Testimony in Support of SB 141

Presented to the Senate Business and Transportation Committee

March 25, 2015

Good afternoon Chair Beyer and members of the committee, my name is Saleem Noorani and I am a liquor store owner with stores in Corvallis and Springfield. Thank you for this opportunity to testify in favor of the -3 amendments to Senate Bill 141. SB 141 adds security to our businesses and will allow store owners the confidence to make continued investments in our stores. SB 141 is important to each individual store owner but also is a significant policy improvement for the entire liquor system in Oregon.

To give a little background on the issue; A newly appointed liquor store owner is required by OLCC rules to pay a goodwill or buyout equal to 4% of the average annual gross sales to the retiring store owner whose outstanding evaluated liquor store is being purchased. A goodwill payment for an average annual sale of $ 2 million store amounts to $80,000. This payment is just the start. The fixtures, computer system, security system and other essentials required for the operation of the business could add another $25,000 to $30,000. The new store agent is also required to present a plan for updating and modernizing the store upon takeover. The remodel can be as high as $50,000 to $80,000.

The total investment for a new agent can range from a low of $130K to as high as $190K to start. This does not include non-liquor inventory to stock the store. Most of us do not have that kind of capital readily available. We may need to invest from our savings, take out a second mortgage on our homes, a bank loan and/or borrow from family and friends to start the business. We are still very excited to get into the business because we feel that we are building a secure future. Once the loans are paid off, which may take up to 10 years; we can slowly start saving for our children's college tuition and an eventual retirement.

It is quite normal to pay goodwill to acquire an existing business. The business has a value that one can sell down the road and recoup the original investment and hopefully more by building the business and increasing sales. Unfortunately for a liquor store in Oregon, we are required to pay a good-will but have no guarantees whatsoever that the value of our investment is protected for the future.

Let me give you a couple of examples:

1. OAR 845-015-0190 section 12 states verbatim "No Contract Rights in Buy-Out. No agent shall have any entitlement to, or expectation of receiving, any buy-out. The institution and continuation or termination of the buy-out program constitutes unilateral regulatory action by the Commission, and gives no agent any contractual right or expectation in any buy-out payment. The Commission reserves the right to repeal or modify this rule, or otherwise terminate the buy-out program at any time."
2. If the commission or the legislature decides tomorrow to change the current model of retailing distilled spirits in Oregon and privatizes the system, most grocery stores would qualify for a

license to sell distilled spirits. There are over 750 grocery stores with a footprint of 10,000 sq. that would qualify for a distilled retail license.

3. The grocery industry tried to mount a liquor privatization measure unsuccessfully last year. We are well aware of their keen interest in bringing about such a change. We believe that they will continue working towards privatizing liquor sales in Oregon.

If any of the above scenarios plays out, the number of liquor outlets could quadruple in Oregon. If this were to happen and more than 1,000 liquor outlets were to open what would happen to our current liquor store sales and the value of our business investment? Who would be willing to buy our business and pay anything even close to what we were initially required to pay?

I ask you to put yourself in our shoes and see the dilemma we are in! Where is the fairness in this equation? The liquor store owners work hard and diligently; providing good customer service, monitor closely that no minors are allowed access to alcohol and generate a lot of revenue for the state. Are we being unreasonable in asking that our investments be protected?

This bill clearly defines the condition under which the State of Oregon would protect our investment. It will not cost the state any additional sum to support this bill. If a privatization scenario comes about in the future, there will be no need for the assets which the liquor commission owns for retailing distilled spirits. The monies from the sale of those assets would be more than enough to compensate the liquor store owners.

We have a great working relationship with OLCC and fully support the current model of retailing distilled spirts in Oregon. It provides a safe and controlled environment for liquor sales while keeping it out of the hands of minors and generate a great deal of revenue for the state. Passing the bill would incentivize agents to re-invest in their stores which would lead to increased sales and ultimately more revenue for the state.

I urge you to see the merit of the bill. Please put yourself in our shoes and see if what we are asking for is unreasonable or unjustified. We are only asking what is fair and not to be penalized by losing not only our livelihood but all we have worked for.

I ask for your support of the -3 amendments to Senate Bill 141.

Thank you for your consideration.

OAR 845-015-0190

Resignation Buy-Out Program for Retail Sales Agents

(1) Purpose. The purpose of the Resignation Buy-Out Program is to provide a monetary benefit to all retail sales agents when they resign. Retail sales agents receive the buy-out, in part, to recognize their contribution in building a successful business.

(5) Paying the Buy-Out. An incoming agent must pay a buy-out if the effective date of the incoming agent's appointment occurs when the program is in effect. The incoming agent provides payment to the outgoing agent once the Commission has estimated any debt reimbursements to the Commission or the State of Oregon. As a condition of eligibility for the buy-out, the outgoing agent must allow the incoming agent to spend a minimum of 12 working days at the store working productively together before the store takeover, unless the incoming agent declines the opportunity in writing. During the 12-day period, the outgoing agent will introduce the incoming agent to Full On-Premises Sales licensees and commercial accounts, and orient the incoming agent to all aspects of the store operation except the required training and information provided by Commission staff. The Commission may waive the buy-out requirement at the written request of the outgoing agent.

(12) No Contract Rights in Buy-Out. No agent shall have any entitlement to, or expectation of receiving, any buy-out. The institution and continuation or termination of the buy-out program constitutes unilateral regulatory action by the Commission, and gives no agent any contractual right or expectation in any buy-out payment. The Commission reserves the right to repeal or modify this rule, or otherwise terminate the buy-out program at any time.

Stat. Auth.: ORS 471, including 471.030, 471.040, 471.730(1) (5)
Stats. Implemented: ORS 471.750 & 471.752(2)
Hist.: OLCC 14-1996, f. 10-1-96, cert. ef. 1-1-97; OLCC 8-1998(Temp), f. & cert. ef. 9-18-98 thru 3-16-99; OLCC 4-1999, f. 2-16-99, cert. ef. 3-17-99; OLCC 19-2000, f. 12-6-00, cert. ef. 1-1-01; OLCC 2-2003, f. 1-27-03, cert. ef. 2-1-03, Renumbered from 845-015-0032; OLCC 9-2008, f. 6-12-08, cert. ef. 7-1-08; OLCC 15-2011, f. 12-6-11, cert. ef. 1-1-12

INFORMATION SHEET

STORE:	Roseburg East 1095	CURRENT Address:	1350-26 NE Stephens St. Roseburg OR. 97470

This store has an opening for a liquor store operator. The Commission will consider proposals for the store to be operated as an exclusive liquor store, or non-exclusive liquor store which would operate in conjunction with another business.

SALES AND COMPENSATION

Currently, this store is classified as an exclusive liquor store. The following sales and compensation information is based fiscal year 2013/2014 sales.

Annual Sales: Consumer:	$1,746,285	Licensee:	$75,606	Total:	$1,821,892
Annual Comp:	$180,225	Average Mo. Comp:	$15,019		

Compensation calculated based on store type		
Exclusive Liquor Store		Non-Exclusive Liquor Store
Compensation for an exclusive agent operating this location is a fixed monthly base rate of $2700 plus two variable rates. Currently, the variable rate for consumer sales is 8.00% and for licensee sales is 6.24%. Variable rates are periodically adjusted during a biennium to meet Legislative mandates.	OR	Compensation for a non-exclusive agent is 14.25% of the first $10,000 of monthly distilled spirit sales plus two variable rates. Currently, the variable rate for consumer sales is 8.00% and for licensee sales is 6.24%. Variable rates are periodically adjusted during a biennium to meet Legislative mandates.

Keep in mind:

- It may take years to build the business.
- Sales vary within seasons and economic conditions.
- An exclusive liquor store can only sell authorized related items. (This may be limited by leasing restrictions).
- Licensees are able to purchase distilled spirits at any liquor store within the state.
- Agents will pay all expenses to operate the liquor store from the monthly compensation check.

CONDITIONS OF APPOINTMENT

A. This store will be self-serve and can be proposed to operate as an exclusive liquor store, or a non-exclusive liquor store which would operate in conjunction with another business. The lease at the current location must be assumed and has the following terms:
   - Leased area is approximately 2963 square feet
   - Current monthly base rent is $2963 (Additional fees may also apply)
   - Lease expires December 31st, 2015
   - Average monthly utilities are $700

B. Hours of operation: No earlier than 7 a.m. or no later than 10 p.m.; required minimum of 8 hours per day Monday-Saturday which must include the hours between 12 noon and 6 p.m.

C. Present a Statement of Funding Sources and supporting documentation showing adequate finances of approximately $124,010* to meet the following obligations:
   *** This is only an estimate; actual start-up expenses could be higher or lower.**

   1. Pay a resignation buy-out of $70,532 pursuant to OAR 845-015-0190.

   2. Start-up costs, operating expenses (rent, payroll, etc.), store improvements, appraised fixture and equipment costs, and

appraisal fee (approximately $43,478). Any optional fixtures, equipment or related items may be purchased at an additional cost.

3. Purchase a new three register point-of-sale cash register computer system (approximately $10,000). The system must meet reporting requirements to OLCC through the Oregon Liquor Agents Services (OLAS) website. Further, the system must transmit daily liquor sales and daily liquor inventory to OLCC by the takeover date. The required daily information will also be posted to Oregon Liquor Search. The bank card processing system must comply with Payment Card Industry Data Security Standards from the takeover date. Agent must accept the existing bank card processing equipment lease until its expiration.

4. Meet the operating expenses of the store for two months before receiving compensation.

5. Any *optional* fixtures, equipment or related items may be purchased at an additional cost.

D. Store location must have high speed internet and a store specific e-mail account.

E. Individual applicants must qualify for a fidelity bond. Legal entities must provide a surety bond in the amount of $2,461,069.

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OLCC RECOMMENDATIONS FOR THE STORE

A. Recommended Minimum Hours: Monday-Thursday 10 a.m. to 8 p.m.
Friday & Saturday 10 a.m. to 9 p.m.
Sunday 11 a.m. to 6 p.m.

APPLICATION PROCESS

A. Applicants may apply as an individual or one legal entity only. Applicant is required to complete the appropriate application for appointment type. If incorrect application is completed, the application will not be considered.

B. If applying for more than one advertised store, submit a separate application for each.

C. To be considered, a completed application must be received in the Retail Services office, Room 126 by 5 p.m. Friday, September 19th, 2014 .

Main Office: OLCC, 9079 SE McLoughlin Blvd., Portland, OR 97222-7355
Mailing Address: OLCC, P.O. Box 22297, Milwaukie, OR 97269-2297
Attention: Retail Services Division

D. Applicants with questions regarding this store may contact:

Retail Services
503-872-5020
OLCC.RetailServices@state.or.us

-or-

Dave Owens, District Manager
cell 541-944-2804
Dave.owens@state.or.us

SELECTION PROCESS

A. A staff screening committee will evaluate and rank all applications.

B. Highest ranking applicants will be selected for a personal interview at OLCC's main office in Portland, Oregon.

C. Finalists will be invited to the October 2014 public commission meeting to present a presentation to the Board of Commissioners. At a minimum, presentations must include hours of operation, specific commitments for store equipment and fixturing including thoughts, ideas and fixturing on a future location.

D. Selection and appointment of a finalist will be made by the Board of Commissioners after all finalists have presented.

E. The appointed agent will tentatively begin operating November 3rd, 2014.

Cork & Bottle Shoppe