BUDGET NARRATIVE

REVENUES

OLCC 2019-21 Agency Request Budget

OTHER FUNDS

All revenue received by the Oregon Liquor Control Commission (OLCC) is classified as "Other Funds."

SOURCES

The Oregon Liquor Control Commission receives revenues from distilled spirits sales, license fees from alcohol and fines, server education fees, taxes on malt beverages and wines (Privilege Tax), marijuana license fees, marijuana tax money, worker permit fees and miscellaneous income.

MATCHING RATES

The Oregon Liquor Control Commission receives no revenue subject to matching rates.

GENERAL LIMITATIONS ON USE

The Oregon Liquor Control Commission focuses on producing growing and stable revenue for the support of public programs. Its stewardship of sales of distilled spirits and collection of malt and wine privilege taxes are optimized to protect the long-term stability of this significant revenue stream for the state General Fund, cities, and counties. The Oregon Liquor Control Commission's management of distilled spirits sales and beer and wine privilege taxes produces the third largest source of revenue for the State of Oregon with a 2017-19 biennia value of over $1.4 billion as a business enterprise. Funding for the Marijuana Program comes exclusively from marijuana related license fees. Funding for OMMP Medical Marijuana tracking comes exclusively from recreational marijuana taxes.

BUDGET NARRATIVE

ORS 471.805 directs the Oregon Liquor Control Commission to do the following:

> "Except as otherwise provided in ORS 471.810(2), all money collected by the Oregon Liquor Control Commission under this chapter, and ORS chapter 473 and Privilege Taxes shall be remitted to the State Treasurer who shall credit it to a suspense account of the commission. After withholding refundable license fees and such sum, not to exceed $250,000, as it considers necessary as a revolving fund for a working cash balance for the purpose of paying travel expenses, advances, and other miscellaneous bills and extraordinary items which are payable in cash immediately upon presentation, the commission shall direct the State Treasurer to transfer the money remaining in the suspense account to the Oregon Liquor Control Commission Account in the General Fund.
>
> "All necessary expenditures of the commission incurred in carrying out the purpose and provisions required of the commission by law, including the salaries of its employees, purchases made by the commission and such sums necessary to reimburse the $250,000 revolving fund, shall be audited and paid from the Oregon Liquor Control Commission account in the General Fund.
>
> "Money produced by the operation of this chapter and ORS chapter 473 necessary to pay such expenditures is appropriated from the Oregon Liquor Control Commission Account in the General Fund for such purposes."

ORS 471.810(1) directs the OLCC to do the following:

> "At the end of each month, the Oregon Liquor Control Commission shall certify the amount of moneys available for distribution in the Oregon Liquor Control Commission Account, and after withholding such moneys as it may deem necessary to pay its outstanding obligations shall within 35 days of the month for which a distribution is made direct to the State Treasurer to pay the amounts due, upon warrants drawn by the Oregon Department of Administrative Services, as follows..."

In the 2017-19 biennium, the OLCC is projected to distribute $551.7 million to the state general fund, cities, counties and mental health for vital services. The distribution formula as defined by statute dedicates 56% of the revenue to the General Fund, 20% to Cities, 10% to Counties, 14% to City Revenue Sharing, and 50% of privilege tax revenue to Mental Health.

ORS 471.810(5) directs the OLCC to do the following:

> Notwithstanding subsection (1) of this section, amounts to be distributed from the Oregon Liquor Control Commission Account that are attributable to a per bottle surcharge imposed by the Oregon Liquor Control Commission, shall be credited to the General Fund.
>
> For the 2017-19 biennium, the OLCC continues a 50 cent per bottle surcharge scheduled to expire on June 30, 2019. The surcharge is expected to raise an additional $35.4 million of revenue for distribution to the state General Fund. The OLCC commissioners will consider the surcharge of 50 cents per bottle at its July 2018 meeting, to be distributed to the General Fund in 2019-21 biennium; an estimated $37.9 million.

And, regarding Marijuana, section 3, chapter 20, Oregon Laws 2015 provides:

> (1) Notwithstanding ORS 221.770, 471.805 and 471.810, for the biennium beginning July 1, 2013, and the biennium beginning July 1, 2015, the Oregon Liquor Control Commission may expend moneys in the Oregon Liquor Control Commission Account to pay any expenses incurred by the commission in implementing and carrying out sections 3 to 70, chapter 1, Oregon Laws 2015 [ORS 475B.010 to 475B.395]. Any expenditure made under this subsection is considered a loan and must be repaid from the Oregon Marijuana Account established by section 44, chapter 1, Oregon Laws 2015. Expenditures made under this subsection shall be made from moneys in the Oregon Liquor Control Commission Account before the distributions required by ORS 471.810 are made.
> (2) Notwithstanding section 44, chapter 1, Oregon Laws 2015, not later than June 30, 2017, the Department of Revenue shall transfer from the Oregon Marijuana Account to the commission for deposit in the Oregon Liquor Control Commission Account an amount equal to the total amount expended by the commission under subsection (1) of this section plus two percent of the total amount expended. The department shall make the transfer required by this subsection before making any other withholding, distribution or expenditure from the Oregon Marijuana Account for purposes described in section 44, Chapter 1, Oregon Laws 2015.

ORS 475B.240 provides the following:

> The Marijuana Control and Regulation Fund is established in the State Treasury, separate and distinct from the General Fund. Interest earned by the Marijuana Control and Regulation Fund shall be credited to the fund. Moneys in the fund are continuously appropriated to the Oregon Liquor Control Commission to administer and enforce ORS 475B.010 to 475B.395.

BASIS FOR THE 2019-21 FORECASTS

Liquor (distilled spirits) sales ORBITS 0710

The OLCC forecasts distilled spirits sales based on an econometric model. This model uses projections of population growth from the Oregon Office of Economic Analysis to predict consumption per capita. This is combined with estimates of inflation in the wholesale cost of distilled spirits based on historical data. The OLCC then evaluates the range of possible revenue outcomes given the current operating environment.

The national and Oregon distilled spirits sales trends that have emerged in recent years continue to grow. Population growth and distilled spirits market share are the main drivers, rather than per capita alcohol consumption increases. Manufacturers' distilled spirits prices continue to increase modestly. Distilled spirits customers' preferences for premium brands are expected to continue to show improvement since a recession-driven shift to less expensive items. For 2019-21 the Agency Request Budget is projecting an average annual growth rate of 4.3%.

Based on the expected trends in the retail marketplace, the OLCC Agency Request Budget forecasts 2019-21 distilled spirits sales gross revenue at $1,409,271,554. This forecast total does not include an estimated $37,919,783 that would be generated by the bottle surcharge.

The Agency Request Budget will provide the necessary resources for the OLCC to meet expected demand for distilled spirits in the next biennium.

Privilege Taxes ORBITS 0185

Revenue from taxes on malt beverages, table wines and dessert wines is forecasted to be $40,101,000 for the 2019-21 biennium compared to an estimate of $38,057,000 for the 2017-19 biennium.

Privilege tax rates on malt beverages and wine:

- Malt beverage: $2.60 per 31-gallon barrel;
- Table wine: 67 cents per gallon;
- Dessert wine: 77 cents per gallon.

The forecasted change in revenues results from the continued maturing of the wine industry in Oregon coupled with an expected increase in population. The continued growth in privilege taxes has been mitigated by the shift in consumer preferences from malt beverages to distilled spirits. Per capita consumption of malt beverage products has demonstrated a shift to distilled spirits and wine.

Other Business License and Fees ORBITS 0205

The OLCC continues to see an increased demand for distilled spirits licenses as the hospitality industry continues to grow and the economy recovers. The OLCC Agency Request Budget forecasts distilled spirits revenues to be $11,744,000 from license fees and permits in the 2019-21 biennium.

OLCC's Marijuana Program is expected to oversee over 2,300 marijuana licenses during the 2019-21 biennium. Based on information from Colorado and Washington, there is also likely to be a higher percentage of turnover in marijuana licenses during the first two years and the economics of the new industry are established. The OLCC Agency Request Budget forecasts marijuana license revenues to be $25,000,000 in the 2019-21 biennium.

Fines ORBITS 0505

The OLCC forecasts revenues from fines to decrease slightly to $831,786 in 2019-21. The continued demand and issuance of licenses results in a corresponding increase in violations revenue.

Miscellaneous Income ORBITS 0705,

The OLCC forecasts is $784,000 in 2019-21 from handling fees of government sales and miscellaneous fees.

Other Revenues, ORBITS 0975,

The OLCC forecasts $25,000 in 2019-21 for sales of fixed assets related to liquor distribution.

Other Revenues will also include transfers of $7.0 million from the Marijuana Administrative Fund (tax revenues) to the Marijuana Regulatory Account to fund the OMMP Medical Marijuana Tracking Program now administered by OLCC. Transfers will be done on a quarterly bases in increments of $875,000. This results from legislation in the 2018 session (SB 1544)

Charges for Services, ORBITS 0410,

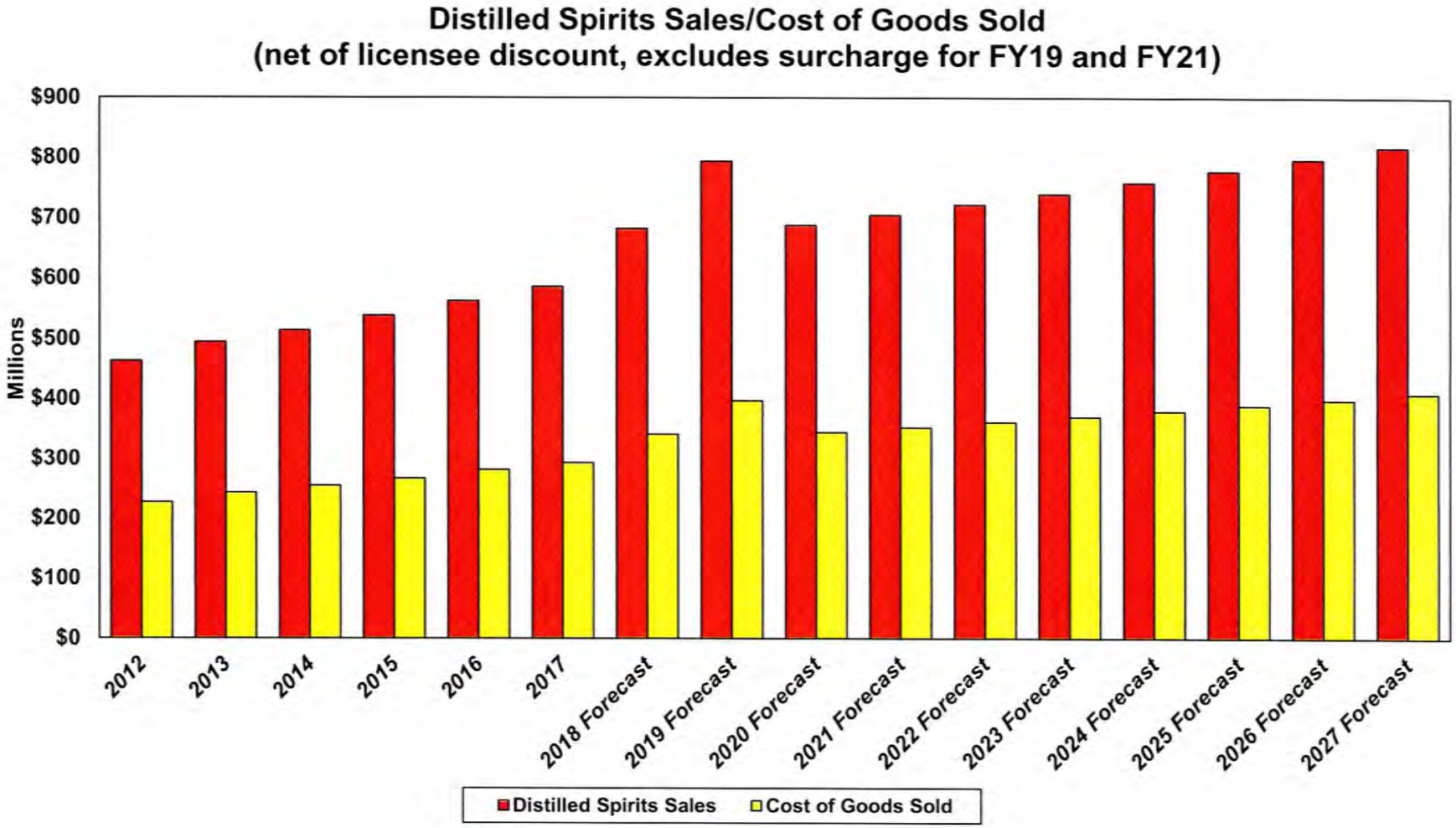
The OLCC forecasts $6,000 in 2019-21 fees for replacing lost liquor licenses, copier fees, and other similar charges.

Fee Schedules

The effective mark-up on distilled spirits is 107 percent, and distilled spirits prices are set by the OLCC (ORS 471.745). The tax rates on malt beverages and wines are set by statute (ORS 473.030). The tax rate is $2.60 per 31-gallon barrel of malt beverages; 67 cents per gallon of wine 14 percent alcohol by volume and under (table wine), and 77 cents per gallon of wine over 14 percent alcohol by volume (dessert wine). License fees are set by statute (ORS 471.290, ORS 472.117, and ORS 472.150). The fees vary by the type of license, and range from $10 to $500 for alcohol for periods of one to five years depending on the type of license.

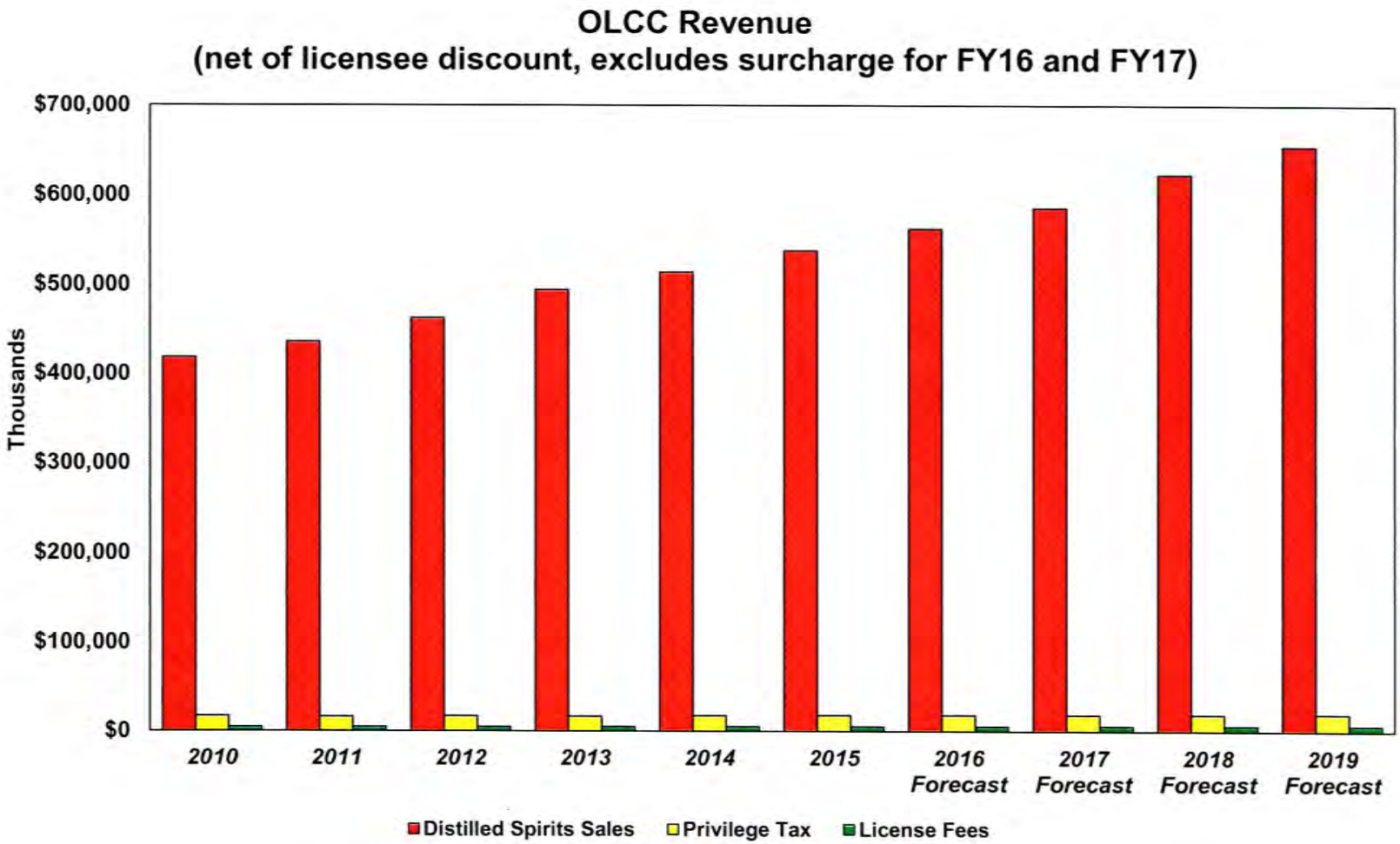
OLCC's Marijuana Program expects to be fully funded by license and application fees during the 2019-21 biennium. Fees for Recreational Marijuana licensees are established by rule under OAR 845-025-1060 as authorized under ORS 475B. New fees will be established through rulemaking that cover the Agency Request Budget cost for administering the program. The fees will be based on the total number of licenses and permits issued by the end of calendar year 2018 that are expected to renew during the 2019-21 biennium plus the forecast revenue from new licenses.

GRAPH A



Historically the cost of goods sold remains at approximately 50% of total revenue from distilled spirits sales.

GRAPH B



In 2017, 96% of the revenue came from distilled spirits sales, 3% from privilege tax, and 1% from licensing fees.

Distilled Spirits Case Sales
For the 10 Years Ended June 30, 2019
And Forecasted Through June 30, 2027

Fiscal Year Ended 30-Jun	Cases Sold	Quantity Increase	Percent Increase
2010	2,573,935	1,070	0.04%
2011	2,676,106	102,171	3.97%
2012	2,791,591	115,485	4.32%
2013	2,911,100	119,509	4.28%
2014	2,955,352	44,252	1.52%
2015	3,021,190	65,838	2.23%
2016	3,127,664	106,474	3.52%
2017	3,244,159	116,495	3.72%
2018 *Forecast*	3,364,019	119,860	3.69%
2019 *Forecast*	3,506,022	142,003	4.22%
2019-21 Agency Request Budget and Forward			
2020 *Forecast*	3,667,515	161,493	4.61%
2021 *Forecast*	3,699,368	31,853	0.87%
2022 *Forecast*	3,726,728	27,360	0.74%
2023 *Forecast*	3,758,652	31,924	0.86%
2024 *Forecast*	3,803,717	45,065	1.20%
2025 *Forecast*	3,847,483	43,766	1.15%
2026 *Forecast*	3,902,189	54,706	1.42%
2027 *Forecast*	3,966,829	64,640	1.66%

Classification of Gross Distilled Spirits Sales by Type of Purchaser
For the 10 Fiscal Years Ended June 30, 2019
And Forecasted Through 2027

Fiscal Year Ended 30-Jun	Liquor Sales to Licensees Amount	% of Total	Liquor Sales to Individuals Amount	% of Total	Total
2010	107,014,917	25.21%	321,261,360	75.67%	424,555,782
2011	110,473,196	24.95%	336,251,319	75.94%	442,785,514
2012	116,157,307	24.71%	358,138,613	76.19%	470,059,868
2013	120,727,057	24.02%	386,206,278	76.85%	502,545,579
2014	124,626,237	23.79%	396,021,511	75.59%	523,907,277
2015	131,720,169	23.93%	415,858,543	75.56%	550,368,638
2016	141,174,201	24.43%	436,688,740	75.56%	577,936,396
2017	146,113,847	24.16%	457,060,040	75.56%	604,896,823
2018 *Forecast*	152,854,502	24.17%	479,496,413	75.82%	632,414,156
2019 *Forecast*	162,836,762	24.17%	510,810,230	75.82%	673,714,363
2019-21 Agency Request Budget and Forward					
*2020 *Forecast*	168,283,989	24.17%	527,897,891	75.82%	696,251,505
*2021 *Forecast*	172,336,946	24.17%	540,611,801	75.82%	713,020,049
*2022 *Forecast*	176,200,628	24.17%	552,731,966	75.82%	729,005,495
*2023 *Forecast*	180,319,429	24.17%	565,652,424	75.82%	746,046,457
*2024 *Forecast*	185,100,716	24.17%	580,651,067	75.82%	765,828,366
*2025 *Forecast*	189,887,633	24.17%	595,667,369	75.82%	785,633,566
*2026 *Forecast*	195,265,904	24.17%	612,538,720	75.82%	807,885,413
*2027 *Forecast*	201,227,275	24.17%	631,239,221	75.82%	832,549,751

*Forecast excludes $0.50 per bottle surcharge

Agency Request Distilled Spirits Sales Forecast 2019-2021
by Month and Year

	Sales	Cost of Sales	Cases
Fiscal Year 2020			
July	$59,593,205	$29,802,793	316,895
August	$59,304,463	$29,658,392	313,843
September	$54,470,297	$27,240,807	288,439
October	$57,452,854	$28,732,395	303,494
November	$57,993,037	$29,002,543	307,252
December	$79,744,693	$39,880,631	405,597
January	$49,700,320	$24,855,323	268,729
February	$50,926,838	$25,468,710	266,517
March	$55,783,542	$27,897,566	292,718
April	$54,563,081	$27,287,209	285,143
May	$58,696,181	$29,354,189	309,226
June	$58,022,994	$29,017,525	309,661
Totals	**$696,251,505**	**$348,198,084**	**3,667,515**
Fiscal Year 2021			
July	$61,028,449	$30,520,565	319,648
August	$60,732,754	$30,372,686	316,569
September	$55,782,162	$27,896,876	290,944
October	$58,836,550	$29,424,387	306,130
November	$59,389,743	$29,701,042	309,921
December	$81,665,267	$40,841,118	409,120
January	$50,897,304	$25,453,940	271,063
February	$52,153,361	$26,082,099	268,832
March	$57,127,034	$28,569,452	295,260
April	$55,877,180	$27,944,395	287,619
May	$60,109,822	$30,061,156	311,912
June	$59,420,422	$29,716,384	312,350
Totals	**$713,020,049**	**$356,584,098**	**3,699,368**
Biennial Totals	**$1,409,271,554**	**$704,782,182**	**7,366,882**

GROSS REVENUES

Through 30-Jun	Distilled Spirits Revenues	Privilege Tax	License Fees	Total Revenue
2010	424,555,782	16,754,392	4,725,715	446,035,889
2011	442,785,514	16,203,500	4,574,925	463,563,938
2012	470,059,868	16,892,654	4,791,065	491,743,587
2013	502,545,579	16,387,708	4,933,215	523,866,502
2014	523,907,277	17,583,833	5,222,685	546,713,795
2015	550,368,638	17,685,881	5,291,583	573,346,102
2016	577,936,396	18,285,984	5,259,570	601,481,950
2017	604,896,823	18,819,333	5,436,050	629,152,206
2018 *Forecast*	632,414,156	18,838,215	5,583,589	656,835,960
2019 *Forecast*	673,714,363	19,218,785	5,735,133	698,668,280
*2020 *Forecast*	696,251,505	19,849,995	5,813,280	721,914,780
*2021 *Forecast*	713,020,049	20,251,005	5,930,720	739,201,774
*2022 *Forecast*	729,005,495	20,589,650	6,091,685	755,686,830
*2023 *Forecast*	746,046,457	20,933,958	6,257,018	773,237,433
*2024 *Forecast*	765,828,366	21,284,023	6,426,839	793,539,229
*2025 *Forecast*	785,633,566	21,639,942	6,601,269	813,874,777
*2026 *Forecast*	807,885,413	22,001,814	6,780,434	836,667,660
*2027 *Forecast*	832,549,751	22,369,736	6,964,460	861,883,948

*Forecast excludes $0.50 per bottle surcharge

Per Capita Sales of Distilled Spirits
Oregon Liquor Control Commission

Fiscal Year Ended 30-Jun	Distilled Spirits Sales	Estimated Population	Per Capita Sales
2010	424,555,782	3,823,465	111.04
2011	442,785,514	3,837,300	115.39
2012	470,059,868	3,857,625	121.85
2013	502,545,579	3,883,735	129.40
2014	523,907,277	3,919,020	133.68
2015	550,368,638	3,962,710	138.89
2016	577,936,396	4,013,845	143.99
2017	604,896,823	4,076,350	148.39
2018 *Forecast*	632,414,156	4,141,100	152.72
2019 *Forecast*	673,714,363	4,211,653	159.96
*2020 *Forecast*	696,251,505	4,271,468	163.00
*2021 *Forecast*	713,020,049	4,329,056	164.71
*2022 *Forecast*	729,005,495	4,384,052	166.29
*2023 *Forecast*	746,046,457	4,437,665	168.12
*2024 *Forecast*	765,828,366	4,489,332	170.59
*2025 *Forecast*	785,633,566	4,539,203	173.08
*2026 *Forecast*	807,885,413	4,588,010	176.09
*2027 *Forecast*	832,549,751	4,635,610	179.60

*Forecast excludes $0.50 per bottle surcharge

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

Oregon Liquor Control Comm
2019-21 Biennium

Agency Number: 84500
Cross Reference Number: 84500-000-00-00-00000

Source	2015-17 Actuals	2017-19 Leg Adopted Budget	2017-19 Leg Approved Budget	2019-21 Agency Request Audit	2019-21 Governor's Budget	2019-21 Leg. Adopted Audit
Other Funds						
Privilege Taxes	37,105,317	38,057,000	38,057,000	40,101,000	-	-
Business Lic and Fees	27,202,830	30,690,000	30,690,000	51,288,255	-	-
Charges for Services	-	6,000	6,000	6,000	-	-
Fines and Forfeitures	-	1,292,000	1,292,000	831,786	-	-
Sales Income	907,718	36,226,000	36,226,000	784,000	-	-
Liquor Sales	1,185,663,963	1,291,100,748	1,291,100,748	1,409,271,554	-	-
Liquor Cost of Goods Sold	(586,662,279)	(599,768,759)	(599,768,759)	(704,782,181)	-	-
Cost of Goods Sold	(14,195,721)	(7,874,579)	(7,874,579)	(16,969,469)	-	-
Other Revenues	39	25,000	25,000	7,000,025,000	-	-
Transfer In - Intrafund	174,379,200	187,985,734	190,023,506	231,382,529	-	-
Transfer In - Indirect Cost	-	3,926,427	3,926,427	6,472,203	-	-
Tsfr From Revenue, Dept of	5,492,950	9,300,000	10,800,000	7,000,000	-	-
Transfer Out - Intrafund	(174,379,200)	(187,985,734)	(190,023,506)	(231,382,529)	-	-
Transfer Out - Indirect Cost	-	(3,926,427)	(3,926,427)	(6,472,203)	-	-
Transfer to Other	(626,506)	(662,000)	(662,000)	(700,773)	-	-
Transfer to General Fund	(264,436,895)	(326,146,581)	(326,146,581)	(355,234,596)	-	-
Transfer to Cities	(82,697,106)	(104,086,149)	(104,086,149)	(99,314,400)	-	-
Transfer to Counties	(41,348,553)	(51,911,534)	(51,911,534)	(49,657,200)	-	-
Tsfr To Administrative Svcs	(57,887,974)	(73,111,058)	(73,155,233)	(69,520,080)	-	-
Tsfr To Oregon Health Authority	(22,219,688)	(18,697,500)	(18,748,622)	(20,253,141)	-	-
Tsfr To Agriculture, Dept of	(212,641)	-	-	(292,593)	-	-
Total Other Funds	**$186,085,454**	**$224,438,588**	**$225,843,291**	**$7,192,583,162**	**-**	**-**