

Part 1 – 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 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 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 four District Managers. Nineteen warehouse personnel, co-located within the administrative office, receive, store and distribute more than 960,000 9-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, 2012, the ISLD operated 163 retail outlets throughout the State. Of those, 65 are state liquor stores staffed and operated by Division employees; 98 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 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 \$403 million has been distributed to state programs, and to counties and cities, including a record \$63.1 million in FY 2012, approximately \$13 million more than FY 2011. FY12 distributions benefited from a one-time \$8MM payment stemming from a modification in the Division's cash management policy. Distributions still would have been a record \$55.1 million without the one-time payment. The ISLD estimates over \$600 million in distributions over the coming decade.

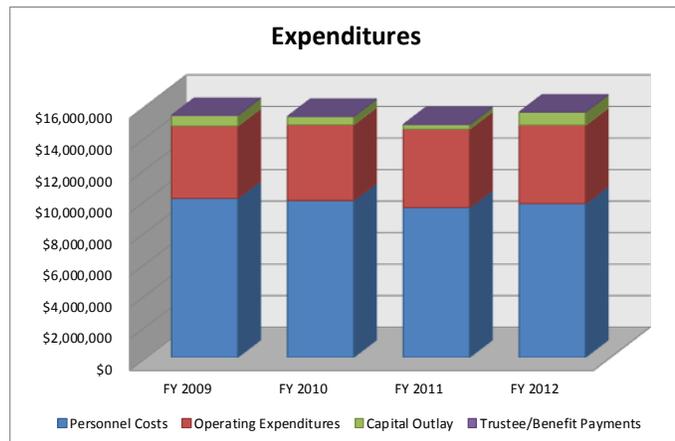
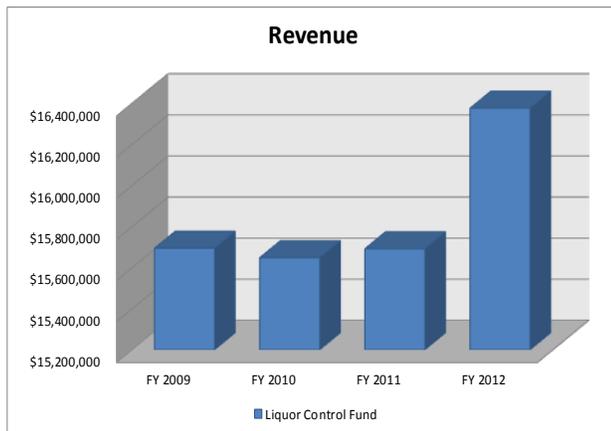
General economic conditions and industry trends impact the Division. The ISLD remains cautious about growth prospects, as economic conditions remain difficult to predict. Consequently, the ISLD is projecting a 4.0% growth rate for FY 2013. As a result of higher Sales and improving margins, distributions for FY 2013 should increase (excluding FY12's one-time payment), to approximately \$57 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)

Total Revenue (Appropriation)	FY 2009	FY 2010	FY 2011	FY 2012
Liquor Control Fund	\$15,694,700	\$15,648,700	\$15,692,300	\$16,376,500
Total	\$15,694,700	\$15,648,700	\$15,692,300	\$16,376,500
Total Expenditures	FY 2009	FY 2010	FY 2011	FY 2012
Personnel Costs	\$10,096,647	\$9,956,300	\$9,509,686	\$9,756,924
Operating Expenditures	\$4,595,154	\$4,807,700	\$4,971,738	\$4,975,857
Capital Outlay	\$663,690	\$521,400	\$295,732	\$829,722
Trustee/Benefit Payments	\$0	\$0	\$0	\$0
Total	15,355,491	\$15,285,400	\$14,777,156	\$15,562,503

Profile of Key Services Provided

Key Services Provided	FY2009	FY 2010	FY 2011	FY 2012
9-Liter Cases Sold	869,312	895,609	934,014	968,400
Total Dollar Sales	\$135,082,238	\$137,608,916	\$143,936,533	\$153,628,177
Net Income	\$46,150,007	\$46,287,337	\$50,100,918	\$55,465,143
Profit Distributions	\$45,193,360	\$47,199,477	\$50,181,649	\$63,053,143

Performance Highlights

Following is a summary of highlights for FY 2012:

- ▶ Sales increased \$9.7 million, from \$143.9 million to \$153.6 million -- up +6.7%.
- ▶ Net Profit increased \$5.4 million, from \$50.1 million to \$55.5 million -- up +10.7%
- ▶ Distribution to State programs, General Fund, and Cities and Counties increased \$12.9 million, from \$50.2 million to \$63.1 million -- up 25.7%. Distributions were aided by a one-time \$8 million payment.
- ▶ Sunday sales continued to show growth.
 - 31 of the 44 Counties have now approved Sunday sales.
 - Sunday gross sales revenue increased by \$1.1 million, from \$4.5 million to \$5.6 million during FY2012, an increase of +24.4%.

With the final legislatively-mandated personnel cost reductions fully implemented for FY11, FY12 proved to be the most successful in the division's history. Cost reductions combined with enhanced hours of operation and a modification in the division's retail pricing strategy resulted in record dollar sales that far outpaced growth in consumption. Industry innovation has led to nationwide market share increases in distilled spirits, which also 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 has implemented new and innovative merchandising and pricing 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. This price advantage has become more pronounced by the dismantling of Washington State's system of liquor distribution and now draws more Washington shoppers into Idaho. The ISLD estimates that the impact of Washington shoppers skews Idaho consumption metrics by +7.5%.

Idaho Liquor stores near the Washington border (e.g., Post Falls, Lewiston, Moscow) are experiencing an above normal sales lift, likely from Washington residents coming into Idaho to purchase spirits. We anticipate this trend to continue and even accelerate due to increased taxes and prices in Washington resulting from the dismantling of their business on June 1, 2012.

Part II – Performance Measures

Performance Measure	2009	2010	2011	2012	Benchmark
Industry Best Practices					
Low Per Capita Consumption (gallons) **	1.28	1.30	1.33	1.36	1.35
Number of Product Listing Meetings	3	2	2	2	2
High Sales Per FTP	\$686,000	\$692,000	\$742,000	\$764,000	\$600,000
Low Employee Costs per Sale Dollar	7.3%	7.2%	6.6%	6.4%	7.5%
High Net Income Per Employee	\$234,000	\$233,000	\$258,000	\$276,000	\$225,000
Idaho State Liquor Division					
Open new stores	2	1	0	0	Variable based on legislative approval of need
Implementation of Strategic Planning Process			Organization rec'd training on identifying process improvement opportunities.	Multiple process improvements have been implemented	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	Implemented July 2011.
iMOD (Idaho Modernization store merchandising project)			Implemented Project test in select stores	Successful test resulted in rollout and expansion	Ongoing
Pricing Strategy	Standard mark-up on all products	Standard mark-up on all products	Tiered markup on all products	Success initiative drives increase in gross margins while moderating consumption	Projected Implementation 11-1-2011
Monthly Quick Lists	N/A	N/A	Implemented new process designed to bring new products to market more 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 7.5%. Idaho consumption would be an estimated 1.26 gallons in FY12 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 2009, 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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