



Senate Labor, Commerce & Consumer Protection

Update on Implementation of I-1183 *Update on I-502*

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I-1183 Timeline

- December 8, 2011
 - I-1183 becomes law
- March 1, 2012
 - Distributor and Supplier licenses active
- May 31, 2012
 - State business operations close
- June 1, 2012
 - Spirit Retail licenses active



Agency Goals:

- Orderly transition by May 31, 2012.
- Meet the timelines and the requirements spelled out in the initiative.
- Advert harm to contract, tribal and military stores.
- Maximize reasonable value for our assets.



Implementation Project Teams

Audit Team	Legal & Policy Team	Product Supply Team	Employee Transition Team
Communication Team	State Liquor Store Team	Contract Liquor Store Team	Asset Disposal Team
Reverse Logistics Team	Warehouse Hibernation Team	State Store Auction Team	Warehouse Sale Team
Regulatory Team	Organizational Structure	Rulemaking Team	IT Team



State Store Auction

- A successful bidder owns the exclusive right to apply for a spirit retail license for the existing location
 - Allow for liquor sales at a premise under 10,000 sf²
 - Location is not subject to local jurisdictional challenge
 - The “right” is sellable, transferable, and re-locatable
 - No obligation to operate a liquor licensed business
- Public auction of 167 former state stores
- Maximum reasonable value
- Results
 - \$31 million in bids and fees
- Liquor Inventory Auction – November 1



Distribution Center

- Appraisal of Property – \$30 Million (Land & Building)
- Equipment – \$1.5 million
- RFP for Broker – Kidder Mathews, Successful Bidder, Finalizing Contract
- Proposal from Port of Seattle – \$17.5 million – rejected by LCB



Loss of liquor profits offset by new distributor and retail fees

Detail of Revenue Changes (\$ millions)

	FY 2012	FY 2013	2011-13
New Retailer Fees	\$8.5	\$83.1	\$91.6
New Distributor Fees	\$12.3	\$148.9	\$161.2
Total New Fees	\$20.8	\$232.0	\$252.8
Lost Liquor Markup	-\$25.0	-\$220.0	-\$245.0
Savings/changes from Liquor business operations	\$10.2	\$97.1	\$107.3
Lost Liquor Profits	-\$14.8	-\$122.9	-\$137.7
Net Revenue Impact from new fees	\$6.0	\$109.1	\$115.1



By Fiscal Year 2015, one-time impacts are complete, state and local revenues from new fees are \$40.8million higher than the baseline.

***Total Estimated Revenues (\$ millions)**

Fiscal Year	2012	2013	2014	2015
State	\$3.1M	\$97.6	\$46.2	\$32.9
Local	\$2.9M	\$11.5	\$13.1	\$7.9
Total Fee Revenue Impacts	\$6.0	\$109.1	\$59.3	\$40.8



Current Licenses

License Type	# of Licenses Issued
Spirit Certificate of Approval (COA)	59
Authorized Representative COA (Foreign & US)	215
Spirit Distributor	87
Spirit Retailer	1,455
Contract Liquor Stores	207
Auctioned State Liquor Stores	117
Wine Seller Reseller Endorsement (allows retail to retail sales)	509



Stakeholder Challenges

- Grocery store licensee with wine retailer reseller endorsement selling to restaurant licensee is limited to 24 liters per sale per day.
- Spirits retailer selling to restaurant licensee is limited to 24 liters per sale per day.
- Spirits retailer licensees must pay to the board 17% of all spirits revenues. Fee includes sales to a restaurant licensee.



Legal Challenges

- ***Washington Restaurant Association, Northwest Grocery Association, Costco:*** Rule making challenges; 24 liters per day limit, direct sales from foreign spirits distillers, distributor deliveries.
- ***Fedway Marketplace, LLC and Garland & Market Investors, LLC:*** Two landlords filed a suit in Thurston County contending the state violated leases for liquor store properties when it terminated those leases May 31.
- ***Former Contract Liquor Store Owners:*** Demand for compensatory payment from lost sales.



Initiative 502 Implementation Plan



External Teams

Made up of all state agencies involved in implementation of I-502:

- Attorney General's Office
- Department of Agriculture
- Washington State Patrol
- Department of Revenue
- Department of Health
- Department of Social and Health Services



Internal Teams

Licensing Team

Legal & Policy
Team

Education Team

Enforcement
Team

Communication
Team

Human
Resources Team

Collections &
Audit Team

Budget &
Distributions
Team

Contracting
Team

Research Team

Organizational
Structure



Gaining Outside Expertise

- Initiating a contract process to bring expertise of consultants into the development process.
- Developing Request for Proposal, RFP Team is working on criteria.
- Review Colorado medicinal marijuana law and new law.



Reaching Out to Interested Public

- Established a I-502 Webpage with updates to Listserv. www.liq.wa.gov
- Various stakeholder reaching out to LCB to better understand our process for implementation of the new law.



Creating a Information Sharing Forum

- Using the rule making process and other venues to gain a better understanding of the issues and array of expectations regarding implementation of the new law.



Initiative 502

- Potential \$2 billion in new revenue over 5 year period (FY 2014 – FY 2018)
- Distribution to LCB to administer program – Up to \$5 million annually (per language of initiative)
- LCB request is for 40 new FTE (4/one-time; 36/ongoing).
- Proviso language will be included in the 2013 supplemental budget allowing LCB to expend out of the Liquor Revolving Fund for I-502 work beginning in FY2013. No additional appropriation needed in current biennium.



Thank you