



## Business Advisory Council

Meeting Minutes  
April 20, 2011, 9:30 a.m. – Noon  
Liquor Control Board  
Headquarters Office  
3000 Pacific Avenue  
Olympia, WA 98504

### Business Advisory Council Members in Attendance:

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| <b>Council Members:</b><br>Jeannie Lee, KAGRO<br>Jan Gee, WA Food Industry<br>Heather McClung, WA Brewers Guild<br>Jean Leonard, Washington Wine Institute<br>Paul Schieck, WA Sports & Entertainment Facility<br>Operations Association<br>Jeff Barr, DRAW<br>Steve Lynn, Small Businesses & Distributors | <b>Liquor Control Board:</b><br>Ruthann Kurose, Board Member<br>Chris Marr, Board Member<br>Pat Kohler, Administrative Director<br>Rick Garza, Deputy Director |
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### Also in Attendance:

Ron Main and Phil Wayt, Washington Beer and Wine Wholesalers Association, Julia Clark, Washington Restaurant Association; Aubrey Seffernick, Nooksack Tribe; Adam Smith, DISCUS; Carrie Tellefson, DRAW; Charlie Brown, Diageo; and Lance Hastings, Miller Coors. Liquor Control Board staff present: Pat McLaughlin, Alan Rathbun, Mary Segawa, and Roni Pettit.

**Absent:** Sharon Foster, Gilbert Canizales, Ted Yi, Theresa Hancock, Katie Jacoy, Bob Kelly, TK Bentler, and Anthony Anton.

Chris Marr, Board Member of the Liquor Control Board welcomed the members of the Business Advisory Council (BAC) and introductions were made by Board Member Marr and each council member.

### Rick Garza, Deputy Administrative Director

Rick provided a legislative update to the members. Rick reported that session shouldn't go any later than Friday at noon. There will be a rolling recess then will move into a 30 day session for the budget. There are currently 63 bills that are necessary to implement the budget. We should know more in the next few days. Bills involving money are noted in red. (See handout). The Senate budget calls for deeper cuts to state employees. The WBC proposal would only work if

there was a significant increase in sales. Currently, as it stands now, there would be a loss to the state over time. The proposal assumes 5 percent growth but LCB staff feels that is much higher than what we currently have seen (2.7 percent growth.) The Senate did not adopt it; the Governor has concerns but it still may move forward in a different way (i.e. there still could be an RFP with key language about financial benefit over time to the state). The Costco proposal has had many different versions over the last few weeks. The bill is likely to be dropped in the Senate. The House has a title only on the Costco bill.

Jan Gee asked about the tax portion of the Costco bill and the generation of money. Rick responded that there is a huge markup above taxes (59 percent) and after two or three years the fees go away. Markup is sheer profit to the state and the state only takes a piece of that markup. The locals receive most of their money from the markup so if the fees disappear then it's a loss to the state and locals. The fiscal piece appears to be problematic and the policy piece will be dealt with by the legislature.

Jeannie Lee inquired about HB 2043 and what the definition of a grocery store is. Rick indicated that under this bill the state liquor stores are to sell liquor related products (i.e. ice, mixers etc). Contract stores already sell these items but state stores do not. The state would see \$6 million the first biennium and between \$15 million to \$18 million once it is fully implemented. The store within a store concept in urban areas is a pilot that is being looked at because it may be more feasible to co-locate than putting in a state store.

Steve Lynn expressed concern regarding an assumption from the legislature that the state is the provider. There likely will be other initiatives to privatize and he recommends having a contingency plan like private businesses do. Rick responded that the LCB has to run our business like we will be here tomorrow and have to move forward with modernization. Pat Kohler interjected that it does take into account revenue change and that contract stores would be grandfathered in or have the opportunity to compete. It provides customer convenience from a broader standpoint and allows for creative ways such as online ordering meeting general fund assumptions. There would be wasted revenue if there wasn't an assumption that we will be in the business. Board Member Marr commented that the LCB understands his concerns from a business standpoint but the LCB is investing money to improve revenue/convenience.

Jan Gee gave an example of what if a car business was opened up across the street. Member Marr responded that example is not considered to be a business involved in public policy. Ron Main interjected that everything we do is always subject to initiative process and there is always organized opposition. In Steve's opinion, the last initiative was close – 52/46.5 – so there likely will be smarter initiatives coming. Member Marr suggested that caution is a good caveat as we make these decisions and move forward.

Jan Gee also asked for clarification on the definition of a superstore. Pat Kohler responded that a superstore is considered 7,000 to 10,000 square feet, has 2-3 times more SKUs, is in an urban/metropolitan area, and carries unique items. Liquor related items would be included in all stores as well as samplings and training opportunities for customers.

Rick also mentioned that the idea of super stores came from other control states and provides the public with an ability to obtain a larger variety. Chair Foster brought the idea forward after

hearing about superstores from her counterparts in other control states. Last session, the LCB generated \$80 million increase in revenue for state (the current biennium ends on June 30, 2011). It appears the LCB will have \$85 million for the next biennium.

Rick reported that state store models work well for urbanized areas; contract stores work well in rural and suburban areas. Super stores in our control state would increase sales. Charlie Brown expressed concern about sweeping of the revolving account. The numbers show that the LCB is selling fewer products although there has been an increase in dollar revenues but still lower than hoped. The spirits industry is also concerned about an increase in markup and would like to see the sweep eliminated. Member Marr confirmed that this is certainly a topic for discussion.

Phil Wayt inquired as to whether the commission schedule would be the same with a contract store within a store or whether the store would run the contract store. Pat McLaughlin indicated that this concept is just a concept at this point and the commission structure has not yet been defined. As a result of SB 6444, the study showed models were restrictive in engaging businesses. Phil felt there was a lack of interest in the survey from businesses. Pat Kohler noted that there was a high level of research and all ten stores were placed but there was difficulty in metropolitan areas for contract stores.

Adam Smith reported that they are concerned about markup. Rick reported that the LCB is climbing out of flat sales and beginning to see normal growth. Therefore, we don't want to increase price as that could have negative impact. The LCB has shared concerns about markup to the Governor, legislature, and OFM. Heather McClung asked if the markup would include beer and wine. Ron Main echoed the question indicating that the thought was to equalize beer and wine with spirits. Rick responded that there has been no discussion on beer and wine taxes.

### **Ruthann Kurose/Mary Segawa**

Member Kurose introduced Mary Segawa, Alcohol Awareness Program Manager. Mary reported on the efforts of the LCB in the areas of alcohol awareness and education. She gave an overview of the Reducing Underage Drinking (RUaD) Coalition as well as media and poster campaigns. Mary also provided a list of resources for information and outreach efforts currently underway. (See handout.)

### **Roundtable**

Julia Clark spoke of the restaurants pricing issue and how they want to keep anymore increases from their industry. They have seen an impact on jobs (they are down about 14,000 jobs). They want to be part of the solution and look at options for increased efficiencies in terms of the two liquor privatization proposals.

Charlie Brown reiterated those concerns and looks forward to working with everyone.

Jan Gee commented on the distribution bill. They are in a position to oppose as they feel it would be exchanging one monopoly for another and is not in best interest of state. They are moving closer to supporting the Costco bill. Generally, their industry is seeing a nice bump in economy until recently which saw a small dip because of gas prices.

Aubrey Seffernick reported that they are continuing to watch privatization and how it will affect the operation of contract stores and casinos; however, they have no official position at this time.

Jan Gee inquired as to whether the service station near Emerald Queen is selling spirits. Aubrey confirmed that the Puyallup Tribe has opened a state contract store.

Phil Wayt reported that the beer distributors are concerned about privatization.

Ron Main indicated that they are supportive of the LCB enhancing convenience and modernizing but still have serious concerns regarding the Costco proposal. They have no position on the Washington Beverage Company (WBC) but are watching it closely.

Heather McClung indicated they were happy to see the final wine strategy has been completed and look forward to seeing a beer strategy plan in the future.

Lance Hastings wants to ensure the temporary tax increase remains temporary.

Jean Leonard thanked the LCB for their support on the omnibus bill/corkage fee. It should be effective in 90 days. She also reported that many wineries are concerned about the Costco bill.

Jeff Barr thanked the LCB for their support on the sampling bill. Their plan is to renew the bill next year to make it permanent. They are keeping an eye on privatization and are also concerned about markup increases. They hope to work with the LCB/WRA to provide solutions.

Steve Lynn reported that his business, Water to Wine in Gig Harbor, liquidated 90 percent of his inventory on January 31 which included \$300,000 worth of specialty wine. He wanted to ensure that the LCB is aware that the actions made by the state impacts small businesses. He feels that sampling was exclusive and is now spread to grocery stores and although they are not a direct competitor, they are still a point of access. Second, as a member of the WRA, they are allowed to do off premise sales. There is no value for having a specialty retail license and the exclusivities have been given away or traded. This causes a decrease in jobs and inventory and will have to move to smaller retail space. His prediction is that in 2-3 years, every major grocery store will have beer, wine, and liquor. Small independent retailers won't be able to do it much longer and believes that it will be politically driven rather than legislatively driven.

Heather McClung reported that at a meeting with the Guild, Washington was praised for its efforts in modernization.

### **LCB Division Updates:**

#### **Pat McLaughlin – Business Enterprise**

Pat McLaughlin provided an update on the business plan and went over the Governor's and Board's initiatives. Pat also spoke to the Purchasing product strategies and revision of the display assignment process and standards, Distribution's efforts to increase flexibility and reliability, and Retail's efforts to optimize the customer experience. (See handout.)

Rick commented on his observation from Steve's remarks and that the LCB spends a lot of time working with stakeholders in modernizing our system. The state continues through its monopoly of spirits as long as it's done safely and in compliance. The LCB has opened up our system to have access to customers; open states are not as progressive as Washington State is. Steve reiterated that as a business owner, he is looking ahead to change his business model to accommodate the situation.

Jan Gee indicated that the LCB was great to work with on the growlers. Growlers would work well in some locations and great changes in recent years have been made that the LCB has negotiated together. The progress for grocery stores has been great.

Steve reported that it has not been so well for specialty stores. Metropolitan stores are different (higher density much higher more affluent than what exists).

Member Marr indicated that the next meeting will be July 20, 2011. Hopefully, we will know what the budget will be and how the initiatives have emerged.

Handouts:

1. Legislative Update
2. Alcohol Awareness and Education Presentation
3. Business Plan Update Presentation