

OREGON LIQUOR & CANNABIS COMMISSION

PRESENTATION TO WAYS AND MEANS SUBCOMMITTEE ON
TRANSPORTATION AND ECONOMIC DEVELOPMENT

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APRIL 4-12, 2023

AGENCY OVERVIEW

OLCC Vision, Mission, & Values

Vision: Safety and prosperity for Oregon residents.

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

Values:

- *Inclusive*
- *Collaborative*
- *Bold and Innovative*



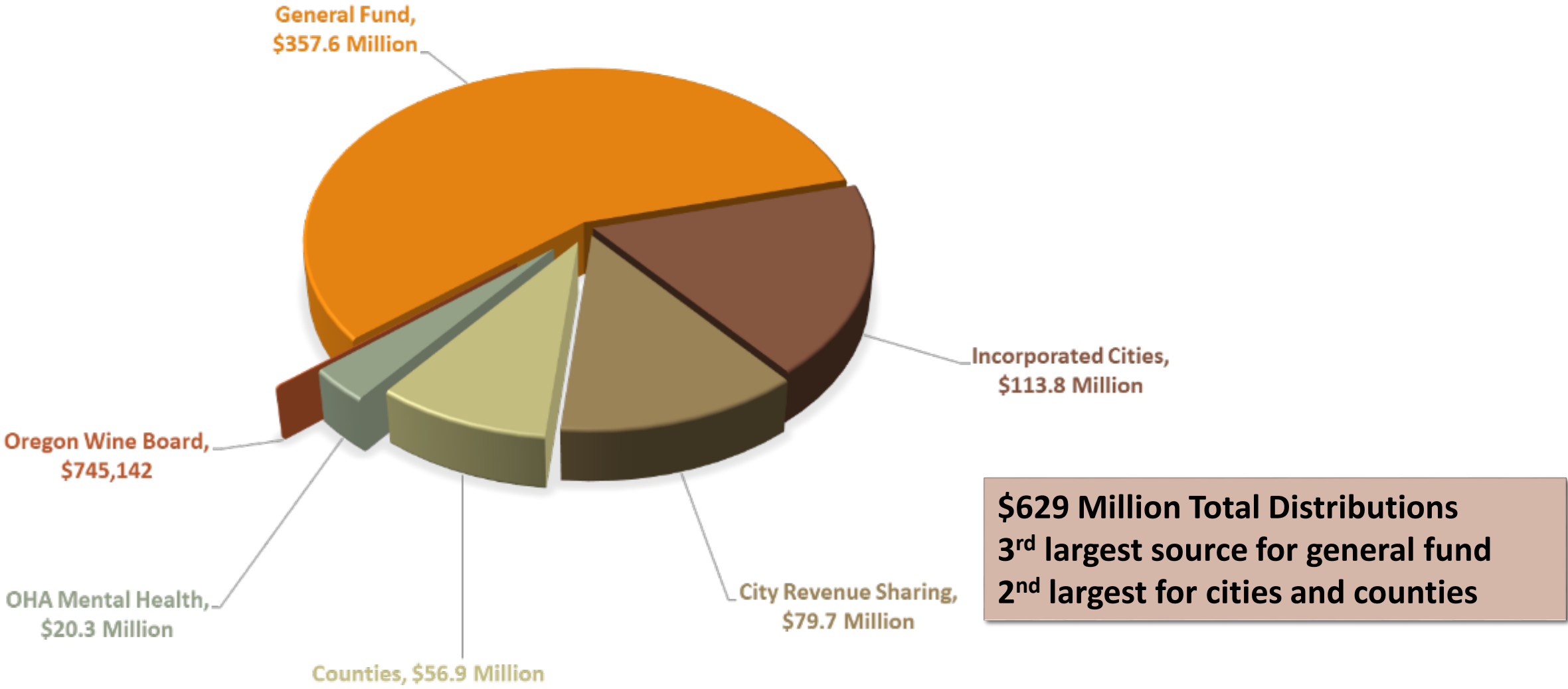
OLCC's Mission

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

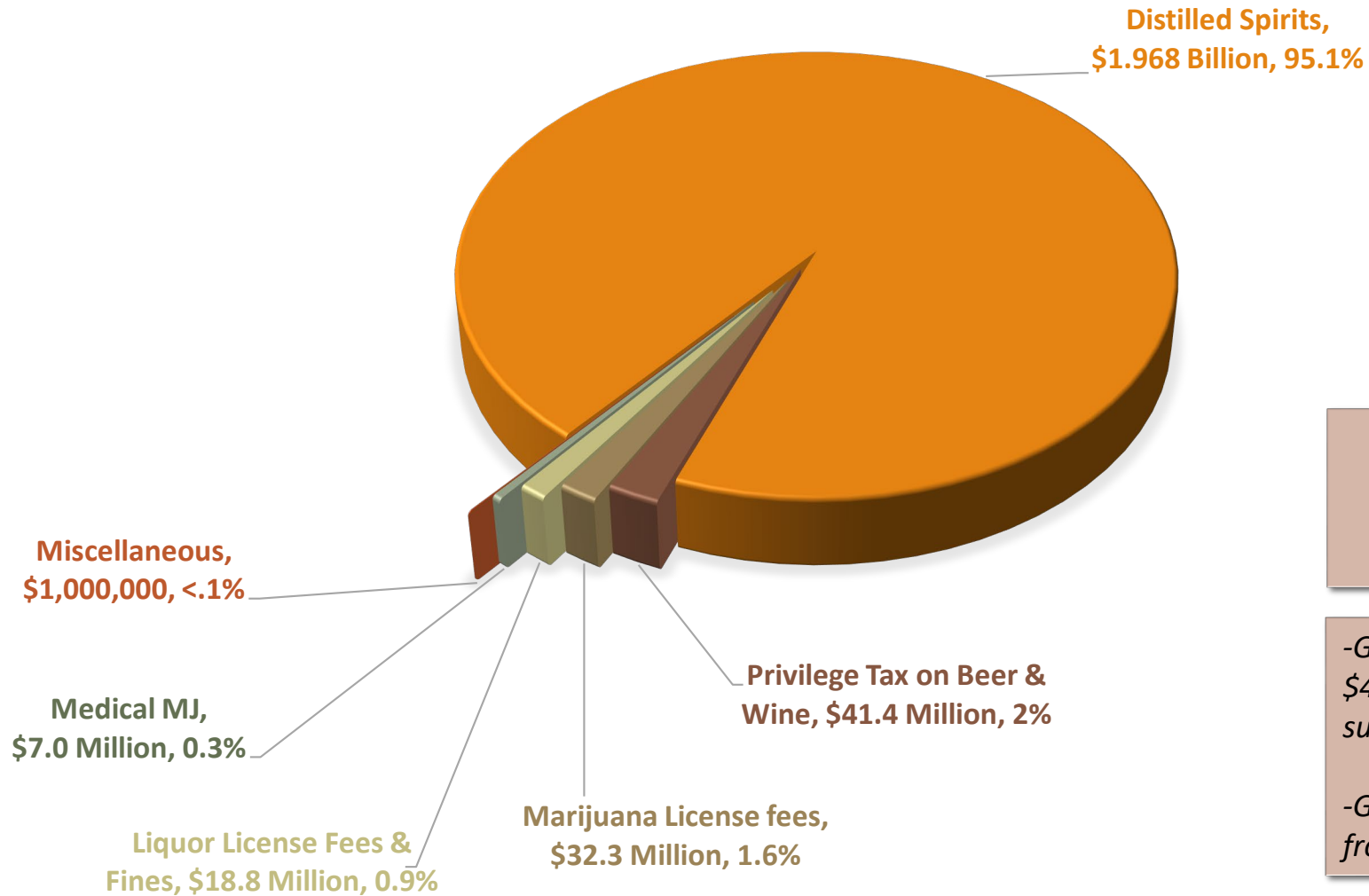
OVERVIEW

- **Third largest generator of public funds**
 - *2021-23 estimated \$629 million* in liquor revenue distributed to general fund, cities and counties
 - *2021-23 estimated \$300 million* in marijuana tax revenue distributed to drug treatment and recovery, schools, cities, counties, state police and mental health (March 2023 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
 - Track transfers 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

2021-23 PROJECTED ALCOHOL NET REVENUE DISTRIBUTION



2023-25 PROJECTED GROSS REVENUE SOURCES



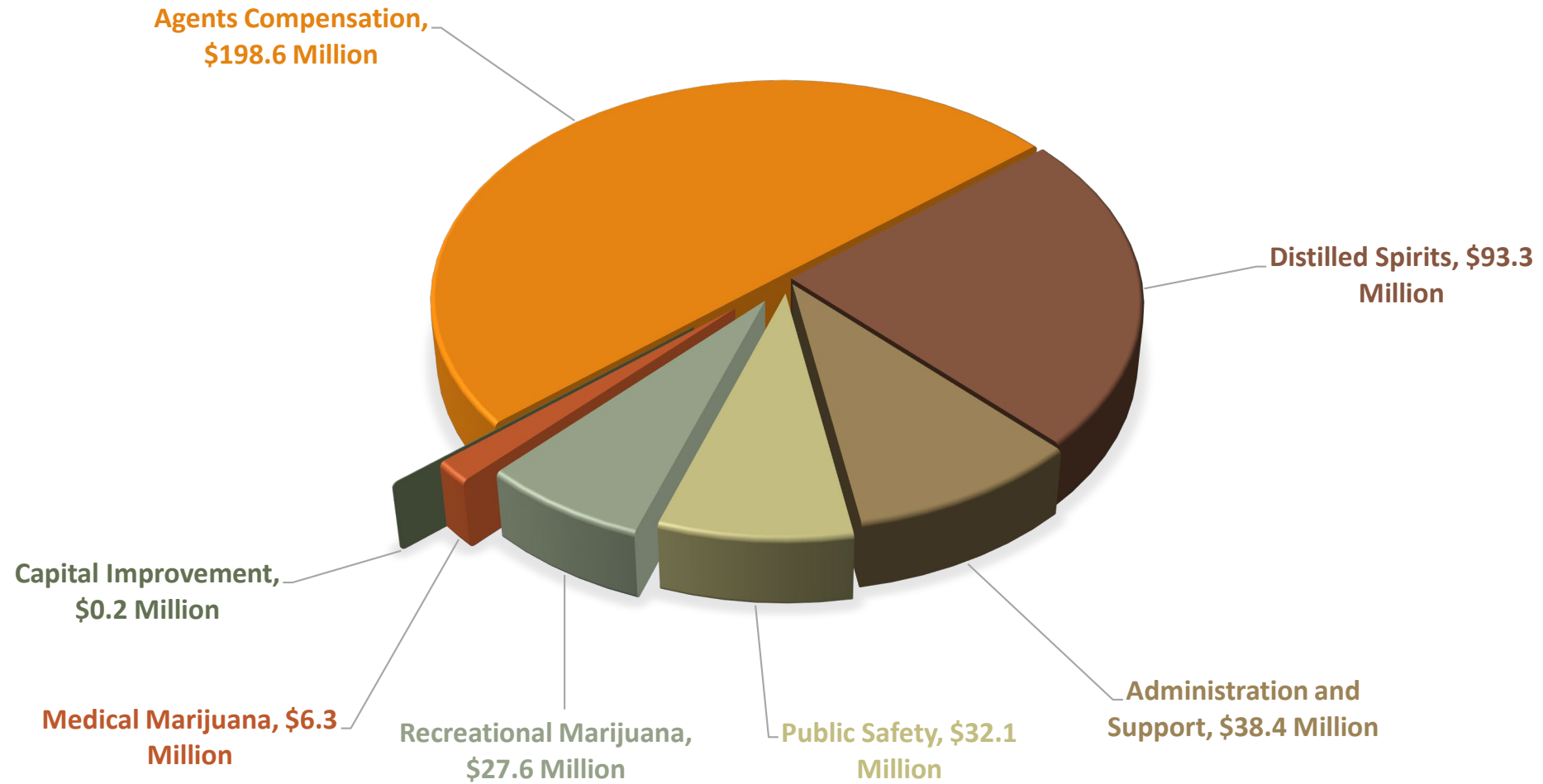
\$2.069 Billion
Total Gross Revenue

-GRB recommends additional revenue of \$45 million from addition of a 50 cent/bottle surcharge

-GRB anticipates additional revenue of \$38 million from home delivery and store expansion

2023-2025 Governor's Recommended Budget by Program

\$396.5 million Other Funds

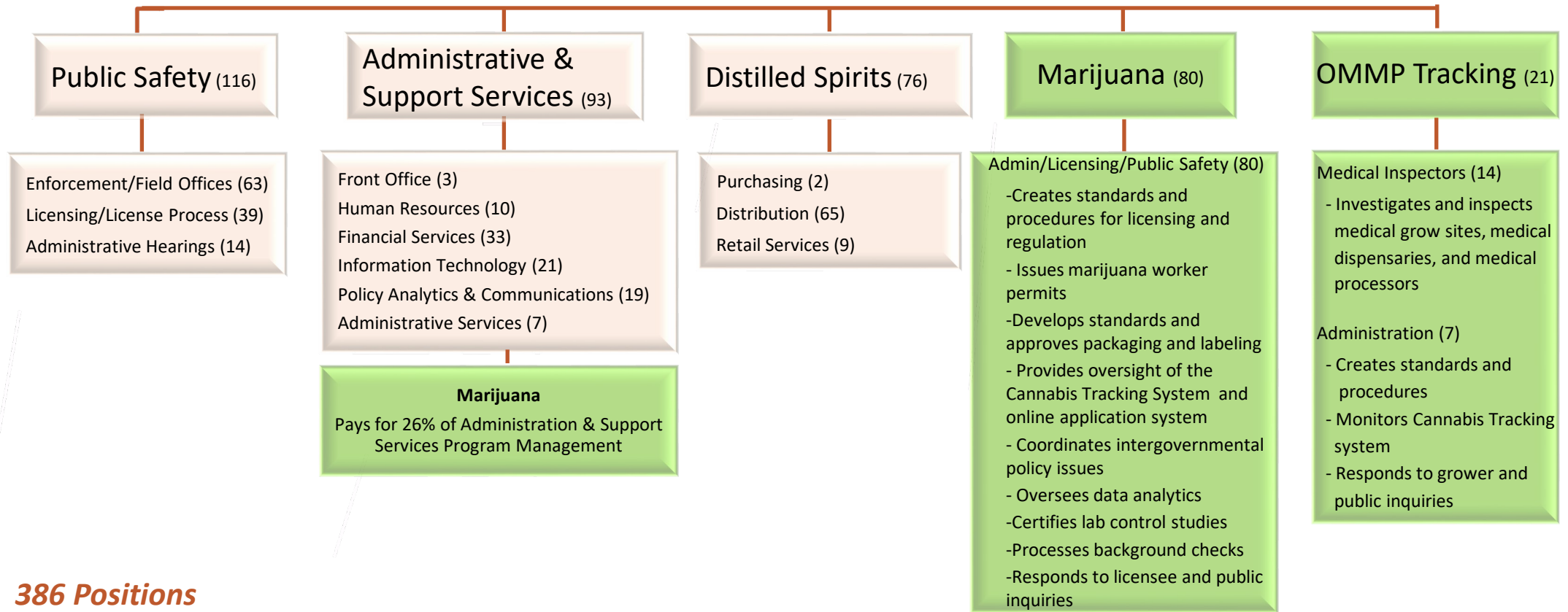


OLCC PROGRAMS

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



OLCC STAFF 2021-2023



386 Positions

EMERGING ISSUES

Leadership Changes (as of February 2023)

- New Commission Chair, Marvin Révoal
- New Interim Director, Craig Prins
- Ethics training for Commissioners, Executives, and Agency Managers

Alcohol

- Initiating warehouse and IT software investments to protect the distilled spirits revenue stream
- Post pandemic response to agency organization and alcohol enforcement
- *New* complicated era of post pandemic policy and analytical work
 - Direct to consumer (HB 3308)
 - Ready to drink
 - E-commerce

Marijuana

- 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)

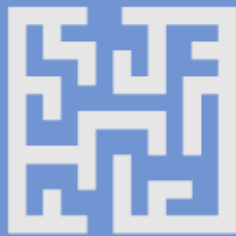
ENVIRONMENTAL FACTORS

AGENCY CHARACTERIZED BY 6 YEARS OF GROWTH AND CHANGE

- **Warehouse Expansion and IT**
 - *New* initiation of warehouse construction in Canby, Oregon to meet expected increase in spirits demand driven by population growth
 - *New* online reporting and tax collection system to facilitate the payment of malt, wine and cider privilege taxes. Project completion scheduled for 2023 (HB 2013 may impact this schedule)
 - *New* modernization of enterprise systems to manage the distilled spirits supply chain
 - *New* implementation of the combined marijuana and liquor licensing and compliance systems
- **Distilled Spirits retail sales continue to grow, average 5% growth annually (10% per biennium)**
- **Increasing Marijuana License and Enforcement Activity**
 - 2,857 approved licenses

Capital Projects (Warehouse/HQ, Conveyor, IT Modernization)

OLCC Challenges



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 (80% - 85% of space utilization is industry standard).



Economic Uncertainty

Capacity limitations affect revenues by limiting the possibility of new products and constricting product variety which directly affects consumer purchase behavior (currently near 100% capacity).



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.



Improvised 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.

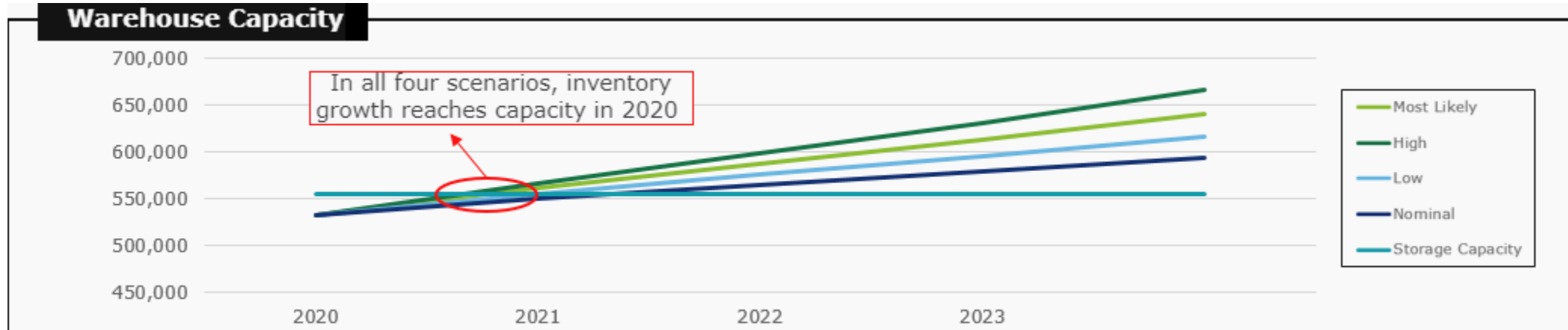


Predictable & Stable Revenue Source

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

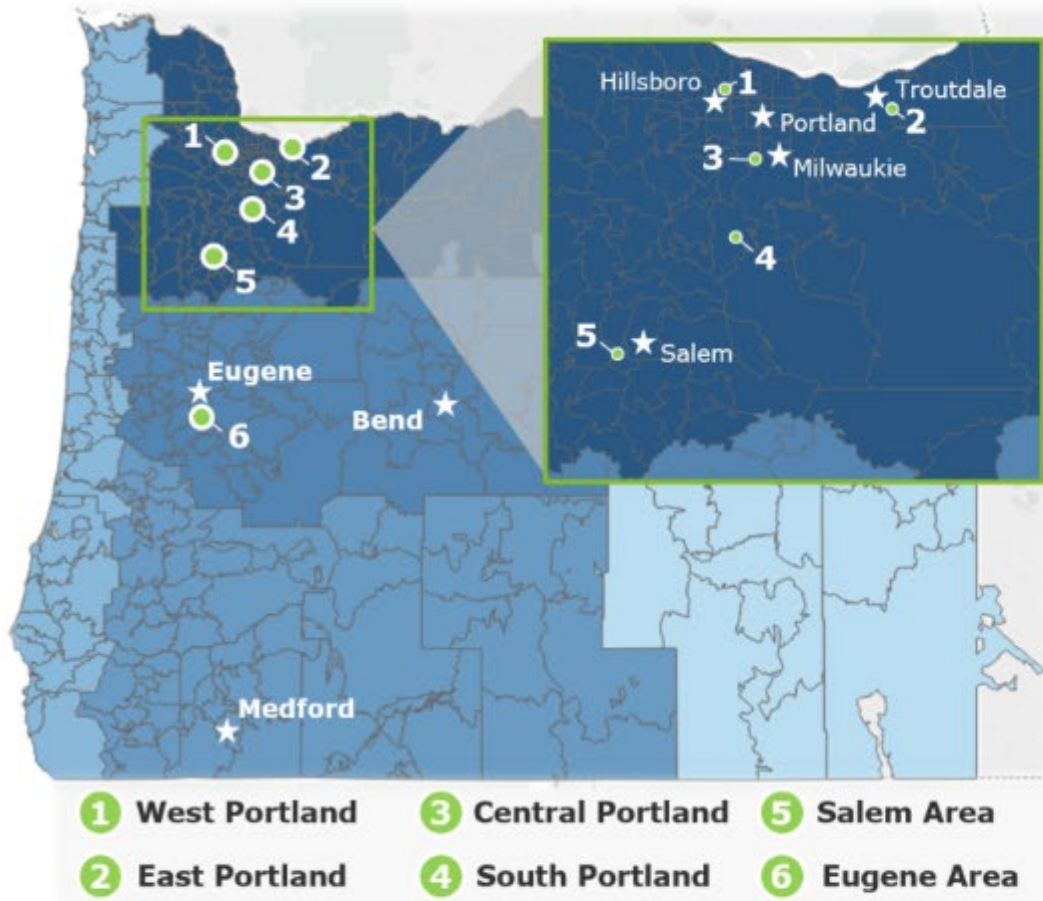
Deloitte and Touche Warehouse Capacity Sensitivity Analysis

A sensitivity analysis on OLCC's warehouse capacity revealed that in all four projected scenarios, OLCC's inventory growth reaches capacity in 2020



Avg. Monthly Inventory	2019	2020	2021	2022	2023
High Growth Rate	6.398%	6.318%	5.557%	5.516%	5.477%
McLoughlin	284,180	302,134	318,924	336,517	354,949
Millport	248,621	264,329	279,017	294,409	310,535
Total	532,802	566,463	597,941	630,926	665,485
Capacity Utilization	96%	102%	108%	114%	120%
Most Likely Growth Rate	5.398%	5.318%	4.557%	4.516%	4.477%
McLoughlin	284,180	299,293	312,931	327,064	341,708
Millport	248,621	261,843	273,775	286,139	298,951
Total	532,802	561,135	586,705	613,203	640,659
Capacity Utilization	96%	101%	106%	110%	115%
Low	4.398%	4.318%	3.557%	3.516%	3.477%
McLoughlin	284,180	296,451	306,995	317,790	328,841
Millport	248,621	259,357	268,581	278,026	287,694
Total	532,802	555,807	575,577	595,816	616,536
Capacity Utilization	96%	100%	104%	107%	111%
Nominal	3.398%	3.318%	2.557%	2.516%	2.477%
McLoughlin	284,180	293,609	301,116	308,693	316,341
Millport	248,621	256,870	263,438	270,067	276,758
Total	532,802	550,479	564,554	578,761	593,099
Capacity Utilization	96%	99%	102%	104%	107%

Deloitte & Touche – Regional Location Analysis Summary



Northern Oregon region is recommended for relocation due to the following factors:



Population growth projections



Cost of outbound transportation



Support of current and future Agent customer services



Retention of current trained and qualified specialty personnel

Deloitte & Touche Warehouse Relocation Recommendations

Re-Locating between Central Portland and Salem Area may yield lower transportation costs, mileage, and transit time relative to alternative options:

Relocation Considerations:

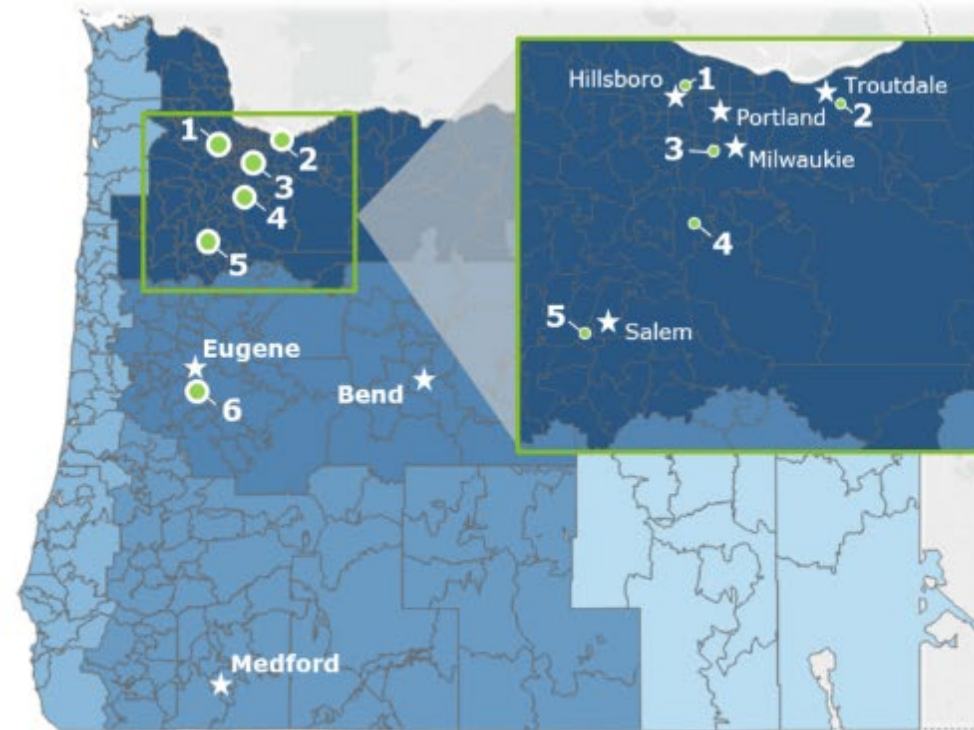
- Northern Portland is home to most Agents of any region across the state, and is the destination for 51.5% of OLCC's annual deliveries
- Increased urbanization forces logistics companies to re-locate distribution centers to urban areas to optimize their distribution network strategy
- Northern Oregon is comprised of the three most populous and fastest growing counties (Multnomah, Washington, Clackamas) in the State of Oregon

"Portland added more residents than any city in Oregon from 2018 – 2019, growing population by 8,360 residents (1.3%)."

- Portland State University Research Center

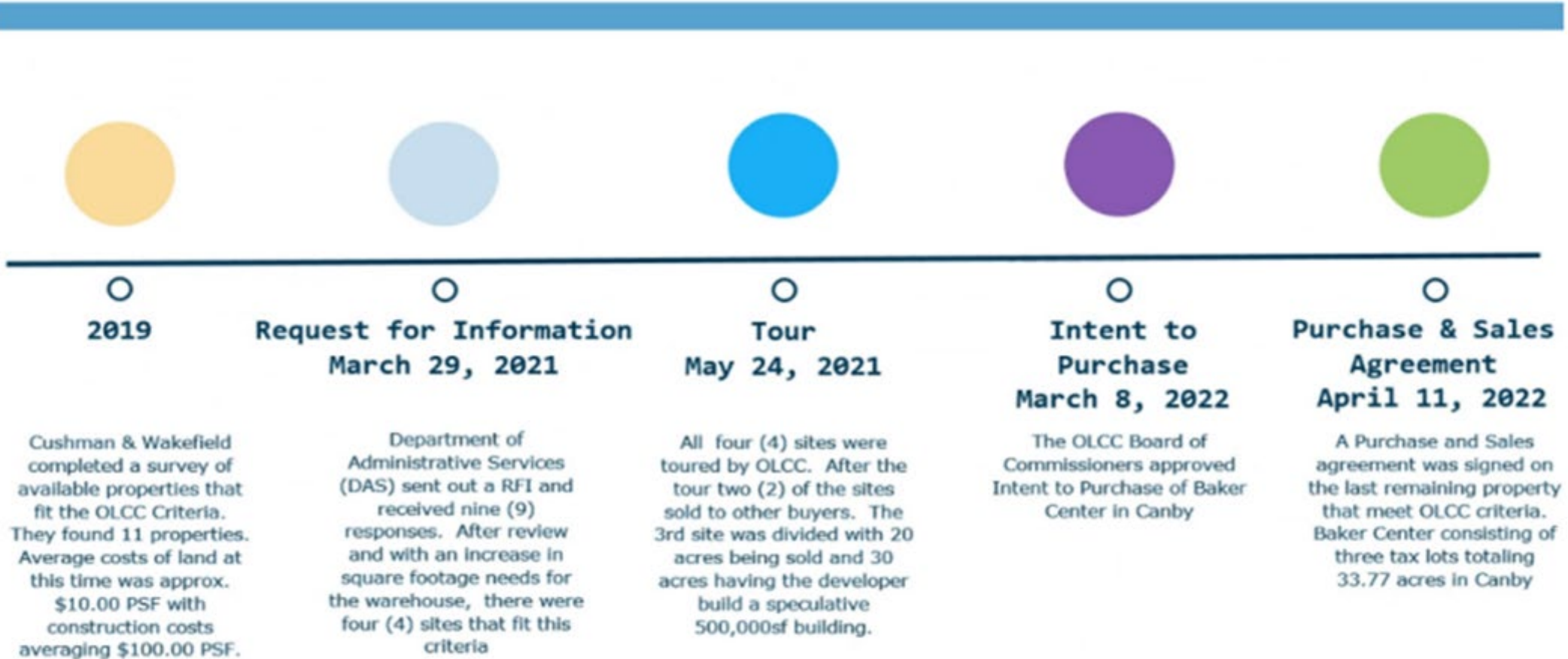
Locations Analyzed:

- | | |
|--------------------|------------------|
| 1 West Portland | 4 South Portland |
| 2 East Portland | 5 Salem Area |
| 3 Central Portland | 6 Eugene Area |



Region	North	Central	South	Coastal	East
Average Annual Deliveries	7,826	2,574	2,184	1,716	910

Property Purchase Timeline



ORS 291.215 – Deferred Maintenance / Capital Improvements

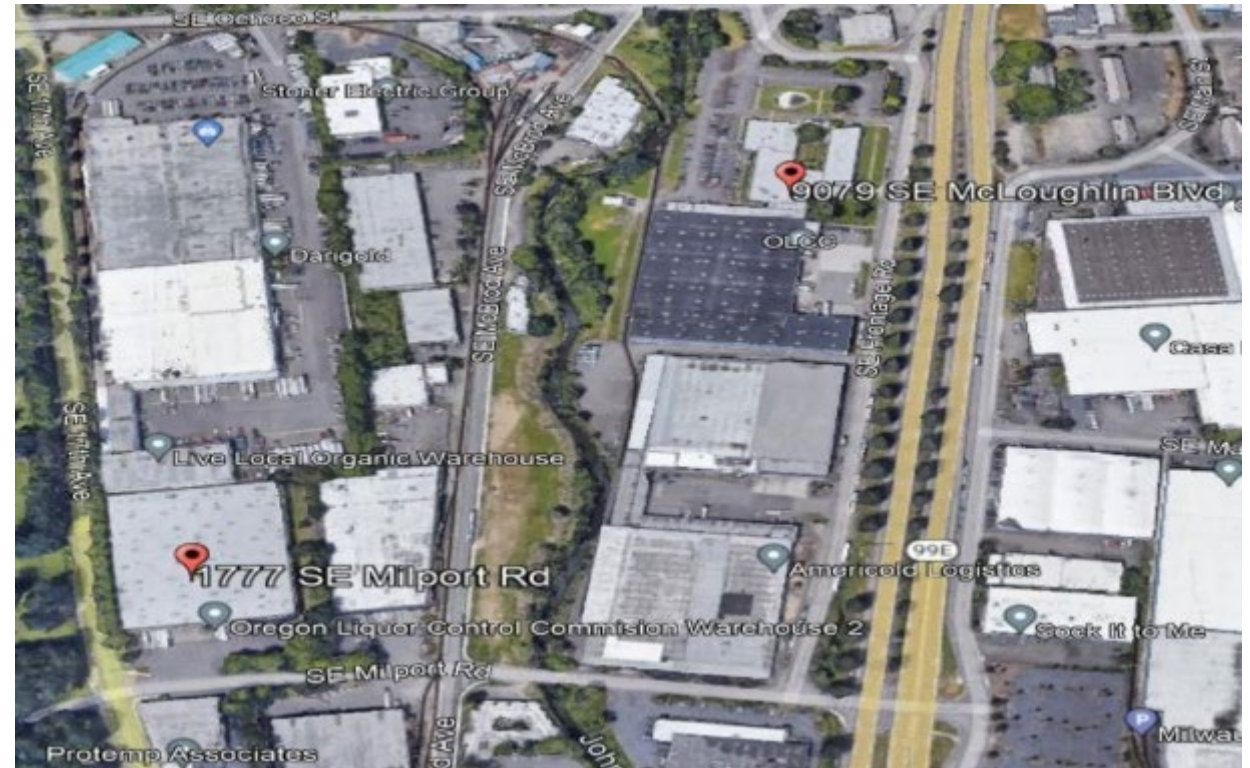
- Agencies that own state buildings and infrastructure should request policy packages, to bring their budget to a level of deferred maintenance and capital improvements on existing state-owned buildings and infrastructure that is equivalent to at least two percent of the current replacement value of the agency's state-owned buildings and infrastructure (source: p. 36 of the 2023-25 state budget instructions for agencies)
- OLCC did not submit a Policy Option Package (POP) for 2023-25 due to the planned move to a new warehouse/HQ location
- If OLCC had submitted a POP for 2023-25, related to this statute, it would have been at an estimated cost of \$1.26 million
 - As the following slide illustrates, OLCC's capital improvement needs at our current warehouse/HQ location is actually much higher than that, at \$6.5 million or more, due to the roof repairs/maintenance that will be needed in the near future if we do not move

Public Lands Advisory Committee (PLAC) Recommendation in June 2022

- PLAC advised OLCC to go back to the Canby, OR property seller with the following offer
 - \$30,891,000 plus a \$4,000,000 development fee
 - Total PLAC recommendation of \$34,891,000
- OLCC went back to the seller, but that offer was not accepted
 - The seller did offer a \$375,000 sale price reduction which OLCC accepted
- OLCC ended up paying \$40.5 million for the Canby, OR property
 - One benefit of moving to the new location is related to deferred maintenance at OLCC's current location (moving sooner helps avoid this cost)
 - Warehouse roof repairs at current location: 2019 estimated cost, \$6.5 million
 - Cost of roof repairs likely higher now in 2023

Existing Milwaukie Warehouse/HQ - Property Valuation

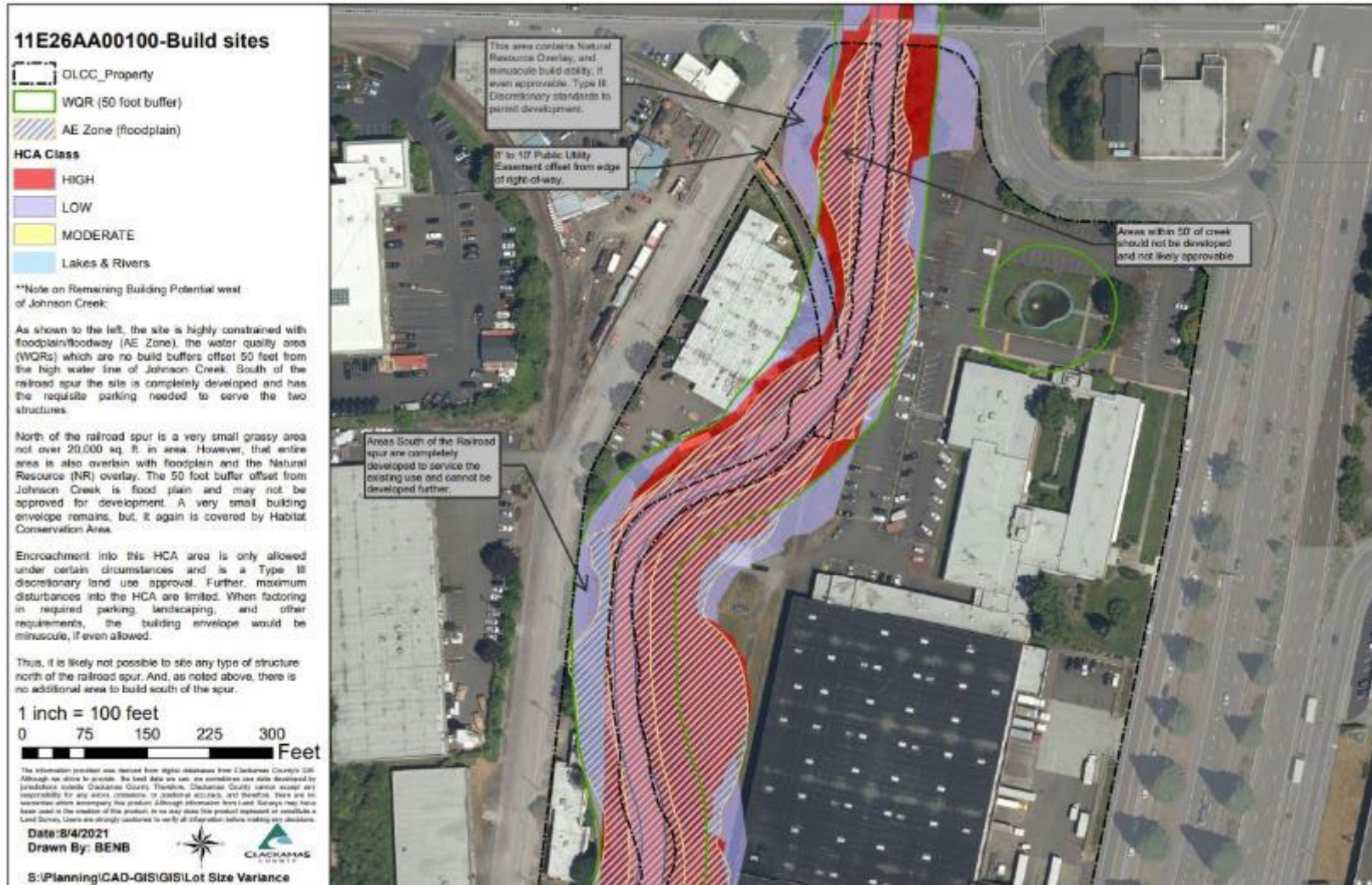
- OLCC Properties:
 - HQ/Warehouse occupies 11.51 acres (~124,000 sq. feet of warehouse space), valued at approximately \$19 million
 - An additional 3.97 acres at the Milport Warehouse (~107,000 sq. feet) valued at approximately \$10 million
 - Estimated sale commission costs (2-4%) approximately \$1 million



Existing Milwaukie Warehouse/HQ - Partnership with Clackamas County

- OLCC and Clackamas County planning to date
 - OLCC would transfer the 2.66 acres to Clackamas County (estimated land value approximately \$560,000 excluding County-owned buildings)
 - 53% of the partitioned land is not buildable
 - Clackamas County would pay all costs associated with the transfer
 - OLCC and the County have agreed to a reversionary clause in a transfer agreement
 - Key point: if the County no longer uses the property for law enforcement purposes, or sells the property, then the County would pay OLCC the Fair Market Value (FMV) of the 2.66 acres at that time

OLCC Westside Johnson Creek Partition



Agency Actions to Create Savings, Contain Costs and Create Efficiencies

- IT Enterprise Modernization
 - Replacing legacy warehouse management system
 - Replacing legacy liquor ordering systems
 - Implementing a statewide point of sale system for consistent and real-time sales and inventory data
 - Implement online Privilege Tax system to file beer and wine taxes
 - Online liquor and marijuana licensing system
- Partner with ODA for efficient regulation of hemp and marijuana
- Utilize in-person, hybrid, and telecommuting implemented during the pandemic to reduce space needs for personnel in the new headquarters
 - Estimated savings, \$4 million

AGENCY PROGRAMS DISTILLED SPIRITS

DISTILLED SPIRITS PROGRAM



Preserve and Build State Revenue



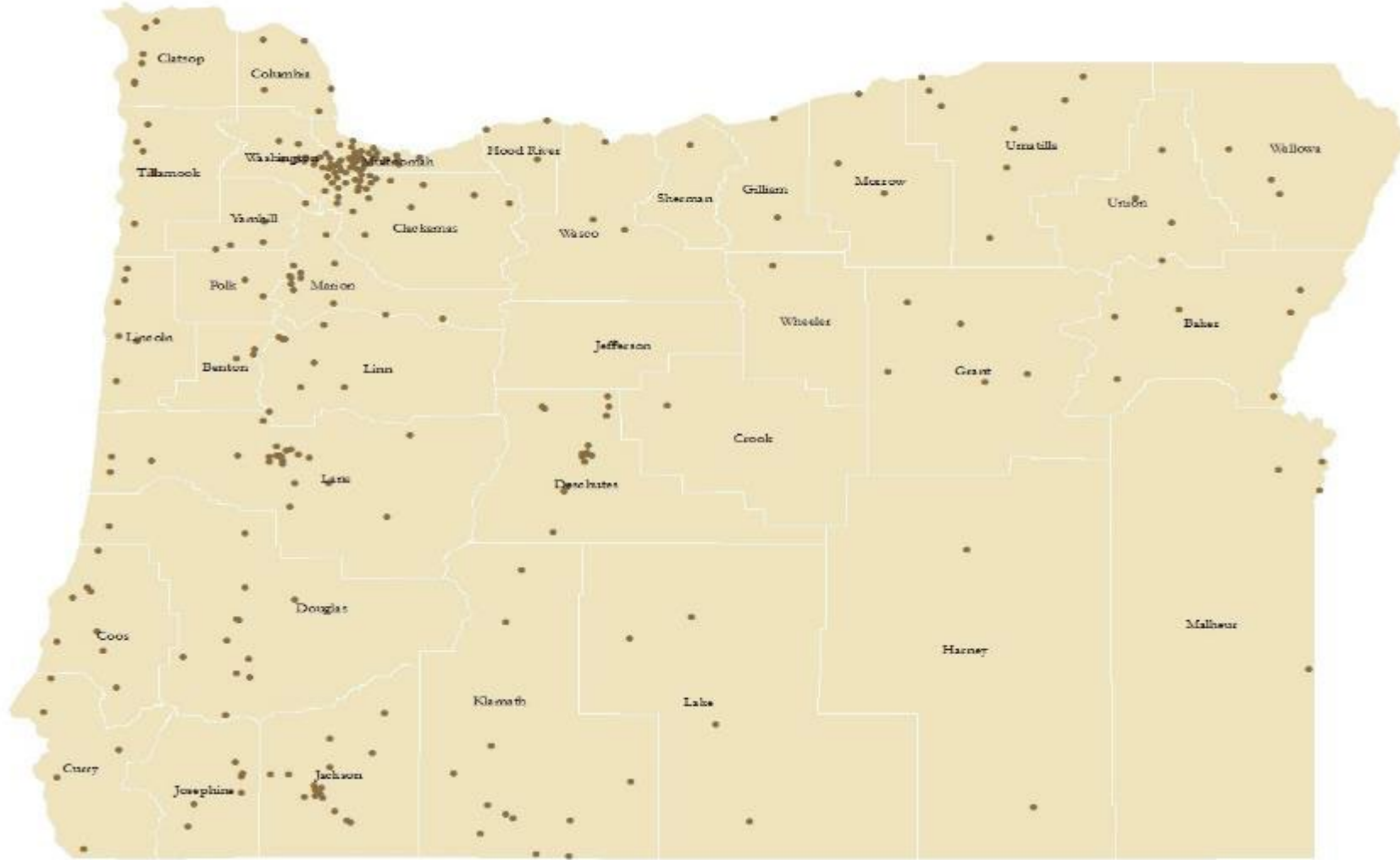
- **Purchasing** – Works closely with Retail Services staff to provide distilled liquor to customers. Orders bottled spirits produced throughout the world and ensures the emerging Oregon craft distillery industry is represented in the state inventory lineup. Continuously monitors trends in sales and 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** – Issues and oversees contracts and operations of the liquor stores and distillery retail outlets. Provides retail liquor store support, training, and merchandising expertise. Develops and educates agents on store operating requirements and procedures. Works with liquor agents to optimize inventory to ensure public safety and maximize revenue

HOW DISTILLED SPIRITS FLOW IN OREGON



DISTILLED SPIRITS RETAIL SERVICES PROGRAM

*291 Approved liquor stores
107 distillery outlets*



POP #101

IT Modernization

IT Modernization

OLCC Policy Option Package #101 \$16,700,000



Enterprise Modernization Program (IT) Background

- In the 2021-23 budget cycle OLCC was granted \$27,000,000 bonding authority to begin an Enterprise Modernization Program to replace insufficient and unsupported technology:
 - Marijuana/Liquor Licensing and Compliance programs (MLLC)
 - Distilled Spirits Supply Chain (DSSC)
- Renews the spending authority for the 2023-2025 biennium to complete the projects
 - Majority of IT capital project spending won't occur until 2023-225

Enterprise Modernization Stage-Gate Projects

Two technology projects that make up the Modernization effort:

1. Marijuana and Liquor Licensing and Compliance (MLLC) System

Unified solution for the lifecycle of a license or permit from application to disposition

- Stage Gate 3
 - Phase 1: Marijuana Licensing/Packaging & Labeling
 - Phase 2: Liquor Licensing/Special Events
 - Phase 3: Permits: Alcohol Service & Marijuana Worker Permits
 - Phase 4: Compliance and Hearings

Enterprise Modernization Stage-Gate Program (Continued)

2. Distilled Spirits Supply Chain (DSSC) System

Full supply chain solution for Distilled Spirits products from supplier to customer

- Stage Gate 2
- Point of Sale (POS)
 - Statewide point of sale (cash register) system in all liquor stores that can provide real time data between warehouse and stores
- Warehouse Management System (WMS)
 - The system that controls and administers warehouse operations from the time distilled spirits products enter the warehouse until they move out
- Enterprise Resource Planning (ERP)
 - Manages day-to-day business activities such as accounting, procurement, and supply chain operations

POP #102

Warehouse and IT Non-
Bonded Costs

Warehouse and IT Non-Bonded Costs

OLCC Policy Option Package #102 \$14,403,773

Overview

- OLCC has secured bond funding for construction of the new warehouse and development of the enterprise modernization IT systems
- Certain expenditures associated with the projects are not allowed with the current bond funding. These costs include:
 - Moving and furniture costs, \$1.6 million
 - New forklifts and pickers, \$4.8 million
 - Preparing the current properties in Milwaukie for sale, \$0.4 million
 - MLLC and DSSC software licensing and other costs, \$6.2 million
 - 2023-25 bond issuance costs, \$1.4 million

Governor's Budget

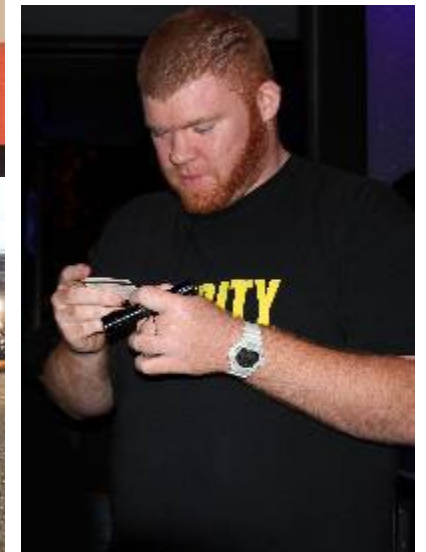
- Considers these costs in the current biennium
- Revenues from the sale of the current facilities may be used to offset some of these costs

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
- **Compliance 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. 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

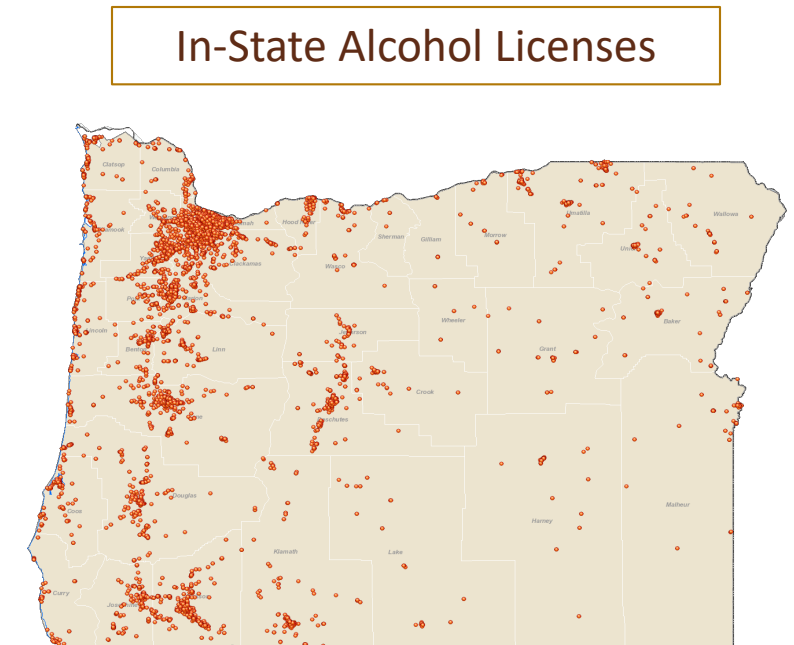


PUBLIC SAFETY LICENSING DIVISION - ALCOHOL LICENSES & PERMITS

Total Annual Liquor Licenses	13,621
Restaurants and Bars (on-premises licenses)	7,576
Grocery/Convenience Stores (off-premises licenses)	4,022
Wineries	1,245
Brewers/Brew Pubs	412
Distributors/Wholesalers	217
Distilleries	149

Special Event Licenses	16,000
Out-of-State Certificates	3,445
Alcohol Service Permits	165,000

Totals as of December 30, 2022



PUBLIC SAFETY MARIJUANA LICENSES

As of January 13, 2023

License Type	Active
Laboratory	18
Processor	330
Producer	1,412
Retailer	820
Wholesaler	276
Research	1
Total	2,857

MARIJUANA WORKER PERMITS

63,768

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
- Replace manual alcohol and marijuana licensing processes with electronic systems
- Coordinate with federal, state and local law enforcement partners

ALCOHOL DELIVERY REGULATION (HB 3308)

OLCC Policy Option Package #215 \$947,065

Background

- OLCC allowed third-party ecommerce platforms to facilitate the ordering of alcohol from licensee and distillery tasting rooms
- There are about 118 for-hire carriers approved to deliver alcohol to consumers in Oregon and the use of these services continues to grow
- The current system of enforcement is complaint driven. A legislative concept is being developed in coordination with the Governor's office

ALCOHOL DELIVERY REGULATION (Continued)

OLCC Policy Option Package #215 \$947,065

Governor's Budget

- Addresses staffing needs to build a compliance structure around alcohol delivery including funding to develop a minor decoy program
- Require any persons delivering alcohol to complete alcohol delivery training
- Expand the minor decoy operations around home delivery including adding the following:
 - 5 Liquor regulatory specialists to build and staff minor decoy operations
 - 1 Compliance Specialist 3 in the hearings division to evaluate and manage violations

ALCOHOL LICENSING STAFF

OLCC Policy Option Package #208 \$337,424

Background

- OLCC alcohol licenses have average net growth of 340 alcohol licenses per year. The current number of alcohol license investigators cannot keep up with this growth
- The average time to license a new alcohol premises has now grown to 100 days. The agency's key performance measure for alcohol licensing is under 75 days
- The expeditious processing of alcohol licenses for Oregon businesses is a top priority for OLCC

Governor's Budget

- Adds two Licensing Specialists for the alcohol programs

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
- 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

IT Risk Mitigation

OLCC POLICY OPTION PACKAGE #303 \$496,133

Background

- OLCC has access to a variety of protected information systems including the Criminal Justice Information System used for alcohol and marijuana enforcement. OLCC financial systems accept payments, process revenues and distribute monies for about \$1 billion in transactions each year. Secure IT systems are critical to protecting both these functions
- The agency partners with DAS Cyber Securities services to ensure regulatory compliance, adherence to legislative mandates and compliance with statewide enterprise security standards
- OLCC requests personnel to ensure security, confidentiality, integrity and continued availability of the agency information assets

Governor's Budget

- Adds 1 Information Security Specialist 8 for Systems Administration and 1 Principle Executive Manager D for Risk Mitigation

FINANCIAL SERVICES STAFFING

OLCC POLICY OPTION PACKAGE # 307 \$238,613

Background

- OLCC expansion into Recreational Marijuana regulation, expansion of liquor stores and growing liquor sales has created tremendous stress on the Financial Services Divisions
- The agency's budget has become increasingly complex with the addition of the warehouse and Information technology capital projects creating budgets for resources for three separate programs including alcohol, recreational marijuana and medical marijuana tracking
- The budget process has become a continual activity now for OLCC with legislative short sessions, interim emergency boards and growth in the agencies financial processes

Governor's Budget

Provides one position for leading the agency's budget processes and revenue forecasts

- Budget and Fiscal Manager 2

PUBLIC RECORDS REQUESTS & COMMUNICATIONS

OLCC Policy Option Package #312 \$572,942

Background

- Requests to OLCC for public records have increased dramatically in the last five years. The agency receives about 700 requests per year for public records. 60% of the requests are related to marijuana and 40% are related to alcohol
- Oregon Public Records law requires agencies to fulfill records requests in a timely manner with threat of sanctions. In 2021 Oregon's Department of Justice issued 3 public orders threatening sanctions against OLCC for not complying timely
- Public Records requests come in for both alcohol and marijuana. Requests are most often related to new and issued licenses. Other requests are related to business mergers, acquisitions, and litigation. Many requests come from other states and federal agencies in the form of subpoenas related to tax issues and improper financial reporting. Requested information must be reviewed for personal information and redacted as appropriate

Governor's Budget

- Adds three positions: 2 Administrative Specialist 1s and 1 Operations and Policy Analyst 3

VEHICLE REPLACEMENT

OLCC POLICY OPTION PACKAGE # 305 \$385,000

Background

- OLCC owns and maintains a fleet of 92 vehicles used for enforcement, warehouse operations and administration
- 12 of the vehicles in OLCC's fleet are beyond their useful life (over 115,000 miles and 8 years or older) and are requiring excessive costs to keep the vehicles operational

Governor's Budget

- Provides funding to replace 12 vehicles in the Marijuana Program

AGENCY PROGRAMS MARIJUANA

State Marijuana Law and Responsible State Agencies

M91 November 2014

Statutes: ORS Chapter 475C

Administrative Rules OAR Division 25

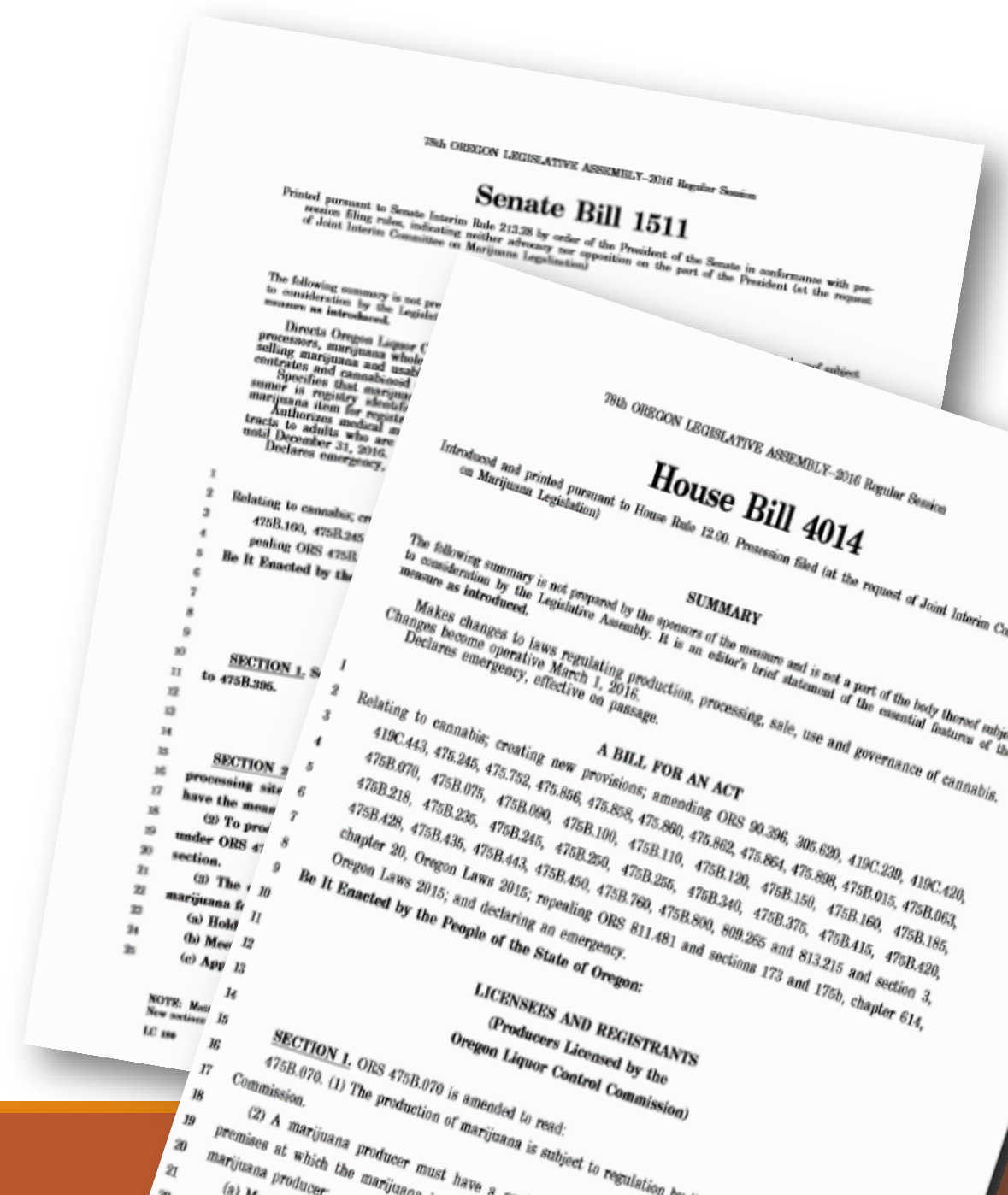
Oregon Liquor and Cannabis Commission (OLCC): recreational marijuana businesses and worker permits

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



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

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

MARIJUANA PROGRAM STRATEGIC INITIATIVES

Licensing and Compliance Strategic Programs:

- Alcohol:
 - Education of licensees
 - Reducing minors in licensed premises
 - Minor Decoy Compliance Program
 - History of persistent and serious problems
- Marijuana:
 - Education of Licensees
 - Diversion & Inversion into and out of the legal market
 - Minor Decoy Compliance Program
 - Lack of licensee institutional control
 - Consumer safety



Cannabis Communications Outreach

OLCC Policy Option Package #410 \$450,000

Background

- OLCC needs to help stakeholders better understand the statutory obligations of the marijuana programs and reinforce with consumers product safety in the regulated market and deter them from the illegal market
- The industry has grown more complex with the introduction of hemp derivatives, synthetic cannabinoids, and illegal THC production
- Barriers to entry still exist for some qualified applicants into the cannabis markets. The legislature has given OLCC discretion on how to best close some of the social equity gaps in the cannabis markets
- OLCC requests monies to support the hiring of an external public affairs communication agency to develop a communications strategy to address regulated hemp derivatives, human trafficking and industry social equity

Governor's Budget

- Provide funding for the project from the Recreational Marijuana Program

MARIJUANA LAB INTEGRITY

OLCC Policy Option Package #413 \$965,674

Background

- OLCC is charged with monitoring the manufacture, testing and sale of marijuana products in Oregon
- Marijuana labs are contracted and paid by licensees to conduct required compliance testing for pesticides, potency and other safety tests
- OLCC will establish random or focused audit testing of products available in the consumer market for accuracy of THC content and labeling for consumer protection
- OLCC is seeking additional resources to protect consumers and keep pace with the evolving industry. These resources would obtain products for testing and coordinate with reference labs for sample analysis

Governor's Budget

- Adds 3 positions to the OLCC Recreational Marijuana Program, including:
 - Compliance Specialist 2
 - Natural Resource Specialist 4
 - Regulatory Specialist

MARIJUANA LAB INTEGRITY (HB 2931)

OLCC Policy Option Package #418 \$2,281,689

Background

- The Oregon Liquor and Cannabis Commission, Oregon Health Authority and Oregon Department of Agriculture currently cooperate on the regulation of various cannabis products
- Laboratory testing is fundamental to ensuring that public health and safety are considered as well as being fundamental to the state regulatory and compliance process
- The Oregon Department of Agriculture is best suited to develop a reference lab for marijuana and is developing capability in the North Valley Complex
- OLCC proposes transferring marijuana monies to ODA to provide the start-up resources needed for the ODA lab including acquiring equipment and the initial hiring of lab personnel

Governor's Budget

- Transfers monies from OLCC to ODA to fund the startup of this lab
- Contingent on funding for partner agency budgets (OSP, OHA, ODA, DEQ)

AGENCY PROGRAMS OMMMP 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
- 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
- 214 grow sites with three or more patients; 2 dispensaries registered with OHA

AGENCY CHALLENGES

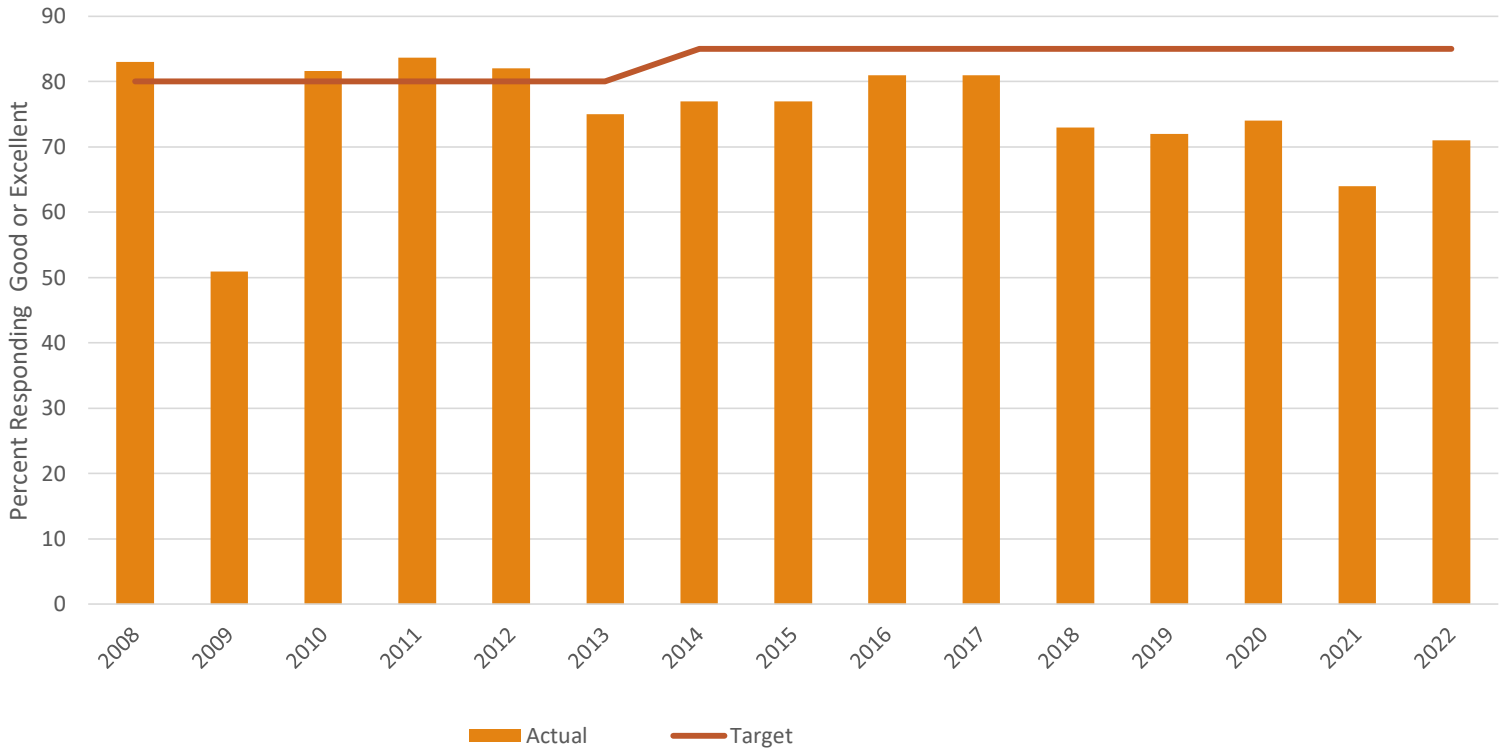
CRITICAL COMPONENTS OF SUCCESS

- Complete modernization of warehouse and IT to preserve state revenue
- Ensure hospitality industry pandemic recovery with timely licensing of bars and restaurants
- Marijuana regulatory structure that continues to evolve as the industry struggles with oversupply of marijuana products in the regulated market

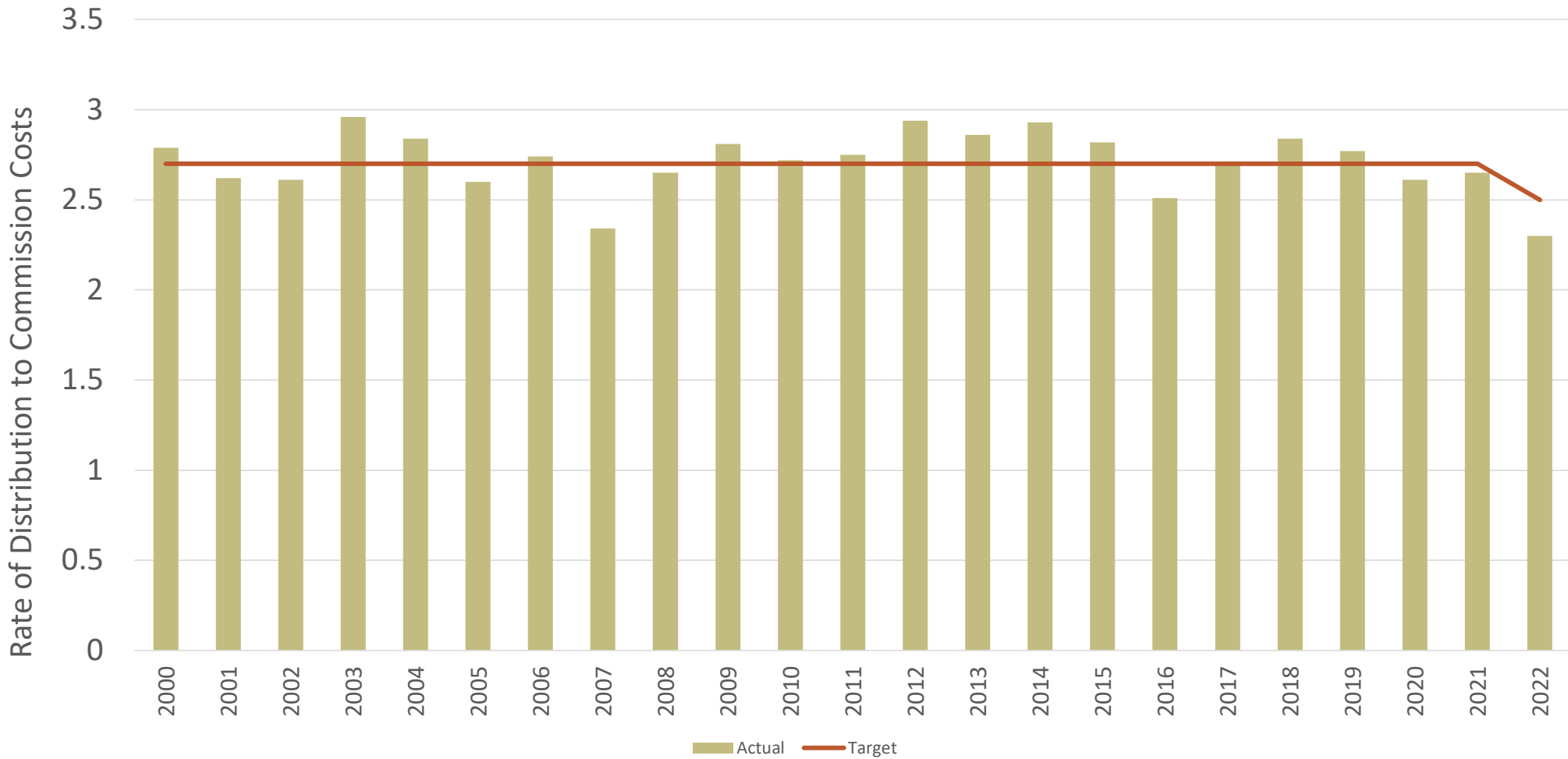
KEY PERFORMANCE MEASUREMENTS

Customer Service Satisfaction Rates *KPM*

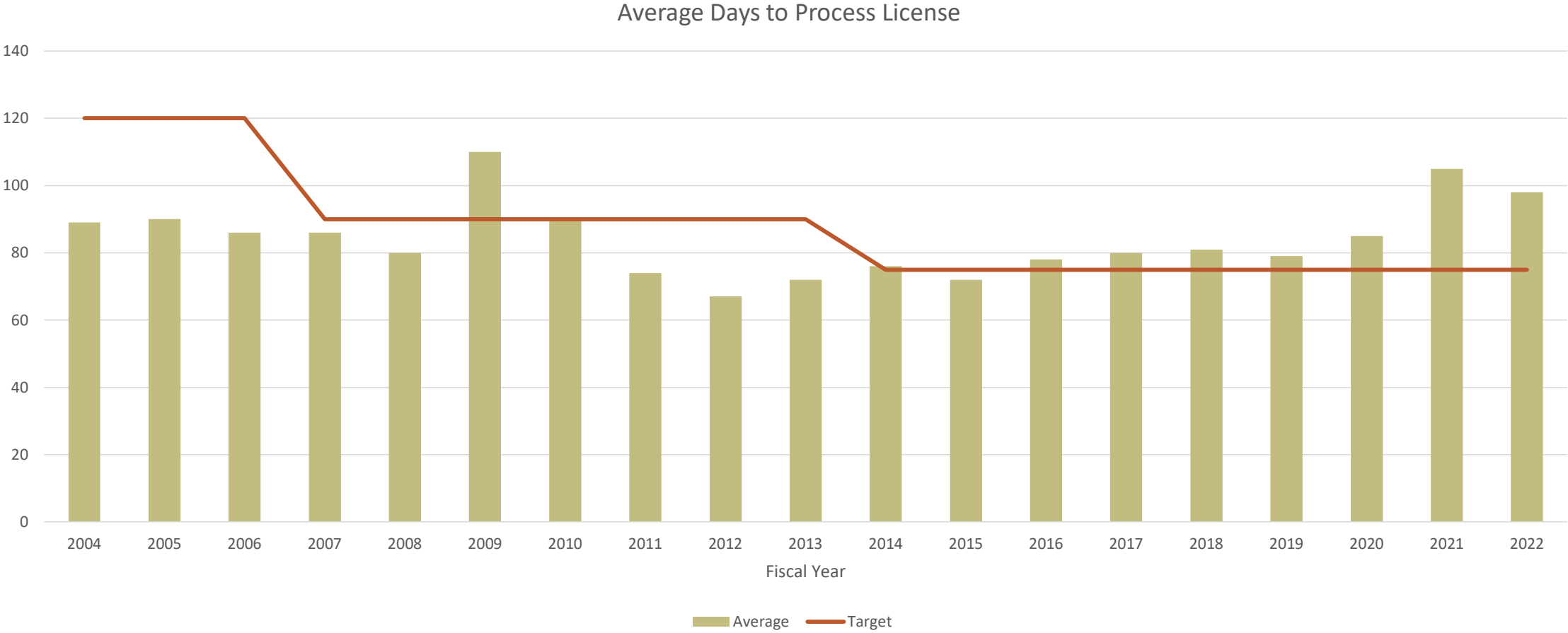
Customer Service Survey Overall Satisfaction Rates



Revenue Returned per Dollar Spent *KPM*

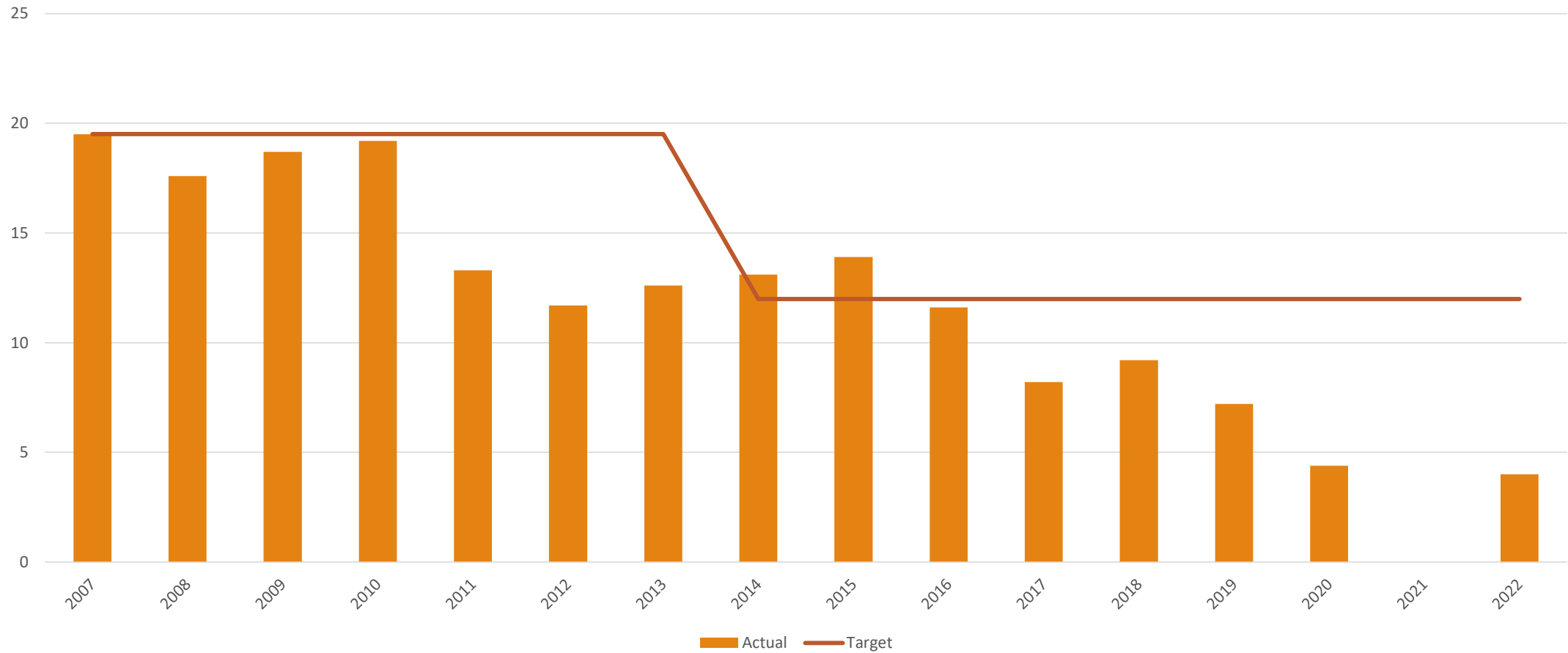


Average Days to Process Alcohol License Applications *KPM*

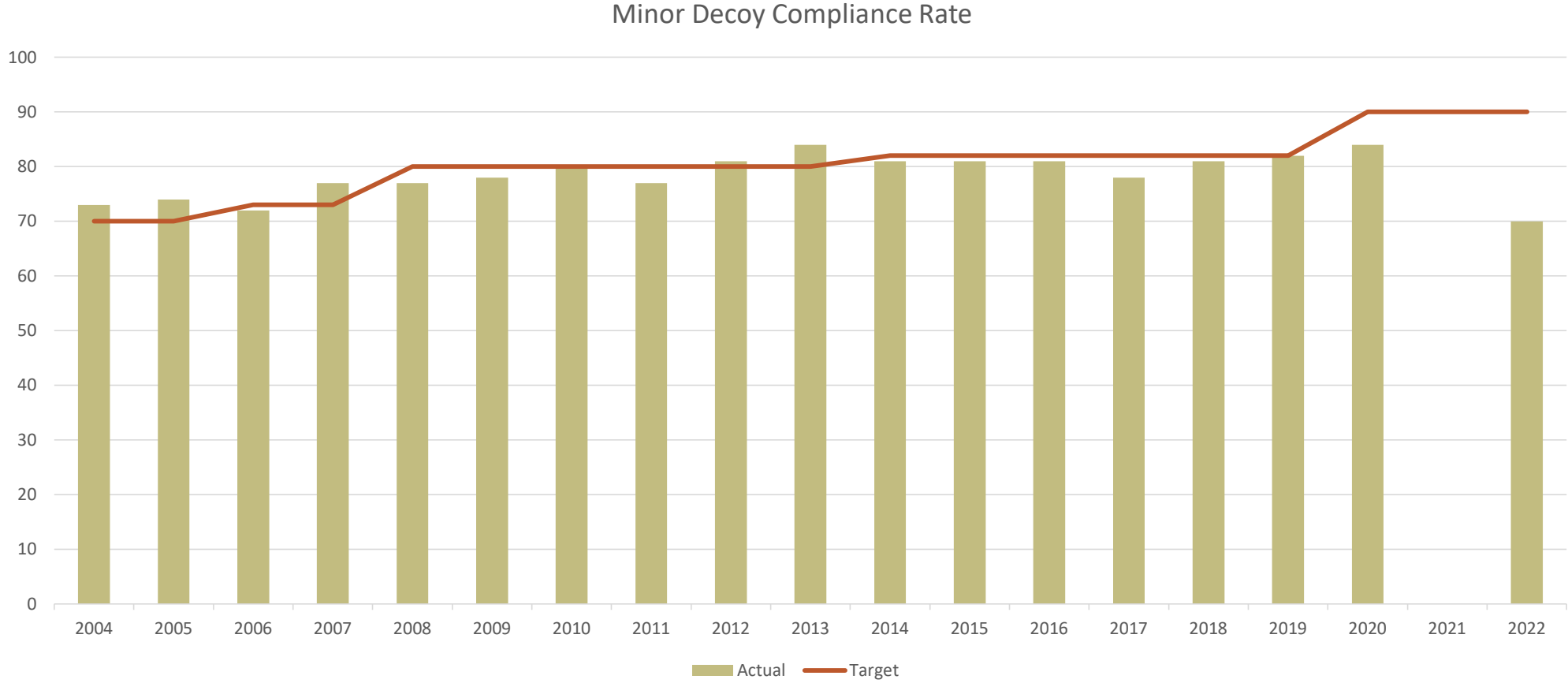


Rate of Second Violation Alcohol *KPM*

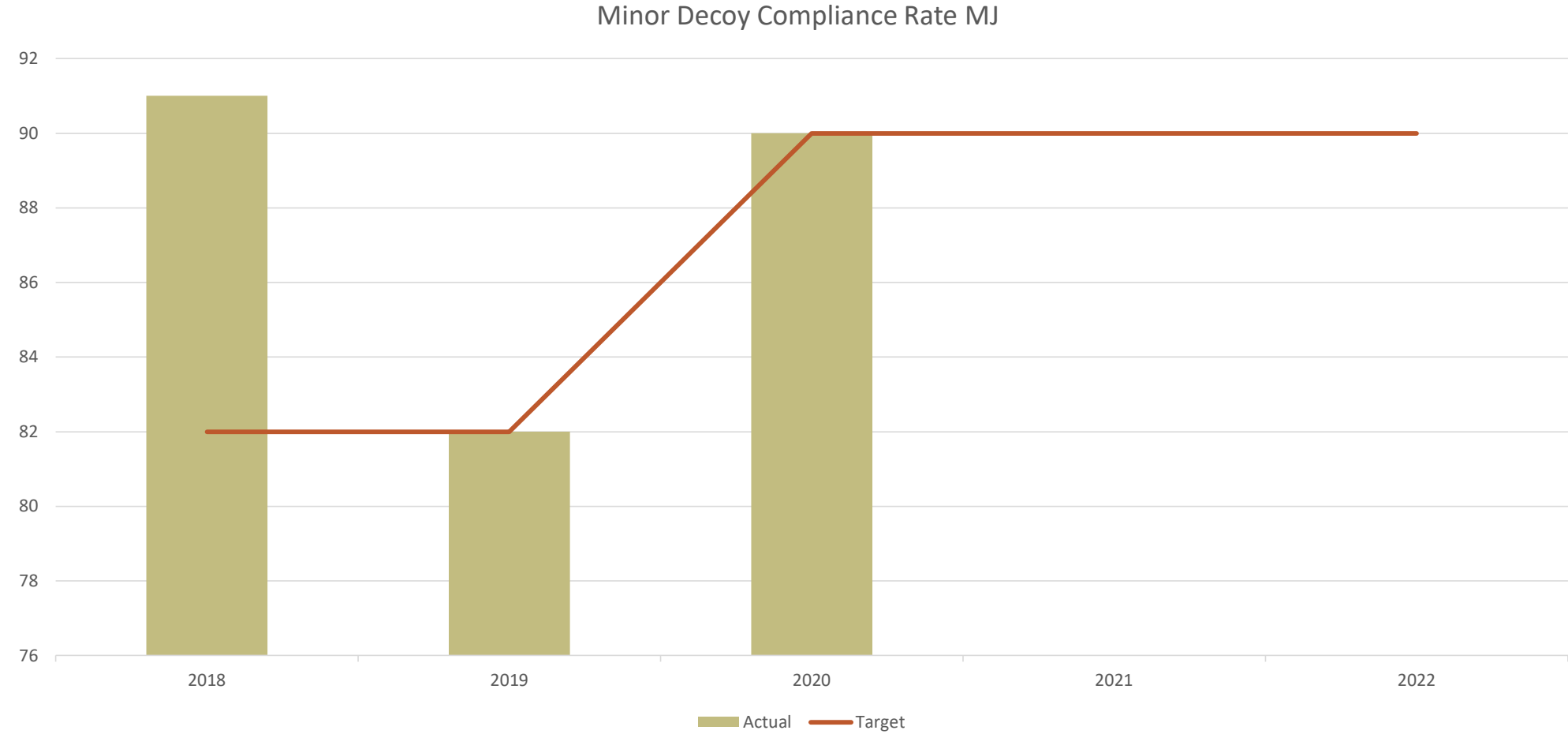
Percent of licensees that received a second violation within two years of the first.



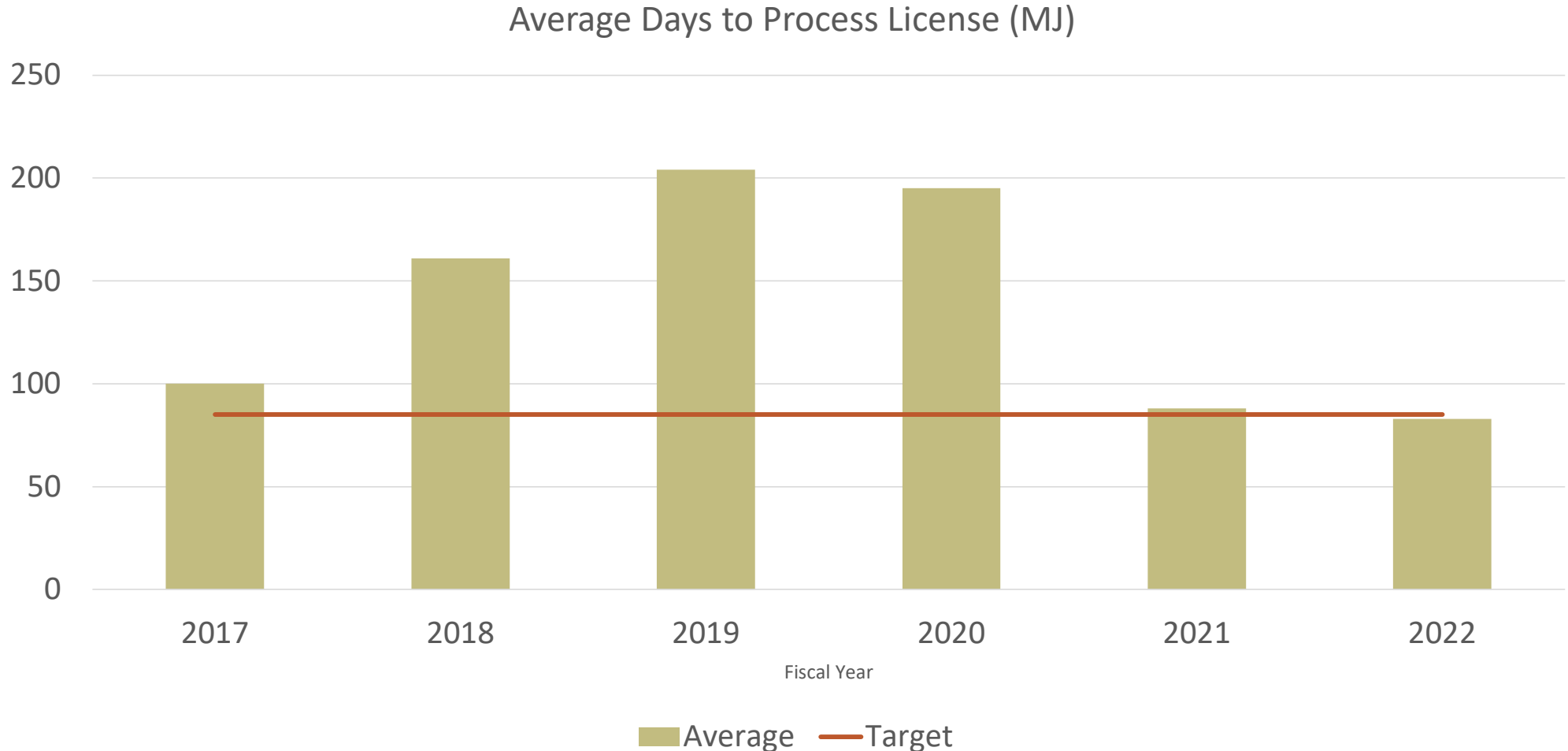
Minor Decoy Compliance Rate Alcohol *KPM*



Minor Decoy Compliance Rate Marijuana *KPM*



Average Days to Process Marijuana License Applications *KPM*



ANALYST ADJUSTMENTS

ELIMINATION OF POSITIONS

Analyst Adjustments - Package #090

Governor's Budget

The following 4 positions totaling \$658,312 were eliminated in the Governor's Budget:

- Position # 4700560 – Office Specialist 2 – Public Safety (002)
- Position # 4700937 – Office Specialist 2 – Public Safety (002)
- Position # 5500199 – Compliance Specialist 3 (Hearings Specialist) – Public Safety (002)
- Position # 5500200 – Compliance Specialist 3 (Hearings Specialist) – Public Safety (002)

ADD ADDITIONAL BOTTLE SURCHARGE OF \$0.50 CENTS PER BOTTLE

REVENUE INCREASE \$45.2 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 \$0.50-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 \$0.50-cent surcharge
- On January 19, 2023 the Commission again approved the surcharge which was set to expire on June 30, 2023
- The \$0.50-cent surcharge is forecasted to raise \$45.2 million which is distributed directly to the General Fund
- Oregon has the second highest liquor prices (second to Washington) in the United States

Governor's Recommended Budget

- Add an additional \$0.50-cent surcharge on bottles of distilled liquor, raising it to \$1.00 in total
- Projected revenue impact is an additional \$45.2 million for the General Fund

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

Other GB Revenue Packages: \$38 Million Estimated

- Add 10 liquor stores
- Increase resources for regulated home delivery in the next biennium



15% REDUCTION OPTIONS

Agency Proposed 15% Reduction Scenarios (focused on liquor funded program areas):

- First 5% (\$4.2 million)
 - Abolish two vacant Compliance Specialist 3 positions in Administrative Hearings
 - Cost shift Public Safety Management Position to 75% Marijuana Funded
 - Cost shift 8 Compliance Specialist 3s in Hearing to 75% Marijuana Funded
 - Abolish 3 vacant Liquor Regulatory Specialist in Public Safety
 - Abolish 3 Operations and Policy Analyst in PACE (Policy Division)
 - Abolish 1 Compliance Specialist 3 in PACE (Policy Division)

Agency Proposed 15% Reduction Scenarios (focused on liquor funded program areas):

- 6-10% (additional \$4.2 million for a total of \$9.4 million)
 - Abolish 18 Liquor Regulatory Specialist Positions in Alcohol Public Safety
 - ~50% of the program
 - OLCC would only respond to serious incidents involving licensees and work on history of serious/persistent problem cases
 - A reduction at this level would reduce our ability to do minor decoy operations by 50%

Agency Proposed 15% Reduction Scenarios (focused on liquor funded program areas):

- 11-15% (additional \$4.2 million for a total of \$12.6 million)
 - Abolish 19 Liquor Regulatory Specialist Positions in Alcohol Public Safety
 - At this reduction level 100% of this program area is eliminated
 - Local and state law enforcement would be responsible for responding to all liquor related events for all licensees. The only compliance tool would be criminal charges as the OLCC administrative process would not exist and many of the administrative rules would be unenforceable
 - Monitoring visibly intoxicated patrons would all be moved to the responsibility of local law enforcement

Long Term Vacancy Information

The OLCC 21-23 Legislatively Approved Budget authorizes 386 positions

- At 12/31/2022 there were:
 - 65 total vacancies = 17% vacancy rate
 - 31 vacancies greater than 6 months old = 8%
 - 12 vacancies greater than 12 months old = 3%
- 12 vacancies greater than 12 months old equate to \$2,336,442 in 2023-25
 - \$1,505,698 funded from liquor revenues, and \$830,744 funded from marijuana revenues

Questions?
