



# Washington State Liquor Control Board

## Balancing *Revenue* *and* Responsibility

FY 2006 Annual Report



## Introduction

Letter from Board Members	2
Board & Admin. Dir. Biographies	3
Vision, Mission, Goals, Values	4
Organizational Structure	5
Control States	6

## Business Enterprise

Retail Services Division	7
Distribution Center	9
Purchasing Division	10

## Regulation and Enforcement

Licensing & Regulation	11
Enforcement & Education	13

## Agency Marks of Excellence

Divisional Achievements	16
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## Financial Details

Income & Expenses	19
Revenue Distribution Chart	20
Distributions by Fund	21
Cost/Taxes/Markup	23
Legislative Appropriations	24



Enforcement Division Region 4 Captain, Justin Nordhorn, and Enforcement Officers Bobbi Martinez, Mark Jansen, and Kent Williams.

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## Washington State Liquor Control Board

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# Message from the Board

Dear Citizens of Washington:

It is our pleasure to present to you the Washington State Liquor Control Board (WSLCB) Fiscal Year 2006 Annual Report. This report provides key data on the FY2006 operations of the agency and identifies future trends and issues.

The WSLCB is entrusted with a critical responsibility to the general public. Each day, the 1,350 full- and part-time employees help:

- Generate revenue for state and local services through responsible liquor sales;
- Promote public safety by regulating and enforcing state alcohol and tobacco laws; and
- Partnering with stakeholders to educate citizens about alcohol and tobacco issues.

We strive to carry out our mission and exceed the expectations of the Governor, Legislature and the public. Below are some 2006 agency highlights. More detail can be found within the report.

**Business Enterprise:** The agency forged gains in our business and retail operations in 2006. Retail sales grossed \$726 million in 2006, returning more than \$298 million in revenue to the state. A rising population and other factors contributed to a 93 percent growth in gross sales from 1996 to 2006. A pilot to open 20 state and 35 contract stores on Sundays will garner an estimated \$18.5 million this biennium.

In 2006 the agency implemented technology improvements including a wide-area-network and an upgrade to point-of-sale systems. The agency also continued work on a major expansion and upgrade of the Distribution Center in Seattle that is slated for completion in 2007.

**Enforcement and Education:** The agency continues to temper the misuse of alcohol and preventing youth access to tobacco through enforcement and education programs statewide. We coordinate with local law enforcement to prevent and address alcohol-related issues.

**Licensing and Regulation:** The Licensing division issues liquor licenses for 14,000 qualified businesses. In 2006, the division implemented a new license pre-approval process which allowed more than 1,000 businesses to open three weeks earlier on average.

**Strategic Planning:** For the 2007-09 Biennium, the Legislature provided more than \$33 million in new appropriations to help the agency meet staffing, technology and processing goals. As we move ahead to achieve these goals, we will continue to focus on improving our operation through performance-based planning and resource allocation that maximize the state's return on its investment.

On behalf of our employees, we appreciate the continuing support we receive from the public, our stakeholders, the Governor and the Legislature. We also welcome your comments as we continue to carry out our important public safety and revenue-generating mission.

Sincerely,



Lorraine Lee  
Chairman



Roger Hoen  
Board Member



Ruthann Kurose  
Board Member

## WSLCB Board Members

The Board is composed of three members appointed by the Governor to six-year terms. Board members are responsible for hiring the agency's Administrative Director, who manages day-to-day operations. The Board holds regular public meetings and work sessions with stakeholders and other interest groups and provides oversight for major policy and budget decisions.

### **Lorraine Lee** – Board Chairman

Ms. Lee, of Federal Way, was appointed Board Chairman in November 2006. Prior to her appointment as Chairman, she served as the Director of Licensing and Regulation for the WSLCB since 2002. She was the Assistant Director of the Washington State Lottery from 1997 to 2000 and Executive Policy Advisor for Governors Gary Locke and Mike Lowry (1995 to 1997).



### **Roger Hoen** – Board Member

Roger Hoen, of Seattle, was originally appointed to the Board in 2002. Roger has over 30 years experience in the hospitality industry. He has been active with the Seattle-King County Convention and Visitors Bureau and served as a vice president and on the board of directors of the Restaurant Association of Washington. He brings a long history of community involvement in the Seattle area and was recognized for proactively engaging minority and women owned businesses as subcontractors and vendor-suppliers.



### **Ruthann Kurose** – Board Member

Ruthann Kurose of Mercer Island was appointed to the WSLCB on January 16 2007. Kurose currently chairs the Bellevue Community College Board of Trustees, serves on the KCTS Public Television Advisory Board, the Seattle Art Museum Community Advisory Board, and the Wing Luke Museum Capital Campaign Committee. Kurose has a long history of public service working on congressional legislative policy in Washington D.C. and in economic development policy for the cities of Seattle and Tacoma.



### **Pat Kohler** – Administrative Director

Pat Kohler joined the Washington State Liquor Control Board in January 2002. Pat has held senior level positions in the areas of finance, audit, materials management, and procurement. She is the recipient of the 1998 Governor's Distinguished Managers Award, and served as President of the National Association of State Procurement Officials in 2001 and as Chair of the Western State Contract Alliance from 1999 to 2001. Pat is a certified public accountant.



# Vision, Mission

## WSLCB Vision, Mission, Goals and Values

### Vision

Ensure the responsible sale and consumption of alcohol and tobacco in Washington.

### Mission

Prevent the misuse of alcohol and tobacco and promote public safety through controlled retail and wholesale distribution, licensing, regulation, enforcement and education.

### Goals

- Maximize financial return to the state by running an efficient business operation with strategically located state and contract stores.
- Continually improve business, regulatory, enforcement and education processes to ensure the highest possible level of public safety.
- Recruit, develop, retain, and value a highly competent workforce capable of responding quickly and effectively to challenges in our business and regulatory environment.
- Encourage the innovative use of technology and information tools to ensure efficiency, expand communication, and foster continuous improvement.

### Values

*Respect for people*  
*Professionalism and integrity*  
*Honest and open communication*  
*Internal and external accountability*  
*Public trust and stakeholder involvement*



*Swearing in of Enforcement Officers Matthew Murphy, Almir Karic, and John Wilson.*

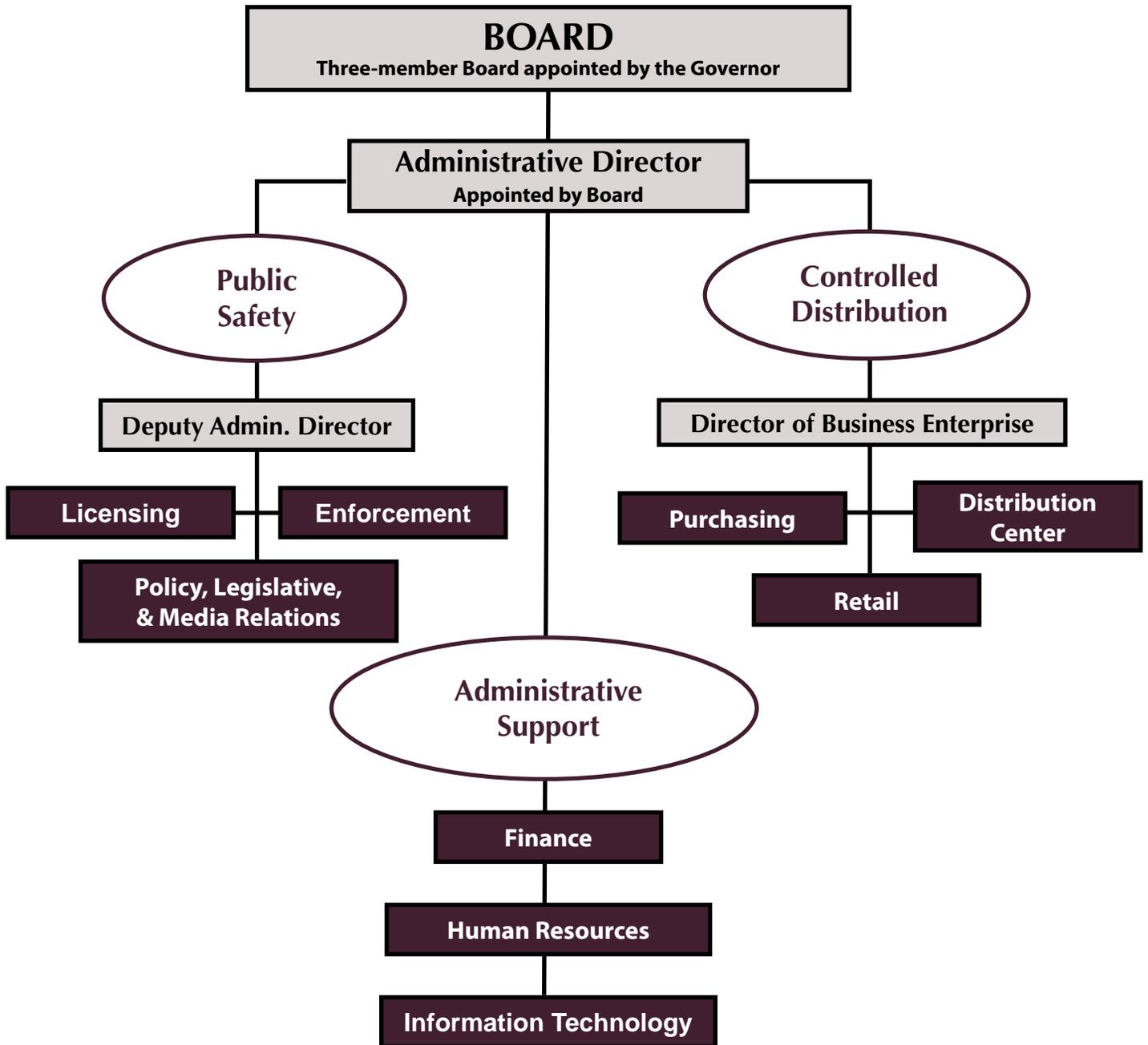


*Store Manager Toby Lasley at Store Number 163 in Olympia.*



*Carl Williams works at the Distribution Center on the fork lift.*

# Organizational Structure



# Control States

## WSLCB's Balanced Mission



### Washington's Control System

The Washington State Liquor Control Board (WSLCB) was formed in 1933 by the Steele Act to regulate the importation, manufacture, distribution, and sale of alcohol.

The Board's balanced mission provides equal emphasis on public safety and revenue generation.

Since its inception, the WSLCB has returned more than \$4 billion in revenue to the state. If current revenue trends continue, the agency will return more than \$4 billion to Washington in the next decade.

### Why States Adopted Control Systems

Before and after Prohibition in the U.S., alcohol was recognized as a substance with potentially negative consequences for public health and safety.

The 21st Amendment to the U.S. Constitution, which repealed Prohibition, gave states the right to regulate alcohol as they saw fit. Many states adopted control systems in an attempt to ensure higher levels of public safety and controlled distribution.

### Why Control Systems Work

- Limited store hours.
- No employee incentive to sell.
- Higher prices produce lower consumption.
- Enforcement and licensing coordinated.
- Advertising prohibited.
- More revenue returned to state.

### Benefits of Control Systems

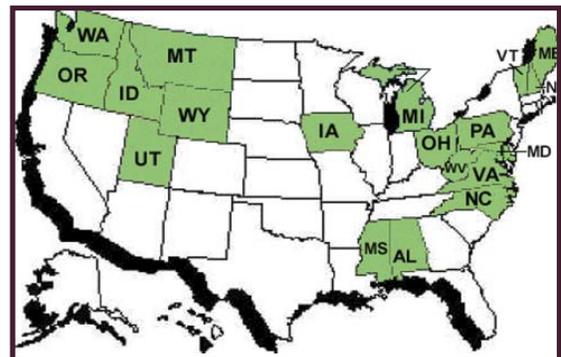
- Lower per-capita consumption.
- Fewer alcohol-related deaths.
- Fewer lost work days.
- Fewer health care issues.
- Safer roadways.

### Control System Facts

Control systems produce lower rates of per-capita consumption. Alcohol is taxed more in control states. Higher prices produce less consumption. Less consumption reduces the social, health, safety and economic costs from problems related to alcohol abuse.

- Eighteen U.S. control states.
- Two control jurisdictions in Maryland.
- 28 percent of U.S. population lives in control states.
- Control states average 15.8 percent less in per-capita consumption.
- Control systems return about twice the revenue of non-control states.

## Control States



*Alabama, Idaho, Iowa, Maine, Michigan, Mississippi, Montana, New Hampshire, North Carolina, Ohio, Oregon, Pennsylvania, Utah, Vermont, Virginia, Washington, West Virginia, Wyoming, Montgomery and Worcester counties in Maryland.*

***“As our population continues to mature, customer accessibility and convenience will become more important factors. Careful selection of new outlet locations and models will be important.” - Retail Services Plan***

### Retail Services Division

The Retail Services Division operates 161 state stores in high-population areas and closely regulates the operation of 154 contract liquor stores serving mostly rural areas.

The Distribution Center in Seattle and the Purchasing Services Division also play a key role in the overall supply chain process. Designated state stores supply all spirits sold in licensed restaurants in the state.

More than 800 full- and part-time employees work in the Retail Services Division as store clerks, assistant managers, and managers. State and contract stores carry more than 1,900 products, including a wide selection of Washington wines.

Retail at a Glance
161 state stores.
154 contract stores.
Opened 20 stores on Sunday generating more than \$6.8 million in new sales.
Average state store size: 5,000 square feet
Average store annual sales: \$3.6 + million.
Average store return to state: \$1.5 million
Average number of employees per store: 4 (full- and part-time)

### The WSLCB’s Retail Business Plan calls for increased emphasis on:

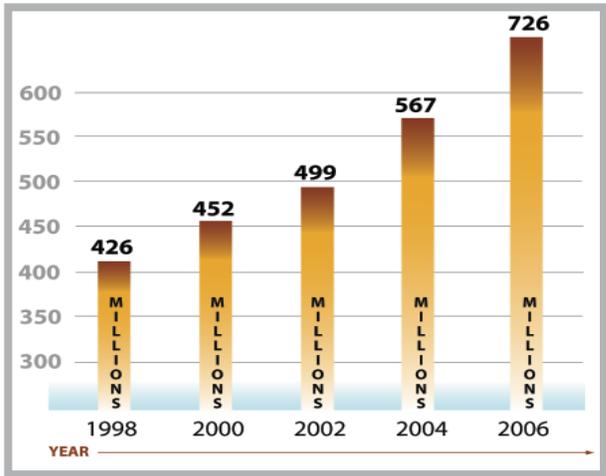
- Improved customer service.
- Improved in-store information displays.
- More effective shelf displays.
- Improved accounting practices.
- Higher inventory turn rates.
- Fewer out-of-stocks.
- Improved technology.
- More accessible store locations.
- Improved store design.
- Improved special order processes.
- More effective scheduling.

### Gross Sales Continue to Increase

Gross sales in state, contract, military and tribal liquor stores increased 93 percent between 1996 and 2006. The number of bottles sold increased by 48 percent during this period. Gross sales of liquor account for more than 90 percent of all revenue collected by the Liquor Control Board.

Gross sales are expected to continue to increase at a rate of more than five percent annually during the next decade. These sales increases will produce more than \$4 billion in revenue for the state by 2016.

### 93% Gross Sales Increase 1996-2006



### Why Sales Are Increasing

- Steady increase in state population.
- 40 percent increase in licensed establishments.
- Greater product diversification.
- Buying up to higher-priced brands.
- More strategic store locations.
- First new stores in 23 years this biennium.
- Improved in-store merchandising.

## State Population Growth

The total state population increased from 4 million to nearly 6.3 million between 1975 and 2006. The 21 and over population is expected to increase from 4.45 million in 2006 to 6.3 million by 2016.

Population growth, higher taxes and major brand performance, not increases in per-capita consumption, are driving higher gross sales increases of alcohol annually. Per-capita consumption has remained relatively stable throughout the last decade.

## Revenue Return Projection 2006-2016\*

fiscal year	million
2006	298
2007	313
2008	329
2009	345
2010	362
2011	380
2012	399
2013	419
2014	440
2015	462
2016	485
<b>Total : \$4.23 billion in 10 years</b>	

\*Based on five percent increase

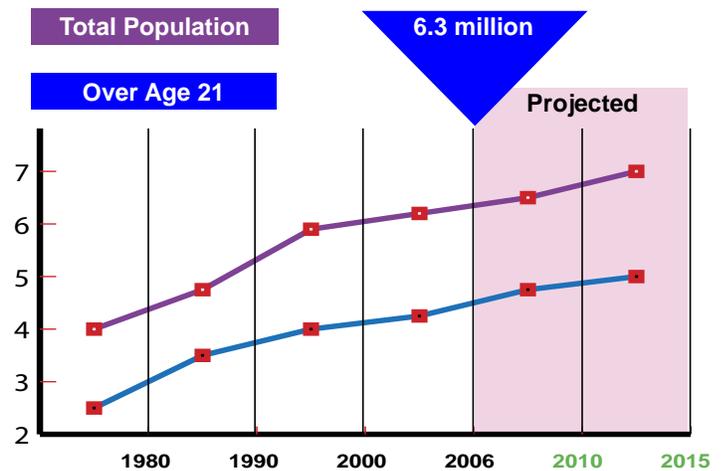
## Revenue Increasing

Revenue returned to the state from liquor sales taxes, surcharges, fees, markup and other sources has continued to increase substantially in recent years driven by increases in gross sales at state and contract liquor stores. If the estimated five percent growth rate in sales is achieved in the next decade, the WSLCB will return an approximated \$4.23 billion in revenue to the state.

## Sunday Sales Pilot Project

The 2005 Legislature approved a pilot program to open 20 state and 35 contract liquor stores from noon to 5 p.m. on Sundays. Gross sales resulting from the Sunday Stores Pilot program were expected to increase by \$3.87 million in

## State Population Growth



FY 2006 and \$5.68 million in FY 2007 totalling \$9.55 million.

The pilot study also factors the costs of opening the stores, the effect of Sunday store openings on sales in nearby stores and changes in customer satisfaction levels.

During the first year of the pilot, Sunday sales exceeded the forecast by \$3 million and could reach \$18.5 for the biennium, 54.3 percent more than the estimated \$9.55 million.

A final report on the project was submitted to the Legislature on January 31, 2007.

## Sunday Sales Program Overview

- Appropriation - \$1,661,464.
- 20 state and 35 contract liquor stores in the pilot program.
- Actual gross sales projection: \$18.5 million.
- Original estimates gross sales: \$9.55 million.

## State Sunday Sales Store Characteristics

- In the state's most populated areas.
- Have the greatest Sunday revenue potential.
- Near shopping centers or other businesses open on Sunday.

## Store Performance Pilot Program

A pilot study authorized by the 2005 Legislature began in FY 2006 to help the WSLCB determine the optimal level of store staffing for its 161 state stores. Additional hours equal to 26 FTEs were authorized to increase the levels of part-time staffing in a selected group of 49 stores.

The pilot study was fully implemented in October 2005. The 49 state liquor stores were selected on the basis of their potential for increased customer satisfaction and revenue growth. No stores open for Sunday sales participated in this study.

The pilot stores experienced a total increase in gross sales of 11.33 percent from October 2005 to August 2006, or approximately \$15 million. Gross sales increased 9.05 percent in non-pilot stores during the same period. Therefore, pilot study stores out-performed non-study stores by 2.28 percent. This increase will produce an additional \$1 million in revenue returned to the state. A report on the project recommending additional store hours for the 2007 to 2009 biennium was produced in October 2006.

## Advantages of Additional Store Hours

- Employees available to answer customer questions.
- Employees with advanced product knowledge.
- More timely stock replenishment.
- More effective product displays.
- Reduced customer wait times at cash registers.

## Store Performance Program Overview

- \$2.74 million appropriated 2005-2007 biennium.
- 26 FTEs for store hours.
- 49 stores receive new hours.
- 2 new retail analysts.
- \$9.26 million in new revenue forecast.

## Other Retail Improvements

This year a new Wide Area Network (WAN) has been installed in state stores providing faster credit card processing. The WAN speeds sale processing of credit, debit and personal check transactions to 4 to 8 seconds. The old dial-up system took up to 50 seconds to process transactions, a huge difference for our customers.

In addition, a new video security system was installed in all state stores. The new system provides a deterrence to robbery and shoplifting, ensures greater store inventory accountability and assists local law enforcement investigating incidents that may occur in or around the stores.

## Distribution Center

The Distribution Center (DC) receives and ships all liquor, wine and beer sold in state and contract stores. The DC is a highly automated warehouse facility with 80 employees.

## Distribution Center At-A-Glance

- 150,000 square-foot warehouse in Seattle.
- 80 employees.
- Automated material handling system implemented in 2002.
- Receives and ships an average of 17,000 cases per day.
- Supplies liquor for more than 4,000 licensed restaurants.
- Stocks more than 2,000 products.

## DC Expansion Project

The WSLCB began a 62,000 square-foot expansion of the DC. The 2005 Legislature approved more than \$20 million in revenue for improvements to help the facility meet supply and demand generated by increased sales.

The DC has been operating beyond its daily capacity of 17,000 cases shipped for two years. The improvements and facility expansion will enable the DC to ship up to 32,000 cases per day, which is equivalent to peak loads now being experienced.

### Distribution Center Expansion Time line:

**A/E Consultant Work Completed  
July-September 2005**

**RFP Issued/Contractor Selected  
September-December 2005**

**Construction  
January 2006-September 2007**

# Business Enterprise

## Distribution Center Improvement Details

- Expansion adds 62,000 square feet.
- New size: 211,000 square feet.
- Increases daily shipping capacity to 32,000 cases.
- Meets long-term growth forecast to 2018.
- Increases storage capacity by 40 percent.
- New Pick Module and Pick Module Conveyor.
- 45 additional deck lanes.
- New turret truck.
- System software upgrade.

### Total Project Cost \$20.5 Million

Financed by continuing existing \$0.20 per-liter surcharge on spirits and through legislative appropriation.



*Jerome Dumanal on a turret truck. The Distribution Center in Seattle supplies product to 161 state and 154 contract liquor stores. This state-of-the-art warehouse uses an automated material handling system to store and sort orders prior to shipping.*

## Purchasing Division

### Key Activities

#### Product Selection

Purchasing recommends the listing and delisting of products stocked in state stores on the basis of product performance and marketplace trends. Key factors of influence include supplier performance, warehousing space, retail shelf space, supplier marketing plans and overall category condition.

#### Merchandising Strategies

Effective merchandising strategies help ensure a pleasant shopping experience for customers, convenient store layouts and shelf schematics to optimize product placement. In-store displays promote special offers, and price reductions are offered in an effective and responsible manner.

#### Supply Management

The Purchasing Division ensures the efficient supply of products to the stores by analyzing trends and order administration patterns to achieve a balance between product availability and space. The division also helps manage

the logistics of seasonal demand and product promotions, and conducts supplier performance management.

#### Consumer/Industry Relations

The Purchasing Division works closely with consumers and industry to monitor relevant trends and concerns and to ensure operational strategies are properly coordinated. Stakeholders include the Distillery Representatives Association of Washington (DRAW), the Washington Wine Commission, producers, suppliers, and brokers. The Wine Advisory Committee is chaired by the agency and comprised of private citizens who provide valuable feedback relative to the product selection process.

#### Purchasing At-A-Glance

- Over 2,000 SKUs Procured.
- Over 300 Suppliers Managed.
- \$287 Million in Annual Expenditures.
- Thirteen Dedicated Team Members.

## Licensing and Regulation Division

Licensing issues liquor licenses and permits for more than 14,000 qualified retail and non-retail businesses. The division has 43 employees, including license investigators and specialists that:

- Determine if new and current businesses are qualified to hold a liquor license.
- Regulate the production, importation, and distribution of beer and wine products.
- Provide oversight for the Mandatory Alcohol Server Training (MAST) program for bartenders and others who serve alcohol.

The Division processed a record 4,613 license applications in FY 2006.

- 2,315 new applications.
- 1,418 license assumptions.
- 880 changes in status.

The division also implemented a new license pre-approval process, which enabled more than 1,000 businesses to open an average of three weeks early.

Improvements making it easier to post prices and to use the Division's beer and wine labeling systems were implemented.

Fiscal Year	2000	2001	2002	2003	2004	2005	2006
<b>Licensees (total)</b>	<b>12,257</b>	<b>12,515</b>	<b>12,619</b>	<b>13,184</b>	<b>13,530</b>	<b>14,264</b>	<b>14,604</b>
<b>Retail Licensees</b>	11,244	11,337	11,453	11,791	12,121	12,331	12,650
<b>Grocery Stores</b>	4,539	4,576	4,577	4,651	4,699	4,814	4,909
<b>Spirits/Beer/Wine Restaurants, Clubs, Sports/ Entertainment</b>	3,493	3,525	3,832	3,980	4,104	4,276	4,439
<b>Beer &amp; Wine Restaurants</b>	2,248	2,408	2,230	2,377	2,506	2,602	2,633
<b>Taverns</b>	903	787	618	559	580	396	342
<b>Bed &amp; Breakfast, Serve Employees &amp; Guests, Non-Profit Arts Organization, and Motel licenses</b>	61	41	196	244	232	243	327
<b>Non-Retail Licensees</b>	1,013	1,178	1,166	1,393	1,409	1,690	1,954
<b>Wineries</b>	248	248	214	259	360	353	437
<b>Breweries</b>	91	91	82	85	86	84	81
<b>Distributors and Importers</b>	153	153	140	241	253	183	186
<b>Certificate of Approval Out of State Breweries and Wineries</b>	624	624	685	729	766	960	1,192
<b>Bonded Wine Warehouses, Distillery Licenses, Liquor Manufacturers, Wine Growers, CCI, and Ship Handlers</b>	62	62	45	79	61	110	110
<b>Applications Processed</b>	2,932	2,772	3,251	3,456	3,911	4,336	4,613
<b>Applications Processed (Retail)</b>	2,825	2,669	3,123	3,267	3,810	3,616	4,100
<b>Applications Processed (Non-Retail)</b>	107	103	128	189	101	720	513

# Licensing and Regulation

## Licensing and Regulation Division Major Initiatives

### Direct Shipping Law Changes

The 2006 Legislature passed two new laws involving both in-state and out-of-state wineries shipping directly to Washington consumers, and Washington retailers receiving beer and wine from out-of-state and Washington breweries and wineries. The requirements for these new laws were implemented on July 1, 2006, by the Licensing and Regulation Division.

### ESB 6537 - Winery to consumer

This law allows out-of-state wineries to ship directly to Washington consumers, and sets some new rules for Washington wineries. Washington will no longer be a reciprocity state, but rather a permit state. Any sale to a Washington consumer is considered a sale in Washington. There is no limit on the amount of wine that can be shipped to a Washington consumer.

### 2SSB 6823 - Self-distribution by U.S. Wineries/Breweries of Wine/Beer of their own production to Washington licensed retailers

#### Out-of-State U.S. Wineries/Breweries

Certificate of Approval (COA) holders may sell beer and wine of their own production to Washington retailers. The COA must hold an endorsement issued by Washington to do so. The fee is \$100. Washington wineries and breweries that choose to sell product of their own production directly to Washington retailers will continue to price-post as a distributor.

#### Washington Retailers

Washington retailers may receive direct shipments of beer and wine from an out-of-state winery or brewery that holds a state COA, or a licensed Washington winery or brewery. A Washington retailer must hold an endorsement from the Liquor Control Board for each licensed retail location to receive direct shipments.

COA holders and Washington wineries and breweries must post prices as a distributor by June 15, 2006, to be able to ship to Washington retailers by July 1, 2006. There is no price-posting requirement for sales directly to consumers.

### Alcohol Impact Areas (AIA)

The AIA rules were written in 1999 to create a framework for communities, the WSLCB, and the alcohol industry to work together to mitigate communities' problems with chronic public inebriation or illegal activities linked to the sale or consumption of alcohol. The rules allow the WSLCB to recognize a geographic area within a city or town as an AIA. The alcohol impact area must be designated by ordinance by the government subdivision and recognized by resolution of the board before any enhanced processes described by these rules are applied.

### WSLCB - Approved AIAs

As of October 2006, there are two cities in Washington with WSLCB approved AIAs: Tacoma and Seattle. In August 2006, the WSLCB approved two new AIAs in Seattle, one in the Central Core area, and one in the University District. Seattle has one other AIA approved by the WSLCB in 2003 in the Pioneer Square area of Seattle. In December 2001, the WSLCB approved the city of Tacoma's request for an AIA in the downtown core.

### Future AIAs

The city of Spokane has passed a local ordinance creating an alcohol impact area, which is the first stage of the process. Other large cities in Washington are researching this option to address chronic public inebriation.

### Spirits, Beer and Wine Restaurant License Workgroup

The Spirits, Beer and Wine Restaurant License Workgroup was developed by WSLCB to review density issues as this license type reaches the density cap formula created by initiative in 1949.

Workgroup members included key stakeholders and WSLCB staff members.

The workgroup recommended a short-term strategy and long-term goals to improve the licensing and regulation of businesses that receive liquor licenses to sell spirits, beer and wine by the drink.

## Enforcement and Education Division

The Enforcement and Education Division consists of 104 employees; 88 commissioned officers, 1 program manager and 15 support staff. The division is responsible for enforcing liquor and tobacco laws statewide. Officers also provide training to licensees and for local law enforcement agencies.

### Division Mission

*To ensure that liquor and tobacco are sold and used legally and responsibly.*

### Division Vision

*To be a successful law enforcement organization respected for creating safe communities through voluntary compliance, educational excellence, and consistent, impartial enforcement.*

The division's personnel carry out their duties with the highest standards of personal and professional ethics based on honesty, integrity and trust. Every individual who comes in contact with a division employee is to be treated with the highest level of courtesy and respect.

### Liquor and Tobacco Enforcement Officers

Liquor and Tobacco Enforcement officers are limited-authority, commissioned law enforcement officers empowered to enforce the state's liquor and tobacco laws.

All Liquor Enforcement officers have received extensive specialized training in the areas of liquor and tobacco law enforcement. All officers must attend 32 hours of in-service training each year specific to their job responsibilities.

## FY 2006 Staffing Chart

104 staff	
1	Chief
1	Deputy Chief
1	Tobacco Tax Captain
1	Program Manager
4	Regional Captains
14	Lieutenants
67	Liquor & Tobacco Enforcement Officers
12	Support Staff
3	Investigative Aides

Officers are empowered to issue verbal and written warnings for minor infractions and administrative violation notices for more serious or repeat offenses. Violations are punishable by a fine, a temporary license suspension or both. In cases of repeated violations, a license can be revoked by action of the Board.

Enforcement officers also provide licensees with proper signage, written and online instruction on how to comply with liquor laws, and assistance developing security plans and other site-specific strategies.

Liquor and Tobacco Enforcement officers are assigned to specific licensees in their service areas.

### Officers regularly visit licensees to:

- Check for over-service, service-to-minors, disorderly conduct and other violations.
- Check for proper signage and procedures.
- Make sure facilities match operating plans.

## Regional Enforcement Offices

<b>Region 1 – Southwest Washington</b>
Regional Office: Tacoma
Field Offices: Vancouver, Tacoma, Bremerton
3,721 licensees / 14 enforcement officers
<b>Region 2 – Seattle</b>
Seattle Region
3,650 licensees / 19 enforcement officers

<b>Region 3 – Northwest</b>
Regional Office: Everett
Field Office: Bellingham
2,334 licensees / 8 enforcement officers
<b>Region 4 – Central and Eastern</b>
Regional Office: Spokane
Field Offices: Kennewick and Wenatchee
2,834 licensees / 12 enforcement officers

# Enforcement and Education

## Tobacco Enforcement

A 20-member tobacco tax enforcement unit:

- Works with federal and local authorities to investigate the illegal shipment of untaxed cigarettes into Washington.
- Conducts tax investigations relative to Other Tobacco Products (OTP). More than \$18 million in unpaid tobacco and OTP taxes have been identified.

## Compliance Checks

Compliance checks are one of the most effective ways to ensure that businesses selling alcohol and tobacco are operating within the limits of state law. In recent years, the division has increased the number of alcohol and tobacco compliance checks being conducted. Correspondingly, compliance rates have risen.

Statewide Liquor Compliance Rate			
Fiscal Year	Checks Conducted	Sales	Compliance Rate
2006	6,558	1035	84.2%
2005	6,804	1,060	84.4%
2004	6,492	1,086	83.0%
2003	5,140	977	81.0%
2002	2,980	579	81.0%
2001	1,716	424	75.0%

Statewide Tobacco Compliance Rate			
Fiscal Year	Checks Conducted	Sales	Compliance Rate
2006	2906	225	92.3%
2005	2938	252	91.0%
2004	2963	299	90.0%
2003	3775	447	88.0%
2002	2,508	231	91.0%
2001	2,151	236	89.0%



*Liquor Enforcement Officers Wilson and Murphy prepare to work a special event.*

## Community Policing

Community policing, a high priority for the division, emphasizes a planned and coordinated approach to alcohol-related issues.

Working with partners in local law enforcement, social service agencies, the schools and other community-based organizations, the Enforcement and Education Division:

- Identifies, prioritizes and solves problems related to liquor violations.
- Educates and trains problem licensees.
- Enforces underage drinking laws.
- Participates in community-based education and prevention efforts.
- Helps develop community action plans.

## DUI Reduction Projects

By collecting data from those arrested for DUI, officers identify licensees who may be over-serving. Officers conduct site visits to promote changes in licensee service practices. Most projects track activity over a six-month period.

## DUI Data Collection

The Washington State Patrol's (WSP) Breath Test Session is an important partner in collection of DUI data. In 2005, WSP adopted an initiative to increase the number of DUI referrals from 21 percent to 30 percent generated from DUI incidents.

## Reducing Underage Drinking (RUaD) Community-Based Partnerships

Working with the Department of Social and Health Services Division of Alcohol and Substance Abuse, officers provide support to RUaD coalitions statewide. Officers provide technical assistance, training, and enforcement activities aimed at reducing youth access to alcohol.

Officers have participated in eight partnerships in the Spokane, Whitman, Yakima, Benton/Franklin, Chelan, Grays Harbor, Whatcom, and King Counties. Funding is provided through the Office of Juvenile Justice and Delinquency Prevention (OJJDP) block grants.

## Education Projects

A videotape *"Underage? Don't Ask Us to Sell You Alcohol or Tobacco"*, is available in Korean with English subtitles. It provides licensees and their employees with the latest tools and information to properly check identification of customers. A federal grant from the OJJDP funded the project.

The Licensing and Regulation Division partnered with the Washington Korean American Grocers Association to produce the tape through the Washington State Department of Information Services.



Scene from *"Underage? Don't Ask..."* videotape

## What is NOT Acceptable ID?

Any card that uses "resident" in the title of the card is not good for cigarette and alcohol purchases.

Examples:

- Alien Resident card or
- Resident of Washington card
- Other ID's NOT acceptable are:
  - Birth Certificates
  - School or work ID's
  - Social Security cards
  - Federal Immigration cards
  - Voter Registration or Visa cards



33

*Illustrations like the one above are used in training sessions to help store operators, clerks and others involved in the sale of alcohol know which forms of identification are acceptable.*

## Corridor Traffic Safety Projects (CTSP)

Officers help local communities increase traffic safety through roll-call training, licensee briefings, compliance checks, premises checks, and undercover operations.

In 2006, officers worked on projects in Clark, Pierce, Kitsap, Skamania, Kittitas, Spokane, Adams, and Skagit Counties. Funding is through the Washington Traffic Safety Commission.

## Digital Licensee Training

A new licensee briefing is available via CD as an additional tool to train licensees and provide a review of laws, rules and agency requirements for businesses selling alcohol on or off-premises. This CD option enables new licensees to study state liquor laws at their own pace. Officers can use the CD training tool in conjunction with the final walk-through of the new licensee's premises. The CD also provides a uniform training tool to provide greater assistance to enforcement officers, often the main point of contact for licensees with the agency. Enforcement Region 4 officers received a Productivity Award for saving state revenues by implementing CD Rom training.

# Marks of Excellence

	Achievements
<p><b>Retail Services</b></p> <ul style="list-style-type: none"> <li>• Long-range business planning.</li> <li>• Store profitability strategies.</li> <li>• Inventory management.</li> <li>• Accounting systems.</li> <li>• New store development.</li> <li>• Store relocation/renovation.</li> <li>• In-store merchandising strategies.</li> </ul>	<p>Relocated nine stores to high-growth areas producing a 3.2% increase in sales.</p> <p>Sunday Sales: Opened 20 state stores and 35 contract stores from noon to 5 p.m. on Sundays generating \$6.9 million in new sales.</p> <p>Conducted 26 FTE store hours pilot study adding additional personnel hours to some stores. Stores receiving additional hours earned 2.28 percent more in gross sales than stores that did not receive hours.</p>
<p><b>Distribution Center</b></p> <ul style="list-style-type: none"> <li>• 150,000 square-foot warehouse in Seattle.</li> <li>• Supplying product to all state and contract stores.</li> <li>• Handling than 5 million cases annually.</li> <li>• Ships and receives an average of 17,000 cases per day.</li> <li>• Meeting demands in high-volume periods.</li> <li>• Maintaining workplace safety emphasis.</li> <li>• Ensuring supplier accountability.</li> <li>• Maintains control over 2,000 products.</li> </ul>	<p>Supplier accountability "scorecard" improved on-time product delivery statistics by 25 percent in 2006.</p> <p>Ground broken in October 2006 for 62,000 square foot warehouse expansion with construction completion set for September 2007.</p> <p>Warehouse expansion will increase shipping capability by 50 percent and receiving capability by 150 percent.</p> <p>The 12-employee workgroup "Task Team" formed in 2005 addressed culture change and introduced work rules and expectations to improve interpersonal relations and the work environment.</p>
<p><b>Purchasing Services</b></p> <ul style="list-style-type: none"> <li>• Purchasing services.</li> <li>• Product selection.</li> <li>• Product listing, de-listing.</li> <li>• Special order fulfillment.</li> <li>• Merchandising strategies.</li> <li>• Supply and inventory management.</li> <li>• Consumer and industry relations.</li> </ul>	<p>A divisional reorganization resulted in realignment of key roles and redefinition of responsibilities.</p> <p>Improved business processes for special orders to reduce average time for customer to receive products by 23%.</p> <p>Implemented a "supplier scorecard" performance management system to hold suppliers accountable to pre-established delivery targets. On time Delivery has improved by 20%.</p> <p>Streamlined the product display allocation process saving over 20 hours per month and increasing accuracy.</p>

## Licensing & Regulation

- On-and off-premises licensing services.
- Manufacturer, Importer and Wholesaler (MIW) licensing services.
- Licensing education.
- Services for non-English speakers.
- Mandatory Alcohol Server Training (MAST).
- Oversight of state’s wineries and breweries.

## Achievements

Processed a record 4,613 license applications.

- 2,315 new applications.
- 1,418 license assumptions.
- 880 changes in status.

Implemented 2006 legislation changing direct shipment laws.

Formed a Density Workgroup to help local governments determine the number of licenses needed to serve communities.

Staffed a task force to review the state Three-Tier distribution of beer and wine mandated by 2006 legislation.

## Policy, Legislative, Media Relations

- New and revised laws / rules.
- Agency policy development.
- Agency communications.
- Public records requests.
- Education / awareness programs.

Launched Alcohol Awareness Education Program. Conducted statewide assemblies in 14 school reaching more than 6000 students.

Implemented new logo and annual review process of forms and publications created for the public.

Overhauled 80 percent of agency operational policies and procedures.

Coordinated GMAP performance accountability processes for nine divisions and over 75 key areas.

Facilitated increased contact with Tribes.

## Enforcement and Education

- Front-line presence for public safety.
- Conducted compliance checks for on-and off-premises licensees.
- Licensee consultation / education.
- Other Tobacco Product enforcement.

Conducted 6,558 alcohol compliance checks.  
 Raised alcohol compliance rate to 15.8% .  
 Raised tobacco compliance rate to 7.7%.  
 State liquor stores compliance blitz showed 94.% complainece rate.

Identified \$18 million in unpaid tobacco and other tobacco product (OTP) taxes.

Produced a comprehensive set of training CDs for officers’ use with licensee training.

# Marks of Excellence

	<b>Achievements</b>
<p><b>Financial Services</b></p> <ul style="list-style-type: none"> <li>• Budgeting / Accounting / Auditing.</li> <li>• Revenue-forecasting.</li> <li>• Facilities maintenance.</li> <li>• Vehicle leasing.</li> <li>• Travel.</li> <li>• Contract services.</li> <li>• Risk management.</li> </ul>	<p>Developed and implemented 115 agency and divisional policies and procedures to increase internal control processes and employee awareness.</p> <p>Improved customer relations and enhanced operational efficiencies by implementing new investigative processes for reconciling duplicate and erroneous charges to customer credit and debit cards.</p> <p>Continued focus on risk management practices related to tort claim review, which resulted in a reduction in self insurance premiums over a two-year period.</p>
<p><b>Information Technology Services</b></p> <ul style="list-style-type: none"> <li>• Central computing system maintenance.</li> <li>• Business technology planning/support.</li> <li>• Software design/implementation.</li> <li>• Technology training.</li> <li>• Customer assistance.</li> <li>• Internet / intranet technology support.</li> <li>• E-mail / telephone maintenance.</li> </ul>	<p>Provided technical support to install the high-speed Wide Area Network in state stores reducing average credit and debit card processing times from up to 30 seconds to 5 seconds.</p> <p>Continued the major upgrade to the mainframe computing system will provide a stable and supportable platform for the next five years (begun in 2005).</p> <p>Continued review of agency IT best practices using the Information Technology Infrastructure Library (ITIL) to improve IT delivery and support for the agency.</p>
<p><b>Human Resources</b></p> <ul style="list-style-type: none"> <li>• Recruitment assistance.</li> <li>• Policy development.</li> <li>• Employee Safety.</li> <li>• Employee Development and Training.</li> <li>• Performance Management.</li> </ul>	<p>Worked to ensure the successful transition to the new Human Resource Management System and E-Recruiting System.</p> <p>Developed a Labor Relations Strategy and assisted in the negotiation of two labor contracts covering 1,000 employees.</p> <p>Developed and implemented a training program to address mandatory employee training requirements.</p>

## Income and Expenses FY 2006

### Income

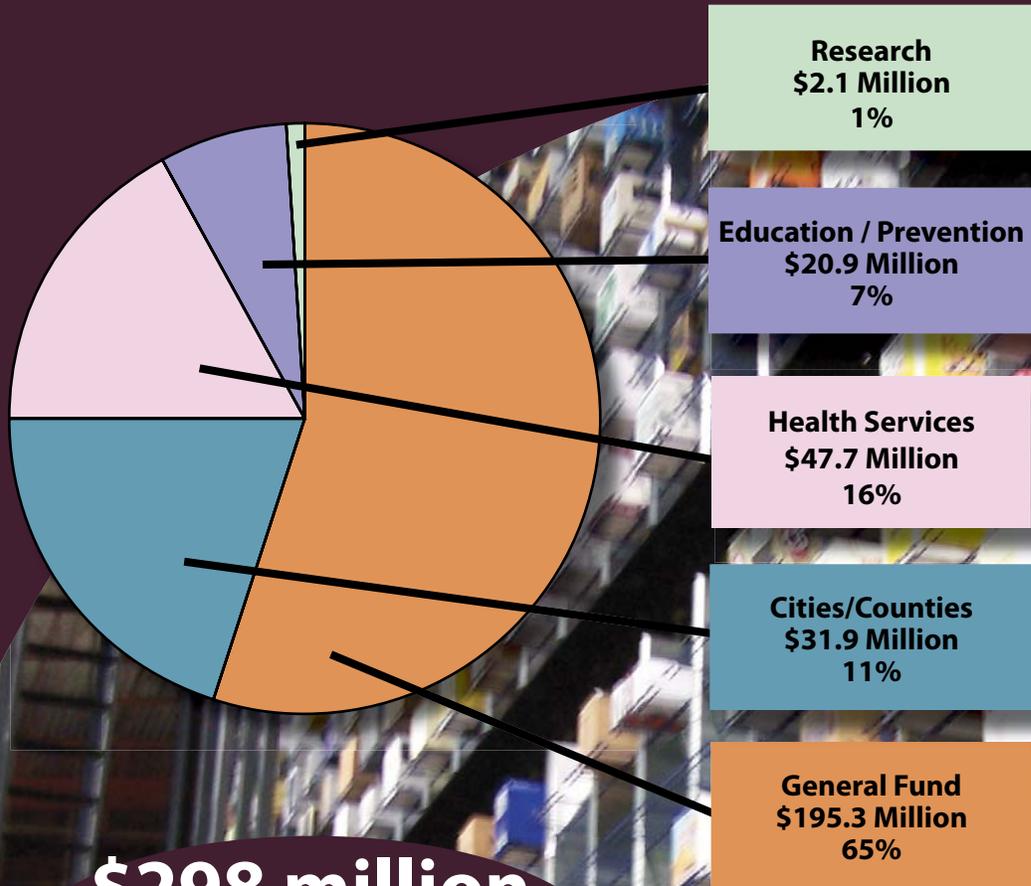
Gross Liquor Sales	\$ 726.3 million
Beer Taxes	\$ 30.5 million
Wine Taxes	\$ 19.2 million
License Fees	\$ 10.8 million
Other*	\$ 39.0 million
<b>Total Income</b>	<b>\$ 825.8 million</b>

\* Includes lottery sales, tobacco seizures, carrier mark-up, penalties and other income.

### Expenses/Distributions

Cost of Product	\$ 329.0 million
Product Discounts	\$ 66.1 million
<b>Sub - Total Product</b>	<b>\$ 395.1 million</b>
<b>Operating Expenses</b>	
Retail/Purchasing/DC	\$ 65.8 million
Licensing/Enforcement	\$ 12.9 million
General	\$ 19.0 million
Operating Reserve	\$ 35.0 million
<b>Total Operating</b>	<b>\$ 132.7 million</b>
<b>Distributions</b>	
Returned to the State	\$ 298.0 million
<b>Total Expenses/Distributions</b>	<b>\$ 825.8 million</b>

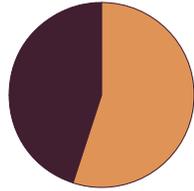
# Revenue Distribution Chart



**\$298 million**  
returned in  
FY 2006

The Washington State Liquor Control Board returned \$4 billion to the state between 1934 and 2006. The WSLCB is expected to return more than \$4 billion to the state in the next decade.

## General Fund



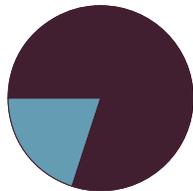
**65%**  
**\$195.3 million**

More than half of the money generated by the WSLCB annually goes to the General Fund, where it is used to provide much-needed additional resources for education and other critical state services.

In the next decade, the WSLCB will send more than \$1.5 billion to the state General Fund, a significant revenue boost in a time of scarce public resources. Legislatively mandated increases in the liter tax in recent years have been used to prevent program reductions and budget cuts.



## Cities, Counties



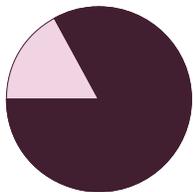
**11%**  
**\$31.9 million**

Money sent to cities, counties and border areas provides increased flexibility for local government to meet community needs. Revenues are redistributed by statute to communities according to their population.

Each local government entity is required to use a portion of the money for alcohol prevention and education. Money is also used to support local law enforcement and other programs.

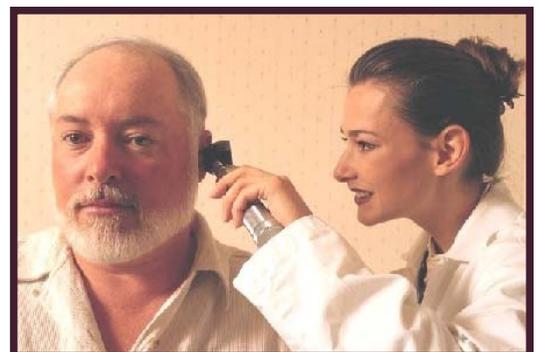


## Health Services



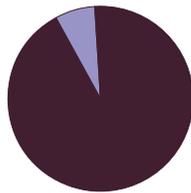
**16%**  
**\$44.7 million**

Money generated through the WSLCB funds 16 percent of the state's Basic Health Program, which serves more than 110,000 people annually who cannot otherwise afford health care. The program provides affordable health care coverage through private health plans. Included are plans providing health benefits for children and for pregnant women who qualify under Medicaid criteria. The more than \$44.7 million generated in FY 2006 represented 7.5 percent of the state's total annual Health Services budget.



# Revenue Distribution

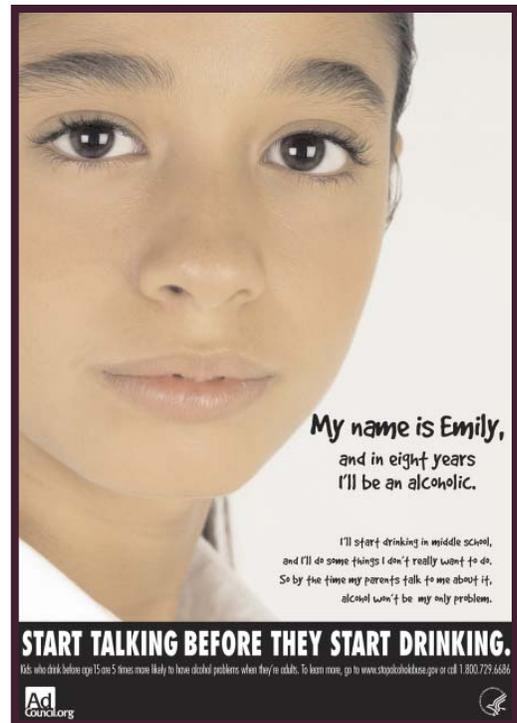
## Education, Prevention



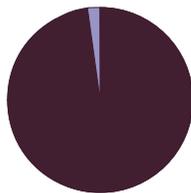
**7%**  
\$20.9 million

More than \$11 million annually supports the statewide Violence Reduction Drug Enforcement program (VRDE), which funds drug offender treatment services, the Washington jail reporting system, the juvenile rehabilitation tracking system, civil indigent legal representation, multi-jurisdictional narcotics task forces and grants to community networks.

More than \$6 million annually is sent to the Department of Social and Health Services to fund alcohol and substance abuse programs administered by the Division of Alcohol and Substance Abuse. Among these programs are community-based initiatives to reduce underage drinking.



## Research



**1%**  
\$2.1 million

Money from beer and wine taxes supports research on alcohol abuse and addiction at the University of Washington and on wine and grape development at Washington State University.

Money also is assigned to support the Washington Wine Commission, which is organized to promote and develop the state's wine industry. There are more than 400 wineries and 30,000 acres of vineyards in the state.



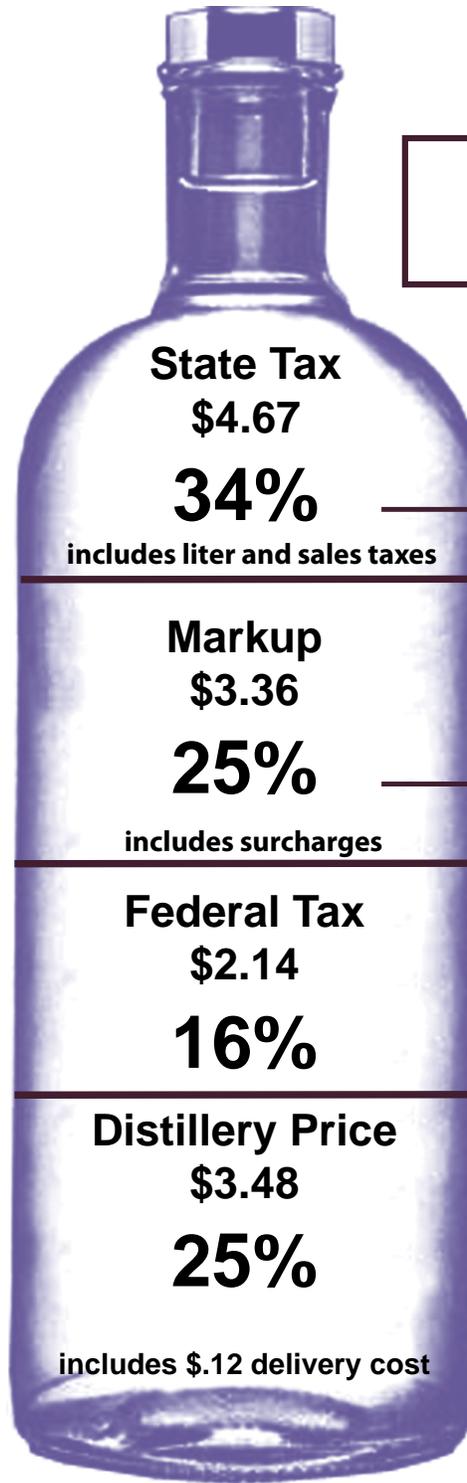
### Research Distributions In Detail - \$2.1 Million

Washington Wine Commission	\$ 820,174
UW Alcohol and Drug Abuse Institute	\$ 427,988
WSU Alcohol and Drug Abuse Research	\$ 285,326
WSU Wine and Grape Research/Instruction	\$ 206,112
Alcohol Awareness Program	\$ 150,000
WSP State Toxicology Program	\$ 150,000
Youth Tobacco Prevention	\$ 92,728

# WHERE YOUR LIQUOR DOLLARS GO ...

*More than 42 percent of the price of each bottle supports programs and services for Washington citizens.*

*Taxes, markup and fees collected provide more than \$298 million annually for state programs and services.*



**Price at Register**  
**\$ 13.65**

**Goes To:**

State General Fund	65 %
Health Services	16 %
Cities/Counties	11 %
Education/Prevention	7%
Research	1%

**Goes To:**

WSLCB Operations	70 %
State General Fund	15 %
Cities/Counties	15 %

## 2006 Legislative Session

The 2006 Legislature enacted the following legislation relevant to the Washington State Liquor Control Board.

### WSLCB Request Legislation

#### **SB 6539 Changing the cap on the number of spirits, beer, and wine restaurant licenses**

The limit on the number of spirits, beer, and wine restaurant licenses was increased to allow for additional licenses to be issued for approximately another year. During that time the Board facilitated a density work group to review and recommend criteria to be used to determine the appropriate number of licenses in communities.

#### **ESB 6537 Direct shipment of wine from in-state and out-of-state wineries to consumers**

This bill eliminated reciprocity and replaced it with a permit system that treats both in-state and out-of-state wineries similarly. Out-of-state wineries now may pay a fee for a direct shipper's permit. This privilege is part of an in-state winery's license. Both in-state and out-of-state wineries must pay the wine liter tax and sales tax on these consumer transactions. There is no limit on the amount of wine that a winery may ship directly to consumers.

#### **HB 2562 Flavored malt beverages**

Flavored malt beverages that comply with the federal standard for the amount of flavorings containing distilled spirits that can be added to malt beverages are now considered to be beer products and may be marketed, distributed, sold, and taxed as beer.

#### **SSB 6540 Processing liquor licenses**

Changes were made to the liquor licensing process to make it more efficient. The bill also changed the method of measurement to determine if the applicant is within 500 feet of a school. The measurement is now taken from the main entrance of the school to the nearest public entrance of the premises requesting the liquor license.

### Other Legislation

#### **2SSB 6823 Self-distribution of beer and wine from breweries and wineries directly to licensed retailers**

This measure allows in-state and other U.S. breweries and wineries to distribute beer or wine of their own production directly to retail liquor licensees with certain conditions.

#### **ESB 6661 Washington Beer Commission**

This bill created a beer commission with the ability to promote the state's craft beers similar to the Washington Wine Commission.

#### **HB 3128 Winery licensees on the board of non-profit organizations seeking a special occasion license**

A non-profit organization formed to construct or operate a facility to promote Washington wine may hold retail licenses even if the board of the non-profit has members holding winery licenses; and a nonprofit charitable organization may hold special occasion licenses even if the board members of the organization hold winery licenses.

#### **SHB 3150 Joint advertising by winery and retailers on private labels and touring brochures**

This bill allows domestic wineries and licensed retailers to produce materials promoting tourism in Washington State and allows identification of the winery producing the wine for a restaurant's private label to appear on the private label.

#### **HB 2897 Caterer's endorsement used on private vessels**

This bill allows a restaurant with a caterer's endorsement to cater events on vessels that hold a liquor license.

#### **HB 3154 Beer "to go" sales from a spirits, beer, and wine restaurant**

This bill allows a domestic brewery or microbrewery holding a spirits, beer, and wine restaurant license to sell kegs "to go" of its own production and to sell its beer in small containers from the tap in the restaurant to-go.

#### **SSB 6791 Licensees contracting with the state ferry system**

This bill modifies the beer and wine restaurant license to allow licensees who contract with the State Ferry system to hold a license covering any vessel on a designated route.

#### **ESB 5048 Prohibiting tobacco sampling**

This bill prohibits the practice of providing samples of cigarettes as a promotional activity.

#### **WSLCB Supplemental Budget 2006**

The WSLCB received supplemental funding for Distribution Center maintenance, training, public records, litigation expenses, to meet programmatic changes based on legislative mandates that passed in 2006 to allow direct shipping to consumers of wine, breweries and wineries direct shipping of wine and beer to licensed retailers, and other measures that required licensing process changes.