

HOUSE COMMITTEE ON
INFORMATION MANAGEMENT AND TECHNOLOGY

March 10, 2005 Hearing Room 357

1:00 P.M. Tapes 23 - 24

MEMBERS PRESENT: **Rep. John Dallum, Chair**

Rep. Jerry Krummel, Vice-Chair

Rep. Kelley Wirth, Vice-Chair

Rep. Chuck Burley

MEMBER EXCUSED: **Rep. Brad Witt**

STAFF PRESENT: **Dallas Weyand, Committee Administrator**

Louann Rahmig, Committee Assistant

MEASURES/ISSUES HEARD:

Proposed Oregon Liquor Control Commission Information Technology Upgrades - Informational Meeting

These minutes are in compliance with Senate and House Rules. Only text enclosed in quotation marks reports a speaker's exact words. For complete contents, please refer to the tapes.

TAPE/#	Speaker	Comments
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TAPE 23, A

005 Chair Dallum Calls the meeting to order at 1:00 p.m. and opens the informational meeting on proposed Oregon Liquor Control Commission information technology upgrades.

PROPOSED OREGON LIQUOR CONTROL COMMISSION INFORMATION TECHNOLOGY UPGRADES – INFORMATIONAL MEETING

012 Rep. Burley Announces that the U.S. House of Representatives Committee on Energy and Commerce “passed out” House Resolution 29, which fights the invasive practice of software that monitors the activity of computer users without his/her consent. Explains that this is the spyware software that this committee discussed.

019 Chair Dallum Responds that is good news and comments that this committee delayed state action awaiting federal legislation.

025 Teresa Kaiser Executive Director, Oregon Liquor Control Commission (OLCC). Distributes printed OLCC *Technology Modernization Package (EXHIBIT A)*. Explains plan to develop information technology (IT) in three areas simultaneously during the next biennium: merchandising, licensing and compliance.

051 Kaiser Continues with a description of the agency’s organization, responsibilities, revenue and relationship with sales outlets.

068 Kaiser Presents a six-minute videotape that portrays the activities of OLCC to underscore the agency’s IT needs. **(Note: The voices/narratives on the audio tape are recorded from the videotape.)**

151 Kaiser Continues following videotape presentation. Expands on the IT needs in merchandising, licensing and compliance. Reports on the increase in liquor licenses issued and the liquor store sales growth as shown in the Appendix in **EXHIBIT A**. Advises that liquor sale profits are distributed to the general fund and local governments.

187 Kaiser Continues that Oregon mirrors the nationally growing distilled spirits market. Advises that the agency is not getting additional staff to keep up with demand for licenses or product.

199 Rep. Wirth Asks about the decrease in full time equivalencies (fte) between 1993 and 1994 (**EXHIBIT A**).

208 Kaiser

Replies that was due to cutbacks in staffing. Explains that the warehouse was partially automated to compensate for the reductions.

- 215 Rep. Wirth Inquires about the staffing level prior to 1993.
- 221 Steve Pharo Acting Director, OLCC Merchandising Program. Responds that there was a large restructuring required in the state to decrease the number of ftes, plus personnel for local deliveries were reduced.
- 233 Kaiser Advises that OLCC's business partners agree that technological improvements are necessary as they need current product sales information to properly manage their businesses. Cites sales growth projections.
- 253 Kaiser Refers to Pages 35, 36, 38 and 41 of the agency's budget narrative **(EXHIBIT A)** which describes one-time and ongoing needs.
- 259 Kaiser Explains that she is personally handling the agency's IT project. Describes experience with similar projects in other states.
- 274 Kaiser States that Department of Administrative Services (DAS) has provided project management services in developing the charter and business analysis.
- 290 Kaiser Comments that IT advances will allow the agency to handle workload increases without additional staff.
- 308 Kaiser Emphasizes that the agency needs to position itself to provide citizens with online licensing.
- 318 Chair Dallum Asks how long it takes to obtain a new license.
- 322 Kaiser Responds, 90-120 days.
- 325 Chair Dallum Inquires about the turn around time after implementation of IT.
- 326 Kaiser Wants 90 percent within 30 days or less.
- 330 Rep. Wirth Asks how much of the growth since 2002 is attributed to Sunday sales, which went into effect in 2002.

340	Kaiser	Answers that they are able to obtain that information on the “store within a store” project as grocery chains capture sales by the hour, and there are significant sales Sunday afternoons in those three stores. Advises they are unable to collect that data with the other liquor outlets.
355	Rep. Wirth	Inquires if the new technology will enable OLCC to collect and analyze that data.
360	Kaiser	Responds, that is correct.
363	Rep. Burley	Seeks clarification that the only information available is from liquor stores within grocery stores.
366	Kaiser	Answers, that is correct.
368	Rep. Burley	Asks why that is possible.
369	Kaiser	Replies that the stores have significant IT infrastructure in place and, by agreement, make that information available to OLCC.
373	Rep. Burley	Inquires if the agency has performance measures to keep track of that kind of information.
383	Kaiser	Responds that they do not have that kind of sophisticated performance measures. Explains how they track information now.

TAPE 24, A

007	Rep. Burley	Comments that some businesses have the capability of capturing “real time” information into a data bank. Asks if that is where they want to be for merchandising and retail.
013	Kaiser	Replies, absolutely; we need the right product in the right place at the right time.
017	Rep. Wirth	Asks for the locations of the three stores in stores.

019	Kaiser	Responds there are two in the Portland suburban area and one in Bend.
022	Rep. Krummel	Points out that the time frame for the agency to issue a license may be impacted by a delay of a local government in rendering a decision on the application.
037	Chair Dallum	Assumes the agency is ordering just what is needed now.
039	Kaiser	Answers, absolutely.
041	Bill Linden	Represents three of OLCC's business partners, 7-Eleven, Oregon Restaurant Association and Anheuser-Busch Company. States that OLCC needs significant enhancements to their IT capabilities and believes they have prepared a realistic plan.
064	Linda Agnowski	Director, Regulatory Field Operations. Gives overview of the agency's regulatory program.
084	Agnowski	Describes duties of the field operations unit, which includes licensing and complaint investigations and liquor law violations.
093	Agnowski	Refers to the increase in number of licenses making it necessary for field operations to become more efficient. Cites the lack of an integrated IT system inhibits efficiency.
121	Agnowski	Explains the manual process for recording the compliance history of a business, which cannot be accessed electronically.
148	Agnowski	Cites the need for an integrated enforcement activity system that would include remote access devices for inspectors.
162	Agnowski	Explains how the enforcement activity system operates and the types of information captured.
193	Agnowski	Describes the benefits of IT improvements.
208	Rep. Wirth	

States that there are legislators who believe the state should get out of the liquor business so wonders if it is wise to make a large investment at this time.

- 219 Kaiser Responds that OLCC returns substantial revenues to the state. Explains that their request is for less than ½ of 1 percent to invest in technology to operate more efficiently for as long as it is the will of the legislature.
- 230 Rep. Krummel Responds to Rep. Wirth’s question about privatizing. States there must be an incentive for a private business to bid; and if a large investment is needed, that is not likely to happen.
- 247 Rep. Krummel Asks if the alcohol manufacturers listed in the budget narrative are in Oregon or nationwide.
- 257 Agnowski Replies, it is a combination. Advises that anyone who manufactures alcohol in Oregon has to have a license, even if their parent company is in another state.
- 266 Rep. Krummel Seeks clarification if that includes small wineries as well as large distilleries.
- 273 Agnowski Responds, that is correct. States that most of the growth is in wineries.
- 280 Chair Dallum Asks if DAS has reviewed OLCC’s security.
- 289 Roger Deming IT Director, OLCC. States that there have been discussions with DAS. Explains that not all of the security requirements have been identified.
- 299 Kaiser Points out that she has worked closely with a DAS project manager to ensure an integrated development that meets Oregon’s technology “big picture.”
- 309 Chair Dallum Cites the committee’s concern for security and compatibility.
- 312 Rep. Wirth Expresses concern with the threat of privatization of OLCC and asks how vulnerable the agency is by not having an IT upgrade. Inquires how much of the \$2.2 million for one-time professional services is for a private contractor and how much is for DAS.

343	Kaiser	Replies that there has been no decision on how that will be broken down. Wants to get the most value for the cost.
354	Kaiser	Responds to the earlier question about privatization. Believes those pressures came from unhappy business partners. Explains that the gap between the agency's performance and the industry's needs has been closed by using work groups to resolve problems.
384	Kaiser	Advises that privatization pressures also came from citizens with concerns with the retail outlets.
403	Rep. Wirth	Expresses concern about the media.
418	Kaiser	Responds that OLCC needs to illustrate to citizens that they are getting the value from what is spent on the agency.

TAPE 23, B

001	Rep. Burley	Asks if OLCC has made these requests before.
005	Kaiser	Understands that her predecessors regularly requested funding for projects to move the agency forward.
012	Rep. Burley	Inquires about Web-based inquiry systems referred to in the budget narrative (EXHIBIT A).
019	Deming	Answers that this is in response to a need that was identified to provide information easily to the public and to businesses.
029	Rep. Burley	Asks if custom-built packages or off-the-shelf solutions will be used.
036	Deming	Replies that they are working with DAS and may have to develop some solutions but prefer to use off-the-shelf packages that can be modified whenever possible.
046	Chair Dallum	Comments that DAS prefers use of off-the-shelf software.
053	Rep. Krummel	

		Reiterates that whatever is used, DAS will be sure it fits within the overall enterprise structure so there are no conflicts.
058	Kaiser	Emphasizes that there will be no conflict with the state's decision regarding IT.
061	Rep. Krummel	Inquires about the need for Geographic Information System data mapping and what that adds to the overall picture.
080	Kaiser	Responds that OLCC interfaces with law enforcement. Discusses areas with high incidents of alcohol-related problems and how this information would be helpful in electronic license processing.
099	Rep. Krummel	Asks if the wireless connection ongoing expense is anticipated to be for a satellite connection (EXHIBIT A).
113	Deming	Explains that the initial estimate was based on a cellular network.
117	Rep. Krummel	Inquires about the types of servers and licensing fees.
143	Deming	Describes the servers and license fees, and explains that a more fault tolerant system is needed as the agency moves into more Web-based functions.
154	Rep. Krummel	Assumes that the secondary servers will be housed elsewhere.
158	Deming	Replies that they have not selected a secondary site.
162	Rep. Krummel	Asks that even though OLCC is not part of the initial consolidation, could not the servers be put into the new data center.
165	Deming	Responds that he sees no reason why that wouldn't work.
169	Rep. Krummel	Inquires if it would be more cost effective to look at servers that give a wide array of possibilities, especially the add-on capabilities.
174	Deming	Answers that they will look at all options available.
184	Rep. Krummel	Asks who will use the developer work stations shown under capital outlay (EXHIBIT A).

196	Deming	Explains that staff and contractors will use this equipment.
203	Rep. Wirth	Inquires if the request for funding is for Phase 2.
208	Deming	Responds that Phase 2 is the current biennium and the funding request is for Phase 3.
213	Rep. Wirth	Asks if Phase 3 could be broken down if not fully funded.
219	Kaiser	Answers that they need to accomplish Phase 3 next biennium so they can get to online licensing.
236	Rep. Wirth	Refers to total budget package (EXHIBIT A). Comments that a large portion appears to be for staff. Seeks clarification.
260	Kaiser	Explains that some will be used for new staff and some for contracts.
267	Rep. Wirth	Asks if DAS staff can provide some of the services planned for contracting.
279	Deming	Responds that they will be consulting with DAS, and if DAS does not have the needed services available, they want the flexibility to obtain from the private sector.
292	Michael Zanon	Information Resource Management Division, DAS. Advises that over the past year OLCC in cooperation with DAS has focused on the business plan and business needs. Confirms their continued support.
327	Rep. Wirth	Asks if some of the money could be spent on training of current staff to provide necessary services.
339	Zanon	Replies that they are telling agencies that if DAS can provide a service at a cost competitive to the private sector, they want to be considered.
353	Chair Dallum	Asks Rep. Wirth if her concern is that when it comes time to hire fte, that current IT people will have an opportunity to apply.
363	Rep. Wirth	Answers, no. Suggests using some of the money to train current staff so in the long run they can provide needed services.

377 Zanon Replies that is part of the ongoing discussion with OLCC. Explains that there is a need to balance their existing resources with all of the state agency projects.

TAPE 24, B

003 Rep. Burley Asks if the OLCC business plan is part of **EXHIBIT A**.

006 Deming Responds, yes; it is in the Appendix.

011 Rep. Krummel Points out that the amount for professional services is a one-time expense for such items as system architects and developers, skill sets that may or may not be available on staff.

033 Michael Milicui Director, OLCC Licensing, Policy and Process. Comments on business needs and how they can be addressed by IT solutions. Explains responsibilities of the section. Quotes number of new licenses, license renewals, service permit applications and server education tests processed annually.

055 Milicui Covers how they plan to automate licensing and service permit processes into an integrated system so data can be shared by a variety of users.

095 Pharo Cites statistics on product sales and projected future growth.

123 Pharo Explains that currently they don't get information on when a product sells for up to six weeks.

133 Rep. Burley Stresses that this is where the payoff is. Asks about the carrying cost of inventory in the warehouse waiting to be shipped.

142 Pharo Responds that of the approximate \$30 million in product, all but about \$300,000-500,000 worth is still owned by the companies, as it is not paid for until shipped.

150 Rep. Burley Seeks clarification that the people in stores are not state employees.

152	Pharo	Replies, that is correct; they are contractor employees.
154	Rep. Burley	Asks if the 49 fte in merchandising work in the warehouse.
161	Pharo	Explains where the staff all work.
164	Rep. Burley	Asks how many are actually in the warehouse.
167	Pharo	Responds, about 30.
168	Rep. Burley	Inquires about possibility of automating the warehouse operation.
170	Pharo	Explains current automation in the distribution center and future improvements contemplated.
189	Pharo	Continues that they need a system to work with contractors to obtain daily sales information and to be able to adjust inventory and forecast needs.
225	Rep. Burley	Asks about sales in Bend.
227	Pharo	Answers, the store within a store is doing very well.
229	Kaiser	Interjects that sales projections for the stores within a store have been exceeded. Reports that they want to open a few stores each year.
252	Pharo	Advises that with up-to-date sales information, they will be able to more accurately predict patterns to meet customers' needs.
267	Rep. Burley	Wants to review EXHIBIT A in more detail.
271	Chair Dallum	Asks if OLCC has been through Ways and Means,
273	Kaiser	Answers, no, but are scheduled before the subcommittee early in April.
276	Chair Dallum	Seeks committee consensus to support OLCC with Ways and Means, providing security, compatibility and coherence have been taken care of and this committee gets an IT update.

282	Rep. Krummel	Asks Rep. Burley if the additional time he requests is needed before giving the Chair consent on support.
293	Rep. Burley	Responds that the areas he wants to review are the ones in the caveat presented by the Chair.
297	Chair Dallum	Announces that barring any dissent, the committee will support.
299	Rep. Wirth	Has serious reservations about all the projects statewide making IT investments with vast outlay for contracted services. Needs reassurances that there will be training of our own people.
330	Chair Dallum	States that he will wait a week or two, and if the concerns raised by Rep. Wirth and Rep. Burley are addressed, he will prepare a letter of support to Ways and Means.
336	Rep. Krummel	Suggests Rep. Burley talk further with Ms. Kaiser and Mr. Pharo and take a tour of OLCC's facility.
364	Chair Dallum	Announces that after the last meeting on computer security, it was the consensus of this committee to submit a bill, so he did a "gut and stuff" on a bill to meet the filing deadline.
385	Weyand	Comments that the suggested language for an amendment to the "security bill" has been discussed with DAS (EXHIBIT B).
406	Chair Dallum	Closes the informational meeting on proposed Oregon Liquor Control Commission information technology upgrades and adjourns the meeting at 2:50 p.m.

EXHIBIT SUMMARY

- A. Technology Modernization Package, OLCC, printed material, Teresa Kaiser, 124 pp**
- B. Security Bill Requirements, printed material, staff, 2 pp**