Part 1 – Agency Profile

The Idaho State Liquor Division (ISLD) was established in 1935, following the repeal of Prohibition, as a means of providing greater control over the distribution, sale, and consumption of beverage alcohol. Idaho is one of 20 jurisdictions that control the sale of distilled spirits. (Eighteen control states plus two Maryland counties). These jurisdictions account for almost one-third of the U.S. population, and regulate their own retail and/or wholesale distribution of alcoholic beverages in their various forms.

Organizationally, the Idaho State Liquor Division has been a division of the Office of the Governor since 1974. Jeffrey R. Anderson, Director, is appointed by the Governor.

The Division's 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 21, and four District Managers. Nineteen warehouse personnel, co-located within the administrative office, receive, store and distribute more than 920,000 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 stores.

At fiscal year-end, the Division operated 163 retail outlets throughout the State. Of those, 66 are state liquor stores staffed and operated by Division employees; 97 are contract retailers. Stores are typically open from 11:00 a.m. to 7:00 p.m., although stores in many communities have extended hours to enhance customer service. Selected stores in 30 of Idaho's 44 counties have added limited Sunday hours as a customer service feature. Each state and contract store is stocked and maintained to meet the needs of customers, who also include liquor-by-the-drink establishments. Retail outlets feature a selection of products specific to the tastes and lifestyles of the local communities they serve. All products are uniformly and fairly priced throughout the state.

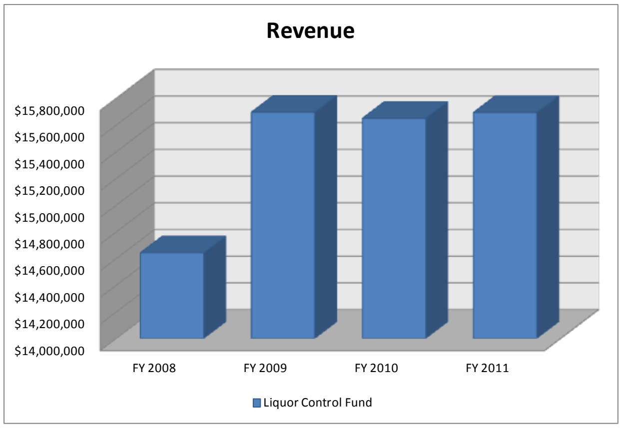
Idaho's system of liquor control provides benefits to all of the State's citizens. Moderation and temperance in control states generally reduce social costs associated with beverage alcohol consumption. Additionally, Idaho law provides for the distribution of liquor profits to State programs, the General Fund, 44 counties, and 200 cities. Over the previous decade, more than $360 million has been distributed to state programs, and to counties and cities, including a record $50.2 million in FY 2011, approximately $3 million more than FY 2010.

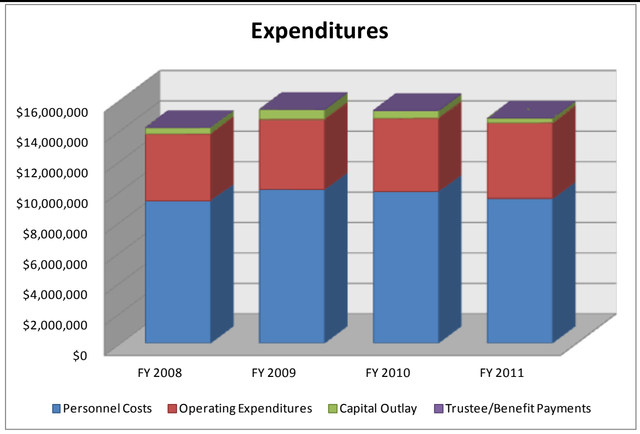
General retail conditions and industry trends naturally impact the Division. Consumers have slowly begun to trade-up to higher margin product, but we remain cautious about growth prospects, as economic conditions remain difficult to predict. Consequently, the ISLD is projecting a 2.5% growth rate on a larger base for FY 2012. As a result of higher Sales and improving margins, as well as a large one-time payment, distributions for FY 2012 should increase, to approximately $60 million. The large increase in projected distributions is driven by a one-time $8 million distribution resulting from ISLD's decision to draw down its cash reserves to a more fiscally responsible level.

Core Functions/Idaho Code

The Idaho State Liquor Division statutory authority is stated in Title 23 of the *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)

Total Revenue (Appropriation)	FY 2008	FY 2009	FY 2010	FY 2011
Liquor Control Fund	$14,640,900	$15,694,700	$15,648,700	$15,692,300
Total	**$14,690,900**	**$15,694,700**	**$15,648,700**	**$15,692,300**
Total Expenditures	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011**
Personnel Costs	$9,343,500	$10,096,647	$9,956,300	$9,509,686
Operating Expenditures	$4,402,500	$4,595,154	$4,807,700	$4,971,738
Capital Outlay	$415,600	$663,690	$521,400	$295,732
Trustee/Benefit Payments	$0	$0	$0	$0
Total	**$14,161,600**	**15,355,491**	**$15,285,400**	**$14,777,156**

Profile of Key Services Provided

Key Services Provided	FY 2008	FY2009	FY 2010	FY 2011
Number of Bottles Sold	9,616,974	9,891,309	10,096,076	10,413,776
Total Dollar Sales	$130,815,006	$135,082,238	$137,608,916	$143,936,533
Net Income	$45,090,209	$46,150,007	$46,287,337	$50,100,918
Profit Distributions	$40,164,193	$45,193,360	$47,199,477	$50,181,649

Performance Highlights

Following is a summary of highlights for FY 2011:

- Sales increased $6.3 million, from $137.6 million to $143.9 million - up +4.6%.
- Net Profit increased $3.8 million, from $46.3 million to $50.1 million – up +8.2%
- Distribution to State programs, General Fund, and Cities and Counties increased $3.0 million, from $47.2 million to $50.2 million - up +6.3%
- Sunday sales continued to show growth.
  - 30 of the 44 Counties have now approved Sunday sales.
  - Sunday gross sales revenue increased by nearly $600,000, from $4.0 million to 4.6 million during FY 2011, an increase of +14.6%.
  - Based on customer demand, additional stores have been authorized Sunday hours in FY12.

As economic conditions forced a tightening of the operating budgets for FY2010 and FY 2011, maintaining high quality service for consumers and providing oversight to secure the product became key issues that are likely to be the main ISLD challenges for the future. The final legislatively-mandated reductions in personnel of over $200,000 was completed and implemented for FY 2011. As a result of improved Sales and reduction in the operating budget, FY11 can be perceived as the most successful year in the Division's history.

Difficult economic conditions continue to negatively impact consumer spending on premium brands throughout the state. However, the Division is employing new and highly innovative merchandising and pricing strategies to introduce consumers to higher margin products, which enhances profitability without a corresponding increase in consumption. Consumption in Idaho remains below other control states, and well below the national average consumption rate. Additionally, consumption in Idaho is somewhat skewed by the significant price advantage of Idaho spirits vs. Washington spirits. Stores near the Washington border (e.g. Post Falls, Lewiston, Moscow) are experiencing above normal Sales lift, presumably from Washington residents coming into Idaho to purchase spirits.

Part II – Performance Measures

Performance Measure	2008	2009	2010	2011	Benchmark
Industry Best Practices					
Low Per Capita Consumption (gallons)	1.32	1.28	1.30	1.33	1.35
Number of Product Listing Meetings	3	3	2	2	2
High Sales Per Employee	$678,000	$686,000	$692,000	$742,000	$600,000
Low Employee Costs per Sale Dollar	7.2%	7.3%	7.2%	6.6%	7.5%
High Net Income Per Employee	$234,000	$234,000	$233,000	$258,000	$225,000
Idaho State Liquor Division					
Open new stores		2	1	0.	Variable based on legislative approval of need
Implementation of Strategic Planning Process				Organization rec'd training on identifying process improvement opportunities.	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.	Implemented July 2011.
Product Retention Program continues in development with supplier input		On-going	On-going	Established formal rules for discontinuation	Ongoing
Special Order Program will be revamped, automated and streamlined		Completed	Ongoing	Implemented a 5% surcharge on special order items	Completed
Pricing Strategy	Standard mark-up on all products	Standard mark-up on all products	Standard mark-up on all products	Tiered markup on all products	Projected Implementation 11-1-2011
Monthly Quick Lists	N/A	N/A	N/A	Implemented new process designed to bring new products to market more quickly.	Implemented in FY11. Ongoing
Warehouse Management System software and hardware will be installed and operational in FY 2011		WMS Operations began 8/3/2009	WMS-AS/RS Integration in final stages	Completed	Completion September 2010

For More Information Contact

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