



## **Oregon's Regulatory Structure for Beer, Wine, and Distilled Spirits**

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**House Committee on Economic Development**

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# History

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## Alcohol Regulation

- 1844 Oregon Territory passed first prohibition law in the United States
- 1845 Oregon Territory repealed prohibition law; however local ordinances to ban sales
- 1915 Oregonians once again banned liquor sales
- 1919 National prohibition implemented
- 1933 National prohibition repealed
- 1933 Oregon Special Session created OLCC four days after national repeal
  - Provide needed revenue
  - Keep alcohol abuse to a lower level
- 86 years adopted and revised administrative rules
  - Guide production and sales
  - Focus on preventing access to minors and public safety
  - Continual adaption of business practices
- 2016 Investment in warehouse conveyor system and software to increase shipping capacity

# Regulation of Alcohol

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License businesses that manufacture, distribute and sell alcohol

Issue permits to trained alcohol servers

Manage/distribute distilled spirits

Regulate businesses that sell/serve alcohol

Provide public information about responsible use of alcohol

Administer collection of taxes for beer and wine

Administrative hearings unit



# Three-Tier System



Manufacturer:  
Brewery, Brew Pub, Winery, Distillery



Wholesale:  
Distributors, Warehouses



Retail:  
On-premise (bars, restaurants)  
Off-premise (grocery, convenience stores)

# Tied House Laws

- Federal and State Law
- Same business is prevented from selling at wholesale and retail
- Wholesalers and manufacturers are prohibited from providing financial assistance to retail (ex. Credit, volume discounts)



# Regulation of Beer and Wine Versus Spirits

**Oregon decided after the repeal of prohibition to regulate beer and wine differently than spirits**

- Wine and Beer sold through the state licensed entities
- Spirits are sold through the state controlled wholesale and retail system
- The manufacturer owns the product until OLCC ships to stores

## **Oregon Alcohol License System**

All alcohol products from manufacture to distribution to retail sales pass through a entity licensed by Oregon

Licenses include: distilleries, wineries, breweries, warehouses, distributors, restaurants, bars, caterers, grocery stores, convenience stores and any type of business that makes moves, and sells alcohol

Oregon works with all licensees to improve and modernize their business practices through the rule making and legislative process

Beer/Wine Sold to Consumer or Bar/Restaurant



Wholesaler Delivers To Retail Store or Bar/Restaurant



Pay Privilege Tax based on volume produced



Manufacture Product



Obtain OLCC Liquor License



# Working with Businesses

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- Growlers
- Sunday & Holiday Liquor Sales
- Distillery Tasting Rooms
- Food Carts
- Alcohol at Movie Theaters
- Farmers' Markets
- OregonLiquorSearch.com
- Bottle Sales from Distilleries
- Robust Mixology Culture
- Mixed Drink Tastes at Liquor Stores
- Airport Distillery Sales
- Happy Hour Rule
- Tap Labeling Restrictions

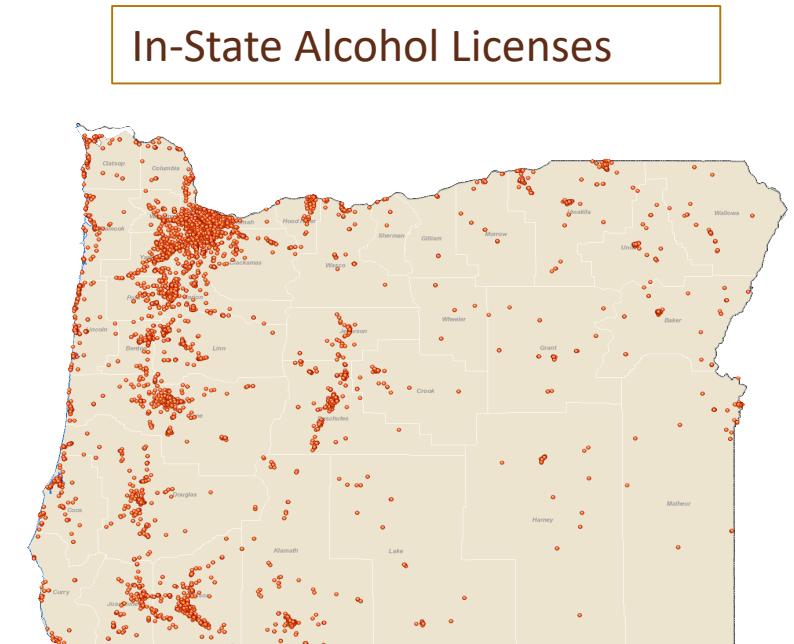


# Alcohol Licenses & Permits

<b>Total Annual Liquor Licenses</b>	<b>14,337</b>
Restaurants and Bars (On-premises licenses)	7,581
Grocery/Convenience Stores (Off-premises licenses)	4,916
Wineries	1,149
Brewers/Brew Pubs	394
Distributors/Wholesalers	223
Distilleries (41 secondary locations)	114

<b>Special Event Licenses</b>	<b>9,000</b>
<b>Out-of-state certificates</b>	<b>2,993</b>
<b>Alcohol Service Permits</b>	<b>166,311</b>

Totals as of January 2019





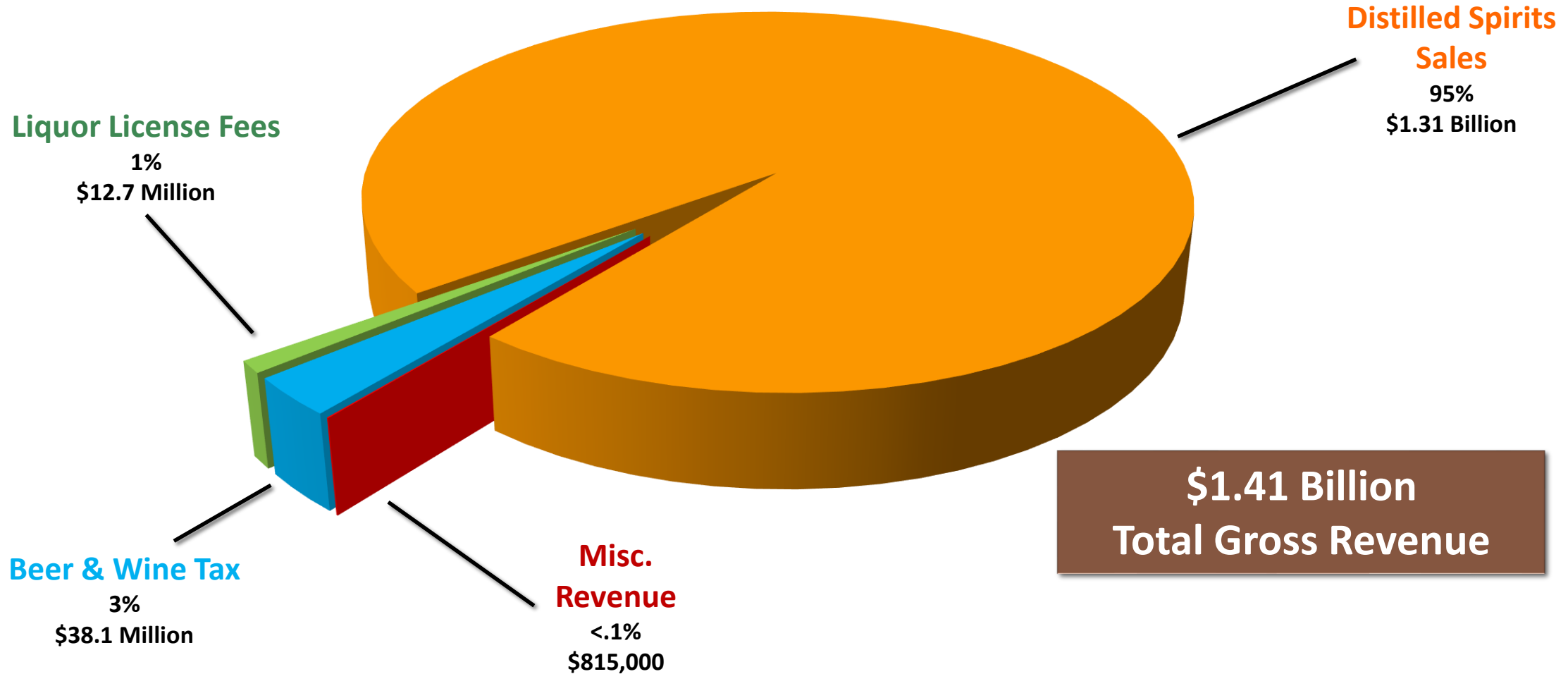
# Alcohol Licenses Fees

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License Type (Fees set in statute)	Current Annual or Daily Fee	License Type	Current Annual or Daily Fee
Brewery Public House	\$250	Off Premises Sales	\$100
Brewery	\$500	Warehouse	\$100
Brewery No Consumption	\$500	Wholesale Malt & Wine Distributor	\$275
Certificate of Approval	\$175	Wine Self Distribution	\$100
Distillery	\$100	Winery	\$250
Direct Shipper	\$50	Winery No Consumption	\$250
Full On-Premises Sales	\$400	Temporary Sales License Events (per day)	\$50
Grower Sales Privilege	\$250	Special Event Winery License (per day)	\$10
Limited On-Premises Sale	\$200		

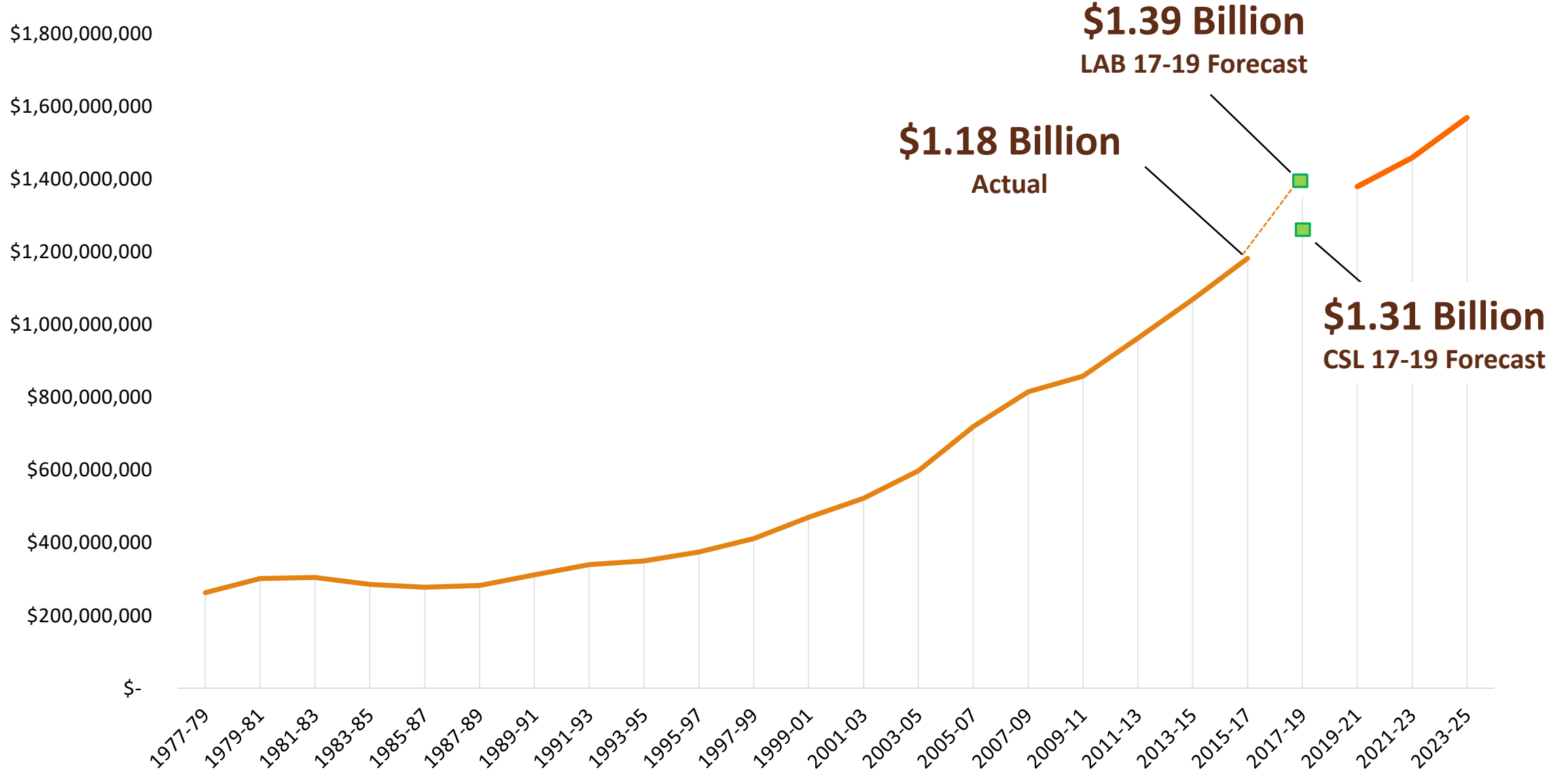
# Projected Gross Alcohol Revenue Sources

2017-2019 Biennium (LAB)



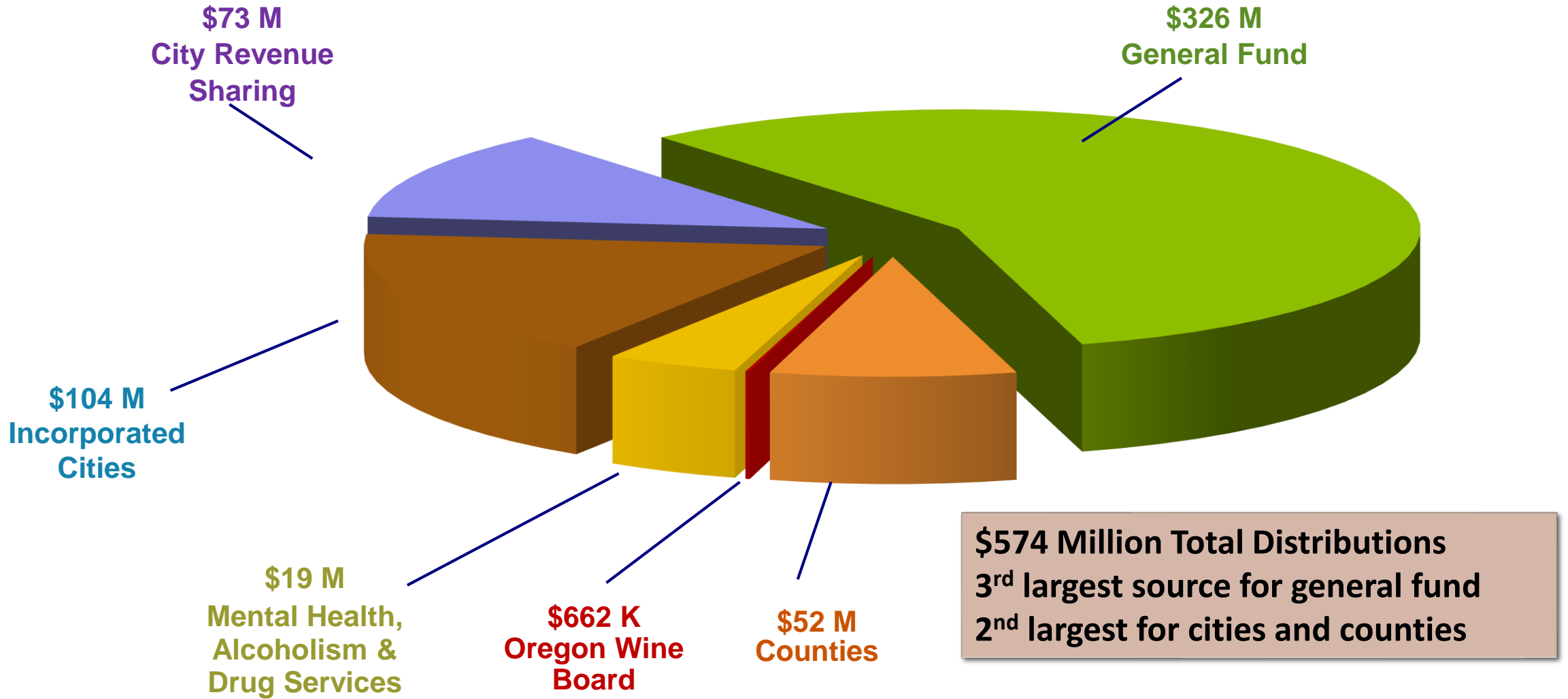
# Forecast Of Gross Liquor Sales (LAB)

By Biennium



# Projected Alcohol Net Revenue Distribution

2017-2019 Biennium (LAB) – All Revenue Sources



# Beer and Wine Tax Collection

## Oregon has established excise taxes for beer and wine

- \$0.08 per gallon for beer (\$2.60 per 31 gallon barrel)
- \$0.67 per gallon for table wine (14% and under alcohol by volume)
- \$0.77 per gallon for dessert wine (over 14% alcohol by volume)

## Beer and wine taxes are collected most at the wholesale tier of the system

- Paid by large distributors and warehouse wholesalers (90% of all taxes)
- Some tax collected at the manufacturer level such as wineries and brewpubs (10% of all taxes)
- Total collections are about \$18 million per year

**Beer and wine retailed through licensed off-premises outlets such as grocery stores and convenience stores but also through wineries & brewpubs**



# Current Distilled Spirits Model

Based on Average \$17 Bottle Price

**4%** OLCC Operating Expenses

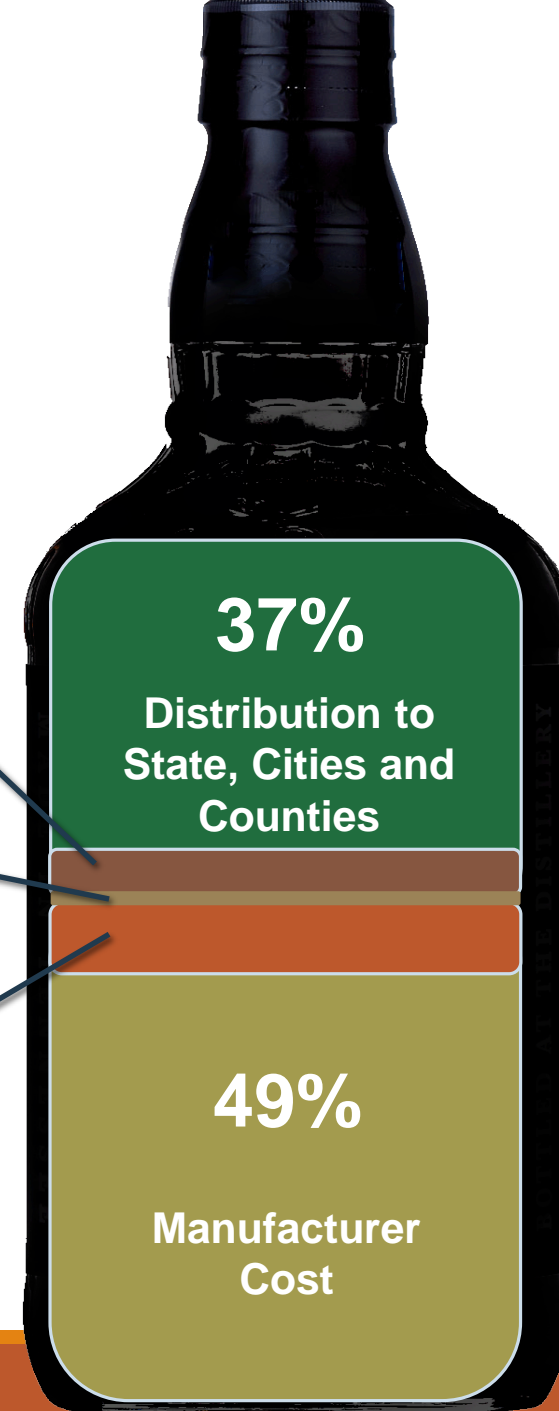
Includes Enforcement, Licensing, Administration, Distribution functions

**1%** Bank Card Costs

75% of all purchases made with bank cards

**8.93%** Liquor Store Operator Commission

Average Liquor Store Operator Compensation



Manufacturers cost is the price sold to OLCC – it includes profit and the cost of production and marketing

# How Distilled Spirits Flow in Oregon



Manufactured or Imported



Liquor Contractor paid Commission (~9%)



Listed with OLCC



Sold to Customer or Licensee



Delivered to Warehouse  
Stored in Bailment (vendor owned)

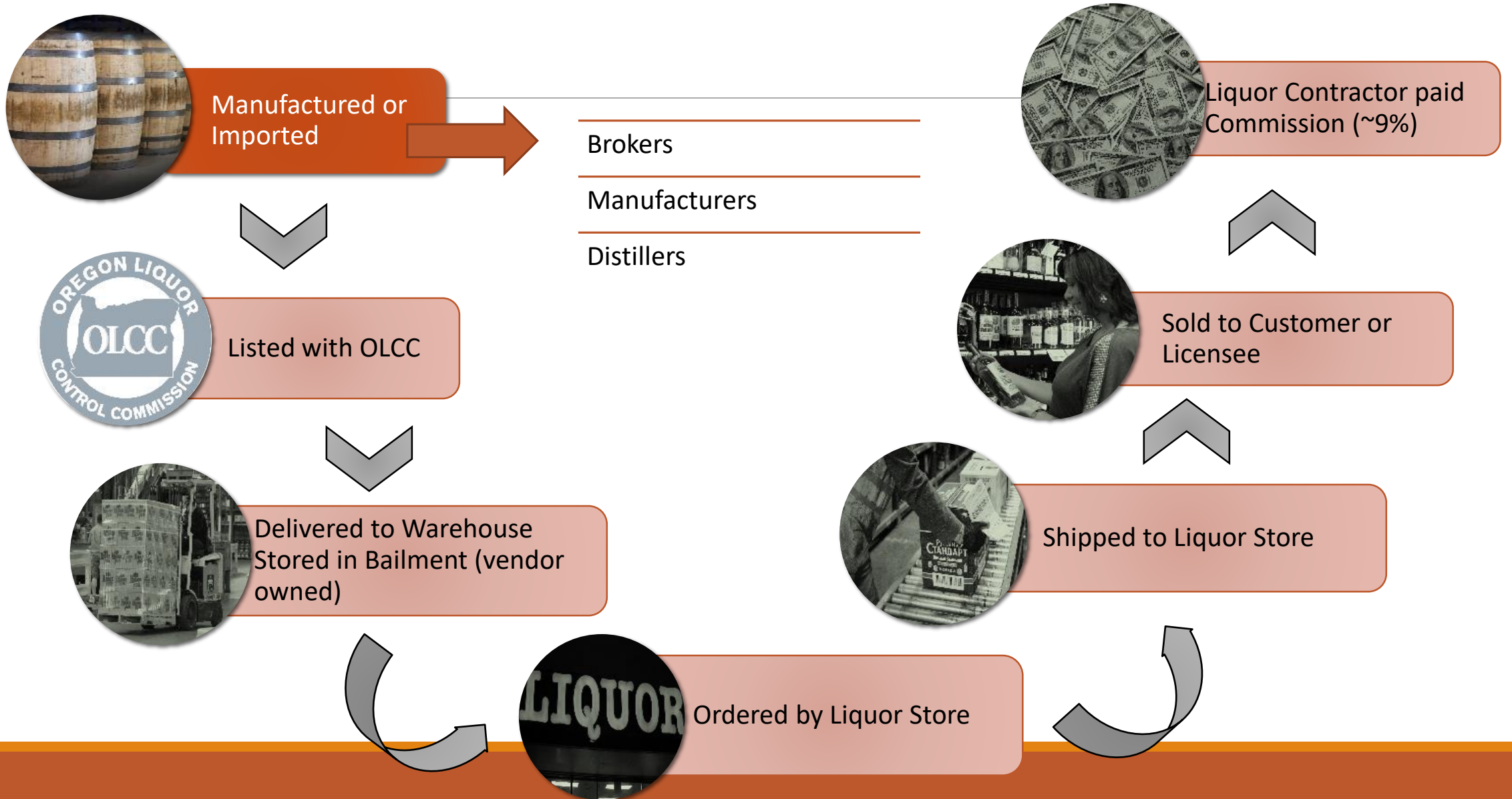


Shipped to Liquor Store



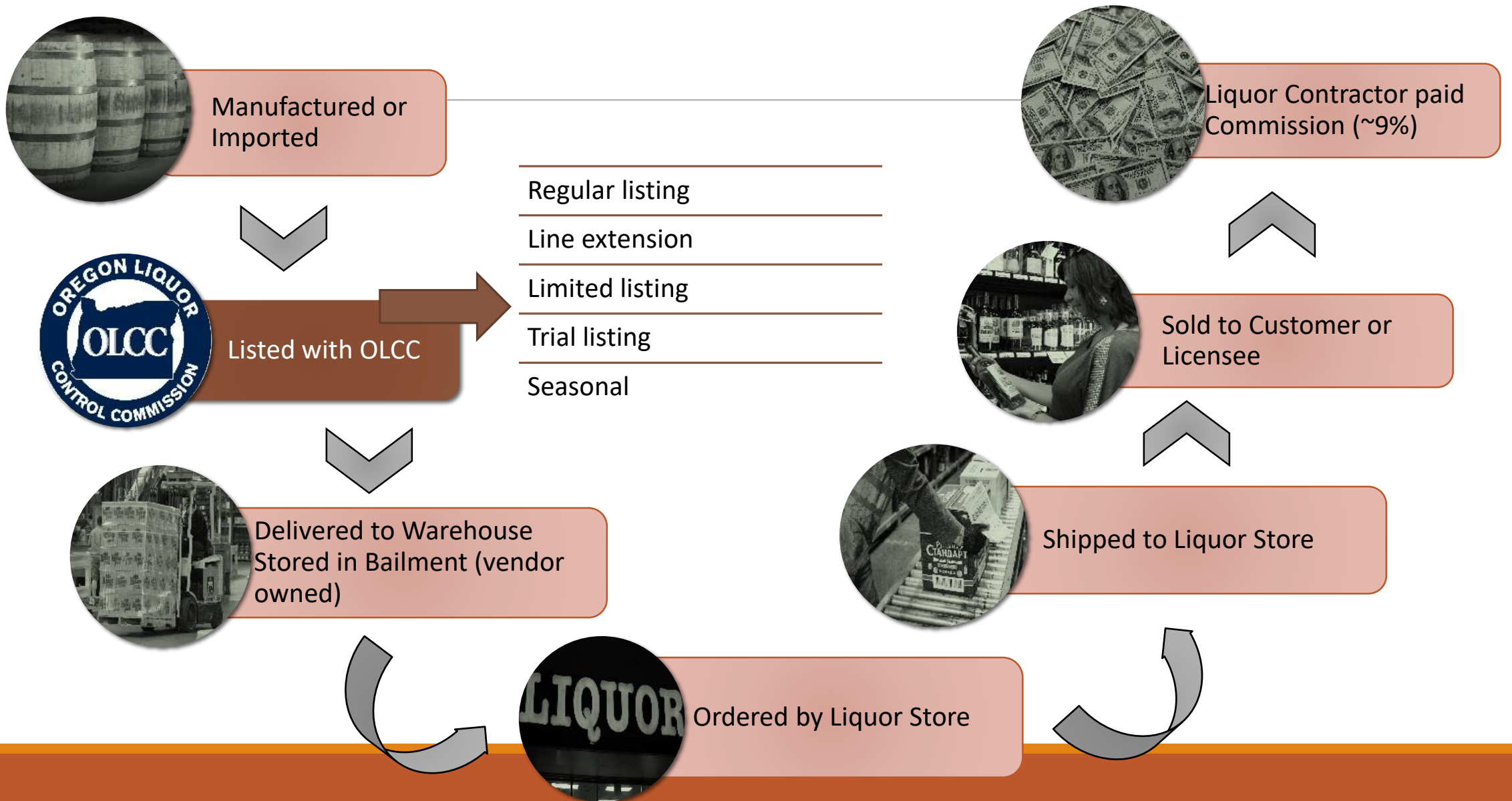
Ordered by Liquor Store

# How Distilled Spirits Flow in Oregon





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Manufactured or Imported

Private contractors choose what is sold in stores

Split-case orders available

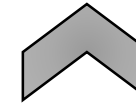
Special orders for products not listed

Average retail store value: \$235,000

Total retail value all stores: \$59 million



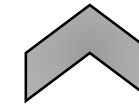
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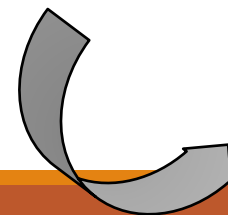
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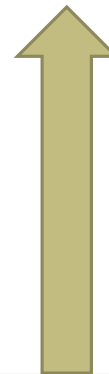
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Stored in Bailment (vendor owned)



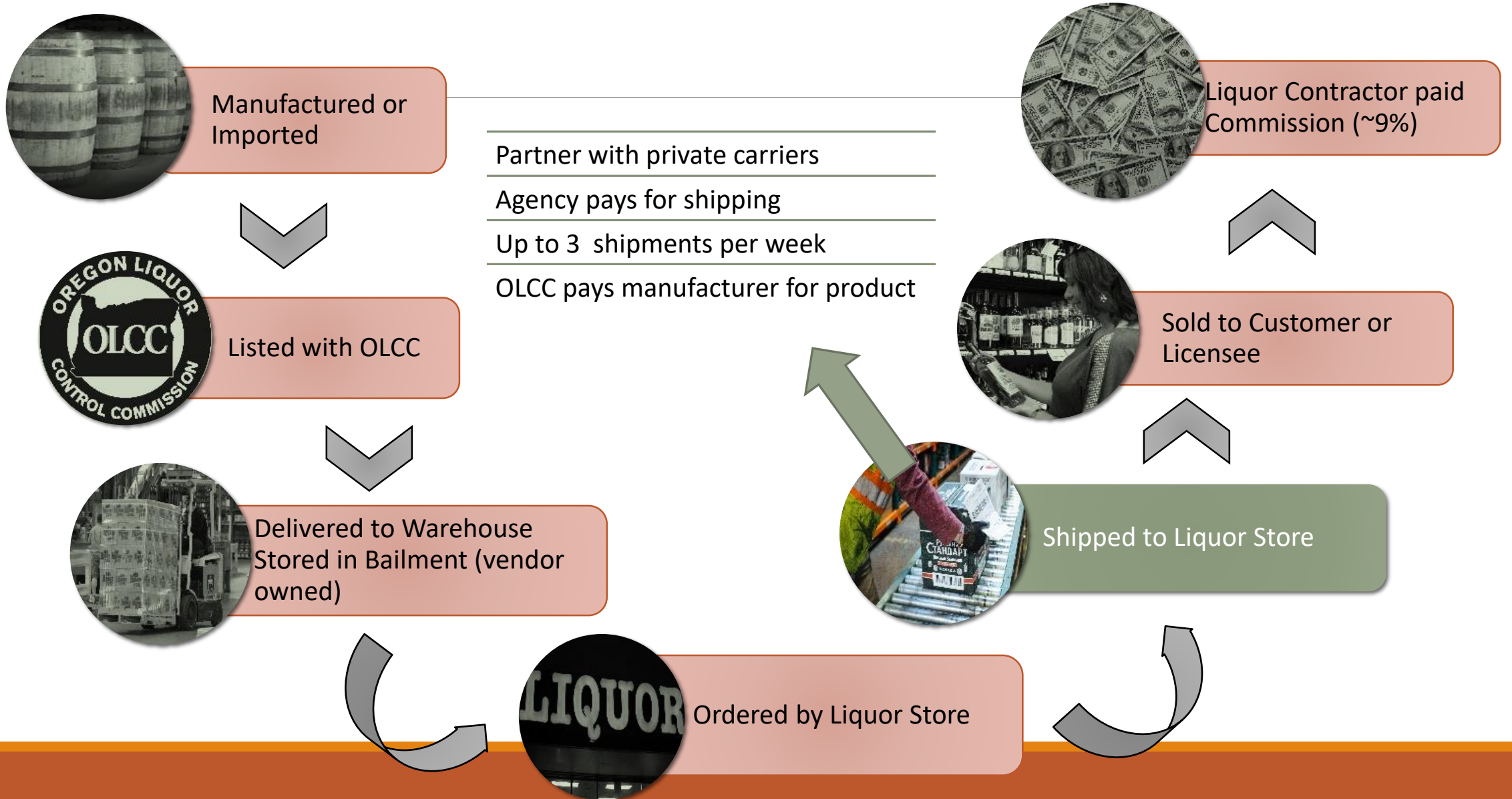
Shipped to Liquor Store



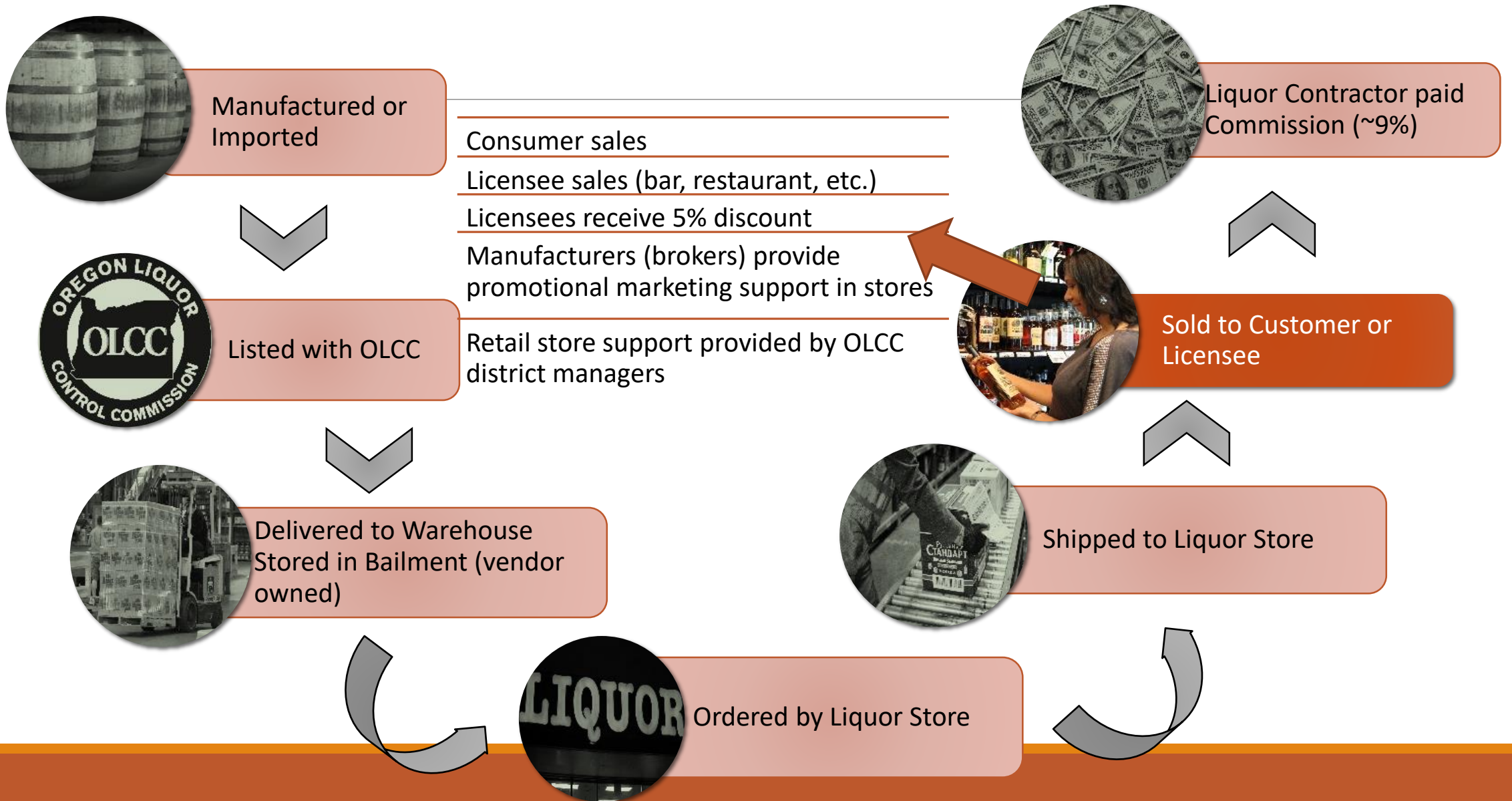
Ordered by Liquor Store



# How Distilled Spirits Flow in Oregon



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# Retail Liquor Agents

Commission selects retail liquor agents

Contracts/Operational Requirements

Compensation

- Base + Commission (6.5% Licensee Sales; 8% Consumer Sales)
- OLCC floors the cost of inventory
- OLCC pays credit card fees
- OLCC pays shipping and delivery costs
- OLCC prints labels and provides training and agent support

Agents

- Build, maintain or rent buildings
- Purchase fixtures and equipment
- Hire and train staff
- Order, receive and stock inventory
- Employee payroll, taxes, and insurance

Agent retirement and resignation buyouts



# Retail Liquor Store Recruitment/Selection

## Selection Criteria

- Business proposal
- Capital investment and financing
- Retail or business experience
- Knowledge of alcohol industry

## Location

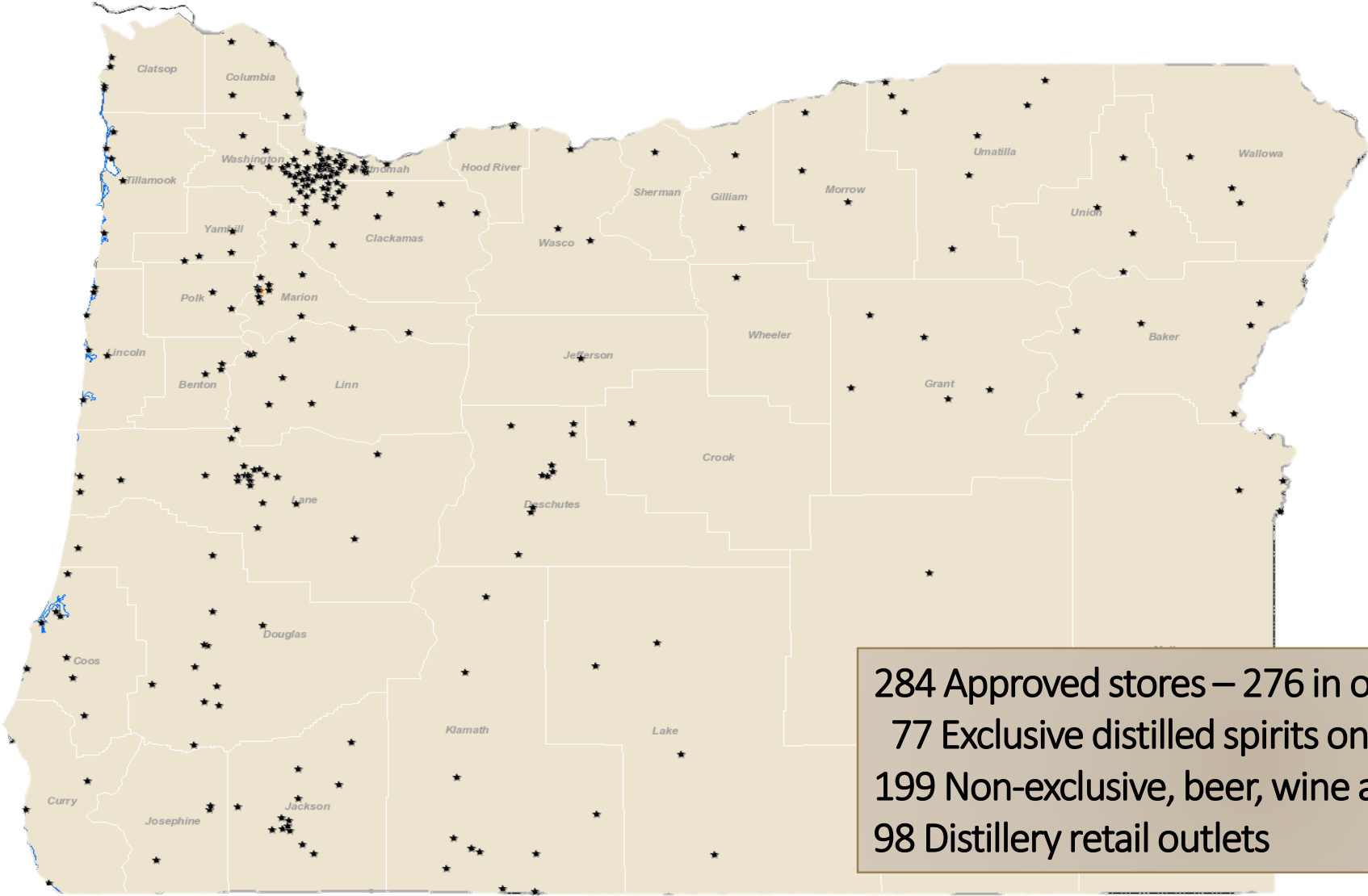
- Impact on existing agents
- Convenience

## Estimated sales and revenue





# Oregon Liquor Stores



284 Approved stores – 276 in operation  
77 Exclusive distilled spirits only  
199 Non-exclusive, beer, wine and/or other  
98 Distillery retail outlets

# Retail Expansion

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**Largest retail liquor expansion in Oregon since prohibition**

**Adding multiple new stores in phases throughout the state**

**Objective is to improve customer convenience by adding retail liquor locations with a measured, but consistent approach to growth**

**Open to a variety of different business models where customers can purchase spirits**

- Could include: adding a spirits section inside existing business, a traditional liquor store, a boutique retail location

**Statewide liquor outlet density**

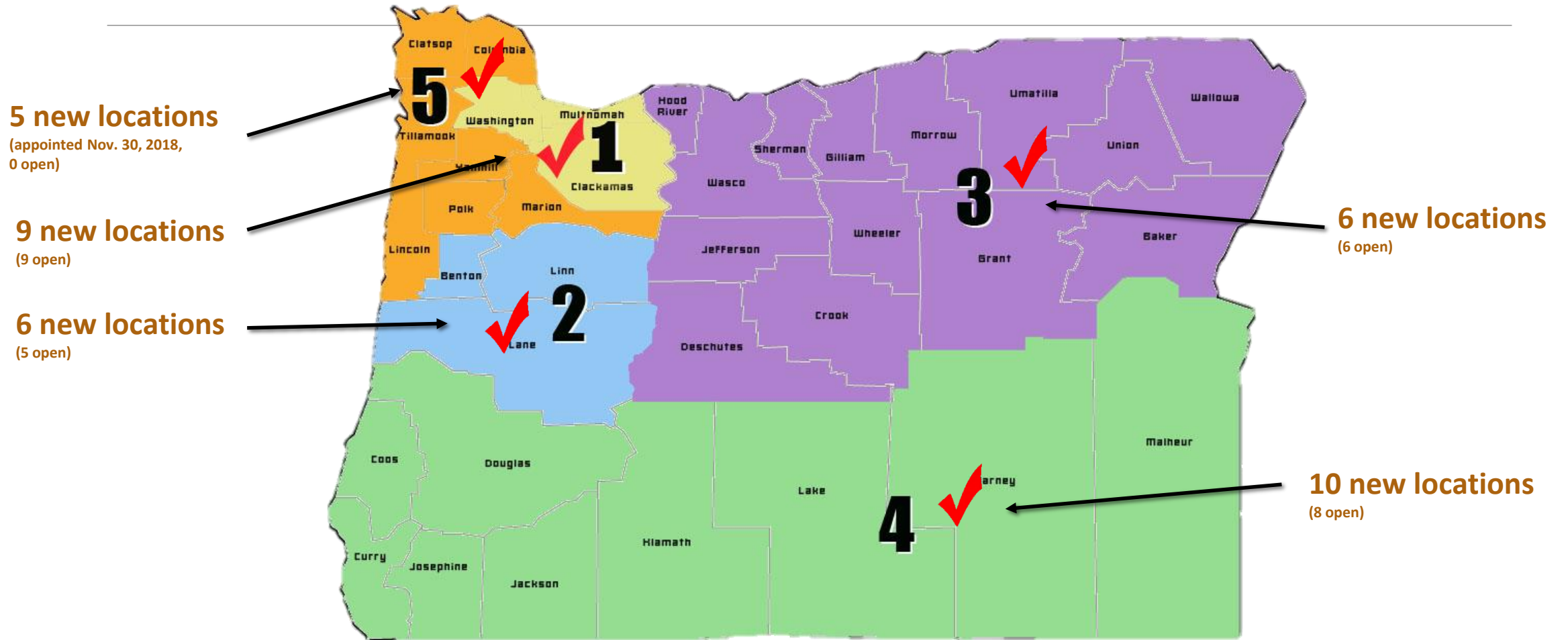
- 30 years ago, one liquor store for every 12,000 Oregonians\*
- 2018, one liquor store for every 14,700 Oregonians
- \* Some communities were 1 to 29,000 ratio - \*Portland State Population Research Center

**3% increase in forecasted revenue due to retail expansion (LAB)**

- \$39.4 million in additional gross revenue
- \$17.2 million in distributed revenue (\$9.6 million to the General Fund)

**2018-19 LAB added one district manager and a business analyst to support growth**

# 2016-18 Retail Expansion



# Moving Forward

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## **Retail expansion**

- Phase 6: Statewide look

## **Retail compensation formula**

- Separating compensation for distilleries and liquor agents
- Shifting credit card fees

## **Enforcement**

- Minor decoy
- Premises visits

## **Capital budgeting**

- Future space needs
- Warehouse upgrades

## **Information technology**

- Integrated online liquor licensing and compliance system
- Electronic privilege tax filing
- Replace legacy warehouse and associated financial systems
  - Merchandising Business System
  - Inventory Management System
  - Oregon Liquor Agent Services Website (OLAS)
  - Daily Sales and Inventory System
- Data migration from legacy systems

## **Prepare for market innovations**

- New license and permit types
- Online delivery

# OLCC'S MISSION

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

