

BUDGET REPORT AND MEASURE SUMMARY

Joint Committee On Ways and Means

Action:

Action Date:

Vote:

Prepared By: Dustin Ball, Department of Administrative Services

Reviewed By: Michelle Deister, Legislative Fiscal Office

Agency: Oregon Liquor Control Commission

Biennia: 2013-15; 2015-17

Budget Summary*

	2013-15 Legislatively Approved Budget ⁽¹⁾	2015-17 Current Service Level	2015-17 Committee Recommendation	Committee Change from 2013-15 Leg. Approved	
				\$ Change	% Change
Other Funds Limited	\$ 152,245,291	\$ 156,600,548	\$ 166,222,409	\$ 13,977,118	9.2%
Other Funds Capital Improvements	\$ 213,408	\$ 219,810	\$ 4,391,810	\$ 4,178,402	1957.9%
Total	\$ 152,458,699	\$ 156,820,358	\$ 170,614,219	\$ 18,155,520	11.9%

Position Summary

Authorized Positions	234	230	230	-4
Full-time Equivalent (FTE) positions	226.21	225.50	225.50	0.71

2013-15 Budget Actions*

	2013-15 Legislatively Approved Budget ⁽¹⁾		Committee Recommendation	Committee Change from 2013-15 Leg. Approved	
				\$ Change	% Change
Other Funds Limited	\$ 152,245,291	\$ -	\$ 350,000	\$ 350,000	0.2%
Total	\$ 152,245,291	\$ -	\$ 350,000	\$ 350,000	0.2%

⁽¹⁾ Includes adjustments through December 2014

* Excludes Capital Construction expenditures

Revenue Summary

The Oregon Liquor Control Commission (OLCC) is financed entirely with Other Funds revenue. The three major sources of revenue are the sale of distilled spirits (forecasted to generate revenues of approximately \$1.1 billion), privilege taxes on malt beverages and wines (forecasted to generate revenues of approximately \$36.6 million), and licensing and fees (forecasted to generate revenues of approximately \$10.3 million). 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: two cents per gallon of wine tax is distributed to the Wine Advisory Board; the balance is allocated 50.0 percent to fund Addictions and Mental Health Programs, 28.0 percent to the General Fund, 10.0 percent to cities based on population, five percent to counties based on population, and 7.0 percent to cities based on a revenue sharing distribution formula.

- Revenues from liquor sales, license fees, civil penalties and fines, and miscellaneous revenues are allocated 56.0 percent to the General Fund, 20.0 percent to cities based on population, 10.0 percent to counties based on population, and 14.0 percent to cities based on a revenue sharing distribution formula.

The budget approved by the Subcommittee is projected to result in \$467,154,242 of net revenues for distribution, \$33,776,300 of which is attributable to an extension of a 50-cent surcharge on distilled spirits imposed by the OLCC in August of 2014. As identified in the budget framework from the Co-Chairs of Ways and Means, it is anticipated that the entire amount of revenue from the 50-cent surcharge will be designated for distribution to the state General Fund, as well as \$232,261,368 in non-surcharge related revenue. Estimated distributions to other entities are as follows: \$629,000 to the Oregon Wine Board, \$17,996,500 for Mental Health/Drug and Alcohol Treatment, \$82,950,489 to cities, \$41,475,244 to city revenue sharing, and \$58,065,341 to counties. It is anticipated that these distribution amounts will be modified in the upcoming biennium by repayment of funds borrowed from the liquor fund, along with two percent interest for start-up expenses related to the implementation of Measure 91.

Summary of Transportation and Economic Development Subcommittee Action

The OLCC administers Oregon's Liquor Control Act. Oregon is one of 17 control states (besides Maryland where control varies by county) where the state maintains the exclusive right to sell packaged distilled spirits. Functionally the agency manages the business of making packaged distilled spirits available to adults over the age of 21, and regulates all individuals and businesses that manufacture, wholesale, retail, import, export or serve alcoholic beverages. The OLCC ensures compliance with state liquor laws, educates and trains liquor licensees, investigates and takes compliance action when necessary and provides due process in contested cases. Additionally, the agency administers and enforces Oregon's bottle bill which requires a deposit on water, beer, soda and soft drink containers.

The Subcommittee recommended \$170,614,219 Other Funds for 2015-17 which is 11.9 percent higher than the legislatively approved spending level for the 2013-15 biennium.

The Subcommittee approved the following recommendations:

Distilled Spirits Program – SCR 001

The Distilled Spirits Program regulates the sale of bottled distilled spirits while producing revenue to support state and local government. This program contains retail service, wholesale service, and purchasing functions and focuses on overseeing retail liquor stores and managing the liquor inventory owned by distributors but stored in two state-owned warehouses.

- Package 104 - Increase OLCC Shipping Capacity – Upgrade Equipment. This package provides one-time expenditure limitation of \$5,020,000 Other Funds for the modernization of OLCC's conveyer system. This improvement will allow for simultaneous order fulfillment and shipping through multiple doors, increasing throughput and shipping capacity. OLCC has effectively maximized its existing shipping capacity of six million cases per biennium with its current configuration and cannot move more cases without adding

additional staffing to a swing shift, which would only meet anticipated demand through the 2015-17 biennium. Demand is expected to reach 7.4 million cases per biennium by 2023. With the modernization of the conveyer system, OLCC will be able to ship greater volumes in less time and be able to accommodate projected sales volume growth for the next decade within the same facility.

- Package 303 - Provide Online and E-Commerce Licensing. This package provides \$55,000 Other Funds expenditure limitation to accommodate additional usage of bank cards by customers that utilize a new e-commerce licensing system. The new system will allow for on-line payments of OLCC licensing fees.
- Package 801 - LFO Analyst Adjustments. This package provides \$314,626 Other Funds expenditure limitation. The extension of the 50-cent surcharge on distilled spirits will result in increased sales revenue in the upcoming biennium. This package provides OLCC with the expenditure limitation for increased bank card fees associated with this additional sales revenue.

Public Safety Services Program – SCR 002

The Public Safety Services Program regulates the manufacture, distribution and sale of alcoholic beverages while encouraging the expansion of Oregon's economy. The program contains licensing, alcohol education and public safety functions and focuses on ensuring the legal sale and service of alcohol to responsible adults in an effort to minimize alcohol-related risk to society.

- Package 202 - Meet Peace Officer Training Requirements. Senate Bill 1528 (2012) clarified that OLCC enforcement staff were classified as peace officers. That decision resulted in the need for additional training and certification from the Oregon Department of Public Safety Standards and Training (DPSST). This package provides \$260,900 Other Funds expenditure limitation to pay DPSST for the costs of training, and for additional equipment needed by OLCC inspectors. The cost to OLCC is on a per class basis, not per inspector.

Administration and Support – SCR 003

The Administration and Support Program provides the infrastructure for the agency to fulfill liquor commissioners' policy direction for OLCC programs and provides services to customers and stakeholders. The program provides administration, financial services, communications, and information technology functions for the agency.

- Package 303 - Provide Online and E-Commerce Licensing. This package provides one-time expenditure limitation of \$250,000 Other Funds for contracting information technology expertise to develop enhancements to the existing licensing system. These enhancements will enable applicants for licensees to apply and make payment online. The expectation is that OLCC will develop a deliverables-based contract that will result in online application and payment functionality.
- Package 308 - Upgrade Phone System. This package provides one-time expenditure limitation of \$110,000 Other Funds to purchase a new phone system. The current system is thirty years old, unsupported, and relies on floppy discs and tape for backup. The new system will include new handsets and utilize Voice Over Internet Protocol, consistent with DAS's efforts to consolidate voice communication systems.

Store Operating Expenses – SCR 005

OLCC appoints liquor agents, who are independent business people to operate liquor stores for the State of Oregon. The Store Operating Expense Program is calculated at an average rate of sales, the amount of which is budgeted for the payments to these agents for their services. Agents' actual payments are calculated using a formula set by the Commission which takes into account sales volume and other factors. Liquor agents use this compensation to pay for their business expenses which include rent, utilities, insurance, salaries, etc.

- Package 801- LFO Analyst Adjustment. The extension of the 50-cent surcharge on distilled spirits will result in increased sales revenue in the upcoming biennium. This package provides OLCC with \$2,999,335 Other Funds expenditure limitation to maintain the average rate of compensation of sales for liquor agents.
- Package 803- Non Exclusive Store Differential. This package provides \$612,000 Other Funds expenditure limitation for OLCC to eliminate compensation formula disadvantages for those agents that operate non-exclusive liquor stores. This formula change is anticipated to be ongoing in subsequent biennia.

The Subcommittee recommendation results in an average payout percentage of 8.93 percent for agent's compensation for the 2015-17 biennium.

Capital Improvements – SCR 088

The Commission owns two buildings in Milwaukie that serve as the warehousing and distribution center for all bottled distilled liquor and as the agency headquarters. This program unit records expenditures for the biennial projects for agency owned facilities.

- Package 301 - Repair OLCC Facilities. This package addresses the most pressing facilities needs and includes the following: repair and replacement of several sections of roof over the OLCC's office and warehouse buildings and affected HVAC units; replacement of aging boilers and piping; wall and flooring repair (due to water damage); and replacement of a portion of the fire alarm system. One-time expenditure limitation of \$4,172,000 Other Funds is included for this package.

The Subcommittee approved the following budget note:

Budget Note:

In order to achieve efficiencies and promote cross-training to enhance staff expertise, it is expected that OLCC will integrate positions approved for the implementation of Ballot Measure 91 into existing divisions where appropriate. However, the Oregon Liquor Control Commission is directed to work with the Legislative Fiscal Office and the Department of Administrative Services in preparing a 2017-19 agency budget that provides for the following:

- Inclusion of a cost allocation plan for marijuana-related central agency administrative services;
- Differentiation of revenue received from the regulation of alcoholic beverages and related licensees, and revenue derived from regulation of marijuana and related licensees; and

- 2017-19 budgeted expenses and information on actual 2015-17 expenses, that illustrates the extent to which agency resources and personnel are devoted to the regulation of alcohol and marijuana, respectively.

2013-15 Supplemental Budget

The Subcommittee approved an increase in Other Funds expenditure limitation for 2013-15 (the current biennium) in the amount of \$350,000 Other Funds for store operating expenses (agent's compensation). This increase is directly related to liquor sales revenue in excess of the agency forecast, and maintains agent's compensation at an average of 8.88 percent of sales for the 2013-15 biennium.

Summary of Performance Measure Action

See attached Legislatively Adopted 2015-17 Key Performance Measures form.

DETAIL OF JOINT COMMITTEE ON WAYS AND MEANS ACTION

SB 5520-A

Oregon Liquor Control Commission
Dustin Ball -- 503-378-3119

DESCRIPTION	GENERAL FUND	LOTTERY FUNDS	OTHER FUNDS		FEDERAL FUNDS		TOTAL ALL FUNDS	POS	FTE
			LIMITED	NONLIMITED	LIMITED	NONLIMITED			
2013-15 Legislatively Approved Budget at Dec 2014 *	\$ -	\$ -	\$ 152,458,699	\$ -	\$ -	\$ -	\$ 152,458,699	234	226.21
2015-17 Current Service Level (CSL)*	\$ -	\$ -	\$ 156,820,358	\$ -	\$ -	\$ -	\$ 156,820,358	230	225.50
SUBCOMMITTEE ADJUSTMENTS (from CSL)									
SCR 001 - Distilled Spirits Program									
Package 104: Increase OLCC Shipping Capacity - Upgrade Equipment									
Services and Supplies	\$ -	\$ -	\$ 110,000	\$ -	\$ -	\$ -	\$ 110,000		
Special Payments	\$ -	\$ -	\$ 4,910,000	\$ -	\$ -	\$ -	\$ 4,910,000		
Package 303: Provide Online and E-Commerce Licensing									
Services and Supplies	\$ -	\$ -	\$ 55,000	\$ -	\$ -	\$ -	\$ 55,000		
Package 801: LFO Analyst Adjustments									
Services and Supplies	\$ -	\$ -	\$ 314,626	\$ -	\$ -	\$ -	\$ 314,626		
SCR 002 - Public Safety Services Program									
Package 202: Meet Peace Officer Training Requirements									
Personal Services	\$ -	\$ -	\$ 12,000	\$ -	\$ -	\$ -	\$ 12,000	0	0.00
Services and Supplies	\$ -	\$ -	\$ 248,900	\$ -	\$ -	\$ -	\$ 248,900		
SCR 003 - Administration and Support									
Package 303: Provide Online and E-Commerce Licensing									
Services and Supplies	\$ -	\$ -	\$ 250,000	\$ -	\$ -	\$ -	\$ 250,000		
Package 308: Upgrade Phone System									
Services and Supplies	\$ -	\$ -	\$ 15,000	\$ -	\$ -	\$ -	\$ 15,000		
Capital Outlay	\$ -	\$ -	\$ 95,000	\$ -	\$ -	\$ -	\$ 95,000		
SCR 005 - Store Operating Expense									
Package 801: LFO Analyst Adjustment									
Special Payments	\$ -	\$ -	\$ 2,999,335	\$ -	\$ -	\$ -	\$ 2,999,335		
Package 803: Non Exclusive Store Differential									
Special Payments	\$ -	\$ -	\$ 612,000	\$ -	\$ -	\$ -	\$ 612,000		

DESCRIPTION	GENERAL FUND	LOTTERY FUNDS	OTHER FUNDS		FEDERAL FUNDS		TOTAL ALL FUNDS	POS	FTE
			LIMITED	NONLIMITED	LIMITED	NONLIMITED			
SCR 088 - Capital Improvements									
Package 301: Repair OLCC Facilities									
Capital Outlay	\$ -	\$ -	\$ 4,172,000	\$ -	\$ -	\$ -	\$ 4,172,000		
TOTAL ADJUSTMENTS	\$ -	\$ -	\$ 13,793,861	\$ -	\$ -	\$ -	\$ 13,793,861	0	0.00
SUBCOMMITTEE RECOMMENDATION *									
	\$ -	\$ -	\$ 170,614,219	\$ -	\$ -	\$ -	\$ 170,614,219	230	225.50
% Change from 2013-15 Leg Approved Budget	0.0%	0.0%	11.9%	0.0%	0.0%	0.0%	11.9%		
% Change from 2015-17 Current Service Level	0.0%	0.0%	8.8%	0.0%	0.0%	0.0%	8.8%		

*Excludes Capital Construction Expenditures

2013-15 Budget Actions

DESCRIPTION	GENERAL FUND	LOTTERY FUNDS	OTHER FUNDS		FEDERAL FUNDS		TOTAL ALL FUNDS	POS	FTE
			LIMITED	NONLIMITED	LIMITED	NONLIMITED			
SCR 005 - Store Operating Expense									
Special Payments	\$ -	\$ -	\$ 350,000	\$ -	\$ -	\$ -	\$ 350,000		

Legislatively Approved 2015-2017 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 2016	Target 2017
1 - Sales to Minors – Percentage of licensees who refuse to sell to minor decoys.		Approved KPM	81.00	82.00	82.00
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	13.10	12.00	12.00
3 - Licensing Time – Average days from application receipt to license issuance.		Approved KPM	76.00	75.00	75.00
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	77.00	85.00	85.00
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	72.00	85.00	85.00
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	81.00	85.00	85.00
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	80.00	85.00	85.00
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	77.00	85.00	85.00

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 2016	Target 2017
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	74.00	85.00	85.00
5 - OLCC Rate of Return - Net OLCC distribution divided by actual expenses.		Approved KPM	2.94	2.70	2.70
6 - Best Practices: Percent of total best practices met by the Board.		Approved KPM	100.00	100.00	100.00

LFO Recommendation:

The Legislative Fiscal Office recommends the Key Performance Measures as presented. It is further recommended that the Commission work with the Legislative Fiscal Office to devise appropriate KPMs related to the regulation of recreational marijuana, to be submitted in conjunction with the 2017-19 Governor's recommended budget.

Sub-Committee Action:

Approve the Legislative Fiscal Office recommendation.