

# Board Meeting Minutes

## Virginia Alcoholic Beverage Control Authority Board Meeting

June 14, 2022 – 9:00am

### **Call Meeting to Order**

Authority Board Chair Maria J.K. Everett called the Board Meeting to order at 9:00 am.

### **Attendance**

Board Chair Maria Everett  
Board Vice-Chair Beth Hungate-Noland  
Board Member Greg Holland  
Board Member William Eulle  
Board Member Mark Rubin  
Chief Executive Officer, Travis Hill  
Chief Government Affairs Officer, John Daniel  
Chief Information Officer, Paul Williams  
Chief of Law Enforcement, Tom Kirby  
Chief Retail Operations Officer, Mark Dunham  
Chief Transformation Officer, Elizabeth Chu  
Deputy Secretary, Chris Curtis  
Director of Internal Audit, Nannette Williams  
Senior Legal Counsel, Latonya Hucks-Watkins  
Attorney General's Office Representative, Jim Flaherty  
Executive Assistant, Kathleen LaMotte

### **Approval of Minutes**

Board Member Mark Rubin moved to approve the minutes from the April 12 and May 17, 2022, Board meeting. Vice-Chair Hungate-Noland seconded the motion and with all in agreement, the minutes were approved through a roll-call vote of 5 – 0.

### **Approve recommendations of Real Estate Committee (REC)**

- Board Member Greg Holland moved to accept the REC's recommendations for two new stores, store 525 (Winchester), and store 526 (Chesterfield), and the expansion of one store, store 370 (Virginia Beach), and three renewals, stores 085 (Oakton), 054 (Loudon), and 080 (Alexandria). Vice Chair Hungate-Noland seconded the motion, and the Board adopted the recommendations of the REC on a roll-call vote 5 – 0.

### **Approve Regulatory Change to § 3VAC5-70-200**

Latonya Hucks-Watkins introduced a proposed change to 3 VAC5 -70-200 altering guidance to how the ABC Board issues Grain Alcohol permits

- A 2017 bill from the General Assembly (GA) included a sunset provision
- A recent GA bill removed the sunset clause, so the Authority must re-write regulation to comply with bill passed this GA session
- No public comment is necessary as change to regulation is to comply with statutory language

# Board Meeting Minutes

## Virginia Alcoholic Beverage Control Authority Board Meeting

June 14, 2022 – 9:00am

Board Member William Euille moved to approve the change to the regulation. Board member Greg Holland seconded the motion, and the motion was approved through a roll-call vote of 5 – 0

### **Approve Acceptable Use Policy**

Nannette Williams, Director of Internal Audit, presented a revision of the Authority's Acceptable Use Policy:

- Internal Audit worked closely with Paul Williams, CIO and the Authority's Information Security Team
- The GA passed a law which requires certain training by code
- VITA standards dictate all agencies must comply with an acceptable use policy
- The Authority received an audit point last year and this should be cured by enhancing security awareness training
- Bullet point B3 modified to say "Public disclosure" instead of "public distribution"

Vice Chair Hungate-Noland moved to accept the policy as amended. Board Member Mark Rubin seconded the Motion, and the policy was accepted on a roll-call vote of 5 – 0

### **Approve Bereavement Leave Policy**

Travis Hill reported that:-

- This policy introduces new type of leave to all workers. Full-time employees will receive up to 40 hours and part-time employees would receive up to five days based upon their average weekly hours worked. This would be the first time paid leave is given to a wage employee at the Authority other than the temporary Public Health Emergency Leave granted during the height of the COVID pandemic.
- The Board suggested language changes to provide clarity in the procedures on leave without pay and paid time off availability. Human Resources will modify language.

Vice Chair Hungate-Noland moved to accept the policy. Board Member Euille seconded the Motion, and the policy was accepted on a roll-call vote of 5 – 0

### **Moved into Closed Session**

At 9:28 a.m., Board Chair Everett moved that the Board enter closed session for the purpose of receiving legal advice regarding hearings before the Board pursuant to 2.2-37.11(A)(8). Board member Euille seconded, and the motion passed 5 – 0 on a roll-call vote. Attending the closed session in full were Maria Everett, Beth Hungate-Noland, Greg Holland, Mark Rubin, and William Euille. Attending in part were Jim Flaherty, Chris Curtis, Travis Hill and John Daniel.

### **Hearing**

MRG Holdings LLC  
Phoenix Restaurant & Lounge  
928 Diamond Springs Road, Suite 115  
Virginia Beach, VIRGINIA 23455-6601

# Board Meeting Minutes

## Virginia Alcoholic Beverage Control Authority Board Meeting

June 14, 2022 – 9:00am

License NO.: 0891154

DOMAINE PHILIPPE PLANTEVIN

v.

VINIFRANCE IMPORTS INC.

### **Certification for Closed Session**

- Upon the Board's return from Closed session, Vice-Chair Hungate-Noland moved to certify that to the best of her knowledge nothing was discussed in the closed sessions but legal advice pursuant to 2.2-37.11(A)(8), and only public business matters lawfully exempted from open meeting requirements was discussed. Board Member Rubin seconded; the motion passed on a roll-call vote of 5-0.

### **Decisions of Hearings**

Vice-Chair Hungate Noland moved to substantiate the hearing officer's decision in part by terminating the franchise agreement in Domaine Philippe Plantevin vs. Vinifrance Imports Incorporated. Board Chair Hungate-Noland seconded the motion. The motion was passed on a roll-call vote of 5 – 0.

Board Member Rubin moved that the charge be dismissed regarding Phoenix Restaurant and Lounge with a reasonable measures letter to be sent by the Bureau of Law Enforcement. Vice Chair Hungate-Noland seconded the motion. The motion passed on a roll-call vote of 5 – 0.

### **CEO Report**

Travis Hill reported that: –

- The Authority has received an objection to the planned store 524 in downtown Roanoke previously approved by the Board on March 22, 2022 from a concerned citizen. However, the Roanoke Downtown revitalization group and Roanoke economic development remain in support of the store. The Authority will proceed with store opening.
- Vida Williams was selected as the Authority's new Chief Digital Brand Officer. Ms. Williams has a strong background in web and data and will begin work on July 10.
- The position for CAO is still listed, the Authority may engage an outside recruiter to help fill this position.
- The reusable bag initiative began in early June, social media demonstrates a favorable response so far.

### **Financial Report**

Doug Robinson reported that:

For the month of April vs budget:

- Store sales were 3.9% above budget at \$114M.

# Board Meeting Minutes

## Virginia Alcoholic Beverage Control Authority Board Meeting

June 14, 2022 – 9:00am

- The Cost of Goods Sold (COGS) variance is unfavorable, due to higher than budgeted sales. COGS is consistent as a % of store revenues at approx. 48%.
- Variable costs were \$0.9M above budget largely due to a depreciation true-up adjustment on the new building based on new DGS provided costs of the new building.
- The total Contribution margin was \$1.3M favorable at \$25.5M.
- Fixed administrative costs were below budget by \$3.0M due to lower personal services cost (\$700k) due to unfilled budgeted positions, favorable telecom costs (\$500k) and a depreciation true-up on the new building for (\$1.1M) offsetting the unfavorable variance in variable costs. Regulatory costs were \$0.8M below budget largely from lower personal services costs (\$800k) due to unfilled budgeted positions.
- Overall, the Authority ended the month \$5.1M favorable at a net profit of \$19.6M, or 35.1% above budget.

### For the April fiscal year to date period vs budget

- Store sales were up by 2.7% at \$1.145 Billion
- Net revenue was 2.6% above budget at \$973.6M.
- While the COGS variance is negative, that is due to higher sales. COGS is consistent as a % of store revenues.
- Variable expenses were higher by \$7.8M due to increased manual labor services (\$2.9M) related to repalletizing in the warehouse and temporary labor needs as part-time employees max out on allowed hours, unfavorable building rentals (\$4.1M) due to unbudgeted short-term operating lease costs, higher personnel services expenses (\$1.5M), higher telecom costs (\$900k) and higher credit card fees (\$800k) in line with higher sales, partially offset by favorable supplies and materials costs (\$1.7M) due to purchase of reusable bags lagging the expected budgeted purchases and lower equipment costs (\$1.0M) due to the capitalization of store shelving.
- The contribution margin was positive by \$6.7M or 2.7% above budget for a total of \$260.6M.
- Fixed administrative costs were \$16.6M favorable largely from lower personal services costs due to vacancies (\$5.4M), favorable telecom costs (\$1.7M), favorable network server software and equipment costs (\$1.7M), favorable skilled services costs (\$1.7M) due to hard to fill IT contract positions, unfulfilled computer software costs (\$1.6M), a net favorable year-to-date leave liability adjustment of (\$1.2M), lower training/travel costs due to Covid (\$1.0M) and lower management services (\$0.9M).
- Regulatory costs were \$5.2M favorable principally in personal services due to vacancies.
- After adjusting for the positive variances in fixed costs, the Authority comes up with a net profit of \$189.4M which is \$28.5M above budget, 17.7% ahead of budget.

### **Budget Approval**

Mr. Hill shared an update to the budget presentation provided to the Board, which is attached to these minutes as Appendix A. Updated budget presentation – attached as Appendix A.

- Finance examined trends, growth, and inflation, then met with each division head to produce a list of recommended budget decision briefs.
- Forecasting this year is difficult, there is tremendous revenue growth, but also added expenses in compensation and COGS

# Board Meeting Minutes

## Virginia Alcoholic Beverage Control Authority Board Meeting

June 14, 2022 – 9:00am

Board member Rubin asked if the increased cost of fuel impacts the Authority's contract with Estes. Mr. Dunham advised that there is a fuel surcharge, and Mr. Robinson responded that the Authority allowed for large increase to fuel costs in the next budget

- It is estimated the Authority will exceed the FY 2022 profit requirement, due to sales exceeding forecast and expenses coming in under budget. FY 2022. Expectations for FY23 and FY24 are predicated on a conservative forecast.
- COVID-19 expenses in FY 2022 total approximately \$2.5 million through May and were offset partially by \$1.7 million in Cares Act Funding from prior year's expense reimbursement for a net FY22 expense of \$0.8 million.
- Store Sales are projected to finish around \$1.377 billion, up from \$1.350 billion estimate for FY 2022
- The New Building & Warehouse Project went live during FY 2022
- The Licensing Project & related Sales Audit portion, C-Vent Project, Voice-Over-IP Project and Reusable Bag Initiative are all implemented.
- Two new stores, eight relocations, and three expansions occurred in FY22
- The Department of Budget and Planning had a duplicate entry for sale of the Hermitage Road Headquarters, this was removed from the profit transfer requirement.
- An increased profit transfer requirement using revised profit forecast was provided on 2/13/22.
- The Authority was granted profit relief for state 5% increase and bonus to full-time employees to offset ABC's costs.
- The Authority is well-positioned to exceed the profit requirement set for FY22.
- Credit Card fees steadily climbing. Elavon advises fees are expected to go up by 10%. With licensing system going live, more licensees are expected to utilize credit cards, thus increasing fees.

Vice Chair Hungate-Noland asked if the Authority imposes a surcharge for credit card transactions. Mr. Kirby advised that while there has been some discussion, right now the Authority is not passing that cost on to customers. Mr. Curtis advised that statutorily we are permitted to charge a credit card surcharge.

Board Member Rubin asked if the Authority is raising prices like other retailers are at this moment. Mr. Hill advised that if a supplier takes a price increase, ABC's prices go up as a result. Mr. Hill advised that the Authority may see more "shrinkflation", where price of an item stays the same but the size of the bottle goes down, and it may impact buyer behavior.

Mr. Robinson reviewed Budget assumptions :

- \$2.3 million to Implement \$15/hour Retail minimum wage increase on 01/01/2023 and address any compression issues
- \$9.0 million for state mandated 5% pay increase to all workers (Both Salary & Wage)
- \$1.4 million for State approved bonus payout in December.
- \$2.9 million for compensation adjustments to align ABC compensation with market (This is the 2nd half of Compensation Study Adjustments)

# Board Meeting Minutes

## Virginia Alcoholic Beverage Control Authority Board Meeting

June 14, 2022 – 9:00am

- \$3.0 million added to budget by decreasing vacancy factor for most divisions to 3% and Enforcement to 5% compared to the 5% and 10% vacancy factor used in FY22, respectively
- \$4.8 million for 77 added classified positions for retail growth and resource for projects have been included in the FY 2023 budget as part of the DPB submission for retail specific positions
- \$1.4 million 12 central office positions have also been included in the 2023 budget (4 were approved in FY22 and 8 have been recommended for approval in FY23)
- 4-8% inflation was considered where applicable for costs outside of personal service cost

Mr. Hill advised that if there is a recession, licensee sales are likely to suffer due to altered consumer behavior found in reduced trips to restaurants.

The Board thanked Mr. Robinson and his team for their work and advised they liked the new “waterfall” format of slides and overview.

### **Decision Briefs**

- Mr. Hill reviewed the Decision Briefs submitted and the recommendation for the Board to approve, defer and deny.

Board Vice-Chair Hungate-Noland moved to approve the FY2023 Budget; Board Member Rubin seconded. With all in agreement, the motion passed in a roll-call vote of 5-0.

Board Member Rubin moved to approve the proposed Decision Briefs; Board Member Euille seconded. With all in agreement, the motion passed in a roll-call vote of 5-0.

### **Profit transfer**

Per regulation, the profit transfer must be sent by end of June. Vice Chair Hungate-Noland moved to approve, Board Member Holland seconded. Passed on roll-call vote of 5 – 0

### **CEO Report Continued**

Mr. Hill reported that:

- Third party licensing goes live on July 1, the Authority is in the process of approving training created by outside parties.
- The Authority continues with the limited availability process. Response on social media is mixed. While many like that allocated products are more accessible to more people, there are some that do not like the process ..
- Chair Everett and Mr. Hill held 11 or 12 meetings with suppliers at the annual NABCA meeting. Supplier challenges are expected to remain through this calendar year.
- Mr. Hill will travel to Kansas to present to NCSLA on regulatory efforts. Mr. Hill will host the regional conference in Richmond in October
- Mr. Hill met with the Governor’s office in early May, they would like to see a monthly briefing. The Authority is working on what would be best to include in this request.

# Board Meeting Minutes

## Virginia Alcoholic Beverage Control Authority Board Meeting

June 14, 2022 – 9:00am

### **Old Business**

None

### **Comments from Board**

None

### **Public Comments**

None

### **Meeting Adjournment**

At 4:00 pm, with no further business, Chair Maria Everett adjourned the meeting.





# Virginia ABC

## Fiscal Year 2023 Operating Budget

Appendix A



[WWW.ABC.VIRGINIA.GOV](http://WWW.ABC.VIRGINIA.GOV)

# Agenda

- **FY 2022 YTD Highlights**
- **Statistical Analysis**
  - Cost of Goods Sold
  - Excise Tax
  - Credit Card Fees
  - Profit Sensitivity Analysis
- **Budget Assumptions**
  - General Assembly Profit Requirement
  - Revenue Assumptions
  - Budget Impact Analysis
  - Project Assumptions
- **Budget Overview**
  - P&L Statement
  - Divisional Analysis - FY 2022 Budget vs. FY 2023 Budget
  - Maximum Employment Level
  - Budget Risk
- **Decision Packages**
  - Decision Brief Summary
- **Recommended Next Steps**
- **Appendix – FY22 Profit Transfer**

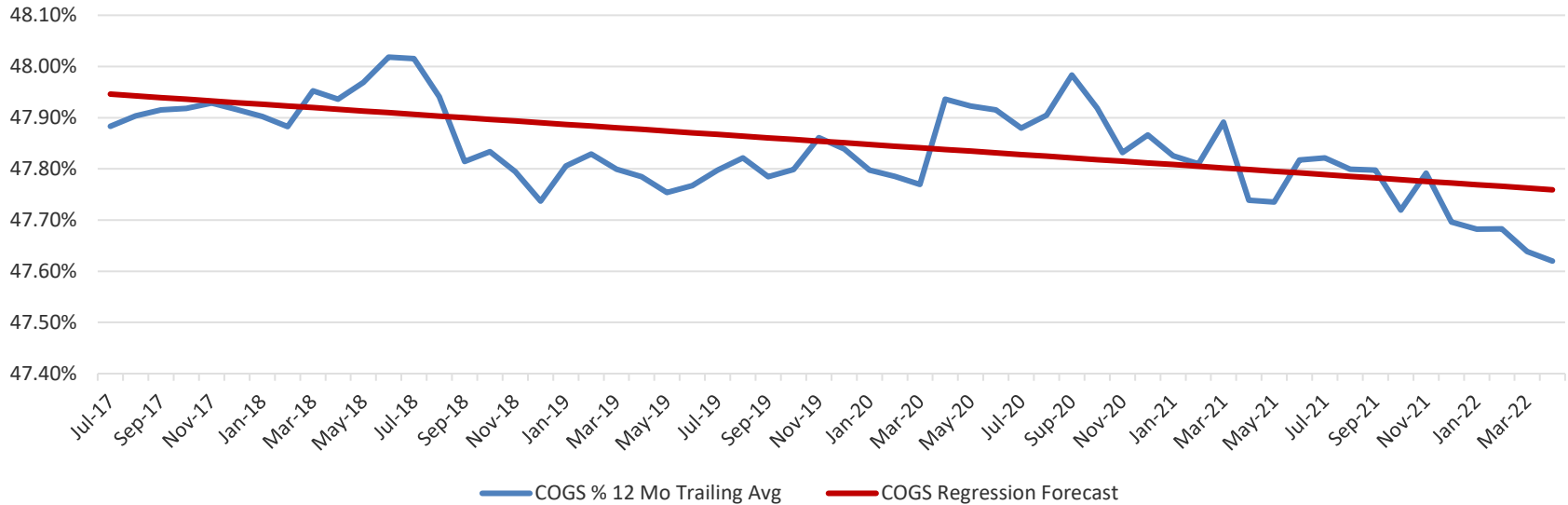
# FY 2022 YTD Highlights

- It is estimated the Authority will exceed the FY 2022 profit requirement, due to sales exceeding forecast and expenses coming in under budget. FY 2022 profit will be discussed in the Appendix
- COVID-19 expenses in FY 2022 total approximately \$2.5 million through May and were offset partially by \$1.7 million in Cares Act Funding from prior year's expense reimbursement for a net FY22 expense of \$0.8 million.
- Store Sales are projected to finish around \$1.377 billion, up from \$1.350 billion estimate for FY 2022
- The New Building & Warehouse Project went live during FY 2022
- The Licensing Project & related Sales Audit portion, C-Vent Project, Voice-Over-IP Project and Reusable Bag Initiative.
- 2 new stores, 8 relocations, 3 expansions occurred in FY22

# Statistical Analysis

# Cost of Goods Sold (COGS)\*

COGS as a % of Sales



**Estimated Growth Rate = -0.08 %**

**FY23 Budget = \$682,334,868**

**FY23 Rate as a % of Sales = 48.02%**

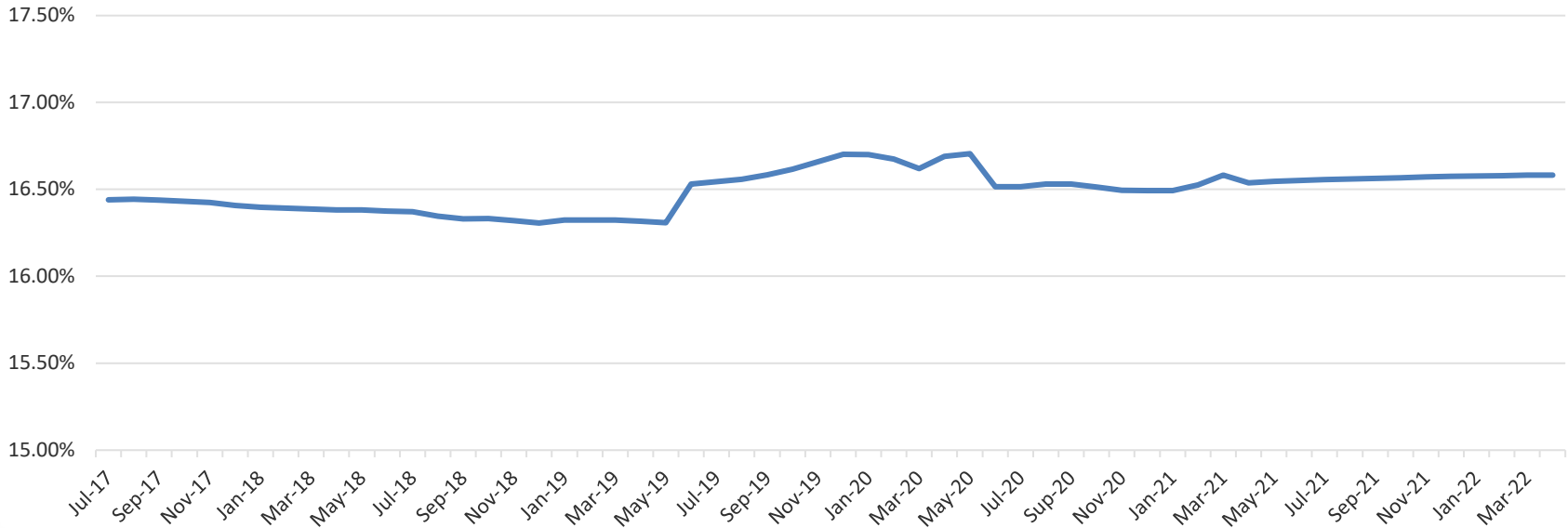
**FY22 Estimated Rate as a % of Sales = 48.1%**

\*COGS excludes breakage and distillery COGS



# Statistical Model – Excise Tax

Excise Tax as a % of Sales



**FY23 Budget = \$235,451,218**

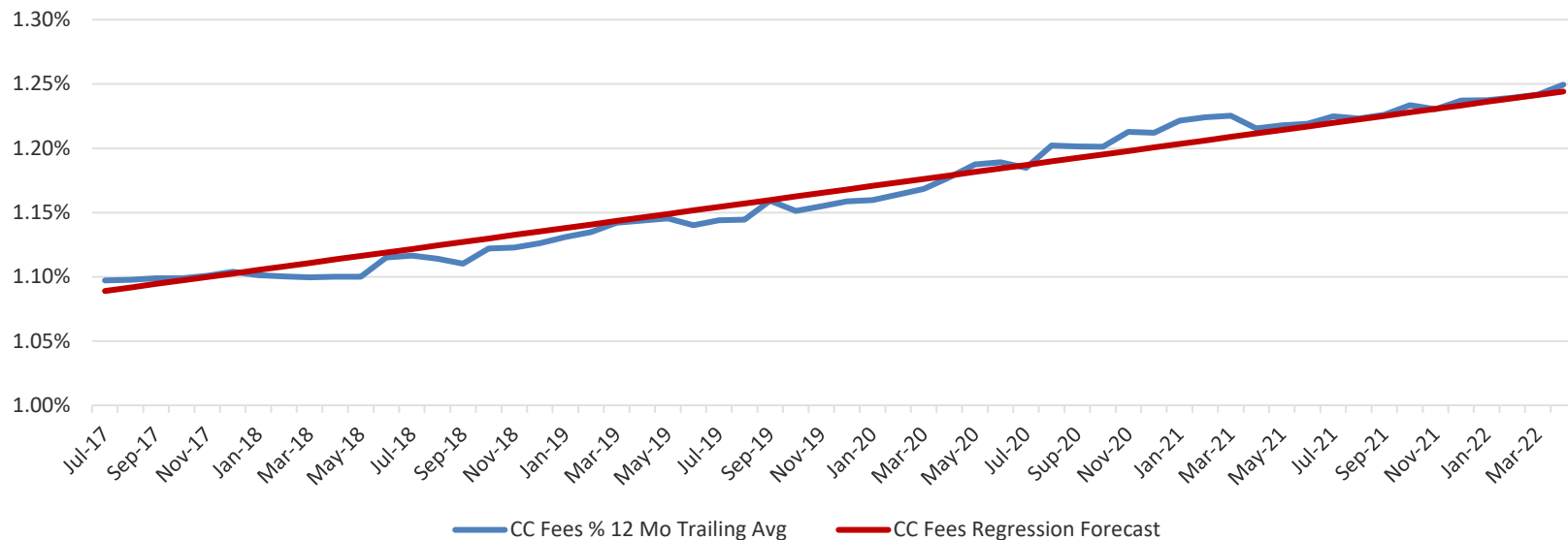
**FY23 Rate as a % of Sales = 16.57%**

\*FY22 Rate estimated at 16.54%; rate fluctuates based on sales mix of 20% liquor and 4% wine



# Statistical Model – Credit Card Fees

CC Fees as a % of Sales



**Estimated Growth Rate = 10.0%**

**FY23 Budget = \$19,781,207**

**FY23 Rate as a % of Sales = 1.375%**

**FY22 Estimated Rate as a % of Sales = 1.25%**

\* budgeted fees are up based on increased number of transactions and card brand rate charge increases of 10%. This also factors in anticipated increases in credit card transactions for License & Permits.



# Incremental Profit Analysis

		Expected View
		Incremental Profit = Revenue - COGS - VC
Assumptions:		22.3% Profit
\$1M Additional Revenue	\$	223,000
\$2M Additional Revenue	\$	446,000
\$3M Additional Revenue	\$	669,000
\$4M Additional Revenue	\$	892,000
\$5M Additional Revenue	\$	1,115,000
\$6M Additional Revenue	\$	1,338,000
\$7M Additional Revenue	\$	1,561,000
\$8M Additional Revenue	\$	1,784,000
\$9M Additional Revenue	\$	2,007,000

COGS = Cost of Goods Sold

VC = Variable Costs (Retail Operations and Logistics)



# FY 2023 Budget Assumptions

# General Assembly Profit Requirement

		<u>FY 2022</u>	<u>FY 2023</u>
3-1.01A.2.a	Profit Transfer Required by Code	161,400,000	112,082,813
3-1.01 #1.c	Duplicate gain on sale of Hermitage Rd	(14,700,000)	-
3-1.01 #4.c	Revised estimate of profits	15,200,000	-
	Department of Behavioral Health &		
3-1.01A.1.1.a	Developmental Services	65,375,769	65,375,769
3-1.01A.1.7.a	Auditor of Public Accounts	75,521	75,521
3-1.01A.1.7.b	Department of Accounts	64,607	64,607
3-1.01A.1.7.c	Department of the Treasury	47,628	47,628
3-1.01R	Operating Efficiencies	3,864,585	3,864,585
	<b>Profit Transfer</b>	<b>231,328,110</b>	<b>181,510,923</b>
	Change from Prior Year	1.0%	-21.5%

# General Assembly Profit Requirement

## Profit Transfer Detail

*\$ in millions*

	FY 2022	FY 2023
Original Profit transfer Requirement	161.4	120.9
Remove Duplicate Gain on Hermitage	(14.7)	
Adjusted Profit Transfer Requirement	146.7	120.9
5% state increase profit relief		(8.8)
Additional Profit transfer offered	15.2	-
Profit Transfer excl. approp.	161.9	112.1
Appropriations	69.4	69.4
Total Profit Transfer incl. approp.	231.3	181.5

# FY 2023 Budget Assumptions

- **Budget Assumptions**

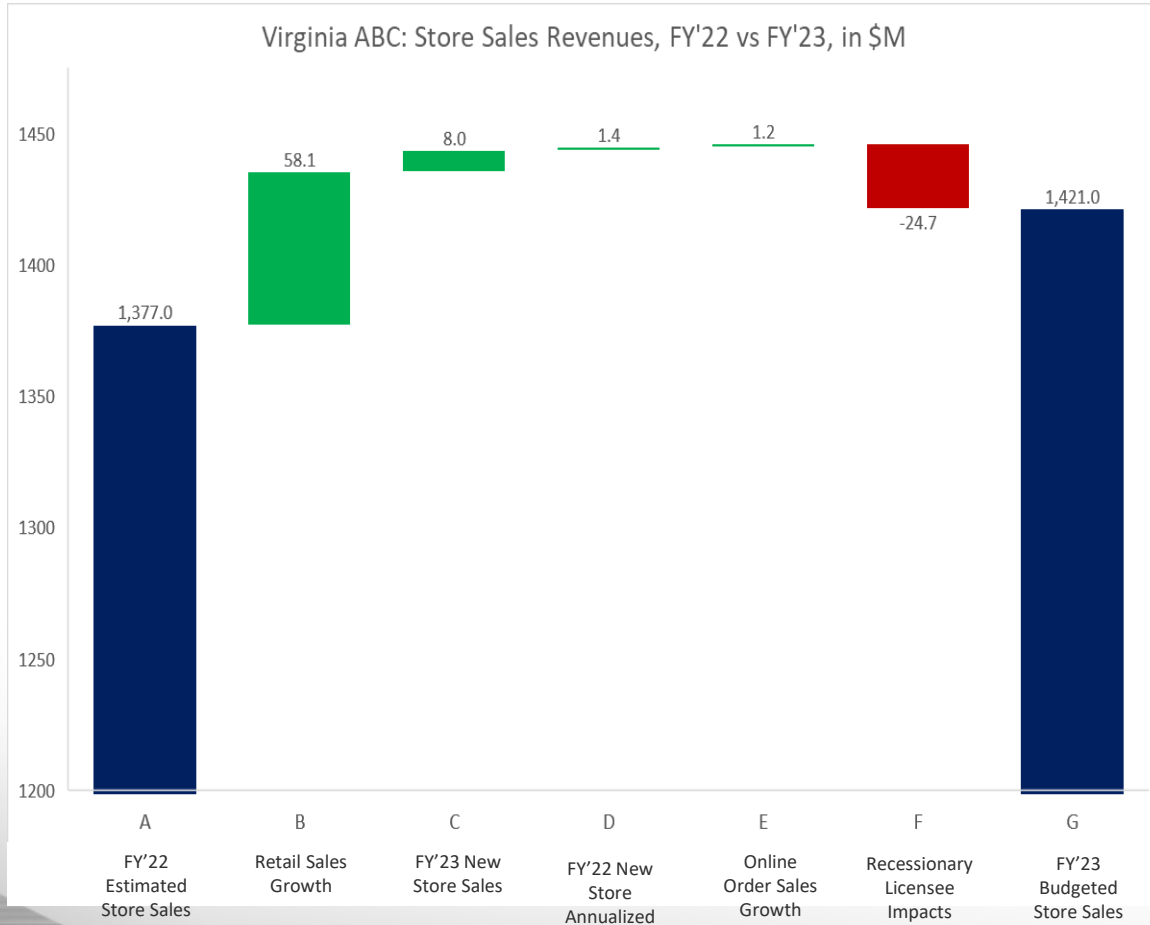
- **\$2.3 million** to Implement \$15/hour Retail minimum wage increase on 01/01/2023 and address any compression issues
- **\$9.0 million** for state mandated 5% pay increase to all workers (Both Salary & Wage)
- **\$1.4 million** for State approved bonus payout in December.
- **\$2.9 million** for compensation adjustments to align ABC compensation with market (This is the 2<sup>nd</sup> half of MERCER Study Adjustments)
- **\$3.0 million** added to budget by decreasing vacancy factor for most divisions to 3% and Enforcement to 5% compared to the 5% and 10% vacancy factor used in FY22, respectively
- **\$4.8 million** for 77 added classified positions for retail growth and resource for projects have been included in the FY 2023 budget as part of the DPB submission for retail specific positions
- **\$1.4 million** 12 central office positions have also been included in the 2023 budget (4 were approved in FY22 and 8 have been recommended for approval in FY23)
- **4-8% inflation** was considered where applicable for costs outside of personal service cost

# Project Assumptions

Project	Phase	Target Completion	P&L Impact in FY 2023
Licensing Onboarding Project	Implementation	FY 2023	\$439K P&L impact in FY 2023
E-Commerce Program Phase 0	Implementation	FY 2023	\$1M P&L impact in FY 2023
POS / Sales Audit Project	Complete	FY 2021	Depreciation/Amortization and Operating expenses in FY 2023
Building Project	Complete	FY 2022	Depreciation and Operating Expense in FY 2023
Licensing Implementation	Complete	FY 2022	Depreciation and Operating Expense in FY 2023
Customer Support Program – Phase 1	Implementation	FY 2024	\$258K P&L impact in FY 2023
HR Project	Implementation	FY 2025	\$260K P&L impact in FY 2023

# FY'23 store sales are forecasted to grow 3.2%, reaching \$1,421M

Growth in FY'23 will primarily be driven by retail sales, as the high potential for a recession would lead to reductions in licensee sales. New stores will deliver almost \$10M in FY'23, \$8.0M from opening 8 stores in FY'23, and \$1.4M incremental from stores that opened in FY'22.



### Notes:

- Store sales revenues for FY'22 are forecasted to end at \$1,377M, resulting in 3.2% growth versus FY'21
- Even with the threat of a recession, store sales should be strong enough to grow at the same rate in FY'23, resulting in a forecast of \$1,421M in FY'23
- The bulk of this growth will occur in retail sales, which would see a bump due to consumers reducing spend at restaurants in a recession
- Unfortunately, a recession would impact licensees negatively from that reduced restaurant spend, resulting in a reduction in licensee sales
- The forecast includes opening 8 new stores in FY'23, delivering \$8.0M of sales, assuming average opening at mid year
- Stores opened in FY'22 will see annualized growth impact in FY'23 of \$1.4M
- Online orders are expected to grow \$1.2M



# FY 2023 Budget Overview

# Profit & Loss Statement (in millions)

	FY 2022 Budget	FY 2022 Projected	FY 2023 Budget
<b>Revenue Sources:</b>			
Alcoholic Beverages (Store Sales)	\$1,350.0	\$1,376.9	\$1,421.0
Other	34.6	37.3	29.1
<b>Gross Revenue</b>	1,384.6	1,414.1	1,450.1
Less: Spirits Excise Tax	223.3	227.8	235.5
<b>Net Revenue</b>	1,161.3	1,186.4	1,214.6
<b>Variable Operating Costs:</b>			
Cost of Goods Sold	649.3	661.9	683.1
Variable Administrative Costs	188.1	196.2	215.2
<b>Total Variable Costs</b>	837.4	858.1	898.3
<b>Contribution Margin</b>	323.9	328.3	316.3
<i>Contribution Margin as a % of Store Sales</i>	24.0%	23.8%	22.3%
<b>Fixed Operating Costs:</b>			
Fixed Administrative Costs	86.2	70.6	94.5
Regulatory Costs (Enforcement & Hearings)	26.6	22.5	30.4
<b>Total Fixed Costs</b>	112.8	93.1	124.9
<b>ABC Net Profit</b>	<b>\$211.1</b>	<b>\$235.2</b>	<b>\$191.4</b>
<i>As a % of Store Sales</i>	15.6%	17.1%	13.5%
	<b>General Assembly Profit Requirement</b>		\$181.5





# FY 2023 Budget Overview

An estimated 3.2% increase in alcohol sales = \$1,421.0 M sales forecast - \$235.5M Excise taxes + \$29.1M Misc. Revenue = \$1,214.6M Net Revenue

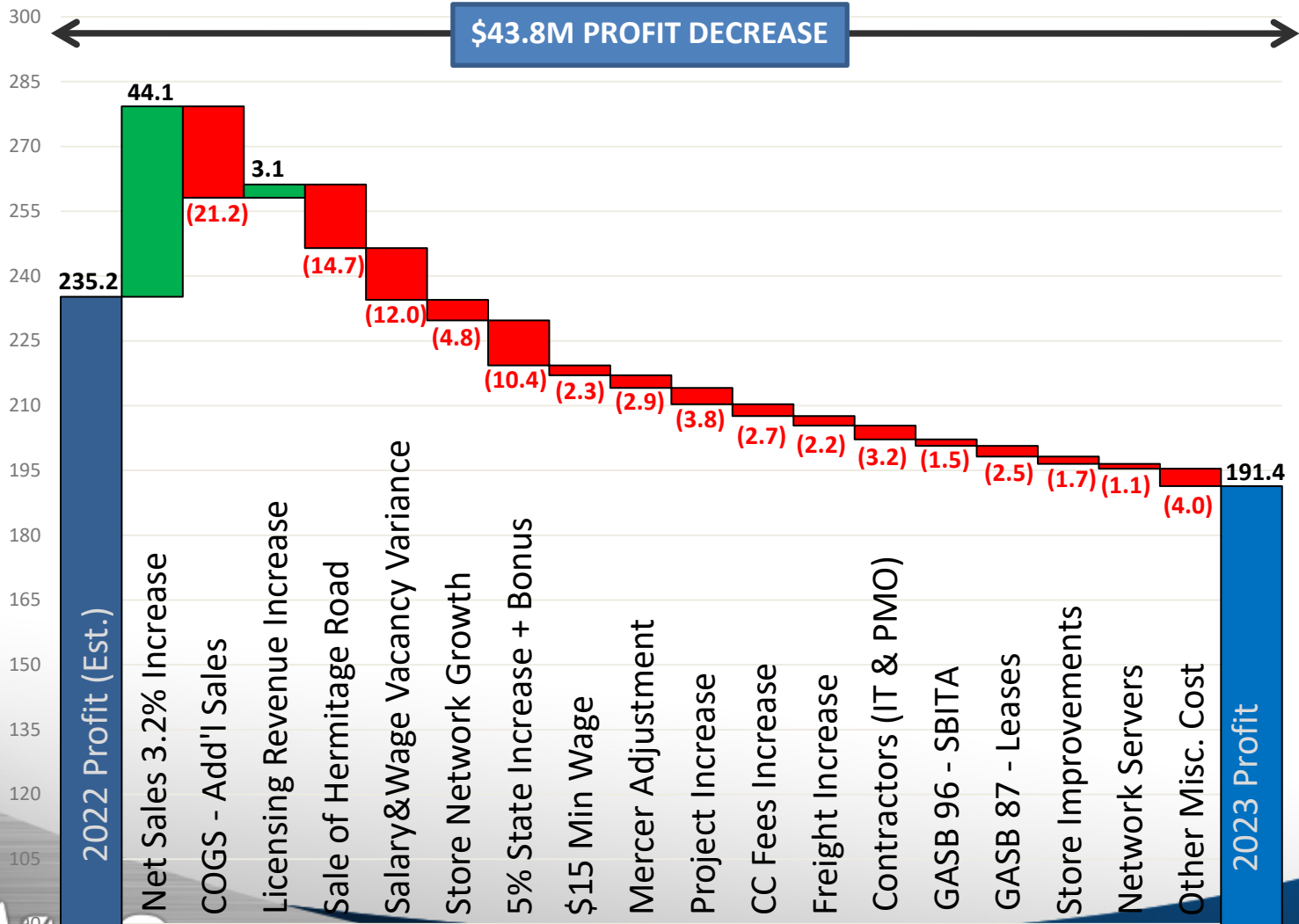
\$1,214.6M Net Revenue - \$683.1M COGS - \$215.2M Variable Administrative Costs = \$316.3M Contribution Margin

\$316.3M Contribution Margin - \$124.9M Fixed Costs = \$191.4M ABC Net Profit

\$191.4M Net Profits - \$181.5M Anticipated "Budget Book" Required Transfer = \$9.9M Excess Profit over Required Transfer

# FY 2023 Budget Overview

## FY 2022 Est. Actual vs FY 2023



# Variance Analysis by Division

## FY 2023 Budget vs FY 2022 Budget

### Retail

+14.6M in salaries, wages & benefits due 5% state pay increases, 10.6% wage increase for \$15 minimum wage, including wage & salary compression adjustments and 56 new positions for new stores, store growth & clerk conversion  
+3.3M in credit card fees due to increased sales and consumer changes in credit/debit selection  
+7.1M higher net costs primarily due to operating lease costs not reflected in FY22.

### IT

+886K in personal services cost due to the statewide increase in salaries and benefits costs and additional new hires  
+5.1M due to depreciation and amortization of SaaS Software  
+1.9M in Computer Software Rentals for SaaS Systems & Customer Support

### Enforcement

+2M in salaries due to a 5% reduction in vacancy factor and 5% state-wide increase  
+1.2M in Contractual services for CC fees on licenses & permits, cell phones & MIFI, and contractors for Licensing On-Boarding & Body-worn Camera Projects  
+500k for misc. expenditures. Vehicle gas & depreciation, Building rentals, and equipment

# Variance Analysis by Division

## FY 2023 Budget vs FY 2022 Budget

### Logistics

+2.3M in outbound freight due to increased volume and increased warehouse efficiency  
+636K due to increased salaries and wages & benefits  
+610k in Manual Labor Services for Temp. Warehouse Workers

### Property Management

-3.9M from moving the Depreciation of the new headquarters, new warehouse, & SaaS systems to their respective new departments (Board Admin, Logistics & IT)  
+1.3M for increased Fixtures & Office Appurtenances due to increased product cost and supply chain issues creating competitive material prices

### Board Administration

+2.3M from moving the Depreciation and utility bills of the new headquarters from Agency Project to Board Administration  
-1.3M of VITA costs from onboarding moved to IT  
-1.4M remainder of MERCER Study budget pool expensed out to departments

# Division Analysis FY 2023 Budget Vs. FY 2022 Budget

Division	FY23 Budget	FY22 Budget	FY23 Bud - FY22 Bud	% Chng	
Agency Projects	4,462,160	5,451,877	(989,717)	-18%	↓
Board Administration	12,321,316	10,982,237	1,339,079	12%	↑
Communications	1,247,602	1,206,262	41,339	3%	↑
Education & Prevention	1,009,674	977,299	32,375	3%	↑
Enforcement	25,635,889	21,924,357	3,711,532	17%	↑
Enforcement-Support	2,222,444	2,292,359	(69,915)	-3%	↓
Financial Management	4,218,384	4,136,780	81,604	2%	↑
Hearings & Appeals	2,579,059	2,320,245	258,813	11%	↑
Human Resources	5,549,017	4,838,898	710,119	15%	↑
Internal Audit	1,729,252	1,902,522	(173,270)	-9%	↓
Information Technology	39,702,442	32,210,084	7,492,357	23%	↑
Logistics	21,658,661	18,634,668	3,023,993	16%	↑
Marketing	5,818,968	4,687,769	1,131,200	24%	↑
Procurement	2,788,237	3,144,529	(356,292)	-11%	↓
Property Management	7,968,850	10,959,185	(2,990,335)	-27%	↓
Retail Operations	193,578,594	169,444,743	24,133,852	14%	↑
Transformation Office	6,672,541	5,167,105	1,505,435	29%	↑
Web Operations	1,024,392	653,740	370,652	57%	↑
<b>Grand Total</b>	<b>340,187,482</b>	<b>300,934,659</b>	<b>39,252,823</b>	<b>13%</b>	<b>↑</b>

# Maximum Employment Level (MEL)

**MEL per FY 2022 Budget Book**                      **1,643**

Budget

Retail Store Employees                      978

Retail Support                                      38

Enforcement                                      157

Enforcement Support                      66

Central Office                                      394

**Total**    **1,633**

Under Budget Book MEL                      10

Decision Package MEL Request                      8

Potential Under Budget Book MEL                      2

# Budget Risk

- Unplanned/unexpected inflation costs & associated recession impacts
- COVID-19 resurgence impacts
- Increase in profit requirement from General Assembly based on FY 2021 and FY 2022 results
- Sales
  - COGS Trend
    - Currently COGS is Budgeted at 48.02% based on trend
- Vacancy Factor
  - Most divisions are currently budgeted at 3%. Enforcement is budgeted at 5%
- Project progress and spending
- MEL Limitations



# Decision Packages



# FY 2023 Decision Brief Summary

Division	Brief Title	Amt. Requested	Impact on P&L	MEL
Project Management Office	Customer Support Program	1,229,006	257,964	-
Internal Audit/Info Sec	Information Security Officer Salary Increase	12,000	12,000	-
Internal Audit	Information Security Contract Resource - Consultant	100,000	100,000	-
Human Resources	Funding for HRIS Pework	153,538	153,538	1
Human Resources	Tuition Benefit	210,000	210,000	-
Human Resources	MET for On Boarding New Managers	59,974	59,974	-
Human Resources	Leadership Programs	140,000	70,000	-
Education	Community Engagement Pay Adjustment	19,620	19,620	-
Web Operations Team	E-Commerce Phase 0	1,000,000	1,000,000	-
IT	New Position for Application Support Manager	153,538	153,538	1
IT	New Contractor Position for BSA Lead	216,507	216,507	-
IT	New Position for Application Analyst 3 for Service Now	136,789	136,789	1
IT	Production Support Analyst 2	89,331	89,331	1
IT	Data Services Contractor	200,000	200,000	-
IT	New Position Information Security Analyst 3 for IAM	128,239	128,239	1
Enforcement	15 Police Interceptor Vehicles	549,195	36,613	-
Enforcement	DLG Consulting	45,000	45,000	-
Enforcement	Postal Outsourcing	66,000	66,000	-
Marketing	Media Support #1 - Maintain Delivery	296,000	296,000	-
Marketing	Media Support #2 - Expanded Support	304,000	304,000	-
Retail	New Position Request - Retail Systems specialist	135,393	135,393	1
Retail	Retail Bonus	-	-	-
Change Management Office	Additional Funding to convert a Change Specialist Change	27,916	27,916	-
Office of Diversity, Equity & Incl	DEI Practioner	121,435	121,435	1
Research and Planning	Data Management Roadmap Consultant	500,000	500,000	-
Hearing & Appeals	Contract Attorney Salary Funding	24,427	24,427	-
Hearing & Appeals	Litigation Attorney Salary Funding	62,013	62,013	-
Hearing & Appeals	Approval for one (1) Risk Management Analyst	100,498	100,498	1

# FY 2023 Decision Brief Summary

Division	Brief Title	Amt. Requested	Impact on P&L	MEL
Research and Planning	Strategy Analyst	129,251	129,251	1
Human Resources	Benefits Program for Wage Employees	431,950	431,950	1
Human Resources	Retail Engagement Funding	80,000	80,000	-
Human Resources	Retail Field Trainer I	101,647	101,647	1
Human Resources	AMA OnDemand Training Library Licenses (American Ma	17,465	17,465	-
Human Resources	Electronic I-9 Management and Compliance	20,900	20,900	-
Communications	FTE - Videographer - Multimedia Specialist	110,000	110,000	1
Education	Prevention Programming Manager	124,251	124,251	1
IT	Data Services Contractor	200,000	200,000	-
IT	New BSA Contractor Position	174,720	174,720	-
IT	New Position for Application Analyst 3 for VAL	(15,000)	(15,000)	1
IT	Data Services Contractor Conversion	-	-	1
IT	Data Services Contractor Conversion	-	-	1
IT	New QA Contractor Position	145,350	145,350	-
IT	New Position for Information Security Analyst 3 for Vulner	91,875	91,875	1
IT	New Position for Information Security Analyst 3 for Securit	91,875	91,875	1
Logistics	Position Request for an Inbound Logistics Coordinator	71,675	71,675	1
Real Estate and Facilities Manag	Warehouse Maintenance Technicians	189,667	189,667	2
Retail	Retail Training Platform and Development Program	140,000	140,000	-
Retail	Music and Digital Displays Pilot Statewide	320,000	320,000	-
<b>Recommended Total Decision Briefs</b>		<b>8,506,046</b>	<b>6,952,422</b>	<b>21</b>
Recommended Total for Approval		6,080,419	4,526,795	8
Recommended for Deferral (Will revisit mid of FY23)		129,251	129,251	1
Recommended Total for Denial		2,296,375	2,296,375	12

# Recommended Next Steps

- Today
  - Board approval of FY 2023 Budget
  - Board approval of FY 2023 Decision Briefs
- Next
  - FMS will communicate to Division Directors approved budget
  - FMS will make the FY 2023 budget available in BAR

# Appendix – FY 2022 Profit Transfer

# FY 2022 Estimated Profit

	Revenue	Cost of Goods	Expenses	Profit	
1st Qtr.	July	102,156,805	57,611,283	22,132,289	22,413,233
	August	93,471,745	52,216,915	23,008,538	18,246,292
	September	89,987,665	51,109,486	22,246,045	16,632,134
2nd Qtr.	October	99,927,495	55,581,781	23,102,720	21,242,994
	November	99,197,875	57,036,140	23,292,198	18,869,537
	December	129,116,311	72,063,072	25,414,776	31,638,462
3rd Qtr.	January	81,770,477	46,143,016	25,156,402	10,471,059
	February	85,064,402	48,063,733	23,240,118	13,760,551
	March	95,957,271	53,796,806	25,649,050	16,511,415
Estimated 4th Qtr.	April	96,993,646	54,661,486	22,724,156	19,608,004
	May	101,076,228	57,058,999	26,086,318	17,930,911
	June (EST)	111,674,772	56,494,119	27,264,088	27,916,565
<b>TOTAL</b>	<b>1,186,394,692</b>	<b>661,836,837</b>	<b>289,316,699</b>	<b>235,241,156</b>	

# FY 2022 Estimated Profit Transfer

Q1 Profit Transfer Carry-Over from Prior Year		1,085,837.94
Q1 Profit Actual/Transfer		57,291,658.18
Q2 Profit Actual/Transfer		71,750,993.15
Q3 Profit Actual/Transfer		40,743,024.81
Total 9 Months Transferred (incl. carry-over)		<u>170,871,514.08</u>
Q4 April Profit Actual	19,608,004.00	
Q4 May Profit Actual	17,930,911.00	
Q4 June Profit Estimated*	23,916,565.00	
<b>Estimated Q4 Profit Transfer</b>		<u><b>61,455,480.00</b></u>
Total FY 2022 Profit and Carry-Over		<u>232,326,994.08</u>
General Assembly Profit Requirement		<u>231,328,110.00</u>
<b>Profits in excess of General Assembly Profit Requirement</b>		<u><u><b>998,884.08</b></u></u>

\*estimated profit reduced for estimated year-end accruals and adjustments