

FINAL MINUTES

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

August 30, 2022

Call to Order

Mr. Colston, as acting Chairman, called the meeting to order at 1:01pm.

Roll Call

Members Present in Person

Jay Colston, Virginia Imports
Doug Zerbst, RNDC
Stan Joynes, Valley Road Vineyards
Joseph Guthrie, VDACS Commissioner

Others Present in Person

Staci Saunders, VWDC and VDACS
Kendra Shifflett, VDACS
Burnie Gaskill, VA ABC
Marc Haalman, VA ABC
Justin Bell, Assistant Attorney General
Chuck Duvall, Lobbyist
Kevin McNally, Marston & McNally, P.C.

Approval of Draft Minutes

Copies of the agenda and draft minutes from the June 2, 2022, meeting were distributed in advance to all board members. Mr. Colston noted one correction to the minutes, in the operations report. With that correction, Stan Joynes moved to approve the minutes and Doug Zerbst seconded. The minutes were approved.

Operations Report

Mr. Colston directed the members to review the Operational Budget (approved during the June meeting) and expenditures through July 31, 2022, on page six of the report. As of July 31, 2022, expenditures are \$16,401 and there are no items in need of further discussion.

The final sales figures for Fiscal Year 2022 are included in the Operations Report. Mr. Colston pointed out that sales, cases sold, and transaction quantities are all up from the previous year, and he noted that the

five year totals reflect overall increases. Ms. Saunders added that the final sales data is provided to aid in the discussion regarding VWDC's fee structure, and the possibility of increase, that began during the June meeting.

Mr. Zerbst asked if the average price per case, by varietal, is available to provide to wineries to assist them with pricing. Ms. Shifflett points out that unless information is specifically protected by FOIA, then it may be provided. Ms. Saunders will review any FOIA exemptions and work to provide this information to the board for review.

Licensing Update

Ms. Saunders reviewed the licensing updates. There have been three licenses approved, there are four pending ABC approval, and 13 awaiting part two applications from wineries.

Old Business

Tasting Events - The board report provides information on upcoming trade tasting events being hosted by Republic National Distributing Company with a space allocation for VWDC wineries participation. There are three events scheduled: Virginia Beach, Northern Virginia, and Richmond. The registered participants include wineries, meaderies, and cideries. The events are intended to provide VWDC wineries with exposure to larger commercial customers and interaction with other wineries. If registration by VWDC wineries exceeds table availability, there will be a lottery drawing to determine the wineries that will attend.

Big Spoon – The VWDC contract for marketing services expired June 30, 2022 and will continue on a month-to-month basis. The monthly fees have been reduced to remove event support.

Doug Zerbst inquired on the status of the marketing contract. Mr. Colston confirmed that the board postponed the decision based on various factors, including transition in the Operations Manager position. Stan Joynes has begun a draft Request for Proposal scope of work. Per Ms. Shifflett, the VWDC is exempted from the Virginia Procurement Act and not required to do a formal RFP process. However, the RFP process may be useful to understand the market of available firms and pricing. At this point, it is key to define the Scope of Work to provide a detailed outline of the services needed. The RFP process includes publication via the Virginia Procurement webpage (eVa), proposal submission by qualified respondents, and proposal evaluation to select the contractor. The evaluation team may be structured to include one VWDC board member, one industry representative, the VWDC operations manager, and a representative from the procurement office.

The current monthly fees for the Big Spoon contract include maintenance of all social media sites, VWDC's website, and monthly newsletters to wineries and retailers.

ACH Payments - Ms. Saunders provided an update on the electronic/ACH functionality being designed by Virginia Interactive. This is in the testing phase and is estimated to be completed by mid-September. The current payment methods in use by existing members are 20 percent through Fintech and 80 percent cash

on delivery (COD). The average bank fee cost per COD transaction is \$6, compared to a per transaction cost of \$2 for the future ACH functionality. Given the costs provided, there is a potential to recognize significant cost savings by adopting the ACH process. Mr. Joynes suggests providing a financial incentive for retailers to use Fintech and/or the ACH process.

Infrastructure Upgrades - The costs for infrastructure upgrades are estimated to be approximately \$300,000. The board previously discussed a general fund budget request for consideration during the 2023 General Assembly session. Ms. Shifflett noted that this session is mid-biennium, the General Assembly may be considering proposals related to the HB1336 study, and VWDC fee increases are under review, so a budget request may be more favorably received in future budget cycles.

Transaction Fees - The discussion of a potential increase to the transaction fees paid by wineries is necessary for consideration of infrastructure upgrades and overall operations costs. Providing a discount to members to use Fintech or ACH is a way of ensuring that those members are not subsidizing wineries that chose not to use the technology options. There was discussion regarding existing operating costs and whether the fee increase discussion should consider absorbing a portion of these costs. The existing general fund appropriation provides for the foundational operating costs, and fee increases should be targeted for infrastructure upgrades or other items beyond the scope of the existing budget. The board members agreed that further examination of the per transaction costs is proper for due diligence but not necessary for the fee discussion because the existing \$6 per transaction fee has been in place for more than seven years. This fee has become the norm for wineries and any increase or change needs to be communicated in advance. Mr. Bell recommended giving the wineries an opportunity to participate in the discussion.

Included in the board package is a summary of fee increase scenarios for review by the board, using sales data from Fiscal Year 2022. The goal of the increase examples is to generate additional revenue of \$60,000 per year. The examples provided are: 1) adding a “per-case fee” to the VWDC transaction fee; 2) replacing the current per transaction fee with percent of invoice fee; 3) adding a percent of invoice to the VWDC transaction fee; or 4) increase the fee to \$12 per transaction. The Board discussion of the options centered on retaining the \$6 fee and add 1 percent of the transaction total to the fee assessment. Ms. Saunders will gather additional information about system upgrade costs to accommodate a fee restructuring. Additionally, the Board requested that for Ms. Saunders draft a proposal to share with the wineries that explains the options presented and requests feedback.

HB1336 Work Group Update - Per VDACS standard operating procedure, the Work Group Draft Report is being reviewed by the VDACS Policy Office, the Secretary of Agriculture and Forestry, and the Governor’s Policy Office. The VWDC Board will reconvene for a special meeting to review the report.

New Business

Virtual Meeting Policy - The VDACS policy on virtual meetings has been updated to include action by the 2022 General Assembly. The policy will be on the agenda for adoption at the December 2022 Board meeting.

Public Comments

There were no public comments.

Next Meeting Date

To be determined, pending the release of the HB1336 Draft Report.

Adjourn

Mr. Colston adjourned the meeting at 3:12 p.m.