



# **VIRGINIA ABC PERFORMANCE, STAFFING AND AUTHORITY TRANSITION UPDATE**

**Presentation to the Public Safety Subcommittee  
of the House Appropriations Committee**

**January 21, 2016**



# OBJECTIVES

- ABC Recognized as “Best of Best” Control State
- Agency Financials
- Information Technology Projects and Progress
  - Recent ABC Project Awards
- ABC Workforce
- ABC Budget Provides Additional Positions to Address Specific Issues
- ABC’s Transition to an Authority
- Questions

# VIRGINIA ABC NAMED “BEST OF BEST”



## 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.*

# AGENCY HIGHLIGHTS

## 2015 Agency Financial Statistics

- Sales of \$848.3 million (up 5.9%)
- Profits of \$152.0 million (up 6.1%)
- Retail store customer transactions: 29.7 million (up 6.1%)
- One-day banquet and special licenses: 22,716 (up 16.3%)
- Retail Licenses: 18,445 (up 1.5%)
- Total Cases shipped to ABC stores: 4,553,415 (up 3.7%)
- Sunday sales of \$3.8 million (up 8.4%)

## ABC's Current Operating Budget

- FY 2016: \$612 million
- Operating expenses include: alcohol (71.2%), employees (17.5%), store rents and utilities (9.8%), and IT projects (1.8%)

## ABC's Current Employee Breakdown

- ABC employs 3,515 full-time and part-time employees
  - 1,035 full-time
  - 2,480 part-time (increased by 556 in FY 2013 due to 29 hour cap)

# ABC FINANCIAL INFORMATION

- In FY 2016, ABC projected sales growth of \$890.1 million, or slightly more than 4 percent above FY 2015

## Year-to-date sales:

- Same store sales are up \$20.3 million (4.5%) above same store sales for a similar period last year

## Holiday Season Performance:

- Sales for the holiday season (November and December) increased 4.6% from \$171.8 million in FY 2014 to \$179.7 million in FY 2015, or 1.9% above the \$176.4 million forecast
- ABC's performance far bettered the National Retail Federation's expected 3.7% sales increase, because national sales rose only 3% during the holiday season

## General Fund Transfers:

	Dollars in millions				
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Total GF Transfer	\$138.7	150.8*	148.2	146.9	147.5

Note\*: FY 2015 transfer included a \$6.0 million transfer from ABC Accrual Residual.

# FUNDING FOR REPLACEMENT OF 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
<b>Total Funding</b>	<b>\$1.8 million</b>	<b>\$15.7 million</b>	<b>\$17.5 million</b>

# PROJECT PROCUREMENT

- The majority of ABC's IT projects are currently in some phase of the procurement process, either RFP creation or vendor negotiation
- Project teams are completing requirements development and other documentation necessary to issue RFPs as quickly as possible
- ABC realizes to continue modernizing its business, it must get these approved information technology projects done correctly

# RECENT ABC PROJECT AWARDS

## Website

- 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

## Point of Sale (POS) Upgrade

- ABC's POS upgrade won 3<sup>rd</sup> place in VITA's 2015 Project Excellence Awards – completing a complex project with multiple vendors and procurements
- POS upgrade also readied ABC for EMV (“chip and signature”) compliance by October 15 deadline
  - Many large retailers still have not met this October 2015 deadline



# VIRGINIA ABC STAFFING – FY2016

## Retail Operations

- 355 ABC Stores
  - 629 Classified positions
  - 2,331 Part-time employees
- Hired 883 part-time employees in FY 2015
  - Each required \$500 in training (\$450,000)
- Separated 773 part-time employees in FY 2015
- 37 ABC stores are operated entirely by part-time staff

## Warehouse Operations and Logistics

- Warehouse has 106 total employees: Shipped 4.6 million cases
  - 58 Classified positions
  - 48 Part-time positions
- Logistics has 11 full-time employees
  - Specially ordered items totaled \$5.5 million (up 26.9 percent)

## Enforcement

- 114 sworn positions

# LABOR MARKET

- 2015 ended with unemployment at 5% - a seven and a half year low
- Number of part-time employees looking for full time work is decreasing – workers no longer “making do” with wage positions
- Warehouse workers in greater demand
  - Retail response to online shopping has been to build more distribution centers – creating demand for warehouse workers
  - Amazon hired more seasonal workers in 2015 than Wal-Mart and J.C. Penney, combined
- Labor force participation rate is at 62.6% - near a four-decade low
- Tightening job market decreases worker demand for part-time retail jobs

# ABC WAGE EMPLOYEES

		Feb 1st-January 31st	
Retail	Total Wage Employees	# Hired	# Separated
1/31/2010	1498	384	385
1/31/2011	1520	418	413
1/31/2012	1537	463	435
1/31/2013	2145	1177	682
1/31/2014	2258	869	744
1/31/2015	2598	884	720

31.8% Turnover

32.9% Turnover

27.7% Turnover to Present

		Feb 1st-January 31st	
Warehouse	Total Wage Employees	# Hired	# Separated
1/31/2010	31	9	10
1/31/2011	31	8	11
1/31/2012	34	9	9
1/31/2013	34	29	17
1/31/2014	42	31	27
1/31/2015	44	35	23

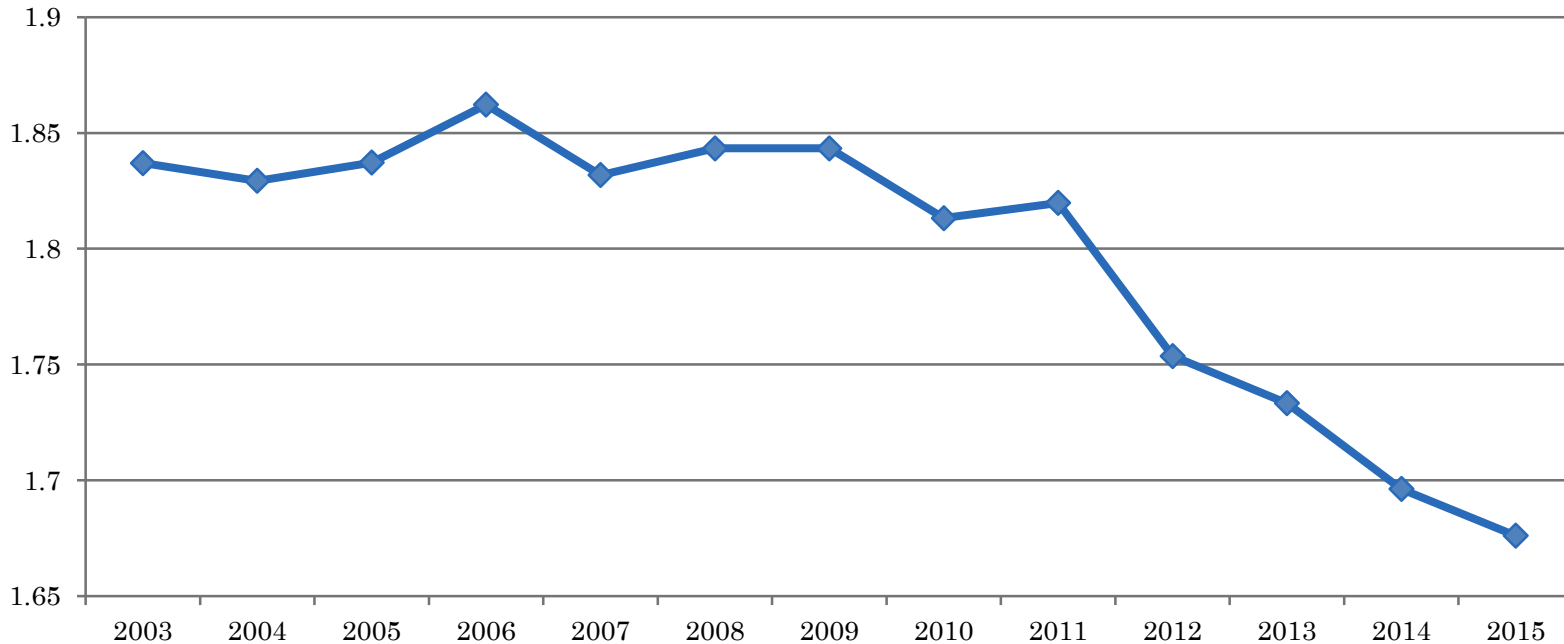
50.0% Turnover

64.3% Turnover

52.3% Turnover to Present

# ABC STORE EMPLOYEE PER ABC STORE RATIO DECLINING

## Average Number of Classified Store Employees to Number of Stores



—◆— Average Classified Store Employees

# ABC STAFFING STRATEGIES

- Pursuant to Appropriation Act language contained in §4-7.01 g, no part-time employee may work more than 29 hours per week on average over a 12-month period
- Prior to the imposition of the 29-hour rule, ABC's part-time employees typically worked at least 40 hours per week
  - ABC hired more part time workers to account for reduced hours
- Challenges with reduced hour part-time workforce
  - Employee absenteeism
  - Employee turnover
    - Depart for full time work
    - More transient workforce
  - Loss of training investment
  - Lack of product knowledge
- Governor's proposed budget begins process of bringing workforce into alignment with agency needs

# ABC ENFORCEMENT STAFFING

- 114 Sworn Personnel positions
  - 73 Special Agents
  - 10 Senior Special Agents
  - 11 Assistant Special Agents in Charge
  - 15 Special Agents in Charge
- Licensee numbers continue to grow
  - Economic recovery – more retail licensees
  - Growth in manufacturing
    - Virginia wineries, breweries and distilleries are all growing in number
- E.O. 40 Expert Panel recommended “increased staffing to keep pace with industry growth and improve regulatory, education and enforcement capacity and capabilities”
- Governor’s proposed budget bolsters Enforcement personnel and provides a regulatory focus
  - Provides for additional compliance officers (working in the manufacturing and wholesale tiers)
  - Includes compliance audit positions

# ABC ENFORCEMENT STAFFING

## Field Operations (73 Agents)

- **1 agent to 221 licensees**
- 7,299 Restaurants
- 397 Hotels & Resorts
- 478 Private Clubs
- 42 Common Carriers
- 16 Charter Boats
- 5,158 Grocery & Convenience
- 1027 Gourmet Shops
- 57 Gift Shops
- 54 Food Concessions
- 29 Performing Arts Amphitheaters
- 4 Hospitals
- 1 Gourmet Oyster House

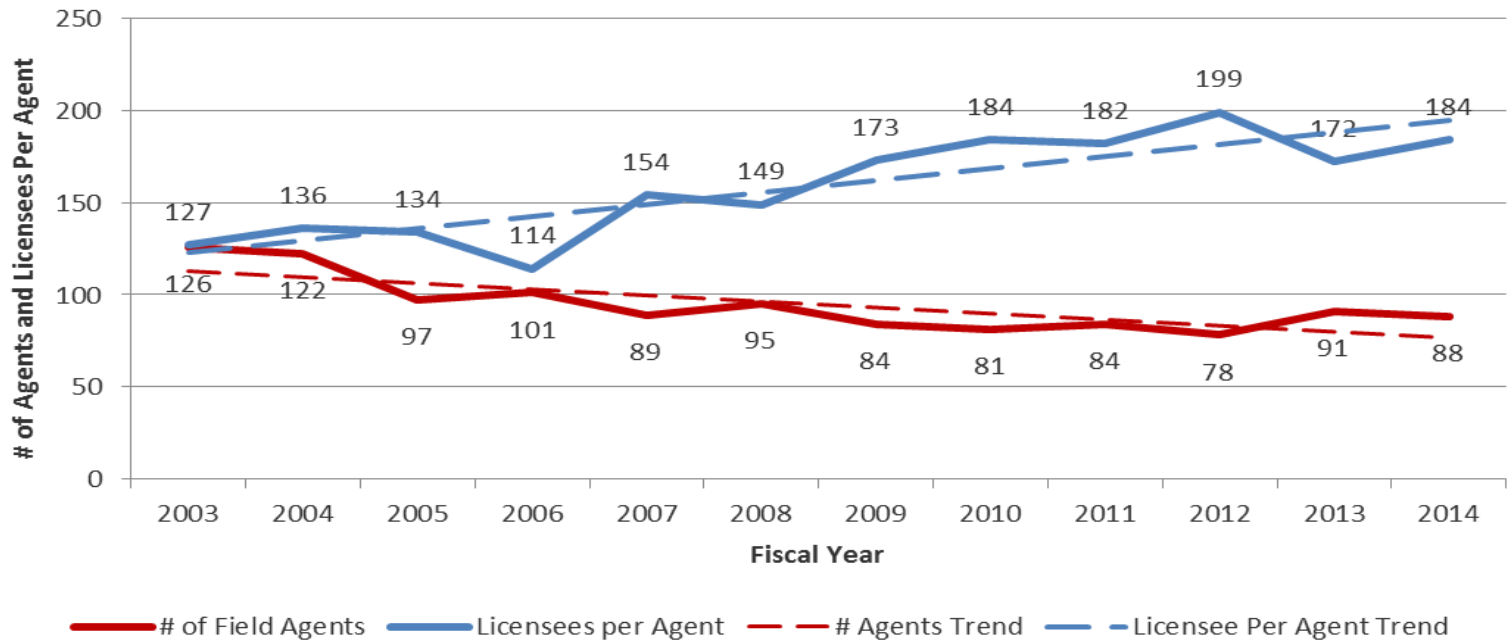
## Compliance (6 Agents)

- **1 agent to 439 licensees**
- 42 In-State Distilleries
- 142 In-State Breweries
- 305 In-State Wineries
- 0 Bottlers
- 417 Wine & Beer Wholesalers
- 197 Wine & Beer Importers
- 283 Wine Importers (out-of-state)
- 114 Beer Importers (out-of-state)
- 1,261 Internet Wine & Beer/Wine Direct Shippers

# RATIO OF RETAIL LICENSEES PER FIELD AGENT

SINCE FY 2003, THE RATIO OF RETAIL LICENSEES PER FIELD AGENT\* HAS RISEN 45%

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



\* Figures do not include compliance licensees or compliance agents

Source: Virginia ABC Records

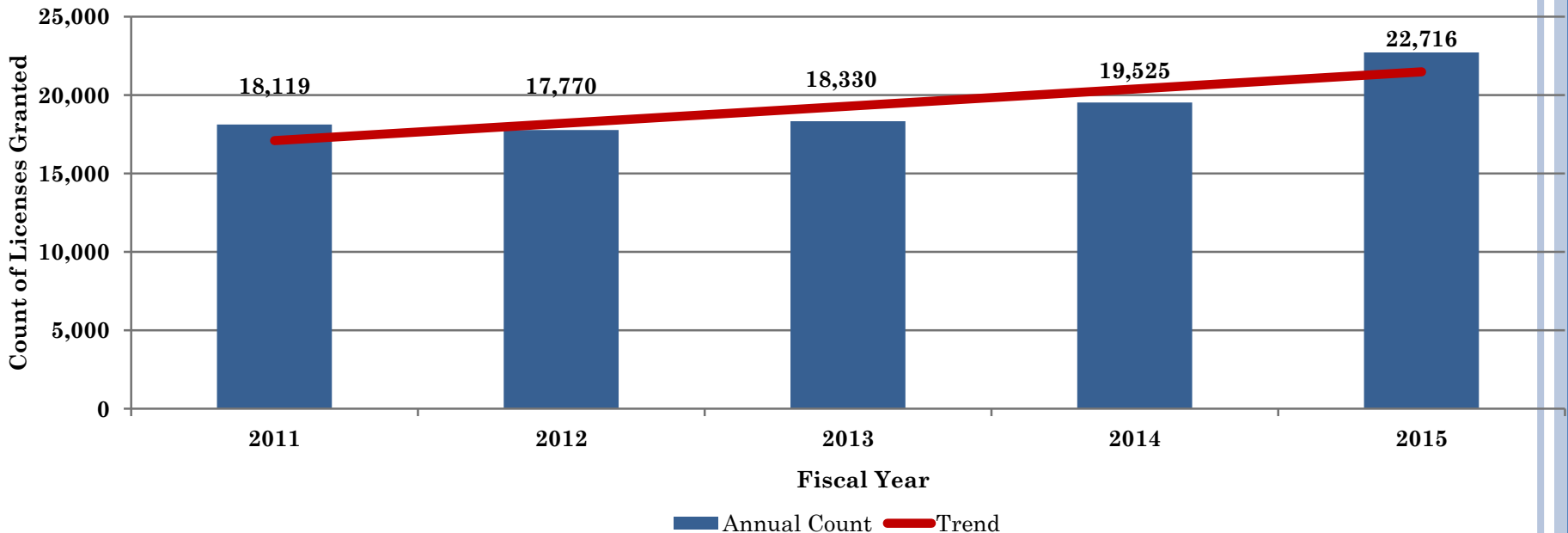




# BANQUET AND ONE DAY EVENT LICENSES

SINCE FY 2011, THE NUMBER OF BANQUET AND EVENT LICENSEES HAVE RISEN 25%

## One-day Banquet and Special-Event Licenses - Annual Count



Source: Virginia ABC Records

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# ABC'S BIENNIAL BUDGET CHANGES

- Budget increases by \$10.2 million in FY 2017 and \$11.6 million in FY 2018
  - The majority – \$6.7 million each year – reflect technical adjustments
- Provides \$2.0 million and 68 positions for retail operations, ABC's warehouse, law enforcement, and IT staff
  - 55 positions for ABC stores (eliminating 69 wage positions)
  - 5 warehouse positions
  - 5 law enforcement positions
  - 3 IT positions

# AUTHORITY TRANSITION WTA CONCERNS

- Large number of employees potentially eligible to retire – 20%
- Many will use Workforce Transition Act benefits allowed due to Authority transition – effective July 1, 2018
- Operationally and financially it may benefit ABC and the Commonwealth if all WTA-eligible employees do not retire at same time
  - If not, ABC may need to dual encumber positions to ensure that needed functions continue after WTA retirements
- State agencies must pay all WTA-related costs within 12 months
  - A sizeable WTA payment will impact ABC's ability to transfer profits
- ABC will look for opportunities to spread costs and limit disruption
  - Potential for staggered payments or employee conversions

# AUTHORITY TRANSITION – OTHER ISSUES

## Information Technology Costs and Associated Employee Costs

- ABC pays VITA and Northrop Grumman \$8.4 million per year
  - ABC cannot make changes to these services until July 1, 2019
  - Options include (i) continuing to use VITA services, (ii) using a different vendor or (iii) providing services in-house

## New Policy Development

- Examine the role of part-time Board and delegation of duties
- New procurement and personnel policies due to General Assembly January 2017

## Consulting Services

- ABC will secure an outside consulting firm to develop a roadmap for transition activities, to evaluate staffing needs, and examine ABC's procurement and human resource policies and IT structure
- Consultant is to provide industry best practices and policies
- ABC would like the selected consulting firm on site by March

- Any Questions