

Oregon Liquor Control Commission**

	2017-19 Actual	2019-21 Legislatively Adopted	2019-21 Legislatively Approved *	2021-23 Current Service Level	2021-23 Governor's Budget
Other Funds	204,862,429	247,046,671	258,926,442	268,170,757	388,546,500
Total Funds	204,862,429	247,046,671	258,926,442	268,170,757	388,546,500
Positions	326	364	365	363	391
FTE	312.77	362.00	362.58	361.00	388.71

* Includes Emergency Board and administrative actions through January 2021.

** The agency is proposing a name change, to the Oregon Liquor and Cannabis Commission.

Program Description

The Oregon Liquor Control Commission (OLCC) regulates individuals and businesses that manufacture, sell, import, export, or serve alcoholic beverages. It also educates and trains liquor licensees, the public, and other groups, and investigates and takes action when necessary against those who violate liquor laws. In addition, OLCC licenses and regulates marijuana licensees and marijuana worker permits, and tracks and inspects medical marijuana grow sites of 13 plants or more, medical marijuana processors, and medical marijuana dispensaries.

Policy Issues

Retail liquor store expansion over the past two biennia, and newly announced next phase of store expansion may drive sales, as well the need for financial capacity in the agency. Preliminary plans on this next phase call for 18 additional stores over 2.5 years, bringing the total to 300.

OLCC may have a role in the regulation of CBD inhalants. A legislative concept has been developed related to this issue, and the Governor's recommended budget includes a policy option package in the budget amounting to \$0.4 million Other Funds and two positions (1.50 FTE), should the measure become law.

OLCC is under increasing pressure to resolve a longstanding backlog in licensing for marijuana producers. The number of outstanding new applications was estimated at 1,100 in December, 2020. (additional detail like how many were growers vs retailers vs. labs, etc.) The agency has made efforts to streamline the licensing process; for example, changes to the degree of investment needed to trigger a background check, and triaging onsite inspections. But the current backlog with the existing pause on new applications already in place translates to a 30 month wait time for those new applications received after June 15, 2018, and 5 months for renewals. The Governor's budget includes additional resources to address this issue.

Pandemic:

OLCC is being reimbursed from Coronavirus Relief Funds for expenses related to helping distilleries transition to the production of alcohol-based hand sanitizer, which was in short supply in the early days of the pandemic. A portion of expenses related to this effort in the amount of \$1.2 million have been reimbursed by Coronavirus Relief Funds allocated to the Department of Administrative Services. OLCC is seeking reimbursement from the Federal Emergency Management Agency for a remaining \$2 million related to these efforts. These reimbursement amounts will be available for distribution to the General Fund, cities and counties per statutory formula.

While sales at retail stores are stronger than ever in a “stay home, stay safe” environment, licensed premises (bars and restaurants) have had particular economic difficulties due to social distancing requirements. The Legislative Fiscal Office will be evaluating staffing level requests against actual and expected changes in the number of licensees due to the challenges of the past nine months.

Other Significant Issues and Background

During the 2019 Legislative Session, Ways and Means Co-Chairs tasked the OLCC with developing an updated compensation plan for retail liquor store agents. At the same time, a workgroup was underway to develop additional compensation for distillers who offer retail sales out of tasting rooms. OLCC developed a plan that had support from retail agents and presented it to policy makers in February. However, additional expenditure limitation to support the plan was not approved. Policy option packages are included in the OLCC budget to fund the new compensation plans, which have the advantage of varying amounts paid to agents based on size, location, and labor costs, which significantly impact the cost to agents of doing business, and be reevaluated by the OLCC every five years to ensure they remain an accurate reflection of the cost of store operations. It was estimated that should OLCC adopt the elements of the compensation plan, and if the Legislature should fund it, major adjustments or changes (outside of regular inflationary adjustments projected sales data) would not necessarily require biennial legislative consideration for several years.

A formal budget note directed the agency to update data regarding use of bank cards and sales of related items, with the intention of compensating liquor agents based on this information. The OLCC updated its information prior to the 2020 fiscal year and began reflecting the data in agent compensation payments for the 2020 fiscal year. OLCC will request this information once per biennium from agencies, and reflect the information in compensation payments going forward.

OLCC was further directed to work with the Capital Projects Advisory Board to evaluate costs and risks associated with maintaining its existing Milwaukie headquarters, and to identify facility alternatives that could better meet the Department’s long-term needs. The OLCC did not report back to the Emergency Board as directed by the budget note, but has included a policy option package in its 2021-23 budget (also included in the Governor’s Budget) that reflects the agency’s conclusion that a new, larger warehouse and headquarters building will reduce maintenance costs and not lead to revenue constraint over the course of the next 10-15 years.

Governor's Budget:

The Governor's recommended budget of \$388.5 million Other Funds is a 50.4% increase over the 2019-21 legislatively approved budget. Importantly, it includes the assumption that the Commission will increase the current \$0.50 per bottle surcharge to \$0.75, generating an additional \$20.4 million and helping to fund budgetary enhancements (the GRB was *not* adjusted to include additional compensation for agents or additional bank card fees under this assumed increase). Other enhancements include the following:

- \$98.2 million in GO Bonds to support the acquisition of land, construction, and related IT improvements for a new, expanded liquor warehouse along the I-5 corridor.
 - \$62.5 million is for land and construction
 - \$28 million is related to IT improvements for distilled spirits and marijuana information systems;
 - \$ 7.7 million is for a conveyor system/distribution support for the new warehouse.
- Debt Service of 10, 20 and 30 years, which will impact the distribution formula in future biennia; debt service for 21-23 assumes bonds issued in 2022, totaling \$7.5 million, and approximately twice this amount in 2023-25.
- \$13.5 million to increase retail agent compensation through changes to the compensation formula;
- \$3.5 million to increase compensation for distillery agents;
- \$0.15 million for changes to marijuana tracking systems related to psilocybin regulation necessitated by passage of Measure 109;
- \$2.1 million and 8.50 FTE for alcohol licensing and compliance;
- \$1.1 million and 4.00 FTE for Administrative Hearings-regulatory caseload;
- \$0.5 million and 2.00 FTE for additional HR staffing;
- \$0.4 million and 1.00 FTE for payroll support and additional audit capacity (for new stores and beer and wine tax);
- \$0.5 million and 2.00 FTE for IT - related positions to manage projects and vendor relationships;
- \$1.1 million for IT - related licensing costs and support for the new privilege tax reporting system; and
- \$3 million and 13.00 FTE for Marijuana licensing capacity, in an effort to address backlogs in licensing.

Key Performance Measures

A copy of the OLCC Annual Performance Progress Report can be found on the LFO website:

https://www.oregonlegislature.gov/lfo/APPR/APPR_OLCC_2020-10-02.pdf