



Oregon Liquor Control Commission

Rob Patridge, OLCC Chair

Steven Marks, OLCC Executive Director

February 16, 17 & 18, 2015

Presentation to the

**Ways and Means Subcommittee on Transportation
and Economic Development**

OLCC Commissioners

The commissioners are chosen from the five Oregon congressional districts

The citizen commissioners help set policy for the OLCC

They make decisions on issues such as: liquor licenses, administrative rules, contested case hearings, and appointments of liquor store operators



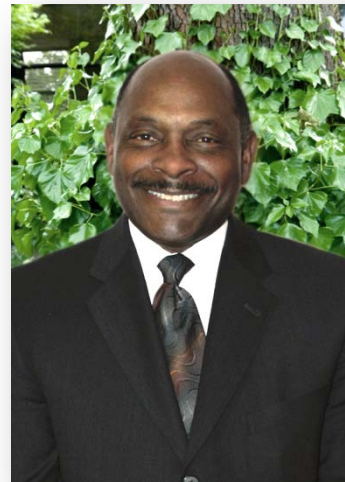
**Rob Patridge
Chair**



Robert Rice



Pamela Weatherspoon



Marvin RéVoal



Michael Harper, Sr.

Embracing Positive Change

- Expanded mission
- New objectives/responsibilities
- Strengthened vision
- Updated strategic plan
- Increased opportunities

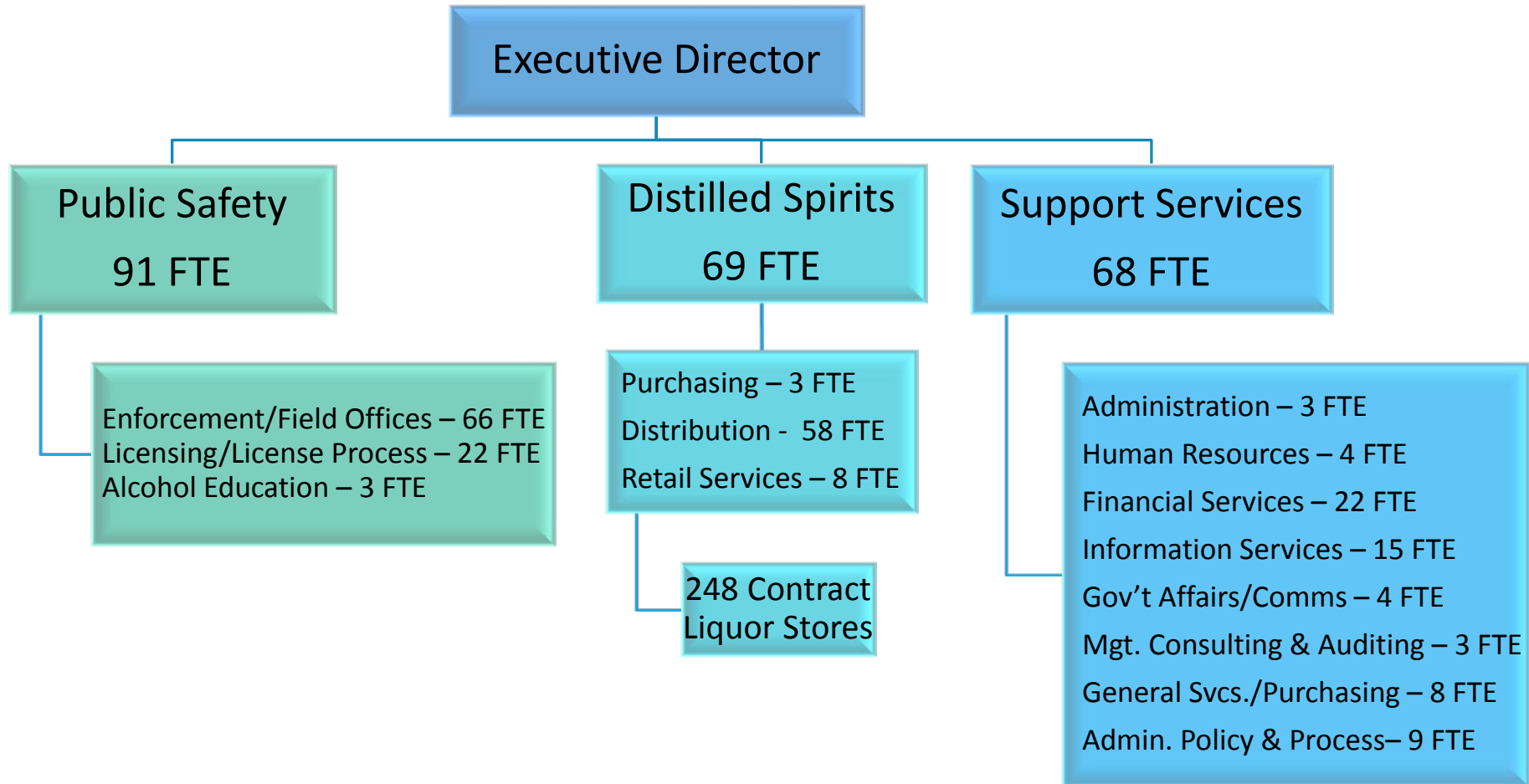
OLCC oversees the sale of alcoholic beverages to allow access for responsible adults while protecting public safety

The agency places an emphasis on addressing alcohol sales to minors and visibly intoxicated adults

What we do

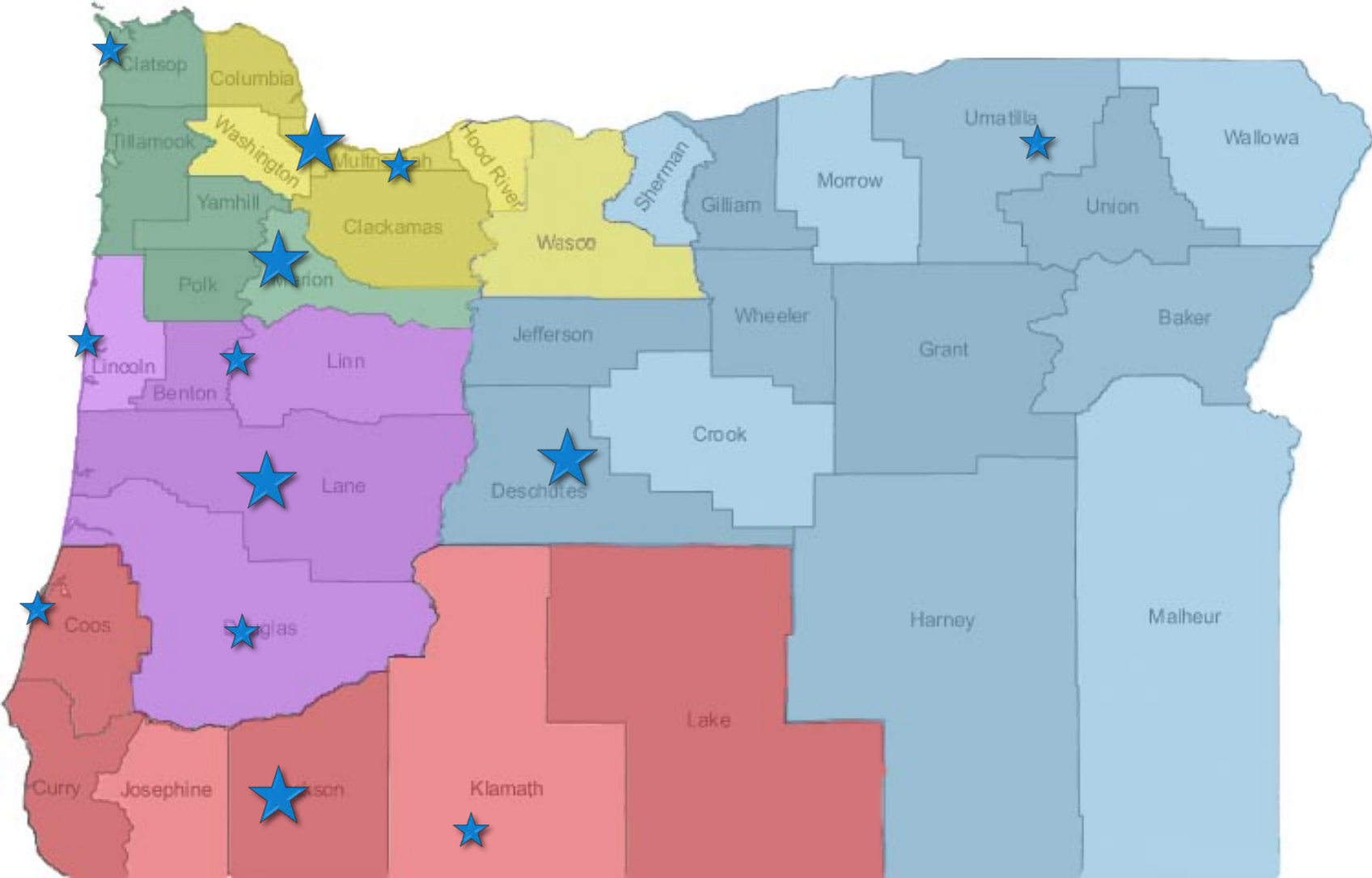
- **License businesses that sell alcohol**
- **Issue service permits to trained alcohol servers**
- **Manage/distribute distilled spirits**
- **Regulate businesses that sell/serve alcohol**
- **Public information about responsible use of alcohol**
- **Generate revenue for essential services like police, education and health care**
- **Administrative hearings unit**
- **Regulation of Oregon's Bottle Bill, siting of Redemption Centers**
- **Implementation of Measure 91**

OLCC Alcohol Program

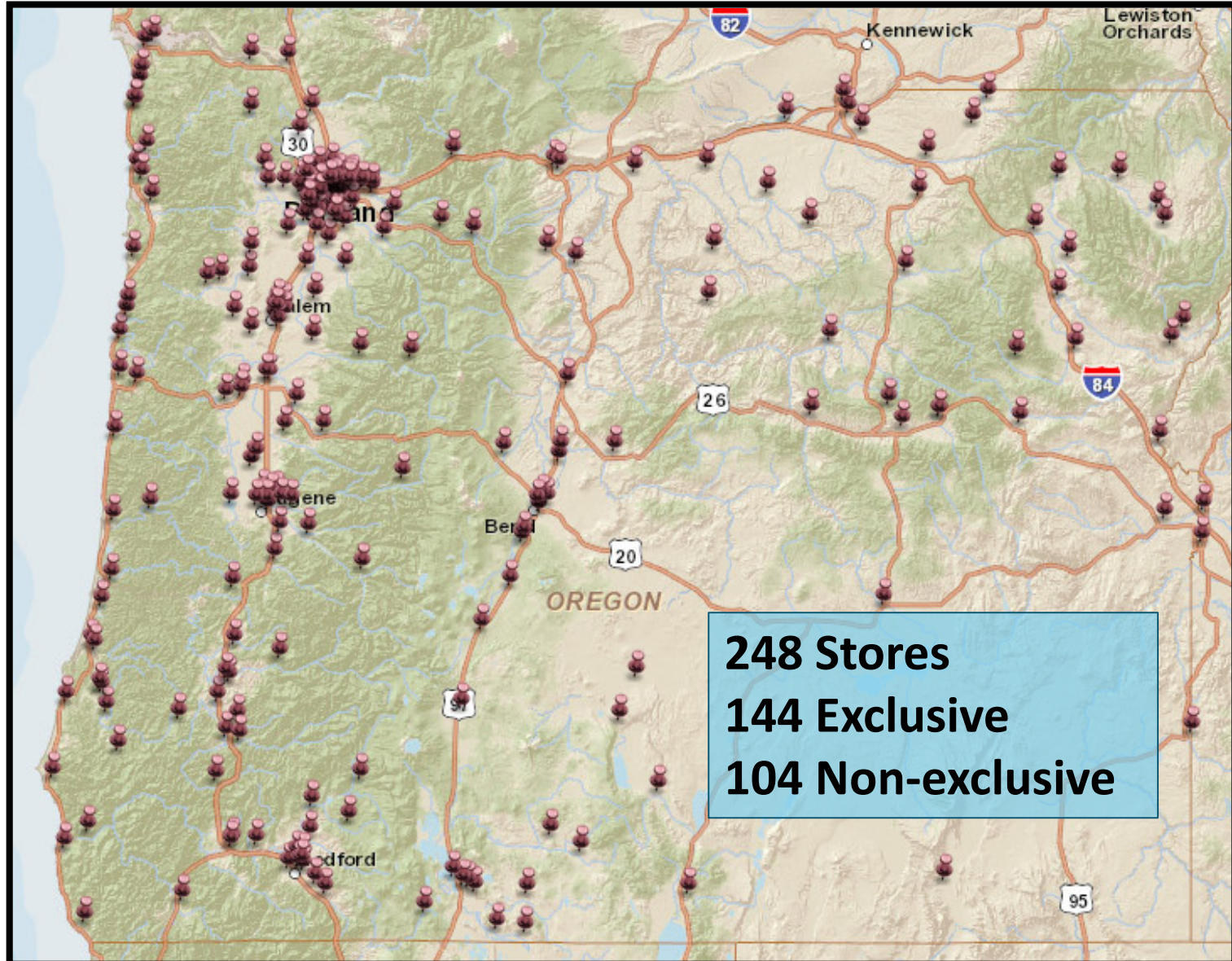


OLCC Statewide Offices

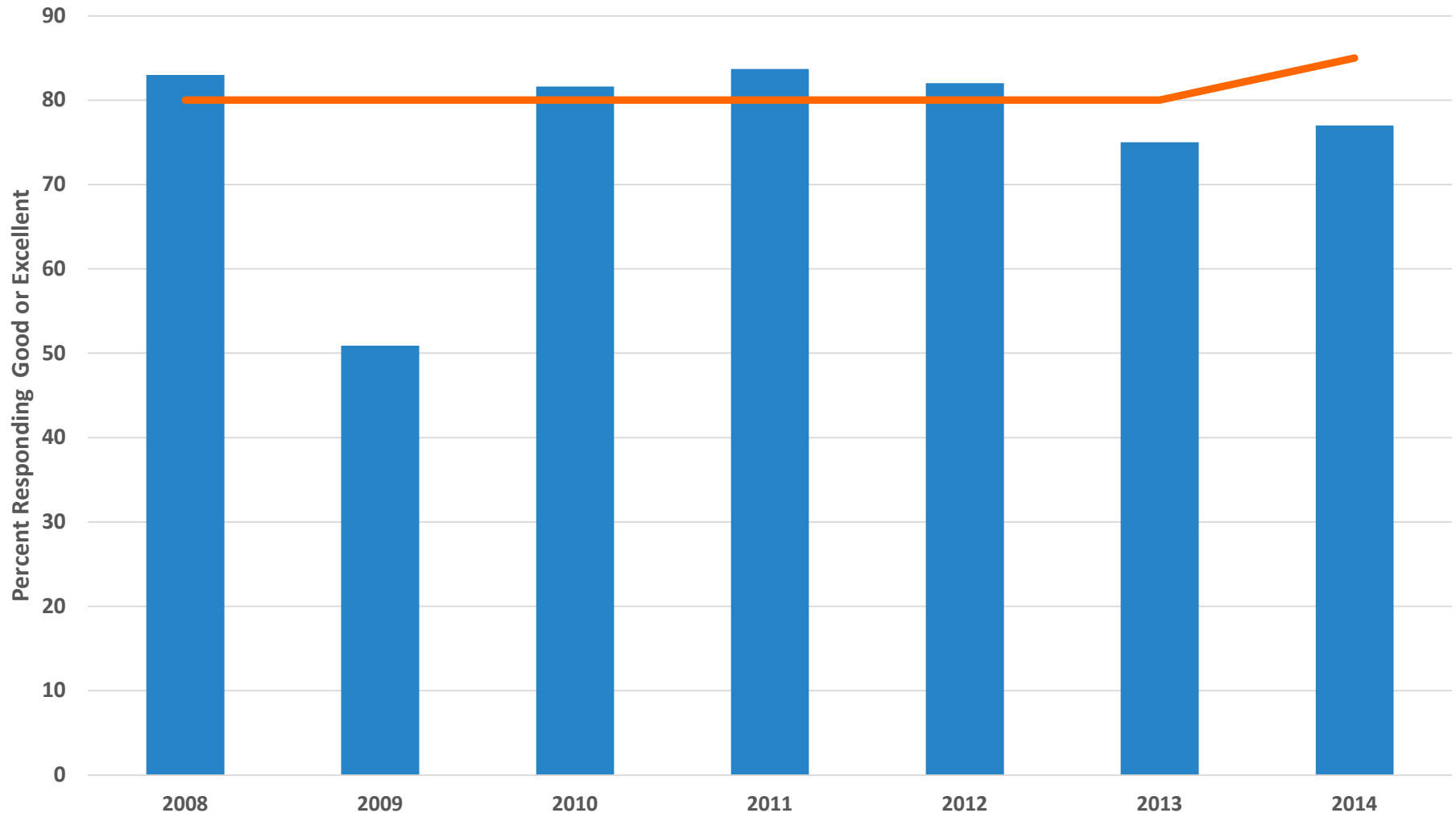
Bend Region ■ Eugene Region ■ Medford Region ■ Metro Region ■ Salem Region ■



Oregon Liquor Stores



Customer Service Satisfaction Rates *KPM*



Partners in Growing Oregon's Economy

- Breweries
- Wineries
- Distillers
- Restaurants/Bars
- Retail Stores

Oregon's Beer Industry

- 271 Brewery/Brewpub Licenses
- In 2014, Oregon's brewing companies employ more than 6,600 employees
- More than 18% of the all the beer consumed in Oregon was brewed in Oregon
- Total economic impact of \$2.83 billion on Oregon's economy



(OLCC Licensing Data 2012; Beer Institute Data 2014)

Oregon's Wine Industry

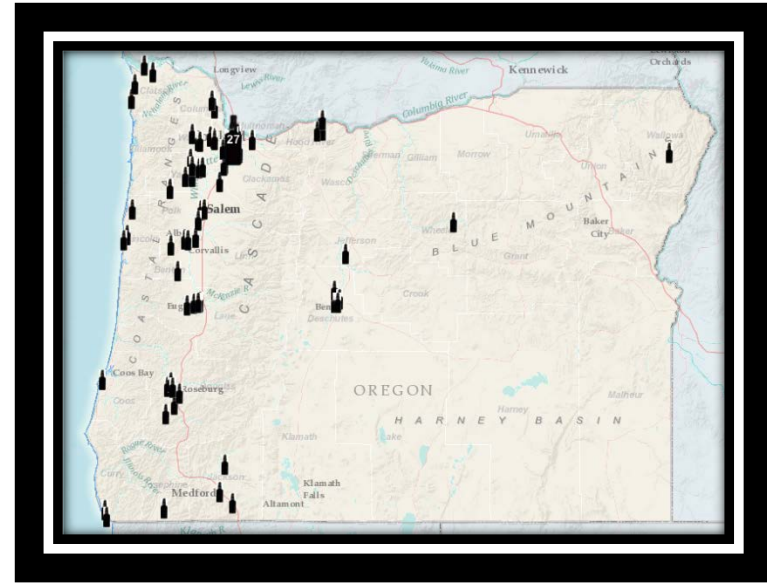
- 947 Oregon winery licenses
 - 605 Producing wineries
- In 2013, the wine industry directly employed more than 17,100 people
 - Many are rural Oregon jobs
- Related wages topped \$527 million
- In 2013 wine-related tourism contributed \$207.5 million in revenues to the Oregon economy
- Oregon wine industry worth \$3.35 billion to state economy



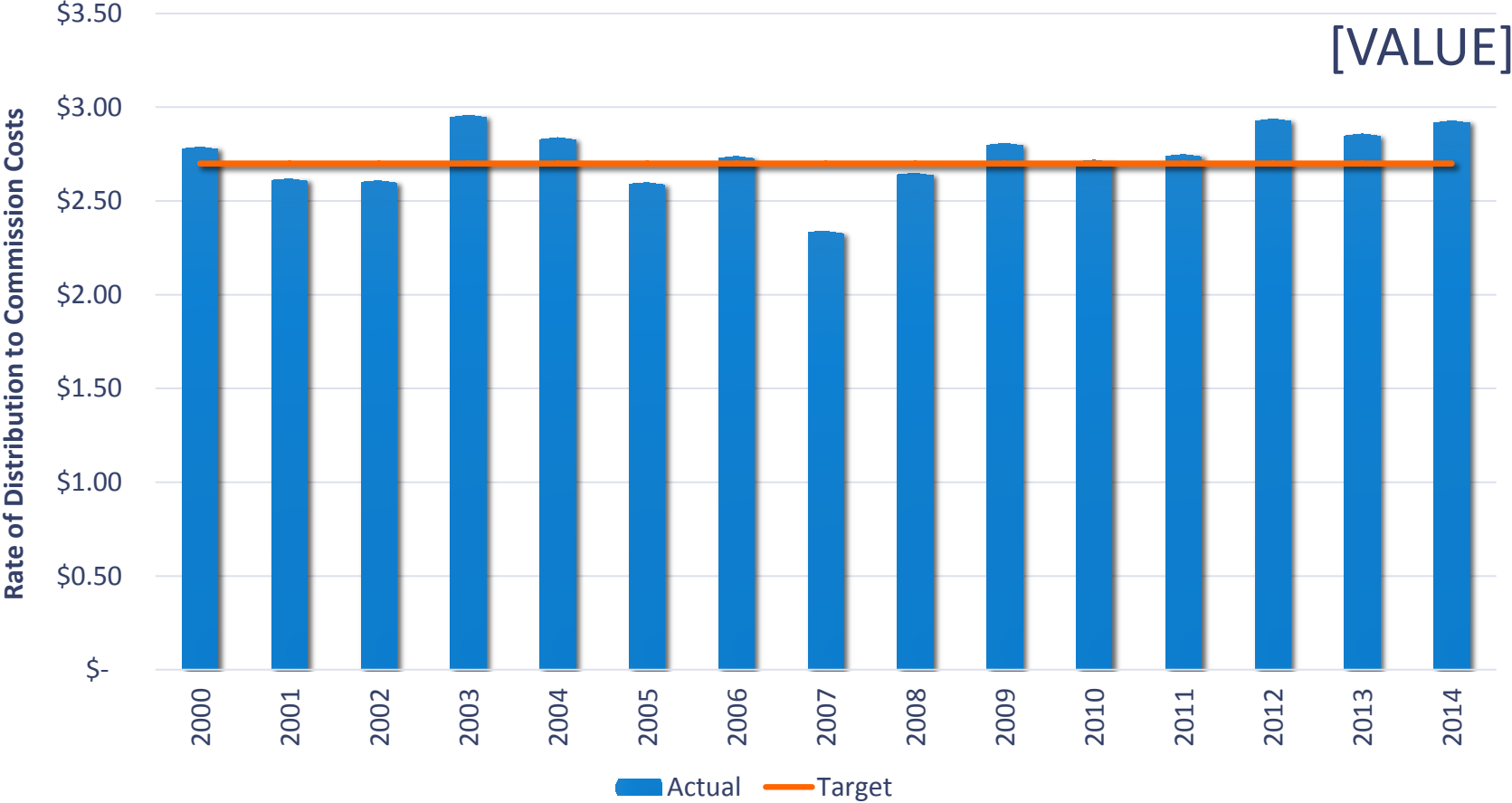
(The Economic Impact of the Wine and Wine Grape Industries on the Oregon Economy , January 2015, Full Glass Research, OLCC licensing data)

Oregon's Distilled Spirits Industry

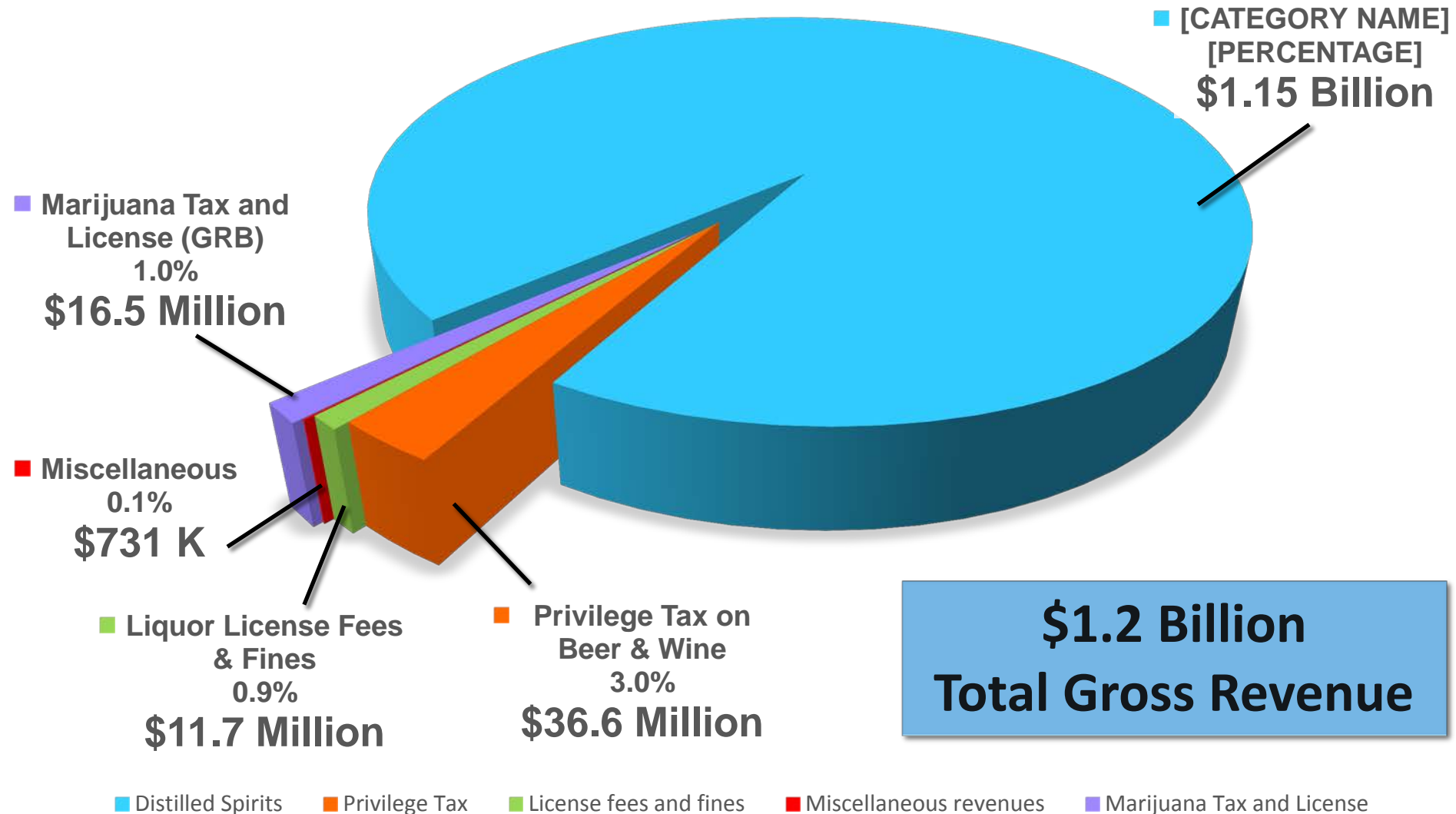
- 75 licensed Oregon distilleries
- 68 Distillery Retail Liquor outlet locations
- 500+ Oregon Distilled Spirits products available through OLCC
- Oregon products represent 12% of all liquor sales revenue



Revenue Returned per Dollar Spent *KPM*



Projected Gross Revenue Sources 2015-2017 Biennium



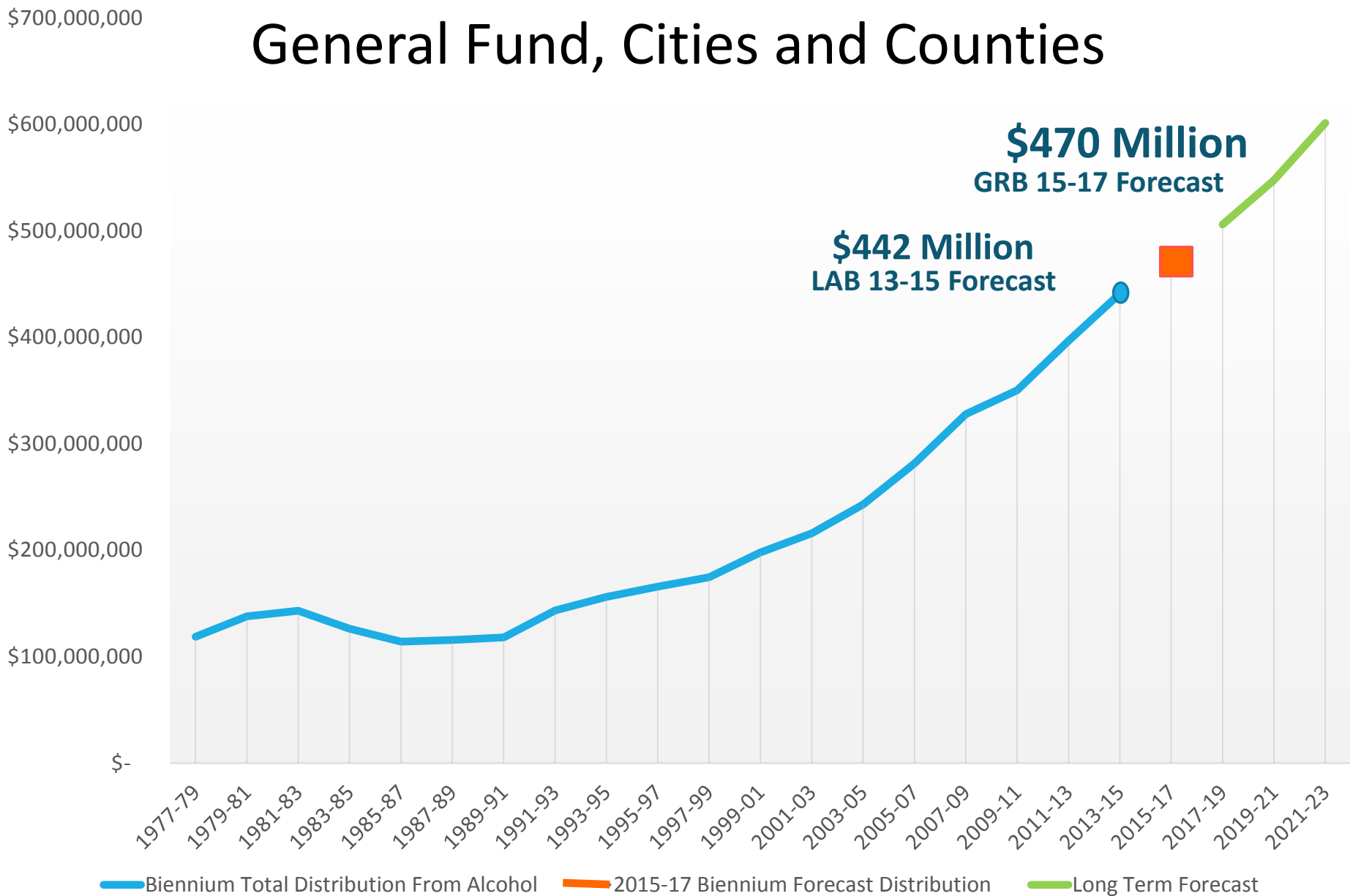
Budget Historical Data

Oregon Liquor Control Commission				
	2011-13 Actuals	2013-15 Leg. Approved	2015-17 CSL LFO	2015-17 Governor's
General Fund	-	-	-	-
Lottery Funds	-	-	-	-
Other Funds	137,037,933	152,458,699	156,820,358	164,006,339
Other Funds Non-Limited	-	-	-	11,048,357
Federal Funds	-	-	-	-
Federal Funds Non-Limited	-	-	-	-
Total Funds	137,037,933	152,458,699	156,820,358	175,054,696
Positions	236	234	230	258
FTE	231.00	226.21	225.50	246.00
	*includes Emergency Board and administrative actions through December 2014			

Alcohol Budget Expenditures & Revenues

Alcohol Program Area	2013-15 LAB	2015-17 GRB	Change	Includes
Distilled Spirits (Warehouse, Retail Services)	\$10,849,049	\$15,660,157	44.3%	Warehouse Shipping Capacity POP
Public Safety (Enforcement, Licensing, Server Education)	\$17,495,092	\$17,902,871	2.3%	DPSST Training Requirement POP
Support Services (Administration, Financial Services, IT, Hearings)	\$17,792,450	\$18,821,088	5.8%	E-Commerce POP & Phone Upgrade POP
Capital Improvement	\$213,408	\$2,850,810	1235.8%	Warehouse Roof Replacement POP
Credit Cards	\$10,367,700	\$11,055,489	6.6%	
Agents Compensation (Store Operating Expenses)	\$95,158,000	\$101,958,335	7.1%	
Gross Liquor Sales	\$1,071,596,000	\$1,148,174,780	7.1%	
Gross Distribution From Alcohol (General Fund, Cities, Counties)	\$441,046,580	\$469,519,711	6.5%	
*Alcohol-related costs and revenues only (Broken out from GRB)				

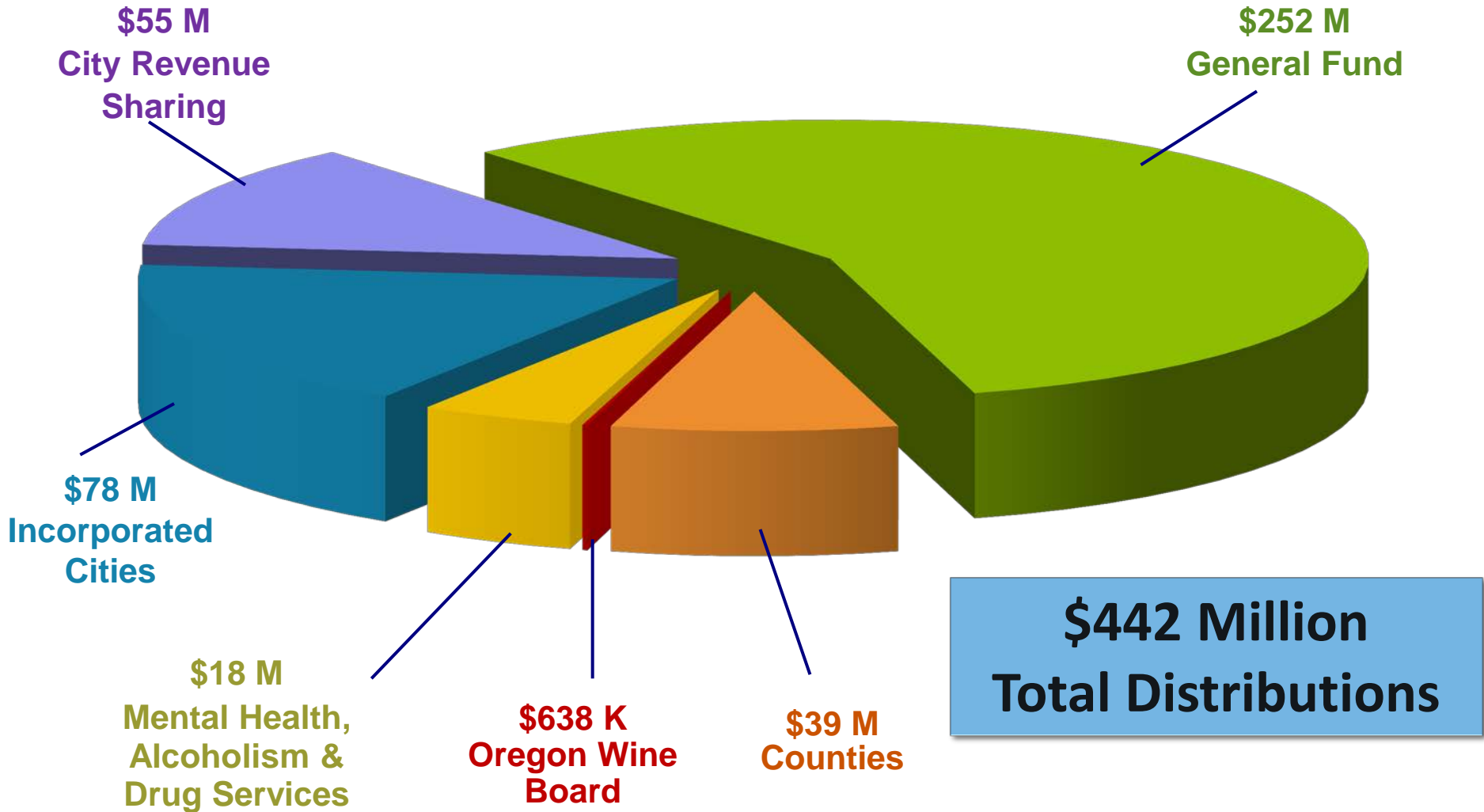
Biennial Liquor Revenue Distributions to General Fund, Cities and Counties



Projected Revenue Distribution

2013-2015 Biennium

All Revenue Sources



Where Liquor Dollars go

2011-2013 Biennium (Partial List)

Cities

Ashland	\$528,372
Beaverton	\$2,370,635
Bend	\$2,010,540
Clatskanie	\$47,595
Corvallis	\$1,426,534
Dallas	\$401,856
Eugene	\$4,104,244
Hillsboro	\$2,409,545
Hermiston	\$465,918
Klamath Falls	\$553,024
Lincoln City	\$219,787
Medford	\$1,963,619
Newport	\$263,144
Portland	\$15,292,865
Pendleton	\$456,881
Roseburg	\$567,846
Salem	\$4,066,127
Scappoose	\$182,719
Springfield	\$1,557,545
St. Helens	\$336,638
Troutdale	\$417,409
Tualatin	\$680,980

Counties

Benton	\$782,285
Clackamas	\$3,441,405
Columbia	\$450,244
Crook	\$188,931
Curry	\$202,617
Deschutes	\$1,444,015
Douglas	\$979,260
Gilliam	\$17,103
Hood River	\$205,688
Jackson	\$1,851,970
Josephine	\$751,439
Klamath	\$604,585
Lane	\$3,206,327
Lincoln	\$419,242
Linn	\$1,066,144
Marion	\$2,890,696
Morrow	\$102,228
Multnomah	\$6,744,196
Polk	\$690,592
Tillamook	\$229,348
Umatilla	\$695,679
Washington	\$4,878,333
Wallowa	\$65,533
Wheeler	\$13,002
Yamhill	\$907,507

Current Distilled Spirits Model

Based on Average \$16 Bottle Price

4% OLCC Operating Expenses

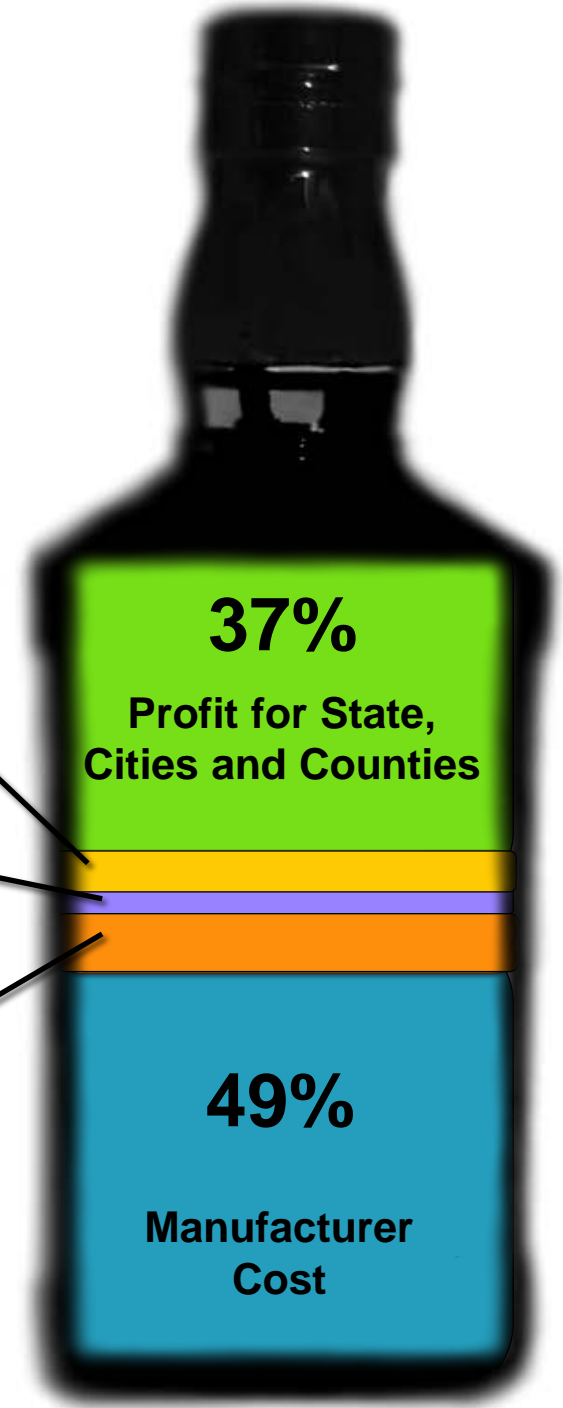
Includes Enforcement, Licensing, Administration, Distribution functions

1% Bank Card Costs

69% of all purchases made with bank cards

8.88% Liquor Store Operator Commission

Average Liquor Store Operator Compensation

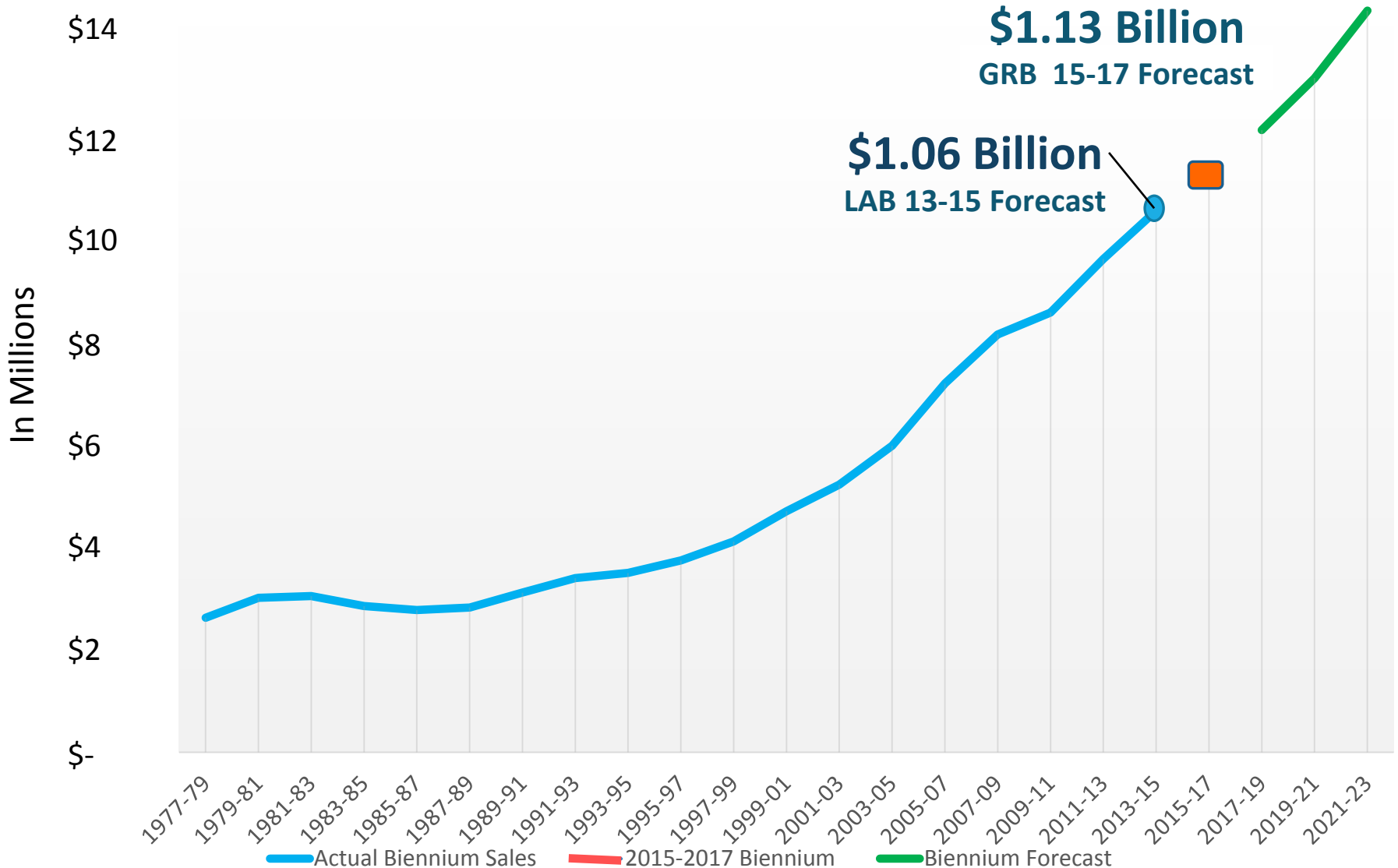


50-cent Surcharge Extension

- The current 50-cent per bottle surcharge has been extend through June 30, 2017
- Expected to generate \$33.8 million for the 2015-2017 biennium
 - Distribution of the revenue is determined by the legislature

Ten-Year Forecast of Gross Liquor Sales

By Biennium



Distilled Spirits Program

- Product Selection
 - More than 4,200 items available for customers
 - OLCC carries 1,900 products every day
 - OLCC will special order any product that a U.S. manufacturer or importer will ship to Oregon
 - Approx. 1,800 different items special ordered annually



Public Safety Program

- Ensure that responsible businesses are licensed
- Alcohol Server Education
- Premises visits
- Minor Decoy Operations
- Prevent access of alcohol to minors
- Working in conjunction with local law enforcement on alcohol-related issues
- Respond to citizen complaints/concerns
- Statewide responsibilities/presence
- Work with licensees to achieve compliance through education
- Investigate liquor law violations
- Issue citations, violation tickets, and warnings

Public Safety - Licensing

13,192 Annual liquor licenses in Oregon, including:

7,015 Restaurants & Bars
On-premises licenses

4,602 Grocery/Convenience Stores
Off-premises licenses

947 Wineries

271 Brewers/Brew Pubs

196 Distributors/Wholesalers

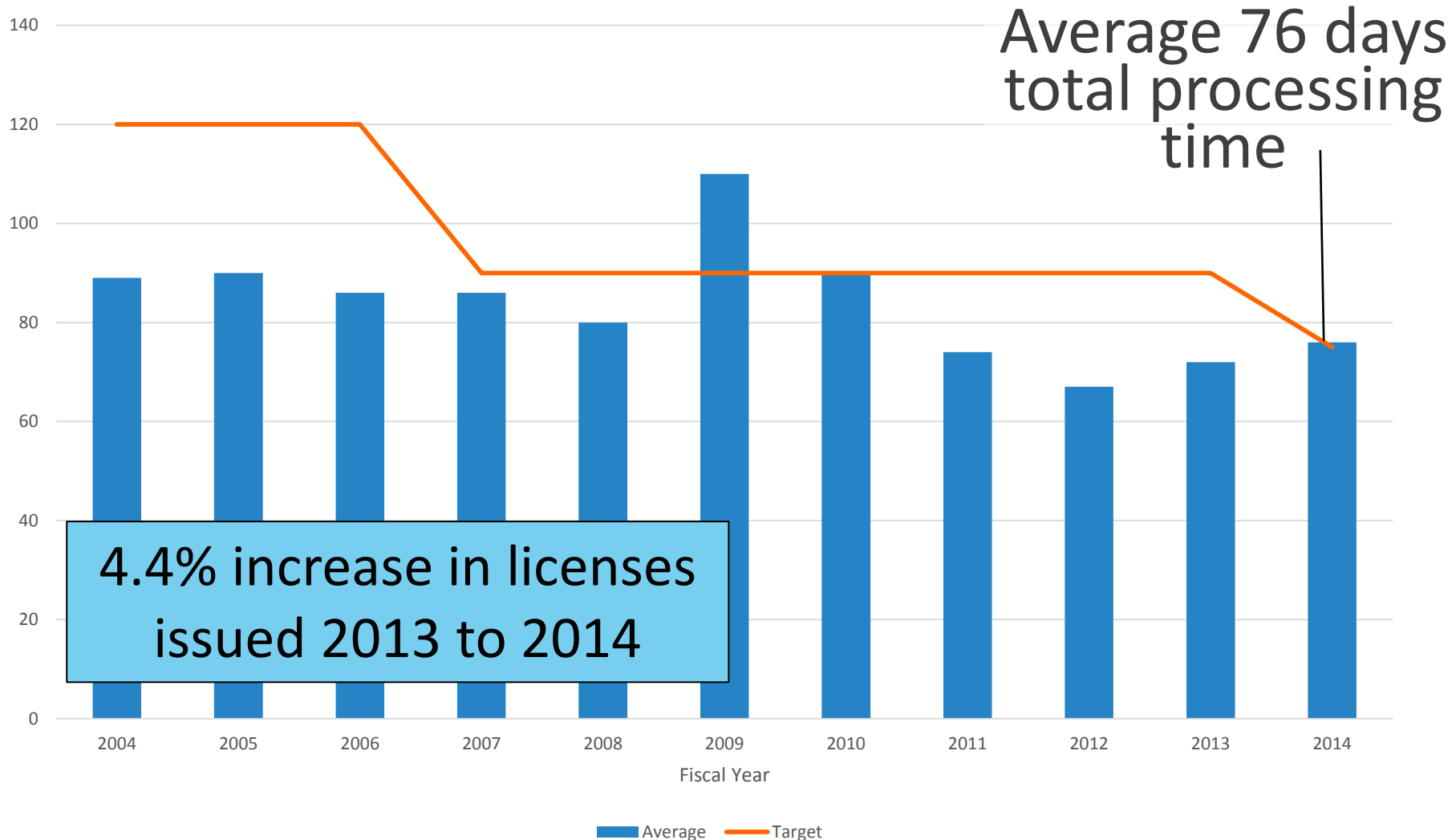
75 Distillers
29 secondary locations

5,000 Special Event Licenses

3,459 Out-of state licenses

Totals as of January 1, 2015

Average Days to Process License Applications *KPM*



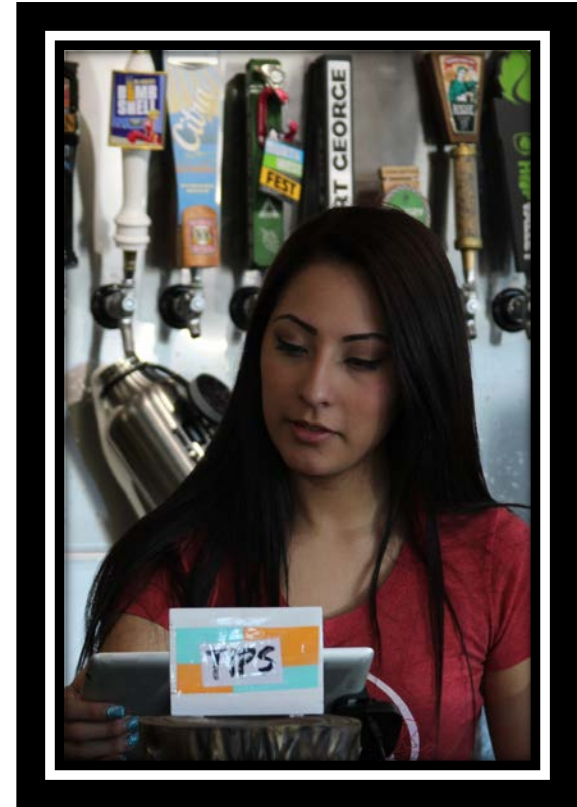
Alcohol Service Permits

- Oregon was first state to require server education and permits in 1987
- More than 143,400 Service Permit holders
- 6.6% increase in Service Permit applications from 2013 to 2014



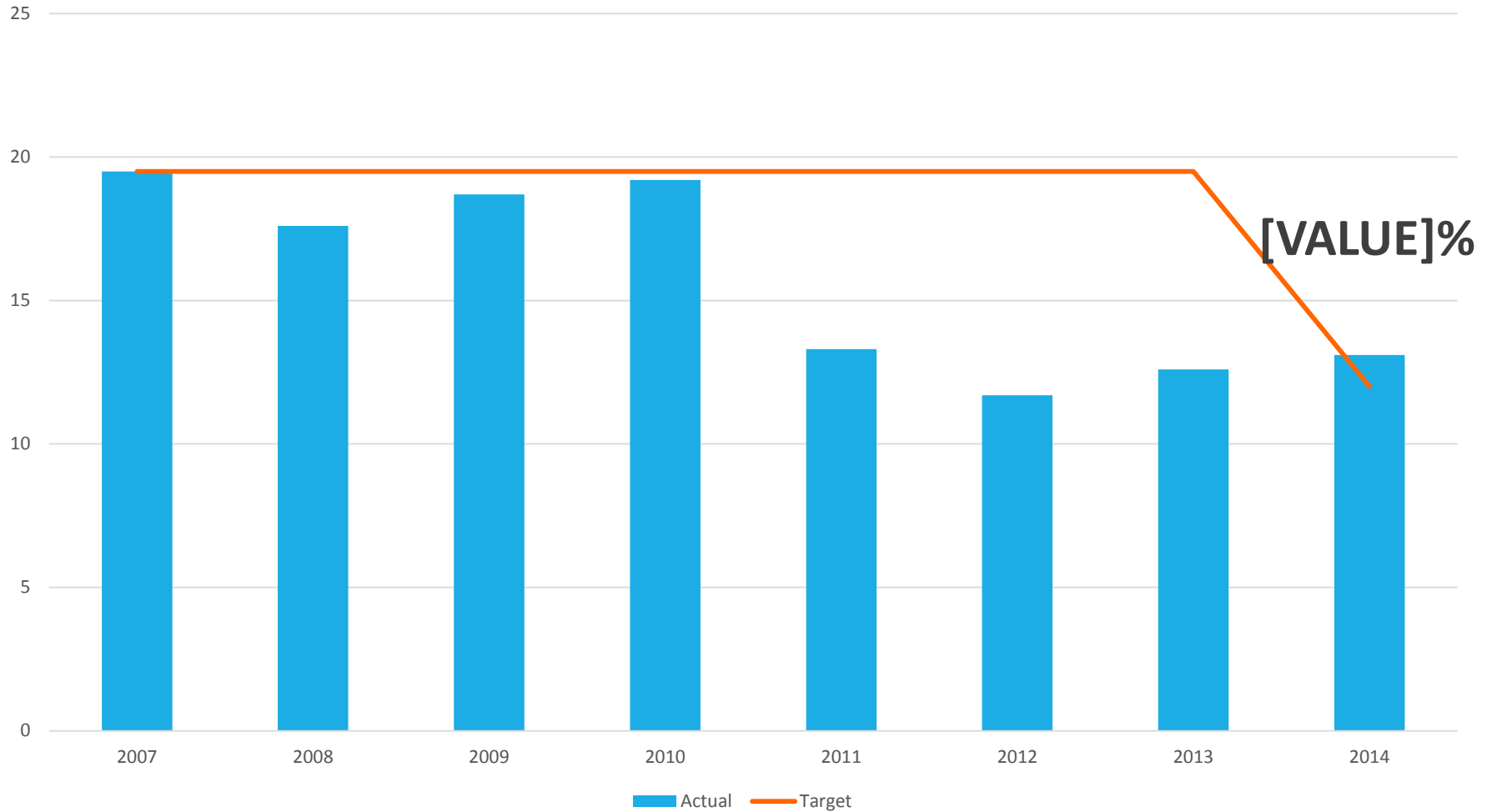
Working with Licensees to Achieve Compliance Through Education

- Responsible Vendor Program
- First Call Program
- Free ID Checking Classes
- False Identification Program
- Options to purchase Age Verification Equipment



Rate of Second Violation *KPM*

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



Preventing Access to Alcohol by Minors

2014 Data

- 209 Minor in possession (consumption)
- 166 Minor in possession of alcohol
- 122 Furnishing alcohol to a minor
- 79 Providing a place for a minor to consume alcohol
- 416 Failing to verify the age of a minor
- 385 Fake ID-related violations
- 1,000+ Fake IDs confiscated each year

Minor Decoy Operations

Minor decoy operations are an effort to reduce underage drinking and access to alcohol by minors

- During sales checks, a minor volunteer attempts to purchase alcohol from a licensed business to see if staff are checking ID's correctly
- Volunteers carry their own legal ID that identifies them as under 21 and do not disguise their age or lie to encourage the sale of alcohol

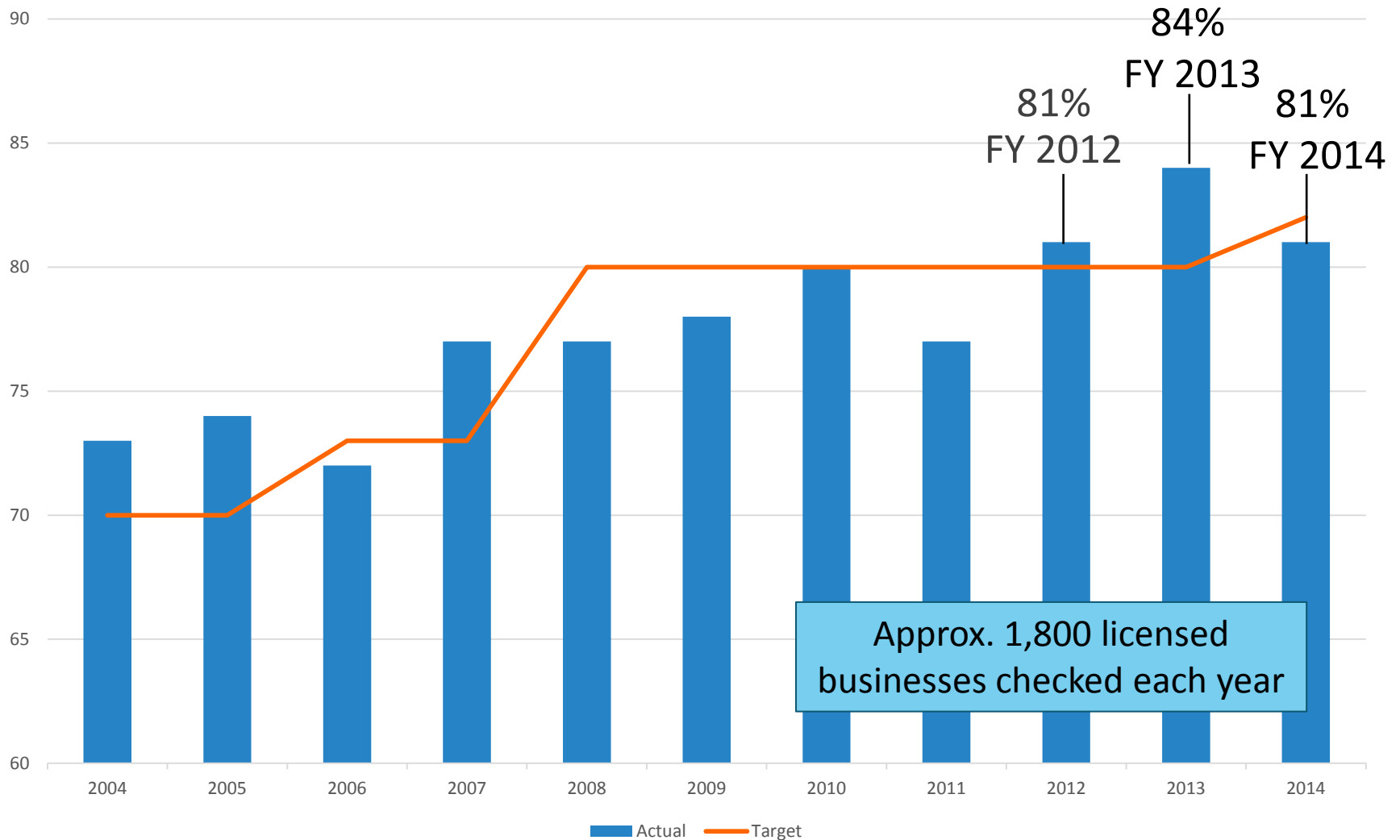
ORS 471.346 & OAR 845-009-0200 establish uniform standards



Minor photos are bordered in red with "Under 21 until..."



Minor Decoy Compliance Rate *KPM*



Support Services Program

- Administrative Policy and Process
 - Hearings/contested cases
 - Rulemaking
 - Oversight of Oregon's Bottle Bill, siting of Redemption Centers
- Financial Services
 - Pays all liquor and freight bills
 - Audits liquor stores and agency fiscal processes
 - Collection of beer and wine taxes, license fees, and spirits revenue
- Information Services
 - Oversees all I.S. infrastructure including the programs that operate the OLCC warehouse, licensing and enforcement divisions
- Management Consulting & Auditing
 - Internal auditing
 - Oversees purchasing and manages agency policies
 - Research and analytics including KPMs
- Government Affairs/Communications
 - Publicize agency actions, responsible use of alcohol, and economic development
- Human Resources
 - Statewide recruitment and training
 - Oversight of labor contract

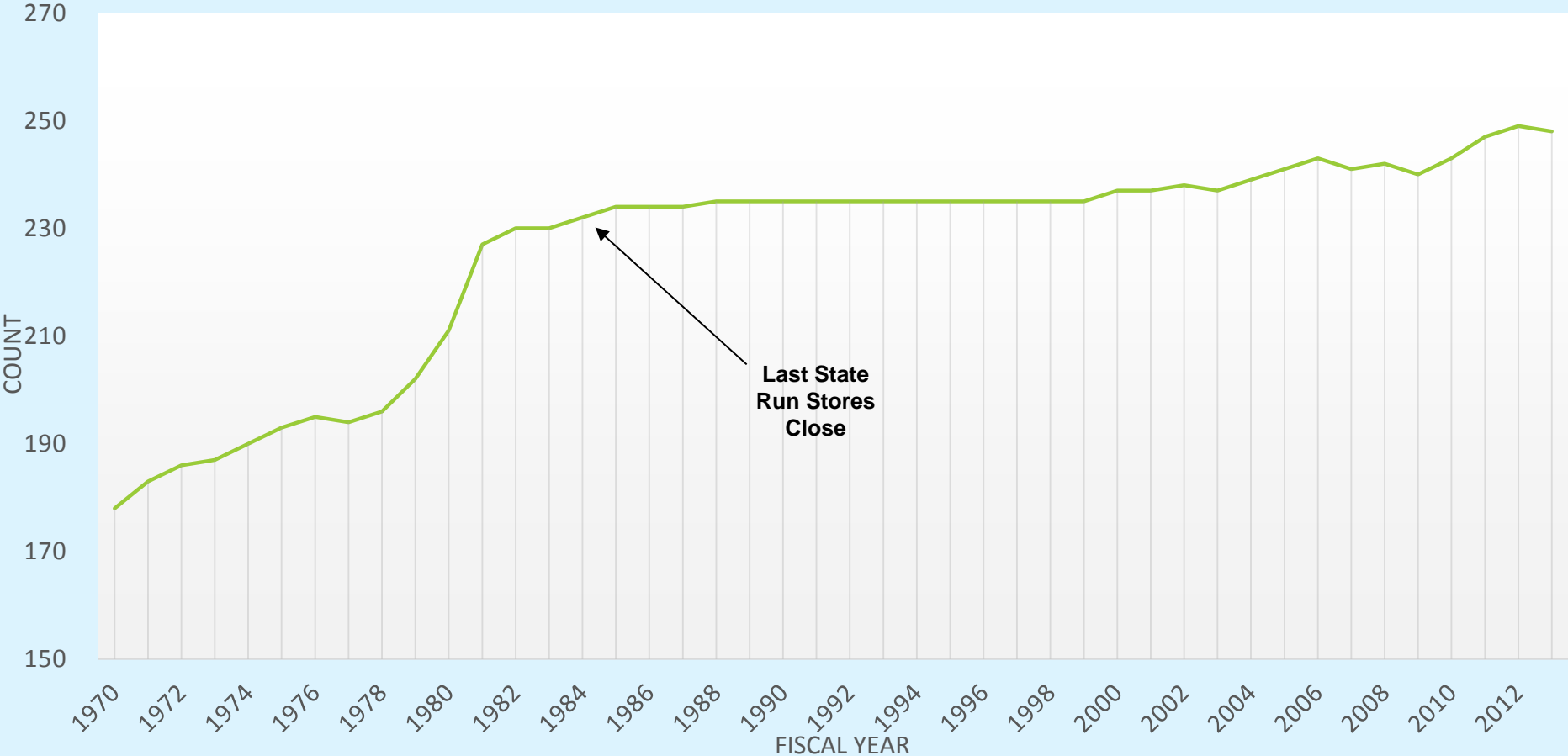
Looking Forward

Opportunities for Retail Liquor System Expansion

- 250 Liquor stores currently approved in Oregon
- Investment needed to meet increasing demand for distilled spirits
 - Increase in population
 - Increased popularity for distilled spirits
 - Demand for higher end spirits
 - Cross-border sales

Liquor Store History

Total Number of Liquor Stores in Oregon



Population Per Liquor Store History



Oregon Versus Nation in Liquor Store Density (2012 Data)

- Oregon Average:
 - 1 store Per 15,660 total population
- National Average:
 - 1 Store Per 4,482 total population
- Control State Average:
 - 1 store per 8,449 total population

Market-Based Approach

- Improve Customer Experience
 - Approve store conversions to allow beer/wine sales
 - Encourage relocations and remodels
 - Improve agent business model and profitability
- Increase Number of Stores
 - Identify “under-served areas”
 - Develop new process for liquor store appointments
- Improve Shelf Management of Existing Stores
 - Demographic and market analysis of current stores

Tools for Expansion

- Working with agents for system governance
 - Agents as a partner in expansion
 - Differentiating rural from urban stores
 - Training for agents & staff
- Contracts
 - Type, length, service requirements, return on investment
- Agents' compensation
 - Design incentives for investment and growth
- Working with industry for analytics
- Establish and monitor health & safety benchmarks
- Increase warehouse shipping capacity

Investments into OLCC

- Increase Warehouse Shipping Capacity (POP 104)
 - **Problem:** OLCC warehouse has reached the capacity for outgoing shipments, and is at risk of not meeting consumer demand
 - **Solution:** Increase shipping capacity by installing modernized conveyor system to allow shipping out of five doors
- Facility/Roof Repairs (POP 301)
 - **Problem:** Aging facilities are endangering health and safety of employees, and puts distilled spirits product in warehouse at risk
 - **Solution:** Immediate replacement of roof over Milport warehouse and phased replacement of roof over McLoughlin Complex
- Online Liquor Licensing and Payment (POP 303)
 - **Problem:** Our licensing system is not keeping up with customer expectations and 21st century e-commerce practices
 - **Solution:** Implementation of online licensing and ability to accept payment with credit cards
- Establish Liquor License Application Fee (HB 2480)
 - **Problem:** Unprepared or uncommitted license applicants slow down the licensing process all applicants
 - **Solution:** Establish a non-refundable application fee to encourage applicants to enter the process prepared and committed

Policy Option Packages 2015-17

POPs moving forward in Governor's Recommended Budget

POP	Description	Area	GRB
104	Warehouse Shipping Capacity	Wholesale Services	\$5,020,000
301	Repair Facilities	Capital Improvement	\$2,631,000
303	E- Commerce	Information Services	\$305,000
202	Training DPSST	Enforcement	\$248,900
308	Upgrade Phone System	Info Services	\$110,000

Increasing OLCC Warehouse Shipping Capacity

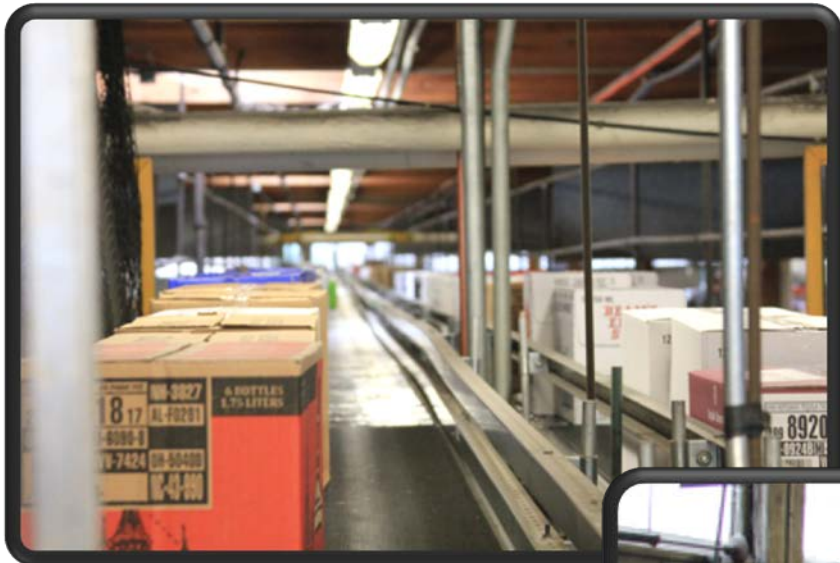
Policy Option Package 104

Overview

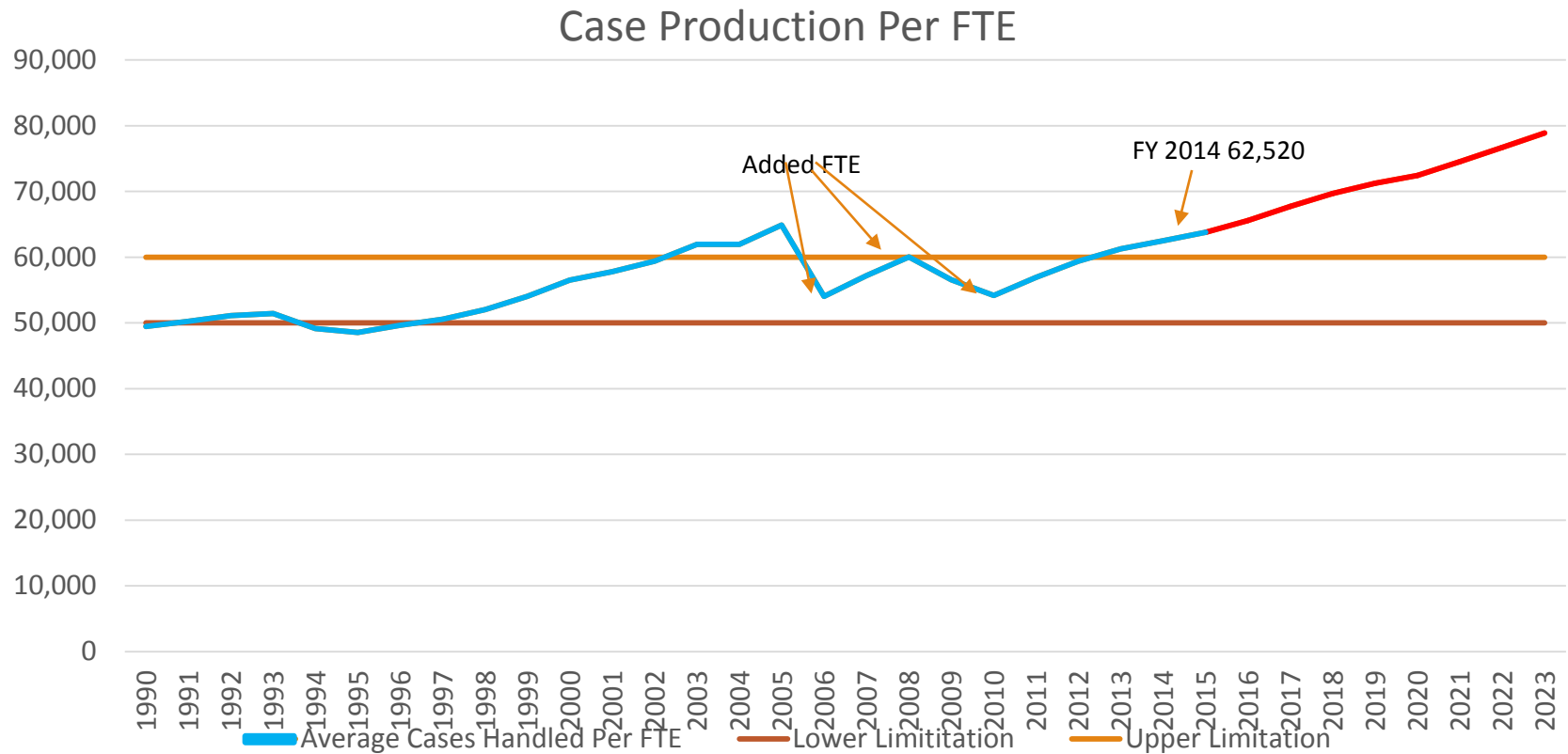
- OLCC Warehouse has reached maximum shipping capacity of 3 million cases per year
- Shipping capacity limitation may put \$75 million of gross liquor sales at risk in 2015-17 biennium
 - Delayed shipments, out-of-stock product, potential lost sales
 - \$1.1 Billion in gross liquor sales at risk over next 10 years
- Capital Expenditure of \$5.02 million to modernize conveyor system with automated sortation
 - Enable warehouse to ship through 5 doors at the same time
 - Increase shipping capacity by 140% with no increase in FTE

Problem

- All shipping goes through a single portal
 - Currently shipping an average of 12 hours per day (60 hours per week)
 - Shipped 2.95 million cases in FY 2014
 - Expect to ship 3.1 million cases in FY 2016 and 3.2 million cases in FY 2017
- Labor resources
 - Currently employing 47.5 FTE in two shifts
 - Received, stored, and shipped 62,520 cases per employee in 2014
- Other limitations
 - Warehouse Management IT system needs to process orders between 9 pm and 6 am
 - Trucks need to be loaded by 8 pm to ensure next day delivery to destinations outside of the Portland metro area



Productivity Constraints



Financial Evaluation

- Payback period for \$5 million warehouse investment
 - \$5.02 million investment paid back in offsetting revenue at risk by October 2016 (2 months after construction completed)
- Positive return on investment, offsetting \$1.1 billion revenue at risk over next 10 years
- Resale value for warehouse investment
 - Depends on how buyer will use current facility
 - New conveyors could be resold for 35% of current value

OLCC Recommendation

- Invest \$5.02 million to modernize conveyor system with automated sortation
 - Enable warehouse to ship through 5 doors at the same time
 - Increase shipping capacity by 140% to accommodate sales growth over the next ten years
- Secure vital revenue streams during 2015-17 including:
 - \$1.1 billion in gross liquor sales
 - \$102 million in compensation to liquor store owners
 - \$470 million in revenue distributed to the state, cities and counties



Warehouse Roof Repair/ Replacement

Policy Option Package 301



Warehouse Roof Repair and Replacement POP 301

- Problem
 - Expanding number of leaks resulting in infrastructure damage and ongoing relocation of product
 - McLoughlin warehouse and office facility built in 1954 with additions in 1977 and 1991 (174,000 square feet total)
 - Milport warehouse facility built in 1977 (105,000 square feet)
- Solution
 - OLCC Hired and engineer in March/2014 to do full assessment of both warehouses (McLoughlin and Milport)
- Results of engineer's findings
 - McLoughlin Warehouse Roof - 10 of 18 roof areas are failing and need replacement now (62,000 square feet)
 - Milport Warehouse Roof can no longer be repaired and must be replaced (105,000 square feet)

OLCC Warehouse Facilities

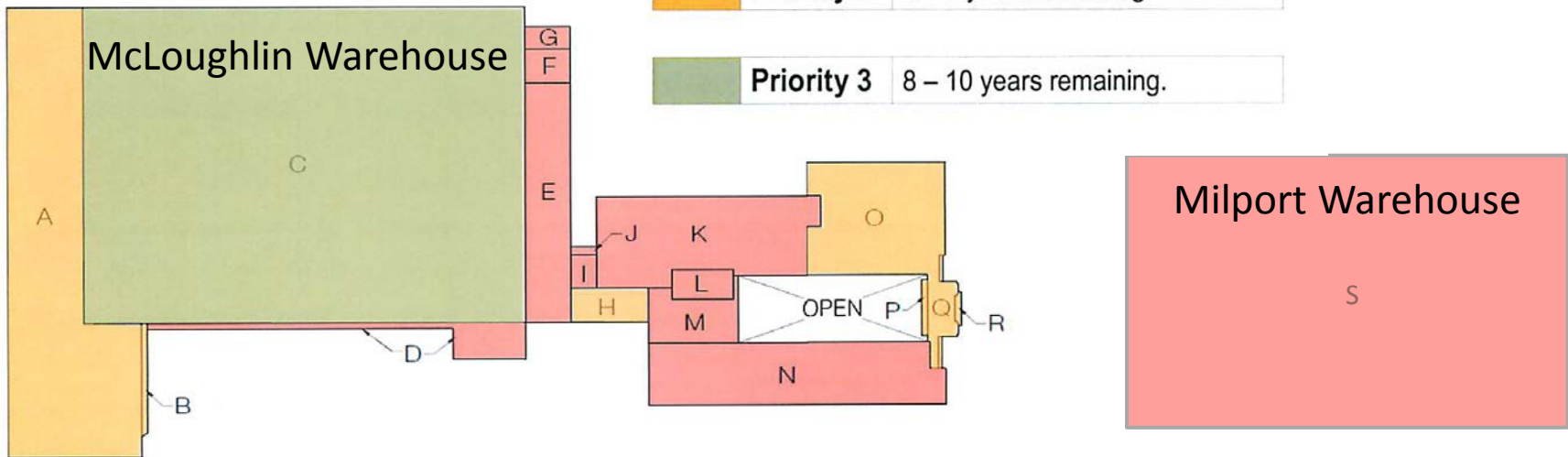
	Square Feet	Age of Building	Age of Roof
McLoughlin Warehouse	124,000	1954/1977	37
Milport Warehouse	104,875	1977	37

PRIORITIES

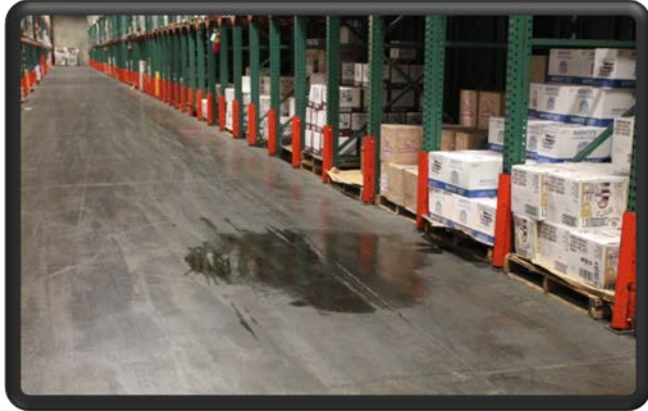
Priority 1 Roof system is currently failing. Recommend replacement.

Priority 2 3 – 5 years remaining.

Priority 3 8 – 10 years remaining.



Roof Issues



Online Liquor Licensing and Payments

POLICY OPTION PACKAGE 303

Business Drivers

- Growth of license and service permit processing
- Recognized need to modernize and improve customer convenience
- Need for improved inter-governmental data sharing
 - (e.g. OLCC ↔ Lottery data sharing)

Project Objectives

- Improve customer service
- Improve information availability for OLCC processing & inter-governmental sharing
- Streamline OLCC regulatory processes

Outcomes

- Accept liquor license and service permit Applications Online
- Allow applicants to pay online with e-commerce
- Integrated application data automatically available in existing OLCC license and permit systems

Approach

- Small scale enhancement to existing systems
 - Focus on one target: online processing
- Small development contract – augment OLCC staff
 - Low cost
 - Small scope
 - Minimal complexity
 - Low risk
- Modern technologies & design
 - Simple, flexible design responsive to rapid change

Liquor License Application Fee

HB 2480

HB 2480

- Allows OLCC to charge a liquor license application fee for new annual license applications or change of ownership
- Tiered application fee not to exceed \$150 (non-refundable)
 - Unless OLCC does not take action on application within 75 days
- Expected to impact 4,330 license applicants
- Fee is expected to generate at least \$324,750 in the 2015-2017 biennium
- Revenue will be used on agency operations with the balance of funding distributed through the agency's distribution formula (ORS 471.810)

Current Challenges

- OLCC's current license fees are some of the lowest in the nation
- License fees are only collected if the license is granted
- License applicants risk little in applying for a license
- Applicants that begin the process unprepared or uncommitted slow overall speed of licensing process for all applicants
- Staff resources are diminished and time to issue a license increases for all applicants

Benefits

- By requiring a non-refundable fee, the applicant's perceived value of submitting an application increases
- Businesses will begin the licensing process more prepared
- HB 2480 allows OLCC to recoup costs for staff resources spent on license investigations, regardless of the applicant's preparedness or commitment
- Businesses that open sooner start generating revenue and hiring employees sooner
 - Covers the cost of the application fee

OLCC-Related Legislation

- Legislation Impacting OLCC Programs
 - Tobacco Retailers Licensed by OLCC – SB 417
 - Bottle Redemption Centers – HB 2803
 - Payment of Business Losses to Liquor Agents – SB 141
 - Funding for Sobering Centers – HB 2671
 - State Police Funding – HB 2932
- Legislation Impacting Oregon's Alcohol Industry
 - Establishes an Oregon Spirits Board – HB 2568
 - Joint Distillery Tasting Rooms – HB 2567
 - Self-Distribution Limits for Brew Pubs – SB 138
 - Malt Beverages Delivery to Consumer – HB 2731
 - Brew Pub and Distillery Package – SB 583

