



# Washington State Liquor Control Board

## FY 2009 Annual Report

**Promoting Public Safety**  
**Serving Communities**  
**Selling Responsibly**





## Introduction

Message from the Board	2
Board/Administrative Director Biographies	3
Vision, Mission, Goals and Values	4
Organizational Structure	5
Control States	6

## Business Enterprise

Purchasing	7
Distribution	8
Retail	9

## Licensing and Enforcement

Licensing and Regulation	11
Enforcement and Education	13

## Agency Marks of Excellence

Divisional Marks of Excellence	15
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## Financial Details

Financial Statement	18
Revenue Distribution Chart	19
Revenue Distribution	20
Cost/Taxes/Markup	22
2009 Legislative Session	23



*Traci Johnston manages Spokane State Liquor Store No. 65.*

## Contact Information

<b>General Information</b>	360-664-1600 wslcb@liq.wa.gov
<b>Board Executive Office</b>	360-664-1717 ssb@liq.wa.gov
<b>Director's Office</b>	360-664-1649 hl@liq.wa.gov
<b>Administrative Services</b>	360-664-1730 gah@liq.wa.gov
<b>Enforcement and Education</b>	360-664-1731 met@liq.wa.gov
<b>Licensing and Regulation</b>	360-664-1611 pkd@liq.wa.gov
<b>Business Enterprise</b>	360-664-9838 klb@liq.wa.gov
<b>Purchasing</b>	360-664-1759 mkr@liq.wa.gov
<b>Distribution</b>	206-464-7920 vls@liq.wa.gov
<b>Retail</b>	360-664-1789 tr@liq.wa.gov
<b>Human Resources</b>	360-664-1783 al@liq.wa.gov
<b>Information Technology</b>	360-664-1746 lkr@liq.wa.gov



## Washington State Liquor Control Board

P.O. Box 3075, 3000 Pacific Ave. S.E.  
Olympia, WA 98504-3075  
(360) 664-1600 • [www.liq.wa.gov](http://www.liq.wa.gov)

To obtain this publication in an alternative format, contact the agency ADA coordinator at (360) 664-1783.

## Message from the Board

Dear Citizens of Washington:

We are pleased to present to you the Washington State Liquor Control Board (WSLCB) Fiscal Year (FY) 2009 Annual Report. This report provides key details about the agency's mission, operations and accomplishments between July 1, 2008 and June 30, 2009.

The year 2009 marked the 75th Anniversary of the WSLCB. Over these many decades, the WSLCB has evolved together with the changing business and social landscape. The explosive growth of the state's wine and micro-beer industry, tougher legislation to crack down on drunk driving, and increased awareness and organized efforts to reduce underage drinking have all together contributed to a myriad of changes in agency policy and operation.

FY 2009 was a year of change for the WSLCB. Board Chair Lorraine Lee accepted a leadership position in another state agency and Board member Roger Hoen completed his term. The economic downturn and changes to long-standing alcohol regulations meant significant changes to Washington's system. It also accentuated the agency's balanced mission more than ever. Below are just some of the highlights of the fiscal year.

- **Generating Revenue to Fund Essential Services.** The downturn in the economy and the subsequent \$9 billion state budget deficit meant the \$332.7 million in net revenue the WSLCB returned was especially critical. The Legislature further authorized the WSLCB to implement new revenue-generating initiatives to generate an additional \$12.7 million in the 2009-11 Biennium.
- **Funding Tobacco Tax Unit.** The WSLCB used a variety of cuts and costs saving measures to cover the \$3.8 million budget gap that emerged this spring when the state removed funding for the Tobacco Tax Unit. The WSLCB is absorbing the cut as it continues to enforce tobacco tax laws.
- **Modernizing Alcohol Laws and Regulations.** The WSLCB coordinated the Joint Select Committee on Beer and Wine Regulation which recommended fundamental changes to the three-tier system. The subsequent legislation (House Bill 2040) affected four major elements of the 75-year-old system including: Financial Interest and Ownership, Money's Worth, Price Post and Hold, and Minimum Markup. Highlights of the legislation can be found pages 23 and 24 of this report.
- **Beer and Wine Tasting Pilot.** The WSLCB oversaw the implementation and regulation of a grocery store beer and wine tasting pilot established by Engrossed Senate Bill 5751. Following a lottery, 28 grocery stores participated in the yearlong pilot statewide. The WSLCB trained participating grocery stores, conducted compliance checks and launched a comprehensive Web site to provide information and collect public comments. We reported our findings to the Legislature in early December 2009.

What does the next 75 years hold for alcohol regulation? While the future is unknown, the WSLCB is committed to remaining a leader in helping shape a modern and flexible system that meets the needs of Washington State.

Sincerely,



Sharon Foster  
Chairman



Ruthann Kurose  
Board Member



## Board/Administrative Director Biographies

The Board is composed of three members appointed by the Governor to six-year terms. There is one vacant position on the Board. 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, makes policy and budget decisions, and adjudicates contested liquor license applications and enforcement actions on licensees.

### **Sharon Foster** – Board Chairman

Sharon Foster, of Olympia, was appointed as Board Chair in August 2009. She is a retired self-employed contract lobbyist. Among her clients were the YMCA, the Council of Youth Agencies, the California Wine Institute, NARAL, Community Mental Health, the Washington Restaurant Association, Oracle and Traffic Safety Education. Prior to becoming a registered lobbyist Sharon was the State of Washington Director of the YMCA Youth and Government Program, which she ran for 10 years. Sharon has been on the Heritage Park Board, overseers of the park area surrounding Capitol Lake on the Capitol campus, for 20 years and more recently a steering committee member of Oly 2012, a citizens group dedicated to enhancing the viability of downtown Olympia.



### **Ruthann Kurose** – Board Member

Ruthann Kurose, of Mercer Island, was appointed to the Board in January 2007. Ruthann serves on the KCTS Public Television Advisory Board and the Seattle Art Museum Community Advisory Board. She has served as chairman of the Bellevue Community College Board of Trustees for 14 years and the Wing Luke Asian Museum Capital Campaign Committee. Ruthann has a long history of public service working on congressional legislative policy in Washington, D.C., and on economic development policy for the cities of Seattle and Tacoma. In October 2007, Ruthann was honored as a "distinguished alumni" by the University of Washington Alumni Association for her efforts to ensure equal educational opportunities for students.



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

Pat Kohler joined WSLCB in January 2002. Pat has held senior level positions in the areas of finance, audit, materials management, and procurement. She received the 2008 Governor's Award for Leadership in Management and the 1998 Governor's Distinguished Managers Award. Pat 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, Goals and Values

## Vision

We strive to make Washington communities safe by being:

- A recognized **national leader** in alcohol and tobacco regulation, business operation and public safety;
- A **model employer** where employees grow and thrive; and
- A **collaborative partner** that establishes effective and lasting solutions.

## Mission

Contribute to the safety and financial stability of our communities by ensuring the responsible sale, and preventing the misuse of, alcohol and tobacco.

## Goals

Provide the highest level of public safety by continually assessing, analyzing, improving and enforcing laws, regulations and policies as well as ensuring they are easy to understand, effective and reflect today's dynamic environment.

Maximize financial return to the state and local government by running an efficient business operation.

Recruit, develop, retain and value a highly competent and diverse workforce capable of responding quickly and effectively to challenges in our business and regulatory environment.

Create a culture that fosters excellent customer service, open and honest communication, transparency, accountability, data driven decisions, and business initiated process improvement including the use of integrated technology.

Promote a workplace that keeps employees safe and reduces agency liability through an integrated program of risk management, safety and wellness.

## Values

Respect for people

Professionalism and integrity

Honest and open communication

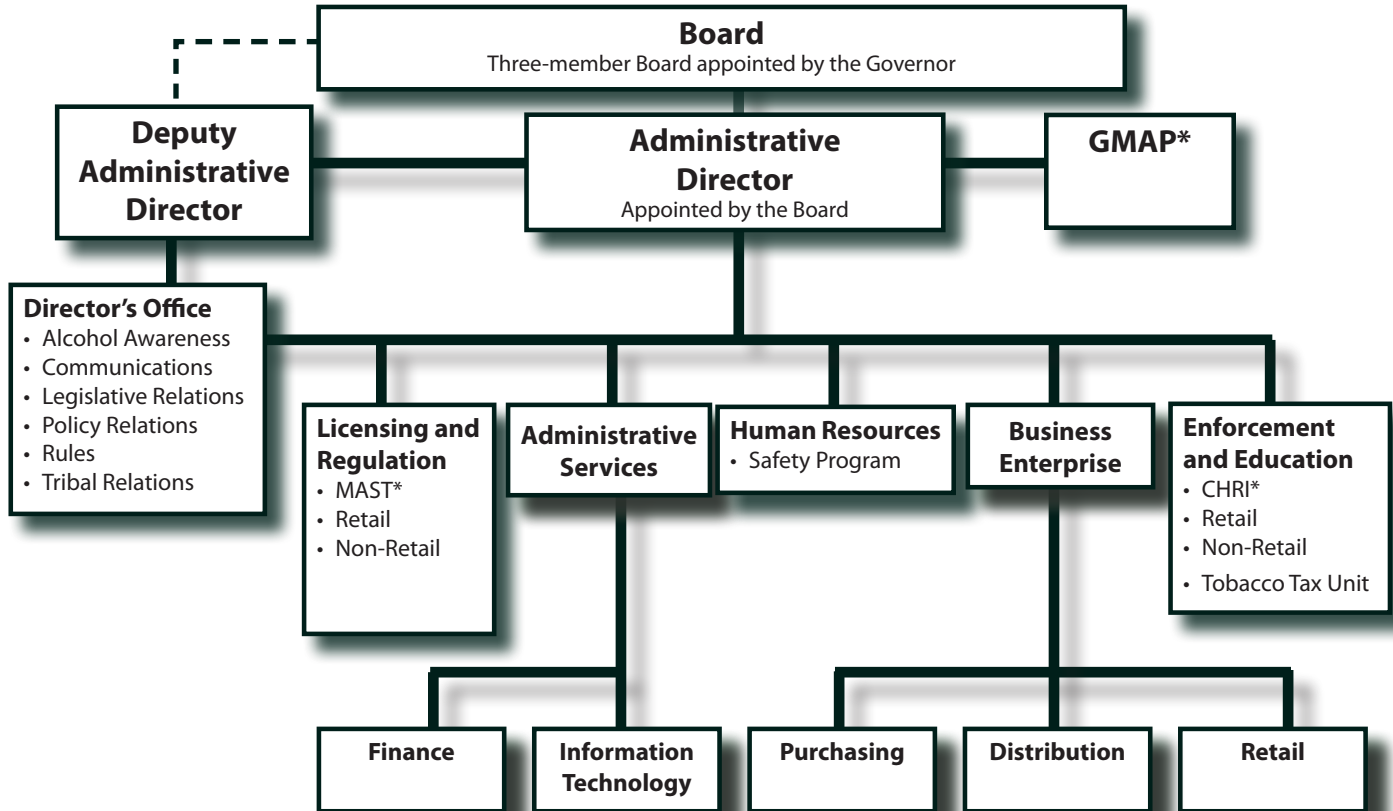
Internal and external accountability

Measurable and meaningful results

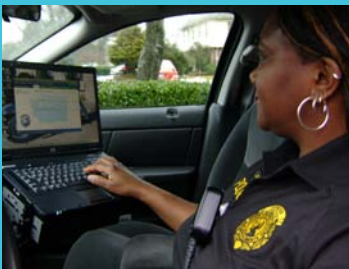
Public trust and stakeholder involvement



# Organizational Structure



\*GMAP: Government Management Accountability and Performance  
 \*MAST: Mandatory Alcohol Server Training  
 \*CHRI: Criminal History Records Investigator



# 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 controlled distribution.

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 creating a state monopoly on the sale of some, or all, alcoholic beverages 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 are coordinated
- Advertising is prohibited
- More revenue returned to state

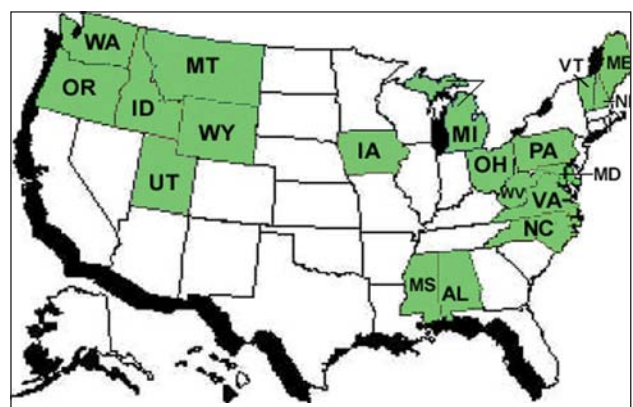
### Benefits of Control Systems

- Lower per-capita consumption
- Fewer alcohol-related deaths
- Fewer lost work days
- Fewer health care issues
- Safer roadways
- Greater variety of products

### Control System Facts

- Alcohol is taxed more in control states
- Lower consumption reduces the social, health, safety and economic costs from problems related to alcohol abuse
- There are 18 U.S. control states and two control jurisdictions in Maryland
- About one quarter of the U.S. population lives in control states
- Control states consume 5-20 percent less than open states
- 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, and the Montgomery and Worcester counties in Maryland.



**The Business Enterprise team is made up of three agency divisions responsible for the controlled distribution of liquor: Purchasing, Distribution, and Retail.**

## Business Enterprise - Purchasing

### Product Selection

Purchasing continually monitors new product developments and key trends to ensure a product selection that balances choice and limited space availability. While category growth rates slowed somewhat in FY 2009, flavored vodkas and flavored rums continued to show sizable volume growth, and many of the new products approved by the Board supported this trend.

### Supply Management

Staff works closely with suppliers to ensure the efficient supply of products to stores. The Supplier Scorecard is one of the key tools to help liquor suppliers meet established performance targets by clearly defining business expectations and providing timely feedback. In its third year, the scorecard continues to drive supplier performance improvements:

- Increasing supplier overall performance by 15 percent
- Increasing product in stock rate to 99.9 percent
- Improving delivery performance of suppliers by 37 percent, significantly reducing late and missed deliveries
- Improving special order communication and delivery times by 15 percent

### Seasonal Events/Product Merchandising

To keep an interesting and informative shopping environment for our customers, Purchasing partners with stores on seasonal promotions such as Summer Spirit Celebration, Washington Wine Month and Spooky Spirits Month. Retail stores put up decorations and Purchasing brings in unique products relevant to the event. Purchasing also ensures that products are arranged on the shelf based on industry standard principles, and works with supplier partners to create effective floor displays.

### Consumer and Stakeholder Relations

Comments and suggestions from WSLCB customers are addressed, compiled, and analyzed to ensure Purchasing is responsive to



*Purchasing uses effective merchandising strategies to create a pleasant shopping experience.*

Purchasing At-A-Glance
Procured over 3,000 Stock Keeping Units (SKU)
Managed more than 250 suppliers
\$382 million in product purchases
14 team members

customer needs. Team members work closely with stakeholders, including liquor industry members through the Distillery Representatives Association of Washington (DRAW), to monitor relevant trends, address concerns, and ensure operational strategies are coordinated. The Wine Advisory Committee, comprised of private citizens, provides valuable feedback in the wine product selection process.

### Supplier Social Responsibility Survey

Social responsibility in the alcohol beverage industry is about the prevention of underage drinking and overconsumption, as well as efforts to make a company more environmentally friendly. In FY 2009, the WSLCB created the Supplier Social Responsibility Survey to better understand and encourage suppliers' activities in those areas. To achieve this, WSLCB employees worked with suppliers and the prevention community to develop a survey that many suppliers will complete on a yearly basis. The WSLCB uses the results of these surveys to benchmark best practices, award best-in-class activities, and as a consideration in making business decisions, such as product listings and de-listings.

# Business Enterprise - Distribution



The Distribution Center is located in Seattle.

## Business Enterprise - Distribution

The Distribution Center (DC) is a highly automated warehouse facility that receives and ships all liquor and wine sold in state and contract stores, and all beer sold in state stores. Contract stores may purchase beer from the DC and licensed distributors.

Distribution Center At-A-Glance
220,000 square-foot warehouse in Seattle
83 employees
Automated Material Handling System implemented in 2002
Capacity to receive and ship up to 28,000 cases per day
Supplies liquor for more than 4,500 licensed restaurants
Stocks approximately 2,000 products

### Distribution Center Expansion Project

The 2005 Legislature approved more than \$22 million in revenue for improvements to help the DC meet supply and demand generated by increased sales. The WSLCB completed a 62,000 square-foot expansion of the facility in September 2007.

Various equipment improvements were completed in FY 2009, including additions to the Material Handling System and Warehouse Management System software upgrades.

The DC had been operating beyond its designed capacity of shipping 17,000 cases per day for more than three years. The improvements and facility expansion have significantly increased the daily shipping capacity.

### Distribution Center Expansion Details

- Total project cost is \$22.5 million
- Financed by continuing existing \$0.20 per-liter surcharge on spirits and through legislative appropriation
- Expansion added 62,000 square feet
- New size: 220,000 square feet
- Increases daily shipping capacity to up to 28,000 cases
- Meets long-term growth forecast to 2018
- Increases storage capacity by 40 percent
- Adds new Pick Module, two shipping doors and eight receiving doors
- Maintenance platforms used to access equipment installed in FY 2009
- 45 additional deck lanes
- New turret truck
- System software upgrade



Distribution employees work at the highly automated warehouse facility.

## Business Enterprise: Retail

Retail is the largest part of the Business Enterprise team, with more than 800 full- and part-time employees working as managers, assistant managers and clerks.

Retail operates 161 state stores in high-population areas and closely regulates the operation of 155 contract stores serving mostly rural areas. Designated state and contract liquor stores supply all spirits sold in licensed restaurants in the state.

State and contract stores carry more than 2,000 products, including a wide selection of Washington wines and craft beers. Retail works closely with Distribution and Purchasing to ensure stores are stocked with a diverse product selection.

Retail At-A-Glance
161 state stores
155 contract stores
Sunday sales in state and contract stores generated \$18 million in gross sales
Average state store size: 5,000 square feet
Average state store annual sales: \$4.26 million
Average state store return to state: \$1.4 million
Average number of employees per state store: 4 (full- and part-time)
Average contract store annual sales: \$790,420
Average contract store return to state: \$266,000
Legal sale compliance rate at stores: 94 percent

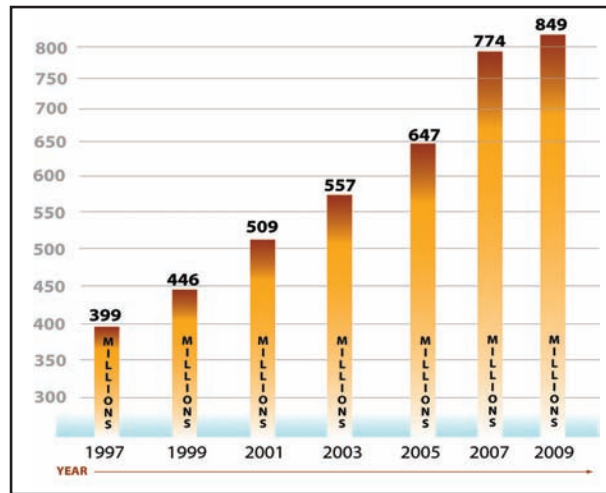
### Revenue Increasing

Revenue returned to the state from liquor sales, taxes, surcharges, fees, markup and other sources has continued to increase in recent years, driven by increases in gross sales at stores. If the estimated 3 percent growth rate in sales is achieved in the next decade, the WSLCB will return approximately \$4 billion in revenue to the state by 2019.

### State Population Growth

The total state population increased from 3.6

## 112% Gross Sales Increase 1997-2009



million in 1975 to 6.7 million in 2009, according to the Office of Financial Management. The 21 and over population is expected to increase to more than 5.5 million by 2019, up from 4.8 million in 2009.

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

### Why Sales Continue to Increase

- Steady increase in state population
- Diverse product selection
- More strategic store locations
- Some stores open for Sunday sales
- Improved in-store merchandising
- Product and customer service training
- Customers buying higher-priced brands

### Retail Key Activities:

- Store compliance rate for legal sales
- Improved customer service
- Improved accounting practices
- Fewer out-of-stocks
- Efficient inventory turn rates

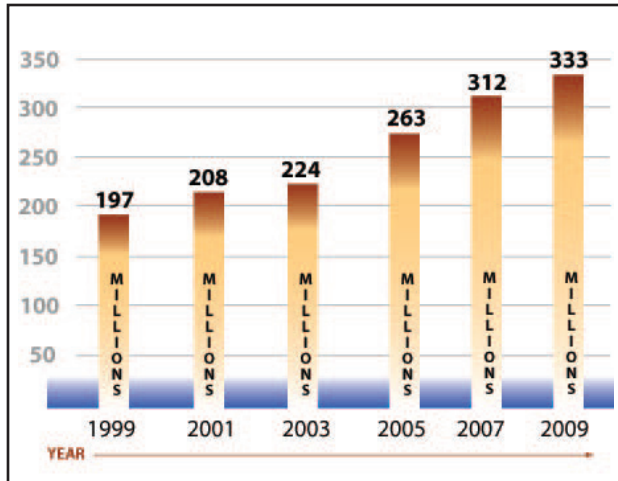


# Business Enterprise - Retail

## Key Activities, continued:

- Improved technology
- More accessible store locations
- Improved store design
- Improved ordering techniques

## Net Return to State 1999-2009



## Compliance Rates

Retail's No. 1 priority is to sell alcohol responsibly. The WSLCB tracks illegal sales to minors and intoxicated customers at liquor stores to determine compliance rates. Washington liquor stores have among the highest rates in the nation at 94 percent. The private sector's compliance rate is 78-83 percent.

## Sunday Sales Stores

To generate revenue and enhance customer service, 49 state stores and an average of 42 contract stores are open on Sundays. Three of the state stores are open Sundays seasonally. In FY 2009, Sunday sales at state and contract stores generated \$18 million in gross sales revenue. State stores generated \$16.7 million in gross sales, while contract stores generated \$1.3 million.

## POS Equipment Improvements

Retail continued to upgrade "Point of Sale" (POS) equipment with new hardware and additional software. Office computers in contract stores were upgraded. Plans were also developed to upgrade to a new, PCI (Payment Card Industry) compliant version of the POS system that will address nationwide financial security protocols.

## Store Safety Enhancements

Staff formalized protocols for a number of safety enhancements in stores, including armored car service and security guards at some stores.

## New Customer Service Program

A new 1-800 number serves as the central point of contact for store customer comments, complaints and questions. Store receipts include the number, and calls are dispersed to the correct person. Framed signs with the manager's name, number and picture were put up in stores as another way to encourage meaningful feedback.

## Contingency Planning

As part of the agency's Continuity of Operations Plan (COOP), Retail created work manuals and training programs that outline how to respond to events such as natural disasters, accidents or criminal activities that impact store operations. In FY 2010, Retail will focus on inclement weather and pandemics.

## Product Ordering

An emphasis was placed on proficient store ordering in order to keep shipments reasonable and efficient. Minimum and maximum order limits were established to keep the flow of product balanced. Contingency plans for supply chain issues were also developed.

## Improved Accounting Practices

Improved accounting practices and sales and budget reporting techniques assist managers with loss prevention. Audit staff now identify trends in store performance on a yearly basis, which helps stores to better identify and address problems or issues sooner.

## New Recruiting Manual

Staff worked with the Human Resources Division and union partners to develop a new recruitment and hiring manual that assists store managers in making qualified selections.

## Revenue Generating Projects

Work began on new 2009-2011 revenue generating projects authorized by the 2009 Legislature, including opening 15 new stores, adding nine Sunday Sales stores, opening most state stores on seven holidays, expanding Lottery sales and opening holiday gift stores in select malls.



## Licensing and Regulation Division

The Licensing and Regulation Division issues liquor licenses and permits for more than 15,800 qualified businesses. The division has 40 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 workers who serve alcohol. In FY 2009, 40,817 MAST permits were issued to liquor servers
- Approved 3,050 non-profit organization Special Occasion license applications in FY 2009



The WSLCB MAST Coordinator shows a business owner the "Responsible Alcohol Sales: A Guide for Washington's Retail Stores" booklet.

- Processed 3,346 license applications in FY 2009

Fiscal Year	2003	2004	2005	2006	2007	2008	2009
<b>Licensees (total)</b>	13,184	13,530	14,264	14,604	15,477	15,444	15,838

<b>Retail Licensees</b>	11,791	12,121	12,331	12,650	13,006	12,925	13,040
<b>Grocery Stores</b>	4,651	4,699	4,814	4,909	4,957	5,026	5,041
<b>Spirits/Beer/Wine Restaurants, Clubs, Sports/ Entertainment Facilities</b>	3,980	4,104	4,276	4,439	4,617	4,683	4,676
<b>Beer &amp; Wine Restaurants</b>	2,377	2,506	2,602	2,633	2,859	2,764	2,726
<b>Taverns</b>	559	580	396	342	300	243	225
<b>Bed &amp; Breakfast, Serve Employees &amp; Guests, Non-Profit Arts Organization, and Motel Licenses</b>	244	232	243	327	273	209	372* (*includes 104 hotel licenses)

<b>Non-Retail Licensees</b>	1,393	1,409	1,690	1,954	2,471	2,519	2,798
<b>Wineries</b>	259	360	353	437	515	562	620
<b>Breweries</b>	85	86	84	81	100	102	115
<b>Distributors and Importers</b>	241	253	183	186	204	183	205
<b>Certificate of Approval, Out-of-State Breweries and Wineries</b>	729	766	960	1,192	1,339	1,230	1,305
<b>Bonded Wine Warehouses, Distillery Licenses, Liquor Manufacturers, Wine Growers, Interstate Common Carrier, Ships Chandler, Wine Shippers</b>	79	61	110	110	313	442	553* (*includes 8 craft distillery licenses)

<b>Applications Processed</b>	3,456	3,911	4,336	4,613	5,038	4,907	3,346
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# Licensing and Regulation

## Major Initiatives

### Board Approved Alcohol Impact Areas

In 1999, rules were adopted to create a framework for communities to take action to mitigate problems with chronic public inebriation and illegal activities linked to the sale and consumption of alcohol. An Alcohol Impact Area is designated by geographical boundaries and must be adopted by ordinance of the government subdivision. Following the voluntary compliance efforts described in rule, the local jurisdiction can request Board recognition as a mandatory Alcohol Impact Area. Following Board recognition the restrictions requested are applied.

The cities of Seattle and Tacoma currently operate mandatory Alcohol Impact Areas within their local jurisdictions. The cities of Spokane and Vancouver implemented voluntary Alcohol Impact Areas in 2007, the first step for communities considering asking for mandatory Alcohol Impact Areas. Vancouver has successfully maintained 100 percent retailer compliance since inception of the voluntary Alcohol Impact Areas.

In FY 2009, the city of Seattle and area distributors mutually agreed to proactively identify potential high-alcohol-content, low-cost products coming into the market.

In FY 2009, the city of Tacoma consolidated its two banned products lists and added new high alcohol content, low cost restricted products. In FY 2010, Tacoma will work with local distributors to proactively identify new high-alcohol-content, low-cost products before they come into the market to continue to keep these products from store shelves within the Alcohol Impact Areas.

### Combined License Interview Process

Division employees created the Combined License Interview Process (CLIP) to improve application processing times. The CLIP process consists of quicker telephone interviews, corresponding with applicants via e-mail and making required forms and information available online.

The employees who created the process were recognized by the Secretary of State's Productivity Committee for their work to improve processing times.

### Local Authority Notification Pilot

Every time the WSLCB receives a new liquor license application, the local authority - such as the mayor or county commissioners - is notified by mail. The local authority has the option to object to the application as a part of the licensing process.

In April 2009, the division launched a pilot with several cities to evaluate the benefits of sending liquor license application notices electronically. The pilot will continue in FY 2010 and local authorities will be added as the process is analyzed during the pilot phase. The pilot is expected to help get liquor license application notices to local authorities in a timely manner and reduce postage costs for the agency.

### Responsible Liquor Sales Video and Booklet

In an effort to promote public safety by reducing alcohol sales to minors and intoxicated persons, the WSLCB and several stakeholders used a \$20,000 grant from the Washington State Traffic Safety Commission to produce the "Last Call" training video for alcohol servers and bartenders, and the "Responsible Alcohol Sales: A Guide for Washington's Retail Stores" booklet for employees who sell alcohol for off-premises consumption. Both tools focus on how to make responsible sales.

More than 700 MAST trainers are using the "Last Call" video as an introduction to their classes. The guide was distributed to nearly 6,000 retail licensees and all state liquor stores. The tools are also available on the WSLCB Web site.

### Grocery Store Tasting Pilot

The WSLCB provided guidance and oversight for a yearlong beer and wine tasting pilot in grocery stores. The Legislature directed the pilot during the 2008 Legislative Session.

During the pilot, 28 grocery stores - including 13 independently owned stores and 15 stores that are part of a nationally known chain of grocery stores - could hold one tasting a month on premises during the pilot, which ran from Oct. 1, 2008 to Sept. 30, 2009. The WSLCB Enforcement Division submitted a report on the pilot to the Legislature in December 2009.

## Enforcement and Education Division

The Enforcement and Education Division is responsible for enforcing state liquor and tobacco laws and regulations. Officers also provide education to licensees, communities, and local law enforcement agencies.

### Liquor and Tobacco Enforcement Officers

Liquor and tobacco enforcement officers are limited-authority, commissioned law enforcement officers. Regional offices and field offices are located around the state to ensure adequate enforcement coverage.

Officers are empowered to issue verbal and written warnings for minor infractions and administrative violation notices for more serious or repeat offenses. When a licensee is issued a violation, they can receive 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, in-person and online instruction on how to comply with liquor and tobacco laws, and assistance developing security plans and other site-specific strategies.

### Retail Enforcement

The Retail Enforcement section strives to protect and serve the public by ensuring legal acquisition and responsible use of alcohol and tobacco. This is achieved primarily through educational efforts and enforcement operations.

### FY 2009 Staffing Chart

113.5	Staff
1	Chief
1	Deputy Chief
1	Business Management Analyst
1	Program Manager
6	Captains
1	Hearing Officer
16	Lieutenants
68	Liquor and Tobacco Enforcement Officers
14.5	Support Staff
3	Investigative Aides
1	Advertising Coordinator

### Educational efforts:

- Liquor law briefing materials and training
- Technical assistance visits
- "Responsible alcohol and tobacco sales" classes for licensees and staff
- Educational support for licensees
- Proactive partnerships with stakeholders, community groups and law enforcement
- Liquor law training for law enforcement

### Enforcement operations:

- Premises visits
- Compliance checks
- Undercover operations
- Joint patrols with local law enforcement
- Emphasis patrols at Locations of Strategic Interest
- Regulatory enforcement
- Licensing support
- General investigations encompassing:
  - Citizen, law enforcement and employee complaints
  - Alcohol-related serious injury accidents
  - Financial audits

## Regional Enforcement Offices

<b>Region 1 – Southwest Washington</b>
Regional Office: Tacoma
Field Office: Vancouver
3,797 Licensees / 14 Enforcement Officers
<b>Region 2 – King County</b>
Regional Office: Tukwila
4,168 Licensees / 15 Enforcement Officers

<b>Region 3 – Northwest Washington</b>
Regional Office: Bellingham
2,085 Licensees / 8 Enforcement Officers
<b>Region 4 – Central and Eastern Washington</b>
Regional Office: Spokane
Field Offices: Pasco and Wenatchee
2,908 Licensees / 12 Enforcement Officers

## Enforcement and Education

### **Tobacco Tax Unit**

The Tobacco Tax Unit was created in 1997 to enforce the tobacco tax laws of Washington State. The unit's 13 officers inspect cigarette and Other Tobacco Product retailers, wholesalers and distributors, and investigate and halt illegal acquisition and shipments of cigarettes and Other Tobacco Products by persons and businesses not licensed to sell them.

### **The Tobacco Tax Unit also:**

- Maintains state and federal partnerships
- Educates wholesalers, distributors and retail licensees on tobacco laws
- Works with Native American tribes

The unit continues to conduct retail/wholesale tobacco inspections leading to the identification of unpaid taxes on Other Tobacco Products.

### **Non-Retail Enforcement**

Non-Retail Enforcement officers enforce state liquor laws and regulations that impact non-retail licensees, including in-state and out-of-state entities that produce, import and distribute alcohol in the state. The section has six officers and one advertising coordinator.

Officers educate licensees on responsible tax reporting and the distribution of liquor products to retailers and consumers. Officers also investigate price listing by manufacturers and distributors in regards to uniform pricing. Uniform pricing prevents the undercutting of competition, therefore keeping alcoholic beverages from being purchased too low.

### **Streamlined Settlement Conference Process**

When a licensee is issued a violation, they can accept the penalty, request an informal settlement conference with the WSLCB, or request an administrative hearing with an administrative law judge.

The informal settlement conference process was streamlined and centralized in FY 2009 to allow greater consistency, objectivity and efficiency. Licensees now work with a hearing officer to negotiate a reduced penalty in exchange for specific actions by the licensee, such as increased staff training. The settlement is then approved



*WSLCB officers and Department of Corrections officers graduate from the Basic Liquor Enforcement Academy in January 2009.*

by the Board. Previously, these conferences were handled by the enforcement captains for their respective licensees. Requests for settlement conferences and fine payments are now handled at agency headquarters, instead of field offices.

### **Launch of Electronic Notebook**

The Electronic Notebook, which allows officers to access up-to-date data about each licensee via their laptops, was launched in FY 2009. The Electronic Notebook database allows officers in the field to check a licensee's information, issue violation notices instantly, and give on-the-spot training on topics such as identification checks.

### **Locations of Strategic Interest**

Each region continued to identify and address those establishments that pose the highest threat to public safety by creating Locations of Strategic Interest. These locations become the focus of intense enforcement and educational efforts by the division. Licensees are told they must either come into compliance or, through progressive enforcement actions, lose or relinquish their license.

### **Basic Liquor Enforcement Academy**

The WSLCB's second class of officers graduated from the Basic Liquor Enforcement Academy in January 2009. The five new enforcement officers were joined by four Department of Corrections officers at the academy, which was established by the division in FY 2008 to provide certified law enforcement training.



# Divisional Marks of Excellence

## Business Enterprise - Purchasing

- Maintains the right product selection
- Creates pleasant shopping environment
- Processes special orders for products not generally carried in stores
- Partners with industry suppliers and stakeholders

Expanded Supplier-managed inventory program to 85 percent of product volume to improve supplier responsiveness

Utilized the Supplier Scorecard program to continue reducing out-of-stock products and improving customer service

Created a special order database to provide reporting and improve supplier delivery performance on special orders

## Business Enterprise - Distribution

- 220,000 square-foot warehouse in Seattle
- Supplies product to all state and contract stores
- Handles more than five million cases annually
- Capacity to receive and ship 28,000 cases per day
- Meets demands in high-volume periods
- Maintains workplace safety emphasis
- Ensures supplier and carrier accountability
- Maintains control over 2,000 products

Addition of 4-Tier Pick Module increased productivity by more than 20 percent

Warehouse expansion increased inventory capacity by 30 percent

Completed various equipment improvements, including additions to the Material Handling System and Warehouse Management System software upgrades

## Business Enterprise - Retail

- Long-range business planning
- Store profitability strategies
- Inventory management
- Accounting systems
- New store development strategies
- Store relocation and renovation
- In-store merchandising strategies

State and contract stores maintained an average compliance rate of 94 percent. Washington has one of the highest compliance rates in the nation

The Sunday Sales program at state and contract stores continued to be successful, generating \$18 million in revenue in FY 2009

An ongoing alcohol awareness poster campaign in stores educates customers about underage drinking and a new strategic plan poster in stores reminds customers and employees about the agency's public safety mission

# Divisional Marks of Excellence

## Licensing and Regulation

- Licensing services
- Technical assistance to licensees, applicants and the public
- Services for non-English speakers
- Coordinates Mandatory Alcohol Server Training (MAST)
- Oversight of state's wineries and breweries
- Administer Alcohol Impact Areas

Supervisors worked to improve liquor application processing times by combining tasks, garnering recognition by the Secretary of State

WSLCB staff and stakeholders secured a grant to produce a responsible liquor sales training video and booklet in an effort to reduce alcohol sales to minors and intoxicated customers

Launched a pilot program to notify local authorities electronically that a business has applied for a liquor license in their jurisdiction in order to solicit input

## Human Resources

- Employee and visitor safety
- Workforce planning
- Labor, employee and business relationships
- Employee development and training
- Performance management
- Health and wellness

Expanded and refined recruitment efforts with an emphasis on industry standards, while developing a streamlined approach to hiring for Business Enterprise

Launched a health and wellness initiative to address preventative measures and improve overall quality of life for employees and their families

Developed a suite of courses for employee development with a focus on resumes, career development and interview skills, and launched a Toastmasters Club that focuses on public speaking and presentation skills

## Enforcement and Education

- Alcohol and Tobacco enforcement
- Front-line presence for public safety
- Licensee education

The Locations of Strategic Interest program continues to allow officers to target those establishments that pose the greatest threat to public safety with intense enforcement and education efforts

Created a streamlined informal settlement conference process that ensures consistency in negotiations for reduced penalties following a violation

The new Electronic Notebook database allows officers in the field to check a licensee's information, issue violation notices instantly, and give on-the-spot training on topics such as identification checks and overservice

# Divisional Marks of Excellence

## Director's Office

- Oversee the implementation of laws/rules
- Agency policy development, GMAP, WSQA
- Agency communications
- Public records requests
- Education/awareness programs

Implemented and completed rule-making for public records, liquor samples and liquor vendors, along with rule-making regarding 2008 legislation on topics such as the new craft distillery license

Launched a public records Web site with an index of records available online, a sortable list of licensees, a request form, and links to regularly requested items

Created a comprehensive Web site with accompanying documents for the year-long grocery store tasting pilot

## Admin. Services - Info. Technology

- Deliver services to realize agency strategic objectives
- Deliver and manage agency information
- Secure and protect agency technical assets
- Provide access to agency business systems
- Operational technical support and assistance
- Provide access to technical training

Decreased infrastructure costs through expansion of virtualization technology

Continued best practice implementation and process improvements with documentation, standardization and metrics

Designed, developed and implemented a data warehouse to increase access to information for the agency

## Admin. Services - Financial

- Budgeting/accounting/auditing
- Revenue forecasting
- Facilities maintenance
- Vehicle leasing
- Travel
- Contract services
- Risk management/loss prevention
- Agency-wide project management

Established 77 contracts that resulted in \$2.2 million in agency savings over the lifetime of the contracts

Created an online office supplies ordering process for all employees that resulted in 37.8 percent of all purchases meeting the "green" standard by being recognized as environmentally friendly

Implemented a statewide armored car pick up for stores to increase the safety of employees and the security of state resources

Developed new audit inventory software/hardware to reduce staff time in completing store audits

Became an early adopter of the Governor's centralized services initiative by eliminating the agency mailroom and moving those functions to General Administration

## Income and Expenses FY 2009

### Income

Gross Liquor Sales	\$ 848.82 million
Beer Taxes	\$ 32.42 million
Wine Taxes	\$ 21.75 million
License Fees	\$ 11.34 million
Other*	\$ 2.52 million
<b>Total Income</b>	<b>\$ 916.85 million</b>

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

### Expenses/Distributions

Cost of Goods Sold	\$ 398.85 million
Product Discounts	\$ 64.54 million
<b>Sub - Total Product</b>	<b>\$ 463.39 million</b>

### Operating Expenses

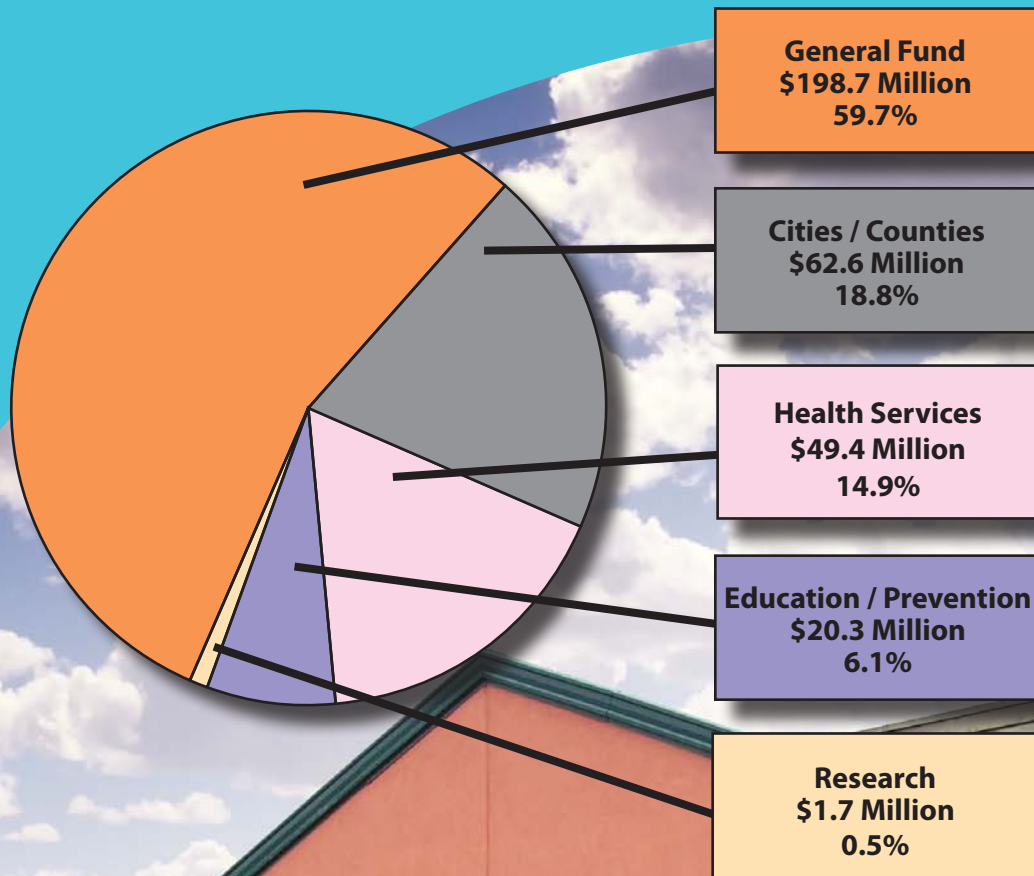
Retail/Purchasing/DC	\$ 84.96 million
Licensing/Enforcement	\$ 11.22 million
General	\$ 23.55 million
Operating Reserve	\$ 1.02 million
<b>Total Operating</b>	<b>\$ 120.75 million</b>

### Distributions

Returned to the State/Local Government	\$ 332.71 million
<b>Total Expenses/Distributions</b>	<b>\$ 916.85 million</b>



# Revenue Distribution Chart

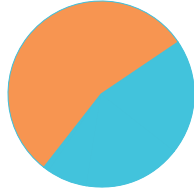


**LIQUOR & WINE**

**\$332.7 Million  
returned in  
FY 2009**

# Revenue Distribution

## General Fund



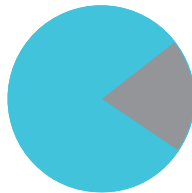
**59.7%**  
\$198.7 million

More than half of the money generated by the WSLCB annually goes to the state 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 \$2.6 billion to the 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



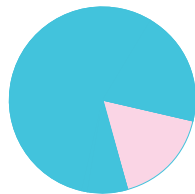
**18.8%**  
\$62.6 million

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

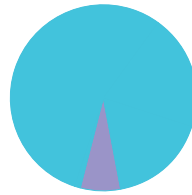


**14.9%**  
\$49.4 million

Money generated through the WSLCB funds a portion of the state's Basic Health Program, which serves people who cannot otherwise afford health care. The program provides affordable health care coverage through private health plans, including plans providing health benefits for children and for pregnant women who qualify under Medicaid criteria.



## Education, Prevention

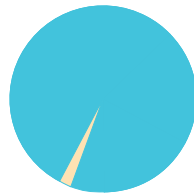


**6.1%**  
\$20.3 million

Education and prevention funds pay for programs such as the statewide Violence Reduction and Drug Enforcement program, 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.

A portion of education and prevention funding also pays for the Department of Social and Health Services alcohol and substance abuse programs administered by the Division of Behavioral Health and Recovery. Among these programs are community-based initiatives to reduce underage drinking.

## Research



**0.5%**  
\$1.7 million

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

Money also is assigned to support the Washington Wine Commission, which is organized to promote and develop the state's wine industry. In FY 2009, 620 wineries were licensed in Washington state.



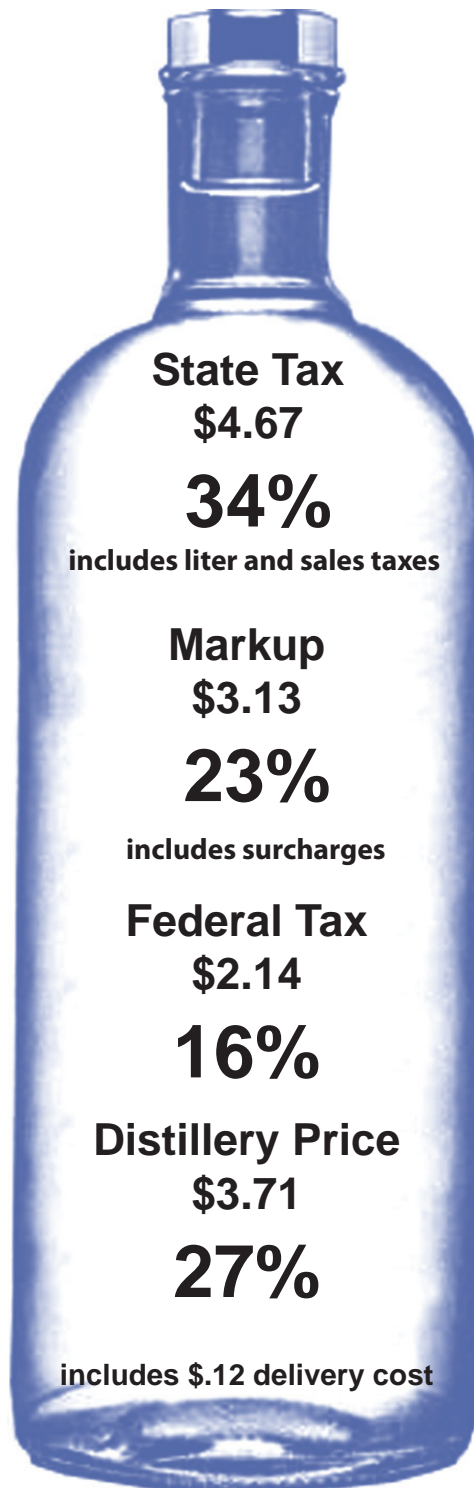
### Research Distributions In Detail - \$1.7 Million

Washington Wine Commission	\$ 225,346
UW Alcohol and Drug Abuse Institute	\$ 465,091
WSU Alcohol and Drug Abuse Research	\$ 313,060
WSU Wine and Grape Research/Instruction	\$ 228,717
Alcohol Awareness Program	\$ 150,000
Washington State Patrol State Toxicology Program	\$ 150,000
Youth Tobacco Prevention	\$ 170,722

# 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 provided \$332.7 million in FY 2009 for state programs and services.



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



## 2009 WSLCB Request Legislation

### **SSB 5367 Nightclub Liquor License**

This bill creates a spirits, beer, and wine nightclub liquor license. The nightclub license has no food service requirements, sets primary hours of business between 9 p.m. and 2 a.m., requires employees to hold a MAST permit, allows minors only in areas where no alcohol is served or consumed, and allows local governments to petition the board for additional restrictions.

### **SHB 1435 Cigarette/Tobacco Licenses**

This bill gives the WSLCB the administrative authority to approve, deny, suspend, or revoke retail/wholesale cigarette/tobacco licenses.

## 2009 Liquor Related Legislation

### **SHB 1415 Wine Sales at the Legislative Gift Center**

This bill creates a new exception in RCW 66.12 to allow the Legislative Gift Center to sell Washington wines for off-premises consumption.

### **SB 5060 Manufactured Beer and Wine (Home Brew)**

This bill modifies the provisions relating to the use of family beer or wine manufactured in the home, and the amount of beer or wine that may be removed from the home for exhibitions, competitions, or tastings.

### **SSB 5110 Complimentary Wine/Beer at Wedding Boutiques and Art Galleries**

This bill creates an exception in RCW 66.12 to allow wedding boutiques and art galleries to give a complimentary glass of wine or beer to a customer for consumption on the premises.

### **EHB 2358 Liquor License Fees**

This bill increases liquor licensing fees by 10.5 percent for some retail liquor licenses.

### **ESHB 1441 Agreements between Suppliers and Distributors of Malt Beverages**

This bill relates to the agreements between suppliers

and distributors, and the process to be followed if a supplier decides to have their product handled by a different distributor.

### **SHB 1812 Wine Labels**

This bill relates to the appellation of origin claimed or implied anywhere on a wine label. If the appellation of origin claimed or implied anywhere on a label is "Washington," then 95 percent of the grapes used in the production of the wine must have been grown in Washington.

### **EHB 2040 Beer and Wine Regulation**

This bill is from the work of the joint select committee on beer and wine regulation. Four categories are affected by this legislation: financial interest and ownership, money's worth as it applies to advertising, price post and hold, and minimum markup.

*1. Financial Interest and Ownership:* Permits financial interest between liquor manufacturers, distributors, and retailers under certain conditions. It is lawful for an industry member to have a direct or indirect financial interest in another industry member or a retailer unless the interest has resulted in or is more likely than not to result in either undue influence over the retailer or industry member, or an adverse impact on public health and safety.

*2. Money's Worth:* Allows industry members to provide retailers branded promotional items of nominal value. The items: must be used exclusively by the retailer or employees in a manner consistent with its license; must bear imprinted advertising matter of the industry member only; may be provided by industry members only to retailers and their employees and may not be provided by or through retailers or their employees to retail customers; and may not target or appeal to youth.

*EHB 2040 continued on page 24*

# 2009 Legislative Session

## **EHB 2040 Beer and Wine Regulation, continued**

3. *Price Post and Hold*: Removes the post and hold requirement for beer and/or wine manufacturers and suppliers and requires they keep, at their liquor licensed location, a price list showing the prices they will sell all brands of beer and wine to retailers within the state.

4. *Minimum Markup*: Removes the 10 percent markup. No price may be below acquisition cost.

## **SSB 5834 Regarding Alcoholic Beverage Regulation – Omnibus Bill**

- Allows a winery certificate of approval (COA) holder to keep their license when they contract with an authorized representative to market one or more of their brands. Removes the exclusivity requirement between authorized representatives and wineries. A winery COA holder may now have several authorized representatives marketing and selling different brands, and the winery can sell their other brands that have not been contracted to an authorized representative.
- Allows a Spirits/Beer/Wine Private Club to sell bottled wine for off-premises consumption with the proper endorsement.
- Allows a Beer/Wine Private Club to sell bottled wine for off-premises consumption with the proper endorsement
- Allows a domestic winery operating as a distributor of their own product to have a warehouse off of the winery premises for the distribution of its own products. The location must be approved by the WSLCB.
- Adds special occasion and private club licenses to the list of retail licensees allowed to receive personal services from a domestic winery or COA holder. Also allows wineries and retailers to identify the wineries on private labels for grocery stores and specialty shops.
- Allows beer/wine specialty shops to sell malt liquor in kegs capable of holding four or more gallons of liquid.
- Allows a domestic distillery to furnish spirits without charge to a 501(c)(3) or a 501(c)(6) nonprofit charitable organization or association.
- Allows the beer commission to receive gifts, grants, and endowments from public or private sources as may be made from time to time for the use and benefit of the purposes of the commission. Removes the sunset date.
- Allows up to 20 cases of wine to be transferred from one licensed location to another licensed location so long as both locations are under common ownership. Part of legislation that came from the recommendations of the Joint Select Committee on Beer and Wine Regulation.
- Relating to electronic funds transfers. Allows the transaction to be completed as promptly as is reasonably practical, and in no event, later than five business days following delivery. Part of legislation that came from the recommendations of the Joint Select Committee on Beer and Wine Regulation.

## **2009 Tobacco Related Legislation**

### **SSB 5340 Internet and Mail Order Tobacco Sales**

Only a retailer or wholesaler may order cigarettes and other tobacco products by mail or the internet. The delivery sale of cigarettes statute is repealed.



# Washington State Liquor Control Board

## Mission

Contribute to the safety and financial stability of our communities by ensuring the responsible sale, and preventing the misuse of, alcohol and tobacco.

[www.liq.wa.gov](http://www.liq.wa.gov)