

**OFFICE OF THE  
WASHINGTON STATE LIQUOR CONTROL BOARD  
Board Meeting /December 6, 2005**

The regular meeting of the Washington State Liquor Control Board was called to order at 11:00 a.m., on Wednesday, December 6, 2005 in the Board conference room, 3000 Pacific Avenue SE, Olympia, Washington, by Chairman Merritt D. Long. Board Member Roger Hoen was present. Tony Kim, Administrative Assistant to the Board summarized the minutes.

**Retail Services Division – Contract Liquor Store #632 Union, Manager Selection**  
Brian Thomas, District Manager

The Union Contract store is located in the center of town off Highway 106. It is approximately 32 miles from CLS #688 in Brinnon, 16 miles from State Store #162 in Belfair, and 9.9 miles from CLS #685 in Allyn. The local economy is tourism based. Last fiscal year the gross sales were \$343,554 and the commission was \$49,189. Due to summer vacationers the population swells in the summer months from 900 to 7,500.

20 applications were requested and only 1 was returned completed. A Panel consisting of: Earl Hill, District Manager, Brian Thomas, hiring District Manager, and Auditor Greg Woods, conducted the interview. After the interview was conducted the selected candidate was Darin Barry.

Mr. Barry has a strong business background, having owned a business in the past. He has purchased the Robin Hood Village resort from the current Contract Manager and has been working as an employee for the past 3 months. He is familiar with the duties and responsibilities. He has made a connection to the community and recently was asked to be a keynote speaker at the Whatcom County Meth summit. He plans to retire in Union and run the resort and Liquor Store at the same location.

Mr. Barry has plans to add lighting, security cameras, and a POS system. He will also upgrade the signage and cross merchandise to generate increased sales.

Background check was good. Therefore, Mr. Thomas recommended the selection of Darin Barry as the new Contract Manager for CLS #632, Union effective January 1, 2006.

Board Member Hoen moved for approval. Chairman Long seconded the motion, and it was passed.

**Retail Services Division – Contract Liquor Store #571 Ruston, Manager Selection**  
Earl Hill, District Manager

The Ruston Contract store is located in Tacoma near the waterfront. It is approximately 1.75 miles from State Store #063, Westgate. Last fiscal year the gross sales were \$654,516 and the commission was \$69,705.

21 applications were requested, 4 received, and 3 were interviewed. A Panel consisting of: Earl Hill, District Manager, Eddie Cantu, District Manager, and Auditor Bernie Pieterman, conducted the interviews. After the interviews were conducted the selected candidate was Karen Ferguson.

Karen has extensive retail experience that includes working as a bartender, currently is a P/T clerk at the Ruston Liquor Store since 2000, and worked as category assistant for Super Value. She plans to be involved as much as possible with the Ruston community.

Karen plans to lease the current space from the outgoing contract manager who owns the building. This will continue to be a stand-alone store. She will continue to use the Klingler POS. She will take advantage of growth and renovation in the area, which is expanding housing and view property. She will provide a better selection in wines and spirits, gift bags, wine openers, glasses and flasks. Tobacco and Lotto will be considered for a future product line.

References embellished Karen's great qualities. Excellent people skills, highly motivated, honest and reliable. Therefore, Mr. Hill recommended the selection of Karen Ferguson as the new Contract Manager for CLS #571, Ruston effective January 1, 2006.

Board Member Hoen moved for approval. Chairman Long seconded the motion, and it was passed.

**Retail Services Division – Liquor Store Lease Extension, Seattle #045**  
Suzanne Lewis, Store Leasing Manager

The lease for Store No. 045, located at 1300 North 45<sup>th</sup> Street, Seattle, WA, will expire on December 31, 2005.

The Lessor, Henry A. M. Tenckhoff, Manager of Focknet Enterprises, LLC, has agreed to a one (1) year extension of our current lease, effective January 1, 2006. During this extension period, the rental rate will be \$4,247.00, or \$12.00 per square foot per year, a 29.7% increase. All other terms and conditions of the current lease shall remain the same.

We currently pay \$3,273.73 per month, or \$9.25 per square foot per year, for a

4,247 square foot space. We also pay the increase in taxes over the 1995 base year. Gross sales for FY 2005 were \$5,510,418 with Class H Sales at 43%.

Board Member Hoen moved for approval. Chairman Long seconded the motion, and it was passed.

**Retail Services Division – Liquor Store Lease Extension, Spokane-Hillyard #051**  
Suzanne Lewis, Store Leasing Manager

The lease for Store No. 051, located at 4725 North Market Street, Spokane WA, expired on October 31, 2005.

The Lessor, Muriel Petrettee, has agreed to a one (1) year extension of our current lease, effective November 1, 2005. During this extension period, the rental rate will be \$6,133.83 per month, or \$13.00 per square foot per year, a 48.6% increase. The lease extension may not be terminated early. All other terms and conditions of the current lease shall remain the same.

We currently pay \$4,128.54 per month, or \$8.75 per square foot per year, for a 5,662 square foot space. Gross sales for FY 2005 were \$2,275,905 with Class H Sales at 29.3%.

Board Member Hoen moved for approval. Chairman Long seconded the motion, and it was passed.

**Retail Services Division – Liquor Store Lease Renewal, Kennewick #171**  
Suzanne Lewis, Store Leasing Manager

The lease for Store No. 171, located in Kennewick Plaza shopping center at 2925 West Kennewick Avenue, Kennewick, expired on September 30, 2005.

**BACKGROUND**

Store #171 has been located in Kennewick Plaza since January 1980. Kennewick Plaza is the primary shopping center in East Kennewick and is anchored by Safeway which was recently expanded from 39,000 square feet to 67,000 square feet. Other tenants include Big Lots, Dollar Tree, Blockbuster video, Hallmark and many other smaller retailers. The Lessor continues to upgrade the shopping center and sales keep increasing.

**PROPOSAL**

The Lessor, Nat Franklin of Franklin Kennewick LLC, has proposed a ten (10) year lease renewal in our current 5,000 square foot space. The new rental rate will be \$7,250.00 per month, or \$17.40 per square foot per year, during the first 5

years, and \$8,150.00 per month, or \$19.56 per square foot per year, during the second 5 years, retroactive to October 1, 2005.

Lessor may not terminate the lease. The lease may be terminated by the Board with a six (6) month written notice from the first of the month following. If the Board terminates the lease during the first five (5) years, the remaining portion of the then unamortized improvement costs, based on an initial amount to be determined, will be due the Lessor.

The Lessor has agreed to the majority of the requested repairs and improvements, including new flooring, new energy-efficient lights, and new ceiling tiles. In addition, he will install liquor store sign panels on the W. Kennewick Avenue pylon sign. He has also agreed to the provisions of Appendix A, "Areas of Responsibility", as attached.

The Board will pay its pro rata share of any property tax increases over the 2005 base year.

### **SALES HISTORY**

Recent sales history for Store No. 171 is as follows:

	<u>Retail Sales</u>	<u>Class H Sales</u>	<u>Gross Sales</u>
FY2005	\$3,913,244	\$1,050,568	\$4,963,812
FY2004	\$3,589,528	\$1,047,167	\$4,636,695
FY2003	\$3,310,318	\$ 954,727	\$4,265,045

Sales/sq ft: FY05 = \$993 (average for all state liquor stores was \$677 for FY05)  
NOTE: Retail sales increased another 9% in 2005, averaging an 8.5% increase over the past 3 years. Sales are anticipated to increase further with continued growth in the Tri-Cities.

Profitability: FY04 = 14.9% while the average profit for all state stores was 11.3%.

NOTE: Lease renewal = 13.8% without any sales increase. It is anticipated, however, that sales will continue to grow at 8 – 9% per year due to continued growth in the area.

### **ADDITIONAL DATA:**

Current rental rates in Kennewick Plaza are \$16 – 18 per square foot + \$3.50/sq ft triple net charges. Most of the leases include a 3% annual increase with no cap on triple nets. They do not include tenant improvements by the landlord.

Comparable lease rates in area:

#159 Kennewick-Col. Summit – 5,810 sq ft @ \$7,747.00/mo, or \$16.00/sq ft/yr, in Yrs 1-5  
\$8,521.70/mo, or \$17.60/sq ft/yr, in Yrs 6-10

NOTE: Store #159 lease was just renewed in July 2005 and the store was enlarged.

The center is anchored by Value Village and Tuesday Morning and includes several other smaller tenants in the major Kennewick retail area.

#035 Pasco – 5,106 sq ft @ \$7,310.55/mo, or \$17.18/sq ft/yr, in Yrs 1-5  
\$8,161.55/mo, or \$19.18/sq ft/yr, in Yrs 6-10

NOTE: Store #035 was just relocated to a grocery-anchored center in April 2004. The center includes Blockbuster Video and Quiznos.

Traffic counts: The most recent traffic count on SR395, along the east side of the center, is 22,000 cars per day.

### SUMMARY

Summary of the lease renewal for Store #171:

<u>Current Rent</u>	<u>Proposed Rent</u>	<u>Change</u>
\$5,104.17	\$7,250.00 Yrs 1-5	+42%
\$12.25/sq ft/yr	\$17.40/sq ft/yr	
	\$8,150.00 Yrs 6-10	+12.4 %
	\$19.56/sqft/yr	

Ms. Lewis recommended approval of this lease renewal for Store #171.

Board Member Hoen moved for approval. Chairman Long seconded the motion, and it was passed.

### **Retail Services Division – Liquor Store Relocation, Bellingham #123**

Suzanne Lewis, Store Leasing Manager

The lease for Store No. 123, located in Meridian Plaza shopping center at 181 Telegraph Road, Bellingham, will not expire until December 31, 2010. Due to growth in Bellingham and drawbacks of the current location, staff is presenting a proposal for an early relocation of this store.

### BACKGROUND

Store #123 has been in its current location near Bellis Faire mall since December 1989. During the last lease renewal in 2000, additional storage space was added. The store is difficult to organize due to the location of unanticipated firewalls. With the increase in traffic, customers frequently complain about poor parking and difficult ingress/egress to the center.

There has been considerable commercial development further north on the Guide Meridian, including WalMart, Costco and many other well-known national retailers. Although staff has searched for a new site for 2 to 3 years, nothing suitable has been available and land that is zoned for commercial use is almost non-existent. A proposal has recently been received for a new building on one of the last remaining commercially-zoned parcels on Meridian. It is located in front of WalMart and across the street from Costco. The proposed new building will be very similar to the new Mount Vernon liquor store, although the building will be

large enough to accommodate 1 or 2 additional small retailers. Although the lease rate for Mount Vernon is \$21.00/sq ft in Years 1-5 and \$23.00/sq ft in Years 6-10, the cost of the land and sitework alone in Bellingham are very nearly equal to the cost of the entire Mount Vernon project.

**PROPOSAL – 101 Stuart Road**

The Lessor, Dean Smiley of Cojac Properties, LLC, has proposed a ten (10) year lease in a new 6,027 square foot space. The new rental rate will be \$13,058.50 per month, or \$26.00 per square foot per year, during Years 1-3, \$14,063.00 per month, or \$28.00 per square foot per year, during Years 4-6 and \$15,067.50 per month, or \$30.00 per square foot per year, during Years 7-10. It is anticipated that the building will be ready by mid-summer 2006.

The current lease has a 6 month termination clause that requires the Board to reimburse the Lessor for the remaining portion of unamortized improvements. If the lease is terminated as of July 31, 2006, the reimbursement amount will be \$15,375.00. Mr. Smiley has agreed to provide 1 month rent credit (\$13,058.50) to help offset this payment.

The Lease may not be terminated during the initial ten (10) year lease term, except pursuant to Paragraph 2 (privatization), 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.

At the Board’s option, the lease may be renewed for an additional 10 year term with rent to be negotiated at lease 90 days prior to expiration of the initial lease term.

The Lessor has agreed to construct the premises per the Board’s “General Specifications...”, including a fire sprinkler system and exterior signage. He has also agreed to the provisions of Appendix A, "Areas of Responsibility", with no exceptions.

**SALES HISTORY**

Recent sales history for Store No. 123 is as follows:

	<u>Retail Sales</u>	<u>Class H Sales</u>	<u>Gross Sales</u>
FY2005	\$3,141,943	\$615,907	\$3,757,850
FY2004	\$2,954,369	\$631,050	\$3,585,420
FY2003	\$2,573,934	\$578,829	\$3,152,763

Sales/sq ft: FY05 = \$774 (average for all state liquor stores was \$677 for FY05)  
 NOTE: Retail sales increased 6.4% in 2005 and have averaged a 10.9% increase over the past 3 years. They are anticipated to increase further with continued population growth.

Profitability: FY04 = 14.5% while the average profit for all state stores was 11.3%.  
 NOTE: Store relocation = 11.9% without any sales increase. It is anticipated, however, that sales will increase at a faster rate in the new, busy, more visible site. With a 10.9% increase in retail sales and no increase in Class H sales, profitability would be 12.9% in Year 1, 14.2% in Year 2, 14.9% in

Year 3, 15.6% in Year 4 and 16.2% in Year 5.

**ADDITIONAL DATA:**

Current rental rates along the Guide Meridian are in the mid to upper \$20s per square foot, triple net, due to the scarcity of commercially-zoned property in the area.

Comparable lease rates in area:

#130 Bellingham-Lakeway – 4,720 sq ft @ \$8,102.67/mo, or \$20.60/sq ft/yr, in Yrs 1-5  
\$9,086.00/mo, or \$23.10/sq ft/yr, in Yrs 6-10

NOTE: The lease for #130 was recently renewed in a grocery-anchored center which has not yet been renovated.

#048 Bellingham-South – 4,699 sq ft @ \$8,300.00/mo, or \$21.20/sq ft/yr, in Yrs 1-5  
\$8,750.00/mo, or \$22.35/sq ft/yr, in Yrs 6-10

NOTE: Store #048 is new construction in a grocery-anchored center (Food Pavilion).

Traffic count: Approximately 30,000 cars per day along the Guide Meridian.

**SUMMARY**

Summary of the lease proposals for Store #123:

<u>Current Rent</u>	<u>Proposed Rent</u>	<u>Change</u>
4,695 sq ft	6,027 sq ft	+ 28.4%
\$5,305.35	\$13,058.50 Yrs 1-3	+146.0%
\$13.56/sq ft/yr	\$26.00/sq ft/yr	+ 91.7%
	\$14,063.00 Yrs 4-6	+7.7%
	\$28.00/sq ft/yr	
	\$15,067.50 Yrs 7-10	+7.2%
	\$30.00/sq ft/yr	

Ms. Lewis recommended approval of Lease Proposal to relocate Store #123 to 101 Stuart Road.

Board Member Hoen moved for approval. Chairman Long seconded the motion, and it was passed.

**The Meeting was adjourned at 11:40 A.M.**

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Merritt D. Long  
Chairman

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Vera Ing  
Board Member

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Roger Hoen  
Board Member