

HB 5019 BUDGET REPORT and MEASURE SUMMARY

Joint Committee On Ways and Means

Prepared By: Dustin Ball, Department of Administrative Services

Reviewed By: Michelle Deister, Legislative Fiscal Office

Oregon Liquor Control Commission

2017-19

PRELIMINARY

Budget Summary*

	2015-17	2017-19	2017-19	Committee Change from 2015-17 Leg.	
	Legislatively Approved Budget ⁽¹⁾	Current Service Level	Committee Recommendation	Committee Change from 2015-17 Leg. Approved	
				\$ Change	% Change
Other Funds Limited	\$ 177,369,999	\$ 191,099,083	\$ 207,480,506	\$ 30,110,507	17.0%
Other Funds Capital Improvements	\$ 5,311,810	\$ 227,943	\$ 227,943	\$ (5,083,867)	95.7%
Total	\$ 182,681,809	\$ 191,327,026	\$ 207,708,449	\$ 25,026,640	13.7%

Position Summary

Authorized Positions	268	263	304	36
Full-time Equivalent (FTE) positions	255.33	261.00	298.82	43.49

⁽¹⁾ Includes adjustments through December 2016

* Excludes Capital Construction expenditures

Summary of Revenue Changes

The Oregon Liquor Control Commission (OLCC) is financed entirely with Other Funds revenue. While OLCC receives revenues from multiple sources, major contributors are: the sale of distilled spirits, privilege taxes on malt beverages and wines, licensing and fee revenues (which includes marijuana) and transfers of marijuana tax revenue from the Oregon Department of Revenue to support Senate Bill 1057.

Alcohol Related Revenues

After subtracting the cost of liquor, freight, a reserve for 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 Oregon Wine Board; the balance is allocated 50% to fund Addiction and Mental Health Programs, 28% to the General Fund, 10% to cities based on population, 5% to counties based on population and 7% 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% to the General Fund, 20% to cities based on population, 10% to counties based on population and 14% to cities based on a revenue sharing distribution formula.
- Revenue from a \$0.50 cent per bottle surcharge imposed by the Commission is dedicated entirely to the General Fund.

The Subcommittee recommendation assumes the following distribution amounts related to liquor revenue: \$326.1 million to the General Fund (an amount that includes surcharge revenue); distribution to cities amounting to an estimated \$176.4 million (an amount that includes both City Revenue Sharing and regular distribution to cities); \$51.9 million to counties; and \$19 million for addiction and mental health services.

Marijuana Related Revenues

OLCC's Marijuana Program is funded solely from marijuana application and license/permit fees and fines. These revenues support the marijuana program as well as the program's proportional share of agency-wide shared management, support staff and expenses. While recreational marijuana tax proceeds were authorized to fund any OLCC recreational marijuana related budget shortfall during the 2015-17 biennium, the program must be fully funded by license and application fees beginning in the 2017-19 biennium.

Additionally, with the passage of Senate Bill 1057 (2017), OLCC will be required to track medical marijuana producers, processors and retailers in its cannabis tracking system and to conduct inspections and investigations to ensure medical marijuana is properly accounted for. The bill provides for start-up costs to OLCC consisting of \$1.8 million from the Oregon Marijuana Account (marijuana tax revenue) and up to \$1.25 million of marijuana tax revenue per quarter for on-going OLCC regulatory costs related to monitoring medical marijuana licensees of the Oregon Health Authority. The actual amount to be transferred will be determined based on the number of Oregon Health Authority licensees OLCC tracks, which will drive costs for the tracking system, inspections and reporting.

Summary of Transportation and Economic Development Subcommittee Action

The OLCC administers Oregon's Liquor Control Act and Cannabis Regulation. Its mission is to support businesses, public safety and community livability through education and enforcement of Liquor and Marijuana laws. Functionally, OLCC manages the business of making packaged distilled spirits and recreational marijuana products available to adults over the age of 21. 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. Additionally, the agency administers and enforces Oregon's bottle bill, which requires a deposit on water, beer, soda and soft drink containers.

The Subcommittee approved a budget of \$207,708,449 Other Funds limitation, including 304 positions (298.82 FTE). The budget is an 8.6% increase from the 2017-19 current service level and a 13.7% increase from the 2015-17 Legislatively Approved Budget.

Distilled Spirits

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

The Subcommittee approved a budget of \$25,902,473 Other Funds limitation, including 68 positions (68.00 FTE).

Package 090, Analyst Adjustments. This package provides \$855,254 Other Funds limitation for bank card fees associated with additional revenue generated from OLCC's extension of the \$0.50 per bottle surcharge.

Package 101, Distilled Spirits Program Retail Expansion. This package provides \$407,574 Other Funds limitation and two positions (2.00 FTE) associated with the Commission's retail expansion efforts to add additional retail liquor outlets to accommodate population growth and maintain customer access in high density areas. The Commission has approved 17 new stores to date in the current biennium and plans to increase the number of stores from 248 in 2016 to 310 by 2018. A permanent full-time district manager and a permanent full-time business analyst position are recommended to provide support to these new stores.

Package 801, LFO Analyst Adjustments. This package provides \$377,734 Other Funds limitation for bank card fees associated with the Commission's retail expansion efforts assumed to yield additional sales of approximately 3%. The Commission plans to add additional retail liquor outlets to accommodate population growth and maintain customer access in high density areas. The Commission has approved 17 new stores to date in the current biennium and plans to increase the number of stores from 248 in 2016 to 310 by 2018.

Public Safety Services

The Public Safety Services Program contains licensing, education and public safety functions and focuses on ensuring the legal sale and service of alcohol and marijuana to responsible adults and minimizing alcohol and marijuana-related risks to society.

The Subcommittee approved a budget of \$20,143,096 Other Funds limitation, including 96 positions (93.76 FTE).

Package 309, Distilled Spirits Program Reclassifications. This package provides \$24,215 Other Funds limitation to reclassify an existing Administrative Services 1 position to a Compliance Specialist 1. This reclassification will enable more efficient utilization of existing staff resources in preparing temporary sales license applications for final review and action. The Legislative Fiscal office recommends approval with the understanding that the Department of Administrative Services (DAS) will unschedule the limitation associated with this package until outstanding classification reviews are approved by DAS, Chief Human Resources Office (CHRO).

Package 801, LFO Analyst Adjustments. This package provides \$478,925 Other Funds limitation for two permanent full-time public safety management positions (1.76 FTE) attributable to growth in the marijuana regulatory program. The Commission anticipates, based on application rates and assuming a 90% renewal rate of existing licensees, there will be 1,974 active recreational marijuana licensees for 2017-19. As the number of licensees drives the need for additional regulatory enforcement personnel (see Package 406 in the marijuana program), the need for administrative support and management of these additional employees also increases. Services and Supplies costs associated with these

positions are also included in this recommendation and it is assumed these positions will require equipment equivalent to the enforcement employees they oversee.

Administration and Support

The Administration and Support Program provides the infrastructure for the agency to fulfill the Commissioner's policy direction for OLCC programs and provide services to customers and stakeholders. It provides a means to communicate and collaborate with external stakeholders and provide the tools and supplies for agency operations. The program provides administration, financial services, communications and information technology functions for the agency.

The Subcommittee approved a budget of \$23,023,888 Other Funds limitation, including 79 positions (78.84 FTE).

Package 307, Limited Duration Conversions. This package provides \$328,094 Other Funds expenditure limitation to provide for the permanent continuation of two positions; a Human Resource Analyst 1 position and a Compliance Specialist 3 position that were approved as Limited Duration in the 2015-17 biennium. Additional recruitments associated with replacement of retired workers and the expansion of the recreational marijuana program are factors that contribute to an ongoing workload for the Human Resource Analyst 1 position. As the number of applicants in the Marijuana program continues to grow beyond initial estimates, so does the likely number of contested cases related to alleged violations or denial of license applications, supporting the continuation of the Compliance Specialist 3 position in the Administrative Policy and Process division.

Package 309, Distilled Spirits Program Reclassifications. This package provides \$104,796 Other Funds limitation to reclassify the following positions:

- An Information Systems Specialist 5 position to Information Systems Specialist 6, based on the DAS, CHRO class allocation guidelines;
- An Information Systems Specialist 3 position to an Information Systems Specialist 4, as duties have evolved from technical support for users to include support of the agency's information technology network;
- A Compliance Specialist 3 position, which is more appropriately classified as an Operations and Policy Analyst 3 position, due to consultative advice and recommendations given on agency policy, processes and programmatic issues;
- An Administrative Specialist 1 position to a Procurement and Contract Assistant, due to elevated responsibilities as the vehicle fleet coordinator for the agency and with the agency's supply center to help meet the needs of the agency's additional personnel;
- An Accountant 2 position to an Accountant 3 position, responsible for the creation and management of the business and accounting processes associated with Marijuana Regulation.

Approval of this package incorporates the understanding that DAS will unschedule \$50,261 Other Funds limitation until outstanding classification reviews are approved by DAS, CHRO.

Package 801, LFO Analyst Adjustments. This package provides \$492,106 Other Funds limitation for two new permanent full-time positions (1.84 FTE) and to transfer one existing position (1.00 FTE) from the Marijuana Division. Full-time equivalent positions in the agency grew by 15% between the 2013-15 and 2017-19 current service level; an additional 38 positions are recommended for approval in the 2017-19 budget recommendation. This package provides new support positions for the Commission, which includes one Procurement and Contracts Specialist 1 and one Compliance Specialist 3 position in the Administrative Policy and Process Division to handle the anticipated increase in contested case hearings related to license approvals and disciplinary actions.

Package 814, IT Security Positions Consolidation. This package reduces Other Funds limitation by \$249,577 to transfer one Information Technology Position (1.00 FTE) to the DAS, Office of the State CIO pursuant to the Governor's Executive Order Number 16-13, to unify information technology security positions.

Package 816, SB 1057 Medical Marijuana. This package provides \$95,028 Other Funds limitation for Services and Supplies costs associated with the addition of two new commissioners under Senate Bill 1057. This includes the estimated costs of mileage, per diem and costs associated with remodeling the Commission meeting space. The one-time costs to remodel the Commission meeting space should be phased out when the agency builds its budget for the 2019-21 biennium.

Marijuana Regulation

The Marijuana Program regulates the manufacture, distribution and sale of recreational marijuana products to ensure public safety and consumer protection while encouraging the economic development of the industry. It implements all agency responsibilities and strategies related to recreational marijuana licensing, education and enforcement with a focus on preventing the sale of recreational marijuana products to minors and to help ensure there are no diversions of recreational marijuana outside the regulated market.

The Subcommittee approved a budget of \$14,483,634 Other Funds limitation, including 61 positions (58.22 FTE).

Package 406, Marijuana Program Staff Fulfillment. This package provides \$5,244,870 Other Funds expenditure limitation and 27 permanent full time positions (24.80 FTE) attributable to growth in the marijuana regulatory program. The 2015-17 Legislatively Approved Budget assumed approximately 830 active recreational licensees and 6,200 worker permits. As of March 23, 2017, the number of licensees was 1,052 and worker permits numbered 12,439. These totals are expected to grow to 1,974 and 29,000, respectively, in the 2017-19 biennium. The number of regulatory and compliance specialists will increase further due to Senate Bill 1057 (legislation that tasks OLCC with tracking medical marijuana) and may prompt more of the medical sector of the marijuana industry to migrate to the recreational market and become OLCC licensees.

The additional positions provided in this package include 22 regulatory specialists, three administrative support personnel and two compliance specialist positions. Services and Supplies costs include equipment and vehicles for enforcement officers who will be inspecting applicant and licensee grow sites, processing facilities and retail establishments; training at the Department of Public Safety Standards and Training; and a calculated additional lease cost per new employee, as OLCC will need to find additional physical space to accommodate new employees related to its marijuana program. This package includes one-time costs (moving costs, vehicles, initial equipment and training, etc.) to be phased out when the agency builds its budget for the 2019-21 biennium.

Package 408, Marijuana Program Reclassification. This package provides \$30,564 Other Funds limitation to reclassify an existing Administrative Specialist 1 position to an Operations and Policy Analyst 1. Approval of this package incorporates the understanding that DAS will un-schedule the limitation associated with this package until outstanding classification reviews are approved by DAS, CHRO.

Package 801, LFO Analyst Adjustments. This package reduces Other Funds limitation by \$145,026 to transfer one existing Accountant 2 position (1.00 FTE) from the recreational marijuana program to the Administration and Support Division.

Package 816, SB 1057 Medical Marijuana. This package provides \$1,502,105 Other Funds limitation and establishes seven permanent full-time positions (6.42 FTE) for OLCC to track medical marijuana producers, processors and retailers in the cannabis tracking system and to conduct inspections and investigations to ensure medical marijuana is properly accounted for, pursuant to Senate Bill 1057. The Commission will be taking over this responsibility from the Oregon Health Authority and will become responsible for regulating the labeling and packaging of medical marijuana. This policy package includes one-time costs (moving costs, initial equipment and training, changes to the existing cannabis tracking system of \$400,000, etc.) to be phased out when the agency builds its budget for the 2019-21 biennium.

The Commission will return to the February 2016 Legislature or a subsequent meeting of the Emergency Board to request enforcement personnel. The number of additional regulatory specialists needed will be influenced by the number of medical marijuana producers, processors and retailers that opt into the OLCC regulatory system pursuant to the notification deadline of January 1, 2018, imposed by Senate Bill 1057, as well as any other medical marijuana legislation that may influence industry dynamics.

The Legislative Fiscal Office recommends that OLCC set up a separate budgeting structure to track revenues and expenses related to costs associated with monitoring medical marijuana producers, processors and retailers. Further, the agency is instructed to develop a cost allocation model to attribute a relatively proportional share of overhead expenses related to agency management, administrative and facility requirements due to medical marijuana related responsibilities, for purposes of determining operating expenses to be funded through a transfer of marijuana tax revenues to OLCC.

Store Operating Expense

The OLCC appoints liquor agents, who are independent business people or businesses, to operate liquor stores for the state of Oregon. The Store Operating Expense program contains the funds available to pay these agents for their services. Agents are paid an average payout percentage (currently equivalent to 8.93% of total sales) based on a formula set by the Commission. From compensation received, agents pay their own business expenses (rent, utilities, insurance, and salaries).

The Subcommittee approved a budget of \$123,927,415 Other Funds limitation.

Package 090, Analyst Adjustments. This package contains two adjustments to provide a net increase of \$3,360,310 Other Funds limitation. Agent's compensation is increased by \$3,360,310 to allow the Commission to maintain an average payout percentage of 8.93 %. The package also makes a technical adjustment to move \$3,611,355 limitation from Special Payments to Services and Supplies, which will correctly align the budget with how the agency expends and accounts for agent's compensation.

Package 801, LFO Analyst Adjustments. This package provides \$3,474,451 Other Funds limitation to allow the Commission to maintain an average payout percentage of 8.93% while accounting for the Commission's retail expansion efforts assumed to yield additional sales of approximately 3%. The Commission plans to add additional retail liquor outlets to accommodate population growth and maintain customer access in high density areas. The Commission has approved 17 new stores to date in the current biennium and plans to increase the number of stores from 248 in 2016 to 310 by 2018.

Capital Improvements

The Commission owns two buildings in Milwaukie, serving as the warehousing and distribution center for all bottled distilled liquor and as the administrative headquarters for the OLCC. The agency has established and routinely updates a 10-year facility maintenance plan. This program unit records expenditures for the biennial projects included in the plan.

The Subcommittee approved a budget of \$227,943 Other Funds limitation.

Summary of Performance Measure Action

See attached Legislatively Adopted 2017-19 Key Performance Measures form.

DETAIL OF JOINT COMMITTEE ON WAYS AND MEANS ACTION

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			
2015-17 Legislatively Approved Budget at Dec 2016 *	\$ -	\$ -	\$ 182,681,809	\$ -	\$ -	\$ -	182,681,809	268	255.33
2017-19 Current Service Level (CSL)*	\$ -	\$ -	\$ 191,327,026	\$ -	\$ -	\$ -	191,327,026	263	261.00
SUBCOMMITTEE ADJUSTMENTS (from CSL)									
SCR 001 - Distilled Spirits									
Package 090: Analyst Adjustments									
Services and Supplies	\$ -	\$ -	\$ 855,254	\$ -	\$ -	\$ -	855,254		
Package 101: Distilled Spirits Program Retail Expansion									
Personal Services	\$ -	\$ -	\$ 370,574	\$ -	\$ -	\$ -	370,574	2	2.00
Services and Supplies	\$ -	\$ -	\$ 12,000	\$ -	\$ -	\$ -	12,000		
Capital Outlay	\$ -	\$ -	\$ 25,000	\$ -	\$ -	\$ -	25,000		
Package 801: LFO Analyst Adjustments									
Services and Supplies	\$ -	\$ -	\$ 377,734	\$ -	\$ -	\$ -	377,734		
SCR 002 - Public Safety Services									
Package 309: Distilled Spirits Program Reclassifications									
Personal Services	\$ -	\$ -	\$ 24,215	\$ -	\$ -	\$ -	24,215	0	0.00
Package 801: LFO Analyst Adjustments									
Personal Services	\$ -	\$ -	\$ 356,798	\$ -	\$ -	\$ -	356,798	2	1.76
Services and Supplies	\$ -	\$ -	\$ 122,127	\$ -	\$ -	\$ -	122,127		
SCR 003 - Administration and Support									
Package 307: Limited Duration Conversions									
Personal Services	\$ -	\$ -	\$ 328,094	\$ -	\$ -	\$ -	328,094	2	2.00
Package 309: Distilled Spirits Program Reclassifications									
Personal Services	\$ -	\$ -	\$ 104,796	\$ -	\$ -	\$ -	104,796	0	0.00
Package 801: LFO Analyst Adjustments									
Personal Services	\$ -	\$ -	\$ 445,216	\$ -	\$ -	\$ -	445,216	3	2.84
Services and Supplies	\$ -	\$ -	\$ 46,890	\$ -	\$ -	\$ -	46,890		
Package 814: IT Security Positions Consolidation									
Personal Services	\$ -	\$ -	\$ (249,577)	\$ -	\$ -	\$ -	(249,577)	(1)	(1.00)
Package 816: SB 1057 Medical Marijuana									
Services and Supplies	\$ -	\$ -	\$ 95,028	\$ -	\$ -	\$ -	95,028		
SCR 004 - Marijuana Regulation									
Package 406: Marijuana Program Staff Fulfillment									
Personal Services	\$ -	\$ -	\$ 3,720,807	\$ -	\$ -	\$ -	3,720,807	27	24.80
Services and Supplies	\$ -	\$ -	\$ 1,499,063	\$ -	\$ -	\$ -	1,499,063		
Capital Outlay	\$ -	\$ -	\$ 25,000	\$ -	\$ -	\$ -	25,000		
Package 408: Marijuana Program Reclassification									
Personal Services	\$ -	\$ -	\$ 30,564	\$ -	\$ -	\$ -	30,564	0	0.00

DESCRIPTION	GENERAL FUND	LOTTERY FUNDS	OTHER FUNDS		FEDERAL FUNDS		TOTAL ALL FUNDS	POS	FTE
			LIMITED	NONLIMITED	LIMITED	NONLIMITED			
Package 801: LFO Analyst Adjustments									
Personal Services	\$ -	\$ -	\$ (145,026)	\$ -	\$ -	\$ -	\$ (145,026)	(1)	(1.00)
Package 816: SB 1057 Medical Marijuana									
Personal Services	\$ -	\$ -	\$ 950,772	\$ -	\$ -	\$ -	\$ 950,772	7	6.42
Services and Supplies	\$ -	\$ -	\$ 551,333	\$ -	\$ -	\$ -	\$ 551,333		
SCR 005 - Store Operating Expense									
Package 090: Analyst Adjustments									
Services and Supplies	\$ -	\$ -	\$ 6,971,645	\$ -	\$ -	\$ -	\$ 6,971,645		
Special Payments - to OR Liquor Cntrl Comm	\$ -	\$ -	\$ (3,611,335)	\$ -	\$ -	\$ -	\$ (3,611,335)		
Package 801: LFO Analyst Adjustments									
Services and Supplies	\$ -	\$ -	\$ 3,474,451	\$ -	\$ -	\$ -	\$ 3,474,451		
TOTAL ADJUSTMENTS	\$ -	\$ -	\$ 16,381,423	\$ -	\$ -	\$ -	\$ 16,381,423	41	37.82
SUBCOMMITTEE RECOMMENDATION *	\$ -	\$ -	\$ 207,708,449	\$ -	\$ -	\$ -	\$ 207,708,449	304	298.82
% Change from 2015-17 Leg Approved Budget	0.0%	0.0%	13.7%	0.0%	0.0%	0.0%	13.7%	13.4%	17.0%
% Change from 2017-19 Current Service Level	0.0%	0.0%	8.6%	0.0%	0.0%	0.0%	8.6%	15.6%	14.5%

*Excludes Capital Construction Expenditures

Legislatively Approved 2017 - 2019 Key Performance Measures

Published: 6/13/2017 12:04:24 PM

Agency: Liquor Control Commission, Oregon

Mission Statement:

Support businesses, public safety and community livability through education and the enforcement of liquor and marijuana laws.

Legislatively Approved KPMs	Metrics	Agency Request	Last Reported Result	Target 2018	Target 2019
1. Sales to Minors - Percentage of licensees who refuse to sell to minor decoys.		Approved	81%	82%	82%
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	11.60%	12%	12%
3. Licensing Time - Average days from application receipt to license issuance.		Approved	78	75	75
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	86%	85%	85%
	Helpfulness		90%	85%	85%
	Availability of Information		69%	85%	85%
	Overall		82%	85%	85%
	Timeliness		80%	85%	85%
	Accuracy		79%	85%	85%
5. OLCC Rate of Return - Net OLCC distribution divided by actual expenses.		Approved	\$2.51	\$2.70	\$2.70
6. Best Practices - Percent of total best practices met by the Board.		Approved	100%	100%	100%
7. Sales to Minors- Recreational Marijuana - This measure is the rate at which licensees refuse to sell marijuana products to minor decoys.		Approved	No Data	82%	82%
8. Time to license- marijuana - Average days to license completed marijuana applications.		Approved	No Data	85	85

LFO Recommendation:

The Legislative Fiscal Office recommends key performance measures as presented.

For the purposes of new KPM #8, the proposed target of 85 days is based on OLCC's reported average time to issue a marijuana license to a new applicant in 2016. It should be noted that this target is unlikely to be met for 2017 and possibly 2018 given the number of licensing applications in excess of 2015-17 forecasted estimates, coupled with renewals that are estimated to be complex due to changes in licensee business plans and facilities. However, this target may be legitimate as a longer term goal.

The Legislative Fiscal Office will work with the OLCC to determine whether a new key performance measure might be merited for work related to medical marijuana tracking pursuant to OLCC duties prescribed by SB 1057 and HB 2198, if adopted.

SubCommittee Action:

The Subcommittee approved the Key Performance Measures, as recommended by the Legislative Fiscal Office.