SENATE BILL REPORT

SB 5490

As of February 1, 1995

Title: An act relating to the privatization of the state's retail liquor stores.

Brief Description: Privatizing liquor stores.

Sponsors: Senator Pelz; by request of Governor Lowry.

Brief History:
Committee Activity: Labor, Commerce & Trade: 2/2/95.

SENATE COMMITTEE ON LABOR, COMMERCE & TRADE

Staff: Traci Ratzliff (786-7452)

Background: Since passage of the Washington State Liquor Control Act– (also known as the Steele Act) in 1933, the state via the Liquor Control Board (LCB) has maintained strict regulation and control over the manufacture, distribution and sale of alcoholic beverages. The 1933 act authorized the establishment of state operated liquor stores and liquor agencies (operated by private retailers in rural areas) to sell spirituous (hard) liquor, strong beer (greater than 8 percent alcohol content), malt liquor and wine at retail for off-premise consumption. Tribal and military stores are also authorized to sell such beverages but must purchase these from the LCB. Hotels, restaurants and clubs are allowed to sell hard liquor by the drink for consumption on the premises. Such establishments must obtain a Class H license from the LCB and must purchase the spirituous liquor from the LCB at a set markup (currently discounted by 15 percent). The LCB operates a warehouse and distribution center for spirituous liquor, strong beer, malt liquors and wine which provides stock to state-run stores, Class H licensees, tribal and military stores. All manufacturers, including distilleries and importers, and wholesalers of alcohol are licensed and regulated by the LCB.

The LCB currently operates 164 liquor stores and 161 liquor agencies. Approximately 630 full-time equivalent employees are either directly employed at the state-run liquor stores or are in positions that support the operation of these stores.

Summary of Bill: State-run liquor stores and agencies are phased out of existence and replaced by privately owned and operated retail liquor stores.

<u>Sale of Franchises</u>. The LCB is authorized to auction off franchises for 164 privately owned retail liquor stores. The first round of franchise licenses expire December 31, 2000. On or after July 1, 2000, the LCB is authorized to: auction off franchises for up to an additional 100 retail liquor stores; auction off franchises for the 161 liquor agencies; and put up for re-auction the original 164 franchises previously issued. Beginning July 1, 2005, the LCB is authorized to auction off additional franchises based on economic, demographic and other factors.

Conditions of Franchise Licenses. A franchise is issued to the person or entity providing the highest bid. A franchisee must hire current employees of state liquor stores. For the first three years after the auction, these employees must receive wages and benefits comparable to those paid by the LCB and be employed full time or for the same number of hours worked during the year prior to the auction. The franchise store must be located within a mile of the existing state liquor store. If the franchise store is located within another retail establishment, the liquor section of the store must be separated from other merchandise and have a separate entrance, exit and cash register. Prior to January 1, 2001, a person or entity may not hold more than one franchise license in a franchise area. After this time period, a person or entity may own more than one store in a franchise area. Franchisees must purchase all spirituous liquor, strong beer and alcohol from the LCB. Franchisees may not sell liquor at a price that is less than what was paid to the LCB. Each franchisee must purchase annually a $1500 U liquor license.

LCB Authority. The LCB is authorized to establish franchise areas, the franchise period (not to exceed 10 years) and, after the initial five-year period, to determine the number and location of retail stores in each franchise area based on economic and demographic information. The LCB is given broad authority to prescribe records that must be kept by franchisees, and to enter the premises of a franchisee to assure compliance with existing laws and regulations. The LCB is also authorized to adopt rules for advertising of spirits, strong beer and alcohol. Once licensed retail stores are opened in a franchise area, the LCB must close all state-run stores in that franchise area.

Sale of Spirituous Liquor to Franchisees and Class H licensees. The LCB is authorized to set the wholesale liquor prices, including an appropriate mark-up, that will be charged to franchisees and Class H licensees. Class H licensees may continue to purchase liquor from the LCB at a 15 percent discount as long as the state-run stores and liquor agencies are operating. Once the licensed retail stores are opened, the Class H licensees may continue to purchase liquor from the LCB at the same price offered to licensed retail stores or may negotiate to purchase the liquor from a retail store or liquor agency at a price less than retail but greater than or equal to the price paid to the LCB.

Alcohol Abuse Prevention and Treatment Grant Program. The LCB is authorized to establish and administer an alcohol abuse prevention and treatment grant program. All revenues generated by the sale of retail liquor franchises will be used to fund this program. Funds will be disbursed to public agencies or private, nonprofit organizations involved in the provision of alcohol prevention and treatment programs.

Miscellaneous Provisions. An LCB employee participating in the state retirement system who loses his or her job as a result of the closure of state-run liquor stores may choose one of the following options: (1) at the time of retirement receive an additional five service credit years, or (2) receive a lump sum payment equal to five times the employee s contribution paid to the retirement system during the year preceding the job loss. An employee who becomes employed with a public retirement system employer is ineligible to receive the lump sum payment.

By December 31, 1999, the LCB is required to submit a report to the Governor and the Legislature regarding the negative impacts of transferring the sale of liquor from state-run stores to private sector retailers.

Actions in which franchisees are prohibited from participating are listed.

The formula for distributing excess funds from the liquor revolving fund to local jurisdictions is modified twice, once for 1995-97 biennium and for the next biennia thereafter, to assure the jurisdictions continue to receive a comparable amount of funds under the new system of privately operated liquor stores.

Tax provisions related to the retail sale of spirituous liquor and strong beer are modified to apply to the sales made by privately operated retail liquor stores.

Existing statutes are modified to apply to retail liquor stores.

Appropriation: None.

Fiscal Note: Available.

Effective Date: Ninety days after adjournment of session in which bill is passed.