

Board Meeting Agenda

Virginia Alcoholic Beverage Control Authority Board Meeting

February 10, 2022 – 9:00am

Call Meeting to Order

Authority Board Chair Maria J.K. Everett called the Board Meeting to order at 9:02 am.

Attendance

Board Chair Maria Everett
Board Vice-Chair Beth Hungate-Noland
Board Member Greg Holland
Board Member William Euille
Board Member Mark Rubin
Chief Executive Officer, Travis Hill
Chief Government Affairs Officer, John Daniel
Chief Information Officer, Paul Williams
Chief of Law Enforcement, Tom Kirby
Chief Transformation Officer, Elizabeth Chu
Director of Finance, Doug Robinson
Attorney General's Office Representative, James Flaherty
Director of Spirit Supply Chain, Tracey Heilborn
Director of Retail, Jennifer Burke
Deputy Secretary, Chris Curtis
Executive Assistant, Kathleen LaMotte

Not in Attendance

Chief Retail Operations Officer, Mark Dunham

Approval of Minutes

Board Member Euille moved to approve the minutes from the December 14, 2021, Board meeting as amended. Board Member Holland seconded the motion and with all in agreement, the minutes were approved as amended through a roll-call vote of 5 – 0.

Director and Chief Reports

Jennifer Burke and Tracey Heilborn reported that:

- Through January 29, 2022, year-over-year retail sales are up 4.9% or \$37.7 million compared to last year.
- Distribution Center out of stock (OOS) continue to be an issue. As of last week the Distribution Center was at 187 OOS vs. 177 last year and 87 in 2020. This and several other factors have led to our current OOS situation in retail.
- Other negative impacts to stock levels include the instability of the labor force, including Authority employees at the Distribution Center and drivers for Estes and suppliers. COVID continues to have an impact on staff levels.
- As a result of these staffing instabilities, inventory accuracy issues have been worsened, and productivity has suffered.
- A Systems Resource assessment was performed to determine what was needed in the DC to improve processes and improve service.
- Layered in resources from Retail leadership to develop their skill sets to work as line leads to help to re-train DC employees and support them. Leadership is focusing on improving morale, safety, training and inventory accuracy. .

- Ms. Burke advised the Authority is holding daily meetings to brainstorm and look for solutions, and fixing processes where they are able.

Board Member Rubin asked if there are difficulties receiving products from vendors. Ms. Heilborn responded that the Authority is working on getting as many trucks in as possible, the inbound transportation system does have a few glitches that are being resolved. The Authority has made a new hire dedicated to managing inbound appointments. There's been a team in the Hermitage warehouse for two weeks to clear out any supplies remaining there, that effort should be resolved by the end of March.

Board Member Euille voiced appreciation for the report and update, but is concerned about how ABC may change the narrative and improve communication. In Alexandria, customers and restaurants are concerned that the Authority is frequently out of products that are available in the neighboring jurisdictions in Maryland and DC. Consumers are not getting a clear message about the problems. Ms. Heilborn agreed that more communication is needed. Mr. Hill advised that a FAQ is posted on the Authority's website and is in each store. The Authority has worked with licensees to try to get them what they need. Licensees are now able to shop at more stores than in the past to aid in finding products. Mr. Hill believes that communication is improving. ABC responds to every interview request but has not issued a press release.

The Board expressed appreciation for the staff's presentation during the Governor's visit.

Chief of Law Enforcement Tom Kirby reported that:

- The new licensing system (VAL) is a strong focus for the Bureau's resources. VAL went live on January 1, with the focused launch of the "back office" system and banquet one-day applications. There was a lot of stakeholder outreach prior to going live. Soon the Authority will begin engaging with licensees for training and feedback prior to going live to Virginia's 20,000 licensees.
- On-boarding will begin in March for licenses that are renewed in May. This will reduce risk and make it easier for licensees to adopt. The Authority will reach out and help with adoption. All licenses will be given an option to adopt the new system
- Enforcement has some additional resources to help with this rollout; there is a representative from every enforcement unit with a daily stand-up meeting to discuss improvements needed. Resources from Change Management and a Project Manager are also involved.
- Enforcement shares information through bulletins – up to 24 bulletins issued so far. They may discuss recurring errors, intended to reduce calls to PST, reinforce training, and resolve trouble spots.
- The Authority has signed a support contract with Accela which will also involve moving to a vendor-hosted system. ABC has worked with other jurisdictions to review their lessons learned with their licensing systems. The Authority learned a lot from conversations with Tennessee and Texas and is trying to get ahead of some of the pain points they experienced.
- As the Authority develops a more complete eCommerce program, there is a need for a more robust customer service program.

Ms. Chu advised the Authority is moving into licensee onboarding which has a different workstream; This has been built out in a robust way. There will be about 30 training videos uploaded to help users navigate the system. The digital and web team is involved to help make the information more intuitive. Additional Authority employees are being trained as subject matter experts to help resolve calls prior to elevating to tech support.

Kirby further advised that ABC is partnering with a group of licensing professionals across the country. NALCAP will reach about 95% of large licensees in Virginia this way. This group will help evaluate the videos.

Training on site subject-matter experts to resolve calls prior to elevating to level-2 tier support

John Daniel, Government Affairs Officer, reported that:

- The latest Legislative matrix- is included in the Board's materials. Mr. Daniel reviewed the status of legislation of importance to the Authority.

Board Member Rubin asked about legislation regarding cannabis regulation. Mr. Daniel has not heard anything formal regarding a potential transition to the Authority. Mr. Flaherty also serves as legal counsel to the Cannabis Authority.

Paul Williams, Chief Information Officer, reported that:

- A major software vulnerability was recently resolved and the Authority reached out to VITA and other partners to ensure any potential vulnerabilities on their end were also resolved.
- The go-live for the VAL system went well. The calls for help are the issues the Authority was expecting, ABC is building a knowledge base and scripts for how to resolve common issues. It is estimated two full-time resources should be dedicated to VAL support based on Tennessee's model.
- Showing improvement in the warehouse, found some holes in architectural design of the system, moved focus into retail now.
- Some inventory is not showing correctly on the website.
- VITA still have not picked up some of their inventory that remains at Hermitage Road.
- VITA still owns the abc.virginia.gov domain – the Authority must work with VITA for renewals.
- There are still some difficulties with phones in stores that are owned by VITA, sometimes the Authority will have to buy a new line and terminate the old one. This effort should be complete in 5 – 6 weeks.

Elizabeth Chu, Chief Transformation Officer, reported that:

- Ms. Chu reviewed materials provided to the Board and reviewed a high-level road map of projects and programs in flight.
- Interviews begin next week for a new Change Management Director. Hoping to have someone on board by end of March.
- The first round of interviews for a new Director of DEI are complete. Two candidates were selected to prepare a presentation for a second-round interview.
- The Authority is reviewing the current Project Approval process to ensure more consistent business representation and that the prioritization of projects are aligned with strategic objectives.
- Ms. Chu will meet with Governor Youngkin's CTO.

Doug Robinson

For the month of November vs budget:

- Store sales were 6.2% above budget at \$117M.
- COGS was unfavorable to budget due to higher sales and a warehouse-to-warehouse transfer issue that caused higher vendor payments (corrected in December)
- Variable costs were \$1.1M above budget largely due to increased contractual services (\$700k) mainly manual labor services contracted for repalletizing and higher personnel costs (\$200k)
- The total Contribution margin was \$0.2M favorable at \$26.1M.

- Fixed administrative costs were \$1.6M below budget largely from lower personal services costs (\$700k) due to vacancies and lower other contractual services (\$500k) mainly lower telecom and skilled services costs
- Overall, we ended the month \$2.2M favorable at a net profit of \$18.9M, or 13% above budget.

For the month of December vs budget:

- Store sales were 1.2% above budget at \$153M.
- COGS was favorable to budget even in light of higher sales due to an adjustment to correct for warehouse-to-warehouse transfer issues in November
- Variable costs were \$1M above budget largely due to increased contractual services (\$300k) mainly manual labor services contracted for repalletizing, and increased supplies and materials (\$300k) and higher personnel costs (\$200k)
- The total Contribution margin was \$1.3M favorable at \$39.3M.
- Fixed administrative costs were \$1.1M below budget largely from lower personal services costs (\$400k) due to vacancies and lower other contractual services (\$500k) mainly telecom and unfulfilled computer software services, and higher equipment costs (\$300k); partially offset by unfavorable leave liability adjustments of (\$0.4M) due to the compensation study impact on pay rates in the accrual
- Overall, we ended the month \$2.8M favorable at a net profit of \$31.6M, or 10% above budget.

For the December fiscal year to date period vs budget

- Store sales were up by 2.7% at \$723M.
- Net revenue was 2.8% above budget at \$614M.
- While the COGS variance is negative, that is due to higher sales. COGS is consistent as a percentage of store revenues at 48%.
- Variable expenses were higher by \$4.4M due to higher personnel services expenses (\$1.5M) and other contractual services (\$2.4M) mainly manual labor services contracted for repalletizing.
- The contribution margin was positive by \$5.1M or 3.1% above budget for a total of \$170.1M.
- Fixed administrative costs were \$12.3M favorable largely from lower personal services costs due to vacancies (\$4.0M), lower contractual services costs (\$4.2M) mainly telecom and unfulfilled computer software services, and lower equipment costs of (\$1.4M) due to the capitalization of store shelving.
- After adjusting for the positive variances in fixed costs, we come up with a net profit of \$129M which is \$19.2M above budget, almost 18% ahead of budget. With challenging year over year comparables coming for the remaining months in the fiscal year, we are still maintaining a conservative view on how we'll end up on net profit for the year.

Budget Decision Briefs Update

- Mr. Robinson and Mr. Hill provided an update on where the Authority has varied from the budget.
- Ten are position upgrades, some are project bonuses, and bonus for the maintenance team. Two new positions (payroll support specialist and a BTO position formerly held by Beth Levermore) were vacant and didn't get put in the new budget, was an oversight for not carrying forward.
- The Supply warehouse was approved by the Board in a prior budget year and there was no spend, so it wasn't carried forward. Cost of supply warehouse was reduced based on implementation actuals.

- Two contract roles for training support and analysts for customer support were added, as well as consultants for the PMO assessment and Avent DEI services.

Mr. Hill counselled that the Board likely does not need to approve these variances but should be made aware of them. Vice-Chair Hungate-Noland agreed that the Board may be noticed at a certain threshold – but thought the Board does not need to hear every thing. There was a suggestion to focus on a threshold above a percentage of the annual budget that gets noticed.

The Board asked the Director of Finance to see what is typical, and to see if the APA has any recommendations and to continue to inform the Board of large variances. The Board will be updated at their next meeting with thoughts.

Moved Into Closed Session

At 11:24 am., Board Chair Everett moved that the Board enter closed session pursuant to 2.2-37.11(A)(1) concerning personnel and compensation of the CEO and to revisit other employee compensation previously discussed by the Board in conjunction with the Mercer study report. 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, William Euille, and John Singleton. Attending in part was Travis Hill

Certification for Closed Sessions

Upon the Board's return from Closed session at 1:30 pm, 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)(1), 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 5 - 0.

NEW BUSINESS

Approve recommendations of Real Estate Committee (REC)

- Board Vice-Chair Hungate-Noland moved to accept the REC's recommendations for one new store, store 521 (Independence), one relocation, store 095 (Cosner's Corner), three renewals, store 087 (Bluefield), store 191 (Rocky Mount), and store 382 (Poquoson). Board Member Euille seconded the motion, and the Board adopted the recommendations of the REC on a roll-call vote 5 – 0.

Approve Board Orders

- Board Vice-Chair Hungate-Noland moved to accept for archives the Board Orders for July through December of 2021. Board Member Rubin seconded the motion, and the Board approved the minutes on a rollcall vote 5 – 0.

Approve Compensation

- Vice Chair Hungate-Noland moved to increase the compensation of the CLEO as discussed in closed session, the motion was seconded by Board Member Holland; the motion passed on a roll-call vote of 5 - 0.

CEO Report

Mr. Hill reported that:

- Leases recently signed, press releases, FOIA requests and HR Reports were submitted to the Board prior to the meeting and contain nothing of controversy, however the HR report demonstrates an uptick in travel requests as travel to trainings are beginning to resume as COVID subsides.

- In the KPI report before the Board, negative trends in OOS continue as outlined in more detail by Ms. Burke and Ms. Heilborn. Employee turnover has flattened out, the pay actions recommended by Mercer may be a factor in employee retention.
- A Summary Suspension was issued in Roanoke. The licensee will have a hearing, they are operating but not serving alcohol at this time.
- During this Legislative session the ABC has tried to engage more with distilleries. There have been some improvements to relations and altered some practices about trying to schedule loads by hiring a part time employee to aid scheduling and dedicating a door for receiving deliveries from distilleries.
- There is a space set up in Eddie Wirt's old office with a computer and printer for Board use.
- Interview panels are being set up for the vacant CAO position.

Old Business

- Nothing to report

Comments from the Board

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Public Comments

- None received.

Meeting Adjournment

At 2:15 pm, with no further business, Chair Maria Everett adjourned the meeting.