

## 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 manage 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, contract administration, and retail management are administered by a central office staff of 23, along with three district managers. Twenty 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, 2016, the ISLD operated 173 retail outlets throughout the State. Of those, 66 are state-run liquor stores, leased from the private sector, and staffed and operated by Division employees; 107 are contract, private sector 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 \$540 million has been distributed to state programs, counties, and cities, including a record \$68.7 million in FY 2016. The ISLD projects distributions to exceed \$850 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 3.9% growth rate for FY 2017. As a result of higher sales, distributions for FY 2017 should increase to approximately \$72.2 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

Revenue	FY 2013	FY 2014	FY 2015	FY 2016
Liquor Control Fund	\$164,435,500	\$169,425,300	\$180,208,400	\$190,764,300
<b>Total</b>	<b>\$164,435,500</b>	<b>\$169,425,300</b>	<b>\$180,208,400</b>	<b>\$190,764,300</b>
Expenditures	FY 2013	FY 2014	FY 2015	FY 2016
Personnel Costs	\$10,542,886	\$10,658,788	\$10,862,108	\$11,577,661
Operating Expenditures	\$5,414,458	\$5,515,686	\$5,485,001	\$5,955,220
Capital Outlay	\$557,396	\$401,467	\$442,076	\$782,145
Continuous Appropriation (COGS)	\$84,886,085	\$95,039,597	\$96,317,106	\$102,668,836
Distributions to Stakeholders	\$60,138,475	\$63,023,762	\$64,414,109	\$68,702,200
<b>Total</b>	<b>\$161,539,300</b>	<b>\$174,639,300</b>	<b>\$177,520,400</b>	<b>\$185,378,000</b>

## Profile of Key Services Provided

Key Services Provided	FY 2013	FY 2014	FY 2015	FY 2016
Nine-Liter Cases Sold	1,014,652	1,019,326	1,050,197	1,094,201
Total Dollar Sales	\$164,516,798	\$169,044,532	\$179,028,091	\$191,047,447
Net Income	\$59,785,937	\$61,625,129	\$65,657,560	\$70,274,531
Profit Distributions	\$60,138,475	\$63,023,762	\$64,414,109	\$68,702,200

## Performance Highlights

Following is a summary of highlights for FY 2016:

- Sales increased \$12.0 million, from \$179.0 million to \$191.0 million -- up +6.7%.
- Net Profit increased \$4.6 million, from \$65.7 million to \$70.3 million -- up +7.0%
- FY2016 Distributions to State programs, General Fund, and Cities and Counties increased \$4.3 million, from \$64.4 million to \$68.7 million -- up +6.7%.

FY2016 continued a recent trend of very successful years for the ISLD, as the Division experienced record sales, profits, and distributions. Net Income and distributions grew considerably more than consumption on a per capita basis. Sales results continue to be impacted by cross-border traffic, as Washington consumers take advantage of Idaho's lower spirits prices. Washington, even after deregulation of the state-run liquor system, has the nation's highest liquor prices. The Idaho price advantage is much more pronounced than before deregulation took effect in Washington. ISLD estimates that the impact of Washington consumers impacts Idaho consumption metrics by +7.0%.

In addition to the Washington influence, effective cost management combined with store merchandising enhancements continue to drive topline sales and profit increases that far outpace 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.

Improving economic conditions and merchandising innovations have impacted consumer spending in a positive way, as customers are more frequently seeking out premium brands throughout the state. The ISLD continues to modernize its retail outlets and merchandising strategies to enhance the customer experience and to direct 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 positively affected 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 a very high taxation of distilled spirits.

At this time, we anticipate a continuing of the Washington effect into FY 2017. There are political forces at work in Washington that would like to relieve pressure on the current tax and fee structure that produces such high liquor prices. Certainly, any changes to the pricing landscape in Washington could have a significant negative effect on spirit sales in Idaho. Aside from Idaho's pricing advantage relative to Washington, the Division's ongoing sales growth and resulting distributions are closely linked to Idaho's recovering economy as well as national trends.

**Part II – Performance Measures**

Performance Measures		FY 2013	FY 2014	FY 2015	FY 2016	Current Year
<b>Agency Goal</b>						
Idaho Statute 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: <i>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.</i>						
1. Low Per Capita Consumption (9-Liter Cases per Adult) <i>Change vs. Prior Year</i>	actual	0.87 +2.4%	0.86 -1.1%	0.87 +1.1%	0.90 +3.4%	-----
	benchmark	Below +4.9%	Below +0.3%	Below +3.0%	Below +4.2%	Below +1.9%
2. 9-Liter Cases Sold <i>Change vs. Prior Year</i>	actual	1,015,000 +4.9%	1,019,000 +0.3%	1,050,000 +3.0%	1,094,000 +4.2%	-----
	benchmark	Above +2.4%	Above -1.1%	Above +1.1%	Above +3.4%	Above +1.1%
3. Sales (000s) <i>Change vs. Prior Year</i>	actual	\$164,500 +7.1%	\$169,000 +2.8%	179,000 +5.9%	191,000 +6.7%	-----
	benchmark	Above +4.9%	Above +0.3%	Above +3.0%	Above +4.2%	Above +1.9%
4. Distributions (000s) <i>Change vs. Prior Year</i>	actual	\$60,100 +9.0%	\$63,000 +4.8%	\$64,400 +2.2%**	\$68,700 +6.7%	-----
	benchmark	Above +7.1%	Above +2.8%	Above +5.9%	Above +6.7%	Above +3.9%

**Performance Measure Explanatory Notes**

The ISLD has an excellent track record in meeting or exceeding its established benchmarks, and FY 2016 was no exception, as we met our goals in each of the four metric areas. \*\*It should be noted that our only recent “miss” was in FY 2015 when the Distribution projection 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 preferences. 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.

<b>For More Information Contact</b>
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