

BOURBON BARREL TAXATION TASK FORCE

Minutes of the 4th Meeting of the 2022 Interim

September 23, 2022

Call to Order and Roll Call

The 4th meeting of the Bourbon Barrel Taxation Task Force was held on Friday, September 23, 2022, at 10:00 AM, in Room 169 of the Capitol Annex. Senator Robert Stivers, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Robert Stivers, Co-Chair, Jimmy Higdon, and Christian McDaniel; Representatives Thomas Huff and Cherlynn Stevenson.

Guests: Eric Kennedy, Director of Advocacy, Kentucky School Boards Association; Dr. Paul Coomes, Emeritus Professor of Economics; Eric Gregory, President, Kentucky Distillers' Association; Tim Eifler, Kentucky Distillers' Association; and Jennifer Hays, Committee Staff Administrator, Appropriations & Revenue Committee.

LRC Staff: Jennifer Hays, Hunter Branham, Cynthia Brown, Sarah Watts, and Lexi Bensberg.

Approval of Minutes

Upon motion and second, the minutes from the September 1, 2022, meeting were approved without objection.

School Issues

Eric Kennedy, Director of Advocacy, Kentucky School Boards Association (KSBA), testified on school-specific issues relevant to the bourbon barrel tax. These issues include 'nickel' levies, SEEK calculations, the necessity of a 100 percent fair cash value assessment, and the comparison of the current situation involving bourbon to the recent unmined coal valuation shift. These issues are vital to understand, as the amount of school districts in which distilleries are located has expanded notably from 2014 to 2021.

Mr. Kennedy agreed with an example given by Chair Stivers, testifying that removing a revenue stream after ten years from a twenty year bond issue would make it difficult to continue making bond payments.

Mr. Kennedy testified that if the bourbon barrel tax were repealed, the total assessed value of taxable property in a local school district would decrease. As a result, the amount

of SEEK funding would need to increase in order to backfill a portion of the lost revenue from the decrease in value. It is important for property to be assessed at 100 percent fair cash value, because the majority of the SEEK formula is dependent upon the property assessment of a school district; because of this, the KSBA cautions against any new exemptions.

In response to a question from Senator McDaniel, Mr. Kennedy clarified that the SEEK formula would not account for all revenue lost in school districts if this tax were to be repealed.

Using the drastic decrease in tax revenue caused by the unmined coal valuation shift in the mid-2010s as an example, Mr. Kennedy testified that repealing the bourbon barrel tax may cause impacted districts to request more money from the General Assembly to backfill lost revenue or to increase the compensating rate to a percentage that some taxpayers may not be able to afford.

Chair Stivers explained that the purpose of this task force is to understand the economic dynamics, and that there is more to consider than what Mr. Kennedy had explained in his testimony.

In response to a question from Senator McDaniel, Mr. Kennedy clarified that in some of the areas where the bourbon industry is expanding there is also expansion in population and other variables. It is difficult to look at one SEEK calculation and alter one variable in the formula and be able to predict precisely the impact of the change, because the multitude of variables in the formula are interdependent.

In response to a question from Senator Higdon, Mr. Kennedy agreed that if the barrel tax were to be repealed, the state would have to backfill the SEEK formula, but would not be able to backfill the gap by 100 percent. The district may be left with a sizable amount to backfill.

Economic Impact from the Bourbon Industry

Dr. Paul Coomes, Emeritus Professor of Economics; Eric Gregory, President, Kentucky Distillers' Association; and Tim Eifler, Kentucky Distillers' Association testified on the economic benefits that would result from abolishing Kentucky's aging barrel property tax.

Dr. Coomes testified that there has been exponential bourbon industry inventory in Kentucky since the early 2010s. From 2010 to 2020, the estimated tax revenue from the production of distilled spirits has grown from \$68 million to \$144 million. In 2022, the estimated property tax revenues from aging barrels was \$39.5 million, with schools receiving \$26 million. It is expected that this revenue will continue to increase. He explained that the continued growth in tax revenue from the production of distilled spirits

emulates the economic theory of the Laffer Curve, which hypothesizes that lowering taxes will increase tax revenues.

In response to a question from Senator McDaniel, Dr. Coomes testified that if the tax on aging barrels were to be eliminated, the tax burden placed on the bourbon industry would decrease. This specific tax stands out because it is not something that is taxed anywhere else in the world. Dr. Coomes claims that the example provided by Mr. Kennedy is not applicable to Central Kentucky because it is a more economically diverse region. Mr. Gregory added that the industry is advocating eliminating the tax to ensure that these jurisdictions are not economically dependent upon the industry, in order to avoid a situation similar to what happened in counties that were dependent on revenues from the coal industry.

In response to a question from Representative Huff, Mr. Gregory testified that the industry is growing so much that local communities are considering whether it is beneficial to use land for distillery warehouses.

In response to a question from Senator Higdon, Dr. Coomes reiterated that the central region is much more economically diverse than the coal region was, so there is a much smaller risk for the same scenario to occur.

In response to a comment from Representative Stevenson, Dr. Coomes clarified that the property tax revenue in some counties from 2010-2020 did increase even though the property tax rates decreased.

Refresher on Taxes Paid by the Industry

Jennifer Hays, Committee Staff Administrator, Appropriations & Revenue Committee; testified on the details of how and when the bourbon industry in Kentucky is taxed throughout the manufacturing, wholesaling, and retailing processes. Mrs. Hays provided members and the public with a one-page chart documenting how each tier is taxed in regards to the bourbon industry.

With there being no further business, the meeting was adjourned at 11:53 a.m.