

BOARD MEETING MINUTES: June 8, 2023 ABC Headquarters

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

Attendees

Board Chair Tim Hugo
Board Vice-Chair Maria Everett
Board Member Greg Holland
Board Member William Euille*
Board Member Mark Rubin
Chief Executive Officer, Travis Hill *
Chief Government Affairs Officer, John Daniel
Chief of Law Enforcement, Tom Kirby
Chief Retail Operations Officer, Mark Dunham
Chief Digital and Brand Officer, Vida Williams
Chief Administrative Officer, David Alfano
Deputy Secretary, Chris Curtis
Director of Internal Audit, Michael Skrocki*
Office of the Attorney General, Jim Flaherty
Director of Procurement, Melissa Watts
Director of Facilities and Real Estate, Susan Johnson
Director of Finance, Doug Robinson
Strategy Manager, Barbara Peterson-Wilson
Tony Lee, Deputy CTO, Office of the Governor's Office
Executive Assistant, Kathleen LaMotte
Senior Paralegal, Helen Gordon

* Mr. Euille and Mr. Skrocki participated via Microsoft Teams

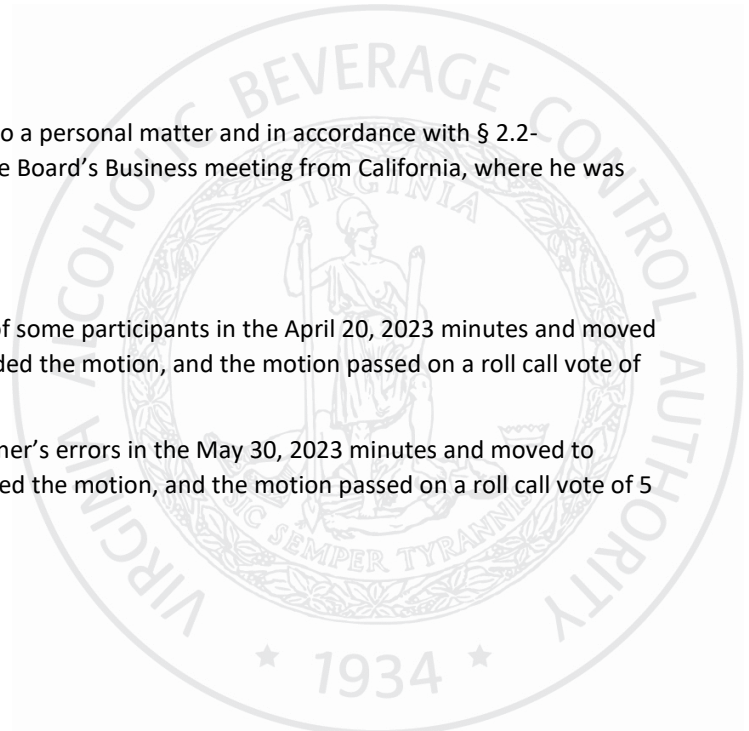
Remote Participation

Mr. Euille was unable to attend this meeting in person due to a personal matter and in accordance with § 2.2-3708.3(B)4, participated remotely via Microsoft Teams in the Board's Business meeting from California, where he was attending a conference.

Approval of Minutes

Ms. Everett provided a suggestion to clarify the titles of some participants in the April 20, 2023 minutes and moved to approve the minutes as amended. Mr. Rubin seconded the motion, and the motion passed on a roll call vote of 5 – 0.

Ms. Everett provided changes to correct several scrivener's errors in the May 30, 2023 minutes and moved to approve the minutes as amended. Mr. Holland seconded the motion, and the motion passed on a roll call vote of 5 – 0.



Approval of Real Estate Committee Recommendations (REC)

Mr. Rubin moved to accept the REC's recommendations from their April and May meetings for one relocation, Store 044 (Ladysmith), and 13 renewals, Store 166 (Leesburg), 184 (Harrisonburg), 254 (Henrico), 265 (Hampton), 296 (Fishersville), 332 (Staples Mill), 436 (Winchester), 092 (Hampton), 093 (Fairfax), 133 (Manassas), 279 (Forest – Bedford County), 307 (Virginia Beach), and 391 (Carrollton – Isle of Wight). Store 092 (Hampton) inadvertently appeared twice on the list of recommendations provided in the Board's materials. Ms. Everett seconded the motion, which passed on a roll call vote of 5 – 0.

Mr. Rubin commended the Authority for negotiating minimal increases and annual escalations.

Mr. Hugo inquired about the store in Portsmouth that was closed due to the shooting in the shopping center. Mr. Dunham responded that the store is still closed and the Authority continues to pay rent on the location. The Authority is working with local jurisdictions on recommendations before deciding the path forward. Mr. Hugo asked if the Authority will consider making it a counter or walk-up store, and Mr. Dunham replied no. Mr. Hugo also inquired how much longer is on the lease for that location, and Ms. Johnson responded that there is another four years on the lease.

Public Comment

Mr. Hugo offered members of the public in attendance an opportunity to speak prior to the hearings. No comment was offered at this time.

Procurement Policies

Proposed policies were provided in a previous Board meeting that requested rescinding 26 procurement policies and consolidating them to a single new policy, offering a change to the purchasing policy and requesting a purchase threshold increase for single quote procurements.

Ms. Everett advised she had discussed her questions with Mr. Alfano and had some questions about associated procedures related to the policy, and asked for more detail to be added regarding how the CAO approves exemptions from the procurement policy. Melissa Watts advised that Ms. Everett's revisions would be incorporated into the final template.

Mr. Rubin advised that the change to increase the threshold to \$50,000 from \$10,000 makes sense, and asked what checks are in place for contracts below \$10,000. Ms. Watts advised that signature authority and the delegation of authority are in effect, and the same checks and balances under eVA exist, requiring a supervisor, a director and a Chief's review. The bulk of the contracts that will be impacted by the increase in threshold are under the facilities department, where many vendors across the state have agreements in place, but this allows for more flexibility when needed to keep stores operational.

Mr. Rubin asked about rescinding the procurement of professional services policy, Ms. Watts responded that since the Authority is exempt from the Department of Engineering and Building (DEB), the Authority has the flexibility to source its own vendors, rather than going through the DEB's list. ABC, while maintaining a list of DEB contractors previously used, follows the same processes, but without the need for DEB intervention, and the procurement process is still a competitive one. Ms. Watts stated that Procurement assesses the risk in two ways; 1) financial risk and 2) information security risk, which are evaluated by Mr. Skrocki's team, and a risk level is assigned to each vendor. Ms. Watts further stated that Procurement wants to make this procedure clear and available to the public, so Procurement is striving to make this procedure easy to read and understandable. In this vein, Mr. Rubin requested a definition for operational risk be added to the procedure and confirmed that the business unit requesting a contract also has a duty to evaluate risk.

Mr. Rubin inquired whether or not Alternative Dispute Resolution (mediation) is included under the procurement of legal services, specifically, if the Authority had the need to hire an outside mediator. Ms. Watts responded that the procurement of legal services outside of the Office of the Attorney General would still need to be done through the Authority's eVA memorandum of understanding with the Department of General Services. Mr. Daniel, however, asked to discuss this further offline as, due to the statutory authority that we currently have to obtain legal counsel and/or to use the Office of the Attorney General. He is not sure that Procurement's revisions fully comport with the current statutory policy, and he did not want to advocate one way or the other to avoid the risk of undercutting the Authority's control of their legal destiny, including any mediation process.

Mr. Hugo asked if this policy applies to the procurement of contractors and consultants. Ms. Watts replied that the process is the same regardless of goods or services.

Mr. Rubin moved to rescind 26 procurement policies and adopt the new consolidated Procurement policy. Ms. Everett seconded the motion, and the motion passed on a roll call vote of 5 – 0.

Mr. Rubin made a motion to rescind the policies that are in the materials presented and that the Board adopt the new policies that were presented. The motion was seconded by Ms. Everett and passed on a roll call vote of 5 – 0. The viewed procurement overview slides are attached to these minutes as Appendix A.

Mr. Hugo asked about the process of procuring consultants. Ms. Watts responded that the Authority has several options: we may issue an RFP if we are looking for something specific, or we can take advantage of cooperative agreements. For example, the contract with Computer Aid, Inc (CAI) through the Commonwealth has enabled the Authority to fill many difficult-to-staff IT positions with contractors. Mr. Hugo asked if the deliverables of contractors are approved by Ms. Watts. Ms. Watts stated that some business units don't have deliverables per se but rather develop statements of work based on the type of deliverables required (i.e. consultants have deliverables and business units develop a statement of work with deliverables.) The statements of work are completed before any request goes to Procurement, or before hiring is completed by piggybacking on another contract. Mr. Hugo asked if procurement has ever advised against using a particular vendor. Ms. Watts advised that evaluation and selection of a vendor is done by the business unit and it is up to them to make a decision. Procurement may make a recommendation, but it could be over-ridden by the business units and a different decision could be made.

Mr. Rubin commented that the Youngkin Administration is trying to find big contracts that state agencies may plug into, and asked how the Authority participates in cooperative contracts. Ms. Watts responded that ABC has taken advantage of these opportunities for years, and she has had multiple conversations with the Governor's office about Authority contracts and trying to consolidate and take advantage of scale, particularly with the Estes trucking and Mythics, a computer contractor.

Commonwealth Deputy Chief Transformation Officer Tony Lee advised that the CAI contract with the Commonwealth offers pre-negotiated rates for certain activities. Ms. Watts agreed that CAI does have pre-negotiated rates. However, occasionally there are exceptions to the rates at the discretion of the hiring manager. If there is a skill set required that isn't addressed in the rate card, the Authority will create an exception due to the special skill set needed by the Authority and approve a special rate above and beyond the CAI contracted rate. Mr. Lee asked for an estimate of how many contracts we currently hold at an exception rate. Mr. Williams, the Chief Information Officer of the Authority, and Ms. Watts will research the answer and respond to Mr. Lee and the Board.

Mr. Hugo commented that the Authority has a lot of in-house talent and asked how the determination is made to utilize contract labor at a higher rate outside of the Authority. Ms. Watts advised that is a decision of the hiring manager or Chief if the Authority does not have that specific skill set with an internal person. Mr. Alfano added that it is situational. If the Authority only needs a specific skill set for a finite amount of time for a certain project, we may not need to hire permanent staff. There is no one size that fits all answer; a decision is based on the skill set needed, the duration of a project, if there is in-house talent available, and if the Authority has an open and approved position that could be utilized.

Mr. Hugo asked how many outside consultants the Authority has to date. Mr. Alfano responded that there is a difference in how the Authority utilizes contractors and consultants – consultants come aboard for a defined period of time to help with a deliverable or statement of work, and there are far fewer of these than contractors utilized for a staff augmentation perspective. Contractors for staff augmentation are primarily utilized by IT and in the Distribution Center; about 100- 150 in the distribution center. IT tends to use contractors for a longer period of time, whereas the DC will utilize contract labor for peak periods of the year.

Mr. Hill commented regarding advising against a specific vendor that Procurement examines risk in the front-end prior to a contract signing. Ms. Watts added that if there may be a conflict of interest or a competitive advantage regarding a certain vendor, procurement would advise the business unit. Mr. Hugo asked if procurement has ever advised that a contract may be a conflict of interest and been overridden, and Ms. Watts responded yes. Mr. Alfano encouraged procurement to bring these issues to him, adding that he would reach out to his peers to make sure they are adhering to the policy. Mr. Alfano said that the Procurement team is the gatekeeper, and that the business level expertise of the chiefs and directors is needed to marry up vendor capabilities with business requirements.

Closed Session

At 9:55 a.m., Ms. Everett moved that the Board enter closed session pursuant to Virginia Code §2.2 37.11(A)(46) to discuss discipline of licenses related to the appeal hearings. Mr. Holland seconded. The motion passed on a roll call vote of 4 – 0 with Mr. Euille abstaining from the vote as a non-participant in the hearings.

Hearings

The Board Members, with the exception of Mr. Euille, heard appeals in the matter of the 4 Cyber Café, Regency Market t/a Market Place 21, and Ryan Incorporated t/a Planthouse.

Certification of Closed Session

When the Board returned from closed session at 1:30 p.m, Ms. Everett moved to certify that to the best of her knowledge nothing was discussed in the closed sessions except what was covered in the motion to go into closed session, and only public business matters lawfully exempted from open meeting requirements were discussed. Mr. Rubin seconded; the motion passed on a roll-call vote of 4 – 0, with Mr. Euille abstaining from the vote as a non-participant in the hearings.

FY2024 Authority Budget

The Authority sought adoption of the proposed FY2024 Budget. The budget serves as the basis for developing ABC's Governor's Advisory Council on Revenue Estimates (GACRE) submission, which is due August 7, and the fiscal year begins on July 1.

Mr. Alfano reported that:

- The Authority is expected to exceed FY2023 revenue estimates and the net profit requirement. Store sales are expected to finish around \$1.442 billion, up from the \$1.421 billion budget for FY2023. Net profits are \$220.8 or \$32.7 greater than budget.
- In addition to higher than anticipated sales, expenses remained lower than budget mainly due to unfilled budgeted positions resulting in favorable salaries, wages and benefit expenses.
- ABC profits also benefited from \$1.9M in FEMA reimbursements to cover COVID-19 expenses (test kits, etc.)
- Several large technology projects were completed in FY2023, such as the Customer Support Program , Automated Ticket Routing System, and the Automated Licensing or VAL System.

- At the same time ABC opened 4 new stores, relocated 12 and expanded another 4.

Doug Robinson, Director of Finance reported that:

- The FY 2024 budget includes the impact of operational requests and project initiatives that were identified and prioritized by the ABC Leadership Team which included all Directors and C-Suite members.
- In addition to the input received from the ABC Leadership team, the FY 2024 budget and Net Profit expectations reflect input and feedback based on collaborative meetings between Chief Transformation Officers, Eric Moeller and Tony Lee. The Authority also shared a copy of this presentation with them in advance of today's discussion to highlight the impact their recommendations had in developing this budget.

Mr. Hugo asked if more feedback would be received next week when Mr. Moeller returns to the office. Mr. Alfano reported that there will be other things to consider through the fiscal year.

Mr. Robinson continued:

- Store sales revenues are budgeted to increase to \$1.517B or 5.2% over FY 2023 Estimated Actuals. That is a .5% increase of the FY 2023 growth of 4.7%.
- The budgeted contribution margin, which represents Net Revenues less Variable Operating Costs, is budgeted at 22.6% of store sales and is consistent with normalized FY 2022 and 2023 results after accounting for non-recurring activities in those years.
- Overall, the FY 2024 budget reflects Net Profits at \$223.0M or \$2.2M greater than FY 2023 Estimates. It's worth noting that the profit increase was achieved even after absorbing the effects of a 5% state pay increase (\$7.9M), a full year impact from the \$15/hour minimum wage increases for wage employees (\$2.3M), and overall inflationary increases of 5% that impact expenses such as utilities, transportation, supplies, and maintenance.
- In developing the budget, there was a concerted effort to increase year-over-year net profits without initiating price increases. This goal was achieved by evaluating opportunities for operating efficiencies and making prudent financial decisions around the use of third-party contractors, consulting, and media spending, 5.3% increase in sales – continue to push the envelope in our sales.

Mr. Rubin asked if a 5.2% growth rate may be a risky estimate. Mr. Robinson responded that even if the Authority sold the same volume of items, there would still be increased revenue due to the price increases from manufacturers and the associated formula for retail price at ABC Stores, and the cost of goods sold. Mr. Alfano advised that the Authority is constantly evaluating sales trends, the potential for recession and many other factors when considering revenue estimates.

- The advertising budget is reduced to FY2021 levels. The Marketing department does have concerns, and the Authority will keep an eye on the reduced marketing campaigns and their impact on revenue, and if this needs to be reprioritized, there are different levers that may be pulled. ABC will keep an eye on this and if we need to flex and reprioritize, it is a lever we can pull.

Mr. Holland asked if the 40% cut in marketing budget from last year was recommended by the Governor's office. Mr. Alfano responded that the Governor's office did not suggest dollar amounts to the Authority, but they did suggest areas to review further. While the Governor's office was concerned that a monopoly does not need to advertise, Mr. Robinson added that marketing is concerned that the ABC stores do compete for consumer spend vs. wine and beer, which has many more outlets to purchase, and wishes to encourage Virginians to make a special trip to ABC stores to purchase spirits. Ms. Everett agreed that although ABC is a monopoly, there is a customer service component, and Mr. Dunham added that the Authority wishes to remind customers to keep ABC stores at the top of their minds vs. going to a store for beer or wine which may be more convenient to them.

Mr. Holland asked about how discounts are paid for, with the example of a recent sale on a bourbon. Mr. Robinson responded that in that case, the supplier pays for the discount, but for sales like the pre-COVID Black Friday percentage off events, that discount was absorbed by the Authority.

- Mr. Robinson reviewed budget assumptions, which include an increase in credit card fees, but no increase to the cost of healthcare per guidance from the Commonwealth.

Mr. Rubin asked about the 1.3% reduction in mix changes, Mr. Robinson responded that as consumers trade up to purchase larger sizes of spirits, the results are a lower price per liter.

- The vacancy variance includes budgeted, unfilled positions. Aspirationally, ABC hopes to fill these positions. About half of that number is in the Enforcement division. This has driven a lot of the favorable variance in this year's budget, that this was budgeted for but not spent. The Authority may decline to fill positions if needed to cover a sales shortfall or increased marketing budget.
- Mr. Alfano reported that the Authority took a deep dive and looked at every project finishing this year and scheduled to start in FY2024 to try to plan where skilled service contractors may be needed to support large projects and reviewed current contract positions to see if they're needed next year like they were used this year. There was a line-by-line, project-by-project review of Authority spend on contractors. The Authority is projecting a smaller number of projects next year.

Mr. Euille asked what is included under other miscellaneous costs. Mr. Robinson responded that there are many small pieces captured there, the bulk is employee training, computer hardware and software, and GASB 96 subscription-based accounting agreements charging more than last year.

Mr. Holland asked how are we spending less for Estes. Mr. Robinson responded that the cost is below forecast due to lower volume of cases but higher revenue based on premiumization.

Mr. Hugo inquired if there is anything in the budget that the General Assembly needs to authorize. Mr. Robinson advised that he did not believe so.

Mr. Hugo asked how the Authority is budgeting for the Audit Board software. Mike Skrocki, the Director of Internal Audit (IA), advised that ABC recently completed the renewal of Audit Board for this year, and it is included in the budget for FY2024. Mr. Hugo asked if the Authority had the Audit Board software last year, and the software keeps track of audits, did the Audit Board program lose the audit for suspend/void issue last year? Mr. Skrocki responded that he doesn't believe that audit was processed through Audit Board, but the suspend/void issue was a special audit that was completed prior to Mr. Skrocki joining the Authority. Going forward any audit work done by IA will be captured in Audit Board, it is not automatic and must be put in the system. Mr. Skrocki will review whether or not the suspend/void audit was placed in the software for the Board.

Mr. Hugo asked Mr. Skrocki if certain employees mentioned in the suspend/void audit report were still employed by the Authority. Two of the employees from IA, a Senior Auditor and an Auditor, are still with the Authority. Mr. Hugo requested Mr. Skrocki to ask those employees if the audit was placed in Audit Board. Mr. Skrocki advised that the former Director and Manager of IA, neither of whom is still with the Authority, would have been responsible for entering the audit into Audit Board.

Mr. Hugo asked if certain Bureau of Law Enforcement (BLE) personnel mentioned in the suspend/void audit were still with the Authority. Chief of Law Enforcement, Tom Kirby, responded that one of the names the Chair mentioned is not a BLE employee, but is still with the Authority, and the other BLE employees mentioned are still with the Authority as well. The BLE completed their criminal investigation, which resulted in charges for some employees abusing the suspend/void process, and properly turned their findings over to retail and IA after completing their criminal investigation.

Mr. Alfano continued the budget presentation and reviewed the Decision Packages received from Authority divisions:

- During the FY 2024 budget process, Division Directors initially provided input and identified 29 specific operational requests totaling \$5.2M and 45 requests for projects/initiatives totaling \$16.7M. They also requested an additional 18 staff and 20 contingent labor to support initiatives that would help to increase ABC's business operations and innovative initiatives to implement new capabilities. These requests covered all Divisions across the Authority.
- After evaluating all the requests, the Leadership Team went through a prioritization exercise to narrow the requests to a realistic body of work by assessing financial constraints, resource bandwidth and overall business impact. The requests deprioritized were deferred and may be considered later based on financial performance and resource availability.
- Overall, the Authority recommends to advance 10 of 29 Operational Requests for consideration with a FY 2024 expense impact of \$613k as detailed in the Board's materials on Slide 67. These include expansion of the Employee Assistance Program (EAP) to all employees, a subscription to a compensation tool, adding three wage employees to support retail recruitment (which will also allow for a greater level of compliance to address past audit points regarding compliance with immigration forms), software to facilitate an employee engagement survey, adding a contractor in IT to support the licensing system, utilizing an existing position to support the customer support ticketing system, improving store networking switches, converting a contractor to an Authority employee in internal audit using an existing position, and the purchase of new equipment for the DC.
- The Authority de prioritized 34 of 45 initiatives requested. The 11 selected to move forward are outlined on page 68 of the Board meeting materials. These include expansion of the number of authorized users of the Licensing program from 195 to 235 named users, creating a dedicated VA ABC hotline for reporting Fraud, Waste and Abuse, providing a variety of IT and Retail enhancements to improve Penetration Testing, upgrading the Point of Sale System, Store Cameras and Alarm Board monitoring, and implementing an Inventory and Order Management System that are foundational elements needed to replace an outdated system (MIPS) that's been in place for nearly 25 years.
- Potential risks to the budget include items that may impact financial performance and the Authority's ability to meet profit requirements. The Authority will make every effort possible to minimize risks.

Mr. Hugo asked about specific spend on the online sales project and outside legal fees. Mr. Alfano responded that the investment in the new order management system is fundamental to act as a foundation for digital sales. The e-commerce platform procurement was deferred. Mr. Robinson advised that in FY2023 approximately \$9,000 was spent on legal fees. The AG's office bills the Authority and the spend is captured in that category along with other outside counsel.

Mr. Hugo asked to have more time to review the budget, ask questions, and come back for a vote. Mr. Hugo contacted the Secretary of Finance during the meeting and reported that the Secretary of Finance advised there is no rush and the Authority may wish to incorporate more ideas from the Governor's Administration. The Chair opined that the Board may meet virtually to discuss this further.

Mr. Rubin agreed that those were good points, but was concerned that the Authority would be operating with no budget as of July 1, and suggested that the Board approve a budget prior to that date.

Mr. Holland asked if the Governor's Chief Transformation Office had more ideas that have not been discussed with the Authority. Mr. Hugo responded that he has heard them say that, and it doesn't hurt to listen to what they have to say. Ms. Everett advised that she is willing to give more time as a courtesy to Mr. Hugo, but this is a budget with which the rest of the Board is familiar, and she is also concerned about the ABC operating without a budget.

Mr. Hugo advised he would like to wait on the budget until the Governor's CTO had a chance to weigh in. Ms. Everett advised that if the Board had further questions, to not cc other Board members to avoid creating an inadvertent public meeting.

Mr. Hugo also asked where money for settlements come from. A member of the Finance team responded that settlements came from the Risk Management division. The Chair asked if there was ever a settlement threat vs the Authority, would the attorney general's office be notified. Mr. Daniel responded that, as a practical matter, he would talk with Mr. Flaherty and let him know what was going on at all levels. However, there is a ¼ million dollar threshold before the attorney general's office would need to be a part of the process and over \$250 thousand before the governor's office might need to step in.

Internal Audit Update

Mike Skrocki reported that:

- Audits and projects underway are included on page 81 of the Board's materials.
- IA is honing in on the retail store audit program. This should lead to a much better kick-off to next year. During COVID, the Audit team did not go out to stores, and with the new POS system and process changes, in-store audits have been postponed and there is a new push to go to stores.
- Five Distillery stores audits are complete, with three planned in June. A sample distillery and store audit report were shared in the Board's binder. These visits will be summarized every quarter to share with upper management and the Board
- The Small Purchase Card program (SPCC) audit is wrapping up and should be ready for the Board's next meeting. No significant issues were raised.
- An audit of License and Records Management is in the testing phase, and planning is underway for an audit of Education to ensure there are good processes in place.
- Two Investigations or Special Projects were completed with one in process. Investigations come in two ways, either through the State's hotline with the Office of the Inspector General or people contacting the IA department directly.
- Three IT audits are underway, a cleanup of previously identified issues in the Auditor of Public Accounts (APA) audit, a review of MIPS, and Sales Audit.
- At the request of ABC's Distillery Liaison, IA performed an audit of Belle Isle Distillery because of late payment issues. ABC will re-visit Belle Isle in 3 – 4 months to give them a chance to cure issues.
- Currently in Audit Risk Assessment and Planning for FY2024, IA is reviewing the results of a survey to C Suite and Directors, and has performed interviews based on survey responses. Mr. Skrocki will present the proposed plan at the July Board meeting.

Mr. Hugo asked Mr. Skrocki to keep on Audit Board, he is still perplexed about how the suspend/void audit was lost, and wants to know what the two audit staff knew, and who they reported their findings to, and who they interacted with in the BLE. Mr. Hugo also asked how much the Audit Board software costs, Mr. Skrocki advised it was about \$90,000 a year.

Warehouse Conversion to Freight Way

A presentation is attached to these minutes as Appendix B

Director of Spirit Supply Chain, Tracey Heilborn reported that:

- In April 2021 the Authority had been shipping solely from the Hermitage Road warehouse as had been done for past 20 years. Suppliers were asked to also fill up the new Distribution Center on Freight Way in Hanover when it opened.

- In FY2022, the general ledger reflected \$1.5M in overall shrink, about 0.1% of overall sales.
- Asked suppliers to fill up both distribution centers when Freight Way opened
- Along the way to try to get product out – there was some shrink from Hermitage Road – about .1% of sales.

Supply Chain and Operations Manager, Bryan Vaughan reported that:

Between April 2021 – August 2021 – all outbound inventory was shipped out of the Hermitage Road facility, but inbound products were coming into the Freight Way facility.

- The Authority recognized there was some SKUs that weren't in Hanover but were at Hermitage, and needed to be transferred. Some items needed to move back to Hermitage to avoid out of stocks (OOS) in stores.
- Logistics completed manual inventory adjustments as the system was not yet set up for warehouse to warehouse transfer. This would demonstrate a shrink and swell between inventory at the two warehouses.
- From October 2021 to Jan 2022, we began the planned/coordinated process of fully moving the remaining inventory from Hermitage Road to the Freight Way distribution center. These inventory movements were performed using the newly completed warehouse-to-warehouse transfer process.
- The inventory that was moved was reviewed and prioritized based off of inventory outages, high volume SKUs and, at the time, bourbon/tequila SKUs, which were at high customer demand.
- During this period, about 90% of Hermitage Road's inventory was moved by this system.
- For the Holiday season 2021, the Authority wanted to make sure stores had inventory they needed. There were challenges due to COVID, quarantines, mandatory testing protocols, and high turnover, these all had an impact on our contract carrier and DC staff.
- Supply chain issues caused many suppliers to experience shortages in their supplies and shipping inventory to the ABC via their own carriers.
- The high turnover at the DC caused challenges with execution and training and hiring.
- Lastly, challenges with data integration between the three systems (MIPS, MOVE (our old warehouse management system) and Manhattan (our new warehouse management system)).

Ms. Heilborn continued:

- Reviewed "Fill the Shelves" Initiative, where U-Hauls were rented to move product to stores for the holiday season, and repeated this process in March 2022 due to late shipments of Irish Whiskey to the DC to get the product on shelves for consumers.
- The Authority also repackaged damaged inventory, some product was damaged at Hermitage, some as they moved, some in DC. These items were repackaged into saleable units.

Automation Control and Inventory Supervisor, Kate Sheehan reported that:

- Full inventory counts were completed in February and June of 2022, and in March 2023.
- From February 21st through March 4th a cycle count inventory was conducted on every location in the DC resulting in a net up of \$297,000, 0.29% of the DC inventory value. Freight Way on average has \$100M of inventory on hand. This count was conducted to understand the inventory position post manual adjustments.

- In June 2022, over 10 calendar days, the Authority completed a cycle count inventory on all locations resulting in a net down of \$151,000, or 0.15% of the DC inventory value. At this point, the Hermitage Road facility was completely closed and this inventory closes the external forces loop.
- In March 2023 over a two-day period, the Authority conducted an inventory during a full operational shut down. This resulted in a net up of \$13,000, or 0.01% of DC inventory value. The Authority spent all FY23 operating the building the way it was designed to be operated.
- For FY23 YTD we have shipped 6 million cases for a shipped value of \$665.7 million. The DC YTD shrink is \$340,000 or 0.05% of the cases shipped value. In the new facility the DC is fully cycle counted four times per year.
- Senior Distribution Center Manager, Tyler Moore reported that:
 - The Authority created a task group to optimize workforce and continuous improvement, the cross departmental Workforce Optimization Workgroup was known as “Team WOW”.
 - The team had many successes, prior to Team WOW, the highest peak production day was about 30,000 cases a day. After implementing the changes recommended by WOW, the DC shipped over 37,000 cases a day, hitting an all-time high in outbound volume, with no need for overtime.
 - The DC also hit an all-time record for days without a recordable injury, with a goal to go an entire year. The processes improved and the focus on safety first led to a massive reduction in safety operations and costs.
 - The DC also saw large productivity increases, with increased cases per hour, more efficient operation, and a decrease in turnover credited to improved operations and boosted morale.

Mr. Hugo asked if the .05% shrink was system-wide or just for the warehouse. Mr. Moore replied that the 0.1% shrink was system-wide. Mr. Rubin asked what the industry average is, Mr. Moore replied that the industry average is around 1.4%.

Mr. Rubin commented that during COVID the Board received many reports on what was being done in DC under very difficult circumstances. Paul Williams and the IT team worked to get IT integrated, and it was a remarkable accomplishment to get the product on the shelves.

Mark Dunham, Chief Retail and Operations Officer, reported that many Authority employees were working hard and extra hours to get product out. While there was a lot of turnover and people out due to the COVID crisis, the level of collaboration among business units and Team WOW was a remarkable achievement. The Authority wouldn't have had the increased sales last fiscal year if these logistics didn't come together.

Mr. Hugo extended his kudos to everyone in the room and not in the room involved with this effort.

Mr. Hugo asked another budget question, with the cuts to the advertising budget, is there a concern about sales, especially in light of four retail leaders being gone? Mr. Alfano responded that the Authority would not have pushed the budget forward if there were concerns.

Public Comment

Jennifer Faison, the Executive Director of the Virginia Association of Community Services Board would like to be included as a stakeholder in the Authority's study of liquid nicotine. Vida Williams, Chief Digital and Brand Officer, will reach out.

Closed Session

At 3:55, Ms. Everett moved that the Board enter closed session pursuant to Virginia Code §2.2 37.11(A)(1) to discuss potential discipline of certain Authority employees. Mr. Rubin seconded. The motion passed on a roll call

vote of 5 – 0. Attending the closed session in full were Tim Hugo, Maria Everett, Greg Holland, Mark Rubin, William Euille, John Daniel, Travis Hill, David Alfano, Mark Dunham and Jim Flaherty. Attending in part was Director of Human Resources, John Singleton.

Certification of Closed Session

When the Board returned from closed session at 4:17 p.m, Ms. Everett moved to certify that to the best of her knowledge nothing was discussed in the closed sessions except what was covered in the motion to go into closed session, and only public business matters lawfully exempted from open meeting requirements were discussed. Mr. Euille seconded; the motion passed on a roll-call vote of 5 - 0.

Board Appeal Hearing Decisions

Mr. Rubin moved to substantiate the hearing officer’s decisions in the 4 Cyber Café and Planthouse matters, and to delay the decision in the Marketplace 21 matter to allow the Board more time to come to a decision. Ms. Everett seconded the motion, and the motion passed on a roll call vote of 4 – 0. Mr. Euille abstained from voting since he did not participate in the hearings.

Board Comment

Mr. Hill will report back to the Board after discussions with the Governor’s CTO office and will set up a further discussion with the Board to review the Budget.

Ms. Everett and Mr. Rubin will discuss how to approve Employee Work Profiles.

Upcoming Dates

Thursday, July 20 – Board Meeting

Tuesday, September 12 – Board Meeting

Wednesday, November 1 – Board Meeting

Meeting Adjournment

Meeting adjournment at 4:30 p.m.



Procurement Overview

- Collaboration with Business Unit to develop Statement of Needs
 - Stakeholder review
 - Director/Chief approval of requirements
- Determine appropriate procurement method:
 - Request for Proposal/Invitation for Bid/Formal Solicitation
 - Cooperative Agreements
 - DGS, VITA, VASCUPP, GSA, Localities, OMNIA, Sourcewell
 - Sole Source/Single Source
 - Proprietary Systems

Appendix A

Procurement Overview

- Evaluation of bids/proposals by Business Unit/Stakeholders facilitated by Procurement
 - Vendor approach/methodology, Vendor Qualifications, Cost/Price
- Vendor negotiations (if appropriate)
 - Price, schedule, technical requirements, type of contract, other terms & conditions
- Contract award
 - Low price or consensus
 - Director/Chief final approval

Virginia ABC on the Move

The Journey from Hermitage to Hanover

Appendix B

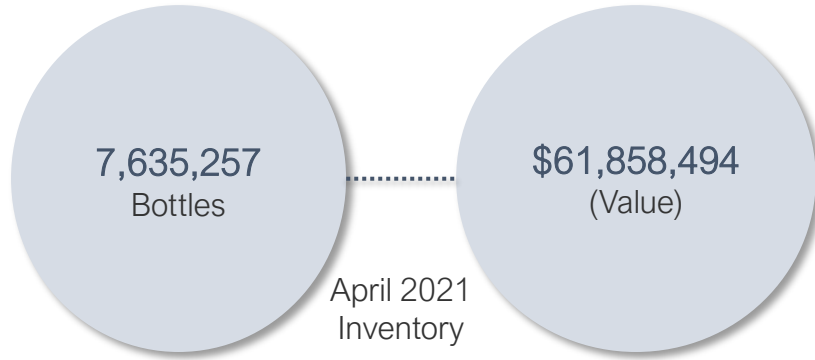
June 2023



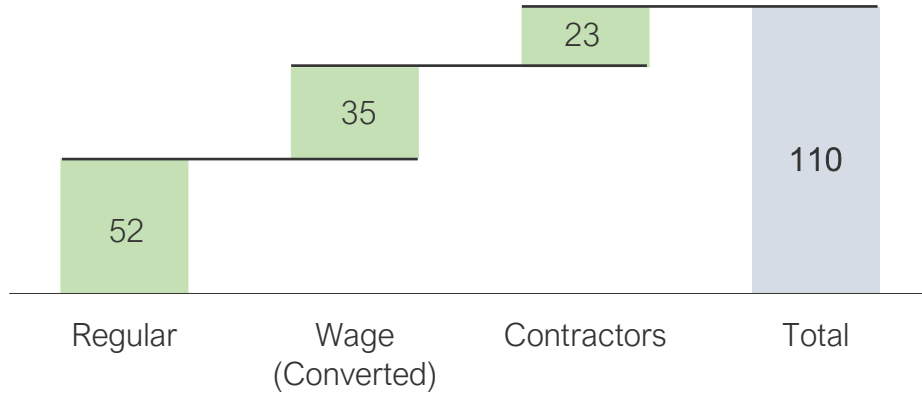
April 2021: State of Virginia ABC Distribution Centers

April 2021 was the beginning of the transition from Hermitage to Hanover.

Hermitage



110 FTEs staffed across regular, wage, contractors (2020).



Freight Way (Hanover)

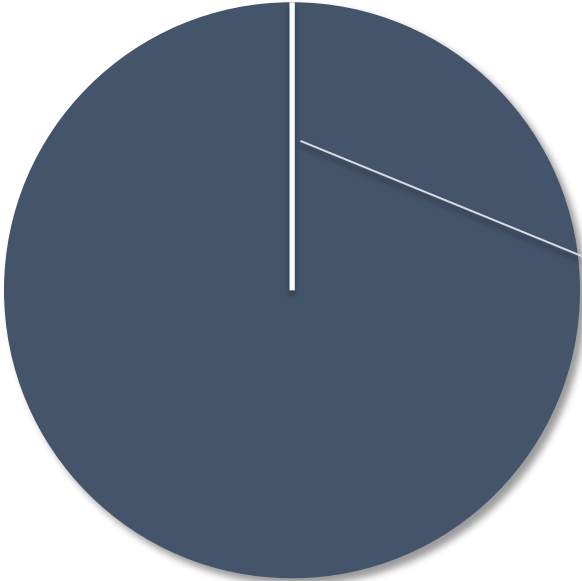
Opened for inbound receiving of product.

5-6 FTEs reassigned from Hermitage to act as receiving staff.



At the end of FY22, the General Ledger reflected \$1.5M in overall shrink.

FY22 Overall Sales = \$1.418 billion



\$1.5M in General Ledger shrink = 0.1% of overall sales

System constraints, manual processes, and macro challenges contributed to overall shrink.

Inventory Transfer and Challenges

April 2021 - January 2022

Hermitage > Freight Way Overview: Inventory Transition, Challenges, and Initiatives

The transition was a multi-phased process during which ABC faced and responded to several challenges.



Inventory Transfer and Challenges

April 2021 – January 2022

Inventory Transfer Launch

- Transition DC shipping to store:
 - Hermitage to store only (Apr-Aug)
 - Hermitage and Freight Way (Aug-Oct)
 - Freight Way to store only (Oct-Present)
- Bulk transfers of inventory from Hermitage to Freight Way (Apr-Oct)
- Transfer remaining inventory from Hermitage to Freight way using systems and manual processes (Oct-Jan)
- 90% of inventory transfer complete (Jan)

Key Challenges

- COVID
- Supply chain issues
- Distribution center staff turnover
- IT system integration challenges



Challenge Response and Hermitage Closeout

December 2021- April 2022

Managing Challenges

- Fill the Shelves Initiative (Dec, Mar)
- Repackage Freight Way inventory due to damages and ship to stores (Feb-Apr)
- Special order loads (Feb-Apr)
- Estes truck rollover (Feb-Mar)
- Freight Way inventory count (Feb)

Closing out Hermitage

- Remaining 10% of Hermitage inventory shipped to stores (Feb-April)
- Hermitage officially closed (Apr)



Workforce Optimization and Continuous Improvement

April 2022 - Present

Workforce Optimization

- Workforce Optimization Workgroup (WOW) formed (Apr)
- WOW launches as cross-authority team to prepare ABC for 2022 holiday season (Apr-Sep)

Continuous Improvement

- Impacts of stabilization and WOW efforts measured (Oct-Dec)
- Freight Way inventory count (Jun)
- Freight Way inventory count (Mar)



April 2021 - October 2021: Inventory Transfer Launch

During this period ABC transitioned from shipping from Hermitage to shipping from Freight Way and moved bulk inventory to Freight Way.

- April 2021 – August 2021: Inventory shipped out of Hermitage to stores.
- May 2021 – July 2021: Bulk inventory was transferred from Hermitage to Freight Way: 05/28, 07/8, 07/13
- August 2021 – October 2021: Inventory shipped to stores out of both Distribution Centers.
- September 2021: The warehouse-to-warehouse system process was implemented.
- October 2021: Shipping to store from Hermitage ceased.

- Inventory transfers were completed as inventory adjustment increases and decreases between the two Distribution Centers. This resulted in an inventory decrease at Hermitage and increase at Freight Way.
- Manual inventory adjustments were used due to the warehouse-to-warehouse systems transfer process not being fully developed and tested.
- 90% of products were transferred through the warehouse-to-warehouse process.



The move to Freight Way coincided with a system cutover to Manhattan Active Warehouse Management (MAWM).





The automated transfer system was not deployed to production until September 2021 due to technical delays.

This resulted in manual inventory adjustments to transfer product between facilities.



October 2021 – December 2021: Confronting New Challenges

The upcoming holiday season forced ABC to focus on ensuring product availability in our ~390 open stores to address seasonal sales volume. Virginia ABC faced a number of key challenges within this context.

Challenge	Description
 COVID-19	In addition to active infections among staff members and management, regulations in force relating to protocols for quarantine after exposure and mandatory testing protocols affected (1) ABC Distribution Center and support staffing and (2) Estes Distribution staffing.
 Supplier Product Supply Chain Issues	Glass and wood shortages and the backlog at ports for imports meant that traditional inventory holding levels (4 – 6 weeks of forecasted sales) were not in place.
 Distribution Center Staff Turnover	135% turnover (largely among frontline teammates), combined with a gap in key leadership positions at the distribution center level, caused challenges with both execution and training and hiring.
 IT System Integration Challenges	Data integration between the three systems(MIPS/MOVE/MAWM) led to inconsistencies that required manual inventory adjustments.

Challenge Response and Hermitage Closeout

December 2021 – April 2022



December 2021 & March 2022: “Fill the Shelves” Initiative

Due to low inventories of key products on store shelves, this was a joint effort between supply chain and retail divisions to deliver pallets of products to fill empty shelves in stores.

- U-Haul trucks were rented and loaded in the early morning with inventory that was missing in the stores.
- 24 retail district managers drove these trucks to larger stores within each geographical area of the Commonwealth for onward distribution to their neighboring stores.




Products prioritized were:

- Those with uncertain inbound supply (mostly imported goods such as Jameson and Hennessy)
- Highly sought after items (most notably Blanton’s)
- Products with the emptiest shelves with a ‘seasonal’ lift (e.g. cordials for cocktails)
- Highest sales volume products such as Tito’s were used to fill any space in the trucks.



Result was an additional \$1.1 million products shipped during this critical high demand period.



 “Fill the Shelves” took place between Christmas 2021 and New Year’s 2022. The process was repeated in March 2022.*



*Process was repeated in March 2022 because of late shipments of Irish Whiskey into Freight Way, U-Haul trucks were already rented, and inventory needed to be shipped to stores for the upcoming Saint Patrick’s Day.





December 2021 & March 2022: “Fill the Shelves” Initiative – ABC Teammates Adapt

Due to low inventories of key products on store shelves, this was a joint effort between supply chain and retail divisions to deliver pallets of products to fill empty shelves in stores.



Teammates Prepare / Trucks Arrive

- Virginia ABC teammates assembled before setting off for deliveries. U-Haul trucks were rented to enable the effort.

Key Items Loaded

- Blanton’s, Jameson, and Hennessy get to the Commonwealth in time for NYE.

Stores are Stocked

- Images illustrate a store stock room during and after the initiative.



December 2021 & March 2022: “Fill the Shelves” Initiative – Inventory Adjustment

Due to low inventories of key products on store shelves, this was a joint effort between supply chain and retail divisions to deliver pallets of products to fill empty shelves in stores.



Inventory Adjustment Approach

- Inventory adjustment transactions were used to adjust the inventory down in Freight Way and increase levels in stores.
- Product code numbers and quantities were documented on spreadsheets and signed by the retail member who was transporting the shipment.

“Fill the Shelves” resulted in manual adjustments of \$1.02M.



List of Products Sent

ITEM	DESCRIPTION	SIZE
004866	Dewar's White Label Scotch	750ml
005036	The Glenlivet 12 Year Single Malt Scotch	750ml
015626	Jameson Irish Whiskey	750ml
016845	Blanton's Single Barrel Bourbon	375ml
017958	Evan Williams Black Bourbon	1.75L
018352	Four Roses Bourbon	750ml
019066	Jim Beam Bourbon	750ml
019068	Jim Beam Bourbon	1.75L
019476	Maker's Mark Bourbon	750ml
019477	Maker's Mark Bourbon	1L
019478	Maker's Mark Bourbon	1.75L
022239	Woodford Reserve Double Oaked Bourbon	375ml
022257	Woodford Reserve Wheat Whiskey	750ml
026827	Jack Daniel's Old No. 7 Tennessee Whiskey	1L
028867	Tanqueray Gin	1L
032234	Seagram's Extra Dry Gin	375ml
034006	Absolut Vodka	750ml
034007	Absolut Vodka	1L
034162	Belvedere Vodka	1L
034425	Grey Goose Vodka	1.75L
038177	Tito's Handmade Vodka	1L
042717	Malibu Coconut Rum	1L
042718	Malibu Coconut Rum	1.75L
048098	Hennessy VS Round	375ml
048106	Hennessy VS	750ml
048107	Hennessy VS	1L
048108	Hennessy VS	1.75L
064136	Disaronno Amaretto	750ml
064753	Chum Churum Original Soju	375ml
064867	Fireball Cinnamon Whisky	1L
065266	Jinro Chamisul Soju	375ml
065278	Jinro Chamisul Fresh Soju	375ml
067523	Kahlua Coffee Liqueur	200ml
067526	Kahlua Coffee Liqueur	750ml
080250	Jim Beam Bourbon Cream	750ml
087282	Casamigos Tequila Blanco	375ml
088294	Patron Silver Tequila	375ml
088296	Patron Silver Tequila	750ml
088371	Teremana Blanco Tequila	750ml
089626	Patron Tequila Reposado	750ml
089646	Patron Tequila Anejo	750ml

Inventory Adjustment Examples

Item ID	Product Name	Cases	BPC	Weight	Pallet Weight
34007	034007-Absolut Vodka-1L	28	12	3.43	1152.48
15626	015626-Jameson Irish Whiskey-750ml	28	12	2.63	883.68
26827	026827-Jack Daniel's Old No. 7 Tennessee Whiskey-1L	28	12	3.2	1075.2
48106	048106-Hennessy VS-750ml	28	12	2.67	897.12
88294	088294-Patron Silver Tequila-375ml	35	12	1.56	655.2
67526	067526-Kahlua Coffee Liqueur-750ml	35	12	2.71	1138.2
19068	019068-Jim Beam Bourbon-1.75L	26	6	6.21	968.76
88371	088371-Teremana Blanco Tequila-750ml	50	6	2.95	885
16845	016845-Blanton's Single Barrel Bourbon-375ml	15	12	1.56	
Totals		258			7655.64

225
ROGER BOMBARDI
MB

Manual BOL used during transfers



January 2022 – April 2022: Managing Challenges and Closing Out Hermitage

During this period ABC managed several challenges and closed out the Hermitage distribution center.

- February 2022 – March 2022: Freight Way Distribution Center repackaged inventory due to damages and performed decrease adjustments.
- February 2022 – March 2022: All location cycle count conducted between 2/21 and 3/4.
- February 2022 – April 2022: The remaining 10% of inventory in the Hermitage Distribution Center was shipped to stores.
- April 2022: Special order catalogue and non-catalogue single load deliveries were sent to one store in each district and consisted of both special-order and standard products to be distributed to other stores within the district.
- April 2022: Hermitage facility closed.

ABC Task					
Task #	240	Date Assigned	2/22/22	Due date	3/21/22
				Est. time to complete	.5
Assignee (All Region, Group, or Specific Store)					
All Stores					
Task Description					
• **Urgent** Merchandise Received Not on BOL/Inventory					
Task Instructions					
<ol style="list-style-type: none"> Over the next couple of weeks, you will be receiving boxes of merchandise that is not in inventory or on the BOL. You will perform a Write Off Correction (Positive Adjustments) using Reason Code-Warehouse Damages Download the attachment titled "In GK POS Portal" below to use as a guide on performing the Write Off Correction When these items are delivered you will receive a "Virginia ABC Damaged Merchandise BOL" to sign and date and return to the driver Print out any adjustment made and post by the receiving door for the next 30 days **Please note** This task is a follow-up to task 202. The cases were damaged at one point. And the bottles were cleaned and then repack in plain brown boxes. We need the staff to wear gloves when handling this merchandise. This should be a onetime program. 					
When to Mark Completed in System					
<p>Perform a Write Off Correction using Reason Code-Warehouse Damages for any merchandise that is not in inventory or on the BOL. You have signed and dated the "Virginia ABC Damaged Merchandise BOL" and returned to the driver each truck delivery. And you have printed off the adjustments and posted by the receiving door for the next 30 days.</p>					
Links					
ar\Action forms\Attachments\In GK POS Portal.pdf ar\Action forms\Attachments\Logistics\Virginia ABC Damaged Merchandise BOL.docx					

Region 20		
Store #303		
Code #	Case Count	Bottle Count
4773	1	
4878		4
5404		3
5502	1	
5891		12
6998		5
10791		8
11776		10
12886		11
15187		4
15830		11
15945		5
16096		7
17088		4
17915		10
17956		10

'Fill the shelves' products communication sent to stores 1/4/22 to complete all inventory transactions by EOD 1/7/22.



Snapshot: Physical Inventory and Cycle Counting

Freight Way Inventory Counts

Full inventory counts conducted in February 2022, June 2022, and March 2023.

February 2022

An all-location cycle count was conducted between 02/21 - 03/04.

Result: \$297,669 net adjustments = 0.29% of DC inventory value.

June 2022

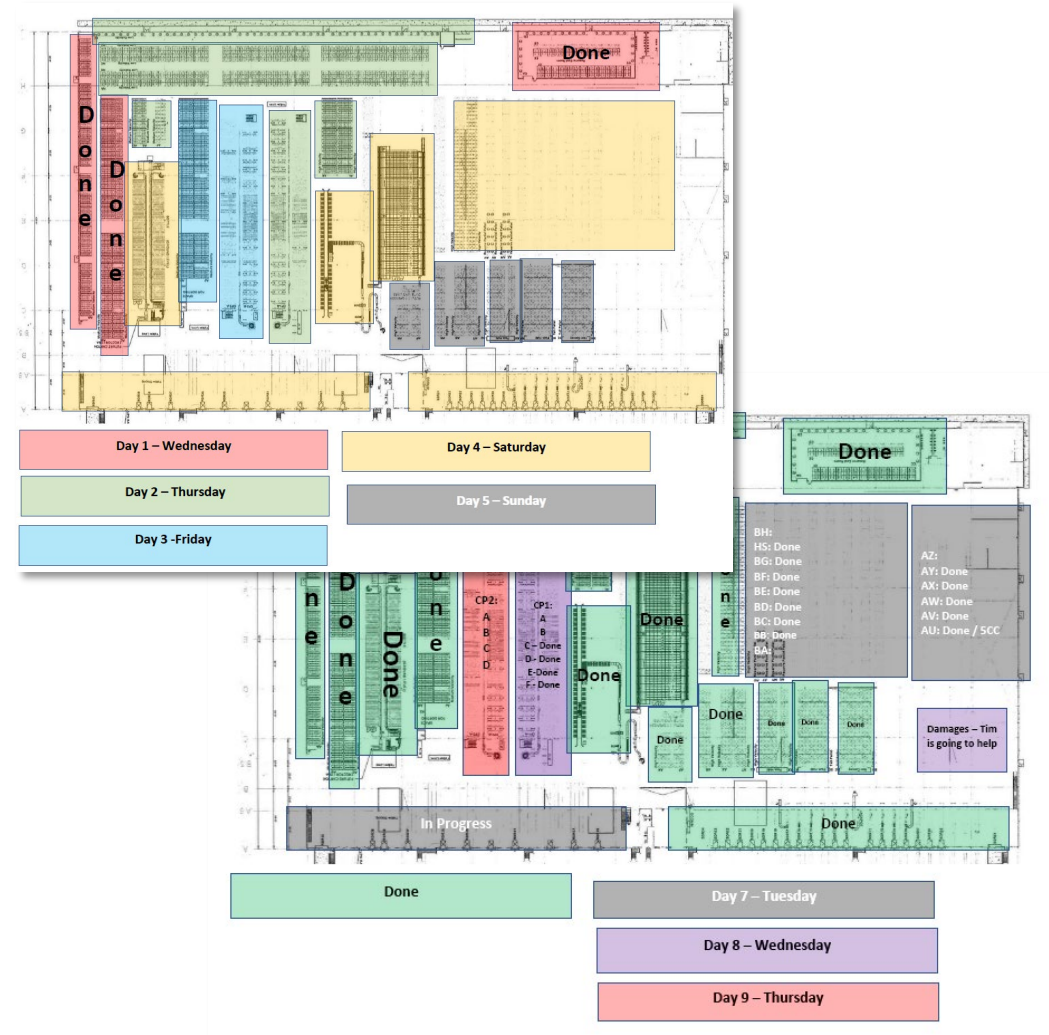
Over 10 calendar days; area by area was operationally shut down and counted.

Result: (\$151,332) net adjustments = 0.15% of DC inventory value.

March 2023

Stores were top loaded to allow a 2-day full operational shut down to count the entire DC.

Result: Approximately \$13,000 net adjustments = 0.01% of DC inventory value.



Workforce Optimization and Continuous Improvement

April 2022 – Present

April 2022 – Present: Workforce Optimization and Continuous Improvement



Once Hermitage was officially closed and the new Distribution Center had begun to stabilize, a workgroup was pulled together in April 2022 to begin preparing for the 2022 Holiday season.

- April 2022: Hermitage facility closed.
- April 2022 – September 2022: Workforce Optimization Workgroup (WOW) launched. Logistics partnered with Change Management Office to launch integrated change team and deliver on essential readiness needs for the 2022 Holiday Season.
- June 2022: Freight Way inventory count.
- October 2022 – December 2022: Holiday season – Stabilization and WOW impacts observed.
- March 2023: Freight Way inventory count.

Prepare DC for the 2022 Holiday season and identify sustainability needs.

WOW began as an integrated, cross-authority initiative where Logistics partnered with the Change Management Office to launch an integrated change team and deliver on essential readiness needs for the 2022 Holiday Season.

Workforce Optimization Workgroup Impacts

- 4 months; 54 deliverables; 100% of milestones met
- Program structure saved time, while strengthening team unity, and expediting results
- 4 domains of impact:
 - Operations and Logistics
 - People, Performance, and Culture
 - Safety and Enforcement
 - Communications and Training
- Record-breaking outcomes in Productivity, Safety, and Retention with sustained results

April 2022 – Present: Workforce Optimization – WOW Impact



The table below illustrates key performance indicators before and after the Workforce Optimization Workgroup was implemented.

	Prior to Team WOW (Jan-Apr 2022)	After Team WOW (Oct/Nov/Dec 2022)	Impact
Production (peak day cases shipped)	30,623	37,346	“DC hit an all-time high in outbound volume in an 8-hour period”
Production (packed total cases/hour)	70	118	“Training and onboarding process developed by Team WOW led to huge increase in cases per hour”
Production (packed avg cases/person labor hour)	27.12	32.86	“Team WOW materials created for DC leadership with training, coaching, labor management and team building increased efficiency, energy and results” Current YTD: 33.89
Safety (total injuries)	15	1	“Work led to massive reduction in safety operations and cost thanks to heightened focus on safety first culture and processes.”
Safety (days without injury)	56	146	“146 days w/out a recordable injury is an all-time record for VA ABC DC.”
Retention (# employees)	149	132	“Work resulted in intentional reduction due to lean & more efficient operations & enhanced performance accountability”
Retention rate (turnover)	-21.43%	-3.88%	“DECREASE in turnover due to INCREASE in improved operations and boosted morale”

Questions?