Office of Performance Evaluations

News Release: Distribution and Sale of Liquor in Idaho

January 31, 2011

(BOISE) In a report released to the Joint Legislative Oversight Committee this afternoon, the Office of Performance Evaluations concludes that expenses in the Liquor Division have grown faster than sales and net profit in the past five years.

Since 2006, the division has increased the number of state-operated stores from 54 to 66. The establishment of these new stores has negatively affected the sales of existing stores. Evaluators found that store profits in relation to expenses have decreased since 2006. For every dollar spent in 2006, there was a return of $3.54 in profits—that same dollar in 2010 returned $3.17. When adjusted for inflation, the division's net profits would have been $5.2 million more in 2010 if the ratio remained $3.54.

The division has no formal criteria for adding, converting, or eliminating state-operated stores. The evaluators recommend that the division establish formal data-driven criteria for store placement that include traffic flows, customer zip codes, and optimum distances between other liquor stores to maximize profits and customer service while minimizing expenses.

Evaluators also recommend that the division evaluate the operations of each state-operated store to determine whether any should be expanded, relocated, closed, or converted to a contract store. Because contract stores are compensated according to sales, the division is not responsible for the contract stores' business operating expenses. If sales decrease in a contract store, the compensation will also decrease, whereas, if sales decrease in a state-operated store, expenses may not decrease. The evaluators report that if 13 low performing state-operated stores were converted to contract stores, the state would save almost $700,000 annually.

Idaho is one of 18 states that have direct control over the distribution or sale of liquor. The report poses several questions for policymakers to consider when determining whether the state should continue this system or change to a private-market system. Evaluators found that the state could maintain similar revenue by privatizing all or part of the state's liquor system. Converting to a completely private-market system would make Idaho the first state to do so and would require the establishment of a liquor excise tax. Privatizing just the stores and maintaining the central warehouse would mirror changes that have occurred in several other states. The partial privatization option would not require the establishment of a liquor tax, but rather the state will continue to apply a product markup.

In 2010, the sale of liquor generated the largest portion of alcohol revenue to the state at $47 million, whereas beer sales generated $4.4 million and wine generated $3.6 million; the consumption of beer has outpaced liquor almost 2 to 1. When alcoholic beverages are measured by the drink (12 ounces of beer, 5 ounces of wine, and 1.5 ounces of liquor), liquor generates revenues of 25 cents per drink, while beer and wine each generate revenues of less than 2 cents per drink.

The report contains formal responses from the Governor and the Idaho State Liquor Division.

Performance audits or evaluations are an essential function of legislative oversight to ensure that taxpayer dollars are spent efficiently and in accordance with Idaho law. At the end of 2010 legislative session, the Joint Legislative Oversight Committee unanimously voted to direct the Office of Performance Evaluations to conduct this study. The eight-member committee is equally divided between the two political parties and the two chambers of the Legislature. Senator Elliot Werk and Representative Clifford Bayer co-chair the committee.