



KDA 2022
Legislative Agenda

WHO WE ARE



**KDA HAS 52 MEMBERS
OPERATING 65 DISTILLERIES**



OUR MISSION SINCE 1880

**Passionately and Responsibly Promote,
Protect & Elevate Kentucky's Signature
Bourbon and Distilled Spirits Industry**

Kentucky is the 95 Percent!



Kentucky Bourbon:

- **95% of the world's Bourbon supply**
- **\$8.6 billion industry**
- **20,100 jobs**
- **\$1 billion payroll**
- **\$5+ billion in capital investment**
- **\$300+ million in local/state taxes**
- **\$1.8 billion in federal excise taxes**

THANK YOU!



How Long Can The Boom Last?



Bourbon is more popular than ever and that is fueling incredible growth to benefit all of Kentucky.

But Kentucky Bourbon is facing *unprecedented challenges* at home and abroad.

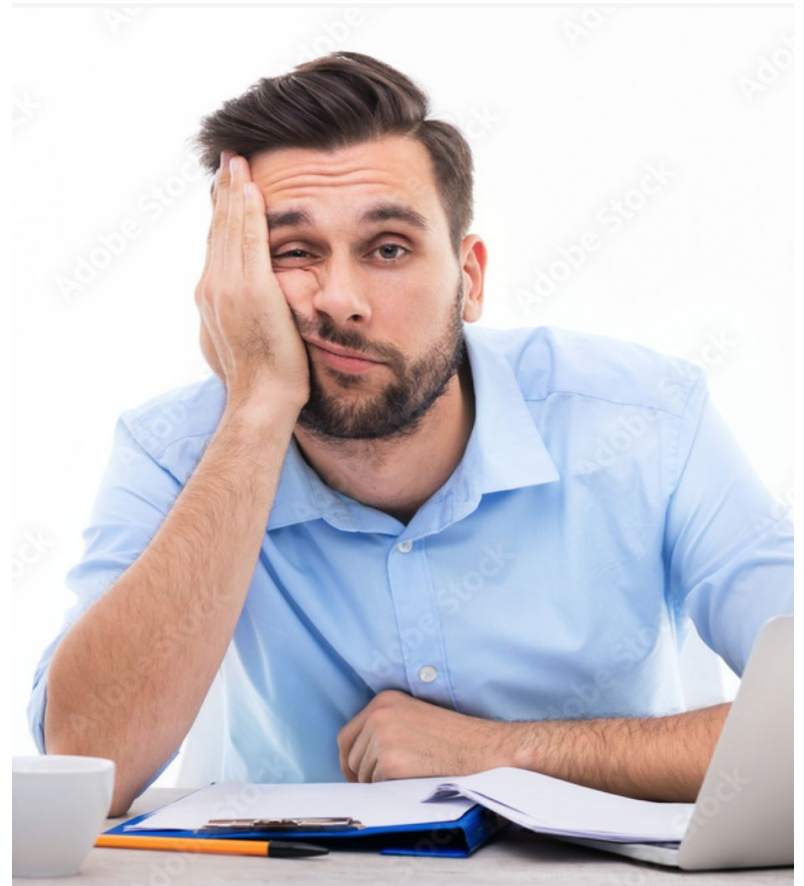
- Exorbitant taxes
- Trade wars & tariffs
- COVID global pandemic
- Unsustainable regulatory environment
- Increased competition in other states



Alcohol Fatigue?

The KDA recognizes change isn't without angst and controversy. Recently, the legislature has tackled several significant alcohol bills

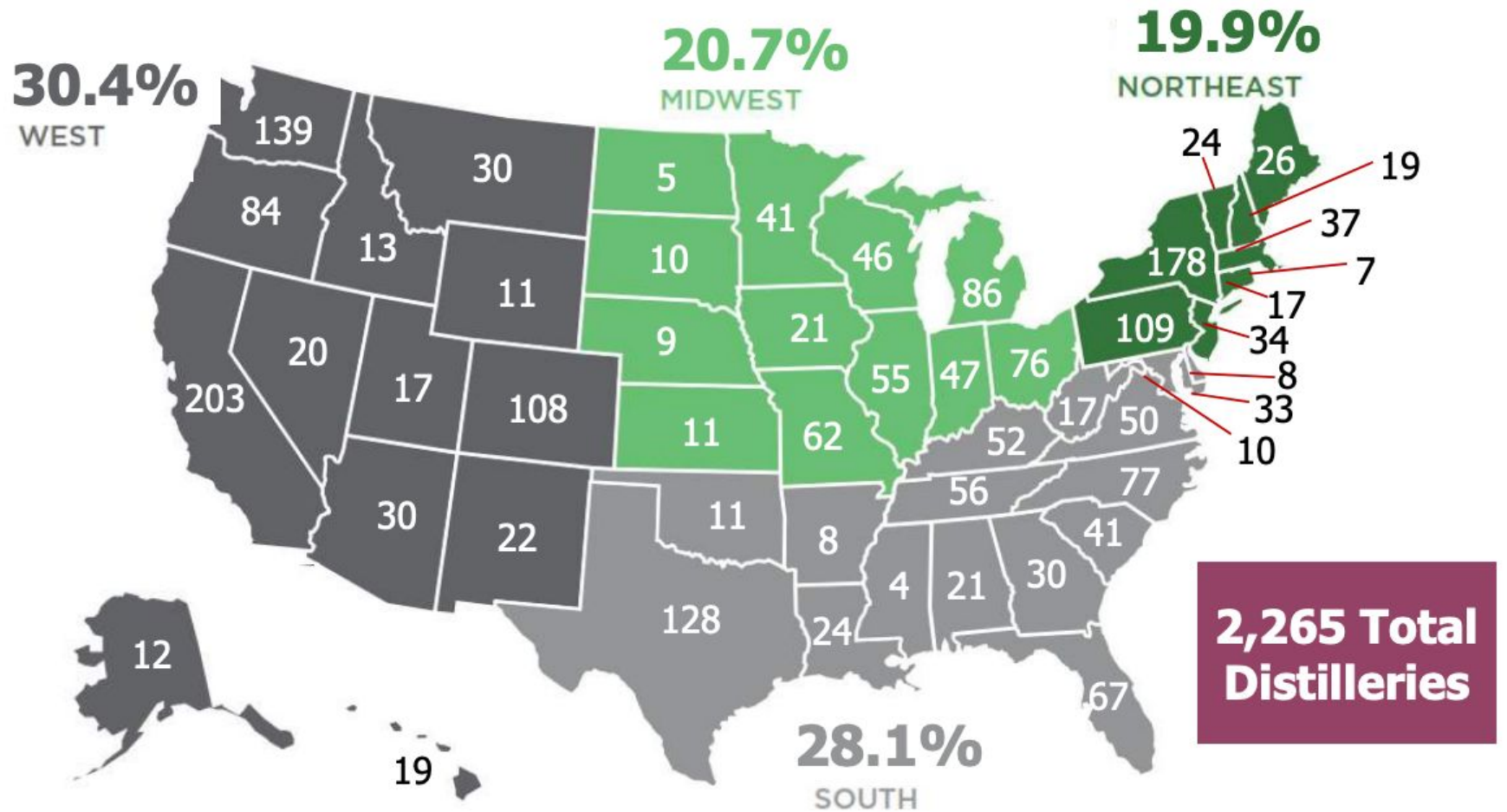
We understand there is some level of "alcohol fatigue," but Kentucky laws are so outdated we have to continually adapt if Kentucky is to maintain its distilling dominance.



Active Craft Distillers by State and Region



of Active Craft Distillers by State and Region as of August 2020



Other States Want What We Have

“Bourbon feels intrinsically connected to Kentucky. 95 percent of the juice on the market is made there. But bourbon does not have to come from Kentucky. When it comes to rules about location, the only one that matters is that it’s made in the U.S. **And with bourbon booming, barriers to entry decreasing, and craft distillers thriving, that “95 percent” number is starting to drop, as bourbon distillers pop up nationwide.**”

-- Christopher Osburn, Writer for Uproxx, Sept. 29, 2021

Would You Have Seen This Headline 10 Years Ago?

Drizly's Bestselling Bourbon Whiskeys From Outside Kentucky

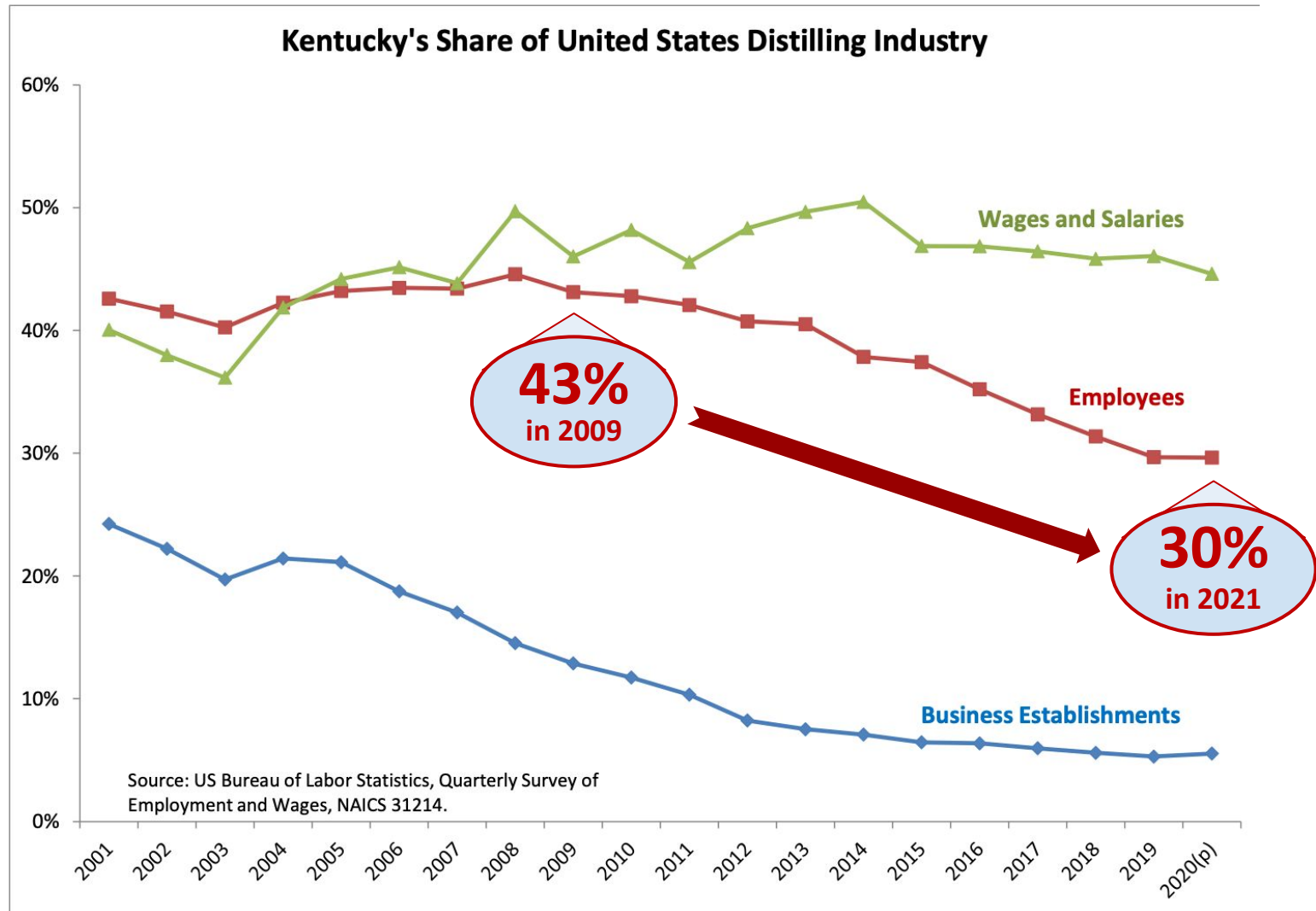
Uproxx, September 29, 2021



Kentucky Is Falling Behind

- Number of distilleries in the U.S. grew 146% between 2014 and 2019.
- Kentucky is tied with North Carolina* for 11th in the number of distilled spirits permits in the United States. (* = control state)
- Top 10 states that have more distilleries than Kentucky: California, New York, Texas, Washington, Michigan*, Pennsylvania*, Colorado, Oregon*, Ohio* and Florida.
- EVERY OTHER STATE has **lower taxes** on spirits production than Kentucky.
- Other states have adapted quickly in changing laws, adding privileges and reducing fees to attract next generation of distillers, jobs, investment.
- **Florida** just passed legislation allowing unlimited bottle sales in gift shops and sales at farmer's markets, fairs and festivals. So did **North Carolina**.
- **South Carolina** distilleries can now offer unlimited samples with food and up to 4.5 ounces per person for all other visitors.
- **Illinois** and **Michigan** now allows distillers to self-distribute on a limited basis. Michigan distillers can even self-distribute exclusive and limited edition bottles!

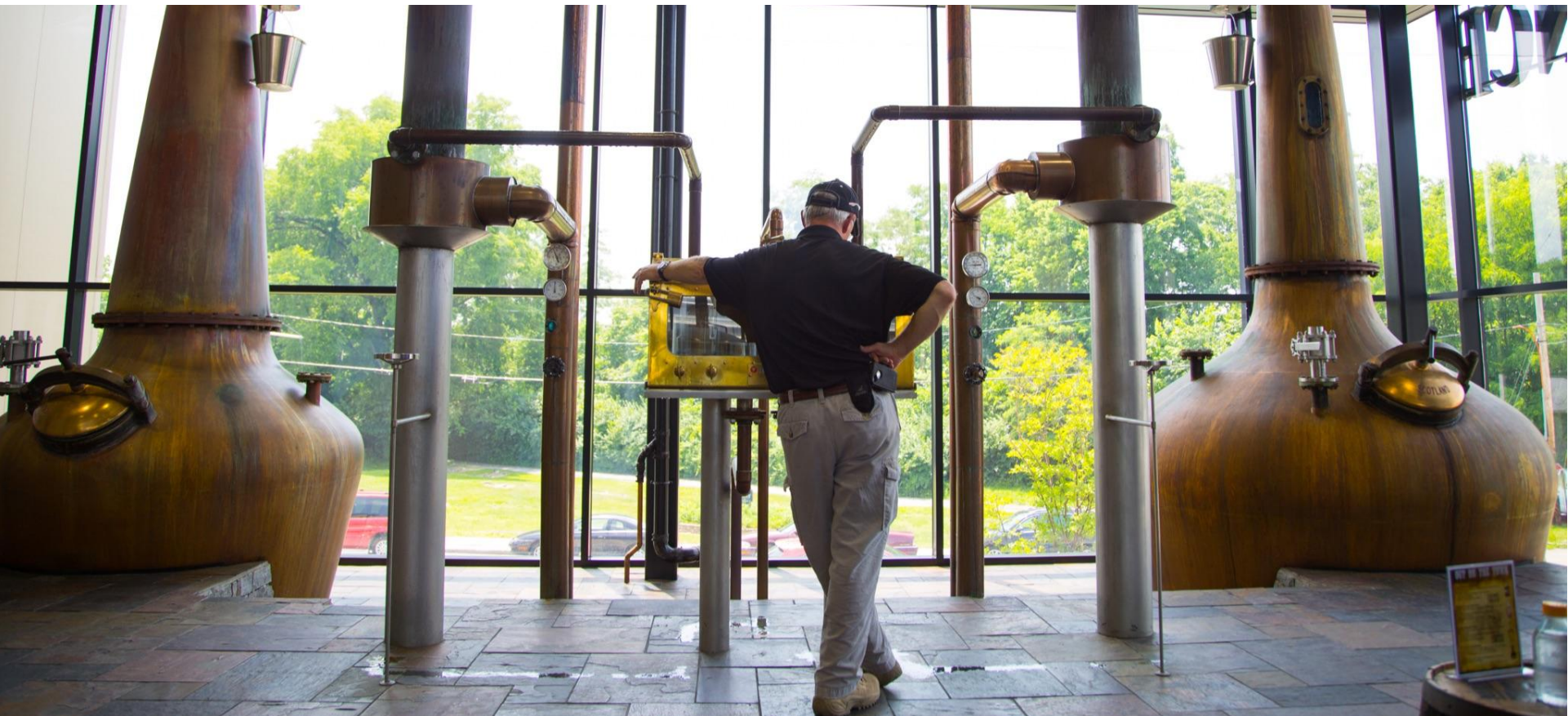
Other States Have Sliced Into Kentucky's Share of Distilling Jobs



Kentucky cannot afford to lose its distilling monopoly.

What if 95% starts to slip away?

We lose jobs, capital investment, tourism & tax revenue



Kentucky Must Continuously Adapt to Stay at the Forefront



What Are the Needs of the Signature Bourbon Industry?

1. Eliminate the discriminatory barrel tax or make it refundable / transferable.
2. Reduce distilling's overall tax burden to keep it competitive with other states.
3. Remove regulatory obstacles that restrict growth and allows Kentucky to compete with other states.
4. Provide parity with beer & wine.



The Barrel Tax Credit of 2014

- In 2014 the General Assembly **made the policy decision** to refund the discriminatory barrel taxes to the state's growing signature industry.
- HB 445 created the Bourbon Barrel Tax Reinvestment Credit.
- Since the vast majority of barrel taxes are paid at the local level, distillers were offered a non-refundable corporate income tax credit for amount of ad valorem barrel tax dollars paid in the previous year.
- Distillers must reinvest the credited dollars into certain capital improvements at their Kentucky facilities.

Eliminate the Tax or Monetize the Credit

- The KDA strongly urges the elimination of the barrel tax in its entirety, with the state keeping local community revenue whole.
- An alternative is to allow distilleries to realize the entire credit by making it refundable or transferable.
- This will incentivize distilleries to continue investment, which helps offset mounting tariff impacts, Kentucky's high spirits tax burden and competition from all other states.
- Bourbon is Kentucky's signature industry, and its capital investments and employment justifies the use of refundable or transferable credits, similar to film and historic preservation credits.

Bourbon Provides a Return on Investment

Alcohol tax revenue in Kentucky increased from \$125 million in 2010 to more than \$300 million in 2020 -- a 140% increase.

\$175 million in new tax revenue

+

Returning \$33 million in barrel taxes

= A return on investment for Kentucky

A close-up photograph of a wooden barrel, likely used for aging spirits. The barrel is made of dark, weathered wood with visible grain and some staining. A long, polished wooden handle of a pitchfork is laid horizontally across the top of the barrel. The pitchfork's metal head is visible on the right side. The background shows the interior of the barrel, with wooden staves and a metal band.

Prohibition ended 88 years ago...

**But many of its laws and policies
are still on the books in Kentucky.**

**We need to remove regulatory
obstacles that restrict growth.**



Private Barrel Selections

- Private Barrel Selections are the future of the industry because every individual barrel – no matter the mash bill or location in a warehouse – is unique in flavor and one-of-a-kind.
- Consumer demand is driving the popularity of private barrels, and these distillery programs are growing tremendously.
- The ABC has reviewed this practice and opined that we need statutory authority to continue these events because they could be viewed as violating Tied House Rules.
- The Legislature must codify this practice in statute if the private barrel selection programs are going to continue after April 2022.

Elements of Private Barrel Selects (PBS)

1. Define in statute a “private barrel selection event” and a “private barrel package”
2. Exempt selection events from the fee sample sizes and bottle sale limits (an average barrel is 175-200 bottles).
3. Allow distilleries to sell the private barrel selects out of their gift shop in finished cases.
Allows options for distilleries to sell and deliver the private barrels:
 - Buy at the distillery and take the PBS home.
 - Ship the PBS under HB 415 within Kentucky or to a reciprocal state.
 - Deliver the PBS through the 3-tier system, as it’s done today.
4. Allows master distillers to create and sell their own PBS bottles exclusively at its gift shops.
5. Allows distillers to sell exclusive bottles at its distillery gift shop & retail space.
6. Preserves the ability for retailers to buy exclusive and private barrel selection bottles from distillery gift shops.

Other Privileges – Creating Parity

1. Allows distillers to have off-site tasting rooms with full retail privileges (samples, bottle sales, NQ2 by-the-drink). Beer and wine have this privilege.
2. Allows distillers to sell bottles at fairs, festivals and farmers markets and offer free samples up to 1.75 ounces. Beer and wine have this privilege.
3. Allows retail licensees, including distilleries, to create and sell barrel-aged cocktails.
4. Allows distilleries to purchase collaborative beer packages (for sale in its gift shop) directly from micro-brewers that now have the limited right to self-distribute.
5. Creates a new “limited non-quota package license for the sale of PBS and vintage spirits (the provisions of Sen. Hornback’s SB 108 2021)

**The KDA encourages you to enjoy
Kentucky Bourbon and distilled spirits
responsibly and in moderation.**



THANK YOU.

