

## 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, finance and accounting, information technology, human resources, contracts, and retail management 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, 2014, the ISLD operated 169 retail outlets throughout the State. Of those, 66 are state liquor stores staffed and operated by Division employees; 103 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; no state-operated stores are open past 9:00 p.m. 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 \$475 million has been distributed to state programs, and to counties and cities, including a record \$63.0 million in FY 2014. 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 2015. As a result of higher Sales, distributions for FY 2015 should increase to approximately \$64.2 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 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>
Liquor Control Fund	\$15,692,300	\$16,376,500	\$16,735,900	\$16,928,700
<b>Total</b>	<b>\$15,692,300</b>	<b>\$16,376,500</b>	<b>\$16,735,900</b>	<b>\$16,928,700</b>
<b>Total Expenditures</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>
Personnel Costs	\$9,509,686	\$9,756,924	\$10,542,886	\$10,658,788
Operating Expenditures	\$4,971,738	\$4,975,857	\$5,414,458	\$5,515,686
Capital Outlay	\$295,732	\$829,722	\$557,396	\$330,333
Trustee/Benefit Payments	\$0	\$0	\$0	\$0
<b>Total</b>	<b>\$14,777,156</b>	<b>\$15,562,503</b>	<b>\$16,514,740</b>	<b>\$16,504,807</b>

**Profile of Key Services Provided**

<b>Key Services Provided</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>
Nine-Liter Cases Sold	934,014	968,400	1,014,652	1,019,326
Total Dollar Sales	\$143,936,533	\$153,628,177	\$164,516,798	\$169,044,532
Net Income	\$50,100,918	\$55,465,143	\$59,785,937	\$61,625,129
Profit Distributions	\$50,181,649	\$63,053,143	\$60,138,475	\$63,023,762

**Performance Highlights**

Following is a summary of highlights for FY 2014:

- ▶ Sales increased \$4.5 million, from \$164.5 million to \$169.0 million -- up +2.7%.
- ▶ Net Profit increased \$1.8 million, from \$59.8 million to \$61.6 million -- up +3.0%
- ▶ FY2014 Distributions to State programs, General Fund, and Cities and Counties increased \$2.9 million, from \$60.1 million to \$63.0 million -- up +4.8%.

FY2014 proved to be the most successful in the division's history with record net income and declining consumption on a per capita basis. Sales results continue to be significantly impacted by the dismantling of Washington's state-run liquor enterprise in June of 2012. The rate of sales growth slowed in FY 14 vs. FY 13 as we cycled through the dismantling of Washington's state-run liquor operation. Deregulation and liberalization of spirits distribution resulted in higher retail prices for Washington consumers. This has 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 deregulation took effect in Washington. The ISLD estimates that the impact of Washington consumers skews Idaho consumption metrics by +7.0%.

In addition to the Washington impact, effective cost management combined with store merchandising enhancements resulted in record dollar sales that far outpaced changes in consumption. Industry innovation continues to lead to higher market share increases for distilled spirits vs. beer and wine. 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 refine 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 of the Washington effect into FY 2015. The rate of sales growth should be comparable to FY 2014. While we have experienced a stabilization of sales increases from Washington, we have continued to provide positive results on a larger base. At this time, 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	2011	2012	2013	2014	Benchmark
<b>Industry Best Practices</b>					
Low Per Capita Consumption (9L Cases per Adult) **	0.83	0.85	0.87	0.86	0.88
Number of Listing Meetings	2	9	9	9	4
Sales Per FTP	\$742,000	\$764,000	\$818,000	\$841,000	\$600,000
Low Employee Costs per Sale Dollar	6.6%	6.4%	6.4%	6.3%	7.5%
Net Income Per Employee	\$258,000	\$276,000	\$297,000	\$307,000	\$225,000
<b>Idaho State Liquor Division</b>					
Open new stores	0	0	Opened 1 new store and closed an existing store.	0 State-operated stores. 3 Contractor-operated stores.	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	Strategic Planning initiatives optimize performance and efficiency while driving positive operating results.	Ongoing as initiatives are identified and implemented
Enhanced Hours of Operation	12 month test to identify the impact on sales with earlier opening (10AM) and later closing stores (9PM).	Initial 12 months contributed an estimated \$2 million incremental profit	Additional enhancements to this successful initiative continue to be accretive to profits.	Enhancements maintain ISLD's ability to exceed expectations for asset utilization, customer convenience, and profitability	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.	<b>iMOD</b> has delivered measurable, positive results for new products, customer selection, and improved price mix criteria.	Ongoing
Pricing Strategy	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	Pricing refinements in FY2014 were accretive to margin while moderating consumption	Projected Implementation 11-1-2011
Monthly Quick Lists	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	Product listing process continues to provide a more efficient path to market for new products and better SKU management .	Implemented in FY11. Ongoing

**For More Information Contact**

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