

**Durham County ABC Board
Minutes of the Meeting
May 20, 2013**

The Durham County ABC Board met at the administrative office, 3620 Durham Chapel Hill Boulevard, on the 20th day of May 2013.

Board Chair, Kim Shaw, called the meeting to order at 5:30 p.m.

Board members Wayland Burton, Deirdre Guion and Kevin Nelson were present. General Manager Emily Page and Attorney George W. Miller, Jr. were also present. Additional attendees were DCABC Finance Officer Lee Keatts and Appraiser Jarvis Martin from Martin & Company.

Conflict of Interest Review and Declaration

Ms. Shaw read the Board's Conflict of Interest Review and Declaration statement and asked Board members if they have an actual conflict or appearance of a conflict of interest with any items coming before the Board and, if so, does the Board member wish to recuse him or herself from deliberating and voting on the matter. All Board members present verbalized that they do not have a conflict.

Consent Items

Consent agenda items included the Board Attendance Report, Adoption of Agenda, Minutes of the April 15, 2013 Board Meeting, Minutes of April 22, 2013 Special Meeting and Minutes of May 2, 2013 Emergency Meeting.

Mr. Nelson motioned for the consent agenda items to be accepted and the Board approved the motion without objection.

General Business

Holloway Street Properties – Eminent Domain Decision

Appraiser Jarvis Martin presented his assessment of the property value impact of the NCDOT eminent domain land seizure on DCABC's two Holloway Street properties. His report was based on damages not included in the NCDOT's appraisal report including an assessment by Coulter, Jewell and Thames on the site impact from the land seizure. Mr. Martin assesses that damage to both properties included the impact of a permanent Duke Power utility easement, the loss of three parking spaces in the front of the building and the adverse impact of this loss on the retail building and future sales, the cost to create new parking spaces on the owner's adjoining lot, the cost of restriping the front parking lot and re-installing bike racks. His report stated damages at \$128,800 for 1928 Holloway Street and approximately \$800 for 1930 Holloway Street.

Ms. Page stated that during a visit to the Durham City Planning Department to discuss possible code requirements as a result of the NCDOT plans, she and Dan Jewell were told that there is no requirement to replace the three lost parking spaces from a City parking code perspective. The initial site plan was approved with the knowledge that the site would eventually have three fewer spaces in front than it had upon the store's first opening and, even with the loss, the parking lot would still meet City code requirements.

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Mr. Martin indicated that he would revise his report after clarification of the parking space requirements with Mr. Jewell and send a final report subsequent to the meeting with his final assessment of property value damages.

Ms. Page reported that the NCDOT traffic flow studies before and after the widening of the road indicate no significant changes and that traffic is predicted to grow very little over the next twenty years. Ms. Page consulted with Kathleen Rose of Rose & Associates Southeast, Inc., a real estate and economic advisory consultant. Ms. Rose opined that, based on the NCDOT traffic projections, the Holloway Street store should not experience an adverse business impact from the taking of the land.

Ms. Page indicated that she polled a number of possible resources including the City of Durham Economic Development office to identify a possible consultant that could address the impact that the parking lot changes may have on customer behavior; however, no such consultant had yet been identified. The Board discussed whether it is even possible to conclude the consumer behavior impact because DCABC does not have historical consumer information to use in an analysis against potential consumer behavior models.

The Board considered an Agreement for Entry which allows Durham County ABC the right to continue negotiations on the value of the property loss even while the Department of Transportation is permitted to go forward with its project. Mr. Burton motioned for the Board to enter an Agreement for Entry. Mr. Nelson seconded the motion and the Board approved without objection.

Law Enforcement Report for April 2013

The Board had a general discussion regarding the lack of clarity of the classifications listed on the Law Enforcement Activity Reports. Ms. Page will request additional information from the ABC Commission to provide clarification of each subject heading.

Ms. Page reported that she has requested a summary of hours and activities of the law enforcement department each week.

At this time, Mr. Reese entered the meeting. Ms. Shaw again read the Board's Conflict of Interest Review and Declaration statement. Ms. Shaw asked Mr. Reese if he has an actual conflict or appearance of a conflict of interest with any items coming before the Board and, if so, does he wish to recuse himself from deliberating and voting on the matter. Mr. Reese verbalized that he does not have a conflict.

Financial Reports for April 2013

Ms. Page noted from the financial reports that Durham County ABC's April sales were slightly below budget for retail sales and above budget overall. This was the first month retail sales were below budget. She noted that Durham County ABC continues to have sales increase percentages above state overall performance and above neighboring and other ABC Boards that DCABC uses for comparison.

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Durham County ABC

Total sales for the month were \$2,196,921 which is an increase of 10.8% over last year and .82% over budget. Year-to-date sales were \$22,577,709 which is 7.13% over actual and 4.79% above budget.

Profit before distribution was \$186,805 for the month and \$1,867,412 year-to-date which is a 47.89% change over the same period last year and 37.46% increase over year-to-date last year.

After profit distributions, net income was \$125,372 for the month which is an increase of 82.6% over the same period last year. Year-to-date net income was \$1,233,032 which is an increase of 62.73% over last year.

Preliminary Operating Budget Review

Ms. Page presented a preliminary draft of the FY2014 operating budget. The budget includes a forecast of a 1.5% increase in retail liquor sales and 3% increase in mixed beverage sales. Ms. Page noted that although FY2013 sales have been substantially up versus prior years, the forecast anticipates that the surge in the market may taper and that sales will return to more usual growth patterns.

Total operating expenses are budgeted to be 17.06% of sales. Income from operations is budgeted to be \$1,848,460 and net income after expenses and distributions is anticipated to be \$692,158.

Preliminary Budget Document Review

The proposed Budget Document required by G.S. § 18B-702 was presented by Ms. Page. It contains the same information as within the Operating Budget in the format required by the ABC Commission. Ms. Page informed the Board that the proposed Budget Document will be filed with the ABC Commission and the Board of County Commissioners and posted on the Durham ABC website.

Ms. Page asked the Board for available dates for a public hearing on the Budget Document noting that a minimum of ten days must lapse between the date of the public hearing and the date on which the final budget is approved.

After reviewing their calendars, Mr. Burton motioned for the Board to hold the public hearing on June 6 from 11:00 am – 12:00 noon. Ms. Guion seconded the motion and the Board approved without objection.

Ms. Page stated that all required public notices of the hearing would be made.

Distribution to General Funds of Durham County/City

Ms. Page presented a recommendation to distribute \$1,500,000 to the County of Durham and \$166,667 to the City of Durham for FY2013.

After discussion, Mr. Burton motioned for the Board to accept Ms. Page's recommended distributions to the County and City. Ms. Guion seconded the motion and the Board approved without objection. The recommendation is included as Appendix A.

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Grant Program Update

Mr. Burton reported for the grant committee that eight proposals have been received of which two are from new organizations who have not submitted proposals in previous years. The committee has developed a matrix regarding the organizations' qualifications. He reported that they will require additional clarification and information gathering from applicants in order to complete their evaluation and make a recommendation to the Board on which applicants can be fully or partially funded, if at all.

Mr. Burton requested that the grant committee present their recommendations at the June 17 Board meeting. He noted that based on this presentation date, the committee recommends changing the response date for final decisions to grant applicants to June 22 rather than June 15 as had been indicated in the grant application.

Ms. Shaw stated that since the recommendation came from a committee, no motion was required. The Board voted to approve the change without objection.

RFP Recommendation & Technology System Update

A recommendation from the staff regarding a RFP bid from Carolina Data Systems was provided to the Board prior to the meeting along with a summary of feedback from Hi-Tek POS, a technology consulting firm working with Durham ABC. The staff recommended that the bid not be accepted and that a POS system with a decentralized architecture that is compatible with Durham County ABC's existing back office software system be sought.

After discussion, Ms. Guion motioned to accept all aspects of the staff's recommendation. Mr. Reese seconded the motion and the Board approved without objection. The recommendation is included as Appendix B.

Strategic Planning and General Manager's Report

The Strategic Planning and General Manager's Report was provided in the Board meeting packet which was distributed prior to the meeting. Topics from the report that were discussed include:

- Store Locations
 - A resolution plan is being developed for the Woodcroft store parking lot problems noted.
 - A resolution plan is also being developed for the roof leakage and parking lot issues at Roxboro.
- Disposition of Vehicle Assets

Durham County ABC presently owns three vehicles that are not in daily use as noted in the report. Ms. Page recommended that the 2008 Silverado which was a law enforcement-equipped vehicle formerly assigned to personnel that is no longer with Durham County ABC and the 2001 Jeep Cherokee which was formerly used by the warehouse staff be sold. After discussion about the 2005 Crown Victoria which serves as an additional law enforcement vehicle with uses as noted in the report, the Board determined that it should also be sold.

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Ms. Guion motioned for all three vehicles to be placed for sale. Mr. Reese seconded the motion and the Board approved without objection.

Other Business

The Other Business Report was provided in the Board meeting packet which was distributed prior to the meeting. Topics from the report that were discussed include:

- Ms. Page reiterated that employees had expressed gratitude to the Board for the Employee Recognition Event that was held May 1, 2013.

Closed Business

Mr. Nelson made a motion for the Board to go into closed session per G.S. § 143-318.11(a): (3) consult with attorney and (6) personnel matters. Mr. Reese seconded the motion and the Board approved without objection.

The Board returned from closed session. Ms. Shaw reported that General Manager Emily Page and the Board reached an agreement on an employment contract and Ms. Page signed an Interim Employment Agreement on May 3, 2013.

Adjournment

Dr. Guion made a motion to adjourn the meeting and Mr. Reese seconded the motion. The Board approved without objection.

Approved By:



Kim Shaw, Board Chair

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APPENDIX A



To: Durham County ABC Board
From: Emily Page, General Manager
Subject: Recommendation for Additional Distributions to Durham County and Durham City
Date: May 20, 2013

This provides a recommendation for additional distributions to be made to the general funds of Durham County and Durham City above statutory requirements.

Current Financial Position

Durham County ABC is in a very strong financial position. Sales in FY2013 have far exceeded expectations as we have responded to the expanding market by bringing in new products and by promoting and merchandising products within our stores. We also continue to offer outstanding customer service to our patrons. Operating expenses have once again declined over previous years. The result of this outstanding performance in sales and cost savings has provided the organization with additional cash funds above our operating needs.

For next year, though sales are being budgeted to grow at a slower rate and operating expenses are anticipated to increase minimally, Durham County ABC will remain in a strong financial position. Planned capital investments are primarily focused on upgrading existing facilities and no new location purchases anticipated. A new POS system has been budgeted for again in FY2014 since an appropriate new system has not yet been identified.

Budgeted & Year-to-Date Statutory Requirements

At the onset of FY2013, the forecasted contributions to Durham County and Durham City based on statutory requirements for our projected performance were \$663,631 and \$73,737 respectively. Based on forecasted performance through the end of June (i.e. end of fiscal year), the statutory amount that will be due to Durham County is approximately \$708,365 and to Durham City is \$78,707.

Recommendation

Given our outstanding performance and strong financial position for our short and long term operating needs, I recommend that Durham County ABC distribute \$1,500,000 to the County of Durham for FY2013. At this level of contribution to the County, we will be required to distribute \$166,667 to the City of Durham. These contributions will enable Durham County ABC to fulfill its commitment to the community to provide as much funding as possible while still ensuring that the organization's operating needs are consistently met.

With these distributions, our projected cash balance at the end of FY2013 will be \$2,705,000 which exceeds the highest amount we have had on-hand over the past ten years by approximately \$182,000. With next year's budget for distributions at 1.25% of the projected statutory requirement which totals \$909,063 for the County and \$100,407 for the City, Durham County ABC can anticipate having cash-on-hand of \$2,702,305 at the end of FY2014 which continues to maintain our strong cash position.

See attached summary for details on Durham County ABC's distribution and cash-on-hand history.

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EXECUTIVE SUMMARY

The Durham County ABC staff formed an internal team to evaluate a proposal presented by Carolina Data Systems in response to a Request for Proposal for technology systems issued in January 2013. Carolina Data Systems was the only vendor to submit a valid proposal that met all bid requirements. Our evaluation of the proposal began in February 2013 and concluded in April 2013 and included a thorough review of the proposal presented, a presentation by Carolina Data systems, the submission of additional questions from our staff and responses from Carolina Data Systems and site visits to two comparable North Carolina ABC boards that use Carolina Data Systems for their POS and technology functions.

After careful analysis of the proposal and consideration of the technology system presented, the team recommends that the Board not accept the Carolina Data System proposal. What follows are the team's findings and recommendation regarding alternative exploration.

EVALUATION RESULTS OF CAROLINA DATA SYSTEMS PROPOSAL

Established in 1987, Carolina Data Systems provides point-of-sale and inventory management systems to over 125 of the North Carolina ABC Boards. The majority of those boards are much smaller in size than Durham County ABC; however, our team was able to conduct site visits to two boards that are comparable to Durham County ABC in size and/or revenues - Orange County and New Hanover County.

The team identified and acknowledges that there are numerous positive attributes to the system. It meets a key requirement in that it has a decentralized architecture allowing for stand-alone operations in stores. However, after a careful and lengthy evaluation of the Carolina Data System proposal and application, the Durham County ABC team concluded that this system would not be the best fit for our operations. The following findings support this conclusion:

1. **The liquor ordering process of this application does not meet our specific ordering needs unless customized.** Carolina Data Systems is designed for one person to place all liquor orders through their inventory management application. In our current system, each store manager enters his/her own orders utilizing sales history calculations. If we were to move all ordering to our warehouse manager, it would not only increase his workload but would also add administrative responsibilities thereby possibly requiring additional staff. Carolina Data proposed to expand their inventory management application into the stores allowing access by store managers; however, this would result in an untested customization given that no current customers utilize the system in this manner.
2. **The accounting system does not match our current level of reporting functionality and would require significant changes to our internal processes as well as the possible purchase of additional third party software.** Carolina Data Systems utilizes an accounting application called Traverse. Our accounting team determined that there would be significant loss of functionality from what we currently utilize. The system was deemed as lacking the power and flexibility of our current MAS 200 accounting package to meet our accounting reporting needs. Additional software provided by a third party company could possibly make up for some lost functionality but at an additional cost.

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3. **We would be totally dependent upon Carolina Data for all of our hardware needs and maintenance costs.** In our current system, we can purchase hardware through any of the major computer manufacturers as long as it will work with our current system. With Carolina Data Systems, we can only use hardware that they have specified.
4. **Carolina Data Systems does not have an integrated gift card solution.** An external processor would be required to support gift cards which carries a monthly and per swipe fee structure. One of the boards we visited abandoned this method of processing because the cost of offering gift cards outweighed the revenues generated by them. Carolina Data Systems recommends that if we want to continue to offer gift cards that we not implement them immediately in order for us to become acclimated to their system before making such a customization. Changing to Carolina Data Systems will require a manual process to accommodate gift cards that are already in circulation which would be time consuming and prone to errors. Additionally, the loss of gift cards will result in a take-away from our customers who have come to expect the convenience of this offering.
5. **We would be required to purchase all new inventory scanners to replace the ones purchased only 2 years ago.** In 2011, Durham County ABC invested approximately \$47,000 in our current inventory scanners and all applicable software. Moving to Carolina Data Systems would require us to purchase all new scanners again in order to use their application for physical inventories. Despite a trade-in offer by Carolina Data, the cost is still significant and further illustrates the dependency on hardware that they specify.
6. **The overall cost of implementing the Carolina Data Systems application significantly exceeds the \$225,000 that was originally budgeted for a new POS system.** Though two alternative pricing structures were offered (one utilizes some of our existing hardware), both options are significantly higher than our anticipated costs to change our system at over \$255K each. These are base costs that would inevitably increase as additional needs are identified during the implementation process. Given that the system does not meet our needs without significant, untested customization, the additional costs do not justify the risk involved in moving to this system.

RECOMMENDATION

The team recommends that the Board not accept the Carolina Data Systems proposal for the reasons stated. The evaluation process, however, has led to significant insights and learnings about our needs and what is available in the marketplace. Given our learning and the substantial investment already made in our current Sage MAS 200 system, the team further recommends we explore the viability of alternative POS applications that are integrated with our Sage MAS system and that have decentralized architecture which supports stand alone operations in our stores. If such a solution is discovered and falls below the required bidding thresholds for software purchase, then the team will present a purchase recommendation.

We also recommend exploring alternative Sage vendors that can provide the technical expertise needed to implement a new integrated POS as well as provide excellent maintenance support for a retail operation such as ours. Should this recommended route fail to produce the desired results, then the RFP process could be re-initiated in order to consider other options that are available in the market place.