BUDGET NARRATIVE

OLCC - STORE OPERATING EXPENSES PROGRAM - 005
2019-21 BUDGET

PROGRAM UNIT EXECUTIVE SUMMARY

A. PRIMARY OUTCOME AREA Economy and Jobs

B. PROGRAM CONTACT Will Higlin, OLCC Deputy Director, 503-872-5224

C. FUNDS BUDGET AND PERFORMANCE

The bars show the Store Operating Expenses Program's expenditures. All are funded by Other Funds (liquor revenues).

BUDGET NARRATIVE

D. PROGRAM OVERVIEW

The OLCC appoints liquor agents – independent business people or businesses – to operate liquor stores for the state of Oregon. In addition, the OLCC grants distillery tasting room retail privileges to Oregon Distiller Licensees. The Store Operating Expenses Program contains funds available to pay retail liquor store and distillery agents for their retailing services for the state, encouraging the development of the Oregon economy, per ORS 471.030, Purpose of the Liquor Control Act.

E. PROGRAM FUNDING REQUEST

The Governor's Budget is $144,961,847 Other Funds limitation for the 2019-21 biennium. No FTE or positions are requested.

F. PROGRAM DESCRIPTON

OLCC expects to generate an estimated $1.5 billion in liquor sales in 2019-21. In 2019-21 the Store Operating Expenses Program funds sales compensation for more than 279 liquor retail locations of which 86 are exclusive stand-alone liquor stores and 193 are nonexclusive liquor stores combined with grocery stores, convenience stores and other retail outlets located throughout the state, making alcohol available in a regulated fashion for the people of Oregon and the state's visitors. The agents ensure the responsible sale of alcohol to the public, are responsible for following all liquor laws, and for providing stewardship for the state's $65 million inventory investment in the stores. In addition, the Program funds sales compensation for 89 distillery retail locations.

G. PROGRAM JUSTIFICATION AND LINK TO 10-YEAR OUTCOME

The state's appropriate funding of Oregon liquor store and distillery tasting room operations supports economic development and the creation of jobs in Oregon. It supports these entrepreneurs and the jobs they create throughout the distilled spirits supply chain in Oregon. Selling alcohol is important to the success of Oregon's tourism and the broader hospitality industry, comprising entrepreneurs and their base of jobs that are vital to every Oregon community, including family wage jobs in rural Oregon. Restaurants and bars, often locally owned businesses, purchase approximately 24 percent of the spirits sold by the liquor stores. Additionally, the craft distillery industry has been growing in Oregon, and hopes to gain more national momentum and recognition. OLCC ensures that products from these local micro-businesses get an equal footing, alongside national and international brands, on the shelves of Oregon liquor stores.

Funding Oregon liquor stores links to the following 10-Year Outcome strategies:

Leading the agency in affirmatively and proactively encouraging Oregon's economy and communities (per ORS 471.030). OLCC's liquor agents are mostly local, small business owners, though larger, incorporated businesses are now eligible to become agents as well. Their employment of local people familiar with local needs and issues helps to maintain a vibrant, growing economy. Their retailing expertise helps bring business from distillers into the state's economy, and helps Oregon's own distilleries to flourish and access external markets. OLCC's uniform statewide pricing of spirits safeguards availability no matter where businesses or citizens are located. OLCC's licensed liquor stores are part of an in-state supply chain. They deliver spirits to bar and restaurants who fuel local jobs in the communities. Importantly, they are a part of a system that retains the profits from sales to support state, city, and county public services.

Providing for a world class selection and availability of distilled spirits. The unique mix of exclusive and nonexclusive stores located throughout Oregon and the state funding of inventory, results in a very special system with a wide variety of distilled spirits, including Oregon products and special orders that are available statewide at a uniform price.

Supporting the growth of Oregon craft distillers and other beverages. The program supports Oregon distilleries by putting their products on the store shelves competitively with large distilleries' products, without placement fees. Many of these spirits are produced with Oregon grains and other agricultural products, which create additional local jobs and are a key component of Oregon's economic sustainability and builds on Oregon's global reputation for craft excellence in spirits, beer and of course our notable winery industry. This entire craft sector is a driver of tourism and agent stores are becoming centers of access for all these craft products by stocking spirits, beer, wine and cider produced locally.

Enhancing customer convenience. Liquor store agents use their compensation to upgrade stores, extend hours open to the public, and move to better locations. With retail expansion first-time and already-existing agents are opening new and exciting stores located for convenience of Oregonians.

H. PROGRAM PERFORMANCE

The chart below shows the number of liquor stores supported by the program; cases sold in millions; spirits gross sales; net distribution as a percent of sales; the key performance measure (KPM) of distribution to the state General Fund and local governments per dollar of agency expenditure and the cost of store operating expenses as a percent of gross liquor sales. Actuals are through fiscal year 2017.

Fiscal Year	Number of Stores	Cases of Spirits Sold, millions	Distilled Spirits Gross Sales, Millions	Net Distribution as a Percent of Sales	OLCC KPM, Rate of Return (Distributed per Expenditure)	Cost of Store Operations Expenses as a percent of Sales
2003-05	241	4.12	$607	40.62%	$2.70	8.88%
2005-07	241	4.73	$730	39.10%	$2.47	8.88%
2007-09	240	5.12	$827	40.19%	$2.72	8.82%
2009-11	247	5.25	$870	40.80%	$2.73	8.88%
2011-13	249	5.70	$974	41.19%	$2.90	8.88%
2013-15	248	5.98	$1,075	41.72%	$2.88	8.88%
2015-17	272	6.33	$1,148	42.12%	$2.88	8.93%
2017-19	310	6.83	$1,291	42.12%	$2.88	8.93%
2019-21	320	7.07	$1,376	42.12%	$2.88	8.93%
2021-23	330	7.22	$1,463	41.04%	$2.88	8.93%
2023-25	340	7.41	$1,565	41.04%	$2.88	8.93%
2025-27	340	7.84	$1,640	41.04%	$2.88	8.93%

I. ENABLING LEGISLATION/PROGRAM AUTHORIZATION

The OLCC administers Oregon's Liquor Control Act. The OLCC's authority is derived from Oregon Revised Statutes Chapters 471, Alcoholic Liquor Generally; 473, Wine Cider and Malt Beverage Privilege Tax; 474, Trade Practices Related to Malt Beverages; 459A.700 to 74, Beverages Containers; the Bottle Bill, and Administrative Rules Chapter 845.

J. FUNDING STREAMS

OLCC alcohol programs are funded by alcohol-related revenue. All revenue received by the OLCC is classified as Other Funds. Revenues come from liquor sales, license fees and fines, server education fees, taxes on malt beverages and wines (Privilege Tax) and miscellaneous income. ORS 471.805 directs the OLCC to distribute available moneys to the state General Fund, cities, counties, and Mental Health.

K. SIGNIFICANT PROPOSED PROGRAM CHANGES FROM 2017-19

None

OLCC - STORE OPERATING EXPENSES PROGRAM - 005
2019-21 Budget

A. PURPOSE, ACTIVITIES & ISSUES

The OLCC appoints liquor agents – independent business people or businesses – to operate liquor stores for the state of Oregon; the OLCC contracts with them to serve as retail sales agents. In addition, by statute, holders of Oregon Distillery licenses can sell their own manufactured product in their Distillery Tasting Room Retail Outlets. The liquor agent stores range from stand-alone exclusive liquor stores to nonexclusive liquor stores, located in grocery stores, convenience stores and other retail establishments. Many of the rural stores are nonexclusive. The Store Operating Expenses Program contains funds available to pay agents for their retailing services for the state. The OLCC pays agents monthly for their services using a formula based on several factors, the most important of which is store sales. This payment is not only the agents' take-home pay, but also the dollars they use to operate and improve the liquor stores. For example, out of their compensation, agents must pay liquor store rent, insurance, telephone, electricity, heat, water, city and county business taxes, employee salaries, sick leave and vacation coverage. Liquor agents also pay for infrastructure improvements -- such as in-store remodels, appearance improvements and fixtures -- and computer equipment from these funds. From the remainder, agents pay their own salaries, Social Security, state and federal taxes, medical insurance, and retirement plan. The state supports the agents by purchasing the inventory sold in the stores, paying for credit card fees, and miscellaneous expenses such as store signage and price tags. Distiller Tasting Room Retail Agents also pay for their own infrastructure and salaries; however, they do not receive credit card fee reimbursement and the state does not purchase their inventory sold in the tasting rooms until it is sold to the customer.

Liquor and Distillery agents are compensated primarily on the sales volume the stores produce. The Legislature mandates the average funding rate to be paid on forecasted sales; but it also has chosen to set a maximum limitation. If sales exceed forecasts during a biennium, OLCC must request a limitation increase from the Emergency Board to maintain paying agents the mandated average funding rate of compensation. On the other hand, if sales do not meet the biennium's forecast, OLCC does not distribute the entire fund to agents. The agency request budget does not present a policy option package to convert the OLCC's Store Operating Expenses Program to a non-limited fund; however, conversion to non-limited would recognize that compensation expenses are variable costs correlated with sales and independent purchase decisions by customers; those costs are an expense of doing business and outside of OLCC's control. If the Store Operating Expense Fund were non-limited, then OLCC would have the appropriate level of funding available for payment to agents, as sales increased through the biennium. The OLCC would no longer have a need to request Emergency Board authority to cover these costs if sales grow greater than forecasted.

In April 2016, as a first step to increase store density to meet population growth and customer convenience, the Commission approved, as part of an open recruitment effort, fourteen new retail liquor locations to sell distilled spirits in the Portland tri-county area. Eight of the new locations are in grocery stores or neighborhood markets and six are stand-alone new locations. Four of the fourteen locations were approved for existing liquor agents. In 2017-19, the Commission continued to appoint new liquor agents throughout the state. To date the Commission has approved a total of 37 new stores; 18 have opened, 13 are in process of opening and 6 have withdrawn. Phase 5 of the expansion was approved at the June 2018 Commission meeting and will focus on the Willamette Valley and northern coast. Targeted expansion will continue during the 2019-21 biennium to support customers and enhance revenue stability and growth. By the end of the biennium, the Commission expects to have close to 300 retail liquor locations and 89 distillery agent retail locations statewide. If increases in store locations are realized, OLCC will exceed the limitation for the Store Operating Expenses Program and will need to request Emergency Board authority to cover these costs if sales grow greater than forecasted.

For 2019-21, the budget provides liquor and distillery agents statewide a store expenses fund calculated as an average rate of 8.93 percent of statewide sales. Since 1997, the Legislature has increased the average rate four times to meet the continued business demands of the sales force. Prior to 1997, the approved average rate was 8.2 percent; in 1997 it moved to 8.54 percent. The 8.54 percent rate was unchanged until 2003, when the 2003 Legislature increased the rate from 8.54 percent to the 8.88 percent. The 2015 Legislature increased the average rate to 8.93 percent for the 2015-17 biennium. The agency will continue examining the rate structure and funding formula with the goals of covering expenses for the sale of goods and creating incentives for agents to improve service to the public, upgrade their facilities, invest in remodels or move to better locations.

The OLCC has used one basic formula structure since 1987, and plans to use it for 2019-21, to calculate individual agents' monthly compensation amounts. The specific percentages used in the formula have changed over time as the Legislature approved increases in the average compensation rate. Please note the sales commission rates listed below vary during a biennium to maintain an average payout of compensation statewide as 8.93 percent of actual statewide sales.

Any individual agent receives compensation based on one of the following formulas:

NON-EXCLUSIVE AGENT FORMULA (A non-exclusive agent runs the liquor store in conjunction with another business.)
Base Compensation
14.25 percent of first $10,000 of monthly sales

PLUS
Sales Commission
Note: These numbers may vary slightly during the biennium as OLCC balances compensation to set to the overall statutory 8.93% compensation rate
8.15 percent of all monthly consumer sales
6.36 percent of all monthly licensee sales

PLUS
Each non-exclusive agent is eligible for up to $118 in additional monthly compensation, which is deposited into deferred compensation if the agent also deposits a like amount into the fund.

EXCLUSIVE AGENT FORMULA (An exclusive agent runs a store whose only business is the sale of distilled spirits and some distilled spirits-related items.)

Base Compensation

Sales Class	Annual Sales	Compensation Base
I	up to $209,999	14.25 percent of first $10,000 monthly sales
II	$210,000 - $449,999	$1,660
III	$450,000 - $749,999	$1,920
IV	$750,000 - $1,049,999	$2,348
V	$1,050,000 - $1,649,999	$2,440
VI	$1,650,000 and up	$2,700

PLUS

Sales Commission

8.15 percent of all monthly consumer sales

6.36 percent of all monthly licensee sales

PLUS

Each exclusive agent is eligible for up to $150 monthly in additional compensation, which is deposited into deferred compensation if the agent contributes a like amount into the fund.

B. BACKGROUND

Originally, the OLCC annually determined the compensation amount that agents would receive each month. Then in 1979, the OLCC started calculating compensation monthly as a percentage of actual monthly sales. As a result, an agent's monthly compensation for store operating expenses fluctuates as sales fluctuate. Until 1980, the OLCC made biennial adjustments to this basic formula. From 1980 to 1985, the basic formula did not change, but the Legislature added annual cost-of-living increases to the base formula. In a 1985-87 budget footnote, the Legislature directed OLCC to allocate agents compensation based on a redesigned compensation schedule.

The 2005 Legislature directed the OLCC to initiate a study to re-evaluate the payment schedule for liquor agents and to report the results of the study to the Legislature. The study was completed in June 2006 and was reported to House Business and Labor Committee on November 26, 2007. As a result of the study, the OLCC created a task force of agents, OLCC staff and other interested parties to develop recommendations regarding agents' compensation for presentation to the Legislature. The task force reported to the board of liquor commissioners in December 2007 with seven proposals to modify agents' compensation. OLCC requested packages for 2009-11 and 2011-13 requesting non-limited funding and an incentive plan in response to the task force proposals, but they were not adopted by the Legislature. The 2013-15 Governor's Request Budget recommended non-limited funding again. The package, "Respond to Variable Store Business Costs," was not approved. From 2013 and to 2019 legislative and OLCC actions have driven small changes in compensation upward. The agency examined the funding formula in 2017-19 with the goal to create incentives for agents to improve service to the public, upgrade their facilities, and invest in remodels or move to better locations. To address agent compensation for the 2019-21 biennium, the agency submitted three Policy Option Packages:

- Policy Option Package 112 "Move Agency Bank Card Costs to Liquor Store Agents"
- Policy Option Package 113 "Increase Rate for Sales to Licensees"
- Policy Option Package 114 "Separate Distillery Agent Compensation"

C. EXPECTED RESULTS

The OLCC expects to generate an estimated $1.5 billion in liquor (spirits) sales in 2019-21. The Store Operating Expenses Program funds up to 300 stores already approved (or will be approved through Retail Expansion) located throughout the state, making alcohol available in a controlled, regulated fashion for the people of Oregon and the state's visitors. The agents ensure the responsible sale of alcohol to the public, are responsible for following all liquor laws, and for providing stewardship for the state's $65 million inventory investment in the stores.

D. REVENUE SOURCE

The Oregon Liquor Control Commission's alcohol program is 100 percent Other Funded and generates revenues from the sale of distilled spirits, license fees and penalties, privilege tax paid on the sales of beer and wine and other miscellaneous sources. The OLCC collects this revenue in accordance with ORS Chapters 471 and 473.

E. PROPOSED LEGISLATIVE CHANGES

There are no proposed legislative changes.

Move Agency Bank Card Costs to Liquor Store Agents

OLCC 2019-21 Agency Request Budget
Policy Option Package No. 112, Agency Priority No 12

A. PACKAGE PURPOSE

OLCC liquor stores have been accepting bank cards (credit cards and debit cards) since 1999. The state pays for all costs related to purchases made with bank cards in OLCC liquor stores. The total forecasted amount of costs to the state is expected to be $14.3 million in the 2019-21 biennium. Bank card costs for items other than liquor (cigarettes, beer, wine and other related items) are reimbursed to the agency. This requires accounting resources from the agency's end to reconcile the cards costs on a monthly basis. OLCC must also purchase the credit card machines for all liquor stores and ensure that they are PCI compliant with Treasury standards.

Bank card costs are normally borne by the businesses that incur them. OLCC proposes to pass the bank card costs borne by the state to the liquor store agents. This will enable the store agents to manage them more appropriately between liquor purchases and related items and will relieve the agency of the need to reconcile bank card purchases. In exchange, OLCC proposes to raise the amount of overall compensation paid to agents to offset the additional costs and work needed by them to purchase machines, manage accounts, achieve PCI compliance with Treasury and pay the amount of costs incurred for liquor purchases

B. HOW ACHIEVED

OLCC will begin working with liquor agents and Treasury to develop the options necessary to make the transition happen. Liquor store agents will have to purchase credit card machines that are compliant with Treasury standards and rules. ACH transfers to Treasury from liquor stores are now allowed which should allow the agents to assume responsibility for bank card costs. OLCC estimates that the full transition will be completed by July 1, 2020. At that time agents compensation will be increased from 8.93% to 9.94% to offset the estimated credit cards costs of $7.4 million for the Fiscal Year 2021.

Bank card costs are expected to continue to increase as more consumers elect to use them. OLCC will need to look at overall bank card costs on a biennial basis to ensure that liquor agents are being compensated fairly. For the purposes of determining ongoing agent compensation funding, the OLCC will account for credit card rate adjustments and increased usage as a factor in establishing OLCC sales compensation rates.

Move Agency Bank Card Costs to Liquor Agents
OLCC 2019-21 Agency Request Budget Policy Option Package No 112

Division	Package Description	FTE	One-time	Ongoing	Total
	Move Agency Bank Card Costs to Liquor Store Agents				
Distilled Spirits	Transfer Bank Card Costs from Distilled Spirits Program to Store Operating Expense Program		$0	($7,350,000)	($7,350,000)
Store Operating Expenses	Increase Agents Compensation Rate from 8.93% to 9.94% in FY2021		$0	$7,350,000	$7,350,000
Subtotal - Move Agency Bank Card Costs - Package 112		**0.00**	***$0***	***$7,350,000***	***$7,350,000***

1. **Benefits to stakeholders**

Liquor agents will manage their own bank card costs and will be compensated for the additional expense.

2. **Benefits to OLCC**

OLCC will not have to account for bank card costs and management of bank card machines. Liquor agents will account for all costs incurred by the stores.

C. STAFFING IMPACT

The package adds no new staff to OLCC.

D. QUANTIFYING RESULTS

OLCC will transfer the total costs to agents by the middle of next biennium. Bank card costs have been increasing at an average rate of 7% per year.

E. REVENUE SOURCE

The Oregon Liquor Control Commission is 100 percent other funded and generates revenues from the sale of distilled spirits, license fees from alcohol and marijuana, taxes paid on sales of beer and wine and other miscellaneous revenue sources. The OLCC collects this in accordance with ORS Chapter 471, 473, and 475B.

BUDGET NARRATIVE

THIS PACKAGE WAS NOT APPROVED FOR THE GOVERNOR'S BUDGET

Increase Rate for Sales to Licensees

OLCC 2019-21 Agency Request Budget
Policy Option Package No. 113, Agency Priority No 13

A. PACKAGE PURPOSE

Oregon's liquor stores are the critical channel for distributing spirits through the state and generating essential revenue for the state and local governments. Maintaining the economic viability of Oregon's liquor stores is necessary to continuing their success as small businesses. Oregon is the only control state that pays two different rates for compensation related to consumer and licensee liquor sales. The current rate for consumer sales is 8.15% and the current rate for sales to licensees (bars and restaurants) is 6.36%. The rationale for this differential, established over 40 years ago, was that sales to bars and restaurants should cost less than sales to consumers due to the larger volumes going to licensees. This premise is no longer the case as sales to licensees which were once almost 30% of total sales are now less than 24% of total sales. OLCC liquor stores incur similar costs to deliver product to licensees as they do to sell products to consumers off of their store shelves. Many of these additional costs are related to transportation where stores are providing delivery services to bars and restaurants. In addition, recent increases to Oregon's minimum wage have increased labor costs for liquor store operators.

B. HOW ACHIEVED

OLCC proposes raising the rate that liquor agents are compensated for licensee sales to the same rate of compensation for consumer sales. Currently the rate paid for licensee sales is 6.36%. This would be raised to 8.15% or the same level as liquor agents are compensated for consumer sales. This will have a potential impact of adding $6.4 million to the forecast of total agents' compensation in the 2019-2021 biennium. Raising the licensee sales rate will require that the overall compensation rate be raised from the current 8.93% to 9.37% to accommodate the additional compensation being paid out.

Division	Package Description	FTE	One-time	Ongoing	Total
Store Operating Expenses	**Equalize variable compensation rate for Licensee sales & Consumer sales** Change variable compensation rate from current 6.36% to 8.15% for sales to licensees. Increase overall effective compensation rate from 8.93% to 9.37%.		$0	$6,400,000	$6,400,000
Subtotal - Increase Licensee Compensation Rates - Package 113		0.00	*$0*	*$6,400,000*	*$6,400,000*

1. **Benefits to stakeholders**

Providing more compensation for licensee sales to liquor agents will help them to offset added costs for delivery and other services provided to bars and restaurants. Oregon's bars and restaurants will receive a higher level of service as a more liquor stores will compete to provide sales to these businesses. Raising the licensee compensation rate to the same level as the consumer compensation rate ensures that no liquor stores are harmed financially in this change.

2. **Benefits to OLCC**

Unifying the compensation rates paid for licensee and consumer sales will simplify the overall agent compensation formula. This change may set the stage for further simplification of the how the OLCC compensates liquor agents and provide more equity to the compensation process. Oregon will also achieve conformity with how other control states compensate their liquor stores and how most businesses are compensated for alcohol sales.

C. STAFFING IMPACT

The package adds no new staff to OLCC.

D. QUANTIFYING RESULTS

Liquor sales in Oregon are expected to approach $1.45 Billion in 2019-21 with $347 million being sold through bars and restaurants. Liquor store labor costs are expected to increase 24% into the 2019-21 biennium from current levels as Oregon's minimum wage is increased according to the schedule mandated in SB 1532 passed in the 2016 Oregon Legislature.

E. REVENUE SOURCE

The Oregon Liquor Control Commission is 100 percent other funded and generates revenues from the sale of distilled spirits, license fees from alcohol and marijuana, taxes paid on sales of beer and wine and other miscellaneous revenue sources. The OLCC collects this in accordance with ORS Chapter 471, 473, and 475B.

BUDGET NARRATIVE

THIS PACKAGE WAS NOT APPROVED FOR THE GOVERNOR'S BUDGET

Separate Distillery Agent Compensation

OLCC 2019-21 Agency Request Budget
Policy Option Package No. 114, Agency Priority No 14

A. PACKAGE PURPOSE

Distillery agents are retail sales agents that sell product out of their own distillery tasting rooms and up to five alternative locations. In addition, distilleries may distribute their products through OLCC's warehouse to retail sales agents throughout the state. Those distillery licensees who chose to operate and sell their product out of tasting rooms are compensated for that sale as non-exclusive liquor agents and are included in the overall agent's compensation formula. The entities, however are different than the typical liquor store in Oregon. Distillery agents are manufacturers who sell their own product, inventory in the tasting room is owned by the distillery agent until it is sold, products in the tasting room are not shipped out of the OLCC warehouse, and they cover their own bank card costs. Since OLCC has the sole right to distribute and sell distilled liquor in Oregon through appointed agents, distillery agents electronically transfer the product to OLCC as products are sold. Retail liquor agents do not own the inventory in their stores; they remit the entire proceeds to the state from each sale, and receive a monthly commission. Distillery agents own their inventory until it is sold, retain their manufacturing cost and commission, and then remit the state markup.

Currently there are 97 distillery licensees in Oregon who operate 89 distillery tasting rooms. In the 2015-17 biennium distillery agents recorded $14.8 million in sales and remitted $4.8 million to the state in profit for distribution to cities, counties and the general fund. Distillery agents were paid $2.4 million in compensation at an average rate of 16.67% of sales. There is an equity gap into how distillery agents are compensated for their liquor sales compared to liquor stores. There is also disparity in how Oregon's small wineries, breweries and brewpubs are treated compared to Oregon distilleries related to the taxation. Oregon does not tax spirits but OLCC can increase the amount of compensation paid to distillery agents scaled to the amount of sales for the size of their business.

B. HOW ACHIEVED

In order to provide more equity to distillery agents in the OLCC system the agency is proposing to create a separate limitation for distillery agents in the 2019-21 biennium outside of the current total agents' compensation. The current forecast for total agent compensation is $129.2 million. The forecasted compensation for distillery agents is $2.9 million based on an average compensation rate of 16.67% of $17.3 million in

sales in the 2019-21 biennium with $5.7 million remitted to the state. OLCC also proposes to raise the overall compensation rate for distillery agents from 16.67% to 25.00% to offset additional costs that are absorbed by OLCC for regular liquor stores but not for distillery agents. OLCC also proposes to create a new compensation system for distillery agent that is based on gross sales with the total compensation being paid to distillery agents to not exceed or be under 25% of gross sales. The expected costs in additional compensation paid to the distillery agents in the next biennium with this proposal is forecasted to be $1.4 million.

Division	Package Description	FTE	One-time	Ongoing	Total
	Separate Distillery Agent Compensation				
Store Operating Expenses	Breakout compensation for Distillery agents from Total Agents compensation. Raise average compendation rate from 16.67% to 25.00%. Change compensation formula to simple tiered system based on total sales.		$0	($1,441,000)	($1,441,000)
Store Operating Expenses	Projected Distillery agents compensation		$0	$1,441,000	$1,441,000
Subtotal - Separate Distillery Agent Compensation - Package 114		**0.00**	***$0***	***$1,441,000***	***$1,441,000***

1. **Benefits to stakeholders**

Oregon distillers will receive more in compensation that will help them to grow their markets within and outside of Oregon. Smaller distillers will receive a higher percentage of compensation which parallels the tax treatment of small wineries, breweries and brewpubs.

2. **Benefits to OLCC**

Separating out distillery agent compensation from total agent compensation for Oregon liquor stores will allow the agency to develop better oversight directed to the unique nature of these businesses. The compensation formula for distillery agents will be simplified allowing these business to be compensated based on gross sales rather than forcing them into the tiered compensation system where most of their compensation comes from a fixed base amount which does not change marginally as sales increase. Oregon liquor stores may benefit due to increase overall compensation in the system related to the high proportion being paid to distillery agents as base compensation.

C. STAFFING IMPACT

The package adds no new staff to OLCC.

D. QUANTIFYING RESULTS

Sales in Distillery Retail Outlets are forecast to be $17.3 million in the 2019-21 biennium. Total sales of Oregon distilled spirits in the state is about 13% of all spirits sales and expected to exceed $174.0 million in the next biennium. A similar amount of sales by Oregon distilleries outside of the state is also expected.

E. REVENUE SOURCE

The Oregon Liquor Control Commission is 100 percent other funded and generates revenues from the sale of distilled spirits, license fees from alcohol and marijuana, taxes paid on sales of beer and wine and other miscellaneous revenue sources. The OLCC collects this in accordance with ORS Chapter 471, 473, and 475B.

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ESSENTIAL AND POLICY PACKAGE FISCAL IMPACT SUMMARY

Oregon Liquor Control Comm
Pkg: 031 - Standard Inflation

Cross Reference Name: Agents Compensation Program
Cross Reference Number: 84500-005-00-00-00000

Description	General Fund	Lottery Funds	Other Funds	Federal Funds	Nonlimited Other Funds	Nonlimited Federal Funds	All Funds
Services & Supplies							
Professional Services	-	-	5,204,951	-	-	-	5,204,951
Total Services & Supplies	**-**	**-**	**$5,204,951**	**-**	**-**	**-**	**$5,204,951**
Total Expenditures							
Total Expenditures	-	-	5,204,951	-	-	-	5,204,951
Total Expenditures	**-**	**-**	**$5,204,951**	**-**	**-**	**-**	**$5,204,951**
Ending Balance							
Ending Balance	-	-	(5,204,951)	-	-	-	(5,204,951)
Total Ending Balance	**-**	**-**	**($5,204,951)**	**-**	**-**	**-**	**($5,204,951)**

ESSENTIAL AND POLICY PACKAGE FISCAL IMPACT SUMMARY

Oregon Liquor Control Comm
Pkg: 032 - Above Standard Inflation

Cross Reference Name: Agents Compensation Program
Cross Reference Number: 84500-005-00-00-00000

Description	General Fund	Lottery Funds	Other Funds	Federal Funds	Nonlimited Other Funds	Nonlimited Federal Funds	All Funds
Revenues							
Transfer In - Intrafund	-	-	-	-	-	-	-
Total Revenues	-	-	-	-	-	-	-
Services & Supplies							
Professional Services	-	-	-	-	-	-	-
Total Services & Supplies	-	-	-	-	-	-	-
Total Expenditures							
Total Expenditures	-	-	-	-	-	-	-
Total Expenditures	-	-	-	-	-	-	-
Ending Balance							
Ending Balance	-	-	-	-	-	-	-
Total Ending Balance	-	-	-	-	-	-	-

ESSENTIAL AND POLICY PACKAGE FISCAL IMPACT SUMMARY

Oregon Liquor Control Comm
Pkg: 090 - Analyst Adjustments

Cross Reference Name: Agents Compensation Program
Cross Reference Number: 84500-005-00-00-00000

Description	General Fund	Lottery Funds	Other Funds	Federal Funds	Nonlimited Other Funds	Nonlimited Federal Funds	All Funds
Revenues							
Transfer In - Intrafund	-	-	3,566,143	-	-	-	3,566,143
Total Revenues	**-**	**-**	**$3,566,143**	**-**	**-**	**-**	**$3,566,143**
Services & Supplies							
Professional Services	-	-	8,479,481	-	-	-	8,479,481
Total Services & Supplies	**-**	**-**	**$8,479,481**	**-**	**-**	**-**	**$8,479,481**
Total Expenditures							
Total Expenditures	-	-	8,479,481	-	-	-	8,479,481
Total Expenditures	**-**	**-**	**$8,479,481**	**-**	**-**	**-**	**$8,479,481**
Ending Balance							
Ending Balance	-	-	(4,913,338)	-	-	-	(4,913,338)
Total Ending Balance	**-**	**-**	**($4,913,338)**	**-**	**-**	**-**	**($4,913,338)**

ESSENTIAL AND POLICY PACKAGE FISCAL IMPACT SUMMARY

Oregon Liquor Control Comm
Pkg: 112 - Move Agency Bank Card Costs

Cross Reference Name: Agents Compensation Program
Cross Reference Number: 84500-005-00-00-00000

Description	General Fund	Lottery Funds	Other Funds	Federal Funds	Nonlimited Other Funds	Nonlimited Federal Funds	All Funds
Services & Supplies							
Office Expenses	-	-	7,350,000	-	-	-	7,350,000
Professional Services	-	-	-	-	-	-	-
Total Services & Supplies	**-**	**-**	**$7,350,000**	**-**	**-**	**-**	**$7,350,000**
Total Expenditures							
Total Expenditures	-	-	7,350,000	-	-	-	7,350,000
Total Expenditures	**-**	**-**	**$7,350,000**	**-**	**-**	**-**	**$7,350,000**
Ending Balance							
Ending Balance	-	-	(7,350,000)	-	-	-	(7,350,000)
Total Ending Balance	**-**	**-**	**($7,350,000)**	**-**	**-**	**-**	**($7,350,000)**

ESSENTIAL AND POLICY PACKAGE FISCAL IMPACT SUMMARY

Oregon Liquor Control Comm
Pkg: 113 - Increase Licensee Comp Rates

Cross Reference Name: Agents Compensation Program
Cross Reference Number: 84500-005-00-00-00000

Description	General Fund	Lottery Funds	Other Funds	Federal Funds	Nonlimited Other Funds	Nonlimited Federal Funds	All Funds
Services & Supplies							
Professional Services	-	-	-	-	-	-	-
Total Services & Supplies	-	-	-	-	-	-	-
Total Expenditures							
Total Expenditures	-	-	-	-	-	-	-
Total Expenditures	-	-	-	-	-	-	-
Ending Balance							
Ending Balance	-	-	-	-	-	-	-
Total Ending Balance	-	-	-	-	-	-	-

ESSENTIAL AND POLICY PACKAGE FISCAL IMPACT SUMMARY

Oregon Liquor Control Comm
Pkg: 114 - Separate Distillery Agent Compensation

Cross Reference Name: Agents Compensation Program
Cross Reference Number: 84500-005-00-00-00000

Description	General Fund	Lottery Funds	Other Funds	Federal Funds	Nonlimited Other Funds	Nonlimited Federal Funds	All Funds
Services & Supplies							
Professional Services	-	-	-	-	-	-	-
Total Services & Supplies	-	-	-	-	-	-	-
Total Expenditures							
Total Expenditures	-	-	-	-	-	-	-
Total Expenditures	-	-	-	-	-	-	-
Ending Balance							
Ending Balance	-	-	-	-	-	-	-
Total Ending Balance	-	-	-	-	-	-	-

DETAIL OF LOTTERY FUNDS, OTHER FUNDS, AND FEDERAL FUNDS REVENUE

Oregon Liquor Control Comm
2019-21 Biennium

Agency Number: 84500
Cross Reference Number: 84500-005-00-00-00000

Source	2015-17 Actuals	2017-19 Leg Adopted Budget	2017-19 Leg Approved Budget	2019-21 Agency Request Budget	2019-21 Governor's Budget	2019-21 Leg. Adopted Audit
Other Funds						
Transfer In - Intrafund	105,588,568	123,927,415	123,927,415	142,882,366	144,961,847	-
Total Other Funds	**$105,588,568**	**$123,927,415**	**$123,927,415**	**$142,882,366**	**$144,961,847**	**-**