



Washington State
Liquor Control Board

Initiative 1100: Summary & Impact

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Impact:

– Terminates State Distribution and Retail of Spirits by December 2011

Initiative 1100 directs the Liquor Control Board (LCB) to implement plan to terminate the system of state liquor stores and liquor distribution and dispose of assets.

- LCB policy, enforcement and licensing functions remain (unfunded)
- Creates general licenses for retail and distribution
- Over 930 state employee jobs eliminated
- Over 155 small businesses(contract liquor stores) impacted



Impact: Deregulation of Alcohol

– Repeals pricing restrictions on alcohol beverage industry

Initiative 1100 deregulates alcohol and treats it like any other product. It repeals traditional three-tier system, tied-house restrictions and price controls on spirits, beer and wine.

Initiative 1100 allows pricing practices that are currently prohibited such as:

- | | |
|------------------------------------|--|
| ➤ Uniform pricing | ➤ Retail-to-retail sales |
| ➤ Quantity discounts | ➤ No restrictions on financial ownership or interest |
| ➤ Purchases on credit | ➤ No restrictions on distribution |
| ➤ Central warehousing by retailers | |



Washington State Liquor Control Board

FY 2010 Taxes (Retail & Liter)

- \$211,277,814 million General Fund State
- \$23,490,679 million Cities & Counties
- \$234,768,493

FY 2010 Markup Allocation Projection

- \$127.9 million - Total LCB Operating Expenses
 - (\$105.2 million total Business Enterprise costs)
- \$75 million General Fund
- \$47 million Cities and Counties
- \$250,770,536 million, estimated markup generated in FY 2010

FY 2010 State Taxes & Markup from Liquor Sales (includes taxes & markup)

- \$365,930,618 million, total return to state and local government from liquor sales

EXHIBIT E



Impact: Decrease in Revenue to State & Local Government

– Eliminates Markup - Maintains Taxes

Initiative 1100 repeals the state markup.

- \$75 potential annual loss to General Fund
 - \$47 potential annual loss to cities, counties and border areas
 - \$23 potential General Fund allocation to pay LCB expenses now paid for by the markup
- \$145 million potential revenue lost to state, counties, cities and border areas**



Office of Financial Management (OFM)

– Fiscal Impacts of Initiative 1100 – Loss of Mark-Up

- State Revenue decrease an estimated \$76-\$85 million
 - Local Government revenue decrease an estimated \$180-\$192 million
- Total Loss \$256-277 million

Over 5 years.

– Fiscal Impacts of Initiative 1105 – Loss of Mark-Up and Taxes

- State Revenue decrease an estimated \$486-\$520 million
 - Local Government revenue decrease an estimated \$205-\$210 million
- Total Loss \$691- \$730 million

Over 5 years.



Impact: Availability and Consumption

— Increase in Retail Outlets Selling Spirits (Density)

Outlets per capita increases from among lowest to the nation's highest. (age 21 & older)

- 315 outlets to 3300-5500 outlets.
- Washington liquor store current density is 6 / 100,000.
- California liquor store density is 44 outlets / 100,000.
- Current beer and wine grocery store density: 113 / 100,000.

Increase in Consumption

Studies show that increased outlets equates to additional consumption.

Consumption is between 5-20 percent less in control states with limited access (like Washington) compared to open states (like California).

Impact on Sales to Minors

The State's no-sales-to-minors compliance rate is significantly better than the private sector.

The LCB 12 month rolling no-sales-to-minors compliance rate is 94 percent.

The private sector compliance rate is 76-84 percent.



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Initiative 1105: Summary & Impact



Impact:

- **Terminates State Distribution and Retail of Spirits by April 01, 2012.**
- Initiative 1105 directs the Liquor Control Board (LCB) to implement a plan to terminate the system of state liquor stores and liquor distribution and dispose of assets.
 - LCB policy, enforcement and licensing functions remain (unfunded)
 - Creates general licenses for retail and distribution
 - Over 930 state employee jobs eliminated
 - Over 155 small businesses impacted



Impact: Liquor License Annual Fees & Gross Sales Fee

Spirits distributor license:

- This license allows distributors to sell spirits to any person holding a license to sell spirits beginning October 1, 2011. \$2000.00

Gross sales fee:

- Each licensee obtaining a spirits distributor license must agree to pay an amount equivalent to 1 percent of the licensee's gross annual spirits sales for a five-year period beginning on the date of the licensee's first sale of spirits.
- LCB to establish rules setting the frequency and timing of the payments and reporting of sales volume by the licensees.



Impact: Liquor License Annual Fees & Gross Sales Fee (Cont.)

Spirits retailer license :

- This license allows retailers to sell spirits for off-premises consumption beginning November 1, 2011. \$1000.00

Gross sales fee:

- Each licensee obtaining a spirits retailer license must agree to pay an amount equivalent to 6 percent of the licensee's gross annual spirits sales for a five-year period beginning on the date of the licensee's first sale of spirits.
- LCB to establish rules setting the frequency and timing of the payments and reporting of sales volume by the licensees.



Impact: Uniform Pricing & Quantity Discounts

- Uniform pricing is required for spirits, beer, and wine.
- Quantity discounts are allowed for spirits only.



Impact: Repeal of Taxes & Mark-Up

The initiative directs the LCB to recommend a per-liter rate of taxation to be paid by spirits distributors on all spirits sold to spirits distributors within the state. The LCB must consider other spirits-related revenue such as:

- Anticipated B & O tax generated by spirits retail and distribution;
- Proceeds from gross sales fees by spirits retailer and spirits distributor licenses; and
- Annual spirits license fees.
- Liquor taxes and markup are repealed effective April 1, 2012.



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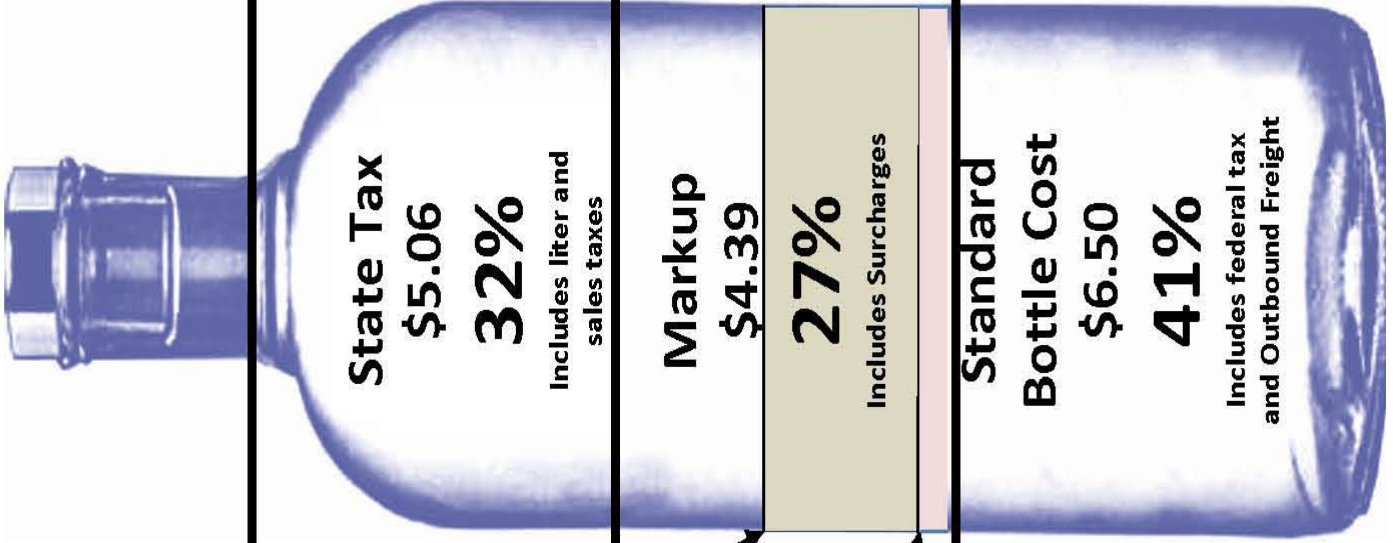
EXHIBIT E

DRAFT

CURRENT MODEL

Price at Register: \$15.95

RETAIL



\$1.67 Business Enterprise

\$0.39 Licensing/Enforcement