

OREGON LIQUOR CONTROL COMMISSION

PRESENTATION TO WAYS AND MEANS SUBCOMMITTEE ON
TRANSPORTATION AND ECONOMIC DEVELOPMENT

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OLCC's Mission

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

OVERVIEW

- Core functions
 - Centrally purchase, warehouse and distribute bottled distilled spirits to OLCC-appointed retail agents
 - License and regulate alcohol licensees and alcohol server permits
 - Administer bottle bill
 - *New* License and regulate OLCC marijuana licenses and marijuana worker permits
 - *New* Track and inspect OHA medical growers 12 plants or more, OHA processors and dispensaries
- Third largest generator of public funds
 - 2017-19 estimated \$574.6 million in liquor revenue distributed to general fund, cities and counties
 - *New* 2017-19 estimated \$150.2 million in marijuana tax revenue distributed to schools, cities, counties and health programs. (Office of Economic Analysis)
- OLCC Marijuana Program is license fee funded; OHA tracking and inspections are marijuana tax funded

AGENCY CHARACTERIZED BY 3 YEARS OF GROWTH AND CHANGE

- **Staff and Leadership Changes**
 - 230 positions prior to legalization of recreational marijuana, now 304
 - *94* personnel *new* to the agency and *81* employees *moved* to a new position within the agency
 - Recruiting and onboarding, existing employees have added roles and responsibilities, continual training required for both marijuana and alcohol
- **2015, 2016, and 2017 Statutory Changes**
 - *New* license types, *new* privileges
 - *New* Rulemaking (draft, rules advisory committee, board approval)
 - *New* Online Marijuana License system, Online Worker Permit System, Cannabis Tracking System
 - *New* Process and procedure development
- **Marijuana license and enforcement activity outstrips estimates**
 - Initial estimate 1,200 applications, *now* 3,493
 - Initial estimate 800 licensees, *now* 1,739
 - Initial estimate 4,000 marijuana worker permit applications based on retail, *now* 42,136
 - Applicant and licensee training and education
 - *New* 5.7 million visits to marijuana website, 91,000 subscribers to Gov Delivery

IMMEDIATE BUDGET CHALLENGES

- **System-Wide Information Technology**
 - Chief Information Officer (CIO) Position
 - Providing Near-Term Redundancy (plan for disaster recovery)
 - DAS required SAP software upgrade
 - Online privilege tax
- **OHA Medical Marijuana Tracking Implementation**
 - Regulatory specialists for inspections
 - Limitation for pass-through of OHA collected Cannabis Tracking System costs
- **Marijuana Licensing and Renewal Support**
 - Administrative support
 - Geographic Information System (GIS) funding

SYSTEM-WIDE INFORMATION TECHNOLOGY

- **Chief Information Officer (CIO)**
 - Position approved by DAS (\$197,175)
 - Critical need for high level leadership and oversight
 - Secretary of State Audit confirms need for improvement (pg. 7 - 22)
 - Manage and prioritize information needs of complex \$1.3 billion enterprise
 - Develop comprehensive strategic Information Technology Plan
 - Security and Compliance
 - Delivery of critical computing services working in conjunction with state processes and oversight
 - Connection of disparate agency IT programs (alcohol and marijuana)
 - Migrating nine financial and business systems to modern platforms
 - Contract oversight and management of software as a service vendors for marijuana and alcohol
 - Develop system hardware and software replacement plan
 - Address storage capacity issues
 - Develop agency wide records management system
 - Change management
- **Moving forward**
 - Implement strategic Information Technology Plan and seek appropriations addressing agency technology projects

SYSTEM-WIDE INFORMATION TECHNOLOGY

- **Providing Near-Term Redundancy (plan for disaster recovery)**
 - Weather and electrical events threatened operations of liquor warehouse on multiple occasions last year – daily shipments of \$2.2 million
 - In request letter asked for funding for new servers and disk storage to meet urgent operational needs (unsupported servers redeployed for backup)
 - Replacing unsupported servers and disaster recovery identified as priority in Secretary of State audit (pg. 19-21)
 - Agency plans to seek guidance from agency CIO position, State CIO and Legislative Fiscal Office to evaluate alternatives to meet immediate and long term needs
- **Moving forward**
 - Return to e-Board with requests for replacing unsupported servers and implementing a comprehensive disaster recovery plan

SYSTEM-WIDE INFORMATION TECHNOLOGY

- **DAS required SAP software upgrade**
 - Required upgrade of SAP software by renewal date in June (\$180,000)
 - A majority of OLCC's core business systems are driven by SAP:
 - Financial Services System
 - Order Process/Sales and Inventory Process
 - Regulatory/Licensing
 - Warehouse Management System
 - Public Facing Website
 - Business Objects (reporting services)
 - Enterprise agreement with the state

SYSTEM-WIDE INFORMATION TECHNOLOGY

- **Online privilege tax technical fix (HB 2150)**
 - Expenditure limitation needed for preliminary planning of the system (\$300,000)
 - Stage Gated process
 - HB 2150 fiscal impact assumed \$300,000 for planning and request for up to an additional \$1.2 million limitation in February Session
 - Implementation to be completed by June 30, 2019
- **Project status**
 - Completed needs requirement and Request for Information from potential vendors – limited participation – wide range of estimated costs
- **Moving forward**
 - Will return with request for additional expenditure limitation to build the system at an Emergency Board after vendors respond to a Request for Proposal
 - Provides a better cost estimate range and a basis for funding

OHA MEDICAL MARIJUANA TRACKING IMPLEMENTATION

- **Regulatory specialists for inspections (13 regulatory specialists, \$2.2 million)**
 - SB 1057 requires OHA marijuana grow sites over 12 plants, processing sites and dispensaries to be tracked by the OLCC Cannabis Tracking System and inspected by OLCC regulatory specialists
 - Received 7 positions in LAB for start up and directed to return in February to request regulatory specialists
 - December 2017 deadline for declaring intention
 - 1,700 declared intention to remain in OHA and be tracked, 300 declared intention to seek OLCC license; 9,000 did not respond (5,000 estimated to qualify)
 - Estimating 2,000 registrants tracked in CTS
 - One regulatory specialist for every 150 registrants
- **Limitation for pass-through of OHA collected Cannabis Tracking System costs (\$960,000)**
 - Not included in original \$2.2 million request
 - OHA collects tracking fee then transfers fund to OLCC who pays CTS vendor under existing contract
- **Moving forward**
 - Monitor and implement program
 - Assess needs

MARIJUANA LICENSING AND RENEWAL SUPPORT

- **Administrative Support (3 administrative positions, \$341,287)**
 - Assist licensing unit with the manual components of the licensing and renewal process
 - Backlog continues to grow; renewals are critical for program funding and licensee
 - Not intended to speed licenses but work with the existing workload
 - *New* 1,739 licenses eligible for renewal
 - *New* 1,679 applications pending
- **Geographic Information System (GIS) funding (\$51,000)**
 - Continue a half time position shared with OHA
 - GIS is critical component for OLCC licensing
 - Located within larger GIS group at OHA/DHS
 - Mapping of schools, churches and marijuana licensees
 - Data used to approve, decline and issue marijuana licensees

2018 LEGISLATION

- **HB 4089-A Hemp (House Committee on Agriculture and Natural Resources, Referred to Ways and Means) ***
 - Expands the OLCC license types that can accept industrial hemp transfers (adds wholesalers and retailers)
 - Directs OLCC to assure hemp grower and handler compliance with Oregon marijuana laws and allows commission to seize industrial hemp as part of compliance operations
 - Directs OLCC to implement CTS tracking of industrial hemp products from the grow site
 - Directs OLCC to adopt rules (OLCC cannot inspect or conduct compliance actions against certified hemp growers)
 - Requires that any industrial hemp product that contains more than .3 percent THC may not be sold by anyone other than a OLCC licensed marijuana retailer
- **Impact on OLCC**
 - Certification of growers and handlers (approx. 350), modify CTS, rulemaking, fee setting
- **Moving forward**
 - If bill passes, anticipate need for additional limitation and position authority to accommodate new responsibilities

2018 LEGISLATION

- **SB 1544 Marijuana Potential Amendments (Senate Rules Committee)**
 - **Technical Fixes**
 - If OLCC processor processes for medical cardholder or caregiver, then labeling and packaging rules do not apply
 - Clarifies requirements to identify location of medical grow sites
 - Clarifies which OHA growers are subject to tracking in OLCC Cannabis Tracking System
 - Retail distance from a school grandfather clause
 - **Establishes the Illegal Marijuana Market Enforcement Program**
 - Provides for grants distributed by Criminal Justice Commission for enforcement of illegal marijuana activity including investigation, enforcement and prosecution associated with unlawful marijuana cultivation or distribution operations
 - **Moving forward**
 - If the bill passes, it could affect the amounts of additional limitation and positions necessary to implement the program, depending upon the amendments adopted
 - OLCC to report back to e-Board on status of OHA growers subject to tracking

LOOKING FORWARD – GROWING AND ADAPTING

- 2019-21 focus on marijuana program
 - 2018 Legislation Implementation (IT revisions, rules, procedures, communication)
 - Continued collaboration with federal, state and local law enforcement to protect Oregon's legal market
 - Prosecution of illicit commercial marijuana offenses in Oregon
 - Implementing OHA medical marijuana tracking
 - Internal and external training (renewals, user groups, licensing, CTS, rules)
 - Increased investigations, administrative violations and hearings
 - Ongoing rulemaking, program development, and evaluation of licensing revenues and cost recovery (level of fees)
 - Marijuana licensees continue to adapt to market forces
- 2019-21 focus on alcohol policy, enforcement, revenue generation
- 2019-21 focus on Information Technology and capital investments

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