

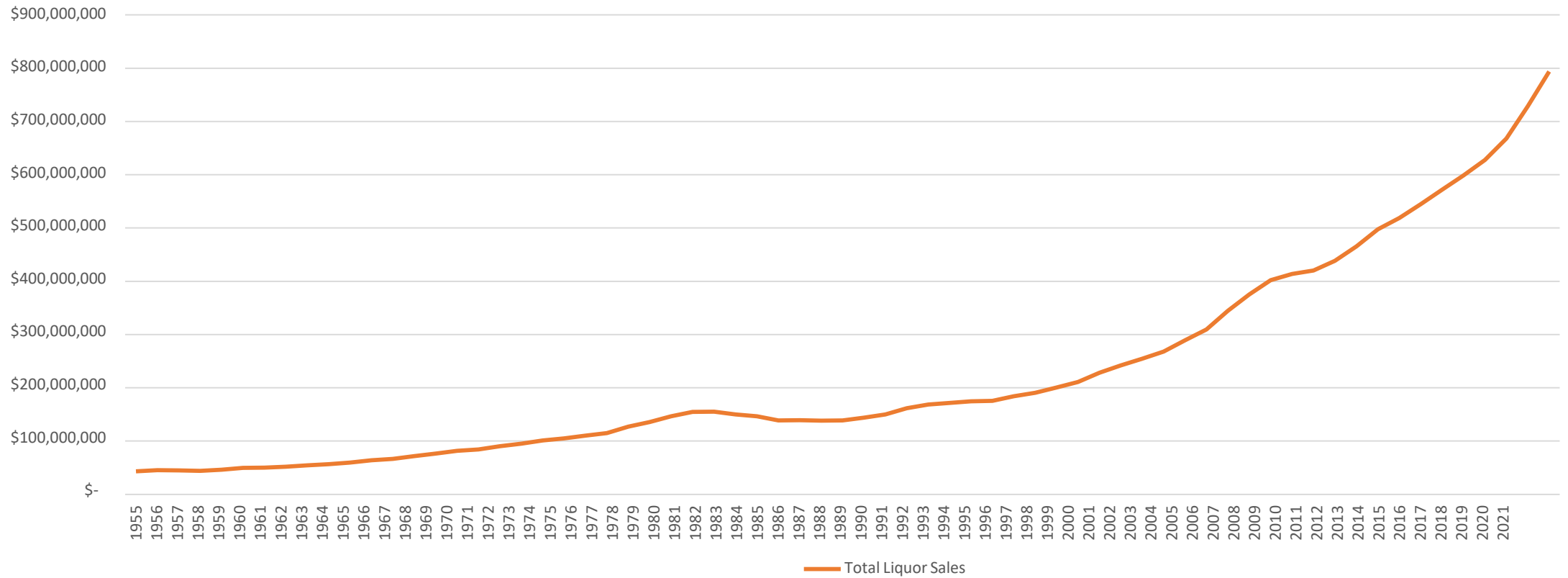


OLCC Warehouse and HQ Relocation Project

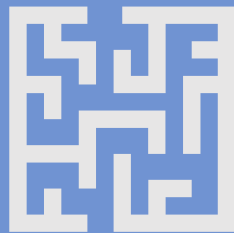
Joint Ways and Means Subcommittee on Transportation and
Economic Development

February 10, 2022

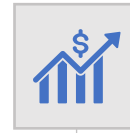
Historic Liquor Sales



OLCC Challenges

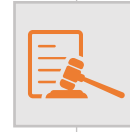


CHALLENGES



Warehouse Capacity

Internal and external studies determined warehouse and central office are at capacity and require substantial investments to maintain current levels of operation (80% - 85% of space utilization is industry standard).



Economic Uncertainty

Capacity limitations affect revenues by limiting the possibility of new products and constricting product variety which directly affects consumer purchase behavior (currently near 100% capacity).



Customer's Expectation

OLCC's current business strategy is to continue to open new stores and actively seek opportunities to profitably expand product selection.



Aged Facility

OLCC operations are housed in a warehouse that is more than 60 years old. Failing to plan for our future distribution needs will constrict growth and limit profitability.



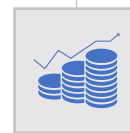
Improved Technologies

Key warehouse technology is nearing its end of its useful life and has minimal infrastructure flexibility; inefficient and disjointed. Major changes across the enterprise are required to meet business needs and secure revenue.



Changing Enterprise

Staying in the existing warehouse does not remove the need for new/upgraded warehouse management system (WMS) and replacing outdated legacy supply chain systems.



Predictable & Stable Revenue Source

OLCC has taken a proactive approach to mitigate the immediate space constraints in an effort to delay the anticipated capacity shortfalls.

2021 -23 Legislatively Adopted Budget Amounts

- Other Funds Supported (non-capacity)
 - Liquor Warehouse Management IT System XI-Q \$27,000,000
 - Liquor Warehouse Conveyor System XI-Q \$10,000,000
 - Liquor Warehouse Land & Building XI-Q \$52,573,265
- “The cost of the new facilities is estimated to total \$89.5 million. Bond authorization is provided in SB 5505 for the acquisition of property and construction of a new liquor distribution center and headquarters facility (\$52.5 million); a new distribution center sales and inventory management information technology system (\$27 million); and a conveyor and order fulfillment system for the new facility (\$10 million). Expenditure limitation for the land and construction and the conveyor system is included in SB 5506, the Capital Construction bill.”
- “OLCC has been working with the Capitol Projects Advisory Board and the Department of Administrative Services on due diligence related to facility replacement and property acquisition. A market evaluation is scheduled to occur in the autumn of 2021, final site selection is projected to occur in April of 2022, and construction is anticipated to be completed in 2024.”

Warehouse and HQ Relocation – Price Escalation & Covid Inflation

- Vacancy rates for industrial properties are near an all-time low, while utilization is up, and prices are at record levels
- Land valuation is above \$25 per sqft compared to \$8 - \$9 per sqft 2 years ago
- Construction/Labor costs rising, with material costs leading the way (Steel +123%, Lumber +111%, and Aluminum +35%)
- Pricing continues to fluctuate with market uncertainty (supply chain challenges coupled with domestic labor shortages)
- What once projected to cost \$62.6 M in 2019, is now estimated to cost approx. \$145.8 M for total project (\$83.2 M more)
 - \$130.8 M for Land/Construction (\$78.2 M more)
 - \$15.0 M for Conveyor (\$5 M more)

Rising costs and shortages of building materials	Legislatively Adopted Budget Amount	11/29/21 Estimates	Difference
Warehouse Land	\$6,534,000	\$40,775,530	\$ (34,241,530)
Warehouse Building	\$46,039,064	\$89,973,548	\$ (43,934,484)
Warehouse Land & Building	\$52,573,064	\$130,749,078	\$ (78,176,014)
Warehouse Conveyor System	\$10,000,000	\$15,000,000	\$ (5,000,000)
Grand Total	\$62,573,064	\$145,749,078	\$ (83,176,014)

Impacts of Construction Delays on Revenue & Distributions

- New warehouse is currently expected to be operational on or around the end of the 2024 fiscal year
- Delays to the relocation plan will see increasing amounts of revenue at risk. More than \$190 M revenue not captured with six-month delay
- More than \$700m is at risk with a three-year delay

Cumulative Impact of Delays			
	<i>Revenue</i>	<i>Distribution</i>	<i>General Fund</i>
6-Month Delay	(\$190,429,508)	(\$76,490,587)	(\$42,834,729)
1 Year Delay	(\$263,462,979)	(\$105,826,235)	(\$59,262,692)
1.5 Year Delay	(\$366,868,486)	(\$147,361,541)	(\$82,522,463)
2 Year Delay	(\$461,479,765)	(\$185,364,435)	(\$103,804,083)
2.5 Year Delay	(\$590,079,330)	(\$237,019,540)	(\$132,730,942)
3 Year Delay	(\$707,742,013)	(\$284,281,583)	(\$159,197,686)

Warehouse and HQ Relocation Project – Next Steps

- Agency requests bond amount increase in February 2022 session:

Other Funds Supported (non-capacity)	Bond Program	Legislatively Approved Bond Amount	Requested Bond Approval Amount	Change Amount
Liquor Warehouse Management IT System	XI-Q	\$27,000,000	\$27,000,000	\$0
Liquor Warehouse Conveyor System	XI-Q	\$10,000,000	\$15,000,000	\$5,000,000
Liquopr Warehouse Land & Building	XI-Q	\$52,573,265	\$130,749,078	\$78,175,813

- OLCC Commissioners announces Intent to Award in March 2022.
- Engage DOJ to craft Purchase Sales Agreement (PSA) enabling land purchase and development contracting while adhering to budget constraints.
- RFP for CMGC who will engage vendors through a negotiation to reduce development fees and receive guaranteed maximum pricing.
- Create a plan, including timing, for the sale of current properties - see budget note below:
 - “Prior to disposition of its existing properties adjacent to McLoughlin Boulevard in Milwaukie, the Oregon Liquor Control Commission is directed to report to the Joint Committee on Ways and Means on plans for the sale and disposition of its existing distribution center, office headquarters, and Milport Road warehouse. The report shall include information on the zoning of the properties, submitted offers, real estate fees and commissions paid to contractors and real estate professionals engaged, conditions of sale, and listing price of the properties. In addition, the OLCC shall report on the new warehouse and headquarters location, purchase price, construction and relocation schedule; its interim operations plan including new leases and estimated costs; an overview of measures the agency will take to minimize disruption to licensees, contract liquor agents, and other stakeholders; and a summary of efforts to secure financial systems and data during the transition.”

OLCC'S MISSION

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

