Liquor Agent Compensation

We understand that there are two concepts being brought in the 2020 session that would change how liquor sales agents are compensated.

- At roughly $80M per year liquor revenues are the second largest state shared revenue source for cities, behind the highway trust fund. Cities are preempted from levying their own taxes on liquor.
- We are uncertain of what the total revenue hit would be, but an estimate of between $15M and $20M per biennium seems likely. We assume 34% of this cost would be borne by cities and would grow with the industry.
- The League supports Oregon businesses, and cities have demonstrated this commitment through forgone revenue on property taxes and other economic development incentives.
- The notion that the state would decrease money going to cities (and by extension their police departments) in order to incentivize in-state liquor consumption is a tough sell, but we are trying to keep an open mind.

The first proposal (SB 1565) would decrease revenues going to local governments and the general fund by 28% on the first $250,000 in retail sales sold by a distillery out of a tasting room, by increasing agent compensation from 17% of retail to 45%.

- OLCC has indicated that the reduced revenue related to this change would amount to $3.5M per biennium. At $70,000 per tasting room per year (28% of $250K), the maximum revenue loss from the change would be $14M per biennium for the estimated 100 tasting rooms in Oregon. The difference between the OLCC estimate and the mathematical maximum is assumed to be attributed to not all tasting rooms doing $250,000 in sales.
- 2018 OLCC figures show 13% annual growth in distillery licenses over the prior five years, with Oregon distilleries representing 13% of total liquor sales. Since 2001 Oregon has gone from having 14 in-state distilleries to over 100. As revenues continue to grow so will the cost of the change in compensation.
- Because bottles sold out of a tasting room do not go through OLCC warehouses it makes sense that the cost of increased agent compensation could be borne by OLCC, but this does not appear to be part of the conversation. Cities will not have less work in terms of public safety, but OLCC will not touch these bottles.

We also understand that liquor store owners have been working with OLCC to increase agent compensation at their stores, especially in urban areas with higher business costs. There will not be a bill or administrative rule change, just a policy change at OLCC and a budget modification. Proponents have indicated the revenue loss would be $13.4M per biennium. This ongoing cost will grow with liquor revenues. Compensation was last increased by $3M in 2019.

The League is not opposed to increasing the amount of money going to liquor agents at either tasting rooms or traditional liquor stores. Our concerns are strictly related to the loss in revenue to local governments who are tasked with ensuring public safety. There are a variety of ways this could be addressed.

- If the state wanted to remain whole and still increase compensation to agents this could be accomplished through increasing the mark-up on bottles, either broadly or only on bottles sold through tasting rooms.
- The state currently levies a $0.50 per bottle surcharge that goes exclusively to the state, this surcharge could be increased with the difference going to agent compensation.
- Reducing the revenue loss could also be accomplished by giving a smaller incentive as a percentage, or having the incentive only apply for a set number of years, similar to most other economic development programs.
- If the state wanted to keep local governments whole this could be accomplished by changing the current distribution formula to increase the city and county shares.

Making a permanent change to how this industry is treated could have significant long-term revenue impacts for cities and caution is warranted.

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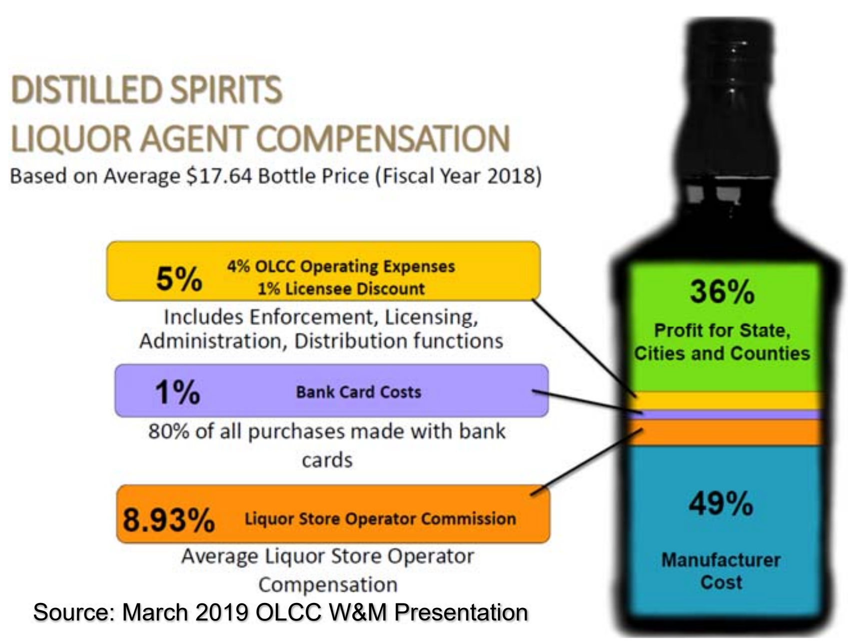

Source: March 2019 OLCC W&M Presentation