



# Alcohol Sector & Oregon

Facts Matter



## The 2 Towns Story

Founded 2 Towns 15 years ago at the age of 27.

Started in a garage with my friends.

Grew business to 130 staff over 15 years.

I'm passionate about what we do - 2 Towns is the most medaled cidery in the country and a pioneer in the resurgence of craft cider.

# Crafting a Narrative

A couple years ago, HB3312 an extreme proposal to increase alcohol taxes was being debated and would have been catastrophic to the industry if passed. I asked several lawmakers who had voiced support why they would support such a bill. All of them referred me to the same article:

## **Addiction to drugs, alcohol deepens in Oregon, report shows**

The state's addiction crisis has worsened since the pandemic hit, according to a federal survey

BY: **LYNNE TERRY** - FEBRUARY 7, 2022 5:45 AM



The article said Oregon was **last in access to recovery services and 2nd worst in addiction** rates in the nation. Only, this wasn't true. The article made a number of assertions based on flawed data and an improper analysis.

Screenshot from the National Survey of Drug Use and Health

## **State Data Tables and Reports From the 2019-2020 NSDUH**

State estimates for these years are no longer available due to methodological concerns with combining 2019 and 2020 data. We apologize for any inconvenience or confusion this may cause.

The data the article relied upon was retracted by NSDUH for data problems.

I contacted the author of the article for a correction and was ignored. For the next year if you Googled “Oregon” & “Addiction” this article was the top search response.

Around the same time, hundreds of other articles reported the same story also reliant on the flawed data. Most articles cited Oregon Health Authority and/or Oregon Recovers. Together, these articles based on flawed data shaped the addiction epidemic narrative causing lawmakers to support a bill that would result in 1,000s of lost jobs and \$100s of millions of dollars of damage to the economy if passed.

To date, I have found 0 corrections or retractions on this topic and so this narrative persists. Narrative drives public opinion, which in turn drives public policy.

Today, we're told that Oregon is desperately in need of addiction recovery capacity. At our 1st task force meeting OHA presented that Oregon was 49% underserved by our current capacity and that 3,800+ more recovery beds were needed. This also was widely publicized. **0 articles reported the following:**

- OHA indicated they never performed a physical check on recovery capacity
- OHA indicated they did not have any data about the utilization rates of beds, patient wait times, or OHP patient capacity vs private insurance capacity

The OHA claim that we lack capacity is based on the **Gap Analysis Report. The Gap report did not look at our actual usage rates.** The gap report is only a theoretical estimate calculated using NSDUH survey data.

- The Gap Analysis Report relied upon the retracted 2020 NSDUH data to make its estimates
- 2020 data was likely chosen because this was the 1st year that NSDUH changed methods from DSM-4 to DSM-5 to estimate SUDs. The DSM-5 method estimated double the SUDs than DSM-4
  - 2018 (DSM-4) estimated 337K SUDs in OR
  - 2020 (DSM-5) estimated 670K SUD SUDs in OR - a 99% increase.

**The 2020 survey was likely chosen because the change in methodology inflated the perceived gap in recovery services - a larger the gap, the more justification for extreme increases to taxes**

**Table 6.19. Facility capacity and utilization of residential (non-hospital) and hospital inpatient care, by state or jurisdiction:  
Number and utilization rate, March 31, 2020 (continued)**

State or jurisdiction <sup>1</sup>	Residential and hospital inpatient <sup>2,3</sup>			Residential (non-hospital) <sup>2</sup>					Hospital inpatient <sup>3</sup>				
	No. of clients	No. of designated beds <sup>2,3</sup>	Utilization rate (%) <sup>2,3,4</sup>	No. of facilities	No. of clients	No. of designated beds <sup>2</sup>	Utilization rate (%) <sup>2,4</sup>	Designated beds per facility <sup>2</sup>	No. of facilities	No. of clients	No. of designated beds <sup>3</sup>	Utilization rate (%) <sup>3,4</sup>	Designated beds per facility <sup>3</sup>
North Carolina	1,124	1,274	88.2	37	871	977	89.2	26	11	253	297	85.2	27
North Dakota	49	85	57.6	7	49	85	57.6	12	--	--	--	--	--
Ohio	2,071	2,584	80.1	57	1,654	1,948	84.9	34	21	417	636	65.6	30
Oklahoma	606	862	70.3	26	552	738	74.8	28	3	54	124	43.5	41
Oregon	572	747	76.6	19	470	580	81.0	31	4	102	167	61.1	42
Pennsylvania	4,302	5,407	79.6	94	3,865	4,725	81.8	50	13	437	682	64.1	52
Puerto Rico	1,082	715	151.3	26	1,038	616	168.5	24	5	44	99	44.4	20
Rhode Island	162	134	120.9	6	134	106	126.4	18	1	28	28	100.0	28

OHA indicated they never surveyed our actual recovery bed capacity. The Dept. of Health and Human Services has. The 2020 National Survey of Substance Abuse Treatment Services indicated that **23.4% of Oregon's recovery bed capacity was sitting unused.**

In our own task force meetings we've heard from providers that they ration beds to Oregon Health Plan patients due to low reimbursement rates while beds are available.

If we were to follow the recommendations in the Gap Analysis Report, OR would need to spend billions of dollars on infrastructure alone. This proposal does not address the fact that this expenditure wouldn't improve access for the 1 in 3 Oregonians on Oregon Health Plan.

Table 12. Summary of CAST service gaps by service type<sup>3</sup>

Service type	Estimated number of services			Percent gap
	Need	Actual	Gap in services	
<b>Workforce - statewide</b>				<b>66%</b>
Certified Prevention Specialists	968	62	906	94%
Certified Alcohol and Drug Counselors	4,902	2,884	2,018	41%
Certified Recovery Mentors	2,177	1,565	612	28%
Qualified Mental Health Associates	20,493	2,776	17,717	86%
Qualified Mental Health Professionals	12,619	879	11,740	93%
Prescribers with a buprenorphine waiver	3,857	1,902	1,955	51%
<b>Facilities - statewide</b>				<b>54%</b>
Outpatient (number of facilities)	586	383	203	35%
Inpatient (number of facilities)	470	187	283	60%
Residential detox (number of facilities)	103	75	28	27%
Recovery residences (number of beds)	7,078	3,219	3,859	55%
Recovery community centers (number of facilities)	145	8	137	94%
<b>Other programming - statewide</b>				<b>30%</b>
Facilities with fentanyl test strip distribution	127	83	44	35%
Facilities with naloxone distribution	334	240	94	28%
Syringe exchange programs	106	45	61	58%
Prescription drug drop-off locations	545	502	43	8%
Mutual aid meetings	4,464	3,351	1,113	25%
School based prevention assemblies	2,223	1,572	651	29%
School based prevention classroom activities	17,466	12,150	5,315	30%

<sup>3</sup>Estimates of need and service gaps produced using the Calculating an Adequate System Tool (CAST).<sup>20</sup>

## Determining Costs – Workforce - Wages

Total Annual Cost of Wages and Administration for Needed SUD Positions

Cost Component	CPS	CADC	CRM	QMHA	QMHP
Annual Salary	\$68,461	\$53,650	\$43,995	\$51,315	\$74,054
Benefits	<del>\$88,588</del> \$20,127	<del>\$69,423</del> \$15,773	\$12,935	\$15,087	\$21,772
Total Wages	<del>\$157,049</del> \$88,588	<del>\$123,073</del> \$69,423	\$56,929	\$66,402	\$95,826
Administrative + Program Support	\$37,692	<del>\$152,610</del> \$29,537	\$13,663	\$15,936	\$22,998
Total Cost Per Position	<del>\$194,741</del> \$126,280	<del>\$275,683</del> \$98,960	\$70,592	\$82,338	\$118,825
Number of Positions Needed	906	2,018	612	17,717	11,740
Total Annual cost for all Positions	<del>\$176,435,309</del> \$114,409,680	<del>\$556,329,267</del> \$199,701,280	\$43,202,587	\$1,458,788,758	\$1,395,003,063
				<b>Total for all positions</b>	<del>\$3,629,758,985</del> \$3,211,105,368

**WAGE ESTIMATE OVERSTATED BY \$418,653,617**

All of these estimates are based on the theoretical needs in the Gap Report, not an actual analysis of our current usage rates.

# Changing Methods - Incompatible Data

A change in methodology was exploited to build a narrative of an addiction epidemic that the data did not support. That narrative was used as foundational in conversations about increasing taxes to fund additional recovery capacity to combat this designed epidemic.

Our understanding of our lacking recovery capacity is not based on any real observations, only a theoretical model which is known to have relied on flawed data.

The methods employed in the Gap Report are sound methods, but were never intended to be used in a vacuum. The theoretical framework of the Gap Report is best employed in tandem with real world observations so our actual capacity needs are understood and the gap report can be used to help identify holes in coverage, not as our sole guiding light.

I fear we are striving toward goals that are not based in reality or supported by the data and if achieved would likely not improve access to recovery services for the OHP patients who seem to be the ones who are currently lacking in access.

# Diagnosing Substance Use Disorders (SUDs)

We've talked a lot about substance use disorders. The state makes billions of dollars worth of decisions with SUDs a factor.

I've spoken with a number of lawmakers and none knew how these vital statistics were actually derived.

For the next slides we'll discuss alcohol use disorder, a subset of substance use disorders. All AUDs are counted as SUDs.

*Keep in mind that diagnosing a SUD requires a in-person visit with a mental health professional. All SUDs in NSDUH surveys are for estimation purposes only.*

# How Does National Survey of Drug Use & Health (NSDUH) Identify Alcohol Use Disorder?

Total sample size in Oregon of the annual NSDUH survey on drug and alcohol use:

- 1,278 people in 2021
- 966 people in 2022
- Total **2,244 people** over 2 years (combined ~**0.05% of state population, just under minimum sample size to be statistically significant with +/- 2% margin of error**)

12.2% of those surveyed were estimated as having an AUD which is ~274 individuals. **274 people represent 448,000 Oregonians** estimated by NSDUH as having an AUD.

**AUD is estimated by 11 survey questions.** Answering yes to any two questions will result in an alcohol use disorder identification.

**Given the sample size, if ~37 people answered those questions differently, OR would rank below the national average for rate of Alcohol Use Disorder.**

# How Does NSDUH Identify Alcohol Use Disorder?

Of the 274 survey respondents estimated to have an AUD, ~60% of the affirmative survey responses were to the following questions:

1. Had a strong urge to use alcohol
2. Used alcohol many times in larger amounts or for longer periods than intended
3. Spent a great deal of time using alcohol, feeling its effects, or getting over its effects
4. Needed to use more alcohol to get the desired feeling

While answering yes to these questions may illustrate an unhealthy relationship with alcohol, it does not necessarily indicate that this individual drinks heavily or needs recovery services. **BRFSS identifies 8.2% of the population as heavy drinkers, 4% lower than the 12% percent of population diagnosed with an Alcohol Use Disorder** meaning  $\sim\frac{1}{3}$  of those diagnosed with AUDs are not even heavy drinkers.

# NSDUH Shortcomings

While the National Survey of Drug Use and Health data can be useful in identifying trends and where Oregon ranks compared to other states, the data is prone to inaccuracy and has some serious shortcomings due to large margins of error, small sample sizes, and a high propensity for false positive diagnosis of substance use disorders (as indicated by NIH).

This is why Oregon needs real recovery care usage statistics to compare to the theoretical model in the Gap Analysis report to ensure that the needs modeled are grounded in reality.

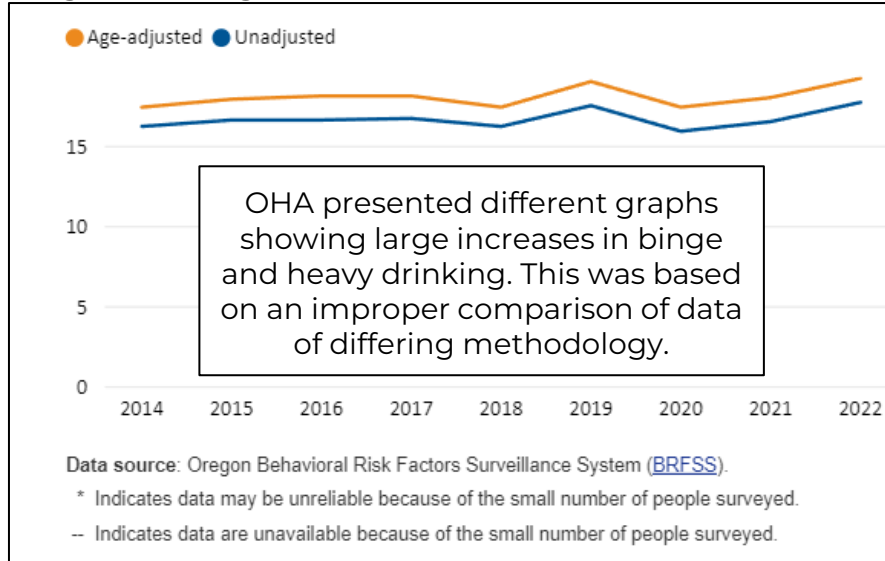
# Consumption Data

Understanding how Oregonians consume alcohol, what trends exist and from what sources the alcohol is obtained is important in helping us craft policy.

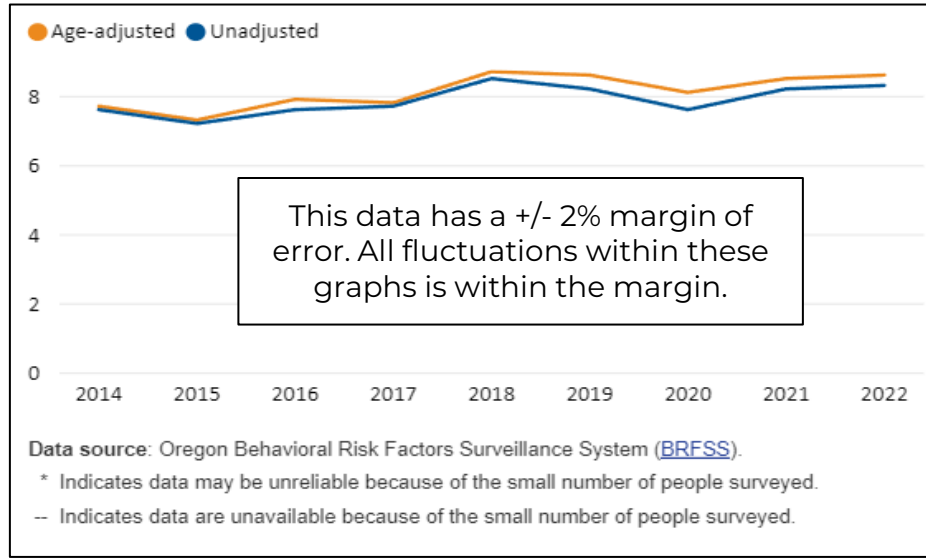
We've seen data presented to us regarding growing consumption rates in Oregon. These presentations relied upon either incomplete data or comparing data from differing and uncomparable methods.

## RATES OF EXCESSIVE DRINKING ARE NOT INCREASING

### Binge Drinking

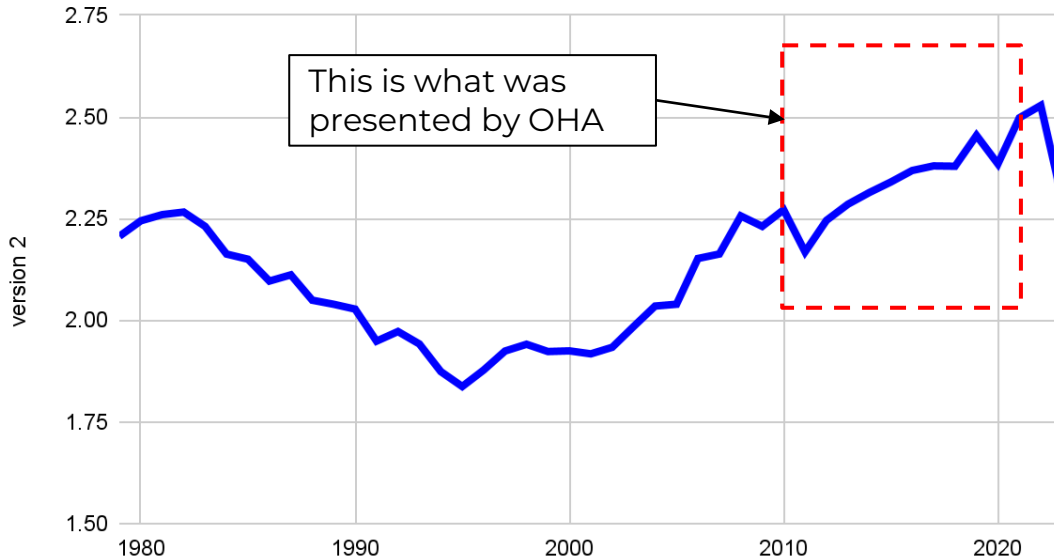


### Heavy Drinking



Neither rates of binge drinking or heavy drinking have had substantial change according to the Oregon State BRFSS system. Any fluctuation within the margin of error of the data.

## Gallons Ethanol Per Capita by Year



Ethanol estimates derived from OLCC tax records. Assumptions - Wine 13% ABV, dessert wine 18% ABV, beer 5% ABV, spirits 40% ABV, population from census data

### **Recent consumption is declining.**

Gallons of ethanol consumed per capita was growing since 2011 until the apex in 2022 at the height of the pandemic.

After the pandemic, consumer behaviors changed and consumption dropped rapidly.

Across the country, health officials are using figures from the height of the pandemic to drive tax initiatives. Several years from now, we will see improvement regardless of tax policy because the improvements already occurred.

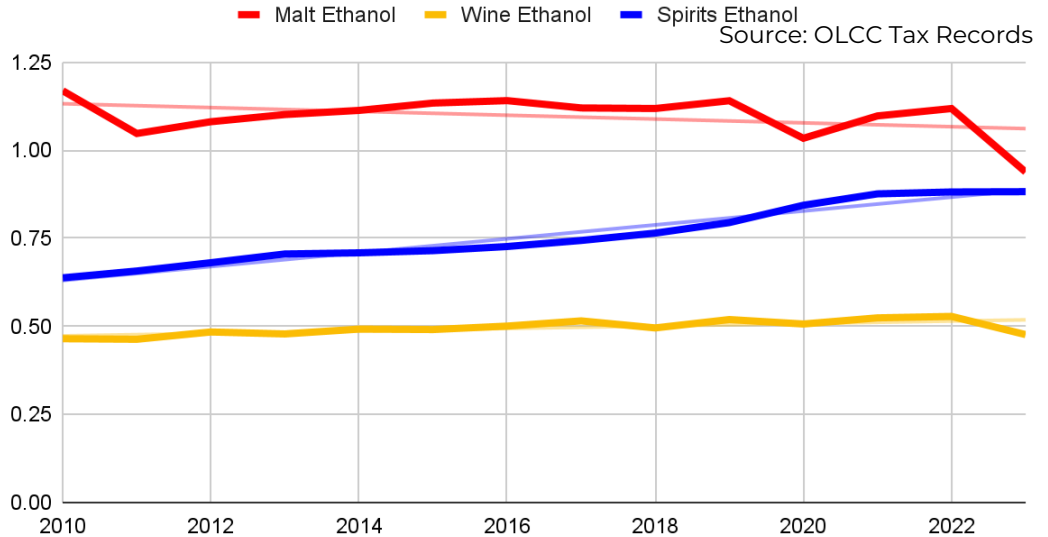
## Not All Sources Are the Same

Medically, it is not important what commodity (beer, wine or spirits) is consumed regarding the effects of the ethanol on the body.

However, which commodity Oregonians obtain ethanol from is important in our tax strategy.

**Taxes discussed in this task force only impact beer and wine, not liquor as liquor is sold by the state**

## Gallons of Ethanol per Capita by Commodity



**Growth in consumption is not coming from beer or wine. Malt volume declined 20%, wine volume was nearly flat.**

## Spirits Are the Source of Growth

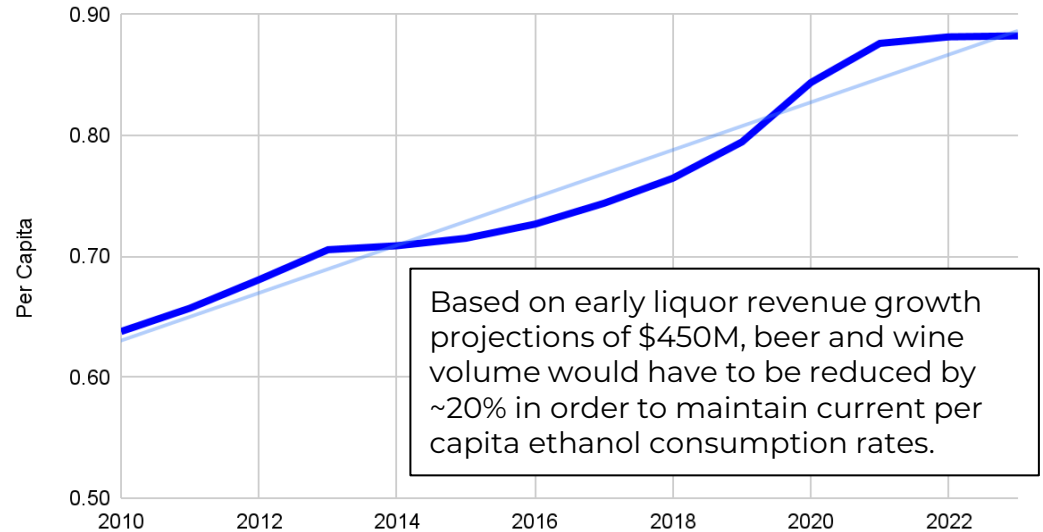
Gallons of ethanol derived from spirits has increased substantially since 2010. Nearly all growth in ethanol consumption is from spirits.

**The state has approved a \$150 million dollar expansion to grow state distribution of spirits.**

Even consumption of spirits are now declining post pandemic. Earlier growth projections have been tamped down given current trends.

Per Capita Gallons Ethanol from Spirits

Source: OLCC Tax Records



**Gallons of ethanol from spirits have already increased 38%**



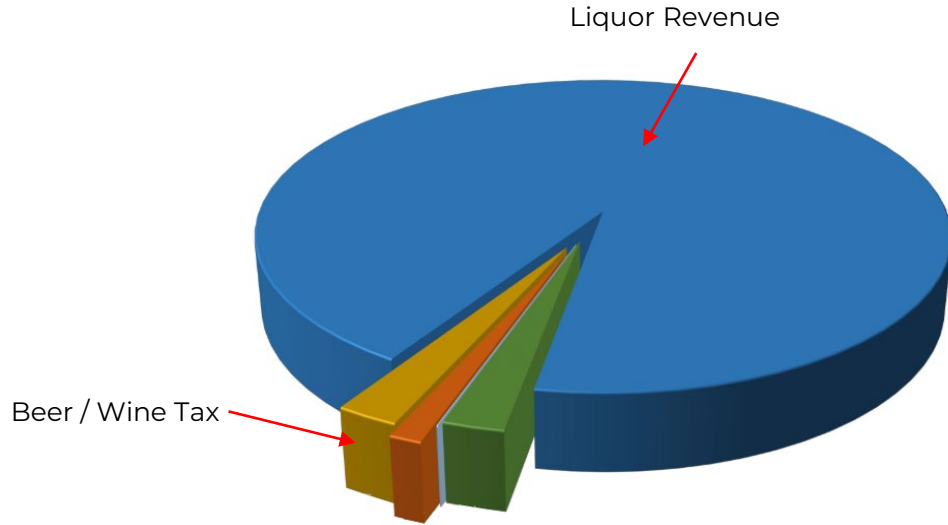
Rank	State	Rate	Rank	State	Rate	Rank	State	Rate
1	Alaska	\$2.50	17	South Dakota	\$0.93	33	Indiana	\$0.47
2	Florida	\$2.25	18	South Carolina	\$0.90	34	Idaho	\$0.45
3	Iowa	\$1.75	19	New Jersey	\$0.88	35	Missouri	\$0.42
4	Alabama	\$1.70	20	Washington	\$0.87	36	Maryland	\$0.40
5	New Mexico	\$1.70	21	Arizona	\$0.84	37	Mississippi	\$0.35
6	Delaware	\$1.63	22	Louisiana	\$0.76	38	Colorado	\$0.32
7	Georgia	\$1.51	23	Arkansas	\$0.75	39	Connecticut	\$0.32
8	Virginia	\$1.51	24	Oklahoma	\$0.72	40	Ohio	\$0.32
9	Rhode Island	\$1.40	25	Nevada	\$0.70	41	DC	\$0.30
10	Illinois	\$1.39	<b>26</b>	<b>Oregon</b>	<b>\$0.67</b>	42	Kansas	\$0.30
11	Hawaii	\$1.38	27	Maine	\$0.60	43	Minnesota	\$0.30
12	Tennessee	\$1.21	28	Massachusetts	\$0.55	44	New York	\$0.30
13	Montana	\$1.06	29	Vermont	\$0.55	45	Wyoming	\$0.28
14	North Carolina	\$1.00	30	Michigan	\$0.51	46	Wisconsin	\$0.25
15	West Virginia	\$1.00	31	Kentucky	\$0.50	47	California	\$0.20
16	Nebraska	\$0.95	32	North Dakota	\$0.50	48	Texas	\$0.20
<b>States with alternative wine structure:</b> New Hampshire, Pennsylvania, Utah								

## Oregon Wine Taxes Are Average

It has often been stated Oregon has the lowest alcohol taxes in the country. This statement patently false.

Oregon wine taxes are 26th highest in the nation. OHA has combined non-alcohol taxes to the other state's alcohol tax rates in order to claim that they have higher alcohol taxes than Oregon.

This is an intentionally dishonest way to claim OR has lower wine taxes than it does in order to fabricate support for tax increases.



Taxes collected from beer/wine distributors and from alcohol sales from stores is larger than tax revenues collected from liquor sales. Those taxes just have a different name. An apples to apples comparison shows beer/wine contributes more to state revenues than liquor does.

This chart has been presented to insinuate that beer and wine are not paying their fair share of taxes compared to liquor.

This chart ignores that liquor is sold by the state. The state acts as both the distributor and retailer for liquor. The revenues shown here are the combined value of these activities.

Beer and wine are sold by private distributors and private retailers. Taxes paid by these organizations are not counted in the chart.

# Understanding How Alcohol is Sold

Alcohol is highly regulated in Oregon. Producers of alcohol are limited in how they are allowed to sell their products. This impacts how taxes affect the prices to consumers.

The next few slides will address the economic framework of privilege taxes and the tiers of alcohol sales.

# What is the 3-Tier System

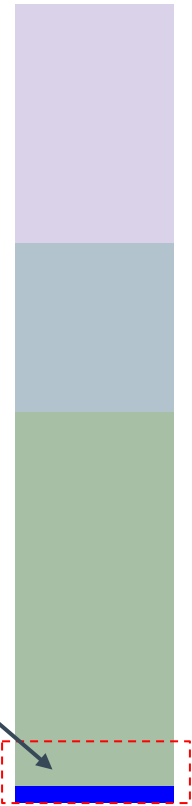


Designed after prohibition, the 3-tier system was intended to promote fair trade by keeping the 3 parties in alcohol production and sales separate. The tiers are:

- Producers: Brewery, Winery, Cidery
- Wholesaler: Distributors
- Retailers: Grocers, Restaurants, Bars

No tier can have control over both of the other two legally in Oregon.

**Liquor is sold by the state in Oregon, and has differing laws than beers, wines and ciders.**



Retailer Margin  
(30% of Shelf Price)

Distributor Margin  
(21% of Shelf Price)

Supplier Cost of Goods Sold (COGS)  
(47% of Shelf Price)

Supplier Net Profit  
(2% of Shelf Price)

## Understanding Profits

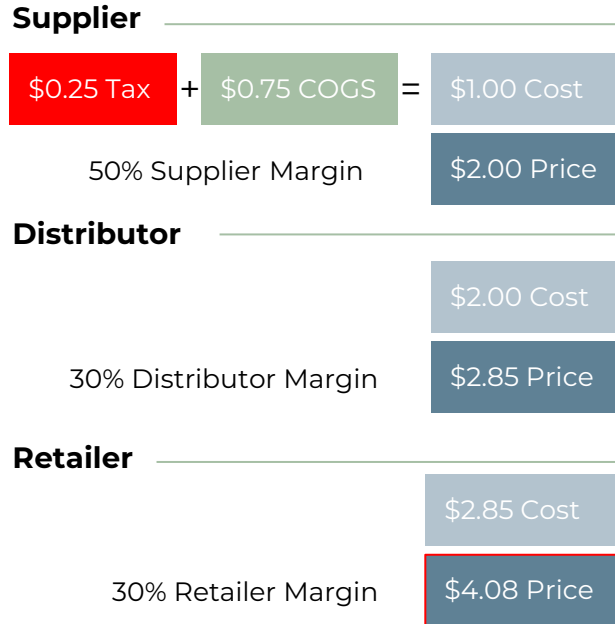
There is a misconception that suppliers make a lot of profit. The vast majority of the price paid by a consumer goes to pay for the retailer and distributor margins and the ingredient, packaging and labor costs of the supplier.

Standard supplier net profits are usually only 2-5% of the shelf price of their product. There is not a lot of room in this margin for additional costs.

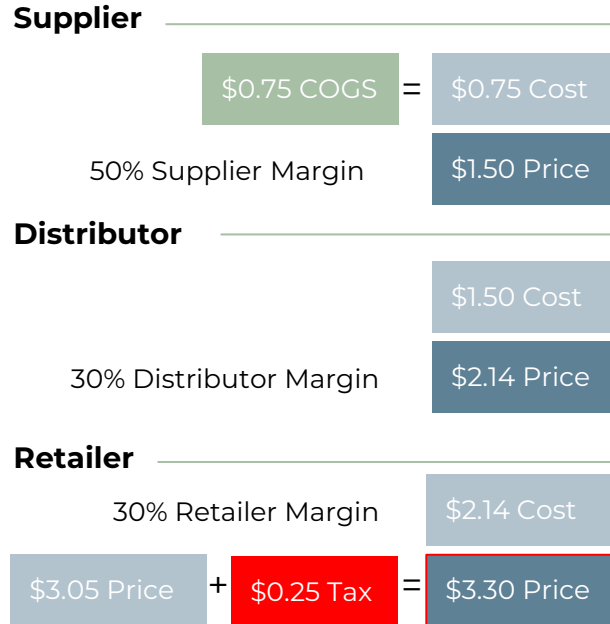
No economic studies were conducted on what financial impacts would be of HB3312 on one of OR largest industries.

# Privilege Taxes Are a Poor Way to Tax

## Privilege Tax



## Sales Tax



Taxes imposed on producers are more costly to consumers than taxes imposed at the point of sale for identical revenues for the state.

In this example, both methods of tax bring the state \$0.25 revenue and all parties make identical margins. **The privilege tax costs more to the end consumer.**

# What Does the Research Say?

We've discussed consumption and taxation in Oregon. We are not the first region to attempt to manage public behavior through a tax.

We have multiple examples of other states' attempts to control excessive consumption via various taxes. We also have our own internal studies that are now publicly available after OHA was forced to publish them due to investigative reporting.

# What Do We Know?

- **ECONorthwest** modeled:
  - 2,444% tax increase resulted in an estimated ~5% overall reduction in consumption but warned that consumers would likely switch to spirits lessening the reduction
  - Estimated **1-2% reduction in excessive drinkers**
- **Illinois**: attempted wine tax to reduce consumption as described in ECONW Final Report.
  - Wine consumption was reduced but malt and liquor consumption increased
  - Overall ethanol **consumption reduction <1% due to substitution**
- **Maryland**: a sales tax on alcohol was introduced to reduce consumption
  - Study indicated a 5% overall reduction (not able to independently verify)
  - **Increases in alcohol use disorder and binge drinking** according to NSDUH
- **Scotland**: Introduced minimum alcohol pricing strategy
  - Saw an overall reduction in consumption
  - Excessive drinkers **reduced food spending to accommodate higher alcohol prices** while not reducing alcohol consumption. Reductions in consumption primarily occurred within responsible drinker group.

# What is Substitution?

Substitution is when a consumer switches from one alcohol source to another less expensive option. ECONW found that substitution dilutes health benefits from tax increases. Higher taxes on beer/wine would cause consumers would switch to cheaper alternatives, like liquor. In some cases, consumers might even shift to other drugs if alcohol becomes too expensive.

Real Surveyed Prices		
<b>Cheap Box Wine</b> \$1.82 per oz of pure ethanol  \$7.99 - 1L box 13% ABV	<b>Malt Liquor</b> \$1.08 per oz of pure ethanol  \$2.19 - 25oz can 8.1% ABV	<b>Cheap Vodka</b> \$0.88 per oz of pure ethanol  \$8.95 - 750ml bottle 40% ABV

Before any tax increases to beer or wine, spirits are already the cheapest option.

**Wine:** 107% more expensive

**Malt:** 23% more expensive



**“Consider other pricing and tax strategies to target the most excessive users.”**

“A volumetric tax is the easiest and has been shown to reduce population-level consumption. But, **it is the least targeted tax strategy** to minimize excessive alcohol use among the heaviest consumers given the price insensitivity of this group. ”

ECONorthwest Final Alcohol Harms Report

*OHA withheld this conclusion from the public in order to forward their desired tax initiatives as indicated in their internal email communications.*

# Reduction in Responsible Consumption is a Reduction in Our Economy.

Various tax proposals have been made with the goal of reducing consumption. Reducing responsible consumption does not achieve the stated goal of reducing substance use disorders. It does however, damage our economy.

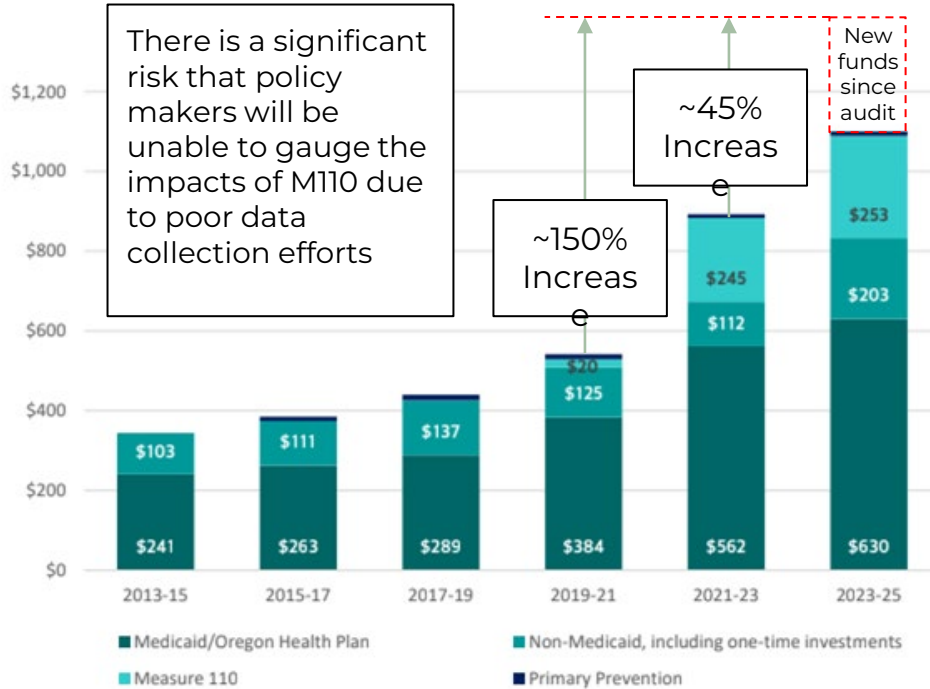
The alcohol industry is a **\$17 billion industry** in Oregon annually. A 5% reduction would result in **~\$850 million in lost business and cause roughly 6,000 people to become unemployed**. Total economic damage resulting from this scenario could easily offset any revenue gains from alcohol taxes, but no efforts have been made to date to study this possibility.

# Let's Talk Turkey

We need to discuss our current recovery budget spending, how it has changed over the past few years and how we compare to our neighbors to ensure we are making financially responsible recommendations regarding how to spend our tax dollars.

The following slides examine our current budget and how we compare to other regions.

**Figure 5: M110 is a substantial addition to the state's funding of substance use disorder services (funding in millions)**



## Secretary of State Audit

According to the Secretary of State, OHA's funding has increased substantially over the last 4 years.

OHA presented a budget of \$974M, however that appears to be the previous budget cycle. The current budget was \$1.14B when audited and several hundred million of additional funding were since added. The current budget is now believed to be ~\$1.4B.

With ~\$1B in new funding since '21, what metrics do we have showing improvement?

# Where is the Money Going?

- Oregon ranks the 3rd most expensive state to obtain substance use treatment
- Oregon is one of the top 5 in per capita tax dollars spent on substance use recovery funding in the nation.

We have heard from recovery providers that Washington is better resourced than Oregon. Washington spends  $\sim\frac{1}{3}$  as much as Oregon per capita on recovery services. How are they better allocating their resources to achieve these results?

Something doesn't appear to be adding up. Nearly every state spends less than we do for better results. We need to identify inefficiencies before adding more resources.

“The consensus of all these experts we brought together is that money is not the problem. The problem is how we mobilize and utilize the resources we’ve got.”

—Rep. Blumenauer

**OHA is unable to account for ~6% of the total funds spent on substance use treatment** in '21-'23. This amounts to over \$58.6 million dollars. This figure is larger than the current total revenues collected from beer and wine taxes annually. There is no tenable tax increase that can offset this scale of budgetary mismanagement.

# Wrapping Up

- HB3296 & HB3312 - Extreme tax increase proposals at the request of Oregon Recovers.
  - No research was conducted to understand impacts of extreme tax increases to the industry
  - Lack of basic understanding of financial size of alcohol industry to Oregon's economy
- OHA publicized a narrative exploiting a change in methodology to make claims unsupported by data
- OHA has not conducted any physical audit of Oregon's recovery capacity. All statements regarding our lacking capacity are based on a theoretical model which relied upon flawed data.
- OHA suppressed data that indicated taxes were largely ineffective in reducing excessive consumption.
- OHA is unable to account for 6% (\$58.6 million) of total recovery budget.
- Nothing discussed addresses the rationing of beds to OHP patients.
- No plan has been presented as to how any additional tax revenues would be allocated or even what the exact financial needs are that we are trying to address.

# Next Steps

**Data Collection:** In order to judge our capacity needs, we need to measure recovery utilization rates on regular intervals looking at capacity by treatment and insurance type. This is necessary to make informed decisions on improving access.

**Financial Plan:** We need a roadmap to what our goals are, and where funds will be spent. This plan needs to be well vetted by various stakeholders once approved, we can work towards options to fund the plan. Raising capital without a framework almost guarantees it will not be used effectively.

**OHA Audit:** We have heard the budget is like a “tangled bowl of spaghetti.” Untangling that mess is going to be necessary to understand what resources are available and where resources are needed. Unmonitored funds are ripe for misuse.

**Impact Study:** OLCC conducts an impact study that focuses on tax related economic harms to the industry and the state’s economy. Included in this study should be an in-depth analysis of current funding and metrics to evaluate effectiveness.

**Inventory Existing Drug & Alcohol Prevention Programs statewide:** Prevention/education has been found to be more effective and less costly than treatment. We need an official curated educational curriculum - both for educators and for licensed alcohol vendors.



# Alcohol Sector & Oregon

Thank You