

# Board Meeting Agenda

## Virginia Alcoholic Beverage Control Authority Board Meeting

December 14, 2021 – 9:00am

### **Call Meeting to Order**

Authority Board Chair Maria J.K. Everett called the Board Meeting to order at 9:09 am.

### **Attendance**

Board Chair Maria Everett  
Board Vice-Chair Beth Hungate-Noland  
Board Member Greg Holland  
Board Member William Euille  
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  
Director of Finance, Doug Robinson  
Director of Procurement, Melissa Watts  
Assistant Director of Budgeting and Forecasting, Ralph Addei  
Senior Legal Counsel, LaTonya Hucks-Watkins  
Attorney General's Office Representative, James Flaherty,  
Executive Assistant, Kathleen LaMotte

### **Not in Attendance**

Board Member Mark Rubin

### **Approval of Minutes**

Board Member Euille moved to approve the minutes from the November 18, 2021, Board meeting as amended to correct a typographical error. Board Member Holland seconded the motion and with all in agreement, the minutes were approved as amended through a roll-call vote of 4 – 0.

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

- Board Vice-Chair Hungate-Noland moved to accept the REC's recommendations for one relocation, store 262 (Lynchburg), one expansion, store 370 (Virginia Beach) and three renewals, store 177 (Chincoteague), store 294 (Baileys Crossroads), store 345 (Pulaski). Board Member Euille seconded the motion, and the Board adopted the recommendations of the REC on a roll-call vote 4 – 0.
- Approve Surplus Property Policy (Hill)
  - As an Authority the ABC are exempt from the State requirements, the prior policy limited options to liquidate property remaining at former Hermitage Road HQ. This revised policy helps clear the way for the Authority to do what they wish to do with the remaining items before the sale of Hermitage Road property.
  - Melissa Watts advised that this will be beneficial to the Authority's community engagement efforts, many charities are excited to potentially receive surplus items.
  - Board Member Euille moved to approve the policy as presented, Board Member Holland seconded the motion and with all in agreement, the motion passed on a roll-call vote of 4 – 0.
- Approve Annual Report (Hill)

- Board Member Euille moved to approve the Annual Report as presented, Vice-Chair Hungate-Noland seconded the motion and with all in agreement, the motion passed on a roll-call vote of 4 – 0.
- Approval of Annual Audit APA (Robinson and Williams)
  - The Board reviewed the draft report from the Auditor of Public Accounts (APA), attached to these minutes as Appendix A.
  - All Legislative branch agencies are under a ransomware attack, but we are expecting a final response to the reports today.
  - It is possible when HR IT system is replaced that some findings regarding training may be resolved. These findings are tied into legacy systems that will take a while to resolve but we are undertaking steps to mitigate any issues.
  - On a related note, a contract resource will be utilized to help fill the Information Security Officer position.
  - Board Member Euille moved to approve the Annual Report as presented, Vice-Chair Hungate-Noland seconded the motion and with all in agreement, the motion passed on a roll-call vote of 4 – 0.

### **Old Business**

- Nothing to report

### **Chief Reports**

Paul Williams, Chief Information Officer, reported that:

- Last week a serious vulnerability was made public that ABC and the Commonwealth moved to mitigate. ABCs internal systems were mitigated within 24 hours and we continued to follow up to ensure our partners and vendors were also mitigating.
- The pay rate for certain contract workers is very high and availability is also poor, causing a longer time to fill certain positions.
- Integration with the State’s new Cardinal payroll system is having some complexities with wage staff, some wage employees are having difficulty getting paid. There is a ticket in with Cardinal to try to resolve the payroll difficulties.

John Daniel, Government Affairs Officer, reported that:

- Delegates Knight (Appropriations) and Leftwich (General Laws) to chair committees impacting the Authority in the upcoming Legislative Session. Delegate Bulova has the draft Cocktails to Go/Third Party Delivery Legislation that is expected to be introduced next session. Mr. Daniel expects proposals to be introduced for new licenses and attempt to grow mobile licenses.
- Chief Kirby was a witness in the Skill Games litigation last week. An injunction was issued and the games are back in play with no legislation regulating them. Mr. Daniel anticipates this will be the subject of legislative discussion, a trial is scheduled for May 2022.
- There is a declaratory judgment action pending against ABC to declare legality of “No Chance” or “No Reveal” games, this will be first litigation matter handled in house by the Legal Liaison office.
- The Board expressed some concern that some parties still feel ABC is involved in registering and enforcing these games.

Elizabeth Chu, Chief Transformation Officer, reported that:

- Some Change Management Office (CMO) resources are now dedicated to the new licensing project to communicate changes to system and licensing reform
- Reviewed governance structure changes to codify program vs. project definition
- A DEI survey was sent to all employees, including a QR code to encourage participation by retail and warehouse employees without regular access to a computer

## **CAO Report (Travis Hill for Jerome Fowlkes)**

- Jerome Fowlkes has announced his resignation from the Authority
- The implementation of Mercer continues to go well, meetings have been held with personnel, the feedback mostly positive. Compensation is anticipated to be a topic of conversation in upcoming legislative session.
- Reviewed Board P&L in October in book. Variable expenses also higher due to cost of COVID test kits ordered to test unvaccinated employees.
- Store sales were 2.1% above budget at \$117M, though cost of goods sold (COGS) was unfavorable to budget but this was expected due to higher sales.
- Variable costs were \$600K above budget largely due to increased contractual services (\$400k) and higher personnel costs (\$200k).
- The total Contribution margin was \$2.2M favorable at \$27.9M.
- Fixed administrative costs were \$2.1M below budget largely from lower other contractual services (\$2.7M) partially offset by higher other costs (\$0.5M) mainly COVID testing kits.
- Overall, the Authority ended the month \$4.6M favorable at a net profit of \$21.2M, or 28% above budget.
- For the fiscal year to date period vs budget, store sales were up by 1.8% at \$451M and net revenue was 2.5% above budget at \$386M. While the COGS variance is negative, that is due to higher sales. COGS is consistent as a % of store revenues at 48%.
- Variable expenses were higher by \$2.2M due to higher personnel services expenses (\$1.1M) and higher other contractual services (\$1.4M). The contribution margin was positive by \$3.7M or 3.7% above budget for a total of \$104.7M.
- Fixed administrative costs were \$9.3M favorable largely from lower contractual services costs (\$8.3M) and lower personal services costs (\$1.3M) principally due to a favorable leave liability adjustment.
- After adjusting for the positive variances in fixed costs, we come up with a net profit of \$78.5M which is \$14.0M above budget, almost 22% ahead of budget.

## **Mark Dunham, Chief Retail Operations Officer, reported that:**

- Through December 12, Year-over-year Retail sales are up 6.4% or \$37.1m compared to last year, or 3.4% above plan.
- Distribution Center out-of-stock (OOS) continue to be an issue. Retail OOS continue to be higher than historical averages with 361 stores below 94% in stock. Despite production delays, driver shortages and late deliveries the Authority continues to grow sales. Some drivers refused to participate in COVID testing. Worked with ESTES to pay incentives and weekend bonuses.
- The silver lining is our retail staff, sales continue to grow as associates are focused on cross selling or upselling. Recent retail awards ceremonies were well-received and celebrated the success of our store associates.
- On Demand same day delivery with Door Dash is on target to have 285 stores delivering by Thursday of this week. Delivery areas include Richmond, Tidewater and Northern Virginia.
- A crucial point of focus moving forward is monitoring legal deliveries from Door Dash and the ABC enforcement division. On time deliveries have increased to 91%, a 1% improvement over last board meeting. About 60 stores each week are added to the delivery program.
- The Authority has been shipping roughly 25,000 cases daily, with a peak-day of 28,600. The warehouse operations continue to stabilize, the Authority continues working through operational issues with software, business processes, equipment training and work schedules.

- The Authority has transferred 123 truckloads or over 2,900 pallets from Hermitage Road to Freight Way since Oct 5, with a rough estimate of 1,000 remaining. The Authority is averaging seven truck loads daily or 168 pallets. A separate strategy was implemented to transfer special order items as it requires special handling and is more labor intensive.

**Travis Hill, CEO, reported that:**

- Reviewed the leases signed, Press Releases sent, and FOIA requests included in the Board's packet.
- The KPI Update includes three areas where the Authority is in a negative position: time to fill open jobs, employee turnover rate, and retail in-stock position.
- Return to Office will be implemented in phases, employees will return one day a week starting in January as baseline. Some departments may have more dates in person.
- Examined spread and vaccination rates, cases continue to drop. Looked at trends at other employers.
- Weekly testing stood up for unvaccinated employees. We anticipate a small number of employees to seek other employment rather than participating in testing and returning to work.
- John Singleton, Director of HR, has encouraged leaders and directors to be flexible with employees.
- Vice-Chair Hungate-Noland encouraged leaders to gather their teams together on the same day than on randomly selected days.
- For the week of January 10 there will be activities at work to encourage interaction and engagement. The Employee Experience team, Leadership and Development and the Employee Association Commission are working together to find some fun activities.
- Mr. Hill met with Governor-elect Youngkin's landing team for public safety on December 1. More Secretarial announcements will be made this week.
- Self-administered COVID tests have started for unvaccinated employees. The first week of testing about 1,000 tests were completed, the rates have dropped down to 600 tests in weeks two and three.

**Moved Into Closed Session**

At 11:30 am., Board Chair Everett moved that the Board enter closed session pursuant to 2.2-37.11(A)(7) concerning active litigation related to a board appeal hearing. Board Member Holland seconded and the motion passed 4 – 0 on a roll-call vote. Attending the closed session in full were Maria Everett, Beth Hungate-Noland, Greg Holland, and William Euille. In attendance regarding the litigation and legal advice were Travis Hill, and John Daniel.

**Certification for Closed Sessions**

Upon the Board's return from Closed session at 11:45 am, Vice-Chair Everett 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)(7), and only public business matters lawfully exempted from open meeting requirements was discussed. Board Member Euille seconded; the motion passed on a roll-call vote of 4 - 0.

**Approve Recommendations of Listings Committee (Shiffer)**

- Mr. Shiffer reviewed the listings analyzed and recommended by the committee. 86 products were presented, 36 are recommended for listing, 11 for a six-month trial, seven one-time buys, six to keep on special order, and 26 are not recommended.

Board Member Euille moved to approve the recommendations of the listings committee. Board Member Holland seconded the motion and with all in agreement, the motion carried through a roll-call vote of 4 – 0.

**Comments from the Board**

- The Chair encouraged the Authority to move away from single-use plastics in the drink machines.

**Public Comments**

- None received.

**Meeting Adjournment**

At 12:07 pm, with no further business, Chair Maria Everett adjourned the meeting.