

**Oregon Liquor and Cannabis Commission (OLCC)
2023 Ways & Means Presentation, Questions and Answers
Joint Committee on Ways and Means Subcommittee on Transportation and
Economic Development**

Questions and Answers from OLCC April 4, 2023 Presentation (pp. 1-14)

Questions and Answers from OLCC April 5, 2022 Presentation (pp. 15-19)

1. How are liquor store agents paid?

The OLCC appoints liquor agents – independent business people or businesses – to operate liquor stores for the State of Oregon; the OLCC contracts with them to serve as retail sales agents. In addition, by statute, holders of Oregon Distillery licenses can sell their own manufactured product in their Distillery Tasting Room Retail Outlets. The liquor agent stores range from stand-alone liquor stores to liquor stores located in grocery stores, convenience stores, and other retail establishments. Many of the rural stores are a store within a store. The Store Operating Expenses Program contains funds available to pay agents for their retailing services for the state. The OLCC pays agents monthly for their services using a formula based on several factors, the most important of which is store sales. This payment is not only the agents' take-home pay but also the dollars they use to operate and improve the liquor stores. Out of their compensation, agents must pay liquor store rent, insurance, telephone, electricity, heat, water, city and county business taxes, employee salaries, sick leave and vacation coverage. Liquor agents also pay for infrastructure improvements -- such as in-store remodels, appearance improvements and fixtures -- and computer equipment from these funds. From the remainder, agents pay their own salaries, Social Security, state and federal taxes, medical insurance, and retirement plan. The state supports the agents by purchasing the inventory sold in the stores, paying for credit card fees, and miscellaneous expenses such as store signage and price tags. Distiller Tasting Room Retail Agents also pay for their own infrastructure and salaries; however, they do not receive credit card fee reimbursement, and the state does not purchase their inventory sold in the tasting rooms until it is sold to the customer.

Liquor and Distillery agents are compensated primarily on the sales volume the stores produce. Prior to 2021 the Legislature mandated the average funding rate to be paid on forecasted sales. In 2021, legislation was passed that established the liquor store and distillery agent compensation rates into statute. In the 2021 legislation was passed (HB 2740) which established the compensation for liquor stores in statute under ORS 471.53. Liquor store agents are paid a commission based on the percent of their sales. For sales of alcoholic beverages to licensees stores are paid 6.54 percent of the amount of sales. For sales of alcoholic beverages to persons other than licensees, 8.38 percent

of the amount of sales. In addition liquor stores are also paid a monthly base compensation based on the amount of store sales and the location of the store within the state. A store is classed based on the store's amount of annual sales of alcoholic beverages rounded to the nearest whole dollar, adjusted annually by a percentage equal to any percentage increase in the Consumer Price Index for All Urban Consumers, West Region (All Items), as published by the Bureau of Labor Statistics of the United States Department of Labor, as follows:

- (a) Class 1: up to \$120,000;
- (b) Class 2: at least \$120,001 and not more than \$450,000;
- (c) Class 3: at least \$450,001 and not more than \$750,000;
- (d) Class 4: at least \$750,001 and not more than \$1,650,000;
- (e) Class 5: at least \$1,650,001 and not more than \$2,500,000;
- (f) Class 6: at least \$2,500,001 and not more than \$3,700,000;
- (g) Class 7: at least \$3,700,001 and not more than \$5,500,000;
- (h) Class 8: at least \$5,500,001 and not more than \$8,300,000;
- (i) Class 9: at least \$8,300,001 and not more than \$12,500,000; and
- (j) Class 10: at least \$12,500,001 and not more than \$18,750,000.

The monthly base compensation for an agent, adjusted annually by a percentage equal to any percentage increase in the Consumer Price Index for All Urban Consumers, West Region (All Items), as published by the Bureau of Labor Statistics of the United States Department of Labor, is determined as follows according to the class of store operated by the agent:

- (a) Class 1 store: 14.5 percent of the first \$10,000 in monthly sales of alcoholic beverages;
- (b) Class 2 store: \$1,660;
- (c) Class 3 store: \$1,920;
- (d) Class 4 store: \$2,440;
- (e) Class 5 store: \$2,700;
- (f) Class 6 store: \$3,100;
- (g) Class 7 store: \$3,600;
- (h) Class 8 store: \$4,150;
- (i) Class 9 store: \$4,800;
- (j) Class 10 store: \$5,500.

There are also escalators to the monthly base compensation that change depending on the location of the store. The wage escalator amount is as follows:

- (a) For an agent in a standard county, eight percent of the monthly base compensation; or
- (b) For an agent in a Portland metropolitan area county, 18 percent of the monthly base compensation.

The monthly retail escalator amount is as follows:

- (a) For a store located in a standard county, 50 percent of the monthly base compensation; or

(b) For a store located in a Portland metropolitan area county, 75 percent of the monthly base compensation.

Compensation for Distillery Agents was also established in statute in 2021 (Senate Bill 316) and is now under ORS 417.230. The Commission pays a compensation rate of 45 percent for the first \$250,000 of annual sales for the combined outlet sales of a distillery. For sales over \$250,000 the Commission pays a compensation rate of 17 percent of sales.

2. Prior to OLCC's purchase of the Canby property for the new warehouse, when was it last sold?

On behalf of OLCC, the Department of Administrative Services-Enterprise Asset Management, Real Estate Services Program sent out a Request for Information (RFI) on March 29, 2021.

Trammell Crow started negotiating to purchase with each of the three owners in 2017, and got them under contract in April 2018. They dropped the middle and southern parcels, but closed on the purchase of the 20-acre northern parcel in April 2020. Trammell Crow entitled this property in 2020, to develop three buildings on three parcels. They started negotiating again on the middle and southern parcels in 2020, got them back under contract in March 2021, and closed on the purchase of them in November 2021. According to DAS-Real Estate Services, their understanding was Trammell Crow had also submitted plans to the City of Canby for constructing a large building on the 33+ acres. Their stated business plan was to develop one large building on the 33+ acres. That plan did not end up happening once Trammell Crow agreed to sell the property to OLCC.

The following information was obtained using the appraisal report for the Canby property, which aligns fairly closely regarding the sale dates provided by Trammell Crow in the paragraph above.

- The 33.77 acres purchased by OLCC consisted of three parcels previously.
 - The largest parcel of 20.50 acres was previously sold in March 2020.
 - The smallest parcel of 3.42 acres was previously sold in October 2021.
 - The medium sized parcel of 9.85 acres was previously sold in November 2021.

3. When will OLCC's Policy Option Package 101 IT Modernization projects be completed? What are the expected benefits these projects will provide?

The Marijuana/Liquor Licensing and Compliance program (MLLC) project is estimated to be completed in the summer of 2025.

The Distilled Spirits Supply Chain (DSSC) project is estimated to be completed around November/December of 2025.

These systems are expected to enable portals for applicants and to aid the agency's ability to effectively respond to public record requests.

MLLC Expected Benefits (more defined since OLCC has entered into a contract with a vendor for this part of the agency's IT Modernization project):

#	Benefit	Acceptance Criteria	Baseline Metrics	Priority	Phase
1	Streamline licensing processes	Goal is a 30% reduction in the length of time to process licenses.	It currently takes an average of 81 days to process a liquor license application (from license application assigned to issued) 91 days to process a marijuana license application (from date assigned to issued).	Mandatory	1,2
2	Reduce manual processes and manual manipulation of applications	Reduce manual processes for Liquor Licensing by 90%	Liquor Licensing is 100% a manual process. Contested Case management is 100% manual process with several redundancies.	Highly Desirable	2,4
3	Reduce paper handling for liquor licensing (save space, etc.)	Reduce paper files (PDF/Scan) for liquor licensing by 75%	Liquor Licensing is currently 100% conducted via paper forms/pdf scans.	Highly Desirable	2
4	Enable online (credit/debit) card payment	Increase card payments for liquor licenses and compliance activity by 80%.	Currently there is no option for licensees to pay for compliance fines or liquor license fees	Mandatory	2,4
5	Improved Case Tracking and Management A smoother and seamless process for tracking from opening to closing assignments including post investigation activities such as hearings and contested cases.	90% completeness in tracking and management of case assignments.	Current case tracking for liquor licensing has approximately 50% completeness. Metro area special event tracking is at 100% completeness. Overall statewide tracking is approximately 65% completeness.	Mandatory	2,4
6	More efficient compliance investigations	Benefits of new system will reduce 30% of hours per FTE to allow inspectors	Simple investigations take an average of 5 days. Complex investigations average 45 days.	Mandatory	4

		to conduct investigations more efficiently			
7	Reduce dependency on scanned uploads of documents for marijuana renewal	Reduce manual manipulation of Marijuana renewal applications to exceptions only or less than 10%	Marijuana Licensing is primarily online – however limited system functionality forces staff to accept scans or uploads for marijuana license renewals.	Highly Desirable	1
8	Improved Stakeholder Satisfaction	The solution will also provide better management of OLCC relationships with customers throughout the life cycle licensees. Improve overall customer satisfaction by 5%	Current overall customer service rating is 73%	Highly Desirable	1,2,3
9	Improve the ease of process for Marijuana license applicants by implementing a customer-focused application process	A customer focused MJ License process will create a practical application flow, eliminate extra steps to complete applications, and reduce the amount of contact with OLCC staff. Improve cannabis industry customer satisfaction ratings for timeliness and ability to provide services correctly the first time by 20%	Current customer service rating for cannabis industry are: 47% for timeliness of services 65% for OLCC’s ability to provide services correctly the first time.	Mandatory	1
10	Reduce time it takes for liquor license applicants to fill out and submit paperwork	Industry stakeholder for alcohol will be able to conduct more business electronically resulting in 30% reduction of time to submit via paper process	Currently all licensing documentation for liquor licensing is done on paper and is labor intensive. It takes an average of 48 hours of research preparation time for a first-time applicant to fill out and submit.	Mandatory	2
11	Increased accessibility, timeliness and effectiveness of data to allow for more informed decision	Decrease data sources by 50% by having fewer data sources.	Approximately 20 hours per week are spent manually manipulating data for reporting. Currently, canned reports	Highly Desirable	1,2

	making for OLCC staff and business partners.		are not cohesive and lack dynamics. Multiple data sources need to be pulled and compiled in order to create one data set. To build reports, staff must manually pull all data, perform calculations, and manipulate the data to present the information in a way that is readable and useable. These reports need to be updated regularly, repeating the same methods.		
12	Easier record retention management including quicker and more accurate fulfillment of records requests subpoenas or hearings/litigation discovery requests.	Goal is to reduce the time it takes to fill records/discovery requests by 20%	It currently takes an average of 15 days to fill a routine public records request. Complex requests can take 30-60 days to fulfill	Desirable	1,2,3,4
13	Easier record management including faster identification and location of license, hearings, and compliance history files.	Goal is to reduce the time it takes to identify location of and pull relevant files by 50%.	Administrative Hearings Division must pull information about licensees from several systems in order to obtain accurate data, which takes approximately ½ hour for liquor and 1 hour for marijuana cases on average. Complex license investigations can take ½ a day or longer to identify where all related license information exists with additional time to physically pull files.	Highly Desirable	1,2,3,4

DSSC Expected Benefits (less defined since OLCC is still in the Request for Proposal stage, the RFP will be closing on 04/21/23):

#	Goal	Measure	Baseline
1	Replace segregated systems	Replace at least 30 existing segregated systems that will be combined into a single system.	45 siloed systems currently that make up the functionality of the Distilled Spirits Supply Chain.
2	Improve communication and information sharing with liquor store agents, distillery agents, and distilled spirits representatives.	Decrease in manual communication processes by 50%	Communication is primarily via phone, in-person, and email with limited availability on OLAS.
3	Decrease paper usage, spreadsheets usage, and mail handling.	Expectation is to reduce manual manipulation of data and paperwork to exceptions only or less than 10% Elimination of redundant spreadsheets by 75%. Distilled Spirits Program has identified approximately 45 redundant spreadsheets (60 total) maintained in various divisions.	For Retail Services all liquor store sales data is manually pulled from one of two data sources (internal or NABCA) then manipulated and maintained in spreadsheets. Approximately 4,000 printed pages would be eliminated annually through web-based delivery of Liquor Agent's Annual Report Card. Multiple divisions maintain spreadsheets with redundant information
4	Decrease system down-time	System(s) down-time will be decreased by 75% from current downtime rate.	System(s) currently experiences critical break downs an average of once every two weeks.
	Decrease the need for manual manipulations of applications	Expectation is to reduce the amount of application manipulation to exceptions only or less than 5%	Manual manipulations of system applications occur several times each day.

#	Goal	Measure	Baseline
5	Increase efficiency by reducing IT costs, and labor hours due to system outages.	Increase efficiency by 20%, resulting in \$0.13 per case savings. \$910,000 per biennium.	Our labor expense per case is currently \$0.65.
6	Reduction in time staff spent on entering quote changes and contacting suppliers.	50% reduction, saving 192 hours a biennium.	We currently spend approximately 16 hours per month entering quote changes
7	Stores and suppliers can plan ahead for monthly special or quarterly price change. Quarterly price changes have a larger lead time before finalized and shared, giving stores more time for long-term planning.	Stores will get immediate access to upcoming specials or price changes as manufacturers submit. The metric for each month or quarter would vary depending on when the manufacturers submit and how long the changed pricing lasts. A manufacturer could set a start and end date of a promotion that could span more than one month or off cycle than the quarterly price changes. For example, a two-month price change could go into effect for February and March, with a notification to liquor stores in December of the upcoming promotion.	Currently, stores only get 20 days lead time for monthly specials/reductions. Quarterly price changes provide 20 days lead time to the first month of the quarter. Today, special pricing is only posted once all manufacturer pricing has been received, which is on average 20 days prior to the first of the month.
8	Increased accountability for Distilled spirits sales at Distillery Retail Outlets	Recover revenue from unreported sales, targeted 98% accuracy of tracking liquor sales from Distillery Retail Outlets	There is currently no tracking mechanism at Distillery Retail Outlets, it is self-reported.
9	OLCC's financial reconciliation of sales also becomes much more efficient. Both agents' compensation payments	Less administrative reconciliation by hand which means the agency can close out the books sooner and	Per statute, the agency has 35 days to reconcile. The agency currently uses the full 35 days to complete the reconciliation.

#	Goal	Measure	Baseline
	and reimbursements can be reconciled at a much faster rate, providing more stability to small business owners who rely on getting paid accurately and on time. The auditing function for OLCC also becomes much quicker and minimizes risk as liquor store owners and agency staff all have access to daily inventory reports.	remit payments to state, cities, and counties 30% faster.	
10	By integrating and streamlining order, inventory and sales systems, Liquor Agents will save time by not having to manually switch between systems.	Liquor Agents will save approximately 100 hours a year (roughly 28,000 hours a year across all stores)	Liquor Agents spend an estimated 200 hours a year (approximately 56,000 hours a year across all stores) ordering, inventory tracking and sales submissions.
11	Improved processing time/service level targets for transportation claims and quote changes	Time for Quote changes will be reduced by approximately 50%, saving 260 hours per year. Transportation claims will be reduced by 25%, saving 10.8 hours per year.	Quote Changes average 6 minutes each with an average of 100 per week, totaling 520 hours per year. Transportation Claims average 5 minutes each with an average of 10 per week, totaling 43.5 hours per year
12	Providing a one-stop customer engagement shopping portal would ease the burden on liquor stores, maximize profitability for liquor agents, and connect consumers to in-store services through a modern online environment.	Increased net revenue returned to the state by 1% or \$6mm annually. According to the Boston Consulting Group e-commerce survey, 20% of alcohol drinkers say they would purchase online if they had the option. The 1% growth is a conservative estimate due to increased convenience. Additionally, grocery stores have reported 1.3% of all sales derive from	2019-2021 projected alcohol net revenue for distribution is \$635mm per biennium

#	Goal	Measure	Baseline
		online commerce, according to US Census.	

4. **How is OLCC doing with Public Records? Is the agency providing timely responses?**

Public records requests and demand for external communication services to OLCC have increased dramatically in the last five years and have become increasingly complex in nature. The Commission’s expanded mandates and growth over the past five years have compounded the agency’s Public Records Fulfillment challenges. In 2016, there were no public record requests related to recreational or medical marijuana, and most records requests were for liquor licensing and compliance files.

OLCC has historically received public records requests for liquor license applications from private companies and local governments seeking general information on new businesses, as well as the compliance history of existing businesses. The OLCC also receives public records requests related to compliance activity associated with the oversight of the Bottle Bill. However, with the onset of the Recreational and Medical marijuana programs, requests have increased to now include companies in potential litigation with each other, policy researchers seeking data, attorneys doing due diligence on prospective clients or working on transactional activities, firms in litigation against local and state governments, as well as subpoenas from the Oregon Department of Revenue and the IRS. Many of the requesters seeking records related to marijuana licensees and applicants also request correspondence, which is time-consuming to locate, review, and redact.

OLCC possesses CJIS information and most records that are requested require some level of redaction due to statutory exemptions from disclosure. There are specific exemptions for marijuana-related information, including physical addresses for producer, processor, and wholesaler licenses, information related to security and operation plans, and records the OLCC considers to be proprietary, which includes licensee-specific data from the cannabis tracking system. OLCC also redacts information in accordance with the Oregon Identity Theft Protection Act. This nature of this information requires that each complex request be managed like a project, with a clear beginning, middle, and end date so that records can be fulfilled in a timely manner.

The cannabis industry is immature, yet sophisticated. Statutes and rules regulating the industry continue to evolve, and are far from being codified like those that apply to the alcohol and bottle bill industries. The cannabis industry is entrepreneurial and moves more quickly than regulators. The slow response to records requests impedes the industry's progressive development.

For the past few years, the OLCC has received on average about 700 public records requests per year. About 60% of these requests are marijuana-related requests, and 40% are liquor-related requests. The agency is subject to deadlines set by the Oregon Public Records Law for acknowledging requests and releasing responsive records, but due to this large workload, existing staff are currently overwhelmed and unable to meet these deadlines. Limited staffing and system limitations also affect the agency's ability to respond punctually to requests. Not meeting these deadlines for requests has raised the potential of litigation against the agency.

The increase in requests, as well as staffing changes, has resulted in a significant logjam. Despite allocating 50% of six FTE to process requests for a few months, OLCC still has a significant backlog. In late 2021, Oregon DOJ issued to OLCC three public records orders demanding, under threat of sanctions, a specific request completion and/or refund of public records fees to the requestor. Separately since mid-2021, OLCC has been working under a DOJ directive to allocate a minimum of eight (8) hours on a specific request that has yet to be completely fulfilled. Because of the public records buildup some legal firms commonly resort to sending the OLCC "demand letters" to speed up the response if their public records requests haven't been fulfilled within the time prescribed in statute; staff must then divert from public records fulfillment work to respond to these demands.

The emergence of the legal cannabis industry, and recently the re-immersion of illegal marijuana production, has triggered substantial interest from news media and the general public. Journalists usually request specific information, but often their requests are probative and then become iterative; a revelation disclosed in a public records often morphs into a much larger request more in the form of a voluminous public records investigation. Media requests are deemed as "benefitting the general public" and thus are expedited over other public records requests, and often completed without any fees being charged.

OLCC anticipates that requests for agency records, especially marijuana-related records, will continue to increase. This is largely driven by the recreational cannabis industry's need for licensing documents to complete

mergers, acquisitions, and pending litigation. Requesters often ask for a licensee's entire compliance file.

As time goes on and the fulfillment of a request is further delayed, files only get larger, thus increasing the amount of time it takes to process requests. Further, the complexity of marijuana files requires a greater deal of scrutiny regarding confidential and exempt information compared to the production of records for alcohol or bottle bill programs. The net impact is that many of the requests for cannabis (industry) licensing information are not pro forma in nature, and must go through several stages of review before release. Rather the agency needs to manage the requests as individual projects because of multiple layers of nested documents including interlocking ownership structures that require scrutiny. Additionally records request from the beer and wine industry have also increased with recent litigation over provenance and labeling standards.

OLCC has also experienced an increase in subpoenas and requests for documents from other regulatory agencies. These requests have also been complex, especially from cannabis regulatory agencies in other states, as well as state and federal revenue agencies. The latter requests must be handled with an extra degree of time-consuming discretion because they often are related to alleged tax irregularities, improper financial reporting or other criminal matters.

With additional staff as recommended in Policy Option Package 312, the agency will be able to show via tracking whether request fulfillment times and delays have decreased. OLCC will also track complaints and estimate that with these minimally adequate resources, the agency will find that complaints decrease during the biennium.

5. What is the total cost of the Policy Option Packages recommended in the Governor's Budget for OLCC?

See table on the following page

POP #	Description	2023-25 Governor's Budget	Pos.	FTE
	2023-25 Modified Current Service Level	\$ 361,324,846	380	378.50
Statewide Packages	Reduce AG and DAS Charges	\$ (325,838)	-	-
101	IT Modernization Bonded Costs	\$ 16,695,000		-
102	Warehouse and Nonbonded IT Costs	\$ 14,403,773		-
303	IT Risk Mitigation	\$ 496,133	2	1.76
305	Vehicle Replacement	\$ 385,000		-
307	Financial Services Staffing	\$ 238,613	1	0.88
208	Alcohol Licensing Staffing	\$ 337,424	2	1.76
410	Cannabis Communication Outreach	\$ 450,000		-
312	Records Requests & Communications	\$ 572,942	3	2.64
413	Marijuana Lab Integrity	\$ 965,674	3	2.64
215	Alcohol Delivery Regulation, HB 3308	\$ 947,065	6	4.67
418	ODA Lab Funding LC (\$2.3 M revenue txfr out), HB 2931	\$ -		-
	Agency 2023-25 GB POPs	\$ 35,165,786	17	14.35
	2023-25 Governor's Recommended Budget (GB)	\$ 396,490,632	397	392.85

Note: For ease of presentation, the Package 090 items included in the Governor's Budget are included as part of the 2023-25 Modified Current Service Level row at the top of the table. The details related to Package 090 are included on slide 71 of the agency's Ways & Means presentation.

6. Is OLCC looking at Electronic Vehicles (EVs) when making vehicle purchases?

Yes, the agency is looking at EVs. The OLCC is following ORS 283.398 and ORS 283.327 when determining what type of vehicles should be purchased for the agency. While the agency has determined that fully electric vehicles are not able to meet the needs of the agency at this time, partially due to the lack of EV charging infrastructure around the state. OLCC has determined that hybrid vehicles, at times, do meet the needs of the agency. Accordingly, the agency has ordered several hybrid vehicles as part of our agency fleet replacement plan in the current 2021-23 biennium. The agency is still waiting for those vehicles to arrive.

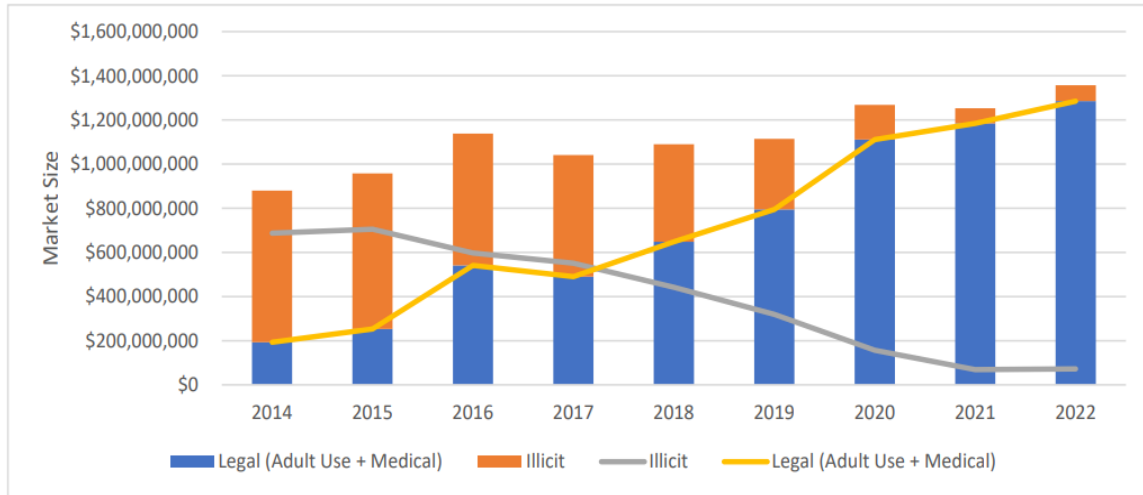
7. In relation to the marijuana worker permit renewal process, what does it involve and is there another background check?

The renewal process is very similar to the initial application process, as the testing questions haven't been updated since legalization, the requirement is to upload the previous test cert. A valid ID upload is required and background checks are performed on all renewal applications. OLCC also verifies that there are no ongoing Administrative Hearings Division cases related to the applicant.

The cost for an initial application is \$100 and it is good for five years. A renewal application costs \$100 and is also good for five years. A background check is required at renewal, due to the fact that a lot can change in five years.

8. How much cannabis use in Oregon is licensed vs. black-market?

Figure 2: Oregon Cannabis Market, 2014 to 2022⁷



Source: Business Oregon, “Oregon’s Emerging Industries, 2023 Consolidated Market Analyses” report compiled by Business Oregon in response to 2022 House Bill 5202 - Section 296.

https://www.oregonlegislature.gov/citizen_engagement/Reports/Emerging_Industries.pdf#page=13

Oregon State Police Information Regarding the Amount of Marijuana Seized/Destroyed in 2021 and 2022 (as of April 5, 2023)

	2021	2022
Sum of Bulk Marijuana (lb)	606,655	172,634
Sum of Indoor Marijuana Plants (#)	707,172	149,715
Sum of Outdoor Marijuana Plants (#)	46,960	102,541

In 2022, State Police had nine dedicated Detectives and Sergeants to deal with illegal marijuana throughout Oregon.

In addition, State Police's call center has been called 3,508 times on illegal grows/inquiries from law enforcement in Oregon in 2022 and 829 calls in 2023 through March 31, 2023.

9. What might the impacts of privatization be for OLCC and the state?

OLCC addressed this question in person with the Ways & Means subcommittee on April 6, 2023.

10. What might the impacts of privatization be on the capital project investments being made in a new warehouse/HQ, conveyor system, and IT modernization?

The Canby property, warehouse, and conveyor systems could be sold and the sale proceeds could be used to pay off the debt (assuming that the sale proceeds would be sufficient to cover the debt). The warehouse/HQ and conveyor capital projects are budgeted at \$145.5 million. The IT modernization capital project would likely not be able to be sold. Therefore, the state would have an ongoing liability for the \$27 million in bonded debt that had been budgeted for these IT system modernizations. The issue of the Distilled Spirits inventory at the 280+ liquor stores around the state would need to be addressed. The Distilled Spirits inventory at the warehouse would be less of an issue since the OLCC does not pay for that inventory until it is shipped out of the warehouse. Prior to that point, the Distilled Spirits inventory is still owned by the manufacturers. Per ORS 471.473 the liquor store agents could be eligible for compensation for business lost equal to 4% of average sales made by stores over the preceding five years. A rough estimate of that cost would be approximately \$146 million.

11. What was the cost of the conveyor project the OLCC initiated during the 2015-17 biennium and has the cost of that investment been recovered?

The conveyor improvement project was approved during the 2015 legislative session as Policy Option Package #104, at a budgeted cost of \$5 million. This project significantly improved existing warehouse operations by allowing for shipments to be made out of four shipping doors, as opposed to just one prior to the completion of the project. The cost of the project was equivalent to 2.5 days of gross revenues. The project was a vital aspect of the agency's effort to manage existing warehouse capacity issues since the 2015-17 biennium.

12. What internal controls has, or will, the OLCC implement to ensure the bottle diversion issues identified in February 2023 are not repeated?

The diversion of vendor allocated items occurred from the set aside/replacement inventory. There are a limited amount of bottles that are set aside as replacement bottles or if the vendor wants an additional bottle sent to a licensee during the year. We have accounting and inventory control over the original allocations, but not the set aside/replacement inventory. OLCC will establish a policy on the allocation of the set aside/replacement inventory so that the bottles are accounted for and easily

tracked. For example, could potentially have our Internal Auditor audit that process and paperwork on a yearly basis to make sure that these bottles were handled appropriately and within policy.

13. What does OLCC know about Fireball items being sold in convenience stores? This is an area of concern in rural and/or other parts of the state. Are drivers consuming these products and potentially driving under the influence? This is also creating a littering issue along rural roadways.

Small bottles of low alcohol by volume (ABV) being sold in the checkout line of grocery stores is a fairly new phenomenon. Those bottles may look like a Fireball you see on the airplane or sold in an OLCC agent store, but they have different ingredients. Many of those bottles you see in the checkout line are not made from distilled spirits, but rather wine or malt; they are low ABV and much lower content than the “mini” bottles you could get on an airplane. There are active lawsuits in other states related to the branding and marketing practices. The federal government through the Alcohol and Tobacco Trade Bureau (“TTB”) ultimately approves ingredient lists and a lot of packaging and labeling; they protect trade secrets related to the ingredients list. This is an area the agency will be looking into.

14. In areas of beer and wine labeling, is this something OLCC addresses? What resources would the agency use to address an issue like this?

While this is not part of OLCC’s statutory authority, the agency did previously work to bring about common ground related to labeling wine bottles that would otherwise be solved in civil courts. For example, in 2019 OLCC worked with the National Policy Consensus Center at Portland State University to mediate a dispute related to wine labeling. The agency’s PACE Division would provide the resources to address issues like this in the future.

15. What are the action items the OLCC is implementing to address the customer service issues identified in the agency’s Customer Service Key Performance Measure (KPM)?

The OLCC is in the process of implementing several items that will enable the agency to address the fact that we have not been meeting our Customer Service KPM target for several years. The first is to modernize our Information Technology systems to allow for faster and more efficient agency operations, which will directly benefit our customers. The second will be a renewed emphasis by Governor Kotek, agency executives, and managers to prioritize customer service within the executive branch. Lastly, the agency will continue to evaluate existing staffing levels, make adjustments where we can, and seek the staffing needed to make sure we are appropriately staffed to meet our customer service goals. The Policy Option Packages recommended in the Governor’s 2023-25 Budget for OLCC would help move the agency in this direction.

16. Does the OLCC receive information from law enforcement when someone is pulled over for a D.U.I.I. related to where that person came from? Does the agency then use that information to follow up with that establishment?

Law enforcement agencies do send DUII related reports to OLCC. ORS 471.703 states the police shall notify the Commission under certain conditions and retain the information. OLCC's experience has been that this is not a consistent practice by law enforcement agencies to report this information to us, but the information we do receive is tracked in a monthly report. There is a disclaimer on the first page of the report that says the information is only as good as what the DUII driver reports to the law enforcement officer. Thus, the reason this information is primarily used as an educational tool with licensees. We do send different levels of letters out to the licensees based on the reports we receive such as when there are crashes and injuries involved. We also send a quarterly letter when there are DUII's that meet a certain criteria. Currently, DUII Cases are assigned to inspectors when there is a .16 BAC with a crash that has a serious injury or any BAC that involves a death. Cases are also assigned to inspectors when the premises receives a quarterly letter so they can educate and work with the licensees to help them determine what may be causing the alleged over service.

17. Can the OLCC provide some additional information regarding the state lab partnership with the Oregon Department of Agriculture, POP 418 (HB 2931)?

Currently OLCC licenses testing labs that our licensees use for compliance testing. This will not change with POP 418, HB 2931. This will allow for the expansion of the current ODA Laboratory Services Department to include regulatory cannabis testing.

Why it is needed?:

- The agencies often receive complaints from marijuana and hemp licensees directly related to the testing of consumer products prior to retail sale, including: allegations of spiking potency levels on test samples, falsifying test results, or "pay to play" testing
- In order to reasonably regulate the licensed labs, the ODA, OHA, and OLCC need a mechanism to verify test results.
- A reference lab located within the ODA Laboratory Services will provide a neutral third-party for method development, quality assurance review of other labs, and unbiased compliance testing.
- Consumer health and safety issues will also be better addressed with the establishment of a state lab conducting regulatory cannabis testing.

What the reference lab could do?:

- Investigate complaints from licensees about faulty lab testing
- Conduct market basket testing – random testing of products at retail (Oregon Secretary of State 2019 audit recommendation)
- Conduct compliance testing to assist:

- OLCC investigations
- Public health investigations
- ODA hemp investigations
- Law enforcement requests
- Conduct compliance audits to make sure licensed labs are testing and reporting appropriately by comparing lab results listed in the Cannabis Tracking System (CTS) to products being sold to consumers

Why ODA?

- ODA has an established regulatory testing lab specializing in testing plants and food items, while also providing valuable research about testing methodologies to other state agencies.
- OLCC and ODA both regulate various forms of the cannabis plant including hemp, marijuana, and the processing of plant material into foods and other finished products.
- To best leverage state resources, all cannabis and cannabis products could be tested under the same regulatory body, under the same rules and using the same methodologies.

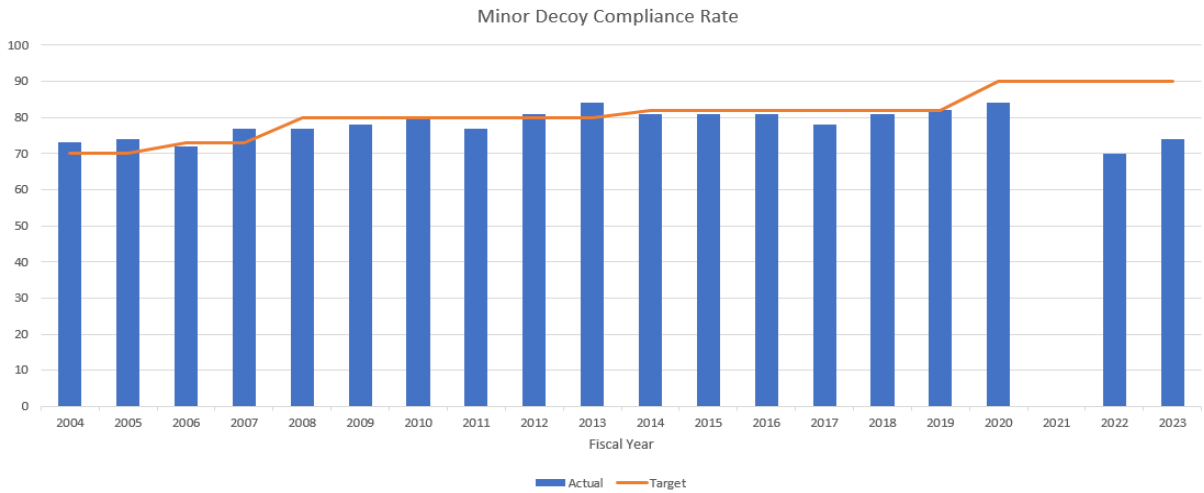
Who has recommended this?

- 2022 HB 3000 and SB 1564 - Task force on cannabis derived intoxicants and illegal cannabis production
- 2020 Governor Brown's Vaping Taskforce
- January 2019 Secretary of State Audit: Oregon's Framework for Regulating Marijuana Should Be Strengthened to Better Mitigate Diversion Risk and Improve Laboratory Testing
- 2019 Oregon Cannabis Commission legislative report

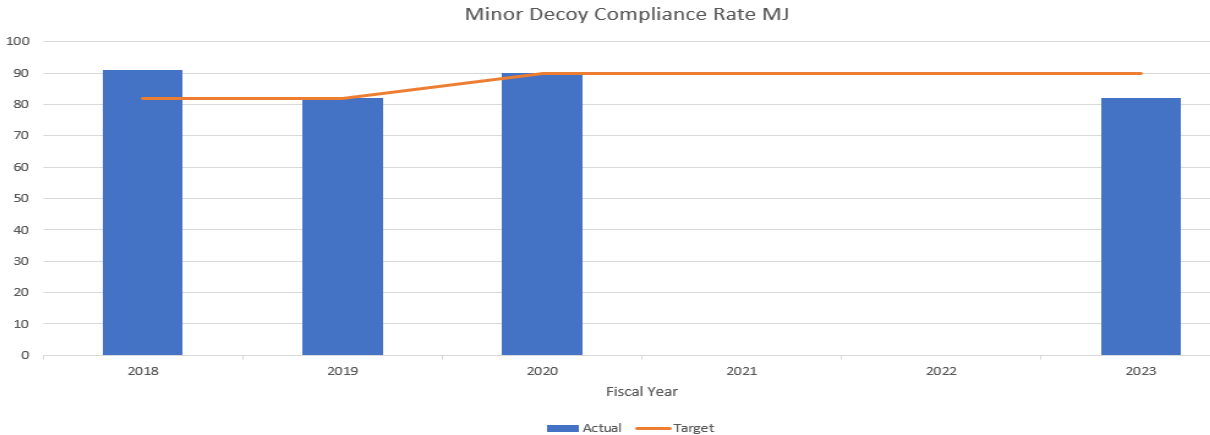
18. Can the OLCC provide more current updates to the Minor Decoy Key Performance Measures (KPM) for Alcohol and Marijuana?

The updated KPM information provided in the charts below for 2023 are based on the time period July 1, 2022 – March 21, 2023.

Minor Decoy Compliance Rate Alcohol *KPM*



Minor Decoy Compliance Rate Marijuana *KPM*



19. Can the OLCC provide more detailed information regarding the average time to process alcohol license applications related to breweries and/or distilleries?

Fiscal year 2022 KPM data, specific to Breweries and Distilleries:

For Brewery licenses: Average # days from rec'd to complete: 127

For Distillery licenses: Average # days from rec'd to complete: 125

Fiscal year 2023 KPM data, specific to Breweries and Distilleries, as of 04/06/23:

For Brewery licenses: Average # days from rec'd to complete: 166

For Distillery licenses: Average # days from rec'd to complete: 131

This is an area that OLCC will continue to focus on to work on improving in these turnaround times.