



Washington State Liquor Control Board

Frequently Asked Questions on Liquor Pricing

June 6, 2012

Q: Why did the cost of my liquor go up after privatization?

A. Prices will vary under the private system that began June 1, 2012. The free market, as established by Initiative 1183, is setting prices.

Confusion over prices going up has to do with the **new fees at distribution and retail that were established by I-1183 and enacted by voters**. The initiative added a 10 percent fee at distribution and a 17 percent fee at retail. So, what you have is: distributors marking up the product (includes cost of goods, operating costs, and profit) and adding a 10 percent fee then retailers marking up the product (includes cost of goods, operating costs, and profit) and adding a 17 percent fee.

The Office of Financial Management (OFM) analysis (released in August 2011 and included in the Voters' Pamphlet) estimated in its fiscal analysis that the combined effect of markup and new fees would place the private sector markup between 52 percent and 72 percent. The former state markup was 51.9 percent. **Bottom line: the former state markup was lower than the markup and fees inherited by the private sector.**

In addition, 1183 requires distributors to pay the state \$150 million by March 31, 2013. They are on the hook for any shortfall. So, like any business that has revenue targets to meet, distributors may be adjusting their costs some to ensure they generate that \$150 million.

Q: What about taxes? Did the state raise taxes?

A: No. The taxes are exactly the same as they were under the former system. There is a 20.5 percent retail sales tax and a \$3.77 liter tax (prorated to the size of the bottle. For example, the liter tax is less on a typical 750 ml bottle).

Customers paid those for years under the former state system and still do today under the new private system.

Q: We were told during the campaign that privatizing liquor sales would mean more competition. Why hasn't competition driven down prices?

A: Under the former system, there were 328 retail outlets selling liquor. Today there are over 1,500 retailers licensed to sell liquor.

Distributors and retailers are competing in the marketplace. However, they are bound by the same voter-mandated fees addressed in the first question and answer.

As is typical in the marketplace, prices vary between retailers. If you are looking for the best price, you should always shop around for the best deal.

Q: When was this reported? Did we know this during the campaign?

A: The state budget office, OFM, is required to do a fiscal analysis of all initiatives that will be on the November ballot. [OFM released its fiscal analysis in August 2011](#). It was posted on its website and was included in the Secretary of State's 2011 Voters' Guide.

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Q: What is the average increase in price?

A: The average price increase is difficult to determine because prices will vary between competitors. The average price of a 750 ml bottle under the former state-run system was \$15.95. That price included all taxes.

The OFM estimate appears to be correct in its fiscal analysis that the combined effect of markup and new fees would place the private sector markup between approximately the former state markup and as much as 20 percent higher. The former state markup was 51.9 percent.

Q Why is liquor so much cheaper in California and Nevada?

A: This is a question that comes up often. Many people claim it was because the system was inefficient. In fact, Washington's system of distribution and retail was highly efficient. However, it is an apples-to-oranges type of comparison.

The true difference between states is because the revenue structure is very different between Washington, California and Nevada.

- **Washington** is heavily reliant on excise taxes and has traditionally taxed so-called "sin products" higher than others. For example, cigarettes are also taxed considerably higher than other products. If you are among the one-third of the adult population that doesn't drink, you don't have to pay liquor taxes at all. The revenue spirits tax generates help fund essential services for the state and local government like education, health care and emergency services.
- **In California**, citizens pay an income tax and other taxes that Washingtonians don't pay. California's liquor tax is relatively low. In a presentation to state lawmakers during the 2011 session, LCB staff showed how liquor could be sold for less in Washington than it was in California if we applied California's pricing model. That would have cost the state and local government millions in lost revenue.
- **Nevada** is a relatively low-population state that leans on gambling and tourism revenues to fund its services. Again, totally different from Washington.

Q: Will prices go down over time?

A: Maybe. The 10 percent distributor fee is reduced to 5 percent after two years. The \$150 million mandate that distributors must pay is on March 31, 2013. Those are two structural elements that may impact price. However, the market will ultimately dictate.

For more information, please visit the Liquor Control Board website at www.liq.wa.gov

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