

2025-27 Budget Review

Oregon Liquor and Cannabis Commission

	2021-23 Actual	2023-25 Legislatively Approved *	2025-27 Current Service Level	2025-27 Governor's Budget
Other Funds	450,504,425	391,997,885	403,032,555	410,945,173
Total Funds	450,504,425	391,997,885	403,032,555	410,945,173
Positions	384	384	384	393
FTE	380.16	379.28	381.50	388.75

* Includes legislative and administrative actions through December 2024.

PROGRAM DESCRIPTION

OLCC regulates the individuals and businesses that manufacture, sell, import, export, or serve alcoholic beverages. OLCC also regulates growers, producers, wholesalers and retailers of recreational marijuana, and tracks and inspects medical marijuana grow sites, processors, and dispensaries. OLCC investigates and acts when necessary against those who violate liquor and cannabis laws.

The OLCC is entirely supported by Other Funds. OLCC's liquor regulatory functions and a portion of its central services functions are supported by the sale of distilled spirits, privilege taxes on malt beverages and wines, and licenses and fees. Marijuana licenses and fees support the regulation of cannabis producers, processors, retailers and dispensaries, wholesalers, lab testing, and central services expenses.

BUDGET ENVIRONMENT

The Legislature has authorized bonded debt supported with liquor revenues for the purchase of land and construction of a new, larger liquor warehouse and material handling (conveyor) system (\$121.5 million). The warehouse construction project is anticipated to break ground in March, with a targeted substantial completion date of August 2026. General obligation bond proceeds also support the development of a new distilled spirits supply chain information technology system (\$24 million). OLCC has entered into a contract with a chosen vendor, and anticipates a tentative completion date of August 2026.

The agency will be moving its administrative and regulatory operations to the Portland State Office Building no earlier than January 2026. Vacating the existing warehouse in Milwaukie will occur after completion of the new warehouse construction project and testing of the new IT and material handling systems that support liquor distribution. The Milwaukie properties are valued at \$29.6 million, and proceeds from the sale could conceivably be used to buy down existing debt for the projects, or finance

other moving costs. The multiple timelines and milestones associated with these significant transitions will require careful management.

Anticipated distributable revenue from liquor sales fell by approximately 18% from 2023-25 initial sales projections, due to flattening consumer demand and issues identified with OLCC's forecasting methodology; OLCC has since revisited this methodology and continues to monitor monthly and quarterly sales in an effort to accurately inform future revenue liquor forecasts. Flattening alcohol revenue has been identified as an issue industry wide, and may be due to generational shifts in preferences for cannabis and malt-based beverages vs. distilled spirits.

OLCC has found a number of compliance challenges with third party delivery companies delivering beverages direct to consumers, including inadequate ID checks and the propensity for drivers to execute no contact deliveries. OLCC experienced logistical challenges with minor decoy operations for direct consumer delivery, and will consider alternate means of testing for compliance.

CURRENT SERVICE LEVEL

The 2025-27 current service level for OLCC is an \$11 million, or 2.8%, increase from the 2023-25 legislatively approved budget. Agents' compensation comprises the largest expense of OLCC's budget, at 52.6% of current service level expenditures. The formula for compensating liquor and distillery agents is detailed in ORS 471.753 and is a variable percentage of liquor sales. The formula considers factors including sales volume, location, and inflation. The compensation rate for liquor store owners is an average of 10% of sales (across all stores and locations) and 37.3% of sales for distillery agents. Due to the failure of liquor sales to meet close of session budget forecasts, expenditure limitation for agents' compensation is overstated in the current service level.

The December 2024 revenue forecast for the 2025-27 biennium assumes liquor revenue distribution in the following amounts:

- General Fund (56%): \$282.2 million
- Cities (20%): \$100.8 million
- City revenue sharing (14%) \$71.2 million
- Counties (10%): \$50.4 million
- Oregon Wine Board: \$745,000
- Mental Health and Drug Services Account: \$18.3 million

Total liquor sales of \$1.7 billion for 2025-27 results in \$523 million available for distribution at current service level, absent imposition of a \$0.50 per bottle surcharge. This is a 1.6% increase from forecasted total sales in the 2023-25 biennium, but distribution amounts to the General Fund, cities and counties are anticipated to decrease by approximately 9.2% from the current biennium, because of formula driven increases in rates of liquor agent compensation.

Fees assessed on marijuana licensees are projected to generate \$34 million in 2025-27, and are to be used for a share of agency administrative and marijuana regulatory costs.

Inflation and pricelist adjustments added \$17.6 million to OLCC's current service level budget, with increases to liquor agent compensation – which are determined by statutory formula with factors including location, sales volume, inflation – responsible for \$13.5 million (76.7%) of the total amount.

One-time expenditures in the amount of \$23.4 million were phased out of the current service level budget, included the following:

- Limitation related to bond proceeds and cost of issuance to support information technology costs associated with managing OLCC's distilled spirits warehousing and shipping system (\$17.5 million).
- Procurement of a portion of equipment needed for the new warehouse, which had to be ordered in advance to ensure delivery by construction completion (\$3.2 million).
- One-time costs related to replacement of a portion of OLCC's fleet vehicles (\$385,000).
- Contracted communications for compliance information targeted to cannabis licensees (\$450,000).
- One-time costs related to the establishment of a cannabis reference laboratory jointly operated by OLCC and the Oregon Department of Agriculture (\$60,960).
- Equipment-related costs for the cannabis reference laboratory (\$1.8 million).

GOVERNOR'S BUDGET SUMMARY

The 2025-27 Governor's budget is \$410.9 million Other Funds, an \$18.9 million, or 4.8%, increase from the 2023-25 legislatively approved budget, and a \$7.9 million, or 2%, increase from the from the 2025-27 current service level. Attorney General rates and state government service charges are reduced by \$491,083 Other Funds. Excess expenditure limitation in the amount of \$25.5 million is removed from the agency's budget, reflecting an updated sales forecast that is \$54 million less in available liquor revenue compared to the 2023-25 biennium. Other adjustments and investments include the following:

- \$16.2 million for costs related to Distilled Spirits Supply Chain information technology project. The project is supported by bonds repaid from future liquor revenue, and consists of the following: \$11.8 million in carryforward for capital outlay associated with bonds authorized in previous biennia; an additional \$3 million in bonds for updated project cost estimates informed by contract negotiations with the selected vendor; \$1.3 million for debt service; and \$87,055 for cost of issuance.
- \$1.4 million for costs associated with a headquarters move from Milwaukie to the Portland State Office Building, which would take place no earlier than January 2026. This amount includes costs for customizing the office space to accommodate Commission meetings.
- \$1 million for additional warehouse equipment that will be needed for liquor distribution.
- \$12 million for implementing and maintaining IT modernization projects. Costs include software licensing, point of sale terminals for use by liquor agents, and call center support. However, the additional expenditure limitation necessary for this package was offset by reductions to agents' compensation due to lower sales, so the net effect to the agency's budget is a reduction of \$1.1 million. The budget will need to be adjusted based on services and costs included in the final approved vendor contract.
- \$1.6 million for replacement of seven vehicles past their useful life supported by recreational marijuana fee revenue, and two permanent positions in the Recreational Marijuana regulatory program consisting of a licensing and permitting manager and a compliance and regulatory manager.

- \$1.2 million in additional expenditures associated with an additional seven positions (5.25 FTE) to regulate and enforce industrial hemp provisions per HB 4121 (2024). \$3.5 million in additional licensing revenue is also assumed.

OTHER SIGNIFICANT ISSUES

Pursuant to a budget note, OLCC was directed to review its workload and staffing related to liquor vs. cannabis issues, and develop an updated cost allocation methodology. Since 2017, costs attributable to cannabis regulation were based primarily on FTE in the recreational and medical marijuana divisions. A new methodology is assumed in policy option package 106, resulting in agency expenses being allocated more accurately, with medical marijuana licensees paying about \$670,000 per biennium less, and recreational marijuana licensees paying about \$2.9 million more in agency expenses compared to the 2023-25 biennium. For 2025-27, 24% of support services costs are attributed to recreational marijuana licensing revenue and related fees.

A January 2024 Secretary of State audit found two significant deficiencies in agency financial practices. Auditors recommended that OLCC strengthen internal controls over revenue transfers and distributions by reconciling information between the agency and state accounting systems, and recommended more timely liquor agent inventory audits.

HB 4121 (2024) authorized the registration and inspection of industrial hemp, and gave OLCC authority to charge a registration fee to recoup costs. OLCC imposed a of \$14,500 per year fee, assessed against an estimated 120 hemp growers. This revenue is assumed in policy option package 105, which provides staffing resources related to regulation of industrial hemp.

Ballot Measure 119 passed in November 2024 and requires cannabis retailers and processors to agree to remain neutral when labor organizations communicate with employees about collective bargaining rights. The measure requires a signed or attested labor peace agreement as a condition of licensure or certification for cannabis retailers and processors, and requires OLCC to impose penalties for failure to submit or follow such an agreement. The fiscal impact of the measure to OLCC is being determined, and resources may be requested as part of the 2023-25 budget reconciliation process or the 2025-27 budget.

KEY PERFORMANCE MEASURES

A copy of the Oregon Liquor and Cannabis Commission Annual Performance Progress Report can be found on the LFO website: [KPM - View Report](#)

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