

# OREGON LIQUOR CONTROL COMMISSION

PRESENTATION TO WAYS AND MEANS SUBCOMMITTEE ON  
TRANSPORTATION AND ECONOMIC DEVELOPMENT

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MARCH 12, 13, 14

# OLCC'S MISSION

Support businesses, public safety,  
and community livability  
through education and the enforcement  
of liquor and marijuana laws.



## OLCC's Mission

*“Support businesses, public safety, and community livability through education and the enforcement of liquor and marijuana laws”*

# OVERVIEW

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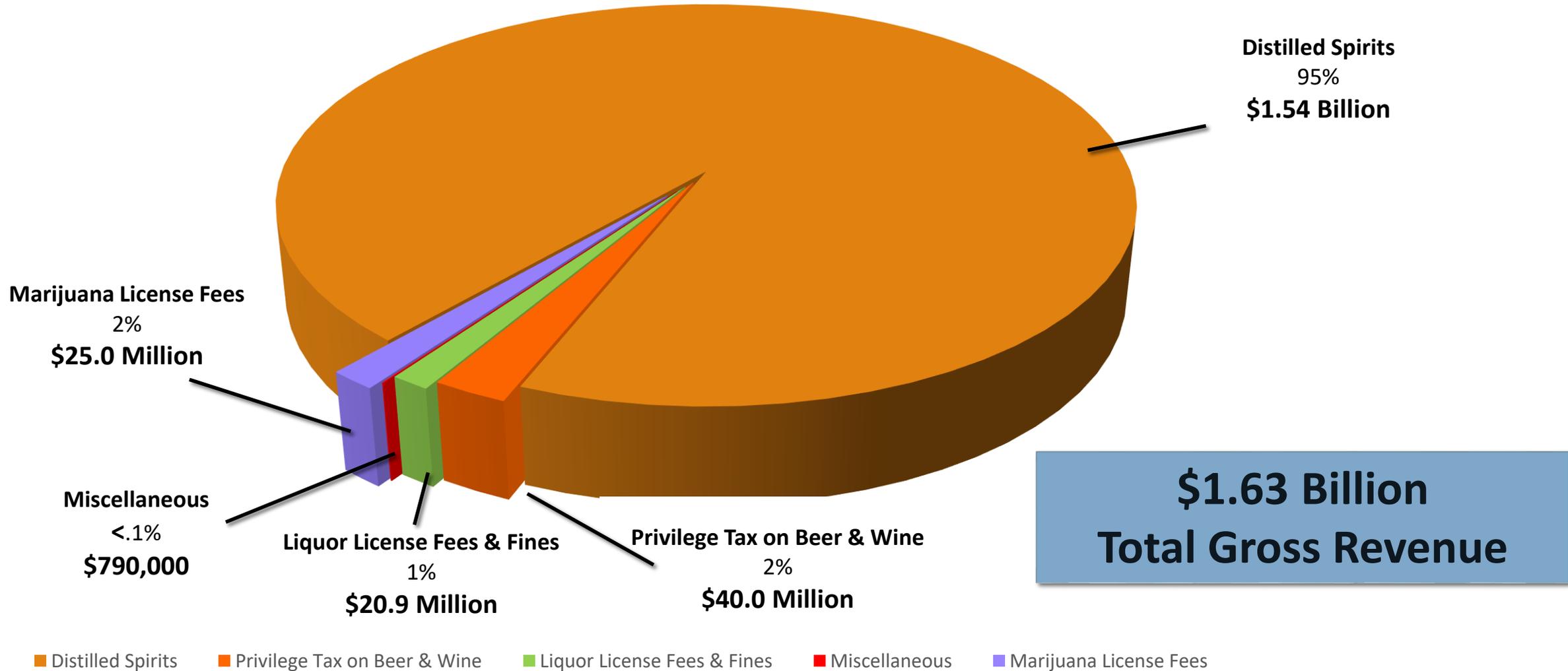
- **Third largest generator of public funds**
  - *2019-21 estimated \$635 million* in liquor revenue distributed to general fund, cities and counties
  - *New* 2019-21 estimated *\$251 million* in marijuana tax revenue distributed to general fund, schools, cities, counties and health programs (Office of Economic Development)
- **Core functions**
  - Centrally purchase, warehouse and distribute bottled distilled spirits to OLCC-appointed retail agents
  - License and regulate alcohol licensees and alcohol server permits
  - Implement bottle bill and approve redemption centers
  - *New* License and regulate marijuana licensees and marijuana worker permits
  - *New* Track and inspect OHA medical grow sites 13 plants or more, OHA processors and dispensaries
- **Funding**
  - Alcohol Program is funded from distilled spirits markup, license fees and privilege tax; Recreational Marijuana Program is license fee funded; OHA tracking and inspections are marijuana tax funded

# AGENCY FINANCIAL INFORMATION

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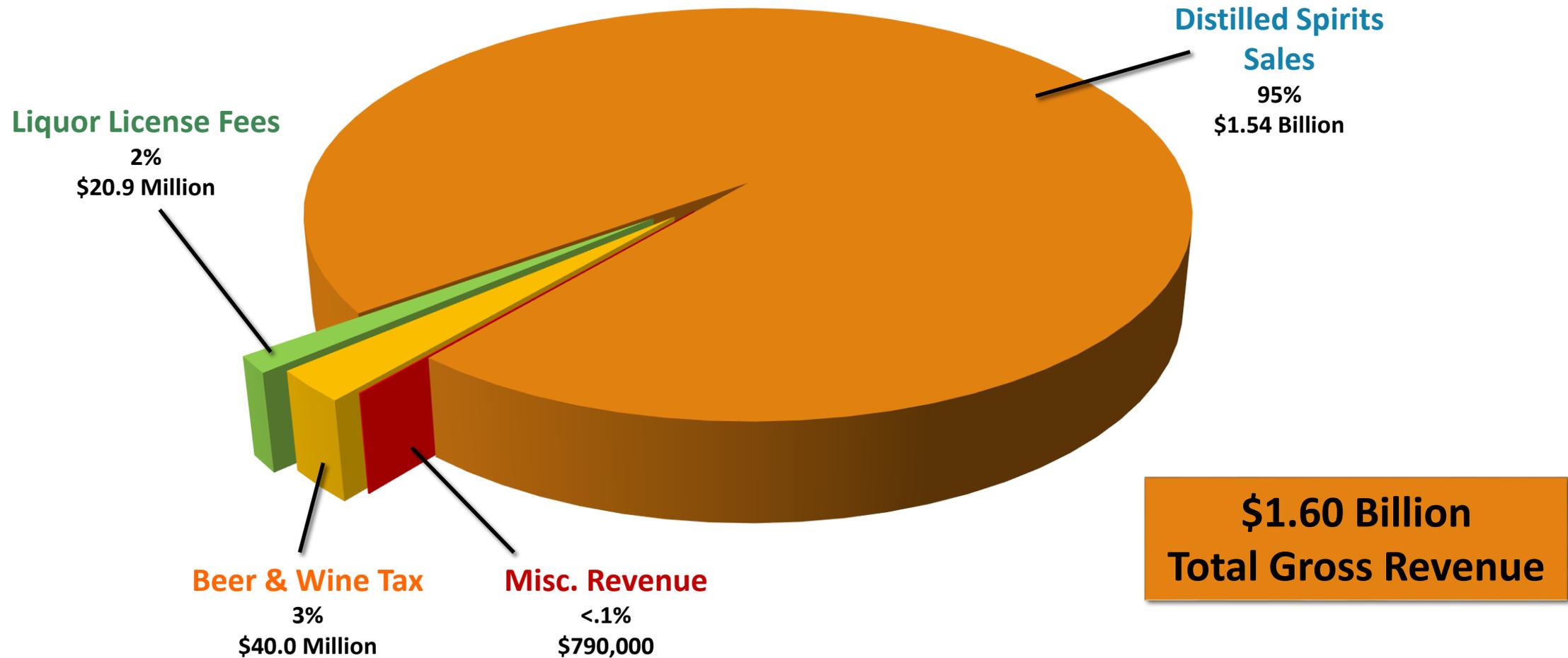
# PROJECTED GROSS REVENUE SOURCES

2019-2021 BIENNIUM (GRB)

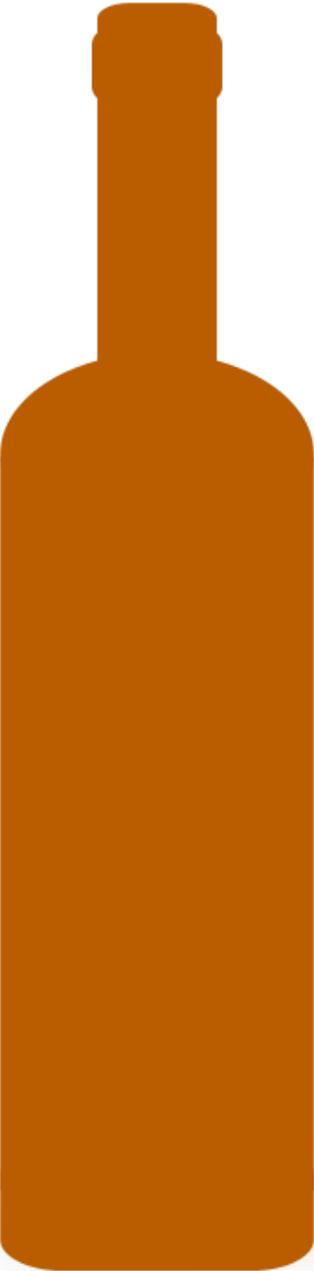
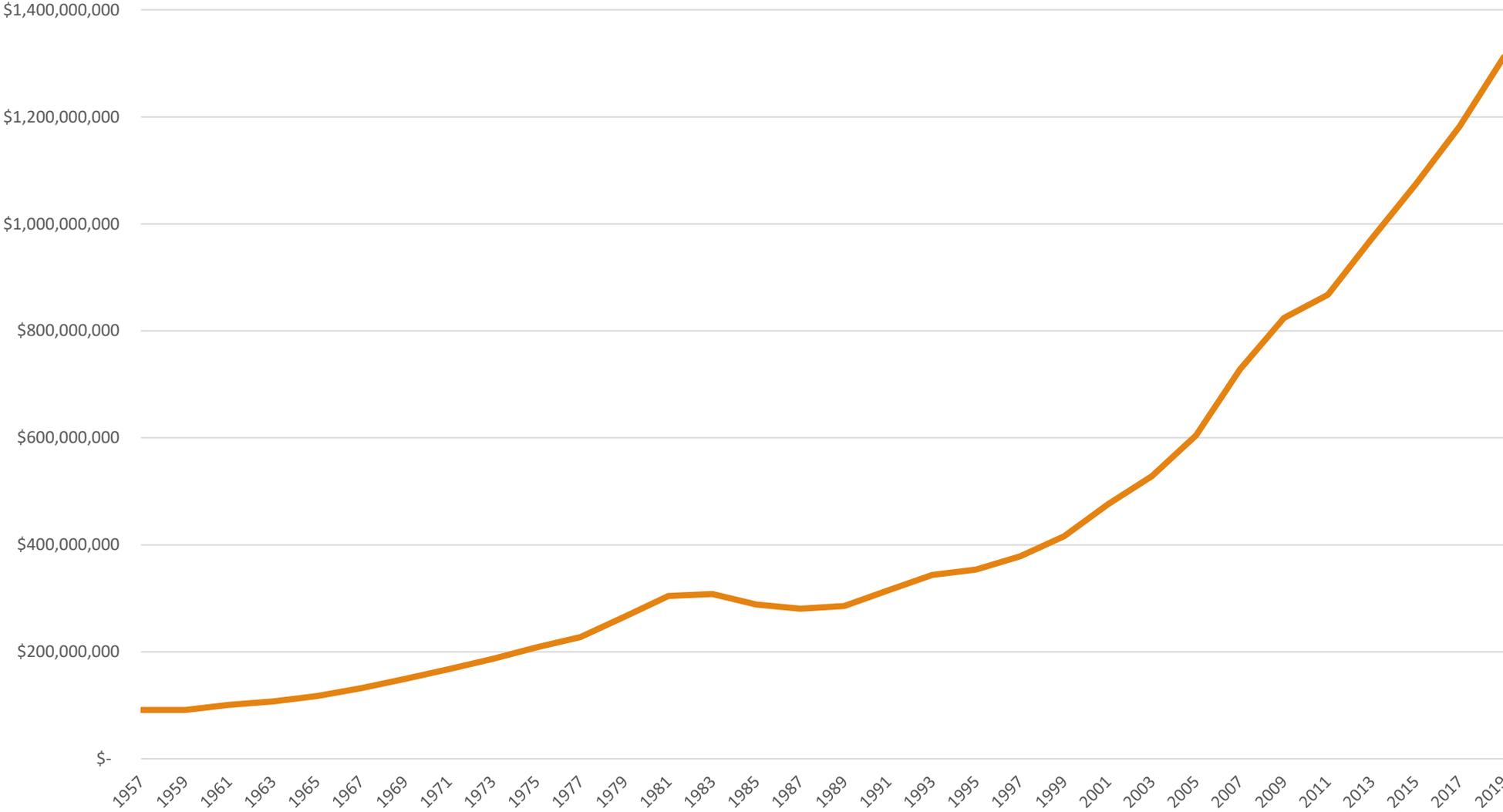


# PROJECTED GROSS ALCOHOL REVENUE SOURCES

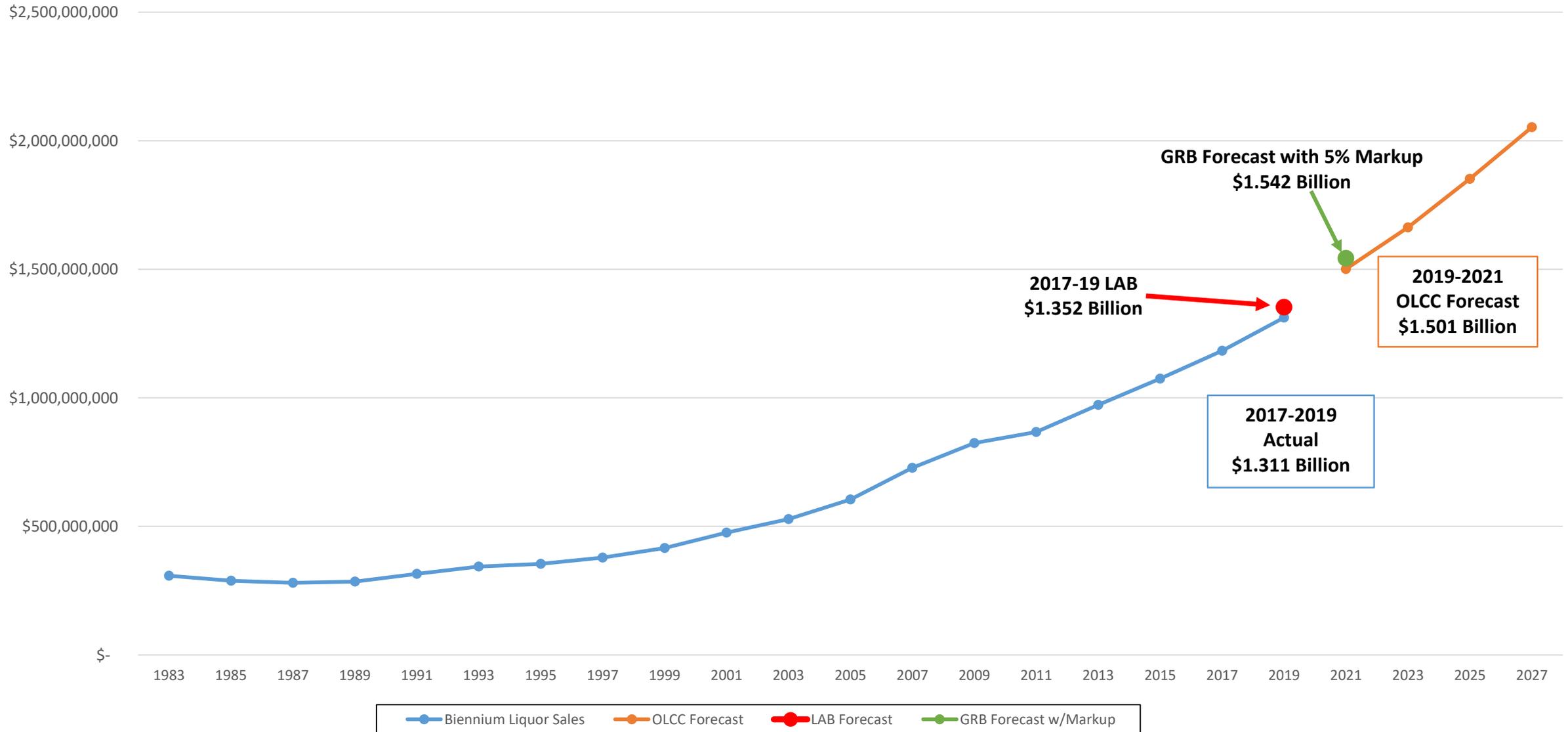
2019-2021 BIENNIUM (GRB)



# HISTORICAL BIENNIUM LIQUOR SALES



# FORECAST OF GROSS LIQUOR SALES BY BIENNIUM



# BEER AND WINE TAX COLLECTION

## Oregon has established excise taxes for beer and wine

- \$0.08 per gallon for beer (\$2.60 per 31 gallon barrel)
- \$0.67 per gallon for table wine (14% and under alcohol by volume)
- \$0.77 per gallon for dessert wine (over 14% alcohol by volume)

## Beer and wine taxes are collected most at the wholesale tier of the system

- Paid by large distributors and warehouse wholesalers (90% of all taxes)
- Some tax collected at the manufacturer level such as wineries and brewpubs (10% of all taxes)
- Total collections are about \$18 million per year

**Beer and wine retailed through licensed off-premises outlets such as grocery stores and convenience stores but also through wineries & brewpubs**



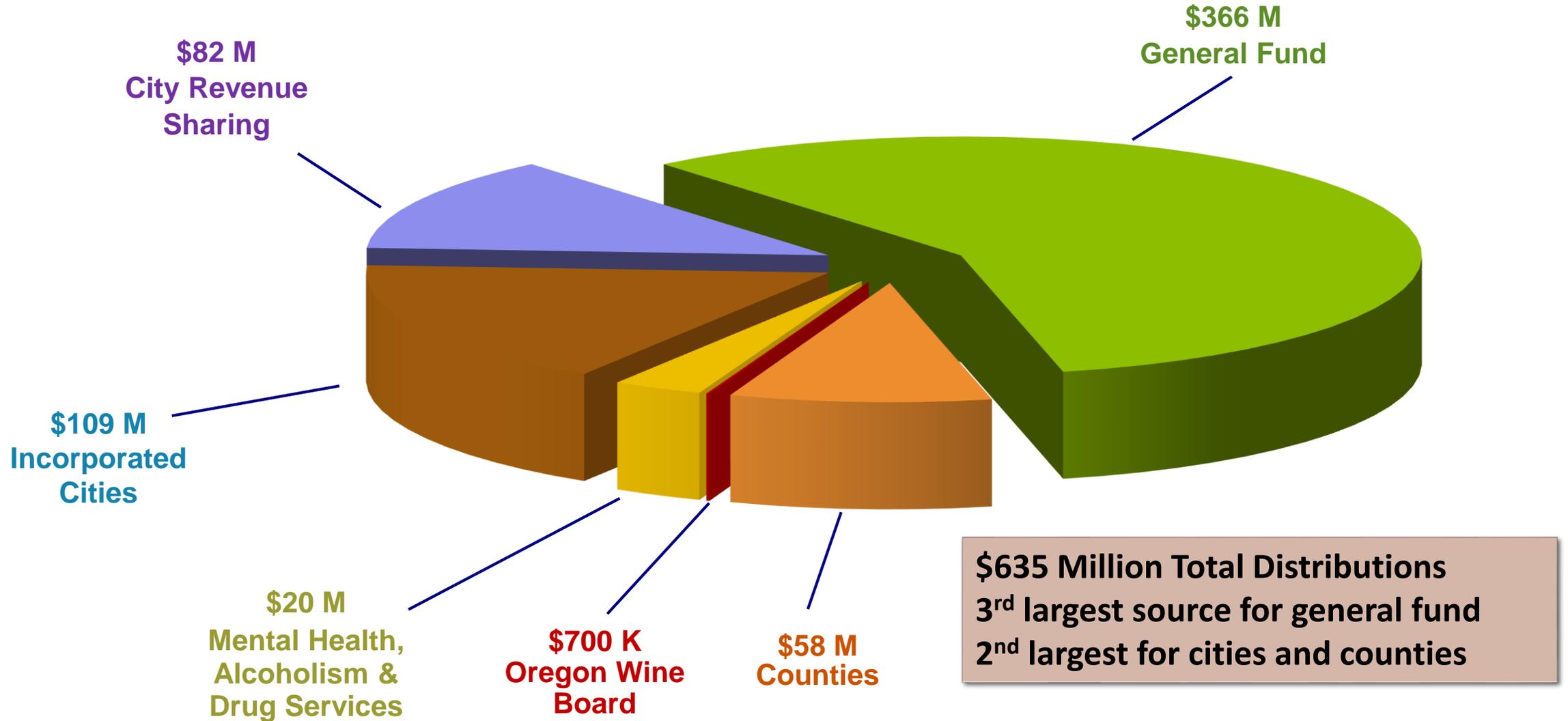
# GRB REVENUES OVER CSL

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- **Surcharge (temporary) - \$39.2 million general fund**
  - The current 50-cent per bottle surcharge has been extended through June 30, 2021 Surcharge dedicated by legislature to General Fund
- **Alcohol License fees - \$20.9 million distributed revenue**
  - **Current forecast for alcohol license fee revenue is \$11.7 million**
  - GRB has proposed a doubling of annual liquor license fees; requires a statute change; ORS 471.311(5); alcohol service permit fees remain the same

# PROJECTED ALCOHOL NET REVENUE DISTRIBUTION (GRB)

2019-2021 Biennium (GRB) – All Revenue Sources



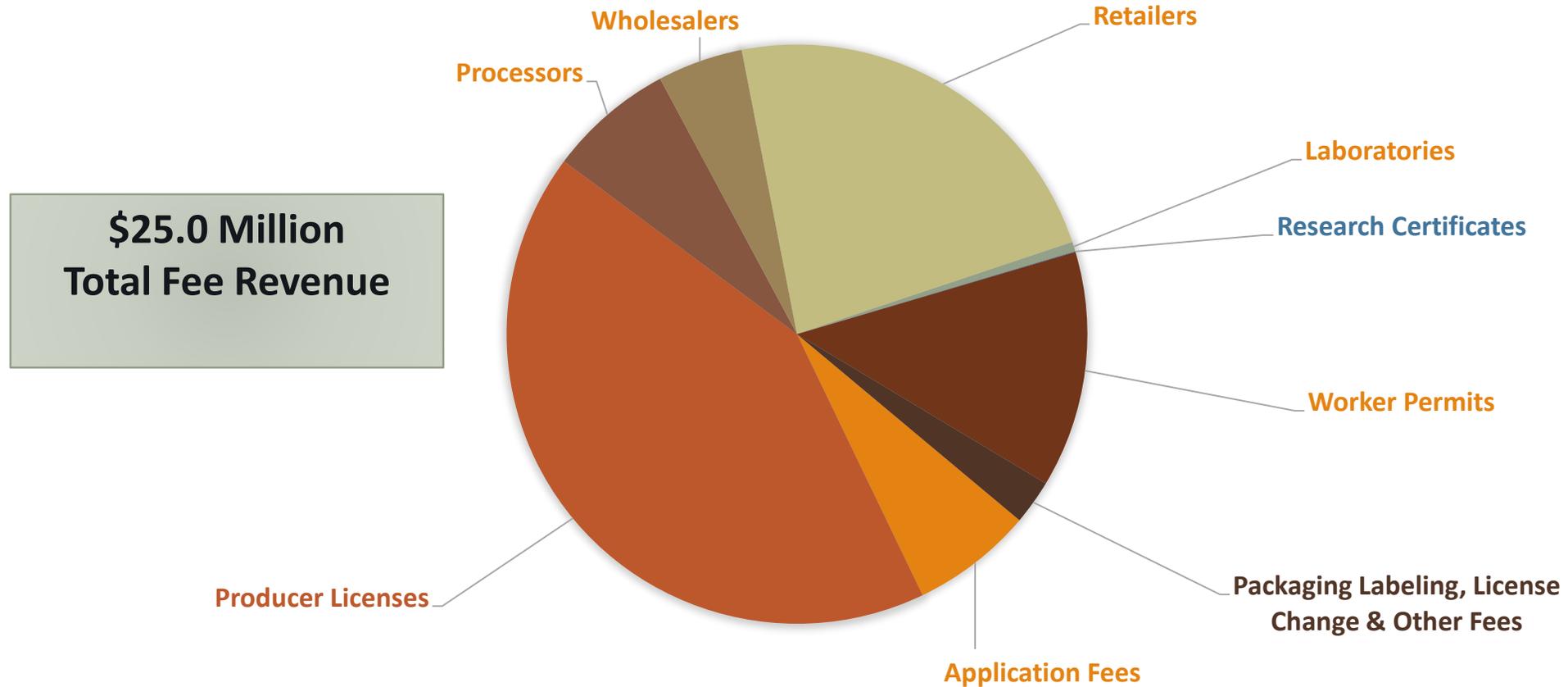
# WHERE LIQUOR DOLLARS GO

## 2015-17 BIENNIUM (PARTIAL LIST)

Cities		Counties	
Astoria	\$286,415	Benton	\$926,667
Beaverton	\$2,804,879	Clackamas	\$4,097,373
Bend	\$2,429,963	Clatsop	\$388,863
Cannon Beach	\$50,664	Columbia	\$518,281
Clatskanie	\$51,947	Deschutes	\$1,766,857
Dallas	\$449,147	Douglas	\$1,129,305
Eugene	\$4,863,348	Gilliam	\$20,296
Happy Valley	\$527,569	Hood River	\$248,811
Hillsboro	\$2,902,357	Jackson	\$2,171,712
Hermiston	\$521,397	Josephine	\$861,957
Klamath Falls	\$640,812	Klamath	\$689,765
Lafayette	\$116,251	Lake	\$82,223
Lincoln City	\$251,445	Lane	\$3,726,174
McMinnville	\$983,485	Lincoln	\$486,132
Medford	\$2,308,968	Linn	\$1,244,155
Newport	\$301,651	Marion	\$3,394,664
Oregon City	\$1,009,729	Morrow	\$119,641
Portland	\$18,294,985	Multnomah	\$8,010,057
Pendleton	\$499,751	Polk	\$809,444
Roseburg	\$671,296	Tillamook	\$264,232
Salem	\$4,777,320	Umatilla	\$813,909
Scappoose	\$200,419	Wasco	\$271,481
St. Helens	\$388,453	Washington	\$5,887,517
The Dalles	\$431,843	Wheeler	\$14,900
West Linn	\$759,870	Yamhill	\$1,066,995

# MARIJUANA LICENSE & FEE REVENUE

## 2019-21 GRB FEE REVENUE



# 2019-21 MARIJUANA TAX REVENUE COLLECTION AND DISTRIBUTION (\$251.0 MILLION)

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Common School Fund	\$103.3 million
Mental Health	\$51.6 million
State Police	\$38.7 million
Counties	\$22.2 million
Cities	\$22.2 million
Oregon Health Authority	\$12.9 million

OEA Forecast March 2019

# LIQUOR BUDGETS

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- **Liquor - Governor's Recommended Budget**

- \$220.3 million for 2019-21
- Pays for:
  - Agents Compensation
  - Operation of the Liquor Distribution Center
  - Credit card fees for liquor sales
  - Liquor Licensing
  - Liquor Enforcement
  - Hearings for liquor law violations
  - Support Services
    - Administration
    - Tax collection for beer and wine
- Excess Revenue Distributed

- **Store Operating Expense - Governor's Recommended Budget**

- \$145.0 million for 2019-21
- Pays for:
  - Compensation for Liquor Stores
  - Compensation for Distillery Agents
  - Averages 8.93% in FY 2020
  - Averages 9.94% in FY 2021 after bank card costs moved to liquor agents
  - Includes additional compensation for the 5% markup
- Excess Revenue Distributed

# MARIJUANA BUDGETS

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- **Marijuana - Governor's Recommended Budget**

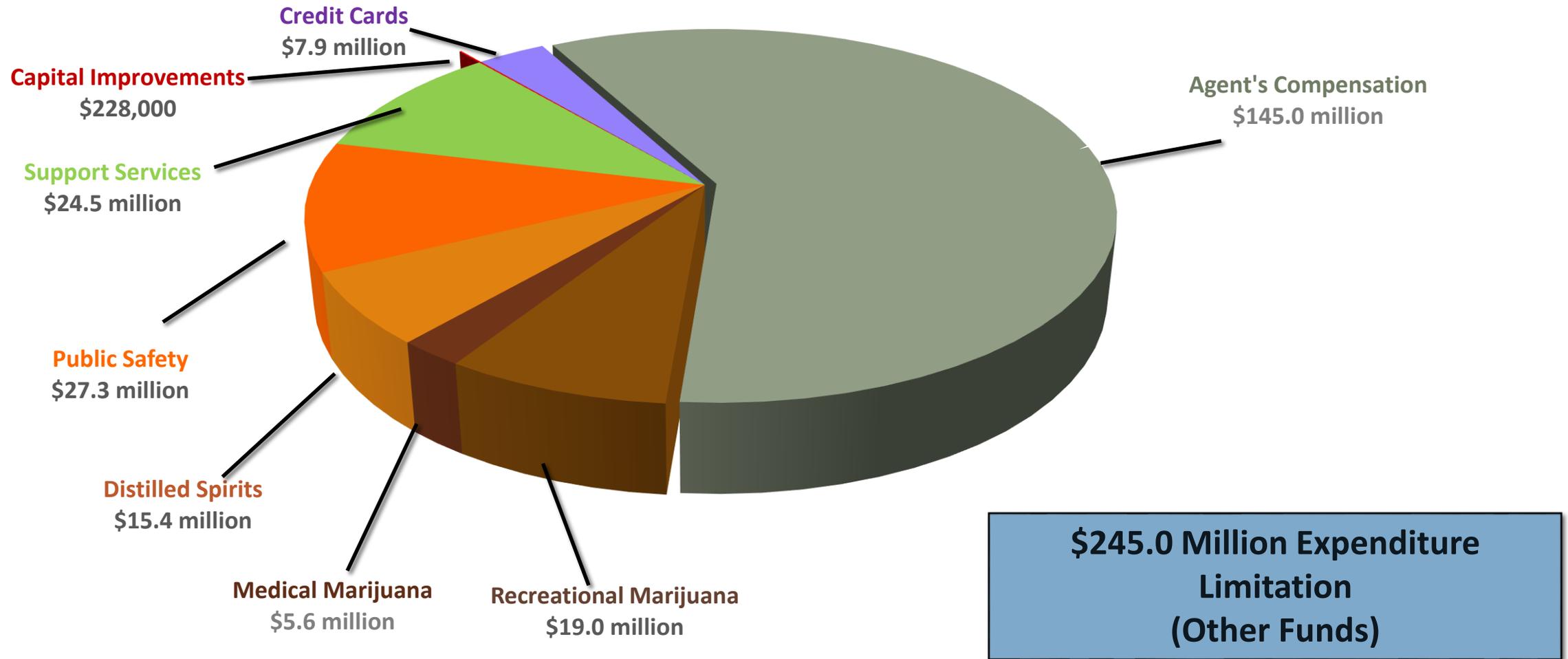
- \$24.7 million for 2019-21
- Pays for:
  - Marijuana Licensing
  - Marijuana Regulation
  - Marijuana Labeling
  - Tracking through the Cannabis Tracking System
  - Marijuana-related policy development
  - Hearings for marijuana law violations
  - Fee funded only
  - Licensing fees are required to equal program costs
  - License fees are in rule
- Reserves Carries Over

- **Medical Marijuana Tracking - Governor's Recommended Budget**

- \$5.6 million for 2019-21
- Pays for:
  - Medical Marijuana Tracking
  - Allocation to the Liquor Fund for Support Services
  - Revenue comes from
    - Marijuana Tax Money (DOR)
    - CTS Fees paid by OHA
- Excess Revenue Returned to DOR for distribution

# OLCC BUDGET EXPENDITURES

## 2019-2021 BIENNIUM (GRB)



**352 FTE**

# OLCC COMBINED BUDGET HISTORICAL DATA

<b>Oregon Liquor Control Commission – Alcohol and Marijuana</b>				
	<b>2015-17 Actuals</b>	<b>*2017-19 Leg. Approved</b>	<b>2019-21 CSL</b>	<b>2019-21 Governor's</b>
<b>General Fund</b>	-	-	-	-
<b>Lottery Funds</b>	-	-	-	-
<b>Other Funds</b>	<b>\$182,910,731</b>	<b>\$214,406,020</b>	<b>\$226,691,665</b>	<b>\$244,953,513</b>
<b>Other Funds Non-Limited</b>	-	-	-	-
<b>Federal Funds</b>	-	-	-	-
<b>Federal Funds Non-Limited</b>	-	-	-	-
<b>Total Funds</b>	<b>\$182,910,731</b>	<b>\$214,406,020</b>	<b>\$226,691,665</b>	<b>\$244,953,513</b>
<b>Positions</b>	<b>265</b>	<b>326</b>	<b>326</b>	<b>354</b>
<b>FTE</b>	<b>254.91</b>	<b>312.62</b>	<b>324.00</b>	<b>352.00</b>
*includes Emergency Board and administrative actions through December 2018				

# AGENCY OVERVIEW

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# OREGON LIQUOR CONTROL ACT AND CANNABIS REGULATION

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- ORS 471 Alcoholic Liquor Generally
- ORS 473 Wine, Cider and Malt Beverage Privilege Tax
- ORS 474 Trade Practices Related to Malt Beverages
- ORS 459A.700 to 740 Beverage Containers, the Bottle Bill
- ORS 475B Cannabis Regulation
- Administrative Rules Chapter 845

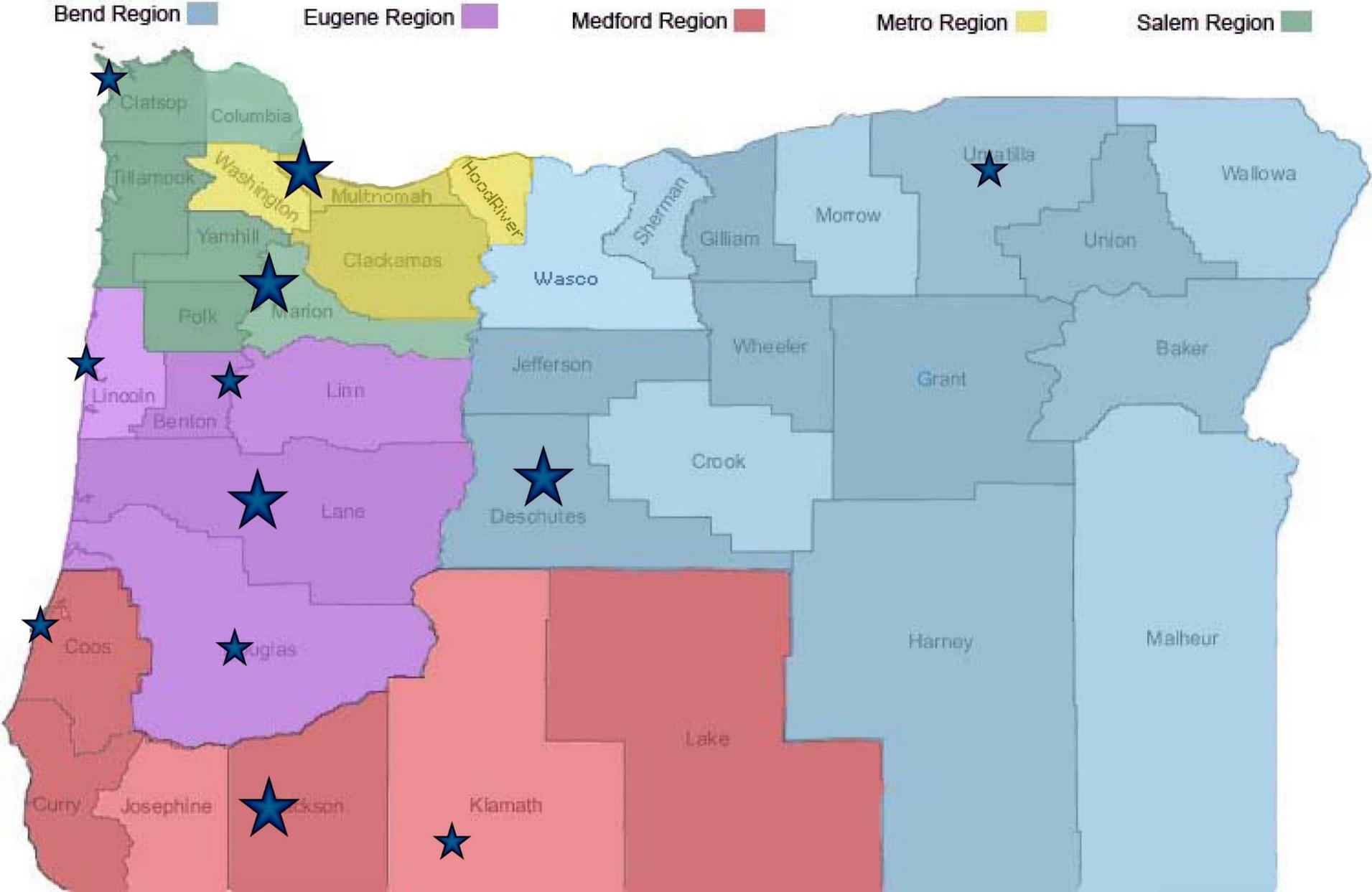
# OLCC PROGRAMS

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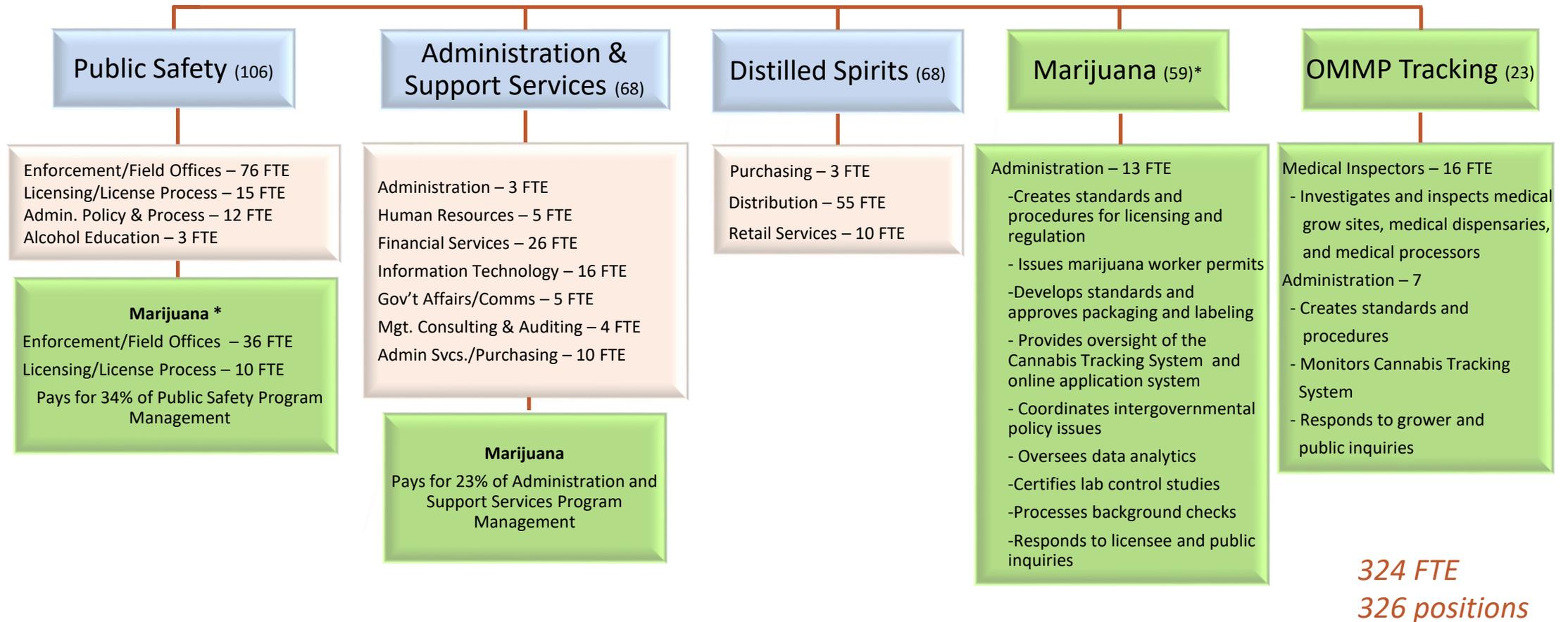
- DISTILLED SPIRITS
- PUBLIC SAFETY
- SUPPORT SERVICES
- MARIJUANA
- OMMP TRACKING



# OLCC STATEWIDE OFFICES



# OLCC INTEGRATED STAFF IMPROVES EFFICIENCY 2019 CSL



# ENVIRONMENTAL FACTORS AGENCY CHARACTERIZED BY 4 YEARS OF GROWTH AND CHANGE

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- **Staff and Leadership Changes**
  - 230 positions prior to legalization of recreational marijuana, now 326
  - Two-thirds of personnel *new* to agency or *new* to position
  - Onboarding and internal staff training
- **2015, 2016, 2017, and 2018 Statutory Changes**
  - *New* license types, *new* privileges
  - *New* Rulemaking (draft, rules advisory committee, board approval)
  - *New* Online Marijuana License system, Online Worker Permit System, Cannabis Tracking System
  - *New* Process and procedure development
- **Marijuana license and enforcement activity outstrips estimates**
  - Initial estimate 1,200 applications, *now* 4,374
  - Initial estimate 800 licensees, *now* 2,109
  - Initial estimate 4,000 marijuana worker permit applications, *now* 40,155
  - Applicant and licensee training and education

# ENVIRONMENTAL FACTORS

## AGENCY CHARACTERIZED BY 4 YEARS OF GROWTH AND CHANGE

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- **Retail Alcohol Expansion**
  - 5 stages of expansion completed *Appointed 36 new stores*, 29 now open, *\$36.1 million additional revenue*
  - 284 stores, 77 exclusive distilled spirits, 199 nonexclusive, 98 distillery agents
- **Distilled Spirits Retail Sales Continue to Grow**
  - *Sales increase 10.9%* (\$128.9 million) per biennium
  - *Case increase 8.06%* per biennium – 7,582,000 forecasted cases distributed 2019-21 biennium
- **Alcohol Licenses and Permits Continue to Grow - *increase approx. 424 per year***
  - 14,337 annual licenses (7,581 restaurants and bars, 4,916 grocery/convenience stores, 1,149 wineries, 394 brewers/brew pubs, 223 distributors/wholesalers, 114 distillery licenses –9,000 special event licenses
  - 2,993 out of state certificates
  - 166,311 alcohol server permits, *New* online application system
- **Bottle Bill Expansion**
  - *New* Oregon refund value, *New* beverages, *New* redemption centers

# ENVIRONMENTAL FACTORS EMERGING ISSUES

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## Alcohol

- E-Commerce transactions involving Beer, Wine, Cider
- E-Commerce transactions involving Distilled Spirits
- Trade Practice Regulation

## Marijuana

- Market consolidation
  - Helping failing businesses exit system
- Creating a medically friendly OLCC system
  - Deliveries
  - Responding to research trends for medical marijuana
- Advancing laboratory testing and oversight
- Enforcement landscape (local, state, federal, OLCC, OHA, DOR, Dept. of Ag)

# PROGRAM CHANGES LEGISLATION REQUIRING OLCC ACTION

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- **2014 General Election**
  - Passage of Measure 91, Recreational Marijuana
- **2015 Session**
  - SB 480 Early Start Marijuana Sales
  - SB 844 Task Force Medical and Public Health Properties of Cannabis
  - HB 2041 Retail Tax
  - HB 3400 Measure 91 and Medical Marijuana Implementation
  - SB 138 Brewery Public House
  - SB 141 Liquor Agent Compensation Privatization
  - SB 583 Delivery of Malt Beverages
  - SB 623 Removes Winery Production Restriction
  - SB 937 Prohibits Sale of Granulated Alcohol
  - HB 2480 Creates Alcohol License Application Fee
  - HB 2567 Distillery Tasting Rooms
  - HB 2803 Beverage Container Redemption Program
  - HB 3143 Human Trafficking Notice on OLCC License Renewals
- **2016 Session**
  - HB 4014 Comprehensive Marijuana Law Changes
  - HB 4094 Marijuana Banking
  - SB 1511 Medical Marijuana Sales in Recreational Retailers
  - SB 1598 Small Grower, Marijuana Worker Permits
  - SB 1601 Allows Medical Cardholders to Purchase Tax Free
  - HB 4053 Expands Privileges for Brewery Licensees

# PROGRAM CHANGES LEGISLATION REQUIRING OLCC ACTION

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- **2017 Session**

- HB 2198 Medical Marijuana Governance
- SB 56 Marijuana Systems Cleanup
- SB 302 The Control and Regulation of Marijuana Act
- SB 319 Siting of Marijuana Establishments near Schools
- SB 863 Marijuana Consumer Privacy
- SB 1015 Industrial Hemp Processing
- SB 1057 Marijuana Tracking and Regulation
- HB 2746 Bottle Bill Compliance Dates for Labeling
- HB 2197 Marijuana Tribal Tax Rebates
- HB 3470 Marijuana Tax Distribution, Borrowing from the Liquor Fund
- HB 2089 Vermouth Sales in Exclusive Stores
- HB 2150 Electronic Privilege Tax
- HB 2159 Cider Definition
- HB 2160 Brew Pub Locations
- HB 2779 Treasury Funds
- SB 677 Cider Businesses
- SB 1044 Alcohol Systems Cleanup

- **2018 Session**

- HB 4089 Hemp Legislation
- SB 1544 Medical Marijuana, Hemp and Illegal Marijuana Market Enforcement Grant Program

# CHALLENGES

## BUILD AGENCY INFRASTRUCTURE TO MATCH AGENCY TODAY

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- **Information Technology Systems**

- Invest in technology to protect core agency functions of distilled spirits distribution, finance, licensing and cannabis tracking
- Redesign work processes to eliminate manual processes, reliance on excel spreadsheets and duplicate data entry
- Licensee and vendor selection, evaluation and oversight

- **Capital construction and space planning**

- Identify options to accommodate growth in licensing, enforcement and distribution including space utilization of headquarters and lease options
- Develop a capital investment plan to maximize operations and investments over the next decade

- **Internal communications**

- Build agency intranet to improve employee productivity

- **External communications**

- Increase outreach to licensees on law and rule changes
- Implement agency internet redesign required by DAS

# CHALLENGES

## PRESERVE AND BUILD STATE REVENUE

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- **Financial Services**

- Create efficiencies in tax collection, business support services and payments
  - Replace unsupported liquor store auditor equipment and software
  - Implement online privilege tax system
- Grow revenue through licensee fees to support program needs and increase revenue for state, cities and counties

- **Retail Services**

- Target retail market expansion to support customers, revenue growth, and stability
- Automate data analysis and dissemination to improve profitability
- Improve automation of entire chain of logistics from manufacturer's marketplace, to warehouse and shipping of inventory to retail sales transactions

- **Distilled Spirits Program**

- Optimize staffing levels to meet current distribution demand
- Acquire key equipment to support daily operations
- Increase data analysis and dissemination to improve warehouse efficiency

# CHALLENGES

## ENHANCE LIVABLE COMMUNITIES THROUGH REGULATION, LICENSING, AND ENFORCEMENT/COMPLIANCE

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- **Regulation**

- Adapt policies and rules to match statutory changes and evolving alcohol and marijuana markets
- Adapt and innovate regulations to embrace digital commerce
- Ensure OLCC system services increase access to medical marijuana products for OMMP cardholders

- **Licensing**

- Increase licensee outreach and education to increase rule understanding and compliance
- Adopt, refine or replace automated process to replace manual systems and duplicate data entry
- Refine the Cannabis Tracking System for marijuana licensees, OMMP and hemp tracking programs
- Minimize alcohol and marijuana licensee application, permittee and renewal backlog

- **Enforcement/Compliance**

- Ensure public health and safety via administrative enforcement actions
- Cooperate with law enforcement agencies with prosecution of illicit commercial marijuana offenses
- Operate a law enforcement only call center to answer questions, direct resources and assistance
- Implement OHA medical tracking through CTS and provide onsite inspections
- Continue a vigorous minor decoy operation program
- Increase inspectors and proactive inspections of marijuana licensees - data driven inspections targeting diversion.

# AGENCY PROGRAMS DISTILLED SPIRITS

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# DISTILLED SPIRITS PROGRAM

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- **Purchasing** – Works closely with Retail Services Staff to provide distilled liquor to customers. Orders bottled spirits produced throughout the world and make sure the emerging Oregon craft distillery industry is represented in the state inventory lineup. Continuously monitors trends in sales and manages inventory.
- **Wholesale Services Division** – Manages the OLCC distribution center for distilled spirits. Manages liquor shipments ordered by purchasing, receives and stores products, fills merchandise orders and coordinates with common carriers to ship products to liquor stores throughout the state.
- **Retail Services Division** – Issue and oversee contracts and operations of the liquor stores and distillery outlets. Provide retail liquor store support, training, and merchandising expertise. Develop and educate agents on store operating requirements and procedures. Work with liquor agents to optimize inventory to maximize revenue.

# DISTILLED SPIRITS PROGRAM

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## **Goals for 2019-21**

- Preserve growing revenue stream for state general fund, cities and counties
- Target retail market expansion to support customers, revenue growth and stability

## **Challenges for 2019-21**

- Optimize staffing levels to meet current distilled spirits distribution demand
- Acquire key equipment to support daily distribution operations
- Increase data analysis and dissemination to improve warehouse efficiency, liquor profitability, and increase revenue
- Replace current legacy ordering system to support revenue
- Develop a capital investment plan to maximize operations over the next decade

# REGULATION OF BEER AND WINE VERSUS SPIRITS

**Oregon decided after the repeal of prohibition to regulate beer and wine differently than spirits**

- Wine and Beer sold through the state licensed entities
- Spirits are sold through the state controlled wholesale and retail system
- The manufacturer owns the product until OLCC ships to stores

## Oregon Alcohol License System

All alcohol products from manufacture to distribution to retail sales pass through a entity licensed by Oregon

Licenses include: distilleries, wineries, breweries, warehouses, distributors, restaurants, bars, caterers, grocery stores, convenience stores and any type of business that makes moves, and sells alcohol

Oregon works with all licensees to improve and modernize their business practices through the rule making and legislative process

Obtain OLCC Liquor License

Manufacture Product

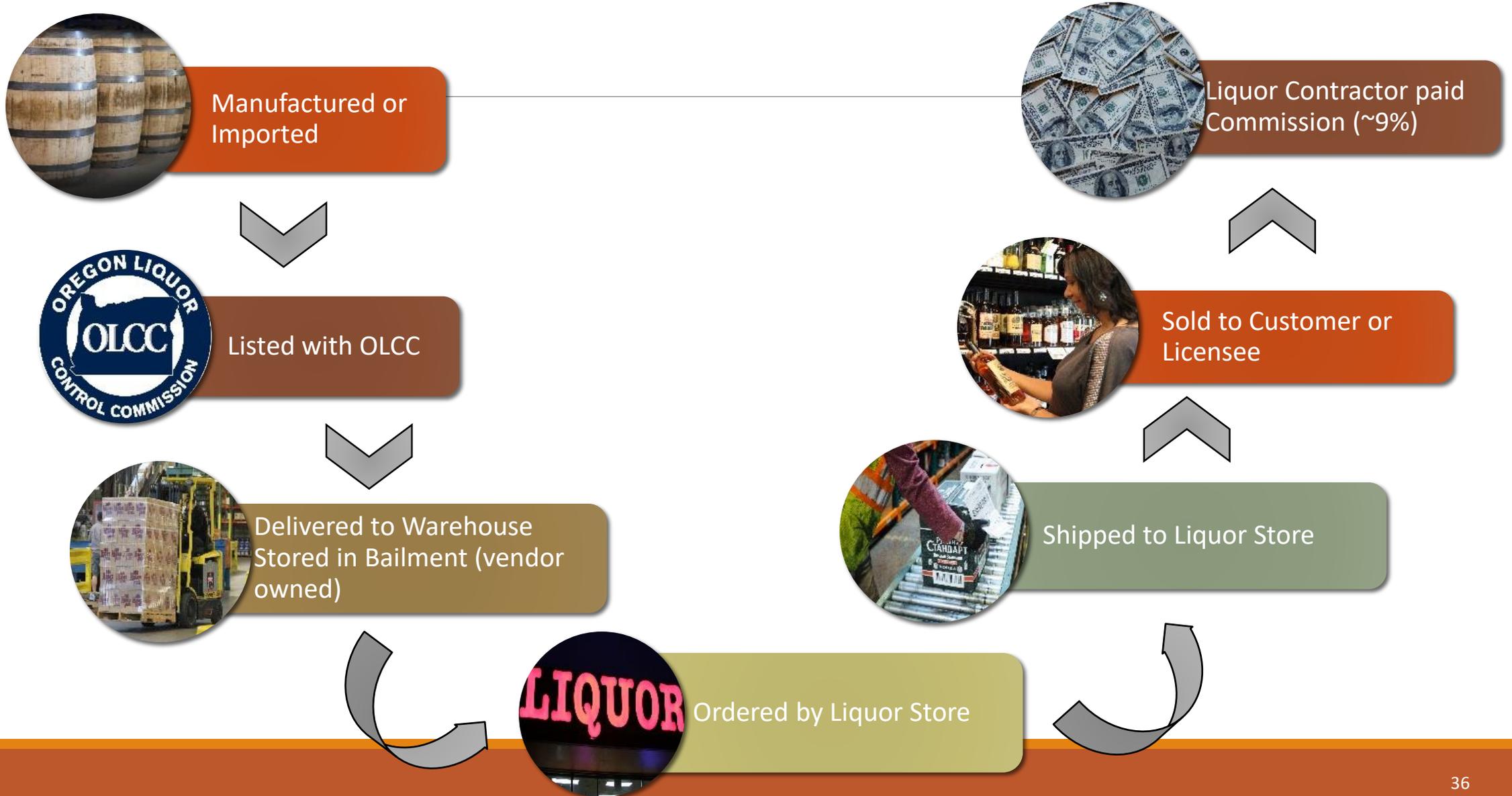
Pay Privilege Tax based on volume produced

Wholesaler Delivers To Retail Store or Bar/Restaurant

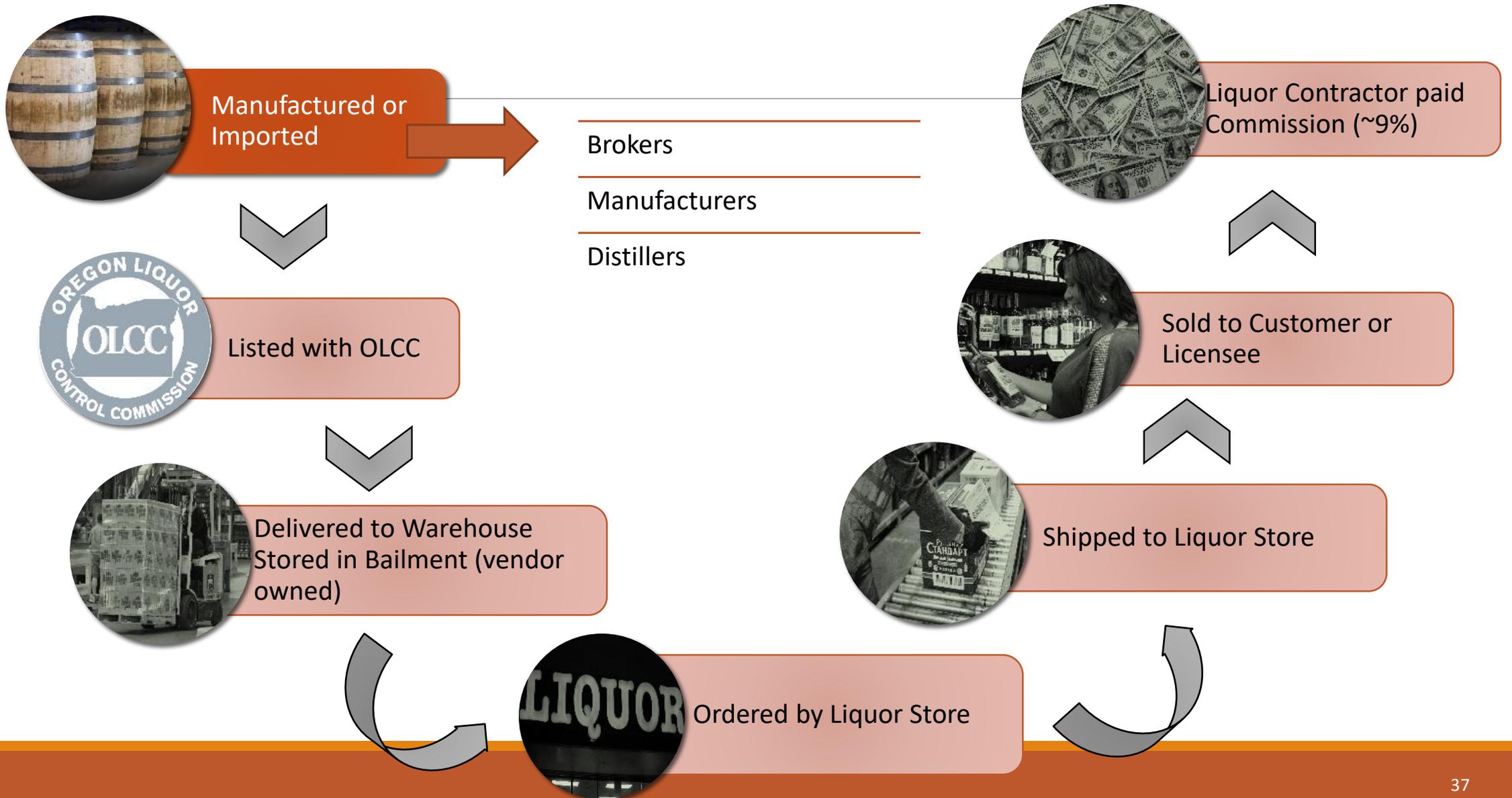
Beer/Wine Sold to Consumer or Bar/Restaurant



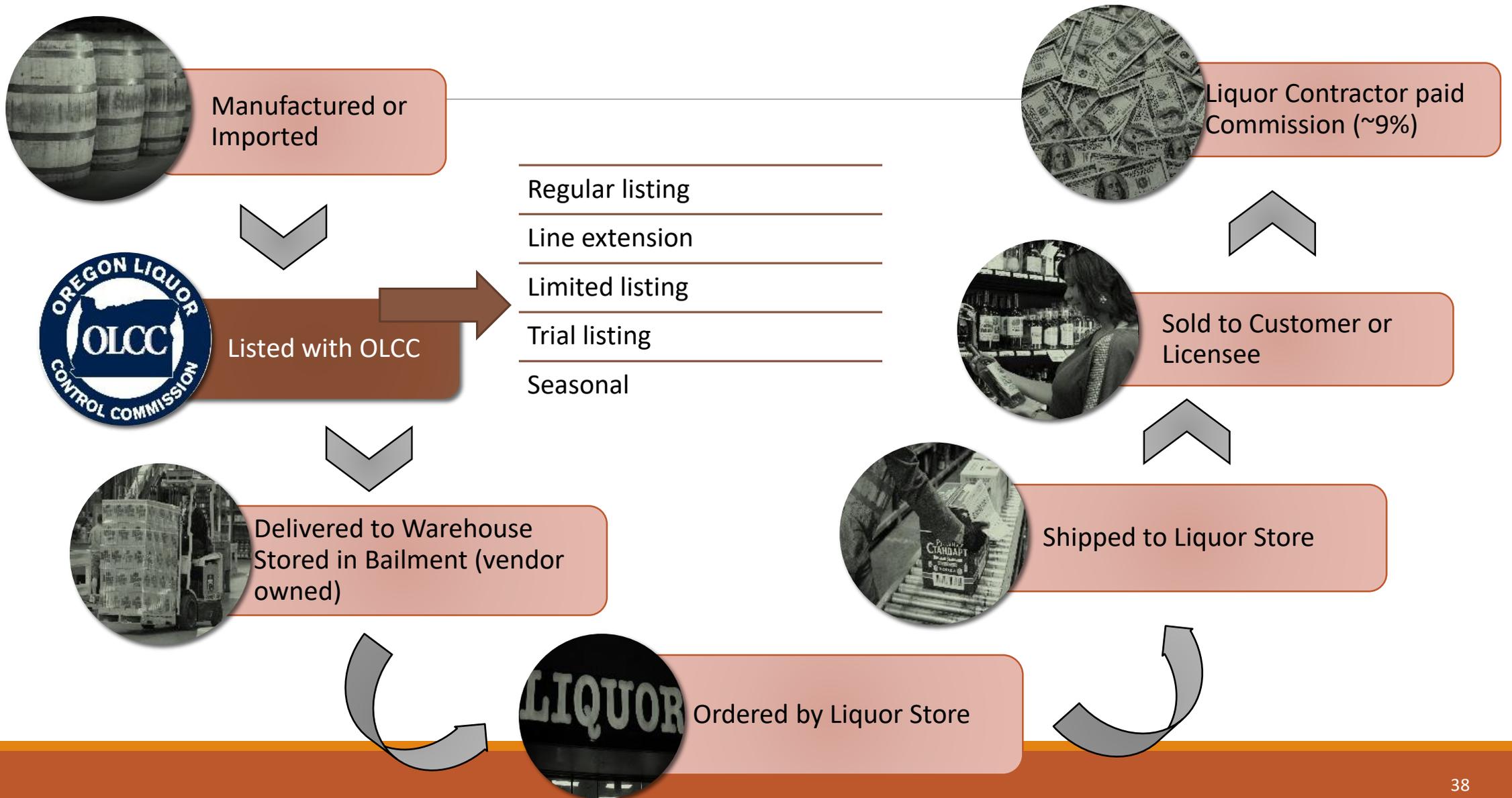
# How Distilled Spirits Flow in Oregon



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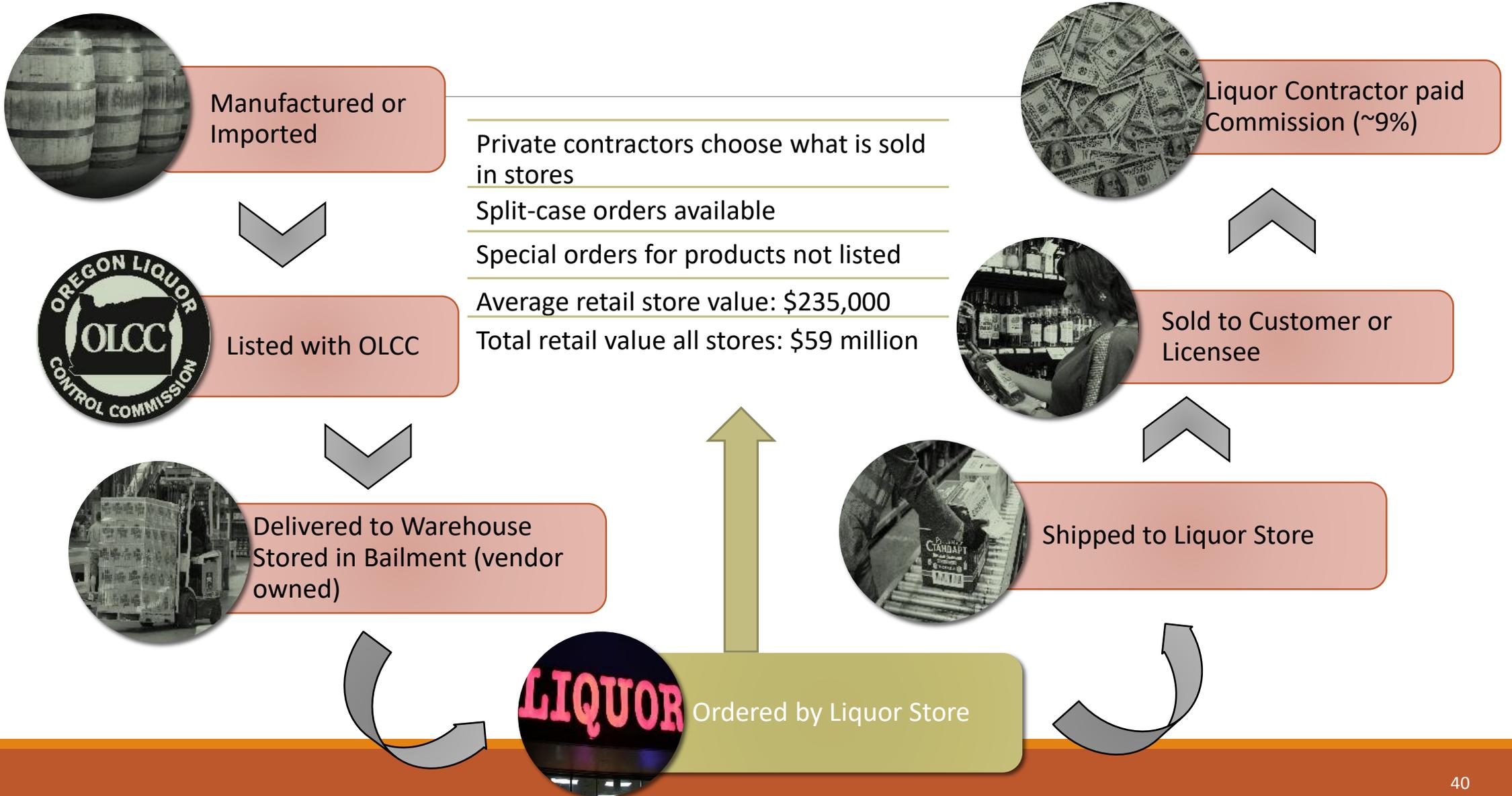
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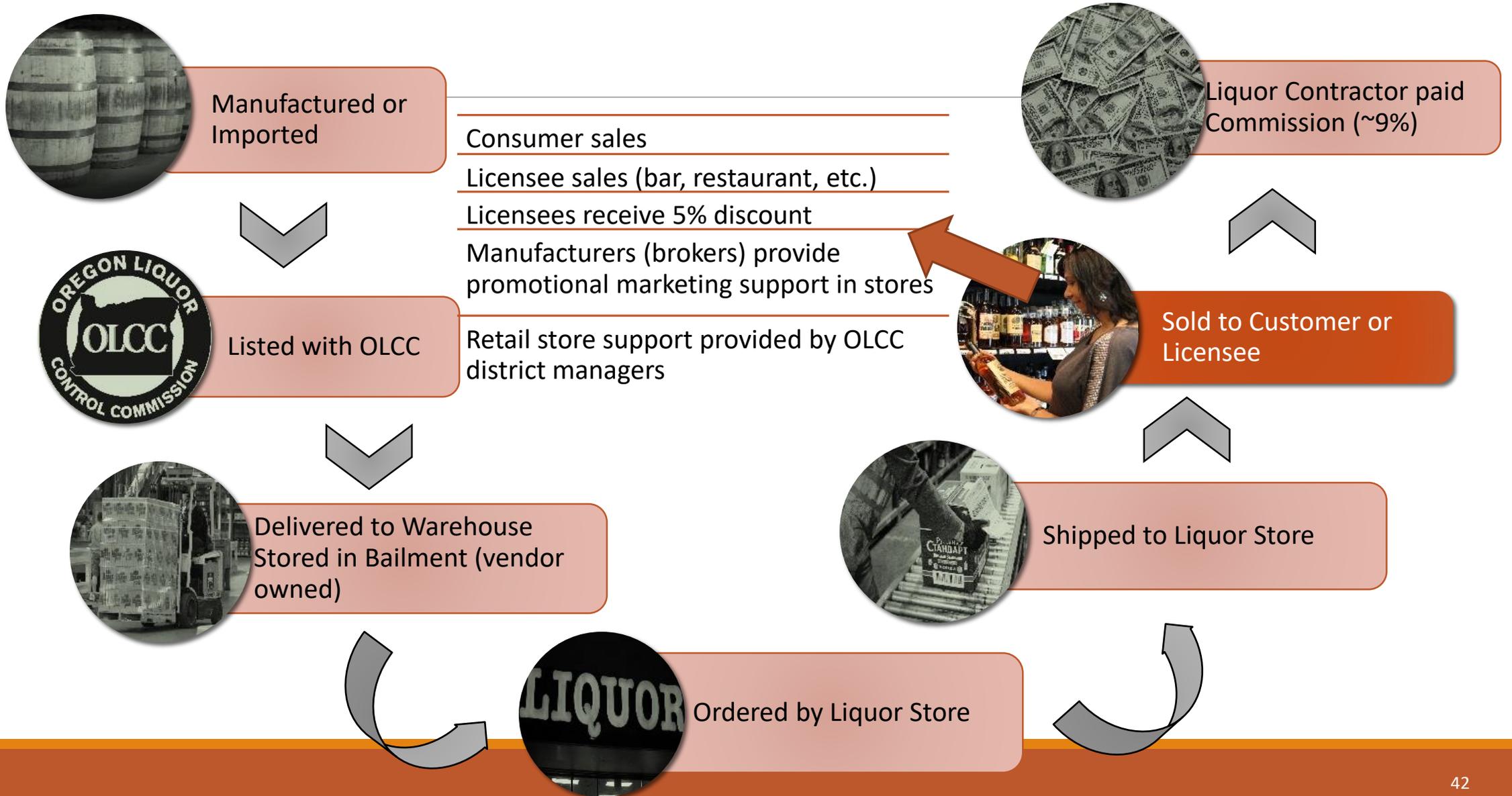
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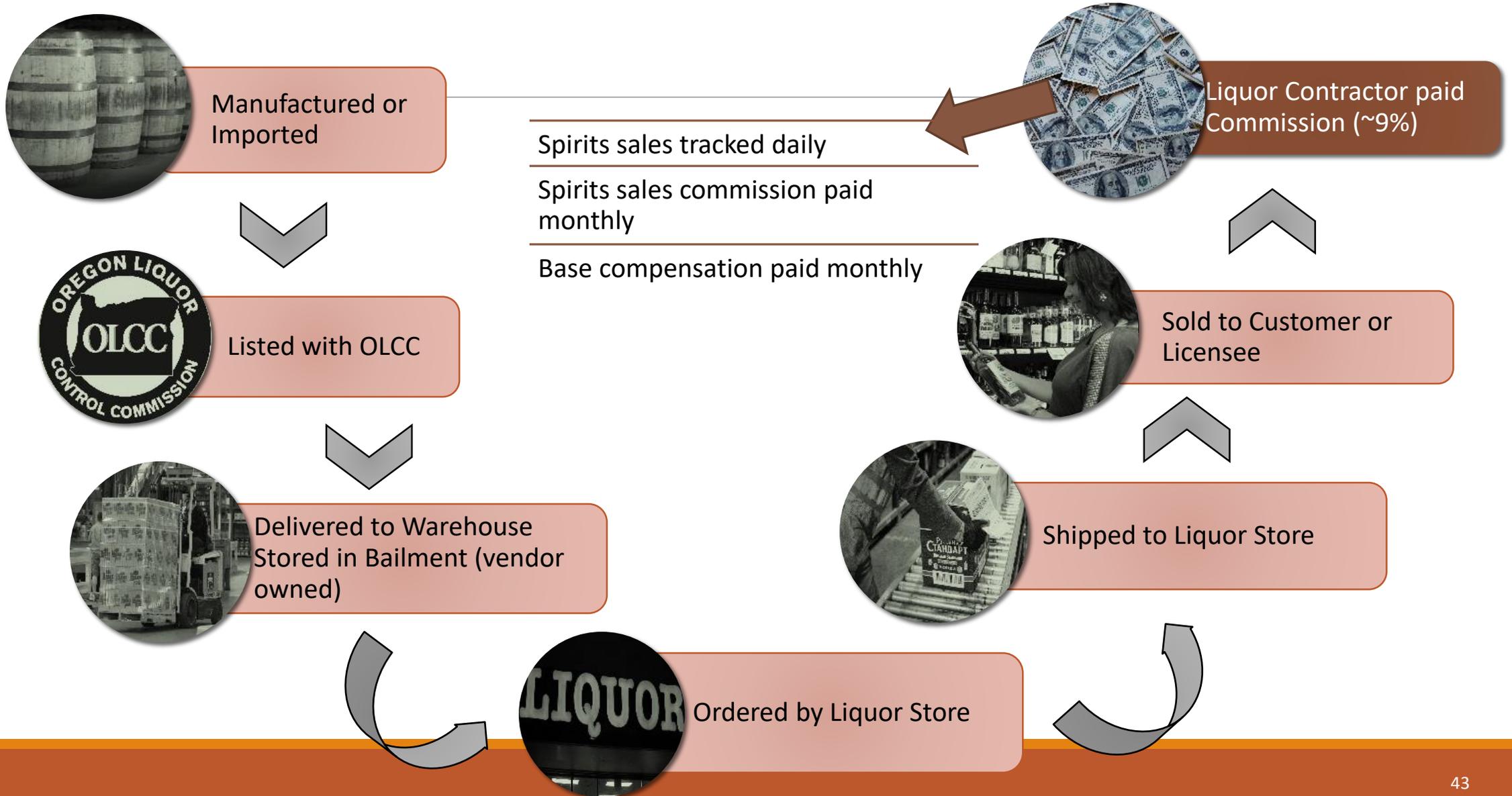
# How Distilled Spirits Flow in Oregon



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# How Distilled Spirits Flow in Oregon



# DISTILLED SPIRITS PURCHASING AND WHOLESALE SERVICES PROGRAM

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- **Milwaukie and Milport Warehouses**
  - 229,000 sq. feet (5.2 acres)
  - \$40.7 million (\$81.4 million retail value) in bailment inventory (owned by manufacturers)
  - Inventory of both warehouses sold 9.45 times per year
  - 2,000 items regularly stocked, 740 items Oregon distillers
  - OLCC pays for inventory when it is shipped to liquor store agents
- **Investments**
  - \$5.02 million investment in conveyors and software – Able to ship 751,000 more cases per biennium
  - Phase I Roofing Project - \$5.1 million, operational July 10, 2016; still need to complete Phase 2
- **Warehouse Staffing**
  - 55 Permanent, 13 temporary

# PROCESS IMPROVEMENT WAREHOUSE PRODUCTION

In 2015 the OLCC Warehouse had reached maximum shipping capacity of 3 million cases per year, 6 million cases per biennium

## **A 2016 modernization of the warehouse doubled shipping capacity**

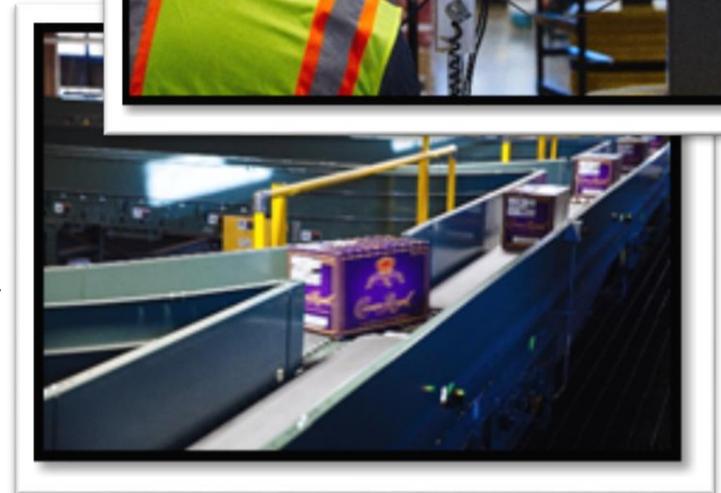
- Addition of a modernized, expandable conveyor system
- Allowed shipping to multiple doors at a time
- Capital expenditure of \$5.02 million

## **Increased shipping capacity helped enable retail expansion**

- Increased accuracy for store orders
- Enhanced service of shipments to rural stores
- Improved delivery timelines

## **Conveyor productivity accommodates increased cases shipped, driven by increased sales from retail expansion and population growth**

- *Case increase 8.06%* per biennium – 7.58 million forecasted cases distributed 2019-21 biennium



# STATEWAYS MAGAZINE “BEST OF THE BEST”

- Received November 2018
- Awarded to one control state annually by *StateWays Magazine*
- Recognizes control state agencies that are leading the industry in:
  - Innovation
  - Education
  - Enforcement
- Specifically, highlighted the strides OLCC has made in retail expansion, agent training and warehouse modernization.



# DISTILLED SPIRITS SHIPPING CAPACITY AND MANAGEMENT

OLCC Policy Option Package #102 \$2,243,955

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## Overview

- The increased shipping capacity from new conveyors and software has allowed the OLCC to keep up with growing demand without increasing the number of employees
- The agency expends constant effort to fill temporary positions
  - Time and resources spent throughout the recruitment process by Warehouse and HR staff
  - The “Revolving Door” pit-fall on Temporary Employee service
  - Large amounts of overtime of on-hand FTEs, causing worker frustration and agency financial burden
- Historically the agency’s deputy director has managed the distilled spirits program; however the growth in agency mission, programs and FTE has diluted the time available to oversee this program.
- Worn out equipment requires replacement.

# DISTILLED SPIRITS SHIPPING CAPACITY AND MANAGEMENT

## OLCC Policy Option Package #102 \$2,243,955

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### Rationale for request

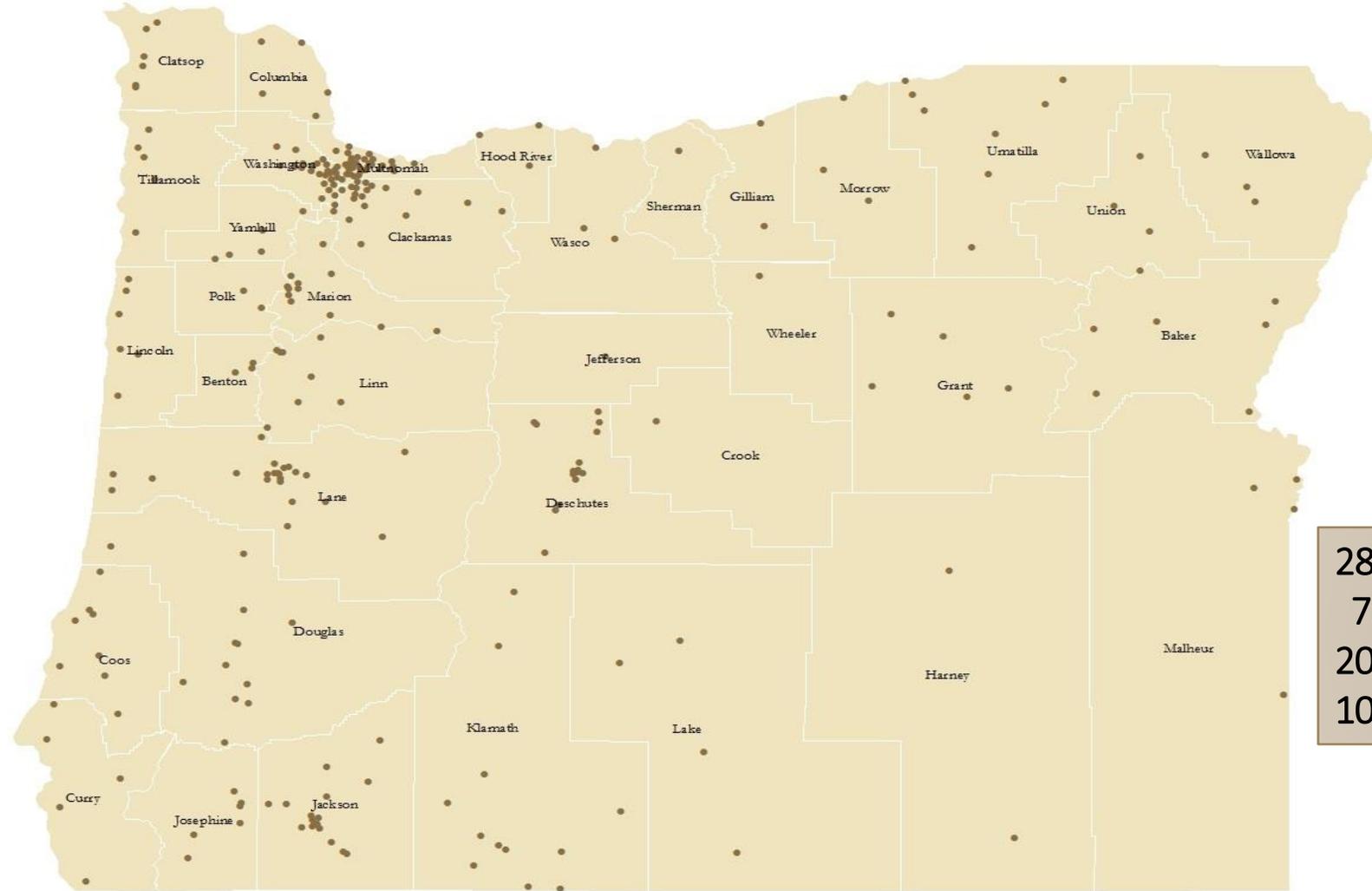
- During the biennium the OLCC employed an average of 12 temporary workers a day. Replacing with permanent workers will reduce costs
- Dedicated distilled spirits management is needed to maximize resources and align the operations of purchasing, distribution and retail services.
- Maintains revenue growth and creates operational efficiencies
- Replacement of equipment needed to maintain daily operations.

### Governor's Recommended Budget

- **Replace 10 temporary workers with 6 Liquor Distribution Worker and 4 Equipment Operators** to keep up with increasing demand for replenishment and shipping
- **Invest in equipment** - Forklifts, replacement racking, dock shelters, dock locks, aging camera system
- **Add One Principle Executive Manager F for Distilled Spirits Program** to focus on maximizing revenue from the sale of distilled spirits and manage the warehouse, purchasing and retail programs

# DISTILLED SPIRITS

## RETAIL SERVICES PROGRAM - OREGON LIQUOR STORES



284 Approved Stores  
75 Exclusive Distilled Spirits Only  
209 Non-exclusive  
104 Distillery Outlets

# DISTILLED SPIRITS RETAIL EXPANSION

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**Largest retail liquor expansion in Oregon since prohibition (began April 2016)**

**Adding multiple new stores in phases throughout the state**

**Objective is to improve customer convenience by adding retail liquor locations with a measured, but consistent approach to growth**

**Open to a variety of different business models where customers can purchase spirits**

- Adding a spirits section inside existing business, a traditional liquor store, a boutique retail location

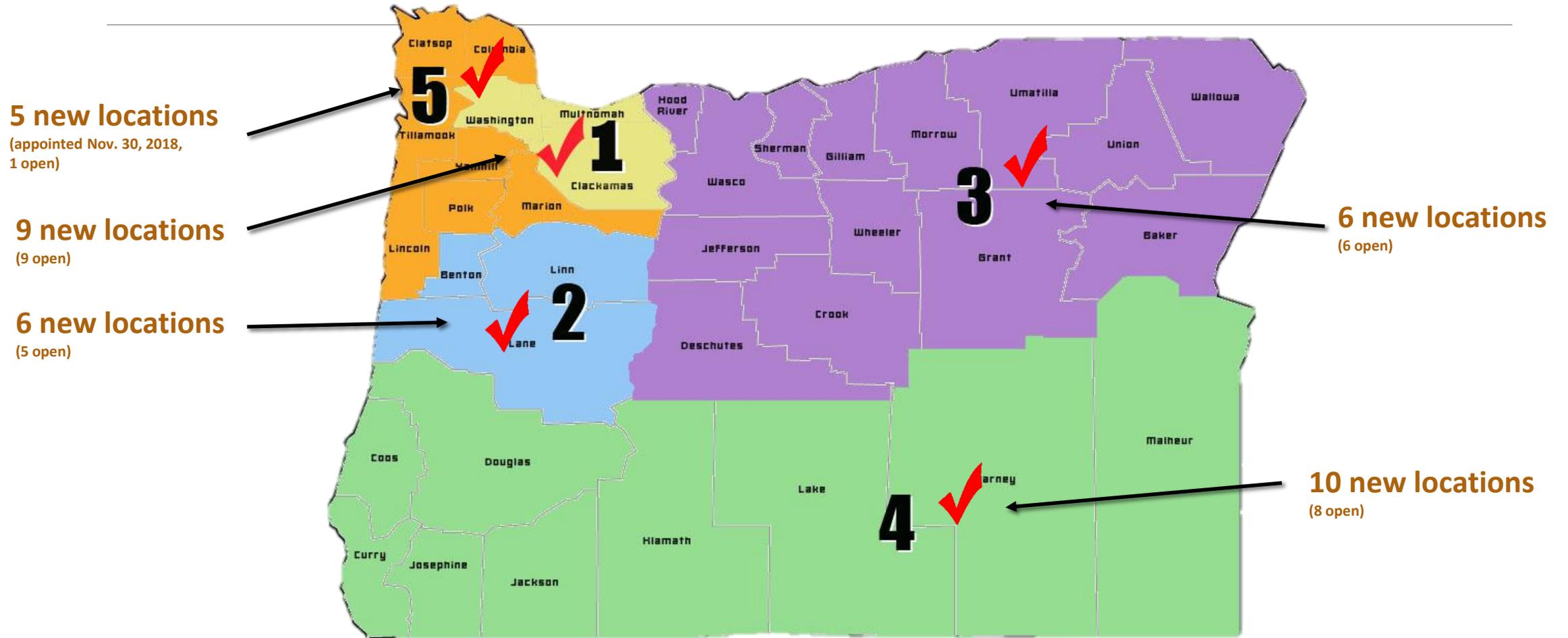
**Statewide liquor outlet density**

- 30 years ago, one liquor store for every 12,000 Oregonians
- 2015, one liquor store for every 16,185 Oregonians\*
  - \* Some communities were 1 to 29,000 ratio - \*Portland State Population Research Center
- 2018, one liquor store for every 14,772 Oregonians

***\$36.1 million new revenue (January 2019) in last 12 months, 36 new locations***

# DISTILLED SPIRITS RETAIL EXPANSION

36 new locations, \$36.1 million new revenue



# DISTILLED SPIRITS LIQUOR AGENT RECRUITMENT/SELECTION

## Selection Criteria

- Business proposal
- Capital investment and financing
- Retail or business experience
- Knowledge of alcohol industry

## Location

- Impact on existing agents
- Convenience

## Estimated sales and revenue



# BUSINESS PROCESS IMPROVEMENT AGENT EDUCATION PROGRAM

An in-person agent education program identified as best way to meet these needs by:

- Building better communication with liquor agents
- Promoting solid strategies agents can implement to promote growth
- Creating “rising tide that raises all boats”
- Creating foundation for future system innovation and retail expansion

Leverages distilled spirits and hospitality industry relationships to share their knowledge and expertise:

- Latest information on consumer preferences
- History and production process (e.g. 2018 gin; 2017 scotch)
- Tactics for enhancing the in-store customer experience

Began in 2015

- Now going on it's fifth year



# TOP TEN DISTILLED SPIRITS PRODUCTS SOLD IN 2018

Product	Sales Volume	Category
JAMESON 80P 750 ML	\$9,524,631	IRISH
JACK DANIEL BLACK LABEL 80P 750 ML	\$8,984,090	DOMESTIC WHISKEY
TITOS HANDMADE VODKA 80P 750 ML	\$8,364,842	VODKA
CROWN ROYAL CANADIAN 80P 750 ML	\$7,524,582	CANADIAN
PENDLETON 80P 750 ML	\$7,231,717	CANADIAN
MAKERS MARK 90P 750 ML	\$5,724,136	DOMESTIC WHISKEY
FIREBALL CINNAMON WHISKY 66P 750 ML	\$5,680,682	CANADIAN
TITOS HANDMADE VODKA 80P 1.75 LTR	\$5,239,733	VODKA
PLATINUM 7X 80P 1.75 LTR	\$4,928,641	VODKA
GREY GOOSE 80P 750 ML	\$4,698,702	VODKA

# TOP TEN MOST EXPENSIVE BOTTLES OF LIQUOR SOLD IN 2018

Product	Retail Price Per Bottle	Bottles Sold	Category
THE MACALLAN SHERRY OAK 40YR SINGLE MALT	\$8,899.95	1	SCOTCH
LITTLEMILL 25 YEAR SINGLE MALT SCOTCH	\$3,799.95	1	SCOTCH
REMY MARTIN LOUIS XIII	\$3,534.12	24	BRANDY / COGNAC
THE MACALLAN 30 YEAR	\$3,499.95	9	SCOTCH
HENNESSY PARADIS IMPERIAL	\$3,154.00	2	BRANDY / COGNAC
THE MACALLAN NO. 6 IN LALIQUE DECANTER	\$2,999.95	3	SCOTCH
O.F.C. 1993 KENTUCKY STRAIGHT BRBN WHSKY	\$2,499.95	1	DOMESTIC WHISKEY
RESERVA DE LA FAMILIA SERRALLES RUM	\$1,811.10	1	RUM
CLASE AZUL ULTRA EXTRA ANEJO TEQUILA	\$1,799.95	1	TEQUILA
THE MACALLAN ANNIVERSARY MALT	\$1,779.95	37	SCOTCH

*2019 - 80 bottles in top 10*

*2018 - 37 bottles in top 10*



## BUSINESS PROCESS IMPROVEMENT SPIRITED OREGON MAGAZINE

- *No state funds used*; paid for through advertising by distilled spirits companies
- Debuted Fall 2018
- 40,000 copies distributed in liquor stores throughout the state
- Free to shoppers, consumers, and licensees
- Articles increase awareness of products available in Oregon liquor stores
- Features only Oregon writers, and celebrating Oregon's people, places, and flavors surrounding distilled spirits in Oregon
- Published three times a year
- Available in print and online

# DISTILLED SPIRITS

## LIQUOR AGENT COMPENSATION

Based on Average \$17.64 Bottle Price (Fiscal Year 2018)

**5%** 4% OLCC Operating Expenses  
1% Licensee Discount

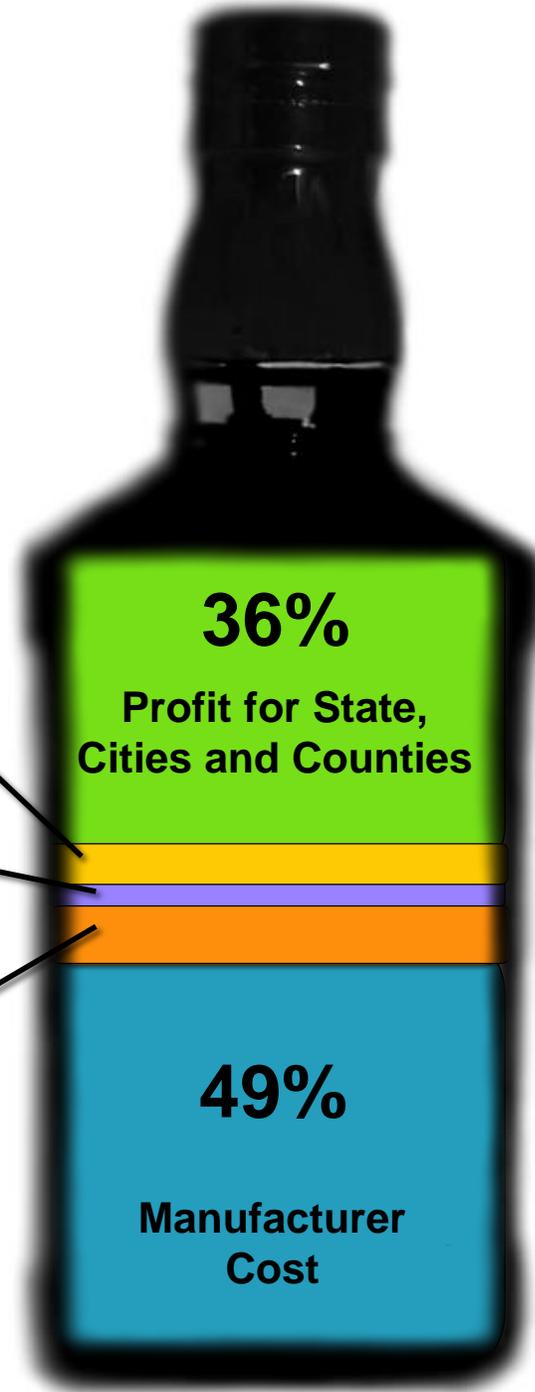
Includes Enforcement, Licensing,  
Administration, Distribution functions

**1%** Bank Card Costs

80% of all purchases made with bank  
cards

**8.93%** Liquor Store Operator Commission

Average Liquor Store Operator  
Compensation



# DISTILLED SPIRITS

## RETAIL LIQUOR AND DISTILLERY AGENT COMPENSATION

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### Commission selects retail liquor agents (competitive)

#### Contracts/Operational Requirements

#### Compensation

- Base + Commission (6.36% Licensee Sales; 8.15% Consumer Sales)
- **OLCC floors the cost of inventory**
- **OLCC pays credit card fees**
- **OLCC pays shipping and delivery costs**
- **OLCC prints labels and provides training** and agent support

#### Agents

- Build, maintain or rent buildings
- Purchase fixtures and equipment
- Hire and train staff
- **Order, receive and stock inventory**
- Employee payroll, taxes, and insurance

### **Agent retirement and resignation buyouts**

### Distillery licensee applies for Distillery Tasting Room (privilege)

#### Contracts/Operational Requirements

#### Compensation

- Base + Commission (6.36% Licensee Sales, 8.15% Consumer Sales)
- **Distillery floors the cost of inventory**
- **Distillery pays credit card fees**
- **No shipping and delivery costs**
- OLCC provides agent support

#### Distillery Tasting Rooms Agents

- Build, maintain or rent buildings
- Purchase fixtures and equipment
- Hire and train staff
- **Manufacture and stock inventory**
- Employee payroll, taxes, and insurance

### **Can sell their business**

# MOVE AGENCY BANK CARD COSTS TO AGENTS; ADJUST COMPENSATION

OLCC Policy Option Package #112 Net 0 (\$7,350,000)

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## Overview

- Oregon liquor stores have been accepting credit and debit cards since 1999
- Currently the state pays for all costs related to purchases made with bank cards
- Bank card costs for items other than liquor (cigarettes, beer, wine and other related items) are reimbursed to the agency based on outdated contract terms (estimated percentage of total sales, average credit card costs)
- Accounting resources are required to reconcile the card costs monthly
- OLCC purchases the credit card machines and ensures that they are PCI compliant with Treasury standards

## Rationale

- Adjusting agent compensation for taking on credit card costs mitigates the impact to agents of this change
- Agents will be able to continue using OLCC issued credit card machines compliant with Treasury standards
- Agents will pay actual credit charges as opposed to estimated charges included in decades old contracts

## Governor's Recommended Budget

- Increase liquor store compensation from an average of 8.93% to 9.94%
- Transition will begin in Fiscal Year 2021

# INCREASE MARKUP OF DISTILLED LIQUOR BY 5% PERCENT

## REVENUE INCREASE \$21,200,000; AGENT COMPENSATION INCREASE \$3,566,143

### Governor's Policy Option Package #090

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#### **Background**

- Markup is formula driven and determined by the cost of goods
- Lower cost liquor is marked up more than higher cost liquor
- Range for liquor markup is between 80% and 130%

#### **Components of Current Liquor Markup Formula**

- Cost of Goods, Bottles per case, Markup factor based on COG, Case handling charge and 50 cent surcharge
- 6,000 different products sold through every year including special orders, close outs, holiday and standard

#### **Assumptions**

- 5% increase in liquor markup
  - Markup for average 750 ml (fifth) will go from 115% to 126% over cost
  - Markup for average 1.75 l (half gallon) will go from 119% to 130% over cost
- Elasticity of 44%
  - Price goes up by \$1 then sales are reduced by \$0.44 for a net gain of \$0.55 per dollar increase
  - Estimate for total additional revenue is \$41.4 million with \$21.2 million directed to the General Fund

**Change in the markup formula requires Commission approval and a public comment period**

# AGENCY PROGRAMS PUBLIC SAFETY

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# PUBLIC SAFETY PROGRAM

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- **License Services Division** – Responsible for investigating and processing license applications and renewals for alcohol and marijuana licenses and issuing alcohol service permits and marijuana worker permits.
- **Public Safety Division** – Responsible for educating licensees, investigating complaints, and enforcing liquor and marijuana laws through sanctions if education is not effective.
- **Administrative Policy and Process Division** – Reviews the final OLCC investigative reports for technical sufficiency. It provides due process to the OLCC’s licensees, permittees, applicants and liquor agents by developing the agency record at contested case hearings and ensuring consistent application of policies and laws. Coordinates rulemaking for the agency.
- **Alcohol Education Division (and Marijuana)**– Responsible for overseeing private industry server education providers and other programs that train people to sell and serve alcohol legally as well as the development and implementation of the marijuana worker permit program.

# PUBLIC SAFETY PROGRAM

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## Goals for 2019-21

- Prioritize enforcement for both alcohol and marijuana programs
- Increase decoy activity for sales of alcohol and marijuana to minors and compliant sales of medical grade marijuana
- Increase licensee visits to prevent serious violations (education)
- Continue to integrate marijuana activities into overall public safety program
- Coordinate field office activities and compliance outcomes to assure statewide consistency
- Increase accountability through consistent records management

# PUBLIC SAFETY PROGRAM

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## Challenges for 2019-21

### **Alcohol**

- Annual growth in licenses, temporary events, and alcohol service permits
- Replacing manual systems
- Delivery

### **Marijuana**

- Containing and controlling high levels of inventory within Cannabis Tracking System
- Licensing and renewal volumes, growth in marijuana worker permits
- Licensing complexities (consolidation, changes in business operations/business footprints)
- Replacing manual systems
- Capitalizing on data analytics to set inspection priorities
- Coordination with law enforcement partners

### **Bottle Bill**

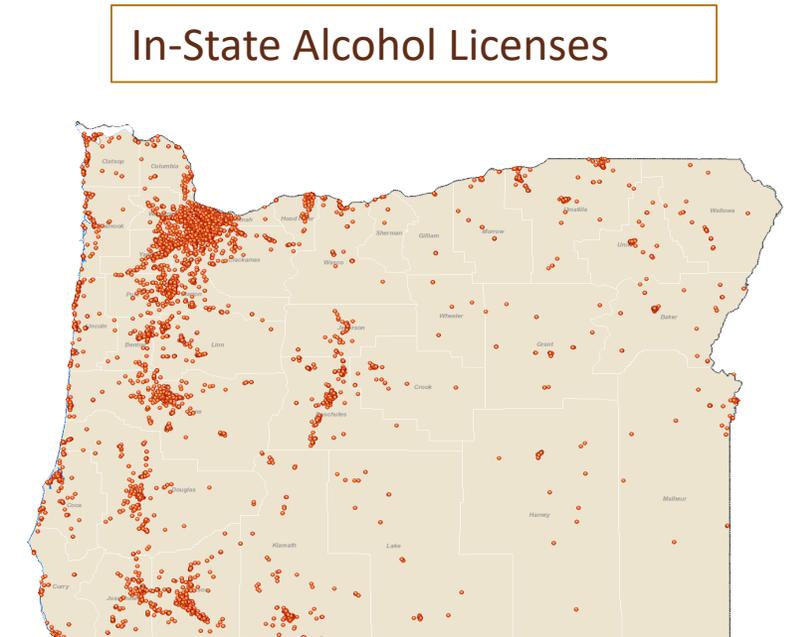
- Complaint volumes and ability to investigate

# PUBLIC SAFETY LICENSING DIVISION - ALCOHOL LICENSES & PERMITS

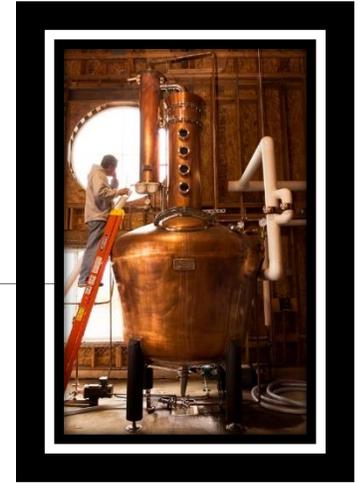
<b>Total Annual Liquor Licenses</b>	<b>14,337</b>
Restaurants and Bars (On-premises licenses)	7,581
Grocery/Convenience Stores (Off-premises licenses)	4,916
Wineries	1,149
Brewers/Brew Pubs	394
Distributors/Wholesalers	223
Distilleries (41 secondary locations)	114

Special Event Licenses	9,000
Out-of-state certificates	2,993
Alcohol Service Permits	166,311

Totals as of January 2019

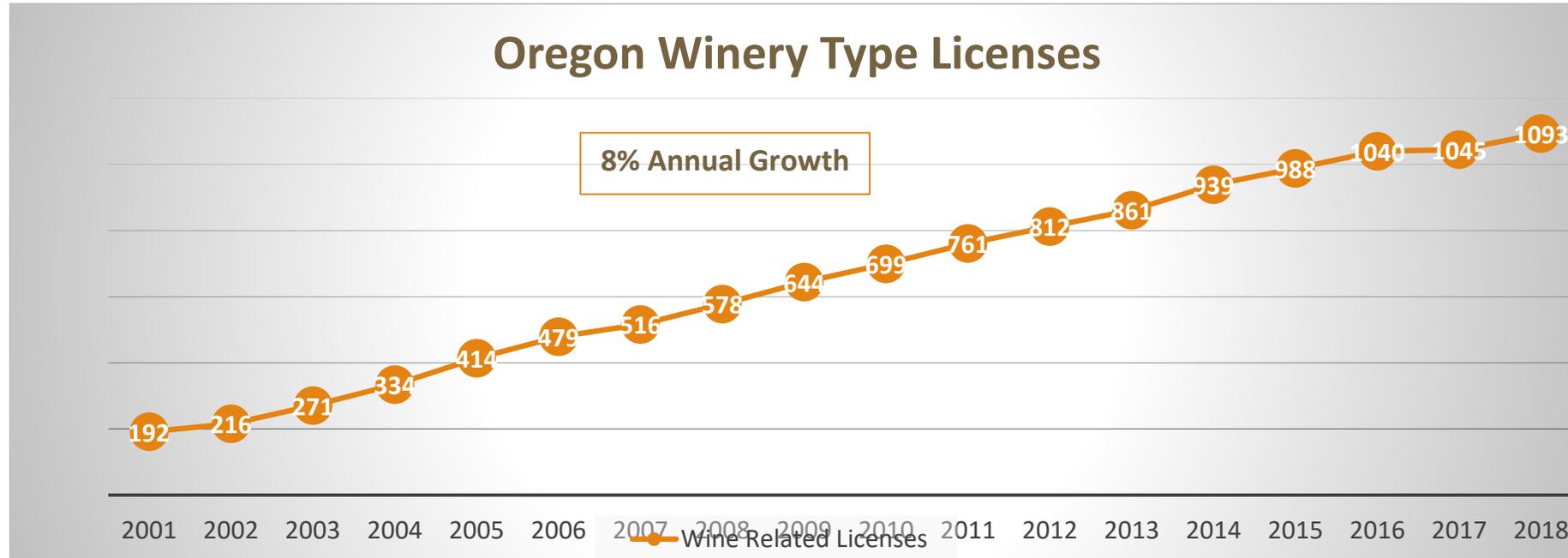


# OREGON DISTILLERIES

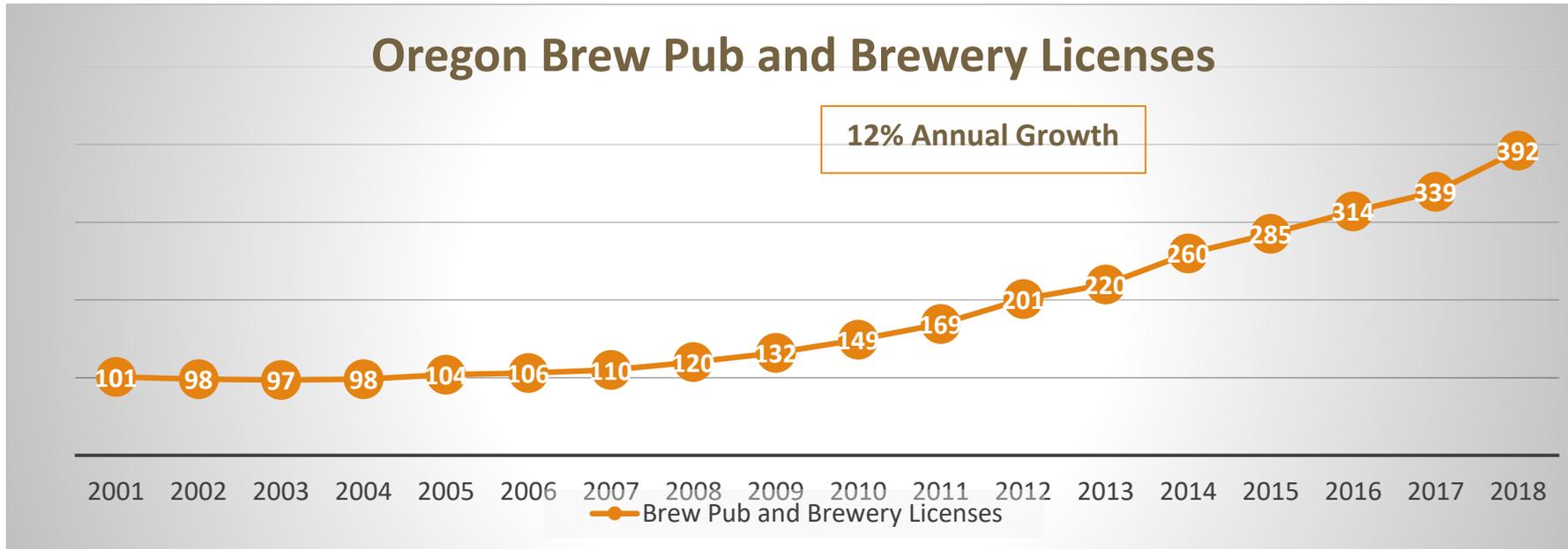


**500+ Oregon Products  
13% of Liquor Sales**

# OREGON WINERIES



# OREGON'S BEER INDUSTRY



# PUBLIC SAFETY LICENSING DIVISION – ESTABLISHED LEGAL CANNABIS MARKET

	Approved Licenses	Applications Pending	Surrendered	Cancelled
Laboratory	21	10	2	0
Processor	210	368	6	1
Producer	1,121	1,101	66	6
Retailer	610	336	35	1
Wholesaler	147	202	9	0
Research	0	4	0	0
<b>License Total</b>	<b>2,109</b>	<b>2,021*</b>	<b>118</b>	<b>8</b>

\*534 without approved LUC

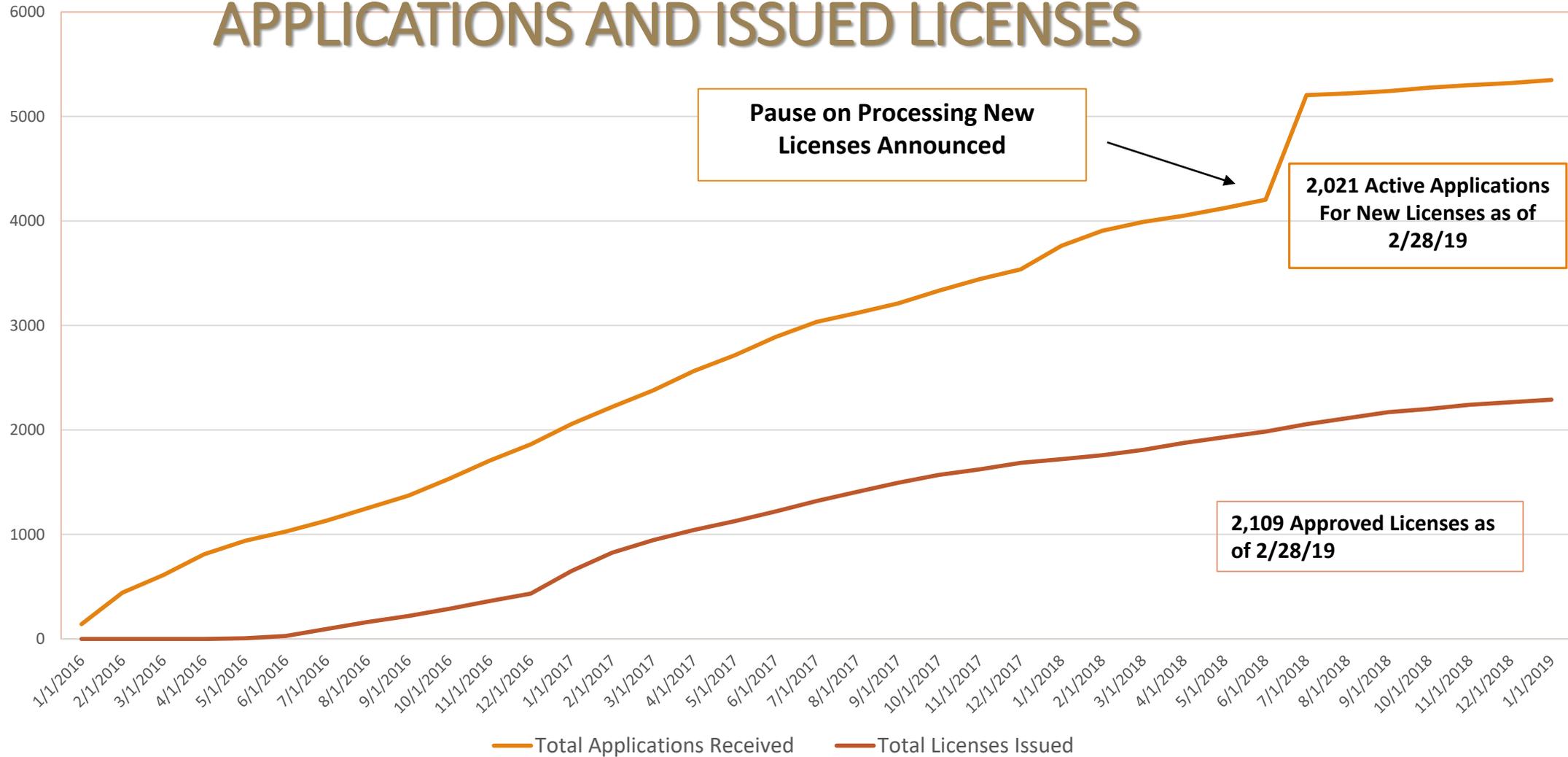
	Active Permits	Under Review
Worker Permits	40,913	2,525

Totals as of February 28, 2019

# MARIJUANA LICENSE FEES

Marijuana Fee Type	Current Fee Amount
Application Fee for Initial License or Certificate	\$250
Annual Marijuana Producers License Tier I (large grower)	\$3,750
Annual Marijuana Producers License Tier 2 (large grower)	\$5,750
Annual Micro Tier 1 Producers (small grower)	\$1,000
Annual Micro Tier 2 Producer (small grower)	\$2,000
Annual Marijuana Processor License	\$4,750
Annual Marijuana Wholesaler License	\$4,750
Annual Marijuana Retailer License	\$4,750
Annual Marijuana Laboratory License	\$4,750
Research Certificate (three year term)	\$4,750
Marijuana Handler Permit (five year term)	\$100
Additional Criminal Background Check	\$50
Change of Ownership Review	\$1,000
Change of Business Structure Review	\$1,000
Transfer of Location of Premises Review	\$1,000
Packaging Preapproval fee	\$100
Labeling Preapproval Fee	\$100
Late Renewal Fee for license if received less than 20 days before expiration date	\$150
Late Renewal Fee for license if received after expiration date	\$300
Late Renewal Fee for handler permit if received less than 20 days before expiration	\$50
Late Renewal Fee for handler permit received after expiration date	\$100

# CUMULATIVE RECREATIONAL MARIJUANA LICENSE APPLICATIONS AND ISSUED LICENSES



# PUBLIC SAFETY

## MARIJUANA COMPLIANCE CONCERNS

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- 3,300 more applications than expected and still growing
- Producer licenses are particularly complicated, biggest license category, often remote, more likely to change operational practices, greatest risk of diversion
- Marijuana enforcement is evolving
  - Market incentive to divert and invert product illegally
  - Packaging and labeling oversight
  - Potential need to seize and store product while waiting for administrative hearing (secure storage space, product degradation, and potential destruction)
  - New classes of cases such as destruct orders for failed testing
  - Product recalls
  - Need for laboratory oversight
- Managing difficult legal issues unique to marijuana for which there are no established law enforcement protocols

# PUBLIC SAFETY MARIJUANA COMPLIANCE APPROACH

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- **Security Requirements**

- Cameras, alarms, back up videos, transportation manifests

- **Cannabis Tracking System**

- Packaging created without identifying the source of the package or harvest
- Improper transfers
- Retailers not reporting sales timely
- Weight mismatches
- Monitoring sales to possession limits

- **Field Enforcement**

- Proactive discovery through routine inspections and analysis of Cannabis Tracking System data
- Responding to complaints and investigating reports of criminal activity and administrative violations
- Coordinate with local governments and local law enforcement to prevent and identify violations



# PREVENTING DIVERSION FROM THE LEGAL SYSTEM

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## 164 licenses surrendered

- Immediate suspension for suspected diversion
- Voluntary surrender due to settlements of violations
- Failure to thrive

## Violations January through December 2018

- Orders of immediate suspension: 3
- Notices of proposed license cancellation: 57 (49 licensees, 8 worker permittees)
- Notices of proposed suspension/civil penalty: 97 (74 licensees, 23 worker permittees)
- Notices of warning: 37

## Cannabis Tracking System

- Automated warnings as of March 1: sales over daily limit 3,800; sales above concentration limit 5,335; untested, incorrectly tested product sent to and received by retailer 2,550
- Operation Good Harvest – *New Rules – Notifications and Inspections*
- Waste – *New Rules*
- Medical Daily Sales Limit – *New Rules - how to be more patient friendly but keep abuse out*

## Examples

- Attempt to mail marijuana out of state
- Product found at unlicensed location that was listed in CTS as “waste”.
- Arrests and criminal charges – credit card fraud, tax evasion



# LAW ENFORCEMENT COORDINATION

## **OLCC responsible for enforcement of OLCC licensees**

- But serves as information hub for data and information coordination
- Complaints from public referred to law enforcement: 13 in 2017, 55 in 2018
- Top 5 reasons: neighbor complaint, smell, employee not receiving wages, minor in grow area, social media posts

## **Criminal and administrative investigations**

- Coordinate with local, state and federal law enforcement when illegal activities are suspected
- Report potential OMMP violations to OHA

## **OLCC public safety, education and enforcement**

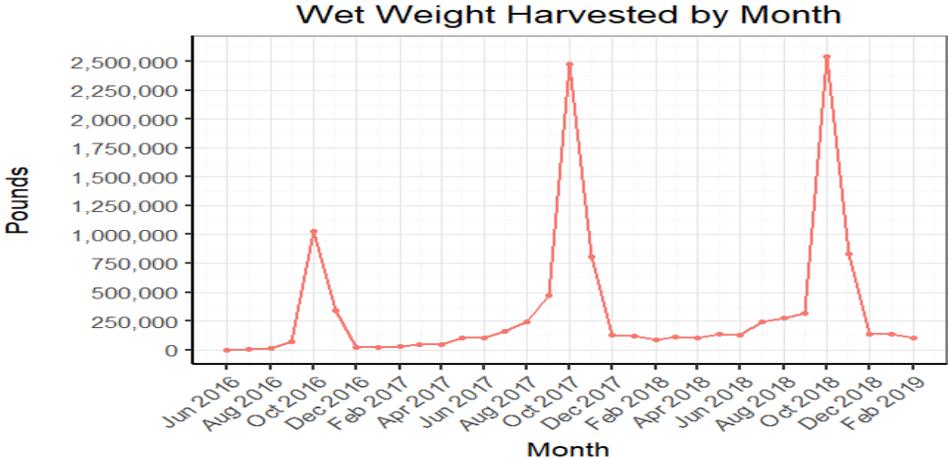
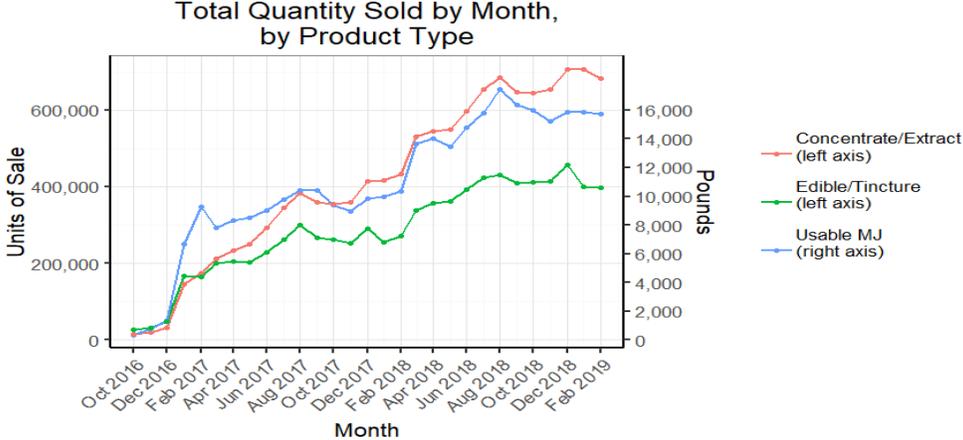
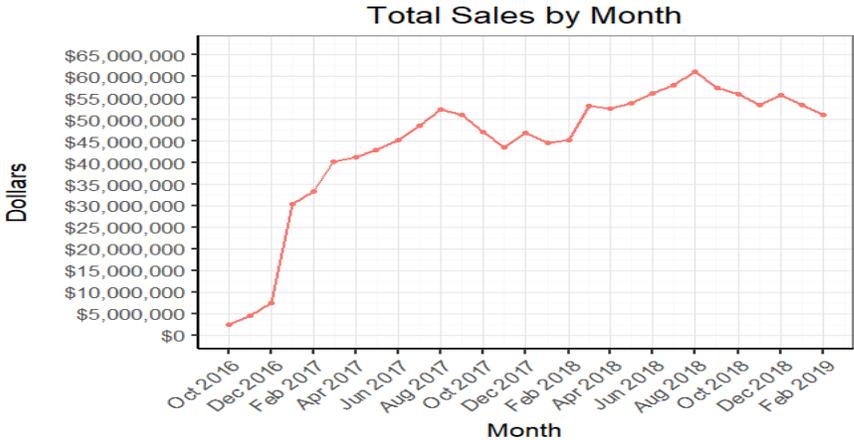
- Law enforcement hotline: 399 in 2017, 984 January to July 2018
- Top 5 reasons: confirm if valid licensee or worker permit, confirm type or status of license, request for license information, notification about potential compliance issues, questions about OARs
- Tools: cannabis tracking system; transportation manifest

## **Co-location**

- OSP detectives co-location with the OLCC at the OLCC Medford office
- Portland area detectives will be specifically assigned to marijuana
- Collaborative effort to help bring illegal grow, illegal processing, and illegal diversion activities forward for investigation and prosecution by local law enforcers and DA's.



# RECREATIONAL MARIJUANA MARKET TRENDS



# PUBLIC SAFETY ALCOHOL COMPLIANCE

*Added 2 liquor regulatory specialists in 2002 – at that time the ratio of liquor regulatory specialists to licensees was 1 to 162*

## 13,262 Licensed Liquor Premises Statewide

OLCC Regional Offices	Number of Licenses	Inspectors	Ratio of Licensee/Inspector
Portland	5,660	16	1 to 354
Salem	2,220	5	1 to 444
Eugene	2,060	5	1 to 412
Bend	1,654	6	1 to 276
Medford	1,668	6	1 to 278

- Eugene and Salem show the highest ratios and includes the responsibility of having the two largest universities in Oregon
- The ratio for Bend and Medford are the lowest, but it includes the greatest geographical area
- As liquor licenses continue to increase, having inspector presence and investigative capacity is necessary to OLCC's regulatory structure.

# BOTTLE BILL RESPONSIBILITIES

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## **Investigate and approve applications for redemption centers (26 approved)**

- Provide notice to dealers within redemption zone – participate or provide equivalent services
- Determine exemption for dealers who sell fewer than 100,000 beverage containers

## **Provide Bottle Bill education to new businesses**

### **Compliance with statutory requirements**

- Containers are labeled with correct refund value
- Dealers - accept containers and pay refund, meet redemption center requirements
  - 279 liquor agents, 4,964 liquor-licensed stores, 606 marijuana-licensed stores, undetermined number of non-licensed stores
- Distributors – accept containers from dealers and pay refund value
- OBRC (as distributor and redemption centers)
- Provide education to businesses regarding requirements, but issue violations as necessary
  - 39 Notices of Violation issued in 2017 and 2018

### **Receive annual beverage container return data from distributors**

- For 2018 notified 1,574 distributors of statutory requirement to report
- Track reports returned and follow-up with those that aren't returned
- Calculate the statewide redemption data - percent of containers returned for the refund value

# BOTTLE BILL EXPANSION

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**Required a refund value on all beverage containers starting January 1, 2018 except:**

- Distilled liquor, wine, dairy or plant-based milk and infant formula

**Additional products include but are not limited to:**

- Tea, coffee, hard cider, fruit and vegetable juice, energy and sports drinks

**Sizes subject to refund value:**

- Water, soft drinks and beer - containers that are 3 liters or less in size
- New beverages - containers from 4 oz to 1.5 liters in size. Metal cans that require a can opener are excluded.

# PROCESS IMPROVEMENT BOTTLE BILL STAKEHOLDER OUTREACH

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## **Stakeholder outreach:**

- OLCC staff
- Recycling industry/redemption centers
- Beverage manufacturer and retailer associations
- Consumers and media

## **Dedicated Bottle Bill web section:**

- FAQ, Bottle Bill fact sheet, redemption center maps
- Downloadable content for retailers
  - Posters, signage, information sheets

**Bottle Bill list serve:** 2,535 subscribers; **Dedicated e-mail** [Olcc.bottlebill@Oregon.gov](mailto:Olcc.bottlebill@Oregon.gov)

## **Challenge:**

- One staff member
- Fielded 164 complaints in 2016, 395 complaints in 2017, and 881 in 2018
- Increase attributed to greater interest in redeeming containers after the refund value doubled and many more containers had a refund value

# INCREASE LIQUOR LICENSE FEES

OLCC Policy Option Package #203 Increase Revenue \$9,172,430

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## Overview

- Annual liquor license fees have not been raised since 1949
- Amongst lowest in country
- Currently proposed legislation in SB 248; Concept would double license fees only and not fees for alcohol service permits

## Rationale

- Current fees range from \$50 to \$500; brings fees to mid-range nationally; inflation adjusted fees would range from \$500 to \$5,000
- Maximize distribution to general fund, cities and counties. Improve services for alcohol public safety - licensing, temporary events, inspections and minor decoy operations.

## Governor's Recommended Budget

- Accepts fee increases outlined in SB 248 (see chart)

# INCREASE LIQUOR LICENSE FEES

OLCC Policy Option Package #203 Increase Revenue \$9,172,430

License Type	License Description	Annual or Daily Fee	Proposed New Fee	Projected 2019-21 Transactions with New Fee	Projected 19-21 Revenue
BP	Brewery Public House	\$ 250	\$ 500	717	\$ 358,703
BRW	Brewery	\$ 500	\$ 1,000	28	\$ 28,489
BRWNC	Brewery No Consumption	\$ 500	\$ 1,000	34	\$ 33,669
CERA	Certificate of Approval (five year license)	\$ 175	\$ 350	372	\$ 130,274
DIST	Distillery	\$ 100	\$ 200	267	\$ 53,353
DS	Direct Shipper	\$ 50	\$ 100	3,364	\$ 336,433
F-COM	Full On-Premises Sales	\$ 400	\$ 800	12,600	\$ 10,079,700
GSP	Grower Sales Privilege	\$ 250	\$ 500	31	\$ 15,540
GSPNC	Grower Sales Privilege No Consumption	\$ 250	\$ 500	70	\$ 34,964
L	Limited On-Premises Sales	\$ 200	\$ 400	7,867	\$ 3,146,808
O	Off Premises Sales	\$ 100	\$ 200	13,259	\$ 2,651,835
WH	Warehouse	\$ 100	\$ 200	101	\$ 20,202
WMBW	Wholesale Malt & Wine Distributor	\$ 275	\$ 550	477	\$ 262,102
WSD	Wine Self Distribution	\$ 100	\$ 200	461	\$ 92,202
WY	Winery	\$ 250	\$ 500	1,254	\$ 626,918
WYNC	Winery No Consumption	\$ 250	\$ 500	927	\$ 463,613
TSL Addition	Establish Temporary Use of an Annual License(per day fees)	\$ -	\$ 10	1,000	\$ 10,000

# STATEWIDE DISPATCH SERVICES FOR LIQUOR AND MARIJUANA INSPECTORS

OLCC Policy Option Package #205 \$1,036,320

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## Overview

- Past OLCC dispatch services were not uniform through the state
- OLCC inspectors with marijuana regulation are traveling through more remote areas of the state
- System will enable contact with all inspectors at all times and have connection to local law enforcement
- Costs spread across the liquor, recreational marijuana and medical marijuana programs

## Rationale

- OLCC regulatory specialists for alcohol, recreational marijuana and medical marijuana will have constant communication to a statewide system that ensures employee safety in all areas of the state.

## Governor's Recommended Budget

- Fund dispatch services for 46 liquor regulatory specialists, managers and compliance specialists
- Fund dispatch services for 23 marijuana regulatory specialists, and 1 compliance specialist
- Fund dispatch services for 16 medical marijuana regulatory specialists, managers and compliance specialists

# LIQUOR LICENSING STAFF FULFILLMENT

OLCC Policy Option Package #206 \$844,185

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## Overview

- Integration of recreational marijuana into licensing has created an imbalance in the supervisor to employee ratios – currently at 1 manager to 24 employees
- Special event licenses continue to grow; last year was over 9,000 statewide
- Licensing handles the largest number of public records requests of any part of the agency

## Rationale

- The current workload for special event license approval is more than one person can manage.
- The agency does not have an employee dedicated to fulfilling public records requests in a timely manner
- The current management to employee ratio of 1 manager to 24 employees is unsustainable

## Governor's Recommended Budget

- 2 managers (PEM D and PEM B) for license investigation and processing
- 1 Limited duration position (AS2) for processing special event licenses
- 1 position (OPA 2) for public records requests

# ALCOHOL PUBLIC SAFETY STAFF FULFILLMENT

## OLCC Policy Option Package #207 \$942,084

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### Overview

- The current ratio of Liquor Regulatory Specialists to licensees is 1 to 350 statewide
- The last time regulatory specialists were added was in 2002; 2 were added for minor decoy operations. The ratio at that time was 1 regulatory specialist per 162 premises.
- The number of licenses are increasing at about 4% per biennium, close to 900 licenses per biennium
- The greatest need for Liquor Regulatory Specialist is in the Eugene and Salem area

### Rationale

- Additional Liquor Regulatory Specialists are needed to maintain current ratios for proactive inspections, complaint investigation, and minor decoy operations.

### Governor's Recommended Budget

- 2 Liquor Regulatory Specialists

# REGULATORY SPECIALIST RECLASS

Policy Option Package #209 \$107,176

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## Overview

- 2017 Classification and Compensation determined that Regulatory Specialists (Liquor and Marijuana) should be moved from salary level 25 to salary level 27
- It was determined that Licensing Specialists should be split out and remain at salary level 25

## Rationale

- This change was not reflected in the agency's current services budget which is why it is a Policy Option Package.

## Governor's Recommended Budget

- Recommended change utilizes a least cost method meaning that most employees would retain their current salaries but only adjust their step level; the impact comes at the lowest step and highest step

# AGENCY PROGRAMS SUPPORT SERVICES

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# SUPPORT SERVICES PROGRAM

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- **Administration, including Human Resources**

- Provides executive leadership; implements policy
- Recruits and trains statewide
- Oversees labor contract

- **Financial Services**

- Collects spirits revenue, beer and wine taxes, and liquor/marijuana license fees
- Pays all liquor, freight, and vendor invoices
- Audits liquor stores, retail marijuana sales, and agency financial processes
- Distributes revenue

- **Government Affairs/Communications**

- Legislative coordination
- Central communication link between OLCC and its external stakeholders, the media, and the general public

- **Information Technology**

- Oversees all I.T. infrastructure including the programs that operate the OLCC warehouse, alcohol/marijuana licensing and enforcement divisions

- **Management and Administrative Services**

- Oversees purchasing and manages agency policies
- Provides research and analytics including KPMs
- Oversees internal auditing

# SUPPORT SERVICES PROGRAM

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## **Goals for 2019-21**

- Continue IT planning, coordination and implementation of agency-wide IT infrastructure for current and future operations
  - Eliminate duplicative data entry and manual processing of paper
  - Build and improve online electronic systems to enhance customer service and back office functionality
  - Create comprehensive business intelligence capacity
- Manage unprecedented growth
  - Continue to streamline business operations and processes for alcohol and marijuana programs
  - Increase communication with employees, licensees, agents, public, and local governments
  - Create facility plan to accommodate growth in distilled spirits and marijuana program

# SUPPORT SERVICES PROGRAM

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## **Challenges for 2019-21**

- Old legacy systems, built in mid-90s, siloed, unsupported, frequent break downs, and difficult, if not impossible to modify.
  - Distilled distribution system experiences critical system failures approximately once every two weeks and requires several manual interventions every day.
  - Failure of systems threatens distribution and sales – revenue loss \$2.5 million per day
- Lack of online systems
  - Manual processes in conjunction with hundreds of non-connected spreadsheets to perform key functions – alcohol licensing, privilege tax reporting and filing, alcohol and marijuana compliance.
- Needed updates to marijuana licensing
  - Barebones initial implementation, built quickly to meet legislatively mandated date.
  - Limited flexibility to meet complex needs of evolving marijuana market, administrative work, or changing regulatory structure.
- Funding for Enterprise Modernization Portfolio Project
  - Agency requests to come back to this committee to report progress on its efforts working with OSCIO through a second stage gate process to replace insufficient, inefficient and disjointed legacy distilled spirits supply chain program technology, as well as alcohol and marijuana licensing and compliance systems

# SUPPORT SERVICES PROGRAM

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## **Challenges for 2019-21**

- Lack of functioning agency intranet
- Staff recruitment, training, and retention
  - Additional responsibilities
  - Increased span of control
  - New areas of expertise
  - Succession planning
- Implementation of new legislation
  - Rules, training, internal and external communication

# INFORMATION SERVICES ENHANCEMENT

## GRB POLICY OPTION PACKAGE # 301

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### Overview

- The growth of Oregon's beer and wine industry has led to a current number of about 5,166 breweries, wineries, brew pubs, warehouses, wholesalers and out-of-state manufacturers of beer and wine that have to report.
- Tax reports and payments are required monthly. Monthly statements are received on paper forms. In total about 28,000 paper forms per year are filled out by licensees, received by staff, hand entered into data bases, and reconciled.
- HB 2150 (2017) allows manufacturers and distributors of wine, cider and malt beverages to file statements of quantities of produced, purchased, or received, and to pay their privilege taxes electronically beginning on July 1, 2019.

### Rationale

- Beer and wine licensees will be able to use electronic fillable forms that can be saved from month to month.
- OLCC will benefit from the automated system by not having to add personnel to keep up with the increased number of paper filings with required hand entry of data. Current staff will be allowed to focus time on non-compliant licensees and auditing of beer and wine tax.
- The agency has met the requirements of stage gate 2 and put out a Request for Proposal to vendors on Feb. 22, 2019. Bids for the project are due on April 4, 2019.

# INFORMATION SERVICES ENHANCEMENT

## GRB POLICY OPTION PACKAGE # 301

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### **Governor Recommended Budget**

- The Governor allocated \$2.5 million in funding to implement HB 2150 (2017), the development or procurement of an online privilege tax reporting and payment system. Currently all monthly tax reports and payments are a paper system.

# CREATES AN INTERNAL AUDITOR POSITION

Governor's Policy Option Package #090 \$223,400

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## Overview

- ORS 184.360 and OAR 125-70-125 require agencies with over 400 employees or ***\$100 million in biennial expenditures*** to have an internal audit program
- OLCC has an internal audit program with an audit committee but uses contract auditors to fulfill the requirements

## Rationale

- Secretary of State audit recommendation from 2018.
- Internal auditors develop a thorough understanding of their agency governance structure, programs and services, and risks. If properly structured and resourced, they provide critical and timely support to management. They can also find areas to increase efficiency and effectiveness, and proactively identify negative issues or outcomes.

## Governor's Recommended Budget

- Add one Internal Auditor 3 position

# FINANCIAL SERVICES STAFF FULFILLMENT

## Policy Option Package #310 \$200,345

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### Overview

- Retail Expansion has added 36 new Liquor Stores since 2017; expected to continue in the 2019-23
- Represents a 25% increase in workload for Financial Services staff to process liquor store revenue, pay agents compensation, reconcile bank card payments and ensure that the state's financial resources are being accounted for properly.
- OLCC staff are currently using outdated technology when auditing liquor stores in order to accommodate an inventory program that runs on unsupported software

### Rationale

- Additional financial staff is needed to meet increased workload requirements
- Current liquor inventory auditing equipment and software is no longer supported

### Governor's Recommended Budget

- Adds 1 Accounting Technician 2 to agency's Financial Services Division
- Replaces outdated equipment and software for liquor store auditors

# ADMINISTRATION AND COMMUNICATION OUTREACH

## Policy Option Package #311 \$73,000

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### Overview

- 230 employees prior to legalization of recreational marijuana, now 326 and growing
- 2/3 of employees are new to the agency or new to their jobs
- 4 years of significant statutory changes to marijuana law; significant statutory changes to alcohol law ahead
- The agency does not have a functioning intranet to communicate with employees and store agency wide documents

### Rationale

- The agency plans to develop an intranet, following state agencies standards and utilizing Sharepoint (Microsoft 365) as an intranet platform. The agency has requested funding for a contractor to build the site, as resources are not available in the agency's Communications department
- Having centralized, accurate and timely information on an agency intranet will provide a structure for OLCC to effectively provide consistent communication with its employees throughout the state, servicing as a centralized place to house agency information and spur collaboration, serving as a critical productivity tool

### Governor's Recommended Budget

- Funding for contractor to build the intranet

# AGENCY PROGRAMS MARIJUANA

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# MARIJUANA PROGRAM

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- **Facilitates licensing and worker permit process** (screens applications, tracks down missing information, answers questions, coordinates medical inventory transfer, coordinates with ODA)
- **Analyzes Cannabis Tracking System (CTS) data** (proactive education, referral to investigative staff, statewide data compilation and reports)
- **Prepares educational bulletins and notices** to prevent compliance issues
- **Coordinates with ODA, OHA, DOR** on interagency agreements, joint investigations, and successful flow of information
- **Coordinates with outside vendors** Metrc and NIC/USA on the CTS and online license application system, and performing updates and improvements
- **Coordinates with local government** on land use compatibility statements, approved and/or denied applications and on licensee local jurisdiction code violations
- **Approves all packaging and labels** for medical and recreational marijuana products



# MARIJUANA PROGRAM CHALLENGES

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## Goals for 2019-21

- Analyze CTS data for statewide trends, compliance issues and actions, and to proactively get licensees into compliance through education
- Improve online licensing system to contain more features for internal and external use, tracking of aggregate and individualized data, and smooth the license assignment process statewide
- Provide ongoing development and distribution of educational materials and training for licensees
- Provide ongoing statewide training of staff on changing rules, statutes, processes and policies
- Coordinate public information requests, create reports, public educational materials
- Coordinate with states on Best Practices
- Continue interagency coordination and policy development

# State Marijuana Law and Responsible State Agencies

**M91** November 2014

**Statutes:** ORS Chapter 475B

**Administrative Rules** OAR Division 25

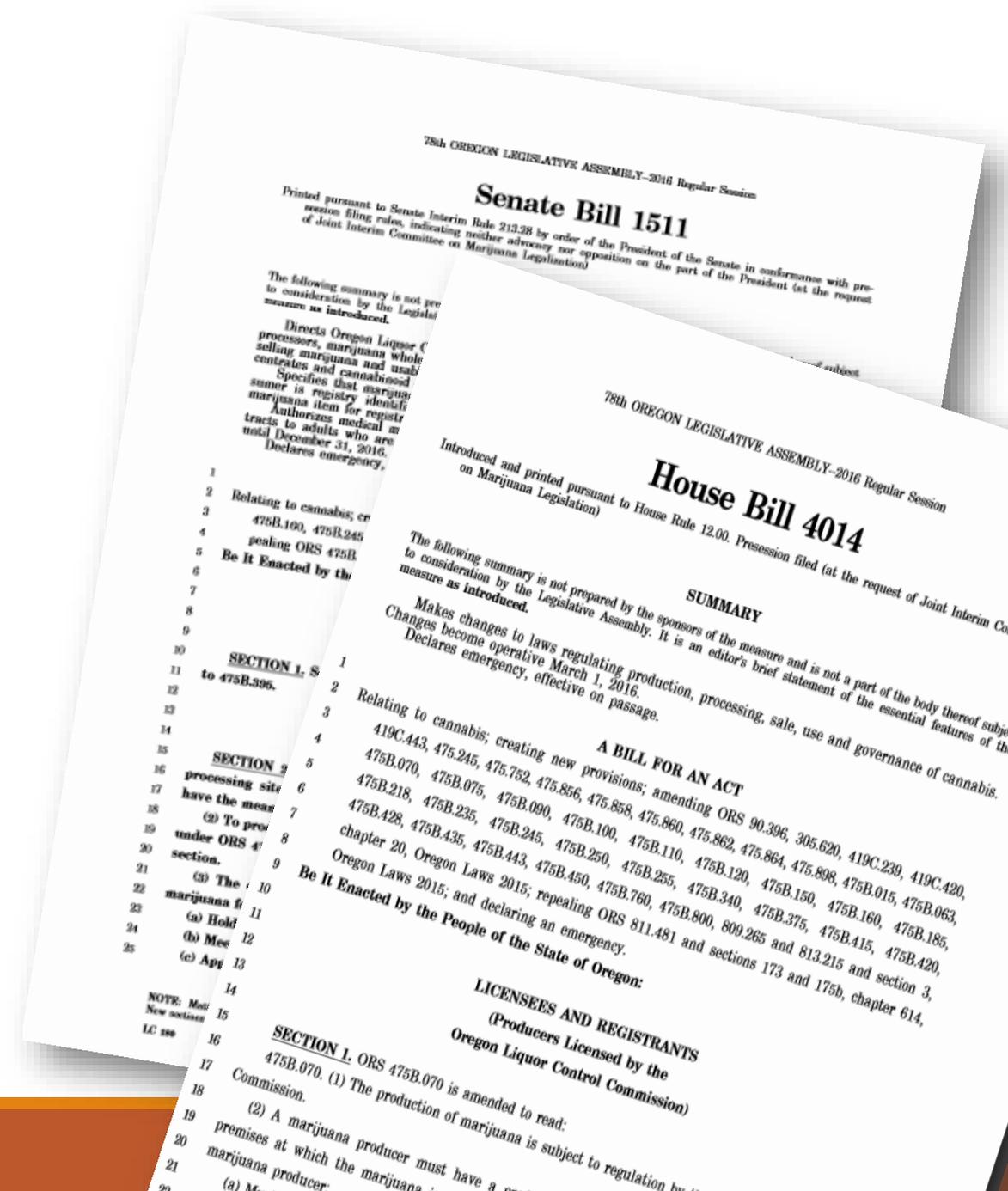
**Oregon Liquor Control Commission (OLCC):** recreational marijuana businesses and worker permits

**Oregon Health Authority (OHA):** medical marijuana activities/businesses, testing standards and requirements

**Oregon Department of Revenue (DOR):** tax collection

**Oregon Department of Agriculture (ODA):** commercial kitchens, scale certification, certain food handling activities, pesticides

**Local jurisdictions:** law enforcement, governing bodies, code enforcement



# RECREATIONAL MARIJUANA

## License Types

**Producer** : grows marijuana

**Laboratory**: tests marijuana

**Processor**: creates recreational and medical-grade marijuana-infused products

**Wholesale**: buys and sells marijuana wholesale

**Retail**: sells recreational items to consumers over 21 and medical-grade items to cardholders

**Research Certificate**: can conduct research using marijuana

**Worker Permit**: employees of any marijuana business





# Security

## General requirements for all licenses

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### **Video recording cameras provide key evidence for compliance:**

- 24/7 high quality, non-light dependent recording of all areas where marijuana items are present
- 90 day onsite retention of video recordings
- 30 day offsite backup video for surveillance area (so that tampering with surveillance equipment is detected)

Armed **alarm system** any time the premises is closed

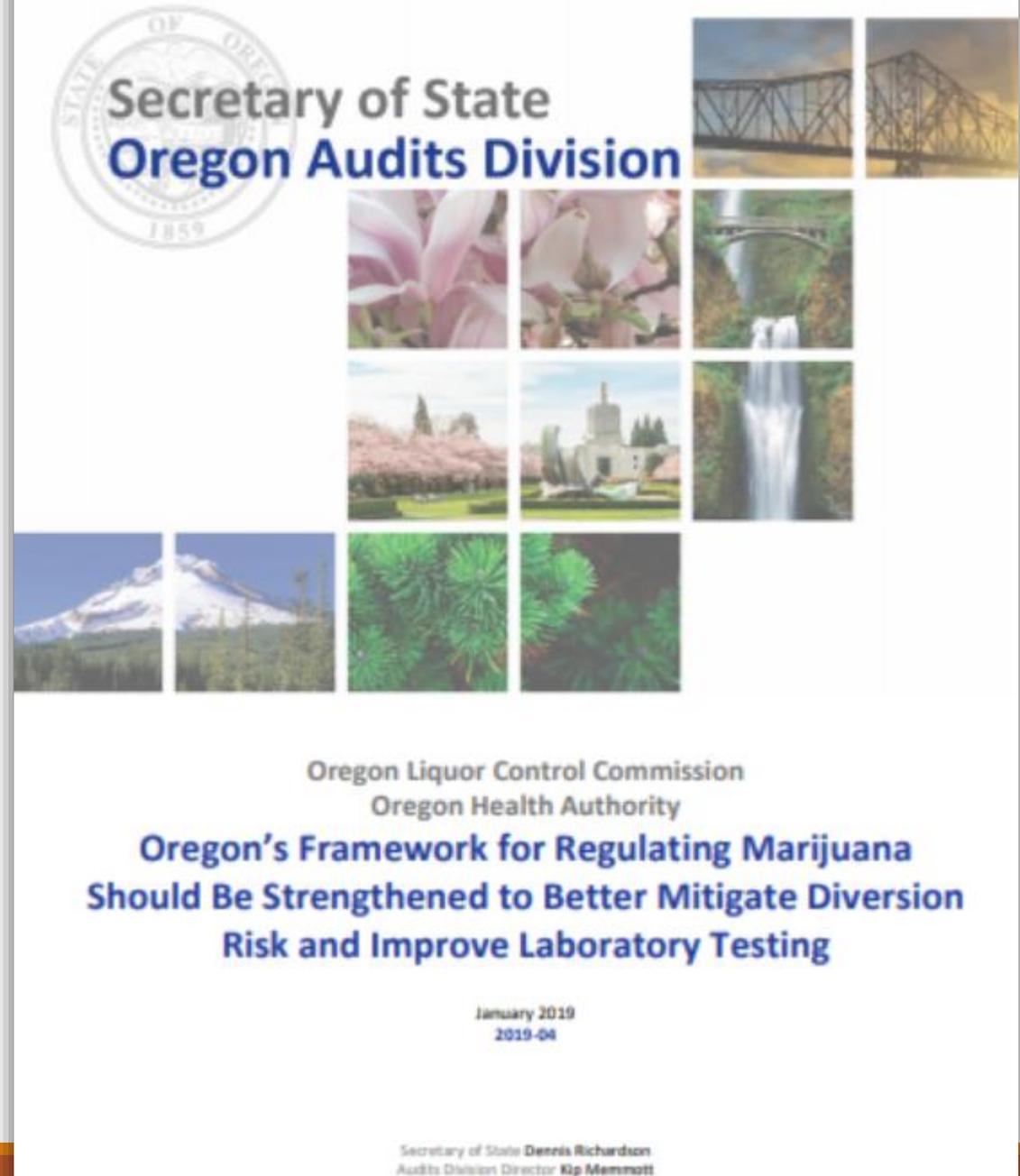
**Panic buttons** or the equivalent to call for emergency services

Marijuana items stored in **locked/secure** locations at all times



# MARIJUANA PROGRAM OREGON SECRETARY OF STATE AUDIT

- Released January 2019
- Multi-Agency Audit
  - Oregon Liquor Control Commission (OLCC)
  - Oregon Health Authority (OHA)
  - Oregon Environmental Laboratory Accreditation Program (ORELAP)
- 8 recommendations (out of 23 total) to OLCC



# MARIJUANA PROGRAM

## SECRETARY OF STATE RECOMMENDATIONS TO OLCC

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- **Improve data controls** within Cannabis Tracking System (automatic checks to prevent entry errors)
- **Develop baselines, dashboards,** and other data monitoring practices
- **Establish inspection frequency goals and metrics** and determine how many inspectors are needed to meet those goals. If the current number of inspectors is too low, work with the legislature to identify additional funding options.
- Work with the Legislature to **review its licensing fees** for marijuana businesses and consider whether licensing fees could be adjusted to support capacity building for the marijuana regulatory program.
- **Update test result** tracking requirements for subcontracted tests to ensure that results can be directly traced in Cannabis Tracking System to the lab that performed a specific test.
- Require that all **marijuana certificates of analysis be stored in the Cannabis Tracking System (CTS)**, where they can be reconciled with the reported lab test results.
- Examine whether requiring **lab staff to obtain OLCC worker permits** would increase lab accountability.
- Work with ORELAP and the Legislature to ensure **appropriate and sufficient staff** coverage to better **monitor lab practices and review test result data.**

# MARIJUANA PROGRAM

## CURRENT OLCC STAFFING LEVELS

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### Recreational Marijuana Positions within the OLCC

- 23 Regulatory Specialists
- 13 License Investigators
- 16 License Process Technicians Positions
- 7 Policy Analyst, Data Analyst and Communication Positions

59 Recreational Marijuana Positions Total

### Medical Marijuana Positions within the OLCC

- 16 Regulatory Specialists
- 7 Policy Analyst, Data Analyst, Management and Technician positions

23 Medical Marijuana Positions Total

# OLCC RECREATIONAL MARIJUANA COMPLIANCE INSPECTIONS AND OUTCOMES

OLCC utilizes a three-legged stool approach to compliance:

▲ CTS tracking data ▲ Camera evidence ▲ On-site inspections

## Inspection Types:

- Minor Decoy Operations (retailers)
- Compliance investigations (all licensees)
- Alteration inspections (all licensees)
- Pre-license inspections (all licensees)
- Harvest inspections (producers)

Over **1,600**  
inspections in 2018

## Common violations:

- CTS Violations
  - Example: failing to enter data into CTS
- Failure to Maintain Security Recordings
  - Example: failing to maintain 90 days of recordings
- Use of license other than as the license permits
  - Example: transferring product to an unlicensed location

# MARIJUANA PROGRAM CANNABIS TRACKING SYSTEM AUTOMATED WARNINGS

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- OLCC sends out daily (informal) warnings on four potential violations:
  - Untested/Incomplete tested product sent to retail
  - Sales over daily limit
  - Sales over concentration limit
  - 45 day Harvest Lot Segregation
- OLCC has a staff of data analysts to help licensees resolve issues and educate them on how to avoid mistakes in the future
- Continuing violation patterns may lead to inspections and sanctions

# MARIJUANA PROGRAM OLCC SUPPLY AND DEMAND STUDY

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- Four marijuana systems for production and consumption in Oregon:
  - Recreational – licensed by OLCC
  - Medical – registered by OHA
  - Home Grow – four plants per household, marijuana can be legally gifted for no consideration
  - Illegal
- Supply and Demand Report only evaluates Recreational (OLCC) market

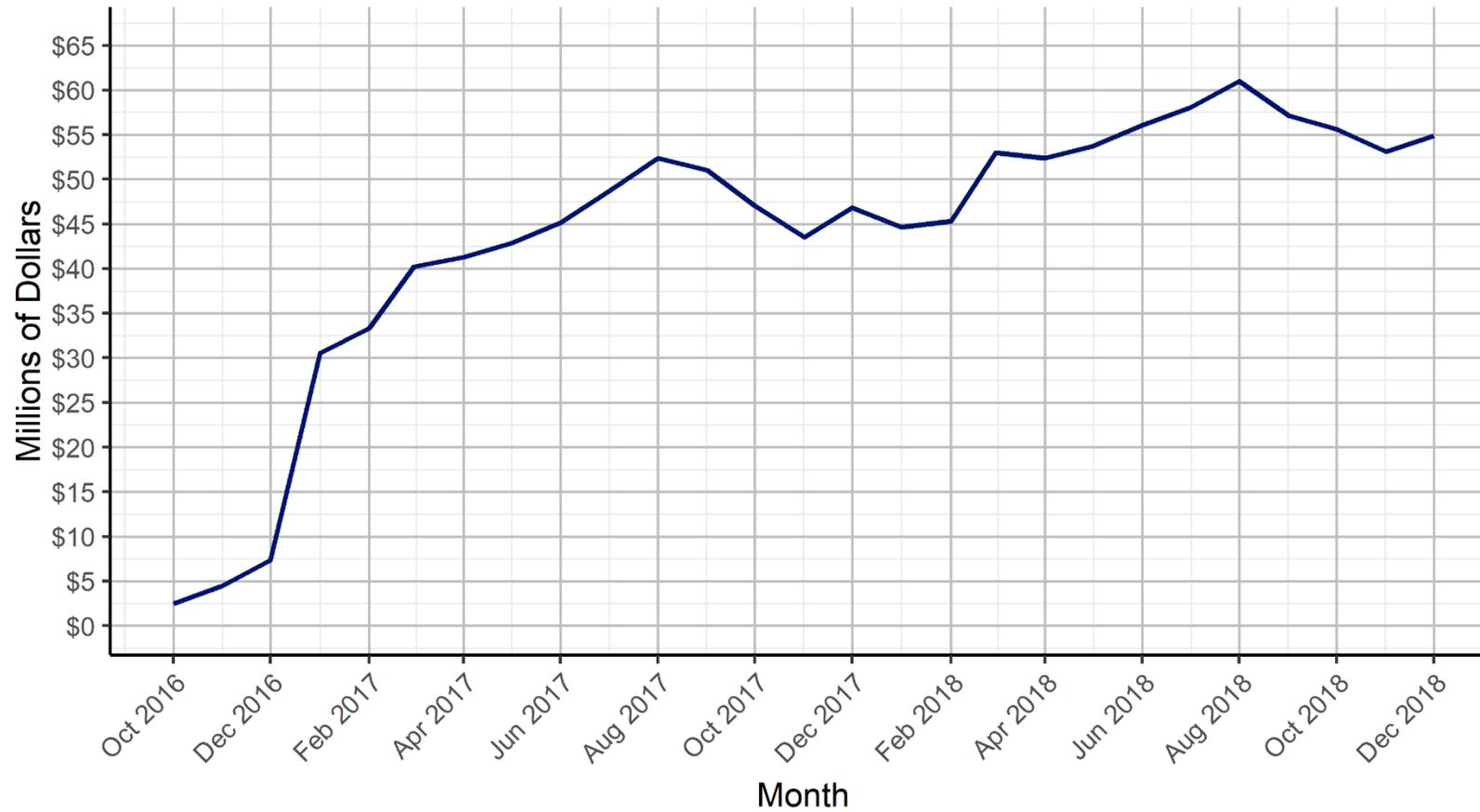
# MARIJUANA OLCC SUPPLY AND DEMAND STUDY

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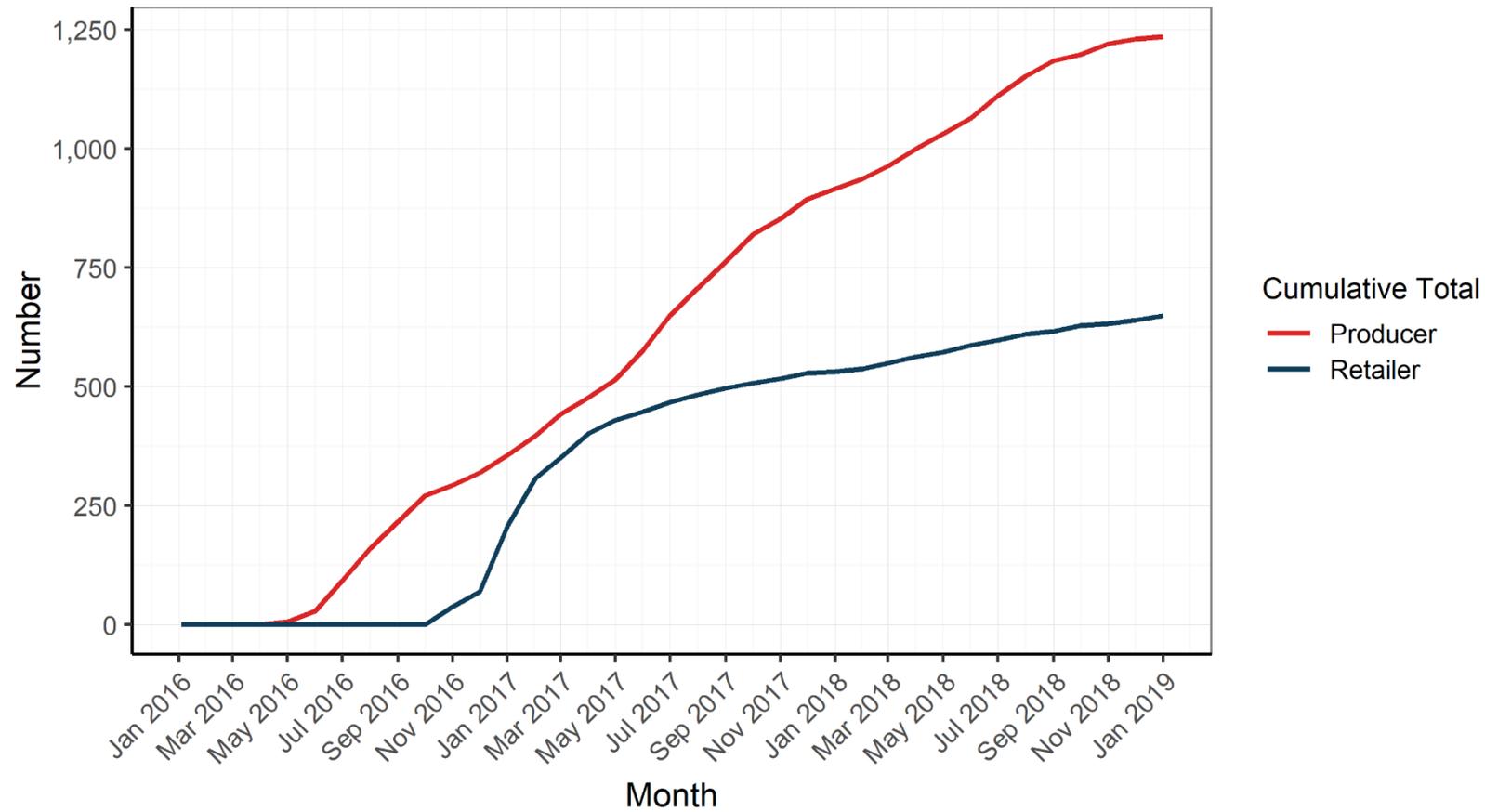
- Recreational market was intentionally created (via Measure 91 and subsequent legislation) as a free market with low barriers to entry
  - Major difference between Oregon and Washington/Colorado: Task in Oregon was to *transition* existing system of gray/illegal production into regulated market
- Market has been characterized by:
  - Unexpected level of exuberance for licenses
  - High levels of (seasonal) production
  - Declining prices (retail and wholesale)
  - Increasing sales and tax revenues
- Booming consumer market, price pressures for market operators

# OLCC SUPPLY AND DEMAND STUDY

## RECREATIONAL MARKET TRENDS – TOTAL DOLLARS SOLD



# OLCC SUPPLY AND DEMAND STUDY RECREATIONAL MARKET TRENDS – LICENSURE



# OLCC SUPPLY AND DEMAND STUDY

## BASIC FINDINGS

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- OLCC production represents 55% of all state 21+ consumption
  - Current annual OLCC market production could satisfy all adult demand in Oregon
- 4.2 million pounds wet weight production between July 2017 and June 2018
  - Wet weight production would rise to 8.6 million pounds if all pending Producer applications were approved
- Inventory levels continue to rise; as of January 1, 2019, OLCC market has theoretical supply of 6.5 years' worth of THC
- Prices (retail and wholesale) fallen by half
- Total sales and tax revenues continue to increase
- Booming consumer market, successful competition with illegal market; however increasing market pressure for licensees, potentially raising incentive for out-of-state diversion

# MARIJUANA PROGRAM ENHANCEMENT

## OLCC Policy Option Package #408 \$2,261,761

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### Overview

- The current ratio of Marijuana Regulatory Specialists to licensees is 1 to 100 statewide
- The issues in the recreational marijuana program are complex, time consuming to resolve, and often require additional analysis and inspections such as changes in ownership, business operations, physical footprints, camera coverage, potential diversion, and assisting law enforcement with illegal operations
- Testing laboratories test marijuana products for pesticides and other dangerous compounds that can taint the safety and quality of the product intended for human consumption

### Rationale

- Marijuana Regulatory Specialists are needed for proactive inspections, complaint investigation, focusing on prevention of diversion, and minor decoy operations which results in a backlog of addressing compliance needs of existing licensees
- An overlap between agencies overseeing testing laboratories require significant agency coordination between the Oregon Health Authority (OHA), Oregon Environmental Laboratory Accreditation Program (ORELAP), and Department of Agriculture to enforce standards for marijuana testing labs; agency expertise is needed in this area to enhance laboratory compliance

### Governor's Recommended Budget

- 8 Marijuana Regulatory Specialists – reduces ratio to 1 to 75 statewide
- 1 Laboratory Compliance Specialist 3 for marijuana testing laboratories

# AGENCY PROGRAMS OMMP TRACKING

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# OMMP TRACKING PROGRAM

## OLCC'S AUTHORITY

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### **OLCC Authority - ORS 475B.895(6)**

The commission may conduct **inspections and investigations of alleged violations of ORS 475B.785 to 475B.949** about which the commission obtains knowledge as a result of performing the commission's duties under this section. Notwithstanding ORS 475B.299, the commission may use regulatory specialists, as defined in ORS 471.001, to conduct the inspections and investigations, including inspections and investigations of marijuana grow sites located at a primary residence.

OMMP retains oversight of medical cardholders, caregivers, and growers not tracked in CTS

OLCC writes inspection report for OMMP Growers, Processors and Dispensaries tracked in CTS and forwards alleged violation to OMMP for adjudication

# OMMP TRACKING PROGRAM

## OLCC RESPONSIBILITIES

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- SB 1057 (2017) OMMP processors, dispensaries and grow sites that meet certain criteria (ex. grow for more than 2 patients) track inventory and transfers in CTS
- OLCC may perform inspections, the Oregon Health Authority (OHA) remains the agency responsible for enforcement and regulatory actions related to discovered violations.
- OLCC and OHA work together to achieve compliance with regulatory requirements through transparency, education, and thorough investigation.

### Current registrants who meet tracking criteria:

- 865 grow sites
- 5 dispensaries
- 3 processors

### Current inspections are based on:

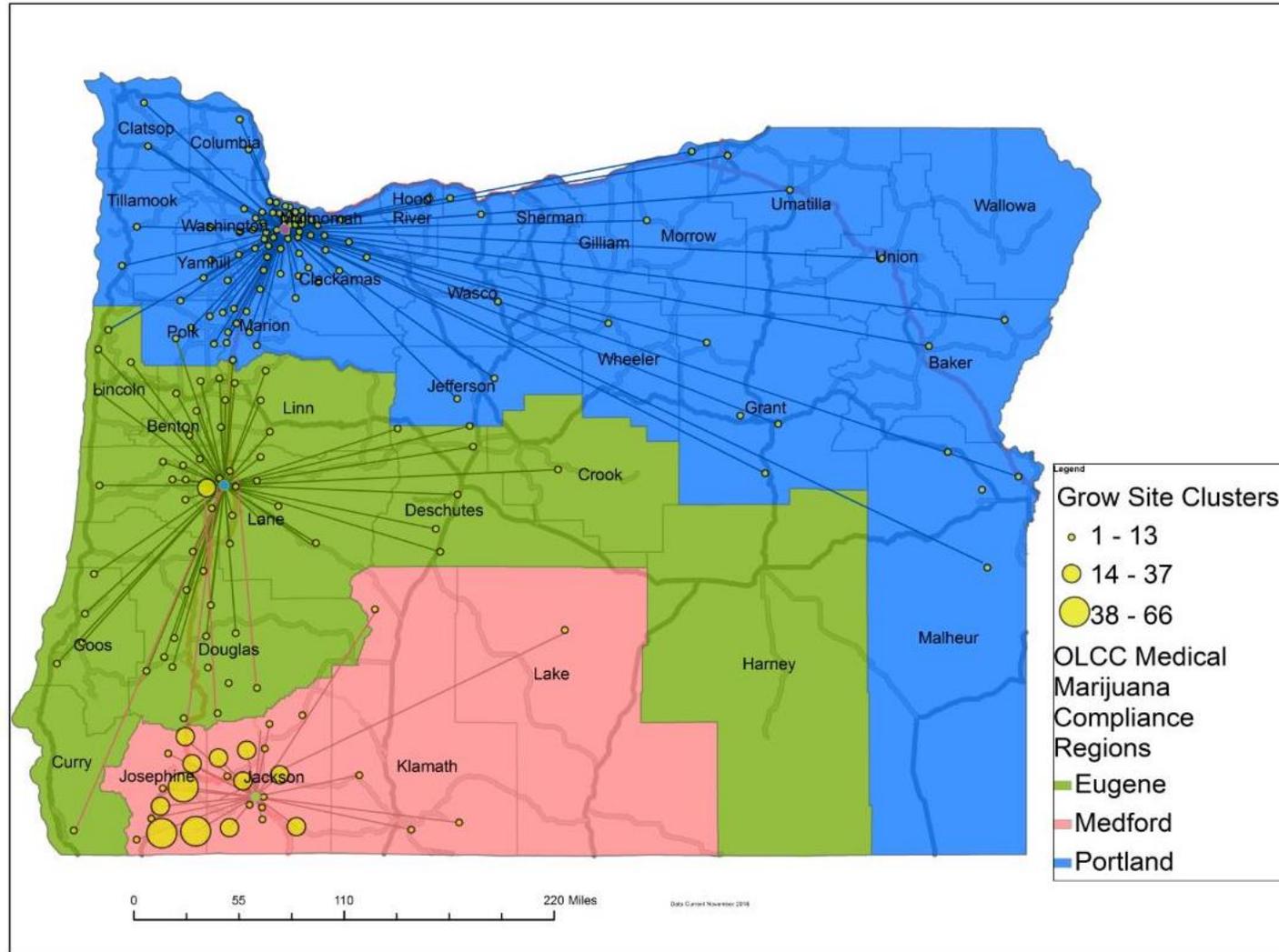
- CTS data abnormalities, or general lack of data entry
- Community complaints
- Proactive inspections

# OMMP GROWERS (2 inspectors on each inspection since grow sites are typically in homes or remote areas)

**Eugene Region**  
174 Sites

**Medford Region**  
491 Sites

**Metro Region**  
188 Sites

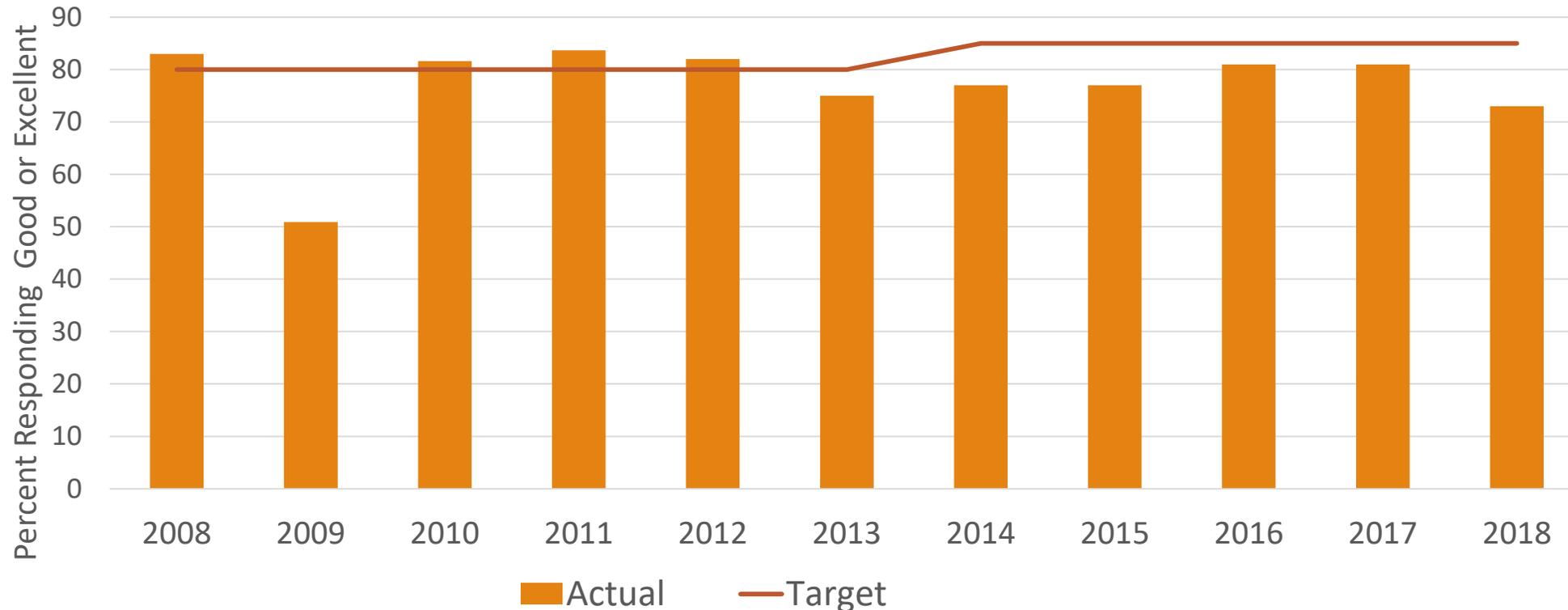


# KEY PERFORMANCE MEASUREMENTS

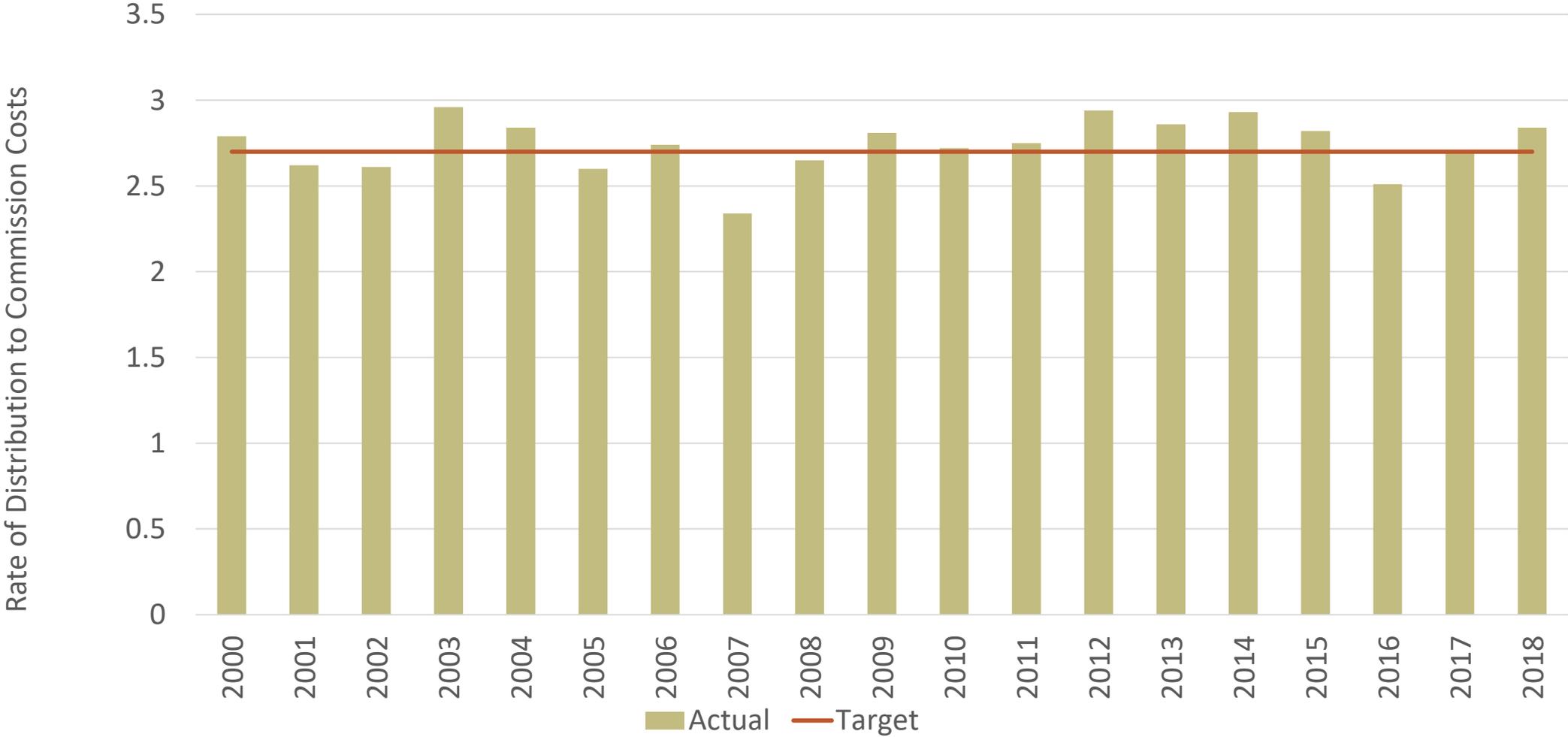
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# Customer Service Satisfaction Rates *KPM*

Customer Service Survey Overall Satisfaction Rates

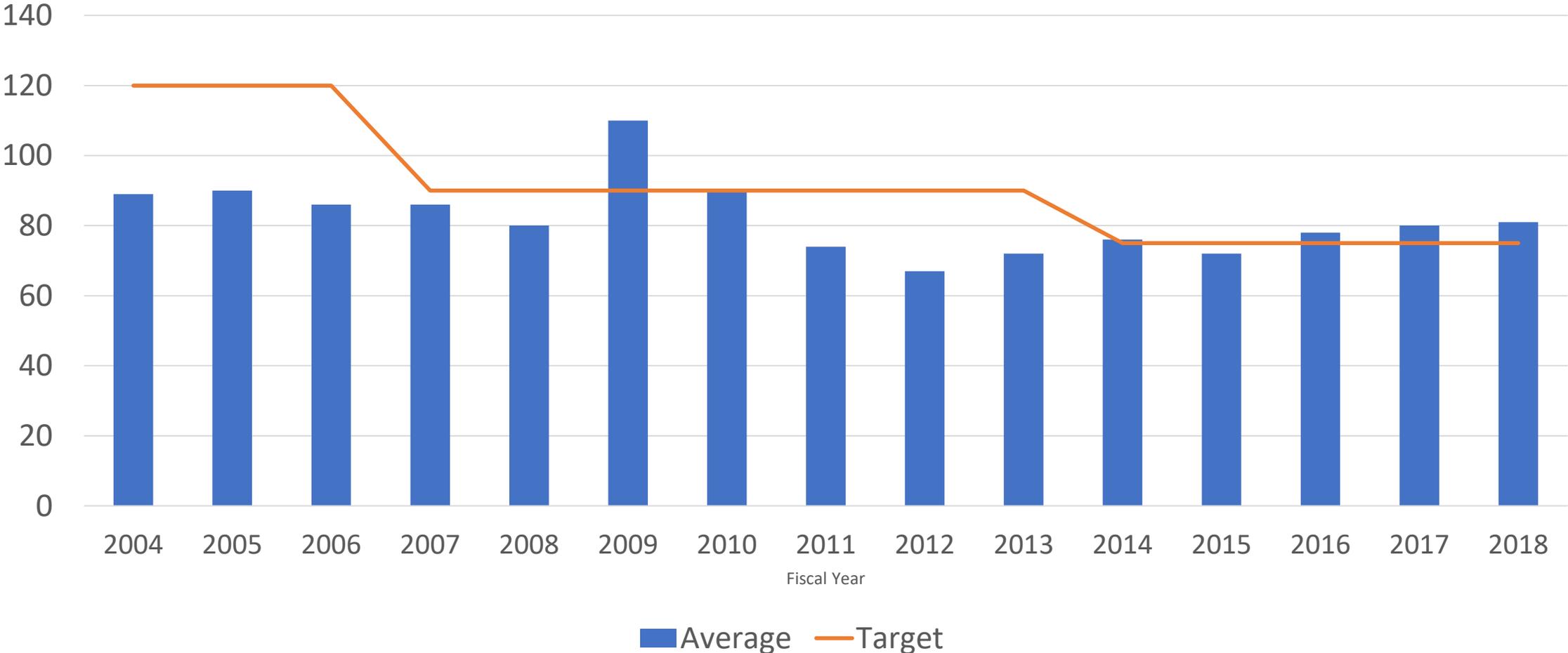


# Revenue Returned per Dollar Spent *KPM*



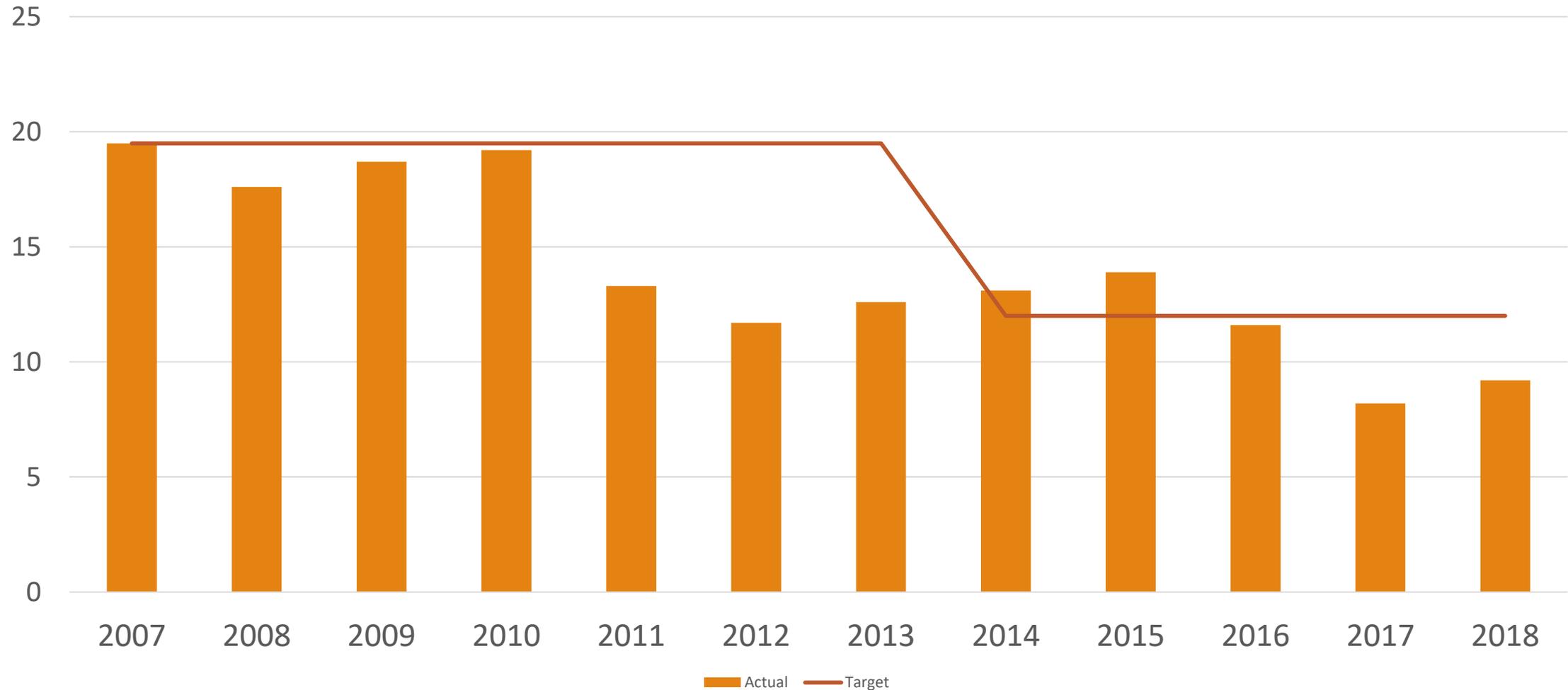
# Average Days to Process Alcohol License Applications *KPM*

Average Days to Process License

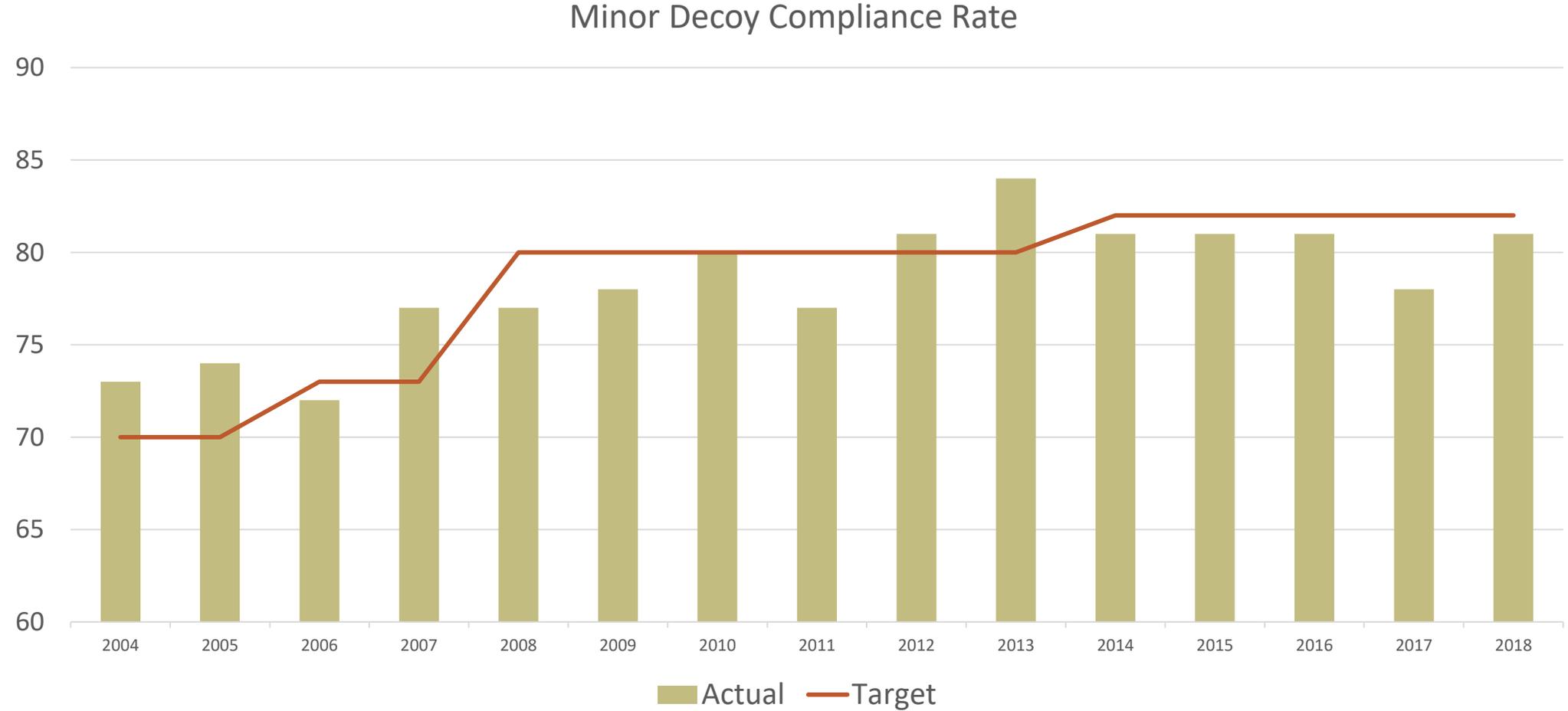


# Rate of Second Violation Alcohol *KPM*

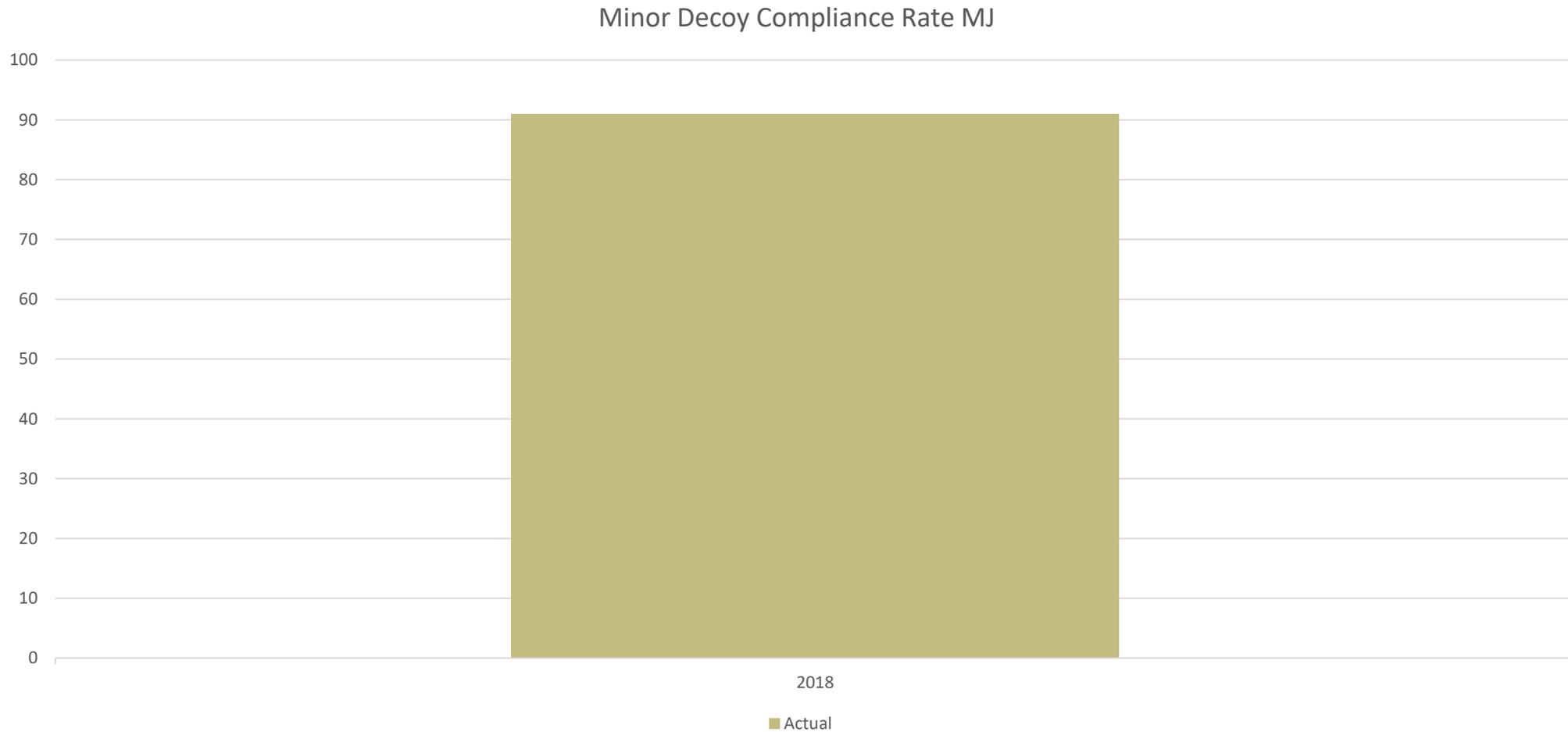
Percent of licensees that received a second violation within two years of the first.



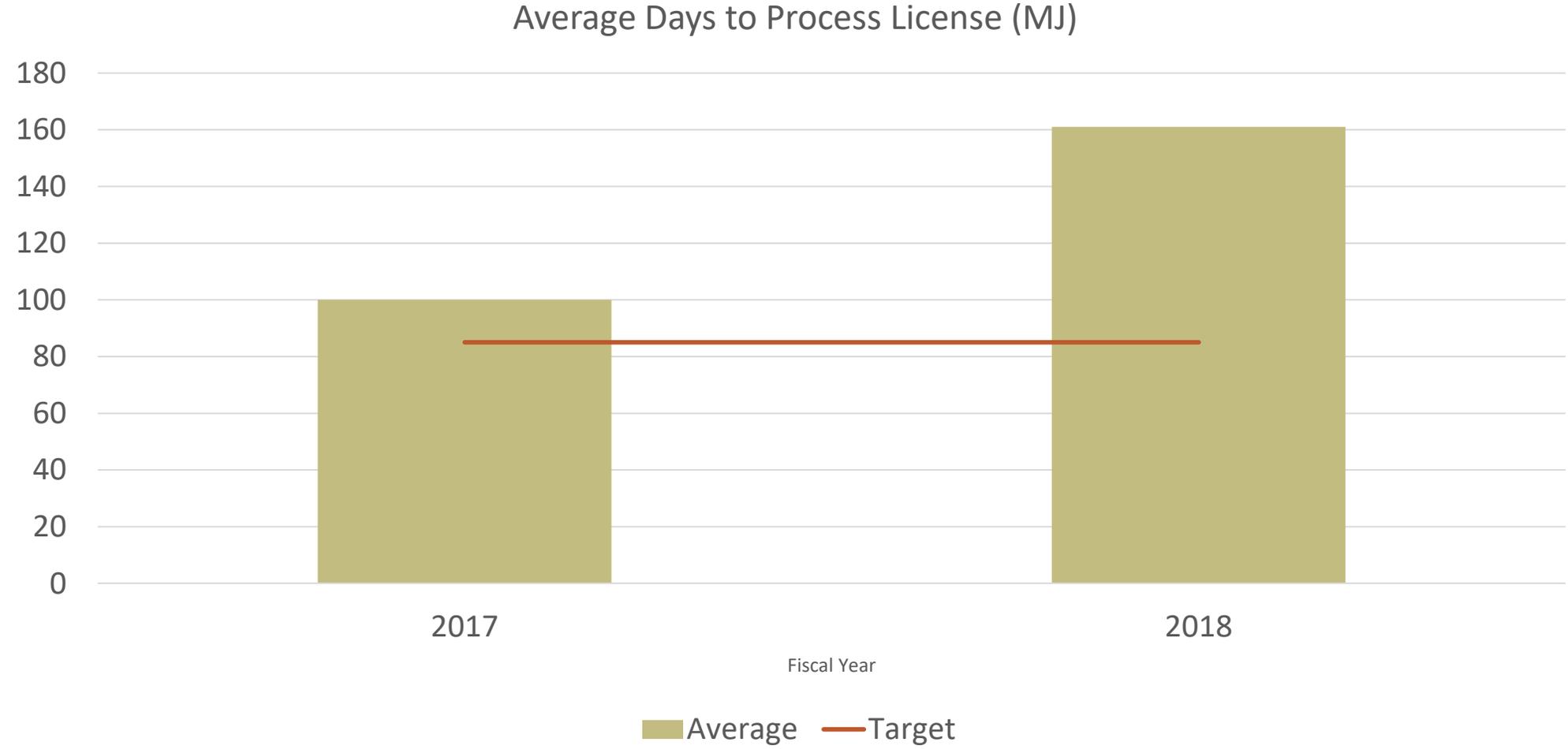
# Minor Decoy Compliance Rate Alcohol *KPM*



# Minor Decoy Compliance Rate Marijuana *KPM*



# Average Days to Process Marijuana License Applications *KPM*



# LEGISLATION

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# ALCOHOL LEGISLATION

## WINE LABELS (As of 3/5/19)

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### **SB 111 Wine Labels (OLCC authority) Oregon Wine Board**

- Statutorily increases OLCC's authority over wine labeling. Defines deceptively labeled or branded wine. Requires manufacturers of certain wines to provide annual statement of compliance. Makes violations not to exceed \$25,000. Requires OLCC to evaluate manufacturer compliance as of December 31, 2025 and report results to legislative assembly by September 15, 2026. Allows OLCC to enter into interstate agreements with agencies of other states for purpose of ensuring multistate enforcement of standards for wine consistent with standards of state where wine was produced.  
*(replaces SB 112, SB 412, SB 603, HB 2176, HB 2182, HB 2301)*

### **SB 591 Wine Labels (Unlawful trade practice) Oregon Wine Board**

- Makes violation of statutes or rules regarding minimum standards for wine, or branding or labeling requirements for wine, unlawful trade practice.

# ALCOHOL LEGISLATION

## WINE LABELS (As of 3/5/19)

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### **SB 829 Wine Labels (AVAs) Willamette Valley Wine Growers**

- Sets out requirements for labels listing American viticulture area in Oregon. Authorizes commission to adopt label rules. Requires commission to appoint advisory board. Requires commission to adopt rules establishing a penalty schedule. Requires commission to report to Legislative Assembly no later than September 15, 2020, regarding advisory committee recommendations and status of commission rule adoption proceedings.

### **SB 830 Wine Labels (Content requirements) Willamette Valley Wine Growers**

- Establishes content requirements for labels listing single grape variety. Requires commission to appoint advisory committee. Requires commission to adopt rules establishing penalty schedule. Requires commission to report to Legislative Assembly no later than September 15, 2020.

### **SB 831 Wine Labels (Content requirements) Willamette Valley Wine Growers**

- Requires that wine using or implying American viticulture area in Oregon as appellation of origin as source be produced entirely from grapes grown in that American viticulture area. Requires commission to appoint advisory committee. Requires commission to adopt rules establishing penalty schedule. Requires commission to report to interim committee of Legislative Assembly no later than September 15, 2020.

### **HB 3089 Wine Closures (use of plastic)**

- Prohibits persons engaged in bottling wine for commercial purposes from using using-use plastic wine closures to seal wine bottles. Allows Oregon Liquor Control Commission to impose civil penalty.

# ALCOHOL LEGISLATION (As of 3/5/19)

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## **SB 108**

- Directs OLCC to study liquor agent compensation for distillery tasting rooms and report to legislature by September 2, 2020

## **SB 246 (Agency Request)**

- Eliminates \$2.60 service permit fee for licensees and simplifies accounting

## **SB 248 (Agency Request)**

- Increases annual alcohol license fees charged by OLCC

## **SB 827**

- Allows brewery licensee or brewery-public house licensee to sell and dispense malt beverages at special event from mobile sources at nonfixed locations.

## **SB 849**

- Requires OLCC to obtain approval of Legislative Assembly prior to implementing increase in markup percentage used to calculate distilled liquor retail pricing or imposing surcharge for distilled liquor

## **HB 2523**

- Allows appointed agent or distillery retail outlet agent for OLCC to deliver distilled liquor to retail purchaser

## **HB 2527**

- Requires OLCC to prorate fee for brewery-public house license issued for less than one year.

# MARIJUANA LEGISLATION (As of 3/5/19)

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## **SB 218**

- Authorizes OLCC to refuse to issue marijuana production licenses based on market demand

## **SB 382**

- Removes 20 pound limit on transfer of usable marijuana from medical marijuana grow site to recreational marijuana processor or wholesaler

## **SB 582**

- Authorizes Governor to enter into agreement with another state for purpose of cross jurisdictional coordination and enforcement of marijuana related businesses

## **SB 585**

- Directs OLCC to establish Responsible Cannabis Retailer Program. Prohibits Commission from imposing discipline on marijuana retailer that participates in program

## **SB 639**

- Provides for regulation by OLCC of consumption and sale of marijuana items at temporary events. Allows for delivery of marijuana items to consumers at specified permanent and temporary residences. Allows marijuana processors and producers to offer tours.

# MARIJUANA LEGISLATION (As of 3/5/19)

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## **HB 2098-1**

- The Commission may not issue a license to or renew a license of a marijuana producer unless the producer provides proof to the Commission that the producer has contracted with a marijuana processor or a marijuana retailer to transfer at least 90 percent of the marijuana that the producer will produce. The Commission will suspend for not less than 30 days a marijuana retailer if the retailer has not paid the tax imposed or filed a return twice in any four consecutive quarters. If the tax is not paid at the conclusion of the suspension, the commission shall revoke the license.

## **HB 2233**

- Provides for consumption and sale of marijuana items at temporary events. Creates local option for cities and counties. Provides for regulation by Commission of consumption of marijuana items at cannabis lounges, including licensure of lounges.

## **HB 2723**

- Directs OLCC to develop internet-based system to enable ordering and delivery of cannabis for medical use to cardholders

## **HB 2909**

- Allows delivery of marijuana items, pursuant to bona fide orders, to consumers within city or county in which marijuana retailer is located and to consumers in cities or counties that have adopted ordinances allowing for delivery of marijuana items from adjacent cities or counties.

# BOTTLE BILL LEGISLATION (As of 3/5/19)

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## **SB 247 (Agency request)**

- Requires registration and fee for redemption Centers. Funding directed towards staffing for bottle bill activities (currently 1 person)

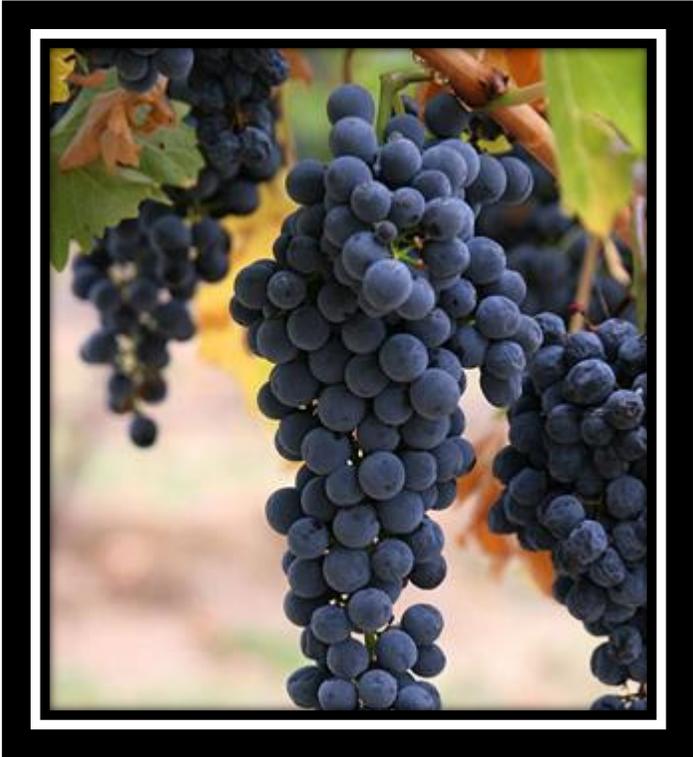
## **Additional Bottle Bill Legislation: (small dealers, # of containers, accounting for refund value, OLCC reporting to legislature, refunds from out of state):**

- **SB 93** Redemption centers are not recycling depots. Adds requirements for approval of redemption centers
- **SB 97** Establishes defense for small dealers because storage space was at capacity
- **SB 100** Reduces maximum number of containers returned by one person for dealers under 5,000 sq. feet
- **SB 515** Allows accounting mechanism by which persons may redeem refund value at a later date
- **SB 516** Requires OLCC to submit report to legislature relating to ratio of redemption centers to population
- **SB 522** Prohibits person from intentionally returning containers that were not sold in Oregon
- **SB 590** Limits space considered to be occupied by dealer for purpose of redeeming beverage containers
- **SB 582** Exempts containers that contain certain oral rehydration products from bottle bill provisions

# CHALLENGES

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# MOVING FORWARD

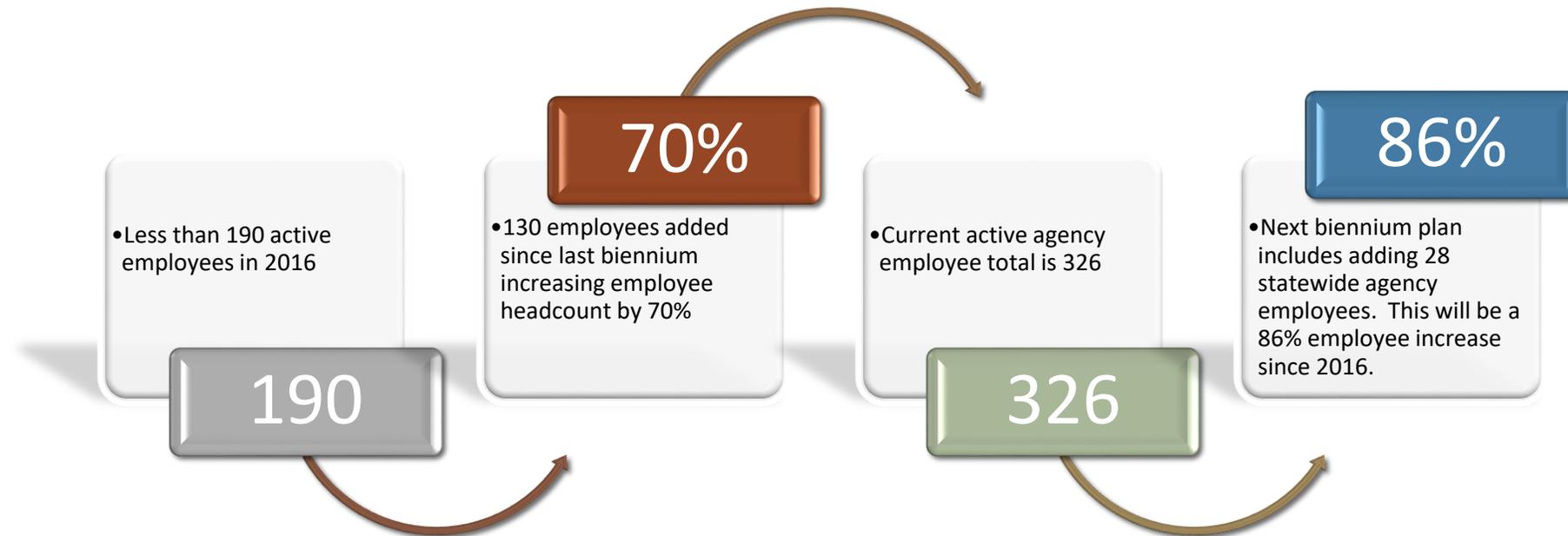


OREGON  
Bottle Bill

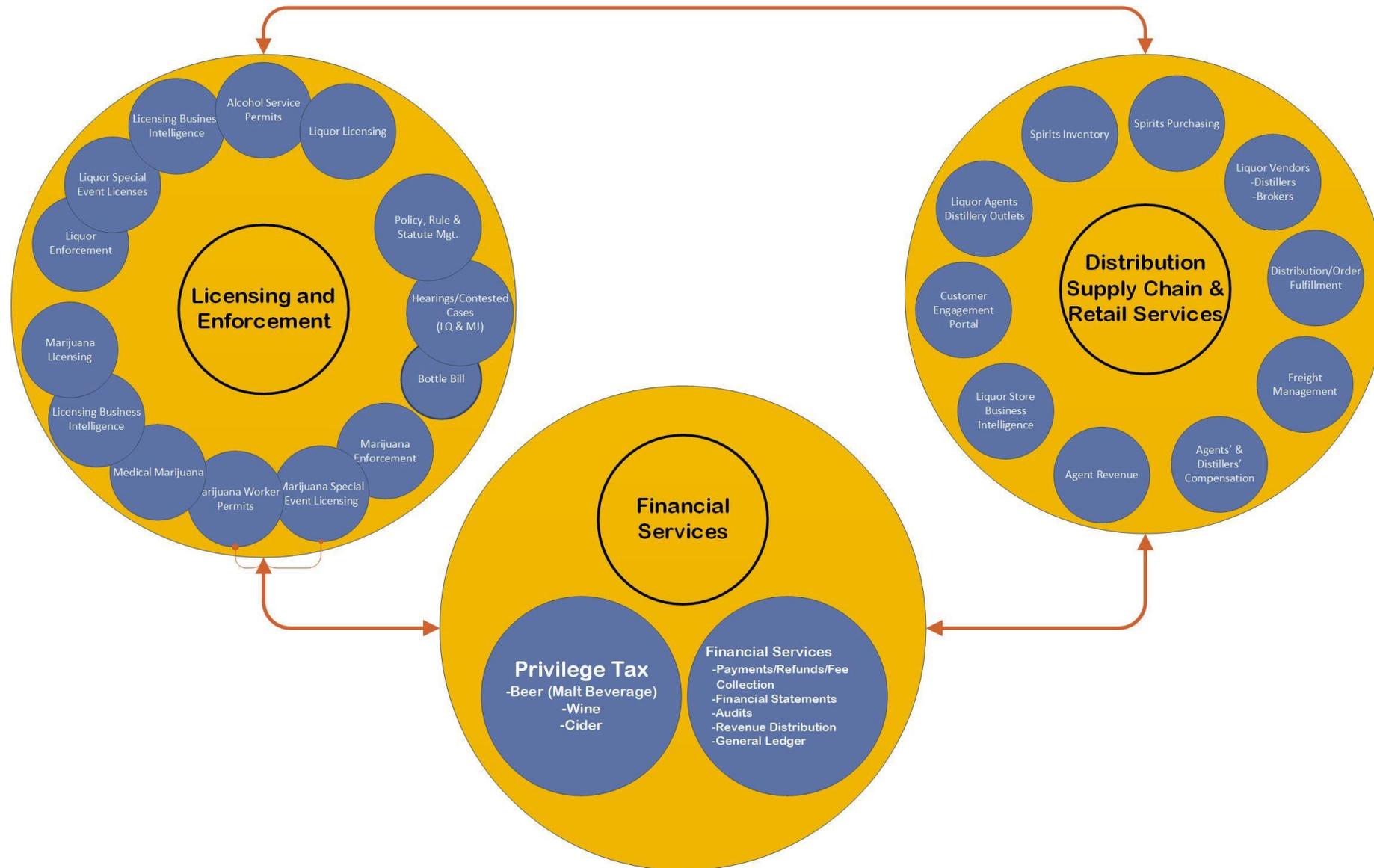


# WORKFORCE INCREASE

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# ENTERPRISE MODERNIZATION PLANNING



# OLCC'S MISSION

Support businesses, public safety,  
and community livability  
through education and the enforcement  
of liquor and marijuana laws.

