



COMMONWEALTH OF PENNSYLVANIA  
**PENNSYLVANIA LIQUOR CONTROL BOARD**  
Harrisburg, Pennsylvania 17124-0001

April 24, 2017

The Honorable Seth M. Grove  
State Representative, 196th Legislative District  
7 East Wing  
Harrisburg, PA 17120

Dear Representative Grove:

The Pennsylvania Liquor Control Board (PLCB) received your letter dated Jan. 24<sup>th</sup>, in which you asked a series of questions regarding the financial metrics and operational efficiencies of the agency. We appreciate the opportunity to discuss how the PLCB is ensuring that the agency is maximizing the revenue it produces, and controlling operational costs, in order to fund critical state programs while providing outstanding value to our customers. We also appreciate the time you afforded us to respond to your inquiries.

As you know, the PLCB is not funded with a General Fund appropriation, but rather through an executive authorization from the proceeds of the State Stores Fund. In Fiscal Year (FY) 2016-17, the agency will transfer \$217 million to the General Fund to support essential state services. This figure does not include the transfers made to other state agencies, as described more fully below. We trust that the dialogue during the House Appropriations Committee hearing on March 2<sup>nd</sup> helped answer many of the questions that you and the committee members had regarding the PLCB as you prepare to make decisions about the FY 2017-18 state budget.

The PLCB budget submission to the House Appropriations Committee, which was submitted prior to the March 2<sup>nd</sup> hearing, includes much of the information requested in your letter. Consequently, for brevity and consistency, this response, when appropriate, references the budget submission, with corresponding page number(s). An additional copy of the PLCB's budget submission is attached for your convenience.

1. Program Performance – Key Performance Indicators and Cost Drivers

In contrast to other state agencies, the PLCB prepares detailed financial statements that outline the financial results of the business, which is the fundamental key performance indicator that guides the business operations of the PLCB. These financial reports are publicly available on the PLCB website, [www.lcb.pa.gov](http://www.lcb.pa.gov). Page 10 of our budget submission includes a specific discussion of the various performance measures that we utilize to assess outcomes in terms of controlling costs and increasing sales. Additionally, we develop an annual business plan and budget for each program area. Our Finance office meets quarterly with each program area to examine actual costs for the quarter in comparison to the plan and discuss any current or anticipated variances.

On the regulatory side of the agency, the PLCB ensures responsiveness to licensees through our new online licensing and regulatory portal, PLCB+. This online system has eliminated paper forms and expedited the review of licensing matters by reducing the delay associated with sending hard copies of information through the mail. Further, PLCB+ allows users to access their account 24/7 to update information, pay fees and apply for special permits.

The most significant cost drivers for the PLCB, as explained on page 6 of our budget submission, are personnel services, which are largely outside of the control of the agency as a result of Commonwealth-negotiated employee direct and indirect compensation. Also, outside of the control of the PLCB are higher pension, worker's compensation, and other post-employment benefit (OPEB) costs for employees. While operational expenses have increased as well, those costs are mostly correlated to the PLCB's increased sales growth of approximately four percent per year over the past few years.

## 2. New Programs/Initiatives

As discussed throughout our budget submission, including the FY 2017-18 initiatives section on page 7, the primary focus of our recent and future initiatives involves the continued implementation of Acts 39, 85 and 166. Many of these initiatives were legislatively mandated in Act 39, and consequently must be implemented regardless of any cost-benefit analysis (i.e., developing new license applications and investigating them, ensuring that holders of wine expanded permits are properly stocked with wine they wish to sell, etc.). Other discretionary portions of the 2016 liquor reforms, such as the operation of additional Fine Wine and Good Spirits (FWGS) stores on Sundays and selling PA lottery tickets through self-service Lottery machines continue to be assessed and modified based on customer response to these programs. The future development of a customer relations management program will be evaluated based on implementation costs and the potential to increase sales.

## 3. Agency Line Item Review

Pages 3-7 and 16 of the PLCB budget submission include the breakdown of the agency's executive authorization request by major object and includes a narrative description of the changes. The increase in the executive authorization, as noted before, largely reflects costs outside of the control of the PLCB, including increasing personnel costs. Additionally, the agency has encountered costs associated with the unanticipated implementation of Act 39 and higher operational expenses from increased freight, store rent, and credit/debit card fees. To ensure the PLCB's personnel resources reflect the operational needs of the agency, especially in light of the changes from the 2016 liquor reforms, we have undertaken an ongoing comprehensive review of vacant positions to determine whether there is a compelling business need to fill those respective positions.

As mentioned previously, the agency produces detailed financial statements that include a comparative operating statement, which details revenues, expenditures and changes in the State Store Fund position compared to the previous fiscal year. The fiscal year end reports are publicly available on the PLCB website under "news and reports."

Page 39 of the budget submission provides a statement of cash receipts and disbursements which includes the projected cash balance at the end of FY 2016-17 and a further five years of estimates based on the assumptions listed in the footnotes on that page. Additionally, attached is the most recent financial audit of the State Stores Fund and the Liquor License Fund that details cash flow.

#### 4. GO TIME (Continuous Improvement / Lean Government)

Attached is a spreadsheet of GO TIME savings over the past two fiscal years with a brief description of each item. The savings from GO TIME initiatives did not fund specific items, but rather contributed to the continuing efforts of the PLCB to limit operating expenses through operational efficiencies and innovative business strategies.

#### 5. Federal Funds

The PLCB does not receive federal funds.

#### 6. Contracts (non-personnel)

Pages 17-34 of our budget submission includes the requested information regarding consulting contracts in fiscal year 2015-16 and 2016-17, as well as 2017-18.

#### 7. Lapsed Funds

Page 5 of our budget submission outlines the executive authorizations and corresponding lapses of funds for the past three fiscal years. Historical lapses for the executive authorization specific to the purchase of liquor are also listed in the PLCB budget submission on page 37.

#### 8. Regulations

With the advent of Acts 39, 85 and 166, the PLCB anticipates updating its regulations to conform with these acts. Act 39 amended more than 35 sections of the Liquor Code and added several more, and Act 166 amended 17 sections of the Liquor Code, including some of the same sections amended in Act 39, and added another new section. As a result of these comprehensive changes, the process of aligning PLCB regulations is anticipated to be a multi-year endeavor.

In FY 2015-16, the PLCB promulgated six regulatory amendments. The regulations did not result in any significant fiscal impact to the PLCB or the regulated community.

- Conversion of Suspension into a Fine (40 PA Code § 7.10)
  - The statutory authority for this regulation is 47 P.S. § 2-207(i).
  - This regulation increased the minimum fines acceptable to the PLCB when an unserved license suspension is converted to a fine at the request of an applicant. The regulation impacts only those licensees with unserved suspensions that want to transfer the license after incurring a suspension.

- Economic Development Licenses (40 PA Code § 3.105)
  - The statutory authority for this regulation is 47 P.S. § 2-207(i).
  - This regulation further clarified the criteria that an economic development restaurant license applicant must meet to prove that he or she has “exhausted reasonable means for obtaining a suitable license within the county.” [47 P.S. § 4-461 (b.1)(1)].
- Responsible Alcohol Management Program (40 PA Code §§ 5.211, 5.232, 5.233)
  - The statutory authority for this regulation is 47 P.S. § 4-471.1 and 47 P.S. § 2-207(i).
  - This regulation permitted third parties to develop a training curriculum to meet the requirements of the Responsible Alcohol Management Program (RAMP) and provide those materials to the Bureau of Alcohol Education for approval.
- Right to Occupy (40 PA Code §§ 7.2 and 7.4)
  - The statutory authority for this regulation is 47 P.S. § 2-207(i).
  - This regulation recognized that a lease or deed is not the only way to establish the right to occupy a proposed licensed premises. As part of the application process, an applicant must prove its right to occupy the proposed licensed premises, which may include a lease or deed or through a contract with the owner of the premises.
- Discount Pricing Practices (40 PA Code § 13.102)
  - The statutory authority for this regulation is 47 P.S. § 2-207(i).
  - This regulation was amended to align PLCB regulations with changes that were made to the Liquor Code related to the hours in which licensees may discount the sale of alcohol at its licensed premises (i.e., happy hours).
- Posting Requirements for Extension (40 PA Code § 7.22)
  - The statutory authority for this regulation is 47 P.S. § 2-207(i).
  - This regulation was amended as a result of changes to the Liquor Code. Regulations had previously required applicants for an extension of the licensed premises to post notice of the application filing for 15 days. An amendment to the Liquor Code increased the posting period to 30 days and the regulation was amended accordingly.

In FY 2014-15, the PLCB promulgated one regulatory amendment. The regulation did not result in any significant fiscal impact to the PLCB or the regulated community.

- Breweries (40 PA Code § 3.93)
  - The statutory authority for this regulation is 47 P.S. § 4-446(a)(1) and 47 P.S. § 2-207(i)
  - This regulation, which was requested by the industry, permitted brewery licensees to serve their own beer for consumption on the licensed premises under certain conditions without needing to also acquire a brewery pub license from the PLCB. Accordingly, a brewery licensee must have seating for at least 10 customers and must make food available in order to serve its beer for on-premises consumption.

## 9. Augmentations

While the PLCB does not receive augmented funds in the form of interagency transfers from other agencies, the PLCB does make significant transfers to other state agencies. In FY 2015-16, the PLCB's transfers to other Commonwealth agencies included:

- \$26.1 million to the Pennsylvania State Police Bureau of Liquor Control Enforcement.
- \$3.3 million provided to support the Department of Drug and Alcohol Programs (an increase of \$1.6 million over the prior fiscal year).
- \$9.7 million transferred to other Commonwealth agencies that billed the agency for services provided:
  - \$2 million to the Office of Administration (OA) for consolidated data services and another \$2.4 million for classification and pay services, strategic services/SEAP, SAP-based services, and telecommunication charges.
  - \$1.0 million to the Department of General Services (DGS) for real estate and shared services, employee self and tort insurance, warehouse and distribution services, and Capitol Complex services.
  - \$2.7 million to the Auditor General.
  - \$1.1 million to the Civil Service Commission.
  - \$368,000 to Payroll Operations.
  - \$164,000 to Treasury.

## 10. Fines/Settlements/Litigation

The PLCB is involved in two ongoing litigation cases. The first case involves the now shuttered wine kiosk program. While the agency recovered its costs for this program, the manufacturer of the kiosks, Simple Brands, sued the PLCB for alleged breach of contract. The litigation, which remains in discovery phase, has resulted in approximately \$500,000 in legal fees and expenses.

Second, the agency is engaged in litigation against World Transportation, Inc. (WTI), who previously served as the PLCB's Philadelphia warehouse contractor. WTI essentially went out of business and defaulted in its obligations, which required the PLCB to procure an emergency contract with XTL, Inc., the current warehouse vendor, to run the Philadelphia distribution operations. The litigation, which remains in discovery phase, has resulted in about \$440,000 in legal fees and expenses.

## 11. Information Technology Modernizations/Contracts

As previously referenced, in May 2016 the PLCB launched PLCB+, which transformed almost 70 paper processes into a paperless online system. The PLCB received the 2016 Control States Best Practices Award from *Stateways* magazine, in part, because of the innovation demonstrated by the development of PLCB+. The PLCB expects to save an estimated \$4.3 million from efficiencies created by PLCB+ over the next few years.



While the PLCB does not have any information technology contracts specifically associated with modernization efforts, current contracts do provide for production support with opportunities to engage in system upgrades. For example, the PLCB is currently working with OA, Unisys, IBM and Oracle to improve our disaster recovery capabilities. Also, the PLCB is in the process of modernizing our data warehouse approach by replacing the current Oracle Retail Data Warehouse with a Power BI/Microsoft Azure solution. This modernization will provide the PLCB with a more comprehensive data warehouse product.

All PLCB information technology contracts are actively managed, invoiced and reviewed monthly to ensure costs are controlled, and PLCB staff assigns the specific tasks associated with the implementation of the contract.

The PLCB has actively engaged in the use of consolidated enterprise services and contracts. As a significant user of merchant services for credit card processing, the PLCB collaborated with the Office of Budget, DGS and other state agencies to negotiate a merchant service agreement with First Data Services and Santander Bank. The volume of transactions processed by the PLCB helped to lower the transaction fee costs across other state agencies. Additionally, the PLCB lowered operating costs for hosting our current information technology platforms by consolidating the services through PA Compute Services. This consolidation resulted in approximately \$3 million in savings. The PLCB also partners with OA on master agreements for a variety of information technology products, which produce significant savings when compared to the PLCB purchasing those services independently.

I hope that this information is helpful to answer the questions included in your letter. Please do not hesitate to contact me at 717-346-8402 with any additional questions or clarifications.

Sincerely,



Christopher L. Herrington, Esq.  
Director of Legislative & Governmental Affairs

Attachments

cc: The Honorable Stanley Saylor, Chairman, House Appropriations Committee  
The Honorable Joseph Markosek, Minority Chairman, House Appropriations Committee  
The Honorable Adam Harris, Chairman, House Liquor Control Committee  
The Honorable Paul Costa, Minority Chairman, House Liquor Control Committee  
Tim Holden, Chairman  
Mike Negra, Board Member  
Michael Newsome, Board Member  
Charlie Mooney, Executive Director

**PENNSYLVANIA LIQUOR CONTROL BOARD**

**BUDGET HEARING MATERIALS**

**FISCAL YEAR 2017-18**

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## Mission Statement

The Pennsylvania Liquor Control Board serves as the commonwealth's responsible seller of wines and spirits, regulates Pennsylvania's beverage alcohol industry, and promotes social responsibility and alcohol education, while maximizing financial returns for the benefit of all Pennsylvanians.

# **LIQUOR CONTROL BOARD SUMMARY BY FUND AND EXECUTIVE AUTHORIZATION**

The Pennsylvania Liquor Control Board regulates the manufacture, possession, sale, consumption, importation, use, storage, transportation and delivery of liquor, alcohol and malt or brewed beverages in the Commonwealth.

The dollar amounts shown below include executive authorizations from and augmentations to the State Stores Fund, a special enterprise fund. They are reflected herein as "Other Funds". The sole source of operating funds for the Liquor Control Board's operations is the Governor's Executive Authorization of Expenditure from the revenues and retained earnings of the State Stores Fund.

The State Stores Fund serves as the general operating fund for the Liquor Control Board. This fund receives revenues from the sale of goods through State Liquor Stores, fees not credited to the Liquor License Fund, fines and penalties for law violations by licensees, and losses and damages recovered. Expenditures cover all costs associated with the operation and administration of all PLCB functions as outlined and prescribed by the Pennsylvania Liquor Code. In addition, the fund also provides monies to the Pennsylvania State Police for enforcement of the Liquor Code Law, the Department of Drug and Alcohol Programs for alcohol abuse programs, the Office of Auditor General for auditing services, and the Office of the Comptroller assigned to the PLCB for accounting services. Annual profit transfers are made from this fund to the General Fund.

	(\$ Amounts in Thousands)		
	Actual <u>2015-16</u>	Available <u>2016-17</u>	Budgeted <u>2017-18</u>
<b>STATE STORES FUND</b>			
General Operations (EA)	\$ 516,618	\$ 538,385	\$ 570,565
Purchase of Liquor (EA)	1,332,250	1,386,000	1,425,000
Comptroller Operations (EA)	5,552	5,419	5,690
Transfer of Profits to General Fund (EA)	<u>100,000</u>	<u>216,400</u>	<u>185,100</u>
<b>LIQUOR CONTROL BOARD TOTAL.....</b>	<b><u>\$1,954,420</u></b>	<b><u>\$2,146,204</u></b>	<b><u>\$2,186,355</u></b>

**EXECUTIVE AUTHORIZATION:**  
**GENERAL OPERATIONS (AGENCY TOTAL)**

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**I. SUMMARY FINANCIAL DATA**

	(\$ Amounts in Thousands)			
	Actual 2015-16	Available 2016-17	Budgeted 2017-18	Budgeted vs. Available
State Funds	\$ 0	\$ 0	\$ 0	\$ 0
Federal Funds	0	0	0	0
Other Funds (State Stores)	516,618	538,385	570,565	32,180
Total	\$516,618	\$ 538,385	\$ 570,565	\$ 32,180

**II. DETAIL BY MAJOR OBJECT**

**General Operations**

	(\$ Amounts in Thousands)			
	Actual 2015-16	Available 2016-17	Budgeted 2017-18	Budgeted vs. Available
<b>Personnel</b>				
State Funds	\$ 0	\$ 0	\$ 0	\$ 0
Federal Funds	0	0	0	0
Other Funds (State Stores)	307,607	318,656	340,740	22,084
Total	\$307,607	\$318,656	\$340,740	\$ 22,084

<b>Operating</b>				
State Funds	\$ 0	\$ 0	\$ 0	\$ 0
Federal Funds	0	0	0	0
Other Funds (State Stores)	194,235	204,158	212,921	8,763
Total	\$194,235	\$204,158	\$212,921	\$ 8,763

<b>Fixed Assets</b>				
State Funds	\$ 0	\$ 0	\$ 0	\$ 0
Federal Funds	0	0	0	0
Other Funds (State Stores)	13,276	14,071	13,704	(367)
Total	\$ 13,276	\$ 14,071	\$ 13,704	\$ (367)

<b>Grants and Subsidies</b>				
State Funds	\$ 0	\$ 0	\$ 0	\$ 0
Federal Funds	0	0	0	0
Other Funds (State Stores)	1,500	1,500	3,200	1,700
Total	\$ 1,500	\$ 1,500	\$ 3,200	\$ 1,700

**EXECUTIVE AUTHORIZATION:**  
**GENERAL OPERATIONS (AGENCY TOTAL)**

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**III. HISTORY OF LAPSES**

(\$ Amounts in Thousands)

<u>Fiscal Year</u>	<u>Authorization</u>	<u>Lapse</u>
2015-16	\$516,618	\$19,130
2014-15	\$484,958	\$ 5,960
2013-14	\$452,970	\$12,074

**IV. COMPLEMENT INFORMATION**

	<u>Dec. 31, 2015</u>		<u>Dec. 31, 2016</u>		<u>Budgeted</u>	
	<u>Authorized</u>	<u>Filled</u>	<u>Authorized</u>	<u>Filled</u>	<u>Authorized</u>	<u>Filled</u>
State Funds	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Other Funds (State Stores)	3,270	3,104	3,395	3,138	3,395	3,055
<b>Total</b>	<b>3,270</b>	<b>3,104</b>	<b>3,395</b>	<b>3,138</b>	<b>3,395</b>	<b>3,055</b>
<u>Salary</u>						
# Positions	3,270		3,395		3,395	
Salary	139,878,000		140,108,000		150,875,000	
Benefits	126,017,000		128,855,000		141,146,000	
% Benefits	90.1%		92.0%		93.6%	
<u>Wage</u>						
# Positions	2,720		3,076		3,046	
Wages	32,208,000		33,788,000		36,357,000	
Benefits	9,504,000		15,905,000		12,362,000	
% Benefits	29.5%		47.1%		34.0%	
<u>Total</u>						
# Positions	5,990		6,471		6,441	
Salary/Wages	172,086,000		173,896,000		187,232,000	
Benefits	135,521,000		144,760,000		153,508,000	
% Benefits	78.8%		83.2%		82.0%	

**V. PROGRAM DESCRIPTION**

In conformance with the Pennsylvania Liquor Code, The Pennsylvania Liquor Control Board (PLCB) serves as the commonwealth's responsible seller of wines and spirits, regulates Pennsylvania's beverage alcohol industry, and promotes social responsibility and alcohol education, while maximizing financial returns for the benefit of all Pennsylvanians. Funds to cover the general operating expenditures of the Liquor Control Board are generated by the sale of wine and spirits and come from the State Stores Fund.

The PLCB regulates the manufacture, importation, sale, distribution, and disposition of alcohol in the commonwealth. The agency does not sell malt and brewed beverages, rather it regulates those sales through the licensing of distributors and other retailers. The agency is responsible for wholesale operations of wine and spirits, which licensees may pick up from state-operated Fine Wine & Good Spirits retail stores or licensee service centers, or have wine and spirits delivered from PLCB distribution centers. All package sales of spirits in Pennsylvania, with the exception of those sold at licensed distilleries, are made through Fine Wine & Good Spirits stores operated by the PLCB. Most wine sales are also made through the PLCB's more than 600 Fine Wine & Good Spirits stores, although wine can now also be purchased – in limited quantities – from properly licensed and permitted private market retailers.

In 2016, the most comprehensive changes to Pennsylvania's Liquor Code since Prohibition were signed into law, transformatively changing the beverage alcohol landscape in Pennsylvania. Among the most significant changes brought about by Acts 39, 85 and 166 of 2016 were direct shipping of wine to residents; wine-to-go sales at restaurant and hotel licensees, including grocery and convenience stores; Pennsylvania Lottery sales and expanded Sunday and holiday hours at Fine Wine & Good Spirits stores; new marketing opportunities including a customer relations management program; and distributors' ability to sell beer in any size package, including six packs, growlers and single bottles.

The changes are voluminous and affect not only licensees, but also how the PLCB conducts its business operations in general, along with its revenues and profits.

For FY 2017-18, the PLCB is submitting a budget request of \$570,565,000 for the general operations of the PLCB, which is funded through an executive authorization to spend from revenues of the State Stores Fund. This request will allow the Board to continue to operate more than 600 retail stores, which provide wines and spirits to the consuming public and licensees, and three distribution center locations, which deliver wines and spirits to both PLCB stores and licensees. This request represents an increase of \$32,180,000 or 6.0% from the fiscal year 2016-17 Executive Authorization of \$338,385,000. This request has an increase of \$22.1 million for personnel services (+6.9%). Salary and wage increases of \$13.3 million (\$7.7%) reflect the costs for contract changes, the October/2016 (2.75%) GSI and Management pay schedule changes (4%) and the July/2017 GSI (2.0%), as well as the full-year cost for the complement increase (125 salaried positions) for Act 39. Benefit rate changes account for the remaining 8.8 million (6.0%) requested increase for personnel services.

This request reflects an increase of \$8.8 million for operational expenses (+4.3%). Store leases, credit and debit card usage fees, and freight and warehousing costs are directly correlated to our sales growth of 4% over the last few years. Act 39's wine-to-go provision has already added several hundred licensed wine-to-go retailers utilizing the PLCB's direct delivery program. This change is expected to significantly increase the number of warehouse deliveries and be a cost-driver of PLCB freight and warehousing costs. These three operating expense items represent nearly \$140 million or two-thirds of the PLCB's operational expense request. The grants increase of \$1.7 million to \$3.2 million reflects the two new \$1 million grants created by Act 39 for the PA Malt and Brewed Beverage Board and the PA Wine Marketing and Research Program Board, in addition to the long-standing alcohol education grants. Several other ongoing business needs that are critical to the PLCB's continued growth and successful implementation of 2016 statute changes are noted in the FY 2017-18 initiatives below.

### **FY 2017-18 Initiatives**

Implementation and continued support of the changes and initiatives resulting from Acts 39, 85 and 166 of 2016 will be a multi-year commitment to the following business operations: developing and growing a Wholesale Operations division in support of wine-to-go sales by licensed, permitted private retailers; expanding Sunday store openings and hours; implementing and supporting Pennsylvania Lottery sales in more than 300 stores; negotiating more competitive product acquisition costs with wine and spirits suppliers on an ongoing basis; development of a new Special Liquor Order (SLO) sales process; development of a customer relationship management (CRM) program; regular auctions of expired restaurant liquor licenses; and continued licensing support of new license types and processes (wine expanded permits and reports, direct wine shipper licenses and reports, license surcharge, "E" to "R" conversions, casino licenses and other changes). These acts required changes to our licensing system (PLCB+) and our Oracle systems, most of which are expected to be completed during FY 2016-17. All of the costs of these system changes have not been completely identified and were not explicitly funded in the FY 2016-17 re-budget request. Some of the PLCB's planned 2016-17 initiatives will possibly be deferred due to staffing and resource limitations and the focus to implement the Act 39 changes. Although all of the FY 2017-18 initiatives listed below (except Support Services) were also listed as FY 2016-17 projects/initiatives, the funds requested for FY 2017-18 do not reflect any expected deferrals of efforts on these particular projects. As costs are more clearly quantified, a review of these changes and other FY 2016-17 projects/initiatives will be performed to determine if supplemental spending authorization is needed for FY 2016-17.

The PLCB transferred \$1.5 million in funds to DGS in FY 2015-16 for the capital project to replace the NWOB's existing fire alarm system. However due to delays with DGS, this project is not expected to be started until 2017. Due to extended nature of that project, the replacement of the NWOB's windows (\$1.5M) is being deferred until FY 2018-19.



**EXECUTIVE AUTHORIZATION:  
GENERAL OPERATIONS (AGENCY TOTAL)**

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Initiative	FY 17-18	
	\$ (Mill)	
Support Services (POS, RMS & EBS)	3.0	*
e-Commerce Consolidations (ie Public Sites Enhancements)	1.6	*
IBMS Upgrade/Patching	1.5	
Data Insights (Retail/EBS/ Data Whse Replacement)	1.5	
Customer Relationship Mgmt (CRM)	1.5	
Video Surveillance System (VSS)	1.5	*
Retail Point of SALES (POS) Enhancements	0.4	
	<u>\$11.0</u>	

\* projects/initiatives started in FY 16-17

The PLCB remains committed to customer service excellence and social responsibility in all facets of our operation while maintaining a strong revenue stream for the Commonwealth.

The primary revenue source for the State Stores Fund is the PLCB's sale of wine and spirits. Sales and tax revenue in fiscal year 2015-16 totaled \$2.431 billion, an increase of \$95.1 million or 4.1% over fiscal year 2014-15. Sales for 2016-17 and 2017-18 are projected to grow at an annual compounded rate of 4.7%. Given the significant changes brought about to Pennsylvania's beverage alcohol marketplace in the second half of 2016, meaningful long-term sales projections cannot be made until time allows consumer purchase patterns and sales trends to change, develop and be measured.

These revenues cover the cost of merchandise inventory maintained and sold at the stores and all costs of operating the PLCB. After payment of these operating expenses, the PLCB generated \$583.6 million in profit transfers and taxes, the PLCB also covers the costs of the PA State Police Bureau of Liquor Control Enforcement, which in fiscal year 2015-16 was \$26.1 million vs. \$25.7 million the previous year. Additionally, \$3.3 million was allocated to the Pennsylvania Department of Drug and Alcohol Programs, \$4.6 million in license fees was returned to local municipalities, and \$8.7 million in local sales tax was collected and fully remitted to Philadelphia and Allegheny counties.

Although Act 39 and Act 85 provided enhancements of State Stores Fund revenue sources through new licenses and a license surcharge, the auction of expired restaurant licenses, pricing flexibility and expanded Sunday sales, they also decreased State Stores Fund revenues with SLO mark-up reductions, the loss of sales tax commissions and the threat of wine sales cannibalization by private retailers. Additionally, Act 39 created two new grant programs funded from the State Stores Fund. Some of the revenues to be achieved through the 2016 liquor law changes likely won't be realized

**EXECUTIVE AUTHORIZATION:**  
**GENERAL OPERATIONS (AGENCY TOTAL)**

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at all (casino liquor license revenue) or until additional time passes. Revenue from the first restaurant license auction will not be collected until near the end of FY 2016-17, it will take time and continual negotiations to gain significant concessions through flexible pricing, a customer relations management program won't deliver dividends until FY 17-18 or FY 18-19, and consumers' adaptations to expanded Sunday hours and Pennsylvania Lottery sales in Fine Wine & Good Spirits stores will take time to develop.

For fiscal year 2016-17, the PLCB will transfer a combined \$216.4 million including regular profit and enhanced proceeds from Act 39, but to do so will require a one-time withdrawal of State Stores Fund cash reserves for a portion of the transfer. For fiscal year 2017-18, the PLCB plans to transfer \$185.1 million including State Stores Fund profits, Act 39 enhanced proceeds and Pennsylvania Lottery commissions.

**V.1. PROGRAM DESCRIPTION – Performance Measures**

The most effective program performance measures used by the Liquor Control Board are those that report the financial results of the business enterprise we operate. Monthly financial statements prepared in accordance with Generally Accepted Accounting Principles provide information on gross sales, taxes collected, cost of goods sold, operating expenses, and net income. Those financial results are measured against established goals, reviewed by management, and appropriate action taken. With the ERP-based operating system, the Board has developed dashboard measures and key performance indicators that enhance the Board's ability to control expense growth through increased visibility on variances from planned expense and revenue goals as well as having the necessary data stream to maximize returns on product investment and placement. New tools have been developed for improved forecasting of income and cash flow. In addition to financial information, various other performance measures are regularly reported to PLCB operating managers. Increased use of business ratios, such as Expense to Net Sales and Sales per Square Foot, are utilized for comparative purposes with increased emphasis on market impact of store relocations, closings and openings to maximize service level to the customer base. Comparative measures are utilized to monitor daily store performance by tracking sales challenges, inventory shrink and other measures. Models have been developed to analyze the effectiveness of our advertising expenditure allowing us to maximize advertising benefits.

The PLCB devotes significant resources to improve the efficiency of regulatory services to licensees. Program performance measures used include the number of applications processed, turnaround time, inquiries handled personally or by telephone, fees processed and detailed monitoring of investigative activities. Our alcohol education and abuse prevention programs continue to grow and improve. Measures of program performance include the number of owners/managers/servers completing Responsible Alcohol Management Training (RAMT) seminars and number of alcohol education materials distributed to the targets of our various alcohol education programs as well as definable measurements for activities funded through our grant programs.

**V. 2. Recent Legislative Changes – Act 39 and Act 85 of 2016**

Act 39 of 2016 made historic reforms to the Pennsylvania Liquor Code and represents the most expansive change to the state's liquor laws since the end of Prohibition. From product procurement and marketing, to wholesale operations and licensing, Act 39 transformed the PLCB and the alcoholic beverage industry in Pennsylvania. With only 60 days to establish the necessary infrastructure and policies, the PLCB immediately set to work to ensure the Act was quickly and successfully implemented.

Given the significant breadth of the Act 39 reforms across the business and regulatory areas of the agency, the PLCB recognized the need for organizational changes to effectively manage resources and align our agency structure with the opportunities provided by the Act. The PLCB established a Program Management Office and contracted with a project manager to track tasks, budgets and progress for each Act 39 deliverable. A new Office of Wholesale Operations was created to manage the new wine-to-go wholesale business. We contracted with a consultant to advise the agency on the development and implementation of pricing policies, and we hired a full-time pricing coordinator to manage and execute pricing strategies and to assist the product selection category managers in supplier negotiations. We hired a consultant to assist the agency with developing its customer relationship management (CRM) program.

**I. LICENSE APPLICATIONS**

Before a single bottle of wine could be shipped under the new direct wine shipper license or sold under a wine expanded permit, the PLCB had to create the licensing applications for all new licenses and permits that the act created. Prior to the bill being signed into law, the PLCB began a transition to an online regulatory and licensing system, known as PLCB+, which allows licensees to apply for permits and licenses 24/7 and has made the application process paperless. The myriad of licensing changes made by Act 39 required technical modifications to PLCB+. The PLCB's Bureau of Licensing coordinated with our vendor, CompuTronix, to make all the necessary changes before the effective date of the Act without any disruption to current licensing operations.

On August 8, 2016, the effective date of the Act, Licensing began accepting applications through PLCB+ for wine expanded permits, direct wine shipper licenses, eating place license conversions, casino liquor licenses, and a number of new permits for Pennsylvania producers. The task then turned to evaluating, investigating and approving all of these new permits and licenses. The efficiencies created by PLCB+ helped to ensure prompt implementation of the licensing provisions of Act 39.

As of February 17, 2017, the tally of major new license and permit applications is:

- Wine Expanded Permits: 414 applications received and 380 issued
- Direct Wine Shipper Licenses: 907 applications received and 854 issued
- Casino Liquor Licenses: 0 applications received
- Eating place license conversions: 36 applications received and 31 approved

## **II. WINE EXPANDED PERMITS / WHOLESALE OPERATIONS**

The advent of wine-to-go sales by permit holders created a new wine wholesale business for the PLCB. The agency established the Office of Wholesale Operations to act as a liaison to holders of wine expanded permits. In addition to a director, this office consists of three wholesale business developers who manage the wholesale business accounts and serve as a resource to address the needs of our wholesale customers. In early August 2016, the PLCB started meeting with grocery chains to begin collaboratively planning for wine-to-go sales across Pennsylvania. As a result of these meetings, a pilot program was developed to test and refine processes for forecasting product needs, planning replenishment orders and delivering wine.

Currently, Wholesale Operations is collaboratively working with holders of wine expanded permits, including approximately 173 grocery stores and 21 convenience stores currently selling wine-to-go. Based on sales data through February 18, approximately 2 million units of wine have been sold to permit holders, representing almost \$22 million in sales.

Planning is the key to success as the PLCB adjusts its product procurement plans to accommodate both its Fine Wine & Good Spirits retail customers and wine expanded permit holders. The PLCB's Licensee Online Order Portal (LOOP) and the Licensee Delivery Program (LDP), both developed in 2015, are essential to efficiently serving our licensed customers. Licensees submit orders through LOOP, which can be done online 24/7 at the convenience of the licensee. Wholesale customers receive product either by direct delivery from a PLCB distribution center or by designating a Licensee Service Center as the pick-up location.

Further, in partnership with one of the licensed grocery store chains, the PLCB piloted a backhaul program that allows a wholesale customer to pick up product at a PLCB distribution center and route it through their supply chain. This program reduces transportation costs and adds efficiencies for both the PLCB and the wholesale customer. This is just one example of how the agency is collaborating with our customers to improve processes and efficiency.

III. SUNDAY SALES

Act 39 allows the PLCB to open as many of its Fine Wine & Good Spirits stores on Sundays as deemed appropriate, and it gave the agency complete discretion over hours of operation. Before Act 39, the PLCB could only open 25% of its stores on Sundays, and only from noon to 5 p.m. The PLCB has aggressively moved to enhance consumer convenience through the opening of additional stores on Sundays. Prior to Act 39, we operated 188 stores on Sundays. That number now stands at 331 as of February 21, 2017, representing more than 50% of the PLCB's stores. Further, the PLCB has expanded Sunday store hours at those locations to 11 a.m. to 7 p.m. We will assess whether additional locations and expanded hours are necessary in the future, especially during the busy holiday season, to accommodate demand and enhance consumer convenience.

IV. LOTTERY SALES

The sale of Pennsylvania Lottery tickets at Fine Wine & Good Spirits stores was also authorized by Act 39. The PLCB acted rapidly to establish the necessary infrastructure to implement this provision. The PLCB began discussions with the Pennsylvania Lottery in 2015 to develop the necessary requirements and procedures in anticipation of legislative authorization to permit lottery sales. Consequently, the PLCB was well-positioned to quickly execute this opportunity. As a result, as of February 21, 2017, there were 312 Fine Wine & Good Spirits stores with Lottery machines. Proceeds from Lottery sales are deposited initially into the State Stores Fund and are then subsequently transferred to the General Fund.

V. DIRECT SHIPMENT OF WINE

Act 39 allows in-state and out-of-state wine producers obtaining a direct wine shipper license to sell and deliver up to 36 cases of any wine per year to a resident's home or business address for his or her personal consumption. As of February 17, 2017, 854 licenses had been issued to both in-state and out-of-state wine producers. Direct wine shipments are subject to the 6% sales tax and a \$2.50 per gallon Wine Excise Tax. Pursuant to Act 39, proceeds from the Wine Excise Tax are paid directly to the Department of Revenue by the licensee, (i.e. - the taxes do not pass through the State Stores Fund).



**VI. AUCTION OF EXPIRED LICENSES**

Act 39 of 2016, and subsequently Act 85, provided the PLCB with the authority to auction about 1,200 restaurant licenses that expired or lapsed since the year 2000. Act 85 gave the PLCB the discretion to decide how and when these auctions should be conducted. The first auction was publicly announced in September. The auction was conducted through a sealed bid process and consisted of 40 licenses in 21 different counties.

The sealed bids were publicly opened on October 31, 2016. Bids were received for 37 of the 40 licenses. Notices of Selection were sent out to the highest bidders, who had until mid-November to submit bid payments or withdraw and allow the PLCB to proceed to the second highest bidder. Winning bids ranged from \$51,500 for a license in Somerset County to \$556,000 for a license in Cumberland County. Assuming that all 37 license applications are received and approved, approximately \$7.79 million in revenue will come out of escrow and be deposited into the State Stores Fund and then subsequently transferred to the General Fund.

A second auction is planned for March 2017. This auction will include 50 expired licenses in 48 counties from a more diverse selection of counties to test the markets in those respective locations. Bids are due March 3, 2017, and the winners will be determined the following week.

The initial auctions are intended to test the license marketplace in the various counties and determine how the licenses were received, as well as the process itself. The PLCB did not want to flood the market with too many licenses at once and risk the devaluation of current licenses, or fail to maximize the financial return to the Commonwealth from the auction.

**VII. PRICING**

Prior to Acts 39 and 85, the Liquor Code limited the ability of the PLCB to use its economies of scale – as one of the largest buyers of wines and spirits in the world – to negotiate product acquisition costs or assess different markups on products. These restrictions on pricing largely stemmed from the provision in the Liquor Code that mandated a proportional markup on items sold by the PLCB. As a result of the proportional pricing provision, the PLCB was required to apply an equal percentage markup across its product portfolio. For listed items sold in our stores, suppliers used the uniform markup structure to work backward from their manufacturer's suggested retail price (MSRP) to arrive at the product acquisition costs quoted to the PLCB. Acquisition costs were not negotiated at all, and the formulaic approach favored suppliers who were able to manipulate the formula.

Acts 39 and 85 provided exceptions to the proportional pricing mandate the PLCB's best-selling, limited purchase, and discontinued items. Act 39 authorized the PLCB to "price its best-selling items and limited purchase items in a manner that maximizes the return on the sale of those items." Act 85 further defined "best-selling items" as "the 150 most sold brands and product types of wine and the 150 most sold brands and product types of liquor as measured by the total number of units sold on a six-month basis calculated every January 1 and July 1." The 150 best-selling items, as defined by Act 85, include 86 percent of the PLCB wine portfolio and 91 percent of the spirits portfolio (by unit sales). These provisions allow our buyers to individually negotiate product acquisition costs and retail shelf prices with suppliers to maximize financial returns to the Commonwealth and achieve more competitive retail prices.

PLCB product selection category managers conducted individual meetings with more than 80 suppliers of products eligible for flexible pricing under Acts 39 and 85. These meetings consisted of a review of the changes in the Liquor Code resulting from Acts 39 and 85; discussion of the opportunities for volumetric sales growth; and an examination of each supplier's portfolio of items eligible for flexible pricing with regard to product acquisition costs, sales volume and retail price. Category managers asked each supplier to consider lowering costs for each item identified as having opportunity for a reduced cost based on analysis of the data we obtained. Conversations included discussion of how to achieve these reductions through marketing plan changes, sale price allowance adjustments and innovative marketing to achieve sales growth. The PLCB approached each pricing meeting and negotiation as a collaborative partnership with each supplier, seeking to establish costs that are fair to all parties. Each supplier was asked to formally respond to our request for lower costs. While many suppliers embraced the new pricing laws and have negotiated costs in good faith, some refused to respond to the PLCB's initial negotiations, including some of the state's largest vendors of top-selling products. As a result, the Board members took the next step of individually meeting with these suppliers to discuss pricing and engage in meaningful dialogue on reducing acquisition costs.

The PLCB will, on a perpetual basis, negotiate with all suppliers subject to flexible pricing in order to achieve lower cost of goods while achieving competitive pricing and maximizing Commonwealth revenue.

With regard to items ordered via Special Liquor Order (SLO), Act 39 capped the PLCB's markup on such items to not more than 10% of the cost of acquisition. For the licensees, the Act also removed the statutory 10% discount that licensees receive for such purchases. In accordance with the provisions of Act 39, the PLCB changed the prices in its system for SLO items effective August 8, 2016.

#### VIII. FUTURE IMPLEMENTATION

Two significant provisions of Act 39 are planned for future implementation: (1) the creation of a customer relationship management (CRM) program; and (2) the development of a new special liquor order (SLO) platform that accommodates direct delivery from suppliers.

Act 39 specifically allows the PLCB to develop a customer relationship management (CRM) program, which often incentivizes membership and grows sales through loyalty programs and coupons. The PLCB is currently evaluating options in developing a CRM program for Fine Wine & Good Spirits.

The PLCB will also be completing the development of a new system for processing Special Liquor Orders (SLOs). Act 39 limited the PLCB's markup on SLO items to 10% of the cost of the item, and also allowed orders to be sent directly to the customer rather than requiring SLOs to be picked up from Fine Wine & Good Spirits stores. The new SLO platform will replace the current system in which SLOs are placed by individual consumers or vendors by phone or directly at a Fine Wine & Good Spirits store. It will also allow, in accordance with Act 39, shipment of SLO orders directly to the customer if the vendor permits delivery.

VI. EXPLANATION OF CHANGES

(\$ Amounts in thousands)

PERSONNEL

1. Increased funding for cost of Commonwealth-negotiated employee direct and indirect compensation 22,084

Subtotal – Personnel Change: 22,084

OPERATING EXPENSE

1. Increased funding for assorted operational expenses including freight, store rent, and credit/debit card fees 8,763

Subtotal – Operating Expense Change: 8,763

FIXED ASSETS

1. Slightly decreased funding for information technology capital spending (367)

Subtotal – Fixed Asset Change: (367)

GRANTS

1. Increased funding request for Alcohol Education Grants to Schools and Municipalities 1,700

Subtotal – Grants Change 1,700

State Stores Fund - Total Change: 32,180

VII. OTHER INFORMATION

1. FY 2015-16 Obligations – There was no carryover of FY 15-16 obligations into FY 16-17.
2. FY 2016-17 Supplemental Authorization – No request for supplemental funding for FY 16-17 has occurred as of February 15, 2017.
3. Restricted Receipts – No restricted receipts are received or budgeted for the general operations of the Liquor Control Board.

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VIII. CONSULTING CONTRACTS1. FISCAL YEAR 2015-16

2015-16	63002655	\$	188,264.00	SkillNet Solutions, Inc. 1151 Sonora Court, Suite 2 Sunnyvale, CA 94086	Provide installation, configuration, and deployment services for Oracle Retail Point of Service solution
2015-16	63009040	\$	832,063.69	Deloitte Consulting LLP 300 Corporate Center Drive Camp Hill, PA 17011-1760	Update Oracle application stack to the latest available approved patch and provide ongoing
2015-16	63009401	\$	70,623.00	Pennsylvania State University Facilities Engineering Services University Park, PA 16802	Energy and engineering surveys to improve energy management for PLCB owned and leased sites application support services
2015-16	63009409	\$	13,500.00	Healthier Resources Inc. 211 W. Matthews Suite 203 Matthews, NC 28105-1310	Operational/BI Reporting and Communications Lead to serve as a Subject Matter Expert during the Oracle Upgrade project
2015-16	63009668	\$	467,645.48	Momentum, Inc. 2120 Market St., Suite 100 Camp Hill, PA 17011	Deliver and monitor web based training through subscription based web application for bars, clubs, and restaurants
2015-16	63010541	\$	219,149.85	Avantce RSI, LLC 1111 Broadhollow Rd., Suite 100 Farmingdale, NY 11735-4819	Provide support, upgrades, and other services for Robocon Inventory Management System software, hard- ware, and equipment at the PLCB's three Distribution Centers

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VIII. CONSULTING CONTRACTS

## 1. FISCAL YEAR 2015-16 (continued)

2015-16	63010878	\$	55,666.00	AAMVA 4301 Wilson Blvd., Ste. 400 Arlington, VA 22203-1867	Network connectivity through online data exchange through AAMVA's VAN enabling secure electronic transmission of liquor purchase orders to liquor vendors
2015-16	63011078	\$	96,000.00	Grinsfelder Software Company DBA Wineconnect, Inc 1330 Quincy St. NE, Suite 301 Minneapolis, MN 55413-1541	Provide a multi-tiered wine and spirits data services for all PLCB products
2015-16	63011124	\$	891,759.28	ACI Worldwide Corp. 6060 Coventry Drive Elkhorn, NE 68022	Software license for payment switch services and recurring costs for debit, credit and gift cards
2015-16	63011140	\$	14,000.00	CBCC P. O. Box 2447 Boothwyn, PA 19061-8447	Support for Customs software enabling Comptroller to transmit PLCB import product shipment data to Homeland Security and FDA for clearance
2015-16	63011180	\$	7,425.60	Dell Marketing, LP 4319 Collections Center Dr. Chicago, IL 60093-0001	Software assurance for Microsoft VLA Center Configuration Manager. Assess deploy and update servers and devices

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**VIII. CONSULTING CONTRACTS**

**1. FISCAL YEAR 2015-16 (continued)**

2015-16	63012322	\$	2,027,204.26	Computronix USA, Inc 3900 S. Wadsworth Blvd. Suite 510 Lakewood, CO 80235-2208	Provide scalable, hosted Regulatory Affairs software system that is a single gateway for businesses and individuals to apply for and manage beverage alcohol licenses and permits.
2015-16	63012837	\$	29,000.00	CliftonLarsonAllen, LLP 945 E. Park Drive, Suite 202 Harrisburg, PA 17111-2804	Provide ERP controls validation services
2015-16	63013294	\$	874,794.96	Deloitte Consulting LLP 300 Corporate Center Drive Camp Hill, PA 17011-1760	Migrate PL/CB applications to OA Data Centers
2015-16	63013356	\$	2,656.00	Tierney & Partners, Inc. DBA Tierney Communications 200 S. Broad St., 10 <sup>th</sup> Floor Philadelphia, PA 19102	Oversee production and associated costs for radio advertisements by third party companies
2015-16	63013422	\$	40,941.00	Tierney & Partners, Inc DBA Tierney Communications 200 S. Broad St., 10 <sup>th</sup> Floor Philadelphia, PA 19102	Holiday advertising campaign planning and reporting



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**VIII. CONSULTING CONTRACTS****1. FISCAL YEAR 2015-16 (continued)**

2015-16	63013564	\$	42,500.00	Verifone, Inc. 4060 Solutions Center Lockbox 774060 Chicago, IL 60677-4000	Provide consulting and knowledge transfer services to maintain, support and monitor enterprise PIN pads as part of the mandated Point of Service upgrade
2015-16	63013700	\$	34,460.34	Computer Aid, Inc. 470 Friendship Road Harrisburg, PA 17111-2103	Database administrator to design, develop, and implement databases to support ERP and Point of Service environments
2015-16	63013714	\$	1,032,076.00	SkillNet Solutions, Inc. 1151 Sonora Court, Suite 2 Sunnyvale, CA 94086	Provide Oracle ERP production support and enhancement services for PLCB Point of Sale Operations
2015-16	63013716	\$	968,750.00	KPMG, LLP 30 N. Third Street, Suite 200 Harrisburg, PA 17101	Provide Oracle ERP production support and enhancement services for PLCB financial operations
2015-16	63013717	\$	2,051,923.17	Deloitte Consulting LLP 300 Corporate Center Drive Camp Hill, PA 17011-1760	Provide Oracle production support and enhancement services
2015-16	63013725	\$	105,230.00	Computer Aid, Inc. 470 Friendship Road Harrisburg, PA 17111-2103	Staff augmentation senior program manager to assist with changes to eCommerce site

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**VIII. CONSULTING CONTRACTS**

**1. FISCAL YEAR 2015-16 (continued)**

2015-16	63013738	\$	111,469.16	Computer Aid, Inc. 470 Friendship Road Harrisburg, PA 17111-2103	Provide assistance to load product images into the Oracle Retail Management System
2015-16	63013772	\$	88,378.52	Computer Aid, Inc. 470 Friendship Road Harrisburg, PA 17111-2103	Database administrator to design, develop, and implement databases to support ERP and Point of Service environments
2015-16	63013773	\$	86,698.32	Computer Aid, Inc. 470 Friendship Road Harrisburg, PA 17111-2103	Provide a database administrator to design, develop, and implement databases to support ERP and Point of Service environments
2015-16	63013774	\$	86,698.32	Computer Aid, Inc. 470 Friendship Road Harrisburg, PA 17111-2103	Database assistance for the training environment to support PLCB training academies
2015-16	63013775	\$	49,846.36	Computer Aid, Inc. 470 Friendship Road Harrisburg, PA 17111-2103	Database administrator to support the ERP, Point of Service and warehouse environments
2015-16	63013767	\$	95,900.32	Computer Aid, Inc. 470 Friendship Road Harrisburg, PA 17111-2103	Architect to design, develop and implement application infrastructure

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**VIII. CONSULTING CONTRACTS**

**1. FISCAL YEAR 2015-16 (continued)**

2015-16	63013778	\$	156,388.75	Tierney & Partners, Inc. DBA Tierney Communications 200 S. Broad St., 10 <sup>th</sup> Floor Philadelphia, PA 19102	Strategic media consulting and enhanced digital experience for the Fine Wine & Good Spirits brand
2015-16	63013868	\$	73,395.00	Tierney & Partners, Inc. DBA Tierney Communications 200 S. Broad St., 10 <sup>th</sup> Floor Philadelphia, PA 19102	Strategic and execution support for social media planning and outreach
2015-16	63013945	\$	77,854.10	Computer Aid, Inc. 470 Friendship Road Harrisburg, PA 17111-2103	Senior data architect to plan, execute, and configure the Oracle Retail Management System Enterprise Data Quality Product Data Parsing and Standardization Module to expand cleansing current data
2015-16	63013985	\$	301,680.00	Venger Consulting, LLC 6807 Sparkling Way Wesley Chapel, FL 33545-4383	Provide Oracle and business expertise regarding the PLCB's Oracle installation
2015-16	63013996	\$	11,205.00	Appalachia Technologies 5012 Lenker Street Mechanicsburg, PA 17050	Assistance in configuration and administration of PLCB's internal networks

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**VIII. CONSULTING CONTRACTS****1. FISCAL YEAR 2015-16 (continued)**

2015-16	63013997	\$	62,472.87	Computer Aid, Inc. 470 Friendship Road Harrisburg, PA 17111-2103	Product specialist for the deployment of Payment Card and Point of Service upgrade rollout and support post deployment activities
2015-16	63013999	\$	103,125.40	Computer Aid, Inc. 470 Friendship Road Harrisburg, PA 17111-2103	Senior program manager to assist with changes to the PLCB's eCommerce site
2015-16	63014038	\$	74,513.25	Tierney & Partners, Inc. DBA Tierney Communications 200 S. Broad St., 10 <sup>th</sup> Floor Philadelphia, PA 19102	Prepare reports and conduct research to monitor PLCB advertising
2015-16	63014045	\$	57,124.00	Tierney & Partners, Inc. DBA Tierney Communications 200 S. Broad St., 10 <sup>th</sup> Floor Philadelphia, PA 19102	Oversee production and associated costs for radio advertisements by third party companies
2015-16	63014153	\$	3,477.64	Dell Marketing, LP 4319 Collections Center Dr. Chicago, IL 60093-0001	Provide standard support for PLCB Red Hat Linux servers
2015-16	63014169	\$	55,197.38	Computer Aid, Inc. 470 Friendship Road Harrisburg, PA 17111-2103	Provide assistance to the existing network management staff with troubleshooting tasks

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**VIII. CONSULTING CONTRACTS**

**1. FISCAL YEAR 2015-16 (continued)**

2015-16	63014245	\$	59,158.65	Computer Aid, Inc. 470 Friendship Road Harrisburg, PA 17111-2103	Support for Oracle Retail Sales Audit, Cash Management and Financial modules
2015-16	63014259	\$	419,979.55	Tierney & Partners, Inc. DBA Tierney Communications 200 S. Broad St., 10 <sup>th</sup> Floor Philadelphia, PA 19102	Plan and implement Holiday advertising and public relations campaigns
2015-16	63014260	\$	37,525.00	Tierney & Partners, Inc. DBA Tierney Communications 200 S. Broad St., 10 <sup>th</sup> Floor Philadelphia, PA 19102	Provide a third-party firm to conduct a brand engagement benchmark study for Fine Wine and Good Spirits Brand
2015-16	63014262	\$	110,003.00	Tierney & Partners, Inc. DBA Tierney Communications 200 S. Broad St., 10 <sup>th</sup> Floor Philadelphia, PA 19102	Oversee third-party companies to produce professional studio quality video productions to meet PLCB marketing objectives
2015-16	63014295	\$	35,000.00	Appalachia Technologies 5012 Lenker Street Mechanicsburg, PA 17050	Provide assistance in managing evidence for the Payment Card Industry's annual audit
2015-16	63014305	\$	33,750.00	TEAM Informatics, Inc. 3900 Northwoods Drive Suite 350 Arden Hills, MN 55112	Oracle WebCenter content support for the PLCB's websites and web applications

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**VIII. CONSULTING CONTRACTS**

**1. FISCAL YEAR 2015-16 (continued)**

2015-16	63014330	\$	9,800.00	Protech Professional Technical 610 Beatty Road Monroeville, PA 15146-1558	Provide training to PLCB IT development staff for PCI compliance
2015-16	63014331	\$	6,300.00	Protech Professional Technical 610 Beatty Road Monroeville, PA 15146-1558	Provide training to PLCB IT development staff for PCI compliance
2015-16	63014336	\$	33,000.00	Tierney & Partners, Inc. DBA Tierney Communications 200 S. Broad St., 10 <sup>th</sup> Floor Philadelphia, PA 19102	Provide talent payments for alcohol education spots
2015-16	63014339	\$	12,964.00	Johnson Controls, Inc. 5757 N. Green Bay Ave. Glendale, WI 53209-4408	Provide support for Metasys software to ensure that the Northwest Office Building is performing at optimal heating and cooling levels and achieving energy savings
2015-16	63014595	\$	212,115.00	Tierney & Partners, Inc. DBA Tierney Communications 200 S. Broad St., 10 <sup>th</sup> Floor Philadelphia, PA 19102	Provide strategic media consulting and improve digital experience for the Fine Wine & Good Spirits brand



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VIII. CONSULTING CONTRACTS1. FISCAL YEAR 2015-16 (continued)

2015-16	63014600	\$	94,255.20	OST, Inc. DBA Optimal Solutions Technologies, Inc. 2101 L St NW, Suite 800 Washington, DC 20037-1637	Provide assistance to the security team for security operations and vulnerability management
2015-16	63014603	\$	65,436.19	OST, Inc. DBA Optimal Solutions 2101 L St NW, Suite 800 Washington, DC 20037-1637	Provide support for Retail Sales General Ledger modules for Cash Management Audit (RESA)
2015-16	63014609	\$	92,440.72	OST, Inc. DBA Optimal Solutions 2101 L St NW, Suite 800 Washington, DC 20037-1637	Senior program manager to assist with changes to PLCB's eCommerce site
2015-16	63014611	\$	109,084.29	OST, Inc. DBA Optimal Solutions 2101 L St NW, Suite 800 Washington, DC 20037-1637	Senior program manager to assist with changes to PLCB's eCommerce site
2015-16	63014615	\$	83,976.48	OST, Inc. DBA Optimal Solutions 2101 L St NW, Suite 800 Washington, DC 20037-1637	Database administrator to support the ERP and Point of Service environments

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VIII. CONSULTING CONTRACTS1. FISCAL YEAR 2015-16 (continued)

2015-16	63014618	\$	83,976.48	OST, Inc. DBA Optimal Solutions 2101 L St NW, Suite 800 Washington, DC 20037-1637	Database administrator to support the ERP and Point of Service environments
2015-16	63014620	\$	84,007.02	OST, Inc. DBA Optimal Solutions 2101 L St NW, Suite 800 Washington, DC 20037-1637	Database administrator to support the ERP and Point of Service environments
2015-16	63014621	\$	53,912.10	OST, Inc. DBA Optimal Solutions 2101 L St NW, Suite 800 Washington, DC 20037-1637	Systems administration staff support the ERP, Point of Service, warehouse and other Unix/ Linux servers
2015-16	63014674	\$	49,227.24	OST, Inc. DBA Optimal Solutions 2101 L St NW, Suite 800 Washington, DC 20037-1637	Product specialist for assistance with the Point of Service upgrade project and support post deployment activities after office hours and weekends when stores are open
2015-16	63014681	\$	1,467.00	Synerg IT, Inc. 811 Camp Horne Road Pittsburgh, PA 15237-1282	Testing to validate security vulnerabilities previously identified were remedied

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VIII. CONSULTING CONTRACTS

1. FISCAL YEAR 2015-16 (continued)

2015-16	63014688	\$	39,396.45	OST, Inc. DBA Optimal Solutions 2101 L St NW, Suite 800 Washington, DC 20037-1637	Provide assistance to the existing network management staff for network troubleshooting tasks
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**EXECUTIVE AUTHORIZATION:**  
**GENERAL OPERATIONS (AGENCY TOTAL)**

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**VIII. CONSULTING CONTRACTS**

**2. FISCAL YEAR 2016-17**

2016-17	63002655	\$	1,151,864.00	SkillNet Solutions, Inc. 1151 Sonora Court, Suite 2 Sunnyvale, CA 94086	Installation, configuration, and deployment services for implementation of an Oracle Retail Point of Service solution
2016-17	63003518	\$	772,414.94	Pomerooy IT Solutions Sales Co. P. O. Box 631049 Cincinnati, OH 45263-1049	Installation of Point of Service hardware and software upgrade to all stores and training sites
2016-17	63009040	\$	832,063.59	Deloitte Consulting LLP 300 Corporate Center Drive Camp Hill, PA 17011-1760	Update Oracle application stack to the latest available approved patch and provide ongoing application support services
2016-17	63009401	\$	73,055.00	Pennsylvania State University Facilities Engineering Services University Park, PA 16802	Energy and engineering surveys to improve energy management for PLCB owned and leased sites
2016-17	63009409	\$	13,500.00	Healthier Resources Inc. 211 W. Matthews Ste 203 Matthews, NC 28105-1310	Operational/BI Reporting and Communications Lead to serve as a Subject Matter Expert during the Oracle Upgrade project
2016-17	63009668	\$	439,272.48	Monumentum, Inc. 2120 Market St., Suite 100 Camp Hill, PA 17011	Deliver and monitor web based training through a subscription based web application for bars

**EXECUTIVE AUTHORIZATION:**  
**GENERAL OPERATIONS (AGENCY TOTAL)**

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**VIII. CONSULTING CONTRACTS**

**2. FISCAL YEAR 2016-17 (continued)**

2016-17	63010541	\$	27,810.10	Avantce RSI, LLC 1111 Broadhollow Rd., Suite 100 Farmingdale, NY 11735-4819	Provide support, upgrades for Robocom Inventory Management software, hard- ware, and equipment at PLCB distribution centers
2016-17	63011078	\$	96,000.00	Grinsfelder Software Company DBA Wineconnect, Inc. 1330 Quincey St. NE, Suite 301 Minneapolis, MN 55413-1541	Provide a multi-tiered wine and spirits data and information service that includes extensive information on all PLCB products
2016-17	63011124	\$	913,387.68	ACI Worldwide Corp. 6060 Coventry Drive Elkhorn, NE 68022	Software license for payment switch services and recurring costs for debit, credit and gift cards
2016-17	63011140	\$	7,750.00	CBCC P. O. Box 2447 Boothwyn, PA 19061-8447	Support for Customs software enabling Comptroller to transmit PLCB import product shipment data to Homeland Security and FDA for clearance
2016-17	63012322	\$	1,017,004.90	Computronix USA, Inc 3900 S. Wadsworth Blvd. Suite 510 Lakewood, CO 80235-2208	Provide a scalable, hosted Regulatory Affairs software system that is a single gateway for businesses and individuals to apply for and manage beverage alcohol licenses and permits

**EXECUTIVE AUTHORIZATION:**  
**GENERAL OPERATIONS (AGENCY TOTAL)**

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**VIII. CONSULTING CONTRACTS**

**2. FISCAL YEAR 2016-17 (continued)**

2016-17	63012837	\$	29,000.00	CliftonLarsonAllen, LLP 945 E. Park Drive, Suite 202 Harrisburg, PA 17111-2804	Provide ERP controls validation services
2016-17	63013294	\$	874,786.14	Deloitte Consulting LLP 300 Corporate Center Drive Camp Hill, PA 17011-1760	Migrate PL/CB applications to new OA data centers
2016-17	63013422	\$	78,535.00	Tierney & Partners, Inc. DBA Tierney Communications 200 S. Broad St., 10 <sup>th</sup> Floor Philadelphia, PA 19102	Oversee holiday advertisement and public relations campaign
2016-17	63013564	\$	52,500.00	Verifone, Inc. 4060 Solutions Center Lockbox 774060 Chicago, IL 60677-4000	Provide consulting and knowledge transfer services to maintain, support and monitor enterprise PIN pads as part of the mandated Point of Service upgrade
2016-17	63013584	\$	1,239,644.75	Deloitte Consulting, LLP 300 Corporate Center Drive Camp Hill, PA 17011-1760	Gather detailed requirements and provide mass upload capabilities for Supply Chain data
2016-17	63013700	\$	36,460.34	Computer Aid, Inc. 470 Friendship Road Harrisburg, PA 17111-2103	Database administrator to design, develop, and implement databases to support ERP and Point of Service environments

**EXECUTIVE AUTHORIZATION:**

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**GENERAL OPERATIONS (AGENCY TOTAL)**

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**VIII. CONSULTING CONTRACTS****2. FISCAL YEAR 2016-17 (continued)**

2016-17	63013714	\$	1,903,999.00	SkillNet Solutions, Inc. 1151 Sonora Court, Suite 2 Sunnyvale, CA 94086	Oracle ERP production support and enhancement services for PLCB Point of Sale operations
2016-17	63013716	\$	1,558,440.00	KPMG, LLP 30 N. Third Street, Suite 200 Harrisburg, PA 17101	Oracle ERP production support and enhancement services for PLCB financial operations
2016-17	63013717	\$	2,007,595.95	Deloitte Consulting LLP 300 Corporate Center Drive Camp Hill, PA 17011-1760	Oracle production support and enhancement services for PLCB retail operations
2016-17	63013725	\$	105,230.00	Computer Aid, Inc. 470 Friendship Road Harrisburg, PA 17111-2103	Senior program manager to assist with changes to the PLCB's eCommerce site
2016-17	63013732	\$	48,301.00	Synerg IT, Inc. 811 Camp Horne Road Pittsburgh, PA 15237-1282	IT Security risk assessment services
2016-17	63013985	\$	427,500.00	Venger Consulting, LLC 6807 Sparkling Way Wesley Chapel, FL 33545-4383	Provide Oracle and business expertise regarding the PLCB's Oracle installation
2016-17	63014038	\$	26,766.25	Tierney & Partners, Inc. DBA Tierney Communications 200 S. Broad St., 10 <sup>th</sup> Floor Philadelphia, PA 19102	Prepare reports and conduct research to monitor PLCB advertising

EXECUTIVE AUTHORIZATION:  
GENERAL OPERATIONS (AGENCY TOTAL)

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VIII. CONSULTING CONTRACTS

2. FISCAL YEAR 2016-17 (continued)

2016-17	63014179	\$	5,000.00	First Data Merchant Svcs. 5775 Dtc Blvd, Suite 100 Greenwood Village, CO 80111	User acceptance and regression testing and certification of of Point of Sale equipment
2016-17	63015454	\$	1,132,564.00	Tierney & Partners, Inc. DBA Tierney Communications 200 S. Broad St., 10 <sup>th</sup> Floor Philadelphia, PA 19102	Blanket Purchase Order for project research planning and development for all TV, radio and print marketing, social media, email, web, B2B and admin 9/28/16 through 4/30/17



**EXECUTIVE AUTHORIZATION:**

Page # of Governor's Executive Budget:

**GENERAL OPERATIONS (AGENCY TOTAL)**

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**VIII. CONSULTING CONTRACTS****3. FISCAL YEAR 2017-18**

2017-18	63009668	\$	109,818.12	Momentum, Inc. 2120 Market St., Suite 100 Camp Hill, PA 17011	Deliver and monitor web based training through a subscription based web application for bars, clubs, and restaurants.
2017-18	63011078	\$	8,000.00	Grinsfelder Software Company DBA Wineconnect, Inc 1330 Quincy St. NE, Suite 301 Minneapolis, MN 55413-1541	Provide a multi-tiered wine and spirits data and information services on all PLCB products
2017-18	63013564	\$	52,500.00	Verifone, Inc. 4060 Solutions Center Lockbox 774060 Chicago, IL 60677-4000	Provide consulting and knowledge transfer services to maintain, support and monitor enterprise PIN pads as part of the mandated Point of Service upgrade
2017-18	63013985	\$	368,000.00	Venger Consulting, LLC 6807 Sparkling Way Wesley Chapel, FL 33545-4383	Provide Oracle and business expertise regarding the PLCB's Oracle installation

<b>EXECUTIVE AUTHORIZATION:</b>	<b>Page # of Governor's Executive Budget:</b>
<b>GENERAL OPERATIONS (AGENCY TOTAL)</b>	<b>Pp. E32.1-E32.8</b>

#### 4. INTERAGENCY AGREEMENTS

- a. Office of Administration – Agreement between OA and PLCB to allow PLCB to purchase Oracle Enterprise Software with the PLCB agreeing not to use certain software that the OA Technology Architecture Review Board deemed in conflict with the Commonwealth's enterprise standards. No cost to either party. Effective date of 9/05/08 with indefinite term.
- b. Department of General Services – Agreement for the PLCB to participate in consolidated warehousing and warehouse functions provided by DGS. As a cost savings move by the PLCB, all PLCB materials were removed from DGS warehousing locations on October 2015 and are being handled internal by the PLCB. The Interagency Agreement Memorandum of Understanding for warehousing remains in effect at no cost to PLCB in the event the PLCB has a future need to use DGS warehousing. Cost to PLCB was \$34,053 for FY 15-16 prior to the removal of PLCB materials from DGS warehousing. (Cost to PLCB for full FY 14-15 was \$202,075.)
- c. Department of General Services – Agreement for the PLCB to reimburse DGS for vehicle purchases. No cost to either party other than the cost of vehicles purchased by DGS and PLCB's reimbursement for that cost to DGS. Effective date of 8/29/2012 with indefinite term.
- d. Department of General Services – Agreement to transfer certain PLCB real estate responsibilities and staff to DGS. Effective 10/13/13 with indefinite term. FY 13-14 costs for PLCB were \$443,687.19, while FY 14-15 charges were \$681,566.36.
- e. Department of General Services – Agreement between the PLCB and DGS for the PLCB to pay a monthly proportional share of the payment obligation to DGS's contractor for installation and financing costs associated with energy conservation measures installed in the NWOB under DGS' contract to implement Pennsylvania's Guaranteed Energy Savings Act (GESA). Effective 10/9/10 and concurrent with the term of the Guaranteed Energy Savings Agreement.

**1. SUMMARY FINANCIAL DATA (Amounts in Thousands)**

<u>Total Funds - Transfer of Profits to the General Fund</u>			
	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>
State Funds	\$ 0	\$ 0	\$ 0
Federal Funds	0	0	0
Other Funds (State Stores)	<u>100,000</u>	<u>216,400</u>	<u>185,100</u>
Total	\$100,000	\$216,400	\$185,100

**2. Program Description**

This Executive Authorization provides the means by which profits from the operation of the State Liquor Stores are transferred from the State Stores Fund to the General Fund. The transfers are used for general appropriation purposes as provided by Act No. 412-1/2 of July 18, 1935, P.L. 1316. (Pardon's Title 47 P.S. § 744-907b).

**3. Other Information**

Historical Lapses	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>
	\$ 0	\$ 0	\$ 0

**EXECUTIVE AUTHORIZATION:  
PURCHASE OF LIQUOR**

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**1. SUMMARY FINANCIAL DATA (Amounts in Thousands)**

<u>Total Funds - Purchases of Liquor</u>			
	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>
State Funds	\$ 0	\$ 0	\$ 0
Federal Funds	0	0	0
Other Funds (State Stores)	<u>1,332,250</u>	<u>1,386,000</u>	<u>1,425,000</u>
Total	\$1,332,250	\$1,386,000	\$1,425,000

**2. Program Description**

This Executive Authorization is used only to purchase merchandise for resale in the Wine and Spirits stores.

**3. Other Information**

<u>Historical Lapses</u>		<u>(Amounts in Thousands)</u>	
	<u>Fiscal Year</u>	<u>Authorization</u>	<u>Lapse</u>
	2015-16	\$1,332,250	\$ 577
	2014-15	\$1,311,000	\$ 660
	2013-14	\$1,243,000	\$ 5,011

LIQUOR CONTROL BOARD  
COMPTROLLER OPERATIONS

The Executive Authorization for the Comptroller of the Liquor Control Board is included in the hearing materials prepared by the Governor's Office of the Budget. The Liquor Control Board has neither authority nor responsibility for the expenses incurred by the Office of the Comptroller.

# **State Stores Fund** **Statement of Cash Receipts & Disbursements Worksheet** (Dollar Amounts in Thousands)

	Actual FY 2015-16	AVAILABLE FY 2016-17	BUDGET FY 2017-18	Estimate FY 2018-19	Estimate FY 2019-20	Estimate FY 2020-21	Estimate FY 2021-22
<b>Treas. Cash Balance, Beginning</b>	241,702	275,395	183,496	162,822	167,152	198,765	255,132
<b>Receipts:</b>							
Fees/Fines	15,300	27,000	30,900	29,000	28,000	27,000	27,000
Expired License Auction Proceeds		7,400	15,500	14,000	12,500	11,000	9,500
Sale of Goods	1,962,153	2,050,400	2,149,300	2,250,527	2,355,046	2,451,986	2,564,706
Tax Revenues	492,325	514,700	539,500	564,900	591,100	615,400	643,700
Liquor Commissions		700	1,500	1,500	1,500	1,500	1,500
Other- Misc	1,821	2,003	2,003	2,003	2,003	2,003	2,003
Interest	893	893	893	893	893	893	893
<b>Total Receipts</b>	<b>2,472,492</b>	<b>2,603,095</b>	<b>2,739,596</b>	<b>2,862,823</b>	<b>2,991,042</b>	<b>3,109,782</b>	<b>3,249,302</b>
<b>Total Funds Available</b>	<b>2,714,194</b>	<b>2,878,491</b>	<b>2,923,092</b>	<b>3,025,645</b>	<b>3,158,194</b>	<b>3,308,547</b>	<b>3,504,435</b>
<b>Disbursements:</b>							
Treasury	0	0	0	0	0	0	0
Drug & Alcohol	1,672	2,500	2,500	2,500	2,500	2,500	2,500
Liquor purchases	1,316,412	1,386,000	1,425,000	1,475,000	1,526,000	1,571,000	1,626,000
LCB Expenses	496,769	538,385	570,565	593,385	617,124	641,810	667,483
Comptroller	5,551	5,419	5,690	5,690	5,690	5,690	5,690
Taxes	482,325	514,700	539,500	564,900	591,100	615,400	643,700
Transfer to General Fund *	100,000	217,100	185,100	185,100	185,100	185,100	185,100
State Police	26,070	30,891	31,915	31,915	31,915	31,915	31,915
<b>Total Disbursements</b>	<b>2,438,799</b>	<b>2,694,995</b>	<b>2,760,270</b>	<b>2,865,493</b>	<b>2,959,429</b>	<b>3,053,415</b>	<b>3,161,388</b>
<b>Treas. Cash Balance, Ending</b>	<b>275,395</b>	<b>183,496</b>	<b>162,822</b>	<b>167,152</b>	<b>198,765</b>	<b>255,132</b>	<b>243,047</b>

**Notes:**

Sales revenues differs from GAAP reported sales due to the inclusion of SLO freight (\$25M in FY15-16) and timing differences in revenue recognition, (Treasury vs GAAP). Available FY 16-17 reflects adjustments to receipts and disbursements for ACT 39.

\* Transfer to General Fund includes statutory, profit and lottery commission transfers.

**FY 2016-17**

1. Sales and tax revenues are projected to grow by 4.5% in 2016-17.
2. Liquor purchases are projected at \$1,386M as per the Expenditure Symbol Notification (ESN) letter #16-018 issued July 5, 2016 for Special Funds.
3. LCB expenses are projected at \$538.4M as per the Expenditure Symbol Notification (ESN) letter #16-018 issued July 5, 2016 for Special Funds.
4. PSP-LCE expenses are reflected at \$30.8M as per PSP's budget submission.
5. General fund transfers of \$217.1M include profits, enhanced proceeds and lottery commissions.

**FY 2017-18 & beyond**

1. Sales and tax revenues are projected to grow by approximately 4.7% annually, reflecting increased margin improvement.
2. Liquor purchases are projected to grow at 2.8% for FY 2017-18 budget request and then at 3.5% annually.
3. LCB expenses are projected to grow at 6.0% for FY 2017-18 budget request and then at 4.0% annually.
4. Expired license auction proceeds and license fees reflect gradual declines in revenues due reduced auction prices with market saturation and finite limits on "E to R" conversions, sakekeeping fees, etc.
5. General Fund (profit) transfer remains unchanged at \$185 million annually.

## PLCB GO TIME Initiatives

### FY 2016-2017

Project	Project Year	Direct Savings	New Revenue	Cost Avoidance	Productivity Savings	Less Expenses	Net Total Savings
Bandwidth Study	2015-16	\$157,000					\$129,352
Store Signage	2015-16				\$506,550	(\$27,648)	\$506,550
Print Shop Modernization	2016-17	\$134,000					\$134,000
DGS Warehouse Efficiency	2015-16	\$136,393					\$136,393
Eliminating Manugistics Software	2016-17	\$140,000					\$140,000
Excess Storage (Bailment)	2015-16	\$60,000					\$60,000
Filenet Retirement	2016-17	\$110,000					\$110,000
Forward Buying	2015-16			\$1,100,000			\$1,100,000

### FY 2015-2016

Project	Project Year	Direct Savings	New Revenue	Cost Avoidance	Productivity Savings	Less Expenses	Net Total Savings
Bandwidth Study	2015-16	\$117,666					\$117,666
Store Signage	2015-16				\$506,550		\$506,550
DGS Warehouse Efficiency	2015-16	\$121,403					\$121,403
Forward Buying	2015-16			\$1,300,000			\$1,300,000

- Bandwidth Study: Adjusted network bandwidth in stores to reduce costs.
- Store Signage: Optimized store sign creation and distribution to the individual needs of each store, thereby reducing waste.
- Print Shop Modernization: The PLCB purchased two production printers in Fiscal Year 2015-16 and the cost was offset through two retirements in Fiscal Year 2016-17. These printers added capability to back up the Department of General Services (DGS) print shop.

- DGS Warehouse Efficiency: Optimized store supplies distribution by eliminating the need for store supplies to be stored at DGS warehouses.
- Eliminating Manugistics Software: Eliminated the need for Manugistics software by building the capability into existing the ERP system.
- Excess Storage (Bailment): Optimized seasonal storage costs through increased bailment use.
- FileNet Retirement: The PLCB used FileNet for document management in support of licensing operations. As the PLCB transitioned to a hosted solution for licensing, the management of documents was included in that service. This eliminated the need for the PLCB to continue to maintain FileNet services.
- Forward Buying: Optimized liquor purchases for Fine Wine and Good Spirits stores ahead of product cost increases.



# FINANCIAL AUDIT

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## Commonwealth of Pennsylvania Liquor Control Board

State Stores Fund  
Liquor License Fund

### Audit Report

Harrisburg, Pennsylvania  
For the years ended June 30, 2016 and 2015

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December 2016



Commonwealth of Pennsylvania  
Department of the Auditor General  
Eugene A. DePasquale • Auditor General

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**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2016**  
**LIQUOR LICENSE FUND – JUNE 30, 2016**

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**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2016**  
**LIQUOR LICENSE FUND – JUNE 30, 2016**

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## **BACKGROUND**

### **Introduction**

The Pennsylvania Liquor Control Board (PLCB) is an entity of the Commonwealth of Pennsylvania (Commonwealth) authorized by law to regulate the sale and distribution of alcoholic beverages in the Commonwealth. Included within this mandate is the authority to establish, operate and maintain Pennsylvania Fine Wine & Good Spirits stores for the sale of liquor, including wine and spirits.

The PLCB serves as the Commonwealth's responsible seller of wine and spirits, regulates Pennsylvania's beverage alcohol industry and promotes social responsibility and alcohol education, while maximizing financial returns for the benefit of all Pennsylvanians.

### **History and Agency Overview**

With the end of Prohibition in 1933, various laws regarding alcohol regulation were passed by the Pennsylvania General Assembly, including the Liquor Control Act and the Beverage License Law. These laws created the PLCB. The statutory authority for PLCB is Act 21 of April 12, 1951, P.L. 90; as reenacted by Act 14 of June 29, 1987, P.L. 32. In conformance with the Pennsylvania Liquor Code, the PLCB regulates the manufacture, possession, sale, consumption, importation, use, storage, transportation, and delivery of wine, liquor, alcohol, and malt or brewed beverages in the Commonwealth.

Through fiscal year 2015–16 all package sales of wines and spirits in Pennsylvania, with the exception of those sold by licensed limited wineries and distilleries, were made through Fine Wine & Good Spirits stores operated by the PLCB. These included both retail sales to individual consumers and wholesale sales to licensed establishments where wines and spirits are sold by the drink. While malt and brewed beverages are not sold through the system, the PLCB does regulate those sales through the licensing of distributors, restaurants, hotels, supermarkets, and clubs that sell those beverages.

Additionally, the PLCB, in conjunction with the state Gaming Control Board, reviews applications and conducts background investigations of PLCB licensees wishing to obtain tavern gaming licenses.

On June 8, 2016, Governor Wolf signed Act 39 into law. Act 39 liquor reforms changed more than 35 sections of the Liquor Code and added a number of new sections – the most sweeping changes to liquor laws in Pennsylvania since the end of Prohibition in 1933. The law, which took effect on Aug. 8, 2016, will impact PLCB operations in the next fiscal year and beyond.

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**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2016**  
**LIQUOR LICENSE FUND – JUNE 30, 2016**

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**BACKGROUND (Continued)**

The PLCB, an independent administrative board, is comprised of three members who are appointed to staggered four-year terms by the Governor with the concurrence of two-thirds of the Senate. The Board is responsible for the management of the PLCB in the areas of directing the state-operated Fine Wine & Good Spirits stores and authorizing the licensing of establishments that manufacture or sell alcohol. The PLCB also provides a comprehensive program of alcohol education aimed at promoting responsible consumption and avoidance of abuse among legal consumers, and prevention of purchase and consumption by minors. The PLCB funds the operations of the Pennsylvania State Police Bureau of Liquor Control Enforcement, which is responsible for enforcing the liquor laws and regulations throughout the Commonwealth.

The PLCB is primarily responsible for the accounting and reporting of the Liquor License Fund and the State Stores Fund. The Liquor License Fund is an agency fund that serves as a pass-through account for fees for hotel, restaurant, and club liquor and/or beer licenses. These fees are returned semi-annually to the municipalities in which the licenses are located, while interest earned on fund deposits is credited to the General Fund.

The State Stores Fund is an enterprise fund that serves as the general operating fund for the PLCB. This fund receives revenues from the sale of goods, primarily through Fine Wine & Good Spirits stores, and various non-operating revenues including fees not credited to the Liquor License Fund. The State Stores Fund also covers the costs and expenses associated with the operation and administration of all PLCB functions as outlined and prescribed by the Pennsylvania Liquor Code and pays for services provided by other departments such as the Department of the Auditor General for auditing services and the Office of Comptroller Operations for personnel assigned to supporting the PLCB. In addition, the fund provides monies to the Pennsylvania State Police for enforcement of the Liquor Code, as noted above, and the Department of Drug & Alcohol Programs for alcohol abuse programs, and makes annual profit transfers to the General Fund.

The 18 percent liquor tax and 6 percent state sales tax collected by the PLCB are routinely transferred to the General Fund. Local sales taxes collected are remitted to Philadelphia and Allegheny County, as appropriate.

The PLCB operates over 600 Pennsylvania wine and spirits stores with gross annual sales in excess of \$2.43 billion for fiscal year 2015-2016, an increase of 4.1 percent over the previous fiscal year. As a result, the PLCB's return to the Pennsylvania General Fund and state Treasury also grew, including \$348.0 million in liquor tax, \$135.6 million in state sales tax and \$100 million operational profits transferred to the General Fund. Additionally, the PLCB provided \$26.1 million to fund Pennsylvania State Police liquor control enforcement efforts, afforded \$3.3

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**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2016**  
**LIQUOR LICENSE FUND – JUNE 30, 2016**

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**BACKGROUND (Continued)**

million to support the Pennsylvania Department of Drug & Alcohol Programs and returned \$4.6 million to local municipalities. Beginning in 2013, the Alcohol Education grants for reducing underage and dangerous drinking went to a two-year cycle. The amount awarded by the PLCB for first year grant funding in the two year grant cycle ending June 30, 2017 was \$1.1million.

**Key Facts**

- All tax moneys collected are transferred to the State Treasury. All revenues remaining, after payment of PLCB operating expenses and after required appropriations are made to other entities and Commonwealth agencies, are made available to be transferred to the State Treasury.
- The PLCB is the largest purchaser of wine and spirits in the United States, and passes significant volume purchase discounts on to customers.
- The PLCB operates over 600 stores, which are leased from private landlords.
- 100% of the required State and Local Sales Taxes are collected by the PLCB and reported to the Pennsylvania Department of Revenue.
- The state liquor tax of 18% is included in the shelf price of each item.
- The PLCB outsources warehousing services for 3 distribution centers in Pennsylvania.
- In fiscal year 2015-2016, PLCB processed slightly more than 71,000 license and permit applications.
- The PLCB has an established formal Bureau of Alcohol Education, which provides educational material to youth, legal consumers and beverage alcohol servers.
- The PLCB funds grants to colleges and universities, communities that host these institutions, municipalities, and their organizations such as law enforcement departments and non-profit organizations to develop and/or maintain environmental management prevention strategies and other proven prevention strategies to reduce dangerous and underage drinking.



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EUGENE A. DePASQUALE  
AUDITOR GENERAL

### **Independent Auditor's Report**

The Honorable Tom Wolf  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, PA 17120

The Honorable Tim Holden  
Chairman  
Pennsylvania Liquor Control Board  
Harrisburg, PA 17124

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Pennsylvania Liquor Control Board (PLCB) - State Stores Fund, which comprise of the Statements of Net Position as of June 30, 2016 and 2015, and the related Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows for the years then ended, and the related notes to the financial statements; and the PLCB - Liquor License Fund, which comprise of the Statements of Fiduciary Net Position as of June 30, 2016 and 2015, and the related Statements of Changes in Fiduciary Net Position for the years then ended, and the related notes to the financial statements.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

As discussed in Note A, the financial statements present only the PLCB and do not purport to, and do not, present fairly the financial position of the Commonwealth of Pennsylvania as of June 30, 2016 and 2015, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the PLCB-State Stores Fund and Liquor License Fund as of June 30, 2016 and 2015, and the results of the State Stores Fund's operations and its cash flows for the fiscal year then ended, and the Liquor License Fund's changes in assets and liabilities for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 10, schedule of PLCB contributions and schedule of PLCB's proportionate share of net pension liability on pages 36-37 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.


### ***Other Information***

The Background has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2016, on our consideration of PLCB's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PLCB's internal control over financial reporting and compliance.

December 6, 2016



Eugene A. DePasquale  
Auditor General



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**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2016**  
**LIQUOR LICENSE FUND – JUNE 30, 2016**

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**PLCB Management's Discussion and Analysis**

**Management's Responsibility for the Financial Statements**

PLCB management is responsible for the preparation, integrity and fair presentation of the Agency's financial statements. The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States and, as such, include amounts based on estimates and judgments by management. The PLCB maintains a system of internal controls which is designed to provide reasonable assurance that its financial statements are free from material misstatement due to fraud or error.

**Discussion of Basic Financial Statements**

The accounts of the State Stores Fund and the Liquor License Fund are reported using the accrual basis of accounting and on a fiscal year basis, comprised of 12 calendar months.

The basic financial statements included in this audit report are the State Stores Fund Comparative Statement of Net Position as of June 30, 2016 and 2015; State Stores Fund Comparative Statement of Revenues, Expenses and Changes in Fund Net Position for the fiscal years ended June 30, 2016 and 2015; State Stores Fund Comparative Statement of Cash Flows for the fiscal years ended June 30, 2016 and 2015; the Liquor License Fund Statement of Fiduciary Net Position for the fiscal years ended June 30, 2016 and 2015; and the Liquor License Fund Statement of Changes in Fiduciary Net Position for the fiscal year ended June 30, 2016 and June 30, 2015.

The State Stores Fund Comparative Statement of Net Position provides information about assets and liabilities and reflects the net financial position of the State Stores Fund at the end of each fiscal year. The Comparative Statement of Revenues, Expenses and Changes in Fund Net Position reports the operating revenue activity, expenses related to such activity and operating transfers out for each fiscal year. The Comparative Statement of Cash Flows outlines the cash inflows and outflows relating to the operations for each fiscal year. The Liquor License Fund Statement of Fiduciary Net Position provides information about assets and liabilities that reflect the position of the Liquor License Fund for each fiscal year end. The Statement of Changes in Fiduciary Net Position illustrates the net asset and net liability activity throughout the fiscal year. The basic financial statements also include Notes to Financial Statements that provide additional information that is essential to a full understanding of the data provided in the statements. These statements provide current and long-term information about the PLCB's financial position.

Although the liquor tax is incorporated into the retail price of products and is discussed herein as part of the sales analysis and transfers out, neither it nor the state and local sales taxes are reflected in the basic financial statements as revenue, expenses or liabilities.

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**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2016**  
**LIQUOR LICENSE FUND – JUNE 30, 2016**

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**PLCB Management's Discussion and Analysis (Continued)**

**Executive Summary & Highlights**

Fiscal year 2015-16 sales grew 4.1 percent over the prior year as a result of volume increases plus a minor increase in average retail price per unit. PLCB fiscal year 2015-16 net income of \$103.9 million was \$20.3 million, or 24.2 percent, greater than last year reflecting higher sales, a slight improvement in gross margin, relatively flat operating expenses and a decrease in combined non-operating revenues and expenses.

Other financial highlights include:

- Higher operating income of \$131.8 million, representing a year-over-year increase of \$20.3 million or 18.2 percent.
- Net cash flow from operating activities of \$171.8 million, up \$32.7 million from the prior year, was more than sufficient to cover a \$100 million profit transfer to the General Fund, the costs of the Pennsylvania State Police's liquor control enforcement, transfers to the Department of Drug & Alcohol Programs and the PLCB's capital expenditures programs.
- Year-end cash and investments increased \$33.4 million to \$295.4 million, due to positive net cash flow from operations.
- Total liabilities increased by \$105.5 million to \$906.5 million, reflecting primarily the continuing increase in the PLCB's share of the Commonwealth's net pension liability and other post-employment benefits.
- The PLCB's total net position improved slightly, but was still in a net deficit position of \$238.2 million as of June 30, 2016.

**Revenues and Costs**

**Sales**

Sales and tax revenue in fiscal year 2015-16 totaled \$2.43 billion, an increase of \$94.8 million or 4.1 percent over fiscal year 2014-15. Excluding liquor and sales taxes, net sales of \$1.94 billion were up \$75.6 million, also 4.1 percent over the prior year. Unit volume growth accounted for the majority of the sales increase, while price per unit increased by less than 1 percent. By product category, sales growth was relatively balanced, with spirits and wine increasing by 4.2 percent and 3.8 percent, respectively.

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**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2016**  
**LIQUOR LICENSE FUND – JUNE 30, 2016**

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**PLCB Management's Discussion and Analysis (Continued)**

Within the PLCB's customer base, retail sales to individual consumers grew 4.2 percent, while sales to licensees increased by 3.2 percent. Retail sales made up nearly 80 percent of total sales. On a volume basis, spirit unit sales grew 3.5 percent, and wine unit sales grew 3.0 percent, while spirit gallon sales increased 2.5 percent and wine gallon sales increased 1.8 percent. Debit/credit card purchases represented approximately 65 percent of sales during fiscal year 2015-16, up from 62 percent last year. The average sale per debit and credit card transaction was \$30.65 and \$53.57, respectively, versus \$30.44 and \$53.81 during the prior year.

**Gross Margin**

Gross margin increased to 31.3 percent in fiscal year 2015-16 from 31.2 percent last year. The increase is due in part to increases in vendor promotion allowances, which were up \$11 million or 8.6 percent, and PLCB forward-buying in advance of vendor price increases.

**Operating Income & Expense**

Operating income for the year ended June 30, 2016, was \$131.8 million, up \$20.3 million, or 18.2 percent, from the \$111.5 million reported last year. The increase was almost entirely a function of higher sales, as operating expenses were up only \$4.2 million.

Within operating expenses, salary and wages for fiscal year 2015-16 were essentially flat compared to the prior year, while workers' compensation expense decreased \$22.3 million, significantly offsetting the effects of a \$17 million increase in total pension expense. Non-payroll related expenses grew by \$3.7 million, or 2.5 percent compared to the prior year, mostly due to increases in store rent, which was up 5.1 percent, and credit and debit card service fees, which increased 8.2 percent.

**Transfers Out**

The Bureau of Liquor Control Enforcement within the Pennsylvania State Police received \$26.1 million in funding in fiscal year 2015-16, an increase of \$0.4 million, or 1.4 percent, over the previous year. Contributions to the Department of Drug & Alcohol Programs increased to \$3.3 million, reflecting a legislatively mandated retroactive increase to \$2.5 million for fiscal year 2014-15 and a similar amount for fiscal year 2015-16.

Also as legislatively mandated, the PLCB transferred \$100 million in profits to the General Fund during fiscal year 2015-16, a \$20 million increase over the \$80 million profit transfer in the prior year.

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**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2016**  
**LIQUOR LICENSE FUND – JUNE 30, 2016**

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**PLCB Management's Discussion and Analysis (Continued)**

Other contributions to the General Fund during fiscal year 2015-16 generated by the PLCB's operations, but not reflected as revenues, expenses, or cash flows in the State Stores Funds financial statements, included \$135.6 million in state sales tax and \$348 million in liquor tax, both up 4.1 percent over the prior year. Additionally, the PLCB remitted \$8.7 million in local sales taxes to Philadelphia and Allegheny County.

Licensing fees returned to local municipalities from the Liquor License Fund were \$4.6 million for fiscal year 2015-16, compared to \$4.5 million in the prior year.

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**PENNSYLVANIA LIQUOR CONTROL BOARD**

**FINANCIAL STATEMENTS**

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**PENNSYLVANIA LIQUOR CONTROL BOARD  
STATE STORES FUND  
COMPARATIVE STATEMENTS OF NET POSITION  
(EXPRESSED IN THOUSANDS)**

<b><u>ASSETS</u></b>	<b><u>June 30, 2016</u></b>	<b><u>June 30, 2015</u></b>
Current assets:		
Cash	\$ 19,963	\$ 20,210
Temporary investments	275,395	241,702
Accounts and claims receivable, net	1,481	1,305
Due from other funds	87	28
Merchandise inventories, net	244,159	230,093
Operating supplies	492	202
Prepaid expenses	-	3,766
Total current assets	<u>\$ 541,577</u>	<u>\$ 497,306</u>
Noncurrent assets:		
Non-depreciable capital assets:		
Land	\$ 323	\$ 323
Depreciable capital assets:		
Building	19,558	19,558
Leasehold improvements	758	758
Machinery and equipment	51,585	46,576
Intangibles	20,559	27,541
Less: accumulated depreciation	(53,565)	(57,728)
Net depreciable capital assets	<u>\$ 38,895</u>	<u>\$ 36,705</u>
Total noncurrent capital assets	<u>\$ 39,218</u>	<u>\$ 37,028</u>
Total assets	<u>\$ 580,795</u>	<u>\$ 534,334</u>
Total deferred outflows of resources – Note C	\$ 93,191	\$ 31,039
<b><u>LIABILITIES</u></b>		
Current liabilities:		
Trade accounts payable	\$ 256,513	\$ 253,125
Miscellaneous accounts payable	13,003	12,339
Accrued expenses	20,322	16,695
Self-insurance – Note L	7,772	7,817
Due to other funds – Note E	8,688	7,690
Due to fiduciary funds	1,602	1,378
Due to other governments	481	495
Total current liabilities	<u>\$ 308,381</u>	<u>\$ 299,539</u>
Noncurrent liabilities:		
OPEB – Note C	90,178	76,653
Self-Insurance – Note L	39,287	42,109
Net pension liability – Note C	449,175	362,685
Compensated absences	19,507	20,092
Total noncurrent liabilities	<u>\$ 598,147</u>	<u>\$ 501,539</u>
Total liabilities	<u>\$ 906,528</u>	<u>\$ 801,078</u>

**PENNSYLVANIA LIQUOR CONTROL BOARD  
STATE STORES FUND  
COMPARATIVE STATEMENTS OF NET POSITION (Continued)  
(EXPRESSED IN THOUSANDS)**

	<u><b>June 30, 2016</b></u>	<u><b>June 30, 2015</b></u>
Total deferred inflows of resources – Note C	\$ 5,636	\$ 3,002
<u><b>NET POSITION</b></u>		
Net investment in capital assets	\$ 39,218	\$ 37,028
Restricted for:		
State Stores Fund (deficit)	<u>(277,396)</u>	<u>(275,735)</u>
Total net position	<u>\$ (238,178)</u>	<u>\$ (238,707)</u>

- The notes to the financial statements are an integral part of this statement. -

**PENNSYLVANIA LIQUOR CONTROL BOARD  
STATE STORES FUND**

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
(EXPRESSED IN THOUSANDS)**

	<b>Fiscal Year Ended June 30, 2016</b>	<b>Fiscal Year Ended June 30, 2015</b>
Sales net of taxes	\$1,937,885	\$1,862,270
Less: Cost of goods sold	<u>1,332,286</u>	<u>1,281,140</u>
Gross profit from sales	\$ 605,599	\$ 581,130
Less: Operating expenses:		
Purchasing, storage and transportation	20,786	18,433
Stores' operations and supervision	368,992	365,466
Central administrative support	68,518	69,683
Comptroller operations	5,817	4,714
Commonwealth-provided services	9,715	11,291
Total	<u>\$ 473,828</u>	<u>\$ 469,587</u>
Operating profit from state stores	\$ 131,771	\$ 111,543
Other operating revenues (expenses):		
Enforcement fines	1,892	1,976
License fees	12,884	12,315
Miscellaneous income	3,611	3,695
Administrative law judge	(2,491)	(2,543)
Legal	(3,359)	(3,570)
Licensing and investigations	(15,110)	(14,498)
Total	<u>\$ (2,573)</u>	<u>\$ (2,625)</u>
Total operating income	\$ 129,198	\$ 108,918
Nonoperating revenues (expenses):		
Interest income/loss	893	429
Other	(143)	(23)
Total	<u>\$ 750</u>	<u>\$ 406</u>
Income before operating transfers	\$ 129,948	\$ 109,324
Operating transfers out:		
PSP enforcement – Note I	<u>26,091</u>	<u>25,726</u>
Income after enforcement/before other transfers	\$ 103,857	\$ 83,598
Other operating transfers:		
Transfers out:		
General Fund – Note G	(100,000)	(80,000)
Drug and alcohol programs – Note H	(3,328)	(1,672)
Total	<u>\$ (103,328)</u>	<u>\$ (81,672)</u>
Change in net position	\$ 529	\$ 1,926
Net position – beginning	\$ (238,707)	\$ (240,633)
Restated - Note M		
Total net position – ending	<u>\$ (238,178)</u>	<u>\$ (238,707)</u>

- The notes to the financial statements are an integral part of this statement. -



**PENNSYLVANIA LIQUOR CONTROL BOARD  
STATE STORES FUND  
COMPARATIVE STATEMENTS OF CASH FLOWS  
(EXPRESSED IN THOUSANDS)**

	<b>Fiscal Year Ended June 30, 2016</b>	<b>Fiscal Year Ended June 30, 2015</b>
<b>Cash flows from operating activities:</b>		
Receipts from customers	\$ 1,956,037	\$ 1,879,999
Payments to suppliers	<u>(1,784,218)</u>	<u>(1,740,843)</u>
Net cash provided by (used for) operating activities	\$ 171,819	\$ 139,156
<b>Cash flows from noncapital financing activities:</b>		
Operating transfers out	<u>(127,763)</u>	<u>(107,398)</u>
Net cash used for noncapital financing activities	\$ (127,763)	\$ (107,398)
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	<u>(11,503)</u>	<u>(11,503)</u>
Net cash used for capital and related financing activities	\$ (11,503)	\$ (11,503)
<b>Cash flows from investing activities:</b>		
Purchase of investments	(1,613,172)	(1,415,178)
Proceeds from sale and maturities of investments	1,579,479	1,383,742
Investment income	<u>893</u>	<u>429</u>
Net cash used in investing activities	\$ (32,800)	\$ (31,007)
Net decrease in cash	\$ (247)	\$ (10,752)
Cash – beginning of year	<u>20,210</u>	<u>30,962</u>
Cash – end of year	<u>\$ 19,963</u>	<u>\$ 20,210</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>		
Operating income	\$ 129,198	\$ 108,918
Depreciation	9,170	9,510
<b>Change in assets and liabilities:</b>		
Accounts receivable	(176)	(486)
Inventory	(14,356)	(23,508)
Due from other funds	(59)	229
Other operating net assets	3,766	(467)
Deferred outflows – pension related	(62,153)	(17,884)
Accounts payable and accrued liabilities	7,679	(5,075)
Due to other funds	(658)	(2,742)
Due to pension trust funds	224	(399)
Net pension liability	86,491	31,708
Due to other government	(14)	(270)
Deferred inflows – pension related	2,634	3,002
Other post-employment benefit obligations	13,525	13,023
Self-insurance liabilities	(2,867)	23,957
Compensated absences	<u>(585)</u>	<u>(360)</u>
Total adjustments	\$ 42,621	\$ 30,238
Net cash provided by (used for) operating activities	<u>\$ 171,819</u>	<u>\$ 139,156</u>

- The notes to the financial statements are an integral part of this statement. -

**PENNSYLVANIA LIQUOR CONTROL BOARD  
LIQUOR LICENSE FUND  
STATEMENTS OF FIDUCIARY NET POSITION  
(EXPRESSED IN THOUSANDS)**

<b><u>ASSETS</u></b>	<b><u>June 30, 2016</u></b>	<b><u>June 30, 2015</u></b>
Current assets:		
Cash with Treasury	\$ -	\$ 5
Cash in transit	92	80
Investments – short term	<u>2,327</u>	<u>2,275</u>
Total assets	<u>\$ 2,419</u>	<u>\$ 2,360</u>
 <b><u>LIABILITIES</u></b>		
Current liabilities:		
License fees due to municipalities	\$ 2,417	\$ 2,358
Other liabilities	<u>2</u>	<u>2</u>
Total liabilities	<u>\$ 2,419</u>	<u>\$ 2,360</u>

- The notes to the financial statements are an integral part of this statement. -

**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**LIQUOR LICENSE FUND**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – Fiscal Year Ended June 30, 2016**  
**(EXPRESSED IN THOUSANDS)**

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2016</u>
<b><u>ASSETS</u></b>				
Cash – Note K	\$ 85	\$ 9,009	\$ 9,002	\$ 92
Temporary investments – Note K	<u>2,275</u>	<u>4,484</u>	<u>4,432</u>	<u>2,327</u>
Total assets	<u>\$ 2,360</u>	<u>\$ 13,493</u>	<u>\$ 13,434</u>	<u>\$ 2,419</u>
<b><u>LIABILITIES</u></b>				
Due to municipalities	\$ 2,358	\$ 4,576	\$ 4,517	\$ 2,417
Other liabilities	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>
Total liabilities	<u>\$ 2,360</u>	<u>\$ 4,578</u>	<u>\$ 4,519</u>	<u>\$ 2,419</u>

- The notes to the financial statements are an integral part of this statement -

**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**LIQUOR LICENSE FUND**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – Fiscal Year Ended June 30, 2015**  
**(EXPRESSED IN THOUSANDS)**

	<u>Balance</u> <u>June 30, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2015</u>
<b><u>ASSETS</u></b>				
Cash – Note K	\$ 62	\$ 9,092	\$ 9,069	\$ 85
Temporary investments – Note K	<u>2,351</u>	<u>4,476</u>	<u>4,552</u>	<u>2,275</u>
Total assets	<u>\$ 2,413</u>	<u>\$ 13,568</u>	<u>\$ 13,621</u>	<u>\$ 2,360</u>
<b><u>LIABILITIES</u></b>				
Due to municipalities – Note K	\$ 2,411	\$ 4,561	\$ 4,614	\$ 2,358
Other liabilities	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>
Total liabilities	<u>\$ 2,413</u>	<u>\$ 4,563</u>	<u>\$ 4,616</u>	<u>\$ 2,360</u>

- The notes to the financial statements are an integral part of this statement. -

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**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2016**  
**LIQUOR LICENSE FUND – JUNE 30, 2016**

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**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements present only the financial position and results of the PLCB and do not present the financial position of the Commonwealth of Pennsylvania. The significant accounting policies employed by PLCB in the preparation of the accompanying financial statements are as follows:

**Fund Accounting:** The PLCB is primarily responsible for the accounting and reporting of the State Stores Fund and the Liquor License Fund. The State Stores Fund is an enterprise fund primarily used to account for wine and spirit sales and related operating expenses. The Liquor License Fund is an agency fund used for the collection and subsequent disbursement of certain annual license fees, which are returned to municipalities.

The preparation of financial statements in conformity with generally accepted accounting principles requires the PLCB to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Basis of Accounting:** The State Stores Fund is reported using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operations of this fund are included in the Statement of Net Position. Under the accrual basis of accounting, revenues are recognized in the fiscal year earned and expenses are recognized in the fiscal year incurred.

The Liquor License Fund, a fiduciary type fund, uses the accrual basis of accounting to report assets and liabilities. This fund has no measurement focus and does not report operating activity.

**Cash:** Cash includes PLCB funds held by the State Treasurer, imprest balances held at financial institutions and change used at state stores.

**Temporary Investments:** The PLCB participates in the Treasury Department's Commonwealth Investment Program (CIP) with other Commonwealth agencies. Practically all individual funds which are part of the Commonwealth are participants in the CIP. The Treasury Department accounts for each participating fund's equity (considered "shares") in the CIP on a daily basis. "Share" balances of participating funds fluctuate considerably during the fiscal year, based on the timing of cash receipts and disbursements in the participating fund, and are reported as temporary investments. The CIP is considered an internal investment pool. Temporary investments are reported at fair value.

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**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2016**  
**LIQUOR LICENSE FUND – JUNE 30, 2016**

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**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

**Cash Equivalents:** No investments which could be defined as cash equivalents have been treated as such on the Statement of Cash Flows; therefore, only net changes in cash are displayed.

**Inventories:** Inventories are stated at weighted average cost. In January 2012, the PLCB implemented a bailment inventory management program. PLCB began entering into bailment agreements with certain suppliers that require the suppliers to continue to hold title to stock at PLCB warehouse facilities until it is withdrawn from bailment for shipment to PLCB stores. The bailment inventory management program significantly reduced on hand inventory valuation. Product warehousing and handling, as well as transportation to store costs, are reported as part of merchandise inventories and are charged to cost of goods sold as product is sold.

The allowance for obsolete inventory was \$233 thousand at June 30, 2016 and \$151 thousand at June 30, 2015. Management will regularly review, at least once annually, inventory quantities on hand and increase/decrease the provision for obsolete inventory as necessary based upon factors that include historical unsalable product write-off, the age of the inventory and forecasts of product demand.

**Capital Assets and Depreciation:** Capital assets are reported at cost in the Statement of Net Position. The cost of land is reported; for other types of capital assets, the following minimum per item dollar reporting thresholds are used:

Building	\$5,000
Leasehold improvements	\$5,000
Machinery and equipment	\$5,000
Intangible assets	\$5,000

Capital assets (excluding land) are depreciated over the useful lives using the straight-line method. The following useful lives are being used:

Building	10-20 years
Leasehold improvements	3-15 years
Machinery and equipment	5-10 years
Intangible assets	5-10 years

**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2016**  
**LIQUOR LICENSE FUND – JUNE 30, 2016**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

**Taxes:** An 18 percent state liquor excise tax and a 6 percent state sales tax are collected and remitted monthly to the Department of Revenue for the General Fund. The PLCB also collects and remits a 1 percent local sales tax for Allegheny County and a 2 percent local sales tax for Philadelphia County. Taxes collected for the years ended June 30, 2016, and June 30, 2015 are as follows (amounts in thousands):

	<b>Fiscal Year Ended June 30, 2016</b>	<b>Fiscal Year Ended June 30, 2015</b>
Liquor Tax	\$348,056	\$334,414
State Sales Tax	135,581	130,193
Local Sales Tax	<u>8,688</u>	<u>8,493</u>
Total	<u>\$492,325</u>	<u>\$473,100</u>

**Compensated Absences:** Employees accumulate annual leave depending on length of credited service from between 2.7 percent to 10 percent of regular hours paid. Generally a maximum of 45 days may be carried forward at the end of each calendar year. Employees are paid for accumulated annual leave upon termination or retirement.

Employees earn sick leave based on an agreed upon percentage of regular hours paid. Generally, a maximum of 300 days may be carried forward at the end of each calendar year. Most retiring employees that meet service, age or disability requirements are paid in accordance with the following schedule:

<b>Days Available at Retirement</b>	<b>Percentage Payment</b>	<b>Maximum Days Paid</b>
0-100	30%	30
101-200	40%	80
201-300	50%	150
Over 300 (in last year of employment)	100% of days over 300	11

**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2016**  
**LIQUOR LICENSE FUND – JUNE 30, 2016**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

The accumulated annual and sick leave and related payroll benefits payable reported for the fiscal year ended June 30, 2016 and June 30, 2015 (amounts in thousands) was \$24,384 (\$4,877 current and \$19,507 non-current) and \$25,115 (\$5,023 current and \$20,092 non-current), respectively. It is the PLCB's policy to record the cost of annual and sick leave in accordance with GASB Statement 16. The expense and corresponding liability are reflected in the financial statements.

The following summary provides aggregated information reported for the fiscal years ended June 30, 2016 and June 30, 2015 of the compensated absences liabilities to include the additions and reductions during the fiscal years then ended (amounts in thousands):

<b><u>Fiscal Year</u></b> <b><u>End</u></b>	<b><u>Liability –</u></b> <b><u>Beginning Balance</u></b>	<b><u>Additions</u></b>	<b><u>Reductions</u></b>	<b><u>Liability –</u></b> <b><u>Ending Balance</u></b>
June 30, 2016	\$25,115	\$16,533	\$17,264	\$24,384
June 30, 2015	\$24,641	\$17,299	\$16,825	\$25,115

***Pension Costs and Liability:*** In the State Stores Fund Statement of Net Position, pension liabilities are reported at their actuarial present value of projected benefit payments to periods of employee service. The Commonwealth's policy is to fund employer contributions to the State Employees' Retirement System (SERS) as required by their Boards, through statutory authority, or as required based on other applicable statutory requirements. Since SERS is a cost-sharing, multiple-employer pension plan, and the PLCB participates in SERS, the PLCB reports a net pension liability as required by GASB 68.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Pension Plan (Plan) and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

***New Accounting Pronouncements:*** The PLCB adopted GASB Statement No. 72, "Fair Value Measurement and Application" and GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments". The adoption of these statements had no effect on the previously reported amounts.



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**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2016**  
**LIQUOR LICENSE FUND – JUNE 30, 2016**

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**NOTE B – DEPOSITS AND INVESTMENTS**

The Treasury Department has the authority to manage, invest, and reinvest the moneys of all funds which are not legally authorized to be invested by a board, commission or State officer. The Treasury Department manages and invests moneys of the Commonwealth through the Commonwealth Investment Program (CIP). The PLCB participates in the CIP's Pool 999 investment pool. Pool 999 is designed to provide a high degree of liquidity and safety. Pool 999 is organized similarly to a money market fund, with an expectation of a stable net asset value per share. Treasury accounts for each participating fund's equity, or shares, in the pool on a daily basis. Share balances of participating funds vary considerably during the fiscal year, based on the timing of cash receipts and disbursements. PLCB has reported the fair value of its shares as of June 30, 2016 and 2015, the fund's year-end. Shares in Pool 999 are reported as temporary investments.

The CIP pools are considered internal investment pools of the Commonwealth of PA and are subject to the requirements of GASB Statement No. 40. GASB Statement No. 40 requires state and local governments to make certain disclosures relating to investment risk, consisting of credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk, in addition to custodial credit risk and foreign currency risk on deposits. The Treasury Department has formally adopted written investment policies to address these investment risks and has disclosed those risks associated with its total pooled deposits and investments in the Commonwealth of Pennsylvania's June 30, 2016 Basic Financial Statements.

PLCB's total deposit balance (amounts in thousands) of \$20,055 and \$20,295 at June 30, 2016 and 2015, respectively, was not exposed to either custodial credit risk or foreign currency risk.

As a participant in Treasury's CIP Pool 999, PLCB's investments are exposed to credit risk and interest rate risk mentioned above. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of fixed income instruments susceptible to credit quality rating is measured by nationally recognized statistical rating agencies (or NRSRAs) such as Moody's Investors Service. Treasury's CIP investment pools are not rated by an NRSRA. Interest rate risk is the risk that an investment's value will change, advantageously or adversely, due to a change in the absolute value of interest rates. The Treasury Department measures interest rate risk using option adjusted duration. Duration is a measure of an investment's sensitivity to changes in interest rates. The higher the duration, the greater the changes in fair value when interest rates change. The average option adjusted duration of Treasury's CIP Pool 999 at June 30, 2016 is approximately 0.083 years.

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**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2016**  
**LIQUOR LICENSE FUND – JUNE 30, 2016**

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**NOTE C – PENSION AND OTHER POSTEMPLOYMENT BENEFITS**

**General Information about the Pension Plan**

**Plan Description:** To provide pension benefits for employees of state government and certain other organizations, the SERS administers a cost-sharing multiple-employer defined benefit retirement plan. The plan, covering substantially all Commonwealth employees, is a contributory defined benefit pension plan as established by Commonwealth laws. Membership in SERS is mandatory for most PLCB (and other state) employees. Article II of the Commonwealth's constitution assigns the authority to establish and amend the benefit provision of the plan to the General Assembly.

SERS issues stand-alone, audited financial statements which are publicly available at [www.sers.pa.gov](http://www.sers.pa.gov). Written requests for financial statements should be directed to the following address:

State Employees' Retirement System  
30 North Third Street, Suite 150  
Harrisburg, PA 17101-1716

**Benefits Provided:** Under the plan, for most employees hired prior to January 1, 2011, retirement benefits vest after 5 years of credited service. Generally, employees who retire at age 60 or, if under age 60, with 35 years of service are entitled to a normal (unreduced) annual retirement benefit. The general annual benefit is 2 percent of a Class A member's highest three-year average salary multiplied by years of service. This annual benefit is 2.5 percent for Class AA members.

Act 2010-120 (Act 120), which preserved all benefits in place for then current members, mandated a number of benefit reductions for new members effective January 1, 2011. The benefit reduction included a new class of membership that accrues benefits at 2 percent of their final average salary instead of the previous 2.5 percent. The new vesting period changed from five to ten years of credited service, and the option to withdraw lump sum accumulated employee contributions was eliminated. The new normal retirement age is 65 for most employees. Act 120 created a new A-3 class of service and an optional A-4 class for most employees that entered SERS membership for the first time on or after January 1, 2011. The general annual benefit for Class A-3 members is 2 percent of the member's highest three-year average salary times years of service while the Class A-4 benefit accrual rate is 2.5 percent.

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**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2016**  
**LIQUOR LICENSE FUND – JUNE 30, 2016**

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**NOTE C – PENSION AND OTHER POSTEMPLOYMENT BENEFITS**  
**(Continued)**

**Contributions:** Section 5507 of the State Employees Retirement Code (SERC) (71 Pa. C.S. §5507) requires the Commonwealth and other employers whose employees are SERS members to make contributions to the fund on behalf of all active members and annuitants necessary to fund the liabilities and provide the annuity reserves required to pay benefits. SERS funding policy, as set by the SERS board, provides for periodic active member contributions at statutory rates. The SERS funding policy also provides for periodic employer contributions at actuarially determined rates based on SERS funding valuation, expressed as a percentage of annual retirement covered payroll, such that they, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate assets to pay benefits when due. However, Act 2010-120 imposes rate increase collars (limits on annual rate increases) on employer contributions. The collar for Commonwealth fiscal year 2014-2015 was 4.5% and will remain at that rate until no longer needed. The PLCB's contributions to the SERS were (amounts in thousands) \$37,688 and \$30,881 for the years ended June 30, 2016 and 2015, respectively.

**Summary of Significant Accounting Policies:** The SERS financial statements are prepared on the accrual basis of accounting, whereby expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of the related trade date. Member and employer contributions are recognized in the period in which employee salaries are reported. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:** At June 30, 2016, PLCB reported a liability of \$449,176 thousand for its proportionate share of the SERS net pension liability. The net pension liability attributed to participation in the SERS was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. PLCB's proportion of the SERS net pension liability was based on a projection of the Commonwealth's long-term share of contributions to the pension plan relative to the projected contributions of all participating SERS employers, actuarially determined. At December 31, 2015, PLCB's reported proportionate share of the SERS net pension liability was 2.47 percent which was an increase of .03 percent from its proportion measured as of December 31, 2014.

**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2016**  
**LIQUOR LICENSE FUND – JUNE 30, 2016**

**NOTE C – PENSION AND OTHER POSTEMPLOYMENT BENEFITS**  
**(Continued)**

As of June 30, 2016, PLCB recognized pension expense of \$64,659 (in thousands) and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<i>(in Thousands)</i>	
Differences between expected and actual experience.....	\$ 9,095	\$ -
Change in assumptions.....	13,345	-
Differences between projected and actual investment earnings.....	45,734	-
Change in proportion.....	5,570	5,144
Differences between employer contributions and proportionate share.....	662	492
Contributions subsequent to measurement date.....	18,785	-
<b>Total.....</b>	<b>\$ 93,191</b>	<b>\$ 5,636</b>

The \$18,785 (in thousands) reported as deferred outflows of resources related to pensions resulting from PLCB's contributions to SERS subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ending (June 30):</b>	<b>(in Thousands)</b>
2016	\$17,642
2017	17,642
2018	17,642
2019	14,830
2020	1,015

**Actuarial Assumptions:** Every five years, SERS is required to conduct an actuarial experience study to determine whether the assumptions used in its annual actuarial valuations remain accurate based on current and anticipated demographic trends and economic conditions. The *18th Investigation of Actuarial Experience* study for the period 2011 – 2015 was released in March 2016. The actuary, under oversight of the SERS Board, reviewed economic assumptions (such as the assumed future investment returns and salary increases) as well as demographic assumptions (such as employee turnover, retirement, disability, and death rates). Some assumption adjustments increased projected cost and some decreased projected cost, but the overall result was a slight increase to the net pension liability.

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**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2016**  
**LIQUOR LICENSE FUND – JUNE 30, 2016**

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**NOTE C – PENSION AND OTHER POSTEMPLOYMENT BENEFITS**  
**(Continued)**

Economic assumption recommendations resulting from the experience study included: keeping the targeted investment return rate assumption at 7.5%; keeping the inflation rate at 2.75 percent; keeping the general salary growth rate at 3.05 percent; and decreasing career salary growth rates, by varying amounts depending upon the employee's length of service at all service levels. In addition to the five-year experience study, SERS reviews its investment return assumption in light of economic conditions every year as part of its annual valuation.

Most demographic assumptions remained the same as or similar to experience over the last five years. However, the experience study did recommend changing some assumptions, which are highlighted as follows. The study recommended decreasing disability retirement rates for all active members. Additionally, it recommended adjusting superannuation separation rates, early retirement separation rates, and withdrawal rates for certain active member groupings (gender, age, years of service) in both the general and special membership classes. Furthermore, it recommended decreasing most annuitant and survivor mortality rates.

The board adopted the actuarial assumptions set forth in the *18th Investigation of Actuarial Experience* at its March 2016 meeting. The study can be viewed at [www.SERS.pa.gov](http://www.SERS.pa.gov).

The following methods and assumptions were used in the actuarial valuation for the December 31, 2015, measurement date:

Actuarial Cost Method	Entry age
Amortization Method	Straight-line amortization of investments over five years and amortization of assumption changes and noninvestment gains/losses over the average expected remaining service lives of all employees that are provided benefits
Investment rate of return	7.5% net of expenses including inflation
Projected salary increases	Average of 5.7% with range of 3.85% to 9.05% including inflation
Asset valuation method	Fair (market) value
Inflation	2.75%



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**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2016**  
**LIQUOR LICENSE FUND – JUNE 30, 2016**

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**NOTE C – PENSION AND OTHER POSTEMPLOYMENT BENEFITS**  
**(Continued)**

***Sensitivity of the PLCB's proportionate share of the net pension liability to change in the discount rate:*** The following chart presents the PLCB's proportionate share of the SERS net pension liability using the discount rate of 7.5 percent, as well as what the PLCB's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) higher than the current rate.

	<u>1% Decrease 6.5%</u>	<u>Current Discount Rate 7.5%</u> (in Thousands)	<u>1% Increase 8.5%</u>
PLCB's proportionate share of SERS net pension liability as of the 12/31/15 measurement date	\$557,961	\$449,176	\$355,898

***Pension plan fiduciary net position:*** Detailed information about the pension plan's fiduciary net position is available in the separately issued SERS financial report.

***Payables to the pension plan:*** For the fiscal year ended June 30, 2016, the PLCB reported an accounts payable for the employers' share of retirement contributions to the SERS in the amount of \$458 thousand.

Additional pertinent information regarding SERS, outside the scope of PLCB reporting, is published each year as part of the Commonwealth of Pennsylvania's Basic Financial Statements included in its Comprehensive Annual Financial Report.

**Other Post-Employment Benefits**

***Postemployment Health Care Benefits:*** The Commonwealth established and sponsors a Retired Employees Health Program (REHP) plan which provides postemployment benefits other than pensions (OPEB). This plan is administered by the Pennsylvania Employee Benefits Trust Fund, which acts as a third-party administrator and administers the REHP under an administrative agreement with the Commonwealth. The plan is a single employer defined benefit OPEB plan. The PLCB participates in the REHP, which provides a variety of healthcare benefits to eligible retirees. The OPEB plan and benefit provisions therein have been established under pertinent statutory authority. The OPEB plan does not issue a stand-alone financial report nor is it included in the financial statements of a public employee retirement system.

**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2016**  
**LIQUOR LICENSE FUND – JUNE 30, 2016**

**NOTE C – PENSION AND OTHER POSTEMPLOYMENT BENEFITS**  
**(Continued)**

REHP contribution requirements are established by the Office of Administration and the Governor's Budget Office. During the fiscal year ended June 30, 2016, the PLCB contributed \$418 for each active employee paid and reported as part of biweekly payroll expenses for its employees. For the fiscal year ended June 30, 2016, the PLCB's allocated share of the total REHP Annual OPEB Cost (amounts in thousands) of \$1,169,885 (for the Commonwealth's fiscal year ended June 30, 2016) was \$47,677. The last year that was fully funded for the entire REHP Annual OPEB Cost, for all REHP-participating organizations, was for the fiscal year ended June 30, 2008. The unfunded OPEB liability has been recorded for subsequent fiscal years. The prior year unfunded liability (amounts in thousands) of \$76,653, plus an additional increase of \$13,525, resulted in a total unfunded liability of \$90,178 as of June 30, 2016.

Additional pertinent information on the REHP, outside the scope of PLCB reporting, including overall actuarial liabilities and assumptions related to the Commonwealth as a whole, are published each year as part of the Commonwealth of Pennsylvania's Basic Financial Statements included in the Comprehensive Annual Financial Report.

**NOTE D – CAPITAL ASSETS**

Changes in capital assets for the fiscal year ended June 30, 2016 are as follows (amounts in thousands):

**Fiscal year ended June 30, 2016:**

	<b><u>Balance</u></b> <b><u>June 30, 2015</u></b>	<b><u>Additions</u></b>	<b><u>Retirements</u></b>	<b><u>Balance</u></b> <b><u>June 30, 2016</u></b>
Non-depreciable capital assets:				
Land.....	\$ 323	\$ -	\$ -	\$ 323
Depreciable capital assets:				
Building.....	19,558	-	-	19,558
Leasehold improvements.....	758	-	-	758
Machinery and equipment.....	46,576	8,229	3,220	51,585
Intangibles .....	<u>27,541</u>	<u>3,274</u>	<u>10,256</u>	<u>20,559</u>
Total capital assets.....	<u>\$ 94,756</u>	<u>\$ 11,503</u>	<u>\$ 13,476</u>	<u>\$ 92,783</u>



**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2016**  
**LIQUOR LICENSE FUND – JUNE 30, 2016**

**NOTE D – CAPITAL ASSETS (Continued)**

Changes in capital assets accumulated depreciation for the fiscal year ended June 30, 2016 are as follows (amounts in thousands):

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2016</u>
Buildings.....	\$ 12,516	\$ 795	\$ -	\$ 13,311
Leasehold improvements.....	564	48	-	612
Machinery and equipment....	24,967	4,389	3,078	26,278
Intangibles.....	19,681	3,938	10,255	13,364
Total accumulated depreciation	<u>\$ 57,728</u>	<u>\$ 9,170</u>	<u>\$ 13,333</u>	<u>\$ 53,565</u>

**Fiscal year ended June 30, 2015:**

	<u>Balance</u> <u>June 30, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2015</u>
Non-depreciable capital assets:				
Land.....	\$ 323	\$ -	\$ -	\$ 323
Depreciable capital assets:				
Building.....	19,558	-	-	19,558
Leasehold improvements.....	2,478	-	1,720	758
Machinery and equipment.....	40,384	7,157	965	46,576
Intangibles .....	50,742	4,346	27,547	27,541
Total capital assets.....	<u>\$ 113,485</u>	<u>\$ 11,503</u>	<u>\$ 30,232</u>	<u>\$ 94,756</u>

Changes in capital assets accumulated depreciation for the fiscal year ended June 30, 2015 are as follows (amounts in thousands):

	<u>Balance</u> <u>June 30, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2015</u>
Buildings.....	\$ 11,640	\$ 876	\$ -	\$ 12,516
Leasehold improvements.....	2,202	74	1,712	564
Machinery and equipment....	21,665	4,252	950	24,967
Intangibles.....	42,921	4,308	27,548	19,681
Total accumulated depreciation	<u>\$ 78,428</u>	<u>\$ 9,510</u>	<u>\$ 30,210</u>	<u>\$ 57,728</u>

**NOTE E – DUE TO OTHER FUNDS**

At June 30, 2016 and June 30, 2015, a total (amounts in thousands) of \$8,688 and \$7,690, respectively, was due to other funds. This total was due to various funds.

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**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2016**  
**LIQUOR LICENSE FUND – JUNE 30, 2016**

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**NOTE F – LEASE COMMITMENTS**

The PLCB, through the Department of General Services, has operating leases covering all of its Fine Wine and Good Spirits store locations and some equipment. The leases generally provide for an initial term of three to ten years. Most leases have options for renewal. For leases not renewed, but not terminated, the lease will continue as a renewal in 90 day increments into the future. For such leases, only 90 days of future rental commitments are included in the rental commitment schedule below.

Rental expenses (amounts in thousands), for the fiscal year ended June 30, 2016 and June 30, 2015 were \$47,297 and \$44,902, respectively.

The following is a schedule of future minimum rental commitments for noncancelable operating leases in effect as of June 30, 2016, (amounts in thousands):

<u>Fiscal Year Ended June</u>	<u>Fine Wine and Good Spirits Store Leases</u>
2017	\$36,755
2018	31,344
2019	25,813
2020	20,220
2021	<u>16,784</u>
Total Minimum Lease Payments:	<u>\$130,916</u>

**NOTE G – OPERATING TRANSFERS TO GENERAL FUND**

The PLCB is subject to profit transfer requirements pursuant to 47 P.S. §8-802(f), determined annually by the Governor's Office, whereby stipulated funds are transferred to help finance the General Fund.

Act 10A of 2015 was enacted December 29, 2015 with a provision that the sum of \$100 million shall be transferred from the State Stores Fund to the General Fund. The Act 10A of 2015 transfer did not replace or supplant the PLCB's authority to make payments to the General Fund pursuant to 47 P.S. §8-802(f).

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**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2016**  
**LIQUOR LICENSE FUND – JUNE 30, 2016**

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**NOTE G – OPERATING TRANSFERS TO GENERAL FUND (Continued)**

The required transfers were \$100 million and \$80 million for the fiscal years ended June 30, 2016 and June 30, 2015, respectively.

**NOTE H – OPERATING TRANSFER FOR DRUG AND ALCOHOL PROGRAMS**

Per Act 1987-14, two percent of the PLCB's profits from the sale of alcohol shall be transferred to the Department of Drug and Alcohol Programs (DDAP) for drug and alcohol rehabilitation programs. The PLCB establishes a liability for the amount due to the DDAP and transfers the payment in the subsequent fiscal year.

In addition to the fiscal year 2014-2015 amount for the purposes set forth in Act 1987-14, Act 25 of 2016 was enacted April 25, 2016 and contains a provision that resulted in an additional \$828 thousand other operating transfer out to DDAP reported in fiscal year 2015-2016.

Act 85 of 2016 was enacted July 13, 2016 and contains a provision that resulted in a \$2.5 million other operating transfer out to DDAP reported for fiscal year 2015-2016 (for fiscal year 2016-2017 transfer) for the purposes set forth in Act 1987-14.

The amount of the liabilities (amounts in thousands) established to the DDAP were \$3,328 and \$1,672 for the fiscal years ended June 30, 2016 and June 30, 2015, respectively.

**NOTE I – OPERATING TRANSFER FOR LIQUOR CONTROL ENFORCEMENT**

The PLCB provides the funding for the Pennsylvania State Police, Bureau of Liquor Control Enforcement, which is responsible for enforcing the laws and regulations governing the trafficking of alcoholic beverages throughout the Commonwealth. The transfers (amounts in thousands) were \$26,091 and \$25,726 for the fiscal years ended June 30, 2016 and June 30, 2015, respectively.

**NOTE J – CONTINGENCIES-LITIGATION**

The PLCB is a defendant in various legal proceedings pertaining to matters normally incidental to routine operations. Based on the current status of these legal proceedings, it is the opinion of the PLCB's management and counsel that they will not have a material effect on the PLCB's financial position.

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**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2016**  
**LIQUOR LICENSE FUND – JUNE 30, 2016**

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**NOTE K – STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**

The Statement of Changes in Fiduciary Net Position illustrates the net asset activities throughout each fiscal year for the Liquor License Fund.

Cash additions include cash received from license application fees as well as cash resulting from the sale of temporary investments. Cash deductions include the purchase of temporary investments as well as cash remitted to the municipalities.

Temporary investments' additions and deductions result from the purchase and sale of securities.

Due to municipalities' additions include monies received from license application fees. Due to municipalities' deductions include payments remitted to municipalities.

**NOTE L – SELF-INSURANCE LIABILITIES**

The Commonwealth is self-insured for statutory workers' compensation, which includes indemnity and medical payments (employee disability) for its employees injured on the job. The Commonwealth is also self-insured for annuitant medical/hospital claims and for tort liability claims. Major tort risks include automobile, employee and general torts. For property losses, the Commonwealth has a \$1 million retention with excess commercial insurance coverage up to \$1 billion per occurrence. There was no reduction in commercial insurance coverage during the fiscal year ended June 30, 2016. No settlements exceeded commercial insurance coverage during each of the past three fiscal years. The Commonwealth has established various administrative policies, which are intended to avoid or limit the aforementioned risks.

PLCB participates in each Commonwealth self-insurance program and pays prescribed program amounts or rates throughout its fiscal year. These amounts, reported as current fiscal year expenses, finance a portion of cumulative, estimated self-insurance liabilities incurred, in amounts sufficient to fund ongoing program needs. These amounts do not finance all cumulative, estimated self-insurance liabilities incurred. Therefore, accrued liabilities for employee disability and annuitant medical/hospital claims are established based on reserves computed from the Commonwealth's claim experience; such claims are not discounted and do not include non-incremental claims adjustment expenses.

**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2016**  
**LIQUOR LICENSE FUND – JUNE 30, 2016**

**NOTE L – SELF-INSURANCE LIABILITIES (Continued)**

At June 30, 2016 and June 30, 2015, respectively, the State Stores Fund reported (amounts in thousands) a \$47,059 liability (\$7,772 as current and \$39,287 as non-current) and \$49,926 liability (\$7,817 as current and \$42,109 as non-current) for employee disability claims.

The following summary provides aggregated information for the fiscal years ended June 30, 2016 and June 30, 2015 of the reported self-insurance liabilities to include the incurred claims and payments during the fiscal years then ended (amounts in thousands):

<b>Fiscal Year End</b>	<b>Liability – Beginning Balance</b>	<b>Incurred Claims</b>	<b>Payments</b>	<b>Liability – Ending Balance</b>
June 30, 2016	\$49,926	\$ 2,477	\$5,344	\$47,059
June 30, 2015	\$30,565	\$26,831	\$7,470	\$49,926

**NOTE M – RESTATEMENT**

Restatement Due to Change in Accounting Principle:

The implementation of GASB 68 resulted in the reporting of a pension liability and deferred outflow, therefore, the State Store Fund's beginning net position at July 1, 2014 was restated.

Presented below are the changes to the State Store Fund's Statement of Net Position as a result of implementing GASB 68. The State Stores Fund Net Position changed by a total of \$(317,822,168).

	<b>State Stores Fund</b>
Net Position, as previously reported, at June 30, 2014.....	\$ 77,189,035
Apply GASB 68	
Pension Liability.....	\$ (330,976,835)
Deferred Outflows.....	\$ 13,154,667
Total Prior Period Adjustment.....	\$ (317,822,168)
Net Position, as restated, at July 1, 2014.....	\$ (240,633,133)

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**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2016**  
**LIQUOR LICENSE FUND – JUNE 30, 2016**

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**NOTE N – SUBSEQUENT EVENT**

On June 8, 2016, the Governor of Pennsylvania signed into law Act 39 of 2016 (Act 39). Effective August 8, 2016, Act 39 made significant changes to PLCB operations including: permits for limited wine sales at hotel and restaurant license holders, including approved grocery or convenience stores; direct wine shipment from registered vendors to Pennsylvania residents; removed restrictions to the number of open stores and hours on Sundays; created a new 24/7 casino liquor license; limited special liquor order mark-ups, allowed for common retail pricing flexibility; approved auctions of expired liquor licenses; and authorized Pennsylvania lottery sales at state stores. Act 39 will impact PLCB operations beginning in the next fiscal year.

**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2016**  
**LIQUOR LICENSE FUND – JUNE 30, 2016**

**Schedule of PLCB's Contributions** *(Dollar Amounts in Thousands)*

*Last Ten Fiscal Years Ended June 30 <sup>(1)</sup>*

	2016	2015
Contractually required contribution <sup>(2)</sup>	\$ 33,752	\$ 27,044
Contributions in relation to the contractually required contribution	\$ 33,752	\$ 27,044
Contribution deficiency (excess)	-	-
PLCB's covered-employee payroll	\$166,701	\$162,037
Contributions as a percentage of covered-employee payroll	20.25%	16.69%

<sup>(1)</sup> PLCB adopted GASB 68 on a prospective basis for the fiscal year ended June 30, 2015; therefore, only two years are presented in the above schedules. The amounts presented for each fiscal year were determined as of December 31.

<sup>(2)</sup> The contractually required contribution disclosed above is based on minimum floor rates or suppressed rates resulting from collars that are required based on statutory law. These rates are determined by SERS actuary during the annual funding valuation and include an adjustment to the "preliminary employer contribution rate" calculated before the minimum floor or collars are applied. These "final employer contribution rates" fall within the realm of an appropriate contractually required contribution calculation under actuarial standards of practice and temporarily defer a portion of the payments that work towards fully funding the plan.

**PENNSYLVANIA LIQUOR CONTROL BOARD**  
**STATE STORES FUND – JUNE 30, 2016**  
**LIQUOR LICENSE FUND – JUNE 30, 2016**

**Schedule of PLCB's Proportionate Share of the Net Pension Liability** *(Dollar Amounts in Thousands)*

*Last Ten Fiscal Years Ended June 30 <sup>(1)</sup>*

	2016 <sup>(2)</sup>	2015
PLCB's proportion of the net pension liability	2.47%	2.44%
PLCB's proportionate share of the net pension liability	\$449,176	\$362,685
PLCB's covered-employee payroll	\$166,701	\$162,037
PLCB's proportionate share of the net pension liability as a percentage of its covered-employee payroll	269.45%	223.83%
Plan fiduciary net position as a percentage of the total pension liability	58.90%	64.80%

<sup>(1)</sup> PLCB adopted GASB 68 on a prospective basis for the fiscal year ended June 30, 2015; therefore, only two years are presented in the above schedules. The amounts presented for each fiscal year were determined as of December 31.

<sup>(2)</sup> Every five years, SERS is required to conduct an actuarial experience study to determine whether the assumptions used in its annual actuarial valuations remain accurate based on current and anticipated demographic trends and economic conditions. The 18<sup>th</sup> Investigation of Actuarial Experience study for the period 2011 – 2015 was released in March 2016 and can be viewed at [www.sers.pa.gov](http://www.sers.pa.gov). The actuary, under oversight of the SERS Board, reviewed economic assumptions (such as the assumed future investment returns and salary increases) as well as demographic assumptions (such as employee turnover, retirement, disability, and death rates). Some assumption adjustments increased projected cost and some decreased projected cost, but the overall result was an increase to the net pension liability.





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EUGENE A. DEPASQUALE  
AUDITOR GENERAL

**Report on Internal Control Over Financial Reporting and on Compliance and Other  
Matters Based on an Audit of Financial Statements Performed in Accordance With  
*Government Auditing Standards***

Independent Auditor's Report

The Honorable Tom Wolf  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, PA 17120

The Honorable Tim Holden  
Chairman  
Pennsylvania Liquor Control Board  
Harrisburg, PA 17124

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows for the State Stores Fund, and the Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position for the Liquor License Fund of the Pennsylvania Liquor Control Board (PLCB) as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements and have issued our report thereon dated December 6, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered PLCB's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PLCB's internal control. Accordingly, we do not express an opinion on the effectiveness of PLCB's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a

deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the PLCB's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, material weakness or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the PLCB's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of PLCB's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PLCB's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Eugene A. DePasquale  
Auditor General

December 6, 2016

**COMMONWEALTH OF PENNSYLVANIA  
PENNSYLVANIA LIQUOR CONTROL BOARD  
JUNE 30, 2016  
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This report was initially distributed to the following:

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Pennsylvania Liquor Control Board  
Commonwealth of Pennsylvania

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Budget Secretary  
Commonwealth of Pennsylvania

**The Honorable Timothy A. Reese**  
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