Part I – Agency Profile

Agency Overview

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 19 jurisdictions that manages the sale of distilled spirits. (Seventeen states plus two Maryland counties.) These jurisdictions account for 27% 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 23, along with 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 225,000 cases valued at approximately $15 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, 2015, the ISLD operated 171 retail outlets throughout the State. Of those, 66 are state liquor stores staffed and operated by Division employees; 105 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 32 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 $505 million has been distributed to state programs, counties, and cities, including a record $64.4 million in FY 2015. The ISLD projects distributions to exceed $750 million over the coming decade.

General economic conditions and industry trends impact the Division’s operations. The ISLD remains cautious about growth prospects, as economic conditions and industry trends remain difficult to predict. Consequently, the ISLD is projecting a 3.7% growth rate for FY 2016. As a result of higher sales, distributions for FY 2016 should increase to approximately $67.0 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

Revenue	FY 2012	FY 2013	FY 2014	FY 2015
Liquor Control Fund	$152,841,100	$164,435,500	$169,425,300	$180,208,400
Total	**$152,841,100**	**$164,435,500**	**$169,425,300**	**$180,208,400**
Expenditures	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**
Personnel Costs	$9,756,924	$10,542,886	$10,658,788	$10,862,108
Operating Expenditures	$4,975,857	$5,414,458	$5,515,686	$5,485,001
Capital Outlay	$903,605	$557,396	$401,467	$442,076
Continuous Appropriation (COGS)	$80,309,971	$84,886,085	$95,039,597	$96,317,106
Distributions to Stakeholders	$63,053,143	$60,138,475	$63,023,762	$64,414,109
Total	**$158,999,500**	**$161,539,300**	**$174,639,300**	**$177,520,400**

Profile of Key Services Provided

Key Services Provided	FY 2012	FY 2013	FY 2014	FY 2015
Nine-Liter Cases Sold	968,400	1,014,652	1,019,326	1,050,197
Total Dollar Sales	$153,628,177	$164,516,798	$169,044,532	$179,028,091
Net Income	$55,465,143	$59,785,937	$61,625,129	$65,657,560
Profit Distributions	$63,053,143	$60,138,475	$63,023,762	$64,414,109

Performance Highlights

Following is a summary of highlights for FY 2015:

- Sales increased $10.0 million, from $169.0 million to $179.0 million—up +5.9%.
- Net Profit increased $4.1 million, from $61.6 million to $65.7 million—up +6.5%
- FY 2015 Distributions to State programs, General Fund, and Cities and Counties increased $1.4 million, from $63.0 million to $64.4 million—up +2.2%.

FY 2015 proved to be the most successful in the division's history with record net income. Income and distributions grew considerably more than consumption on a per capita basis. Sales results continue to be impacted by the dismantling of Washington's state-run liquor enterprise in June of 2012. The rate of sales growth at border stores has slowed considerably as the initial dismantling of Washington's state-run liquor operation has cycled through. 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 much more pronounced than before deregulation took effect in Washington. 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 has led to record dollar sales that have 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. As noted above, consumption statistics for Idaho are skewed by the price advantage of Idaho spirits vs. Washington spirits. This 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.

The Washington effect is anticipated to continue into FY 2016. The rate of sales growth will be challenging to maintain compared to the very successful FY 2015. While sales have stabilized, growth will be successful if legislation that will relieves pressure on the current high taxes and fees that have produced high prices passes. Any changes to the pricing landscape in Washington would have a negative effect on spirit sales in Idaho.

Part II – Performance Measures

Idaho Statue 23-203 specifies the powers and duties of the Idaho State Liquor Division. Furthermore, the statute directs the Division to “exercise its powers as to curtail the intemperate use of alcoholic beverages. It shall not attempt to stimulate the normal demands of temperate consumers thereof, irrespective of the effect on the revenue…” To this end, the Division has established a benchmark philosophy that is the basis for its strategic and operational planning. The benchmarks aim to ensure the Division responsibly optimizes net revenues without implementing strategies that encourage consumption. Specifically, the Division strives for the following: *Distributions to stakeholders should grow faster than dollar sales; dollar sales should grow faster than 9-liter case sales; 9-liter case sales should grow faster than consumption per capita.*

The ISLD has an excellent track record in meeting or exceeding its established benchmarks, and FY 2015 was no exception. It should be noted that FY 2015’s Distribution benchmark was lowered below the aforementioned philosophy (i.e., distributions were projected to increase at a lower rate than sales) in order to accommodate several industry-driven operational modifications. Specifically, the Division elected to increase inventory levels at the retail level by approximately $2,000,000 ($12,000/outlet on average) to better serve customer expectations, reduce incidents of out-of-stock items, and carry a higher volume of premium and luxury products to meet evolving consumer tastes. With more working capital devoted to higher inventory levels, this resulted in a slight one-time reduction in the amount of cash that would normally be available for distributions to our stakeholders.

Performance Measure	FY 2012	FY 2013	FY 2014	FY 2015	Benchmark
Low Per Capita Consumption (9-Liter Cases per Adult)	0.85	0.87	0.86	0.87	0.86
Change vs. Prior Year	*+2.4%*	*+2.4%*	*-1.1%*	*+1.1%*	*+0.0%*
9-Liter Cases Sold	968,000	1,015,000	1,019,000	1,050,000	1,034,000
Change vs. Prior Year	*+4.2%*	*+4.9%*	*+0.3%*	*+3.0%*	*+1.9%*
Sales (000s)	$153,600	$164,500	$169,000	179,000	$174,400
Change vs. Prior Year	*+6.7%*	*+7.1%*	*+2.8%*	*+5.9%*	*+3.0%*
Distributions (000s)	$55,100* plus $8,000 one-time distribution	$60,100	$63,000	$64,400	$64,150
Change vs. Prior Year	*+9.8%*	*+9.0%**	*+4.8%*	*+2.2%*	*+1.8%*

For More Information Contact

Jeffrey R. Anderson, Director
Idaho State Liquor Division
1349 E. Beechcraft Ct.
PO Box 179001
Boise, ID 83717-9001
Phone: (208) 947-9402
E-mail: jeff.anderson@liquor.idaho.gov