



STATE OF ARIZONA
DEPARTMENT OF LIQUOR LICENSES AND CONTROL

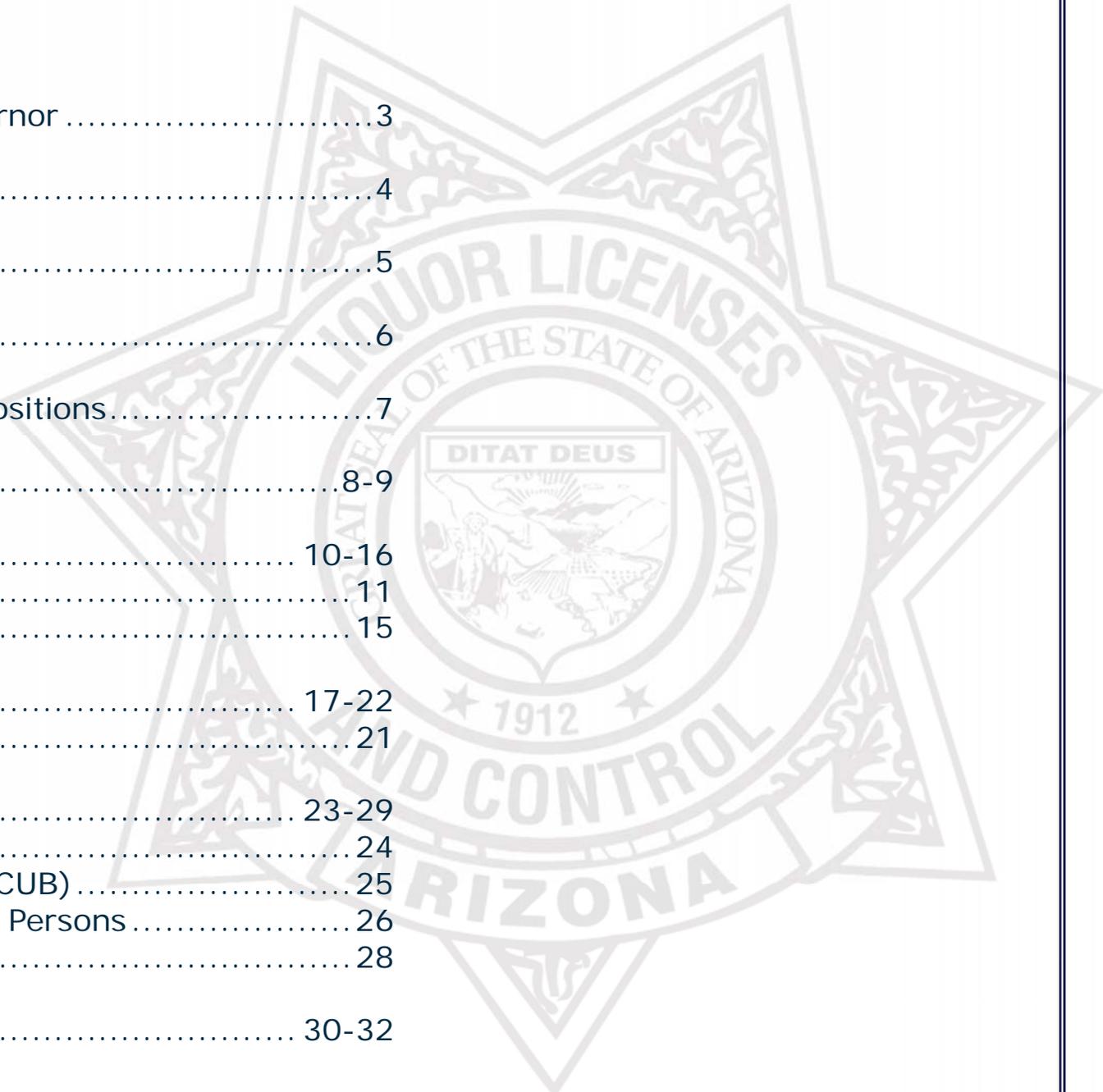
FY 2012
Annual Report
July 1, 2011 - June 30, 2012

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STATE OF ARIZONA
DEPARTMENT OF LIQUOR LICENSES AND CONTROL

Janice K. Brewer
GOVERNOR

Alan Everett
DIRECTOR

September 28, 2012

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 2012 Annual Report pursuant to A.R.S. § 41-1794.

As our economy recovers, DLLC will continue to improve efficiency, provide service to our licensees, enforce liquor laws 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 2012 include: prevention of 1,715 incidences of liquor sales to persons under the age of 21, an increase of 88 percent from the previous year; state liquor revenues estimated at \$470.3 million, an increase of 6.7 percent; and provided service to 11,619 active licensed businesses in the state.

Due to the increase of sworn officers (from 11 to 14), the number of agency-sponsored educational events for law enforcement and licensees have grown significantly. This is critical to improving compliance with complex liquor laws.

We continue to find innovative ways to achieve our mission.

Sincerely,

A handwritten signature in black ink that reads "Alan Everett". The signature is written in a cursive, flowing style.

Alan Everett,
Director

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 protect public safety and support economic growth through responsible sale and consumption of liquor, and efficiently licensing qualified applicants.

Vision Statement

Our agency continuously improves human resources, operations, and communications to achieve a level of public service and safety that exceeds expectations.

Director's Overview of FY 2012

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 470.3 million dollars this year. The chart to the right illustrates the sources of state liquor revenue and how that revenue is distributed.

As the state economy continues to recover, the number of liquor-licensed businesses that renewed their license increased by ninety-nine compared to FY 2011 yet, compared to the previous year, the number of new liquor-licensed businesses decreased by 213 in FY 2012 bringing the number active licenses to 11,619.

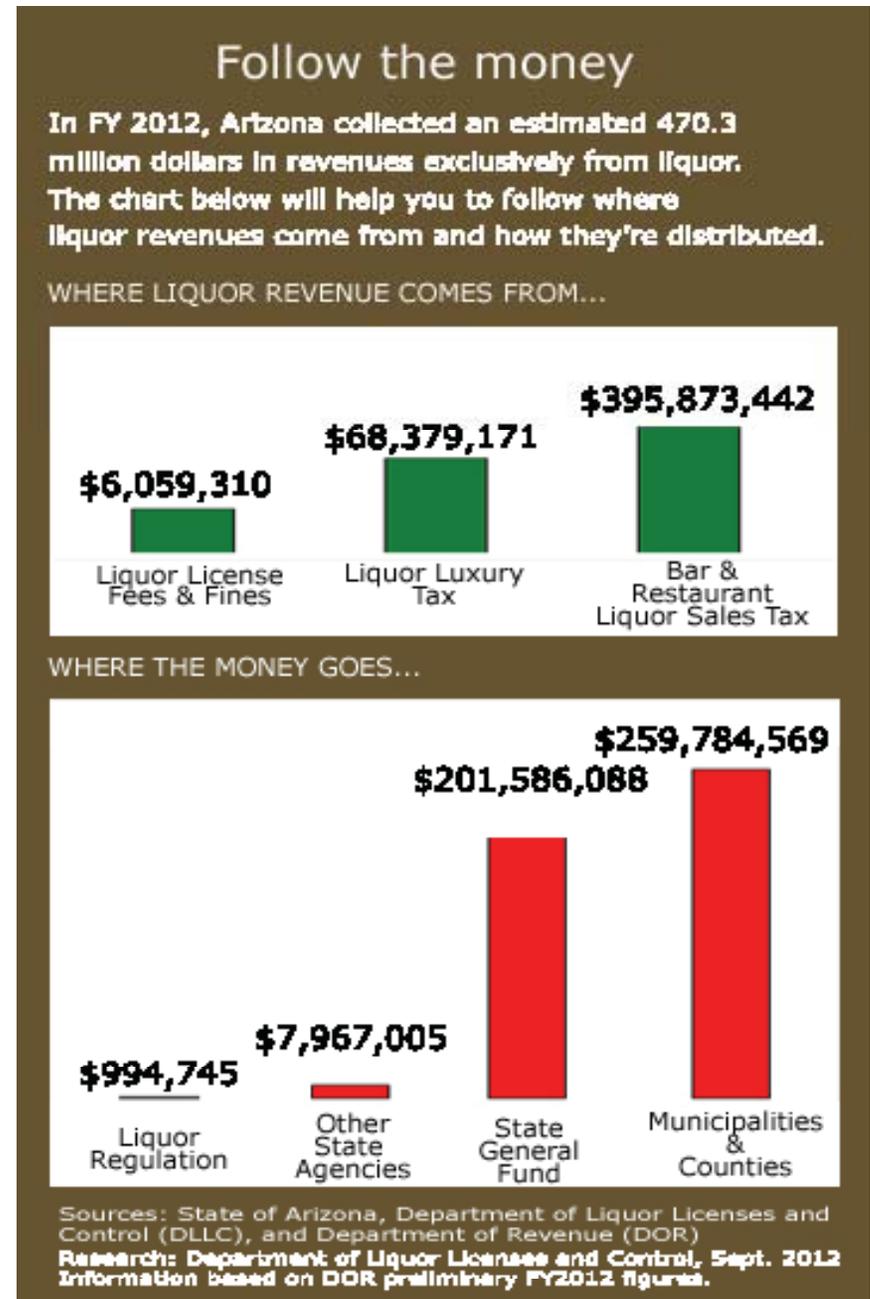
The revenue generated by the department exceeded our operating expenses by almost 54 percent. DLLC collected revenues of \$6.1 million from license fees and fines from liquor law violations. This represents a 31 percent decrease in revenue from FY 2011. DLLC deposited 75 percent, or \$4.5 million, of 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 2012, DLLC investigators prevented 1,715 incidents of sales to underage persons and increased the number of cases involving underage person(s) by 88 percent compared to FY 2011.

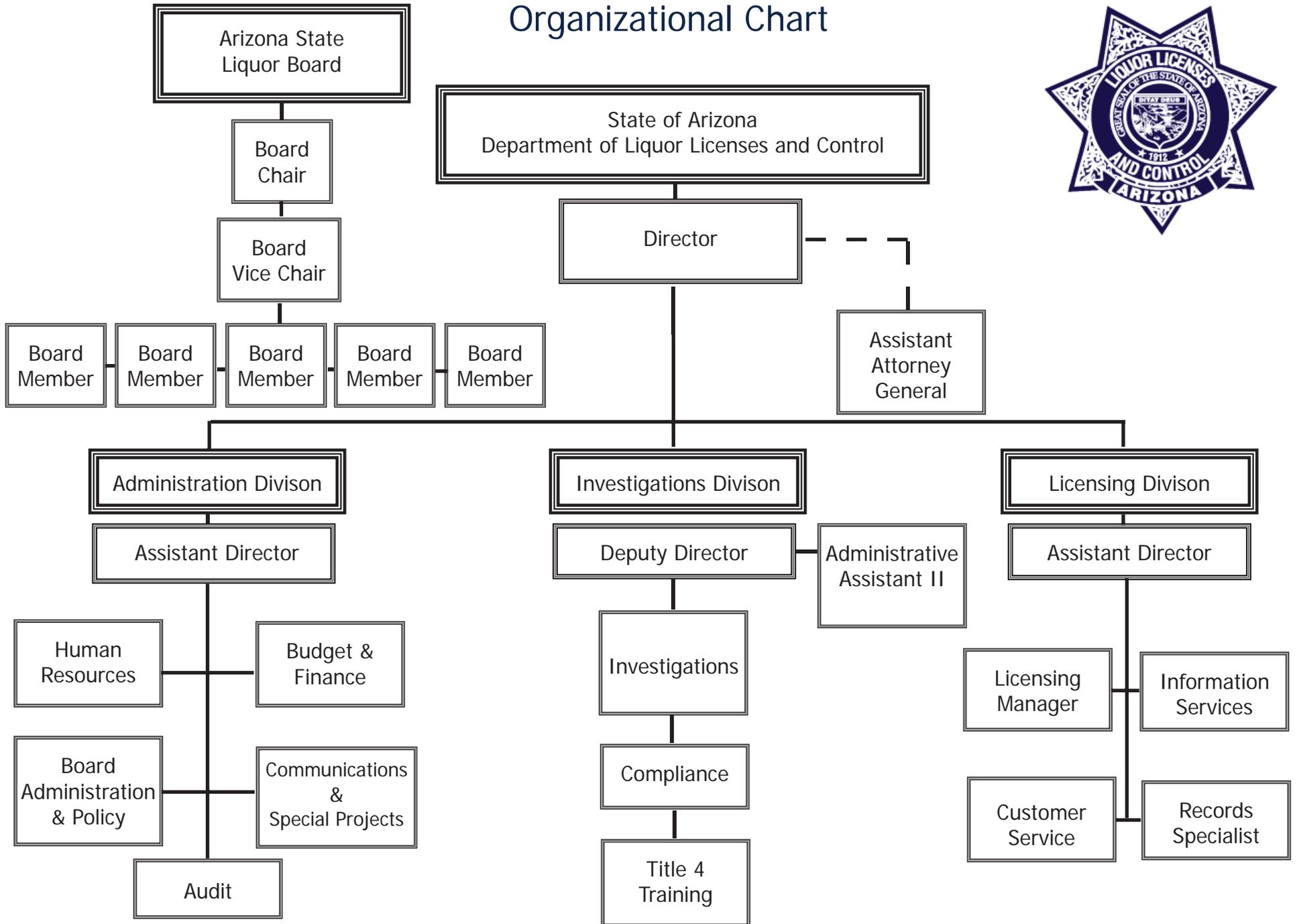
The FY 2012 annual report includes multiple-year comparisons to help interested readers better understand the responsibilities and achievements of DLLC, a state regulatory agency staffed by 41 dedicated individuals who work to ensure a responsible and safe liquor industry in Arizona.



Alan Everett



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 2012. Due to a hiring freeze and budget reductions, at year end (June 30, 2012), forty-one (40.5) FTEs were assigned to DLLC's three Divisions.

Administration Division

Total FTEs = 9.5

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

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

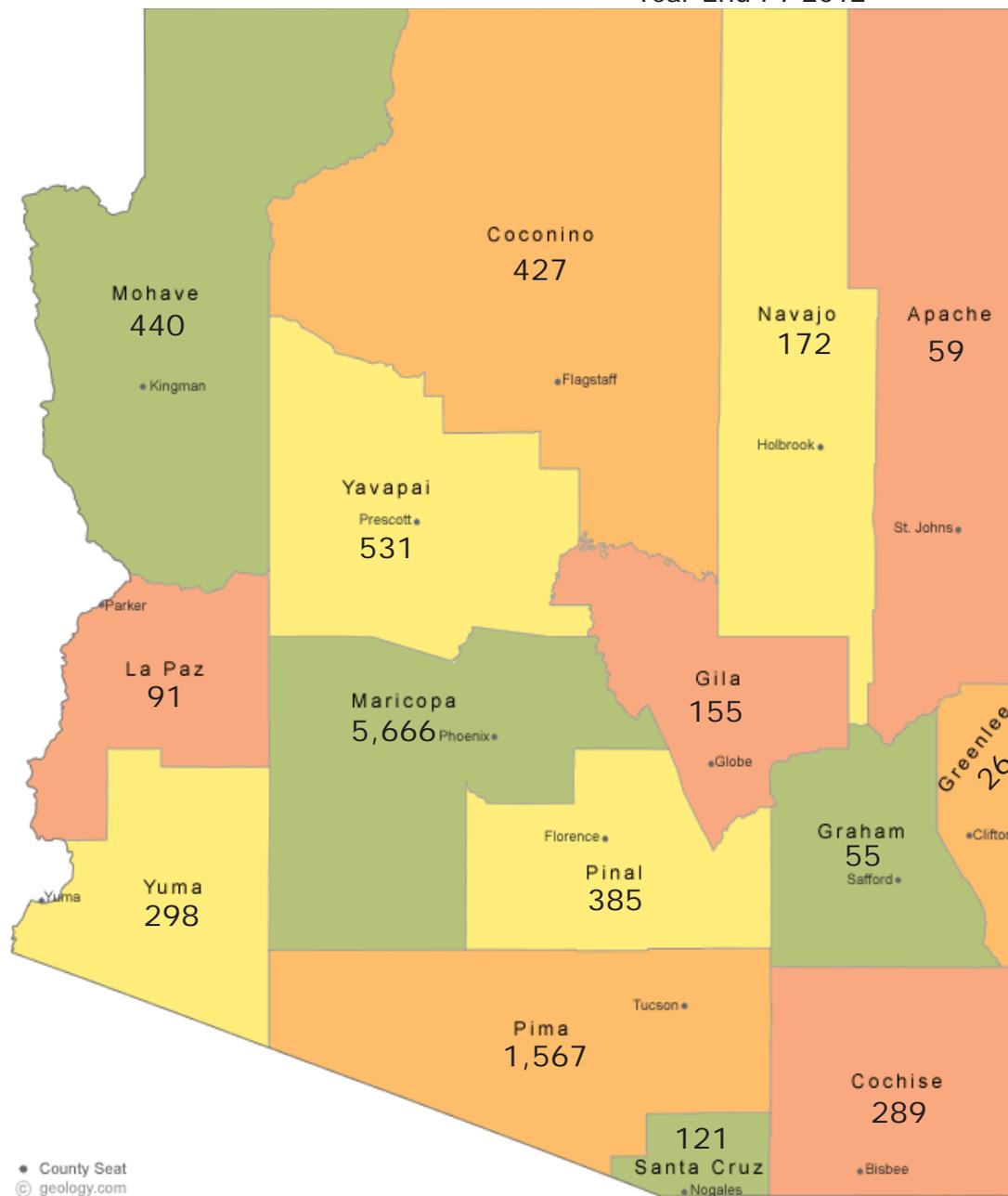
Investigations Division

Total FTEs = 18

<u>Phoenix Office</u>	
Deputy Director	1
Administrator	1
Compliance Unit	2
Investigators	11
<u>Tucson Office</u>	
Investigators	3

Liquor Licensed Establishments Regulated By DLLC

Year End FY 2012



● County Seat
© geology.com

Total active licenses - 12,044**

Out-of-State Licenses

Out-of-state Producer = 1,109

Limited out-of-state Producer* = 650

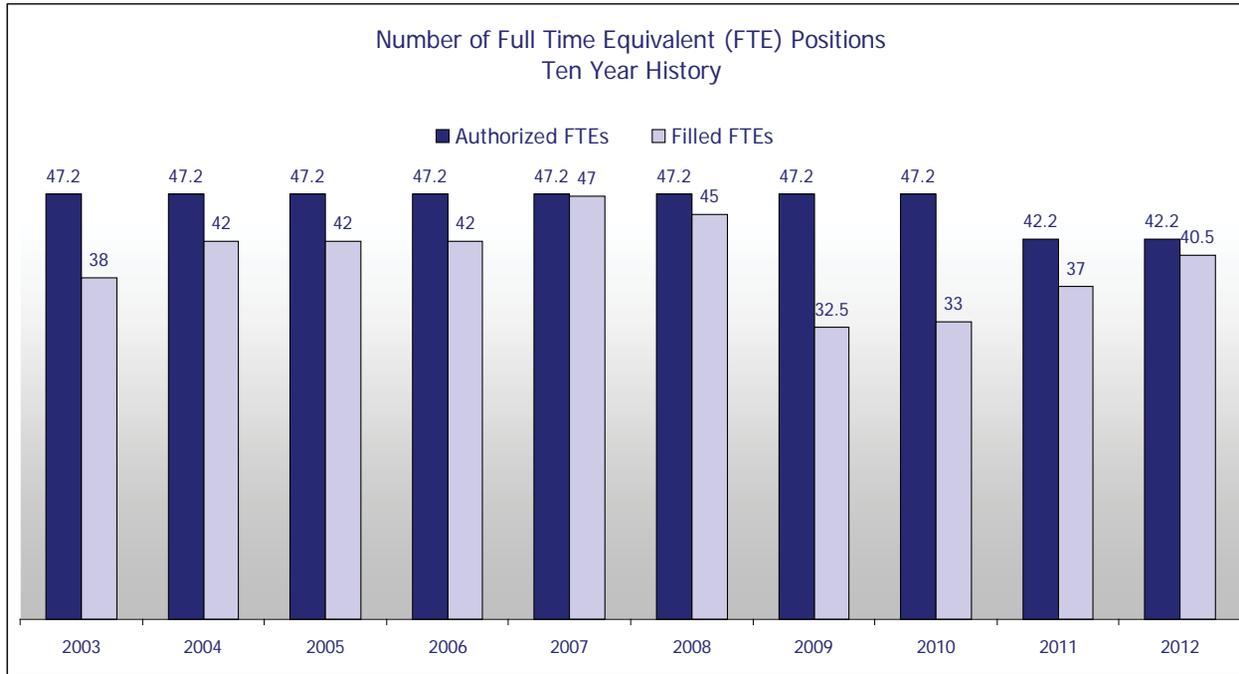
In addition to the 10,285 active licenses within the state of Arizona (illustrated on the county map, page left), DLLC regulated 1,759 out-of-state licenses at year end FY 2012

*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:

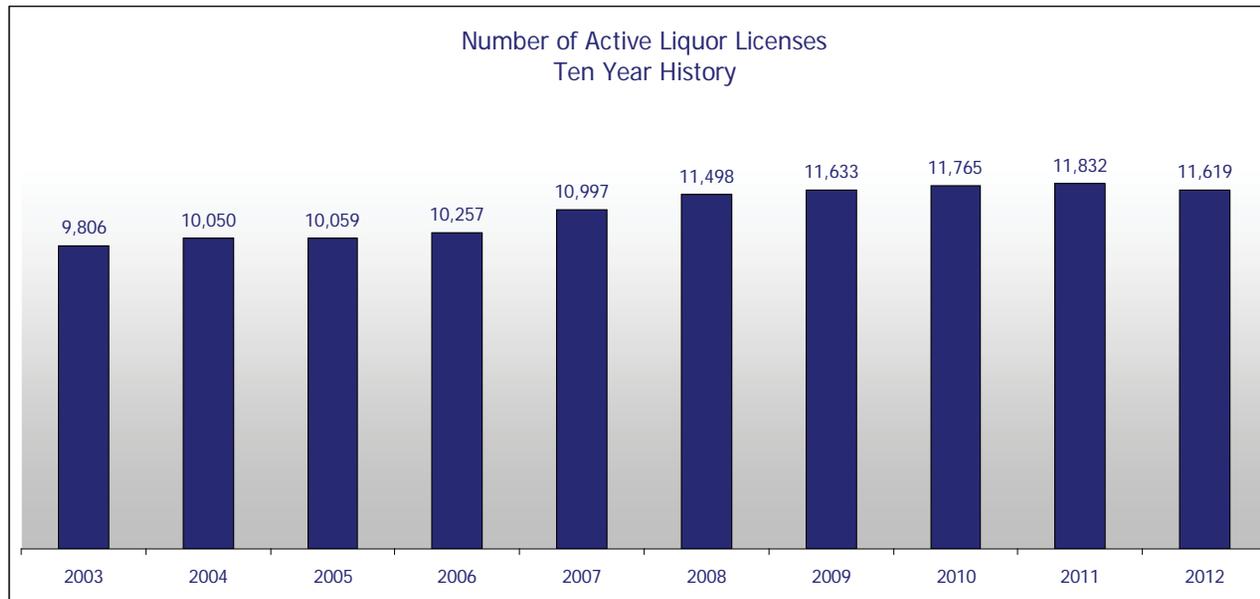
- Limited out-of-state Winery may sell/ship a total of 50 cases or less of wine to Arizona licensed wholesalers and retailers.
- Limited out-of-state Domestic Farm Winery may sell/ship a total of 20,000 gallons or less of wine to Arizona licensed wholesalers and retailers.
- Limited out-of-state Domestic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

**As of August 27, 2012



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
2012	287:1



Administrative Division

The Administrative Division is responsible for five DLLC units; Audit, Budget and Finance, Communciations and Special Projects, State Liquor Board Administration, 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.

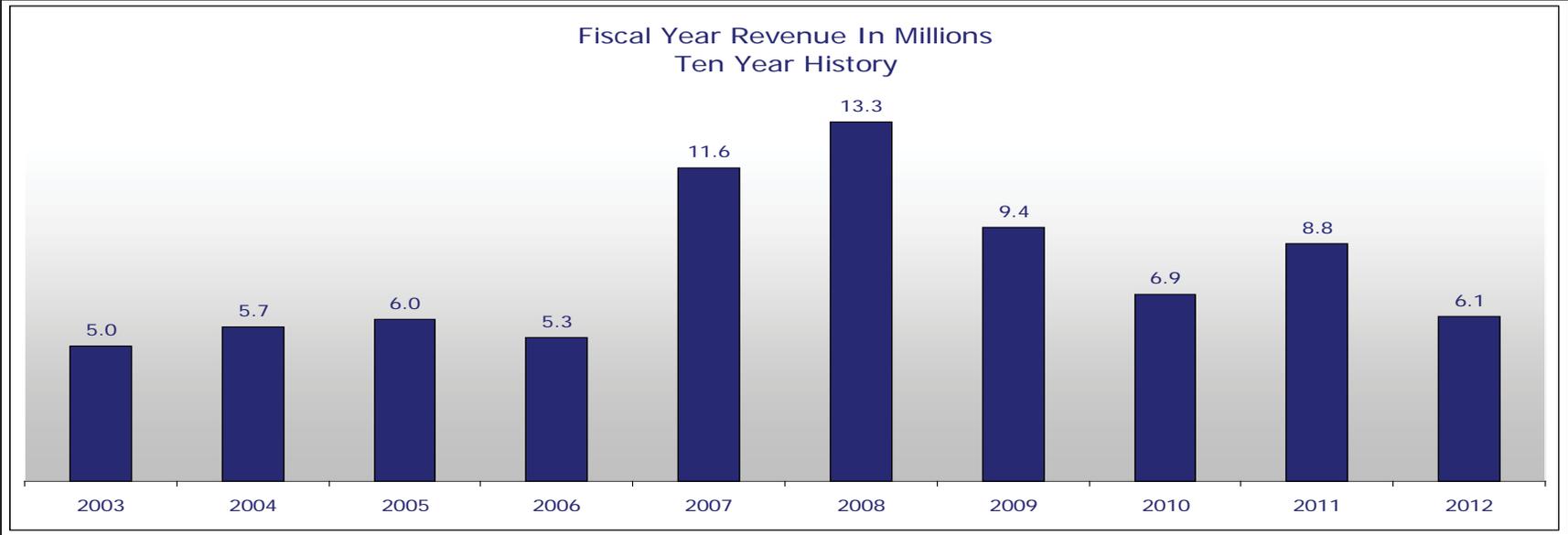
The Communications and Special Projects Unit directs incoming and outgoing information which includes media communications and requests, website design and content, industry and agency announcements, public meetings, review of Title 4 training syllabi and course completion requirements, and design of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

The Board Administration Unit manages the administrative hearing process for applications that have been protested by the public or the DLLC Director or recommended for disapproval by the local governing body and heard by the State Liquor Board.

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.

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.

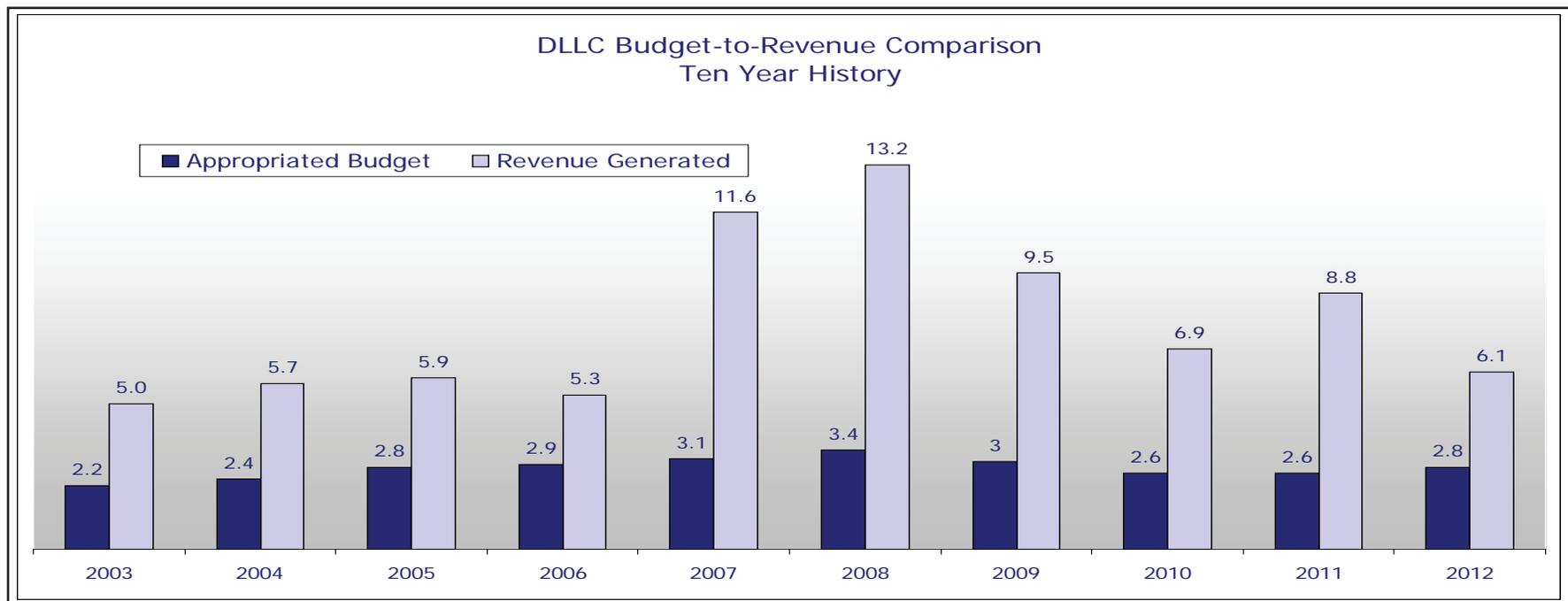


Revenues and Appropriated General Fund Budget Ten Year History (in millions)

Fiscal Year	Change from Previous Year	
	Revenue	Budget
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%)
2011	(31.37%)	5.56%

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 \$99,166 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
Four Year Comparison

Source of Revenues Disbursed by DLLC	FY 2009	FY 2010	FY 2011	FY2012
License & permit fees	5,426,453.....	5,479,822.....	5,441,629.....	5,354,472
Fair Market Value (liquor license lottery).....	2,975,355.....	562,824.....	2,588,647.....	99,166
Fines (liquor law violations).....	886,440.....	711,550.....	576,600.....	417,920
Penalty Fees (late renewals).....	140,600.....	151,500.....	153,750.....	118,050
Fingerprint Fees	81,600.....	69,936.....	68,256.....	69,702
SUB-TOTAL DISBURSEMENT	\$9,510,448.....	\$6,975,632.....	\$8,828,882.....	\$6,059,310
Disbursement To General Fund of DLLC Revenues	FY 2009	FY 2010	FY 2011	FY2012
Fair Market Value (liquor license lottery).....	2,975,355.....	562,824.....	2,588,647.....	99,166
License & Permit Fees	4,013,024.....	3,976,023.....	3,969,759.....	3,897,454
Fines (liquor law violations).....	886,440.....	711,550.....	576,600.....	417,920
Penalty Fees (late renewals).....	140,600.....	151,500.....	153,750.....	118,748
SUB-TOTAL DISBURSEMENT TO GENERAL FUND.....	\$8,015,419.....	\$5,401,897.....	\$7,288,756.....	\$4,533,288
PERCENTAGE OF DLLC TOTAL REVENUE (deposited into General Fund)	84.28%.....	77.44%.....	82.56%.....	74.82%
TOTAL REVENUE COLLECTED BY DLLC	\$9,510,448.....	\$6,975,632.....	8,828,882.....	\$6,059,310

Disbursement of Revenues
Part II

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

Disbursement of DLLC Revenues	FY 2010	FY 2011	FY 2012
Counties			
Apache	5,301	5,678	3,816
Cochise.....	26,938	28,317	25,341
Coconino	47,700	42,634	47,265
Gila	12,344	14,183	12,435
Graham	2,417	3,669	5,167
Greenlee.....	1,192	892	3,208
La Paz	10,846	7,544	8,167
Maricopa.....	93,000	42,000	51,000
Mohave	50,720	45,515	47,682
Navajo.....	13,457	14,683	17,333
Pima.....	99,000	57,000	60,000
Pinal.....	35,291	36,752	41,204
Santa Cruz.....	13,518	15,743	13,562
Yavapai.....	63,491	60,423	65,215
Yuma.....	29,434	29,937	26,482
Other Agencies			
Dept. of Health Services (Special Event Fees)	52,200	54,675	57,850
Dept. of Economic Security Div of Developmental Disabilities.....	50,600	55,650	45,550
DLLC			
Audit Surcharge.....	161,670	165,030	164,220
Enforcement Surcharge K.....	390,740	404,880	405,090
Enforcement Surcharge L.....	343,940	356,730	356,430
Fingerprint Fees	69,936	68,256	69,004
SUB-TOTAL DISBURSEMENT TO COUNTIES, OTHER AGENCIES AND DLLC	\$1,573,735	\$1,510,191	\$1,526,021

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 2012, active restaurant-type licenses statewide accounted for 3,371, or 29.0% of liquor licenses statewide.

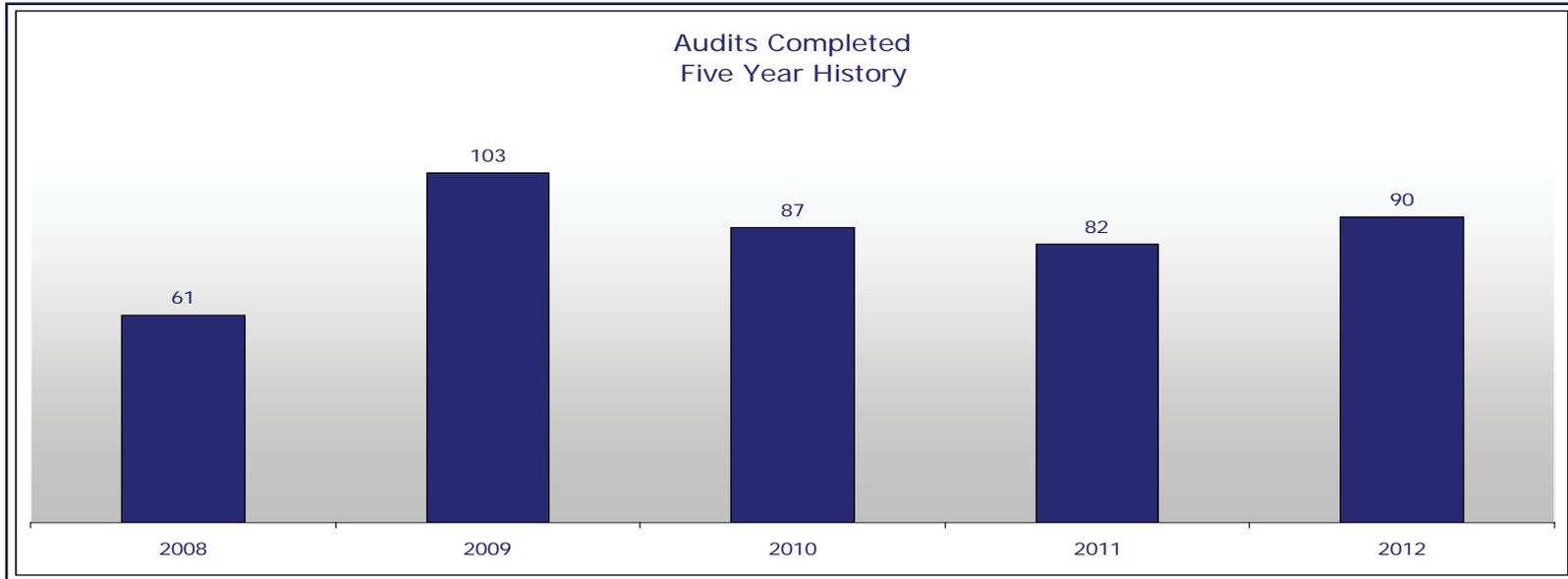
Annual reporting requirements for restaurant renewals include the completion of a Business Data Report, a reporting requirement introduced in FY 2009 that has greatly increased DLLC's auditing efficiency.

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

Case Type	FY 2009	FY2010	FY2011	FY2012
Audits in Progress	21	16	15	13
Open Cases w/Projected Ratio of >37%	13	4	8	8
Open Cases w/Projected Ratio Between 30 – 37%	6	12	3	5
Open Cases w/Projected Ratio of <30%	2	0	4	0
Location Granted 1-year To Continue Operation	3	1	1	0
Locations Being Monitored	72	81	94	92

Number of Active Restaurant-type Licenses At Year End

Case Type	FY 2009	FY2010	FY2011	FY2012
Hotel/motel w/Restaurant (series 11)	161	163	160	163
Restaurant (series 12)	3,046	3,079	3,175	3,208
Restaurant Licenses Combined (series 11 & 12)	3,207	3,242	3,335	3,371
Total Liquor Licenses Statewide	11,633	11,765	11,832	11,619



**Audit Unit Statistics
4-year Comparison**

Action	FY 2009	FY2010	FY2011	FY2012
Total audits completed	103.....	87	82.....	90
Total audits passed	56.....	51	38.....	58
Total audits failed	33.....	30	40.....	23
Total audits inconclusive/audit not performed	14.....	6	3.....	9

Economic Impact

Source	FY 2009	FY2010	FY2011	FY2012
Fees from continuation licenses issued	90,000.....	60,000	180,000.....	30,000
Assessed fine revenue.....	90,775.....	88,2001	99,900.....	72,730
Collected fine revenue	81,275.....	81,750	84,400.....	64,355

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 11,619 active liquor licenses in Arizona at year end FY 2012, a decrease of two percent (1.8%) from FY 2011.

In FY 2012, 1,778 new licenses and 2,308 special event permits were issued. 11,582 licenses were renewed and 543 interim permits were issued. Combined licensing transactions total 16,211, a one percent (1.4%) increase from FY 2011.

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, investigative staff and the Board Administrator and maintained by IT.

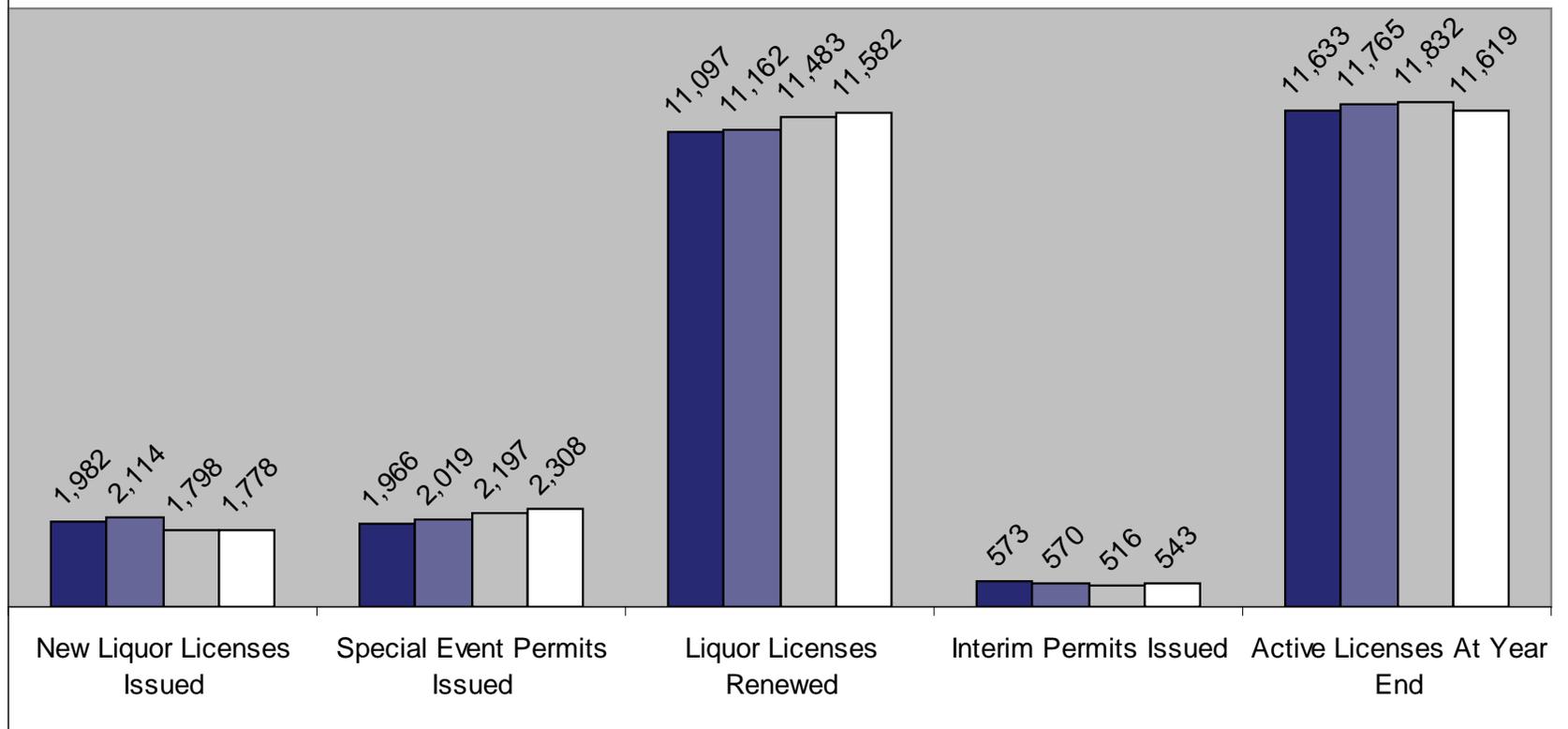
LCS was implemented in 1991 when there were 8,150 active licenses in the state. Arizona has realized a forty-three percent (42.6%) increase in the number of liquor licenses from FY 1991 to FY 2012. A new e-Licensing Information System (ELIS), which will replace LCS, is in the final stages of development. ELIS, part of a statewide e-licensing initiative is being lead by Government Information Technology Agency (GITA).

FY 2012 Licensing Division Statistics

Action	FY 2011	FY 2012	Change
New Liquor Licenses Issued	1,798.....	1,778	(1.1%)
Special Event Permits Issued.....	2,197.....	2,308	5.1%
Liquor Licenses Renewed	11,483.....	11,582.....	0.9%
Interim Permits Issued.....	516.....	543	5.2%
Current Active Liquor Licenses.....	11,832.....	11,619.....	(1.8%)

License Transactions Four Year History

2009
 2010
 2011
 2012



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, 2012

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	22	4	0	17	5	1	7	0	3	59
02) Cochise County	0	0	2	1	3	68	31	0	45	52	5	52	16	14	289
03) Coconino County	1	0	6	6	6	54	59	3	53	85	19	122	2	11	427
04) Gila County	0	0	1	4	0	43	17	0	26	27	2	24	2	9	155
05) Graham County	0	0	0	1	1	16	5	0	14	12	0	7	0	2	58
06) Greenlee County	0	0	0	0	1	7	1	0	6	5	0	3	0	3	26
07) Maricopa County	5	0	26	76	45	658	429	14	775	1,370	89	2,069	5	105	5,666
08) Mohave County	0	0	4	5	5	50	48	1	51	121	3	122	2	28	440
09) Navajo County	0	0	1	2	0	41	21	0	41	24	0	31	0	11	172
10) Pima County	1	0	7	11	14	228	177	4	270	299	30	474	3	49	1,567
11) Pinal County	0	0	0	1	2	78	35	0	74	97	1	78	1	18	385
12) Santa Cruz County	0	0	0	0	1	20	10	0	17	30	2	28	12	1	121
13) Yavapai County	0	0	7	4	2	75	45	1	57	98	10	182	30	20	531
14) Yuma County	0	0	0	1	4	53	25	0	55	75	5	67	1	12	298
15) La Paz County	0	0	0	1	1	16	12	0	17	21	0	16	0	7	91
Out of State Suppliers	0	1,109	0	0	0	0	0	0	0	0	0	0	0	0	1,109
Ltd. Out of State Suppliers	0	650	0	0	0	0	0	0	0	0	0	0	0	0	650
TOTALS	7	1,759	54	113	85	1,429	919	23	1,518	2,321	167	3,282	74	293	12,044*

* as of August 27, 2012

The 2012 Liquor License Lottery

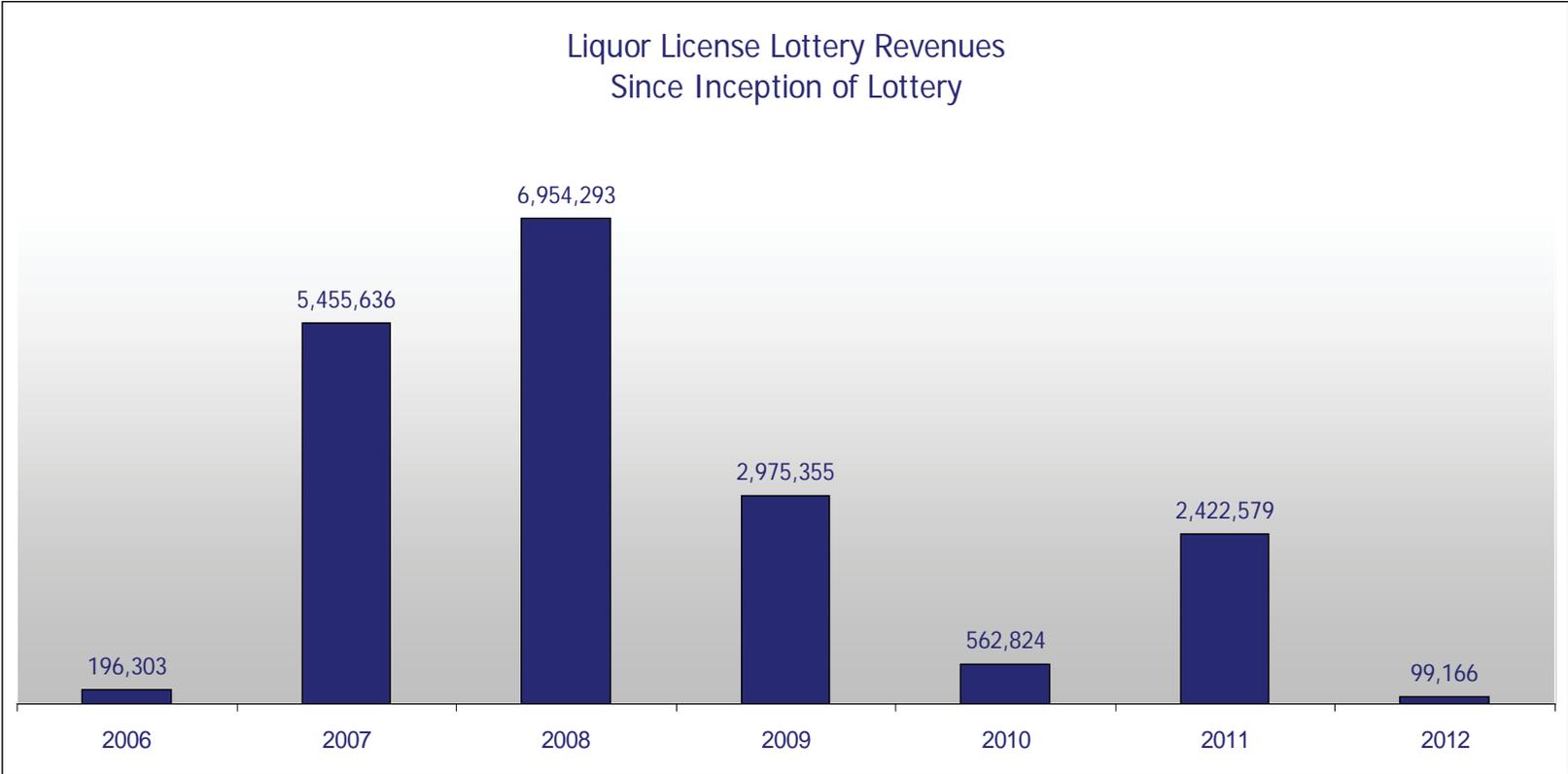
When Arizona's population boomed in the 90s, DLLC asked for legislation that would increase availability of the three most sought-after liquor licenses that, at the time, could be purchased only through resale on the open market. These licenses, often referred to as "quota licenses" are: the bar license (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.

DLLC held the FY 2012 Arizona Liquor License Lottery on May 14, 2012. This marked the 6th lottery conducted since inception in FY 2006. Of the 15 counties in Arizona, Maricopa County was the only county that experienced population growth of more than 10,000. With population growth of more than 20,000, Maricopa County had two of each license type available in 2012; the bar license (series 6), the beer and wine bar license (series 7), and the liquor store license (series 9). Applications were accepted from Thursday, April 5 through Thursday, May 3, 2012 and the random selection lottery drawing was held on May 14, 2012. DLLC received six applications for the bar license (series 6), three applications for the beer and wine bar license (series 7), and seventeen applications for the liquor store license (series 9). The lottery generated \$99,166 in General Fund revenue.

Lottery Economic Impact

July 1, 2011 - June 30, 2012 Revenue	\$99,166
(Deposited into the General Fund)	



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 fourteen (14) sworn officers during FY 2012, a reduction of forty-five percent (30%) which began in January 2007, the first months of the economic downturn. With 11,619 active liquor licenses, the Investigation Division operates with an officer-to-liquor license ratio of 1:830. The significant decline in officers is well illustrated by the staff requirements for the agency when it was first formed in 1939. Fourteen (14) fulltime investigators were hired to enforce eleven thousand six hundred nineteen (11,619) active liquor licenses, a 1:830 officer-to-liquor license ratio.

Investigation Division Activity 4-year Comparison

Case Type	FY 2009	FY2010	FY2011	FY2012
Routine Liquor Inspections.....	3,798	2,954	2,459	2,503
Open Non-actioned complaints.....	532	408	459	454
Actioned Complaints.....	256	128	102	72
Administrative Counts Charged.....	2,643	1,615	1,425	1,666
Hidden Ownerships Completed.....	49	17	18	25
Site Inspections Completed.....	959	653	698	760
Law Enforcement Liaison Completed.....	909	764	632	985
Criminal Citations Issued.....	1,806	969	1,602	1,809
On-view Violation Case Reports.....	403	312	528	758
Law Enforcement Training Events.....	11	22	36	33
Community Training Events.....	5	5	4	9

False ID Training Events		Title 4 Training Events		TRACE Training Events	
Law Enforcement =	16	Law Enforcement =	17	Law Enforcement =	0
Public =	6	Public =	3		

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 2012 CUB Program Statistics

Locations Investigated	# Sold to CUB	Percentage of Establishments That Sold To CUB	Administrative Citations Issued	Criminal Citations Issued	CUBS Used
238	66	27.7%	143	122	45

May 2003 - June 2012 CUB Program Statistics

Since the inception of the program, three thousand seventy-nine (3,079) establishments have been investigated and nine hundred thirty-six (936), or thirty percent (30.4%), have sold liquor to a CUB resulting in the issuance of two thousand two hundred twenty-seven (2,227) administrative citations and one thousand eight hundred sixty-four (1,864) criminal citations.

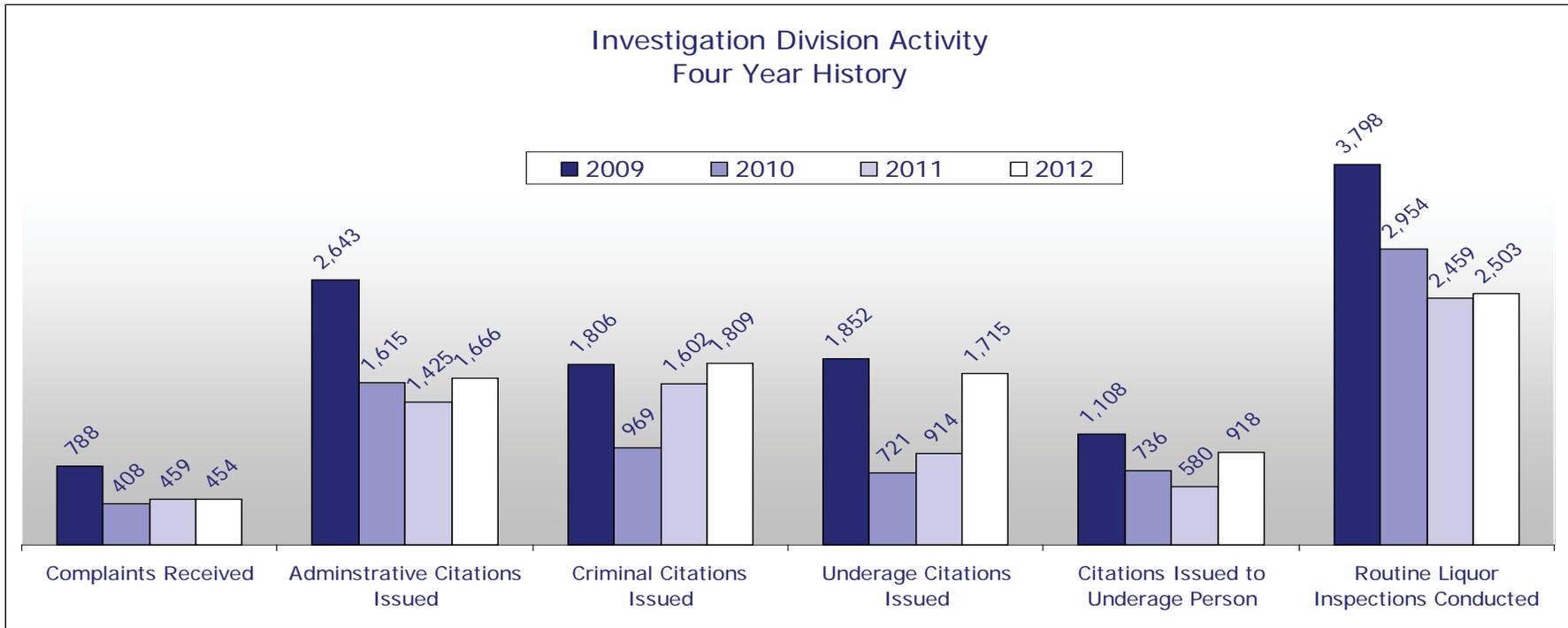
Locations Investigated	# Sold to CUB	Percentage of Establishments That Sold To CUB	Administrative Citations Issued	Criminal Citations Issued
3,079	936	30.4%	2,227	1,864

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 2011. 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 2011 and FY2012.

Statute/ Definition	# of Citations Issued in FY 2011	# of Citations Issued in FY 2012
A.R.S. § 4-241.A Failure to Check ID	113	59
A.R.S. § 4-241.L Use of false ID to buy alcohol	114	154
A.R.S. § 4-241.N Use of false ID to enter premises	7	93
A.R.S. § 4-244.1 Selling without a license	4	9
A.R.S. § 4-244.9 Furnishing alcohol to an underage, underage in possession/consumption	599	554
A.R.S. § 4-244.20 Consume in public place	27	59
A.R.S. § 4-244.41 Alcohol in system of underage	n/a	548
A.R.S. § 13-2907.01 Providing false information to the State	n/a	28
A.R.S. § 13-3478.1 Unlawful use of a license	47	60
A.R.S. § 13-3478.3 Using another person's driver's license	14	84



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.

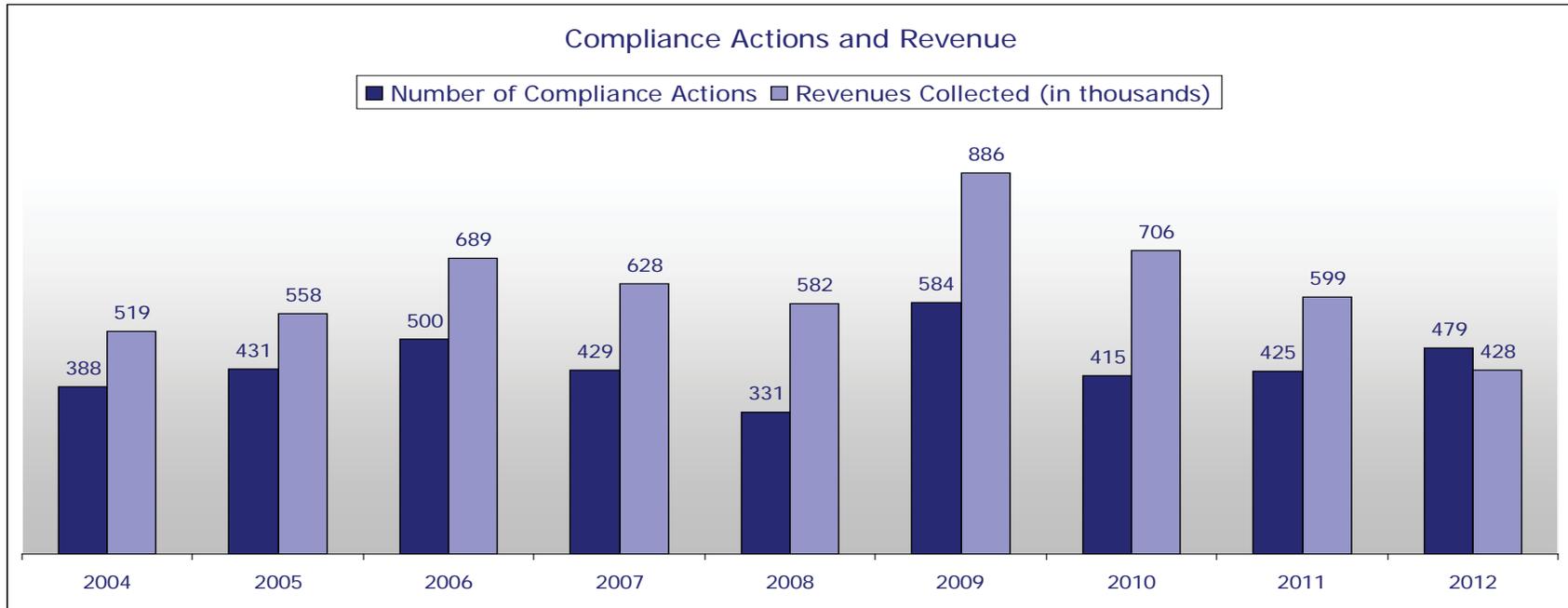
Administrative citations are prepared for the more severe violations and for those licensees who have refused the consent agreement option. When citations are complete, they are forwarded to the Office of Administrative Hearings (OAH) for a formal hearing process.

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 State Liquor Board.

DLLC's Compliance Unit collected fines of four hundred twenty-eight thousand four hundred forty-five dollars (\$428,445) from four hundred seventy-nine (479) compliance actions processed and adjudicated between durning FY 2012.

FY 2012 Compliance Unit Economic Impact

Total Fines Collected	\$428,445
Total Compliance Actions	479



Compliance Unit Activity 4-year Comparison

Case Type	FY 2009	FY2010	FY2011	FY2012
Revocations	5	10	2	0
Suspensions	18	31	7	4
Surrenders	15	26	13	2
Divestitures	4	6	4	3
Administrative Complaints	44	67	9	5
Decisions & Orders	22	27	8	3
Cases Received.....	665	561	752	888
Cases Completed.....	529	529	280	199
Cases In Progress At Year End.....	436	32	478	688
Warning Letters Issued	122	66	45	17
Cases Sent to OAH	42	26	6	7

State Liquor Board

The 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 and maintains the hearing notices, agendas, orders, minutes, and records.

Board members are responsible for hearing liquor license applications that have received public protest or a recommendation of disapproval from the local governing body or the DLLC Director. Additionally, the Board may hear appeals and overturn or amend decisions of the Director.

The Board consists of seven members who are appointed by the governor pursuant to A.R.S. §4-111(A)-(F) 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 19, 2015
Bill DuPont	Vice-chair	Attorney/CAO Auditor, Pima County	January 21, 2013
Jim C. Carruthers	Member	Retired, Yuma County	January 19, 2015
Tim Linden	Member	Wholesaler, Graham County	January 20, 2014
Robin Cantrell	Member	Retailer, Graham County	January 19, 2015
Mike Farley	Member	Business Consultant, Pima County	January 21, 2013
Vikki Scarafiotti	Member	Non-profit Executive Director, Maricopa County	January 20, 2014

Liquor Board Hearing Terminology

To assist in understanding of the many functions of the State Liquor Board, a brief description of activities is provided below. FY 2012 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.

Hearing Cancelled - If the reason for the protest is clearly removed or satisfied, the Director may request the Board cancel the hearing.

FY 2012 Liquor Board Hearing Activity

Hearings Scheduled	60	Continuances Granted	20
Licenses Granted	18	License Withdrawn	11
Licenses Denied	8	Rehearings Requested	2
Appeals Heard	0	Hearings Cancelled	4

In FY 2012, thirty percent (30.0%) of liquor license applications scheduled for hearing were granted and thirteen percent (13.3%) were denied. In addition, thirty-three percent (33.3%) of the application hearings were continued and eighteen percent (18.3%) were withdrawn by the applicant.

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

