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## Final Report

Project: **Washington State Liquor Control Board  
Organizational and Operational Review**



September 6, 2005

Company name: **Public Knowledge, LLC**

Address: 1911 SW Campus Drive #457  
Federal Way, WA 98023

Contact person: Gerry Brodsky

Phone number: 503.581.0878

Email: [GBrodsky@pubknow.com](mailto:GBrodsky@pubknow.com)

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## Executive Summary

### Introduction

*Governor Gregoire asked for an independent review and recommendations...the WSLCB engaged Public Knowledge to fulfill this request.*

Governor Gregoire asked for an independent review and recommendations for the Washington State Liquor Control Board (WSLCB) in the following areas:

- Conduct a review of the Board and the WSLCB management structure and organization;
- Prepare organizational alternatives including a recommended optimal organizational structure;
- Evaluate the WSLCB for performance and operational efficiencies; and
- Research and validate projections on revenue growth for the next five to ten years and in light of those projections to identify potential public safety challenges related to these projected trends.

The WSLCB engaged Public Knowledge, LLC in an assessment of its organization to fulfill Governor Gregoire's request. The audience for the final report is the WSLCB members, Agency management and the Governor's office.

### Approach

*Public Knowledge conducted interviews...researched other control states and regulatory agencies... developed a set of criteria...findings were developed...and reviewed with the Executive Management Team.*

In order to have the appropriate context for making recommendations, Public Knowledge conducted interviews with external stakeholders, WSLCB members, and Agency management. We also researched other Washington regulatory agencies; liquor control states, relevant statutes, and internal management documents.

Using several principles and legislative intent that has historically guided the work of the Agency, Public Knowledge developed a set of criteria for reviewing the current organizational structure and performance of the WSLCB. Findings for each criterion were developed based on the understanding gained from our research. The findings resulted in draft recommendations which were presented to the Executive Management Team (EMT). EMT suggested changes, requested further analyses, and completed a brief survey. This report incorporates the added analyses and our consideration of EMT's feedback.

## **Review of Management Structure & Organization**

*After hiring an Administrative Director... the Board adopted a resolution to move to 60% working hours in December 2001.*

The state of Washington, designated a “liquor control state”, regulates the manufacture, wholesale and retail distribution of liquor, wine, and beer. The WSLCB, established in 1933, has a dual mission of generating revenue and protecting public safety.

After hiring an Administrative Director to oversee operations, the three-member Board adopted a resolution to move to 60% working hours in December 2001. Board members changed their focus to policy, rules and adjudicative responsibilities. A review of the meetings and responsibilities of the Board indicates that the Board continues to be involved in operational activities and decisions.

The Administrative Director responsibilities include supervision of staff, responsibility for the Board approved budget, contracts, purchase of goods and services and other routine duties delegated by the Board.

*We researched... six Washington agencies including the Lottery Commission, Gambling Commission, and Horse Racing Commission...only the WSLCB has salaried Board members who are state employees.*

We researched the organizational structure of six similar Washington agencies including the Lottery Commission, Gambling Commission and Horse Racing Commission. All agencies have regulatory responsibilities, full-time directors and voluntary boards/commissions. Only the WSLCB has salaried Board members who are state employees.

Evaluation criteria were developed and corresponding findings documented on the current management structure and organization of the WSLCB.

*...stakeholders are pleased with the performance and progress of the WSLCB*

In general, stakeholders are pleased with the performance and progress of the WSLCB. There is, however, concern that the Agency lacks a consistent, shared vision that provides for future direction.

## **Alternatives for the Organizational Structure and Recommendations**

*...we are recommending the continuation of the current Board structure...the Board should prepare to transition to a voluntary Board...*

Five organizational alternatives were considered; the chief selection criteria being an organizational structure that would enable the future success of the WSLCB. With this in mind, we are recommending the continuation of the current Board structure and further delegation of operational duties to the Administrative Director. The WSLCB should transition to a voluntary Board structure at the conclusion of the 2007 legislative session.

*A transition plan is called for to ensure continued success of the organization.*

We recognize the WSLCB is facing considerable operational challenges. Overcoming these challenges and realizing performance improvements will require gubernatorial, legislative and stakeholder support in the 2007 legislative session. A transition plan is called for to ensure the continued success of the organization. WSLCB enjoys strong support of its stakeholders and a precipitous move to a voluntary board could undermine support and distract Agency leadership from more important tasks.

Currently, the Board is constituted with no formal requirements for Board qualifications. Our review considered possible changes including requiring industry experience, geographical location requirements, etc. However, we are recommending no changes as the absence of statutory requirements provides the most flexibility in selecting the best members.

**Evaluation of the  
WSLCB for  
Performance and  
Operational  
Efficiencies**

The WSLCB’s primary operational responsibility is to manage the sale and distribution of alcoholic beverages and provide for public safety in the prevention of the misuse of alcohol.

We conducted an evaluation of the WSLCB operations to determine potential performance improvements and efficiencies. Evaluation criteria were developed and corresponding findings documented.

*A comparison... with other similar control states reveals a high performing Agency... management must develop a viable plan that will lead them into the future...*

In general, stakeholders are pleased with the improvements being made in the Agency. A comparison of WSLCB with other similar control states reveals a high performing Agency. However, there is a strong message from stakeholders that management must continue to develop and implement the Agencies Strategic and Retail Business plan or their success will likely not continue.

*Our review found considerable performance problems in the operational environment...*

Although improving operational policies and procedures recently have been a priority of the agency , our review found considerable performance problems in the operational environment including incomplete operational policies and procedures, basic technology infrastructure, little or no useable management data and severe problems in the liquor supply chain.

*Our recommendations include researching ... WSLCB becoming an “Enterprise Agency”... it is critical that ... a viable operations business model be developed...*

The WSLCB manages a retail business in a governmental environment which makes increasing profit and improving operational efficiencies much more difficult than their equivalent in the private sector.

Our recommendations include researching the opportunities and risks involved with the WSLCB becoming an “Enterprise Agency” and reducing some of the governmental constraints that are restricting their performance. However, it is critical that a part of this plan be a viable operations business model that will provide for business and technology infrastructure that will be the foundation for their success.

## Validation of Revenue Growth Projections and Public Safety Impacts

*...revenue forecasts are within 5% of actual figures...revenue forecasts project an increase of more than 5% for the next biennium...*

*...increased risk of incorrect revenue projections as the past will no longer be a reflection of the future.*

*While there may not be an increase in liquor consumption in Washington, more money will need to be distributed to drug and alcohol abuse treatment programs to treat the same number of individuals.*

Validation of revenue projections revealed that when comparing *actual* revenues to *forecasted* revenues over the past four fiscal years most revenue forecasts are within 5% of actual figures. Actual revenues have exceeded forecasted revenues in each of the past four years on approximately 2%. Revenue forecasts for the 2006-2007 biennium project a 5.45% growth in 2006 and a 5.3% growth in 2007.

Revenue forecasts have relied heavily on historical data as a basis for determining projections. The WSLCB does not produce long-term revenue forecasts as future revenue has remained fairly predictable. Changes in staffing and infrastructure will provide increased risk of incorrect revenue projections as the past will no longer be a reflection of the future. Improvements need to be made to the quantity, quality and reliability of the data used to manage the retail stores.

Based on the analysis of the current revenue forecasts and historical per capita consumption rates, there is no indication there will be a significant increase in liquor consumption. National studies on health care indicate there is a significant growth in alcohol-related illnesses. If the revenue distribution percentage to drug and alcohol abuse treatment programs is not increased at essentially the same rate as the growth in healthcare costs, fewer individuals seeking services will be able to receive them each year.

## Appendices

*We have provided a complete list of our sources and research...*

We have provided a complete list of our sources and research in the following:

- Appendix A provides a comparison of liquor control states, including five separate comparisons:
  1. Liquor Control Board Structure;
  2. Agency/Division Organizational Structure;
  3. Agency/Division Functional Structure;
  4. Number of Licensing Outlets; and
  5. Performance Comparison Data;
- Appendix B provides the details of the Agencies' structure and a current organizational chart;
- Appendix C provides the RCW's and WAC's relevant to the WSLCB organization and management structure;
- Appendix D is a list of retail best practices from control states;
- Appendix E is a list of stakeholder interviews; and their respective organization or position in WSLCB; and
- Appendix F is a list of sources used to conduct research for this project.

## Section 1 – Introduction

### A. Purpose of the Study

Governor Christine Gregoire, in her reappointment letter to the Washington State Liquor Control Board (WSLCB) Chairman, recognized the progress that the WSLCB had achieved in refocusing their role to be a policy group, in implementing clarity of direction, and in achieving better resource utilization. Additionally, she asked for an independent review and report on the following key areas:

- Conduct a review of the Board and the WSLCB management structure and organization;
- Prepare organizational alternatives including a recommended optimal organizational structure;
- Evaluate the WSLCB for performance and operational efficiencies; and
- Research and validate projections on revenue growth for the next five to ten years and in light of those projections to identify potential public safety challenges related to these projected trends.

The WSLCB engaged Public Knowledge, LLC in an assessment of its organization to fulfill Governor Gregoire’s request.

### B. Audience

This document provides findings and recommendations with regards to the key areas listed above to the WSLCB Members, WSLCB Agency Management, and the Governor’s Office.

### C. Document Organization

This document is organized into seven sections. Those sections are:

Section	Contents
1. Introduction	Defines purpose of the study, audience for the report, the organization of the document, and the project background.
2. Approach	Defines approach taken to perform organizational assessment, including information gathering, developing criteria and conducting interviews, determining findings, and identifying recommendations.
3. Review of Management Structure and Organization	Provides an overview of the WSLCB, criteria and findings used to assess the organizational structure.
4. Alternatives for the WSLCB’s Organizational Structure and Recommended Optimal Organizational Structure	Provides organizational alternatives and a recommended organizational structure.
5. Evaluation of the WSLCB for Performance and Operational Efficiencies	Summarizes criteria used to assess the performance of WSLCB compared to similar states. Evaluates WSLCB operations and provides recommendations for changes.

<b>Section</b>	<b>Contents</b>
6. Research/Validation of Projections on Revenue Growth including Public Safety Impacts	Provides documentation and validation of the WSLCB revenue forecast process. Also identifies potential public safety impacts from increased projected revenues.
7. Appendices	<ul style="list-style-type: none"> <li>▪ Appendix A provides a comparison of control states, including five separate comparisons:               <ol style="list-style-type: none"> <li>1. Liquor Control Board Structure;</li> <li>2. Agency/Division Organizational Structure;</li> <li>3. Agency/Division Functional Structure;</li> <li>4. Number of Licensing Outlets; and</li> <li>5. Performance Comparison Data;</li> </ol> </li> <li>▪ Appendix B provides the details of the Agencies structure and a current organizational chart;</li> <li>▪ Appendix C provides the RCW's and WAC's relevant to the WSLCB organization and management structure;</li> <li>▪ Appendix D is a list of retail best practices from control states;</li> <li>▪ Appendix E is a list of stakeholder interviews; and their respective organization or position in WSLCB; and</li> <li>▪ Appendix F is a list of sources used to conduct research for this project.</li> </ul>

## D. Terminology

An understanding of the following terms is necessary to have appropriate context for this document:

<b>Term</b>	<b>Definition</b>
LCB	▪ Liquor Control Board – A generic term used to refer to the oversight board in other control states.
WSLCB	▪ Washington State Liquor Control Board includes the Board, Agency management and line staff.
Board	▪ Refers to the three appointed Board members.
Agency	▪ Refers to the organization that is responsible for WSLCB operations.
Executive Management Team	▪ Refers to the board members, the Administrative Director and the Deputy Administrative Director.
Ex-officio	▪ Appointed to a position as a result of another official position such as a legislator.
Control States	▪ Refers to the eighteen states that control the distribution and sale of alcohol. Does not include the two “controlled” counties in Maryland.
External Stakeholders	▪ Includes private and public sector partners outside of the WSLCB.
Internal Stakeholders	▪ Includes WSLCB Board and Agency management.
Stakeholders	▪ References both internal and external stakeholders.
Staff	▪ References line staff in the WSLCB.

## Section 2 – Approach

### A. Gather Information

It is necessary to have a detailed understanding of an organization’s structure and operations in order to consider future alternatives and organizational improvements. Public Knowledge, LLC performed the following tasks to gather initial information on the WSLCB:

- Reviewed relevant documentation including:
  - Agency reports;
  - The WSLCB Strategic Plan;
  - The WSLCB Retail Business Plan and other Division Plans;
  - Previous third party studies of the WSLCB;
  - Relevant statutes and administrative rules;
- Visited the WSLCB Distribution Center; and
- Performed interviews as defined in the next section.

A result of these tasks was the identification of several principles and legislative intent that historically have guided the work of the WSLCB. These principles include:

- The WSLCB has a balanced mission of preventing the misuse of alcohol by controlling its distribution and providing revenue to state and local government through sales and good customer service;
- There are limits upon gubernatorial influence through the staggered terms of Board members;
- There should be appropriate checks and balances among the Governor, Legislature, and the WSLCB;
- The WSLCB will be prohibited from the stimulation of demand for liquor consumption; and
- Revenues should provide funding for cities, counties, health services, education prevention, and research, as well as the State General Fund.

The recommendations made in this report will be compatible with and support those principles.

### B. Develop Assessment Criteria and Conduct Interviews

The foundation of our organizational assessment was a set of criteria for reviewing the current organization and performance of the WSLCB. The criteria were developed based on:

- Our experience completing similar assessments in other public agencies;
- Information obtained from industry best practices;
- Documentation of organizational structures in other control states;
- Suggested standards for assessing non-profit boards from various sources; and
- Interviews with Board members, the WSLCB Administrative Director, and Deputy, WSLCB managers and external stakeholders.

Public Knowledge, LLC conducted interviews with:

- Board members;
- WSLCB Administrative Director, Deputy and Managerial staff;
- Chief of Staff, Washington Department of Transportation;
- Washington Lottery Director;
- Executive Director, Oregon Liquor Commission;
- Washington regulatory agencies that utilize boards or commissions as part of their organizational structure. They included:
  - The Washington Lottery Commission;
  - The Washington Gambling Commission;
  - The Washington State Building Code Council;
  - The Washington State Conservation Commission;
  - The Washington State Board of Accountancy;
  - The Washington State Horse Racing Commission;
- Washington State Liquor Control Board private sector stakeholders including:
  - The Washington Beer and Wine Wholesalers Association;
  - Washington Association of Liquor Agents;
  - Washington Food Industry;
  - Distillers Representatives Association;
  - Washington Restaurant Association;
  - Washington Wine Commission and Wine Institute;
  - Local Union 101;
  - Executive Director of the National Alcohol Beverage Control Association; and
  - The Washington State Public Employees Association.

Appendix E provides a complete list of stakeholder interviews, their representative organizations and/or positions in the WSLCB.

## **C. Determine Findings and Identify Recommendations**

Findings for each criterion were based on reviews and analysis of WSLCB reports and other documents, a survey of best practices in other states, comparisons with other control states, visits to the WSLCB Distribution Center, its counterpart in Oregon, consistent themes across interviews with stakeholders and our experience with public agencies. The remainder of this report provides our findings and recommendations for the WSLCB.

## **D. Prepare Draft Report and Review with WSLCB Executive Management Team**

The draft report and recommendations were presented to the WSLCB Executive Management Team (EMT). The assumptions and rationale for the recommendations was presented and discussed. EMT suggested some further analyses and these were completed. Following the presentation, EMT members provided general comments, suggested changes and completed a brief survey assessing opinions on some the key rationale for the recommendations. This draft incorporates the added analyses and revision to the recommendations based, in part, on the suggestions and survey results.

## Section 3 – Review of Management Structure and Organization

This section provides an overview of the WSLCB, a comparison to other Washington State commissions and boards and the criteria and findings used in our review of the management structure and organization. Documentation on the organizational structure of other control states is found in Appendix A.

### A. WSLCB Overview

The 18th Amendment to the Constitution of the United States banned the manufacture, sale or transport of liquor and began what is commonly called Prohibition. In 1933, the 21st Amendment to the Constitution ended Prohibition and provided states complete authority to regulate the distribution and sale of liquor. That same year, the Washington State Legislature passed the Steele Act creating the Washington State Liquor Control Board. Under this legislation, control of liquor distributions was established through state ownership of liquor stores and strict regulations for any establishment that sold liquor, beer, or wine.

At the end of 1934, there were 46 state liquor stores, 105 contract stores and 6,400 licensed retailers selling beer and wine. In 2005, there are 161 state stores, 154 contract stores and approximately 13,500 licensed retailers.

States are divided into two types of alcohol distribution: control states and license states. Both types of states regulate the distribution and sale of alcohol through licensing of liquor outlets, limiting hours of operation, taxation and various other methods. Control states, also known as monopolies, differ from license states, or open environments, as they actually take control of the product at some point in the distribution cycle and become the exclusive seller.

Washington state regulates the sale and distribution of alcoholic beverages through a three-tier system (manufacturer, wholesaler and importer, and retailer). In Washington, the state is the sole distributor and retailer of spirits through LCB's 161 state and contract liquor stores. Restaurants and other businesses licensed to sell spirits must obtain their spirits from a state-run or contract liquor store. Beer and wine are distributed and sold by the private sector. Grocery stores and other businesses licensed to sell beer and wine must buy their products from a Washington-licensed distributor or importer, or a Washington winery or brewery. Manufacturers and distributors of beer and wine are required to mark up their prices a minimum of 10 percent above production or acquisition cost.

In large part, control systems serve the dual mission of ensuring maximum revenue and protecting the public through controlling the manufacture, distribution and retail sales of alcohol. As a control state, Washington believes that moderation can best be achieved by neither promoting nor encouraging the consumption of alcohol, but by prevention of misuse through education, enforcement and controlled distribution.

Washington is one of eighteen states that control and regulate liquor at the wholesale level and one of thirteen states that also control retail sales. WSLCB is also responsible for the enforcement of

tobacco laws and public safety education. There are 1148 Agency employees, the majority of whom are employed in the state liquor stores.

## **B. Board Member Responsibilities**

The scope and powers of the Board member's are clearly defined in the Revised Code of Washington (RCW) and WAC 314-42-010. The areas of authority include:

- Purchasing, distribution, pricing, and retail sales of alcohol;
- Administration and supervision of all liquor stores;
- Approval of policies, and rules;
- Final approval of all budgets;
- Revocation and suspension of a license or permit;
- Appeals of price posting and administrative actions against licensees;
- Approval of product listings and delistings;
- Approval of contested liquor licenses and permits;
- Direct oversight and approval of policy, legislative and media relations; and
- The employment, termination and discipline of the Administrative Director and all policy and media relations staff that report directly to the board members.

In March 2000, the Board hired an Administrative Director to oversee and manage the day-to-day operations of the Agency. In December 2001, the three-member Board adopted a resolution to move to 60% working hours. This was a significant change in the Agency management structure that had existed for over 66 years; previously members directly managed WSLCB operations. The three-member Board approved WAC 314-42-010 that delegated operational responsibility of specific duties to the Administrative Director. Board members changed their focus from operations to policy, rules, legislative proposals, and adjudicative responsibilities.

Although the Board's current emphasis is policy development; the actual activities of the Board are more extensive. Additional responsibilities of its members include:

- Communicating with stakeholders, associations, retailers and the public;
- Oversight and attendance at routine meetings with organized stakeholder advisory groups;
- Participating in meetings with national organizations;
- Coordinating with the Governor's office; and
- Participating in industry events particularly where Washington-based industries are involved.

These activities are largely compatible with or result from greater public, industry and other stakeholder expectations. They also result from increased public agency participation in the economic welfare of the state. For example, the Board addresses state economic development and promotion issues through policy, by allowing shelf space in state liquor stores for smaller Washington wineries that may not produce enough volume to be carried by large grocery chains, and through more informal means, such as attendance at wine industry events.

Washington statutes make no specific allowance for this state economic development role for the Board. In contrast, statutes for another licensing and regulatory body, the Washington Horse Racing

Commission, are clear in their support of the state horse breeding industry in WAC 260-12-001: “They (rules) have been compiled with the hope that they will promote racing on a high plane and encourage the breeding and ownership of thoroughbred horses in this State.”

A complete list of RCW’s and the relevant WAC describing the roles and responsibilities of the Board and Administrative Director may be found in Appendix C.

## C. Board Workload Indicators

The following information provides workload indicators for Board. These are “indicators” and are not meant to be a comprehensive documentation of how the Board spends its time. Workload indicators were just one factor considered when recommending a new organization structure. In FY 2005:

- The Licensing and Regulation Division processed approximately 4700 license applications. Of this number, 39 went to the Board for decision because they were contested applications with local government or community objection;
- There were approximately 13,000 licenses that were renewed by the Division and 8 were sent to the Board to review; <sup>1</sup>
- There were approximately 41 informal reviews of liquor violation suspensions reviewed per month; and
- There were approximately 10 formal reviews of liquor violation suspensions reviewed per month. <sup>2</sup>

The following table provides information on the meetings attended by the Board.

Type of Meeting	Frequency	Length of Meeting	Stakeholders Attend?	Purpose
Board Caucus	Weekly	1.5 hours	Yes	Board members only attend to discuss WSLCB business.
Staff Work Session	Weekly	1-2 hours	Yes	Board reviews staff issue papers, stakeholders’ issues and updates of general business.
Executive Session	2 times per month	1 hour	No	Board meets with legal counsel to discuss WSLCB issues.
Litigation Review	Weekly	1 – 1.5 hours	No	Board reviews licensing issues, liquor violations and hearing reviews.
Board Meeting	2 times per month	1 – 1.5. hours	Yes	Board conducts a general business meeting for staff and stakeholders, product approvals and public hearings on rules etc.
Executive	Weekly	3.5 hours	Yes	Board and Agency executive

<sup>1</sup> License information provided by Lorraine Lee, Licensing and Regulations Director.

<sup>2</sup> Meeting and liquor violation information was provided by Francis Munez-Carter.

Management Team				management meet on WSLCB business.
Business Advisory Council	Quarterly	5 hours	Yes	Board conducts a public meeting with external stakeholders to address WSLCB issues and provide information.
Distillers Representatives Association of Washington	Quarterly	2 hours	Yes	Board conducts a public meeting with external stakeholders to address WSLCB issues and provide information.
Open Forum	4-7 times per year	2 hours	Yes	Board conducts an open meeting to address staff issues and provide information.
Cabinet	Weekly	1 hour	No	Chairman meets with Governor and Executive Cabinet.
New Listings	Monthly	4 hours	Yes	Board reviews and approves new product listings.
District Managers	Monthly	8 hours	No	Board meets with district store managers to discuss state liquor stores issues.
Contract Managers Advisory Committee	Quarterly	6 hours	No	Board attends a public meeting with external stakeholders to address WSLCB issues and provide information.
Wine Advisory Committee	Monthly	2 hours	Yes	Board participates as part of a committee of volunteers who sample wine and recommend wines to be carried in state stores.
Stakeholder Functions	Varies		Yes	Board members attend as requested by stakeholders.
General Stakeholder Meetings	3 per month chairman & 1-2 per month members			Board members attend as requested by stakeholders.
Board Liaison	Varies	Varies		Board members attend as requested by state agencies.
Employee Recognition	Varies	Varies		Board members attend as needed.
Conferences (NABCA, NCSLA, NLLEA, etc)	Quarterly	2-3 days	Yes	Members represent WSLCB at national conferences.
Conference for Licensing & Enforcement	Yearly	2-6 hours	No	Members represent WSLCB at conferences

## **D. Administrative Director Responsibilities**

The Washington Administrative Code (WAC) 314-42-010 establishes an Administrative Director and delegates some of the board responsibilities to the Administrative Director including:

- Supervise all liquor control board employees, with the exception of the Director and staff of the policy, legislative, and media relations division that report directly to the Board;
- Authorize expenditures of funds from the board approved internal budget;
- Purchase, lease, contract, or otherwise acquire any goods, services, and products within the board approved internal budget;
- Approve liquor purchase orders authorized by the Board (this authority may be further delegated);
- Approve uncontested licenses and permits (this authority may be further delegated);
- Assign duties, coordinate agency operations, and establish performance standards/timelines;
- Approve disbursements of excess funds from the liquor revolving fund; and
- Perform other duties of a routine administrative nature identified by the Board.

The Administrative Director is appointed by, and serves at the pleasure of the Board. The Administrative Director performs his/her duties under the general control, management, and supervision of the Board.

The Board has already begun to further delegate operational responsibilities to the Administrative Director. We will consider shortly any further transfers of responsibilities that are administrative or operational in nature rather than policy.

## E. Comparison with other Washington State Boards/Commissions

The following table provides a representative sample of the organizational structure of regulatory boards in Washington.

<b>Washington State Regulatory Agencies with Boards and Commissions*</b>							
	<b>WSLCB</b>	<b>Lottery Commission</b>	<b>Gambling Commission</b>	<b>Building Code Council</b>	<b>Conservation Commission</b>	<b>Board of Accountancy</b>	<b>Horse Racing Commission</b>
How many members make up the board in the agency, including the chairman?	<b>3</b>	5	9	15	10	9	9
How many years do the members serve?	<b>6</b>	6	6	3	3 & 4	3	6
Are members appointed by Governor (G), ex officio (EO) or elected (E)?	<b>G</b>	G	5/G 4/EO	10/G, 5/EO	2/G-3/E- 5/EO	G	5/G 4/EO
Are political party affiliation restrictions required of the board makeup?	<b>N</b>	N	N	N	N	N	N
Are some (S), none (N) or all (A) of the board members required to have industry expertise?	<b>N</b>	N	N	S	S	S	S
Are the board members full time? Y or N	<b>N</b>	N	N	N	N	N	N
Does the state pay an annual salary to the members? Y or N	<b>Y</b>	N	N	N	N	N	N
Does the state pay a meeting/day per diem to the members? Y or N	<b>N</b>	Y	Y	Y	Y	Y**	Y
How frequently does the board meet: weekly (W), monthly (M), bi-monthly (B)?	<b>W</b>	B	M	B	B	B	M
Is there an agency administrator? Y or N	<b>Y</b>	Y	Y	Y	Y	Y	Y
Is the agency administrator appointed by the Governor (G), board (B),	<b>B</b>	G	B	B	B	G	G
What functions does the agency perform?							
Education & Training	<b>Y</b>	Y	Y	N	Y	N	N
Enforcement/Compliance	<b>Y</b>	Y	Y	N	Y	Y	Y
Licensing/Registration/Permits	<b>Y</b>	Y	Y	N	Y	Y	Y
Is the board responsible for day to day operations?	<b>N</b>	N	N	N	Y	N	N
Does board approve policy and/or WAC's?	<b>Y</b>	Y	Y	Y	Y	Y	Y
*Data sources are listed in Appendix E. ** The Board of Accountancy receives a stipend of \$50 and travel expenses when working on agency business.							

### General Findings:

- The six comparison agencies above all receive oversight by a voluntary part-time board/commission. Only WSLCB has salaried Board members who are state employees;
- Member appointments are from the Governor, ex-officio or they are elected. Terms vary depending on the agency and type of appointment;

- Qualifications vary with some agencies requiring industry experience, however, none have political party requirements;
- Boards/commissions meet bi-monthly or monthly compared to WSLCB that meets weekly;
- All have a paid administrator. Responsibility for appointment and supervision of the administrator varies between the Board and the Governor;
- All of the above agencies are regulatory. With the exception of the State Building Code Council, the board/commission oversees the issuance of licenses and the compliance of licensees.
- Although exact responsibilities vary, all are involved in resolving stakeholder inquires, and approval of polices and/or WAC's;
- With the exception of the Board of Accountancy who receives a stipend salary and travel expenses, the remainder all receive \$50 - \$100 a day per diem when they are working on agency business; and
- The agency director is responsible for day to day operations except for the Conservation Commission which also provides oversight for operations.

## F. Review Criteria & Findings

The following set of criteria was used to review the current management structure and organization of WSLCB. Findings for each criterion were based on reviews and analysis of WSLCB reports and other documents, a survey of best practices in other states, comparisons with other control states, visits to the WSLCB Distribution Center, its counterpart in Oregon, consistent themes across interviews with stakeholders and our experience with public agencies. The criteria question to be answered is listed with the corresponding detailed findings.

<b>Criteria Question To Be Answered</b>	<b><i>Findings</i></b>
Does the WSLCB have a strategic plan and goals?	<ul style="list-style-type: none"> <li>▪ <i>The WSLCB has a strategic plan and goals.</i></li> </ul>
Does the WSLCB have a plan in place to achieve its goals and has it defined the expected outcomes of each initiative?	<ul style="list-style-type: none"> <li>▪ <i>Divisions have initial plans focused on meeting the goals of the strategic plan.</i></li> </ul>
Is the WSLCB's organizational structure and business model comparable to any other control state or State of Washington Agency with a Board or Commission?	<ul style="list-style-type: none"> <li>▪ <i>Four states, including Washington, have a paid board and a paid full-time administrator: Michigan and Ohio have a paid full-time board and administrator, North Carolina has a full-time paid board chairman, and administrator. The board members are voluntary;</i></li> <li>▪ <i>Board and commission structures in Washington are for the most part voluntary with members paid a set per diem. There are several boards/commissions such as the Energy Facility Site Evaluation Council and the Environmental Hearings Office that have paid board members. However, they do not have the same type of work</i></li> </ul>

Criteria Question To Be Answered	Findings
Does the WSLCB's organizational structure and duties meet statutory requirements?	<p data-bbox="873 264 1308 296"><i>responsibilities as the WSLCB members;</i></p> <ul style="list-style-type: none"> <li data-bbox="824 317 1390 489">▪ <i>Appendix A Tables 1-5 provides a profile of the 17 other control states and Section 3 E provides a representative sample of Washington regulatory agencies that use a board or a commission structure.</i></li> <li data-bbox="824 531 1390 703">▪ <i>The WSLCB's organizational structure and duties are basically in line with statutes. Some minor changes are needed to update WAC 314-42-010 to align with recent organizational changes;</i></li> <li data-bbox="824 724 1390 827">▪ <i>Appendix C provides a complete list of RCW's and the WAC authorizing the Board and the Administrative Director and their duties.</i></li> </ul>
Does the WSLCB have an organizational design that provides the structure needed to meet its future goals?	<ul style="list-style-type: none"> <li data-bbox="824 869 1390 1041">▪ <i>The Agency's design has been stable for some time. There has been a historic separation of functions into organizational divisions and it is not clear if the coordination between divisions is adequate;</i></li> <li data-bbox="824 1062 1390 1268">▪ <i>Stakeholders believe that the Administrative Director is a good addition to the organization. They also believe that the Administrative Director should continue to take over more of the operational responsibilities now handled by the Board; and</i></li> <li data-bbox="824 1289 1390 1570">▪ <i>The structure of an Administrative Director and a Board primarily focused on policy has generated initial success. There has been an improvement in fiscal controls, increased communication within the organization, added forums for stakeholder involvement, legislative support of the Retail Sales Plan and increased funding for sales staff and IT enhancements.</i></li> <li data-bbox="824 1591 1390 1879">▪ <i>Several stakeholders believe that the structure of the Purchasing Division, Retail Services and the Distribution Center is problematic as they operate independently of each other. Our observations indicated that although all three divisions continue to try to improve the supply chain, there are still numerous problems, including freight taking up to twenty days to be</i></li> </ul>

Criteria Question To Be Answered	<i>Findings</i>
Does the WSLCB understand potential conflicts in its dual mission and manage them successfully?	<p data-bbox="873 264 1328 327"><i>unloaded after it arrives at the Distribution Center.</i></p> <ul style="list-style-type: none"> <li data-bbox="824 369 1360 436">▪ <i>The WSLCB understands and manages their dual mission responsibly.</i></li> </ul>
Does the Board delegate authority to the person in charge of operations?	<ul style="list-style-type: none"> <li data-bbox="824 512 1393 718">▪ <i>The Board has delegated authority for some of the operational activities to the Administrative Director. However, many stakeholders believe that there are more operational responsibilities that should be delegated to the Administrative Director.</i></li> </ul>
Are the Board responsibilities compared with the Agency management responsibilities clearly defined?	<ul style="list-style-type: none"> <li data-bbox="824 760 1386 898">▪ <i>Responsibilities are relatively well defined. There is some confusion around the definition of policy. Is policy specific to rules and legislation or does it also include day to day policy and procedures?</i></li> </ul>
Has the WSLCB developed performance indicators and a method of monitoring the outcomes?	<ul style="list-style-type: none"> <li data-bbox="824 940 1393 1041">▪ <i>There are high level performance indicators such as revenue collected and licenses approved that can be found in the WSLCB's annual report;</i></li> <li data-bbox="824 1062 1393 1125">▪ <i>Some Divisions have also developed performance measures and are monitoring outcomes; and</i></li> <li data-bbox="824 1146 1393 1289">▪ <i>There are noted shortcomings in data for some critical performance measures, such as individual store profitability, that are important for management.</i></li> </ul>
Does the WSLCB provide an annual report to inform the public and stakeholders regarding achievement of outcomes?	<ul style="list-style-type: none"> <li data-bbox="824 1331 1334 1394">▪ <i>The WSLCB routinely provides an annual report to its stakeholders and the public.</i></li> </ul>

Criteria Question To Be Answered	Findings
Does the WSLCB successfully balance the interests of all external stakeholders?	<ul style="list-style-type: none"> <li>▪ <i>In general, external stakeholders speak highly of the WSLCB and the work that they do. They believe that WSLCB balances a difficult and conflicting mission very well;</i></li> <li>▪ <i>External stakeholders also believe that the Business Advisory Council is becoming a good tool for them to have a voice and to partner with the WSLCB; and</i></li> <li>▪ <i>Other forums exist for external stakeholders that are not a part of the Business Advisory Council, such as the Contract Store Managers Council.</i></li> </ul>
Do the board members serve the interests of public, external stakeholders, and the WSLCB and not their own individual or special interests?	<ul style="list-style-type: none"> <li>▪ <i>Although the Board is accessible to all stakeholders and the public, there is no indication that Board members unduly influence any WSLCB process on behalf of stakeholders or to benefit themselves.</i></li> </ul>
Does the Board adequately represent the WSLCB policy and fiscal needs with the Legislature and Governor?	<ul style="list-style-type: none"> <li>▪ <i>Although neither a legislator or a person from the executive branch was interviewed, stakeholders believe the Board represents the industry well and Board members appear to be in good standing; and</i></li> <li>▪ <i>The Governor and Legislature recently appropriated new funds for operational improvements.</i></li> </ul>
Does the Board expect and receive clear policy analysis from Agency management and staff prior to decision-making?	<ul style="list-style-type: none"> <li>▪ <i>The Board reports that they receive clear policy analysis and options from the management and staff.</i></li> </ul>
Does the Board provide clear decision criteria by which it will sort and prioritize multiple and often competing expectations?	<ul style="list-style-type: none"> <li>▪ <i>Decision criteria are not written and some stakeholders believe there could be clearer policy statements and more consistent application of them.</i></li> </ul>
Does the Board provide consistent and accurate policy determinations and enforcement actions?	<ul style="list-style-type: none"> <li>▪ <i>The Board provides consistent and timely appeals for licensing and enforcement actions.</i></li> </ul>

**Criteria Question To Be Answered**

***Findings***

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Does the Board provide appropriate and timely information and recommend statutory reform to the executive and legislative branches?

- *Although no one was interviewed from the Executive or Legislative Branch, stakeholders believe that they are well represented by the Board.*

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*Does the Board have policies/ directives relative to the evaluation of the person in charge of operations?*

- *There is no formal evaluation process for the Administrative Director as this is an exempt position.*

## **Section 4 – Alternatives for the WSLCB’s Organizational Structure and Recommended Optimal Organizational Structure**

This section provides overall organizational alternatives and recommendations for the WSLCB. Five organizational alternatives have been developed for the structure of the Board. In addition, recommendations regarding Board member responsibilities and qualifications, Administrative Director responsibilities and other organizational opportunities are also provided in this section.

### **A. Board Alternatives**

Each alternative consists of the following components:

- Title – summarizes the major characteristics of the alternative;
- Considerations – provides detailed information regarding alternative and may contain information about other places where alternative has been successful;
- Pros – identifies the benefits of implementing the alternative;
- Cons – lists the negatives associated with implementing the alternative;
- Statutory Impacts – provides the relevant sections of the RCWs and WACs that may need clarification depending on the organizational structure and the duties delegated or retained by the Board.

The five organizational alternatives are described in detail in the following pages.

***Alternative 1: Maintain current Board organizational structure.***

**Considerations**

In the current structure, the WSLCB members are appointed by the Governor for staggered terms. Appointments are confirmed by the senate. The Governor appoints the chairman. The Board selects and appoints the Administrative Director. Four states, including Washington, have a paid board and a paid full-time administrator. Michigan and Ohio have a paid full-time board and administrator, North Carolina has a full-time paid board chairman, and administrator. The board members are voluntary.

**Pros**

- Keeps a well-functioning agency in tact;
- There is no clear call for change from stakeholders;
- Provides a channel for gubernatorial policy direction through the WSLCB Chair while maintaining historical limits on influence;
- Current 60% salary offers some incentive for members to serve on the WSLCB and compensation for relinquishing other work thereby attracting quality candidates.

**Cons**

- No cost savings;
- Stakeholders have formal access to WSLCB through various forums and board meetings, but members devoting 60% time could be seen as too accessible and subject to influence;
- Administrative Director is one step removed from the Governor and legislature and this could limit his/her effectiveness.

**Statutory Issues**

- RCW 66.08.020 and 66.08.050 may need to be clarified by updating the WAC 314-42-010 to match the current organization structure.

Note: Details of each RCW and the WAC are included in Appendix C.

***Alternative 2: Board is voluntary with monthly or periodic meetings and remains responsible for policy, budget, and appeals.***

**Considerations**

Of the eighteen control states, six have volunteer boards (that is they may maintain full-time jobs independent of their board membership) and also have an Administrative Director. This type of board typically meets monthly. In Oregon, monthly in-person meetings alternate with telephone conference meetings. With limited time available, the WSLCB would be heavily reliant upon thorough policy analysis by Agency staff and preparation/guidance by legal counsel, such as an attorney general representative, for appeal cases. Alternatively, Washington statutes could be changed to move the appeal process from the WSLCB to the court system or an administrative law judge.

This organizational alternative reflects the current organizational structure of most Washington Boards/Commissions. For example, the Washington Lottery Commission operates A five-member independent Lottery Commission serves as the administrative rulemaking authority for Washington's Lottery. The Commission, whose powers are to establish and approve sound operating practices for the agency, maintains public supervision to ensure Washington State citizens' interests are served. Commission members are appointed by the Governor and approved by the state senate to serve a six-year term. As representatives of the various geographic regions of the state, Commission members attend meetings every other month during the year. Commission members also stay in close contact with the Lottery Director to fully participate in major Lottery issues. The members of the Lottery Commission are not Lottery employees, and they maintain full-time jobs independent of Washington's Lottery. See Section 3E for details of other Washington regulatory boards/commissions.

The Administrative Director is now appointed by and serves at the pleasure of the WSLCB. If the Board were voluntary, we see other alternatives to appointing the Administrative Director, including 1) Appointment by the Governor ; 2) Appointment by the Governor from a list of candidates submitted by the Board; and 3 )Selection by the Board with the approval by the Governor. Of the six control states with voluntary boards and an Administrative Director, three Directors are appointed by the Governor, two are appointed by the LCB, and one is selected by the LCB with approval by the Governor.

**Pros**

- Saves approximately \$300,000 in member's salaries;
- More clearly separates policy responsibilities for the Board from operations;
- Makes the Administrative Director accountable to the Governor and may strengthen his/her effectiveness;
- Reduces any appearance of too much accessibility to the Board; and
- Reduced time commitment and no requirement to give up other employment may attract quality candidates.

**Cons**

- Direct Governor appointment of the Administrative Director could be seen as counter to the historical limits on gubernatorial influence;
- Stakeholders are content with current structure and may oppose changes;
- "Workload" of responding to public/ stakeholder requests for accessibility may be shifted to operations;
- It will take longer for the WSLCB members to become familiar with the agency policies and inner workings;
- Lack of salary may not attract quality candidates.

**Statutory Issues**

RCW. 66.08.012, 66.08.014, 66.08.020, 66.08.320 and 66.08.050and WAC 314-42-010 may need to be updated depending on duties delegated to the Administrative Director.

***Alternative 3: Retain the current structure with board members working less than 60% time, but remaining responsible for policy, budget, and appeals.***

**Considerations**

In this alternative, the board structure remains the same but the member's time is further reduced. Members would continue to focus on policy issues and appeals. The salary is reduced, but would still be offered as an incentive for membership. For illustration, a reduction to 25% would allow for an average of one day of office work per week plus time for a monthly meeting. This arrangement could be a transition to a volunteer board.

Of the eight states with part-time LCB members, Washington is the only state that pays a part-time board members a salary; all other states only pay a daily per diem to their members.

**Pros**

- Assuming board members work 25% time, there would be approximately \$225,000 in salary savings;
- Continues shift to policy focus for members;
- Likely to be little disruption in agency functioning from further reduction in members' time; and
- Provides time for stakeholders to adjust to the transition of a volunteer board.

**Cons**

- Current 60% salary offers some incentive for members to serve;
- Lower salary may not attract quality candidates;
- It will take longer for board member to become familiar with the agency, its policies and inner workings;
- Stakeholders are content with current structure and may oppose any legislative changes; and
- "Workload" of responding to public and stakeholder requests for accessibility may be shifted to operations.

**Statutory Issues**

RCW. 66.08.012, 66.08.014, 66.08.020, 66.08.320 and 66.08.050 and WAC 314-42-010 may need to be updated depending on duties delegated to the Administrative Director.

***Alternative 4: Board chairman serves at 60 -100%; other members are voluntary.***

**Considerations**

North Carolina uses this model for their LCB. In this alternative, the WSLCB Chairman provides ongoing and on-site policy direction, Agency oversight and guidance, and direct linkage to the Governor. This establishes a clear chain of accountability from the Governor to the chairman to the Administrative Director. The chairman would be available to provide oversight and guidance and address issues that require more immediate attention. The other two members would meet monthly to address policy, appeals and other issues.

Many government agencies employ, at least informally, an “outside” and an “inside” person as Director and Deputy. The “outside” person handles matters with constituents, stakeholders, possibly the legislature and media. The “inside” person handles agency organization and performance. Although the Director is often the “outside” person, in this arrangement, the Board chair would likely be the outside person, and the Administrative Director would manage the agency.

**Pros**

- Provides a high visibility focal point for external stakeholders;
- Approximately \$190,000 in salary savings of two part-time members;
- Could free Administrative Director to concentrate on agency management and performance;
- Provides a chain of accountability from Governor to Administrative Director;
- Reduced time commitment and no requirement to give up other employment may attract quality candidates to the non-chairman position.

**Cons**

- Could lead to confusion as to ultimate responsibility for agency;
- Could be seen as increasing Governor’s influence compared to historical limits;
- Per diem only for non-chairman board members may not attract quality candidates;
- It will take longer for board member to become familiar with the agency, its policies and inner workings;
- Stakeholders are content with current structure and may oppose any legislative changes; and
- Agency currently has both “outside” and “inside” capability through Administrative Director and Deputy.

**Statutory Issues**

- RCW. 66.08.012, 66.08.014, 66.08.020, 66.08.320 and 66.08.050 and WAC 314-42-010 may need to be updated depending on duties delegated to the Administrative Director.

***Alternative 5: Create a free-standing Policy Board separate from the Agency.***

**Considerations**

This alternative would clearly separate policy and operational functions of WSLCB by establishing the Board as independent of the Agency. The new Board would be similar to the Washington State Transportation Commission comprised of citizen volunteers.

The Washington State Transportation Commission is an independent state agency whose seven citizen members are appointed by the Governor and confirmed by the senate. The Commission exercises responsibilities in preparing the State's Transportation Plan, proposing the State's Transportation Investment Plan, and working with the Governor, the state legislature, the secretary of transportation and others across the state in formulating transportation policy. The Commission also oversees the implementation of transportation policy and the operational plans for highways, ferries and intercity passenger rail. The commission also appoints an administrator to the commission to assist it in carrying out its duties.

**Pros**

- Approximately \$300,000 in salary savings;
- Clear separation of policy and operations;
- Provides high visibility to policy issues and public safety concerns; and
- Makes the Administrative Director accountable to the Governor but may strengthen his/her effectiveness.

**Cons**

- Increased costs for staff support and organizational overhead expenses for policy board may exceed salary savings;
- There is no clear call for change from stakeholders; they may see that there are now two agencies and more work for them;
- Good policy formulation and evaluation may require knowledge of operations; and
- Transportation has big policy, funding issues and alternative modes to deal with; alcohol issues may not be that significant as to warrant a separate body.

**Statutory Issues**

- RCW. 66.08.012, 66.08.014, 66.08.020, 66.08.320 and 66.08.050 and WAC 314-42-010 may need to be updated depending on duties delegated to the Administrative Director.

## B. Discussion of Board Alternatives

The chief consideration of a recommended organizational structure is that it should enable the initial success of the new structure of a board focused on policy and a full time Administrative Director to continue into the future. That success includes the development of a new strategic plan and a new Alcohol Awareness Program, an improvement in fiscal controls, increased communication within the organization, added forums for stakeholder involvement, legislative support of the Retail Sales Plan and increased funding for sales staff and IT enhancements. Each Division is making progress implementing the existing strategic plan and should be commended for their work. WSLCB recognized that the new staff positions and increased operational funding has provided an exceptional opportunity to further improve the Agency's performance. Planning has begun to ensure that the money is used in the most effective manner. The question underlying this review is whether success can be continued or enhanced under a different or a modified organizational structure that offers other potential benefits – primarily a cost savings.

With this consideration in mind, we eliminated three of the five alternatives presented above:

**Alternative 5: Create a free-standing Policy Board separate from the agency** would separate policy from operations to an extent that would hamper both functions. If “Policy is what happens” then good policy development requires some appreciation of how it will work in operations. Effective operations should be guided by sound policy. Alternative 5 removes the mutual benefits from the interaction of policy and operations. Furthermore, the costs of establishing and supporting a free-standing Policy Board would limit or outweigh the savings from reducing current board member compensation.

**Alternative 4: Board chairman serves at 60 -100%; other members are voluntary** would reduce costs but could create a hierarchy within the Board with the chairman exercising more influence than other members. It could lead to confusion about who is “in charge” and limit the success achieved to date by the Administrative Director. While the current Chairman and the Administrative Director has formed an effective working relationship that might not be the case for future appointees and Directors. We are also cognizant of the historical limits upon gubernatorial influence and this arrangement could be perceived as providing the Governor the opportunity to more extensively influence WSLCB through the appointment of the chairman.

**Alternative 3: Retain the current structure with board members working less than 60% time, but remaining responsible for policy, budget, and appeals** reduces costs and appears workable especially if further duties are delegated to the Administrative Director. Our major concern here is whether this structure would continue to attract quality board members. Restricting their other employment but compensating board members at 60% works. A voluntary board whose members would devote 1-2 days a month to board responsibilities (but continue their regular employment) works in other control states and in other Washington boards and commissions. However a 25% commitment would not provide enough financial compensation for prospective members to give up other employment and likely would require too great a commitment for volunteers. The “pool” of potential members could be limited to retirees providing the Governor less flexibility in board selection.

The two remaining alternatives should be considered:

**Alternative 2: Board is voluntary with monthly or periodic meetings and remains responsible for policy, budget, and appeals** is compatible with the structure found in several control states and with the other Washington boards and commissions profiled above in Section 3E. If this alternative is combined with a further delegation of operational duties to the Administrative Director, there should be a time savings for Board members. Member attendance at some of the meetings highlighted in the table in Section 3C would no longer be required.

This alternative is dependent upon the presence of a sound agency management team and solid policy and judicial issue analysis prior to board meetings. We believe these conditions are met. Success of this alternative is also dependent upon the continuation of new forums for stakeholder participation, such as the Business Advisory Council.

There would be a cost savings to this alternative as members would no longer be compensated at 60% time but instead would receive a per diem allowance.

**Alternative 1: Maintain current Board organizational structure** has as its strongest argument its success to date. While this structure of a 60% commitment from board members and an Administrative Director is still in its first few years, there is clear evidence of its accomplishments. The assessment of the organizational performance against the evaluation criteria presented above reveals a well-functioning board and no performance issues that would present a clear and compelling reason for change.

Alternative 1 could be seen as the “status quo” alternative. However, we will recommend in the next section that there are remaining operational duties now performed by the Board that should be delegated to the Administrative Director. Delegating these duties should reduce the number of meetings required of Board members. The experience the Administrative Director is gaining and her progress in assembling a management team should lead to a reduced need for Board oversight and guidance.

This alternative does not provide the cost savings of Alternative 2 – the voluntary board; and the WSLCB would remain the only comparable Washington board or commission with compensated board members and a paid full time Administrative Director.

## C. Recommended WSLCB Organizational Structure: Board

*We recommend the continuation of the current Board structure while it prepares a transition plan to a voluntary Board.*

We wish to be clear: WSLCB has a well-performing organizational structure. However, the organization has set in motion a process that should continue – the move from a board whose members directly managed agency operations to a board focused on policy, the appointment of an Administrative Director, the development of a sound agency management team, the improvement in policy issue analysis, the creation of alternative forums for stakeholder participation -- and a process that will allow the Board eventually to execute its responsibilities through a voluntary structure.

A transition plan is called for to assure that the initial successes of the current organization can be maintained. The Administrative Director has generated initial success (but the first Administrative Director apparently did not); the management team is still being formed and further experience in what is policy and what is operational is needed. WSLCB enjoys strong support from its stakeholders and a precipitous move to a voluntary board could undermine that support and distract agency leadership from its more important tasks.

The Executive Management Team should develop the transition plan and decide how and when the transition should be made. However, we recommend that the current structure should continue through the 2007 legislative session. That is not solely because the transition to a voluntary board will require statutory changes. The 2007 legislative session will address WSLCB budget needs and we believe that both legislative changes and budget enhancements are essential. While this report has discussed a well performing organizational structure, the remaining sections of the report will identify important shortcomings in operations and infrastructure. The current Board should remain in place to plan for the legislative changes and to avoid the disruption and displacement of focus that would occur from a more immediate change.

We recognize that the WSLCB is faced with considerable opportunities for performance improvements and efficiencies, particularly in WSLCB's retail operations (addressed in Section 5 of this report). The WSLCB has developed a retail sales plan that has generated support and has resulted in increased retail sales staff position authority from the Legislature. The Executive Management Team has begun impressive efforts to implement this plan; nevertheless, there are serious long-standing challenges that must be overcome for the WSLCB to generate additional revenue. Chief among these is the lack of required infrastructure – information technology, written policies and procedures, management information, training resources, skilled full-time retail sales people, parts and supply inventory for critical equipment– resulting from historical limits on the reinvestment of revenues in the factors of production.

Overcoming these challenges and realizing the performance opportunities will require gubernatorial and legislative support in the 2007 session, as well as consensus-building among stakeholders. We believe WSLCB has the requisite leadership expertise, the stakeholder and industry support, and the confidence of the Governor. Preparing for success in the 2007 legislative session will require effort and leadership from the entire Executive Management Team. The cost savings realized by immediately converting to a voluntary board strike us as relatively insignificant in comparison to the potential increased revenues that can be generated by an improved organization.

## **D. Other Recommendations**

In discussions with the Executive Management Team and in the survey that they completed regarding proposed recommendations, we revisited the Board activities in economic development. These activities include support of the Washington wine industry through placement of their wines in state stores and attendance at wine industry events. These activities are not provided for in statute and are discussed previously in the report. The majority of the Executive Management Team indicated that they see a potential conflict of interest in the promotion of an industry that they are required by statute to regulate. While providing shelf space for Washington wines was not seen as a potential conflict, attendance at individual winery events, for example, could provide at least the appearance of a conflict. The majority of the EMT indicated that these activities should not be

expanded. We agree and suggest that, since this is not a statutory issue, the Board should address it through a policy resolution.

## **E. Board Qualifications Findings and Recommendations**

Of the thirteen control states with a Liquor Control Board (LCB), five states, including Washington, have no established qualifications for board members. Eight states (Iowa, Michigan, New Hampshire, Ohio, Oregon, Pennsylvania, Utah, and Vermont) require some balance of political party representation on the board – four have three member LCBs and four have five member LCBs. Our view is that the historical concern about limiting the opportunity for political influence of the Governor should apply as well to the legislature, and we would not recommend any political party restrictions be implemented for the WSLCB. This is consistent with the other Washington boards and commissions who do not have political party qualifications for members. Section 3E above provides organizational details of a sample of Washington state commissions and boards.

In addition to the political party requirement, Oregon has a geographical representation requirement for their LCB. Their five members each represent a congressional district. We believe that achieving such a geographical balance in Washington with only three board members would be difficult, and we heard no arguments for increasing the size of the Board. Further with each board member representing a rather large piece of the state – either by population or size, it is not clear whether citizens would perceive that their particular interests would be well-represented.

Stakeholders provided several opinions on whether any change in qualifications should occur. There were recommendations that the chairman should be someone knowledgeable and preferably experienced with the operations of state government. There were additional recommendations about having at least one member represent the “industry.” Iowa and Oregon also allow an industry representative on the Board. If the Board were to become a voluntary body (Alternative #2) and presumably be less accessible to industry and other stakeholders, we would recommend that consideration be given to selecting one member from the industry. This representation could be balanced by having a member who represents the community and safety concerns. We also believe that the development and successful functioning of the WSLCB Business Advisory Council and the Contract Manager Council represents an effective means for industry and other stakeholders to provide input into policy decisions and lessens the need for industry representation on the Board.

We feel these stakeholder recommendations largely reflect their satisfaction with the current Board. While there are no formal requirements for the WSLCB make-up, the current Board now has a member with industry background and one with extensive history of civic involvement. The Chairman is experienced in state government. The Board was constituted without statutory requirements regarding qualifications. (Although presumably less satisfactory boards were also constituted by the same unrestrictive process.) The absence of statutory requirements provides the most flexibility in selecting the best members.

## **F. Recommended WSLCB Organizational Structure: Administrative Director**

We recommend changes be made to the WAC 314-42-010 to formally delegate those Board responsibilities that have been informally transferred to the Administrative Director. Furthermore,

in reviewing the RCWs and WAC 314-42-010, we find other current Board responsibilities that are operational in nature. We recommend that the following responsibilities be delegated to the Administrative Director and the WAC be updated to reflect the changes:

- Direct oversight of the Policy, Legislative and Media Relations Division and staff – This has already occurred as a Deputy Director position has been created to oversee these functions along with licensing and enforcement;
- Approval of product listings and de-listings;
- Responsibility for division budgets; - The Board would continue to be responsible for approval of the overall WSLCB budget; and
- Administration and management of the liquor stores.

The Board should retain responsibility for:

- Approval of informal and formal liquor violation hearings;
- Approval of revocation or suspension of licenses and permits; and
- Approval of contested liquor licenses and permits applications; -

“Approval” actually refers to “review” or “resolution” and this responsibility should also include resolving any contested product de-listings.

These duties have serious economic consequences for the parties involved: which products will be sold in state stores and which will not and who will be prohibited from doing business. These judicial decisions should be made by the Board.

We recommend that the Board continue to select and appoint the Administrative Director. The Board is closer to the action and we believe best positioned to determine the skill, abilities and experience required in the position. This arrangement is consistent with historical concerns about checks and balances in WSLCB oversight and management and the limitations upon gubernatorial influence.

## **G. Organizational Recommendation: Create a New Retail Services Division**

There is nothing inherent in the balanced mission of WSLCB that requires poor retail services to limit demand and consumption. Product that meets consumer preferences, rapid delivery of that product, and good customer service are essential to meeting the revenue needs of the state. After conducting a series of interviews with Purchasing, Retail Sales and Distributions Center staff, and a visit to the Distribution Center and to its Oregon counterpart, considerable performance problems and opportunities for improvements in key areas were identified.

Purchasing is done using paper-based processes and is cumbersome. Purchasing information isn't stored in an accessible way; therefore, is not available for use as historical information. If historical information were available, purchasing patterns and seasonal demand information could be more easily identified which would enable better forecasting.

The Distribution Center is forced to store product in trailers outside because there isn't enough storage space in the warehouse. A compounding factor to warehouse throughput is staff absenteeism, which also contributes to unloaded trailers. A project is underway to expand storage space at the Distribution Center. The expansion is expected to improve the amount of product the Distribution Center can hold and minimize out-of-stock situations. The expansion should help reduce the amount of time it takes to unload a trailer (currently up to 20 days) due to storage constraints, but additional work will need to be done to address the staff absentee rate.

With the additional warehouse space, efficiencies should be realized within Purchasing because they will spend less time reacting to complaints by suppliers trying to schedule receiving appointments. Suppliers should not be calling Purchasing staff to resolve receiving appointment conflicts. These staff don't have the spatial reference to understand where the products need to go, and they may not understand the source of a schedule conflict. The point-of-contact to resolve receiving appointment conflicts should be the Distribution Center Receiving Manager.

The Merchandising Business System (MBS) project, though scaled back from its original scope, is implementing a new point-of-sale (POS) system that will address data collection from the state-owned liquor stores and provide a better, though partial, picture of the retail sales activity.

Based on our findings during interviews with internal stakeholders, visits to the Distribution Center, its Oregon counterpart and best practice research we have the following recommendations<sup>3</sup>:

- Combine the Divisions of Purchasing, Distribution Center and Retail Sales into a single division. There should be a single Division Director ultimately responsible to the Administrative Director. (WSLCB may wish to consider whether this position should be comparable to the Deputy Director overseeing Licensing, Enforcement, Media and Legislative areas.) The current Purchasing Division contains 13 staff and could be merged with the Distribution Center staff allowing for better coordination of operational responsibilities.
- Resolve the product inventory accuracy and visibility through the Purchasing/Distribution/Retail supply chain. While the Distribution Center expansion should supply additional storage capacity, Purchasing and Distribution Center staff need accurate inventory information in order to better match consumer demand and distribution throughput, and take advantage of supplier price discounts, when available.

Some options to address this recommendation may include:

- 1) Co-locating Purchasing staff with Distribution Center staff; and/or;
- 2) Form a work team of Purchasing, Distribution Center, and Retail staff to review and discuss processes and procedures through the supply chain, including communication

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<sup>3</sup> Note: we also include here recommendations for operational efficiencies as well as organizational recommendations. Other recommendations for operational efficiencies are found in the next section.

methods, inbound and outbound shipment notification protocols, inventory accuracy problems, and future automation support needs.

- Discuss and identify short-term opportunities to resolve the high priority supply chain and operational issues during the weekly meeting between the Purchasing Director, the Distribution Center Business Manager, and the Retail Director. Communicate and select resolutions with the approval of the new Division Director.
- Reengineer the supplier delivery scheduling and Distribution Center receiving process. The reengineering should include the level of non-WSLCB intended product stored at the Distribution Center by suppliers. Then, update corresponding process documentation and work flow diagrams, and educate staff on pertinent changes.
- Direct all calls from suppliers regarding receiving appointment conflicts to the Distribution Center Receiving Manager for tracking and resolution.
- Complete the point-of-sale system rollout, including contract stores, to enable a common POS platform and retail system.

## Section 5 – Evaluation of the WSLCB for Performance and Operational Efficiencies

This section provides evaluation criteria, findings, and opportunities the WSLCB has to improve their performance and achieve operational efficiencies. There is also a comparison of the WSLCB’s performance in some key areas against six other control states that are most similar to Washington.

### A. WSLCB Agency Performance

The WSLCB’s primary operational responsibility is “to manage the sale and distribution of alcoholic beverages and to serve the public by preventing the misuse of alcohol and tobacco through controlled distribution, enforcement and education.” This section of the report looks at the operational efficiencies of the WSLCB eight Divisions including Human Resources, Retail Services, the Distribution Center, Liquor Purchasing, Financial and IT Division, Licensing and Regulation, Enforcement and Education and the Policy Legislative and Media Division. Appendix B provides the organizational and functional details of each division.

As part of our evaluation of the WSLCB, Public Knowledge researched other control state’s performance. In order to compare performance indicators, it is necessary to identify which of the eighteen control states are most similar. Each state below has a board of directors, and controls the retail and wholesale liquor operations for their state. A detailed table showing the rationale for using these states for comparison is found in Appendix A, Table 5.

#### 1. Comparison of Similar Control State’s Performance Indicators

	WSLCB	Alabama	New Hampshire	North Carolina	Ohio	Oregon	Virginia
<b>Total Net Revenue from Liquor Sales<sup>4</sup></b>	\$233.9M (2 <sup>nd</sup> )	\$115.9M	\$63.5M	\$181.2M	<b>\$242.9M</b>	\$103.7M	\$182.8M
<b>Revenue/Liquor Gallon<sup>5</sup></b>	<b>\$29.53 (1<sup>st</sup>)</b>	\$25.39	\$14.89	\$21.81	\$21.42	\$22.16	\$24.42
<b>Revenue/Adult<sup>6</sup></b>	\$53.59 (2 <sup>nd</sup> )	\$36.10	<b>\$68.35</b>	\$30.20	\$29.81	\$40.44	\$34.77
<b>Per Capita Distilled Spirits Consumption<sup>7</sup></b>	798 (3 <sup>rd</sup> )	603	<b>1,928</b>	616	574	814	628
<b>Compliance Checks<sup>8</sup></b>	<b>5,512 (1<sup>st</sup>)</b>	2,959	1,196	2,679	1,537	1,065	4,800
<b>Inappropriate Buy Rates<sup>9</sup></b>	19% (4 <sup>th</sup> )	16%	17%	21%	29%	27%	<b>13%</b>

Note: Bolded cells above indicate the first ranked state amongst the control states compared in this table. The values in the parenthesis indicate Washington’s rank in that category amongst the control states compared in this table.

<sup>4</sup> Distilled Spirits Revenue Comparisons Report from DISCUS

<sup>5</sup> Distilled Spirits Revenue Comparisons Report from DISCUS

<sup>6</sup> Distilled Spirits Revenue Comparisons Report from DISCUS

<sup>7</sup> (9-Liter cases per 1,000 adults, Adams Beverage Group Handbook Advance 2005

<sup>8</sup> NABCA Survey Book, 2005 Edition

<sup>9</sup> NABCA Survey Book, 2005 Edition

**General Findings:**

- Overall when comparing Washington’s revenue to the 6 other control states, their performance leads with rating of first or second in all 3 revenue categories.
- While WSLCB performs more compliance checks than any of the control states, their inappropriate buy rates (minors purchasing liquor) rank in the lower half (4<sup>th</sup>).

**B. Review Criteria and Detailed Findings**

The following set of criteria was used to evaluate the performance and operational efficiencies of WSLCB. Findings for each criterion were based on reviews and analysis of WSLCB reports and other documents, a survey of best practices in other states, comparisons with other control states, visits to the WSLCB Distribution Center, its counterpart in Oregon, consistent themes across interviews with stakeholders and our experience with public agencies. The criteria question to be answered is listed with the corresponding detailed findings.

<b>Criteria Question to be Answered</b>	<b>Detailed Findings</b>
Are there appropriate internal and external checks and balances to ensure fiscal and statutory compliance?	<ul style="list-style-type: none"><li>▪ <i>Over the past 3 years the Agency has made progress in developing operational policies and procedures. There is still substantial work remaining in some of the divisions. There is also a lack of detailed management information that limits the ability to perform thorough internal compliance audits; and</i></li><li>▪ <i>Financial audits are done on a limited basis for the retail stores.</i></li></ul>
Does WSLCB communicate and enforce its statutory requirements in a clear and consistent manner?	<ul style="list-style-type: none"><li>▪ <i>Stakeholders expressed concerns about inconsistent operational policy information being provided to licensees when licensing staff and enforcement officers are working on the same issues.</i></li></ul>
Does WSLCB provide clear and concise written policy to stakeholders charged with complying with that policy?	<ul style="list-style-type: none"><li>▪ <i>Stakeholders and staff in general expressed concerns about the lack of written operational policies.</i></li></ul>
Has the WSLCB developed performance indicators and a method of monitoring the outcomes?	<ul style="list-style-type: none"><li>▪ <i>The Agency has high level performance indicators such as revenue collected and licenses approved that can be found in the annual report;</i></li><li>▪ <i>The Agency has begun to use the GMAP process to monitor performance; and</i></li><li>▪ <i>Some divisions have developed their own performance indicators.</i></li></ul>

<b>Criteria Question to be Answered</b>	<b>Detailed Findings</b>
Does WSLCB have the technical infrastructure in place to manage its operations in an effective manner?	<ul style="list-style-type: none"><li>▪ <i>In many areas, the Agency does not have the technical infrastructure needed to manage their business;</i></li><li>▪ <i>A new POS system was just installed and provides the capability for the retail stores to obtain the merchandising information needed to manage the state stores. The Agency is moving forward to gather the data and put it in a usable format.</i></li><li>▪ <i>The IT Division has begun to develop a long term IT strategic plan to address some of these shortcomings.</i></li></ul>
Does WSLCB have the information needed to manage its operations and to plan for the future?	<ul style="list-style-type: none"><li>▪ <i>Management information is limited and often in an un-useable format. Internal stakeholders provided a unanimous message that this was a critical component that needs to be fixed; and</i></li><li>▪ <i>Internal stakeholders also expressed concerns that providing information needed for GMAP reporting was going to be difficult due to lack of data and the fact that the information must be gathered manually.</i></li></ul>
Does the WSLCB have a well defined business model that defines the work, division of responsibilities, interrelationships, and a quality assurance process?	<ul style="list-style-type: none"><li>▪ <i>The Agency does not have a well defined operational business model that clearly defines how its business functions operate;</i></li><li>▪ <i>There are no formal quality assurance processes;</i></li><li>▪ <i>Concerns were expressed that staff do not have the skills and knowledge needed to develop and manage a new business model;</i></li><li>▪ <i>Roles and responsibilities seem to be vague and often overlap; and</i></li><li>▪ <i>There is concern from all stakeholders that the Agency does not have the flexibility needed to operate as a private business. Specific examples included re-investing profits, hiring staff as needed, and the ability to purchase needed high cost supplies.</i></li></ul>
Does the WSLCB have priorities that are defined and communicated to staff?	<ul style="list-style-type: none"><li>▪ <i>The Agency's Strategic and Retail Business plan were developed to provide direction for decision making and to set priorities. For the most part, each Director is focused on his or her specific division's priorities.</i></li></ul>

Criteria Question to be Answered	<i>Detailed Findings</i>
Do the Division Directors make decisions with an understanding of how they will affect the entire agency and not just their division?	<ul style="list-style-type: none"> <li>▪ <i>Directors believe that progress is being made to bring remove division “silos” and staff are starting to see WSLCB as one agency instead of individual divisions.</i></li> <li>▪ <i>The Agency’s Strategic and Retail Business plan were developed to provide direction for decision making, however, it is not being used to provide the needed direction and define priorities.</i></li> <li>▪ <i>The Divisions of Enforcement and Licensing are now the responsibility of the Deputy Administrative Director; and</i></li> <li>▪ <i>Retail Services, the Distribution Center and Purchasing Division are attempting to better coordinate their work and understand the impact of each division actions.</i></li> </ul>
Has the WSLCB management set clear performance expectations for staff?	<ul style="list-style-type: none"> <li>▪ <i>There are no performance evaluations for Division Directors as they are exempt positions; and</i></li> <li>▪ <i>Staff have job descriptions and are evaluated on a yearly basis.</i></li> </ul>
Are WSLCB work priorities clear and are staff self directed?	<ul style="list-style-type: none"> <li>▪ <i>There is no clear understanding of WSLCB priorities. Directors have plans to improve their individual operations but there is no central focus on WSLCB priorities.</i></li> </ul>
Does WSLCB staff have a clear understanding of their roles in regards to their division, other divisions, and the agency as a whole?	<ul style="list-style-type: none"> <li>▪ <i>Staff understand the work that needs to be done in their division, but often don’t take into consideration how it affects other divisions.</i></li> </ul>
Does WSLCB staff have the skills and knowledge needed to do their jobs?	<ul style="list-style-type: none"> <li>▪ <i>Directors and staff believe that they need to improve staff skills through training and mentoring;</i></li> <li>▪ <i>There are concerns that the Agency does not have the appropriate skills and/ or knowledge for the IT planning and long term IT management that is needed; and</i></li> <li>▪ <i>There were concerns expressed by stakeholders regarding minors purchasing liquor at state and contract stores. Compliance data for state and contract stores is provided in Section 5H</i></li> </ul>

Criteria Question to be Answered	Detailed Findings
Does WSLCB staff have the tools and technology to do their work in an effective manner?	<ul style="list-style-type: none"> <li>▪ <i>Staff report that most processes are done manually and information is limited. Information systems routinely break down causing work delays.</i></li> </ul>
Does WSLCB staff have access to accurate, timely information to conduct their work in an efficient manner?	<ul style="list-style-type: none"> <li>▪ <i>Staff have managed their work for years with limited information. They do a very good job but believe they would be more effective with accurate and timely information.</i></li> </ul>
Is WSLCB staff attendance acceptable and consistent with industry standards; are penalties for poor performance understood by all staff?	<ul style="list-style-type: none"> <li>▪ <i>It is believed by stakeholders and management that WSLCB has more personnel problems than most state agencies. Most believe it is directly attributable to the 514 non-permanent employees in the retail stores;</i></li> <li>▪ <i>There was also a strong indication from management that there is a problem with attendance and they believe there is little they can do when people chose to not come to work; and</i></li> <li>▪ <i>HR policy consistency has improved since decisions are made by the Administrative Director and Human Resources and not with the individual supervisors.</i></li> </ul>
Does WSLCB staff have training opportunities designed to support job functions and career advancement?	<ul style="list-style-type: none"> <li>▪ <i>WSLCB has limited training opportunities for their staff. The Directors understand that they have substantial needs and that the need will continue to grow. WSLCB is hiring a training manager and plans to address this issue.</i></li> </ul>
Does WSLCB fulfill its role as educator of the public?	<ul style="list-style-type: none"> <li>▪ <i>WSLCB is planning to improve their public safety education program but at this time there is no one in the position that performs this work; and</i></li> <li>▪ <i>Other divisions are continuing to provide education for the public by providing training such as alcohol server training.</i></li> <li>▪ <i>WSLCB provides a website that has educational materials and training that is offered.</i></li> </ul>

There is a strong message from all stakeholders that management must develop a future business model for the WSLCB. One external stakeholder provided the following quote: “The most important thing that the WSLCB needs to do is develop a real plan to manage their future based on data, and ensure that they have the infrastructure to support their business.” The following sections provide our recommendations with regards to Agency operations.

## C. WSLCB as an Enterprise Agency

Certain constraints exist that make managing government agencies more difficult than managing in the private sector. James Q. Wilson in *“Bureaucracy: What Government Agencies Do and Why They Do It”* lists three key constraints:

To a much greater extent than is true of private bureaucracies, government agencies (1) cannot lawfully retain and devote to the private benefit of their members the earnings of the organization, (2) cannot allocate the factors of production in accordance with the preferences of the organizations’ Administrators, and (3) must serve goals not of the organization’s own choosing.

Control over revenues, productive factors, and Agency goals are all vested to an important degree in entities external to the organization – legislatures, courts, politicians, and interest groups... As a result ...whereas business management focuses on the “bottom line” (that is, profits), government management focuses on the “top line” (that is, constraints).

We are not suggesting the privatization of the WSLCB, changes in goals, or performance bonuses for executives. We are suggesting that increasing the benefit to Washington citizens means increasing revenues and profits to support government programs while maintaining the overall balanced mission of the agency. Good leadership and management are necessary to achieve this, but perhaps are not sufficient.

Critical to addressing the second constraint mentioned above is the allocation of the production factors to achieve revenue goals. The factors include qualified and skilled staff and store management, customer service, written policies, technology, dedicated funds for the replacement parts for critical equipment, and improved business processes. There are improvements needed in all these factors and the means to achieve these improvements is the reinvestment of WSLCB revenues. We support current efforts to move the WSLCB to a more entrepreneurial or enterprise basis and approaches that allow the WSLCB to reinvest in needed infrastructure.

## D. Develop a Comprehensive Business Model

A key element early in the implementation of successful operational changes is the development, communication, and execution of an operational business model. An operational business model brings together the organization’s vision, mission, values, scope, objectives and strategies and defines how they will be accomplished. Without a detailed business model, organizations flounder and pull in different directions, all with the good intentions of improving its agency. Business models are developed for many reasons, but most importantly to communicate the plan to employees in order for them to understand how the executives in the organization plan to achieve their vision, and for them to make a meaningful contribution. Employees must be clear about the agencies objectives and priorities if they are to be focused on improving the future. WSLCB has begun the initial steps in the development of a new organizational business model.

The WSLCB prepared a strategic plan for the 2005 – 2007 timeframe and developed goals, objectives, and strategies. A Retail Business Plan has also been developed to focus efforts on retail

and wholesale revenue enhancement opportunities, merchandising, distribution, customer service, and information technology improvements. These plans and goals have been linked to the Priorities of Government budget approach.

One stated objective is to implement the Retail Business Plan. However, as recommended above, the WSLCB should first evaluate the organizational and reporting structure of the Purchasing/Distribution/Retail Divisions to maximize efficiency as they execute the plan and navigate through the operational change.

Further elaboration on what the WSLCB business model should look like in three to five years is also needed. After organization, risk management, reporting structure, and a future business model are described; planning for future IT support can be performed. While some projects are needed immediately to fix near term problems, they should not impede the long-term plan.

Researching and utilizing the best practices of other control states is often a good place to start when defining a future business model. We researched “Control State Best Practices” and have provided a list for consideration in Appendix D.

### **E. Business and IT Infrastructure**

The corner stone of any successful business is a solid infrastructure. The WSLCB understands that there are weaknesses in their infrastructure, and they have begun to make progress in solving some of the issues. Each division has a plan to make improvements. The Information Technology Services Division is developing an IT Improvement plan.

Our analysis substantiated several themes in the information that we gathered from stakeholders. The WSLCB needs consistent written operational policies and procedures, accurate and reliable data, improved risk management and audit controls, and the technology to support their business. The consequences of the lack of technology support are apparent in the manual paper driven processes used by staff to complete their work, and the decisions that are made without the benefit of solid management data. With the changes in infrastructure, there will also be a need for new skills and knowledge. A resource plan outlining the specific knowledge and skills should be a part of the infrastructure planning.

WSLCB has been successful in securing legislative funding to help improve their technology infrastructure. This is a great opportunity to move the Agency forward and dramatically improve the business through the use of technology. However, this must be done in conjunction with a solid business model that defines how the WSLCB will do business in the next three to five years. Information technology should follow the business planning, not lead it. It is also important to ensure appropriate expertise is available early in the planning process so that the future reflects what the business needs, and not what the technology will allow.

### **F. Policy Consistency**

Licensing and enforcement are the WSLCB’s two major techniques to insure public safety and the responsible sale and consumption of alcohol. Licensing is the first step in enforcement. The coordination of these two functions was a concern for several stakeholders. We believe the solution

is increased communication, program coordination and consistent operational policies for both divisions.

Joint staffing of violations prior to providing information to the licensee would prevent mixed messages being sent to the person who has committed the violation. It is also critical that all written information that is available to the public provide consistent policy and compliance timelines. The recent move of these two divisions under the Deputy Director should lead to the necessary attention and improvement without further organizational changes.

### **G. Sales to Minors**

The Retail Services Division set a 90% compliance goal for compliant sales to minors. They have not been achieving this goal. Data on compliant sales to minors for the past 18 months<sup>10</sup> is as follows:

- January 2005 through June 2005 shows an overall compliance rate of 82.5%;
  - Compliance in state stores during this time period was 84% with thirty eight out of 45 stores in compliance;
  - Compliance in contract stores during this time period was 75% with nine out of twelve stores in compliance;
- There were a total of 164 compliance checks in state and contract stores in 2004 and a compliance rate of 84%; and
- Compliant sales to minors for state and contract stores from January to July 2005 were 80% compared to 86% in the same timeframe in 2004 (January-July).

The data above indicates WSLCB is not reaching its target level of 90% compliance. The division provides training to each new store employee and also provides follow-up annual video training. Written policy is available in each store as well signage displayed to remind employees to ask for age verifications. Employees who are caught selling liquor to minors are fined \$500 for first offence and terminated on the second. Temporary employees are terminated.

Other solutions to reduce the occurrences may need to be considered. We recommend that WSLCB identify the root cause of the problem and develop a comprehensive solution. Once developed the plan should be monitored for effectiveness through compliance checks at state and contract stores.

### **H. Retail Store Staffing Options**

We understand the problems facing the retail stores when trying to staff stores with a limited number of permanent employees and many non-permanent staff. This is a problem that most control states who manage retail stores must face.

Although analysis of retail stores was not in our scope of work, we recommend that options be explored to solve this problem now, and allow the stores to try out the different options prior to

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<sup>10</sup> Data obtained from a Human Resource report.

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hiring permanent employees. One option used in Idaho is a “store rover system”. As a large rural state with many state-run stores, Idaho hires permanent employees that are used as rovers to ensure coverage in their state stores. They reportedly experience minor personnel issues with staff in their retail stores.

# **Section 6 – Research/Validation of Projections on Revenue Growth for the Next Five to Ten Years, Including Identification of Potential Public Safety Challenges Related to These Projected Revenue Trends**

This section provides our findings regarding the revenue forecast process for the WSLCB; including review of the revenue forecast methodology, the data, and the accuracy of past projections. We have also provided recommendations for revenue forecast process improvements and we consider the public safety implications of increased revenue.

## **A. Revenue Forecast Process Findings**

### **1. Revenue Forecast Methodology**

Each quarter, the Financial Division is responsible for projecting future WSLCB revenues. Currently these forecasts are based on data available in internal and external systems, and forecasts are calculated *only* for the current and ensuing biennium. Revenue forecasts are completed for the current and ensuing biennium as a means of providing information to other agencies in the development of short-term (1-3 years) budget appropriations. These forecasts are updated quarterly to reflect the most current revenue trends. The WSLCB Financial Division does not actively produce or use long-term revenue forecasts (5-10 years) for revenue analysis or Agency management.

The timing of quarterly forecasts is typically tied to key decision points in the process: The first forecast (February-March time period) is used by the Legislature to establish their budget. The June forecast provides a profile of the revenues before the biennium begins. It also serves as an additional forecast used when there happens to be a delay in getting an approved budget. There is a forecast in September and one final forecast compiled in November to be used in the Governor's budget.

The WSLCB collects revenue from several sources based on the requirements outlined in the Revised Code of Washington (RCW). The largest source of revenue for the WSLCB is from the sale of hard liquor at state or contract liquor stores. In addition, the WSLCB collects revenues for liquor taxes from distributors supplying alcohol to those with licenses to sell beer and wine, for permits to sell beer and wine at special events, for license fees to establishments wishing to sell alcohol, for product purchased for sale at military or Indian tribal stores, and for penalties associated with enforcement or other miscellaneous reasons such as non-sufficient fund checks.

The calculation of the revenue is based on several components including sales of alcohol, permits, and licenses as well as associated expenses (e.g. utilities at liquor stores). The actual monies associated with these revenues are collected by several divisions or locations (stores) of the WSLCB. The receipted funds are keyed into the appropriate system and deposited into a local bank account where the Washington State Treasurer accesses the funds. In addition, expenditures related to this

revenue are keyed into AFRS, the statewide accounting system, that eventually results in generation of a payment to the appropriate billing entity.

Other expenditures related to these revenues are personnel-related costs, such as salary and benefits, as well as a calculation of the Cost of Goods Sold (COGS) at the stores. Typically, retail locations would calculate the COGS by adding purchases to beginning inventory and then subtracting ending inventory. This calculation will provide a figure for net sales from which all other expenses are subtracted from to determine actual revenue at the store level. Since the majority of this information is not available for Washington liquor stores, COGS is typically calculated as a percentage (%) of sales. The COGS % used in this calculation is based on historical performance.

WSLCB has experienced generally stable growth in revenues so the revenue forecast model, developed by the Financial Division with input from the Washington State Office of the Revenue Forecast Council, is adjusted each cycle to reflect the latest understanding of performance indicators. WSLCB's process to forecast revenue considers past performance indicators and new information, such as a legislative increase in alcohol taxes for each of the major revenue types. When the Financial Division receives all the pertinent information from each of the various sources, they analyze the data, in conjunction with the division supplying the information, ask questions, find trends, and determine how the information has changed from one year/quarter to the next.

All comparisons are made between the amounts of sales, taxes, fees, and penalties for the various products to assess where increases and/or decreases occurred. When trends are identified, the Financial Division representative verifies the findings with other division representatives for confirmation. The State of Washington has several different tax structures depending on the revenue source. There are unique tax structures set up for Indian establishments, military establishments, different restaurant license types, and others.

The Financial Division analyzes several internal and external financial reports to determine recent trends. These trends are reviewed against trends that have taken place over the last 20 years in order to determine a range of actual results and an acceptable range of possible percentage increases/decreases. In addition, information from the Revenue Forecast Council is evaluated for any extra guidance. Then all legislative changes and anticipated price increases and adjustments are figured into the totals.

Once all the data has been analyzed, the Financial Division enters the information into the revenue forecast model. The model allows them to put the information in with any expected increases or decreases in revenue streams. In addition, the model allows the division to make adjustments to Cost of Goods Sold and various other expenses based on analysis of the data to previous years' information. The model itself is broken down into three separate sections:

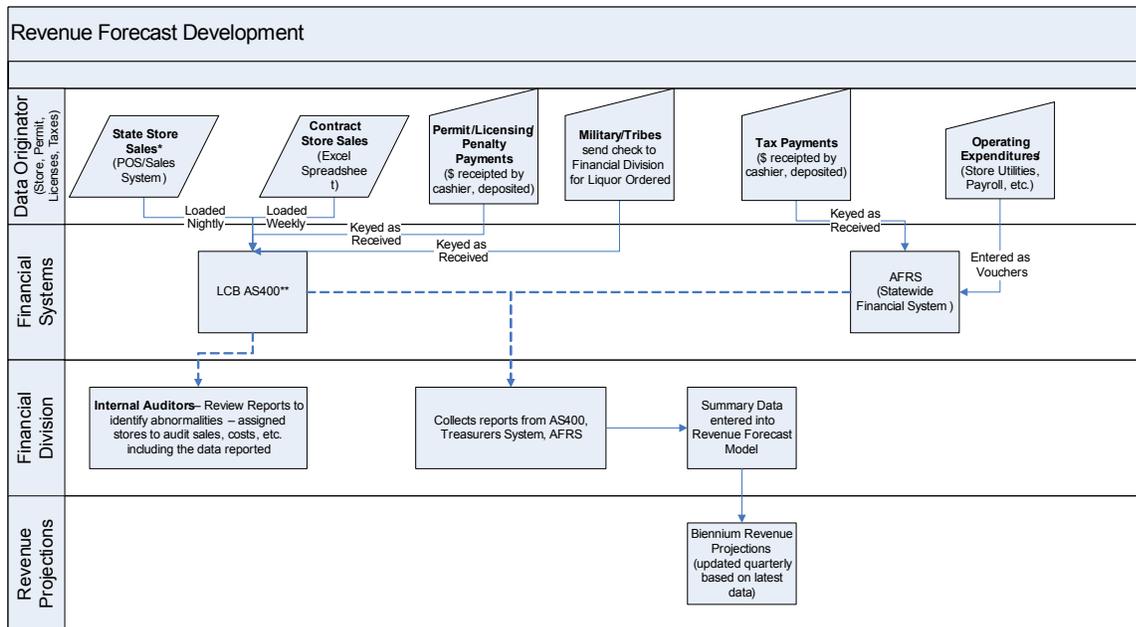
- Growth Factors – this section is a way of adjusting percentage increases/decreases to the various revenue types. They are linked into the revenue projections by source;
- Revenue Projections by Source – this is a listing of business segments (e.g. liquor sales, beer and wine tax collections, liquor license fees) and it incorporates the partitioning of the revenues according to legislation; and
- Distribution of Revenues – this section breaks down the various revenue sources by the entities to receive a distribution (e.g. State funds, local government, other). These distributions including

the percentage of revenue for each entity is legislatively mandated through the RCWs 66.08.180, 66.08.190, 66.08.200, and 66.08.210.

Annually, the Financial Division compiles its revenue forecasts and passes them to the Revenue Forecast Council for analysis. Forecasts are presented to the Revenue Forecast Council for incorporation into their General Fund-State (GFS) forecast and eventually this figure is used by the Washington Legislature to appropriate the State General Fund budget.

Even though the Financial Division follows revenue forecasting models provided by the Council, the Council routinely decreases WSLCB’s forecasts by 1-2%. It is believed that this is done because the Revenue Forecast Council prefers conservative revenue forecasts to lesson the likelihood of a revenue shortfall. In addition, it is generally accepted that the Revenue Forecast Council has access to more data such as demographics, population increases/decreases, etc. that could further impact WSLCB’s revenue estimates. Once the Revenue Forecast Council has given their approval of the revenue forecasts, the process is considered complete.

The following diagram provides a picture of the development of the revenue forecast for the WSLCB. It indicates the source of key data that is used to forecast revenues and where the data is stored and how it flows through to the revenue forecasts.



\* Store sales data may include permit fees collected, NSF charges, etc.

\*\* The AS400 is the LCB's Financial System

## 2. Revenue Data

The type of data used in the development of revenue forecasts is well defined, the sources of each piece of data have been identified and the calculations performed with these pieces of data are consistently applied. It appears that all the source data can be validated through an audit of hard

copy documents or electronic files; but it is not clear if and how often all pieces of data are validated on a regular schedule.

Parameters on specific pieces of source data have been programmed into the AS400 system. Data exceeding the defined parameter will result in a hard or soft error in the financial system. From an accounting standpoint, hard errors will not allow the division to close the books on a reporting period – month. Soft errors are those that allow the books to be closed for the month but will trigger a follow-up by internal auditors or the Retail Services Division. For example, if shrinkage exceeds .08% of store sales an error report will be generated so that those concerned with loss protection and audit can follow-up and assist the store in development of an action plan to correct the situation. Internal auditors within the Financial Division are assigned a certain region of stores to regularly conduct audits on store operations including the data generated for sales, cash, and inventory.

There is a lag in the availability of the information that can be used by the internal auditors or other divisions. Typically, reports out of the financial system are not available for analysis by the other divisions or staff responsible for projecting revenues until the 25<sup>th</sup> of the following month. This lag affects the WSLCB's efficiency in reaction to anomalies in data that may translate into operational losses in time, product, and money. The delay may, in turn, affect the accuracy of revenue forecasts if a large correction needs to be made after data is used in projections.

The WSLCB recently implemented a new point of sale (POS) system at the state owned stores. The original design of the project also included a backend general ledger piece that would enhance the Financial Division's ability to use available sales/inventory data that is currently not available or difficult to access. Due to problems on the project, it was scaled down to the implementation of the POS application. This POS system collects a significant amount of data that would be useful in the development of revenue forecasts and operations management but the data is not easily mined.

Other priorities for information technology staff do not allow the WSLCB to focus on accessing this data, and as such, the additional data provides less value. In fact, the systems available for the WSLCB do not meet the needs of the merchandizing function that the organization is tasked with. These limitations affect the organization's ability to accurately forecast revenue and take advantage of potential efficiencies in operations at the store, warehouse, and division level.

### **3. Accuracy and Reliability of Past Projections**

Based on a comparison of actual revenues to forecasted revenues, projections have been fairly accurate even though timely access to relevant information is a problem. Looking over the most recent financial reports for 2005, most revenue forecast numbers are within 5% of actual figures-- often times less than 3% difference. For instance, third quarter cumulative operating expenses were 2.63% less than forecasted for 2005. This is likely due to the Forecast Council often reducing WSLCB's initial revenue forecasts.

Listed in the table below are forecasted and actual revenues of the WSLCB since fiscal year 2002, as provided by members of the Financial Division. Actual revenues have exceeded forecasted revenues each of the past four years.

<b>Gross Revenues</b>	<b>Forecasted Revenues</b>	<b>Actual Revenues</b>	<b>Difference in Actual Revenue – Forecasted Revenue</b>	<b>Percentage Difference</b>
FY 2002	\$545,237,962	\$552,409,344	\$7,171,382	+1.30%
FY 2003	\$563,855,299	\$579,096,601	\$15,241,302	+2.63%
FY 2004	\$604,604,137	\$626,379,012	\$21,774,875	+3.48%
FY 2005	\$649,622,431	\$657,573,546	\$7,951,115	+1.21%

Due to the technical limitations of financial systems, the actual calculation of revenues is a manual process. When manual processes are used, the likelihood of error is increased. In addition, the development of revenue forecasts is not the only priority or responsibility for the single individual tasked with their creation.

Another consideration in an analysis of the accuracy of revenue projections looks at the accuracy of the data used to calculate the forecasts. The current process involves deriving some of the key pieces of data. As stated earlier, the COGS is derived as a percentage of sales rather than based on conventional accounting formulas and the liquor taxes are derived using a macro. The concern with the tax macro is that it can be manipulated and doesn't actually calculate taxes based on COGS (i.e. number of units sold – liters, bottles, etc.).

Based on the data available for the last four fiscal years, the WSLCB's projected revenues have been very close to actual revenues. Over these same years, the difference between forecasted and actual revenues has ranged from \$7.9 million to \$21.7 million in a single year. As stated earlier, the revenue forecasts are used by the State Revenue Forecast Council to project the State General Funds that are eventually appropriated by the State Legislature, the percentage difference may be small but increasing the accuracy of revenue forecasts from the WSLCB would mean more state general funds would be available for appropriation to needy state programs.

The 2005-2007 biennium revenue forecasts include a recent addition of the \$1.33 per liter liquor tax that went into effect on July 1, 2005. A key concern is whether this increase in liquor price could lead to reduced demand. Two major studies have been conducted in this area: 1) the Leung and Phelps study (1993), and the Nelson study (1997). The Leung and Phelps study concluded that for every 1% increase in price, there is a corresponding decrease in consumption of -1.5% (price elasticity of -1.50). The Nelson concluded that for every 1% increase in price, there would be a corresponding decrease of only -0.39% (price elasticity of -0.39). In speaking with Financial Division representatives, it was established that WSLCB used a price elasticity factor of -1.48.

In comparison to Oregon and Idaho, Washington's border states, the excise tax rate is significantly higher even before the \$1.33 per liter. Before the July 1, 2005 effective date of the new tax, the tax rate was 19% higher than Oregon and 138% higher than Idaho. Having the highest price for hard liquor may tempt customers near State borders to make their purchases in bordering states with lower overall prices. Prior to July, communities within 50 miles of a border state's liquor store represented 20.1% of the Washington's population and 16.5% of liquor revenues. There was a 27%

difference in per capita revenue in border communities.<sup>11</sup> WSLCB may see a reduction in liquor revenues in border communities with the \$1.33 per liter tax increase and no corresponding tax increases in Oregon or Idaho thus increasing the disparity in liquor costs to consumers. (Footnote: Idaho State Tax Commission, phone call, 8/8/05 and Oregon Liquor Control Commission, phone call, 8/8/05)

## **B. Revenue Forecast Process Improvement Recommendations**

As previously identified by WSLCB, there is already a desire to follow a retail strategy for the Agency. In the past, the organization has not invested in the appropriate information technology infrastructure to keep pace with advancements in retail software applications. As previously stated, the largest source of revenue for the Agency is the sale of liquor. The Agency has not capitalized on this information and has not focused on identifying, collecting or using data that could enhance revenue generation or forecasts.

### **1. Retail Information Technology System**

Information technology system(s) need to support the retail business in which WSLCB operates. The system should be able to capture the necessary data to either calculate the Cost of Goods Sold (COGS) or share appropriate data with an accounting system that can calculate the COGS. Having the data necessary to calculate this important figure down to the store level will allow the Agency to develop more accurate revenue forecasts as well as more efficiently manage retail operations. In addition, the system should capture inventory and related revenue data in appropriate units for the liquor industry (i.e. bottles, cases, etc.). This level of information is necessary for applying liquor taxes more accurately. Implementing a retail/merchandizing system designed to collect the necessary sales, inventory, and operational data that interfaces with an enhanced general ledger accounting system will result in more accurate revenue forecasts.

It will be important that as an information technology solution is analyzed that the Agency keep in mind the importance of not only capturing and storing data but consider how that data can be extracted for analysis (data mining). The WSLCB spent significant resources implementing a POS system in the stores to capture and store data but access to this data has been difficult to achieve. In fact due to limitations in information technology resources, this data is not currently accessible for analysis in the revenue forecasting process.

### **2. Automation of Forecasting Model**

An aspect of the revenue forecast process that would benefit from automation would be the forecasting model that is currently maintained in an Excel workbook. The model has worked successfully but because it doesn't capture information directly from another system, it relies on the manual entry of summary data collected or calculated from data in other systems. Manual

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<sup>11</sup> (Footnote: Cross Border Analysis conducted by DISCUS. Author Dave Ozgo 2005)

interventions could be minimized reducing the effect of entry errors and the appearance of any manipulation of data to get a desired result.

Having a system that supports the capture and analysis of retail data will enhance the Agency's ability to more accurately forecast revenue. Currently, the Financial Division has limited resources devoted to the development of forecasts and as such the analysis of why actual revenues did not more closely match forecasted revenues is not currently a priority. Unless it is very obvious as to why a revenue figure did not come in as anticipated, the root cause of the difference is not researched until a trend has been established. More efficient information technology systems and automation of the forecasting model will mean that there will be more time for analysis of data including drivers and trends in both expenditures and revenues.

The data necessary to more accurately forecast WSLCB's revenue is not accessible or not captured currently due to system limitations. Increased accuracy in the revenue forecasting process would mean that the State Legislature could effectively appropriate State General Funds and ultimately provide more services to the Washington public. A more accurate forecast would essentially mean funds are available earlier to enhance public welfare.

### C. Implications of Revenue Growth on Public Safety

Based on the analysis of the revenue forecasts' data and growth factors presented above, there is no indication that there will be a significant increase in alcohol consumption. As a result, the WSLCB will be confronted with the same public safety issues they deal with today. Since the WSLCB does not create revenue forecasts past the current or ensuing biennium, it is difficult to determine if there will be an impact on public safety due to extensive growth in liquor revenue. Revenue forecasts for the 2006-2007 biennium indicate a 5.45% growth in Fiscal Year 2006 and a 5.3% growth in Fiscal Year 2007. These forecasts take into account the new \$1.33 per liter tax.

Per capita consumption has remained fairly static over the past ten years as validated by the table below.

**Washington State Alcoholic Beverage  
Per Capita Apparent Consumption (In Gallons)  
Age 21 Years and Over\***

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Malt Beverages	29.75	28.63	29.01	28.11	28.51	28.48	27.57	27.64	28.97	29.12
Wine	3.80	3.95	4.05	4.16	4.12	4.17	4.09	4.08	3.92	4.20
Spirits	1.80	1.75	1.75	1.74	1.77	1.81	1.80	1.81	1.83	1.91

*\*Based on population figures from the Office of Financial Management.*

National studies on health related illnesses tied to alcohol abuse indicate that there is a significant annual growth in costs associated with treating alcohol related illnesses. The minimal growth in

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WSLCB revenues may not be sufficient enough to offset the annual percentage increase in healthcare treatment costs for alcohol abuse related illnesses. If the revenue distribution percentage to drug and alcohol abuse treatment programs is not increased at essentially the same rate as the growth in healthcare costs, fewer individuals seeking services will be able to receive them each year.

Note: On August 24, Public Knowledge provided 10 years of per capita consumption data (Provided by WSLCB) to Pacific Institute Research and Evaluation (PIRE). PIRE has agreed to analyze the data and provide an assessment of the public safety impacts and costs that may result from an increase in consumption.

## Section 7 – Appendices

### Appendix A. Comparison Tables of Control States

The information in the following tables provides a comparison of Washington to seventeen other control states, including Alabama, Idaho, Iowa, Maine, Michigan, Mississippi, Montana, New Hampshire, North Carolina, Ohio, Oregon, Pennsylvania, Vermont, Virginia, West Virginia, and Wyoming.<sup>12</sup> Five separate comparisons are made: 1) Liquor Control Board Structure, 2) Agency/Division Organizational Structure, 3) Agency/Division Functional Structure, and 4) Number of Licensing Outlets 5) Performance Comparison Data.

Most data for these tables comes from the National Alcohol Beverage Control Association (NABCA) Survey Book, 2005 Edition. Additionally, information was gathered from the states websites. A complete list of sources and each states website can be found in Appendix F.

If conflicting information was identified between the NABCA Survey Book, 2005 addition and the State’s websites, information from the website was assumed to be more accurate. In cases where information could not be found, the cell was populated with a “U” for Unknown. The findings after each table summarize the data displayed in a narrative format.

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<sup>12</sup>NABCA Survey Book, 2005 edition. Note: The State of Maryland (often considered the 19<sup>th</sup> Control State) has two county jurisdictions that are considered “controlled” environments; however, the State as a whole is a License State.

**Table 1. Liquor Control Board Structure Comparison**

	Control States																	
	Washington	Alabama	Idaho	Iowa	Maine	Michigan	Mississippi	Montana	New Hampshire	North Carolina	Ohio	Oregon	Pennsylvania	Utah	Vermont	Virginia	West Virginia	Wyoming
How many members make up the Liquor Control Board (LCB) in the state, including the chairman?	3	3	N/A	5	5	5	N/A	N/A	3	3	3	5	3	5	3	3	N/A	N/A
How many years do the LCB members serve?	6	6	N/A	5	3	4	N/A	N/A	6	3	6	4	4	4	6	4	N/A	N/A
Are LCB members appointed by Governor (G), or Governor with Senate Confirmation (G/S)?	G/S	G/S	N/A	G	G	G/S	N/A	N/A	G	G	G/S	G/S	G/S	G	G/S	G/S	N/A	N/A
Are political party affiliation restrictions required of the LCB makeup?	N	N	N/A	Y	N	Y	N/A	N/A	Y	N	Y	Y	Y	Y	Y	N	N/A	N/A
Is the LCB chair appointed by Governor (G), or the LCB (B)?	G	G	N/A	B	G	G	N/A	N/A	G	G	G	G	G	G	B	G	N/A	N/A
Is the LCB Chairman full time?	N	N	N/A	N	N	Y	N/A	N/A	Y	Y	Y	N	Y	N	N	Y	N/A	N/A
Are other members of the LCB full time?	N	N	N/A	N	N	Y	N/A	N/A	Y	N	Y	N	Y	N	N	Y	N/A	N/A
Does the State pay an annual salary to its LCB members?	Y	N	N/A	N	N	Y	N/A	N/A	Y	Y	Y	N	Y	N	N	Y	N/A	N/A
Does the State pay a meeting/day per diem to LCB members?	N	Y	N/A	Y	Y	N	N/A	N/A	N	Y	N	Y	N	Y	Y	N	N/A	N/A
How frequently does the LCB meet: As Needed (AN), Weekly (W), Monthly (M), or Unknown (U)?	W	AN	N/A	U	M	U	N/A	N/A	U	AN	U	M	U	M	AN	U	N/A	N/A

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### General Findings:

- Thirteen states (72%); including Washington, have a Liquor Control Board (LCB). Of the states with an LCB, eight states (62%), including Washington, have LCBs comprised of three members, counting the chairman. The other five states (38%) have 5 member LCBs. Idaho, Mississippi, Montana, West Virginia, and Wyoming do not operate an LCB as a stand alone entity.
- In the states with LCBs, board member terms vary from three years in two states (15%) to six years in five states (39%), including Washington.
- LCB members are appointed by the Governor in five states (38%), and by the Governor with Senate confirmation in eight states (62%), including Washington.
- There are political party affiliation restrictions in eight states (62%) and no restrictions in five states (38%), including Washington.
- LCB chairmen are selected by the Governor in eleven states (85%), including Washington, and by the LCB members in two states (15%).
- LCB chairmen are full-time in six states (46%) and part-time in seven states (54%), including Washington.
- Of the states with full-time LCB chairmen, only North Carolina uses part-time LCB board members; all other state's LCB members are full time.
- Washington is the only state that pays a salary to its LCB chairman and board members for less than full-time work. All other states with part-time chairmen or board members use a per-diem model to pay their members.
- Of the seven states (54%) that publish their LCB meeting schedule, Washington is the only state whose LCB meets weekly. In the remaining six states, half of them meet on a monthly basis and half meet as needed.

**Table 2. Agency/Division Organizational Structure Comparison**

	Control States																	
	Washington	Alabama	Idaho	Iowa	Maine	Michigan	Mississippi	Montana	New Hampshire	North Carolina	Ohio	Oregon	Pennsylvania	Utah	Vermont	Virginia	West Virginia	Wyoming
Is there a Liquor Agency/Division Administrator?	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	N	Y	Y	N	Y	Y
Is the Liquor Agency/Division Administrator appointed by the Governor (G), LCB (B), does the board run operations of the organization (N/A), or is it Unknown (U)?	B	G	G	G	G	B	U	G	N/A	U	G	B	N/A	B/G	B	N/A	G	G
Within the Liquor Control Agency/Division itself, does the Agency/Division include the following divisions (“U” indicates information unavailable):																		
Administration/HR/Personnel (If the agency has a Administrator, its assumed that person resides within this division)	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Accounting/Finance/Budgeting	Y	Y	Y	U	Y	U	U	Y	Y	Y	Y	Y	Y	N	Y	Y	U	
Education & Training	Y	N	N	U	N	U	U	Y	Y	N	N	Y	Y	Y	N	N	U	
Enforcement/Compliance	Y	Y	N	U	Y	U	U	Y	Y	N	Y	N	Y	Y	Y	Y	U	
Information Systems	Y	N	Y	U	N	U	U	Y	N	N	Y	Y	Y	Y	Y	Y	U	
Licensing/Registration/Permits	Y	Y	Y	U	N	U	U	Y	Y	Y	Y	Y	Y	Y	Y	Y	U	
Legal/Legislative/Policy	Y	N	N	U	Y	U	U	N	Y	N	Y	Y	N	N	Y	N	U	
Purchasing/Product Management	Y	Y	Y	U	N	U	U	N	Y	Y	Y	Y	Y	Y	Y	Y	U	
Retail/Store Services/Marketing	Y	Y	N	U	N	U	U	Y	N	Y	Y	Y	Y	Y	Y	Y	U	
Wholesale/Distribution Services	Y	Y	Y	U	N	U	U	Y	N	Y	Y	Y	Y	Y	Y	Y	U	
Other services divisions: Tobacco, Gambling, etc.	Y	N	N	Y	U	N	U	U	N	N	Y	N	N	N	N	Y	N	U

### General Findings:

- Fifteen of the control states (83%) have a Liquor Agency/Division Administrator. Only New Hampshire, Pennsylvania, and Virginia do not have a single designated person; responsibilities may lie with several people or across several agencies.
- Of the states with a Liquor Agency/Division Administrator, four states (29%) have Administrators (29%) that are appointed by the LCB, including Washington, and eight states (57%) have Administrators that are appointed directly by the Governor. Utah appoints their administrator with a vote of 4 out of 5 LCB members with approval of the Governor. It is unclear how Mississippi and North Carolina appoint their administrators.
- Very little information was available about how the Liquor Control Agency/Division is organized in Maine, Mississippi, Montana or Wyoming. The remaining bullet findings refer to states where organizational structure information was available.
- All control states have some administration office (which includes the Liquor Agency/Division Administrator if there is one).
- Thirteen states (92%); including Washington, have an Accounting/Finance/Budgeting Division.
- Seven states (50%); including Washington, have an Education/Training Division.
- Ten states (71%); including Washington, have an Enforcement/Compliance Division.
- Ten states (71%); including Washington, have an Information Systems Division.
- Twelve states (86%); including Washington, have a Licensing/Registration/Permits Division.
- Six states (43%); including Washington, have a Legal/Legislative/Policy Division.
- Twelve states (86%); including Washington, have a Purchasing/Product Management Division.
- Eleven states (79%); including Washington, have a Retail/Store Services/Marketing Division.
- Twelve states (86%); including Washington, have a Wholesale/Distribution Services Division.
- Four states (28%); including Washington, have Other Service Divisions (i.e. Tobacco, Gambling, etc).

**Table 3. Agency/Division Functional Structure Comparison**

	<b>Control States</b>																	
	Washington	Alabama	Idaho	Iowa	Maine	Michigan	Mississippi	Montana	New Hampshire	North Carolina	Ohio	Oregon	Pennsylvania	Utah	Vermont	Virginia	West Virginia	Wyoming
<b>Wholesale/Retail Operations</b>																		
Does the State control wholesale pricing (W), or both wholesale and retail pricing (B)?	<b>B</b>	B	B	W	B	W	W	B	B	B	B	B	B	B	B	B	W	W
How many wholesale warehouses are in the State?	<b>1</b>	1	1	1	1	N/A	1	1	2	1	4	1	3	1	1	1	1	1
Are the wholesale warehouses operated by the State (S), a Contractor (C), or Unknown (U)?	<b>S</b>	S	S	S	C	N/A	S	S	S/C	S	C	S	2-S 1-C	S	S	S	S	U
Do State staff (S) or Contractor staff (C) load product at the warehouse?	<b>C</b>	S	C	S	C	N/A	S	S	S/C	C	C	C	C	C	S	S	S	C
Is wholesale delivery to retail stores provided by the State (S) or Contractor (C)?	<b>C</b>	C	C	S	C	N/A	C	C	C	C	C	C	C	C-15%, S-85%	S	C	C	C
Does the State operate its own retail stores?	<b>Y</b>	Y	Y	Y	N	Y	Y	N	Y	Y	N	N	Y	Y	N	Y	Y	Y
For retail control states, does the State (S) or Contractor (C) own the inventory?	<b>S</b>	N/A	S	N/A	C	N/A	N/A	C	C	N/A	S	S	N/A	S/C	S	N/A	N/A	N/A
Is bailment used in the State?	<b>Y</b>	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N

		<b>Control States</b>																	
		Washington	Alabama	Idaho	Iowa	Maine	Michigan	Mississippi	Montana	New Hampshire	North Carolina	Ohio	Oregon	Pennsylvania	Utah	Vermont	Virginia	West Virginia	Wyoming
<b>Enforcement</b>																			
Are the duties of alcohol enforcement located within the Liquor Control Board (B), Law Enforcement (LE), Dept. of Public Safety (PS), or Other (O)?	<b>B</b>	B	LE	PS	PS	B	O	O	B	PS	PS	B	LE	PS	O	O	B	LE	
How many enforcement agents?	<b>79</b>	99	1	395	14	41	28	16	21 FTE, 6 PTE	72	115	40	17 LE + 164 Civil.	12	18	151	44	1	
Are agents sworn?	<b>Y</b>	Y	Y	U	Y	N	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	N	N	
Are other duties performed in addition to alcohol enforcement & education?	<b>Y</b>	Y	Y	U	N	N	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N	
Other duties include:																			
Tobacco	<b>X</b>	X						X	X						X	X			
Vice													X	X					
Gambling									X	X	X		X	X	X				
Drugs		X								X	X				X				
Tax fraud								X											
“All laws”		X	X				X		X						X	X	X		
Agent permitted to carry firearm?	<b>Y</b>	Y	N	Y	Y	N	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N	N	

	Control States																		
	Washington	Alabama	Idaho	Iowa	Maine	Michigan	Mississippi	Montana	New Hampshire	North Carolina	Ohio	Oregon	Pennsylvania	Utah	Vermont	Virginia	West Virginia	Wyoming	
Arrest authority?	N	Y	N	Y	Y	N	Y	Y	Y	Y	Y	N	N	Y	Y	Y	N	N	
Number of compliance checks performed by LCB (last 12 months)?																			
0			N/A	N/A	X		X	N/A					N/A					N/A	
1 – 1500									X		X	X		X	X		X		
1501 – 5000		X				X				X						X			
5001+	X																		

General Findings – Wholesale/Retail Operations:

- Thirteen states (72%); including Washington, control both wholesale and retail pricing. Iowa, Michigan, Mississippi, West Virginia, and Wyoming only control wholesale operations.
- Fourteen states (78%), including Washington, have one wholesale warehouse that distributes alcohol within the State; three states (16%) have more than one wholesale warehouse. Michigan uses Authorized Distribution Agents so wholesale warehouse information was not available.
- Twelve states (67%), including Washington, have wholesale warehouses that are operated by the State; two states (11%) use a combination of State and Contractor operation; and two states (11%) use Contractors exclusively.
- Nine states (50%), including Washington, use Contractor staff to load product at their warehouse; seven states (39%) use State staff; and New Hampshire uses a combination of State and Contractor staff.
- Fourteen states (78%), including Washington, use Contractor staff to provide delivery to retail stores; two states (11%) use State staff; and Utah uses a combination of State and Contractor staff.
- Thirteen states (72%), including Washington, have at least some retail stores operated by the State.
- Five states (28%); including Washington, own the inventory in retail stores; in three states (17%) Contractors own the inventory; Utah jointly owns inventory with Contractors; information was unavailable for nine states (50%).
- Fifteen states (83%), including Washington use bailment in the State; only Michigan, Oregon, and Wyoming do not.

### General Findings – Enforcement:

- Six states (33%), including Washington, locate the duties of alcohol enforcement within the Liquor Control Board; three states (17%) locate them in Law Enforcement; five states (28%) locate them in the Department of Public Services; and four states (22%) locate them in other places.
- Washington utilizes 79 enforcement agents; other states range from 1 agent to 395 agents.
- Thirteen states (72%); including Washington, use sworn agents for alcohol enforcement.
- Thirteen states (72%); including Washington, use their agents for duties other than alcohol enforcement. These duties range as follows:
  - Six states (33%); including Washington uses their agents for tobacco enforcement.
  - Two states (11%) use their agents for vice enforcement.
  - Six states (33%) use their agents for drug enforcement.
  - Montana uses their agents for tax fraud enforcement.
  - Seven states (39%) use their agents for enforcement of “all laws.”
  - Thirteen states (72%), including Washington, allow their enforcement agents to carry a firearm.
  - Seven states (39%); including Washington, do not provide their enforcement agents with arrest authority.
- According to the NABCA Survey Book 2005, Washington completed 5,512 compliance checks in the past 12 months, more than any other control state. Four states (22%) completed between 1,501 and 5,000 checks; six states (33%) completed between 1-1500 checks, and seven states (39%) do not complete compliance checks nor had zero compliance checks in the past 12 months.

**Table 4. Number of Licensing Outlets Comparison**

	Control States																	
	Washington	Alabama	Idaho	Iowa	Maine	Michigan	Mississippi	Montana	New Hampshire	North Carolina	Ohio	Oregon	Pennsylvania	Utah	Vermont	Virginia	West Virginia	Wyoming
<b>Spirits Outlets:</b>																		
Total off-premise outlets	321	559	152	11,817	246	3,771	485	98	74	390	418	240	634	139*	146	300	154	124
Total on-premise outlets	3,245	2,980	1,110	5,433	1,402	8,253	914	1,603	1,311	3,998	11,939	3,120	15,809	765	1,098	4,221	1,962	1,142
<b>Wine Outlets:</b>																		
Total off-premise outlets	5,094	3,457	3,152	12,186	1,700	7,410	485	875	1,440	10,437	8,263	3,711	728	139*	1,137	7,544	1,076	206
Total on-premise outlets	5,873	3,258	1,110	5,779	1,633	8,404	914	2,158	1,724	8,376	13,106	5,376	15,809	931	2,476	4,917	2,108	1,142
<b>Beer Outlets:</b>																		
Total off-premise outlets	5,034	4,919	3,000	12,992	1,976	7,410	U	934	1,311	6,883	9,231	3,711	14,272	139*	1,137	7,957	2,013	206
Total on-premise outlets	6,123	3,704	1,110	5,779	1,760	8,404	U	2,260	1,724	7,543	13,584	5,376	16,409	1,365	2,475	6,046	2,806	1,142

\*Utah performs local licensing. Data for local licensing of establishments was unavailable.

\*\* Numbers compiled from NABCA Survey Book, 2005 Edition

\*\*\* Numbers can be duplicative. For example, an outlet that sells both wine and beer will be counted as BOTH a wine outlet AND a beer outlet

**General Findings:**

- Among control states, Washington ranks ninth for total off-premise Spirits Outlets and ranks seventh for total on-premise Spirits Outlets.
- Among control states, Washington ranks sixth for total off-premise Wine Outlets and ranks fifth for total on-premise Wine Outlets.
- Among control states, Washington ranks seventh for total off-premise Beer Outlets and ranks fifth for total on-premise Beer Outlets.

**Table 5. Comparison of Control States**

In order to compare performance indicators for the Washington State Liquor Control Board (WSLCB), it is necessary to identify which of the eighteen control states are most similar. The following table demonstrates why Alabama, New Hampshire, North Carolina, Ohio, Oregon, and Virginia were selected for comparison to Washington. Sources of data for each category are listed as footnotes.

	<b>Washington</b>	<b>Alabama</b>	<b>New Hampshire</b>	<b>North Carolina</b>	<b>Ohio</b>	<b>Oregon</b>	<b>Virginia</b>
<b>Board Make-up<sup>13</sup></b>	3-person	3-person	3-person	3-person	3-person	5-person	3-person
<b>2003 Estimated U.S. Census Total State Population<sup>14</sup></b>	~6.1M	~4.5M	~1.3M	~8.4M	~11.4M	~3.6M	~7.4M
<b>2003 Estimated Drinking Age Population<sup>15</sup></b>	~4.4M	~3.2M	~0.9M	~6.0M	~8.1M	~2.6M	~5.3M
<b>Retail and/or Wholesale Operations Controlled by State<sup>16</sup></b>	Both	Both	Both	Both	Both	Both	Both
<b>Number of Retail Stores<sup>17</sup></b>	315	148	77	390	431	242	293
<b>State or Contract Operated Retail Stores<sup>18</sup></b>	Both	State	State	Contract	Contract	Contract	State
<b>Agency Responsible for Liquor Law Enforcement<sup>19</sup></b>	LCB	LCB	LCB	State Police	Dept. of Public Safety	LCB	LCB

<sup>13</sup> NABCA Survey Book, 2005 Edition

<sup>14</sup> US Census website <http://quickfacts.census.gov/qfd/>

<sup>15</sup> Distilled Spirits Revenue Comparisons Report from DISCUS

<sup>16</sup> NABCA Survey Book, 2005 Edition

<sup>17</sup> Retail store numbers come from reports on each State’s website.

<sup>18</sup> NABCA Survey Book, 2005 Edition

<sup>19</sup> NABCA Survey Book, 2005 Edition

	Washington	Alabama	New Hampshire	North Carolina	Ohio	Oregon	Virginia
<b>** Number of Enforcement Officers<sup>20</sup></b>	79	99	21-FTE, 6-PTE	72	115	40	151
<b>Agency Responsible for Education and Prevention Activities<sup>21</sup></b>	LCB	LCB	LCB	LCB	Dept. of Public Safety	LCB	LCB
<b>Total Number of Licensed Off-premise Outlets<sup>22</sup></b>	5,093	5,203	1,440	17,710	9,713	3,951	8,966
<b>Total Number of Licensed On-premises Outlets<sup>23</sup></b>	6,162	3,982	1,724	19,917	13,711	5,376	9,989

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<sup>20</sup> NABCA Survey Book, 2005 Edition

<sup>21</sup> NABCA Survey Book, 2005 Edition

<sup>22</sup> NABCA Survey Book, 2005 Edition

<sup>23</sup> NABCA Survey Book, 2005 Edition

## Appendix B. WSLCB's Organizational Structure and Functions

The Washington State Liquor Control Board's primary goals involve increasing overall revenues, educating the public about alcohol and tobacco, enhancing public safety, and modernizing its current business and systems, all while maintaining a high-quality, educated staff. With total revenue of approximately \$651 million, the WSLCB operates as an individual Agency and maintains its administrative offices in Olympia, Washington. The Agency as a whole currently employs 1148 employees.

The WSLCB controls the manufacture, wholesale distribution, and retail sales services of wine and distilled spirits within the State of Washington. The 161 state-operated and 154 contract stores track and order their own inventory from the state Distribution Center and typically receive product shipments once or twice a week. The Liquor Purchasing Division purchases product each week to stock the Distribution Center.

All state-operated stores sell only distilled spirits, wine and beer. Contract stores are typically located in more remote destinations, and are usually in existing retail stores that sell other product lines in addition to liquor.

In order to uphold its mission, the organization is broken down into the following divisions:

Board and Administration –provide for the executive administration of the WSLCB

- Three board members;
- The Administrative Director;
- Three administrative staff;
- Total of seven staff.

Human Resource Division – includes training, labor relations, general human resource responsibilities and safety programs

- One Division Director;
- Three management staff;
- Six line staff;
- 10 total staff.

Retail Services – includes retail operations and the management of 161 state operated and 154 contract stores

- One Division Director
- 11 management positions
- 279 permanent retail store employees
- 514 “non-permanent” employees
- 805 total staff

Distribution Center – receives inventories and ships all wine and distilled spirits to state and contract stores. The Center is located in Seattle.

- One general manager;
- 13 management positions;
- 55 line staff;
- 69 total staff.

Liquor Purchasing – includes management of the Wine Program and purchasing of wine and distilled spirits.

- One Division Director;
- One management position;
- 11 line staff;
- 13 total staff.

Financial Services and Information Technology Services – includes IT services, contract services, budgeting, accounting, auditing, revenue forecasting, risk management and records management

- One Division Director;
- Information Technology Services
- Three management positions;
- 31 line staff ;

- 34 total staff.
- Financial Services
- Eight management positions;
- 49 line staff;
- 57 total staff;
- 91 Total Division staff.

Licensing and Regulation – includes retail licensing, liquor license investigation, criminal history investigations, enforcement of liquor laws to manufacturers, importers, and wholesalers, approval of beer and wine labels, and alcohol server training.

- One Division Director;
- Three management positions;
- 42 line staff;
- 46 total staff.

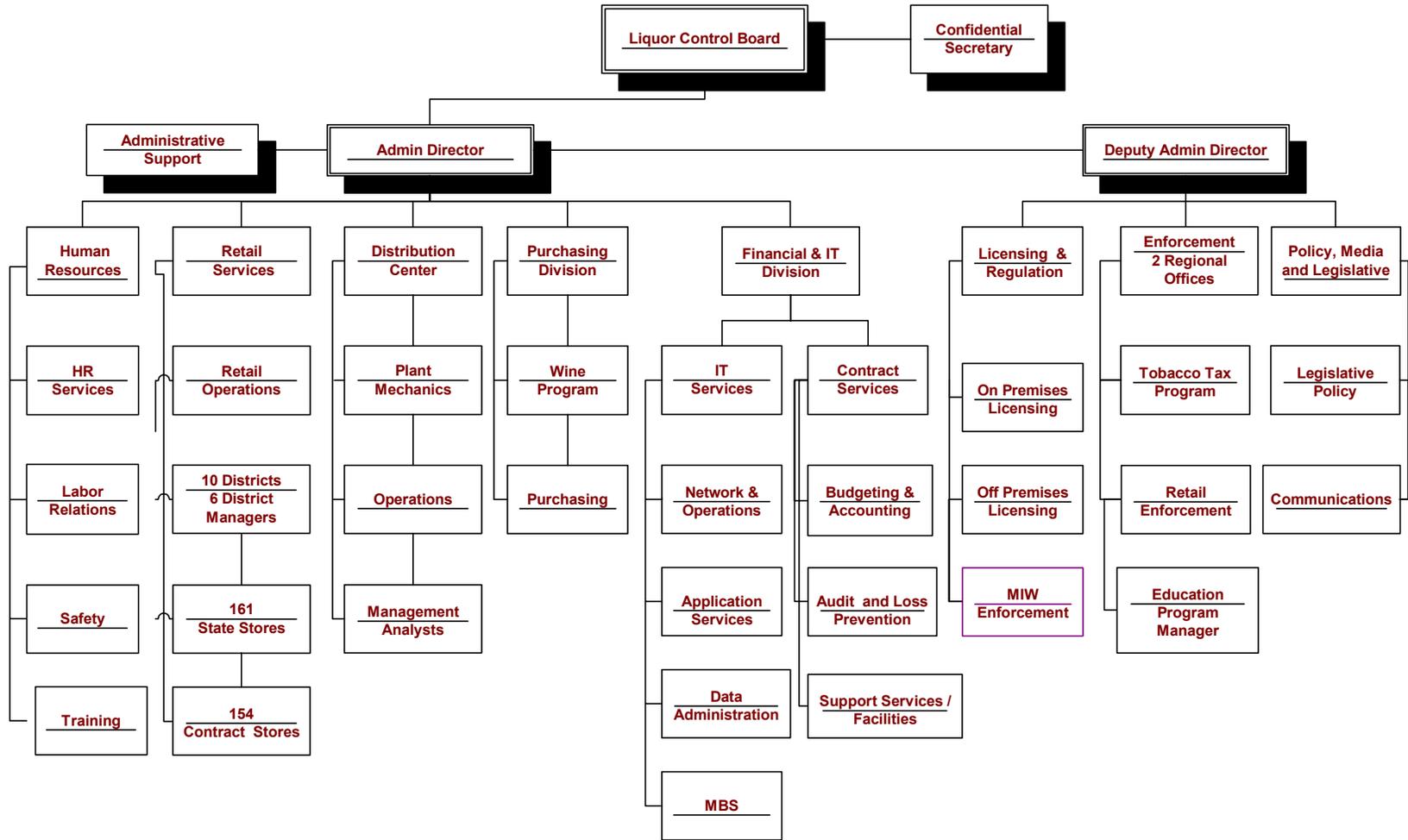
Enforcement and Education– includes four regional offices and central office staff that are responsible for the enforcement of retail liquor and tobacco laws, and public safety education.

- One Division Director;
- 21 management positions;
- 78 line staff;
- 100 total staff.

Policy Legislative, and Media Relations - includes responsibility for policy and rules, media relations and public records.

- One Deputy Administrative Director;
- Two management positions;
- Four line staff;
- Seven total staff.

# 1. WSLCB Organization and Business Functions Chart



## Appendix C. Statutes Authorizing the WSLCB Board and Administrative Director

Authorizing RCW or WAC	Board Responsibilities	Administrative Director Responsibilities
<p><b>WAC 314-42-010</b> Liquor Control Board Administrative Director.</p>	<ul style="list-style-type: none"> <li>▪ The Administrative Director will be appointed by, and serve at the pleasure of, the Board, and will perform his/her duties under the general control, management, and supervision of the Board</li> </ul> <p>The following duties will not be delegated and will remain functions of the Board:</p> <ul style="list-style-type: none"> <li>▪ Final approval of agency-wide and division budgets as prepared by the Administrative Director;</li> <li>▪ Revocation or suspension of a license or permit;</li> <li>▪ Appeals of price posting actions;</li> <li>▪ Appeals of administrative actions taken against liquor and tobacco licensees;</li> <li>▪ Approval of product listings and delistings for state liquor stores and agencies;</li> <li>▪ Approval of contested liquor license and permit applications; and</li> <li>▪ Direct oversight of the policy, legislative, and media relations division and staff that report directly to the board members, including:</li> <li>▪ Rule making actions,</li> <li>▪ Approval of agency-request legislative proposals, and</li> <li>▪ The employment, termination, and discipline of the Director and staff of the policy, legislative, and media relations division and staff that report directly to the board members.</li> </ul>	<p>The following duties are delegated by the Board to the Administrative Director:</p> <ul style="list-style-type: none"> <li>▪ All liquor control board employees, with the exception of the Director and staff of the policy, legislative, and media relations division staff that report directly to the Board;</li> <li>▪ Authorize expenditures of funds from the board approved internal budget;</li> <li>▪ Purchase, lease, contract, or otherwise acquire any goods, services, and products within the board approved internal budget;</li> <li>▪ Approve liquor purchase orders authorized by the Board (this authority may be further delegated);</li> <li>▪ Approve uncontested licenses and permits (this authority may be further delegated);</li> <li>▪ Assign duties, coordinate agency operations, and establish performance standards/timelines;</li> <li>▪ Approve disbursements of excess funds from the liquor revolving fund; and</li> <li>▪ Perform other duties of a routine administrative nature identified by the Board.</li> </ul>

**Authorizing  
RCW or WAC**

**Board Responsibilities**

**Administrative Director  
Responsibilities**

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**RCW 66.08.012**  
Creation of  
Board --  
Chairman --  
Quorum --  
Salary.

- There shall be a board, known as the "Washington state liquor control board," consisting of three members, to be appointed by the Governor, with the consent of the senate, who shall each be paid an annual salary to be fixed by the Governor in accordance with the provisions of RCW 43.03.040. The Governor may, in his discretion, appoint one of the members as chairman of the Board, and a majority of the members shall constitute a quorum of the Board.

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**RCW 66.08.014**  
Terms of members  
-- Devotion of  
time to duties

- Any member appointed after June 11, 1986, shall be appointed and hold office for the term of six years;
- Each member of the Board shall devote his entire time to the duties of his office and no member of the Board shall hold any other public office.

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**RCW 66.08.020**  
Liquor control  
board to administer

- The administration and general control, management and supervision of all liquor stores, shall be vested in the liquor control board.

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**RCW 66.08.024**  
Annual audit --

- The state auditor shall audit the books, records, and affairs of the Board annually. The board may provide for additional audits by certified public accountants

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**RCW 66.08.030**  
Regulations --  
Scope.

- The power of the Board to make regulations in the shall extend to:
- Regulating the equipment and management of stores and warehouses in which state liquor is sold or kept;
- Prescribing the duties of the employees of the Board, and regulating their conduct in the discharge of their duties;
- Governing the purchase of liquor by the state and the furnishing of liquor to stores;
- Determining the classes, varieties, and brands of liquor to be kept for sale at any store;
- Prescribing the hours during which the state liquor stores shall be kept open for the sale of liquor;
- Providing for the issuing and distributing of price lists variety of liquor kept for sale;
- Prescribing an official seal and official labels and stamps and determining the manner in which they shall be attached to every package of liquor sold;
- Providing for the payment by the Board in whole or in part of the carrying charges on liquor shipped by freight or express;
- Prescribing forms to be used for purposes of this title or the regulations, and the terms and conditions to be contained in permits and licenses issued under this title, and the qualifications for receiving a permit or license;
- Prescribing the fees payable in respect of permits and licenses;
- Prescribing the kinds and quantities of liquor which may be kept on hand by the holder

**Authorizing  
RCW or WAC**

**Board Responsibilities**

**Administrative Director  
Responsibilities**

- 
- of a special permit for the purposes named in the permit, regulating the manner in which the same shall be kept and disposed of, and providing for the inspection of the same at any time at the instance of the Board;
- Regulating the sale of liquor kept by the holders of licenses which entitle the holder to purchase and keep liquor for sale;
  - Prescribing the records of purchases or sales of liquor kept by the holders of licenses, and the reports to be made to the Board, and providing inspection of the records so kept;
  - Prescribing the kinds and quantities of liquor for which a prescription may be given, and the number of prescriptions which may be given to the same patient within a stated period;
  - Prescribing the manner of giving and serving notices;
  - Regulating premises in which liquor is kept for export from the state, or from which liquor is exported, prescribing the books and records to be kept therein and the reports to be made thereon to the Board, and providing for the inspection of the premises and the books, records and the liquor so kept;
  - Prescribing the conditions/qualifications requisite for the obtaining of club licenses and the books/records to be kept and the returns to be made by clubs, prescribing the manner of licensing clubs in any municipality or locality, and providing for the inspection of clubs;
  - Prescribing the conditions, accommodations and qualifications requisite for the obtaining of licenses to sell beer and wines, and regulating the sale of beer and wines;
  - Specifying and regulating the time and periods when, and the manner, methods and means by which manufacturers shall deliver liquor within the state;
  - Providing for the making of returns by brewers of their sales of beer shipped within state;
  - Providing for the making of returns by the wholesalers of beer whose breweries are located beyond the boundaries of the state;
  - Providing for the making of returns by any other liquor manufacturers,
  - Providing for the giving of fidelity bonds by any or all of the employees of the Board
  - Providing for the shipment by mail or common carrier of liquor to any person holding a permit and residing in any unit which has, by election pursuant to this title, prohibited the sale of liquor therein;
  - Prescribing methods of manufacture, conditions of sanitation, standards of ingredients, quality and identity of alcoholic beverages manufactured, sold, bottled, or handled by seizing, confiscating and destroying all alcoholic beverages manufactured, sold or offered for sale within this state which do not conform in all respects to the standards prescribed by this title or the regulations of the Board:

**Authorizing  
RCW or WAC**

**Board Responsibilities**

**Administrative Director  
Responsibilities**

<p><b>RCW 66.08.050</b> Powers of board in general.</p>	<ul style="list-style-type: none"> <li>▪ Determine the localities and number which state liquor stores shall be established throughout the state;</li> <li>▪ Appoint in cities and towns and other communities, in which no state liquor store is located, liquor vendors.</li> <li>▪ Establish all necessary warehouses for the storing and bottling, diluting and rectifying of stocks of liquors</li> <li>▪ Provide for the leasing for periods not to exceed ten years of all premises required for the conduct of the business;</li> <li>▪ Determine the nature, form and capacity of all packages to be used for containing liquor kept for sale;</li> <li>▪ Execute all contracts, papers, and documents in the name of the Board,</li> <li>▪ Pay all customs, duties, excises, charges and obligations whatsoever relating to the business of the Board;</li> <li>▪ Require bonds from all employees in the discretion of the Board, and to determine the amount of fidelity bond of each such employee;</li> <li>▪ Perform services for the state lottery commission to such extent, and for such compensation, as may be mutually agreed upon between the Board and the commission;</li> <li>▪ Accept and deposit federal grants or other funds for the purpose of improving public awareness of the health risks associated with alcohol consumption by youth and the abuse of alcohol by adults in Washington State.</li> <li>▪ Perform all other matters and things, whether similar to the foregoing and shall have full power to do each and every act necessary to the conduct of its business, including all buying, selling, preparation and approval of forms, and every other function of the business whatsoever, subject only to audit by the state auditor:</li> </ul>
<p><b>RCW 66.08.0501</b> Adoption of rules.</p>	<ul style="list-style-type: none"> <li>▪ The liquor control board may adopt appropriate rules pursuant to chapter 34.05 RCW for the purpose of carrying out the provisions of chapter 321, Laws of 1997.</li> </ul>
<p>RCW 66.08.070 Purchase of liquor by board</p>	<ul style="list-style-type: none"> <li>▪ Every order for the purchase of liquor shall be authorized by the Board, and no order for liquor shall be valid or binding unless it is so authorized and signed by the Board or its authorized designee.</li> </ul>
<p>RCW 66.08.150 Board's action as to permits and licenses.</p>	<ul style="list-style-type: none"> <li>▪ The action, order, or decision of the Board as to any denial of an application for the reissuance of a permit or license or as to any revocation, suspension, or modification of any permit or license shall be an adjudicative proceeding and subject to the applicable provisions of chapter 34.05 RCW.</li> </ul>
<p><b>RCW 66.08.170</b></p>	<ul style="list-style-type: none"> <li>▪ Disbursements from the revolving fund shall be on authorization of the Board or a duly</li> </ul>

**Authorizing  
RCW or WAC**

**Board Responsibilities**

**Administrative Director  
Responsibilities**

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**RCW 66.08.180**  
**RCW 66.08.190**  
Liquor revolving  
fund

- authorized representative thereof.
- Washington state liquor control board shall deliver and transfer to the state treasurer, as custodian, all moneys and accounts which comprise the liquor revolving fund,

## Appendix D. Retail Services Best Practices

As alcohol sales continue to increase throughout the United States, several states are taking action to support better retail strategies while also preventing abuses of alcohol. Every state approaches these two areas in a way that is most ideally suited to their structure. This area summarizes areas of opportunities for the WSLCB.

### 1. Future Marketing and Retailing Opportunities

As many states are learning, defining a good retail strategy can better enable them to sell their products. Although states, such as Washington, don't allow advertisement of alcohol, they can utilize other strategies to increase their overall revenues. Most states now allow some form of Sunday sales of alcohol. Whether Sunday sales are allowed for a reduced number of hours or within a reduced number of stores, the states which allow this are seeing overall increases to their revenues. Other retailing and marketing practices identified in other states that can play a role in Washington's future retailing strategy include:

<b>Merchandising</b>	Including alcohol related merchandise in state stores such as, mixers, cork screws, glassware, gift baskets, gift cards, etc.
<b>Retail Outlets</b>	Open retail outlets within large grocery store chains to attract the customer when their more likely to buy;  Open premium collection or super stores that sell larger varieties of high and low-end products;  Open outlet stores for less expensive or discounted products, or products needing cleared from the shelves.
<b>Internet Purchasing</b>	Allow internet ordering of products to be delivered to the nearest retail store for pickup.
<b>Wine Clubs</b>	Offer wine clubs in which customers are shipped monthly quantities of wine according to their wine club memberships.
<b>Product Knowledge</b>	Supply advanced education and training to retail store employees to certify their knowledge levels and ability to differentiate between product offerings.
<b>Mailing Lists</b>	Having mailing lists for customers to see new product offerings.

## 2. Alcohol Education and Prevention

All states have different methods for addressing alcohol education and prevention. Several of the programs and education offered by each of the states is similar; however, the National Alcohol Beverage Control Association (NABCA) has identified several best practices they have observed. General information around these best practices includes:

<b>Nuisance Bar Programs</b>	Upon re-licensing each year, the state checks to see if a pattern of violations is occurring and if so, the state can refuse to re-license the bar.
<b>Cops in Shops Programs</b>	Using actual law enforcement officers that fill in as undercover retail store clerks or customers (includes signage saying that “Police officer may be posing as an employee.”).
<b>Retail Store Training Programs</b>	Require retail store employees, managers, owners, etc. to sit through a training program to identify minors, identify false ID’s, detecting intoxicated individuals, etc.
<b>Responsible Parent Programs</b>	Aimed at prosecuting parents who elect to allow underage drinking parties in their homes.
<b>Youth/Teen Focus Groups</b>	Sponsor programs in local communities designed to get teenagers, parents, and local enforcement officers to address issues and impacts of underage drinking, ways to stop minors from drinking, etc.
<b>Public Awareness Campaigns</b>	Increased use of effective public awareness campaigns focuses on underage drinking, drunk driving, and designated driver programs such as; New York’s “Drink, Drive, Die - Make the Right Choice”, Louisiana’s “U-Drink, U-Drive, U-Walk”, and, Pennsylvania’s “Pennsylvanians Against Underage Drinking”.
<b>Zero Tolerance Laws</b>	Create laws to suspend the license of a business for selling alcohol to a minor.
<b>Responsible Vendor and Server Training Programs</b>	An increased number of states, including Washington, are requiring vendors/servers to go through a training to help them identify false ID’s and minors, detect intoxicated individuals, use intervention techniques, know liability issues, know effects of alcohol on the body, sobering techniques.
<b>Fake ID Programs</b>	Programs used to train retail store clerks, servers, and others who check ID’s to be able to clearly identify characteristics of all 50 state ID’s.
<b>National Conferences</b>	The state of Pennsylvania offers the National Alcohol Beverage Industry Education Conference that features “How to do” alcohol education programming.
<b>Community Involvement Programs</b>	Used to get community support to have a consensus that underage drinking is unhealthy, illegal, unacceptable, etc.
<b>Alcohol Education Websites</b>	Making a state website available for everybody to learn about alcohol education and prevention issues.
<b>In-school Displays</b>	Offer displays to go in schools to discourage underage drinking.
<b>College Campus Alcohol Education Programs</b>	Offer education to college students surrounding the implications of alcohol, binge drinking, drinking responsibly, etc.;
<b>Funding State Grants</b>	State fund grants to communities, campuses, and law enforcement officers to perform education and prevention activities.

## Appendix E. List of Stakeholder and Staff Interviews

<b>Name</b>	<b>Position</b>
Rex Prout	<i>Acting Chief of Enforcement</i>
Randy Reynolds	<i>Licensing MIW Program Manager</i>
Vera Ing	<i>Board Member</i>
Kim Cregeur	<i>Internal Auditor</i>
Barb Vane	<i>Director of Human Resources</i>
Carter Mitchell	<i>Program Manager, Tobacco Tax Enforcement</i>
Randy Simmons	<i>Director Financial Information Technology Division</i>
Lorraine Lee	<i>Director of Licensing and Regulation</i>
Matt Pridgeon	<i>Distribution Center Director</i>
Roger Hoen	<i>Board Member</i>
Frances Munez- Carter	<i>Confidential Secretary to the Board</i>
Merritt Long	<i>Board Chairman</i>
Heidi Whisman	<i>Acting Director of Purchasing</i>
John Redal	<i>Acting Director of Retail Services</i>
Phil Wayt	<i>Executive Director of Washington Beer and Wine Wholesalers Association</i>
Fred Byers	<i>Supervisor Accounts Receivable Financial Division</i>
Bob Burdick	<i>Communications Director</i>
Clif Finch	<i>Government Affairs Washington Food Industry</i>
Paula Hammond	<i>Chief of Staff Dept of Transportation</i>
Theresa Hancock	<i>Washington Association of Retail Liquor Agents</i>
Mark Levine	<i>Distillers Representatives Association of Washington</i>
Teresa Bernsten	<i>House Transportation Committee</i>
Syd Abrams	<i>California Wine Institute (retired)</i>
Chris Liu	<i>Washington Lottery Director</i>
John Amato	<i>Grievance Director Local 1001</i>
Kristen Adams	<i>Distillers Representatives Association of Washington</i>
Leslie Liddle	<i>Executive Director Washington State Public Employees Association</i>
Gene Vosberg	<i>President Washington Restaurant Association</i>
Jim Squeo	<i>Executive Director National Alcohol Beverage Control Association</i>

**Name**

Pat Kohler  
Rick Garza  
Jean Leonard  
Teresa Kaiser  
Michelle Morrison

***Position***

*Administrative Director*  
*Deputy Administrative Director*  
*Lobbyist for the Washington Wine Commission and Washington Wine Institute*  
*Executive Director of the Oregon Liquor Control Commission*  
*Idaho State Liquor Dispensary*

## Appendix F. Information Sources

Source	Web Address (if available)	Author
10 <sup>th</sup> Special Report to the U.S. Congress on Alcohol and Health	<a href="http://www.niaaa.nih.gov/publications/10report/intro.pdf">www.niaaa.nih.gov/publications/10report/intro.pdf</a>	<ul style="list-style-type: none"> <li>▪ U.S. Dept. of Health &amp; Human Services</li> <li>▪ Public Health Service</li> <li>▪ National Institutes of Health</li> <li>▪ National Institute on Alcohol Abuse and Alcoholism, June 2000</li> </ul>
2005 Population Trends for Washington State	<a href="http://www.ofm.wa.gov/pop/poptrends/poptrends_04.pdf">www.ofm.wa.gov/pop/poptrends/poptrends_04.pdf</a>	<ul style="list-style-type: none"> <li>▪ State of Washington, Office of Financial Management, September 2005</li> </ul>
69 <sup>th</sup> Annual Report, Utah Department of Alcoholic Beverage Control	<a href="http://www.alcbev.state.ut.us/Background/2004annrpt.pdf">www.alcbev.state.ut.us/Background/2004annrpt.pdf</a>	<ul style="list-style-type: none"> <li>▪ Utah Department of Alcoholic Beverage Control, June 2004</li> </ul>
ABC's of Alcohol Beverage Control	<a href="http://www.nabca.org">www.nabca.org</a>	<ul style="list-style-type: none"> <li>▪ National Alcohol Beverage Control Association</li> </ul>
A Study of Iowa's Liquor Wholesale System	<a href="http://www.iowaabd.com/doc/warehouse_study.pdf">www.iowaabd.com/doc/warehouse_study.pdf</a>	<ul style="list-style-type: none"> <li>▪ Iowa Alcoholic Beverages Division, August 2002</li> </ul>
About Population Estimate Accuracy	<a href="http://www.ofm.wa.gov/pop/annex/dataqualproc.pdf">www.ofm.wa.gov/pop/annex/dataqualproc.pdf</a>	<ul style="list-style-type: none"> <li>▪ State of Washington, Office of Financial Management, (date unknown)</li> </ul>
Alcohol Involvement in Fatal Motor Vehicle Traffic Crashes, 2003	<a href="http://www.nrd.nhtsa.dot.gov/pdf/nrd-30/NCSA/Rpts/2005/809822.pdf">www.nrd.nhtsa.dot.gov/pdf/nrd-30/NCSA/Rpts/2005/809822.pdf</a>	<ul style="list-style-type: none"> <li>▪ National Highway Traffic Safety Administration, March 2005</li> </ul>
An Overview of the Pennsylvania Liquor Control Board	<a href="http://www.lcb.state.pa.us/template/lib/plcb/agency_overview_for_intranet.pdf">www.lcb.state.pa.us/template/lib/plcb/agency_overview_for_intranet.pdf</a>	<ul style="list-style-type: none"> <li>▪ Pennsylvania Liquor Control Board, August 2004</li> </ul>
Beer Excise Taxes in Alabama: The Effects of Increases in Revenues, Price, & Consumption	<a href="http://www.cspinet.org/booze/taxguide/0403Alabama.pdf">www.cspinet.org/booze/taxguide/0403Alabama.pdf</a>	<ul style="list-style-type: none"> <li>▪ Center for Science in the Public Interest Alcohol Policies Project, March 2004</li> </ul>
Control State Marketplace: A responsible and modern business environment	<a href="http://www.nabca.org">www.nabca.org</a>	<ul style="list-style-type: none"> <li>▪ National Alcohol Beverage Control Association</li> </ul>
Control State Systems: At work for the community	<a href="http://www.nabca.org">www.nabca.org</a>	<ul style="list-style-type: none"> <li>▪ National Alcohol Beverage Control Association</li> </ul>
Distilled Spirits Council of the United States (Website)	<a href="http://www.discus.org">www.discus.org</a>	<ul style="list-style-type: none"> <li>▪ Distilled Spirits Council of the United States</li> </ul>

<b>Source</b>	<b>Web Address (if available)</b>	<b>Author</b>
Distilled Spirits Revenue Comparisons (Special Revenue Report for Washington)	Unavailable	▪ Ozgo, David, Distilled Spirits Council of the United States, July 2005
Economic Analysis Aids Alcohol Research	<a href="http://www.niaaa.nih.gov/publications/arb24-1/62-71.pdf">www.niaaa.nih.gov/publications/arb24-1/62-71.pdf</a>	▪ Alcohol Research and Health, 2000
Economic and Demographic Factors in U.S. Alcohol Demand: A Growth-Accounting Analysis	Unavailable	▪ Nelson, J.P., 1997
Effects of Privatization of Control Systems	<a href="http://www.nabca.org">www.nabca.org</a>	▪ National Alcohol Beverage Control Association
Idaho State Liquor Dispensary, 2004 Annual Report	<a href="http://www.liquor.idaho.gov/AnnualReports/AnnualReport2004.pdf">www.liquor.idaho.gov/AnnualReports/AnnualReport2004.pdf</a>	▪ Idaho State Liquor Dispensary, 2004
Initiatives to Address Impaired Driving	<a href="http://www.nhtsa.dot.gov/people/injury/alcohol/IPTReport/FinalAlcoholIPT-03.pdf">www.nhtsa.dot.gov/people/injury/alcohol/IPTReport/FinalAlcoholIPT-03.pdf</a>	▪ National Highway Traffic Safety Administration, December 2003
Michigan Liquor Control Commission, Annual Financial Report 2004	<a href="http://www.michigan.gov/documents/cis_lcc_annualreport04_117072_7.pdf">www.michigan.gov/documents/cis_lcc_annualreport04_117072_7.pdf</a>	▪ Michigan Liquor Control Commission, September 2004
My kingdom for a drink . . .?" A review of estimates of the price sensitivity of demand for alcoholic beverages	Unavailable	▪ Leung, S.F., and Phelps, C.E, 1993
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National Highway Traffic Safety Administration (Website)	<a href="http://www.nhtsa.dot.gov/">www.nhtsa.dot.gov/</a>	▪ National Highway Traffic Safety Administration
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