

# **Vermont Department of Liquor Control**

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# **Vermont Lottery Commission**

## **Merger**

**November 2016**

**Prepared by Governor Scott's Office**

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## **Executive Summary**

Governor Scott has established three strategic priorities for his administration: strengthen the economy, make Vermont more affordable and protect the most vulnerable. In order to meet his strategic priorities, the Governor has proposed a few changes to the executive branch. This includes merging the Department of Liquor Control and the Vermont Lottery Commission.

The Governor and the Administration believe streamlining and consolidating the functions of the Department of Liquor Control and the State Lottery Commission into a single Department offers the opportunity to realize cost savings, eliminate redundancy, improve accountability, provide more efficient use of specialized expertise and facilities, and promote more effective sharing of best practices and state of the art technology, among other benefits.

Ultimately, this merger is to align programmatic services and provide better outcomes to the customers we serve. Down the road, through attrition and efficiencies, we see opportunities for cost savings that will increase revenue in the General and Education Funds. The Governor has made it clear to the departments no employee's job is at risk with the consolidation of these departments.

The Governor believes this proposal is an opportunity to reenergize the work already being done in the departments and expand on those efforts. It's also about modernizing state government in ways that make it more effective, productive and valuable to the citizens we serve.

The Administration looks forward to working with each of the two departments and the legislature to implement the elements of this merger.

## Department of Liquor Control

### Budget

The Department of Liquor Control is funded from the receipts of alcohol sales and does not draw monies from the general fund.

#### **Total operating revenue (FY15): 59,503,865**

- Charges for sales and services: 54,453,482
- License fees: 1,585,995
- Other: 3,364,388

#### **Total operating expenses (FY15): 57,216,126**

*Operating Income: 2,287,739*

#### **General Fund Revenues (FY15)**

The DLC contributed **\$23,297,751** to the general fund

- \$3.4M from 6-7% Sales and Use Tax
- \$18.2M from 25% Liquor Excise Tax

Revenue	FY12	FY13	FY14	FY15	FY16
Liquor	51,700,444	54,780,683	57,343,489	59,503,865	60,731,804

## Department of Liquor Control

### Employees

Total: 55

#### *Administrative*

Commissioner  
Deputy Commissioner  
Director of Retail Operations  
Financial Administrator II  
Information Technology Specialist III  
Principal Assistant  
Liquor Purchasing Coordinator  
Systems Developer II  
Network Administrator II  
3 District Retail Coordinators  
Information Technology Specialist I  
Executive Staff Assistant  
Financial Specialist III Financial Specialist I  
Administrative Assistant

#### *Education, Licensing & Enforcement*

Director of Enforcement  
5 Investigator Supervisors  
9 Liquor Investigators  
Liquor Control Training Specialist  
Administrative Services Coordinator  
2 Administrative Secretaries  
Program Technician I  
Administrative Assistant A  
FDA Program Coordinator

#### *Warehouse*

Warehouse Mgt. System Coordinator  
Warehouse Supervisor  
Program Services Clerk  
13 Warehouse Workers

### Division Functions

#### *Administrative*

##### Technology:

- Support tech functions of DLC, including remote Agent cash registers, Agent linkages to DLC software, wireless connection for mobile enforcement investigators
- Responsible for software upkeep, and enabling secure operating environment

##### Financial Unit:

- Conducts all financial affairs of Department
- Tracks all of Department's assets, except liquor
- Manages all non-liquor contracts

## **Department of Liquor Control**

### Retail Operations:

- 80 Vt. liquor store outlets, currently
- Rebranded itself with the theme “802Spirits”

### Spirits Purchasing:

- Oversees the acquisition of 3,000-plus spirits in warehouse
- Handle all product pricing and coordinate listings of spirits
- Manage relations with suppliers

### Warehouse Operations:

- Responsible for the storage and management of spirits, in preparation of distribution to the Agents
- Each Agent receives shipment from warehouse at least once every two weeks
- Inventory at warehouse usually valued at \$7.5M, turns over 18 times per year

## ***Education, Licensing and Enforcement***

### Education:

- In-person and online trainings for industry members and members of the general public with regards to Title 7 (over 9,000 people trained in 2015)
- Train license holders and staff who are involved with the sale of alcohol at least every 2 years (in person seminars & online)

### Licensing:

- Award licenses and permits for the manufacturing, possession, sale, storage, distribution, and consumption of alcoholic or tobacco products
- 12,000 were issued in 2015

### Enforcement:

- 14 Investigators who devote most of their time making sure license holders are up to date with their certificates, and selling alcohol and tobacco responsibly
- To obtain license, applicant must meet with investigator to ensure Title 7 compliance
- Investigators perform random inspections, and issue administrative tickets, appealable to the Liquor Control Board
- Investigators look into public complaints and complete background investigations upon request

## Department of Liquor Control

### Liquor Control Board

#### *Title 7*

<http://legislature.vermont.gov/statutes/section/07/005/00104>

#### *Composition*

- 5 members, appointed by the Governor every 2 years, for staggered 5 year terms
- No more than 3 members can be of the same political party
- Members limited to no more than 2 full consecutive terms

#### *Responsibilities*

- Managing and supervising the sale of spirits, fortified wine
- Adopting rules for the implementation of Vermont's laws relating to alcoholic beverages
- Enforcing laws and rules through its quasi-judicial role and licensing functions
- Meets a minimum of 11 times per year, spending a majority of its meeting time adjudicating alleged violations of liquor control and tobacco statutes

### **Current Members**

*Stephanie O'Brien, Chair, South Burlington - Term Expires 1/31/2020*

- “Ms. O'Brien was appointed the first female member to the State of Vermont's Liquor Control Board in 2007 by Governor James Douglas. In 2011, Governor Peter Shumlin appointed her chairman; a position for which she is also the first female to hold. Ms. O'Brien is a licensed Vermont real estate broker, a Realtor® and agent with Geri Reilly Real Estate, a Vermont premier agency...She is currently serving as Chair-Elect of the National Alcohol Beverage Control Association.” (NABCA). She will be ineligible for reappointment when her term expires.

*John P. Cassarino, Member, Rutland - Term expires 1/31/2017*

- John was elected Mayor of Rutland City in 1999 and served until 2007. In 2007, he was appointed to the Board by Governor Douglas. He is ineligible for reappointment and will need to be replaced by the Governor in January.

## Department of Liquor Control

*Melissa D. Mazza-Paquette, Member, Essex Junction - Term Expires 1/31/2017*

- Melissa, currently an office manager for Claussen's Florist, Greenhouse & Perennial Farm, has served on the LCB since her appointment by Governor Shumlin in 2012. She will be eligible for reappointment when her term expires.

*Julian Sbardella, Member, Fair Haven - Term Expires 1/31/2018*

- Julian, now retired, was a liquor broker in Vermont for over 30 years, and helped lead the charge against efforts to privatize the liquor industry in the mid-1990s. Appointed by Governor Shumlin, he would be eligible for reappointment when his term expires.

*Thom Lauzon, Member, Barre - Term Expires 1/31/2020*

- Thom, a CPA, has served as Mayor of Barre City since 2006. In 2015, he was appointed to the Board by Governor Shumlin and is eligible for reappointment upon the expiration of his term.

*(Information gathered largely from the DLC Annual Report, and the Legislature's Liquor Control System Modernization Report)*



## Vermont Lottery Commission

### Budget

#### Revenue FY16:

- Overall - **\$124,315,978**
- Profit's Contributed to Education Fund - **\$26.4 million**
- Prizes - **\$80.1 million**
- Commissions & Bonuses - **\$7.74 million**

#### Operating Expenses FY 16: **\$12,978,847**

- Admin Costs - **\$2,860,794**  
Includes → salaries, benefits, contracted services, equipment, supplies - components of annual appropriation from the Legislature
- Other Costs - **\$8,777,931**  
Includes → Lottery tickets, courier system, agent network expenses, facilities management fees
- Tri-State Lottery Expenses - **\$1,241,122**

	FY12	FY13	FY14	FY15	FY16
Lottery	100,930,520	102,088,644	102,311,700	111,758,717	124,263,888

## Vermont Lottery Commission

**Total Employees: 21**

### *Marketing & Sales*

Director  
Lottery Agent & Customer Response Rep.  
Web Marketing & Game Coordinator  
Lottery Product Specialist  
Marketing & Sales Supervisor  
Sr. Marketing & Sales Rep.  
4 Marketing & Sales Reps.

### *Security*

Director  
Warehouse Coordinator  
Warehouse Worker

### *Administrative Services*

Administrative Services Manager II  
Lottery Product Admin & Support  
Information Technology Specialist II  
Lottery Customer Service Rep. II  
Financial Specialist I  
Lottery Customer Service Rep. I

## **Lottery Commission**

**Title 31:** <http://legislature.vermont.gov/statutes/section/31/014/00651>

### *Composition*

- five-member Commission appointed by the Governor, each for three-year terms
- no more than three members may be members of the same political party
- members shall serve until their successors are appointed and qualified

### *Roles*

- operate the State lottery
- determine the type and forms of lottery games
- set the price of lottery tickets, determine the number and size of prizes
- select the ticket sales locations
- may enter into agreements with another state or states to provide for the operation of the Lottery

## Vermont Lottery Commission

### Board Members

#### *Martha O'Conner – 2/17*

- Martha is currently the Chairwomen of the Vermont State Colleges Board of Trustees. She is a former member of the Brattleboro Selectboard. Originally appointed to VSC Board by Gov. Dean in 1999, she has also served on the Executive Committee of the Vermont League of Cities and Towns.

#### *Karen O'Hagan – 2/17*

#### *Lindsay Kurrle – 2/18*

- Stepping down due to her appointment as the Commissioner of Labor

#### *Michel Consejo – 2/18*

- Michel was a member of the Vermont House from 2007-2014. He currently serves as Executive Board Member of the National Hispanic Caucus of State Legislators, Chair of the Franklin County Dem. Party, Sheldon Justice of the Peace. Owner of L&T Satellite Systems in Highgate from 1990-2008.

#### *Edward Flanagan – 2/19*

- Works for 104.7 FM The Point radio for the Advertising and Sales Department

#### *Executive Director*

- Vacant (Last – Greg Smith)

### Division Functions:

#### *Marketing & Sales*

- Producing/prioritizing game content
- Negotiates with gaming services i.e. Intralot
- Developing engaging ad campaigns → social media
- Corresponding with AOE about education fund partnership
- Implementing Agent Incentive plan and applying Agent Report Card

#### *Security*

- Interacts with Agents on an “as-need” basis / via Sales Reps.
- Shipping lottery games to agents
- Processing inventory

#### *Administrative Services*

- Tracking sales, expenses, monitoring trends in both

## **Specific Outcomes for this merger:**

**Permitting/Licensing Process:** All entities that sell alcohol and lottery tickets require licenses or permits. In many cases, lottery tickets, tobacco products and alcohol are sold by the same agents. Streamlining the application and licensing process by allowing agents to apply for several simultaneously would save them time, and could reduce costs for the State in the reviewing and issuance processes. There is an opportunity to save some money, but moreso, it would make life easier for businesses, making the State a better partner to our business community.

**Training/Compliance:** Both departments have a form of training and compliance. It would be beneficial to both entities to merge those trainings and compliance efforts into one robust program. As for the agents, this combined effort would be done in a one-stop shop. One department to work with on training and compliance versus two departments.

**Marketing:** Given that lottery tickets and alcohol are largely sold in the same locations, overlap in the consumer base exists. Combining the marketing efforts of both departments would allow for more efficient messaging to be developed and a much larger, inclusive audience to be targeted. Resources and personnel can be pooled together and operating costs in this division could be reduced.

**Warehouse Operations & Distribution:** Both the DLC and VLC operate warehouses for the storage of their assets, and have systems in place for the transport and delivery of their respective products. Given the aforementioned overlap in consumer base and venue of sale, combined operation could cut the amount of trips needed, or postage used, to deliver products. Tracking, record keeping, and inventory records could also be combined creating efficiencies.

**Administrative Costs:** There could be efficiencies found in the number of senior and administrative employees needed to conduct the business of combined operations. The DLC and VLC each have director-level positions responsible for retail operations or marketing and sales. Both also have regional-level retail and marketing/sales officials who could, in some cases, collaborate. Each department also has financial specialists and administrative assistants, a reduction of which via attrition over time could be possible in the future when some of the outlined efficiencies are achieved.

### **Technical Depts/Services:**

Combining technical resources will refocus efforts to innovate the technology that both commissions use. Potential developments can include improving how data is backed up or recovered, how field workers can update their devices without having to travel to the department office to do so. There can also be efficiencies created for generating sales/accounting reports.

## **Other States:**

Maine's current system would likely look most similar to the outcome of a merger of Vermont's Liquor Control Department and the Lottery Commission. Maine's Bureau of Alcoholic Beverages & Lottery Operations has a single, 5 member board that oversees both operations. The primary difference between Maine and VT, however, is that Maine leases its warehouse operations to be managed by the private sector, and allows its agents to own the liquor they purchase from the state, before its sold to the final consumer. This allows for greater price flexibility, and more control over which products are sold for the private agent, based on demand in their area.

The South Dakota Department of Revenue Special Taxes Division, a much broader operation than Vermont's potential merger, oversees both alcohol control and the lottery, among several other operations. One common theme across several states, including South Dakota, Nevada, Colorado, Minnesota, Connecticut and others is that their departments dealing with liquor control also oversee gaming, not necessarily the lottery. This means they play a role in rulemaking, enforcement, and revenue collection for things like fantasy sports, horse racing, betting on sporting events, etc..

Another commonality among other states is that medical, and in some cases recreational, marijuana operations are housed within the same departments that deal with liquor, tobacco and often gaming control. Typically, like in Colorado, these are all housed within larger departments of revenue. This allows for a much more user-friendly, efficient process with regard to permitting, as all of their applications can be found on one website, and look similar to one-another.