

2014-16 Strategic Plan

Virginia Alcoholic Beverage Control Authority [999]

Mission

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.

Vision

The vision of the Virginia Department of Alcoholic Beverage Control is to enhance the quality of life for Virginia's citizens by balancing control, service, and revenue, in the distribution, sale, and consumption of alcoholic beverages.

Values

- Integrity
ABC team members are fair and truthful in our dealings with each other and with all those outside the agency with whom we interact. We obey the laws, rules and regulations governing our activities. We make our behavior an example of trustworthiness.
- Loyalty
ABC team members are committed to "do the right thing" for the welfare of the agency and the citizens of the Commonwealth. We achieve personal and professional growth by advancing the interests of the organization.
- Excellence
ABC team members demonstrate a passion to be the best. We provide quality, professional service, and expect it from each other. We strive for and encourage quality improvement through innovation. We try to exceed customer expectations. We perform our duties with enthusiasm.
- Teamwork
ABC team members empower and support each other to accomplish agency goals. We treat each other with courtesy and respect. We anticipate the needs of others, encourage them to take risks, and help them to improve their skills. We candidly share with each other necessary or helpful information.

Finance

Financial Overview

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.

Biennial Budget

	2015 General Fund	2015 Nongeneral Fund	2016 General Fund	2016 Nongeneral Fund
Initial Appropriation for the Biennium	0	587,949,289	0	611,391,527
Changes to Initial Appropriation	0	10,082,500	0	40,584,266

(Changes to Initial Appropriation will be 0 when the plan is created. They will change when the plan is updated mid-biennium.)

Customers

Anticipated Changes to Customer Base

Current Customer List

Predefined Group	User Defined Group	Number Served Annually	Potential Number of Annual Customers	Projected Customer Trend
Adult	ABC Store Customers (annually transactions)	28,000,000	29,000,000	Increase
Adult	Adult aged 21 years and older	6,500,000	6,500,000	Stable
Aged	Senior population (65 years and older)	1,106,894	1,106,894	Stable

Employee	Employees (FT and Part-Time)	3,120	3,120	Stable
Federal Agency	Federal Law Enforcement Agencies	10	10	Stable
Higher Education Institutions	Colleges and Universities	64	64	Stable
Local or Regional Government Authorities	City and County Law Enforcement Agencies	136	136	Stable
Local or Regional Government Authorities	School facilities across the state from kindergarten to high school	1,780	1,780	Stable
Organization	Customers for prevention messages	7,748,260	7,748,260	Stable
Organization	Prevention Groups (Community Service Boards)	35	35	Stable
State Agency(s),	ABC Stores	349	356	Increase
State Agency(s),	State Government Agencies	37	37	Stable
Wholesale/Retail Trade	ABC Mixed Beverage Licensees	4,000	4,100	Increase
Wholesale/Retail Trade	Businesses licensed to sell alcoholic beverages	17,500	18,000	Increase
Wholesale/Retail Trade	Liquor and Wine Vendors	368	368	Stable
Wholesale/Retail Trade	Vendors and Suppliers other than liquor	5,000	5,000	Stable

Partners

Name	Description
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Agency Goals

• Improve public safety through increased compliance and responsible consumption

Summary and Alignment

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. This goal is the cornerstone of services to ABC licensees, compliance with alcohol and tobacco laws particularly for underage persons, and the responsible consumption by adults who choose to purchase ABC products. Prevention and education programs and services are provided for all ages through the educational and prevention materials and programs developed by the agency. The agency's law enforcement and education and prevention activities support the Governor's Strategic Enterprise Priorities in the area of Public Safety and Homeland Security--protecting our citizens and ensuring everyone lives in a safe community.

Associated State Goal

Government and Citizens: Be recognized as the best-managed state in the nation.

Associated Societal Indicator

Government Operations

Objectives

» Increase compliance with underage alcohol and tobacco laws

Description

ABC issues licenses to retail establishments to sell wine and beer, and to restaurants for wine, beer and spirits. In addition, licenses are issued for one-time special events to sell wine, beer and/or spirits. ABC monitors compliance of licensees with Virginia ABC laws and regulations and issues violations for non-compliance. Effective July 1, 1997, legislation added tobacco enforcement responsibilities to the agency mission including enforcing the state law that prohibits the purchase or possession of tobacco products by minors or the sale of tobacco products to minors. This objective focuses on ABC's efforts to promote zero tolerance for the underage consumption of alcoholic and prohibiting the sale of tobacco products to minors. This objective supports one of the Agency's goals: Effective Public Safety ~ Improve public safety through increased compliance and responsible consumption.

Objective Strategies

- Annually conduct 4,800 alcohol and tobacco underage buyer compliance checks.

Measures

- ◆ Underage buyer compliance rate for ABC Stores

- ◆ Underage buyer compliance rate for retail alcohol licensees
- ◆ Underage buyer compliance rate for retail tobacco sales

• **Excellent Customer Service - Enhance services provided to agency customers and stakeholders**

Summary and Alignment

Quality customer service for ABC involves many of ABC’s service areas. In the retail stores, ABC has focused attention on providing convenient locations to Virginia’s growing population. Enhanced store design contributes to the current trends in the retail marketplace. ABC offers a wide product selection throughout the store network with each store having a customized product mix based on its demographics and sales patterns. In addition, ABC offers a special order catalog for new and high-end products not currently available in individual stores. This goal also addresses quality customer service beyond retail stores to licensees, customers, vendors, suppliers, citizens, law enforcement and municipalities in addition to internal employees as customer of each other. 2014 Governor’s Strategic Enterprise Priorities supported by this goal include delivering high-quality products and services to customers in a timely manner and encouraging user-friendly on-line services for all citizens.

Associated State Goal

Public Interest: Engage and inform citizens to ensure we serve their interests.

Objectives

» **Increase customer satisfaction**

Description

Quality customer service for ABC involves many of ABC’s service areas. In the area of retail operations, ABC has focused attention on providing convenient retail stores to Virginia’s growing population. Using a sophisticated planning model that utilizes GIS mapping technology, ABC opened seven stores in FY 2014 and plans to open seven more in FY 2015. ABC offers a wide product selection throughout the store network with each store having a customized product mix based on its demographics and sales patterns. Over the past ten years, Sunday hours have been expanded and stores with significant evening retail traffic have had operating hours extended to as late as 9 PM. ABC measures customer satisfaction in several areas and continues to remodel stores and expand operating hours where appropriate.

Objective Strategies

- ABC agents to train new ABC store employees about underage buyer compliance.
- Annually conduct in-store customer surveys.
- Annually visit all ABC stores for underage buyer compliance and customer service delivery.
- Continue development of a product knowledge web site and electronic training program that would reward employees for completion.

Measures

- ◆ ABC store density rate based on the population
- ◆ Percentage of stores meeting service standards compliance rate.

• **Reliable Source of Revenue Growth - Generate increasing revenues while promoting sound business practices**

Summary and Alignment

ABC has evolved into a significant source of revenue resulting from store sales, license fees, penalties, and collection of taxes from wine and beer wholesalers. Total revenue contributions to the Commonwealth have surpassed \$1.8 billion in the last five years, and in FY 2014, ABC’s sales surpassed \$800 million. At the same time, ABC gives equal weight to maintaining the public’s trust through strong internal controls and compliance with generally accepted accounting principles and state administrative procedures. ABC’s revenue goals support the Governor’s Strategic Enterprise Priorities as they relate to customer service and fiscal stewardship. The agency consistently strives to deliver high-quality products and services to customers in a timely manner while managing public resources efficiently and effectively in challenging economic conditions.

Associated State Goal

Government and Citizens: Be recognized as the best-managed state in the nation.

Associated Societal Indicator

Government Operations

Objectives

» Provide efficient and effective warehouse and inventory management

Description

ABC offers a wide product selection throughout the store network with each store having a customized product mix based on its demographics and sales patterns. In addition, ABC offers a special order catalog for new and high-end products not currently available in individual stores. Products are stored in a central warehouse at ABC headquarters in Richmond and shipped to retail stores throughout the state. Inventory turns measures the number of times capital invested in goods to be sold turns over in a year. Increasing inventory turns reduces holding costs and impacts profitability. Items that turn over more quickly increase responsiveness to changes in customer requirements while allowing the replacement of obsolete items. On average, ABC stores maintain a product service level over 97 percent. This translates into less than a three percent product stockout rate, based on each store's list of products to be sold.

Objective Strategies

- Annually improve shipping accuracy
- Develop training program for Store Managers on inventory management

Measures

- ◆ Cases shipped per warehouse labor hour
- ◆ Product inventory annual turn rate

» Increase transfers of profits and taxes

Description

As an Enterprise Agency, ABC operates much like a private business using performance metrics to monitor activity throughout much of the organization. ABC generates revenues in the form of profits and taxes including, state taxes, sales tax, wine liter tax and malt beverage tax. These funds are transferred to the General Fund and other state agencies on an annual basis. Estimates of these revenue collections are included in the Governor's Annual Estimate of Revenues, and are based on forecasts prepared by ABC.

Objective Strategies

- Develop an operating budget at the beginning of each fiscal year and monitor monthly.
- In 7 new stores and in FY 2015 and FY2016.

Measures

- ◆ Amount of profits & taxes annually transferred from ABC to the General Fund.

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.

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.

Staffing

Authorized Maximum Employment Level (MEL)	0
Salaried Employees	1040
Wage Employees	2080
Contracted Employees	18

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.

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.

Estimate of Technology Funding Needs

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.

Supporting Documents

Title

File Type

Enforcement and Regulation of Alcoholic Beverage Control Laws [30403]

Description of this Program / Service Area

This service area for ABC is defined by the services and functions of the Bureau of Law Enforcement and License Records Management. For public safety, ABC's strategic priorities have included the aggressive promotion of zero tolerance for underage access and consumption of alcohol and tobacco, the promotion of responsible selling and serving by ABC licensees, and responsible consumption by adults. The Enforcement Division is the second largest division at ABC, consisting of over 295 sworn and civilian employees (167 classified and 106 wage). There are 128 classified employees who are sworn agents with full police authority. Close to ninety percent of the wage employees are Student Undercover Agents (civilian) used for the Underage Buyer Program. The public safety goal supports the Governor's Strategic Enterprise Priorities in the area of Public Safety and Homeland Security—protecting our citizens and ensuring everyone lives in a safe community.

Service Area Products/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 issuance of licenses to retail establishments and restaurants to sell wine, beer and spirits. Licenses are also issued for one-time special events to sell wine, beer and spirits. Extensive criminal background investigations are conducted on the individuals associated with the business license application, in addition to a thorough corporate investigation to ensure suitability to be issued an ABC license.

- o ABC issues annual licenses to over 18,000 businesses and retail establishments to sell alcoholic beverages in the Commonwealth.
- o ABC annually issues over 18,000 one-day banquet and special event licenses.
- o ABC conducts background investigations to issue over 2,000 new retail, wholesale, and special permit licensees on an annual basis.
- o ABC agents conduct training for nearly 2,000 of ABC licensees and servers of alcohol on responsible selling and serving.

ABC monitors compliance of licensees with Virginia ABC laws and regulations and issues violations for noncompliance. If violations occur or licensee applications are contested, ABC conducts administrative hearings to adjudicate these issues and collects civil penalties and fees. 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 and investigative activities handled by ABC agents include the illegal manufacturing and sales of alcohol (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 to investigate illegal and criminal activity in licensed establishments. Agents also participate with state and federal law enforcement investigations and task forces related to anti-drug, alcohol, and tobacco issues. Annually, ABC conducts nearly 5,000 compliance checks of businesses and licensees concerning underage sales of alcohol and tobacco. ABC's Compliance section also reviews and approves all wine and beer products.

ABC's public safety mission is also apparent in the retail store environment. Direct services include the aggressive prevention of sales to underage and intoxicated persons. Indirect services include the overall management of per capita consumption through environmental factors such as limiting the number of outlets, hours of availability, and promotional activities.

Mission Alignment

This service area directly aligns with the ABC mission of controlling the distribution of alcoholic beverages and enforcement of the laws of the Commonwealth pertaining to alcoholic beverages and youth access to tobacco.

Products and Services

Description of 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 issuance of licensees to sell wine and beer to retail establishments and restaurants for the wine, beer and spirits. Licensees are also issued for one-time special events to sell wine, beer and spirits. Extensive criminal background investigations are conducted on the individuals associated with the business license application, in addition to a thorough corporate investigation to insure suitability to be issued 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 licensee 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 and underage sales of tobacco products by retail businesses.

A wide range of other compliance and investigative activities also includes illegal manufacturing and distribution (stills and nip joints), financial investigations and numerous other violations of state laws and regulation. 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 anti drug and other criminal activity.

ABC's public safety mission is also apparent in the stores environment. Direct services include the aggressive prevention of sales to underage

and intoxicated persons. Indirect services include the overall management of per capita consumption through environmental factors such as limiting the number of outlets, hours of availability, and promotional activities.

Annually ABC offers grants to support collaboration among local businesses, community organizations and state agencies to promote zero tolerance for underage alcohol prevention. Funding for these grants is made possible through a federal grant from the Office of Juvenile Justice Delinquency Prevention.

Anticipated Changes

In conjunction with other work units, mainly Information Technology Services division, the Enforcement division expects to change the way it delivers basic licensing services and carries out training and education programs. Several key proposed changes include:

- Development of a fully functional Electronic Commerce (eCommerce) system for all types of license applications would reduce administrative processing time and vastly improve customer service. Evaluation of this project is underway and includes the option for applicants to use credit/debit cards for payment of license/permit taxes and fees.
- Delivering on-line training and education to support RSVP (Responsible Sellers and Servers: Virginia's Program) and MART (Managers' Alcohol Responsibility Training). Utilizing web technologies would redirect agent time for enforcement and investigative work, reduce the cost required to deliver training, and increase standardization of training across the state.
- Improving Enforcement's web presence and communication channels to include electronic media. Planned improvements will better represent ABC Enforcement responsibilities to licensees, other law enforcement organizations and citizens of the Commonwealth.
- Utilizing electronic content management to more efficiently process applications, research customer inquiries, and improve access to records amongst internal work units.

Two years ago, the agency centralized the processing of retail applications from regional offices to the central office in Richmond. The goals of this initiative were to improve processing time, develop standard processing requirements to improve consistency, and to free up valuable special agent time for more important law enforcement priorities. At this point in the program, positions have been hired, duties and procedures have been defined and work is all processed centrally. While there is ample evidence to suggest the program is successful, the agency is currently conducting a formal program evaluation to document financial dividends, streamlined operations, and enhanced customer service to licensees. With a fully optimized process, the agency also plans to implement a new licensing system. The new system will replace the current obsolete system, tie into the new centralized process and reporting system, and most importantly, enable an on-license application process with full customer transparency.

The Enforcement Bureau continues to embark on a statewide accreditation program that will benefit the agency by setting standards and the framework for best practices and standardized processes throughout the Bureau. The accreditation process contributes to a high standard of organizational excellence of the Baldrige criteria and has prompted improvements in operations protocol, development of procedure manuals, an increase in cross-training of administrative duties, and changes in organizational structure. They have been instrumental throughout the accreditation process, while continuing to ensure laws and regulations are being followed through internal investigations, audits, compliance reviews and policy development.

Factors Impacting

The current number of sworn positions remains below 2003 levels, despite a growing population and customer base. Additionally, large numbers of retirements, increased per-agent workloads and significant competitive salary issues with other local and federal law enforcement agencies all impact the delivery of public safety and compliance of ABC statutes.

The Enforcement division strives to increase productivity and continuously monitors agent activity (e.g. licenses issued, investigations conducted) per labor hour. However, the quality of an investigation and the administrative time spent documenting an investigation greatly impact downstream activities such as management review and administrative hearings. The ability to hire additional agents would mitigate the risk of decreased compliance with statutes and regulations, and increased numbers of agents leaving for jobs with higher salaries and fewer responsibilities in other state, local and federal law enforcement agencies. Furthermore, the ability to complete implementation of a new case management system and streamline license applications with a new licensing system will ensure agent time is spent on investigations and providing customer service to licensees.

Financial Overview

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. This service area has an appropriation of \$18,426,945 which is 3.1 percent of the total agency appropriation. Biennial Budget

Biennial Budget

	2015 General Fund	2015 Nongeneral Fund	2016 General Fund	2016 Nongeneral Fund
Initial Appropriation for the Biennium	0	18,426,945	0	18,426,945
Changes to Initial Appropriation	0	0	0	0

Supporting Documents

Title **File Type**

Administrative Services [80101]

Description of this Program / Service Area

This service area is defined by the services and functions provided by the following divisions:

Communications responds to media and citizen comment, communicate information internally and externally and design, writing, graphics and production of prevention and education materials.

Human Resources services include hiring, employee evaluation, workers compensation and safety, benefits administration, employee relations, and internal employee training.

Information Technology Services provides development, maintenance and stable operations of computer systems and timely help desk support for end users.

Property Management Services includes preventive facility maintenance to protect ABC assets and management of the store leasing process for ABC store locations. Opening of new stores, relocation of stores, and renovation of stores is also a major service responsibility. This division manages environmental policy and the agency environmental management implementation plan.

Procurement and Support Services includes the purchasing of goods and services for internal operations and the delivery of supplies to stores and central office.

Policy, Planning & Analysis services include development of store location strategy, agency business plan, customer/stakeholder satisfaction surveys, operational reports and process improvement.

Education & Prevention services provided by ABC include specialized training, free educational materials, and direct monetary grants. The Education and Prevention section creates and distributes nearly 200,000 pieces of prevention literature annually to licensees, schools, and the general public, and coordinates training for nearly 2,000 of ABC licensees and servers of alcohol on responsible selling and serving.

Financial Management Services is responsible for all fiscal functions including payroll, budgeting, cash receipts, cash disbursements and financial reporting.

Tax Management section audits and collects the wholesale wine and malt beverage taxes for all wine and beer amounting to over \$75 million per year.

Internal Audit has agency wide responsibility for identifying risk, assisting management in developing proper internal controls, conducting agency administrative reviews and investigating all state hotline complaints.

Marketing directs the agency's product placement and manages marketing functions such as promotions planning and analysis, store branding and product planning and performance.

ABC's goals in this service area are tied to customer service, fiscal stewardship and cyber security/upgraded technology objectives of the Governor's Strategic Enterprise Priorities. The agency's education and prevention efforts also help to deliver high-quality products and services to customers in a timely manner while encouraging user-friendly online services for all citizens.

Mission Alignment

This service area supports the public safety, customer service and revenue focus of the mission through the management of internal support processes.

Products and Services

Description of Major Products and Services

Revenue Growth and Internal Controls

Growing revenues and maintaining accountability and the public's trust continue to be a priority for ABC. The growth in stores and new items continues to produce record levels of sales and revenue contributions to the state and localities. In FY 2014, ABC's sales surpassed \$800 million and have contributed \$1.8 billion in revenues to the Commonwealth in the last five plus years. At the same time, ABC gives equal weight to maintaining the public's trust and protection of agency assets through strong internal controls and compliance with generally accepted accounting principles.

Employee Management and Development

A critical part of the balanced scorecard is the management and development of the workforce. In this area, developing better ways to recognize and reward high performing employees, improving diversity, improving the health and safety of ABC's employees, and expanding learning opportunities. ABC uses multiple modes of listening to develop a comprehensive picture of employee needs and satisfaction levels. ABC uses tools such as surveys, process improvement forums, and has recently implemented a communication platform, SharePoint. The leadership team reviews employee concerns and issues and develops an action plan for issues that can reasonably be addressed. For example, in response to an issue relating to communication, ABC started an email bulletin that each employee receives and recently expanded the agency intranet to be an

active communication and resource tool for employees.

Education and Prevention

Education initiatives this year included the Youth Alcohol and Drug Abuse Prevention Project (YADAPP), which hosted nearly 500 students and adult educators. ABC also began coordinating the Governor's Office for Substance Abuse Prevention (GOSAP) program. 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. Tens of thousands of posters, brochures and other printed materials were made available to key communities including K-12 schools, colleges, business and community groups free of charge. All print materials can be ordered via ABC's website and many are available for download via an extensive electronic library. Annually ABC offers grants to support collaboration among local businesses, community organizations and state agencies to promote zero tolerance for underage alcohol prevention. Funding for these grants is made possible through a federal grant from the Office of Juvenile Justice Delinquency Prevention.

Anticipated Changes

ABC is already using e-commerce to provide web-based application and payment processing for the banquet licensing process, product registrations, and ordering of products by licensees. ABC expects to explore the feasibility of additional online transaction opportunities such as retail license applications, on-line education/training, and retail sales to the public. In addition to customer service enhancements, the drivers of these e-commerce opportunities include the financial viability of internal process efficiencies, the increased cost of credit card processing, and incremental revenue creation.

Currently, the agency's 15 year old general accounting ledger system is supported by a third party company that has been sold several times in the past 5 years, making it an unstable option for long-term financial stability and reliance. It is also a dated system that has reached its end-of-life, and needs to be upgraded to maintain viability and to keep up with the Agency's growing needs. ABC is currently scoping out replacement system requirements and researching commercial off-the-shelf (COTS) systems. The ideal solution will integrate the multiple internal and external systems that collect data, with the new system collecting that data and integrating it into financial statements.

Factors Impacting

Increasing Population

The continued growth in revenue and profits is directly correlated to store expansion and remodeling with the ability to carry products in demand by consumers. As population and demographics change, store locations will need to adjust accordingly. For example, in Northern Virginia the population is projected to significantly increase which translates to the need for the placement of additional retail stores. New stores are expected to continue to be the cornerstone for sales growth. Continued funding for new store openings and store modernization is necessary to continue the demonstrated sales revenue increase. Increasing population also impacts regulatory requirements through growth in the number of licensed establishments as well as increasing numbers of legal, underage and irresponsible consumers.

Central agency mandates such as compliance and implementation for the Agency Risk Management Internal Control Standards (ARMICS) and Information Security will require ongoing staff commitment across the agency. Documentation for all significant fiscal processes and IT security vulnerabilities, and corrective action plans will take considerable efforts in the next two years. In addition, expenses such as General Assembly mandated pay raises, changes in health care costs, and VITA charges are sources of expense inflation that reduce profitability.

Financial Overview

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. This service area receives an appropriation of \$37,382,199, which is 6.4 percent of the total agency appropriation.

Biennial Budget

	2015 General Fund	2015 Nongeneral Fund	2016 General Fund	2016 Nongeneral Fund
Initial Appropriation for the Biennium	0	37,382,199	0	38,424,437
Changes to Initial Appropriation	0	1,400,000	0	17,962,800

Supporting Documents

Title **File Type**

Alcoholic Beverage Control Retail Store Operations [80102]

Description of this Program / Service Area

This service area aligns with the ABC mission in regards to operating efficient, conveniently located retail outlets, providing excellent customer service and generating revenue for the Commonwealth.

Services Include:

- Operate over 349 stores throughout the Commonwealth using a sophisticated store location process to maximize customer service and profitability
- Provide over 2,300 products for sale including non alcoholic mixers, wine and Virginia Lottery tickets.
- Service 4,300 restaurants licensed to sell mixed beverages in the Commonwealth.
- Conduct over 25 million customer transactions generating in excess of \$800 million in sales in FY 2014.

2014 Governor's Strategic Enterprise Priorities supported by this goal include delivering high-quality products and services to customers in a timely manner and encouraging user-friendly online services for all citizens.

Mission Alignment

This service area supports the public safety, customer service and revenue focus of the mission through the operation and management of retail stores.

Products and Services

Description of Major Products and Services

Service Area Description

This service area aligns with the ABC mission in regards to operating efficient, conveniently located retail outlets, providing excellent customer service and generating revenue for the Commonwealth.

Service Area Products and Services

Services include operating 349 retail stores throughout the state and controlling access to distilled spirit products in the Commonwealth; ensuring equitable service throughout the Commonwealth using a sophisticated store location process to maximize customer service and profitability; providing over 2,300 products for sale including non alcoholic mixers and Virginia Lottery tickets; servicing over 4,300 restaurants licensed to sell mixed beverages in the Commonwealth; and conducting over 25 million customer transactions generating in excess of \$800 million in sales in FY 2014.

Anticipated Changes

ABC expects to continue to expand the number of stores during the biennium to achieve and maintain a one store per 23,000-person ratio. In FY 2014 the number of ABC stores reached 349 and ABC plans to open approximately seven more stores in FY 2015 to maintain service levels. ABC also expects continued growth in the variety of products offered in the marketplace and individual ABC stores that may necessitate slightly larger store sizes in the future.

Workforce Factors

Given the volume of growth expected in the stores, the agency projects additional new classified positions within the next two years and further increases over the next ten years. An increase in wage employees is needed to support this growth as well. Succession planning will also dictate how the agency prepares for the 5 percent of retirement-eligible employees who can retire within the next five years, and the 6.5 percent eligible to retire in ten years. Key positions identified for succession planning include Regional Managers (most are expected to retire), Director and Assistant Director positions.

The 2004 General Assembly provided legislation for Sunday sales resulting in 50 ABC stores opening for business on Sundays, beginning July 4, 2004. In September 2007 an additional 37 stores in northern Virginia and Tidewater began Sunday sales contributing to both customer service and increased revenue. As of FY 2014, all ABC stores are open on Sundays except for one. This resulted in increased recruitment and retention efforts, as additional P-14 staff are being used to fill gaps where current employees are unable to work, refuse to work or leave the agency.

Listing of Products and/or Services

ABC offers a wide product selection throughout the store network with each store having a customized product mix based on its demographics and sales patterns. ABC expects to utilize software tools specifically tailored to the development and distribution of category management plans. As a result, stores will be able to easily determine where any product they carry is to be placed on the shelf and the number of facings recommended for each product (based on average sales).

E-Commerce

To improve customer service and decrease operating costs, ABC anticipates utilizing electronic commerce technologies for licensee and retail customer orders. According to a statewide survey, more than two thirds of licensees indicated being likely to place orders through an ABC Web application (68 percent), an increase of 12 percentage points since 2002. Implementation of a web- based solution could be an opportunity to exceed retail customer expectations for a portion of the agency's vast product line (e.g. Special Order Catalog) as well. Currently an on-line licensee ordering system is in production with more than 1,000 licensees using the system.

Factors Impacting

Changing Marketplace

The overall retail environment influences the public's expectation of ABC's shopping environment. The growth in distilled spirit products in the market place means ABC has to adjust the breadth and depth of its product line to meet customer demand and maintain sales growth.

Expense Trends

Like any business, changes in expenses can influence ABC's ability to generate profits. Some expenses such as the purchase of additional merchandise, capital investments in infrastructure, and the opening of new stores can contribute to positive revenue growth. Other expenses such as General Assembly mandated pay raises and changes in health care costs, mandatory rent escalations, fuel increases, and VITA service increases of 4 percent to 9 percent annually, and similar trends are expected in the future. With this concern in mind, ABC monitors operating expenses closely and has been able to hold its annual expense to sales ratio steady at 20 percent over the last 5 years.

Like many agencies, ABC is faced with an aging infrastructure and growing business needs for technology. In the coming biennium, critical Law Enforcement and Retail Operations system replacements and upgrades will be required along with upgrades to comply with state information security and payment card standards. At the same time, ABC is evaluating the potential processing efficiencies of electronic document management and the value of leveraging agency data through business intelligence.

Additional issues relate to the Appropriation Act by the General Assembly, which raises ABC's profit estimates without regard to expense trends or current sales trends and the estimate cannot be reached without increased revenues. Sales in FY 2015 are currently forecast to reach \$837 million, 9 percent higher than 2014, however consumer behavior is very difficult to estimate and forecast, particularly during the holidays in a weak economy.

Wage Employees & 29-hour per week Cap

Under the Affordable Care Act, employers are required to offer health care insurance to employees who work 30 hours or more per week. As a result, in January 2013 DHRM advised agencies to begin limiting the number of hours worked by the Commonwealth's part-time work force. As ABC prepared to comply and to continue adequately staffing retail stores, the Department adjusted weekly schedules by increasing hours for part-time employees who work less than 29 hours, reducing hours for those who work more, and hiring additional part-time employees. The Budget Bill signed in the spring of 2013 officially limited the average hours of wage employees to 29-hours per week.

Given the agency's large number of part-time employees (2,080), the proper steps have been taken to reduce work hours and hire additional part-time employees. From February to August 2013, the number of wage employees who averaged more than 29 hours per week declined from 830 to 120. However, ABC Retail Operations has hired and trained more than 700 new wage employees. Strategies to reduce turnover and increase product knowledge by part-time employees in stores are currently being developed.

Financial Overview

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. This service area has an appropriation of \$90,572,922, which is approximately 15.4 percent of the total agency appropriation.

Biennial Budget

	2015 General Fund	2015 Nongeneral Fund	2016 General Fund	2016 Nongeneral Fund
Initial Appropriation for the Biennium	0	90,572,922	0	92,372,922
Changes to Initial Appropriation	0	882,500	0	2,073,750

Supporting Documents

Title **File Type**

Alcoholic Beverage Purchasing, Warehousing and Distribution [80103]

Description of this Program / Service Area

The primary services for this area center around two main functions: 1) Product distribution including receiving, storing and distributing product through the warehouse, and 2) assisting with product management to include product listings, pricing, discounts, inventory management, and special order products.

- ABC manages a 300,000 square foot central distribution center in Richmond and an inventory of over 3,200 products with an average inventory exceeding 250,000 cases and a volume exceeding 4 million cases annually. On a daily basis, ABC receives shipments from suppliers, prepares orders and ships over 16,500 cases with seasonal spikes exceeding 22,000 cases per day during the Christmas holiday season.
- For the product distribution area, ABC is required to receive, store and ship distilled spirits, mixers and store supplies to over 348 stores. As a bailment operation, suppliers actually own the vast majority of inventory stored in ABC's warehouse. ABC processes receipts from vendors averaging over 17 tractor-trailer loads per day and processes vendor payments of over \$270 million annually.
- Product Management Services include product pricing, discount programs, product inventory, and central inventory management. ABC offers special order services such as in-store specialty item catalogs and special orders for merchandise not carried by ABC.

2014 Governor's Strategic Enterprise Priorities supported by this goal include delivering high-quality products and services to customers in a timely manner and encouraging user-friendly online services for all citizens. Fiscal stewardship is also paramount in across the agency as ABC strives to manage public resources efficiently and effectively in challenging economic conditions.

Mission Alignment

This service area directly aligns with the ABC mission of controlling the distribution of alcoholic beverages and enforcement of the laws of the Commonwealth pertaining to alcoholic beverages and youth access to tobacco.

Products and Services

Description of Major Products and Services

The primary services for this area center around two main functions: 1) Product distribution including receiving, storing and distributing product through the warehouse, and 2) product management to include product listings, pricing, discounts, inventory management, and special order products.

For the product distribution area, ABC is required to receive, store and ship distilled spirits, mixers and store supplies to over 348 stores. As a bailment operation, suppliers actually own the vast majority of inventory stored in ABC's warehouse. ABC houses over 250,000 cases in its Richmond warehouse and ships over 4 million cases annually. On a daily basis, ABC receives shipments from suppliers, prepares orders and ships over 1,650 cases with seasonal spikes exceeding 22,000 cases per day during the Christmas holiday season.

Anticipated Changes

Virginia ABC projects that the number of products will approach 4,000 in the next ten years as distillers seek innovative ways to expand the marketplace to compete with beer and wine. The automated warehouse system currently in use gives ABC the capacity and throughput to meet projected increase in volume and products. ABC welcomes the expansion in products based on the potential for improved customer service and additional profits for the Commonwealth. However, annual increases in product lines translates into an increased emphasis on forecasting, retail space utilization and the ability to meet customer demands for special order items.

Factors Impacting

For the warehouse, the most important critical success factors are the capacity to maintain an adequate inventory of the variety of products in demand and the ability to efficiently move the products from receipt to shipment. In recent years, the growth in the number of items available for sale, the increase in sales volume, the increase in number of stores, and workforce issues created significant problems that were impacting ABC's customer service and revenue.

The number of items carried by the Department has almost tripled in the last three decades, growing from approximately 800 items in 1981 to over 3,200 currently. The Department's growth in product lines is consistent with national trends and new items have contributed significant incremental revenues from retail and licensee customers. The dynamic nature of the distilled spirits market is expected to continue as distillers develop more innovative ways to market their product.

Warehouse employees "pick" or fill store orders for cases of alcohol, and then load the trucks for delivery via a contract carrier. Warehouse employee turnover is high due to the manual requirements of the work environment and a high level of worker's compensation injuries. Steps have been taken to reduce injuries, and a new incentive program rewarding warehouse order pickers who perform at a 99.9 percent accuracy rate has improved morale and shipping accuracy.

In 2004, ABC utilized a distribution consultant to analyze its throughput and capacity limitations and develop an RFP for racking and automating the 300,000 square foot central distribution center. The system has been operational since August 2005 and has significantly expanded storage

capacity for existing and new items and uses automation to improve labor productivity. In the next biennium, ABC expects to evaluate upgrades in the software used to forecast product demand by store, as well as the application maintains a perpetual inventory of all stores and is utilized to develop weekly orders to each store based on historical sales and forecasted future sales.

Financial Overview

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. This service area has an appropriation of \$441,567,223, which is approximately 75.1 percent of the appropriation for this service area.

Biennial Budget

	2015 General Fund	2015 Nongeneral Fund	2016 General Fund	2016 Nongeneral Fund
Initial Appropriation for the Biennium	0	441,567,223	0	462,167,223
Changes to Initial Appropriation	0	7,800,000	0	20,547,716

Supporting Documents

Title **File Type**