

# OREGON LIQUOR CONTROL COMMISSION

PHASE II PRESENTATION TO WAYS AND MEANS SUBCOMMITTEE  
ON TRANSPORTATION AND ECONOMIC DEVELOPMENT

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# AGENCY OVERVIEW



- OLCC is the third largest revenue-generating state agency
  - \$1.5 billion in gross sales from distilled spirits that supports Oregon's distilled spirits industry.
  - OLCC's distilled spirits warehouse and retail services operates on less than 1% of total revenue collected.
  - \$635 million from distilled spirits sales estimated to be distributed to the state's general fund, counties, cities, mental health and addiction treatment services 2019-21.
  - \$251 million in taxes projected to be collected from marijuana licenses 2019-21.
  - \$25 million collected in marijuana license fees that funds OLCC marijuana operations.

# EMERGING ISSUES

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- **IT Modernization RFP and Implementation**
- **Alcohol Service Permit Backlog**
- **Evolution of the Marijuana Enforcement Program**
- **Marijuana Caseload Increases in AP & P**
- **Human Resource Staffing**
- **Bottle Bill Compliance**
- **Facility Planning**
- **Auditing of Distillery Agents**
- **DAS Approved Reclassifications**

# IT MODERNIZATION AND IMPLEMENTATION PROBLEM STATEMENT

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- **In order to support commerce and revenues generated for the state over the next ten years, a major retooling/replacement of the agency's data systems is required to achieve long-term goals for high performance service delivery.**
- **The \$1.5 billion distilled spirits warehouse operates on a “spaghetti monster” of unsupported and outdated applications, which require daily manual interventions to maintain operations.** Without a replacement, the agency risks millions of dollars of lost revenue with a long-term outage.
- **The marijuana licensing system was implemented quickly to accommodate statute and accept online payments.** It does not have a functional renewal system and therefore, renewals are done outside the system. Additionally, the system lacks functionality to track license history or create an auditing trail. This creates a burden on staff to track this manually.
- **The liquor licensing manual process depends on antiquated document management system equipment that has long been discontinued and is a constant risk for failure.** OLCC is currently using the last access key (dongle) for this system purchased on EBay and cannot be replaced.



# MAJOR RISKS & CHALLENGES

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- **Legacy systems, built in mid-90s, siloed, unsupported, frequent break downs, and in some cases impossible to modify**
  - Distilled distribution system experiences critical system failures approximately once every two weeks and requires many manual interventions each day to keep it running.
  - Failure of systems threatens distribution and sales – revenue loss \$2.5 million per day.
  - System failures set back financial operations to pay manufacturers, freight, liquor agents as well as the ability to distribute revenue to the state, counties, and cities.
  - Liquor store audit information remains inaccurate for extended periods of time.
  - Inability to adjust pricing, add SKU's, provide product marketing, or manage inventory in real time.
- **Lack of online systems**
  - Manual paper processes in conjunction with hundreds of non-connected spreadsheets to perform key functions – alcohol licensing, privilege tax reporting and filing, alcohol and marijuana compliance.
- **Outgrown current marijuana licensing system**
  - 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.

# CRITICAL NEEDS FOR 2019-2021

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- Secure critical level of IT infrastructure and resources to support agency's current and future business operations
- Implementation of legislatively mandated online privilege tax system
- Replace failing distilled spirits supply chain system to secure revenue and accommodate growth in distilled spirits
- Provide modern technology tools for supporting retail liquor agents, vendors, and public
- Ensure continuity of business operations for marijuana and liquor licensing and compliance

# ENTERPRISE MODERNIZATION

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## Licensing and compliance:

- Accept online license applications, renewals, and payments
- Case management
- Enforcement tracking

## Distilled spirits supply chain:

- Warehouse management
- Liquor store order and fulfillment
- Liquor sales tracking

# DISTILLED SPIRITS SUPPLY CHAIN

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- The system is lacking cohesion between financial services, retail liquor stores, distillers, manufacturers, brokers, and transportation companies.
- Daily sales and inventory data is reported nightly through individual Point of Sale (POS) systems but is not recorded into OLCC's financial systems to reflect actual sales receipts for the day. Accurate sales data is only captured at the end of the month with paper receipts and deposit slips.
- Calculation of compensation to both vendors and liquor agents is another manual process. The manual process is subject to error and requires a re-reconciliation of payments.
- The agency experiences frequent system failures that result in loss of productivity, compromised data integrity, and a negative impact on stakeholders.
- Inflexible 25-year-old software prevents OLCC from providing electronic data and services to retailers and customers.

# DISTILLED SPIRITS SUPPLY CHAIN

## OLCC Distilled Spirits Supply Chain Project Cost Estimates +/- 50%

	FY 2020	FY 2021	Total Project Costs
<b>Staffing Costs</b>			
Contractor Professional Services (Planning & Integration Consultant)	\$125,000	\$125,000	<u>\$250,000</u>
<b>Software Costs</b>			
SW License	\$12,500	\$12,500	<u>\$25,000</u>
SW Yearly Maint / Support	\$0	\$0	<u>\$0</u>
<b>Other Costs</b>			
Software Implementation (Distilled Spirits Supply Chain)	\$1,250,000	\$1,250,000	<u>\$2,500,000</u>
Quality Assurance	\$125,000	\$125,000	<u>\$250,000</u>
<b>Total Costs</b>	<b>\$1,512,500</b>	<b>\$1,512,500</b>	<b>\$3,025,000</b>

### Timeline:

September 2019 - January 2023

# LICENSING AND COMPLIANCE

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## Liquor Program

- The agency lacks basic technology to support licensing or compliance of the 17,500 businesses that hold an OLCC liquor license.
- The agency is still using the same manual processes for liquor that have been in place for decades (paper forms and paid via cash, check, or money order).
- Business records are maintained on paper “history cards” stored in a Lektriever which are updated with correction tape and a typewriter.
- Document management for licensing and compliance poses a great risk as the system is severely out of date and unsupported. If it breaks, there is no way to fix it.

Lektriever for  
History Cards



Typewriter for  
History Cards



Image scanner  
for compliance  
documents.  
“Dongle”



# LICENSING AND COMPLIANCE

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## Marijuana Program

- Upon legalization of recreational marijuana, an online licensing system was implemented to enable businesses and employees in the marijuana industry to submit applications and make payments.
- Due to quick statutory deadlines, onboarding of initial program staff, rapid changes in law, and fluctuations within the market, the OLCC did not have the time, resources, or knowledge available to accurately predict or plan for the necessary requirements of a system to meet all the industry's future needs at inception.
- As the marijuana market has evolved, the demands upon the system have also changed
  - Number of licensees and permittees has grown exponentially, far exceeding initial estimates
  - Missing licensing and compliance case management functionality
  - Inadequate ability to renew licenses
  - Lack of auditing capabilities



Marijuana Renewal Clinic

# LICENSING AND COMPLIANCE

\*Total Budget Allocation Split 50/50 between Alcohol and Marijuana Programs

## OLCC Licensing and Compliance Project Cost Estimates +/- 50%

	FY 2020	FY 2021	Total Project Cost
<b>Staffing Costs</b>			
Contractor Professional Services (Planning & Integration Consultant)	\$125,000	\$125,000	<u>\$250,000</u>
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### Timeline:

September 2019 - September 2023

# PRIVILEGE TAX PROJECT

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- House Bill 2150 (HB2150), enacted during the 2017 legislative session, directs the OLCC to allow manufacturers or importing distributors of wine, cider or malt beverages to file required statements and pay privilege taxes by electronic means.
  - Currently all monthly tax reports and payments are a paper system.
  - The system will also provide auditing capabilities to ensure accurate collection of privilege tax.
  - An online privilege tax payment system was at the request of alcohol industry distributors and manufacturers.



# GRB POLICY OPTION PACKAGE # 301

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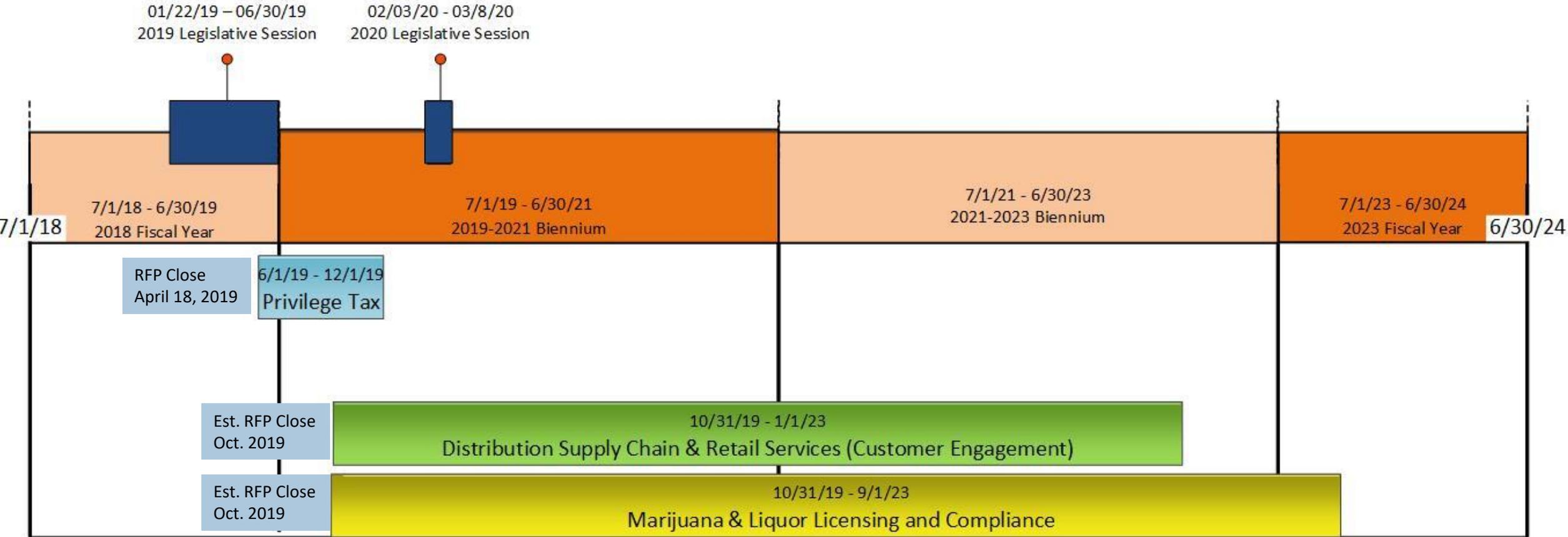
## **Governor's Recommended Budget:**

- The Governor allocated \$2.5 million in funding for the implementation of an online privilege tax reporting and payment system.
- The agency posted an RFP on February 22, 2019 which closes on April 18, 2019.

## **Timeline:**

- June 2019 - December 2019

# IT IMPLEMENTATION TIMELINE

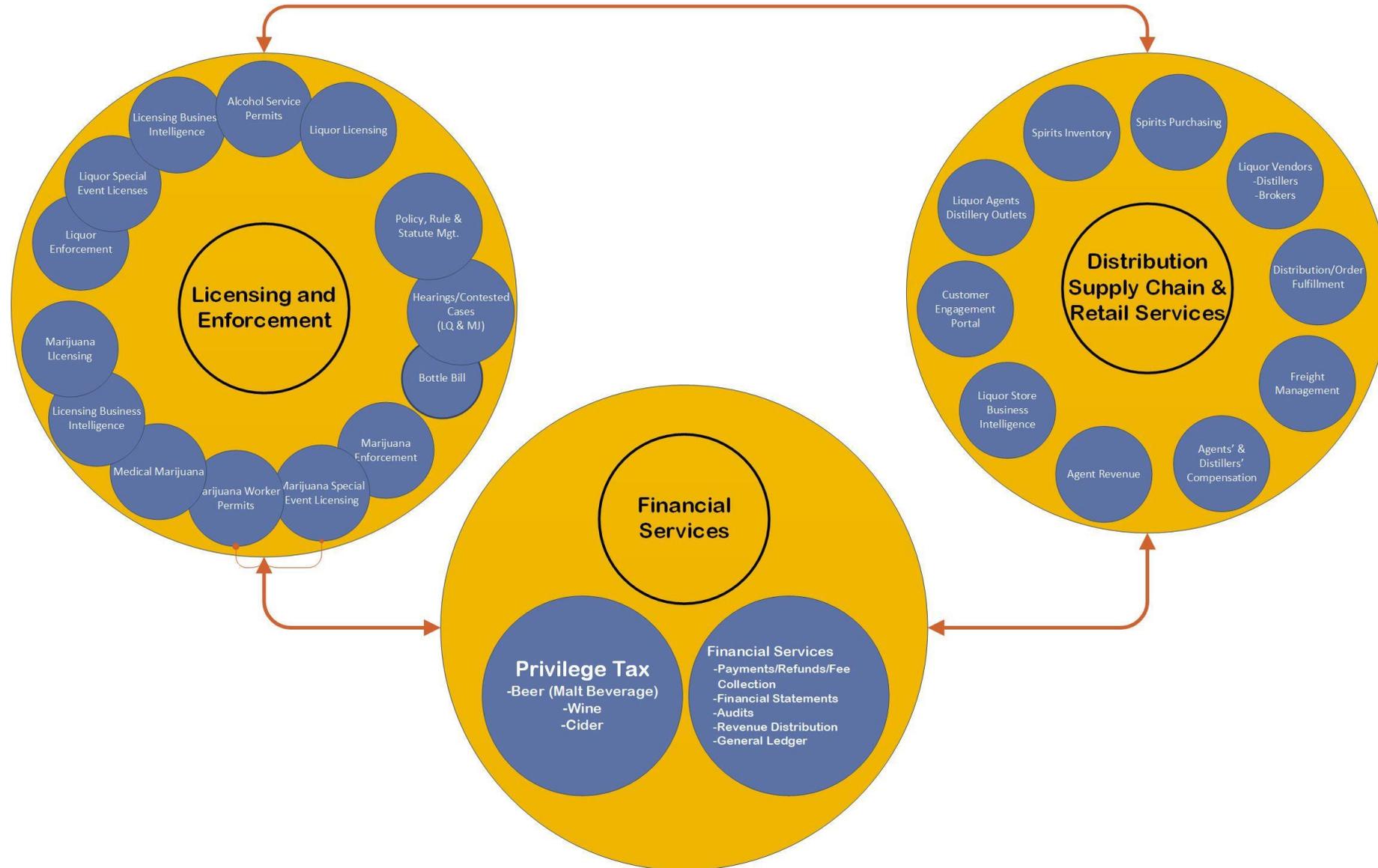


# PROJECT PLANNING HISTORY

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- **Privilege Tax Project Kick-off Meeting**
  - July 2017
- **Secretary of State Audit Findings**
  - February 2018
- **Privilege Tax RFP Kick-off Meeting**
  - March 29, 2018
- **CIO Hired**
  - May 6, 2018
- **Prioritization Matrix Submitted**
  - June 30, 2018
  - Privilege Tax included
- **Enterprise Modernization Portfolio Project Kick-off Meeting**
  - August 2, 2018
  - With OSCIO's Office (Ben G.)
- **POP 301 Submitted**
  - August 18, 2018
  - Includes Privilege Tax, Enterprise Modernization, & Positions
- **Enterprise Modernization Stage Gate 1 Approval**
  - October 25, 2018
- **Privilege Tax Stage Gate 2 Approval**
  - February 20, 2019
- **Privilege Tax RFP Released**
  - February 22, 2019
- **Enterprise Modernization Portfolio RFP Kick-off Meeting**
  - March 4, 2019

# ENTERPRISE MODERNIZATION PLANNING



# ADDITIONAL ONGOING IT EFFORTS

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- Enterprise Technology Services infrastructure switchover
- Microsoft 365 G3 suite implementation
- Increased need for reporting to:
  - National Alcohol Beverage Association
  - Marijuana Industry
  - Service Permits/Worker Permits
  - Financial Services
- E-Government Project contracts (marijuana & service permit systems)
- Ongoing security requirements and audits
- Project Music phone/account maintenance
- Continued internal application support
- Help desk support and reporting support for 10 field offices (324 staff) and approx. 280 liquor stores
- Intranet and e-signage
- Document management
- Video evidence management



*4 additional staff will bring IT services to 1:17 ratio, still over statewide ratio*

## IT STAFFING

- Internal IT staff resource needs must be met to provide adequate agency support in order to ensure business continuity and achieve the goals laid out in this presentation.
- Agency workload has doubled with the addition of the marijuana program.
- IT staffing levels have remained the same.

Year	IT Staff	Agency Staff	% IT	Statewide %	OLCC Ratio	Statewide Ratio
1997	16	218	7.3%		1:13.6	
2005	16	207	7.7%		1:12.9	
2015	15	233	6.4%		1:15.5	
2019	16	326	4.9%	5.8%	1:20.3	1:17.2
2020 (GRB)	16	354	4.5%		1:22.1	

# STAFFING RESOURCE REQUESTS

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- Consequences of inadequate number of IT staff
  - Reliance on expensive outside contractors who come and go resulting in a patchwork agency IT ecosystem
  - Neglected IT project oversight
  - Security implications (audits)
  - Inadequate support for retail liquor agents and other partners
  - Lack of required documentation needed for state oversight/audits
  - Lack of staffing depth and bandwidth to adequately support agency
  - Limited support for regional offices



# STAFFING RESOURCE REQUESTS

**Database Administrator/Architect:** The Data Base Administrator/Architect will facilitate the agencies' ongoing data collection needs to provide reliable data for employees and external customers. The OLCC does not currently have a Data Base Administrator/Architect. As OLCC approaches the new development, a dedicated Database Architect/Administrator will be instrumental to the success of migrating the legacy data to the new systems. The state of OLCC's data varies widely.

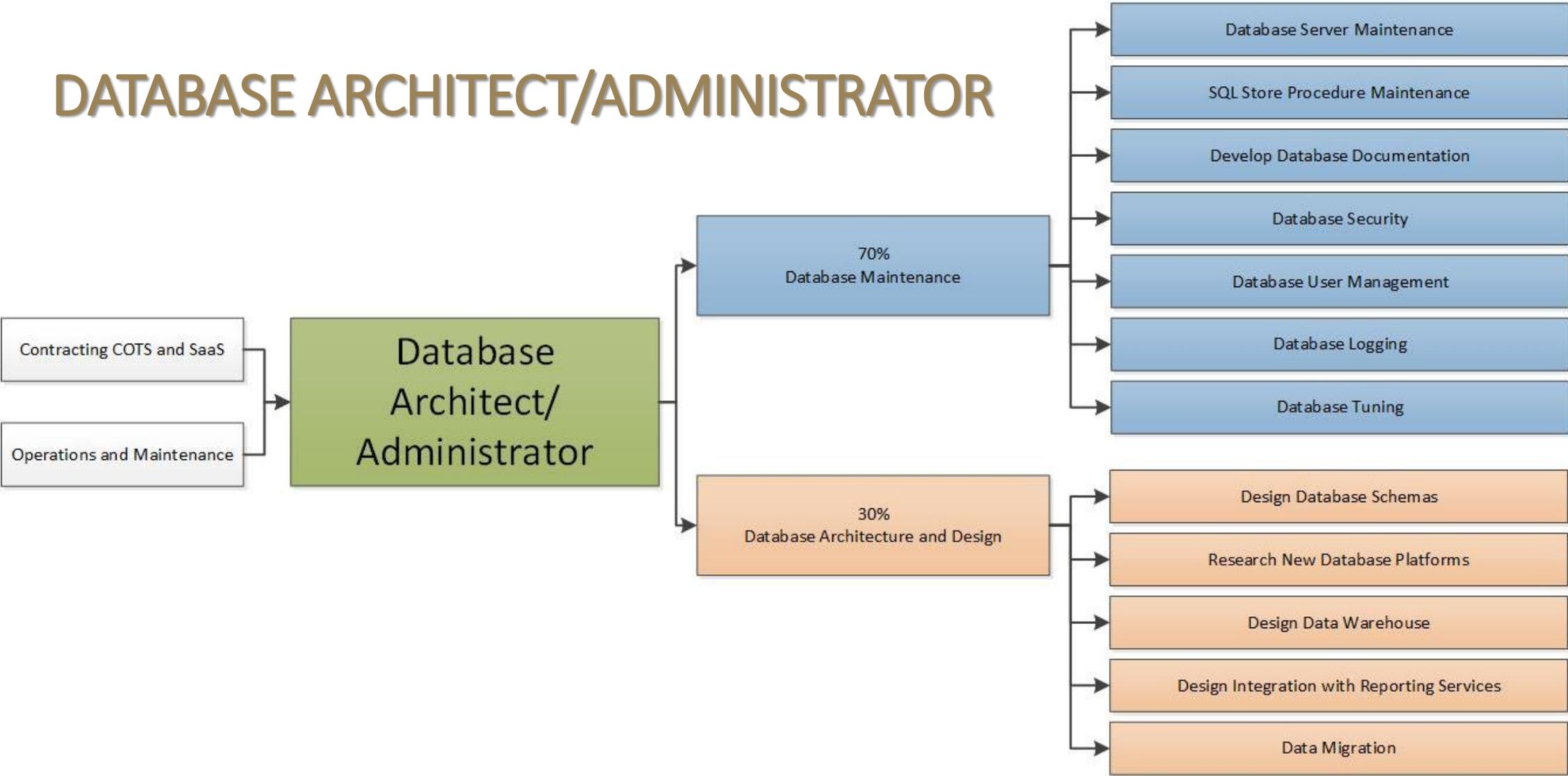
**Project Management & Business Analysis:** OLCC currently does not have a project manager and only has one business analyst. The Operations and Policy Analyst 4 is currently serving as project manager due to lack of staffing. The ongoing PM/BA workload consists of managing 11 existing bodies of work plus multiple large stage gate projects.

**Systems Developers:** Requested systems developers will be supporting ongoing reporting and data analysis activities as well as manage configuration for future system(s). These developers will supplement the existing staff to perform system integration, automation, configuration, and customization to ensure the best use of agency resources as well as ETL (extract, transform, & load).

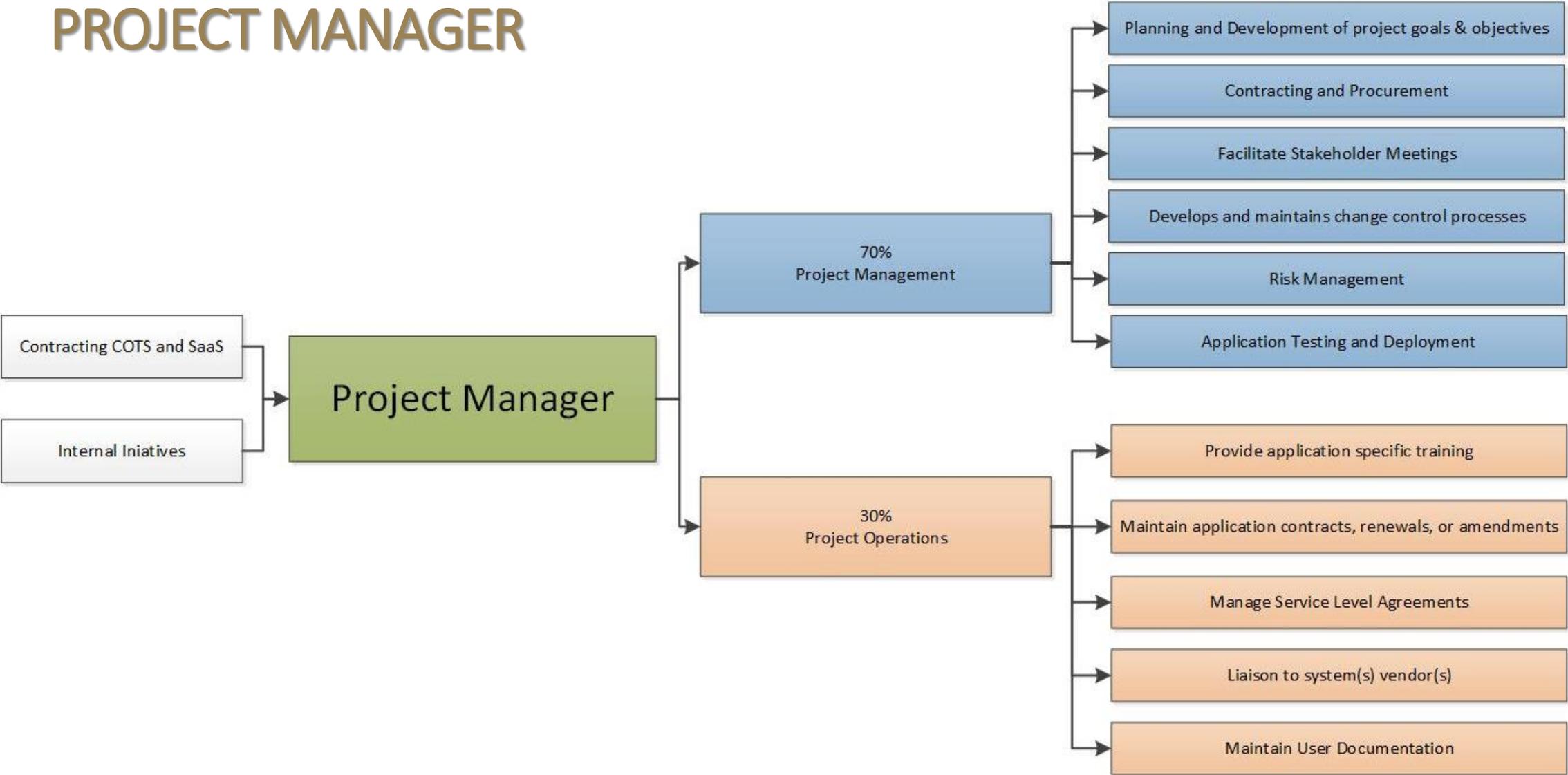
# STAFFING RESOURCE BUDGET

Resource Costs						
State Staff Position Description	# Staff	% FTE each Position	Biennial Rate	One time Costs	Ongoing Costs	Total
Data Base Administrator/Architect (33I)	1	1.00	\$230,847	\$10,462	\$23,368	\$264,677
Project Manager (31I)	1	1.00	\$214,838	\$10,462	\$23,368	\$248,668
PM/BA (31I)	1	1.00	\$214,838	\$10,462	\$23,368	\$248,668
Business Analyst (31I)	1	1.00	\$214,838	\$10,462	\$23,368	\$248,668
Systems Developers (31I) <i>onboard Nov. 2020</i>	3	0.33	\$214,838	\$10,462	\$23,368	\$246,181
<b>Total for Biennium</b>						<b>\$1,256,862</b>

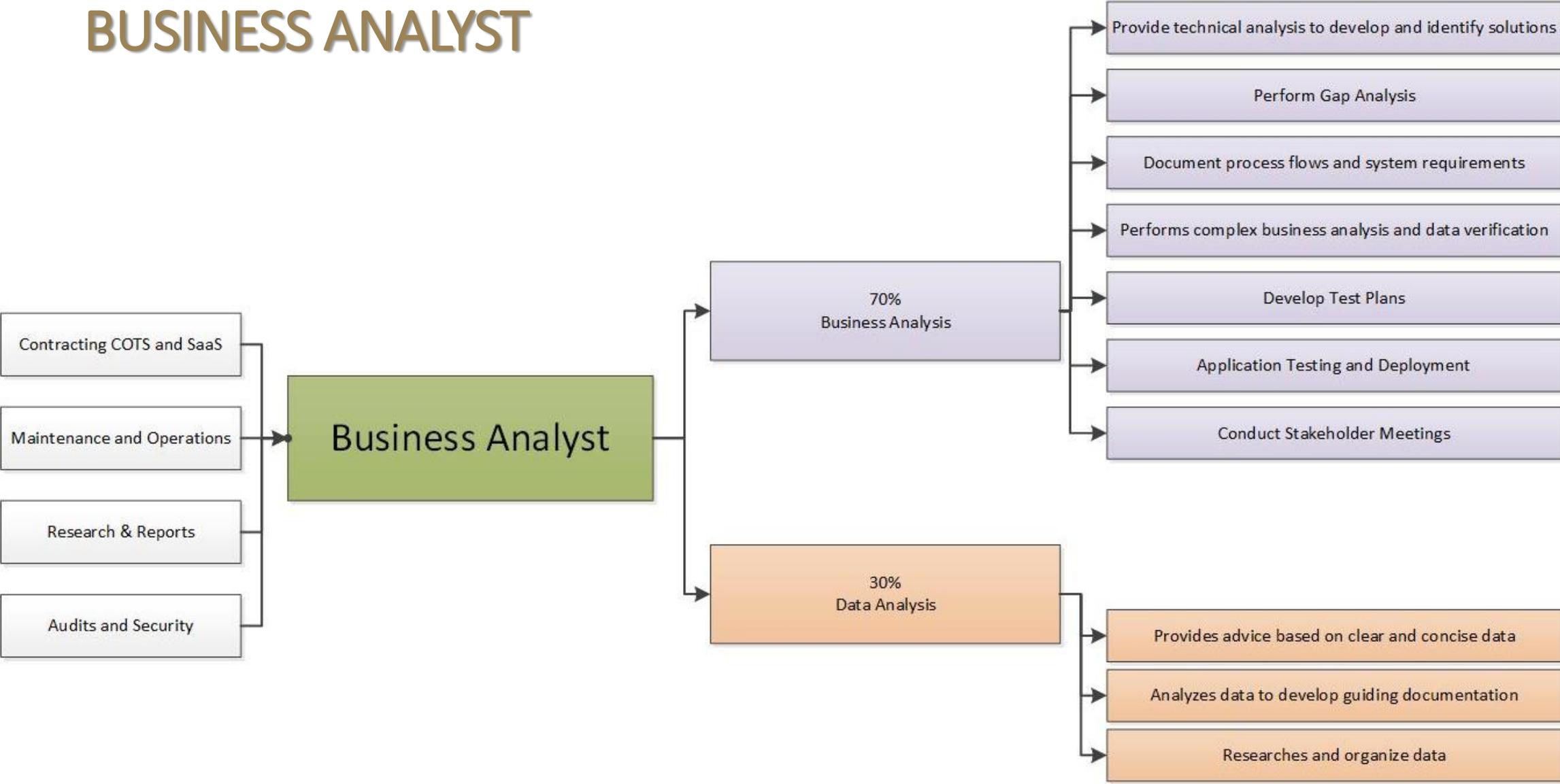
# DATABASE ARCHITECT/ADMINISTRATOR



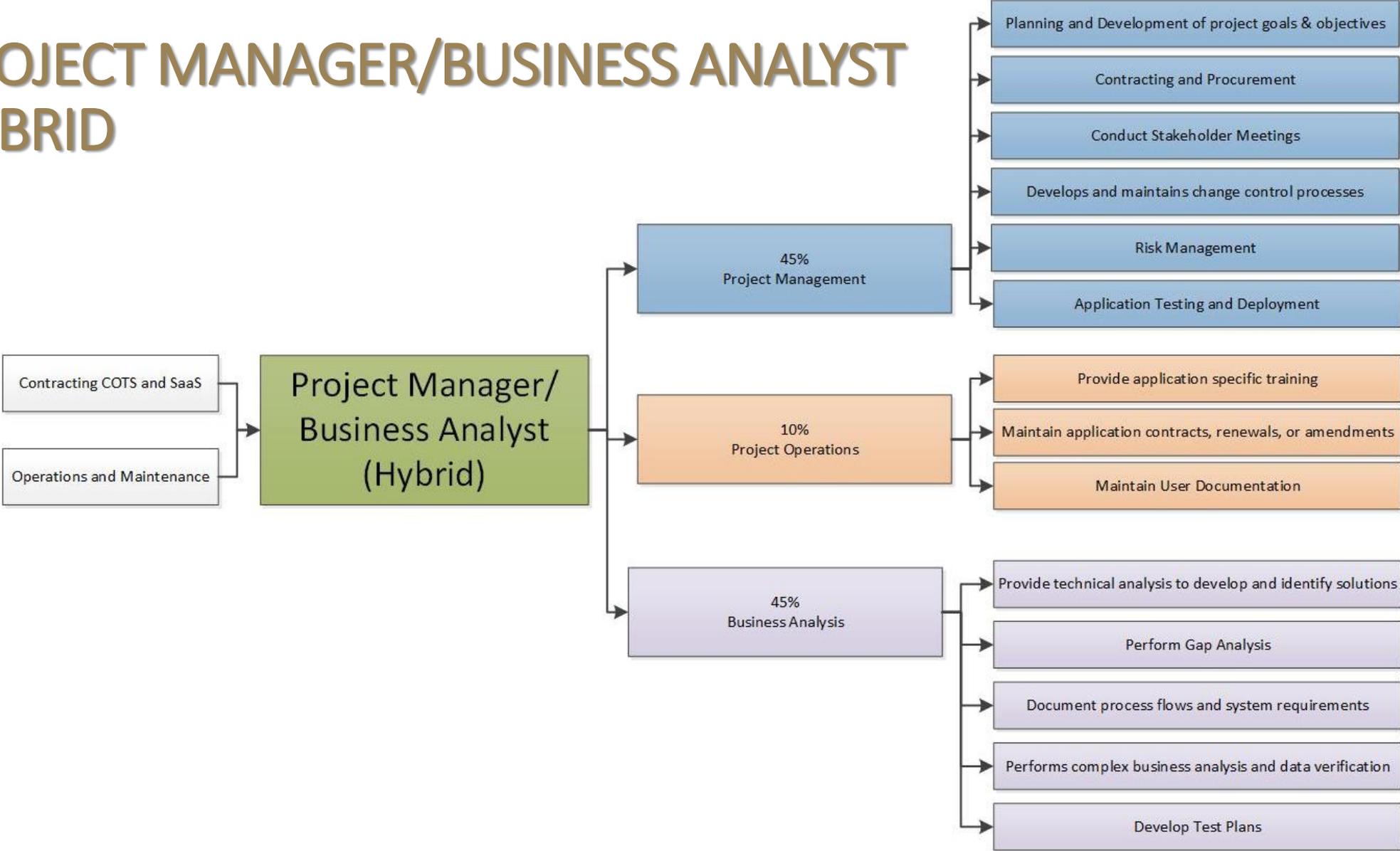
# PROJECT MANAGER



# BUSINESS ANALYST



# PROJECT MANAGER/BUSINESS ANALYST HYBRID



# IT MODERNIZATION SUMMARY

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- 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 & duplicate data entry
- Licensee and vendor selection, evaluation and oversight
- 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
- Increase data analysis and dissemination to improve warehouse efficiency
- Implement online privilege tax system

# ALCOHOL SERVICE PERMIT BACKLOG

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- **Current staffing: 1 permanent and 1 limited duration that ends in July**

Year	Active Service Permits	New Applications
1/1/2014	136,995	40,673
1/1/2015	143,551	42,074
1/1/2016	150,684	42,755
1/1/2017	161,354	41,587
Current	164,074	48,494

- **5,797 applications behind – 45 day temporary permit deadline**
  - Authorized 100 hours/month of overtime to work on new applications but have been losing ground since February
  - Not gaining ground
  - Not doing background checks
  - Not been able to validate all Alcohol Server Education Courses
- **Request**
  - 2 positions: 1 OS2 limited duration changed to permanent, 1 OS2 additional

# CTS MARIJUANA REGULATORY SPECIALISTS

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- **The evolution of the marijuana enforcement program and the creation of a data driven compliance process requires investigative staff to focus on CTS and camera data**
- **CTS Marijuana Regulatory Specialists**
  - Once a deviation is recognized, reviewing video and records and coordinating a complete investigation is almost impossible for the field regulatory specialists due to work load
  - CTS regulatory specialists will specialize in this time sensitive work
    - Identifying irregularities in CTS data
    - Reviewing lengthy videos once a violation is detected
    - Leading investigations and developing cases for violations
- **Request**
  - 2 Regulatory Specialists

# AP & P ACTIVE CASES FROM ENFORCEMENT ACTIVITIES – MORE COMING

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- **AP & P has total of 429 active cases (not including bottle bill); 5 case presenters**
- **329 cases assigned to case Presenters – average presenter active caseload is about 65 cases**
  - 161 marijuana cases (marijuana cases are generally more complex)
  - 128 liquor cases
  - 30 marijuana worker permit denials
  - 10 alcohol service permit denials
- **100 cases yet to be logged and assigned – average presenter caseload to increase to 85 cases**
  - 35 marijuana violation cases
  - 42 liquor violation cases
  - 17 marijuana worker permit denials
  - 6 alcohol service permit denials
- **Request**
  - 2 CS 3 Case Presenters for marijuana violations
  - 1 AS2 Administrative support for marijuana violations

# HUMAN RESOURCES STAFFING

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- HR staffing has not kept pace with growth in agency; ratio of HR positions to staff has risen significantly
- In addition to primary hiring, seasonal temp hiring and recruitment, as positions are filled internally it sets off a chain reaction of new openings throughout the agency
- Rising employee headcount increases on-boarding and departmental support to manage the workforce, including complex issues such as employee leave policies and collective bargaining

Year	HR Staff	Agency Staff	OLCC Ratio	Comparable Ratios
2015	4	233	1:58	
2019	4	326	1:82	DEQ 1:65, OHCS 1:42
2020 (GRB)	4	354	1:88	

# HUMAN RESOURCES STAFFING NEEDED

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- **Senior Human Resources Business Partner (HR Analyst 3)**
  - HR partnership with division managers and directors on strategic workforce and employee management that includes employee relations, employee onboarding and development, and supporting the recruiting process by partnering with the agency recruiter
  - Support training, employee engagement and retention, by developing employee capabilities to meet specific department/division needs and goals while staying compliant with regulations, policies and bargaining agreements
  - Provide high level HR counsel, tools and resources
  - Assist in the roll-out of programs, initiatives and strategies
    - Assist with safety, health, environment initiatives while partnering with the agency HR Leave analyst
- **Recruiter (HR Analyst 2)**
  - Currently recruitment is conducted ad hoc which in turn has displaced other HR functions and needs such as FMLA/OFLA management, employee training, class and compensation, bargaining resolution, employee relations, research, budget review and preparation
  - Source diverse and highly skilled candidates; coordinate representation at career fairs; post and manage job advertisements and announcements; scout qualified candidates and manage the staffing process including screening, interviews and hiring
  - Responsible for managing internal recruitment process such as lateral transfers, promotions, exiting employees, work-out-of-class, double filling, lead differentials, temporary work assignments and abiding by collective bargaining requirements
- **Request**
  - HR Analyst 3
  - HR Analyst 2

# BOTTLE BILL COMPLIANCE

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- **Oregon Bottle Bill touches most citizens in Oregon**
- **1 staff person; duties include:**
  - **Field complaints from dealers and customers** (issue violations, settle cases or present cases at administrative hearings)
  - **Ensure compliance with statutory requirements** (dealers, OBRC, distributors, manufacturers)
  - **Investigate and approve applications for redemption centers** (26 approved to date: post notices, respond to citizen input, analyze application, write investigation report and order, issue required notices to nonparticipating stores)
  - **Investigate and approve amendments to redemption centers** (30 approved in 2018)
- **Additional FTE would bring expanded/improved Bottle Bill service**
  - **Faster response to routine phone calls and e-mails; additional staff will likely cut response time in half**
    - 2016 – 164 complaints; 2017 – 395 complaints; 2018 – 881 complaints

# BOTTLE BILL COMPLIANCE

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- **With additional staff, Bottle Bill Compliance Specialist can focus on higher level tasks**
  - Outreach and education to citizens and licensees
  - Proactively contact new licensees to provide education on Bottle Bill requirements
  - Store visits
    - After visits to stores in Prineville/Madras and Coos Bay/North Bend areas, Klamath Falls, and Keizer, complaints dropped to zero
    - While Compliance Specialist is making store visits, staff can field calls and emails so they can be timely addressed
  - Develop and improve Bottle Bill Program practices to reach more businesses and improve compliance rates
  - Prepare training and guidance materials
  - Train OLCC staff statewide
- **Request**
  - 1 Administrative specialist 2

# FACILITY PLANNING FOR GROWTH

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- **Investments in Facilities**
  - \$5.02 million investment in conveyors and software – Able to meet demand and ship 751,000 more cases per biennium
  - Phase I Roofing Project - \$5.1 million, operational July 10, 2016
- **Agency requested Phase II of roofing project for 2019-21 biennium; further analysis shows that the Phase II portion of the roof can last up to 4 years with patching of the membrane**
- **Delaying Phase II allows additional time for capital construction and space planning**
  - Identify options to accommodate growth in licensing, enforcement and distribution including space utilization of headquarters, lease options, and potential need to expand distribution to other locations
  - Develop a capital investment plan to maximize operations and investments over the next decade
- **Request**
  - Phase II membrane patching - \$80,00 to \$100,000
  - Business analysis to identify options for continued growth in liquor distributions and staff (recommended by Capital Planning Advisory Board) - \$300,000

# DISTILLERY AGENT AUDITING

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Distillery Agents Sales for 2019-21 are expected to be \$17 million

- \$6 Million in profits forecast to be remitted to the agency for distribution to General Fund, Cities and Counties
- 98 Distillery agents reporting sales
- Distillery Agent sales and remittances to the state have grown at an annual rate of 18%
- Currently sales are reported and profits are remitted monthly
- Agents withhold their costs of goods and agents compensation

**Request:**

- 1 Accountant 2 for auditing; 1 Accounting Tech 2 for processing payments and record keeping

# RECLASSIFICATIONS TO MATCH DUTIES

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- **Key employees to OLCC's success have taken on new duties and responsibilities which require reclassification of their positions**
- **These reclassifications have been approved by DAS**
- **Request:**
  - Reclass Licensing Director to PEM-F (Approved by DAS HRO)
  - Reclass Admin Specialist 2 to Operations and Policy Analyst (Approved by DAS HRO)
  - Reclass OPA3 to Pem-D (Approved by DAS HRO)
  - Reclass Grounds Maintenance Worker (Approved by DAS HRO)
  - Reclass OPA 3 Represented to OPA 3 Management Service (Approved by DAS HRO)

# IT COSTS (Non-GRB)

Description	Alcohol Fees	Marijuana Fees	Total Project Request
Distilled Spirits Supply Chain Modernization	3,025,000		3,025,000
Licensing and Compliance Modernization	1,512,000	1,512,000	3,025,000
<b>Total Costs</b>	<b>4,537,000</b>	<b>1,512,000</b>	<b>6,050,000</b>

Description	Alcohol Fees	Marijuana Fees	Total Biennial Request
IT Staffing	628,500	628,500	1,257,000

*Number in (parenthesis) indicates proportion of total paid by marijuana funds*

# OTHER COSTS (Non-GRB)

Description	Alcohol Fees	Marijuana Fees
2 Marijuana Regulatory Specialists		508,740
2 AP & P Marijuana Case Presenters		452,882
1 AP & P Marijuana Admin. Support		172,317
1 HR Analyst 3 – Division Support (23%)	163,236	48,759
1 HR Analyst 2 – Recruiter (23%)	131,965	39,418
Position Reclasses Public Safety (34%)	32,513	16,749
Position Reclasses Administration (23%)	12,468	3,724
1 Accountant 2 Distillery Auditing	172,317	
1 Accounting Tech 2 Distillery Auditing	168,042	
2 Office Specialists for Service Permits	309,995	
Phase II Roof Membrane Patching	100,000	
Facilities Business Analysis (50%)	150,000	150,000
<b>Total</b>	<b>1,240,533</b>	<b>1,392,589</b>

# OLCC'S MISSION

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

