

Oregon Liquor Control Commission Retail Innovation SB1559

Relating to State Alcohol Control (Introduced by Senator Lee Beyer, Chair, Senate Interim Committee on Business and Transportation)

Background

Oregon's current liquor control system will generate over \$1 billion in gross revenue; it is the third largest revenue generator for the state (Est. 2013-15 \$442M). 95% of the revenue coming from distilled spirits and 5% from beer and wine. The current system which includes a bailment warehouse, state-owned inventory and distribution through 248 independently owned agent stores throughout the state ensures that distilled spirits are equally available whether you live in Salem or Enterprise.

The unique characteristic of Oregon's liquor distribution model is that it fosters a vibrant Oregon-based craft distilled spirits industry which creates an economic boost throughout Oregon (Est. 2013-15 \$53M). Proceeds from alcohol sales are distributed to the general fund, cities and counties, mental health and addiction services as well as independently-owned stores, creating an economic multiplier as side services such as transportation and marketing are purchased and state and local services are funded.

Privatization measures have created uncertainty for private investment in independent liquor stores, including relocation of stores to more desirable locations and investment by craft distillers in Oregon. Consequently the ability to maximize efficiency and revenue for the State has been affected.

The purpose of this legislation is to stabilize the liquor control system, maintain efficiencies, preserve state revenue, and meet consumer expectations for additional convenience and selection throughout the state.

Summary of Legislation

1. Allows retail grocery stores 10,000 square feet and larger with a distilled spirits endorsement to sell distilled spirits bottles 750 mL and larger; requires cash purchases from the Commission; requires Public Safety Plan and Oregon Products Plan
2. Grants agent-owned stores the economic benefit of being the exclusive provider of spirits to restaurants and bars; maintains 5% discount for licensees; allows unrestricted agent compensation; provides incentives to increase hours and modernize stores; continues the state flooring of inventory
3. Stabilizes and grows state, city and county revenue by setting a state wholesale price comprised of manufacturer costs, OLCC operating expenses and profit for State, Cities and Counties
4. Stops price undercutting by setting a minimum retail price; the minimum retail price is equal to the state wholesale price and a minimum retail markup; the minimum retail markup is set by the Commission; it encompasses retailer compensation, credit card fees, agent supplies, and licensee discounts
5. Allows for profit growth for agents and retailers; replaces the existing compensation process; agent-owned and retail grocery stores can set retail prices at or above the minimum retail price; their profit is the difference between the retail price and the wholesale price

6. Sets timelines; the legislative is effective on passage; endorsements to grocers will begin on January 1, 2015; endorsement holders may begin selling distilled spirits to the public on March 1, 2015; all agent agreements not renegotiated by March 1, 2015 will be terminated
7. Requires reporting to the Legislative assembly by September 1, 2015 that includes but is not limited to the number of new licensees, data concerning the competitiveness of existing state agents, sales and pricing impacts, impacts on state revenue collections, impact on public safety, and impact on Oregon distillers

Revenue/Fiscal Considerations

1. Increases customer convenience while stabilizing and growing the revenue base
2. Allows competitive pricing above the minimum retail price
3. Maintains efficiency of revenue collection system
4. Invests a portion of the revenue growth in one-time capital improvements; covers minimal operational cost increases through growth
5. Promotes and preserves Oregon based products
6. Enhances state-wide public safety through the controlled sale and distribution of distilled spirits