

Oregon Liquor Control Commission

	2015-17 Actual	2017-19 Legislatively Adopted	2017-19 Legislatively Approved *	2019-21 Current Service Level	2019-21 Governor's Budget
Other Funds	182,910,731	206,250,022	215,134,618	226,691,665	244,953,513
Total Funds	182,910,731	206,250,022	215,134,618	226,691,665	244,953,513
Positions	265	304	326	324	354
FTE	254.91	298.92	312.62	324.00	352.00

* Includes Emergency Board and administrative actions through December, 2018.

Program Description

The Oregon Liquor Control Commission (OLCC) regulates individuals and business that manufacture, sell, import, export or serve alcoholic beverages; and grow, process, wholesale, and sell at retail marijuana in recreational marijuana retail establishments. OLCC also educates licensees, the public, and other groups, and investigates and takes action when necessary against those who violate liquor and recreational marijuana laws. The five-member Commission is appointed by the Governor and confirmed by the Senate.

CSL Summary and Issues

The OLCC is entirely supported by Other Funds revenues, generated from the sale of distilled spirits, privilege taxes on beer, wine and malt beverages, and licensing fees. A portion recreational marijuana tax revenue is transferred to OLCC to pay for inspections of medical marijuana licensees whose products are sold in recreational marijuana stores.

OLCC provided updated sales projections upon release of the Governor's printed budget, in which they estimated liquor revenue distribution in the following amounts, absent agency policy option packages:

- General Fund (including revenue from a \$0.50 per bottle surcharge): \$344.3 million
- Incorporated Cities: \$108.9 million
- City Revenue Sharing: \$76.2 million
- Counties: \$54.5 million
- Mental Health: \$19.8 million
- Oregon Wine Board: \$0.7 million

Approval of Policy Option Packages will reduce the amount of liquor revenue distribution to the entities listed above, as revenue distribution occurs after all agency operating expenditures.

Recreational marijuana program expenditures are supported by licensing fees and medical marijuana program expenditures are supported by a transfer of \$7 million in marijuana tax revenue from the Department of Revenue.

Policy Issues

The agency request budget contains 15 policy option packages totaling \$40 million in Other Funds expenditure limitation and 45 positions (45.00 FTE). The agency is requesting additional staff to support financial services, bottle redemption center oversight, communications, information systems development, public safety (for both liquor and marijuana compliance efforts), and communications. Packages related to capital improvements and infrastructure include increasing liquor shipping capacity in the warehouse, the last phase of its roof replacement project, and investments in IT system replacement and improvement. Changes are also sought in how agents and distillers are compensated.

Alcohol: The OLCC is in the process of expanding retail liquor outlets from 248 stores to 300 by the end of 2019. The cost of alcohol licenses has not increased appreciably in 20-60 years, depending on the license, and the agency is proposing a license fee increase (excepting servers), which is also assumed in the Governor's budget. Agency fees are in statute, so legislative approval of the new fees would be necessary. The proposed fee increase would raise \$9 million in revenue, helping to fund IT improvements without impacting liquor revenue distribution to stakeholders. The OLCC extended a 0.50 per bottle liquor surcharge for the 2019-21 biennium - expected to generate \$37.9 million in revenue distributed exclusively to the General Fund.

IT Systems The package to replace and improve its information systems is OLCC's highest priority. Multiple systems and aging or obsolete platforms have been cobbled together and represent a risk to revenue generation (estimated at \$2.5 million per day) in the event of an outage. A February 2018 Secretary of State audit identified data reliability and security issues within OLCC systems, a few of which will be partially addressed by regular life-cycle replacement. The agency requested \$7.9 million and 7.00 FTE associated with these improvements. The agency needs to replace its marijuana licensing system to improve functionality, develop an on-line privilege tax payment and reporting system, and the capability to accept electronic payments, as well as improve connectivity and reliability among agency business functions, such as between licensing and enforcement databases, and agent ordering, inventory, and accounting systems.

Medical Marijuana: While recreational license applications and renewals continue to exceed projections, the number of medical marijuana growers regulated by OLCC is presently about 60% of the number initially projected. The legislative fiscal office will evaluate staffing levels in this program in an effort to align it with the number of licensees and expected work load.

While the recreational marijuana program budget includes a cost allocation methodology to support central agency services, the medical marijuana program -- which is supported by tax revenues -- does not. A cost allocation methodology consistent with recreational marijuana would transfer approximately \$1.8 million of marijuana tax revenue to support services provided to the program including the Commissioners, director's office, administrative hearings, procurement, human resources, and finance.

The Governor's budget did not include the following:

- Funding for the final phase of roof repair to the agency's warehouse;
- Equalization of consumer and licensee sales in the agent's compensation formula; and
- Changes to the compensation formula for distilleries with tasting rooms and direct sales.

Of the \$7.9 million requested for information systems improvements and staffing, the Governor's Budget provided \$2.5 million for a privilege tax payment and reporting system required by HB 2150 (2017). Of the 45 positions requested by the OLCC, the Governor's Budget includes 28, primarily for marijuana and alcohol enforcement activities, and positions to meet demand for distilled spirits. Notably, the Governor's budget also assumes an increase in alcohol-related agency licensing fees, and an increase in the distilled spirits markup rate of 5%, which the Governor's office estimates would generate a total of \$41.4 million, \$21.2 million of which would be distributed to the General Fund. The agency's liquor licensing fees are in statute, requiring legislative action, and a fee bill has been submitted for consideration (HB 5045). Increases in markup amounts and changes to agents' compensation formulas are the purview of the agency, which would seek the Commission's approval; any additional expenditure limitation that would be needed to compensate liquor agents or otherwise administratively implement the changes would require adjustments to the agency's budget.

Other Significant Issues and Background

A legislative workgroup is currently convening to consider proposals related to distillers' compensation and liquor agent compensation. The workgroup's goal is to have determinations and policy recommendations in time for legislative action in the 2019 legislative session. These recommendations may or may not align with the policy package related to distiller agent compensation requested by the agency, but not included in the Governor's Budget.

The Secretary of State is in the process of auditing OLCC and the Oregon Health Authority regarding the regulatory framework for marijuana. As of this writing, a target completion date is unknown.