



*Testimony in Support of
Increasing the Agents' Compensation Line Item
In SB 5519
Oregon Liquor Control Commission Budget*

*Presented to the
Ways and Means Subcommittee on
Transportation and Economic Development
March 18, 2019*

Good afternoon Co-Chair Senator Manning, Co-Chair Representative Gomberg and members of the committee, I am Marshall Coba representing the Associated Liquor Stores of Oregon (ALSO). Thank you for this opportunity to strongly urge your support for increasing agents' compensation from the current statewide average of 8.93%. It has been 16 years since this legislatively approved commission rate was increased by any significant amount. Now is the time to increase this line item in the OLCC budget.

First let me state the obvious: the current system is working very well for the State general fund and for distillers but not so well for liquor store owners. Sales of distilled spirits in Oregon continue to rise and as Director Marks stated last week, the expectations are for a strong market going forward. We again have surpassed projections for 2017-19 and are close to \$1.6 billion in biennial sales. We will deposit \$366 million into the state General Fund in 2019-21. This is the third highest revenue producer behind property tax and income tax.

These are remarkable figures and are a testament to the professionalism and commitment of our 284 store owners across the state. We believe the OLCC is a sales organization and we, the contract agents working on a sales commission, are the vital conduit between our consumers and a very highly taxed and revenue producing product but also a product that when misused can be very dangerous to the user and the public at large. We take our role as this conduit very seriously and make public safety our number one priority daily.

As many of you know, successful sales organizations constantly invest, educate, support, incentivize and work closely with their sales staff. We are concerned about the lack of investment in this very dynamic and successful system over the past generation and feel that if Oregon truly wants to continue the control state system that we currently enjoy, we must invest in the system or face the potential for others to decide our fate. The promise of this system relies upon its store owners. We must support them to keep the system viable and allow us to offer family wage jobs, quality health and wellness benefits and to reinvest in our stores.

We believe we can generate more sales resulting in more revenue for the state and local governments, and more general funds for this committee to have available to spend on important programs serving Oregonians.

A brief history of store operating expenses (agent compensation) shows:

- 1992, a slight increase;
- 1997, a slight increase;
- 1999, The OLCC booklet "A Retail Business Plan for Year 2000 and Beyond". This document describes retailing goals including improving shopping opportunities, provide friendly and attractive shopping environments, improve customer service, lengthen store hours, and increase revenue to benefit state and local governments. We support these goals. As business people, we realize that investing in better locations with longer more convenient hours and a knowledgeable and helpful staff will benefit all partners in liquor retailing.
- 2003, on February 13 the Oregon Alcohol Beverage Task Force appointed by Governor Kitzhaber and chaired by Mayor Rob Drake of Beaverton recommends an increase in agent compensation as its second of thirteen recommendations;
- 2003, for the first time in recent history a unified industry including OLCC Chairman Lang, distillery representatives, agents, key legislators and other interest groups all spoke in favor of increasing agent's compensation;
- 2003, a slight increase from 8.54% to 8.88% (following a temporary decrease in agent compensation from an average of 8.54% to 8.45 % that resulted in a \$450,000 decrease in agent compensation for 4 months);
- 2005, a budget note for the OLCC to do a study on the fairness of the compensation level, \$434,000 is budgeted for the study;
- 2007, the \$434,000 study outlined in the 2005 budget note is not completed in time for consideration this session (final report presented on June 7);
- 2007, following the legislative session, a 2007 Liquor Agent Compensation Task Force was formed to implement a "solution" based upon findings from the study;

- 2007, October 31, Ways and Means co-Chairs Kurt Schrader and Mary Nolan co-sign a letter to the 2007 Liquor Agent Compensation Task Force stating *"We look for a resolution that can be acted upon during the 2008 (February) session. We do not want to revisit the issue. We await your suggested solution and will act upon it at the first available opportunity."*
- 2007, Agent Compensation Task Force consensus item #1, move store operating expense to a non-limited budget item; #2 implement a sales incentive plan; #3 increase store operating expense from 8.88% to 9.5%, supported by 4-0 vote by OLCC Commission.
- 2008, the February special session tees up a proposal to increase agent compensation, but it is not implemented;
- 2009, \$1.9 million in agent compensation is withheld, retroactively, from agents to help balance the 2007-09 budget. Most of this \$1.9 million is paid back over the next year with proceeds from a newly implemented .50 cent per bottle surcharge. However, \$500,000 has never been paid back to agents for sales they had already made. Unlike in 2003, there is no increase in compensation to return the money owed to store owners. **As of today, March 18, 2019, store owners have not been paid back the \$500,000;**
- 2010, Washington voters defeat two ballot measures to significantly change the retailing of liquor;
- 2011, Governor Kitzhaber proposes moving store operating expenses to a non-limited budget item
- 2011, Washington voters privatize liquor retailing in the state. Chaos ensues.
- 2011, no increase in agent compensation
- 2013, no increase in agent compensation
- 2015, slight increase from 8.88% to 8.93% due to adjustment to base compensation for stores that moved from exclusive to non-exclusive by adding beer and wine.
- 2016, 2017 and 2018, OLCC opens 36 new stores across the state. Many existing stores are negatively impacted.
- 2017, no increase to agent compensation
- 2018-19, OLCC recommends two policy option packages for the 2019-21 budget. One adds approximately \$5.5 million to the agent compensation budget line item to equalize the commission paid on consumer sales and licensee sales. This is not adopted in GRB. The second transfers the responsibility of credit card fees from the OLCC to each store owner and includes the total fees that OLCC currently pays for credit cards. This is adopted into the GRB. We strongly oppose this transfer of credit card fees and related administration to store owners.
- 2019, to be determined

The history of this issue is clear. Store owners, the OLCC Commission and other interested groups, expensive studies, the industry, state and local beneficiaries of the revenue, legislators and many others have consistently advocated for adequate store owner compensation. We need this subcommittee to affirmatively act to increase our compensation. It cannot happen any other way.

Since 1992, liquor agents in Oregon have had a very small increase in our compensation percentage. When compared with increased costs in rent/leases, insurances, personnel, legislatively mandated employer mandates (with more possibly being added) utilities, computer requirements and other business inputs, Oregon has fallen behind in offering a fair return to agents. Many of our staff are low wage workers without benefits or health insurance. Additional funds are needed now and will be used to invest in our people and our infrastructure.

In conclusion, we request your support for an increase in agent compensation. This is an investment that is long overdue, and that any prudent sales organization would make. We look forward to working with this sub-committee to develop an investment plan in our liquor stores to ensure we can continue to generate significant revenues for state and local programs, offer our employees career opportunities, operate our stores in a modern and safe manner and to ward off potential threats to the control state system. Again, we need this subcommittee to affirmatively act on this request for additional compensation for store owners.

Thank you for your consideration.