

# Virginia ABC Board Meeting Minutes

August 22, 2024

## Call Meeting to Order

Meeting called to order at 9:09 a.m.

## Attendees

Board Chair Tim Hugo  
Board Vice-Chair Mark Stepanian \*  
Board Member Greg Holland  
Board Member William Euille  
Board Member Lisa Jennings  
CEO Dale Farino  
GAO, John Daniel  
COO, Tom Kirby  
CFO, David Alfano  
CHRO, John Singleton  
Deputy Secretary, Chris Curtis  
Director of Internal Audit, Michael Skrocki  
Director of Retail, Lori Murphy  
Director of Finance, Doug Robinson  
Strategy Manager, Barbara Peterson-Wilson  
Office of the Attorney General, Elizabeth Peay  
Senior Paralegal, Helen Gordon

## Opening Remarks

- Vice-Chair Stepanian is attending today's meeting via Teams from Charlottesville pursuant to § 2.2-3708.3(4) due to his child's college move-in.

## New Business – Board Approval

### Approve Minutes from June 7 and June 27 Board Meetings

- CEO Farino noted two scrivener's errors in the minutes for June 7, 2024. Under REC approvals, the store number should read "store 412" instead of "415". The word "this" was added where omitted regarding a discussion of meeting dates. Board Mrs. Jennings made a motion to amend the June 7, 2024 minutes as noted by CEO Farino. Board Mr. Holland seconded the motion. The motion passed on a roll call vote of 5 – 0.
- Mrs. Jennings made a motion to approve the minutes as amended. Vice-Chair Stepanian seconded the motion. The motion passed on a roll call vote of 4 – 0. (Mr. Euille arrived at 9:15 a.m.)

## New Business – Board Information

### Financial Update for FY24 and July 2024 (Alfano)

Mr. Alfano reported that:

- Store Sales and On-Line Revenues for FY2024 were \$1,472.6M, which was below the original budget by almost \$45M and represents 2.0% year-over-year growth, which is 3.1% below the forecasted and budgeted growth of 5.1%.
- The decline in revenue experienced by the Authority is consistent with nationwide spirits industry trends. According to NABCA, the Authority's year-over-year growth of 2.0% finished higher than the 0.5% growth

experienced by other controlled states. The only other control state with growth higher than Virginia ABC was New Hampshire at 2.4% year-over-year growth, but on a significantly smaller revenue of under half of a billion dollars.

- Even with revenue declining year-over-year, the Authority continues to engage with suppliers to secure additional limited availability products and listen to ideas they have on ways that we can promote increased sales.
- The Authority's most impactful change in increasing revenues has been by decreasing operating expenses Total operating expenses in FY 24 are \$306.5M, which is \$12.0M below the original budget attributed to ongoing expense management. Despite revenue shortfalls of \$44.9M, the Authority was able to overcome and offset over \$15M of lost profits from lower than budgeted store sales.
- FY 2024 net profits of \$243.4M, which was \$4.0M greater than the adjusted General Assembly Profit Transfer requirement of \$239.4M and \$900,000 below the original budget of \$244.3M. Absent the additional \$900K ABC incurred in FY 2024 related to severance related costs associated with the position eliminations, the Authority's profits would have been right at the original budget of \$244.3M.
- Mr. Alfano went on to say that we are about \$5.1 million below budget right now. Retail sales are down by .3% and licensee sales are down by 1%. There is less discretionary spending. The hospitality industry is seeing the same thing. We are continuing to do what we can to work with suppliers to generate sales. Our operating costs are below budget because some positions have not been back-filled and because of extremely aggressive cost-saving measures. Net profits for July were \$19.9 million; \$700,000 greater than last July. The fact that we are able to generate the net profits that we are is a direct reflection of the efforts of our directors and their teams. The directors and teams are working with smaller staffs and are still getting their jobs done.
- Chair Hugo asked how the Authority is looking for next year? CEO Farino stated that he has already begun talking to legislators regarding PCI but we have a lot of sticks in the fire right now. The Chair noted that PCI is an expensive endeavor and asked what the status of PCI is? Michael Skrocki, Director of Internal Audit, stated that he manages the PCI relationship. The Authority now has an extension until March of next year to get into compliance. Chair Hugo asked how much the fix is going to cost? Mr. Skrocki replied that it's not really a fix but more of enhancing our current tools. The Authority is still in the preliminary phase and in the early stages of mapping out the timeline but many necessary tools are in place.
- The Chair asked when the Authority will have the money for a new Operating System? CEO Farino said he believed it would not be until next year.

## **NEW BUSINESS, BOARD INFORMATION**

### **Director Introductions**

- The Board was introduced to the Directors of the Authority
- Lori Murphy, Director of Retail shared that the Authority is looking to make everything more efficient to give more money back to the Commonwealth. Chair Hugo asked what needs to be done to increase sales. Ms. Murphy stated that we need to get bottles back on the shelves. Cognac and tequila have come off of the shelves due to the recent thefts in various parts of Virginia, but we can't sell alcohol if it's in the back room.
- Chair Hugo prompted a further discussion of shoplifting and theft. There are some stores where the entire cognac area is empty. Stores used to be held accountable for their shrinks but now the Authority has in place two different types of shrinks; what is stolen versus a process issue. This allows the stores to see more clearly what is needed. Ms. Murphy and her team have been working with stores the last few months to help them understand how the Authority views thefts; thefts are no longer considered a retail price but a cost price. The CEO has been amazing in helping retail with the parts the Authority can fix.

- Mr. Holland asked where the worst theft problems in the state are. Ms. Murphy replied the Authority has theft in all areas and her focus is not on concentrating so much on where the thefts are, but on training the employees on how to figure out they have a theft problem. BLE and HR put together a training to be rolled out in September on theft management. Mr. Holland replied that he understood that theft was prevalent throughout the state but where are ABC's biggest thefts right now. Ms. Murphy replied that they were in Northern Virginia with the theft of cases by organized crime groups.
- Chief Kirby added that there are several different types of thefts. The Authority has seen organized retail theft in Northern Virginia. However, there are also single bottle petty thefts occurring. The theft ring that was stealing large quantities of alcohol in Northern Virginia were also stealing from Louis Vuitton, Chanel and other retailers. There are pockets of theft in Northern Virginia, Richmond and Tidewater. The theft ring in Northern Virginia was very organized; the juveniles were driving stolen vehicles from D.C. and using walkie talkies to communicate with each other. Cognac is one of the popular products that we see stolen. The Authority is currently talking about having some clear lock boxes to put the bottles in so the customer can see the bottle but they cannot easily be taken out of the stores. However, our plan is to monitor thefts to see what level we get to before we jump into removing products from the shelves.
- Mr. Holland asked if arrests had been made? Chief Kirby replied that some arrests have been made. The Authority's Bureau of Law Enforcement (BLE) participated in a press conference with Fairfax County Police Department last week to discuss the thefts. However, it should be noted that there are serious problems regarding retail theft across the county. Questions need to be asked regarding whether we have appropriate sanctions for theft in Virginia, are they being prosecuted, do they receive the appropriate bail, is there a deterrent to theft, etc. If there are not adequate penalties, then there is no incentive not to steal. The BLE is working tirelessly to get this matter taken into hand.
- Chair Hugo asked if we were stationing people at the stores? Chief Kirby stated that we have not stationed security in the stores because that is a very high cost, but we have dispatched agents up to the area and have worked with the Virginia State Police and local police to keep a watch on the stores.
- Mr. Holland asked if the juveniles involved in the theft ring are being processed in Juvenile Domestic Relations Court, or if they are being certified to circuit court? Chief Kirby responded the cases have not gotten to this point yet; we don't know if the Commonwealth Attorney will have the juveniles tried as adults or not. Mr. Holland asked how these juveniles are being arrested? Chief Kirby stated that some of the individuals are being arrested from the store videos. Three subjects were taken into custody in D.C. by the U.S. Marshal's service. Those subjects were seen in D.C. where they parked the vehicle outside of an abandoned house and then picked it up later to sell the alcohol to businesses primarily.
- Mr. Holland asked if the subjects were to be tried in Virginia? Chief Kirby said that most of the subjects were being prosecuted in Virginia, but D.C. has had a rash of liquor trucks being robbed with cases of alcohol unloaded out of the backs of trucks so there would several cases in D.C. as well.
- Vice-Chair Stepanian stated that he knew there had been some high theft stores located in Richmond, and that the Richmond Police Department seemed to like the new installation of counters in the stores to help with the thefts. How is that new layout affecting sales in those locations overall? From what Richmond Police Department advertises, theft is down. Mr. Alfano said that his team planned on doing a survey to compare those figures after a three-month trial period, which has not been met at this time. Vice-Chair Stepanian asked for that analysis to be shared to the Board once complete, and for the Board to be kept apprised with decisions going forward on store layout. Chief Kirby said that Richmond Police Department is accurate. Store 182 was the highest theft store in the City of Richmond. BLE completed joint operations with the Richmond Police, Richmond put a marked police car out in front of store, sometimes with an officer in it, sometimes without an officer and none of that seemed to work. The Authority then put in a half counter in the store and theft has

been all but eliminated. The Authority has a store in Norfolk where high-dollar items were placed behind the counter and two stores in Portsmouth where counters were placed and both of those tactics have helped.

- Mr. Holland added that ABC gets a lot of bad publicity from these thefts and three people have approached him asking if they will be safe in our stores. CEO Farino replied that the best answer for those asking about their safety is to tell them the Authority will make sure our employees and customers are safe.
- Ms. Murphy added that she and BLE collaborate to provide training, in person and via videos, to our employees. Chair Hugo commented that the theft subject is one that everyone is interested in and will be a question that we will come back to. Ms. Murphy stated that many departments are working together to come up with the best ways to protect our employees and to prevent theft.
- LaTonya Hucks-Watkins was introduced next. Ms. Hucks-Watkins is the Senior Legal Counsel for all of the business units here as well as for BLE. The Office of Legal Counsel (OLC) houses a risk management specialist and a FOIA specialist. Most recently, OLC has done a review of all of the Authority's regulations and has also been involved in discussions regarding direct-to-consumer shipping.
- Deputy Chief Donnie Brown is the Deputy Chief of Field Operations. DC Brown said that BLE is moving forward and is here to help each and every one of us in all the departments. Chair Hugo stated that he hoped the Authority would continue to hire more people for Northern Virginia as ABC is hearing comments about the need for more officers from the General Assembly. The Authority asked for more money for more officers, and is hearing from legislators on both sides.
- Tyler Moore, Director of Distribution, runs the DC as well as facilities in the Central Office. His team is gearing up for the holiday season. Mr. Moore does plan some systems updates as transformational efficiencies. Chair Hugo asked if we should have done the new OA when we moved into the new building? Mr. Moore stated that ideally yes, the Authority should have but at the time, it would have been more than ABC could have handled. There is no reason why we now couldn't adapt it to the DC now though.
- John Moreland, Senior Manager of Marketing. Mr. Moreland's team works with the suppliers on the advertising that you see go out to the stores, they handle listings and are currently transitioning to speed products to market. This team is trying to get products into the warehouse and out to the stores as quickly as possible.
- Chris Mamon, Senior Manager of Merchandising. Mr. Mannon's team works closely with John Moreland and Lori Murphy to develop planograms for the stores. His team also works closely with the entire retail team and real estate.
- Doug Robinson, Director of Finance. Mr. Robinson shared that if his team is not working on the budget, they are working on forecasts, trying to provide timely information to the Board, payroll checks, paying vendors, sales audit and working on the annual report. The Governor's Advisory Council on Revenue Estimates (GACRE) forecast is coming up and that is something that this team will be working on for the Board and the Governor's office. The team is currently trying to figure out when the GACRE will be due. By the next Board meeting, the team hopes to have some five-year forecasts available for the Board.
- Chair Hugo asked what NABCA is predicting for the next five years? Mr. Robinson said that he has reached out to NABCA but has not gotten a response yet. The team did, however, attend the GACRE meeting at the Governor's office. The Governor's office was able to provide some broad guidance, but ABC is a discretionary group; the Authority does not have durable goods, so ABC is a bit different from other state agencies.
- Mr. Holland asked about the impact on sales from broader access to cannabis and casinos. Mr. Robinson stated that cannabis certainly has an impact on the Authority's sales. Even though the Authority has a monopoly on spirits, there is competition with the costs of food, gas and other discretionary costs, including wine and beer. CEO Farino added that the Authority sells more of a luxury item, but cannabis is having a negative impact on our sales.

- Katie Crumble, Director of Community Health and Engagement. Ms. Crumble's team works with other state agencies to help with substance abuse prevention. The Authority works with public health data, with BLE to complete licensee training, and distributes grants. The grant amounts depend on our budget and the quality of the grant applications. This year, the Authority will probably be able to give up to \$60-70,000 in grants.
- Tracey Lorraine, Director of Communications. Ms. Lorraine's team informs, equips and hopefully makes sure everyone knows what is going on around the Authority. The Authority is good at keeping people informed about what is going on but is working to get messages out there rather than just answering questions. Communications is working on making sure the Authority's customers and employees feel safe. The Authority works to overcome bad publicity by sharing good practices.
- Melissa Watts, Director of Procurement, advised that her team is focused on pinching every penny and is looking at every contract to find savings.
- Susan Johnson, Director of Real Estate is known to the Board from her previous presentations of REC recommendations.
- Meghan Wallmeyer-Rose, Director of Hearings and Appeals, this team schedules all administrative hearings and Board appeals.
- Keith Russell, Director of IT, and David Kuti, IT Director of Engineering. These teams keep the lights on and the business running. Chair Hugo asked what the biggest security risk is? Mr. Russell said that would be under Security Operations but overall, the Authority does not have a lot of security hacking. Mr. Holland asked what was the percentage cut from IT's budget? Mr. Russell advised that most of the cuts were to contracted labor; IT did not cut a lot of operating costs. Mr. Holland asked if that was \$1 ½ million for outside contractors? Mr. Russell replied that that figure was accurate. If the team doesn't have a certain skill set, the Authority will often hire an outside contractor for those things and then let them go when the need has been met. Mr. Holland asked how many outside contractors are currently here? Mr. Russell said that they are currently employing 19 outside contractors, a significant decrease from about 35 two years ago. Mr. Holland asked if more full time people had been hired? Mr. Russell advised there have not been any new hires but existing team members are being trained to take on other tasks. Mr. Alfano interjected that the Authority does look for opportunities to hire some contractors to become full-time employees as well. Chair Hugo asked if we've been able to find employees? Mr. Russell said that it depends on the specialty needed. The Authority is competing for talent with Capital One and Amazon. Also, IT works well with teleworking, so ABC has to compete with companies offering that benefit as well.
- Tamara Harless, Director of Project Management Office (PMO) was introduced. This team spends money wisely. PMO executes big projects that need a manager, and tracks all work of significant scope across the Authority to ensure visibility and to ensure we are working on what needs to be worked on now. The PMO is currently working on FY26 and beginning to work on FY27 and 28 to get ahead of those needs as well. PMO focuses on inventory and orders and monitoring alarms.
- Will Moore, Director of Digital and Brand Marketing. This team manages the website, Google maps, You Tube, and other non-ABC-owned sites that have our industry information on them. Mr. Moore's team tracks business needs, look to expand digital marketplaces and are currently working on improving the on-line shopping experience, expanding stores digital capabilities and increasing ABC's digital foot map.
- Mike Skrocki, Director of Internal Audit and Information Security Mr. Skrocki's team monitors the stores and distillery stores. Audit make sure everyone stays within the guardrails. For Information Security, cyber security is the biggest threat right now, and this team tries to keep ABC secure and recently underwent an assessment with other State Agencies. The Authority does not hold on to credit card data, so ABC doesn't keep the kind of information most targeted by hackers. The Authority has done a good job with training, so Authority team members are less likely to respond to hacking attempts. Mr. Holland asked if Virginia distillers are happy with

the way they are being treated by ABC? Mr. Skrocki stated that his team audits the distillery stores to make sure they are meeting their deadlines with the Authority but is now going back to look into whether the stores are getting what they need from the Authority to be successful. Most distillery stores start as mom-and-pop distilleries in someone's garage before they get to be the size of Bowman.

- Deputy Chief Ryan Porter, Administrative Chief of BLE. Mr. Porter works with all divisions, especially HR and is continually running our licensee numbers and agent numbers to determine where the Authority may need more agents. Mr. Porter added that Northern Virginia is fully staffed for likely the first time in his 20-year career. Chair Hugo recommended writing a letter to Sen. Favola and Del. Krizec about the staffing. Chief Kirby added that the staffing is +1 in the area, and will examine if they may add more staffing in the area to serve the number of licenses in the area.
- Chair Hugo thanked all of the directors and upper-level management for all that they have done, and thought it was important for them to address the Board and continue to drive the Authority forward.

To address a previous question from Mrs. Jennings, CEO Farino referred the Board to the June Board Book for the cost of PCI compliance.

## **New Business – Board Approval**

### **Approve REC Recommendations**

- Susan Johnson presented one relocation, Store 211 (Suffolk), one expansion, Store 246 (Virginia Beach), two potential closures, stores 208 (Ashburn) and 063 (Lorton), and fourteen renewals, stores 059 (South Boston), 185 (Charlottesville), 272 (Newport News), 379 (Virginia Beach), 399 (Rustburg), 333 (Matthews County), 425 (Alexandria), 040 (Dulles), 107 (Norfolk), 207 (Glen Allen), 278 (Virginia Beach), 281 (Madison Heights), 364 (Daleville) and 395 (Floyd) for approval by the Board.
- CEO Farino said that initially there was discussion to close three locations, but it was decided to keep Store 367 in Loudoun County open for now. Mr. Farino stated that he would reach out to the legislators in the areas of closures to explain the reasoning for closing and then go the Governor's office.
- Ms. Johnson said Store 063 in Lorton is closing because the owner will not come down on the amount of the lease and the store is not performing well. Store 208 in Ashburn is being closed as it is very close to other locations. Chair Hugo asked if the team has seen the revenue disperse when a store closes? Where do they go? Food Lion? Ms. Johnson said most go to the closest store.
- Mr. Euille made a motion to approve the REC recommendations. Mrs. Jennings seconded the motion. The motion carried on a roll-call vote of 5 – 0.

### **Approve FY24 Audi Plan (Skrocki)**

- Mr. Skrocki presented the Fleet Management audit as outlined in the Board's materials. The Authority needed to better document and improve processes around the Authority's vehicle fleet. After reviewing the fleet, IA noted an opportunity to reduce the ABC's fleet on vehicles. IA recommended moving 7-8 vehicles into a centralized pool. Procurement and our fleet management team have come up with about 15 vehicles to move into a pool to use and possibly eliminate. Chair Hugo asked why BLE was not audited? Mr. Skrocki stated that a light review had been done on BLE vehicles approximately one year ago in response to a complaint. The review showed no issues with BLE's fleet. BLE's vehicles are also different in that they are outfitted differently and require more equipment. IA will audit BLE again down the road but for now there was no need to audit them again. Chief Kirby added that BLE had also had the Governor's Chief Transformation Officer look at their vehicle process and the CTO stated the Authority is in compliance.

- Mr. Skrocki noted that small purchase charge card (SPCC) audits are done quarterly and will move to bi-annually. There are also proposed audits for the FOIA process and warehouse receiving as well as an expense review across the Authority to look at what was purchased within the contracts or outside of contracts and the allocation process-what determines how the product ends up on the allocated list.
- Chair Hugo asked how much time was spent on the lottery? Mr. Alfano stated that the Authority has reduced the number recently, but it has been a significant amount of time spent on lotteries. Mr. Skrocki added that his team was trying to keep in mind whether we can push out some allocated list products instead of having it in a lottery. Vice-Chair Stepanian asked if Mr. Skrocki could share with the Board the quick examples of some success his team had had in mitigating this problem with the lottery in the past? CEO Farino said that one of the first things that he did when he came to the Board was to build on our manufacturer relationships that Chief Kirby was already working on. This relationship has helped to significantly reduce the Authority's allocated product list. Chief Kirby said that because of the ABC's relationship with Buffalo Trace, this product has been removed from the allocated list. The Authority will still limit the sales to one bottle per person, but due to ABC's efforts, the Authority has received additional product from Buffalo Trace. The Authority sells alcohol at the suggested retail price and not triple the price as is done in some states. Because of the Authority's sales methods and discussions, ABC was able to secure some extra Weller Millenium and distributed them through a one-day randomized distribution. Those bottles sell for approximately \$7,500 per bottle. The Authority has also changed the allocation process, there is no longer text notification of drops. The product goes to the store and the manager has a window to decide when during that time to put the product out. The Authority is able to take in product and get it out to the public immediately.
- CEO Farino, Chris Curtis and the Chief have worked with Sazerac, a vodka producer and the WWE to have WWE star Cody Rhodes come to the Bailey's Cross Roads Store in Northern Virginia to sign bottles of vodka, greet people and have photos taken.
- Vice-Chair Stepanian stated that when he joined the Board, he and others felt like ABC had moved into a culture of "no". He applauded the Chief and CEO Farino for having the idea of working with our suppliers to let folks know we are here. The Board needs to celebrate these wins. In a short time, the Authority has moved quickly in the right direction. Chair Hugo noted that when ABC went to NABCA, they complained that the first answer Virginia gave to everything was "no". CEO Farino said this was a team effort.
- Mr. Euille made a motion to accept the FY24 audit plan. Vice-Chair Stepanian seconded the motion. The motion carried on a roll-call vote of 5 – 0.

#### Review and approve updates to Governance and Authority Delegation of Responsibilities Policies (Peterson-Wilson)

- Barbara Peterson-Wilson Ms. Wilson walked through the highlighted changes to the Governance and Authority Delegation of Responsibilities.
- Starting with the Governance policy, initial updates included updates to the values statements that were revised in 20232 to reflect accurate language. Clarification in recent organizational changes regarding what divisions fall under which chief were also included in this draft.
- Mrs. Jennings stated that she had a problem with security ops being under Audit; Audit should never run an operational unit of any kind. CEO Farino said it was either leave security ops under IT or move it here and we didn't really want IT people overseeing another IT unit, and the CIO position will not be re-filled. Mr. Alfano added that Mr. Skrocki has another level of authority that none of the rest of the directors have. Ms. Jennings said that if the Authority does this, it will have to revise the structure to make it so Mr. Skrocki is not involved in the overseeing of the audit for security ops. Mr. Farino said that he and Ms. Wilson would pull the policy and make the suggested changes.

- Mr. Holland asked how long the language has been in the Governance Policy which states “The Board is ultimately responsible to the governor ...” Ms. Wilson advised that the language had been in there since at least 2018 when she first came to Virginia ABC. Mr. Holland said that he thought when the legislature spoke on the Authority’s independence, it was discussed that ABC would not be under the Governor’s executive office. Ms. Wilson stated that the change in July moved us out from under the Secretary of Homeland Security and made us fully independent only.
- CEO Farino interjected that he believed there was something in the Code that states that there has to be some accountability to the Governor’s office; we do have some oversight; the Governor appoints the Board and the CEO, we do report to the Board, but we still have to report to the Governor’s office as well. July 1 just cut out the Secretary of Homeland Security from that reporting thread. Mr. Holland stated that he has no problem reporting to the Governor, but he does have concerns with saying the Authority is responsible to the Governor as an independent agency. The code stresses that the Authority is independent and not under the legislative or executive branch. John Daniel added that this language ultimately says that the Governor is Chief Personnel Officer of the Commonwealth, and we all report to him or her. Mr. Farino stated that he and Ms. Wilson could look at this and make changes.
- Chair Hugo stated that the Board may not be able to vote on this one today as they have been given a lot to digest today. Mrs. Jennings added that she believed Security Ops needs to report to the Chief Financial Officer. Ms. Wilson responded that she could make that change. Mr. Skrocki stated that he knew he would not be able to audit security ops if they were under his team. Mrs. Jennings stated that she thinks moving security ops under the Chief Financial Officer will give Mr. Skrocki the freedom to do his job much better. Mr. Alfano stated that even though he also had IT reporting to him, he can make security ops report directly to him as well. Mrs. Jennings stated that there is synergy in having both departments under Finance as you will be able to see how they work together, having them somewhere else in the organization could have other complications down the road. Mr. Robinson stated that IT and Information Security are part of the APA audit every year and there is some oversight yearly from outside the Authority.
- CEO Farino shared that he had sent drafts of these policies to the Board two months ago to get ahead of discussions.
- Mr. Hugo asked why Procurement is not moved to Mr. Daniel along with Real Estate. Mr. Alfano stated that Procurement works hand-in-glove together with Finance. Mr. Hugo asked about delegating authority to the CEO to revise policy, would that mean the Board would not see these until after the fact? Mr. Farino responded he would approve changes to any existing policy, any new policy would need to come to the Board. Over one hundred policies need to be updated, he would like to update and report these findings to the Board. Mr. Hugo said the Board meets monthly. Mr. Farino responded that the Authority needs to produce miniscule changes and can provide those to the Board for more conversation, but is trying to be more nimble.
- Regarding the Authority Delegation of Responsibilities procedure, Mrs. Jennings stated that in her experience there should always be three levels of policy; Board governance policies which must go to the Board as they may concern a change of philosophy or a response to regulatory changes. Another category is management policies which were a subset of that; procedures which never came to the Board. It seems to me you may want to do something like that here. This seems like a big blanket vs. a tiered system. Some policies should go to the Board.
- CEO Farino stated that if we followed that structure, the policy changes with dollar amounts will come to the Board but those for day-to-day operations will not come to you. The policy and day-to-day changes are overwritten by the Board’s need to see and approve things with a dollar amount attached to it to retain oversight. The Board will see all contracts and raises will come to the Board. Chair Hugo stated that he wanted to make sure the Board sees these things and avoids a rubber stamp. The Board didn’t know we had ½ million



reusable bags in the warehouse, and did not have visibility into micro-contracts. This change makes Mr. Hugo uncomfortable and wants to be able to look at these things.

- Mr. Farino responded that dollar limits are in the policy, pay raises and contracts are in which place limits. The last pay raise was the State pay raise on June 10.
- Ms. Wilson turned the Board's attention to page 50 of the Board books to walk through the thresholds and changes. As an independent authority, some reporting to the DPB is no longer needed, this is in line with other similarly situated independent state agencies which no longer do reporting to the DPB on strategic planning. New policies would be reviewed by the Board, there are about 112 policies between 2020 and 2024, only 25 of those have been reviewed and updated in a comprehensive manner. It takes approximately three months to get on the Board Agenda. Another change is moving supervision of the Internal Audit division to reports to the Board. Mrs. Jennings asked what kind of supervision the team was talking about? CEO Farino said that he will continue to get all of the reports from Mr. Skrocki's team. Mrs. Jennings noted that we do not have an audit committee on this Board. The audits then go to the CEO and then the Board. Mrs. Jennings said that she believed we would want an audit committee with a charter to supervise the Audit Division as we move forward as an independent organization.
- On page 51, language was added regarding classification and compensation of C-Suite and above to add all new hires with a salary greater than \$200,000 would have to be approved by the Board. Mrs. Jennings would add someone with a range above the pay scale should come to the Board. Mr. Singleton added that hiring outside the payscale is not done, and hiring is typically at 25% - 50% of the scale. Salary increases 10% or more go to the Board for approval, lower than that is reported to the Board. Mrs. Jennings wanted it clear in the policy that the Authority could not give multiple raises spread out over a few months to circumvent this oversight.
- Ms. Wilson moved on to a change in settlement of monetary claims against the authority, the threshold was changed to in excess of \$100,000 where it used to be \$6,000. Mr. Holland asked if Mr. Farino would come to the Board in potential settlement figures during negotiations. Mrs. Jennings said that she felt that \$100,000 was too high a ceiling but could see maybe \$25,000-\$50,000. Mr. Holland stated that he did not want to get into a situation where the case would be negotiated and parties come to an agreement but then they are told this needs to be approved by the Board. Mr. Holland would like it understood that the Board would be involved in negotiations above a certain level only. Mrs. Jennings stated that the Board wasn't really involved in negotiations and couldn't be involved, would just approve a number. Mr. Holland stated that when he was in private practice working for the state, they would try to resolve something and then he would be cut out of the negotiation process. A fact that he expressed in our recent litigation.
- Ms. Wilson asked if the Board would be comfortable with \$250,000 rather than \$100,000? Mr. Holland stated he thought the amount should be kept at \$100,000 but with the understanding that there needs to be more conversation about it in meetings before.
- Vice-Chair Stepanian stated that where he comes out on all of this is that the Board needs to give the CEO and his team more ability to be nimble in real time as the ABC continues to operate as they are open for business.
- Mr. Daniel said that maybe we are trying to give you too much to consider at once and will circulate how negotiations are handled and move on from there.
- Ms. Wilson moved on to number 28-commitment of Authority funds for capital items and/or contracts \$1 million and above, this originates from procurement and is approved by the Board. CEO Farino said that item is for matters that were not already approved in the budget. Chair Hugo asked what the difference was between the language on pages 51 and 52, line 5? Ms. Wilson stated that the amounts listed on page 51 are those within the budget. The amounts on page 52 are outside of the budget.
- Mrs. Jennings stated that the word "aggregate" needs to be added on page 51.

- Chair Hugo stated that he wants to make sure that the Board sees all of the contracts. You have been able to pull \$5 million out of contracts, correct ? Chief Kirby said approximately, yes.
- Ms. Wilson reviewed other potential changes to the Delegation of Responsibilities, highlighting new edits, and small changes related to changes in titles and re-organization of departments. Mr. Holland asked on page 53, line 19, what is an example of a non-monetary complaint against the Authority? CEO Farino stated that he thought it could be an EEOC complaint or a complaint over modification of a work schedule.
- Chair Hugo asked if the Board agreed to change what comes before the Board in the future, under the new proposal, how much of this report would have come to the Board and how much would have been approved by the CEO? Ms. Wilson said all of it would have come to the Board as they are Authority delegation and governance changes. CEO Farino confirmed that these types of changes will always come to the Board. Ms. Wilson reiterated that this entire policy would have come to the Board beforehand if we had this in place before now. If we made revisions to an existing policy, such as changes to the ADA policy being considered now, those would not come to the Board until it was done.
- Chair Hugo said you could make some serious changes to policy without coming back to the Board. Revisions could take a different direction. CEO Farino said that it would be in the Board book and you'd have a right to come back to it if you disagreed but something like the ADA is a bad example because there is a Federal mandate for those changes.
- Mr. Alfano added that he agreed it's in the eye of the beholder if it is a substantive change. Mrs. Jennings said that if changes must happen due to regulatory changes, those should happen right away, and the Board should be notified. Mrs. Jennings said that there are required changes and efficiency changes. If a new system is implemented, such as giving better guidance to people, that doesn't need to go to the Board. Things that can't be walked back like spend and pay, those things that have impact on overall governance should come to the Board ahead of time.
- Mr. Farino stated that what drove most of these changes was the need to correct the wrongs that happened before. Mrs. Jennings added that policies and procedures should not be separated. Mr. Farino wants to operate efficiently, but also be transparent to the Board Chair Hugo asked that all members send their suggestions to Ms. Wilson and Mr. Farino. Mr. Farino said that Ms. Wilson will send out all of the changes to the Board and then will bring this portion of the meeting back up at the next meeting in October.
- Vice-Chair Stepanian had to leave the meeting at 12:04 p.m.

#### Approve Regulatory Proposal regarding bad checks (Hucks-Watkins)

- LaTonya Hucks-Watkins presented regulatory proposals for approval. Ms. Hucks-Watkins proposed an amendment to regulation 3-VAC5-30-30-payment and recordkeeping for certain transactions. In light of a recent Administrative Law Judge decision, the regulatory proposal will make it possible to pursue disciplinary action against licensees that issue dishonored checks.
- Mrs. Jennings asked if this regulation covered fees on credit cards? Ms. Hucks-Watkins advised that the Authority already has the ability to add credit card fees covered in our Code. Chair Hugo asked if we were changing this or if we were asking for the legislature to change this? Ms. Hucks-Watkins stated that this change is one we can make and doesn't require a legislative change. Mr. Daniel reiterated that we do not need legislative approval as it is already in our regulations. Mr. Farino added that he believed this revision would just tighten up a loophole in an expeditious manner.
- Mrs. Jennings made a motion to approve the regulatory amendment proposed by Ms. Hucks-Watkins. Mr. Euille seconded the motion. The motion carried on a roll-call vote of 4 – 0. (Vice Chair Stepanian left the meeting early)

### **Comments from the Board**

- The Chair asked for comments from the Board. There were none.

### **Public Comments**

- The Chair asked for comments from the Public. There were none.

### **Meeting Adjournment at 12:18 pm**

- The Chair adjourned the meeting at 12:18 p.m.

DRAFT