

IOWA ALCOHOLIC BEVERAGES COMMISSION

MINUTES

Boardroom
Iowa Alcoholic Beverages Division
October 20, 2015 – 1:00 p.m.
Dial In Number: 1.866.685.1580
Conference Code Number: 0009991572

Commission Members Present:

Tami Doll: Chair
Jay Wilson: Vice Chair
Gary Nystrom: Secretary
Rick Hunsaker: Member

Commission Members Absent:

Rachel Eubank: Member

ABD Staff Present:

Stephen Larson: Administrator
John Lundquist: Assistant Attorney General
Stephanie Strauss: Executive Officer
Heather Schaffer: Compliance Officer
Jeff Cam: Compliance Officer
Karen Freund: Deputy Administrator of Regulation
Robert Bailey: Public Information Officer
Erin Bothwell: Education and Outreach Program Planner
Tim Iversen: Chief Operating Officer
Anita Volk: Program Manager
Todd Halbur: Comptroller
Leisa Bertram: Accounting
Tyler Ackerson: Assistant to the Administrator
Lee Hood: IT Contractor

Guests Present:

Nathan Cooper: Iowa Wholesale Beer Distributors Association
Nicole Eilers: Iowa Wine Growers Association
Doug Dollman: Glazer's
John Cacciatore: DISCUS
Stacy Kluesner: Iowa Restaurant Association

Guests Present on Conference Call:

Julie Simon: Iowa Senate Democratic Caucus Staff
J. Wilson: Iowa Brewers Guild
Jennifer Acton: Legislative Services Agency
Garrett Burchett: Mississippi River Distilling Company

CALL TO ORDER

Chairperson Tami Doll called the meeting to order at 1:00 p.m. and roll was taken. There was a quorum.

APPROVAL OF AGENDA

MOTION: A motion was made by Commissioner Hunsaker and seconded by Commissioner Wilson to approve the agenda for the October 20, 2015, Commission meeting.

Motion approved.

APPROVAL OF MINUTES

MOTION: A motion was made by Commissioner Nystrom and seconded by Commissioner Wilson to approve the minutes for the August 20, 2015, Commission meeting.

Motion approved.

Chairperson Doll recognized Administrator Stephen Larson for the Administrator's Report.

ADMINISTRATOR'S REPORT

Administrator Larson recognized Public Information Officer Robert Bailey for an update on the Fiscal Year 2015 Annual Report.

Mr. Bailey reported that the Annual Report is currently in development with a targeted release date of November 9. Mr. Bailey noted that the report will be similar to the previous year's report, but with better financial figures. Mr. Bailey provided several figures, including total revenue, which increased from \$302.6 million in Fiscal Year 2014 to \$319,284,577 in Fiscal Year 2015, a 5.5 percent increase; liquor sales, which increased from \$263,495,212 in Fiscal Year 2014 to \$277,706,516 in Fiscal Year 2015, a 5.4 percent increase; total funds directed towards public treasuries, which was \$128,664,789 with \$104,186,354 going to the State of Iowa General Fund; and Revenue Estimating Conference obligation, which the Division exceeded by 12.4 percent in Fiscal Year 2015.

The "Year in Review" will focus on changes the Division has been making, including the Customer Web Portal, outreach to industry members, changes to Iowa's Trade Practices rules, and growth in information technology. Mr. Bailey emphasized that the overall goal is to show that the Division is embracing change.

Mr. Bailey then recognized Chief Operating Officer Tim Iversen for a Quarter 1 Fiscal Year 2016 financial update.

Mr. Iversen reported that total liquor sales for the first quarter of Fiscal Year 2016 were \$63.1 million, a 3.5 percent increase over the first quarter of Fiscal Year 2015, which exceeded a growth rate of 2.77 percent between the first quarter of Fiscal Year 2015 and the first quarter of Fiscal Year 2014. Split case revenue

increased 4.5 percent in the first quarter of Fiscal Year 2016 over the first quarter of Fiscal Year 2015. Bottle deposit revenue increased 7.5 percent in the first quarter of Fiscal Year 2016 over the first quarter of Fiscal Year 2015.

Mr. Iversen reported that the Division's reversion to the General Fund for the first quarter of Fiscal Year 2016 was \$16.7 million, which is an increase of 5 percent over the reversion made in the first quarter of Fiscal Year 2015. Mr. Iversen noted that the reversion made in the first quarter of Fiscal Year 2015 was 7.5 percent less than the reversion made in the first quarter of Fiscal Year 2014. Discussion took place regarding the decreasing amounts reverted for substance abuse. The Division's Comptroller, Todd Halbur, noted that the decrease appears as a result of the timing of the beginning of the new fiscal year. The reversion for substance abuse is based upon 7 percent of gross liquor profits from the previous month. In July (the beginning of a new fiscal year) there are no previous month's sales to base a reversion off of. This causes the number to appear lower.

Mr. Iversen reported that gross profit for the first quarter of Fiscal Year 2016 was up 2.5 percent over the first quarter of Fiscal Year 2015. He noted that this differed slightly from the revenue gain as a result of inventory management and having less product to buy out at the end of the month and sell at a discount.

Mr. Iversen reported that total operating expenses decreased by 3.87 percent in the first quarter of Fiscal Year 2016 compared to the first quarter of Fiscal Year 2015. Income from operations increased 1.49 percent in the first quarter of Fiscal Year 2016 compared to the first quarter of Fiscal Year 2015. Mr. Iversen noted that the difference between the 1.49 percent income from operations and the 3.5 percent revenue from sales was due to increased investment in information technology.

Mr. Iversen reported that the Division saw an increase in net profit of 2.94 percent in the first quarter of Fiscal Year 2016 over the first quarter of Fiscal Year 2015. He noted that the difference between the 3.5 percent increase in revenue from sales and the 2.94 percent increase in net profit is due to efficiencies which have reduced operating expenses.

The Division's freight operating expenses increased 7.22 percent in the first quarter of Fiscal Year 2016 over the first quarter of Fiscal Year 2015. Discussion took place regarding the increase. Mr. Iversen noted that the main reason for the increase was the lease on new equipment, which is higher than what was being paid on the 2001 and 2002 trucks. He also noted that there were step increases in wages wrapped into the expenses as well. Mr. Iversen explained that the figure was on pace with budget projections for the fiscal year.

Mr. Iversen reported that order volume increased 12.01 percent in the first quarter of Fiscal Year 2016 over the first quarter of Fiscal Year 2015, and was nearly double the increase of 6.3 percent in the first quarter of Fiscal Year 2015 over Fiscal Year 2014. He attributed the increase to the \$600 minimum order amount required to place an order via the Customer Web Portal versus the 10-cases minimum required to place an order via phone, fax, or email.

Mr. Iversen reported that freight and warehouse costs per order have decreased by 6.8 percent in the first quarter of Fiscal Year 2016 compared to the first quarter of Fiscal Year 2015. He attributed this decrease to increased efficiency in the delivery routes, including more orders per route, and decreasing the total number of routes from 46 to 42.

Mr. Iversen reported that for the month of September liquor sales increased 9.29 percent, revenue from split case fees increased 19.33 percent, revenue from recycling increased 17.08 percent, and total revenue increased 9.4 percent in Fiscal Year 2016 compared to Fiscal Year 2015. Revenue per bottle in September of Fiscal Year 2016 was \$13.10, an increase from \$12.65 in September of Fiscal Year 2015. Mr. Iversen attributed the growth to an

increased preference of premium brands by consumers. Mr. Iversen reported that revenue per order had decreased from \$5,404 in September of Fiscal Year 2015 to \$5,088 in September of Fiscal Year 2016.

Mr. Iversen provided an update on the Division's infrastructure improvements. He reported that Phase IV was in the finishing stages and emphasized that the goal of the structural changes was to improve the safety and security of the facility and its personnel. He noted that badges are now required to move throughout the entire facility and that visitors must be buzzed in by the front desk to enter through the front door. Mr. Iversen reported that the planning stages for Phase V are underway. The primary focus of Phase V will be to replace the front parking lot, which is currently crumbling. Other projects will include upgrades to audio/visual technology in the boardroom to better accommodate public meetings and education and outreach efforts.

Mr. Iversen reported that the Division proposed and received initial approval on the first budget request for Fiscal Year 2017 to begin investing in automation infrastructure in the warehouse, with the goal being automation of the first four rows, which accounts for the top 500 SKUs and covers approximately 85 percent of product volume. Automation would assist in negating the effects of rising workman's compensation costs. Mr. Iversen noted that the goal is not a reduction in force.

Mr. Iversen then recognized Program Manager Anita Volk for a technology update.

Ms. Volk reported that there are currently 1,310 Class E licensees. Of those, 990 are signed up for the Customer Web Portal and 950 are actively placing orders. Approximately \$84 million in orders have been fulfilled via the Customer Web Portal. On average 70 or fewer manual orders are being placed by Class E licensees per day, with the majority of those orders consisting of will-call orders and add-ons to orders that have already been placed.

Ms. Volk also reported on several functionalities that have been added to the Customer Web Portal, including a will-call order button, the placement of holiday product orders, the ability to upload an order via Excel or CSV, the ability to place add-ons to orders, and the ability to export order invoices to a PDF or Excel spreadsheet. Functionalities currently in development include placing special orders and requests for highly-allocated products.

Commissioner Wilson requested adding the functionality to the Customer Web Portal to include the UPC code for products ordered when exporting an order invoice to Excel. Mr. Iversen noted that development of that functionality is currently underway. Commissioner Doll asked about adding the functionality to scan bar codes to the Customer Web Portal on mobile devices. Mr. Iversen indicated that a standalone app would need to be built to integrate that functionality. He noted that currently the Division's resources are stretched thin with other projects, but building an app is something that will be explored in the future. Commissioner Hunsaker suggested that a survey on the Customer Web Portal should be developed and distributed to licensees for feedback. Administrator Larson indicated that resources would be dedicated in calendar year 2016 to determine the best course to receive feedback.

Ms. Volk reported that of 184 total suppliers, 110 are currently using the Vendor Portal. Benefits of the Vendor Portal include the ability to upload new products with photos, to review the online dashboard, and to have balanced forecasting between suppliers and the Division. Currently, the Division is working on requirements to add purchase orders to the Vendor Portal. Mr. Iversen noted that the Division does not allow new products to be listed unless they are added via the Vendor Portal.

Ms. Volk reported that of 1,310 total Class E licensees, 250 are actively using Electronic Data Interchange (EDI) to place their orders, with Walgreens and QuikTrip in the setup phase with a projected go-live date of November 1, 2015.

Ms. Volk reported that development of the single platform has begun with Blue Horseshoe, with Division staff working on training documentation and verifying the Functional Design Documents. The Division will be required to put the Voice Pick system and Delivery Solution out for bid due to state procurement rules. Core teams are currently meeting to document requirements and work on developing an RFP with DAS and OCIO. Microsoft Dynamics CRM will also have to be put out for bid. The Division is currently working with DAS and OCIO to develop an RFP.

Ms. Volk reported on the Division's 6/1 and 9/1 Electronic Initiative, which requires all new Class E licensees effective June 1, 2015, and after to order via the Customer Web Portal or EDI, and all current Class E licensees with a license renewal date of September 1, 2015, or after to order via the Customer Web Portal or EDI upon renewal of their license. Since June 1, 2015, there have been 38 new Class E licensees, all of which are ordering electronically. Out of a total of 1,310 Class E licensees, only 205 remain that have yet to begin ordering electronically.

Ms. Volk noted that all IT invoices go through Accounting and then on to her to verify before signing off. The invoices are then passed on to Mr. Iversen for his signature, and if the invoice is over a certain amount, Administrator Larson's signoff is required. After all necessary signatures have been received, Accounting will pay the invoice. Administrator Larson added that each month an executive team meets to review IT vendor invoices. He also added that he would like auditors during their yearly audit of the agency to focus on matching up invoices with payments to ensure they match the contracts that have been signed.

Ms. Volk then recognized Executive Officer Stephanie Strauss for an administrative rules update.

Ms. Strauss asked the Commission to adopt the amended rules regarding Tasting, Sampling, and Trade Spending. She explained that amendments were made to the Tasting and Sampling rules based on formal comments received from stakeholders during the official comment period.

MOTION: A motion was made by Commissioner Hunsaker and seconded by Commissioner Wilson to adopt the rules published under Notice of Intended Action ARC 2106C, as amended.

A roll call vote was taken with the following results:

Commissioner Doll: Aye

Commissioner Wilson: Aye

Commissioner Nystrom: Aye

Commissioner Hunsaker: Aye

The motion passed and the rules, as amended, were adopted.

With the adoption of the rules, Ms. Strauss noted that they would be filed on November 4, 2015.

Ms. Strauss then presented the proposed administrative rules for growers. The proposed rules were previously provided to stakeholders for comment, and the Division is now prepared to begin the formal rulemaking process. Ms. Strauss noted that the growler rules would be filed on November 4, 2015.

Ms. Strauss then recognized Administrator Larson for a preview of bills the Division plans to file for the 2016 legislative session.

Administrator Larson reported that the Division has sought approval from the Governor's Office to file three bills. The first would create a new license that would allow returning military personnel to ship home wine that they have acquired while serving overseas. The second bill would make substantive changes to Chapter 123, including requiring all Class E licensees to post a bond, allowing commercial establishments to sell wine from an automated device, and addressing the use of homemade wine away from the premises where it was made. The third bill would consist of technical, non-substantive changes to clean up Chapter 123 and reflect current practices of the Division.

Administrator Larson recommended that the Commission hold forums in calendar year 2016 to discuss alcohol policy. He also advised the Commission of a legislative coffee to be held at the State Capitol on February 18, 2016, and encouraged attendance.

OLD BUSINESS

None

NEW BUSINESS

None

NEXT MEETING DATE

Tuesday, January 12, 2016, at 2:00 p.m.

ADJOURNMENT

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

Motion approved.

The meeting adjourned at 2:16 p.m.



Commissioner Nystrom, Secretary