End of an Era.
The last case of liquor passes through the state distribution center at 2:15 p.m. on May 18, 2012.
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**Richard Gates (center) becomes the state’s first Spirits Retailer licensee.**

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<table>
<thead>
<tr>
<th>General Information</th>
<th>360-664-1600</th>
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<td></td>
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<tr>
<td>Board Office</td>
<td>360-664-1717</td>
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<tr>
<td>Director’s Office</td>
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<td>Human Resources</td>
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<td><a href="mailto:sms@liq.wa.gov">sms@liq.wa.gov</a></td>
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**Washington State Liquor Control Board**

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Olympia, WA 98501
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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 the Washington State Liquor Control Board (WSLCB) Fiscal Year (FY) 2012 Annual Report. This report details the agency’s key activities, performance and accomplishments between July 1, 2011 and June 30, 2012.

Transition

FY 2012 marked the greatest change in operations for the WSLCB in its 78 year history. Within this year, voters enacted Initiative 1183 which privatized the sale and distribution of spirits in Washington State. Between the November 2011 election and first day of private sector sales on June 1, 2012, WSLCB employees successfully transitioned the agency from a control state to an open state where liquor is distributed and sold by the private sector.

Because the WSLCB remained as the sole distributor and retailer for most of FY 2012, this annual report continues to provide information specific to the business including purchasing, distribution and retail sales.

Timeline

• November 8, 2011  Voters enact Initiative 1183
• December 8, 2011  Initiative 1183 effective date
• May 31, 2012     State business operations close
• June 1, 2012      Spirits retailers’ first day of sales for off-premises consumption

FY 2012 Highlights

Additional information regarding the below transition highlights can be found throughout this report. We encourage you to explore the report to learn more.

• **I-1183 Implementation (Orderly transition):** The WSLCB successfully met its own goals of an orderly transition despite short timelines and extensive requirements established by I-1183.

• **I-1183 Implementation (Rule-making):** In approximately six months, the WSLCB completed a comprehensive modification to the state’s liquor laws and rules. In all, 22 of 38 chapters were significantly revised.

• **I-1183 Implementation (Distribution Center and Store Closures and Auction):** The WSLCB transitioned the state distribution to the private sector and closed 167 state-run liquor stores. Those stores were then made available via auction by essentially auctioning off the rights to retail liquor and be less than 10,000 square feet. Total bids and fees exceeded $31 million in revenue for the state.

As we move forward, the agency will continue to license and enforce liquor laws at nearly 20,000 licensed locations including more than 1,500 businesses that today sell liquor for off-premises consumption.

Sincerely,

Sharon Foster
Board Chair

Ruthann Kurose
Board Member

Chris Marr
Board Member
Board/Administrative Director Biographies

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, makes policy and budget decisions, and adjudicates contested liquor license applications and enforcement actions on licensees.

**Sharon Foster**
– Board Chair
Sharon Foster, of Olympia, was appointed in August 2009. She is a retired self-employed contract lobbyist. Among her clients were the YMCA, the Washington Restaurant Association, the Council of Youth Agencies, and the California Wine Institute. She was the Washington YMCA Youth and Government Program Director for 10 years. She has been on the Heritage Park Board, overseers of the Capitol Lake park area, for 24 years. She has been involved with non-profit charitable organizations for over 30 years and stays involved with local and state politics.

**Ruthann Kurose**
– Board Member
Ruthann Kurose, of Mercer Island, was appointed in January 2007. She has previously served on the KCTS Public Television Advisory Board, and on the Bellevue College Board of Trustees for 12 years. She currently serves on the Seattle Art Museum Community Advisory Board, and the Children’s Campaign Fund Board. Kurose has a long history of public service and has worked on congressional legislative policy in Washington, D.C., and on international economic development policy in the cities of Seattle and Tacoma.

**Chris Marr**
– Board Member
Chris Marr, of Spokane, was appointed in February 2011. Marr served as a State Senator for the 6th District in Spokane from 2006 to 2010. Marr has also served on the Board of Regents of Washington State University (WSU) and the Board of Governors of the WSU Foundation. He formerly chaired the Board of Empire Health Services and Inland Northwest Health Services, the Spokane Regional Chamber of Commerce, and the Washington State Transportation Commission. He has a 20-year history of civic involvement in public policy and state and local politics.

**Pat Kohler**
– Administrative Director
Pat Kohler was appointed as the WSLCB Administrative Director in January 2002. She has more than 28 years of management experience in audit, finance, risk management, procurement, distribution, and retail. At the WSLCB, she oversees the daily operations of the agency. She provides vision, direction and leadership to agency divisions, including retail, purchasing, enforcement, licensing, distribution, human resources, information technology and financial services. Pat is a certified public accountant.
Vision
Improving public safety for Washington communities.

Mission
Promote public safety by consistent and fair administration of liquor laws through education, voluntary compliance, responsible sales 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.

Educate and engage licensees, the public and other stakeholders in addressing issues related to alcohol and tobacco.

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

Create a culture that fosters excellent customer service, open 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 and courtesy
Professionalism and integrity
Open communication
Internal and external accountability
Measurable and meaningful results
Public trust and stakeholder involvement
Continuous improvement
Organizational Structure

- **Board**: Three-member Board appointed by the Governor

- **Administrative Director**: Appointed by the Board

- **Deputy Administrative Director**

- **Director's Office**
  - Alcohol Awareness
  - Communications
  - Legislative Relations
  - Policy
  - Rules
  - Tribal Relations

- **Licensing and Regulation**
  - MAST*
  - Retail
  - Non-Retail
  - EOU*

- **Administrative Services**

- **Human Resources**
  - Safety Program

- **Business Enterprise**

- **Enforcement and Education**
  - CHRI*
  - Retail
  - Non-Retail
  - Tobacco Tax
  - Security
  - Informal Adjudication Program

- **Finance**

- **Information Technology**

- **Purchasing**

- **Distribution**

- **Retail**

---

*MAST: Mandatory Alcohol Server Training
*CHRI: Criminal History Records
*EOU: Education and Outreach Unit
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.

With the passage of Initiative 1183 Washington is no longer a control state after June 2012.

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 currently 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 Prior to June 2012

Control States

*On June 1, 2012, Washington became an “open” state.
Business Enterprise Overview

The Business Enterprise team is made up of three agency divisions responsible for the controlled distribution of liquor: Purchasing, Distribution, and Retail. The divisions were brought together under the Business Enterprise in 2006 to improve the controlled distribution functions of the WSLCB. It also allows for an integrated approach to assessing the needs and opportunities of the agency’s business function and developing strategies to address those needs.

New Revenue Generation and Improved Convenience Programs

The Legislature authorized $49.4 million in new funding to invest in programs that would generate new revenue in our business operations as well as improve the customer experience. These programs were planned for implementation by 2013.

Standardized Store Hours
Previously state store days and hours of operation varied by location. While this offered some operational efficiency, it also proved to be confusing and inconvenient for customers. Beginning June 2011, the Business Enterprise adopted standard operational hours at all state stores providing consistent access for customer convenience and generating additional revenue.

New “Premier” Store Format
To address an opportunity for serving the diverse interests of our customers in dense, urban markets, a new store format was designed. The Premium Liquor & Wine store, launched in August 2011, was the first of two planned upscale community stores with an exceptional selection of spirits and a compliment of craft beers and regional wines.

The West Seattle “premier” store was nearly twice the size of an average state liquor store and offered two times the product selection with an expanded offering of unique and premium items.

Spirit Sampling
ESHB1202 called for a pilot supplier spirit sampling program in 30 state, contract and tribal locations. Initiated in September 2011, this program was developed in partnership with agency stakeholders. It provided an in-store experience for customers to learn about and sample spirit products, with a maximum of one sampling per week per location.

Additional Contract and State Liquor Stores
As a result of continued population growth amongst the 21 year and older demographic, additional stores were needed to ensure targeted service levels were achieved.

To maximize the financial return of these new operations, it was determined that a mix of six contract stores and two state stores would best meet the geographical and volume needs. The stores began opening in July 2011.

Gift Cards
In an effort to capitalize on the success of the gift card industry, a program was planned to introduce an alternative form of payment. Such programs lead to new sales, up selling, and unredeemed cards; all of which generate profit.

Licensee Delivery
A new delivery service was to be offered to restaurants to improve convenience. This service is
Business Enterprise

currently available in some but not all market areas and is provided by private companies. A survey of licensees confirmed a high degree of interest in this fee based service.

Other Operational Programs

Distribution Center Request for Proposals
The Legislature approved State Bill 5942 -- a request for proposal for selection of a private entity to lease the State’s liquor distribution center facility and related operations. Two firms submitted proposals after a lengthy and thorough due diligence process.

On November 2, 2011 the Office of Financial Management (OFM) presented their findings and recommendation to the Liquor Distribution Advisory Committee. Both parties agreed that the two private sector firms had considerable credentials and experience, however the financial proposals did not net positive financial benefits to the state or local government and were determined not to be in the best interest of the state.

OFM’s recommendation to the LCB was to not accept either proposal. The process validated that the Distribution Center was very efficient and performed at a high level that met customer’s expectations.

I-1183 Implementation

Employee Layoffs
One of the biggest tasks associated with I-1183 was the layoff off of approximately 1,000 employees. Over the course of eight months, the Human Resources office processed and delivered approximately 902 layoff notices to WSLCB employees across the state. The WSLCB partnered with Department of Enterprise Services/Employee Assistance Program, Department of Retirement Systems, Employment Security Department/Work Source, Health Care Authority and Washington State Employees Credit Union to deliver ten layoff sessions.

These layoff sessions provided employees with information regarding the layoff process, bumping rights, career and retraining opportunities and financial management.

Prior to the official closing of stores in May 2012 the WSLCB hired 426 employees; a 52 percent increase over the previous fiscal year (221 hires). The majority of individuals hired were filling needs created by other employees leaving prior to the closing of the Business Enterprise.

Due to low staffing levels, many employees were unable to take planned vacations and worked overtime to ensure the WSLCB met the directives
of Initiative 1183. From January 1, 2012 – June 30, 2012, the WSLCB used/paid 29,878 in overtime hours.

Supplier Buyback Agreements
There were multiple challenges associated with the implementation of I-1183. One such challenge was the requirement to ensure an orderly transition, close all stores by May 31, 2012 and deplete all inventories.

In an effort to strike a balance between these competing objectives, agreements were negotiated with 134 suppliers who agreed to purchase back any remaining inventory that was in the stores at the end of May 2012. This innovative approach allowed for the customers to retain access to 99 percent of the spirit products through the duration of our business operations.

This also ensured industry that their products would remain a viable option to the consumers.

Store “Rights” Auctions
I-1183 required the WSLCB to conduct a public auction of the state liquor stores. Since the actual stores (buildings) were leased and not owned by the state, it was determined that the auction would be for the exclusive right to apply for a Spirits Retail license and operate a liquor store less than 10,000 square feet at the location of the state store or within one mile from the current location.

An on-line auction was held for 45 days that resulted in 554 bidders placing 14,627 bids. The total winning bids amounted to $30.7 million for the rights associated with 167 state store locations. As a result of some auction winners defaulting on their bids, two subsequent live auctions were conducted. The final auction totals including the required Buyer’s Premium was $31.9 million.

Store Closures
Most state store locations remained in full operation through May 2012. Some early store closures were necessary as leases expired or when employee attrition could not be addressed through overtime and new hires.

Through a highly integrated effort using resources from across the agency and external contractors, inventory audits were conducted at all state and contract stores. In many locations, product was packaged and shipped back to the Distribution Center for resale.

This closure/transition of over 350 locations in a matter of weeks was an impressive demonstration of logistical excellence performed by a talented cross functional team.
**Licensing and Regulation Division**

The Licensing and Regulation Division issues liquor licenses and permits for 19,980 qualified businesses. The division has 38 employees who:

- Determine if new and current businesses are qualified to hold a liquor license;
- Regulate the production, importation, distribution and sale of spirits, beer and wine products;
- Provide oversight for the Mandatory Alcohol Server Training (MAST) program for workers who serve alcohol. In FY 2012, 35,024 MAST permits were issued to liquor servers; a 15 percent decline from FY 2011;
- Processed special occasion license applications for 5,642 nonprofit organization events;
- Processed 7,237 license applications in FY 2012.

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<th>2007</th>
<th>2008</th>
<th>2009</th>
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<td>16,501</td>
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<td>13,450</td>
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<td>5,397</td>
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<td>4,676</td>
<td>4,745</td>
<td>4,888</td>
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<td>115</td>
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<td>205</td>
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<td>1,339</td>
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<td>1,305</td>
<td>1,388</td>
<td>1,422</td>
<td>2,776</td>
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<td>Bonded Wine Warehouses, Distilleries, Craft Distilleries, Liquor Manufacturers, Wine Growers, Interstate Common Carrier, Ships Chandler, Wine Shippers</td>
<td>110</td>
<td>313</td>
<td>442</td>
<td>553</td>
<td>626</td>
<td>713</td>
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Sgt. Jackie Eliason and Program Specialist Susan Harrell conducting outreach efforts at a small business conference.
Alcohol Impact Areas
In 1999, rules were adopted to create a framework for communities to take action to mitigate the problems associated with chronic public inebriation, and illegal activities linked to the sale and consumption of alcohol. An Alcohol Impact Area is designated by geographical boundaries.

Requirements for recognition of a mandatory Alcohol Impact Area are described in rule (WAC 314.12). The local jurisdiction must implement a voluntary Alcohol Impact Area, and actively pursue voluntary compliance from distributors and retailers for at least six months prior to their request for recognition.

Board recognition of the mandatory Alcohol Impact Area adopts the restrictions requested based on an analysis of the city’s submission; banning the off-premises sale of high-alcohol-content, low-cost products with proven links to chronic public inebriation.

As a result, WSLCB Liquor Enforcement Officers are granted jurisdiction to assist local law enforcement’s activities directly associated with maintaining the restrictions in the alcohol impact area. The cities of Seattle, Spokane and Tacoma currently operate mandatory Alcohol Impact Areas within their local jurisdictions.

Local jurisdiction activities during Fiscal Year 2012 include:

- The city of Spokane requested mandatory recognition of the East Central Alcohol Impact Area. On August 1, 2012 the Board adopted the request and the product ban was effective September 15, 2012.
- Annual reports were submitted by the cities of Spokane and Tacoma in compliance with WAC 314-12-215(8).
- The cities of Seattle and Tacoma are currently engaged in voluntary compliance initiatives to build on the public safety successes of existing alcohol impact areas.
- The city of Vancouver implemented a voluntary Alcohol Impact Area in 2007, and has successfully maintained 100 percent retailer compliance since its inception.

Impact of Initiative 1183
Application Processing Time
Implementation of I-1183 began December 2011, with the development of new license types and realignment of existing license types to support the privatization of spirits distribution and sale. Application volumes for license types not directly impacted by I-1183 remained constant.

Throughout the remainder of FY 2012, the Licensing and Regulation Division achieved the task of implementation while adhering to very short timelines. This expansion of licensing regulatory requirements created a 73 percent increase in application volume; while average processing time increased only 12 percent over target levels.

Process enhancements that have been put in place in previous years contributed to Licensing’s ability to complete a very complicated task. Continuous process improvement continues to be an important aspect of the division’s culture and achievements. The closure of FY 2012 saw the licensure of 1,056 new spirits retailers in the marketplace supporting the privatized sale of spirits.

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<th>License Type</th>
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<tbody>
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<td>Grocery Store</td>
<td>4,843</td>
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<tr>
<td>Snack Bar</td>
<td>112</td>
<td>165</td>
<td>203</td>
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<tr>
<td>Nightclub</td>
<td>13</td>
<td>44</td>
<td>77</td>
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<tr>
<td>Spirits/Beer/Wine Restaurant</td>
<td>4,710</td>
<td>4,810</td>
<td>4,486</td>
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<tr>
<td>Hotel</td>
<td>120</td>
<td>125</td>
<td>138</td>
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<tr>
<td>Sports/Entertainment Facility</td>
<td>35</td>
<td>34</td>
<td>37</td>
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<tr>
<td>Wine/Beer Restaurant</td>
<td>2,825</td>
<td>2,676</td>
<td>2,570</td>
</tr>
<tr>
<td>Tavern</td>
<td>219</td>
<td>214</td>
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</tr>
<tr>
<td>Winery</td>
<td>686</td>
<td>739</td>
<td>751</td>
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<td>Brewery</td>
<td>127</td>
<td>151</td>
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<tr>
<td>Distributor &amp; Importer</td>
<td>224</td>
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<td>429</td>
</tr>
<tr>
<td>Craft Distillery</td>
<td>20</td>
<td>35</td>
<td>49</td>
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</table>
Banquet Permits
Banquet permits are required for private events where everyone in attendance is invited, and alcohol is served at no charge. In May 2012 the WSLCB launched the on-line banquet permitting process. Now a customer may apply for and purchase a banquet permit 24/7, they are no longer restricted by the operating hours of any retail outlet.

Over the years the number of permits issued by retail outlets has been stable. During FY 2012, the agency issued over 36,000 banquet permits, approximately 100 per day. The on-line process is maintaining this rate with improved customer access and a user-friendly process.

Education and Outreach Unit
In FY 2012 the Licensing Division established a new Education and Outreach Unit (EOU). Historically the most productive times to reach out to licensees is when they first apply for a license, or when there is a violation. This unit is an innovative approach to align licensees with the mission of the Liquor Control Board in three ways, all centered on education and training:

1. **Proactive education and outreach:** Their current work revolves around responding to applicants, licensees and stakeholders.

They work with the applicants and trainers for Mandatory Alcohol Server Training (MAST) and the new Responsible Vendor Program (RVP) established by I-1183.

Moving forward staff will build on those programs and actively engage in collaborative education and outreach initiatives with licensees, stakeholders, other government agencies and non-profit organizations.

2. **Providing a clear and informative initial licensing process:** The EOU guides applicants through the initial steps to make sure the process is as clear and understandable as possible. This ensures that the applicant is fully aware of the requirements and why they are important to the licensing process. The priority is getting the potential licensee off to a good start by keeping them in sync with the rules, regulations and mandates of the WSLCB.

3. **Addressing compliance and adding value:** Whether contacted by a non-retail licensee regarding their authorized scope of activities or on a routine visit, EOU makes sure that the licensees are fully aware of their permitted activities. This involves explaining the various rules and regulations governing what they can and cannot do, and the reasoning behind these requirements.

*Increase in average application time is a direct result of the increase in new applications created by I-1183*
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.

Retail Enforcement

Retail Enforcement strives to protect and serve the public by ensuring the legal and responsible sale of alcohol and tobacco at retail businesses. Officers carry out enforcement operations such as compliance checks, complaint investigations, technical assistance visits, premises checks and undercover operations to ensure licensees are complying with state liquor and tobacco laws.

When a business violates a law, officers are empowered to issue warnings and/or administrative violation notices. Administrative violation notices can result in a fine, temporary license suspension, or both. In cases of repeat violations, a license can be revoked by action of the Board. The Board may also impose an emergency suspension for significant public safety issues, resulting in a liquor license suspension of up to 180 days. Officers also issue criminal citations and infractions to individuals in violation of the law.

Tobacco Tax

These officers are dedicated to work with state and national agencies to address enforcement of the tobacco tax laws of Washington State. The primary focus is to 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.

Regional Retail Enforcement Offices*

| Region 1 – Southwest Washington | 4,182 Licensees / 14 Enforcement Officers |
| Region 2 – King County | 3,974 Licensees / 15 Enforcement Officers |
| Region 3 – Northwest Washington | 3,521 Licensees / 7 Enforcement Officers |
| Region 4 – Central and Eastern Washington | 3,810 Licensees / 13 Enforcement Officers |

*This chart does not include non-retail and tobacco tax officers, who cover the entire state.

FY 2012 Key Enforcement Activities

| 87,308 officer contacts |
| 29,357 liquor premises checks |
| 9,494 tobacco premises checks |
| 1,751 complaints |
| 6,187 complaint investigation contacts |
| 7,701 licensee support visits |
| 2,071 liquor compliance checks |
| 1,061 tobacco compliance checks |
| 3,941 Enforcement actions |
| 245 responsible sales training classes |
| 758 online responsible sales classes |

WSLCB Enforcement officers participate in an untaxed cigarette raid as part of a Inter-Agency Joint Task Force.
Enforcement and Education

Additionally, these officers continue to conduct retail/wholesale tobacco inspections leading to the identification of unpaid taxes on other tobacco products. The officers also maintain state and federal partnerships; educate wholesalers, distributors and retail licensees on tobacco laws, and works with Native American tribes on areas of mutual concern.

Top Three Violation Types in FY 2012
Violations can result in Administrative Violation Notices (AVNs) or warnings. There were 914 violations in the top three categories, with 541 AVNs issued resulting in fines or liquor license suspensions.

Sales or service to minors
- 443 violations
- 400 AVNs issued
- 43 warnings issued

Sales to apparently intoxicated persons
- 318 violations
- 96 AVNs issued
- 222 warnings issued

Disorderly conduct
- 153 violations
- 45 AVNs issued
- 108 warnings issued

Non-Retail Enforcement
Non-Retail Enforcement, which includes six officers, enforces state liquor laws and regulations that impact 2,744 non-retail licensees, including in-state and out-of-state entities that produce, import and distribute alcohol in the state. 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. The unit worked on rule changes regarding uniform pricing associated with the 1183 impacts. Officers worked with Licensing and Regulation Division staff and conducted wine forums across the state to communicate new wine laws, in September 2011.

This unit was transferred to the Licensing and Regulation Division as of June 2012.

WSLCB Security Officers
Seven WSLCB security officers monitor and provide 24-hour security for the Distribution Center and liquor stores.

Areas of Focus in FY 2012

Complaint Investigations
Enforcement officers investigate complaints that are referred by law enforcement and the general public. The division has been working to improve its response to complaints; with a goal of closing complaints within 60 days. In Calendar Year 2010, 18 percent of complaints were open 60 days or more. In 2011, 12 percent and in January to June of 2012 9.5 percent were open 60 days or more. This reduction is due to a standardized complaint policy, lieutenant oversight and prioritization, and initial contact tracking.

Tobacco Compliance Checks
The division partnered with the Washington State Department of Health (DOH) and the United States Food and Drug Administration (FDA) to conduct tobacco compliance checks to prevent youth access to tobacco.

The WSLCB continued a contract with DOH to do random compliance checks using Federal requirements. The WSLCB was awarded a new contract with the FDA as part of a tobacco retail inspection pilot program based on new federal regulations. Washington was one of 15 states funded in the first year of the pilot program.

FY 2012 Staffing Chart

| 102 | Staff |
| 1   | Chief |
| 1   | Deputy Chief |
| 5   | Captains |
| 14  | Lieutenants |
| 59  | Officers |
| 1   | Hearing Officer |
| 1   | Business Management Analyst |
| 1   | Professional Standards Officer |
| 1   | Program Manager |
| 1   | Criminal Records Coordinator |
| 7   | Support Staff |
| 3   | Investigative Aides |
| 1   | DC/Store Security Supervisor |
| 6   | DC/Store Security Guards |
Performance Assessment

The agency completed an extensive performance self assessment as part of its quality improvement efforts. 20 internal examiners and six mentors were trained, and they interviewed nearly 80 employees, analyzed division information and results, and created division feedback reports to gauge the agency’s strengths and improvement opportunities. The reports generated a series of work plans identifying 16 improvement activities that are currently in progress.

This self assessment builds upon earlier performance improvement activities, including an application for an independent assessment to the Washington State Quality Award (WSQA) in 2008. The WSQA independent assessment is a comprehensive, in-depth review process that helps an agency evaluate and identify strengths and areas needing improvement.

WSQA is based on the nationally acclaimed Malcolm Baldrige Criteria for Performance Excellence. Criteria categories include leadership, strategic planning, customer focus, measurement and analysis, human resource focus, process management and business results.

Lean Six Sigma

In FY 2012, the agency developed a plan to bring Lean Six Sigma training and principles into the organization to enhance our commitment to continuously improve our operations. Over 20 agency leaders and employees began training on how to identify and eliminate waste, build efficient processes and measure our success around the voice of our customers. Increased emphasis on the elimination of waste and process variability was also provided to training and simulation programs.

Our objective is to build a stronger process improvement culture that will benefit both new and existing programs. Management and staff were provided new tools and techniques for a structured approach to serving the customer with efficiency and speed.
### Income and Expenses FY 2012*

*Figures rounded to the nearest thousand

#### Income

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Liquor Sales</td>
<td>$900.47 million</td>
</tr>
<tr>
<td>Beer Taxes</td>
<td>$79.64 million</td>
</tr>
<tr>
<td>Wine Taxes</td>
<td>$23.45 million</td>
</tr>
<tr>
<td>License Fees</td>
<td>$33.91 million</td>
</tr>
<tr>
<td>Other*</td>
<td>$31.75 million</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td><strong>$1,069.22 million</strong></td>
</tr>
</tbody>
</table>

*Includes auction proceeds, tobacco seizures, penalties and other income

#### Expenses/Distributions

**Product Expenses**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of Goods Sold</td>
<td>$350.88 million</td>
</tr>
<tr>
<td>Product Discounts</td>
<td>$86.39 million</td>
</tr>
<tr>
<td><strong>Total Product Expenses</strong></td>
<td><strong>$437.27 million</strong></td>
</tr>
</tbody>
</table>

**Operating Expenses**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail/Purchasing/DC</td>
<td>$96.51 million</td>
</tr>
<tr>
<td>Licensing/Enforcement</td>
<td>$10.54 million</td>
</tr>
<tr>
<td>General</td>
<td>$21.06 million</td>
</tr>
<tr>
<td>Operating Reserve</td>
<td>$55.15 million</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td><strong>$183.26 million</strong></td>
</tr>
</tbody>
</table>

### Distributions

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Returned to the State/Local Government</td>
<td>$448.70 million</td>
</tr>
<tr>
<td><strong>Total Expenses/Distributions</strong></td>
<td><strong>$1,069.22 million</strong></td>
</tr>
</tbody>
</table>
## Revenue Distribution Chart

*Figures rounded to the nearest thousand*

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund</td>
<td>$364.7 Million</td>
<td>81.3%</td>
</tr>
<tr>
<td>Cities / Counties</td>
<td>$74.5 Million</td>
<td>16.6%</td>
</tr>
<tr>
<td>Education / Prevention</td>
<td>$8.0 Million</td>
<td>1.8%</td>
</tr>
<tr>
<td>Research</td>
<td>$1.6 Million</td>
<td>0.3%</td>
</tr>
</tbody>
</table>

$448.7 Million Returned in FY 2012
Revenue sent to the state General Fund is used to provide much-needed additional resources for education and other critical state services.

Legislatively mandated increases in the liter tax and markup increases in recent years have been used to prevent program reductions and budget cuts.

Revenue 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.

Education and prevention funds pay 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.

Revenue from beer and wine taxes supports research on alcohol abuse and addiction at the University of Washington (UW) and Washington State University (WSU), and on wine and grape development at 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 2012, 773 wineries were licensed in Washington State.

<table>
<thead>
<tr>
<th>Revenue Distribution</th>
<th>%</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund</td>
<td>81.3%</td>
<td>$364.7 Million</td>
</tr>
<tr>
<td>Cities, Counties</td>
<td>16.6%</td>
<td>$74.5 Million</td>
</tr>
<tr>
<td>Education, Prevention</td>
<td>1.9%</td>
<td>$8.2 Million</td>
</tr>
<tr>
<td>Research</td>
<td>0.4%</td>
<td>$1.6 Million</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Research Distributions In Detail - $1.57 Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Washington Wine Commission</td>
</tr>
<tr>
<td>UW Alcohol and Drug Abuse Institute</td>
</tr>
<tr>
<td>WSU Alcohol and Drug Abuse Research</td>
</tr>
<tr>
<td>WSU Wine and Grape Research</td>
</tr>
<tr>
<td>Washington State Patrol State Toxicology Program</td>
</tr>
<tr>
<td>Youth Tobacco Prevention</td>
</tr>
</tbody>
</table>
2012 Enacted Liquor Related Legislation

HB 2758 Strengthening the Department of Revenue’s ability to collect spirits taxes imposed under RCW 82.08.150

**Background:** Due to the projected increase in Spirits Retailer licensees and the large tax amounts to be collected, this bill aimed to strengthen the disciplinary actions available to Revenue in regards to dealing with delinquent taxpayers.

**Summary:** The Department of Revenue may request that the Liquor Control Board suspend a spirits license and refuse to renew such license if the taxpayer is more than 30 days delinquent in reporting or remitting spirits taxes.

3ESHB 2127 State Operating Budget

**Background:** During the implementation of Initiative 1183 the Liquor Control Board faced shortages of qualified employees as workers left for other employment opportunities.

**Summary:** The bill allowed Liquor Control Board employees that remained on the job through June 15, 2012, the temporary opportunity to cash out sick leave. Four days of sick leave equaled one paid day of employment. Only persons in positions affected by the transition were eligible for the opportunity.

SB 5259 Wineries – Reporting and Tax Payments

**Background:** Under the previous rule all wineries, regardless of size or output, were required to report on and pay taxes monthly.

**Summary:** Wineries and wine certificate of approval holders that have a total taxable sales of wine in Washington of 6,000 gallons or less during the calendar year must report on and pay taxes no more frequently than annually.

ESB 6635 Improving revenue and budget sustainability by repealing, modifying, or revising tax preference and license fees

**Background:** Due to I-1183, craft distilleries (small businesses which produce and bottle their own spirits) were required to pay 17 percent of all spirits sales revenues.

**Summary:** This bill exempts craft distilleries from the retail license issuance fee of 17 percent on every bottle they sell from their tasting rooms.

ESHB 2823 Redirecting existing state revenues into the state general fund

**Background:** As Washington shifted from a control system to a privatized system new legislation was needed to redirect revenues generated from spirits sales.

**Summary:**

**Liquor Excise Taxes**
In Fiscal Year 2013, all liquor excise taxes that normally were deposited into the Liquor Excise Tax Fund for distribution to local governments are now deposited into the State General Fund. Distributions to local governments are suspended for a year to correspond to this reallocation of the tax. Beginning in fiscal year 2014 and every year after, quarterly distributions from the Liquor Excise Tax Fund of $2.5 million are made to the State General Fund. It also eliminates the County Research Services Account.

**Liquor Revolving Fund**
Beginning July 1, 2012, the distributions to cities and counties from the Liquor Revolving Fund are modified. Instead of distributing moneys to cities and counties by a formula based on amounts deposited in the Liquor Revolving Fund, distributions will be made as provided under Initiative 1183. Prior to distributing the cities’ portion of the Liquor Revolving Fund, an amount must be retained to support municipal research services consistent with Initiative 1183.
Legislative Session

3E2SHB 2565 An act relating to persons who operate a roll-your-own cigarette machine at retail establishments

**Background:** Roll-your-own (RYO) cigarette machines allowed consumers to roll loose-leaf tobacco into a carton of cigarettes at roughly half the price of a retail carton, and avoid a state tax of 15 cents per cigarette.

**Summary:** This bill modified the definition of “cigarette” used for excise taxation to include RYO cigarettes. It also established a tax enforcement and regulatory system for RYO cigarettes that requires RYO retailers to:

- purchase tax stamps that must be affixed to containers that are provided by the retailer;
- limit consumer access to a RYO machine;
- pay an additional $93 annual RYO retailer licensing fee; and
- use only commercial RYO machines that have metering devices.

Retailers that purchase stamps for RYO cigarettes are provided with compensation to offset the tobacco products tax.
Washington State Liquor Control Board

Mission
Promote public safety by consistent and fair administration of liquor laws through education, voluntary compliance, responsible sales and preventing the misuse of alcohol and tobacco.

www.liq.wa.gov