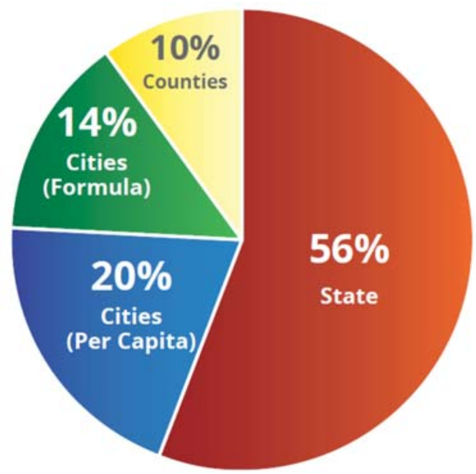
League of Oregon Cities

Preserve Local Liquor Revenues

There are at least three concepts being discussed this session that would reduce local revenues from the sale of alcohol. These concepts may have laudable goals, but should not all be done at the same time due to the effect on local revenues.

Distribution of Liquor Revenues



- At roughly $87.5M per year for cities and $26M for counties, revenues from the sale of beer, wine, and liquor are a critical state shared revenue source. Cities and counties are preempted from levying their own taxes on alcohol.
- We are uncertain of what the total revenue hit would be, but between the three concepts an estimate of between $30M and $40M per biennium seems likely. We assume 44% of this cost would be borne by local government and would grow with sales, this would reduce local revenues by 6 to 7% of 2020 levels.
- Revenue from the sale of alcohol is an unrestricted revenue source; meaning local governments have the flexibility to use this money for core services like police, fire, parks, libraries, and community health.
- Local governments likely lose money on alcohol, a 2011 study showed alcohol related public safety and human services costs at $109M, versus $74M in revenues. Increasing liquor sales increases public safety and health costs, despite OLCC claims locals are not convinced we can make up costs on uncertain projections of increased sales volume.
- Changing how this money is used, even if it benefits local communities, would take away control from budget committees and the public process whereby they decide spending priorities with input from local residents.

HB 2740/POP 108 is an OLCC concept to increase agent compensation at liquor stores, especially in urban areas with higher business costs. Proponents indicated in 2020 that the revenue loss would be $13.4M per biennium, it has likely grown since then to be closer to $15M per biennium. This ongoing cost will grow with liquor revenues and indexing. Compensation was last increased by $3M in 2019.

- We are not aware that any liquor store has ever closed due to profitability concerns, and there are always numerous applicants for any new license. Sales volumes are up, and more private sales (as opposed to bars and restaurants) have likely meant higher commissions. The need for this change is dubious at best.
- OLCC came up with this revised formula in closed meetings with only liquor store owners at the table. Asking cities and counties to pay for this overly generous formula with no input is unfair.

The second proposal, SB 316/POP 110 would decrease revenues going to local government by 28% on the first $250,000 in retail sales out of distillery tasting rooms by increasing agent compensation. OLCC had indicated in 2020 that the reduced revenue related to this change would be $3.5M per biennium, this cost will grow with the market.

- Cities and counties support Oregon businesses, and have demonstrated this commitment through forgone revenue on property taxes and other economic development incentives.
- We would like to see the state fund this economic development program, and OLCC should realize cost savings as these bottles will not go through their warehouse.
- We are more sympathetic to this change given potential economic development benefits, but would prefer that the legislature fund this priority out of OLCC savings.

The third concept under discussion this session, POP 101, is a proposal for a new OLCC warehouse to be funded through bonds repaid out of liquor revenues. Cities and counties acknowledge the need for added warehouse capacity to keep this revenue source strong. In conversations with OLCC, a rough, preliminary, estimate of $20M per biennium in bond payments was discussed and budget documents indicate a cost closer to $15M per biennium. Again, we acknowledge this as a necessary cost, but it reinforces the fact that this is not the time to make other changes that will reduce revenues.

We do not oppose 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 and wine.
- The state currently levies a $0.50 per bottle surcharge 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.

Constitutional limits on property taxes and state preemptions on many other revenue sources leave cities and counties with limited options for funding essential services, many jurisdictions are struggling. Local governments are looking at reductions in other state shared revenue sources; including a 72% loss ($45.8M) in state marijuana tax revenues for 2021-23 due to Measure 110, a drop in tobacco revenues as smoking declines (hopefully) after the $2 per pack cigarette tax increase, and losses in gas tax dues to reduced driving during the pandemic. The most recent revenue forecast projected the 2019-21 general fund ending balance at $1.8B. It is unfair to ask local governments to fund these legislative priorities at this time.

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