

OREGON LIQUOR CONTROL COMMISSION MINUTES

March 9, 2009

Monday, March 9, 2009

3:00 P.M. The Commissioners present by phone were Lindy Fisker, Christine Lewandowski, Bob Rice and Chairman Phil Lang. Others present were Executive Director Steve Pharo, Deputy Director Rudy Williams and members of staff.

Commissioner Lewandowski asked what the most effective method of price increase would be. Executive Director Pharo noted that we looked at a flat charge and also a sliding scale. Commissioner Fisker asked if a 2% increase would be sufficient, or if we needed a cap on the increase to prevent the commission from needing to seek an (additional) adjustment in the future. Executive Director Pharo said that he thought the 2% would be sufficient. Commissioner Rice asked if this was an across the board increase or a sliding scale. Executive Director Pharo said it is across the board 2% increase, a sliding scale was another option that was considered.

Commissioner Rice expressed concerns over the percentage price increase stalling sales on higher end products and also concerns over implementing the increase from an IT perspective.

Chairman Lang asked Executive Director Pharo to address the reason the .50 surcharge was abandoned as an option.

Chairman Lang asked if we had done a calculation on a 50 cent per bottle increase.

Commissioner Rice commented on elasticity and the trends away from the higher end product and his concerns of how this might affect the trends. Chairman Lang asked if implementation of a surcharge would be easier than a 2% increase.

Commissioner Rice asked if there was any discussion of a risk reward element if the sales far exceeded the expectations.

Executive Director Pharo commented on the inventory reduction and the plan to infuse agents with the profits realized from that to agents before July.

Chairman Lang commented on inventory reductions and that he wanted to make sure that the agents still have products available. Executive Director Pharo stressed the importance of keeping the inventory in check.

Commissioner Lewandowski asked if the 50 cent increase would give enough back to the fund.

Commissioner Fisker commented that the 50 cent surcharge will put a disproportionate increase on the lower end items and asked if there was a forecast on the effect of the increase on those items.

Executive Director Pharo commented on the risks with any increase and the limited timeframe we are attempting to make up the budget deficit.

Chairman Lang encouraged commissioners to communicate with staff about price increases and that the legislature may again propose a price increase in the near future. He stressed again his desire for a sunset of June 30 for a price increase.

Greg Sellers of Beam Global came forward to offer Commissioners an alternative proposal. He would like to have a 'fire sale'. The same plan was used in Idaho several years ago. The industry reduces the price by 15% and then the state matches the reduction. He gave an example from Jack Daniels sales and the additional funds that could be realized.

Commissioner Fisker asked Mr. Sellers if he had talked to other reps about this. The consensus is that there would be other participants. Mr. Sellers commented on the

traditional dip in sales following a price increase. Commissioner Lewandowski asked if the Idaho plan resulted in backlash from any prevention groups, for example.

Executive Director Pharo commented that the times are a little different now and in conversations with Idaho, they think that it might not work the same way.

Commissioner Fisker asked if we have considered a hybrid of plans.

Erik Martin of OR Distillers Guild came forward to testify. He expressed concerns over the proposed increase and the impact on the small distilleries. He offered his support for a 50 cent surcharge over a percentage increase. He also noted that several of the members of the guild are start up companies and they rely heavily on agents being able to stock their products. He asked if the commission had given any consideration to the effect that a price increase would have on sales.

Agent Denny Stoll commented on the difficult decision for the commission and he hopes that the decision made will help with agents. He expressed the hope to work together in resolution for the budget deficit.

Jesse Bollander came forward to share his thoughts on the proposed increase.

Chairman Lang expressed his concerns over holding back agents compensation. Executive Director Pharo reviewed the plan to help get funds back to agents as quickly as possible.

The funds realized by the inventory reduction could be immediately returned to agents.

Commissioner Rice said he is happy to make a motion. He moved to, effective April 1, 2009 to place a 50 cent per bottle surcharge on all distilled spirits (if there needs to be a prorated amount for minis or smaller bottles, he leaves that to the director's discretion). The surcharge will sunset on June 30, 2009. Further, the motion is conditional on the Director being able to effect a scaleable remuneration to the agents, such that as it is demonstrated that the revenue has been proratively collected over that time to meeting the goal that the cash flow be allowed to be provided to the agents through the combination of cash flow from the reduction of inventory and increased incremental sales as a result of the surcharge. The motion is contingent upon being able to reach an agreement with the legislative fiscal office in that regard.

Commissioner Lewandowski asked if the inventory reduction was contingent upon the surcharge.

Commissioner Rice clarified that he wants the incremental increases in cash flow to be returned as it comes in.

Commissioner Fisker asked if the motion is contingent upon Executive Director Pharo coming into agreement with LFO on the incremental reimbursement.

Commissioner Rice said that contingency was understood.

Executive Director Pharo commented on the LFO and that there were discussions on giving OLCC latitude on this issue and that he thinks it can be demonstrated.

Motion passed, 4/0.

Adjourned:4:10 p.m.

_____/s/_____
Phil Lang, Chairman

_____/s/_____
Lindy Fisker, Commissioner

_____/s/_____
Christine Lewandowski, Commissioner

_____/s/_____
Bob Rice, Commissioner

_____/s/_____
**Stephen A. Pharo, Executive Director
and Secretary to the Commissioners**