

## Part I – Agency Profile

The Idaho State Liquor Division (ISLD) was established by Article III, Section 26 of the Idaho Constitution in 1935 following the repeal of Prohibition, as a means of directing the distribution, sale, and consumption of beverage alcohol. Idaho is one of nineteen jurisdictions that manage the sale of distilled spirits. (Seventeen states plus two Maryland counties). These jurisdictions account for nearly 30% of the U.S. population, and regulate their own retail and/or wholesale distribution of alcoholic beverages in their various forms.

Organizationally, the ISLD has been an agency in the Office of the Governor since 1974. Jeffrey R. Anderson, Director, is appointed by the Governor.

The ISLD Central Office and Warehouse are located in Boise. All aspects of the business, including purchasing, accounting, information technology, human resources, contracts, and store supervision are administered by a Central Office staff of 20, and three District Managers. Fifteen warehouse personnel, co-located within the administrative office, receive, store and distribute more than one million nine-liter cases annually over a geographic area of 83,000 square miles. The warehouse typically inventories about 175,000 cases valued at \$9 million to \$10 million, owned by suppliers under a bailment system. An approximately equal amount of product is also inventoried in state and contract retail stores.

As of September 1, 2013, the ISLD operated 167 retail outlets throughout the State. Of those, 66 are state liquor stores staffed and operated by Division employees; 101 are contract retailers. Stores are typically open from 11:00 a.m. to 7:00 p.m. Some stores, based on community need, have extended hours to enhance customer service. Additionally, select stores in 31 of Idaho's 44 counties have added limited Sunday hours as a responsible customer convenience feature. Each state and contract store is stocked and maintained to meet the needs of customers, including licensed liquor-by-the-drink establishments. Retail outlets feature a selection of products designed to appeal to the tastes and lifestyles of the local communities they serve. All products are uniformly and competitively priced throughout the state.

Idaho's conservative system of liquor distribution provides benefits to all of the State's citizens. Moderation and temperance in states like Idaho generally reduce social costs associated with beverage alcohol consumption. Additionally, Idaho law provides for the distribution of liquor profits to state substance abuse prevention and treatment programs, the General Fund, all 44 counties, and 200 cities. Over the previous decade, more than \$440 million has been distributed to state programs, and to counties and cities, including a record \$60.1 million in FY 2013, (Note: FY12 distributions totaled \$63.1 million but benefited from a one-time \$8MM payment stemming from a modification in the Division's cash management policy; distributions would have been \$55.1 million without the one-time payment.) The ISLD estimates over \$700 million in distributions over the coming decade.

General economic conditions and industry trends impact the Division. The ISLD remains cautious about growth prospects, as economic conditions remain difficult to predict. Consequently, the ISLD is projecting a 3.0% growth rate for FY 2014. As a result of higher Sales and improving margins, distributions for FY 2014 should increase to approximately \$62.5 million.

### Core Functions/Idaho Code

The Idaho State Liquor Division statutory authority is stated in Title 23 of *Idaho Code*.

The primary functions of the agency as stated in *Idaho Code 23-203* include but are not limited to:

- ◆ **Regulation of liquor traffic:** to permit, license, inspect and regulate the manufacture, importation, transportation, storage, sale and delivery of alcoholic liquor;
- ◆ **Traffic in Liquor:** to buy, import, transport, store, sell and deliver alcoholic liquor;
- ◆ **Operation of Liquor Stores:** to establish, maintain and discontinue warehouses, state liquor stores, and distribution stations [contract liquor stores];
- ◆ **Acquisition of Real Estate:** to acquire, buy and lease real estate, and to improve and equip the same for the conduct of its business;
- ◆ **Acquisition of Personal Property:** to acquire, buy and lease personal property necessary and convenient for the conduct of business;
- ◆ **Making Reports:** to report annually to the Governor and at such other times as he may require, concerning the condition, management, and financial transactions of the Division.

**Revenue and Expenditures (Appropriation vs. Actual Expenditures)**

<b>Total Revenue (Appropriation)</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>
Liquor Control Fund	\$15,648,700	\$15,692,300	\$16,376,500	\$16,735,900
<b>Total</b>	<b>\$15,648,700</b>	<b>\$15,692,300</b>	<b>\$16,376,500</b>	<b>\$16,735,900</b>
<b>Total Expenditures</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>
Personnel Costs	\$9,956,300	\$9,509,686	\$9,756,924	\$10,542,886
Operating Expenditures	\$4,807,700	\$4,971,738	\$4,975,857	\$5,414,458
Capital Outlay	\$521,400	\$295,732	\$829,722	\$557,396
Trustee/Benefit Payments	\$0	\$0	\$0	\$0
<b>Total</b>	<b>\$15,285,400</b>	<b>\$14,777,156</b>	<b>\$15,562,503</b>	<b>\$16,514,740</b>

**Profile of Key Services Provided**

<b>Key Services Provided</b>	<b>FY2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>
Nine-Liter Cases Sold	895,609	934,014	968,400	1,014,652
Total Dollar Sales	\$137,608,916	\$143,936,533	\$153,628,177	\$164,516,798
Net Income	\$46,287,337	\$50,100,918	\$55,465,143	\$59,785,937
Profit Distributions	\$47,199,477	\$50,181,649	\$63,053,143	\$60,138,475

**Performance Highlights**

Following is a summary of highlights for FY 2013:

- ▶ Sales increased \$10.9 million, from \$153.6 million to \$164.5 million -- up +7.1%.
- ▶ Net Profit increased \$4.3 million, from \$55.5 million to \$59.8 million -- up +7.7%
- ▶ Excluding the FY2012 one-time \$8,000,000 special payment, FY2013 Distributions to State programs, General Fund, and Cities and Counties increased \$5.0 million, from \$55.1 million to \$60.1 million -- up +9.1%.

FY2013 proved to be the most successful in the division's history. Sales results were significantly impacted by the dismantling of Washington's state-run liquor enterprise. Deregulation and liberalization of spirits distribution resulted in higher retail prices for Washington consumers. This led to a sharp increase in the number of Washingtonians coming into Idaho to take advantage of lower spirits prices. The Idaho price advantage is now more pronounced than before the dismantling of Washington State's system of liquor distribution. The ISLD estimates that the impact of Washington consumers skews Idaho consumption metrics by +5.0%.

In addition to the Washington impact, effective cost management combined with enhanced hours of operation resulted in record dollar sales that far outpaced growth in consumption. Industry innovation continues to lead to nationwide beverage alcohol market share increases of distilled spirits. This plays a prominent role in the ISLD's sales growth now and into the future.

Challenging economic conditions continue to impact consumer spending on premium brands throughout the state. However, the ISLD continues to expand its innovative merchandising strategies to introduce consumers to higher margin, higher quality products, which enhance profitability without a corresponding increase in consumption.

Consumption in Idaho remains below other control states, and well below the national average consumption rate. It should be noted that consumption statistics for Idaho are skewed by the price advantage of Idaho spirits vs. Washington spirits. The price advantage exists for two reasons: (1) Idaho has uniform, supplier-determined, market-based pricing, and (2) Washington has very high taxation of distilled spirits.

We anticipate a continuing Washington effect into FY2014 but do not expect an acceleration of the trend. The rate of sales growth will slow as we cycle through increases from Washington's dismantling of their model of liquor distribution, which occurred June 1, 2012. It is unclear if political forces in Washington will be successful in their efforts to pass legislation that will relieve pressure on the current high taxes and fees that have produced high prices. Any changes to the pricing landscape in Washington would have a negative effect on spirit sales in Idaho.

**Part II – Performance Measures**

Performance Measure	2010	2011	2012	2013	Benchmark
<b>Industry Best Practices</b>					
Low Per Capita Consumption (9L Cases per Adult) **	0.81	0.83	0.85	0.87	0.88
Number of Listing Meetings	2	2	2	2	2
Sales Per FTP	\$692,000	\$742,000	\$764,000	\$818,000	\$600,000
Low Employee Costs per Sale Dollar	7.2%	6.6%	6.4%	6.4%	7.5%
Net Income Per Employee	\$233,000	\$258,000	\$276,000	\$297,000	\$225,000
<b>Idaho State Liquor Division</b>					
Open new stores	1	0	0	Opened 1 new store and closed an existing store.	Variable based on legislative approval of need
Implementation of Strategic Planning Process		Organization rec'd training on identifying process improvement opportunities.	Multiple process improvements were implemented	Strategic Planning teams meet regularly and implement positive change	Ongoing as initiatives are identified and implemented
Enhanced Hours of Operation		12 month test to identify the impact on sales with earlier opening and later closing stores.	Initial 12 months contributed an estimated \$2 million incremental profit	Additional enhancements to this successful initiative continue to be accretive to profits.	Implemented July 2011.
<b>iMOD</b> (Idaho Modernization store improvement Project)		Implemented Project test in select stores	Successful test resulted in rollout and expansion	Continued expansion of this merchandising initiative drives margin growth.	Ongoing
Pricing Strategy	Standard mark-up on all products	Tiered markup on all products	Successful initiative drives increase in gross margins while moderating consumption	Successful initiative continues to drive increase in gross margins while moderating consumption	Projected Implementation 11-1-2011
Monthly Quick Lists	N/A	Implemented new process designed to bring new products to market more quickly.	Customer focused initiative gets innovations to consumer quickly	Customer focused initiative gets innovations to consumer quickly	Implemented in FY11. Ongoing

\*\* The impact of Washington shoppers on Idaho's consumption metrics is estimated to increase the measure by 5.0%. Idaho consumption would be an estimated 0.84 9L Cases per Adult in FY13 without the Washington effect. Over time, the effect of Washington shoppers has become more pronounced as Idaho's price advantage has increased since 2009. In 2010, the effect of Washington shoppers on Idaho's consumption metrics was estimated to increase the measure by 2.5%.

**For More Information Contact**

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