

Virginia ABC Board Meeting Minutes

June 27, 2024

Call Meeting to Order

Meeting called to order at 9:00 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
CAO, David Alfano
CHRO, John Singleton
Deputy Secretary, Chris Curtis
Office of the Attorney General, Jim Flaherty
Director of Finance, Doug Robinson
Change Management Manager, Davishia Baldwin
Senior Paralegal, Helen Gordon

Opening Remarks

- The Chair stated there will be a private session unrelated to staff due to a new legal issue that arose last night.

New Business – Board Approval

UPDATED TRAVEL POLICY (DOUG ROBINSON)

- Mr. Robinson stated that the travel policy was updated as recently as September of 2023. Today, there is one minor edit to align with our new CEO. Currently, our policy does not allow an appointee of the government to use a government-issued vehicle for commuting. We are revising the policy to allow use of an ABC vehicle for commuting. This edit will bring us into compliance with what we are already doing.
- The Chair asked if there were any questions regarding this update. There being none, the Chair requested a motion.
- Board Member Euille made a motion to move for approval of the edit to the travel policy. Vice-Chair Stepanian seconded the motion, which passed on a roll-call vote of 5-0.
- Member Holland asked question is the travel policy with that extra step for travel approval still in place, Chief Kirby indicated it is no longer in place due to the increased administrative activities for normal business such as bank deposits.
- The Chair stated that there had been a question previously about who needed to sign off on travel. Has that been resolved? CEO Farino stated that the secretary's interpretation was that the CEO had to sign off on all travel and the secretary signs off on the CEO's travel and that has been agreed upon as the correct way to handle the travel signoffs.

2025 BUDGET (FARINO)

- CEO Farino said there are some minor changes to the budget and Mr. Alfano will go through them for the Board.
- Mr. Alfano referred the Board to Slide 15 in their packages. This slide shows an update on the 2024 forecast. This was updated earlier this week because we had to estimate our profit transfer for the 4th quarter. In the first blue column, store revenues are shown coming in at about a 2% growth rate rather than the 1.5% that the Authority anticipated. The six allocated product drops were a primary driver of growth. The Authority will continue to have ongoing discussions with suppliers, as these drops contributed \$18 million dollars this year.
- Operating expenses for this year are still consistent with what was previously reported to the Board. The net profit anticipated this year is \$242.3 million. The Authority was able to overcome about \$45 million in expense shortfalls and is only \$2 million less than the original anticipated budget; \$2.9 million greater than what the General Assembly approved. There may be some minor differences when the budget closes for this year, but the Board will be briefed on any changes. Mr. Alfano stated that the Authority's efforts to manage spending has made a big difference.
- Board Member Holland asked about the recent profit transfer letter copied to the Board sent to Sharon Lawrence with the Department of Accounts (DOA). Mr. Alfano and Mr. Farino clarified that there was a profit transfer of \$47 million, and an estimated state tax payment of \$59 million. The profit transfer was the Authority's quarterly payment, which may have an additional \$2 million more to transfer to the DOA.
- Mr. Robinson added that \$243.6 was the Authority's record in 2022. There is a potential, if the Authority over performs, that 2024 may make a record year.
- Mr. Alfano then returned to the 2025 budget. The Authority's base for review was increased, due to an additional \$2.6 million in profit from what was presented to the Board in early June. The sales lift was mostly due to the allocated product as discussed earlier, and there is no guarantee that the Authority will achieve the same level of allocation from year to year from the manufacturer. The Authority is also paying vendors faster because these allocated products are not being held in bailment. The projections are that the Authority will begin to see an increase in sales, but forecasting took a more conservative approach.
- CEO Farino stated that this emphasizes the importance of rebuilding the Authority's relationship with its suppliers. Mr. Alfano noted that the Authority's net profit now reflects as \$235.8 million versus the \$231.5 approved by the General Assembly.
- Mr. Holland noted that ABC's sales are still under projections. Mr. Alfano agreed that the Authority is well below the forecasted 5% sales increase. Mr. Stepanian stated there are ways the Authority can see that problem turn around at the store level, and now is the time to drill down on those efforts if the Authority has a more realistic sales forecast. Mr. Farino replied that a 1.5% revenue growth is very realistic.
- Mr. Euille asked if the Authority is also thinking of ways to better enhance marketing? Mr. Farino responded that the recent reorganization of marketing included adding digital and branding as part of that department with enhancing the Authority's digital marketing capabilities in mind.
- Mr. Kirby spoke about a recent product availability event where bottles that were \$7,500 per bottle sold out within 20 minutes. The agreement with the supplier was that the bottles should be sold as soon as possible. The Authority deviated from using the lottery approach and it was very successful.
- Mr. Stepanian voiced concern about the challenge of marijuana. Consumers are buying smaller bottles, buying fewer bottles, and buying marijuana. The Authority should seek the help of our suppliers with this kind of challenge; that is another reason why sales are suffering. When the lottery first began, and the jackpot used to be high, alcohol sales decreased because people were buying lottery tickets instead.

- Mr. Kirby said he and Mr. Farino have arranged for meetings with large suppliers to talk about leveraging their resources around marketing. The amount of opportunity the Authority has to partner with suppliers to use their resources to market with AI, virtual stores, etc. is huge. The goal is for the ABC to determine how best to partner with suppliers to use some of their marketing dollars and share marketing. Mr. Holland comments that it does seem like there are more ads for the big volume makers of alcohol these days. Mr. Kirby stated that is correct and he believes we will be seeing more and seeing more in Virginia specifically. If there is a promotion that the alcohol manufacturers are doing, if the Authority can support it, ABC wants to align with that and help to promote the same in stores and licensee locations.
- Mr. Holland asked if the Authority had similar partnerships with Virginia distilleries. Mr. Kirby advised that he and Mr. Curtis recently met with the Virginia Distillers Spirits Board trying to leverage resources with them. Mr. Kirby added that he, Mr. Curtis and Mr. Farino also met with the distillers and told them to use the Authority's building to come here for meetings and work together.
- Mr. Holland noted that it seems the Virginia distillers are struggling a lot these days. Mr. Farino replied that some are and some are not. The one that Mr. Farino met with yesterday was doing very well; they do brown and white spirits, have a store, and a restaurant. The Authority wants to help them become better at what they do. The distillery believes some of Virginia's laws currently hold them back.
- Mr. Kirby said that ABC has been invited to Connecticut to look at their facilities and see how they set up stores. Connecticut has units that study shopper behavior that's bigger than any control state Chief Kirby has ever seen.
- Mrs. Jennings stated that there was about a \$2 million improvement in efficiencies in personnel; where is that reflected on the budget?
- Mr. Alfano stated it was in the seventh column.
- Mrs. Jennings asked if the team had had any success at working on the interchange fees charged by credit card companies? Mr. Farino responded that he got an update from IT on Monday. It will take 10 months to see the impact, so we won't see any impact in 2025, but should see it in 2026. The Authority has started the process to have the POS system charge customers for a percentage of the credit card fees, which necessitates a change by the vendor. Once the ability is there, the Authority will talk with the Board to come up with the appropriate percentages to charge.
- Mr. Hugo asked if the public would be given some notice of this new charge. Mr. Farino replied that the Authority will notify the public, but this is nothing that restaurants and convenience stores are not already doing to offset the large credit card fees.
- Mr. Hugo asked if Mr. Farino knew if restaurants were seeing more people paying in cash because of this increase. Mr. Alfano said that there were not cash increases seen, people were just accepting the 3% increase.
- Mr. Hugo then moved on to asking about the Authority's experience with theft expanding as other industries are seeing. Mr. Kirby responded that stores in Northern Virginia are experiencing a group of individuals come in from DC and target our stores over the past thirty days. It has been groups of five or ten people primarily juveniles, some masked, some not. In just the past thirty days, this group has stolen more than \$130,000 worth of alcohol. The suspects get in stolen cars and return to DC. The group is so well-organized that they are able to walk out with approximately \$3-5,000 in alcohol in under three minutes; the current police response time. The Authority is also working with the State Police and have talked to suppliers about the thefts. ABC is working with local fire marshals to install locks between public and private areas. Mr. Daniel added that we can recover some of that cost from the Department of Risk Management. In response to Mr. Stepanian, Mr. Kirby said the delay in installing these locks is due to the difficult to navigate the fire code. The top targeted localities are

Fairfax and Alexandria, but Arlington has also seen some thefts. Mr. Alfano noted that the Authority is looking into requiring receipts for returns to help in the reducing the resale of stolen property.

- Returning to the budget, Mr. Alfano said that planning into the future, the Authority knows we will have to put some money into capital spending. Several of the ABC's technical systems are close to or at end of life and the Authority will be looking for an enterprise system.
- Member Holland asked if the Authority's advertising budget was still minimal, and after Mr. Alfano confirmed that it is, asked if the team had a sense of how that may impact sales. Mr. Farino said it is difficult to gauge, and expressed that the impact should be examined prior to approving any more funding towards marketing. Mr. Holland responded that he believed more people relied on social media vs. more legacy marketing such as billboards and radio ads. Mr. Farino said that the Authority should use the digital realm more, and that team was moved under marketing in the Authority's recent reorganization.
- Mr. Holland asked about the possibility of store closures. Mr. Farino said that discussion is ongoing, and Susan Johnson's team is examining possibilities.
- Mr. Euille recalled that the budget would be an ongoing process, and spending and revenue would be constantly evaluated. Mr. Farino said this was correct; the Authority will monitor the budget and modify it as need be.
- Mr. Hugo asked if the Authority is moving in the right direction regarding new profit and revenue. While net profit is predicted to rise in the FY2025 budget, the net revenue is down. Mr. Alfano replied that \$9 million of the increased spend is related to the salary increases the governor gave and the corresponding \$1.2 million increase in benefits. However, this was offset by the \$2 million efficiencies. The costs of the Authority's reorganization will occur in 2024.
- Mr. Kirby added that the Authority continues to have weekly spend meetings where anything that costs more than \$10,000 is discussed. The Authority is hopeful that it may exceed the profit forecast, as happened in FY24.
- Mr. Alfano said if the Authority can continue to leverage relationships with sellers, continue to work on greeting consumers at the stores and welcoming them, then there is a good chance ABC can exceed those forecasts. The Authority did not consider in a vacancy factor to these figures.
- Mr. Holland commended ABC staff on the job they've done on the belt tightening, but you reach a point if you continue and continue, it becomes a morale issue with ABC within and I would certainly hate to see more of that. Mr. Farino said the Authority is trying to get out in front of that with departmental meetings to get teammates engaged and make everyone comfortable to ask questions. The feedback so far from those meetings has been positive.
- Mr. Kirby said the Authority has also put some money aside in the budget to be able to have service awards to build morale and are discussing having a family picnic. ABC is trying to do some team building events, to include having a SEAL come in to talk to our extended leadership about how to lead.
- Mr. Euille made a motion to approve the budget as presented, which was seconded by Vice-Chair Stepanian. There being no comments or further discussion, the chair called roll. The motion carried on a vote of 5 – 0.

Board Comments

- None received.

Closed Session

At 10:02 a.m., Chris Curtis read a motion that the Board enter closed session pursuant to Virginia Code §2.2 37.11(A)(7) regarding personnel matters and actual or probable litigation to receive legal advice from counsel pertaining to matters

before the Board. Board Member Euille made the motion, which was seconded by Board Member Jennings. The motion passed on a roll call vote of 5 – 0. Attending the closed session in full were Tim Hugo, Dale Farino, Greg Holland, William Euille, Lisa Jennings, Dale Farino, Chris Curtis, Dave Alfano, John Singleton, John Daniel, Tom Kirby and Jim Flaherty.

[Return to Open Session](#)

When the Board returned from closed session at 10:20 a.m., Chris Curtis read a motion to certify that to the best of each member’s 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 was discussed. Mr. Euille made the motion, which was seconded by Vice-Chair Stepanian. The motion passed on a roll-call vote of 5 - 0.

Meeting Adjournment

Meeting adjournment at 10:23 a.m.

Next Meeting: August 22, 2024