



Oregon

Kate Brown, Governor

Liquor Control Commission

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Legislative Testimony

Oregon Liquor Control Commission

April 28, 2021

The Honorable Senator Fred Girod, Co-Chair
The Honorable Paul Holvey, Co-Chair
Joint Committee on Ways and Means Subcommittee on Capital Construction
900 Court Street NE
H-178 State Capitol
Salem, OR 97301-4048

RE: SB 5506 Construction Funding for OLCC Liquor Warehouse and Headquarters

Dear Co-Chairpersons:

The Oregon Liquor Control Commission requests spending limitation in SB 5506 to support the construction of a new warehouse and office facility. Internal and external studies have determined that the warehouse and central office are at capacity, requiring substantial investments to maintain operations. In June 2020 the Capital Projects Advisory Board approved the project for construction of a new warehouse and headquarters to address these space constraints. Capacity limitations negatively affect revenues by limiting the possibility of new product listings and constricting new store expansion.

The Oregon Liquor Control Commission focuses on producing and growing stable revenue for the support of public programs. This request addresses the critical need to increase warehouse capacity. The primary warehouse facility for liquor distribution was built in 1954 and shipped 850,000 cases annually. In 2019 it shipped 3.5 million. Currently the warehouse operates at 98% capacity year-round, with 100% capacity during peak holiday sales. The industry standard for distribution facilities is 80-85% storage utilization to accommodate seasonal variances in sales. 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. Short-term tactics such as utilizing vertical space, reducing the number of SKU's and reducing days of supply have been implemented to help bridge the gap until a new warehouse can be constructed. Beyond the future capacity issues, the current facility is aging and will require significant investment to remodel and provide the seismic upgrades required.

Without relocation these space constraints will impede OLCC's ability to produce and grow stable revenues for the support of public programs. The warehouse and IT warehouse management system

that supports the sale of distilled spirits in Oregon currently generates \$3.2 million a day in revenue. The warehouse capacity issues will severely limit the ability to fulfill spirits demand in the future. The ten-year revenue at risk is \$1.5 billion, \$589 in distributable revenue. It will also limit the number and types of products offered for sale in the state, including Oregon-made distilled products.

OLCC has requested approval in SB 5505 for three Article X1-Q bonds to: 1) purchase land and construct a warehouse and office facility, 2) purchase a conveyor system, and 3) replace the primary agency legacy systems for warehouse management, licensing and enforcement. This combined request provides a “turn-key” solution to growth that will be move-in ready. Bonds issued for these projects are not subject to General Fund Debt Capacity since repayment is supported by Other Funds and not the General Fund. The bonding package outlined in SB 5505 lowers the overall limitation for the 2021-23 biennium and increases the funds available for distribution.

The construction funding request in SB 5506 is outlined below:

Construction Funding Request

Liquor Warehouse Conveyor	\$10,000,000
Liquor Warehouse Land and Building	\$52,547,265

OLCC’s current business strategy is to open new stores to accommodate growth in population, actively seek opportunities to profitably expand product selection, and support Oregon’s growing distillery industry. Moving is the best solution from both an operational perspective as well as a financial perspective. Please see the attached PowerPoint for graphical representations of the distribution challenges, space sensitivity analysis, financial risk, revenue distribution impact, and timeline. Occupancy for the new facilities is slated for May 2024.

OLCC’s CFO Bill Schuette is managing the projects integration within the budget processes and he may be reached at 503-872-5023. The OLCC welcomes the opportunity to address any issues related to the necessary approval of the warehouse capacity project.

Sincerely,



Steven Marks
Executive Director