



Oregon

Kate Brown, Governor

Liquor Control Commission

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Legislative Testimony

Oregon Liquor Control Commission

April 9, 2021

The Honorable Senator Fred Girod, Co-Chair
The Honorable Paul Holvey, Co-Chair
Joint Committee on Ways and Means Subcommittee on Capital Construction
900 Court Street NE
H-178 State Capitol
Salem, OR 97301-4048

RE: SB 5505 Bonds for OLCC Liquor Warehouse Land and Building, Liquor Warehouse Conveyor, and Liquor Warehouse Management IT System

Dear Co-Chairpersons:

The Oregon Liquor Control Commission (OLCC) requests bonds primarily to support the construction of a new warehouse and office facility. OLCC's aging warehouse facilities are at capacity and are restricting the distribution and sale of distilled spirits in Oregon. OLCC is also requesting bonds for a conveyor system and IT modernization to update the primary agency legacy systems for warehouse management, licensing and enforcement. This combined request will provide a "turn-key" solution that will be move-in ready and reduce the wasted costs of developing redundant systems that would need to be redone in a new location.

The Oregon Liquor Control Commission focuses on producing and growing stable revenue for the support of public programs. These bonds address the agency's most critical need of warehouse capacity for distilled spirits and replaces legacy information technology systems that require constant intervention due to frequent failures. The warehouse and IT warehouse management system that supports the sale of distilled spirits in Oregon generates \$3.2 million a day in revenue. Currently the warehouse is operates at 98% capacity year-round, with 100% capacity during peak holiday sales. The industry standard for distribution facilities is 80-85% storage utilization. With a 5% expected annual increase in liquor shipments due to population growth and retail expansion, the current warehouse expects to run out of storage capacity in 2021. Short-term tactics such as utilizing vertical space, reducing the number of SKU's and reducing days of supply have been implemented to help bridge the

gap until a new warehouse can be constructed. The primary warehouse facility for liquor distribution was built in 1954 and shipped 850,000 cases annually. In 2019 it shipped 3.5 million cases. Beyond the future capacity issues the current facility is aging and will require significant investment to remodel and provide the seismic upgrades required. In addition our Information Technology systems used to manage the warehouse inventory and shipping were developed in the 1990s and rely on daily manual intervention to continue to be operational.

The warehouse capacity issue will severely limit OLCC's ability to fulfill spirits demand in the future. The ten-year revenue at risk is \$1.5 billion, \$586.9 million in distributable revenue. It will also limit the number and types of products offered for sale in the state, including the higher number of Oregon-made distilled products. In June 2020 the Capital Projects Advisory Board approved the construction project of the warehouse.

In the 2019-21 budget cycle OLCC was granted initial funding to begin an Enterprise Modernization Program to replace insufficient and unsupported technology for the distilled spirits supply chain, marijuana and liquor licensing, and marijuana and liquor compliance. The state's Enterprise Information Services office has given OLCC Stage Gate 1 approval for the overall Enterprise Modernization Program and Stage Gate 2 approval for the marijuana and liquor licensing and compliance system project

This bond request eliminates the need for a separate 21-23 funding request for the Enterprise Modernization Program and the need for roof repair and seismic upgrades on the existing warehouse. The bonding package decreases the overall limitation necessary for the program in the 2021-23 biennium and increases the revenue available for distribution. Costs for the marijuana and liquor licensing and compliance system are shared proportionally between alcohol and marijuana.

Article X1-Q Bond Requests

Liquor Warehouse Conveyor	\$10,175,000	15 years
Liquor Warehouse Land and Building	\$53,170,000	25 years
Liquor Warehouse Management IT System	\$27,390,000	10 years

Bonds issued for these projects are not subject to General Fund Debt Capacity since repayment is supported by Other Funds and not the General Fund

For additional information, please contact Bill Schuette, OLCC Chief Financial Officer, at 503-872-5023.

Sincerely,



Steven Marks
Executive Director