

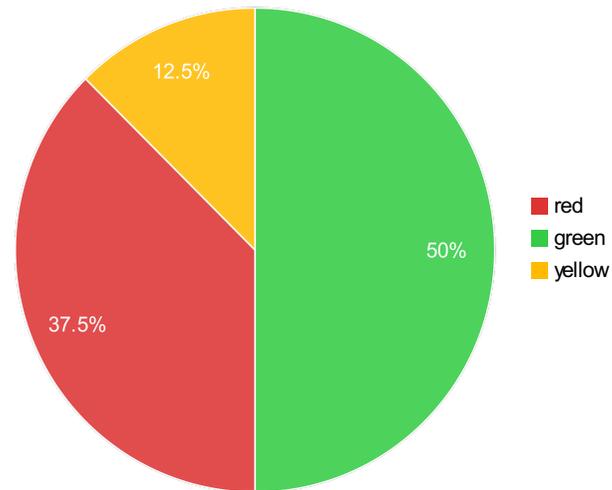
Liquor Control Commission, Oregon

Annual Performance Progress Report

Reporting Year 2019

Published: 10/2/2019 10:12:23 AM

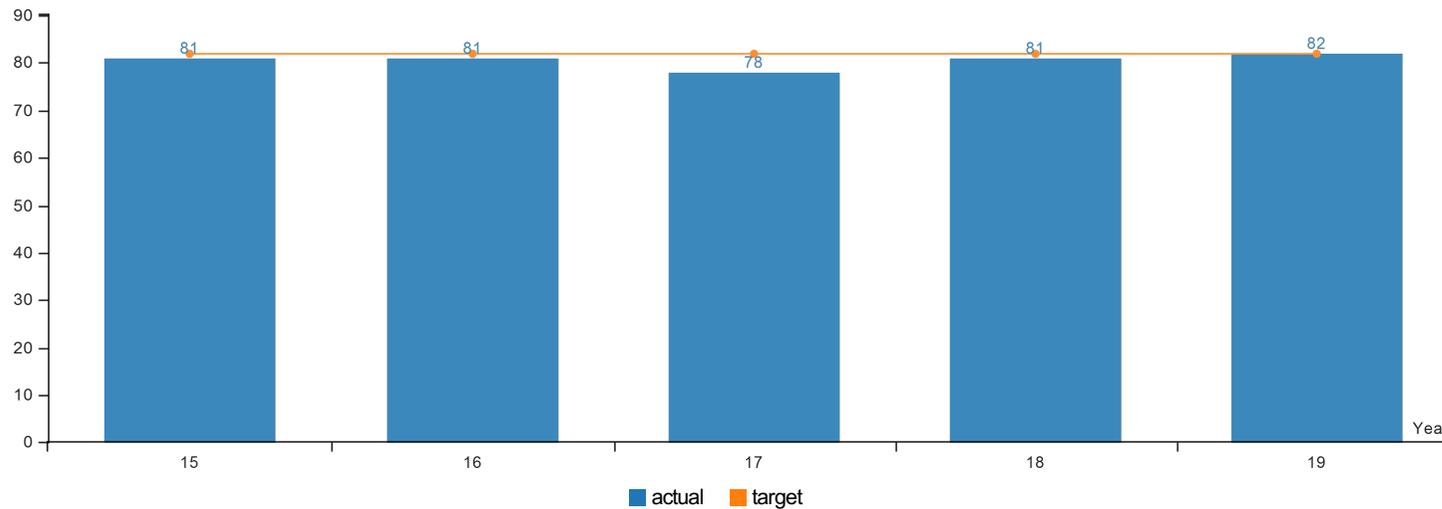
KPM #	Approved Key Performance Measures (KPMs)
1	Sales to Mnors - Percentage of licensees who refuse to sell to minor decoys.
2	RATE OF SECOND VIOLATION - Percentage of licensees detected to have violated a liquor law in a second, separate, incident occurring within 2 years after the year of the first violation.
3	Licensing Time - Average days from application receipt to license issuance.
4	CUSTOMER SERVICE - Percent of customers rating their satisfaction with the agency's customer service as "good" or "excellent": overall, timeliness, accuracy, helpfulness, expertise, availability of information.
5	OLCC Rate of Return - Net OLCC distribution divided by actual expenses.
6	Best Practices - Percent of total best practices met by the Board.
7	Sales to Mnors- Recreational Marijuana - This measure is the rate at which licensees refuse to sell marijuana products to minor decoys.
8	Time to license- marijuana - Average days to license completed marijuana applications.



Performance Summary	Green	Yellow	Red
	= Target to -5%	= Target -5% to -15%	= Target > -15%
Summary Stats:	50%	12.50%	37.50%

KPM #1	Sales to Minors - Percentage of licensees who refuse to sell to minor decoys.
	Data Collection Period: Jul 01 - Jun 30

* Upward Trend = positive result



Report Year	2015	2016	2017	2018	2019
Percentage of Licensees Who Refuse to Sell to Minor					
Actual	81%	81%	78%	81%	82%
Target	82%	82%	82%	82%	82%

How Are We Doing

The FY 2019 results reveal an 82 percent compliance rate of refusing sales to minors which achieves the legislative target of 82 percent compliance. The compliance rate was 1 point higher than FY 2018.

The Portland and Salem metropolitan regions experienced 85 and 82 percent compliance rates respectively, while the Eugene compliance rate was 73 percent and Bend licensees passed 83 percent of the time. Medford region conducted fewer operations but still logged an 80% compliance rate for visited locations. Metro Portland and Salem provided 60 percent of the cases.

The Oregon Liquor Control Commission conducted 741 operations in FY 2019, the down from over 800 in FY 2018.

Factors Affecting Results

A key factor driving these results is frequency of operations. The "perception of detection" is a significant motivator to comply with liquor laws for licensees and their staff. When the number of operations decreases, a licensee may not perceive the risk of detection as likely and choose to make decisions that do not comply with the public safety laws, such as selling alcoholic beverages to minors. Studies of law enforcement practices indicate that a consistent perceived risk of detection and sanctions is a more effective deterrent than inconsistent enforcement with large sanctions.

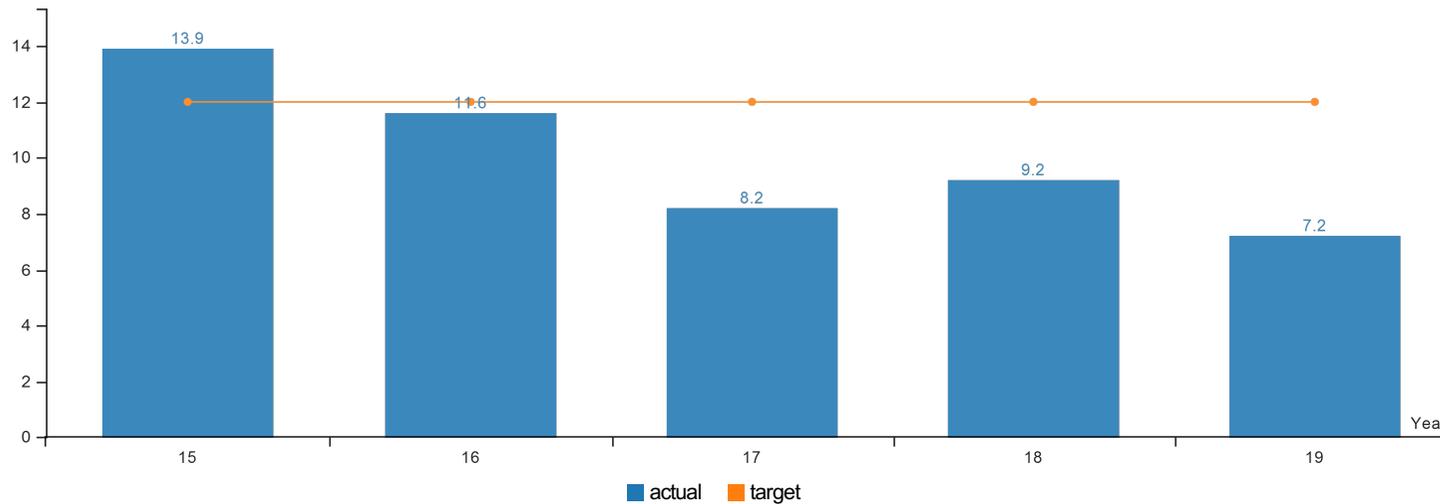
A related factor affecting results is the random sampling of minor decoy operations. With the exception of some targeted premises that have committed a prior offense, the majority of operations are performed on a different group of licensee each year. This can result in some variation from past years because now fewer establishments with a recent citation are revisited within a short time period.

The Commission is actively engaged in a process to increase the frequency and media prominence of minor decoy operations; a way to keep the problem of youth alcohol access foremost in the minds of Oregon alcohol licensees.

KPM #2 RATE OF SECOND VIOLATION - Percentage of licensees detected to have violated a liquor law in a second, separate, incident occurring within 2 years after the year of the first violation.

Data Collection Period: Jul 01 - Jun 30

* Upward Trend = positive result



Report Year	2015	2016	2017	2018	2019
Rate of Second Violation					
Actual	13.90%	11.60%	8.20%	9.20%	7.20%
Target	12%	12%	12%	12%	12%

How Are We Doing

The FY 2019 second violation rate is 7.2 percent, slightly less than last year's second violation rate of 9.2 percent. The second violation rate for the last five fiscal years has averaged 8.9 percent. The historical data to FY 2004 produces an average second violation rate of about 13 percent.

During FY 2019, there were 213 premises with at least one serious violation and 342 violations charged altogether. This represents less than 2 percent of total licensed premises for the year.

Factors Affecting Results

The rate of repeat violations declined again joining observed decreases for the three of the prior four years. FY 2019 saw an increase in overall compliance actions, back to nearly 2016 levels, but still only 66% of the ten year average. Fewer compliance actions reduces the likelihood of any licensee receiving multiple violations during the period. There were 342 serious violations sent to premises in fiscal year 2019.

The composition of violations type has changed as well. In 2015, 65 percent of violations were for sales to minors. In 2019 34 percent of violations were related to failure to check ID or failure to control access to minors. It appears that a combination of a reduction of overall violations issued with a decline for sales to minors compared to the decline in other violations.

During FY 2019, the Oregon Liquor Control Commission was able to implement more changes in staffing and business processes as the alcohol public safety program is stabilizing as Commission has also implemented the recreational marijuana program. The Commission has filled empty Liquor Regulatory Staff positions left vacant by Inspectors who had switched to recreational or medical marijuana inspector positions. However, with the influx of new staff, inspectors spent less time in the field than in past years due to training requirements.

Compliance staff have also continued implementing a strategy of using resources to engage with businesses proactively and reserve compliance actions for the more serious violations such as sales to minors.

What Needs To Be Done

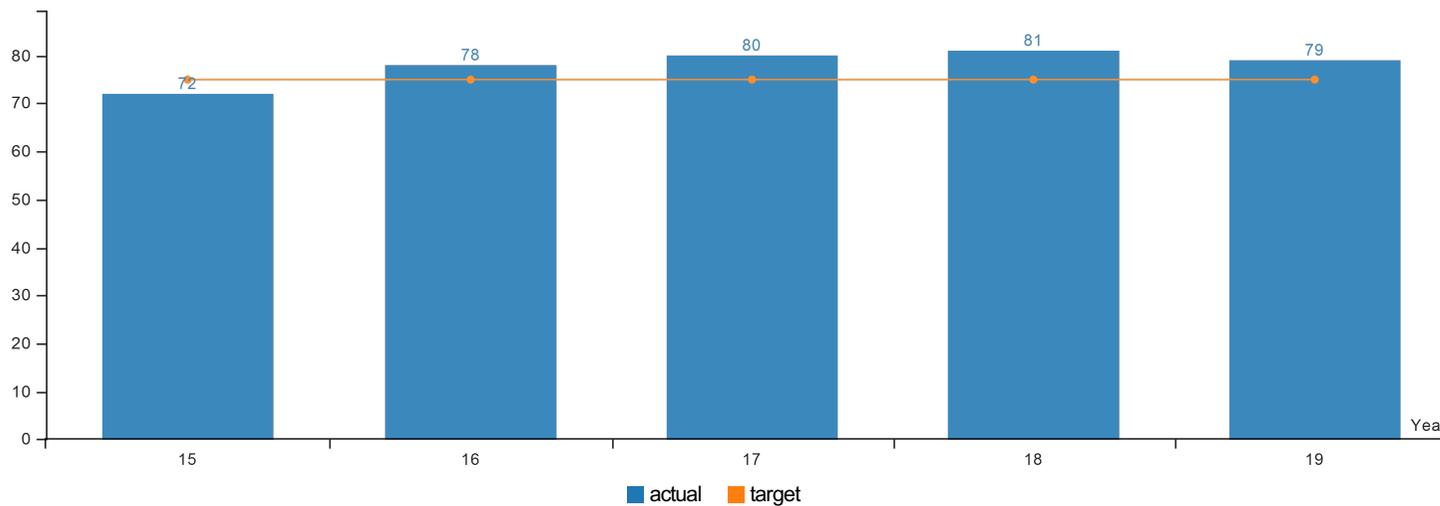
OLCC will continue to look at this measure and how the information is generated to determine if significant changes are needed for future years. OLCC continues to implement new strategies of regulating and educating licensees. This includes implementation of the first call program, public service announcements and a poster campaign warning of the dangers of furnishing alcohol to minors.

Now that alcohol public staffing is up to historical levels, the Oregon Liquor Control Commission is implementing an effort to resume a more active effort to conduct minor decoy compliance checks. In addition, the Commission has been given budget limitation to increase the number of Liquor Regulatory Specialists for the first time in over 15 years, to be more commensurate with the increase of licensed locations.

The proactive education efforts combined with an increased rate of targeted enforcement operations such as minor decoy compliance checks will improve licensees' compliance with liquor laws.

KPM #3	Licensing Time - Average days from application receipt to license issuance.
	Data Collection Period: Jul 01 - Jun 30

* Upward Trend = negative result



Report Year	2015	2016	2017	2018	2019
Average Number of Days to Issue (Below Target Is Better)					
Actual	72	78	80	81	79
Target	75	75	75	75	75

How Are We Doing

The FY 2019 average licensing time statewide was 79 days. This is above the legislatively set target of 75. The average time to license for FY 2019 is below the old target of 90 days. A small number of licenses have an extraordinarily long time to license because of a variety of factors unique to each of those licensees. In fiscal year 2019, 19 licensees took an average of 441 days to license. Excluding those 19 licensees would result in a time to license of 76 days. Licensees are able to operate under a temporary letter of authority pending licensure.

The Commission continues to adapt in order provide prompt service to alcohol licensees.

Factors Affecting Results

There are many factors affecting the number of days it takes to issue a liquor license; some internal and some external.

Internal factors continue to be identified and streamlined through process improvements and technological solutions. The recent implementation of the marijuana program caused a number of vacancies in alcohol license investigator positions that remained unfilled during fiscal year 2019.

External factors are difficult to control. A primary external factor affecting how quickly a liquor license can be issued is the license application review by the local governing body (city or county).

Statute gives local governments up to 90 days (45 days plus an additional 45 day extension – if requested) to review a license application within their jurisdiction and provide a recommendation (positive, negative, or neutral). The OLCC cannot complete the processing of an application until the local government review is completed. Lengthy application review by local governments usually occurs in the larger metropolitan areas, such as Portland. These areas also have higher numbers of license applications, in absolute terms, which influence the overall statewide average licensing times. Additionally, the timeliness of the applicant in providing materials necessary to the application investigation can impact overall processing time. Applicants not prepared for or committed to the process may have longer processing times. A 2011 analysis found that staff processing time totaled to an average of only 32.9 days per license; only 36% of the total time to issue a license. The remaining 64% of the time was driven by external factors described above and are outside the control of the agency.

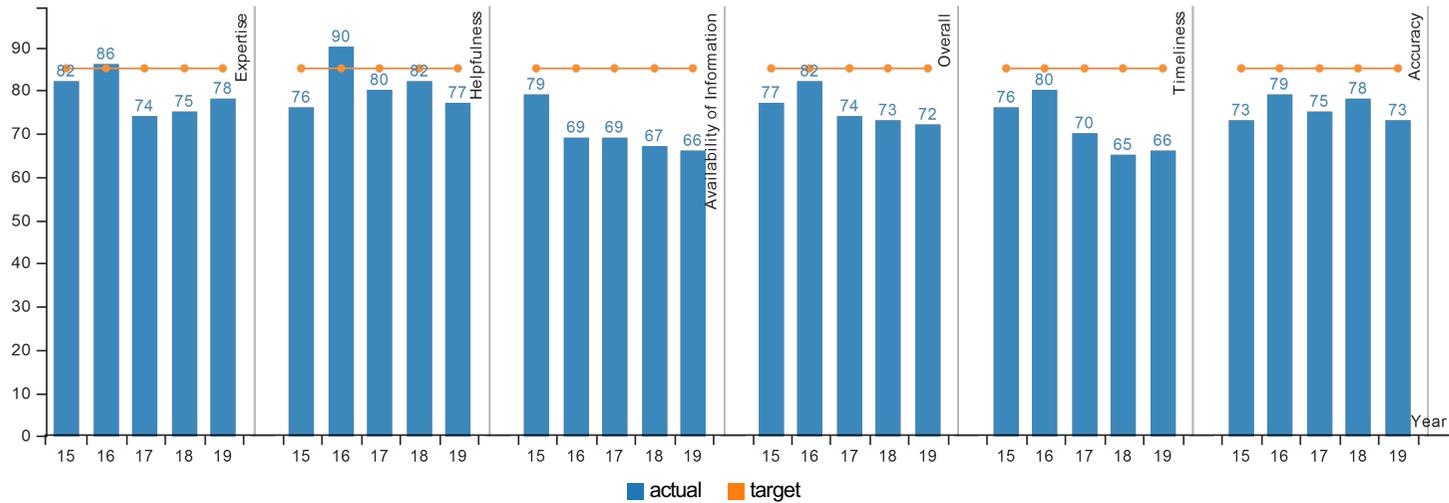
The 2019 results of this measure indicate that the OLCC is above the current target set by the legislature, but is implementing the strategy for resuming improvement. Staffing gaps caused by implementing the marijuana program are a one-time impact on the time to license measure. The OLCC is pursuing other solutions to its business needs that include regulatory innovations, the implementation of streamlining measures, and the development of an enterprise-level licensing system that will unite many disconnected processes and increase the agency's online service capacity. With these enhancements and innovations the OLCC will resume exceeding the target of this measure.

The license investigation process is largely manual, involving many phone calls between investigators and applicants in order to guide them to their license. In addition, financial investigations of liquor licenses can also become labor intensive for complex business structures. In the short-term, the agency continues increasing the availability of additional resources dedicated to liquor license investigations as staffing for the marijuana program stabilizes and new liquor license investigators are hired and trained.

A small number of licenses have an extraordinarily long time to license because of a variety of factors unique to each of those licensees. In fiscal year 2019, 19 licensees took an average of 441 days to license. Excluding those 19 licenses would result in a time to license of 76 days. Licensees are able to operate under a temporary letter of authority pending licensure.

The Oregon Liquor Control Commission has implemented a re-organization of licensing staff and business processes to optimize resources to handle the increased licensing responsibilities for both programs. Staffing gaps caused by implementing marijuana licensing and increased workload from recreational marijuana in addition to implementing software and business process changes, combined with increased workloads for our local government partners, have all had an impact on increasing the time to license.

KPM #4	CUSTOMER SERVICE - Percent of customers rating their satisfaction with the agency's customer service as "good" or "excellent": overall, timeliness, accuracy, helpfulness, expertise, availability of information.
	Data Collection Period: Jul 01 - Jun 30



Report Year	2015	2016	2017	2018	2019
Expertise					
Actual	82%	86%	74%	75%	78%
Target	85%	85%	85%	85%	85%
Helpfulness					
Actual	76%	90%	80%	82%	77%
Target	85%	85%	85%	85%	85%
Availability of Information					
Actual	79%	69%	69%	67%	66%
Target	85%	85%	85%	85%	85%
Overall					
Actual	77%	82%	74%	73%	72%
Target	85%	85%	85%	85%	85%
Timeliness					
Actual	76%	80%	70%	65%	66%
Target	85%	85%	85%	85%	85%
Accuracy					
Actual	73%	79%	75%	78%	73%
Target	85%	85%	85%	85%	85%

How Are We Doing

The overall agency rating was 72 percent (rated as good or excellent) compared to 77 percent in 2015. The OLCC missed the 85 percent target in all five areas when averages were taken from five stakeholder groups. However, the OLCC met or exceeded the 85 percent average target for surveys from liquor agents and alcohol licensees with 87 percent and 89 percent reporting excellent or good service. Marijuana licensees provided an evaluation of 75 percent excellent or very good service- driven by complaints of poor timeliness and changing rules.

The lower average scores were driven by the much less favorable responses from the general public compared to prior years. Respondents who self-identified as interacting with OLCC related to recreational marijuana provided an average satisfaction score of 20 percent. Interestingly, marijuana licensees reported a 75 percent satisfaction rate for how OLCC performs in the surveyed areas.

Factors Affecting Results

A number of factors affect results. OLCC is still staffing license investigator positions for marijuana. Medical marijuana tracking has recently been added to OLCC's portfolio. The legislature passed a moratorium on new producer licenses. And each legislative session provides changes in the recreational marijuana, medical marijuana and hemp regulatory environment.

Frequent complaints include slow processing times for marijuana licenses. Frequently changing laws and rules. Unclear communication regarding administrative requirements for marijuana licensees. Many licensees provided very positive feedback for the OLCC staff with whom they worked, and toward the agency in general.

The agency continues to make efforts to increase information availability through Gov Alerts and posting updates on the agency website. The Commission is endeavoring to improve licensing times for marijuana licensees by hiring more staff.

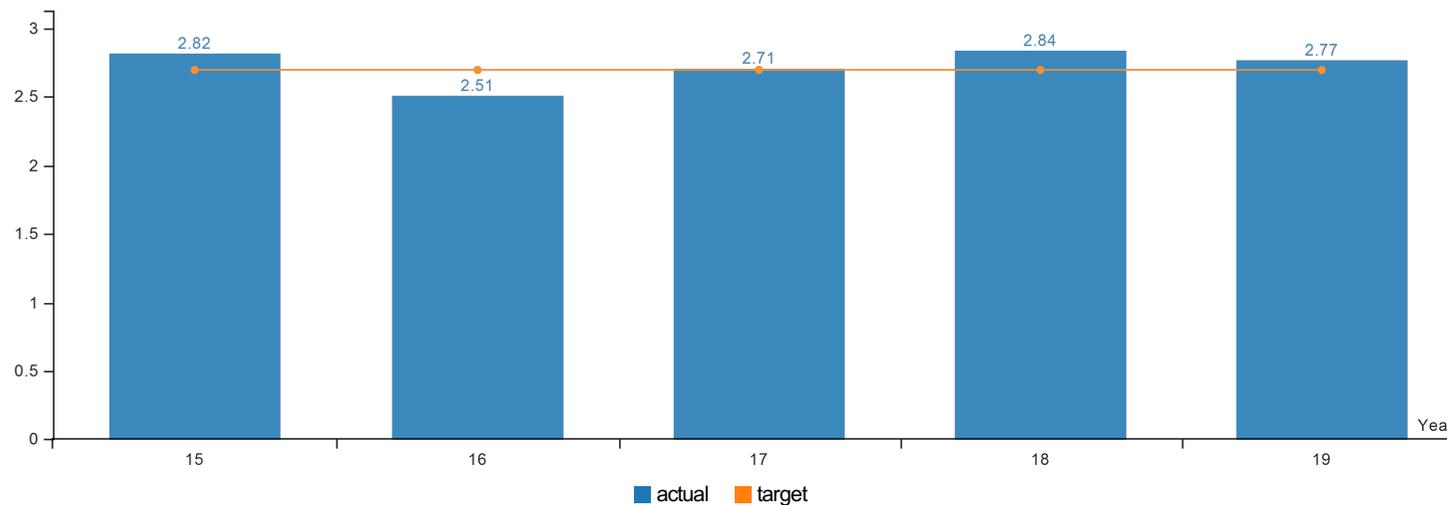
There were a total of 395 respondents from the five survey stakeholder groups. There was a significant difference in responses between the general public, alcohol and marijuana licensees or agents. Those with business before commission provided a much higher evaluation of the Commission than did the public survey. The increase of general public attention to the Oregon Liquor Control Commission and the widespread confusion that the Commission is responsible for legislation and rules implementing all aspects of marijuana (medical and recreational) as well as cigarettes may have contributed to the low evaluations from the public stakeholder group. Results from stakeholder groups were weighted equally. Sub-groups within our licensee categories were sampled to ensure representation of license types.

Results from the public survey from respondents who have indicated marijuana as their specific concern, provided a significantly lower evaluation of the OLCC performance than those who'd indicated alcohol licensing and regulation or distilled spirits as their area of focus. The implementation of, and OLCC's role in recreational marijuana resulted in significant public outreach and media coverage.

The response rate from alcohol licensees was only 30 percent, and 58 percent for marijuana licensees. The low response rates undermine the validity of the survey instrument as an accurate gauge of stakeholder sentiment. Public input to the survey was much lower this year than any since the launch of recreational marijuana. This may be in part, because of changes in the distribution of survey invitations, and reduced public interest in marijuana licensing.

KPM #5	OLCC Rate of Return - Net OLCC distribution divided by actual expenses.
	Data Collection Period: Jul 01 - Jun 30

* Upward Trend = negative result



Report Year	2015	2016	2017	2018	2019
OLCC Rate of Return					
Actual	\$2.82	\$2.51	\$2.71	\$2.84	\$2.77
Target	\$2.70	\$2.70	\$2.70	\$2.70	\$2.70

How Are We Doing

The OLCC rate of return in FY 2019 was \$2.77 for every dollar spent. The rate of return has regained the target of \$2.70 per dollar spent that was missed in FY 2016 and exceeded the past three. The decline from 2016 was caused by a number of one-time expenses for capital improvements and expenditures related to implementing recreational marijuana. With the dedicated revenue to marijuana from licensing and taxes, liquor sales now offset agent compensation and agencies costs related to licensing and compliance for alcohol.

During FY 2019 the surcharge generated \$ 18.2 million in additional revenue. Without the surcharge the ratio would have fallen from \$2.77 to \$2.58, indicating that the surcharge continues to be instrumental for generating targeted revenue.

Factors Affecting Results

There are many factors that affect the agency's rate of return. Gross revenue from liquor sales increased 6.2 percent during FY 2019 over FY 2018, despite this ROI decreased from \$2.78 to \$2.77. The increase in liquor sales can be attributed increased economic growth in Oregon, as well a reduction in customer time expenditure as a result of the expansion of retail outlets.

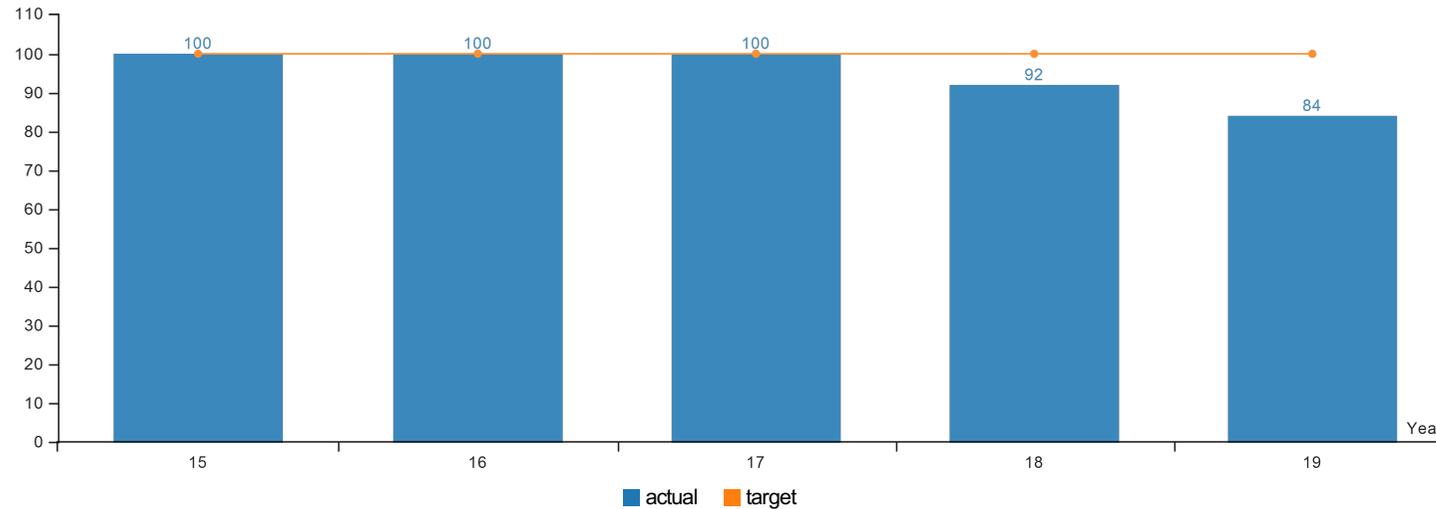
The largest expenditure, after the landed cost of product, is agent compensation. Agent Compensation in FY 2019 rose 6 percent along with sales.

16 new retail locations started recording sales during some part of FY 2019.

FY 2019 saw an increase in expenditures for retail services related to expansion. The Oregon Liquor Control Commission anticipates a reduction in ROI in FY 2020 because of the changes to the agent compensation formula requested during the 2019 regular session.

KPM #6	Best Practices - Percent of total best practices met by the Board.
	Data Collection Period: Jan 01 - Jan 01

* Upward Trend = positive result



Report Year	2015	2016	2017	2018	2019
Best Practices: Percent of total best practices met by the Board.					
Actual	100%	100%	100%	92%	84%
Target	100%	100%	100%	100%	100%

How Are We Doing

This is the twelfth year the self-assessment has been taken by the agency's commissioners. Four commissioners responded to the FY 2019 request to complete this self-assessment and all four commissioners answered every question. There was 82 percent agreement among the responding commissioners that all OLCC best practices were being met. Three commissioners selected not to reply.

The assessment indicated that the Commission's governance practices are not hitting the target of 100 percent.

Factors Affecting Results

Response rates will impact the average. In FY 2017 four out of five commissioners were available to respond to the survey. FY 2019 experienced a vacancy on the Commission and the addition of two commissioners. 5 of the seven commissioners have served for two or fewer years.

Communication continues to be good between the executive director and Commission, it appears that the commissioners who did reply felt prepared to respond.

Data was coded zero for "no" and one for "yes". Blank responses were not used to determine the total.

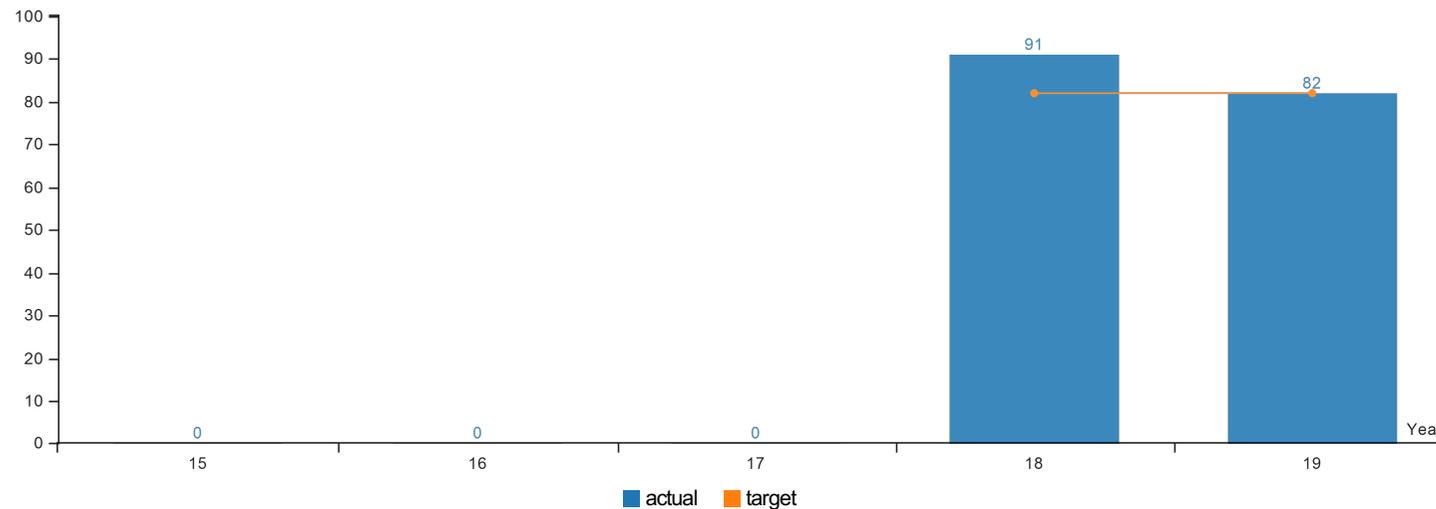
6. WHAT NEEDS TO BE DONE

The agency continues to bring itself into alignment with the specifically stated standards. The agency will also work to effectively demonstrate to the new and continuing Commissioners the

examples of how these standards are being met or exceeded. Agency management also works to educate new Commissioners on governance and processes so that they are current on their responsibilities and agency goals.

KPM #7	Sales to Minors- Recreational Marijuana - This measure is the rate at which licensees refuse to sell marijuana products to minor decoys.
	Data Collection Period: Jul 01 - Jun 30

* Upward Trend = positive result



Report Year	2015	2016	2017	2018	2019
Sales to Minors- Recreational Marijuana					
Actual	No Data	No Data	0%	91%	82%
Target	TBD	TBD	TBD	82%	82%

How Are We Doing

The FY 2019 results reveal an 82 percent compliance rate of refusing sales to minors which matches the legislative target of 82 percent compliance. The compliance rate was the same as alcohol compliance. Regulatory Specialists conducted 61 marijuana minor decoy operations in fiscal year 2019. 74 fewer than in FY 2018.

The Portland and Salem metropolitan regions experienced 81 and 84 percent compliance rates respectively, while the Eugene compliance rate was 83 percent Bend region passed 80 percent of locations visited locations.

Fiscal Year 2019 was the second year that the Recreational Marijuana Program conducted minor decoy operations.

Factors Affecting Results

A key factor driving compliance results is the likelihood of detection. The "perception of detection" is a significant motivator to comply with marijuana laws for licensees and their staff. When the number of operations decreases, a licensee may not perceive the risk of detection as likely and choose to make decisions that do not comply with the public safety laws.

The first minor decoy operations conducted in the Portland metro region, during December of 2017, resulted in a 70% fail rate. Medical marijuana dispensaries had never experienced minor decoy operations before, and these were the first such operations conducted on recreational retailers. Widespread publicity of results, and the Commission's decision to increase penalties associated with sales to minors corresponded with a substantial decline in subsequent violations.

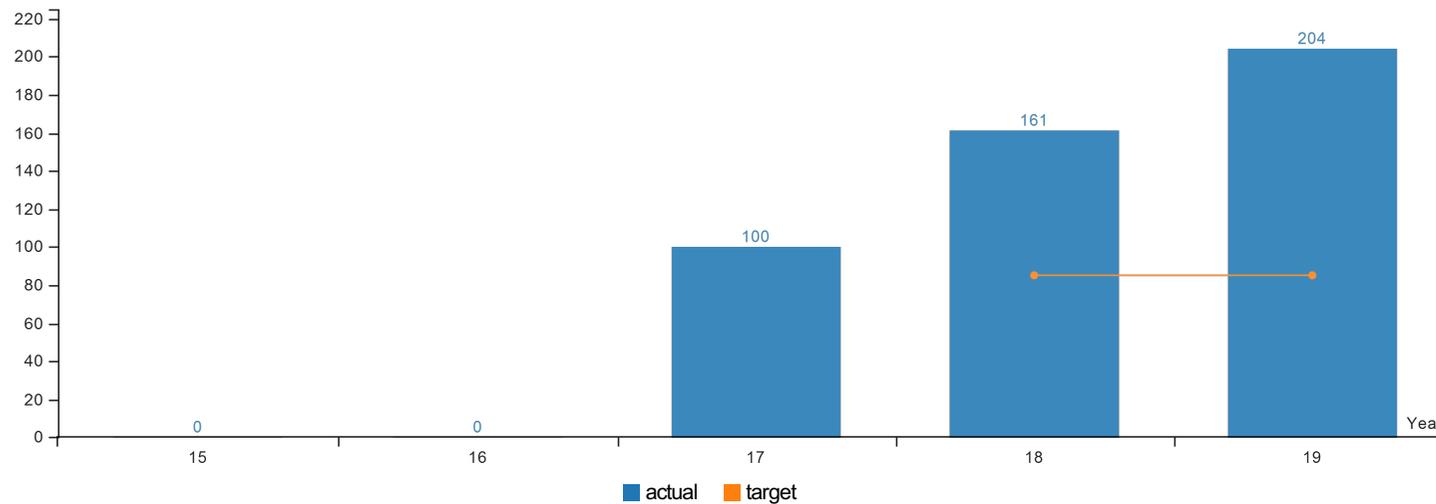
With the implementation of intensive inspections during the FY 2019 harvest season, "Operation Good Harvest" marijuana compliance resources were focused on preventing diversion and making

pre-license inspections for new licensees. As a consequence operational activity for minor decoys declined, and media coverage of operations declined as well. With minor decoy operations out of the news, "perception of detection" likely dropped and overall compliance dropped with it.

The Oregon Liquor Control Commission is engaged in a process of improving the rate of compliance checks (decoy operations) to increase the "perception of detection" and keep compliance at the front of mind for Recreational Marijuana Retailers. Some changes being investigated include paying decoys, restructuring compliance operations so that marijuana and alcohol operations can pool staff and decoys, and improving logistical planning to maximize retailers visited during operations.

KPM #8	Time to license- marijuana - Average days to license completed marijuana applications.
	Data Collection Period: Jul 01 - Jun 30

* Upward Trend = positive result



Report Year	2015	2016	2017	2018	2019
Time to license - marijuana					
Actual	No Data	No Data	100	161	204
Target	TBD	TBD	TBD	85	85

How Are We Doing

The FY 2019 mean marijuana licensing time statewide was 204 days for the 439 cases for which there is complete data. The median time to license is 141 days indicating that a small number of outstanding license are influencing the mean. The average time to license for FY 2019 is well above the target of 85 days. The Commission continues to adapt in order to implement the recreational marijuana program and provide prompt service to applicants.

Retailer licenses took the shortest period to process, 150 days on average, while wholesaler were processed in an average of 211 days.

Factors Affecting Results

There are many factors affecting the number of days it takes to issue a recreational marijuana license; some internal and some external. Internal factors continue to be identified as business processes are developed to implement newer marijuana law and rules.

During FY 2019 the Commission redeployed regulatory specialists to compliance operations from licensing activities. The Commission continues to hire licensing staff, implement process improvements and technological solutions (automation).

The recreational marijuana program continued to fill a number of vacancies in license investigator positions during fiscal year 2019. The renewal process also saw a large proportion of applicants with complicated renewals with site and/or ownership changes.

External factors are difficult to control. A primary external factor affecting how quickly a recreational marijuana license can be issued is the license application review by the local governing body (city

or county). The issuance of Land Use Compatibility Statement by the local governing unit is the triggering event that allows the Oregon Liquor Control Commission to assign an investigator to begin actively processing a marijuana application. Local governments also have lengthy application review.

Applicants have also struggled to complete applications correctly and in a timely manner. The newness of the program and changes in law and rules guiding the application process have posed a challenge for applicants who are navigating the process. In order to help applicants, the Oregon Liquor Control Commission has produced a business guide for applicants and licensees, and continues to provide education and information through the website, emails, and frequent communication with license investigators.

An analysis of some of the longer duration applications show applicants that fail to respond for 365 days or more, before resuming the application process.

Fiscal year 2019 continued to produce a high rate of business changes that required reprocessing of licenses with interested party investigations that consumed investigation resources without being reflected in license processing statistics.