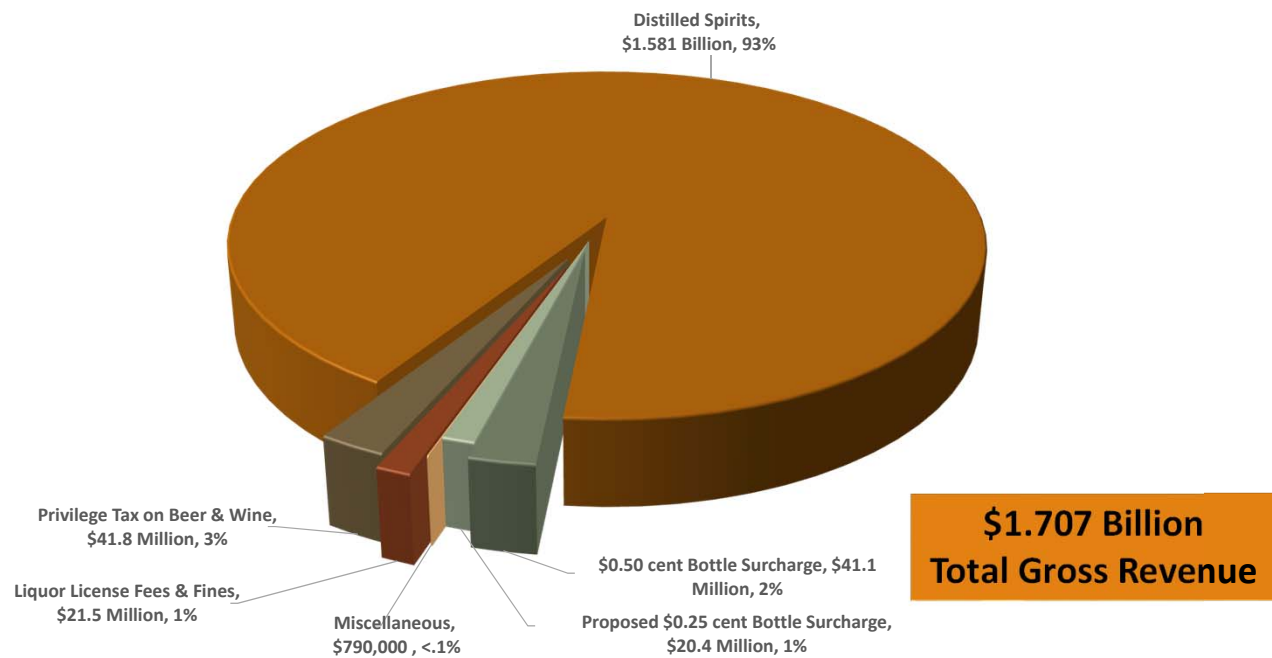


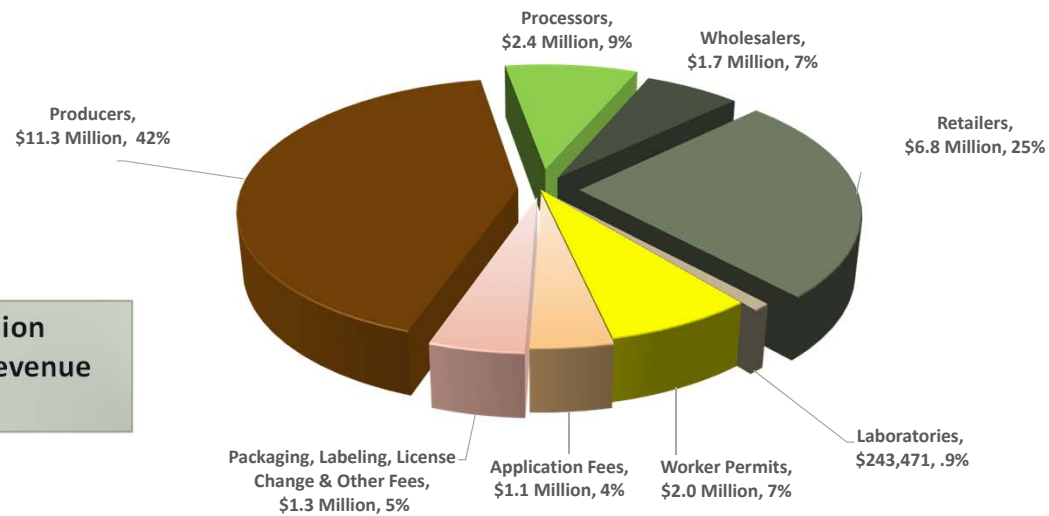
# OLCC APPENDIX

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# PROJECTED GROSS ALCOHOL REVENUE SOURCES 2021-23 GOVERNOR'S BUDGET



## MARIJUANA LICENSE & FEE REVENUE 2021-23 GOVERNOR'S BUDGET - Fee Revenue

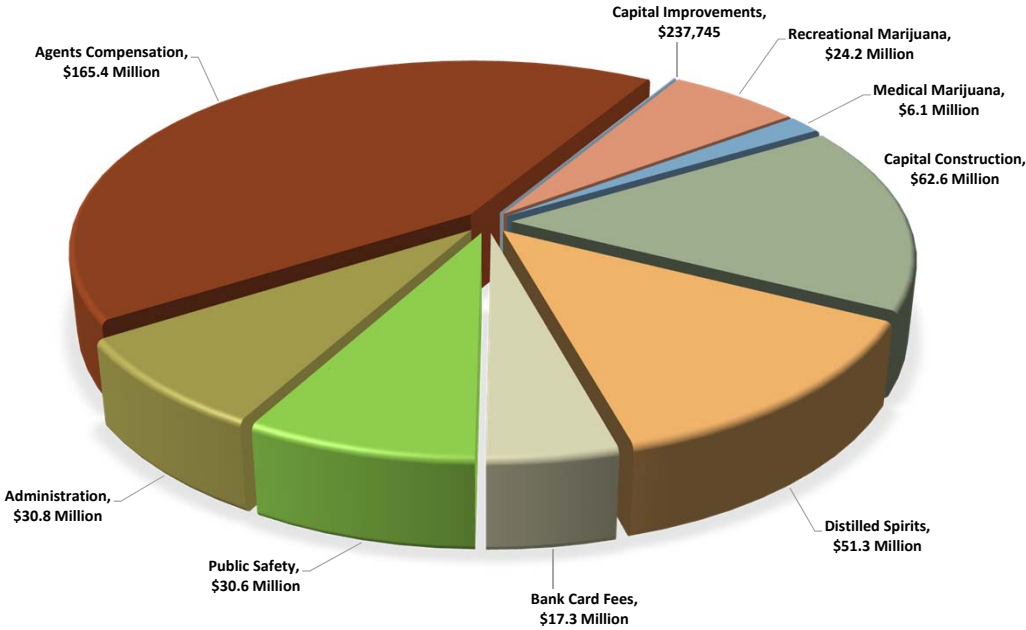


**\$27 Million  
Total Fee Revenue**

# OLCC BUDGET EXPENDITURES

## 2021-23 GOVERNOR'S BUDGET

**\$388.6 Million**  
Expenditure  
Limitation  
(Other Funds)



## OLCC COMBINED BUDGET HISTORICAL DATA

<b>Oregon Liquor Control Commission – Alcohol and Marijuana</b>				
	<b>2019 – 21 LAB</b>	<b>2021 – 23 CSL</b>	<b>2021 – 23 ARB</b>	<b>2021 – 23 GB</b>
<b>General Fund</b>	-	-	-	-
<b>Lottery Funds</b>	-	-	-	-
<b>Other Funds</b>	<b>\$247,046,671</b>	<b>\$268,170,757</b>	<b>\$394,515,814</b>	<b>\$388,546,500</b>
<b>Other Funds Non-Limited</b>	-	-	-	-
<b>Federal Funds</b>	-	-	-	-
<b>Federal Funds Non-Limited</b>	-	-	-	-
<b>Total Funds</b>	<b>\$247,046,671</b>	<b>\$268,170,757</b>	<b>\$394,515,814</b>	<b>\$388,546,500</b>
<b>Positions</b>	<b>364</b>	<b>363</b>	<b>401</b>	<b>391</b>
<b>FTE</b>	<b>362.00</b>	<b>361.00</b>	<b>397.25</b>	<b>388.71</b>

# AUDITS

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# Results of agency audits performed by Secretary of State or Joint Legislative Audit Committee since February 2018

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**Secretary of State FY2019 Statewide Financial Management Audit letter dated 12/27/19.**

- No deficiencies were noted in agency internal controls.

**Secretary of State Audit #2019-23 dated 5/29/19 was a follow-up to SOS audit #2018-07 regarding OLCC Cannabis Information Systems**

- 15 of 17 recommendations were implemented, with 2 recommendations (implementing change management processes and documenting disaster recovery plans) deferred while the replacement licensing system is developed, and while the state data center move is completed. OLCC's disaster recovery plan will need to incorporate elements of the disaster recovery plan developed for the state data center.

**Secretary of State Audit #2019-04 dated 1/25/19: Oregon's Framework for Regulating Marijuana should be strengthened to better mitigate Diversion Risk, and Improve Laboratory Testing**

- The audit scope covered both OLCC and OHA processes; and included 8 OLCC recommendations, and 9 OHA recommendations.
- Management agreed with all 8 OLCC recommendations.

**Secretary of State Audit FY2018 Statewide Financial Management Audit dated 12/17/18**

- No deficiencies were noted in agency internal controls.

**Secretary of State FY 2017 Statewide Financial Management Audit #2017-009 dated 3/8/18**

- A significant deficiency was noted in internal controls related to system access.
- Management agreed with the 2 recommendations. Corrective action was taken in June 2018 - along with going forward on a quarterly basis.
- An 8/21/19 status update was communicated by the OLCC CFO to DAS-SARS.

## OLCC Policy Option Packages which address audit findings

POP	POP Description	Audit Reference	Helps Address Audit Findings / Recommendations
303	Information Services Management & Support Package: The 21-23 Agency Request Budget (ARB) requests three Principal/Executive Manager Ds: <b>1 PMO &amp; Vendor Relationship Manager</b> <b>1 IT Operations Manager</b> <b>1 Solutions Development &amp; Delivery Manager.</b>	SOS #2019-23, Recommendations #4-17	Monitor SAAS vendors for security, hosting, & SLA compliance; Ensure data is appropriately transmitted to the Marijuana Licensing System (MLS) and Cannabis Tracking Systems (CTS); establish processes for granting & reviewing MLS & CTS access; implement change management processes; maintain an up-to-date inventory of authorized hardware & software on the OLCC network; implement configuration processes; develop network vulnerability scanning processes; implement an anti-virus solution on servers and workstations; transition software off obsolete platforms; review physical access procedures; develop a process to remediate risk assessment weaknesses and routinely evaluate agency security posture; develop disaster recovery plan and test periodically.
409	Marijuana Licensing Specialists Package: The 21-23 ARB requests <b>twelve Licensing Specialists</b> , along with <b>one Information Services Specialist 6</b> focused on providing extensive technical support and application development to help integrate OLCC data and web-based applications used by Recreational Marijuana licensing and enforcement staff.	SOS #2019-23, Recommendations #5-6	Ensure data is appropriately transmitted to the Marijuana Licensing System (MLS) and Cannabis Tracking Systems (CTS); Establish processes for granting & reviewing MLS & CTS access.
204	Alcohol Compliance & Licensing Staff - POP #204 requests 9 positions, including: <b>1 Principal Exec Mgr. C - Licensing</b> <b>1 Principal Exec Mgr. D - Compliance</b> <b>1 Principal Exec Mgr. G - Compliance</b> (limited duration)	SOS #2019-04, Recommendation #3	Establish inspection frequency goals and metrics and determine how many inspectors are needed to meet these goals. If the current number of inspectors is too low, work with the legislature to identify additional funding options. Periodically reassess inspection goals and metrics, and whether the number of inspectors aligns with them.



# LIQUOR AGENTS CURRENT COMPENSATION FORMULA

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## RETAIL LIQUOR AND DISTILLERY AGENT COMPENSATION

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### Commission selects retail liquor agents (competitive)

Contracts/Operational Requirements

Compensation

- Base + Commission (8.38% Licensee Sales; 6.54% Consumer Sales)
- **OLCC floors the cost of inventory**
- **OLCC pays credit card fees for sales of distilled spirits**
- **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**

### Distillery licensee applies for Distillery Tasting Room (privilege)

Contracts/Operational Requirements

Compensation

- Base + Commission (8.38% Licensee Sales, 6.54% Consumer Sales)
- **Distillery floors the cost of inventory**
- **Distillery pays credit card fees**
- **No shipping and delivery costs**
- OLCC provides agent support

Distillery Tasting Rooms Agents

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

**Can sell their business**

## CALCULATION OF COMPENSATION LIMITATION

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- The Oregon State Legislature establishes a “limitation” amount during the budget process
- The limitation is determined by the Gross Sales Revenue forecast multiplied by the authorized “average approved percentage “
- The “average approved percentage” is **not** the compensation rate paid to every agent. It is a system-wide **average** payout target that effects the variable rates for the compensation formula. This is the maximum available pool for paying the compensation.
- Regardless of actual sales recorded in the biennium, OLCC can not exceed the maximum limitation without additional legislative approval

## CURRENT AGENT COMPENSATION FORMULA

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- Once the limitation amount is set by the Legislature, OLCC monitors the compensation formula to meet the established criteria. The formula is composed of four elements:
  - Base compensation (plus)
  - Deferred compensation (plus)
  - Variable compensation for consumer sales (plus)
  - Variable compensation for gross licensee sales (total before 5% discount)
- **Variable rates paid for consumer and licensee sales change** during the biennium due to the constricting nature of the limitation; the rates are impacted by the ratio of consumer to licensee sales, the number of agents in each base compensation class, and the number of agents taking deferred compensation

## BASE COMPENSATION

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- Base compensation is paid to agents as a function of their “Class” regardless of actual sales in a month. ***OLCC estimates the total amounts necessary for the biennium needed to pay base compensation***

### Classes

- Non-exclusive – up to \$1,425 /month
- Class 1 – up to \$1,425 /month
- Class 2 - \$1,660/mon
- Class 3 - \$1,920/month
- Class 4 - \$2,348/month
- Class 5 - \$2,440/month
- Class 6 - \$2,700/month

### Annual Sales

- \$0 to \$209,999
- \$210,000 to \$499,999
- \$450,000 to \$749,999
- \$750,000 to \$1,049,000
- \$1,050,000 to \$1,649,999
- \$1,650,000 and up

## VARIABLE RATES

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### Background

- The agency estimates the proportion of forecasted gross sales that will be sold to individual consumers for the biennium. **A variable rate is established that will be used to compensate agents during the biennium for their actual proportion of consumer sales.** For the presentation example, the rate is 8.15%
- OLCC estimates the proportion of forecasted gross sales that will be sold to Licensees for the biennium. **A variable rate is established that will be used to compensate agents during the biennium for their actual proportion of Licensee sales.** For the presentation example, the rate is 6.36%

## GROSS COMPENSATION CALCULATION FORMULA ELEMENTS ESTIMATES FOR 2015-17 BIENNIUM

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Estimated base compensation	\$14,360,000	14%
Estimated deferred compensation match	<u>\$ 550,000</u>	1%
Preliminary fixed elements	\$14,910,000	15%
Preliminary compensation on consumer sales @ 8.15%	\$64,868,000	63%
Preliminary compensation on Licensee sales @ 6.36%	<u>\$22,792,000</u>	22%
<b>Preliminary calculation of compensation Elements to pay 8.93% approved rate</b>	<b><u>\$102,570,000</u></b>	<b>100%</b>