



Initiatives 1100 & 1105: The Privatization of Liquor

If approved by voters, Initiatives 1100 & 1105 each impact a significant revenue stream for cities, counties, and the state. While both initiatives close state liquor stores and privatize the sale and distribution of liquor, the measures have different effective dates and different impacts to state and local government revenue.

How do the initiatives impact local and state revenue?

State and local governments get two types of revenue from the sale of liquor: liquor profits and liquor taxes.

- Liquor board profits are revenues from permits, licenses, and liquor store sales. The state first pays for the activities of the Liquor Control Board (administration, sales people, leases, etc.), and the remaining profits are divided 50% to the state, 40% to cities, and 10% to counties (border areas receive an additional distribution).
- Liquor excise taxes come from a state tax to consumers and restaurant licensees. The tax rates include a basic rate plus surcharges. Revenues from the basic rates of 15% for consumers and 10% for restaurants are shared 65% to the state, 28% to cities, and 7% to counties.

According to estimates in MRSC's *Budget Suggestions For 2011*, the following are city distributions:

Distributions to cities	2008	2009	2010 revised	2011 estimate*
Liquor profits	\$27,090,572	\$27,091,000	\$34,072,000	\$31,200,000
Per capita profits	\$6.73	\$6.67	\$8.21	\$7.34
Liquor tax	\$19,301,609	\$19,900,000	\$20,551,000	\$21,161,000
Per capita liquor tax	\$4.80	\$4.90	\$4.95	\$4.98

*Subject to change if either of the initiatives pass.

This means that a city of 35,000 received \$460,000 in taxes and profits in 2010, while a city of 5,000 received \$66,000.

What do the two initiatives do to profits and taxes?

Both initiatives eliminate liquor profits. I-1100 maintains the liquor tax; I-1105 eliminates the liquor tax effective April 1, 2012.

Do the initiatives require a new method of liquor taxation?

No. I-1105 has intent language that the privatization of liquor sales and distribution “not result in revenue losses to state or local governments” and directs the Liquor Control Board to recommend to the Legislature “a rate of taxation that, along with other spirits-related revenue sources, would project to generate at least the same annual revenue for the state and local jurisdictions as under the current state control system...” The Legislature is under no obligation to enact the Liquor Control Board’s proposal, and if I-1105 (Eyman’s initiative) passes, it makes it far more challenging to enact new or replacement tax rates on liquor sales. That initiative requires a 2/3 vote by the Legislature to raise taxes.

With the removal of the state liquor taxes, liquor sales and distribution would become subject to two local taxes: the local sales tax and the local B&O tax, if located in the 38 towns and cities that impose such a tax. Any sales tax revenues would be distributed based on the point of sale and not the current per capita system for liquor revenue.

Will the state save money by closing liquor stores?

No. The state pays for the administration and operation of state liquor stores from the revenue of selling liquor. In addition, liquor generates additional money for the state. For 2011 – 2015, the Office of Financial Management estimates that the state general fund will lose between \$115 and \$123

million under I-1100 and between \$513 and \$547 million under I-1105.

continued

AWC has not taken a position for or against this ballot initiative. AWC's role is to provide its members educational materials that can be shared with elected officials, staff and the community.

Are there other impacts on local governments from these initiatives?

The Liquor Control Board indicates that if either liquor initiative passes, they likely will have sufficient funding from other sources to continue their current enforcement operations. However, they do not anticipate sufficient additional enforcement funding to mitigate a substantial increase in the number of liquor retailers. As a result of the increased work load and limited resources, local law enforcement could feel the impact from the expansion of liquor sales.

Additionally, the Municipal Research and Services Center receives almost all of its funding from a contract with the state. The contract is funded through cities' (76.7%) and counties' (15.9%) share of liquor revenue. The city share is paid out of city liquor profits, which would be eliminated by both initiatives, and the county share is paid out of county liquor taxes, which would be eliminated by I-1105.

When would private stores open? When would liquor profits and taxes end?

The initiatives have different effective dates:

	I 100	I 105
Date private liquor distribution begins	1/1/2011	10/1/2011
Private liquor stores open	6/1/2011	11/1/2011
State liquor stores close – according to OFM fiscal note	6/15/2011	11/15/2011
State liquor distribution & liquor profits end – according to OFM fiscal note	6/15/2011	11/15/2011
State liquor stores must close	12/31/2011	4/1/2012
State liquor distribution must end & liquor profits end	12/31/2011	4/1/2012
State liquor taxes end	N/A	4/1/2012

How many stores will be able to sell liquor if one or both of the initiatives pass?

Currently, Washington has 315 state and contract liquor stores, and it is unknown how many private retailers will choose to sell liquor if one or both initiatives pass. Earlier this year, the Washington State Auditor estimated 3,357 private stores would sell liquor under a privatized system. I-1100 would allow any current retailer with a beer and/or wine grocery store license or specialty store license to sell liquor; approximately 5,200 stores currently have one of these licenses and would be eligible to sell liquor. I-1105

directs the Liquor Control Board to develop criteria for issuing retail liquor licenses.

Why are there two liquor initiatives?

While both initiatives allow private retailers to sell liquor, one primary difference is who is allowed to distribute liquor. Currently, the state distributes liquor to the liquor stores. I-1100 would allow retailers to negotiate and buy liquor directly from the manufacturers. I-1105 would require retailers to buy liquor from a third-party distributor; the distributors would sell to all retailers at the same price.

According to the Washington State Public Disclosure Commission, Initiative 1100's campaign is primarily funded by Costco, and Initiative 1105 is funded by Odom Southern Holdings and Young's Market Company, two beverage distribution companies.

Large retailers likely would benefit by negotiating discounts directly with the makers of liquor. Smaller retailers (and distributors), on the other hand, likely would benefit from a distribution system that sells to small and large retailers at the same price.

What happens if both initiatives pass?

In 1993, when two rival tax-limit measures, I-601 and I-602, were on the ballot, the Attorney General issued a formal opinion observing it would be possible for the Legislature to resolve any conflict by amending either or both measures with a two-thirds vote. Failing that, the courts would be tasked with resolving the differences, possibly by giving deference to the initiative that got the most votes or that had the later effective date.

What is AWC's role?

AWC will continue to provide our members with educational materials. Please check our website for additional information at www.awcnet.org/initiatives. This website includes:

- Summaries of I-1100 and I-1105.
- Tables of liquor taxes and profits received by each city from 2006 – 2008.
- News articles about the initiatives.
- Resources from the Public Disclosure Commission & Attorney General's Office about elected and appointed officials ballot measure campaign activities and use of public funds.

For more information

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