

**OFFICE OF THE
WASHINGTON STATE LIQUOR CONTROL BOARD
Board Meeting /November 29, 2006**

The regular meeting of the Washington State Liquor Control Board was called to order at 10:00 a.m., on Wednesday, November 29, 2006 in the board room, 3000 Pacific Avenue S.E., Olympia, Washington, by Board Chairman Lorraine Lee. Board Member Roger Hoen was present and Vera Ing, Board Member was absent. Tony Kim, Administrative Assistant to the Board summarized the minutes.

Retail Services Division – New Pole Sign, Store No. 034, Auburn
Suzanne Lewis, Store Leasing Manager

The lease for Store No. 034, located in White River Junction Shopping Center at 3930 “A” Street SE, Suite 301, Auburn, WA, will not expire until April 30, 2008. At the time the store was relocated to this area in 1998, a pole or pylon sign was not available for the shopping center. The lease specifies that “if a pole/pylon sign is approved by the City of Auburn, Lessee shall have the opportunity to participate in this additional signage”.

The Lessor, Larry Person of South Auburn Business Park Associates, represented by Phil Davidson of Claremont Development Company, Inc., is finally able to install the new sign. The cost of the sign panel, approximately \$300-\$500 is the Board’s responsibility. Once the sign is installed, the rental rate for the sign space will be \$125.00 per month. All other terms and conditions of the current lease shall remain the same. If the lease is renewed in 2008, the sign rental will be included in the base rental figure. With the continuing residential growth in the area, staff is recommending this new signage be approved.

We currently pay \$5,239.00 per month, or \$15.50 per square foot per year, for a 4,056 square foot space. Gross sales for FY 2006 were \$3,300,800.00 with Class H Sales of \$1,345.387.00, or 40.8%.

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

**Retail Services Division – Liquor Store Lease Proposal, Store No. 140A,
Bellingham-Barley Blvd.;** Suzanne Lewis, Store Leasing Manager

The lease for Store No. 140, located in Blaine International Center at 1733 “H” Street, Suite 280, Blaine WA, expired on June 30, 2006 and has been on a month-to-month extension since then.

BACKGROUND

Store #140 was relocated to the new Blaine International Center in 1990 and featured a new upscale store design with mirrors and foliage. Initially, sales increased but the market then slowed when the Canadian dollar rose in value and all retail businesses near the border began showing steady sales declines. Even though the shopping center is the nicest facility in Blaine, many businesses have closed and there are several long-term vacancies that are not conducive to attracting customers.

For the past several years, sales have either remained flat or decreased to a point that profitability is just over ¼ of the state store average. Hours of operation have been reduced to 11am – 6pm Tuesday through Saturday to meet the staffing budget and maintain service to the community. The closest major grocery stores are in Ferndale and residents must drive to Bellingham for any other major shopping.

In contrast, the population and sales in Bellingham are increasing and an additional store is now warranted in that area. Store #123 Bellingham-North is being relocated farther north on Meridian Avenue in early 2007, leaving enough space between #123 and Store #130 Lakeway to open an additional liquor store in the growing Barkley/Sunset area.

PROPOSAL – BARKLEY CROSSROADS

The Lessor, Don A. Gustafson of Barkley Crossroads, LLC, has proposed a ten (10) year lease in a new 5,603 square foot space, located at 1255 Barkley Boulevard, Bellingham. The new rental rate will be \$13,161.00 per month, or \$28.20 per square foot per year, during Years 1-3, \$14,382.00 per month, or \$30.80 per square foot per year, during Years 4-6 and \$15,715.00 per month, or \$33.66 per square foot per year, during Years 7-10. Anticipated moving date is approximately April 2007.

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 WSLCB's "General Specifications...", including exterior signage. He has also agreed to the provisions of Appendix A, "Areas of Responsibility", with no exceptions.

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

SALES HISTORY

Recent sales history for Store No. 140 is as follows:

	<u>Retail Sales</u>	<u>Class H Sales</u>	<u>Gross Sales</u>
FY2006	\$724,872	\$96,836	\$821,708
FY2005	\$679,334	\$86,990	\$766,324
FY2004	\$661,271	\$90,138	\$751,409

Sales/sq ft: FY06 = \$205 (average for all state liquor stores was \$743 for FY06)
 NOTE: Although retail sales have increased slightly in the past couple of years, they are still far below the current standard of \$1.8 million annually. We anticipate a steady increase with the relocation to a healthier retail area.

SALES HISTORY OF NEARBY STORES

The new Store #140A will be located between Store #130 Lakeway and the new location of #123 Bellingham-North. Recent sales history for those stores is as follows:

Store #123 (3.0 miles north):

	<u>Retail Sales</u>	<u>Class H Sales</u>	<u>Gross Sales</u>
FY2006	\$3,421,749	\$740,895	\$4,162,644
FY2005	\$3,141,943	\$615,907	\$3,757,850

Store #130 (3.0 miles south):

	<u>Retail Sales</u>	<u>Class H Sales</u>	<u>Gross Sales</u>
FY2006	\$4,646,692	\$1,831,165	\$6,437,857
FY2005	\$4,027,847	\$1,412,486	\$5,440,333

ADDITIONAL DATA:

Based on growth in the surrounding area, retail sales for the first full year of operation are projected at \$2.0 million. Licensee accounts of \$500,000 during the first year are included. Some of these accounts will be transferred from either Store #130 or #123 in addition to assignment of new licensees in the immediate area.

Projected sales per sq ft: \$446 (average for all state liquor stores was \$743 in FY06).

Projected Profitability: The average profit for all state stores in FY06 was 12.1%, including licensee discounts. A 10% annual increase in retail sales plus licensee sales increase of \$100,000 annually was used to project profitability. At that rate, projected profitability would be 9.1% in Year 1, 10.7% in Year 2, 11.7% in Year 3, 12.1% in Year 4 and 13.0% in Year 5.

Comparable lease rates in area:

- #123 Bellingham-North (new) – 6,027 sq ft @ \$13,058.50/mo, or \$26.00/sq ft/yr, in Yrs 1-3
- \$14,063.00/mo, or \$28.00/sq ft/yr, in Yrs 4-6
- \$15,067.50/mo, or \$30.00/sq ft/yr, in Yrs 7-10

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#018 Mount Vernon – 5,831 sq ft @ \$10,204.25/mo,
 or \$21.00/sq ft/yr, in Yrs 1-5
 \$11,176.08/mo, or \$23.00/sq ft/yr, in Yrs 6-10

NOTE: Both Store #123 and #018 are new construction. Store #123 is in a multi-tenant building in front of WalMart and across from Costco. Store #018 is in a stand-alone building near Safeway and WalMart. For comparison, the raw land for Store #123 was \$17 per square foot, land for #018 was \$13-14 per square foot, and land costs for Barkley Crossroads has escalated to \$22.50 per square foot.

SUMMARY

Summary of the lease proposals for Store #140:

<u>Current Rent</u>	<u>Proposed Rent</u>	<u>Change</u>
Blaine 4,000 sq ft	Bellingham-Barkley 5,603sq ft	+40%
\$3,833.33	\$13,161.00 Yrs 1-3	+243%
\$11.50/sq ft/yr	\$28.20/sq ft/yr	+145%
	\$14,382.00 Yrs 4-6	+9.3%
	\$30.80/sq ft/yr	
	\$15,715.00 Yrs 7-10	+9.3%
	\$33.66/sq ft/yr	

Ms. Lewis recommended approval of Lease Proposal to relocate Blaine Liquor Store #140 to Bellingham-Barkley Blvd.

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

Purchasing Services Division – Potential New Listings/Rejections

Steve Burnell, Acting Director

Based on presentations made by supplier representatives on October 26, 2006, discussions with members of the listing committee, tasting reports on product samples and other factors, Mr. Burnell recommended that the Board approve the following listing/rejection actions.

Listing Symbol Codes: R-Regular Listing; L-Limited Distribution; M-Mini Distribution; S-Warehouse Stock; U-Unlisted; OTO – One Time Only

<u>Description</u>	<u>Recommendations</u>
E & J XO Brandy, 750 ml - \$19.95	List as M
Square One Organic Vodka, 750 ml - \$34.95	List as M
Partida Anejo Tequila, 750 ml - \$57.95	List as M

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Tito's Handmade Vodka, 750 ml - \$19.95	List as M
Glenlivet Nadurra 16 Yr SM Scotch, 750 ml - \$59.95	List as M
Kahula RTD Chocolate Latte, 1.75 liter - \$18.95	List as L
Absolut Pears Vodka, 750 ml - \$22.95	List as L
Fen Chiew, 750 ml - \$22.90	OTO
Yokaichi Mugi Shochu, 750 ml - \$18.35	Reject
Yokaichi Kome Shochu, 750 ml - \$18.35	Reject
Kurokame Honkaku Shochu, 750 ml - \$24.75	Reject
Chu Yeh Ching Chiew, 750 ml - \$21.75	Reject
Carlsbad Becherovka Liqueur, 750 ml - \$25.95	Reject
Partida Reposado Tequila, 750 ml - \$53.95	Reject
Partida Blanco Tequila, 750 ml - \$49.95	Reject
Bafferts Mint Gin, 750 ml - \$24.95	Reject
Cabo Wabo Anejo Tequila, 750 ml - \$59.95	Reject

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

Purchasing Services Division – Potential Wine Listings and Delistings
Steve Burnell, Acting Director

The Wine Advisory committee has reviewed the following wines. Criteria for selections made by this panel include outstanding taste, good value, consumer interest and other factors. From blind tastings, the following selections and recommendations were made by the Committee and the Purchasing Division. Mr. Burnell recommended the Board approve the following listing actions.

Wine	Region	Vintage	Retail	Recommendation
Sagelands "Fredie's Blend" Red	Washington	2002	\$ 9.99	List as M
Moet & Chandon Rose Imperial	France	NV	\$49.99	List as M

The following wines are offered as a One-Time-Only purchase. The purchasing department and Mr. Burnell recommended the Board approve the following One-Time-Only listings.

Wine	Region	Vintage	Retail	# of Cases
Norma Jeane Merlot	California	2006	\$12.25	112 Cases
Sawtooth White, Late Harvest	Washington	2003	\$12.99	56 Cases
Reynolds Cabernet Sauvignon, Res	Australia	2001	\$ 7.99	56 Cases
Folie a Deux "Menage a Trois" Red	California	2005	\$ 9.99	56 Cases

Beaujolais Nouveau, Duboeuf	France	2006	\$ 9.99	45 Cases
Beaujolais Nouveau, Drouhin	France	2006	\$12.59	31 Cases
Terra Blanca, "Killer Red" Syrah	Washington	2004	\$ 8.99	112 Cases
Chateau Ste Michelle Sauvignon Blanc, Horse Heaven Hills	Washington	2004	\$10.99	240 Cases
Columbia Crest Cabernet, Reserve	Washington	2002	\$29.99	120 Cases
Columbia Crest Syrah, Reserve	Washington	2004	\$19.99	60 Cases
Northstar Merlot, Walla Walla	Washington	2002	\$38.95	56 Cases
Northstar Merlot, Columbia Valley	Washington	2003	\$38.95	56 Cases
Ch Ste Michelle Merlot, Canoe Rdg	Washington	2003	\$18.99	112 Cases
Ch Ste Michelle Merlot, Indian Wells	Washington	2003	\$13.99	224 Cases
Ch Ste Michelle Artist Series Red	Washington	2002	\$38.95	60 Cases
Snoqualmie Merlot, Reserve	Washington	2002	\$19.99	60 Cases
Snoqualmie Cabernet, Reserve	Washington	2003	\$19.99	60 Cases
Elvis Sparkling, "All Shook Up"	California	NV	\$ 9.99	56 Cases

The following wines are offered to the Board in limited case quantities. The purchasing department and Mr. Burnell recommended the Board approve the following wines for "U" code listing

Wine	Region	Vintage	Retail	# of Cases
Forgeron Chardonnay	Washington	2005	\$22.52	14 Cases
Forgeron Viognier	Washington	2005	\$22.52	14 Cases
Whitman Narcissa	Washington	2002	\$26.24	28 Cases
Moet & Chandon, Nectar Imperial	France	NV	\$49.99	56 Cases
Silver Oak Cabernet, Alexander Vyd	California	2002	\$59.99	14 Cases

Col Solare Red	Washington	2000	\$59.99	14 Cases
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The Board currently lists the following wines. Based on the blind tasting OR other criteria Mr. Burnell recommended the Board DELIST the following items:

Wine	Region	Brand Code	Reason
Deloach Zinfandel	California	460765	Poor Sales

Note: All listings are 750ml size unless noted otherwise.

Listing Symbol Codes:

No Code	Regular Listing
L	Limited Distribution
M	Mini Distribution
S	Warehouse Stock
U	Unlisted

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

Purchasing Services Division – Potential Proof Reduction Godiva Chocolate Liqueur; Steve Burnell, Acting Director

The supplier of Godiva Chocolate Liqueur is requesting that the Board approve a proof reduction from the currently listed 34 proof to 30 proof. The supplier will no longer be producing the 34 proof product.

<u>Brand</u>	<u>Description</u>	<u>Original Proof</u>	<u>New Proof</u>	<u>Current Retail</u>	<u>Average Monthly Case Sales</u>
074086	Godiva Chocolate Liqueur 750 ml	34 proof	30 proof	\$27.95	60

Mr. Burnell recommended that the Board approve the supplier’s request for the proof reduction. The Purchasing Services division will post signage in our retail outlets notifying customers of the proof change.

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

The Meeting was adjourned at 10:40 a.m.

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Lorraine Lee
Chairman

Vera Ing
Board Member

Roger Hoen
Board Member