

THE CITY OF ASHEVILLE BOARD OF ALCOHOLIC CONTROL
MINUTES OF REGULAR MEETING
OCTOBER 31, 2017

The City of Asheville Board of Alcoholic Control ("Board") held its regular monthly meeting on Tuesday, October 31, 2017 at 8:30 a.m. in the Conference Room at its Administrative Offices at 1 Cherry Street North in Asheville, North Carolina.

MEMBERS PRESENT: Lewis Isaac, Chairman; Board members: John Menkes, Edward Hay, Robin Cape and Jan Davis.

MEMBERS ABSENT: None

ALSO PRESENT: Mark Combs, General Manager; Diane Hallingse, Chief Financial Officer; Alfred Bottego, Law Enforcement Chief; Jason Thacker, Operations Manager, and Debbie Bradley, Administrative Coordinator.

Chairman Isaac called the meeting to order.

Mr. Combs informed the Board that he was advised that Mr. Menkes was eligible for re-appointment to the Board for a three-year term per City of Asheville rules. It was discovered that Mr. Menkes was appointed to complete the term of a member who resigned; therefore, he did not serve two terms, making him eligible for re-appointment to the Board. His endorsement for a second term was duly submitted to the City for the City Council's consideration and vote.

READING OF THE CONFLICT OF INTEREST STATEMENT BY THE CHAIRMAN: "In accordance with General Statute 18B-201, it is the duty of every Board member to avoid conflicts of interest and appearance of conflicts. Does any member have any known conflict of interest or appearance of conflict with respect to any matters coming before the Board today? If so, please identify the conflict or appearance of conflict and refrain from any undue participation in the particular matter." No conflicts were noted.

ADDITION (S) TO AGENDA: The Chairman asked if there were any additions to the agenda. There were none.

APPROVAL OF MINUTES FOR REGULAR MEETING: Mr. Menkes moved to approve the minutes for the September 26, 2017 regular meeting. Mr. Davis seconded the motion, and it carried by a unanimous vote.

LAW ENFORCEMENT REPORT: Mr. Bottego reported that in September law enforcement staff conducted 40 outlets checked and inspected, 40 permittee spot checks and 2 criminal offenses (larcenies). New radio spots for the upcoming holiday season are almost complete and will be aired before Thanksgiving holiday through the New Year.

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Chief Bottego advised the Board that there might have been an attempted break-in at the leased storage warehouse. There was damage to the building in several places but no perpetrator was able to gain access into the building. Mr. Menkes asked Mr. Bottego if he thought the perpetrators might have known what the contents of the building were. Mr. Bottego opined that with the constant movement in and out of the building it was likely they did know spirituous liquor was stored there.

Chief Bottego showed camera footage of several shoplifters to illustrate the level of detail our new camera system Mr. Bottego explained the increased cameras resolution, close up (face) photographs to help positively identify suspects, and their ability to photograph vehicle license plate numbers from the system. Discussion followed.

DRINK RESPONSIBLY CAMPAIGN: Mr. Bottego is in the process of ordering more "Frisbee" discs and "red card" coasters in anticipation of the upcoming holiday volume. These items were popular and supplies were quickly depleted. Mr. Combs stated they were working on an idea to use depictions (on the red card coasters) based on movies filmed in the Asheville area.

Chief Bottego informed the Board that he attended a recent Asheville Independent Restaurant Association's Board meeting and gave a presentation on changes in N.C. rules and regulations. A presentation and discussion regarding the liberalization of MXB labels to the back of bottles and how it may affect the law enforcement inspection process and (more) time to inspect each permittee's establishment. Mr. Bottego stated that further discussion and processes could be implemented to minimize on-premise time.

Mr. Bottego stated that law enforcement would be in plain clothes this holiday season. Incidents of larceny typically rise significantly during the holiday season, and they are going low profile to catch them.

FINANCIAL REPORT: Ms. Hallingse presented the financial report for September to include copies of related financial statements presented for the Board's review. She advised and explained various entries and matters with respect thereto, such as total sales, sales by stores, operating expenses, net income after tax, cash distributions and profit percentage to sales. Ms. Hallingse advised sales were up 10.4% over last September, State sales were up 8.9%. YTD sales are up 8%. Mixed Beverage sales are up 10.6% over last September. State Mixed Beverage sales were up 7.28%. YTD Mixed Beverage sales are up 10.6%. Operating expenses are up 2.8%. YTD is down .1%. Net income after tax is up 23.5%. YTD is up 27.5%

Ms. Hallingse also stated that the year-to-date distribution to the City and County is \$734,347 through September (up 27.5%). Profit Percentage to Sales through September is 12.53%, compared to last year's 11.05%. We ended the fiscal year on June 30, 2017 at 11.96%.

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Ms. Hallingse reviewed with the Board each store's gross sales by location for the month of September (compared to September 2016 sales). Only one store had a decrease in sales (Mixed Beverage Outlet) was down 4.1. Tunnel Road store was up 25.0%. Leicester Highway store has been trending up in sales over the last three months. They were up 10.0%. Merrimon Avenue store was up 7.3%; this store competes with our neighboring ABC Boards, Weaverville & Woodfin. Weaverville sales were up 10.6% and Woodfin sales were down 0.8%.

Ms. Cape urged the Board and staff to seriously consider adding a retail sales component into the footprint at 24 Old Brevard Road (new administration and warehouse building). Discussion followed.

Lastly, Ms. Hallingse reviewed the Net Income After Tax by store location. Biltmore, Louisiana Avenue and Leicester Highway stores all had decreases in net income after tax this September compared to last September. Ms. Hallingse opined that wages and vacations contributed to these decreases.

Ms. Hallingse presented 14 years (2004 to 2017) of the sales, distributions and grants growth of the Asheville ABC Board as shown in the following chart:

Fiscal Year	Gross Sales	% Growth	Distributions	Education Grants
2004	\$15,412,816	-	\$645,157	\$100,349
2005	\$16,520,425	7.19%	\$758,365	\$103,475
2006	\$18,176,655	10.03%	\$959,006	\$125,000
2007	\$19,892,773	9.44%	\$1,254,927	\$159,476
2008	\$19,475,992	-2.10%	\$1,194,545	\$154,523
2009	\$19,171,438	-1.56%	\$1,000,000	\$116,667
2010	\$19,315,515	0.75%	\$1,000,000	\$107,370
2011	\$20,119,545	4.16%	\$782,030	\$65,963
2012	\$22,123,255	9.96%	\$1,094,541	\$78,178
2013	\$23,692,755	7.09%	\$1,322,523	\$134,412

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2014	\$25,699,513	8.47%	\$1,457,860	\$107,308
2015	\$28,021,854	9.04%	\$1,993,392	\$153,500
2016	\$30,368,799	8.38%	\$2,197,540	\$169,125
2017	\$32,716,652	7.73%	\$2,642,333	\$205,714
	14 years growth:	112.27%		

Ms. Hallingse noted that during this period of growth that full-time staff was substantially the same and only two years ago did we lease additional warehouse space. Discussion followed.

BUDGET AMENDMENT #2: Ms. Hallingse presented Budget Amendment #2 for fiscal year 2017-18 as follows: To amend operating expenses for additional wages and related costs for increasing full-time employee count by four (4). After a lengthy discussion, Mr. Davis moved to adopt and approve Budget Amendment #2 and to authorize its execution by the Chairman. Ms. Cape seconded the motion and it carried by a unanimous vote.

OPERATIONS REPORT: Point-of-sale update: Mr. Thacker advised the Board that all new point-of-sale systems were successfully installed in all retail locations; however, while the system is working well for customers and staff, there remain significant integration 'hiccups' with the back office to be resolved. Mr. Thacker stated that Board employees have quickly adjusted to the system and seem happy with it.

Mr. Thacker informed the Board that on behalf of our liability insurance underwriters, Ms. Reba McIntosh conducted a workers compensation-based risk management survey for each location owned by the Board. She noted issues and shared them with staff to be attended to. Discussion followed.

BUY-INS REPORT: Mr. Thacker reviewed product 'buy-in' numbers with the Board. Estimated gross profit for the month of October is \$46, 187. Mr. Thacker added that going back to January 2017 (9 months), gross profit is \$349,138.90. Discussion followed.

Mr. Thacker advised the Board that the holiday specialty liquors (approximately two tractor trailer loads) were delivered to the warehouse to be distributed to stores by the second week in November.

Mr. Thacker reviewed with the Board a visual slide showing the top 10 brands of spirits sold in the prior month in Asheville and compared to North Carolina's top ten. Tito's vodka remains the top seller with more than double the cases sold than #2. Significantly, Fireball Whisky dropped from sixth to ninth in Asheville but remained at number five on the North Carolina list. Discussion followed.

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GENERAL MANAGER'S REPORT: Mr. Combs informed the Board that the closing (purchase) of 24 Old Brevard Road property occurred Wednesday, October 25, 2017. There was a small issue regarding insurance, which resulted in delay of payment; however, it was quickly resolved and payment was made. Per the sales contract, the current tenant has 120 days to vacate the building, at which time renovations will be initiated. Mr. Combs and Ms. Hallingse expressed their appreciation to Board member John Menkes for his expertise, guidance and diligence to consummate the purchase of the property and building. Several questions and discussion regarding bank financing and final appraisals (1 Cherry Street and 24 Old Brevard Road) followed.

Mr. Combs advised the Board that staff will schedule a holiday gathering in early December and Board members are cordially invited to attend. Ms. Bradley will let Board members know the date and time it is scheduled.

Mr. Combs provided a comprehensive presentation and discussion regarding the recent controversy in Buncombe County regarding executive salary bonuses, ethics, nepotism and whistle blower polices. Following is a summary of the presentation:

- ABC Board Personnel Manual
 - Pay (Article 3, Section1): "All employees are classified by title and pay range...in accordance with the "Position Classification and Pay Plan" adopted September 25, 2012...and is subject to amendment or elimination by the ABC Board..."
 - All pay increases past the mid-point will be based on merit."
 - 'Merit' is the key term: Currently there are no provisions for early retirement incentives or retention bonuses (unless such policy(s) are first approved by the ABC Board)
 - Nepotism (Article 7, Section 1): "The ABC Board will not employ members of an immediate family if such employment will result in one member of the immediate family supervising another member... or occupy a position which has influence...over promotion, salary administration, or other management or personnel considerations..." (also in GSNC 18B-700(k))
 - "Whistleblower" protection clause (Article 9, Section 3)
- North Carolina Statutes
 - GSNC 18B-700 (g1): "The salary authorized for general manager...shall not exceed the salary...for the clerk of superior court of the county in which the appointing authority was originally incorporated..." (Limit as of June 2017: \$121,131)
 - "The salary authorized for other employees of a local board may not exceed that of the general manager."

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Mr. Combs presented the ABC Board Pay Plan per position/title. The General Manager's salary and merit increases are administered directly by the full ABC Board. All other employees come under the plan, as adopted by the Board:

- Annual Merit Scale: 0 to 5% for employees past the mid-point of Play Plan
- Merit increases are restricted to the annual budget and approved by the Board
- In the past 7 years there was only one (1) merit-based increase (2017) which was over the plan scale (for implementing a program resulting in substantial profits to the ABC Board). The General Manager did not receive this increase.

To emphasize where Board members can review salary expenditures, Ms. Hallingse presented one page of the Budget Document for FY 2017-2018, line item #1, salaries & wages, and how it is broken down into service areas: stores, administration, warehouse, and law enforcement. Additionally, each year the audit report will show a comparison between budgeted and actual salary expenditures to show if staff exceeded salaries and wages as approved by the Board.

Ms. Hallingse also provided a copy of a typical monthly Administrative Income Statement (not in their monthly meeting packet at present; but can easily be added if Board requests) and pointed out the salaries and wages line item year-to-date amount and previous year-to-date comparison.

Lastly, Mr. Combs presented the 2016 Salary Survey of General Managers, Finance Officer/Book Keeper's and Store Manager's from the top seven ABC Boards. Discussion followed.

SUMMARY: Mr. Combs emphasized that the key concern for any board of directors with fiduciary responsibilities is a breach of trust (such as Buncombe County Commissioners and their past county manager).

- ABC Board has an up-to-date, comprehensive Pay Plan approved by the ABC Board every two or three years (2012, 2015, 2017)
- ABC Board has a modern, comprehensive Personnel Manual (2013), which covers all facets of pay, benefits, whistle-blower policy, employee rights, etc.
- The ABC Board approves merit pay annually as a specific line item in the budget
- Board/staff is also controlled by NCGS Chapter 18B and NCAC 15A, 15B, 15C regarding business operations, compensation limits, nepotism and ethics (to include the authority to remove employees and boards for cause.

Ms. Cape suggested that Mr. Combs put together a memorandum stating why the ABC Board felt the need to purchase a new administration building. Mr. Hay stated that he directed Mr. Combs to prepare a memorandum, which was distributed to Board members in September (3-pages). Discussion followed.

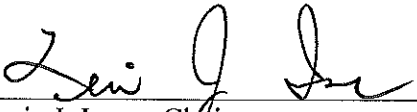
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Chairman Isaac thanked Board members for being comfortable enough to ask candid questions. Ms. Cape was concerned about the wide range of CFO/finance clerk pay as listed in the Commission survey. Mr. Combs explained that it was likely a misunderstanding of title description or organizational structure, or both. Chairman Isaac requested Mr. Combs look into a better comparison of finance officer compensation.

NEXT REGULAR MEETING: The next regular meeting of the Board will be Tuesday, November 28, 2017, at 8:30 a.m. in the Conference Room at its Administrative Offices at 1 Cherry Street North, Asheville, North Carolina.

ADJOURNMENT: The meeting was adjourned at 10:07 a.m.

Respectfully submitted,



Lewis J. Isaac, Chairman

