



**Senate Interim Committee on Finance and Revenue**

**Oregon Liquor Control Commission**  
**Bill Schuette, Economist**

*September 20, 2017*

# History

- The Oregon Liquor Control Commission (OLCC) was created in 1933 by a special legislative session after national prohibition ended
- The Legislature determined the control system was the best model for serving the community interest and making alcohol legally available to Oregonians
- A control system uses a moderate approach by eliminating tactics such as incentives for maximum sales from the marketplace
- The state has the exclusive right to sell distilled spirits. Profits from sales are captured at wholesale and retail levels and returned to benefit state and local governments
- Addition of recreational marijuana regulation with passage of Measure 91

# What We Do

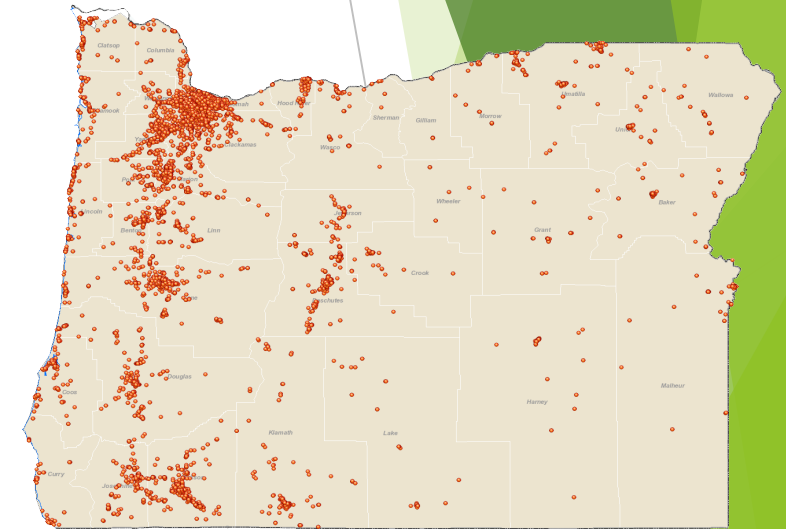
- License businesses that sell alcohol
- Issue service permits to trained alcohol servers
- Manage/distribute distilled spirits
- Regulate businesses that sell/serve alcohol
- Public information about responsible use of alcohol
- Generate revenue for essential services like police, education and health care
- Administrative hearings unit
- Regulation of Oregon's Bottle Bill, siting of Redemption Centers
- Regulation of recreational marijuana

# Alcohol Licenses & Permits

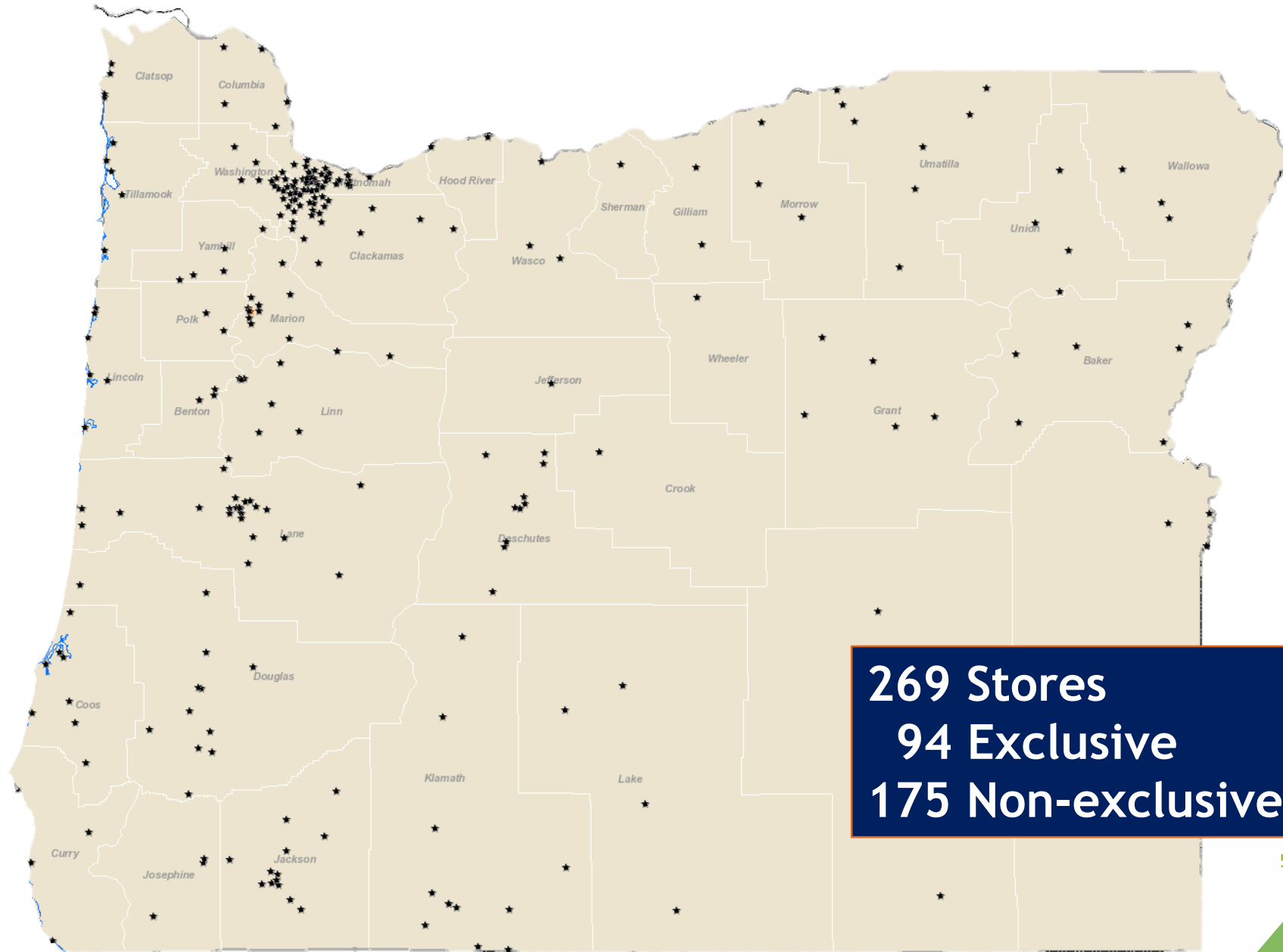
Total Annual Liquor Licenses	15,300
Restaurants and Bars (On-premises licenses)	7,400
Grocery/Convenience Stores (Off-premises licenses)	4,780
Wineries	1,110
Brewers/Brew Pubs	330
Distributors/Wholesalers	1,400
Distilleries (29 secondary locations)	96

Special Event Licenses	8,900
Out-of-state certificates	3,298
Alcohol Service Permits	157,600

## In-State Alcohol Licenses



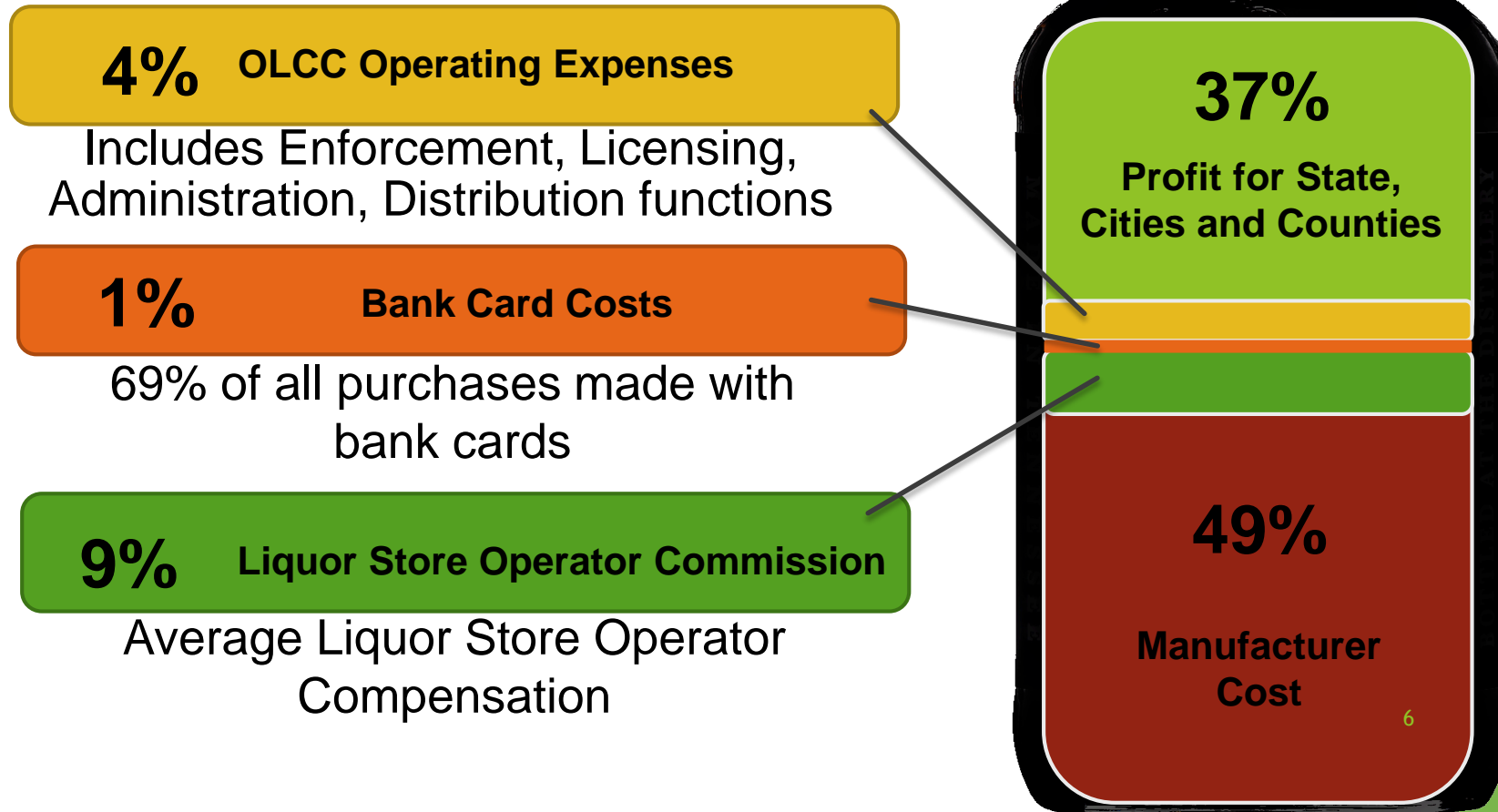
# Oregon Liquor Stores



**269 Stores**  
**94 Exclusive**  
**175 Non-exclusive**

# Current Distilled Spirits Model

Based on Average \$17 Bottle Price



# Markup Formula for Distilled Liquor

- Up to \$78.06/case landed cost:
  - $(\text{Landed cost} \times 2.131) \text{ plus } \$1.40 \text{ freight})/\text{bottles per case}$
  - Round to the next \$ .05 and add \$ .50 surcharge/bottle
- Over \$78.06/case landed cost:
  - $(\text{Landed cost plus } \$14.45) \times 1.798 \text{ plus } \$1.40 \text{ freight}$
  - Rounded to the next \$ .05 + \$ 0.50 surcharge/bottle
- Average markup of 104% over the average manufacturer's cost
- Formula's purpose is to assign a higher markup to lower value products than higher value products
  - **Moderate consumption of lower value products**



# Markup Difference for Low Cost Items

Markup Percentages for 12 Bottle Cases 750 ml (fifths)				
Landed Cost Per Bottle	Desired Retail Price Per Bottle	Percent Markup Per Bottle	Average Price For a Fifth By Spirits Category in Oregon	
\$ 4.38	\$ 9.95	127%		
\$ 4.85	\$ 10.95	126%	Premixed Cocktails	
\$ 5.32	\$ 11.95	125%		
\$ 5.79	\$ 12.95	124%	Rum	
\$ 6.26	\$ 13.95	123%	Vodka	
\$ 6.77	\$ 14.95	121%		
\$ 7.32	\$ 15.95	118%		
\$ 7.88	\$ 16.95	115%	Gin	
\$ 8.44	\$ 17.95	113%	Canadian Whiskey	
\$ 8.99	\$ 18.95	111%	Domestic Whiskey	
\$ 9.55	\$ 19.95	109%	Tequila	
\$ 10.10	\$ 20.95	107%		
\$ 10.66	\$ 21.95	106%		
\$ 11.22	\$ 22.95	105%		
\$ 11.77	\$ 23.95	103%	Brandy/Cognac	
\$ 12.33	\$ 24.95	102%		
\$ 12.89	\$ 25.95	101%	Irish Whiskey	
\$ 13.44	\$ 26.95	100%		
\$ 14.00	\$ 27.95	100%		
\$ 14.55	\$ 28.95	99%		
\$ 15.11	\$ 29.95	98%		
\$ 15.67	\$ 30.95	98%		
\$ 16.22	\$ 31.95	97%	Scotch	
\$ 16.78	\$ 32.95	96%		

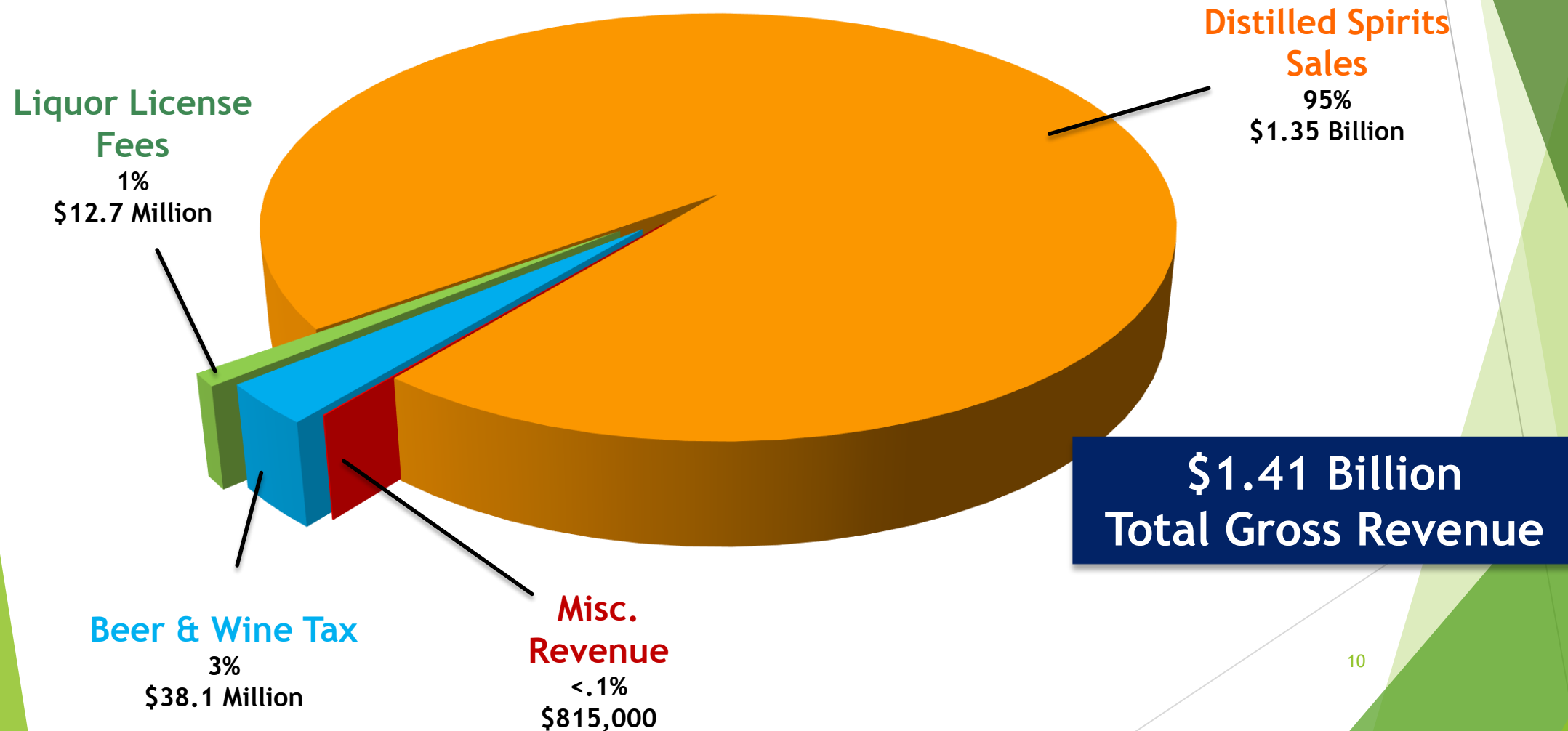


# 50-cent Surcharge Extension

- The current 50-cent per bottle surcharge has been extend through June 30, 2019
- Expected to generate \$35.4 million for the 2017-2019 biennium
  - Revenue goes to the General Fund

# Projected Gross Alcohol Revenue Sources

## 2017-2019 Biennium (LAB)



# OLCC Budget; Liquor Revenues

	2017-19 Legislatively Approved Budget for Liquor
<b>Revenue</b>	
Liquor Sales	1,352,275,670
Licensee Discount	(16,447,040)
Net Liquor Sales	1,335,828,630
Cost of Goods Sold	(622,046,808)
Gross Margin	713,781,822
Privilege Tax (Wine and Beer)	38,057,000
Liquor License fees and fines	12,682,000
Miscellaneous revenues	815,000
Shared Service Allocation from Marijuana Program	2,136,834
Total revenues	<b>767,472,656</b>

# OLCC Budget; Liquor Expenditures

<b>Store Operating Expenses</b>	<b>123,927,415</b>
<b>Distilled Spirits Program</b>	
Purchasing	769,050
Credit Cards	13,824,134
Wholesale Services (warehouse operations)	8,622,814
Retail Services	2,425,354
Sales Support	37,061
sub-total	<b>25,678,413</b>
<b>Public Safety Services</b>	
License Services	2,844,699
Servers Education	694,198
Enforcement	16,210,572
sub-total	<b>19,749,469</b>
<b>Support Services</b>	
Administration	3,088,567
Communications	1,184,550
Management Consulting	724,583
Administrative Support Services	3,138,501
Financial Services	6,150,939
Information Services	4,778,641
Admin Policy/Process (Hearings)	2,883,171
Supply Center	61,068
Motor Pool	316,099
sub-total	<b>22,326,119</b>
<b>Capital Improvement</b>	<b>227,943</b>
<b>Total Expenditures</b>	<b>191,909,359</b>

# Liquor Revenue Available for Distribution

**Total Available for Distribution (Revenue minus Expenditures)**

**575,563,247**

## **Distribution of Revenue**

Oregon Wine Board

662,000

Mental Health Alcoholism & Drug Services

19,028,500

General Fund

326,883,218

Incorporated Cities

104,086,149

City Revenue Sharing

72,860,305

Counties

52,043,075

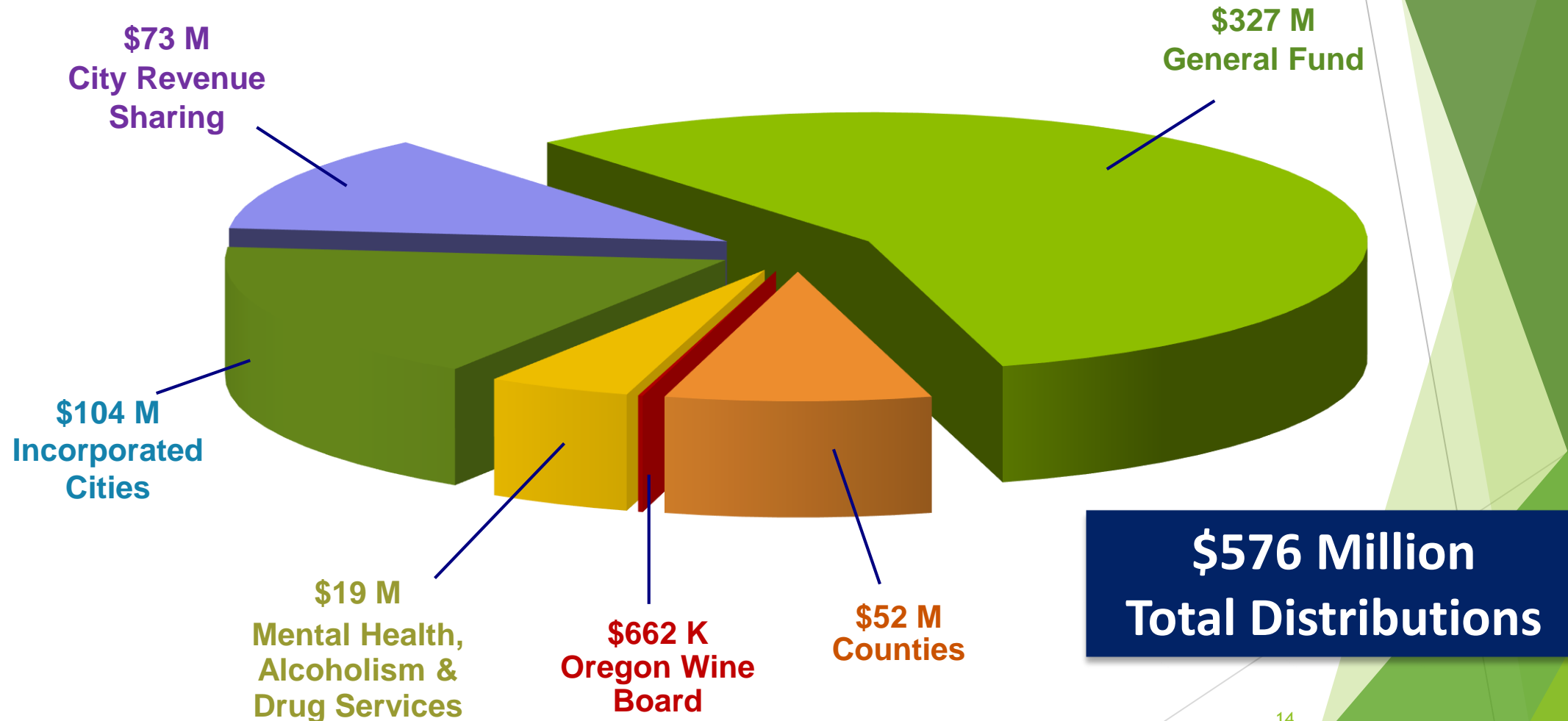
**Total Distribution**

**575,563,247**

# Projected Alcohol Net Revenue Distribution

2017-2019 BIENNIUM (LAB)

ALL REVENUE SOURCES



# Distilled Spirits Program Retail Expansion

GRB Policy Option Package #101

## Overview

- Liquor stores are contracted by the OLCC to provide retail outlets for distilled spirits throughout the state
- During the 1980's the ratio of outlets to population was 1:12,000
- During 2016, a retail expansion was launched, anticipating growth from 248 outlets to 310 by the end of the 17-19 biennium
- In addition, Oregon has seen tremendous growth in distillery outlets; sales have grown at an average rate of 41% per year since inception in 2009

## Rationale for Request

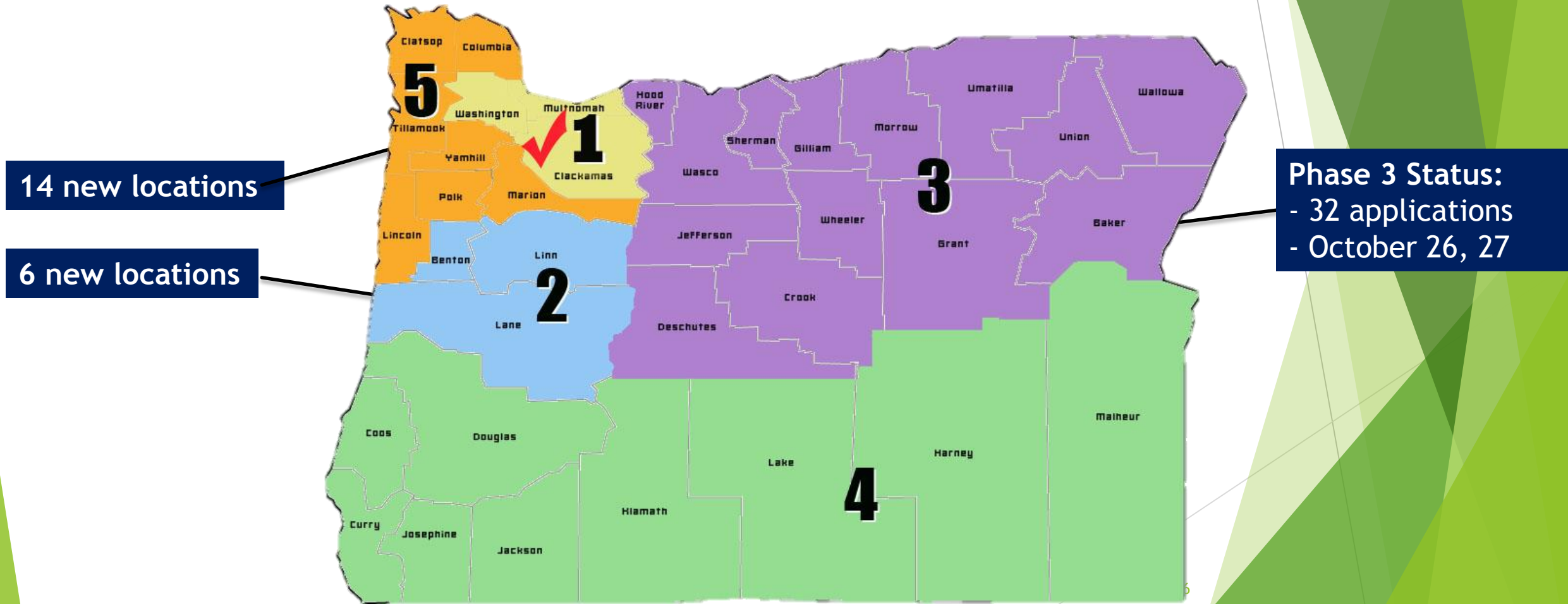
- Expansion of liquor stores and distillery agents creates stress on OLCC resources to effectively manage, supply, and account for state liquor inventory
- District managers currently cover approximately 50 existing liquor stores each, not including distillery agents. Retail expansion is projected to add an additional 12 stores per district manager
- The additional store coverage is more labor intensive due to assistance with opening brand new stores and training brand new agents

## Governor's Recommended Budget

- The addition of one District Manager will accommodate some of the growth in liquor and distillery outlets
- The addition of a Business Analyst will assist with evaluating the markets and proposals for the expansion



# 2016-17 Retail Expansion



# Open Recruitment

- A market-driven open recruitment process for appointing approximately 62 new liquor agent contracts Oregon
- Target of 310 outlets total
- Objective is to improve customer convenience by adding retail liquor locations with a measured, but consistent approach to growth



# Differences From Existing Process

- Applicants may apply for multiple locations
  - Each will be considered separately
- Existing liquor store agents can apply for more than two contracts under Open Recruitment
- Minor control plans
  - Applies to proposals that do not have a separate entrance for spirits OAR 845-015-0148
- Open to a variety of different business models where customers can purchase spirits
  - Could include: adding a spirits section inside existing business, a traditional liquor store, a boutique retail location, etc.



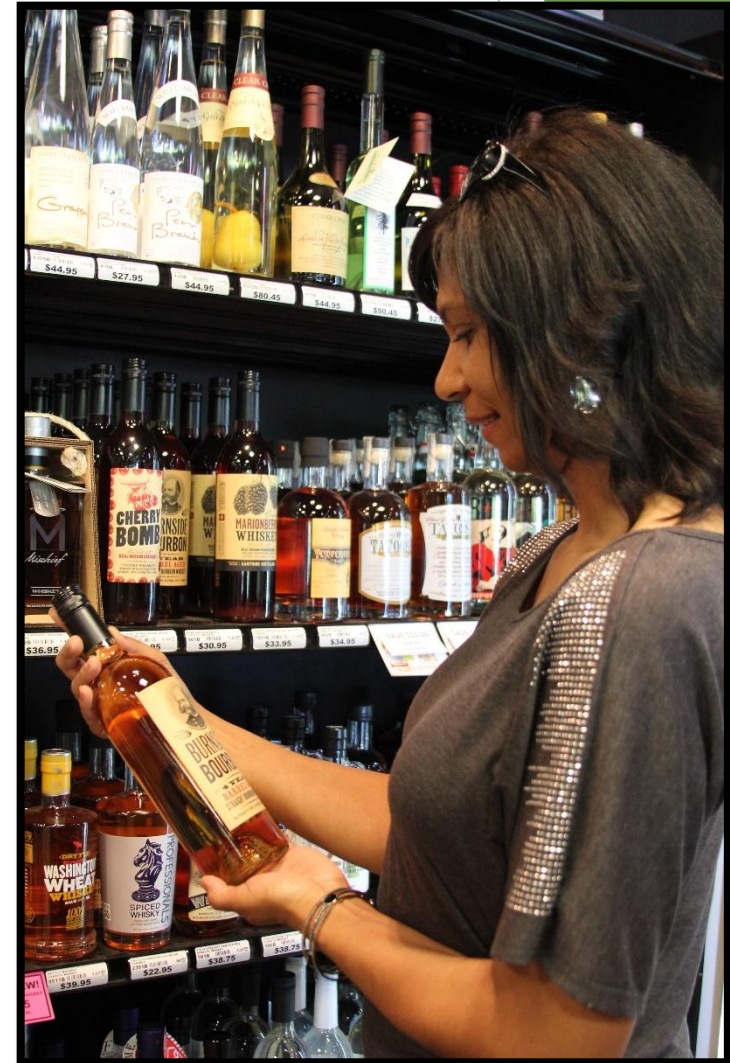
# Market-focused Creativity

- Innovation
- Entrepreneurs
- All types of retail models
- Widening range of choices for customers



# Selection Criteria

- Business proposal
- Capital investment and financing
- Retail or business experience
- Knowledge of alcohol industry
- Location
  - Impact on existing agents
  - Convenience
- Estimated sales and revenue





# Current Progress Of Expansion

- Goal of 310 Total Stores at the end of June 2019
- Started with 248 stores at beginning of expansion in 2016
- Currently 258 Stores operating (added 10 to date)
- 10 additional store locations have been approved but are not open
  - 4 of those outlets are in Walmart Grocery Stores



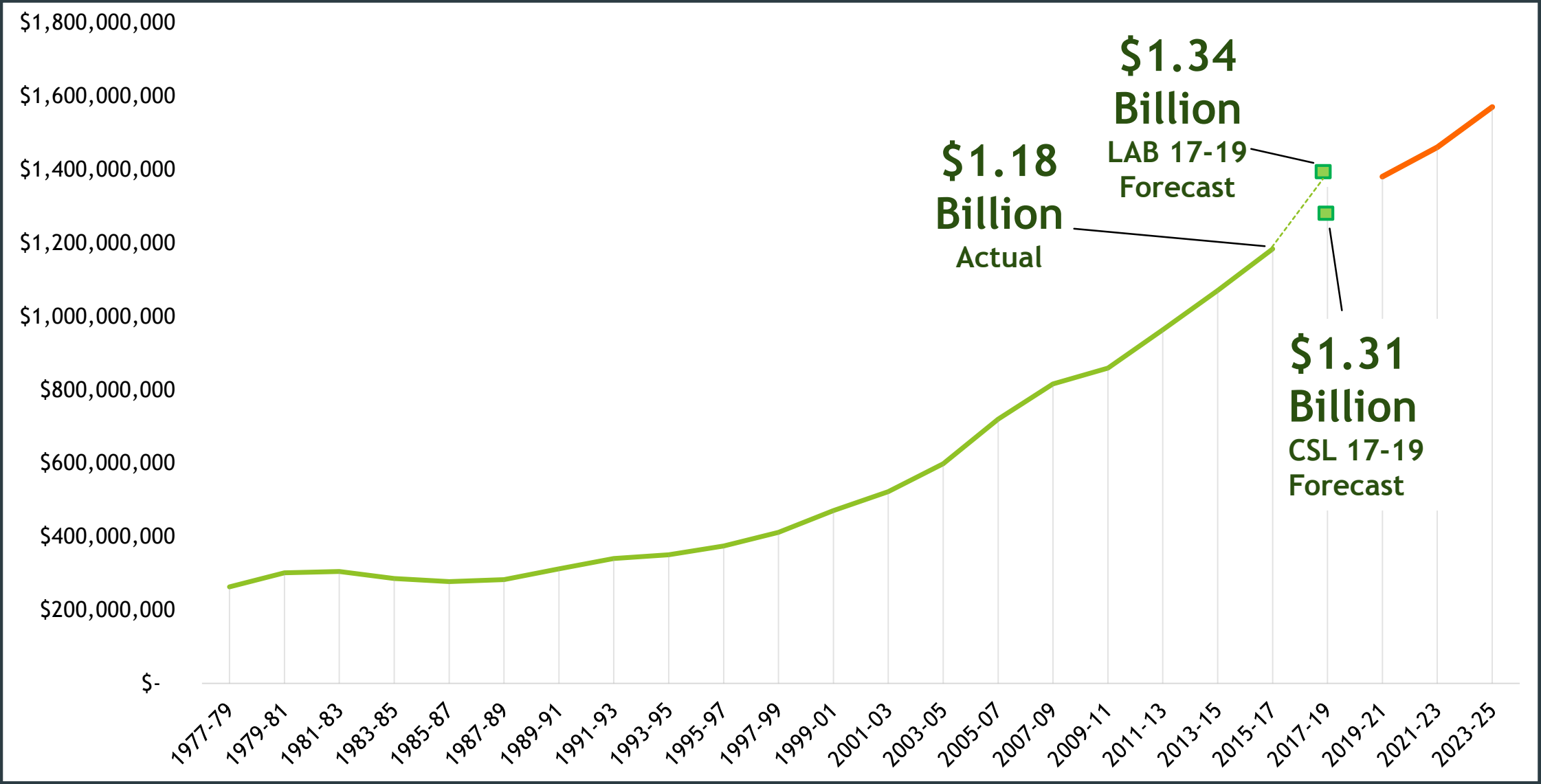
# Revenues Related To Expansion

- 3% Revenue Increase
- \$39.4 million in additional gross revenue
  - \$17.2 million in additional distributable revenue
  - \$9.6 million to the General Fund



# Forecast Of Gross Liquor Sales (LAB)

By Biennium

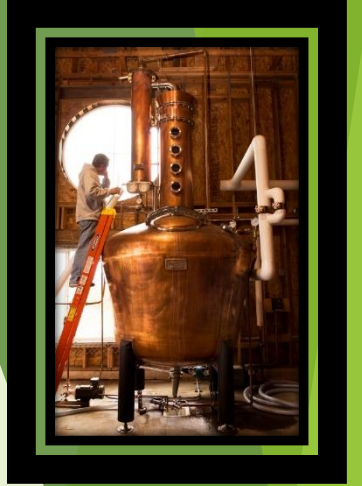


# Oregon Distillers

- Gross Liquor Sales in FY 2017 were \$601.3 million
- Sales of Oregon Products were \$76.2 million
  - 13% of total sales
  - \$69.1 million of sales were through liquor stores
  - \$7.2 million of sales were directly out of distilleries

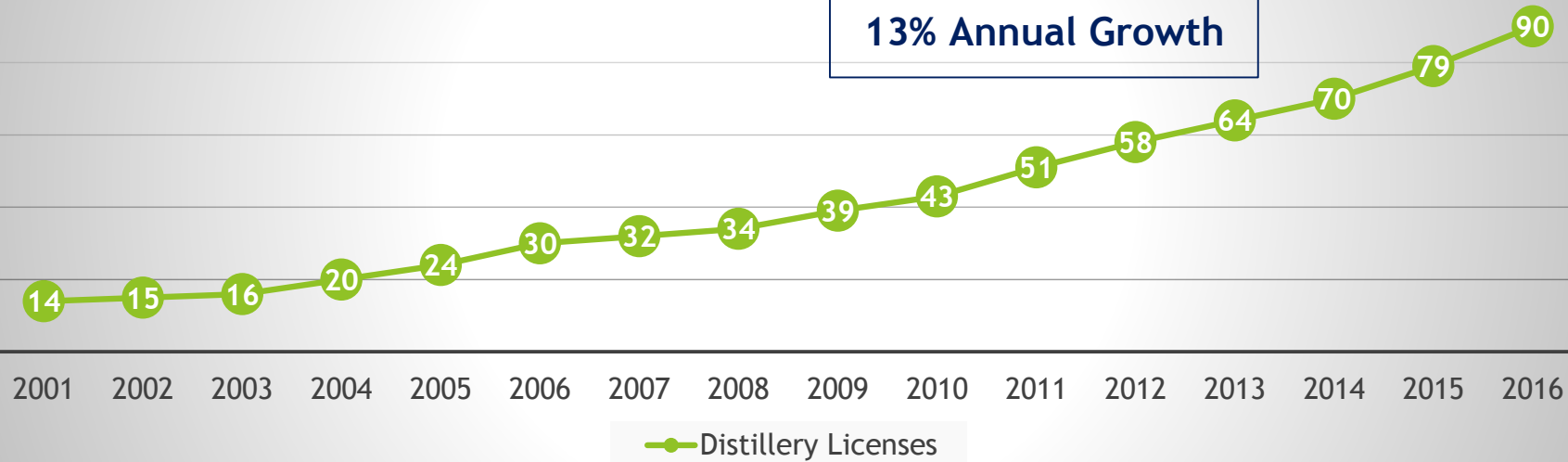


# Oregon Distilleries



## Distillery Licenses

13% Annual Growth



500+ Oregon  
Products  
13% of Liquor Sales

# Top 20 Distilled Spirits Sales in Oregon Fiscal Year 2017

Product	Estimated Sales
JACK DANIELS #7 BL LABEL	\$ 15,130,325
PENDLETON CANADIAN WHISKEY	\$ 12,057,933
FIREBALL CINNAMON WHISKEY	\$ 11,469,944
JAMESON IRISH WHISKEY	\$ 11,344,092
CROWN ROYAL	\$ 10,368,924
SMIRNOFF VODKA 80	\$ 9,338,000
MONOPOLOWA POTATO VODKA	\$ 9,222,252
H R D VODKA	\$ 8,218,651
TITO'S HANDMADE VODKA	\$ 8,018,840
BLACK VELVET	\$ 7,440,489
MAKERS MARK	\$ 7,406,716
SEAGRAMS 7 CROWN	\$ 7,010,607
GREY GOOSE VODKA	\$ 6,828,227
ABSOLUT VODKA 80	\$ 6,762,617
FLEISCHMANN'S ROYAL VODKA	\$ 6,478,216
PLATINUM 7X VODKA	\$ 6,024,507
JAGERMEISTER LIQUEUR	\$ 5,785,204
PATRON SILVER TEQUILA	\$ 5,766,707
HENNESSY VS COGNAC	\$ 4,967,843
BULLEIT BOURBON FRONTIER	\$ 4,926,485

# Beer and Wine Tax Collection

- ▶ **Oregon has established excise taxes for beer and wine**
  - ▶ \$0.08 per gallon for beer (\$2.60 per 31 gallon barrel)
  - ▶ \$0.67 per gallon for table wine (14% and under alcohol by volume)
  - ▶ \$0.77 per gallon for dessert wine (over 14% alcohol by volume)
- ▶ **Beer and wine taxes are collected most at the wholesale tier of the system**
  - ▶ Paid by large distributors and warehouse wholesalers (90% of all taxes)
  - ▶ Some tax collected at the manufacturer level such as wineries and brewpubs (10% of all taxes)
  - ▶ Total collections are about \$18 million per year
- ▶ **Beer and wine retailed through licensed off-premises outlets such as grocery stores and convenience stores but also through wineries & brewpubs**



# Oregon's Beer Industry

- 332 Brewery/Brewpub Licenses
- In 2014, Oregon's brewing companies employ more than 6,600 employees
- 43.1 Million Gallons Produced in Oregon in 2013; 63% of production exported
- Total economic impact of \$2.83 billion on Oregon's economy



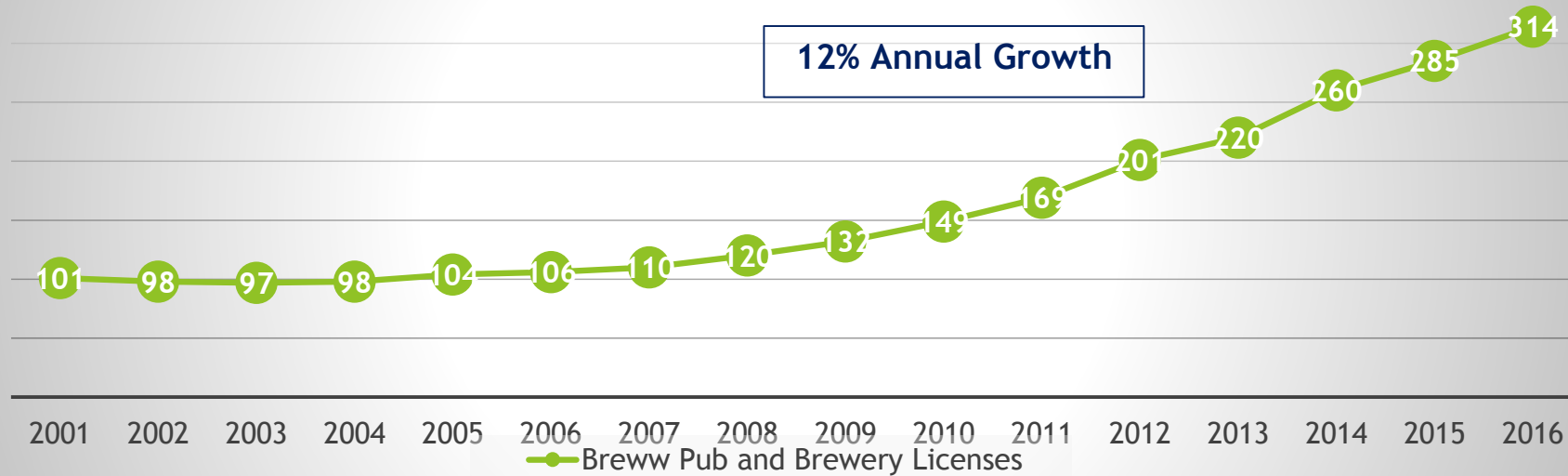


# Oregon's Beer Industry



## Oregon Brew Pub and Brewery Licenses

12% Annual Growth



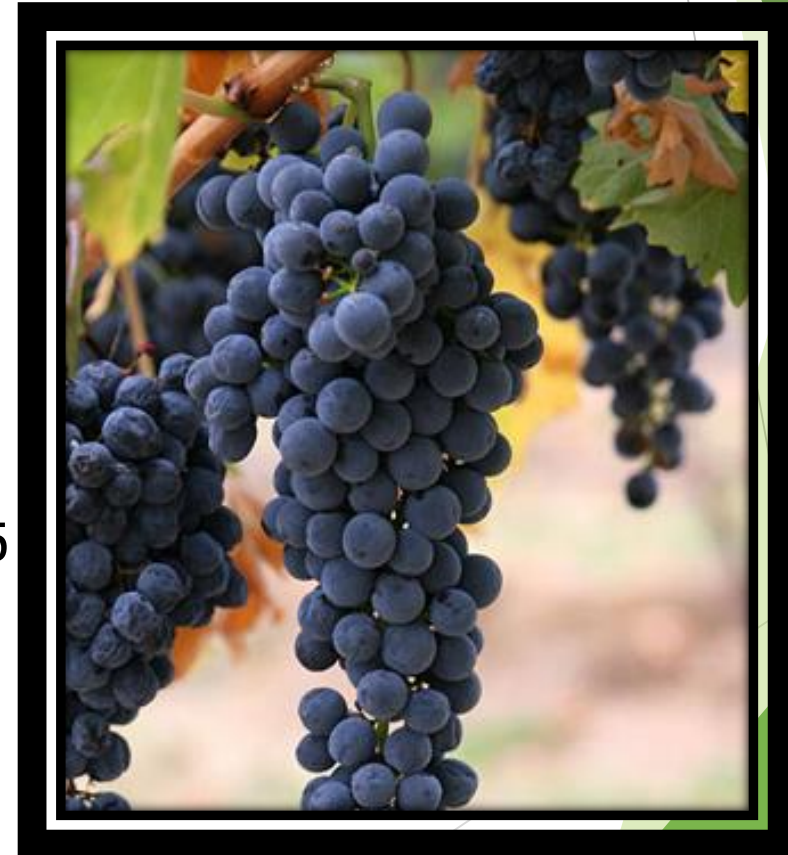


# Who Pays The Beer Taxes in Oregon

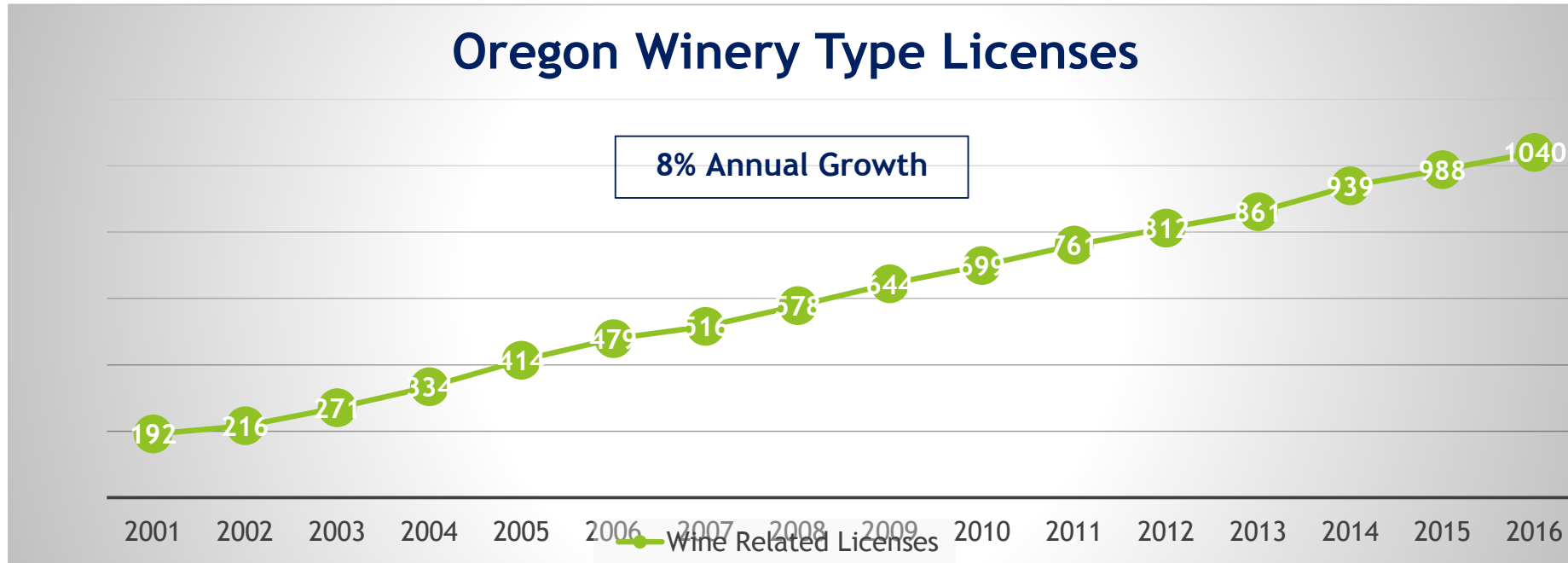
License Type	Gallons Sold in 2016	Tax Paid in 2016	Percent Of Tax Paid
Brewery/Brew Pub	16,916,596	\$1,418,809	18%
Warehouse	39,382,970	\$3,303,080	42%
Wholesaler (WMBW)	35,707,147	\$2,994,495	38%
Winery	1,369,774	\$114,885	2%
TOTAL	93,376,487	\$7,831,269	

# Oregon's Wine Industry

- 1,110 Oregon winery licenses
  - 702 Producing wineries in 2015
  - Includes cider producers and wine storage facilities
- In 2013, the wine industry directly employed more than 17,100 people
  - Many are rural Oregon jobs
- Related wages topped \$527 million
- In 2013 wine-related tourism contributed \$207.5 million in revenues to the Oregon economy
- Oregon wine industry worth \$3.35 billion to state economy



# Oregon Wineries



# Who Pays The Wine Taxes in Oregon

License Type	Gallons Removed From Bond in 2016	Tax Paid in 2016	Percent Of Tax Paid
Brewery/Brew Pub	12	\$9	<1%
Direct Shipper	488,063	\$333,047	3%
Warehouse	809,163	\$547,193	5%
Wholesaler(WMBW)	13,410,103	\$9,074,623	84%
Wine Self Distributor	4,577	\$3,345	<1%
Winery	1,163,803	\$795,231	7%
TOTAL	15,875,720	\$10,753,447	
Small Winery Exemption*	2,805,986	\$1,943,386	

\*Exempts first 40,000 gallons from taxation if producing under 100,000 gallons annually



# OLCC'S MISSION

Support businesses, public safety,  
and community livability  
through education and the enforcement  
of liquor and marijuana laws.

