Oregon Liquor Control Commission

	2011-13 Actuals	2013-15 Leg. Approved	2015-17 CSL LFO	2015-17 Governor's
Other Funds	137,037,933	152,458,699	156,820,358	164,006,339
Other Funds Non-Limited	-	-	-	11,048,357
Total Funds	**137,037,933**	**152,458,699**	**156,820,358**	**175,054,696**
Positions	236	234	230	258
FTE	231.00	226.21	225.50	246.00

*includes Emergency Board and administrative actions through December 2014

Program Description

The mission of the Oregon Liquor Control Commission (OLCC) is to promote the public interest through the responsible sale and service of alcoholic beverages.

- The agency's Distilled Spirits program includes the purchase, warehousing, distribution, and retail services related to distilled spirits.
  - Purchasing and wholesale services ensure adequate inventory that meets customer demand, and manages the shipping and distribution to liquor stores which are under contract with independent agents.
  - Retail services staff work with liquor store agents to maximize their business while ensuring regulations are followed.
- Public Safety Services includes:
  - Investigating and licensing of restaurants and bars and their staff to sell and serve liquor;
  - Overseeing private industry server education programs; and
  - Enforcement, which includes inspections of these premises to ensure that laws and rules are being followed, investigations of complaints, working with licensees to remedy problems, and sanctions when necessary.
- Support Services comprises the agency central operations including management, Information Technology, facilities, human resources, accounting and finance, policy and rules, communications, and support for the five Governor-appointed citizen commissioners.
- Store operating expenses comprise roughly 63% of the agency's budget, and consist of a commission to contract liquor agents that oversee 248 stores throughout Oregon. The commission rate earned by liquor agents equates to an average of 8.88% of sales (actuals vary depending on size of store, whether the store sells distilled spirits exclusively, and whether the agent participates in a deferred compensation option).

- Capital Improvements consists of the budget for maintenance of OLCC facilities, including two warehouses and the agency headquarters building.

CSL Summary and Issues

There are no material differences in Current Service Level estimates between the Executive Branch and the Legislative Fiscal Office.

Policy Issues

- OLCC needs to address failing roofing on its facilities that constitutes a safety hazard to employees and threatens to compromise millions of dollars of liquor inventory.
- Training requirements for enforcement personnel have increased since the passage of SB 1528, which officially designated them as “Peace Officers”. Limitation to pay for training and certification from the Department of Public Safety Standards and Training is requested in the budget.
- The agency is requesting limitation to increase its shipping capacity by adding $5 million in capital improvements consisting primarily of a new conveyer system that will enable shipments from multiple doors in the main warehouse. The agency reports that it is currently at its maximum shipping capacity, and that the improvements could address projected product demand for the next decade. This policy option package must be weighed against the likelihood of liquor store privatization initiated through initiative or legislation. Alternatively, OLCC estimates that demand can be met for the 2015-17 biennium by fully staffing a swing shift in the distribution warehouse (increasing positions and attendant personnel costs), but predicts that demand will eclipse this option by the 2018-19 fiscal year. The agency maintains that failure to address this issue will result in lost sales.
- Information technology improvements are sought, and will be evaluated with the advice and expertise of LFO IT analysts. The agency lacks basic e-commerce capabilities, including license applications and renewal, as well as beer and liquor tax payments. Compliance histories also have yet to be completely digitized and accessible to enforcement agents in the field.

- The agency is requesting that bank card fees categorized as Non-Limited expenditures. The Legislative Fiscal Office strives for consistency in categorizing expenditures as non-limited, generally utilizing this designation for debt service and bond-related costs, or trust fund-type payments (such as unemployment insurance benefit payments). The agency does a good job of estimating necessary expenditure limitation for this cost of business, and multiple opportunities through the interim exist to enable expenditure limitation to be increased when sales exceed the level predicted in the legislatively adopted budget.

Other Significant Issues and Background

OLCC Revenue Projections:

The OLCC current service level budget projects gross "regular" sales of $1.1 billion, and additional per bottle surcharge revenue of $33.8 million. The surcharge was approved by the Commission in August, 2014. The Legislature will have to pass program change legislation to direct 100% of surcharge revenue to the General Fund, as it has in prior years. Agent's Compensation, which is roughly 60% of the agency's budget, is assumed at the current average commission rate of 8.88% of sales; as ever, individual store rates vary based on their sales volume and whether they elect to participate in deferred compensation. Since revenue distribution is calculated *after* agency expenses (including agent's compensation), approval of policy option package expenditures will impact these totals. The following table illustrates revenue distribution under the 2015-17 CSL and Agency Request Budget.

OLCC 2015-17 Revenue Distribution	CSL	Agency Request
Wine Board	$ 629,000	$ 629,000
Mental Health	$ 17,996,500	$ 17,996,500
GF (regular)	$239,804,070	$233,647,486
$0.50 per bottle surcharge	$ 33,776,300	$ 33,776,300
Subtotal GF with surcharge	*$273,580,370*	*$267,250,068*
Cities	$ 85,644,311	$ 83,445,531
City Revenue Sharing	$ 59,951,017	$ 58,411,871
Counties	$ 42,822,155	$ 41,722,765

Joint Interim Committee on Liquor-related Issues

The OLCC has been working over the interim with a joint interim taskforce on liquor-related issues, including system capacity, product demand, market trends, proposals to modernize the distribution and retail system, and requested capital and information technology investments. The task force took testimony from various stakeholders, and has filed policy legislation related to the craft brewing and spirits industries. Investments in OLCC programs and infrastructure will be evaluated by Ways and Means.

Measure 91 Implementation

On November 4, 2014, Oregon voters approved Ballot Measure 91, which provides a legal framework for the production, sale and possession of recreational marijuana. The measure specifies that the Oregon Liquor Control Commission (OLCC) is to license growers, producers, and retail establishments; ensure the collection of taxes; investigate and prosecute violations; adopt regulations; exercise powers to carry out the initiative; regulate the use of marijuana for scientific, pharmaceutical, manufacturing, mechanical, industrial or other applications; adopt rules; and study and make recommendations pertaining to impaired driving.

OLCC has been working over the course of 2014 to plan for its licensing and enforcement responsibilities relative to Measure 91 passage. The December Emergency Board approved additional Other Funds expenditure limitation of $583,000 and four limited duration positions (1.08 FTE) to begin implementation of Measure 91. In summary, the funds provide for a program director, two policy analysts and a public affairs specialist which are beginning the process of identifying implementation and enforcement issues, gathering public input, drafting administrative rules and development of regulatory processes. All preliminary work is financed through a transfer from the liquor fund for “start-up” funding, as described in the analysis of the agency’s request to the December Emergency Board; funds are expected to be repaid by marijuana tax or licensing fees, and repaid in full by the end of FY 2017. The repayment structure would repay partners who receive liquor revenue distribution (the state, cities and counties) at a rate 2% interest. Marijuana tax and licensing revenue would be distributed to recipients per Measure 91 after all transfers from the liquor fund are repaid and marijuana program operating costs are paid.

OLCC has stated its intent to request additional expenditure limitation for the current biennium, as part of the 2013-15 budget reconciliation bill process. The request is related to costs comprised primarily of a “seed-to-sale” inventory tracking system that will enable the agency to audit the plants as they make their way through the supply, wholesale and distribution chain, an enforcement manager, and administrative support to the program director. Per Measure 91, OLCC is to begin taking licensing applications on January 1, 2016; procurement and programming of the tracking system will inform business and regulatory processes such as tax auditing and licensee reporting.

The 2015-17 Legislatively Adopted budget will need to include start up and operating revenues for the marijuana program; the amount included in the Governor’s budget for marijuana regulation is $6.8 million Other Funds, and 28 positions. The Legislative Fiscal Office recommendation will be informed by policy determinations made by the Joint Committee on Implementing Measure 91, as well as further refinement of licensing and enforcement processes; that said, the number of eventual licensees will be the largest predictor of future costs.

Co-Chairs’ Budget Framework Discussion

The Co-Chairs’ Budget Framework assumes that bottle surcharge revenues will again be directed exclusively to the General Fund.