

**SB 5519 A BUDGET REPORT and MEASURE SUMMARY**

**Carrier:** Sen. Hansell

**Joint Committee On Ways and Means**

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**Action Date:** 06/14/19

**Action:** Do pass with amendments. (Printed A-Eng.)

**Senate Vote**

**Yeas:** 11 - Beyer, Frederick, Girod, Hansell, Heard, Johnson, Manning Jr, Roblan, Steiner Hayward, Thomsen, Wagner

**Exc:** 1 - Baertschiger Jr

**House Vote**

**Yeas:** 9 - Gomberg, Holvey, McLain, McLane, Nosse, Piluso, Rayfield, Smith G, Stark

**Prepared By:** Patrick Heath, Department of Administrative Services

**Reviewed By:** Michelle Deister, Legislative Fiscal Office

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**Oregon Liquor Control Commission**

**2019-21**

**Oregon Liquor Control Commission**

**2017-19**

				\$ Change	% Change
Other Funds Limited	\$ 214,906,675	\$ 226,463,722	\$ 247,034,533	\$ 32,127,858	14.9%
Other Funds Capital Improvements	\$ 227,943	\$ 227,943	\$ 377,943	\$ 150,000	65.8%
Total	\$ 215,134,618	\$ 226,691,665	\$ 247,412,476	\$ 32,277,858	15.0%

### **Position Summary**

Authorized Positions	326	326	363	37
Full-time Equivalent (FTE) positions	312.62	324.00	361.00	48.38

<sup>(1)</sup> Includes adjustments through December 2018

\* Excludes Capital Construction expenditures

### **2017-19 Budget Actions**

	2017-19 Legislatively Approved Budget	2017-19 Committee Recommendation	Committee Change from 2017-19 Leg. Approved	
			\$ Change	% Change
Other Funds Limited	\$ 214,906,675	\$ 215,256,675	\$ 350,000	100.0%
Other Funds Capital Improvements	\$ 227,943	\$ 377,943	\$ 150,000	100.0%
Total	\$ 215,134,618	\$ 215,634,618	\$ 500,000	100.0%

### **Revenue Summary**

The Oregon Liquor Control Commission (OLCC) is financed entirely with Other Funds revenue. OLCC's main sources of revenue are the sale of distilled spirits, privilege taxes on malt beverages and wines, and licenses and fees.

**Alcohol Related Revenues:** After subtracting the cost of liquor, freight, a reserve for encumbrances, and the Department's operating expenditures, surplus proceeds from sales, taxes, fees, and fines are allocated as follows:

- Privilege tax on beer and wine sales: Two cents per gallon of wine tax is distributed to the Oregon Wine Board; the balance of beer and wine taxes is allocated 50 percent to fund Addiction and Mental Health Programs, and the remainder is deposited into the Oregon Liquor Control Commission Account, where it is distributed pursuant to a formula outlined in ORS 471.810.

- The beer and wine privilege tax revenue in the Oregon Liquor Control Commission Account, along with revenues from liquor sales, license fees, civil penalties and fines, and miscellaneous revenues are allocated 56 percent to the General Fund, 20 percent to cities based on population, 10 percent to counties based on population, and 14 percent to cities based on a revenue sharing distribution formula.
- Revenue from a \$0.50 cent per bottle surcharge imposed by the Commission is dedicated entirely to the General Fund.

The Subcommittee's recommendation assumes the following distribution amounts related to liquor revenue: \$341.1 million to the General Fund, \$183.1 million to cities (including both City Revenue Sharing and regular distribution to cities); \$53.7 million to counties; and \$19.7 million for addiction and mental health services.

**Marijuana Related Revenues:** OLCC's Recreational Marijuana Program is funded from marijuana application and license/permit fees. Revenues support the marijuana program, as well as the program's proportional share of Department-wide shared management, support staff, and expenses. The Medical Marijuana Program is funded by a legislatively-established carve-out of \$7.0 million per biennium in Marijuana Tax revenues that is transferred to OLCC prior to the statutory distribution formula for those taxes. Finally, for the Cannabis Tracking System the Department is charged a per licensee per month fee of \$40, which goes to the system vendor Framwell. For Recreational Marijuana licensees, this cost is included in the overall licensing fee OLCC charges for various recreational marijuana licenses, but for Medical Marijuana businesses licensed by the Oregon Health Authority (OHA). This charge is passed through from OHA to OLCC to pay the vendor and reflected in OLCC's budget.

The Subcommittee recommended budget for OLCC includes two revenue only packages:

Package 203 – License Fees Increase. This package increases revenues by \$9.2 million in recognition of the Legislature approving Senate Bill 248 (2019), which doubles license fees and adds a new temporary permit fee.

Package 802 – Fee Revenue. In this package the Legislature acknowledges OLCC's increase in hemp fees by \$325,000 which was administratively increased by the Department during the 2017-19 biennium.

### **Summary of Transportation and Economic Development Subcommittee Action**

Senate Bill 5519 is the main budget bill for the Oregon Liquor Control Commission for the 2019-21 biennium. The Subcommittee approved a budget of \$246,072,476 in Other Funds expenditure limitation, including 363 positions (361.00 FTE). The budget includes investments in modernizing OLCC's information technology systems, additional staffing and equipment for the Department's liquor warehouse, and additional resources to meet growing workload related to the regulation of marijuana. The budget represents a 14.4 percent increase from the 2017-19 Legislatively Approved Budget and an 8.6 percent increase from the 2019-21 Current Service Level.

## **Distilled Spirits**

The Distilled Spirits Program regulates the sale of bottled distilled spirits, which produce revenue to support state and local governments. Distilled Spirits includes Retail Services, which oversees the operations of retail liquor; Wholesale Services, which receives, tracks, and securely stores liquor inventory owned by distributors in two state-owned warehouses; and Purchasing, which monitors sales, orders liquor, and administers the product listing process.

The Subcommittee recommended a budget of \$30,092,731 in Other Funds expenditure limitation, and 79 positions (79.00 FTE) for the Distilled Spirits Program. The Subcommittee recommended the following packages:

Package 090, Analyst Adjustments. This package increases Other Funds expenditure limitation by \$932,406 for additional credit card fees the Department will pay as a result of updates to the liquor forecast and other administrative actions.

Package 102, Distilled Spirits Shipping Capacity & Services. This package consists of \$2,203,955 Other Funds expenditure limitation and 11 positions to meet shipping demands in the distilled spirits warehouse. Shipment volumes have increased since the installation of the conveyor system in 2016 and the resulting ability to ship from multiple doors of the warehouse. The Department has been utilizing temporary positions year-round to meet the on-going demand. Six Liquor Distribution Worker 1 positions are recommended to address this situation. Four Liquor Distribution Equipment Operators and expenditure limitation to increase safety and security (including a new trailer, conveyor belt, dock shelters, locks, new forklifts, shelving, a remote order selector, and camera systems) are also part of this package. Finally, a Principal Executive Manager F position is recommended to provide dedicated management resources to the distilled spirits program, a duty previously performed by the Department's Deputy Director. The included capital outlay expenditures related to safety and security (\$376,000) and services and supplies set up costs for the new employees (\$22,462) are recommended as one-time expenditures.

Package 801, LFO Analyst Adjustments. This package reduces inflation on Services and Supplies for an impact of \$551,552 in Other Funds expenditure limitation.

## **Public Safety Services**

The Public Safety Services Program regulates the manufacture, distribution and sale of alcoholic beverages, and provides management of personnel who oversee the recreational marijuana industry. The program focuses on ensuring the legal sale and service of alcohol and marijuana to responsible adults and minimizing alcohol and marijuana-related risks to society. The program consists of the License Services Division, which investigates and processes license applications and renewals for alcohol and marijuana licensees; the Alcohol Education Division, which oversees private industry server education providers and other programs training people to sell and serve alcohol, as well as the development and implementation of the marijuana worker permit education program; and the Public Safety Division, which educates licensees, investigates complaints, and enforces liquor and marijuana laws. Finally, the Administrative Policy and Process Division reviews final OLCC internal investigative reports for technical sufficiency and provides due process to licensees, applicants, and liquor store agents.

The Subcommittee recommended a budget of \$28,048,407 Other Funds expenditure limitation, and 118 positions (116.00 FTE) for Public Safety Services. The Subcommittee recommended the following packages:

Package 203, License Fees Increase. This package increases revenue by \$9,172,403 to account for the doubling of all liquor licensing fees and for adding in a new fee for the temporary use of a license of \$10 per day. This fee increase was approved by the 2019 Legislature through Senate Bill 248. Liquor licensing fees are used to pay Department's operating costs, with any excess distributed by formula to the General Fund, cities, and counties.

Package 205, Statewide Dispatch Services. This package increases Other Funds expenditure limitation by \$560,832 to allow access to the Oregon Department of State Police (OSP) dispatch service. This service allows OLCC agents in the field to contact other law enforcement agencies for assistance. Contracting with OSP provides for greater coverage in rural areas of the state. OLCC began contracting with OSP in November 2017 for this service at a rate of \$508 per employee per month. The recommended limitation allows 46 employees 24 months of coverage.

Package 206, Licensing Staff Fulfillment. This package increases Other Funds expenditure limitation by \$1,024,780 to increase capacity in licensing and to address the thousands of records requests the OLCC receives annually. The recommendation includes the addition of a permanent Operations and Policy Analyst 2 position to handle public records requests; a limited duration Administrative Specialist 1 position dedicated to processing special event licenses; a permanent Principal Executive Manager D position to better distribute workload related management of license investigations and supervise liquor licensing program personnel in multiple locations; a permanent Principal Executive Manager B position to facilitate renewals, permits and licenses; and a permanent Office Specialist 2 position to maintain staffing levels dedicated to approving alcohol service permits.

The recommendation also reclassifies the existing Licensing Division Director (who currently manages both the Alcohol and Marijuana licensing specialists) from a Principal Executive Manager E to a Principal Executive Manager F, the classification deemed appropriate by the Department of Administrative Services Chief Human Resource Office (DAS CHRO).

Package 207, Public Safety Staff Fulfillment. This package adds Other Funds expenditure limitation of \$1,340,842 and four positions (4.00 FTE). Two permanent Liquor Regulatory Specialist positions are recommended to keep up with inspection and enforcement activities resulting from continuing growth in the number of alcohol-related licensees; one permanent Compliance Specialist 3 Case Presenter position is recommended to help evaluate and make recommendations related to proposed disciplinary proceedings for marijuana licensees; and a permanent Administrative Specialist 2 to compile and manage administrative tasks related to these cases, help alleviate backlogs and move cases to the Commission for decisions. This position will reduce the average case load from 85 cases per Compliance Specialist to 71.5. In addition, Other Funds expenditure limitation is recommended for the purchase and mounting of radios in OLCC inspector vehicles, for monthly fees associated with the radios and for dispatch services associated with the two Liquor Regulatory Specialist positions. Of the recommended expenditure limitation, \$407,320 is associated with the purchase and installation of the radios and work station purchases for the new employees and will be phased out in the development of the 2021-23 budget.

Package 209, Regulatory Specialist Reclass. This package increases Other Funds expenditure limitation by \$53,588 to reclassify 38 Liquor Regulatory Specialist positions pursuant to labor agreements and as approved by DAS CHRO.

Package 215, Bottle Bill Regulation & Funding. This package increases Other Funds expenditure limitation by \$172,317 and adds one permanent position (1.00 FTE) to augment the current one staff person who administers and ensures compliance with container recycling and redemption laws and administrative rules. The increase in redemption centers, types of containers eligible for redemption, and additional complexity around which retailers are still required to accept deposits, have all led to the need for additional education, monitoring, and correspondence.

Package 801, LFO Analyst Adjustments. This package reduces inflation on Services and Supplies for an impact of \$40,637 Other Funds expenditure limitation.

### **Administration and Support**

The Administration and Support Program provides the infrastructure for the Department to fulfill the Commission's policy direction and serve customers and stakeholders. The program includes Administration, Government Affairs and Communications, Financial Services, and Information Services.

The Subcommittee recommended a budget of \$28,072,169 Other Funds expenditure limitation, and 75 positions (75.00 FTE) for Administration and Support. The Subcommittee recommended the following packages:

Package 081, September 2018 Emergency Board. This package approves \$503,174 Other Funds expenditure limitation to pay for data center charges approved by the September 2018 Emergency Board. The Department received \$1,182,058 in Other Funds expenditure limitation to pay for new hardware, software, and the services needed to relocate their in-house data center to a third party provider in the 2017-19 biennium. This package establishes limitation for the ongoing costs estimated by Enterprise Technology Services for two years of ongoing service.

Package 301, Information Services Enhancement. This package increases Other Funds expenditure limitation by \$5,779,431 for the Department to engage in a series of projects to modernize its information systems. OLCC is not currently able to provide electronic data and services to retailers and customers and its existing distilled spirits "system" experiences failures approximately once every two weeks. This lack of modern integrated processes and technology solutions creates inefficiencies, compromises data integrity, and makes auditing and inventory management more difficult. The Department's existing licensing and compliance infrastructure is comprised of a few automated systems and many spreadsheets and manual processes to facilitate licensing and renewals, payments, refunds and fee collection, inspections, compliance, and case management. Alcohol and distilled spirits licensees cannot make online payments for fees or fines, and most of the document management functions for compliance and licensing are out of date or unsupported. The Subcommittee recommendation is comprised of the following elements:

- \$2,500,000 for the implementation of an electronic privilege tax system as required by the passage of House Bill 2150 (2017). Currently, all monthly tax reports and payments are made via paper forms and checks.
- \$1,512,500 to modernize the distilled spirits supply chain system that supports warehouse management and distribution, inventory management, liquor store order and fulfillment, and liquor sales tracking.
- \$756,250 to modernize the licensing and enforcement system pertaining to alcohol licensees.
- \$1,010,681 in Other Funds expenditure limitation and four permanent, full-time positions (4.00 FTE) for a database administrator/architect, a project manager, a business analyst and a business analyst/project manager to staff the modernization efforts and engage in project planning activities.

The package approved the estimated full cost of implementing an electronic privilege tax system. The package includes only partial funding for the estimated cost of the Distilled Spirits Supply Chain and the Alcohol Licensing and Compliance projects. These projects are still in the planning phases and are expected to receive Stage Gate 2 endorsements in October 2019. Based on the anticipated issuance of Requests for Proposal for these projects in August 2019, its anticipated the RFP process and vendor selection can be completed by December 2019 in time for OLCC to request the full Other Funds expenditure limitation needed to proceed with these initiatives during the February 2020 Legislative Session.

This recommendation assumes OLCC will continue to work closely with and regularly report project status to the Office of the Chief Information Officer (CIO) and the Legislative Fiscal Office (LFO) throughout the projects' lifecycles. In addition, OLCC will be expected to continue to follow the Joint State CIO/LFO Stage Gate Review process, utilize the Enterprise Project and Portfolio Management System, and update all documents as necessary. Independent, third-party quality management services must be obtained, and the contractor must perform risk assessments and quality control reviews on business case and project management documents prior to submission for subsequent Stage Gate endorsement. The Department is directed to provide a status report to the Joint Legislative Committee on Information Management and Technology during the February 2020 Legislative Session.

Package 310, Financial Services Staff Fulfillment. This package increases Other Funds expenditure limitation by \$608,244 to provide OLCC with additional capacity in accounting and human resources. Administrative staffing has not kept up with the growth in the number of licensees or employees over time. Additional staff in accounting and human resources will ensure the collection of amounts due and payable and support the Department's growing number of employees. The recommendation includes the addition of an Accounting Technician 2 position to support financial reconciliation efforts related to the expansion of additional retail stores; an Accountant 2 for financial auditing responsibilities related to distillery agents and harvest reconciliation; and a Human Resource Analyst 3 position to address increased needs in workforce management, recruitment, training, and policy resulting from the addition of 121 staff since 2015.

Package 311, Administration and Communication Outreach. This package increases Other Funds expenditure limitation by \$89,192 to facilitate the development of an OLCC intranet (internal communications platform) and to reclassify an existing position from a Grounds Maintenance

Worker 2 to a Facilities Energy Technician 2 to match the position's current duties. The position reclassification has been reviewed and approved by DAS CHRO.

Package 801 LFO, Analyst Adjustments. This package reduces inflation on Services and Supplies for an impact of \$71,909 in Other Funds expenditure limitation.

### **Recreational Marijuana Program**

The Recreational Marijuana Program regulates the manufacture, distribution, and sale of recreational marijuana products to ensure public safety and consumer protection, while encouraging the economic development of the industry. The program licenses and regulates marijuana businesses, educates licensees on their legal responsibilities, and enforces Oregon's marijuana laws with a focus on preventing the sale of recreational marijuana products to minors and ensuring there are no diversions of recreational marijuana outside of the regulated market. The program consists of the Marijuana Administration Division, which administers recreational marijuana policy, rulemaking, permitting and education programs, and packaging and labeling standards; the Marijuana Licensing Division, which licenses recreational marijuana businesses in Oregon; and the Marijuana Regulation Division, which investigates license applications, inspects licensed premises for compliance, responds to complaints related to licensees, and administers violations of Oregon's marijuana laws and regulations.

The Subcommittee recommended a budget of \$19,792,332 Other Funds expenditure limitation, and 68 positions (68.00 FTE) for the Recreational Marijuana Program. The Subcommittee recommended the following packages:

Package 090, Analyst Adjustments. This package adjusts revenue for the marijuana program to reflect more up-to-date estimates for beginning balances and licensing in the 2019-21 biennium. The package also reduces Other Funds expenditure limitation by \$425,884 associated with vendor fees for the Department's Seed-to-Sale cannabis tracking system, reflecting a revised forecast of the number of licensees expected to use the system in 2019-21.

Package 205, Statewide Dispatch Services. This package increases Other Funds expenditure limitation by \$280,416 to allow access to the Oregon Department of State Police (OSP) dispatch service. This service allows OLCC agents in the field to contact other law enforcement agencies for assistance. Contracting with OSP provides for greater coverage in rural areas of the state. OLCC began contracting with OSP in November 2017 for this service at a rate of \$508 per employee per month. This recommendation allows 23 employees 24 months of coverage.

Package 209, Regulatory Specialist Reclass. This package increases Other Funds expenditure limitation by \$53,588 to reclassify 23 Liquor Regulatory Specialist positions pursuant to labor agreements and as approved by the DAS CHRO.

Package 301, Information Services Enhancement. This package increases Other Funds expenditure limitation by \$756,250 for part of the estimated cost of a replacement for its marijuana licensing and compliance system. OLCC quickly implemented a marijuana licensing system in order to meet the statutory timeline for legalization. The continued evolution of the market and the regulatory environment has revealed



business needs that the existing system does not meet, including license renewals, enhanced compliance information, and document management.

The package includes only partial funding for the estimated cost of the marijuana licensing and compliance system. The project is still in the planning phases and is expected to receive its Stage Gate 2 endorsement in October 2019. Based on the anticipated issuance of Requests for Proposal for the project in August 2019, its anticipated the RFP process and vendor selection can be completed by December 2019 in time for OLCC to request the full Other Funds expenditure limitation needed to proceed with these initiatives during the February 2020 Legislative Session.

This recommendation assumes OLCC will continue to work closely with and regularly report project status to the Office of the Chief Information Officer (CIO) and the Legislative Fiscal Office (LFO) throughout the projects' lifecycles. In addition, OLCC will be expected to continue to follow the Joint State CIO/LFO Stage Gate Review process, utilize the Enterprise Project and Portfolio Management System, and update all documents as necessary. Independent, third-party quality management services must be obtained, and the contractor must perform risk assessments and quality control reviews on business case and project management documents prior to submission for subsequent Stage Gate endorsement. The Department is directed to provide a status report to the Joint Legislative Committee on Information Management and Technology during the February 2020 Legislative Session.

Package 408, Marijuana Program Enhancement. The package increases Other Funds expenditure limitation by \$2,298,755 and nine positions (9.00 FTE) to add eight regulatory specialists to match staffing resources to inspection and monitoring protocols, with attendant services and supplies costs associated with the establishment of these positions (including dispatch services for the new positions). A Compliance Specialist 3 position is also approved to meet demands associated with the regulation of testing labs. The package also reclassifies two positions: an Administrative Specialist 2 position to an Operations Policy Analyst 1 and an Operations and Policy Analyst 3 position to a Principal Executive Manager D. The higher classifications reflect the employees' current responsibilities and have been reviewed and approved by DAS CHRO.

Package 801, LFO Analyst Adjustments. This package reduces Other Funds expenditure limitation by \$107,077 by reducing the inflation on the Division's Services and Supplies expenditures.

Package 802, Fee Revenue. This revenue-only package reflects a fee increase on hemp certificates issued by OLCC. The \$1,000 fee is paid by hemp growers who want their products in recreational marijuana stores. The fee was approved by the OLCC during the interim and increased March 1, 2019 to cover the cost of additional regulatory responsibilities resulting from the passage of Senate Bill 1015 in 2018. The OLCC anticipates as many as 650 transactions in 2019-21, resulting in \$325,000 in additional revenue.

### **Agents Compensation Program**

OLCC appoints independent businesses called liquor agents to sell liquor for the state of Oregon. The Agents Compensation program contains the funds to pay liquor agents for their services. Agents are paid based on a formula set by the Commission, with an average compensation rate of 8.93 percent of sales.

The Subcommittee recommended a budget of \$134,045,704 in Other Funds expenditure limitation and no positions or FTE for the Agents Compensation Program. The Subcommittee recommended the following package:

Package 090, Analyst Adjustments. This package increases Other Funds expenditure limitation by \$4,913,338 for agent's compensation to reflect updates to the Department's liquor revenue forecast and the renewal of OLCC's \$0.50 per bottle liquor surcharge for the 2019-21 biennium.

Package 801, LFO Adjustments. This package increases Other Funds expenditure limitation by \$1,340,000 for store agent's compensation. This package results in an increase to average compensation rate as a percent of sales, from 8.93% to 9.02%.

Additionally, the Subcommittee approved the following Budget Note:

#### **Budget Note**

As of April 2019, the Oregon Liquor Control Commission was withholding bank card fees based on sales data for related items that had last been provided and analyzed at least a decade ago, resulting in payments that do not accurately reflect the recent sales experience of contract liquor store agents. The Oregon Liquor Control Commission is directed to update the rates or amounts withheld from agents, by requesting and analyzing data on liquor and related items purchases. OLCC is directed to utilize the same methodology as in previous biennia, but based on sales data from the previous calendar year (2018). Failure of an agent to present data requested by OLCC could result in the Commission assigning a withholding rate or amount that may not accurately reflect the actual rate of bank card sales for related items of that store. The Oregon Liquor Control Commission is directed to report back to the Legislative Fiscal Office on the change in payments to each agent, based on this updated information. It is intended that going forward, OLCC will request and receive sales data on related items purchases a minimum of once per biennium, so that compensation related to bank card fees can be based on more accurate and up-to-date information.

### **Medical Marijuana Program**

The Medical Marijuana Program provides tracking of marijuana sales and production by Oregon Health Authority (OHA) medical marijuana licensees with more than 12 plants. Violations of the tracking requirements are reported to OHA for enforcement. The Subcommittee approved a budget of \$5,643,190 in Other Funds expenditure limitation and 23 positions (23.00 FTE) for the Medical Marijuana Program. The Subcommittee recommended the following packages:

Package 090, Analyst Adjustments. This package reduces \$1,344,000 Other Funds expenditure limitation for user fees for medical marijuana licensees to use the Department's seed to sale cannabis tracking system. This change reflects a revised estimate of the number of medical marijuana licensees who will use the system. Revenues are reduced by \$888,082 to match the updated expenditure forecast. The package also eliminates a transfer of \$125,836 that was included erroneously in the Department's budget.

Package 205, Statewide Dispatch Services. This package increases Other Funds expenditure limitation by \$195,072 for access to the Oregon Department of State Police (OSP) dispatch service. This service allows OLCC agents in the field to contact other law enforcement agencies for assistance. The Department began contracting with OSP for these services in November 2017. OLCC agreed to pay OSP \$508 per employee per month for employees with a minimum of 50 using the dispatch service. For the Medical Marijuana Division, the Department projects having a total of 16 regulatory specialists, managers, and compliance specialists use the service. As the Department increases enforcement of marijuana laws in rural areas with fewer law enforcement resources, this service becomes increasingly important.

Package 801, LFO Analyst Adjustments. This package increases Other Funds expenditure limitation by \$9,467 to reclassify an Operations and Policy Analyst 3 position from represented to management service pursuant to a review by DAS CHRO. This package also reduces Other Funds expenditure limitation by \$3,777 by reducing the inflation on the Division's Services and Supplies expenditures. The net result of these adjustments is an increase in Other Funds expenditure limitation totaling \$5,690.

### **Capital Improvements**

The Commission owns a distribution center for all bottled distilled liquor and the building that houses its administrative headquarters, both in Milwaukie, Oregon. The Department has established and routinely updates a 10-year facility maintenance plan. This program unit records expenditures for the biennial projects included in the plan.

The following Budget Note related to the Milwaukie headquarters was approved by the Subcommittee:

#### **Budget Note**

The OLCC shall work with the Department of Administrative Services and the Capital Projects Advisory Board to evaluate costs and risks associated with remaining at its existing Milwaukie headquarters, and to identify available facility alternatives that could better meet the Department's long-term needs for storage, shipping, future growth, office space, maintenance, and ease of access to markets. The OLCC is directed to report back to the Emergency Board prior to submission of its 2021 Agency Request Budget, present findings and seek input on identified alternatives, or request additional funding for further analysis if warranted.

The Subcommittee recommended a budget of \$377,943 Other Funds expenditure limitation and no positions or FTE for Capital Improvements. The Subcommittee recommended the following packages:

Package 304, Distilled Spirits Shipping Capacity & Svcs. This package increases Other Funds expenditure limitation by \$150,000 for patching and skylight repairs to stop water damage in the Department's Milwaukie warehouse. The repairs are recommended as an immediate measure expected to last 2-6 years while OLCC determines the Department's long-term facility needs.

### **Summary of Maximum Supervisory Ratio**

The Subcommittee reviewed the agency's proposed Maximum Supervisory Ratio of 11.1:1.

### **Summary of Performance Measure Action**

See attached Legislatively Adopted 2019-21 Key Performance Measures form.

### **2017-19 Expenditure Actions**

The Subcommittee approved an increase of \$500,000 in Other Funds expenditure limitation to the 2017-19 Legislatively Approved Budget for the Oregon Liquor Control Commission. Of this amount, \$350,000 will go to pay for bank card fees that are coming in higher than expected for the biennium, while \$150,000 will pay for unexpected repairs to a sewer line to the department's main Milwaukie warehouse.

## DETAIL OF JOINT COMMITTEE ON WAYS AND MEANS ACTION

Oregon Liquor Control Commission  
Patrick Heath - 503-378-3742

DESCRIPTION	GENERAL FUND	LOTTERY FUNDS	OTHER FUNDS		FEDERAL FUNDS		TOTAL ALL FUNDS	POS	FTE
			LIMITED	NONLIMITED	LIMITED	NONLIMITED			
2017-19 Legislatively Approved Budget at Dec 2018 *	\$ -	\$ -	\$ -	\$ 215,134,618	\$ -	\$ -	\$ 215,134,618	326	312.62
2019-21 Current Service Level (CSL)*	\$ -	\$ -	\$ -	\$ 226,691,665	\$ -	\$ -	\$ 226,691,665	326	324.00
<b>SUBCOMMITTEE ADJUSTMENTS (from CSL)</b>									
<b>SCR 001 - Distilled Spirits Program</b>									
Package 090: Analyst Adjustments									
Services and Supplies	\$ -	\$ -	\$ -	\$ 932,406	\$ -	\$ -	\$ 932,406		
Package 102: Distilled Spirits Shipping Capacity & Svcs									
Personal Services	\$ -	\$ -	\$ -	\$ 1,786,125	\$ -	\$ -	\$ 1,786,125	11	11.00
Services and Supplies	\$ -	\$ -	\$ -	\$ 34,135	\$ -	\$ -	\$ 34,135		
Capital Outlay	\$ -	\$ -	\$ -	\$ 383,695	\$ -	\$ -	\$ 383,695		
Package 801: LFO Analyst Adjustments									
Services and Supplies	\$ -	\$ -	\$ -	\$ (551,552)	\$ -	\$ -	\$ (551,552)		
<b>SCR 002 - Public Safety Services Program</b>									
Package 205: Statewide Dispatch Services									
Services and Supplies	\$ -	\$ -	\$ -	\$ 560,832	\$ -	\$ -	\$ 560,832		
Package 206: Licensing Staff Fulfillment									
Personal Services	\$ -	\$ -	\$ -	\$ 855,880	\$ -	\$ -	\$ 855,880	5	5.00
Services and Supplies	\$ -	\$ -	\$ -	\$ 130,675	\$ -	\$ -	\$ 130,675		
Capital Outlay	\$ -	\$ -	\$ -	\$ 38,225	\$ -	\$ -	\$ 38,225		
Package 207: Public Safety Staff Fulfillment									
Personal Services	\$ -	\$ -	\$ -	\$ 688,182	\$ -	\$ -	\$ 688,182	4	4.00
Services and Supplies	\$ -	\$ -	\$ -	\$ 565,214	\$ -	\$ -	\$ 565,214		
Capital Outlay	\$ -	\$ -	\$ -	\$ 87,446	\$ -	\$ -	\$ 87,446		
Package 209: Regulatory Specialist Reclass									
Personal Services	\$ -	\$ -	\$ -	\$ 53,588	\$ -	\$ -	\$ 53,588	0	0.00
Package 215: Bottle Bill Regulation & Funding									
Personal Services	\$ -	\$ -	\$ -	\$ 138,487	\$ -	\$ -	\$ 138,487	1	1.00
Services and Supplies	\$ -	\$ -	\$ -	\$ 26,135	\$ -	\$ -	\$ 26,135		
Capital Outlay	\$ -	\$ -	\$ -	\$ 7,695	\$ -	\$ -	\$ 7,695		
Package 801: LFO Analyst Adjustments									
Services and Supplies	\$ -	\$ -	\$ -	\$ (40,637)	\$ -	\$ -	\$ (40,637)		
<b>SCR 003 - Administration and Support</b>									
Package 081: September 2018 Emergency Board									
Services and Supplies	\$ -	\$ -	\$ -	\$ 503,174	\$ -	\$ -	\$ 503,174		
Package 301: Information Services Enhancement									
Personal Services	\$ -	\$ -	\$ -	\$ 875,361	\$ -	\$ -	\$ 875,361	4	4.00
Services and Supplies	\$ -	\$ -	\$ -	\$ 4,873,290	\$ -	\$ -	\$ 4,873,290		
Capital Outlay	\$ -	\$ -	\$ -	\$ 30,780	\$ -	\$ -	\$ 30,780		

DESCRIPTION	GENERAL FUND	LOTTERY FUNDS	OTHER FUNDS		FEDERAL FUNDS		TOTAL ALL FUNDS	POS	FTE
			LIMITED	NONLIMITED	LIMITED	NONLIMITED			
<b>Package 310: Financial Services Staff Fulfillment</b>									
Personal Services	\$ -	\$ -	\$ 470,419	\$ -	\$ -	\$ -	\$ 470,419	3	3.00
Services and Supplies	\$ -	\$ -	\$ 114,740	\$ -	\$ -	\$ -	\$ 114,740		
Capital Outlay	\$ -	\$ -	\$ 23,085	\$ -	\$ -	\$ -	\$ 23,085		
<b>Package 311: Administration and Communication Outreach</b>									
Personal Services	\$ -	\$ -	\$ 16,192	\$ -	\$ -	\$ -	\$ 16,192	0	0.00
Services and Supplies	\$ -	\$ -	\$ 57,610	\$ -	\$ -	\$ -	\$ 57,610		
Capital Outlay	\$ -	\$ -	\$ 15,390	\$ -	\$ -	\$ -	\$ 15,390		
<b>Package 801: LFO Analyst Adjustments</b>									
Services and Supplies	\$ -	\$ -	\$ (71,909)	\$ -	\$ -	\$ -	\$ (71,909)		
<b>SCR 004 - Recreational Marijuana Program</b>									
<b>Package 090: Analyst Adjustments</b>									
Services and Supplies	\$ -	\$ -	\$ (425,884)	\$ -	\$ -	\$ -	\$ (425,884)		
<b>Package 205: Statewide Dispatch Services</b>									
Services and Supplies	\$ -	\$ -	\$ 280,416	\$ -	\$ -	\$ -	\$ 280,416		
<b>Package 209: Regulatory Specialist Reclass</b>									
Personal Services	\$ -	\$ -	\$ 53,588	\$ -	\$ -	\$ -	\$ 53,588	0	0.00
<b>Package 301: Information Services Enhancement</b>									
Services and Supplies	\$ -	\$ -	\$ 756,250	\$ -	\$ -	\$ -	\$ 756,250		
<b>Package 408: Marijuana Program Enhancement</b>									
Personal Services	\$ -	\$ -	\$ 1,657,941	\$ -	\$ -	\$ -	\$ 1,657,941	9	9.00
Services and Supplies	\$ -	\$ -	\$ 344,895	\$ -	\$ -	\$ -	\$ 344,895		
Capital Outlay	\$ -	\$ -	\$ 295,919	\$ -	\$ -	\$ -	\$ 295,919		
<b>Package 801: LFO Analyst Adjustments</b>									
Services and Supplies	\$ -	\$ -	\$ (107,077)	\$ -	\$ -	\$ -	\$ (107,077)		
<b>SCR 005 - Agents Compensation</b>									
<b>Package 090: Analyst Adjustments</b>									
Services and Supplies	\$ -	\$ -	\$ 4,913,338	\$ -	\$ -	\$ -	\$ 4,913,338		
<b>SCR 006 - Medical Marijuana Program</b>									
<b>Package 090: Analyst Adjustments</b>									
Services and Supplies	\$ -	\$ -	\$ (1,344,000)	\$ -	\$ -	\$ -	\$ (1,344,000)		
<b>Package 205: Statewide Dispatch Services</b>									
Services and Supplies	\$ -	\$ -	\$ 195,072	\$ -	\$ -	\$ -	\$ 195,072		
<b>Package 801: LFO Analyst Adjustments</b>									
Personal Services	\$ -	\$ -	\$ 9,467	\$ -	\$ -	\$ -	\$ 9,467	0	0.00
Services and Supplies	\$ -	\$ -	\$ (3,777)	\$ -	\$ -	\$ -	\$ (3,777)		

DESCRIPTION	GENERAL FUND	LOTTERY FUNDS	OTHER FUNDS		FEDERAL FUNDS		TOTAL ALL FUNDS	POS	FTE
			LIMITED	NONLIMITED	LIMITED	NONLIMITED			
<b>SCR 088 - Capital Improvements</b>									
Package 304: Distilled Spirits Shipping Capacity & Svcs									
Capital Outlay	\$ -	\$ -	\$ 150,000	\$ -	\$ -	\$ -	\$ 150,000		
TOTAL ADJUSTMENTS	\$ -	\$ -	\$ 19,380,811	\$ -	\$ -	\$ -	\$ 19,380,811	37	37.00
<b>SUBCOMMITTEE RECOMMENDATION *</b>									
	\$ -	\$ -	\$ 246,072,476	\$ -	\$ -	\$ -	\$ 246,072,476	363	361.00
% Change from 2017-19 Leg Approved Budget	0.0%	0.0%	14.4%	0.0%	0.0%	0.0%	14.4%	11.3%	15.5%
% Change from 2019-21 Current Service Level	0.0%	0.0%	8.5%	0.0%	0.0%	0.0%	8.5%	11.3%	11.4%

\*Excludes Capital Construction Expenditures

DESCRIPTION	GENERAL FUND	LOTTERY FUNDS	OTHER FUNDS		FEDERAL FUNDS		TOTAL ALL FUNDS	POS	FTE
			LIMITED	NONLIMITED	LIMITED	NONLIMITED			
<u>2017-19 BUDGET ACTIONS</u>									
<b>SCR 001 - Distilled Spirits</b>									
Services and Supplies	\$ -	\$ -	\$ 350,000	\$ -	\$ -	\$ -	\$ 350,000		
<b>SCR 088 - Capital Improvements</b>									
Capital Outlay	\$ -	\$ -	\$ 150,000	\$ -	\$ -	\$ -	\$ 150,000		
TOTAL ADJUSTMENTS	\$ -	\$ -	\$ 500,000	\$ -	\$ -	\$ -	\$ 500,000		

# Legislatively Approved 2019 - 2021 Key Performance Measures

Published: 5/30/2019 1:32:32 PM

**Agency:** Liquor Control Commission, Oregon

**Mission Statement:**

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

Legislatively Approved KPMs	Metrics	Agency Request	Last Reported Result	Target 2020	Target 2021
1. Sales to Minors - Percentage of licensees who refuse to sell to minor decoys.		Approved	81%	90%	90%
2. RATE OF SECOND VIOLATION - Percentage of licensees detected to have violated a liquor law in a second, separate, incident occurring within 2 years after the year of the first violation.		Approved	9.20%	12%	12%
3. Licensing Time - Average days from application receipt to license issuance.		Approved	81	75	75
4. CUSTOMER SERVICE - Percent of customers rating their satisfaction with the agency's customer service as "good" or "excellent": overall, timeliness, accuracy, helpfulness, expertise, availability of information.	Expertise	Approved	75%	85%	85%
	Helpfulness		82%	85%	85%
	Availability of Information		67%	85%	85%
	Overall		73%	85%	85%
	Timeliness		65%	85%	85%
	Accuracy		78%	85%	85%
5. OLCC Rate of Return - Net OLCC distribution divided by actual expenses.		Approved	\$2.84	\$2.70	\$2.70
6. Best Practices - Percent of total best practices met by the Board.		Approved	92%	100%	100%
7. Sales to Minors- Recreational Marijuana - This measure is the rate at which licensees refuse to sell marijuana products to minor decoys.		Approved	91%	90%	90%
8. Time to license- marijuana - Average days to license completed marijuana applications.		Approved	161	85	85

**LFO Recommendation:**

The Legislative Fiscal Office recommends key performance measures as presented. No changes to targets are recommended at this time. See comments below.

The Legislative Fiscal Office recommends that the target for KPM 1 be adjusted upwards, from 82% to 90%. OLCC has achieved high compliance rates from its marijuana licensees, and is expected to apply lessons learned, additional education and outreach efforts, or other tools to encourage and realize a similar rate of compliance regarding sales of alcohol.

The Legislative Fiscal Office recommends that the target for KPM 2 NOT be adjusted, as improvements in the rate of second violation likely have more to do with fewer second inspections than in previous years; as the agency began setting up the regulatory and educational frame work for marijuana regulation, fewer alcohol inspections were conducted, and the agency concentrated on educating licensees, rather than issuing violations. It is expected that as a regular pattern of inspection and citation is normalized, the rate of second violation may increase again.

The Target for KPM 7 - Recreational Marijuana Sales to minors (refusals) is recommended to be increased from 82% to 90%. The first time OLCC did minor decoy operations on recreational marijuana stores, the results were abysmal. Strong sanctions resulted in stellar compliance in subsequent forays; it is not yet known if high levels of compliance on the part of retail marijuana establishments will be maintained overtime, but OLCC now has experience that demonstrates that high compliance rates are achievable.

For the purposes of new KPM #8, the proposed target of 85 days was based on OLCC's reported average time to issue a marijuana license to a new applicant in 2016. It should be noted that this target is unlikely to be met for 2017 and possibly 2018 given the number of licensing applications in excess of 2015-17 forecasted estimates, coupled with renewals that are estimated to be complex due to changes in licensee busi- 19 A



plans and facilities. Due to a temporary moratorium on issuing new licenses should SB 218 become law, the Legislative Fiscal Office recommends that the 85 day target be applied to marijuana license renewals, which are often as complicated as brand new licenses because of changes in business structures, locations, and other key elements.

**SubCommittee Action:**

The Transportation and Economic Development Subcommittee approved the targets as proposed.