

Executive Summary:

Liquor Control Board Independent Review

The Washington State Liquor Control Board (WSLCB) received a request Feb. 10, 2005, from Gov. Christine Gregoire to conduct an independent review of the agency and research five areas of performance and organization related to its dual mission of revenue generation and public safety.

The Board hired a consultant, *Public Knowledge, LLC*, to conduct the independent review. *Public Knowledge*, a project specialist experienced working with business management and technology issues, skilled in bridging the gap between executive expectations and day-to-day operations. The firm also has substantial experience working with boards and governmental agencies.

This Executive Summary focuses on four of the five issues outlined in the Governor's request:

1. Our projected revenue growth for the next five to 10 years
2. The impact of increased sales on public safety
3. Operational and policy efficiencies
4. Optimum organizational structure including the board

The fifth issue, a request for an analysis of overall working relationships between employees and managers of the WSLCB organization, was addressed separately in an employee survey conducted by the Department of Personnel (DOP).

Revenue Growth Forecasting

Analysis

Public Knowledge analyzed past and current revenue trends. They found the agency's revenue projections of about 5 percent annual sales growth to have been accurate each of the last four years. Revenue is projected to increase by 5.45 percent in FY 06 and 5.3 percent in FY 07.

Public Knowledge indicated that further investment in information technology infrastructure was needed to keep pace with advancements in retail software applications. The agency should capitalize on this information and focus on identifying, collecting or using data that could enhance revenue generation or forecasts.

The Report's Recommendations

- The information technology system needs to support the agency's retail business. The system should be able to capture the necessary data either to calculate the cost of goods sold or share appropriate data with an accounting system that can calculate this figure down to the store level. This will allow the agency to develop more accurate revenue forecasts and manage retail operations more efficiently.
- In addition, the system should capture inventory and related revenue data in appropriate units for the liquor industry (i.e. bottles, cases, etc.).

Agency's Response

The agency has allocated additional resources to improve its revenue forecasting capability and its retail management capability. The agency installed a new Point-of-Sale system in June 2005 with expanded inventory reporting capability and is making additional improvements to allow it to capture additional data for management use. More than \$2.26 million in information technology infrastructure improvements are scheduled for this biennium. It is expected that with these improvements the system will be able to produce more accurate and timely information to enable more informed planning and decision making.

Public Safety Challenges Related to Revenue Growth

Analysis

Public Knowledge examined the relationship between increased liquor sales and consumption rates to determine if revenue growth would produce higher levels of consumption. They determined that recent annual sales increases have been due primarily to increases in the state's drinking-age population, not increased consumption rates.

"Based on the analysis of the current revenue forecasts and historical per capita consumption rates, there is no indication liquor consumption will increase significantly as liquor revenues rise over the short term," the report stated.

The report indicated that costs for treating alcoholism and related illnesses were increasing nationally and that minimal growth in WSLCB revenues would not be sufficient enough to offset the annual percentage increase in health care treatment costs for alcohol abuse related illnesses.

The Report's Recommendation

- If the revenue distribution percentage to drug and alcohol abuse treatment programs is not increased at essentially the same rate as the growth in health care costs, fewer individuals seeking services will be able to receive them each year.

Agency's Response

The agency is placing increased emphasis on creating a more effective statewide alcohol awareness effort and on working more collaboratively with the state's treatment and prevention communities. The 2005 Legislature provided start-up funding for the alcohol awareness program. The agency has developed a plan for this program and is in the process of recruiting for the alcohol awareness manager position. This will include seeking grants from federal, state and private agencies.

Operational & Policy Efficiencies

Analysis

Public Knowledge examined the agency's operational and policy structure to determine if recent changes in these areas had been successful and to identify additional changes that might increase productivity or efficiency. Stakeholders were asked their opinions about the agency's current operational structure.

In general, stakeholders are pleased with the improvements being made in the agency, which achieves high levels of performance compared to similar control states, the report stated. Stakeholders strongly believe the agency must continue its current emphasis on strategic and long-range business planning to achieve continued success. An analysis of the retail supply chain

revealed considerable performance problems and opportunities for improvements in key areas such as product inventory and in the organizational structure of the retail supply chain operation.

“Overcoming these challenges and realizing the performance opportunities will require gubernatorial and legislative support in the 2007 session, as well as consensus-building among stakeholders. We believe WSLCB has the requisite leadership expertise, the stakeholder and industry support, and the confidence of the Governor. Preparing for success in the 2007 legislative session will require effort and leadership from the entire Executive Management Team.” – *Public Knowledge Report*

The Report’s Recommendations

- Future revenue production hinges on making additional investments in information technology, management information, training resources and physical plant maintenance.
- A Business Enterprise Model should be considered to provide timely business decisions. Continued emphasis on developing a more analytical business model is a critical component of this effort.
- A more unified supply chain management system should be created by combining the divisions of Purchasing, Distribution Center and Retail Services into a single division with a single director reporting to the Administrative Director.

Agency’s Response

The agency has created a fully loaded cost model. The next step is to collect data and input it into the model to create a more comprehensive analysis of the agency’s business activity. This will be completed this fiscal year in preparation for proposing a Business Enterprise Funding model to the 2007 Legislature.

The agency is considering the benefit of combining the Retail and Purchasing Divisions and the Distribution Center into a single division with a single director reporting to the Administrative Director. This decision is still under review.

Optimal Organizational Structure

Management Structure

Analysis

Public Knowledge examined current management responsibilities exercised by the Board and the Administrative Director to determine if additional responsibilities should be turned over to the director or retained by the Board.

In 2000 the Board began a transition from operational control to policy development and the position of Administrative Director was created to manage the agency’s day-to-day operations. In 2001, the Board approved WAC 314-42-010 delegating specific operating duties to the Administrative Director. This action also reduced Board work time and pay to 60 percent.

The Board has continued to delegate additional administrative responsibilities to the Administrative Director: management oversight of the policy, legislative and media relations division and responsibility for division budgets.

This transition has helped the Board and Administrative Director and the agency focus on a critical set of infrastructure, policy and administrative challenges that must be addressed to

promote continued revenue growth and operational efficiency. The ability to focus on these issues has resulted in increasing levels of stakeholder approval and support.

The Report's Recommendation

- Delegate additional management responsibilities to the Administrative Director, including approval of product listing and de-listing approval and administrative management of the liquor stores and update WAC 314-42-010 to reflect these changes.

Agency's Response

These items are under review and will be acted on when the report recommendations are finalized.

Board Structure

The Governor requested the review should consider the benefits of further evolving the function and structure of the Board away from operational issues and toward greater focus on policy. *Public Knowledge* analyzed six similar state agencies with regulatory responsibilities and advisory boards. The comparison found that only the Liquor Control Board has salaried board members who are state employees.

Public Knowledge also compared the Board's organization and span of control to boards in other control states, which differ widely in their approach to governance. Six of those jurisdictions have voluntary advisory boards. Seven have boards that receive compensation and work either full or part time. Seven of the 13 control states, including Washington, have paid board members.

The appointment of an Administrative Director, the development of a sound agency management team, the improvement in policy issue analysis, and the creation of alternative forums for stakeholder participation will allow the Board eventually to execute its responsibilities through a voluntary structure, the report indicated.

WSLCB enjoys strong support from its stakeholders and a precipitous move to a voluntary board could undermine that support and distract agency leadership from its more important tasks, the report stated.

The Report's Recommendations

- The organization has set in motion a process that should continue – the move from a board whose members directly managed agency operations to a board focused on policy.
- A transition plan developed by the Executive Management Team, which includes the Board is called for to assure that the initial successes of the current organization can be maintained as the move to a voluntary board is accomplished.
- The current Board structure should continue through the 2007 legislative session. That is not solely because the transition to a voluntary board will require statutory changes. The 2007 legislative session will address WSLCB budget needs and we believe that both legislative changes and budget enhancements are essential.

Agency's Response

After reviewing the *Public Knowledge* report, the Board adopted a resolution stating it did not concur with the report's recommendation to transition to a voluntary board. Two Board members

believe there is not a clear and compelling reason to carry out such a transition. The Board Chairman supports the report's recommendation to make such a transition. These recommendations and responses are under review by the Governor.