

LSC Redbook

Analysis of the Executive Budget Proposal

Liquor Control Commission

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Liquor Control Commission

- Budget of approximately \$1.6 million for the FY 2016-FY 2017 biennium
- Over 2,400 cases heard in each of the last two complete fiscal years
- \$958,000 in forfeitures deposited into the GRF in FY 2014

OVERVIEW

Agency Overview

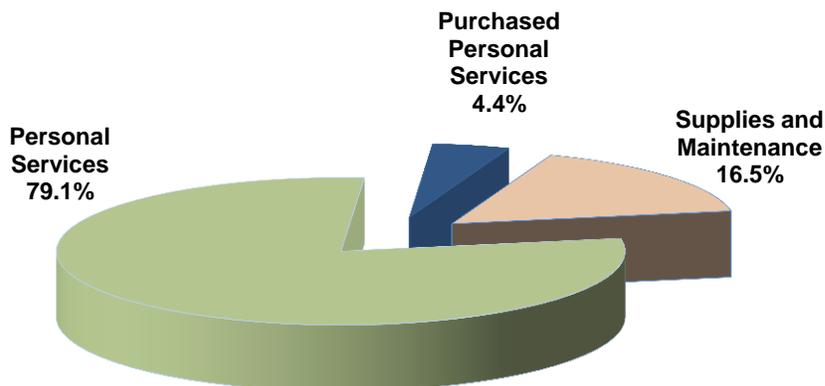
The Liquor Control Commission (LCO) is the rule-making and adjudication agency that oversees the alcohol beverage industry in Ohio. The Commission's mission is to ensure compliance with Ohio's liquor laws and regulations. This requires LCO to work with the Department of Commerce's Division of Liquor Control, which issues liquor permits, and the Attorney General and Department of Public Safety, which are involved with investigating and enforcing liquor violations alongside LCO.

The Commission's responsibilities include (1) making and interpreting rules regarding liquor production, sales, advertising, and so forth, (2) hearing and ruling on cases regarding alleged liquor permit violations, (3) hearing and ruling on appeals of the Division of Liquor Control decisions concerning liquor permit renewals and distribution, and (4) hearing and ruling on appeals of liquor permit revocations and of permit nonrenewals based on tax delinquencies. The Commission is comprised of three members appointed by the Governor for six-year terms and five full-time staff. The commissioners' salaries are fixed by the Governor's Office. One commissioner's term expires in February 2015.

Appropriation Overview

The executive budget provides LCO with funding of \$796,368 in both FY 2016 and FY 2017, matching estimated FY 2015 spending for Commission operations. Within the overall proposed budget, there is an additional amount slated for personnel costs, while less is budgeted for purchased personal services and supplies and maintenance. As Chart 1 below shows, 79.1% of the executive budget is for personal services, and 16.5% is slated for supplies and maintenance. The remaining 4.4% is for purchased personal services, including costs for court-reporting services and transcripts, writs served, and witness reimbursements that tend to fluctuate from year to year depending on Commission caseload.

**Chart 1: Biennial Executive Budget Recommendations
by Expense Category, FY 2014-FY 2015**

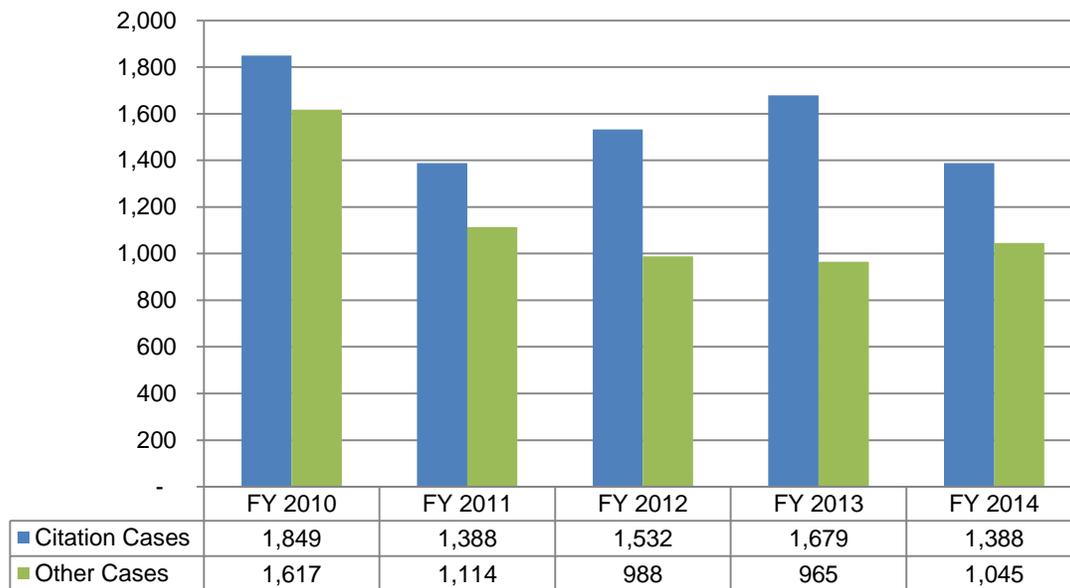


Summary of Budget Issues

Adjudication Hearings

The Commission's work mostly revolves around preparing for and holding adjudication hearings. This entails preparing paperwork before hearings, producing decisions, and handling correspondence and various reports related to cases. Although the goal is to issue decisions within 45 days after the hearing date, the Commission issues the vast majority of its decisions within two weeks. Over 2,430 cases were heard in FY 2014. The number of violations issued by law enforcement authorities – referred to as citation cases – constitutes the majority of the Commission's caseload. These cases can involve illegal gambling, selling drugs on a permit premises, underage drinking, unsanitary conditions, illegal use of electronic benefits transfer (EBT) cards, and so forth. FY 2010 saw a marked increase in so-called "noncitation" cases, or those dealing with appeals of Division of Liquor Control decisions, sales tax appeals, sales tax complaints, unemployment compensation cases, and Bureau of Workers' Compensation (BWC) payment issues. This was probably a result of the weak economy during that period, which caused a rise in tax and workers' compensation payment delinquencies. Since that period, however, the number of noncitation cases has ebbed. Chart 2 on the following page shows the number of cases heard by the Commission, by type, over the FY 2010-FY 2014 period.

Chart 2: Cases Heard by Type, FY 2010-FY 2014



Operating Costs

There are a number of variables that can affect the Commission's operating costs and are difficult to budget for, particularly costs dealing with hearings themselves. These variables include the length of hearing days, the number of witnesses subpoenaed, witness compensation and mileage reimbursement, court-reporting services, and transcript expenses. To address some of these uncertainties that affected operating costs, the Commission has undertaken various steps. One of these changes occurred in 2013, when the Commission reduced its monthly hearing calendar from four days to three days per week, with the idea of reducing costs for such things as court reporting and commissioners' travel reimbursements.

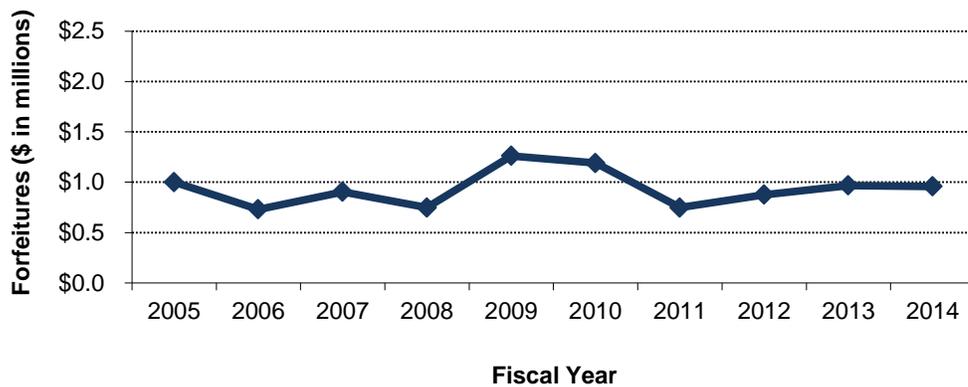
Another recent change is the hearing process involving tax cases brought by the Department of Taxation and the Collections Enforcement Section of the Ohio Attorney General. LCO developed and implemented a procedure for resolving the bulk of suspension tax cases prior to a hearing. Under the new procedure, if a state agency that filed a complaint for suspension intends to dismiss its complaint (based on the taxes and any fees owed being paid in full prior to hearing), the agency now submits written request to dismiss the case with the Commission prior to the date of the hearing. Since its implementation in April 2013, of the 880 suspension tax cases originally set for hearing before the Commission, approximately 545 were dismissed prior to hearing pursuant to a written request. This has reduced costs associated with court-reporting services and the amount of time spent in hearings.

Lastly, the Commission is continuing to explore other options and opportunities to implement a new mediation process. It is intended to give commissioners additional time to adjudicate more complex cases.

Forfeiture Collections

The Commission has the authority to impose forfeitures, or cash fines, depending on the circumstances of a case. These forfeitures are not retained by the Commission, but are instead deposited into the GRF. Forfeitures collected have amounted to \$585,000 so far in FY 2015. As Chart 3 below shows, forfeitures were just under \$1.0 million annually in the prior two fiscal years. Over the last ten fiscal years, these amounts have ranged from a low of about \$730,000 in FY 2006 to a high of almost \$1.3 million in FY 2009. While the amount of forfeitures ordered or collected in any year depends on the types of cases heard, the Commission's judgment on the frequency and severity of offenses also plays a role in the amount of forfeitures imposed.

Chart 3: Forfeitures Collected, FY 2005-FY 2014



ANALYSIS OF EXECUTIVE PROPOSAL

The Commission's operations are funded by a single line item appropriation from the State Liquor Regulatory Fund (Fund 5LP0). The source of funding is a portion of liquor permit revenues that are transferred from the Undivided Liquor Permit Fund (Fund 7066).

Governor's Recommended Funding for the Liquor Control Commission				
Fund	ALI and Name		FY 2016	FY 2017
Dedicated Purpose Fund Group				
5LP0	970601	Commission Operating Expenses	\$796,368	\$796,368

This line item pays for all operating expenses including payroll, supplies, and fixed maintenance costs, as well as purchased services related to court-reporting services and transcripts, writs served, and witness reimbursements. Overall, the proposed funding provides LCO with \$796,368 in both FY 2016 and FY 2017, matching estimated FY 2015 spending on Commission operations.

The executive proposal increases personnel costs in FY 2016 by 1.0%, compared with estimated FY 2015 spending for this purpose. Additionally, the executive proposal recommends a 2.4% increase in personnel costs in FY 2017, compared to the amount appropriated in FY 2016. The payroll covers the three Commission members and five full-time permanent staff. Overall, payroll costs are the largest expense in the LCO budget, at almost 80% of the amount recommended over the biennium. The other 20% of the budget programmed by the Office of Budget and Management for supplies, maintenance, and purchased services combined, decreases from about \$180,000 in FY 2015 to \$174,000 in FY 2016 and \$159,000 in FY 2017.

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Liquor Control Commission

Dedicated Purpose Fund Group

5LP0 970601 Commission Operating Expenses

FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Estimate	FY 2016 Introduced	FY 2017 Introduced
\$0	\$723,588	\$707,630	\$796,368	\$796,368	\$796,368
	N/A	-2.2%	12.5%	0.0%	0.0%

Source: Dedicated Purpose Fund Group: Transfers of liquor permit fee revenue deposited into the Undivided Liquor Permit Fund (Fund 7066)

Legal Basis: ORC 4301.30; Section 317.10 of Am. Sub. H.B. 59 of the 130th G.A.

Purpose: This line item pays for the operating expenses of the Liquor Control Commission, which ensures compliance with liquor laws and regulations and provides impartial hearings related to violations of state liquor laws that could result in fines or the suspension or revocation of liquor permits. Expenses include personnel and maintenance costs, as well as contracted court reporting and transcript services, servicing of writs, and witness reimbursements.

7043 970321 Operating Expenses

FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Estimate	FY 2016 Introduced	FY 2017 Introduced
\$648,065	\$8,333	\$0	\$0	\$0	\$0
	-98.7%	-100%	N/A	N/A	N/A

Source: Dedicated Purpose Fund Group: Spirituous liquor sales revenue

Legal Basis: Discontinued line item

Purpose: This line item paid for the operating expenses of the Liquor Control Commission. Those expenses are now supported by a portion of liquor permit fee revenue appropriated under Fund 5LP0 line item 970601, Commission Operating Expenses.

FY 2016 - FY 2017 Introduced Appropriation Amounts

All Fund Groups

Line Item Detail by Agency

			Estimate	Introduced	FY 2015 to FY 2016	Introduced	FY 2016 to FY 2017	
			FY 2014	FY 2015	FY 2016	% Change	FY 2017	% Change
Report For Main Operating Appropriations Bill			Version: As Introduced					
LCO Liquor Control Commission								
5LP0	970601	Commission Operating Expenses	\$ 707,630	\$ 796,368	\$ 796,368	0.00%	\$ 796,368	0.00%
Dedicated Purpose Fund Group Total			\$ 707,630	\$ 796,368	\$ 796,368	0.00%	\$ 796,368	0.00%
Liquor Control Commission Total			\$ 707,630	\$ 796,368	\$ 796,368	0.00%	\$ 796,368	0.00%