

**OFFICE OF THE
WASHINGTON STATE LIQUOR CONTROL BOARD
Board Meeting /March 22, 2006**

The regular meeting of the Washington State Liquor Control Board was called to order at 10:00 a.m., on Wednesday, March 22, 2006 in the Board conference room, 3000 Pacific Avenue S.E., Olympia, Washington, by Acting Chairman Roger Hoen. Board Member Vera Ing was present. Tony Kim, Administrative Assistant to the Board summarized the minutes.

Personnel Division – Recognition

Barb Vane, Director

Brian Wise, Safety Officer was presented a longevity award by Barbara Vane recognized for his 10 years of service with the State.

Retail Services Division – Lease Extension, Store No. 014, Port Angeles

Suzanne Lewis, Store Leasing Manager

The lease for Store No. 014, located at 122 East 5th Street, Port Angeles WA, expired on September 30, 2005 and has been on a month-to-month extension since then. Due to continued high sales, staff is pursuing a larger, more visible site for this store.

The Lessor, Vern Peters of Peters Development, has agreed to a two (2) year extension of our current lease, effective March 1, 2006. During this extension period, the rental rate will be \$3,625.50 per month, or \$8.70 per square foot per year, a 12% increase. The lease extension may be terminated by either party with a six (6) month written notice from the first of the month following. All other terms and conditions of the current lease shall remain the same.

We currently pay \$3,237.00 per month, or \$7.77 per square foot per year, for a 5,000 square foot space. Gross sales for FY 2005 were \$3,737,006 with Class H Sales at 20%.

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

Retail Services Division – Lease Extension, Store No. 044, Spokane-Ridpath

Suzanne Lewis, Store Leasing Manager

The lease for Store No. 044, located in the Ridpath Hotel at West 505 Sprague Avenue, Spokane WA, expired on March 31, 2005 and was extended for one year

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to March 31, 2006. The Board recently approved a relocation of this store but, due to construction delays, the building will not be ready until mid-summer 2006.

The Lessor, Red Lion Hotels Limited Partnership, has agreed to a further six (6) month extension of our current lease, effective April 1, 2006. During this extension period, the rental rate will be \$4,836.00 per month, or \$12.91 per square foot per year, a 4% increase. All other terms and conditions of the current lease shall remain the same.

We currently pay \$4,650.00 per month, or \$12.41 per square foot per year, for a 4,495 square foot space. Gross sales for FY 2005 were \$2,394,248 with Class H Sales at 71%.

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

Retail Services Division – Lease Extension, Store No. 077, Seattle-Queen Anne
Suzanne Lewis, Store Leasing Manager

The lease for Store No. 077, located at 515 First Avenue North, Seattle, WA expired on February 28, 2006.

The Lessor, Vance Clipson, represented by David Harrison of Harrison, Berkman & Claypool PLLC, has agreed to a sixty (60) day extension of our current lease, effective March 1, 2006, pending negotiation of a new long-term lease. All other terms and conditions of the current lease shall remain the same.

We currently pay \$6,840.00 per month, or \$14.75 per square foot per year, for a 5,564 square foot space. Gross sales for FY 2005 were \$7,005,849 with Class H Sales at 48.3%.

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

Retail Services Division – Lease Extension, Store No. 154, Puyallup-Summit Canyon
Suzanne Lewis, Store Leasing Manager

The lease for Store No. 154, located at 10417 Canyon Road East, Puyallup WA, expired on February 28, 2005 and was extended for one year through February 28, 2006. Due to a 42% increase in gross sales during the 3 year period of FY2001 through FY 2004, the store is badly in need of additional space. So far, a suitable site has not been available. Staff continues to seek a long-term solution.

The Lessor, Roger Miller of Summit Development Co. Puyallup LLC, has agreed

to an additional eighteen (18) month extension of our current lease, effective March 1, 2006. During this extension period, the rental rate will be \$5,000.00 per month, or \$14.68 per square foot per year, an 11% increase. The lease extension can be terminated by either party with a ninety (90) day written notice from the first of the month following. All other terms and conditions of the current lease shall remain the same.

We currently pay \$4,500.00 per month, or \$13.21 per square foot per year, for a 4,088 square foot space. Gross sales for FY 2005 were \$3,028,025 with Class H Sales at 18.7%.

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

Retail Services Division – Lease Renewal, Store No. 066, Kent-Panther Lake
Suzanne Lewis, Store Leasing Manager

The lease for Store No. 066, located in Panther Lake Shopping Center at 20514 – 108th Avenue SE, Kent, expired on December 31, 2005 and has been on a month-to-month extension since then.

BACKGROUND

Store #066 was opened as a new store in the Panther Lake Shopping Center in December 1996 when the assets of former Store #049 in Tacoma were transferred to this area. The area was growing rapidly and the closest liquor stores (#158 and #102) were nearly 8 miles apart. The store has shown solid, steady growth over the last 10 years. Panther Lake Shopping Center is anchored by Albertson's and includes RiteAid, Blockbuster Video, Subway and many other neighborhood services.

PROPOSAL

The Lessor, Paul Roggenkamp, Property Manager, Washington Properties for Pan Pacific Retail Properties, Inc., has proposed a ten (10) year lease renewal in our current 4,130 square foot space. The new rental rate will be \$5,250.00 per month, or \$15.00 per square foot per year, during the first 5 years, and \$6,650.00 per month, or \$19.00 per square foot per year, during the second 5 years, effective January 1, 2006.

The lease may be terminated by either party with a six (6) month written notice from the first of the month following.

The Lessor has agreed to all requested repairs and improvements, including new energy-efficient light fixtures and new flooring as well as additional repairs and improvements. He has also agreed to the provisions of Appendix A, "Areas of Responsibility".

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. 066 is as follows:

	<u>Retail Sales</u>	<u>Class H Sales</u>	<u>Gross Sales</u>
FY2005	\$2,287,661	\$657,865	\$2,945,526
FY2004	\$2,157,110	\$588,107	\$2,745,216
FY2003	\$2,011,055	\$510,883	\$2,521,938

Sales/sq ft: FY05 = \$713 (average for all state liquor stores was \$677 for FY05)
 NOTE: Retail sales increased another 6% in 2005 and have averaged a 6.3% increase over the last 3 years. Due to growth in the area, sales are anticipated to continue this growth pattern.

Profitability: FY05 = 13.05% while the average profit for all state stores was 11.02%.
 NOTE: Lease renewal = 12.7% without any sales increase.

ADDITIONAL DATA:

Comparable lease rates in area:

- #082 Kent-Midway Crossing – 4,200 sq ft @ \$6,912.50/mo, or \$19.75/sq ft/yr, in Yrs 1-3
 (lease renewed in 2003) \$7,612.50/mo, or \$21.75/sq ft/yr, in Yrs 4-6
 \$8,312.50/mo, or \$23.75/sq ft/yr, in Yrs 7-10
- #102 Kent-East Hill – 5,523 sq ft @ \$7,138.88/mo, or \$15.51/sq ft/yr, in Yrs 1-5
 (lease renewed in 2003) \$7,824.25/mo, or \$17.00/sq ft/yr, in Yrs 6-10

NOTE: Store #082 is in a formerly grocery-anchored center (QFC), along with Kinko’s, Blockbuster, Subway and many other neighborhood services at an extremely busy intersection of Highway 99 and Kent-Des Moines Road. Store #102 is located in a center anchored by Walgreen’s and includes Block Buster Video, Rodda Decorating Center and many other local and national retailers.

SUMMARY

Summary of the lease renewal for Store #066:

<u>Current Rent</u>	<u>Proposed Rent</u>	<u>Change</u>
\$4,302.00	\$5,250.00 Yrs 1-5	+22%
\$12.50/sq ft/yr	\$15.00/sq ft/yr	
	\$6,650.00 Yrs 6-10	+26.7 %
	\$19.00/sqft/yr	

Ms. Lewis recommended approval of this lease renewal for Store #066, Kent, Panther Lake.

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

Retail Services Division – Lease Proposal, Store No. 021, Ellensburg
Suzanne Lewis, Store Leasing Manager

The lease for Store No. 021, located at 203 West 7th Street, Ellensburg, expired on February 28, 2006 and has been extended for one year to February 28, 2007.

BACKGROUND

Store #021 has been in its current location at 203 West 7th Street since July 1975. The liquor store shares the building with a law firm and is just off Main Street, several blocks from the main retail area. The store does not have good visibility nor adequate parking and is located approximately 4 blocks from Central Washington University.

The proposed location is across the street from Super One Foods to the south and Rite Aid to the west. The new store will be very visible from Main Street and is well located between downtown and the motels along I-90 that host many conferences and tourists. A tall pole sign is currently located on the property. The floor plan will be similar to Store 185 in Spokane and Store 18 in Mount Vernon, featuring the “door to floor” design with the office angled in a corner of the lobby. This will allow use of new, more attractive floor displays to appeal to our customers.

PROPOSAL – 101 East Mountainview Avenue, Ellensburg

The Lessor, Bill Moultray, has proposed a ten (10) year lease in a new 5,184 square foot space. The new rental rate will be \$9,504.00 per month, or \$22.00 per square foot per year, during Years 1-3, \$10,368.00 per month, or \$24.00 per square foot per year, during Years 4-6 and \$10,800.00 per month, or \$25.00 per square foot per year, during Years 7-10. It is anticipated that the new building will be ready by late Fall 2006.

The Lease may not be terminated during the initial eight (8) years of the lease term, except pursuant to Paragraph 2, if applicable, (privatization) 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 9 and 10, the lease may be terminated by either party with a six (6) month written notice from the first of the month following.

The Lease may, at the option of the Board, be renewed for one (1) consecutive ten (10) year term, with rent to be negotiated at the time the option is exercised.

The Lessor has agreed to construct or remodel the premises per the Board’s “General Specifications for Self-Service Stores” (Revised 10/02), 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. 021 is as follows:

	<u>Retail Sales</u>	<u>Class H Sales</u>	<u>Gross Sales</u>
FY2005	\$2,202,517	\$681,893	\$2,884,410
FY2004	\$2,037,131	\$628,909	\$2,666,040
FY2003	\$1,799,399	\$640,678	\$2,440,077

Sales/sq ft: FY05 = \$707 (average for all state liquor stores was \$677 for FY05)
 NOTE: Retail sales have increased an average of 9.7% over the last 3 years and are anticipated to continue that rate of growth. Licensee sales account for just over 23% of gross sales.

Profitability: FY05 = 13.5% while the average profit for all state stores was 11.02%.

NOTE: This profitability figure is based on the former rent of \$3,100.00 per month for a 4,079 square foot space. Rent for the 1 year extension period is \$3,800.00, so the profit figure is 13.2%, based on FY2005 sales. Profitability becomes 10.8% with the relocation, again based on FY2005 sales.

ADDITIONAL DATA:

Comparable lease rates in the general area:

- #165 Yakima-North – 5,616 sq ft @ \$9,360.00/mo, or \$20.00/sq ft/yr, in Yrs 1-3
 \$10,296.00/mo, or \$22.00/sq ft/yr, in Yrs 4-6
 \$11,232.00/mo, or \$24.00/sq ft/yr, in Yrs 7-10
- #070 Moses Lake – 4,800 sq ft @ \$7,312.40/mo, or \$18.28/sq ft/yr, in Yrs 1-5
 \$8,112.40/mo, or \$20.28/sq ft/yr, in Yrs 6-10

NOTE: Store #165 is new construction in a grocery-anchored center (Thriftway), along with US Bank and several neighborhood services. The new store will not open until summer 2006. Store #070 was relocated to a grocery-anchored center in front of WalMart in April 2004.

SUMMARY

Summary of the lease proposals for Store #021:

<u>Current Rent</u>	<u>Proposed Rent</u>	<u>Change</u>
4,079 sq ft	5,184 sq ft	27% larger
\$3,800.00/month	\$9,504.00 Yrs 1-3	+150% (rent \$)
\$11.18/sq ft/yr	\$22.00/sq ft/yr	+ 97% (\$/sq ft)
	\$10,368.00 Yrs 4-7	+9%
	\$24.00/sq ft/yr	
	\$10,800.00 Yrs 8-10	+4%
	\$25.00/sq ft/yr	

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Ms. Lewis recommended approval of Lease Proposal for Store #021 at 101 East Mountainview Avenue, Ellensburg.

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

Retail Services Division – Lease Proposal, Store No. 051, Spokane-Hillyard
Suzanne Lewis, Store Leasing Manager

The lease for Store No. 051, located at 4725 North Market Street, Spokane, expired on October 31, 2005. Lessor has agreed to a one year lease extension with a rent increase to \$13.00 per square foot per year.

BACKGROUND

Store #051 has been in its current location since May 1968. Although the building was expanded by more than 2,000 square feet in 1980, the building is quite old and sits back from the one-way north arterial. There is a small pole sign at the corner of the property. In order to bring the building up to current store standards, the staff estimates that the work required would cost nearly \$400,000. This would include a new HVAC system, new energy-efficient lighting and storefront, additional windows, relocation and upgrade of restrooms for ADA, new floor, demolition of building currently blocking visibility, reworking of parking lot to eliminate sinkhole and install new landscaping, new dryvit on building exterior, additional exterior lighting, etc. Based on recent discussion with our landlord, staff anticipates that the new rent in the current location would be at least \$20.00+ per square foot to cover this investment.

There are plans underway to revitalize the Hillyard area, beginning with the newly designated “Hillyard Historic District”, 2 to 3 blocks north of the current liquor store. The liquor store is currently surrounded by light industrial and unappealing retail businesses which the community action groups are attempting to upgrade to primarily family-oriented businesses. The existing building backs up to a residential area and now has a church directly across the side alley. A major north-south highway bypass project is currently underway by the Washington State DOT. There is a planned interchange that will exit onto Wellesley Avenue, approximately ½ block south of Store #051, which is not on a direct path to the current location. This bypass highway will not be completed until at least 2010.

Many neighborhood groups have been contacted for their opinions about a possible move of the liquor store. Due to their revitalization efforts, the majority seems to feel that moving the liquor store to the shopping center makes good sense and will free up a building closer to the historic downtown area for new family-oriented businesses they are trying to attract. Groups and individuals contacted include Melissa Wittstruck, City Planner working with the Hillyard

groups, the Historic Hillyard Partnership, Hillyard Steering Committee, Hillyard Kiwanis and City Councilman Bob Apple. Of this group, only Mr. Apple has lodged an objection as he does not see the neighborhood evolving and there are at least 6 licensee businesses close to the current liquor store that purchase their liquor there. The liquor store manager has also expressed some concerns about the move. The Superintendent of Spokane Schools has withdrawn his letter of protest as the proposed site is more than 500 feet from a school property. All of the other neighborhood contacts felt that the shopping center was the best location for the liquor store. Their comments are summarized under Tab G.

A proposal has been received for space in a new building to be constructed at Hillyard Marketplace shopping center, the only grocery-anchored center in the Hillyard area. The center is approximately 4 years old and is anchored by a very successful Safeway and includes Blockbuster Video, Subway, Great Clips, The UPS Store, Jack-in-the-Box, Taco Bell, and several other local and national retailers. Safeway management has indicated that they are extremely pleased with the performance of this store and their customers' reaction to it. They do plan to remodel the store about mid-2006.

Market Street becomes a one-way northbound street near the north end of Hillyard Marketplace. The one-way southbound Haven Street will head directly toward the north end of the building housing the liquor store. A bank is planned for the north end of the building but the landlord intends to include a liquor store sign for southbound traffic. There will also be a lighted sign on the front of the space, along with lighted signage on the main shopping center pylon sign on Market Street. There is a traffic light at that entrance to the center. The site fits the parameters of the Retail Business Plan for store siting; i.e., grocery-anchored shopping center, projected sales growth, commercial development, customer convenience, and traffic patterns. Traffic volume measured in July 2004 shows 11,200 cars per day past the current store while 30,000 cars per day pass Hillyard Marketplace.

PROPOSAL – Hillyard Marketplace

The Lessor, Jeff Johnson of Garland and Market Investors, LLC, has proposed a ten (10) year lease in a new 5,708 square foot space. The new rental rate will be \$10,212.50 per month, or \$21.50 per square foot per year, during Years 1-5 and \$11,839.08 per month, or \$24.90 per square foot per year, during Years 6-10. It is anticipated that the new building will be ready for occupancy by Fall 2006.

The Lease may not be terminated during the initial ten (10) 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.

The Lessor has agreed to construct the premises per the Board's "General Specifications...", including fire sprinklers and exterior signage. The proposal will include space on the main lighted, shopping center pylon sign. He has also

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agreed to the provisions of Appendix A, "Areas of Responsibility", with no exceptions.

SALES HISTORY

Recent sales history for Store No. 051 is as follows:

	<u>Retail Sales</u>	<u>Class H Sales</u>	<u>Gross Sales</u>
FY2005	\$1,609,913	\$665,992	\$2,275,905
FY2004	\$1,660,442	\$521,798	\$2,182,240
FY2003	\$1,505,408	\$507,354	\$2,012,762

Sales/sq ft: FY05 = \$402 (average for all state liquor stores was \$677 for FY05)
 NOTE: Retail sales increased 10.3% in 2004 and then decreased 3.1% in 2005. It is anticipated that retail sales in the new location will surpass the \$1.8 million benchmark during the first year of business.

Profitability: FY05 = 11.2% while the average profit for all state stores was 11.02%.
 NOTE: Based on 2005 sales and the projected \$20 per square foot in rent for a lease renewal, the profitability of the current location would be reduced to 9.3%.

Store relocation = 10.3% with approximately \$1.8 million in retail sales + the current level of Class H sales. Due to traffic volumes and customer convenience, sales are projected to increase 8 – 12% per year in Hillyard Marketplace vs. staying relatively flat in the current location. With an 8% annual increase in retail sales and no increase in Class H sales, profitability would be 10.9% in Year 2, 11.9% in Year 3, 12.8% in Year 4, and 13.6% in year 5.

ADDITIONAL DATA:

Current asking rates in Hillyard Marketplace are \$22.00 per square foot + \$3.50/sq ft triple net charges. Tenant improvements would be in addition to these rental figures.

Comparable liquor store lease rates in Spokane:

#185	Division & Mission	(newer non-anchored strip center on major arterial)
	4,988 square feet	06/01/04 – 05/31/14
	Years 1-5	\$10,350.10 \$24.90/sq ft/yr
	Years 6-10	\$10,971.11 \$26.40/sq ft/yr
#056	Spokane Valley	(newer strip center in front of WalMart in major retail market)
	5,917 square feet	09/01/05 – 08/31/15
	Years 1-3	\$10,353.00 \$21.00/sq ft/yr
	Years 4-6	\$11,217.65 \$22.75/sq ft/yr
	Years 7-10	\$12,080.54 \$24.50/sq ft/yr
#044	Spokane-East Sprague	(new construction recently approved on major arterial)
	5,500 square feet	10 year lease to start Spring 2006

	Years 1-5	\$10,541.67	\$23.00/sq ft/yr
	Years 6-10	\$11,458.33	\$25.00/sq ft/yr
#178	North Division	(strip center on major arterial – recently renewed)	
	5,000 square feet	12/01/05 – 11/30/15	
	Years 1-3	\$6,256.25	\$15.02/sq ft/yr
	Years 4-6	\$6,881.88	\$16.52/sq ft/yr
	Years 7-10	\$7,507.50	\$18.02/sq ft/yr
#040	Garland Avenue	(older building due for lease renewal)	
	5,308 square feet	08/01/96 – 07/31/06	
		\$5,639.75	\$12.75/sq ft/yr + tax increases

SUMMARY

Summary of the lease proposals for Store #051:

<u>Previous Rent</u>	<u>Lease Extension</u>	<u>Change</u>
5,662 sq. ft.	5,662 sq ft	
\$4,218.54	\$6,133.83	+45.4%
\$8.75/sq ft/yr	\$13.00/sq ft/yr	
	<u>Projected-Current site</u>	
5,662 sq. ft.	5,662 sq. ft	
\$6,133.83	\$9,436.67	+53.8%
\$13.00/sq ft/yr	\$20.00/sq ft/yr	
	<u>Proposed New Site</u>	
	5,708 sq. ft	
	\$10,212.50 Yrs 1-5	+66.5%
	\$21.47/sq ft/yr	
	\$11,839.08 Yrs 6-10	+15.9%
	\$24.90/sq ft/yr	

Ms. Lewis recommended approval of Lease Proposal for relocation to Hillyard Marketplace.

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

The Meeting was adjourned at 10:20 a.m.

Merritt D. Long
Chairman

Vera Ing
Board Member

Roger Hoen
Board Member