferred in about 6 years. For clarity, “permit fees” means the current permit fee structure; no change in that structure is being proposed.

The proposal for this SCIF transfer means that the General Assembly does not have to appropriate the entire cost in one biennium, and, significantly, that the State can own the warehouse from day one which is critical to its maintenance and continuation of the enterprise operation.

## **Current Statutory Authority**

G.S. § 18B-203(16) provides that the Commission has the authority, notwithstanding any law to the contrary, to enter into contracts for design and construction of a warehouse, as provided in G.S. 18B-204, which provides that the Commission may provide for the receipt, storage, and distribution of spirituous liquor by the construction of a warehouse.

## **Status of Project with NCDOA**

The RFQ has been awarded to McMillan/Pazdan/Smith with the goal of designing the warehouse, conveyor technology and site selection. The estimated cost of the RFQ completion is \$1.4 million dollars, which is below the \$4.7 million budgeted by the NC General Assembly. This project is to be completed by April 2025.

## **New Warehouse Location**

The new warehouse should be located within a 20-mile radius of the current facility (404 E Tryon Road, Raleigh). Any location further west would make it difficult for CDL drivers to adhere to federal drive-time regulations.

This determination is also made based on the 2023 sales volume by ABC board. In 2023 the state shipped 228% more products to the eastern portion of the state than the western (1,835 loads shipped east versus 804 loads shipped west). This is a difference of 1,339,581 more cases shipped east.

## **Background on ABC System**

The NC ABC system is entirely self-funded. Operations of the ABC warehouse complex, local ABC boards and their stores, and the ABC Commission itself are all funded from the sale of bottles of liquor, not from the General Fund.

In FY24, total ABC revenue was \$1,898,848,491. This resulted in \$542,733,001 being distributed to the General Fund. This represents a 55.6% increase in sales over the past five years alone.

This record-setting amount of ABC revenue also makes a meaningful difference to local communities large and small across our state. In FY24, \$163,613,199 was distributed to local alcohol law enforcement, local alcohol prevention, treatment, recovery programs, and other impactful public service projects sponsored by local ABC boards.

For further information, please contact Chairman Hank Bauer at [Hank.Bauer@abc.nc.gov](mailto:Hank.Bauer@abc.nc.gov).

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