

BOARD MEETING MINUTES: January 9, 2024
ABC Headquarters

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

Attendees

Board Chair Tim Hugo
Board Vice Chair Bob Sledd
Board Member William Euille
Board Member Mark Rubin
Board Member Gregory Holland
Interim Chief Executive Officer and
Chief Law Enforcement Officer, Tom Kirby
Chief Government Affairs Officer, John Daniel
Chief Retail Operations Officer, Mark Dunham
Chief Administrative Officer, David Alfano
Chief Information Officer, Paul Williams
Deputy Secretary, Chris Curtis
Office of the Attorney General, Jim Flaherty
Director of Finance, Doug Robinson
Director of Real Estate, Susan Johnson
Director of Marketing, John Shiffer
Director of Retail Operations, Jennifer Burke
Director of Communications, Tracey Lorraine
Director of Strategy and Analytics, Mike Berman
Tom Lisk
Public Information Officer, Jeff Caldwell
Public Relations Manager, Carol Mawyer
Public Relations Specialist, Pat Kane
Project Support Specialist, Linda Phelps
Change Manager, Davishia Baldwin
Senior Paralegal, Helen Gordon
Senior Legal Counsel, LaTonya D. Hucks-Watkins

Absent

Executive Administrative Assistant, Kathleen LaMotte was unable to attend.

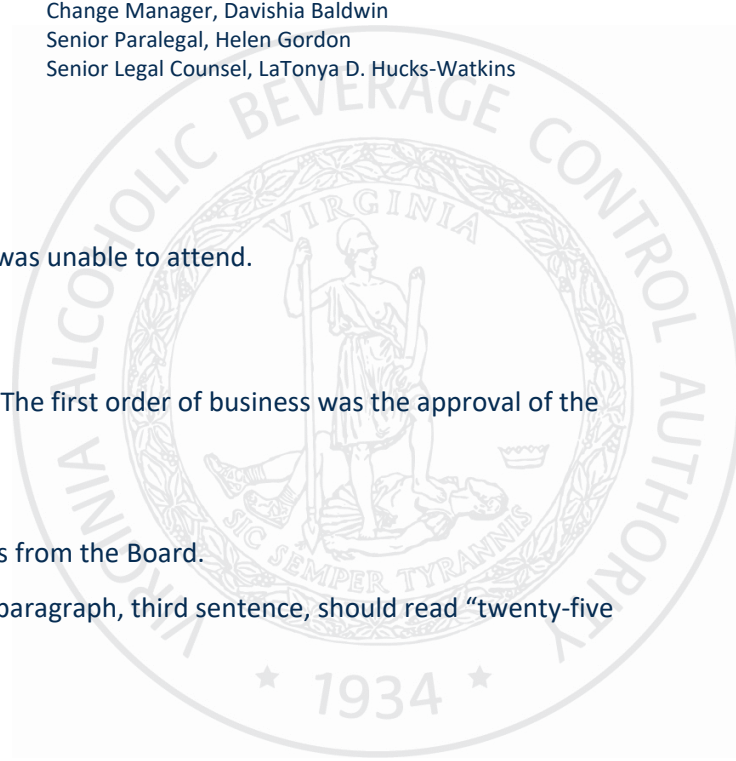
Welcome

Board Chair Hugo welcomed everyone to the session. The first order of business was the approval of the minutes from the November 13, 2023 Board meeting.

Approval of Minutes

The Chair asked if there were any questions/comments from the Board.

Member Rubin noted a typo on page two, the second paragraph, third sentence, should read “twenty-five months” not “twenty-five years”.



The Chair asked for any further comments, there being none, Member Rubin made a motion to approve the minutes as amended. Member Euille seconded the motion. The Chair called roll. All members were present and approved the minutes as amended.

New Business

Chief Administrative Officer Dave Alfano began the financial report by referring the Board to the materials prepared for them in their binder, beginning with page 21. Alfano noted that the efforts made by the retail team greatly helped to bring the Authority back into alignment on costs. We achieved a \$21.7 million dollar profit at the end of November and reached a 20.2% profit margin.

Vice-Chair Sledd asked if we were appropriately staffing stores with all the cut-backs made.

Director of Retail Operations, Jennifer Burke, stated that the stores are fully staffed. Burke added that in the summer, our practices would need to be adjusted a bit as sales tend to go up during those months but as of now, the retail staff has adjusted well to altered hours of operation.

Alfano moved to Page 23 to present the year-to-date figures. He noted that we had lower credit card fees but that was because we also had lower sales and lower profits.

Vice-Chair Sledd stated that he had noted a trend earlier in the bottle sales....did that continue?

Mr. Alfano replied that there is some data in the presentation related to bottle sales but to address it here, bottle sales have increased. Mr. Alfano stated that higher paid time off usage accounted for approximately \$900,000 in budget favorability. On page 24, the effects of paying for employee training and the impact of the 2% pay increase for employees can be seen. Mr. Alfano stressed this was a timing issue; costs will be caught up later in the year. When a budget forecast is made in the coming months, these costs will be taken into consideration.

Member Rubin noted that he had noticed a change in store hours. How did that impact sales?

Alfano said store hours were extended for the holiday season in the month of December.

Interim CEO Kirby stated that the Authority conducted a number of promotions in the month of December. Our revenue team pulled a number of levers to include flash sales, suppliers helped with doorbuster sales, and we gave a one-time, one-day 20% discount for employees who opted in to it, to say thank you to the employees but also to help with sales. We also used billboards. However, we will go back now to analyze that data to see what the impact was of all of these incentives in December. Kirby stated that he had some concerns over the use of billboards as well and that he had shared those concerns with his team. Because of those concerns and to protect the image of this organization, some billboards were pulled back.

Member Rubin stated he had problems with the employee discount promotions, noting that he is constantly asked if he gets special deals on alcohol or other perks by working for ABC and he was proud that he's always been able to say, "none whatsoever." He recommends that we could thank our employees in a different way, and wanted to register that as a concern.

Kirby noted Member Rubin's concerns. He stated that the one-time 20% discount to the employees was in the works before CEO Hill left. Kirby noted that he spent a great deal of time talking to legislators, NABCA,

and others before moving forward with the 20% discount. As a result, limits were put on the discount limiting it to one day only and no more than \$50 savings to anyone. He added that other measures were put in place that day as safeguards, such as using a voucher that had to be signed and showing agency identification. Kirby noted that the Authority will still do everything responsibly, adding that with his background in enforcement, he would not jeopardize that. I am committed going forward to keeping the Board informed.

Member Rubin appreciated Kirby stating that he would keep the Board better informed. Rubin noted that it was his hope that the Authority not lose the mission to keep control of the industry and keep it as safe as possible.

Chair Hugo asked Member Rubin if it was advertising or the billboards that concerned him?

Member Rubin stated that he believed the billboards were a step too far. Billboards seem to be telling people what products are available instead of promoting safety and responsible drinking. Chair Hugo thanked Mr. Robin for his comments. Moving on, the Chair stated that he had talked to NABCA about the reduction in alcohol sales is across the states; it is not just Virginia. The Chair asked if people were buying smaller bottles or if it depended on the brand?

Mr. Alfano stated that a supplemental presentation had been placed into the back of the Board's binders that went into this subject.

Interim CEO Kirby interjected that the supplemental presentation notes the Authority analyzing the retail area locally but it should be noted that we are also analyzing what is happening across other states. We are trying to be a leader in the retail market.

Mr. Alfano stated that he wanted to provide in this update an idea of what December sales were. Page 2 of the supplemental presentation showed the preliminary sales data for the month of December. Sales are totaling close to \$5 million about \$300,000 favorable versus budget. We had barrel releases and allocated drops. We would have been flat to last year without those incentives. Promotions like these do provide foot traffic to the stores. Page 3 goes over the downturn we are seeing. This picture was to give you insight into how sales have been trending since December. Beginning this fiscal year is when we start to see a significant decline in sales. Sales were higher when our budget was made last year because sales are typically higher in the Spring and Summer. Page 4 is data received from NABCA. Virginia was trending slightly higher than the other control states. (comparison was with 17 control states) NABCA noted a 1.3% increase in sales, while we were slightly higher at a 1.6% increase.

Member Rubin noted that the Authority had forecast a 5% increase. It would appear that we will not hit that mark. Have we advised the General Assembly that we are not going to reach this increase?

Chief Government Affairs Officer John Daniel stated, it is the office's intention to schedule time to apprise the General Assembly on where we are after all data for the year has been collected and analyzed.

Vice-Chair Sledd commented that he was impressed with how the Authority has managed costs to this point.

Mr. Alfano stated that once the figures are finalized in December, a forecast will be completed.

Vice-Chair Sledd agreed that a forecast would be helpful for the General Assembly.

CEO Kirby stated that the only reason a forecast had not been done at this point was that the December figures need to be closed out to develop a forecast.

Interim CEO Kirby asked Mr. Alfano to explain to the Board what page 8 represents. There is an inflation impact as well.

Alfano stated that page 8 came directly out of our budget presentation and summarizes the components used in determining the 5.2% sales growth assumption. Page 9 reflects actual growth versus the assumptions used in the budget. The two big variances are around inflation and mix. Suppliers are offering discounts and keeping their prices low like we are; both entities are trying to adjust for inflation. On page 7, you get insight into the question around what is happening with sizes. We are seeing an increase in sales of the minis and smaller sizes. Consumers are not changing to lower grade products but simply to smaller sizes of the products.

Member Holland noted that he remembered our advertising budget being cut; what percentage was that cut?

Alfano stated it was reduced by about 50%.

Member Holland noted that in December, he didn't see any ABC ads on television.

Alfano stated that was true; there were more radio ads.

Director of Marketing, John Shiffer stated that ABC did not do television ads because of the budget cuts.

Interim CEO Kirby stated that this will be part of the discussion; what are other control states spending on advertising? Advertising is hard to measure.. We want to spend efficiently. We are also talking to suppliers to see how they are advertising. Where can we align with their advertising in a lawful matter? The CEO noted that he would be continuing to work closely with the Authority's Senior Legal Counsel, LaTonya Hucks-Watkins on this. Kirby felt it was a somewhat exciting time, finding different ways to meet the market but we would not be giving the keys to this business to the supplier community. It is not however, a bad idea to work more closely with them and then make decisions that are in alignment with our values. The suppliers are excited to work with us and I am too

Member Holland stated that according to the weekly reports the Board receives, our revenues are going to be down between 50-60 million dollars, is that correct?

Mr. Berman indicated that the revenue shortfall will likely be closer to \$30 million.

Member Holland stated that he would think that advertising on television would be more effective than billboards.

Mr. Alfano stated that the aforementioned forecast once December is finalized would also show what impact the use of billboards had. Store sales are currently forecast to be \$18 million below budget at the end of December.

Director of Finance, Doug Robinson, stated that this Friday the figures for December should be finalized.

Chair Hugo reinforced that we need the data before talking to the General Assembly.

Alfano went on with his presentation of pages 10 and 11 to show a focus of ABC's attention to increasing revenue and customer engagement.. Ongoing expense management will include looking at every vacant position. . For example, we are not currently backfilling vacancies in the C-Suite. We are making sure we

are only spending what is absolutely necessary for the Authority, while also delivering the same level of care to our customers.

—Interim CEO Kirby reiterated that the CTO will be meeting to analyze backfill positions. We encourage all members of the Authority to make sure they are being very frugal and cautious about spending money. Everyone is thinking about every dollar spent.

Interim CEO Kirby gave a call out to Carol Mawyer (Corp. Communications) for being cautious about spending money. He asked Carol how much it costs to produce the quarterly Spirited Virginia magazine. Carol responded that the magazine is produced at zero cost.

Interim CEO Kirby stated that a focus store program was conducted with district and regional managers as well as Jennifer Burke when she could, to visit stores to make sure retail was getting the assistance and training they needed to sell products most effectively. At some of the supplier meetings the chair and Interim CEO attended, they talked to suppliers about providing free education to our store employees about their products; with suppliers coming to meet the retail staff in the stores.

Ms. Burke added that store personnel are being put out on the floor more to talk to customers and get to know what they want and need better.

The Chair noted that this statement goes to Mr. Rubin’s point regarding selling more higher priced items if store employees know about the products. The Chair asked how much theft impacts our budget numbers?

Interim CEO Kirby stated that you have to look at theft from two points; first what have we done from a theft prevention model? Ms. Burke has voiced concerns about safety in the stores. From an enforcement standpoint, I see no problem with using lock boxes for certain products. However, from a retail perspective, if a consumer has to wait more than 1 minute and 45 seconds, they are going to pick another product or leave. So, while helping with safety, the lock boxes appear to be hurting our revenue.

Chair Hugo agreed that overprotecting our products hurts revenue even though it is better from a police standpoint.

Interim CEO Kirby added that with only the lock box being there and no product within easy reach, people move on.

Ms. Burke stated that the zone coverage done in the stores was to help prevent theft in part as well as to mingle with customers more. Burke noted that we are not going to stop all theft but we will stop some if we are right there and can help customers.

Chair Hugo asked about teenagers shoving bottles in their pants/jackets. How organized has this practice become?

Ms. Burke stated that in Virginia Beach and Richmond especially, it is definitely an issue. “Pants”, as we refer to one individual in particular, is definitely stealing for someone as he knows specifically what he is coming in for and fills his pants pockets with the product and leaves.

Vice-Chair Sledd agreed that he was not sure locking things up would be a deterrent.

Ms. Burke replied that retail is staying away from the locking cabinet.

Member Holland asked if there had been a noticeable decrease in traffic in the stores over the past 6 months?

Ms. Burke stated that traffic is the same but more folks are buying smaller bottles and less of the premium products.

Interim CEO Kirby stated that overall, revenue in the stores is up over last year. That revenue increase is in line with what we're seeing in the industry. It wasn't just increasing sales but it was assumptions related to inflation and the way suppliers and the Authority adjusted to work around inflation. Revenue isn't down.

Vice-Chair Sledd stated that the Authority is doing a great job keeping costs down but are we sacrificing growth to keep those costs low?

Interim CEO Kirby stated that the Authority is still using e-commerce but we are not expanding that. So, we are still using technology but just not expanding its use.

The open meeting was adjourned at 10:13 a.m. for the appeal hearing.

Appeal Hearing (El Tropi, 2, LLC)

New Business by Kristie Miles (in appeal hearing)

Senior Paralegal, Kristie Miles, presented Board appeal orders for the months of October and November for approval.

Member Rubin made a motion to approve all of the Board orders as written. Member Euille seconded the motion. Hearing no further comments, the Chair called roll. All approved the orders as written.

Open Meeting

The Chair stated that Member Rubin made a request to go back to finish the real estate portion of the meeting prior to entering into closed session. The appeal hearing ended at 11:08 a.m. and the open meeting began.

Interim CEO Kirby asked that everyone's attention turn to pages 27 and 28 of the presentation in the Board binders-real estate renewals. Kirby pointed out that Store 388 in Tyson's Corner was closed, per the Board's request.

Director of Real Estate, Susan Johnson noted that the Authority would still have a couple of stores opening so the closure should not affect profit.

The Chair asked if there were any questions. There being none, the Chair asked for a motion to approve the real estate committee proposal.

Vice-Chair Sledd made a motion to approve the real estate committee recommendations from REC November. Renewals Store #064 (Stafford), Store #094 (Ashburn – Loudoun County), Store #112 (Hampton) Store #113 (Hot Springs), Store #156 (Cape Charles – Northampton County), Store #162 (Accomack), Store #230 (Tazewell), Store #233 (Gloucester), Store #322 (Centreville – Fairfax County), Store #339 (Verona –

Augusta County). Member Euille seconded the motion. No further comments were made. The Chair called the roll and all approved the real estate committee's proposal.

The Chair asked if there were any further reports from the Directors?

Interim CEO Kirby stated that the directors were present but currently had nothing to report. They are present to answer any questions the Board may have.

Chair Hugo stated that he did have a real estate question...do we have any plans to unload some space here in the central office if we are not using it?

Interim CEO Kirby said that he and Mr. Alfano met with DGS and DGS has looked at some open space on the second floor but we have not heard back from DGS yet. .

Mr. Alfano noted that it is approximately ¼ of the second floor that would be available to rent and offered to walk the Chair through the space.

Interim CEO Kirby added that some employees had been moved from the second floor up to the third floor to allow anyone that wanted to rent space from us to be on one floor together rather than spread out all over the building.

Chair Hugo asked if the CEO was envisioning more of a return to the office to work?

Interim CEO Kirby stated that he would definitely like to see the leadership team more in the office but that he was sensitive to the impact this move would have on employees. The most desirable work opportunities currently are those that provide for scheduling flexibility in and out of the office.

The Chair noted that the first question related to employment used to be how much work is there but there is now a shift to how much virtual work time is there.

Member Holland asked who made the suggestion that we sublet some of our office space?

Mr. Alfano stated that there was a memo that went out to all state agencies asking that the empty spaces in all state buildings be limited and to reach out to DGS if we had any space available.

Member Holland stated that he was wondering if it was the Governor's suggestion?

Chair Hugo stated that we should definitely hold on to our space for our own folks but it is just cost effective to rent out those open spaces.

The Chair then asked if there were any questions on the Financial Report?

Interim CEO Kirby interjected that Vida Williams resigned effective January 2nd. Kirby also stated that we needed some available dates for upcoming Board meetings for the year. According to statute, we are required to meet every 60 days. Kirby also gave a shout out to the staff who do a great deal of work to get things together for these meetings.

Chair Hugo stated that he thought it was appropriate to thank Ms. Williams for her service to ABC and to the Commonwealth. As far as the meetings, the chair noted that the Board had been meeting once a month and asked the Board members what they would like to do.

Vice-Chair Sledd noted that only so much happens in 30 days and it is a lot of work to manage. Sledd stated that unless there was a need for meetings every 30 days, he felt that the Board should allow time for management to prepare and address some things, adding that other Boards meet every quarter.

Chair Hugo stated the Board will definitely meet in February and March since the General Assembly is in session but the Board will discuss whether to lessen the meetings after that, and maybe the Board needs to hear from the staff as well. He suggested perhaps the Board could meet every 45 days after that once the General Assembly is not in session. . Mr. Holland stated that he felt like the Board had too much to discuss to limit their meetings to every 45-60 days.

Interim CEO Kirby stated that he would keep the Board informed through regular updates and if the Board would like a call, the CEO would be happy to do that as well. The CEO added that it was known that there is one staff member who is vital to the meeting who is unavailable right now so it requires many others to fill in. The CEO submitted that he felt 45-60 days as required by statute was enough but that the decision was up to the Board to decide. The CEO did attest that if something was urgent, he would not wait until the next Board meeting but would certainly call the Board.

Vice-Chair Sledd said the Board has hearings...can those be held without a Board meeting?

Chair Hugo stated the Board would have to meet. .

John Daniel called the Board's attention to the legislative tracking matrix and handed the Board members a copy of this tracker. Mr. Daniel stated that the Board will be sent this tracker twice a week via email. The tracker will grow in length during the General Assembly and will then be reduced as items are no longer to be considered. A fiscal impact statement will be provided if needed. It is a projection that evaluates how adoption of a bill will impact our agency. Then Mr. Daniel stated that he wanted the Board to be a little familiar with the way the Authority tracks the General Assembly session.

Chair Hugo asked if there were any questions for Mr. Daniel.

Comments from the Board

No further comments made.

Public Comments

None made.

Member Rubin moved the Board into closed session at 11:34 a.m.. In attendance in the closed session with the Board were Jim Flaherty, John Daniel, Dave Alfano, Tom Kirby and Chris Curtis.

Member Euille made a motion to move into closed session. Vice-Chair Sledd seconded that motion. The Chair called roll. All approved entry into closed session. The Board entered closed session to discuss a personnel issue pursuant to Virginia Code §2.2 37.11(A)(1). Attending the closed session were Chair Hugo, Vice Chair Sledd, Member Rubin, Member Euille, Member Holland, Office of the Attorney General Elizabeth Peay, Chief Government Affairs Officer John Daniel, Deputy Secretary Chris Curtis and Interim CEO Tom Kirby.

Closed Session

The Board came out of closed session at 1:00 p.m. Member Rubin made the motion to move out of closed session. Member Euille seconded the motion. With no further discussion, Chair Hugo called roll. All approved moving back into open session.

Member Rubin made a motion to affirm the decision of the Administrative Law Judge in the El Tropi 2 appeal. Member Euille seconded the motion. No further comments were made. The Chair called roll. All approved the motion.

Adjournment

The Board adjourned at 1:01 p.m.

