

2014-16 Executive Progress Report

Commonwealth of Virginia
Secretary of Public Safety and Homeland Security
Virginia Alcoholic Beverage Control Authority

At A Glance

The mission of the Department of Alcoholic Beverage Control is to control the distribution of alcoholic beverages; operate efficient, conveniently located retail outlets; enforce the laws of the Commonwealth pertaining to alcoholic beverages and youth access to tobacco products; and provide excellent customer service, a reliable source of revenue, and effective public safety.

Staffing 1040 Salaried Employees, 18 Contracted Employees, 0 Authorized, and 2080 Wage Employees.

Financials Budget FY 2015, \$598.03 million, 0.00% from the General Fund.

Trends

- ↑ Number of customers
- ↑ Number of stores
- ↑ Sunday sales

Legend ↑ Increase, ↓ Decrease, → Steady

Key Perf Areas

- ↑ Increase Transfers of Profits
- ↑ Increase Compliance UAB

Productivity

- Maintain accuracy of warehouse shipments while average number of cases shipped per day increases

Legend ↑ Improving, ↓ Worsening, → Maintaining

For more information on administrative key, and productivity measures, go to www.vaperforms.virginia.gov

Background and History

Agency Background Statement

The Department of Alcoholic Beverage Control (ABC) was formed in 1934 after the repeal of Prohibition. With the passage of the 21st Amendment to the Constitution, power for the regulation of alcoholic beverages reverted to individual states. Virginia's model was patterned after the Canadian provinces where a government agency assumes a role in the distribution of alcoholic beverages. In Virginia's case, ABC became the sole wholesaler and retailer of distilled spirits and the primary regulating authority for the manufacture, distribution, transportation, sale and consumption of other alcoholic beverages.

The primary intent was to use public policy as a way to moderate consumption and keep the number of establishments selling alcohol and the related ancillary impacts to a minimum. Temperance and ethical business practices, particularly where the distribution and consumption of distilled spirits (or hard liquor) was concerned, were valued above all other goals including the generation of revenues and equitable service. Even today, the density of outlets selling distilled spirits in Virginia is less than a third of the similar open states and per capita consumption of distilled spirits is nearly 20 percent less than the national average.

The primary mandates for agency operations are found in state statutes. Title 4.1 of the Code of Virginia is known as the Alcoholic Beverage Control Act and includes:

- Chapter 1: Definitions & General Provisions
- Chapter 2: Administration of Licenses
- Chapter 3: Prohibited Practices
- Chapter 4: Wine Franchise Act
- Chapter 5: Beer Franchise Act

ABC's Mission is to control the distribution of alcoholic beverages; operate efficient, conveniently located retail outlets; enforce the laws of the Commonwealth pertaining to alcoholic beverages and youth access to tobacco products; and provide excellent customer service, a reliable source of revenue, and effective public safety.

Like any enterprise, the mission of the agency has evolved. Today, ABC retains its initial distribution and enforcement powers but has added the responsibility for tobacco enforcement. It has also grown into a significant source of revenue for the Commonwealth with annual sales of over \$700 million and contributions to state coffers of over \$330 million each year. In the last ten years, ABC has contributed over \$2.8 billion to the Commonwealth.

Major Products and Services

The public safety mission of ABC results directly from being the primary agency to regulate the manufacture, distribution, sale, transportation and consumption of alcoholic beverages. Services include the annual issuance or renewal of over 17,500 licenses for retail establishments to sell wine, beer and spirits. In addition, over 18,000 licenses are issued annually for one-time special events to sell wine, beer and spirits. Extensive criminal background investigations are conducted annually on 2,000 new business license applications, in addition to a thorough investigation of the business entity to ensure suitability for an ABC license.

ABC monitors compliance of these licensees with Virginia ABC laws and regulations and issues violations for non-compliance. If violations occur or license applications are contested, ABC conducts administrative hearings to adjudicate these issues. ABC conducts aggressive compliance monitoring efforts related to the underage sale of alcohol by licensees and state stores in addition to underage sales of tobacco products by retail businesses.

A wide range of other compliance activities also includes illegal manufacturing and distribution (stills and nip joints), financial investigations and numerous other violations of state laws and regulations. ABC agents work collaboratively with local, state and federal law enforcement groups in these investigations. Agents also serve on state and federal task forces investigating drugs, gangs, and other criminal activity.

Customers

Customer Summary

Of the 5.7 million legal age Virginians, approximately 50 percent consume alcoholic beverages and are direct customers of ABC stores. On an annual basis, Virginia ABC conducts over 25 million customer transactions but it is not possible to know the frequency that individual customers visit and make purchases.

Population and economic growth and changing demographics are the primary driver of changes to ABC's customer base. In the next 10 years, the census bureau forecasts Virginia to grow over 900,000 people. The growth in the number of people as well as the location of such growth has a direct impact on ABC's ability to provide services such as the number and location of ABC stores. Historically, this growth has been focused between Northern Virginia and Tidewater, leading to a significant expansion of the store network in these areas. Consumption patterns also play an important role in ABC services. The number of distilled spirit products available in the marketplace has grown tremendously in recent years, which is contributing to slight increases in store size to ensure enough space is available to carry products to meet customer demand. At the same time per capita dollar and volume purchases have increased slightly in recent years and are expected to continue.

As the sole regulatory authority over the manufacture, transportation, distribution, sale and consumption of alcoholic beverages in Virginia, primary customers also include the 15,764 businesses licensed to sell alcoholic beverages in the Commonwealth. Among these are 4,365 restaurants required by statute to purchase distilled spirits from ABC stores. Population growth, as well as economic factors, influences the growth in the number of licensed establishments. The location of this growth has a significant influence on the number of ABC special agents needed in specific localities. While ABC conservatively forecasts that the number of licensees will grow by approximately 1,000 during the next ten years, the health of the economy can influence workload through license turnover, increased crime, etc.

ABC promotes zero tolerance for the underage consumption of alcoholic beverages and thus focuses on the 2.3 million Virginian's under the age of 21. Previous reports from the Journal of the American Medical Association (JAMA), those under 21 consume 20 percent of all alcoholic beverages sold in the United States. While significant strides have been made in licensee compliance with underage sales laws, most underage drinkers report older siblings and friends as the primary source of alcoholic beverages (primarily beer).

ABC is also concerned with adults who consume in an irresponsible manner because of public health and safety issues such as traffic accidents and fatalities, and the high correlation between sexual assaults, domestic violence, and other crimes in which the over consumption of alcoholic beverages is often an issue. While approximately 80 percent of the drinking population does so in a responsible manner, the remaining 20 percent consumes 83 percent of the alcoholic beverages sold in the United States (JAMA). In Virginia during 2010, there were over 29,000 convictions with an average Blood Alcohol Content of .1425 (.08 is the legal limit).

ABC's other customers include other state, local and federal government agencies, other law enforcement agencies, public and private K-12 schools and colleges, the military and numerous prevention groups. In addition, ABC has a significant number of indirect customers including distilled spirits vendors, trade association representatives, landlords, and members of the media. The exact number of these stakeholders constantly changes and varies significantly by group.

Customer Table

Predefined Group	User Defined Group	Number Served Annually	Potential Number of Annual Customers	Projected Customer Trend
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Finance

Financial Summary

The Department of Alcoholic Beverage Control operates as a Non-General/Enterprise Fund Agency which means the cost of providing goods and services are recovered solely through the sale of alcoholic beverages, license fees and other revenues. The state budget gives ABC the authority to spend in four services areas: Enforcement and Regulation of Alcoholic Beverage Control Laws, Administration and Support, Alcoholic Beverage Retail Stores, and Alcoholic Beverage Purchasing, Warehousing and Distribution. The Appropriation Act mandates a series of profit transfers to other state agencies as well as the Virginia State General Fund.

Fund Sources

Fund Code	Fund Name	FY 2015	FY 2016
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Revenue Summary

The vast majority of the Department’s revenues come from the sale of alcoholic beverages. These revenues are achieved through the 330 plus state-run stores located throughout the state. Gross sales including state tax on sales in Fiscal Year 2012 reached an all time high of \$733.8 million, up \$41.1 million over Fiscal Year 2011. The gross revenue after state tax on sales of alcohol increased from \$578.5 million to \$612.7 million or 5.9 percent. License and permit fees slightly decreased in Fiscal Year 2012 totaling \$12.0 million and \$12.1 million in Fiscal Year 2011. Federal grants and contracts, miscellaneous revenue and penalties decreased from last year. Other sources of revenue include lottery, wine wholesaler’s tax and mixed beverage taxes on common carriers.

Performance

Performance Highlights

The Department of Alcoholic Beverage Control has a very diverse mission with an even more diverse customer base. Value creation activities, or those that provide direct services to customers, include: the control and distribution of alcoholic beverages, processing license applications, conducting enforcement and adjudication activities, accurately accounting for over 800 million dollars in revenues and a host of integrated internal support processes. Contributions to the Commonwealth in FY 2014 totaled 139 million dollars in profits, 132 million dollars in state taxes, 36 million dollars in general sales tax, 35 million dollars in wine liter taxes and 46 million dollars in malt beverage taxes.

Compliance with youth access to alcohol and tobacco continues to show improvement, increasing from 77 percent in 2002 to 87 percent in 2013. In ABC stores, compliance rates are even higher, exceeding 98 percent in 2013. The Hearings and Appeals Division collected nearly 1 million dollars in civil penalties in 2013.

Most Recent Accomplishments

In FY 2014, ABC opened 7 new stores which means over 98 percent of Virginians are within 10 miles of an ABC store. At the same time, ABC has been expanding the number of products available for sale leading to high marks from customers in the areas of product availability, convenience of locations, hours of operation and store layout and design. The increase in service quality has generated significant increases in revenues and profitability. Fiscal Year 2014 marked another record year for the Virginia Department of Alcoholic Beverage Control (ABC)’s Retail Operations Division. Total gross sales for the fiscal year were \$800.6 million, \$31.52 million higher than last year. Profits were \$142 million, an increase of \$2 million from the previous fiscal year. Retail sales ended the year up 4.6 percent and mixed beverage licensee sales were up 1.6 percent. The seven new stores that opened during the fiscal year generated a total of \$2.9 million in sales.

In addition to opening seven new stores, ABC relocated three stores and modernized eleven during the fiscal year. Store grand openings are now community events that include local officials and media representatives as well as ABC executive staff. The agency is piloting a new “premier” store design that redirects customer flow to enhance the shopping experience. Specialized ceilings and floors, energy-efficient lighting and enhanced trade fixtures are featured. The new design was rolled out in a Williamsburg store in 2013 and in Leesburg in 2014. A third premier store in Virginia Beach will open in the first quarter of FY 2015.

Beginning July 1, 2012 all ABC retail locations that had not previously been open on Sunday opened from 1 to 6 p.m. Total Sunday sales for that year were \$43 million, and in FY2014, Sunday sales totaled \$45.8 million. In addition to Sunday sales expansion in FY 2014, 30 ABC stores increased hours of operation on other days to enhance the level of service in those locations.

A newly developed quality control program monitors order-filling accuracy of warehouse personnel along with store-reporting accuracy when orders are received at each store. In addition, the agency implemented an incentive program rewarding warehouse order pickers who perform at a 99.9 percent accuracy rate.

After examining the current operations and identifying best practices in other control states, a new division was created to direct the agency’s product placement and marketing efforts. ABC hired a director of marketing to develop and manage agency-wide marketing and promotions functions, including promotions planning and analysis, store branding and product planning and performance.

To address demographic and population changes, the ABC Bureau of Law Enforcement realigned a number of regional office territories to better serve stakeholders. A new Richmond regional office opened in a location more central to the region’s customer base and a previous satellite

office in Charlottesville is now an established regional office central to the growing licensee base of the northwestern portion of Central Virginia.

The Commonwealth of Virginia is home to hundreds of events and festivals each year, the majority of which involve adult beverages. To provide a centralized command post at such events, ABC purchased a Field Support Vehicle (FSV) with \$750,000 of asset forfeiture funds. The FSV provides an opportunity for better communications with other law enforcement agencies while working events and provides a communication tool for prevention messages and brochures during events held statewide throughout the year.

Education initiatives this year included the Youth Alcohol and Drug Abuse Prevention Project (YADAPP) which hosted nearly 500 students and adult educators. The Substance Abuse Awareness Vital for Virginia Youth (SAVVY) initiative hosted three successful Expos in Central, Northern and Eastern Virginia to provide prevention resources and networking to help combat youth substance abuse. The Alcohol and Aging Awareness Group (AAAG) continues to provide solutions to substance misuse problems facing older Americans.

Selected Measures

Measure ID	Measure	Alternative Name	Estimated Trend
99980102.002.003	ABC store density rate based on the population	Maintain statewide ABC store density rate	Maintaining
99980101.001.004	Amount of profits & taxes annually transferred from ABC to the General Fund.	Increase Transfers of Profits	Improving
99980102.002.001	Percentage of stores meeting service standards compliance rate.	Increase percentage of ABC stores meeting service standards	Improving
99980102.001.001	Underage buyer compliance rate for ABC Stores	Increase Compliance UAB	Improving
99930403.001.001	Underage buyer compliance rate for retail alcohol licensees	Increase Compliance UAB	Improving
M999AG12001	Cases shipped per warehouse labor hour	Maintain accuracy of warehouse shipments while average number of cases shipped per day increases	Maintaining

Key Risk Factors

One of the most important issues facing ABC is the ability to attract and maintain a qualified work force. Employee turnover has improved but continues to be a concern in stores, warehouse, enforcement, technology and other key positions and is expected to worsen as the number of employees eligible for retirement increases. Turnover is compounded by an extremely competitive labor market and the fact that private sector wages continually outpace the state's ability to pay similar wages.

Like any state agency, funding is a continuing issue. As an Enterprise Agency, ABC does not receive any general funds. In ABC's case, the Appropriation Act does not allocate actual funds but grants authority to spend revenues generated through operations. Many of ABC's initiatives require additional authority to spend in order to improve services and generate additional profits for the Commonwealth. The opening of new stores is a one example of this type of investment. Increasing ABC's appropriation in recent years has allowed ABC to significantly improve services to the citizens and generate incremental gains in profits.

ABC is not immune to the national and state economic crisis. ABC store sales have consistently increased from year to year, however at a much slower rate than in previous decades. This is due in large part a substantial decrease in sales from mixed beverage licensees (e.g. restaurants). As a result of the economic recession, mixed beverage sales slowed during 2008 and 2009. Most recently, mixed beverage sales have rebounded and are showing slight growth through 2012. With retail sales showing slight but consistent gains from year to year, sales and profits for FY 2013 and beyond will be heavily impacted by continuous increases in mixed beverage sales.

Agency Statistics

Statistics Summary

Fiscal Year 2012 marked another record year for the Virginia Department of Alcoholic Beverage Control (ABC)'s Retail Operations Division. The year ended with \$734 million in gross sales, \$41 million higher than last year, and \$24 million higher than the projected \$710 million target. Retail dollars were up 6.5 percent and mixed beverage licensee dollars are up 4.9 percent. Three new stores that opened in Fiscal Year 2012 generated a total of \$1,184,524 in sales. Commitment to public safety dictates selling responsibly and according to the law. Vigilance by ABC sales associates resulted in an impressive 99 percent compliance rate, up from 98 percent last fiscal year. Furthermore, ABC store employees conduct approximately 2.2 million ID challenges annually while providing service to 27 million buying customers.

Statistics Table

Description	Value
Number of ABC Stores	349
Number of Regular Items for Sale in ABC stores	3,302
ABC Store Customer Transactions	28,770,720
Number of Bottles Sold	55,397,422
ABC Store Underage Buyer Compliance Rate (%)	98
Point-of-Sale ID Checks	2,200,000
Total Number of Licensees	17,248
Number of Hearings held	329
Operating Profits	120,900,000
Total Tax Collections	218,176,961
Number of retail licenses Issued	17,248
Number of Employees (Full-time and Part-time)	2,505

Management Discussion

General Information About Ongoing Status of Agency

ABC's future direction will continue to be centered on its mission and strategic goals of public safety, customer service, revenue growth and sound business practices, and employee management and development. In the area of public safety, continued emphasis is on reducing youth access to alcoholic beverages and tobacco products (particularly through older friends and relatives) and maintaining the high rate of compliance by ABC stores.

In the area of customer service, ABC will continue to focus on improving customer satisfaction by opening new stores, improving the number of stores meeting service and design standards, and ensuring that products in demand are available for sale. In the area of new stores, the rate of increase will slow significantly from 2012 to 2014 as ABC seeks only to maintain service levels comparable with population growth. ABC's priority will shift from opening new stores to improving the shopping environment in existing stores using a set of consistent design standards. ABC's enforcement and adjudication functions also have a role in improving customer service. ABC will continue to focus on improving license application processing time, violations and hearings processing time and expanding licensee interactions with agents through increased inspections. Additionally, special agent staff time will be used to improve the audits and inspections of the wholesaler and mixed beverage licensees.

Managing agency revenue growth, internal controls and business processes will continue to be a priority for the agency. Agency initiatives based on Virginia's Agency Risk Management Internal Control Standards (ARMICS) provides guidelines for establishing and assessing agency internal controls to more effectively manage risk and maintain accountability. Identification and mapping of business processing, assessing risks and developing corrective actions as necessary are significant initiatives requiring ongoing staff commitment across the agency. Requirements exist for improving computer security from both administration mandates and external sources such as the Payment Card Industry requirements. Reaching compliance with these requirements has significant cost implications; however severe penalties for violations and infractions.

Information Technology

The ever-changing technology utilized for supply chain management is a key factor on ABC's long-term horizon. ABC has implemented automation and bar code scanning for product distribution and inventory management; however, other emerging technologies may play a role in the future.

ABC must meet new higher information security standards set by COV-ITRM and the payment card industry data security standards (PCI-DSS) for control of sensitive information (credit card data). Requirements include upgrades to networks, firewalls, POS equipment, and ABC applications and programs. ABC must continually maintain compliance with PCI-DSS standards.

Workforce Development

The high number of retirement-eligible employees is of significant concern for ABC's senior managers. There are 106 employees currently eligible for retirement; 47 employees eligible within the next five years; and an additional 63 employees eligible within 10 years. Retention efforts, training initiatives, and succession planning have become even more critical as the age of the agency's workforce significantly impacts the number of retirements.

Strategic planning sessions identified the need for a formal succession plan to ensure continuity of operations in the event key employee/employees are suddenly unable to work. Born out of succession and continuity planning was an agency-wide Leadership and Management Program (LAMP). The program is designed to build leadership skills for current employees who possess the competencies required to perform in a key role for a short or long period of time. The program is also designed to foster a culture conducive to the forward movement of

ABC. Through its mentoring aspect, LAMP strives to capture and retain institutional knowledge imparted by those who serve as mentors. The first LAMP cohort consisted of eighteen (18) participants who graduated in the summer of 2012. The second LAMP cohort of twenty (20) participants is currently underway with anticipated graduation in August 2013.

The agency's goal to better leverage and engage its workforce includes creating and maintaining a high-performance work environment. This includes increased levels workforce engagement, development and management. This goal is accomplished by developing a long term facilities/space plan that addresses warehouse, Central Office and store size constraints, improving the performance management process (planning, evaluation, etc.), developing and deploying cutting edge and cost effective training solutions, improving the effectiveness of the Reward and Recognition Program, and developing a long-term work force plan that further addresses issues such as succession planning, knowledge transfer/sharing, and a competitive and fair compensation plan.

Physical Plant

Over the last ten years, ABC has made a concerted effort to improve customer service by achieving an appropriate ratio of population per store (23,000 people per store statewide). ABC plans to open 20 new profitable stores between FY 2013 and FY 2015 to improve service levels and maintain growth consistent with an increasing population. At the same time, a design team was created to develop a more professional look for existing stores. During the last three years, seven stores have been opened and 64 modernized or relocated, while numerous others have received additional lighting to improve the shopping environment. ABC plans to modernize 20 stores over the next two fiscal years.
