

House Appropriations Public Safety Subcommittee

ABC Operations Update

January 26, 2017



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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 modernization
- Update on efforts to transition to an Authority

Agency Highlights

Operating Budget

- FY 2016: \$612 million
- FY 2017: \$638.4 million (up 4.3%)
- Operating expenses include: alcohol (71.0%), employees (17.5%), and store rents and utilities (9.8%), and IT projects (1.7%)

Employee Numbers

- ABC employees 3,828 full-time and part-time employees
 - 1,091 full-time
 - 2,737 part-time (increased by 556 in FY 2013 due to 29 hour cap)
- 16 contractors

Mission Critical Statistics

- Sales of \$897 million (up 5.8%)
- Profits of \$164.9 million (up 8.5%)
- Retail Licenses: 18,947 (up 2.7%)
- Total Cases shipped to ABC stores: 4,697,305 (up 3.2%)

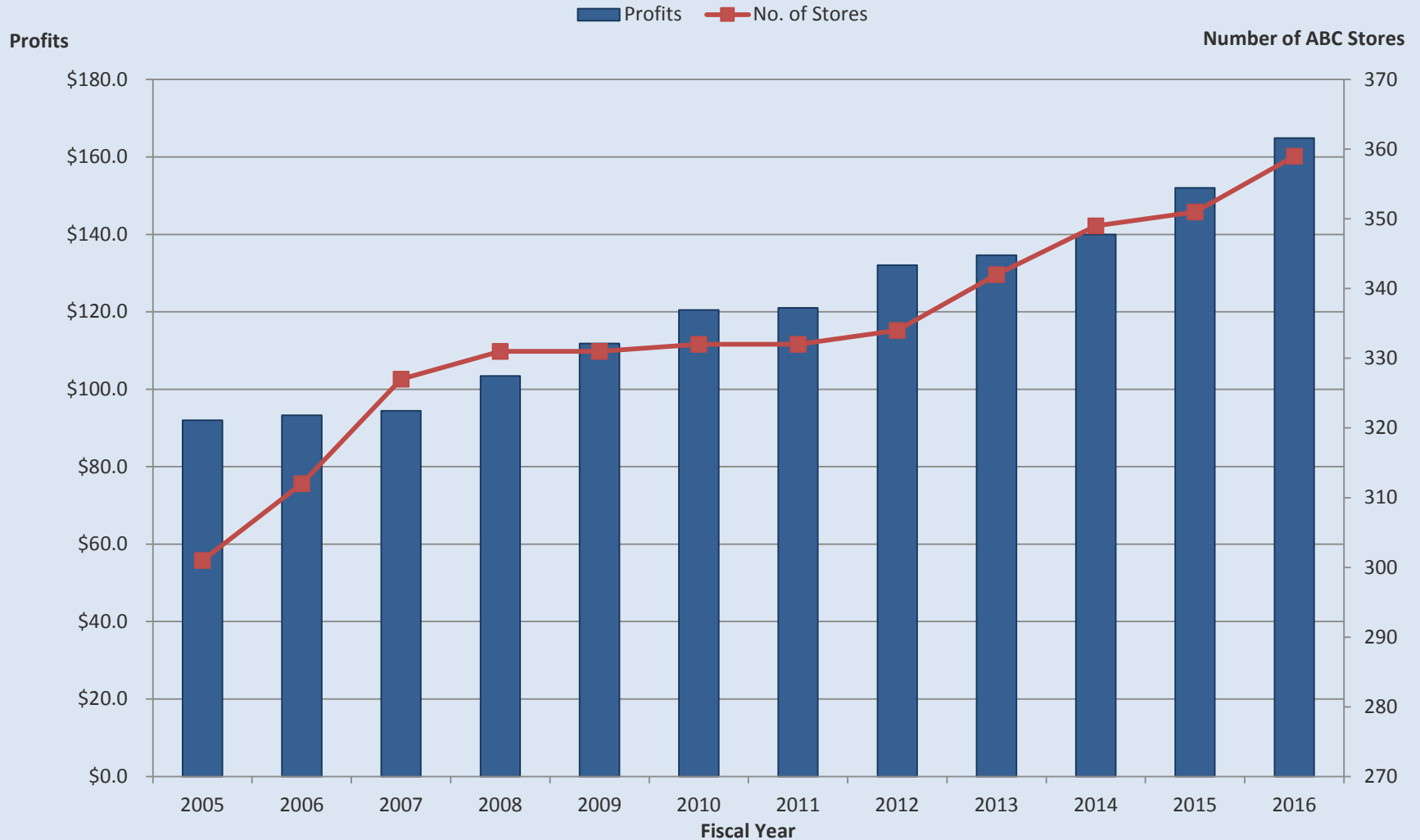


FY 2016 Results and FY 2017 Outlook

- FY 2016 total sales were \$897.9 million, which was 0.9 percent greater than ABC's revised sales forecast
 - FY 2016 sales were 5.8 percent more than FY 2015
 - For FY 2017, Virginia ABC is projecting additional growth of 4.5 percent, or \$935.8 million
 - Growth rate reflects increased sales and profit projections adopted during 2016 Session

Historical Sales Growth

ABC Profits and Number of Stores FY 2005-FY 2016



Contributions to Commonwealth Last 6 Years Total \$2.3B

FY 2016 represents a \$24.1 million increase over FY 2015

Dollars in Millions

Revenue Source	FY 2016	FY 2015	FY 2014	FY 2013	FY 2012	FY 2011
ABC profit transfers	\$164.9	\$152.0	\$140.0	\$134.6	\$132.0	\$121.0
State taxes	\$147.8	\$139.8	\$132.0	\$126.8	\$121.0	\$114.2
General sales tax	\$41.3	\$39.2	\$36.9	\$31.3	\$29.6	\$27.9
Wine liter tax	\$36.2	\$35.2	\$34.6	\$34.4	\$33.5	\$32.2
Malt beverage tax	\$43.2	\$42.9	\$43.3	\$42.8	\$43.7	\$43.9
Total	\$433.4	\$409.3	\$386.9	\$369.9	\$359.7	\$339.2



Budget Actions Included in HB 1500

- Increased ABC profit transfers
 - \$165.9 million in FY 2017
 - An increase of \$13.0 million - 15.4%
 - \$170.0 million in FY 2018
 - An increase of \$11.6 million - 12.9%
 - Increases are above those adopted in 2016 budget
- \$552,236 for 25 additional retail positions
 - Additional positions tied to new store growth

Funding Provided to Replace ABC's Outdated Technology Systems

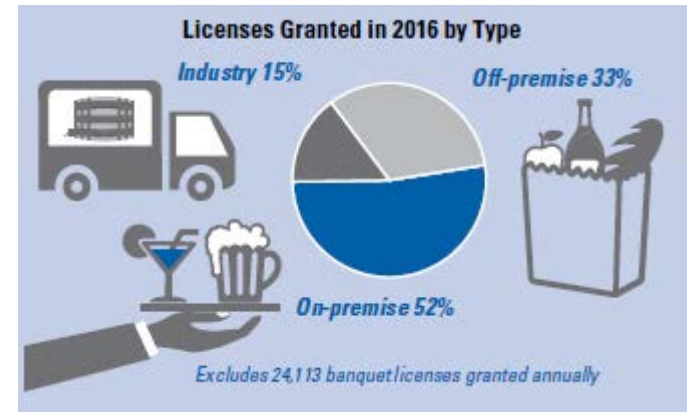
Item	Total	Completion Date
New Financial System	\$17 million	October 2019
New Licensing System	\$3.2 million	August 2019
Website Phase II	\$1.1 million	3/31/2017
Broadband for Stores	\$600,000	Complete
Electrical System	\$462,800	Deferred
Total Funding	\$22.36 million	

Financial Management

- Planned replacement for 20 year-old financial management software
- Initial RFP issued but cancelled prior to response review
- New ERP strategy maximizes agency value
 - New strategy approved by IT Advisory Committee during June 16, 2016 meeting
- Current progress: RFP under development

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
- Virginia ABC is in the latter stages of the evaluation phase and expects to award a contract in Summer 2017



Web Redesign Phase II

- Virginia ABC now building additional functionality; project will be completed by late March
- Project expands online services by:
 - Text messaging
 - Bulk ordering
 - Developing a licensee portal
 - Licensee e-pay
 - Store pages

1,324,568
UNIQUE VISITORS TO
WWW.ABC.VIRGINIA.GOV



NEW VISITORS MADE UP
57.4% OF SITE TRAFFIC



Broadband

- Virginia ABC has installed high-speed broadband routers in nearly all ABC stores, providing:
 - Faster communication speeds (30-100 percent faster)
 - Cellular links in case of line failure
 - Backup for bank card authorizations
 - Improved updates
 - Improved maintenance and support
- Current Progress:
SUCCESSFUL COMPLETION



Electrical System Upgrade

- ABC Central Office and Warehouse are almost at full electrical system capacity now
- Generator can power POS, computer room, and emergency and safety equipment in event of catastrophic breakdown
- Given the capital project included in the Governor's proposed budget, ABC has deferred the electrical upgrade unless the agency will remain in its current location longer
 - ABC can take some actions to reduce stress on the electrical system



Future IT projects

Item	Total	Completion	Rationale
Point of Sale	\$8.0 million	12/31/2020	Software vendor ending support in 2020
Warehouse Management	\$7.0 million	6/30/2019	New system needed for conveyor system in current or new facility
Inventory Management	\$1.0 million	12/31/2019	Same as above
Tax Management	\$4.5 million	9/30/2019	Using outdated TAX software, electronic submissions needed
Human Resource	\$3.0 million	6/30/2019	Uses homegrown system that has limited functionality; needs update for Authority
Sales Audit	\$2.4 million	12/31/2019	Aging homegrown system
Payroll	\$1.5 million	12/31/2019	Essential part of HR upgrade
Website Phase III	\$1.2 million	3/31/2018	Additional functionality
Disaster Recovery	\$7.0 million	12/31/2019	ABC has limited disaster recovery
Grand Total	\$35.6 million		

Executive Order #40

- Virginia ABC Enforcement became an accredited law enforcement agency in 2015
- Special agents received 3,558 hours of training over three quarters of 2016
 - Community policing
 - “Making Every Contact Count”
 - Confronting allegations of biased-based policing
 - ABC’s mission
- Signed MOUs with University and Local police departments
- Special agents continue to focus on licensee inspections

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

- Submitted proposed human resource and procurement policies to General Assembly on January 3 (HD 2)
- New Mission, Vision, Values released to agency on November 10, 2016
- Phase 3 Kickoff has been held with agency leadership
- Employee communication site launched January 19th

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Rumor Mill

What have you heard?

[See Answered Questions](#)

Welcome!

During the 2015 General Assembly session, HB 1776 was enacted to turn Virginia ABC from an agency into an authority. This move will better position ABC to be more flexible and efficient as a retailer, wholesaler and regulator of the sale of distilled spirits.

This transition is a complex process set to take place in 2018. This website is designed to be a one-stop shop for all news about the transition and to provide employees the opportunity to ask questions and stay aware. The goal is to build a better ABC for our employees, customers, licensees, vendors and suppliers.

We have only scratched the surface on the work that needs to be done to make the transition to an authority a success.

This is an exciting time as together we will shape the future of Virginia ABC. Please continue to visit this page for updates on progress, news and upcoming initiatives.



Transition News

[WTA Changes Proposed in New Bill](#)

Proposed changes could affect certain employees not transitioning to the Authority.

[ABC Proposes Bill on Authority Transition](#)

The proposed bill addresses the transition from agency to authority in 2018.

[ABC Unveils New Corporate Principles](#)

The leadership team is pleased to roll out the agency's new mission and vision statements as well as its four key values.

[Update on Authority Transition](#)

A number of recommendations have been made to ABC by agency partner Human Dynamics.

[Authority Transition Enters Phase II](#)

Virginia ABC has met its first milestone this month in its transition from an agency to an Authority.

[ABC Welcomes Change Management Consultants](#)

Virginia ABC is at the start of a very exciting and transformative time as we begin

ABC Authority Omnibus

- In order to realize the original legislative intent of the ABC Authority Act, additional modifications are necessary
- Modifications will permit the Authority the flexibility to operate more like a business and as efficiently and effectively as the bill intended.
 - HB 2359 & SB 1287
- Highlights:
 - A year-long transition period beginning January 15, 2018
 - Board and staff roles; delegation of duties
 - Enhanced negotiated settlement with licensees
 - Financial treatment similar to other authorities
 - Exemption from mandatory procurement sources