

**76<sup>th</sup> OREGON LEGISLATIVE ASSEMBLY – 2011 Regular Session  
BUDGET REPORT AND MEASURE SUMMARY**

**MEASURE: SB 5522-A**

**JOINT COMMITTEE ON WAYS AND MEANS**

**Carrier – House: Rep. Beyer  
Carrier – Senate: Sen. Nelson**

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**Action:** Do Pass as Amended and as Printed A-Engrossed

**Vote:** 18 – 6 – 1

House – Yeas: Beyer, Buckley, Cowan, Garrard, Komp, Kotek, Nathanson, Nolan, G. Smith, Thatcher, Whisnant  
– Nays: Freeman, McLane  
– Exc: Richardson

Senate – Yeas: Bates, Devlin, Edwards, Monroe, Nelson, Verger, Winters  
– Nays: Girod, Johnson, Thomsen, Whitsett  
– Exc:

**Prepared By:** Art Ayre, Department of Administrative Services

**Reviewed By:** Michelle Deister, Legislative Fiscal Office

**Meeting Date:** June 3, 2011

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**Agency**

Oregon Liquor Control Commission

**Budget Page**

I-13

**LFO Analysis Page**

231

**Biennium**

2011-13

**Budget Summary\***

	<b>2009-11 Legislatively Approved Budget (1)</b>	<b>2011-13 Current Service Level</b>	<b>2011-13 Governor's Budget</b>	<b>2011-13 Committee Recommendation</b>	<b>Committee Change from 2009-11 Leg Approved</b>	
					<b>\$ change</b>	<b>% change</b>
Other Funds	\$ 134,069,502 \$	138,314,512 \$	44,721,499 \$	133,453,312 \$	-616,190	-0.5%
Other Funds Capital Improvement	\$ 215,965 \$	221,148 \$	215,965 \$	208,406 \$	-7,559	-3.5%
Other Funds Nonlimited	\$ 0 \$	0 \$	90,688,426 \$	0 \$	0	0.0%
Total	\$ 134,285,467 \$	138,535,660 \$	135,625,890 \$	133,661,718 \$	-616,190	-0.5%

**Position Summary**

Authorized Positions	238	237	239	239	1
Full-time Equivalent (FTE) Positions	230.72	229.72	231.72	231.72	1.00

(1) Includes adjustments through March 2011.

\* Excludes Capital Construction expenditures

**Summary of Revenue Changes**

The Oregon Liquor Control Commission (OLCC) is financed entirely with Other Fund revenues. After subtracting the cost of liquor, freight, current liabilities, encumbrances, and the agency’s operating expenditures, surplus proceeds from sales, taxes, fees, and fines are allocated as follows:

Privilege tax on beer and wine sales: \$0.02 per gallon of wine tax is distributed to the Wine Advisory Board. The remaining balance is allocated 50 percent to the Department of Human Services Office of Alcohol and Drug Abuse Programs, and the other 50 percent is distributed with the other revenues.

Revenues from liquor sales, license fees, civil penalties and fines, miscellaneous revenues, and the balance of the privilege taxes are allocated 56 percent to the General Fund, 20 percent to cities, 10 percent to counties, and 14 percent to city revenue sharing.

The budget approved by the subcommittee is projected to result in “regular” liquor sales of \$891.4 million, with an estimated \$190 million available for distribution to the General Fund. The budget also includes expenditure limitation associated with the continuation of a \$0.50 per bottle surcharge imposed by the agency through the 2011-13 biennium, which is projected to generate \$29 million in additional gross revenue, with \$2.55 million being distributed to liquor agents for sales commission. The estimated distribution to other entities is as follows: \$654,000 for the Oregon Wine Board; \$19 million for the Mental Health Alcoholism and Drug Services Account in the General Fund; \$67.7 million for cities; \$47.4 million for city revenue sharing; and \$33.9 million for counties.

## **Summary of Subcommittee Action**

OLCC works to effectively regulate the sale, distribution, and responsible use of alcoholic beverages in order to protect Oregon's public health, safety, and community livability. Oregon is one of 18 states (besides two counties in Maryland that are control districts) that sell hard liquor through state-controlled stores. Private agents contract with the Commission to operate more than 240 liquor stores in the state. The subcommittee approved a budget of \$133,661,718 Other Funds and 239 positions (231.72 FTE) for the agency. This is a 0.5 percent decrease from the 2009-11 Legislatively Approved Budget and a 3.5 percent decrease from the 2011-13 Current Service Level. The decrease is tied to expenditure reduction actions taken in the budget to increase the agency's distribution of funds to the state General Fund.

The subcommittee approved reduction packages (Package 801 and Package 819) targeted at General Fund expenditures. While OLCC's budget is Other Funds, every dollar expended by the agency for operations impacts the amount of revenue available to the statutory distribution formula between the state General Fund, cities, and counties. Therefore, some of OLCC's expenditures are subject to these adjustments.

The subcommittee approved the following budget note:

### **Budget Note:**

The Oregon Liquor Control Commission is directed to utilize available expenditure limitation in a way which maximizes revenue generation without unduly jeopardizing public safety. Reductions in expenditure limitation attributable to amounts resulting from the reduction to services and supplies, and the supplemental ending balance hold back (in policy option packages 801 and 819) are not to be applied to bank card fees, wholesale services, store operating expenses, or enforcement and compliance services. Further, the Oregon Liquor Control Commission is directed to report on a quarterly basis to the Legislative Fiscal Office and the interim Joint Committee on Ways and Means or the Emergency Board regarding revenue and expenditures compared to projections of gross sales, quarterly allotment allocations, and expenditure limitation by program; whether additional expenditure limitation for agents' compensation is anticipated to be required to maintain an average compensation rate of 8.88 percent of sales on a consistent quarterly basis; and whether additional expenditure limitation is anticipated to be required to enable the continued utilization of bank cards in liquor stores.

### **Distilled Spirits Program**

The Distilled Spirits Program regulates the sale of bottled distilled spirits while producing revenue in support of state and local governments. The Subcommittee approved a budget of \$18,784,804 Other Funds and 71 positions (67.42 FTE).

The Subcommittee approved Package 086, Eliminate Inflation. This package is used on a statewide basis to eliminate standard and Attorney General inflation, and to adjust State Government Service Charges. The package reduces Other Funds expenditure limitation by \$257,761.

The Subcommittee approved Package 087, Personal Service Adjustments. This package reflects a 5.5 percent across-the-board reduction in total personal services from the Current Service Level budget. The recommended reduction is not specific to an account or reduction strategy. Final personal services decisions will be determined by policy decisions and future labor negotiations. The standard reduction was not applied to

Services and Supplies amounts attributable to bank card fees or wholesale services. The package reduces Other Funds expenditure limitation by \$513,891.

The Subcommittee approved Package 801, Targeted Statewide Adjustments. This package implements a statewide reduction action included in the Co-Chairs' Budget, which is a 6.5 percent reduction from total General Fund Services and Supplies expenditures included in the Governor's Recommended Budget. This package reduces Other Funds expenditure limitation by \$29,861. This is in addition to Package 086, which eliminates most services & supplies inflation originally built into the budget.

The Subcommittee approved Package 819, Supplemental Statewide Ending Balance. This package includes, per the Co-Chairs' budget plan, a supplemental statewide ending balance hold back adjustment. The result is about a 3.5 percent across-the-board reduction to an agency's total biennial General Fund and/or Lottery Funds budget or approximately 7 percent to be taken from the second year of the budget. This adjustment was not applied to Services and Supplies amounts attributable to bank card fees or wholesale services. The package reduces Other Funds expenditure limitation by \$96,136.

#### Public Safety Services Program

The Public Safety Services Program regulates the manufacture, distribution, and sale of alcoholic beverages. The Subcommittee approved a budget of \$18,983,314 Other Funds and 108 positions (105.00 FTE).

The Subcommittee approved Package 086, Eliminate Inflation. This package is used on a statewide basis to eliminate standard and Attorney General inflation, and to adjust State Government Service Charges. The package reduces Other Funds expenditure limitation by \$95,267.

The Subcommittee approved Package 087, Personal Service Adjustments. This package reflects a 5.5 percent across-the-board reduction in total Personal Services from the Current Service Level budget. The recommended reduction is not specific to an account or reduction strategy. Final personal services decisions will be determined by policy decisions and future labor negotiations. The package reduces Other Funds expenditure limitation by \$966,476.

The Subcommittee approved Package 201, Improve Licensing Infrastructure, as modified. This package increases resources for licensing activities to improve licensing service levels in the face of increasing numbers of license applications and lengthening application processing times. The package includes a limited duration information systems specialist position to facilitate completion of an automated licensing and enforcement data system, and a limited duration licensing investigator position to address additional workload. Technological efficiencies are expected to be realized by the completed IT system, rendering this position unnecessary in subsequent biennia. The Subcommittee approved the reclassification of an existing full-time Principle Executive Manager B position to a Principle Executive Manager C position and the reclassification of an existing full-time Office Specialist 1 position to an Office Specialist 2 position, but without additional funding for either reclassification. The package's personal services costs were reduced by 5.5 percent to match the reduction in Package 087. The resulting package increases Other Funds expenditure limitation by \$308,746 and adds two limited duration positions (2.00 FTE).

The Subcommittee approved Package 801, Targeted Statewide Adjustments. This package implements a statewide reduction action included in the Co-Chairs' Budget, which is a 6.5 percent reduction from total General Fund Services and Supplies expenditures included in the Governor's Recommended Budget. This adjustment was not applied to Enforcement and Compliance services. This package reduces Other Funds expenditure limitation by \$32,271. This is in addition to Package 086, which eliminates most services & supplies inflation originally built into the budget.

The Subcommittee approved Package 819, Supplemental Statewide Ending Balance. This package includes, per the Co-Chairs' budget plan, a supplemental statewide ending balance hold back adjustment. The result is about a 3.5 percent across-the-board reduction to an agency's total biennial General Fund and/or Lottery Funds budget or approximately 7 percent to be taken from the second year of the budget. This adjustment was not applied to Enforcement and Compliance services. The package reduces Other Funds expenditure limitation by \$273,923.

#### Administration and Support

The Administration and Support program provides support and administrative services for all agency staff. The Subcommittee approved a budget of \$13,979,195 Other Funds and 60 positions (59.30 FTE).

The Subcommittee approved Package 086, Eliminate Inflation. This package is used on a statewide basis to eliminate standard and Attorney General inflation, and to adjust State Government Service Charges. The package reduces Other Funds expenditure limitation by \$151,409.

The Subcommittee approved Package 087, Personal Service Adjustments. This package reflects a 5.5 percent across-the-board reduction in total Personal Services from the Current Service Level budget. The recommended reduction is not specific to an account or reduction strategy. Final personal services decisions will be determined by policy decisions and future labor negotiations. The package reduces Other Funds expenditure limitation by \$626,469.

The Subcommittee approved Package 801, Targeted Statewide Adjustments. This package implements a statewide reduction action included in the Co-Chairs' Budget, which is a 6.5 percent reduction from total General Fund and Lottery Funds services & supplies expenditures included in the Governor's Recommended Budget. This package reduces Other Funds expenditure limitation by \$1,007,063. This is in addition to Package 086, which eliminates most Services and Supplies inflation originally built into the budget.

The Subcommittee approved Package 819, Supplemental Statewide Ending Balance. This package includes, per the Co-Chairs' budget plan, a supplemental statewide ending balance hold back adjustment. The result is about a 3.5 percent across-the-board reduction to an agency's total biennial General Fund and/or Lottery Funds budget or approximately 7 percent to be taken from the second year of the budget. The package reduces Other Funds expenditure limitation by \$507,018.

### Store Operating Expenses

The Store Operating Expense program contains the funds to pay agents for their retailing services for the state. This payment serves as the agents' take-home pay and the dollars they use to operate the liquor stores. The Subcommittee approved a budget of \$81,706,000 Other Funds for this program. This budget equates to an average compensation rate of 8.88 percent of assumed sales of \$920.4 million.

The Subcommittee approved Package 091, Revenue Solutions. This package recognizes expenditures related to agent's compensation from the continuation of the per-bottle surcharge on liquor. It is tied to Package 091 in Agency-Wide Consolidation. The package increases Other Funds expenditure limitation by \$2,552,000.

### Capital Improvements

The Capital Improvements program provides the preventive maintenance and repairs of the agency's building and grounds. The Subcommittee approved a budget of \$208,406 Other Funds for this program.

The Subcommittee approved Package 086, Eliminate Inflation. This package is used on a statewide basis to eliminate standard and Attorney General inflation, and to adjust State Government Service Charges. The package reduces Other Funds expenditure limitation by \$5,183.

The Subcommittee approved Package 819, Supplemental Statewide Ending Balance. This package includes, per the Co-Chairs' budget plan, a supplemental statewide ending balance hold back adjustment. The result is about a 3.5 percent across-the-board reduction to an agency's total biennial General Fund and/or Lottery Funds budget or approximately seven percent to be taken from the second year of the budget. The package reduces Other Funds expenditure limitation by \$7,559.

The recommended budget for this agency includes a reduction of General and Lottery Funds for a supplemental ending balance. The reduction is intended to be applied against spending levels in the second year of the biennium and to not affect program delivery in the first year. To reinforce that intent, the agency's budget bill includes specific language allowing the agency to expend up to 54 percent of its total biennial General Fund appropriation in the first year of the biennium.

The amount of the reduction for the supplemental ending balance may be restored during the February 2012 session to the agency for the second year of the biennium depending on economic conditions. Therefore, the Co-Chairs of the Joint Committee on Ways and Means expect the agency director to closely monitor the quarterly revenue forecast and other economic indicators to gauge adequacy of funding in the second year and manage the budget accordingly.

### Summary of Performance Measure Action

See attached Legislatively Adopted 2011-13 Key Performance Measures form.

**DETAIL OF JOINT COMMITTEE ON WAYS AND MEANS ACTION**

**SB 5522-A**

**Oregon Liquor Control Commission  
Art Ayre -- (503) 378-3108**

DESCRIPTION	GENERAL FUND	LOTTERY FUNDS	OTHER FUNDS		FEDERAL FUNDS		TOTAL ALL FUNDS	POS	FTE
			LIMITED	NONLIMITED	LIMITED	NONLIMITED			
2009-11 Legislatively Approved Budget at March 2011 *	\$ 0	\$ 0	\$ 134,285,467	\$ 0	\$ 0	\$ 0	\$ 134,285,467	238	230.72
2011-13 ORBITS printed Current Service Level (CSL)*	\$ 0	\$ 0	\$ 138,535,660	\$ 0	\$ 0	\$ 0	\$ 138,535,660	237	229.72
2011-13 Governor's Recommended Budget*	\$ 0	\$ 0	\$ 44,937,464	\$ 90,688,426	\$ 0	\$ 0	\$ 135,625,890	239	231.72
 <u>SUBCOMMITTEE ADJUSTMENTS (from GRB)</u>									
<u>Distilled Spirits Program</u>									
Package 106: Ensure Bank Card Services									
Services and Supplies	\$ 0	\$ 0	\$ 8,982,426	\$ (8,982,426)	\$ 0	\$ 0	\$ 0	0	0.00
Package 801: Targeted Statewide Adjustments									
Services and Supplies	\$ 0	\$ 0	\$ (29,861)	\$ 0	\$ 0	\$ 0	\$ (29,861)	0	0.00
Package 819: Supplemental Statewide Ending Balance									
Personal Services	\$ 0	\$ 0	\$ (44,950)	\$ 0	\$ 0	\$ 0	\$ (44,950)	0	0.00
Services and Supplies	\$ 0	\$ 0	\$ (51,186)	\$ 0	\$ 0	\$ 0	\$ (51,186)	0	0.00
<u>Public Safety Services Program</u>									
Package 201: Improve Licensing Infrastructure									
Personal Services - Limited Duration	\$ 0	\$ 0	\$ (10,340)	\$ 0	\$ 0	\$ 0	\$ (10,340)	0	0.00
Package 801: Targeted Statewide Adjustments									
Services and Supplies	\$ 0	\$ 0	\$ (32,271)	\$ 0	\$ 0	\$ 0	\$ (32,271)	0	0.00
Package 819: Supplemental Statewide Ending Balance									
Personal Services	\$ 0	\$ 0	\$ (239,949)	\$ 0	\$ 0	\$ 0	\$ (239,949)	0	0.00
Services and Supplies	\$ 0	\$ 0	\$ (33,974)	\$ 0	\$ 0	\$ 0	\$ (33,974)	0	0.00
<u>Administration and Support</u>									
Package 801: Targeted Statewide Adjustments									
Services and Supplies	\$ 0	\$ 0	\$ (1,007,063)	\$ 0	\$ 0	\$ 0	\$ (1,007,063)	0	0.00
Package 819: Supplemental Statewide Ending Balance									
Personal Services	\$ 0	\$ 0	\$ (352,197)	\$ 0	\$ 0	\$ 0	\$ (352,197)	0	0.00
Services and Supplies	\$ 0	\$ 0	\$ (150,616)	\$ 0	\$ 0	\$ 0	\$ (150,616)	0	0.00
Capital Outlay	\$ 0	\$ 0	\$ (4,206)	\$ 0	\$ 0	\$ 0	\$ (4,206)	0	0.00

\*Excludes Capital Construction Expenditures

DESCRIPTION	GENERAL FUND	LOTTERY FUNDS	OTHER FUNDS		FEDERAL FUNDS		TOTAL ALL FUNDS	POS	FTE
			LIMITED	NONLIMITED	LIMITED	NONLIMITED			
<u>Store Operating Expenses</u>									
Package 091: Revenue Solutions									
Services and Supplies	\$ 0	\$ 0	\$ 2,552,000	\$ (2,552,000)	\$ 0	\$ 0	\$ 0	0	0.00
Package 104: Respond to Variable Store Business Costs									
Services and Supplies - Professional Services	\$ 0	\$ 0	\$ 79,154,000	\$ (79,154,000)	\$ 0	\$ 0	\$ 0	0	0.00
<u>Capital Improvements</u>									
Package 819: Supplemental Statewide Ending Balance									
Capital Outlay	\$ 0	\$ 0	\$ (7,559)	\$ 0	\$ 0	\$ 0	\$ (7,559)	0	0.00
TOTAL ADJUSTMENTS	\$ 0	\$ 0	\$ 88,724,254	\$ (90,688,426)	\$ 0	\$ 0	\$ (1,964,172)	0	0.00
SUBCOMMITTEE RECOMMENDATION *	\$ 0	\$ 0	\$ 133,661,718	\$ 0	\$ 0	\$ 0	\$ 133,661,718	239	231.72
% Change from 2009-11 Leg Approved Budget	0.0%	0.0%	-0.5%	0.0%	0.0%	0.0%	-0.5%	0.4%	0.4%
% Change from 2011-13 Current Service Level	0.0%	0.0%	-3.5%	0.0%	0.0%	0.0%	-3.5%	0.8%	0.9%
% Change from 2011-13 Gov's Recommended Budget	0.0%	0.0%	197.4%	-100.0%	0.0%	0.0%	-1.4%	0.0%	0.0%

\*Excludes Capital Construction Expenditures



## Legislatively Proposed 2011-2013 Key Performance Measures

**Agency: LIQUOR CONTROL COMMISSION, OREGON**

Mission: To promote the public interest through the responsible sale and service of alcoholic beverages.

Legislatively Proposed KPMs	Customer Service Category	Agency Request	Most Current Result	Target 2012	Target 2013
1 - Sales to Minors – Percentage of licensees who refuse to sell to minor decoys.		Approved KPM	80.00	80.00	80.00
2 - RATE OF SECOND VIOLATION – Percentage of licensees detected to have violated a liquor law in a second, separate, incident occurring within 2 years after the year of the first violation.		Approved KPM	17.60	19.50	19.50
3 - Licensing Time – Average days from application receipt to license issuance.		Approved KPM	90.30	90.00	90.00
4 - CUSTOMER SERVICE - Percent of customers rating their satisfaction with the agency’s customer service as “good” or “excellent”: overall, timeliness, accuracy, helpfulness, expertise, availability of information.	Accuracy	Approved KPM	81.80	80.00	80.00
4 - CUSTOMER SERVICE - Percent of customers rating their satisfaction with the agency’s customer service as “good” or “excellent”: overall, timeliness, accuracy, helpfulness, expertise, availability of information.	Availability of Information	Approved KPM	76.00	80.00	80.00
4 - CUSTOMER SERVICE - Percent of customers rating their satisfaction with the agency’s customer service as “good” or “excellent”: overall, timeliness, accuracy, helpfulness, expertise, availability of information.	Expertise	Approved KPM	85.40	80.00	80.00
4 - CUSTOMER SERVICE - Percent of customers rating their satisfaction with the agency’s customer service as “good” or “excellent”: overall, timeliness, accuracy, helpfulness, expertise, availability of information.	Helpfulness	Approved KPM	86.90	80.00	80.00
4 - CUSTOMER SERVICE - Percent of customers rating their satisfaction with the agency’s customer service as “good” or “excellent”: overall, timeliness, accuracy, helpfulness, expertise, availability of information.	Overall	Approved KPM	81.60	80.00	80.00

**Agency: LIQUOR CONTROL COMMISSION, OREGON**

Mission: To promote the public interest through the responsible sale and service of alcoholic beverages.

<b>Legislatively Proposed KPMs</b>	<b>Customer Service Category</b>	<b>Agency Request</b>	<b>Most Current Result</b>	<b>Target 2012</b>	<b>Target 2013</b>
4 - CUSTOMER SERVICE - Percent of customers rating their satisfaction with the agency's customer service as "good" or "excellent": overall, timeliness, accuracy, helpfulness, expertise, availability of information.	Timeliness	Approved KPM	76.70	80.00	80.00
5 - OLCC Rate of Return – Net OLCC distribution divided by actual expenses.		Approved KPM	2.72	2.70	2.70
6 - Best Practices: Percent of total best practices met by the Board.		Approved KPM	99.00	100.00	100.00

**LFO Recommendation:**

The Legislative Fiscal Office recommends approval of the Key Performance Measures and targets as proposed by the Oregon Liquor Control Commission.

**Sub-Committee Action:**