

IOWA ALCOHOLIC BEVERAGES COMMISSION

MINUTES

Iowa Alcoholic Beverages Division
1918 SE Hulsizer Road, Ankeny IA
Board Room
April 7, 2015 – 1:00 PM
Dial In Number: 1.866.685.1580
Conference Code Number: 0009991572

Commission Members Present:

Rick Hunsaker: Chairperson
Jay Wilson: Secretary
Gary Nystrom: Member
Claire Celsi: Member (via phone)

Commission Members Absent:

Tami Doll: Vice Chair

ABD Staff Present:

Stephen Larson: Administrator
John Lundquist: Assistant Attorney General
Stephanie Strauss: Executive Officer
Heather Schaffer: Compliance Officer
Bobby Bailey: Public Information Officer
Erin Bothwell: Program Planner
Tim Iversen: Chief Operating Officer
Nicole Scebold: Management Analysis
Anita Volk: Project Manager
Tyler Ackerson: Assistant to the Administrator
Lee Hood: OCIO

Guests Present:

E. John Broadbent: Broadbent Distillery
Christine Carlton: Two Saints Winery
Michelle Hurd: Iowa Grocers Association
Sheila Douglas: IWBD
David Ropte: Iowa Brewer Guild
Teresa Albert: Millstream Brewing
Jay Wilson: Iowa Brewers Guild
John D'Attoma: Glazers
Jessica Dunker: Iowa Restaurant Association
Mike Lipsman: Strategic Economics Group

Harvey Siegelman: Strategic Economics Group
Steve Johnson: Johnson Stephens Consulting
Scott Posey: Johnson Stephens Consulting
Buz Stewart: Johnson Stephens Consulting
Russell Covington: Johnson Stephens Consulting

Guests Present on Conference Call:

Nicole Eilers: Iowa Wine Growers Association
Lynn Walding: Diageo
Garrett Burchett: Mississippi River Distilling
John Maynes: Petroleum Marketers and Convenience Stores of Iowa

CALL TO ORDER

Chairperson Rick Hunsaker called the meeting to order at 1:02 P.M. and roll was taken. There was a quorum.

APPROVAL OF AGENDA

MOTION: A motion was made by Commissioner Wilson and a second by Commissioner Celsi to approve the agenda for the April 7, 2015 Commission meeting.

Motion approved unanimously.

MOTION: A motion was made by Commissioner Celsi and a second by Commissioner Wilson to approve the minutes for the January 14, 2015 Commission meeting.

Motion approved unanimously.

Chairperson Rick Hunsaker recognized Administrator Larson for the Administrator Report.

ADMINISTRATOR REPORT

Administrator Larson recognized Bill Lipsman of Strategic Economics Group to provide information on their Iowa Craft Brewing Industry study.

Mr. Lipsman introduced himself and Harvey Siegelman, a partner in the study. Mr. Lipsman explained the four major issues the study sought to address: How the industry has grown and what the four-year forecast for the industry is; how the industry distributes around Iowa; the estimates of employment, personal income, and production income; and how breweries and brewpubs impact local communities. Mr. Lipsman said the three research approaches his team is using are: extensive background research of national and state studies of the industry; surveying existing breweries and brewpubs in Iowa (slightly over 50% have responded thus far); and data derived to estimate statewide impacts of the industry. Mr. Lipsman shared some of the interesting findings thus far, including facts and statistics.

Administrator Larson then recognized Steve Johnson of Johnson Stephens Consulting.

Mr. Johnson introduced himself, Buz Stewart, Scott Posey, and Russ Covington, all employees of Johnson Stephens Consulting. Mr. Johnson described Johnson Stephens Consulting as a supply chain consulting firm primarily focused on economic development via operations improvement, with significant beverage and spirits distribution experience. Johnson Stephens Consulting will be on site at the Division and out with the Division's

transportation fleet to examine how the Division previously operated, how it operates now, and improvements that can be made moving forward to increase efficiency in operations. Mr. Johnson projected that the target date for their report would be the end of September 2015 or early October 2015. Administrator Larson added that along with examining fleet and warehouse operations, Johnson Stephens Consulting would also be examining the Division's financials and creating a model for the next five years.

Administrator Larson then recognized OCIO Project Manager Anita Volk for an update on the Division's technological operations.

Ms. Volk presented an update on the customer web portal, the vendor web portal, EDI, eLicensing, and the Division's transition to a single platform for all systems. The customer web portal had 382 users signed up, with 311 users actively ordering and \$9.7 million in orders having been placed. The vendor web portal had 45 suppliers signed up, with 25 suppliers actively using and 244 total entries. EDI had 115 users, with Casey's General Stores coming aboard in the near future and adding 150 additional users. Fareway and Costco have also signaled that they will begin using EDI. The Division will begin moving all systems to a single platform (Microsoft Dynamics AX) starting April 13, 2015, with employees of Blue Horseshoe on-site at the Division to begin implementation. As part of the move to a single platform, eLicensing will also be moved into Microsoft Dynamics AX, which will increase efficiency and make the licensing process more customer-friendly.

Administrator Larson then recognized Chief Operating Officer Tim Iversen for an operational and financial management update.

Mr. Iversen explained that the Division will begin pivoting staff roles and responsibilities to accommodate upcoming technological changes. Their roles will become more customer-assistance-based, helping customers become acclimated with the Division's new products and services. Staff will also be working to create robust Frequently Asked Question guides that can answer customer questions electronically.

Mr. Iversen also provided two target dates for requiring customers to order electronically. Beginning June 1, 2015, any new Class E licensee will be required to order electronically, whether via EDI or the customer web portal. Beginning September 1, 2015, all current Class E licensees who renew their license on or after that date will be required to order electronically. Mr. Iversen stressed that Division staff will be available to educate customers and ensure a smooth transition to electronic ordering. Mr. Iversen noted that in the run-up to the September 1 deadline, the Division is engaging in a full-fledged information/education campaign with current and new Class E's.

Mr. Iversen then provided a financial update. Through March 2015, revenues were up 4.9%, with March 2015 sales up 18%. Case counts have lagged, but Mr. Iversen speculated that was possibly due to premiumization, or customers purchasing higher-quality products than they had in the past. Reversion was at \$78 million through March 2015, with approximately \$8-9 million being reverted per month. Gross profits were down 0.4% due to improved inventory management. Total operating expenses were down 3.36% and general and administrative expenses were down 0.06%. Return on sales was up 0.9%. Freight expenses have increased 11% over last year, mainly due to the purchase of a new fleet. Warehouse expenses were down 9%, with orders up 3.23% and bottle sales up 2.93%. Workman's compensation premium had increased 24.48% over the prior year.

Administrator Larson provided an update on trade practices. The reorganization of 185 IAC Ch. 16 will become effective June 17, 2015, unless any opposition arises from the Administrative Rules Committee.

Division Executive Officer Stephanie Strauss then provided a legislative update.

Ms. Strauss provided an update on Senate File 123, a bill prohibiting the sale or possession of powdered alcohol by persons or clubs holding a liquor control license or retail wine or beer permit. The bill had passed the Senate and was assigned to the House Commerce Committee. Senate File 125, the Division's bill making technical changes, passed the Senate the previous week and passed the House today. Senate File 124, a bill concerning the reporting and payment of wine gallonage sales and taxes, passed the Senate and is currently assigned to the House Ways and Means Committee. House Study Bill 230, a study bill concerning a dram shop study, had a subcommittee, but did not survive the funnel deadline, thus no more action can be taken on it this legislative session.

Commissioner Wilson gave a brief overview of the trade practices meeting that took place before the Commission meeting. The focus was on changing 185 IAC 16.10 regarding tastings, samplings, and trade spending, and industry members and meeting attendees were asked for changes, edits, concerns, input or questions. Commissioner Wilson said that a proposal should be ready to present to the Commission after June 17, 2015.

Administrator Larson provided an update on administrative hearings and appeals. Commissioners Hunsaker and Celsi, along with Administrator Larson, met with the Des Moines City Council and Mayor Cownie regarding administrative hearing and appeals. Administrator Larson said that from that meeting, the Division will follow 3 pathways moving forward regarding administrative hearings and appeals:

1. The Division will work to expedite the appeal process for denied, suspended, or revoked licenses.
2. The Division will be working with Neighborhood Associations statewide to educate them on the Division's roles in the licensing, hearing, and appeal processes. The first meeting will be with the Des Moines Neighborhood Association on April 23, 2015.
3. The Division will be meeting with the City of Des Moines to review Iowa Code Chapter 123 and ways to expedite the appeal process.

OLD BUSINESS

None

NEW BUSINESS

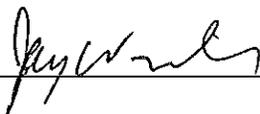
Commissioner Hunsaker notified attendees that Rachel Eubank had been confirmed by the Iowa Senate to the Commission. Her term will begin May 1, 2015. Commissioner Hunsaker thanked Commissioner Celsi for her service on the Commission.

Next Meeting Date: To Be Determined

ADJOURNMENT

MOTION: A motion was made by Commissioner Nystrom and seconded by Commissioner Wilson to adjourn the meeting. Motion approved unanimously.

The meeting adjourned at 2:46 P.M.



Commissioner Wilson, Secretary