

GOVERNOR'S MONTHLY REPORT
AUGUST 2010



STATE OF ARIZONA
DEPARTMENT OF LIQUOR LICENSES AND CONTROL
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GRANTS & FUNDING
Liquor Enforcement & Education Outreach Grant
CUB (Covert Underage Buyer) Program

In an effort to curb the sale of liquor to underage persons, the Covert Underage Buyer (CUB) program was instituted in May of 2003. 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. When DLLC has reasonable suspicion that a liquor-licensed establishment is selling liquor to underage customers, the agency will send in a covert underage buyer, or CUB, to attempt to purchase liquor. The CUBs are between the age fifteen (15) and nineteen (19), and are carefully trained by DLLC investigators to understand and follow state laws, including DLLC's CUB investigations guidelines. DLLC provides CUB program training to all Arizona law enforcement agencies, allowing the program to operate statewide.

In August 2010, using three (3) CUBs and eight (8) officers, DLLC conducted investigations of eight (8) liquor-licensed establishments. Five (5), or sixty-three (63%) percent, of these establishments sold alcohol to a (CUB) resulting in five (5) criminal and twelve (12) administrative violations. All eight (8) locations were investigated in response to complaints received by DLLC.

In August 2010, DLLC saw a decrease of thirty-seven (37%) percent in liquor sales to the CUB compared to the previous month, July 2010. This represents a decrease of sixty-two (62%) percent in sales to the CUB compared to August 2009.

Since the inception of the program, two thousand six hundred sixty-four (2,664) establishments have been investigated and eight hundred five (805) or thirty (30%) percent have been sold to CUB buyers resulting in one thousand eight hundred eighty (1,880) administrative violations and one thousand six hundred eighty-one (1,681) criminal citations.

CUB Program Statistics

| Calendar Year | Locations Investigated | # Sold to CUB | % of Locations that Sold to CUB | Administrative Violations | Criminal Violations |
|----------------------|-------------------------------|----------------------|--|----------------------------------|----------------------------|
| 2003 | 122 | 33 | 29% | 70 | 71 |
| 2004 | 217 | 55 | 25% | 122 | 136 |
| 2005 | 337 | 108 | 32% | 342 | 283 |
| 2006 | 475 | 148 | 31% | 409 | 317 |
| 2007 | 450 | 108 | 24% | 200 | 201 |
| 2008 | 572 | 172 | 30% | 416 | 349 |
| 2009 | 392 | 115 | 29% | 234 | 229 |
| 2010 | 97 | 69 | 71% | 146 | 96 |

An Underage Drinking Hotline is in operation for concerned citizens to call when underage drinking, service, or sales are suspected. With each complaint DLLC launches an investigation. The Underage Drinking Hotline number is 1-877-NOT-LEGL or 1-877-668-5345.

GRANTS & FUNDING
Liquor Enforcement & Education Outreach Grant
TRACE (Target Responsibility for Alcohol Connected Emergency)

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 and emergency medical services (EMS) personnel in high-profile cases which involve underage drinking. Each TRACE case is concluded only when the source of liquor is traced back to the supplier and the supplier is charged with a criminal and/or administrative violation.

TRACE is a statewide operation with one (1) full time investigator available for immediate response to alcohol-related emergencies which involve an underage person(s).

TRACE Program Statistics

| Calendar Year | Total # of Cases | Administrative Violations | Criminal Violations |
|----------------------|-------------------------|----------------------------------|----------------------------|
| 2005 | 11 | 5 | 3 |
| 2006 | 11 | 24 | 12 |
| 2007 | 4 | 9 | 6 |
| 2008 | 6 | 6 | 3 |
| 2009 | 8 | 20 | 4 |
| 2010 | 2 | 0 | 0 |

Investigator Palubeskie is currently working on one (1) 2009 TRACE case and two (2) 2010 TRACE cases. To complete these cases DLLC requires additional information which will be provided by local law enforcement agencies.

OUTREACH

Community & Agency Outreach

Community and agency outreach meetings and presentations create opportunities to increase DLLC's efficiency and relevancy, encourage agency collaborative efforts, and promote safe and legal alcohol distribution, sales, and consumption in Arizona.

Community and agency outreach during the month of August 2010:

Mayor, City of Tucson meet & greet – director participated
Mayor & City Mgr, Cottonwood meet & greet – director participated
Alliance Beverage Tour – director, deputy director and comm. director participated
Arizona Food Marketing Alliance (AFMA) president meet & greet – director participated
League of Arizona Cities & Towns training & collaboration – comm. director participated
Arizona Food Marketing Alliance new products training – director, dep. Dir and comm. dir facilitated
City Mgr Sedona meet & greet – director participated
Phoenix International Raceway – director participated
Arizona Attorney's Association Board Hearing Protest Training – director facilitated
Southern Arizona Public Meeting – director, deputy director and comm. director facilitated
Golden Eagle Distributing - director, deputy director and comm. director participated
Crescent Crown Distributing – director, deputy director and comm. director participated

August 2010 Law Enforcement Special Detail:

Out-of-Area Complaints – Entire Investigations Division
Payson Rodeo – Investigators Miller and Chesley
Special Assignment With Department of Gaming – Investigators Ribera & Chesley
CUB Detail Scottsdale/Mesa/Phoenix– Investigators Jaramillo & Palubeskie
CUB Detail Phoenix/Glendale – Investigators Jaramillo & Palubeskie
Mesa PD Title 4 & Fake ID Training – Investigator Miller
Graham S.O., Thatcher PD and Pima PD Title 4 & Fake ID Training – Investigator Miller
MCSO Field Training – Entire Investigations Division

Special Events

Media

Media Outlet

Arizona Daily Sun
Arizona Republic
Arizona Daily Star
Arizona Republic

Story Content

Liquor license application process
Salty Seniorita failed audit, app for series 6, & leased land in Peoria
Mr. Head's application, protest and liquor board hearing
Satara Thai, delinquent taxes (Peoria) and pending compliance actions

DLLC Press Release Content

Law Enforcement Focus on Underage Drinking & Fake ID Arrests – Fall School Semester
Alcoholic Products Recently Introduced Into Arizona Market – Underage Appeal

SUCCESS STATISTICS
Investigations

In August 2010, investigators completed one hundred ninety-nine (199) routine liquor inspections (RLIs) at licensed establishments and events throughout Arizona resulting in sixty-five (65) criminal citations and thirteen (13) administrative violations. The following success statistics were completed by a staff of nine (9) fulltime, sworn officers who uphold a statewide officer-to-liquor license ratio of 1:1,555.

An increase in total investigative achievements during August 2010 of eleven (11.4%) percent compared to August 2009 is the result of an effort to increase efficiency by focusing on complaint-based investigations. The need to improve efficiency became imperative when the state budget deficit and hiring freeze reduced the investigative staff by fifty-five (55%) percent since August 2007; from twenty (20) sworn officers to nine (9). In addition to staff reduction, investigators have found it necessary to restrict travel expenses. In August 2009, DLLC employed ten (10) investigators.

| Achievements | Current Month | Total FY 2011 | 1 Year Ago This Month | Total FY 2010 |
|--------------------------------------|----------------------|----------------------|------------------------------|----------------------|
| Hidden Ownerships Completed | 2 | 3 | 4 | 17 |
| Site Inspections Completed | 81 | 154 | 55 | 653 |
| Actioned (administrative) Complaints | 8 | 17 | 14 | 128 |
| Non-Actioned (criminal) Complaints | 45 | 68 | 24 | 408 |
| Administrative Counts Charged | 145 | 244 | 118 | 1,615 |
| Criminal Charges Issued | 75 | 127 | 71 | 969 |
| Routine Liquor Inspections | 199 | 411 | 199 | 2,954 |
| Compliance Case Reports Submitted | 56 | 84 | 44 | 469 |
| On-view Violation Case Reports | 42 | 57 | 15 | 312 |
| Law Enforcement Liaison | 57 | 105 | 76 | 764 |

Underage Investigations Statistics:

| | Current Month | Total FY 2011 YTD | 1 Year Ago This Month | Total FY 2010 |
|---------------------------------|----------------------|--------------------------|------------------------------|----------------------|
| Citations Issued to Underage | 45 | 73 | 71 | 736 |
| Total Underage Violations Cited | 65 | 103 | 61 | 721 |
| Total Achievements | 838 | -- | 752 | -- |

| Current Month | Younger than Age 15 | -----Age----- | | | | | |
|----------------------|----------------------------|----------------------|-----------|-----------|-----------|-----------|-----------|
| | | 15 | 16 | 17 | 18 | 19 | 20 |
| Age of minor cited | 0 | 0 | 0 | 3 | 8 | 6 | 6 |

SUCCESS STATISTICS
Investigations (continued)

Underage Investigations Statistics (continued):

| Statute/ Definition | # of Citations issued this month | Total FY 2011 YTD | 1 Year Ago This Month | # of Citations issued in FY '10 |
|--|---|--------------------------|------------------------------|--|
| A.R.S. § 4-241.A Failure to Check ID | 10 | 12 | 11 | 99 |
| A.R.S. § 4-241.L Sold to CUB | 0 | 2 | 10 | 54 |
| A.R.S. § 4-241.N Use of false ID to enter premises | 7 | 7 | 2 | 65 |
| A.R.S. § 4-244.1 Unlicensed Resale | 4 | 4 | 0 | 29 |
| A.R.S. § 4-244.9 Furnishing alcohol to an underage | 21 | 55 | 28 | 467 |
| A.R.S. § 4-244.22 Consuming w/o permission of premises owner | 2 | 8 | 0 | 15 |
| A.R.S. § 4-244.33 Underage DUI | 0 | 0 | 0 | 0 |
| A.R.S. § 4-244.40 Alcohol in system of underage | 0 | 0 | 5 | 73 |
| A.R.S. § 4-244.41 Accept \$ to allow underage in bar | 0 | 0 | n/a | 57 |
| A.R.S. § 13-2907.01 Providing false information to state | 0 | 0 | 0 | 0 |
| A.R.S. § 13-3478 Unlawful use of a license | 0 | 0 | 0 | 0 |
| A.R.S. § 28-3478.1 Unlawful use of driver's license | 0 | 1 | 0 | 1 |
| A.R.S. § 28-3478.3 Using another person's driver's license | 1 | 2 | 5 | 35 |

SUCCESS STATISTICS
Liquor License Audits

To regulate licensed liquor establishments holding a series 11 (hotel/motel with restaurant) or series 12 (restaurant) liquor licenses, DLLC conducts audits to determine the required 40:60 food-to-liquor sales ratio is being maintained.

Currently there are one hundred sixty-two (162) active series 11 licenses and three thousand one hundred nine (3,109) active series 12 licenses statewide. Compared to August 2009, the number of hotel/motel with restaurant licenses has been reduced by one (1) license and the number of restaurant licenses has increased by one hundred sixteen (116) licenses.

DLLC employs two (2) fulltime auditors. Prior to August 2009, DLLC employed three (3) fulltime auditors. With a total of three thousand two hundred seventy-one (3,271) restaurant-type licenses combined, the statewide auditor-to-liquor license ratio is 1: 1,636.

| Number of Cases Now Open For Audit | Current Month | This Month Last Year |
|--|----------------------|-----------------------------|
| Audits in progress | 16 | 19 |
| Audits closed | 7 | 7 |
| Audits initiated | 7 | 2 |
| Open cases w/projected ratio of >37% | 7 | 11 |
| Open cases w/projected ratio between 30 to 37% | 9 | 6 |
| Open cases w/projected ratio of < 30% | 0 | 2 |
| Locations granted 1 year to continue operation | 1 | 2 |
| Locations being monitored | 78 | 75 |

In August 2010, seven (7) audits were closed and seven (7) audits were initiated (audit considered initiated after an appointment date is set to pick up accounting records). Of the seven (7) audits completed this month, five (5) cases, or seventy-one (71%) percent, revealed actionable violations. During the month of August 2010, audits were completed in Maricopa and Pima Counties.

| | Current Month | Total YTD FY 2011 | This Month Last Year | Total FY 2010 | Total 2003 - Present |
|--------------------|----------------------|--------------------------|-----------------------------|----------------------|-----------------------------|
| Audits completed | 7 | 12 | 7 | 87 | 375 |
| Audits passed | 4 | 4 | 3 | 51 | 154 |
| Audits failed | 3 | 4 | 4 | 30 | 167 |
| Inconclusive | 0 | 0 | 0 | 6 | 44 |
| Other charges only | 0 | 0 | 0 | 0 | 5 |

SUCCESS STATISTICS
Liquor License Audits (continued)

Audit statistics beginning on January 1, 2003 to present are:

| Year | Audits Completed |
|---------------|-------------------------|
| 1/1 - 6/30/03 | 6 audits |
| FY 2004 | 23 audits |
| FY 2005 | 24 audits |
| FY 2006 | 32 audits |
| FY 2007 | 27 audits |
| FY 2008 | 61 audits |
| FY 2009 | 103 audits |
| FY 2010 | 87 audits |
| FY 2011 YTD | 12 audits |

In 2006, A.R.S. §4-213.C introduced the "continuation license" (commonly referred to as the "Grill Bill") into state liquor law. The continuation license, at a cost of \$30,000, allows restaurants that have not met the required 40:60 food-to-liquor sales ratio during the last 12-month period the option of continuing to operate with a food-to-liquor sales ratio below restaurant requirements. To-date, fees collected from the issuance of continuation licenses total one hundred fifty thousand (\$150,000) dollars. Applications for five (5) continuation licenses are in pending status at this time. Upon issuance, revenue collected from pending continuation licenses would total \$150,000 in issuance fees.

Revenue collected by the department for audit-related violation fines during the month of August 2010 is seventy-three hundred and seventy-five (\$7,375) dollars. Audit fines assessed during the month of August 2010 total are sixteen thousand six hundred twenty-five (\$16,625) dollars. Total fines collected to-date in FY 2011 are thirteen thousand eight hundred seventy-five (\$13,875) dollars.

Audit Revenue 2-year Comparison

| | Current Month | Total FY 2011 YTD | 1 Year Ago This Month | Total FY 2010 |
|--|----------------------|--------------------------|------------------------------|----------------------|
| Fines Collected | 7,375 | 13,875 | 3,625 | 81,750 |
| Fines Assessed | 16,625 | 23,125 | 625 | 88,200 |
| Continuation License (Grill Bill) Revenue | 0 | 0 | 0 | 0 |
| Pending Continuation Licenses (Grill Bill) | 5 | -- | 2 | -- |

SUCCESS STATISTICS
Compliance

| Achievements: | Current Month | Total YTD FY 2011 | 1 Year Ago This Month | Total FY 2010 |
|---------------------------|----------------------|--------------------------|------------------------------|----------------------|
| Revocations | 1 | 2 | 1 | 10 |
| Suspensions | 2 | 4 | 2 | 31 |
| Surrenders | 4 | 4 | 0 | 26 |
| Divestitures | 1 | 1 | 0 | 6 |
| Administrative Complaints | 2 | 3 | 1 | 67 |
| Decisions & Orders | 5 | 5 | 8 | 27 |

Economic Impact:

The department has collected fines which total fifty-eight thousand six hundred (\$58,600) dollars from thirty-three (33) compliance actions processed and adjudicated between August 1 and August 31, 2010. This is a twenty-seven (27%) percent decrease from August 2009 collections and a thirty-three (32.6%) percent decrease in the number of compliance actions processed. A portion of the decrease in fine collections is attributed to a payment plan, introduced in 2009, which gives licensees the option to pay fines in installments rather than in one lump sum. DLLC and the licensee agreed to the terms of the payment plan during the compliance process. Although the payment plan will reduce DLLC's collection of fine revenues in the short term, the long term outcome is anticipated to ease the financial burden of paying fines during the current economic decline.

| | Current Month | Total YTD FY 2011 | 1 Year Ago This Month | Total FY 2010 |
|-------------------|----------------------|--------------------------|------------------------------|----------------------|
| Fines collected | \$58,600 | \$103,125 | \$80,750 | \$705,725 |
| Cases adjudicated | 33 | 69 | 49 | 415 |

| Fiscal Year | Compliance Actions | Revenues Collected |
|--------------------|---------------------------|---------------------------|
| 2002-2003 | 414 | \$445,725 |
| 2003-2004 | 388 | \$518,800 |
| 2004-2005 | 431 | \$557,725 |
| 2005-2006 | 500 | \$689,475 |
| 2006-2007 | 429 | \$627,975 |
| 2007-2008 | 334 | \$582,350 |
| 2008-2009 | 584 | \$886,440 |
| 2009-2010 | 415 | \$705,725 |
| 2010-2011 YTD | 69 | \$103,125 |

SUCCESS STATISTICS
Compliance (continued)

| Adjudicated Underage Violations | | Adjudicated | 1 Year Ago |
|--|---|--------------------|-------------------|
| Statute | Definition | This month | This Month |
| A.R.S. § 4-241.A | Failure to Check ID | 4 | 3 |
| A.R.S. § 4-241.L | Sold to CUB | 0 | 0 |
| A.R.S. § 4-244.1 | Unlicensed Resale | 0 | 0 |
| A.R.S. § 4-244.9 | Furnish alcohol to an underage | 4 | 3 |
| A.R.S. § 4-244.16 | knowingly allow furnishing liquor to underage | 0 | 0 |
| A.R.S. § 4-244.22 | Consume w/o permission of premises owner | 0 | 1 |
| A.R.S. § 4-244.33 | Underage DUI | 0 | 0 |
| A.R.S. § 4-244.40 | Alcohol in system of underage | 0 | 0 |
| A.R.S. § 13-2907.01 | Provide false information to state | 0 | 0 |
| A.R.S. § 28-3478.1 | Unlawful use of driver's license | 0 | 0 |
| A.R.S. § 28-3478.3 | Use another person's driver's license | 0 | 0 |

SUCCESS STATISTICS
Arizona Liquor Board

| Achievements: | Current Month | Total YTD FY 2011 | 1 Year Ago This Month | Total FY 2010 |
|-------------------------------------|----------------------|--------------------------|------------------------------|----------------------|
| Hearings Scheduled | 11 | 19 | 11 | 107 |
| Licenses Granted | 3 | 4 | 6 | 40 |
| Licenses Denied | 1 | 1 | 0 | 19 |
| Continuances Granted | 5 | 11 | 0 | 29 |
| License Withdrawn | 2 | 3 | 5 | 15 |
| Hearing Vacated, No Action Required | 0 | 0 | 0 | 0 |
| Hearing Removed From Agenda | 0 | 0 | 0 | 0 |
| Rehearing Requested | 0 | 0 | 0 | 2 |
| Exemption Received | 0 | 0 | 0 | 0 |
| Appeals Heard | 0 | 0 | 0 | 2 |

During the month of August 2010, seventy-five (75%) percent of the license applications in protest were granted and twenty-five applications (25%) were denied. To-date in FY 2011, the Board has granted eighty (80%) percent of the protested license applications and denied twenty (20%) percent.

ARIZONA LIQUOR BOARD MEMBERS AND TERMS

| | | |
|-------------------------|--|-------------------------------|
| Charles Huellmantel (D) | Arizona Liquor Board Chair Maricopa County No Financial Interest | Term Expires January 17, 2011 |
|-------------------------|--|-------------------------------|

VACANT -----

| | | |
|-----------------|--|-------------------------------|
| Bill DuPont (D) | Arizona Liquor Board Member Pima County Neighborhood | Term Expires January 18, 2010 |
|-----------------|--|-------------------------------|

| | | |
|-------------------------|---|-------------------------------|
| J.D. Ghelfi, Member (R) | Arizona Liquor Board Member Maricopa County No Financial Interest | Term Expires January 16, 2012 |
|-------------------------|---|-------------------------------|

| | | |
|--------------------|---|-------------------------------|
| Jim Carruthers (R) | Arizona Liquor Board Member Yuma County No Financial Interest | Term Expires January 16, 2012 |
|--------------------|---|-------------------------------|

| | | |
|----------------|--|-------------------------------|
| Tim Linden (R) | Arizona Liquor Board Member Graham County Wholesaler | Term Expires January 17, 2011 |
|----------------|--|-------------------------------|

| | | |
|--------------------|--|-------------------------------|
| Robin Cantrell (I) | Arizona Liquor Board Member Graham County Retailer | Term Expires January 16, 2012 |
|--------------------|--|-------------------------------|

SUCCESS STATISTICS
Licensing

Compared to August 2009, the number of new liquor license issued in Arizona has decreased by twenty-two (21.7%) percent, renewals have increased by five (4.59%) percent, and the number of active licenses has increased by six (6%) percent.

In comparison to August 2009, monthly and FY licensing revenues (which include lottery collections) have increased by ninety-two (92%) percent from \$392,889 at this time last year to \$755,657 during the current month.

| Achievements: Licensing | Current Month | Total YTD FY 2011 | 1 Year Ago This Month | Total FY 2010 |
|---|--------------------------|------------------------------|----------------------------------|--------------------------|
| New licenses issued | 119 | 231 | 152 | 2,114 |
| Renewed licenses | 797 | 1,583 | 751 | 12,092 |
| Lottery licenses issued | 0 | 0 | 6 | 35 |
| Collected Lottery Revenues: | \$293,952 | \$1,326,456 | \$ 0 | \$ 562,824 |
| Number of Active Liquor License: | 11,400 | n/a | 11,580 | n/a |
| Collected Licensing Revenues (including lottery revenues): | \$755,657 | \$2,229,955 | \$ 392,889 | \$6,503,816 |

Collected Revenue By Fee Type in August 2010

| | |
|-------------------------|---------|
| Fair Market Value | 293,952 |
| Applications | 13,950 |
| License Fees | 282,157 |
| Out-of-State | - |
| Agent Change | 2,750 |
| Fines | 54,600 |
| Special Event | 3,800 |
| Club | 5,400 |
| Penalties | 12,600 |
| Copy Fees | 178 |
| Non-Use Surcharge | 16,700 |
| Audit Surcharge | 13,050 |
| Enforcement K Surcharge | 26,985 |
| Enforcement L Surcharge | 23,655 |
| Miscellaneous | - |

TOTAL REVENUES COLLECTED \$ 749,777
(fingerprints) 5,880

WHAT'S NEXT AT DLLC?**Upcoming Events/Milestones**FY 2010 Liquor License Lottery

Based on lottery applications received and accepted, the FY 2010 lottery is on track to produce three million three hundred thirty thousand three hundred sixty (\$3,330,360) dollars in state revenue. To date, one million three hundred twenty-six thousand four hundred fifty-six (\$1,326,456) dollars in FY 2010 lottery revenue have been collected. The remaining balance is due by February 25, 2011. The FY 2009 lottery produced revenues of six million, nine hundred fifty-four, two hundred ninety-two (\$6,954,292) dollars which were deposited into the state's General Fund.

Additional Grants & Funding

The deputy director will meet with the director of the Governor's Office of Highway Safety in September to explore additional grant funding for overtime incurred by DLLC investigators. The state budget deficit and hiring freeze has reduced the investigative staff by fifty-five (55%) percent since August 2007; from twenty (20) sworn officers to nine (9). In addition to staff reduction, investigators have found it necessary to restrict travel expenses.

eLicensing

DLLC's eLicensing Information System (ELIS) is being developed in collaboration with GITA and NIC/CAVU. As a result of budget cuts experienced by all agencies involved in this project, staff and funds reductions have forced the "go live" date to be postponed and no new date has been determined. Since hiring a new IT Specialist and gaining expert advice from GITA and the Registrar of Contractors (ROC), an agency that recently implemented the same eLicensing system, the project has made significant progress in moving toward an implementation date during this calendar year. ELIS will replace a twenty (20) year old licensing system currently used by DLLC and stakeholders to record and track liquor license activities and violations.

Legislation

DLLC has submitted three "Agency Legislative Proposals" and, to gain a greater understanding of new legislation the industry is preparing for the upcoming January 2011 Legislative session, DLLC has scheduled a meeting on September 28, 2010 in the DLLC offices. Stakeholders known to be currently preparing new legislative proposals have been invited to participate.

Resume Newly Proposed Rulemaking

Once the rulemaking moratorium is lifted, DLLC will review the Rules rewrite completed in late 2008 to include relevant updates which have occurred since the moratorium was announced in August 2009.

Staffing

DLLC has approval to hire a special investigator which will elevate the number of sworn officers on the investigation division staff to ten (10).

