

AGENDA

IOWA ALCOHOLIC BEVERAGES COMMISSION MEETING

Iowa Alcoholic Beverages Division
1918 SE Hulsizer Road, Ankeny, IA
May 9, 2018 – 1:00 PM – 4:00 PM
Dial in Number: 1.866.685.1580
Conference Code Number: 0009991572

Call to Order.....Chairperson Nystrom

- I. Introductions/Opening Remarks
- II. Approval of Agenda – **ACTION ITEM**
- III. Approval of March 4, 2018 and April 27, 2018, Minutes – **ACTION ITEM**

Administrator’s Report.....Administrator Larson

- IV. Financial Management Update - FY18
- V. Product Management Update
- VI. Licensing and Regulatory Update
- VII. Warehousing and Transportation RFP Update
- VIII. Public Forums Update
 - a. Licensing Reform
 - b. Iowa Liquor Wholesale Model
- IX. Administrator Update
- X. Attorney General’s Report

Public Comment.....Chairperson Nystrom

Old Business.....Chairperson Nystrom

New Business.....Chairperson Nystrom

Next Meeting Date.....Chairperson Nystrom

- June 13, 2018 in Sioux City, Iowa.

Note: This meeting will be a Commission Forum on the Iowa Liquor Wholesale Model

Adjournment.....Chairperson Nystrom

NOTE: Committee and Board agendas may be amended any time up to 24 hours before the meetings. Agenda items may be considered out of order at the discretion of the chair. Meetings will not convene earlier than stated above. If you require accommodations to participate in this public meeting, call 515.281.7407 or TTY at (toll-free) 866.IowaABD to make your request. Please notify ABD at least 48 hours in advance.

IOWA ALCOHOLIC BEVERAGES COMMISSION

MINUTES

**Iowa Alcoholic Beverages Division
Golden Eagle Distributing
500 Golden Eagle Drive
Mount Pleasant, Iowa
April 4, 2018
10:00 A.M. – 1:00 P.M**

Commission Members Present

Gary Nystrom: Chair
John Pauli: Secretary
Rachel Eubank: Member
Christine Riesenbeck-Spratt: Member
Jay Wilson: Member

Division Staff Present

Stephen Larson: Administrator
Jodi Christensen: Safety and Security Coordinator
Nicole Scebold: Management Analyst 3
Herb Sutton: Manager, Business Operations

Guests Present

Edgar McGuire: Bootleggin Barzini's
Jim Van Klavern: Jim & Charlies Affiliated Food
Brandon Cummings: Hy-Vee Mt.Pleasant
Duane Mosses: Giggle Juice Liquor Station

CALL TO ORDER

Chairperson Gary Nystrom called the meeting to order at 10:02 a.m. and roll was taken. There was a quorum.

INTRODUCTIONS

Chairperson Nystrom asked everyone in attendance today to please introduce themselves and identify who they are with for the record.

APPROVAL OF AGENDA

MOTION: A motion was made by Commissioner Wilson and seconded by Commissioner Spratt to approve the agenda for the April 4, 2018 Commission meeting.

Motion approved.

APPROVAL OF MINUTES

MOTION: A motion was made by Commissioner Eubank and seconded by Commissioner Pauli to approve the minutes for the January 16, 2018 minutes.

Motion approved.

Chairperson Nystrom recognized Administrator Stephen Larson for the overview of the Iowa Liquor Wholesale Model.

ADMINISTRATOR'S REPORT

Warehousing and Transportation RFP Update:

Administrator Larson reviewed the timeline as to when we officially began the journey regarding the formalization to determine if it is feasible to enter into a public/private partnership. ABD worked with the Department of Administrative Services in reference as to what is put forth in an RFP, that entire process that began back in December of 2016. About four to six weeks ago the committee, which consisted of 12 individuals, met with Administrator Larson and made a recommendation that we should begin a journey of Intent to Award. The Department of Administrative Services and the evaluation committee felt through the scoring process that there was a qualified candidate that the State should approach formally to determine the credibility of the bid. In this Intent to Award process it is critical that if ABD would get into a contract negotiation our partner has the ability to demonstrate they could meet the current and future model for the delivery and distribution of spirits. This model is to sustain achievable outcomes as outlined under the purpose and strategic objective. The goals and objectives of the Intent to Award are to further explore detail comparison of hard costs, systems coordination, confirm their assumptions, and clarify any information submitted by Ruan to determine the credibility and validity of their bid. ABD did have a meeting with Ruan's leadership team on March 5, and the evaluation committee on March 22, 2018. ABD is scheduled to meet with Ruan again on April 17, 2018 to continue evaluating the credibility and validity of their bid. After the April meeting ABD can do the appropriate modeling in the future to determine if there is a cost benefit to the State. ABD will make a final decision on or before July 1, 2018 to determine if we will move forward with contract negotiations. If ABD would enter into any kind of private partnership that would not occur until January 1, 2019.

2018 Legislative Update:

SF2310 the Division's Technical Bill has been signed by the Governor. It passed 98-0 and 48-0.

SF2347 Personal Importation of Alcohol passed both the Senate and the House. This would allow people migrating into Iowa the ability to bring in a certain quantity of beer, wine or spirits.

SF2169 Dramshop was amended by the House and returned to the Senate for a final vote.

Product Management Update:

On or before July 1, 2018, ABD will be refreshing the listing and delisting policies. ABD will be modifying if necessary: size extensions, highly allocated programs, special order programs and pricing.

PUBLIC COMMENT

Duane Mosser: Commented that his store is 40 minutes from the border and personally knows people that go across the border to purchase alcohol because it's cheaper. Duane would like more communication and education to come from ABD regarding the laws of crossing the border to purchase alcohol.

Edgar McGuire: Commented he is also aware of people going across the border to purchase alcohol. He stated if ABD could cut the mark up to 40% it may help stop people from going across the border.

Edgar McGuire: Commented that bars also need to be looked at because a lot of them are bringing back liquor from outside of Iowa (gun shaped tequila for example) and more enforcement needs to be done on bars.

Brandon Cummings: Q. Asked if stores will still receive highly allocated email.

A. Nicole Scebold from ABD answered yes, re-sign up for the new list that is effective May 1st, ABD will be contacting corporations to obtain approval for their stores partaking in the highly allocated program.

Brandon Cummings: Q. Asked if delivery days will be changed if ABD moves forward with Ruan.

A. Administrator Larson replied that there will be conversations with licensees down the road and there is a possibility they could be changed.

OLD BUSINESS

None

NEW BUSINESS

Commissioner Nystrom congratulated Commissioner Wilson on his reappointment.

Commissioner Nystrom thanked Commissioner Spratt for hosting the meeting.

NEXT MEETING DATES

Stephanie Strauss will schedule a Telephonic conference call late April to approve ABD to proceed with rule making.

May 9, 2018 at Iowa Alcoholic Beverages Division headquarters. This will be a regular Commission meeting.

ADJOURNMENT

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

Motion approved.

The meeting adjourned at 11:53 a.m.

Commissioner Pauli, Secretary

IOWA ALCOHOLIC BEVERAGES COMMISSION

Telephonic Meeting

MINUTES

**Iowa Alcoholic Beverages Division
1918 SE Hulsizer Road, Ankeny, IA
April 27, 2018 – 11:00 AM
Dial In Number: 1.866.685.1580
Conference Code Number: 0009991572**

COMMISSION MEMBERS PRESENT

Gary Nystrom: Chair
John Pauli: Secretary (via phone)
Rachel Eubank: Member (via phone)
Christine Riesenbeck-Spratt: Member (via phone)
Jay Wilson: Member (via phone)

ABD STAFF PRESENT

Stephen Larson: Administrator
Stephanie Strauss: Executive Officer
Heather Schaffer: Compliance Officer 2
Tyler Ackerson: Education/Outreach (via phone)
Joshua Happe: Bureau Chief, Regulatory Compliance Bureau
Todd Halbur: Comptroller
Herb Sutton: Manager, Business Operations
Jake Holmes: Education/Outreach
Lolani Lekkas: Compliance Officer 2
Nicole Scebold: Management Analyst 3

GUESTS PRESENT

John Cacciatore: DISCUS (via phone)
Mackenzie Nading: Iowa Wholesale Beer Distributors Association (via phone)
Brittany Lumley: LS2 Group – Representing Doll Distributing (via phone)
Christopher Rantz: DISCUS (via phone)
Tyler Rudd: Wine Institute (via phone)
Garrett Burchett: Mississippi River Distilling Company (via phone)
Nicole Eilers: Iowa Wine Growers Association (via phone)
David Adelman: Beer Wholesalers and Wine Institute (via phone)
Tom Cope: Iowa Distillers Alliance (via phone)

I. CALL TO ORDER

Chairperson Nystrom called the meeting to order at 11:02 A.M. and roll was taken. There was a quorum.

Chairperson Nystrom noted that the meeting was being held telephonically due to the short agenda and the impracticality of meeting face-to-face.

II. APPROVAL OF AGENDA

MOTION: A motion was made by Commissioner Eubank and a second by Commissioner Pauli to approve the agenda for the April 27, 2018 telephonic Commission meeting.

Motion approved.

III. Chairperson Nystrom recognized ABD Executive Officer Stephanie Strauss for an overview of the proposed amendments to 185 – 4, “Liquor Licenses-Beer Permits-Wine Permits,” 185 – 5, “License and Permit Division,” and 185 – 12, “Forms”

Ms. Strauss presented amended language for Item 5 of the proposed amendments to rules.

Commissioners had no questions on the proposed amendments.

IV. MOTION: A motion was made by Commissioner Eubank and a second by Commissioner Pauli to approve the proposed amendment to Item 5.

**Commissioner Nystrom: Aye
Commissioner Pauli: Aye
Commissioner Eubank: Aye
Commissioner Riesenbeck-Spratt: Aye
Commissioner Wilson: Aye**

Motion Approved.

MOTION: A motion was made by Commissioner Wilson and a second by Commissioner Spratt to approve ABD to move forward with rule making, as amended.

**Commissioner Nystrom: Aye
Commissioner Pauli: Aye
Commissioner Eubank: Aye
Commissioner Riesenbeck-Spratt: Aye
Commissioner Wilson: Aye**

Motion Approved.

NEXT MEETING DATE

Wednesday, May 9, 2018 at 1:00 p.m. at Iowa Alcoholic Beverages Division, Ankeny.

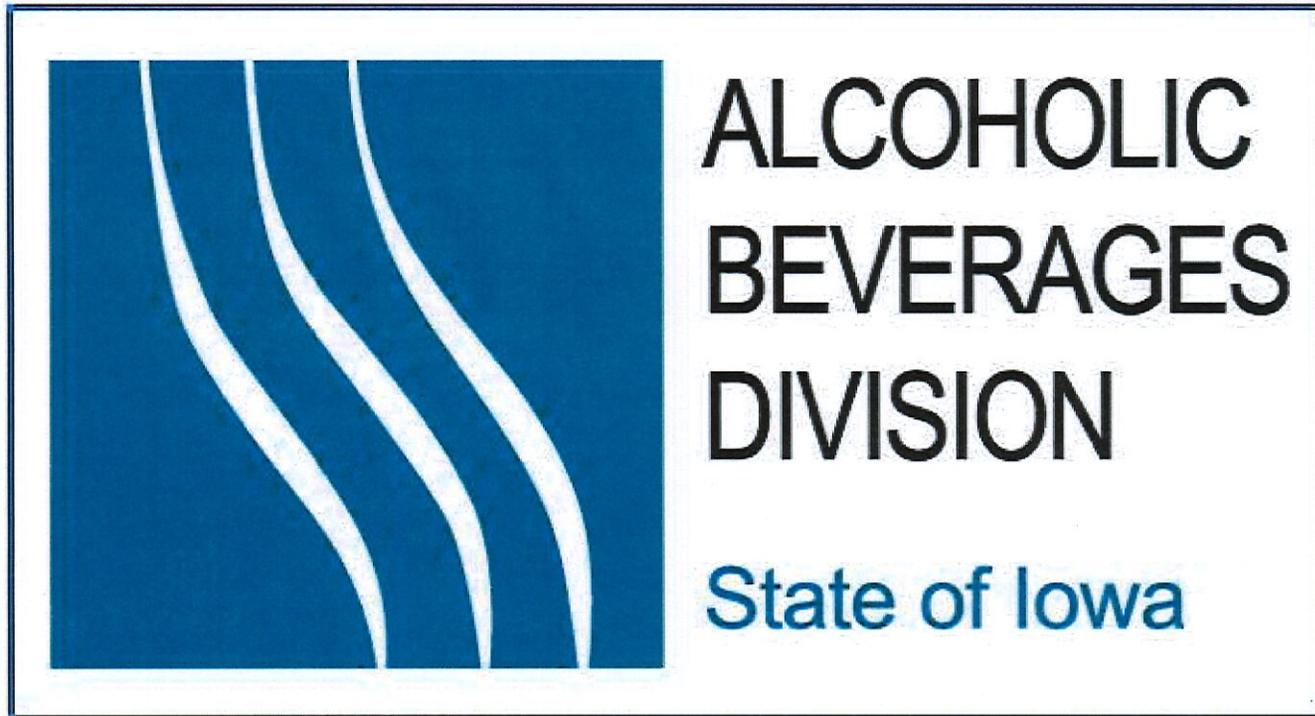
ADJOURNMENT

MOTION: A motion was made by Commissioner Eubank and a second by Commissioner Wilson to adjourn the meeting.

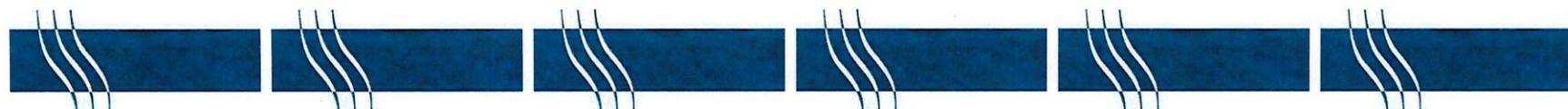
Motion Approved.

The meeting adjourned at 11:35 A.M.

Commissioner Pauli, Secretary



Financial Overview YTD through April FY18





ABD Metrics July 1, 2017 - April 30, 2018

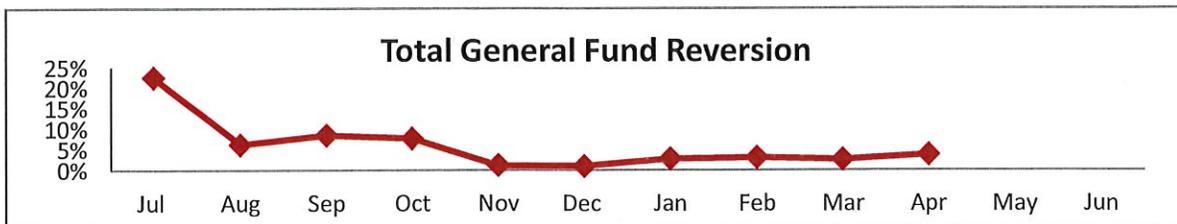
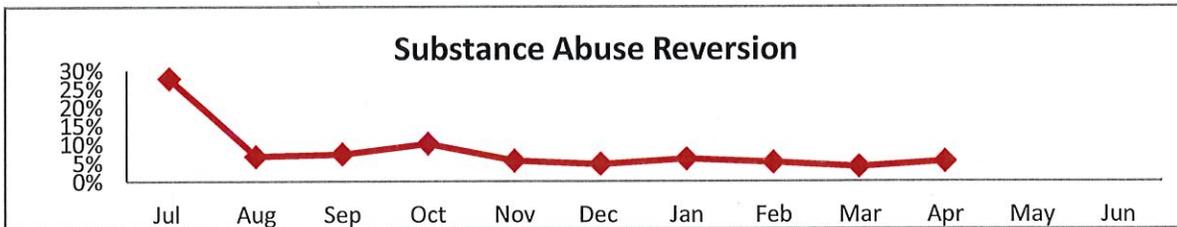
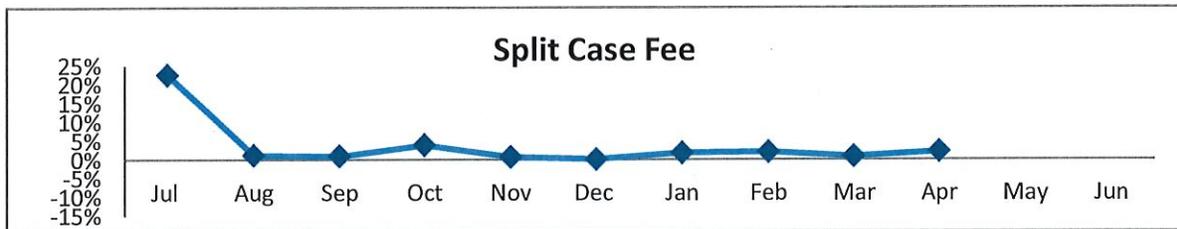
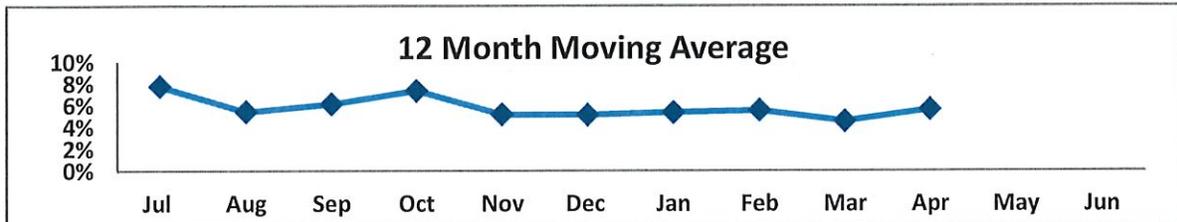
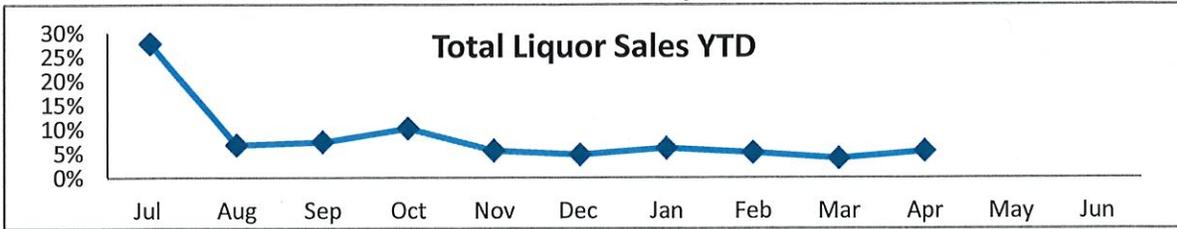
FY18 Current YTD Financial Analysis

Metric	FY2017	FY2018	Trend	5 Year Average	4 Year Average
Total Liquor Sales YTD	\$243,806,394.00	\$257,262,736.00	5.52%	4.75%	4.55%
12 Month Moving Average	\$25,165,267.00	\$26,589,622.00	5.66%	4.75%	4.55%
Split Case Fee	\$1,245,308.00	\$1,273,497.00	2.26%		
Bottle Deposit Revenue	\$2,249,741.00	\$2,443,231.00	8.60%		
Substance Abuse Reversion	\$17,158,618.68	\$18,097,536.33	5.47%		
Liquor Profits Reversion	\$76,200,000	\$78,000,000	2.36%		
Total General Fund Reversion	\$93,353,618.68	\$96,897,536.33	3.80%		
Average Monthly Order Volume	4,834	5,155	6.64%		
Average Monthly Case Volume	159,925	166,443	4.08%		
Average Monthly Bottle Volume	1,896,598	2,004,240	5.68%		
Average Monthly Delivery Volume	4,205	4,341	3.23%		
Total Freight Cost per Case	\$1.33	\$1.30	-2.26%		
Driver Cost per Case	\$0.75	\$0.72	-4.00%		
Total Warehouse Operation Cost Per Case	\$1.16	\$1.05	-9.48%		
Warehouse Worker Cost per Case	\$1.06	\$0.96	-9.43%		

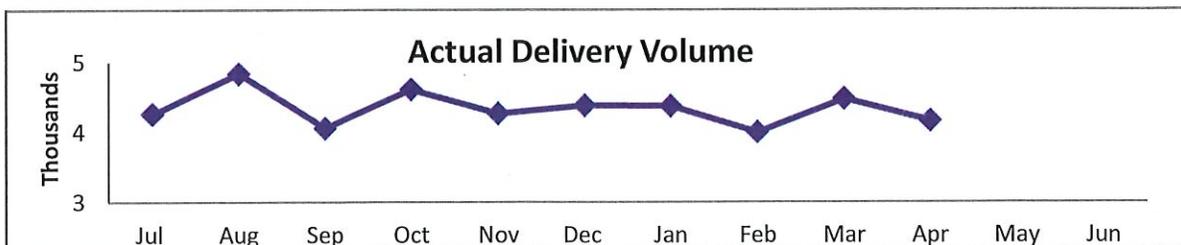
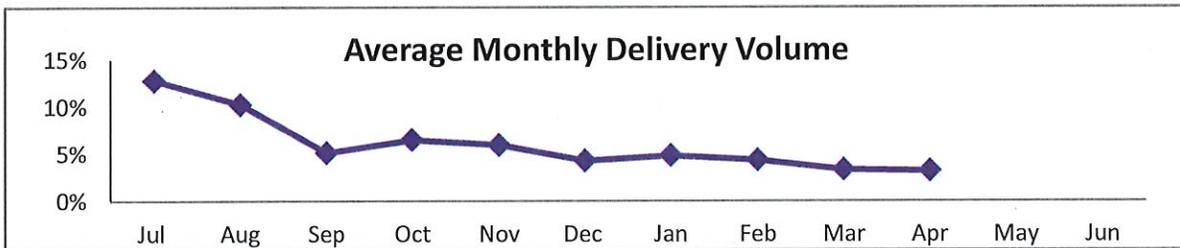
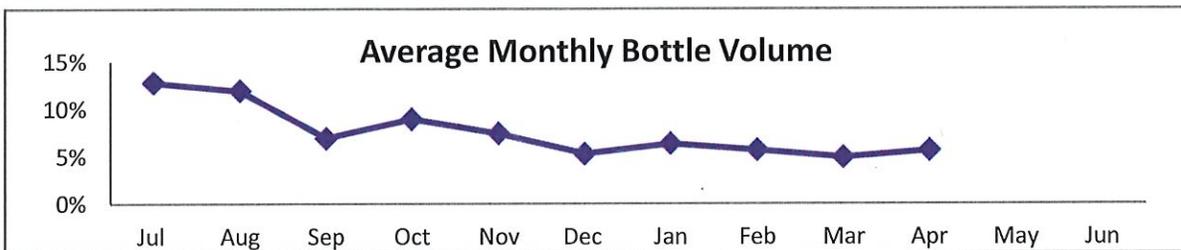
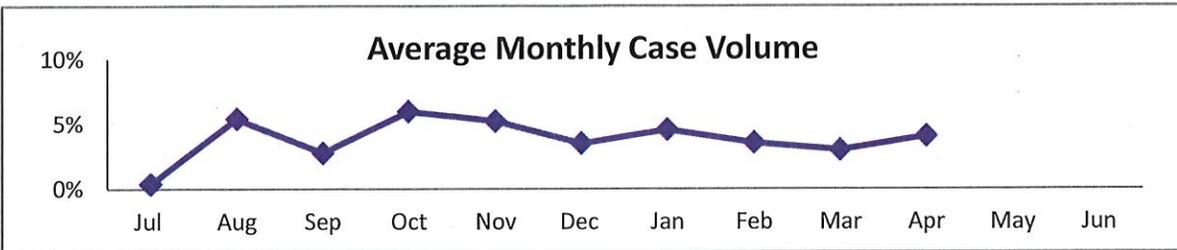
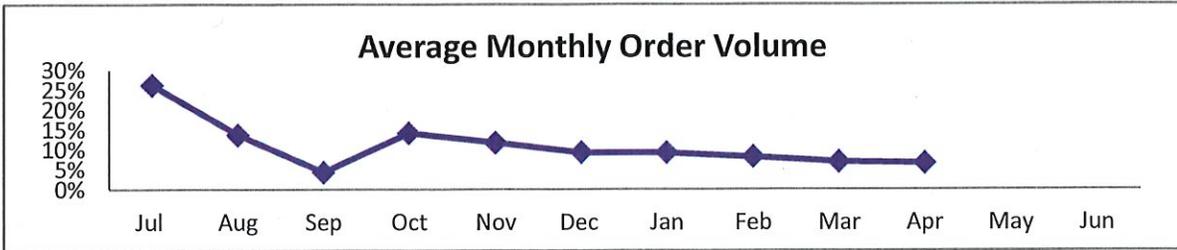
Key Performance Indicators (KPIs) Benchmarks

Metric	ABD FY2017 Actual	ABD FY2018 Actual	Best in Class Benchmark	Median Industry Benchmark
Distribution Cost as a % of Sales	3.54%	3.33%	2.04%	5.00%
Distribution Cost as a % of Cost of Goods Sold	5.50%	5.23%	<1.6%	6.05%
Distribution Cost Per Unit Shipped	\$0.450	\$0.430	\$0.30	\$1.04

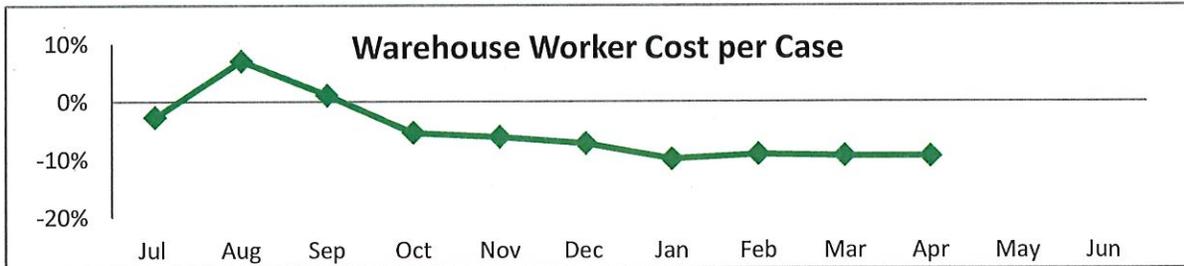
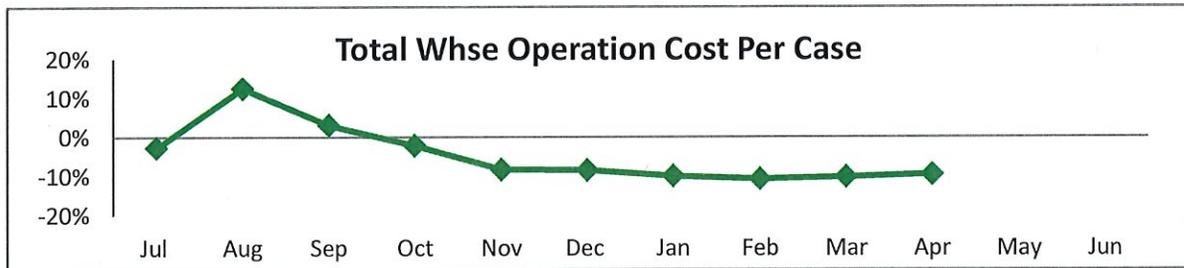
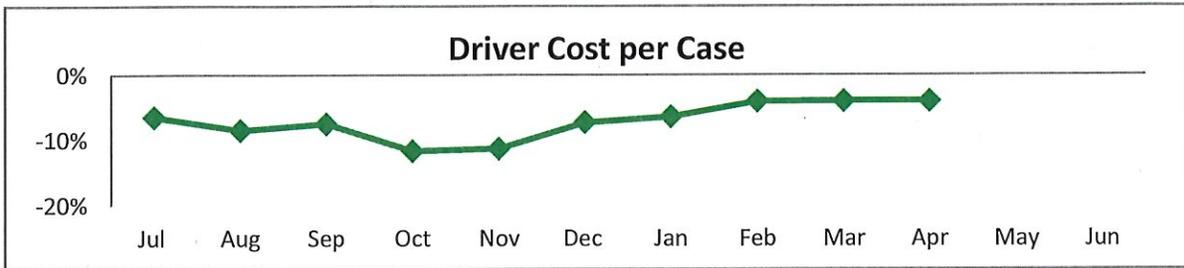
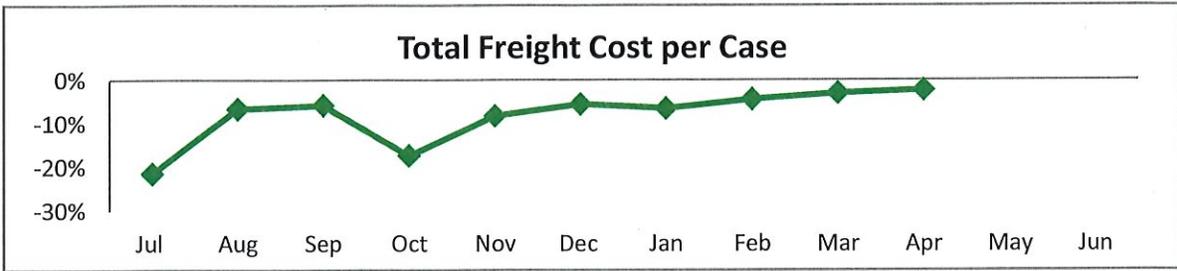
ABD Metric Trend Line Data FY18 July 1, 2017 - April 30, 2018



ABD Metric Trend Line Data FY18 Continued



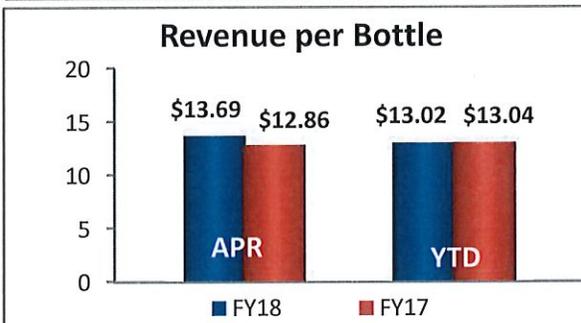
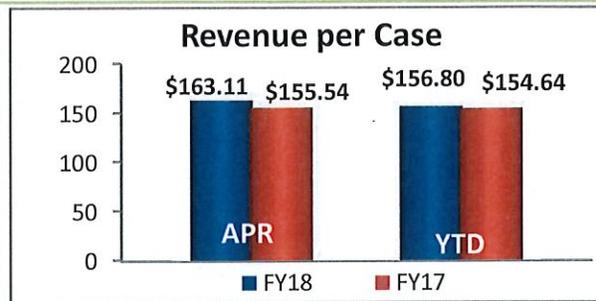
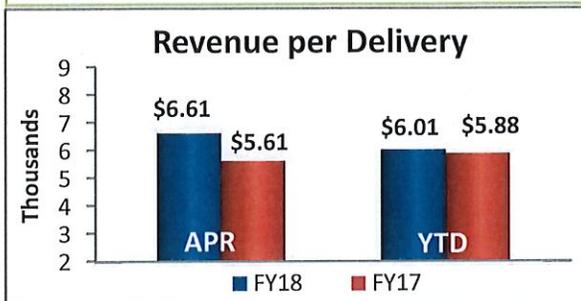
ABD Metric Trend Line Data FY18 Continued



Iowa ABD
Monthly Financial Meeting

FY 2018 APRIL SALES COMPARISON YEAR OVER YEAR CASH BASIS

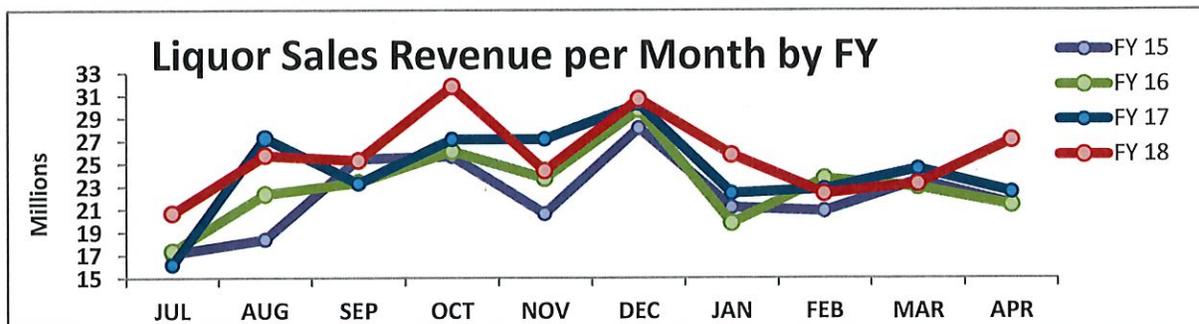
Category	FY 2018	FY 2017	% Change
Liquor Sales	27,087,806	22,551,186	20.12%
Split Case Fee	133,942	116,779	14.70%
Bottle Dep and Sur	263,442	216,463	21.70%
Total Revenue	27,485,190	22,884,428	20.10%
Deliveries	4,161	4,077	2.06%
Orders	4,900	4,729	3.62%
Cases	168,512	147,129	14.53%
Bottles	2,007,742	1,779,782	12.81%



JUL-APR Average Sale Days Comparison	
Month	YOY
July - September	-1
October - December	0
January	1
February	0
March	-1
April	1
Total For FY	0

JULY - APRIL SALES COMPARISON - YEAR TO DATE

Category	FY 2018	FY 2017	% Change
Liquor Sales	257,262,736	243,806,394	5.52%
Split Case Fee	1,273,497	1,245,308	2.26%
Bottle Dep and Sur	2,443,231	2,249,741	8.60%
Total Revenue	260,979,464	247,301,443	5.53%
Deliveries	43,413	42,053	3.23%
Orders	51,550	48,346	6.63%
Cases	1,664,439	1,599,254	4.08%
Bottles	20,042,395	18,965,989	5.68%

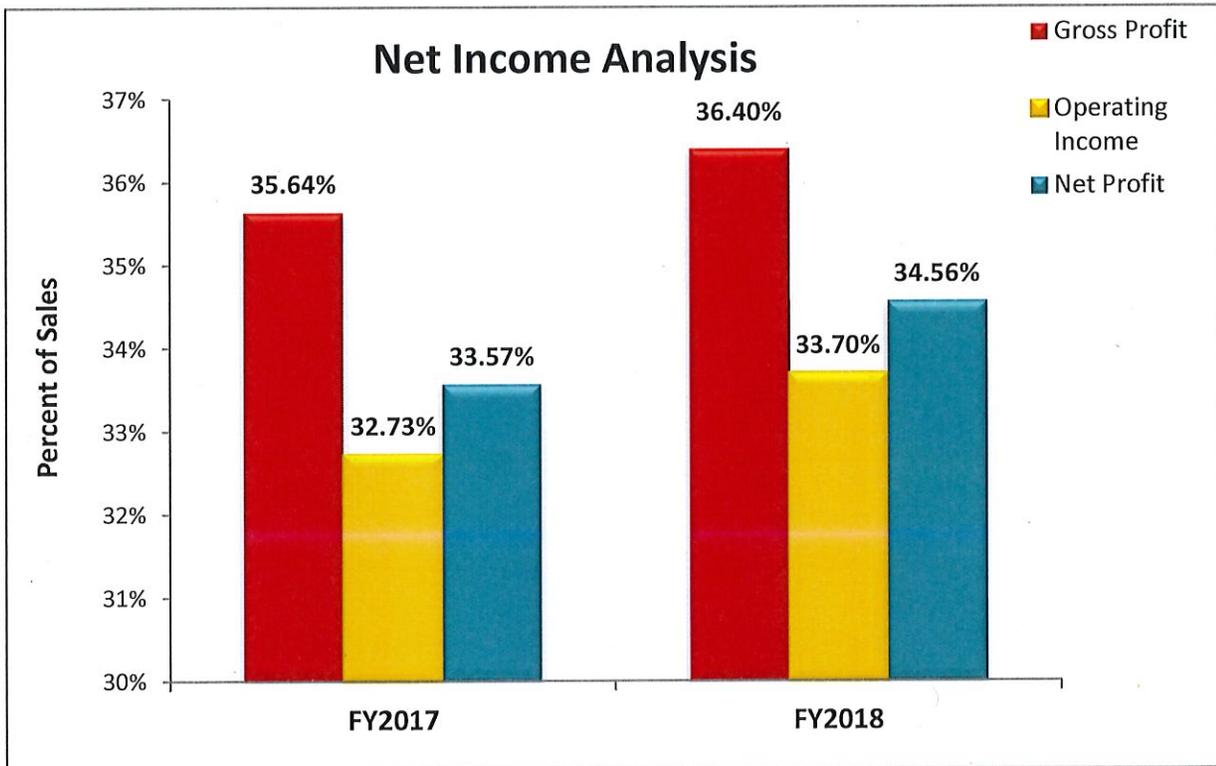


Net Income Analysis YTD 2018*

* Total amounts have been adjusted to exclude one time expenses

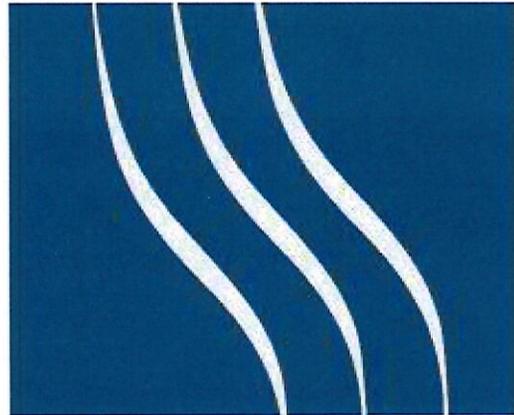
Category	FY2017	FY2018	% Change	Amount Change
Gross Profit	86,904,358	93,643,113	7.75%	\$ 6,738,755.00
Operating Income	79,801,538	86,692,190	8.63%	\$ 6,890,652.00
Net Profit	81,835,101	88,910,098	8.65%	\$ 7,074,997.00
Net Sales	243,806,394	257,262,736	5.52%	\$ 13,456,342.00

Percent Of Sales	FY2017	FY2018	% Change	Amount Change
Gross Profit	35.64%	36.40%	2.12%	0.76
Operating Income	32.73%	33.70%	2.95%	0.97
Net Profit	33.57%	34.56%	2.96%	0.99



Iowa ABD
FY 17 Profit and Loss Statement
Through April 30, 2017

	April FY 2017	April FY 2018	FY18 vs. FY17 % Chg.	FY18 vs. FY17 Amount Chg.	YTD FY 2017	YTD FY 2018	FY18 vs. FY17 % Chg.	FY18 vs. FY17 Amount Chg.
Liquor Sales Revenue	22,551,186	27,087,806	20.12%	4,536,620	243,806,394	257,262,736	5.52%	13,456,342
Cost of Sales								
Bailment	16,126,003	16,424,408	1.85%	298,405	158,761,116	165,534,675	4.27%	6,773,560
Less: Bailment Fees	(172,108)	(176,337)	2.46%	(4,229)	(1,702,847)	(1,772,186)	4.07%	(69,339)
Less: Special Handling Fees	(9,077)	(1,785)	80.33%	7,292	(140,158)	(135,792)	-3.12%	4,366
Less: Defective Products	(919)	(175)	-80.96%	744	(16,075)	(7,074)	-55.99%	9,001
Total Cost of Sales	15,943,899	16,246,111	1.90%	302,212	156,902,036	163,619,623	4.28%	6,717,587
Gross Profit	6,607,287	10,841,695	64.09%	4,234,408	86,904,358	93,643,113	7.75%	6,738,755
Gross Profit %	29.3%	40.0%	36.61%	10.73%	35.6%	36.4%	2.12%	0.75%
Operating Expenses								
Freight Expenses	184,205	219,750	19.30%	35,545	2,137,626	2,157,411	0.93%	19,785
Warehouse Expenses	152,265	155,190	1.92%	2,925	1,864,798	1,745,540	-6.40%	(119,258)
Other Expenses Related To Distribution	-	-	#DIV/0!	-	-	830,347	#DIV/0!	830,347
Total Operating Expenses	336,470	374,940	11.43%	38,470	4,002,424	4,733,298	18.26%	730,874
General and Administrative Expenses								
Warehouse Administration	22,342	29,570	32.35%	7,228	497,706	536,777	7.85%	39,070
Product Administration	25,010	23,578	-5.73%	(1,432)	339,660	251,916	-25.83%	(87,744)
Accounting	35,863	32,253	-10.07%	(3,610)	389,843	482,257	23.71%	92,415
Information Technology	97,315	94,942	-2.44%	(2,373)	1,561,590	1,461,241	-6.43%	(100,349)
Buildings and Grounds	25,695	24,265	-5.57%	(1,430)	311,598	315,781	1.34%	4,183
General and Administrative Expense Total	206,225	204,608	-0.78%	(1,617)	3,100,397	3,047,972	-1.69%	(52,425)
Income from Operations	6,064,592	10,262,147	69.21%	4,197,555	79,801,538	85,861,843	7.59%	6,060,306
Other Revenues								
Split Case Fee	116,779	133,942	14.70%	17,163	1,245,308	1,273,497	2.26%	28,190
Bottle Deposit/Surcharge	216,463	263,442	21.70%	46,979	2,249,741	2,443,231	8.60%	193,490
Recycling	1,454	1,202	-17.33%	(252)	16,898	17,543	3.82%	645
Fuel and Lease Reimbursement	-	505	#DIV/0!	505	10,758	42,201	292.28%	31,443
Lease Revenue	-	20,448	0.00%	-	39,976	61,344		
Total Other Revenues	334,692	419,539	25.35%	84,847	3,562,680	3,837,816	7.72%	275,136
Other Expenses								
Bottle Deposit Fee	59,009	48,503	-17.80%	(10,506)	472,348	465,029	-1.55%	(7,319)
Recycle Surcharge Fee	131,944	120,286	-8.84%	(11,658)	1,056,169	1,153,265	9.19%	97,096
Liquor Refunds	-	-	#DIV/0!	-	600	1,614	169.00%	1,014
Substance Abuse Transfer	1,730,044	1,636,385	-5.41%	(93,659)	15,566,858	16,192,011	4.02%	625,153
Total Other Expense	1,920,997	1,805,174	-6.03%	(115,823)	17,095,975	17,811,919	4.19%	715,944
Net Profit	4,478,287	8,876,512	98.21%	4,398,225	66,268,243	71,887,740	8.48%	5,619,498
Return on Sales	19.9%	32.8%	65.02%	12.91%	27.2%	27.9%	2.81%	0.76%



ALCOHOLIC
BEVERAGES
DIVISION
State of Iowa

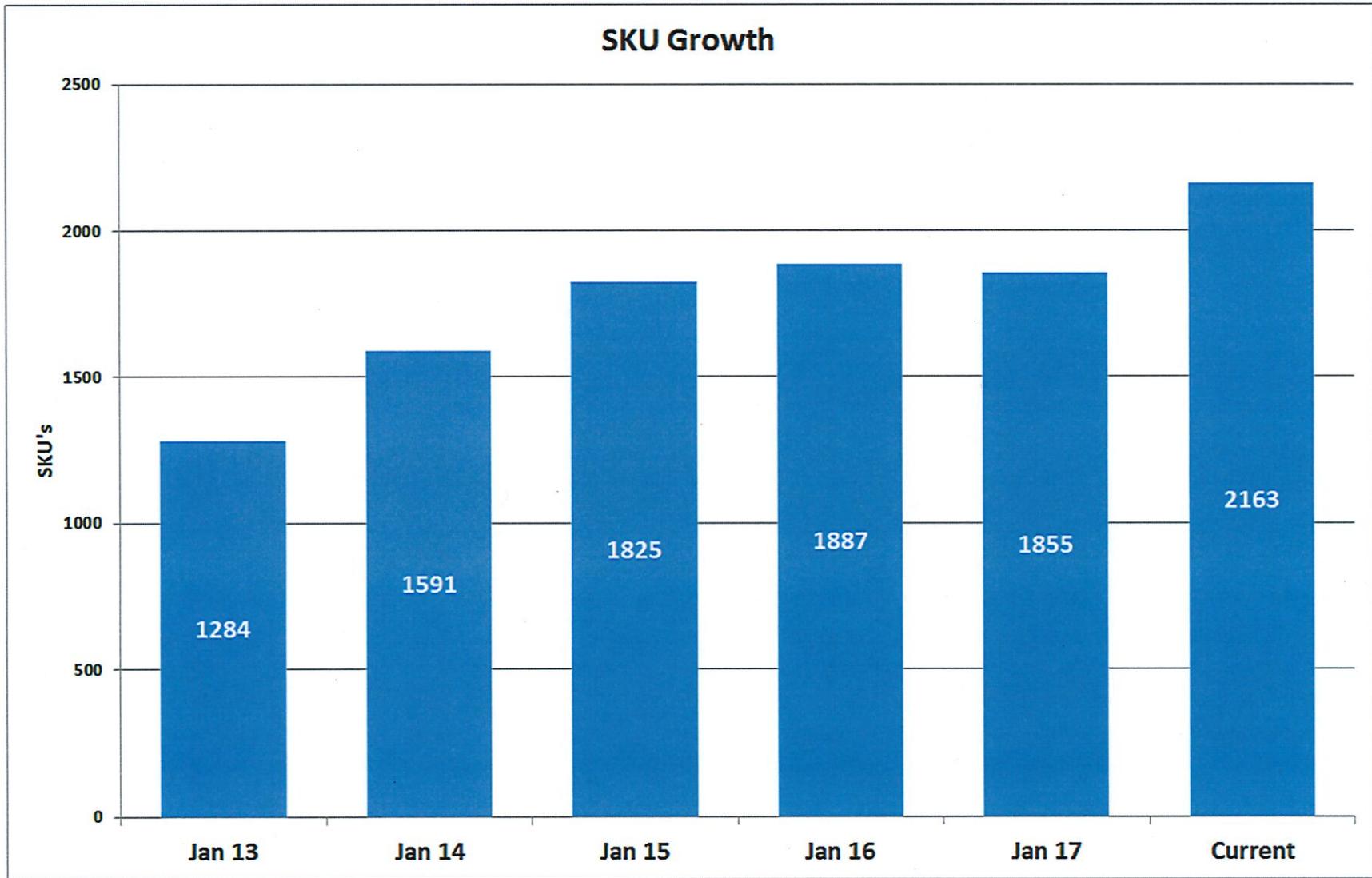
Product Management Update
Cost Recovery Initiatives
May 9, 2018



Split Case Fee

Split Case Fee History

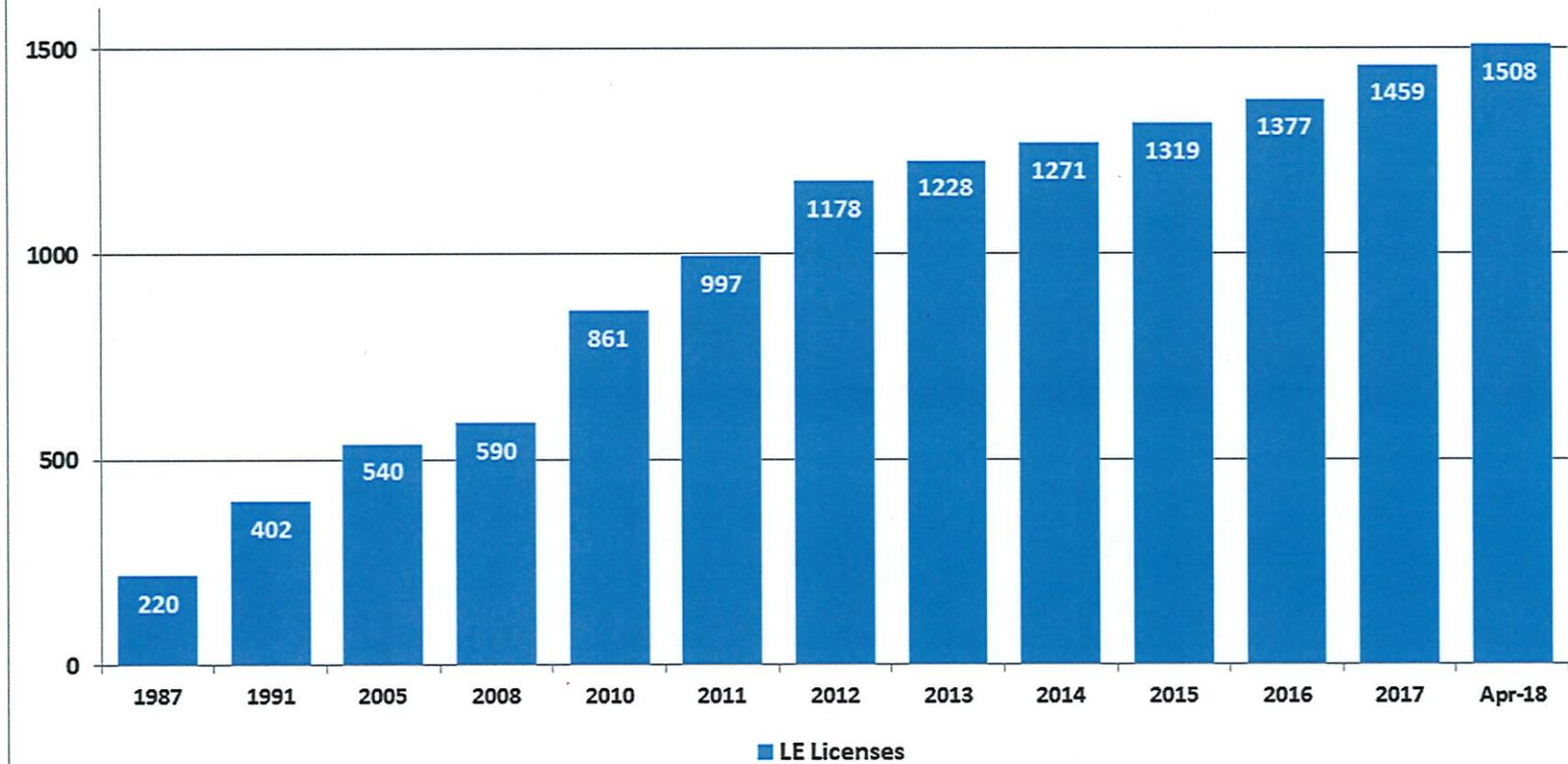
- 1986: \$0.20/bottle (first implemented)
- 2011: \$0.50/bottle (first increase in 25 years)



*Last Delist May 2017
1954 items listed at that time

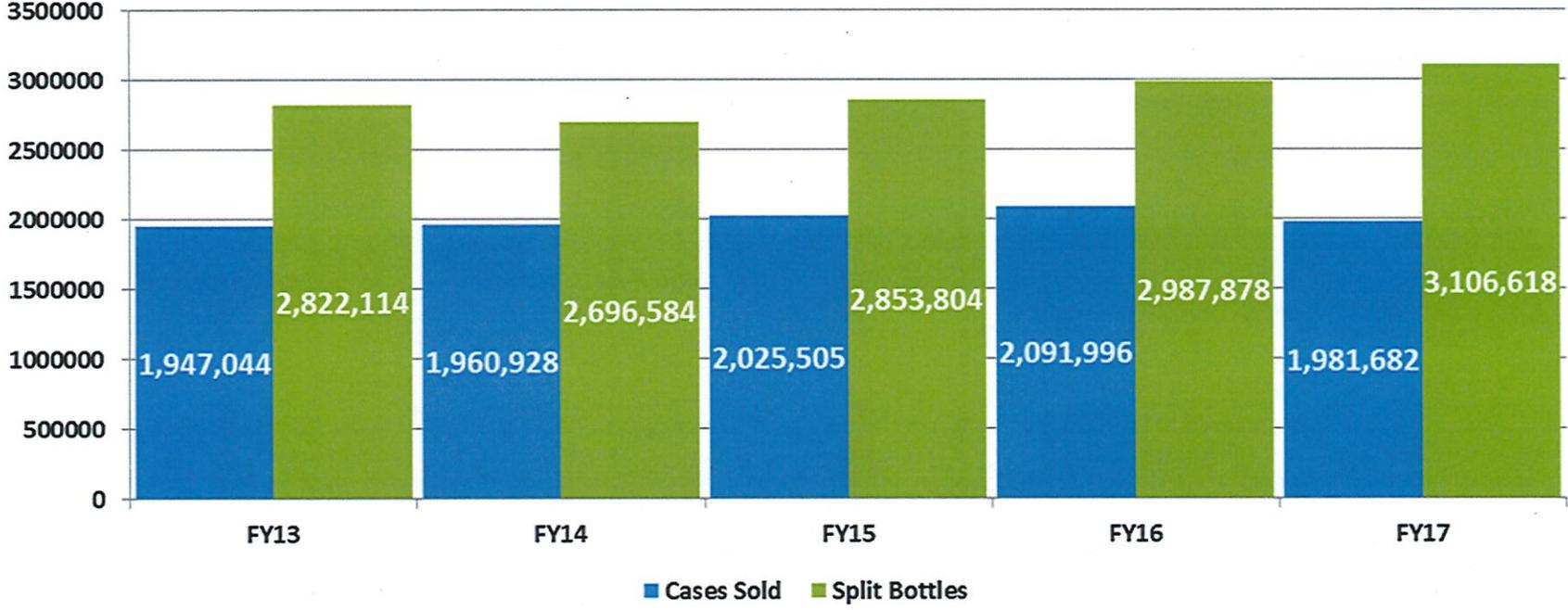
*935 Products added since 2013
Racking added to warehouse was completed in Sept. of 2013.

LE Licenses



*LE Licenses data based off of for the period ending on a calendar year (e.g. December 31st).

Cases & Split Bottles Sold



Split Cases

Costs for Case vs Split Orders

High performance. Delivered.

As of today split cases take ~4 time longer to pick and drive vs. a full case – much of the extra time comes from additional stop/ drive time and other split related tasks (e.g., removing empty boxes)

	Action	Seconds/ 10 bottles	Labor Cost
Case Picks:	Pick	13	\$0.06
	Drive	18	\$0.09
	Total	31	\$0.16
Bottle Picks:	Pick	82	\$0.42
	Drive	56	\$0.29
	Other	38	\$0.19
	Total	175	\$0.90

Delta = **\$0.74**

This extra cost is only partially covered by the \$0.50/ bottle charged to retailers



DOES NOT INCLUDE:



Driver labor cost and slower turnaround time to deliver



Higher % of breakage



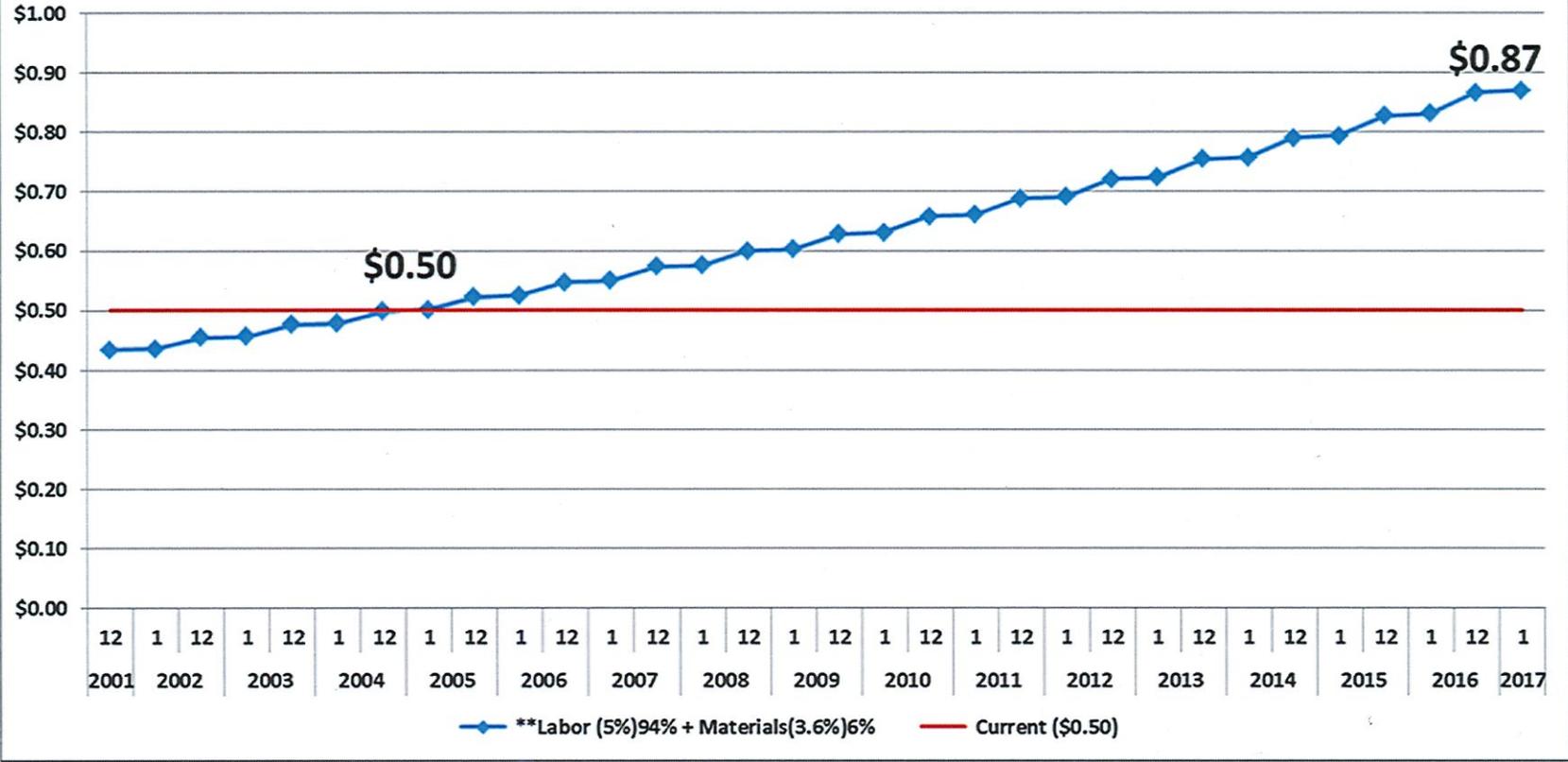
Exponential labor cost growth of high % split orders

ABD must consider options for reducing split volume or for increasing split case revenue – see proposed new Split Case Fees

Note: Average hourly labor cost= \$18.55 (2017)

Reverse Forecasted Analysis of Split Case Costs

Using Averaged Labor Stats for Period



** Unforeseen fluctuations in the variable labor and materials inputs are absorbed into Labor given the assumption that a split case cost in 1986 was \$0.20. This takes the normal expected growth of 2.566% in labor to 4.98%. Given this assumption the cost of a split should have been increased to \$0.50 in January 1st 2005. The true cost of a split case in 2010 was actually \$0.63.

- Fluctuations in the cost of labor and materials vary above and below a normal forecasted curve given numerous factors (economy, tariffs, labor pool, wages, inflation, etc.).



Key Findings

Highlights from Interviews

High performance. Delivered.

SUPPLIERS

Listing/ Delisting Process

- ✓ New SKUs/ brands: temporary listing (6 months) and 12 months timeline is too fast to install a new SKU
- ✓ Delisting criteria should be different by category and/ or price point and/ or size

On-premise

- ✓ As of today lack of insights on what the on-premise accounts need
- ✓ Would be interested in providing specific selection (e.g., mixology) to those accounts

Gift Checks

- ✓ Overall perceived as an effective driver for sales
- ✓ Perception that there has been an escalation in the past years and that it is more and more costly

Special Orders

- ✓ Process could be streamlined especially in the case of items that have just been delisted
- ✓ Would need a consistent and faster timeline to cater on-premise needs

RETAILERS

Assortment Breadth

- ✓ Overall current choices cover all key categories
- ✓ Higher end retailers would benefit from a wider selection of premium items (limiting the use of special orders)

Ordering System

- ✓ Would be interested in more suggestions/ notifications from the ordering system to control the quantities, etc.

Deliveries

- ✓ Delivery schedule lack flexibility around holidays

Fees

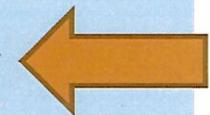
- ✓ Current split case fees are admittedly low

Promo/ Gift Checks

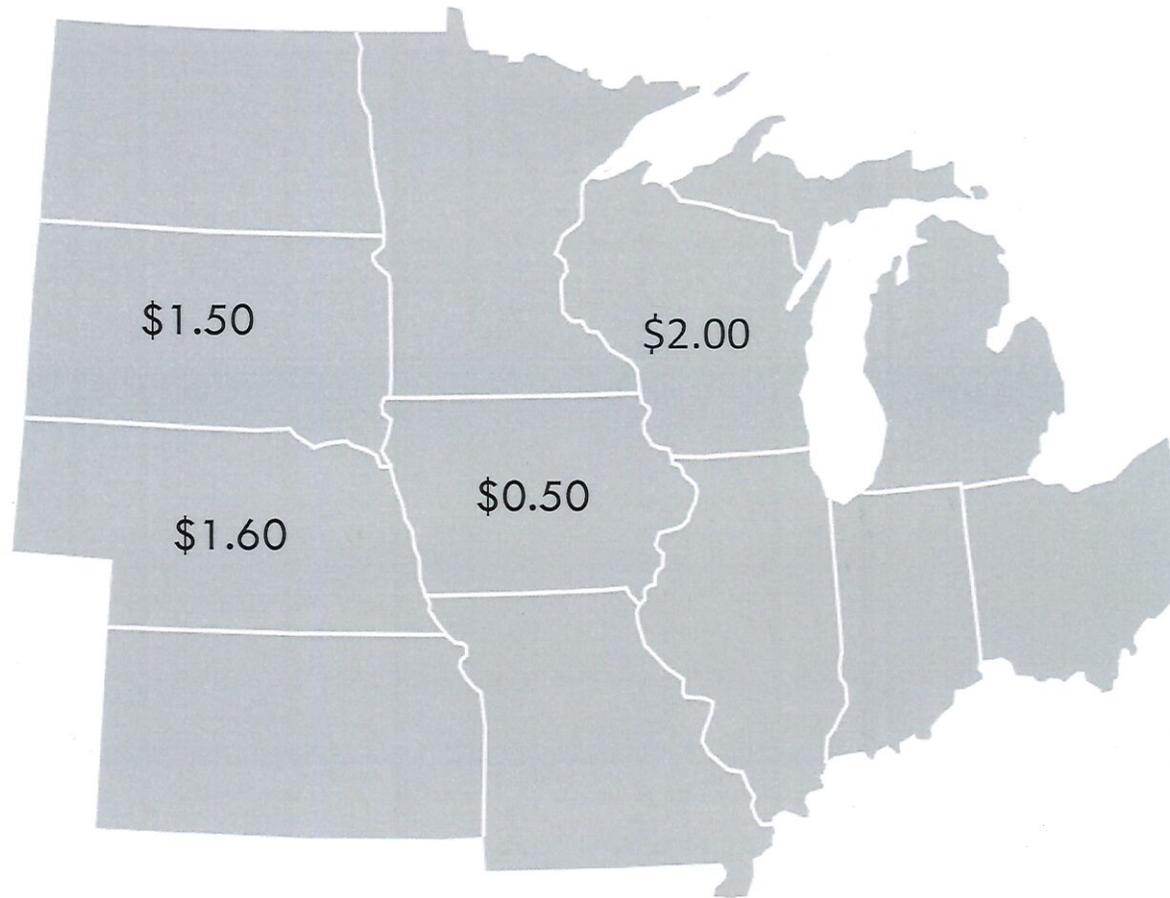
- ✓ Most retailers would prefer a discount applicable directly on the invoice

Special Orders

- ✓ Need more visibility on order tracking to know when the item will be delivered
- ✓ Need a consistent and faster timeline to better plan orders



Split Case Fee Comparison



Proposed Changes

- **Increase split case fee to \$1.25/bottle effective July 1, 2018**
 - Allows ABD to recoup operational costs associated with split case purchases
- **Review split case fee every 4 years moving forward**
 - More effectively keep pace with operational cost increases
 - Create predictability for class “E” licensees
 - Prevent large, sporadic fee increases

Misorder Fee

ABD Not Required to Accept Returns of Misorders

(b) *Transactions involving State agencies.* The regulations in this part apply to transactions involving State agencies operating as retailers or wholesalers.



Industry member. Any person engaged in business as a distiller, brewer, rectifier, blender, or other producer, or as an importer or wholesaler of distilled spirits, wine or malt beverages, or as a bottler or warehouseman and bottler, of distilled spirits.



(b) An industry member is under no obligation to accept the return of products for the reasons listed in §§11.32 through 11.39.



§11.33 Error in products delivered.

Any discrepancy between products ordered and products delivered may be corrected, within a reasonable period after delivery, by exchange of the products delivered for those which were ordered, or by a return for cash or credit against outstanding indebtedness.

Misorder Return History

FY2016

	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	Totals
Returned Cases	426	375	550	519	315	520	285	332	310	323	195	366	4,516
Returned Bottles	178	129	169	250	658	277	158	125	106	132	148	141	2,471
Returned Sales	\$69,603	\$59,716	\$83,819	\$91,195	\$56,596	\$73,875	\$43,556	\$52,786	\$41,703	\$49,934	\$29,583	\$46,961	\$699,327
Restock Fee	\$2,486	\$2,133	\$3,088	\$3,095	\$2,891	\$3,154	\$1,741	\$1,910	\$1,762	\$1,879	\$1,271	\$2,112	\$27,522
Frequency of Returns	143	121	126	146	98	152	107	109	98	118	95	132	1,445

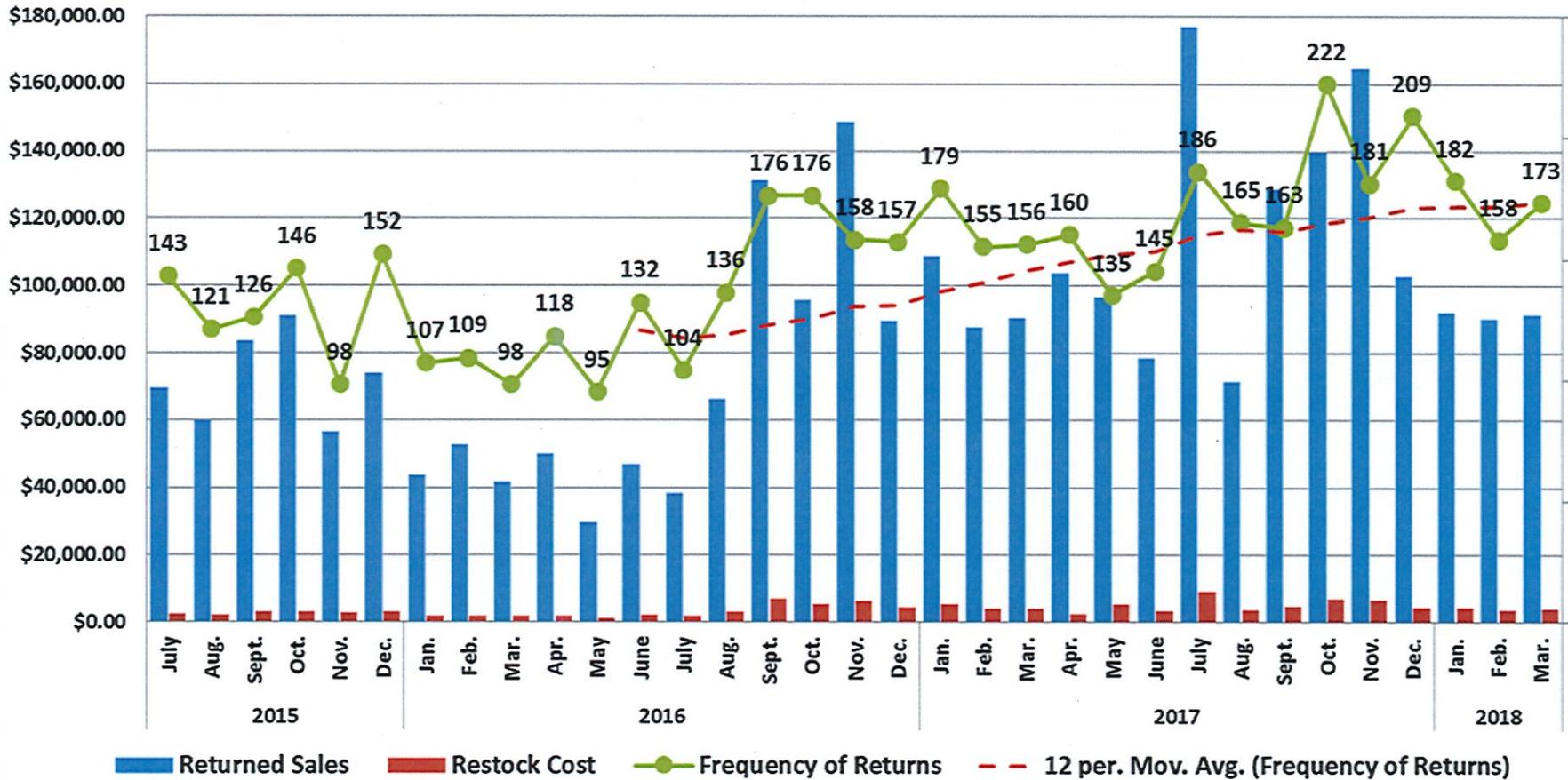
FY2017

Returned Cases	270	347	1004	614	893	561	718	596	686	391	529	572	7,181
Returned Bottles	184	729	972	1136	875	849	1037	533	282	297	1330	363	8,587
Returned Sales	\$38,376	\$66,414	\$131,429	\$95,800	\$148,676	\$89,516	\$119,932	\$87,697	\$90,401	\$103,955	\$96,576	\$78,496	\$1,147,267
Restock Fee	\$1,718	\$3,193	\$6,963	\$5,344	\$6,213	\$4,503	\$5,664	\$4,046	\$3,992	\$2,549	\$5,307	\$3,586	\$53,078
Frequency of Returns	104	136	176	176	158	157	181	155	156	160	135	145	1,839

FY2018

Returned Cases	1085	1165	785	1069	985	718	499	522	579				7,407
Returned Bottles	1861	370	470	804	818	399	914	642	593				6,871
Returned Sales	\$177,108	\$174,618	\$128,619	\$139,678	\$164,639	\$102,803	\$92,011	\$90,203	\$91,665				\$1,161,344
Restock Fee	\$9,145	\$6,565	\$4,865	\$6,953	\$6,561	\$4,388	\$4,323	\$3,894	\$4,081				\$50,775
Frequency of Returns	186	167	163	222	181	209	182	158	173				1,641

Misorder Cost Analysis







Proposed Change

- **Implement a misorder fee of \$5/case returned and \$2/bottle returned, effective July 1, 2018**
 - Allows ABD to recoup operational costs associated with returns of misorders



PRODUCT MANAGEMENT REFORM UPDATE

Report to Commission

May 9, 2018

Delist Procedure

- Effective July 1, 2018
- **Formula**
 1. The bottom 5% of both sales percent and revenue percent of each category and size
 2. Temporary products that have exceeded the 90 day temporary period are kept on the list and reviewed in step 5
 3. Any products that do at least 120 cases OR \$12000 in revenue are removed
 4. Any products that are trending 20% or more are removed
 5. Human review, remove unique items
- **Other**
 - Delist will occur three times per year, effective February 1st, May 1st and August 1st
 - Permanent products can be listed for 1 year before being eligible for delist
 - Delisted products can be re-presented after being delisted for 1 year or more
 - Iowa distillery products that fall into the list compiled from the above formula will also be subject to delist review
 - Delisted products will not be converted to special order on hand; delisted products can be special ordered
 - Highly allocated products that have remaining inventory in the Division warehouse that exceeds a time period of three months and all overshipped special order products will also be included in the delist.
 - Delist letters will be sent to brokers and suppliers the month prior to the effective date
 - Example timeline for May delist:
 - Use end of March numbers, compile/review/send out delist letters by April 15th
 - Brokers and suppliers are able to add delisted products to May promos and sell throughout the month of May – ABD must be notified if this is their plan so product is not blocked on delist date
 - Any remaining inventory is blocked on June 1st, must be RTS by June 15th and will be assessed fee
 - Brokers and suppliers no longer have the option to reduce price via TPR

Over Maximum Level Procedure

- Effective July 1, 2018
- **Formula**
 - Products that exceed a 12 week sales forecast will be reviewed
 - Products that have been listed for 6 months or less will be removed from review
- **Other**
 - Will occur three times per year with the delist procedure, effective February 1st, May 1st and August 1st
 - Iowa distillery products that fall into the list compiled from the above formula will also be subject to over max review
 - Will be sent on delist letters to brokers and suppliers the month prior to the effective date
 - Example timeline for May delist and over max:
 - Use end of March numbers, compile/review/send out delist/over max letters by April 15th
 - Brokers and suppliers are able to add over max products to May quantity discounts and sell throughout the month of May
 - Any remaining inventory over max is blocked on June 1st, must be RTS by June 15th and will be assessed fee

Highly Allocated Product Process

- Effective July 1, 2018
- **Formula**
 - Class E licensees can place highly allocated requests for available products on the shop portal
 - The shop portal will have the allocations and logic in place to evenly distribute and randomize the remaining bottles/accounts
 - The shop portal will create orders for those licensees receiving allocations and will automatically drop these orders into AX with the licensee's next order
 - The licensee will be able to see the results and what they will be receiving on the shop portal
- **Other**
 - Only those class E licensees who have signed up (and have corporate approval) will be able to see the highly allocated tab and available products
 - Highly allocated products will be based off supply and demand and deemed as a highly allocated product by the supplier
 - Any remaining inventory of highly allocated products after the initial release will be available on the shop portal for 3 months on a first come, first serve basis
 - After 3 months from the initial distribution, the highly allocated product will be included in the next delist and follow regular delist schedule and return to supplier fees
 - Licensees who special order a product that is not currently in the system and is deemed as highly allocated after research with the supplier, will get their requested number of cases of that product
 - Any remaining cases from the initial allocation after the entrepreneur licensee's request will go through the highly allocated program
 - Future allocations of the product will go through the highly allocated program

Size Extensions

- Effective July 1, 2018
- **Formula**
 - All listed sizes of the same product must meet or exceed \$36,000 or 360 cases
- **Other**
 - Listed sizes of the same product will be reviewed upon listing presentation of additional size
 - If all listed sizes of the product do not meet the size extension criteria, the product being presented will not be eligible to be listed as a permanent listing
 - Product can be presented as a 90 day temporary item; after the product exceeds the 90 days, the product will be eligible to be delisted at the next delist period
- Iowa distillery products will also follow this criteria for size extensions
- Multiple SKUs of same size will also follow this criteria
 - Will be listed upon ABD discretion
 - ABD will take into account sales, primary size/package, trading away from other sizes

Special Order On Hand

- Effective July 1, 2018
- **Formula**
 - List threshold:
 - Based on past 12 rolling months
 - Product must have sold at least 20 cases AND been ordered at least 5 times
 - Excludes pallet and barrel buys
 - Delist threshold:
 - Must maintain list threshold
 - If threshold is not maintained, product is at risk of status moving back to regular special order
 - Review of special order on hand products will occur three times a year at the same time delist is reviewed (effective February, May and August)
- **Other**
 - Special order on hand products will have a max level of 10 cases and will be put in a designated area in the warehouse
 - These products are sold by the full case only, no TPRs or quantity discounts can be done on special order on hand products
 - The only way to get to special order on hand status is to start as a special order product
 - ABD will reach out to suppliers and ask if they would like their product moved to this status if the product meets the list threshold
 - Once products are in special order on hand status, they will remain in that status for at least one year before they are at risk of status moving down to regular special order
 - Special order on hand products can also change status if supplier decides to list product
 - Products moving status from special order on hand back to regular special order will follow the same schedule and fees as regular delisted product
 - Example timeline for August:
 - Use end of June numbers, compile/review and send out requests to suppliers by July 16th



Regulatory Announcement

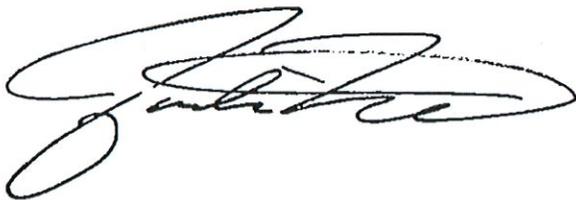
April 10, 2018

Voluntary Disclosure Program

The Iowa Alcoholic Beverages Division (ABD) has instituted a Voluntary Disclosure Program, allowing license and/or permit holders to voluntarily disclose actual or potential violations of the laws and rules administered by the ABD. Specific information on the Voluntary Disclosure Program is enclosed.

Voluntary disclosure can have several benefits for license and/or permit holders, including reduced penalties or other special considerations when and if the ABD proposes administrative actions. Bear in mind that special considerations are not guaranteed, particularly in cases involving fraud, willful violations of law that may be referred for criminal investigation/prosecution, and instances where a pattern of noncompliance is demonstrated after a prior voluntary disclosure.

The ABD welcomes and encourages participation in the Voluntary Disclosure Program. Voluntary disclosure demonstrates credibility, good faith, trust, and confidence on the part of a license and/or permit holder, and can foster goodwill and a positive working relationship with the ABD. Participation also promotes a fair and level playing field for those engaged in the alcoholic beverages marketplace, and assists the ABD in its goal of protecting public health, safety, and welfare.

A handwritten signature in black ink, appearing to read "Joshua J. Happe". The signature is stylized with large, sweeping loops and a long horizontal stroke at the bottom.

Joshua J. Happe

Bureau Chief, Regulatory Compliance Program

Voluntary Disclosure Program

The Iowa Alcoholic Beverages Division (ABD) Voluntary Disclosure Program encourages compliance with the laws and rules administered by the ABD by allowing license and/or permit holders to voluntarily disclose potential and actual violations of said laws and rules. In return for disclosure, license and/or permit holders may receive reduced penalties or other special considerations if the ABD proposes administrative action be taken.

What is voluntary disclosure?

The ABD defines voluntary disclosure as the intentional disclosure to authorized ABD officials of material facts by license and/or permit holders regarding potential and actual noncompliance with the laws and rules administered by the ABD.

How do voluntary disclosures differ from other disclosures of information by license and/or permit holders?

Under the Voluntary Disclosure Program, license and/or permit holders initiate voluntary disclosures of noncompliance with laws and rules administered by the ABD, as well as any irregularities they discover in their operations that are potential violations of said laws or rules. These voluntary disclosures are distinct from disclosures that are required by law or rule, such as submissions of tax reports and other reports of operations.

What are the benefits of voluntary disclosure?

Voluntary disclosures provide several benefits to license and/or permit holders by:

1. Reducing costs (time and money) associated with legal investigation and action;
2. Potentially resulting in reduced penalties or other special considerations when and if the ABD proposes administrative action;
3. Providing an incentive for detecting and correcting errors early;
4. Allowing the opportunity to obtain special guidance on future compliance;
5. Promoting a fair and level playing field; and
6. Demonstrating credibility, good faith, trust, and confidence that fosters goodwill and a positive working relationship with the ABD.

Voluntary disclosures also benefit the ABD by:

1. Protecting public health, safety, and welfare;
2. Achieving results at reduced cost to the ABD;
3. Promoting compliance and a fair and level playing field;
4. Fostering cooperative relationships between the ABD and license and/or permit holders; and

5. Enhancing the ABD's abilities to educate license and/or permit holders on compliance issues and reduce future irregularities.

When should license and/or permit holders make voluntary disclosures?

License and/or permit holders should make voluntary disclosures as soon as possible after they discover any noncompliance with the law or rule.

When does the ABD accept voluntary disclosures?

The ABD considers and may accept voluntary disclosures when a license and/or permit holder meets any of the following conditions:

1. Disclosure is made **before** the ABD:
 - a. Discovers irregularities;
 - b. Begins a formal audit or investigation in which irregularities fall within the scope of the audit or investigation; or
 - c. Finds irregularities that fall outside the scope of a formal audit or investigation.
2. Information is provided to the ABD on noncompliant activities, including the details, circumstances, and attempts to prevent recurrences;
3. Demonstration is made of steps taken to remedy the irregularities;
4. Payment is made of the correct amount of tax owed, if the irregularities involved underpayments or nonpayments of tax.

When do formal audits or investigations start?

A **formal audit** begins on the date of the pre-audit letter sent by an ABD official to the license and/or permit holder.

A **formal investigation** begins either on the date of the letter by which an ABD official notifies a license and/or permit holder of an investigation, or, in the case of an unannounced investigation, the date on which the ABD official arrives without notice at the licensed premises to conduct the investigation.

How long does a license and/or permit holder have to pay taxes due if voluntary disclosures involve a tax underpayment or nonpayment?

License and/or permit holders should submit any tax underpayments or unpaid taxes when irregularities are disclosed. If a license and/or permit holder is unsure of the exact tax liability at the time of disclosure, they may elect to have the ABD calculate the tax liability. In such cases, license and/or permit holders must pay the ABD the calculated tax within 30 days' notice of the amount due.

Does the ABD always allow special consideration for voluntary disclosures?

No. License and/or permit holders are not eligible if irregularities:

1. Involve fraud or represent willful violations of law that may be referred for criminal investigation/prosecution; or
2. Exist as part of a pattern that involves the same type of conduct that resulted in an earlier voluntary disclosure.

How does the ABD handle accepted voluntary disclosures?

The ABD's senior management discusses such matters with the license and/or permit holder before deciding on administrative action in response to disclosed irregularities. During the decision-making process, the ABD takes into account:

1. The nature and extent of tax deficiencies or other irregularities;
2. The timing and completeness of disclosures;
3. The license and/or permit holder's cooperation;
4. The prior compliance history of the license and/or permit holder;
5. The actions taken by the license and/or permit holder to prevent future noncompliance; and
6. Any other contributing factors, mitigating or otherwise.

What type of administrative action may the ABD take?

The ABD may:

1. Keep written records of the circumstances on file, without issuance of admonitory or warning letters;
2. Issue admonitory or warning letters that document irregularities;
3. Approve settlements of civil liabilities;
4. Suspend a license and/or permit; or
5. Revoke a license and/or permit.

Additionally, the ABD may recommend criminal prosecution where it is warranted. Examples where criminal prosecution may be recommended include bribery of public officials, involvement in organized criminal activities, previous obstruction of justice, and particularly flagrant violations of Iowa Code chapter 123.

Does the ABD consider completed voluntary disclosures as first violations in future administrative actions?

No. The ABD does not consider such completed actions as first violations.

Does the ABD maintain a record of voluntary disclosures?

Yes. Because the ABD treats accepted voluntary disclosures as admissions of noncompliance with laws or rules, records of such matters are maintained for future reference.

Are voluntary disclosures privileged communications?

No. Oral and written statements of voluntary disclosure of noncompliance are not privileged communication.

Where should license and/or permit holders send voluntary disclosures?

All voluntary disclosures must be in writing and sent to:

Iowa Alcoholic Beverages Division
Bureau of Regulatory Compliance
Attn: Voluntary Disclosure
1918 SE Hulsizer Rd.
Ankeny, IA 50021-3941

Voluntary disclosures may be sent electronically to compliance@iowaabd.com, however, a hard copy mailing is required. License and/or permit holders may also make oral disclosures to appropriate ABD officials if the required written disclosure is made within 10 calendar days of the verbal disclosure.

Who should license and/or permit holders contact with additional questions?

Additional questions on voluntary compliance should be emailed to compliance@iowaabd.com.



RFP Time Table

Task	Dates	
	Start	End
Forming the RFP - (Completed)	12/01/2016	04/30/2017
Finalizing the RFP - (Completed)	05/01/2017	05/04/2017
Release Date - (Completed)	05/08/2017	05/08/2017
Solicitation of Proposals - (Completed)	05/09/2017	09/22/2017
Respondent Mandatory Site Visit - (Completed)	06/21/2017	06/21/2017
Final Due Date for RFP Questions - (Completed)	08/21/2017	08/21/2017
Evaluation of Proposals - (Completed)	09/25/2017	02/05/2018
Intent to Award - (Started)	02/13/2018	06/01/2018
Contract Development	06/15/2018	09/01/2018
Implementation/Transition	06/15/2018	01/01/2019



Kim Reynolds *Governor*
Adam Gregg *Lt. Governor*

Stephen Larson *Administrator*

Status Update
Request for Proposal – Transportation and Warehousing
Intent to Award – Ruan Transportation Corporation
May 9, 2018

- I. Division Key Strategic Principles
 - i. Demonstrate ongoing improvement in the distribution of spirits by integrating innovation and new processes for warehousing and transportation.
 - ii. Remain committed to meeting the needs of our customers and ensure our efforts facilitate a responsible and vibrant alcoholic beverages industry.
 - iii. Protect Iowa tied house laws.
 - iv. Maintain Iowa 3-tier system.
 - v. Protect the health, safety and the general welfare of Iowans.
- II. Purpose / Strategic Objective
 - a. The current and future model for the delivery/distribution of spirits attempts to achieve sustainable outcomes, within the Iowa marketplace that will maximize revenues for the state and stakeholders, minimize risk, be efficient and effective in meeting the service needs of retailers and provide Iowa consumers at the point of purchase brand selection.
- III. RFP Issued – Intent to Award Process
 - i. Goals and Objectives
 1. Further explore detailed comparison of the Division warehouse and transportation costs vs the awardee.
 - a. Hard Costs
 - b. Soft Costs
 2. Confirm assumptions
 3. Clarify any questions and information submitted by the awardee, and other information that was created on or before, or during the “Intent to Award” process.

4. Systems coordination and communications.
 - a. Hard Costs
 - b. Soft Costs
5. Introduction meeting between Alcoholic Beverages Division (ABD) leadership, Ruan Transportation leadership, and DAS-Central Procurement representative.
6. Stakeholder meeting to provide a high level overview of the proposal, to discuss contracting items/schedule, and walk through tour of the division facility by Ruan officials.
7. Site visits and other due diligence efforts by State officials and representatives to validate assumptions, and further explore the information contained within the bid document. **(In process)**
8. **Detail contract negotiations roles and responsibilities. (July 1, 2018)**
 - a. Initial draft of contract to be completed by DAS-Central Procurement.
 - b. Review of draft by ABD/ABD counsel/consultant.
 - c. Review of draft by DAS counsel/DAS-HRE (personnel) /DAS-GSE (facilities).
 - d. Update of initial draft by DAS-Central Procurement.
 - e. Review of updated draft by Ruan.
 - f. Redline review by ABD/DAS-Central Procurement.
 - g. Update draft with accepted items.
 - h. Negotiate outstanding items between ABD/Ruan.
 - i. Update draft accordingly.
 - j. Final draft to be signed by ABD.

(If at any time during the Intent to Award process and or contract negotiations, the Alcoholic Beverages Division and Ruan determine the goals and objectives for both parties are unobtainable, the Intent-to-Award could be postponed and or terminated.)
9. Final site visits and or other steps to finalize costs, benefits and ensure that the partnership between the state and the awardee is beneficial during the term of engagement.

10. Transition ---- Implementation ----- Coordination

11. Other

IV. Key Dates

a. March 5, 2018

i. Alcoholic Beverage Division and Ruan Leadership Team Meeting

b. March 22, 2018

i. Ruan Presents Proposal to the Division "Intent to Award Committee"

c. April 17, 2018

i. Ruan and ABD follow up meeting to the March 22, 2018 meeting.

d. Future meeting dates May through June

i. Yet to be determined

V. Intent to Award - Evaluation Committee



ALCOHOLIC
BEVERAGES
DIVISION
State of Iowa

Commission Forum and Licensing Reform Upcoming Meeting Dates

June 12, 2018

Licensing Reform Public Forum

1:00 – 4:00 p.m.

Arrowwood Resort & Conference

1405 Hwy 71

Okoboji, Iowa 51355

June 13, 2018

Public Forum on the Iowa Liquor Wholesale Model

1:00 – 4:00 p.m.

Hilton Garden Inn

Sioux City Riverfront

1132 Larsen Park Road

Sioux City, Iowa 51106

Future meeting location announcements will be made via Basecamp. To be added to Basecamp, please contact Tyler Ackerson (Ackerson@iowaabd.com).



Kim Reynolds *Governor of Iowa*
Adam Gregg *Lieutenant Governor*
Stephen Larson *Administrator*

March 12, 2018

The Honorable Roby Smith
Iowa Senate
State Capitol Building
Des Moines, Iowa 50319

Dear Senator Smith:

It is my pleasure to provide you with an overview of why I would like to continue serving as the Administrator of the Alcoholic Beverages Division (Division).

During my time as the Administrator, I have taken steps to make improvements to meet industry and consumer demands for alcoholic beverage brand diversity, adapt our processes to meet the needs of our licensees, and increase our regulatory and educational efforts in the Iowa marketplace, all while working to protect the three-tier system and the health, safety, and welfare of Iowans.

Looking to the future, I would collaborate with licensees, legislators, and the Executive Branch to move the Division forward in refreshing laws, processes, and policies to facilitate a responsible and vibrant alcoholic beverages industry in the state of Iowa.

The key initiatives for future improvements include:

- ✓ Modernizing rules and regulations that affect the alcoholic beverages industry by refreshing the Division's regulatory program and increasing licensee compliance;
- ✓ Partnering with local authorities, prevention officials, and law enforcement to review licensing processes, eligibility, and administrative appeals to determine a better balance of local versus statewide needs and authority;
- ✓ Revising trade practice rules to create regulatory clarity and better synchronize with an evolving industry and marketplace; and
- ✓ Demonstrating ongoing improvement in the distribution of spirits by integrating innovation into Division processes.

I am hopeful that you will agree that these are important initiatives, and that you will give me the opportunity to bring them to fruition. I thank you in advance for your consideration and support of my appointment.

Respectfully,

Stephen Larson
Administrator



ALCOHOLIC
BEVERAGES
DIVISION
State of Iowa

Kim Reynolds *Governor of Iowa*
Adam Gregg *Lieutenant Governor*
Stephen Larson *Administrator*

May 8, 2018

TO: Alcoholic Beverages Division Staff

FROM: Stephen Larson, Administrator

RE: 2018 and 2019 Key Initiatives - Iowa Code Chapter 123 and Administrative Code 185

During my time as the Administrator, the Division has taken steps to make improvements to meet industry and consumer demands for alcoholic beverage brand diversity, adapt our processes to meet the needs of our licensees, and increase our regulatory and educational efforts in the Iowa marketplace, all while working to protect the three-tier system and the health, safety, and welfare of Iowans.

Looking to the future, the Division will continue to collaborate with the Alcoholic Beverages Commission, licensees, legislators, external stakeholders, and the Executive Branch to move the Division forward in refreshing laws, processes, and policies to facilitate a responsible and vibrant alcoholic beverages industry in the state of Iowa.

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- ✓ Revising trade practice rules to create regulatory clarity and better synchronize with an evolving industry and marketplace; and
- ✓ Demonstrating ongoing improvement in product management and the distribution of spirits by integrating innovation into Division policies, processes, and logistical enhancements or modifications.

I thank you in advance for your support and assistance in the development of future modifications to the Iowa alcohol marketplace.



Kim Reynolds *Governor of Iowa*
Adam Gregg *Lieutenant Governor*
Stephen Larson *Administrator*

May 9, 2018

TO: Alcoholic Beverages Commission

FROM: Stephen Larson, Administrator

A handwritten signature in black ink, appearing to be "SL", with a long horizontal line extending to the right.

RE: 2018 and 2019 Key Initiatives - Iowa Code Chapter 123 and Administrative Code 185

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- ✓ Partnering with local authorities, prevention officials, and law enforcement to review licensing processes, eligibility, and administrative appeals to determine a better balance of local versus statewide needs and authority;
- ✓ Revising trade practice rules to create regulatory clarity and better synchronize with an evolving industry and marketplace; and
- ✓ Demonstrating ongoing improvement in product management and the distribution of spirits by integrating innovation into Division policies, processes, and logistical enhancements or modifications.

I thank you in advance for your support and assistance in the development of future modifications to the Iowa alcohol marketplace.