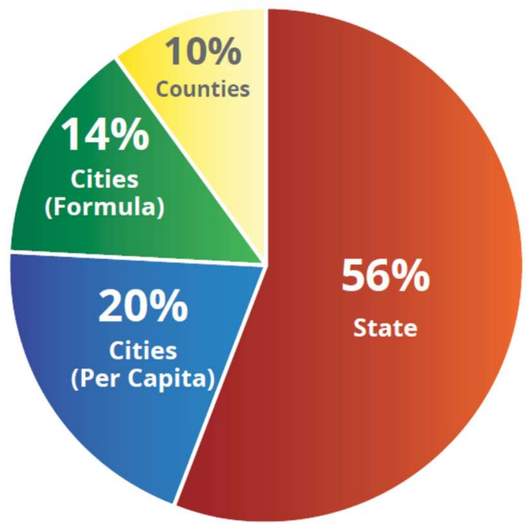
League of Oregon Cities

LOC Opposes -2 Amendment to HB 4149

The League of Oregon Cities appreciates the policy behind the base bill but must oppose the -2 amendment. The amendment would divert revenues that cities currently use to provide core city services and reduce the ability of city residents to prioritize spending in their communities.

- At roughly $80M per year revenues from the sale of alcohol are the second largest state shared revenue source for cities. Cities are preempted from levying their own taxes on beer, wine, or liquor.
- There are two other concepts this session, currently in Ways and Means, that would reduce liquor revenue. We are uncertain of what the total revenue hit would be, but an estimate of between $25M and $30M per biennium seems likely across the three concepts. We assume 34% of this cost would be borne by cities and would grow with the industry.
- Revenues from the sale of alcohol are an unrestricted revenue source; meaning cities have the flexibility to use this money for core city services like police, fire, parks, libraries, and community development.
- Changing how this money is used, even if it benefits cities, would take away local control from city budget committees and the public process whereby they decide spending priorities with input from local citizens.

Distribution of Alcohol Revenues



Our reading of the -2 amendment is that it would divert money that would otherwise go to the General Fund (56%), cities (34%), and counties (10%). This money would go OHA to carry out the Alcohol and Drug Policy Commission (ADPC) comprehensive plan. As written, the amount of money being diverted appears to be up to $10M per month. We understand that this may not have been the intent of the amendment but would oppose any change that would significantly reduce revenues going to cities.

The -2 amendment is being brought at the same time two other changes are being contemplated that would put pressures on this important revenue source.

- 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. As revenues continue to grow so will the cost of the change in compensation. 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. Agent compensation was last increased by $3M in 2019.

The League is not opposed to the policy behind any of these concepts. Our concern is strictly related to the loss in revenue to local governments. There are a variety of ways this could be addressed.

- If the state wanted to remain whole and still fund these other priorities this could be accomplished through increasing either the markup on liquor; or the tax on beer, wine, or cider.
- The state currently levies a $0.50 per bottle surcharge on liquor that goes exclusively to the state. This surcharge could be increased to fund legislative priorities without diverting local revenues.
- If the state wanted to keep local governments whole without increasing costs to consumers this could be accomplished by changing the current distribution formula for alcohol revenues to increase the city and county shares.

We appreciate the important work of the ADPC but constitutional limits on property taxes and state preemptions on many other revenue sources leave cities with limited options for funding essential city services. Making a permanent change to how revenues from the sale of alcohol are treated will have significant long-term revenue impacts for cities and caution is warranted.

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