

*The History of the
Texas Alcoholic Beverage Commission*



1935 - 2005



*70 Years of Serving the State of Texas
1935-2005*

BOARD MEMBERS	DATES OF TERM	HOMETOWN
John T. Steen, Jr., Chair	January 8, 1998 – November 15, 2007	San Antonio
Gail Madden	April 19, 2000 – November 15, 2005	Dallas
Jose Cuevas, Jr.	October 14, 2004 – November 15, 2009	Midland

November 18, 2005

Alan Steen, Administrator

Jeannene Fox, Assistant Administrator

Today, November 18, 2005, is the **70TH ANNIVERSARY** of the Texas Alcoholic Beverage Commission. It was on this day, 70 years ago, that the Commission, then known as the Texas Liquor Control Board, first met in downtown Austin. It is on this historic occasion that we look back over the past 70 years and highlight some of the Commission's achievements and accomplishments.

PROHIBITION

In 1918, the Texas Legislature ratified the 18th Amendment to the United States Constitution and immediately passed new state laws, thus beginning the "Grand Experiment" of prohibition.

At the time of adoption of the statewide prohibition laws, 199 out of 254 counties in Texas had been voted dry under local option laws; 43 were practically dry; and only 10 counties were without prohibition areas.

The prohibition law lacked public sentiment necessary for proper enforcement, and efforts were made to strengthen the law. The result was the passage of the Dean Law, which prohibited the manufacturing of intoxicating liquors for any purpose.

In 1933, Congress amended the Volstead Act (known as the National Prohibition Act) to permit the sale of beer; and in August 1933, the voters in Texas adopted an amendment to the State Constitution legalizing the sale of beer. The 21st Amendment to the United States Constitution, which repealed the 18th Amendment, became effective December 15, 1933. The 44th Legislature then submitted an amendment to the voters repealing state prohibition, and the voters ratified it in August 1935.

THE BIRTH OF THE AGENCY

In a special called session of the 44th Legislature, The Texas Liquor Control Act was adopted and the Texas Liquor Control Board was created. The name of the agency was changed in 1970 to the Texas Alcoholic Beverage Commission, and when the "Liquor Act" was recodified in 1977, it was codified into the Texas Alcoholic Beverage Code.

On November 18, 1935, the members of the Texas Liquor Control Board met in the Governor's Reception Room of the State Capitol. The members of the Board who had been appointed by Governor James V. Allred were Mr. D. B. Benson, Chairman, and members Mr. D. J. Decherd and Mr. J. W. Williams.

At this board meeting, the first order of business was the appointment of Mr. C. R. Miller as the first Administrator of the Liquor Control Board. Mr. F. J. Moss was appointed as the Assistant Administrator.

The Board then made arrangements for office space, and the next meeting was set for the following day in Room 310 of the Littlefield Building.

In the first few days of the agency, the Board began immediately issuing temporary permits to control the sale of alcoholic beverages, setting bonding requirements for all permittees, and establishing tax stamps to be placed on containers of alcoholic beverages to document that the state tax had been paid.

By the end of January 1936, the Liquor Control Board had issued 4,404 temporary permits to persons throughout the state and had employed 142 employees to enforce the alcoholic beverage laws. The state was divided into 17 districts and 86 field inspectors were marshaled throughout the state to establish order in a booming new business.

The agency reported in their first annual report for the two and one-half months ending January 31, 1936, revenues of \$1,328,782 and expenditures of \$17,887. By the end of 1936, the agency had expanded to 246 employees statewide and had established 21 different types of permits and seven different types of licenses. These were:

PERMITS:

- Brewer's
- Distiller's
- Winery
- Class B Winery
- Rectifier's
- Wholesaler's
- Beer and Wine Wholesaler's
- Package Store
- Package Store Wine Only
- Agent 's
- Industrial
- Carrier's
- Private Carrier's
- Local Cartage
- Public Bonded Warehouse
- Public Storage
- Private Storage
- Medicinal Pharmacy
- Medicinal Physician's
- Wine and Beer Retailer's in Dining Cars
- Wine and Beer Retailer's for On-Premise Consumption

LICENSES:

- Manufacturer's
- General Distributor's
- Branch Distributor's
- Local Distributor's
- Retail Beer Dealer's for Consumption On- or Off-Premises
- Retail Beer Dealer's for Consumption Off the Premises
- Temporary License

The Third Called Session of the 44th Legislature levied an increased tax on liquor and wine. This tax was levied on all stocks held by liquor dealers throughout the state and it was necessary for the Board to provide the Treasury Department with the necessary stamps to cover this increased tax. This tax took effect November 30, 1936.

The Auditing and Tax Reporting Division, which consisted of 25 employees, conducted 264 audits in 1936 and collected \$84,532 in revenue and delinquent taxes.

Also in 1936, the Ports of Entry program was established at the International Bridges between Texas and Mexico to collect the state tax on alcoholic beverages imported into the state from Mexico. Personnel were stationed at Brownsville, Eagle Pass, El Paso and Laredo. Total receipts for the first full year of operation were \$6,200,320 while expenditures were \$592,866.

THE LEADERSHIP

Over the years, the agency has grown and prospered under the leadership of highly respected Commissioners and Administrators. Much credit goes to these persons who have given of their time and energy to make the Texas Alcoholic Beverage Commission the leading state alcoholic beverage regulatory agency in the United States.

The following individuals have served as Board and Commission Members of the Texas Liquor Control Board and Texas Alcoholic Beverage Commission:

D. B. Benson
Chairman 11-15-1935 to 10-15-1936

D. J. Decherd
Member 11-15-1935 to 11-15-1941

J. W. Williams
Member 11-15-1935 to 11-15-1939

Pat Dougherty
Chairman 10-15-1936 to 11-15-1937

E. W. Crouch
Chairman 11-15-1937 to 11-15-1939
Member 11-15-1939 to 11-15-1943

Dr. W. D. Bradford
Chairman 11-15-1939 to 04-24-1941

W. J. Townsend
Chairman 06-18-1941 to 12-31-1944

Morris Roberts
Member 11-15-1941 to 12-31-1944
Chairman 01-01-1945 to 04-01-1947

Fred H. Minor
Member 11-15-1943 to 04-01-1947
Chairman 04-01-1947 to 09-28-1948

Mills P. Walker
Member 11-15-1945 to 04-01-1947

Summers A. Norman
Member 04-01-1947 to 12-11-1951
Chairman 12-11-1951 to 03-09-1965

Leonard B. Brown
Member 04-01-1947 to 12-31-1948
Chairman 01-01-1949 to 12-11-1951
Member 12-11-1951 to 02-13-1954

G. H. Little
Member 09-28-1948 to 01-15-1949

Obie Bristow
Member 01-15-1949 to 03-10-1952

W. D. Noel
Member 03-10-1952 to 03-17-1965
Chairman 03-17-1965 to 09-05-1968

Wilson Heard, Jr.
Member 02-13-1954 to 03-23-1967

O. R. Crawford
Member 03-09-1965 to 02-10-1969

Alfred W. Negley
Member 03-23-1967 to 11-15-1971

Tom Gordon
Chairman 09-05-1968 to 08-31-1979

Joe Burkett, Jr.
Member 02-10-1969 to 04-02-1976

R. L. Thornton, Jr.
Member 11-15-1971 to 08-15-1977

Ed Harllee
Member 04-02-1976 to 11-15-1981

Morris Atlas
Member 10-14-1977 to 06-29-1989

Louis M. Pearce, Jr.
Chairman 10-15-1979 to 11-15-1991

J. A. Whittenburg III
Member 11-15-1981 to 02-25-1988

Allan Shivers, Jr.
Member 02-25-1988 to 03-03-1992

James Huffines
Member 06-29-1990 to 06-01-1991

Renee Higginbotham-Brooks
Member 07-20-1991 to 10-29-1991
Chairman 10-29-1991 to 01-01-1994

Roy Orr
Member 11-15-1991 to 01-12-1994
Chairman 01-12-1994 to 12-20-1995
Member 12-20-1995 to 01-08-1998

Neal S. Manne
Member 03-12-1992 to 11-24-1993

Steven R. Baker
Member 01-12-1994 to 11-15-1995

Martha S. Dickie
Member 01-12-1994 to 04-14-2000

Allan Shivers, Jr.
Chairman 12-20-1995 to 4-30-2002

John T. Steen, Jr.
Member 01-08-1998 to 04-30-2002
Chairman 04-30-2002 to to present

Gail Madden
Member 04-14-2000 to present

Kel Seliger
Member 04-30-2002 to 10-29-2003

Jose Cuevas, Jr.
Member 10-14-2004 to present

The following individuals have served diligently through the years as Administrators of the Texas Liquor Control Board and Alcoholic Beverage Commission:

C. R. Miller
11-18-35 to 11-30-36

Bert Ford
12-01-36 to 09-30-47

John Lawhon
10-01-47 to 10-14-49

Coke R. Stevenson, Jr.
09-28-49 to 03-31-68

O. N. Humphreys, Jr.
02-19-68 to 01-31-75

Dick Durbin
06-08-92 to 08-31-93

Kenneth W. Cook
02-01-75 to 09-31-75

Jeannene Fox (Acting)
09-01-93 to 02-06-94

Luke E. Robinson
10-01-75 to 06-30-76

Doyne Bailey
02-07-94 to 02-28-01

W. S. "Sherman" McBeath
07-01-76 to 7-31-91

Rolando Garza
08-13-01 to 02-28-03

Jeannene Fox (Acting)
08-01-91 to 06-07-92

Alan R. Steen
08-01-03 to present

THE ORGANIZATION

Twenty years ago, the Alcoholic Beverage Commission was made up of eight different Divisions: Executive, Administrative Services, Hearings, Computer Services, Licenses and Permits, Auditing and Tax Reporting, Enforcement and Marketing Practices, and Ports of Entry.

The organizational structure has changed somewhat over time but is basically the same. Currently, the Commission is divided into nine different Divisions: Executive (including Marketing Practices and the Office of Professional Responsibility), Human Resources, Business Services, Legal Services, Information Resources, Licensing, Compliance (including Ports of Entry), and Enforcement.

EXECUTIVE DIVISION

The Executive Division is the office of the Administrator and his staff. In the early years, this consisted of the Administrator, the Assistant Administrator, and an Executive Secretary. In addition to other responsibilities, the Assistant Administrator held hearings on violations of the Alcoholic Beverage Code and protests involving issuance of licenses or permits.

Over the years, as administrative responsibilities grew, the Administrator added an Executive Assistant and a Personnel and Budget Director under his supervision.

Today, the Executive Division has grown even further to include a Public Information Officer, a Marketing Practices Coordinator, and the Office of Professional Responsibility. Eliminating a layer of management, the Assistant Administrator began directly supervising the Directors of Human Resources and Business Services.

Currently, there are seven persons working in the Executive Division responsible for the administrative oversight of the agency and formulation of methods to carry out the Alcoholic Beverage Code and the Rules of the Commission.

BUSINESS SERVICES DIVISION

In the 1980's, the agency created an Administrative Services Division as a spin-off from what had been known as the Accounting Division for many years. The Accounting Division included all accounting functions, data processing, and supply services. The new Administrative Services Division was responsible for purchasing, leasing, mail services, printing, warehousing, inventory, accounting, cash receipts, and all of the routine day-to-day activities which any organization finds necessary to remain operational.

The Administrative Services Division was later split into the Fiscal Services Division, which took over accounting and cash receipts, and the General Services Division, which took over the remaining responsibilities. In 2004, the two divisions were combined to eliminate a director's position and reduce overhead costs, and it was named the Business Services Division.

In 1985, the Administrative Services Division employed 24 persons. Today, the Business Services Division still has 24 people but handles these functions in addition to managing the agency's budget, fleet management and radio communications.

LEGAL SERVICES DIVISION

A Hearings Division was created in late 1935 to respond to violations of the Liquor Control Act. The Attorney General was asked for assistance and two Assistant Attorneys General, Mr. M. C. Martin and Mr. Leon Moses, were hired by the Board to carry out the not-fully-developed responsibilities of the division.

The first recorded act of this young division was the development of two forms of bond, a "Class One Bond" and a "Class Two Bond." The latter was to be executed by Wholesale Liquor Dealers and Wholesale Druggists, while the former were to be executed by all other permittees required to give bond.

In December 1935, the Liquor Control Board promulgated Rule Number Eight empowering the Board to cancel or suspend, after notice and hearing, any permit that the Board had granted. The rule also instructed the Administrator to consider "all evidence" presented at a hearing and to then render a decision either canceling or suspending the permit or license, if deemed appropriate.

A total of 606 hearings were conducted in 1936. Of these, 317 hearings resulted in the cancellation of permits or licenses while the remaining 289 hearings called for the case to be dismissed. Mostly package stores, medicinal pharmacies, and beer and wine retailers participated in those early hearings.

In addition to the hearings activity, the division was responsible for overseeing and coordinating litigation involving the Commission as well as for assisting in the promulgation of agency rules and regulations.

In the 1980's, the Hearings Division of the Texas Alcoholic Beverage Commission worked around a busy docket - often one or more cases per day were scheduled for a hearing. In order to handle this workload, the Commission increased the size of the Hearings Division from a staff of two to a total of fourteen employees. Along with the director, the division included two hearings examiners, three prosecuting attorneys, two state-certified court reporters, and six support staff.

In 1993, section 5.43 of the Alcoholic Beverage Code was amended to reflect TABC's current practice that all hearings except for those relating to applications for beer licenses and wine and beer retailer's permits were being conducted before the State Office of Administrative Hearings. The exclusive mission of the newly named Legal Services Division became the prosecution of contested cases relating to the denial, suspension or revocation of licenses and permits issued under the Code. This mission was conducted through one division director, two attorneys, and supporting staff, all located in Austin. In 1998 and again in 2001 additional lawyers were added to this staff, one located in the Dallas area and one in Houston.

In August of 2005, the Legal Services Division and the General Counsel's office were combined into one division, and additional lawyers were added to the staff in an effort to regain control of an overloaded docket. Ultimately, the Legal Services Division will consist of eleven lawyers and nine supporting staff, located in Austin, Dallas and Houston. This staff performs all legal services for the Commission, handling approximately 1,000 pending contested administrative cases as well as providing legal counsel and support to all other divisions of the agency.

INFORMATION RESOURCES DIVISION

Responsibilities. The Information Resources Department (IRD) is responsible for supporting all aspects of the agency's information technology needs at both headquarters and in all remote locations around the state. The department's most visible duties include: management of the agency's information resources budget; administration of all automated systems including database administration and application programming support; network (WAN) and operations support of both hardware and software; information security; and the printing of various agency forms, licenses, reports and letters.

Before Electronic Data Processing. In 1979, there was no electronic data processing at TABC. The agency processed information from the "TAB" section of the Licensing Division. The TAB section got its name because all licensing and cash receipts processing was performed on an old IBM 402 tabulating machine using key punch cards for input. In 1979, the Computer Services Division (now IRD) was created as a separate division, with an original mission to automate all functions from the old

tabulating equipment to a new electronic computer. Original staff included a division director, assistant director, tab machine operators, and key entry operators.

Computing in the 1980's. In 1980, the agency purchased its first electronic computer system, the Prime-550 mini-computer, to replace the tabulating equipment. This computer was responsible for handling license printing and expiration notices, equipment inventory control, and cash receipts collection for approximately 40 agency users. The first programming staff was hired and other staff were re-trained into their new roles as computer operators and data entry operators. It was at this time that the agency purchased its first database management system (DBMS), which was called TOTAL.

As the agency's data processing needs grew, a strategic decision was made to upgrade the computing environment from minicomputer to mainframe in order to support a greater number of users and application systems. To keep in the mainstream of mainframe computing within state government, a used IBM 370/158 mainframe computer system was purchased in fiscal year 1983 for a bargain price of \$25,000 from the Texas Railroad Commission. A new DBMS was also purchased at this time – Model 204 (M204). M204 was used with this computer to develop an enhanced licensing and revenue collection system, and to automate many of the agency's out-dated manual systems. Also during this time, the first computer center was constructed to house and secure the large computer.

In November 1985, the agency upgraded the IBM 370/158 computer to a new IBM 4381 model-2 computer capable of handling the data processing needs of the agency for the next several years. Division staff had grown to include a programming section of six programmers, a computer operations section of five operators, and a revenue processing section consisting of three data entry operators.

Expanded Support for Field Offices. Data processing support expanded to the field offices in the early part of 1986, when all 21 of the agency's district offices were connected to the headquarters office via dedicated phone lines, establishing a statewide network for information processing. The statewide network provided district office personnel a quick, reliable link to the agency's "mainframe" computer system for accessing the most up-to-date information available. The network provided the districts with access to current taxpayer, license/permit information and inventory. Custom M204 applications were developed at this same time, which provided Audit (now Compliance) access to information used when conducting field audits. Additionally, the new Enforcement Activity Reporting System (EARS) gave Enforcement a method to track criminal and administrative violations and surrounding agent activities. The Legal Division was also provided with a custom Hearings Information Processing System to interface with Enforcement and Licensing applications.

Computing Expands in the 1990's. As more users and application systems were added to the mainframe, computer processing capacity became taxed in the late 1980's. In fiscal year 1989, processing power was doubled with the upgrade to an IBM 4381

model-14. This helped improve on-line response time and batch processing workloads. In late fiscal year 1991, the mainframe was upgraded to an IBM 4381 model S24. The additional power would be needed to offset the transaction processing increase due to the acquisition of the Bingo Regulatory function and implementation of the new custom Bingo Regulatory System (BRS). During fiscal years 1990-91, IRD experienced its largest growth in staff with an additional six programmers added during the biennium. This increase was primarily related to automated support of the transfer of Bingo regulation from the State Comptroller's Office to the TABC in January 1990. Another factor impacting growth in IRD was that during this time "dumb" terminals began to be replaced with personal computers and additional staff was required to support the proliferation of personal computers. The peak FTE count during this time was 22 employees.

During fiscal year 1994, two major functions of the agency were transferred to other state agencies, greatly impacting IRD. Bingo regulation moved to the Texas Lottery Commission, and gross receipts tax collection moved to the State Comptroller's Office. The direct impact of these transfers on IRD was reduced staffing levels of programmers, reduced budget and a decreased processing load of the mainframe computer. IRD staffing dropped from 22 FTE's to 15 FTE's in one year.

In the mid 1990's, focus began to center around distributed processing using a Client/Server architecture. A new Label Approval System was developed using FoxPro and MicroSoft SQL. A Ports of Entry system was developed to help manage and track "stamp" inventories and sales.

In 1996, the agency replaced its outdated mainframe system with new equipment, an IBM-9221 mainframe. A five-year lease was negotiated with IBM that included a new CPU, disk storage system, and communications controller.

In the fall of 1996, systems development was halted in order to modify all existing programs to be year 2000 compliant. The Year 2000 project was significant, affecting both hardware and software in place at TABC. At least 1,300 mainframe programs required modifications and every date field in the mainframe database was affected. With no outside assistance, TABC completed the Year 2000 project in 1997 while many agencies were just beginning their projects.

In 1997, an Internet gateway connection from headquarters to the DIR allowed agency employees access to remote government computer systems, use of statewide e-mail, file transfers, and gave them the ability to browse the Web to conduct research. Shortly after the LAN environment was stabilized, the agency established its first wide area network (WAN). The WAN allowed six of the larger field offices to be connected to the network and have the same Internet and e-mail functionality as headquarters.

Client/Server systems development resumed and the new Human Resources Management System (HRMS) was implemented. The agency purchased Lotus Notes,

and a new Travel Tracking and a new Purchase Tracking system were put into operation in the later part of 1998 using this new technology.

Computing for 21st Century. Increasing technology awareness and demands for computer services within all the business functions of the Commission led to the development of the first agency internal website. The TABC Intranet allowed access to electronic forms, agency manuals and publications, department and agency newsletters, policies and procedures, calendar of events, job postings, and frequently asked questions (FAQ's). The public website was implemented soon after the internal site and was enhanced to allow public access to forms, newsletters, and more. The Internet site continues to expand and include access to current agency information such as credit law delinquencies, public 'roster' downloads of active license and permits, legislative changes and an online public inquiry into Seller Training trainee certification.

An agency wide lease/purchase plan was put into place in order to replace existing inventory of obsolete microcomputers with the latest computer technology available.

In 2000, IRD implemented a state-of-the-art firewall to protect the agency from newborn threats created from the ever so popular Internet. The WAN was expanded at this time from six locations to 17 and has continued to grow, one office at a time.

The mainframe and mainframe systems operations were outsourced to Northrop Grumman and all equipment was moved to San Angelo in July 2001.

In 2003, IRD began to plan for major systems and technology transformations. Versa System's LicenseEase product was selected to transform all of the agency's licensing and license-related functions to current technology. The technology transformation project began with planning and preparation in the fall of 2003, and by late spring 2004, requirements and data migration were well underway. This time period also marked the beginning of the use of n-tier technology that would eventually replace the IBM mainframe with new SAN-based servers.

In 2004, e-mail problems were addressed by replacing the Imail e-mail system with Microsoft Exchange, providing better e-mail management, accessibility, security, and more features for end users. Prior to migrating to Microsoft Exchange, it was necessary to implement Windows Active Directory (AD). It was determined that newer server hardware would also be needed to maximize the performance and capabilities of the software as well as for the transformation project.

As the transformation project for major systems progressed, smaller projects were also a consideration. A new human resources system, MyHRIS, was purchased to replace the existing HRMS system. Venice, an assets and inventory management software, was purchased to replace older mainframe based inventory and consumable systems.

In June 2005, the agency converted all major licensing, enforcement and compliance functions from the IBM mainframe environment to LicenseEase. Headquarters staff celebrated this accomplishment with a barbecue lunch.

2005 – Current Technical Environment. As we go forward, using technology to make the agency more efficient and capable will be a primary focus. The entry and manipulation of operational data will be one of the primary initiatives, as will the imaging and management of paper documents. Mobile computing for field staff and making use of wireless technologies will enable better communications and the delivery of relevant information to the field when and where it's needed. The creation of management information reports will validate the use of field resources and provide the foundation for requesting funding in the future.

LICENSING DIVISION

The responsibility of the Licensing Division is to process applications to ensure qualifications are met for all alcoholic beverage licenses and permits; to issue alcoholic beverage licenses and permits locally and throughout the world; to interact with federal and state agencies and local authorities; to update and maintain accurate and current records; provide customer service; and provide internal and external training.

It was seen from the first days after repeal that in order to properly regulate the industry, and to protect both the people of the state and the industry from unscrupulous dealers of alcoholic beverages, those legally operating in the state must be licensed.

When the agency first began, there was a flood of persons applying for licenses and permits. A decision was made at the first meeting that there was no way the agency would be able to check every person carefully to make sure they qualified and they were of good moral character.

At that time, the board decided to issue temporary licenses and permits (good through February of 1936) to anyone who applied and paid their fee. During the first three and a half months, the agency began a more detailed processing of the applications to determine the qualifications of the licensees and permittees. Since that time, a careful check of each application has been made both in the field by the district office and by the Licensing Division in Austin before a license or permit is issued.

Two requirements were incorporated into the law in the early days to protect this new industry. To hold a license or permit in Texas, the applicant must be a Texas resident. If it is a corporation, 51% of the business must be owned by persons who are Texas residents. This was enacted to protect the industry from Mafia and persons outside of the state from coming in and taking over a virgin industry. This provision has worked well in the past 70 years and is a cornerstone of the Alcoholic Beverage Code today.

The other licensing provision of great importance is a prohibition of a person being involved in more than one level of the industry. This prohibition provides protection from exclusive outlets, which are common in the industry in Europe.

With the milestones of progress came new laws and new responsibilities. Technology guided us to automation enhancements and paperwork reduction. New types of licenses and permits were created. Among those were Passenger Train Permits, Mixed Beverage Permits for Boats, Minibar Permits, Catering Certificates, Package Store Tasting Permits, Brewpub Licenses, Manufacturers Warehouse Licenses and Private Club Beer and Wine Permits. The trend for new business entities and structures were recognized. Limited Liability Corporations and Limited Liability Partnerships began applying for licenses and permits in addition to individuals, partners and corporations.

With the introduction of an automated computer system in 1985, processing applications reached a new level. Regulatory and illegal interest checks were now automated. But we did not stop there. Paperwork was drastically reduced for originals, renewals and temporaries. New filing systems were created combining liquor and beer systems and a "Master File" system. Licensing staff began accessing information from the Secretary of State and Comptroller's Office, conducting quality control checks, creating monthly reports, and introducing customer surveys. Communication was enhanced internally and externally by writing instruction booklets as well as a "Retailer's Guide," creating a website, notifying wholesalers and distributors of expired, cancelled and suspended permits and licenses on the website, and communicating by e-mail to district offices and licensing services.

By 1995, changing laws brought about a ten-day grace period for renewals, surcharge collection, food and beverage certificates, and the implementation of conduct surety bonds statewide. Over the next ten years, even more licenses and permits were created: Storage License, Mixed Beverage with Food and Beverage Certificate and Forwarding Center Authority. Advancements included the posting of signs indicating laws regarding handgun possession, primary and subordinate permits with shared expiration dates, the 60-day sign to notify the public that an on-premise permit application will be filed to create a new alcoholic beverage establishment, the display of wine percentage on permits and improved forms design.

In July 2003, a U.S. District Court ruled that the Texas state law prohibiting shipping of wine directly to consumers from out of state was unconstitutional. The judge ruled that the 21st Amendment did not relieve states from the obligation imposed by the Interstate Commerce Clause. As a result, on May 9, 2005, Governor Rick Perry signed into law Senate Bill 877 revising the Alcoholic Beverage Code with regard to direct shipping of wine to Texas consumers for personal consumption.

This bill did two things:

1. It expanded the rights of Texas wineries to allow them to ship directly to consumers in wet or dry areas without shipping through a package store.
2. It created a new permit allowing out-of-state wineries to ship the product they produce or bottle directly to Texas consumers in wet or dry areas.

In 2005, the 79th Legislative Session also created a new Promotional Permit, as well as introducing new fees and performance bonds for all Beer On-Premise Licenses and Wine and Beer Wine Retailer's Permits in counties with populations of 1.4 million or more (Dallas, Harris and Tarrant Counties).

Technology improvements continue today with the introduction of an even more sophisticated system. "LicenseEase" will lead us into the future with on-line application and renewal capabilities.

In 1935, there were 27 different types of licenses and permits; during the first year the agency issued 4,404 licenses and permits. To date, there are 64 different types of licenses and permits plus one certificate and one authority; and the Licensing Division issues over 100,000 licenses and permits, collecting over \$30 million in fees and surcharges each year.

In 1985, the Licenses and Permits Division had 27 employees all located in the Headquarters Office. Since then, the Licensing Division has grown to 41.5 proud employees.

Through the past 70 years of growth and technology, the responsibility of the Licensing Division remains constant: issuing licenses and permits to anyone who is involved in the alcoholic beverage trade in the State of Texas or wishes to import into the state.

COMPLIANCE DIVISION

The Early Years. From the beginning, Auditors have played a functional part in the enforcement of the state liquor laws. Because of the new tax structure, the Board employed more auditors from 1936 through 1939 and had more auditing districts than it would from the period 1943 until 1961. In 1937, the Board had 20 field auditors and maintained seven district offices made up of what was then called the Auditing and Tax Reporting Division.

One of the major problems confronting the Board up until June 1, 1941, was drugstores in dry areas obtaining medicinal permits to dispense liquor prescriptions. It is interesting to note that in 1936, 421 medicinal permits and 402 physician's permits were issued. During the same year, there were 2,209 package store permits issued in the state. A new law, which became effective June 1, 1941, assessed a \$.22 tax for each prescription of liquor, and the number of medicinal permits issued dropped from 583 permits issued in 1940 to only 58 issued in 1942.

During the first five years of the agency, as efforts to control the new industry became more settled, the delinquent tax collections declined:

1936..... \$84,532.75	1939..... 5,373.70
1937..... 65,350.54	1940..... 1,577.94
1938..... 20,633.51	

As the tax structure became familiar and controls were established, the Auditing Division reduced the number of district offices from seven in 1937 to five in 1938, four in 1940, and three in 1943.

From 1943 until 1961, the Auditing Division operated with only 12 field auditors in three district offices - Dallas, Houston, and San Antonio.

Until August 31, 1953, the tax collection at the Ports of Entry was under the supervision of the Enforcement Division. However, on September 1, 1953, this responsibility was assigned to the Auditing Division. This structure remained in effect until September 1, 1969, when the Ports of Entry became a separate division within the agency. In 1994, Ports of Entry operations were transferred back to the Compliance Division with 88 FTE's.

Division Growth. There was only a slight increase in the auditing staff from 1961 until 1969; however, delinquent tax collections increased from an average of less than \$5,000 per year for the 20 years prior to 1961 to a collection of \$98,728.67 in 1969. In 1971, a growth spurt came from the passage of Gross Receipts Tax and resulted in an increase to 51 auditors. Delinquent tax collections amounted to \$384,009.61.

By the end of 1971, additional auditing district offices were opened in Amarillo, Odessa, El Paso, and Corpus Christi. The auditing staff had 52 auditors, and delinquencies collected for fiscal year 1972 again rose to \$577,450.34. From 1972 through 1980, an office was opened in Longview and the number of auditors more than doubled from 52 to 122. Delinquent tax collections for the same time rose from \$577,450 to \$2,997,420. In 1981, district offices were opened in Austin, Fort Worth, McAllen, and Waco, making a total of twelve auditing districts.

With the close of the fiscal year 1985, the Auditing Division had 165 employees with 135 of these being auditors. Delinquent tax collections for the fiscal year 1985 amounted to \$6,819,619. By 1986, additional offices had opened in Abilene and Lubbock, and the number of auditors increased to 136. The auditors conducted gross receipts tax audits of mixed beverage and private club permittees. They also audited winery, airline beverage permittees and the wholesale level for excise taxes and service fees.

The Compliance Division Today. In the late 1990's, the Division went from 12 audit district offices to four regional offices (Odessa, Dallas, Houston, and San Antonio), and their job titles were changed from auditors to compliance officers. In 2000, the Odessa regional compliance office was transferred to Lubbock.

September 1, 2004, the Compliance Division expanded from four regions (Lubbock, Dallas, Houston and San Antonio) to five regions (adding Austin) in an effort to improve internal communications by organizing Enforcement and Compliance into the same number of regions with the same borders.

In 2005, the 79th Legislative Session granted TABC 119 additional FTE's in order to focus on reducing drunk driving in Texas. This included 35 compliance staff who would assist the division in taking over many of the Enforcement Division's administrative and regulatory function. As Enforcement became more focused on public safety concerns, field compliance operations assumed a major role in the licensing field application process, including conducting new location inspections of prospective permittees and licensees.

Compliance officers current responsibilities are varied. They continue to conduct excise taxes audits at the wholesale level, private club permit fee analyses, and Food and Beverage analyses and inspections. The division has become more involved in the regulation of marketing practices, and has assumed the responsibility from Enforcement for maintaining the confiscated property rooms. They serve summary suspensions for delinquent gross receipts permittees after notification from the State Comptroller's Office. In addition to assuming the licensing responsibility, the compliance staff conduct or participate in protest and financial investigations. They enforce cash and credit laws and monitor seller training schools to ensure compliance with rules and statutes.

Another duty of the agency is to assure that consumers get what they pay for when they purchase an alcoholic beverage. Every time a new label is introduced into the Texas market, the product must first undergo a rigorous chemical analysis in the chemistry lab to assure that the product is pure and that it conforms to the labeling. This function had historically been part of the Enforcement Division, but in 2004, it moved with the Marketing Practices Coordinator into the Executive Division. Subsequently, this function was transferred from Marketing Practices to the Compliance Division in late 2005.

The Compliance Division currently consists of 64 auditors, 29 accounts examiners, 23 headquarters and field support staff and 103 ports of entry personnel. The Compliance Division, including Ports of Entry, collected \$170,086,370 in taxes in 2005.

Significant Legislative Changes. The payment of excise taxes on beer changed on October 1, 1949, from the method of collecting beer tax from a tax system, which required that the stamps be affixed to beer before shipment into Texas, to a reporting system which requires the payment of taxes on beer on the first sale by manufacturers and upon receipt of beer from out-of-state by distributors. It would be 20 years before similar legislation would be enacted replacing tax stamps with a reporting system as the method of collecting taxes on distilled spirits and wine.

With the advent of Private Club Registration Permits beginning in 1961, auditing responsibilities increased. Investigation and examination of records of private clubs were initiated. These investigations consisted of a thorough examination of all records of the club, the fees collected for pool systems of alcoholic beverages, and the bona fide membership on which the permit fees were based.

In October of 1969, holders of Airline Beverage Permits and Private Club Registration Permits were required to pay a \$.05 service fee for each individual serving of an

alcoholic beverage. Even though the service fee was not considered a tax, the levy was the first assessment on alcoholic beverages in Texas aside from an excise tax.

The 62nd Legislature, meeting in 1971, revolutionized public consumption of alcoholic beverages by repealing the "Open Saloon" law and authorizing, effective June 1, 1971, the sale of "Liquor By-the-Drink." The Legislature repealed the \$.05 service fee on private clubs in 1971 and imposed a 10% gross receipts tax on the sale or service of all alcoholic beverages sold by a private club or mixed beverage permittee.

In October 1984, the method of reporting excise taxes for ale, malt liquor and beer was changed based on the "First Sale" system, whereby the distributor selling the beer is responsible for payment of the tax.

Effective January 1, 1990, TABC assumed responsibility for the enforcement of the Bingo Enabling Act from the Comptroller of Public Accounts. The agency was charged with licensing and supervising those who were authorized to conduct bingo games as well as those who manufactured or sold bingo equipment to ensure that all games were played fairly in an effort to raise money for charitable causes in the state. Additional efforts were made to ensure that organized crime and other unscrupulous persons were not drawn to these areas of legalized gambling. This new responsibility would be short-lived.

Effective September 1, 1991, the 72nd Legislature increased the gross receipts tax rate from 12% to 14%. During fiscal year 1993, the state collected \$245 million in gross receipts tax revenue and identified \$6,009,000 in delinquent gross receipts taxes.

Following a Sunset recommendation in 1993, the 73rd Legislature transferred responsibility for the regulation of bingo to the Texas Lottery Commission effective April 1, 1994. The same Sunset review resulted in the transfer of the responsibility for the collection and verification of the mixed beverage gross receipts tax to the Office of the Comptroller of Public Accounts effective January 1, 1994.

The transfer of these functions resulted in a reduction in force with 109 auditors being laid off. The Auditing Division was reduced to 24 auditors. These numbers would grow, but it would never be the size it was in 1993. In 1994, the Auditing Division was renamed the Compliance Division.

PORTS OF ENTRY

The Ports of Entry (POE) have been an important part of the agency since the early days of its existence. The Board created the Ports of Entry in July 1936, at the International Bridges between Texas and Mexico in Brownsville, Eagle Pass, El Paso and Laredo. The purpose was to collect taxes on legally admitted alcoholic beverages imported by consumers and to ensure conformance with the one-quart limitation of imported alcoholic beverages.

The collections for July 1, 1936, through the end of the year amounted to \$25,304.51.

On May 19, 1937, the Court of Criminal Appeals ruled in the *Jake Horton v. The State of Texas* that the state was without authority to collect the tax on alcoholic beverages imported into the state from Mexico for personal consumption. To abide by that court decision, collections were stopped on May 24, 1937, and were not resumed until September 1937, when a new law took effect, whereby imports could be legally taxed.

During 1937, the 14 bridge inspectors collected \$47,502.13. The collection stations at Brownsville and Eagle Pass were closed in May 1937, and were not reopened until 1944.

In 1938, collections of \$53,037 were brought in at El Paso and Laredo with \$687 collected at Texarkana on alcoholic beverages brought into the state from Arkansas liquor dealers.

POE Expansion. A new office was opened in Hidalgo in 1942 at the new highway from Hidalgo to Monterey, Mexico. In 1944, new offices were opened in Brownsville, Del Rio, Eagle Pass, and Thayer. The office in Roma was opened in 1948, and in 1950 offices were added in Ysleta and in San Antonio. San Antonio proved to be ineffective and was closed in 1953 and an office was opened in Progreso in 1954. By this time, there were 41 bridge inspectors working in the Ports of Entry Division.

Over the next 20 years, that number more than tripled to 144 bridge inspectors at 17 ports. However, in the late 1970's there was a reduction in force, and the number of inspectors was reduced to approximately 79.

For the fiscal year 1984, the Ports of Entry Division collected \$1,581,383 in taxes and confiscated 7,974 containers of alcoholic beverages because:

- It was an unlawful size;
- The amount exceeded the amount allowed to be imported into the state;
- The person transporting the alcoholic beverage was intoxicated;
- The person refused to pay the tax; or
- The person importing the alcoholic beverage was underage.

In fiscal year 1985, the Ports of Entry Division collected \$1,535,115 in taxes and confiscated 6,173 containers of alcoholic beverages.

The first Revenue Stamp Vending Machine was installed at Presidio Port of Entry in September 1990. In the very late 1980's, the sole employee at the Presidio bridge retired and was replaced by a self-service POE stamp machine. The vending machine was put in place to facilitate the taxpaying public in getting the required tax stamps, so importers of alcohol and cigarettes would not be in violation. The prototype machine was soon removed, because it proved to be defective. The theory was good and people did voluntarily pay their taxes; however, the machine could not handle dirt, dust, and foreign currency. The machine proved to be more of a burden than help.

Additional bridges opened between 1997 and 2005, and additional staff were hired. Veteran's International Bridge at Los Tomates opened in May 1999, and three months later, Eagle Pass II opened. Around 2001, TABC asked for additional personnel to staff additional bridges. As a result, Los Indios, Fabens and Pharr were assigned personnel. Los Indios had been spot-checked since 1993, and Pharr had been spot-checked since 1994. Also, Laredo IV opened in 2002, and Rio Grande City POE was assigned personnel in 2003.

Currently, TABC has 103 employees in Ports of Entry, including two administrative staff in headquarters. Six port offices monitor 26 border crossings. Personnel are assigned to 19 major crossings. The additional seven crossings are considered low-volume and are monitored on a random basis.

In fiscal year 2005, POE collected \$3,611,169.82 in revenue, including almost \$978,000 from cigarettes. They stamped 4,988,465 containers, and confiscated 10,454 containers.

We are expecting additional expansion and upgrades within the next few years. Construction has begun on a new TABC vehicular facility in the City of Pharr. Additional crossings in the Rio Grande Valley at Anzalduas and Donna are tentatively projected to open in late 2007. A new Guadalupe-Tornillos international border crossing in El Paso County could be open for use in 2012.

Organizational Changes. In September 1995, Ports of Entry Bridge Inspectors were reclassified as taxpayer compliance officers, and two years later, a program administrator position was assigned to Austin Headquarters for central oversight of Ports of Entry operations.

For many years POE supervisors reported directly to headquarters. In 2005, this reporting structure was changed, and the ports report to the compliance supervisor in their respective regions.

Significant Legislative Changes. Following a change in the Tax Code, on September 1, 1979, POE tax collectors began collecting state taxes on imported cigarettes at the border stations. Previously, State Comptroller employees were responsible for collecting cigarette tax revenue at the ports.

September 1, 1981, House Bill 117 restricted the importation of liquor to only once every 30 days. A similar legislative change was enacted six years later, restricting the importation of beer to once every 30 days.

November 1, 1986, a \$.25 administrative fee was added to the importation tax on alcoholic beverages (House Bill 22). This fee was doubled to \$.50 on September 1, 1987.

During the 79th Legislative Session, Senate Bill 269 allowed TABC to round up to the nearest quarter taxes collected on alcohol and cigarettes at the border. Counting small change takes time and slows the pace of people crossing the border from Mexico. It is hoped that this change will make tax collections more efficient, expedite traffic flow and prevent long lines at the ports of entry. Groups waiting in long lines are considered a security risk, and U.S. Customs wants to keep those lines moving to make crowd control easier. The new tax rates went into effect November 1, 2005.

National and International Incidents Affect Tax Collections. In the early 1980's the Commission evaluated the Ports of Entry in light of fewer tourists returning with importations due to the fluctuations of the peso and a curtailment of "Winter Texans" traveling south due to gasoline price increases and shortages. The result of this review was to reduce the number of Ports of Entry and establish a spot-checking program at bridges where there was light or little traffic.

September 12, 1993, Operation Blockade commenced with Border Patrol Agents intensively blocking an approximate 14-mile area along the border through the El Paso city region, affecting the flow of tourists and regular intra-city travelers. There were numerous threats of violence and threats of bridge closures with blockades by the protestors.

In late 1994, there was a dramatic drop in the value of the peso compared to the American dollar due to a 'peso devaluation' and its floating value. In response to this economic disaster, the American government made loans to the Mexican government in order to try and stabilize the value of the peso. As a consequence to this fall in value, customers in Mexico began demanding Mexican brands of liquor more than American brands because of their lower prices.

Following September 11, 2001, many ports experienced frequent closures due to the security crises experienced throughout the United States. There were frequent bomb threats that would shut down ports for several hours at a time. U.S. Customs evolved from a duty-collecting entity to more of a terrorist enforcement / apprehension agency. Changes in security guidelines have affected everyday border crossers as well as the tourism trade along the entire Texas-Mexico border. This would be the beginning of a decline in border traffic and other border problems.

Again in February 2003, the nation switched from yellow to orange alert, causing delays in traffic lines from Mexico into many U.S. ports. Lines were two to three hours long at many of the Texas/Mexico borders. This negatively impacted liquor and cigarette importations.

Importation was again negatively impacted beginning in September 2004 when the U.S. Consulate in Matamoros, Mexico, issued a travel warning indicating that it had become dangerous for American citizens to cross into Mexico border areas. Citizens became concerned about kidnappings, shootings, robberies, assaults and forced ATM

withdrawals. Tourism crossing declined at many of the border ports. Over a year later, gang violence across the border still exists, and tax collections continue to be down.

As part of the Homeland Security initiative called US-VISIT, a new border crossing security program will be implemented at all border stations by December 31, 2005. The US-VISIT program requires all Mexican residents crossing into the United States to be fingerprinted and photographed. Before this program, a Mexican citizen could cross into the United States by showing his local Border Crosser ID card or his Resident Alien card. Now, all crossers must have a laser visa card to enter the United States. In the future, U.S. citizens will have to show his or her passport to cross into and out of Mexico. Testing on the exit part of US-VISIT at land ports began in the summer of 2005 and should be set for implementation by December 31, 2005. Although it is hoped that these new procedures will improve security, any process that reduces the efficiency of border crossings will likely reduce tax collections on the border.

MARKETING PRACTICES

Marketing items such as promotional programs by manufacturers, distributors, and retailers of alcoholic beverages must be approved by the agency. Also advertisements, radio spots, special promotions, and giveaway gimmicks are subject to review. The Marketing Practices coordinator is responsible for working with all levels of the industry to ensure that they understand marketing practice regulations. This function had historically been part of the Enforcement Division. However, in 2004, it was transferred into the Executive Division.

SELLER TRAINING

In 1987, the Legislature added Section 106.14 to the Alcoholic Beverage Code, authorizing the TABC to approve seller/server certification programs and creating a conditional administrative shield for offenses involving sales to minors or intoxicated persons for those employers who require their employees to attend such program. At that time, the administration of this program was assigned to the Enforcement Division.

In 1994, the Seller Training function with three employees was transferred from Enforcement to Compliance. The year before, the agency had issued 77,868 seller training certificates. By 2004, that number more than doubled at 198,733, resulting in more than 352,851 sellers/servers being trained and holding a two-year certification. Part of the agency growth in 2005 will include a new Education and Prevention Division, and the seller training function will again transfer to a new home.

In 2000, the Texas Department of Transportation (TxDOT) provided grant funds for a three-city/300-retailer study of the effectiveness of the agency's seller/server certification program as a means of reducing illegal sales to minors and intoxicated persons. The results of the study were disappointing in some regards. The researchers from the School of Social Work at the University of Texas at Austin who conducted the study did not, for example, find that clerks and servers who hold seller/server training certificates were less likely to sell to minors or to intoxicated person than persons who

had not attended an agency approved training course. However, the results did provide evidence that the agency had seriously underestimated the frequency with which clerks and servers would sell alcoholic beverages to obviously intoxicated persons and underscored the need for new enforcement programs addressing the problem.

ENFORCEMENT DIVISION

The Enforcement Division is the most visible to the public and it is this division that most people associate with the "Liquor Control Board."

In the early days under the old title of Texas Liquor Control Board, the Enforcement Division consisted of 86 field Inspectors who were charged with enforcement of the liquor laws for all 254 counties in the state.

In these early days, stills used for the illegal manufacturing of distilled spirits ("moonshine") were fairly common and a number one enforcement priority. Stills were well hidden and the "bootlegger" often moved them to avoid detection by the "L-Men." The "bootlegger," so called because many would hide their liquor bottles inside their boots, would then sell the liquor without having to pay the state and federal excise taxes.

The other type of "bootlegger" would buy his alcoholic beverages from a legal source in a wet area and then transport them to a dry area for sale. "Transporters," as they were called, used high-speed vehicles with secret compartments and ingenious disguises to mask their cargos from the "L.C.B."

Through the years, as more and more areas of the state legalized the sale of alcoholic beverages, enforcement priorities shifted from "bootleggers" to other areas of public concern.

The Enforcement Division today employs 295 certified peace officers to carry out its many duties and functions. Enforcement agents are furnished with the most modern law enforcement equipment including vehicles, weapons, and two-way radios.

Areas of investigation by today's Enforcement agents have vastly broadened from those in the past. While still concentrating on violations occurring on licensed premises and paying special attention to offenses involving intoxication or underage drinking, Enforcement agents target not only violations of the Alcoholic Beverage Code and other alcohol-related laws in their investigations, but also routinely investigate offenses such as prostitution, gambling, narcotics, homicide, illegal weapons, and organized crime, as well as threats to homeland security.

In 1985, Enforcement agents filed in excess of 46,000 criminal cases and prepared approximately 2,600 administrative cases resulting in the suspension or cancellation of licenses or permits.

In comparison, in fiscal year 2005, agents filed 18,345 criminal cases with courts across the state and submitted 3,251 administrative cases seeking the suspension or cancellation of alcoholic beverage licenses or permits held by offenders.

Statistics show that of all liquor law arrests made in the State of Texas, 50% or more are made by agents of the Alcoholic Beverage Commission. No other law enforcement agency in the state or any combination of law enforcement agencies is as involved in the criminal enforcement of the state's alcoholic beverage laws as the Enforcement Division of the Texas Alcoholic Beverage Commission. Enforcement agents are also responsible for the majority of the administrative cases processed by the agency.

Thanks to its new enforcement and educational programs and to the way in which it used those programs to complement one another, in 1995, the TABC was named the "Liquor Law Enforcement Agency of the Year" by the National Liquor Law Enforcement Association and also received that organization's "Most Innovative Liquor Law Enforcement Program" award.

MILESTONES

In 1985, the Enforcement Automated Reporting System (EARS) become operational. A Complaint/Inspection Tracking Subsystem was added to EARS in 1991, providing Enforcement with a centralized database for complaint investigation and inspection records. The Enforcement Division has used EARS for reporting enforcement activity for the last twenty years.

In 1992, Enforcement reorganized its 21 district offices into four regions, each headed by a regional supervisor with the rank of "Major."

In 1998, the existing enforcement districts were again reorganized into eight enforcement regions, each headed by a captain, with the districts commanded by lieutenants, rather than by captains. The result was the elimination of the rank of major and a significant reduction in the number of captain positions statewide.

In 2004, Enforcement was again reorganized. Two deputy assistant chiefs were added to the division's headquarters staff. The number of enforcement regions was reduced from eight to five. This change was intended to improve internal communication by creating the same regions for Compliance and Enforcement. The number of enforcement districts is now 16.

SIGNIFICANT LEGISLATION

Enforcement agents achieved parity in pay with Department of Public Safety troopers and Department of Parks and Wildlife game wardens in 1989.

In 1995, the Texas Legislature enacted a series of "Zero Tolerance" laws that further prohibited underage use of alcoholic beverages and increased the penalties for illegal underage drinking. In addition, the legislators increased the consequence of illegally

providing alcoholic beverages to minors from a “wrist slap” to a serious fine with significant jail time.

After being granted a special appropriation by the 75th Legislature, TABC was able to complete the replacement and modernization of its radio communications system in 2000. The agency’s radio system was well beyond obsolete and on the verge of no longer being compliant with federal broadcast communications requirements.

In 2005, the 79th Legislature dramatically increased funding for the TABC. The Enforcement Division gained 60 additional enforcement agents, bringing the division to the highest level of staffing in its history. The scope and tempo of enforcement operations is increasing accordingly.

ENFORCEMENT INITIATIVES

Minor Stings. TABC enforcement agents conducted their first minor stings in 1985 on a random basis, and began organized stings in 1990. Compliance rates were initially as low as 20% in some areas but quickly rose to 60-65% statewide.

In 1997, Enforcement conducted a seven-site study to determine the impact of repetitive minor stings on retailer compliance with the state’s underage drinking laws. The study found a higher degree of non-compliance among retailers licensed to sell alcoholic beverages for on-premises consumption. In response, the division created a new enforcement program that would emphasize minor stings targeting on-premises retailers and sought grant funding to support that program.

The next year, the Texas Department of Transportation (TxDOT) provided grant funding for the TABC’s On-Premises Minor Sting Program. By the end of the year, retailer compliance, as measured by sales refusals when TABC supervised minors attempt to buy alcoholic beverages, reached 80%, an all-time high.

In 1999, with grant funding from the Office of the Governor’s Criminal Justice Division, the TABC produced and distributed a minor sting training video to local police and sheriff’s departments.

Cops in Shops. In 1993, Enforcement received its first traffic safety grant from TxDOT and used the proceeds to fund a pilot test of its new Cops In Shops program. A year later, TxDOT expanded grant funding for this program, permitting the agency to bring the program to retailers in additional counties.

Source Investigations. Historically, agents have conducted investigations on high profile DWI’s resulting in deaths. In 1994, the Enforcement Division formalized this process. Source investigations became the tool for investigating all accidents resulting in deaths and serious injuries in which alcohol was a contributing factor. The goal is to determine whether the alcohol was legally provided and to identify and gather evidence against those who might have sold or provided the alcohol illegally.

Operation Fake Out. Targeting underage persons who use fake, borrowed, or altered IDs to obtain alcoholic beverages, in 1999, enforcement agents began conducting fake ID sweeps in the entertainment districts of the state's major cities and in bars and nightclubs located around college campuses. Called "Operation Fake Out," the methodology proved so successful that it was adopted as a regular enforcement tactic and became the focal point of a public information campaign.

Underage Drinking Hotline. In 2000, with the approval of the Governor's Criminal Justice Division, the TABC used funds remaining from the minor sting training video project to launch a public information campaign publicizing the agency's toll-free complaint hotline. The toll-free number, along with the tag-line "Report Underage Drinking," appears on some 250 donated billboards across the state, as well as on 120,000 posters and countless business card size push cards that are distributed to the general public through schools, community groups, industry trade associations, and the agency's own field offices.

Sale to Intoxicated Person Stings. A fiscal year 2000 study conducted by the University of Texas School of Social Work raised concerns about the ease with which intoxicated persons could acquire additional drinks. In 2001, the Enforcement Division developed Sale to Intoxicated Person Stings (SIPS) and conducted the first field test of that program.

In 2003, an assessment of SIPS enforcement results indicated a need for better targeting. Enforcement teamed up with researchers from the Pacific Institute for Research and Evaluation (PIRE) to test the effectiveness of using the reported dollar value of alcohol sales as a targeting criterion. The results of this study were mixed. Targeting based on sales volume proved to be more effective than either random or convenience sampling in leading enforcement agents to licensed locations where intoxication-related offenses occurred. However, targeting based on the dollar value of alcohol sales alone also took agents to establishments such as "high end" restaurants, whose high sales totals were due more to the sale of premium products at premium prices than to the absolute number of drinks sold. With respect to intoxication-related offenses, these locations proved to be "dry holes." Targeting them rendered the agent work hours devoted to the task unproductive.

Still looking for ways to improve the targeting of its SIPS operations, Enforcement is now using mapping software, licensee data, and DWI arrest information to identify areas where DWI "hot spots" correspond with concentrations of alcoholic beverage retailers. A variant of SIPS, called Saturation SIPS, has been developed to focus enforcement resources on those overlapping concentrations. Where local police departments capture location of last drink information from DWI arrestees, agents are employing yet another SIPS variant, Focused SIPS, to bring resources to bear over an extended period of time on those licensed locations that are most frequently identified as DWI sources. Licensee administrative and complaint history, as well as business type are also being used for SIPS targeting purposes.

Action Plans. In 2005, Enforcement adopted and implemented an ambitious action plan for the year that emphasized public safety concerns rather than regulatory issues. The volume of minor stings and SIPS operations doubled. The number of administrative cases filed by enforcement agents increases by a third, and a greater portion of these do, in fact, pertain to administrative violations with public safety implications as opposed to those that are purely regulatory in nature.

PREVENTION / EDUCATION INITIATIVES

For some time now, prevention of alcohol violations through public education and providing training to local police officers have been priorities for the Enforcement Division. Enforcement agents provide training courses for other local, state and federal law enforcement officers and coordinates the presentation of "Project SAVE" programs for public schools, civic groups and alcoholic beverage industry employees.

In 1985, the Enforcement Division provided instructors for 165 law enforcement courses attended by about 4,000 peace officers from local, state, and federal law enforcement agencies. During this same time, 534 awareness programs dealing with minors consuming alcohol and industry server responsibilities were presented before 22,500 students, civic organizations and industry employees.

Project SAVE (Stop Alcohol Violations Early). In 1992, Enforcement revamped its educational programs for school age children and retailers, developing new slide show presentations for each target group.

In 1995, Enforcement, with the aid of outside prevention education specialists, conducted an evaluation of its prevention education programs and determined that serious shortcomings existed. With assistance from those same consultants, the division began a year-long research and re-development project that ultimately produced Project SAVE, a series of classroom based, multi-lesson underage drinking prevention programs, with separate curriculums for elementary school, middle school, and high school students. In 1996, the agency rolled out the new SAVE programs and greatly expanded its commitment to prevention education.

In 2002, grants from TxDOT funded the development and distribution of informational and promotional materials that could be used with the agency's Project SAVE initiatives. Enforcement updated its agent-taught educational programs for retailers and members of the industry's upper-tier using Microsoft PowerPoint presentations as the primary teaching tool.

That same year, Enforcement conducted a statewide test of the effectiveness of Project SAVE for Retailers in preventing repeat "sale to minor" violations. The program itself was, and is still, used as the experimental condition; and minor stings conducted before and after training provide the method of pre- and post-testing. Retailers who sent their employees to a Project SAVE for Retailers class after a first sale to minor violation were found to be 10-15% less likely to have an employee sell alcoholic beverages to another

minor during a follow up minor sting attempt than those retailers who do not require their employees to attend a Project SAVE for Retailers class after a first violation.

Shattered Dreams. In 1997, the TABC took the key elements of California's "Every 15 Minutes" Program, reshuffled and customized them for Texas, and repackaged the end result as "Shattered Dreams." Shattered Dreams is a two-day educational event for high school students which features a dramatic re-creation of a fatal motor vehicle crash involving an underage drunk driver and the resulting consequences of such a crash. A Grim Reaper stalks the halls and randomly pulls students from classrooms to symbolize the loss of life caused by underage drinking and drunk driving. A school assembly with testimonials from participants, their parents, and others wraps up the program.

The first Shattered Dreams productions were staged at eight Texas high schools under the sponsorship of the TABC and various community groups.

In 2001, the TABC received grant funding from TxDOT for a mini-grant program that reimburses participating high schools for up to \$500 of the cost of staging Shattered Dreams on their campuses. More than 24 Texas high schools staged Shattered Dreams on their campuses during the course of the year. At this time, the number of such productions has grown to 40-45 per year, and we continue to provide funding using the TxDOT mini-grants.

MADD Power Camps. In 1998, the TABC became a co-sponsor of MADD's Youth Power Camps, providing logistical support and adult staffing for the three-day summer camps whose purpose is to develop a youth leadership cadre for community based efforts to prevent underage drinking. In 2001 and 2002, grants from TxDOT provided support for the Power Camps by providing camp "scholarships" for economically disadvantaged young people so that they too could attend camp. In 2005, TABC continues to pay a major role in these camps.

Safe Prom / Safe Graduation. In 1998, the TABC launched its first Safe Prom/Safe Graduation Campaign. The campaign combines a public information initiative with focused law enforcement to reduce alcohol-related deaths and injuries during the high school prom and graduation season.

Alliance Against Underage Drinking. In 2000, the TABC and the Texas Commission on Alcohol and Drug Abuse (TCADA) brought representatives from various state agencies, state law enforcement associations, the alcoholic beverage industry, and prevention groups together to form the Alliance Against Underage Drinking. The goals were coordinating prevention and law enforcement efforts targeting underage drinking, sharing information and resources, and forming partnerships for joint projects.

EUDL Block Grant. In 2002, the Criminal Justice Division of the Office of the Governor transferred responsibility for managing the Enforcing the Underage Drinking Laws (EUDL) block grant from itself to the TABC's Enforcement Division. The EUDL block grant, which is funded through the U.S. Department of Justice's Office of Juvenile

Justice and Delinquency Prevention, provides approximately \$360,000 per year to Texas to support law enforcement and prevention programs targeting underage drinking. The TABC uses the money it receives from the block grant for a pass-through-grant program that funds 8-10 local projects per year and to support various TABC initiatives.

President's Forum and Chiefs of Police Forum. In 2002, using EUDL grant funds, the TABC begun sponsoring an annual President's Forum and a Chiefs of Police Forum to increase the level of awareness among these key stakeholders of the scope and nature of the underage drinking problem on their campuses and to secure their support for strict on-campus enforcement of current state law and for campus policies reflect a "zero tolerance" approach to underage drinking.

College Symposium on Enforcing Underage Drinking Laws. In 2003, again using EUDL grant funds, the TABC sponsored its first annual Symposium on Enforcing Underage Drinking Laws on College and University Campuses. In 2003 and 2004, 15 universities sent five-person teams, each containing representatives from administration, the campus police, the residence system, the student body, and the local community. Discussion topics included problem assessment, strategic planning, research-based model policies and practices, and campus/community coalition building. Each team left with the basis of a strategic plan for enforcing underage drinking laws and preventing underage drinking on their campus. Follow up studies show that most teams are making progress towards the implementation of their strategic plans and are employing at least some of the model policies and methods that had been discussed at the symposium.

In 2005, teams from 20 Texas colleges and universities attended. Because representatives from most of the state's four-year colleges and universities had already attended previous symposiums, the third symposium focused on the role of residence hall assistants (RAs) in enforcing state laws and college policies concerning underage drinking. Participants departed with a model training curriculum for RAs for issues related to alcohol laws and alcohol policy enforcement.

In fiscal year 2005, Enforcement agents devoted almost 33,450 work hours to educational initiatives and provided instruction to 270,504 persons, including

- 203,959 young people in grades K – 12;
- 13,957 college students;
- 11,784 police officers; and
- 21,274 alcoholic beverage retailers and their employees.

Responsibility for many of these education initiatives, as well as the agency's grant programs, will shift soon from Enforcement to a newly organized Education and Prevention Division.

HOMELAND SECURITY

The Department of Homeland Security began in April 2003 as a section of the Licensing Division. It initially began with four employees and was funded by a grant obtained through the Governor's Criminal Justice Division. The 78th Legislative Session authorized TABC 24 additional personnel, allowing the agency to increase its focus on ensuring that applicants meet the legal requirements to hold a permit.

This was the birth of the Homeland Security Division whose primary responsibility is investigating permittees and applicants who are allegedly involved in subterfuge, visa fraud, money laundering, tax fraud and other illegal activities. Their main focus includes citizenship, residency, financial transactions and adherence to the three-tier system. Because alcoholic beverage retailers work in what is primarily a cash business, these retailers sometimes serve as fronts for money laundering, drug dealing, and other organized criminal activity.

Initially, the function was filled by 11 personnel in headquarters and 14 agents acting as licensing standards investigators in the field offices. Currently, Homeland Security in headquarters is comprised of six investigators, two analysts, and the director. The Homeland Security staff work closely with many state and federal government agencies including the FBI, IRS, Small Business Administration, various sections of the federal Department of Homeland Security, Texas Department of Public Safety, and the Comptroller's Office.

Since the inception of the unit to August 31, 2005, Homeland Security has:

- Reviewed over 6,309 applications including originals, renewals, and changes;
- Initiated approximately 771 investigations;
- Referred 180 cases for criminal and/or administrative action; and
- Assisted TABC field agents and other non-TABC entities with numerous requests for assistance in a variety of matters including Immigration Alien Queries from ICE, to Texas Workforce Commission checks, Texas driver's license photo requests, immigration status and Texas residency checks.

In September 2005, Homeland Security was merged into the Enforcement Division.

BERT FORD SHERIFF'S COMMENDATION AWARDS

Bert Ford was the TABC Administrator between 1936 and 1947, and during his tenure, he emphasized the importance of TABC employees maintaining a high level of cooperation with local law enforcement agencies. Starting in 1995, each year, TABC presents a commendation named for the former Administrator to recognize a sheriff who has demonstrated, through his or her resources and personal cooperation, the kind of working relationship that former TABC Administrator Bert Ford encouraged. The TABC agents themselves nominate sheriffs who are especially supportive of TABC's mission and goals.

The Bert Ford Commendation recipients receive a handgun suitable for routine duties and a specially designed plaque. In addition, their names are added to a plaque displayed at the headquarters of the Sheriff's Association of Texas, which identifies each Bert Ford Commendation recipient.

Following are past recipients of the Bert Ford Award:

Sheriff Bobby Young, Hunt County	1995
Sheriff Sigifredo Gonzales, Jr., Zapata County	1996
Sheriff Kelly Janica, Jackson County	1997
Sheriff Don Montague, Hays County	1998
Sheriff Michael Ratcliff, Victoria County	1999
Sheriff George "Mitch" Woods, Jackson County	2000
Sheriff Gary Painter, Midland County	2001
Sheriff Mark Gilliam, Aransas County.....	2002
Sheriff Joel Richardson, Randall County.....	2003
Sheriff J.B. Smith, Smith County	2004
Sheriff Dennis Wilson, Limestone County	2005

SUMMARY

In the past 70 years, the Texas Liquor Control Board – Texas Alcoholic Beverage Commission has been without peer in the United States in carrying out the responsibilities of regulating the alcoholic beverage industry. TABC has been honored by the National Conference of State Liquor Administrators and the National Liquor Law Enforcement Association as being a “Model State” for regulating this industry. The agency is called on regularly to present programs to this national organization to give other state administrators information about how the law is enforced in Texas.

The agency is a leader in producing revenue for the state. With an operating budget of approximately \$37.3 million per year, the agency will collect over \$219 million in fiscal year 2006, an average of over \$800,000 per day.

Since the agency was created in 1935 until August 31, 2005, it has brought in total revenue of \$9,110,490,123 for the State of Texas. The revenue has gone to the General Revenue Fund and aids in the financing of the state's public schools, local governments, research, human services and other areas in which state government provides services to Texans.

The agency continues its commitment toward strong law enforcement to protect the health and welfare of the citizens of the State of Texas while at the same time regulating the alcoholic beverage industry in a fair and responsible manner.

SUMMARY OF TAXES ON ALCOHOLIC BEVERAGES ASSESSED BY THE STATE LEGISLATURE

The Texas voters legalized beer in the 1933 election, and the 43rd Legislature passed a tax act assessing \$1.50 per barrel for beer.

A Special Session of the 44th Legislature was called on September 16, 1935, to pass a regulatory and tax act for all alcoholic beverages. The Legislature created the Texas Liquor Control Act on November 14, 1935, and it became effective November 15, 1935. This comprehensive Act assessed the following taxes, which reduced the beer tax from \$1.50 to \$1.24 per barrel.

Liquor	\$.80 per gallon
Wine not over 14% .....	.02 per gallon
Wine 14% to 24% .....	.05 per gallon
Wine Sparkling .....	.25 per gallon
Malt Liquor .....	.15 per gallon
Beer	1.24 per barrel

A Special Session of the 44th Legislature increased the tax effective December 1, 1936, as follows:

Liquor	\$.96 per gallon
Wine not over 14% .....	.10 per gallon
Wine 14% to 24% .....	.20 per gallon
Wine Sparkling (No increase) .....	.25 per gallon
Malt Liquor (No increase) .....	.15 per gallon
Beer (No increase)	1.24 per barrel

The 47th Legislature allowed a 2% discount on liquor stamp purchases in excess of \$500.00 and increased the tax effective June 1, 1941 as follows:

Liquor	\$1.28 per gallon
Wine not over 14% (No increase) .....	.10 per gallon
Wine 14% to 24% (No increase) .....	.20 per gallon
Wine Sparkling (No increase) .....	.25 per gallon
Malt Liquor (No increase) .....	.15 per gallon
Prescription .....	.22 per prescription
Beer (No increase)	1.24 per barrel

A Special Session of the 51st Legislature increased all alcoholic beverage taxes by 10% for the period from March 1, 1950, through September 1, 1951, which was allotted to the State Hospital Fund to build new state hospital buildings.

Liquor	\$1.408 per gallon
Wine not over 14%.....	.11 per gallon
Wine 14% to 24%.....	.22 per gallon
Wine Sparkling .....	.275 per gallon
Malt Liquor .....	.165 per gallon
Prescription (No increase).....	.22 per prescription
Beer.....	1.364 per barrel

The 52nd Legislature made the rate permanent that was passed by the Special Session of the 51st Legislature and increased beer from 1.364 to \$1.37 per barrel effective September 1, 1951.

A Special Session of the 53rd Legislature increased the beer tax from \$1.37 to \$2.00 per barrel, effective September 1, 1954.

The 54th Legislature increased the beer tax from \$2.00 to \$4.30 per barrel, effective September 6, 1955.

The Third Called Session of the 56th Legislature increased the liquor tax to \$1.68 per gallon and increased the wine taxes by 20%, which included unused tax stamps and inventories in possession of wholesalers and retailers, effective September 1, 1959.

The tax rates at that time were:

Liquor	\$1.68 per gallon
Wine not over 14%.....	.132 per gallon
Wine 14% to 24%.....	.264 per gallon
Wine Sparkling .....	.33 per gallon
Malt Liquor .....	.165 per gallon
Prescription .....	.22 per prescription
Beer.....	4.30 per barrel

The Regular Session of the 60th Legislature in House Bill 773 authorized the payment of ale and malt liquor taxes on a reporting system upon importation into the state or on sale if produced in the state rather than affixing a tax stamp to the container.

The Regular Session of the 61st Legislature, in Senate Bill 27, authorized the Commission to change payment of liquor taxes from a stamp system to a reporting system.

The Second Called Session of the 61st Legislature, in House Bill 4, added a service fee on alcoholic beverages served by Private Club Permittees and Airline Beverage Permittees, effective October 1, 1969, as follows:

- In lieu of the tax imposed by the Limited Sales Excise and Use Tax Act, as amended, there is hereby imposed a special private club service fee in the amount

of five cents (\$.05) for each individual serving of an alcoholic beverage by such club.

- In lieu of the Limited Sales and Use Tax Act, there is hereby imposed a special Airline Beverage Service Fee in the amount of five cents (\$.05) for each individual serving of an alcoholic beverage served by such permit holder within the boundaries of this state.

The First Called Session of the 62nd Legislature, in House Bill 3, increased alcoholic beverage taxes, effective July 1, 1971, as follows:

Liquor	\$2.00 per gallon and a minimum tax on any package of distilled spirits shall be \$.05 if the package contains 2 ounces or less
Wine not over 14%.....	.17 per gallon
Wine 14% to 24%.....	.34 per gallon
Wine Sparkling .....	.43 per gallon
Malt Liquor (No increase) .....	.165 per gallon
Beer.....	5.00 per barrel

A tax at the rate of 10% is imposed on the gross receipts of a permittee from the sale, preparation or service of mixed beverages, or from the sale, preparation, or service of ice or non-alcoholic beverages which are sold, prepared, or served for the purpose of being mixed with alcoholic beverages and consumed on the premises of the permittee. This section went into effect on June 9, 1971, except that fraternal or veteran's organizations did not come under these provisions until September 1, 1971.

The special private club service fee in the amount of five cents (\$.05) for each individual serving of an alcoholic beverage by a club was repealed, effective June 8, 1971.

The 64th Legislature, Regular Session, in 1975, authorized the Commission to adopt rules and directed that the agency compute taxes based on the metric system. The metric system was implemented on wine as of January 1, 1979, and on distilled spirits on January 1, 1980.

The Second Called Session of the 68th Legislature amended the Alcoholic Beverage Code by increasing all tax rates by 20% and by changing the reporting procedures for ale, malt liquor, and beer. These changes were effective October 2, 1984.

The new tax rates are as follows:

Distilled Spirits.....	\$2.40 per gallon
Distilled Spirits Miniatures .....	.05 each
Wine not over 14%.....	.204 per gallon
Wine 14% to 24%.....	.408 per gallon
Wine Sparkling .....	.516 per gallon
Malt Liquor and Ale .....	.198 per gallon
Beer.....	6.00 per barrel

The Gross Receipts Tax was increased from 10% to 12%.

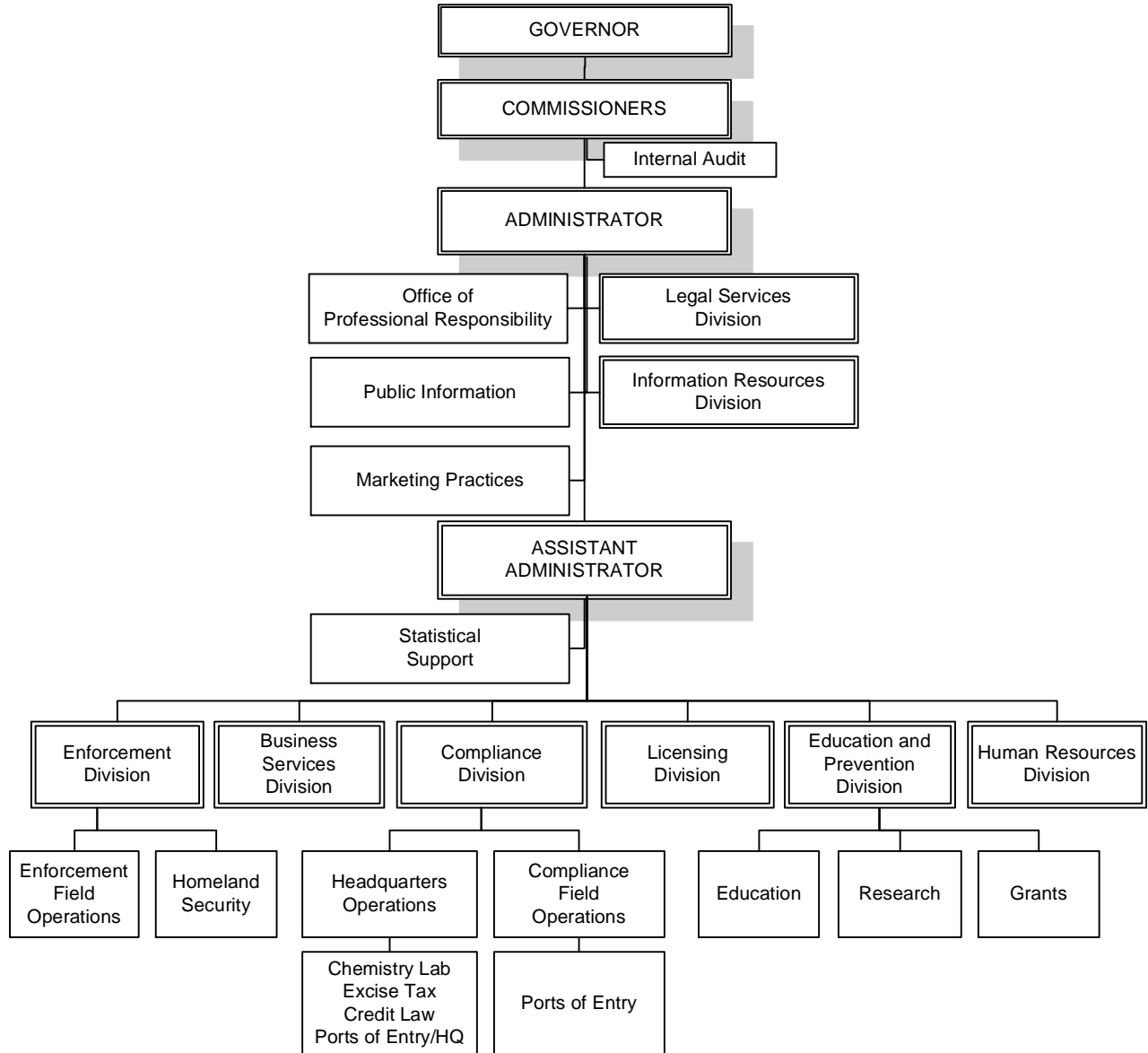
The method for reporting taxes for ale, malt liquor and beer was changed based on the “first sale” system whereby the distributor selling the beer is responsible for payment of the tax.

The 25% exemption on beer taxes on beer produced by a Texas Manufacturer, whose production does not exceed 75,000 barrels annually, continues to be in effect.

The 72nd Legislature in 1991 increased the Gross Receipts Tax from 12% to 14%.


Currently, the Gross Receipts Tax remains at 14%. Excise taxes have not increased since 1984.

ORGANIZATIONAL CHART





THE STATE OF TEXAS
GOVERNOR

 *To all to whom these presents shall come, Greetings: Know ye, that this certificate is presented to the:*

Texas Alcoholic Beverage Commission

On the occasion of its

70th Anniversary

Under the laws of the State of Texas, with all rights, privileges and emoluments appertaining to said office, I grant this official recognition. In testimony whereof, I have signed my name and caused the Seal of the State to be affixed at the City of Austin, this the 10th day of November A.D., 2005.



Rick Perry

Rick Perry
Governor of Texas