

House Appropriations Committee ABC Update

May 16, 2016



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Agenda

- Updated information on growth in sales, profits and number of stores
- Update on current progress and future work on IT and store modernization efforts
- Update on efforts to transition to an Authority
- Status of current headquarters and warehouse property, future facility needs and options for disposition

Virginia Identified as Best Control State



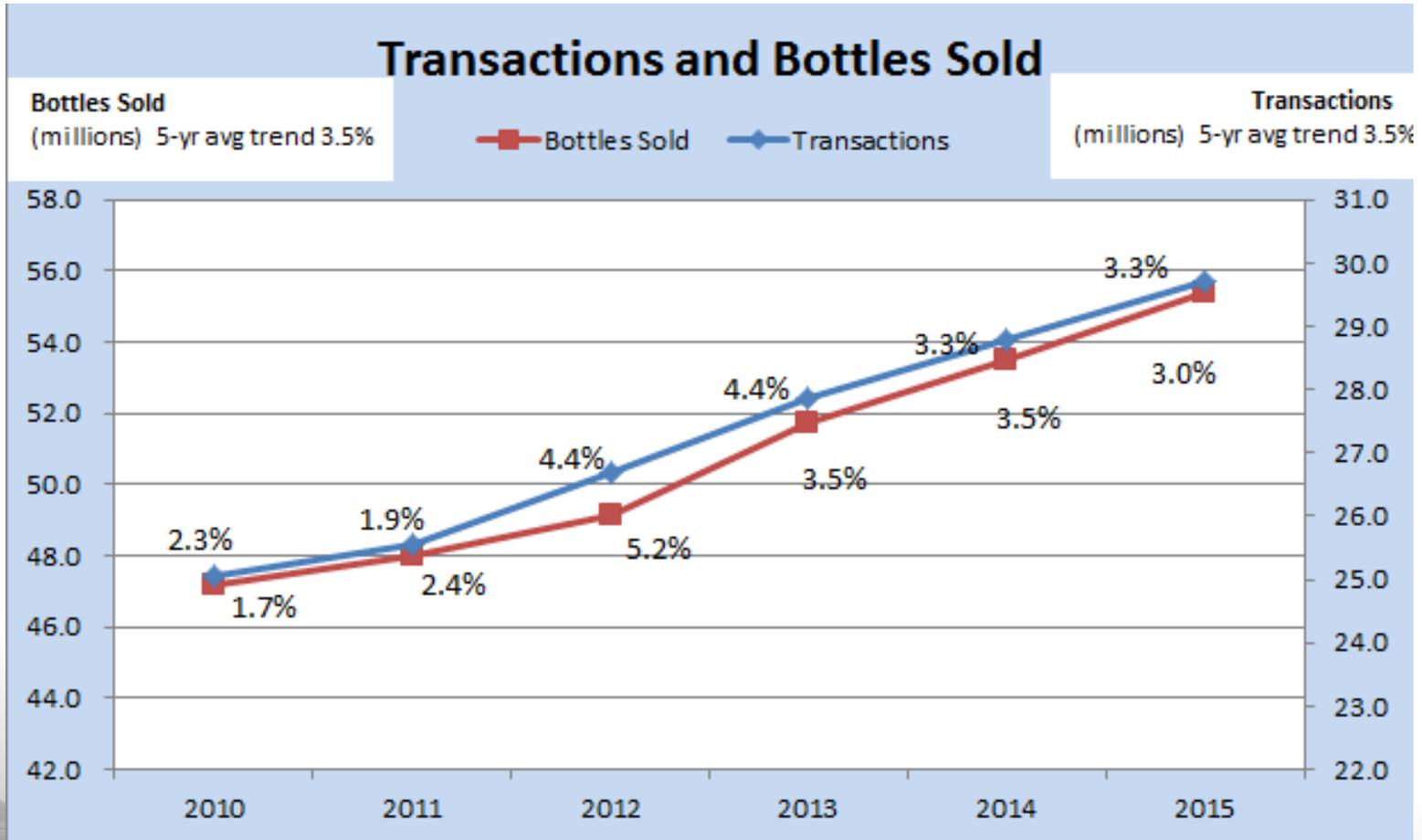
Best of the Best
OVERALL WINNER

Choosing the Virginia ABC as the overall winner was an easy decision – the agency has long been a leader in retailing, technology, education and enforcement. The agency's Premier Stores sealed the win for Virginia – the stores' layout, design, function and overall concept is something every retailer should emulate.

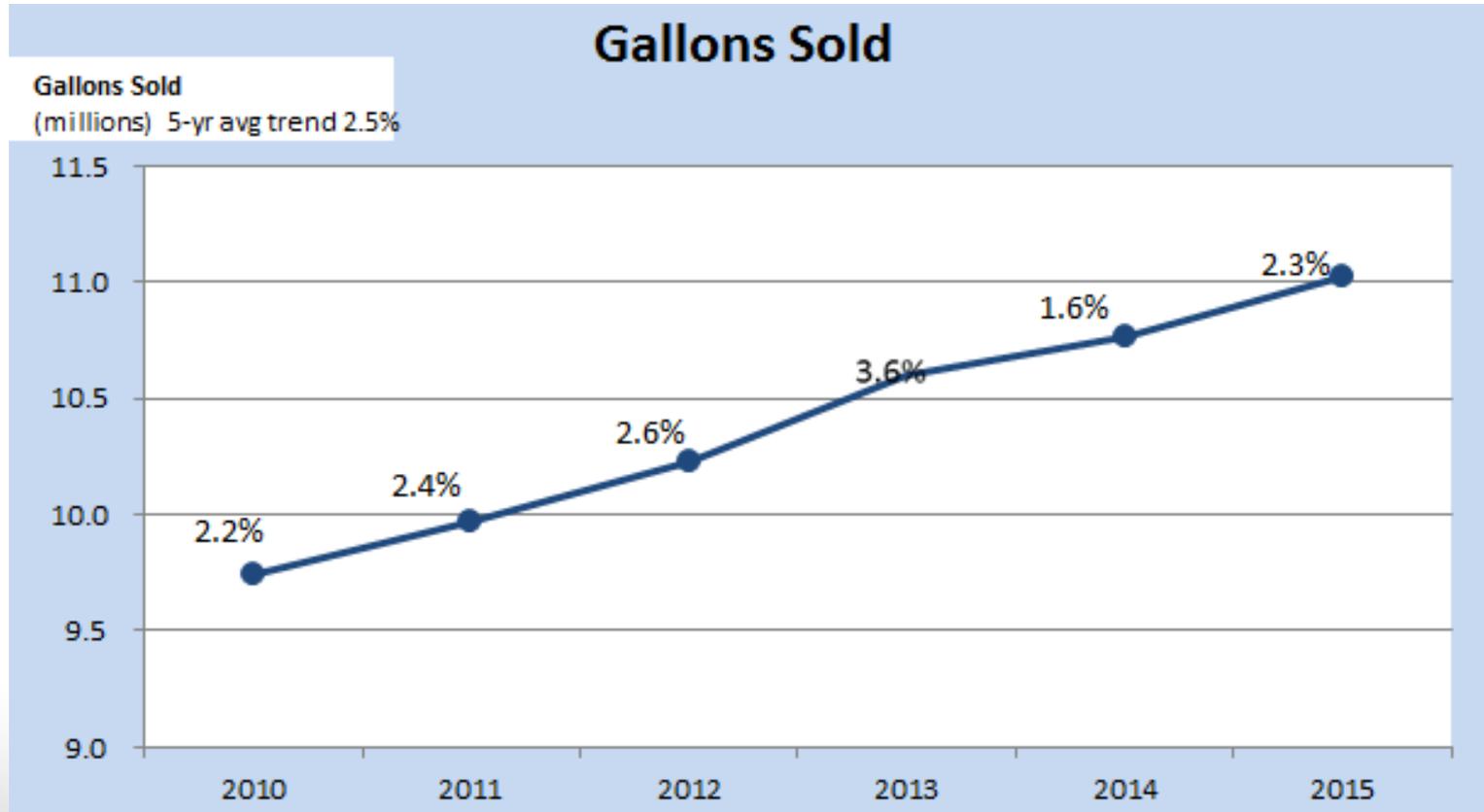


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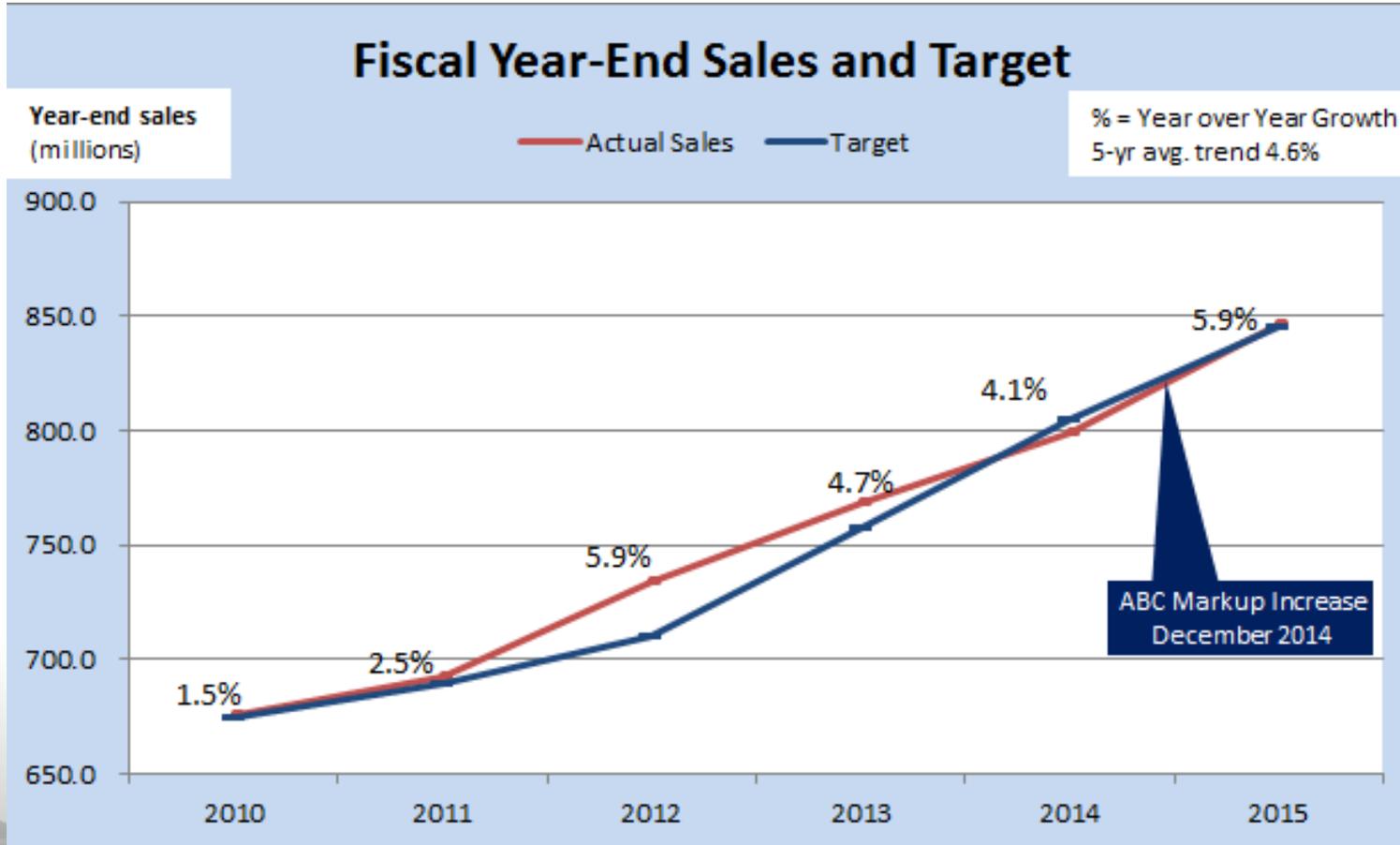
Historical Sales Growth



Historical Sales Growth



Historical Sales Growth



of Virginia ABC Retail Stores

- 2014-2015
 - 4 new stores
 - 8 relocations
 - 1 expansion
- 2015 – present
 - 8 new stores
 - 10 relocations
 - 3 expansions
- Present to June 30, 2016
 - 2 new stores
 - Moneta, VA
 - York, VA
 - 1 relocation
 - 1 expansion
- 11 new stores in various stages of completion

Store Modernizations Update

- 2014-2015
 - 12 modernizations
 - 5 flooring updates
- 2015-present
 - 4 modernizations
 - 1 flooring update
- Present – June 30, 2016
 - 1 modernization
 - 4 flooring updates

Premier Store Updates

- Williamsburg sales up 13.6%
- Leesburg sales up 12.6%
- Virginia Beach sales up 9.3%
- The 4th Premier store opened at Short Pump on November 18, 2015



Store Design

- “Signature” store
 - #388 Tysons Corner opened August 15, 2014
 - Total of 1,300 sq ft; Focus on high-end items
- “Ultimate Selection” Store
 - #418 Loudoun is in development
 - Over 6,000 sq ft of every product offered by Virginia ABC
 - Dual-function as a licensee store



Funding Provided to Replace ABC's Outdated Technology Systems

Item	FY 2015	FY 2016	Total
New Financial System	\$1.1 million	\$13.0 million	\$14.1 million
New Licensing System	\$0	\$1.7 million	\$1.7 million
Website Phase II	\$300,000	\$800,000	\$1.1 million
Broadband for Stores	\$400,000	\$200,000	\$600,000
Total Funding	\$1.8 million	\$15.7 million	\$17.5 million

Financial Management

- Planned replacement for 20 year-old financial management software – PeopleSoft currently contemplated
- RFP issued on March 15th
- RFP closed on May 10th
- ABC will begin evaluating proposals for pricing and responsiveness

Licensing

- New system will support ABC's licensing and regulatory functions and allow licensees to renew and pay for licenses online as well as fee, tax, and fine payments
- The new licensing system RFP was posted on May 12 and will close on July 7. Again, following closing, ABC staff will begin evaluating the submitted responses

Web Redesign

Phase I

- ABC's redesigned website won the Web Marketing Association's 2015 Web Award for Outstanding Achievement in Web Development
- Launched in March 2015, ABC's website includes an on-line catalog of over 3,000 products and e-payment for 227 special products
- To date, more than 2.2M sessions and \$200K in transactions conducted online

Phase II

- e-Pay for licensee orders
- Store Pages (operating hours, inventory by store, etc.)
- Board Orders and Hearings Repository
- Online Ordering Enhancements
- Bulk Ordering/Event Planning
- Licensee Portal
- Enhanced Recipes



Broadband

- Replaces outdated MPLS circuits with modern high-speed routers – all project work to be completed during FY 2016
- Router provides an encrypted connection and a cell phone link, as an automatic backup for a line failure (redirects traffic, most importantly = Bank Card authorizations)
- Bandwidth (communications speed) is increased between 30-100 times

Virginia ABC Strategic Pillars

Authority

Execute a seamless transition to an Authority structure through rigorous planning and risk management, while achieving greater organizational efficiency, agility and profitability.

Brand

Develop the ABC brand to communicate the organization's mission of providing superior service to the public through judicious balancing of the imperatives of revenue creation and public safety.

Infrastructure

Reinvest in our people, technology and facility infrastructure to create a more efficient and sustainable organization.

Public Safety

Regulate and educate Virginia ABC licensees by providing superior public service while ensuring the highest standards of public safety.

Revenue

Achieve \$1 billion in sales with increasing profit margins by June 2018

Virginia ABC Authority Transition

- Virginia ABC has retained Human Dynamics Consulting to assist with planning the transition to an Authority
- The Office of State Inspector General is performing a concurrent performance review of agency procurement that will further inform that work stream
- The project is structured around a holistic approach to organizational transformation with the goal of improving:
 - Organizational Agility
 - Organizational Efficiency
 - Profitability

Authority Transition Work Streams

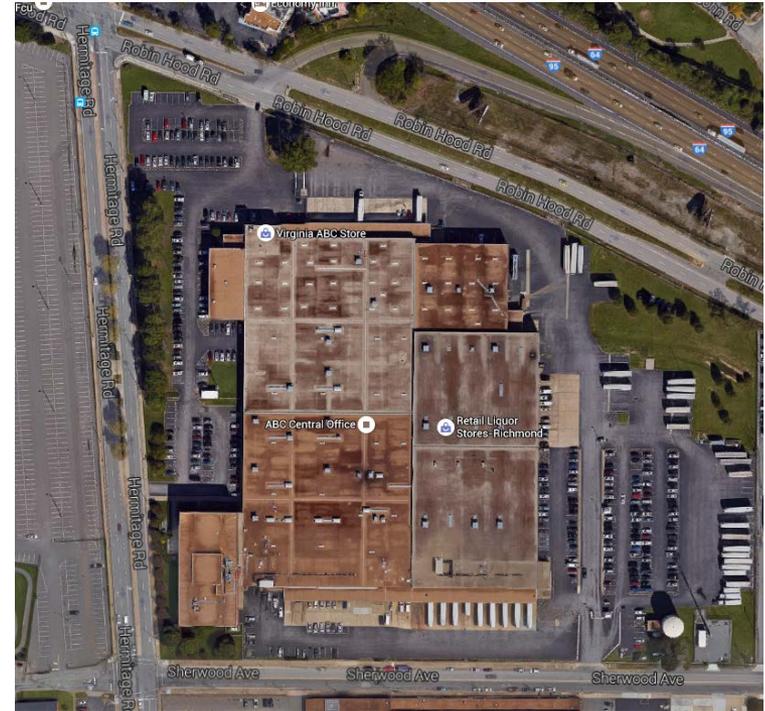
- Draft Human Resources Policies & Procedures
- Develop Compensation & Salary Administration Plan
- Draft Procurement Policies & Procedures
- Identify Board Roles & Responsibilities
- Define Role of CEO
- Plan for Authority Workforce Conversion
- Create a “future state” workforce model and organizational structure

Virginia ABC Authority Transition Project

- Proposed human resources and procurement policies will be identified by analysis of the current policies that govern Virginia agencies and identifying opportunities under a new organizational structure to enable improvements to the Authority's agility, efficiency and profitability
- Virginia ABC may seek to submit proposals for further legislative changes to enable improvements
- Proposed Human Resources and Procurement policies will be presented to the legislature by January 1, 2017.

2901 Hermitage Rd

- ABC relocated from a downtown facility into current location in 1976
- Situated on 21.5 acres
 - 7.9 acres is paved parking lot
- Central Office = 85,000sq ft
- Warehouse = 298,765sq ft
- Current Employees = 463



ABC Warehouse

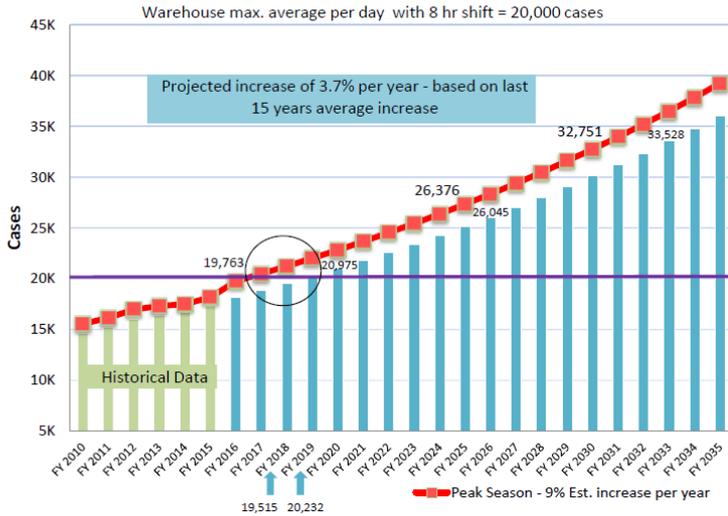
- Built in 1960 (Richfood Facility)
- 300,000 square feet
- Unconditioned space
- Ceilings range between 25 feet and 30 feet
- 8 Shipping Doors
- 7 Receiving Doors
- 106 employees (both wage and full time)
- Conveyor System installed in 2005 – end of life in 2020

ABC Warehouse Productivity

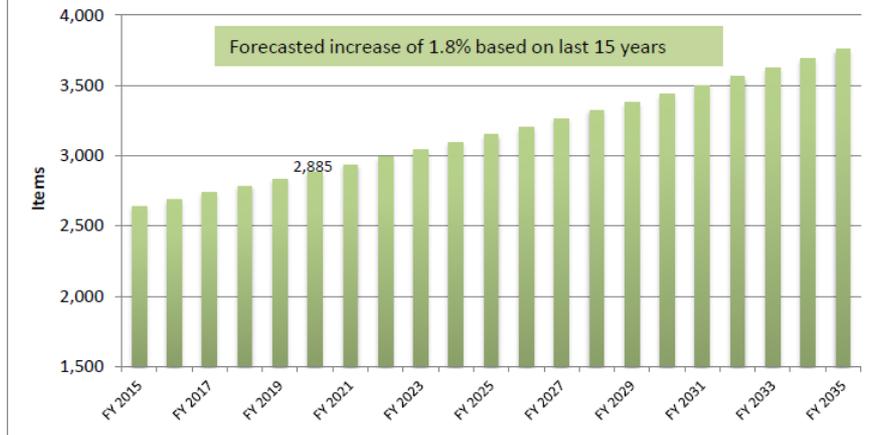
- Warehouse running near capacity in both storage and shipping
 - 2,689 active items on the price list and 2,351 locations in case pick
- Shipping capacity of 20,000 cases in 8 hours
 - FY2015 averaged over 17,000 cases with peak season topping 18,000 cases; projected to exceed 20,000 cases by FY2019
 - 65-70 stores served each day
- Bailment section at 90% capacity
- Pick section at 91% capacity
- Warehouse ships and receives roughly 1:1 cases each day

ABC Warehouse Growth

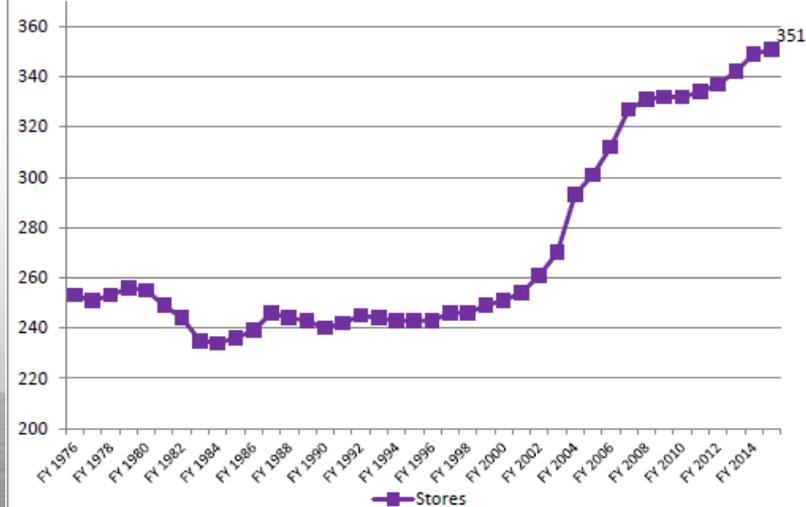
Average Case Shipping per Year



Price List Items - Projected Growth



Historical Store Growth



Current Facility Needs

- Necessary projects to maintain current facility total roughly \$3.6M
- Long-term projects to accommodate growth and remain in existing facility for next 10 years could approach \$15M - \$20M
- Options available to extend current life of facility



Cover page of ABC News from June 9, 1976

Potential Future

- A new facility would need to consist of more square footage and accommodate modern office and warehousing concepts
 - Likely 100,000 square feet of office space with conference rooms and open floor plans
 - Up to 400,000 square feet of warehouse with 40' to 45' clearance
 - Accommodate racking of up to 4 levels
 - Technology to enhance shipping efficiency
 - Additional shipping and receiving doors
 - Dedicated trailer parking and entrance
 - Close access to major interstates

Options for Disposition of Property

- Recent Appraisals have ranged from \$7M - \$14M
 - Takes into account the disposition of materials necessary to demolish building
- Virginia ABC, through DGS, has engaged Divaris Real Estate, Inc. to evaluate the land's worth
- Virginia ABC has met with DGS to discuss availability of land currently owned by other state agencies and how to receive any potential proposals
- Just a few considerations to take into account
 - Build co-located operations?
 - Estimated at \$50-70M for structure
 - Separate warehouse and central office?
 - Look for existing space?
 - Not a lot out there for warehousing
- Additional Costs (New or Existing):
 - Warehouse automation cost - roughly \$12M in 2005
 - Furniture & equipment costs to outfit building
 - Moving costs

Impacts from Disposition of Property

- New location would need to be up and running prior to shutting down existing warehouse
- Lead time for funding, planning and execution would be necessary
 - Determine needs and best practices in distribution/warehousing
- Simultaneous Transition to Authority Model and a Relocation would be extremely challenging