



February 5, 2018

Members of the Legislature and Interested Parties,

As your partners in generating much-needed revenue for the State of Oregon, we are writing to express our opposition to SB 1564.

SB 1564 creates a license for in-state liquor distillers to receive an exemption from paying the state liquor mark-up (distilled spirits tax) for sales in their in-state tasting rooms. The Associated Liquor Stores of Oregon have been raising the issue of the state liquor store compensation model for over thirty years. We agree that it is time for the OLCC to revisit the compensation formula to recognize the work done by Oregon's liquor industry in building the local economy. SB 1564, however, is fraught with unintended consequences.

We have enjoyed an excellent relationship with the Oregon Distillers Guild, advocating with them in opposition to multiple liquor privatization ballot initiatives that would have decimated their businesses and our own. That's why we are particularly concerned that a bill concept like the proposed tax exemption receive adequate vetting and attention to detail before being introduced for public consumption in the legislative process.

SB 1564 has multiple problems including:

- The bill violates the US Constitution.
- The bill impacts payments earned by traditional liquor stores by up to \$88,000 per store per OLCC data.
- The bill creates a large revenue hole for the State. We have seen estimates projecting a \$5-\$25 million hit to the general fund.
- The bill creates a direct conflict between in-state distilled spirits producers and our State Liquor Stores asked to sell and promote their products.

There is a better way to help in-state producers and our stores without creating a constitutional, revenue, and competitive problem. With a coalition of informed parties, the OLCC could creatively allow both parties to increase their revenue, while providing equal or additional revenue for the state. We are interested in being part of this process.

The short session presents no time for a thoughtful dialogue on these important topics and unintended consequences. By bringing these issues to your attention now, we believe there is time for a dialogue that could potentially help the parties that this legislation intends to help.

Thank you for your consideration.

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