

# **VIRGINIA ABC INITIATIVES, SUCCESSES AND OPPORTUNITIES**

**Presentation to Senate Finance Public Safety  
Subcommittee**

**June 23, 2015**



# OBJECTIVES

- Agency Highlights and Financial Statistics
- Current ABC Initiatives
  - Marketing and Citizen and Retail
  - E-Commerce and Point of Sale Roll-Out
  - Part-time employment and facility space
  - Addressing Information Technology
- Potential Authority Transition Impacts
- Enforcement

# AGENCY HIGHLIGHTS

## Facilities

- Central Office and Warehouse located in Richmond
- 352 Retail Stores and 9 Regional Offices
  - 25 ABC stores have opened since FY 2009 (7 last year)
  - 14 new stores and 19 modernizations now in process

## Operating Budget

- FY 2014: \$552M
- FY 2015: \$578M
- Operating expenses include: alcohol (71.2%), employees (17.5%), and store rents and utilities (9.8%)

## Employee Numbers

- ABC employees 3,312 full-time and part-time employees
  - 1,026 full-time
  - 2,286 part-time (increased by 556 from 2013, due to 29 hour cap)
- 26 contractors

## Mission Critical Statistics

- Sales of \$800.5 million (up 4.1%)
- Profits of \$143.2 million (up 3.9%)
- Retail store customer transactions: 28 million
- Retail Licenses: 18,171 (up 2.7%)
- One-day banquet and special-event licenses: 19,525 (up 6.5%)
- Total Cases shipped to ABC stores: 4,392,471 (up 3.2%)

# CONTRIBUTIONS TO COMMONWEALTH LAST 5 YEARS TOTAL \$1.8 BILLION

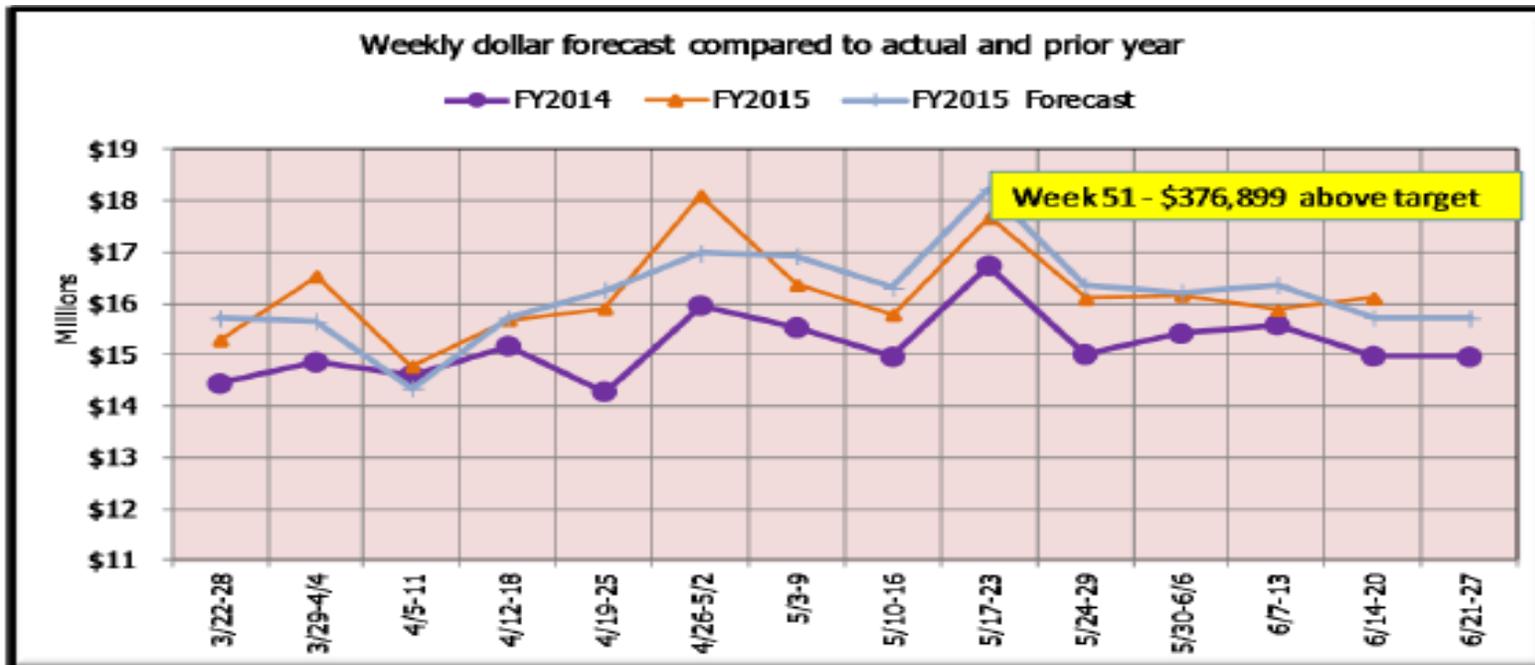
FY 2014 represents a \$17 million increase over FY 2013

Dollars in Millions

Revenue Source	FY 2014	FY 2013	FY 2012	FY 2011	FY 2010
ABC profit transfers	\$140.0	\$134.6	\$132.0	\$121.0	\$120.5
State taxes	\$132.0	\$126.8	\$121.0	\$114.2	\$111.3
General sales tax	\$36.9	\$31.3	\$29.6	\$27.9	\$26.9
Wine liter tax	\$34.6	\$34.4	\$33.5	\$32.2	\$30.6
Malt beverage tax	\$43.3	\$42.8	\$43.7	\$43.9	\$44.5
Total	\$386.9	\$369.9	\$359.7	\$339.2	\$333.7

# ADOPTED REVENUE INCREASES HAVE NOT AFFECTED DEMAND

- A markup strategy consisting of “rounding to the dime”, a \$2 case handling fee, and an increase in the markup of mini-bottles was implemented on January 1, 2015
  - Selected strategies were a product of vendor feedback
- This markup strategy resulted in a \$5.3 million increase in revenue in FY 2015 and projected \$9.5 million increase in revenue in FY 2016
- Initial results indicate demand has remained constant
  - Same store sales up \$35 million



## FY 2015 AND FY 2016 FINANCIAL OUTLOOK

- FY 2015 sales are tracking ABC's revised sales forecast of \$845.0 million, and projected sales and profits can be met by simply meeting forecast for last two months
  - Estimated growth for FY 2015 is about 6 percent
  - Between July and December, number of total distilled spirits bottles sold were up 4.5 percent
  - Retail business is still the primary sales driver
- For FY 2016, ABC is projecting additional growth of slightly more than 4 percent, or \$890.1 million, in sales based on consumption trends for bottles, cases, and gallons in the past four years
  - Growth risks include unforeseen changes in demand, weak holiday sales, weather, and costs associated with potential system failures or router delays

# CURRENT ABC INITIATIVES

- Increasing store openings and modernizations
  - 14 new stores in development process (newest store opened 6/18)
- Strengthening marketing focus and initiatives
  - *Virginia is for Lovers* partnerships
  - Category management, product clustering and display policies
  - *Spirited Virginia* and social media outreach
- Developing ABC's E-commerce presence
  - New website with on-line ordering launched March 8
  - Growth not just a matter of being open more days or longer hours
- Ensuring PCI Compliance
  - Completing new POS technology roll-out to enhance customer security
- Business Technology
  - Initiating procurements for Financial System Replacement, New Licensing System and Web Phase II
- Enforcement
  - E.O. 40 training and Panel Actions

# MARKETING AND RETAIL

## Increased Marketing Efforts

- ABC's category management strategy placing and displaying best product mix in stores
- ABC implementing guidelines for displays based upon sales, store size, and demographics
  - Improves store displays to provide buying opportunities
- Developing *Spirited Virginia* consumer focused newsletter, price listing, and social media campaign

## 11 Store Openings over next 6 months (contractor dependent)

- Store #390 (Montpelier) – open 6/18
- Store #392 (Charlottesville)
- Store #393 (Fairfax)
- Store #395 (Floyd)
- Store #396 (Stafford)
- Store #397 (Alexandria)
- Store #399 (Rustburg)
- Store #400 (Lynchburg)
- Store #407 (Chesterfield)
- Store #408 (Zion Crossroads)
- Store #409 (Norfolk)

# E-COMMERCE AND POS ROLLOUT

## E-Commerce

- ABC's new website includes an on-line catalog of over 3,000 products and the ability to use e-payment for up to 227 special products
  - Website's capabilities available on computer, tablet, or smart phone
  - 170 orders placed valued at \$13,127
- ABC will be developing services, reporting capabilities, and information valued by licensees in the next year

## POS Rollout

- Point of Sale (POS) technology improves transaction time, eases inventory and receiving operations and protects customer data
- PCI (Payment Card Industry) standards govern access to and security for credit card and debit card numbers
- ABC must maintain PCI compliance to accept credit and debit cards
- Upgrading ABC's Point of Sale system to ensure provision of end-to-end encryption by ABC's credit and debit card vendor
- 169 stores upgraded as of 6/19 (48%)
- Pausing rollout 6/22 – 7/3 to address follow-up items, inventory, and ABC year-end close

# BUDGET ADDRESSED OUTDATED TECHNOLOGY

## Approved Project Funding for FY 2015 and FY 2016

Item	FY 2015	FY 2016	Total
Cost of Goods Sold	\$7.8 million	\$12.9 million	\$20.7 million
New Financial System	\$1.1 million	\$13.0 million	\$14.1 million
Licensing System	\$0	\$1.7 million	\$1.7 million
Retail Strategies	\$482,500	\$936,875	\$1.4 million
Website Capabilities	\$300,000	\$800,000	\$1.1 million
Broadband for Stores	\$400,000	\$200,000	\$600,000
Electrical System	\$462,800	\$0	\$462,800
Inventory System	\$0	\$4.9 million	\$4.9 million
Forecasting and Receiving System	\$0	\$2.8 million	\$2.8 million
Tax Collection System	\$0	\$2.0 million	\$2.0 million
<b>Total Project Cost*</b>	<b>\$10.5 million</b>	<b>\$29.5 million</b>	<b>\$40.0 million</b>

Note\*: Total project cost represents those items shaded in gray.

# INFORMATION TECHNOLOGY PROJECTS UPDATE

- Financial Management System
  - Oracle Peoplesoft – same product as DOA’s Cardinal
  - RFP released mid-October 2015
- Enforcement Licensing System
  - Requirements developed and VITA leading procurement
  - Budget agreement during 2015 session anticipates an additional \$1.5 million appropriation in FY17 (\$3.2M total)
  - RFP released September 2015
- Upgrade broadband capability in ABC stores
  - System and security updates occur off hours due to low bandwidth
  - VITA provided proposal; project kickoff on June 24th
- Improve electrical circuitry in ABC warehouse and central office
  - A&E firm providing detailed system work evaluation
- Inventory Forecasting and Receiving System – No Funding
  - MOVE product delivery system updated after holidays
  - Logistics and Retail taking steps to optimize current system
- Wine Tax and Beer Tax Collection System – No Funding
  - Upgrading PowerBuilder application using contractor
- ABC will be scheduling Advisory Committee meeting in August

# PART-TIME EMPLOYMENT AND FACILITY SPACE ISSUES

## Impact of 29-Hour Rule

- Primarily affects ABC's Warehouse and Retail Operations units
- Warehouse experiencing employee absenteeism and retention issues
- Retail Operations faces greater employee turnover
  - Since 2000, ABC has 100 more stores, but 500 fewer classified employees working in those stores
  - Retail Operations employed 2,212 part-time employees in FY 2014
  - During FY 2015, Retail Operations hired 900 part-time employees requiring \$500 in training (\$450,000)
  - 35 ABC stores are operated entirely by part-time Lead Sales Associates
- Agency will continue to examine how to increase FTEs and match positions to needs

## ABC Central Office and Warehouse Space Issues

- Long-term there may be capacity concerns with ABC's current facilities, both in terms of age and capacity
  - ABC converts existing offices into multiple offices to address space
  - Warehouse capacity is an issue due to an increasing number of stores and products
    - Currently 352 stores; last year 345 stores

# AUTHORITY TRANSITION

- Transition provides strategic opportunity to plan for agency's future organization, processes and infrastructure
- Large number of employees currently eligible for retirement
  - 159 employees have 27 years or more service right now
  - 200 could retire on January 1, 2018 using WTA benefits (20 % of classified staff)
- ABC pays VITA/NG about \$8.4 million per year
  - Includes servers, computers, phones, and cell phones; help desk services; and maintenance
- ABC cannot make changes to VITA/NG services until 7/1/2019
  - Subsequently, ABC could continue using VITA services; establish agency-controlled IT contracts; or purchase equipment and maintain it with ABC employees
- Must examine role of part-time Board and delegation of duties
- ABC will create new procurement and personnel policies
  - How will they be structured?
  - How do new policies save ABC money and improve operations?

# LAW ENFORCEMENT DISCUSSION

- Enforcement Division Overview
- Statistics and Facts
- Issues
- Changes and Next Steps

# ENFORCEMENT DIVISION OVERVIEW

## Broad Authority

- ABC's Bureau of Law Enforcement is charged with enforcing the alcoholic beverage control laws and regulations in the Commonwealth as well as any other Virginia criminal statute
- While it has general law enforcement authority and training, ABC acts by policy within the specialized field of alcohol law enforcement
  - Bureau utilizes its specialized knowledge to work with communities on issues related to alcoholic beverages and issues directly associated with the outlets that distribute these products
- The Bureau of Law Enforcement has a statutory appropriation of \$14.9 million
  - Total ABC budget for bureau is \$14.8 million
  - \$13.3 million covers the costs of staff
  - \$1.5 million is for equipment and other operating costs

# STATISTICS AND FACTS – EMPLOYEE WORKFORCE

- ABC's Bureau of Law Enforcement consists of 124 Sworn personnel and 30 Civilian Support Staff, who staff 9 Regional Offices
- Agents are recruited based on investigative experience with an emphasis toward business and financial experience, and investigative background
- All agents are DCJS certified law enforcement officers and graduates of DCJS academies such as Central Virginia Criminal Justice Academy, the Virginia State Police Academy and other regional and independent academies.
  - Approximately 85% of Agents come to ABC with prior law enforcement experience and training
  - Currently, sworn personnel have experience ranging from 1 year to almost 40 years
- Demographics
  - 100 male
  - 24 female
  - 13% minority

# LICENSE TYPES

- ▶ Approximately 17,000 total licensees

## **Field Operations (81 Agents)**

- 7174 Restaurants
- 391 Hotels & Resorts
- 483 Private Clubs
- 40 Common Carriers
- 15 Charter Boats
- 5103 Grocery & Convenience
- 1016 Gourmet Shops
- 56 Gift Shops
- 58 Food Concessions
- 27 Performing Arts Amphitheaters
- 5 Hospitals
- 1 Gourmet Oyster House

## **Compliance (6 Agents)**

- 35 In-State Distilleries
- 114 In-State Breweries
- 294 In-State Wineries
- 0 Bottlers
- 406 Wine & Beer Wholesalers
- 199 Wine & Beer Importers
- 263 Wine Importers (out-of-state)
- 111 Beer Importers (out-of-state)
- 1196 Internet Wine & Beer/Wine Direct Shippers

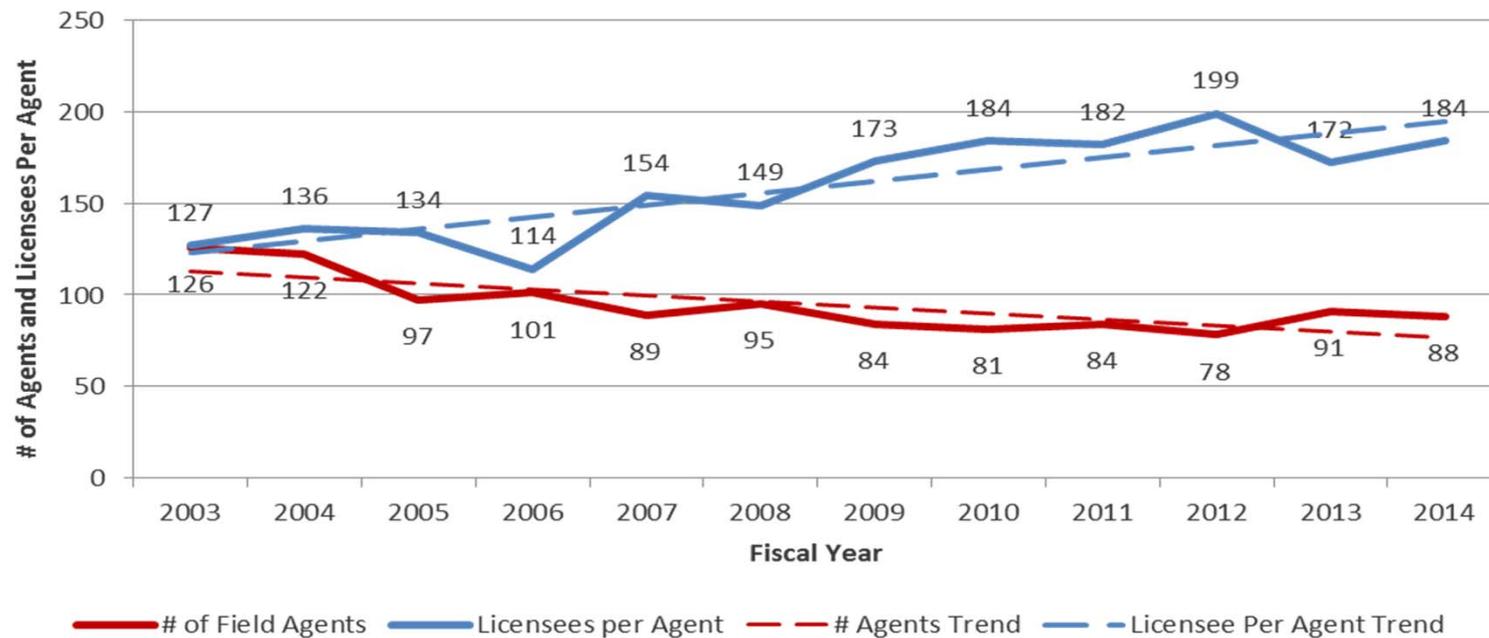
# ALL ENFORCEMENT REGULATORY ACTIVITIES

- Assist Outside Agencies
- Appeal Hearing Attendance
- Board Order Service
- Compliance Audit Investigation
- Farm Winery Remote Privilege Requests
- Field Contact
- Hearing Attendance
- Inquiries
  - Licensee
  - Public
  - Industry
- Regional Assistance
- Inspection - Of licensed premises
- Inspection (FDA)
- Investigation – Regulatory
- License Applications
  - Industry
  - One Day
  - Retail
  - Manufacturer Special Event
  - Manufacturer/Wholesale Sponsorship
- Meetings
  - Internal
  - Licensee
  - Public/Community
- Observations
- Permit Application
- Special Assignment
- Violation Report
- Written Warning Report

# Ratio of Retail Licensees Per Field Agent

- **SINCE FY2003, THE RATIO OF RETAIL LICENSEES PER FIELD AGENT\* HAS RISEN 45%**

**Number of Field Agents and Licensee Per Agent By Fiscal Year**



\* Figures do not include compliance licensees or compliance agents

Source: Virginia ABC Records

# STATISTICS AND FACTS – ENFORCEMENT DUTIES AND PERFORMANCE

- Agents only focus on investigations and performing other regulatory compliance functions where there is a clear nexus to alcohol
- Conduct background investigations of businesses or organizations applying for an ABC license in order to ensure suitability to possess a license pursuant to Code of Virginia;
- Annual inspections of ABC establishments (FY 2011 to FY 2014)
  - Inspections have risen 2 percent since FY 2011
  - Number of written warning reports is largely unchanged
  - Number of violation reports down 18 percent since FY 2011
- Educate general public and licensee community
  - Licensee education (MART and SERV) up 9 percent since FY 2011
- Conduct ABC specific investigations relating to alcohol issues in the Commonwealth
  - Responding to complaints from community members or local law enforcement
  - Inspections for food service, underage service and public safety
- Assist and work with a number of local, state and federal law enforcement agencies and task forces

# TOP FIVE VIOLATION REPORTS

## Top Five Violations Reports - Fiscal Year 2011 - 2014

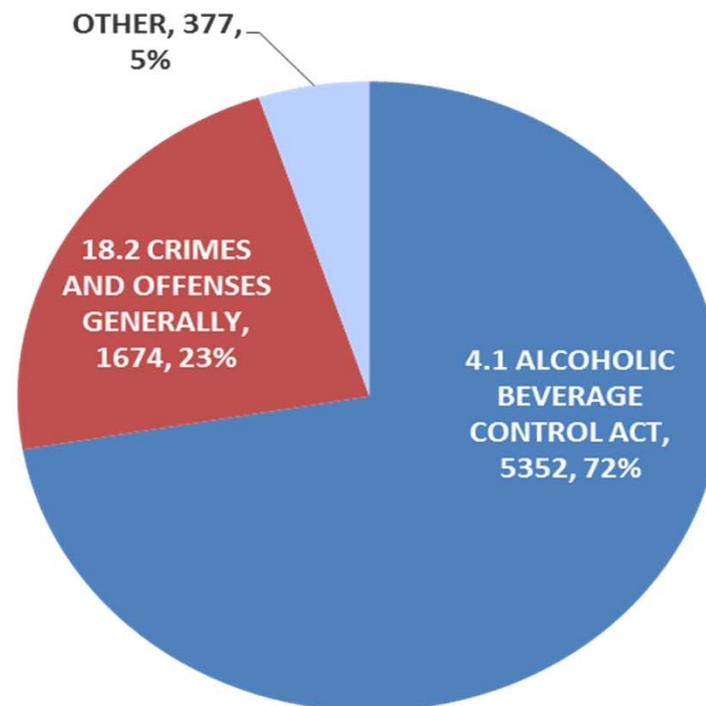
Rank	Regulatory Section	Description	Counts	% of Total Written Violations
1	001	SALE OF ALCOHOLIC BEVERAGES TO A PERSON LESS THAN 21 YEARS OF AGE	1766	43.9%
2	113	FAILED TO SUBMIT ANNUAL REVIEW REPORT	264	6.6%
3	025	QUALIFICATION TO RETAIN MIXED BEVERAGE LICENSE - "RESTAURANT"	106	2.6%
4	026	QUALIFICATION TO RETAIN MIXED BEVERAGE LICENSE - "RESTAURANT" - RATIO PROVISION	88	2.2%
5	014	DESIGNATED MANAGER NOT ON DUTY	85	2.1%

Source: Virginia ABC Records

# Charges Filed by Code of Virginia Title

- **72% OF CHARGES FILED BY VA ABC SPECIAL AGENTS BETWEEN FISCAL YEAR 2011 AND 2014 WERE UNDER TITLE 4.1**

**Virginia ABC Charges Filed FY2011-2014 by Code of Virginia Title**



Source: Virginia ABC Records

# TOP FIVE CRIMINAL ARREST CHARGES

## Top Five Criminal Arrest Charges - Fiscal Years 2011 - 2014

<u>Rank</u>	<u>Section</u>	<u>Description</u>	<u>Count</u>	<u>% Of Total*</u>	<u>% Custodial</u>	<u>% Summons</u>
1	4.1-305	UNLAWFUL PURCHASE OR POSSESS ALCOHOLIC BEVERAGE	2660	36%	5%	95%
2	4.1-304	SELL ALCOHOL TO UNDERAGE PERSON	1270	17%	1%	99%
3	18.2-388	PROFANE SWEARING OR INTOXICATION IN PUBLIC	375	4%	85%	15%
4	18.2-371.2	TOBACCO: SELL TO MINOR/POSSESSION	309	4%	2%	98%
5	4.1-308	DRINKING ALCOHOL IN PUBLIC	297	4%	5%	95%

Source: Virginia ABC Records

# TOP FIVE TITLE 18 CRIMINAL ARREST CHARGES

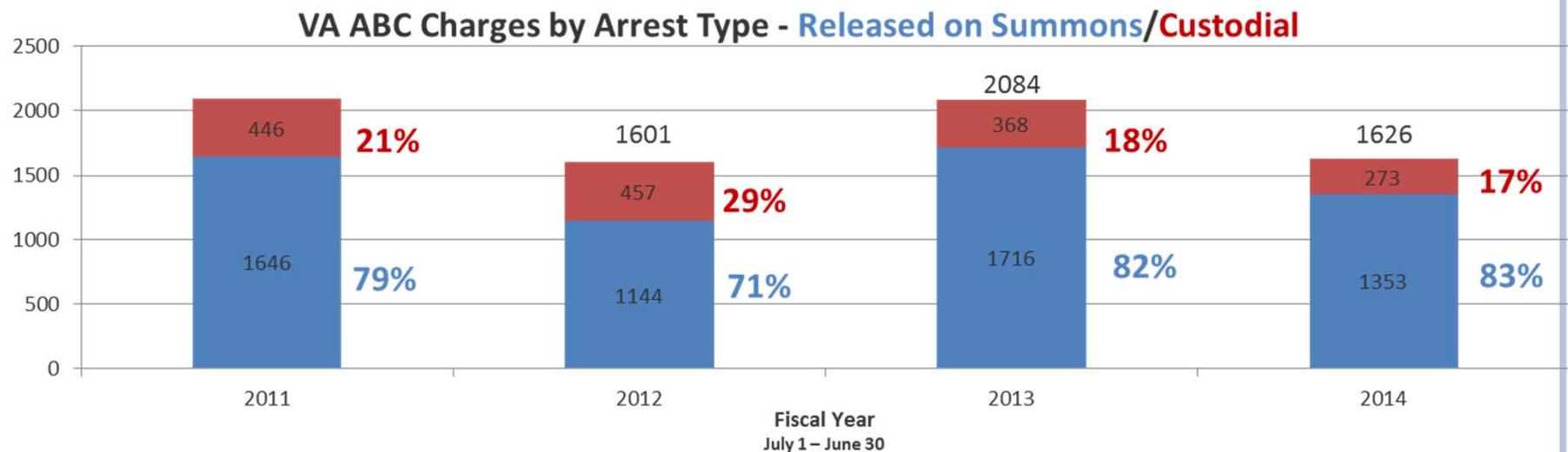
## Top Five Title 18 Criminal Arrest Charges – Fiscal Years 2011 - 2014

<u>Rank</u>	<u>Section</u>	<u>Description</u>	<u>Count</u>	<u>% Of Title 18 Total</u>	<u>% Custodial</u>	<u>% Summons</u>
1	18.2-388	PROFANE SWEARING OR INTOXICATION IN PUBLIC	375	22%	85%	15%
2	18.2-371.2	UNDERAGE POSSESSION/PURCHASE OF TOBACCO PRODUCT	309	18%	2%	98%
3	18.2-250.1	POSSESSION OF MARIJUANA	240	14%	11%	89%
4	18.2-96	PETIT LARCENY	81	5%	65%	35%
5	18.2-204.2	IDENTITY THEFT: POSSESS FICTITIOUS ID CARD	79	5%	11%	89%

Source: Virginia ABC Records

# ARREST CHARGES: RELEASED ON SUMMONS AND CUSTODIAL

- Compared to FY2011, Fiscal Year 2014 total charges declined by 22%
  - Released on Summons : -18%
  - Custodial: -39%



Source: Virginia ABC Records

## EXECUTIVE ORDER 40 IMPLEMENTATION

- Bureau of Law Enforcement now reports to COO
- Training (80 hours)
  - Proper Use of Force and Police Authority; June 1- 5 and June 22 – 26
    - Search and Seizure instruction
    - Scenario-based training
  - Building Collaborative Partnerships and Working Together in the Public Safety Community; July 6 – 10 and 20-24
    - Community Policing
    - Cultural Diversity
- MOUs
  - Currently developing template for use with communities where public institutions of higher education are located
  - To encompass communications and operations
- Expert Review Panel
  - 2 out of 4 meetings completed

# CHANGES AND NEXT STEPS

- Regulatory activities
  - First priority for ABC agents
  - Provide consistency and access for licensees
- Law Enforcement activities
  - Limit to where there is a natural cross-over from regulatory
  - Utilize highly trained, specialized agents in areas with greatest benefit
  - Maintain agent and consumer safety
  - Accreditation
- Training
  - Provide tools needed in regulatory and law enforcement context
- Communication
  - Expanding collaborative partnerships with other law enforcement, community groups and other entities
- Enhance Enforcement Bureau's workforce diversity
  - Opportunities to refocus recruitment efforts
- Tracking activities
  - Closely monitor regulatory and enforcement activities
  - Measure what you want to impact