The regular meeting of the Washington State Liquor Control Board was called to order at 10:00 a.m., on Wednesday, February 18, 2004 in the Board conference room, 3000 Pacific Avenue SE, Olympia, Washington, by Chairman Merritt Long. Board Member Vera Ing Board Member Roger Hoen were present. Tony Kim, Administrative Assistant to the Board summarized the minutes.

Policy, Legislative, and Media Relations Division – Public Hearing (Rule Petition Regarding Sampling in Beer/Wine Specialty Shops);

Teresa Berntsen, Rule Coordinator

The Liquor Control Board has received a petition for rule making to amend WAC 314-02-105, which outlines the sampling guidelines for beer/wine specialty shops. Currently the rule limits beer or wine samples to a total of eight ounces per customer, and restricts these eight ounces to no more than four samples per customer per visit.

Ms. Berntsen stated that the petitioners would like the Board to amend the rule to keep the overall eight-ounce limit but not have it limited to four samples.

Katie Jacoy (on behalf of Steve Burns, Wine Institute) and Pam Zyck, owner of the Washington Wine Warehouse spoke in favor of this petition.

Retail Services Division – Retirement Recognition

John Redal, District Manager

Mr. Redal recognized Gus Pappas, Liquor Store Manager (Kirkland, store # 57) for his over 31 years of dedicated service to the Washington Liquor Control Board.

Purchasing Services Division – Potential Proof Reduction

Gary Thompson, Deputy Director

The supplier of Monarch Coffee Liqueur is requesting that the Board approve a proof reduction from the currently listed 53 proof to 40 proof. Monarch (Hood River) will no longer be producing the 53 proof product.
Mr. Thompson recommended that the Board approve the supplier’s request for the proof reduction. The Purchasing division will post signage in our retail outlets notifying customers of the proof change.

Board Member Ing moved for approval. Board Member Hoen seconded the motion, and it was passed unanimously.

Retail Services Division – Lease Proposal, New Store # 201 (Spokane)

Suzanne Lewis, Property Specialist

Store No. 201 is a proposed new store to be located in Shadle Center at 2401 W. Wellesley, Suite C, in Spokane. Store #164 in Walla Walla will be closed in a few months with Store #201 taking its place to maintain a total of 157 liquor stores.

BACKGROUND

As part of the Retail Business Plan, a decision was made well over a year ago to combine the two Walla Walla stores, thereby closing one of them. At present, they are #8 and #9 from the bottom of the list of under performing stores. Because Store #164 is in an undesirable location on a back street at the east end of Walla Walla, that store will be closing. Staff is working with a developer on a possible new, more centrally located site to combine Store #009 and Store #164. Until then, the combined Walla Walla stores will remain at the current Store #009 location.

As part of the realignment of Spokane stores, staff has identified Shadle Center as a prime shopping area to provide a convenient new store for the many residents on the west side of Spokane. There are no other grocery-anchored shopping centers in west Spokane between Francis Avenue on the north and the south side of I-90. Wal-Mart, who just expanded to over 147,000 square feet, a 55,704 square foot Safeway, and Rite Aid anchor the center. Other tenants include Blockbuster, Starbucks, Payless Shoes, McDonalds, and many other local and national retailers. The new liquor store is to be located in the former Dollar Store space between Safeway and Wal-Mart.

PROPOSAL
The Lessor, Paul Hawkins of P2J2 Shadle Associates LLC, who is also a real estate broker with Hawkins Edwards, Inc., has proposed a ten (10) year lease in a 5,198 square foot space. The rental rate will be $10,920.13 per month, or $25.21 per square foot per year, during the first 5 years, and $12,557.50 per month, or $28.99 per square foot per year, during the second 5 years of the lease term.

The Lease may not be terminated during the initial five (5) years of the lease term, except pursuant to Paragraph 2, if applicable, or if Lessor(s) is in default under this agreement and fails to cure such default within 30 days after receipt of written notice of the default. During Years 6 through 10, the Lease may be terminated by either party with a six (6) month written notice from the first of the month following. If the Board terminates the Lease, the remaining portion of the then unamortized improvement costs, based on an initial amount of $60,000.00, will be due the Lessor. If the Lessor terminates the Lease during the second 5 years, a payment of $15,000.00 to help defray moving expenses will be due the Board.

The Lease may, at the option of the Liquor Board, be renewed for a further period of ten (10) years with the lease rate to be determined at the time the option is exercised.

The Lessor has agreed to remodel the premises per the Board’s “General Specifications for Self-Service Stores” (Revised 10/02). In addition to the individually lettered, lighted sign on the storefront, the Lessor will provide sign panels on the lighted shopping center pylon located on Alberta Street. He has also agreed to the provisions of Appendix A, “Areas of Responsibility”, with no exceptions.

SALES PROJECTIONS

Sales are projected to be $1.8 million in the first full year of operation. At this level, the projected profitability would be 9.1%, while the average profit for all state stores in FY03 was 8.8%.

Sales per square foot would be $346, while the average for all stores in FY03 was $607.

SALES HISTORY OF NEARBY STORES

Recent sales history for Stores No.040 and 065 are as follows:

Store #040 (1.4 miles NW):

<table>
<thead>
<tr>
<th></th>
<th>Retail Sales</th>
<th>Class H Sales</th>
<th>Gross Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2003</td>
<td>$3,621,758</td>
<td>$1,080,095</td>
<td>$4,701,853</td>
</tr>
<tr>
<td>FY2002</td>
<td>$3,607,927</td>
<td>$1,030,408</td>
<td>$4,638,335</td>
</tr>
</tbody>
</table>

Store #065 (4.5 miles SW):

<table>
<thead>
<tr>
<th></th>
<th>Retail Sales</th>
<th>Class H Sales</th>
<th>Gross Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2003</td>
<td>$2,591,599</td>
<td>$1,625,592</td>
<td>$4,217,191</td>
</tr>
<tr>
<td>FY2002</td>
<td>$2,451,982</td>
<td>$1,744,275</td>
<td>$4,196,257</td>
</tr>
</tbody>
</table>
NOTE: Sales figures for Store #117 were not included as the store was relocated to a new grocery anchored shopping center in July and does not yet have a full year's sales figures to compare.

ADDITIONAL DATA:

Lease rates at Shadle Center are in the $20.00 to $30.00 per square foot range plus triple net charges and tenant improvements, depending on location in the shopping center. A new Starbucks just opened on the end cap, located 2 doors away from the proposed liquor store, at over $35.00 per square foot plus triple net charges.

The new liquor store to be located on lower Division Street is $24.90 per square foot due to the high traffic volume and lack of modern attractive retail space. Staff has reviewed redevelopments in several areas of Spokane and lease rates in nearly all cases are over $20.00 per square foot due to the high cost of construction, traffic mitigation, and other fees.

Traffic counts:
15,900 cars per day (cpd) on Wellesley Avenue; 15,800 cpd on Alberta St. south of Wellesley; and 5,200 cpd on Belt Avenue south of Wellesley.

Demographics:
Population per 2000 Census:
  1 mile ring = 16,273
  2 mile ring = 51,465
  3 mile ring = 96,968

SUMMARY

Summary of the lease proposal for Store #201:

<table>
<thead>
<tr>
<th>Proposed Rent</th>
<th>Proposed Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10,920.13</td>
<td>$12,557.50</td>
</tr>
<tr>
<td>Yrs 1-5</td>
<td>Yrs 6-10</td>
</tr>
<tr>
<td>$25.21/sq ft/yr</td>
<td>$28.99/sq ft/yr</td>
</tr>
</tbody>
</table>

Ms. Lewis recommended approval of Lease Proposal for a new liquor store in Shadle Center.

Board Member Ing moved for approval. Board Member Hoen seconded the motion, and it was passed unanimously.

F.Y.I. We changed Store #201 to Store #185.

The Meeting was adjourned at 10:30 A.M.