

GOVERNOR'S MONTHLY REPORT
JUNE 2011



STATE OF ARIZONA
DEPARTMENT OF LIQUOR LICENSES AND CONTROL

Alan Everett, Director
800 W. Washington Street, 5th Floor
Phoenix, Arizona 85007
Office 602-542-9020 Fax 602-542-6799

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 June 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 June 2011, using two (2) CUBs and four (4) officers, DLLC conducted investigations of nine (9) liquor-licensed establishments. Seven (7), or seventy-eight (78%) percent, of these establishments sold alcohol to a (CUB) resulting in fourteen (14) criminal and twenty (20) administrative violations. All nine (9) locations were investigated in response to complaints received by DLLC.

In June 2011, DLLC saw an increase of fifty-four (54.2%) percent in liquor sales to the CUB compared to the previous month, May 2011. This represents a nineteen (18.8%) percent decrease in sales to the CUB compared to June 2010.

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 (30.6%) percent have sold to CUB buyers resulting in two thousand eighty-four (2,084) administrative violations and one thousand seven hundred fifty-two (1,752) 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	169	96	57	207	129
2011	107	35	33	84	37

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 June 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	5	13	4
2011	0	0	0

Investigator Palubeskie is currently working on two (2) 2010 TRACE case and two (2) 2011 TRACE cases. To complete these cases, DLLC requires additional information which will be provided by local law enforcement agencies. Five (5) cases were completed in calendar year 2010 resulting in thirteen (13) administrative and four (4) criminal violations. Two (2) new TRACE cases have been opened to-date in calendar year 2011.

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 June 2011:

5-year Rules Review Progress Report– Communications Director submitted
Media Relations Conference- Communications Director attended
National Conference of State Liquor Administrators Annual Conference- Asst. Director of Administration attended
DLLC customer service training- Licensing Director facilitated
Arizona Substance Abuse Partnership- Deputy Director attended
Investigations Staff & Title IV update training- Deputy Director facilitated
Meeting with Flagstaff Mayor- Director attended
ASU Security Meeting- Director attended
Payson Mayor & City Council Meeting- Director attended

June 2011 Law Enforcement Special Detail:

High Intensity Drug Trafficking Area (HIDTA) - Ribera
Wickenburg PD, Title 4 and Fake ID Training
Communication Training- all officers
Out of Phoenix Metro Area complaints – all officers
POST standard firearms qualification - all officers
MILO decisions shoot - all officers

SUCCESS STATISTICS

Investigations

In June 2011, investigators completed two hundred nine (209) routine liquor inspections (RLIs) at licensed establishments and events throughout Arizona resulting in one hundred thirty-nine (139) criminal citations and one hundred twelve (112) administrative violations. The following success statistics were completed by a staff of eleven (11) fulltime, sworn officers who uphold a statewide officer-to-liquor license ratio of 1:1,044.

DLLC realized an increase in total investigative achievements during June 2011 of thirty-seven (36.5%) percent compared to June 2010. Since January 2007, DLLC's Investigations Division had experienced a staff reduction of forty-five (45%) percent from twenty (20) fulltime investigators down to eleven (11). During the months of November and December 2010, three (3) grants awarded to DLLC by the Governor's Office of Highway Safety (GOHS) fund overtime for underage drinking enforcement, in addition to materials, travel expense and overtime required for DLLC officers to facilitate Title 4 and fake ID training classes for Arizona law enforcement agencies. Until receipt of these grant funds, the Investigations Division was forced to eliminate overtime, travel, and hiring due to the onset of the 2008 budget crisis and the sweeping of DLLC funds.

Achievements:	Current Month	Total FY 2011	1 Year Ago This Month	Total FY 2010
Hidden Ownerships Completed	1	18	1	17
Site Inspections Completed	61	698	64	653
Actioned (administrative) Complaints	10	102	8	128
Non-Actioned (criminal) Complaints	30	459	15	408
Administrative Counts Charged	112	1,425	74	1,615
Criminal Charges Issued	139	1,602	69	969
Routine Liquor Inspections	209	2,459	182	2954
Compliance Case Reports Submitted	60	686	28	469
On-view Violation Case Reports	48	528	31	312
Law Enforcement Liaison	70	632	45	764
Underage Investigations Statistics:				
Citations Issued to Underage	4	580	40	736
Total Underage Violations	82	914	48	721
Total Achievements:	826	10,103	605	--

Current Month	Younger than Age 15	Age					
		15	16	17	18	19	20
Age of minor cited	0	0	0	0	0	0	0

**At the time this report was completed, "age of minor cited" statistics were not yet available **

SUCCESS STATISTICS
Investigations (continued)

The number of citations DLLC investigators issued to underage persons decreased by ninety (90%) percent and total number of underage violations written by DLLC investigators increased by seventy-one (70.8%) percent compared to June 2010. This is due to DLLC focus on preventing the sale of alcohol to underage rather than the elimination of underage drinking.

Statute/ Definition	# of Citations Issued This Month	# of Citations Issued in FY 2011 YTD	1 Year Ago This Month	# of Citations Issued in FY 2010
A.R.S. § 4-241.A Failure to Check ID	18	113	2	99
A.R.S. § 4-241.L Sold to CUB	3	114	1	54
A.R.S. § 4-241.N Use of false ID to enter premises	0	7	0	65
A.R.S. § 4-244.1 Unlicensed Resale	0	4	0	29
A.R.S. § 4-244.9 Furnishing alcohol to an underage	57	599	43	467
A.R.S. § 4-244.22 Consuming w/o permission of premises owner	2	27	1	15
A.R.S. § 4-244.34 Underage DUI	0	0	0	0
A.R.S. § 4-244.40 Alcohol in system of underage	0	0	0	73
A.R.S. § 4-244.41 Accept \$ to allow underage in bar	0	0	4	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	1	47	0	1
A.R.S. § 28-3478.3 Using another person's driver's license	1	14	2	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 fifty-nine (159) active series 11 licenses and three thousand one hundred thirty-four (3,134) active series 12 licenses statewide. Compared to June 2010, the number of hotel/motel with restaurant licenses has decreased by four (4) licenses or two (2.4%) percent and the number of restaurant licenses has increased by fifty-five (55) or two (1.78%) percent.

Prior to August 2009, DLLC employed three (3) fulltime auditors. Today DLLC employs two (2) fulltime auditors. With a total of three thousand two hundred ninety-three (3,293) restaurant-type licenses combined, the statewide auditor-to-liquor license ratio is 1:1,647.

Number of Cases Now Open For Audit	Current Month	This Month Last Year
Audits in progress	15	16
Audits closed	7	7
Audits initiated	7	12
Open cases w/projected ratio of >37%	8	4
Open cases w/projected ratio between 30 to 37%	3	12
Open cases w/projected ratio of < 30%	4	0
Locations granted 1 year to continue operation	1	1
Locations being monitored	94	81

In June 2011, 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, all seven (7) revealed actionable violations. During the month of June 2011, audits were completed in Coconino, La Paz, Maricopa and Pima Counties.

Audit Action	Current Month	Total YTD FY 2011	This Month Last Year	Total FY 2010	Total 2003 To Present
Audits completed	7	82	7	87	445
Audits passed	5	38	5	51	188
Audits failed	2	40	1	30	204
Inconclusive	0	3	1	6	47
Other charges only	0	1	0	0	6

SUCCESS STATISTICS
Liquor License Audits (continued)

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

Year	Audits Completed	Revenues Collected	Average Fine per Audit (does not include continuation license fees)
1/1 - 6/30/03	6 audits	--	--
FY 2004	23 audits	--	--
FY 2005	24 audits	--	--
FY 2006	32 audits	--	--
FY 2007	27 audits	\$13,000	\$481
FY 2008	61 audits	\$36,500	\$598
FY 2009	103 audits	\$81,275	\$789
FY 2010	87 audits	\$81,750	\$940
FY 2011 YTD	82 audits	\$84,400	\$1,029

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. Since the 2006 introduction, fees collected from the issuance of ten (10) continuation licenses total three hundred thousand (\$300,000) dollars. During FY 2011, DLLC has collected one hundred eighty thousand (\$180,000) dollars from the issuance of six (6) continuation licenses. There are no continuation license applications in pending status at this time.

Revenue collected by the department for audit-related violation fines during the month of June 2011 is seven thousand eight hundred seventy-five (\$7,875) dollars. Audit fines assessed during the month of June 2011 total nine thousand three hundred seventy-five (\$9,375) dollars. Total fines collected to-date in FY 2011 total eighty-four thousand four hundred (\$84,400) dollars.

Audit Revenue 2-year Comparison

Audit Action	Current Month	Total FY 2011 YTD	1 Year Ago This Month	Total FY 2010
Fines Collected	\$7,875	\$84,400	\$6,500	\$81,750
Fines Assessed	\$9,375	\$99,900	\$6,500	\$88,200
Continuation License (Grill Bill) Revenue	\$0	\$180,000	--	\$30,000
Pending Continuation Licenses (Grill Bill)	0	--	4	--

SUCCESS STATISTICS
Compliance

Achievements	Current Month	Total YTD FY 2011	1 Year Ago This Month	Total FY 2010
Revocations	0	2	1	10
Suspensions	0	7	3	31
Surrenders	0	13	3	26
Divestitures	0	4	1	6
Administrative Complaints	0	9	3	67
Decisions & Orders	0	8	2	27

Newly Tracked Achievements	Current Month	Total YTD FY 2011
Cases Received	54	752
Cases Completed	5	280
Cases in Progress	49	478
Warning Letter Issued	0	45
Cases Sent to OAH	0	6

Economic Impact:

Fines collected by the Compliance Unit between June 1 and June 31, 2011 total thirty-eight thousand nine hundred twenty-five (\$38,925) dollars from forty-three (43) adjudicated compliance actions. Compared to last month, May 2011, this is a thirty-four percent (33.7%) increase in collected revenues and a twenty-seven (26.5%) increase in the number of compliance actions processed. Compared to June 2010, this is a fourteen percent (13.8%) increase in collected revenues and a twenty-four (24.4%) decrease in the number of compliance actions processed.

A penalty fine payment plan, introduced in 2009, gives licensees the option to pay fines in installments rather than in one lump sum. DLLC and the licensee agree to the terms of the payment plan during the compliance process. Although the payment plan may reduce DLLC's monthly collection of fine revenues in the short term, the long term outcome to keep establishments in business by easing the financial burden of fines during the current economic decline.

Action	Current Month	Total YTD FY 2011	1 Year Ago This Month	Total FY 2010
Fines collected	\$38,925	\$598,509	\$34,200	\$705,705
Cases adjudicated	43	425	30	415

SUCCESS STATISTICS
Compliance (continued)

Fiscal Year	Compliance Actions	Revenues Collected	Average Fine Per Action
2002-2003	414	\$445,725	\$1,077
2003-2004	388	\$518,800	\$1,337
2004-2005	431	\$557,725	\$1,294
2005-2006	500	\$689,475	\$1,379
2006-2007	429	\$627,975	\$1,464
2007-2008	334	\$582,350	\$1,744
2008-2009	584	\$886,440	\$1,518
2009-2010	415	\$705,725	\$1,701
2010-2011 YTD	425	\$598,509	\$1,408

Adjudicated Underage Violations

Statute	Definition	Adjudicated This Month	1 Year Ago This Month	FY 2011 YTD
A.R.S. § 4-241.A	Failure to Check ID	0	1	44
A.R.S. § 4-241.L	Sold to CUB	0	0	0
A.R.S. § 4-244.1	Unlicensed Resale	0	2	10
A.R.S. § 4-244.9	Furnish alcohol to an underage	0	3	49
A.R.S. § 4-244.16	Knowingly allow furnishing liquor to underage	0	0	0
A.R.S. § 4-244.22	Consume w/o permission of premises owner	0	3	3
A.R.S. § 4-244.33	Underage DUI	0	0	0
A.R.S. § 4-244.40	Alcohol in system of underage	0	0	0
A.R.S. § 13-2907.01	Provide false information to state	0	0	0
A.R.S. § 28-3478.1	Unlawful use of driver's license	0	0	0
A.R.S. § 28-3478.3	Use another person's driver's license	0	0	0

Last year (FY 2010) fines from adjudicated underage violation totaled three hundred sixty-five thousand eight hundred seventy-five (\$365,875) dollars. Of the thirty-one (31) licenses suspended and the ten (10) revoked in FY 2010, four (4) suspensions and one (1) revocation resulted from underage violations.

In FY 2011, fines from adjudicated underage violations total two hundred fourteen thousand five hundred (\$214,500) dollars. Of the seven (7) licenses suspended and the two (2) revoked in FY 2011, two (2) suspensions and no (0) revocations resulted from underage violations.

Compliance Statistics Resulting From Underage Violations

Fiscal Year	Fines Collected	Licenses Suspended	Licenses Revoked
2010	\$365,875	4	1
2011 YTD	\$214,500	2	0

SUCCESS STATISTICS
Arizona Liquor Board

Achievements:	Current Month	Total YTD FY 2011	1 Year Ago This Month	Total FY 2010
Hearings Scheduled	0	89	11	107
Licenses Granted	0	23	6	40
Licenses Denied	0	13	0	19
Continuances Granted	0	33	0	29
License Withdrawn	0	16	5	15
Hearing Vacated, No Action Required	0	0	0	0
Hearing Removed From Agenda	0	0	0	0
Rehearing Requested	0	1	0	2
Exemption Received	0	0	0	0
Appeals Heard	0	3	0	2

There were no hearings in June 2011. To date in FY 2011, the Board has granted sixty-three (63.9%) percent of the licenses protested and denied thirty-six (36.1%) percent.

ARIZONA LIQUOR BOARD MEMBERS AND TERMS

J.D. Ghelfi, Member (R)	Arizona Liquor Board Vice Chair Maricopa County No Financial Interest	Term Expires January 16, 2012
Bill DuPont (D)	Arizona Liquor Board Member	Term Expires January, 21, 2013
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 20, 2014
Robin Cantrell (I)	Arizona Liquor Board Member Graham County Retailer	Term Expires January 16, 2012
Michael Farley (R)	Arizona Liquor Board Member Pima County Business Consultant	Term Expires January 21, 2013
Vikki Scarafiotti (D)	Arizona Liquor Board Member Maricopa County No Financial Interest	Term Expires January 20, 2014

SUCCESS STATISTICS

Licensing

Compared to June 2010, the number of new liquor license issued in Arizona has decreased by twelve (12.2%) percent, renewals have decreased by thirteen (12.9%) percent, and the number of active licenses has increased by two (2.2%) percent.

In comparison to June 2010, monthly licensing revenues (which include lottery collections) have decreased by twelve (12.3%) percent from four hundred twenty-eight thousand forty-two (\$428,042) dollars at this time last year to three hundred seventy-five thousand one hundred twenty-eight (\$375,128) dollars during the current month.

Beginning this month DLLC will include the number of active "exempt locations" in Arizona. An exempt location is an establishment that meets the criterion in A.R.S. §4-244.05 and A.A.C. R19-1-315, has made application for the exemption, has been inspected by a DLLC investigator, and issued a 1-year exemption which allows patrons to bring and consume beer and wine on the premises.

Licensing	Current Month	Total YTD FY 2011	1 Year Ago This Month	Total FY 2010
New licenses issued	131	1,798	142	2,114
Renewed licenses	662	11,483	751	11,162
Lottery licenses issued	0	25	0	35
Collected Lottery Revenues:	\$0	\$2,422,579	\$0	\$562,824
Number of Active Liquor License:	11,485	n/a	11,252	n/a
Number of Exempt Locations	63	63	n/a	n/a
Collected Licensing Revenues (including lottery revenues):	\$427,105	\$8,401,843	\$392,889	\$6,503,816

Collected Revenue By Fee Type in June 2011

Fair Market Value	0
Applications	11,825
License Fees	286,467
Out-of-State	0
Agent Change	3,250
Fines	33,225
Special Event	2,375
Club	5,275
Penalties	9,000
Copy Fees	777
Non-Use Surcharge	12,200
Audit Surcharge	10,800
Enforcement K Surcharge	24,570
Enforcement L Surcharge	22,425
Miscellaneous	20

TOTAL REVENUES COLLECTED	\$ 422,209
(fingerprints)	<u>4,896</u>
TOTAL REPORT	\$ 427,105

WHAT'S NEXT AT DLLC? Upcoming Events and Milestones

FY 2011 Liquor License Lottery

A final figure of two million three hundred eighty-eight thousand one hundred eighty (\$2,388,180) dollars in FY 2010 lottery revenue was collected by DLLC, all of which has been deposited into the state's General Fund. Compared to revenues collected from the FY 2009 lottery which totaled five hundred sixty-two thousand eight hundred twenty-four (\$562,824), FY 2010 lottery revenues increased by three hundred twenty-four (324.3%) percent.

Looking toward completing the FY 2011 lottery, statute provides that DLLC conduct an annual lottery based on FY 2010 population estimates generated by the Department of Commerce (DOC). With DOC dissolved, no population estimates have become available for FY 2010. A six-week preparation period is necessary to establish fair market value for licenses offered through a lottery. If no population estimates are available by the first week in June, DLLC will not conduct an FY 2011 lottery.

New legislation authorizes DLLC to base the number of liquor licenses offered in future lotteries on population statistic posted by the Arizona Department of Administration (ADOA). This legislation becomes law effective July 20, 2011.

eLicensing

DLLC's eLicensing Information System (ELIS) is being developed in collaboration with GITA and NIC/CAVU. As a result of staff and funding reductions experienced by all agencies involved in the project, in addition to incomplete business process functionality of the system, the "go live" date has been postponed and a new implementation date has not been determined. Since hiring a new IT Specialist, contracting a project consultant, and receiving expert advice from GITA and the Registrar of Contractors (ROC), an agency that recently implemented the same eLicensing system, the project is progressing toward implementation in Fall 2011. 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

Of the 386 bills passed during the 50th Legislature, two bills were signed by Governor Brewer that will impact Title 4 (Arizona liquor law) on Wednesday, July 20, 2011 when they become law. HB 2357, simplifies how military import personal collections of liquor after an overseas tour of duty, and was signed by the Governor on June 14, 2011. A liquor industry omnibus bill, SB 1460, was signed by the Governor on June 18, 2011. DLLC is now in the process of implementing agency procedures required by this new legislation.

In anticipation of the January 2012 legislative session DLLC will meet with industry leaders in July to discuss items for introduction.

Resume Newly Proposed Rulemaking

Immediately prior to the January 2008 Regulatory Review Plan Moratorium, DLLC submitted a complete rules rewrite to the Governor's Regulatory Review Counsel. In August 2010, DLLC requested an exemption to the moratorium. In response to that request, the Governor's Office required evidence of industry collaboration and support, and DLLC's agreement that any rules proposed would not impose additional or undue burdens on businesses. DLLC's request remains in pending status at this time. DLLC has scheduled a rules review with industry leaders for August 2011.

WHAT'S NEXT AT DLLC? (continued)
Upcoming Events and Milestones

Agency Staffing Improvements

The Investigation Division hired one (1) investigator. This would bring the number of investigators to a total of eleven (11) and the investigator-to-liquor license ratio up to 1:1,044.

END OF DLLC JUNE 2011 REPORT TO THE GOVERNOR