



STATE OF ARIZONA  
DEPARTMENT OF LIQUOR LICENSES AND CONTROL

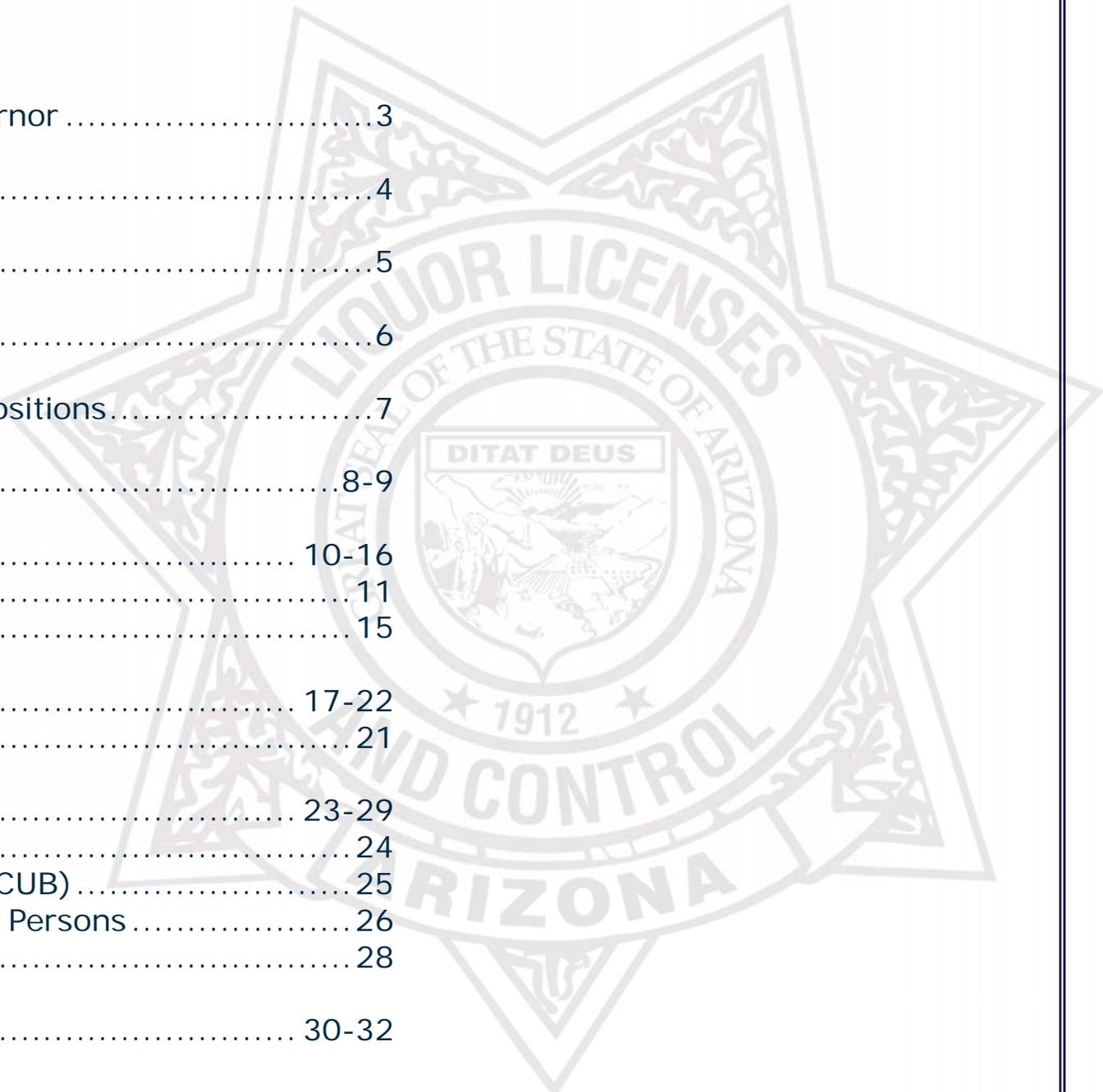
**FY 2011**  
**Annual Report**  
**July 1, 2010 - June 30, 2011**

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STATE OF ARIZONA  
DEPARTMENT OF LIQUOR LICENSES AND CONTROL

Janice K. Brewer  
GOVERNOR

Alan Everett  
DIRECTOR

September 30, 2011

The Honorable Janice K. Brewer  
Office of the Governor  
1700 W. Washington  
Phoenix, Arizona 85007

Dear Governor Brewer,

On behalf of the Department of Liquor Licenses and Control (DLLC), I submit to you the agency's fiscal year 2011 Annual Report.

While the future of the national and state economies remain uncertain, DLLC continues to implement innovative ways to achieve its mission, improve efficiency, and generate revenue for our state. The data in this report illustrates Arizona's thriving liquor industry and the achievements of DLLC's dedicated staff.

Highlights of DLLC's accomplishments for FY 2011 include: prevention of 914 incidences liquor sales to persons under the age of 21; an 18.8 percent decrease in liquor sales to underage persons from the previous year; state liquor revenues estimated at \$440.9 million; and an increase in the number of licenses bringing the total number of liquor-licensed businesses to 11,832, up 67 from FY 2010.

The challenges of the fiscal year before us have been embraced by this agency's capable staff. We continue to improve in finding innovative ways to achieve our mission.

Sincerely,

A handwritten signature in black ink that reads "Alan Everett".

Alan Everett,  
Director

cc: The Honorable Russell Pearce, President, Arizona State Senate  
The Honorable Andrew M. Tobin, Speaker, Arizona House of Representatives

Liquor regulation, as set forth in Arizona Revised Statute, Title 4, falls under the Department of Liquor Licenses and Control (DLLC) purview where staff focus primarily on liquor licensing and enforcement. DLLC is guided by the following mission and vision statements.

### 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.

### Vision Statement

To continuously improve processes that teach and enforce Arizona's liquor laws and license liquor establishments statewide. The quality of the outcome remains the number one, non-negotiable priority. For everything we do, we recognize there is a better way... our challenge is to find and implement improvements that maximize positive outcomes.

# Director's Overview of FY 2011

The liquor industry is a strong contributor to the state economy and has been since the state began regulating liquor in 1933. Revenues collected exclusively from the sale of liquor reached 440.9 million dollars this year. The chart to the right illustrates the sources of state liquor revenue and how that revenue is distributed.

Of course the real source of liquor revenue is Arizona's liquor-licensed businesses. Even during these fragile economic times, 67 new liquor-licensed businesses opened bringing the total of active liquor licenses to 11,832 at year end. It was also good to see the increase of annual license renewals by existing businesses. DLLC processed 11,483 liquor license renewals in FY 2011 compared to 11,162 processed in FY 2010.

The revenue generated by the department exceeded our operating expenses by almost 70 percent. DLLC collected revenues of \$8.8 million from license fees and fines from liquor law violations. This represents a 21 percent increase in revenue from FY 2010. DLLC deposited 83 percent, or \$7.3 million, of these revenues into the State's General Fund.

A primary focus of DLLC is to eliminate the sale of liquor to underage persons. In FY 2011, DLLC investigators prevented 914 incidents of sales to underage persons and reduced the number of cases involving underage person(s) by 71 percent compared to FY 2010.

The FY 2011 annual report includes multiple-year comparisons to help interested readers better understand the responsibilities and achievements of DLLC, a state regulatory agency staffed by 37 dedicated individuals who work to ensure a responsible and safe liquor industry in Arizona.



*Alan Everett*

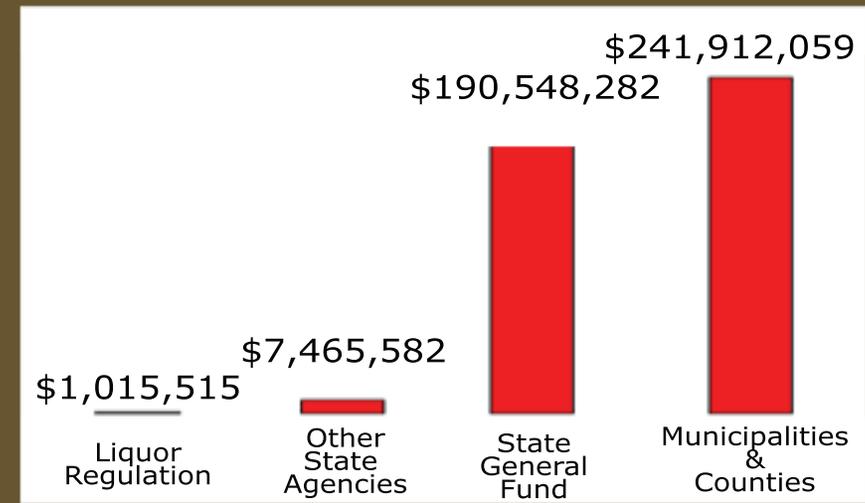
## Follow the money

In FY 2011, Arizona collected an estimated 440.9 million dollars in revenues exclusively from liquor. The chart below will help you to follow where liquor revenues come from and how they're distributed.

### WHERE LIQUOR REVENUE COMES FROM...

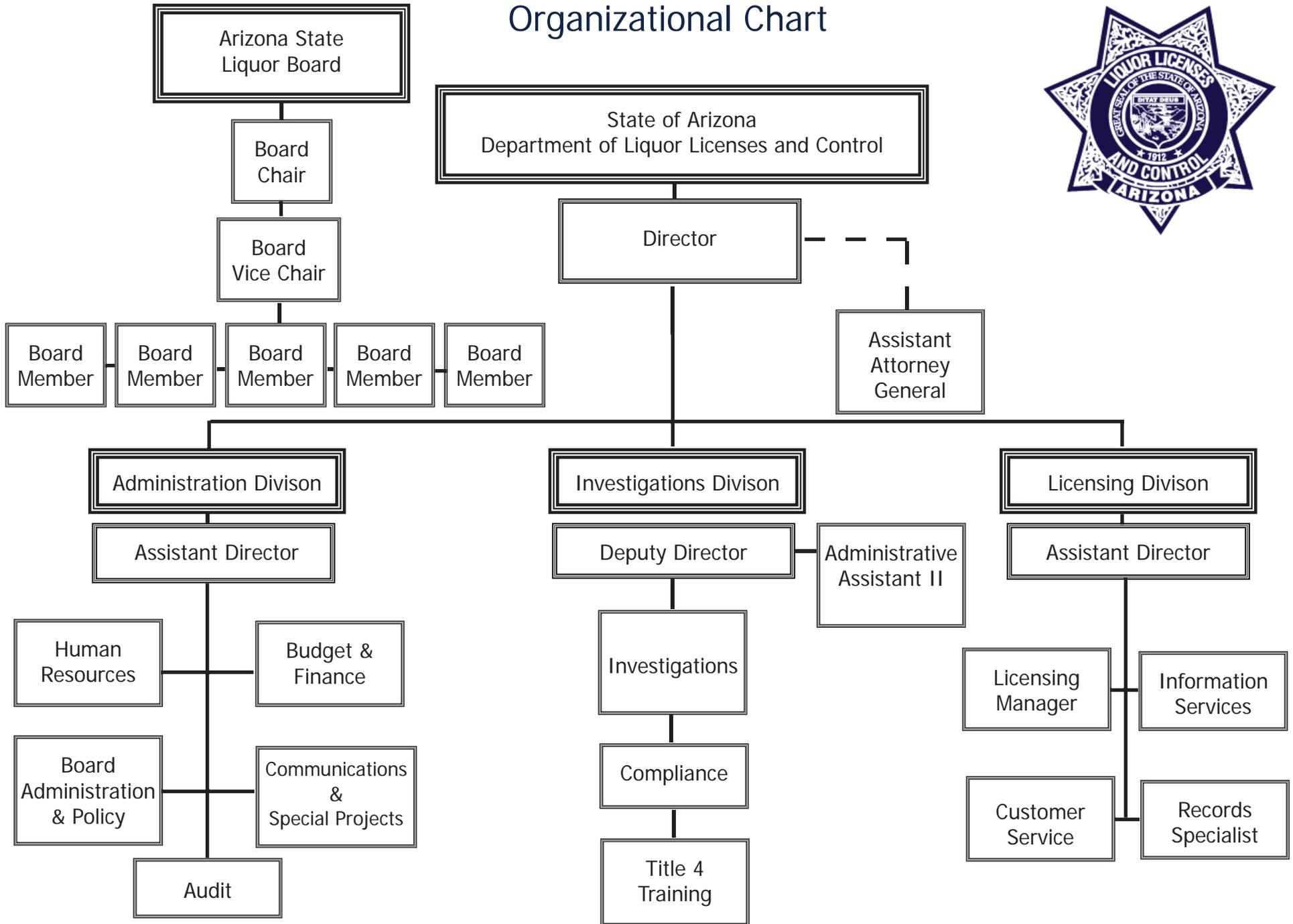


### WHERE THE MONEY GOES...



Sources: State of Arizona, Department of Liquor Licenses and Control (DLLC), and Department of Revenue (DOR)  
 Research: Department of Liquor Licenses and Control, Sept. 2011  
 Information based on DOR preliminary FY2011 figures.

# Organizational Chart





## Full Time Equivalent Positions (FTEs)

DLLC had a total of forty-two (42.2) authorized Full Time Equivalent positions, or FTEs, throughout FY 2011. Due to a hiring freeze and budget reductions, at year end (June 30, 2011), thirty-seven (37) FTEs were assigned to DLLC's three Divisions.

### Administration Division

Total FTEs = 9.5

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Director .....	1
Assistant Director .....	1
Human Resources Unit .....	1/2
Budget & Finance Unit .....	2
Audit Unit .....	2
Communications & Special Projects .....	1
Liquor Board Administrator/ Policy Analyst .....	1
IT Specialist .....	1

### Licensing Division

Total FTEs = 13

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<u>Phoenix Office</u>	
Assistant Director .....	1
Licensing Manager .....	1
Customer Service Representatives .....	7
Information Technology (IT) .....	1
Records Specialists .....	3

### Investigations Division

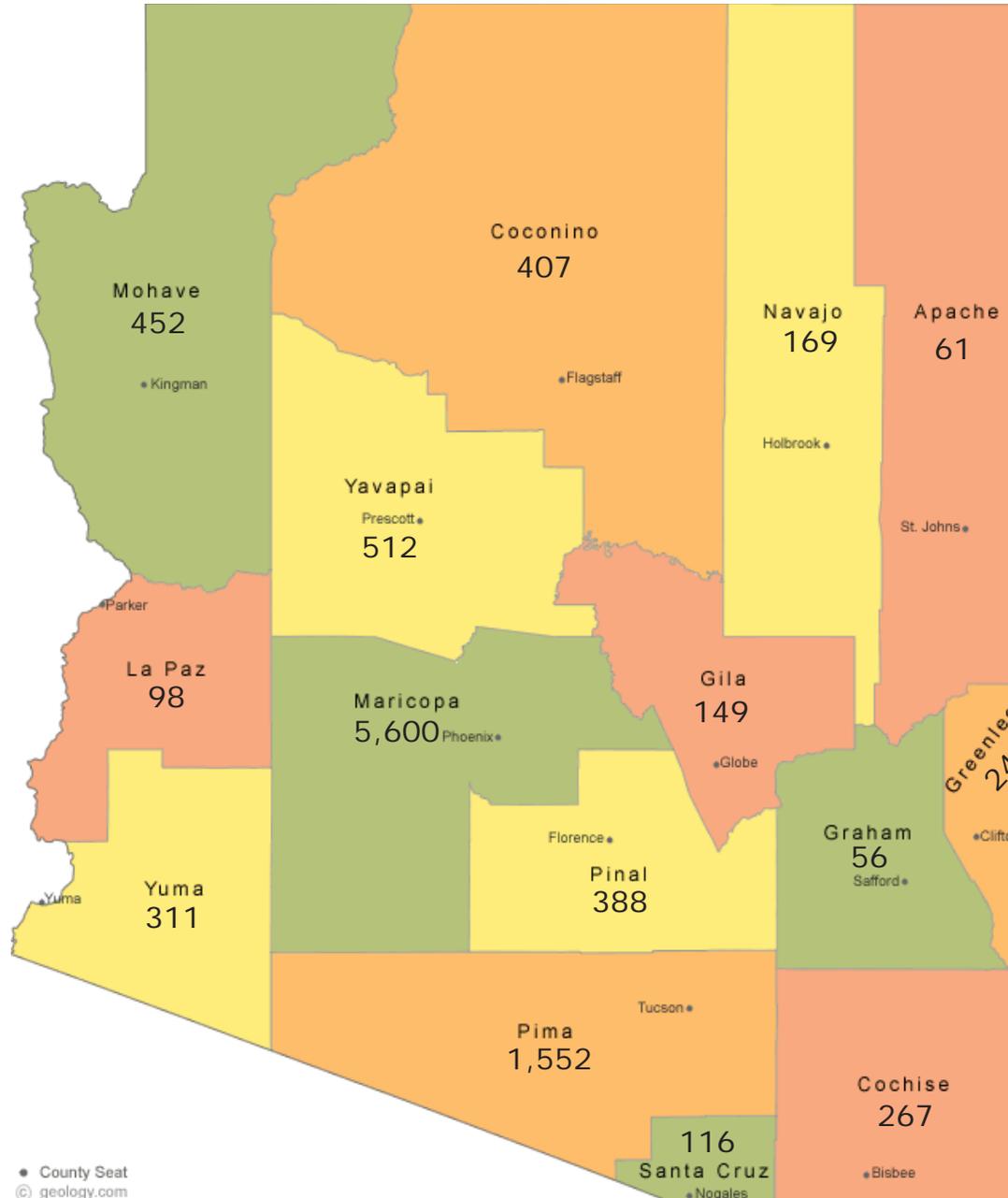
Total FTEs = 14.5

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<u>Phoenix Office</u>	
Deputy Director .....	1
Administrator .....	1/2
Compliance Unit .....	2
Investigators .....	11

# Liquor Licensed Establishments Regulated By DLLC

Year End FY 2011



● County Seat  
© geology.com

Total active licenses - 11,832

## Out-of-State Licenses

Out-of-state Producer = 1,080

Limited out-of-state Producer\* = 590

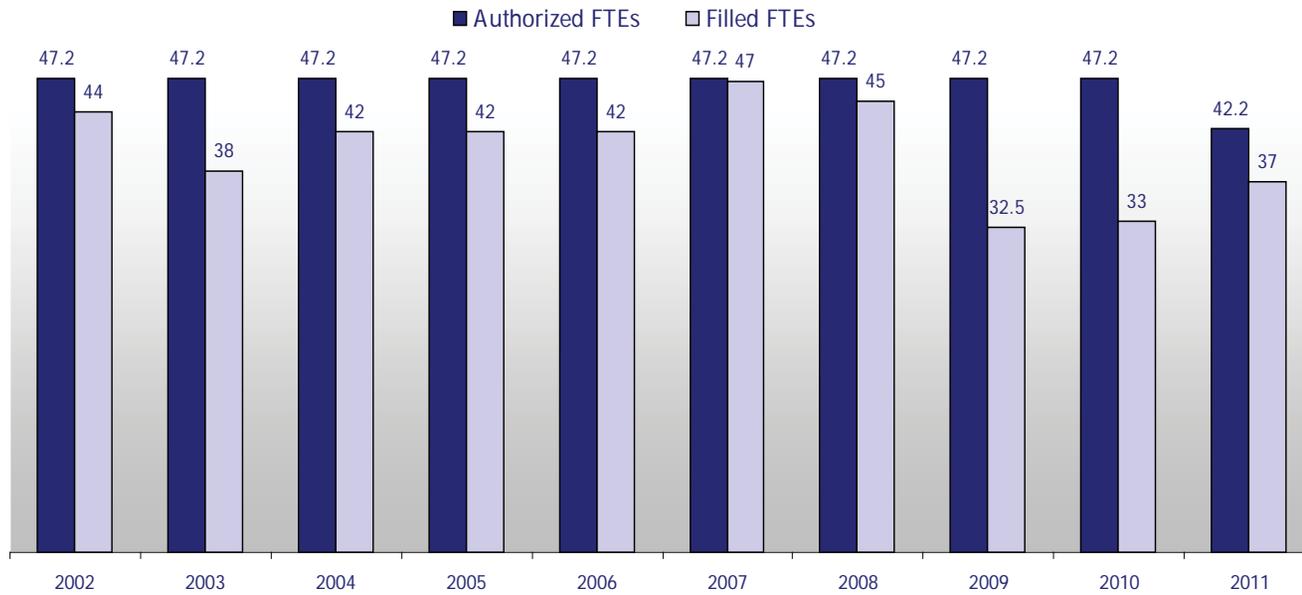
In addition to the 10,162 active licenses within the state of Arizona (illustrated on the county map, page left), DLLC regulated 1,670 out-of-state licenses at year end FY 2011.

\*Limited out-of-state producer licenses are defined by having a cap on the annual amount of wine or beer that can be shipped, sold or produced.

Licenses included in the "limited" category include:

- Limited out-of-state Winery may sell/ship a total of 50 cases or less of wine to Arizona licensed wholesalers and retailers.
- Limited out-of-state Domestic Farm Winery may sell/ship a total of 20,000 gallons or less of wine to Arizona licensed wholesalers and retailers.
- Limited out-of-state Domestic Microbrewery may sell/ship to Arizona licensed wholesalers and retailers with shipments to retailers not to exceed 93,000 gallons of beer annually.

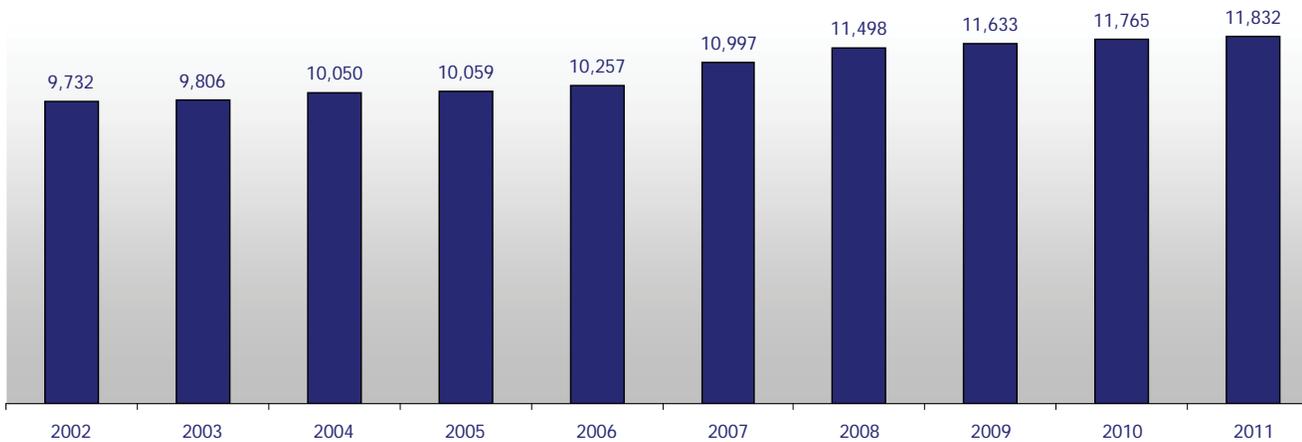
Number of Full Time Equivalent (FTE) Positions  
Ten Year History



Liquor License to FTE Ratio  
Ten Year History

2002.....	221:1
2003.....	258:1
2004.....	239:1
2005.....	240:1
2006.....	244:1
2007.....	234:1
2008.....	256:1
2009.....	358:1
2010.....	357:1
2011.....	320:1

Number of Active Liquor Licenses  
Ten Year History



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## Administrative Division

The Administrative Division is responsible for four DLLC units; Audit, Budget and Finance, Communciations and Special Projects, Arizona State Liquor Board Administration policy, and Human Resources.

**The Audit Unit** monitors and reviews sales activities for liquor-licensed hotel/motels with restaurants (series 11) and restaurants (series 12) to ensure the 40:60 food-to liquor sales ratio required by Title 4 is maintained.

**The Budget and Finance Unit** tracks incoming revenues which include funding allocated to the department, grants awarded to the Investigations Division, license fees and fines. In addition, this unit coordinates revenue disbursements to the state, Arizona's fifteen (15) counties, and the agency's vendors.

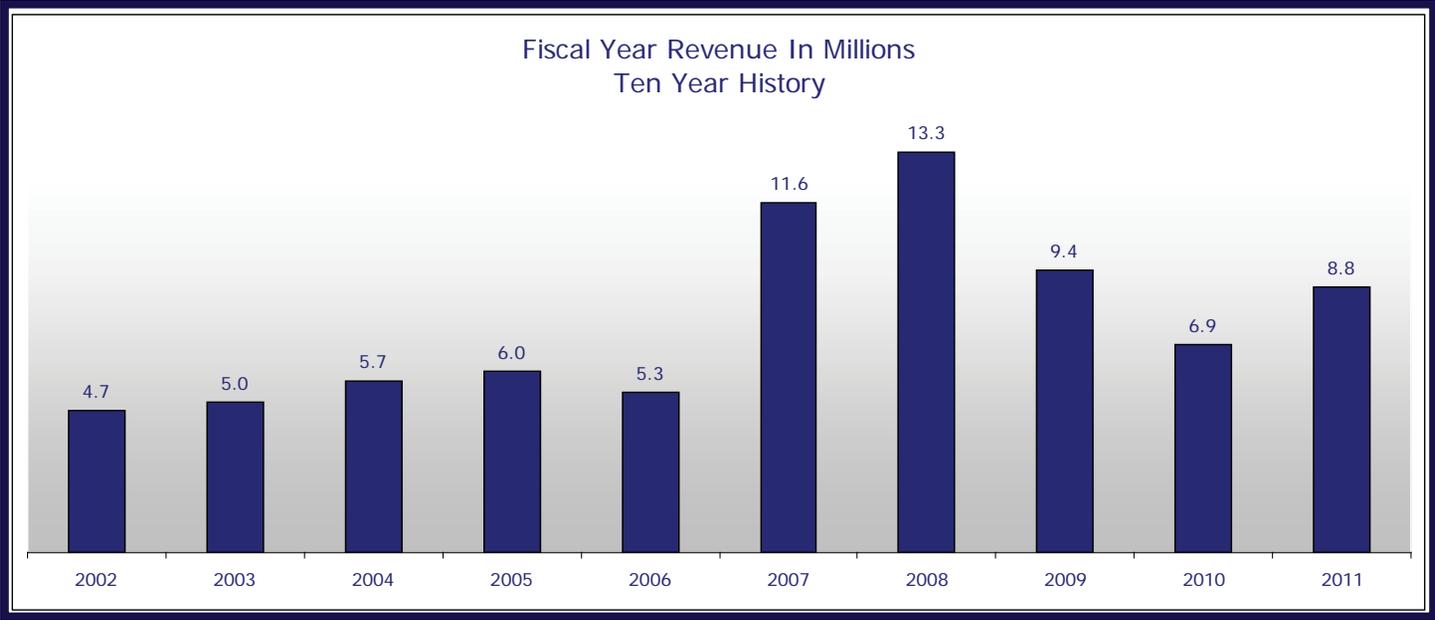
**The Communications and Special Projects Unit** directs incoming and outgoing information which includes media communications and requests, website design and content, industry and agency announcements, public meetings, review of Title 4 training syllabi and course completion requirements, and design of Title 4 and industry presentations.

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

# Budget and Finance

Approximately fifty percent (50%) of the fees collected by DLLC are deposited into the state's General Fund, an additional thirty percent (30%) is deposited into the agency's self-funding Liquor License Fund, the remaining twenty percent (20%) is distributed as follows:

- One-third (1/3) of all license fees are reserved and returned to the county of origin. Licensing fees deposited into the General Fund are disbursed to the counties with the exception of Maricopa and Pima. These two counties receive three thousand (3,000) dollars per license that they issue in unincorporated areas. The remainder of the license fees and other receipts are retained by the state General Fund.
- Fees from special event liquor permits (series 15) are transferred to the Department of Health Services.
- Fees from club licenses (series 14) are transferred to the Department of Economic Security's Division of Developmental Disabilities.
- A surcharge of \$30.00 per license renewal for bar (series 6), beer and wine bar (series 7), and restaurant (series 12) is assessed, with industry support, for funding DLLC's Audit Unit.
- A surcharge of \$35.00 per license is used to investigate licensees who have been the subject of multiple complaints to DLLC.
- A surcharge of \$20.00 per license renewal for hotel/motel with restaurant (series 11) and restaurant (series 12) licenses, and \$35.00 for all other license types, is assessed for a neighborhood association interaction/liquor enforcement unit.
- Fingerprint processing fees received by DLLC are transferred to the Department of Public Safety to pay the FBI for fingerprint review charges.

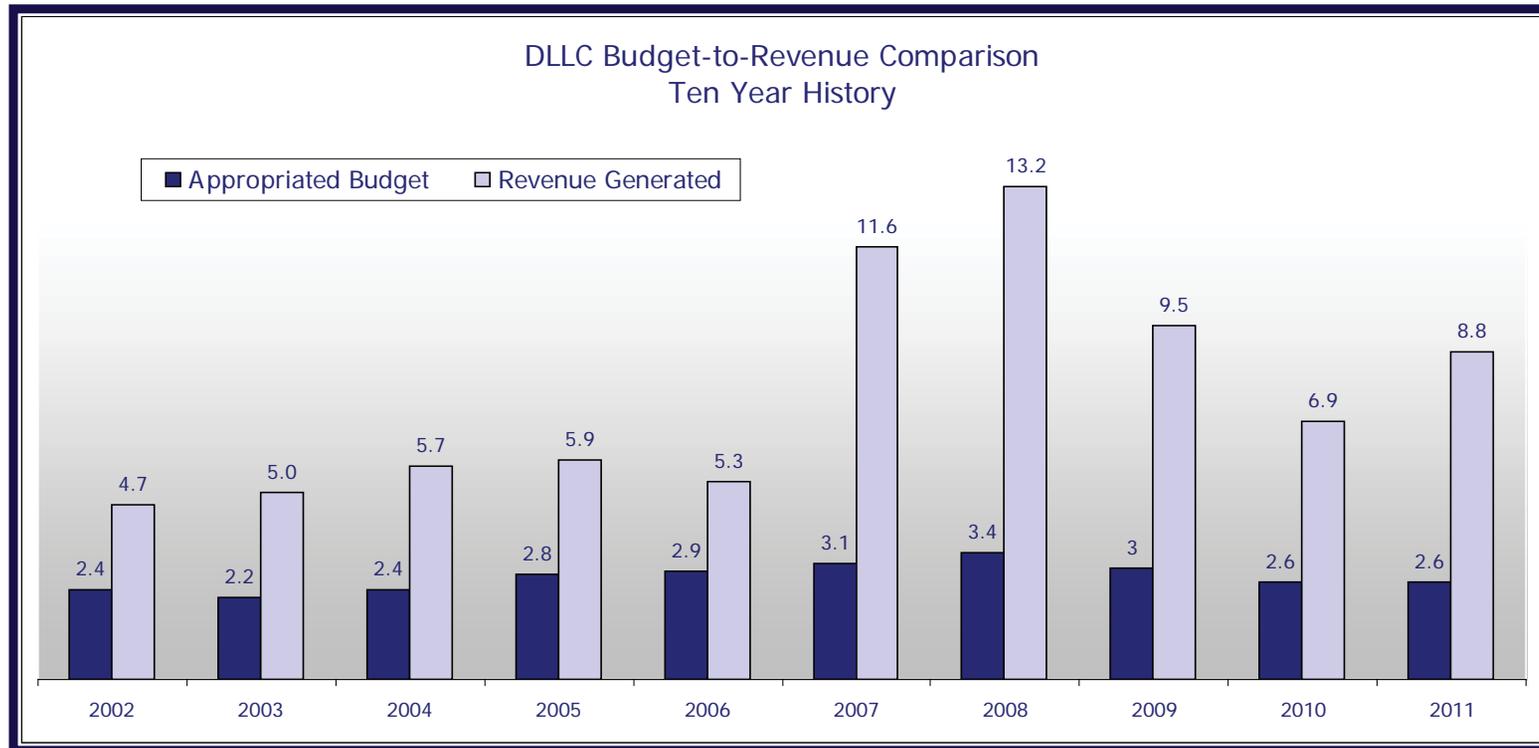


## Revenues and Appropriated General Fund Budget Ten Year History (in millions)

Fiscal Year	Revenue	Budget
2002	(5.08%)	0.82%
2003	5.35%	(10.93)
2004	14.60%	11.36%
2005	4.01%	14.69%
2006	(11.07%)	3.91%
2007	118.87%	6.51%
2008	14.48%	12.22%
2009	(28.39%)	(13.18%)
2010	(27.39%)	(12.54%)

The graph below represents a ten year history of the department's appropriated and generated revenue. The past decade represents a steady General Fund allocation while revenue generated by the department fluctuated significantly. This is due, in great part, to the liquor license lottery which generated additional annual revenue for the state from a low of \$196,303 to a high of \$6,954,293.

A graph on the following page illustrates revenue generated by the annual liquor license lottery since the inception of the lottery in FY 2005.



Disbursement of Revenues  
Part I

Revenue Sources and General Fund Deposits  
Three Year Comparison

<u>Source of Revenues Disbursed by DLLC</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
License & permit fees .....	5,426,453.....	5,479,822 .....	5,441,629
Fair Market Value (liquor license lottery) .....	2,975,355.....	562,824 .....	2,588,647
Fines (liquor law violations) .....	886,440.....	711,550 .....	576,600
Penalty Fees (late renewals) .....	140,600.....	151,500 .....	153,750
Fingerprint Fees.....	81,600.....	69,936 .....	68,256
SUB-TOTAL DISBURSEMENT .....	\$9,510,448.....	\$6,975,632 .....	\$8,828,882
<u>Disbursement To General Fund of DLLC Revenues</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Fair Market Value (liquor license lottery) ....	2,975,355.....	562,824 .....	2,588,647
License & Permit Fees .....	4,013,024.....	3,976,023 .....	3,969,759
Fines (liquor law violations) .....	886,440.....	711,550 .....	576,600
Penalty Fees (late renewals) .....	140,600.....	151,500 .....	153,750
SUB-TOTAL DISBURSEMENT TO GENERAL FUND .....	\$8,015,419.....	\$5,401,897 .....	7,288,756
PERCENTAGE OF DLLC TOTAL REVENUE .....	84.28%.....	77.44% .....	82.56%
(deposited into General Fund)			
TOTAL REVENUE COLLECTED BY DLLC .....	\$9,510,448.....	\$6,975,632 .....	8,828,882

Disbursement of Revenues  
Part II

Title 4 (Arizona liquor law) Required Disbursements  
Three Year Comparison

<b>Disbursement of DLLC Revenues</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
Counties			
Apache .....	4,908	5,301	5,678
Cochise.....	18,331	26,938	28,317
Coconino.....	47,779	47,700	42,634
Gila .....	11,572	12,344	14,183
Graham.....	3,086	2,417	3,669
Greenlee .....	1,508	1,192	892
La Paz.....	9,557	10,846	7,544
Maricopa .....	63,000	93,000	42,000
Mohave.....	56,685	50,720	45,515
Navajo .....	12,947	13,457	14,683
Pima .....	51,000	99,000	57,000
Pinal .....	39,536	35,291	36,752
Santa Cruz .....	11,897	13,518	15,743
Yavapai.....	63,494	63,491	60,423
Yuma.....	29,377	29,434	29,937
Other Agencies			
Dept. of Health Services (Special Event Fees).....	49,175	52,200	54,675
Dept. of Economic Security Div of Developmental Disabilities.....	56,400	50,600	55,650
DLLC			
Audit Surcharge.....	158,730	161,670	165,030
Enforcement Surcharge K.....	385,035	390,740	404,880
Enforcement Surcharge L .....	339,390	343,940	356,730
Fingerprint Fees.....	81,600	69,936	68,256
<b>SUB-TOTAL DISBURSEMENT TO COUNTIES, OTHER AGENCIES AND DLLC .....</b>	<b>\$1,495,007</b>	<b>\$1,573,735</b>	<b>1,510,191</b>

The Audit Unit monitors and performs audits of two types of liquor-licensed establishments: hotel/motel with restaurant (series 11); and restaurant (series 12). Audits are conducted to prevent restaurants from operating as bars. Restaurant-type liquor licensee's are required by Title 4 (Arizona liquor law) to maintain a 40:60 food-to-liquor sales ratio.

During FY 2011, active restaurant-type licenses statewide accounted for 3,335, or 28.2 percent, of liquor licenses statewide.

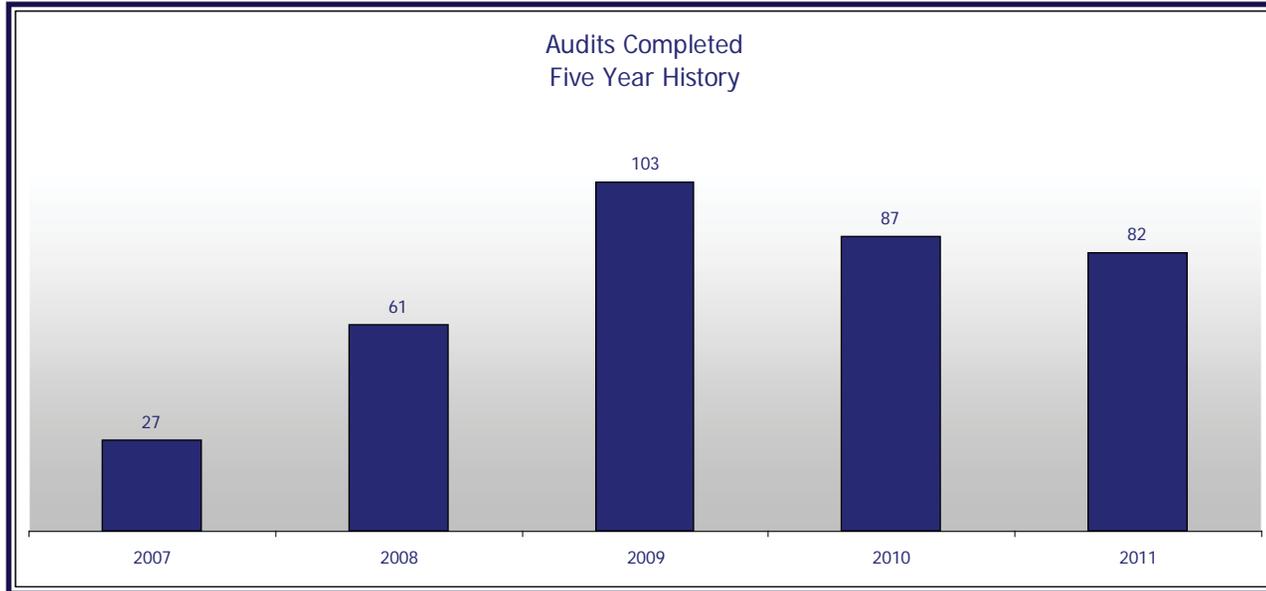
Annual reporting requirements for restaurant renewals include the completion of a Business Data Report, a reporting requirement introduced in FY 2009 that has greatly increased DLLC's auditing efficiency.

**Number of Cases Open for Audit At Year End  
3-year Comparison**

<b>Case Type</b>	<b>FY 2009</b>	<b>FY2010</b>	<b>FY2011</b>
Audits in Progress.....	21	16	15
Open Cases w/Projected Ratio of >37%.....	13	4	8
Open Cases w/Projected Ratio Between 30 – 37% .....	6	12	3
Open Cases w/Projected Ratio of <30%.....	2	0	4
Location Granted 1-year To Continue Operation .....	3	1	1
Locations Being Monitored .....	72	81	94

**Number of Active Restaurant-type Licenses At Year End**

<b>Case Type</b>	<b>FY 2009</b>	<b>FY2010</b>	<b>FY2011</b>
Hotel/motel w/Restaurant (series 11).....	161	163	160
Restaurant (series 12) .....	3,046	3,079	3,175
Restaurant Licenses Combined (series 11 & 12) .....	3,207	3,242	3,335
Total Liquor Licenses Statewide.....	11,633	11,765	11,832



**Audit Unit Statistics  
3-year Comparison**

<b>Action</b>	<b>FY 2009</b>	<b>FY2010</b>	<b>FY2011</b>
Total audits completed .....	103.....	87 .....	82
Total audits passed .....	56.....	51 .....	38
Total audits failed .....	33.....	30 .....	40
Total audits inconclusive/audit not performed .....	14.....	6 .....	4

**Economic Impact**

<b>Source</b>	<b>FY 2009</b>	<b>FY2010</b>	<b>FY2011</b>
Fees from continuation licenses issued .....	90,000.....	60,000 .....	180,000
Assessed fine revenue.....	90,775.....	88,200 .....	99,900
Collected fine revenue .....	81,275.....	81,750 .....	84,400

## Licensing Division

The Licensing Division is responsible for processing new license applications, permits, renewals, and maintaining up-to-date and accurate license records. There were 11,832 active liquor licenses in Arizona at year end FY 2011, an increase of six tenths of a percent (.6%) from FY 2010.

In FY 2011, 1,798 new licenses 2,197 special event permits were issued. 11,483 licenses were renewed and 516 interim permits were issued. Combined licensing transactions total 15,994, a one percent (1%) increase from FY 2010.

DLLC's Information Technology (IT) and Records Unit provide support to all divisions and units of DLLC. Support includes continuous on-line access of license status for industry stakeholders, generating monthly renewal applications, and scanning documents into the Licensing Control System (LCS), a database developed for the agency in the 1990s. LCS also captures data used on the DLLC website, generated by the investigations and compliance divisions, in addition to storing public records. LCS is updated by the licensing, compliance, and investigative staff and maintained by IT.

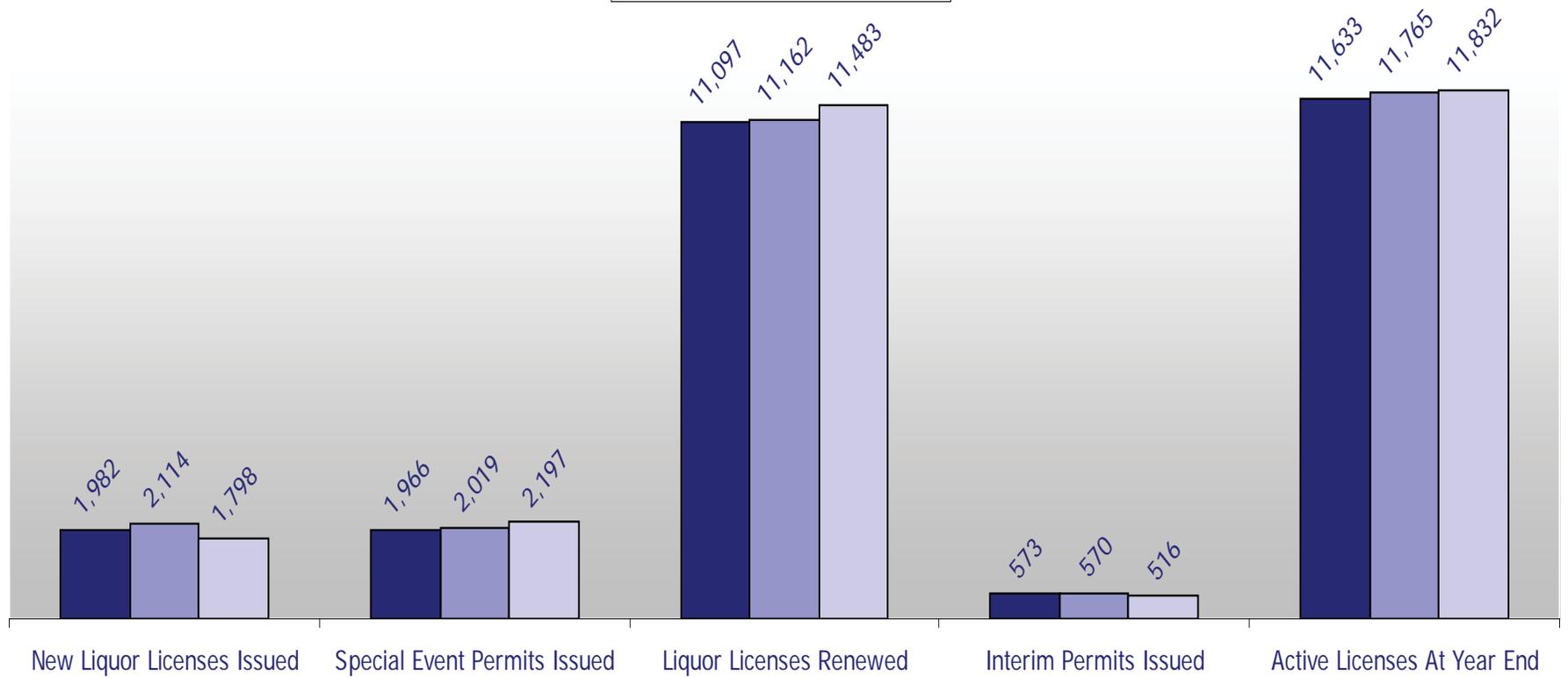
LCS was implemented in 1991 when there were 8,150 active licenses in the state. Arizona has realized a forty-five percent (45%) increase in the number of liquor licenses from FY 1991 to FY 2011. A new e-Licensing Information System (ELIS), which will replace LCS, is in the final stages of development. ELIS, part of a statewide e-licensing initiative is being lead by Government Information Technology Agency (GITA).

### FY 2011 Licensing Division Statistics

<b>Action</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>Change</b>
New Liquor Licenses Issued .....	2,114.....	1,798 .....	(14.9%)
Special Event Permits Issued.....	2,019.....	2,197 .....	8.8%
Liquor Licenses Renewed .....	11,162.....	11,483.....	2.9%
Interim Permits Issued.....	570.....	516 .....	(9.5%)
Current Active Liquor Licenses.....	11,765.....	11,832.....	0.6%

### License Transactions Three Year History

■ 2009 ■ 2010 ■ 2011



Liquor license applicants select the license series most appropriate for their business from seventeen available options. The license series and the county in which the license establishment operates will determine when the annual renewal date occurs. In the chart below, liquor licenses are listed by series and name followed by the county name and county code. Each license is assigned a unique number that includes the series number, county code, and sequential issuance number. Licensees are required to post their license on the premises in a conspicuous location.

### Types of Liquor Licenses, County Codes, License Number Components

License Series	License Name	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 issuance number for the liquor license

## Liquor License Count by County and License Type

June 30, 2011

County Code	In-State Producer	Out-of-State Producer	Domestic Microbrewery	Wholesaler	Government	Bar (all liquor)	Beer & Wine Bar	Conveyance	Liquor Store (all liquor)	Beer & Wine Store	Hotel/Motel	Restaurant	Domestic Farm Winery	Club (private)	TOTAL
01) Apache County	0	0	0	0	0	23	4	0	16	5	2	8	0	3	61
02) Cochise County	0	0	3	1	3	63	32	0	44	50	5	40	14	12	267
03) Coconino County	1	0	5	7	4	54	61	3	53	79	18	110	1	11	407
04) Gila County	0	0	0	2	0	43	17	1	25	25	2	23	2	9	149
05) Graham County	0	0	0	1	1	16	5	0	15	12	0	4	0	2	56
06) Greenlee County	0	0	0	0	1	7	1	0	7	5	0	2	0	4	27
07) Maricopa County	1	0	20	65	41	650	439	13	777	1,394	82	2,008	4	106	5,600
08) Mohave County	1	0	3	5	5	49	50	2	51	130	3	123	1	29	452
09) Navajo County	0	0	0	2	0	42	20	0	42	24	0	28	0	11	169
10) Pima County	1	0	4	9	9	224	182	4	269	298	31	467	3	51	1,552
11) Pinal County	0	0	0	1	2	82	38	0	75	96	1	74	1	18	388
12) Santa Cruz County	0	0	0	0	5	20	9	0	16	30	0	29	11	1	116
13) Yavapai County	0	0	4	5	2	78	48	1	56	97	11	168	22	20	512
14) Yuma County	0	0	0	2	2	55	30	0	53	79	5	72	1	12	311
15) La Paz County	0	0	0	1	1	16	13	0	17	24	0	19	0	7	98
Out of State Suppliers	0	1,080	0	0	0	0	0	0	0	0	0	0	0	0	1,080
Ltd. Out of State Suppliers	0	590	0	0	0	0	0	0	0	0	0	0	0	0	590
<b>TOTALS</b>	<b>4</b>	<b>1,670</b>	<b>39</b>	<b>101</b>	<b>71</b>	<b>1,421</b>	<b>949</b>	<b>24</b>	<b>1,516</b>	<b>2,347</b>	<b>160</b>	<b>3,175</b>	<b>60</b>	<b>295</b>	<b>11,832</b>

## The 2011 Liquor License Lottery

When Arizona's population boomed in the 90s, DLLC asked for legislation that would increase availability of the three most sought-after liquor licenses that, at the time, could be purchased only through resale on the open market. These licenses, often referred to as "quota licenses" are: the bar license (series 6); the beer and wine bar license (series 7); and the liquor store license (series 9). Of the 17 series of liquor licenses available in Arizona, these three are the only licenses issued in limited quantities. In 2005 legislation was passed to offer quota licenses through an annual lottery for five consecutive years. The number of quota licenses offered in the lottery was based on population per county. In 2009, the law was again changed requiring DLLC to hold an annual lottery after the initial 5-year period had ended.

Before a lottery is held, three independent auditors determine the Fair Market Value (FMV) of each of the three liquor licenses in each of the 15 Arizona counties. The FMV is based on the average price of licenses sold during the last 12-month period in each respective county.

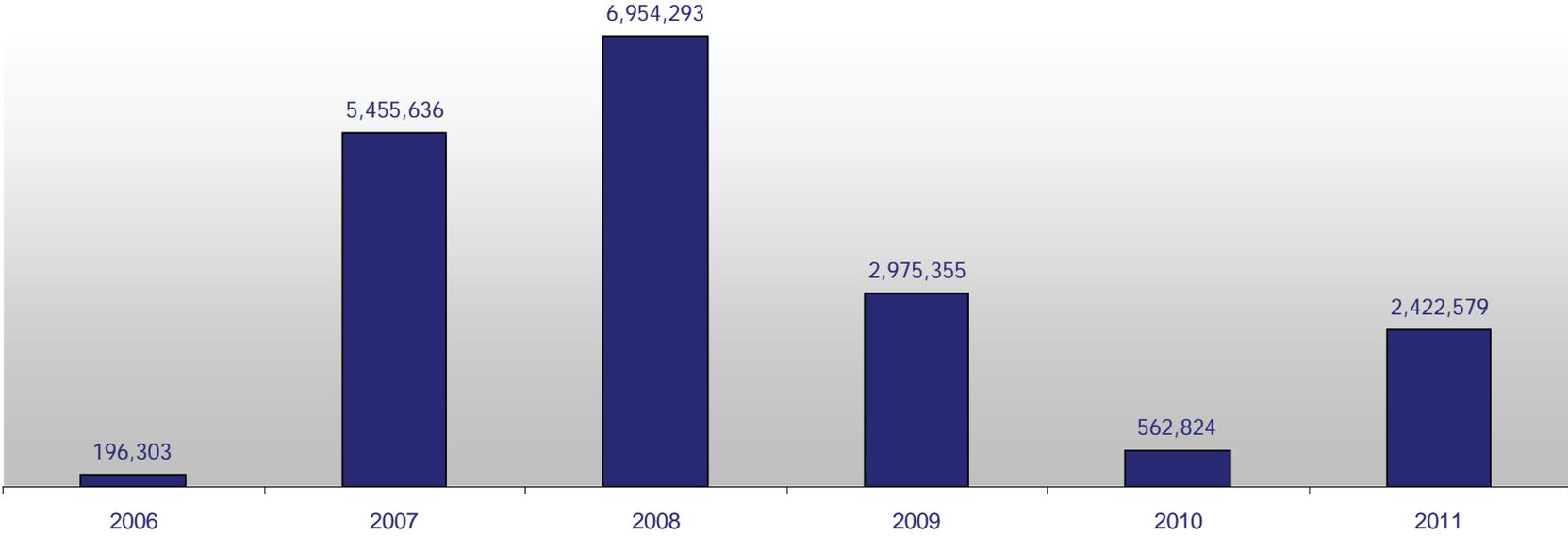
In FY 2011 no lottery was held because the 2010 U.S. Census prevented population estimates from being provided in sufficient time to hold a lottery prior to the year end on June 30.

Lottery revenue collected in FY 2011 is the result of an August 2011 due date for final payment of licenses issued during the FY 2010 lottery. These revenues total two million four hundred twenty-two thousand five hundred seventy-nine (\$2,422,579) dollars all of which was deposited into the General Fund.

### Lottery Economic Impact

July 1, 2010 - June 30, 2011 Revenue .....	\$2,422,579
(Deposited into the General Fund)	

Liquor License Lottery Revenues  
Since Inception of Lottery



## Investigations Division

It is the responsibility of the Investigations Division to ensure that all licensees statewide adhere to A.R.S. Title 4 (Arizona liquor laws) and all Rules established by the DLLC.

The primary functions of the Investigations Division are to:

1. Train other law enforcement agencies statewide on the application of Title 4 (Arizona liquor law), with emphasis on the Administrative Law Process;
2. Educate students about legal, physical, and emotional outcomes that have occurred when alcohol is consumed by persons under the age of 21 (AKA "underage");
3. Educate community members regarding the legal responsibilities of licensed establishments and train those members to work with law enforcement agencies to ensure liquor establishments do not negatively impact their neighborhoods;
4. Enforce Title 4 criminal laws to ensure compliance with statutes;
5. Conduct routine liquor-licensed establishment inspections to ensure they comply with criminal and administrative requirements of Title 4, and apply the appropriate action when violations are observed;
6. Investigate complaints regarding liquor-licensed establishments received from community members and local law enforcement personnel;
7. Conduct background investigations of liquor license applicants to determine if Title 4 qualifications to possess a liquor license are met;
8. Review police reports submitted by local law enforcement agencies to assess compliance and when one or more violations are found, submit reports to DLLC's Compliance Unit;
9. Conduct Covert Underage Buyer (CUB) detail to determine if a licensed establishment is in compliance with Title 4 regarding the sale and service of liquor only to persons over the age of 21;
10. Research and respond to inquiries regarding Title 4 provisions for the branding, sales, and distribution of liquor throughout Arizona; and
11. Develop and implement enforcement plans for large scale, public "special events" where the sale and service of liquor is provided and an attendance of 100,000+ people is anticipated.



Due to the state budget deficit, agency budget cuts, and hiring freeze, DLLC's Investigation Division served Arizona with a staff of eleven (11) sworn officers during FY 2011, a reduction of forty-five percent (45%) which began in January 2007, the first months of the economic downturn. With 11,832 active liquor licenses, the Investigation Division operates with an officer-to-liquor license ratio of 1:1,076. The significant decline in officers is well illustrated by the staff requirements for the agency when it was first formed in 1939. Seventeen (17) full-time investigators were hired to enforce one thousand five hundred sixty (1,560) active liquor licenses, a 1:92 officer-to-liquor license ratio.

### Investigation Division Activity 3-year Comparison

<b>Case Type</b>	<b>FY 2009</b>	<b>FY2010</b>	<b>FY2011</b>
Routine Liquor Inspections .....	3,798 .....	2,954 .....	2,459
Open Non-actioned complaints .....	532 .....	408 .....	459
Actioned Complaints .....	256 .....	128 .....	102
Administrative Counts Charged .....	2,643 .....	1,615 .....	1,425
Hidden Ownerships Completed .....	49 .....	17 .....	18
Site Inspections Completed .....	959 .....	653 .....	698
Law Enforcement Liaison Completed .....	909 .....	764 .....	632
Criminal Citations Issued .....	1,806 .....	969 .....	1,602
On-view Violation Case Reports .....	403 .....	312 .....	528
Law Enforcement Training Events .....	11 .....	22 .....	36
Community Training Events .....	5 .....	5 .....	4

<b>False ID Training Events</b>	<b>Title 4 Training Events</b>	<b>TRACE Training Events</b>
Law Enforcement = 24	Law Enforcement = 9	Law Enforcement = 3
Public = 2	Public = 2	

## Covert Underage Buyer (CUB) Program

The Covert Underage Buyer (CUB) program was instituted by DLLC in May of 2003. To prevent the sale of liquor to underage persons, this program provides the resources and guidelines for DLLC to investigate reported complaints of liquor-licensed businesses suspected of one or more liquor law violations involving underage persons. 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 is being expanded statewide as quickly as CUB training can be provided to local law enforcement agencies. After training is complete, DLLC investigators provide support while the CUB program is initiated at each agency.

### FY 2011 CUB Program Statistics

Locations Investigated	# Sold to CUB	Percentage of Establishments That Sold To CUB	Administrative Citations Issued	Criminal Citations Issued	CUBS Used
201	71	35.3%	180	99	46

### May 2003 - June 2011 CUB Program Statistics

Since the inception of the program, two thousand eight hundred forty-one (2,841) establishments have been investigated and eight hundred seventy (870), or thirty-one percent (31%), have sold liquor to a CUB resulting in the issuance of two thousand eighty-four (2,084) administrative citations and one thousand seven hundred fifty-two (1,752) criminal citations.

Locations Investigated	# Sold to CUB	Percentage of Establishments That Sold To CUB	Administrative Citations Issued	Criminal Citations Issued
2,841	870	30.6%	2,084	1,752

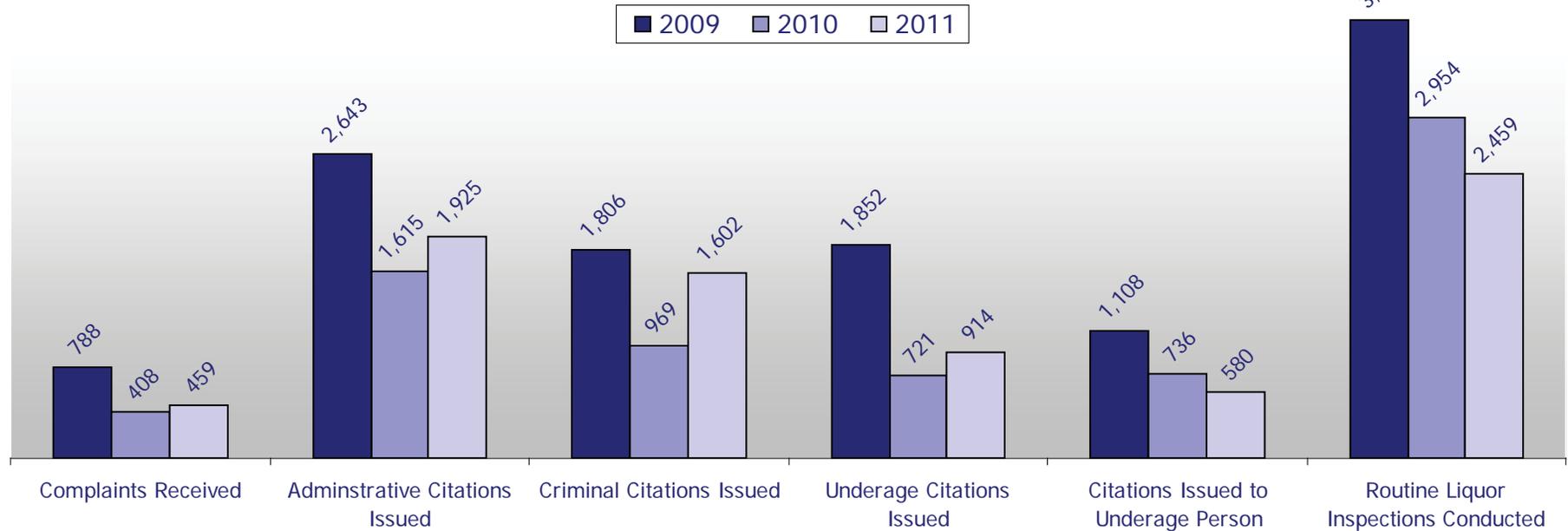
## Liquor Sales To Underage Persons

The number of citations DLLC investigators issued to underage persons decreased by ninety (90%) percent and total number of underage citations written by DLLC investigators increased by seventy-one (71%) percent compared to June 2010. These percentage swings are due, in great part, to DLLC's focus on preventing the sale of alcohol to underage rather than the elimination of underage drinking.

The chart below illustrates a comparison in the number of citations involving underage persons that were written in FY 2010 and FY 2011.

Statute/ Definition	# of Citations Issued in FY 2010	# of Citations Issued in FY 2011
<b>A.R.S. § 4-241.A</b> Failure to Check ID	99	113
<b>A.R.S. § 4-241.L</b> Sold to CUB	54	114
<b>A.R.S. § 4-241.N</b> Use of false ID to enter premises	65	7
<b>A.R.S. § 4-244.1</b> Unlicensed Resale	29	4
<b>A.R.S. § 4-244.9</b> Furnishing alcohol to an underage	467	599
<b>A.R.S. § 4-244.22</b> Consuming w/o permission of premises owner	15	27
<b>A.R.S. § 4-244.34</b> Underage DUI	0	0
<b>A.R.S. § 4-244.40</b> Alcohol in system of underage	73	0
<b>A.R.S. § 4-244.41</b> Accept \$ to allow underage in bar	57	0
<b>A.R.S. § 13-2907.01</b> Providing false information to state	0	0
<b>A.R.S. § 13-3478</b> Unlawful use of a license	0	0

## Investigation Division Activity Three Year History



**Complaints Received** - the number of incoming complaints to report a liquor law violation that are received by the Investigations Division.

**Administrative Citation** - a citation issued by investigators when a liquor law violation was found at a liquor-licensed establishment.

**Criminal Citation** - a citation issued by an investigator when an individual is found in violation of Arizona liquor law.

**Underage Violations** - the number of citations written, to adults and to underage persons, for a liquor law violation involving an underage person.

**Citations Issued to Underage** - the number of citations written to underage persons found in violation of Arizona liquor law (Title 4).

**Routine Liquor Inspections** - the number of establishments randomly inspected by investigators to ensure they are operating in compliance with Arizona liquor law (Title 4).

## Compliance Unit

The Compliance Unit, , also part of DLLC's Investigations Division, governs the dispute-resolution process. The compliance officer arbitrates cases to reach a fair resolution and identifies alternatives, when appropriate, to bypass a hearing which is often a costly and time-consuming option.

After a DLLC Investigation Report or police report alleging a violation is filed, the Compliance Unit determines the level of department action warranted. Actions consist of verbal or written warnings, consent agreements, or referral for a full administrative hearing.

Consent agreements are 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. A consent agreement can be as broad as requiring liquor law training, surrendering the license, or require the licensee to retain professional security personnel to bring the establishment into compliance.

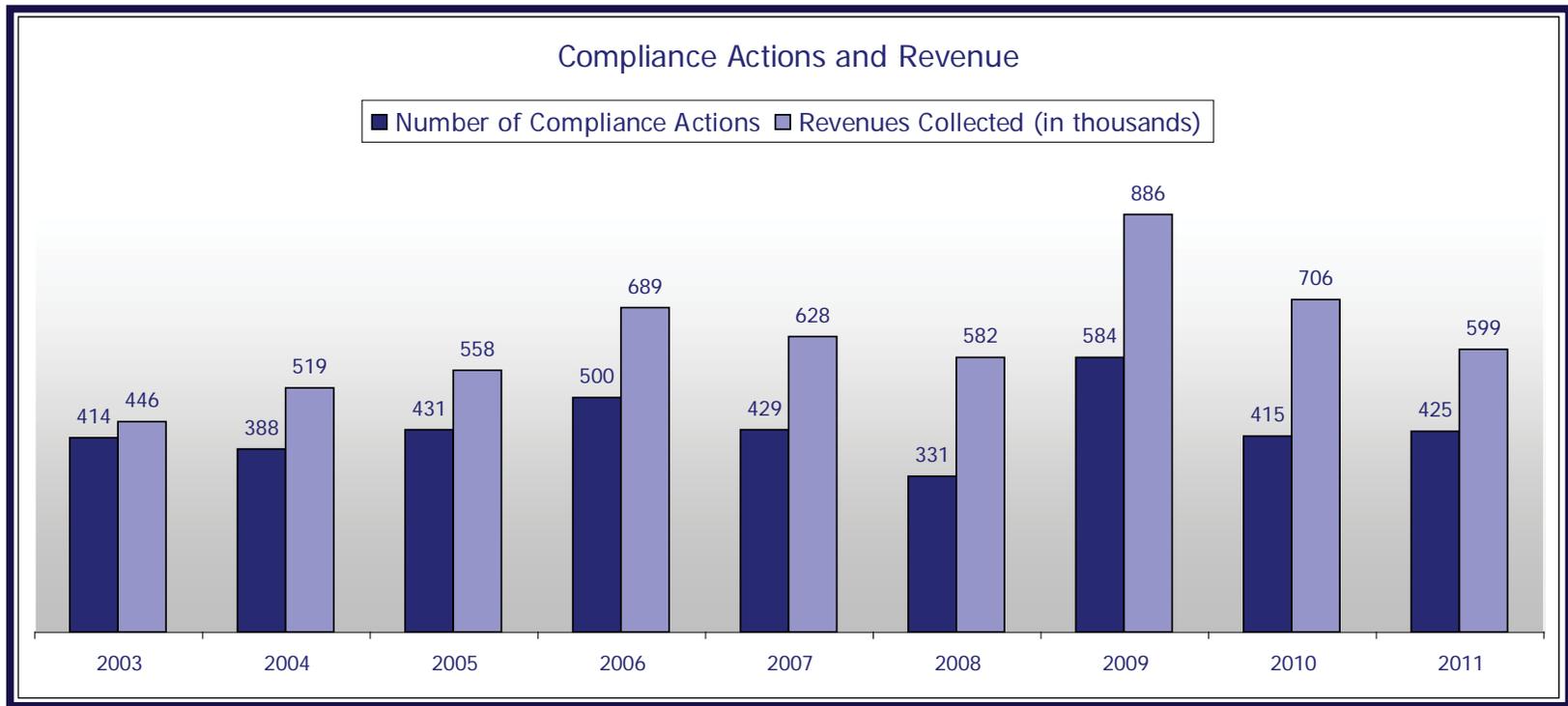
Administrative citations are prepared for the more severe violations and for those licensees who have refused the consent agreement option. When citations are complete, they are forwarded to the Office of Administrative Hearings (OAH) for a formal hearing process.

The Attorney General's Office provides legal counsel for DLLC. Legal counsel often participate in the determination of compliance actions and assist in the preparation of cases heard before OAH and the Arizona Liquor Board.

DLLC's Compliance Unit collected fines of five hundred ninety-eight thousand five hundred nine dollars (\$598,509) from four hundred twenty-five (425) compliance actions processed and adjudicated between durning FY 2011.

### FY 2011 Compliance Unit Economic Impact

Total Fines Collected .....	\$598,509
Total Compliance Actions .....	425



Compliance Unit Activity  
3-year Comparison

<b>Case Type</b>	<b>FY 2009</b>	<b>FY2010</b>	<b>FY2011</b>
Revocations .....	5	10	2
Suspensions .....	18	31	7
Surrenders .....	15	26	13
Divestitures .....	4	6	4
Administrative Complaints .....	44	67	9
Decisions & Orders .....	22	27	8
Cases Received .....	665	561	752
Cases Completed .....	529	529	280
Cases In Progress At Year End .....	436	32	478
Warning Letters Issued .....	122	66	45
Cases Sent to OAH .....	42	26	6

## Arizona State Liquor Board

The Arizona State Liquor Board operates independently from the director of DLLC. However the Board is housed within the department and is provided one staff member who prepares Board schedules, hearing notices, records, expenditures, hearings, preparation of agendas, minutes and orders.

Board members are responsible for hearing all liquor license applications that have received formal protest or disapproval from the public, the governing body of a city, town, county, tribe, or by DLLC's director. The Board may also protest an application. Additionally, an aggrieved party may appeal certain decisions of the director to the Board for review.

The Board consists of seven members who are appointed by the governor pursuant to A.R.S. §4-411(B) and A.R.S. §38-211. Five of the Board members shall not be financially interested directly or indirectly in business licensed to deal with spirituous liquors. Two members shall currently be engaged in business in the spirituous liquor industry or have been engaged in the past in business in the spirituous liquor industry, at least one of whom shall currently be a retail licensee or employee of a retail licensee. One member shall be a member of a neighborhood association recognized by a county, city or town.

Members serve for three year terms which expire on the third Monday in January of the third year of service. The governor may remove any member of the board for cause. No member may represent a licensee before the board or the department for a period of one year after the conclusion of the member's service on the board.

Member Name	Board Position	Occupation/County	Term Expires
J.D. Ghelfi	Chair	Attorney, Maricopa County	January 16, 2012
Bill DuPont	Vice-chair	Attorney/CAO Auditor, Pima County	January 21, 2013
Jim C. Carruthers	Member	Retired, Yuma County	January 16, 2012
Tim Linden	Member	Wholesaler, Graham County	January 20, 2014
Robin Cantrell	Member	Retailer, Graham County	January 16, 2012
Mike Farley	Member	Business Consultant, Pima County	January 21, 2013
Vikki Scarafiotti	Member	No Financial Interest, Maricopa County	January 20, 2014

## Liquor Board Hearing Terminology

To assist in understanding of the many functions of the Arizona State Liquor Board, a brief description of activities is provided below. FY 2011 achievements are illustrated on the following page.

**Hearings Scheduled** - The number of cases scheduled to be heard before the State Liquor Board.

**Licenses Granted** - The State Liquor Board may grant or allow an applicant the privilege of owning a liquor license based on findings and recommendations presented to the Board members. This number represents licenses granted by a two-thirds vote of Board members.

**Licenses Denied** - The State Liquor Board may deny or disallow an applicant the privilege of owning a liquor license based on findings and recommendations presented to the Board members. This number represents licenses denied by a two-thirds vote of Board members.

**Appeals Heard** - Applicants and licensees have the right to appeal a previous decision made by the Board. The Board Members hear the appeals and arrive at a new decision which may or may not be the same as their previous two-thirds vote decision.

**Rehearing Requested** - If proceedings during a Board hearing adversely impact the Board's ability to make a decision, a rehearing of a case may be requested by either the Board, the applicant, or an interested party.

**Continuances Granted** - If the hearing of a case is not concluded during the first hearing date scheduled, the decision will be postponed until the hearing is completed at one or more subsequent hearings.

**License Withdrawn** - Some applicants choose to withdraw their liquor license application and the right to be heard by the Board.

**Exemption Received** - When circumstances excuse a case that typically requires a board hearing.

## FY 2011 Liquor Board Hearing Activity

Hearings Scheduled	89	Continuances Granted	33
Licenses Granted	23	License Withdrawn	16
Licenses Denied	13	Exemption Received	0
Appeals Heard	3	Rehearing Requested	1

In FY 2011, sixty-four percent (63.9%) of liquor license applications in protest were granted and thirty-six percent (36.1%) were denied.

The graph below illustrates a comparison of Arizona State Liquor Board activities during the past four years.

