

Citizens' Guide to Initiative I 183

To End Washington's Liquor Store Monopoly

by Jason Mercier
Director, Center for Government Reform

September 2011

Key Findings

1. I-1183 would effectively end the state's 78-year-old monopoly on liquor sales.
2. The Office of Financial Management estimates I-1183 would increase state revenues by more than \$200 million, and add \$200 million (approximately) in local government revenues over the next six years.
3. I-1183 limits those outlets that can sell liquor to stores of 10,000 or more square feet, with limited exceptions.
4. If I-1183 is enacted, Washington would still rank among the top five states for restrictive access to liquor sales, moving from second to fifth most restrictive, and would be the most restrictive non-monopoly-control state in the West.
5. I-1183 would repeal SB 5942 and the proposed leasing of the state's liquor distribution warehouse to a single private provider, allowing for full competition in the liquor distribution market.

Introduction

In November the people of Washington will vote on Initiative 1183, which if passed would end the state's 78-year-old monopoly on the sale of liquor in Washington. Initiative 1183 is similar to last year's Initiative 1100, which was rejected by voters, but there are also important differences. These differences are discussed in detail below.

Washington Policy Center has long recommended getting the state out of the liquor business and allowing the competitive private sale of liquor under regulation by the state. This change would allow state officials to shift their efforts from managing retail sales to exclusively enforcing the state's liquor, public health and public safety laws.¹

There are currently 18 liquor monopoly states in the U.S., including Washington.² These states maintain some level of monopoly control over the sale of liquor. Washington is one of 12 states that impose a government-only monopoly on both retail and wholesale liquor sales. Following is an analysis of what Initiative 1183 would do, and a comparison of its similarities and differences with Initiative 1100.

Summary of Initiative I 183

The official ballot measure summary for Initiative 1183 reads:

This measure would close state liquor stores and sell their assets including the liquor distribution center. The state would license private parties to distribute spirits and to sell spirits in retail stores meeting certain criteria, subject to specified training and compliance requirements. The measure establishes licensing fees for sale and distribution of spirits based on the licensee's sales revenues. It would change some wine distribution laws and allow non-uniform wholesale pricing for wine and spirits.³

The intent section for I-1183 reads:

The people of the state of Washington, in enacting this initiative measure, find that the state government monopoly on liquor distribution and liquor stores

¹ "Modernizing Washington's Liquor Control System," by Eric Montague, Washington Policy Center, 2003 at www.washingtonpolicy.org/sites/default/files/PN2003-03.pdf.

² "The Control States," National Alcohol Beverage Control Association, at www.nabca.org/States/States.aspx.

³ "Proposed Initiatives to the People – 2011," Washington Secretary of State's Office, at www.sos.wa.gov/elections/initiatives/people.aspx.

in Washington and the state government regulations that arbitrarily restrict the wholesale distribution and pricing of wine are outdated, inefficient, and costly to local taxpayers, consumers, distributors, and retailers. Therefore, the people wish to privatize and modernize both wholesale distribution and retail sales of liquor and remove outdated restrictions on the wholesale distribution of wine by enacting this initiative.⁴

The sponsors say Initiative 1183 would accomplish this goal by:

1. Privatizing and modernizing the existing wholesale distribution and retail liquor monopoly (Section 102)
2. Auctioning off the state's distribution warehouse, liquor facilities and equipment (Section 102)
3. Instituting a fee structure to generate revenues in excess of the current liquor monopoly revenues for government (Section 103 and Section 105)
4. Limiting those outlets that can sell liquor to stores of 10,000 or more square feet, with limited exceptions (Section 103)
5. Enhancing current state liquor safety enforcement and training (Section 103)
6. Limiting liquor licenses to stores that demonstrate effective sale prevention to minors (Section 103)
7. Providing for local government officials to provide comments before any liquor license is authorized in their area (Section 103).

Repeal of SB 5942: Leasing the State's Liquor Distribution Warehouse

Among the provisions of Initiative 1183 is the repeal of the legislature's recent bill, SB 5942, enacted in 2011, to turn the state's liquor distribution warehouse monopoly over to a private provider, in effect creating a private distribution monopoly. According to the intent section of SB 5942 (in part):

The legislature finds that it is in the public interest to seek revenue opportunities through leasing and modernizing the state's liquor warehousing and distribution facilities and related operations. The legislature finds that it is also in the public interest to conduct a competitive process to select a private sector lessee for this purpose.⁵

With enactment of SB 5942, lawmakers sought to raise additional money for the state by leasing operation of the state's liquor warehouse to a private company. The disadvantage, however, was that SB 5942 simply substituted one monopoly operator, the state, with another, the private company that wins the warehouse lease. By repealing the SB 5942 law, Initiative 1183 would allow competition in the wholesale sale of liquor as well as in retail, rather than requiring all retail sellers to buy their liquor products from a single supplier.

In a controversial move, the legislature enacted SB 5942 with an emergency clause meaning the new law can not be challenged with a referendum and it took effect immediately. Despite a fierce campaign calling for a veto of the emergency clause, Governor Gregoire signed the bill in its entirety in early June.

Among those who requested a veto of the emergency clause was Rep. Cary Condotta who wrote to the governor saying:

I do have a major concern with Senate Bill 5942 and the strong arm tactics used to add an emergency clause. It is obvious this is an attempt

⁴ "Initiative 1183," Washington Secretary of State's Office, at www.sos.wa.gov/elections/initiatives/text/i1183.pdf.

⁵ "SB 5942 – Liquor Warehouse Distribution," June 15, 2011 at apps.leg.wa.gov/documents/billdocs/2011-12/Pdf/Bills/Session%20Law%202011/5942-S.SL.pdf.

to preempt the Costco Initiative this fall. Please consider vetoing the emergency clause to make this a legitimate bill. I am not supporting the Initiative one way or the other, but think it would be scandal (at best) to try and sign a contract before a vote of the people.⁶

The “Costco Initiative” he referred to was Initiative 1183. While any liquor distribution warehouse contract would not be signed before the people have an opportunity to vote on Initiative 1183, the Office of Financial Management says it will announce its recommendation for what private-sector bidder should be allowed to lease the distribution on November 2, less than a week before the November 8 election.⁷ Should voters approve Initiative 1183, however, this leasing process would be repealed by Section 216 of the Initiative, and would allow distribution of liquor in Washington to be fully privatized and not subject to either a government or private monopoly.

State’s Fiscal Impact Estimates of Initiative 1183

According to the official fiscal impact statement created by the Office of Financial Management (OFM) for Initiative 1183, the measure would increase state revenues by more than \$200 million, and add approximately an additional \$200 million in local government revenues over the next six years:

The fiscal impact cannot be precisely estimated because the private market will determine bottle cost and markup for spirits. Using a range of assumptions, total State General Fund revenues increase an estimated \$216 million to \$253 million and total local revenues increase an estimated \$186 million to \$227 million, after Liquor Control Board one-time and ongoing expenses, over six fiscal years. A one-time net state revenue gain of \$28.4 million is estimated from sale of the state liquor distribution center. One-time debt service costs are \$5.3 million. Ongoing new state costs are estimated at \$158,600 over six fiscal years.⁸

OFM estimates do not assume any revenue for selling 166 existing state liquor stores however, meaning tens of millions more in one-time state revenue may be generated. OFM analysts say:

The initiative requires LCB [Liquor Control Board] to sell by public auction the right – at each state-owned store location – to operate a liquor store upon the premises without regard to the size of the premises if the applicant otherwise qualifies for a liquor retailer license. All state-operated liquor stores are leased and cannot be transferred or assigned.

In addition, of the 166 state-operated liquor stores, 127 are located within one block of a grocery store. Because these factors (location, competition and lessor) will vary by state-operated liquor store and will affect the value of each operating right, revenue generated from the auction is indeterminate and not assumed in the model.⁹

While it is impossible to know whether some or all of the current state liquor stores would stay in business as private entities exposed to competition in the same neighborhood, there is no doubt the state treasury would gain from the

⁶ “Governor to decide if liquor contract is state emergency,” by Jason Mercier, Washington Policy Center, June 13, 2011 at www.washingtonpolicy.org/blog/post/governor-decide-if-liquor-contract-state-emergency.

⁷ “State Liquor Warehousing and Distribution Request For Proposal (RFP) Process,” Washington Office of Financial Management at www.ofm.wa.gov/rfp/default.asp.

⁸ “Fiscal Impact for Initiative 1183,” Washington Office of Financial Management at www.ofm.wa.gov/initiatives/2011/1183.pdf.

⁹ Ibid.

one-time sale of these stores. This one-time revenue would be in addition to the \$200 million increase reported in OFM’s Initiative 1183 revenue estimate.

The positive revenue forecast for Initiative 1183 contrasts sharply with OFM’s financial estimate last year for Initiative 1100, which projected a decrease in state and local revenue if Initiative 1100 passed: “Using a range of assumptions, total state revenues decrease an estimated \$76 million – \$85 million and total local revenues decrease an estimated \$180 million – \$192 million, both over five fiscal years.”¹⁰

Comparison of Liquor Retail Store Density for Western States

Out of 11 western states (excluding Nevada and New Mexico due to lack of comparable information), Washington currently has the second most restrictive liquor retail outlet density, with one store per 20,502 inhabitants. Utah has the most restrictive with one store per 28,494 inhabitants and Wyoming the least restrictive, with one store per 765 inhabitants.

As would be expected, the top five most restrictive liquor retail outlet densities are in strict control states. If Initiative 1183 is enacted, Washington would still rank among the top five states for restrictive access to liquor sales, moving from second to fifth most restrictive, and would be the most restrictive non-monopoly-control state in the West. The state liquor retail store density rankings do not change when adjusting for population numbers for people age 18 and over (though the level of density itself does increase).

Currently				Under I-1183			
State	Retail Outlets	Population	Outlet Density	State	Retail Outlets	Population	Outlet Density
UT*	97	2,763,885	28,494	UT*	97	2,763,885	28,494
WA*	328	6,724,540	20,502	OR*	247	3,831,074	15,510
OR*	247	3,831,074	15,510	MT*	97	989,415	10,200
MT*	97	989,415	10,200	ID*	163	1,567,582	9,617
ID*	163	1,567,582	9,617	WA	1,428	6,724,540	4,709
AZ	1,450	6,392,017	4,408	AZ	1,450	6,392,017	4,408
CO	1,616	5,029,196	3,112	CO	1,616	5,029,196	3,112
CA	13,587	37,253,956	2,742	CA	13,587	37,253,956	2,742
AK	367	710,231	1,935	AK	367	710,231	1,935
HI	815	1,360,301	1,669	HI	815	1,360,301	1,669
WY*	737	563,626	765	WY*	737	563,626	765

*Control states

Source: Liquor Control Board for each state and U.S. Census Bureau (2010).

Comparison of Initiative 1183 and Initiative 1100

While both Initiative 1183 and last year’s Initiative 1100 would effectively end the state monopoly on the sale of liquor, they have measurable differences on the number of retail liquor outlets that would be allowed, how license fees would be structured and the potential revenues that would be generated for state and local governments. The following table compares the two proposals on these issues.

¹⁰ “Fiscal Impact for Initiative 1100,” Washington Office of Financial Management at www.ofm.wa.gov/initiatives/2010/1100.pdf.

Provision	Initiative 1183 (proposed in 2011)	Initiative 1100 (defeated in 2010)
Private retail sales begin	June 1, 2012	June 1, 2011
State retail sales end	June 1, 2012 (state assets must be sold by June 1, 2013)	December 31, 2011
Fiscal impact	Gain of \$216 to \$256 million for the state and gain of \$186 to \$227 million for local governments over six years.	Loss of \$76 to \$85 million for the state and loss of \$180 to \$192 million for local governments over five years.
Liquor distribution	Allows retailers to buy liquor and wine directly from manufacturers. No change in requirement that beer purchases must be through a distributor.	Allows retailers to buy liquor directly from manufacturers. Retailers would also be able to purchase beer and wine directly, without going through a distributor.
Quantity discounts	Allows manufacturers to offer quantity discounts to retailers for purchases of liquor and wine, but not for beer.	Allows manufacturers to offer quantity discounts to retailers for purchases of liquor, beer and wine.
Taxes	Retains current liquor tax structure.	Retains current liquor tax structure.
Retail license fees	License issuance fee equivalent to 17% of all liquor sales under the license, plus annual fee of \$166.	Application fee of \$1,000, plus annual fee of \$1,000.
Distributor license fees	For first two years of licensure, 10% of total revenue from sales of spirits (drops to 5% of sales revenue in year three), plus annual renewal fee of \$1,320. If by March 31, 2013, \$150 million has not been generated by fees, the Liquor Control Board must increase fees to make up the difference.	Application fee of \$2,000, plus annual fee of \$2,000 for license to distribute beer, wine and liquor. To distribute liquor only, the annual fee is \$1,000.
Local liquor sale restrictions	Limits liquor licenses to those outlets that demonstrate effective sale prevention to minors and provides local governments with input before a liquor license is approved in their area.	Explicitly states there are no restrictions on the authority of cities and counties to restrict where liquor is sold.
Retail outlet size	Licenses limited to stores of 10,000 square feet or more with limited exceptions.	No limit on the size of retail outlet.
Estimated number of retail liquor outlets	1,428	3,357

Conclusion

Initiative 1183 provides voters with another opportunity to decide whether state government should continue to have monopoly control over a retail business enterprise and a particular commercial commodity, or if it is time to end Washington's 78-year-old liquor monopoly. Unlike last year's Initiative 1100, Initiative 1183 restricts the size of retail stores that could apply for a liquor license. That means far fewer private liquor stores would be allowed to open under Initiative 1183 than would have been allowed under Initiative 1100.

Also, revenue estimates showed passage of Initiative 1100 would have resulted in a loss of revenue for state and local governments, while estimates show

Jason Mercier is director of the Center for Government Reform at Washington Policy Center, a non-partisan independent policy research organization in Washington state.

passage of Initiative 1183 would provide hundreds of millions of dollars in new revenues for state and local government to help fund public services.

Should voters again reject repealing the state's liquor monopoly it is likely this reform idea will be dead for the foreseeable future and the state will continue with the liquor-control system largely as it was created in the 1930s. If Initiative 1183 is adopted, however, voters will have shown they embrace the idea of focusing government efforts on strict enforcement of the public health, safety and drinking-age laws related to liquor sales, while leaving the business of distributing, pricing and selling liquor products to the competitive marketplace.

For more information please see Washington Policy Center's "Citizens' Guide to Initiatives 1100 and 1105: To End the State Monopoly on Liquor Sales" at washingtonpolicy.org.