

## Explanatory Statement

### **The Law As It Presently Exists**

Currently, the state controls the sale and distribution of spirits in Washington. The term "spirits" refers to the alcoholic beverages commonly called "hard liquor" (whiskies, vodka, gin, etc.), any beverage containing distilled alcohol (except flavored malt beverages), and wines exceeding twenty-four percent alcohol by volume. Spirits are sold at retail by state liquor stores and contract liquor stores (which are businesses selling liquor on behalf of the state through a contract with the state). Spirits are distributed within Washington by the state Liquor Control Board. The Board purchases spirits from manufacturers, distillers, and suppliers, furnishes spirits to state liquor stores, and sells spirits directly to authorized purchasers, such as restaurants. Spirits manufacturers, distillers, and suppliers may sell spirits within the state only to the Board.

The Liquor Control Board is responsible for the general control, management, and supervision of all state liquor stores and contract stores, as well as the state's spirits distribution operation. The Board regulates the kind, character, and location of liquor advertising. The Board is not authorized to advertise its sales of spirits.

The Liquor Control Board sets prices for spirits based on wholesale cost, a markup by the Board, and taxes. The net proceeds from the markup on the sales of spirits are distributed to the state, cities, and counties, according to formulas set by state law. A variety of taxes are imposed on the retail sale of spirits. The generally applicable retail sales tax does not apply to spirits. The tax revenues from sales of spirits are distributed to the state, cities, counties, and to fund specific state and local programs, according to formulas established by state law.

### **The Effects Of The Proposed Measure If Approved**

If approved, Initiative 1105 would direct the Liquor Control Board to close all state liquor stores and to shut down the state's spirits distribution operation. It would allow licensed private parties to sell spirits as retailers or distributors, and it would terminate the state's authority to sell spirits. This would eliminate the net proceeds from the Board's markup on sales of spirits at state liquor stores and contract liquor stores, which are distributed to the state, cities, and counties. The measure would generate new proceeds by requiring private spirits retailers and distributors to pay the state a percentage of their gross sales for five years. The measure would eliminate existing taxes on the retail sale of spirits, and would direct the Board to recommend to the legislature a new tax on the sale of spirits to spirits distributors.

Initiative 1105 would change the Liquor Control Board's powers. It would eliminate the Board's authority to manage liquor stores, distribute spirits, and set spirits prices. It would require the Board to close state liquor stores by April 1, 2012, and to make a good-faith effort to sell its liquor store inventory and assets by that time. It would authorize the Board to issue licenses allowing private parties to sell or distribute spirits, and to regulate the sale of spirits under those licenses.

Under Initiative 1105, a "spirits retailer license" would allow the license holder to sell spirits at retail in original containers, beginning November 1, 2011. The Board would establish license criteria, making spirits retailer licenses available to applicants who could provide the same degree of safety and security as current state-operated stores. The measure encourages the Board to make spirits retailer licenses available to existing contract stores. Spirits retailer license holders would pay an annual

license fee. They would also pay the state six percent of their gross annual spirits sales during their first five years of sales, to be deposited into the state general fund.

Under Initiative 1105, a "spirits distributor license" would allow spirits distributors to buy spirits from manufacturers, distillers, and suppliers, and to sell spirits to any person holding a license to sell spirits in Washington, beginning October 1, 2011. The

Board would make spirits distributor licenses available to all applicants who are appointed by, or agents of, spirits manufacturers, distillers, or suppliers, unless the Board determined that issuing a license to a particular applicant would not be in the public interest. Spirits distributors would pay an annual license fee. They would also pay the state one percent of their gross annual spirits sales during their first five years of sales, to be deposited into the state general fund.

The Board would no longer set prices for spirits. Each licensed spirits distributor, and each manufacturer, distiller, and importer, would be required to maintain and adhere to its published price list and to offer uniform pricing to all customers on a statewide basis. Price discrimination would be prohibited. Quantity discounts on spirits would be allowed.

Initiative 1105 would establish a three-tier system for the spirits industry. The three-tier system would separate manufacturing, distributing, and retailing of spirits, and regulate the financial relationships and business transactions among entities in these tiers. Under the three-tier system, licensed spirits retailers would be allowed to purchase spirits only from duly-licensed spirits distributors, with certain limited exceptions. Spirits manufacturers and distillers, and licensed spirits retailers, would not be permitted to have any interest in a spirits distributor license or in any entity that has a spirits distributor license.

Initiative 1105 would repeal existing taxes on the retail sale of spirits. It would direct the Board to recommend to the legislature a new tax that would be paid by licensed spirits distributors on all spirits they purchase. The measure would direct the Board to recommend a tax rate projected to generate, in combination with other spirits-related revenues, at least the same annual revenue for state and local governments as the current state-controlled system of spirits sales and distribution, plus at least an additional one hundred million dollars net over the five-year period beginning November 1, 2011.