

The Changing Face of the Beer Industry



September 11, 2019 - IJC
Licensing, Occupations, and
Administrative Regulations

presented by

Kentucky Guild of Brewers

Kentucky's General Assembly's Work Continues to Yield Success

- **Thank you!** Your support and all of the legislative changes have made our growth possible. We thank you for valuing our industry sector and standing up for the KY craft beer industry.
- Again, we are pleased to report another year of continued growth, additional expansions, new brewers and increased economic impact, revenue and employment.
- The craft brewing industry has reached new levels of competitiveness, not to mention the changes in both our market place and our customers expectations/demands. You have been our key ingredient for growth. It remains imperative to continue our efforts to modernize and advance our alcohol laws, improve our tax structure and avoid pitfalls of those seeking to keep everything as it has always been.



Kentucky's General Assembly's Work Continues to Yield Success

- **Tremendous potential for growth still exists, especially here in Kentucky.** Kentucky remains an undersaturated state as opposed to several other states. Market demands for quality craft product continue to drive the opportunity for growth.
- Our focus remains on building our brands, assuring production of quality product our consumers want and enhancing our customer services and tourism experiences. However, at the end of the day-our primary goal is the production of high quality craft beer.
- The craft beer industry is about creating synergies with each other, industry partners, industry sectors, and our communities. That includes synergy with the General Assembly and policy makers to move Kentucky forward.
- An updated list of craft brewers across the state and samples of the positive media coverage on KY craft beer and our breweries is attached in your packet.



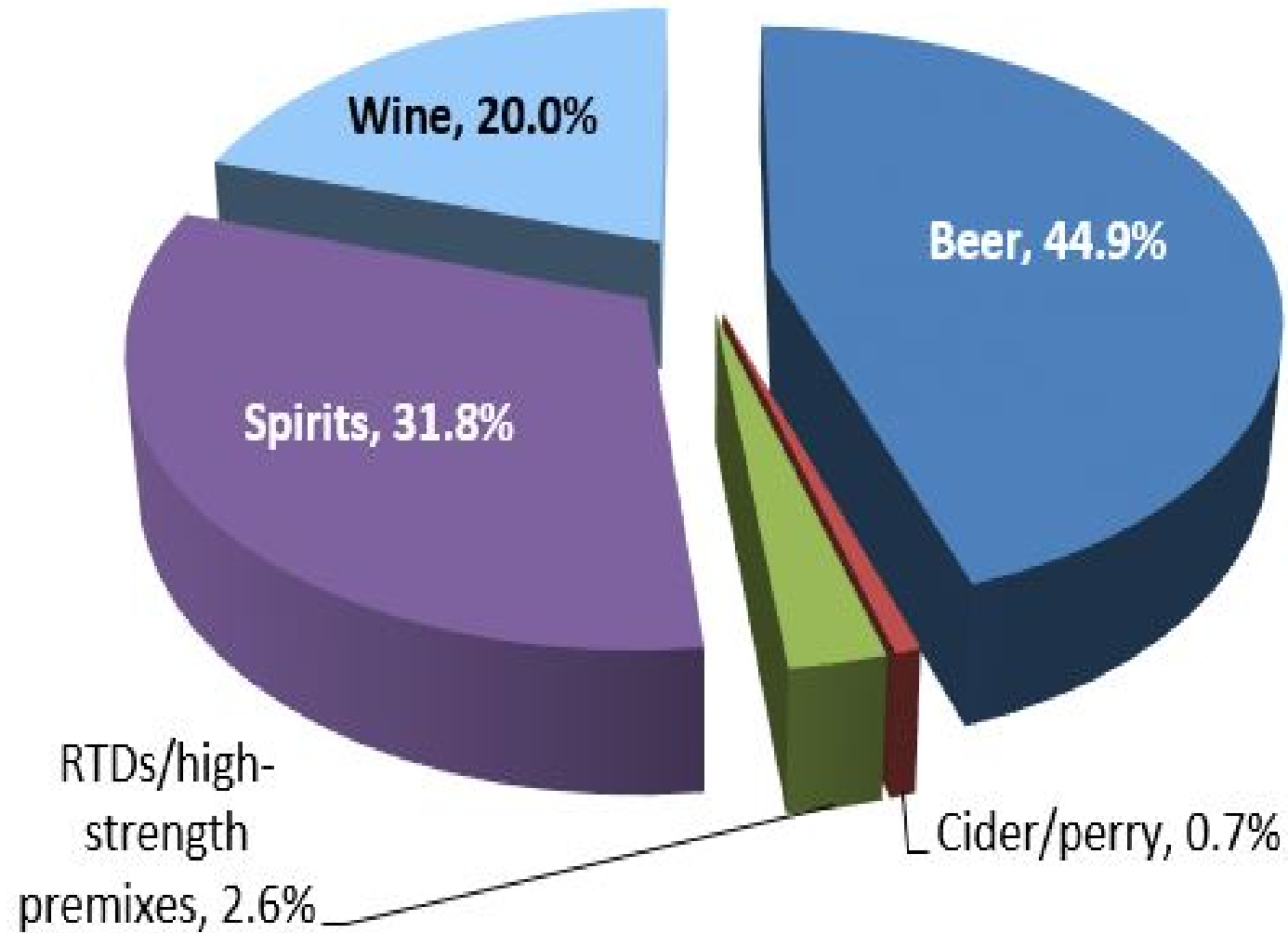
Craft Beer Industry Nationally

- Small Independent American Craft Brewers Contributed Over \$76.2 Billion to the U.S. economy in 2018, up from \$55 Billion just two years ago.
- The craft beer industry supports more than 500,000 jobs.
- 2018 Craft Beer “Retail” Sales were \$27.6 Billion of the overall beer market and saw an increase of 7% in sales growth. Craft beer sales account for 24% of the nation’s \$114.2 Billion beer market.
- While overall beer sales by volume in 2018 had a loss of 0.8%, craft beer had a 4% increase in volume growth/production.
- According to the U.S. Department of Labor, wages in the beer industry remain among the highest of the 350 industries surveyed.
- Demand for local products grew/increased 10% as preferred products to consumers. Spiked seltzer, cans, crowlers and local craft beer all in demand and growing.



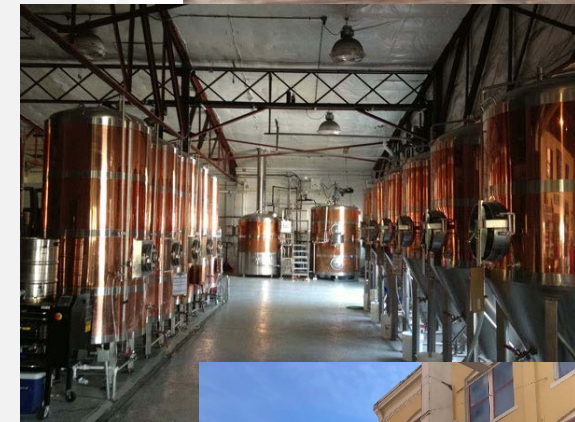
Source: Brewers Association

Retail sales of alcoholic drinks by sector, % value breakdown, 2018

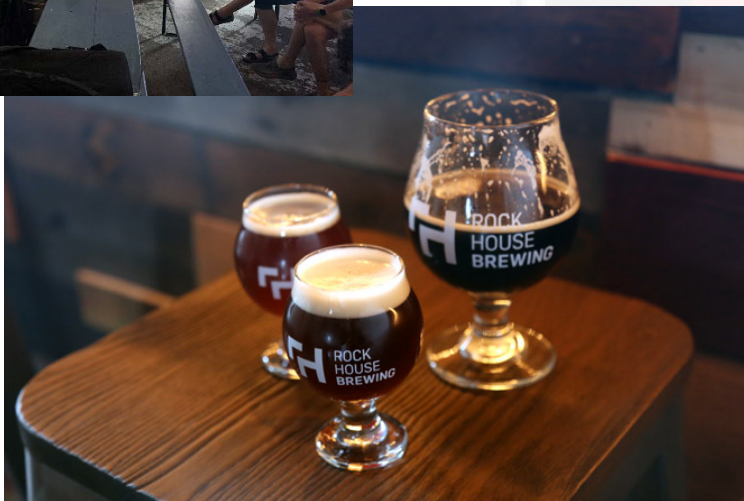


Kentucky's Craft Beer: The Economics, Growth and YES MORE Expansions

- **KY Craft breweries led the nation in 2018 for growth. KY craft beer industry saw a increase of 43% growth, ranking in the leading top two states in the nation for industry growth** and yet we still rank 41st in number of breweries per population of adults 21+. We are growing more, investing more and producing more with a fewer number of breweries.
- **KY has 69 active licensed craft breweries (as of August 2019). 16 new breweries opened since our last Committee presentation. 11 known new brewery locations are currently in planning stages** so far this year. There are 92 pending federal TTB applications from KY.
- **Currently, 30 existing breweries have confirmed expansion activity. 42% of our existing craft brewers are already expanding operations.**
- As reported to the Committee 2017, KY craft beer had an annual economic impact of \$495 million. **In 2018, KY craft beer had a \$657 million economic impact. So far in 2019, our mid-year data shows our economic impact has increased to \$765 million.**
- **More KY craft brewers are exporting than in 2018. KY craft beer is now sold to more than 45 states and over 25 countries, but our growth priority remains investment in the Commonwealth.**
- **Production numbers have also increased.**



Kentucky's Craft Beer: The Economics, Growth and YES MORE Expansions- Continued

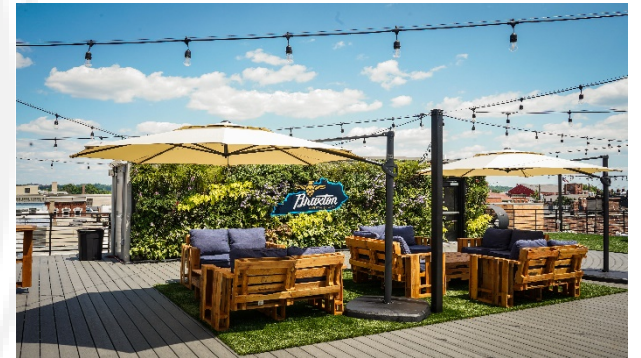


- **KY Craft breweries have created 133 new jobs so far in 2019. Employing over 1,000 Kentuckians. KY microbreweries have increased their workforce in 2019 of more than 15%.**
- **All offering KY tourism amenities such as tap rooms, 15 brewers offer food, roof top experiences, farms or other amenities that draw visitors to our KY Microbreweries.**
- **KY Microbreweries have already invested \$6.6 million this year in the Commonwealth in expansions in the form of additional equipment, new tanks, canning lines, buildings, improvements and new brewery openings.**
- **Currently, of our known existing craft brewers that are expanding operations, an additional \$13+ million will be invested in Kentucky breweries and operations by the end of 2020.**

Kentucky's Craft Beer: The Economics, Growth and YES MORE Expansions- Continued

What do we mean by expansions and improvements in Kentucky? A few examples include, but are not limited to:

- Country Boy Brewing - \$1.9M for another expansion at the new Georgetown Facility (additional land purchase, upgrades to the canning line, expanding the lab, adding additional warehouse space etc.)
- Braxton Brewery - \$5M to purchase their NKY building, add a new canning line, open a enhanced roof top facility and are in process of opening a new barrel aging facility in Ft. Mitchell.
- Do/Love/Live Brewery - \$5M to convert an abandoned meat distribution facility for its new barrel brew house, with food service and roof top facility and amenities over-looking the new soccer stadium.
- West Sixth Brewing - \$1.1M for a new NuLu facility to restore a 9,000 sq ft, 120 year-old carriage house.
- Goodwood Brewing Company- Expansion and new facility in Frankfort.
- Hopkinsville Brewing Company also expanding. We could go on!!!



Meet a New Brewer: Hopkinsville Brewing Company

Kate Russell- Owner/Operator of Hopkinsville Brewing Company

B.A., Psychology, Cornell University, 2003. Graduate certificate, Brewery Science & Operations, Auburn University, 2018.

Military Service: Served as a signals intelligence analyst for the 101st Airborne Division (Air Assault); served in Operation Iraqi Freedom 2005-2007; assigned to FOB Speicher in Tikrit; reached the rank of Sergeant and received an honorable discharge in 2006.

I am a Mother, Veteran and Brewer!

Hopkinsville Brewing Company opened in September of 2016

Homeschooled my children in the brewery facility during build out.

Beyond my initial investments to create this new business in Kentucky, I'm investing an additional \$250,000 to buy the building next door and increase the breweries capacity

I employ 12 additional people at my brewery.

We have tap room sales and are distributing to other licensed retailers.

The brewery is not just my passion, but my livelihood and how I provide for my family.



Kentucky's Craft Beer Industry's Other Contributions



- KY craft brewers expansions have continued to lead to the location, creation and expansion of even more NEW support industries and indirect jobs now in the Commonwealth as well as enhancing our tourism experience.
- Have various industry partners such as our distributors, service providers, and partnerships with KY Distillers.
- KY craft beer festivals yield a big draw and enhance tourism.
 - Attendance for our Annual Craft Bash was up 15% this year over last year. Over 1,700 visitors attended the festival and came from 21 different states (as far as CO, CA & RI).
 - Numerous craft beer festivals across the Commonwealth, to many to list them all..
 - 2019 Kentucky Proud paired beer dinners include six scheduled Oct. 14-17 in various locations across the Commonwealth. The dinners will consist of locally sourced foods matched with beers from the Kentucky Proud Beer Series and will also hold a KY Proud Beer Festival also featuring the special brews and locally sourced food items.
- Our brewers partner with the KY Department of Agriculture, KY Proud and our local farmers, KY Tourism, Arts and Heritage Cabinet and Kentucky's Economic Development Cabinet.
- KY Microbreweries have made over \$500,000 in local charitable donations to their communities.
- KY Brewers donate approximately 10 million pounds of spent grain to help our KY farmers.



Other Contributions Cont.



- Small Independent KY Craft Brewers are locally owned. They build their brands locally, and support a sense of community. They support their local economies, local businesses, charities, tourism, farmers and all other service providers needed to sustain the craft brewing industry.
- We support and have become a key part of Kentucky tourism! With 69 breweries across the state from Pikeville to Paducah, food & beverage is the leading revenue source for KY tourism. A \$7.6 Billion dollar industry in Kentucky and we are proud to be part of the attractions!



- Tourism-Tap room experience, special product releases, collaborative beers continue to grow in popularity.
- KY craft directly appeals to, and now can compete for, the new generation of consumers who seek “experiences.” We cross generations, but Millennial (21+) preferences are up. 39% prefer craft beer and an experience.



- KY Craft brewers can still grow through additional breweries, production, sales, expanded distribution in state and nationally, non-beverage retail food services, expand workforce, increasing and growing brands and revenue, expand facility capacity and KY investment, expand offerings of product, participation in festivals and other KY tourism events etc. just to name a few....

Craft Cares: Charitable Giving & Community Commitments



EAT, DRINK & BE CHARITABLE:
KY Craft Brewers' philanthropic activities **have supported over 294 community organizations and charitable groups.** *Please take time to look at the list in your packets!*

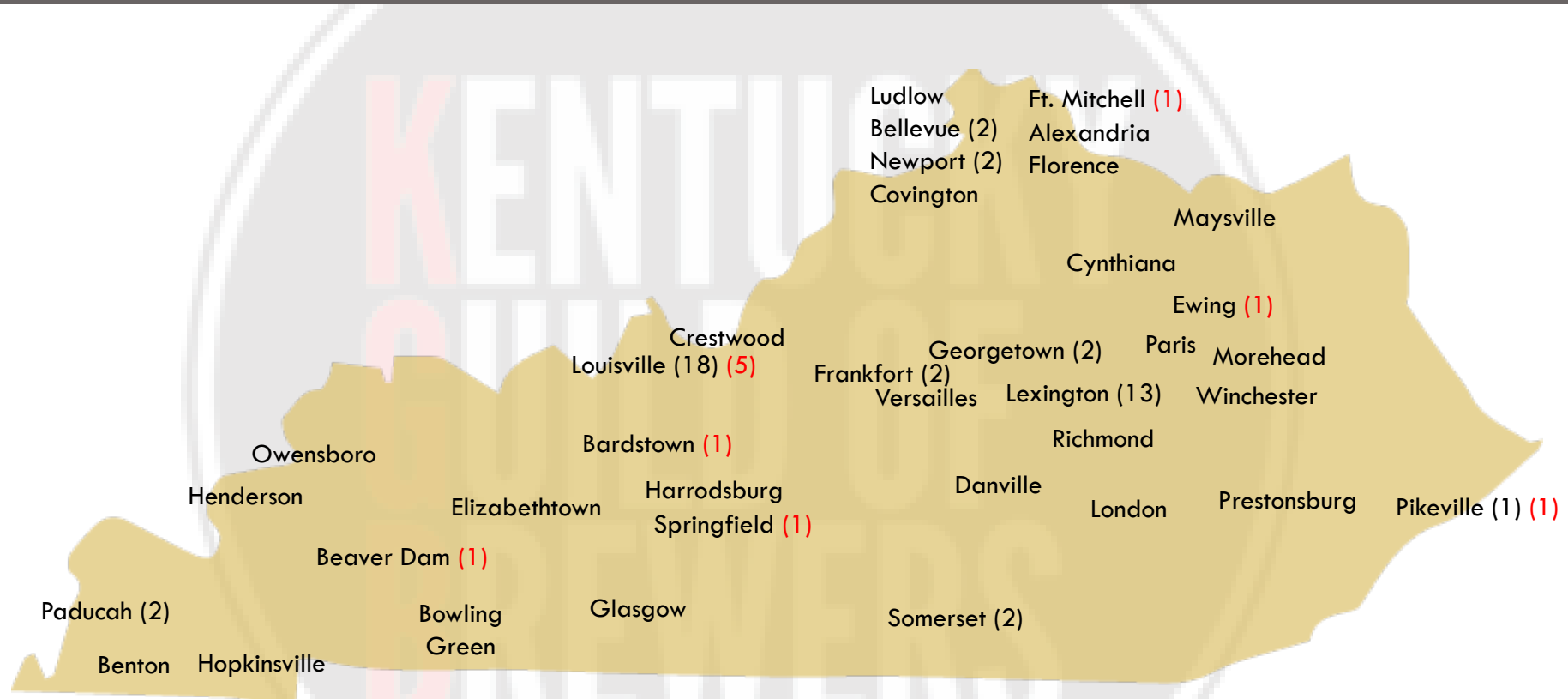
IMPACT of Kentucky's Microbreweries

KY Craft Beer has both direct & indirect economic impact in the Commonwealth:

- Investment of new dollars in Kentucky.
- KY based Infrastructure & Jobs.
- Industry Revenue & Sales.
- Wages & benefits to Kentuckians they employ.
- Tax revenue (Federal, State & Local).
- **The industry's economic impact goes beyond some of the more obvious sources. The ripple effect of beer benefits: agriculture, manufacturing, construction, transportation, affiliate industries, service industries and many other businesses whose livelihood depends on or is supported by our craft beer industry.**



KENTUCKY BREWERIES: Where are they?

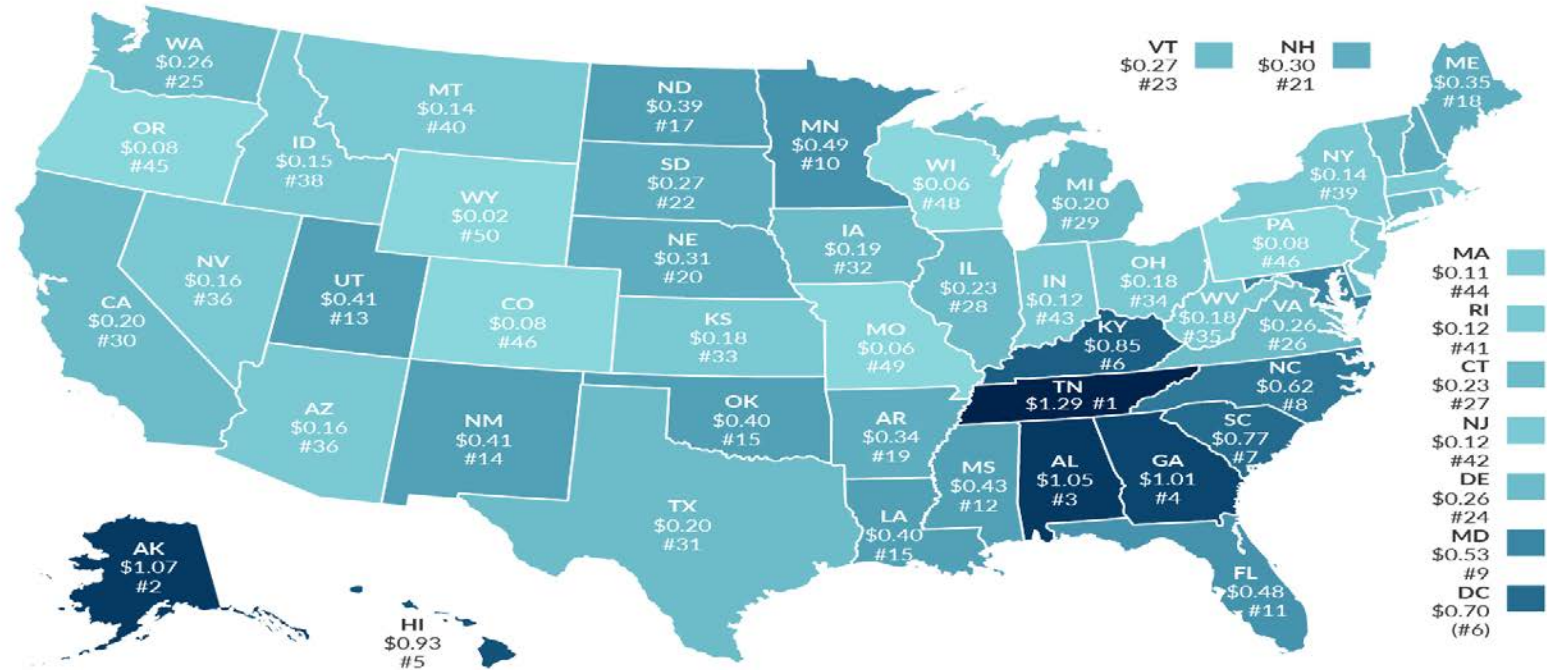


KEY:
- Existing Brewery Location (69)
- Brewery Location in Planning (11)

Tax Data- Taxation on beer- KY is 6th highest in the U.S

How High Are Beer Taxes in Your State?

State Beer Excise Tax Rates (Dollars per Gallon), 2018



Note: Rates are those applicable to off-premise sales of 4.7% a.b.v. beer in 12 ounce containers. At the federal level, beer is subject to differing tax rates. Small domestic brewers are taxed between \$0.11/gallon and \$0.516/gallon. All other brewers are taxed at rates between \$0.516/gallon and \$0.58/gallon. D.C.'s rank does not affect states' ranks, but the figure in parentheses indicates where it would rank if included. FL, GA, HI, ID, IA, KS, MN, NC, ND, OH, OK, TX, UT, VA, WA, and WI also apply different rates according to alcohol content, place of production, size of container, or place purchased (on- or off-premise or onboard airlines). Statewide local rate included in AL (\$0.52) and GA (\$0.53). Sales tax specific to alcoholic beverages included in AR, MD, MN, and DC. Case fees and/or bottle fees which may vary with the size of container included in AR and RI. Wholesale tax rate converted into a gallonage excise tax rate included in KY (10.25%) and TN (17%).

Source: Distilled Spirits Council of the United States; Tax Foundation.



Kentucky: Taxes on Microbreweries

- Kentucky microbreweries pay federal, state and local taxes.
- Unlike Kentucky's small farm wineries, microbreweries pay excise, wholesale and sales taxes on all products.
- Kentucky microbreweries generate tax revenue for Kentucky and our local communities.
- After upfront investments for facility and brewing equipment, taxes are a significant portion of the on-going operating expenses of microbreweries.
- KY microbreweries pay:
 - ✓ Federal and State Excise Tax (Federal excise is \$3.50 a barrel, set to increase to \$7.00 a barrel in 2020 unless Congress acts. State (KY) Excise Tax is \$2.50 per barrel)
 - ✓ State (KY) Wholesale Tax - 10 % of wholesale value
 - ✓ State (KY) Sales & Use Tax (*on all product we sell*) 6%
 - ✓ Local Property Taxes (including *ad valorem*, school district, fire district, etc.)
 - ✓ KY Corporate Income Tax and Individual Income Tax
 - ✓ Local Regulatory Fees (taxes)
 - ✓ KY Payroll tax (including FUTA, SUTA and FICA)
 - ✓ State and Local Licensing Fees and Permits

National Industry Policy Priorities

- The craft brewing industry is concerned with several key issues both nationally and in Kentucky:
 - Transparency;
 - Brewery/producer direct to consumer sales (shipping and limited self distribution for small brewers);
 - Franchise Reform;
 - Excise Tax & Tax Reform;
 - Tariffs & trade;
 - Under age drinking & responsible consumption;
 - Preservation of existing privileges;
 - Independent distribution systems;
 - Access to materials;
 - Water Quality;
 - Modernization of state's alcohol laws;
 - Threats to our ability to be competitive.



Legislation that would address the needs of the craft beer Industry ?

- The Guild has been working hard to carefully identify top concerns and issues for our Kentucky craft brewers. Currently finalizing priorities.
- Legislation that seeks to address inconsistent statutory provisions relating to privileges or prohibitions among producers.
- Simplify processes, reduce inconsistencies in statute that are counter to and reduce barriers for new and existing KY Craft brewers.
- Streamline the licensing process and eliminate unnecessary licenses that can be addressed under existing licenses through authorized privileges language.
- Look at legislative provisions that enable craft brewers ability to compete with craft brewers and privileges in bordering states and nationally.
- Align statutory provisions with modern business practices. Align tax statutes and tax policy to reflect the actual business practices, definitions and privileges of this industry sector as afforded by state and federal alcohol laws.
 - Confirm that the Sales/Use Tax (KRS 139.480) does not apply to new and expanded brewery manufacturing equipment.
- Modernize statutes to address changes related to E-commerce and codify direct ship to consumers, to move the state forward on this consumer service in a meaningful way. Address equitable tax structure.
- Legislation enabling flexibility in how microbrewers and KY Distributors meet retail demand.
- Enact meaningful tax reform for the alcohol industry.



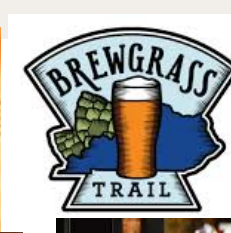
eCommerce



"authorize the direct shipment of all spirits," as stated by the [National Conference of State Legislatures](#)' – Beer, wine and distilled spirits...

Have You Found Some of Your Favorites





Thank You!

