Washington Research Council

Special Report

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Initiative 1183 Would Produce Revenue Gains for State and Local Governments

Briefly

Initiative 1183 would end the state monopoly over the liquor sales and distribution system in Washington. Our analysis shows that state and local governments would gain $443 million in additional revenue over six years under the initiative, compared to the current state monopoly baseline.

Over six years, the initiative would increase revenue to local governments by $279 million above the current system baseline. For the state, the estimated six-year gain would be $164 million above the baseline.

Initiative 1183 offers voters another opportunity to privatize liquor sales in Washington, ending the long-standing state monopoly. The initiative's authors have addressed concerns raised during the campaigns for Initiative 1100 and Initiative 1105 last year. While often described as a repeat of I-1100, I-1183 differs in significant respects. One important change, which this *Special Report* addresses, results in considerable ongoing revenue gains for state and local governments.

We estimate that, over six years, the initiative would increase revenue to local governments by $279 million above the current system baseline. For the state, the estimated six-year gain would be $164 million above the baseline.

Revenue Analysis of I-1183

We have prepared estimates of the fiscal impact of I-1183 on state and local governments. (For a description of the current system's liquor revenues, see the box on page 2.)

Table 1 shows the net impact on revenue of state and local governments of I-1183 for fiscal years 2012 through 2017. Eighty percent of the local gain goes to cities, the remainder to counties.

Table 1: Change in revenue to state and local governments due to I-1183 (Dollars in Millions)

State Fiscal Year	2012	2013	2014	2015	2016	2017	2012-17
State Government	($8.2)*	$71.9	$20.6	$20.5	$23.2	$35.6	$163.9
Local Government	$15.1	$89.0	$39.5	$39.3	$41.9	$54.1	$279.2
Total	$6.9	$160.9	$60.1	$59.7	$65.1	$89.6	$443.2

**Retail liquor sales would be privatized for only the last month of FY 2012. The loss in revenue to the state in FY 2012 reflects the lag between retail licensees' collection of state taxes on liquor sales and the remission of these funds to the state.*

Most of the revenue gain is attributable to new distributor and retailer license fees, which are paid into the liquor revolving fund. Under I-1183, these fees are structured to more than offset the loss in profits from the current state monopoly system. Slightly more than 50 percent of excess funds in the liquor revolving account is earmarked to local governments. Local governments also gain from the $10 million in additional funding for the purposes of enhancing local public safety programs.

The small loss in revenue to the state in FY 2012 reflects a timing issue: Sales and liter taxes that retailers collect for the state on spirit sales in June 2012 (the last month of FY 2012) will not be remitted to the state until July, at the earliest.

Some of the key assumptions underpinning the analysis are:

Cost of Goods. Consistent with the Liquor Control Board's (LCB) most recent forecast, we assume that the distillery cost (including freight) of the average liter of spirits sold in the state will be $9.92 in FY 2012 and $10.12 in FY 2013. Thereafter, we assume that this cost will increase by 2 percent per year, which is the long-run rate of increase in spirit costs used by LCB.

Other Liquor Control Board Costs. For FY 2012 and 2013, LCB operating costs are taken from the enacted 2011–13 budget, spread evenly across the two years. Costs are assumed to increase by 2 percent each year thereafter.

Markups. Markups charged by distributors and retailers will be key determinants of the revenue impact on the state. There is considerable uncertainty as to the value markups will take. OFM's fiscal analysis of I-1100 noted this problem: "[The fiscal impact of I-1100] cannot be precisely estimated because the private market will determine spirits bottle cost and markup."

Under the current monopoly system, the state adds a percentage markup (currently 51.9 percent at retail, set to return to 39.2 percent following the 2011–13 biennium) to the distillery cost of liquor that is uniform across products and geographic locations. Accordingly, our baseline model of a continued state liquor monopoly incorporates the

Table 2: Cost Components of a Representative 750 ml Bottle, 2010

	$	% of Total Price
Bottle cost	4.24	26.6
Federal tax	2.14	13.4
Outbound freight	0.12	0.8
Standard bottle cost	**6.50**	**40.8**
Standard bottle cost markup	3.37	21.2
Allocated expense markup	0.74	4.6
Distribution center surcharge	0.13	0.8
Board revenue surcharge	0.15	0.9
Total Markup	**4.39**	**27.5**
State sales tax	2.23	14.0
State liter tax	2.83	17.7
State tax	**5.06**	**31.7**
Price at Register	**15.95**	**100**

Chart 1: State Alcohol Tax Collections, Dollars in Millions

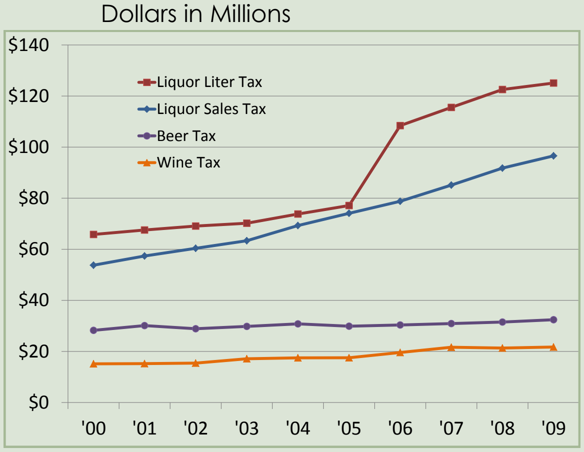
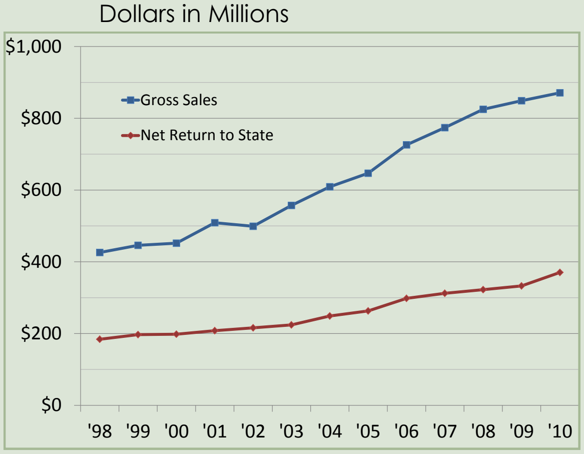


Chart 2: LCB Sales and Profit, Dollars in Millions



Analysis of Current Liquor Revenues

Table 2 shows how the Liquor Control Board calculates the price that a consumer pays to purchase a 750 milliliter bottle of spirits at a state store. The calculation begins with the price the LCB pays to the supplier for the bottle ($4.24 in this example). To this amount, the Board adds federal taxes and a standard shipping charge to calculate the standard bottle cost.

The Board next adds a four-part markup: (1) 51.9 percent of the standard bottle cost; (2) 51.9 percent of certain allocated expenses (currently $1.90 per liter); (3) a distribution center surcharge of $ 0.167 per liter; and (4) board revenue surcharge of $ 0.20 per liter. The total markup, $4.39, equals 67.5 percent of the standard bottle cost.

Prior to August 1, 2009, the markup percentage was 39.2 percent. In the 2009–11 budget bill, the legislature transferred $78.6 million from the liquor revolving fund to the general fund–state (GFS) and directed that the transfer could not reduce excess fund distributions (to the GFS, cities and counties) that would have otherwise occurred. The LCB chose to increase the markup on retail sales and on sales to bars and restaurants to 51.9 percent in order to maintain the distributions. The 2011–13 budget includes a similar provision: Over the biennium, $85 million will be transferred from the liquor revolving fund to the GFS without reducing excess fund distributions. This time, though, the legislation specifies that sales to licensees (e.g., restaurants) "are exempt from any liquor price increases that may result." In June, LCB returned the markup on sales to bars and restaurants to 39.2 percent while continuing the markup for retail sales at 51.9 percent. With these markups, forecast revenues for the biennium are $22 million less than needed to cover the required excess fund distributions. The LCB has yet to specify how it will make good this shortfall.

Taxes contribute $5.06 to the cost of the representative bottle.

Liquor is taxed on a percentage and per-liter basis. The liquor sales tax was first established in 1935, at a rate of 10 percent. The liquor sales tax on sales to consumers is currently 20.5 percent, which is made up of:

- a basic rate of 15 percent (RCW 82.08.150(1)),
- a 14 percent surtax rate that contributes 2.1 percent (RCW 82.08.150(4)), and
- an additional rate of 3.4 percent (RCW 82.08.150(6a)).

Of the basic rate, during the 2011–13 biennium, 66.19 percent goes to the GFS, and the remainder goes to the liquor excise tax fund, from which it is distributed to cities and counties. (Previously, 65 percent went to the GFS.) The 14 percent surtax rate was added in 1982, and the receipts go to the GFS. The 3.4 percent additional rate, in place since 1993, also goes to the GFS.

The liquor liter tax has been in place since 1961 (initially at a rate of 1.1 cents per ounce). The tax is currently $3.7708 per liter, made up of:

- a basic tax of $1.72 per liter (RCW 82.08.150(3)),
- a surtax rate of 14 percent ($0.2408 per liter) (RCW 82.08.150(4)),
- an additional tax of $0.07 per liter (RCW 82.08.150(5)),
- an additional tax of $0.41 per liter (RCW 82.08.150(6c)), and
- an additional tax of $1.33 per liter (RCW 82.08.150(7a)).

All of the liter taxes go to the GFS. In 1981, the current basic rate of $1.72 per liter was established. The surtaxes were established in 1982. The $0.07 additional tax was enacted as a temporary tax in 1989 and made permanent in 1994. The $0.41 additional tax was established in 1993 (at a rate of $0.20 per liter). The $1.33 per liter additional tax became effective July 1, 2005.

According to the Tax Foundation, Washington's liquor tax rate is the highest in the nation ($26.03 per gallon). Oregon has the second-highest rate at $22.38 per gallon, and Idaho is ninth at $10.57 per gallon. (Interstate comparisons of liquor taxes are complicated by the fact that in control states, some of the collections are in the form of profits. The Tax Foundation includes control state markups in their liquor tax comparisons, based on a methodology from the Distilled Spirits Council of the United States.)

Liquor tax collections in Washington have increased over the last 10 years, while beer and wine tax collections have held fairly steady. In 2009, the liquor liter and sales taxes accounted for 1.4 percent of all state taxes, the beer tax accounted for 0.2 percent, and the wine tax accounted for 0.1 percent.

In FY 2010, LCB reported revenue of $944.8 million (including $282.7 million in taxes), product expenses of $455.3 million and operating expenses of $119.2 million. Consequently, LCB distributed $370.3 million to state and local governments (an increase of 24.3 percent since 2006). Seventy-nine percent of that went to the GFS, 18.6 percent to cities and counties, 2 percent to education and prevention, and 0.5 percent to research.

Revenue includes gross liquor sales (which includes spirit taxes), beer and wine taxes, license fees, and other. Gross liquor sales ($870.8 million) accounted for 92.2 percent of total revenue in 2010, and they increased 19.9 percent since 2006. (Total revenue increased by 14.4 percent.)

51.9 percent markup for two years and drops to 39.2 percent after the 2013 fiscal year. (The 51.9 percent/39.2 percent markup on the distillery cost is just one part of the overall markup included in the prices paid by customers at the state liquor stores. The box on page 2 provides details on the manner in which the LCB sets retail prices at the state liquor stores.)

In the private market, markups will vary considerably from product to product and store to store. We assume that the average distributor markup is 25 percent and the average retailer markup is 30 percent. Distributors and retailers pay their license fees out of their markups. We further assume that distributors "capitalize" the higher license fees paid in the first two years, rather than immediately passing the full amount on to customers, so that distributor markups are constant over the six-year period that we model.

Taken together, the 25 percent distributor markup and the 30 percent retail markup result in a retail price that is 62.5 percent greater than the distillery price of liquor. (It is 62.5 percent rather than 55 percent because the retail markup is applied to the price paid to the distributor by the retailer, which includes the distributor's markup.) Under I-1183, with a 5 percent distributor license fee and a 17 percent retail license fee, distributors and retailers would pass more than one-half of the 62.5 percent total markup on to the state. Distributers and retailers would cover their costs from the remainder of the markup. The state's proceeds from the distributor and retail license fees will be a bit more than 20 percent of the price paid by retail customers net of taxes.

The LCB, similarly, must cover its merchandizing costs out of the markup it applies to the liquor it sells. Table 3 presents an operating statement for the LCB in 2009, the last year the LCB used the 39.2 percent markup. For the merchandizing function (i.e. purchasing, distributing and selling liquor), the LCB's profits were 10.8 percent of liquor sales net of taxes.

Demand. We use LCB's demand assumptions.

Licensees. We estimate that there will be 100 to 200 distributor licensees and 1,000 to 1,500 retail licensees. Our calculations assume 100 of the former and 1,000 of the latter. (The number of licensees has minimal impact on our revenue calculations.) Distributors pay business and occupation (B&O) tax at the wholesaling rate. Retailers pay B&O at the retail rate.

Miscellaneous. The initiative would allow distributor licensees to begin selling spirits on March 1, 2012 and retail licensees to begin selling on the following June 1. We assume that bar and restaurant licensees will continue to purchase spirits from the state through the end of May, while retailers will purchase from distributors an inventory equal to one month's sales in May. Assuming a 25 percent distributor markup and a 30 percent retail markup, the model estimates that the average retail bottle price will be slightly lower than the state monopoly baseline during the first 13 months of private retail sales. Following the 2011–13 biennium, the state retail markup is scheduled to revert to 39.2 percent from 51.9 percent. The state government, however, could easily choose to continue the higher markup, as it

Table 3: Washington State Liquor Control Board Operating Statement, Fiscal Year 2009

Merchandise Function

	Amount (Millions)	% of Net Sales
Liquor Gross Sales	$ 848.82	152.0%
Less: Discounts	64.32	11.5%
Equals: Liquor Sales Excluding Discounts	784.50	140.5%
Less: Sales and Liter Taxes	224.87	40.3%
Less: Wine Tax on Purchases	1.27	0.2%
Equals: Liquor Net Sales	558.36	100%
Less: Cost of Goods Sold	399.11	71.5%
Equals: Gross Profit on Sales	159.25	28.5%
Less: Direct Sales Expense	68.34	12.2%
Equals: Net Profit on Sales	90.91	16.3%
Plus: Common Carrier Markup	0.21	0.0%
Plus: Miscellaneous Income	2.27	0.4%
Equals: Net Profit Before Other Expense	93.39	16.7%
Less: Other Expense Applicable to Merchandise Function	32.83	5.9%
Equals: Net Profit Merchandise Function	**$ 60.56**	**10.8%**

License and Enforcement Function

	Amount (Millions)	% of Revenue
License Fees and Penalties	$ 11.34	17.3%
Plus: Beer Tax and Penalties	32.42	49.5%
Plus: Wine Tax and Penalties	21.76	33.2%
Plus: Miscellaneous Income	0.04	0.1%
Equals: Gross License and Enforcement Revenue	65.55	100%
Less: Expense Applicable to License and Enforcement Function	18.56	
Equals: Net Revenue License and Enforcement Function	**$ 47.00**	

Net Revenue and Taxes

	Amount (Millions)
Net Profit Merchandise Function	$ 60.56
Plus: Net Revenue License and Enforcement Function	47.00
Plus: Sales and Liter Taxes	224.87
Equals: Net Revenue Plus Sales and Liter Taxes	**$ 332.42**

did this year. Since reversion to 39.2 percent is the current expectation, we assume it for modeling purposes. Although, at 39.2 percent markups the model shows statewide average retail bottle prices somewhat higher than the state monopoly baseline, actual retail prices will be subject to considerable variation in the private marketplace—some higher and some lower than the baseline.

I-1183

Initiative 1183 would "privatize and modernize both wholesale distribution and retail sales of liquor and remove outdated restrictions on the wholesale distribution of wine." The state would be required to withdraw from distribution and sales activities. Instead, alcohol distribution and sales would be handled by the private sector, under licenses granted by the state.

LCB would be required to deplete all liquor inventory by May 31, 2012, close all state liquor stores by June 1, 2012, and finalize all other asset sales by June 1, 2013 (all proceeds would be deposited in the liquor revolving fund). Spirits distributors or retail licensees would be able to begin selling spirits when issued their licenses, but not before March 1, 2012 (for distributors) or June 1, 2012 (for retailers). In addition to spirits distributor and spirits retailer licensees, the initiative also creates a wine retailer reseller endorsement for grocery store licenses.

- Spirits Distributor Licenses would allow licensees to "sell spirits purchased from manufacturers, distillers, or suppliers" and to export them from the state.
- Spirits Retail Licenses would allow licensees to sell spirits in original containers to consumers for consumption off the licensed premises and to retailers licensed to sell for consumption on their licensed premises (no single sale to exceed 24 liters), and to export spirits.
- Wine Retailer Reseller Endorsements for grocery store licenses (which currently allow grocery stores to sell wine and/or beer) would allow licensees "to sell wine at retail in original containers to retailers licensed to sell wine for consumption on the premises." No single sale could exceed 24 liters.

The initiative outlines the fees that would be due from licensees:

- Spirits distributor licensees would pay a license issuance fee in the amount of 10 percent of their spirits sales revenue in each of the first two years of licensure. For each year thereafter, the fee would be 5 percent. By March 31, 2013, spirits distributor licensees together must have paid at least $150 million in license fees. If not, LCB would have to adopt rules to collect the difference between actual receipts and $150 million by May 31, 2013. There would also be an annual license renewal fee of $1,320 per location.
- Spirits retail licensees would pay an issuance fee of 17 percent of all their spirits sales revenues, with the first payment due October 1, 2012. An annual license renewal fee of $166 would also be required. LCB would be able to adjust the fee to keep it in line with those for beer and wine.
- Wine Retailer Reseller Endorsements would be subject to an annual fee of $166 per store, in addition to the current $150 fee for a grocery store license.

Spirits license fees would be distributed through the liquor revolving fund to border areas, counties, cities, towns, and the municipal research center. Under the initiative, the fees would have to be distributed such that recipient categories receive at least what they "received from the liquor revolving fund during comparable periods." The border areas, counties, cities, and towns would also receive new, additional funding of $10 million annually from the fees "for the purpose of enhancing public safety programs." Further, current taxes on retail sales of spirits and sales by distributors would remain in place and be allocated according to existing formulas.

In order to be issued a spirits retail license, an applicant would have to meet several qualifications:

- The initiative maintains current laws and regulations regarding license issuance and renewals, and it reiterates the "rights of cities, towns, county legislative authorities, the public, churches, schools, and public institutions to object to or prevent issuance of local liquor licenses."
- An applicant would have to "maintain systems for inventory management, employee training, employee supervision, and physical security of the product substantially as effective as those of stores currently operated by the board with respect to preventing sales to or pilferage by underage or inebriated persons."
- On hiring and every five years thereafter, an applicant would have to train each employee on compliance with liquor laws—particularly those regarding sales to minors and the visibly intoxicated.

State Liquor Accounts

- Liquor revolving fund: All license fees, permit fees, penalties, forfeitures, and all other moneys, income, or revenue received by LCB goes to this fund. The funds are used for LCB expenses, research, health services and education. Excess funds are distributed to border areas, the GFS, counties and cities.
- Liquor excise tax fund: Thirty-five percent of the revenue from the liquor sales tax basic rate goes to this fund. Funds are then distributed to cities and counties.

(Currently, stores that sell beer and wine are not subject to mandatory training.) Maximum penalties would be doubled for spirits sales violations. LCB would set up a free and voluntary *responsible vendor program*—a compliance training program meant to "reduce underage drinking, encourage licensees to adopt specific best practices to prevent sales to minors, and provide licensees with an incentive to give their employees on-going training in responsible alcohol sales and services." Those who participate in the responsible vendor program would not be subject to the doubling of penalties for a single violation in any one year. Additionally, under current law, beer and wine retailers may allow employees between 18 and 21 to sell beer and wine, provided there is an adult over 21 on duty to supervise. The initiative would allow liquor to be sold by employees between 18 and 21 only if they are supervised by at least two on-duty adults over 21.

- A store would have to have at least 10,000 square feet of interior space. According to the Food Marketing Institute, the median size of supermarkets in 2010 was 46,000 square feet. Wholesale clubs are more in the 120,000 square foot range. According to the National Association of Convenience Stores, the average convenience store has 2,768 square feet of sales area, well below the necessary 10,000 square feet criterion. Currently, the average size of Washington state liquor stores is 5,000 square feet. Exceptions to the size limitation include former state liquor store premises, contract liquor stores at their contract location, and locations in areas that would otherwise not be served.

Most liquor will be sold by medium and large grocery and retail stores that sell many other products besides liquor. Such establishments benefit from economies of scale not available to the current state stores and can survive on lower markups than the state stores require. Competition among such stores is likely to result in lower prices in many markets.

Current law states that manufacturers of wine or malt beverages may not "discriminate in price in selling to any purchaser for resale in the state of Washington." The initiative does not change that provision for malt beverages, but allows for price flexibility for "sales of spirits or wine based upon competitive conditions, costs of servicing a purchaser's account, efficiencies in handling goods, or other bona fide business factors, to the extent the differentials are not unlawful under trade regulation laws applicable to goods of all kinds." I-1183 also specifies that quantity discounts of sales prices of beer continue to be prohibited. Quantity discounts would be allowed for spirits and wine, along with the dilution of the uniform pricing requirement.

Retailers who are licensed to sell spirits for consumption on or off the premises would be allowed to store spirits at a warehouse and then deliver them to their own licensed locations. Grocery store licensees

Liquor Sales & the States

Following the repeal of Prohibition, some states decided to monopolize the alcohol industry rather than revert to what they feared would be a free-for-all. A "control state" is one in which the state has a monopoly over some aspect of the alcohol trade. The extent of control differs: some states control the distribution of liquor, some control retail, and some are completely privatized. According to the National Alcohol Beverage Control Association, there are 18 control states (plus two counties in Maryland). Of those, nine operate liquor stores.

Washington's Liquor Monopoly

At the state constitutional convention in 1889, delegates decided to have the people vote on these issues: for/against the constitution, for/against the women's suffrage article, for/against the prohibition article, and for the permanent location of the seat of government. The constitution was agreed to—without women's suffrage or prohibition.

In 1909, the state legislature passed a local option law, allowing counties and cities to go dry—but not outlawing drinking. Thanks to the local option, the Anti-Saloon League estimated that 42 percent of Washingtonians lived in dry areas in 1912. The very first initiative filed after a constitutional amendment allowed direct legislation, Number 1 (re-filed as Number 3), was to end the manufacture and sale of liquor as of January 1, 1916. The initiative was approved in November 1914: 189,840 to 171,208 (52 to 48 percent). Consequently, Washington was dry before national Prohibition was enshrined as the 18th Amendment to the Constitution in 1919.

Like the nation as a whole, however, Washington voters eventually had a change of heart: In 1932, Initiative 61 was filed to repeal "certain statutes relating to intoxicating liquors and to the importation, receipt, purchase, transportation, manufacture, gift, exchange, possession, use, sale and disposition thereof." (Laws against selling alcohol to minors would remain in place.) Initiative 61 was approved: 341,450 to 208,211 (62 to 38 percent). National Prohibition was repealed in 1933.

The state would maintain tight control over how and when liquor was distributed, sold, and consumed, however. During a December 1933 special session, the legislature passed the Steele Act, which created the Washington State Liquor Control Board and gave to the state the power to license and regulate the importation, manufacture, distribution, and sale of alcohol.

Further, "the bill tried to separate wholesale function from the retail function, in so far as that was possible, by denying one to have an interest in the other. The basic premise was that the state must impose severe restraints on the energies of competition" (Clark). Indeed, the state maintains a watered-down three-tier system—manufacturing, distributing, and retailing are separately licensed. For the most part, beer and wine manufacturers cannot have financial interests in retail businesses. Manufacturers must offer the same price to all distributors and they cannot offer bulk discounts.

"Blue Laws" requiring Sunday closure of "drinking saloons" remained on the books well after the repeal of Prohibition. They were finally repealed in 1966 with the passage of Initiative 229. In 1972, Initiative 261, which would have repealed statutes "relating to the establishment and operation of state liquor stores" was on the ballot, in response to high liquor prices and taxes. It failed: 634,973 to 779,568 (45 to 55 percent).

Today, LCB owns and operates a distribution center and 164 liquor stores. An additional 159 stores are operated by contractors, who work on commission. LCB owns the liquor in the stores, so any income above the commission is returned to the state.

with wine retailer reseller endorsements would be allowed to do the same for wine. (Currently, beer and wine cannot be stored at warehouses, but must be delivered directly to the licensed premises.) Retailers would be allowed to purchase spirits, beer or wine directly from manufacturers.

Lastly, the initiative would repeal ESSB 5942, which was included in the 2011–13 budget and signed by the governor in June. The legislation potentially creates a private liquor distribution monopoly. Specifically, ESSB 5942 requires that a competitive process for leasing the state's liquor warehousing and distribution facilities take place. Instead of privatizing retail, "the competitive process must assume that the Washington state liquor control board retains its existing exclusive retail spirits sales business."

Following a proposal review process, LCB could "enter into a long-term contract with that entity for the lease of the business, facilities, and assets associated with the warehousing and distribution of liquor in the state. The contract must grant the exclusive right to distribute spirits in the state for the period of the contract." LCB would maintain authority over product selection and set liquor prices. Because it is uncertain when proposals will be made, or whether they will be accepted, it is unclear what affect ESSB 5942 will have on the state's liquor system. It is clear, however, that if a proposal is accepted, the state would be committed to the current state-run retail system for a number of years.

How I-1183 Differs From I-1100

Like I-1183, last year's I-1100 would have privatized liquor sales and distribution. There are a number of differences between the initiatives, however. They include:

- I-1183 would require current beer and wine licensees to apply for the new spirits retail licenses; I-1100 would have automatically upgraded their licenses to include the sale of spirits.
- I-1183 would return to the state a percentage of sales annually (for retail licenses, 17 percent; for distributor licenses, 10 percent in the first two years and 5 percent thereafter), which I-1100 would not have done.
- I-1183 would dedicate funds for public safety programs. I-1100 did not.
- I-1183 would require mandatory liquor law compliance training and double the adult supervision requirement for under-18 employees who sell liquor.
- I-1183 would double the maximum penalties for spirits sales violations.
- Under I-1183, liquor retailers would have to have at least 10,000 square feet of interior space to be eligible for spirits licenses; I-1100 included no such restrictions.
- I-1183 would have no impact on beer distribution, and its impact on wine distribution practices would be more modest than under I-1100.

Discussion

While enforcement of liquor laws to ensure public safety is an essential state function, the distribution and sale of liquor is not. In 32 states, the private sector successfully handles retail and wholesale liquor sales. As we have written elsewhere (in other Research Council briefs and in the Thrive Washington series), the recession and slow recovery require a fundamental transformation of public services. Privatizing nonessential operations is consistent with the reset. In making the transition, however, it is important to assure that the interests of state taxpayers are well protected. Initiative 1183 addresses two concerns raised during last year's initiative campaigns. It strengthens licensing requirements and returns a net gain to state and local governments.

In addition to new restrictions on licensees (including safety measures and minimum store sizes), I-1183 would return funds to state and local governments to make up for lost revenue. Our analysis shows that the net gain would be $164 million to the state government over 2012–17 and $279 million to local governments.

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