

OREGON LIQUOR CONTROL COMMISSION

PRESENTATION TO WAYS AND MEANS SUBCOMMITTEE ON
TRANSPORTATION AND ECONOMIC DEVELOPMENT

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OLCC's Mission

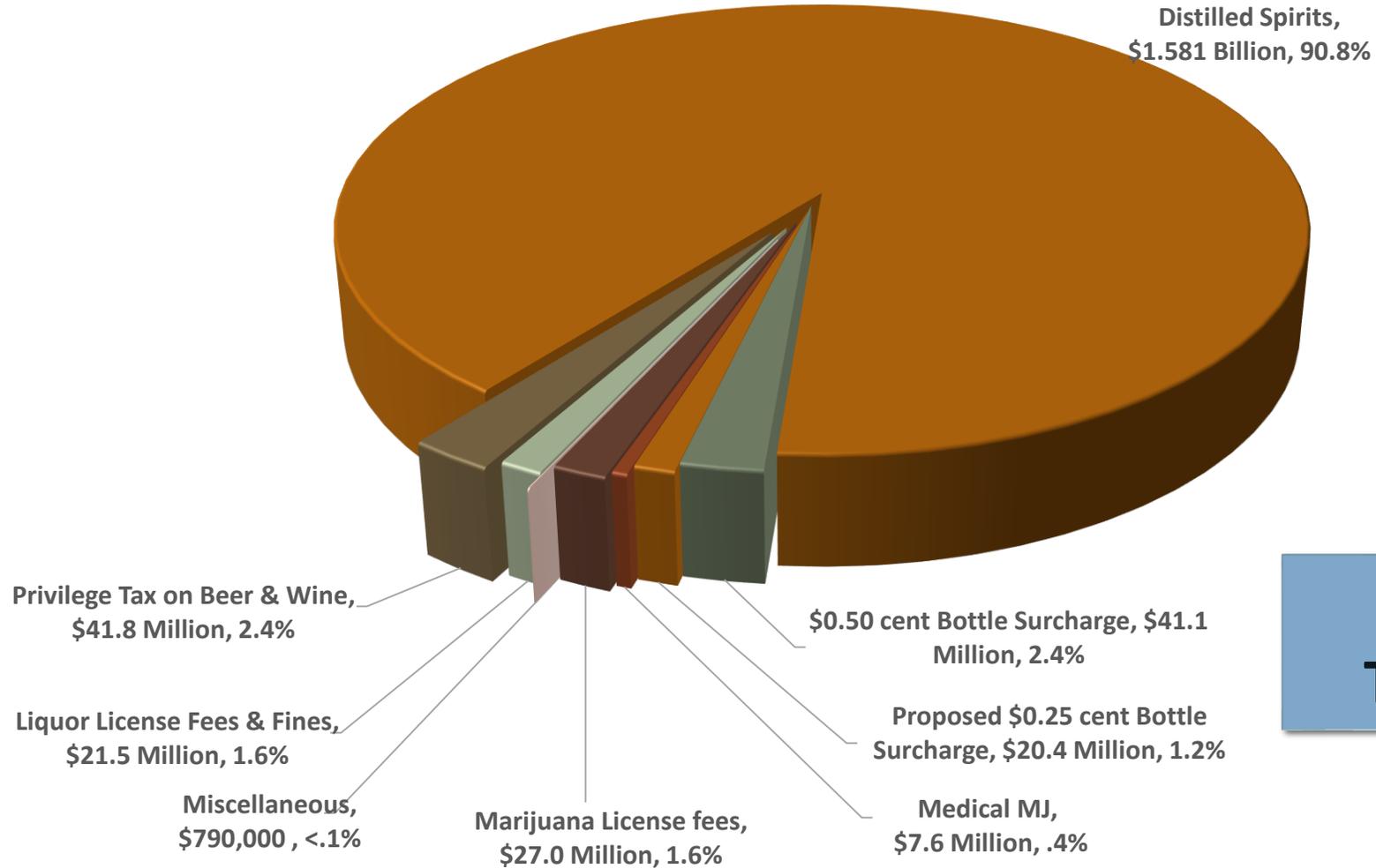
“Support businesses, public safety, and community livability through education and the enforcement of liquor and marijuana laws”

OVERVIEW

- **Third largest generator of public funds**
 - *2021-23 estimated \$656 million* in liquor revenue distributed to general fund, cities and counties
 - *2021-23 estimated \$319 million* in marijuana tax revenue distributed to drug treatment and recovery, schools, cities, counties, state police and mental health (December 2020 Forecast OEA)
- **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
 - License and regulate marijuana licensees and marijuana worker permits
 - Track and inspect OHA medical grow sites who grow for three or more medical cardholders, OHA processors and dispensaries
 - Tracks transfer of hemp and hemp products processed and sold by OLCC licensees
- **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

PROJECTED GROSS REVENUE SOURCES

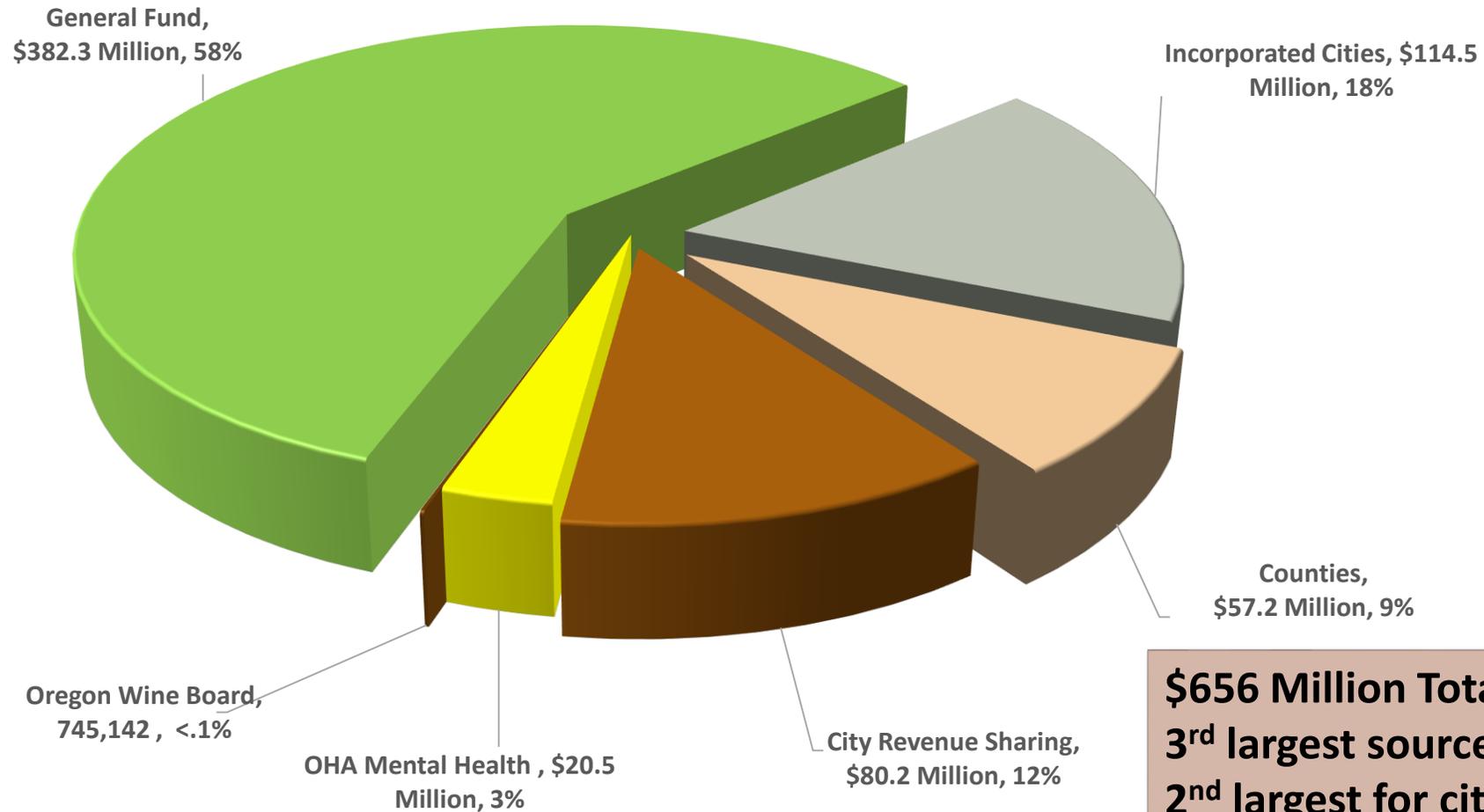
2021-23 GOVERNOR'S BUDGET



**\$1.742 Billion
Total Gross Revenue**

PROJECTED ALCOHOL NET REVENUE DISTRIBUTION

2021-23 GOVERNOR'S BUDGET - All Revenue Sources - Includes additional 25-cent Surcharge



\$656 Million Total Distributions
3rd largest source for general fund
2nd largest for cities and counties

AGENCY OVERVIEW

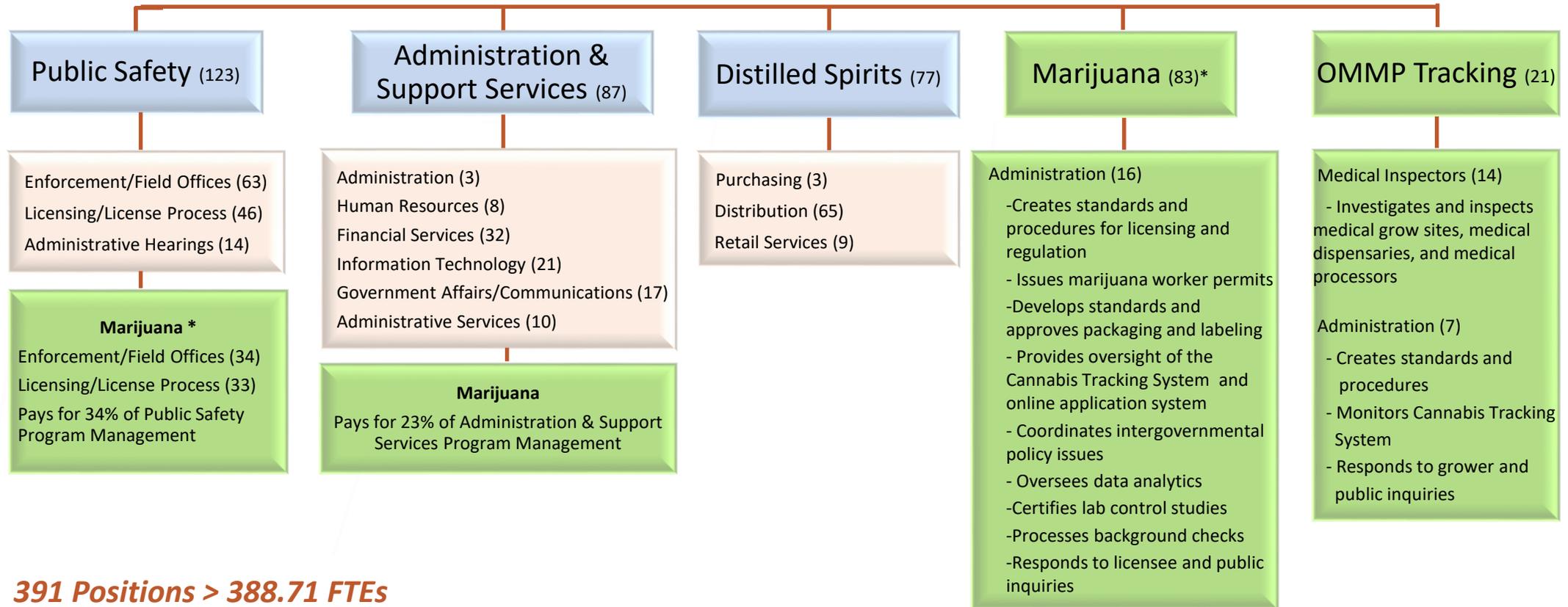
OLCC PROGRAMS

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



OLCC INTEGRATED STAFF IMPROVES EFFICIENCY

21-23 GOVERNOR'S BUDGET



391 Positions > 388.71 FTEs

ENVIRONMENTAL FACTORS AGENCY CHARACTERIZED BY 6 YEARS OF GROWTH AND CHANGE

- **Covid-19 Response**
 - *New* remote work implemented for approximately 225 employees (87% of non-warehouse workforce), social distancing implemented for warehouse
 - *New* virtual board meetings and rulemaking
 - *New* streamlined licensing process and increased enforcement duties
 - *New* temporary rules designed to protect public health and support modified business operations by alcohol and marijuana licensees
 - *New* alcohol license fee due date extension; forgiveness of late fees
 - *New* communication infrastructure
 - *New* policy coordination to provide unified policy, data analytics, communication and education as an agency and industry wide consumer service

ENVIRONMENTAL FACTORS

AGENCY CHARACTERIZED BY 6 YEARS OF GROWTH AND CHANGE

- **Warehouse Expansion and IT**
 - *New* facility study shows near term inadequacy of aging warehouse infrastructure to meet expected spirits demand driven by population growth and ratio of one store per 15,000 people.
 - *New* online reporting and tax collection system to facilitate the payment of malt, wine and cider privilege taxes. Phase 1 licensees began using the new system February 2021
 - *New* project management and quality control for oversight of the development of IT infrastructure to manage the distilled spirits supply chain
 - *New* project management and quality control for oversight of the development of the marijuana and alcohol licensing and compliance systems
- **Staff and Leadership Changes**
 - 230 positions prior to legalization of recreational marijuana, now 364
 - Two-thirds of personnel *new* to agency or *new* to position requiring significant onboarding and training

ENVIRONMENTAL FACTORS AGENCY CHARACTERIZED BY 6 YEARS OF GROWTH AND CHANGE

- 2015, 2016, 2017, 2018, and 2019 Statutory Changes
 - *New* license types and privileges
 - *New* rulemaking, process and procedure development
 - *New* Online Marijuana License system, Online Worker Permit System, Cannabis Tracking System, Alcohol Permit System, Electronic Privilege Tax System
 - *New* OLCC tracking of OHA medical marijuana dispensaries, processors and grow sites who grow three or more medical card holders
- Increasing marijuana license and enforcement activity
 - 2,396 approved licenses
 - 900 existing application backlog (not counting applications expected to be submitted once the agency lifts its license processing pause and/or the end of the grower moratorium)

ENVIRONMENTAL FACTORS

AGENCY CHARACTERIZED BY 6 YEARS OF GROWTH AND CHANGE

- **6th Stage of Retail Alcohol Expansion Underway**
 - 5 stages of expansion completed *36 now open, \$136 million additional revenue*
 - 282 stores and 93 tasting rooms
- **Distilled Spirits Retail Sales Continue to Grow 10% per biennium**
 - *Sales increase* \$105 million per biennium, \$1.5 billion in total sales
- **Alcohol Licensees Impacted by Pandemic**
 - *New* requests for expanding premises, changing locations, changing business models, closure, and/or reopening
 - *New* requests for rule changes, deferral of fees
 - *New* online alcohol server permit application system
- **Bottle Bill Expansion**
 - *New* Oregon refund value, *New* beverages, *New* redemption centers

EMERGING ISSUES

Alcohol

- Making warehouse and IT investments to protect revenue stream from the sale of distilled spirits
- Responding to pandemic impact on licensing – business closures and openings - delayed fees
- *New* complicated era of post pandemic policy and analytical work
 - Direct to consumer
 - Ready to drink
 - E-commerce

Marijuana

- Marijuana regulatory reset
- Creating a medically friendly OLCC system
- Advancing laboratory testing and oversight
- Anticipating and coordinating a changing enforcement landscape (local, state, federal, OLCC, OHA, DOR, Dept. of Ag)

GOVERNOR'S BUDGET PRIORITIES

- Replacement of Current Warehouse and distribution facilities
- Compensation for Liquor Store and Distillery Outlets
- Alcohol and Marijuana Licensing Resources
- Administrative Hearings Resources for Alcohol and Marijuana
- Support Services for Human Resources, IT and Finance

AGENCY PROGRAMS DISTILLED SPIRITS

DISTILLED SPIRITS PROGRAM



- **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** – 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** – Issue and oversee contracts and operations of the liquor stores and distillery retail 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 ensure public safety and maximize revenue.

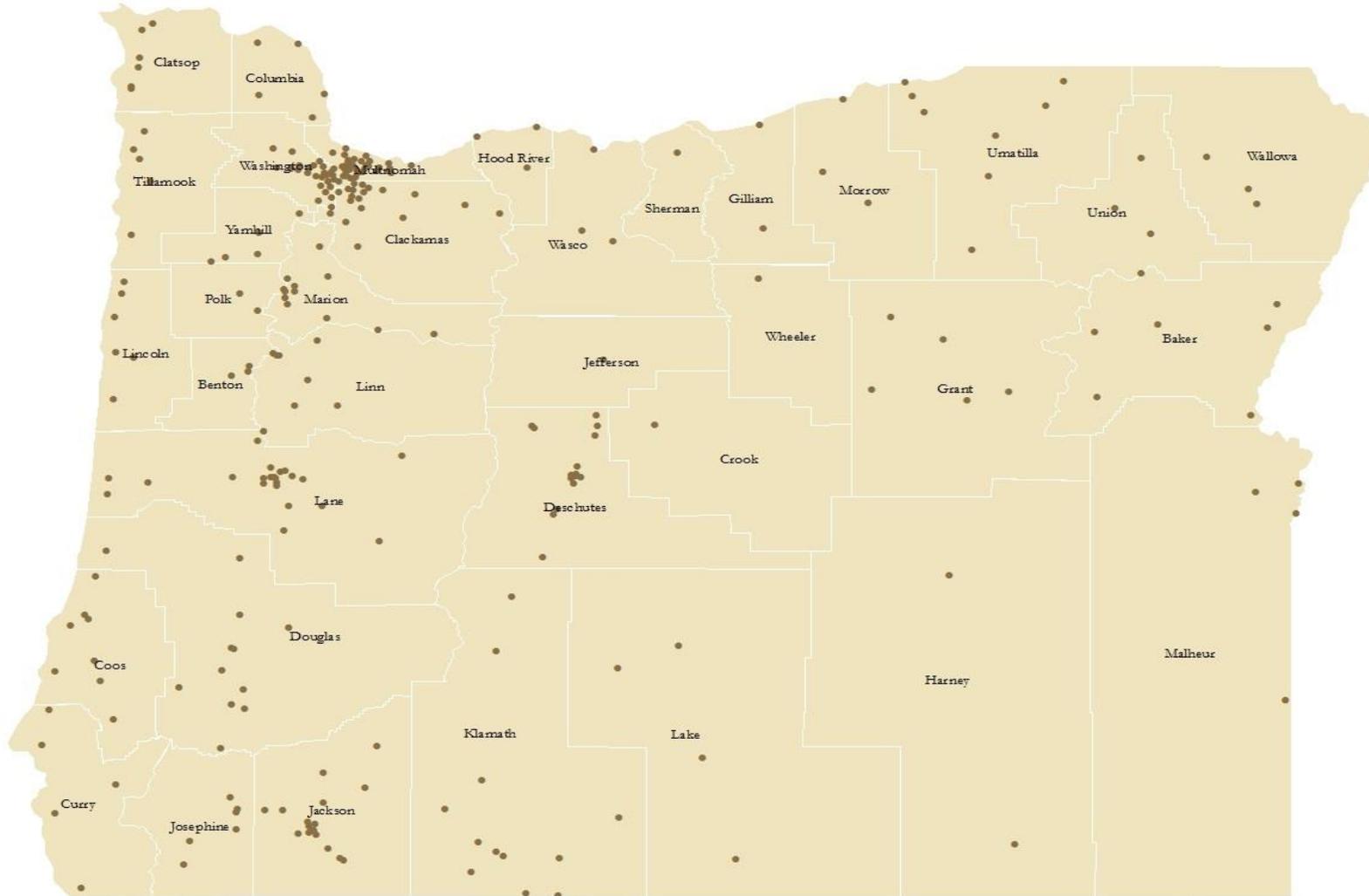
Preserve and Build State Revenue

HOW DISTILLED SPIRITS FLOW IN OREGON



DISTILLED SPIRITS RETAIL SERVICES PROGRAM

284 liquor stores
93 distiller outlets



36 new stores open, \$136 million in revenue



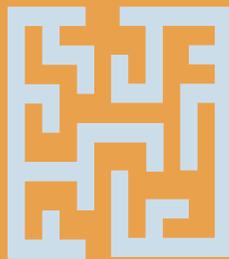
Phase 6 Expansion: During the past several years, the OLCC has been working to open new liquor stores in areas of the state where there is consumer demand based on demographic shifts due to population growth, and geographic gaps in liquor store locations. **The OLCC has identified eight locations within the Portland Metropolitan region for the next phase of liquor store expansion.**

DISTILLED SPIRITS STRATEGIC INITIATIVES

- Develop and implement plans for the construction of a new warehouse and replacement of legacy IT systems
 - Tackle pressing capacity limitations on spirits distribution to capture an additional \$1.5 billion in revenue over ten years
 - Modernize agency and program IT to improve the efficiency of warehouse ordering and distribution
- Acquire essential equipment to support daily distribution operations
- Modify agent and distiller compensation
 - Target subsequent stages of retail market expansion to support population, revenue growth and stability of existing agents
 - Increase engagement with liquor agents to enhance the customer shopping experience

POP #101
10-year revenue at risk
Warehouse & IT Capital Bonding

DISTRIBUTION CHALLENGES



Warehouse Capacity

Internal and external studies determined warehouse and central office are at capacity and require substantial investments to maintain current levels of operation (current warehouse is near 100% capacity).



Economic Uncertainty

Capacity limitations affect revenues by limiting the possibility of new product listings and constricting new store expansion (80% - 85% of space utilization is industry standard).



Customer's Expectation

OLCC's current business strategy is to continue to open new stores and actively seek opportunities to profitably expand product selection.



Aged Facility

OLCC operations are housed in a warehouse that is more than 60 years old. Failing to plan for our future distribution needs will constrict growth and limit profitability.



Improved Technologies

Key warehouse technology is nearing its end of its useful life and has minimal infrastructure flexibility; inefficient and disjointed. Major changes across the enterprise are required to meet business needs and secure revenue.



Changing Enterprise

Staying in the existing warehouse does not remove the need for new/upgraded warehouse management system (WMS) and replacing outdated legacy supply chain systems.

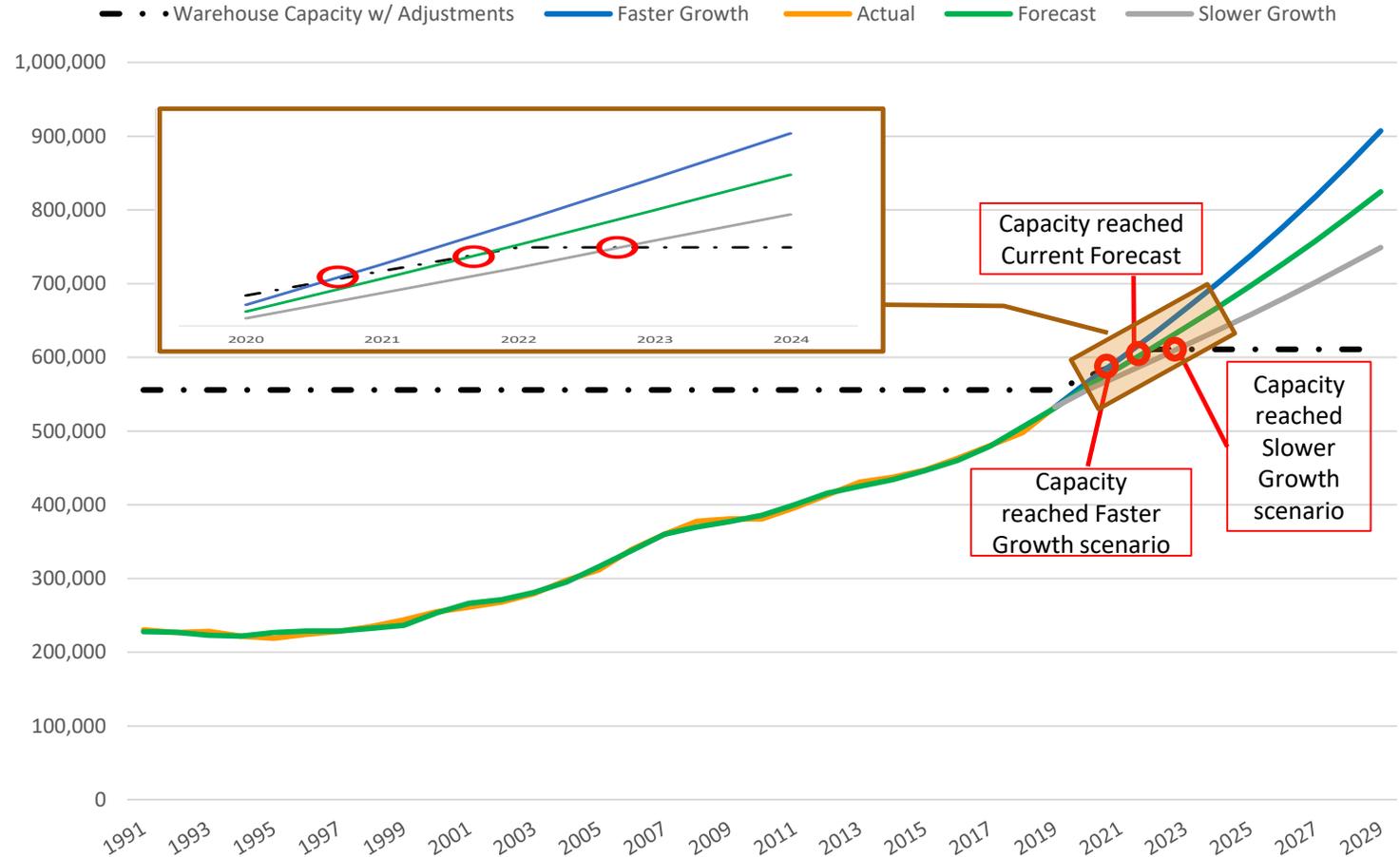


Predictable & Stable Revenue Source

OLCC has taken a proactive approach to mitigate the immediate space constraints in an effort to delay the anticipated capacity shortfalls.

Warehouse Capacity - Sensitivity Analysis

- Expectations for reaching capacity:
 - October 2021 – Faster Growth scenario
 - October 2022 – Current Forecast
 - October 2023 – Slower Growth scenario
- Tactical changes to warehouse capacity
 - Utilize Vertical Space
 - Recently increased capacity 10% or 55,000 cases
 - Reduce Number of Regular Listed SKU's
 - More Stringent Delisting Requirements
 - Reduce Days of Supply
 - Recently improved case stock ratio from 1.8 /1 to 1.5 /1
 - Improved Inventory Management
- Alternative for temporary capacity improvements
 - Add Location Off-Site for Additional Storage
 - Potential Cross Docking (from Milport)
 - Minimize Repack Locations (Single Bottle Pick)





Financial Risk

Actual Revenue
2019

\$665.4m

Actual Distribution
2019

\$266.7m

5-Year Revenue Risk
through 2024

(\$269.2m)

5-Year Distribution Risk
through 2024

(\$102.3m)

10-Year Revenue Risk through 2029

(\$1.5 billion)

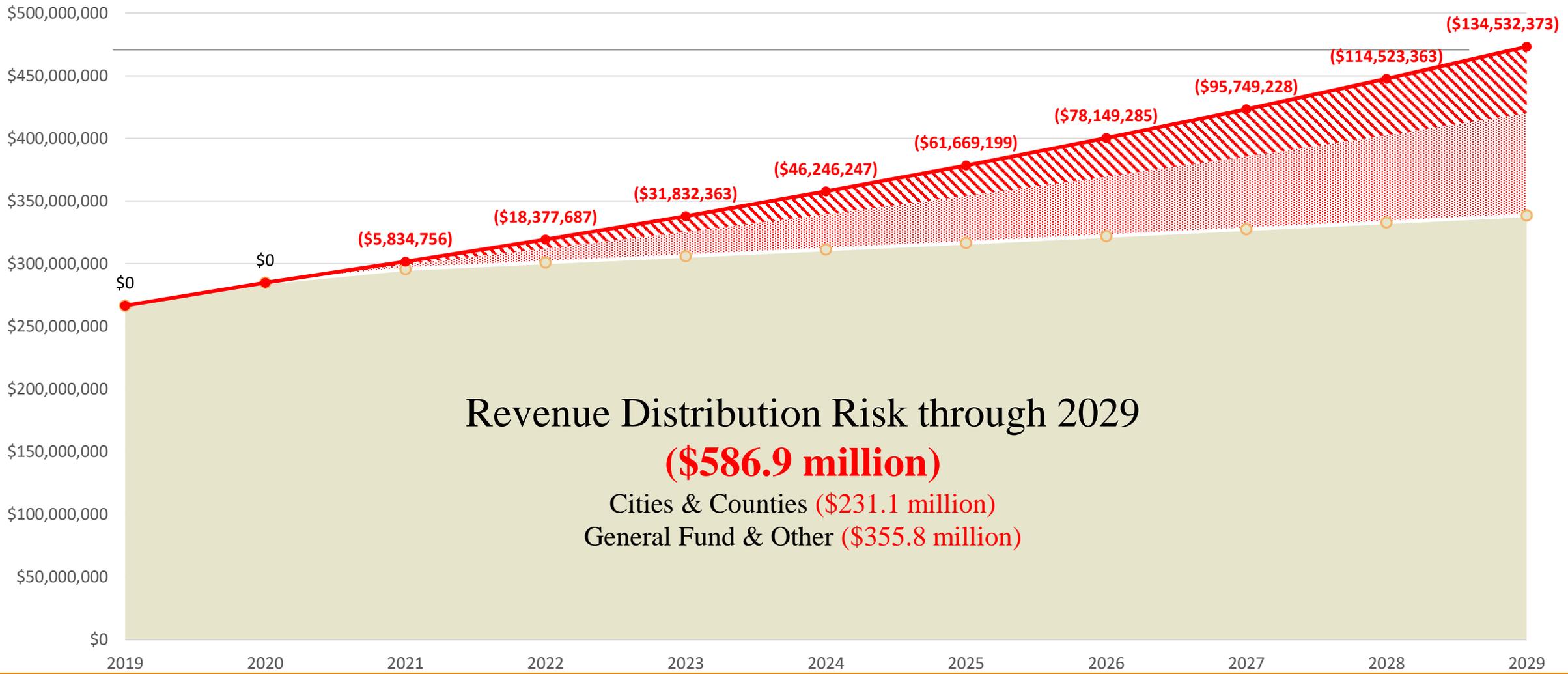
10-Year Distribution Risk through 2029

(\$586.9 million)



We Do Nothing – Revenue Distribution Impact

OLCC Distribution General Fund & Other At Risk Cities & Counties At Risk Revenue Distribution At Risk



Revenue Distribution Risk through 2029
(\$586.9 million)
Cities & Counties (\$231.1 million)
General Fund & Other (\$355.8 million)

Revenue and distributions for 2020 and beyond are based on OLCC case sales forecast, revenue per case forecast and a 38% profitability rate. OLCC warehouse capacity is based on "OLCC Capacity Assessment" prepared by Deloitte on January 23, 2020

OLCC's Enterprise Modernization Program

Components

Distilled Spirits Supply Chain and Retail Store Services	Licensing and Compliance (Marijuana & Liquor)
Distribution/Order Fulfillment	Licensing
Spirits Purchasing	Special Event Licensing
Manage Spirits Vendors	License Renewals
Manage Freight Carriers	Enforcement/Case Management
Inventory Management	MJ Integration with Metrc
Liquor Sales	Payments/Refunds/Fee Collection
Manage Contract Liquor Stores	Hearings and Contested Cases (TBD)
Manage Contract Distillery Retail Outlets	Policy, Rules, Statute Management (TBD)
Agents' and Distillers' compensation	Licensee Business Intelligence
Payments/Refunds/Fee Collection	Alcohol Service Permits
Online marketplace for liquor store customers	Marijuana Worker Permits
Shopping portal for licensee accounts	
Retail Liquor Store Business Intelligence	
Dashboard analytics	
Voice Directed Warehousing (Voice Picking)	
Point of Sale System	

IT Enterprise Modernization Program



Significant Investment Needed

- Moving is the best solution from both an operational perspective as well as financial perspective.
- Relocation and expanded warehouse would cost approximately 90m dollars.
- Provides for the continued growth and profitability of OLCC for at least 30 years (or more).

OLCC Turn Key Solutions	
	Costs
Land and Construction	53.2M
IT Improvements (Modernization)	27.4M
Material Handling Equipment (Conveyor)	10.2M
Total	90.7M
Building Sales	25.0M
Operational Savings	3.6M

SUMMARY

WAREHOUSE & IT CAPITAL BONDING

OLCC Policy Option Package #101

\$98,282,093 (\$7,547,093 Debt Service in 21-23)



Warehouse Background

- OLCC's liquor distribution warehouses have reached physical capacity for storage of distilled spirits; without relocation the physical space constraints will impede ability to meet spirits demand
 - In 1954 shipping 850,000 cases annually; in 2019 shipped 3.5 million cases
 - Currently 98% capacity; however 100% during peak holiday sales
 - Industry standard for distribution facilities is 80% - 85% storage utilization
 - With a 5% expected annual increase in liquor shipments due to population growth and retail expansion, the current warehouse expects to run out of storage capacity in 2021
- The 10-year projected liquor sales gross revenue at risk is \$1.5 billion (\$570 million distributable revenue); \$132 million of which is at risk during the 2021-23 biennium
- In June 2020 the Capital Projects Advisory Board approved the project for construction of a new warehouse

SUMMARY (continued)

WAREHOUSE & IT CAPITAL BONDING

OLCC Policy Option Package #101

\$98,282,093 (\$7,547,093 Debt Service in 21-23)



Enterprise Modernization Program (IT) Background

- In the 2019-21 budget cycle OLCC was granted initial funding to begin an Enterprise Modernization Program to replace insufficient and unsupported technology:
 - Distilled spirits supply chain
 - Marijuana and liquor licensing
 - Marijuana and liquor compliance programs.
- OLCC has received Stage Gate 1 approval for the Enterprise Modernization Program and is close to Stage Gate 2 approval from the state's Enterprise Information Services oversight process for building IT systems

SUMMARY (Continued)

WAREHOUSE & IT CAPITAL BONDING

OLCC Policy Option Package #101

\$98,282,093 (\$7,547,093 Debt Service in 21-23)

Bonding Warehouse Construction and Enterprise Modernization Program (IT)

- This package folds the agency's expected 21-23 funding request for the current Enterprise Modernization Program and eliminates need for roof repair and seismic upgrades on the existing warehouse
- The bonding package for warehouse construction and the current Enterprise Modernization Program lowers the overall limitation necessary for the program in the 2021-23 biennium and increases the funds available for distribution
- Costs such as repairs or maintenance, rent or lease payments, or IT subscription fees are not bondable
- Bonds must be approved by the Ways and Means Subcommittee on Capitol Construction, Jt. Ways and Means, and legislators
- Bonds issued for this project are not subject to the General Fund Debt Capacity since repayment is supported by Other Funds and not the General Fund
- Costs for the marijuana and liquor licensing and compliance systems are proportionally shared between alcohol and marijuana

SUMMARY (Continued)

WAREHOUSE & IT CAPITAL BONDING

OLCC Policy Option Package #101

\$98,282,093 (\$7,547,093 Debt Service in 21-23)

Governor's Budget

- Align the two projects and fund them with capital bonding to reduce costs and create efficiency
- \$89.5 million in Capital Outlay financed by Article XI-Q Bonds to support the acquisition of land, construction, and related IT improvements for a new, expanded liquor warehouse along the I-5 corridor
 - \$52.5 million for land and construction – 25 years
 - \$27.0 million for IT improvements for distilled spirits and marijuana information system – 10 years
 - \$10.0 million for conveyor system/distribution support for the new warehouse – 15 year
- \$1,197,735 Bond Issuance Cost
- Debt service for 21-23 assumes bonds are issued in 2022, totaling **\$7,547,093 million**

DISTRIBUTION CENTER EQUIPMENT REPLACEMENT

OLCC Policy Option Package #107 \$270,000

Background

- Distribution center is operating with aging forklifts often in need of repair and order pickers with batteries that are having difficulty holding their charge (some 20+ years old)
- Out of service equipment reduces efficiency in the warehouse operation and increases case-handling costs.

Governor's budget

- Replaces four forklifts, pickers and batteries to maintain and keep up with the increasing volume in the warehouse

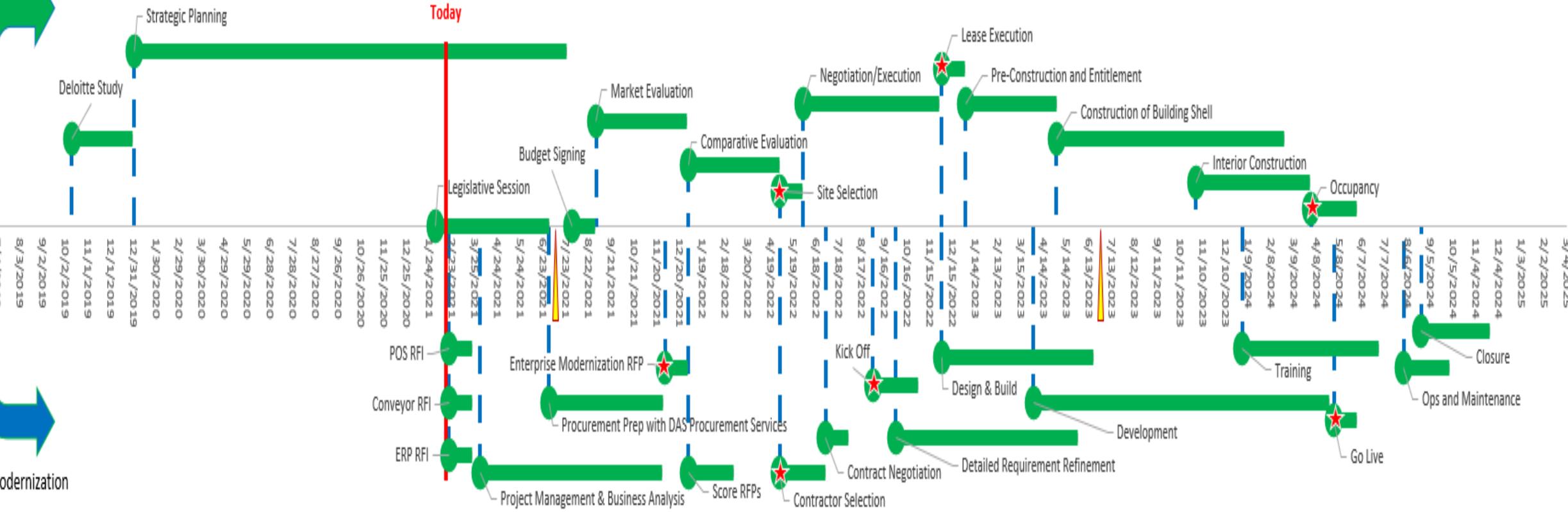
Warehouse Relocation & IT Modernization Project Schedule

Duration

Warehouse Relocation



IT Modernization



POP #108
Retail Agent
Compensation Approach

SUMMARY

AGENT COMPENSATION FORMULA

OLCC Policy Option Package #108 \$13,500,000



Overview

- The level of compensation received by agents drives decisions to invest in their businesses, provide benefits for employees, and make improvements to better serve customers
- In 2019-21 the agency worked with Oregon's independent liquor store agents to examine the current compensation formula which has remained relatively unchanged since 1986 (30 + years)
- Renegotiating the terms of compensation every two years through the legislative process introduces a level of uncertainty not found in private business; compensation for sales is seen as a cost of business, not subject to change during the course of a contract
- The OLCC must seek additional funding from the e-board to pay agents commissions on their sales if more product is sold than estimated
- HB 2740 places this compensation plan in statute

Governor's Budget

- Revamps the compensation formula to increase the number of compensation classes from six to ten
- Includes retail lease and wage escalators to reflect differing costs in various parts of the state

Current Agent Compensation = Base + Commission

Base Compensation

\$7.0m paid in 2019 FY



Commission

\$51.4m paid in 2019 FY

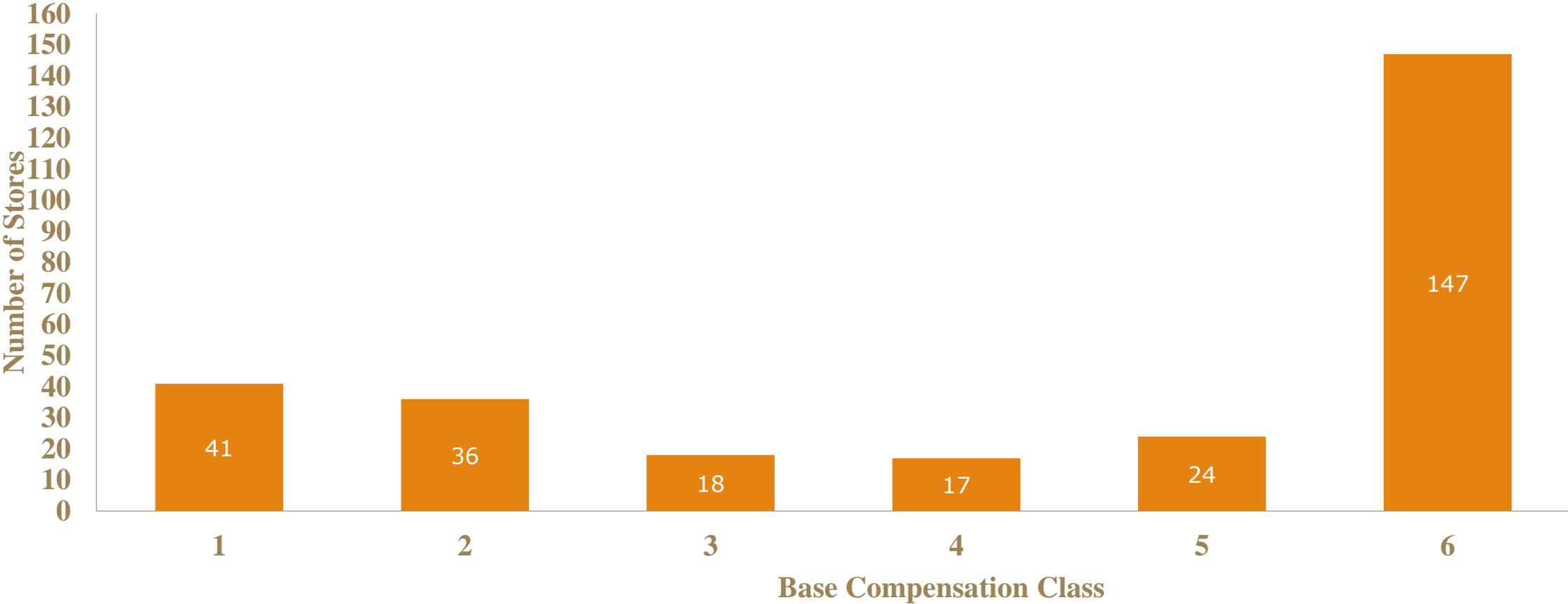
Current Fixed Base Compensation Plan

Sales Class	Annual Sales Range		Monthly Fixed Base
1	\$0	\$209,999	14.25% on 1 st 10k
2	\$210,000	\$449,999	\$1,660
3	\$450,000	\$749,999	\$1,920
4	\$750,000	\$1,049,999	\$2,348
5	\$1,050,000	\$1,649,999	\$2,440
6	\$1,650,000	and up	\$2,700

Variable Commission Rates

Consumer Sales	8.38%
Licensee Sales	6.54%

Current Agents in each Sales Volume Class

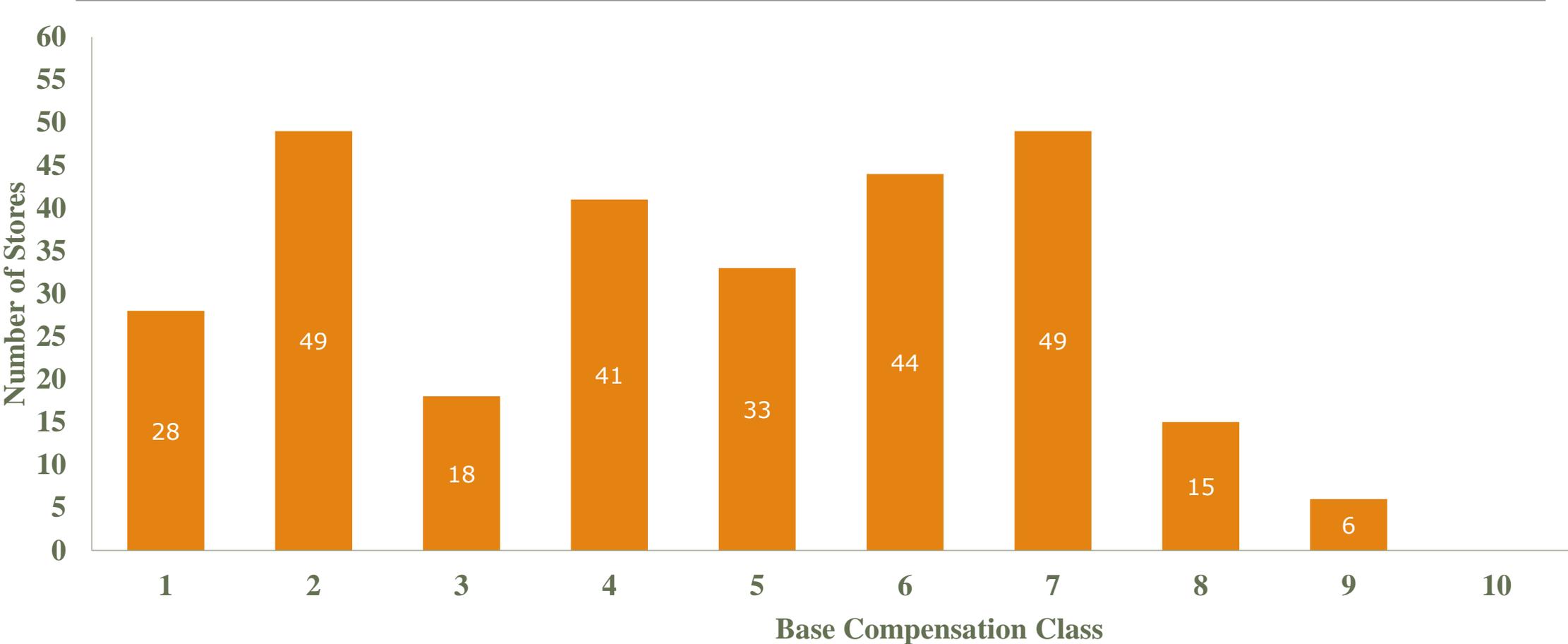


Proposed Sales Volume Classes

Expanded Base Compensation Plan *			
Store Class	Annual Sales		Monthly Fixed Base
	Low End	High End	
1	\$0	\$120,000	14.50% on 1 st 10k
2	\$120,001	\$450,000	\$1,660
3	\$450,001	\$750,000	\$1,920
4	\$750,001	\$1,650,000	\$2,440
5	\$1,650,001	\$2,500,000	\$2,700
6	\$2,500,001	\$3,700,000	\$3,100
7	\$3,700,001	\$5,500,000	\$3,600
8	\$5,500,001	\$8,300,000	\$4,150
9	\$8,300,001	\$12,500,000	\$4,800
10	\$12,500,001	\$18,750,000	\$5,500

*Annual Sales and Monthly Fixed Based adjusted annually by CPI, West Region

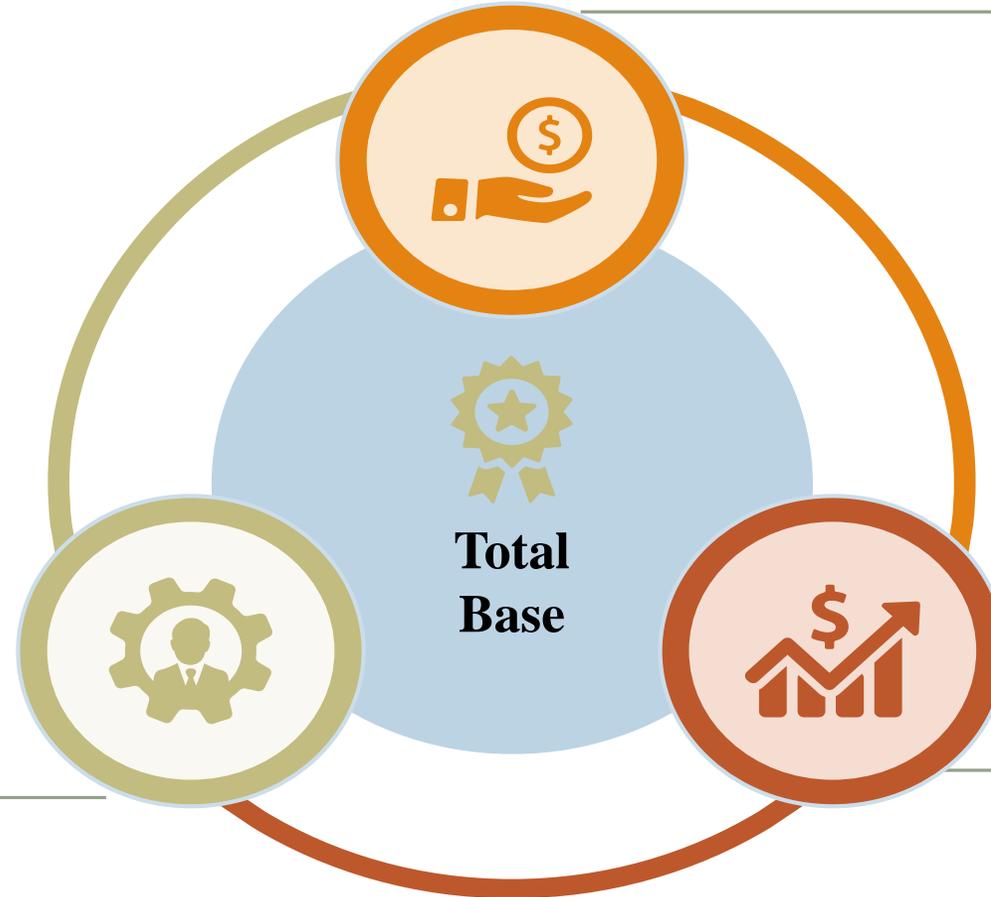
Projected Agents in each Sales Volume Class



Base and Escalators Breakdown

Wage Management

- Variables: Mandatory State Minimum Wage
 - Needs of workers
 - Capacity to pay
 - Comparable wages
 - Economic & Social development



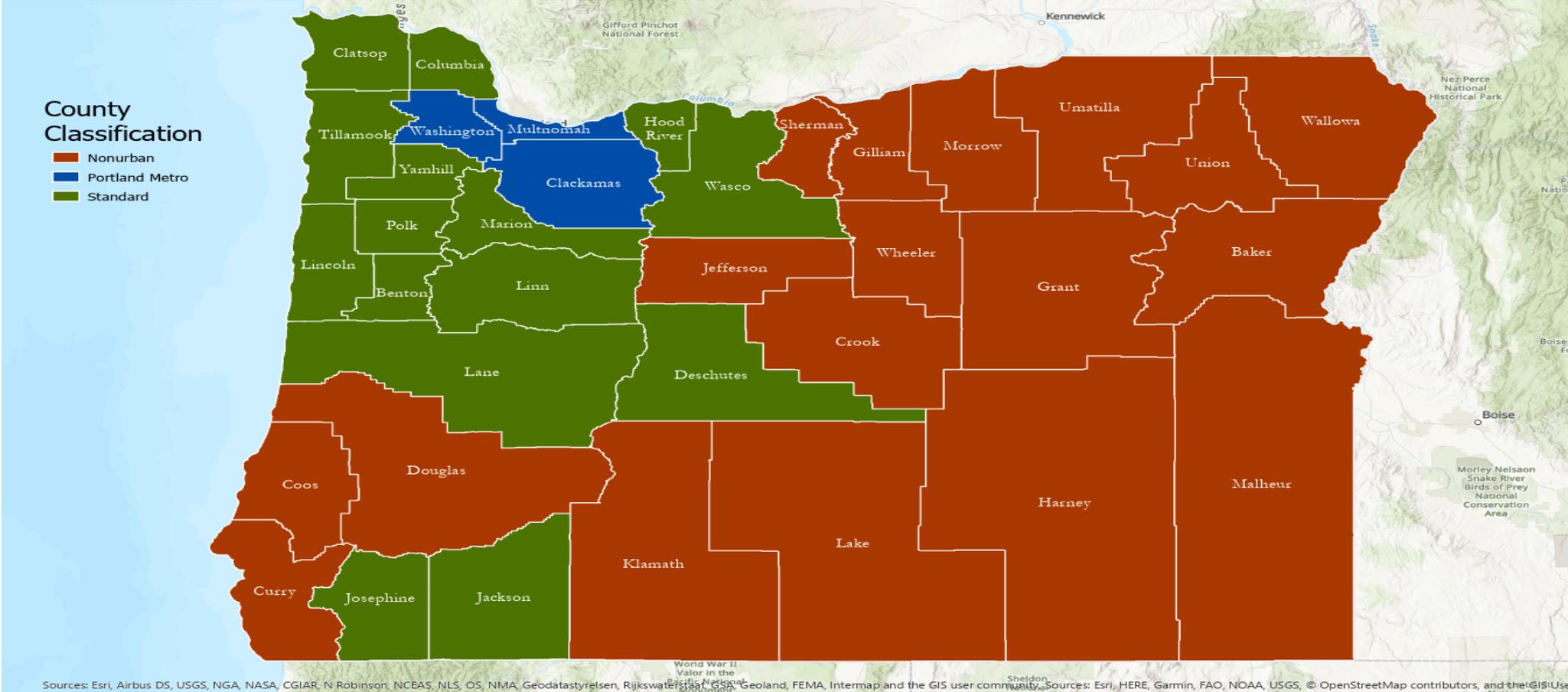
Cost for Retail Space

- Variable Price Per Sq. Ft
 - Lease rates around the State
 - Available sq. ft. by city (ex 10k plus)
 - Annual cost
 - Available/Cost = Price Per Sq. Ft.

Volume

- You control what you earn
- Based on performance
- Percentage of Sales
 - Variable rate

Minimum Wage Classifications by County



Base Compensation Escalators



Oregon Minimum Wage Differentials By Location			Retail Space Differentials By Location		
Nonurban Counties	--	\$12.50	Nonurban Counties	--	\$11.90
Standard Counties	8.00%	\$13.50	Standard Counties	50.00%	\$17.90
Portland Metro	18.00%	\$14.75	Portland Metro	75.00%	\$20.80

Standard Counties Example



*Minimum Wage figures are as of July 1, 2020 **Average retail space per square foot based on 2018/2019 data

Base Compensation Escalator Example



Hypothetical Store XXXX \$4,000,000 in Annual Sales

<u>County Class</u>	<u>Base</u>	<u>Wage Escalator</u>	<u>Retail Escalator</u>	<u>Base Compensation</u>
Nonurban	\$3,600	\$0	\$0	\$3,600
Standard	\$3,600	\$288	\$1,800	\$5,688
Portland Metro	\$3,600	\$648	\$2,700	\$6,948

What's Changed?

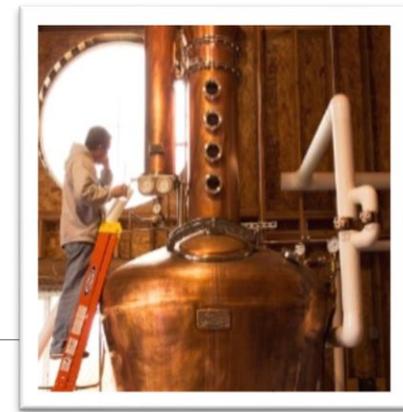
Base with Escalators

	Base Compensation	Commission Rate	Labor Escalator	Retail Escalator	Actual Increase
Annual	\$1.6m	No Change	\$860k	\$4.2m	\$6.7m
Biennium	\$3.2m	No Change	\$1.7m	\$8.4m	\$13.5m

Note: Figures may not total due to rounding

DISTILLER COMPENSATION FORMULA

OLCC Policy Option Package #110 \$3,500,000



Background

- Historically the funding for distiller agent and liquor agent compensation were combined and base rates and commissions were allocated through the same formula
- In 2019 the funding for distiller agents, who can only sell the products they manufacture to OLCC for statewide distribution or out of the distiller's tasting rooms, was separated from liquor agents to acknowledge the differences between the two business models
- In 2020 the agency assisted legislators and distillery tasting rooms in crafting statutory language to change the compensation formula to reflect their unique business model
- SB 316 places this compensation plan in statute

Governor's Budget

- Reflects the proposal crafted in 2020 which changes the distiller compensation formula to 45% commission on the first \$250,000 in sales from all tasting rooms connected to a distiller and 17% for all sales over \$250,000

AGENCY PROGRAMS PUBLIC SAFETY

*Enhance livable communities through
regulation, licensing, enforcement/compliance*

PUBLIC SAFETY PROGRAM

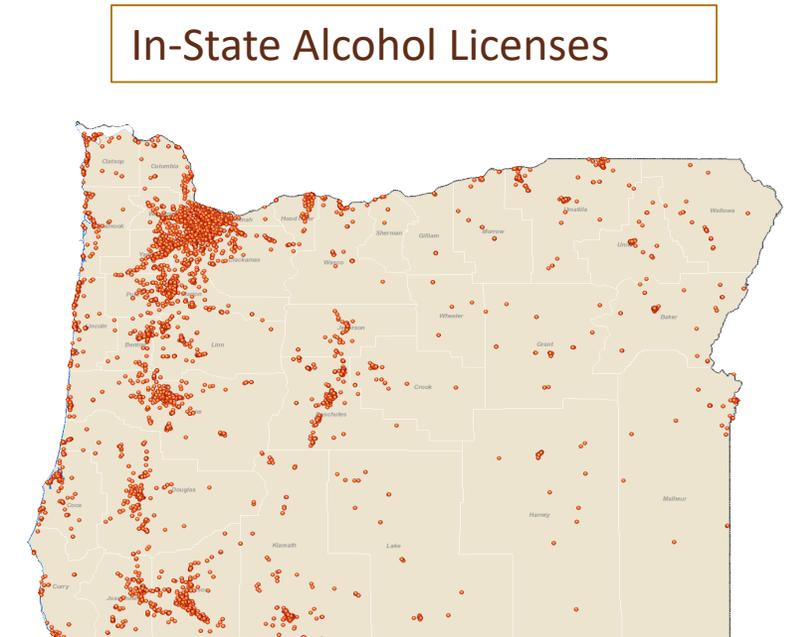
- **License Services Division** – Responsible for investigating and processing license applications and renewals for alcohol and marijuana licenses and issuing alcohol service permits and marijuana worker permits.
- **Public Safety Division** – Responsible for educating licensees, investigating complaints, and enforcing liquor and marijuana laws through sanctions if education is not effective. Responsible for bottle bill compliance with statutory requirements.
- **Administrative Hearings 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.

PUBLIC SAFETY LICENSING DIVISION - ALCOHOL LICENSES & PERMITS

Total Annual Liquor Licenses	14,939
Restaurants and Bars (On-premises licenses)	7,452
Grocery/Convenience Stores (Off-premises licenses)	5,459
Wineries	1,222
Brewers/Brew Pubs	436
Distributors/Wholesalers	230
Distilleries (93 distillery outlets)	140

Special Event Licenses	16,000
Out-of-state certificates	4,081
Alcohol Service Permits	165,000

Totals as of December 30, 2020



PUBLIC SAFETY

MARIJUANA LICENSES

As of December 30, 2020

License Type	Active
Laboratory	20
Processor	273
Producer	1182
Retailer	731
Wholesaler	189
Research	1
Total	2396

MARIJUANA WORKER PERMITS

56,657

PUBLIC SAFETY PROGRAM STRATEGIC INITIATIVES

- Increase alcohol and marijuana licensee visits to prevent serious violations (education first)
 - Capitalize on data analytics to set marijuana inspection priorities and prevent diversion
 - Emphasize decoy activities to prevent sales of alcohol and marijuana to minors and to assure compliant sales of medical grade marijuana
 - Coordinate field office activities and compliance outcomes to assure statewide consistency
- Eliminate existing licensing and administrative hearings backlogs
 - Replace manual alcohol and marijuana licensing processes with electronic systems
- Coordinate with federal, state and local law enforcement partners

ALCOHOL COMPLIANCE AND LICENSING STAFF

OLCC Policy Option Package #204 \$2,106,497

Background

- An increased in alcohol licensing cancellations, changes, and applications due to the pandemic is expected in 2021-23
- In 2011 the ratio of licensing specialists to licenses was 1 to 521, today the ratio is 1 to 896 making it difficult to maintain an adequate level of support for applicants and licensees
- Alcohol server permit applications are up to 200 new applications a day. At this level the agency is no longer able to run random background checks or validation that the applicant has taken the required tests
- OLCC's Medford office has a 21/1 supervisory ratio (the state standard is 1:11)
- OLCC relies on minors for minor decoy operations; it has been increasingly difficult to recruit volunteers
- The agency has one full time position and one limited duration position to process over 16,000 special event applications a biennium, however due to the difficulty in recruiting for the limited duration position, this section is continuously under resourced

ALCOHOL COMPLIANCE AND LICENSING STAFF

OLCC Policy Option Package #204 \$2,106,497

Governor's Budget

- Addresses staffing needs for the agency's growth, evaluation of enforcement structures, and funding to pay minors who participate in minor decoy checks
 - 3 liquor licensing investigators to process and support a growing number of applications
 - 1 CS1 to respond to requests for assistance
 - 1 OS2 to process alcohol service permits
 - 1 AS1 to process special events
 - 1PEM D in Medford to reduce the management to staff ratio
 - 1 PEM C Assistant Alcohol Licensing Manager
 - .5 PEM G to continue evaluation of OLCC's enforcement practices
 - Approximately \$100,000 to fund minor decoy operations

Marijuana licensing staff request is in POP# 409

ADMINISTRATIVE HEARINGS CASE PRESENTERS

OLCC Policy Option Package #205 \$1,052,348

Background

- The Administrative Hearings Division reviews and evaluates investigative reports with recommended enforcement actions or with actions involving contractual violations.
- Case preparation involves reviewing the case for legal sufficiency, identifying witness and documentary evidence, responding to discovery requests, subpoenaing witnesses, participating in pre-hearing conferences, filing and responding to motions, and planning and executing the presentation of the case at hearing.
- The department reviews the judge's proposed order, files comments as appropriate and orally presents to the comments to the liquor commissioners at their regularly scheduled meetings
- Existing staff levels are insufficient to manage the current caseload as evidenced by a backlog of cases which has escalated with the growing number of alcohol and marijuana licenses as well as the emphasis on field compliance and citation of marijuana licensees
- The Department has 720 active matters in various stages of the contested case process; 385 cases have yet to be assigned, impacting the agency's ability to process cases in a timely manner
- This backlog compromises the agency's ability to regulate effectively

Governor's Budget

- Adds four CS3 case presenters to address growth in violations and the backlog

AGENCY PROGRAMS SUPPORT SERVICES

SUPPORT SERVICES PROGRAM

- **Administration, including Human Resources**

- Provides executive leadership; implements policy
- Recruits and trains statewide
- Oversees labor contract
- Employee Safety
- Affirmative Action, Diversity, Equity and Inclusion

- **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
- Procurement

- **Information Technology**

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

- **Policy, Analytics, Communication & Education (PACE)**

- Provides research and analytics including KPMs
- Analyzes Cannabis Tracking System data
- Policy development
- Legislative coordination
- Internal communications and central link between OLCC and its external stakeholders, the media, and the general public
- Internal auditing

- **Administrative Services**

- Property control
- Motor pool
- Building and grounds maintenance
- Mail/supply services
- Capital Improvements Program

STRATEGIC INITIATIVES

SUPPORT SERVICES PROGRAM

- 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
 - Implement facility plan to accommodate growth in distilled spirits and marijuana program
- 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
- Utilize Policy, Analytics, Communication and Education (P.A.C.E.) division as the centralized coordinator of agency-wide policy development, implementation and communication
 - Create comprehensive business intelligence capacity
 - Adapt agency policies, procedures and contracts to reflect telework environment

HUMAN RESOURCE STAFFING

OLCC POLICY OPTION PACKAGE #302 \$504,600

Background

- OLCC's human resource staff has been overwhelmed with unprecedented workloads to balance day-to-day HR operations, recruit, hire, on-board, educate, counsel, investigate and mitigate employee and labor issues, maintain personnel information and Work Day.
- Human Resources is now supporting 364 positions, up from 230 prior to the legalization of marijuana
- Daily responsibilities to support employees include expertise in FMLA, OFLA, Workday, Worker's Compensation, Class and Comp analysis, Safety, Benefits, Labor Relations, Employee Relations, and Affirmative Action initiatives
- New hires and internal promotions have resulted in a daily vacancy average of 60 positions
- The department does not have a full time recruiter with expertise in marketing, diversity, equal employment opportunity and Title VII programs to handle the volume of vacancies and unique skill sets required to fill those positions
- The department does not have a training and development specialist that can align with the state's requirements and policies and support succession planning, employee retention and career advancement

Governor's Budget

- Converts a double fill of an HRA2 position to a permanent recruiter position and adds an HRA2 trainer position focused on onboarding new employees, HR compliance, policy review, and manager training

INFORMATION SERVICES MANAGEMENT AND SUPPORT

OLCC POLICY OPTION PACKAGE # 303 \$522,397

Background

- OLCC's Office of Information Services lacks resources to manage growing state IT requirements, service the increasing number of personnel at OLCC and undertake modernization of It systems while at the same time maintain the current legacy systems and assure compliance with state and industry technology requirements for contracting, security/privacy, infrastructure, software, change management, and disaster recovery.
- The department operates with no administrative support
- Project and vendor management support is needed to ensure the success of the current projects while upholding daily operations

Governor's Budget

Provides two positions for dedicated administrative support to the agency's Information Services Division:

- Administrative Specialist
- Project Management Office and Vendor Relationship Manager

LIQUOR AUDITOR AND PAYROLL CONTRACTING

OLCC Policy Option Package #306 \$394,185

Background

- OLCC's expansion effort to establish more retail liquor stores continues on course to have nearly 300 stores operating by the end of the 2021-23 biennium. This represents a 25% increase in workload for the Financial Services staff
- In the 2019-21 biennium the finance department double filled a liquor auditor position to address the number of liquor stores that have opened since expansion began in 2017.
- OLCC's payroll position has responsibilities beyond payroll including paying agents compensation. The position has become overwhelmed with the growth in liquor stores and the growth of the agency (230 positions prior to marijuana legalization; 364 positions today)

Governor's Budget

- Makes permanent a double filled Program Analyst 1 for liquor store auditing
- Outsources payroll services to DAS to free up existing payroll position to address workload increase in agent compensation

PRIVILEGE TAX SUBSCRIPTION SERVICES

OLCC POLICY OPTION PACKAGE # 311 (\$1,110,000)



Background

- OLCC was provided project funding in 2019 legislative session for an online privilege tax system that allows wine and beer licensees subject to privilege taxes to file reports online and make payments.
- This system, scheduled to be completed in the current biennium requires ongoing funding to provide maintenance, security, hosting and support for the system

Governor's Budget

- Provides funding for subscription services and maintenance costs

AGENCY PROGRAMS MARIJUANA

State Marijuana Law and Responsible State Agencies

M91 November 2014

Statutes: ORS Chapter 475B

Administrative Rules OAR Division 25

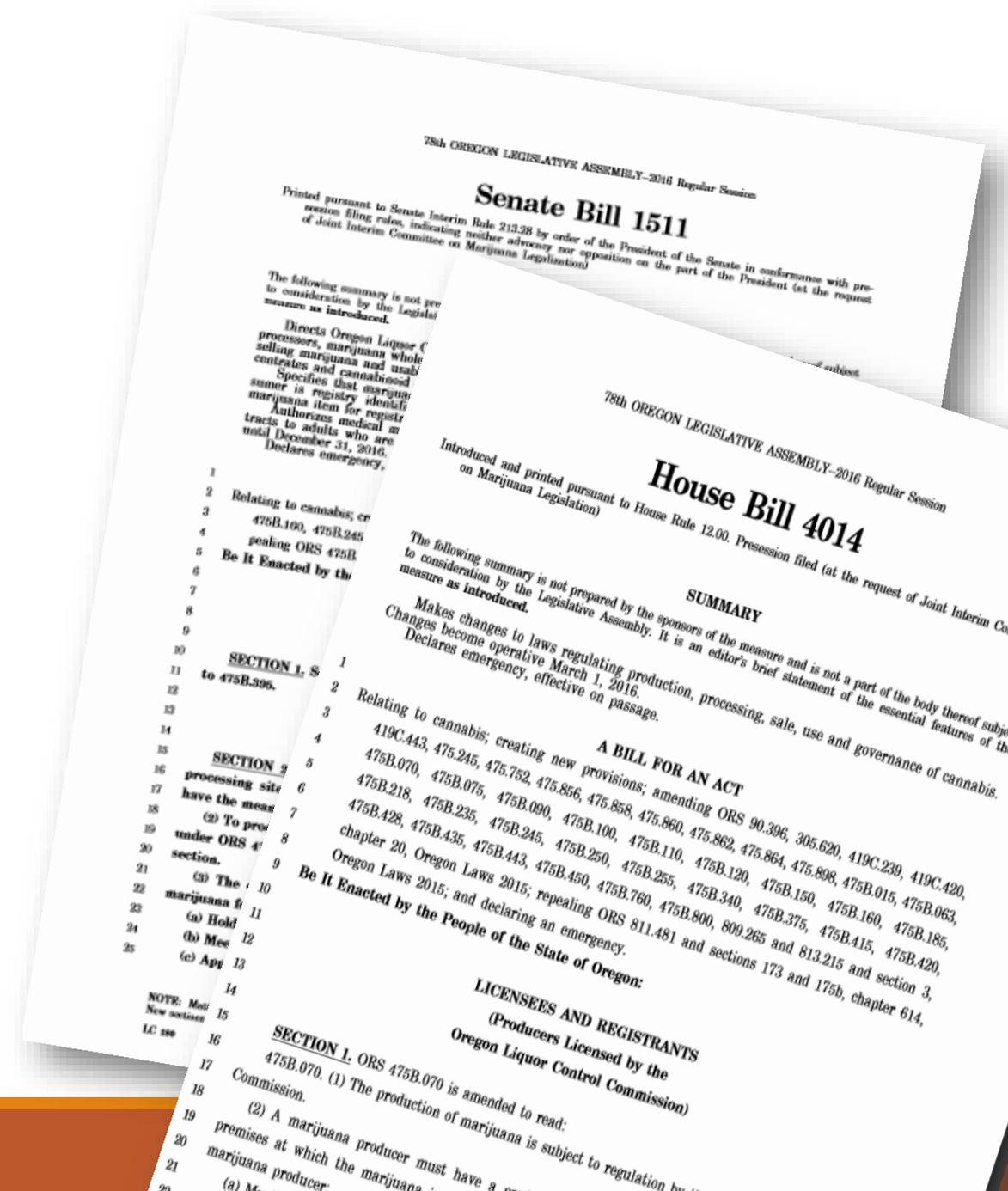
Oregon Liquor Control Commission (OLCC): recreational marijuana businesses and worker permits

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



MARIJUANA PROGRAM



- **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)
- **Approves all packaging and labels** for medical and recreational marijuana products
- **Lab oversight** licensing, inspections, testing protocols
- **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
- **Prepares educational bulletins and notices** to prevent compliance issues

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



CANNABIS TRACKING SYSTEM (CTS)

Statutory Requirement: directed OLCC to develop an inventory tracking system to ensure that taxes are collected and inventory does not migrate from or into the illegal market

- Supplements limited staffing resources by reporting on discrepancies and providing notice of potential tracking issues
- Designed to allow for more effective audits and satisfy federal guidelines
- Every plant is tracked via code from seedling to final sale to consumer
- Allows for product recalls when consumer safety issues are present



OREGON LIQUOR CONTROL COMMISSION
CANNABIS TRANSPORTATION MANIFEST

All data transmitted and/or collected from this application is for informational purposes only. The Commission, its contractors, and its employees are not responsible for any data loss or corruption. The Commission, its contractors, and its employees are not responsible for any data loss or corruption. The Commission, its contractors, and its employees are not responsible for any data loss or corruption.

Manifest #: 0000000003	Date Completed: 08/17/2018
License # to Originating Entry: 100-0001	License # to Originating Entry: 100-0001
Name of Originating Entry: OR CITY ESTABLISHMENT, LLC	Name of Originating Entry: OR CITY ESTABLISHMENT, LLC
Address of Originating Entry: 1075 SE McLoughlin Blvd Portland, OR 97214	Address of Originating Entry: 1075 SE McLoughlin Blvd Portland, OR 97214
Phone # of Originating Entry:	Phone # of Originating Entry:
Phone # OLCC Can Call with Questions: 800-555-8190	
Destination: Adams State CO	Destination: Adams State CO
State Number on Route: 1	State Number on Route: 1
Origin License Number: 010-1000000000	Origin License Number: 010-1000000000
Date and Approximate Time of Departure: 08/17/18 10:32 AM	Date and Approximate Time of Departure: 08/17/18 10:32 AM
Date and Approximate Time of Arrival: 08/17/18 10:32 AM	Date and Approximate Time of Arrival: 08/17/18 10:32 AM
Notes to Be Forwarded:	Notes to Be Forwarded:
Item Description:	Item Description:
Item Label:	Item Label:
Weight/Quantity:	Weight/Quantity:
PRODUCT REJECTION (If only a portion of shipment is rejected, circle that portion above):	PRODUCT REJECTION (If only a portion of shipment is rejected, circle that portion above):
Reason for Rejection:	Reason for Rejection:
Signature:	Signature:
Date:	Date:
Name of Person Transporting:	Name of Person Transporting:
License Number:	License Number:
Form LIC 800 1/13	Form LIC 800 1/13

Page 1 of 1
MMSB Form ver 04/2018

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
- Harvest inspections (producers)

Common Violations:

- CTS Violations (incorrect data)
- Failure to Maintain Security Recordings
- Improper transfers (i.e. unlicensed location)
- Not reporting sales timely
- Weight mismatches
- Sales to possession limits
- Packaging created without identifying the source of the package or harvest

MARIJUANA PROGRAM STRATEGIC INITIATIVES



Total program reset:

- Streamline licensing processes
 - Shifting more responsibility to enforcement
 - Eliminate the backlog
 - Online licensing
- Enforcement
 - Cannabis Tracking System warnings and “fix-it” ticket violations
 - Right-size penalty schedule to reflect common settlements
 - Taking on responsibilities previously performed by license staff
- Rulemaking
 - Complete overhaul of marijuana rules
- Interagency and national coordination and policy development

MARIJUANA LICENSING SPECIALISTS

OLCC Policy Option Package #409 \$3,027,861

Background

- There are currently 13 marijuana licensing specialist position assigned to this program with 2,428 active licenses and close to 900 accepted applications assigned or waiting assignment; Delays in processing changes and approving applications result in a significant financial loss for applicants
- Pent-up demand for new licenses along with a constant churn of existing license changes due to evolving business models continue to place extraordinary demands on the department
- OLCC stopped processing applications submitted after June 15, 2018 and has not begun processing applications submitted after that date. The grower moratorium is set to expire on January 2, 2022.
- Current statute requires that marijuana retail locations be located no closer than 1,000 feet of a site that holds instructional activities for K-12 schools. Previously, OLCC was funding one position in OHA to host this service and provide other GIS services needed by the agency; however, OHA is no longer providing this service

Governor's Budget

- Funds 12 Marijuana licensing specialists
- Includes the GIS Analyst position that was approved at the September 2020 Emergency Board Meeting
- The cost of additional staff can be covered with existing license fee rates and a portion of the accumulated reserves or by increasing license fees

CBD INHALANT SYSTEM REGULATION

OLCC POLICY OPTION PACKAGE #313 \$362,405

Background

- The Oregon Liquor Control Commission, Oregon Health Authority and Oregon Department of Agriculture currently cooperate on the regulation of various cannabis product value-chains in Oregon.
- Currently, marijuana and hemp products intended for human consumption are tested for THC and CBD levels and the presence of certain solvents or pesticides
- However, once hemp has been tested and converted into industrial hemp products, there is no longer any tracking or regulation of product on its path to final consumers
- SB 96 authorizes OLCC to regulate the testing and labeling of inhalant delivery systems that contain cannabinoids

Governor's Budget

- Adds a compliance specialist 3 to establish the vaping program, develop rules and assist with adjudication of violations and an administrative specialist to coordinate, manage and facilitate product testing

AGENCY PROGRAMS OMMP TRACKING

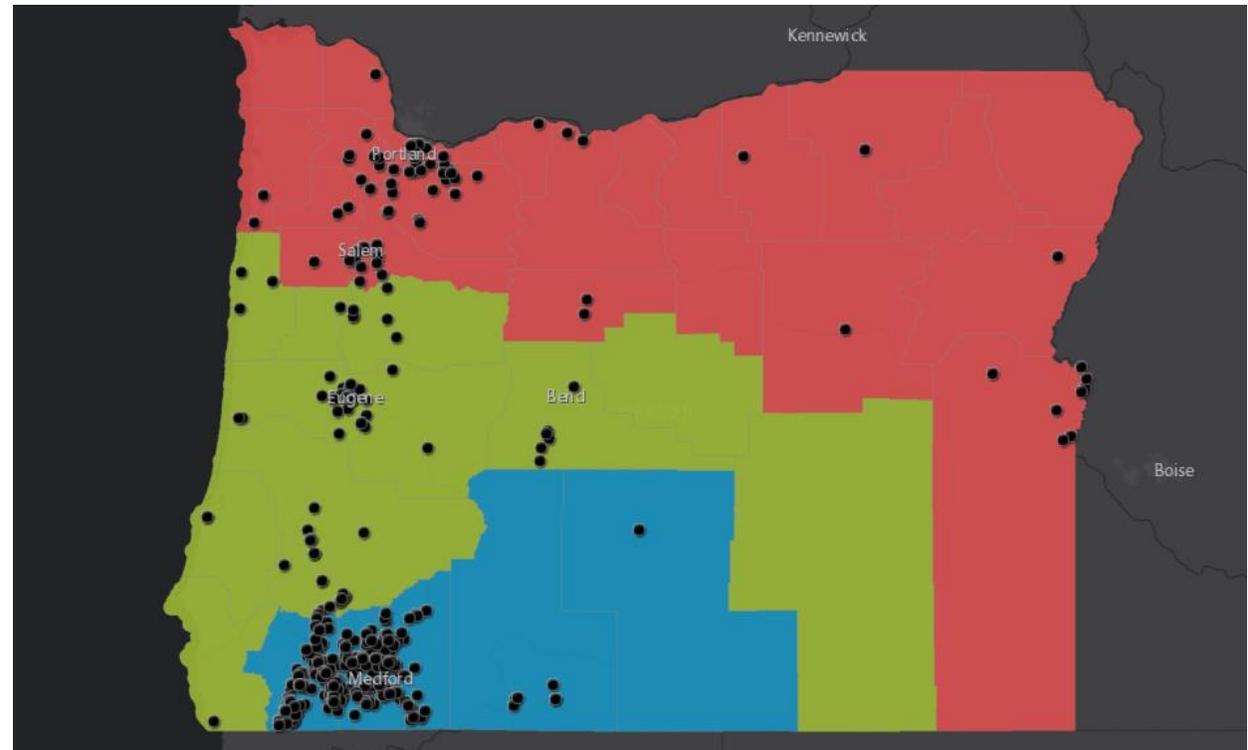
OMMP TRACKING PROGRAM

OLCC RESPONSIBILITIES

- In 2017 (SB 1057) OLCC was given the responsibility to track inventory and transfers in the Cannabis Tracking System for OMMP grow sites that grow for three or more medical card holders, and OMMP processors and dispensaries
- OLCC writes inspection reports for OMMP Growers, Processors and Dispensaries tracked in CTS and forwards alleged violation to OMMP for adjudication
- Inspections are based on proactive assignments, CTS data abnormalities or general lack of data entry, and complaints.
- The Oregon Health Authority (OHA) remains the agency responsible for enforcement and regulatory actions related to discovered violations
- OMMP retains oversight of medical cardholders, caregivers, and growers not tracked in CTS.

OMMP TRACKING PROGRAM OLCC RESPONSIBILITIES

- Current registrants who meet tracking criteria:
 - 459 grow sites
 - 1 dispensary (in Curry County)
 - 0 processors
- Current registrants by region:
 - Metro: 75
 - Eugene: 74
 - Medford: 311



AGENCY CHALLENGES

CRITICAL COMPONENTS OF SUCCESS

- Complete modernization of warehouse and IT to preserve state revenue
- Transformational alcohol policy work vital to pandemic recovery
- Marijuana regulatory reset
- Adapt and support agency growth

ALCOHOL FEE RELIEF DECISIONS

Background

- License Fees doubled in 2019
 - Liquor license Fees are in Statute (ORS 471.311); \$800 annual fee for bars and restaurants
- Rulemaking actions have allowed OLCC to defer license fees at renewal
- Status of On-Premises Backlog (Bars, Restaurants and Brewpubs)
 - 400 licenses with deferred payment (\$320,000)
 - 523 net drop in alcohol licenses since COVID started (\$420,000)

Legislative Options

- Pro-rate
- Forgive
- Forego the collection process for licensees who have closed

LEGISLATION

OREGON LIQUOR CONTROL ACT AND CANNABIS REGULATION

- 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 LEGISLATION

HB 2111 OLCC Name Change

- The “Oregon Liquor and Cannabis Commission” better describes the mission of OLCC and the breadth of the Commission’s responsibilities which includes oversight for both alcohol and marijuana licensing and compliance. The agency’s current name is confusing for the public and creates an impression for marijuana stakeholders that marijuana regulation is less important than alcohol. This change can be done without changing initials, allowing the agency to maintain its current branding and mitigate costs.

HB 2112 Liquor Price Agreements with Airlines and Tribes

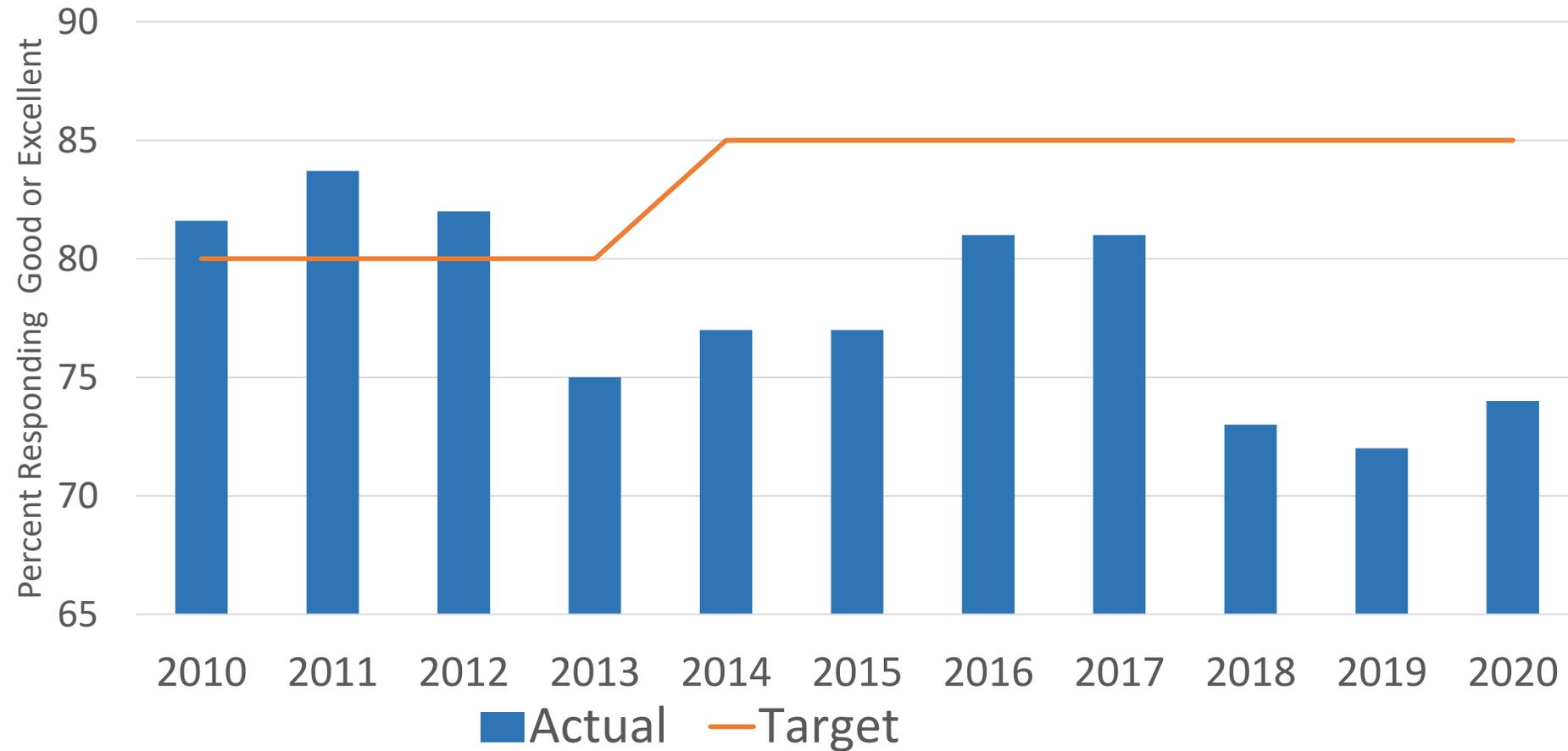
- OLCC seeks to clarify its authority to make agreements on prices of distilled spirits with tribes and add the authority to negotiate prices of distilled spirits with airlines. OLCC has a long standing agreement with tribes; an internal review indicated it would be best practice to memorialize this authority in statute. Under current law, OLCC is restricted from negotiating prices with airlines for products with specialized packaging not available to the general public. Amending the statute will allow OLCC to produce revenue through the sales of these unique products to airlines.

SB 96 Regulation of CBD Inhalant Systems

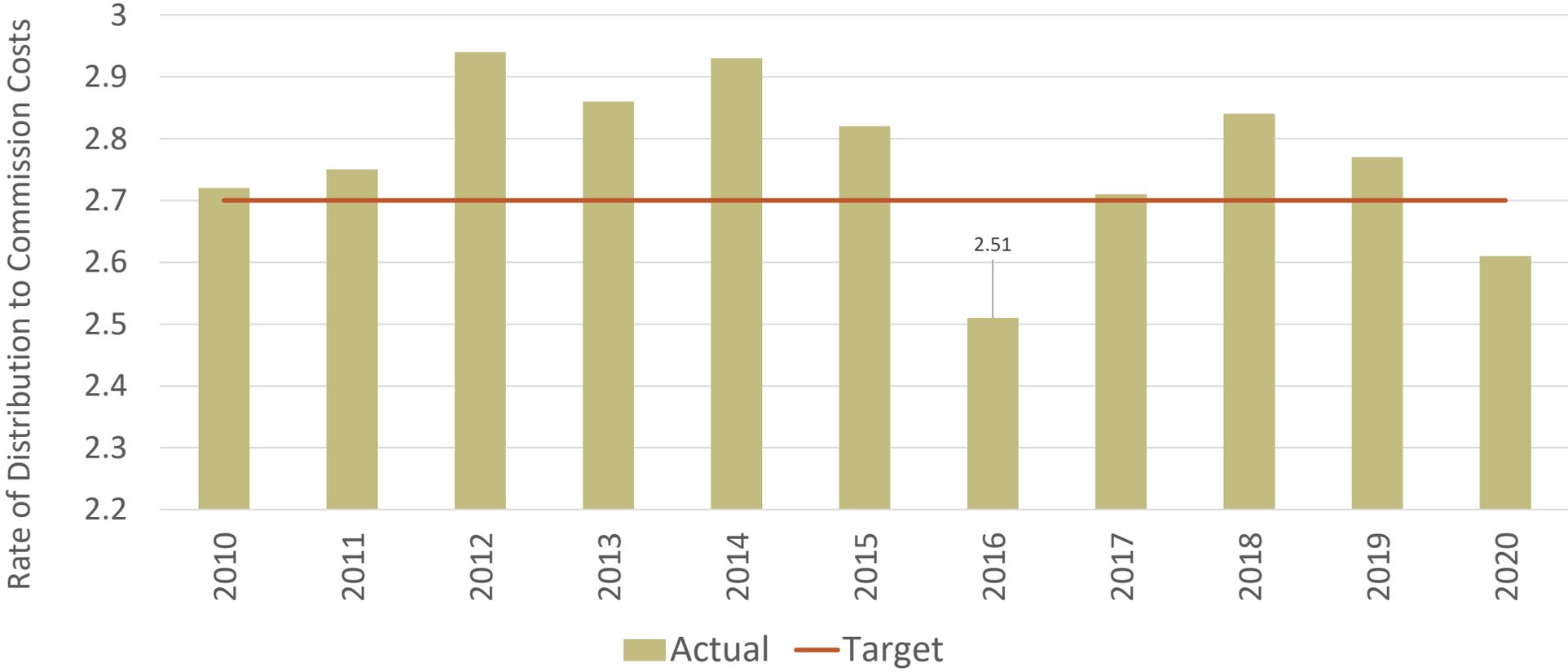
- The Governor’s Executive Order 19-09 reflects the concerns relating to minors and vape items. This legislative concept authorizes an agency to regulate hemp-derived CBD inhalant delivery systems and provides for testing of ingredients of hemp vaping devices similar to the tests conducted on the ingredients of marijuana inhalant delivery systems.

KEY PERFORMANCE MEASUREMENTS

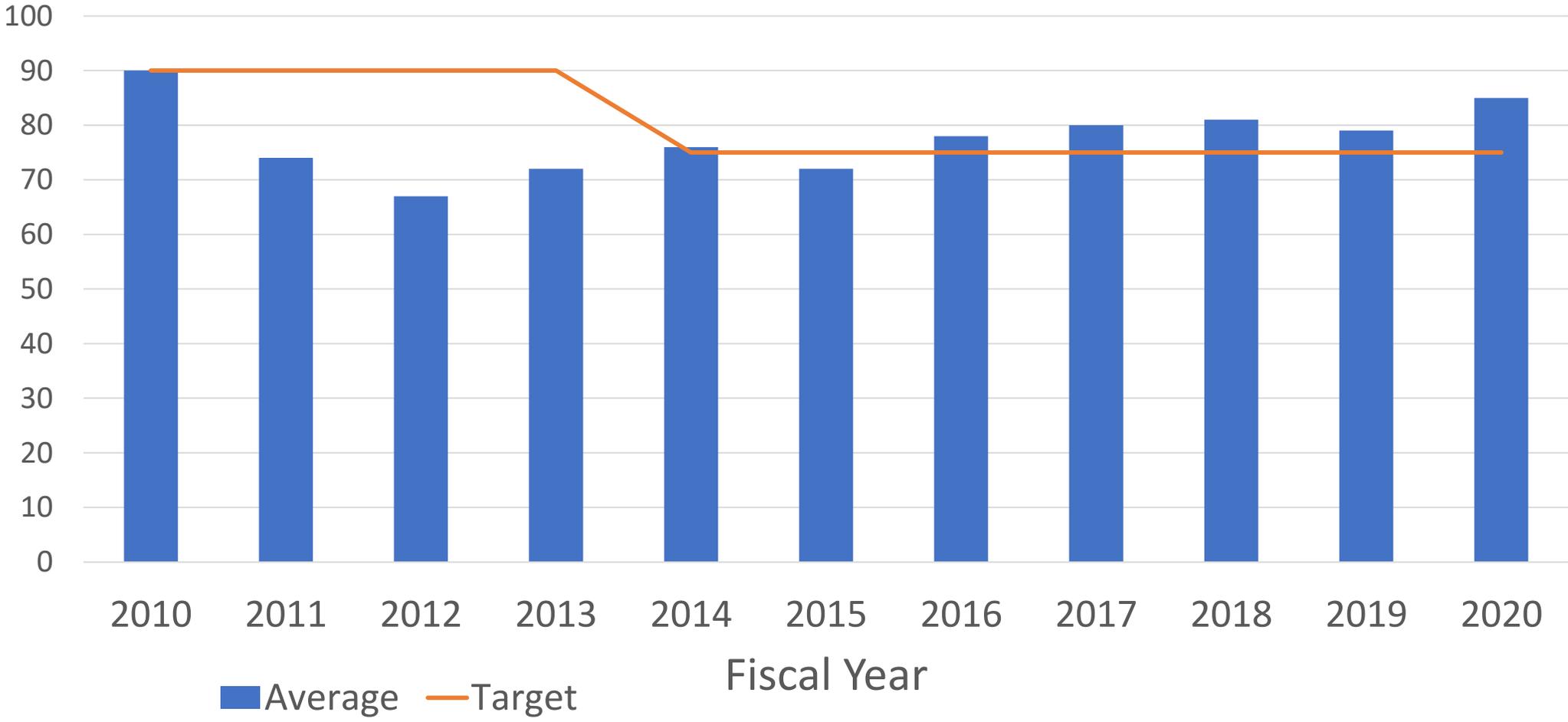
Customer Service Satisfaction Rates *KPM*



Revenue Returned per Dollar Spent *KPM*

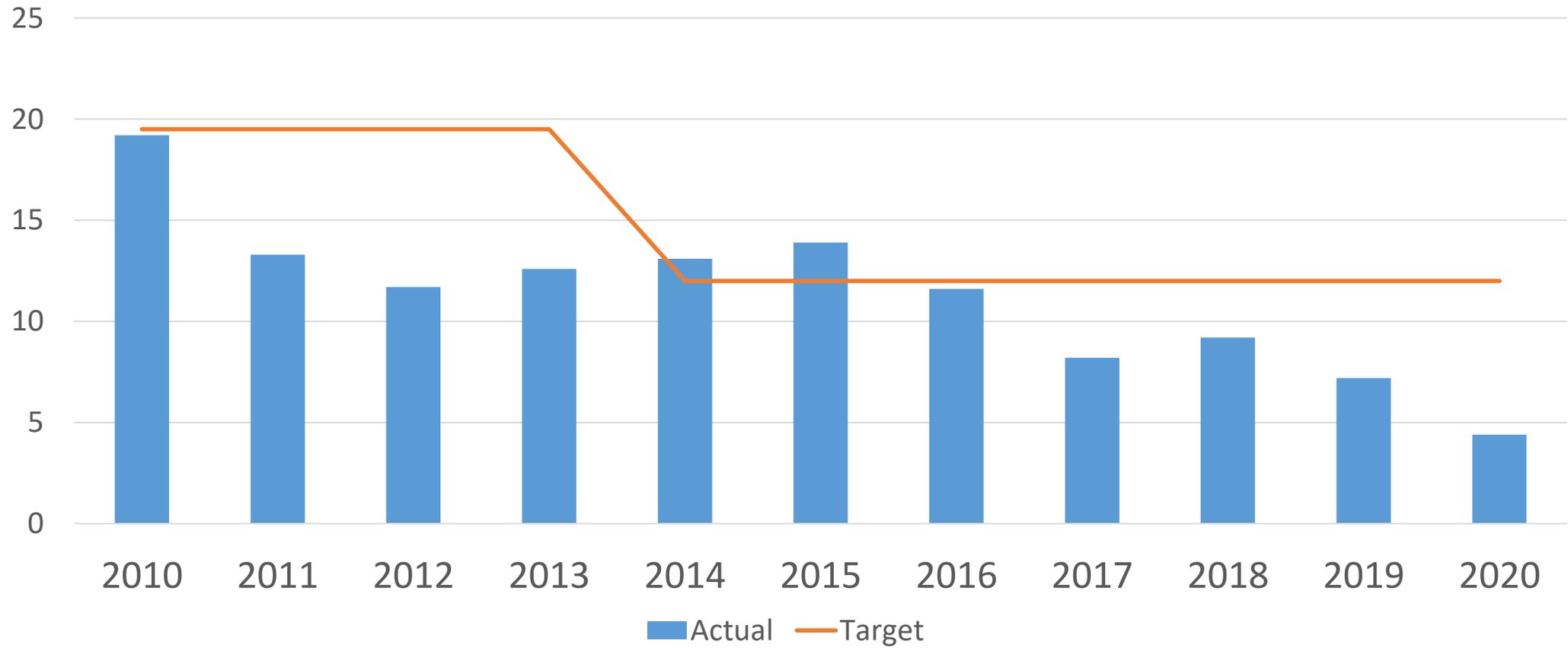


Average Days to Process Alcohol License Applications *KPM*



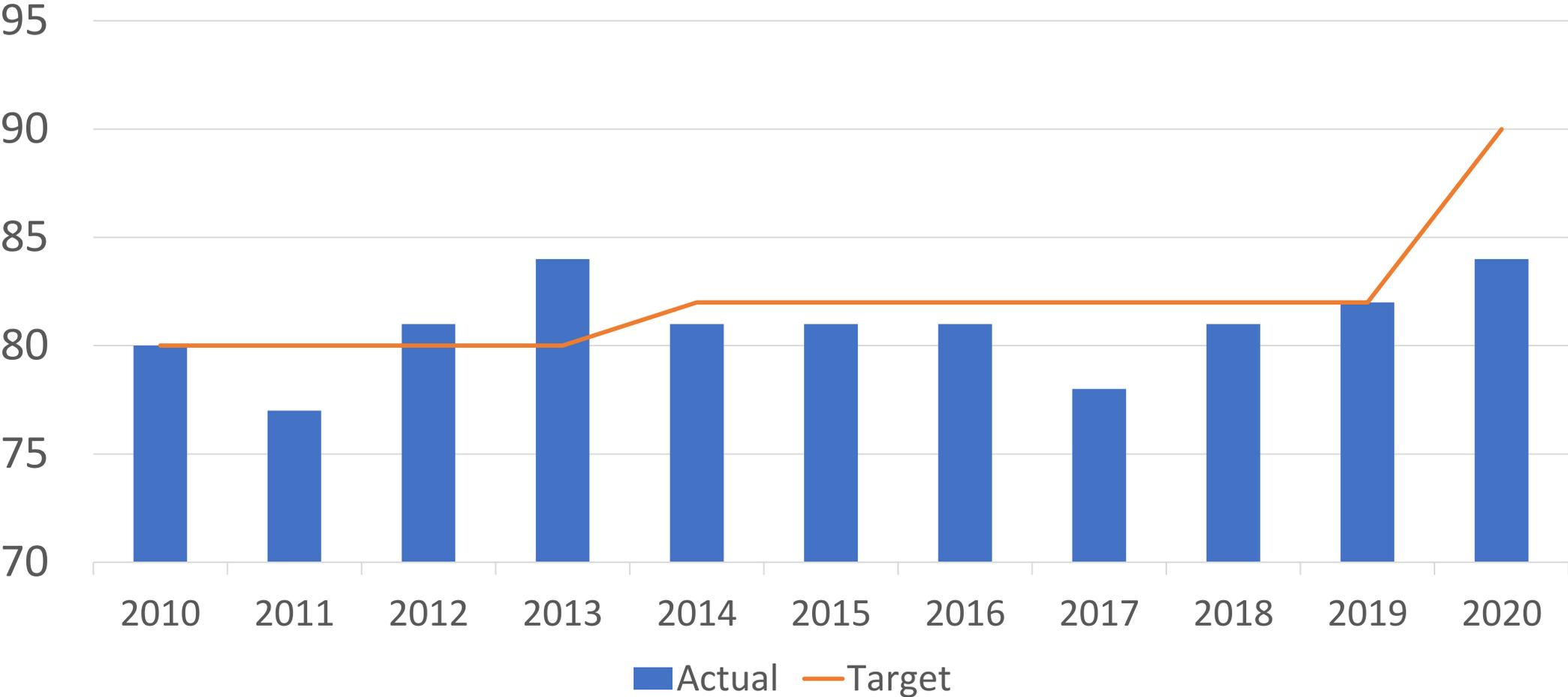
Rate of Second Violation Alcohol *KPM*

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



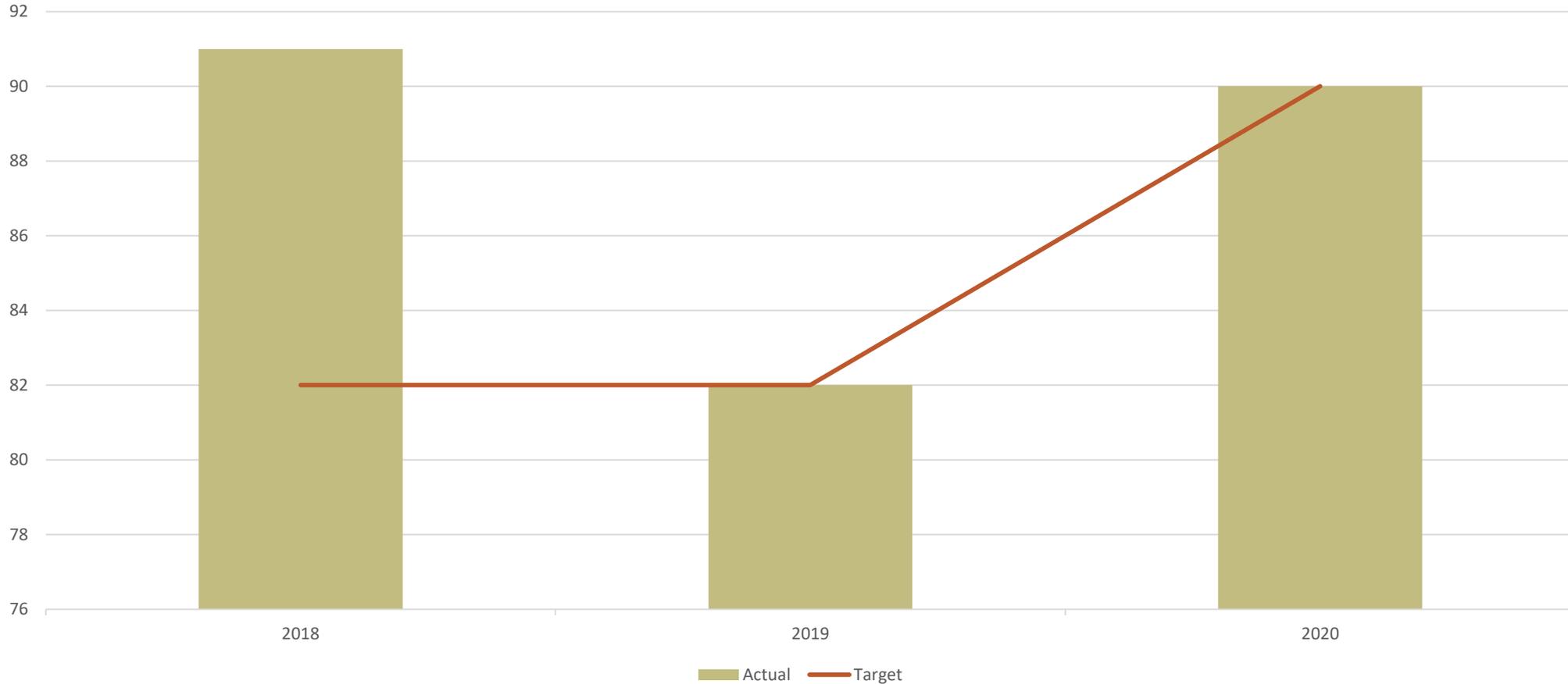
Minor Decoy Compliance Rate Alcohol *KPM*

Minor Decoy Compliance Rate

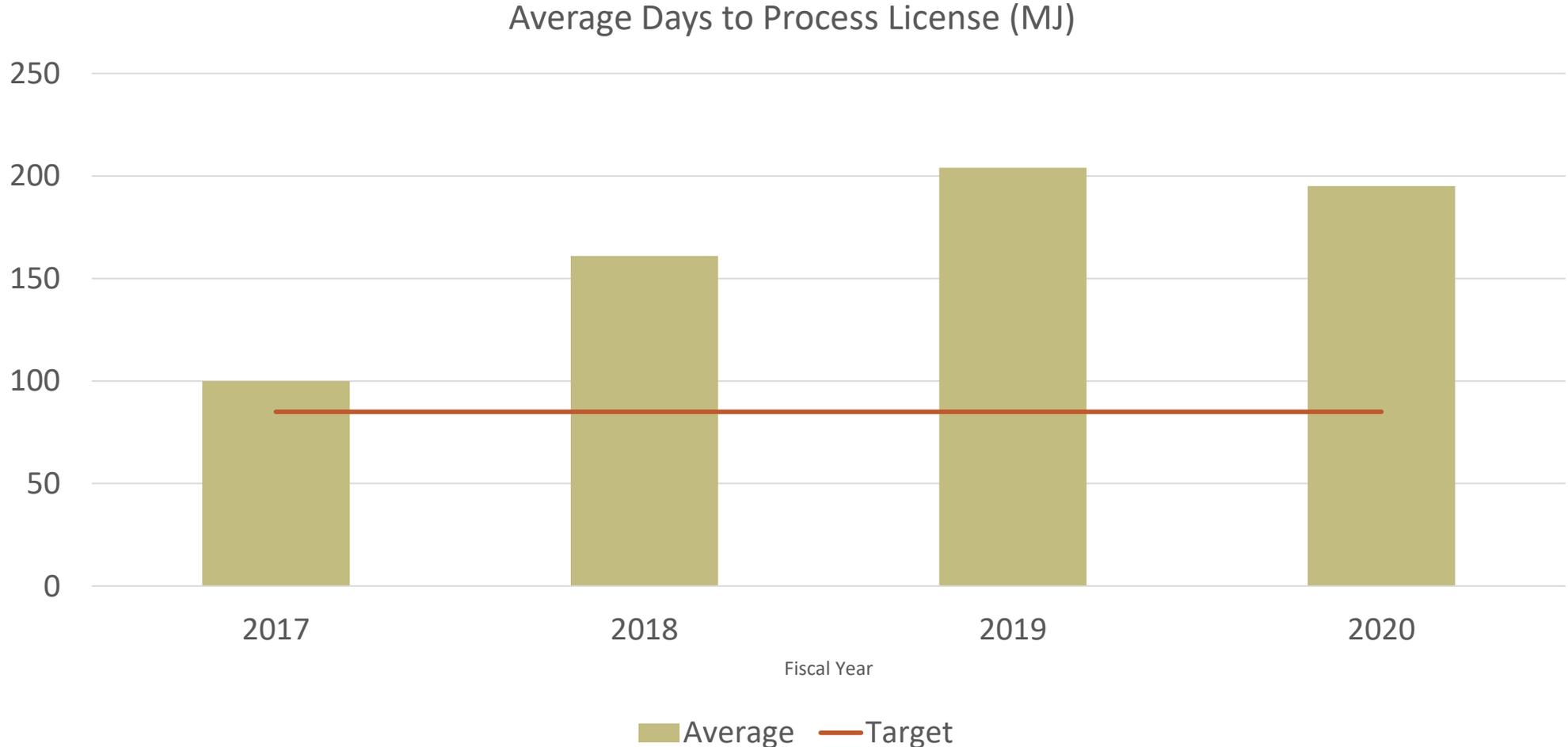


Minor Decoy Compliance Rate Marijuana *KPM*

Minor Decoy Compliance Rate MJ



Average Days to Process Marijuana License Applications *KPM*



ANALYST ADJUSTMENTS

ELIMINATION OF POSITIONS

Analyst Adjustments - Package #090

Governor's Budget

The following 5 vacant positions totaling \$887,494 were eliminated in the Governor's Budget:

- Position # 1500018 - Administrative Specialist 2 – Administration & Support Program (003)
- Position # 1500603 - Administrative Specialist 2 – Administration & Support Program (003)
- Position # 2600687 - Information Systems Specialist 4 – Administration & Support Program (003)
- Position # 6000163 - Regulatory Specialist – Medical Marijuana Program (006)
- Position # 6000176 - Regulatory Specialist – Medical Marijuana Program (006)

PSILOCYBIN REGULATION

Analyst Adjustments #090 \$153,600

Background

- Measure 109 legalized psilocybin for medicinal use as a potential treatment for behavioral disorders
- Measure 109 tasked OHA to “enter into an agreement with the Oregon Liquor Control Commission under which the commission shall permit the authority to use the system developed and maintained under ORS 475B.177 to track the transfer of psilocybin products between premises for which licenses have been issued under sections 3 to 129 of this 2020 Act.”

Governor’s Recommended Budget

- Includes funding to adapt OLCC’s Cannabis Tracking System to tracking psilocybin

INCREASE BOTTLE SURCHARGE FROM 50 CENTS TO 75 CENTS

REVENUE INCREASE \$20.4 million

Governor's Budget

Background

- A bottle surcharge is a fee that is placed on the sales of each bottle of distilled liquor
- A temporary 50-cent surcharge per bottle on distilled spirit products was imposed in April 2009 to generate funds to rebalance the state's 2007-2009 biennium budget
- Subsequently, every two years the commission approved the continuation of the 50-cent surcharge
- On October 15, 2020 the commission again approved the surcharge which was set to expire on June 30, 2021
- The 50-cent surcharge is forecasted to raise \$41.9 million which is distributed directly to the general fund
- Oregon has the second highest liquor prices (second to Washington) in the United States

Governors Recommended Budget

- Add an additional 25-cent surcharge on bottles of distilled liquor, raising it to 75-cents
- Revenue impact is \$20.4 million for the general fund

Change in the bottle surcharge requires a public comment period and Commission approval

10% REDUCTION OPTIONS

OLCC 21-23 GOVERNOR'S BUDGET

Reduction Options Summary

Budget Area	2021-23 CSL	10% Reductions
Bank Cards	\$ 17,937,266	\$ 1,793,727
Remainder of Distilled Spirits	\$ 15,649,896	\$ 1,564,990
Total Distilled Spirits	\$ 33,587,162	\$ 3,358,717
Public Safety	\$ 28,015,055	\$ 2,801,506
Admin & Support Services	\$ 30,441,465	\$ 3,044,147
Store Operating Expenses	\$ 148,383,772	\$ 14,838,377
Capital Improvements	\$ 237,745	\$ 23,775
Recreational Marijuana	\$ 21,042,547	\$ 2,104,255
Medical Marijuana	\$ 6,463,011	\$ 646,301
Totals	\$ 268,170,757	\$ 26,817,078

OLCC 21-23 GOVERNOR'S BUDGET

Reduction Option Details

ACTIVITY OR PROGRAM	DESCRIBE REDUCTION	AMOUNT AND FUND TYPE	RANK AND JUSTIFICATION
(WHICH PROGRAM OR ACTIVITY WILL NOT BE UNDERTAKEN)	(DESCRIBE THE EFFECTS OF THIS REDUCTION. INCLUDE POSITIONS AND FTE IN 2021-23 AND 2023-25)	(GF, LF, OF, FF. IDENTIFY REVENUE SOURCE FOR OF, FF)	(RANK THE ACTIVITIES OR PROGRAMS NOT UNDERTAKEN IN ORDER OF LOWEST COST FOR BENEFIT OBTAINED)
Distilled Spirits Program- Bank Card Fee Reduction	Reduce Bank Card Fees by 10% for the purchase of liquor. Do not accept credit cards in liquor stores for 3 months during the biennium.	\$1,794,000 (OF)	OLCC does not have the ability to control the use of bank cards by consumers wishing to purchase distilled spirits. A reduction in this limitation would require OLCC to restrict or eliminate use of credit cards in 55 stores around the state.
Distilled Spirit Program –Distribution Center	Eliminate 12 FTE from the warehouse swing shift: 3 Equipment Operators, 1 PEM B, 1 Gen Mechanic, 7 Liquor Distribution Worker 1s. Combine remaining FTE into day shift.	\$1,564,990 (OF)	Elimination of the swing shift will significantly reduce the capability to ship and store liquor. Liquor sales will be significantly reduced and the variety of spirits shipped will be reduced including Oregon Craft Spirits.
Public Safety-Regulatory and Licensing	Eliminate 15 positions including the Salem Regional Office and Combine with Portland. Eliminate field offices including Corvallis, Roseburg, Newport, Coos Bay, K Falls, and Pendleton; 1 PEM D, 1 Office Specialist 2, 1 Admin Specialist 1, and 12 Liquor Regulatory Specialists	\$2,801,506 (OF)	The reduction will significantly impact the ability to license liquor businesses and enforce liquor laws. The reduction would provide minimal coverage to the Salem area and other rural areas of the state. Liquor license applications will have to be sent to other offices to be able to. Process slowing down the time to license.

OLCC 21-23 GOVERNOR'S BUDGET

Reduction Option Details

ACTIVITY OR PROGRAM	DESCRIBE REDUCTION	AMOUNT AND FUND TYPE	RANK AND JUSTIFICATION
(WHICH PROGRAM OR ACTIVITY WILL NOT BE UNDERTAKEN)	(DESCRIBE THE EFFECTS OF THIS REDUCTION. INCLUDE POSITIONS AND FTE IN 2021-23 AND 2023-25)	(GF, LF, OF, FF. IDENTIFY REVENUE SOURCE FOR OF, FF)	(RANK THE ACTIVITIES OR PROGRAMS NOT UNDERTAKEN IN ORDER OF LOWEST COST FOR BENEFIT OBTAINED)
Support Services	Eliminate 12 positions: Policy and Analytics, and Information Technology; 2 ISS6's, 1 Admin Specialist 2, 1 Internal Auditor, 2 Compliance Specialist 3s, 2 Research Analyst 4s, 2 OPA3s, 1 Public Affairs Specialist 3, 1 Public Affairs Specialist 1.	\$3,044,147 (OF)	This reduction eliminates 80 percent of the policy, business analysis resource and information technology resource of the agency. Alcohol server education, rulemaking, bottle bill regulation, analytics, and public affairs will be significantly reduced posing significant risk to agency processes and reputation.
Store Operating Expense	Reduce the average compensation rate for Oregon Liquor Stores and Distillery Agents from 9.14% to 8.23%	\$14,838,377 (OF)	Reduction in liquor store funding will reduce service levels to Oregonians and will cause some stores to cease operations. Reduced service levels could create reputational risk for the Oregon liquor system. State revenues from liquor sales would be at risk for significant reduction.
Capital Improvement	Reduce facility repair and enhancements	\$23,775 (OF)	Risk to current infrastructure
Recreational Marijuana	Eliminate 11 positions; 9 regulatory specialist, 1 Admins Specialist 1 & 1 Compliance Specialists 1	\$2,104,255 (OF)	Eliminate currently vacant positions in program. Impact will be to delay and prolong processing of new licenses and extend the backlog of license applications.
Medical Marijuana	Eliminate 4 Positions; 1 Admin Spec 1, 1 OPA3, and 2 Regulatory Specialists	\$646,301 (OF)	Eliminate currently vacant positions.

OLCC'S MISSION

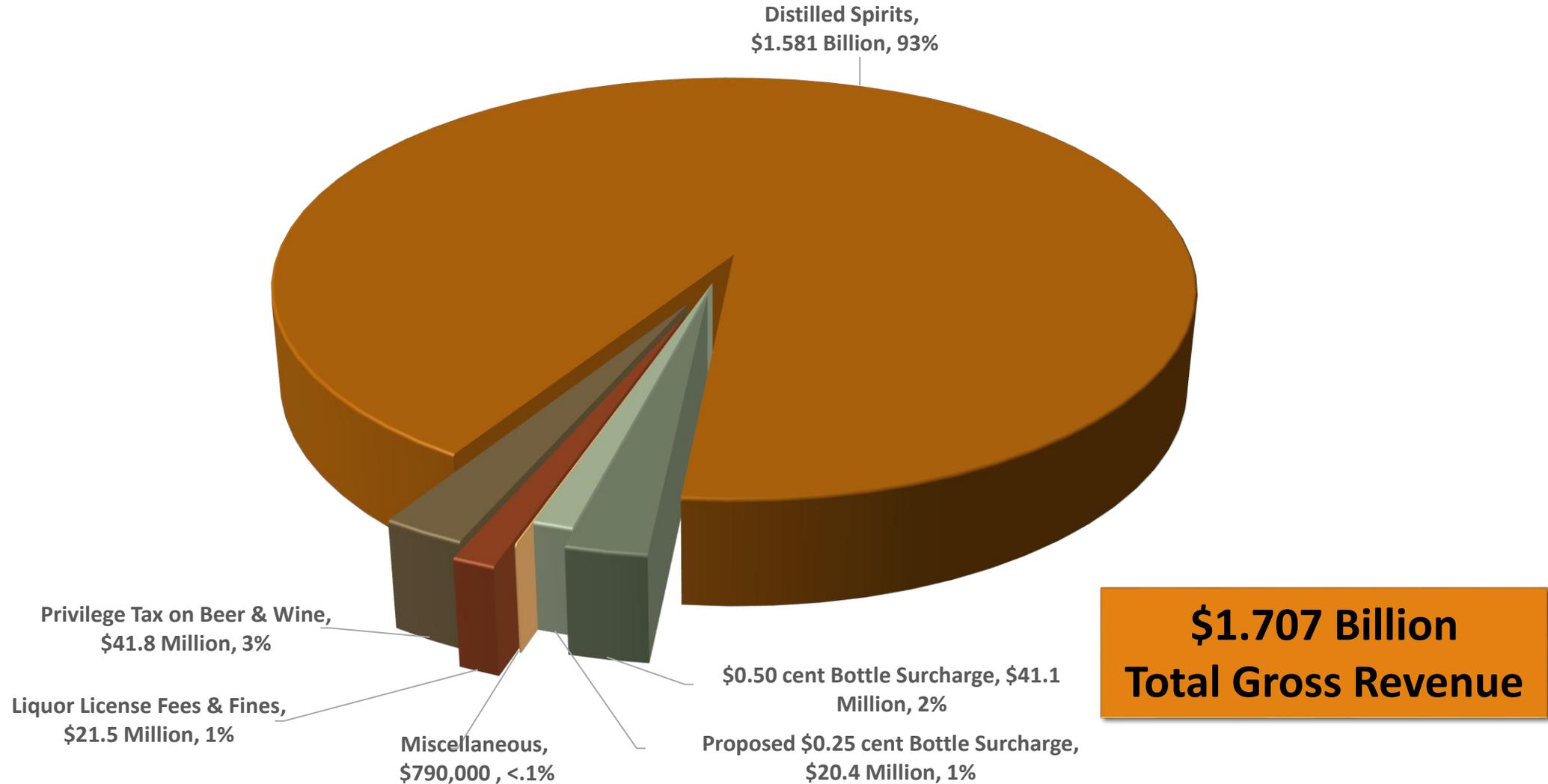
Support businesses, public safety,
and community livability
through education and the enforcement
of liquor and marijuana laws.



APPENDIX

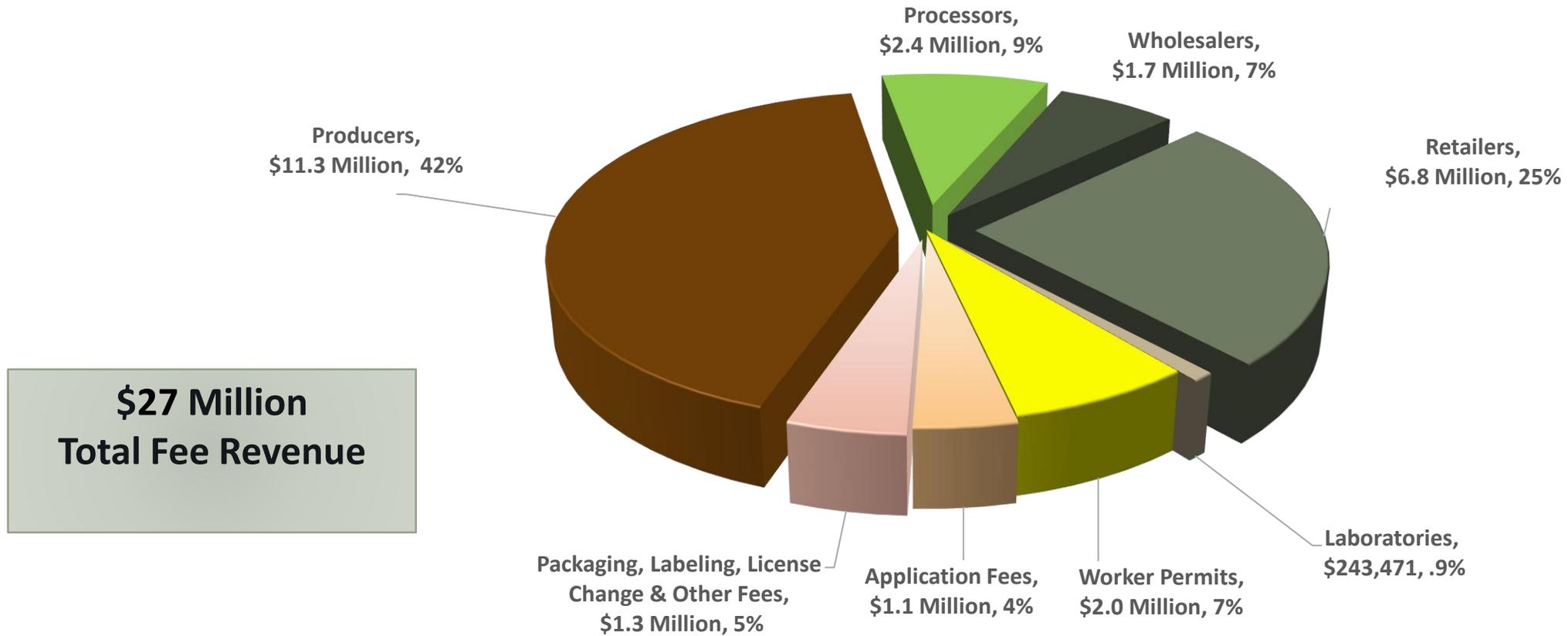
PROJECTED GROSS ALCOHOL REVENUE SOURCES

2021-23 GOVERNOR'S BUDGET



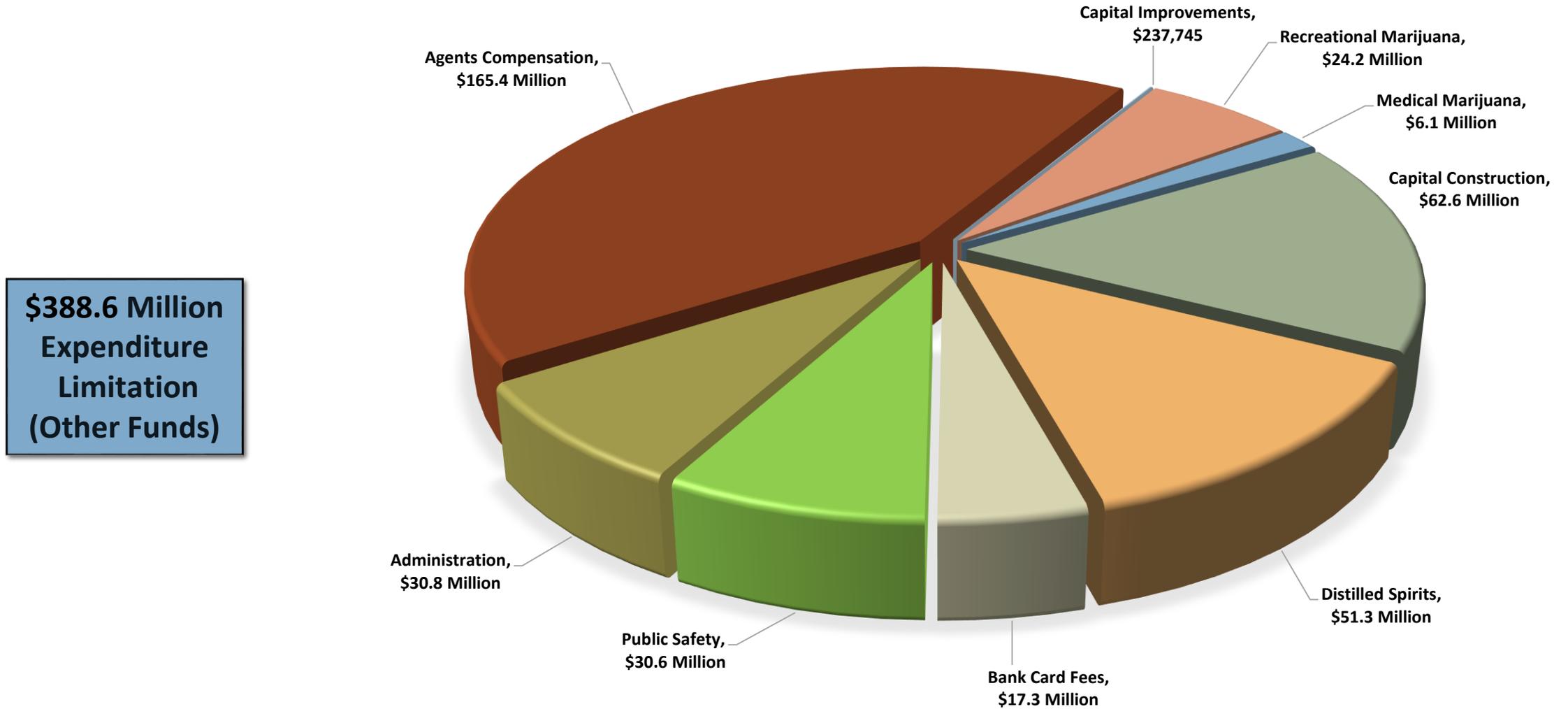
MARIJUANA LICENSE & FEE REVENUE

2021-23 GOVERNOR'S BUDGET - Fee Revenue



OLCC BUDGET EXPENDITURES

2021-23 GOVERNOR'S BUDGET



OLCC COMBINED BUDGET HISTORICAL DATA

Oregon Liquor Control Commission – Alcohol and Marijuana				
	2019 – 21 LAB	2021 – 23 CSL	2021 – 23 ARB	2021 – 23 GB
General Fund	-	-	-	-
Lottery Funds	-	-	-	-
Other Funds	\$247,046,671	\$268,170,757	\$394,515,814	\$388,546,500
Other Funds Non-Limited	-	-	-	-
Federal Funds	-	-	-	-
Federal Funds Non-Limited	-	-	-	-
Total Funds	\$247,046,671	\$268,170,757	\$394,515,814	\$388,546,500
Positions	364	363	401	391
FTE	362.00	361.00	397.25	388.71

AUDITS

Results of agency audits performed by Secretary of State or Joint Legislative Audit Committee since February 2018

Secretary of State *FY2019 Statewide Financial Management Audit* letter dated 12/27/19.

- No deficiencies were noted in agency internal controls.

Secretary of State Audit #2019-23 dated 5/29/19 was a follow-up to SOS audit #2018-07 regarding *OLCC Cannabis Information Systems*

- 15 of 17 recommendations were implemented, with 2 recommendations (implementing change management processes and documenting disaster recovery plans) deferred while the replacement licensing system is developed, and while the state data center move is completed. OLCC's disaster recovery plan will need to incorporate elements of the disaster recovery plan developed for the state data center.

Secretary of State Audit #2019-04 dated 1/25/19: *Oregon's Framework for Regulating Marijuana should be strengthened to better mitigate Diversion Risk, and Improve Laboratory Testing*

- The audit scope covered both OLCC and OHA processes; and included 8 OLCC recommendations, and 9 OHA recommendations.
- Management agreed with all 8 OLCC recommendations.

Secretary of State Audit *FY2018 Statewide Financial Management Audit* dated 12/17/18

- No deficiencies were noted in agency internal controls.

Secretary of State *FY 2017 Statewide Financial Management Audit #2017-009* dated 3/8/18

- A significant deficiency was noted in internal controls related to system access.
- Management agreed with the 2 recommendations. Corrective action was taken in June 2018 - along with going forward on a quarterly basis.
- An 8/21/19 status update was communicated by the OLCC CFO to DAS-SARS.

OLCC Policy Option Packages which address audit findings

POP	POP Description	Audit Reference	Helps Address Audit Findings / Recommendations
303	Information Services Management & Support Package: The 21-23 Agency Request Budget (ARB) requests three Principal/Executive Manager Ds: 1 PMO & Vendor Relationship Manager 1 IT Operations Manager 1 Solutions Development & Delivery Manager.	SOS #2019-23, Recommendations #4-17	Monitor SAAS vendors for security, hosting, & SLA compliance; Ensure data is appropriately transmitted to the Marijuana Licensing System (MLS) and Cannabis Tracking Systems (CTS); establish processes for granting & reviewing MLS & CTS access; implement change management processes; maintain an up-to-date inventory of authorized hardware & software on the OLCC network; implement configuration processes; develop network vulnerability scanning processes; implement an anti-virus solution on servers and workstations; transition software off obsolete platforms; review physical access procedures; develop a process to remediate risk assessment weaknesses and routinely evaluate agency security posture; develop disaster recovery plan and test periodically.
409	Marijuana Licensing Specialists Package: The 21-23 ARB requests twelve Licensing Specialists , along with one Information Services Specialist 6 focused on providing extensive technical support and application development to help integrate OLCC data and web-based applications used by Recreational Marijuana licensing and enforcement staff.	SOS #2019-23, Recommendations #5-6	Ensure data is appropriately transmitted to the Marijuana Licensing System (MLS) and Cannabis Tracking Systems (CTS); Establish processes for granting & reviewing MLS & CTS access.
204	Alcohol Compliance & Licensing Staff - POP #204 requests 9 positions, including: 1 Principal Exec Mgr. C - Licensing 1 Principal Exec Mgr. D - Compliance 1 Principal Exec Mgr. G - Compliance (limited duration)	SOS #2019-04, Recommendation #3	Establish inspection frequency goals and metrics and determine how many inspectors are needed to meet these goals. If the current number of inspectors is too low, work with the legislature to identify additional funding options. Periodically reassess inspection goals and metrics, and whether the number of inspectors aligns with them.

LIQUOR AGENTS CURRENT COMPENSATION FORMULA

RETAIL LIQUOR AND DISTILLERY AGENT COMPENSATION

Commission selects retail liquor agents (competitive)

Contracts/Operational Requirements

Compensation

- Base + Commission (8.38% Licensee Sales; 6.54% Consumer Sales)
- **OLCC floors the cost of inventory**
- **OLCC pays credit card fees for sales of distilled spirits**
- **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 (8.38% Licensee Sales, 6.54% 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

CALCULATION OF COMPENSATION LIMITATION

- The Oregon State Legislature establishes a “limitation” amount during the budget process
- The limitation is determined by the Gross Sales Revenue forecast multiplied by the authorized “average approved percentage “
- The “average approved percentage” is **not** the compensation rate paid to every agent. It is a system-wide **average** payout target that effects the variable rates for the compensation formula. This is the maximum available pool for paying the compensation.
- Regardless of actual sales recorded in the biennium, OLCC can not exceed the maximum limitation without additional legislative approval

CURRENT AGENT COMPENSATION FORMULA

- Once the limitation amount is set by the Legislature, OLCC monitors the compensation formula to meet the established criteria. The formula is composed of four elements:
 - Base compensation (plus)
 - Deferred compensation (plus)
 - Variable compensation for consumer sales (plus)
 - Variable compensation for gross licensee sales (total before 5% discount)
- ***Variable rates paid for consumer and licensee sales change*** during the biennium due to the constricting nature of the limitation; the rates are impacted by the ratio of consumer to licensee sales, the number of agents in each base compensation class, and the number of agents taking deferred compensation

BASE COMPENSATION

- Base compensation is paid to agents as a function of their “Class” regardless of actual sales in a month. ***OLCC estimates the total amounts necessary for the biennium needed to pay base compensation***

Classes

- Non-exclusive – up to \$1,425 month
- Class 1 – up to \$1,425 /month
- Class 2 - \$1,660/mon
- Class 3 - \$1,920/month
- Class 4 - \$2,348/month
- Class 5 - \$2,440/month
- Class 6 - \$2,700/month

Annual Sales

- \$0 to \$209,999
- \$210,000 to \$499,999
- \$450,000 to \$749,999
- \$750,000 to \$1,049,000
- \$1,050,000 to \$1,649,999
- \$1,650,000 and up

VARIABLE RATES

Background

- The agency estimates the proportion of forecasted gross sales that will be sold to individual consumers for the biennium. **A variable rate is established that will be used to compensate agents during the biennium for their actual proportion of consumer sales.** For the presentation example, the rate is 8.15%
- OLCC estimates the proportion of forecasted gross sales that will be sold to Licensees for the biennium. **A variable rate is established that will be used to compensate agents during the biennium for their actual proportion of Licensee sales.** For the presentation example, the rate is 6.36%

GROSS COMPENSATION CALCULATION FORMULA ELEMENTS ESTIMATES FOR 2015-17 BIENNIUM

Estimated base compensation	\$14,360,000	14%
Estimated deferred compensation match	<u>\$ 550,000</u>	1%
Preliminary fixed elements	\$14,910,000	15%
Preliminary compensation on consumer sales @ 8.15%	\$64,868,000	63%
Preliminary compensation on Licensee sales @ 6.36%	<u>\$22,792,000</u>	22%
Preliminary calculation of compensation Elements to pay 8.93% approved rate	<u>\$102,570,000</u>	100%