Washington State Liquor Control Board

Contact: Merritt D. Long, Chairman
360-664-1600 http://www.liq.wa.gov
Roger Hoen, Vera Ing, Board Members
Pat Kohler, Administrative Director

Headquarters Building

3000 Pacific Ave. SE
Olympia, WA 98504
360-664-1660
http://www.liq.wa.gov

Distribution Center

4401 East Marginal Way S.
Seattle, WA 98134
206-464-7927

Enforcement Offices

REGION I – SOUTHWEST
Olympia
2420 Bristol Court SW, Suite 102
P.O. Box 43095
Olympia, WA 98504-3095
Phone: (360) 753-6271
Fax: (360) 586-5983
Jan Britt, Region 1 Manager
Office Hours: 8 - 5
Email: glp@liq.wa.gov
Bremerton
4970 Auto Center Way Ste. 102
Bremerton, WA 98312-3328
Phone: 360-478-4500
Fax: 360-792-2019
Office Hours: 8 - Noon
Email: gpm@liq.wa.gov

REGION 2 – SEATTLE
Seattle
4401 E Marginal Way S
Seattle, WA 98134-9947
Phone: (206) 464-6094
Fax: (206) 389-2445
Bill Schrader, Region 2 Manager
Office Hours: 8 - 5
Email: kls@liq.wa.gov
Tacoma
Roberson Building
6240 Tacoma Mall Boulevard,
Suite 208
Tacoma, WA 98409-6819
Phone: (253) 471-4589
Fax: (253) 471-4586
Office Hours: 8 - 5
Email: bdv@liq.wa.gov

REGION 3 – EVERETT
Everett
909 SE Everett Mall Way,Ste. D-480
Everett, WA 98208-3745
Phone: (425) 513-5114
Fax: (425) 338-3039
Tim Thompson, Region 3 Manager
Office Hours: 8 - 5
Email: pjw@liq.wa.gov
Bellingham
1720 Ellis St., Ste. 210
Bellingham, WA 98225-4600
Phone: 360-676-2073 or 676-2074
Fax: 360-676-2001
Office Hours: 8 - Noon
Email: jko@liq.wa.gov

REGION 4 – CENTRAL/EASTERN
Spokane
1303 W Broadway
Spokane, WA 99201-2029
Phone: (509) 625-5513
Fax: (509) 625-5524
Justin Nordhorn, Region 4 Manager
Office Hours: 8 - 5
Email: cs@liq.wa.gov
Kennewick
4310 West 24th Avenue, Suite 2D
Kennewick, WA 99338-1963
Phone: (509) 734-7170 or 734-7173
Fax: 509-734-7172
Office Hours: 9 – 1
Email: jjc@liq.wa.gov
Yakima
1222 S. 1st
Yakima, WA 98901-3501
Phone: (509) 575-2763
Fax: (509) 454-7696
Office Hours: 8 - 5
Email: clg@liq.wa.gov
Wenatchee
100 9th Street
Wenatchee, WA 98801-1505
Phone: (509) 662-0408
Fax: (509) 664-1226
Office Hours: 8 – 5
Email: klh@wa.gov

There are six retail District Managers who operate out of the Tacoma, Spokane, Yakima and Olympia enforcement offices.

There are 161 state stores listed on our website www.liq.wa.gov

Retail Services Budget 2003-2005

Retail Services comprises Store Operations, Purchasing and the Distribution Center. The state's controlled distribution system is designed to meet un-stimulated demand for spirituous liquor. State stores may not advertise or promote the sale of alcohol. Laws prohibiting sale to minors and to intoxicated persons are strictly enforced in state and contract stores. Violations carry severe penalties.
The budgeted amounts for these areas are listed below.

Store Operations (Retail) Division

$85,514,789

59 percent of appropriated budget

Responsible for strategic planning, store site selection, lease negotiation, store remodels and maintenance and the operation of 161 State Liquor Stores, which sell spirits, beer and wine to wholesale and retail customers. More than 9,000 separate products are available through State Stores or by special order. Store relocation and new store development are strategically managed to serve the greatest number of customers in a particular region.

Distribution Center

$7,813,127

5 percent of appropriated budget

The Distribution Center, a highly automated facility for the receiving, storing and shipping of liquor, supplies more than 360 state, contract, military and tribal stores statewide. The center regularly ships 17,000 cases per day and 25,000 per day during peak periods. The DC achieves a 95 percent order fill rate.

COP Financing

$5,717,000

4 percent of appropriated budget

The Distribution Center is financed by Certificates of Participation instruments (COPs) paid for by a spirits surcharge. Increased sales have produced sufficient revenue to pay off these COPs in 2005, three years early, saving the state more than $300,000 in interest payments. In the coming legislative session, the agency is requesting approval to retire the debt early and to extend the spirits surcharge to cover the cost of a major expansion needed in 2005-2007 to meet growing demand.

Purchasing Division

$1,290,044

1 percent of appropriated budget

The Purchasing Division coordinates the buying and listing of all spirits, beer and wine sold in state stores. Purchasing ensures Washington spirits customers are provided a wide selection of alcoholic beverages at reasonable prices. The division recommends product listings to the Board and manages inventory in the Distribution Center. The Special Order program allows customers to obtain products not in the general listings.

Total Retail Services

$100,334,960

69 percent of appropriated budget

Contract Liquor Stores

$19,077,108

Non-appropriated commissions for Contract Stores located in communities whose population is not large enough to support the operational expense of a State Store. Store Operations appoints local business owners to sell products under contractual and code regulations.

Enforcement and Education Division 2003-2005 Budget

$12,526,582

9 percent of appropriated budget

The Enforcement and Education Division is charged with enforcing all laws relating to transportation, possession, distribution and the sale of liquor. The division helps ensure public safety by preventing over-service and reducing under-age drinking. In addition, liquor and tobacco agents perform liquor premise inspections, investigate complaints against liquor licensees, conduct random compliance checks and educate the citizens of the state about the adverse effects of alcohol.

Liquor and tobacco agents enforce state tax laws for cigarettes and other tobacco products, and applicable federal statutes and regulations to promote voluntary compliance and increase excise tax collections. Revenue is lost to the state each year due to tax evasion on cigarette and tobacco products. Liquor and tobacco agents are critical in preventing tax evasion tactics.

The division also oversees state compliance with the federal law mandating states to restrict the sale of tobacco products to persons under age 18. The division is responsible for conducting tobacco premise inspections, investigating complaints against tobacco licensees, and conducting random compliance checks on tobacco licensees. This activity is funded through an interagency agreement with the Department of Health.

Licensing and Regulation Division 2003-2005 Budget

$4,379,384

3 percent of appropriated budget

Licensing

- investigates and reports on all license applications, permit applications, and requests from current license holders to modify business structure or operation;
- approves most liquor license and permit applications and renewals;
- maintains official licensing records and makes documents available for court, administrative action, and public records requests;
- provides a point of contact and general licensing information for license applicants and the general public;
- provides a process of accountability for all liquor license and permit fees;
- maintains a reception desk to receive customers; and provide assistance for other divisions of the board.

Regulation of Manufacturers, Importers and Wholesalers

The Manufacturers, Importers and Wholesalers (MIW) Section is responsible for ensuring the proper administration of all state liquor laws and administrative rules applicable to beer, wine, and spirit manufacturers, importers, distributors, and interstate common carriers (ICCs). MIW works closely with the agency's Administrative Services Program to ensure proper and timely payment of beer and wine taxes.

The section provides education, training, and other technical assistance to manufacturers, importers, distributors, and ICCs; investigates complaints and violations involving non-retail licensees; maintains and monitors a price-posting program for the manufacturing and distributor levels of the non-retail liquor industry; provides a product and label approval program for all beer and wine products planned for sale in Washington; provides liquor advertising approvals and denials, education, and assistance for license holders and marketing representatives; and maintains a Criminal History Record Information (CHRI) Office for conducting checks of license applicants and to assist liquor and tobacco criminal investigations.

Mandatory Alcohol Server Training

The Licensing Division also coordinates a mandatory statewide training program for all alcohol servers and issues server permits to all servers, bartenders and others involved in the sale of alcohol by the drink.

Administrative Budget 2003-2005

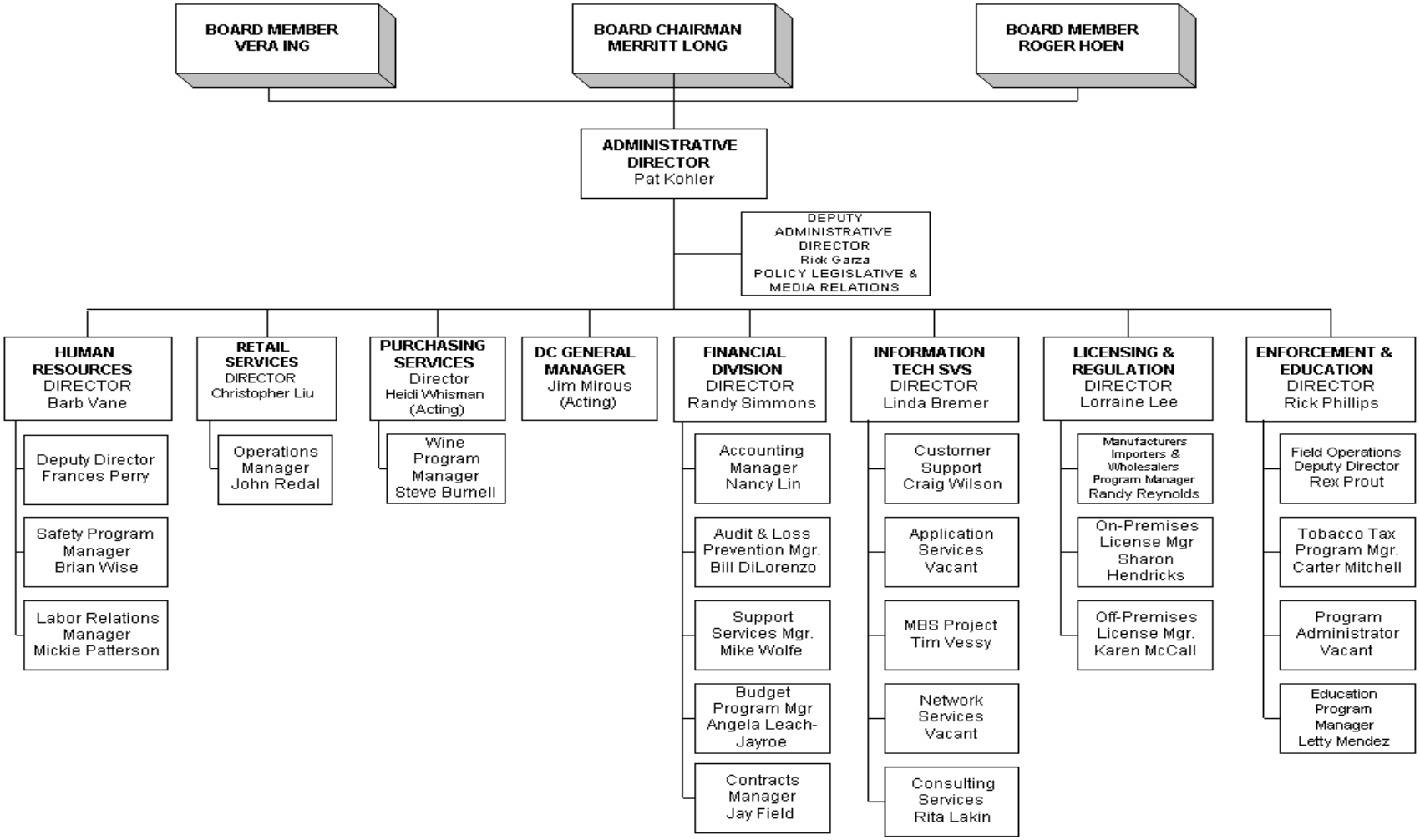
	$ Budgeted	% of Appropriated
Board & Admin	2,363,991	1.6%
Human Resources	1,717,989	1.2%
Legal Services	1,922,930	1.3%
Financial Operations	6,307,348	4.2%
WSLCB Costs	4,734,585	3.3%
Information & Technology	10,762,736	7.4%
Total Administrative	$27,808,579	19%

Administrative Activity

The Liquor Control Board (LCB) establishes policies for the sale of alcoholic beverages and tobacco products throughout the state. Activities funded in this category include costs for the overall management of agency employees, interfund/interagency expenses and oversight of administrative and policy duties.

October 2004

WASHINGTON STATE LIQUOR CONTROL BOARD



WSLCB Board and Staff

Merritt D. Long – Board Chairman

Mr. Long holds the distinction and honor of serving as Director of three state government agencies, as well as Chair of the Washington State Liquor Control Board since August 2001. Prior to this appointment by Gov. Gary Locke, Mr. Long served as CEO of the Washington State Lottery from 1997 to 2001. During his 34 years of state service, Mr. Long also served as Director of the Washington State Human Rights Commission and the State Board for Vocational Education. Mr. Long received his B.A. in Political Science from Morehouse College (Georgia) and his M.A. in Education from Seattle University. He is a trustee of The Evergreen State College and has also served as a member of the Olympia Civil Service Commission.

Merritt and his wife, Marsha Tadano Long, are co-founders of The Learning Seed Foundation. The Learning Seed was established in 2001 to provide scholarships to high school seniors who have demonstrated their commitment to education, who have contributed to their community and who may have overcome a significant obstacle in their lives.

Vera Ing – Board Member

Gov. Gary Locke appointed Vera Ing December 1999. Her term expires January 15, 2007. Formerly a principal of the Mulvanny/Ing Architects, Ms. Ing has worked in the public and private sectors as a planner and small business owner. She has served on the boards of numerous civic organizations including the Seattle Center, the International District Improvement Association, the North Seattle Community College Foundation, United Way, the Asian American Management Association and the University of Washington Women Resource Center. She has participated in trade missions to Japan, Taiwan in Korea, China, and the Philippines.

Roger Hoen – Board Member

Gov. Gary Locke appointed Roger Hoen in March 2002. His term expires in January 2009. Mr. Hoen has extensive experience directing food and beverage services at many of the largest sports and entertainment venues in Washington, including the Kingdome, Tacoma Dome, Gorge Amphitheater, Seattle Center, the University of Washington, Tri Cities Coliseum, Spokane Coliseum and the Woodland Park Zoo. Active in Seattle civic affairs, he has spearheaded efforts to assist local food banks, non-profit organizations and educational institutions.

Pat Kohler – Administrative Director

Pat Kohler was named Administrative Director in January 2002. In this position, she provides vision, direction, leadership and oversight for the agency's operations. A 20-year state employee, Pat came to the Liquor Control Board from General Administration, where she held positions in the area of finance, audit, materials management, and procurement. A graduate of Central Washington University with a B.S. in Accounting and a Certified Public Accountant, Pat is the recipient of the 1998 Governor's Distinguished Manager Award. She served as President of the National Association of State Procurement Officials in 2001 and served as Chair of the Western State Contract Alliance from 1999–2001.

Rick Garza – Deputy Administrative Director

In 2004, Rick Garza was named Deputy Director of the agency, assuming administrative responsibility for the agency's Licensing and Enforcement Divisions. He also continues to provide direction for the agency's Policy, Legislative and Media Relations Division and serves as the agency's liaison to the Legislature and many of its key stakeholder groups. Prior to joining the agency's administrative staff, Rick served 16 years in the Washington State Legislature. As Staff Director of the House of Representatives from 1992 – 1995, he oversaw 25 employees and served as an adviser to the House leadership.

Chris Liu – Director of Retail Services

Chris Liu was appointed Director of Retail Services in June 2002. He plans, organizes and directs all activities regarding liquor sales. He has served as a District Manager and Special Assistant to the Administrative Director. Prior to entering state service in 2001, Chris had 24 years of retail experience. He received his MBA in Business Marketing from Chaminade University in Hawaii and his BS in Business Marketing from the University of Hawaii. He speaks Spanish, Portuguese and Mandarin Chinese.

Rick Phillips – Chief of Enforcement

Rick Phillips has led WSLCB's Enforcement Division since 2000. He is a retired WSP captain, holds B.A. and M.A. degrees, and is an FBI National Academy graduate. He holds Executive Certification and received the Governor's Distinguished Management Leadership Award in 2002. Rick is the President of the National Liquor Law Enforcement Association.

Lorraine Lee – Director of Licensing and Regulation

Lorraine Lee leads a division of 43 employees responsible for issuing liquor licenses and regulating beer and wine wholesalers and suppliers. A Liquor Control Board employee since June 2002, she received the 2004 Governor's Distinguished Management Award for her strong leadership in efficiency improvements during a period of rapid growth in demand for licensing services. She has served as a staff attorney with the State Court of Appeals, an assistant director with the Washington Lottery and as a policy advisor on juvenile and criminal justice issues for Govs. Mike Lowry and Gary Locke. She also served for 6 ½ years in the U.S. Army as a judge advocate in Washington D.C., Hawaii and Korea. A 1980 graduate of the University of Washington, she received her law degree in 1983 from the State University of New York in Buffalo.

Barb Vane – Director of Human Resources

Barb Vane was named Director of Human Resources in November 2001. Her responsibilities include policy and procedures interpretations, personnel records custodian and strategic planning. She provides vision, direction and leadership to a 10-person staff charged with providing human resources management support for the agency. Prior to joining the WSLCB, she held a senior-level position with the Department of Revenue, where she received an award for 20 years of dedicated service to the agency.

Linda Bremer – Director of Information Services

Linda Bremer was named Director of Information Services in February 2002. Prior to joining the WSLCB, she held management positions with the departments of General Administration, Licensing, Labor and Industries, and Personnel. She also worked in the private sector in manufacturing and other commercial enterprises for 17 years. She oversees the daily operations of the IT division. She is a graduate of National University with an MBA in Financial Management.

Randy Simmons – Director of Finance

Randy Simmons leads a division of nearly 40 employees responsible for accounting, budget, audit and support services. He was appointed in March 2002, after serving for two years in a management position at General Administration. Prior to this he spent 23 years in a private company in Olympia, holding positions in both finance and marketing. Randy's educational background includes a Bachelor's Degree in Accounting from St. Martin's College and post-graduate work in Entrepreneurial Studies at Babson College and in Management Science through The American College.

Heidi Whisman – Acting Director of Purchasing

Heidi Whisman started nearly 15 years ago with the Board as a Clerk Typist 3 in the Manufacturers, Importers and Wholesalers section of the Licensing Division. She has served as Non-Retail Compliance Programs Administrator, Acting Internal Quality Consultant, and Business Systems Specialist. She has been involved in the Liquor Control Board's Quality program since its inception, and is a strong proponent of continuous process improvement.

Authorizing Environment and Environmental Scan

The Washington State Liquor Control Board
3000 Pacific Ave. SE, Olympia, WA 98504-3080
Phone: 360-664-1600 Website: http://www.liq.wa.gov
Merritt D. Long, Chairman
Roger Hoen and Vera Ing, Board Members
Pat Kohler, Administrative Director

Agency Facts

- Number of employees: 961 FTE employees in 2003-2005.
- Total annual income from all sources in 2004: $651.6 million
- Total annual retail and wholesale sales 2004: $591.2 million
- Income from Beer and Wine Taxes: $49.6 million
- Income from Licensing fees: $10.1 million
- Income from lottery sales, tobacco penalties, and other sources: $740,000
- Cost of product in 2004: $280 million.
- Other agency annual operating expenses in 2004: $84 million.
- Revenue to state after product/operating expenses: $248 million in 2004.
- Number of stores: 161 state-operated stores; 154 contract stores.
- Number of businesses licensed to sell, distribute, manufacture or import alcohol: 13,000.
- Authorizing Statutes: RCW 66.08.012; RCW 66.08.030; RCW 66.08.050.
- Facilities: Headquarters Olympia; Distribution Center, Seattle; Enforcement Offices/Stores statewide.

Agency Responsibilities

- Control the sale and distribution of all spirituous liquor through a system of more than 314 state and contract liquor stores and by licensing and regulating all businesses producing, selling, distributing or importing alcohol in the state.
- Receive, store and ship product to state and contract stores and to military and tribal stores from a Seattle Distribution Center.
- Issue licenses to more than 13,000 businesses selling, distributing, importing or producing liquor, beer or wine in the state.
- Provide oversight for a three-tier system of distribution for beer and wine by enforcing mandatory 10 percent markups between producers, distributors and retailers and other control mechanisms designed to create a stable and orderly market, discourage over-consumption and eliminate predatory pricing practices.
- Enforce all state laws regulating the sale, importation, production and distribution of alcohol. Conduct regular compliance checks for over-service and service to minors.
- Conduct regular public meetings to review and approve changes in rules, recommend changes in statutes, hear stakeholder input, and provide policy oversight for the agency.
- Conduct education and prevention activities to reduce adult alcohol abuse and consumption by minors.

WSLCB Balanced Mission

Washington's control system helps ensure public safety by reducing the amount of per-capita consumption of alcohol through controlled sales, a three-tier system of beer and wine distribution, and effective regulatory and enforcement programs. Revenue from un-stimulated sales, taxes and fees is a by-product of the system, which encourages responsible use of a controlled substance.

Revenue Generation

Our mission is to maximize revenue to the state by operating efficient, convenient and profitable retail stores. Gross bottle sales have increased 26.3 percent between 1996 and 2004 and a to 4.8 percent growth rate is forecast. Some interest groups continue to advocate privatization of our $600 million annual business. Studies have proven this would cost the state hundreds of millions of dollars in revenue. The WSLCB will contribute more than $3 billion in revenue to the state in the next decade if investments are made now to ensure future growth.

Retail Business Development

Improve Strategic Planning
Improve Store Profitability
Improve Inventory Management
Improve Financial/Accounting Systems
Increase Number of Stores
Create New Store Types
Implement Wine Strategy
Improve Product Display

Distribution Center

Expand DC Size/Capacity
Improve Product Handling System
Create Better Back-up Systems
Implement New Freight Delivery Contract
Improve Employee Safety/Training
Meet Stakeholder Concerns

Customer Service

Better Trained Employees
Improve Product Information
Improve Point-of-Sale Systems
Improve Store Layouts
Improve Signage
Create Safer Stores

Public Safety

Our control system is designed to increase public safety by controlling access to spirits and by promoting effective statewide treatment, education, prevention and enforcement programs. Stakeholders in the food and entertainment communities and the alcohol industry pay careful attention to proposed changes in legislation, rules and policy and will aggressively pursue their own agendas such as Sunday sales and direct shipping. Community and advocacy groups also seek greater support to curb alcohol abuse

Enforcement

Improve Alcohol/Tobacco Compliance
Improve Employee Training/Retention
Manage Increased Span of Authority
Enforce More Complex Laws

Licensing

Improve Customer Service
Manage Rapid Growth in Licensees
Increased Regulatory Complexity
Law, Rule, Policy Revisions
Increased Legal Actions
Recovering Costs of New Initiatives
Increased Community Initiatives

Education

Increase Licensing Workshops
Continue/Expand Diversity Programs
Conduct Statewide Awareness Campaign
Alcohol Education Advisory Committee

Employee Development

Provide Mandatory Training
Provide Career Skills Training
Continue Policy Development
Provide CSR Assistance
Improve Labor Relations

Stakeholder List

Beer Manufacturers

Beer Institute
Jeff Becker, President
Art DeCelle
Executive VP/Gen. Counsel

Anheuser Busch
Andrew Baldonado, Govt. Affairs
Mark Greenburg, Lobbyist

Coors Brewing Company
Stuart Halsan, Lobbyist

Miller Brewing Co.
Steve Gano, Lobbyist

Pyramid, Redhook Co.
T.K. Bentler, Lobbyist

Washington Brewers' Guild
George Hancock, President

Wine Manufacturers

Washington Wine Commission
Jane Baxter Lynn, Executive Director
Jean Leonard, Lobbyist
Katie Jacoy, Lobbyist

Wine Institute (California)
Syd Abrams, Consultant

Wine America
David Sloane, President

Spirits Manufacturers

Distilled Spirits Council of the U.S. (DISCUS)
Mark Gorman, Gov. Relations
David Ducharme, Lobbyist

Distillers Representatives
Association of Washington
(DRAW)
Molly Howell, President
Guiness UDV
Mark Triplett, Lobbyist

Joseph E. Seagram & Sons
Jim Halstrom, Lobbyist

Wholesalers/Importers

Washington Beer and Wine
Wholesalers Assn.
Phil Wayt, Executive Director

National Association of Beverage Importers
Bob Maxwell, President
Mike Burgess, Lobbyist

Retailers

Washington State Sports
& Entertainment Facility
Operators Association
Don Campbell, President
Becky Bogard, Lobbyist

Korean-American Grocers
Association of Washington State
(KAGRO)
Kevin Yoo, Executive Director

Safeway/Albertsons
Holly Chisa, Lobbyist

Washington Association
Of Neighborhood Stores
T.K. Bentler, Executive Director

Washington Food Industry
Clif Finch, Executive Director

Washington Restaurant Assn.
Gene Vosberg, President/CEO

Washington State
Federation Of Clubs
Stuart Halsan, Lobbyist

Alcohol Regulator Organizations

National Conference of State
Liquor Administrators (NCSLA)
Jeffrey Greer, President

National Alcohol Beverage Control Assn.
Jim Sgueo
Executive Director

Washington Assn. of Retail Liquor Agents
Theresa Hancock

Organized Labor

United Food and Commercial Workers #1001
Dave Schmitz, President
Washington State Public Employees Assn.
Leslie Liddle, Interim Exec. Director
Lynn Maier, Gov. Relations

Law Enforcement

Traffic Safety Commission
Steve Lind
Acting Director

Washington State Patrol
Lowell Porter, Chief
Glenn Cramer, Legislative Liaison

Washington Assn. of Sheriffs
and Police Chiefs
Larry Erickson, Executive Director

Local Government

Association of Washington Cities
Stan Finkelstein, Executive Director
Sophia Byrd, Gov. Relations

Washington State Association of Counties
Bill Vogler, Executive Director

Prevention Community

Governor's Council on Substance Abuse
Carol Owens, Coordinator

Department of Alcohol and Substance Abuse
Ken Stark, Director

Mothers Against Drunk Drivers
Judy Eakin, Executive Director

Tribal Government

Governor's Office of Indian Affairs
Kyle Taylor Lucas, Executive director

Tobacco Industry

Triplett & Associates, Inc.
Smokeless Tobacco Council
Mark Triplett, Lobbyist

Public Affairs Associates
RJ Reynolds Tobacco
T.K. Bentler, Lobbyist

Phillip Morris
Joe Daniels, Lobbyist

Most Pressing Issues or Challenges

Revenue Distribution to the State

During the last four years, when sales tax revenues were falling statewide, the WSLCB returned record revenues to the state. Washington's drinking-age population is growing and consumers are buying up. Many new restaurants offering liquor-by-the drink have been created. The trend is expected to continue. This contribution in a time of need lent support to the agency's proposal, in the 2003 biennium, to add five new stores, further increasing revenue potential. These stores were approved – the first new stores approved in 23 years. During the coming decade, the WSLCB has the potential to return more than $3 billion in revenue to the state if it is allowed to continue to add new personnel, stores and equipment to serve a growing statewide customer base.

The agency has increased revenue returned to the state at an annual rate of nearly 5 percent during the last seven years. About $248 million was returned in 2004. Much of this has resulted from higher gross sales totals. Total agency revenues from all sources reached $651.6 million in 2004 (see Agency Facts). Statewide growth in the number of drinking-age adults, an increase in the number of licensed establishments and consumers 'buying up' all contribute to increased gross sales, which are the primary revenue driver. Total sales should continue to increase at a rate of 4.8 percent annually for the foreseeable future based on population growth estimates and consumption trends.

Stores are under-staffed in the wake of this growth. There are fewer store hours appropriated now than there were seven years ago. Increased store hours are directly linked to store productivity. An increase in store employees will enable stores to meet growing demand and maintain high levels of customer service. Each $1 million in additional sales produces a 42% return for the state. Four new stores are being requested for 2005-2007. These four new stores will produce an estimated $17 million in total sales annually, or an annual return of $6.5 million.

Distribution Center Capacity

The agency's Seattle Distribution Center, which serves more than 360 state, contract, military and tribal stores, is operating at maximum capacity. The agency has proposed a $17.5 million expansion of the center for 2005-2007. Without this additional plant capacity, the DC will not be able to supply our stores with enough product to meet demand and we will begin to lose sales. This will reduce revenue returned to the state now and hurt our long-range revenue generating potential substantially.

Technology

Many technology upgrades have been implemented in the stores and Distribution Center during the last two years. New cash registers and screens, improved card-reading machines, upgraded software all are helping stores meet customer expectations. However, additional hardware and software is needed to make our overall retail operation more efficient: a Wide Area Network to speed processing times; improvements to our main network and core technology, which help us track inventory and manage all aspects of our business in real time. New technology is one of the agency's top priorities, as the WSLCB strives to improve customer service and manage our

business and regulatory operations more strategically. These investments will have a direct bearing on our ability to meet growth in demand.

Pressure to Privatize Liquor Sales

The state's role in the sale of liquor has been the subject of many discussions, studies, and legislative proposals during the last two decades. Two privatization studies have been conducted, one under former Gov. John D. Spellman and one under Gov. Gary Locke. These studies concluded the public's interest is best served by the state's controlled distribution system. A third effort by former Gov. Mike Lowry to privatize the state control system failed to make it out of legislative committee.

A number of national studies referenced in materials published by the National Alcohol Beverage Control Association (NABCA) have linked increased per-capita alcohol consumption with increased social and health costs. One study in the 1990s of a control state with a population similar to Washington's estimated that state's control system saved it more than $200 million annually in health and social costs.

A NABCA study found that adults in control states consume an average of 1.58 gallons of spirits annually, which those in non-control states consume an average of 1.9 gallons annually. In addition, the NABCA study found that control states return nearly twice as much revenue as non-control states.

In 2004, the $248 million in revenue returned by the agency supported the following state services:

- 55% to General Fund
- 19% to Cities/Counties
- 17% to Health Services
- 8% to Education/Prevention
- 1% to Research

Alcohol Impact Areas

The WSLCB passed a rule in 2001 allowing communities to form Alcohol Impact Areas (AIAs), zones in which the sale of certain high-alcohol products in 'to-go' containers is prohibited. The new rules require communities to involve a range of stakeholders in the formation of an AIA: police, merchants, social workers, health officials and neighborhood groups. AIAs have been created in Tacoma and the Pioneer Square area of Seattle. A second AIA is being formed in Seattle. The Tacoma AIA formed in 2001 has served as a catalyst for important systems improvements in that city. A new "Sobering Center" produced more than 100 soberings in its initial full month of service. Most Chronic Public Inebriants use emergency rooms or doorways. At an average of $1,000 per emergency room visit, this translates into some substantial savings.

Legal Challenges

Costco vs. Hoen, et al.

Costco filed suit in early 2004 against the Liquor Control Board members, in their official capacities, seeking to overturn the laws establishing the state's three-tier distribution system for beer and wine. The case is currently before a U.S. District Court judge in Seattle and is not expected to go to trial before the fall of 2005. A team of attorneys from the Washington Attorney General's Office is defending the state. The Washington Beer and Wine Wholesalers Association (WBWWA) has intervened in the suit as a defendant.

Three-tier systems are common throughout the United States in control and non-control states. Under Washington 's laws, manufacturers may sell to licensed distributors (middlemen), who in turn may sell to licensed retailers. Manufacturers are prohibited from selling directly to retailers. Both manufacturers and distributors must sell at a minimum of a 10 percent markup and are prohibited from offering quantity discounts or selling on credit. The primary purpose of this system is to prevent manufacturers from exercising control over the retail market, which could destabilize prices and encourage predatory pricing practices and over-consumption.

Costco seeks to overturn laws establishing

- minimum markups
- a ban on credit purchases by retailers
- a ban on direct shipping from out-of-state manufacturers to retailers
- a ban on warehousing by retailers
- a ban on quantity discounts
- price posting requirements on distributors

Costco alleges state laws establishing the three-tier system violate the federal Sherman Anti-Trust Act and the Constitutions of the United States and the State of Washington . The state maintains it has the right to regulate alcohol importation, distribution, sale and manufacture under the 21st Amendment to the Constitution, which repealed prohibition. It further disputes Costco's anti-trust claims. U.S. Circuit Courts have handed down differing decisions on issues of law central to the Costco suit. It is expected the final resolution to this suit may come from the U.S. Supreme Court.

Direct Shipping Case before U.S. Supreme Court

A pending appeal before the U.S. Supreme Court is likely to impact the WSLCB 's regulation of interstate shipment of wine or beer and the outcome of the Costco lawsuit. The issue before the Supreme Court is whether it is a violation of the dormant Commerce Clause for a state to restrict out-of-state wineries from shipping wine directly to consumers, yet allow in-state wineries to do so, in light of the broad powers granted to the states by the 21st Amendment.

Currently, many states restrict the interstate sale and direct shipment of wine to consumers. Washington, for example, has reciprocal shipping agreements with 19 states permitting direct shipments of limited quantities of wine to private consumers. The WSLCB did not file or join in any amicus brief in this case, though the Washington State Attorney General's Office has indicated it intends to.

Strategic Plan Highlights

Mission

The mission of the Liquor Control Board is to serve the public by preventing the misuse of alcohol and tobacco through controlled distribution, enforcement, and education; and provide excellent customer service by operating efficient, convenient, and profitable retail stores.

General Challenges

- *Information Technology*
  The board, senior staff and the agency's employees have concluded that improving technology should be a top agency priority. Several technology improvements are needed: a *Wide Area Network* to support the point-of-sale system being installed in the stores; improvements to *Core Technology Operations*; and improvements to the *Licensing Database* and in *Online Service Delivery*. Each of these improvements has the potential either to increase revenue or improve service to the public.

- *Civil Service Reform*
  This sweeping legislation mandates a complete overhaul of collective bargaining and an agency assessment process for competitive contracting, among other key objectives. Organized labor partners with the agency in accomplishing its retail, wholesale and enforcement missions, producing a complex workforce dynamic. The agency's Human Resource Division will experience significant added workload as CSR advances.

- *Workforce Development*
  The agency needs to recruit and retain high-quality employees. More than 29 percent of WSLCB employees are eligible to retire by 2005. The agency stands to lose valuable organizational knowledge and experience if its current workforce is not given the tools to assume new responsibilities. A more strategic effort to recruit and retain high-quality employees is needed now to build staff capacity to fill the gaps these retirements will create.

- *Policy Development and Risk Management Processes*
  Policy development and improvements in management processes also have been identified as major agency priorities and are being addressed through a major policy initiative. The agency is behind and attempting to catch up in these vital foundational areas. Consistent, clear and meaningful policies and processes are particularly important in the retail and wholesale operation because the stores are spread over such a wide area.

- *Employee Training*
  Budget cuts, loss of a centralized training manager position and competing agency priorities have gutted the agency's training program. The LCB also lacks adequate technology for more cost-effective training options (e.g., wide-area network). Lack of training has been linked to increased tort claims, lawsuits and disciplinary actions. Additional training is needed to develop better customer service.

- *Increased Licensing Activity*
  The number of retail and non-retail licensees is increasing dramatically. In addition to the increase in volume of applications, the licensing function has become more complex. Reducing processing time for customers is a key goal. However, the LCB is limited by reliance on manual processes, lack of online tools, disjointed data systems and an obsolete computer system that cannot support reporting and analysis, and is no longer vendor-supported.

- *Increased Interest in Alcohol Impact Areas*
  Since rules permitting communities to form Alcohol Impact Areas were passed in 1999, an increasing number of requests have been received for assistance. Even more AIA work will be needed as communities attempt to curb the problems associated with chronic alcohol abuse. Alcohol Impact Areas add significantly to Licensing's administrative workload. New product information must be analyzed, stores monitored and regulations enforced. Additional technology and training are needed to support this mission.

- *Legal Challenges*
  This year Costco challenged Washington's laws regulating the distribution of beer and wine as illegal under the Sherman Anti-Trust Act. Nationwide, wine producers are mounting a campaign to challenge state regulations governing the importation of wine. Additional legal challenges are expected to the complex set of rules and laws that ensure a strong regulatory environment and increased public safety. Much of the burden in meeting these legal challenges is placed on the Licensing and Regulation Division.

- *National Accreditation for Enforcement*
  Enforcement is seeking to become nationally accredited by the Commission on Accreditation for Law Enforcement Agencies (CALEA). CALEA accreditation ensures that agency enforcement policies, practices and training curriculum meet nationally recognized standards for the delivery of law enforcement services. Accreditation reduces risk, increases efficiency in service delivery, and increases citizen and employee confidence in the agency. The required training for national accreditation is being addressed through a decision package request for FY 05-07.

Major Goals and Strategies

Retail Division

Objective:	Implement Retail Business Plan
Strategies:	*Develop new stores and relocate existing stores.* *Reduce inventory management costs.* *Develop additional capacity for the Distribution Center.* *Increase revenue.* *Implement Wide Area Network.* *Increase operating efficiencies.*

Licensing Division

Objective:	Create more efficient, effective licensing processes.
Strategy:	*Replace existing outmoded computing systems to provide improved service delivery, better access to licensee records, and more information about the licensing process.*
Objective:	Strengthen partnerships with local government and citizens' groups.
Strategy:	*Identify potential problem areas and develop a set of procedures and support materials to help local government and citizen's groups communicate more effectively about liquor license issues and renewals.*
Objective:	Strengthen the MIW Regulatory System.
Strategy:	*Implement new laws and rules; improve online service.*

Enforcement and Education Division

Objective:	Upgrade liquor enforcement officer training to meet state law enforcement training standards.
Strategy:	*Obtain law enforcement accreditation through the Commission on Accreditation for Law Enforcement Agencies (CALEA) by sending officers to the Basic Law Enforcement Academy (BLEA) provided by the Washington State Criminal Justice Training Commission (CJTC).*
Objective:	Increase voluntary compliance to alcohol and tobacco regulations.
Strategy:	*Implement Community Oriented Liquor and Tobacco Enforcement.*
Objective:	Improve supervisory and managerial controls.
Strategy:	*Obtain law enforcement accreditation through the Commission on Accreditation for Law Enforcement Agencies (CALEA).*
Objective:	Reduce underage access to alcohol and tobacco.
Strategy:	*Increase compliance rates for youth access to alcohol and tobacco.*
Objective:	Create an alcohol education advisory council to help develop and implement statewide alcohol education strategies.
Strategy:	*Enlist the assistance of a Prevention Advisory Council to develop new programs and services in support of the Board's legislative mandate to provide statewide alcohol abuse education programs. Partner with local communities, schools and colleges/universities, law enforcement and industry.*

Administrative Support

Objective:	Implement a phased improvement of Core Technology capability.
Strategy:	*Identify and invest in proven business practices and systems. Deliver effective technology services and protect public resources.*

Objective:	Secure, Dedicated, Centralized Training Resources
Strategy:	*Develop, implement and sustain an agency-wide employee training program.*
Objective:	Create a Performance-Based Culture
Strategy:	*Implement Washington Works.*

Objective:	Increase public, employee and stakeholder understanding of and support for the WSLCB.
Strategy:	*Develop and implement a comprehensive communication plan.*

Objective:	Policy development and regulatory improvement.
Strategy:	*Develop fair, useable, consistent rules and policies to support the agency's balanced mission.*

Objective:	Reduce WSLCB risk-related losses.
Strategy:	Continue to develop and strengthen an agency-wide risk management program.

Strengths

Cooperative and Effective Workforce

LCB staff is committed to providing timely and efficient services to the citizens of Washington State. The LCB is focused on implementing best business practices and continually evaluating and reviewing opportunities for improvements in agency operations.

Retail Business Plan

The plan guides LCB efforts in conducting its retail and wholesale operations more efficiently and profitably. The plan focuses on meeting increased public demand (being driven by an increase in the number of drinking-age adults), improving customer service, utilizing state-of-the-art financial and communication systems, and responsibly controlling the distribution of alcohol…all the basics of running a good business.

Stakeholder Relations

Stakeholder involvement in LCB activities and planning is key to gaining a cooperative work environment. Collective efforts among LCB personnel and stakeholders have resulted in some of the largest accomplishments to date; Alcohol Impact Areas, Shelf Management Program, Community Oriented Liquor and Tobacco Enforcement, Licensing Task Force, and The Business Advisory Council standout as major successes for the agency.

Liquor and Tobacco Enforcement Division

The National Liquor Law Enforcement Association selected the LCB's enforcement and Education Division as "Liquor Enforcement Agency of the Year." The Division was nominated in the "Innovative Programs" category because of their "Community Oriented Liquor and Tobacco Enforcement" and "Party Patrol" programs. Both programs encourage law enforcement and the public to work together towards a common goal of decreasing alcohol and tobacco access to underage persons and alcohol over-service

Weaknesses

Information Technology

If the agency's outdated information technology infrastructure is not upgraded soon, the agency will begin to experience significantly greater outages that will severely impact its ability to do its work, serve customers and generate revenue. The current core computing system is so old it cannot be supported by a vendor. Daily outages are commonplace and will become even more pronounced the longer that needed investment is deferred.

Employee Training

Past budget cuts to important training plans have caused the LCB to become vulnerable due to a lack of properly educated staff in management, supervisor and front line employee positions. Most noticeable are mandatory training areas required by Merit System Rule; Sexual Harassment, Workplace Violence, and Supervisor/Managerial training requirements are not being met. LCB needs to devote resources to training efforts to minimize exposure to risk.

Management Tools

Access to information is essential to making sound management decisions. The LCB does not have the capability to readily view critical data. In addition, the lack of essential information prohibits the agency from effective scorekeeping and inhibits us in promoting success stories.

Policy and Procedure Needs

Identified in a 2002 management review conducted by Sterling and Associates the LCB is lacking in the area of policy and procedure development. Implementing necessary policies and procedures will reduce agency risk and ensure internal control. Efforts continue in policy and procedure development.

Communication to all Staff

The geographical locations and uniqueness of the agency employee base makes it difficult to ensure important information is shared will all staff. An established intranet has become a good starting point in achieving the goal of boosting communications, however not all employees have direct access to computers or the intranet. The LCB continues to work on enhancing communications.

Opportunities

Improved Strategic Planning

A new emphasis on comprehensive strategic planning is guiding the agency's development as it moves to meet increasing demand for retail, licensing and enforcement services. The agency is producing a 10-year Strategic Plan to accurately forecast retail sales growth and measure the effect of that growth on other vital services the agency provides: enforcement, licensing and regulation. By adopting a more integrated planning approach, the agency will be able to deliver services more effectively – maximizing revenues to the state and public safety – during a period of rapid change.

Partnership with Department of Licensing

An inter-agency agreement with the Department of Licensing (DOL) allows liquor licensees to renew their licenses online using DOL's website. Offered for the first time in December 2003, this new service is expected to reduce the number of late renewals, which require extra staffing time by Licensing and Enforcement personnel. It also should save licensees money by reducing late fees.

Partnership with Department of Revenue

In 2003, taxes for all tobacco-related products exceeded $422 million. DOR estimates that untaxed tobacco products cost the state $109 million annually. WSLCB tobacco tax agents partner with DOR in an increasingly successful effort to collect revenue from untaxed cigarettes illegally shipped into the state for sale in smoke shops or sold on the Internet without state stamps.

Merchandise Business System

The LCB is in completing the installation of a new Merchandising Business System (MBS) in its state-operated stores. This will dramatically increase the type and availability of data at all levels of the operation. Once functional, the MBS will greatly improve the ability to manage store operations, purchasing, and distribution using best business practices. A new Wide Area Network is needed to make the new hardware work at optimal efficiency. The MBS investment needs to be seen as the first element in a much more aggressive, agency-wide technology upgrade.

Threats

Information Technology

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Employee Retention and Recruitment

The agency needs to recruit and retain high-quality employees. More than 29 percent of WSLCB employees are eligible to retire by 2005. The agency stands to lose valuable organizational knowledge and experience if its current workforce is not given the tools to assume new responsibilities. A more strategic effort to recruit and retain high-quality employees is needed now to build staff capacity to fill the gaps these retirements will create.

Civil Service Reform

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Privatization

Retail liquor operations in a controlled state environment will continue to have legislative presence in the years to come. A loss of retail operations would result in many LCB employee terminations and may result in loss of revenue to the state.

Emergent or Hot Issues

The WSLCB is at a critical juncture in its development. The agency needs critical investments in its infrastructure if it is to continue to carry out its dual mission to maximize revenue and protect the public. The following Decision Packages have been proposed for the next biennium:

- Distribution Center Expansion and Improvements
- Increases in Stores, Store Technology and Store Employees
- Proposals Strengthening Employee Training
- Improvements in Core Technology
- Improvements in Regulatory Operations

WSLCB Decision Packages 2005-2007

Distribution Center-Related Requests

Distribution Center Expansion – 2005-2007 Biennium

The Seattle Distribution Center was designed to ship 17,000 cases of liquor in an eight-hour day, or 22,000 cases in a 16-hour day. It will reach is shipping capacity limit in 2005. Growth in liter sales is expected to continue at a 4.8 percent annual rate. A plant expansion of 62,000 square feet is needed to ensure our ability to supply our stores and wholesale customers. The cost of $17.8 million would be met by continuing a $0.20 per-liter surcharge on spirits used to fund the original DC construction.

Early Redemption of COPs to Finance DC Expansion - 2005-2007 Biennium

Certificates of Participation paid for by the $0.20 per-liter surcharge on spirits were used to finance the original DC construction. Greater-than-expected revenues raised by this surcharge have created a surplus in the debt reduction fund. This surplus can be used to pay off the original COPs early, saving the state $390,000 in interest expense. Once the original debt is paid off, the surcharge can be extended to cover the cost of expanding the DC outlined in the DP above.

Supplemental to Increase Distribution Center Shipping Capacity – FY 2005

Additional funding of $4.5 million is needed in FY 2005 to help us move forward with critical staffing and operational improvements at the DC necessary to meet our store and licensee supply needs in the 2005 holiday season. The DC is currently operating at near capacity. Next year we will experience peak shipping loads beyond our capacity. Waiting for a 2005-2007 biennial appropriation to make improvements in our warehouse operations will put us too far behind to meet supply demand in the 2005 holiday season. This will cause severe problems for our stores and wholesale customers and will result in revenue losses to the state.

Retail-Related Requests

More Store Employees – 2005-2007 Biennium

Since 1996 the Agency has experienced rapid real growth in as measured by liter sales. This growth has stretched productivity levels to the maximum. The Agency is seeking 115.5 Retail Store Employees to provide cashiering, stocking, and customer service needs in our 161 State operated stores. The addition of these 115.5 FTE's will support both existing and projected sales opportunities, generate new revenues and provide infrastructure to properly manage the business.

New Stores – 2005-2007 Biennium

Changing state demographics represent new business opportunities for the LCB. The agency's Retail Business Plan, developed to guide the growth of retail/wholesale operations, new store target areas are calls for another four stores in the next biennium in under-served or rapidly growing areas. Two new 'concept' stores – larger with expanded selection and amenities – are part of this proposal. An investment of $2.642 million in four new stores will generate an additional $7.6 million in sales in 2007 (a $3.55 million increase in revenue).Clark County, Thurston County, Pierce County, Snohomish County, and Eastern King County. (Liquor Revolving Fund)

Wide Area Network – 2005-2007 Biennium

In retail stores throughout the United States, credit and debit cards are the most common form of payment. Average transaction times are three to five seconds. Not so at the LCB, where lack of a high-speed Wide Area Network results in credit/debit processing times from 25 to 50 seconds and represents our number one customer complaint. The LCB needs to install a high-speed network to support the Human Resource Management System (HRMS), to improve customer service by reducing the credit card transaction time to 5 seconds or less, to provide online lottery games, and to improve customer service by enabling product searches. (Liquor Revolving Fund)

Regulatory-Related Requests

Criminal Justice Training – 2005-2007 Biennium

Funding has been requested to cover the cost of sending 10 Liquor Enforcement Officers (LEOs) to Basic Law Enforcement Academy (BLEA) training during the 2005-2007 Biennium. This is the first phase of an eight-year plan to provide BLEA training for 40 agency LEOs. Cost for the biennium is $157,470 to be paid for from the Liquor Revolving Fund.

Nightclub License – 2005-2007 Biennium

Currently the only license available to nightclubs that serve spirits, is a "spirits, beer, and wine restaurant" license. The growing number of nightclubs in the state requires significantly more enforcement resources. A new liquor license for nightclubs and four new Liquor Enforcement Officers (LEOs) dedicated to these clubs are needed to improve enforcement and education activities and ensure greater public safety. The cost of this DP would be $587,518 for the biennium for salaries, equipment and training. A new nightclub licensing fee of $2,500 would pay for the cost of this initiative.

Funding for Costco Lawsuit – FY 2005 Supplemental

A supplemental appropriation of $95,400 is being requested to pay for legal costs associated with the Costco lawsuit. Non-budgeted items include defense expert services (200 hours at $250 per hour = $50,000); a temporary staff Management Analyst 3 ($44,000); and computer software ($1,420). The agency is required by law to respond to discovery and other related requests. Incomplete or untimely responses subject the agency to possible court sanctions. Failure to utilize expert support would diminish the strength of the agency's defense.

General Administrative Requests

Core Technology – 2005-2007 Biennium

About $3 million is needed to address critical operational gaps in the agency's core technology. The current system is more than 15 years old, unstable, and no longer supported by the vendor. Systems supporting Enforcement and Licensing are down as often as every 20 minutes and face an imminent threat of total failure. The complexity of the current network makes it particularly vulnerable to intrusions and outages. An excessive amount of staff time is being consumed troubleshooting network problems. New core technology is needed to maintain critical operational needs.

Training – 2005-2007 Biennium

State budget reductions in the 2003 biennium effectively eliminated the agency's strategic approach to employee training and development. Inconsistent training opportunities and insufficient resource allocation have resulted in training gaps on mandatory topics and have raised the agency's risk level. These gaps compare unfavorably with the private sector, other state agencies, and other alcohol beverage regulatory agencies. A total of $402,000 is needed for an FTE and training courses to help us move to 100 percent compliance with state mandated training courses, reduce risk, and improve staff knowledge/ skills/service delivery. (Liquor Revolving Fund)

Education Initiative – 2005-2007 Biennium

The Board is required to conduct a statewide Alcohol Education program by RCW 66.08.050. The agency seeks funding to create and staff an Alcohol Education Advisory Council to improve and expand its education mandate. The Board seeks to raise awareness about the problems caused by alcohol abuse and support efforts by other state agencies to deal with the social and health problems caused by over-consumption. Advisory council members would include state agencies, law enforcement, communities, advocacy groups and industry. Funding for an FTE is requested. Cost of the initiative is estimated at $185,000 for the 2005-2007 Biennium.

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