Volume II: Full Report

Study of Feasibility and Efficacy of State of Vermont Contracting for Importation, Transportation, Warehousing and Wholesale Distribution of Liquor

Prepared for

State of Vermont

Agency of Administration

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EXECUTIVE SUMMARY

Overview

The Vermont State Legislature directed that the Vermont Secretary of Administration conduct a study of purchasing, transportation, warehousing, and wholesale distribution functions of the Department of Liquor Control (DLC) to determine whether these functions could be handled more cost-effectively through alternative delivery systems (Act 122, Section 76a of the 2004 Legislative Session). The mandated study was performed by Management Analysis, Incorporated (MAI) of Vienna, VA, under contract to the Department of Administration.

This final report comprises three volumes, of which this is Volume II. The volumes are:

> Volume I: Summary Report. An overview of the study process, findings, and recommendations.
>
> Volume II: Full Report. The MAI Study Team's full analysis, with supporting data.
>
> Volume III: Supplemental Data. Copies of large reports, Request for Proposals, and other information, primarily obtained from other states.

Before proceeding to specific findings, we note that the State of Vermont is a "Control State"; that is, it is one of 18 states (and one county in Maryland) which are directly involved in the sale of distilled spirits. The State of Vermont wholesales and distributes spirits only to privately-owned retail stores ("Agents") through the DLC. The State adopted this model and a conservative approach to the marketing of spirits, in an effort to promote socially responsible consumption of spirits. While the State generates revenue from the sale of spirits, the existing control structure was not established with revenue generation as its primary intent. It is clear that the State could enhance its revenue generation through relaxation of control or more aggressive marketing of liquor. However, in keeping with the State's emphasis on a socially responsible approach, this report considers only alternatives which retain the existing retail controls and philosophical approach.

Major Findings

- Under Vermont State Law (3 V.S.A § 343), a function currently performed by State employees cannot be contracted to a private sector service provider unless a cost reduction equal to ten percent or greater of the State's cost of performing the function can be demonstrated. This is a typical criterion for evaluating the potential contracting of service performed by appropriated funds, similar to that employed by other states. However, the DLC is not an appropriated-fund service provider; it is a largely self-supporting enterprise fund which generates revenue for the State. Evaluation of potential contract alternatives should consider both cost reduction and revenue enhancements, as well as cash flow, in order for the State to make a sound business decision.
- The first primary alternative considered by this report is contracting out purchasing, warehousing, distribution, and associated functions (exclusive of law enforcement) via traditional service contract. This alternative is less expensive than current in-house operation by an estimated $700,000 over a five-year period, and offers some limited opportunities for both cost reduction and revenue growth. The savings is reduced to $450,000 if payouts of State employee leave are considered. However, these limited opportunities do not present a compelling case for a contract. They provide a net improvement less than six percent in cost

and revenue performance (3.7 percent if employee leave payouts are considered). In addition, some of these same results can be achieved through process improvements by the current DLC organization, without contract implementation.

- The second primary alternative considered is a less traditional form of privatization, modeled on one completed by the State of Maine. In essence, this alternative entails selling the rights to perform its liquor purchasing, warehousing, distribution, and associated functions (exclusive of law enforcement) for an extended period (at least ten years). The State would receive a significant up-front payment, and would enter into a profit-sharing agreement with its selected partner. This alternative is not recommended. Over the full ten-year term of the agreement, the State would receive less revenue than from continued in-house operation. For example, if the State of Vermont received a $15 million payment from a vendor in Fiscal Year (FY) 2006, a decrease in future revenues of approximately $20 to $25 million should be anticipated over the next ten years. However, if the State requires additional revenue in FY 2006, and is willing to forego longer-term revenue to achieve this goal, this could be an attractive option.

- The current DLC organization generally performs its responsibilities in an effective and dedicated manner. It is not expending resources at an excessive level; to the contrary, some of the potential improvements which exist are due to the DLC's failure to expend resources on necessary investments. The recommended course of action is to continue in-house performance of most operations with some operational improvements, in particular to improve planning and management of the DLC's information technology support. The DLC's IT staff is too large for the designated mission (large compared to other control states). It does not effectively plan the DLC's IT program, and does not optimize resource utilization.

- The MAI Study Team recommends that the DLC:

  - Not fill the anticipated vacancy of a Clerk C (PG13) (position to become vacant in FY 2005), with annual savings of approximately $40,000 per annum. Full savings will be realized in FY 2006.

  - Retain a consultant to develop a Request for Proposal for barcoding and scanner software in the DLC warehouse, at an estimated cost of $25,000 in FY 2005.

  - Implement new warehouse software in FY 2006, to improve efficiency and accuracy of warehouse operations, at an estimated cost of $200,000.

  - Following implementation of the new software, eliminate one Warehouse Worker (PG10) and one Systems Developer (PG20) at the end of FY 2006. These staff reductions will reduce annual operating costs by $78,000 per annum.

  - In the aggregate, these steps will improve cost-effectiveness and efficiency of DLC operations. Beginning in FY 2007, an annual savings of $119,000 will be achieved.

- The license fees charged by the State of Vermont for parties wishing to sell beer, wine, and liquor are among the lowest in the nation. Increases of between 50 and 100 percent would bring Vermont in line with typical State license structures, and would generate more than $500,000 in additional revenue per annum.

- The DLC, a State Enterprise Fund, has operated with negative retained earnings for the past two years. A positive retained earnings of $2.64 million in 1990 had shrunk to negative $190,756 by the end of FY 2004. This reduction is due to a number of factors, to include one-time accounting adjustments, but the primary factor has been the annual administrative transfer to the General Fund, which has a cumulative total of nearly $6 million over this period. This is a problem, in that the DLC does not have the resources to absorb any significant financial setback without delaying payments to brokers for products sold. MAI recommends that a retained earnings goal be established, and that the size of the administrative transfers be scaled back to allow the DLC to reestablish retained earnings of $500,000 over the next four years. Special approval could be obtained by the DLC to accumulate funds over this level to support major capital requirements, such as warehouse renovation.

More detailed recommendations and rationale are presented in the Summary of Recommendations section of Volume I and throughout this Volume.

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1. INTRODUCTION

Purpose

The State of Vermont is a liquor control state, with the control function exercised by the Vermont Department of Liquor Control (DLC). The Vermont Liquor Control Board sets retail prices for liquor state-wide. Retail sales are made by 73 contract agencies (e.g., general stores, supermarkets, and other retail outlets) which are approved to sell liquor in the State. The Department directly performs the wholesale function, maintaining a warehouse and truck fleet staffed by State employees. Thus the Department acts as both the retailer and wholesaler, utilizing a combination of contract mechanisms (at the retail level), in-house resources (at the wholesale level), and judicious enforcement to ensure that the State's control objectives, laws, and regulations are met internally.

At one time, the State performed both the wholesale and retail functions with in-house resources by operating state liquor stores. The previously completed transition of the retail function to the private sector leads logically to the questions: can the wholesale function, too, be formed by contract? If so, what are the benefits and drawbacks, both financial and social, to privatization?

In Act 122, Section 76a, of the 2004 Legislative Session, Vermont State Legislature posed these questions. The Legislature directed Vermont's Secretary of Administration to conduct a study of the purchasing, transportation, warehousing and wholesale distribution functions of the Department, to determine whether these functions could be performed more effectively through alternative delivery systems. The purpose of this Report is to respond to the Legislature's questions, and to provide the State with a factual basis for determining future delivery mechanisms for distilled spirits within the State of Vermont.

Background

With the repeal of national prohibition in 1933, the regulation of beverage alcohol reverted from the federal government to the individual states. At that time, 27 states elected to restore the sale of alcohol beverages by licensed private parties, four states elected to remain "dry", and seventeen adopted state control mechanisms, in which the state exercised direct control over the wholesale and, in most cases retail, distribution of alcohol beverages. These states, "control states" as they came to be known, believed that through government intervention in the marketplace, the state could implement policies which would enable adult consumers who wished to consume alcohol beverages access to such products, while encouraging consumption in a socially responsible manner. The state could control, for example, the hours of public availability for sale, the number and location of sale locations, price structure, and forms of advertising. In addition, the state's role would reduce the scope for private sector profit motive to lead to increased sales of alcohol beverages. The success of the control state concept is demonstrated by its durability; today, 72 years after the end of prohibition, eighteen states and one county in Maryland operate as control jurisdictions.

The State of Vermont is one of the original control states. In Vermont today, the State licenses the sale of malt and vinous beverages, but retains control over the purchase, warehousing, distribution, and retail sale of all "spirits" (i.e., all distilled spirits, beers of greater than eight percent alcohol content, and wines of greater than 16 percent alcohol content). It is these control functions which will be the primary focus of this study, although the impact of malt and vinous beverage programs on the finances of the DLC will also be addressed. The State purchases and warehouses spirits, then distributes them to 73 contract agencies, from which they are sold at State-regulated prices to private citizens, bars, and restaurants.

Although the control structure was established primarily to promote socially responsible consumption and public health, the sale of distilled spirits is also an important source of revenue for the State. The State imposes a tax of 25 percent of the retail sale price of spirits sold through its contract agencies; in FY 2004, this tax revenue was $11.757 million. In addition, the State imposes a pre-tax mark-up on spirits which is intended to recover the DLC's operating expenses (the DLC operates as a self-supporting enterprise fund). The collected markup was over $6 million in FY 2004. In fact, the distilled spirits programs of the DLC operate at a profit, which is used to subsidize other DLC programs that do not generate or receive sufficient revenue to cover expenses. These include beer and wine (malt and vinous beverages) and tobacco enforcement. In addition, the State normally conducts a transfer of monies from the DLC to the General Fund each year; in recent years this transfer has averaged approximately $300,000 per year.

Distilled spirits revenue is clearly important to the State of Vermont and the benefit to the State could be increased through an alternative, more cost-effective distribution system. We note again, though, that this is not simply a financial decision, and any consideration of alternatives should consider:

- The potential impacts on public health and safety of each alternative.
- The potential impacts on the many stakeholders in this process, to include but not limited to: the taxpayers of Vermont, the State's contract agents, alcohol beverage producers and suppliers, the employees of the DLC, and others.

Methodology

This study was initiated by the State via a contract signed on September 30, 2004. The study efforts since that date may be broken into six general tasks:

1. Orientation and Project Planning
2. Initial Data Collection
3. Benchmarking and External Data Collection
4. Development of Draft Report
5. Receipt and Discussion of State Comments
6. Development of Final Report

A brief discussion follows.

The study began with an initial site visit to Montpelier in October, 2004. The MAI Project Manager met with the Commissioner of Finance and Management, the Liquor Control Commissioner, and a Budget and Management Analyst to discuss the study and its background. Following this meeting, MAI had a group meeting with the DLC managers and received an initial tour of the DLC warehouse and offices. A second visit was held in November 2004, and several activities were completed:

- Detailed interviews with DLC management team members
- Direct observation of DLC warehousing operations
- Collection and review of DLC annual reports, financial data, workload data, policies and procedures, staffing and organization charts, and other pertinent data

- Introductory conference call with the three Liquor Control Board Members, and in-person meeting with one Board Member
- Interviews with representatives of other State agencies to include:
    - Agency of Administration. Finance and Management, Human Resources, and Buildings and General Services
    - Office of the Attorney General

The information collected in this manner provided the MAI Study Team with a basic understanding of the DLC's operation and environment. We then began a phase of external data collection whose purpose was to draw upon other control states' experience, obtain benchmarking data, and learn the views of other stakeholders. The effort included:

- On-site visit to the State of Maine, to discuss its recent liquor privatization experience. The Study Team met with State officials and the contract service provider, and toured the contract warehouse.
- On-site visit (Maryland) and tour at the government-operated warehouse facility of the Montgomery County Department of Liquor Control.
- Telephonic and/or electronic interviews with representatives of the 18 control jurisdictions.
- Review of Annual Reports, earlier privatization studies, and other documents from all 18 control jurisdictions other than Vermont
- Telephonic interviews with the National Alcohol Beverage Control Association (NABCA)
- Telephonic interview with the Distilled Spirits Council of the U.S. (DISCUS).
- Telephonic interviews with various distillers and brokers
- In-person interviews with selected Vermont State Agents and a site visit to an Agent-operated store
- Contact with the Vermont State Employees Association (VSEA)

This information, together with the information collected from Vermont State agencies, was then subjected to analysis and discussion by the Study Team members. This included development and evaluation of financial models of two privatization alternatives:

- The first primary alternative considered by this report is the contracting out of the purchasing, warehousing, distribution, and associated functions (exclusive of law enforcement) via traditional service contract.
- The second primary alternative considered is a less traditional form of privatization, modeled on that performed by the State of Maine. In essence, this alternative entails the State of Vermont selling the rights to perform its liquor purchasing, warehousing, distribution, and associated functions (exclusive of law enforcement) for an extended period (at least ten years). The State would receive a significant initial payment and enter into a profit-sharing agreement with its selected partner for future years.

Finally, the Study Team considered potential improvements to the DLC's in-house performance of the purchasing, warehousing, and distribution of distilled spirits, as a third major alternative.

This report addresses the total cost of each alternative, e.g., additional costs such as contract administration which might occur if a contract performance scenario were considered, not just the estimated face value of the contract.

It is worth noting that in Maine, the example the Governor proposed, and the legislature implemented, included several more or less contemporaneous measures to reduce cost or increase revenue-related to the control of distilled spirits. One of these measures was the privatization of liquor purchasing, warehousing, and distribution. A second was the abolition of the law enforcement role of the Maine Bureau of Alcoholic Beverages. Fifteen enforcement-related positions were eliminated and their responsibilities were transferred to the Bureau of Public Safety, which received five additional staff. Since those five personnel are unable to perform the full range of enforcement activities previously performed by the 15, much of the enforcement responsibility was, in effect, devolved to local law enforcement agencies, who do not universally have the resources and training to discharge these duties. Since this process occurred in the same timeframe as Maine's privatization initiative, this is perceived by Vermont as being part of that initiative. A concern raised by a member of interviewees in Vermont was that Vermont might take a similar path as part of "privatization."

The Study Team stresses that the elimination of law enforcement is not necessarily concomitant with privatization. The State of Vermont has developed a strong enforcement program which has reduced Vermont's teenage alcohol-related fatalities (from the highest rate in the nation in 1997, to a position outside the top ten today), improved compliance among State servers and sellers, and implemented effective, proactive training programs. None of the privatization alternatives considered by this report would reduce the State's funding of, or commitment to, enforcement.

A Draft Report, delivered on December 10, 2004, presented MAI's initial findings. Following review of the Draft by the Agency of Administration and DLC, a series of on-site meetings were held in Montpelier on December 22, 2004 to discuss the State's questions and comments. The Final Report, delivered on January 18, 2005, reflected the Study Team's consideration of the State's comments. This Final Report (Revised), delivered January 31, 2005, contains the same recommendations as the January 18 version, but adds additional information on other state liquor programs which was received after January 18, and makes several editorial corrections.

Acknowledgements

In the course of this study, the Study Team interacted with a large number of State personnel. We interviewed, presented with data requests, and sent requests for clarification. We received, without exception, full cooperation and support from the State Personnel with whom we worked. This contribution greatly contributed to our ability to submit a complete, and hopefully useful, report. The role of the Secretary of Administration's staff in helping to coordinate data requests, identify points of contact, and resolve policy issues was particularly important.

However, we would like to single out for special acknowledgement the staff of the Vermont Department of Liquor Control. For obvious reasons, a study such as this creates a degree of concern and apprehension among those with the greatest potential to be affected by its results. Despite this, the staff of the DLC maintained, throughout our interactions, a high level of professionalism and cooperation which reflects well on both the organization and its management. The MAI Study Team greatly appreciates this support.

2. VERMONT DEPARTMENT OF LIQUOR CONTROL – CURRENT OPERATIONS

This chapter describes the current operations of the Department of Liquor Control. The following topics are included:

- Mission
- Organization and Staffing
- Purchasing, Warehousing, and Distribution Procedures
- Equipment
- Facility
- Workload

Mission

The mission of the Vermont Department of Liquor Control is defined as follows (www.state.vt.us/dlc/):

> To protect the public welfare, good order, health, peace, safety, and morals of the people of this state, all to the end that traffic in intoxicating liquor shall be so conducted as to discourage intoxication and encourage temperance.
>
> To provide an environment wherein the production, purchase, distribution, storage, and sale of alcohol beverages in the state are properly supervised and controlled.
>
> To inform all persons who serve in any capacity in the alcohol beverage industry within the state of their responsibilities by providing frequent educational seminars on Vermont liquor laws, rules, and regulations.
>
> In concert with the Commissioner of Taxes, to make sure that rules and regulations provide the means for assuring the collection of all taxes imposed on liquor and liquor distributors by Vermont law.
>
> To encourage local Control Commissioners in the conduct of their offices by providing support of their licensing procedures and practices.
>
> To conduct the operation of the department in an efficient and effective manner.
>
> To be the medium in supplying municipalities the supplies used to comply with the provisions of the tobacco law, VSA Title 7, Chapter 40, and to conduct evidentiary hearings when required.

This mission is further defined by the following range of responsibilities:

> the purchase, distribution, and retail sale of all "spirits" (i.e. all distilled spirits, beers of greater than 8% alcohol content, and wines of greater than 16% alcohol content); the enforcement of Vermont's alcohol beverage statutes and regulations and certain statutes relating to tobacco products; the collection of the State's 25% retail tax on liquor; the annual issuance of more than 5,000 licenses; providing education concerning the proper use of alcohol beverages and tobacco products to industry members, students, and the public at large; and the redemption and recycling of liquor bottles subject to Vermont's deposit law.

Organization and Staffing

The organization of the Vermont Liquor Control Board (LCB) is defined and regulated by the following:

> 7 V.S.A. 101 provides: "The Department of Liquor Control, created by Section 212 of Title 3, shall include the Commissioner of Liquor Control and the Liquor Control Board." The Department's functions and responsibilities are set forth in Title 7 of the Vermont Statutes Annotated.

The responsibilities of the Liquor Control Board are defined by 7 V.S.A §104, as follows:

> The board shall have supervision and management of the sale of spirituous liquors within the state in accordance with the provisions of this title, and through the commissioner of liquor control shall:
>
> (1) See that the laws relating to intoxicating liquor and to the manufacture, sale, transportation, barter, furnishing, importation, exportation, delivery, prescription and possession of malt and vinous beverages, spirituous liquors and alcohol by licensees and others are enforced, using for that purpose such of the moneys annually available to the liquor control board as may be necessary. However, the liquor control board and its agents and inspectors shall act in this respect in collaboration with sheriffs, deputy sheriffs, constables, officers and members of village and city police forces, control commissioners, the attorney general, state's attorneys, and town and city grand jurors. When the board acts to enforce any section of this title or any administrative rule or regulation relating to sale to minors, its investigation on the alleged violation shall be forwarded to the attorney general or the appropriate state's attorney whether or not there is an administrative finding of wrongdoing. Nothing in this section shall be deemed to affect the responsibility or duties of such enforcement officers or agencies with respect to the enforcement of such laws.

(2) Supervise the opening and operation of local agencies for the sale and distribution of spirituous liquors.

(3) Locate and establish a central liquor agency for the purpose of supplying local agencies established in accordance with this title and for the purpose of selling to licensees of the third class and druggists, and supervise the operation of such central liquor agency.

(4) Supervise the financial transactions of such central liquor agency and the local agencies established in accordance with this title.

(5) Make and promulgate regulations necessary for the execution of its powers and duties and of the powers and duties of all persons under its supervision and control.

(6) Employ such assistants, inspectors and other officers as it deems necessary, subject to the approval of the governor.

(7) Fix bonds or other security to be given by licensees.

(8) Make rules and regulations concerning, and issue permits under such terms and conditions as it may impose for the furnishing, purchasing, selling, bartering, transporting, importing, exporting, delivering and possessing of alcohol, including denatured alcohol, for manufacturing, mechanical, medicinal and scientific purposes.

(9) Make and promulgate regulations regarding labeling and advertising of malt or vinous beverages and spirituous liquors by adoption of federal regulations or otherwise, and collaborate with federal agencies in respect thereto and the enforcement thereof.

(10) Make and promulgate regulations relating to extension of credit by and to licensees or permittees.

(11) Make and promulgate regulations regarding intrastate transportation of malt and vinous beverages. (Amended 1959, No. 329 (Adj. Sess.), § 33, eff. March 1, 1961; 1975, No. 254 (Adj. Sess.), § 138; 1977, No. 54, § 1(a), eff. April 23, 1977; 1981, No. 246 (Adj. Sess.), § 1.)

The composition of the Department and the Liquor Control Board is also defined by statute (7 V.S.A § 101):

(a) The department of liquor control, created by section 212 of Title 3, shall include the commissioner of liquor control and the liquor control board.

> (b) The liquor control board shall consist of three persons, not more than two members of which shall belong to the same political party. Biennially, with the advice and consent of the senate, the governor shall appoint a person as a member of such board for the term of six years, whose term of office shall commence on February 1 of the year in which such appointment is made. The governor shall biennially designate a member of such board to be its chairman. (Amended 1959, No. 329 (Adj. Sess.), § 32, eff. March 1, 1961.)

The three person Board is thus responsible for the State's control functions, and exercises this control through the DLC. Unlike some control states, the Board is not a highly-politicized entity. The Board Chairman has served on the Board for 29 years, having been named to six-year terms by a succession of governors from both parties; the second most senior member has served for 19 years. The third member, whose background is in the beverage industry, was appointed to the Board in January 2003.

Not more than two members of the Vermont Liquor Control Board can belong to the same political party. Biennially, with the advice and consent of the senate, the governor appoints a person as a member of such board for the term of six years, whose term of office commences on February 1 of the year in which such appointment is made. The governor biennially designates a member of such board to be its chairman.

The Board employs an executive officer, who serves as the secretary of the board and is called the Commissioner of liquor control. The Commissioner is appointed for an indefinite period and is subject to removal upon the majority vote of the entire board. The Board is responsible for supervision and management of the sale of spirituous liquors within the state in accordance with the provisions of this title, and through the Commissioner of liquor control. The Board exercises a high degree of control over the DLC operations. For example, each proposed product listing or delisting must be approved by the Board. Typically, the DLC senior management meets with the Board twice a year to discuss changes to the DLC's product line and other management issues. More time-sensitive issues may be dealt with on an exception basis. In a current example, Starbucks, the coffee giant, is working with Jim Beam on the release of Starbucks Coffee Liqueur, with availability scheduled for February/March 2005. Given Starbucks high name recognition, this release is expected to generate a high level of consumer interest. To ensure that the DLC is able to offer this product upon its release, the DLC made arrangements for the distributor to contact the Board members to facilitate the approval process.

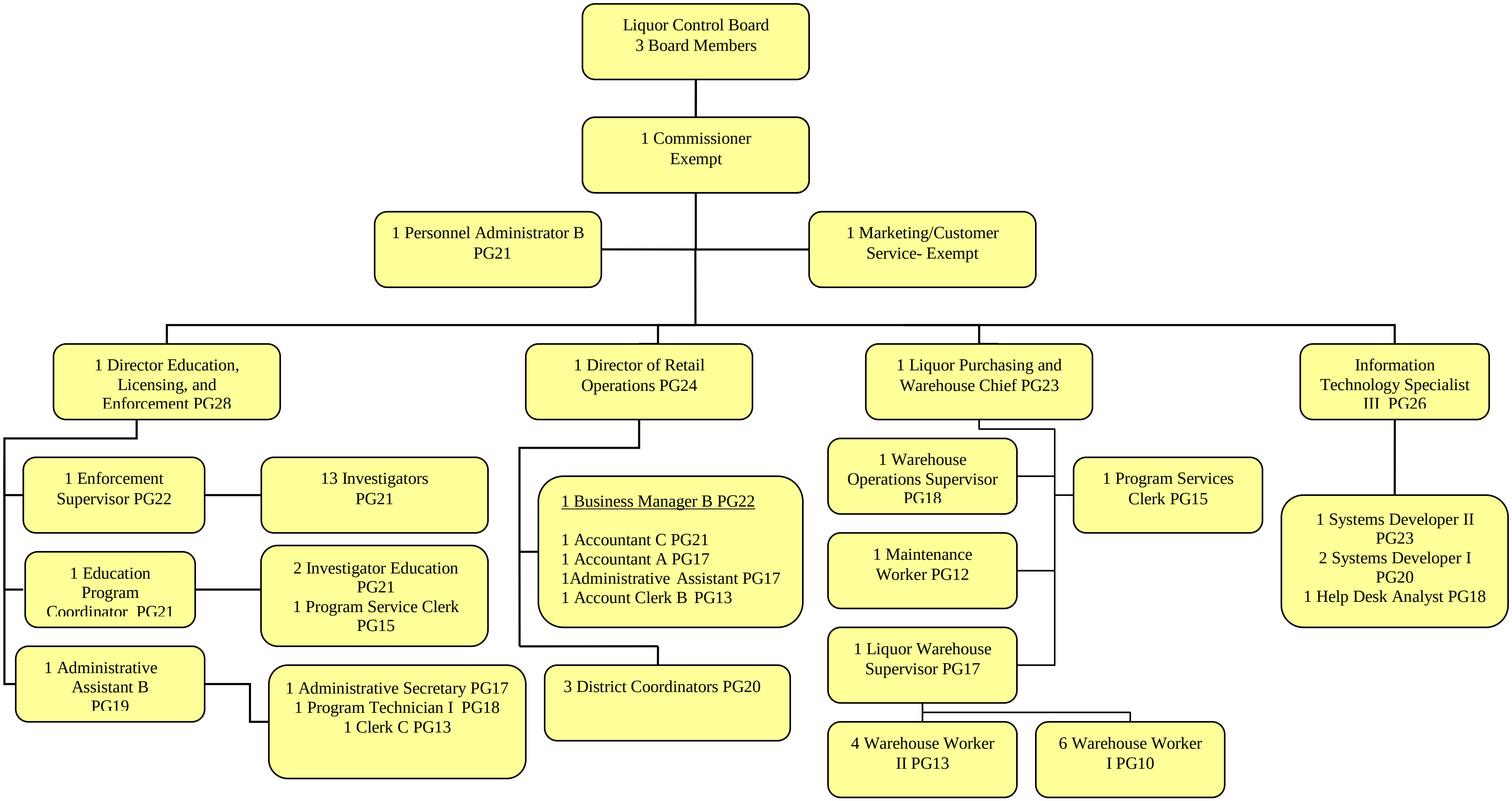
The Board also maintains a high level of interest in strategic issues, such as maintenance of appropriate control and enforcement functions, and Vermont's competitiveness with other adjoining states, in particular New Hampshire, which runs a highly cost-competitive program and charges no sales tax. Vermont's limited marketing programs, consonant with the control function, are designed not to increase the overall level of alcohol beverage consumption, but to encourage adults who make a decision to consume distilled spirits to purchase the products in Vermont and to consider trying premium brands where a range of products is available.

The organization of the Department of Liquor Control is displayed at Exhibit 1. As shown, the organization has two primary divisions, one focused on business operations and administration of the sale of distilled spirits, the second focused on education, licensing, and enforcement, to include tobacco, malt, and vinous beverages, as well as distilled spirits. Total staffing is 56 positions, of which two are in the Office of the Commissioner, 31 support the business operations, and 23 support law enforcement functions. Offices and warehouse space are maintained at the State complex on Green Mountain Drive, roughly one half mile from the State Capitol.

Exhibit 1

Organization Chart

Department of Liquor Control



Office of the Commissioner

The duties of the Commissioner are also established by statue (7.V.S.A §107), and include:

> (1) In towns which vote to permit the sale of spirituous liquors, establish such number of local agencies therein as the board shall determine, enter into agreements for the rental of necessary and adequate quarters, and employ suitable assistants for the operation thereof. However, it shall not be obligatory upon the liquor control board to establish an agency in every town which votes to permit the sale of spirituous liquors.
>
> (2) Make regulations subject to the approval of the board governing the hours during which such agencies shall be open for the sale of spirituous liquors, governing the qualifications and deportment of employees therein and the salaries thereof.
>
> (3) Make regulations subject to the approval of the board governing the prices at which spirituous liquors shall be sold in such agencies, and the method of delivery thereof, and the quantities of spirituous liquors to be sold to any one person at any one time.
>
> (4) Supervise the quantities and qualities of spirituous liquor to be kept as stock in such local agency and make regulations subject to the approval of the board regarding the filling of requisitions therefore on the commissioner of liquor control.
>
> (5) Purchase through the commissioner of buildings and general services spirituous liquors for and in behalf of the liquor control board, supervise the storage thereof and the distribution to local agencies, druggists and licensees of the third class and make regulations subject to the approval of the board regarding the sale and delivery from such central storage plant.
>
> (6) Check and audit the income and disbursements of all local agencies, and the central storage plant.
>
> (7) Devise methods and plans for eradicating intemperance and promoting the general good of the state and make effective such methods and plans as part of the administration of this title. (Amended 1959, No. 329 (Adj. Sess.), § 33, eff. March 1, 1961; 1961, No. 30, eff. March 17, 1961; 1995, No. 148 (Adj. Sess.), § 4(c)(2), eff. May 6, 1996; 2001, No. 143 (Adj. Sess.), § 8, eff. June 21, 2002.)

In short, the Commissioner manages the operations of the DLC, acts as the DLC's external representative on budget, finance, and other key issues, and interacts with the Board to help reflect policy and procedural direction in the DLC's operation. The incumbent Commissioner is well-respected in control state circles; when the Study Team spoke with sources external to the Vermont State Government, several of them cited a "knowledgeable and experienced Commissioner" as one of the strengths that would help the DLC to successfully implement any organizational change initiatives. The Commissioner is an exempt position, appointed by the Board.

The Commissioner is assisted by the Personnel Administrator B (PG21), who provides personnel administration and advice on a DLC-wide basis. (See Exhibit 1.) The incumbent also provides administrative support to the Commissioner, and serves as a point of contact for the DLC's receipt of questions about agency applications, agency indemnity bond renewal schedules, contracts, and other issues.

Marketing/Customer Service. The Marketing/Customer Service function is performed by a single position. This is the only Exempt position in the DLC, aside from the Commissioner; the incumbent's background is in the private sector beverage industry. The "marketing" role of the position is, in fact, rather limited. Due to the DLC's emphasis on public health and safety, the Board does not permit aggressive advertising of distilled spirits, a position supported by recent Administrations. Advertising, as such, has been limited: the DLC has published lists of State stores in the Green Mountain Guide, a tourist-oriented publication, and has purchased some ads in adjoining states, in particular, New York. As an example of this delicate balance, the DLC at one time placed liquor price lists at Vermont Travel Centers, but was asked to remove them by the Vermont Department of Transportation.

Marketing, therefore, is performed more indirectly, in the form of customer service. The DLC attempts to promote product awareness and customer service, and to encourage citizens to "buy locally", i.e., in Vermont. To a lesser extent, the State also encourages purchase of high-end products, to increase revenue to the State without necessarily increasing consumption.

The two primary marketing avenues are information dissemination for the public and customer service education for State Agents. The DLC downloads product descriptions into the cash registers for all listed products, prepares product "shelf talkers" for display by Agents, lists Agents and their locations on the DLC website, lists products and pricing on the DLC website, and distributes a newsletter to Agents and brokers. The DLC also provides training to Agents on customer service and best practices, distributes articles on best practices, and conducts customer service surveys.

The Marketing/Customer Service function is also investigating ways to make purchasing in Vermont more attractive to consumers. Two current efforts are consideration of accepting debit cards and of offering gift certificates.

It should be noted that although the DLC does not actively advertise distilled spirits in print or other media, State law does permit advertising by other parties. Brokers do run advertisements in Vermont media, heightening public awareness of new products and programs.

Retail Operations. The Retail Operations section is led by the Liquor Retail Operations Director (PG24). Retail operations functions include recruiting of new Agents, assessing Agent performance, and evaluating potential renewals of Agent contracts; managing the State's relationships with existing Agents, and performing the DLC's administrative accounting functions The two primary elements of this section are the District Coordinators and Accounting.

District Coordinators. There are three District Coordinators (PG20), who report to the Liquor Retail Operations Director. Each Coordinator has primary responsibility for a portion of the State

(North, Central, or South). Coordinators help new Agents establish an appropriate mix of products and inventory level, develop their floor/shelving layout (with assistance from Marketing/Customer Service), receive their first order, learn to use the State's cash register and software, and begin operations. For existing Agents, coordinators provide help and assistance, conduct monthly inventory counts, reconcile the inventory with the register, and conduct a surprise (unscheduled) annual audit. Coordinators perform spot reviews of Agent stock requests, and may adjust the Agents' request, or contact them with questions, if they appear to be ordering an unusual quantity of a given product. If a delivered quantity is excessive, a Coordinator may go to the Agent, pick up the products, and convey them either back to the warehouse or to another Agent who needs that product (since the State owns the spirits inventory at the Agent's location, the State may optimize inventory levels). Coordinators also assist with special requirements, such as emergency inventories after a break-in at an agency or assisting with movement of stock of an agency relocates. Overall, the Coordinators play an important role in maintaining strict controls over an inventory subject to pilferage and breakage, and in helping the Agents implement sound business practices. The Coordinators also perform inventories at the DLC warehouse several times per year.

The DLC utilizes a standard Agency Contract template and commission-based compensation structure. The Agent receives 8.0 percent of the first $100,000 in sales, 7.5 percent of sales revenue from $100,001 to $200,000, and 6.5 percent of revenues over $200,000. The DLC utilizes a comprehensive review and evaluation process before accepting a proposal from an Agent. The process includes inspection of the Agent's premises and a background check. The basic process is sound, and well-managed by the DLC. Agents interviewed by the MAI Study Team indicated that they were very pleased with the support provided by the DLC; the only complaint (and not a universal one) was that the Agent commission is too low. The Study Team found it to be at the lower end of control state commissions, but not unreasonably so, given the level of DLC oversight and assistance provided.

However, there are areas of the State of Vermont which are currently "underserved" by the DLC (i.e., the DLC believes the population base warrants a State Agent, but there is no current contract store). In several cases, the DLC has advertised for a contract Agent, but received no responses. The DLC should consider offering a temporary increase in the Agent commission, e.g., a one or two percent increase over the standard commissions for the first two years of operation, to ensure full coverage of the State by Vermont-based outlets.

Accounting. The accounting function is managed by the Business Manager B (PG22), who reports to the Liquor Retail Operations Director. Other staff include an Accountant C (PG21), Accountant A (PG17), an Administrative Assistant (PG17), and an Account Clerk B (PG13). Accounting maintains an accrual accounting system, with full accrual financials generated monthly. As an enterprise fund, the DLC's annual statement is subject to review by the State Auditor.

The accounting unit tracks expenses and controls payment of bills, to include approximately $28 million annually in cost of goods sold. Accounting also tracks all DLC income, which comes not only from the sale of products, but also from such miscellaneous revenue sources as license fees and tobacco settlement fees. The unit tracks the value of inventory in the DLC system; there is an automatically-generated daily report on the inventory value. At the end of the last fiscal year (June 30, 2004), the State-owned inventory at the Agent locations was valued at $3.7 million, plus an additional $148,000 for State-owned product in the bailment warehouse. Accounting maintains the General Ledger, performs budget formulation and monitoring, processes multiple transaction types (e.g., electronic funds transfer, credit cards, and check processing), supports audits, and generates special reports as requested.

Information Technology. The Information Technology unit consists of five positions, headed by an Information Technology Specialist III (PG26), who reports to the Commissioner. Other staff include a Systems Developer II (PG23), two Systems Developer I (PG20), and a Help Desk Analyst (PG18).

There are three primary areas of systems support. These are:

- The Sequoia Unix applications, which support the business side of the DLC (database, accounts payable, general ledger, etc.)
- Local area network (LAN) and laptop support. The DLC LAN, operating on Windows 2000 Servers, supports approximately 35 personal computers (PCs), provides firewalls, virus scanners, and spam blockers, and Sequoia access. The DLC also utilizes more than 20 laptop computers, primarily for the Investigators in the Enforcement unit.
- Cash Registers. Each Agent has a DLC-owned computerized cash register, which is integrated with Sequoia (some of the larger Agents have two registers and one has three, for a total inventory of approximately 90). The IT unit developed and supports this system, to include field visits for modem support or other hardware issues.

In addition to system support, the IT unit provides Help Desk support to Agents and in-house staff and maintains the DLC website. IT projects completed by the in-house staff have included providing descriptions of all DLC product offerings on the website (these descriptions are also made available to Agents through the computerized cash register system). In addition, IT has added the capability for customers to special order items from the DLC product guide over the web and have them sent to the Agent of their choice. While these features are beneficial, and the website is well-designed, some of the website is not kept up-to-date. For example, the section on Major Programs/Activities has not been updated in the last three years (it states "This tax is expected to produce an estimated $10 million in General Fund revenues in FY 2001", although the State is now in FY 2005), the links section includes dead and duplicative links, and the number of Agents displayed is incorrect (although the "outlets" listing is correct). Such problems, however, are generally minor and easily fixed with a focused effort to keep the site updated.

In a more serious example, from mid-December 2004 to mid-January 2005, the DLC's online ordering system was not fully accessible as designed. At www.state.vt.us/dlc, on the right-hand menu, is a link entitled "place a special order". When this link was clicked, the result was a message stating "This page cannot be found". However, the State's special order capability was not offline during this period. From the DLC homepage, www.state.vt.us/dlc, if one clicked on "retail" from the left-hand menu, then from the retail page, clicked on "special order" under "price guide", the special order forms were accessible. Some customers, however, may not have thought to look for an alternative route, once they discovered that the direct link from the homepage was not working.

The IT unit has performed some effective technical work in developing the existing systems, which were almost entirely developed in-house. However, the Study Team believes that there is an over emphasis on performing projects in-house, and a lack of formal IT planning. There is no Strategic IT Plan, little formal prioritization of projects, and IT investments are not planned in a structured manner.

DLC staff stated that they recognized there was an over-reliance on in-house systems development, and that the DLC is trying to shift to a more balanced mix of in-house and contract support. The DLC indicated that the IT staff could, in the long run, be reduced from five to three positions, given adequate funding for replacement of current in-house information systems with standard commercial software.

The focus on in-house development has locked the State into its custom-built solutions while other states have implemented more advanced warehousing and ordering systems. The IT staff is also unusually large for an organization of the size of the DLC, and is typical of a state with much larger sales than Vermont. A more detailed review of internal IT Support and usage in the DLC is presented later in this section (Chapter 2), and a copy of the current DLC IT Plan is presented at Appendix C. A staffing comparison with other states is included at Appendix G.

Vermont DLC Warehouse

The Vermont DLC warehouse is staffed with a Liquor Purchasing and Warehouse Chief (PG23), Warehouse Operations Supervisor (PG18), a Maintenance Worker (PG12), two Program Services Clerks (PG15), a Warehouse Supervisor (PG17), six Warehouse Worker I (PG10) stock pickers, and four Warehouse Worker II (PG13) loader/drivers. The schedules of the Vermont DLC staff are divided into two primary groups, the warehouse pickers who work 7:00 AM to 3:30 PM pulling orders for Agent stores, and the drivers who work 6:00 AM to 2:30 PM loading the trucks, delivering orders, and transporting recyclables. The late afternoons are typically spent on the recycling process at the redemption and recycling centers. Deliveries are made Monday through Thursdays to Agent locations.

Each morning, the Program Services Clerk in the warehouse keys in orders to the DLC's current warehouse management information system to generate Pick Lists for each Agent (i.e., retail store). The system assigns a requisition and order number at the top of the page and then lists all the items to be pulled and supplies items ordered. The system also identifies and lists those items that are out of stock. A macro parses orders for in stock items into one to four Pick Lists that pertain to the four picker areas of the warehouse. The system knows which NABCA stock numbered items are usually stored as Fast Movers, Medium Movers, Slow Movers, and High Dollar items. A pick list is generated per Agent for each of these four areas, however, the High Dollar Items are picked when the Partial Case/Single Bottle orders are picked. Special orders go to the DLC Liquor Purchasing and Warehousing Chief for approval before being added to order in the Program Services Clerk's office. (*Vermont is one of 11 Control States using the new **NABCA Control States Coding System** as the designated numbering systems for spirits listing on their inventory control sheets, rack and shelf labels, case labels, pricing lists download files, pick lists, and In-Store Pricing Brochures. Other states use Universal Product Codes, customized codes, or other industry specific codes for these purposes.*)

Each morning, the Program Services Clerk must call Agents who missed the deadline in order to obtain their orders and enter the orders manually into the system. The paper pick lists from the previous day's order are generated and left in mailboxes for the pickers to grab upon arrival. The pickers, and when not loading, the warehouse drivers, take a set of pick lists and some blank routing stickers to apply to the completed case orders. Case lot stickers are not generated automatically.

While the pickers are pulling stock from the four storage areas, the Warehouse Operations Supervisor decides on the loading order for each truck based on the sizes of the loads that day for stores on the route. The loading calculations also account for the likelihood of a driver having to return with a large load of recyclable materials.

<u>Stock Picking</u>

The Program Services Clerk leaves the daily pick lists in an office tray, in the order of loading, so that the orders pulled first will be the first orders loaded and the last orders delivered the next day. While the pick lists are in location code order, excess stock not able to be integrated with existing stock is placed where space is available. Typically, pickers are assigned to a specific warehouse area for several months, which helps them to remember where pallets of excess are tucked away when the previously racked stock is exhausted in the rack areas.

For the partial case/single bottle and high value items, there is a special area of the warehouse where these single items are picked and loaded into cartons. For these items only, the picker uses a handheld scanner to verify the item and quantity pulled and packed. The picker goes to a computer terminal in the bottle pick area and inputs the order number (assigned earlier for by the Program Services Clerk) from the paper pick list. The computer terminal displays the MS Excel file used to create the pick list by the Program Services Clerk from the Agent's order. The picker then travels up and down the bottle pick area selecting the individual bottles required to fulfill the order on the pick list.

After the bottles are placed in the empty carton(s) and brought to the end of the line, the picker scans the NABCA code of each bottle. (Not only do the cases have the NABCA Control States Code label, so do most of the bottles placed in the single bottle pick area.) The scanner matches the code to one of the codes listed in the electronic version of the pick list and marks that it has been pulled. When all the bottles have been scanned, the electronic version should indicate that the scanned codes and quantities matched its original count or that a bottle code is not found or the quantity pulled is over or under the requested amount. Stock shortages can be reported to the Program Services Clerk at that time for order adjustment. Upon verification that the picked items are correct, the picker seals the case and applies a routing sticker on which the picker has manually placed the order number and the Agent's number. The sealed/tagged case is sent down the conveyor belt to the merge point to meet up with the other orders being pulled for that specific Agent.

The Program Services Clerk saves all of the completed electronic bottle pick list files after the picker has completed the picking process to a history file. These files are maintained for a time for auditing purposes. The paper copies of the pick list are discarded.

A sample of a daily pick list is shown below:

	VT Dept. of Liquor Control						
	Pick List						
Description	**Code#**	**Bottles To Pull**	**Picked**	**Description**	**Code#**	**Bottles to Pull**	**Picked**
Crown Royal	11294	4/24	________	Johnnie Walker Red S	5346	6/12	________
Seagram's V.O.	11344	8/24	________	Lauder's Scotch	8826	3/12	________
Black Velvet	11774	12/24	________	Black Velvet Reserve	11586	3/12	________
Jack Daniel's Old #7	26824	4/24	________	Seagram's Canadian H	12306	6/12	________
Five O'Clock Gin	29994	4/24	________	Jameson Irish Whiskey	15626	6/12	________

One of the more senior members of the warehouse staff serves as the line controller, re-verifying picked items against a duplicate set of pick lists. The controller sits at the merge point of the four separate conveyor belts, and typically begins to process the merged cases of requested items as they move down the line for loading into the trucks on day two of the cycle. (On day one, the pickers are loading the pulled requested cases to the conveyor belt in their work area; on day two, the controller verifies their pulls and releases the cases to the drivers in Agent/Route order at the bottom of the conveyor.)

As the last of an Agent's merged order is loaded, the controller can add in any late requested items and complete paperwork as the next order is awaiting final verification on the conveyor. The paperwork consists of the Driver's copies of the consolidated orders and bills of lading. The bills of lading are created manually by the Program Services Clerk using the information from the pick lists. At this time, the system does not automatically convert the actually number items picked to a Bill of Lading, even though the system contains the number of items and the weight of the items.

While the pickers (Warehouse Worker I) fan out to begin pulling stock, the Drivers (Warehouse Worker II) begin loading their delivery trucks with the cases pulled the previous day. At the time of the site visit by the MAI Study Team, one of the two loading docks was blocked with stacked boxes of Holiday Gift Pack items (i.e., buy a 750 ml of this liquor and get two free champagne glasses), so only one truck at a time could be loaded at that end of the warehouse. (Other DLC trucks could be loaded at the dock where suppliers drop off their replenishment stock, but would have to move each time a supply shipment arrives). Very little of the case stock being loaded into DLC delivery trucks going to retail outlets was palletized. Boxes were stacked shoulder high in the truck in reverse delivery order than braced and separated from another Agent's delivery group being loaded next in the bay by using metal bars and plywood sheets.

Since the Drivers cannot begin loading their trucks until the controller releases an order to them as complete, it is unclear why the line control verification process is held to the morning that loading must be done. Montgomery County, MD has an evening shift (4:00 PM - 1:00 AM) that completes the merging and palletizing of the various parts of each store order that has been pulled during the day, and to replenish the stock shelves for the next day. Montgomery County also has a small crew that arrives at 04:00AM to prepare pick lists and to assist drivers to be loaded and on the road by 8:30AM.

The Vermont drivers said that they are usually packed on the road between 12:00 PM (noon) and 1:00 PM each of the four days a week that they make deliveries. At each delivery stop, upon dropping off the Agent's order, the Drivers pick up the Agent's collection of returned empty recyclable liquor bottles, for which a deposit was collected and a refund given by the Agent for its return. The Drivers drop the accumulated recycling off at designated Recycling Redemption and Consolidation Centers for reutilization, and then return to the DLC Warehouse.

The Drivers obtain signatures from the Agents on one copy of the bill of lading upon delivery and bring the signed copies back to the Program Services Clerk.

<u>Other Tasks Assigned to Warehouse Personnel</u>

The Liquor Enforcement staff store confiscated liquor in the warehouse as evidence. Once the case is over, the product is released to the DLC for sale. The staff must apply new barcode labels over the original barcode, so that the system can track them sales of these items (i.e., all confiscated goods are given the same generic Bar Code 999949, i.e., not one used in the NABCA Control States Code system).

As noted above, Drivers pick up empty bottles (empties) from Agents and drop these bottles off at recycling centers. If they return to the warehouse with empties at the end of the day, they take them out on next day's run. On Fridays, a non-delivery day, the DLC Drivers load trucks with Monday's shipments, perform user maintenance on equipment and facilities, and assist with general warehouse work.

The Drivers can also be dispatched to transport the warehouse's dumpsters of accumulated cardboard for bailing on Thursdays and to retrieve the dumpsters on Fridays, if not too busy. The warehouse has large dumpsters distributed through the work areas which have to be trucked to the bailer machine in Waterbury. It is a one hour round trip drive once the dumpsters are loaded on the truck, but the dumpsters must be left at the recycler to be emptied over night. The next day a truck stops by the recycler to retrieve the dumpsters. When all six dumpsters are gone for recycling, the warehouse staff pile the cardboard on the floor until the dumpsters come back. (Note, this may be considered to be a safety or fire hazard under some conditions.)

Another task that warehouse workers and drivers are tasked to perform is to apply "bottle deposit/refund" stickers on new cases and bottles that have not arrived pre-stamped for Vermont's program. In addition, the staff must re-sticker items that have multiple state refund information. The goal of this effort is to reduce the occurrence of Vermont paying a refund to someone who bought their bottle (and therefore paid their deposit) to another state or in a state where no deposit was required.

The pickers operate fork lifts and overhead pallet-pickers. Some of these items are propane fueled and some of them require nightly recharging. Staff are expected to swap their own propane tanks as needed and to attach the electrical items to the recharges before leaving each night.

The trucks are refueled at the State Highway Department diesel filling station. Each truck has a log to record the fuels pumped and the mileage at the point of fill-up. The Drivers have a credit card for emergencies only. The long distance trucks fuel daily, while the short distance trucks fuel every other day. During the winter, for safety reasons, all DLC trucks refuel daily. Each truck has two sets of tires. In the fall, the newer set of winter tires are mounted. In the spring, the older set of summer tires are mounted. The spare sets are also stored in the DLC warehouse with the liquor and wine.

Drivers have specific routes each day, but don't necessarily drive the same truck each day. Due to typical procurement practices, the delivery trucks are different. While the trucks are all 10-wheeled cargo trucks that are either 22 or 24 feet long, parts cannot be interchanged.

Warehouse Organization

The 49 new products being listed in late 2004 will be integrated into one of the slow-medium-fast mover areas initially based on projected sales. Periodically, the Warehouse Operations Supervisor and Purchasing Manager verify the distribution of products to the correct "seller speed" area. Product items are sorted by sale to determine the slow-medium-fast seller break points, and then are resorted within each group based on price.

The top selling items in the Fast Mover area receive the bulk of the available floor space due to the volume and speed of turnover. The Fast Mover area grants the five top sellers space in the following type of space ratio:

- 12 pallets
- 9 pallets
- 6 pallets
- 3 pallets

Super slow items are stored on the ground floor under the two racks of slow, but not super slow moving items. Special items are stored in a loft area above the new breakroom, which is near the bottle pick area. The items in the special order area are stored in random locations, since the items change regularly. The picker goes to the computer in that area and enters the item number of the product; the PC returns the bin number where the item was placed upon arrival at the warehouse.

As this is a Vendor Managed Inventory type bailment warehouse, volumes of stock delivered by suppliers are affected by producer promotions and seasonal sales. The suppliers are supposed to maintain a 30-to-90 day stock of each item, but this can become complicated by seasonal gift pack sets or pre-holiday buying trends. Ideally, the pick list would print the items to be pulled in true row, rack, and shelf location order. The distribution of excess stock around the warehouse, including locations that do not have an official location designation in the system, reduces pulling efficiency for the warehouse workers.

The Warehouse Operations Supervisor is aware of this situation and would like to do a twice a year warehouse readjustment of space. This would, of course, require a two or three day suspension of deliveries – unless it was accomplished over a weekend twice a year.

Polling of the Agents' DLC computerized cash registers is done at night automatically. The warehouse's Program Services Clerk accesses all store orders and converts the daily sales transactions data to a growing file of needs for each Agent. While the orders are still placed manually by the Agents, this DLC-developed needs list is provided to the Agents to assist in their order development.

Today, the Agents must key in manual order based on expected needs. District Coordinators who work for the DLC can conduct reviews of Agent orders, and adjust the orders before they become pick lists. During the winter, the Agent stores in the ski resort areas are not automatically sent bulky promotional gift pack items (the gifts are too fragile and require too much room). The promotional packs are typically sent to the larger downtown stores.

Warehouse Receiving

The current warehouse management system is not used by the DLC to generate automatic 1-for-1 replenishment orders for each store. When this was tried before with a much earlier system, the replenishment order was often over inflated by one-time events, e.g., the Agents might receive the same number of items after the Super Bowl as was sold before the game, even if the Agent had bought extra of a product for a one-time event. This caused some Agents to receive greater than needed deliveries, which in turn caused an inadvertent advance in the amount of stock that had to be paid for (as out-of-bailment items) by the DLC to the suppliers.

The liquor suppliers (or at least their truckers) typically do not provide more than one or two days notice that shipments are on the way to the DLC warehouse. In fact, many trucks arrive with no advance notice; some even arrive with incorrect shipping documents, which delay the reception and acceptance process. The truck that arrived during the on-site observation of the warehouse had a mix of non-palletized cases, wrapped cases on slip sheets, and some palletized stock. In this case, the incoming driver's delivery paperwork did not match the load on the truck; however, additional paperwork was later found attached to the pallets that reconciled the delivery quantities.

As the supplier's truck is unloaded at the loading dock, the DLC warehouse worker who empties the truck keeps a journal of where the excess stock is dropped. The Program Services Clerk records deliveries from producers and enters the received product data into an MS Excel spreadsheet. The spreadsheet reports to the Purchasing Manager, the Broker, and the producer at the same time.

The Program Services Clerk develops a distribution list for “clearance items”, special orders, and new items. The new items and the clearance items are distributed to the Agents on a percentage basis, i.e., the items are added to the Agents’ pick list.

A report of all out-of-stock and near stock-outs is provided to the Purchasing Manager each Monday. The Purchasing Manager can coordinate with suppliers for replenishment deliveries.

Vermont Use of Information Technology and Equipment for Purchasing and Warehousing

Ordering

Where possible, ordering of liquor in many of the Control States is being migrated to the Web using the **Electronic Data Interchange** (EDI) product catalog coding provided by liquor producers to the NABCA. The EDI digits and accompanying barcodes can be read by handheld scanners just like in the grocery store check-out. When ordering and inventorying is based on these codes, in the form of a Universal Product Code (UPC), the 6-digit NABCA codes, or similar digit/barcode combination, the warehouse can collect and retrieve information such as sales histories and inventory statuses can be tracked more easily. The codes refer to the product, its brand, its unit size, and package/case quantities. The more sophisticated producers can also code the sub-pack units within a case with a similar code that describes the individual bottle or the set of 50 ml "nips/minis" in a sub-pack sleeve.

Most, but not all of the arriving product cases unloaded at the DLC warehouse have a NABCA code; some have it on the case, some have it on the delivery paperwork, and some producers still do not use this process.

Technically, a new code is supposed to be generated whenever a product changes significantly. This is not always done by the producers. For example, sometimes the quantity of bottles per case changes when the product is converted to plastic bottles, which impacts on inventory processes that rely on a known bottle/case count to determine total bottle stock. Producers are supposed to notify the NABCA if a UPC or NABCA code definition is changed (i.e., product changes or case size changes). NABCA issues notices of code changes and the producers will, often, send out notices to buyers.

When the Vermont DLC staff receive a Control State Code change notification from the vendor or NABCA, the Vermont DLC's IT Unit must update the Vermont internal liquor control code numbering database file on that item so that future orders reflect the correct bottle count and product.

In Vermont, the Agency Store cash registers use the NABCA codes to bottle-level sales, sending that data to the DLC inventory system nightly. The DLC IT group has been processing and returning sales information and order history to the Agency Stores via the cash register interface.

Based on EDI codes NABCA can track sales of items on a national level; merchants buy the NABCA sales data to help them decide what listed items might be good sellers in their areas. The system can track item sales EDI codes, provide reordering support data, and inform Agents of the status of items due in to the warehouse, awaiting to be packed, or in route. The Vermont DLC District Coordinators are also available to the Agents to assist them in determining reasonable orders for the size of the Agent's operations and based on the time of year.

Using EDI codes, the Agents can place orders for a mix of cases and bottles, which is very useful for slow moving or expensive items. At this point, however, the extent to which the Vermont DLC has pushed the use of EDI to its full potential has been limited. Many of the other DLCs/LCBs around the Control State community have moved much further into the upgrading of their liquor control-related software development (see next section). While the EDI process has been used, to a limited extent in Vermont, for ordering and billing purposes, it is not being used to its potential to expedite and reduce costs of warehouse operations.

Warehouse

As noted in the Warehouse process description, the current, albeit antiquated, warehouse order processing software interacts with the similarly aged warehouse inventory system to generate one to four separate paper "pick list" for each Agent order. The pick list shows the items to be picked for the order and the quantity of cases or bottles required. The picked cases are loaded onto a conveyor system to be merged later with boxes of picked single bottle orders. Once a DLC picker completes the single bottle order, a handheld scanner is used to scan each bottle's barcode. The scanner is used to verify that the correct items have been pulled, and in the correct quantity, by locating the scanned bottle barcode on an electronic version of the pick list. The sole purpose of this is to verify that the complete order has been picked and to weed out items incorrectly added to the order by the picker; correctly filled bottle boxes are tagged with the Agent's routing sticker and the box is placed on to the DLC conveyor. The scanning process does not debit the warehouse inventory for those items. Later, when the case orders and bottle orders for an Agent are merged at the confluence of the four conveyor belts, a DLC warehouse team leader verifies that all items for one order have been picked correctly by reviewing all cases and bottle boxes independently against a blank set of all the four pick lists for the Agent store. The data from the pick lists (four for larger orders) for each Agent must be manually re-entered into another system to generate a Bill of Lading for the DLC driver. The Bill of Lading is based on actual truck contents rather than on what was ordered.

At this time, the DLC has not invested in newer warehouse management software commercially available or customizable that would permit:

- the scanning of cases into a receipt status and/or into inventory upon arrival at the warehouse, to show them as received, stored, and available for picking;
- the scanning of cases and bottles from inventory into a awaiting loading status, to show them as pulled from stock and unavailable for others to pick;
- the scanning of cases and bottle boxes at the time of loading, to initiate the data capture necessary for timely "leaving bailment payment" processing and to generate Bills of Lading; nor
- the scanning of items upon delivery, to verify arrival or to provide a method of crediting the store location for miss-picked items, broken items, returns, or recalls.

Most of the other control states have implemented a high level of automation in these processes, as discussed later in the report section on other states' experience. Many have utilized enterprise-wide solutions which integrate all of their business functions; such systems have typically cost between $150,000 and $1 million. Vermont's current sales, volume and potential for efficiencies do not warrant this level of investment. However, by focusing on the implementation of warehouse operations software and greater integration with the VISION system, the DLC could achieve significant improvement at a fraction of that cost. The Study Team estimates $25,000 for requirements analysis and $200,000 for software development would be required. Following implementation, which could be accomplished by the end of FY 2006, the DLC can eliminate one Warehouse Worker (PG10) and one Systems Developer (PG20) at the end of FY 2006. These staff reductions will reduce annual operating costs by $78,000 per annum.

Law Enforcement

The Education, Licensing, and Enforcement section is the largest component of the DLC, with 23 positions, 18 of them occupied by law enforcement officers. The staff include the Director (PG28), the Enforcement Supervisor (PG22), 13 Investigators (PG21), the Education Program Coordinator (PG21), two Investigators, Education (PG21), one Program Service Clerk (PG13), one Administrative Assistant B (PG19), one Administrative Secretary (PG17), one Program Technician (PG18), and one Clerk C (PG13). All personnel graded PG21 and above are law enforcement officers.

Each of the 13 Investigators has responsibility for a specific geographic area. They check licenses, assist with education, and perform legal compliance spot checks. The Enforcement group also operates a program called Stop Teen Alcohol Risk Team (START), designed to optimize law enforcement response to parties where underage drinking occurs.

The Education component has implemented a program of mandatory server and seller training, which began in July 2000. This program requires all servers and sellers of alcohol beverages to undergo training, with refresher training every two years.

The Law Enforcement staff investigate license applications, investigate breakage or pilferage of State-owned distilled spirits, investigate agency break-ins not handled by local tax enforcement officials, and monitor violations of Vermont importation limits, particularly from New Hampshire.

The State of Vermont's law enforcement program is robust and effective. Where statistical data is tracked, the State's results (e.g., in seller compliance and alcohol-related fatalities) have improved in recent years from their mid-1990s levels. While further improvement is still possible, the recent trends demonstrate the effectiveness of the DLC's newer programs.

The funding of the State's enforcement and education efforts has interesting implications for the State's consideration of privatization alternatives. The Enforcement section is responsible for enforcement, licensing, and education related to malt and vinous beverages and tobacco, as well as distilled spirits. The Director indicated that the section's workload was 60-65% related to malt and vinous beverages, 25-30 percent tobacco, and 10 percent distilled spirits. This is consistent with experience in other states, where the majority of enforcement problems, and in particular underage drinking problems, are related to beer and other malt beverages. However, while the State does generate some revenue from beer and wine licensing, the tobacco settlement fund, etc., these funds are not adequate to cover the costs of the DLC's education, licensing, and enforcement of malt and vinous beverages and tobacco programs. These programs are heavily subsidized by the State's markup on distilled spirits, as will be further discussed in the financial analysis portions of this study.

The DLC identified that one position in the Enforcement Section, a Clerk C PG13, would become vacant in FY 2005, and that this position did not need to be filled, based on current workload. The Study Team recommends that the DLC not fill this anticipated vacancy, generating annual savings of approximately $40,000 per annum. Full savings will be realized in FY 2006.

Current Financial Analysis

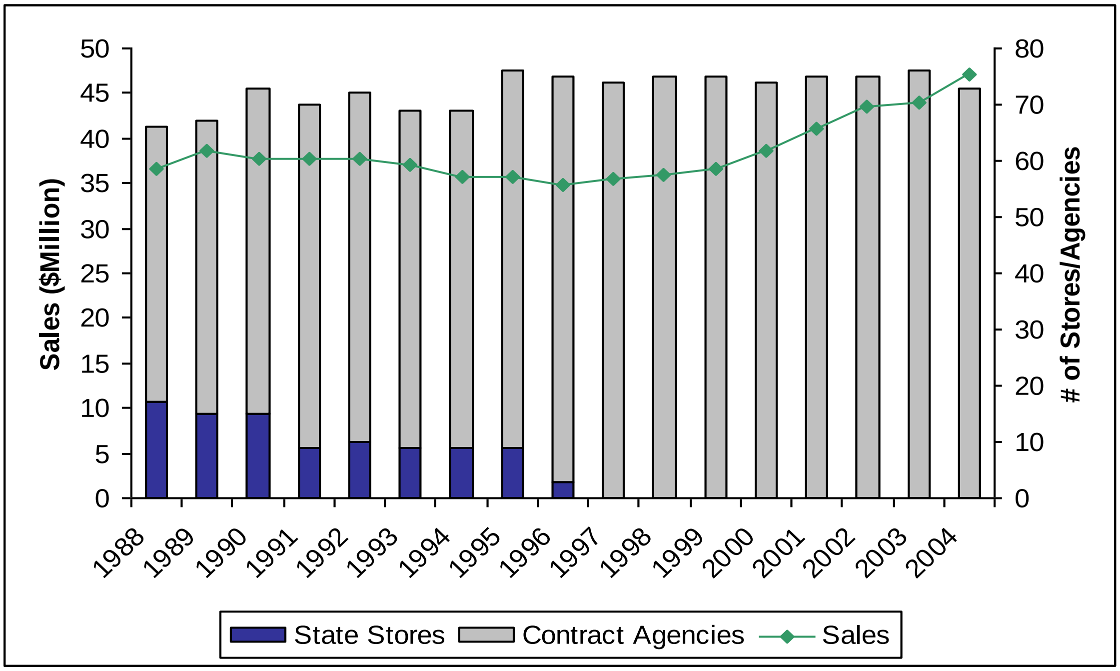
The Department of Liquor Control operates as an enterprise fund, which uses the revenues generated by sales of distilled spirits, in addition to monies obtained from licenses. Exhibit 2 displays the DLC's sales trend, in cases sold, from 1988 through 2004. A longer term trend chart would show that the DLC's sales peaked, in terms of sales, in the early 1970s. In

1974, the State converted from a gallonage tax on alcohol beverages to a retail tax (of 24% at the time, 25% since 1982). The imposition of the retail tax was done in a revenue neutral way, and had no immediate impact on sales. However, the retail (ad valorem) tax was not indexed or adjusted to retain a competitive pricing position. For example, if a supplier raises the price on a $20 bottle of spirits by one dollar, the price to the consumer goes up by $1.25 with a 25 percent retail tax. In a neighboring state with a gallonage tax, the price would go up by only one dollar, since the tax is based on the volume of alcohol not the end price. Over time, Vermont's prices became increasingly noncompetitive, and consumers began to buy their spirits elsewhere, particularly in New Hampshire, which has no state tax on distilled spirits. Reflecting this and changing societal pattern of alcohol consumption, by the early 1990s the DLC's annual cases sold were less than half the early 1970s level. Beginning in the late 1990s, the State began to see renewed growth in sales, as the move to contract agencies versus State stores enabled Sunday sales hours, and the DLC implemented sales programs, such as Prime Focus, to retain its customer base. Demand remains highly seasonal, with December being the peak month.

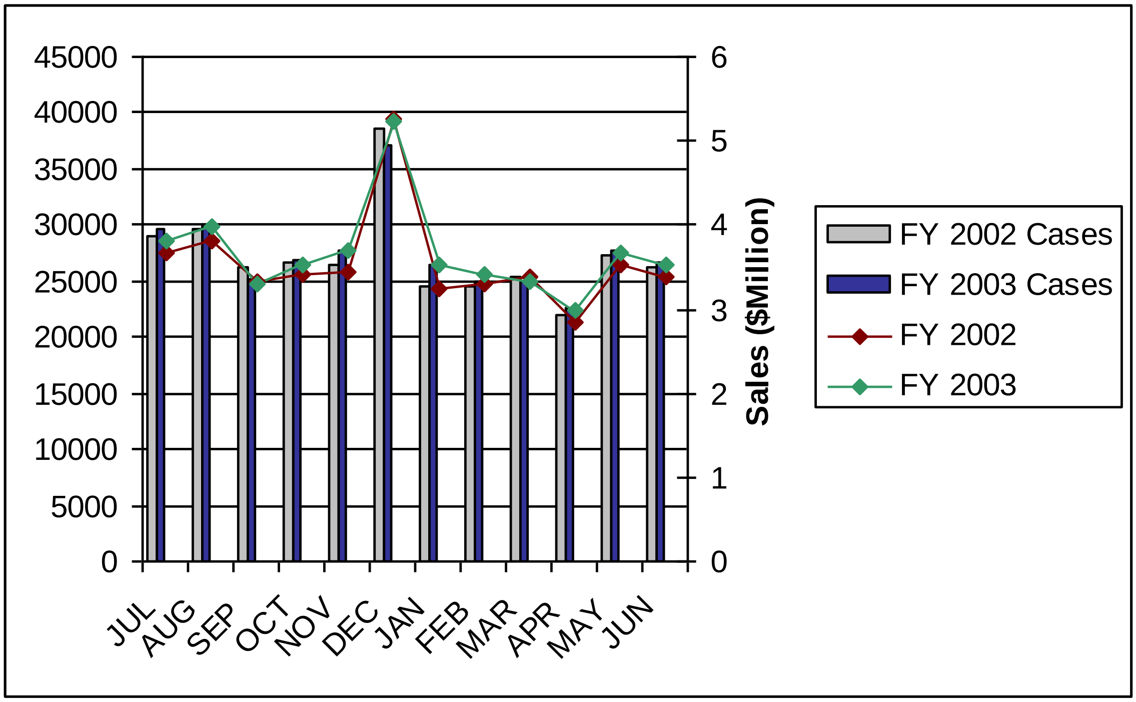
The State's revenue from the sale of distilled liquor has two components, the retail tax and the DLC's markup. The retail tax, as noted above, is 25 percent of the retail price. In FY 2004, this tax generated $11.57 million, which went to the State.

EXHIBIT 2.

Liquor Sales Data



Cases Sold by Month



General Funds

The tax rate is determined by the Legislature. The second form of revenue is the State's markup. When the State purchases a bottle or case of spirits, it applies a markup designed to cover the State's expenses. The retail tax is the applied to the State's purchase price (including Excise Tax) plus markup. The markups vary by product type, i.e., the markup on a bottle of vodka is different from that on a bottle of port. Markups average just over 40 percent; combined with the 25 percent retail tax, the cumulative effort is that the end price to the consumer is close to 70 percent over wholesale. Markup revenue to the DLC was $6.8 million in FY 2004, including the Special Purchase Allowance on sale products. Changes to the markup structure must be approved by the Liquor Control Board.

The DLC has other, miscellaneous forms of income, primary among them the collection of fees for licenses to sell alcohol beverages. In FY 2004, the DLC collected $688,983 in such fees. However, these fees are shared with the State, which received two-thirds of this revenue ($460,205), with the DLC retaining $228,777.

In Exhibit 3, the top chart shows the distribution of DLC revenue (exclusive of retail tax) by program for FY 2004. To derive these figures, the Study Team distributed fees collected for licenses, violations, etc. to the appropriate program area. As can be seen, spirits account for approximately 95 percent of the DLC's revenue.

The lower chart displays distribution of expenses, by program for FY 2004. Although spirits account for 95 percent of the DLC's revenue, they account for only about 71 percent of expenditures. In fact, each year approximately one million dollars in DLC spirits revenue is used to subsidize its beer, wine, and tobacco programs, which operate at a significant cash deficit. In addition, there is traditionally an administrative transfer of funds from the DLC to the General Fund. In FY 2004, this transfer was over $410,000.

Included at Appendix D are the DLC Financial Statements for FY 2004. Key figures include:

Gross Sales (Including Retail Tax)	$47,036,542
Tax (to General Fund)	$11,757,556
Net Sales	$35,278,985
Cost of Goods Sold`	$28,722,753
Net Department Income	$326,068
Legislative Transfer	$410,446
Net Income	$(10,983)
Retained Earnings	$(190,756)

Three questions are immediately evident from this set of figures:

- Why did the DLC have negative net income in FY 2004?
- Why does the DLC have negative retained earnings?
- What is the significance of negative retained earnings for the DLC?

These first two questions are somewhat related. The table below displays some of these same financial data for the period of FY 1990 through 2004.

Year	1990	1991	1992	1993	1994
Gross Sales	$37,669,429	$37,628,726	$37,730,455	$36,983,222	$35,727,441
Tax	$9,412,842	$9,393,048	$9,421,801	$9,236,597	$8,919,251
Net Sales	$28,286,588	$28,235,677	$28,308,653	$27,746,625	$26,808,190
Net Department Income	$347,730	$248,571	$113,669	$221,690	-$298,597
Legislative Transfer	$327,645	$327,645	$473,017	$433,017	$513,017
Net Income	$20,085	-$79,074	-$359,347	-$211,327	-$811,614
Retained Earnings	$2,644,446	$2,221,594	$1,860,189	$1,648,862	$832,400

Year	1995	1996	1997	1998	1999
Gross Sales	$35,659,130	$34,931,651	$35,438,481	$36,034,065	$36,679,041
Tax	$8,902,662	$8,715,446	$8,842,640	$8,995,369	$9,153,178
Net Sales	$26,756,467	$26,216,206	$26,595,840	$27,038,696	$27,525,864
Net Department Income	$223,082	$417,000	$552,851	$359,654	$384,273
Legislative Transfer	$513,019	$513,017	$707,013	$150,000	$327,000
Net Income	-$289,937	-$96,106	-$154,161	$209,654	$57,273
Retained Earnings	$610,527	$507,215	$353,053	$562,708	$619,980

Year	2000	2001	2002	2003	2004
Gross Sales	$38,621,182	$40,959,000	$42,637,891	$44,056,502	$47,036,542
Tax	$9,638,865	$10,230,657	$10,658,133	$11,012,818	$11,757,556
Net Sales	$28,982,316	$30,728,343	$31,979,758	$33,043,684	$35,278,985
Net Department Income	$659,225	-$169,614	-$27,766	-$70,570	$326,068
Legislative Transfer	$327,000	$327,000	$250,644	$286,384	$337,051
Net Income	$332,225	-$496,614	-$278,410	-$356,954	-$10,983
Retained Earnings	$952,205	$455,591	$177,181	-$179,773	-$190,756

The “tradition” of the annual administrative transfer to the General Fund goes back more than three decades. The Study Team reviewed data back to 1973, and found that a transfer had occurred every year. During the period of robust sales, the DLC was generally profitable, and the administrative transfer placed no financial stress upon the DLC’s ability to meet its mission. Indeed, from 1980 through 1987, the DLC made a transfer of over $325 thousand every year, and its retained earnings actually grew from $1.39 million to $2.71 million over this period.

In 1990, the DLC had retained earnings of $2.64 million. However, both sales and profit in the 1990s were reduced over prior years. In the 1990s, net department income averaged $259 thousand per year, versus $538 thousand in the 1980s (figures not adjusted for inflation). In the 1990s, the average annual administrative transfer was $428 thousand; in the 1980s it was $329 thousand. Thus the administrative transfers in the 1980s allowed the DLC to build retained earnings, since the transfer was less than the net department income. In the 1990s, the reverse occurred, and the retained earnings began to be drained. Following four consecutive years of losses in FY 2001 through FY 2004, the DLC has negative retained earnings of $190,756 at the end of FY 2004. Exhibit 4 shows the decline of retained earnings over this period, compared with cumulative administrative transfers, and what the retained earnings would be if no transfers had occurred.

The DLC has also made accounting adjustments due to Governmental Accounting Standards Board (GASB) implementation which reduced retained earnings by more than half a million dollars ($500,720 in FY 2001, resulting in that year's loss). In addition, the State directed the DLC to keep payables to vendors in the 45-day range, versus an earlier practice of more extended payment; this impacted cash flow and reduced retained earnings. Several other events, such as the imposition of VISION fees, have also impacted the DLC. However, the administrative transfers have been the single largest factor in the retained earnings reduction; as shown in Exhibit 4, nearly $6 million has been transferred to the General Fund over the past 15 years.

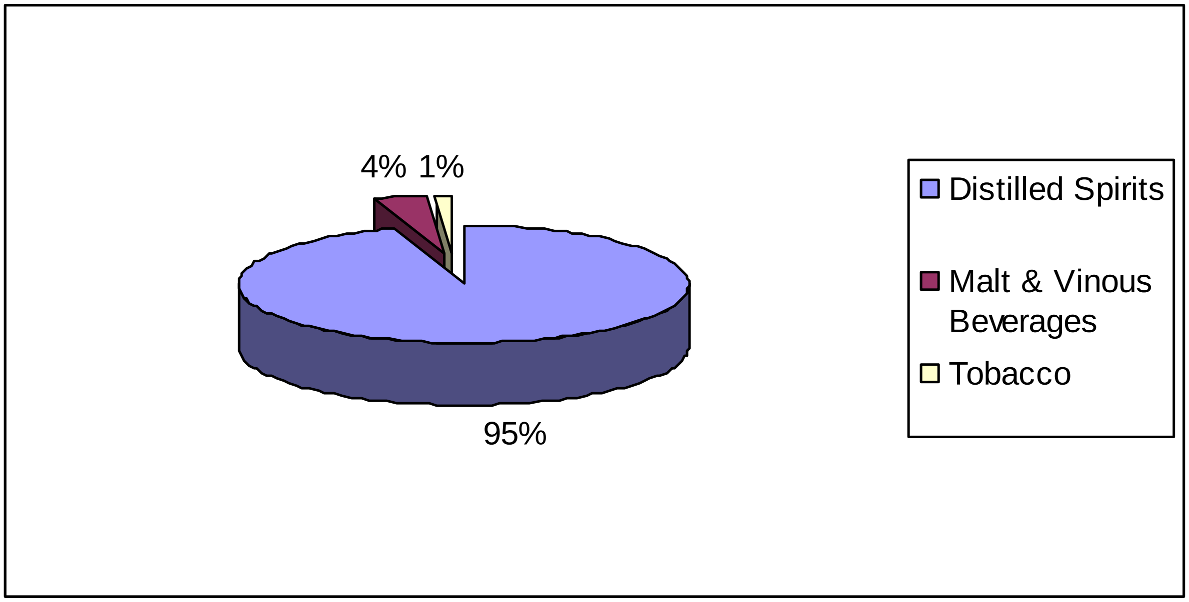
While this is not yet a serious concern, a problem is looming. The DLC is able to operate and continue to pay its bills due to its bailment warehouse system. The DLC does not have to generate a purchase request for a given product until that product is shipped to an Agency store. The supplier then generates a bill, which the DLC typically pays within 30 to 45 days. By then the product may well have been sold; by selling many of its products before it pays for them, the DLC obtains a float that helps it survive despite negative retained earnings. But the DLC is now one, or at most two, more bad years from having to defer payments to suppliers. At that point, vendors will cease selling their product to Vermont, and the DLC's programs will begin to suffer.

The administrative transfers are by no means a flawed concept, nor are they solely to blame for the current financial situation. The DLC has no requirement for retained earnings in the millions of dollars, and such monies should be used for the benefit of the citizens of Vermont. However, the DLC should be allowed to retain adequate funds to pay its bills promptly and to retain some small financial cushion to avoid having to seek supplemental funds in the event of an unforeseen problem.

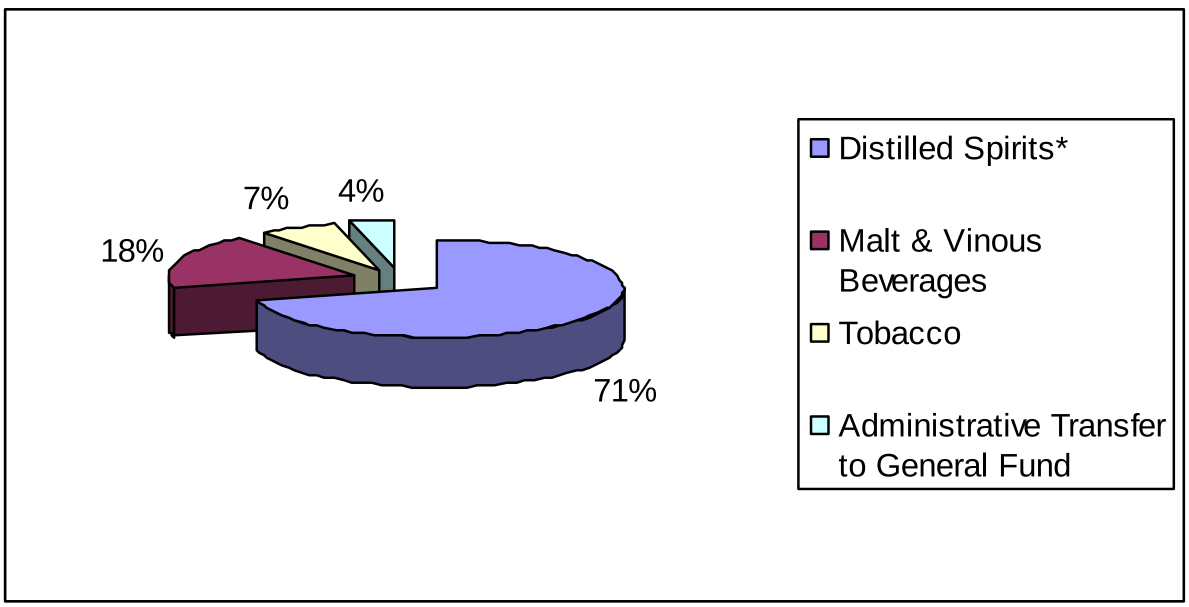
We recommend that the size of the administrative transfers be scaled back to allow the DLC to reestablish retained earnings of $500,00 over the next four years. Special approval could be obtained by the DLC to accumulate funds over this level to support major capital requirements, such as warehouse renovation.

EXHIBIT 3.

FY 2004 DLC Distribution of Income, by Program

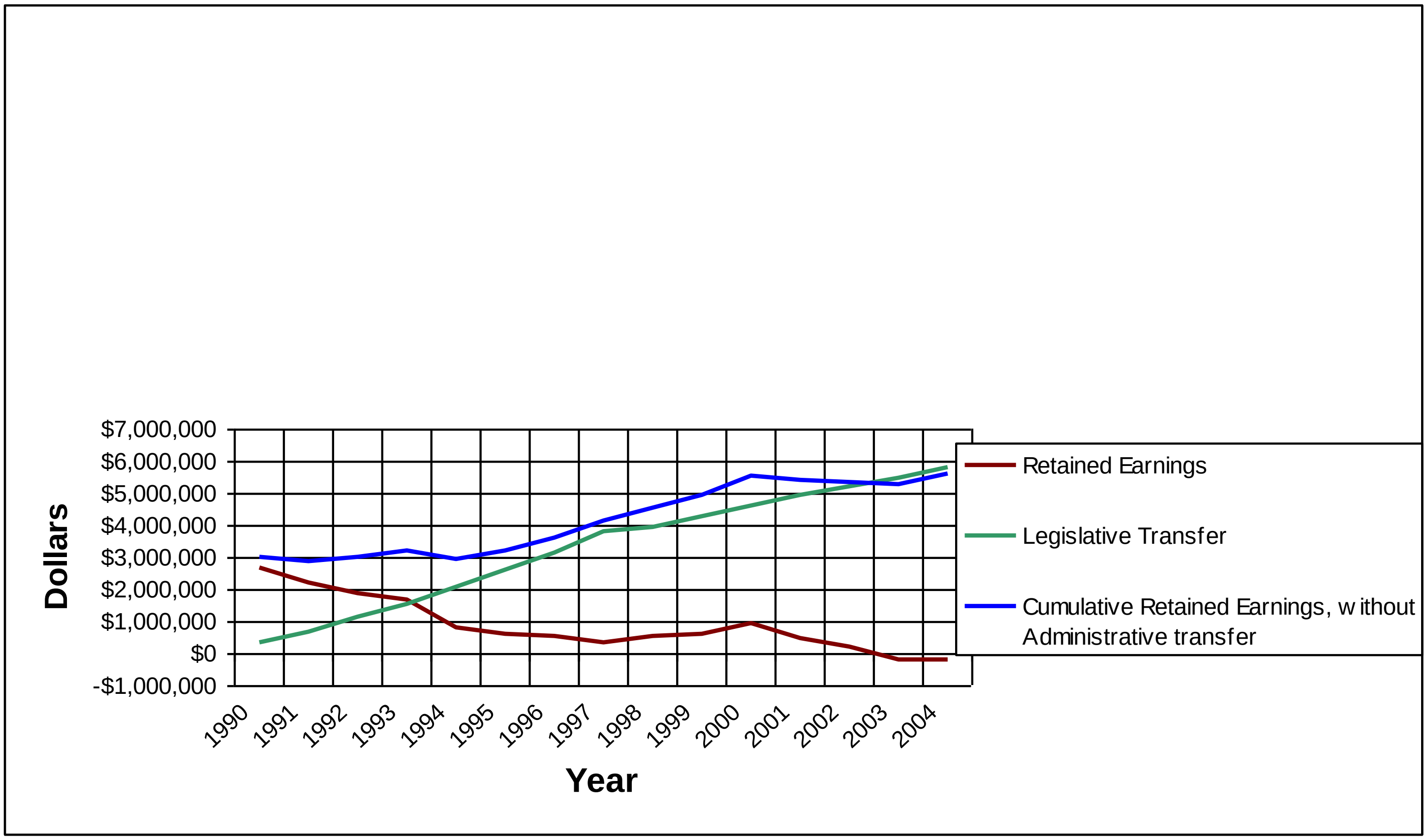


FY 2004 DLC Distribution of Expenses, by Program



*Excludes Cost of Goods Sold

EXHIBIT 4


$7,000,000
$6,000,000
$5,000,000
$4,000,000
$3,000,000
$2,000,000
$1,000,000
$0
-$1,000,000
Dollars
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
Year
Retained Earnings
Legislative Transfer
Cumulative Retained Earnings, without Administrative transfer

3. MANAGEMENT STRUCTURE COMPARISONS WITH OTHER LIQUOR CONTROL STATES

All of the Control States except Idaho and Montana have an active Liquor Control Board (LCB) or similar Commission appointed to provide alcoholic beverage control (ABC) policy and oversight. These two States have a State Director or State Administrator function in lieu of the traditional Board structure. ABC policy, operations, and product listing management have been vested in two full-time State personnel in these two jurisdictions, rather than to a three to five member panel.

The remaining control states use their board/commission members in a variety of ways. Several, such as Ohio, use their Board members specifically for licensing and violation hearings. In Mississippi, the three State Tax Commissioners are the members of the ABC Board, so they perform their ABC duties on an as needed basis as a collateral duty. The members of the Washington State LCB recently reduced their positions from full-time to 60% part-time; focusing on licensing and policy issues rather than day-to-day operations.

Product listing/delisting are still, for the most part, made officially by the jurisdiction's LCB or ABC Commissioners on varying schedules during the year. Some Boards/Commissions meet semi-annually for this exercise (such as Vermont, Virginia, and Idaho), some meet monthly, (such as Oregon, Pennsylvania, and Utah), and some meet as needed (such as Mississippi and West Virginia). The Liquor Control Commission of Michigan meets weekly to discuss the product listing and other topics. In North Carolina, the Product List management has been delegated to the State ABC Director, but each County or Municipal ABC Board may choose what to offer or not offer from the State product list.

The following tables highlight the varieties of Board configurations. Some of the members are compensated as full-time staff, while others receive a per diem and travel reimbursement for meeting days. The other tables provide a comparison of the overall staffing of the ABC organizations in the Control States and the differences in listing meeting schedules.

Recent information about the Liquor Control Boards and Commissions in other Control jurisdictions can be found at Appendix H – K.

CONTROL STATE BOARDS AND COMMISSIONS

Summary Table

Boards/Commissions	Alabama	Idaho	Iowa	Maine	Michigan	Mississippi	Montana	Montgomery County, MD	New Hampshire
Members	3	0	5	5	5	3 (State Tax Commissioners)	0	5	3
Term in Yrs	6		5	3	4	Permanent		4	6
Administrator **in Lieu** of Board		1					1		
Salaried		x			x	x	x	x	x
Per Diem & Travel	x		x						
Employees	741	246	36	352	127	131	16	270	736

Boards/ Commissions	North Carolina	Ohio	Oregon	Pennsylvania	Utah	Vermont	Virginia	Washington	West Virginia	Wyoming
Members	3	3	5	3	5	3	3	3 @ 60% each	2	0
Term in Yrs		6	4	4	4	6	4		4	
Administrator **in Lieu** of Board										1
Salaried	x	x		x				x	x	x
Per Diem & Travel	x		x		x	x				
Employees	43	150	202	2,883	489	56	938	1,265	110	34

STAFFING RATIO BY CONTROL STATE

Summary Table

State	2003 Census* (U.S. Census Bureau Est.)	ABC Employees (2004)	Citizens Per ABC Employee (2003)	ABC Employee Per Citizen (2003)
Maine	1,305,728	N/R		
New Hampshire	1,287,687	736	1,750	0.057157%
Montgomery County, MD	918,881	270	3,403	0.029384%
Pennsylvania	12,281,054	2,883	4,260	0.023475%
Washington	6,131,445	1,265	4,847	0.020631%
Utah	2,531,467	489	5,177	0.019317%
Idaho	1,366,332	246	5,554	0.018004%
Alabama	4,500,752	755	5,961	0.016775%
Virginia	7,386,330	938	7,875	0.012699%
Vermont	619,107	56	11,055	0.009045%
Wyoming	501,242	34	14,742	0.006783%
West Virginia	1,810,354	110	16,458	0.006076%
Oregon	3,559,596	202	17,622	0.005675%
Mississippi	2,881,281	131	21,995	0.004547%
Iowa	2,944,062	65	45,293	0.002208%
Montana	917,621	16	57,351	0.001744%
Ohio	11,435,798	150	76,239	0.001312%
Michigan	10,079,985	127	79,370	0.001260%
North Carolina	8,407,248	43	195,517	0.000511%

N/R = Not reported

CONTROL STATE BOARDS AND COMMISSIONS

Summary Table

State	North Carolina	Montana	New Hampshire	Washington	Wyoming	West VA	Maine	Iowa	Mississippi	Vermont
Number of Stock Choices Carried in Warehouse	1,700 Regular items	877 Regular items, and 1,655 Special Order Items	7532 Liquor and Wine items at one warehouse and 575 Liquor items only at 2nd warehouse	1,730 Regular items and 3,623 Special Order items	1798 Regular and 13,512 Special Order items	2,025 Regular items	1,758 Regular items	1,400 Regular items	3900 Regular items	893 Regular items
Listing Meetings per Year	As needed, delegated to Director	2	52	12	2	As needed	12	3	As needed	2
Listing Adds Between Board Meetings	As needed.	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Rare

State	Michigan (See Note)	Oregon	Ohio	Alabama	Virginia	Montgomery County, MD	Penn	Utah	Idaho
Number of Stock Choices Carried in Warehouse	4,781 Regular items	1,300 Regular items	1,300 Regular items	2,000 Regular items	2,000 Regular and 300 Special items	3,200 Regular	5,000 in Stock and 11,000 on Special Order List	1,400 Regular items	1,433 Regular and 291 on Special Order items
Listing Meetings per Year	52	12		As Needed	2	12	12	12	2
Listing Adds Between Board Meetings	Yes	No	As needed.	No	Yes	Yes	Yes	No	No

Other Control State Warehouse Operations

The Warehouse Operations most similar to Vermont, in terms of products carried, quantity of cases, and geographic distribution coverage, would be those of Wyoming, Idaho, Montana, and West Virginia. Each of these states are mountainous, deliveries are predominantly or exclusively to private sector liquor outlets, and their warehouses have had only minimal physical or technological improvements in the past five to seven years. (Of the larger jurisdictions, most have recently completed or are in the process of warehouse replacements/expansions/renovations and technological upgrades.)

All of these smaller jurisdictions operate their warehouses with State employees. However, only Vermont continues to use State personnel for liquor distribution. The other states above use contracted trucking firms for delivery of product from the warehouse. (Of the larger jurisdictions, only Utah, Iowa, and Montgomery County, MD still retained State/County staff for the truck driving component of liquor distribution.)

Only Wyoming is not on a bailment system within its warehouse. The State purchases all the product for the warehouse directly. Idaho maintains a 85% bailment/15% state-owned inventory in its warehouse. The rational for the Idaho mix is that they will buy large quantities of popular items when discounts are given by the wholesalers, and then sell those items at a higher profit margin over a longer period of time during the year. (Of the larger jurisdictions, only Montgomery County, MD did not operate a bailment warehouse.)

All of the above states carry a larger selection of regular and special order items than Vermont. Of this group, only Vermont carries the high proof beers. Of the group, only West Virginia has an "as needed" schedule for listings/delistings, with the rest having two schedule listing dates per year. However, Wyoming has the ability to add items that meet certain criteria during the year, such as being a different size or flavor of an existing high selling item on the list. Most of the other States have more flexible listing policies (while trying to maintain a high Control-State standard), permitting listings between Liquor Control Board meetings, or via having the Boards meeting on a monthly basis.

The Iowa State Liquor Warehouse was contractor operated by J.A. Jones, as was the North Carolina State Liquor Warehouse, until early 2004. When J.A. Jones went bankrupt, Iowa took over the warehouse and trucking operations and restaffed it with State employees and inmates from the local State Women's Correctional Facility. North Carolina found a replacement contractor to take over the operations.

All of the large jurisdictions, i.e., shipping more than 1.5 million cases annually, except Michigan, have completed or are finishing large scale warehouse renovations since 2000. Alabama will have a new warehouse by the end of 2005, about when Montgomery County finishes its 52,000 square foot addition and Virginia completes its planned warehouse management and internal transport equipment makeover. The most common upgrades have been the Warehouse Management System software for receiving, storage, inventory, picking, and shipping management, and new rack and conveyor systems.

The following tables highlight some of the key differences in the warehouses. Appendix K provides an overview of the current situations at the other Control State warehouses.

WAREHOUSE COMPARISONS

Summary Table

State	Michigan (See Note)	Oregon	Ohio	Alabama	Virginia	Mont. County, MD	Penn	Utah	Idaho
Number of Stock Choices Carried in Warehouse	4,781 Regular items	1,300 Regular items	1,300 Regular items	2,000 Regular items	2,000 Regular and 300 Special items	3,200 Regular	5,000 in Stock and 11,000 on Special Order List	1,400 Regular items	1,433 Regular and 291 on Special Order items
Mixed Case Orders Permitted	Yes	Yes for Regular Items and No for Special Items		No	Yes	No	Yes	Rare	Yes
Warehouse Operated in-house	No	Yes	No	Yes	Yes	Yes	Mixed	Yes	Yes
Trucking Operated in-house	No	No	No	No	No	Yes	No	Yes	No
Seasonal Help Used	N/A	2002		Yes	Yes	Yes	Yes		Yes
Last Major Warehouse Renovation	1999	Major interior storage rearrangement	None – contractor owned	2005 Rapidstan Conveyors		Completion 2005	2002	2003	1998 (Originally built as lease to purchase building)
Last Warehouse Software Revision		2002		2005	2005	Completion 2005	2002	2002-2003	1998-warehouse, 2004-acct'ing

State	North Carolina	Montana	New Hampshire	Washington	Wyoming	West VA	Maine	Iowa	Mississippi	Vermont
Number of Stock Choices Carried in Warehouse	1,700 Regular items	877 Regular items, and 1,655 Special Order Items	7532 Liquor and Wine items	1,730 Regular items and 3,623 Special Order items	1798 Regular and 13,512 Special Order items	2,025 Regular items	1,758 Regular items	1,400 Regular items	3900 Regular items	893 Regular items
Mixed Case Orders Permitted	No	Yes	Yes	Yes	Yes	No	Yes	Yes – fee charged	Yes – fee charged	Yes
Warehouse Operated in-house	No	Yes	Large Warehouse-No, and Small Warehouse-Yes	Yes	Yes	Yes	No	Yes, with State Employees and State Inmates	Yes	Yes
Trucking Operated in-house	No	No	No	No	No	No	No	Yes	No	Yes
Seasonal Help Used				Yes	Yes	Yes	Yes	Yes		No
Last Major Warehouse Renovation	1984	1998		2003		1996	2004		2004 New Conveyor Lines	2000

Other Control State Information Technology and Equipment Usage

According to a current web-article from Integrated Data Systems and Solutions, Automated Warehouse Management System (WMS) products utilizing bar code scanning and radio frequency (RF) technology will provide your warehouse operations with automated, real-time location and tracking of all warehouse inventories, from raw materials to finished goods. This real time capability will provide key business units, such as Accounting, Sales, Customer Service, Purchasing, and Manufacturing with accurate information that allows for informed decision making for maximum utilization of existing resources.

By converting manual processes to system-directed computerized operations in receiving, location movements, put-away, pick planning, picking, inventory and cycle counts, checking, packing, shipping, transfers, replenishments, and inventory adjustments, overall efficiencies are increased and the speed to delivery improves. Picking and shipping errors are dramatically reduced, resulting in lower costs and higher customer satisfaction.

Typical Impacts of a Warehouse Management System	**Assets to the State**
Inventory reduction of up to 10% (one-time savings).	Inventory visibility and accuracy.
Reduced inventory carrying costs up to 35% (industry average).	Decreased inventory levels; more efficient space utilization.
Reduced investment based on cost of money @ 8%	Decrease inventory.
Shipping costs	Reduced shipping errors.
Personnel handling paper - potential headcount reduction or redeployment*	WMS eliminates a paper driven system.
Personnel handling order picking - potential headcount reduction or redeployment*	RF based picking productivity increases efficiencies.
Personnel handling shipping paperwork and confirmation - potential headcount reduction or redeployment*	Eliminate preparation work for shipping documents and ship confirmations.
Eliminate physical inventory	Cycle counting replaces physical inventory requirement.

Control State Highlights:

Most of the other Control States have or are beginning to upgrade various parts of their information technology infrastructures for ABC operations. Most of the States have implemented some type of e-Commerce portal (website or email) for licensees and/or liquor store operators (State or Private) to enter their spirits orders each week. E-Commerce programming, like many of the ABC operations processes, does not have to be re-invented by each Control State considering improvements. Power seller states like New Hampshire and Pennsylvania have model consumer and licensee ordering systems that, with appropriate compensation for customization costs, should be implemented in Vermont rather than trying to build one from scratch. Vermont can use one of these systems even at their volume of sales.

Similarly, many states have begun to automate their license application and renewal processes and their Liquor Enforcement Violation Records Management systems in their non-warehouse areas. Given the common goals of control states to “control” the marketing and availability of spirits, Vermont should again look to pre-existing recently fielded applications and upgrades available through its sister Control States. A consistent approach to licensing and law enforcement should assist neighboring Control States to curb cross-border on and off premises sales to young persons.

The large seller Control jurisdictions have also already begun to convert to a more flexible Enterprise Application Platform, the basic software foundation on which their entire ABC-related data management and reporting applications rest. For example, Utah, Montgomery County, and Mississippi have new or recently updated platforms to permit the addition of and seamless communications between new accounting, sales, ordering, budgeting, warehouse management, inventory control, and reporting packages on a module-by-module basis. Montgomery County selected a PeopleSoft product as their platform and are having the new warehouse management (receiving, storage, order processing, picking, pulling, and shipping management software) modules customized to meet their new improved work processes. Similarly, the state of Utah is using a new program from GERS Retail as the platform for their ABC data management requirements, and have the GERS warehouse management module in operations.

A copy of the Virginia ABC Board's recent Request for Proposal (RFP) for a new central liquor warehouse materials handling system of hardware and software is provided at Appendix C in Volume III of this report. In addition, the portion of the Washington State LCB's warehouse management system RFP that describes their warehouse management system request is also provided. Lastly, included are two RFPs, one from Utah and one from Virginia, for Consultant Support for the development of the States' recent warehouse management system RFPs (i.e., these are the RFPs used to hire the operations/requirements analysts to write the actual RFPs for the warehouse management systems). These are provided to show the Vermont staff the levels of detail and complexity (albeit scaled back to Vermont's warehouse size) that must be addressed in an RFP of this type. Vermont does not have to begin new IT development projects with a blank sheet of paper and a new set of pencils, as there are many resources in the Control State community that have both RFPs and actual working systems that can be modified by Vermont for a considerable savings.

As an example, the Vermont DLC's IT team has been actively working on a program to permit the use of debit cards at the state's Liquor Agent stores. This has been an issue for sometime within the DLC, but was solved for other States in recent years. It is an issue that most convenience stores, the US Post Office, and even some cab companies have overcome. In Vermont, it is still an issue being dealt with by the DLC's IT staff, and is drawing fiscal and staff resources away from all the many software improvements that could be worked on for increasing the efficiency of the DLC's warehouse operations.

A summary of IT usage by the other Control States is provided at Appendix L. It summarizes recent improvements in their operations.

Summary of IT System Upgrades Reported

State	North Carolina	Montana	New Hampshire	Washington	Wyoming	West Virginia	Maine	Iowa	Mississippi	Vermont
Number of Stock Choices Carried in Warehouse	1,700 Regular items	877 Regular items, and 1,655 Special Order Items	7532 Liquor and Wine items at one warehouse and 575 Liquor items only at 2nd warehouse	1,730 Regular items and 3,623 Special Order items	1798 Regular and 13,512 Special Order items	2,025 Regular items	1,758 Regular items	1,400 Regular items	3900 Regular items	893 Regular items
Last Major Warehouse Renovation	1984	1998		2003		1996	2004		2004 New Conveyor Lines	2000
Last Warehouse Software Revision	Warehouse Contractor owns and upgrades software		Warehouse Contractor owns and upgrades software	2002	2000	Pre-2001	2004	Order Entry System - 2004	1999 Integrated Overall IT Business System	New WiFi transmitters – 2004; Bottle Pick Scanner - 2002
New Software					Customized Version of SAP R/3		2004	In-house Development	2004 New Warehouse Management System	In-house Designed and Updated

State	Michigan (See Note)	Oregon	Ohio	Alabama	Virginia	Mont. County, MD	Penn	Utah	Idaho
Number of Stock Choices Carried in Warehouse	4,781 Regular items	1,300 Regular items	1,300 Regular items	2,000 Regular items	2,000 Regular and 300 Special items	3,200 Regular	5,000 in Stock and 11,000 on Special Order List	1,400 Regular items	1,433 Regular and 291 on Special Order items
Last Major Warehouse Renovation	1999	Major interior storage rearrangement	None – contractor owned	2005 Rapidstan Conveyors		Completion 2005	2002	2003	1998 (Originally built as lease to purchase building)
Last Warehouse Software Revision		2002		2005	2005	Completion 2005	2002	2002-2003 SBT-Accpac Acct and Inventory	1998-warehouse, 2004-acct'ing
New Software		RIMS by Robocom Systems International Inc. $800,000 (H&S)		Siemans WMS	Bastian Materials Handling	Customized Version of Enterprise 1 by PeopleSoft	RIMS by Robocom Systems International Inc.	2005-GERS Retail WMS and related packages	

4. THE STATE OF MAINE'S PRIVATIZATION OF LIQUOR CONTROL FUNCTIONS

Lessons Learned from the Maine Liquor Control Board/Bureau of Alcoholic Beverage and Lottery Operations (LCB BABLO) Experience in Divesting its Warehousing and Distribution Operations

The original Maine RFP for a Public-Private Partnership for the provision of liquor purchasing, warehousing, and distribution was complicated by both State and Federal alcohol laws, public opinion on the role of the State in the sales of alcoholic beverages balanced with public opinions about the need to control the distribution of those beverages, and by the State's need to maintain a revenue enhancing or revenue neutral operation while offering service improvements to its sales force.

In order to make the best case for its citizens, the State of Maine had to approach the divestiture of the commercial aspects of its operations in a business-like manner without abrogating its responsibilities (legal or ethical) to perform certain inherently governmental functions. Somewhere in between, there is a point where the very real risks of financial security, public safety, and the courts of public opinion can be balanced between the State and its Private Sector partner through the effective delineations of expectations and limits of responsibilities, visibility of workload and of constraints, and the establishment of effective monitoring processes.

The first problem faced by the Maine LCB's Request for Proposal Team was that there was little data available on warehouse production and productivity. Production had been tracked primarily in terms of the value of products shipped through the warehouse, as related to revenue, rather than in terms of quantities of stock shipped, warehouse inventory maintenance requirements, and distribution of stock. In addition, there was little data about the effectiveness of the staff in meeting production/shipping demands, about the effectiveness of the warehouse layout, the scheduling, or the existing process flows.

The second problem, they discovered, was that there was almost no data available on the consumption habits of the buyers to whom the liquor and wine were being marketed. Neither the warehouse and purchasing staff at the State office level nor the management of the then State-owned liquor stores had ever collected marketing data, customer data, and other data that a commercial business would collect for Strategic Planning, Marketing Planning, and Market Research purposes in order. The managers had not been required to track what their retail and licensee customers were buying in any manner that would be useful to implement a business forecasting process and to make effective choices as to service and selection offerings.

The third hurdle to overcome was that the product identification coding systems used by Maine to identify stock in the warehouse and stores had been changed several times in recent years, without the development of a cross-referencing process. The data from year to year could not be directly compared since the codes used to identify products changed from year to year. The warehouse had used a variety of systems, such manufacturers stock codes, the NABCA Control States Codes, other states' codes, etc.

The reaction of the Sales Agents, who predominantly owned small, family operated concerns, was somewhat unexpected. The Agents were very concerned that the change over of the warehousing and distribution network to a Private Sector operator would result in higher costs to them, compared to their experiences under a delivery system operated by the State. The ME LCB had to assure them that the change over would actually improve services in the long-term, especially in terms of being able to get up to two deliveries per week. This service enhancement has the potential for reducing the amount of liquor stock a smaller Agency store would have to maintain on premises at their expense. The ME LCB was also asked to provide more time between stock deliveries and the due date for payment by the Agent for the stock delivered. While this helps the cash flow of the Agent, it has the potential to cause a cash flow issue for the State since the due date of the State's payment to the Supplier for items drawn from the bailment warehouse was not changed to match the extra time given the Agents to pay the State. The Agents also asked for a reduction in the minimum number of cases required for delivery service. It had been 15 cases, but is now five cases, and they now are able to order mixed bottle cases and partial cases for some listed items. Lastly, the Agents wanted shorter lead times between ordering and delivery. The lead time minimum has been dropped from 10 days to three days. These added services were included in the RFP, and it was mandated that they be offered at no additional expense to the Agent.

The MEBEV contract permits them to provide some technical assistance to Agent Stores. The MEBEV staff can assist with layouts of store equipment (e.g., shelves and racks) but not with product placement, and MEBEV can design and provide customized shelf labels for Agents.

Similarly, the representatives of the liquor industry and the liquor suppliers voiced their concerns that the divestiture would result in reduced services and therefore reductions in opportunities for the products, or that there would be some type of conflict of interest between the roles of a liquor supplier and warehouse operator if the two were performed by one company. As it turned out, the contract did go to a firm that was also a supplier of several products sold in the State. To date, however, the State is satisfied that the Service Provider has not shown any favoritism to their products to the exclusion or detriment of any other supplier's product passing through the warehouse.

The types of data to be reported by the Service Provider concerning resource usage, costs of operations, sales data, and product data should be clearly defined in the minimum reporting requirements. The issue of access to data by the State, the suppliers, the Agents, and the Service Provider must be defined, as well as information systems security requirements. Currently, using the Pine State Trading's warehouse inventory data system, the suppliers can look at sales figures from previous days and on-hand inventories.

The relationship between the Service Provider and the product suppliers must be spelled out clearly with regard to conflicts of interest, use of proprietary information about pricing or marketing strategy gained as the warehouse operator, and equal treatment of the suppliers product with regard to storage and distribution. Another area that should be spelled out in the RFP are the boundaries of responsibility for the upkeep and maintenance on bailment stock while the product is in the warehouse.

Responsibilities for tagging cases and bottles (e.g., barcode or refund stickers applied at the warehouse) lacking the proper identifiers, policing of storage areas, protection of tag-along gift items, hand counts for inventory verifications, etc., must be identified in the RFP and assigned to specific parties to the agreement and/or to customers of the warehouse.

Another lesson learned was that they had neglected to sufficiently describe the scope of the State's expectations that the Service Provider would be an active partner and participant in Alcohol Abuse Education programs around the State. Private sector organizations have different and often complementary resources that can be leveraged with or in parallel with State and other agency resources for Alcohol Abuse Prevention programs if that is a desired outcome that is articulated in the RFP. Fortunately, the MEBEV has experience in this area and is cooperating with the ME LCB on several projects of this type.

The Maine LCB's Request for Proposal Team had planned, reasonably enough, for a five month post-award transition plan. This would have permitted the remaining workforce to work with, orient, and gradually hand off work processes to the Service Provider over a reasonable period of time. Unfortunately, due to several competitor protests, the actual transition period was on the last five weeks of before funding for State LCB warehouse personnel was scheduled to end. The first few weeks of operations, the management and supervisor staff of the MEBEV and Pine State Trading, two of the Service Providers, assisted in pulling stock and loading trucks. In addition, by this time, all but three of the ME LCB's warehouse worker staff had already found other State jobs or had retired or left State service. The MEBEV group did hire the three former State employees.

The Maine legislature wanted to know what would happen to the employees, what near-term expenses could be eliminated with the divestiture, e.g., upcoming major repairs to the warehouse could be avoided if the warehouse was no longer needed. The Representatives also wanted to know about the Maine LCB's estimates of the value of the business under different assumptions of performance period length, levels of Government Furnished Equipment or Facilities (if any), and the value of upfront vs. long term payments. Other issues that needed to be addressed by the Maine LCB's Request for Proposal Team to the legislature related to the likelihood of non-Maine firms bidding on the work, the types of reference and background checks that would be required on bidders, and other issues of financial and public safety concerns.

It was also critical to define what functions the ME LCB was to continue to perform. At this time, the ME LCB's five members (appointed by the Governor) still decide on listings and delistings, set commissions, set prices, and decide what items can be marked down for sales or clearance. The State also carries the cost of the delivered products from the time of delivery to the Agent's store until the Agent's electronic funds transfer or check clears six days later. The responsibility for approving Liquor related advertising campaigns or even single ads by Agents or by MEBEV on behalf of the Agents is placed with the ME State Department of Public Safety.

Lastly, the Maine LCB's Request for Proposal Team recognize now that the RFP and the entire process lacks a comprehensive program and the State staffing resources for critical contract administration oversight. The LCB is not adequately staffed or trained in the methods of Quality Assurance Surveillance, which the structured methodology that implements the program to inspect and audit the Service Providers operations to verify that internal Quality Control measures are in place and being used by the Service Providers staff and supervisors. Typically Quality Assurance Evaluator duties would include verifying order-to-delivery times and correctness of order percentages with Agent customers, verifying that receiving reports, damage/breakage/loss reports are being properly completed and submitted, verifying that warehouse inventory counts are within reasonable variance with stated on-hand balances (i.e., counted stock plus stock on truck plus stock being received match system counts), and that security measures are in place and active. One early-term performance problem is the MEBEV's lack of timely delivery to Agents. This problem was directly related to the relocation of stock from the State's warehouse and a new requirement to provide split cases. Both of these issues have been resolved; the warehouse is well organized, the bottle pick area is efficient and deliveries are on-time. Since Vermont already provides partial case deliveries, the DLC would not have the same initial performance delays due to lack of procedures.

Business Valuation Process Overview

When the State of Maine attempted to calculate a value of their liquor operations, several constraints on the accuracy of the estimate came in to play. First, as noted above, there was a lack of historical data on the operations of the warehouse and on customer trends.

The State's Accounting team attempted to estimate the likely income stream from the existing operations over the next 10 years if the State held on to it in its status quo condition. The valuation process took into consideration the growth in the liquor industry, changes in consumer buying habits nationally and regionally, the awareness of the health effects of alcohol, some comments from the public and the legislature on the role of the State in the liquor distribution business, and the condition of the facilities and IT systems.

The team then tried to estimate what a reasonable Service Provider would be willing to invest in the business to achieve a satisfactory rate of return (i.e., revenue stream) over the life of the contract. It became obvious that the buy-in would have to be combination of an upfront equity stake and a long-term debt service (via some type of revenue sharing). The team then went through a number of trials calculations designed to identify combinations of upfront and long-term payments from a Service Provider that would not reduce the net income to the State's general fund and special funds currently receiving LCB revenues.

The initial upfront payment figure proposed to the legislature was attractive from some aspects but was thought to be so high that no Service Provider would bid on the operations. A second set of calculations were run and a decision was made by the LCB with, evidently, legislative support to reduce the upfront equity stake requirement and to seek service enhancements for the Agents and warehouse operation infrastructure improvements instead. There was also a proposal to include a $5M annual subscription fee to be paid to the State by the selected Service Provider, but the decision was to go to a "profit-sharing" agreement with the Service Provider. This was also viewed as consistent with the philosophy that the goal was to encourage and reward responsible business growth though up-sales by customers having better selections of higher price alcoholic beverages available, fewer stock-outs, and more effective "just-in-time" delivery of services and products to reduce operations costs.

The ME LCB did not have to cost in the depreciation or disposal of their existing warehouse or truck fleet as all of them were leased items. The stock in the warehouse was bailment stock so there was no cost of inventory to consider. The only issues regarding stock transfers to the Service Provider were the physical movement of stock to the selected Service Provider's warehouse and the restructuring of their inventory system to capture the new inventory data.

The State could have calculated the requirements for the upfront and long-term payments based on a permanent partnership with one Service Provider. However, the ME LCB and the Accounting team decided to fix the performance period at 10 years for the first contract, with the ability to re-bid the contract in the eighth year for a new award in the ninth or tenth year for one or two five-year options.

Some of the typical growing pains-type issues being addressed at this time are:

- Impacts of final State Store closures and conversions to Agent-operated stores on the cost of operations calculations used in the valuation estimate.
- The operational definitions of the Cost of Goods (i.e., purchase price, freight, and Excise Tax) figure that is used for reimbursement of product procurement expenses. If too many day-to-day expenses are incorporated into this figure, a

larger portion of the Service Provider's guaranteed rate of return is considered operations cost rather than excess profit to be shared with the State.

- The impacts of increases in sales volumes on incremental changes to operations costs.

Despite these early start up issues, both the ME Bureau and MEBEV (the contracts) believe that projected sales and revenue targets will be met annually.

Maine's Recommendations/Things to Consider When Developing an RFP for Liquor Warehouse/Distribution Services

1. Include a clause defining a requirement that the Service Provider develop, get approval on, and execute a regular and comprehensive Alcohol Education Program as part of their services. The Program can be tailored to a specific group for which the Service Provider would focus their efforts, with appropriate metrics in place for monitoring success, or be a more generalized requirement that mandates the Service Provider's participation in and contribution towards a variety of age appropriate campaigns each year.

2. Include stronger language in the evaluation criteria relating to past performance in warehousing of control materials, e.g., alcohol, and not just warehousing in general.

3. Include stronger language in the scope of work and evaluation criteria on Information Technology services relating to product reception, storage-warehousing, and distribution operations. The points should be given for past performance in the successful analysis, design, procurement, installation, integration, and maintenance of warehousing related software/hardware required for effective inventory control, accounting, order management, stock picking, load balancing, delivery routing, and resource tracking and forecasting. The RFP should describe minimum system operating characteristics and the minimum number of interfaces to State systems that would be required of any system proposed in the agreement.

4. Include the requirement to provide a very broad range of performance and effectiveness reports weekly, monthly, and quarterly. The list of mandatory reports from the Service Provider to the State should be much more robust and specify data elements, data sources, frequencies, linkages to Federal reports, and due dates. The requirements for reports should also specify the State's requirements for descriptions of systems used to gather data (sales, production, cost, etc.) and to produce reports so that the State can periodically audit the reports being submitted by the Service Provider.

5. Include much stronger language about requirements for continuous Quality Control (QC) planning, procedures, execution, and reporting. The RFP should provide a list of the minimum metrics to be tracked and reported on to the State as part of the Service Providers QC process. Potential providers should be required to propose additional useful (industry standard) and relevant self reporting metrics as part of their QC plan.

6. Include a detailed Quality Assurance Surveillance Plan (for the State's use later) to give the Service Provider an understanding of the State's serious interest in obtaining a high performance organization as its partner.

   Potential providers should be required to propose additional useful (industry standard) and relevant external review metrics that should be used to audit their QC plan activities.

The State must commit resources to the performance of Quality Assurance by designating some portion of the revenue received to staff at least one Quality Assurance Evaluator and a Contract Administrator to provide dedicated, knowledgeable oversight of the Service Providers operations and be able to both document errors or contract discrepancies and to work with the Service Provider on corrective action plans.

7. Commission or discount rates given to Sales Agents must be locked into place at the start of the RFP development process and well ahead of the valuation of the business (i.e., changes in these rates impact on assumptions used in calculating the potential for costs and revenues over the life of the Public-Private Partnership). Changes from a State-store operation to an Agent-store operation, and therefore to the State's costs of sale and costs of operations, during the valuation process impacted the accuracy of the projections for long-term investment and debit service requirements.

8. The business should be at a static point in its maturity prior to development of the RFP and included scope of work. While assumptions must be made at times in business, upcoming changes that will impact on current operations must be identified as likely to occur in the near-term (i.e., before or in the early performance periods) or in the late-term (i.e., in the middle or end of the performance periods.) These upcoming changes can have serious impacts on the value of the business being divested.

9. The State should know the assumed length of the performance period (e.g., 10 years or five base years and repeating five-year options.) when computing the value of their business operations. The calculations of likely revenue potential, as well as required initial investment and subsequent debt service, will be impacted if the length of the performance period is changes after the initial valuation is complete.

10. Organize the execution of the Partnership so that the Fiscal Year of the Service Provider (Private Sector Partner) and the State are matched (e.g., January 1 or July 1 or October 1) so that contractually required payments that occur on the Fiscal Year or the semiannually at the start of the third fiscal quarter mean the same date to both parties. Where relevant to the some issues of Federal taxation on liquor, it may be beneficial for the Fiscal Year to match that of the Federal government (i.e., October 1).

11. Define in the agreement the level of technical and marketing support that Agent stores can expect from the Service Provider in terms of assistance in setting up display areas and marketing materials. Some of the State LCB's reviewed perform this assistance with LCB staff, some States permit it to be done on a limited scale by Supplier/Broker representatives, and some use warehouse representatives to assist in these requests.

12. The value of the State's liquor business must include data from the current year-to-date as well as for some number of previous full years. The valuation calculations can be skewed by data that is even four or five months old due to swiftly changing market trends, new products becoming available, health news items related to alcohol, etc.

13. The value of the State's liquor business must be based on a stable set of Licensee purchase discounts and Agent commissions that will be fixed for the length of the performance period.

a) Alternatively, the expected return of revenue to the State must be based on a potential spread of these variables over the course of the contract. For example, changes to a mark-up or a commission rate might impact on the price of a product which could change the margins that the Service Provider was using to pay expenses. Shifting to a variable mark-up program on all or on certain classes of items in mid-performance period could have similar impacts expected State and Service Provider revenues.

b) Should the State decide to include a graduated guaranteed profit to a Service Provider that grows with Sales or by year of the contract, the upfront payment might change for the first year with a variable rate on the remaining debt service amounts as the guarantee changes. Several iterations of "what if" calculations need to be performed under different combinations of guaranteed profit percentages, revenue sharing schemes, and the definitions of the allowable costs used to determine the difference between "expense reimbursement" and "profit".

14. The responsibilities for and the flexibilities granted for recycling operations must be addresses in the RFP. The State legislature's assistance in clarifying and in some cases providing more flexibility to the operational responsibilities for collecting and delivering recyclable bottles from the Agents should be sought prior to the RFP process. The bidders should be given the opportunity to propose novel approaches to responsibly fulfilling the recycling collection requirements through their own resources or of their sub-contractors/partners.

5. COMPETITION WITH LIQUOR SALES IN NEIGHBORING STATES

The State of Vermont does not operate its distilled spirits program in a vacuum. While the Vermont DLC can and does try to focus on encouraging Vermont residents to purchase in-State, encouraging residents of neighboring states to buy in Vermont, and on marketing to tourists and transients passing though Maine, these efforts are not independent of events in other states. The pricing, marketing, product mix, store location, and customer service of liquor sales options in neighboring states will also impact on the purchasing decisions of consumers.

The efforts of interstate competition have long been recognized. For example, in 1993, the Commonwealth of Massachusetts raised its per pack tobacco tax from 26 to 51 cents. In neighboring New Hampshire, which had a per pack cigarette tax of 25 cents (and no sales tax), per capita sales of cigarette packs increased by more than three percent per year in 1993 and 1994, during a period in which most states experienced declines in cigarette sales.

In a liquor-related example, many states in New England have traditionally prohibited sale of distilled spirits on Sunday. New Hampshire and Vermont led the way by introducing Sunday sales (Vermont in 1994). To reduce the competitive disadvantage for Massachusetts stores near the Vermont and New Hampshire borders, the Commonwealth passed a law allowing stores within 10 miles of the Vermont and New Hampshire borders to sell spirits on Sundays; this practice remained forbidden in the rest of the state. In May 2003, the State of New York approved Sunday sales of spirits. The Commonwealth of Massachusetts debated establishing a second Sunday-sale zone along its western border with New York, but on November 26, 2003, Governor Mitt Romney signed an economic stimulus package which included statewide legalization of liquor store sales on Sunday.

To help assess the competitive environment, the MAI Study Team investigated prices across six states for a random sample of 12 products carried by the State of Vermont. Four control states were included in this survey (Maine, New Hampshire, Pennsylvania, and Vermont), and for each of the four, prices were obtained from their online price guides. For the Commonwealth of Massachusetts, prices were based on the Massachusetts Beverage Journal, published by Massachusetts Beverage Business. For the State of New York, MAI contacted more than 20 geographically dispersed retail liquor stores, and developed average costs per product, based on an average of three sampled prices, plus state tax.

Exhibit 5 presents the results of this survey. The first table displays the cost per product, by state, and a total cost which reflects the cost of that state's conceptual "liquor cabinet" (a similar concept to the "grocery cart" of miscellaneous food items used for grocery cost comparisons. The twelve-product liquor cabinet for the State of New Hampshire was the least expensive; the closest state, Pennsylvania, was over eight percent higher. Vermont's liquor cabinet was the most expensive, more than 15 percent above the New Hampshire costs. (With the implementation of a scheduled price increase on February 1, 2005, Maine's prices for this product set will become almost identical to Vermont's.)

The second table shows price rank by product. New Hampshire had the lowest price, or was tied for lowest, for 9 of the 12 products sampled. Vermont had the second lowest price for one products, but the highest price for five and the second highest price for two additional items. Vermont's average rank based on these twelve products was 4.92, the highest of any state in the sample. It is notable that Vermont's pricing was quite competitive for four of the 12 items, but for four products, Vermont had the highest price. Combining the two measures above, Vermont is in sixth place, essentially tied with Maine and New York for least competitive price structure. Please note that the sample size for this comparison is small, and while some broad conclusions may be drawn (e.g., New Hampshire has the most competitive pricing. Pennsylvania and Massachusetts were in the middle of the sample, and New York, Vermont, and Maine were higher priced.), finer distinctions (such as the relative placement of Vermont versus Maine) should not be regarded as precise. It should also be noted that there was a significant difference in prices between retail locations in New York; a prudent shopper, visiting an outlet store could obtain slightly lower prices than shown in this report for most products.

EXHIBIT 5

Published Price, Selected Products

State	Jack Daniels No. 7 Black-375 ml	Beef-eater Gin-750 ml	Skyy Vodka-750 ml	Jose Cuervo Tradicional 750 ml	Bacardi Light Rum-375 ml	Dekuyper Peachtree Schnapps-750 ml
MA	13.99	18.99	15.99	29.95	7.49	9.99
ME	10.99	16.99	15.49	31.99	6.99	10.49
NH	9.49	16.99	13.99	24.99	5.99	8.99
NY	10.89	18.78	16.76	27.56	7.02	10.81
PA	9.99	18.99	15.99	24.99	6.49	10.99
VT	10.80	16.70	18.20	30.60	6.60	9.80

State	Martini & Rossi Extra Dry Vermouth-1.5 L	Grey Goose Original Vodka-750 ml	Mount Gay Extra Old Rum-750 ml	Johnnie Walker Black Scotch-750ml	Absolut Citron-750 ml	Monte-zuma Tequila White-1 L
MA	10.99	26.99	27.99	28.99	19.49	11.99
ME	12.99	24.99	32.99	30.99	19.99	15.99
NH	9.99	22.99	31.99	30.99	16.49	9.99
NY	12.25	28.25	32.55	32.25	19.95	13.64
PA	10.99	25.99	32.09	31.99	18.99	12.99
VT	12.30	28.70	33.50	33.50	20.20	13.10

State	All Products Total ($)	Rank By Total Cost	Percent Difference from Lowest Cost
MA	222.84	3	9.84
ME	230.88	5	13.80
NH	102.88	1	0.00
NY	230.71	4	13.72
PA	219.38	2	8.13
VT	234.00	6	15.34

Note: This table reflects prices in effect as of January 28, 2005. The State of Maine has announced price revisions on selected products, effective on February 1, 2005. These price revisions will increase the price of six of these products in the State of Maine, for a total increase of $3.50 for the products identified above. As of that date, the product sample displayed above will cost $0.38 more in Vermont than in Maine, assuming no price increases on the part of Vermont.

Rank by Product

State	Jack Daniels No. 7 Black-375 ml	Beef-eater Gin-750 ml	Skyy Vodka-750 ml	Jose Cuervo Tradicional 750 ml	Bacardi Light Rum-375 ml	Dekuyper Peachtree Schnapps-750 ml
MA	6	5-6	3-4	4	6	3
ME	5	2-3	2	6	4	4
NH	1	2-3	1	1-2	1	1
NY	4	4	5	3	5	5
PA	2	5-6	3-4	1-2	2	6
VT	3	1	6	5	3	2

State	Martini & Rossi Extra Dry Vermouth-1.5 L	Grey Goose Original Vodka-750 ml	Mount Gay Extra Old Rum-750 ml	Johnnie Walker Black Scotch-750ml	Absolut Citron-1L	Monte-zuma Tequila White-1 L	Rank by Product
MA	2-3	4	1	1	3	2	3.46
ME	6	2	5	2-3	5	6	4.17
NH	1	1	2	2-3	1	1	1.21
NY	4	5	4	5	4	5	4.42
PA	2-3	3	3	4	2	3	3.17
VT	5	6	6	6	6	4	4.92

Overall Rank

State	Rank by Total Price	Rank by Product	Overall Rank
MA	3	3.46	3.23
ME	4	4.17	4.09
NH	1	1.21	1.11
NY	5	4.42	4.71
PA	2	3.17	2.59
VT	6	4.92	5.46

Exhibit 6 displays the locations of the top ten stores of the New Hampshire Liquor Control Commission for FY 2003, taken from the NHLCC's Annual Report for that year. The left side of the Exhibit shows New Hampshire's population density by census tract, based on U.S. Census Bureau data from the 2000 Census. As can be seen, the population density and location of high-grossing stores do not correlate well. The high-volume stores are clustered around New Hampshire's borders, while certain high population density areas, such as Manchester corridor, have no high-volume stores. The distribution suggests that cross-border buyers from Vermont, Massachusetts, and Maine account for much of the purchasing at the high-volume stores.

Also, noteworthy is that in FY 2001 (the most recent year for which we could obtain New Hampshire data on cases sold), New Hampshire sold 1,685,067 cases of spirits. With a population of roughly 1,200,000 at that time, this equates to 1.40 cases per capita. That same year, Vermont, with a population of approximately 612,000, sold 320,374 cases, or .52 cases per capita. Since there is no medical or sociological data to support the idea that New Hampshire residents on average consume triple the amount of alcohol as Vermont residents, this further supports the conclusion that New Hampshire's sales are being inflated by non-resident buyers. In fact, New Hampshire residents have the higher per capita purchase rate of distilled spirits in the U.S., and the third highest rate for purchase of beer and wine.

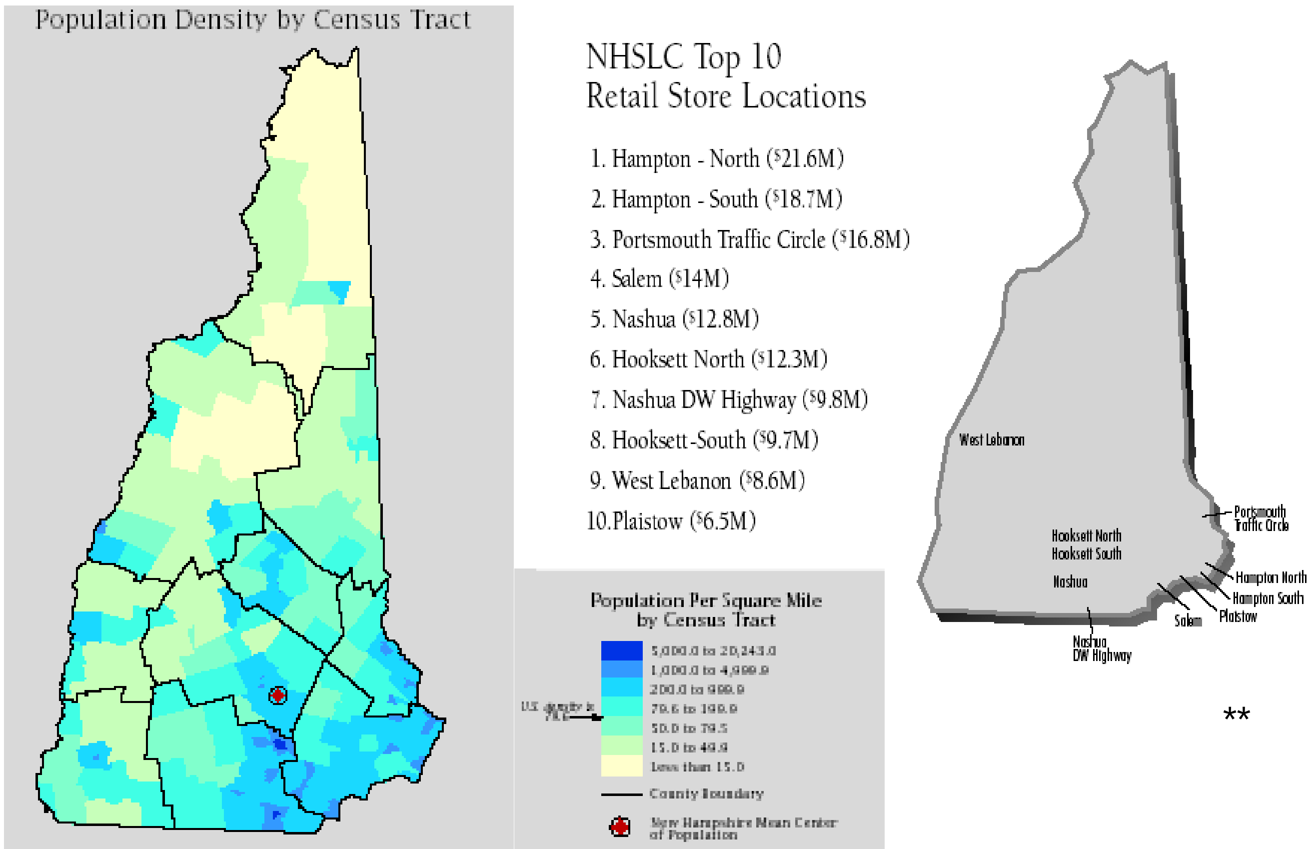
This situation goes beyond the sale of alcohol beverages. There is a multiplier effort as Vermont residents travel to New Hampshire to buy clothes, appliances, or other items without sales tax, and while there buy a meal, distilled spirits, etc. What can be done to improve Vermont's competitive posture, at least from the distilled spirits standpoint?

One partial solution may lie in revising Vermont's current statutory limits on distilled spirit importation. The Study Team reviewed a sample of control states to determine the maximum amount of spirits which an individual could bring into the state without paying tax or purchasing a license. The results of this sample are displayed below.

State	Importation Limit
Iowa	One liter if purchased in U.S.; four liters if purchased outside the U.S.
Washington	Two liters (per month)
New Hampshire	Three quarts
Maine	Four quarts
Virginia	One gallon (four quarts)
Vermont	Eight quarts
North Carolina	Eight liters

As shown by this table, Vermont allows private citizens to bring up to eight quarts of spirits into the State for personal consumption, without penalty or payment of tax. This is a relatively high limit; the control state average is approximately four quarts. New Hampshire allows individuals to bring in only three quarts. Thus, while the State of Vermont is concerned about the net effects of interstate importation, it allows its citizens to bring home from New Hampshire nearly three times as much in alcohol beverages as New Hampshire residents can take in the opposite direction.

Exhibit 6. Top Ten New Hampshire State Liquor Commission Stores Compared to Population Density



*   **

Sources
*U.S. Department of Commerce Economics and Statistic Administration U.S. Census Bureau
**New Hampshire State Liquor Commission, Annual Report, 2003

The State of Vermont may wish to reduce its importation limit to the control state average or even reduce its limit to match New Hampshire's The most likely result of such an action would be a small increase in revenue to the State of Vermont as more people make their purchases in-state.

A more complete solution, of course, would be to achieve sufficient cost reduction to enable a reduction in the State's markup on tax take. This however, is a difficult balance to strike, and initial price reduction may result in diminished revenue for the short term. In the interim, the DLC has proactively implemented two sales programs to help keep purchases in Vermont, or even draw them from other states. The Prime Focus program is products are discounted during the 13 largest volume weeks of the year. Five receive deep discounts and for the remaining 10, the DLC passes on discounts from the brokers and suppliers. At other times, the DLC runs a Super Savings program with significant, but lesser, discounts on selected products. These programs have been effective at generating customer interest.

Charts showing the breakout of mark-up, cost of goods, and taxes for a representative bottle of liquor are provided at Appendix G.

6. PRIVATIZATION ALTERNATIVES AND FINANCIAL ANALYSIS

As previously noted, the Study Team considered three primary forms of alternative delivery systems for the DLC's purchasing, warehousing, and delivery systems. Each of these three analyses is discussed in the following pages.

Service Contract.

The first primary alternative considered by this report is the contracting out of the purchasing, warehousing, distribution, and associated functions (exclusive of liquor education, licensing, and enforcement) via traditional service contract. The contract would perform all of the DLC's commercial-type activities, in exchange for a fixed price contract with indefinite quantity (unit price) provisions to accommodate growth in demand. The contract would have a potential five-year term.

This type of contracting out mechanism is normally effective when there is significant potential for improvement by the private sector vendor, e.g., the private vendor can perform the services with fewer personnel, deploy new technology, or otherwise generate efficiencies. The analysis must address the total cost of each alternative, e.g., other costs such as contract administration which might occur in a contract performance scenario must be considered, not just the estimated face value of a contract. In addition, quantifiable benefits of contract performance must be identified.

Avoidable costs are costs which are impacted by the decision to perform work in-house or by contract. For example, the Education, Licensing, and Enforcement function would continue with the same staff and the same mission regardless of whether State or contract employees perform the purchasing, warehousing, and distribution function. Thus, these costs are not avoidable; they occur in either alternative and are thus excluded from consideration. This avoidable cost concept is common in studies such as this, e.g., it is used by the states of Michigan and Florida, and by the Federal Government, as part of their standard methodologies for assessing contract versus in-house cost.

In addition to the staff of the DLC Education, Licensing, and Enforcement section, we have treated the following positions as unavoidable, i.e., they would remain under either alternative: Commissioner, Director of Retail Operations, Personnel Administrator B, Information Technology Specialist, and Accountant C. Each of these positions would remain to perform certain residual functions and/or contract oversight in the event of a contract-out decision. Please note, therefore, that the duties of these positions may change somewhat from one scenario to the other. The Information Technology Specialist is projected at the II level, rather than the III level, in the contract scenario, due to decreased responsibilities and lack of supervisory duties.

To assess the financial impact of selecting the in-house or contract alternative, we developed two sets of cost estimates. The first of these is the In-house Cost Estimate (Appendix A). This estimate depicts the avoidable costs associated with in-house performance of the purchasing, warehousing, and distribution functions. It is based on current salaries and wages for the 28 State positions included within the boundaries of the contractible business unit, plus other avoidable costs, such as fringe benefits, facility, and equipment costs, etc. All costs are inflated to FY 2006, which is used as the Base Period for calculation purposes, since no contract could realistically be put in place before then. A five-year contract period is employed, ending with FY 2010. The five-year total of avoidable costs associated with in-house performance is $12,146,091. Please note that the Study Team treated Cost of Goods Sold as an unavoidable cost, and it is excluded from this figure, since existing product prices to the State would not be impacted by the State having a different service provider. (Cost of goods sold would increase, however, if a contract service provider were able to generate an increased level of sales. The increased cost would be more than offset by additional revenues. Given our assumption that the State of Vermont will retain its existing limitations on liquor marketing activities, there appears to be little scope for increasing sales through changing to a private contractor.)

The next step was to develop an estimated cost of contract performance. In order to do so, the Study Team made certain assumptions about any resulting contract.

- The potential contract would include all functions currently performed by the Liquor Purchasing and Warehouse section, with the exception of representing the DLC at NABCA and other professional meetings. The contractor would operate the warehouse, process orders from Agents, make deliveries, prepare purchase requests, and make recommendations on product listing/delisting, and pricing strategies. The State (Board or Department of Liquor Control, as appropriate) would provide final approval on product purchase requests, listings/delistings, and product pricing.
- The contractor would furnish their own warehouse, located within the State of Vermont. The contractor would assume full responsibility for planning and execution of product transportation to its site, utilizing a product movement plan subject to State approval. The contractor would be liable for any product loss or breakage with a full inventory performed jointly by the contractor and DLC following completion of the move to the new warehouse.
- The contractor would be required to meet the same quality levels as the State currently does, to include inventory control at warehouse and Agent locations.
- Most functions of the Retail Operations section would be included, with the exception of managing the award and evaluation of Agent contracts (although the contractor could provide input), and certain audit functions, such as preparing the DLC financial statements and representing the DLC before the State Auditor. These two positions would also assist with contract oversight. In addition, in the event of a contract, the Study Team recommends creation of a full-time contract monitoring position, at the PG20 level, with a skill set similar to that of a District Coordinator. This position would report to the Director, Retail Operations.
- The contractor would assume responsibility for its own IT support, to include all business systems. However, since they would be located off-site, one IT Position would be retained within the DLC, to support the Education, Licensing, and Enforcement Section, the Commissioner and other residual staff. A total of 28 State positions would remain, 22 of them in Enforcement. (Enforcement currently has a staff of 23 positions. As recommended elsewhere in this report, the Clerk C, PG13 position would be eliminated in an action unrelated to the contract decision.)
- The Contractor would assume responsibility for the Marketing/Customer Service function, with the State retaining full approval authority on marketing tools, tactics, and strategies.

With this accomplished, the Study Team developed a conceptual contractor organization. Appendix B shows how these positions relate to current State positions, with a crosswalk. Salary/wage/benefit data was collected from various sources (U.S. Department of Labor, Bureau of Labor Statistics, Salary.com, etc.). Costs were then developed for relocation, equipment, overhead, profit, etc. to develop a representative contractor cost.

The results of the comparison of the raw costs totals are as follows:

In-house Performance, FY 2006-2010 $12,146,091

Contract Performance, FY 2006-2010 $11,656,066

These costs, however, do not represent the full avoidable costs of the two alternatives to the State. As noted above, MAI proposed adding one full-time position at the PG20 level to assist with the purchasing, warehousing, and distribution contract monitoring. In addition, the contract related responsibilities for the Director and Account C are estimated at approximately half time. Over the five-year term of the potential contract, this would require $652,235 of salary and benefits directly related to the decision to contract out. (This calculation is displayed in Appendix B).

A second cost impact would be the vacating of the DLC warehouse. The Department of Buildings and General Services stated that the State of Vermont currently leases approximately 500,000 square feet of warehouse space. DBGS stated that if the DLC warehouse became available, they would welcome the opportunity to move part of the State's surplus property inventory out of leased space. DBGS stated that this space was currently leased at $4.95 per square foot, plus custodial service, utilities, and maintenance. Based upon the net usable space of 37,000 square feet at the warehouse (out of 39,280 square feet total), and a loaded lease rate of $5.20 per square foot, this would generate an annual savings of $192,400. Realistically, however, little savings could be expected in the first year due to the expense of moving the surplus property to Green Mountain Drive, preparing the space for new occupancy and underutilization of the leased space vacated by the surplus property until the end of the current lease period. Therefore, the Study Team assumed cost reduction only for the last four years of the five-year study period. This is calculated at $769,600 ($192,400 times four).

A third cost impact is the reduced grade of the remaining in-house IT position in the contract alternative. Based on current salaries of DLC staff, this is projected as a $20,000 per annum cost reduction, or $100,000 over the five-year period of performance.

Taking these factors into consideration, the avoidable costs of the two options are adjusted as follows:

In-house Performance, FY 2006-2010 $12,146,091

Contract Performance, FY 2006-2010 $11,438,071

This projects a savings of 5.8 percent from contracting out; $12,146 minus $11,438,071 is a cost reduction of $708,020. However, several other factors should be discussed.

Title 3 V.S.A. §343 provides that the State can contract out services currently performed by classified state employees, only if:

> The proposed contract is projected to result in overall cost savings to the state of at least ten percent above the project cost of having the services provided by classified state employees.

The V.S.A. further states that:

> The expected costs of having services provided by classified state employees and obtaining the service through a contractor should be compared over the life of the contract. One-time costs associated with having services provided by a contractor rather than classified state employees, such as the expected cost of leave pay-outs for separating employees, unemployment compensation and the cost of meeting the state's obligation, if

> any, to continue health insurance benefits, shall be spread over the expected life of the contract.

From a technical standpoint, the statute is incorrect. Accrued leave which is paid out is not a cost of contracting out; it is an incurred obligation which is already recognized as a cost. Other states, and the Federal government, treat accrued leave as a budgetary/cash flow issue, rather than a cost, in conducting similar analyses. Thus the cost of leave payout is most correctly expressed as zero. However, this does not appear to be the State's intent. If the dollar value of accrued leave for the potentially affected staff is added to the contract cost it would add $246,366. If accrued compensatory time is also added ($9,723), the total becomes $256,089, and the projected savings is reduced to $451,931, or 3.72 percent, over the five-year term of the contract.

A second concern related to the statute is that it provides that a function currently performed by State employees cannot be contracted to a private sector service provider unless a cost reduction equally to ten percent or greater of the State's cost of performing the function can be demonstrated. This is a typical criterion for evaluating the potential contracting of service performed by appropriated funds, similar to that employed by other states, e.g., Virginia and Michigan. However, the DLC is not an appropriated-fund service provider; it is a largely self-supporting enterprise fund which generates revenue for the State. Evaluation of potential contract alternatives should consider both cost reduction and revenue enhancements, as well as cash flow, in order for the State to make a sound business decision.

This being said, the Study Team sees no significant opportunity for a traditional service contract to improve revenue generation. Revenue can be improved by proactive listing/delisting based on current industry knowledge, avoiding stockouts, and timely deliveries. Marketing/Customer Service can also help generate sales, but only to a limited extent given the State's limitations on marketing activities (which we assume will remain in place). Stockouts, delivery delays, and other operational problems which could, if remedied, create opportunities for greater revenue, are not major issues in Vermont. Even assuming that a highly effective contractor could increase revenue by two percent annually, the net revenue increase would be only $363,000, which would not substantively affect the evaluation of alternatives.

In summary, while the Study Team has certain reservations about the State's designated methodology, we believe that neither the State's methodology nor a more standard evaluative approach would demonstrate a compelling case for contracting out under a traditional service contract. This is not surprising; as indicated earlier, this type of contracting out mechanism is normally effective when there is significant potential for improvement by the private sector vendor, e.g., the private vendor can perform the service with fewer personnel, deploy new technology, or otherwise generate efficiencies.

The DLC is a solid organization, and such opportunities are limited. Finally, we note that the DLC should be able to take advantage of some of these opportunities on its own through various operation improvements, as identified elsewhere in this report.

The Maine Model

The second primary alternative considered is a less traditional form of privatization, modeled on one completed in 2004 by the State of Maine. In essence, this alternative entails selling the rights to perform the state's liquor purchasing, warehousing, distribution, and associated functions (exclusive of law enforcement) for an extended period (at least ten years). The State would receive a significant up-front payment, and would enter into a profit-sharing agreement with its selected partner.

Although this transaction is widely referred to as a privatization initiative, it is not actually a privatization, but what is known in the field as a public-private partnership. In Maine, the State still owns and manages the process, it determines the products to be sold, it determines prices, and it determines outlets. The Liquor purchasing, warehousing, and distribution have not been turned over in its entirety to a private entity who will own the process and will bill the State for a service performed. Instead, the state is still actively engaged in the management and financing of this function. The agreement is a nontraditional contract which fits the definition of a public-private partnership, "A cooperative venture between the public and private sectors, built on the expertise of each partner, the best meets clearly defined public needs through the appropriate allocation of resources, risks and rewards."

The State of Maine operates a liquor control program with annual sales nearly double those of Vermont, e.g., $85,395,495 in FY 2003, versus Vermont's sales of $44,056,502. In FY 2003, Maine's program turned over $27.7 million to the State General Fund; Vermont's program turned over $11million in taxes, plus $286 thousand via an administrative transfer.

Maine's liquor program generates an almost guaranteed stream of revenue for the state: $26,821,646 in 2002, $27,749,668 in 2004, and gradually rising revenues (based on projection), to over $36 million in 2013. While these revenues could vary due to changing cultural norms or revised spirit marketing approaches in neighboring states, the revenue stream appears secure. In FY 2002, however, the state of Maine, like many others across the country, began to experience severe budgetary pressures. The State began considering draconian budget reductions, and looking for other, creative ways to solve the looming budget challenges.

Recognizing that the revenue stream generated by the sale of spirits was in fact a negotiable asset, the State developed an innovative proposal to solve its short-term budget problems. The State's liquor revenue projection for the ten-year period mid-FY04 through mid-FY14 was $341.5 million. (Some published reports have stated this as $260 million in revenue over this period. This is based on a linear projection of Maine's FY 2003 revenues of $26 million across the 10-year period. Taking Maine's growth projects into account, the 10-year figure becomes $341 million.) The State issued a competitive RFP with requirements as follows:

> The entity shall be responsible for securing appropriate warehouse facilities to accept supplier's product to be held in sufficient quantity to assure order fulfillment. The product shall remain the property of the supplier while stored at the facility on a bailment basis. The entity will be required to provide uniform services and pricing to suppliers related to the receipt, storage and ancillary services offered under the bailment relationship. This pricing must be made available for review by DAFS upon request.
>
> The entity shall be responsible for receiving orders from Agency stores as licensed by the Department of Public Safety, stickering bottles for appropriate bottle redemption, filling and delivering their orders as described in this RFP, paying associated supplier invoices, paying appropriate alcohol premium taxes, and collecting agency store payments on behalf of the DAFS for product delivered. DAFS shall pay no other fee or make any subsidy payment of any kind.
>
> The entity shall also be responsible for providing or contracting for transportation and recycling services related to bottle redemption.

> The entity shall develop a plan to employ remaining wholesale liquor business state employees (DAFS will continue to work with these employees to find suitable jobs within state government) for a period of two years from the date of privatization.

As part of the contract, the winning vendor would invest in the State of Maine by making an immediate payment of $125 million to the State. The vendor would then assume the liquor purchasing, warehousing, and distribution function, retaining funds generated by the State's markup. Over the term of the contract, they would earn back their $125 million, plus appropriate consideration for cost of capital. Based on a formula included in this RFP, the State and Company agreed that Gross Profit in excess of the Gross Profit Baseline defined below shall be shared with the State at an amount equal to 50% of the Gross Profit Overage. Gross Profit Baseline is the minimum amount of gross profit to be achieved by the Company before any overage exists. The Gross Profit Overage is the difference between Gross Profit and the Gross Profit Baseline. The calculation shall be made as follows:

Net Wholesales Sales

<u>Minus Supplier Costs and Premium Tax</u>

Equals Gross Profit

<u>Minus Gross Profit Baseline</u>

Equals Gross Profit Overage

If the Gross Profit Overage is a negative number, no profit sharing occurs. If the Gross Profit Overage is positive, 50% of the Gross Profit Overage shall be transferred to the State except as otherwise provided in the agreement. The State's 50% share of the Gross Profit Overage will be reduced by any current year or prior year's unsatisfied Gross Profit Deficiency.

In other words, the private partner receives the initial profit each year, paying for their operating expenses and paying back their investments. If the profit exceeds a predetermined level in a given year, the "extra" profit is shared by the vendor and the State, providing both sides an incentive to work together to maximize revenue. While it is still early, seven months into a 10-year term, all parties seem to agree that after some initial transition problems, the contract is working well. (Due to an appeal by an unsuccessful bidder which delayed contract start, the transition timeline was compressed from a planned five months to five weeks, which created some initial process problems). The Maine contract has similar safeguards to those we discussed in the service contract written earlier in this Chapter.

This model is readily adaptable to the State of Vermont. We project that Vermont could receive up to $50-75 million in the first year, which would be offset by reductions in tax receipts from spirit sales, which would go to the vendor under a predetermined formula, with profit sharing. The concept is quite viable and flexible, and could be used to generate different revenue levels.

While the concept is quite sound, we do not recommend it to the State of Vermont, unless the need for additional revenue in FY 2006 is quite severe. For example, the State of Vermont could determine that it needed $15 million in additional revenue in FY 2006. A contract would be advertised, proposals evaluated, and a contract awarded. Upon contract award, the winning vendor would pay the State $15 million, and begin transitioning into performance of the purchasing, warehousing, and distribution functions.

Revenue to the State would continue to be generated in the same manner as today, i.e., through a combination of markup and retail tax. The State would make payments to the vendor to cover annual operating expenses, to include interest on the $15 million initial investment. This would reduce the State's income in future years by $2.0 to 2.5 per year over the term of the contract, as the vendor recoups its investment. If, in any year, the vendor's expenses are less than projected, this difference constitutes a profit which would be shared between the vendor and the State. Based upon the contract cost analysis conducted for the traditional service contract, as previously discussed, a profit of $200,000 to $350,000 per year could be anticipated after the first year, to be shared between the vendor and the State. In the first year, one-time transition costs minimize the potential for profit.

In summary, the Maine model is viable for Vermont, and would provide near-term revenue for the State. However, it would reduce longer-term revenue, over the next 10 years, by $20 to $25 million (assuming an initial investment requirement of $15 million).

Similarly, because the State of Maine will be compensating the vendor for its cost of capital on the $125 million investment, and enabling them to earn a reasonable profit, the State's total revenue over the 10-year period will be reduced by an estimated $60-100 million. This is not as dramatic a reduction as it may sound. $125 million today is worth more than $2 million a year over the next five years, even though it is $15 million less in face value. However, we believe that from a financial perspective, the optimal approach is "pay as you go," i.e., to avoid the interest costs associated with a contract type which is, in effect, tantamount to a loan, albeit not reflected as such for financial statement purposes.

It is also worth noting that implementing such a model would be somewhat complex in the case of Vermont. Currently, all retail tax revenues flow to the General Fund. The DLC's markup pays for its distilled spirit programs, subsidizes beer, wine, and tobacco enforcement programs, and generates revenue for the General Fund (via the annual administrative transfer). The remaining profit, if any, is minimal in any given year.

Implementing the Maine model in Vermont would require an increase in annual operating costs of $2 to $2.5 million per year to cover the costs of the contract. The DLC's markup is not adequate to cover this requirement. Thus, a portion of the retail tax revenue would need to be diverted to cover the contract cost. A decision would also need to be made on how to fund the beer, wine, and tobacco enforcement programs. This could be accomplished by transfer from the vendor to the DLC. However, it might be more straightforward to appropriate funds for beer, wine, and tobacco enforcement in this scenario, which would reduce the retail tax transfer necessary to fund the contract.

In-house Operation with Improvement

As noted in our discussion of the first alternative, although the DLC is generally performing well, some operational improvements are possible which would lead to a more cost-effective organization. Specific improvements are discussed in Chapter 4. This appears to be the most attractive option, unless the State requires significant additional revenue in FY 2006.

7. POLICY ISSUES

As discussed in the previous chapter, this report considers three primary alternatives for the future purchase, warehousing, and distribution of distilled spirits in the State of Vermont:

- The contracting out of the purchasing, warehousing, distribution, and associated functions (exclusive of law enforcement) via traditional service contract.
- A less traditional form of privatization, modeled on that performed by the State of Maine. This alternative entails the State of Vermont selling the rights to perform its liquor purchasing, warehousing, distribution, and associated functions (exclusive of law enforcement) for an extended period (e.g., ten years). The State would receive a significant up-front payment, and would enter into a profit-sharing agreement with its selected partner.
- Continued in-house performance by the DLC staff, but with certain operational improvements.

In each of these three alternatives, the service provider, be they public or private, would maintain a bailment warehouse and deliver distilled spirits to the State's contract Agents, maintaining strict inventory control and accountability. The DLC would maintain control of Agent contract and product pricing, and the DLC or Board would approve all product listing/delisting decisions. The Board would continue to set policy on marketing by the State for distilled spirit sales, utilizing the same socially responsible approach that they do today (the minor changes discussed in this report, such as selling gift certificates for purchases at State Agents, are considered procedural rather than policy-related, and would not significantly increase consumption). Finally, in each of these three alternatives, State education, enforcement, and licensing programs would continue at today's levels.

This issue is exacerbated by current statutes on importation of distilled spirits, Vermont allows private citizens to bring up to eight quarts of spirits into the State for personal consumption, without penalty or payment of tax. This is a relatively high limit; the control state average is approximately four quarts. New Hampshire allows individuals to bring in only three quarts. Thus, while the State of Vermont is concerned about the net effects of interstate importation, it allows its citizens to bring home from New Hampshire nearly three times as much in alcohol beverages as can travel in the opposite direction.

The State of Vermont may wish to reduce its importation limit to the control state average, or even to reduce its limit to match New Hampshire's. The most likely result of such an action would be a minor increase in revenue to the State of Vermont, coupled with higher rates of violation of the statutory limit on importation.

- The DLC has proposed that the State of Vermont convert from an ad valorem tax on spirits to a gallonage tax, on a revenue-neutral basis. (If done in a pure sense, such a conversion would be regressive, i.e., it would disproportionately increase the retail price of lower-cost spirits, and decrease the retail price of higher price items. To avoid distorting the current price structure, the DLC's proposal is based on a gallonage tax based on bands of beverage price). The DLC reasons that the impact of the State's current 25 percent ad valorem tax on liquor increases each year with inflation, i.e., if the cost of a 750 ml bottle of a given spirit increases by $1.00 from one year to the next, the tax on that bottle automatically increases by $.025. The DLC further argues that a gallonage tax would not increase from year to year. Over time this would make distilled spirits in Vermont more competitive versus prices in neighboring jurisdictions. The DLC believes that this would increase sales, generating a net gain in revenue to the State despite the decrease in tax rate as a percent of product price.

The MAI Study Team believes this misdiagnoses the issue. (In addition, conversion to a gallonage tax is no guarantee of frozen tax rates; a gallonage tax can easily be indexed to inflation or be made subject to arbitrary increases.) The actual question is whether the State of Vermont really wants to reduce its effective tax rate on distilled spirits in order to try to encourage increased sales, in effect, a Laffer curve of Liquor. If the answer to this question is "yes", it can be achieved either through indexing the ad valorem tax rate annually to negate the effects of inflation, or by implementing a static gallonage tax.

The Study Team notes, however, that demand for distilled spirits is relatively inelastic (and less elastic than demand for malt and vinous beverages). In February 2004, Vermont instituted a price increase of 1.5 percent. Contrary to the DLC's expectation of a two percent decrease in sales, this increase had no apparent adverse impact on sales, which actually increased. A similar price increase, instituted in November 2004, has also had no perceptible effect. If price inflation is running at two percent per annum, and the State tax is 25 percent, eliminating the tax inflation impacts the final product price by only 0.5percent (25 percent of two percent). It would take several years for such minor offsets to have any tangible impact on sales.

This does not mean that the Vermont State tax has no impact on sales. Although distilled spirit sales are less elastic than beer and wine sales, it is clearly established that increases in alcohol tax reduce consumption overall. (So much so that a recent article in Alcohol Research and Health, Vol. 26, No. 1, 2002, published by the National Institute on Alcohol Abuse and Alcoholism, proposed raising the Federal excise tax on alcohol, with the specific goal of reducing consumption.[1]) Our point is simply that Vermont should continue to monitor its competitiveness with neighboring states, and make adjustments to the retail tax, whether ad valorem or gallonage, as necessary to retain a competitive price structure.

The DLC's biggest problem is not that Vermont's prices are universally too high; in many cases the DLC's prices appear quite competitive, as shown in the previous chapter. The key factor is that Vermont is located adjacent to the most competitive, most aggressively marketed of the control states, New Hampshire. A structured review of Vermont's distilled spirit pricing vis-à-vis New Hampshire's pricing, could help to develop a more competitive overall price list. To some extent, this may be accomplished through the DLC's variable markup as opposed to altering the tax structure. Developing a more effective manner to compete will not happen overnight.

- Vermont State Law (3 V.S.A § 343) requires that a function currently performed by State employees cannot be contracted to a private sector service provider unless a cost reduction equal to ten percent or greater of the State's cost of performing the function can be demonstrated. This is a typical criterion for evaluating the potential contracting of service performed by appropriated funds, similar to that employed by other states, e.g., Virginia and Michigan. However, the DLC is not an appropriated-fund service provider; it is a largely self-supporting enterprise fund which generates revenue for the State. Evaluation of potential contract alternatives should consider both cost reduction and revenue enhancements, as well as cash flow, in order for the State to make a sound business decision.
- If the State does elect to contract out the purchasing, warehousing, and distribution functions, we recommend that the State include a provision requiring the successful vendor to make job offers to any qualified State employees who are adversely affected by the decision to contract out, before hiring other parties to fill job openings created by the contract. A model would be Federal Acquisition Regulation (FAR) 52.207.-3, "Right of First Refusal of Employment", the Federal government's contract clause for this purpose.
- The MAI Study Team conducted a survey of license fees for liquor, beer, and wine, collecting information for 14 states and one Canadian Province. This information is

[1]"The Effects of Price on Alcohol Consumption and Alcohol-Related Problems", Frank J. Chaloupha, Ph. D., et al

displayed at Appendix H. As can be seen from this Exhibit, the license fees charged by Vermont are significantly lower than those in other jurisdictions. Even if Vermont were to double its fees, they would still be among the lower-cost license fees. The Study Team believes that there is potential for significant revenue enhancement by adjusting Vermont's license fee structure to a level more typical to other states' fees. In FY 2004, Vermont collected $688,983 in license fees; doubling of these fees would generate approximately $700,000 in additional revenue in future years.

8. OPPORTUNITIES FOR IMPROVEMENT

1. Consider a mandatory twice annual reorganization of the warehouse stock distribution to improve efficiency. For the cost of a weekend of overtime, the warehouse could increase efficiency in picking operations, especially if assisted by staff of the DLC IT group at the same time, by completely reorganizing its inventory storage rack address system. The IT staff could update the item locations in the warehouse management system as each section of the warehouse is reorganized. The current layout of existing stock does not make full use of the potential of the warehouse.

2. Consider a new method of linking the liquor case barcode number to a location address in the current database, renumber all racks, shelves, and floor space areas as coordinate locations. For example: tag all rows in the warehouse with a number, tag all vertical racks with an address starting at one end of a row, and then tag each shelf as a letter of the alphabet. The stock picker would receive a pick list that was truly informative and had all pulls in a logical order that minimize back-tracking or criss-crossing the warehouse to fill an order. In the example below a new Pick List system based on this philosophy provides a case location as 3A8, which translates to 3rd row, ground level, rack 8 in that row:

   - Each Row is assigned a Row identifier such as 1 or 2 or 3, where #1 is the first row along a wall.
   - Each Shelf is assigned a Shelf identifier such as A or B or C, where A is always the area on the ground floor under the rack.
   - Each Rack is assigned a Rack Identifier such as 1 or 2 or 3, where #1 is always at the same end of the row and on the same side of the row.

3. Consider contracting for a complete warehouse and purchasing operations systems analysis and requirements definition study to identify current and outyear requirements for stock management data, data collection, data storage, data reporting, and data security. The study should provide a significant level of detail of analysis and the production of resulting requirements statements so that its final product is a suite of recommendations with current year and proposed implementation year costs for the purchase, installation, and maintenance of both hardware and software. Several Control commissions, such as Virginia and Montgomery County, are in the design phases of systems which have modules that could be duplicated less expensively in Vermont as compared to having the DLC IT staff start from scratch to design a system.

4. Install a new (see above) inventory management system as the first phase of an integrated warehouse and purchasing operations system. In addition to restructuring the placement and addressing of the liquor, beer, and wine items in the warehouse to make better use of space and to allow improvements in the pick list process (see above), the following items are recommended as minimum requirements for a new warehouse management / inventory control system for the warehouse. A new system must at least be able to permit the staff to:

- Scan a barcode on case deliveries from manufacturers/brokers against a barcode on a bill of lading upon arrival.
- Scan a barcode on case/bottle/sub-pack returned to warehouse stock from Agency Stores, i.e., items returned as incorrect deliveries, or damaged, recalled, or otherwise no longer for sale stock.

- Receive a row, section, shelf, and bin storage location ID code back from the system upon scanning received items coming off the delivery truck.
- Scan a barcode on a case and/or a sub-pack set (within cases) to place the item into inventory database upon verification of delivery against bill of lading.
- Scan sub-packs from multi-pack cases into the inventory database as an item separate from the case or at least be able to have a case of sub-packs converted to a quantity of individual sub-packs in the inventory database.
- Receive pick list created from the Agent's order automatically after system verifies available quantities in stock. The resulting pick list items should be showing products in row, section, shelf, and bin location order.
- Scan a barcode on the pick list to open a pick list verification file and scan it again to close a pick list verification file.
- Scan barcodes on items when pulled from shelves via wireless scanners.
- Scan barcodes on items as the pass by a control station on the conveyor system to re-verify picks as items are consolidated for staging in pre-loading areas.
- Produce and outgoing bill of lading with existing information from the Controllers final scan results of the picked items.
- Scan barcodes on items when delivered to Agency store to verify delivery.
- Enter adjustments by Drivers for count errors, wrong picks, breakage, or returns/transfers into a handheld or truck-mounted unit at the Agency Store at the time of delivery.

5. The following are recommended standard warehouse operations reports that should produced and tracked monthly. These reports :

   - Total of the number cases of spirits, wine, and beer (listed separately) shipped per month, for determination of rough FTE to Cases Shipped ratio to compare month-to-month and to other Control State operations.
   - Average warehouse workers on duty daily and total hours worked by those present on order pulling.
   - Average orders to fill per day over the course of the month.
   - Average number of cases pulled per day over the course of the month.
   - Average number cases loaded per truck per day over the course of the month.
   - Average warehouse workers on duty daily and total hours worked by those present on truck loading.
   - Average Drivers on duty daily and total hours worked by those present on order pulling.
   - Average Drivers on duty daily and total hours worked by those present on truck loading.
   - Number of incoming delivery trucks from suppliers unloaded per month.
   - Average number of days notice before Supplier delivery truck arrival.
   - Number of "out of stock" items that had to be taken off Agent orders per month.
   - Number of days per month when stock pulling carried over to next day.
   - Number of miss-shipped items returned by Driver for credit per month.
   - Number of miles driven per month per truck.

6. Consider purchase or five year lease of a replacement fork lift. Due to indoor air quality problems reported at other Control State warehouses, consider phasing out the propane fueled Material Handling Equipment and replacing them with electric systems.
7. Consider upgrading electric fork lift charging stations to improve safety, reduce recharge time, and reduce power consumption.
8. Consider development of a forecasting systems for the Agents that provides a recommended 1-to-1 Replenishment Order automatically to the Agent's purchaser which can be accepted or manually updated to create a final order for the DLC. The draft order should be available for review by Agent who can adjust the order based on recent holiday or promotional sales, or, under normal conditions accept it.
9. Establish a "business reinvestment" fund or cost center for the DLC to facilitate its entrepreneurial efforts. This fund could have a legislatively adopted biennial limitation, and be self-funded by Other Funds, Miscellaneous Revenues. The DLC could use the fund to reinvest recently developed miscellaneous fees and penalty charges in improving merchandising operational efficiency and customer service. This change would allow the DLC to operate more as a business, continually reinvesting efficiency savings.
10. Consider obtaining a legislative opinion as to the possibility of retaining funds generated when the DLC tries to absorb the liquor suppliers' stock maintenance workload, and charges suppliers a fee to do so. A reinvestment fund would allow DLC to use suppliers' fees to provide them much needed services, such as relabeling.
11. With a reinvestment fund, revenue could be generated through a variety of methods, such as penalty charges used to discourage over-shipments by suppliers, a 0.5% one-to-three year surcharge on the per bottle price, or bottle pick fees for Agents. The retained earnings could be directed to purchasing new warehouse equipment, such as racks, conveyor parts, forklifts and other equipment, supplies and personal services. Another use of "other revenue" projects might be to sub-contract out the recycling process, including bottle returns and processing and weekly cardboard haulage.
12. Consider the increase of Temporary Price Reduction (TPR) buyouts. If the product is not going to go on sale within the next two months, the DLC could push delivery of a 60-day supply of inventory at the close of a TPR. The increased purchasing of fast moving items when prices have dropped would have an impact on store storage in the short term, but the product could be redistributed as sell-outs occur, and the DLC would have had a two month longer supply of the less expenses per bottle product from which to make profit or to discount to consumers.
13. Consider tracking the number and case price of "out-of-stock" items ordered each day that cannot be filled be the warehouse. Use these figures to calculate the lost opportunity cost of each out-of-stock situation (number of cases ordered but unavailable times the price per case equals the sales lost to DLC that day). Assess a penalty to suppliers/brokers that cause frequent out-of-stock events.
14. Consider the Wyoming Department of Revenue Liquor Division policy on new product listing for products that "just can't wait". The WY Liquor Division offers industry representatives a mechanism to use in submitting new products for listing without having to wait until the next regularly scheduled presentation time. This would be a quicker way for new or fast breaking products to be available to Vermont consumers in between the regular listings.
15. There are areas of the State of Vermont which are currently "underserved" by the DLC (i.e., the DLC believes the population base warrants a State Agent, but there is no current contract store). In several cases, the DLC has advertised for a contract Agent, but received no

responses. The DLC should consider offering a temporary increase in the Agent commission, e.g., a one or two percent increase over the standard commissions for the first two years of operation, to ensure full coverage of the State by Vermont-based outlets.

Possible “Just Can’t Wait” Procedure:

1. Industry representatives request a interim listing for new items that are unique, make up a new product category, are newly formulated or are fast breaking only when the request is supported by completed forms.

2. The required forms include a Licensee Interest Form, a New Listing Request Profile and a Quotation and Specification Form. All three (3) forms are required for each product requesting interim listing consideration.

3. Completed forms are to be submitted to the Purchasing Manager.

4. An interim listing meeting will be held with the listing committee to discuss the products submitted.

5. The industry representative will be notified within five (5) working days after the interim listing committee meeting whether or not the product will be listed.

6. Any product rejected may be presented at the next regular presentation meeting.

7. Once a product is accepted for listing, it is the industry representative's responsibility to notify the retailers of when product is available, the control state code number and the case cost.

8. If SPA's or depletion allowances are offered, products will be listed on the next available sale sheets, based on shipping date and required notice of allowance. Once the product is received by the DLC, it will be listed on the next "Important Message" sent to licensees as new products available.

9. Products will be in the next published Wholesale Price List book.

APPENDICES

APPENDIX A

In-house Cost Estimate

Summary

Performance Period	*Personnel*	*Non-labor Costs*	*Yearly Total*
Base Year (FY 2006)	$1,405,973	$ 885,486	$ 2,291,459
Option Year 1 (FY 2007)	$1,466,979	$ 898,769	$ 2,365,748
Option Year 2 (FY 2008)	$1,516,401	$ 912,250	$ 2,428,651
Option Year 3 (FY 2009)	$1,570,435	$ 925,934	$ 2,496,369
Option Year 4 (FY 2010)	$1,624,042	$ 939,823	$ 2,563,865
Subtotal	*$7,583,829*	*$ 4,562,262*	
	Total Cost	**$12,146,091**	

Non-labor Costs

WAREHOUSE

	~ Monthly Cost	Annual Cost	
Vehicle Expenses	929.75	$ 11,157.00	
Fork Lifts	20.64	$247.68	
Recycling Services	3,410.94	$ 40,931.28	
Handling Fees - Administrative	6,779.37	$ 81,352.44	
Utilities	1,358.46	$ 16,301.52	
Supplies	4.19	$ 50.28	
Postage	0.00	$5,686.76	*used year-to-date cost
Maintenance	175.65	$2,107.80	
Printing	6.36	$ 76.32	
Insurance	0.00	$3,796.44	*used year-to-date cost
Federal License	0.00	$750.00	*used year-to-date cost
OSD Expense	1,265.16	$ 15,181.92	
Stock Over/Short	(808.34)	$ (9,700.08)	
Depreciation - Equipment	56,148.66	$673,783.92	
Fee for Space/BGS	12,516.77	$150,201.24	
HRMS/Vision System Fees	0.00	$ -	
Miscellaneous	(25,341.43)	$ (304,097.16)	
TOTAL	**$56,466.18**	**$687,827.36**	

ADMINISTRATION

	~ Monthly Cost	Annual Cost	
Administrative Support	42.70	$512.40	
Merchandising	0.00	$1,043.07	*used year-to-date cost
Accounting & Data Proc.	191.63	$2,299.56	
Vehicle Expenses	2,041.71	$ 24,500.52	
Utilities	4,258.13	$ 51,097.56	
Supplies	1,323.85	$ 15,886.20	
Postage	0.00	$7,596.60	*used year-to-date cost
Advertising	3,639.20	$ 43,670.40	

Maintenance	124.00	$1,488.00	
Printing	0.00	$1,954.52	*used year-to-date cost
Insurance	0.00	$825.79	*used year-to-date cost
Membership Dues	0.00	$2,225.00	*used year-to-date cost
Depreciation - Equipment	28,233.73	$338,804.76	
Fee for Space/BGS	1,984.37	$ 23,812.44	
HRMS/Vision System Fees	0.00	$ -	*non-avoidable cost; eliminated for both alternatives
Miscellaneous	(24,761.05)	$ (297,132.60)	
TOTAL	**$17,078.27**	**$218,584.22**	
*70% of Total **		*$ 153,008.95*	* Not all administration costs are warehouse ops.

Information Technology Upgrades:

Annual Expenses		
Replacing Computers & Software	$ 35,000	
User Training	$ 17,500	($35,000 is estimate for entire Dept.)
@ 50%	$ 26,250	
Other one-time costs	$ 92,000	(total prorated over 5 years)
(Automation, system overhaul, etc. as estimated by IT Plan)		
TOTAL	*$ 44,650*	

TOTAL NON-LABOR COSTS	**$885,486**

Labor Costs

BASE YEAR (Oct. 05-Sept 06)

Number	Title	Grade	Step	Annual Salary as of 9-16-04	Salary w/ Cost of Living Adj	Medical CY2005 Cost	Dental CY2005 Cost	EAP CY2005 Cost	Life Ins. CY2005 Cost	SS / Medicare (7.65%)	Retirement Cost (8.1%)	Total C Paid i FY04
1	Account Clerk B	13	5	$26,166	$26,690	$0	$545	$27	$109	$2,002	$2,119	
2	Accountant A	17	4	$30,784	$31,400	$8,246	$545	$27	$128	$2,355	$2,494	$1,
3	Administrative Assistant A	17	12	$39,250	$40,035	$8,246	$545	$27	$168	$3,003	$3,179	$1,
4	Business Manager B	22	9	$47,486	$48,436	$8,246	$545	$27	$203	$3,633	$3,846	$3,
5	Marketing/Customer Service	97	0	$47,861	$48,818	$4,123	$296	$27	$205	$3,661	$3,877	
6	Helpdesk Analyst	18	7	$35,797	$36,513	$8,246	$545	$27	$153	$2,738	$2,900	$
7	Liquor Purchasing & Warehousin	23	12	$54,725	$55,819	$8,246	$545	$27	$234	$4,186	$4,433	
8	Liquor Store District Coordina	20	9	$42,453	$43,302	$4,975	$296	$27	$182	$3,248	$3,439	$6,
9	Liquor Store District Coordina	20	9	$42,453	$43,302	$9,950	$545	$27	$182	$3,248	$3,439	$3,
10	Liquor Store District Coordina	20	13	$47,466	$48,415	$13,681	$1,032	$27	$203	$3,631	$3,845	$6,
11	Liquor Warehouse Maintenance W	12	15	$33,259	$33,924	$8,246	$545	$27	$142	$2,544	$2,694	$2,
12	Liquor Warehouse Operations Su	18	14	$43,742	$44,617	$4,123	$296	$27	$187	$3,346	$3,543	$11,
13	Liquor Warehouse Supervisor	17	6	$32,843	$33,500	$0	$1,032	$27	$141	$2,513	$2,660	$1,
14	Liquor Warehouse Worker I	10	8	$25,043	$25,544	$0	$1,032	$27	$107	$1,916	$2,028	$
15	Liquor Warehouse Worker I	10	15	$30,326	$30,933	$8,246	$545	$27	$130	$2,320	$2,456	$
16	Liquor Warehouse Worker I	10	6	$23,546	$24,017	$11,339	$1,032	$27	$101	$1,801	$1,907	$
17	Liquor Warehouse Worker I	10	10	$26,562	$27,093	$4,123	$296	$27	$114	$2,032	$2,151	$
18	Liquor Warehouse Worker I	10	12	$27,955	$28,514	$0	$1,032	$27	$120	$2,139	$2,264	$
19	Liquor Warehouse Worker I	10	10	$26,562	$27,093	$0	$296	$27	$114	$2,032	$2,151	$
20	Liquor Warehouse Worker II	13	6	$26,998	$27,538	$8,246	$545	$27	$112	$2,065	$2,187	$6,
21	Liquor Warehouse Worker II	13	5	$26,166	$26,690	$8,246	$545	$27	$109	$2,002	$2,119	$7,
22 T	Liquor Warehouse Worker II	13	2	$11,877	$12,114	$0	$0	$0	$0	$909	$0	$3,
23	Liquor Warehouse Worker II	13	2	$23,754	$24,229	$4,123	$0	$27	$97	$1,817	$1,924	
24	Liquor Warehouse Worker II	13	8	$28,704	$29,278	$4,123	$296	$27	$123	$2,196	$2,325	$6,
25	Program Services Clerk	15	6	$28,808	$29,384	$8,246	$545	$27	$123	$2,204	$2,333	
26	Program Services Clerk	15	4	$27,914	$28,472	$11,339	$1,032	$27	$116	$2,135	$2,261	
27	Systems Developer I	20	8	$41,122	$41,944	$9,950	$545	$27	$176	$3,146	$3,331	
28	Systems Developer I	20	6	$38,563	$39,334	$4,123	$296	$27	$160	$2,950	$3,124	$

Number	Title	Grade	Step	Annual Salary	Salary w/ Cost of Living Adj	Medical Cost	Dental Cost	EAP Cost	Life Ins. Cost	SS / Medicare (7.65%)	Retirement Cost (8.1%)	Estimat OT
29	Systems Developer II	23	1	$38,126	$38,889	$4,123	$296	$27	$262	$2,917	$3,088	
	TOTAL			**$976,310**	**$995,837**	**$172,556**	**$15,636**	**$763**	**$4,200**	**$74,688**	**$78,119**	**$64,**

OPTION YEAR 1

Number	Title	Grade	Step	Annual Salary	Salary w/ Cost of Living Adj	Medical Cost	Dental Cost	EAP Cost	Life Ins. Cost	SS / Medicare (7.65%)	Retirement Cost (8.1%)	Estimat OT
1	Account Clerk B	13	6	$26,998	$28,089	$0	$566	$27	$120	$2,065	$2,187	$0
2	Accountant A	17	5	$31,803	$33,088	$8,906	$566	$27	$141	$2,433	$2,576	$1,015
3	Administrative Assistant A	17	13	$40,331	$41,961	$8,906	$566	$27	$185	$3,085	$3,267	$1,201
4	Business Manager B	22	10	$48,838	$50,811	$8,906	$566	$27	$224	$3,736	$3,956	$3,032
5	Executive Assistant	97	0	$47,861	$49,794	$4,453	$308	$27	$225	$3,661	$3,877	$0
6	Helpdesk Analyst	18	8	$36,878	$38,368	$8,906	$566	$27	$169	$2,821	$2,987	$81
7	Liquor Purchasing & Warehousin	23	13	$56,306	$58,580	$8,906	$566	$27	$258	$4,307	$4,561	$0
8	Liquor Store District Coordina	20	10	$43,618	$45,380	$5,373	$308	$27	$200	$3,337	$3,533	$6,209
9	Liquor Store District Coordina	20	10	$43,618	$45,380	$10,746	$566	$27	$200	$3,337	$3,533	$3,231
10	Liquor Store District Coordina	20	13	$47,466	$49,383	$14,776	$1,073	$27	$223	$3,631	$3,845	$6,955
11	Liquor Warehouse Maintenance W	12	15	$33,259	$34,603	$8,906	$566	$27	$157	$2,544	$2,694	$2,654
12	Liquor Warehouse Operations Su	18	14	$43,742	$45,510	$4,453	$308	$27	$206	$3,346	$3,543	$11,756
13	Liquor Warehouse Supervisor	17	7	$33,842	$35,209	$0	$1,073	$27	$155	$2,589	$2,741	$1,657
14	Liquor Warehouse Worker I	10	9	$25,834	$26,877	$0	$1,073	$27	$118	$1,976	$2,093	$39
15	Liquor Warehouse Worker I	10	15	$30,326	$31,552	$8,906	$566	$27	$143	$2,320	$2,456	$756
16	Liquor Warehouse Worker I	10	7	$24,336	$25,319	$12,246	$1,073	$27	$111	$1,862	$1,971	$360
17	Liquor Warehouse Worker I	10	11	$27,186	$28,284	$4,453	$308	$27	$125	$2,080	$2,202	$160
18	Liquor Warehouse Worker I	10	13	$28,704	$29,864	$0	$1,073	$27	$132	$2,196	$2,325	$362
19	Liquor Warehouse Worker I	10	11	$27,186	$28,284	$0	$308	$27	$125	$2,080	$2,202	$326
20	Liquor Warehouse Worker II	13	6	$26,998	$28,089	$8,906	$566	$27	$123	$2,065	$2,187	$6,047
21	Liquor Warehouse Worker II	13	6	$26,998	$28,089	$8,906	$566	$27	$120	$2,065	$2,187	$7,127
22 T	Liquor Warehouse Worker II	13	3	$12,303	$12,800	$0	$0	$0	$0	$941	$0	$3,748
23	Liquor Warehouse Worker II	13	3	$24,606	$25,600	$4,453	$0	$27	$107	$1,882	$1,993	$0
24	Liquor Warehouse Worker II	13	9	$29,661	$30,859	$4,453	$308	$27	$135	$2,269	$2,403	$6,474
25	Program Services Clerk	15	6	$29,765	$30,967	$8,906	$566	$27	$136	$2,277	$2,411	$0
26	Program Services Clerk	15	5	$28,808	$29,972	$12,246	$1,073	$27	$127	$2,204	$2,333	$0

27	Systems Developer I	20	9	$42,453	$44,168	$10,746	$566	$27	$194	$3,248	$3,439	$0
28	Systems Developer I	20	6	$38,563	$40,121	$4,453	$308	$27	$176	$2,950	$3,124	$973
29	Systems Developer II	23	2	$39,957	$41,571	$4,453	$308	$27	$288	$3,057	$3,237	$0
	TOTAL			**$998,244**	**$1,038,573**	**$186,360**	**$16,261**	**$763**	**$4,620**	**$76,366**	**$79,861**	**$64,**

OPTION YEAR 2

Number	Title	Grade	Step	Annual Salary	Salary w/ Cost of Living Adj	Medical Cost	Dental Cost	EAP Cost	Life Ins. Cost	SS / Medicare (7.65%)	Retirement Cost (8.1%)	Estimat OT
1	Account Clerk B	13	6	$26,998	$28,651	$0	$589	$27	$132	$2,065	$2,187	$0
2	Accountant A	17	6	$32,843	$34,853	$9,618	$589	$27	$155	$2,513	$2,660	$1,015
3	Administrative Assistant A	17	13	$40,331	$42,800	$9,618	$589	$27	$203	$3,085	$3,267	$1,201
4	Business Manager B	22	10	$48,838	$51,828	$9,618	$589	$27	$246	$3,736	$3,956	$3,032
5	Executive Assistant	97	0	$47,861	$50,790	$4,809	$320	$27	$248	$3,661	$3,877	$0
6	Helpdesk Analyst	18	8	$36,878	$39,136	$9,618	$589	$27	$185	$2,821	$2,987	$81
7	Liquor Purchasing & Warehousin	23	13	$56,306	$59,752	$9,618	$589	$27	$283	$4,307	$4,561	$0
8	Liquor Store District Coordina	20	10	$43,618	$46,287	$5,803	$320	$27	$220	$3,337	$3,533	$6,209
9	Liquor Store District Coordina	20	10	$43,618	$46,287	$11,605	$589	$27	$220	$3,337	$3,533	$3,231
10	Liquor Store District Coordina	20	14	$48,818	$51,806	$15,958	$1,116	$27	$246	$3,735	$3,954	$6,955
11	Liquor Warehouse Maintenance W	12	15	$33,259	$35,295	$9,618	$589	$27	$172	$2,544	$2,694	$2,654
12	Liquor Warehouse Operations Su	18	15	$44,990	$47,744	$4,809	$320	$27	$227	$3,442	$3,644	$11,756
13	Liquor Warehouse Supervisor	17	7	$33,842	$35,913	$0	$1,116	$27	$170	$2,589	$2,741	$1,657
14	Liquor Warehouse Worker I	10	9	$25,834	$27,415	$0	$1,116	$27	$130	$1,976	$2,093	$39
15	Liquor Warehouse Worker I	10	15	$30,326	$32,183	$9,618	$589	$27	$157	$2,320	$2,456	$756
16	Liquor Warehouse Worker I	10	7	$24,336	$25,826	$13,225	$1,116	$27	$122	$1,862	$1,971	$360
17	Liquor Warehouse Worker I	10	11	$27,186	$28,850	$4,809	$320	$27	$138	$2,080	$2,202	$160
18	Liquor Warehouse Worker I	10	13	$28,704	$30,461	$0	$1,116	$27	$145	$2,196	$2,325	$362
19	Liquor Warehouse Worker I	10	11	$27,186	$28,850	$0	$320	$27	$138	$2,080	$2,202	$326
20	Liquor Warehouse Worker II	13	7	$27,872	$29,578	$9,618	$589	$27	$136	$2,132	$2,258	$6,047
21	Liquor Warehouse Worker II	13	6	$26,998	$28,651	$9,618	$589	$27	$132	$2,065	$2,187	$7,127
22 T	Liquor Warehouse Worker II	13	4	$12,709	$13,487	$0	$0	$0	$0	$972	$0	$3,748
23	Liquor Warehouse Worker II	13	4	$25,418	$26,973	$4,809	$0	$27	$118	$1,944	$2,059	$0
24	Liquor Warehouse Worker II	13	9	$29,661	$31,476	$4,809	$320	$27	$149	$2,269	$2,403	$6,474

25	Program Services Clerk	15	7	$30,701	$32,580	$9,618	$589	$27	$149	$2,349	$2,487	$0
26	Program Services Clerk	15	6	$29,765	$31,587	$13,225	$1,116	$27	$140	$2,277	$2,411	$0
27	Systems Developer I	20	9	$42,453	$45,051	$11,605	$589	$27	$213	$3,248	$3,439	$0
28	Systems Developer I	20	7	$39,811	$42,248	$4,809	$320	$27	$193	$3,046	$3,225	$973
29	Systems Developer II	23	3	$41,475	$44,014	$4,809	$320	$27	$317	$3,173	$3,359	$0
	TOTAL			**$1,008,634**	**$1,070,370**	**$201,269**	**$16,912**	**$763**	**$5,082**	**$77,160**	**$80,670**	**$64,**

OPTION YEAR 3

Number	Title	Grade	Step	Annual Salary	Salary w/ Cost of Living Adj	Medical Cost	Dental Cost	EAP Cost	Life Ins. Cost	SS / Medicare (7.65%)	Retirement Cost (8.1%)	Estima OT
1	Account Clerk B	13	7	$27,872	$30,170	$0	$613	$27	$145	$2,132	$2,258	$0
2	Accountant A	17	6	$32,843	$35,551	$10,388	$613	$27	$170	$2,513	$2,660	$1,015
3	Administrative Assistant A	17	13	$40,331	$43,656	$10,388	$613	$27	$224	$3,085	$3,267	$1,201
4	Business Manager B	22	11	$50,211	$54,350	$10,388	$613	$27	$271	$3,841	$4,067	$3,032
5	Executive Assistant	97	0	$47,861	$51,806	$5,194	$333	$27	$273	$3,661	$3,877	$0
6	Helpdesk Analyst	18	9	$38,106	$41,247	$10,388	$613	$27	$204	$2,915	$3,087	$81
7	Liquor Purchasing & Warehousin	23	13	$56,306	$60,947	$10,388	$613	$27	$312	$4,307	$4,561	$0
8	Liquor Store District Coordina	20	11	$44,845	$48,541	$6,267	$333	$27	$242	$3,431	$3,632	$6,209
9	Liquor Store District Coordina	20	11	$44,845	$48,541	$12,534	$613	$27	$242	$3,431	$3,632	$3,231
10	Liquor Store District Coordina	20	14	$48,818	$52,842	$17,234	$1,160	$27	$270	$3,735	$3,954	$6,955
11	Liquor Warehouse Maintenance W	12	15	$33,259	$36,001	$10,388	$613	$27	$189	$2,544	$2,694	$2,654
12	Liquor Warehouse Operations Su	18	15	$44,990	$48,699	$5,194	$333	$27	$249	$3,442	$3,644	$11,756
13	Liquor Warehouse Supervisor	17	8	$34,902	$37,779	$0	$1,160	$27	$187	$2,670	$2,827	$1,657
14	Liquor Warehouse Worker I	10	10	$26,562	$28,751	$0	$1,160	$27	$143	$2,032	$2,151	$39
15	Liquor Warehouse Worker I	10	15	$30,326	$32,826	$10,388	$613	$27	$173	$2,320	$2,456	$756
16	Liquor Warehouse Worker I	10	8	$25,043	$27,108	$14,283	$1,160	$27	$134	$1,916	$2,028	$360
17	Liquor Warehouse Worker I	10	12	$27,955	$30,260	$5,194	$333	$27	$151	$2,139	$2,264	$160
18	Liquor Warehouse Worker I	10	13	$28,704	$31,070	$0	$1,160	$27	$159	$2,196	$2,325	$362
19	Liquor Warehouse Worker I	10	12	$27,955	$30,260	$0	$333	$27	$151	$2,139	$2,264	$326
20	Liquor Warehouse Worker II	13	7	$27,872	$30,170	$10,388	$613	$27	$149	$2,132	$2,258	$6,047
21	Liquor Warehouse Worker II	13	6	$26,998	$29,224	$10,388	$613	$27	$145	$2,065	$2,187	$7,127
22 T	Liquor Warehouse Worker II	13	5	$13,083	$14,162	$0	$0	$0	$0	$1,001	$0	$3,748

23	Liquor Warehouse Worker II	13	5	$26,166	$28,323	$5,194	$0	$27	$130	$2,002	$2,119	$0
24	Liquor Warehouse Worker II	13	9	$29,661	$32,106	$5,194	$333	$27	$164	$2,269	$2,403	$6,474
25	Program Services Clerk	15	7	$30,701	$33,232	$10,388	$613	$27	$164	$2,349	$2,487	$0
26	Program Services Clerk	15	6	$29,765	$32,218	$14,283	$1,160	$27	$154	$2,277	$2,411	$0
27	Systems Developer I	20	9	$42,453	$45,952	$12,534	$613	$27	$234	$3,248	$3,439	$0
28	Systems Developer I	20	7	$39,811	$43,093	$5,194	$333	$27	$213	$3,046	$3,225	$973
29	Systems Developer II	23	4	$42,786	$46,313	$5,194	$333	$27	$349	$3,273	$3,466	$0
	TOTAL			**$1,021,030**	**$1,105,196**	**$217,371**	**$17,588**	**$763**	**$5,590**	**$78,109**	**$81,644**	**$64,**

OPTION YEAR 4

Number	Title	Grade	Step	Annual Salary	Salary w/ Cost of Living Adj	Medical Cost	Dental Cost	EAP Cost	Life Ins. Cost	SS / Medicare (7.65%)	Retirement Cost (8.1%)	Estimat OT
1	Account Clerk B	13	7	$27,872	$30,773	$0	$637	$27	$159	$2,132	$2,258	$0
2	Accountant A	17	7	$33,842	$37,364	$11,219	$637	$27	$187	$2,589	$2,741	$1,015
3	Administrative Assistant A	17	14	$41,538	$45,861	$11,219	$637	$27	$246	$3,178	$3,365	$1,201
4	Business Manager B	22	11	$50,211	$55,437	$11,219	$637	$27	$298	$3,841	$4,067	$3,032
5	Executive Assistant	97	0	$47,861	$52,842	$5,609	$346	$27	$300	$3,661	$3,877	$0
6	Helpdesk Analyst	18	9	$38,106	$42,072	$11,219	$637	$27	$224	$2,915	$3,087	$81
7	Liquor Purchasing & Warehousin	23	14	$57,928	$63,957	$11,219	$637	$27	$343	$4,431	$4,692	$0
8	Liquor Store District Coordina	20	11	$44,845	$49,512	$6,768	$346	$27	$266	$3,431	$3,632	$6,209
9	Liquor Store District Coordina	20	11	$44,845	$49,512	$13,537	$637	$27	$266	$3,431	$3,632	$3,231
10	Liquor Store District Coordina	20	14	$44,845	$49,512	$18,613	$1,207	$27	$297	$3,431	$3,632	$6,955
11	Liquor Warehouse Maintenance W	12	15	$33,259	$36,721	$11,219	$637	$27	$208	$2,544	$2,694	$2,654
12	Liquor Warehouse Operations Su	18	15	$44,990	$49,673	$5,609	$346	$27	$274	$3,442	$3,644	$11,756
13	Liquor Warehouse Supervisor	17	8	$34,902	$38,535	$0	$1,207	$27	$206	$2,670	$2,827	$1,657
14	Liquor Warehouse Worker I	10	10	$26,562	$29,326	$0	$1,207	$27	$157	$2,032	$2,151	$39
15	Liquor Warehouse Worker I	10	15	$30,326	$33,483	$11,219	$637	$27	$190	$2,320	$2,456	$756
16	Liquor Warehouse Worker I	10	8	$25,043	$27,650	$15,426	$1,207	$27	$148	$1,916	$2,028	$360
17	Liquor Warehouse Worker I	10	12	$27,955	$30,865	$5,609	$346	$27	$166	$2,139	$2,264	$160
18	Liquor Warehouse Worker I	10	14	$29,494	$32,564	$0	$1,207	$27	$175	$2,256	$2,389	$362
19	Liquor Warehouse Worker I	10	12	$27,955	$30,865	$0	$346	$27	$166	$2,139	$2,264	$326
20	Liquor Warehouse Worker II	13	8	$28,704	$31,692	$11,219	$637	$27	$164	$2,196	$2,325	$6,047

21	Liquor Warehouse Worker II	13	7	$27,872	$30,773	$11,219	$637	$27	$159	$2,132	$2,258	$7,127
22 T	Liquor Warehouse Worker II	13	6	$13,499	$14,904	$0	$0	$0	$0	$1,033	$0	$3,748
23	Liquor Warehouse Worker II	13	6	$26,998	$29,808	$5,609	$0	$27	$143	$2,065	$2,187	$0
24	Liquor Warehouse Worker II	13	10	$30,534	$33,712	$5,609	$346	$27	$180	$2,336	$2,473	$6,474
25	Program Services Clerk	15	8	$31,637	$34,930	$11,219	$637	$27	$181	$2,420	$2,563	$0
26	Program Services Clerk	15	7	$30,701	$33,896	$15,426	$1,207	$27	$170	$2,349	$2,487	$0
27	Systems Developer I	20	10	$43,618	$48,157	$13,537	$637	$27	$258	$3,337	$3,533	$0
28	Systems Developer I	20	8	$41,122	$45,402	$5,609	$346	$27	$234	$3,146	$3,331	$973
29	Systems Developer II	23	5	$44,179	$48,777	$5,609	$346	$27	$384	$3,380	$3,579	$0
	TOTAL			**$1,031,243**	**$1,138,576**	**$234,760**	**$18,292**	**$763**	**$6,149**	**$78,890**	**$82,437**	**$64,**

Pay Chart

HOURLY RATES

	Grade														
Step	*10*	*11*	*12*	*13*	*14*	*15*	*16*	*17*	*18*	*19*	*20*	*21*	*22*	*23*	*24*
1	$ 9.60	$10.00	$10.47	$10.95	$11.46	$12.01	$12.59	$13.25	$13.99	$14.73	$15.52	$16.40	$17.31	$18.33	$19.43
2	$ 9.96	$10.44	$10.94	$11.42	$11.97	$12.56	$13.19	$13.85	$14.61	$15.41	$16.21	$17.17	$18.14	$19.21	$20.36
3	$10.34	$10.82	$11.30	$11.83	$12.41	$13.01	$13.65	$14.35	$15.13	$15.96	$16.81	$17.76	$18.80	$19.94	$21.12
4	$10.64	$11.15	$11.67	$12.22	$12.82	$13.42	$14.07	$14.80	$15.62	$16.47	$17.35	$18.34	$19.41	$20.57	$21.80
5	$10.98	$11.50	$12.00	$12.58	$13.21	$13.85	$14.51	$15.29	$16.23	$17.03	$17.96	$18.95	$20.06	$21.24	$22.53
6	$11.32	$11.84	$12.40	$12.98	$13.64	$14.31	$15.00	$15.79	$16.67	$17.57	$18.54	$19.58	$20.74	$21.92	$23.29
7	$11.70	$12.23	$12.81	$13.40	$14.05	$14.76	$15.49	$16.27	$17.21	$18.14	$19.14	$20.21	$21.40	$22.66	$24.04
8	$12.04	$12.59	$13.20	$13.80	$14.49	$15.21	$15.98	$16.78	$17.73	$18.72	$19.77	$20.87	$22.13	$23.44	$24.86
9	$12.42	$12.99	$13.62	$14.26	$14.95	$15.71	$16.48	$17.33	$18.32	$19.33	$20.41	$21.56	$22.83	$24.19	$25.69
10	$12.77	$13.36	$13.99	$14.68	$15.38	$16.15	$16.94	$17.86	$18.86	$19.86	$20.97	$22.18	$23.48	$24.89	$26.41
11	$13.07	$13.70	$14.35	$15.07	$15.80	$16.63	$17.44	$18.33	$19.36	$20.42	$21.56	$22.82	$24.14	$25.59	$27.16
12	$13.44	$14.07	$14.76	$15.47	$16.21	$17.06	$17.93	$18.87	$19.92	$20.99	$22.18	$23.47	$24.84	$26.31	$27.92
13	$13.80	$14.47	$15.14	$15.89	$16.69	$17.52	$18.41	$19.39	$20.44	$21.58	$22.82	$24.13	$25.55	$27.07	$28.73
14	$14.18	$14.85	$15.56	$16.32	$17.17	$18.00	$18.92	$19.97	$21.03	$22.19	$23.47	$24.82	$26.27	$27.85	$29.56
15	$14.58	$15.25	$15.99	$16.77	$17.61	$18.53	$19.45	$20.51	$21.63	$22.83	$24.13	$25.52	$27.03	$28.64	$30.40

SALARY

	Grade														
Step	*10*	*11*	*12*	*13*	*14*	*15*	*16*	*17*	*18*	*19*	*20*	*21*	*22*	*23*	*24*
1	$ 19,968	$ 20,800	$ 21,778	$ 22,776	$ 23,837	$ 24,981	$ 26,187	$ 27,560	$ 29,099	$ 30,638	$ 32,282	$ 34,112	$ 36,005	$ 38,126	$ 40,414
2	$ 20,717	$ 21,715	$ 22,755	$ 23,754	$ 24,898	$ 26,125	$ 27,435	$ 28,808	$ 30,389	$ 32,053	$ 33,717	$ 35,714	$ 37,731	$ 39,957	$ 42,349
3	$ 21,507	$ 22,506	$ 23,504	$ 24,606	$ 25,813	$ 27,061	$ 28,392	$ 29,848	$ 31,470	$ 33,197	$ 34,965	$ 36,941	$ 39,104	$ 41,475	$ 43,930
4	$ 22,131	$ 23,192	$ 24,274	$ 25,418	$ 26,666	$ 27,914	$ 29,266	$ 30,784	$ 32,490	$ 34,258	$ 36,088	$ 38,147	$ 40,373	$ 42,786	$ 45,344
5	$ 22,838	$ 23,920	$ 24,960	$ 26,166	$ 27,477	$ 28,808	$ 30,181	$ 31,803	$ 33,758	$ 35,422	$ 37,357	$ 39,416	$ 41,725	$ 44,179	$ 46,862
6	$ 23,546	$ 24,627	$ 25,792	$ 26,998	$ 28,371	$ 29,765	$ 31,200	$ 32,843	$ 34,674	$ 36,546	$ 38,563	$ 40,726	$ 43,139	$ 45,594	$ 48,443
7	$ 24,336	$ 25,438	$ 26,645	$ 27,872	$ 29,224	$ 30,701	$ 32,219	$ 33,842	$ 35,797	$ 37,731	$ 39,811	$ 42,037	$ 44,512	$ 47,133	$ 50,003
8	$ 25,043	$ 26,187	$ 27,456	$ 28,704	$ 30,139	$ 31,637	$ 33,238	$ 34,902	$ 36,878	$ 38,938	$ 41,122	$ 43,410	$ 46,030	$ 48,755	$ 51,709
9	$ 25,834	$ 27,019	$ 28,330	$ 29,661	$ 31,096	$ 32,677	$ 34,278	$ 36,046	$ 38,106	$ 40,206	$ 42,453	$ 44,845	$ 47,486	$ 50,315	$ 53,435
10	$ 26,562	$ 27,789	$ 29,099	$ 30,534	$ 31,990	$ 33,592	$ 35,235	$ 37,149	$ 39,229	$ 41,309	$ 43,618	$ 46,134	$ 48,838	$ 51,771	$ 54,933
11	$ 27,186	$ 28,496	$ 29,848	$ 31,346	$ 32,864	$ 34,590	$ 36,275	$ 38,126	$ 40,269	$ 42,474	$ 44,845	$ 47,466	$ 50,211	$ 53,227	$ 56,493
12	$ 27,955	$ 29,266	$ 30,701	$ 32,178	$ 33,717	$ 35,485	$ 37,294	$ 39,250	$ 41,434	$ 43,659	$ 46,134	$ 48,818	$ 51,667	$ 54,725	$ 58,074
13	$ 28,704	$ 30,098	$ 31,491	$ 33,051	$ 34,715	$ 36,442	$ 38,293	$ 40,331	$ 42,515	$ 44,886	$ 47,466	$ 50,190	$ 53,144	$ 56,306	$ 59,758
14	$ 29,494	$ 30,888	$ 32,365	$ 33,946	$ 35,714	$ 37,440	$ 39,354	$ 41,538	$ 43,742	$ 46,155	$ 48,818	$ 51,626	$ 54,642	$ 57,928	$ 61,485
15	$ 30,326	$ 31,720	$ 33,259	$ 34,882	$ 36,629	$ 38,542	$ 40,456	$ 42,661	$ 44,990	$ 47,486	$ 50,190	$ 53,082	$ 56,222	$ 59,571	$ 63,232

Hourly rates obtained from http://www.vermontpersonnel.org/employee/paychart.php

Then multiplied by 2080 to obtain annual salary.

Highlighted grades were not used.

Step Analysis

			Step				
Position	**Grade**	**Current**	**2005**	**2006**	**2007**	**2008**	**2009**
1	13	4	5	6	6	7	7
2	17	3	4	5	6	6	7
1	17	12	12	13	13	13	14
2	19	7	7	8	8	9	9
3	17	15	15	15	15	15	15
4	22	9	9	10	10	11	11
5	13	7	7	8	8	9	9
1	97	0	0	0	0	0	0
6	18	7	7	8	8	9	9
1	23	12	12	13	13	13	14
1	20	9	9	10	10	11	11
2	20	9	9	10	10	11	11
3	20	13	13	13	14	14	14
4	12	15	15	15	15	15	15
5	18	14	14	14	15	15	15
6	17	6	6	7	7	8	8
7	10	8	8	9	9	10	10
8	10	15	15	15	15	15	15
9	10	6	6	7	7	8	8
10	10	10	10	11	11	12	12
11	10	12	12	13	13	13	14
12	10	10	10	11	11	12	12
13	13	5	6	6	7	7	8
14	13	4	5	6	6	6	7
15	13	1	2	3	4	5	6
16	13	1	2	3	4	5	6
17	13	8	8	9	9	9	10
1	15	5	6	6	7	7	8
2	15	3	4	5	6	6	7
3	15	13	13	13	14	14	14
4	18	3	4	5	6	6	7
5	20	8	8	9	9	9	10
6	20	5	6	6	7	7	8
7	23	0	1	2	3	4	5

Assumed that all positions just started in current step and that they cannot advance grade levels.

MAI NOTES:

- Current pay rates effective till June 30, 2005.

- Removed the following positions because non included or residual organization:
  - Commissioner
  - Accountant C
  - Information Technology Special
  - Liquor Retail Operations Direc
  - Personnel Administrator B
  - Administrative Secretary
  - Admin Asst B
  - Clerk C
  - Program Services Clerk
  - Program Technician

- Removed leave and comp leave balances.

- Removed the $2225 mileage reimbursement in FY04

- For Option Years

Changed grade / steps appropriately and added inflation factor
Increased life ins. 10%
Increased medical ins. 8%
Increased dental ins. 4%

- For retirement costs - employer contribution is 8.1% of employee's salary

- Cost of living adjustment is 2% increase per year

APPENDIX B

Contract Cost Estimate

Vermont Privatization Cost Estimate Methodology

This cost estimate was developed to assist the Government in estimating a potential cost of a service contract for performance of the DLC's purchasing, warehousing, and distribution functions. This cost estimate is based upon available information and MAI's costing models. The cost is anticipated to be within the mean of the responsible offers from bidders. It is anticipated that individual offers may reflect a specific bidding strategy of an individual company based upon their strengths or weaknesses. Cost factors used are a combination of MAI's collective experience, the experience of individual analysts, and industry research.

The following are general assumptions used in this estimate:

(a) The contract will be Firm-Fixed Price (FFP). Unit price provisions would be utilized to fairly compensate the contractor for workload growth beyond that project by the contract document should such growth occur.

(b) The contract will be for a period of five years and begin in FY06.

(c) Materials required for performance of the work will be provided by the Service Provider.

(d) Equipment and facilities (warehouse and office space) will be leased.

The cost estimate is presented in the following structure:

A. Summary

B. Labor Costs

C. Other Direct Costs

D. Labor Rates

E. Cost Factors

Summary:

The summary contains the total labor cost, overhead, other direct costs (equipment, materials, and facilities), and profit for each contract year.

Labor Costs:

Labor costs were estimated based upon a conceptual contractor organization. From the Government position category and associated wage rate, a comparable private sector labor category and rate was chosen from the U.S. Department of Labor Wage Determination occupation listing for worker positions or from salary.com for managerial or supervisory positions. All rates chosen are specific to the State of Vermont.

The conceptual contractor organization differs from the existing Government organization. First, the information technology staff was reduced from five to three. Second, a warehouse worker was eliminated due to the anticipated technology improvements, which are included in the other direct costs. Lastly, warehouse worker was reduced to a 25% part-time employee to be used during the holiday season when liquor sales increase.

Other Direct Costs:

- **Materials:** This includes property that may be incorporated into or attached to a deliverable end item or that may be consumed or expended in the performance of the contract. The material factor could vary widely based upon the material or service. In this estimate, materials were estimated to be 8% of the total labor cost.
- **Equipment:** This describes equipment expenditures that a service provider will be required to incur as a result of a contract. In this cost estimate, equipment includes the six trucks for delivery purposes plus other miscellaneous items such as material handling and office equipment. The first assumption for computing costs is that the other equipment items will be provided to the service provider and he will maintain and replace the equipment as necessary. This cost is estimated at 5% of the total labor cost. The second assumption is that the service provider will lease the six trucks through a fleet management company. Approximate leasing costs for the particular truck size were estimated from the U.S. General Services Administration pricing guide.
- **Facilities:** Currently, a 37,000 square foot (net usable) warehouse is being used. For estimating purposes, it will be assumed that the service provider will lease warehouse space like the Government. However, it is anticipated that a contractor would use a larger warehouse for other goods and only a portion of the space will be dedicated to liquor. Through Vermont real estate research, a leasing cost per square foot was determined and multiplied by 32,000 sq ft to create an annual facility cost. Though there are other costs associated with maintaining a warehouse, these are assumed to be part of the contractor overhead since he is using the facility for multiple purposes.
- **Information Technology:** Warehouse operations would be more efficient if a contractor invested in some information technology improvements, such as scanners and other associated items with an automated inventory and picking system. These investments are anticipated to be made in the base year with upgrades added in years three and five of the contract.
- **Moving Expenses:** A one-time transition cost is anticipated for moving existing inventory to a contractor facility.

Labor Rates:

The base hourly labor rates for worker positions are as specified in the U.S. Department of Labor Wage Determination for Vermont. The Wage Determination rates for the various labor categories are calculated from Bureau of Labor Statistics information. These base rates are loaded with holiday, leave, Social Security, Medicare, and health benefits to create a fully burdened rate.

Cost Factors:

This sheet explains the various cost factors being used in calculations computing the final cost.

- **Productive Hours:** Productive hours are based upon the individual corporate policy, available personnel seniority, and respective employee benefit packages. Contractor productive hours per year may vary from 1820 to 1927 hours per year. Based upon the information in the Vermont Wage Determination, the productive hours used in this cost estimate were determined to be 1923 hours per employee.

- **Fringe Benefits:** Fringe benefits for hourly employees were determined from the Vermont Wage Determination. Fringe benefits for salaried positions were incorporated in the total salary cost obtained from salary.com. Specific inclusions are described in the spreadsheet.
- **Inflation:** Costs are inflated each contract year. Separate inflation rates exist for labor and non-labor categories. The sum of these annual figures over the total performance period gives the overall cost estimate.
- **Overhead:** This includes normal contractor overhead expense as a percentage of direct costs. Overhead includes costs such as administrative materials, miscellaneous utility cost, insurance, telephone, depreciation of equipment, and other incidental costs not attributable to labor or other direct costs. The overhead also accounts for corporate expense related to the specific contract including public liability insurance costs. The overhead factor used in this estimate is 15%.
- **Profit:** Profit is that item for which the contractor is in business for and is associated with the relative risk that the contractor expects to take entering into the contract. The specific fee is generally based upon the size and type of the contract as specified in the solicitation, the element of contractor risk, and the anticipated bidding climate. This factor is determined by input from technical experts and MAI experience. The profit factor used in this cost estimate is 8%.

Summary

Performance Period	*Total Labor*	*Overhead (15%)*	*Other Direct Costs*	*Subtotal*	*Profit (8%)*	*Yearly Total*
Base Year (FY 2006)	$ 1,359,916	$203,987	$ 793,392	*$2,357,296*	$ 188,584	$2,545,880
Option Year 1 (FY 2007)	$ 1,414,313	$212,147	$ 349,490	*$1,975,950*	$ 158,076	$2,134,026
Option Year 2 (FY 2008)	$ 1,470,886	$220,633	$ 404,777	*$2,096,295*	$ 167,704	$2,263,999
Option Year 3 (FY 2009)	$ 1,529,721	$229,458	$ 360,205	*$2,119,384*	$ 169,551	$2,288,934
Option Year 4 (FY 2010)	$ 1,590,910	$238,636	$ 414,182	*$2,243,728*	$ 179,498	$2,423,226
Subtotal	*$7,365,746*	*$1,104,862*	*$ 2,322,046*	*$ 10,792,654*	*$863,412*	
	Total Cost	**$ 11,656,066**				

Labor Costs

Pay Grade	Hourly Rate (Step 8 level)	Base Salary	Comparable Labor Category	Type	Base Rate	Loaded Rate	Annual Cost
			Project Manager / Contract Administrator	Salaried	$ 71,744	$ 103,093	$ 103,093
Exempt	N / A	N / A	Product Marketing Analyst II	Salaried	$ 57,085	$ 80,303	$ 80,303
PG22	$ 22.13	$46,185	Financial Analyst II	Salaried	$ 50,399	$ 71,319	$ 71,319
PG17	$ 16.78		Accounting Clerk IV	Hourly	$17.33	$ 22.84	$ 43,915
PG13	$ 13.80		Accounting Clerk III	Hourly	$14.26	$ 19.25	$ 37,018
PG26	$ 26.40		N/A		$ -	$ -	$ -
PG23	$ 23.44		Computer Systems Analyst II	Hourly	$27.62	$34.86	$ 67,033
PG20	$ 19.77		Computer Systems Analyst I	Hourly	$25.35	$ 32.21	$ 61,933
PG20	$ 19.77		N/A		$ -	$ -	$ -
PG18	$ 17.73		Computer Operator II	Hourly	$16.57	$21.95	$ 42,208
PG23	$ 23.44	$48,919	Inventory Control Manager	Salaried	$ 67,867	$ 97,622	$ 97,622
PG20	$ 19.77	$41,122	Sr. Inventory Control Analyst	Salaried	$ 40,640	$ 58,244	$ 58,244
PG20	$ 19.77	$41,122	Sr. Inventory Control Analyst	Salaried	$ 40,640	$ 58,244	$ 58,244
PG20	$ 19.77	$41,122	Sr. Inventory Control Analyst	Salaried	$ 40,640	$ 58,244	$ 58,244
PG15	$ 15.21		General Clerk III	Hourly	$17.21	$ 22.70	$ 43,646
PG18	$ 17.73	$36,878	Warehouse Manager	Salaried	$ 50,475	$ 77,627	$ 77,627
PG12	$ 13.20		General Maintenance Worker	Hourly	$13.80	$ 18.71	$ 35,984
PG15	$ 15.21		General Clerk II	Hourly	$14.54	$ 19.58	$ 37,647

Pay Grade	Hourly Rate (Step 8 level)	Base Salary	Comparable Labor Category	Type	Base Rate	Loaded Rate	Annual Cost
PG17	$ 16.78	$34,902	Warehouse Supervisor	Salaried	$ 38,955	$ 57,866	$ 57,866
PG13	$ 13.80		Truckdriver, Heavy Truck	Hourly	$14.57	$ 19.61	$ 37,710
PG13	$ 13.80		Truckdriver, Heavy Truck	Hourly	$14.57	$ 19.61	$ 37,710
PG13	$ 13.80		Truckdriver, Heavy Truck	Hourly	$14.57	$ 19.61	$ 37,710
PG13	$ 13.80		Truckdriver, Heavy Truck	Hourly	$14.57	$ 19.61	$ 37,710
PG10	$ 12.04		Warehouse Specialist	Hourly	$12.84	$ 17.59	$ 33,828
PG10	$ 12.04		Warehouse Specialist	Hourly	$12.84	$ 17.59	$ 33,828
PG10	$ 12.04		Warehouse Specialist	Hourly	$12.84	$ 17.59	$ 33,828
PG10	$ 12.04		Warehouse Specialist	Hourly	$12.84	$ 17.59	$ 33,828
PG10	$ 12.04		Warehouse Specialist	Hourly	$12.84	$ 17.59	$8,457
PG10	$ 12.04		N/A		$ -	$ -	$ -
						TOTAL	**$1,326,554**
						Plus OT Factor (1%)	**$1,339,819**

Other Direct Costs

Materials	% of Labor Cost			
Base Year (FY 2006)	$ 1,359,916	$ 54,397		
Option Year 1 (FY 2007)	$ 1,414,313	$ 56,573		
Option Year 2 (FY 2008)	$ 1,470,886	$ 58,835		
Option Year 3 (FY 2009)	$ 1,529,721	$ 61,189		
Option Year 4 (FY 2010)	$ 1,590,910	$ 63,636		
Equipment	Approx. Monthly Lease cost	$ 500		(GSA Heavy truck)
	x # Trucks		6	
	Total Annual Truck Cost	$ 36,000		
	Plus 5% of labor for other items		5%	
Facilities	Assume leasing a 37,000 sq. ft facility @ $5.00 per sq ft	$ 185,000		

One-time Moving Fee, Facility Set-up, and Inventory	(applied in the base year)	$ 300,000	Technical Estimate
One-time Information Technology Fee	(applied in the base year)	$ 150,000	Technical Estimate
Information Technology Upgrades	(applied in the 3rd and 5th years)	$ 50,000	Technical Estimate

Labor Rates

Labor Category	Labor Description	Wage Base	Base Hourly Wage Rate	Holiday	Leave	*Subtotal*	SS	Medicare	Health	**LOADED TOTAL**
Administrative Support and Clerical Occupations										
	Accounting Clerk I	DOL-WD	$10.34	$0.43	$0.45	$11.22	$0.70	$0.16	$ 2.59	$14.67
	Accounting Clerk II	DOL-WD	$12.41	$0.52	$0.54	$13.47	$0.84	$0.20	$ 2.59	$17.09
	Accounting Clerk III	DOL-WD	$14.26	$0.59	$0.62	$15.48	$0.96	$0.22	$ 2.59	$19.25
	Accounting Clerk IV	DOL-WD	$17.33	$0.72	$0.76	$18.81	$1.17	$0.27	$ 2.59	$22.84
	Dispatcher, Motor Vehicle	DOL-WD	$14.39	$0.60	$0.63	$15.62	$0.97	$0.23	$ 2.59	$19.40
	General Clerk I	DOL-WD	$10.42	$0.43	$0.46	$11.31	$0.70	$0.16	$ 2.59	$14.76
	General Clerk II	DOL-WD	$14.54	$0.60	$0.64	$15.78	$0.98	$0.23	$ 2.59	$19.58
	General Clerk III	DOL-WD	$17.21	$0.72	$0.75	$18.68	$1.16	$0.27	$ 2.59	$22.70
	General Clerk IV	DOL-WD	$19.27	$0.80	$0.84	$20.91	$1.30	$0.30	$ 2.59	$25.10
	Secretary I	DOL-WD	$11.73	$0.49	$0.51	$12.73	$0.79	$0.18	$ 2.59	$16.29
	Secretary II	DOL-WD	$13.02	$0.54	$0.57	$14.13	$0.88	$0.20	$ 2.59	$17.80
	Secretary III	DOL-WD	$14.63	$0.61	$0.64	$15.88	$0.98	$0.23	$ 2.59	$19.68
	Secretary IV	DOL-WD	$17.43	$0.73	$0.76	$18.92	$1.17	$0.27	$ 2.59	$22.95
	Secretary V	DOL-WD	$18.03	$0.75	$0.79	$19.57	$1.21	$0.28	$ 2.59	$23.65
	Supply Technician	DOL-WD	$17.43	$0.73	$0.76	$18.92	$1.17	$0.27	$ 2.59	$22.95
Automatic Data Processing Occupations										
	Computer Operator I	DOL-WD	$12.86	$0.53	$0.56	$13.96	$0.87	$0.20	$ 2.59	$17.61
	Computer Operator II	DOL-WD	$16.57	$0.69	$0.72	$17.98	$1.11	$0.26	$ 2.59	$21.95
	Computer Operator III	DOL-WD	$19.35	$0.80	$0.85	$21.00	$1.30	$0.30	$ 2.59	$25.20
	Computer Operator IV	DOL-WD	$22.75	$0.95	$0.99	$24.69	$1.53	$0.36	$ 2.59	$29.17
	Computer Operator V	DOL-WD	$26.06	$1.08	$1.14	$28.28	$1.75	$0.41	$ 2.59	$33.04
	Computer Programmer I 1/	DOL-WD	$16.94	$0.70	$0.74	$18.38	$1.14	$0.27	$ 2.59	$22.38

Labor Category	Labor Description	Wage Base	Base Hourly Wage Rate	Holiday	Leave	*Subtotal*	SS	Medicare	Health	**LOADED TOTAL**
	Computer Programmer II 1/	DOL-WD	$21.02	$0.87	$0.92	$22.81	$1.41	$0.33	$ 2.59	$27.15
	Computer Programmer III 1/	DOL-WD	$25.62	$1.07	$1.12	$27.80	$1.72	$0.40	$ 2.59	$32.52
	Computer Programmer IV 1/	DOL-WD	$27.62	$1.15	$1.21	$29.98	$1.86	$0.43	$ 2.59	$34.86
	Computer Systems Analyst I 1/	DOL-WD	$25.35	$1.05	$1.11	$27.51	$1.71	$0.40	$ 2.59	$32.21
	Computer Systems Analyst II 1/	DOL-WD	$27.62	$1.15	$1.21	$29.98	$1.86	$0.43	$ 2.59	$34.86
	Computer Systems Analyst III 1/	DOL-WD	$27.62	$1.15	$1.21	$29.98	$1.86	$0.43	$ 2.59	$34.86
Materials Handling and Packing Occupations:										
	Forklift Operator	DOL-WD	$14.05	$0.58	$0.61	$15.25	$0.95	$0.22	$ 2.59	$19.00
	Material Coordinator	DOL-WD	$15.86	$0.66	$0.69	$17.21	$1.07	$0.25	$ 2.59	$21.12
	Material Expediter	DOL-WD	$15.86	$0.66	$0.69	$17.21	$1.07	$0.25	$ 2.59	$21.12
	Material Handling Laborer	DOL-WD	$10.82	$0.45	$0.47	$11.74	$0.73	$0.17	$ 2.59	$15.23
	Order Filler	DOL-WD	$11.38	$0.47	$0.50	$12.35	$0.77	$0.18	$ 2.59	$15.89
	Shipping Packer	DOL-WD	$11.69	$0.49	$0.51	$12.69	$0.79	$0.18	$ 2.59	$16.25
	Shipping/Receiving Clerk	DOL-WD	$11.73	$0.49	$0.51	$12.73	$0.79	$0.18	$ 2.59	$16.29
	Stock Clerk (Shelf Stocker; Store Worker II)	DOL-WD	$13.29	$0.55	$0.58	$14.42	$0.89	$0.21	$ 2.59	$18.12
	Store Worker I	DOL-WD	$10.49	$0.44	$0.46	$11.38	$0.71	$0.17	$ 2.59	$14.85
	Tools and Parts Attendant	DOL-WD	$12.84	$0.53	$0.56	$13.94	$0.86	$0.20	$ 2.59	$17.59
	Warehouse Specialist	DOL-WD	$12.84	$0.53	$0.56	$13.94	$0.86	$0.20	$ 2.59	$17.59

Labor Category	Labor Description	Wage Base	Base Hourly Wage Rate	Holiday	Leave	*Subtotal*	SS	Medicare	Health	**LOADED TOTAL**
Mechanics and Maintenance and Repair Occupations:										
	Electrician, Maintenance	DOL-WD	$17.09	$0.71	$0.75	$18.55	$1.15	$0.27	$ 2.59	$22.56
	Electronics Technician, Maintenance I	DOL-WD	$18.38	$0.76	$0.80	$19.95	$1.24	$0.29	$ 2.59	$24.06
	Electronics Technician, Maintenance II	DOL-WD	$22.71	$0.94	$0.99	$24.65	$1.53	$0.36	$ 2.59	$29.12
	Electronics Technician, Maintenance III	DOL-WD	$24.67	$1.03	$1.08	$26.77	$1.66	$0.39	$ 2.59	$31.41
	Fire Alarm System Mechanic	DOL-WD	$17.06	$0.71	$0.75	$18.51	$1.15	$0.27	$ 2.59	$22.52
	General Maintenance Worker	DOL-WD	$13.80	$0.57	$0.60	$14.98	$0.93	$0.22	$ 2.59	$18.71
	Heating, Refrigeration and Air-Conditioning Mechanic	DOL-WD	$16.15	$0.67	$0.71	$17.53	$1.09	$0.25	$ 2.59	$21.46
	Heavy Equipment Mechanic	DOL-WD	$16.46	$0.68	$0.72	$17.86	$1.11	$0.26	$ 2.59	$21.82
	Heavy Equipment Operator	DOL-WD	$16.54	$0.69	$0.72	$17.95	$1.11	$0.26	$ 2.59	$21.91
	Instrument Mechanic	DOL-WD	$18.10	$0.75	$0.79	$19.64	$1.22	$0.28	$ 2.59	$23.74
	Laborer	DOL-WD	$10.50	$0.44	$0.46	$11.40	$0.71	$0.17	$ 2.59	$14.86
	Machinery Maintenance Mechanic	DOL-WD	$18.23	$0.76	$0.80	$19.78	$1.23	$0.29	$ 2.59	$23.89
	Machinist, Maintenance	DOL-WD	$15.95	$0.66	$0.70	$17.31	$1.07	$0.25	$ 2.59	$21.22
	Maintenance Trades Helper	DOL-WD	$12.15	$0.51	$0.53	$13.19	$0.82	$0.19	$ 2.59	$16.78
	Painter, Maintenance	DOL-WD	$14.40	$0.60	$0.63	$15.63	$0.97	$0.23	$ 2.59	$19.41
	Pipefitter, Maintenance	DOL-WD	$16.88	$0.70	$0.74	$18.32	$1.14	$0.27	$ 2.59	$22.31
	Plumber, Maintenance	DOL-WD	$16.17	$0.67	$0.71	$17.55	$1.09	$0.25	$ 2.59	$21.48
	Rigger	DOL-WD	$15.58	$0.65	$0.68	$16.91	$1.05	$0.25	$ 2.59	$20.79

Labor Category	Labor Description	Wage Base	Base Hourly Wage Rate	Holiday	Leave	*Subtotal*	SS	Medicare	Health	**LOADED TOTAL**
	Telecommunications Mechanic I	DOL-WD	$18.22	$0.76	$0.80	$19.77	$1.23	$0.29	$ 2.59	$23.88
	Telecommunications Mechanic II	DOL-WD	$21.04	$0.88	$0.92	$22.83	$1.42	$0.33	$ 2.59	$27.17
Transportation/Mobile Equipment Operation Occups:										
	Bus Driver	DOL-WD	$11.74	$0.49	$0.51	$12.74	$0.79	$0.18	$ 2.59	$16.31
	Parking and Lot Attendant	DOL-WD	$10.17	$0.42	$0.44	$11.04	$0.68	$0.16	$ 2.59	$14.47
	Shuttle Bus Driver	DOL-WD	$11.93	$0.50	$0.52	$12.95	$0.80	$0.19	$ 2.59	$16.53
	Taxi Driver	DOL-WD	$10.09	$0.42	$0.44	$10.95	$0.68	$0.16	$ 2.59	$14.38
	Truckdriver, Heavy Truck	DOL-WD	$14.57	$0.61	$0.64	$15.81	$0.98	$0.23	$ 2.59	$19.61
	Truckdriver, Light Truck	DOL-WD	$11.93	$0.50	$0.52	$12.95	$0.80	$0.19	$ 2.59	$16.53
	Truckdriver, Medium Truck	DOL-WD	$12.44	$0.52	$0.54	$13.50	$0.84	$0.20	$ 2.59	$17.12
	Truckdriver, Tractor-Trailer	DOL-WD	$14.57	$0.61	$0.64	$15.81	$0.98	$0.23	$ 2.59	$19.61

Salary Rates

Warehouse Supervisor

Supervises the receiving, storing, packing, and shipping of merchandise or materials. Maintains stock records and schedules. Requires a high school diploma or its equivalent with at least 4 years of experience in the field or in a related area. Familiar with a variety of the field's concepts, practices, and procedures. Relies on experience and judgment to plan and accomplish goals. Performs a variety of complicated tasks. A certain degree of creativity and latitude is required. Typically reports to a manager.

Inventory Control Manager

Ensures adequate inventory of materials and products in accord with inventory cycles and organizational philosophy. Conducts daily inventory analysis to solve inventory problems. Develops and implements inventory control procedures. Coordinates and manages daily physical cycle counts. Trains and manages an inventory team. Requires a bachelor's degree with 7 years of experience in the field. Relies on experience and judgment to plan and accomplish goals. Manages a staff of personnel and typically reports to a senior manager.

Warehouse Manager (Transportation and Warehousing)

Manages all warehouse activities. Manages the warehouse ensuring the receipt, co-ordination and safety of goods coming through a warehouse. Also ensures that orders arrive and are dispatched on time to the appropriate destinations and in the expected quantities. Requires a high school diploma or its equivalent with 5-7 years of experience in the field or in a related area. Familiar with a variety of the field's concepts, practices, and procedures. Relies on experience and judgment to plan and accomplish goals. Performs a variety of complicated tasks. A degree of creativity and latitude is required. Leads and directs the work of others. Typically reports to a senior manager.

Contract Monitoring Costs

BASE YEAR

Number	Title	Grade	Step	FTE	Annual Salary	Salary w/ COL adj.	Medical Cost	Dental Costs	EAP Cost	Life Ins. Cost	Retirement Cost	SS/ Medicare	TOTAL
1	Accountant C	21	6	0.5	$20,363	$20,770	$0	$296	$27	$174	$1,649.42	$1,557.78	$24,475
2	Liquor Retail Operations Direc	24	11	0.5	$28,246	$28,811	$11,339	$1,032	$27	$242	$2,287.96	$2,160.85	$45,899
3	QA	20	1	1	$ 32,282	$32,928	$5,810.76	$ 645.64	$27	$ 138.17	$2,614.84	$2,469.57	$44,634

OPTION YEAR 1

Number	Title	Grade	Step	FTE	Annual Salary	Salary w/ COL adj.	Medical Cost	Dental Costs	EAP Cost	Life Ins. Cost	Retirement Cost	SS/ Medicare	TOTAL
1	Accountant C	21	7	0.5	$21,019	$21,439	$0	$308	$27	$192	$1,702.50	$1,607.92	$25,276
2	Liquor Retail Operations Direc	24	12	0.5	$29,037	$29,618	$12,246	$1,073	$27	$266	$2,352.00	$2,221.33	$47,803
3	QA	20	2	1	$ 33,717	$34,391	$6,276	$671	$27	$152	$2,731.08	$2,579.35	$46,828

OPTION YEAR 2

Number	Title	Grade	Step	FTE	Annual Salary	Salary w/ COL adj.	Medical Cost	Dental Costs	EAP Cost	Life Ins. Cost	Retirement Cost	SS/ Medicare	TOTAL
1	Accountant C	21	7	0.5	$21,019	$21,439	$0	$320	$27	$211	$1,702.50	$1,607.92	$25,308
2	Liquor Retail Operations Direc	24	12	0.5	$29,037	$29,618	$13,225	$1,116	$27	$293	$2,352.00	$2,221.33	$48,852
3	QA	20	3	1	$ 34,965	$35,664	$6,778	$698	$27	$167	$2,832.17	$2,674.82	$48,842

OPTION YEAR 3

Number	Title	Grade	Step	FTE	Annual Salary	Salary w/ COL adj.	Medical Cost	Dental Costs	EAP Cost	Life Ins. Cost	Retirement Cost	SS/ Medicare	TOTAL
1	Accountant C	21	8	0.5	$21,705	$22,139	$0	$333	$27	$232	$1,758.11	$1,660.43	$26,150
2	Liquor Retail Operations Direc	24	13	0.5	$29,879	$30,477	$14,283	$1,160	$27	$322	$2,420.20	$2,285.74	$50,975
3	QA	20	4	1	$ 36,088	$36,810	$7,320	$726	$27	$184	$2,923.13	$2,760.73	$50,751

OPTION YEAR 4

Number	Title	Grade	Step	FTE	Annual Salary	Salary w/ COL adj.	Medical Cost	Dental Costs	EAP Cost	Life Ins. Cost	Retirement Cost	SS/ Medicare	TOTAL
1	Accountant C	21	8	0.5	$21,705	$22,139	$0	$346	$27	$255	$1,758.11	$1,660.43	$26,186
2	Liquor Retail Operations Direc	24	13	0.5	$59,758	$60,953	$15,426	$1,207	$27	$354	$4,840.40	$4,571.49	$87,379
3	QA	20	5	1	$ 37,357	$38,104	$7,905	$755	$27	$202	$3,025.92	$2,857.81	$52,878

Subtotal	Acct.	$127,395
Subtotal	Director	$280,908
Subtotal	QA	$243,933
	TOTAL	**$652,235**

APPENDIX C
Information Technology Project Plan Summary
FY 2005 – FY2009
Vermont Department of Liquor Control

Project	*Goals*	*Solution(s)/Rationale*	*FY2005 Expense*	*FY06-09 Expense*	*Fund Source*	*Priority* 3-H, 2-M, 1-L
Ongoing system updates	7	A – Replace and upgrade existing computers and software to keep up with current marketplace trends.	$40,000	$35,000/year	Enterprise	3
User training	2	B, E – Ensure users can make the best and safest use of technology.	$2,000	$1,000/year	Enterprise	3
Online license renewal	1, 6	B, E, F – Allow licensees to apply for license renewals online; improves customer service while streamlining office procedures, improving efficiency and accuracy.	$0	$50,000	Enterprise	3
Debit cards	1, 7	F – Provide customers with alternative payment options while reducing bank charges and money lost to fraud and customer financial difficulties.	$0	$15,000	Enterprise	2
EDI	2, 5	B, E – Exchange data electronically with vendors, suppliers, and NABCA, concerning products, shipments, transactions, and sales, reducing operating costs and allowing closer management of products and inventory levels.	$0	$50,000	Enterprise	2
Warehouse automation	3	B, D – Track products from receipt to delivery to reduce operating costs, improve accuracy, reduce costs of inventory on hand, and improve efficiency.	$0	$250,000	Enterprise	2
POS cash registers in Linux	7	A – Protect investment in POS software and development by eliminating obsolete elements and making remaining elements resistant to changes in hardware.	$0	$20,000	Enterprise	2
Inventory system overhaul	5	C, D – Improve completeness and accuracy of available information concerning storage and movement of inventory to eliminate errors and redundancies.	$0	$25,000	Enterprise	1
Business system migration	4	A – Replace aging system with more efficient, less costly, more powerful hardware and more powerful database software.	$0	$75,000	Enterprise	1
General ledger overhaul	5	C, E – Redesign internal general ledger to better integrate with general ledger and support unique business processes, providing a more streamlined accounting system with fewer redundancies and inaccuracies, and more optimized processes.	$0	$25,000	Enterprise	1

<u>Legend</u>

FY 2005 State of Vermont IT Goals:

1. Create a customer-focused culture that will increase customer service levels to all state departments/agencies and improve service delivery to external customers
2. Provide seamless delivery of products and services to support inter and intra departmental data requirements and crisp delivery of goods and services to external customers
3. Enhance and improve service delivery by 35% and manage customer expectations
4. Provide innovative, value-added solutions through acquisition of proven technology
5. Centralize data to facilitate access, eliminate redundancy, and streamline processes
6. Deploy technology based solutions that provide access to state services and information to Vermont residents who reside in rural areas
7. Implement and support technologies resulting in new, sustainable revenue generating and collection opportunities

Solution Opportunities:

A. Reduction of overall cost by through replacement of obsolescent hardware/software
B. Increased efficiency to departmental operations
C. Optimized operations, result in overall cost savings and enable collaborative intra departmental efforts
D. Elimination of redundant systems, data handling (manual/automated)
E. Elimination of erroneous data that results in re-work
F. Enhanced/improved customer service – external & internal customer base

Project: Ongoing System Updates

Goals	Strategy	Measures	Targets
Implement and support technologies resulting in new, sustainable revenue generating and collection opportunities	Support existing computer systems by replacing obsolete hardware and software, and adding new functionality as needed	Age of oldest computer on a user's desktop	Remains less than 5 years

Project: User Training

Goals	Strategy	Measures	Targets
Provide seamless delivery of products and services to support inter and intra departmental data requirements and crisp delivery of goods and services to external customers	Provide user training via classes, books, tutorials, and other means, so that users can use computers effectively and securely	Number of users sent to training classes per year	At least 10% of staff

Project: Online License Renewal

Goals	Strategy	Measures	Targets
Create a customer-focused culture that will increase customer service levels to all state departments/agencies and improve service delivery to external customers	Make the license renewal process quicker and easier for licensee	Percentage of licensees using the online license renewal system instead of the manual paper-based process	20% during first year
Deploy technology based solutions that provide access to state services and information to Vermont residents who reside in rural areas	Allow licenses in rural areas to process the license renewals remotely	Percentage of licensees in Orleans, Essex, and Orange counties using the online license renewal system instead of the manual paper-based process	40% during first year

Project: Debit Cards

Goals	Strategy	Measures	Targets
Create a customer-focused culture that will increase customer service levels to all state departments/agencies and improve service delivery to external customers	Allow customers to use debit cards as a payment method if they prefer it	Payments made via debit cards as a percentage of total dollars collected from customers	10% within 6 months of completion of project
Implement and support technologies resulting in new, sustainable revenue generating and collection opportunities	Reduce bank processing fees and other bank-related costs associated with credit card processing	Bank processing fees for credit and debit cards, as a percentage of gross sales	Decrease by 20% during first year

Project: EDI

Goals	Strategy	Measures	Targets
Provide seamless delivery of products and services to support inter and intra departmental data requirements and crisp delivery of goods and services to external customers	Share information with other state agencies within the state, and with other states by way of NABCA	Quantity of data transferred to other agencies	100% increase by completion of project
Centralize data to facilitate access, eliminate redundancy, and streamline processes	Receive and electronically process data from business partners	Number of advanced ship notices received in a timely fashion in a useable format	From 50% of vendors by completion of project

Project: Warehouse Automation

Goals	Strategy	Measures	Targets
Enhance and improve service delivery by 35% and manage customer expectations	Improve efficiency of warehouse operations	The ration of number of bottles shipped from the warehouse during a month, to the number of person-hours spent during that month	20% increase in the ratio for comparable months before and after the project

Project: POS Cash Registers in Linux

Goals	Strategy	Measures	Targets

Implement and support technologies resulting in new, sustainable revenue generating and collection opportunities	Eliminate obsolete operating system software, ensuring availability of peripherals and replacement parts compatible with the system in the future	Number of registers switched over to Linux	100% within 18 months

Project: Inventory System Overhaul

Goals	Strategy	Measures	Targets
Centralize data to facilitate access, eliminate redundancy, and streamline processes	Use more complete information about product receipts and sales to increase revenue by promoting the right products at the right times, and reducing costs of moving inventory to the wrong places	Total sales of selected gift-pack items during the holiday shopping season	Increase by 10% after one year

Project: Business System Migration

Goals	Strategy	Measures	Targets
Provide innovative, value-added solutions through acquisition of proven technology	Migrate existing business software to more current, better supported hardware, operating system, and database platform	Size of database storage capabilities of new system	50% increase by completion of project

Project: General Ledger Overhaul

Goals	Strategy	Measures	Targets
Centralize data to facilitate access, eliminate redundancy, and streamline processes	Revise existing internal general ledger system to interoperate with VISION more completely, only handling transactions internally that cannot be done in VISION	General ledger reports generated in-house matching those produced by VISION	All reports and balances within 5% by completion of project

APPENDIX D

Vermont Department of Liquor Control FY04 Statements

Vermont Department of Liquor Control
Balance Sheet
June 30, 2004

ASSETS		
CURRENT ASSETS		
Cash On Hand		920,993.81
Cash In Transit		1,938,831.35
Petty Cash, Imprest Funds		5,700.00
Inventory Clearing		4,519.45
Accounts Receivable		185,799.96
Inventories		
Outlets	3,725,595.85	
Warehouse	148,841.94	
		3,874,437.79
		6,930,282.36
FIXED ASSETS		
Equip., Furn., Fixtures	905,908.76	
Less Depreciation	501,951.88	
		403,956.88
TOTAL ASSETS		7,334,239.24
LIABILITIES AND RETAINED EARNINGS		
CURRENT LIABILITIES		
Accounts Payable:		
Liquor - Unprocessed	6,629,453.33	
Sundry	204,985.77	
Gen. Fund. Tax Payable	342,906.84	
		7,177,345.94
Vouchers Payable		145,758.63
St. Treas. Cash Fund Advance		5,700.00
Accrued Salaries & Benefits		196,191.79
		7,524,996.36
RETAINED EARNINGS		
Balance		(179,773.67)
July 1, 2003 thru May 31, 2004		
Net Income	569,915.25	
Month of June 2004	(580,898.70)	
		(10,983.45)
TOTAL LIABILITIES & RETAINED EARNINGS		7,334,239.24

Vermont Department of Liquor Control
Operations Statement
June 30, 2004

	June-04	%	Year to Date	%
Gross Sales:	3,789,322.00	100.00	47,036,541.55	100.00
Tax	947,155.52	25.00	11,757,556.07	25.00
Net Sales	2,842,166.48	75.00	35,278,985.48	75.00
Cost of Goods Sold	2,285,942.37	60.33	28,722,753.35	61.06
Gross Income on Sales	556,224.11	14.68	6,556,232.13	13.94
Operating Expenses:				
Outlet Operations	396,795.03	10.47	3,795,373.32	8.07
Warehouse & Distribution	142,709.04	3.77	955,504.00	2.03
General Administration	193,056.79	5.09	1,408,289.85	2.99
Total Operating Expenses	732,560.86	19.33	6,159,167.17	13.09
Gross Operating Income	(176,336.75)	(4.65)	397,064.96	0.84
Other Income:				
Miscellaneous	578.50	0.02	809.07	0.00
Gain/Loss Disposal Equip.	5,746.46	0.15	15,821.46	0.03
License Fees Collected	13,708.00	0.36	688,983.00	1.46
Tobacco Violations Collected	1,100.00	0.03	4,950.00	0.01
Liquor Violations Collected	600.00	0.02	21,300.00	0.05
Adult ID Cards	0.00	0.00	5.00	0.00
Interest	0.00	0.00	656.40	0.00
Non Refunded Bottle Fund	19,100.40	0.50	129,198.75	0.27
Special Purchase Allowance	135,290.64	3.57	1,021,415.31	2.17
Penalties/Refund Labels	42.00	0.00	6,357.00	0.01
Total Other Income	176,166.00	4.65	1,889,495.99	4.02
Other Expenses:				
Casualty Loss	250.85	0.01	250.85	0.00
Uncollected Checks	201.60	0.01	5,527.31	0.01
Total Other Expenses	452.45	0.01	5,778.16	0.01
Net Operating Income	(623.20)	(0.02)	2,280,782.79	4.85
Non-Operating Deductions:				
Education, Licensing & Enf.	229,176.48	6.05	1,468,259.32	3.12
Lic Fees Remitted St. Treas.	12,348.02	0.33	460,205.92	0.98
Tobacco Violations Remitted	1,100.00	0.03	4,950.00	0.01
Liquor Violations Remitted	600.00	0.02	21,300.00	0.05
Net Non-Operating Ded.	243,224.50	6.42	1,954,715.24	4.16
Net Department Income	(243,847.70)	(6.44)	326,067.55	0.69
Less: A66 Transfer to Gen Fund	337,051.00	8.89	337,051.00	0.72
Profit/Loss for Period	(580,898.70)	(15.33)	(10,983.45)	(0.02)

Vermont Department of Liquor Control
Outlet Operations Expenses
June 30, 2004

	June-04	Year to Date
Outlet Commissions	259,658.56	3,384,561.71
Utilities	4,550.59	11,636.72
Supplies	216.12	72,589.67
Postage	0.00	24,536.33
Credit Card	131,781.76	242,684.54
Maintenance	0.00	2,948.00
Printing	0.00	32,054.23
Insurance	0.00	9,353.03
OSD Expense	588.00	14,988.09
Miscellaneous	0.00	21.00
Total Expenses (Exhibit B)	396,795.03	3,795,373.32

Vermont Department of Liquor Control
Warehouse and Distribution Expenses
June 30, 2004

	June-04	Year to Date
Salaries	51,465.21	417,700.74
Retirement	4,355.69	34,521.38
Social Security	4,024.92	34,483.48
Insurance-Medical	7,408.98	53,928.38
Insurance-Life	130.20	1,130.25
Insurance-Dental	1,050.69	8,874.89
Wages-Overtime	4,467.88	43,547.67
Worker's Compensation	0.00	15,129.92
Non Contract Prof. Services	295.89	5,380.68
Total Personal Services Expenses	73,199.46	614,697.39
Travel Expenses	0.00	98.64
Vehicle Expenses	929.75	40,867.72
Fork Lifts	20.64	7,652.30
Recycling Services	3,410.94	62,738.91
Handling Fees - Administrative	6,779.37	77,642.37
Utilities	1,358.46	33,759.02
Supplies	4.19	9,607.96
Postage	0.00	5,686.76
Maintenance	175.65	440.08
Printing	6.36	121.24
Insurance	0.00	3,796.44
Federal License	0.00	750.00
OSD Expense	1,265.16	12,957.09
Stock Over/Short	(808.34)	(442.56)
Depreciation - Equipment	56,148.66	56,148.66
Fee for Space/BGS	12,516.77	12,516.77
HRMS/Vision System Fees	13,043.40	13,043.40
Miscellaneous	(25,341.43)	3,421.81
Total Operating Expenses	69,509.58	340,806.61
Total Expenses (Exhibit B)	142,709.04	955,504.00

Vermont Department of Liquor Control
General/Administration Expenses
June 30, 2004

	June-04	Year to Date
Salaries		
Board Per-Diem	550.00	3,550.00
Commissioner	9,638.97	79,958.97
Administrative Support	18,726.92	146,795.85
Retail Operations	16,846.67	134,902.70
Merchandising	10,553.41	84,411.08
Accounting & Data Proc.	58,383.28	426,422.03
Retirement	8,981.76	67,411.76
Social Security	7,954.52	65,878.35
Insurance-Medical	16,396.73	114,756.43
Insurance-Life	318.62	2,616.76
Insurance-Dental	1,400.37	11,631.60
Wages-Overtime	2,297.84	23,492.82
Worker's Compensation	0.00	3,782.48
Office Allowance	640.71	5,320.71
Contractual Prof. Services	0.00	2,588.72
Non Contract Prof. Services	190.00	31,422.50
Total Personal Services Expenses	152,879.80	1,204,942.76
Travel Expenses		
Board Per-Diem	928.12	5,336.42
Commissioner	256.60	1,048.03
Administrative Support	42.70	1,220.54
Merchandising	0.00	1,043.07
Accounting & Data Proc.	191.63	1,691.22
Vehicle Expenses	2,041.71	18,671.43
Utilities	4,258.13	26,646.23
Supplies	1,323.85	43,049.72
Postage	0.00	7,596.60
Advertising	3,639.20	41,848.16
Maintenance	124.00	2,224.50
Printing	0.00	1,954.52
Insurance	0.00	825.79
Membership Dues	0.00	2,225.00
Depreciation - Equipment	28,233.73	28,233.73
Fee for Space/BGS	1,984.37	1,984.37
HRMS/Vision System Fees	21,739.00	21,739.00
Miscellaneous	(24,761.05)	(3,991.24)
Total Operating Expenses	40,001.99	203,347.09
Total Expenses (Exhibit B)	192,881.79	1,408,289.85

Vermont Department of Liquor Control
Education, Licensing and Enforcement Expenses
June 30, 2004

	June-04	Year to Date
Salaries	114,699.98	875,519.28
Retirement	9,425.64	70,125.63
Social Security	8,465.33	69,036.51
Insurance-Medical	19,450.28	128,480.99
Insurance-Life	326.76	2,635.72
Insurance-Dental	1,938.23	15,414.79
Wages-Overtime	1,567.28	23,677.61
Wages-Temporary	0.00	1,974.58
Worker's Compensation	0.00	21,276.45
Shift Differential	1,003.58	9,333.56
Office Allowance	2,990.00	24,830.00
Non Contract Prof. Services	0.00	265.90
Total Personal Services Expenses	159,867.08	1,242,571.02
Travel Expense-Dir/Invest.	2,356.68	18,849.76
Vehicle Expenses	3,526.97	41,484.53
Utilities	3,109.39	24,905.47
Supplies	1,258.93	37,674.09
Postage	0.00	2,927.63
Maintenance	184.47	13,528.84
Printing	1,032.91	4,385.52
Insurance	0.00	2,334.23
Witness Imprest Fund Expense	0.00	375.84
Evidence Imprest Fund Expense	270.00	4,646.78
Depreciation - Equipment	57,403.35	57,403.35
Fee for Space/BGS	763.22	763.22
HRMS/Vision System Fees	8,695.60	8,695.60
Miscellaneous	(9,292.12)	7,713.44
Total Operating Expenses	69,309.40	225,688.30
Total Expenses (Exhibit B)	229,176.48	1,468,259.32

APPENDIX E

Comparison of Control State Data

State	Michigan	Oregon	Ohio	Alabama	Virginia	Montgomery County	Pennsylvania	Utah	Idaho
Gross Liquor & Wine/Beer Sales	$637,946,897	$289,072,120	$518,519,492	$273,895,497	$366,519,884	$157,039,359	$1,268,702,643	$158,405,762	$77,994,565
Cost of Goods	-$465,842,134	-$145,196,615	-$331,678,728	- $138,649,369	- $236,080,617	-$112,091,755	-$661,232,862	-$84,173,030	-$42,079,011
Net Profit	$172,104,763	$143,875,445	$186,840,764	$135,246,128	$130,439,267	$44,947,604	$607,469,781	$74,232,732	$35,915,554
Total Expense	-$49,400,388	-$41,905,744	-$41,354,780	-$41,005,094	-$95,921,610	-$23,631,351	-$221,656,474	-$17,628,313	-$11,724,248
Net Income After All Cost/Expenses	$122,704,375	$101,949,701	$145,354,780	$94,241,034	$34,517,657	$21,316,253	$385,813,307	$56,604,419	$24,191,306
Personnel as % of Op Costs	20%	**N/R**	**N/R**	49%	58.49%	64.31%	**N/R**	60.10%	56%
Total Employees	Total = 127	Total = 202	Total = 15, includes licensing	Total = 755, inc 550 in store.	Total = 938	Total = 270	Total = 2,883 full-time and 932 part-time	Total = 489, inc. 416 store employees and 41 in Admin Office	Total = 214 store employees and 32 in Admin Units.
Total also includes Warehouse Staff	No	inc. 40 in warehouse	No	inc. 41 in warehouse	inc. 80 in warehouse	Inc. 100 in warehouse	inc. 67 in warehouse	inc. 29 in warehouse	inc. 11 in warehouse
Total also includes Info Tech Staff	No, but has access from State HQ	inc. 9 IT staff in OLCC	Includes 18 IT staff in DLC	inc. 8 IT staff in AABC	inc. 50 IT staff in VA ABC	inc. 5 IT staff in MC LCC	inc. 95 IT staff in PLCB	inc. 9 IT staff in UABC	inc. 6 IT staff in ISLD
Total also includes Enforcement Staff	55	35	No	114	131	No	No	No	No
Cases Sold	5,752,264	3,700,000	3,341,544	1,900,000	3,038,395	4,624,000	4,920,000	1,629,553	600,000
Gallons Sold	13596673	4,678,004	8,974,495	4,950,138	7,635,003	9,131,365 Beer 746,460 Liqu 1,941,140 Wine	8,800,000	4,324,254	1,446,000
Beverages Sold Through State	Liquor and Fortified Wines	Liquor Only	42 proof and higher Spirits only	Liquor Only	Liquor and Virginia Wine	Liquor, Wine, and Beer	Liquor and Wine	Liquor, Wine, and Heavy Beer	Liquor Only

N/R = No Response- Personnel Costs not broken out within Expenses.

State	North Carolina	Montana	New Hampshire	Washington	Wyoming	West VA	Maine	Iowa	Mississippi	Vermont
Gross Liquor & Wine/Beer Sales	$486,064,620	$58,691,148	$350,736,456	$498,492,000	$50,035,356	$55,485,795	$85,395,495	$121,198,962	$184,321,626	$44,056,502
Cost of Goods	-$262,187,479	-$37,321,005	-$249,850,261	- $364,851,000	-$42,071,183	-$45,213,741	-$54,032,401	-$79,757,275	-$149,330,648	-$38,032,203
Net Profit	$223,877,141	$21,370,143	$100,886,195	$133,641,000	$7,964,172	$10,272,054	$31,363,094	$41,441,687	$34,990,978	$6,024,299
Total Expense	-$77,963,908	-$2,024,396	-$31,101,531	-$45,541,000	-$1,494,385	-$5,377,996	-$5,230,986	-$4,784,056	**N/R**	-$5,915,016
Net Income After All Cost/Expenses	$145,913,233	$19,345,747	$69,784,664	$88,100,000	$6,469,789	$4,894,058	$26,132,108	$36,657,631	**N/R**	$109,283
Personnel as % of Op Costs	**N/R**	36.97%	59.60% overall and 64.04% for Warehouse Only	**N/R**	78.55%	56.8%*	42.14%	31%	**N/R**	48%
Total Employees	Total = 43	Total = 16	Total = 736 inc. 573 store employees	Total = 1265, inc. 690 Store Employees	Total=34	Total = 110	Total = 352	Total = 44	Total = 131	Total = 56,
Total also includes Warehouse Staff	No	inc. 12 in warehouse	**N/R**	inc. 71 in warehouse	Inc. 15 in warehouse	inc. 25 in warehouse	No	inc. 17 in warehouse + 21 Inmates	inc. 75 in warehouse	inc. 14 in warehouse
Total also includes Info Tech Staff	No	No; IT staff work for Division of Revenue	No, IT staff work for State, but 14 are assigned only to LCC tasks	inc. 40 IT staff in WLCB	inc. 1 IT staff in Liquor Div, but gets ext. support	inc. 10 IT staff in WV ABCA	**N/R**	inc. 2 IT staff in IABC	No, but there are 3 IT staff in Tax Commission for ABC support	inc. 5 IT staff for VT DLC
Total also includes Enforcement Staff	No	No	Yes	75	Yes	55	**N/R**	8 Tobacco Investigators included in 33	Yes	23
Cases Sold	3,535,487	478,983	3,708,896	3,925,563	666,328	533,141	**N/R**	1,116,367	2,200,000	329,782
Gallons Sold	8,305,322	1,290,869	4,079,158	7,918,227	882,240	1,393,863	1,889,206	3,035,070	3,395,674	857,008
Beverages Sold Through State	Liquor Only	Liquor and Fortified Wines	Liquor and Wine	Liquor, Wine, and Heavy Beer	Liquor and Wine	Liquor and Fortified Wine	Liquor and Fortified Wine	Liquor Only	Liquor and Wine	Liquor, Fortified Wine, and Heavy Beer

*Estimated from 2004 Personnel Cost

State	Michigan (See Note)	Oregon	Ohio	Alabama	Virginia	Mont. County, MD	Penn	Utah	Idaho
State Stores				140	293	21	634	37	52
Private Stores									
Agents	3916	242	419			3		88	100
Ads in Newspaper	Yes					Yes	Yes		
Discount on Sales to Agents	The retailer can buy the bottle with a 17% off the [Cost + 65% Markup]	5% for Licensees		N/A	N/A	N/A	N/A	**N/R**	Agents pay 2% over cost, but licensees get a 5% discount from State.
Agent Commission		Base compensation: **Class Annual Sales compensation** **Base** 1 up to $210,000 — 13.0% of first $10,000 of monthly sales 2 $210,000 -$450,000 — $1,560 3 $450,000-$750,000 — $1,820 4 $750,000-$1,050,000 — $2,248 5 $1,050,000-$1,650,000 — $2,340 6 $1,650,000 and up — $2,600	4% of Wholesale. And 6% of Retail Sales; Percentage calculated on price before taxes are added.		N/A	3-stores: Commission for Retail Sales: 13.5% 6.24% 5.99% Commission for Sales to Licensees: 2.00% 1.95% 1.95%	N/A		12% on first $325K in Annual Sales, and then 4% on Annual Sales over $325

State	Michigan (See Note)	Oregon	Ohio	Alabama	Virginia	Mont. County, MD	Penn	Utah	Idaho
Number of Stock Choices Carried in Warehouse	4,781 Regular items	1,300 Regular items	1,300 Regular items	2,000 Regular items	2,000 Regular and 300 Special items	3,200 Regular	5,000 in Stock and 11,000 on Special Order List	1,400 Regular items	1,433 Regular and 291 on Special Order items
Listing Meetings per Year	52	12	N/R	As Needed	2	12	12	12	2
Listing Adds Between Board Meetings	Yes	No	As needed.	No	Yes	Yes	Yes	No	No
Bailment Warehouse	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes, but only 85% of contents are bailment, 15% are State-owned bulk purchases.
Storage Charges	MLCC pays Supplier $6.52 per case and then Supplier pays $7.60 per case for liquor holding in the ADA Storage	No	**N/R**	Bailment fees = $1,061,508 In 2003	No	N/A	**N/R**	No	No
Mixed Case Orders Permitted	Yes	Yes for Regular Items and No for Special Items	No	No	Yes	No	Yes	Rare	Yes
Warehouse Operated in-house	No	Yes	No	Yes	Yes	Yes	No - for the three primary Warehouses Yes – for Bottle Pick Area Only	Yes	Yes
Trucking Operated in-house	No	No	No	No	No	Yes	No	Yes	No
Seasonal Help Used	N/A	2002		Yes	Yes	Yes	Yes		Yes
Last Major Warehouse Renovation	1999	Major interior storage rearrangement	None – contractor owned	2005 Rapidstan Conveyors		Completion 2005	2002	2003	1998 (Originally built as lease to purchase building)
Last Warehouse Software Revision		2002		2005	2005	Completion 2005	2002	2002-2003 SBT-Accpac Acct and Inventory	1998-warehouse, 2004-acct'ing
New Software		RIMS by Robocom Systems International Inc. $800,000 (H&S)		Siemans WMS	Bastian Materials Handling	Customized Version of Enterprise 1 by PeopleSoft	RIMS by Robocom Systems International Inc.	2005-GERS Retail WMS and related packages	

State	North Carolina	Montana	New Hampshire	Washington	Wyoming	West VA	Maine	Iowa	Mississippi	Vermont
Number of Stock Choices Carried in Warehouse	1,700 Regular items	877 Regular items, and 1,655 Special Order Items	7532 Liquor and Wine items at one warehouse and 575 Liquor items only at 2nd warehouse	1,730 Regular items and 3,623 Special Order items	1798 Regular and 13,512 Special Order items	2,025 Regular items	1,758 Regular items	1,400 Regular items	3900 Regular items	893 Regular items
Listing Meetings per Year	As needed, delegated to Director	2	52	12	2	As needed	12	3	As needed	2
Listing Adds Between Board Meetings	As needed.	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Rare
Bailment Warehouse	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes
Storage Charges	No Bailment Fees = $3,177,023	No	Yes Bailment Fees = $1,012,762	No	N/A	Yes		Yes	No	No
Mixed Case Orders Permitted	No	Yes	Yes	Yes	Yes	No	Yes	Yes – fee charged	Yes – fee charged	Yes
Warehouse Operated in-house	No	Yes	Large Warehouse-No, and Small Warehouse-Yes	Yes	Yes	Yes	No	Yes, with State Employees and State Inmates	Yes	Yes
Trucking Operated in-house	No	No	No	No	No	No	No	Yes	No	Yes
Seasonal Help Used				Yes	Yes	Yes	Yes	Yes		No
Last Major Warehouse Renovation	1984	1998		2003		1996	2004		2004 New Conveyor Lines	2000
Last Warehouse Software Revision	Warehouse Contractor owns and upgrades software		Warehouse Contractor owns and upgrades software	2002	2000	Pre-2001	2004	Order Entry System - 2004	1999 Integrated Overall IT Business System	New WiFi transmitters – 2004; Bottle Pick Scanner - 2002
New Software					Customized Version of SAP R/3		2004	In-house Development	2004 New Warehouse Management System	In-house Designed and Updated

Note: Michigan has outsourced its entire liquor warehousing and distribution to authorized distribution agents who contract to supply specific liquor stores in their territory. As used in this rule, "authorized distribution agent" means a person who has entered into a contractual relationship with 1 or more manufacturers or suppliers of spirits or with another authorized distribution agent for warehousing or distribution, or both, of spirits and who has been certified, in writing, by the commission, to act as the commission's agent for the warehousing and distribution of spirits to retail licensees of the commission.

APPENDIX F

Typical Retail Price Breakdown for a Sample of Control States

Pennsylvania	**Pennsylvania**		**Michigan**	**Michigan**		**Utah**	**Utah**		**Washington**	**Washington**	
Cost of Product	$ 5.00	Distillery Cost	Cost of Product	$ 2.90	31%	Distillery Price	$ 1.05	11%	Distillery Cost	$ 3.03	25%
Markup	$ 1.50	Markup	Markup	$ 3.31	35%	Markup	$ 4.87	51%	Markup	$ 3.24	27%
Freight Costs			Freight Costs			Freight Costs			Freight Costs	$ 0.12	1%
State Tax	$ 1.94	Liquor Tax	State Tax	$ 1.14	12%	State Tax	$ 1.53	16%	Liquor Tax	$ 3.57	30%
		Federal Excise Tax	Sales Tax	$ 2.14	23%	Federal Taxes	$ 2.10	22%	Federal Excise Tax	$ 2.14	18%
Avg Retail	$ 8.44	**Avg Retail**	**Avg Retail**	$ 9.49	100%	**Avg Retail**	$ 9.55	100%	**Avg Retail**	$12.10	100%

North Carolina	**North Carolina**		**Idaho**	**Idaho**		**Vermont**	**Vermont**		**Mississipi**	**Mississipi**	
Cost of Product	$ 3.63	29%	Cost of Product	$ 4.70	36%	Distillery Price	$8.98	61%	Distillers Cost	$ 12.63	71%
Markup	$ 2.63	21%	Markup	$ 5.60	42%	Markup	$2.04	14%	Markup	$ 3.09	17%
Freight Costs	$ 0.13	1%	Freight Costs			Freight Costs			Freight Costs s	$ 0.20	1%
State Tax	$ 2.63	21%	State Tax	$ 0.76	6%	State/Federal Tax	$3.67	25%	State Sales Tax	$ 1.17	7%
Federal Tax	$ 3.00	24%	Federal Tax	$ 2.14	16%	State/Federal Taxes			MS Excise Tax	$ 0.40	2%
Storage	$ 0.51	4%	Surcharge	$ 0.25	2%	Surcharges			Surcharges	$ 0.38	2%
Avg Retail	$ 12.50	100%	**Avg Retail**	$ 13.20	100%	**Avg Retail**	$14.69	100%	**Avg Retail**	$ 17.87	100%

Alabama	**Alabama**	
Cost of Product	$ 10.00	47%
Markup	$ 3.00	14%
Freight Costs		
State Tax	$ 7.28	34%
Federal Tax	$ 1.22	6%
Storage		
Avg Retail	$ 21.50	100%

APPENDIX G
Comparisons of Vermont to Other Control State Staffing And Sales

Summary Table

Sorted by Number of ABC Employees (Total)

States Names	2003 Census	ABC Employees	State Residents Per ABC Employee	ABC Employee Per State Resident	ABC Warehouse Employees	Total Cases (FY 2003)	Total Gallons	Products Carried	Cases Sold Per ABC Employee Overall
Montana	917,621	**16**	57,351	0.000017	12	478,876	1,290,869	Liquor and Fortified Wines	29,930
Wyoming	501,242	**34**	14,742	0.000068	15	666,328	882,240	Liquor and Wine	19,598
North Carolina	8,407,248	**43**	195,517	0.000005	Contract	3,535,487	8,305,322	Liquor Only	82,221
Vermont	619,107	**56**	11,055	0.000090	11	329,782	857,008	Liquor, Fortified Wine, and Heavy Beer	5,889
Iowa	2,944,062	**65**	45,293	0.000022	38	1,116,367	79,161,653	Liquor Only	17,175
West Virginia	1,810,354	**110**	16,458	0.000061	25	533,141	1,393,863	Liquor and Fortified Wine	4,847
Michigan	10,079,985	**127**	79,370	0.000013	Contract	5,752,264	13,596,673	Liquor and Fortified Wines	45,293
Mississippi	2,881,281	**131**	21,995	0.000045	75	3,000,000	3,395,674	Liquor and Wine	22,901
Ohio	11,435,798	**151**	75,733	0.000013	Contract	3,341,544	8,974,495	42 proof and higher Spirits only	22,129
Oregon	3,559,596	**202**	17,622	0.000057	40	3,700,000	4,678,004	Liquor Only	18,317
Idaho	1,366,332	**246**	5,554	0.000180	11	600,000	1,391,078	Liquor Only	2,439
Montgomery County	918,881	**270**	3,403	0.000294	100	4,624,000	11,818,965	Liquor, Wine, and Beer (Case/Keg)	17,126
Utah	2,531,467	**489**	5,177	0.000193	29	1,629,533	4,324,408	Liquor, Wine, and Heavy Beer	3,332
New Hampshire	1,287,687	**736**	1,750	0.000572	NR	3,708,896	4,079,158	Liquor and Wine	
Alabama	4,500,752	**755**	5,961	0.000168	41	1,900,000	314,407,189	Liquor Only	2,517
Virginia	7,386,330	**938**	7,875	0.000127	80	3,038,395	7,536,542	Liquor and Virginia Wine	3,239
Washington	6,131,445	**1,265**	4,847	0.000206	71	3,925,563	7,918,227	Liquor, Wine, and Heavy Beer	3,103
Pennsylvania	12,281,054	**2,883**	4,260	0.000235	74	4,920,000	12,336,218	Liquor and Wine	1,707
Maine	1,305,728	**N/R**			**Contract** (20-25)	**N/R**	1,889,206	Liquor and Fortified Wine	
Averages	4,256,104	**474**	31,887			2,2,600,010			

N/R = No Response

Comparisons of Vermont to Other Control State Staffing And Sales

Summary Table

Sorted by State Residents Per ABC Employee in FY 2003

States Names	2003 Census	ABC Employees	State Residents Per ABC Employee	ABC Employee Per State Resident	ABC Warehouse Employees	Total Cases (FY 2003)	Cases Sold Per ABC Employee Overall	Cases Per In-House ABC Warehouse Employee	Gallons Sold Per ABC Employee	Total Gallons
New Hampshire	1,287,687	736	**1,750**	0.000572	N/R	3,708,896			5,542	4,079,158
Montgomery County	918,881	270	**3,403**	0.000294	100	4,624,000	17,126	46,240	43,774	11,818,965
Pennsylvania	12,281,054	2,883	**4,260**	0.000235	74	4,920,000	1,707	66,486	4,279	12,336,218
Washington	6,131,445	1,265	**4,847**	0.000206	71	3,925,563	3,103	55,290	6,259	7,918,227
Utah	2,531,467	489	**5,177**	0.000193	29	1,629,533	3,332	56,191	8,843	4,324,408
Idaho	1,366,332	246	**5,554**	0.000180	11	600,000	2,439	54,545	5,655	1,391,078
Alabama	4,500,752	755	**5,961**	0.000168	41	1,900,000	2,517	46,341	416,433	314,407,189
Virginia	7,386,330	938	**7,875**	0.000127	80	3,038,395	3,239	37,980	8,035	7,536,542
Vermont	619,107	56	**11,055**	0.000090	11	329,782	5,889	29,980	15,304	857,008
Wyoming	501,242	34	**14,742**	0.000068	15	666,328	19,598	44,422	25,948	882,240
West Virginia	1,810,354	110	**16,458**	0.000061	25	533,141	4,847	21,326	12,671	1,393,863
Oregon	3,559,596	202	**17,622**	0.000057	40	3,700,000	18,317	92,500	23,158	4,678,004
Mississippi	2,881,281	131	**21,995**	0.000045	75	3,000,000	22,901	40,000	25,921	3,395,674
Iowa	2,944,062	65	**45,293**	0.000022	38	1,116,367	17,175	29,378	1,217,872	79,161,653
Montana	917,621	16	**57,351**	0.000017	12	478,876	29,930	39,906	80,679	1,290,869
Ohio	11,435,798	151	**75,733**	0.000013	Contract	3,341,544	22,129	N/A	59;433	8,974,495
Michigan	10,079,985	127	**79,370**	0.000013	Contract	5,752,264	45,293	N/A	107,060	13,596,673
North Carolina	8,407,248	43	**195,517**	0.000005	Contract	3,535,487	82,221	N/A	193,147	8,305,322
Maine	1,305,728	**N/R**			**Contract** (20-25)	**N/R**		N/A	N/A	1,889,206
Averages	**4,256,104**	**474**	**31,887**			**2,600,010**			**125,556**	

N/R = No Response

Comparisons of Vermont to Other Control State Staffing And Sales

Summary Table

Sorted by Total Case Sold in FY 2003

States Names	2003 Census	ABC Employees	State Residents Per ABC Employee	ABC Employee Per State Resident	ABC Warehouse Employees	Total Cases (FY 2003)	Cases Sold Per ABC Employee Overall	Cases Per In-House ABC Warehouse Employee	Gallons Sold Per ABC Employee	Total Gallons
Vermont	619,107	56	11,055	0.000090	11	**329,782**	5,889	29,980	15,304	857,008
Montana	917,621	16	57,351	0.000017	12	**478,876**	29,930	39,906	80,679	1,290,869
West Virginia	1,810,354	110	16,458	0.000061	25	**533,141**	4,847	21,326	12,671	1,393,863
Idaho	1,366,332	246	5,554	0.000180	11	**600,000**	2,439	54,545	5,655	1,391,078
Wyoming	501,242	34	14,742	0.000068	15	**666,328**	19,598	44,422	25,948	882,240
Iowa	2,944,062	65	45,293	0.000022	38	**1,116,367**	17,175	29,378	1,217,872	79,161,653
Utah	2,531,467	489	5,177	0.000193	29	**1,629,533**	3,332	56,191	8,843	4,324,408
Alabama	4,500,752	755	5,961	0.000168	41	**1,900,000**	2,517	46,341	416,433	314,407,189
Mississippi	2,881,281	131	21,995	0.000045	75	**3,000,000**	22,901	40,000	25,921	3,395,674
Virginia	7,386,330	938	7,875	0.000127	80	**3,038,395**	3,239	37,980	8,035	7,536,542
Ohio	11,435,798	151	75,733	0.000013	Contract	**3,341,544**	22,129	N/A	59,433	8,974,495
North Carolina	8,407,248	43	195,517	0.000005	Contract	**3,535,487**	82,221	N/A	193,147	8,305,322
Oregon	3,559,596	202	17,622	0.000057	40	**3,700,000**	18,317	92,500	23,158	4,678,004
New Hampshire	1,287,687	736	1,750	0.000572		**3,708,896**	5,039		5,542	4,079,158
Washington	6,131,445	1,265	4,847	0.000206	71	**3,925,563**	3,103	55,290	6,259	7,918,227
Montgomery County	918,881	270	3,403	0.000294	100	**4,624,000**	17,126	46,240	43,774	11,818,965
Pennsylvania	12,281,054	2,883	4,260	0.000235	74	**4,920,000**	1,707	66,486	4,279	12,336,218
Michigan	10,079,985	127	79,370	0.000013	Contract	**5,752,264**	45,293	N/A	107,060	13,596,673
Maine	1,305,728	**N/R**			**Contract** (20-25)	**N/R**		N/A		1,889,206
Averages	**4,256,104**	**474**	**31,887**			**2,600,010**			**125,556**	

N/R – No response

Comparisons of Vermont to Other Control State Staffing And Sales

Summary Table

Sorted by Total Gallons Sold Per ABC Employee in FY 2003

States Names	2003 Census	ABC Employees	Citizens Per ABC Employee	ABC Employee Per Citizen	ABC Warehouse Employees	Total Cases (FY 2003)	Cases Sold Per ABC Employee Overall	Cases Per In-House ABC Warehouse Employee	Gallons Sold Per ABC Employee	Total Gallons
Pennsylvania	12,281,054	2,883	4,260	0.000235	74	4,920,000	1,707	66,486	**4,279**	12,336,218
New Hampshire	1,287,687	736	1,750	0.000572		3,708,896	5,039		**5,542**	4,079,158
Idaho	1,366,332	246	5,554	0.000180	11	600,000	2,439	54,545	**5,655**	1,391,078
Washington	6,131,445	1,265	4,847	0.000206	71	3,925,563	3,103	55,290	**6,259**	7,918,227
Virginia	7,386,330	938	7,875	0.000127	80	3,038,395	3,239	37,980	**8,035**	7,536,542
Utah	2,531,467	489	5,177	0.000193	29	1,629,533	3,332	56,191	**8,843**	4,324,408
West Virginia	1,810,354	110	16,458	0.000061	25	533,141	4,847	21,326	**12,671**	1,393,863
Vermont	619,107	56	11,055	0.000090	11	329,782	5,889	29,980	**15,304**	857,008
Oregon	3,559,596	202	17,622	0.000057	40	3,700,000	18,317	92,500	**23,158**	4,678,004
Mississippi	2,881,281	131	21,995	0.000045	75	3,000,000	22,901	40,000	**25,921**	3,395,674
Wyoming	501,242	34	14,742	0.000068	15	666,328	19,598	44,422	**25,948**	882,240
Montgomery County	918,881	270	3,403	0.000294	100	4,624,000	17,126	46,240	**43,774**	11,818,965
Ohio	11,435,798	151	75,733	0.000013	Contract	3,341,544	22,129	N/A	**59,433**	8,974,495
Montana	917,621	16	57,351	0.000017	12	478,876	29,930	39,906	**80,679**	1,290,869
Michigan	10,079,985	127	79,370	0.000013	Contract	5,752,264	45,293	N/A	**107,060**	13,596,673
North Carolina	8,407,248	43	195,517	0.000005	Contract	3,535,487	82,221	N/A	**193,147**	8,305,322
Alabama	4,500,752	755	5,961	0.000168	41	1,900,000	2,517	46,341	**416,433**	314,407,189
Iowa	2,944,062	65	45,293	0.000022	38	1,116,367	17,175	29,378	**1,217,872**	79,161,653
Maine	1,305,728	**N/R**			**Contract** (20-25)	**N/R**		N/A		1,889,206
Averages	**4,256,104**	**474**	**31,887**			**2,600,010**			**125,556**	

Comparisons of Vermont to Other Control State Staffing And Sales

Summary Table

Sorted by Total Cases Sold Per In-House ABC Warehouse Employee in FY 2003

States Names	2003 Census	ABC Employees	Citizens Per ABC Employee	ABC Employee Per Citizen	ABC Warehouse Employees	Cases (FY 2003)	Cases Sold Per ABC Employee Overall	Cases Per In-House ABC Warehouse Employee	Gallons Sold Per ABC In-House Warehouse Employee	Total Gallons
West Virginia	1,810,354	110	16,458	0.000061	25	533,141	4,847	**21,326**	55,755	1,393,863
Iowa	2,944,062	65	45,293	0.000022	38	1,116,367	17,175	**29,378**	2,083,201	79,161,653
Vermont	619,107	56	11,055	0.000090	11	329,782	5,889	**29,980**	77,910	857,008
Virginia	7,386,330	938	7,875	0.000127	80	3,038,395	3,239	**37,980**	94,207	7,536,542
Montana	917,621	16	57,351	0.000017	12	478,876	29,930	**39,906**	107,572	1,290,869
Mississippi	2,881,281	131	21,995	0.000045	75	3,000,000	22,901	**40,000**	45,276	3,395,674
Wyoming	501,242	34	14,742	0.000068	15	666,328	19,598	**44,422**	58,816	882,240
Montgomery County	918,881	270	3,403	0.000294	100	4,624,000	17,126	**46,240**	118,190	11,818,965
Alabama	4,500,752	755	5,961	0.000168	41	1,900,000	2,517	**46,341**	7,668,468	314,407,189
Idaho	1,366,332	246	5,554	0.000180	11	600,000	2,439	**54,545**	126,462	1,391,078
Washington	6,131,445	1,265	4,847	0.000206	71	3,925,563	3,103	**55,290**	111,524	7,918,227
Utah	2,531,467	489	5,177	0.000193	29	1,629,533	3,332	**56,191**	149,118	4,324,408
Pennsylvania	12,281,054	2,883	4,260	0.000235	74	4,920,000	1,707	**66,486**	166,706	12,336,218
Oregon	3,559,596	202	17,622	0.000057	40	3,700,000	18,317	**92,500**	116,950	4,678,004
Michigan	10,079,985	127	79,370	0.000013	Contract	5,752,264	45,293	**N/A**	N/A	13,596,673
North Carolina	8,407,248	43	195,517	0.000005	Contract	3,535,487	82,221	**N/A**	N/A	8,305,322
New Hampshire	1,287,687	736	1,750	0.000572	N/R	3,708,896	5,039	**N/R**	N/R	4,079,158
Ohio	11,435,798	151	75,733	0.000013	Contract	3,341,544	22,129	**N/A**	59,433	8,974,495
Maine	1,305,728	N/R			**Contract** (20-25)	N/R		**N/A**	N/A	1,889,206
Averages	**4,256,104**	**474**	**31,887**			**2,600,010**		**47,185**	**125,556**	

Comparisons of Vermont to Other Control State Staffing And Sales

Summary Table

Sorted by Total Cases Sold Per In-House ABC IT Unit Employee (FY 2003)

States Names	2003 Census	ABC Employees	State Residents Per ABC Employee	ABC Employee Per State Resident	Info Tech Staff In ABC Org. or Assigned to ABC Projects from Another Agency	Total Cases Sold (FY 2003)	Cases Sold Per ABC Employee Overall	Cases Sold Per In-House ABC IT Unit Employee	Gallons Sold Per In-House ABC IT Unit Employee	Total Gallons
Pennsylvania	12,281,054	2,883	4,260	0.000235	95	4,920,000	1,707	51,789	129,855	12,336,218
West Virginia	1,810,354	110	16,458	0.000061	10	533,141	4,847	53,314	139,386	1,393,863
Virginia	7,386,330	938	7,875	0.000127	50	3,038,395	3,239	60,768	150,731	7,536,542
Vermont	619,107	56	11,055	0.000090	5	329,782	5,889	65,956	171,402	857,008
Washington	6,131,445	1,265	4,847	0.000206	40	3,925,563	3,103	98,139	197,956	7,918,227
Idaho	1,366,332	246	5,554	0.000180	6	600,000	2,439	100,000	231,846	1,391,078
New Hampshire	1,287,687	736	1,750	0.000572	14	3,708,896	5,039	264,921	291,368	4,079,158
Wyoming	501,242	34	14,742	0.000068	2	666,328	19,598	333,164	441,120	882,240
Utah	2,531,467	489	5,177	0.000193	9	1,629,533	3,332	181,059	480,490	4,324,408
Ohio	11,435,798	151	75,734	0.000013	18	3,341,544	22,129	185,641	498,583	8,974,495
Oregon	3,559,596	202	17,622	0.000057	9	3,700,000	18,317	411,111	519,778	4,678,004
Mississippi	2,881,281	131	21,995	0.000045	3	3,000,000	22,901	1,000,000	1,131,891	3,395,674
Montana	917,621	16	57,351	0.000017	1	478,876	29,930	478,876	1,290,869	1,290,869
Montgomery County	918,881	270	3,403	0.000294	5	4,624,000	17,126	924,800	2,363,793	11,818,965
North Carolina	8,407,248	43	195,517	0.000005	1	3,535,487	82,221	3,535,487	8,305,322	8,305,322
Michigan	10,079,985	127	79,370	0.000013	1	5,752,264	45,293	5,752,264	13,596,673	13,596,673
Alabama	4,500,752	755	5,961	0.000168	8	1,900,000	2,517	237,500	39,300,899	314,407,189
Iowa	2,944,062	65	45,293	0.000022	2	1,116,367	17,175	558,184	39,580,827	79,161,653
Maine	1,305,728	N/R	N/A	N/A	N/R	N/R	N/A	N/A	N/A	1,889,206
Averages	4,256,104	473	31,887			2,600,010			6,045,710	

Comparisons of Vermont to Other Control State Staffing And Sales

Summary Table

Sorted by Total Gallons Sold Per In-House ABC IT Unit Employee (FY 2003)

States Names	2003 Census	ABC Employees	State Residents Per ABC Employee	ABC Employee Per State Resident	Info Tech Staff In ABC Org. or Assigned to ABC Projects from Another Agency	Total Cases Sold (FY 2003)	Cases Sold Per ABC Employee Overall	Cases Sold Per In-House ABC IT Unit Employee	Gallons Sold Per In-House ABC IT Unit Employee	Total Gallons
Pennsylvania	12,281,054	2,883	4,260	0.000235	95	4,920,000	1,707	51,789	129,855	12,336,218
West Virginia	1,810,354	110	16,458	0.000061	10	533,141	4,847	53,314	139,386	1,393,863
Virginia	7,386,330	938	7,875	0.000127	50	3,038,395	3,239	60,768	150,731	7,536,542
Vermont	619,107	56	11,055	0.000090	5	329,782	5,889	65,956	171,402	857,008
Washington	6,131,445	1,265	4,847	0.000206	40	3,925,563	3,103	98,139	197,956	7,918,227
Idaho	1,366,332	246	5,554	0.000180	6	600,000	2,439	100,000	231,846	1,391,078
New Hampshire	1,287,687	736	1,750	0.000572	14	3,708,896	5,039	264,921	291,368	4,079,158
Wyoming	501,242	34	14,742	0.000068	2	666,328	19,598	333,164	441,120	882,240
Utah	2,531,467	489	5,177	0.000193	9	1,629,533	3,332	181,059	480,490	4,324,408
Ohio	11,435,798	151	75,734	0.000013	18	3,341,544	22,129	185,641	498,583	8,974,495
Oregon	3,559,596	202	17,622	0.000057	9	3,700,000	18,317	411,111	519,778	4,678,004
Mississippi	2,881,281	131	21,995	0.000045	3	3,000,000	22,901	1,000,000	1,131,891	3,395,674
Montana	917,621	16	57,351	0.000017	1	478,876	29,930	478,876	1,290,869	1,290,869
Montgomery County	918,881	270	3,403	0.000294	5	4,624,000	17,126	924,800	2,363,793	11,818,965
North Carolina	8,407,248	43	195,517	0.000005	1	3,535,487	82,221	3,535,487	8,305,322	8,305,322
Michigan	10,079,985	127	79,370	0.000013	1	5,752,264	45,293	5,752,264	13,596,673	13,596,673
Alabama	4,500,752	755	5,961	0.000168	8	1,900,000	2,517	237,500	39,300,899	314,407,189
Iowa	2,944,062	65	45,293	0.000022	2	1,116,367	17,175	558,184	39,580,827	79,161,653
Maine	1,305,728	N/R	N/A	N/A	N/R	N/R	N/A	N/A	N/A	1,889,206
Averages	4,256,104	473	31,887			2,600,010			6,045,710	

N/R = Not Reported

APPENDIX H

Comparison Of Liquor License Fees

Summary Table

License Category	Alabama	Maine	Virginia	Mississippi	Montana	Ohio	West VA	Washington	Utah	Vermont
Population (2003)	4,500,752	1,305,728	7,386,330	2,881,281	917,621	11,435,798	1,810,354	6,131,445	2,531,467	619,107
Off-Premises Beer Only, Wine Only, or Beer/Wine Only	$ 100	$ 200	$120 - $230	$ 475	$ 100	$ 252	$ 150	$ 120		$ 50
On-Premises Beer Only, Wine Only, or Beer/Wine Only	$ 150	$ 220	$300 - $600 Urban vs. Rural	$ 475	Renewal = $200 New = See Below	$ 564	$ 250	$ 200	$250 Appl + $150-200 Annual Fee	$ 100
				Montana Restaurant On-Premises Beer/Wine Only: One-time Application Fee of $200 Seating 60 or less Seating 61-100 Seating 101 or more	Plus Initial First Year Fee of $5,000 $10,000 $20,000				Taverns: $250 Appl + $1250 Fee $1000 Renewal	
On-Premises Brewpub	$ 1,000						$ 1,000	$ 1,000		
Lounge Retail Liquor Class 1 (All Beverages - On-Premises)	$ 300									
Lounge Retail Liquor Class 2 (All Beverages - On-Premises)	$ 300									
Restaurant Retail Liquor (All Beverages -On-Premises)	$ 300	$ 1,500		$ 925						$ 440
Class I (All Beverages - On-Premises)		$900-$1100								
Class X Lounge (All Beverages - On-Premises)		$ 2,200								
Restaurant (All Beverages - On-Premises)		**Virginia Restaurant** – All Beverage Restaurants/Clubs: Seating 60 or less Seating 61-100 Seating 101 or more	$560 - $750 $975 - $1,860 $1,430 - $2,765	**Montana Restaurant** – All Beverage Restaurant License: Town Pop. Less Than 2,000 Town Pop. Btw 2,000-5,000 Town Pop. Btw 5,000-10,000 Town Pop. More Than 10,000	Original License $20,000 + Renewal $400 Renewal $500 Renewal $650 Renewal $800					

License Category	Alabama	Maine	Virginia	Mississippi	Montana	Ohio	West VA	Washington	Utah	Vermont
Resort Area Establishment Renewal Fee Only (All Beverages - On-Premises)					$ 2,000					
Restaurant, Club, Hotel, or Marina (Liquor for on premises consumption only, beer and wine for on premises, or off premises in original sealed container)						$ 2,344				
Private Club (less than 1,000 members) (All Beverages – On-Premises)							$ 1,150		$250 Appl +$2500 Fee $1000-2250 Renewal	
Private Club (1,000 or more members) (All Beverages – On-Premises)							$ 2,650			
Motel (All Beverages – On-Premises Minibar(Liquor) and Lobby Beer/Wine Lounge)								$ 500		
Restaurant (All Beverages – On-Premises) (Service Bar Only)								$ 1,000	Restaurant: $250 Appl + $1750 Fee $750-1500 Renewal	
Restaurant (All Beverages – On-Premises) (50%+ is Dining Area)								$ 1,600		
Restaurant(All Beverages – On-Premises) (Less than 50% is Dining Area)								$ 2,000		
Agency/Private Liquor Store		By Competitive Bid for Initial License: $2000 Minimum Bid & $300 Renewal		$ 1,825			$ 1,000		$100	

Additional Samples of Fees Charged in Areas of New England and the Mid-Atlantic Regions
State Liquor License Fees (Continued)

		Delaware	New Jersey	New York	Connecticut	Ontario
Type of License	**Location of Consumption**	**Annual License Fee**	**Annual Application Fee plus License Fee (Depends on Municipal Code)**	**Annual Application Fee plus License Fee (Outside of Major Urban NY Areas)**	**Annual License Fee**	**Annual License Fee (in $ Cdn)**
Retail – Beer Only	Off Premises Only		$200 +$31-$63	$100 +$110		$525 (Cdn) New License $150 (Cdn) Renewal
Retail – Wine Only	Off Premises Only			$100 + $145		$525 (Cdn) New License $150 (Cdn) Renewal
Retail – Liquor Store	Off Premises Only		$200 +$125-$2,500	$200 + $1,536		
Retail – Any Alcoholic Beverage (Spirit, Beer, & Wine)	Off Premises Only	$250	$200 +$125-$2,500			
Restaurant/Taproom – All Beverages	On Premises Only	$250		$200 + $900	$1,200 where hot meal dining is primary $1,750 where hot meals are not necessarily available, but food is sold.	$525 (Cdn) New License $150 (Cdn) Renewal
Restaurant – By the Drink and Package Sales	On and Off Premises		$200 +$250-$2,500			

APPENDIX I
Cubic Feet of Liquor Warehouse Storage

States Names	Products Carried	Control State Liquor Warehouse Size and Staffing				
		Square Foot Area	**Cubic Foot Area (Avg Hght = 25 Ft.)**	**State Staff Working in Warehouse and/or as Drivers**	**State Staff Working in Warehouse Only (Trucking Contracted)**	**State Staff / Cubic Foot of Warehouse Space**
Pennsylvania	Liquor and Wine	890,000 (3 warehouses)	22,250,000	Warehouse Staff are mix of Contract and State Employees	74	0.0000033
Montana	Liquor and Fortified Wines	89,693	2,242,325		12	0.0000054
Wyoming	Liquor and Wine	112,000	2,800,000	15		0.0000054
West Virginia	Liquor and Fortified Wine	153,000	3,825,000		25	0.0000065
Iowa	Liquor Only	150,000	3,750,000		38	0.0000101
Virginia	Liquor and Virginia Wine	300,000	7,500,000		80	0.0000107
Alabama	Liquor Only	150,000	3,750,000		41	0.0000109
Oregon	Liquor Only	124,000	3,100,000		40	0.0000129
Vermont	Liquor, Fortified Wine, and Heavy Beer	33,000	825,000	11		0.0000133
Mississippi	Liquor and Wine	211,000	5,275,000		75	0.0000142
Utah	Liquor, Wine, and Heavy Beer	58,000	1,450,000	29		0.0000200
Washington	Liquor, Wine, and Heavy Beer	140,000	3,500,000		71	0.0000203
Montgomery County	Liquor, Wine, and Beer (Case/Keg)	160,000	4,000,000	100		0.0000250

States Names	Products Carried	Control State Liquor Warehouse Size and Staffing				
		Square Foot Area	**Cubic Foot Area (Avg Hght = 25 Ft.)**	**State Staff Working in Warehouse and/or as Drivers**	**State Staff Working in Warehouse Only (Trucking Contracted)**	**State Staff / Cubic Foot of Warehouse Space**
Idaho	Liquor Only	Did not Report		Did not Report	11	N/A
New Hampshire	Liquor and Wine	Did not Report		Did not Report	Did not Report	N/R
Maine	Liquor and Fortified Wine	Did not Report		Contract, but averages 20-25 per day	Contract	N/A
Michigan	Liquor and Fortified Wines	Did not Report		Contract	Contract	N/A
North Carolina	Liquor Only	Did not Report		Contract	Contract	N/A
Ohio**	42 proof and higher Spirits only	415,000	10,375,000	Contract	Contract	N/A
		SF is indicative of Travel Time Requirements	*CF is indicative of Case Volume Capacity*		**AVERAGE (Excluding PENN.) =**	**0.0000129**

*Montgomery County adding 52,000 SF in 2005
**Ohio- Four contract warehouses

APPENDIX J

Other State Liquor Control Boards And Commissions

The following sections highlight recent information about the Liquor Control Boards and Commissions in other Control jurisdictions. Overall staffing of the ABC operations are provided in a summary table at the end of this section.

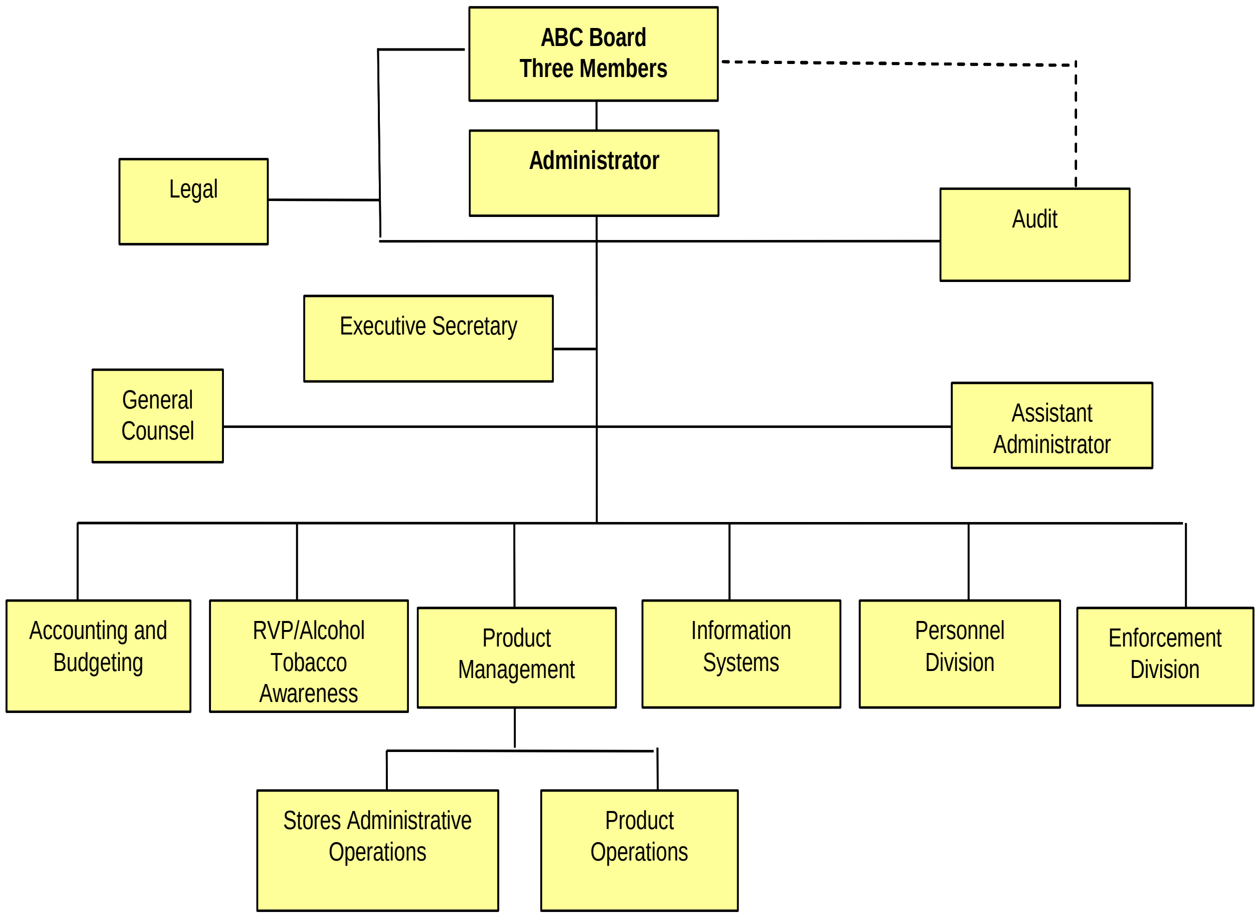
Alabama:

The Alcoholic Beverage Control Board itself consists of three persons, appointed by the Governor with the advice and consent of the Senate, one of whom is designated by the Governor to be the chairman of the board. Each member of the board at the time of his/her appointment and qualification must be a resident of the State of Alabama and have resided in the state for a period of at least 10 years next preceding his/her appointment and qualification, and must also be a qualified voter therein. The term of office of each member appointed is six years from the time of appointment and qualification and until the successor is appointed and qualified. In case any member is allowed to hold over after the expiration of his term, his/her successor is appointed for the balance of the unexpired term. Vacancies in the board are filled by the Governor for the unexpired term. Each member is eligible for reappointment in the discretion of the Governor.

No person is eligible for appointment or to hold the office of member of the board or be appointed by the board or hold any office or position under the board who has any connection with any association, firm, person or corporation engaged in or conducting any alcoholic liquor business of any kind or who holds stocks or bonds therein or who has pecuniary interest therein, nor shall any such person receive any commission or profit whatsoever from, or have any interest whatsoever in any purchase or sales of any alcoholic liquors; provided, however, that if any member of the board is appointed when the Senate is not in session, such member holds office until the Senate has had an opportunity to reject or confirm his/her appointment. Members of the board may be suspended or removed by the Governor at his pleasure.

Board members receive $25.00 compensation for each day engaged in the performance of duties, not to exceed $2,500 per year. Members receive reimbursement for travel expenses at the state employee rate. The office of the board is in the City of Montgomery, Alabama. The Board meets at such times within the City of Montgomery, Alabama, as the board determines. The Alcoholic Beverage Control Board as an overall organization has approximately 755 employees, including law enforcement personnel. The ABC Division is supervised by a Liquor Commissioner and Deputy Commissioner, who are full-time employees.

ALABAMA ALCOHOLIC BEVERAGE CONTROL BOARD

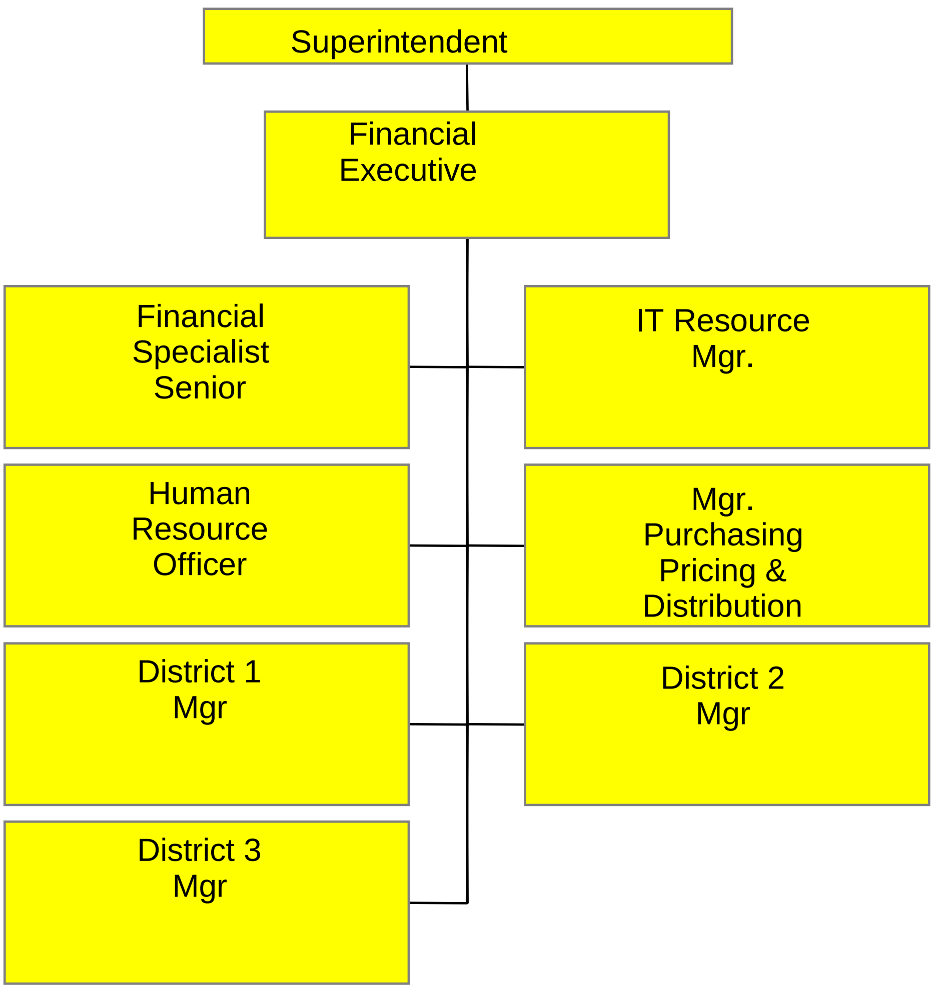


Idaho:

The state liquor dispensary in the Office of the Governor. The dispensary is a division of the Office of the Governor for the purposes of chapter 24, title 67, Idaho Code, and the Administrator of the division is known as the Superintendent of the State Liquor Dispensary. The Superintendent is appointed by the governor for a term of three (3) years, but may be removed by the Governor at will.

The ISLD has a Superintendent who is appointed by and serves at the pleasure of the Governor. This position is a fixed three year term, revocable by the Governor at any time, and is subject to confirmation by the Idaho Senate.

IDAHO STATE LIQUOR DISPENSARY



Note: There is no specific ABC Board or LC Commission in Idaho. The Superintendent is the administrative and policy head of the Idaho State Liquor Dispensary.

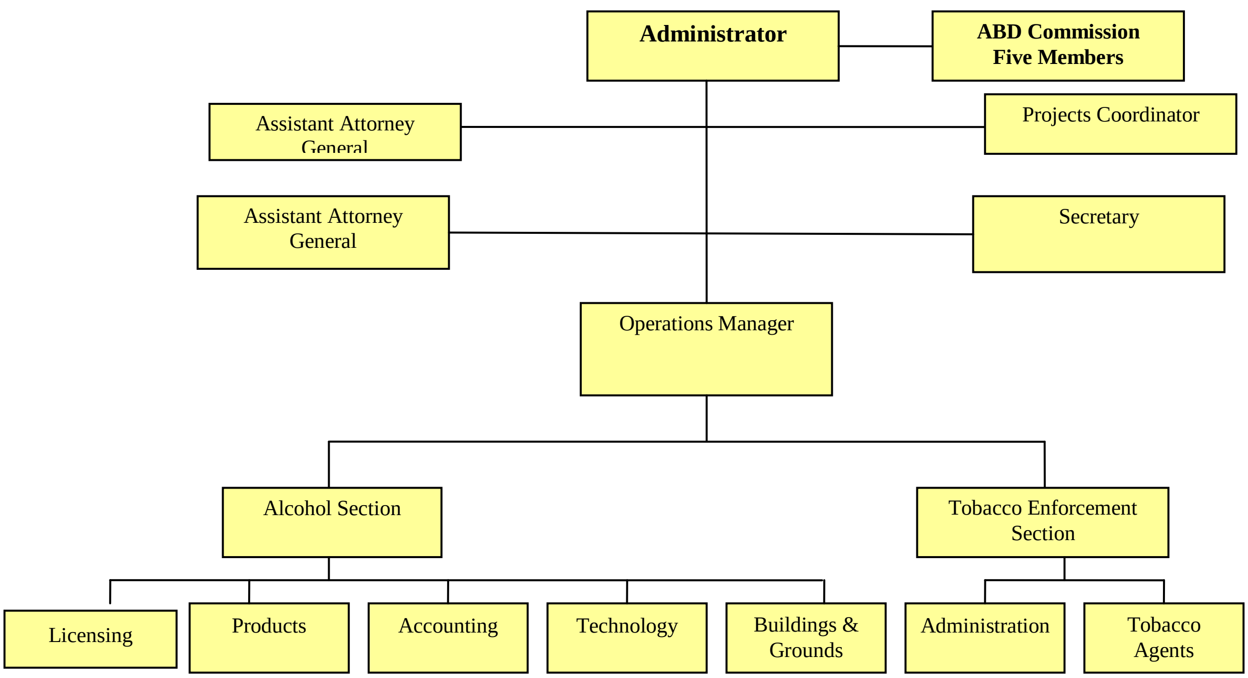
Iowa:

The Iowa Alcoholic Beverages Commission is comprised of five members appointed by the governor subject to confirmation by the senate. Commissioners are appointed for 5-year staggered terms and are chosen on the basis of managerial ability and experience as business executives. Commissioners are eligible for one 5-year reappointment.

The commission is required by law to meet on July 1 of each year and at the call of the commission chairperson or when any three members file a written request for hearing with the chairperson. The commission acts as a policy-making body and serves in an advisory capacity to the Division administrator. Commissioners may review, affirm, reverse or amend all actions of the administrator in the wholesaling of liquor and intoxicating liquor, and in the licensing and regulating of Iowa's alcoholic beverages industry.

The Alcoholic Beverages Division is comprised of eight sections including Administration, Products, Licensing, Information Technology, Tobacco Enforcement, Hearings, Maintenance and Accounting, totaling 33 full time employees. The Division also regulates and licenses establishments that sell alcoholic beverages in Iowa. The Iowa Alcoholic Beverages Division is the sole wholesaler of distilled spirits in Iowa.

IOWA ALCOHOLIC BEVERAGE DIVISION



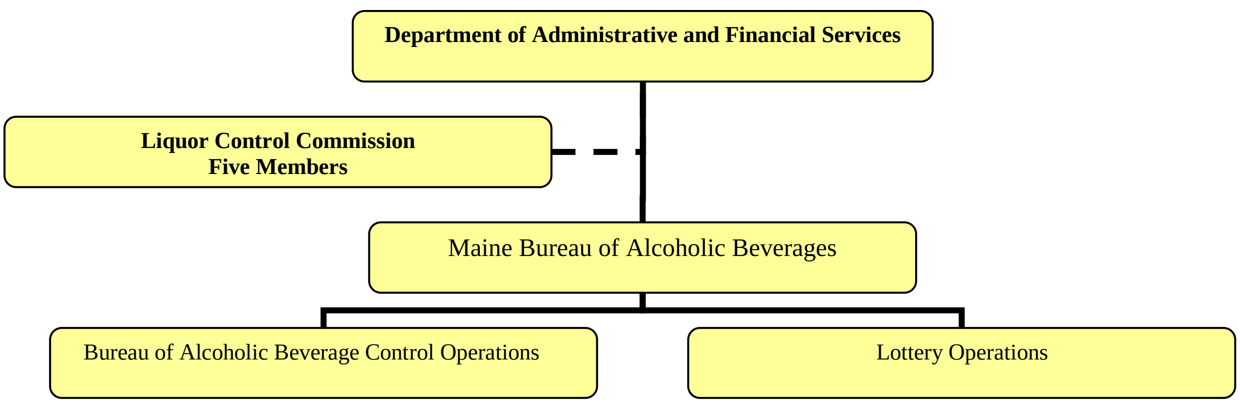
Maine:

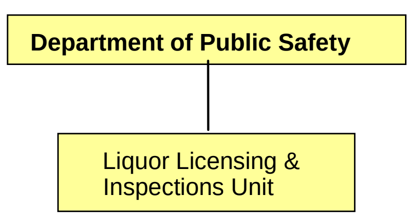
In 1933 a state liquor licensing board was created. consisting of three members appointed by the Governor, with the advice and consent of the Council, for terms of three years, the chairman designated by the Governor. The next year the name was changed to the State Liquor Commission. In 1972 the Commission was placed under the jurisdiction of the Department of Finance and Administration.

As of 1977 the members of the Commission are appointed by the Governor, subject to confirmation by the Legislature. In 1987, the Legislature raised the membership to 5. In 1991 Alcoholic Beverages merged with Lottery Operations to form a single administrative bureau. The two regulatory commissions merged in 1993 to form the State Liquor and Lottery Commission to provide supervision of the Bureau and to recommend policy.

The Bureau of Alcoholic Beverages and Lottery Operations is a unit of the Department of Administration and Financial Services (DAFS). The five member commission is appointed by the Governor. There is a Director of the Bureau of Alcoholic Beverages and Lottery Operations, and a Deputy Director in charge of each of the two operating units (alcohol and lottery).

MAINE LIQUOR CONTROL COMMISSION





The responsibility of this division is to license the manufacture, importation, storage, transportation and sale of all liquor and administer those laws relating to licensing and the collection of taxes on malt liquor and wine. The division can adopt rules consistent with Title 28A and other laws of the State for the administration, clarification, execution and enforcement of all laws concerning liquor and to prevent violations of those laws.

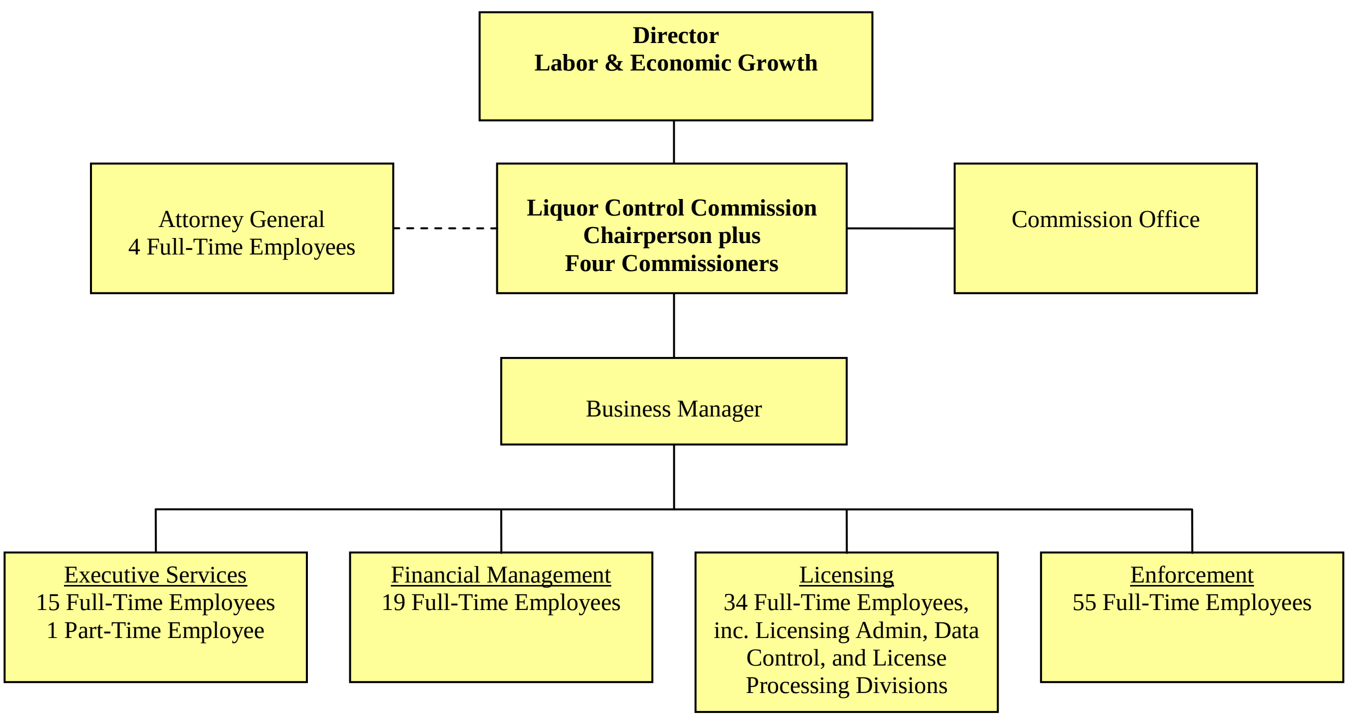
Michigan:

The MLCC is administered by five commissioners, appointed by the governor with the advice and consent of the Senate to four-year, rotating terms. The Chair of the Commission is selected by the Governor. Of the five members, no more than three can be of the same political party. Two of the Commissioners (one Democrat and one Republican) serve as Hearing Commissioners and conduct hearings on violations of the Liquor Control Code and Administrative Rules of the Commission. The remaining three Commissioners are designated as the Administrative Commissioners and are responsible for decisions and interpretation of the Liquor Control Code and Rules in the areas of licensing, enforcement, purchasing, merchandising and distribution. They also serve as an appeal board for decisions of the Hearing Commissioners and hear licensing appeals. The terms of the commissioners are four years each.

The Michigan Liquor Control Commission is, by law, the wholesaler of all spirits in Michigan. Suppliers request approval from the Commission to have products available for sale in Michigan, distributed by the Commission. The MLCC employs a Business Manager who has oversight of the following sections: Executive Services, Financial Management, Licensing, and Enforcement.

Effective May 15, 1996, through Executive Order 1996-2, the departments of Commerce and Labor along with several regulatory and licensing bureaus from the former departments of Public Health, Social Services and Mental Health merged to form the Department of Consumer & Industry Services, the department that housed the MLCC until December 2003. As of December 8th, 2003 the newly formed Department of Labor & Economic Growth took over with former Lansing Mayor, David Hollister at the helm.

MICHIGAN LIQUOR CONTROL COMMISSION



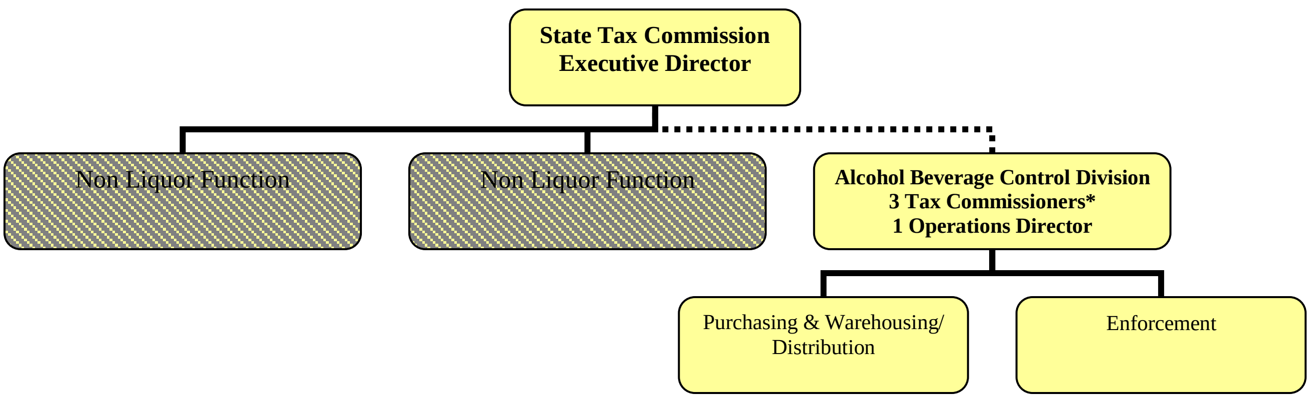
Mississippi:

The State's wholesale liquor distribution center is operated by staff of the Alcoholic Beverage Control Division of the State Tax Commission. The ABC Board is comprised of the three State Tax Commissioners, with the Commission's Executive Director (one of the Commissioners) acting at the ABC Board Chairperson. These are full-time positions. The two primary operating units under the ABC Division are Purchasing and Enforcement.

The 27.5% markup (set by state laws) on products shipped by the Warehouse yields some $35,000,000 of the $67,000,000 deposited annually into the state's General Fund. However, unlike other States, the Mississippi ABC operations are not Enterprise funded. **The operations costs are appropriated annually by the Legislature, rather than being supported by the sales of liquor and wines.**

MISSISSIPPI ALCOHOLIC BEVERAGE DIVISION

OF THE STATE TAX COMMISSION



The ABC Division's Commission Chairperson is the Executive Director of the State Tax Commission.

Montana:

The State of Montana no longer maintains a separate Liquor Control Board (since 1973). The functions of the Board were transferred to the Montana Department of Revenue at that time.

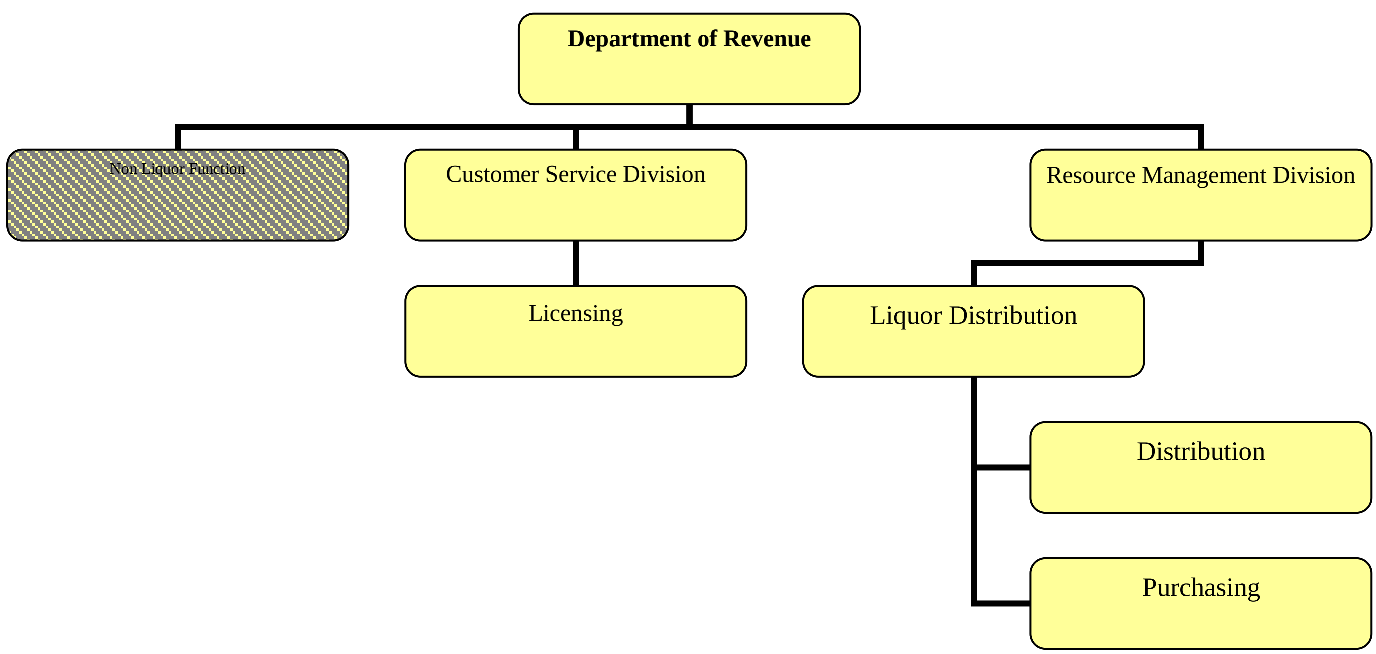
The Department of Revenue administers Title 16, Chapters 1 through 6, Montana Code Annotated which relates to alcoholic beverage control, sale, and distribution, and the licensing of alcoholic beverage manufactures, wholesalers and retailers.

Warehouse inventory management, warehouse shipping and receiving, Agents' order processing, Agents' accounts receivable management, and customer service functions are all duties performed by the Resource Management Process Department's Liquor Distribution Team.

The Customer Intake Process is charged with all licensing and regulatory responsibilities for all-beverage, beer, and wine licensees. Additionally, the process oversees brewery and winery registrations, vendor permit applications and renewals, special retail beer permit applications, and provides information and explanation about licensing activity or related law, rule, policy and procedures.

MONTANA LIQUOR DISTRIBUTION OPERATIONS

OFFICE OF THE DEPARTMENT OF REVENUE



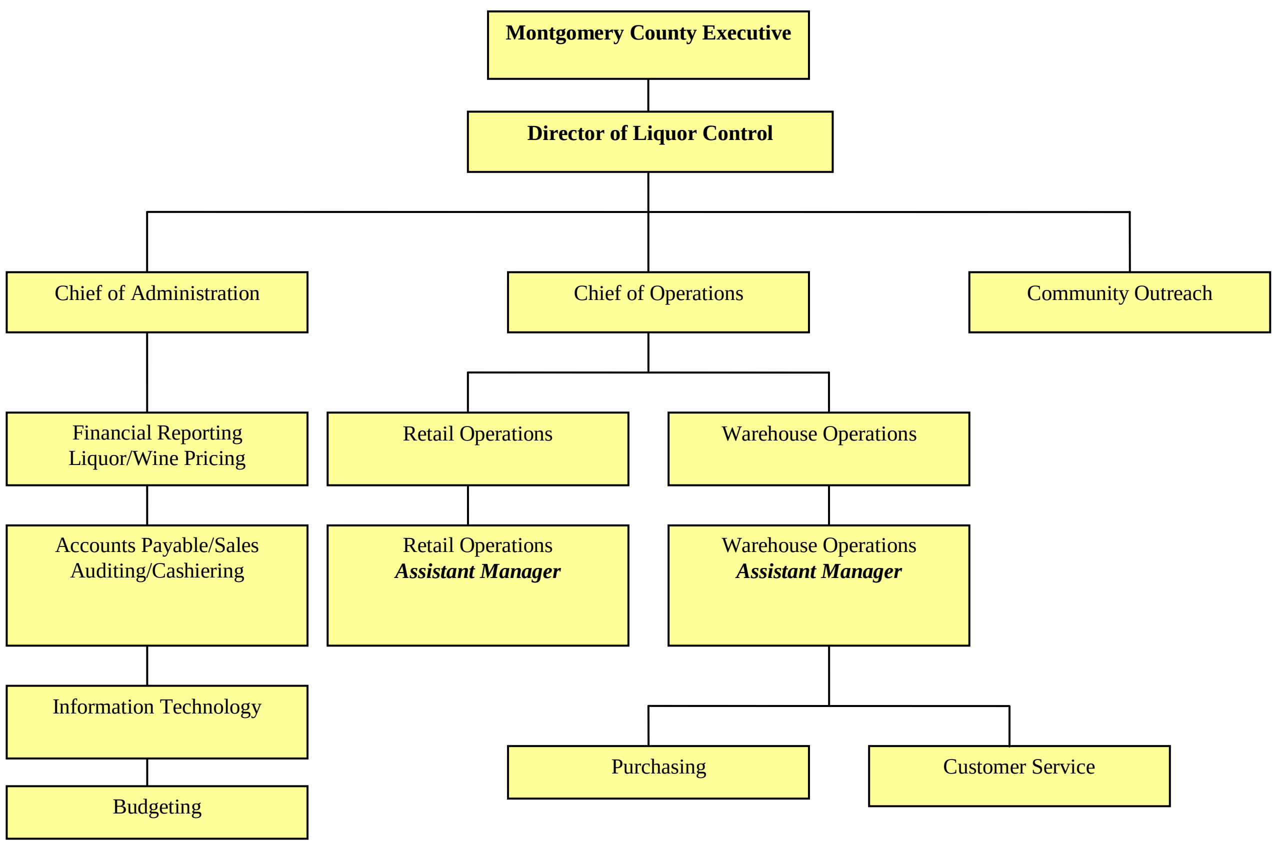
Montgomery County, MD:

The County's Board of License Commissioners controls the sale and distribution of beverage alcohol in Montgomery County as a separate entity. The Board of License Commissioners is responsible for licensing and regulation, and its office shares the responsibility of enforcement with the Police; while the Department of Liquor Control handles the distribution to all beverage alcohol outlets and owns and operates 25 retail stores.

The Montgomery County Board of License Commissioners (BLC) consists of five members appointed by the County Executive and approved by the County Council. The Board of License Commissioners in accordance with the Maryland Annotated Code, Article 2B, approves and issues alcoholic beverage licenses and conducts hearings when violations regarding the sale of alcoholic beverages occur. Board members may serve two 4-year terms with compensation.

MONTGOMERY COUNTY, MARYLAND

DEPARTMENT OF LIQUOR CONTROL ORGANIZATION



New Hampshire:

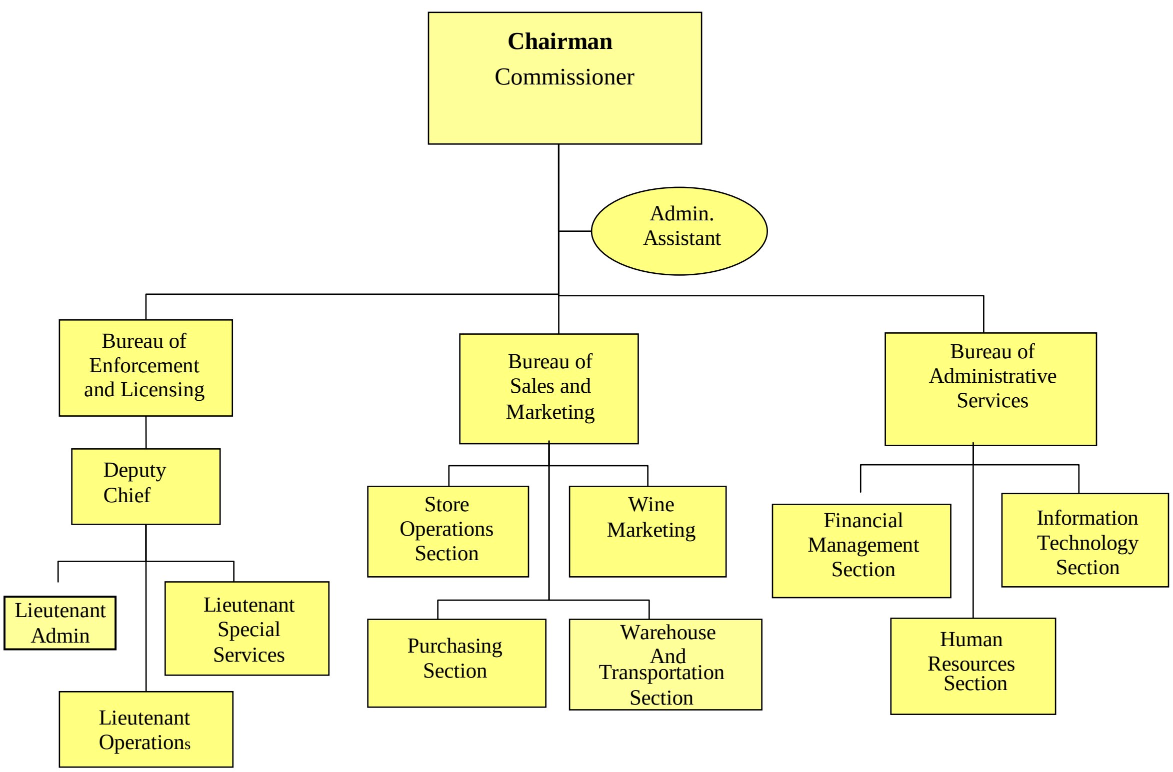
The State Liquor Commission (SLC) is organized into the Office of the Commission and three bureaus: Sales and Marketing, Enforcement and Licensing and Administrative Services. The day-to-day management and decision-making structure consists of the three appointed full-time Commissioners (Chairman and two commissioners - all appointed for six-year terms), the three bureau chiefs, and their respective subordinate management teams.

Of the three commissioners, appointed by the governor and council, no more than two of whom shall belong to the same political party. One member is appointed as commissioner and chairman by the governor with the consent of the council and has a term that is coterminous with each term of the governor. The expiration or termination of a commission member's term of office as chairman does not affect the length of term as a commission member.

The Sales and Marketing Bureau is the retail and wholesale business part of the SLC and is responsible for the operation of the its 72 liquor stores, merchandising, advertising, warehousing and transportation. The Enforcement and Licensing Bureau is responsible for the enforcement of all liquor and tobacco laws and rules as well as the licensing of all private business which sell, transport or represent alcoholic beverages. The Administrative Services Bureau provides Finance and Human Resources services as well as general administrative support to the SLC.

The authority to make day-to-day management decisions is delegated to the lowest possible level. Major decisions affecting strategic, operational, legal, administrative rules, and other high level issues and objectives are made at the Commission level. The three bureau chiefs are responsible for the operations management in their respective bureaus.

NEW HAMPSHIRE STATE LIQUOR COMMISSION ORGANIZATION CHART



North Carolina:

The North Carolina State Alcoholic Beverage Control Commission is a three member body, appointed by the Governor.

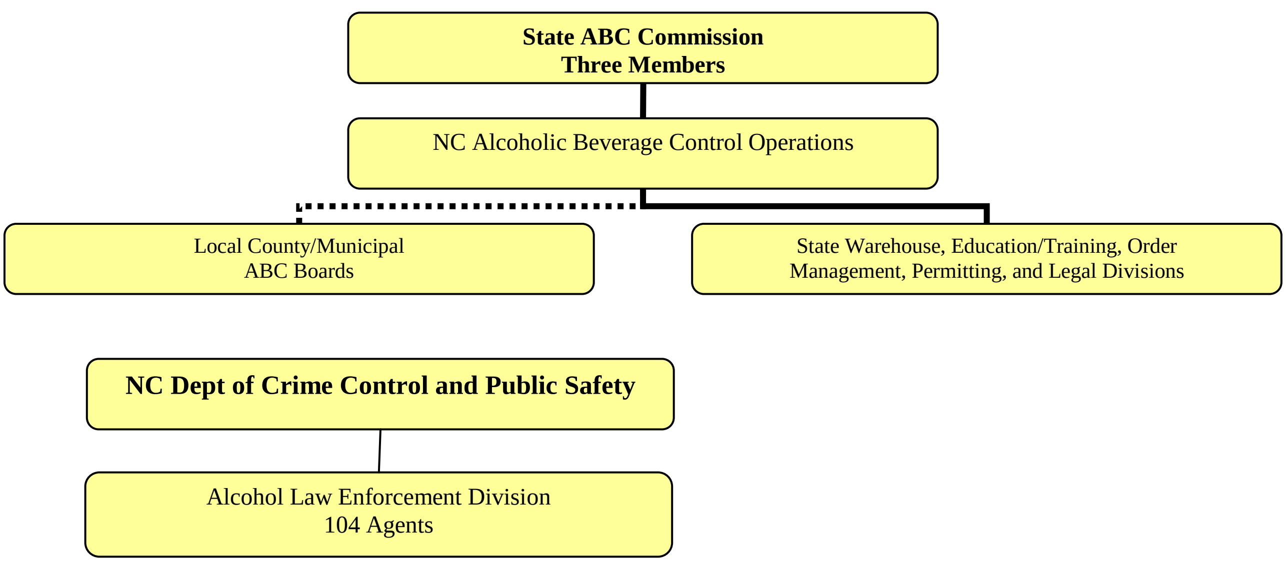
In 1937, an Alcoholic Beverage Control bill was enacted by the North Carolina General Assembly that created the foundation for the system of control operated today. This Act allowed voters in each county to determine whether or not spirituous liquor should be sold at retail. If approved by the local voters, the Act provided for the establishment of a local ABC board that has the authority and duty to operate one retail ABC store. If disapproved at the county level, local towns or municipalities could then vote on the issue. The Act also provided for the establishment of a State ABC Commission to have oversight authority with respect to each local ABC Board.

County and municipal ABC Boards in North Carolina are local independent political subdivisions of the State. They operate as separate entities establishing their own policies and procedures. Each local ABC Board consists of a Chairman and two to six (depending on the Board size) board members appointed by their city, town or county governing authority. They retain authority to set policy and adopt rules in conformity with ABC Laws and Commission Rules. The local ABC Boards contract for liquor law enforcement through their local law enforcement agency (e.g., county police/sheriff department).

The State ABC Commission oversees a warehouse operation and separate divisions for Education and Training Division, Permitting, and Legal. In addition to federal and state taxes, the price of spirituous liquor is determined by a mark-up formula as stated in G.S. 18B-804. This markup funds the operations of the ABC Boards, the State ABC Commission and the State ABC Warehouse.

In 1977, the enforcement arm of the Alcoholic Beverage Control Commission was separated and placed under the North Carolina Department of Crime Control & Public Safety, becoming the North Carolina Alcohol Law Enforcement Division.

NORTH CAROLINA STATE LIQUOR COMMISSION ORGANIZATION CHART



Ohio:

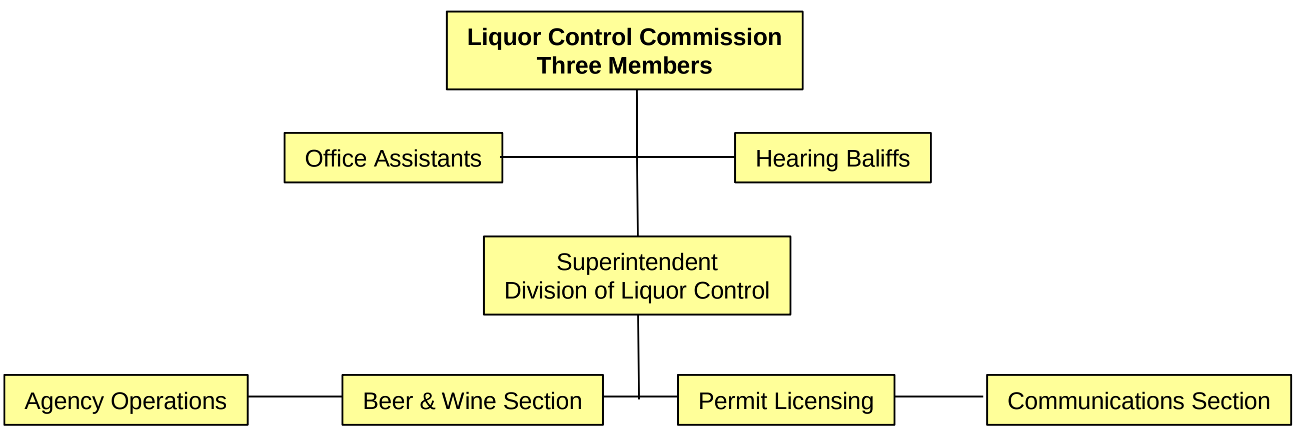
The Liquor Control Commission is comprised of a staff of three Commissioners and six full time employees. The three Commissioners are appointed for a six-year term by the Governor, with the advice and consent of the Senate.

The Commission hears cases related to violations of state liquor laws that could result in fines or the suspension or revocation of liquor permits. It also hears appeals from either permit holders or communities that object to decisions made by the Department of Commerce's Division of Liquor Control concerning the issuance, renewal and/or transfer of liquor permits. In addition, the Commission can hear appeals on the non-renewal of liquor sales permits based on failure to pay taxes.

The Commission promulgates rules regarding liquor production, sales restrictions, minimum sale prices, advertising and other matters related to the manufacture, distribution and sale of beer, wine and liquor.

The Commission employs a Liquor Control Superintendent for day-to-day operations.

STATE OF OHIO LIQUOR CONTROL COMMISSION

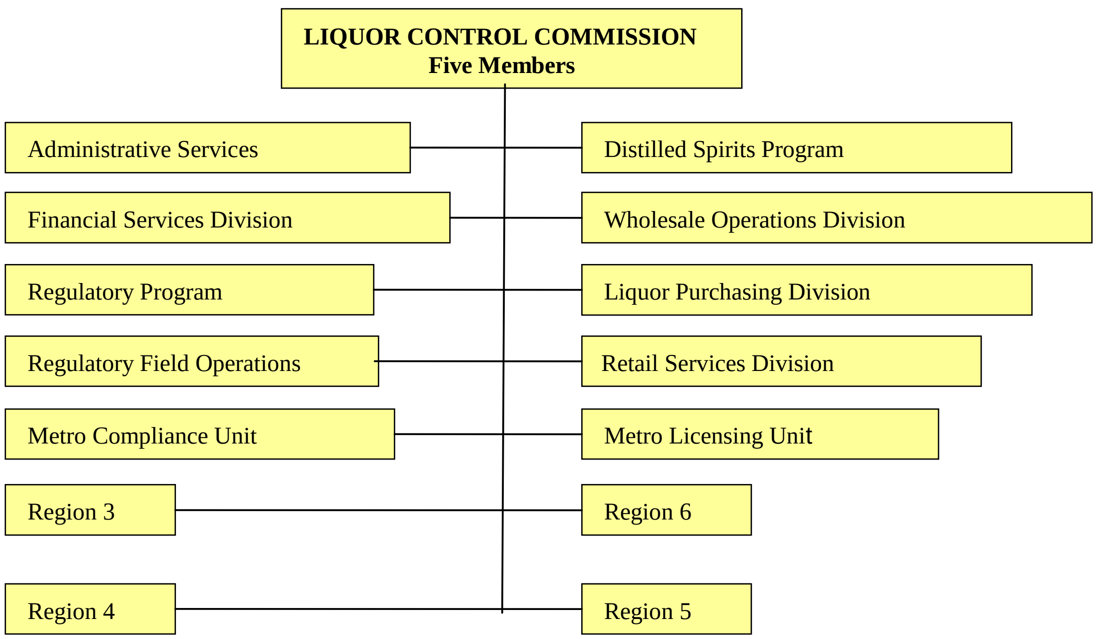


The Ohio Investigative Unit of the Ohio Department of Public Safety is comprised of agents who are fully-certified undercover, plain-clothed peace officers who investigate violations of liquor and tobacco laws, as well as food stamp fraud. The agents have criminal jurisdiction and serve as the sole law enforcement agency in the state with the power to administratively cite a liquor permit premise before the Liquor Control Commission.

Oregon:

A five-member citizen Board of Commissioners constitute the Oregon Liquor Control Commission and administers the Liquor Control Act. The governor appoints and the senate confirms the commissioners for four-year terms. Each commissioner represents a congressional district. One also represents the restaurant/hospitality industry.

OREGON LIQUOR CONTROL COMMISSION



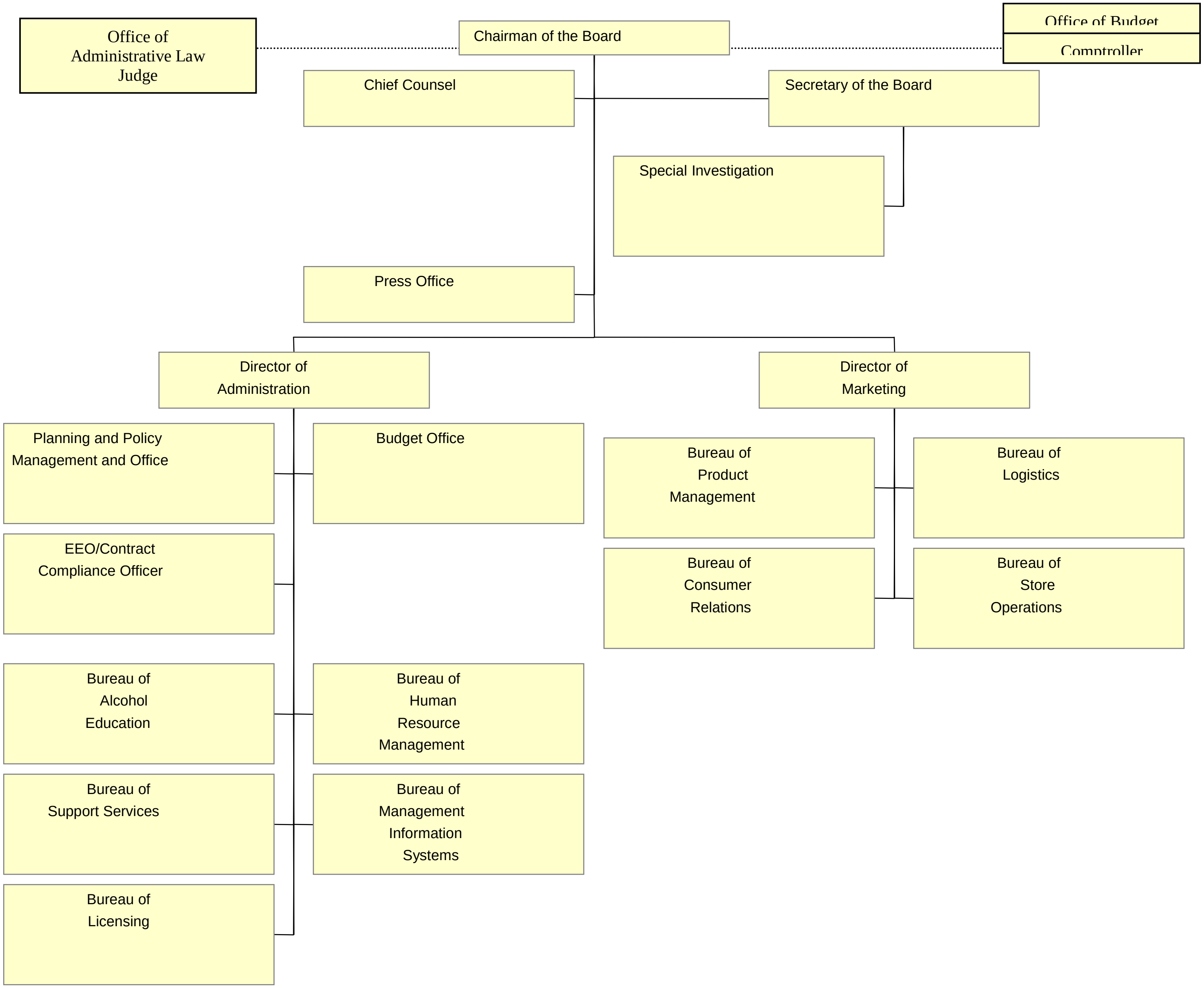
Pennsylvania:

The Pennsylvania Liquor Control Board is comprised of three members appointed by the Governor and ratified by a two-thirds vote in the state Senate. No more than two Board members may be from the same political party as the Governor. Members are appointed to staggered four-year terms ending on the third Tuesday in May. Actions and orders of the Board require the approval of at least two members. The law also provides for a Secretary to be appointed by the Board, with the approval of the Governor. The Board Secretary performs general duties at the direction of the Board to coordinate Board activities. In all of its actions, the Board is subject to the provisions of the Administrative Code of 1929 as well as the Pennsylvania Liquor Code.

The Board Secretary is responsible for managing the administrative details of all Board meetings and presenting to the Board all items of business requiring official action. The Secretary directs the preparation and distribution of official minutes and records of actions of the Board. Due to the many legislative proposals introduced to further regulate or deregulate the Pennsylvania Liquor Control Board, the Board Secretary is also assigned the duty of legislative liaison. In this capacity, the Board Secretary and his staff appear at, and testify before, legislative hearings and meetings held by legislative oversight committees in the State Senate and State House of Representatives. Analysis of pending bills are prepared stating the Board's position and the fiscal impact, if any, of the proposed legislation. The Board Secretary receives and confers with individuals having business with the Board in order to reduce each Board Member's workload. Additionally, the Board Secretary meets with community groups and speaks at public meetings to educate and inform the public of important agency plans and programs requiring public appearance. The Board Secretary oversees the operation of Special Investigations, which is responsible for implementing and monitoring those provisions of the Liquor Code relating to malt or brewed beverages and the malt or brewed beverage industry. Special Investigations also provides assistance to the Board concerning reports and investigations the Board desires or is required to provide, handles applications for brand registration, and handles copies of franchise or territorial agreements submitted by importing distributors.

The PLCB Director of Marketing oversees the Bureaus of Product Management, Logistics, Wine, Consumer Relations and Store Operations. The Bureau of Logistics is responsible for the purchase and distribution of alcoholic beverages sold through agency Wine and Spirits stores. This responsibility involves the bureau in market analysis, sales forecasting, supply chain analysis, inventory analysis, transportation and transportation cost analysis, the protection and climate control of products, and distribution center management and analysis. A piece pick operation is also run at each liquor distribution center. The bureau is responsible for the administration of distribution center, product consolidation, and transportation contracts, and serves as a liaison between the Board and the various representatives of the liquor and transportation industries.

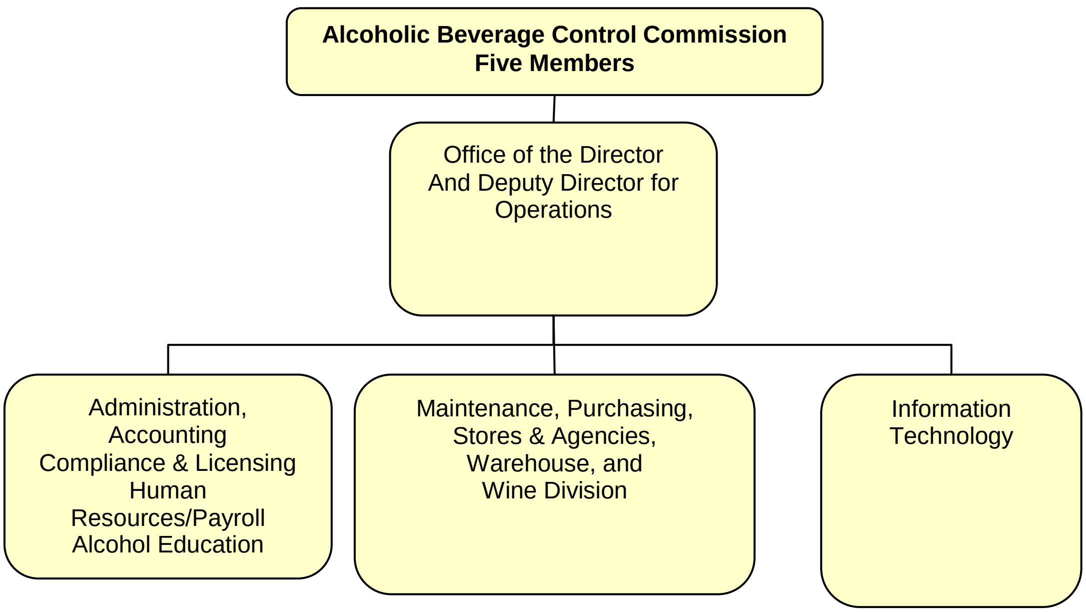
The PLCB operates its own Bureau of Alcohol Education, which has an annual budget, increased this year to $2.2 million and a full-time staff of 25.


Office of Administrative Law Judge
Chairman of the Board
Office of Budget
Comptroller
Chief Counsel
Secretary of the Board
Special Investigation
Press Office
Director of Administration
Director of Marketing
Planning and Policy Management and Office
Budget Office
EEO/Contract Compliance Officer
Bureau of Alcohol Education
Bureau of Human Resource Management
Bureau of Support Services
Bureau of Management Information Systems
Bureau of Licensing
Bureau of Product Management
Bureau of Logistics
Bureau of Consumer Relations
Bureau of Store Operations

Utah:

The Alcoholic Beverage Control Commission is comprised of five part-time members appointed by the governor with the advice and consent of the senate. The Utah Department of Alcoholic Beverage Control employs a full-time director to oversee the day-to-day operation of the department. The policy of the department, as set by statute, is to operate as a public business using sound management principles and practices. No more than three Commission members may be of the same political party. The commission acts as the general policymaking body on the subject of alcoholic product control. The commission sets policy and makes rules, and is responsible for the issuance of licenses and permits, and the suspension or revocation of existing licenses for infractions of the law. As a commission, they act as a governing board in reviewing the activities of the staff on the day to day operations of the department.

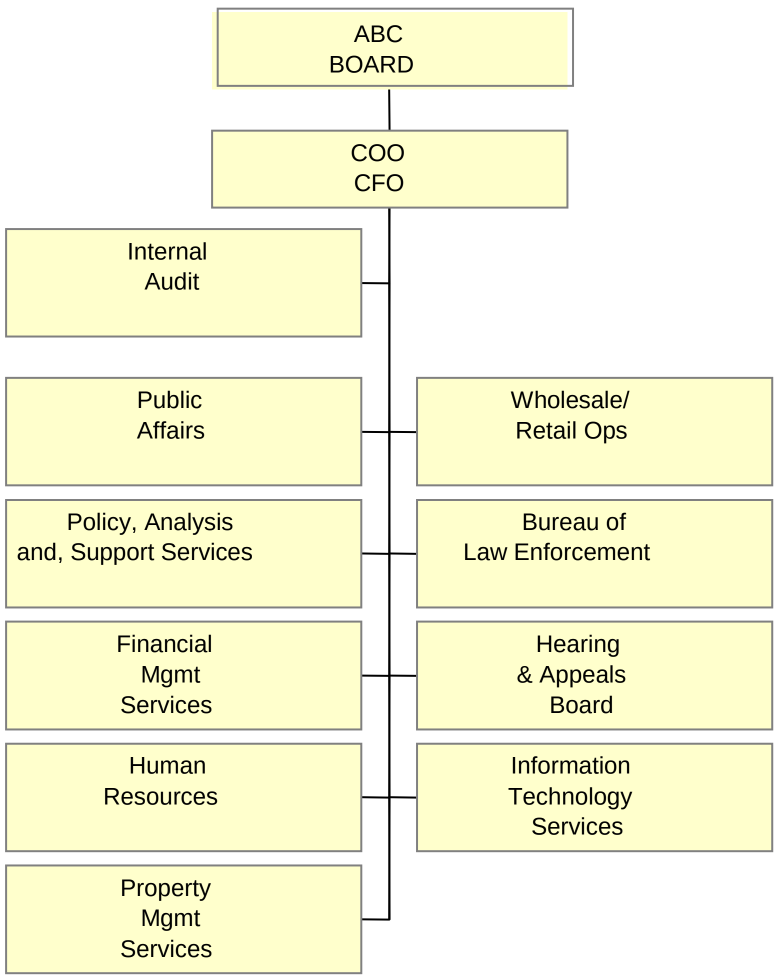
ALCOHOLIC BEVERAGE CONTROL COMMISSION



Virginia:

Virginia has a three member Alcoholic Beverage Control Board appointed by the Governor. Two of the Board members are appointed as Commissioners. The three Board members are considered full-time employees of the VA ABC Board.

ALCOHOLIC BEVERAGE CONTROL BOARD



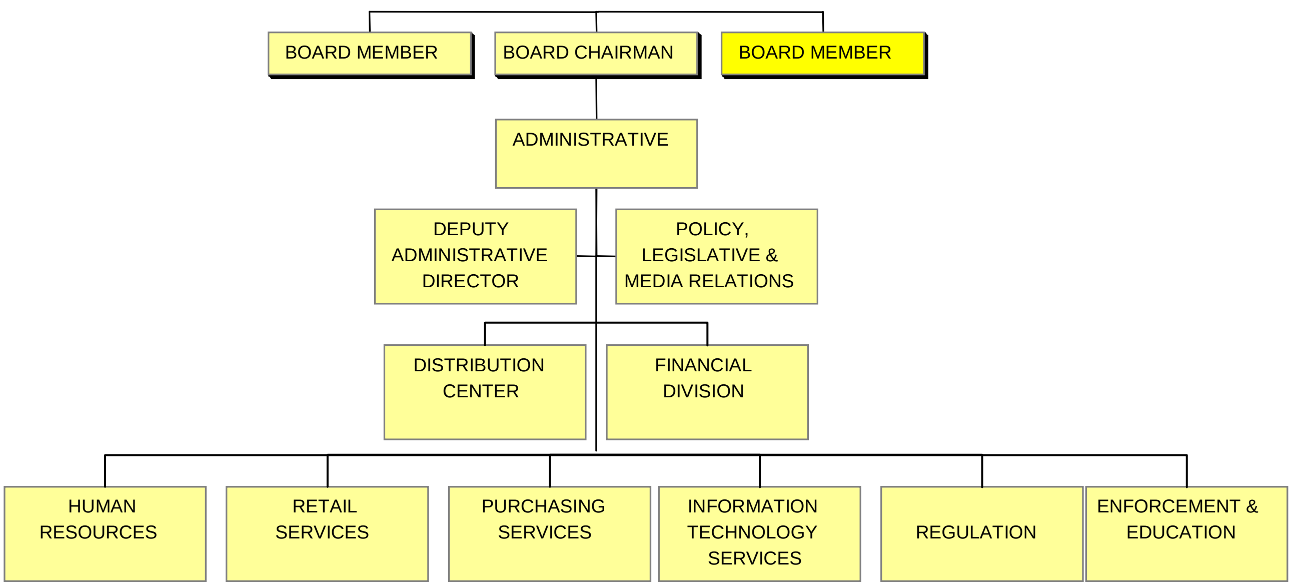
Washington State:

The Washington State Liquor Control Board is a three-member, full-time board appointed to six-year terms by the Governor. Its primary responsibility is to oversee the sale and distribution of beverage alcohol, through licensing, controlled distribution and merchandising systems, education and enforcement. The Enforcement and Education Division is charged with investigating and prosecuting all violations and penal laws relating to transportation, possession, distribution, and the sale of liquor.

The Program Administration, License Investigation, License Processing, and Customer Service Units provide review, investigation, and reporting on all license applications, permit applications, and requests from current license holders to modify business structure or operation; approve all liquor license and permit applications and renewals, except those of a controversial nature, involving extensive investigation, or requiring a Board decision.

The Purchasing Division's function is to provide the citizens of the state of Washington a wide selection of alcoholic beverages at reasonable prices. The division recommends product listings to the Board and manages inventory in the Distribution Center.

WASHINGTON STATE LIQUOR CONTROL BOARD

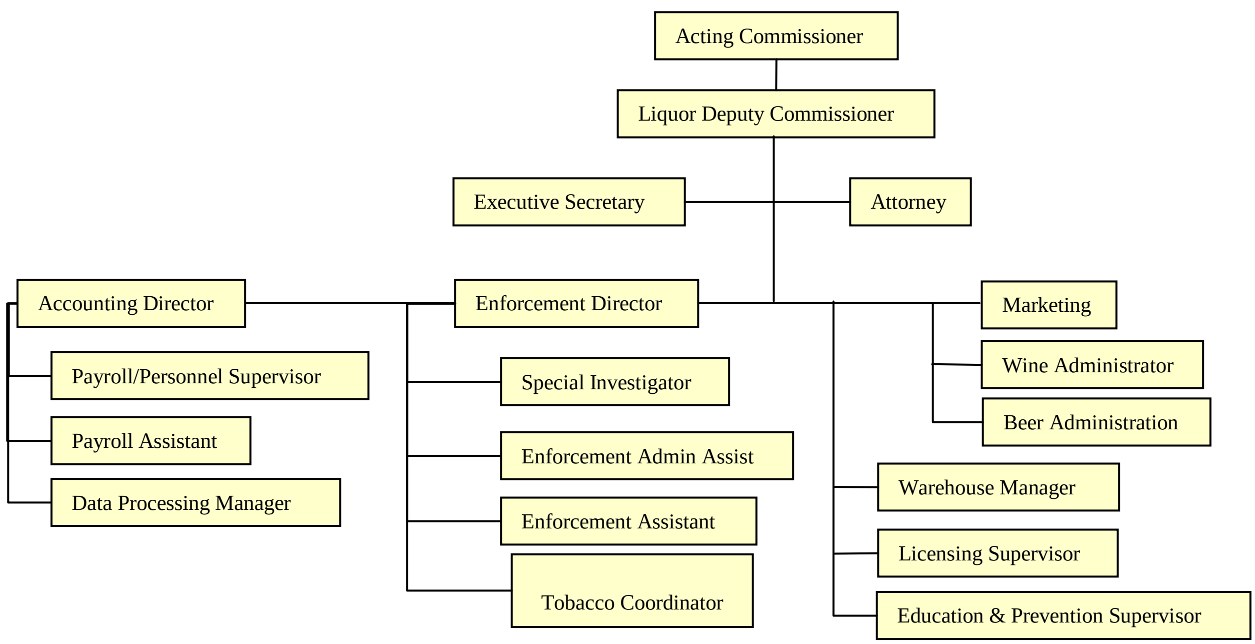


West Virginia:

West Virginia Alcohol Beverage Control Administration is a governor-appointed body, lead by a commissioner. The ABCA functioned as the exclusive wholesaler and retailer of liquor in West Virginia: non fortified wines were "privatized" in 1981. There are currently two Commissioners who focus on policy issues, enforcement and licensing hearings, and administration.

On February 27, 1990, with the passage of Senate Bill 337, legislative action was taken to discontinue the retail sale of alcoholic beverages by the state.

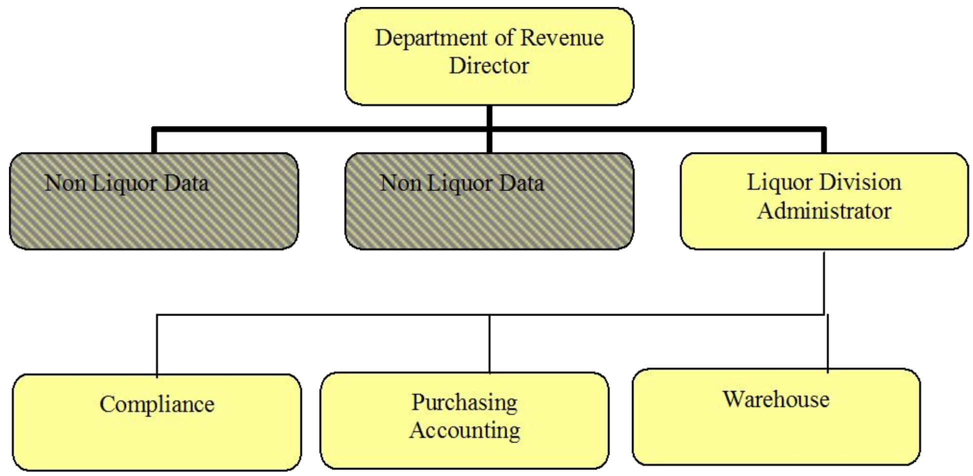
WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION



Wyoming:

There is Director of the Department of Revenue that is appointed by the Governor. The Liquor Division (since 1996) is managed by a salaried Administrator of the Liquor Division, which is appointed by the Director of the Department of Revenue. There is no Liquor Control Board or Commission as there is in other states.

WYOMING LIQUOR DIVISION



STAFFING SUMMARY TABLE

State	Michigan	Oregon	Ohio	Alabama	Virginia	Montgomery County	Pennsylvania	Utah	Idaho
Total Employees	Total = 127	Total = 202	Total = 15 , includes licensing	Total = 755, inc 550 in store.	Total = 938	Total = 270	Total = 2,883 full-time and 932 part-time	Total = 489, inc. 416 store employees and 41 in Admin Office	Total = 214 store employees and 32 in Admin Units.
Total also includes Warehouse Staff	No	inc. 40 in warehouse	No	inc. 41 in warehouse	inc. 80 in warehouse	Inc. 100 in warehouse	inc. 67 in warehouse	inc. 29 in warehouse	inc. 11 in warehouse
Total also includes Info Tech Staff	No, but has access from State HQ	inc. 9 IT staff in OLCC	Includes 18 OT staff in DLC	inc. 8 IT staff in AABC	inc. 50 IT staff in VA ABC	inc. 5 IT staff in MC LCC	inc. 95 IT staff in PLCB	inc. 9 IT staff in UABC	inc. 6 IT staff in ISLD
Total also includes Enforcement Staff	55	35	No	114	131	No	No	No	No
Beverages Sold Through State	Liquor and Fortified Wines	Liquor Only	42 proof and higher Spirits only	Liquor Only	Liquor and Virginia Wine	Liquor, Wine, and Beer	Liquor and Wine	Liquor, Wine, and Heavy Beer	Liquor Only

State	North Carolina	Montana	New Hampshire	Washington	Wyoming	West VA	Maine	Iowa	Mississippi	Vermont
Total Employees	Total = 43	Total = 16	Total = 736 inc. 573 store employees	Total = 1265, inc. 690 Store Employees	Total=34	Total = 110	Total = 352	Total = 44	Total = 131	Total = 56,
Total also includes Warehouse Staff	No	inc. 12 in warehouse	**N/R**	inc. 71 in warehouse	Inc. 15 in warehouse	inc. 25 in warehouse	No	inc. 17 in warehouse + 21 Inmates	inc. 75 in warehouse	inc. 14 in warehouse
Total also includes Info Tech Staff	No	No; IT staff work for Division of Revenue	No, IT staff work for State, but 14 are assigned only to LCC tasks	inc. 40 IT staff in WLCB	inc. 1 IT staff in Liquor Div, but gets ext. support	inc. 10 IT staff in WV ABCA	**N/R**	inc. 2 IT staff in IABC	No, but there are 3 IT staff in Tax Commission for ABC support	inc. 5 IT staff for VT DLC
Total also includes Enforcement Staff	No	No	Yes	75	Yes	55	**N/R**	8 Tobacco Investigators included in 33	Yes	23
Beverages Sold Through State	Liquor Only	Liquor and Fortified Wines	Liquor and Wine	Liquor, Wine, and Heavy Beer	Liquor and Wine	Liquor and Fortified Wine	Liquor and Fortified Wine	Liquor Only	Liquor and Wine	Liquor, Fortified Wine, and Heavy Beer

APPENDIX K

Overview of the Operations of Other Control State Warehouses

The following sections highlight recent information about the warehouse operations in other Alcohol Control jurisdictions. The warehouses of Montgomery County and Maine were also visited by the Study Team.

Alabama:

During the fiscal year, about 1.9 million cases were received and distributed by the warehouse operation in Montgomery. The average inventory during the year was more than 228 thousand cases. Since the warehouse is a bailment operation, ownership of inventory remains with suppliers until the product is shipped. In addition to shipping merchandise to 140 ABC stores each week, the Board also ships to 23 military outlets located in Alabama and Mississippi.

By the end of 2005, the Alabama ABC will have a brand new warehouse in operation. They requested a short-term per case surcharge to finance the construction costs and equipment upgrades. They are installing new, state-of-the-art Rapidstan Conveyors to improve productivity. They use a Siemens warehouse management system, but are looking for a replacement for this five-to-ten year old system.

Iowa:.

When a product is listed in the Iowa portfolio, no forced distribution is made to liquor retailers. Iowa's privately operated retail stores are free to make product selection and pricing decisions independent of the Iowa ABD.

Ordering Merchandise

Suppliers are responsible for determining quantities of merchandise delivered to the Iowa ABD warehouse for storage and must maintain no more than a 10-week inventory supply. For ease of warehouse operations, Iowa ABD requests that suppliers deliver merchandise in multiples of pallet or layer quantities when possible.

Iowa ABD requests that suppliers notify the Division of quantities, by code, being ordered for delivery to the Iowa ABD warehouse at least 48 hours in advance of shipment. Iowa ABD will then provide the supplier with an unloading reference number, or release number. Suppliers will furnish the carrier with the release number. [Evidently, Vermont's suppliers rarely give notice that shipments are to arrive, or the driver calls the warehouse when driving into town.]

Iowa ABD requires that carriers contact the Iowa ABD Inventory Manager to obtain an unloading appointment time. The carrier should indicate the supplier and the Iowa ABD unloading reference number when scheduling the appointment. Carriers must call at least one week in advance to arrange the unloading time as unloading times are frequently booked seven to ten working days in advance. Trucks arriving without appointments and reference numbers will not be unloaded. [Vermont does not have a formal appointment process for booking delivery reservations.]

All merchandise arriving at the Iowa ABD warehouse must be on a #1, 40" x 48" hardwood pallet or slip-sheet. Trucks arriving with merchandise floor stacked will be refused. Pallets that are straight-stacked (no cross-tie of cases) are not allowed overhang on the pallet. Pallets that are cross-tied and shrink-wrapped are allowed up to a maximum of four 4 inches of overhang on the pallet. [Based on limited observations, Vermont does not have a formal delivery instruction guide followed by suppliers.]

The Division uses State employees to warehouse and deliver products to retailers on a weekly basis, supplemented by **State Department of Corrections inmates** working as stock pickers. The Division will deliver an order as small as 5 cases, while some large volume retailers receive deliveries twice weekly.

The inmates are paid $6.25 a day. After the Department of Corrections (DOC) takes out restitution and other costs, the net pay of the inmates is 37¢ an hour. In addition, the inmates are offered an incentive bonus of 50¢ if they meet their picking rate. Although there were problems initially with inmates who did not want to be here, the DOC currently has a waiting list of inmates who want to work in the warehouse. The job helps the inmates with re-entry into civilian life by helping them with skill development, work ethic and the ability to be a team player. Inmates who are good workers receive letters of reference upon their discharge from prison. The Iowa *Commissioner of Corrections suggested that the state could train the inmates at 37¢ an hour and then hire paroled inmates at a normal wage when they are released from prison. The Iowa ABD Director responded he would consider hiring good workers if there was an opening available.*

A correctional officer is always on duty and the division pays DOC for one and one-half positions to transport and guard the inmates. Inmates must meet with alcohol and drug council advisors to determine if they can emotionally handle working around alcohol before they are allowed to work in the warehouse. The inmates work in a fenced area with restricted access and are subject to breath tests and body searches if anything is suspected. Additionally, each night two inmates are randomly selected for a breathalyzer test.

The following bullet points highlight the Iowa ABD's experience with this approach to meeting their staffing requirements and their desire to provide training and job experience to inmates. These items are from a recent presentation made by the Iowa ABD to the State's senior governmental leaders.

INMATE LABOR.

Transition Pains

- Little Setup Time.
- Draft System.
- Learning Curve.
- Lack of Team Effort.
- Extended Hours.
- Extraordinary Growth.
- Nutritional Concerns.
- No Pain, No Gain.

Transition Gains.

- Increased Proficiency Levels.
- Cohesive Team of Volunteers.
- Work Schedule – Early Outs.
- Volunteer Waiting List.

Job Qualifications

- A certain minimum level of physical strength,
- A Positive attitude,
- A Strong work ethic,
- And, most importantly, the ability to be a Team Player.

Inmate Labor.

- Contribute towards Restitution/Child Support.
- Contributing Member of Society while on the Inside.
- Saves the state $1.5 Million next 2 years, $850,000 every year thereafter.
- Inmate Labor is used throughout state Government.

Inmates and Alcohol.

- Pre-Screened.
- Corrections Officer On-Site -- At all Times.
- Zero Tolerance Policy.
- Fenced Warehouse (Restricted Access).
- Breath Tests Administered.
- Inmates Subject to Search.
- Can't tell you everything or it wouldn't be Security.
- Inmates Not Being Given the Keys to the Door.

Maine:

The Maine Beverage (MEBEV) contractor's warehouse sub-contractor, Pine State Trading, operates a large warehouse in Augusta, ME. Liquor and wine are delivered from the Pine State warehouse, in the majority of situations, to regional distribution centers where the products are combined with beer and grocery orders going to authorized private liquor retailers. Only a few deliveries per day are trucked directly to retailers, and these are typically large retailers in the metro Augusta and Portland areas. In some areas of the State, a large store can act as a type of warehouse for smaller Agents in remote towns that can be reached economically or who do not need a weekly/bi-weekly basis.

The Pine State warehouse uses 20-25 staff, depending on the time of year. There is a group of employees who arrive at 04:00 AM to receive products being delivered to the warehouse from suppliers. They unload the supplier trucks, process the incoming products, and move them to temporary holding areas. A second group of employees arrives at 08:00 AM to pull orders and load trucks leaving late in the afternoon to make deliveries around the State of Maine. A third crew arrives at 04:00 PM to stock the case and bottle pick areas from the temporary holding areas where incoming stock is parked until needed or until rack space becomes available.

When a pallet arrives from the supplier a barcode tag is applied, tracked, and monitored until the bulk storage pallet is de-palletized for integration into the case lot or single bottle pick areas. (See the IT section of this report for additional information on the MEBEV/Pine State use of these pallet tags to track the location of pallets anywhere in the warehouse.) The Bottle Pick Area is set up on either side and above a center conveyor belt. The Bottle Pick Area is arranged so that 1.75 liter bottles are together, in product barcode order, then all single 750 ml bottles are together, in product barcode order, etc. so that items being placed in cartons are of the same size.

The current warehouse management system produces a separate pick lists for the Bottle Pick Area by size of bottle and by the number of bottles that can fit in a case. For example, the system would create a separate pick list, with peelable barcode stickers, for every 12 bottles of 750 ml size or every 6 bottle of the 1.75 liter size being picked. Fast mover brands are downstairs and slower mover brands are upstairs. The MEBEV permits single bottle/partial case orders of items not on the list of 45 best selling liquors. Items within the list 45 top selling products must be ordered by case lot only. Gift pack items must be ordered by the case only, primarily due to the potential for "gift" breakage when gift packs are shipped as single item orders.

The case lot pick area shelves are all tagged with the product number and the product's barcode number. When stock is moved, the tag goes with it to identify the product on the shelf and the location identifier (such as a combination of Row/Rack/Shelf/Position) is linked to that name/barcode tag for the pick list creation process. The pick lists are generated in location order and each line item of the pick list is a peelable tag that is applied to the case when it is pulled. If the picker has more tags than pulled cases, they can verify that they did not miss a case. If the total case count for the pick list is higher than the number of tags, they can see if a case got two tags. They use a combination of electric fork lifts, narrow aisle stackers, and pallet pickers for high shelf items. The even built a wooden cap that fits over a group of cases being off-loaded from a shelf so that product is protected on the way down.

The Pine State warehouse palletizes all deliveries. Orders are combined and palletized on plastic beer pallets for delivery to the remote re-distribution facilities and on wooden pallets or slip sheets for the direct to retailer deliveries. Bottle pick cases get a sticker on two sides to expedite Agent identification and verification during check-in upon delivery. The staff move each pallet into a large automated plastic wrapping machine (a WULFTEC Wrapper) that shrouds the entire pallet and contents in cellophane in moments.

Agents can order until 09:00 PM on their order day. The pick lists are generated sometime between 04:00 and 08:00 AM, and are ready for the arrival of the picker crews at 08:00 AM.

Michigan:

Michigan has outsourced its entire liquor warehousing and distribution to authorized distribution agents who contract to supply specific liquor stores in their territory. As used in this rule, "authorized distribution agent" means a person who has entered into a contractual relationship with 1 or more manufacturers or suppliers of spirits or with another authorized distribution agent for warehousing or distribution, or both, of spirits and who has been certified, in writing, by the commission, to act as the commission's agent for the warehousing and distribution of spirits to retail licensees of the commission. Licensees may order their distilled spirits through the State’s Internet ordering system. They may also order through individual Authorized Distribution Agents (ADAs). There are currently four ADAs: General Wine and Liquor, National Wine and Spirits, Trans-Con, and Chinese Import & Export.

The ADAs assemble and deliver orders to the licensees on behalf of the Liquor Control Commission. Licensees receive free delivery once a week provided they meet the one case minimum order requirement and adhere to order day assignments

Michigan certifies an Authorized Distribution Agent. State pays the Supplier a case handling fee for $6, but fee paid by the Supplier to the ADA for storage/distribution might be $7.50 when the order comes in from the Supplier. The State is supplementing the ADA’s cost in order to get the liquor to the Stores. The liquor becomes State owned when it leaves the ADA to the retailer. The initial fees are just for transportation. The retailer pays the State the cost of the product. The State pays the Supplier for the cost of the product and the $6.00 The supplier then sends a check for $XXX dollars a case to the ADA for handling. The Supplier pays the difference between income from State and pay out to the ADA for items sold.

Montgomery County, MD:

The County operates a large warehouse in Rockville, MD and supplies its County-owned liquor stores and local privately-own wine and beer stores. The warehouse has a liquor/wine side and a separately operated beer warehouse.

With 30 drivers, 12 sub drivers and 25 driver helpers, the Department felt another way to improve communication with wholesale customers while at the same time allowing our customers to develop relationships with their employees was to start a delivery program that assigned a consistent delivery team to each of the customers giving them stability as well as a closer relationship with the Department. Started approximately one year ago, the goal was to have a consistent team for all customers so as to give them the opportunity to develop relationships with their delivery person and the department as well. The bond with the Department has increased the number of same day deliveries by almost 20% because the same teams were delivering to the same licensees on a daily basis thus creating consistent routing and less confusion as to where delivery teams were driving on any given day.

Every liquor and wine item has a stock number. The warehouse is arranged so that fast moving items are the most conveniently located. A top seller such as Berlinger is stored closer to the front. Gift packages are under same barcode as the regular item. A store can order a mix of the regular and gift set items without having to track a separate code number.

The County’s Customer Service Department takes liquor and wine orders via phone/post/fax/internal. The Customer Service Department creates the pick list via an automated order entry system. The lead time between order day and delivery day is only two days. An employee, serving as a “Router”, takes the pick list queue and generates routes based on store day and volume of product to be shipped. The Routing System calculated the driver routes by the number of cases to be delivered the next day, given the number of available trucks. If pick list for a route exceeds 800 cases, the system will bump smaller loads to other trucks in order to keep an order together.

Pickers will add barcode stickers to cases not having one when they pull it.

The County's night shift Supervisor uses the agent pick lists completed each day to create invoice manually to give to the morning driver to give the licensee at the time of delivery.

Montgomery County purchases all liquor/wine directly from the suppliers at the time of delivery to the warehouse. The Licensees purchasing products from the County pay cash or check on delivery to the store, though they may actually pay via Electronic Funds Transfer. The County warehouse does not deliver mixed cases, but licensees can come to the warehouse for mixed cases and receive a slight discount. If bottle is missing or broken, the driver must generate a credit at the time of delivery.

Deliveries to Montgomery County's Warehouse

When product is received, the items are checked against the Purchase order. At the dock, the stock checker completes an initial data entry including the product Quantity and BIN location. During the day-shift, the warehouse staff first pick slow movers and special orders and place them on a pallet in order number order. These pallets are staged near the truck loading area. The staff scan the product barcodes as the items are pulled and palletized. When a Special Orders items arrives at the Warehouse, it is placed in a special area under a Day of Delivery sign (MON-TUE-WED-THURS-FRI) to reduce the time it takes to find the item on the receiving store's load day.

The night-shift pickers start at about 4:00 PM Sunday through Thursday. The night-shift staff get a pick list for the Fast Movers and the products that were picked by the day-shift. They pull the Fast Mover items in order number order, just like the day-shift. They will barcode the Fast Movers with a sticker as it is being combined with the previous picked item. An automated conveyor is used to transport stock going to the controller who scans the pulled items to re-verify the pick list. The night-shift staff then combine the two parts of the order at the loading dock.

The MC DLC warehouse evening shift loads more trucks than there are drivers, so that when a driver making a local delivery completes the first trip, the driver can return to the warehouse to pick up a second truck for an afternoon delivery. The County loads 8-9 trucks per night during non-holiday periods, and 9-16 trucks per night during the holiday seasons. A courier visits each County liquor store twice week to drop off Janitorial supplies and, necessary facilitate inter-Store transfers.

The current Point of Sale (POS) system presents a sales history and allows them to enter their order from "store care" or call it in or email their order. The POS doesn't dump data directly to existing MC DLC order systems. The new overarching software platform being installed to operate the entire warehouse management system is called ERP 1 by PeopleSoft. It will be implemented in 2005 will do batch conversations of POS data to order systems for pick lists.

Mississippi:

The Mississippi ABC completed a much-needed expansion and renovation project for its distribution center in 2004. MABC's Liquor Distribution Center (LDC) houses the warehousing facility and ABC's administration, purchasing, accounting, enforcement, computing, and sales operations. ABC employs about 136 persons to staff these departments.

The MABC's Liquor Distribution Center (LDC) now has a new temperature-controlled wine room that is 25,000 square feet and has its own conveyor access points. It also has a new conveyor system and software that uses a super-efficient wave-system for picking, and state-of-the-art optical bar-code scanners for accuracy.

The LDC now offers over 3,700 separate products to its stores and licensees. A number of different things were happening, usually at the same time. A 25,000 square feet addition was constructed on the west side of the existing building expanding the warehouse to about 211,000 square feet. The addition is climate controlled and contains a separate picking area for wines. Additional pick zones (those areas where cases of spirits and wines are selected for shipping) were constructed, increasing total pick areas to five plus a 500 item split case area ("splits" are cases containing more than one brand of spirits or wines— minimum of 3 bottles per brand). Rather than the old system of picking one customer's order at a time, this new system picks in "waves" (i.e., orders are not picked one at a time—multiple truckloads are picked simultaneously) resulting in more efficiency. New "media" storage was constructed throughout the warehouse. Each item in inventory now has a unique storage area. Adding two out-bound freight-loading areas to the existing four expanded shipping. Now, six trucks can be loaded at the same time. Heavier duty extendable loading platforms replaced existing equipment.

Job responsibilities changed, too. In the old system, individual shipping labels were hand applied by a "label thrower" stationed at the merge operator's work station (the merge operator compiled product from conveyor pick lines to form individual orders on out-bound conveyor lines). Now, individual pickers apply the newly designed self-stick labels and the merge operation is computer controlled. The "brain" of the new shipping system is the load sort/merge area. The computers read, by laser, shipping labels and product codes and sort individual cases into the correct loading order (last on, first off) and onto the correct outbound line. Labels that are unreadable, or the product code does not match the customer's order, cause the cases to be routed to a "Jackpot" area. There, the error is resolved and the proper corrective action taken.

Montana:

In 1995, the State Legislature directed the Department to convert all remaining state liquor stores to privately owned agencies. All agencies now own their liquor inventories and are permitted to set their own retail prices. However, the State establishes prices for liquor sold to licensees and continues to run the wholesale distribution operation. The Department of Revenue's Liquor Distribution supplies liquor to private agencies. These agencies are the exclusive retailers of liquor and fortified wine. The department also administers liquor laws and licenses of on and off-premise businesses, manufacturers, wholesalers, warehouses, importers and liquor representatives.

The Wyoming Liquor Distribution warehouse has not been upgraded since the late 1990s. It is still, for the most part, operated on manual system. Much like Vermont, there is little technology in place in the warehouse.

North Carolina:

While each County or Municipality can have its own ABC Board to make policy and operate liquor stores, the controlled beverages are distributed to the County/Municipal stores from a centralized State ABC Commission-operated warehouse. Spirituous liquors that are approved for sale in the State of North Carolina are transported to and stored in a state-owned warehouse in Raleigh. The administrative oversight of the State Warehouse is the responsibility of the North Carolina Alcoholic Beverage Control Commission. The Commission contracts with a privately owned warehouse contractor, currently, LB&B Associates, which is responsible for the receipt, storage and distribution of spirituous liquor throughout the State. The Warehouse operates under a bailment system in which the ownership of the product remains with the distillery until it is delivered to the local ABC Boards. The purchaser of spirituous liquor pays the contractor's fees indirectly. The fee, called the "bailment charge ," (currently 90 cents per case) is added to the price of liquor to pay for the warehousing and delivery of the liquor to the local boards.

Pennsylvania:

Pennsylvania has established a leadership role in the Alcohol Beverage Industry/Electronic Data Interchange Group. Presently, 55% of merchandise purchased by the PLCB is procured through Electronic Data Interchange (EDI); see the IT section of this report. EDI purchases are paperless transactions which increase efficiency by decreasing order delays and improving order cycle times. The end result is a "just-in-time" product replenishment cycle.

As a forerunner in the liquor industry in the use of EDI, the PLCB has adopted the Shipping Container Code (SCC) which, along with the Universal Product Code (UPC) or "barcode", serves as a common numbering system for product identification. Currently, the SCC is used in ordering because it more clearly identifies an item as it is packaged, such as a holiday gift pack. In the future, the bar-coded SCC will be applied to each container and used for inbound receipting and tracking in the warehouses which will further shorten the order-to-receipt cycle time.

Transporting Merchandise

The PLCB works with each supplier or consolidator to generate orders for shipment of specific quantities which optimize the space in the transportation vehicle. Consolidators and shippers utilize EDI information from the PLCB to reduce lead-times and enhance order accuracy and delivery.

The PLCB is utilizing new methods and technologies to cut the cost of transporting wines and spirits from manufacturers to PLCB distribution centers. EDI is used to shorten lead times. Consolidators are used to arrange economical movement of goods in optimal load quantities. Consolidators currently arrange transportation for goods from California and the New York/New Jersey area and for selected European imports. State-of-the-art electronic communication is maintained with suppliers and shippers to provide for the most effective and efficient ordering and receipt of goods.

The Pennsylvania Distribution Centers

Three distribution centers, strategically located throughout the state, are utilized to ensure consistent, on-time, quality service to the Wine and Spirits Stores. Each distribution center is managed by a contract operator. Bottle pick or split case operations are also performed within each distribution center.

While the distribution centers are operated by outside contractors, an on-site PLCB manager is employed at each distribution center. This on-site manager insures that PLCB resources, such as computer software and hardware, are properly utilized, PLCB policy is carried out, and control is exercised over the receiving and shipping of beverage alcohol products.

Description of the Philadelphia Conveyor Pick Operations

Overview

The PLCB Philadelphia Distribution Center ships wines and spirits to approximately 200 PLCB retail stores. The facility operates 4 days per week. Twenty thousand cases of wine and spirits are shipped to 55 Stores each day. On peak days 32,000 cases can be shipped. The expanded building now has 350,000 ft^2 of storage.

The existing material handling system and the warehouse management system that support the operation must be replaced. Both the equipment and the Warehouse Management System are obsolete. A new Warehouse Management System called RIMS by Robocom Systems International Inc. was installed in 2002-2003. This same system is in use by the Oregon Liquor Control Board. It was integrated with a new conveyor system provided by a separate supplier selected by the PLCB. The material handling system operation and the integration with RIMS is the subject of this operating description.

Physical Description Of The Material Handling System

The conveyor system is composed of three functional components.

- Picking Modules
- Sorting Module
- Loading Module

Picking Modules are areas where products are picked. In these areas, products have assigned pallet or flow-rack locations along a conveyor. Cases of picked products are identified with bar code picking labels and placed on the conveyor. The conveyor transports the cases to the sorting area. The material handling system has seven picking modules to support case picking and one picking module to support bottle picking. The Bottle Pick module is an automated Mini-Load System.

The **Sorting Module** is a specialized conveyor that receives cases from the picking modules and directs them to a conveyor in the Loading Module that flows to a truck dock door or a floor-sorting spur. The directions to send a case to a particular conveyor is determined by reading the information in the bar coded picking label. This module also feeds replenishment cases to Bottle Pick.

The **Loading Module** consists of ten loading lines that deliver cases to a truck door and two floor-sorting spurs that deliver cases to palletizing stations. At the end of each loading line is a telescoping conveyor that extends into and retracts from the nose of a trailer to facilitate loading of cases onto the trailer floor. One floor-sorting spur is for handling small orders; a second is for sorting of bottle pick replenishment cases.

The conveyor system is comprised of several types of conveyor including live roller, live roller accumulation, belt and gravity. High-speed merges funnel the numerous picking modules conveyors to the main trunk line conveyor that feeds the sorting module. The conveyors are supported by existing and new mezzanine type platforms, freestanding structural supports and racking.

The conveyor system has two levels of software controls:

- Level I - This includes programmable logic controllers (PLC), which execute stop/start, E-stop, proximity sensor and timing direction.
- Level II – This is the Sort Control System (SCS), which interfaces with RIMS and the PLC's to sending and receiving picking and sorting instructions and confirmations.

Store Delivery Organization On The PLCB Host And In Rims

Each PLCB Store is currently assigned to a processing day, Mon to Fri, and a delivery route. Each Store is assigned to a loading sequence within the delivery route. A Store can be assigned to multiple processing days as long as the Store occurs one time per processing day. This information is Stored in the PLCB Host order processing system. RIMS WMS maintains the Routing information in a master file. This information is utilized to schedule the daily shipments.

Each Store is assigned, in RIMS, to one of the ten loading lines for each day it is to be loaded. The Store is additionally assigned a loading sequence number. This determines the loading order for a Store and permits multiple routes to be assigned to one loading line over multiple Waves.

Each Store may consist of two to four orders: Case Pick, Bottle Pick, Emergency Order and Specialty.

Loading

Cases are sorted to ten loading lanes and conveyed into trailers on telescopic conveyors. A scanner reads the case label at the end of the conveyor and sends updates to RIMS to confirm loading. Loaders place the cases onto the trailer floor. Loaders know the wave is complete

Small order sort line – Multiple small orders can be diverted to this sorted to this line in a wave. The Contract Operator manually sorts cases by Store onto pallets. Each pallet is associated with a TIN. The filled pallets are transported to the appropriate trailer and loaded. The pallet TIN is scanned to inform RIMS that the cases are loaded.

Bottle-Pick Replenishment Line - Cases for bottle pick replenishment are diverted to this line. The Contract Operator sorts these cases by one of ten bottle pick zones. The cases are loaded onto pallets and transported to bottle pick zones for stocking.

Label Placement

The PLCB has very strict procurement policies on the placement of their labels, as well as on the configuration of the labels on the cases delivered to their warehouses. The Suppliers must affix the PLCB/State case code label in the upper left-hand corner of the narrow side of the case approximately one-half (1/2) inch from the edges to prevent fringing.

If a shipment is received by the PLCB from a vendor bearing a PLCB/State and/or SCC label that is not formatted according to the aforementioned requirements and specifications, one bearing unrecognized coding, and/or labels not properly affixed to each case, the distribution of the merchandise to the store locations will be withheld until the cases are properly identified and labeled. Corrections are made by the distribution center operator. Surcharges, which will include an Administration fee and may also include penalties, are levied for failure to comply with these requirements.

Packaging and Shipping Requirements

All shipments of liquor, wines, etc. consigned to the PLCB must be packed in shipping containers (packaging and inner packing together) that will assure carrier acceptance and safe transportation to the distribution center; handling and stacking in the center, reshipment from the distribution center to the stores; handling and stacking in the stores. The packages must comply in all respects with the governing classification of common carrier. Packaging must be of sufficient quality to support itself through all required shipping, handling and stacking necessary for movement through distribution centers and withstand storage requirements for efficient/effective warehousing operations.

When it is discovered that packaging is inadequate, the vendor is notified by the Distribution Division to correct the problem. Until such time as correction is made, claims are filed against the vendor for any breakage that occurs in distribution centers, in transit from distribution centers to stores, and in stores as a result of inadequate packaging.

Shipments received at the distribution centers with excessive damage may be refused. In such instances, the vendor is so notified by the Distribution Division.

All full loads and straight loads are be shipped on slip sheets whenever possible. Pallets may be used for less than full load (LTL) shipments. Pallet exchange programs must be entered into with distribution centers' contract operators by shippers, vendors and carriers as is appropriate. The PLCB is not a party to pallet exchange programs.

Unlike Vermont, all loads delivered to PLCB distribution centers are "driver unload". The distribution center operators have available equipment capable of handling all shipping modes to include pallet and slip-sheet. Unitized pallets (one code per pallet) are unloaded and put away by the distribution center operator utilizing appropriate equipment. All non-unitized pallets is segregated by the driver or a “lumper” hired by the driver. The DC contractor provides necessary pallets. A maximum of four hours will be allowed for unloading. The DC Contractor is responsible for all truck or container detention charges and railroad demurrage charges unless the PLCB specifically accepts responsibility for such charges.

All loads must be delivered on their originally scheduled arrival date. If this is not possible the shipper must contact Central Office to arrange a new arrival date. The new arrival date must be a minimum of two working days after the date of the rescheduling call. The only exception to this is that the carrier may reschedule with the DC to arrive one day (24 hours) late if the call is made within the normal calling time and the DC is able to accommodate the change. Carriers must contact DC operators one working day prior to scheduled delivery date to schedule a delivery time. Calls will be accepted as follows: Philadelphia 6:00 AM to 1:00 PM, Taylor 4:30 AM to 10:30 AM, Pittsburgh 6:30 AM to 2:00 PM Monday through Thursday and 6:30 AM to 1:00 PM of Friday. Failure to schedule a delivery time may result in the load being refused by the DC operator. The load must then be rescheduled as noted above.

All loads must be accompanied by a manifest. The manifest must show the PLCB purchase order number, PLCB permit number, number of cases by PA code, total number of cases and delivery date. The manifest should be in the trailer attached to the last case loaded, attached to the inside of the door or attached to trailer wall immediately adjacent to the door.

Oregon:

The OLCC operates a bailment warehouse at its Milwaukie distribution center. The state converted from a state-owned warehouse inventory to a mainly supplier-owned bailment warehouse in the early 1990s, effecting a one-time $8 million dollar savings for the state in the conversion. Task force recommendations include a “business reinvestment fund” to facilitate having state distribution center employees help suppliers handle their bailment shipments when recoding, restacking and other maintenance is needed. The fund would also support reinvesting savings from innovative ideas immediately back into the business. The 124,000 sq. ft. distribution center handles 3.7 million cases of distilled spirits a year, and 1,300 different products. Per ORS Chapter 417, virtually all distilled spirits sold in the state of Oregon come through OLCC’s distribution center, which ships to the 240 liquor agencies. Licensees can purchase bottled distilled spirits only from the liquor stores, where they can get a five-percent discount on the full retail price for product for their businesses (called “dispenser discount”).

The Oregon LCB has just (in late 2003) installed a RIMS by RoboCom system in their warehouse. The new RoboCom Inventory Management System uses bar code scanning for warehouse functions. Agents now can use the Internet, rather than the mail, to place orders. A new management business system will modernize more merchandising functions this year. This summer, with a new document imaging system, they replaced microfilm and microfiche Regulatory records with more accessible electronic records. Because of a strong commitment to pre-planning and multi-departmental coordination, the conversion to the new RoboCom system was implemented in a 10-day period.

Utah:

The Utah Department of Alcoholic Beverage Control (DABC) recently built an additional high ceiling warehouse specifically to hold pallets of liquor used to restock their original warehouse each night. As the staff pull the cases from open pallets daily for the 37 State stores and 88 Agent stores, the GERS system notifies another system in the Bulk Storage Warehouse to begin creating a transfer order of XX number of pallets of each low-count that night so as to have replenishment stock at the Pick/Pull warehouse next door by the next morning. The Bulk Storage Warehouse is equipped with five computer operated cranes which go to the pallet location automatically based on the location of stock listed in the secondary computer system installed for the Bulk Storage Warehouse.

Virginia:

The Virginia Alcoholic Beverage Control Board's warehouses liquor for distribution to its retail outlet stores statewide. Alcoholic beverages are shipped from distributors directly to the warehouse, where ABC distributes, by truck, to over 295 retail outlets throughout the State of Virginia, with this number increasing to approximately 325 within the next 12 to 18 months. There are approximately 12,000 cases of alcoholic beverages shipped daily to retail locations. There is an average of 55 shipments to retail stores per day. Over the next three years, the agency anticipates this to increase to an average of 65 shipments to retail stores per day.

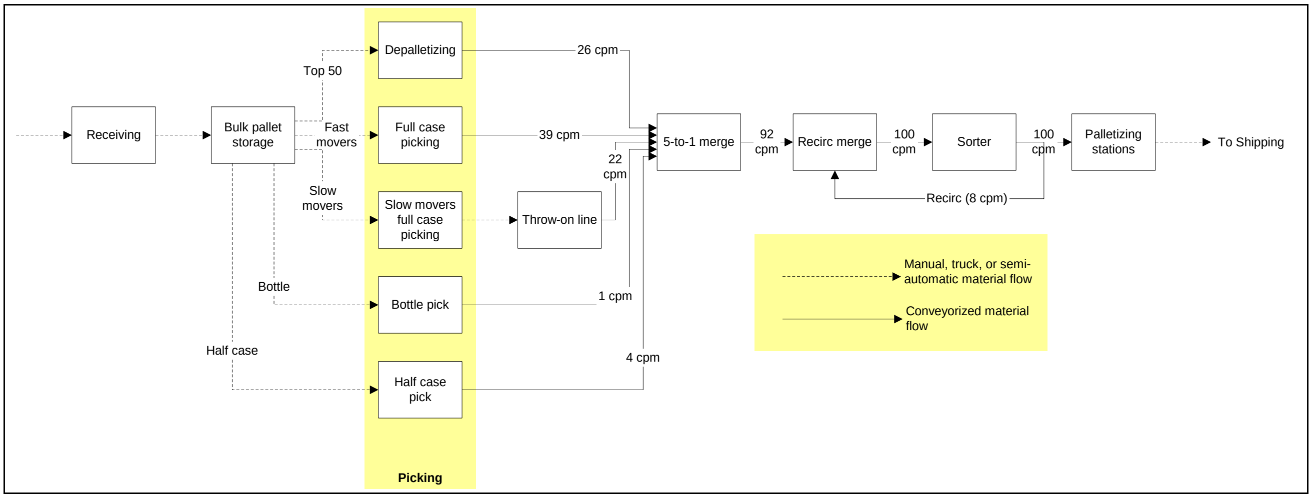
ABC manages warehouse activity information through Optum's "MOVE" automated warehouse management system, which includes bar code scanning and radio frequency (RF) technology. The system provides the capability to optimize the operation and movement of inventory within the warehouse. Inventory is tracked from the time of receipt into the warehouse until it is shipped to the ABC retail outlet stores. This tracking is accomplished through a series of predefined tasks that transfers inventory from "location" to "location" using bar code scanning and RF technology.

Under normal circumstances, VABC loads all trucks, counts the merchandise and other property placed therein, and seals said trucks for shipment. Liquor orders are palletized by store when loaded for shipment. Currently, forklift equipment is utilized to load the pallets on trucks; therefore, trailer floor strength of 13,500 pounds fully loaded is required. Certain items such as furniture, equipment and supplies are also shipped to stores by truck, but are not palletized.

The contractor transports the goods from the warehouse to the VABC stores according to the daily delivery schedules, unloads the trucks and places shipments inside the buildings of the respective consignees. Due to the unloading conditions at some stores, trailers of varying lengths and heights are required. The contractor is also responsible for transporting return merchandise, empty cartons, supplies, etc, from the stores to the warehouse. There are also times when shipments are made between individual store locations, i.e. store closings, relocations, etc.

Recently, the VABC conducted an intensive review of its internal operations and established a long-term process, systems, and facilities improvement plan. The following sections are taken from the Summer 2004 Request for Proposal that the VABC issued for a new Material Handling System, Facilities Arrangement, and System Software to improve their operations. The contract was awarded to Bastian Materials Handling in early December 2004. A copy of the RFP for the new System is provided with this report.

Ideal Work Flow from VABC:



VABC's Desired Outcomes for New Warehouse System and Process

Receiving

In Receiving, pallets of incoming cases are received and checked for proper contents. They are transported, via lift truck, to Bulk Pallet Storage.

Bulk Pallet Storage

This area provides temporary storage of pallets of cases until the cases are ready to be replenished to the Picking area.

Depalletizing

The top 50 SKUs are brought to the Depalletizing area for Picking operations. Pallets are delivered to a Depalletizing station via lift truck. Case labels are printed at central WMS printers located in the Depalletizing area, Pick Module area, and Half Case Room. Each case is labeled and pushed onto the take-away conveyor. One label is the equivalent to one package to be picked.

Full Case Picking

The Full Case Picking module has two levels, each with its own take-away conveyor. Pickers are provided a stack of pick tickets with adhesive LPN labels. The pick ticket identifies the pick location and are sequenced to reduce picker travel time. As a full case is picked, the label is applied and the case is placed on the take-away conveyor.

Slow Movers Full Case Picking

The Slow Movers Full Case Picking area has three levels. Pickers are provided a stack of pick tickets with adhesive LPN labels. The pick ticket identifies the pick location and are sequenced to reduce picker travel time. As a full case is picked, the label is applied and the case is placed on the order picker's pallet. When the pallet is full or the picks are complete, the pallet is transported via order picker to the Throw-on line. Cases are placed on the Throw-on line by the picker, or other stationary personnel.

Throw-on Line

This conveyor section accepts cases from the Slow Movers Full Case Picking area and transports them to the 5-to-1 merge.

Bottle Pick

In the Bottle Pick area, pickers pick individual bottles into a shipping carton. The carton is labeled with a shipping label and placed on the take-away conveyor.

Half-Case Pick

In the Half-Case Pick area, pre-made half cases are picked from carton flow rack, labeled, and placed on the take-away conveyor.

5-to-1 Merge

The 5-to-1 Merge combines the flows from the different picking areas and manages the merging of five conveyor lines into one.

Recirculation Merge

This merge combines the output of the 5-to-1 merge with the recirculation line.

Sorter

The sorter provides the following functions:

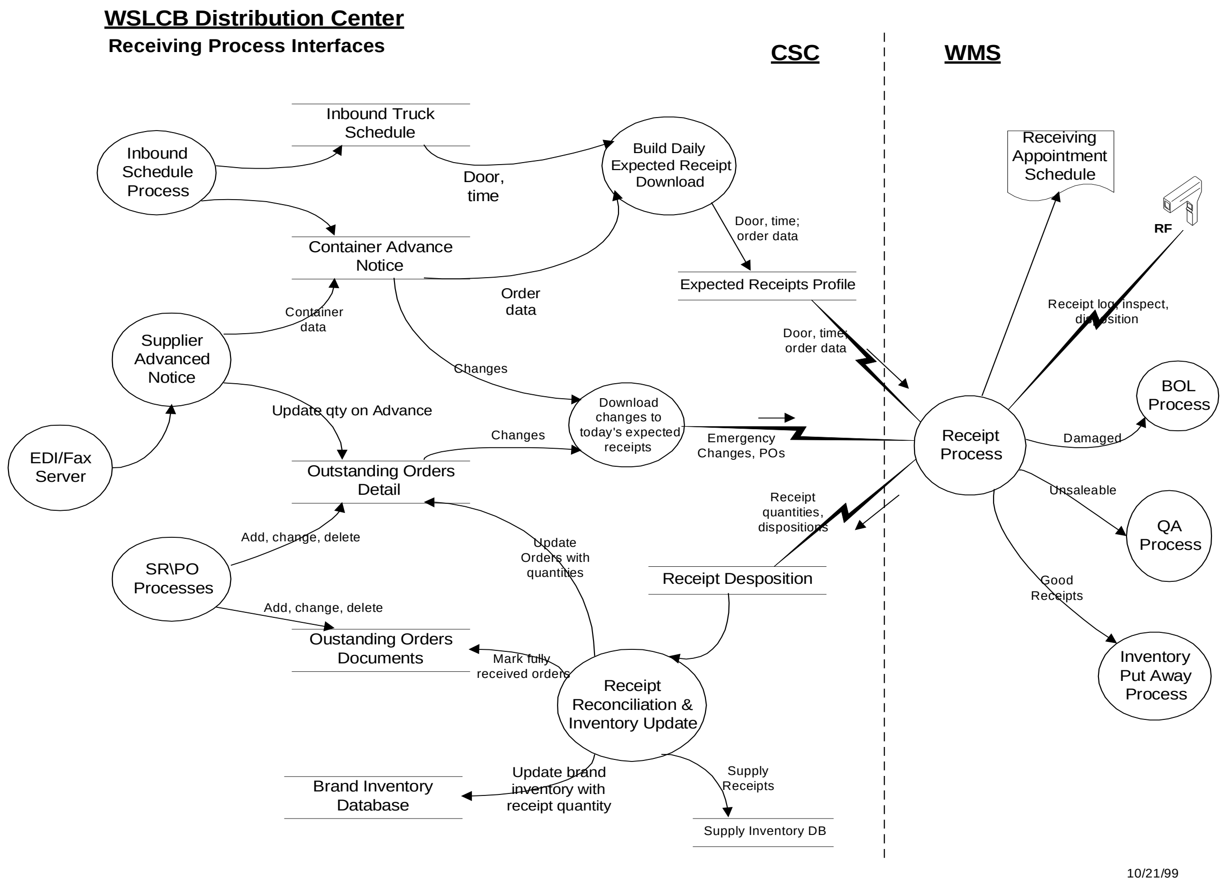
- Case identification – The bar code on each case is scanned as the case is inducted onto the sorter. The bar code is decoded and a lookup is performed to determine the case's destination. The destination is mapped by the sort plan to a physical lane and that lane is assigned to the case.
- Induction – The case is properly spaced to optimize throughput and reliable handling. The case is then transferred to the sorter.
- Transport to assigned divert – The position of the case is tracked by the sorter as it is transported to its assigned divert lane.
- Divert – The case is diverted to its assigned lane. The sorter uses photo-eyes at each lane to confirm a successful divert.
- Recirculation – if the assigned lane is full and the case is unable to divert, it is assigned to recirculation and goes off the end of the sorter.

Palletizing Stations

The sorter diverts cases to Palletizing Stations where the operator sorts each of the cases to one of three pallets. Once a wave is complete, the pallet is taken to the shipping area.

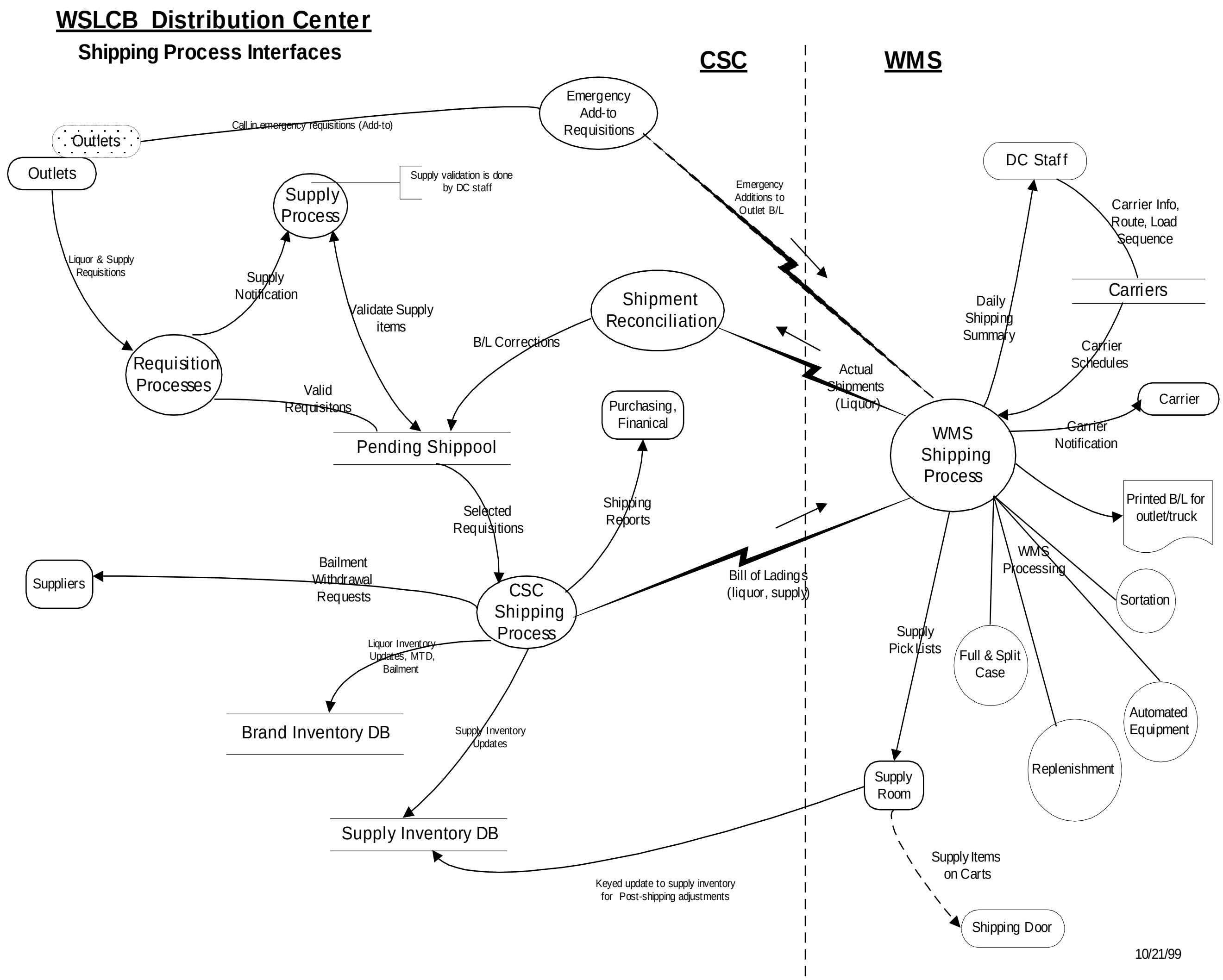
Washington State:

The original distribution center has been replaced with a new $10 million, 160,000 square-foot facility on the existing Seattle site, paid for by a surcharge on liquor. In tandem with the new distribution center, a Material Handling System (MHS) was installed to handle the 43 million units that annually pass through the facility. The goals for the MHS design are efficiency, ergonomics, accuracy, and business process improvement. The system includes automated carousels, high mover accumulation lanes, automated conveyor systems, ergonomically designed de-palletizing stations, Warehouse Management System software to direct daily activities, and a narrow aisle rack pallet storage system where turret trucks do all storage and retrieval. The MHS has been operational as of April 2002.



The MHS provides the distribution center with the ability to:

- Receive 17,000 inbound cases, and ship 17,000 outbound cases in an 8-hour shift (7.5 hours total productive time).
- Operate 8 hours per shift, 5 days per workweek, with the ability to operate additional shifts up to 20 hours per day, 6 days per week.
- Reduce warehouse breakage.
- Coordinate all material handling system components.
- Keep multiple cases of individual brand codes on a store's order together for delivery to the truck.
- Improve response to customers (retail stores and suppliers).
- Not utilize manual picking from pallets as its major material handling solution. This allows for minimal physical lifting of cases by workers, reducing their injuries and maximizing their safety.



Benefits of the MHS include:

According to the WSLCB, there investment is already showing a return in 2004. The warehouse staff are reporting:

1. Increased accuracy:

   - A 75% reduction in store billing errors (a savings of approximately 22 hours/per week of distribution center staff time)
   - An 80% reduction in inventory errors
   - An 80% reduction of paper processing
   - A 60% reduction in lifting of cases

2. Reduction of physical inventory to once per year instead of 3 times per year. This eliminates 4-6 days of warehouse closure.

3. A 65% reduction in overtime hours. The system ships more cases in less time.

4. Easier access to warehouse information. More information is available in real-time

5. Better foundation for implementing electronic business partnerships with suppliers.

Wyoming:

The Wyoming Liquor Division offers liquors by the single bottle, carton, pack or box . All prices shown in the published Price List include prepaid freight to nearest point served by common carrier; other routing methods will result in additional freight charges. The Division no longer requires a minimum delivery of four cases. **The Liquor Division can deliver any case requirement; however, but charges a minimum trucking charge of $15.40 for a one-case delivery, $12.10 for a two-case delivery, and $8.80 for a three-case delivery.** The minimum charge appears as a separate item on the invoice and is included in the invoice total. **The Liquor Division charges 30 cents per single bottle, carton, pack or box for split case orders.** Product packaged in a pack or carton must be ordered in that quantity.

APPENDIX L

Descriptions of Other Control State Liquor Information Technology and Equipment Usage

The following items highlight what other Control states are doing today with upgrades in IT utilization in their warehouses and related functions:

Alabama:

Last year Alabama launched an Internet Ordering System for commercial licensee customers. Now thirty% of the cases they ship each day come from the Internet System. Those who use it are extremely pleased with its functionality.

Alabama ABC Board completed in 2004 the purchase and implementation of an integrated financial, personnel management, enterprise accounting system. This system will comply with GASB [Governmental Accounting Standards Board] standards for the governmental enterprise operations of the ABC Board.

Idaho:

The conversion from a DOS-based accounting system to a Windows version (ACCPAC) system was completed in FY 2004. Most of the new systems are in parallel with the old system,

Maine:

The Pine State Trading Company, as a sub-contractor to Maine Beverage (MEBEV), operates a bailment warehouse for the Maine Bureau of Alcoholic Beverages. The warehouse operates an AS400 mid-sized computer and LiveView software to perform its warehouse management and interact with the billing systems used by MEBEV. Brokers can see (on a read-only basis) the on-hand inventory levels of their bailment products in the warehouse, as well as previous day sales figures to assist them in providing replenishment stock to the warehouse.

When a pallet of incoming liquor arrives, a large yellow barcode sticker is generated during check-in and placed on the plastic covering the pallet. At this point, the system has a record that that pallet of, for example, Jim Beam Bourbon cases has arrived, but does not know its storage location. When the pallet is moved to its long-term storage location, prior to being moved in to a case or bottle pick area, the warehouse worker scans the yellow tag with a handheld scanner. The Scanner transmits a Radio Frequency message to the main computer (there are RF antennas throughout the warehouse) to update the file with its location. The yellow barcode tag is rescanned each time the pallet is moved, so that the computer has a record of it as an intact block of X number of cases, when it arrived, and where it can be found. When the night-shift restockers need to break up that pallet for case or bottle picking, the yellow tag is removed and cleared from the system.

The current Pine State Trading warehouse management software calculates the number of bottle of a certain size that fills a case, and then creates a separate pick list for each case of individual items needing to be pulled in the Bottle Pick Area. Each of these case specific bottle pick lists includes two Agent Routing stickers to apply to the box opening filling that pick list. The picker applies the system prepared routing stickers to each case of individual bottles as the case is filled and being moved to a palletization area. Upon completion of the pick lists, the picker can key in or scan the pick list headers to close the file on that portion of the order as completed and ready for staging for that customer.

The current Pine State Trading warehouse management software also creates a shipping label for each ordered case to be pulled in the Case Pick Areas. The header of the pick list is scanned to open to file, the pick list is in location order to expedite picking, and the case routing label is removed from the pick list and is applied to each box as it is pulled out from its rack location. The picker palletizes all case orders for going to an Agent, double checks the boxes, the stickers, and the pick list, and then scans the pick list header again to close the file on that portion of the order as completed and ready for staging for that customer.

The current Pine State Trading warehouse management software also generates a pallet pull list for the night-shift restockers who come in at 4:00 PM to refill the case pick and the bottle pick areas with stock from the still palletized stock storage area. The pick list is also by location, but tells the picker which pallet of a particular brand arrived earliest and therefore should be taken for use first.

Michigan:

The Michigan LCC Internet liquor ordering system was launched last November 2002. By 2003, the system had grown to more than 2,000 orders a month. They are issuing passwords to new users each day and now have nearly 2,200 licensees signed up to use the ordering system. The Internet ordering system has some very sophisticated technology in it. The system communicates instantaneously back and forth with our private delivery agents' system to check on inventory availability and to reserve inventory for them as the licensee is ordering. Licensees like being able to see their order as they are placing it. During 2004, MLCC was receiving more than 3,700 orders per month.

MLCC is also using technology to make doing business with them easier and less work for suppliers. If a supplier has a new electronic Certificate of Label Approval (COLA) on file with the federal government, they no longer have to send images to the MLCC of the Certificate or the labels. The staff can now verify the COLA and look at the labels right on the federal COLA's online database with one click of a button from our online E-Quote product quotation system.

Since the MLCC no longer owns, staffs, or operates the State Liquor Warehouse, the installation and upgrade of Warehouse Management Systems are the responsibilities of the Authorized Distribution Agencies who now distributed the spirits to the State's approved customers.

Montana:

The Department of Revenue's Liquor Distribution unit is conducting a self-analysis leading to market research for a new computer system for accounting and distribution.

Montgomery County, MD:

In February 2003, the Montgomery County DLC completed the installation of T-1 lines in its retail stores, which has enhanced communication between the stores and the warehouse and facilitates the polling of retail sales and inventory data. MCDLC has also recently completed CAT-5 wiring in the warehouse and upgraded to wireless capabilities in part to prepare for acceptance of a new, overall management system that will be ready in 2005.

The MC DLC began in 2004 to acquire a proven suite of products and related product suite implementation, integration and long-term support/maintenance. The new overall management system will provide new functionality in the following areas: accounting, reporting, forecasting, purchasing, warehouse and distribution, POS, and the use of state-of-the-art technology that allows for incorporating wireless functionality.

The MC DLC IT section, in partnership with the Department of Technology Services (DTS) meticulously analyzed the capabilities of the current IT systems installed in the Department of Liquor Control and made the recommendation that an Enterprise Resource Planning (ERP) solution would best fit the Department's needs as a business and government entity. The ERP solution contains a Point-of-Sale system for their 25 MC-operated retail stores, a financial management system, and a warehouse system that will allow each system to better integrate with each other without having to switch from one software system to another. Though this project is in its beginning stages, we hope to have the installation complete by FY 2006.

In preparation of the new IT solution, the IT specialists were able to eliminate many processes that involved old and expensive dot matrix line printers and green-bar paper for the many reports they print on a daily basis. With high speed laser printers and less expensive bond paper, the Department has been able to cut some of its printing and maintenance expenses by approximately 20 percent. Additional improvements to report generation process (such as daily sales figures and product requests) include modifications made to the invoice numbering system to extend invoice numbers to six characters. This extension will allow for more concise and accurate record keeping of all transactions by eliminating duplicate invoice numbers. Also, a new history file was created to keep track of previous orders. This new history file also assists the accounting department by reconciling our accounts receivable and identifying ordering patterns and trends thus expediting the ordering process. Other preparations made in anticipation of the new solution include regularly scheduled on-site visits by our IT specialists in order to conduct a thorough "needs assessment".

The new system, Enterprise 1 by Peoplesoft, will also allow for electronic communication, reporting, and data exchange with extensive supplier and customer networks, and the State of Maryland; offer Internet and telephone ordering and other customer services; and integrate/share data with the Board of License Commissioners and other County agencies/departments including the Police, and Health and Human Services. The system being designed uses the ERP (Enterpriser Resource Planning) software called Enterprise 1 or E1. The MC DLC's IT contractor stated that Enterprise 1, by PeopleSoft was, in his opinion, faster than SAP (the brand name of another widely used commercial enterprise platform application) on time to get up and running, and is common enough that many consultants can program this software

Upon completion in early 2005, the configured Enterprise 1 can perform:

- Order Management, including set up of back-orders and/or canceling orders for "out of stocks"
- Inventory Control data capturing processing and data storage/reporting
- Pick/Pack List generation
- Build truck loads, based on volume/space availability and weight limits
- Recommend delivery routing, i.e., consolidate multiple orders for the same customer prior to delivery day.
- Interface with Purchasing/General ledger/ Receivables Accounts to generate forms, reports, and invoices.

Part of this new MC DLC IT system is a new warehouse sub-system that will allow our employees to expedite the inventory and routing processes as well as keep a real time track of all products coming into and going from the warehouse. Also as part of the new IT system, drivers will be given handheld scanners to take on their deliveries so as to scan products as they are delivered to the licensees. After scanning the merchandise, the information will immediately transmit back to the Department and an invoice will be printed. The scanner technology proposed for use in MC DLC is Data System International (DSI) or RF Smart, both of whom specialize in warehouse barcode scanner technology.

New Hampshire:

The NH ABC added new features to their Web Sites that better accommodate NH licensees, allowing them to effortlessly order product online. Within the next few months, NH licensees will be able to charge their online order to a credit card. Licensees can currently use all major credit cards to pay for orders placed by telephone or fax.

The NH Enforcement Bureau is working on implementing professional licensing software consisting of three application components. The first component is a back office component that combines all licensing functions into one application. The second component is a web-based front-office online licensing application, and the third component is a mobile computing solution for on-site field inspections.

As of the end of 2004, the New Hampshire State Liquor Commission, in an effort to better manage about 36 million bottles of alcohol that are sold through its 74 stores around the state, began replacing bar-code devices with a system from Hand Held Products Inc. The system includes the company's Adaptus Imaging Technology platform integrated into its Dolphin 9500 mobile computers.

The legacy bar-code systems the commission had been using since 1988 became a maintenance problem. Unlike the new handhelds, the older devices have lots of moving parts that often break down as they age. The result was that employees often had to manually rekey in bar-code data during the inventory process, which often caused errors.

The Adaptus Imaging platform takes a picture of the bar code and turns the image into text that can be used by applications. The state's commission has tested the technology for three months at six stores and has seen positive results, according to the NHSLC’s director of IT. Already, the commission has considerably cut the time it takes for individual stores to inventory products on the shelves, and will help cut inventory times by as much as 50%.

The commission adopted Hand Held Products' image-based data-collection system, priced at about $2,000, in August to simplify and speed up inventory processes that are typically conducted at stores four times a year. But the commission has discovered that the imaging technology can be used for other purposes as well. For instance, using the Adaptus software, the commission can take digital images of damaged packages and use them to obtain return approvals during the damage-claim process.

North Carolina:

The NC ABC is completely reengineering its Permit and Product Approval Databases. These projects are being written using Web-based tools which will substantially improve the Commission's ability to maintain and manage the ever growing amount of legacy data. The new systems will provide unprecedented convenience in access to these public records.

Since the NC State contracts for operation of a State Liquor Warehouse, the installation and upgrade of Warehouse Management Systems are the responsibilities of the contractor who now distributed the spirits to the State’s approved customers.

Oregon:

The new RoboCom Inventory Management System uses bar code scanning for warehouse functions. Agents now can use the Internet, rather than the mail, to place orders, and listings are also on the Web. A new management business system was introduced to modernize more merchandising functions within the past year.

Pennsylvania

The PLCB also is working with its Comptroller to plan and initiate a complete overhaul of its financial and accounting systems. The current legacy system, dating back to the 1960s, will be replaced with state of the art electronic software. This new system, which will require a multi-million dollar investment and take upwards of two years to implement, is anticipated to produce substantial economic payback in terms of direct cost savings resulting from new processing efficiencies. Just as importantly, the new system will provide real time online access to sales and marketing data, which will allow for virtually instant analysis of marketing programs and product performance.

The PLCB operates three Distribution Centers, located in Pittsburgh, Scranton and Philadelphia, which support the operations of nearly 650 PLCB Wine and Spirit Shoppes. Annual volume through the combined DC's is approximately 10 million cases, with a significant inventory buildup from September through December to meet the high level of sales occurring during the Holiday Season.

The Pittsburgh and Scranton DC's, which are manual pick operations, have recently implemented Robocom Systems' RIMS WMS software. According to the Pennsylvania Liquor Control Board's Director of the Bureau of Logistics, the PLCB contracted with RSI to install RIMS® at its three contractor operated distribution centers. After their first RIMS installation, the PLCB achieved its highest store order fill rates and order shipment accuracy in recent history. The Philadelphia DC currently has a vintage 1969 Rapistan conveyor and sortation system, which has been repaired to the best operational level possible, but must be replaced.

Currently, there is an RFP out to provide the PLCB with scanners and associated hardware and software technology. PLCB desires to receive merchandise by scanning labels on merchandise and checking receipted merchandise against an Advance Ship Notice (ASN) file sent to the store(s) computer system from PLCB's Warehouse Management System. PLCB also desires to use the technology to conduct physical inventories, check labels, do price checking and "line busting."

PLCB Order Download From PLCB Host To Rims

Every night the PLCB HOST processes orders that are to be picked and loaded for shipment by the Philadelphia Distribution Center the next day. The Contract Operator, through RIMS, groups Store Orders in Waves. RIMS group Stores for Waves, assuming the use of all ten loading lines, as follows: Wave 1 includes 10 Stores, each is the first Store assigned to each loading line for that day; Wave 2 includes ten Stores, each is the second Store assigned to each loading line for that day; subsequent Waves are similarly organized.

The Case Pick Warehouse and Bottle Pick Warehouse are maintained as separate functions in the PLCB Host system. The orders are sent to RIMS as separate Bottle Pick and Case Pick Store Orders. The local PLCB Representative may also add Emergency Orders for the Bottle Pick Warehouse and Case Pick Warehouse.

RIMS displays this information in a matrix of waves/Stores and loading lines. The number of full cases and estimated bottle pick cases ordered for each Store is also displayed. The Contract Operator can accept or change the information displayed until the Wave is released. Change options include:

- Move a Store or Stores to different loading line and Wave.
- Split a Store into multiple parts to be processed in multiple Waves.
- Assign small Store Orders to the floor sorting line.

The Contract Operator determines that Store assignment to waves and loading lines is correct RIMS is directed to release Store Orders for picking and shipping. This sequencing also determines the picking order in Bottle Pick.

PLCB Release Of Waves In Rims

RIMS WMS processes the released wave and creates RF picking instructions for the bottle picking area and for full pallet picks and replenishments. Serialized case pick labels are produced for the case picks areas. RIMS WMS creates case pick labels for bottle pick replenishment in one Wave each day. RIMS WMS downloads the file of the serialized bottle pick replenishment cases and the case picks to the conveyor Sort Control System. The Contract Operator prints case picking labels and instruct RIMS to release waves for picking. RF Bottle Picks are started first, followed by slow pick. Fast Pick and Hotline case pick areas are the last to start.

PLCB Picking

- **Bottle Pick** - Store orders for less-than-case quantities are picked with a Mini-Load System. A case TIN is associated with each carton. The Operator scans the case TIN associated with the case, when a case is filled, to produce a carton content label and a serialized shipping label. RIMS send the details of this label to the SCS. A small number of full cases will also be picked from the Mini-Load System in Bottle Pick. These cases will automatically be sent from Mini-Load System storage to the Sortation System.

- **Full Pallet Picks** -RIMS dispatches orders for full pallet picks to RF terminal equipped lift trucks. Full pallets are retrieved from storage locations and dispatched to the appropriate staging area on the loading dock. The pallet Tin is scanned to produce a Store-shipping label with barcode that is attached to the pallet.

- **Case Picks** – Bar-coded case picking labels are printed and distributed to the operators staffing the pick-to-belt pick areas. Cases are pick and labels and placed on the conveyor belt leading to the sorter. Scanners at the end if each picking line read the bar-coded case and pick labels. This information is sent to RIMS as pick verification notices. The SCC bar code on each case is read to insure that the correct case is picked. The local conveyer is stopped when this test fails to prevent miss-picks being sent to the loading dock. Cases for the bottle-pick area replenishment are picked in one wave each day and are mixed with case picks for Store orders. The labels are generated separately. A small number of partial cases will be picked from the Case Pick Warehouse. These picks will be separately identified through RIMS.

End-of-Wave Totes - Operators place end-of-wave totes on the conveyor belt when picking is completed for that Wave. This provides a separator between waves.

Case Flow Replenishment – RIMS generates RF pick instructions for the Case Pick module replenishment. The instructions are released to an order picker on an RF Device. RIMS routes the pick to be selected by put away zone. The cases are picked to pallets and delivered on pallets to the appropriate case flow zone.

Sorting

The Contract Operator instructs the Sort Control System (SCS) to accept the first or next wave to be sorted. Cases arriving accumulating on conveyors from Case Pick and Bottle Pick areas are released to sorter induction point. A scanner connected SCS reads the bar-coded picking label on each case. The SCS determines the sort lane for the case and sends instructions to the PLC to direct the sorter to divert the case when it arrives at the sort lane. Scanner case label read transactions are sent to RIMS for system updates. This process continues until all for the wave are processed.

Exception Processing - Cases with bar-coded labels that cannot be read by the scanner are sorted to a no-read lane where the labels can be reprinted and applied to the case for re-sorting. Case that cannot be sorted to a lane due to a full line condition on the sort lane are re-circulated and resorted. Cases that arrive and do not "belong" to the current wave are diverted to the no-read line.

End-of-Wave Processing – End-of-Wave totes arrive at the sorter merge and induction points from pick areas. The conveyor for each induction point is automatically shut down as the End-of-Wave tote arrives. The Wave is complete when all End-of-Wave totes have arrived and all induction conveyors have shut down. The sorter operator waits until all cases have cleared the sorter and the SCS indicates all cases for the wave are completed. The Operator then releases the End-of-Wave totes to the sorter. The sorter diverts one End-of-Wave tote to each loading lane. The Operator starts the next wave when this is complete by a command to the SCS.

Product Case Labeling Information

The Pennsylvania Liquor Control Board has been successful in implementing warehouse management software (WMS) in all three of their warehouses.

In order to fully realize the benefits of the WMS it is required that all products received in Pennsylvania be labeled with a correct Shipping Container Code (SCC) and that the labels be applied as stipulated in the Uniform Code Council's (UCC) national standards and Alcohol Beverage Industry (ABI) guidelines for establishment and application of the SCC label. These sites can also be accessed through the PLCB website.

The PLCB has now implemented Phase 2 of their E-Commerce website, http://www.pawineandspirits.com, offering easier search features, enhanced wine education information, and an expanded selection of more than 1,500 wines, spirits, and accessories. The site includes wine ratings from top magazines, including Wine Enthusiast, Wine Spectator and the Wine Advocate. Users can research information about specific varieties or wine regions, compare different vintages and browse through the site's considerable wine education content. The site contains many hard to find or highly allocated wines and rare wines in older vintages in the "Cellar Collection." Orders are delivered to the store of the customer's choice within one or two business days for a small shipping fee. When the PLCB first launched the website, it offered 525 wines. The site has nearly tripled that selection.

Utah:

The DABC expanded its facility and installed an automated storage and retrieval system to handle increased demand as well as manage overstock for peak periods. The new system processes an additional 350,000 cases of alcoholic beverages a month without extra labor or any delays to current operations. This is a Bulk Storage Warehouse for the replenishment stock used to refill the warehouse from which case orders are filled each day.

The unit-load automated storage and retrieval system (AS/RS) specifically manages the increased stock needed to fill orders during seasonal peaks. The rack-supported AS/RS features 6,160 storage locations in five aisles, each over 100 feet tall. This allows the DABC to hold up to 338,000 more cases at full capacity. A material control system and warehouse management system (WMS) that communicates with the DABC's host system manages inventory and equipment.

Operators scan received product with handheld radio frequency scanners, which transmit stock keeping unit (SKU) and quantity to the host system. If the product is not immediately needed to replenish inventory being picked for outgoing orders, it is directed to the overstock area. Other items are diverted to the picking area.

Fork truck drivers place product destined for the overstock area onto a pallet induction conveyor. The pallets then travel to a dimensioning station where size and weight are checked for proper fit into the AS/RS. Pallets cannot exceed 3,000 pounds each. Acceptable pallets are transported to the AS/RS input station and stored. The WMS notifies the host system when a pallet is received and stored.

As cases are needed to fill orders, the host system communicates the type and amount of requested product to the WMS system. The WMS, in turn, directs the AS/RS control system to retrieve a particular pallet and convey it to an output station. Items are then delivered to the picking area by fork trucks.

The fully automated system has not only increased capacity and eased order fulfillment, it has eliminated product damage and alleviated congested aisles too. The DABC now handles high-demand periods with ease as it keeps cases of alcoholic beverages flowing to retail outlets throughout Utah.

Virginia:

ABC has also embarked on an aggressive schedule for the installation of a new automated warehouse system scheduled to be operational in June 2005. The new system is necessary to accommodate store growth, the volume of products shipped and the increased variety of products expected by our customers. The new system will support 3,500 inventory line items compared to the 2,000 that the current system handles.

The VA ABC issued a comprehensive RFP in August 2004, for a complete overhaul of its liquor warehouse management system. The key elements of this RFP effort are provided as an Appendix to this report as an example of the analysis required to justify State funding for such an overhaul. The Materials Handling contract was awarded to Bastian Materials Handling.

Washington State:

The WSLCB has a group specifically to the computer services necessary to operate state and contract liquor stores and all other organizations of the Liquor Control Board. Technology Services supports mission-critical systems, including Point of Sale (POS), the Warehouse Management System (WMS), Merchandising, Regulatory, Financial, and Human Resource systems. Technology Services provides a customer hotline and on-site technical support; supports hardware and software, voice, and data networks; conducts strategic business/technology planning and implementation; develops and implements information technology policies, guidelines, and practices; and provides technology and acquisitions consulting. The unit trains end-users in the technology needed to accomplish their jobs. (Liquor Revolving Account)

In the 2001-03 Biennium, new "cash register" technology, known formally as the Merchandising Business System (MBS), replaced the agency's obsolete, hard-to-maintain POS system. MBS also established an enterprise-wide foundation to support the information flow throughout the entire retail supply cycle. In the 2003-05 Biennium, the Liquor Control Board will purchase MBS software licenses; hire a database administrator, network security specialist and retail POS specialist dedicated to refining the application interfaces and supporting the database, business rules, parameters, user profiles and security; and expand network bandwidth to maximize transmission speeds for MBS business transactions. Projected expenditures related to this initiative are $1.921 million for the biennium. In addition, $2 million of the $4.8 million MBS 2001-03 Biennium planned expenditures that are estimated to be unspent are provided in the 2003-05 Biennium for use in fielding new POS "cash register" technology to all 157 state liquor stores.

The WSLCB is installing $4.8 million in point-of-sale software and equipment in its more than 160 state stores. Additional computing capability -- a Wide Area Network -- is needed to reduce transaction times from 23 seconds to less than 5 seconds (industry standard). Other technology improvements are needed to provide greater accounting capability, sales data analysis and the ability to upgrade central computing systems.

Charts comparing operational difference between many of the control states (where data has been made available) are presented at the end of this report in the Appendix section.

Facing mounting public pressure to either meet rapidly growing order complexity with an outdated order fulfillment system, or be forced to privatize liquor distribution, the Washington State Liquor Control Board (WSLCB) elected to transform its entire operation from an aging, paper-based, manual order-filling facility into a new, highly automated distribution center.

Driving the push to automate the facility came from four principal areas: the need to improve order fulfillment rate, order accuracy, inventory accuracy and ergonomic/labor conditions.

Located in downtown Seattle, the new 163,200 sq. ft. facility opened in September 2001 and reached full compliance acceptance in October 2002. The $30 million distribution center operates a unique automated order fulfillment system, which rivals private commercial distribution facilities in cost savings and efficiencies—handling around 3,000 active stock keeping units (SKUs) and growing from processing 12,000 cases per day to over 30,000 at peak season demand.

The automation system used by the operation is designed for constant replenishment of all buffer storage areas while fast moving, slow moving, full-case and split-case product from each area is shipped. Each day, WSLCB processes orders for 70-75 stores and replenishes the system for the next day's shipments. To increase complexity, the design had to scale to meet fluctuating demand. Liquor sales are subject to seasonal volumes with the highest throughput in the holiday season and after weekends. Low season volume is one shift per day with a swing shift in the afternoon to complete the day's orders.

WSLCB has a set daily schedule to deliver a weekly shipment to each store. Shipments are scheduled to balance the distribution center load and minimize travel distance for the truck routes. Orders are received from the enterprise business system (EBS) each day by 10 a.m. for next-day shipments.

The facility receives pallet loads of liquor at one of eight receiving docks into a staging area where quality checks are performed. After passing the quality criteria, the pallet is transferred to a very narrow aisle (VNA) rack system for storage—a fifteen-aisle system that uses man-up turret trucks to store and retrieve loads from approximately 7,500 storage locations.

System design

The automated order picking system consists of a warehouse management system (WMS) and an automated material handling system (MHS). The WMS receives order information from the WSLCB EBS. WSLCB provides product to all of the State-owned liquor stores in Washington by way of contract haulers. Trucks typically deliver to 3-5 stores daily with the product floor loaded in reverse store sequence to increase unloading efficiencies.

The Material Handling System (MHS) equipment that was installed in July. Alvey Systems Inc., the major contractor, began commissioning and testing the mechanical equipment operation at that point. The software portions of the controls have been installed and testing of the control systems is still ongoing. The Material Handling System is designed to enable 21,250 cases to go through the distribution center in a 9.5-hour production day and provide ergonomic handling of liquor cases and totes. The computerized Warehouse Management System, through the use of bar code labeling and scanners, will direct, track and guide the movement of every case of liquor that enters, moves within, and leaves the center. As liquor stocks enter the warehouse, the Warehouse Management System decides where to place pallets in a system of random storage within zones based on "first in, first out" and volume. The Warehouse Management System will direct the daily activities for the entire system. Inventory and store orders for the day will determine the systems instructions.

The “Crown” company was selected to provide turret trucks. A turret truck is similar to a forklift in that it carries product loads and is operated by a single driver. A wonderful piece of machinery, a turret truck basically rolls on the floor, with the driver in a caged area that independently, rises up and down the multiple levels of steel framework that actually houses the product. In this manner, the product is in a secure, structured environment rather than simply stacked freely, one on top of the other.

The WMS uses order information from the WSLCB EBS to manage material and information flow throughout the facility. The MHS utilizes buffer storage systems to inventory product on day one that will be required to fill orders shipped on day two. The buffer storage systems include: 1) an automated carousel system with 28 double stacks of carousels equipped with 14 inserter extractor robots, 2) 33 conveyor storage lanes for the fastest moving products, 3) full-case flow rack, 4) split-case flow rack, and 5) manual carousels for the slowest-moving items.

As order information is received by the WMS, it identifies what pallet loads of product are required to fulfill next-day order requirements. The turret truck drivers are notified via their radio frequency (RF) terminals to pick these pallets and move them to a staging area. Lift truck drivers are then notified to pick up those loads and deliver them to either the depalletizing station for the manual carousels or one of five manually assisted depalletizing stations for the automated MHS.

Semi-automatic depalletizing stations lift the pallet to a mezzanine-level depalletizing station. When loads are received at these stations, a WMS terminal notifies operators as to how many cases need to be removed from the pallet. The operator will place a preprinted bar code (license plate) on each case for tracking and push the cases from the pallet onto the conveying system. Partial pallets are conveyed to a pickup station and moved back to the VNA staging area to be put back in storage. The majority of product goes on to the automated carousels, which can store 19,488 cases.

Fast movers

Once cases are depalletized, they are conveyed to a sorter and routed to one of four buffer storage systems. The 25 highest-volume items (18-20% of the daily volume) are routed to 33 accumulation lanes for storage. Other items are routed to either the automated carousel system, full-case flow rack or split-case flow racks, as required. The automated carousel system handles 75-80% of daily volume, with storage capacity and flexibility to manage the complex WSLCB orders.

Slow movers

Pallet loads of the slowest moving items (classified as 5 to 6 cases per week) are sent to the manual carousel depalletizing station. Manual carousels store about one week's volume for each of these products. At the depalletizing station, the operator is directed via an RF terminal to remove the number of cases required for the one-week inventory. These cases receive a bar code license plate and are manually placed on a conveyor feeding the carousels. Partial pallets are returned to the VNA staging area to be put back into storage.

An operator scans the license plate as each case arrives at the manual carousel. Carousel software directs the operator, via a put-to-light system (indicator lights), where to store the case, and spins the carousel to the location. WMS maintains an inventory of the products stored in buffer storage.

Full cases

Cases required for orders in the full-case flow rack will be RF picked on day one and conveyed to the automated carousels to fulfill day two orders. Full cases are depalletized at a mezzanine-level depalletizing station and conveyed to the flow rack where they are scanned with an RF gun and manually replenished to the reverse side of the full-case flow racks.

Product in the manual carousels is also picked on day one for next-day orders. Orders are sent via WMS to the carousel software. Indicator lights on the carousels (pick to light) direct operators to the required cases. Cases are manually loaded to carts and staged for the next day's shipping. On day two, carts are moved to the docks and manually placed on the conveyor feeding the trucks.

Split cases

Split-case product is handled in a similar fashion to full case, using bar code labels and special divided totes. Split-case inventory is managed to min/max quantities by the WMS. Replenishment cases are conveyed to the back of the split-case flow rack where they are opened, the contents scanned and carried to the split case flow rack where they are manually loaded onto the flow rack.

Orders required for day two are sent to the order picker via an RF terminal on day one, on a store-by-store basis. There are two picking zones with 600 dynamic item number assignments. Each pick is scanned to a bar code label applied to the tote. RF directs pickers to individual bottles placed in a specialized divided tote that keeps bottles separated and secure. The picker consolidates orders in totes and associates the items in the tote to a license plate. Totes are conveyed to a checking station where operators scan the license plates to verify orders and print out the packing lists. The tote is then conveyed to the automated carousel for storage.

Under this system, about 95% of the cases required for an order are conveyed to the truck on day two without operator intervention.

Non-conveyables

One aisle is devoted to non-conveyables (such as seasonal promotional items or store supplies such as paper, hand towels, hand trucks, etc.) either too big or too small to fit into the conveyor system. These items are picked to a cart and stored in a non-conveyables staging area. Orders are processed and staged a day prior to shipments.

Order staging

On day two, trucks arrive at one of four shipping doors to receive orders for their route. WMS is notified that the truck has arrived to pick up its specific order. WMS then sends that order information to the automated material handling system. Orders are filled from one of four locations: accumulation lanes, automated carousels, manual carousels and non-conveyable items.

Most cases are picked from the accumulation lanes and automated carousels. Seventy-five percent of the cases used to fill each order are automatically picked from the 28 horizontal carousels using 14 inserter/extractor robots. The robot design is unique for this application because of the varying case sizes (cases of liquor are received from around the world and packaging varies in sizes and shapes). Cases are conveyed to a scanner and sorter, which routes them to the appropriate truck at one of the four shipping doors where they are scanned again just prior to entering the truck to verify the order accuracy.

After the automated carousel requirements are met, cases are picked from the accumulation lanes, which supply about 20% of each order. These cases merge with the conveyor from the automated carousels for travel to the shipping doors. High volume cases from the accumulation lanes are managed to maintain stock or agent item number integrity so cases of the same number label arrive at the truck as a group. This allows for easier unloading and storage of like cases at the liquor stores. Most stores are in shopping centers with no receiving docks, so inventory has to be unloaded with hand trucks.

The final 5% of each order is manually loaded on the extendable conveyor at the shipping doors for transport onto the trucks. These are the manual carousel and non-conveyable items staged from the previous day. The new material handling solution offers a 50% increase in productivity using the existing labor force, 15% more order fulfillment capacity to 17,000 cases per 8-hour shift, an 80% reduction in product breakage/loss, and a quantum leap in order fulfillment accuracy.

Wyoming:

The Wyoming Department of Revenue has awarded a $695,000 contract to MRI of Richmond, Va., for the design and implementation of a data warehouse management system for the state's Liquor Commission. The Liquor Commission controls the sale of wholesale wines and liquors within the state. It has 30 employees and was in need of a data warehouse that would allow it to take data and store it for as long as needed in any required form. Once stored in the data warehouse, the commission will be able to define the output it requires without the need for technical assistance, including hard-copy reports, interactive inquiries or data marts for input into a system.