Oregon Liquor Control Commission
Retail Innovations Group
Meeting Minutes
January 24, 2014

Members in attendance:
Paul Romain, Ashley Horne for Patrick Sieng, Steven Scborski, Bill Perry, Brian Butenschoen, Jonathan Polonsky, Ted Pappas, Steve Brown, Jana McKamey for Steve Thomson, Shawn Miller.

OLCC staff in attendance:
Rob Patridge, Michael Harper, Ranee Niedermeyer, Brian Flemming, Merle Lindsey, Steve Marks, Michael O'Connor, Laura Paul, Bill Schuette, Christie Scott, Jesse Sweet.

Guests:
Lynn Walding, Harry Esteve, Jason Underwood, Michelle Deister, Tim Grimes, Lorin Bumbarger, Duke Tufty, Charlie Thorpe, Laura Pech, Patrick Brennan, Joanie Cosgrove, Paloma Sparks, Ellen Miller.

Chairman Patridge explained the agencies participation with Senator Beyer to prepare a discussion draft which was presented and discussed on January 15, 2014 at a joint committee at the Capitol (House Business and Labor and Senate Business and Transportation committees). The agency is now working with Senator Beyer to aid the legislature in refining Legislative Concept 242. Though it is now a legislative bill, Chairman Patridge wanted to give the members an opportunity to air their opinions so that we can give feedback to Senator Beyer and the legislature.

Ranee Niedermeyer, OLCC Communications Director walked the group through a summary of Senate Bill 1559 (LC242). The primary goal of the legislation is to increase customer convenience, stabilize and grow state revenue and provide a fair economic playing field for competition. The legislative intent is to meet customer demands, expand customer convenience by providing new pathways for licensing and investment, preserve and enhance existing system efficiencies and controls for public safety, continue to develop the Oregon distilled spirits industry and stabilize revenue. Ms. Niedermeyer went through the bill section by section.

Section two:
This section outlines a minimum retail price and explains what goes into that price.

Section three:
Discusses retail sales agents and requires that distilled liquor is not sold below the established minimum retail price. This section also outlines the changes to agent's compensation. A provision is included to allow a percentage of liquor sales to be used for improvements to agent stores and requires a designated area for Oregon products.

Section four:
Addresses requirements in order to receive a distilled liquor endorsement for off-premises sales licensees and how liquor is ordered, bought, priced, shipped and sold.

The section also requires the Commission to set rules around the new endorsement to include public safety and allows the Commission to use the endorsement toward capital investments and on-going operating costs associated with the additional distribution of distilled liquor

Section five:
Requires on-premise licensees to purchase distilled liquor from our retail sales agents and continues the five percent discount they currently receive (taken off the minimum retail price).

Section six:
Describes the requirements for the distilled liquor endorsement; size of containers allowed in grocery stores, size of grocery store in order to apply for the endorsement, Oregon product plan and a public safety plan, etc.

Section seven, eight and ten:
Add clarifying language.

Section nine:
Adds an endorsement to the license.

Section eleven:
Adds a provision that an off premise sales license which holds an endorsement may not require the Commission to purchase a particular kind of liquor.

Section twelve:
This section is a time line section.

Section thirteen:
Requires Retail Sales Agent contracts to be modified by Jan. 1, 2015. If contracts are not modified, they would be terminated.

Section fourteen:
Requires the agency to report on various items to the Oregon Legislature by September 1, 2015.

Section fifteen:
Allows the agency to expend monies collected for the endorsements for the purpose of paying any costs incurred by the Commission.

Bill Schuette distributed a "road map" document of how the agency will be preparing the fiscal impact for this legislation. Mr. Schuette noted some of the numbers are tentative and he would welcome any input from any of the members. Mr. Schuette reviewed the assumptions in the document with the group.
Chairman Patridge said the agency looked at market growth if no changes were made and said the system can not stay stagnant; we either need an investment or innovation to the system. He also noted that warehouse and IT resources need to be assessed. Some of those costs are going to be on the agency regardless of whether or not the goal is to optimize revenue and customer access.

The Chairman asked the members to give their input so any pertinent information could be passed on to Senator Beyer if he chooses to move the bill and or the Legislative Fiscal Office.

Steve Brown, representing the agents, said the bill should include paying back liquor agents for their investments and that agents will need to make at least a twenty percent mark up in order to stay in business. From the agents stand point; they know the system needs to change but it must be a level playing field in order for agents to compete.

Ted Pappas, representing Oregon distiller's stated, having an Oregon section in a liquor store is fabulous, but having Oregon products only in the Oregon section is not. Most customers go to a certain section to find the type of liquor they prefer, if Oregon products are not also in the broader sections, many customers will never see the Oregon products. He also noted that excluding containers smaller than a 750 ml in grocery stores would hurt many Oregon distillers who produce high quality products in 375 ml containers. The largest issue for the Oregon distillers is the change in compensation for distillery outlet sales. The current system compensates distillery outlet sales at 22 percent for the first 10,000 dollars sold and eight percent after that, the bill would change the compensation to 12 percent and depending upon what the minimum retail mark up, Oregon distillers could loose revenue. The Oregon Distillers Guild does not support this bill.

Shawn Miller, representing the large off-premise licensees said the bill controls price, distribution and shelf space. It would provide more access but it does not insert any efficiency into the system. He noted in section two, the minimum retail price, no matter how you run the numbers would increase the price of the product.

Johnathon Polonsky, representing the small off-premise licensees said they would continue to watch the progress of the bill.

Brian Butenschoen, representing the Oregon beer manufacturers said they have had a very successful market place for craft beers in Oregon and across the United States. They would like to see the state remain neutral and continue providing an equal playing field.

Bill Perry, representing the on-premise licensees said the bill does not appear to change the system for them. They do want to ensure that if there is not a liquor store in a town, the on-premise licensee can get local access at a grocery store.

Steven Scborski, representing the large manufacturers did not have any comment.

Paul Romain, representing wholesale beer and wine distributors said with the assumption that prices will increase, there will be a loss of revenue as customers will go across borders to purchase distilled liquor. He also noted the agency may want to look into the federal restriction on consignment sales which the bill will create with current agents. Mr. Romain said the bill holds the state's revenue neutral but it will be at the expense of the consumer with higher prices. There are ways to improve customer access and store locations without changing the entire system.

Ashley Horne, representing local governments said they are interested in maintaining county revenue in order to continue safety net services. These services include mental health, substance abuse and public safety issues which are likely to arise with increased access.

Jana McKamey, representing the Oregon wine manufacturers said they have not taken a position on the bill but are interested in keeping their shelf space in grocery stores.

Chairman Patridge thanked the group for their participation on the committee and for coming to a consensus that the system needs an investment. He said the state has been static for a long time. Where the investment money comes from is up to the legislature. The legislative concept that came from our meetings was a discussion draft to pass information to the legislature for them to make a decision. There are things to like and dislike as a result of the legislative concept but the goal of the Chairman and Senator Beyer is to promote Oregon companies, stabilize state revenue, and have better customer access.

The Chairman said we will continue to update the group as the bill moves through the legislature. He wants to continue the conversation and come together on an annual basis as issues change to better the system for all involved.

Next Steps:

- Track Senate Bill 1559 through the legislative session.

Next Meeting :

To Be Determined
OLCC Headquarters (Commission room)
9079 SE McLoughlin Blvd.
Portland, OR. 97222