



HEADQUARTERS

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WAYS AND MEANS SUBCOMMITTEE ON TRANSPORTATION & ECONOMIC DEVELOPMENT TESTIMONY IN SUPPORT OF HB 5018 – OLCC BUDGET FEBRUARY 22, 2021

BACKGROUND

Hood River Distillers was established in 1934 shortly after the Oregon Liquor Control Commission (OLCC) was established in 1933. We are the oldest distillery in Oregon and have been in operation under OLCC longer than any other distillery in Oregon. From the fruit wines and brandy of Hood River Distillers' beginnings to the recent success of Pendleton Whisky, Hood River Distillers has thrived under the OLCC control state system.

Currently when you see a bottle with an HRD label it is a Hood River Distillers product. Currently, **one out of every four bottles sold in Oregon is an HRD brand bottle.** In addition, Hood River Distillers also markets under approximately forty labels of Monarch products. **HRD vodka is the number one selling vodka in Oregon by volume and we account for 70% of in-state sales among Oregon distillers.**

OLCC is a critical component to the company's success and abilities. The agency ensures that small, local brands receive the same consideration as large national and international brands; this provides a level playing field for local companies to compete with out-of-market brands. As a result, this helps ensure that local residents will have jobs and income while protecting local liquor storeowners and small Oregon-based companies such as Hood River Distillers. OLCC's system allows businesses, such as Hood River Distillers, a local independent company with a long history in Oregon, to operate in a rural area of the state and to the benefit of Oregon's economy.

HRD SUPPORTS OLCC/CONTROL STATE SYSTEM

The control state system directly ties to the state's goals of attracting, keeping and fostering business in Oregon. Hood River Distillers strongly believes that the current system is essential for the good of the state, Oregon businesses, and consumers. Oregon's system provides consumers with more product selection choice and public safety protection. It gives local companies, such as Hood River Distillers, more opportunities to compete and provide local jobs. It fills an essential role in both regulation and revenue collection for the state. We believe that free enterprise and alcohol don't mix. That's why, for the good of business, the local economy, and consumers, **Hood River Distillers supports the control state system.**

The OLCC system allows for fair competition – local Oregon products can compete against national and international distillers. It prevents a monopolistic situation where the top brands can dominate shelf space; essentially preventing them from unfairly "buying" shelf space. This gives consumers a wider selection of products to choose from. OLCC ensures that small, local brands receive just as much consideration as large national and international brands, this provides a level playing field for local companies to compete with out-of-market brands. As a result, this helps ensure jobs and income for local people – by protecting local liquor storeowners and small Oregon-based companies such as Hood River Distillers.



HRD OPPOSES GOVERNOR BROWN'S 25 CENT SURCHARGE

Governor Brown's 2021-23 proposed budget includes a 25-cent per bottle markup on spirits. HRD opposes this proposal and urges the Legislature to reject its inclusion in OLCC's budget.

In 2009 a "temporary" fifty-cent surcharge was added to OLCC's markup formula as a revenue raising measure. Eleven years later, not only does the temporary surcharge remain in place, but the state is now contemplating a 50% increase in the surcharge taking it from 50 cents to 75 cents. Now is not the time to consider a surcharge increase.

According to the Tax Foundation, Oregon has the highest excise tax rate on distilled spirits compared to all other control states. Nationally, Oregon has the second highest excise tax rate on distilled spirits. Increasing the surcharge will further distance Oregon from other states and in all likelihood will negatively impact Oregon distilled spirits businesses.

Oregon based distilleries are particularly impacted by an increased surcharge. We are currently being devastated by the pandemic. An increased surcharge increases the hurdle for Oregon distilleries to compete against larger national and international distilleries and companies. Since those large distilleries are not rooted in Oregon, and do not depend on Oregon business to the degree that Oregon distilleries do, they are better equipped to endure decreased sales resulting from an additional surcharge.

HRD understands the Governor's desire to raise revenue during this burdensome economic time but adding to Oregon's high distilled spirit excise tax rate is not the solution when the industry is suffering. Alcohol taxes provide the third largest source of revenue for the state. For alcohol to continue to be such an important revenue source, the industry must be successful. Increasing the surcharge further threatens the industry's ability to recover from today's seemingly insurmountable challenges.

We urge the Oregon State Legislature to reject Governor Brown's proposal to increase the markup on spirits by an additional 25 cents.

HRD SUPPORTS POP #101 WAREHOUSE EXPANSION

As the committee as heard, OLCC's 60+ year old warehouse is operating at near 100% capacity. HRD supports policy option package 101 which will provide the desperately needed \$98 million in general obligation bonds to expand warehouse capacity. Without action the 10-year distribution risk through 2029 is projected to be \$587 million; in the 2021-23 biennium the risk alone is \$132 million. We urge the legislature to approve this package that will make the necessary improvements to benefit Oregon's control state system.

HRD SUPPORTS POP #108

Without our retail liquor agents' success our industry could not be successful. Our success depends on our retail agent partners success. The debate over retail agent compensation has been ongoing for decades. In 2007 a taskforce was appointed as a result of many years of consternation about "agent comp". The taskforce produced a 33-page report of recommendations which ultimately went nowhere. The debate over agent comp has continued since then.

For 30+ years the agent compensation formula has been largely unchanged. Every budget cycle the agents appear before the legislature to renegotiate the terms of their compensation; an abnormality in the normal business world.

With the passage of HB 2740 and policy option package 108 the debate over agent comp will finally be put to rest. It is remarkable that OLCC and the agents were finally able to reach consensus on this controversial topic and we applaud the Governor for including this package in her proposed 2021-23 budget. We urge the legislature to approve this policy option package so our retail partners can more effectively sell our product.

Thank you for the opportunity to submit testimony in support of HB 5018.