



ARIZONA DEPARTMENT OF LIQUOR LICENSE AND CONTROL
Underage Drinking Hotline: 1-877-NOT-LEGL

FY 2007 Annual Report

July 1, 2006 - June 30, 2007

Tucson Office
400 West Congress Street, #521
Tucson, Arizona 85701
Phone: (520) 628-6595
Fax: (520) 628-6620

Phoenix Office
800 West Washington Street, 5th Floor
Phoenix, Arizona 85007
Phone: (602) 542-5141
Fax: (602) 542-5707

www.azliquor.gov



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STATE OF ARIZONA
DEPARTMENT OF LIQUOR LICENSES AND CONTROL

JANET NAPOLITANO
GOVERNOR

JERRY A. OLIVER, SR.
DIRECTOR

The Honorable Janet Napolitano
Office of the Governor
1700 W. Washington
Phoenix, Arizona 85007

April 1, 2008

Dear Governor Napolitano,

On behalf of the Department of Liquor Licenses and Control (DLLC), I submit to you our 26th Annual Report for the period of July 1, 2006 through June 30, 2007.

Some of this year's highlights are; 1) active liquor license totals reached ten thousand nine hundred and ninety-seven (10,997); 2) at 11.2 million dollars, DLLC collections have more than doubled from FY 2006; 3) underage sales and/or consumption was prevented in one thousand two hundred forty (1,240) or twenty-eight (28) percent of the department's completed liquor violation cases.

DLLC begins FY 2008 with newly implemented performance measures and expectations, improved customer service training, forms revisions for licensing, auditing and investigations, and the acquisition of a state-of-the-art licensing control system. These much needed improvements will bolster our efficiency and effectiveness in the licensing and control of alcohol in Arizona.

Sincerely,

A handwritten signature in blue ink that reads "Jerry Oliver". The signature is stylized and cursive.

Jerry A. Oliver, Sr.
Director

cc: The Honorable Timothy S. Bee, President, Arizona State Senate
The Honorable James P. Weiers, Speaker, Arizona House of Representatives

800 WEST WASHINGTON, FIFTH FLOOR • PHOENIX, ARIZONA 85007 • (602) 542-5141 • FAX (602) 542-5707
www.azliquor.gov

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DLLC Mission Statement

To vigilantly promote the health, safety and welfare of Arizona citizens by licensing the liquor industry and assuring compliance with state liquor laws through collaboration, training, adjudication, and enforcement.

DLLC Vision Statement

As we continuously improve the processes used to run DLLC, quality remains the number one, non-negotiable priority. For everything we do, we recognize there is always a better way...our challenge is to find it. No matter how minor the task, every time work is done, we strive to discover one way to improve our methods.

DIRECTOR'S MESSAGE

Few industries are as heavily regulated and can consistently generate revenue as the liquor industry. Approximately \$421.3 million in Arizona Luxury Taxes were collected in FY '07 from the sale of alcoholic beverages. Our food and beverage industry employs more than 250 thousand workers in eight thousand eating and drinking establishments around the state, a figure that in recent years has increased by almost 500 new establishments annually.

At 6.3 million, Arizona's population has almost doubled since 1990. The influence of 31 million visitors each year has tremendous influence on our state's liquor industry. The Office of Tourism reports that more than 106 million dollars in tax revenue was collected exclusively from tourist's eating and drinking while visiting the state last year.

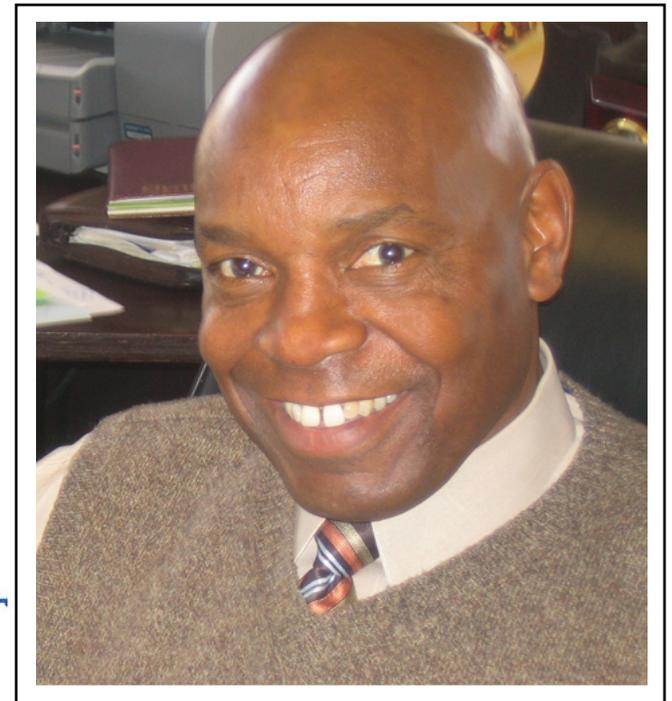
In addition, liquor revenues are further bolstered by special events. Arizona is in the national spotlight as a premier recreational destination. Only two states in the nation, Florida and Arizona, host all four professional sports; state and national football events, NA-SCAR races, major league baseball spring training, PGA golf, plus popular college bowl games. With the expanded Phoenix Convention Center and added downtown hotel rooms, Arizona will attract more out-of-town sports fans to our world-class stadiums and venues.

The Department of Liquor Licenses and Control (DLLC) currently oversees 17 different types of liquor licenses. The number of liquor license and law enforcement transactions (transfers, renewals, audits, violations, compliance hearings) have seen an increase of 420 percent since the early '90s and, in FY '07, liquor license fees and fines generated 11.4 million dollars in state revenue.

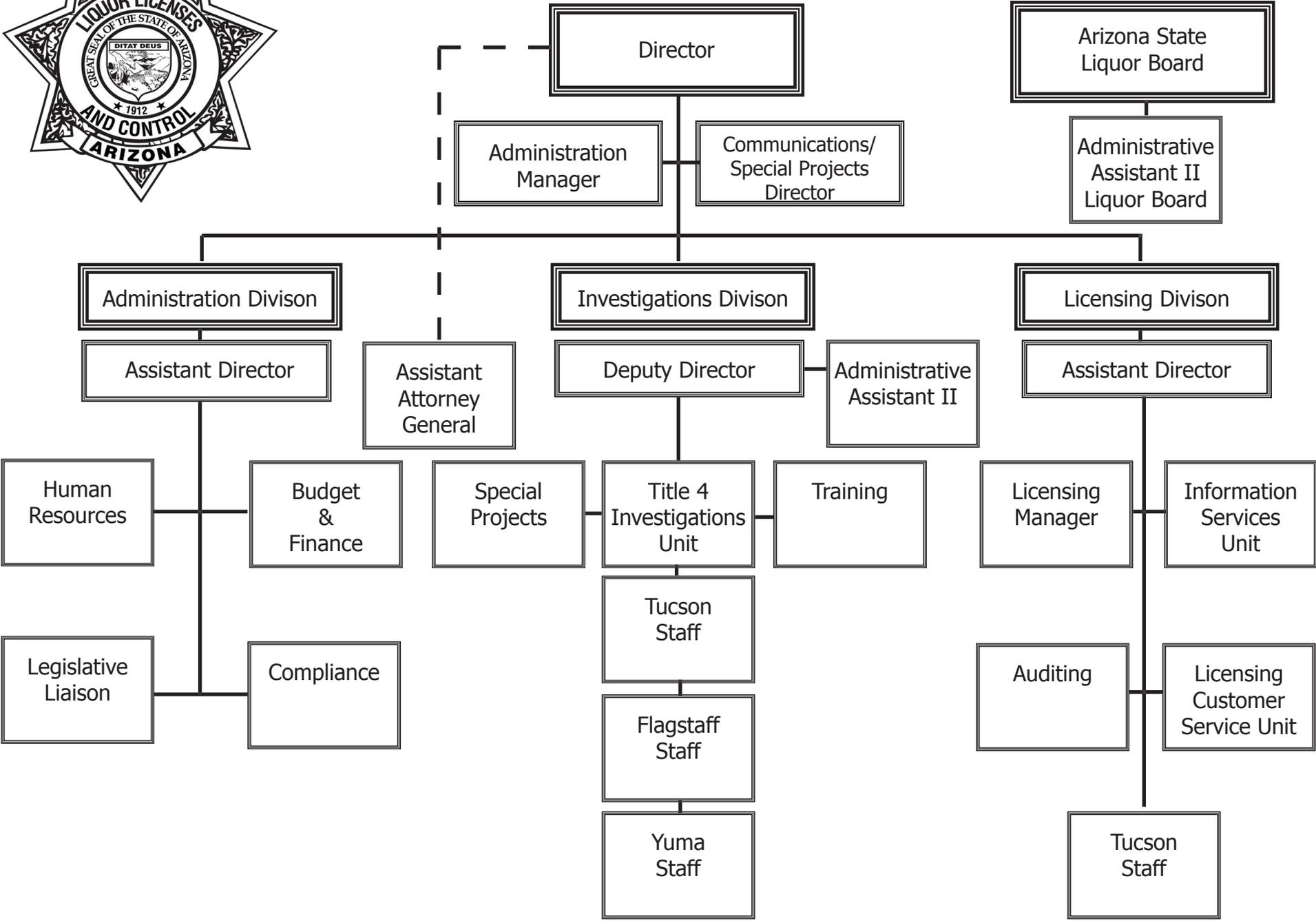
During the first six months of my tenure as director, the staff and I have worked together to establish higher standards and expectations in our service to the public. We have improved customer service, streamlined operations, implemented new performance measures, revised the operational protocols and compliance guidelines, created a media/communications strategy, and refined the process for acquiring a new licensing control system. Still, we'll continue to identify and implement improvements to better serve the public in FY '08 and beyond. It is an honor to serve as director of the Department of Liquor Licenses and Control.

**“IN FY '07
LIQUOR LICENSE FEES
AND FINES GENERATED
11.4 MILLION
DOLLARS IN STATE
REVENUE”.**

Jerry Oliver



Organizational Chart

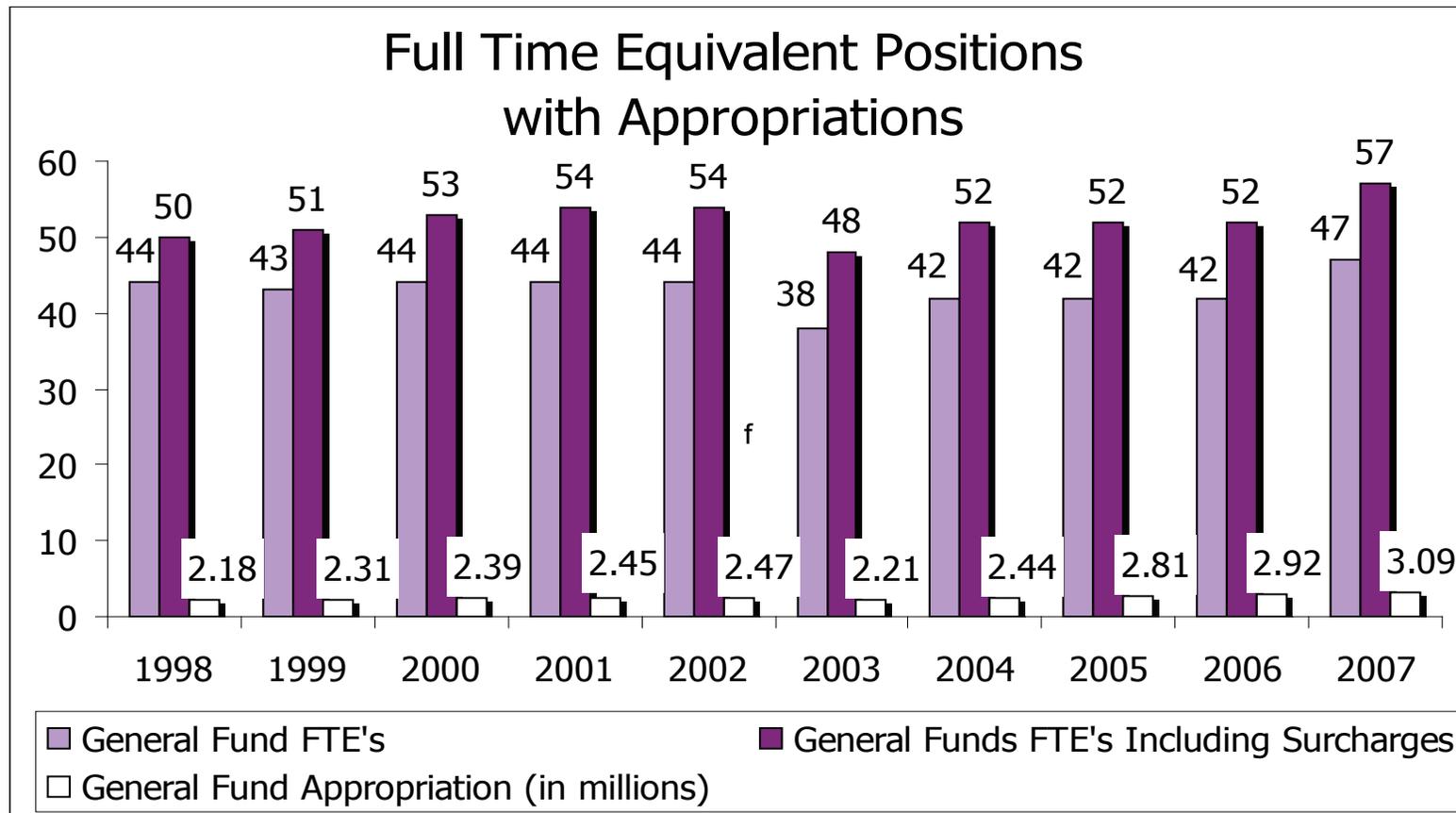


The total authorized Full Time Equivalent positions, or FTE's, have increased from forty-four (44) to forty-seven (47) during the ten year period from FY 1998 through FY 2007.

Administration: The six (6) Administrative Division FTE's are; two (2) in finance; one (1) in human resources; two (2) in compliance; and one (1) legislative liaison.

Licensing: Ten (10) employees, eight (8) in Phoenix and two (2) in Tucson, process new license applications and monthly renewals, and keep business information updated on active licenses. Also in Phoenix are two (2) information technology (IT) employees, two (2) records employees, and four (4) auditors which bring the total Licensing Division FTE's to eighteen (18).

Investigations: There are twenty (20) on-street law enforcement personnel in DLLC's Investigations Division. Included in this total are eleven (11) officers working out of the Phoenix office; four (4) on-street enforcement officers covering Southeastern Arizona; three (3) based in Tucson, one (1) in Yuma; and one (1) officer covering Northern Arizona. The ratio of on-street enforcement to licenses is 533:1.



Administrative Division

The Administrative Division is responsible for three DLLC units; Human Resources, Compliance, and Budget and Finance.

The Human Resources Unit manages the proper entrance and exit process for employees, participates in the creation, maintenance and distribution of departmental policies, procedures, and DLLC's on-going employee training curriculum.

The Compliance Unit governs the dispute-resolution process to offer an alternative, when appropriate, to the more costly and time-consuming formal hearing process. The mandate of the Compliance Officer is to arbitrate cases and attempt a fair resolution.

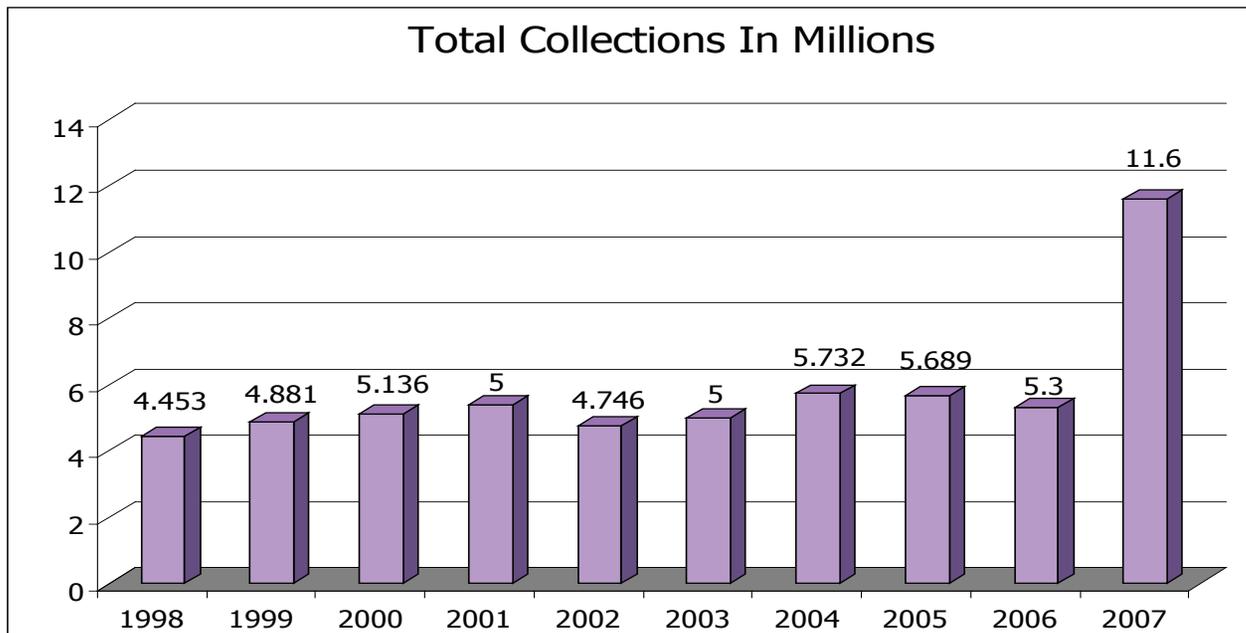
Budget and Finance transmits all funds collected by the department to the state general fund with the following exceptions:

1. One-third of all license fees are reserved and returned to the county of origin. The General Fund disbursed to the counties with the exception of Maricopa and Pima. These two counties receive \$3,000 per each license they issue in unincorporated areas. The remainder of the licensing fees and all other receipts are retained by the state general fund.
2. Fees from special event liquor licenses are transferred to the Department of Health Services.
3. Fees from club licenses are transferred to the Department of Economic Security's Division of Developmental Disabilities.
4. A surcharge of \$30 per license renewal for series 6, 7, and 12 is assessed, with industry support, for funding the department's restaurant auditors.
5. A surcharge of \$35 on each license is being used exclusively to investigate licensees who have been the subject of multiple complaints to the Department.
6. A surcharge of \$20 per license renewal for series 11 (hotel/motel with restaurant) and 12 (restaurant) and \$35 for all other license types is assessed for a neighborhood association interaction and liquor enforcement management unit.
7. Money received for processing fingerprints is transferred to the Department of Public Safety to pay the FBI for fingerprint re-view charges.

(See Disbursement of Revenues on the following page)

FY 2007 Collected Fees and Charges By Source

Fair Market Value Lottery Liquor Licenses	5,455,636
Applications.....	202,100
License Fees.....	3,801,879
Out-of-State	91,958
Agent Change.....	43,000
Fines.....	628,075
Special Event.....	45,975
Club.....	47,750
Penalties	104,250
Copy Fees	5,072
Non-Use Surcharge.....	234,100
Audit Surcharge.....	155,040
Enforcement K Surcharge.....	363,195
Enforcement L Surcharge	320,100
Miscellaneous	65
TOTAL REVENUES COLLECTED	\$11,498,195



Disbursement of Revenues

General Fund Revenues	Actual FY 2007
License, fees, permits and penalties	3,924,109
Doc Fees, Tape Record, Computer Record, Co-op Reg.	5,137
Fines	628,075
Penalties.....	104,250
SUB-TOTAL DISBURSEMENT TO GENERAL FUND	\$4,661,571
Counties and Other Agencies	Actual FY 2006
Apache	4,575
Cochise	23,380
Coconino	47,801
Gila	12,436
Graham	2,517
Greenlee.....	1,058
LaPaz	6,441
Maricopa	57,000
Mohave	47,696
Navajo.....	14,058
Pima	69,000
Pinal.....	44,008
Santa Cruz.....	14,495
Yavapai	73,748
Yuma	30,715
Dept. of Health Services (Special Event Fees).....	45,975
Dept. of Economic Security Div. of Developmental Disabilities.....	47,750
SUB-TOTAL DISBURSEMENT TO COUNTIES AND OTHER AGENCIES.....	\$542,653
Fair Market Value of liquor licenses sold thru lottery.....	5,455,636
Audit Surcharge	155,040
Enforcement Surcharge K	363,195
Enforcement Surcharge L.....	320,100
TOTAL DISBURSEMENT	\$11,498,195
TOTAL COLLECTIONS LESS FINES & CHARGES FOR SERVICES.....	10,760,733

The Compliance Unit governs the dispute-resolution process to offer an alternative, when appropriate, to the more costly and time-consuming formal hearing process. The mandate of the Compliance Officer is to arbitrate cases and attempt a fair resolution.

After a police report is received or a department report is filed alleging a violation, the investigations division decides whether or not a department action is merited. Actions consist of verbal or written warnings, consent agreements, or referral to full administrative hearing.

Consent agreements may be offered for some violations. In these cases, the licensee is notified to contact the department to informally discuss the case with a compliance officer. Signing a consent agreement usually obligates the licensee to remedy the situation, pay a fine, and/or agree to a suspension for a specified period of time. In some cases, the consent may require liquor law training, surrendering of the license or to provide security plans for their operation.

Administrative citations are prepared for the more severe violations and for those licensees who have refused the consent agreement option. When citations are complete, they are forwarded to the Office of Administrative Hearings for a formal hearing process.

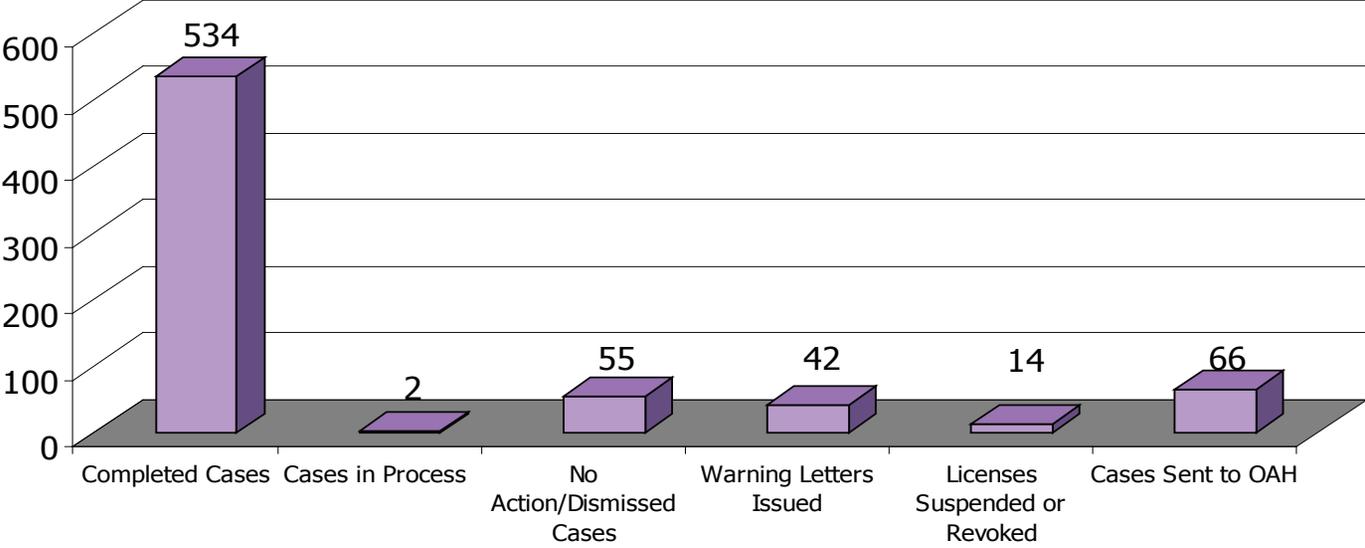
The Compliance Unit is also responsible for approving and monitoring all programs that provide liquor law training.

FY 2007 Compliance Fines and Violation Statistics

Fines Collected for Underage Violations	\$314,500
Citations Issued To Minors	94
Criminal Citations Issued To Licensee/Employee	247
Administrative Violations	554
CUB Operations	148
Number of Violations Involving Minors	236

The department has collected \$627,975 in fines from 429 compliance actions processed and adjudicated between July 1, 2006 and June 30, 2007 as a result of reports received from DLLC investigators, police and sheriff's departments. Included in the total amount of fines collected and actions adjudicated is the amount of fines collected and administrative violations involving underage. Administrative citations were issued in some actions for various violations. Consent Agreements were reached in a majority of the compliance actions.

Compliance Unit Case Statistics FY 2007 07/01/06 - 06/30/07



Licensing Division

Responsibilities of the Licensing Division include all processing of new license applications, permits, monthly renewals, and keeping information up-to-date and accurate on active licenses. DLLC's Information Technology and Auditing Units, subdivisions of the Licensing Division, are described briefly below.

In FY 2007 one thousand eight hundred forty-six (1,846) new licenses were issued, one thousand three hundred forty (1,340) special event permits issued, and one thousand nine hundred forty-seven (1,947) applications are still in process.

In FY 2007 ten thousand three hundred fifty-five (10,355) licenses were renewed and seven hundred thirty-five (735) interim permits were issued.

All license documents are stored on the department's licensing control system (LCS), a database developed for the department in the 90s. The licensing staff enters all licensing data for access to the department and for public access on the DLLC website.

DLLC's Information Technology (IT) Unit, a subdivision of the Licensing Division, maintains the LCS, the DLLC website, and sort and distribute data for unit, division, and departmental reports.

The Auditing Unit, also Licensing subdivision, audits licensed liquor establishments holding a series 11 liquor license (hotel/motel with restaurant) or series 12 liquor license (restaurant) required to maintain a 40:60 food to liquor sales ratio.

New Liquor Licenses Issued	1,846
Special Event Permits Issued	1,340
Applications In Process	1,947
Liquor Licenses Renewed	10,355
Interim Permits Issued	735
Current Active Liquor Licenses	10,997

Types Of Liquor Licenses, County Codes, License Number Components

License Series	Series Description	County Name	County Code
Series 01	In-State Producer	Apache	01
Series 02	Out-of-State Producer	Cochise	02
Series 03	Domestic Microbrewery	Coconino	03
Series 04	Wholesaler	Gila	04
Series 05	Government	Graham	05
Series 06	Bar (All spirituous liquor)	Greenlee	06
Series 07	Beer and Wine Bar (Beer and wine only)	Maricopa	07
Series 08	Conveyance (Airplanes, Trains, Boats)	Mohave	08
Series 09	Liquor Store (All spirituous liquor)	Navajo	09
Series 10	Beer and Wine Store (Beer and wine only)	Pima	10
Series 11	Hotel-Motel (with restaurant)	Pinal	11
Series 12	Restaurant	Santa Cruz	12
Series 13	Domestic Farm Winery	Yavapai	13
Series 14	Club (Private)	Yuma	14
Series 15	Special Event (Temporary license)	La Paz	15
Series 16	Wine Festival/Wine Fair		
Series 17	Direct Shipment License		

Liquor License Number Components

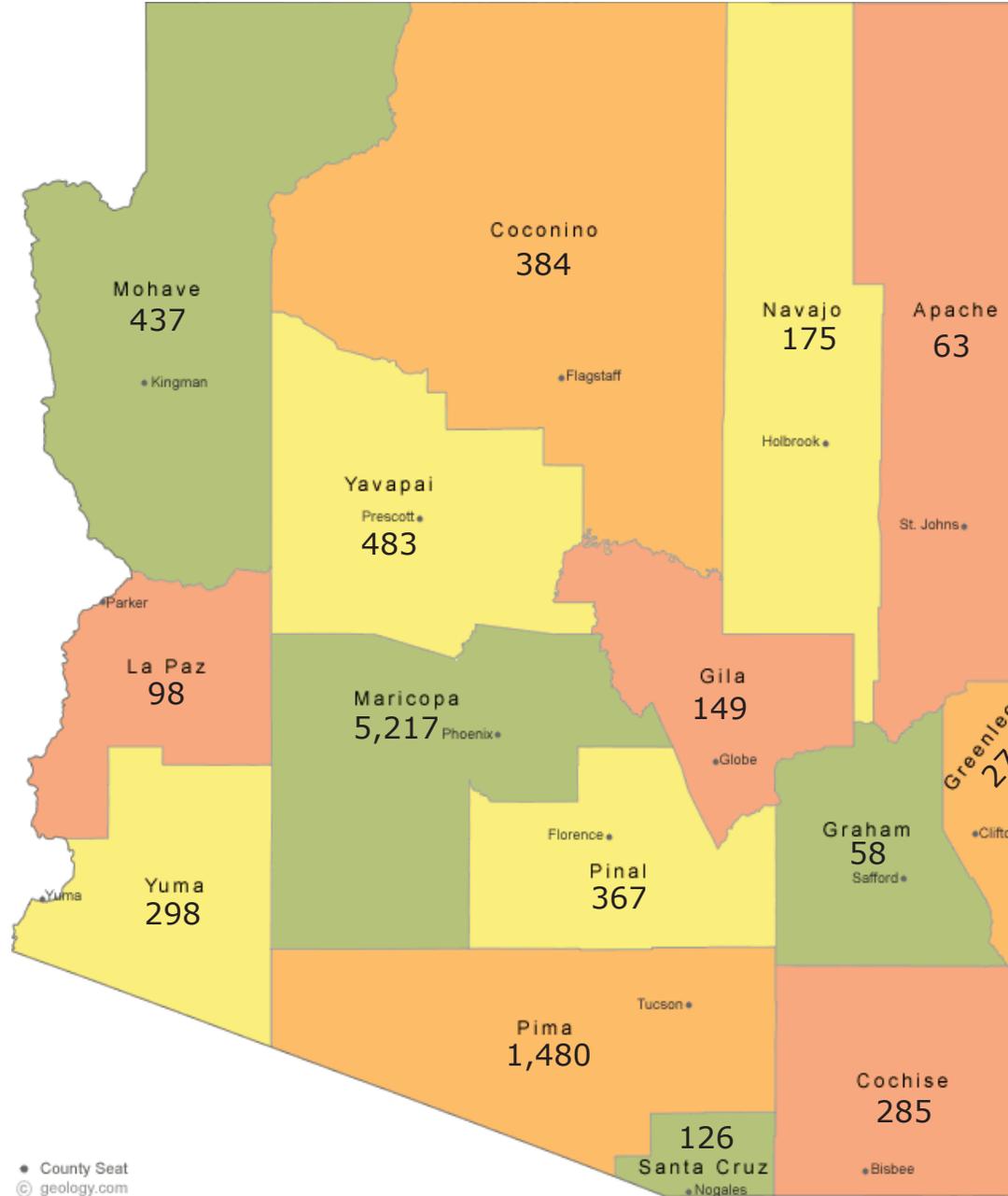
Sample License Number: 06031050

06 = a series 6 bar license

03 = licensed premises is located in Coconino County

1050 = sequential number of issue for this liquor license

Arizona County Map & Number of Liquor Licenses

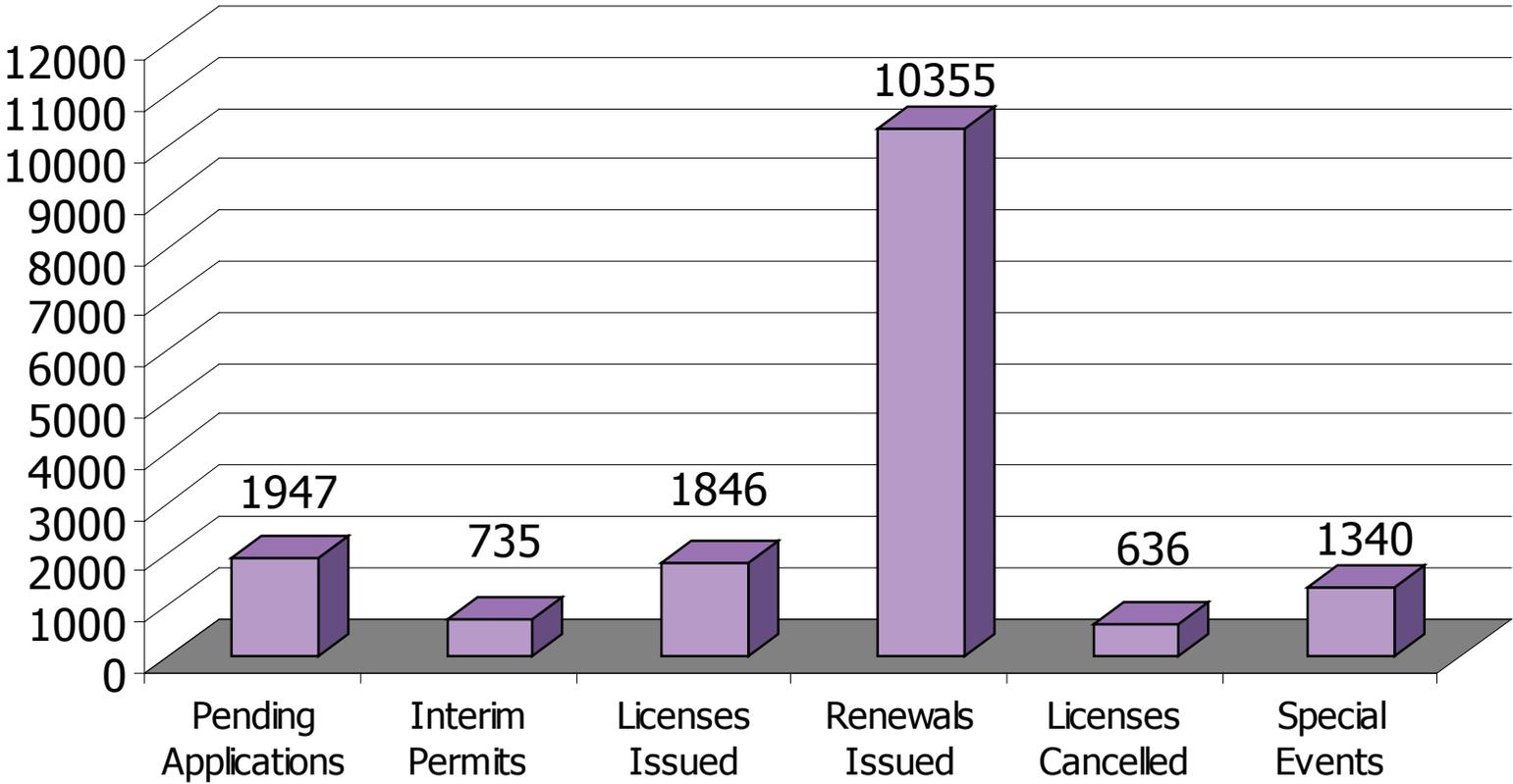


● County Seat
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Liquor License Count by County and License Type June 29, 2007

License Series	01	02	03	04	05	06	07	08	09	10	11	12	13	14	Total
01 Apache County	0	0	1	0	0	22	6	0	17	6	3	5	0	3	63
02 Cochise County	0	0	2	1	1	71	34	0	41	64	5	46	7	13	285
03 Coconino County	1	0	2	7	3	53	60	3	52	79	16	96	0	12	384
04 Gila County	0	0	0	2	0	47	17	0	24	24	2	24	0	9	149
05 Graham County	0	0	0	1	1	16	7	0	15	11	0	5	0	2	58
06 Greenlee County	0	0	0	0	1	7	1	0	7	6	0	1	0	4	27
07 Maricopa County	1	0	17	60	33	672	452	13	722	1230	68	1848	3	98	5217
08 Mohave County	0	0	2	4	5	47	53	2	47	123	5	122	0	27	437
09 Navajo County	0	0	0	2	1	45	25	0	41	22	1	27	0	11	175
10 Pima County	0	0	3	8	8	236	183	2	246	279	29	437	1	48	1480
11 Pinal County	0	0	0	2	2	83	36	0	60	99	2	64	0	19	367
12 Santa Cruz County	0	0	0	1	2	19	9	0	17	32	3	33	8	2	126
13 Yavapai County	0	0	3	4	1	78	48	1	50	101	12	155	10	20	483
14 Yuma County	0	0	0	2	2	56	29	0	50	80	4	65	0	10	298
15 La Paz County	0	0	0	1	1	17	14	0	17	23	1	17	0	7	98
Out of State Suppliers	0	981	0	0	0	0	0	0	0	0	0	0	0	0	981
Ltd. Out of State Suppliers	0	369	0	0	0	0	0	0	0	0	0	0	0	0	369
TOTALS	2	1350	30	95	61	1469	974	21	1406	2179	151	2945	29	285	10,997

Licensing Division FY 2007 07/01/06 - 06/30/07



Auditing Unit

As stated in A.R.S. §4-213.C (commonly referred to as the "Grill Bill"), DLLC conducts audits on licensed liquor establishments holding a series 11 liquor license (hotel/motel with restaurant) or series 12 liquor license (restaurant) to determine if they are maintaining the required 40:60 food to liquor sales ratio.

Currently there are one hundred fifty-six (156) active series 11 licenses and three thousand one hundred twelve (3112) active series 12 licenses statewide.

Number of Cases Now Open For Audit

Audits in progress	22
Open cases w/projected ratio of >37%	3
Open cases w/projected ratio between 30 to 37%	18
Open cases w/projected ratio of > 30%	1
Locations granted 1 yr to continue operation	2
Locations being monitored	30

FY 2007 Audit Statistics

Total audits completed	27
Total audits passed	11
Total audits failed	12
Total audits inconclusive/audit not performed	4
Audits resulting in other charges	0
Fees collected from issuing the series 11 and 12 license extension (AKA "Grill Bill")	\$60,000
Fines collected from other audit charges	\$13,000

Investigations Division

It is the responsibility of the Investigations Division to ensure that all licensees statewide adhere to A.R.S. Title 4 and all rules promulgated by the Department.

The primary functions of the Investigations Division are:

1. Provide training and assistance to the local law enforcement communities enhancing their ability to enforce liquor laws;
2. Investigate all liquor complaints and process all law enforcement reports relating to Title 4 violations;
3. Respond to complaints from neighborhood associations, civic groups and local governing authorities regarding liquor violations;
4. Perform background checks on all applicants for liquor licenses in Arizona;
5. Increase contact with licensees through Random License Inspections (RLI's);
6. Cooperate with DPS and local law enforcement agencies on covert, sting and underage buy programs through a team approach;
7. Research and respond to inquiries from manufactures, wholesalers and retailers;
8. Provide law enforcement trained speakers for various industry functions when requested.

FY 2007 CUB Program Statistics

The Covert Underage Buyer (CUB) program began in May of 2003. In an effort to curb alcohol sales and consumption to underage persons, this program provides the resources necessary for DLLC to investigate reported complaints of liquor licensed businesses suspected of one or more underage liquor law violations. Once DLLC has reasonable suspicion that a liquor location may be selling alcohol to underage customers, the agency will send a CUB to attempt to purchase alcohol. Each CUB is nineteen (19) years or younger and is carefully trained to follow state laws and DLLC guidelines. The program has been instituted statewide after CUB training is given to local law enforcement agency. Many agencies work with DLLC investigators during the initiation of the program in their area.

Since the inception of the program in May 2003, one thousand four hundred thirty-two (1,432) establishments have been investigated and four hundred twenty-one (421), or twenty-nine (29) percent, sold to the CUB buyers resulting in nine hundred sixty-three (963) administrative violations and one thousand fifty-four (1054) criminal citations.

Locations Investigated	# Sold to CUB	Administrative Citations Issued	Criminal Citations Issued
492	143	305	294

FY 2007 TRACE Program Statistics

The TRACE (Target Responsibility for Alcohol Connected Emergency) program began in December 2004 to develop a system of effective and rapid communication between local law enforcement, EMS personnel in high-profile cases involving underage drinking. Each TRACE case is considered concluded only when the source of alcohol is traced back to the supplier and the supplier is charged with a criminal and/or administrative violation. TRACE is now statewide with three full time investigators available for immediate response to alcohol-related emergencies that involve those who are underage.

Since the department began tracking party crews in December 2004, sixty-five (65) parties have been identified resulting in two hundred ninety-nine (299) underage arrests.

Total # of Cases	Administrative Violations	Criminal Violations
11	24	12

FY 2007 Party Crew Statistics

DLLC investigators gather intelligence on “party crews” defined as a group assembling in an abandoned (currently or temporarily unoccupied) property, or by taking occupied property by force to engage in private social activities. Fliers and/or text messages announce the location and time shortly before the party begins.

Firearms and underage drinking are frequently found at these parties. DLLC shares party crew intelligence with the local police departments and together they terminate parties, make arrests, and gather further intelligence.

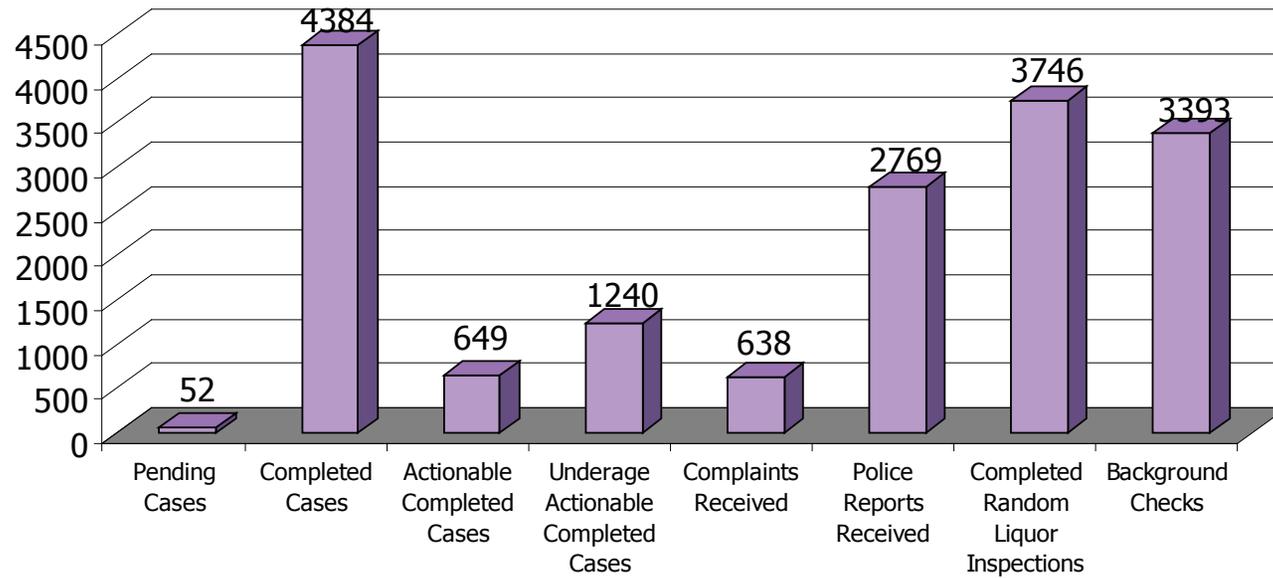
Since the Department began tracking party crews in February 2007, fifty-nine (59) parties have been identified resulting in at least two hundred fifty-nine (259) underage arrests.

Note: All of the arrest statistics have not been reported back to DLLC. During the month of June three known partygoers were shot and killed while attending a party hosted by a party crew.

FY 2007 Investigations Achievements

Pending Cases	52	Actioned Complaints	167
Completed Cases	4,384	Non-actioned Complaints	534
Actionable Completed Cases	649	Administrative Counts Charged	1,311
Underage Actionable Completed Cases	1,240	Routine Liquor Inspections	2,947
Complaints Received	638	Compliance Case Reports Submitted	541
Police reports Received	2,769	On-view Violation Case Reports	699
Completed Random Liquor Inspections	3,746	Law Enforcement Liaison	1,109
Background Checks	3,393	Protests Completed	45
Hidden Ownerships Completed	35	Criminal Citations Issued	1,450
Site Inspections Completed	706		

Investigations Division FY 2007 07/01/06 - 06/30/07



Arizona State Liquor Board

The Arizona State Liquor Board is a separate entity from the Department of Liquor Licenses and Control; however the Board is housed with the department and is provided one staff member to prepare Board schedules, hearing notices, Board records, Board expenditures, Board hearings, preparation of agendas, issuing Board orders, etc.

The Arizona State Liquor Board is responsible for hearing and ruling on all liquor license applications that are protested by the public, governing body of a city, town or county, or the director. The Board may also cause a protest of an application. Additionally, an aggrieved party may appeal certain decisions of the director to the Board for their review.

Members of the Arizona State Liquor Board are appointed by the Governor and confirmed by the Arizona State Senate. A.R.S. Sections 38-211 and 4-211 set forth the requirements for appointment and confirmation.

There are seven members who are appointed for a three-year term. The terms expire on the appropriate third Monday in January. There are no more than two members from the same county and no more than four members from the same political party. At least six (6) members cannot be directly or indirectly financially involved in a business that is engaged in spirituous liquor. One member shall currently be engaged in the liquor business. The members elect the chairman and vice-chairman annually.

FY 2007 Totals

Hearings Scheduled	192	Continuances	58	Rehearing	1
Licenses Granted	74	Withdrawn	19	Received Exemption	1
Licenses Denied	26	Vacated	9		
Appeals Heard	12	Removed	1		

Member Name	Board Position	Occupation	Term Expires
Cyndy Valdez	Chairperson	VP/General Counsel Golden Eagle Dist., Inc.	January 21, 2008
Alan Everett	Vice-Chairman	Consultant, Strategic Planning	January 18, 2010
Don Jongewaard	Member	Captain Paramedic, Tempe Fire Department	January 19, 2009
Josephine Anne Gilindo	Member	Tobacco Prevention	January 21, 2008
Bill DuPont	Member	Attorney/CAO Auditor	January 18, 2010
Jim C. Carruthers	Member	Retired	January 19, 2009
Balbir Grewal	Member	Retailer	January 19, 2009