



# FY 2010 Annual Report

Promoting Public Safety  
Serving Communities  
Selling Responsibly





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*Receiving Supervisor Aaron Lowe, Process Improvement Manager Smriti Batra and Director of Distribution Bill Berni at the Distribution Center.*

## Contact Information

<b>General Information</b>	360-664-1600 wslcb@liq.wa.gov
<b>Board Office</b>	360-664-1717 rjp@liq.wa.gov
<b>Director's Office</b>	360-664-1649 sar@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>	206-464-7958 wjb@liq.wa.gov
<b>Retail</b>	360-664-1789 cdg@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

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

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# 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) 2010 Annual Report. This report details the agency's key activities, performance and accomplishments between July 1, 2009 and June 30, 2010.

## Challenging and Innovative

FY 2010 was both challenging for the WSLCB and also significant for its innovation and accomplishments. The state budget crisis continued to force deep budget cuts across state government. Among other cuts, this year the WSLCB closed four enforcement offices. In response, those officers now work full time in the field and use their car or home as their office.

## FY 2010 Highlights

Additional information regarding the below highlights can be found throughout the report.

- **Safe and Responsible Sales.** State stores continued to rank among the nation's highest for their 95 percent no-sales-to-minors compliance rate.
- **Revenue Generation.** The WSLCB returned \$370.3 million to fund essential state and local services such as education, health care, and emergency services. Sales of spirits in Washington grew 3.2 percent despite a 2 percent decline in liter sales. A budget-mandated markup increase helped drive the increase in gross spirits sales.
- **New Revenue.** The WSLCB is on target to raise an additional \$11 million this biennium to help offset the state budget deficit. Efforts to achieve this new revenue included opening new stores, expanded Sunday and holiday sales, and opening spirits and wine holiday gift stores in four malls.
- **Continuous Improvement.** The agency continues to strive for continuous quality improvement using the Washington State Quality Award (WSQA) principles.
- **Tribal Relations.** The WSLCB led two tribal workgroups to address areas of mutual concern brought forward by Washington's tribes on the agency's licensing and store-siting processes. A Memorandum of Agreement template was created to address liquor licensing issues.
- **Restricted Products Policy.** Due to growing health concerns, in October 2009 the WSLCB issued a policy prohibiting in state liquor stores any marketing or promotional material that encourages customers to mix alcohol and energy drinks.
- **Alcohol Advertising Restrictions.** In April 2010, the Board adopted new advertising regulations that restrict the size and location of alcohol advertising at licensed locations. The new regulations resulted from the highest amount of public input on rulemaking in recent memory.
- **Census 2010.** All state stores participated in the Census 2010 outreach through point-of-sale communications and in-store promotions.

The Board and its employees are proud of the public safety and financial contributions we make to the citizens of Washington. For more information regarding the WSLCB and current alcohol-related issues, please visit our website at [www.liq.wa.gov](http://www.liq.wa.gov).

Sincerely,



Sharon Foster  
Board Chair



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, 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 as Board Chair 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 21 years, and is a steering committee member of Oly 2012, which is 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, the Seattle Art Museum Community Advisory Board, and the Wing Luke Asian Museum Capital Campaign Committee. She has served as chair of the Bellevue Community College Board of Trustees for 15 years. Ruthann has a long history of public service working on congressional legislative policy in Washington, D.C., and on economic development policy in the cities of Seattle and Tacoma.



### **Pat Kohler**

#### **– Administrative Director**

Pat Kohler was appointed as the WSLCB Administrative Director in January 2002. She has more than 27 years of management experience in audit, finance, risk management, procurement, distribution, and retail. At the WSLCB, her responsibilities include overseeing 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.



# 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

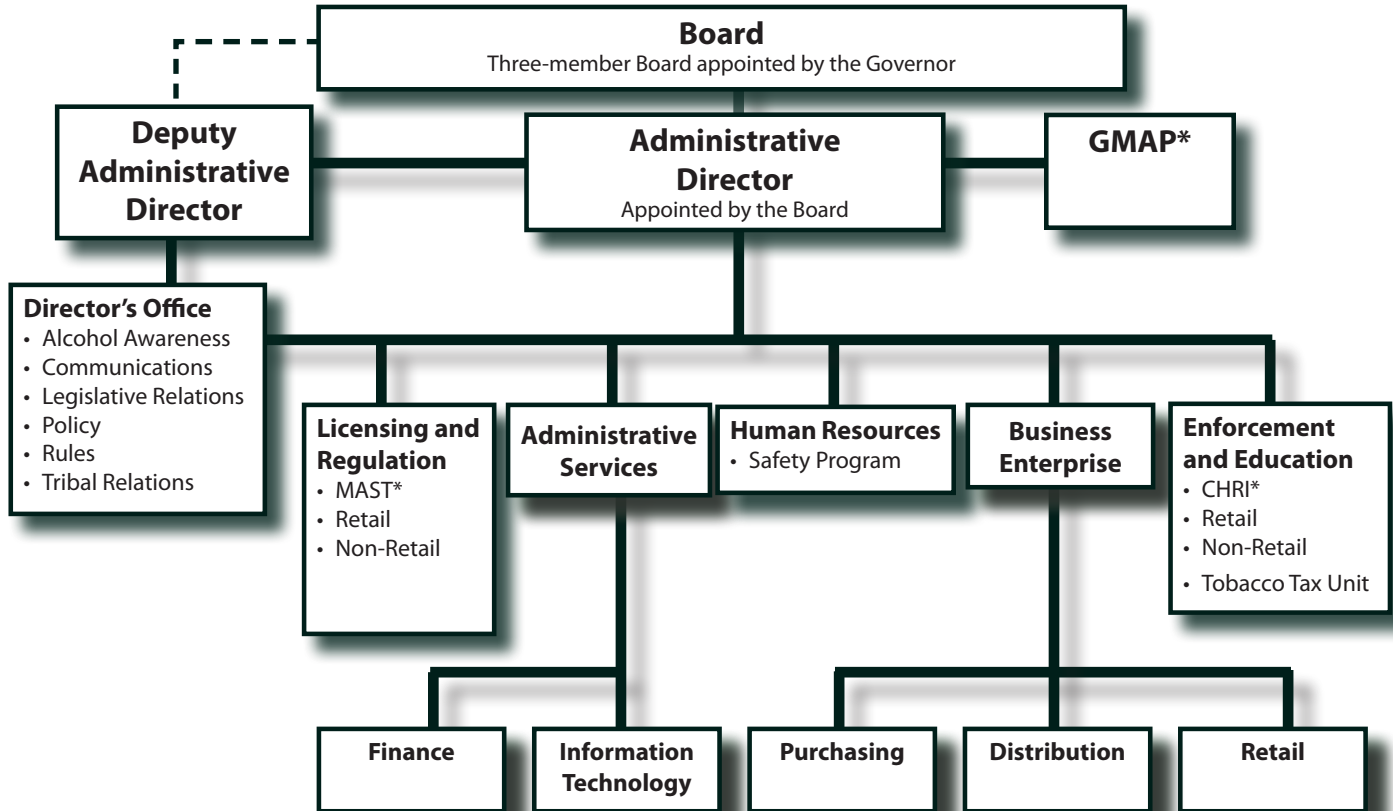
Internal and external accountability

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 \$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

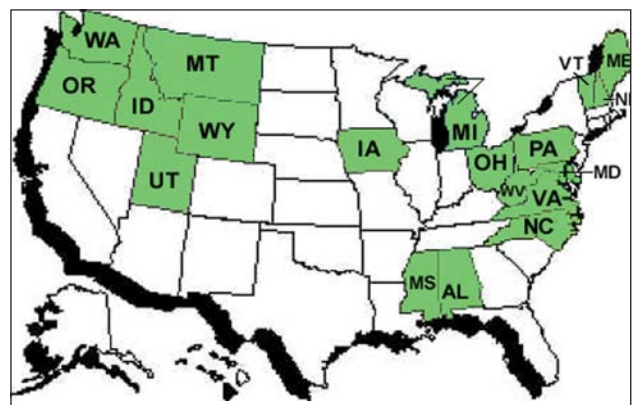
### Benefits of Control Systems

- 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.



## 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.

## Business Enterprise: Purchasing

### Product Selection

Purchasing continually monitors new product developments and key trends to ensure a product selection in liquor stores that balances choice and limited space availability.

Approximately 3,300 products - including spirits, wine and beer - are available to customers via a permanent listing in stores, one-time-only offerings of limited edition or seasonal products, and special order.

To be listed, a product must be considered by the WSLCB new listing committee, which meets monthly to make product recommendations based on sales history, marketing plans, performance trends, etc. Listing recommendations are then approved by the Board.

Restaurants and individuals can place special orders of product by the case through liquor stores, and Purchasing procures the product. Purchasing processes an average of 1,293 special orders each month.

### Product Trends

While overall growth rates slowed in FY 2010, whiskey and vodka, the state's largest categories, continued to show sizable volume growth, and many of the new products approved by the Board supported this trend.

### Product Merchandising

Purchasing ensures that products are arranged



*Approximately 3,300 products are available to customers via permanent listing in stores, one-time-only offerings and special order.*

### Purchasing At-A-Glance

Procured over 3,300 Stock Keeping Units (SKU)
Managed more than 310 suppliers
\$373 million in product purchases
17 team members

on the shelf based on industry standard principles, and works with suppliers to create effective floor displays. Suppliers also create unique displays using materials such as grandfather clocks, sleighs, and more.

### Seasonal Promotions

Purchasing partners with stores on seasonal promotions such as the Summer Spirit Celebration, Washington Wine Month and Spooky Spirits Month. Stores put up decorations and Purchasing brings in unique products relevant to the promotion.

### Supply Management

Purchasing 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.

*Continued on page 8*

# Business Enterprise - Purchasing

## ***Supply Management, continued***

In its fourth year, the scorecard continues to drive supplier performance improvements:

- Increased supplier overall performance by 11 percent
- Maintained a product in-stock rate of greater than 99 percent
- Improved delivery performance of suppliers by 7 percent, reducing late and missed deliveries

## **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.

The WSLCB created the Supplier Social Responsibility Survey in FY 2009 to better understand and encourage suppliers' activities in those areas.

In FY 2010, a pilot of the survey was completed and Purchasing began to use the survey to benchmark best practices, award best-in-class activities, and as a consideration in making business decisions, such as product listings.



*Suppliers create unique displays for liquor stores.*



*The Washington wine industry continues to grow.*

## **Growing Craft Distillery Industry**

The 2008 Legislature created a new craft distillery license that allows license holders to produce up to 20,000 gallons of spirits each year, with at least half of the raw materials used in the production grown in Washington. The 2010 Legislature increased the amount they could produce to 60,000 gallons a year.

At the close of FY 2010, there were 20 licensed craft distilleries in the state. Purchasing works closely with members of the burgeoning industry to carry some of the products - such as whiskey, vodka, and gin - in liquor stores.

## **Stakeholder Relations**

Purchasing works 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. The Washington wine industry continues to grow, with 686 in-state wineries licensed in FY 2010. Washington is the second largest wine producing state in the nation, after California.





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
94 employees
Automated material handling system implemented in 2002
Capacity to receive and ship up to 22,000 cases per day
Supplies liquor for more than 4,500 licensed restaurants
Stocks approximately 3,300 products (permanent listings, one-time-only offerings, special orders)

### 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 DC had been operating beyond its designed capacity of shipping 17,000

cases per day for more than three years.

Final equipment improvements were made in FY 2010, including upgrades to the material handling system and 14 automated carousels that are part of the system.

The equipment improvements and 62,000 square-foot facility expansion have significantly increased the daily shipping capacity.

### Contingency Plan

As part of the agency's Continuity of Operations Plan (COOP), Distribution staff worked with WSLCB Retail and Procurement staff to develop a comprehensive contingency plan to ensure continued service and the ability to get products to stores in the event of long-term interruptions at the automated warehouse. The plan focuses on getting the top 400 items to stores, including ways to pull, store and ship products.

In FY 2011, Distribution will continue to fine tune the plan and consider ways to partner with a third party logistics firm to help the agency expand beyond the top 400 products in the event of an interruption.

### Restructured Management Team

The Distribution Management Team was restructured using lean management principles in FY 2010. This will allow for more effective communication and operational oversight.



A Distribution employee operates a forklift at the Distribution Center.

# Business Enterprise - Retail

## Business Enterprise: Retail

Retail operates 164 state liquor stores in high-population areas and closely regulates the operation of 159 contract liquor stores run by small business owners that serve mostly rural areas.

The division monitors population trends and store performance to ensure adequate liquor store coverage for Washington's 21 and older population. Store locations are selected based on population, demographics, and proximity to other liquor stores.

Designated state and contract liquor stores supply all spirits sold in licensed restaurants in the state. Stores also accept special order requests from restaurants and customers.

Retail At-A-Glance
164 state stores and 159 contract stores
Average state store size: 5,000 square-feet
Average state store annual sales: \$3.95 million
Average state store return to state: \$1.4 million
Average number of employees per state store: 4 (full- and part-time)
Legal sale compliance rate, state stores: 95%
Average contract store annual sales: \$780,705
Average contract store return to state: \$290,867
Legal sale compliance rate, contract stores: 92.3%
Sunday sales in state and contract stores generated \$20.4 million in gross sales

More than 800 full- and part-time clerks, assistant managers and managers operate the state stores. The 12 district managers oversee state and contract liquor stores, and provide technical and merchandising support to 12 tribal and 29 military stores.

Store employees are committed to carrying out the division's "Serving Communities, Selling Responsibly" motto through their customer service efforts, extensive product knowledge and focus on preventing sales to minors and intoxicated customers.



*Store employees focus on selling responsibly and creating a pleasant shopping experience.*

## Revenue Increasing

Revenue returned to the state from liquor sales, taxes, surcharges, fees, markup and other sources has increased in recent years, driven by 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.

## State Population Growth

The total state population increased from 3.6 million in 1975 to 6.73 million in 2010, according to the Office of Financial Management. The 21 and older population is expected to increase to 5.6 million by 2020, up from 4.9 million in 2010.

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.

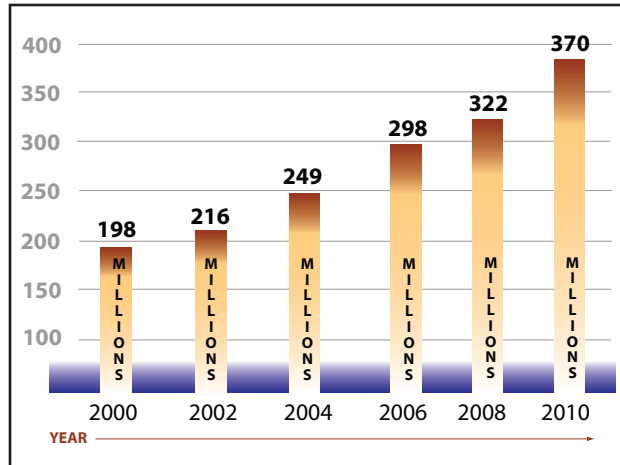
## Compliance Rates

Retail's No. 1 priority is to sell alcohol responsibly and prevent sales to minors and apparently intoxicated persons. To determine no-sales-to-minors compliance rates at liquor stores as well as private businesses, the WSLCB Enforcement Division conducts compliance checks with the assistance of investigative aides ages 18 to 20 who attempt to purchase alcohol using their real ID.

*Continued on Page 11*



## Net Returned to the State/Local Government



### Compliance Rates, continued

Washington liquor stores have among the highest no-sales-to-minors compliance rates in the nation. State liquor stores have a rate of 95 percent, and contract stores have a rate of 92.3 percent. The private sector's compliance rate for beer and wine sales is 76 percent.

### Revenue Generating Projects

The 2009-11 operating budget directed the WSLCB to undertake several revenue generating projects over the course of the biennium. The projects are expected to generate \$11 million in net revenue over the biennium.

*New stores:* In FY 2010, the WSLCB opened three new state stores and five new contract stores. The WSLCB is on track to open two more state stores and five more contract stores, as directed.

*Holiday hours:* Most state liquor stores are now open on New Year's Day, Martin Luther King Jr. Day, Presidents Day, Memorial Day, Independence Day, Labor Day, and Veterans Day. Contract stores set their own holiday hours.

*Holiday mall stores:* The agency opened holiday mall stores at malls in Seattle, Lynnwood, Federal Way and Bellingham in November and December 2009. The project generated \$746,731 in gross sales, and a net return to the state of \$150,869. Due to the small return on investment and the short holiday season, the Board decided against opening holiday mall stores in FY 2011.

*Sunday sales:* An additional nine state stores were opened on Sundays in FY 2010, bringing the total to 58 state stores. Three of the state stores are open Sundays seasonally. In addition to the state stores, an average of 42 contract stores are open on Sundays. In FY 2010, Sunday sales at state and contract stores generated \$20.4 million in gross sales. State stores generated \$19.2 million, while contract stores generated \$1.2 million.

*Lottery additions:* The WSLCB partners with Washington Lottery's to offer Lottery games in liquor stores. In FY 2010, Washington's Lottery installed new Lottery displays at liquor store counters, and began to offer two online games called Powerball and Mega Millions in stores.

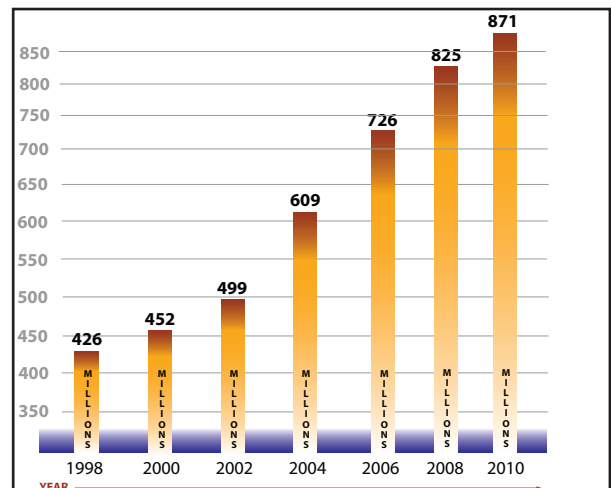
### POS Equipment Upgrade

Working closely with Finance and Information Technology Services staff, Retail finished an upgrade to "Point of Sale" (POS) equipment with new hardware and additional software. The upgrade brings the equipment into PCI (Payment Card Industry) compliance in order to address nationwide financial security protocols.

### Contingency Planning

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

## 104% Gross Sales Increase 1998-2010



## Licensing and Regulation Division

The Licensing and Regulation Division issues liquor licenses and permits for 16,501 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 2010, 40,202 MAST permits were issued to liquor servers
- Approved 3,932 non-profit organization Special Occasion license applications in FY 2010



*The Board approved a mandatory Alcohol Impact Area in Spokane's downtown core.*

- Processed 3,876 license applications in FY 2010

Fiscal Year	2004	2005	2006	2007	2008	2009	2010
<b>Licensees (total)</b>	<b>13,530</b>	<b>14,264</b>	<b>14,604</b>	<b>15,477</b>	<b>15,444</b>	<b>15,838</b>	<b>16,501</b>

Retail Licensees	2004	2005	2006	2007	2008	2009	2010
<b>Grocery Stores</b>	4,699	4,814	4,909	4,957	5,026	5,041	5,275
<b>Nightclubs, Spirits/Beer/Wine Restaurants, Clubs, Sports/ Entertainment Facilities</b>	4,104	4,276	4,439	4,617	4,683	4,676	4,745
<b>Beer &amp; Wine Restaurants</b>	2,506	2,602	2,633	2,859	2,764	2,726	2,825
<b>Taverns</b>	580	396	342	300	243	225	219
<b>Bed &amp; Breakfast, Serve Employees &amp; Guests, Non-Profit Arts Organization, Hotels, Motels</b>	232	243	327	273	209	372	386

Non-Retail Licensees	2004	2005	2006	2007	2008	2009	2010
<b>Wineries</b>	360	353	437	515	562	620	686
<b>Breweries</b>	86	84	81	100	102	115	127
<b>Distributors and Importers</b>	253	183	186	204	183	205	224
<b>Certificate of Approval, Out-of-State Breweries and Wineries</b>	766	960	1,192	1,339	1,230	1,305	1,388
<b>Bonded Wine Warehouses, Distilleries, Craft Distilleries, Liquor Manufacturers, Wine Growers, Interstate Common Carrier, Ships Chandler, Wine Shippers</b>	61	110	110	313	442	553	626

<b>Applications Processed</b>	<b>3,911</b>	<b>4,336</b>	<b>4,613</b>	<b>5,038</b>	<b>4,907</b>	<b>3,346</b>	<b>3,876</b>
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# Licensing and Regulation

## **Spokane Alcohol Impact Area Approved**

In FY 2010, the Board approved the city of Spokane's request for a mandatory Alcohol Impact Area in the downtown core. The city had created a voluntary Alcohol Impact Area in 2007, the first step for communities considering asking for a mandatory Alcohol Impact Area.

The cities of Seattle and Tacoma also operate mandatory Alcohol Impact Areas within their local jurisdictions. The city of Vancouver has successfully maintained 100 percent retailer compliance since it implemented a voluntary Alcohol Impact Area in 2007.

### *About 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, such as banning the off-premises sale of high-alcohol-content, low-cost products that are proven to be linked to chronic public inebriation within the Alcohol Impact Area boundaries.

## **Alcohol Impact Area Rule Revisions**

The Board adopted new rules in FY 2010 regarding Alcohol Impact Areas. Changes include adding an annual reporting requirement for local government subdivisions, adding new types of evidence that can be used when demonstrating a pervasive pattern of chronic public inebriation, and clarifying the process to add additional products to an Alcohol Impact Area's banned product list.

## **New Grocery Store Tasting Endorsement**

The 2010 Legislature created a new

endorsement that allows grocery stores with retail space of over 9,000 square-feet to offer beer and wine tastings. The endorsement was available starting June 10, 2010. Licensing employees led implementation of the new law, including creation of a Board interim policy and licensee and stakeholder communications.

The legislation follows a yearlong pilot directed by the Legislature during the 2008 Legislative Session that allowed beer and wine tastings in 28 grocery stores. The WSLCB provided guidance and oversight for the pilot, which ran from Oct. 1, 2008 to Sept. 30, 2009. The Enforcement and Education Division submitted a report on the pilot to the Legislature in December 2009.

## **Tribal Workgroup Outcomes**

The WSLCB and 14 tribes created a Tribal Workgroup to address areas of mutual concern, such as the WSLCB liquor licensing process and requirements. Representatives met throughout FY 2009 and FY 2010 to develop government-to-government policy that will determine how these matters will be addressed.

In FY 2010, a Memorandum of Agreement template was created that can be used to address the shared regulation of liquor sales and service. Also, a Tribal Advisory Council was created, and will meet twice a year.

## **Online MAST Programs Authorized**

The Board adopted rules in FY 2010 to allow online Mandatory Alcohol Server Training (MAST) programs starting in December 2010. The WSLCB delayed implementation of the rules to allow MAST providers time to create new programs. This alternative training method will offer convenience and accommodate diverse learning styles.

## **Revised Website and Materials**

The division completed an overhaul of its section of the WSLCB website in FY 2010 to enhance customer service and update content. In FY 2011, the division will continue to revise all licensing documents, forms, and letters to ensure clarity and consistency.

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

### Retail Enforcement

Retail Enforcement strives to protect and serve the public by ensuring legal sales and the responsible use of alcohol and tobacco at retail businesses.

Officers have arrest powers and 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.

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.

### FY 2010 Key Enforcement Activities

112,000 officer contacts
34,824 liquor premises checks
13,907 tobacco premises checks
1,548 complaint investigations
4,938 technical assistance visits
1,674 liquor compliance checks
3,070 tobacco compliance checks
3,672 violations issued
997 responsible sales training classes
1,891 public notice postings

Officers support the liquor licensing process by posting public notices, handling liquor law briefings, and conducting final inspections of businesses prior to liquor license approval.

### Tobacco Tax Unit

The Tobacco Tax Unit was created in 1997 to enforce the tobacco tax laws of Washington State. The 10 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 unit also maintains state and federal partnerships, educates wholesalers, distributors and retail licensees on tobacco laws, and works with Native American tribes on areas of mutual concern.

The unit continues to conduct retail/wholesale tobacco inspections leading to the identification of unpaid taxes on other tobacco products.

## Regional Retail Enforcement Offices

### Region 1 – Southwest Washington

Regional Office: Tacoma

3,802 Licensees / 14 Enforcement Officers

### Region 2 – King County

Regional Office: Tukwila

4,537 Licensees / 15 Enforcement Officers

### Region 3 – Northwest Washington

Regional Office: Mount Vernon

2,228 Licensees / 8 Enforcement Officers

### Region 4 – Central and Eastern Washington

Regional Office: Spokane

2,883 Licensees / 12 Enforcement Officers



## Enforcement and Education



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

Three major cases involving the sale of untaxed cigarettes investigated by the unit and the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) were settled in FY 2010, and approximately \$55 million in restitution was awarded to Washington State.

### **Non-Retail Enforcement**

The six 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.

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.

Non-Retail Enforcement increased its educational outreach efforts to stakeholders and licensees in FY 2010, and launched a new section on the WSLCB website with frequently asked questions for different license types and access to monthly *MIW Bulletin* newsletters, which feature information about recent and proposed rule changes and new legislation.

### **Electronic Notebook Fully Operational**

In FY 2010, officers began using the Electronic Notebook in the field. This database allows officers to track enforcement actions and access up-to-date information about each licensee via their laptops.

### **Field Office Closures**

The Wenatchee, Vancouver, Bremerton and Everett field offices were closed in FY 2010 to help cover a \$3.8 million budget gap that emerged when the 2009-11 operating budget removed the General Fund allocation for the Tobacco Tax Unit. The Electronic Notebook - with its direct link to central systems - enabled the affected officers to be more mobile when working in the field.

### **Distribution Center and Store Security**

In FY 2010, the seven WSLCB security officers who monitor and provide 24-hour security for the Distribution Center and liquor stores joined the Enforcement and Education Division.

### **Centralized Customer Services**

The division created a customer service email address and phone number at WSLCB headquarters to handle inquiries from the public. Popular online services were added, such as keg book ordering, or improved, such as a form to report violations and online liquor law briefings for retail licensees.

### **FY 2010 Staffing Chart**

111	Staff
1	Chief
1	Deputy Chief
6	Captains
14	Lieutenants
65	Officers
1	Hearing Officer
1	Business Management Analyst
1	Professional Standards Officer
1	Program Manager
1	Criminal Records Coordinator
8	Support Staff
3	Investigative Aides
1	Advertising Coordinator
1	DC/Store Security Supervisor
6	DC/Store Security Guards

# Divisional Marks of Excellence

## Business Enterprise - Purchasing

- Maintain the right product selection
- Create pleasant shopping environment
- Process special orders for products not generally carried in stores
- Build and maintain store fixtures, back room areas and check stands
- Partner with industry suppliers and stakeholders

Implemented a WSLCB policy that prohibits any marketing or promotional material in state liquor stores that encourages customers to mix alcohol and energy drinks

Reopened, relocated and/or remodeled 12 stores and opened four holiday mall stores

Implemented the Supplier Social Responsibility Survey to encourage and measure suppliers' social responsibility efforts

## Business Enterprise - Distribution

- 220,000 square-foot warehouse in Seattle
- Supply product to state and contract stores
- Handle more than five million cases annually
- Capacity to receive and ship 22,000 cases per day
- Meet demands in high-volume periods
- Maintain workplace safety emphasis
- Ensure supplier and carrier accountability
- Maintain control over 3,300 products

Developed a contingency plan in the event of long-term interruptions to operations to ensure continued service and the ability to go to market with top products

Restructured the Distribution Management Team to allow for more effective communication and operational oversight

Completed equipment improvements to the material handling system and 14 automated carousels

## 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 stores had a no-sales-to-minors compliance rate of 95 percent, and contract stores had a 92.3 percent rate

Implemented revenue-generating projects, including expanding Sunday sales, opening new stores, opening most state stores on seven holidays, and opening four holiday mall stores

Finished an upgrade to store "Point of Sale" (POS) equipment, bringing it into PCI (Payment Card Industry) compliance in order to address nationwide financial security protocols

# Divisional Marks of Excellence

## Licensing and Regulation

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

Created a Memorandum of Agreement template via the Tribal Workgroup that can be used to address the shared regulation of liquor sales and service

Developed rules to allow online Mandatory Alcohol Server Training programs starting December 2010

Implemented new legislation, including a new beer and wine tasting endorsement for grocery stores and increased production limits for craft distilleries

## Human Resources

- Employee safety
- Recruitment and retention
- Labor and employee relations
- Employee development
- Performance management
- Health and wellness

Redefined recruitment/promotional strategies within the Enforcement Division by emphasizing internal candidate development and selection/development processes

Expanded the safety, health and wellness program to include onsite activities, such as health fairs, weight management programs, exercise classes, and massage

Redeveloped the performance development course, in partnership with the Department of Personnel, with an emphasis on personal/professional development and the needs of the agency's retail environment

Redeveloped the Retail Safety Audit for launch in 2011 and developed and deployed back safety and proper lifting training that has shown a decrease in employee injuries of 15 percent since 2009

## Enforcement and Education

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

Successfully closed four field offices in response to budget cuts

Expanded customer service at Enforcement headquarters and enhanced online services

Incorporated the new Electronic Notebook into field work, allowing officers to upload enforcement actions quickly and securely and provide more officer mobility

# 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

Participated in a Tribal Workgroup with 14 tribes to address areas of mutual concern and develop government-to-government policy about topics such as the liquor licensing process and store siting

Created advertisements encouraging parents to talk to their teens about alcohol that ran in 20 Washington Interscholastic Activities Association sports programs, reaching thousands of parents

Drafted new alcohol advertising rules that restrict the size and location of alcohol advertising at licensed businesses, taking into account 400 comments

## 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 resources

Realized agency strategic objectives by delivering prioritized technical services

Decreased technology costs by open procurement to obtain appropriate vendor services at the best price

Continued implementation and process improvements through best practices for enterprise architecture and technology operations

## Admin. Services - Financial

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

Implemented best practices in risk management that reduced agency self insurance premiums by \$201,870, for a total reduction of \$508,043 in the past six years

Reduced paper use and warrant charges by implementing a paperless earnings statement and leave slip program and achieving 89 percent Electronic Funds Transfer paycheck dispersal

Increased the number of registered wineries, breweries and Washington retailers filing taxes and making tax payments online from 20 percent to 50 percent, reducing the amount of manual work required on the 3,400 reports processed monthly

Set parameters for a new program that will promote safety at new and remodeled stores by identifying environmental elements that could pose a safety risk, such as bushes blocking the line of sight into a store



## Income and Expenses FY 2010\*

\*Figures rounded to the nearest thousand

### Income

Gross Liquor Sales	\$ 870.77 million
Beer Taxes	\$ 36.83 million
Wine Taxes	\$ 22.53 million
License Fees	\$ 12.68 million
Other*	\$ 1.99 million
<b>Total Income</b>	<b>\$ 944.81 million</b>

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

### Expenses/Distributions

#### Product Expenses

Cost of Goods Sold	\$ 387.99 million
Product Discounts	\$ 67.29 million

<b>Total Product Expenses</b>	<b>\$ 455.28 million</b>
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#### Operating Expenses

Retail/Purchasing/DC	\$ 86.61 million
Licensing/Enforcement	\$ 11.11 million
General	\$ 21.13 million
Operating Reserve	\$ 0.39 million

<b>Total Operating Expenses</b>	<b>\$ 119.24 million</b>
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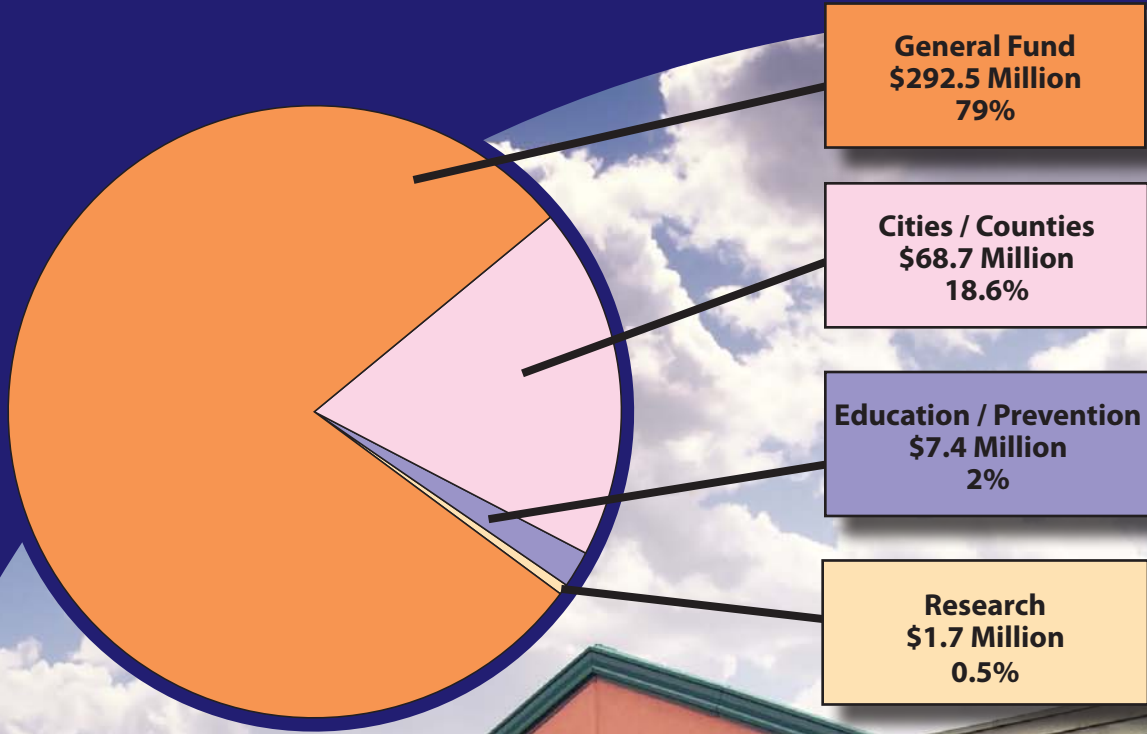
#### Distributions

Returned to the State/Local Government	\$ 370.28 million
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<b>Total Expenses/Distributions</b>	<b>\$ 944.81 million</b>
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# Revenue Distribution Chart

\*Figures rounded to the nearest thousand

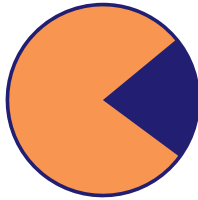


**LIQUOR & WINE**

**\$370.3 Million  
returned in  
FY 2010**

# Revenue Distribution

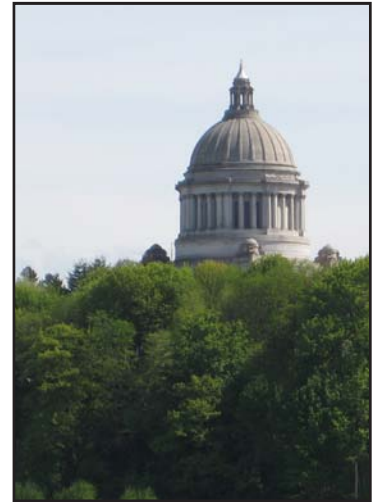
## General Fund



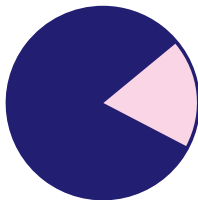
**79%**  
\$292.5 million

Money sent to the state General Fund is used to provide much-needed additional resources for education and other critical state services.

In the next decade, the WSLCB will send approximately \$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 and markup increases in recent years have been used to prevent program reductions and budget cuts.



## Cities, Counties



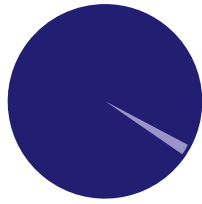
**18.6%**  
\$68.7 million

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.



## Education, Prevention

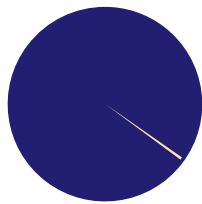


**2%**  
\$7.4 million

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.



## 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 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 2010, 686 wineries were licensed in Washington state.



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

Washington Wine Commission	\$ 232,303
UW Alcohol and Drug Abuse Institute	\$ 477,732
WSU Alcohol and Drug Abuse Research	\$ 318,488
WSU Wine and Grape Research	\$ 235,456
Alcohol Awareness Program (SPI)	\$ 150,000
Washington State Patrol State Toxicology Program	\$ 150,000
Youth Tobacco Prevention	\$ 108,079



# Where Your Liquor Dollars Go...

In Fiscal Year 2010, liquor sales generated \$370.3 million to fund essential state and local services.

## Components of a Bottle

**Price at Register**  
**\$15.95**

FY 2010 Retail Bottle Cost  
(Average 750 ml)

\$2.23 State Sales Tax  
\$2.83 State Liter Tax

**State Tax**  
**\$5.06**

**32%**

Includes liter and sales taxes

\$4.49 General Fund  
\$0.57 Counties and Cities  
(through General Fund)

\$4.11 Markup  
\$0.13 Distribution Center Surcharge  
\$0.15 Board Revenue Surcharge

**Markup**  
**\$4.39**

**28%**

Includes surcharges

\$2.63 LCB Operations  
\$0.52 Cities  
\$0.14 Counties  
\$0.00 Border  
\$0.94 General Fund  
\$0.03 Municipal Research Council  
\$0.13 DC Debt Reduction (COP)

\$4.24 Bottle Cost  
\$2.14 Federal Tax  
\$0.12 Outbound Freight\*

**Standard Bottle Cost**  
**\$6.50**

**41%**

Includes delivery cost

\$4.24 Supplier  
\$2.14 Federal Government  
\$0.12 Freight Carrier

*\*Based on per case charge for freight regardless of where product is delivered. Carriers are paid based on the weight and distance of the load.*

## 2010 Liquor Related Legislation

### SHB 6329 Beer and Wine Tasting in Grocery Stores

*Background:* In advance of the legislation, the 2008 Legislature authorized the WSLCB to establish a pilot program to allow beer and wine tastings in 30 grocery stores. The pilot program ended Sept. 30, 2009. The subsequent report to the Legislature noted no significant problems.

SHB 6329 creates a beer and wine tasting endorsement that grocery stores may apply for in order to offer beer and wine tastings. The annual fee for the endorsement is \$200.

### SSB 6485 Modifying Craft Distillery Provisions

*Background:* In 2008, the Legislature enacted SHB 2959, creating a craft distillery license. SSB 6485 modifies the existing law as follows:

- Increases the amount of spirits a craft distillery can produce from 20,000 gallons to 60,000 gallons
- Allows a craft distillery to contract distilled spirits for, and sell contract distilled spirits to, holders of distillery licenses, manufacturer's licenses, and grower's licenses under RCW 66.24.520
- The holder of a grower's license may contract for the manufacturing of spirits from grower's own agricultural products and sell the spirits in bulk to a licensed winery, distillery, or export them out-of-state
- Domestic distillers, or an accredited representative of a distiller, may pour or dispense spirits for a special occasion license

## Improving Agency Performance

In 2008, the agency conducted an independent assessment of the organization through the Washington State Quality Award (WSQA) under principles known as the Malcolm Baldrige Criteria. A feedback report was generated that identified several agency strengths and areas for improvement.

During the past year, the agency has continued its focus to improve in the following areas:

- **Clear Targets/Attainment of Results.** The WSLCB held monthly reviews of performance results for several key work activities in leadership sessions that focused on clear data and trends, root-cause analysis, and benchmarking to similar business organizations.
- **Response to Customer Feedback.** The Business Enterprise implemented a revised customer feedback program for store customers. The revised program allows for improved handling and response to customer questions and concerns. The Licensing Division conducted the first of several periodic surveys of new licensees to gather feedback on liquor license application processing.
- **Workforce Engagement.** The agency implemented its second annual employee recognition program previously re-created to increase employee involvement. Over 200 nominations were submitted for a variety of recognition categories, twice the number of its inaugural year.

An additional 27 improvement areas have been identified across all major divisions, with completed work plans for 14 and significant progress made in 11. These improvement activities focused in areas including organizational leadership, strategic planning, customer service, workforce, process improvement and measuring and analyzing results.

The WSLCB is committed to a path of continuous quality improvement and will participate in both self and independent organizational assessments in the future.



# 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)**