

## **DRAFT MINUTES**

Virginia Winery Distribution Company (VWDC)  
Oliver Hill Building, 102 Governor Street  
Richmond, VA 23219  
March 22, 2017

### **Call to Order**

Chairman Randy Phillip called the VWDC Board meeting to order at 10:00a.m.

### **Members Present**

Sandy Adams, Commissioner VDACS  
Gary Archuleta  
Jim Turpin  
Jay Colston

### **Others Present**

Burnie Gaskill, VA ABC  
Tripp Perrin, Virginia Wine Wholesalers Association  
Morgan Guthrie, Virginia Wine Wholesalers Association  
Charles Green, VDACS  
Jennifer Cavedo, VDACS  
Robin Hill, VDACS  
Margie Gehler, VDACS

### **Approval of Draft Minutes**

Copies of the agenda and draft minutes were distributed to all board members at the beginning of the meeting. Jim Turpin motioned to approve draft minutes from the previous meeting. Jay Colston seconded the motion. Chairman Phillips called for a vote to adopt the minutes as read and the motion passed unanimously.

### **Operations Report**

Robin Hill provided an overview of the Operational Budget Comparison for Fiscal Year 2016-2017 as of February 28, 2017. Ms. Hill discussed expenses to date which totaled \$134,837. The majority of the expenses are allocated to Ms. Hill's salary as Operations Director. Ms. Hill explained that the VWDC has paid one-half of the \$40,000 annual fee to VDACS for the yearly administrative costs, and the remaining \$20,000 would be paid in the upcoming quarter. She reported on the software development costs of \$14,000 paid to date. She added that this amount only represented a small portion of the costs incurred. She noted the software development has recently signed a new contract with Virginia Interactive to implement the software changes planned for the year. Some examples of the software improvements included such items as electronic payments for all winery payments and electronic signatures for all documents via mobile devices, which will ease the administrative workload of VWDC staff and the wineries.

Ms. Hill added that she has personally reached out to all of the wineries and the retailers to obtain their input for making changes within the VWDC web application. She has also received comments with suggestions for improvements. If any of the Board members have suggestions for updates or improvements, to contact Ms. Hill. Ms. Hill added more information on this subject will be provided at the next Board meeting in June. Ms. Hill discussed the expenses in the committed unpaid pending column. Ms. Hill made note of the fees due to ABC for new licenses and renewals in the amount of \$32,559, which are normally paid toward the end of the fiscal year. The other expenses were previously discussed early and included the balances due on software development, salary and benefits for the Operations Director and the VDACS Administrative fee, which totaled \$178,506. Once those are paid it will leave an approximate balance available of \$18,026 at the end of the fiscal year. Ms. Hill reported VWDC's cash balance is \$139,547, noting the majority of this amount derives from the transaction fees.

#### **Licensing Update**

Ms. Hill advised the board there have been three VWDC licenses added since the last board meeting. They are Brent Manor Vineyard, Blue Valley Vineyard and Winery and Blue Bee Cider's new location.

Ms. Hill continued her licensing update by noting several wineries/cideries that have licensing pending in either part 1 or part 2 of the licensing process. Ms. Hill remarked that one winery that is currently in part 2 of the licensing process is the first to be licensed to use VWDC for distribution that offers rice wine-Shigol Makkoli.

#### **Financial Highlights**

Ms. Hill reported an update on the financial highlight report noting 2.7 million in sales, 21,673 in cases sold, and 6,884 in transactions to date. Ms. Hill stated, historically, there have been approximately 7,000 transactions per year. Based on this recent report, it appears VWDC will surpass the average number of transactions yearly with four months left in the fiscal year. The breakdown in sales for the year to date was reported as 74% in wine, 22% in cider, and 4% in mead. Ms. Hill also reported on the top 10 VWDC sales by facility, which was included in the board meeting packet. Gary Archuleta inquired if the growth trend for the current fiscal year could be mainly attributed to new members or if it was organic growth among current members. Ms. Hill did not have that information readily available, but stated she would prepare that for the next meeting. Ms. Hill reported there seemed to be an increase in current cidery business and a push in sales numbers due to the volume in keg sales. Ms. Hill stated that there are also wineries that do not use VWDC and/or use it so infrequently that it

does not cover the cost of the license fee paid of \$185. She suggested potentially reaching out to these wineries to offer assistance with using the system and encourage them to use VWDC for distribution at least minimally in order to cover the cost of the license. Chairman Phillips was encouraged by the fact that although the actual number of new wineries has slowed in Virginia, the number of new wineries that are new to VWDC has continued to increase. Ms. Hill stated that she has been attending more outside functions to promote VWDC and create awareness. She is also hoping that the website will help promote VWDC by explaining in more detail all facets of what VWDC is and how it functions without having to speak directly with Ms. Hill. By creating an easier workflow to streamline the process with the addition of electronic payments and signatures and making it less cumbersome, Ms. Hill is hoping that more wineries will increase their use of VWDC for distribution. Chairman Phillips expressed his thanks to Ms. Hill for the excellent work she does monthly with the winery payments, and he stated that those payments are always made in a timely and accurate manner. Ms. Hill commented that the plans for the new website are for VWDC participants and even Board members, will be able to pull detailed reports that will note sales, growth trends, percentages, etc. With the current system, Ms. Hill must compile these manually in excel. The goal is for the system to be able to calculate all of this information just from pulling customized data from the website. Chairman Phillips, as a quick observation, noted that several wineries listed in the top 10 have the majority of their total sales from wholesale business and not from their retail business.

### **New Business**

Ms. Hill reported that Rosemont Winery contacted VWDC questioning a tax bill they had received from Mecklenburg County from the Commissioner of Revenue in the amount of \$50 for wholesale wine distribution fee and inquired if they should pay it. The bill was addressed to VWDC, but had Rosemont's address on it. Similarly, Three Sisters Winery (also in Mecklenburg County) had received the same bill, however they paid it. Rosemont had never received this bill in the past and was interested to know if they should pay it. Ms. Hill contacted the Commissioner of Revenue Office in Mecklenburg County for an explanation. Mecklenburg County stated they are able to charge this fee according to the Code of VA 4.1-233, for a wholesale distributor license fee and they went to the ABC website to search for any wholesalers within their county. Ms. Hill has since contacted the Office of the Attorney General for assistance with the issue and she has been told to inform the winery not to pay the invoice until they have more time for research. Ms. Hill asked if anyone else has seen this before and expressed concern that these fees could add up as a potential expense for VWDC, particularly in counties

where there are 10-15 wholesale distributors and if the fee per county should vary. Jim Turpin also expressed concern that a local government entity is charging a state agency (VWDC) a fee and his understanding is that it is not supposed to be the case. Jennifer Cavedo stated that the AG's office has recommended that the fee not be paid until it is investigated. Burnie Gaskill reported that Code 4.1-233, allows localities to assess a tax fee to licensees for wholesale distribution if they so desire in addition to their regular farm winery license. Commissioner Adams inquired if the fee is assessed to the winery or to the wholesaler. Mr. Gaskill replied that the fee is assessed to the wholesaler which in this case is VWDC. Ms. Hill reported, under the advice of the Attorney General office, that she has advised Rosemont not to pay the invoice from Mecklenburg until the matter is researched thoroughly and a determination is made.

Ms. Hill discussed recent legislation that applied to distilleries. Burnie Gaskill researched the issue, and indicated there are two issues for discussion. The first will be effective July 1, 2017, and applies to distilleries designated as agency stores. A distillery that is designated as an agency store is one in which the general public can go to the distillery and purchase their products off the shelf just as they would purchase those products from any VA ABC Store. There is a contractual agreement and accounts formed between the distillery and ABC, and the purchase price paid is the same at both locations. Essentially, the process mirrors going into an ABC store with the exception of only being able to purchase that particular distillery's products at the agency store. Also effective July 1 of this year, designated agency stores will be able to feature and sell (pending issuance of the appropriate license which has not yet been determined) their products by the bottle at remote locations (example: festivals). This does not allow for them to offer samples as other restrictions and appropriate licenses would need to be held. The second item that applied to distilleries that Mr. Gaskill discussed was as of August 1, 2016, retail licensees that hold the mixed beverage license can purchase products directly from distilleries that are designated as agency stores. Historically, all retail mixed beverage restaurant license holders in Virginia must purchase their products for resale at VA ABC stores. If the ABC did not stock a particular product on an order, a special order was sent directly to the distillery, sent to ABC, and the restaurant would then pick up the order. This new piece of legislation allows the restaurant to order and pick up directly from the distillery, eliminating the need for a special order. This again only applies to distilleries designated as agency stores. The intention was to hopefully streamline the process.

### **Comments**

Chairman Phillips began a discussion involving furthering sales for VWDC. He discussed different workshops he has attended to gain an increased knowledge of Virginia wine sales, trends, trends based on variety of grape, economic impact of Virginia wines, worldwide impact of wine varieties, age group preferences based on varieties of wine and wine consumptions, etc. Ms. Hill added that the new website will have a social media component. Jim Turpin asked if there is a mechanism within the current website to track which type of wines are the best-selling since orders are placed within the VWDC system. Ms. Hill replied that currently the system does not, but that can be done in the future. Tripp Perrin inquired if this sales by wine variety is tracked by the state for economic reports. Chairman Phillips indicated they do not track varietal sales information, only wine sales, sales pricing, etc., only on the agricultural side. Ms. Hill said the website can break this information for each winery but currently not for VWDC as a whole. However, it is something that can change in future.

Jennifer Cavedo mentioned an economic impact report of Wine and Wine Grapes for Virginia that Ms. Gehler had received while attending the Virginia Wine Board meeting. The report contained some relevant data as it relates to the Virginia Wine industry including retail values, number of wineries, vineyard revenue, etc. The report was prepared by Frank, Rimerman + Co., LLP in California for the VWB. Ms. Gehler distributed a copy of the report to VWDC Board members.

Gary Archuleta asked if there were any collaboration between the VWDC and VWB, and if not could a joint meeting be possible in the future to discuss collectively advancing the Virginia Wine Business with a defined agenda. Commissioner Adams suggested inviting the Wine Marketing Office to come and do a presentation at a VWDC meeting. Chairman Phillips will contact Annette Boyd with the Wine Marketing Office and David King, Chairman of VWB about attending a VWDC in an effort to share information.

### **Adjourn**

Chairman Phillips adjourned the meeting at 10:57 a.m.

### **Next Meeting:**

TBD