WASHINGTON STATE EXECUTIVE ETHICS BOARD

ETHICS COMPLAINT FORM

Case No. ________________
(Assigned by Board)

1. Please name the person alleged to have violated one or more provisions of the state's ethics law (Chapter 42.52 RCW), and provide the following information, if known. If you are alleging that more than one person may have violated the state's ethics law, file a separate complaint form for each individual.

Name: Rick Garza

Work Phone: 360.664.1650
(Include Area Code)

Position or Title: Deputy Administrative Director

Employing Agency: Liquor Control Board

Work Address: 3000 Pacific Avenue SE

Olympia, WA 98504-3075
City State Zip Code

2. Explain how this individual violated the state's ethics law and list the sections of the Ethics Act they violated. Be as specific as possible as to dates, times, places, and actions. Attach additional sheets of paper if the space provided below is not sufficient.

Section(s) of Ethics Act violated: RCW 42.52.180(1), using public facilities to assist a campaign opposing a ballot proposition.

How these sections were violated: Please see attached pages.

3. **Disclosure.** Pursuant to RCW 42.56.240 information revealing the identity of persons who file complaints with investigative agencies other than the public disclosure commission, may indicate a desire for disclosure or nondisclosure ***if the complainant believes that disclosure would endanger his or her life, physical safety or property.*** Please indicate your desire for disclosure or nondisclosure by checking the appropriate box and initialing.

☐ I indicate a desire for **nondisclosure because:**

- ☐ **disclosure would endanger my life**
- ☐ **disclosure would endanger my physical safety**
- ☐ **disclosure would endanger my property**

Initials: __________

IF YOU DO NOT SELECT NONDISCLOSURE, YOUR NAME WILL BE DISCLOSED UPON REQUEST.

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4. **Attestation.** I declare that the foregoing information is true and accurate to the best of my knowledge.

Your Signature:

Your Printed Name: Stefan Sharkansky

Address:

Seattle, WA 98103

City State Zip Code

Daytime Phone: ____________ Evening Phone: same

(Include Area Code) *(Include Area Code)*

Date: August 31, 2010

Please return this completed form to: **Executive Ethics Board**
PO Box 40149
Olympia, WA 98504-0149

If you have questions about this form, or would like to request the form in an alternate format for the visually impaired, contact the Executive Ethics Board at (360) 664-0871 or write us at the above address. We will take reasonable steps to accommodate your needs.
Attach or make reference to any documents or other evidence that may support your allegations. Also provide the names and addresses (if known) of any witnesses or persons who may have knowledge of facts that support your allegations.

Complaint to the Washington State Executive Ethics Board regarding the Liquor Control Board and Rick Garza, its Deputy Administrative Director

Stefan Sharkansky
Seattle, Washington
August 30, 2010

INTRODUCTION

In this complaint I allege that Rick Garza ("Garza"), Deputy Administrative Director of the Washington State Liquor Control Board ("LCB"), has been engaged in an ongoing series of multiple violations of RCW 42.52.180 (1), using public facilities to actively assist the campaign against Initiatives to the People 1100 and 1105, which will appear on the statewide ballot in the November 2010 general election. Due to Garza's senior position and high public profile, it is inconceivable that he could engage in this activity without the authorization of the most senior officials of the LCB. By implication, LCB Board Chairman Sharon Foster, Board Members Ruthann Kurose and Linda Bremer and Administrative Director Pat Kohler are also subjects of this complaint.

Each of the initiatives 1100 and 1105 would, if passed, terminate the LCB's liquor distribution and sales operations and permit private sector licensees to sell distilled spirits. Both measures would preserve the LCB's mandate and funding to enforce state liquor laws. Given that the termination of the liquor merchandising function would necessarily reduce the LCB's headcount and budget and possibly its prestige, Garza and other senior LCB officials have motive to campaign against initiatives 1100 and 1105. They are doing just that.

This complaint focuses on remarks that Garza made in his official capacity as a senior LCB official, as an invited speaker at a recent public forum on the topic of Initiatives 1100 and 1105. I personally attended this event. It was clear from the tone and tenor of Garza's remarks that the purpose of his speech was to urge the audience members to oppose Initiatives 1100 and 1105. I assert that his actions violated RCW 42.52.180(1) for the following reasons:

1. Garza was clearly representing himself in his official capacity on behalf of the LCB. Public facilities were used to prepare and deliver his presentation.

Garza gave his presentation during normal working hours. He introduced himself as an official of the LCB. His presentation slides carried the name of the agency and the state seal and appeared to be an official agency document. Indeed, a copy of the slides was subsequently provided to me by the LCB in response to a public records request. At no time did Garza indicate that he was presenting only his personal opinions as a private citizen and on his own time. Indeed, he stated at the outset of his talk, despite his subsequent prejudicial remarks, that "as a state employee, someone who works for the Liquor Board, I can't take a position for or against the initiatives."

2. The content of Garza's remarks clearly violates EEB Advisory Opinions regarding information about a ballot proposition that an agency may provide during the campaign season. In Advisory Opinion 02-04, the EEB advised the Department of Transportation that it "may

provide general, factual information … on the possible impact of … ballot propositions". However:

> In light of the tone, tenor, and timing considerations, the Board advises that distributing newspaper articles and editorial opinions that tend to support or oppose candidates for public office or ballot measures during an election or ballot measure certification period, would not be considered a regular or usual WSDOT activity. … To determine if a violation has occurred, the Board would review the tone and tenor of the newspaper article or editorial opinion. Distributing articles and editorial opinions that provide more than general, factual information about a ballot proposition or candidate for public office … would receive increased scrutiny and most likely would result in a violation.

Although Garza did not distribute newspaper columns, his conduct was analogous to the conduct which the EEB advised "most likely would result in a violation". His presentation contained information which was not factual, but was false and/or misleading, and which prejudicially misrepresented impacts of the initiatives and purported benefits of the current state store system. He made several prejudicial claims which were not factual but merely speculative and almost certainly outside his area of expertise. He cited and expressed agreement with several claims made by initiative opponents, while citing and disputing claims made by initiative supporters. At no time did I hear him acknowledge merit in the proponents' claims or find fault in the opponents' claims.

It is important to note that the one presentation I attended and report on here was not an isolated incident. It is representative of an ongoing series of appearances and activities in which Garza has used public facilities to oppose the initiatives. In his own statements, Garza indicated that he was "travelling around" giving similar talks. He also prefaced some of his remarks with words such as "I always say…"

Garza and the LCB's activities are a corruption of the election process. The voters are contemplating whether to reduce the LCB's mission. The agency's officials have responded by using public facilities to introduce false, deceptive and prejudicial information into the public discourse in order to defend their agency and their careers. This constitutes a serious violation of the Ethics in Public Service Act. Barely six weeks remain until mail ballots will be sent to voters. I urge the EEB to act on this complaint immediately.

SUPPORTING FACTS

On Monday, August 23, 2010 from approximately 1:30 – 3:00 pm Garza spoke in a panel discussion at an "Information Session on I-1100" sponsored by the Washington Wine Institute and held at the Columbia Winery in Woodinville. On the panel with Garza were Jean Leonard, executive director of the Washington Wine Institute, and Heather McClung, president of the Washington Brewer's Guild (Attached as Exhibit A is a copy of an e-mail which advertised the event). Both McClung and Leonard had previously made public statements declaring their respective organizations' opposition to Initiative 1100. (Attached as Exhibit B is a copy of a leaflet distributed at the event by the Washington Wine Institute, urging a NO vote on Initiative 1100). No proponents of Initiative 1100 were included in the panel.

I attended this event and made an audio recording of the panel discussion. A data CD with a MP3 file of the recording is enclosed as Exhibit C. A transcript of selected portions of the recording is attached as Exhibit D. A copy of Garza's presentation slides is attached as Exhibit E.

The following facts are especially noteworthy:

1. **Garza acknowledged that he was speaking in his official capacity as a state employee.**

   Per quote at 10:18. Also, Jean Leonard acknowledged that Garza was invited to present the LCB's explanation of the initiatives' impacts. (Quote starting at 47:30)

2. **Garza falsely and prejudicially exaggerated the impact of Initiative 1100 deregulation measures.**

   Presentation slide #3 asserts that "Initiative 1100 deregulates alcohol and treats it like any other product". This is plainly false. Initiative 1100 repeals certain regulations regarding economic arrangements among licensed entities. It retains nearly all other existing regulations which treat alcohol quite differently from other products, including vendor licensing requirements, prohibition on sales to minors, prohibition on sales below acquisition cost, authority of the board to regulate advertising, significantly higher excise taxes and stricter recordkeeping requirements than apply to most other products.

3. **Garza prejudicially disputed Initiative 1100's claim that it would direct LCB funding toward enforcement and falsely claimed that the loss of the "mark-up" (surplus revenues from liquor sales in state stores) would defund the LCB's licensing and enforcement functions.**

   See quote starting at 10:18:

   > One of the things I will tell you about removing the mark-up in both initiatives. That takes away the total funding of the Liquor Board, including licensing and enforcement. So with these initiatives we lose our licensing and enforcement ability.

   This statement is reinforced on page 2 of the slides.

   Garza's statements are demonstrably false. The LCB's entire current funding for licensing, enforcement and administration derives primarily from a specific portion of the Wine Tax, with a small contribution from liquor licensing fees. NONE of the funding for licensing and enforcement derives from state store sales. The current funding sources are not affected by Initiative 1100.

   This is made clear in the state Office of Financial Management Tax Reference Manual 2010 (relevant pages attached as Exhibit F) and financial statements produced by the LCB in response to public records requests (pages attached as Exhibit G), specifically the FY 2009 Operating Statement, Distribution of Expense Statement and "Distributions to Other Funds" tables.

   The FY 2009 Operating Statement shows that the LCB's total "EXPENSE APPLICABLE TO LICENSE AND ENFORCEMENT FUNCTION" was $18,556,498.66. This number is consistent with the total Direct + Indirect Regulatory/Enforcement expenses reported in the Distribution of Expense Statement. The Operating Statement further indicates the revenue source for these expenses is a combination of Wine Taxes, Beer Taxes, Licensing Fees and Penalties. The Tax Reference Manual reports that in FY 2009 the Wine Tax produced $21,736,000 and that receipts from the largest component (RCW 66.24.210(1)) "go to the liquor revolving fund from which expenses of the Board are first funded". The "Distribution to Other Funds" table reports that net distributions from the Wine Tax were $3,666,628.56, implying that the amount retained for Board expenses was approximately $18.1 million. The remainder of the $18,566,498 came from license fees and penalties as indicated in the Operating Statement.

Neither initiative modifies the Wine Tax rates or existing license fees, so it is implausible that the initiatives could leave the LCB's remaining functions "unfunded". Furthermore, Initiative 1100 specifically requires that fees from the issuance of new spirits licenses "may be expended only for purposes of the administration and enforcement of liquor licenses and reducing underage or abusive consumption." [Sec. 1.9] Depending on the number of new licenses issued, Initiative 1100 would necessarily increase licensing and enforcement funding by millions of dollars annually.

4. **Garza falsely and prejudicially overstated the revenues produced by the state liquor retail system in recent years, inflating the expected "loss" of state revenues upon termination of the state retail stores.**

Presentation slides #4 and #5 assert that Initiative 1100 would cause a "$145 million potential revenue [loss annually]" to state and local governments from the repeal of the state's mark-up. This number is derived from a purported "$75 million" distribution from the mark-up to the state general fund in FY 2010 along with a purported "$47 million" distribution to local governments, and the need for a "$23 [million] potential General Fund allocation" to pay for LCB expenses. This is a grotesque exaggeration. A more realistic estimate of the expected annual distributions from the mark-up, if the state stores remained in operation, would be $29 million to the state general fund and $29 million divided among all cities and counties. It is false to claim that a $23 million general fund allocation would be needed if I-1100 passed. As noted above, the LCB's non-merchandising expenses are entirely funded from the Wine Tax and licensing fees and penalties.

First, the premise that these figures represent the actual distributions and expenditures in FY 2010 is false, and refuted by the LCB's own financial statements for both FY 2009 (Exhibit G) and for FY 2010, which were provided by the LCB in response to a public records request (the latter are attached as Exhibit H).

According to the FY 2010 Operating Statement, the total surplus mark-up is derived to be approximately $95 million (in round numbers subtract "Other Expense Attributable to Merchandising Function" [$29.0 million] from "Net Profit on Sales" [$124.0 million]). This amount corresponds to a large portion of the "Excess Funds" row in the FY 2010 Distributions. (A breakdown of Excess Funds is not provided for FY 2010, but is shown in the FY 2009 statements, and includes approximately $5 million from beer taxes. It can also be inferred that it includes $2 - $3 million from license fees). The total Excess Funds distributed in FY 2010 was $58.2 million to the state general fund and $42.2 million to local governments. The share of these distributions attributable to surplus mark-up cannot exceed these amounts. Therefore it is clear that the "$75 million" and "$47 million" figures are a gross exaggeration. Also as noted above, LCB expenses exclusive of merchandising amount to approximately $18 million, not $23 million. This amount is provided by the Wine Tax and licensing fees and penalties. The total share of the mark-up distributed in FY 2010 was approximately $95 million, not $145 million per Garza.

Second, the FY 2010 mark-up is imposed at a considerably higher rate than it would be in FY 2012, when under I-1100 private sector stores would first be licensed to sell spirits. The FY 2010 mark-up is the result of a temporary increase imposed by the LCB for FYs 2010 and 2011. It is prejudicial that the presentation slides fail to mention this and that Garza did not mention this in his talk until I questioned him from the audience. (Exchange starting at 24:17). A more realistic estimate of the foregone surplus mark-up starting in FY 2012 would be based on the surplus mark-up from FY 2009. Garza falsely asserted that this amount was approximately $115 million. This is double the true number, a prejudicial exaggeration. From the FY 2009 Operating Statement we can derive the surplus mark-up to be approximately $58 million (in round numbers subtract "Other Expense Attributable to Merchandising Function" [$32.8 million] from "Net Profit on Sales" [$90.9 million]). This $58 million would be distributed roughly 50-50 between state and local governments, or $29 million to the state general fund, and $29 million divided among all cities and counties – dramatically lower than Garza's exaggerated claims of "$75 million" and "$47 million".

Third, it is prejudicial to characterize the foregone surplus mark-up as a "loss". For all intents and purposes, the surplus mark-up is a de facto excise tax on liquor – it results from a deliberate choice by policymakers to increase the price of the product in order to produce additional revenue for other government programs. The only difference between the excise tax and the surplus mark-up is that the excise tax is levied by statute, while the mark-up is a non-statutory imposition by the appointed members of the LCB. If I-1100 passes and liquor is sold in private sector stores instead of state stores, the foregone state store surplus is not "lost revenue". If state policymakers concur that the total revenue that must be collected from liquor purchases shall continue to be the total of the current statutory and de-facto excise taxes, the Legislature would amend the excise tax statute to incorporate into the statutory tax what has been the de-facto portion. There is nothing in I-1100 which repeals the Legislature's current authority to amend the excise tax by a simple majority vote. All that is "lost" is the ability of state officials to continue to label a de-facto excise tax as a "profit" on product sales, instead of as an excise tax. Characterizing the foregone mark-up as a "loss" is not an objective factual statement, but a matter of opinion. It is equally valid to explain a potential reduction in the total effective excise tax on liquor not as a direct and predictable result of I-1100, but as a decision by the Legislature not to enshrine all of the current effective excise tax into the statute.

5. **Garza overstated the effectiveness of state liquor stores at preventing alcohol sales to minors, while understating the compliance rate in private sector stores. This biased comparison serves only to prejudice the audience to favor preservation of the status quo and opposition to the privatization initiatives.**

Page 7 of the slides claims that "The LCB 12 month rolling no ‐ sales ‐ to ‐ minors compliance rate is 94 percent". In the quote beginning at 31:29 Garza claims that:

> we have probably the highest no-sales-to-minors compliance rates in our state liquor and contract stores … The compliance rate in the typical grocery store is somewhere between 76 and 84 percent.

LCB documents which describe the process for creating the reported compliance rates reveal that it is not a valid methodology for fair and unbiased inference of the true compliance rate in retail stores. The underlying numbers include compliance checks not only in stores, but also in bars and restaurants; the numbers include compliance checks for law enforcement purposes in locations specifically suspected of non-compliance; the method for random sampling of other licensees for compliance checking does not take into account differences between stores in terms of sales volume or presumed rate of attempted minor purchases. All of those factors would necessarily understate the true effectiveness of private retail stores at preventing minors from purchasing alcohol.

Garza also claimed:

> One of the questions I got asked the last time was 'In Costco and Wal-Mart and some of the large grocery stores what is their compliance rate?' And I said it's typically a little higher than that 76 percent or around 84. I mean Safeway, Top Foods, the large chains and Wal-Mart and Costco do a lot better job of making sure that minors don't have access.

I obtained and personally performed extensive analysis of the LCB's records of all compliance checks from January 2007 – June 2010, with data on over 10,000 checks. The LCB's own data show that the state and contract store system had a compliance rate of 93.7%. Safeway and Wal-Mart's compliance rates were negligibly higher than the state and contract stores, 94.0% and 93.75% respectively. Haggen, Inc., which operates Top Food & Drug and other stores, has a compliance rate of 90%. Costco has not been checked enough times to reach any valid conclusions.

6. **Garza prejudicially misrepresented the purported benefits of the state liquor monopoly on reducing alcohol consumption.**

Page 7 of the presentation slides asserts that "Consumption is between 5 ‑ 20 percent less in control states with limited access (like Washington) compared to open states (like California)." In fact, a review of National Institutes of Health data on state-by-state per capita alcohol consumption[1] reveals that this claim is misleading. The NIH data show that Washington's consumption of spirits has been nearly equal to the national average for the past four decades, while consumption of all forms of alcohol has been slightly higher than the national average. In the most recent year for which data is available, Washington's per-captia consumption of both spirits and total alcohol is higher than those of both California and the national average.

7. **Garza prejudicially claimed that Washington's high liquor prices are not attributable to the state's operation of the liquor stores.**

In the quote that starts at 5:46, Garza stated that

> There's a real misunderstanding, almost what I'd even call a myth, and I'll try to bust those myths today, that because the state is in the business is why our liquor prices are higher. Just remember this, we have the highest spirit taxes in the country.

It is absurd to claim both that the mark-up, which is obviously added to the price of the merchandise, produces tens of millions of dollars a year for government programs, while also claiming that it does not cause liquor prices to be higher. Such an illogical statement could only be made in an attempt to argue, in opposition to the initiatives, i.e. that the current system should be preserved as an efficient way to produce revenue for government without raising product prices. Alternatively, this statement could be an attempt to persuade consumers that privatizing sales would not result in lower prices.

[1] http://www.niaaa.nih.gov/Resources/DatabaseResources/QuickFacts/AlcoholSales/consum03.htm

8. **Garza made false and prejudicial statements about the funders of the Initiative 1100 campaign.**

   Garza stated in the quote starting at 19:00: "The folks that are funding 1100 are Wal-Mart and Costco, the large national grocery chains called the Northwest Grocery Association. And the Restaurant Association which obviously represents large national restaurant chains…". According to the Public Disclosure Commission's latest report on donations to the pro-1100 Modernize Washington campaign committee (Attached as Exhibit I), Costco is indeed listed as a donor, as is Safeway. There are also at least three small grocery stores and/or owners listed as donors to Modernize Washington. Wal-Mart is not listed as a donor.

   The PDC report does not list the Washington Restaurant Association or any "large national restaurant chains" as donors to Initiative 1100. The WRA has endorsed Initiative 1100, but I have not found any press reports or announcements by the WRA referring to support by any "large national restaurant chains". The WRA website does announce that three Seattle restaurateurs and WRA members – Tom Douglas, Chad MacKay and Pete Hanning – authored a guest editorial explaining their support for Initiative 1100 (Attached as Exhibit J). It is not correct to characterize these local business owners and their restaurants as part of a "large national restaurant chain".

9. **Garza prejudicially represented opponents' arguments against Initiative 1100 as factual and worthy of consideration, while making unfounded speculative claims against proponents' statements for the initiative.**

   In the quote starting at 11:03, Garza dismissed proponents' claims of job creation in the private sector, asserting as "a reasonable, logical assumption" that Costco is "not looking to hire more people because it's privatized". It is implausible that Garza has any knowledge of Costco's business or hiring plans, nor of any other company's business and hiring plans for selling spirits in the event that I-1100 passes. His statement was merely rhetorical speculation for the purpose of opposing the initiative.

   In his next statement, Garza repeated as a legitimate concern the statements of an Initiative 1100 opponent, a contract store operator who believes she would not be able to compete against the Wal-Mart in her community and would likely go out of business within a few months. This claim is reinforced on p. 2 of the slides: "Over 155 small businesses (contract liquor stores) impacted". Obviously, there are thousands of grocery stores and specialty stores in the state that remain in business and manage to compete successfully for customers, even though some larger stores sell similar products at lower prices. Garza's assertion that all 155 contract stores would be impacted (with a negative implication), is mere pessimistic speculation for the purpose of opposing the initiative.

10. **Garza prejudicially asserted that in weighing arguments for or against the initiative, the interests and opinions of some persons (namely initiative opponents) are more worthy of consideration than the interests and opinions of other persons.**

    In the extended quote that begins at 13:42, Garza says:

    > I, as the customer, the person who purchases spirits is going to get it cheaper and it's going to be more convenient. And that's really the number one question that I get with respect to these particular restrictions.

> What I often say is, it's really not the citizens you should be asking. You should be asking the three tiers, the producer, the distributor and the retailer why these regulations are important.

It is not a factual statement, but a political value judgment to suggest that the perspectives of business interests are more valid than the consumers' perspective.

Later in the same quote and into the quote that begins at 19:00, Garza argues against Initiative 1100's repeal of the bans on volume discounts and credit on the grounds that those restrictions benefit some retailers and producers, dismissing the interests of other market participants who would otherwise choose to voluntarily incorporate discounts and credit into a business arrangement. In the exchange beginning at 21:13, Garza implies that some larger wineries' desire to prohibit volume discounts overrides the smaller winery's desire to offer volume discounts.

11. **Garza made statements indicating that this particular presentation is not an isolated incident, but part of an ongoing campaign against Initiatives 1100 and 1105.**

    In the quote at 3:16: "I've been traveling around and trying to share as much information about the summary and impact of the initiatives"

    In the quote beginning at 13:42 : "What I often say is, it's really not the citizens you should be asking …"

    In the quote at 19:00 "What I always say when people ask why would they want to do this? I always say 'follow the money'…"

12. **Some of Garza's false statements are echoed in statements by the official opposition campaign, suggesting that Garza and the LCB might be the source of some of the opposition campaign's false claims, or vice versa.**

    See for example, the opposition statement in the General Election Voter's Guide (Attached as Exhibit K). Specific quotes:
    "Initiative 1100 completely deregulates sales and enforcement of hard liquor, beer and wine"
    "I-1100 threatens public safety, wiping out alcohol regulation, including enforcement,"
    "Washington currently ranks #1 in keeping hard liquor out of the hands of minors, but private outlets like mini-marts are 400% more likely to sell liquor to minors, according to Liquor Control Board data."
    "State sales generate over $350 million annually … 1100 will wipe out much of that revenue,"
    "1100 makes it harder for Washington's small businesses to compete. Big out-of-state corporations will be given an unfair competitive advantage"
    "It wipes out enforcement funding"

From: Washington Wine Institute [mailto:Info@WashingtonWineInstitute.org]
Sent: Friday, August 06, 2010 9:55 AM
To: XXXXX
Subject: Please RSVP - Info Sessions - I-1100 and What is a Winery?

Please RSVP for Information Session on:
(no RSVP required)

Initiative 1100 - How It Will Impact Your Winery
&
What is a winery? - Discussion on coming changes to winery licensing

Featured Speakers Include:

WA Wine Institute's Jean Leonard
LCB Deputy Director Rick Garza
WA Brewer's Guild President Heather McClung
Two dates/locations to choose from:
August 23rd at 1:30 pm, Columbia Winery, Woodinville-or-August 24th at 9:30 am, Thurston Wolfe Winery, Prosser

Click HERE to RSVP for the information session at Columbia Winery in Woodinville on the 23rd at 1:30 pm.
-or-
Click HERE to RSVP for the information session at Thurston Wolfe Winery in Prosser on the 24th at 9:30 am.

Please note - an RSVP is not required for attendance, but it does help to plan the event. Thank you!
Marty Clubb, L'Ecole No. 41 • Shylah Alfonso, Pomum Cellars • Jeff Sully, 428 Wines • Ann Anderson, Walter Dacon Winery • Don Corson, Camaraderie Cellars • Tim Hightower, Hightower Cellars & Ascentia • Kari Leitch, Ste. Michelle Wine Estates • Rob Newsom, Boudreaux Cellars • Becky Yeaman, Thurston Wolfe

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13K

EXHIBIT A

washington
wine institute
1501 Capitol Way South, Ste 204B• Olympia, Washington 98501
Phone (360) 352-1557 • Fax (360) 352-1577

VOTE NO ON INITIATIVE 1100!

Initiative 1100 would radically change the way wineries do business in Washington State

Initiative 1100 would go much further than just privatizing the sale of spirits. I-1100 would repeal all of Washington's current wine and beer distribution laws. While not perfect, our laws have fostered the growth of our $4 billion industry and enabled small wineries to compete on a level playing field with the largest in our State. I-1100 would eliminate key protections for small wineries and would usher in a "pay to play" system that puts the very heart and soul of our State's industry – the small family winery – in jeopardy. When small wineries fail, our industry loses and so do consumers who have come to love the choices our vibrant industry now offers. Every other state in the country recognizes that some reasonable economic regulation of the alcohol industry makes sense.

Cash on Delivery Eliminated

- Retailers no longer would be required to pay for wine at delivery.
- Would create bad debt and collection problems for wineries that do not exist under current law.
- Would exacerbate already existing cash flow problems for wineries.

"Pay to Play" Permitted

- Retailers would be able to demand that wineries pay for advertising and promotional costs, including consumer giveaways, sales incentives, underwriting of advertising, promotional material giveaways, exclusive marketing and menu printing.
- Retailers likely would require wineries pay for shelving space and/or placement.

Quantity Discounts Permitted

- Retailers likely would demand discounts and wineries may be priced out of certain markets.

EXHIBIT B

Partial Transcript of Rick Garza's Presentation on Impact of Initiatives 1100 and 1105 at Columbia Winery, August 23, 2010

Following introductions, Garza's remarks begin at 3 min. 10 sec. into the recording. The following are selected quotes, noted by the time in minutes:seconds from the beginning of the recording.

03:16 Garza: "I've been traveling around and trying to share as much information about the summary and impact of the initiatives"

05:46 Garza: "There's a real misunderstanding, almost what I'd even call a myth, and I'll try to bust those myths today, that because the state is in the business is why our liquor prices are higher. Just remember this, we have the highest spirit taxes in the country. California has the fourth lowest spirit taxes in the country, which has a lot to do why you see the discrepancy in price between Washington and California.

10:18 Garza, showing page 2 of his presentation: "I'll speak on both sides of this, because as a state employee, someone who works for the Liquor Board, I can't take a position for or against the initiatives. But I will tell you that some of the discussion that you'll read, even in the Preamble with respect to Modernize Washington in the discussion about how enforcement resources, or that the Liquor Board will now be able to direct its resources toward enforcement and licensing rather than having to do this retail function. One of the things I will tell you about removing the mark-up in both initiatives. That takes away the total funding of the Liquor Board, including licensing and enforcement. So with these initiatives we lose our licensing and enforcement ability."

11:03 Garza: "Obviously almost a thousand jobs and 155 small businesses, contract liquor stores, will be impacted. One of the things that you'll hear that I'll speak to very quickly is job elimination. I just read something that said you're going to create a lot of private sector jobs by moving toward a private system. The analysis that OFM did that the Governor's office has to do for all initiatives would say basically what we assume is that there would be 5,200 stores in the state that sell beer and wine now. That's large grocery stores like Costco to the small convenience stores. OFM, even the Auditor assumed that by 3,300, 70% of those who sell beer and wine would choose to sell spirits today if they could. And so, I want to share with you, we'd assume and maybe some of you can help with this, and I think it's just a reasonable, logical assumption is that I'm not sure that Costco or Safeway, or even a convenience store are going to be hiring more people to sell spirits. What they're likely to do is what they do in other states, which is they're going to remove some of their wine, they're going to remove some of their beer and they're going to make shelf space for spirits. That only makes sense they would do that, if they're going to make some money on this they're not going to make any money by hiring more people into the store to sell spirits. I suspect from the discussions that we've had with small convenience stores and even folks like Costco. They're not looking to hire more people because it's privatized. They're looking to clearing shelf space to put spirits there.

Also, contract liquor stores we talked about earlier in the legislative discussion in the debate over privatization. Many of them were concerned that they would not be able to compete, especially under 1100. We'll talk about that in a minute, won't be able to compete with folks like Wal-Mart and Costco when it comes to spirits. We'll talk about the pricing regulations that are removed under 1100. Theresa Hancock, who happens to be the past president of the

EXHIBIT D

Contract Liquor Store association who's in Sunnyside, Washington debated or spoke to the committees in the House and Senate and said 'if you allow Wal-Mart, which is in Sunnyside, to sell spirits without any pricing regulation or restrictions, there's no way I can compete with Wal-Mart. If they have the ability to buy directly from the supplier, they will do that with a volume discount. I'll probably be in the business five or six months, because I wouldn't be able to compete with Wal-Mart.'

So I'm sharing that information with you so you know why I put these pieces in here about job elimination and small business impact."

13:42 Garza: "Probably the more interesting thing that 1100 does that folks have not talked about, but maybe lately in the last month is, what it does, not with respect to privatizing the sale of liquor, but what it does with respect to deregulation of alcohol. When I look at these specific things that are mentioned below in this slide, in February of 2004 Costco sued the State of Washington. You might be aware of that. They basically took the state and the liquor board to federal court with respect to Commerce Clause violations they thought in federal law and basically said that these restrictions that we have with respect to price on alcohol are unconstitutional. In the end after about four years of that case, the appellate court overturned the district court and ruled in favor of the state and none of these restrictions went away.

Two years ago Costco and the large retailers went to the Legislature to try and remove these restrictions. They weren't successful. Probably the number one question, I just got it on Friday in discussions with a reporter from the Seattle Times and an AP reporter, what in the world is all this about? I thought this was about privatizing the sale of liquor. What does this deregulation of alcohol, both tied house, Three Tier and pricing regulations have to do with anything. It's the biggest question that I get and I know Jean and Heather get, which is "Who cares?" Why do we care whether Costco buys directly from the supplier? Doesn't that mean at the end of the day that I, as the customer, the person who purchases spirits is going to get it cheaper and it's going to be more convenient. And that's really the number one question that I get with respect to these particular restrictions.

What I often say is, it's really not the citizens you should be asking. You should be asking the three tiers, the producer, the distributor and the retailer why these regulations are important. And in fact, two years ago when Costco and Wal-Mart and the large retailers went to the Legislature, they chose not to open these up. So I think part of the discussion that Jean's going to have with you in a few minutes is "why are these here?" And I think the way that I try to explain this to folks that I talk to is that it goes back to pre-Prohibition, which you can imagine how interesting that is for folks. But the whole idea, and again, one thing I would share with you. There seems to be a lot of talk about how it's less restrictive in California. I can give you great examples in the last ten years of what we've done with respect to wineries specifically to provide exceptions from tied-house and three-tier and many of the regulations indeed where wineries today can be all three tiers. You can self-distribute, you can retail, you can also have retail locations up near your winery locations. So we have made, we've done the same thing for microbreweries, for in-state breweries. So we've made a lot of changes over the years.

But I would tell you this is probably the most common sense. They weren't successful in the law suit, they weren't successful with the Legislature, so they've now come with an initiative that gives them the ability that they wanted to do through the court case, which is really uniform pricing. And what's the whole thought around that as you know, if you're a producer or a distributor and you sell to a retailer or a distributor you must sell at the same price whether that's a Costco, Wal-Mart or whether that's a small mom and pop. The whole idea was to create in essence a level playing field as much as possible, I would say, because I don't know you folks are in the business perhaps you can tell me how level that is. But when Chateau St. Michelle or one of the wineries in our state cannot give a volume discount to one of the large retailers it's because there are restrictions in quantity discounts, there are restrictions that require uniform pricing. As you know for producers and distributors there is no ability to get terms of credit. We have a ban on credit, central warehousing by retailers. If you're Costco or Wal-Mart. That's how it works for them. They buy in quantity discounts they bring it to their warehouses. They distribute to their stores. So the restrictions on central warehousing are problematic to the largest of retailers.

And then of course if you're Costco, it's the retail-retail sales. Remember that they're a wholesaler. Many retailers come into Costco for everything else other than beer and wine and purchase from Costco. And then as you all know there are restrictions under financial interest and ownership that go way back to Prohibition and the 21st Amendment that don't allow some financial interest. Now we did a bill in 2008 that allows, kind of opened that up. Again, the only state in the union that has opened up financial interest. That now, if I'm a winery I can, if my spouse decides that she would like to open a restaurant that isn't connected to the winery. If you set up a separate business entity you can now have a financial interest between the tiers. I'm not aware of any other state that allows that in the country.

19:00 Garza: "But really, this is the essence and what I always say when people ask why would they want to do this? I always say "follow the money". Who are the folks that are funding 1100? The folks that are funding 1100 are Wal-Mart and Costco, the large national grocery chains called the Northwest Grocery Association. And the Restaurant Association which obviously represents large national restaurant chains, who of course, with removing all of these restrictions would have the ability to buy in volume discounts and have the retail-to-retail sales and set up terms of credit.

I will tell you that in other states, whether they're control or open states, we have one of the more restrictive with respect to the pricing regulations. Some of the states allow quantity discounts as you know as long as anyone can buy in that quantity. It can't be given to one specific retailer. And there are some states that allow credit terms for 30, 60, 90 days when the purchase. But I can tell you when the Legislature looked at this and all of you were there, with breweries and distributors and other retailers, smaller retailers, there was concern about changing this. And the example that I often use, if a winery has to give or is forced to give a volume discount to a retailer, one of its larger accounts, let's say it's Costco or Wal-Mart, in open states or control states where quantity discounts are allowed, where does it come from. Do you think the winery wants to lose by having to give that quantity discount? Normally what happens is that middle and smaller grocers will pay the cost, will pay for that because someone has to get paid when that quantity discount is provided. So unless I'm missing something here, in most of the open and control states that allow quantity discounts, medium and small retailers pay more than the larger retailers".

21:12 Comment from audience member John Bell: "I would say that argument probably applies if you view wine as a commodity. Wine is not a commodity, especially for the small producers.

There's no way I'm going to sell a volume discount to Costco anything that I would sell to another retailer, because I would totally piss off my retailers. So if I do sell to Costco at a discount it's going to be a wine that I don't sell to anyone else. So that argument doesn't apply. I want to keep my retailers whole, but I still want to sell wine to Costco."

Garza: "Well that's kind of a personal decision I guess that you would make as an owner of a winery whether you want to provide a discount or not. You're a smaller winery. I would suggest that maybe some of the larger wineries won't have that ability. Because right now what they can do is they can tell Costco or Wal-Mart, I can't give you a volume discount, which means 'I don't have to give it'. So you might be right John, maybe that's a decision that would work for you."

John: "94% of the wineries in Washington are small. They produce 6% of the wine. They're small."

Garza: "So maybe that would work for you, John"

22:25 Garza, referring to slide #4 "Take a look at how much revenue is collected in taxes and mark-up through the sale of spirits. It has a lot to do with some of the decisions that were made in the initiative to remove either the taxes or mark-up. So there's $234 million in taxes for the retail and liter of spirits were collected. The actual mark-up produces $250 million. $127 million funds the liquor board operations and then $75 million goes to the state general fund. $47 million to cities and counties. So we actually generate about $365 million returned to state and local government out of about just over $850 million in sales a year.

23:12 Garza: "Under 1100 the taxes are maintained but the mark-up is repealed. So the potential loss that shows up in the fiscal impacts that were done by the Governor's office shows $75 million lost to the general fund, $47 million lost to cities, counties and border areas. When you take out the licensing and enforcement that was removed by the mark-up, you've got to find $23 million in the general fund to pay the expenses for licensing and enforcement so when you total that it's about $145 million potential loss to state and counties through the elimination of the mark-up.

I think most people assume the mark-up is there just to pay for the operations of the liquor control board when in fact it funds about 52% of the what the mark-ups producing right now is the $127 million. There's actually $122 million in sheer profits that are being distributed to state and local governments. And because of the elimination of the mark-up, that revenue is lost.

24:17 Sharkansky: "Rick, I have a question. This year we have a temporary two year increase in the mark-up that was instituted in August 1 of last year through June of 2012 [sic, should be 2011]. How much of the mark-up was what you call the profit that was distributed to state and local government, just from the mark-up on sales in 2009 before the temporary mark-up went into effect?"

Garza: "So the temporary mark-up was to produce $60 million over two years, so we would back out about $30 million a year out of that total 75 and 47, so a portion of it is due to the increase in the mark-up."

Sharkansky: "What was that number in 2009, do you recall?"

Garza: "Well it would be $30 million less than this amount that's here. Because that's what we're generating more through the increase in the mark-up. It's $30 million a year, which is $60 million for the biennium. So you're right. You would back out that $30 million out of this fiscal impact here for 2010."

Sharkansky: "So you're saying that in 2009 it was about $115 million?"

Garza: "That's correct. That sounds right."

Sharkansky: "Just from the sales, not from other revenue sources?"

Garza: "That's right. That's right."

26:58 Garza, referring to p. 6 of his slides: "You see that the local government hit is larger than it is for the state general fund. The state general fund gets most of its money from the taxes, and the taxes are not repealed in 1100. Local governments, interesting enough, get most of their money, cities and counties, from the mark-up, which is repealed. So that's why you have such a difference there."

31:29 "I share with you information about consumption which is going to be discussed in the next couple of months. Also we have probably the highest no-sales-to-minors compliance rates in our state liquor and contract stores because we do enforcement in our stores twice a year, because we have fewer stores. The compliance rate in the typical grocery store is somewhere between 76 and 84 percent. One of the questions I got asked the last time was 'In Costco and Wal-Mart and some of the large grocery stores what is their compliance rate?' And I said it's typically a little higher than that 76 percent or around 84. I mean Safeway, Top Foods, the large chains and Wal-Mart and Costco do a lot better job of making sure that minors don't have access. But the reality is of the 5,200 grocery stores in the state, 4,000 of them are convenience stores. They're small mom and pop convenience stores. Those are the ones that tend to have the lower compliance rate."

32:42 "One thing to keep in mind around 1100 is 1100 really has to deal with both, really all three of them, beer, wine and spirits. 1105 simply privatizes the liquor and also has one change in the pricing regulations, but for the most part we're just talking about the distribution of spirits given to the private sector.

36:11 "The reason [liquor] is more expensive [in Washington than in California] is not just because the liquor board is in here. But remember this thing has been difficult is … the proponents talk about how this is going to save money for the state. But when you eliminated that mark-up you eliminated the money that was being produced that could have been your savings. Now in other words, the $105 million that it cost for the board to run the business enterprise, could have been savings for the state if you hadn't removed the mark-up. But by removing it we don't get to save that money. So I kind of wanted you to see what that looks like if you took the California bottle. Again California has the fourth lowest spirit tax in the country and you applied that, the prices would be pretty similar, even though you have examples. And something that I read just Saturday out of a Times article, they said there's a bottle of vodka in Stockton that cost $22 and in Washington $44. That's probably correct. It's probably at the Costco that it's being sold at where you get probably your best price. And I'm telling you most of that is due to the fact that there's no mark-up in California, other than a small one that the retailer puts in and you've got a state tax that's a lot smaller, I think that the state liter tax in California is about $1.60, compared to $5.06 in Washington. So that really drives the cost of liquor.

46:02 Audience member asked Garza what growth in sales after privatization would it take to increase tax receipts so that the increased taxes would replace lost revenue from mark-up. Garza replied @46:45: "… I'd be really guessing but I'd be thinking you'd have to increase sales about 20-25% in order to get yourself neutral and that may even be a little low … When you think about an $850 million business and it drives $365 million in revenue there aren't a lot of examples of that anywhere, especially when we're the highest taxes in the country for spirits. Someone else asked that question, I think it would be over 30% to make up all that revenue."

47:30 Jean Leonard: "We thought it would be really valuable to have the Liquor Board present how the initiatives differed from each other and what changes would be made in state law if either or both of them passed."

Washington State
Liquor Control Board

Initiative 1100: Summary & Impact

Rick Garza Deputy Administrative Director

EXHIBIT E

Impact:

– **Terminates State Distribution and Retail of Spirits by December 2011**

Initiative 1100 directs the Liquor Control Board (LCB) to implement plan to terminate the system of state liquor stores and liquor distribution and dispose of assets.

- LCB policy, enforcement and licensing functions remain (unfunded)
- Creates general licenses for retail and distribution
- Over 930 state employee jobs eliminated
- Over 155 small businesses(contract liquor stores) impacted

EXHIBIT E

Washington State
Liquor Control Board

Impact: Deregulation of Alcohol

– **Repeals pricing restrictions on alcohol beverage industry**

Initiative 1100 deregulates alcohol and treats it like any other product. It repeals traditional three-tier system, tied-house restrictions and price controls on spirits, beer and wine.

Initiative 1100 allows pricing practices that are currently prohibited such as:

➢**Uniform pricing**	➢**Retail-to-retail sales**
➢**Quantity discounts**	➢**No restrictions on financial ownership or interest**
➢**Purchases on credit**	
➢**Central warehousing by retailers**	➢**No restrictions on distribution**

EXHIBIT E

FY 2010 Taxes (Retail & Liter)

- $211,277,814 million General Fund State
- $<u>23,490,679 million Cities & Counties</u>
- $234,768,493

FY 2010 Markup Allocation Projection

- $127.9 million - Total LCB Operating Expenses
  - ($105.2 million total Business Enterprise costs)
- $75 million General Fund
- <u>$47 million Cities and Counties</u>
- $250,770,536 million, estimated markup generated in FY 2010

FY 2010 State Taxes & Markup from Liquor Sales
(includes taxes & markup)

- $365,930,618 million, total return to state and local government from liquor sales

EXHIBIT E

Impact: Decrease in Revenue to State & Local Government

– Eliminates Markup - Maintains Taxes

Initiative 1100 repeals the state markup.

- $75 potential annual loss to General Fund
- $47 potential annual loss to cities, counties and border areas
- $23 potential General Fund allocation to pay LCB expenses now paid for by the markup

$145 million potential revenue lost to state, counties, cities and border areas**

EXHIBIT E

Office of Financial Management (OFM)

- **Fiscal Impacts of Initiative 1100 – Loss of Mark-Up**
  - State Revenue decrease an estimated

    $76-$85 million
  - Local Government revenue decrease an estimated

    $180-$192 million

Total Loss $256-277 million

Over 5 years.

- **Fiscal Impacts of Initiative 1105 – Loss of Mark-Up and Taxes**
  - State Revenue decrease an estimated

    $486-$520 million
  - Local Government revenue decrease an estimated

    $205-$210 million

Total Loss $691- $730 million

Over 5 years.

EXHIBIT E

Impact: Availability and Consumption

– Increase in Retail Outlets Selling Spirits (Density)

Outlets per capita increases from among lowest to the nation's highest. (age 21 & older)

- 315 outlets to 3300-5500 outlets.
- Washington liquor store current density is 6 / 100,000.
- California liquor store density is 44 outlets / 100,000.
- Current beer and wine grocery store density: 113 / 100,000.

Increase in Consumption

Studies show that increased outlets equates to additional consumption.

Consumption is between 5-20 percent less in control states with limited access (like Washington) compared to open states (like California).

Impact on Sales to Minors

The State's no-sales-to-minors compliance rate is significantly better than the private sector.

The LCB 12 month rolling no-sales-to-minors compliance rate is 94 percent.

The private sector compliance rate is 76-84 percent.

EXHIBIT E

Initiative 1105:
Summary & Impact

EXHIBIT E

Impact:

– **Terminates State Distribution and Retail of Spirits by April 01, 2012.**

Initiative 1105 directs the Liquor Control Board (LCB) to implement a plan to terminate the system of state liquor stores and liquor distribution and dispose of assets.

- LCB policy, enforcement and licensing functions remain (unfunded)
- Creates general licenses for retail and distribution
- Over 930 state employee jobs eliminated
- Over 155 small businesses impacted

EXHIBIT E

Impact: Liquor License Annual Fees & Gross Sales Fee

Spirits distributor license:

•This license allows distributors to sell spirits to any person holding a license to sell spirits beginning October 1, 2011. $2000.00

Gross sales fee:

•Each licensee obtaining a spirits distributor license must agree to pay an amount equivalent to 1 percent of the licensee's gross annual spirits sales for a five-year period beginning on the date of the licensee's first sale of spirits.

•LCB to establish rules setting the frequency and timing of the payments and reporting of sales volume by the licensees.

EXHIBIT E

Impact: Liquor License Annual Fees & Gross Sales Fee (Cont.)

Spirits retailer license :

•This license allows retailers to sell spirits for off-premises consumption beginning November 1, 2011. $1000.00

Gross sales fee:

•Each licensee obtaining a spirits retailer license must agree to pay an amount equivalent to 6 percent of the licensee’s gross annual spirits sales for a five-year period beginning on the date of the licensee’s first sale of spirits.

•LCB to establish rules setting the frequency and timing of the payments and reporting of sales volume by the licensees.

EXHIBIT E

Impact: Uniform Pricing & Quantity Discounts

- Uniform pricing is required for spirits, beer, and wine.
- Quantity discounts are allowed for spirits only.

EXHIBIT E

Impact: Repeal of Taxes & Mark-Up

The initiative directs the LCB to recommend a per-liter rate of taxation to be paid by spirits distributors on all spirits sold to spirits distributors within the state. The LCB must consider other spirits-related revenue such as:

- Anticipated B & O tax generated by spirits retail and distribution;
- Proceeds from gross sales fees by spirits retailer and spirits distributor licenses; and
- Annual spirits license fees.
- Liquor taxes and markup are repealed effective April 1, 2012.

FY 2010 Taxes (Retail & Liter)

- $211,277,814 million General Fund State
- $<u>23,490,679 million Cities & Counties</u>
- $234,768,493

FY 2010 Markup Allocation Projection

- $127.9 million - Total LCB Operating Expenses
    - ($105.2 million total Business Enterprise costs)
- $75 million General Fund
- <u>$47 million Cities and Counties</u>
- $250,770,536 million, estimated markup generated in FY 2010

FY 2010 State Taxes & Markup from Liquor Sales

(includes taxes & markup)

- $365,930,618 million, total return to state and local government from liquor sales

EXHIBIT E

DRAFT

CURRENT MODEL

RETAIL

Price at Register: $15.95

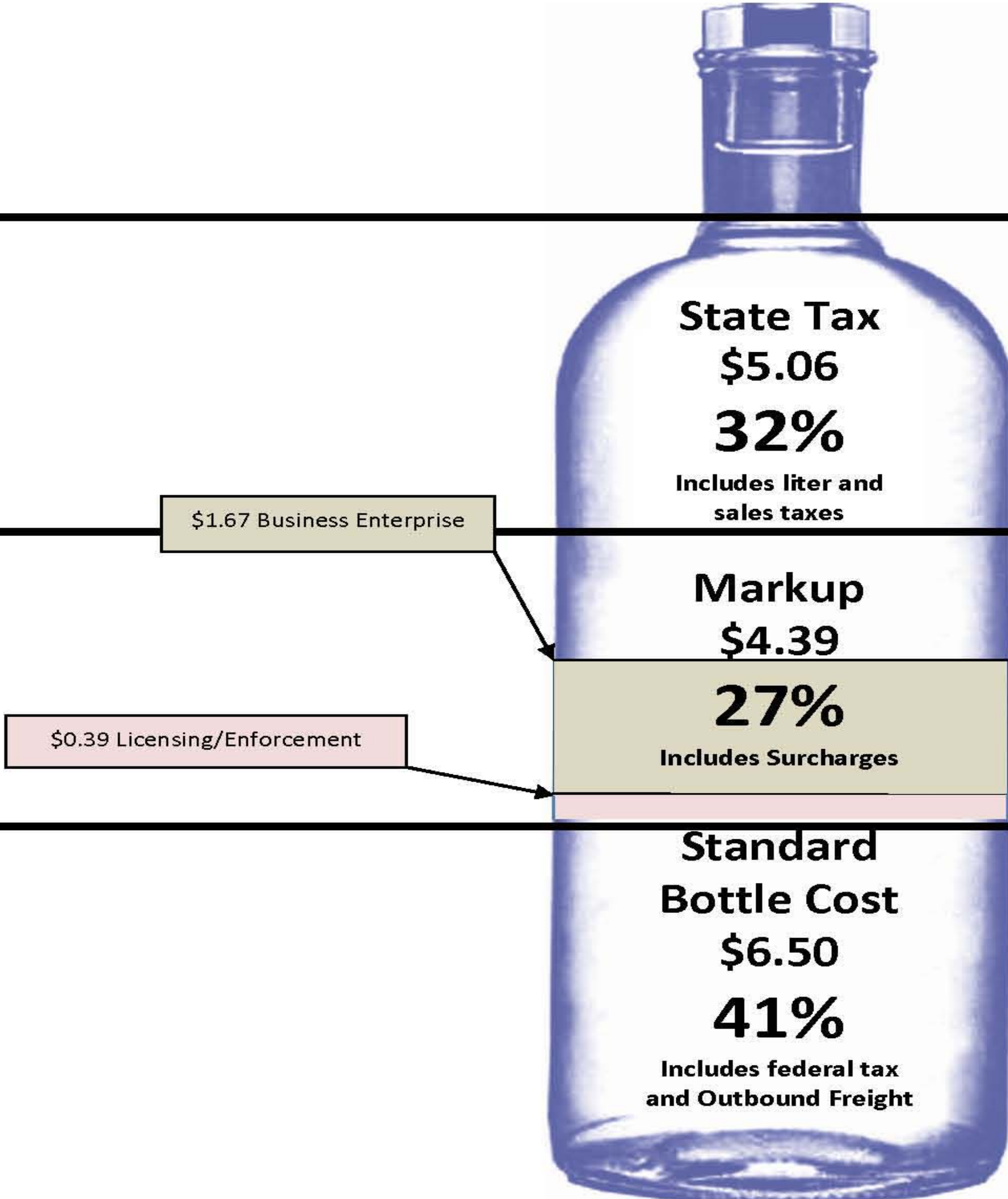

EXHIBIT E

Questions?

EXHIBIT E

WINE TAX
RCW 66.24.210

Tax Base: Wine sold to distributors, to the Liquor Control Board, directly to consumers on the winery premises, and direct shipments to consumers and retailers. Consumers also pay retail sales tax on wine in the original container and on wine consumed on-premises of the seller.

Tax Rate: Table wines: $0.2292 per liter

- $0.2025 per liter (RCW 66.24.210(1));
- $0.0142 per liter (7% surtax, RCW 66.24.210(2));
- $0.0025 per liter (RCW 66.24.210(3); and
- $0.01 per liter (RCW 66.24.210(4)).

Fortified wines: $0.4536 per liter (more than 14% alcohol by volume)

- $0.2025 per liter (RCW 66.24.210(1));
- $0.0142 per liter (7% surtax, RCW 66.24.210(2));
- $0.0025 per liter (RCW 66.24.210(3); and
- $0.2344 per liter (RCW 66.24.210(4)).

Cider: $0.0814 per liter (table wines with alcohol content between 0.5% and 7% by volume made from apples or pears)

- $0.0359 per liter (RCW 66.24.210(1));
- $0.0025 per liter (7% surtax, RCW 66.24.210(2));
- $0.0018 per liter (RCW 66.24.210(4));
- $0.0005 per liter (RCW 66.24.210(3); and
- $0.0407 per liter (RCW 66.24.210(5)).

Levied by: State

Recent Collections ($000)

Fiscal Year	Collections	% Change	% of All State Taxes
2009	$21,736	1.9%	0.1%
2008	21,339	(1.5)	0.1
2007	21,656	10.6	0.1
2006	19,588	11.6	0.1
2005	17,548	0.3	0.1
2004	17,488	2.0	0.1
2003	17,147	11.2	0.1
2002	15,418	1.2	0.1
2001	15,235	0.5	0.1
2000	15,163	(1.5)	0.1

EXHIBIT F

Distribution of Receipts

(1) Basic tax of 20 cents per liter (3.59 cents for cider); receipts go to the liquor revolving fund from which expenses of the Board are first funded and then any excess funds are distributed on a quarterly basis per RCW 66.08.190 as follows:

0.3% to certain border cities and counties for law enforcement costs;

99.7% distributed as follows:

- 50% state general fund;
- 10% all counties on the basis of unincorporated population;
- 40% all cities on the basis of population.

(2) 0.25 cents per liter for all wine; receipts distributed quarterly to Washington State University for wine and grape research per RCW 66.08.180(6);

(3) 1.42 cents per liter (0.25 cents for cider); receipts from the 7 percent surtax go to the state general fund; RCWs 66.24.210(2) and 82.02.030;

(4) 1 cent per liter for table wines, 23.44 cents per liter for fortified wines, and 0.18 cents for cider; receipts go to the state general fund per RCW 66.24.210(4);

(5) 0.25 cents per liter (0.05 cents for cider) goes to the Washington Wine Commission to finance their activities (RCW 66.24.210(3)); and

(6) 4.07 cents per liter for cider; receipts go to the state general fund; RCW 66.24.210(5b).

Administration

Liquor Control Board. Wholesale purchasers of wine report the tax on a monthly basis; the payment is due by the 20th day of the following month.

Exemptions and Refunds

- Exemption for sales to the Armed Forces;
- Exemption for wine shipped in bulk between wineries, RCW 66.24.210(1); and
- Refund for tax paid on wine that is destroyed, RCW 66.24.305.

History

The wine tax was established in 1935, one year after the beer tax. The initial rate was 10 cents per gallon and wine was also subject to the 10 percent liquor sales tax. In 1969 direct importation of wine from other states was allowed (previously wine was only obtainable through the Liquor Control Board). Wine was removed from the 10 and 15 percent liquor sales taxes but subject to a special 26 percent excise tax, in addition to the 10 cent gallonage tax. In 1973 the 26 percent tax was repealed but the 10 cent tax was increased to 75 cents.

In 1981 the tax was converted to the metric basis and the basic rate of 20.25 cents per liter was established. The surtax for the general fund was added in 1982. The additional one-quarter cent tax for the wine commission was established in 1987 and was scheduled to expire in 1993, but in that year it was extended until 2001 and then made permanent. The additional rates of 1 cent and 23.44 cents for funding of drug programs were adopted in 1989. They were scheduled to expire in 1995, but in 1994 the Legislature and the voters made this tax permanent. The separate tax rates for cider wine were established in 1996.

The law was amended in 2006 to allow shipments of wine from wineries directly to retailers or consumers. In 2009, earmarking of a portion of the wine tax receipts for the violence reduction/drug enforcement account and the health services account was discontinued, starting on July 1, 2009.

Discussion/Major Issues

Many wineries have been established in Washington in recent years, and this has been a bright spot in Washington's agricultural economy. Some of the wineries are small, family-operated enterprises.

Washington State
Liquor Control Board

OPERATING STATEMENT
FISCAL YEAR ENDED JUNE 30, 2009

		AMOUNT	% NET SALES
MERCHANDISE FUNCTION			
LIQUOR SALES GROSS	$	848,818,227.00	152.02
LESS: DISCOUNTS		64,316,990.83	11.52
LIQUOR SALES EXCLUDING DISCOUNTS	$	784,501,236.17	140.50
LESS: SALES TAXES		224,868,070.93	40.27
WINE TAX ON PURCHASES		1,269,378.59	0.23
LIQUOR SALES NET	$	558,363,786.65	100.00
LESS: COST OF GOODS SOLD		399,114,331.14	71.48
GROSS PROFIT ON SALES	$	159,249,455.51	28.52
LESS: DIRECT SALES EXPENSE		68,344,131.29	12.24
NET PROFIT ON SALES	$	90,905,324.22	16.28
PLUS--			
REVENUE--			
COMMON CARRIER MARKUP		211,047.17	0.04
MISCELLANEOUS INCOME		2,270,897.78	0.41
NET PROFIT BEFORE OTHER EXPENSE	$	93,387,269.17	16.73
LESS: OTHER EXPENSE APPLICABLE TO MERCHANDISE FUNCTION		32,826,832.56	5.88
NET PROFIT MERCHANDISE FUNCTION	$	60,560,436.61	10.85
LICENSE AND ENFORCEMENT FUNCTION			
REVENUE--			
LICENSE FEES AND PENALTIES	$	11,336,268.13	17.29
BEER TAX AND PENALTIES		32,417,918.47	49.45
WINE TAX AND PENALTIES		21,755,883.36	33.19
MISCELLANEOUS INCOME		41,990.00	0.06
TOTAL REVENUE	$	65,552,059.96	100.00
LESS:			
EXPENSE APPLICABLE TO LICENSE AND ENFORCEMENT FUNCTION		18,556,498.66	
NET REVENUE LICENSE AND ENFORCEMENT FUNCTION	$	46,995,561.30	
NET REVENUE FOR YEAR	$	107,555,997.91	
SALES TAXES		224,868,070.93	
NET REVENUE PLUS SALES TAXES	$	332,424,068.84	

EXHIBIT G

Distribution of Expense - Fiscal Year 2009

	A	B	C	D	E	F	G	H	I	J
2									D2110	d3100
3		Program	A1	A3	A4	G	B	D1100	D2210	d3200
4					HUMAN	INFORMATION			D2400	PRODUCT AND
5				DIRECTOR'S	RESOURCE	TECHNOLOGY	FINANCIAL	PURCHASING	DISTRIBUTION	RETAIL
6		Subobject	BOARD	OFFICE	SERVICES	SERVICES	SERVICES	SERVICES	SERVICES	SERVICES
7	SALARIES	A	274,487.91	972,330.94	860,248.62	3,439,716.11	3,352,054.38	673,847.20	3,438,243.73	611,526.76
8	EMPLOYEE BENEFITS:	B	84,779.62	273,706.71	253,772.95	946,542.97	1,053,679.34	190,948.32	1,313,707.69	192,796.50
9	PERSONAL SERVICE CONTRACTS	C	12,500.00	10,525.00	(7,427.00)	742,927.28	(63,392.88)	-	7,304.08	200.00
10	GOODS AND SERVICES:	E	38,327.26	51,534.16	94,304.05	4,123,672.62	2,446,235.83	33,248.33	3,149,453.84	322,943.61
11	COST OF GOODS SOLD	F	-	-	-	-	-	-	-	-
12	TRAVEL	G	7,653.19	16,911.92	4,915.48	11,485.09	590,147.15	3,334.53	41,211.81	43,651.46
13	CAPITAL OUTLAYS	J	506.38	306.65	328.42	972,442.51	143,809.36	5,928.18	2,616,758.93	462,110.91
14	GRANTS AND BENEFITS	N	65.10	745.50	2,640.00	2,140.00	9,745.35	730.97	6,537.30	1,090.00
15	DEBT SERVICE	P	-	-	-	-	-	-	2,763,880.21	-
16	INTERAGENCY REIMBURSEMENTS	S	-	(9,000.00)	-	-	(432.00)	-	-	(3,873.38)
17	CASH SHORTAGE AND BREAKAGE	**********								
18	TOTAL EXPENSE		**418,319.46**	**1,317,060.88**	**1,208,782.52**	**10,238,926.58**	**7,531,846.53**	**908,037.53**	**13,337,097.59**	**1,630,445.86**
19										
20	**Applicable to:**									
21	**Merchandising**		167,327.78	526,824.35	967,026.02	7,679,194.94	6,025,477.22	908,037.53	13,337,097.59	1,630,445.86
22	**Regulatory /Enforcement**		250,991.68	790,236.53	241,756.50	2,559,731.65	1,506,369.31	-	-	-
23	Merchandising Percent		40%	40%	80%	75%	80%	100%	100%	100%
24	Regulatory /Enforcement Percent		60%	60%	20%	25%	20%	0%	0%	0%
25										
26										
27										
28				**84,955,315.78**	**Direct Retail Purchasing/DC**			84,955,315.78	Retail/Purchasing/DC	
29				**16,215,648.07**	**Indirect Retail Purchasing/DC**			18,556,498.66	Regulatory/Enforcement	
30				**11,224,551.57**	**Direct Regulatory/Enforcement**			16,215,648.07	General	
31				**7,331,947.09**	**Indirect Regulatory/Enforcement**			119,727,462.50		
32				**119,727,462.50**						
33										
34				**4,587.61**	**Military/Tribal**					
35				**119,732,050.11**	**Proof total (proof to Biennium Sheets - Agency total (w/o 85000)**					
36										
37										
38										

EXHIBIT G

Distribution of Expense - Fiscal Year 2009

	A	B	K	L	M	N	O	P	Q
2				d3400					
3		Program	d3300	d4100	d3600	E	F	A5	
4				RETAIL OUTLETS	BUSINESS				
5			RETAIL OUTLETS	CONTRACT	ENTERPRISE		LIQUOR	ATTORNEY	
6		Subobject	STORES & DM'S	STORES	RESOURCES	LICENSING	ENFORCEMENT	GENERAL	
7	SALARIES	A	24,975,174.66	-	540,451.60	1,536,070.63	5,989,774.47	-	46,663,927.01
8	EMPLOYEE BENEFITS:	B	10,633,249.02	-	150,889.92	519,770.26	1,910,275.42	-	17,524,118.72
9	PERSONAL SERVICE CONTRACTS	C	-	-	-	37,230.00	91,637.98	-	831,504.46
10	GOODS AND SERVICES:	E	20,352,134.01	12,134,630.15	28,455.97	103,807.88	997,094.63	2,832,659.18	46,708,501.52
11	COST OF GOODS SOLD	F	-	-	-	-	-	-	-
12	TRAVEL	G	100,094.97	166.10	7,687.85	2,254.90	180,982.55	-	1,010,497.00
13	CAPITAL OUTLAYS	J	62,019.87	75,522.84	6,888.37	48,674.08	37,044.25	-	4,432,340.75
14	GRANTS AND BENEFITS	N	11,139.67	-	1,229.80	2,039.17	230.00	-	38,332.86
15	DEBT SERVICE	P	-	-	-	-	-	-	2,763,880.21
16	INTERAGENCY REIMBURSEMENTS	S	-	-	-	(18,911.50)	(213,423.15)	-	(245,640.03)
17	CASH SHORTAGE AND BREAKAGE	**********							-
18	TOTAL EXPENSE		**56,133,812.20**	**12,210,319.09**	**735,603.51**	**2,230,935.42**	**8,993,616.15**	**2,832,659.18**	119,727,462.50
19									
20	**Applicable to:**								
21	**Merchandising**		56,133,812.20	12,210,319.09	735,603.51	-	-	849,797.75	101,170,963.85
22	**Regulatory /Enforcement**		-	-	-	2,230,935.42	8,993,616.15	1,982,861.43	18,556,498.66
23	Merchandising Percent		100%	100%	100%	0%	0%	30%	119,727,462.50
24	Regulatory /Enforcement Percent		0%	0%	0%	100%	100%	70%	
25									
26									
27									
28									
29									
30									
31									
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EXHIBIT G

FY 2009

DISTRIBUTIONS TO OTHER FUNDS

RED: "Education/Prevention" on Annual Report
BLUE: "Research" on Annual Report

Q1	General Fund (Fund 001)	Local Government (includes MRSC) (Fund 107/001)	Health Services Account (Fund 760)	Violence Reduction (Fund 181)	DSHS (Fund 001)	WSU Wine And Grape Research (Fund 001)	WA Wine Commission (warrant)	UW Alcohol & Drug Abuse (Fund 001)	WSU Alcohol & Drug Abuse (Fund 001)	Alcohol Awareness Program (SPI) (Fund 001)	WSP State Toxicology (Fund 02K)	Youth Tobacco Prevention (Fund 235)	Total
From Spirit Taxes	28,691,204.14	4,352,734.95	5,614,182.99	463,583.39									39,121,705.47
From Retail Sales Tax	382,891.14	121,663.76											504,554.90
Excess Funds	7,784,988.00	9,177,438.00											16,962,426.00
Licenses					1,844,785.29			118,555.53	79,037.02	36,471.72	37,500.00		2,116,349.56
Wine Tax	111,588.39		7,474.24	139,360.74		20,024.13	19,656.84						298,104.34
Beer Tax	92,881.45		1,762,912.30	862,826.20									2,718,619.95
Other	3,521.77											31,695.82	35,217.59
	37,067,074.89	13,651,836.71	7,384,569.53	1,465,770.33	1,844,785.29	20,024.13	19,656.84	118,555.53	79,037.02	36,471.72	37,500.00	31,695.82	61,756,977.81
Q2													
From Spirit Taxes	39,559,994.85	6,037,228.29	7,760,423.37	638,723.92									53,996,370.43
From Retail Sales Tax	517,963.43	165,693.59											683,657.02
Excess Funds	7,784,988.00	9,177,438.00											16,962,426.00
Licenses					1,406,620.55			89,580.13	59,720.09	32,098.39	37,500.00		1,625,519.16
Wine Tax	330,281.55		12,853.56	452,300.58		58,798.69	58,167.06						912,401.44
Beer Tax	218,749.77		4,292,236.84	2,079,693.45									6,590,680.06
Other	3,548.00											31,932.00	35,480.00
	48,415,525.60	15,380,359.88	12,065,513.77	3,170,717.95	1,406,620.55	58,798.69	58,167.06	89,580.13	59,720.09	32,098.39	37,500.00	31,932.00	80,806,534.11
Q3													
From Spirit Taxes	42,505,141.63	6,539,698.92	8,319,758.93	677,193.25									58,041,792.73
From Retail Sales Tax	534,274.97	171,939.72											706,214.69
Excess Funds	7,784,988.00	9,177,438.00											16,962,426.00
Licenses					1,807,770.87			115,758.02	77,172.01	43,233.35	37,500.00		2,081,434.25
Wine Tax	347,240.42		13,450.17	497,503.20		61,814.53	61,154.90						981,163.22
Beer Tax	195,547.81		3,931,369.26	1,890,506.00									6,017,423.07
Other	3,361.00											29,849.00	33,210.00
	51,367,192.83	15,889,076.64	12,264,578.36	3,065,202.45	1,807,770.87	61,814.53	61,154.90	115,758.02	77,172.01	43,233.35	37,500.00	29,849.00	84,823,663.96
Q4													
From Spirit Taxes	52,111,874.29	7,831,298.86	10,183,102.86	847,888.49									70,974,164.50
From Retail Sales Tax	626,005.93	213,215.04											839,220.97
Excess Funds	8,230,940.00	9,626,075.60											17,857,015.60
Licenses					2,202,709.29			141,197.05	97,131.37	38,196.54	37,500.00		2,516,734.25
Wine Tax	493,972.87		21,978.79	784,559.53		88,079.48	86,368.89						1,474,959.56
Beer Tax	387,902.32		7,520,719.20	3,668,831.54									11,577,453.06
Other	8,538.37											77,245.29	85,783.66
	61,850,695.41	17,670,589.50	17,725,800.85	5,301,279.56	2,202,709.29	88,079.48	86,368.89	141,197.05	97,131.37	38,196.54	37,500.00	77,245.29	105,325,331.60
FISCAL YEAR TOTAL													
From Spirit Taxes	162,868,214.91	24,760,961.02	31,877,468.15	2,627,389.05									222,134,033.13
From Retail Sales Tax	2,061,135.47	672,512.11											2,733,647.58
Excess Funds	31,585,904.00	37,158,389.60											68,744,293.60
Licenses					7,261,886.00			465,090.73	313,060.49	150,000.00	150,000.00		8,340,037.22
Wine Tax	1,283,083.23		55,756.76	1,873,724.05		228,716.83	225,347.69						3,666,628.56
Beer Tax	895,081.35		17,507,237.60	8,501,857.19									26,904,176.14
Other	18,969.14											170,722.11	189,691.25
	198,712,388.10	**62,591,862.73**	**49,440,462.51**	**13,002,970.29**	**7,261,886.00**	**228,716.83**	**225,347.69**	**465,090.73**	**313,060.49**	**150,000.00**	**150,000.00**	**170,722.11**	**332,712,507.48**

EXHIBIT G

Quarterly Distribution of Excess Funds

Fiscal Year 2009

	Sept	Dec	Mar	June	Total FY	
$1.30 Beer Tax						
Cities	1,073,250	1,073,250	1,073,250	1,073,250	**4,293,000**	
Counties	268,313	268,313	268,313	268,313	**1,073,252**	
Border	4,037	4,037	4,037	4,037	**16,148**	**5,382,400**
10% Class H Sales						
Cities	1,390,280	1,390,280	1,390,280	1,208,085	**5,378,925**	
Counties	347,570	347,570	347,570	302,021	**1,344,731**	
Border	10,458	10,458	10,458	9,088	**40,462**	
Fund 001	1,737,850	1,737,850	1,737,850	1,510,106	**6,723,656**	**13,487,774**
Excess Funds						
Cities	4,280,460	4,280,460	4,280,460	4,819,418	**17,660,798**	
Counties	1,209,428	1,209,428	1,209,428	1,344,167	**4,972,451**	
Border	36,392	36,392	36,392	40,446	**149,622**	
Fund 001	6,047,138	6,047,138	6,047,138	6,720,834	**24,862,248**	
Fund 06C	557,250	557,250	557,250	557,250	**2,229,000**	**49,874,120**
						68,744,294
Quarter Total						
Cities	6,743,990	6,743,990	6,743,990	7,100,753	**27,332,723**	
Counties	1,825,311	1,825,311	1,825,311	1,914,501	**7,390,434**	
Border	50,887	50,887	50,887	53,571	**206,232**	
Fund 001	7,784,988	7,784,988	7,784,988	8,230,940	**31,585,904**	
Fund 06C	557,250	557,250	557,250	557,250	**2,229,000**	
	16,962,426	16,962,426	16,962,426	17,857,016	**68,744,294**	

EXHIBIT G

OPERATING STATEMENT
FISCAL YEAR ENDED JUNE 30, 2010

		AMOUNT	% NET SALES
MERCHANDISE FUNCTION			
LIQUOR SALES GROSS	$	870,774,650.17	151.00
LESS: DISCOUNTS		67,076,452.09	11.63
LIQUOR SALES EXCLUDING DISCOUNTS	$	803,698,198.08	139.37
LESS: SALES TAXES		225,923,328.34	39.18
WINE TAX ON PURCHASES		1,121,892.81	0.19
LIQUOR SALES NET	$	576,652,976.93	100.00
LESS: COST OF GOODS SOLD		379,559,780.64	65.82
GROSS PROFIT ON SALES	$	197,093,196.29	34.18
LESS: DIRECT SALES EXPENSE		73,052,712.53	12.67
NET PROFIT ON SALES	$	124,040,483.76	21.51
PLUS--			
REVENUE--			
COMMON CARRIER MARKUP		298,633.36	0.05
MISCELLANEOUS INCOME		1,496,005.04	0.26
NET PROFIT BEFORE OTHER EXPENSE	$	125,835,122.16	21.82
LESS: OTHER EXPENSE APPLICABLE TO MERCHANDISE FUNCTION		28,969,080.02	5.02
NET PROFIT MERCHANDISE FUNCTION	$	96,866,042.14	16.80

LICENSE AND ENFORCEMENT FUNCTION			
REVENUE--			
LICENSE FEES AND PENALTIES	$	12,675,602.76	19.11
BEER TAX AND PENALTIES		32,169,369.53	48.50
WINE TAX AND PENALTIES		21,451,797.07	32.34
MISCELLANEOUS INCOME		31,185.00	0.05
TOTAL REVENUE	$	66,327,954.36	100.00
LESS:			
EXPENSE APPLICABLE TO LICENSE AND ENFORCEMENT FUNCTION		16,824,291.04	
NET REVENUE LICENSE AND ENFORCEMENT FUNCTION	$	49,503,663.32	

NET REVENUE FOR YEAR	$	146,369,705.46	
SALES TAXES		225,923,328.34	
NET REVENUE PLUS SALES TAXES	$	372,293,033.80	

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EXHIBIT H

FY 2010 as of 08/09/10 **DISTRIBUTIONS TO OTHER FUNDS** *-- DRAFT --*

EXHIBIT H

RED: "Education/Prevention" on Annual Report
BLUE: "Research" on Annual Report

Q1	General Fund (Fund 001)	Local Government (includes MRSC) (Fund 107/001)	DSHS (Fund 001)	WSU Wine And Grape Research (Fund 001)	WA Wine Commission (warrant)	UW Alcohol & Drug Abuse (Fund 001)	WSU Alcohol & Drug Abuse (Fund 001)	Alcohol Awareness Program (SPI) (Fund 001)	WSP State Toxicology (Fund 02K)	Youth Tobacco Prevention (Fund 235)	Total
From Spirit Taxes	34,782,013.44	4,469,933.69									**39,251,947.13**
From Retail Sales Tax	321,762.09	113,904.50									**435,666.59**
Excess Funds	22,778,999.00	11,045,434.00									**33,824,433.00**
Licenses			1,552,830.80			100,005.85	66,670.57	35,588.00	37,500.00		**1,792,595.22**
Wine Tax	297,923.03			21,105.93	20,711.39						**339,740.35**
Beer Tax	2,786,807.34										**2,786,807.34**
Other	1,829.00									15,561.00	**17,390.00**
	60,969,333.90	15,629,272.19	1,552,830.80	21,105.93	20,711.39	100,005.85	66,670.57	35,588.00	37,500.00	15,561.00	**78,448,579.63**
Q2											
From Spirit Taxes	48,531,267.61	6,300,322.96									**54,831,590.57**
From Retail Sales Tax	465,508.35	166,577.55									**632,085.90**
Excess Funds	14,492,084.00	8,170,664.00									**22,662,748.00**
Licenses			1,998,332.63			128,678.38	85,785.59	34,830.06	37,500.00		**2,285,126.66**
Wine Tax	893,713.52			60,261.26	59,559.66						**1,013,534.44**
Beer Tax	6,813,472.27										**6,813,472.27**
Other	4,974.10									26,606.90	**31,581.00**
	71,201,019.85	14,637,564.51	1,998,332.63	60,261.26	59,559.66	128,678.38	85,785.59	34,830.06	37,500.00	26,606.90	**88,270,138.84**
Q3											
From Spirit Taxes	51,130,508.73	6,802,876.81									**57,933,385.54**
From Retail Sales Tax	479,858.13	173,868.17									**653,726.30**
Excess Funds	6,614,258.00	12,711,318.00									**19,325,576.00**
Licenses			2,014,582.30			129,517.88	86,345.25	53,739.79	37,500.00		**2,321,685.22**
Wine Tax	911,085.96			58,982.94	58,162.82						**1,028,231.72**
Beer Tax	5,447,038.62										**5,447,038.62**
Other	3,077.00									27,693.00	**30,770.00**
	64,582,749.44	19,688,062.98	2,014,582.30	58,982.94	58,162.82	129,517.88	86,345.25	53,739.79	37,500.00	27,693.00	**86,740,413.40**
Q4											
From Spirit Taxes	63,210,325.42	8,195,425.38									**71,405,750.80**
From Retail Sales Tax	570,978.40	205,478.63									**776,457.03**
Excess Funds	14,276,399.00	10,288,304.00									**24,564,703.00**
Licenses			1,860,852.30			119,529.89	79,686.59	25,842.15	37,500.00		**2,123,410.93**
Wine Tax	1,119,886.32			74,995.46	74,029.18						**1,268,910.96**
Beer Tax	9,035,727.53										**9,035,727.53**
Other	3,267.49									29,407.39	**32,674.88**
	88,213,316.67	18,689,208.01	1,860,852.30	74,995.46	74,029.18	119,529.89	79,686.59	25,842.15	37,500.00	29,407.39	**109,207,635.13**
FISCAL YEAR TOTAL											
From Spirit Taxes	197,654,115.20	25,768,558.84									**223,422,674.04**
From Retail Sales Tax	1,838,106.97	659,828.85									**2,497,935.82**
Excess Funds	58,161,740.00	42,215,720.00									**100,377,460.00**
Licenses			7,426,598.03			477,732.00	318,488.00	150,000.00	150,000.00		**8,522,818.03**
Wine Tax	3,222,608.83			215,345.59	212,463.05						**3,650,417.47**
Beer Tax	24,083,045.76										**24,083,045.76**
Other	13,147.59									99,268.29	**112,415.88**
	284,972,764.35	**68,644,107.69**	**7,426,598.03**	**215,345.59**	**212,463.05**	**477,732.00**	**318,488.00**	**150,000.00**	**150,000.00**	**99,268.29**	**362,666,767.00**

Detailed Contributions to Committees Supporting or Opposing Statewide Ballot Initiatives

The following data may be 'downloaded' to your computer by 'Copying' it, then 'Pasting' it into an Excel spreadsheet

Ballot Initiative Committee	F/A	Initiative	Date	Amount	P	Contributor	City	State	Zip	Employer	Occupation
Anonymous Cash Contributions: $0.00											
Committee Cash Contributions: $0.00											
Total Loan Contributions: $0.00											
Total Miscellaneous Contributions: $0.00											
Total of Small Contributors: $0.00											
MODERNIZE WA	F	1100	05/27/2010	$350,000.00	N	COSTCO	ISSAQUAH	WA	98027		
MODERNIZE WA	F	1100	06/16/2010	$200,000.00	N	COSTCO	ISSAQUAH	WA	98027		
MODERNIZE WA	F	1100	06/09/2010	$185,000.00	N	COSTCO	ISSAQUAH	WA	98027		
MODERNIZE WA	F	1100	07/14/2010	$47,200.00	N	COSTCO	ISSAQUAH	WA	98027		
MODERNIZE WA	F	1100	08/01/2010	$25,000.00	N	COSTCO	ISSAQUAH	WA	98027		
MODERNIZE WA	F	1100	08/06/2010	$25,000.00	N	SAFEWAY, INC	BELLEVUE	WA	98005		
MODERNIZE WA	F	1100	03/25/2010	$1,000.00	N	BURKE SUZANNE M	SEATTLE	WA	98117	SELF	REAL ESTATE DEVELO
MODERNIZE WA	F	1100	08/25/2010	$500.00	N	MORGAN JOHN E	MAZAMA	WA	98833	LOST WINE	WINEMAKER
MODERNIZE WA	F	1100	05/04/2010	$250.00	N	WITECKI ANTHONY	TACOMA	WA	98403	MICROSOFT CORP.	SENIOR CONSULTANT
MODERNIZE WA	F	1100	03/25/2010	$100.00	N	COSTA OPA RESTARANT	SEATTLE	WA	98106		
MODERNIZE WA	F	1100	08/13/2010	$100.00	N	CROSSROADS GROCERY, INC.	MAPLE FALLS	WA	98266		
MODERNIZE WA	F	1100	07/16/2010	$100.00	N	GUTHRIE BRUCE	EDMONDS	WA	98026		
MODERNIZE WA	F	1100	08/16/2010	$100.00	N	HARBINGER WINERY	PORT ANGELES	WA	98363		
MODERNIZE WA	F	1100	08/16/2010	$100.00	N	LORRAINE & ASSOCIATES	LAKE STEVENS	WA	98258		
MODERNIZE WA	F	1100	07/31/2010	$100.00	N	ODO MARC K	SEATTLE	WA	98107		
MODERNIZE WA	F	1100	05/26/2010	$50.00	N	NASH GARY	UNIVERSITY PLACE	WA	98466		
MODERNIZE WA	F	1100	05/26/2010	$25.00	N	HAWLEY KEITH	SEATTLE	WA	98105		
MODERNIZE WA	F	1100	08/25/2010	$25.00	N	MCCLELLAN CASEY	WALLA WALLA	WA	99362		
MODERNIZE WA	F	1100	08/25/2010	$25.00	N	METALINE MINI MART	METALINE	WA	99152		
MODERNIZE WA	F	1100	05/28/2010	$25.00	N	OLCZYK SHAUN	WOODINVILLE	WA	98077		
MODERNIZE WA	F	1100	05/30/2010	$25.00	N	STEVENS ROBERT	WOODINVILLE	WA	98077		
MODERNIZE WA	F	1100	04/29/2010	$20.00	N	PETTIS JUSTIN	OLYMPIA	WA	98501		
Total Named Cash Contributions for this report: $834,745.00											
MODERNIZE WA	F	1100	06/30/2010	$110,769.00	N	COSTCO	ISSAQUAH	WA	98027		
MODERNIZE WA	F	1100	06/13/2010	$81,180.40	N	COSTCO	ISSAQUAH	WA	98027		
MODERNIZE WA	F	1100	06/06/2010	$76,690.54	N	COSTCO	ISSAQUAH	WA	98027		
MODERNIZE WA	F	1100	05/31/2010	$52,106.03	N	COSTCO	ISSAQUAH	WA	98027		
MODERNIZE WA	F	1100	05/30/2010	$28,582.40	N	COSTCO	ISSAQUAH	WA	98027		
MODERNIZE WA	F	1100	05/31/2010	$15,000.00	N	COSTCO	ISSAQUAH	WA	98027		
MODERNIZE WA	F	1100	05/31/2010	$11,432.96	N	COSTCO	ISSAQUAH	WA	98027		
MODERNIZE WA	F	1100	07/20/2010	$3,144.41	N	COSTCO	ISSAQUAH	WA	98027		
MODERNIZE WA	F	1100	07/09/2010	$3,038.50	N	COSTCO	ISSAQUAH	WA	98027		
MODERNIZE WA	F	1100	06/20/2010	$1,955.33	N	COSTCO	ISSAQUAH	WA	98027		
MODERNIZE WA	F	1100	07/30/2010	$1,698.04	N	COSTCO	ISSAQUAH	WA	98027		
MODERNIZE WA	F	1100	07/26/2010	$1,229.17	N	COSTCO	ISSAQUAH	WA	98027		
MODERNIZE WA	F	1100	07/21/2010	$1,048.02	N	COSTCO	ISSAQUAH	WA	98027		
MODERNIZE WA	F	1100	07/04/2010	$796.78	N	COSTCO	ISSAQUAH	WA	98027		
MODERNIZE WA	F	1100	06/27/2010	$161.91	N	COSTCO	ISSAQUAH	WA	98027		
Total In Kind Contributions for this report: $388,833.49											

EXHIBIT I

WRA Members Speak Out on Liquor Privatization

July 16th, 2010 by Heather Donahoe

Washington restaurant owners aren't really ones to bite their tongues when it comes to issues that affect their businesses. So, it was no surprise really when industry heavyweights Tom Douglas (Palace Kitchen), Chad McKay (El Gaucho) and Pete Hanning (Red Door) submitted an opinion column on liquor privatization that was published recently in the Puget Sound Business Journal.

Tom, Chad and Pete make strong arguments in favor of Initiative 1100, which aims to end the state's monopoly on liquor sales, giving business owners the opportunity to work within a free-market system that allows them to negotiate for the best possible price.

It's a simple concept that works in every other aspect of the industry. Take a look at the column here, and be proud of your fellow restaurateurs for speaking out on this pivotal issue.

More good news on this front: earlier this week Secretary of State Sam Reed certified Initiative 1100, placing the measure on November's ballot.

Tags: column

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EXHIBIT J

2010 General Election Online Voters' Guide

November 2, 2010 General Election

Voters' Guide

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Initiative Measure 1100

Ballot Title

Full Text

Initiative Measure No. 1100 concerns liquor (beer, wine and spirits).

This measure would close state liquor stores; authorize sale, distribution, and importation of spirits by private parties; and repeal certain requirements that govern the business operations of beer and wine distributers and producers.

Should this measure be enacted into law?
[ ] Yes
[ ] No

The Official Ballot Title and the Explanatory Statement were written by the Attorney General as required by law. The Fiscal Impact Statement was written by the Office of Financial Management as required by law. The Secretary of State is not responsible for the content of arguments or statements (WAC 434-381-180).

+ Fiscal Impact Statement

+ Explanatory Statement

– Statements For and Against

Statement For	Statement Against
I-1100: The best way to end the state liquor monopoly As part of a modernization of law concerning beer, wine and liquor, I-1100 ends the state's monopoly on liquor sales, in the best interests of consumers. It directs the Liquor Board to concentrate on enforcement of liquor laws, such as prohibiting underage drinking, rather than	Initiative 1100 completely deregulates sales and enforcement of hard liquor, beer and wine, threatening public safety and costing taxpayers millions. **More Hard Liquor Consumption, More Problems** Under this scheme hard liquor outlets will explode from 315 to 3,300, three times more per person than California. More than 2,000 convenience stores, neighborhood mini-marts, and gas stations — many near schools and in high crime areas — will sell liquor until 2 am. More consumption means more drunk

devote its time and financial resources to marketing distilled spirits. The state has no business promoting and profiting from the sale of liquor.

I-1100 stops the state's 51.9 percent mark-up
Washington has the highest liquor taxes in the nation. In addition to high taxes, the state also charges a profit margin of 51.9 percent on each liter of alcohol it sells. I-1100 will end the monopoly profits that make ours the most expensive liquor in the country. I-1100 would allow retailers to purchase directly from manufacturers rather than accepting additional costs of a middleman.

I-1100 creates private sector jobs
Closing state liquor stores creates hundreds of new private sector jobs.

I-1100 improves competition
Old laws protect distributors from competition and stifle innovation. 1100 ends Prohibition era laws, improving competition for consumers.

Ending state liquor sales and making enforcement of liquor laws the primary responsibility of the Liquor Control Board is the best way to protect our kids and ensure fair competition. Please vote yes on I-1100.

driving, underage drinking and crime.

1100 Goes Too Far
I-1100 threatens public safety, wiping out alcohol regulation, including enforcement, making Washington the most deregulated state in the country. Washington currently ranks #1 in keeping hard liquor out of the hands of minors, but private outlets like mini-marts are 400% more likely to sell liquor to minors, according to Liquor Control Board data.

1100 Costs Taxpayers
State sales generate over $350 million annually, funding for local schools, health care, police, firefighters, and alcohol and drug abuse prevention. 1100 will wipe out much of that revenue, meaning fewer services, higher taxes, or both. Given our budget crisis now isn't the time to lose these resources.

And 1100 makes it harder for Washington's small businesses to compete. Big out-of-state corporations will be given an unfair competitive advantage over our local craft breweries and wineries—costing us jobs when we can least afford it.

The Washington State Firefighters, Washington Association of Churches, law enforcement leaders and many others agree: Vote *no* on I-1100.

Rebuttal of Statement Against	Rebuttal of Statement For
Opposition is really about money, not public safety. I-1100 closes state liquor stores and returns state's focus where it belongs: enforcement of liquor laws. I-1100 provides choice and convenience to consumers and grows private sector jobs. Taxes remain but price gouging ends. Local zoning controls where stores are located. California has private liquor sales and fewer alcohol-related driving deaths per capita than Washington**.** The facts are clear; wild opposition claims are baseless. *I-1100 makes sense.*	1100 creates an explosion of liquor outlets, to 3,300. Hard liquor will be available at convenience stores and mini-marts, which are 400% more likely to sell to kids. It wipes out enforcement funding, and an independent analysis found 1100 slashes $275 million from services like schools and public safety. Washington's craft brewers and winemakers oppose, because it threatens their ability to compete and create jobs. 1100: too risky, goes too far. Vote no.
Statement Prepared By	**Statement Prepared By**
Jim Sinegal, CEO, Costco Wholesale Corporation; **Anthony Anton**, President/CEO of 5000 Member Washington Restaurant Association; **Paul Beveridge**, President, Family Wineries of Washington, Owner, Wildridge Winery. **For more information:** (206) 381-5396 www.yesto1100.com/	**Jim Cooper**, Washington Association for Substance Abuse and Violence Prevention; **Alice Woldt**, Executive Director, Washington Association of Churches; **Kelly Fox**, President, Washington State Council of Firefighters; **John Lovick**, Snohomish County Sheriff, **Sharon Ness**, RN, Acute Care Nurse, **Craig Sousie**, Emergency Medical Technician, Renton Fire and Emergency Services. **For more information:** info@protectourcommunities.com www.protectourcommunities.com/

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