

Virginia Alcoholic Beverage Control Authority Board Meeting

7450 Freight Way
Mechanicsville, Virginia 23116

October 20, 2022 – 9:00am

MINUTES: October 20, 2022

Meeting called to Order at 9:05 a.m.

Attendees

Board Chair Maria Everett
Board Vice-Chair Beth Hungate-Noland
Board Member Greg Holland
Board Member William Euille
Board Member Mark Rubin
Chief Executive Officer, Travis Hill
Chief Government Affairs Officer, John Daniel
Chief of Law Enforcement, Tom Kirby
Chief Retail Operations Officer, Mark Dunham
Director of Education and Prevention, Katie Crumble
Hearing & Appeals Legal Counsel, Rachel Yates
Chief Transformation Officer, Elizabeth Chu
Chief Digital and Brand Officer, Vida Williams
Chief Administrative Officer, David Alfano
Deputy Secretary, Chris Curtis
Executive Assistant, Kathleen LaMotte

Approval of Minutes

The chair has some suggested changes to the minutes of the September 8, 2022 meeting. Board Member Rubin moved to accept the minutes as amended, Vice-Chair Hungate-Noland seconded the motion. The motion passed on a roll-call vote of 4 – 0. Board Member Euille was not present for this vote.

New Business

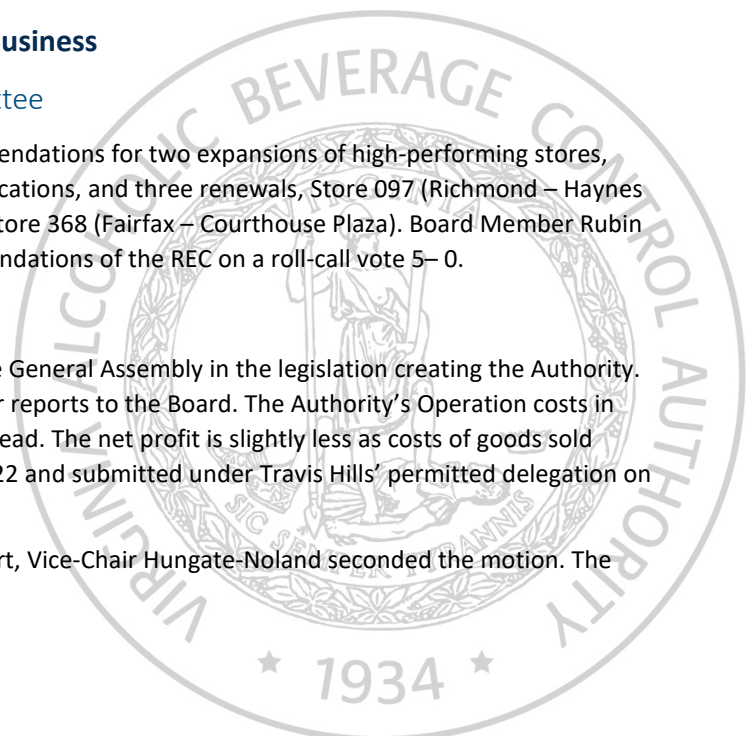
Approve Recommendations of Real Estate Committee

Board Member Holland moved to accept the REC's recommendations for two expansions of high-performing stores, store 051 (Lake Monticello) and store 263 (Norfolk), no relocations, and three renewals, Store 097 (Richmond – Haynes Plaza), store 306 (Virginia Beach – Lynnhaven Square) and store 368 (Fairfax – Courthouse Plaza). Board Member Rubin seconded the motion, and the Board adopted the recommendations of the REC on a roll-call vote 5– 0.

Approve Enactment Clause 14

The annual Enactment Clause 14 report was required by the General Assembly in the legislation creating the Authority. The information included in the report is duplicative of prior reports to the Board. The Authority's Operation costs in FY22 increased, this includes personnel costs, freight, overhead. The net profit is slightly less as costs of goods sold increased. This report was required to be filed by 10/15/2022 and submitted under Travis Hills' permitted delegation on behalf of the Board.

Board Member Euille moved to approve the Clause 14 report, Vice-Chair Hungate-Noland seconded the motion. The motion was approved on a roll-call vote of 5 – 0



The Board declared the annual Enactment Clause 14 report as a routine report before the General Assembly that no longer requires Board Approval each year.

Approve Governor's Advisory Council on Revenue Estimates (GACRE) Forecast

David Alfano reported that:

- The main driver behind the GACRE forecast is revenue, but assumptions, thoughts about economic factors and historic run rates are built in.
- Travis Hill and Mr. Alfano went to the Joint Advisory Board of Economists (JABE) meeting downtown and got perspective on what appointed economic advisors to the Governor are thinking regarding current and future economic conditions. This information helped to shape the Authority's report and projections and help drive views on revenue growth.
- The Authority anticipates the recession will continue to be a factor through 2025 before there is an uptick and return to normal levels.
- Healthcare cost estimates are provided by the State.
- Risks and uncertainties to be monitored but not currently included is the unknown impact of the legal cannabis marketplace.
- The Authority is taking a cautious approach after years of unprecedented growth, which aligns with the Administration's thinking.
- The Authority submitted a request for additional 24 positions in IT; 18 were contractor conversions, 6 were new. Contractor conversion will result in a cost savings due to additional costs charged by contractors.

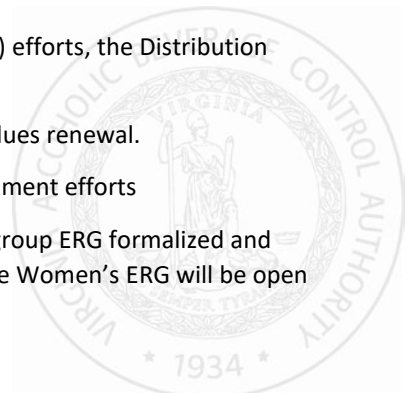
Board Vice-Chair Hungate-Noland moved to approve the GACRE Forecast report and IT MEL Budget Request, Board Member Euille seconded. The motion passed on a voice vote of 5 – 0

Chief Reports

Chief Transformation Officer Report

Elizabeth Chu reported that:

- Materials regarding Change Management, the office of Diversity, Equity and Inclusion (DEI), Change Management Office (CMO) and Strategy and Analytics were included in the Board's materials
- Since last month's report, a new Change Management Practitioner job was posted and HR is currently performing phone screenings on some candidates.
- CMO is working with Mark Dunham on October, November, December (OND) efforts, the Distribution Center reports a positive impact on safety incidents and staff retention
- Efforts continue around online ordering for lottery, customer support and values renewal.
- About 35 stakeholder interviews have been completed around change assessment efforts
- DEI – Director Cortley West has been on board three months, the Veteran's group ERG formalized and held a recent event with Jason Pak, Deputy Secretary for Veterans Affairs. The Women's ERG will be open to all women and allies and work with all ABC employees.



- A Project management snapshot dashboard debuts this month to provide more information at a glance on the health of strategic efforts.
- The Strategy and Analytics Division has revised the PAC process. Voting is now in the hands of the business, before was just IT, Finance and Procurement. Digital and web, Enforcement, and Education and Prevention has a voice in the process. Each quarter PAC votes on submissions and then has a biannual prioritization meeting.
- An update to the Board on the Strategic plan is expected to occur at the February meeting.

GAO Report

John Daniel reported that:

- He has changed the format of the reports to the Board this month. The Authority has made an investment in legal counsel and has list of items before the Office of Legal Counsel (OLC).
- Hearings and Appeals are starting to see an increase as cases come through the VAL system.
- There are a number of FOIA requests this month in the Board's binder, but nothing unusual.
- Four attorneys now on staff from counsel office, hired a risk manager who is also an attorney. A fifth attorney will join the office in mid-November.

Board member Rubin commented that the breadth and depth of the requests to OLC is impressive and complimented the Authority's ability to handle matters in house.

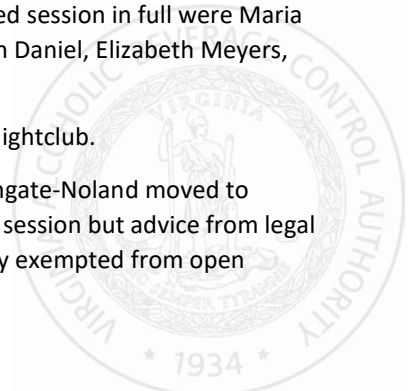
CLEO Report

Chief Tom Kirby reported that:

- Seven new officers starting with Bureau of Law Enforcement (BLE). The last few rounds of hiring only saw about two new officers. Chief Kirby thanked the Board for their support through the classification and compensation process and prior compensation actions. The BLE will stay aggressive in trying to fill about 13 more vacancies.
- Many vacancies are in northern Virginia, targeted recruiting is planned for that region.
- SYNAR Tobacco checks completed, and the Authority's costs were offset by some federal funding. These checks are used to demonstrate underage tobacco prevention efforts that are tied to federal funding for the Department of Behavioral Health and Developmental Services. The Authority completed about 800 checks, with roughly an 83.6% compliance rate.

Closed Session

- At 9:45 a.m., Board Chair Everett moved that the Board enter closed session for legal advice relating to the hearing before the board today with counsel pursuant to 2.2-3711(A)(8). Board member Holland seconded, and the motion passed 5 – 0 on a roll-call vote. Attending the closed session in full were Maria Everett, Beth Hungate-Noland, Greg Holland, Mark Rubin, William Eulle, John Daniel, Elizabeth Meyers, Travis Hill and Chris Curtis.
- The Board suspended the closed session for the hearing regarding Paradise Nightclub.
- When the Board returned from Closed session at 11:40, Board Vice Chair Hungate-Noland moved to certify that to the best of her knowledge nothing was discussed in the closed session but advice from legal counsel pursuant to 2.2-37.11(A)(8), and only public business matters lawfully exempted from open



meeting requirements were discussed. Board Member Euille seconded; the motion passed on a roll-call vote of 5 - 0.

- At 11:41 a.m. Board Chair Everett moved that the Board enter closed session for a consultation regarding litigation pursuant to 2.2-37.11(A)(7). Board Vice-Chair Hungate-Noland seconded, and the motion passed 5 – 0 on a roll-call vote. Attending the closed session in full were Maria Everett, Beth Hungate-Noland, Greg Holland, Mark Rubin, William Euille, John Daniel, Elizabeth Meyers, Travis Hill, John Daniel and Chris Curtis.
- When the Board returned from Closed session at 12:33, Board Vice Chair Hungate-Noland moved to certify that to the best of her knowledge nothing was discussed in the closed session but advice from legal counsel regarding litigation pursuant to 2.2-37.11(A)(7), and only public business matters lawfully exempted from open meeting requirements were discussed. Board Member Euille seconded; the motion passed on a roll-call vote of 5 - 0.

Hearings

In the Matter of Paradise Nightclub, Inc., License Number 754349, The Board Has not yet rendered a decision.

Chief Reports Continued

CDBO Report

Vida Williams reported that:

- Press releases were included in the Board’s packet. The Authority will follow up with officials from the City Norfolk regarding ongoing enforcement efforts in that city involving ABC licensees.
- The Authority is moving forward with digital platform transformation. Procurement has started taking vendor applications and has nine vendors to select from.

Vice-Chair Hungate-Noland asked about any follow-up to the press release regarding the theft by an employee. Ms. Williams advised that there is a trial scheduled for November, and coverage may pick up at that point. A positive, pro-active media push is planned for the next year.

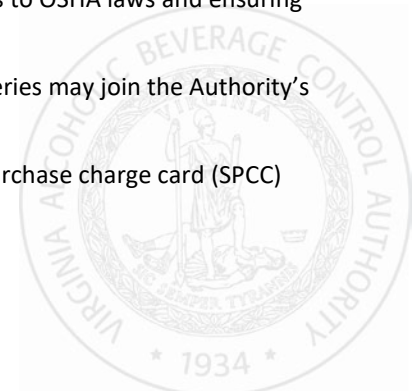
Quarterly Update on the Annual Internal Audit Plan

Ghia Smith, Internal Audit (IA) Manager, reported that:

- IA is currently completing a review of draft versions of updates to the retail operating manual and is awaiting the final version.
- IA has obtained access to GK POS to pull reports out of the system, now IA can test for fraud and review ID challenges.
- The Authority’s new Safety specialist, Loren Yourgal, is working with changes to OSHA laws and ensuring that stores have the most current regulations posted.
- Audits of about six or seven distillery stores are prioritized so that the distilleries may join the Authority’s net payment program.
- IA will meet with procurement to review new policies regarding the small purchase charge card (SPCC) program to include in our response.

Cory Rutledge, IT Audit Supervisor, reported that:

- The APA is closing out their audit of the Authority.



- The Authority is working on an access review project to keep control of users for IT systems. This review will occur annually to ensure that the list is current.
- Document requests are being sent regarding PCI compliance.
- The IT common controls audit report and responses are being finalized following its test of controls applicable to all IT systems.
- Dates of planned audits are being adjusted to accommodate the reestablished Store Audit Program and Director Vacancy and planned IA staff out of office times. IT security audits also moved back to accommodate the busy season in DC.
- IA is in discussions with Logistics regarding the supplier score card. Revisions are being made to the supplier score card to include delivery specification violations.
- Two IT Audits are underway, BAR IT Audit and a Physical Security Audit.

Procurement

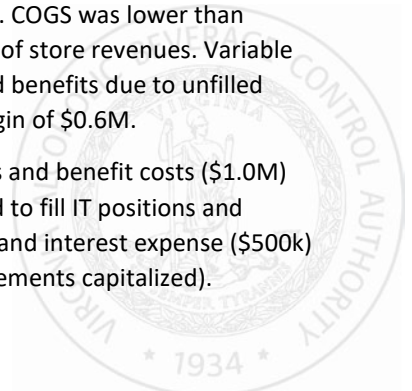
Melissa Watts reported that:

- The SWaM Plan was adjusted in accordance with the Board's comments last month. Procurement will keep as an internal document. The Virginia office of Small Business and Supplier Diversity (SBSD) was able to locate the section of code that exempts ABC from filing a plan. The Authority will participate in events for SWaM Vendors.

Finance

Doug Robinson, the Director of Finance, reported that:

- For the month of August vs budget, store sales were 1.4% below budget at \$112M. Cost of goods sold (COGS) was lower than budget due to the store sales decline but is still tracking at the normal 48.0% of store revenues. Variable costs were \$0.1M below budget largely due to favorable, salaries, wages, and benefits due to unfilled budgeted positions, contribution margin was \$0.4M below budget due to the sales decline.
- Fixed administrative costs were below budget by \$1.7M due to lower salaries and benefit costs (\$500k) due to unfilled budgeted positions, lower skilled services (\$400k) due to hard to fill IT positions and project activity, lower management services (\$200k) and lower depreciation and interest expense (\$200k) due to the delayed implementation of GASB 96 (Subscription-based IT arrangements).
- Regulatory costs were \$0.7M below budget largely from lower salary and benefit costs due to unfilled budgeted positions.
- Overall, the Authority ended the month \$2.0M favorable at a net profit of \$16.7M, or 13.6% above budget.
- For the August YTD vs budget, store sales were 0.4% below budget at \$231M. COGS was lower than budget due to the store sales decline but is still tracking at the normal 48.0% of store revenues. Variable costs were \$0.9M below budget largely due to favorable, salaries, wages, and benefits due to unfilled budgeted positions, resulting in a favorable increase in the Contribution margin of \$0.6M.
- Fixed administrative costs were below budget by \$3.4M due to lower salaries and benefit costs (\$1.0M) due to unfilled budgeted positions, lower skilled services (\$1.1M) due to hard to fill IT positions and project activity, lower management services (\$500k) and lower depreciation and interest expense (\$500k) due to the delayed implementation of GASB 96(Subscription-based IT arrangements capitalized).



- Regulatory costs were \$1.3M below budget largely from lower salary and benefit costs due to unfilled budgeted positions.
- After adjusting for the favorable variances in fixed costs, the Authority come up with a net profit of \$35.7M which is \$5.3M above budget, 17.5% ahead of budget.

Chief Reports

CROO Report

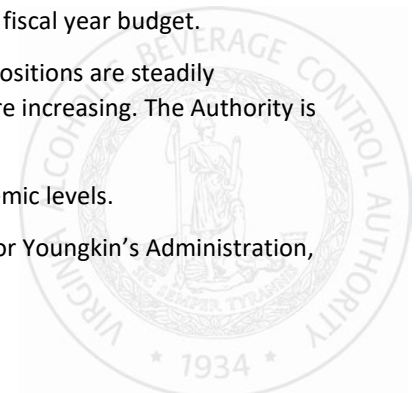
Mark Dunham Reported that:

- In September and October though sales remain volatile, they are coming up and 1.8% above last year's totals and 0.8% above the target.
- DC Out of stocks are in a better position than last year from an inventory health position, yet continue to be higher than historical averages.
- The Authority is bringing inventory in earlier to ensure availability of products during OND. The Authority is performing as well we can with current inventory.
- Employee turnover in the warehouse was 120%, now down to 22.5%. The Authority has re-implemented an incentive program and has regular meetings with HR and employee representatives.
- Marketing recently highlighted Virginia Spirits in September. Virginia made spirits sales are up 37.5% or \$569K for the month of September. That growth accounts for 8.85% of the overall \$6.4M growth in total spirits for September.
- The Spirited Thursday promotion in September celebrated Bourbon Heritage Month. Bottle sales were up 64.9% versus a year ago.
- A New listings and de-listings process is coming, Mr. Dunham anticipates suppliers may reach out to the Board with questions and comments. The Authority is optimizing store space with growing categories and price points desired by customers.
- The next Grand Opening is in Winchester on 11/9. The recent grand opening event in Independence went well.

CEO Report

Travis Hill reported that:

- The IT Monthly update was included in the Board's packet. Paul Williams has returned to work virtually and is working a limited schedule. IT is 13% under budget with high-paid and hard-to-fill positions vacant. The Oracle 19 upgrade is complete. There was an unforeseen impact to the licensing system, but the team was able to catch up within a day.
- The HR Report includes new positions filled that were created in the current fiscal year budget.
- The Authority KPI report contains two categories trending to red – in stock positions are steadily improving but not where we want to be. The wage and staff turnover rate are increasing. The Authority is launching a recruitment campaign to try to complete hard to fill positions.
- Ecommerce transactions have leveled out but remain higher than pre-pandemic levels.
- Mr. Hill shared the monthly management review that is shared with Governor Youngkin's Administration, the next meeting is November 1.



Other business items:

- Mr. Hill and Chief Kirby shared that there is a continuing issue in the Hampton Roads/Newport News area of brazen larcenies. The ABC BLE is working with multiple jurisdictions, and at least one arrest has been made at this time. A bystander was injured by getting hit with a bottle. Retail and Enforcement are working together to properly educate employees to take actions that prioritize protecting themselves and their customers over any concern over product loss. The Authority is looking to engage with retail federations with national larceny trends.
- A Distillery shipping portal was stood up for distillery stores so they can ship through Virginia ABC stores. The original process was difficult for distillers, and a new portal put together by Erin Mitchell, Andrew McEnhimer and others. While the process is not seamless yet, it is now more automated for distillers.
- ABC will host the National Conference of State Liquor Administrators conference at the Downtown Hilton Richmond. About 16 other states plan to attend.
- Recruitment continues for the IA Director, none of the first-round candidates were selected to move on to a second interview.
- The November Board meeting will have three approvals: the annual reports from Virginia Higher Education Substance Use Advisory Committee (VHESUAC) and Virginia Office for Substance Abuse Prevention (VOSAP), as well as the Authority's Annual Report.

Comments from the Board

Board Member Holland asked about a recent article regarding the Short Pump Town Center's request for a liquor license. Chief Kirby responded that their application was received, and the Authority will determine their eligibility.

Public Comments

None

Meeting Adjournment

Meeting adjournment at 2:30 pm.

