Minutes of the Joint Legislative Oversight Committee
January 31, 2011
Senate and House Auditorium, Capitol Building
Boise, Idaho

Co-chair Senator Elliot Werk called the meeting to order at 3:05 p.m. Attending the meeting were Senators Jim Hammond, Dean Mortimer, and Michelle Stennett, and Representatives Maxine Bell and Cliff Bayer. Also present were Rakesh Mohan, director, Margaret Campbell, administrative coordinator, and other OPE staff. Representative Elaine Smith was excused from the meeting.

Senator Werk welcomed new members of JLOC: Dean Mortimer, Elaine Smith, and Michelle Stennett, He welcomed the audience and acknowledged the following attendees:
Representative Kathleen Sims
Mark Warbis, communications director, Office of the Governor
Wayne Hammon, administrator, Division of Financial Management
Shelby Kearns, senior analyst, Division of Financial Management
Jeff Anderson, director, Idaho State Liquor Division
Bill Applegate, chief deputy director, Idaho State Liquor Division
Tony Faraca, deputy director, Idaho State Liquor Division
Dyke Nally, former director, Idaho State Liquor Division

Approval of Minutes

Representative Bell moved to approve the minutes of the November 30, 2010, meeting. Senator Hammond seconded the motion, and the motion passed unanimously by voice vote from all six members present.

Committee Rules

Mr. Mohan briefed the committee on some of the highlights of the rules.

Senator Mortimer moved to accept the committee rules as submitted. Senator Hammond seconded the motion, and the motion passed unanimously by voice vote from all six members present.

Report Release: *Distribution and Sale of Liquor in Idaho*

Senator Hammond moved to receive the report *Distribution and Sale of Liquor in Idaho*. Representative Bell seconded the motion, and the motion passed unanimously by voice vote from all six members present.

Mr. Mohan thanked Mr. Anderson, the division staff, and staff in state-owned and contract stores for their cooperation and support. He also thanked Dyke Nally for his support at the beginning of the study. Jared Tatro, senior performance evaluator, and Lance McCleve, performance evaluator, summarized the report.

Senator Stennett asked how the state could save $700,000 each year by converting 13 of the lowest performing state-owned stores into contract stores. Mr. McCleve said that expenses of the 13 state-owned stores were greater than the state would pay in commissions had the stores been contracted. Senator Hammond added that profitability for state-operated stores included a commitment to state employees, while contract stores only received commissions based on sales.

Senator Hammond asked whether Idaho's citizens would be better economically served by a state-controlled liquor system or a private-market system. Mr. Tatro said that he could not guarantee whether prices would be less in private market. Mr. Tatro confirmed Senator Hammond's assumption that larger population areas could likely see a decrease in bottle prices while smaller population areas could see an increase.

Representative Bell asked why Idaho used a mix of state-owned and contract stores. Mr. Tatro suggested the mix was likely chosen because of Idaho's diverse urban and rural populations. Representative Bell asked whether the Liquor Division had resources to implement recommendations. Mr. Tatro said the division already had the technology and capability to track purchases by zip code and to collect data for store capacity and location analysis.

Referring to the net profit analysis of stores, Senator Werk asked whether expenses from the warehouse were rolled into the analysis. Mr. McCleve said the analysis of sales, expenses, and net profit for each store excluded warehouse and central office expenses.

Senator Werk asked the evaluators to explain contract store compensation rates, as shown in exhibit 2.3 of the report. Mr. Tatro said the division's compensation was regressively tiered. Generally, contract stores were compensated at 12 percent of their sales. Once sales exceeded $325,001 annually, the percentage rate began to decrease to as low as 4 percent.

Senator Werk invited Mr. Jeff Anderson, director, Idaho State Liquor Division, to speak to the committee. Mr. Anderson thanked OPE for a thoughtful study. He said a state-controlled system made liquor less available to the population and reduced per capital consumption, while bringing more revenue to the state. He agreed with the four recommendations and indicated the division had started addressing issues several months ago.

Referring to the overall decrease of revenue and the increase of expenses in stores, Mr. Anderson said consumers were purchasing less expensive products, which affected net profit because expenses were fixed—the cost to ship, stock, and sell a $7 bottle of liquor was the same as a $30 bottle. He thought the state would see a turnaround of sales soon. Mr. Anderson said a 4 percent compensation rate could be a disincentive to store owners, but the product was on consignment—there was no cost to the owner until the product was sold.

Senator Stennett asked whether stores had product that sat on their shelves for an extended period of time. Mr. Anderson said the stores sell many of the products before the division was invoiced. The division offered over 2,000 SKUs, and although some did not move as quickly as others, products generally turned over quickly.

Senator Werk invited Mark Warbis, communications director at the Office of the Governor, to address the committee. Mr. Warbis thanked OPE for an excellent job. He said that the Governor favored the state-controlled model for reasons listed in his written response. If the system was privatized, government would have enormous costs for enforcement at the local level, the state would be abandoning the temperance mission of the Constitution, the public would have greater access to liquor, and health care costs would increase because temperance would be eliminated from the division's mission.

Representative Bell moved to conduct a follow-up review in six months of the division's progress in implementing recommendations. Senator Hammond seconded the motion, and the motion passed unanimously by voice vote from all six members present.

TOPIC REQUESTS

Mr. Mohan said JLOC had selected topics for evaluation late in the session in the past few years. He recommended that JLOC consider reviewing and selecting requests on an ongoing basis so staff can begin work on the studies earlier in the year. If JLOC reached the end of session and found that a topic needed priority over one already selected, members had the option of putting the first study on hold.

Senator Werk said that holding an annual topic selection meeting gave JLOC the opportunity to weigh requests in terms of resources. However, with the option to reestablish priories and defer a selected topic when necessary, he recommended Mr. Mohan's approach. Having received general consensus, Senator Werk said the co-chairs would announce ongoing topic selection on their respective floors.

The next meeting of JLOC was February 7. Members discussed and agreed to start the meeting at 3:00 p.m.

The meeting adjourned at 4:30 pm.