

INTERIM JOINT COMMITTEE ON LICENSING, OCCUPATIONS, AND ADMINISTRATIVE REGULATIONS

Minutes of the 1st Meeting of the 2019 Interim

July 19, 2019

Call to Order and Roll Call

The 1st meeting of the Interim Joint Committee on Licensing, Occupations, and Administrative Regulations was held on Friday, July 19, 2019, at 10:30 AM, at Chas Seligman Distributing Company, 10885 Clydesdale Court, Walton, KY. Senator John Schickel, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator John Schickel, Co-Chair; Representative Adam Koenig, Co-Chair; Senators Tom Buford, Christian McDaniel, Damon Thayer, and Reginald Thomas; Representatives Matthew Koch, Nima Kulkarni, C. Ed Massey, Chad McCoy, Jerry T. Miller, Kimberly Poore Moser, Phillip Pratt, Diane St. Onge, and Buddy Wheatley.

Guests: Kristen Meadors Baldwin, Northern Kentucky Chamber of Commerce; Jennifer Doering, Chas. Seligman Distributing Company; Bryan Alvey, Kentucky Distillers Association, Jack Wells, and Josh Quinn, Boone County Distillery, Ken Lewis, New Riff Distillery; Dan and Peggy Montgomery, Verona Vineyard Winery; Jessie Brewer, Boone County Commissioner.

LRC Staff: Tom Hewlett, Bryce Amburgey, Jasmine Williams, Melissa McQueen, Lisa Moore, and Susan Cunningham

Minutes

The minutes from December 10, 2018, meeting were approved without objection.

Welcome

Kristin Meadors Baldwin, with the Northern Kentucky Chamber of Commerce, welcomed members to Northern Kentucky. She said that passage of sports gaming could have a 20 percent increase in state tourism.

Chas Seligman Distributing Company

Jennifer Doering, Chas Seligman Distributing Company, and her family welcomed the committee. She thanked the committee and the General Assembly for passing legislation that makes the alcoholic beverage industry more responsible.

Kentucky Distillers Association

Ken Lewis, New Riff Distilling, said the bourbon industry is increasingly important to Northern Kentucky. Northern Kentucky is often seen as a suburb of Cincinnati. The bourbon industry helps tie the area into the culture of the rest of the state. New Riff is five years old and has invested \$22 million in two campuses. Another campus with new rick houses is in the planning stage. Later this summer, the distillery will add three additional fermenters, creating a 50 percent increase in production capability.

Because of the economic investment and additional tourism, during the last six years the attitude has changed toward the industry. However, the industry does need continued reduction of red tape and regulatory reform. The Supreme Court in Tennessee will clarify the issue of commerce clause versus the right for states to sell alcohol. This is important for the smaller business to be able to ship to other states. Also, the ability to sell single bottles to tourists in distillery gift shops will benefit the business.

Jack Wells said the craft industry appreciated everything that the legislature has done over the past few years regarding regulations. Boone County Distilling Company is only four years old and is a much smaller operation than New Riff Distillery. Tourism has become a big part of their revenue stream. The brown sign on the interstate has increased visitors 150 percent. With e-commerce, alcohol needs to ship across state lines. Protect the shipping companies is currently the biggest problem.

The federal government placed a temporary reduction in the tax on proof gallons for craft distilleries from \$13.50 a proof gallon to \$2.70 a proof gallon. This has an effect on their business and what they are able to reinvest in their operations. A tax break for craft distilleries would be helpful.

Josh Quinn, Boone County Distillery, said New Riff Distilling, Boone County Distillery and other small distilleries in the area are united and consider themselves to be colleagues.

Bryan Alvey, Kentucky Distillers Association (KDA), said the Northern Kentucky region is having a significant impact on the bourbon industry. As of 2018 the industry employed over 20,000 people with a payroll of \$1 billion dollars, and \$2 billion dollars in capital investment. KDA partners with many other industries in the state to bring in tourism. Visitors who come to Kentucky to visit a horse farm also want to visit a distillery or a winery. The Bourbon Trail and the Bourbon Trail Craft Tour had over 1.4 million visitors in 2018.

HB 400 opened the door for shipping. The Tennessee Supreme Court decision will also have a positive impact. The KDA is letting other states know that we are open for business. The UPS is working with software companies to have interstate shipping become a reality.

The bourbon industry is the highest taxed industry in the state with 60 percent of the revenue from every bottle going to taxes. It is hoped that the federal tax extension that Mr. Wells mentioned will become permanent.

In response to a question from Representative Koenig, Mr. Lewis said New Riff competed in the San Francisco International Spirits competition, considered the most prestigious in the world. New Riff submitted five entries and all five won double gold.

In response to a question from Senator Thayer, Mr. Alvey said there are a lack of reciprocal states and helpful language in other states shipping laws. In Hawaii, if a resident wants to ship a bottle of spirits to their home from another state they must have a retail license. Common carriers do not have the luxury of time to check for a license. Alaska, on the other hand, is wide open, as is D.C. IMX is a software company that KDA and UPS have been working with regarding compliance. There are also discussions regarding new legislation. Finally, the in-person piece of HB 400 could be considered unconstitutional. There have been no law suites challenging it so far; however, that is a factor.

In response to a question from Senator Thomas, Mr. Alvey agreed that because of the Tennessee Distillers v. Total Wine case other states will see an opportunity to begin online sales. Kentucky currently ranks 11th in distilleries in the United States, even though Kentucky still produces 95 percent of the worlds bourbon.

In response to a question from Representative Miller, Mr. Alvey said common carriers choosing to ship and laws in other states loosening restrictions will make shipping to other states easier. When parity is realized it will be easier to ship out of state.

In response to a question from Representative Kulkarni, Mr. Alvey said there is a detailed breakdown of where tourists visit and spend their money. Seventy percent are from either out of state or out of the country. These are affluent visitors who spend money in the area. This is good for wineries, distillers, restaurants and hotels.

Economic Benefits of Small Farm Wineries

Dan and Peggy Montgomery, Verona Vineyard Winery, noted that their winery was small in comparison to the other alcohol industries in Kentucky. The winery was established in 2005, planting 2,500 vines on the farm in Verona. In addition to the grapes, fruit trees and chestnut trees were planted. Currently Verona Vineyard Winery has a capacity of 15,000 bottles, or 3,000 gallons in comparison to other wineries in Kentucky who are producing hundreds of thousands of gallons. The winery has won awards for every vintage released since 2008. Revenue has grown between 30 and 50 percent for the last eight years.

Currently there are four full-time employees and 15 part-time employees working in the winery and restaurant. The winery has partnered with Walton-Verona High School FFA program funding events and working with students, educating them about the wine industry and how farming is important to this industry.

Partnering with other industries is important to grow tourism in the state. Therefore the winery is now licensed to sell bourbon and beer. They have also added food sales to enhance the experience.

Facebook is a primary mode of advertisement for the winery with 9,800 followers on their page. Forty-five percent of the winery's revenue comes from customers from Indiana and Ohio.

Another consideration for the winery is growing their customer base, and becoming known as the place people go for a consistent experience. It is important to cultivate a team that partners with local high schools and two year colleges to develop individuals who want to work in food service, farming, and manufacturing. This ensures quality in the products that they sell as well as great customer service and the hospitality that Kentucky is known for. With today's interest in "farm to table" restaurants, the winery gets requests to deliver wine to those restaurants. However, this can be cost prohibitive with the current distribution model. Automation of the licensing processes would be less time consuming.

Senator Schickel commended the Montgomery's for all the hard work that they have put into their winery, adding that it is a beautiful place to visit.

In response to a question from Senator Thomas, Mr. Montgomery said this is a tougher climate for growing grapes with a lot of heat and humidity. The American varieties Chambourcin, Norton, Vidal all make good wines. The winery also grows traditional French Vinifera, Cabernet Franc, Petite Verdot, Riesling and Chardonnay, also, a German varietal called Dornfelder. Kentucky does not have a signature varietal, a grape that we are known for, but the industry is working to develop such a grape. Once a grapevine is established in this climate it will do well. Legislatively the industry could use help with distribution to small local restaurants that want to carry local wine but cannot find a distributor who will sell one case at a time.

BR 94 AN ACT relating to Criminal Damage to Rental Property

Jesse Brewer, Boone County Commissioner, said that not all tenants treat rental property with respect. There have been instances of damage to kitchen cabinets, intentional cigarette burns in carpets, broken windows and leaving trash behind for the property owner to clean up. This type of damage is costly to the property owner. A county attorney has advised that, because it is a civil matter, their office is not able to be of assistance in recovering money the owner is out for repairs.

BR 94 will help landlords screen future rental residents in order to protect their property investments. By reducing damage, and thus reducing the cost of repairs, investors will have more capital to invest in other projects. Additionally, the new screening tool will improve neighborhoods and communities.

In response to a question from Senator Thayer, Mr. Brewer said that with this new tool there would be a way to track damage left by a tenant that would be reflected on the background check allowing the landlord to rent to a better quality tenant.

Senator Schickel said that there would be a tour of the distributor warehouse showcasing all aspects of the business.

There being no further business, the meeting was adjourned at 11:36 AM.