



LPRO: LEGISLATIVE POLICY AND RESEARCH OFFICE

# ALCOHOL REGULATION

## BACKGROUND BRIEF

The Oregon Liquor Control Commission (**OLCC**) oversees the sale of alcoholic beverages and recreational marijuana to allow access to responsible adults while protecting Oregon’s public health, safety, and community livability. The OLCC was created in 1933 during a special session of the Legislative Assembly following the end of national prohibition. Oregon chose a “control” system, giving the state the exclusive right to sell packaged distilled spirits through retail liquor stores operated by contracted agents, and is one of seventeen states that sell distilled spirits through government-operated stores or designated outlets that the state supervises under a sales agent contract. The OLCC advocates responsible alcohol consumption by managing and distributing distilled spirits, licensing and regulating businesses that sell and serve alcohol, and training and issuing permits for alcohol servers.

### **COMMISSION AND AGENCY**

The OLCC is overseen by seven citizen commissioners who are appointed to four-year terms by the Governor, subject to Senate confirmation. Each of the five congressional districts must be represented, with an additional commissioner from western Oregon and one from eastern Oregon. One of the commissioners must represent the food and beverage industry. No more than four commissioners can be of the same political party. Commissioners provide policy direction for the OLCC and make decisions regarding liquor licenses, marijuana licenses, agency rules, contested case hearings, and the appointment of liquor store agents. The Commissioners of the OLCC appoint the Executive Director, who oversees the agency’s headquarters and distilled spirits distribution center in Milwaukie. OLCC has 12 offices statewide with regional offices in Salem, Bend, Eugene, and Medford. Approximately 328 people are employed by the agency, divided between the alcohol and marijuana programs.

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## ALCOHOL LICENSING

In 2017, the OLCC issued 14,085 in-state and 3,846 out-of-state licenses for the purposes of manufacturing, storing, distributing, and retailing distilled spirits, wine and cider, and malt beverages. The OLCC also issues licenses for alcohol sales at special events and permits for serving alcoholic beverages.

The type of license an individual or business needs to obtain depends on the types of activities they will perform and where the business is physically located. For instance, out-of-state businesses who want to deliver beer, wine, or cider directly to a resident of Oregon must apply for a direct shipper permit, while Oregon-based businesses with the appropriate alcohol license may ship to residents. Likewise, while a caterer or private club receives the same privileges as a bar or restaurant under a Full On-Premises Sales license to serve distilled spirits, each business type must meet specific criteria to obtain the license.

Annual license fees range from \$100 (distillery, warehouse, off-premises sales) to \$500 (brewery) (Table 1). Special event licenses for wineries, grower sales privilege licensees, brew pubs, breweries, and distilleries are \$10 per day. Temporary sales licenses that are not connected to an annual license are \$50 per day. Full On-Premises Sales licensees and Limited On-Premises Sales licensees can apply for a temporary use of an annual license at no charge. The OLCC issues approximately 9,500 licenses for special events each year. Examples of special events are festivals, rodeos, fundraisers, and concerts.

**Table 1. Common OLCC License Types and Fees**

License Type (fees set in statute)	Current Annual or Daily Fee	License Type (fees set in statute)	Current Annual or Daily Fee
Brewery-Public House	\$250	Off-Premises Sales	\$100
Brewery	\$500	Wholesale Malt & Wine Distributor	\$275
Winery	\$250	Wine Self Distribution Permit	\$100
Distillery	\$100	Temporary Sales License Events (per day)	\$50
Full On-Premises Sales	\$400	Special Event Winery License (per day)	\$10
Limited On-Premises Sales	\$200	Special Event Distillery License (per day)	\$10
Direct Shipper	\$50		

Source: Legislative Policy and Research Office

Data: ORS 471.282 (3)(d), ORS 471.311 (6), ORS 471.311 (8), ORS 471.311 (10)

Prior to issuing an annual liquor license related to the sale of alcoholic beverages, the applicant posts a public notice on the building or property that is to be licensed. In addition to receiving public comments, the local governing body can also make a recommendation to the OLCC regarding licensure. The applicant(s) and the proposed location are investigated by an OLCC investigator who makes a recommendation based on application materials, OLCC statutes and administrative rules, case history, and OLCC policy.

The OLCC Commissioners have delegated to OLCC staff the authority to grant most liquor licenses. A license may be suspended, revoked, or fined for actions such as selling alcohol to minors or visibly intoxicated patrons or for a history of serious and persistent problems involving disturbances, unlawful activities, or noise either on the premises or involving patrons in the immediate vicinity of the premises.

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### **ALCOHOL SERVER PERMITS AND EDUCATION**

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Service permits are required for servers (i.e., wait staff or bartenders) who work for a business that allows customers to drink alcohol on the premises; managers who directly supervise servers who mix, serve, or sell alcohol to customers for drinking on their premises; owners who mix, serve, or sell alcohol, or manage services at that business; and any person who fills growlers.

Applicants must be at least 18 years old and pass an alcohol server education course. Oregon was the first state in the country to require all alcohol servers to be trained. The purpose of the course is to enhance public health and safety by developing the knowledge and skills that support responsible alcohol service. More than 35,000 people take the course each year; course providers charge each student \$10 to \$35. There is also a \$23 service permit fee payable to the OLCC upon application. Employers may pay the fees for their employees. As of May 2018, all alcohol server permit applications are submitted through a web-based portal. The applications are processed and tests are administered through the web-based portal, however, the course is still administered separately. The OLCC charges the applicant a \$5.65 portal provider fee.

There are more than 165,000 active service permit holders in Oregon. Alcohol server permits are valid for five years. A person can serve alcohol while their service permit application is being processed by the OLCC, but they must have taken the server education class within 45 days of submitting the application.

The OLCC certifies private trainers and community colleges to teach server education classes; it is also responsible for designing, reviewing, and updating the model curriculum. Courses may be taken online or in a classroom setting.

The OLCC may deny permits to people who have criminal histories involving felony drugs, violent crimes, or driving under the influence of intoxicants (DUI)/diversions. The OLCC may deny applications or revoke service permits from people who violate liquor laws such as furnishing alcohol to minors.

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### **PUBLIC SAFETY PROGRAM**

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The OLCC emphasizes the prohibition of selling to minors and visibly intoxicated people. Its Public Safety Services Program regulates the manufacture, distribution, and sale of alcoholic beverages, and provides education to licensees and service permit holders. Liquor regulatory inspectors deal with issues including over-service of alcohol, alcohol service permit violations, problem premises, community livability issues, and the sale and/or service to minors.

Staff try to balance community and licensee concerns in partnership with diverse groups such as local governments, law enforcement, and neighborhood associations to provide service to all Oregonians while promoting responsible sales and service of alcohol.

Several programs are available to help licensed businesses be compliant with state regulations. OLCC retail licensees may choose to join the voluntary Responsible Vendor Program (**RVP**), the purpose of which is to reduce underage drinking, encourage participants to adopt best practices in preventing sales to minors, and provide licensees an incentive to give their employees ongoing training in responsible alcohol sales and service. Licensees who join the RVP and follow all the requirements are eligible for reduced sanctions if their employees sell alcohol to a minor or fail to properly check ID.

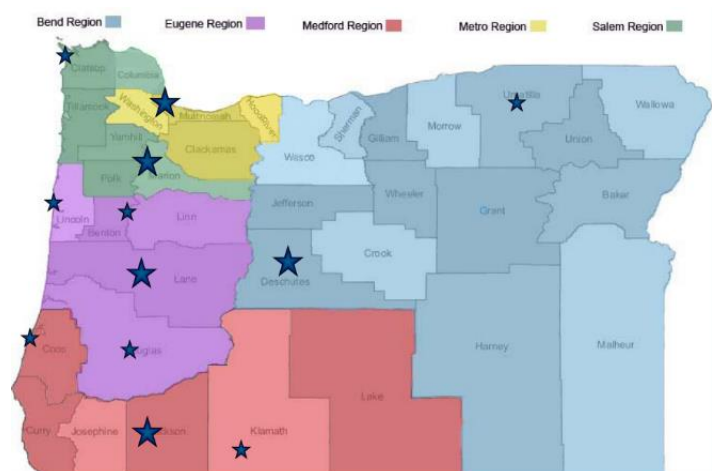
Participants in the RVP are required to provide responsible alcohol sales training and quarterly refresher training sessions to employees; adopt house policies on alcohol sales and ID checks; accept only certain forms of ID for alcohol sales; post signs regarding ID checks, and keep records verifying compliance.

The OLCC also offers the First Call program, which is designed to help new licensees be successful in their operation and maintain excellent records of compliance. An OLCC staff person visits newly licensed businesses within 90 days of issuing the license to review common violations and offer suggestions on how to avoid them. This is an opportunity for new licensees to ask questions of their regulatory inspectors and develop a relationship prior to any enforcement issues.

A free ID checking class is available at all regional offices for anyone in the alcohol service industry. The class offers in-depth education on how to identify fake ID and best practices on verifying identification.

A public complaint process is also available as part of the public safety initiatives. Identified and anonymous complaints are made by filling out a form and returning it to the nearest OLCC office (Figure 1).

**Figure 1: OLCC Office Locations**



Source: Oregon Liquor Control Commission

## LIQUOR AGENTS AND STORES

The OLCC sells distilled spirits through 279 approved retail liquor stores that are independently owned and operated by individuals or corporations (Figure 2). This number is up sharply from the 248 stores that existed in 2016. In 2015 the OLCC started an open recruitment process for new retail liquor agents. The goal is to increase the total number retail liquor locations through phased recruitments that are

geographically specific. In the 2017-19 biennium, the OLCC expects to expand the number of locations throughout the state to total 300.

Agents are selected by the OLCC through a competitive application process, with openings occurring when an operator resigns or retires, if a contract is terminated, if the OLCC establishes a new location, or if proposals for specific areas are sought through an open recruitment process.

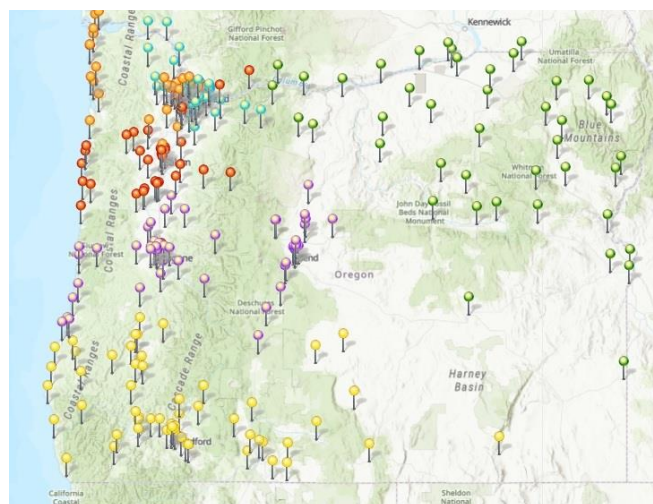
Applicants are evaluated based upon their level of retail business experience, ability to operate the store on a full-time basis, and adequate finances to operate the store. They also are subject to a criminal background check. A person is prohibited from being a liquor store operator if they or anyone in their household or immediate family has a financial interest or business connection with the distilled spirits industry; or if they are a licensee or a director, officer, or substantial stock holder in a business licensed by the OLCC. However, the owner of a non-exclusive liquor store (one that sells items other than alcoholic beverages) can also hold an off-premises sales license.

Agents work under contract and are not state employees. Total compensation to agents is set through the budget process by the legislature; the formula for distributing compensation to agents is determined by the OLCC. The compensation formula includes both a fixed rate determined by the type of store and annual sales volume and a variable rate based on sales. Agents pay most operating expenses, including rent, staffing, and their own salaries and benefits. They do not purchase the inventory, as the OLCC owns the distilled spirits.

Of the 279 stores, 86 operate as exclusive liquor stores, in which their primary function is to sell liquor, but they can also sell specified items such as glassware, mixers, and tobacco products. There are currently 193 non-exclusive liquor stores which operate in conjunction with other businesses like pharmacies and general stores that typically serve smaller communities. Several exclusive stores in urban areas have chosen to convert to the non-exclusive model, allowing them to sell beer and wine. The recent trend has been to locate liquor stores within grocery and convenience stores.

Licensed distilleries can sell bottles of their own products at their tasting rooms if they have a distillery retail outlet agent agreement with the OLCC. When bottle sales are made, the distiller is compensated the same as a non-exclusive retail liquor agent. There are currently 89 such agreements. Licensed distilleries can conduct tastings at up to five locations they lease or own in addition to the tasting room at the distillery.

**Figure 2: Retail Store Locations**



Source: Oregon Liquor Control Commission

## **DISTILLED SPIRITS DISTRIBUTION**

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The OLCC oversees the distribution and sale of distilled spirits in the state. The program centrally warehouses and distributes distilled spirits to Oregon's 279 liquor stores. With few exceptions, all distilled liquor sold in Oregon moves through the Milwaukie distribution center.

The purchasing division works closely with retail services staff and retail liquor stores to provide a wide variety of products. In addition to the 2,000 regularly stocked items, customers in 2017 special-ordered over 2,100 additional products through their local liquor stores.

The distribution center receives, stores, and distributes the spirits to liquor stores. Restaurants and bars do not purchase distilled spirits from the distribution center but are required to buy from a retail store, which may provide a five-percent discount on such transactions.

These products are securely stored in the distribution center until they are ordered by liquor stores. Suppliers own most of the product inventoried in the warehouses, valued at \$45.1 million; the state pays the supplier for the inventory when it is shipped to a retail store. The state maintains ownership of the inventory in the retail liquor stores.

The distribution center is comprised of a warehouse for shipping products and an additional warehouse for storage. With the recently upgraded conveyors and sorting software, the center can ship 1,800 cases per hour. The system upgrades made in 2016 allow workers to prepare multiple orders at the same time, and products are automatically sorted on the conveyor to be shipped out of four bays. In the 2017-19 biennium, the agency expects to ship 6.9 million cases. In 2019-21, the OLCC expects a growth rate of 2.5 percent per year.

## **REVENUE SOURCES AND DISTRIBUTION**

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The OLCC is an "other funds" agency that receives no General Fund support. The alcohol program is financed entirely from sales of distilled spirits; a privilege tax on beer, wine, and cider; license fees; and miscellaneous revenues including fines received from administrative sanctions.

A 50-cent surcharge per bottle on distilled spirit products was imposed in April 2009 and has since been renewed by the OLCC in each subsequent biennium. The surcharge is projected to generate \$38 million in additional gross revenue in the 2019-21 biennium. Surcharge revenue is distributed to the General Fund.

After subtracting the cost of purchasing liquor from distilleries, freight, liquor agent compensation, and other expenditures related to OLCC operations, an estimated \$594.5 million will be distributed during the 2017-2019 biennium (Table 2).

**Table 2: OLCC Revenue Distribution**

Distribution Point	Percent
General Fund (with surcharge)	57%
Cities	18%
Counties	9%
City revenue sharing	13%
Mental Health, Alcoholism, and Drug Services	3%
Oregon Wine Board	<1%

Source: Legislative Policy and Research Office

Data: Oregon Liquor Control Commission

OLCC staff are responsible for tax collection and auditing for the privilege tax on wine, cider, and malt beverages. The OLCC also collects the grape tonnage tax for the Oregon Wine Board.

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