

BOARD MEETING MINUTES:

February 21, 2024

ABC Headquarters

Call Meeting to Order at 9:03 a.m.

A Attendees

Board Chair Tim Hugo
Board Member Greg Holland *
Board Member William Euille
Board Member Mark Rubin
Chief Government Affairs Officer, John Daniel
Chief of Law Enforcement, Tom Kirby
Chief Retail Operations Officer, Mark Dunham
Chief Administrative Officer, David Alfano
Deputy Secretary, Chris Curtis
Director of Retail, Jennifer Burke
Director of Strategy and Analytics, Mike Berman
Office of the Attorney General, Elizabeth Meyers
Executive Assistant, Kathleen LaMotte
Senior Paralegal, Helen Gordon
Senior Paralegal, Kristie Miles
Paralegal, Stephen Long

** Mr. Holland arrived at 9:10 due to traffic conditions*

Approval of Minutes

The Board reviewed the minutes from the December 13, 2023 and January 9, 2024 board meetings. Board Member Euille moved to approve the minutes from December 13, 2023 as written. Mr. Rubin seconded, and the motion carried on a roll call vote of 3 – 0.

Mr. Rubin moved to accept the January 9, 2024 minutes as written. Mr. Euille seconded, and the motion carried on a roll call vote of 3 – 0.

Announcement from Chair

Chairman Hugo announced that Robert Sledd resigned from the ABC Board, as he has taken a position with Governor Youngkin's office.

Board Member Rubin stated that he appreciated Mr. Sledd's good advice during their brief time on the Board together.

Approve Recommendations of Real Estate Committee

Mr. Kirby reviewed the recommendations from the January and February Real Estate Committee (REC) meetings.

REC recommended the relocation of Store 233 (Gloucester), and the renewals of 11 new stores, stores 038 (New Kent), 192 (Kilmarnock), 287 (Lynchburg), 042 (Mount Vernon), 109 (Rosslyn), 112 (Hampton), 123 (Clifton Forge), 209 (Fredericksburg), 218 (Gate City), 290 (Grafton), and 362 (Sterling).

Mr. Euille moved to accept the REC's recommendations. Mr. Rubin seconded the motion, and the Board adopted the recommendations of the REC on a roll-call vote of 3– 0.

Acting CEO Comment

There is a change to today's agenda, the planned IT update will be postponed due to the illness of a key staff member scheduled to present.

Legislative Update

Mr. Daniel reported that:

- An updated legislative matrix was passed out to the Board, and is attached to these minutes as Appendix A.
- Several bills which concern the Authority are in the seven-day review category, and several more that may move to that category by the end of the week.
- Several bills have passed concerning licenses for performing arts venues.
- The Authority was successful in changing the process for summary suspensions by allowing an extra day to complete Enforcement's necessary work, as the precipitating incidents often happen over the weekend.
- The General Assembly approved resolutions honoring former Authority CEO Travis Hill, and a commending resolution for Authority with respect to 90th anniversary.

Board member Rubin asked for an update on Skill Games. Mr. Daniel responded that new legislation will be passed this session, and there appears there is a strong desire to have the games be lawful as early as July 1. The long-term plan may be to have them regulated by the Virginia Lottery while a Gaming Commission gets up and running. The Authority may also regulate skill games for 18 months and there are still several bills still under consideration. The General Assembly is trying to capture initiatives to eliminate the black-market machines, with assurance that machines would be tested to ensure they are doing what they are supposed to with payouts and algorithms matching. These would be new responsibilities beyond what the ABC previously performed when this Authority was charged with the regulation of skill games initially.

Chairman Hugo inquired if the regulation by the Authority would potentially be a short-term proposition, would there be more staff needed? Mr. Daniel responded that the Authority may need to hire as many as 30 positions for 18 months. Solutions are still being considered, it is the hope that the hires would be temporary and then they would transfer to the state agency that will regulate skill games after the ABC. Chief Kirby added that there are still several bills in consideration that are different in nature, and the Authority is preparing for potential outcomes, but the ultimate shape of the future of skill games in the Commonwealth is not final. Per Mr. Daniel, the Authority is being diligent and thoughtful to position ourselves to deliver whatever policy the legislature updates.

- Both chambers reduced the required budget transfer from the Authority. The Senate's proposed budget language also contains a change relative to the status of this Authority as an independent agency opposed to being under the Secretary of Public Safety and Homeland Security. This could allow the Authority to implement pay for performance that was not permitted under previous budget language.

Mr. Rubin – in the reduction of revenues, is there a caboose budget for this fiscal year or similar adjustments dealing with the two-year budget? Mr. Daniel responded that the adjustments concern the last fiscal year, and more will be covered in Mr. Alfano's upcoming presentation.

Mr. Rubin remarked that what is required in profit transfer in the two-year budget is still based on a 5% growth rate, which is unrealistic, so it will either require an adjustment or we have to find significant savings to reach that number.

Financial Update

Chief Kirby and Mr. Alfano reported that:

- Chief Kirby reviewed the financial updates for December and January, attached to these minutes as Appendix B
- The Authority has experienced a decline in sales, January's sales were 2.4% less than January 2023, and only up 1.5% for the fiscal year compared to FY2023 and is significantly less than the 5% that was required in the budget forecast.
- For the six months ending December 2023, ABC net profits were \$1.6M favorable to budget.
- The Authority must exercise caution. Examination of data from other control states indicates that other states are experiencing a downturn in sales as well. Increased profitability has been achieved through cost savings measures, which are not sustainable.
- January demonstrated very slow revenue growth. The Authority speculates factors such as the "Dry January" movement, and store closures due to inclement weather negatively impacted sales. About 1,400 hours were lost across the state due to snow and ice.
- The Authority has reviewed every budget, every division, and Mr. Kirby is proud of staff and willingness to look for cost savings measures. The Authority hopes to be very close to what the General Assembly is requiring for profit transfer and plan to hold expenses where they are now and seek to increase revenue.

Mr. Rubin asked about the return on investment for billboard advertising and expanded store hours. The billboards were only in place for four days in December to advertise last-minute deals for the holidays.

Mr. Rubin stated that when the Board and the Authority went through an initial budgeting exercise in 2023, many items were identified to be eliminated. Eric Moeller, the former Commonwealth CTO encouraged the advertising budget should be cut, among other suggestions. While Mr. Rubin is proud of the belt tightening, what is the impact of the expense cutting? What are we losing as a result of the expense cuts? Mr. Alfano responded that the Authority is operating in a lean and efficient manner. In addition to some of the things Mr. Rubin mentioned, such as minimal investments in advertising, the biggest gains are in the personnel category by not filling positions when employees voluntarily separate from the Authority, which puts additional strain on employees that remain. Each position is evaluated to decide if not filling it would impede the organization. Mr. Kirby and Mr. Alfano must approve all positions to be recruited. There are currently three vacant C-Level positions. Mr. Kirby and Mr. Alfano also approve all purchase orders and contracts and expenditures over \$10,000 are subject to second review.

- The Authority is doing what we can to keep stores and distribution center up and running.
- Chief Kirby added that the Authority is not arbitrary in making decisions, and is soliciting information from hiring managers, and considering what happens if job not filled. By scrutinizing every position and trying to find cost savings, the Authority intends to meet the budget. The Authority also intends to increase revenue by increased promotions, billboards, and extended hours. Revenue has plateaued, coming out of January year-over-year growth is below 1.5%. Projects are limited as far as investment in the Authority moving forward.
- The Authority will start planning the next ABC budget in March with updated profit transfers.

Mr. Rubin inquired that if we had gone with original adopted budget, would these conversations still be happening? The reason we are in this spot is because revenue was overpromised to the General Assembly based on an unrealistic growth forecast. Mr. Alfano responded that if the Authority was still at the original budget, we would be going through less of this.

- Chief Kirby returned to the presentation. Every month through June of 2023, the Authority experienced an increase of over 5%. There were cost savings of about 21 million in that previous budget. Starting in July of 2023, sales decreased drastically. The Authority is doing more with less, and employees are taking on additional jobs and taking steps to continue to deliver a reliable revenue stream to the Commonwealth. A million dollar shortage in revenue impacts net profits by about \$350,000.

Mr. Rubin stated that for the future, what happened in that budget discussion is that the CTO was looking backwards, looking at historic 5% growth rate, not looking forward, not looking at threats. In the future, hope that we don't look backwards. Mr. Rubin commented that he understands stretch budgets in private companies, but thinks it is a mistake for a public entity. Mr. Hugo asked if Mr. Rubin voted for the budget. Mr. Rubin stated that he voted for the budget as he was directed to.

Mr. Hugo agreed with Mr. Rubin that the Authority should re-evaluate the spending on advertising.

- Mr. Alfano stated that the Authority forecasted to save an additional \$10.9 million through the end of the fiscal year. The Authority will continue to fill as many positions as needed related to the direct sales of alcohol.

Mr. Hugo read from an email he received from a distilled spirits group that was highly complementary of the Authority's efforts to responsibly sell alcohol and work with industry partners in growing their business and participating in pilot programs. Mr. Hugo agreed with Mr. Rubin that there is a political aspect to the ABC's work but cautioned not to get too process oriented. While sales nationwide are down, we need to economize and focus on selling responsibly. While Mr. Hugo is not sure about billboards, a focus on advertising is worthwhile. Mr. Hugo recognized that the ABC does have a monopoly on spirits, but there is competition with beer and wine for the consumer's dollar.

- Chief Kirby stated that if the Authority can hold at current forecast net profit margins increased to 19.1% versus the budget of 18.9%

Hearings

HOLD FOR INFO FROM KRISTIE MILES

Closed session

At 10:40 Mr. Hugo moved that the Board convene into closed session pursuant to lawfully exempted consultation with legal counsel 2.2-3711(A)(46) to discuss the appeal hearing. Attending the closed session in full were all Board members, Elizabeth Meyers, Kristie Miles, John Daniel, Stephen Long, Chris Curtis and John Daniel. Mr. Euille seconded the motion, and the motion passed on a roll call vote of 4 – 0.

Return to Open Session

When the Board returned from Closed session at 11:00, Mr. Hugo moved to certify that to the best of his knowledge nothing was discussed in the closed sessions but consultation regarding the appeal hearing as discussed in the motion to convene in closed session 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 4 – 0.

Mr. Euille made a motion to substantiate the hearing officer's decision in the matter of Malakhi Lounge and Jamaican Restaurant, which was seconded by Mr. Holland. The motion carried on a roll-call vote of 4 – 0.

Chair Discussion

Upcoming Board meetings will be held on March 27 and April 17. Mr. Euille stated that more timely meetings were needed as opposed to every 45 days to keep the Board engaged with Authority staff. Mr. Holland and Mr. Rubin agreed. The Chair directed Ms. LaMotte to circulate dates to the Board to consider for May and June meeting dates.

Financial Update Continued

Mr. Kirby reported that:

- In January of 2024, ABC closed out January with 1.5% revenue growth year-to-date. This was due to dismal January results.
- Mr. Alfano reviewed the January sales, with a decrease attributed to 1400 hours of sales lost due to weather-related closures and possibly due to “Dry January” trend.
- Administrative hours in the store were over budget and sales were under budget. Finance and retail have had several conversations lately to ensure stores are not over budget for allocated hours again. At the beginning of this fiscal year the Authority exceeded the number of hours and personnel expenses that were budgeted for the stores. This shortfall was narrowed by the end of the calendar year. However, in January more hours were allocated to the stores than were budgeted, and stores exceeded what was allocated to them.
- Finance and retail have had conversations about how to prevent this in the future and will temper variations by reviewing store labor and hours.

Mr. Rubin asked how that could happen with the budget and schedule? Mr. Alfano responded that the Authority developed a schedule for the number of hours allocated to the stores to assist retail in recouping the overspend in July and August.. Stores utilized more hours in January than allocated.

Mr. Rubin asked if this was a function of retail deciding the labor in the store each month. Mr. Alfano responded that the Authority is working with retail constantly to ensure the stores have the manpower and hours they require.

- Finance started conversations with retail to investigate what happened, and looked at how to strengthen controls, ensure correct allocation to stores, and review that stores do not exceed their allocated hours.
- Ms. Burke, the Director of Retail, advised that in March a plan will be put into place to get a good part of the time back. A meeting was held yesterday with district managers, who are struggling to replace full-time employees on PTO with the wage hours allocated to them. Retail overspent by 16,000 hours, but this lines up with PTO for full-time employees.
- Mr. Alfano advised that the Authority will put more real-time monitoring in place to communicate with stores if they are going over budgeted hours. There needs to be some level of approval, if there’s a salaried person out for a period of time that will be covered by wage personnel.
- Ms. Burke advised that retail completed a slim-down of the already slimmed budget and doesn’t have much room to go.
- Mr. Kirby advised that the efforts put in place were effective. With 400 stores operating six days a week, and many operating seven days a week, it is easy to exceed allocated hours. Retail and finance worked together to cure the overage in July and August and put parameters in place to take care of it. Mr. Kirby believed that the actions taken were successful, then in January there was \$500,000 in overage. Retail and finance were asked to work together to determine the hours needed to run the stores and monitor more closely to ensure stores are not exceeding allocation. Reviewing monthly is not enough.

Mr. Holland asked how this occurred. Is the store manager in charge of approving people’s hours? Ms. Burke responded that the Authority does a monthly allocation to store managers, who build their own schedule. In the past, Mavis Reid, who recently retired from ABC, would help monitor that for them. Stores were not understanding that they couldn’t use the hours for a full-time employee who was on leave and give the hours to a wage employee. The hours given to each store are approved by Ms. Burke along with finance.

- Mr. Alfano advised that consequences should go to the managers who overscheduled, not the store wage employees who worked additional hours.
- The Authority was 3.3 million dollars unfavorable at the end of January. The Authority is in an extremely vulnerable position where every dollar really matters and that's why it is being closely watched. There is still vulnerability related to our store sales. Secondarily if there are any unexpected costs, such as a large piece of equipment breaking, it would impact the Authority considerably.

Mr. Holland stated that the Authority is consistently behind on the weekly revenue report. Mr. Alfano responded that the Authority is \$26.8 M behind., Mr. Kirby advised that per data from the National Alcoholic Beverage Control Association (NABCA), while Virginia is down 1.7%, we are faring better than other control states.

Mr. Holland asked if NABCA said about six months ago that they expected revenue to hold flat? Mr. Berman responded that he was unable to confirm that statement.

- Mr. Kirby advised that if the Authority held at a 1.4% revenue growth, there will still be an impact to profit of about \$16.9M. The Authority is projecting to save another \$10.9M from now through June 30th.
- The General Assembly is aware that the ABC is running below forecasted profits and took some action in the budget by reducing the expected profit return. Wanted to call out to our Board that it will be extremely tight and hopefully will meet expectation. ABC is dedicated to meeting these goals as set by the Board.

Mr. Euille requested a breakdown of the \$10.9 additional savings. Mr. Alfano advised that roughly half is related to savings in personnel. Credit card fees will be reduced in line with reduced revenue. The Authority will pull together specifics for the Board.

Mr. Holland advised that he appreciates how much everyone has cut their expenses, but it's looking like it is not enough. Mr. Alfano responded that if sales continue to dip, it will not be.

- Forecasts for FY 25 and 26 have been re-worked based on FY24 efforts. The projection of continued 5% growth in sales is not likely to happen, so the forecasts were lessened to be more accurate.
- Mr. Kirby has heard the Board's concerns about investing in the organization, specifically replacing outdated systems and investing in employees. The future forecast is slim with not a lot of investment, certainly not in the area of compensation and wages.

Mr. Hugo urged the Authority to continue to run like a business. Cutting the budget is what a business does. Next year will be a challenge, it will present an opportunity to the Authority to continue to operate like a business and pump-up revenue.

Mr. Hugo asked about the impact of theft on sales. Mr. Kirby responded that most retailers are facing this issue. The Authority has a hypothesis that over-protecting product effects revenue. If a customer has to wait more than one minute and 45 seconds, they move on. NABCA had slideshow on this topic that Mr. Kirby will share with the Board. While there's not direct competition for spirits, people could go to the supermarket and buy canned cocktails and beer and wine. People are still purchasing premium products but buying smaller bottles.

- Some states with legal marijuana available have seen an impact on sales of alcohol. The GA has several marijuana-related bills under consideration this session.

Public Comment

Mr. Hugo called for any Public Comment, none was received.

Closed Session

At 11:46 a.m., Mr. Hugo moved that the Board enter closed session Virginia Code §2.2 37.11(A)(1)(7)(8) to discuss personnel, legal advice and counsel on probable or actual litigation on cases pending before the Board. Mr. Euille

seconded. The motion passed on a roll call vote of 4 – 0. Attending the closed session in full were Tim Hugo, Greg Holland, Mark Rubin, William Euille, Tom Kirby, Chris Curtis, David Alfano, and Elizabeth Meyers.

Return to Open Session

When the Board returned from Closed session at 12:48pm, Mr. Hugo moved to certify that to the best of his knowledge nothing was discussed in the closed sessions but legal advice and counsel on probable or actual litigation pursuant to §2.2 37.11(A)(7), and only public business matters lawfully exempted from open meeting requirements was discussed. Board Member Holland seconded; the motion passed on a roll-call vote of 4 - 0.

Meeting Adjournment

Meeting adjournment at 12:50 p.m.





Bill No.	Summary	Chief Patron	Last Action	Scheduled Meeting Date	LAS Submitted	VA ABC Position	Admin Bill	Admin Position	FIS Required	FIS Submitted	FIS	EBR	EBR Submitted	Last VA ABC Action
HB 29	Budget Bill. Amends Chapter 2 of the Acts of Assembly of 2022, Special Session I, as amended by Chapter 769 of the Acts of Assembly of 2023, as further amended by Chapter 1 of the Acts of Assembly of 2023, Special Session I,	Luke E. Torian	02/20/24 House: Read first time											
HB 30	Budget Bill. Provides for all appropriations of the Budget submitted by the Governor of Virginia in accordance with the provisions of § 2.2-1509 of the Code of Virginia, and provides a portion of revenues for the two years ending respectively on the thirtieth day of June 2025 and the thirtieth day of June 2026.	Luke E. Torian	02/20/24 House: Read first time											
HB 101	Alcoholic beverage control; annual mixed beverage performing arts facility licenses. Allows the Board of Directors of the Virginia Alcoholic Beverage Control Authority to issue annual mixed beverage performing arts facility licenses to persons operating food concessions at any performing arts amphitheater, arena, or similar facility that has a total capacity in excess of 3,000 patrons and is located in the City of Virginia Beach.	Anne Ferrell Tata	01/30/24 House: Tabled in General Laws (21-Y 0-N)		Submitted 01/04/24	No Position			No					
HB 307	Alcoholic beverage control; exemptions from licensure; manufacture of spirits at personal residence for domestic consumption. Exempts from the licensure requirements of the Alcoholic Beverage Control Act any person who, after being granted a permit by the Board of Directors of the Virginia Alcoholic Beverage Control Authority to keep, store, or possess any still or distilling apparatus for the purpose of distilling alcohol, manufactures at his residence for domestic consumption spirits in an amount not to exceed (i) 100 gallons per year if there are two or more persons 21 years of age or older residing in the residence or (ii) 50 gallons per year if there is only one person 21 years of age or older residing in the residence.	Jason S. Ballard	02/13/24 House: Left in General Laws		Submitted 1/8/2024	Oppose		No Position	No					
HB 381	Virginia Public Procurement Act; participation by veteran-owned small businesses. Requires all public bodies to include in their goals for participation by small businesses a minimum of five percent participation by veteran-owned businesses and service disabled veteran-owned businesses. Current law only requires a goal of three percent participation by service disabled veteran-owned businesses and does not impose such goal upon local public bodies. The bill also requires the Department of General Services to update the eVA portal to include a category for veteran-owned and service disabled veteran-owned small businesses that is conspicuous to the general public to easily display and search set-aside opportunities for such businesses.	Michael B. Feggans	02/13/24 House: Left in General Laws											
HB 522	Alcoholic beverage control; advertisements. Directs the Board of Directors of the Virginia Alcoholic Beverage Control Authority to promulgate regulations that prescribe the terms and conditions under which manufacturers, brokers, importers and wholesalers may advertise and promote alcoholic beverages via the Internet, social media, direct-to-consumer electronic communication, or other electronic means.	Paul E. Krizek	02/20/24 Senate: Passed Senate (40-Y 0-N)		Submitted 1/9/24	No Position			No					
HB 559	Alcoholic beverage control; mixed beverage performing arts facility license; Pulaski County. Amends certain provisions related to the granting of a mixed beverage performing arts facility license by the Board of Directors of the Virginia Alcoholic Beverage Control Authority to allow certain facilities in Pulaski County to be eligible for such license.	Jason S. Ballard	02/13/24 House: Left in General Laws		Submitted 1/9/24	No Position			No					
HB 590	Virginia Small Business Economic Development Act established; regulation of skill games; registration; penalties. Establishes the Virginia Small Business Economic Development Act for the purpose of providing a regulatory and registration scheme for skill game machines in the Commonwealth. The bill directs the Virginia Alcoholic Beverage Control Authority to adopt emergency regulations to implement the provisions of the bill and directs the Department of Taxation to collect a monthly tax of 15 percent from the gross revenue of each skill game machine from each skill game distributor.	C.E. Cliff Hayes, Jr.	02/13/24 Senate: Referred to Committee on General Laws and Technology	February 21, 2024 - 30 minutes after adjournment/Senate Room B	Submitted 1/16/24	No Position			Yes	Yes				
HB 688	Alcoholic beverage control; sale and delivery of mixed beverages and pre-mixed wine for off-premises consumption; third-party delivery license; sunset; repeal. Repeals the July 1, 2024, sunset on provisions that allow (i) distillers that have been appointed as agents of the Board of Directors of the Virginia Alcoholic Beverage Control Authority, mixed beverage restaurant licensees, and limited mixed beverage restaurant licensees to sell mixed beverages for off-premises consumption and (ii) farm winery licensees to sell pre-mixed wine for off-premises consumption. The bill also repeals, effective July 1, 2026, third-party delivery licenses. The bill requires the Authority to convene a work group to review third-party delivery licenses and report its findings and recommendations to the Chairmen of the House Committee on General Laws and the Senate Committee on Rehabilitation and Social Services by November 15, 2024.	James A. "Jay" Leftwich	02/20/24 Senate: Passed Senate (40-Y 0-N)		Submitted 1/11/24	No Position		Support						
HB722	Department of Planning and Budget; Regulatory Budget Program established; report. Directs the Department of Planning and Budget to establish a Regulatory Budget Program under which each executive branch agency subject to the Administrative Process Act shall reduce overall regulatory requirements by 30 percent by January 1, 2027. The bill requires the Department to report to the Speaker of the House of Delegates and the Chairman of the Senate Committee on Rules on the status of the Program no later than October 1 of each year, beginning October 1, 2025. Finally, the bill provides that the Department, in consultation with the Office of the Governor, shall issue guidance for agencies regarding the Program and how an agency can comply with the requirements of the Program. The bill has an expiration date of January 1, 2027.	Michael J. Webert	01/30/24 House: Stricken from docket by General Laws (22-Y 0-N)											

Bill No.	Summary	Chief Patron	Last Action	Scheduled Meeting Date	LAS Submitted	VA ABC Position	Admin Bill	Admin Position	FIS Required	FIS Submitted	FIS	EBR	EBR Submitted	Last VA ABC Action
HB 774	Alcohol safety action program; local administrative fee. Provides that any county, city, or town, or any combination thereof, that has established and operates an alcohol safety action program and supplements fees collected for the program pursuant to general law by more than 33 percent annually in order to fully fund the program may charge a local administrative fee of no more than \$100 to each person entering such program.	Charniele L. Herring	02/14/24 Senate: Continued to 2025 in Courts of Justice (8-Y 7-N)											
HB 1050	Alcoholic beverage control; confectionery mixed beverage retail license. Creates a confectionery mixed beverage retail license that authorizes the licensee to prepare and sell on the licensed premises for on-and-off premises consumption confectionery that contains five percent or less alcohol by volume. The bill provides that any alcohol contained in such confectionery shall not be in liquid form at the time of sale, unless such confectionery is a frozen dessert, as defined in the bill. The bill also sets the state and local license fee for such confectionery license and repeals the provisions of alcoholic beverage control law that created an off-premises wine and beer confectionery license.	Amanda E. Batten	02/13/24 House: Left in General Laws											
HB 1095	Commonwealth information security requirements. Requires state public bodies, defined in the bill, to (i) comply with the Commonwealth's security policies and standards, (ii) ensure each of their employees completes information security training, (iii) conduct regular security audits, (iv) report the results of such audits to the appropriate entity, and (v) implement security monitoring and enter into memoranda of understanding with the CIO for sharing information with the Commonwealth's central information security systems. The bill directs the Chief Information Officer of the Commonwealth to (a) publish and maintain a list of the Commonwealth's security policies and standards with which state public bodies are required to comply, (b) ensure that transition meetings with state public bodies occur, and (c) document such transitions and any exemptions from the requirements of the bill.	Delores Oates	02/13/24 House: Left in Communications, Technology and Innovation											
HB 1117	Alcoholic beverage control; mixed beverage performing arts facility license; Cities of Norfolk and Richmond; minimum patron capacity. Reduces from 1,400 to 400 the minimum patron capacity a performing arts facility in the City of Norfolk or Richmond is required to have as one of the conditions for being granted a mixed beverage license by the Board of Directors of the Virginia Alcoholic Beverage Control Authority.	Betsy B. Carr	02/13/24 House: Left in General Laws		Submitted 1/12/24	No Position								
HB 1118	Alcoholic beverage control; annual mixed beverage performing arts facility licenses. Allows the Board of Directors of the Virginia Alcoholic Beverage Control Authority to issue annual mixed beverage performing arts facility licenses to persons operating food concessions at any (i) performing arts facility located in the City of Charlottesville, provided that the performing arts facility (a) is occupied under a bona fide long-term lease or concession agreement, the original term of which was more than five years; (b) has a total capacity in excess of 550 patrons; and (c) has been rehabilitated in accordance with historic preservation standards; (ii) outdoor performing arts amphitheater, arena, or similar facility that has seating for more than 5,000 persons and is located in the City of Richmond; or (iii) outdoor performing arts amphitheater, arena, or similar facility that has seating for more than 2,500 persons and is located in the City of Charlottesville.	Betsy B. Carr	02/13/24 House: Left in General Laws		Submitted 1/12/24	No Position								
HB 1192	State debt collection; statute of limitations. Establishes a seven year statute of limitations on the commencement of any action by a state agency or institution to collect past due accounts receivable due to the Commonwealth.	Phillip A. Scott	02/08/24 House: Continued to 2025 in General Laws by voice vote											
HB 1298	Retail licenses.	Wren M. Williams	02/13/24 House: Left in General Laws		Submitted 1/15/24	Amend								
HB 1349	Alcoholic beverage control; annual mixed beverage performing arts facility licenses; on-and-off premises wine and beer licenses. Defines performing arts facility and standardizes the eligibility criteria for annual mixed beverage performing arts facility licenses and on-and-off-premises wine and beer licenses for performing arts food concessionaires. Under current law, the eligibility criteria for such licenses varies by location and includes inconsistent ownership, lease, capacity, and seating requirements.	Paul E. Krizek	02/20/24 Senate: Passed Senate (40-Y 0-N)		Submitted 1/15/24	No Position								

Bill No.	Summary	Chief Patron	Last Action	Scheduled Meeting Date	LAS Submitted	VA ABC Position	Admin Bill	Admin Position	FIS Required	FIS Submitted	FIS	EBR	EBR Submitted	Last VA ABC Action
HB 1509	Restrictions on the sale of nicotine vapor products containing liquid nicotine and hemp products intended for smoking; civil penalties. Provides restrictions and prohibitions on certain retail sales that include (i) restrictions on the number of nicotine vapor products containing liquid nicotine, liquid nicotine containers, and hemp products intended for smoking, as such terms are defined in the bill, that may be sold in one transaction to a consumer; (ii) packaging, labeling, and signage requirements for those selling any nicotine vapor products containing liquid nicotine or hemp products intended for smoking; (iii) advertising and marketing requirements for those selling any nicotine vapor products containing liquid nicotine or hemp products intended for smoking; (iv) education requirements for employees at retail establishments selling nicotine vapor products containing liquid nicotine or hemp products intended for smoking; and (v) online delivery sale requirements of nicotine vapor products containing liquid nicotine or hemp products intended for smoking. The Virginia Alcoholic Beverage Control Authority and the Virginia Department of Agriculture and Consumer Services, as applicable, shall enforce such requirements and restrictions and shall impose civil penalties on violations thereof.	Holly M. Seibold	02/13/24 House: Left in Appropriations			No Position			Yes	Yes				
HB 1547	Alcohol safety action program; entry into program; fee. Increases from \$300 to \$400 the maximum fee a person may be required to pay when entering a court-ordered alcohol safety action program.	Thomas C. Wright, Jr.	02/13/24 House: Left in Courts of Justice											
HJ 104	Commending Travis G. Hill.	Paul E. Krizek	02/08/24 Senate: Agreed to by Senate by voice vote											
SB 26	Alcoholic beverage control; public consumption; exemption. Provides that the prohibition on drinking or offering to another an alcoholic beverage in public shall not apply when such acts are conducted on the premises of a campground located on private property at which a majority of the campers use travel or tent trailers, pickup campers, or motor homes or similar recreational vehicles.	William M. Stanley, Jr.	02/14/24 House: Assigned GL sub: ABC/Gaming		Submitted 12/22/23	No Position			No					
SB 29	Budget Bill. Amends Chapter 2 of the Acts of Assembly of 2022, Special Session I, as amended by Chapter 769 of the Acts of Assembly of 2023, as further amended by Chapter 1 of the Acts of Assembly of 2023, Special Session I.	L. Louise Lucas	02/20/24 Senate: Read first time											
SB 30	Budget Bill. Provides for all appropriations of the Budget submitted by the Governor of Virginia in accordance with the provisions of § 2.2-1509 of the Code of Virginia, and provides a portion of revenues for the two years ending respectively on the thirtieth day of June 2025 and the thirtieth day of June 2026.	L. Louise Lucas	02/20/24 Senate: Read first time											
SB 57	Carrying a concealed handgun onto the premises of any restaurant; penalty. Makes it a Class 2 misdemeanor for any person, except for active and qualified retired law-enforcement officers, to carry a concealed handgun onto the premises of any restaurant or club for which a license to sell and serve alcoholic beverages for on-premises consumption has been granted by the Virginia Alcoholic Beverage Control Authority. Under current law, a concealed handgun permit holder may carry a concealed handgun onto the premises of any restaurant or club that sells alcoholic beverages, but he is guilty of a Class 2 misdemeanor if he consumes an alcoholic beverage while on the premises.	Saddam Azlan Salim	02/14/24 House: Assigned PS sub: Firearms	02/22/2024 07:30 AM - House North Subcommittee Room - 200										
SB 95	Preliminary analysis of breath to determine alcoholic content of blood; failure to advise person of rights. Provides that if a police officer or a member of any sheriff's department fails to adequately advise a person of his rights to refuse a preliminary breath test, any preliminary breath test sample shall not be admissible for the purpose of determining probable cause.	William M. Stanley, Jr.	02/19/24 House: Subcommittee recommends reporting with amendments (8-Y 0-N)											
SB 168	Alcoholic beverage control; food-to-beverage ratio. Reduces the current 45 percent food-to-beverage ratio for certain mixed beverage licensees. The bill requires that a mixed beverage restaurant, caterer's, or limited caterer's licensee meet or exceed the following: (i) for such licensees with monthly food sales of at least \$4,000 but less than \$10,000, the food-to-beverage ratio shall be 35 percent and (ii) for such licensees with monthly food sales of at least \$10,000, there shall be no food-to-beverage ratio requirement imposed.	Bryce E. Reeves	02/14/24 House: Assigned GL sub: ABC/Gaming		Submitted 1/9/24	No Position			No					
SB 180	Alcoholic beverage control; annual mixed beverage performing arts facility licenses. Allows the Board of Directors of the Virginia Alcoholic Beverage Control Authority to issue annual mixed beverage performing arts facility licenses to persons operating food concessions at any performing arts amphitheater, arena, or similar facility that has a total capacity in excess of 3,000 patrons and is located in the City of Virginia Beach.	Bill DeSteph	02/20/24 House: Subcommittee recommends reporting with substitute (7-Y 0-N)		Submitted 1/9/24	No Position			No					
SB 182	Alcoholic beverage control; advertisements. Directs the Board of Directors of the Virginia Alcoholic Beverage Control Authority to promulgate regulations that prescribe the terms and conditions under which manufacturers, brokers, importers and wholesalers may advertise and promote alcoholic beverages via the Internet, social media, direct-to-consumer electronic communication, or other electronic means.	Aaron R. Rouse	02/20/24 House: Passed House (90-Y 7-N)		Submitted 1/9/24	No Position			No					
SB 212	Virginia Small Business Economic Development Act established; regulation of skill games; registration; penalties. Establishes the Virginia Small Business Economic Development Act for the purpose of providing a regulatory and registration scheme for skill game machines in the Commonwealth. The bill directs the Virginia Alcoholic Beverage Control Authority to adopt emergency regulations to implement the provisions of the bill and directs the Department of Taxation to collect a monthly tax of 15 percent from the gross revenue of each skill game machine from each skill game distributor.	Aaron R. Rouse	02/20/24 House: Reported from General Laws with substitute (15-Y 6-N)		Submitted 1/12/24	No Position	No Position		Yes					

Bill No.	Summary	Chief Patron	Last Action	Scheduled Meeting Date	LAS Submitted	VA ABC Position	Admin Bill	Admin Position	FIS Required	FIS Submitted	FIS	EBR	EBR Submitted	Last VA ABC Action
SB 222	Commonwealth information security requirements. Requires state public bodies, defined in the bill, to (i) comply with the Commonwealth's security policies and standards, (ii) ensure each of its employees completes information security training, (iii) conduct regular security audits, and (iv) report the results of such audits to the appropriate entity. The bill directs the Chief Information Officer of the Commonwealth to (a) publish and maintain a list of the Commonwealth's security policies and standards with which state public bodies are required to comply, (b) ensure that transition meetings with state public bodies occur, and (c) document such transitions and any exemptions from the requirements of the bill.	John J. McGuire, III	02/19/24 House: Reported from Communications, Technology and Innovation (22-Y 0-N); Assigned App. sub: General Government and Capital Outlay											
SB 307	Regulation of electronic gaming devices; penalties. Authorizes and specifies the licensing requirements for the manufacture, distribution, operation, servicing, hosting, and play of electronic gaming devices, as defined in the bill. The bill provides that electronic gaming devices are regulated by the Virginia Lottery Board and requires employees of such licensees to be registered with the Virginia Lottery. The bill imposes criminal and civil penalties for violations of the law and regulations related to electronic gaming devices. The bill imposes a 34 percent tax on all gross profits from the play of such gaming devices and provides for the use of such tax proceeds, with most being deposited into the general fund.	Jeremy S. McPike	02/14/24 Senate: Left in General Laws and Technology											
SB 317	Alcoholic beverage control; farm winery licenses; requirements and privileges. Exempts from certain requirements imposed on farm winery licensees by prior legislation persons that hold a farm winery license that was granted on or before July 1, 2020, and has continuously remained valid and active subsequent to its issuance if requested by such licensee. Such requirements relate to the characteristics of and tasks to be performed on the licensed premises, license qualifications, manufacturing and sale requirements and limitations, and utilization of contract winemaking services.	Richard H. Stuart	01/26/24 Senate: Stricken at request of Patron in Rehabilitation and Social Services (10-Y 0-N)		Submitted 1/11/24	No Position								
SB 400	Alcoholic beverage control; annual mixed beverage performing arts facility licenses. Allows the Board of Directors of the Virginia Alcoholic Beverage Control Authority to issue annual mixed beverage performing arts facility licenses to persons operating food concessions at any (i) performing arts facility located in the City of Charlottesville, provided that the performing arts facility (a) is occupied under a bona fide long-term lease or concession agreement, the original term of which was more than five years; (b) has a total capacity in excess of 550 patrons; and (c) has been rehabilitated in accordance with historic preservation standards; (ii) outdoor performing arts amphitheater, arena, or similar facility that has seating for more than 5,000 persons and is located in the City of Richmond; or (iii) outdoor performing arts amphitheater, arena, or similar facility that has seating for more than 2,500 persons and is located in the City of Charlottesville.	R. Craig Deeds	02/20/24 House: Subcommittee recommends reporting with substitute (7-Y 0-N)		Submitted 1/12/24	No Position								
SB 416	Alcoholic beverage control; tied house exception. Allows a manufacturer, bottler, broker, importer, or wholesaler to sponsor or provide support, including equipment, staff, financial, and other support, for a special event for which a nonprofit organization has been issued a banquet license and partners with a governmental entity that holds a mixed beverage caterer's license, provided that the mixed beverage caterer's license held by the governmental entity is not used in coordination with such special event.	Christopher T. Head	01/26/24 Senate: Stricken at request of Patron in Rehabilitation and Social Services (10-Y 0-N)		Submitted 1/13/14	No Position								
SB 582	Registration of tobacco products retailers; purchase, possession, and sale of retail tobacco products; retail tobacco products and liquid nicotine tax; penalties. Prohibits any person from selling any retail tobacco product, as defined in the bill, at retail without first obtaining a permit from the Department of Taxation and prohibits such sale at a location within 1,000 feet of a youth-oriented facility, as defined in the bill. The bill prohibits Internet sales of retail tobacco products, except to a permit-holding retailer, and prohibits the sale of retail tobacco products from vending machines. Under the bill, permits are subject to annual renewal and subject to revocation for violations of federal, state, or local laws related to tobacco products. The bill imposes recordkeeping requirements and makes it a Class 1 misdemeanor to engage in fraud or misrepresentation in connection with an application for a permit.	Adam P. Ebbin	02/20/24 House: Reported from General Laws with substitute (21-Y 0-N)					No Position	Yes	Yes				
SB 635	Alcoholic beverage control; sale and delivery of mixed beverages and pre-mixed wine for off-premises consumption; third-party delivery license; sunset; repeal. Repeals the July 1, 2024, sunset on provisions that allow (i) distillers that have been appointed as agents of the Board of Directors of the Virginia Alcoholic Beverage Control Authority, mixed beverage restaurant licensees, and limited mixed beverage restaurant licensees to sell mixed beverages for off-premises consumption and (ii) farm winery licensees to sell pre-mixed wine for off-premises consumption. The bill also repeals, effective July 1, 2026, third-party delivery licenses. The bill requires the Authority to convene a work group to review third-party delivery licenses and report its findings and recommendations to the Chairmen of the House Committee on General Laws and the Senate Committee on Rehabilitation and Social Services by November 15, 2024.	Aaron R. Rouse	02/20/24 House: Passed House (82-Y 16-N)		Submitted 1/15/24	No Position								

Bill No.	Summary	Chief Patron	Last Action	Scheduled Meeting Date	LAS Submitted	VA ABC Position	Admin Bill	Admin Position	FIS Required	FIS Submitted	FIS	EBR	EBR Submitted	Last VA ABC Action
SB 657	Alcoholic beverage control; annual mixed beverage performing arts facility licenses; on-and-off premises wine and beer licenses. Defines performing arts facility and standardizes the eligibility criteria for annual mixed beverage performing arts facility licenses and on-and-off-premises wine and beer licenses for performing arts food concessionaires. Under current law, the eligibility criteria for such licenses varies by location and includes inconsistent ownership, lease, capacity, and seating requirements.	Bryce E. Reeves	02/20/24 House: Subcommittee recommends reporting with substitute (7-Y 0-N)		Submitted 1/16/24	No Position								
SB 658	Alcoholic beverage control; summary suspension; timeline. Provides that when special agents of the Board of Directors of the Virginia Alcoholic Beverage Control Authority are conducting an initial investigation for purposes of summary suspension and the 48-hour time limit for such initial investigation expires on a Saturday, Sunday, or legal holiday, the special agents may submit their findings from such initial investigation any time prior to the close of business on the next day that is not a Saturday, Sunday, or legal holiday.	Bryce E. Reeves	02/20/24 House: Subcommittee recommends reporting (6-Y 1-N)		Submitted 1/16/24	Support		Support						
SB 690	Virginia Alcohol Safety Action Program; fee. Raises from \$300 to \$350 the maximum fee that may be charged to a person required by the court to enter the Virginia Alcohol Safety Action Program upon conviction of certain offenses related to driving a motor vehicle or commercial vehicle while intoxicated, operating a boat while intoxicated, or refusing to have samples of breath taken for chemical tests to determine alcohol content of blood.	Mark D. Obenshain	02/05/24 Senate: Stricken at request of Patron in Courts of Justice (15-Y 0-N)			No Position								
SB 694	Skill games; exceptions. Clarifies that skill games are a form of illegal gambling except where relevant Code provides otherwise.	William M. Stanley, Jr.	01/24/24 Senate: Continued to 2025 in General Laws and Technology (15-Y 0-N)											
SB 724	Alcoholic beverage control; annual mixed beverage performing arts facility license. Allows the Board of Directors of the Virginia Alcoholic Beverage Control Authority to issue an annual mixed beverage performing arts facility license to persons operating food concessions at any outdoor performing arts amphitheater, arena, or similar facility that has seating or capacity for more than 5,000 persons and is located in Floyd County.	William M. Stanley, Jr.	02/20/24 House: Subcommittee recommends reporting with substitute (7-Y 0-N)			No Position								
SJ 12	Virginia Gaming Commission, Joint Subcommittee studying feasibility of establishing; continued. Continues the Joint Subcommittee to Study the Feasibility of Establishing the Virginia Gaming Commission for two additional years, through November 30, 2025.	Bryce E. Reeves	02/15/24 House: Referred to Committee on Rules											
SJ 76	Commending Travis G. Hill.	Bryce E. Reeves	02/05/24 Senate: Bill text as passed Senate and House (SJ76ER)											
SJ 123	Commending the Virginia Alcoholic Beverage Control Authority.	Barbara A. Favola	02/19/24 Senate: Laid on Clerk's Desk											



Virginia ABC Financial Update

FY 2024

As of December 31, 2023

APPENDIX B



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Purpose and Contents

Purpose of Discussion

Update the ABC Board on December YTD financial performance and seek approval on revised FY 2024-2026 forecasts.

Contents

Section 1 - December 2023 Financial Results (Month and YTD)

Section 2 - Store Sales Revenue Impacts and NABCA Comparison

Section 3 - Revised Forecast for FY 2024 - 2026

Section 1

December 2023 Financial Results (Month and YTD)

VIRGINIA ALCOHOLIC BEVERAGE CONTROL AUTHORITY

Contribution Margin - Income Statement (In Millions)

Fiscal Year 2024 - Month of December

	FY 2024	FY 2024	FY 2024	FY 2024		FY 2023			
	Actual	Budget	Variance	Percentage		Actual	Variance	Percentage	
Revenue Sources:									
Alcoholic Beverages (Store Sales)	\$ 169.6	\$ 168.6	\$ 1.0	0.6%	●	\$ 163.3	\$ 6.3	3.9%	
Online Sales	1.3	1.4	(0.1)	-3.7%	●	1.3	-	0.0%	
Other	2.2	1.9	0.3	15.8%	●	1.8	0.4	22.5%	
Gross Revenue	173.1	171.9	1.2	0.7%	●	166.4	6.7	4.1%	
Less: Spirits Excise Tax	28.3	28.2	(0.1)	-0.4%	●	27.3	(1.0)	-3.7%	
Net Revenue	144.8	143.7	1.1	0.8%	●	139.1	5.7	4.1%	
Variable Operating Costs:									
Cost of Goods Sold	81.4	81.6	0.2	0.2%	●	77.3	(4.1)	-5.3%	
Variable Administrative Costs	18.4	19.6	1.2	5.9%	●	19.2	0.8	4.0%	
Total Variable Costs	99.8	101.2	1.4	1.3%	●	96.5	(3.3)	-3.5%	
Contribution Margin	45.0	42.5	2.5	6.0%	●	42.6	2.4	5.5%	
Contribution Margin as a % of Store Sales	26.3%	25.0%				25.9%			
Fixed Operating Costs:									
Fixed Administrative Costs	6.4	7.2	0.8	11.1%	●	8.3	1.9	22.8%	
Regulatory Costs (Enforcement & Hearings)	2.2	2.2	-	0.0%	●	1.8	(0.4)	-22.2%	
Total Fixed Costs	8.6	9.4	0.8	8.5%	●	10.1	1.5	14.8%	
ABC Net Profit	\$ 36.4	\$ 33.1	\$ 3.3	10.1%	●	\$ 32.5	\$ 3.9	12.0%	
Net Profit as a % of Store Sales	21.3%	19.4%				19.7%			
Net Profit as a % of Net Sales	25.1%	23.0%				23.4%			

● Favorable Variance
● Unfavorable Variance



December Actual Variance Analysis vs Budget

December(month):

- **Net Revenues** are \$1.1M or 0.8% above budget mainly due to higher net store sales of \$0.8M and higher than planned licensee revenue of \$0.3M.
- **Cost of Goods Sold** favorability of \$0.2M due to favorable vendor-paid promotions from November recorded on a one-month lag in December.
- **Variable Administrative Costs** are \$1.2M lower than budget due to the following:
 - \$1.2M Favorable wage/benefit costs due primarily to efforts to adjust store labor hours to the appropriate operating levels.
- **Fixed Administrative and Regulatory Costs** are \$0.8M favorable to budget mainly due to the following:
 - \$0.3M Favorable agency service charges following a 5-month catchup adjustment made in November, the full year will still be unfavorable
 - \$0.3M Favorable computer software development costs in line with lower IT project activity
 - \$0.2M Favorable computer software rentals given tight budget constraints
- **December Net Profits** of \$36.4M are \$3.3M or 10.1% favorable to budget.



VIRGINIA ALCOHOLIC BEVERAGE CONTROL AUTHORITY

Contribution Margin - Income Statement (In Millions)

Fiscal Year 2024 - YTD as of 12/31/2023

	FY 2024		FY 2024		FY 2024	FY 2024		FY 2023			
	Actual		Budget		Variance	Percentage		Actual		Variance	Percentage
Revenue Sources:											
Alcoholic Beverages (Store Sales)	\$ 767.7		\$ 785.3		\$ (17.6)	-2.2%	●	\$ 752.8		\$ 14.9	2.0%
Online Sales	5.0		5.1		(0.1)	-2.0%	●	4.9		0.1	2.0%
Other	12.6		10.8		1.8	16.7%	●	10.9		1.7	15.9%
Gross Revenue	785.3		801.2		(15.9)	-2.0%	●	768.6		16.7	2.2%
Less: Spirits Excise Tax	127.8		130.9		3.1	2.4%	●	125.3		(2.5)	-2.0%
Net Revenue	657.5		670.3		(12.8)	-1.9%	●	643.3		14.2	2.2%
Variable Operating Costs:											
Cost of Goods Sold	370.6	48.0%	379.4	48.0%	8.8	2.3%	●	362.7	47.9%	(7.9)	-2.2%
Variable Administrative Costs	107.0		107.2		0.2	0.1%	●	105.7		(1.3)	-1.3%
Total Variable Costs	477.6		486.6		9.0	1.8%	●	468.4		(9.2)	-2.0%
Contribution Margin	179.9		183.7		(3.8)	-2.1%	●	174.9		5.0	2.8%
Contribution Margin as a % of Store Sales	23.3%		23.2%					23.1%			
Fixed Operating Costs:											
Fixed Administrative Costs	34.3		40.1		5.8	14.5%	●	40.9		6.6	16.1%
Regulatory Costs (Enforcement & Hearings)	12.7		12.3		(0.4)	-3.3%	●	11.3		(1.4)	-12.4%
Total Fixed Costs	47.0		52.4		5.4	10.3%	●	52.2		5.2	9.9%
ABC Net Profit	\$ 132.9		\$ 131.3		\$ 1.6	1.2%	●	\$ 122.7		\$ 10.2	8.3%
Net Profit as a % of Store Sales	17.2%		16.6%					16.2%			
Net Profit as a % of Net Sales	20.2%		19.6%					19.1%			

● Favorable Variance
● Unfavorable Variance



December YTD Actual Variance Analysis vs Budget

December (YTD):

- **Net Revenues** are \$12.8M or 1.9% below budget mainly due to lower net store sales of \$14.6M, partially offset by higher than planned licensee revenue of \$1.8M.
- **Cost of Goods Sold** favorability of \$8.8M is directly attributable to the lower sales and remains consistent at roughly 48.0% of store and online sales.
- **Variable Administrative Costs** are \$0.2M lower than budget due to the following:
 - \$0.7M Favorable credit card fees in line with unfavorable sales vs budget
 - (\$0.2M) Unfavorable personal services costs mainly due to an overallocation of store wage hours for July and August. As noted above, December personnel costs were favorable and reflects efforts to make-up for the Q1 variance and get back to budget.
 - (\$0.3M) Unfavorable custodial services and material costs
- **Fixed Administrative Costs** are \$5.8M or 14.5% favorable to budget mainly due to the following:
 - \$0.6M Favorable leave liability adjustment due to higher PTO usage YTD
 - \$1.8M Favorable computer software development costs in line with lower IT project activity
 - \$1.0M Lower than anticipated network server costs
 - \$0.5M Lower than anticipated computer software purchases
 - \$0.5M Lower store fixture costs for new stores versus budget (related to timing)
 - \$0.4M Lower employee training versus budget (related to timing)
 - \$1.2M Lower personal services related to ABC budgeted funding for bonuses/2% pay increase (related to timing)
- **Regulatory Costs** of \$12.7M are \$0.4M unfavorable mainly due to lower than anticipated attrition rates.
- **YTD Net Profits** of \$132.9M are \$1.6M or 1.2% favorable to budget.



Section 2

Store Sales Revenue Impacts and NABCA Comparison

Virginia ABC is feeling the effect of an industry-wide sales slowdown

Including the tentative results for Jan'24 sales, Virginia ABC's store sales revenue is 2.9% below budget. Spirits sales have slowed across the United States, in both "open" and control states, leading to suppliers publicly revising sales estimates downwards.

Virginia ABC: FY'24 Store Sales Revenue Tracking								
<i>In \$M</i>	Jul'23	Aug'23	Sep'23	Oct'23	Nov'23	Dec'23	Jan'24 (tent.)	FY'24 YTD
Actual	121.8	115.2	116.1	124.5	127.0	171.9	99.7	876.2
Budget	121.4	119.8	122.8	126.3	132.2	170.6	109.6	902.7
Variance B/(W)	0.4	(4.6)	(6.7)	(1.8)	(5.2)	1.3	(9.9)	(26.5)
<i>FY'23 Actual</i>	<i>119.4</i>	<i>112.5</i>	<i>116.0</i>	<i>122.4</i>	<i>124.8</i>	<i>165.3</i>	<i>102.8</i>	<i>863.1</i>
<i>Growth vs FY'23</i>	<i>2.0%</i>	<i>2.4%</i>	<i>0.1%</i>	<i>1.7%</i>	<i>1.8%</i>	<i>4.0%</i>	<i>-3.0%</i>	<i>1.5%</i>

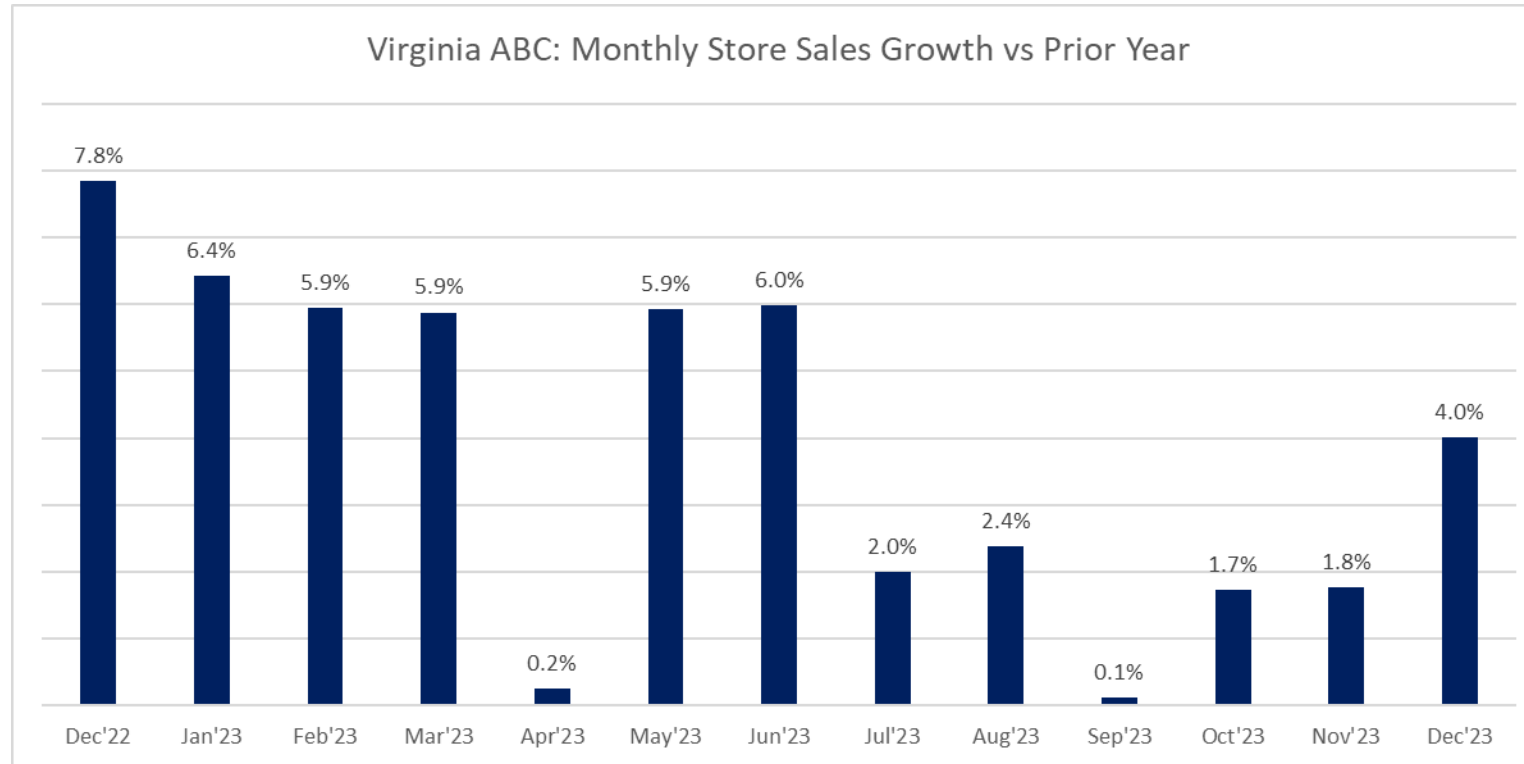
Source: SmartView and Oracle BI

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In addition to general economic and industry trends, January store sales have been heavily impacted by inclement weather, increased participation in "Dry January" initiatives, and potential stock up activities in Dec'23, resulting in material sales declines versus FY'23

This sales downturn began affecting Virginia ABC store sales in July

Virginia ABC store sales had 4.9% growth in FY'23, but there was a material shift in monthly growth rates that occurred in Jul'23 that has resulted in lower-than-expected sales levels that are driving budget unfavorability.



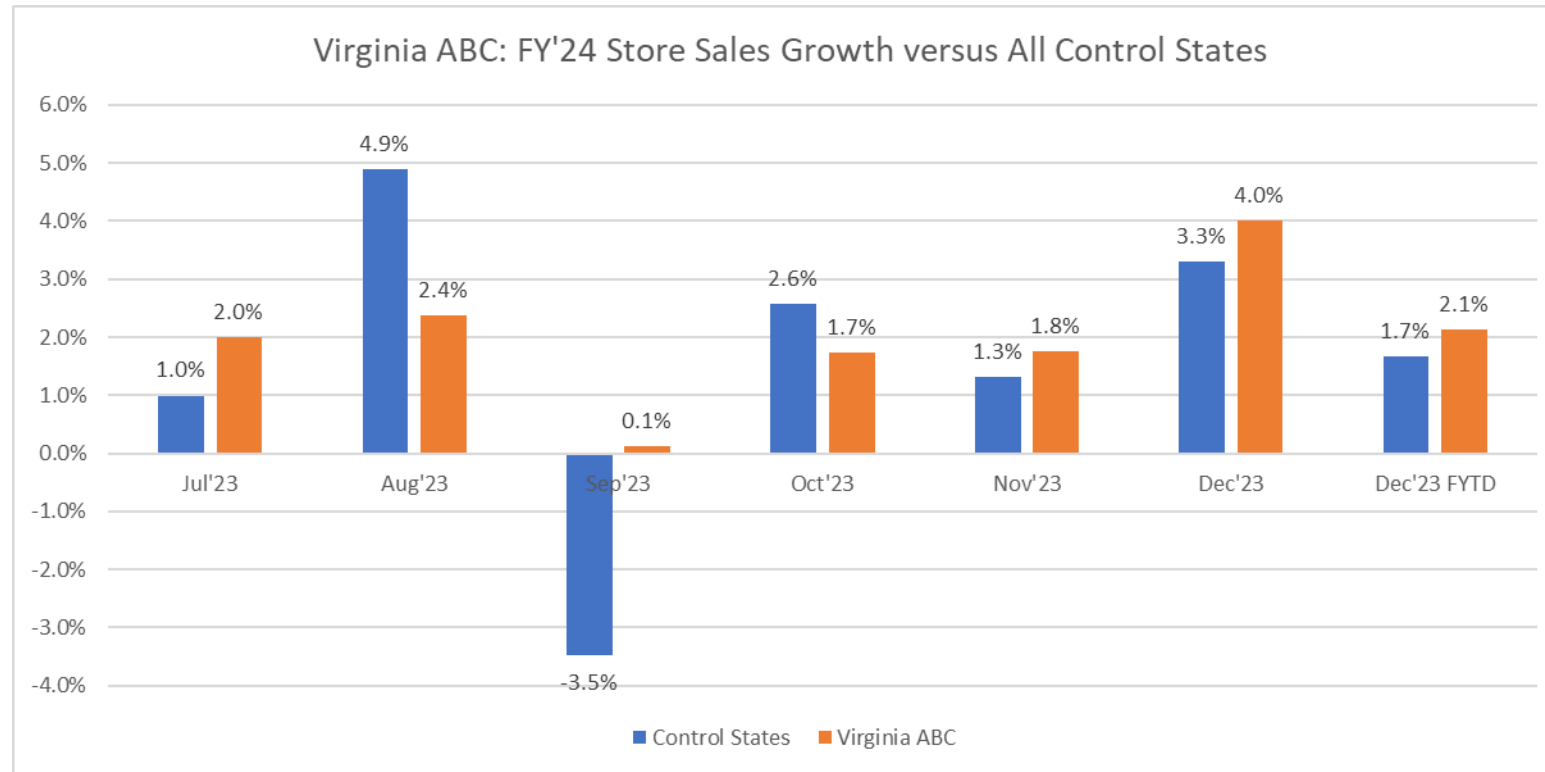
Source: SmartView and Oracle BI

Note: Apr'23 materially impacted by change in days versus prior year, Apr'22 had 5 Fridays and 4 Sundays, whereas Apr'23 had 4 Fridays and 5 Sundays



Virginia isn't the only control state experiencing low growth rates

The 17 control states in aggregate had 1.7% growth between Jul'23 and Dec'23, demonstrating that Virginia isn't isolated in the current low growth rates. Virginia ABC's growth during this time of 2.1% was 27.8% higher than all control states.




Source: SmartView and NABCA Control State Results


Multiple industry suppliers have recently highlighted low growth

Major industry suppliers Brown-Forman, Pernod Ricard, and Moët Hennessey have all recently highlighted lower demand for spirits as driving down spirits sales.


Jack Daniel's owner Brown-Forman reported “slower than anticipated” sales for the first half of its 2024 fiscal year; dragged down by whiskey and Tequila declines. The US firm reported a sales increase of 1% to US\$2.1 billion for the six months to 31 October 2023, with operating income rising by 1% to US\$666 million. Dec 7, 2023

The French drinks group said Thursday that sales came in at 3.04 billion euros (\$3.20 billion) in the three months to the end of September, down 8% on the year in reported terms and 2% organically. Oct 19, 2023

 Wall Street Journal
<https://www.wsj.com> › Economy › Consumers
Pernod Ricard Sales Fall as Americans Drink Less - WSJ

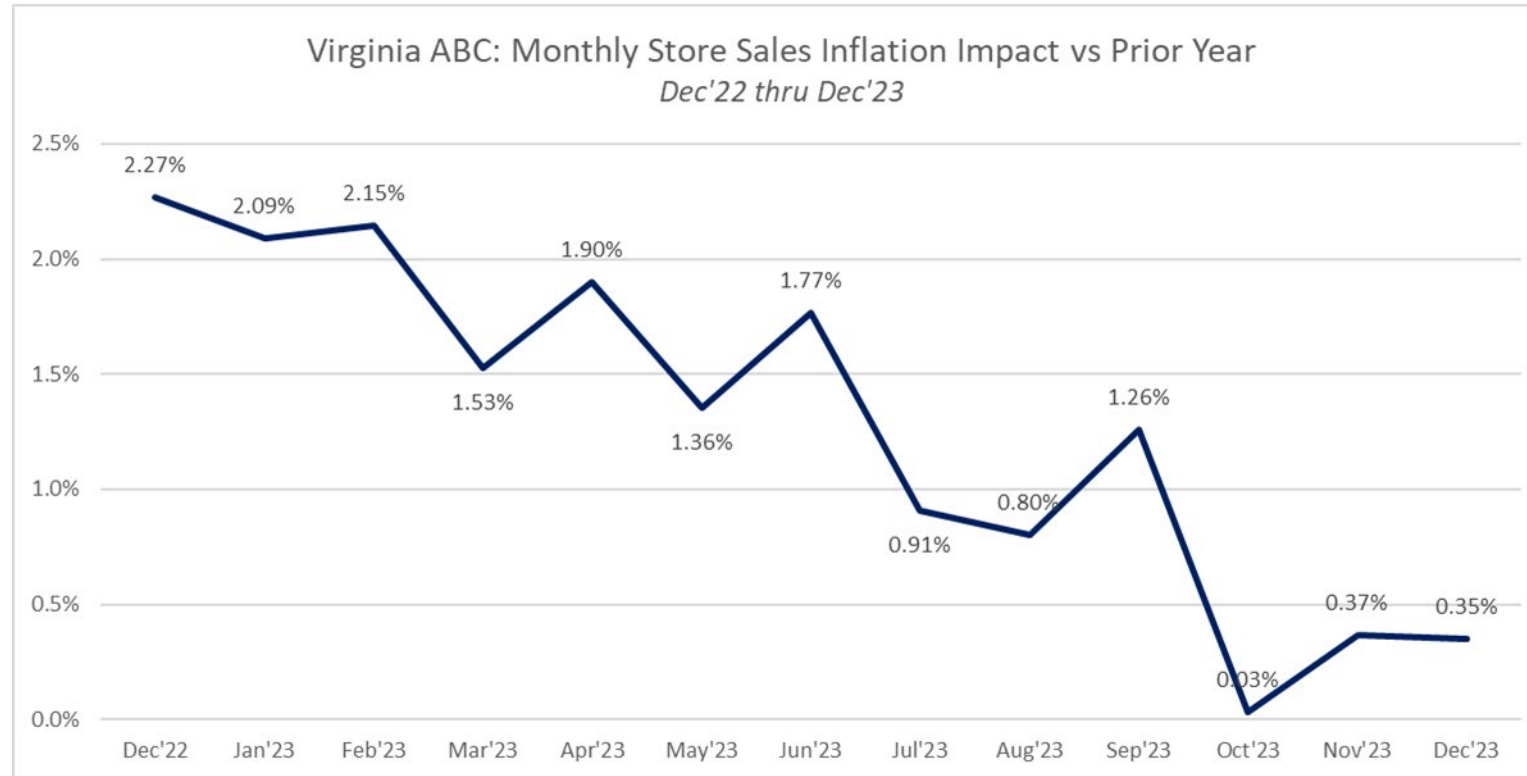
 The Spirits Business
<https://www.thespiritsbusiness.com> › 2023/12 › brown-f...

Moët Hennessey, the wine and spirits arm of luxury conglomerate LVMH, saw organic revenue drop by 7% to €4.7 billion (US\$4.98bn) in the first nine months of 2023. The subsidiary's sales for the third quarter fell by 14% to €1.5bn (US\$1.6bn). Oct 11, 2023

 The Spirits Business
<https://www.thespiritsbusiness.com> › 2023/10 › lvmh-spi...

Lower supplier driven inflation is impacting Virginia ABC revenues

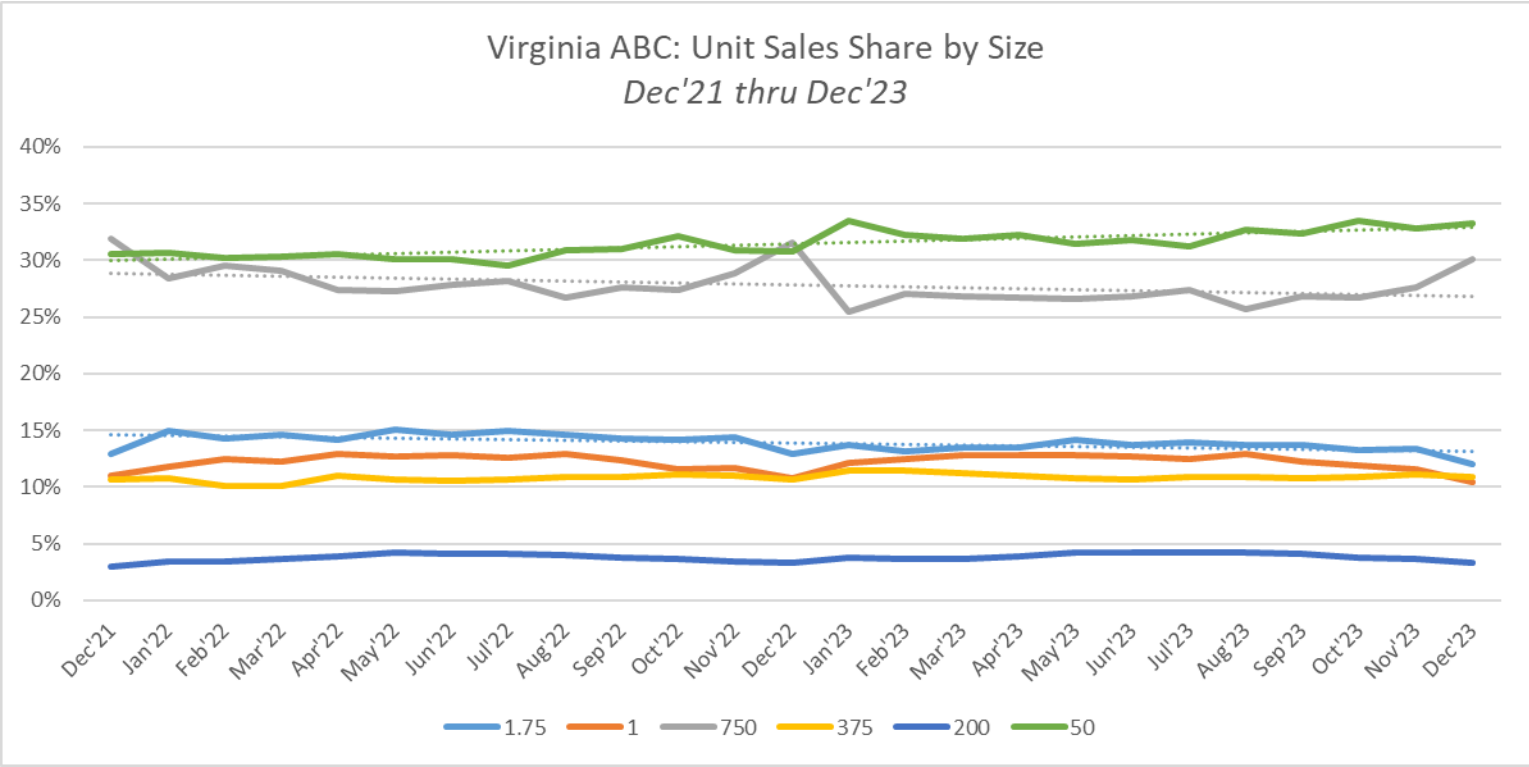
As suppliers become more concerned about sales levels, they lower shelf prices and offer discounts as they try to maintain share. This is good for consumers but lowers Virginia ABC's store sales revenues.



Source: Oracle BI, SmartView, and Strategy & Analytics internal analysis

Consumers are shifting to buying smaller sized spirits products

Rather than moving down the shelf, we're seeing customers moving to smaller bottle sizes. Both the 1.75L and 750ml sizes are seeing declines, while the 50ml is increasing. Some of this is unwinding COVID impacts, but goes beyond pre-COVID norms.

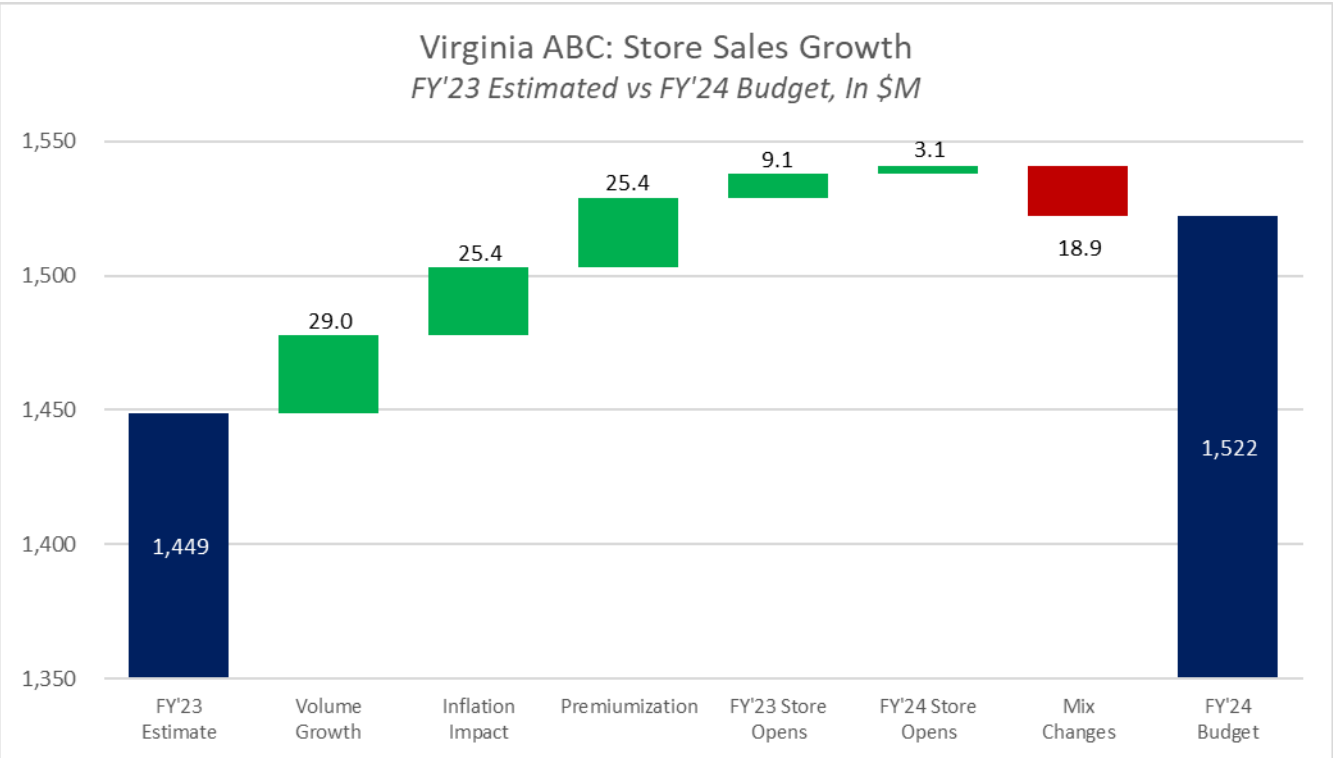


Source: Oracle BI



Store Sales Revenues: Budgeting 5.1% growth in FY'24

Growth in FY'24 primarily driven by premiumization, inflation, and volume growth; economic downturn and volume growth are the biggest risks to achieving this forecast.



Source: SmartView, Data Warehouse, Strategy & Analytics analysis

Assumptions:

- Volume Growth* – 2.0% increase in bottle volumes
- Inflation Impact* – 1.75% increase in average bottle pricing
- Premiumization* – 1.75% increase from consumer price selection
- FY'23 Store Opens* – Net impact @ \$225K/month, 4 stores
- FY'24 Store Opens* – \$65K/month, 8 stores, midyear average open
- Mix Changes* – Ongoing shift into larger sizes, resulting in lower price per liter, and trading down activity into smaller sizes

Risks:

- Economic Downturn* – spirits industry is recession resilient, but drives consumers down shelf (depremiumization), purchase larger sizes, and reduced licensee sales from restaurant visit declines
- Volume Growth* – Volumes have been stagnant across industry post-pandemic, and declined in April; investor analysts recommending “hold” on supplier stocks due to slow/no growth
- Store Openings* – Identification and buildout of 8 locations that meet Authority goals for new stores

Opportunities:

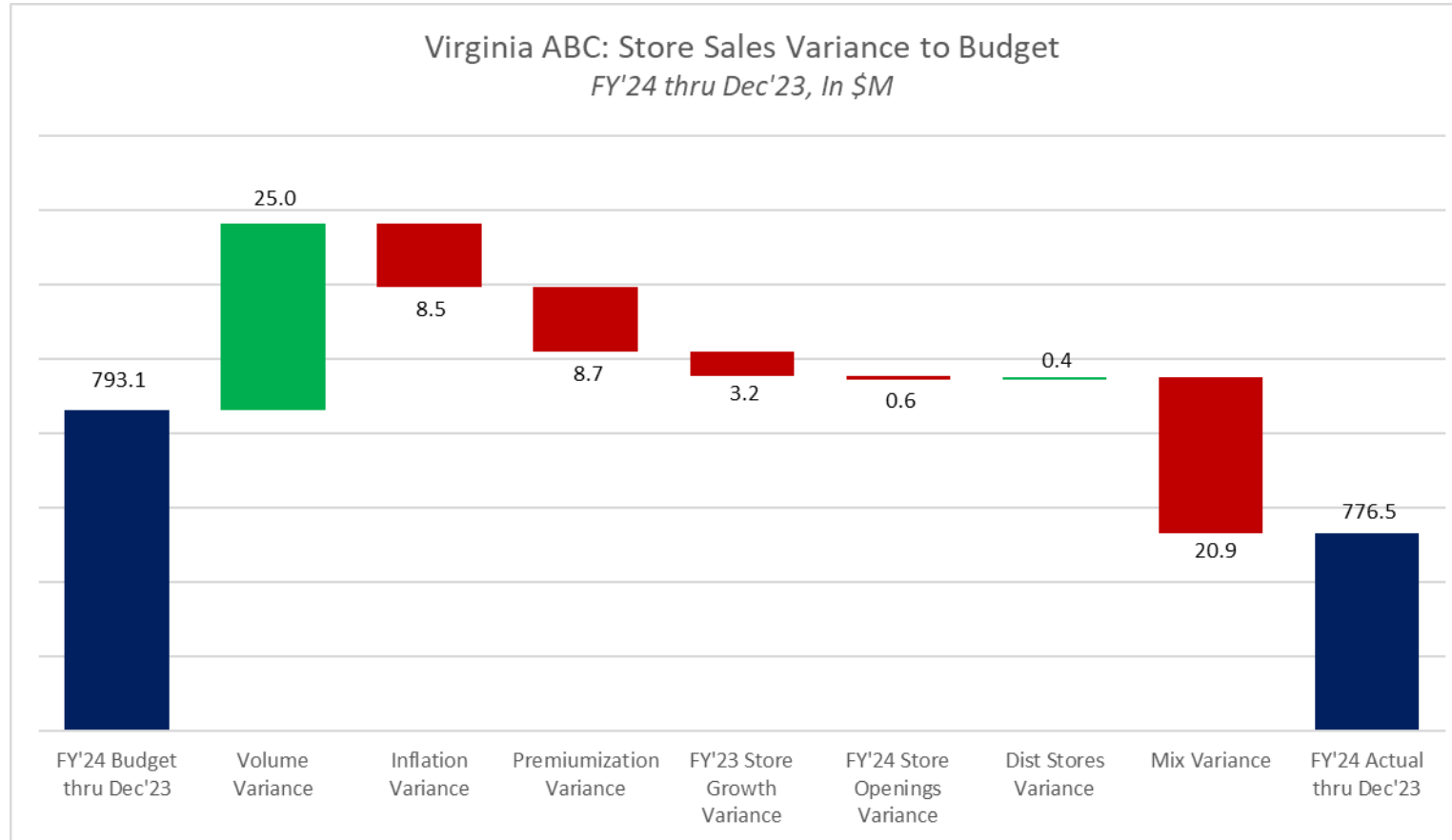
- Inflation* – supplier context suggests fewer price increases in FY'24, above 1.75% could deliver greater revenues
- Marketing* – Potential to seek out marketing opportunities to reverse the mix declines
- Online Cross Sell* – Moving limited availability products to online sales could result in additional cross sell opportunities as consumers check out their transactions



This slide is directly out of the FY'24 budget materials, explaining budget thinking at the time

The changed sales environment is impacting every budget assumption.

Lower inflation and the mix shift to smaller sizes are driving 63% of the budgeted store sales shortfall. New stores opened in FY'23 are not selling at same rate as stores opened in FY'22, volume and premiumization growth are below budget as well.



<i>Assumption</i>	2.0%	1.75%	1.75%	\$225k/mo
<i>Actual</i>	5.3%	0.61%	0.59%	\$92k/mo

Source: Oracle BI, SmartView, and Strategy & Analytics internal analysis
 Note 1: Represents Gross Store Sales before any offsets such as over/shorts



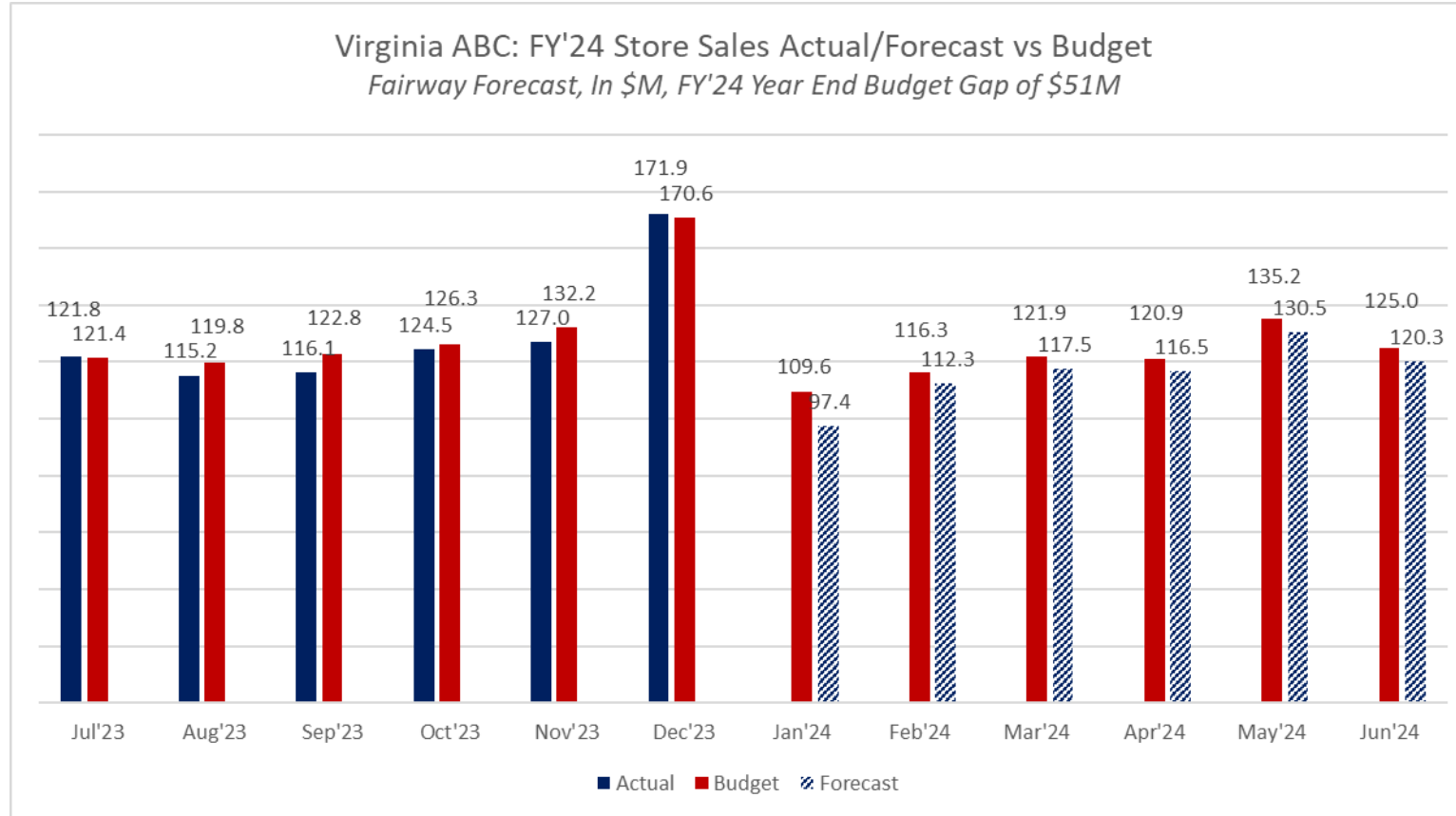
We have focused attention to increase revenue and customer engagement

New and creative retailing promotions have been implemented to increase customers visits to ABC stores and improve the level of engagement to maximize sales opportunities.

- Established weekly revenue calls with the administration CTO to identify opportunities to increase revenue.
 - Standardized sales data used for analysis and decisioning
 - Identified and implemented additional doorbuster/flash sale promotion events
- Maximized frequency and inventory levels for allocated drop promotion events.
 - 10/14/23 Allocated Drop \$4.1M (69,703 bottles sold; 76% sell through)
 - 12/02/23 Willett Barrel Release \$0.7M (10,584 bottles sold; 95% sell through)
 - 12/09/23 Barrel Release \$1.0M (12,742 bottles sold; 64% sell through)
 - 12/16/23 Allocated Drop \$3.2M (58,457 bottles sold; 83% sell through)
- Collaborated with suppliers to secure additional limited availability products (Buffalo Trace/Cream minis).
 - 11/21 – 12/28/23 \$834K
- Rolled out a new Compass tool with daily system updates to increase data flow and help Retail leaders to drive revenue; cross-divisional collaboration with Retail leaders continues to drive increased learnings from the tool.
- Focused effort on maximizing inventory levels to address retail out-of-stock situations.
- Extended store hours during the holiday season to maximize sales opportunities.
- Developed a holiday ambassador program to strengthen relationships between HQ and retail staff; additional store support enabled retail employees more dedicated time for enhanced customer service.
- Met with NABCA executives to enhance VAABC and NABCA partnership especially in areas around data, regulatory/enforcement, and supplier relationships.

Current forecast falls short of FY'24 store sales budget by \$51M

January's unexpected unfavorability drives a change in expectations, especially with winter not yet over. We remain hopeful that we will beat this forecast, and every \$1M in store sales revenue drives an additional ~\$0.35M in additional profit.



Source: SmartView and Strategy & Analytics internal analysis

Note 1: Represents Gross Store Sales before any offsets such as over/shorts; after including these offsets, the gap is \$52.8M



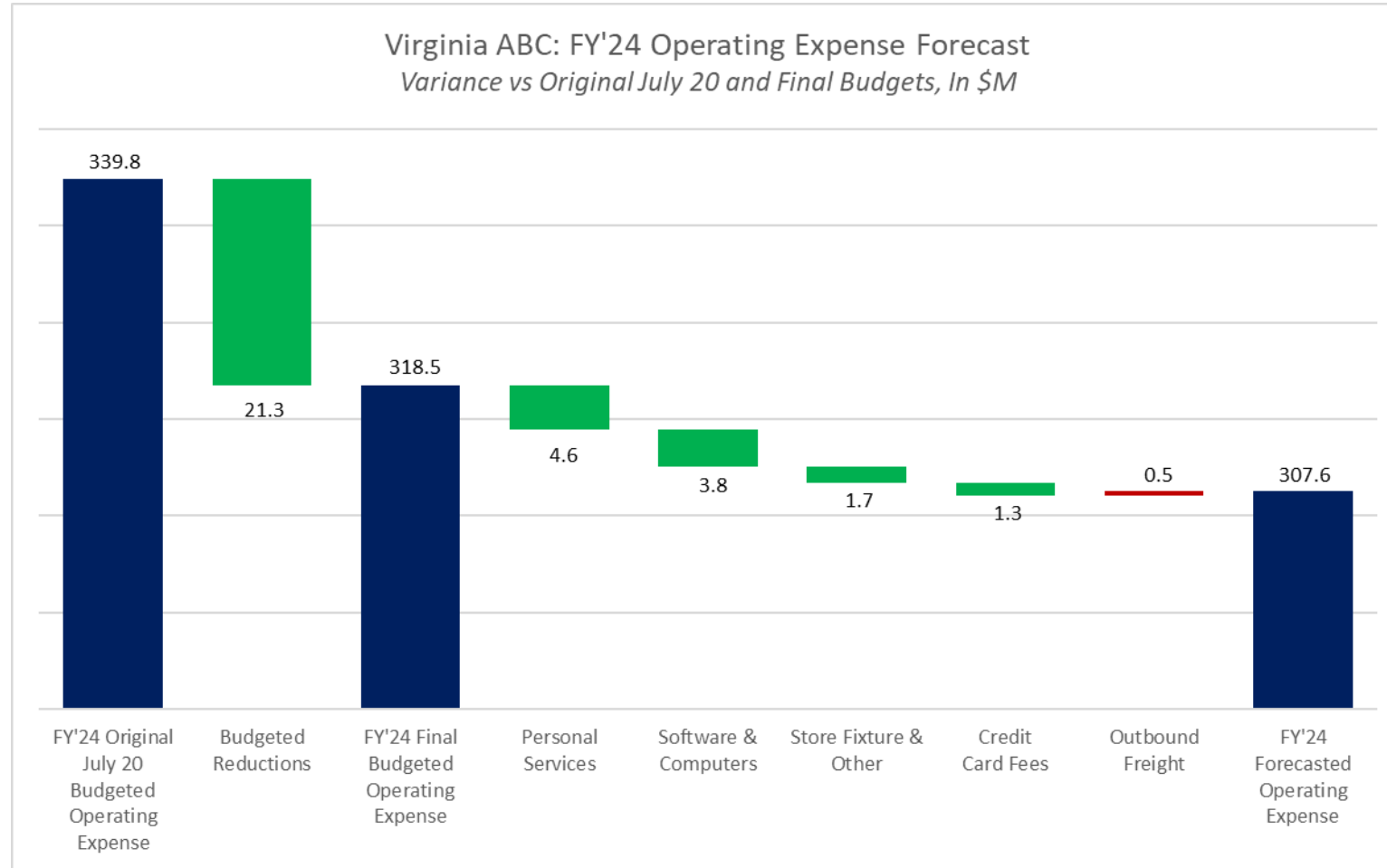
Ongoing expense management is offsetting some of the revenue shortfalls

In addition to the cost cutting efforts implemented into the FY'24 budget, we have been aggressively managing expenditures to help offset lost profits from lower than budgeted store sales.

- All vacated positions are being critically evaluated with only retail, enforcement and critical need positions being backfilled.
- Two vacated C-Suite positions are not currently planned to be backfilled. Functional reporting responsibilities have been reassigned to other C-Suite members.
- Initiated weekly spend review meetings to analyze procurement requests and invoices greater than \$10K to further identify opportunities for spending efficiencies.
- Modified large scale contracts to reduce operational costs.
 - Transitioned from paper bags to biodegradable plastic bags (approx. \$140K per month saving)
 - Modified Cintas replenishment strategy for retail store supplies to reduce excess supplies on-hand

Those aggressive actions have saved \$32M on Operating Costs overall.

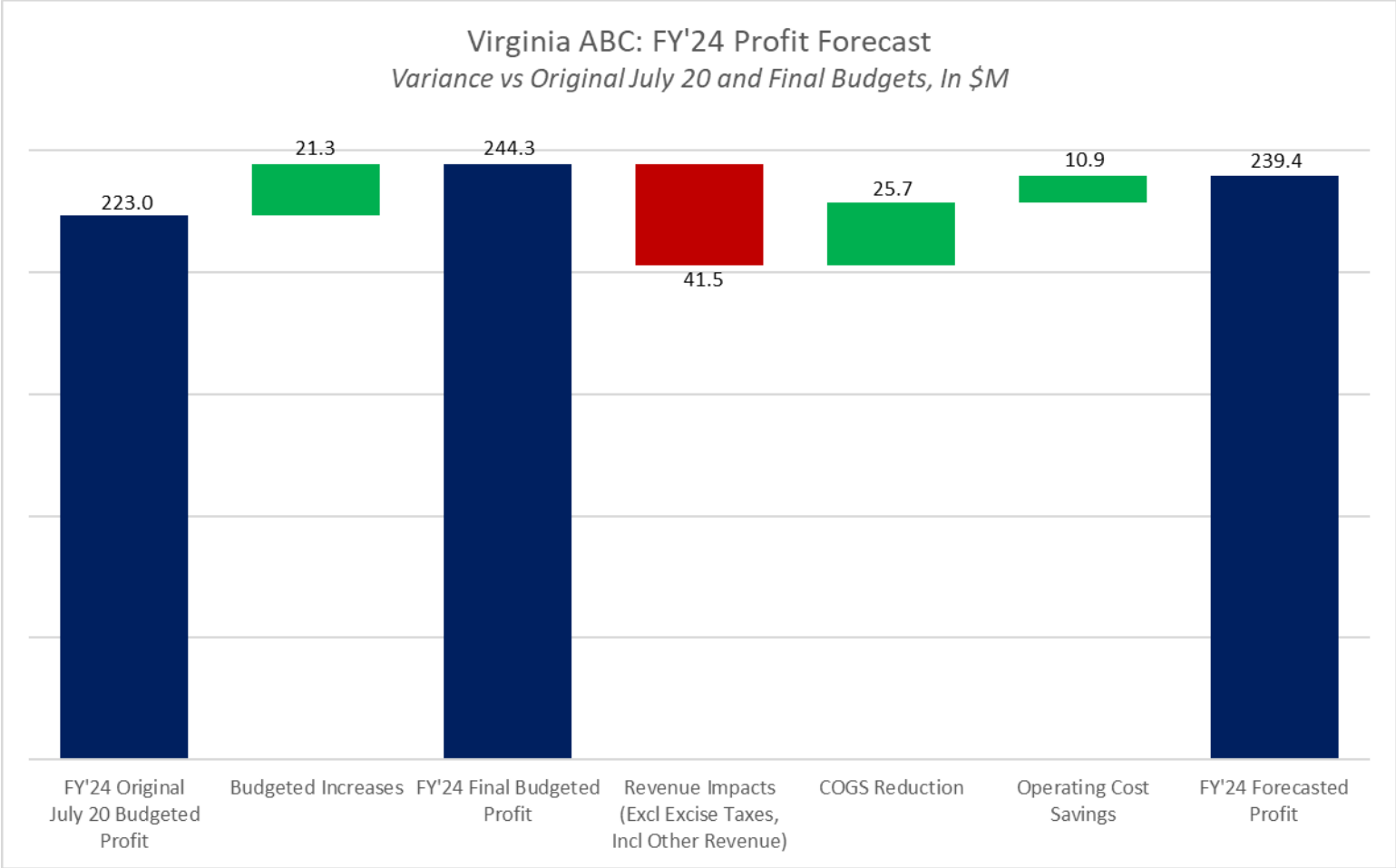
After the initial reduction of \$21.3M incorporated into the final budget, ongoing actions have saved an additional \$10.9M, primarily in personnel related costs and software and computer related equipment. We will continue to focus on costs.



Source: Finance internal analysis

Ultimately, we are forecasting a \$4.9M unfavorable variance to profit

After excise taxes and cost of goods sold, the revenue impact on profits is \$15.8M, but the aggressive savings on operating cost claws back \$10.9M of that impact, leaving an unfavorable variance of \$4.9M versus the final budget.



Source: Finance and Strategy & Analytics internal analysis



Section 3

Revised FY 2024 – 2026 Forecast

FY 2024 – 2026 Budget/GACRE Recap

- In FY 2024, ABC budgeted sales growth in the retail segment at 5.1% due to volume increases of 2%, pricing impacts of 1.75% and premiumization of 1.75%, partially offset by anticipated changes in product mix.
- Similar revenue growth of 5% was anticipated in both fiscal years 2025 and 2026.
- ABC's FY 2024 budgeted net profit of \$244.3M reflected a net profit increase of \$23.7M over FY 2023 and was based on aggressively controlling spending (eliminating reliance on 3rd part vendors, minimizing discretionary expenditures, eliminating non-critical open positions, etc.), and leveraging operational efficiencies.
- FY 2025 – 2026 GACRE focused on increasing profit margins with minimal investments in new technology/infrastructure.
- ABC's budgeted 1% salary increase in FY 2025 – 2026 may be at risk if the State approves higher increases.

FY 2024 Forecast – as of January 31, 2024

FY 2024 Financial Outlook versus Budget

- ABC’s actual revenue growth through January 2024 is **1.5%**.
- The overall spirits industry is experiencing similar year-over-year declining growth. NABCA data of Controlled States through December 2023 reflects year-over-year revenue growth of only 1.7%.
- The net profit impact of the net store revenue shortfall is \$16.9M. Other sales change options yield the following:

Profit Impact of Sales Change Options	
% Sales Change	Profit Impact in Millions
1.2%	(\$18.2)
1.4%	(\$16.9)
1.6%	(\$16.1)
1.8%	(\$15.0)
2.0%	(\$13.9)

- ABC revised the FY 2024 forecast to reflect anticipated revenue growth of 1.4% representing a \$43.9M shortfall in net store sales versus the budget of 5.1%.
- **ABC’s ongoing cost control actions result in an additional \$10.9M in savings helping to offset the impact of the revenue shortfall.**
- **The revised FY 2024 forecast reflects net profits of \$239.4M or \$4.9M less than budget of \$244.3M.**
- **Overall, net profit margins as a percentage of sales increased to 19.1% versus the 18.9% budget.**

FY'24's effects also impact our forecasts for FY'25 and FY'26

The industry is expecting slower growth, and ABC only budgeted 1% in compensation increases, which is a risk from legislative pay raises. Software amortization rolling off helps reduce operating cost growth in FY'26.

Virginia Alcoholic Beverage Control Authority FY2024, FY2025 and FY 2026 Current Forecast vs. GACRE Forecast (in millions)

		Curr.Fcst. FY 2024	Final Budget FY2024	Variance	Curr.Fcst. FY 2025	GACRE FCST FY2025	Variance	Curr.Fcst. FY 2026	GACRE FCST FY2026	Variance
Revenue Sources	Growth Rate	1.4%	5.1%	-3.7%	2.0%	5.0%	-3.0%	2.5%	5.0%	-2.5%
Alcoholic Beverages (Store Sales)		1,464.6	1,517.4	(52.8)	1,493.9	1,593.3	(99.4)	1,531.2	1,673.0	(141.8)
Less: State Taxes on Spirits & Wine		242.4	251.3	(8.9)	247.3	263.8	(16.5)	253.6	277.1	(23.5)
Net Store Sales		1,222.2	1,266.1	(43.9)	1,246.6	1,329.5	(82.9)	1,277.6	1,395.9	(118.3)
Other Revenue		27.4	25.0	2.4	25.2	25.2	-	25.5	25.5	-
Total Net Revenue		1,249.6	1,291.1	(41.5)	1,271.8	1,354.7	(82.9)	1,303.1	1,421.4	(118.3)
Cost of Goods Sold:		702.6	728.3	(25.7)	717.1	764.8	(47.7)	734.9	803.0	(68.1)
Operating Costs:		307.6	318.5	(10.9)	312.9	314.3	(1.4)	316.0	318.0	(2.0)
VABC Net Profit		239.4	244.3	(4.9)	241.8	275.6	(33.8)	252.2	300.4	(48.2)
Profit Carryover from Prior Fiscal Year		(0.8)	(0.8)	-	0.0	0.0	-	0.0	0.0	-
Adjusted VABC Profit Including Carryover		238.6	243.5	(4.9)	241.8	275.6	(33.8)	252.2	300.4	(48.2)
Net Profit as % of Net Revenue		19.1%	18.9%		19.0%	20.3%		19.4%	21.1%	

Source: Finance internal analysis



Net profit variances in FY 2025 and 2026 are directly related to lower Store Sales which equate to a 35% profit impact.

Next Steps

1. Request ABC Board approval on revised FY 2024-2026 Forecast
2. Review updates with Senate and House Finance Committees
3. Request updates be reflected in revised Budget Bills

Appendix

Assumptions in GACRE Forecast FY 25 – FY 29

*The FY24 Budget was used as the basis for establishing FY24 GACRE

Assumptions for GACRE in FY 2025 - 2029

	<u>Year over year growth rate</u>				
	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
Revenue Assumptions:					
Rev Growth Rate	5.00%	5.00%	5.00%	5.0%	5.0%
Mics. Rev Growth Rate	1.00%	1.00%	1.00%	1.00%	1.00%
Licensing Fee Adjustment	1.00%	1.00%	1.00%	1.00%	1.00%
Expense Assumptions:					
Inflation	2.00%	2.00%	2.00%	2.00%	2.00%
Ongoing Operational Efficiencies to offset Inflationary Impact	-2.00%	-2.00%	-2.00%	-2.00%	-2.00%
Freight Volume Cost Inc	3.00%	3.00%	3.00%	2.00%	2.00%
Healthcare	0.00%	4.00%	0.00%	2.00%	2.00%
Credit Card Fees	1.39%	1.42%	1.45%	1.47%	1.50%
Salary/Wage Increase	1.00%	1.00%	2.00%	2.00%	2.00%
Vacancy Factor - All divisions (except IT & Enforcement)	2%-3%	2%-3%	2%-3%	2%-3%	2%-3%
Vacancy Factor - IT/Enforcement	5%/9%	5%/9%	5%/9%	5%/9%	5%/9%
New Stores (Full year Impact)	4	4	4	4	4
New Store Personnel	8	8	8	8	8
Rent Escalation	3.00%	3.00%	3.00%	2.00%	2.00%

Other Efficiencies factored into GACRE

	YOY Flowthrough FY25 through FY29	YOY Flowthrough FY26 through FY29
Attrition	\$ (4,532,194)	\$ (1,200,000)
Skilled Services Contractor Cost Reduction	\$ (1,100,000)	
Employee Incentive program	\$ 800,000	



January 2024 Financial Performance

Virginia ABC



VIRGINIA ALCOHOLIC BEVERAGE CONTROL AUTHORITY
Contribution Margin - Income Statement (In Millions)
Fiscal Year 2024 - Month of January

	FY 2024		FY 2024		FY 2024		FY 2024		FY 2023	
	Actual	Budget	Variance	Percentage	Actual	Variance	Percentage	Actual	Variance	Percentage
Revenue Sources:										
Alcoholic Beverages (Store Sales)	\$ 99.3	\$ 108.5	\$ (9.2)	-8.5%	●	\$ 101.7	\$ (2.4)	-2.4%		
Online Sales	0.5	0.7	(0.2)	-28.6%	●	0.6	(0.1)	-16.7%		
Other	2.6	2.3	0.3	13.0%	●	2.5	0.1	2.2%		
Gross Revenue	102.4	111.5	(9.1)	-8.2%	●	104.8	(2.4)	-2.3%		
Less: Spirits Excise Tax	16.5	18.1	1.6	8.8%	●	17.0	0.5	2.9%		
Net Revenue	85.9	93.4	(7.5)	-8.0%	●	87.8	(1.9)	-2.2%		
Variable Operating Costs:										
Cost of Goods Sold	48.4	52.4	4.0	7.6%	●	49.4	1.0	2.0%		
Variable Administrative Costs	18.0	17.4	(0.6)	-3.4%	●	18.1	0.1	0.6%		
Total Variable Costs	66.4	69.8	3.4	4.9%	●	67.5	1.1	1.6%		
Contribution Margin	19.5	23.6	(4.1)	-17.4%	●	20.3	(0.8)	-4.2%		
Contribution Margin as a % of Store Sales	19.5%	21.6%				19.9%				
Fixed Operating Costs:										
Fixed Administrative Costs	5.6	6.2	0.6	9.7%	●	6.4	0.8	12.5%		
Regulatory Costs (Enforcement & Hearings)	2.2	2.4	0.2	8.3%	●	2.0	(0.2)	-10.0%		
Total Fixed Costs	7.8	8.6	0.8	9.3%	●	8.4	0.6	7.1%		
ABC Net Profit	\$ 11.7	\$ 15.0	\$ (3.3)	-22.0%	●	\$ 11.9	\$ (0.2)	-2.1%		
Net Profit as a % of Store Sales	11.7%	13.7%				11.7%				
Net Profit as a % of Net Sales	13.6%	16.1%				13.6%				

● Favorable Variance
● Unfavorable Variance



January Actual Variance Analysis vs Budget

January(month):

- **Net Revenues** are \$7.5M or 8.0% below budget mainly due to lower net store sales of \$7.8M partially offset by higher other income \$0.3M primarily due to higher interest income on ABC's cash balance.
- **Cost of Goods Sold** favorability of \$4.0M due principally to the lower net store sales noted above.
- **Variable Administrative Costs** are \$0.6M higher than budget due to the following:
 - (\$0.5M) Unfavorable wage/benefit costs due to an overallocation of store wage hours in January partially offset by lower retail salary costs due to unfilled positions.
- **Fixed Administrative and Regulatory Costs** are \$0.8M favorable to budget mainly due to the following:
 - \$0.4M Favorable personal services costs due to unfilled positions
 - \$0.3M Favorable computer software development costs in line with lower IT project activity
 - \$0.3M Lower than anticipated network server costs
 - (\$0.2M) Higher computer equipment and software purchases
- **January Net Profits** of \$11.7M are \$3.3M or 22.0% unfavorable to budget.



VIRGINIA ALCOHOLIC BEVERAGE CONTROL AUTHORITY
Contribution Margin - Income Statement (In Millions)
Fiscal Year 2024 - YTD as of 1/31/2024

	FY 2024		FY 2024		FY 2024		FY 2024		FY 2023			
	Actual		Budget		Variance	Percentage			Actual	Variance	Percentage	
Revenue Sources:												
Alcoholic Beverages (Store Sales)	\$ 867.0		\$ 893.8		\$ (26.8)	-3.0%	●		\$ 854.4	\$ 12.6	1.5%	
Online Sales	5.5		5.8		(0.3)	-5.2%	●		5.6	(0.1)	-1.8%	
Other	15.2		13.1		2.1	16.0%	●		13.5	1.7	12.6%	
Gross Revenue	887.7		912.7		(25.0)	-2.7%	●		873.5	14.2	1.6%	
Less: Spirits Excise Tax	144.3		149.0		4.7	3.2%	●		142.3	(2.0)	-1.4%	
Net Revenue	743.4		763.7		(20.3)	-2.7%	●		731.2	12.2	1.7%	
Variable Operating Costs:												
Cost of Goods Sold	419.0	48.0%	431.8	48.0%	12.8	3.0%	●		412.1	47.9%	(6.9)	-1.7%
Variable Administrative Costs	125.1		124.6		(0.5)	-0.4%	●		123.9	(1.2)	-1.0%	
Total Variable Costs	544.1		556.4		12.3	2.2%	●		536.0	(8.1)	-1.5%	
Contribution Margin	199.3		207.3		(8.0)	-3.9%	●		195.2	4.1	2.1%	
Contribution Margin as a % of Store Sales	22.8%		23.0%						22.7%			
Fixed Operating Costs:												
Fixed Administrative Costs	39.8		46.3		6.5	14.0%	●		47.3	7.5	15.8%	
Regulatory Costs (Enforcement & Hearings)	14.9		14.7		(0.2)	-1.4%	●		13.3	(1.6)	-12.0%	
Total Fixed Costs	54.7		61.0		6.3	10.3%	●		60.6	5.9	9.7%	
ABC Net Profit	\$ 144.6		\$ 146.3		\$ (1.7)	-1.2%	●		\$ 134.6	\$ 10.0	7.4%	
Net Profit as a % of Store Sales	16.6%		16.3%						15.7%			
Net Profit as a % of Net Sales	19.4%		19.2%						18.4%			

● Favorable Variance
● Unfavorable Variance



January YTD Actual Variance Analysis vs Budget

January (YTD):

- **Net Revenues** are \$20.3M or 2.7% below budget mainly due to lower net store sales of \$22.4M, partially offset by higher other income of \$2.1M primarily due to higher interest income on ABC's cash balance and higher than planned licensee revenue.
- **Cost of Goods Sold** favorability of \$12.8M is directly attributable to the lower sales and remains consistent at 48.0% of store and online sales.
- **Variable Administrative Costs** are \$0.5M higher than budget due to the following:
 - (\$0.7M) Unfavorable personal services costs mainly due to an overallocation of store wage hours for July and August and January
 - (\$0.3M) Unfavorable outbound freight services
 - (\$0.3M) Unfavorable custodial services and material costs
 - \$0.8M Favorable credit card fees in line with unfavorable sales vs budget
- **Fixed Administrative Costs** are \$6.5M or 14.5% favorable to budget mainly due to the following:
 - \$2.0M Favorable computer software development costs in line with lower IT project activity
 - \$1.4M Lower personal services primarily related to ABC budgeted funding for bonuses/2% pay increase (related to timing)
 - \$1.1M Lower than anticipated network server costs
 - \$0.8M Favorable leave liability adjustment due to higher PTO usage YTD
 - \$0.6M Lower store fixture costs for new stores versus budget (related to timing)
 - \$0.6M Lower employee training versus budget (related to timing)
 - \$0.3M Lower than anticipated computer software purchases
 - (\$0.3M) Higher agency service costs for Cardinal HCM and Financial systems
- **Regulatory Costs** of \$14.9M are \$0.2M unfavorable mainly due to lower than anticipated attrition rates.
- **YTD Net Profits** of \$144.6M are \$1.7M or 1.2% unfavorable to budget.

