<u>Senate Interim Committee on Business and Transportation</u>
Monday, September 16, 2013
State Capitol, Salem, Oregon

Members Present: Sen. Fred Girod, Sen. Chuck Thomsen

Members Excused: Sen. Lee Beyer, Chair; Sen. Bruce Starr, Sen. Chris Edwards, Sen. Rod Monroe

<u>Oregon Liquor Control Commission</u>
The Committee met jointly with the House Interim Committee on Business and Labor for this item on the agenda.

Rob Patridge, Chair of the Oregon Liquor Control Commission (OLCC), offered a slide presentation that included an historical perspective of the agency, as well as a review of the agency's revenue sources and income distribution. During the 2011-13 biennium, OLCC collected approximately $1 billion in revenue, of which 95 percent was derived from sales of distilled spirits. These revenues funded the Commission's $133.3 million budget for the biennium, and also provided for $397 million in distributions to the General Fund; cities; counties; alcoholism and drug services; and the Oregon Wine Board. Mr. Patridge also provided a list of liquor stores in each legislative district and handouts on revenue distribution to cities and counties in each of the committee members' districts.

Mr. Patridge also provided information regarding a Retail Innovations Group that OLCC recently formed to investigate how the agency can better optimize revenues and preserve safety while also providing consumers with the choices and value that they want. He distributed a list of the group's members and scheduled meeting dates and an appendix of background information on the group. The group is tasked with looking at all aspects of the liquor control system and to bring suggestions for any potential legislation or administrative rule changes back to the OLCC.

Merle Lindsey, Interim Executive Director for OLCC, explained the different types of retail liquor store arrangements that currently exist in Oregon. The traditional model is the *exclusive* store, which is a stand-alone store that is limited to selling distilled spirits and some related items, such as drink mixers, glasses, tobacco and lottery games; these stores are typically found within cities with larger populations. In smaller communities it is common to see *nonexclusive* stores, which operate as part of another business, such as a hardware store or grocery store, in order to provide the liquor agent with the ability to generate sufficient revenues to stay in business in small communities. There are also two existing *store-within-store* locations, which began as part of a pilot project; these are liquor stores that occupy a set-aside space within a larger grocery store. There are also *satellite stores* that meet seasonal demand in tourist areas and are operated by a liquor agent. Finally, distilleries may sell their product on location, and may also apply to open an *outlet store* Mr. Lindsey indicated that OLCC has also allowed some agents to experiment in selling beer and wine; these tests were deemed successful in that they also resulted in the sale of more distilled spirits.

Committee questions and comments with this panel included: whether the increase in liquor sales at stores near the Washington border, following the privatization of liquor of sales last year, would be maintained if Oregon moved to a similar privatization model; and how store-to-restaurant distribution is established in statute.

The Committee next heard from a panel that included Randy Guerra, a liquor agent who operated one of the store-in-store pilot projects. Mr. Guerra indicated that stores with such arrangements have increased security and that the liquor store portion is partitioned off from the rest of the premises. This alignment creates a challenge of limited space for product and an added challenge of additional stock being stored in a nearby location. Other challenges are that the liquor store portion of the store-in-store arrangement may not sell related items such as tobacco, and that floor cost per square foot is twice as expensive inside the grocery store. Steve Brown, who operated a test project for beer and wine sales at a liquor store, reported that all of the test sites saw increased sales of distilled spirits in addition to beer and wine sales. He also noted that the arrangement allows for the sale of local microbrews in growlers. Bob Lamb, who was one of the grocers whose store location hosted a liquor store as part of the store-in-store pilot project, asserted that the pilot project worked very well and complimented liquor agents for their hard work.

The final panel included Saleem Noorani, vice-president of the Associated Liquor Stores of Oregon, who presented written testimony and provided an account of how liquor agents operate in Oregon. He noted that most stores make about 10 percent of their total revenue from related items such as mixers, tobacco and lottery tickets. He also spoke to the fact that liquor agents are paid a commission rate of 8.8 percent that is used to pay all their operating expenses, with their profit being whatever is left over; as a result, the main barrier to improving store infrastructure is the compensation rate paid to agents. Employees of liquor agents earn above the minimum wage, receive no state benefits, and are responsible for verifying age eligibility to purchase alcohol. Mr. Noorani was joined by Dennis Stole, a 20-year liquor store agent from Silverton.

Transportation Project Status Update and Funding Outlook

Paul Mather, Highway Division Administrator for the Oregon Department of Transportation (ODOT), offered a slide presentation providing updates on several large transportation construction projects throughout Oregon, including: U.S. 26 at Shute Road; State Highway 212 Sunrise Corridor; U.S. 20 at Pioneer Mountain; Highway 99W at Newberg-Dundee; the Interstate 5 Willamette River Bridge in Eugene; I-5 at Beltline; I-5 at Woodburn interchange; I-5 Sexton truck climbing lanes; Murphy Road at U.S. 97, and I-84 Spring Creek climbing lanes.

David Kavanaugh, State Transportation Economist, offered a walkthrough of the funding outlook and revenue forecast for transportation-related fees and taxes that provide moneys for the State Highway Fund. For the 2013-15 biennium, gross state highway revenues are estimated at $2.3 billion, including: $1.019 billion in motor fuel taxes; $552 million in weight-mile taxes; $444 million in vehicle licensing fees; $214 million in other transportation and license fees; and $69 million in driver license fees. These revenues are allocated as follows: $767 million (33 percent) to the State Highway Fund; $761 million (33 percent) apportioned to cities and counties; $390 million (17 percent) to collection costs and transfers; and $380 million (17 percent) to pay debt service on outstanding bonds. The current projection for transportation revenues is approximately $100 million lower than projections made in 2009 with the passage of the Jobs and Transportation Act (House Bill 2001).

Committee questions and comments included: whether revenue projections take into account the long-term trend toward electric, hybrid and other fuel efficient vehicle types. Mr. Kavanaugh commented that while the fleet's fuel efficiency is increasing, change tends to be slow; he added that fuel prices affect not just miles driven, but mode choice and fuel efficiency of future vehicle purchases.

Travis Brouwer, ODOT's Federal Affairs Advisor, used the words "uncertainty" and "risk" to describe the long-term outlook for transportation funding at the federal level." Moneys from the federal government play a key role in modernization projects, with Oregon receiving approximately $500 million in 2013-14 for projects through the Moving Ahead for Progress in the 21st Century, or MAP-21. However, the federal Highway Trust Fund will be exhausted by the end of 2014, due primarily to the fact that the federal gas tax has not been raised to compensate for inflation. Congress has transferred $54 billion in general fund moneys to the Fund, while trying to develop a long-term solution to meet the approximate $15 billion annual deficit. Some potential solutions include: continued use of general fund resources to supplement the Fund; an increase in the federal gas tax of between $.08 and $.10 per gallon; or an approximate cut of 30 percent in allocations to states. The last option would result in a reduction of $125 million annually in Oregon State Highway Fund moneys, resulting in deferral of projects within the State Transportation Improvement Program, significant impacts on local government projects, and reductions in transit operating and improvement funds.

Paul Mather then reviewed a series of charts demonstrating the expected drop in funding levels, along with a corresponding impact on bridge condition and pavement condition.

Committee questions and comments included the level at which state gas tax revenues would need to be increased to make up for the shortfall in the event of lack of action at the federal level.