

INTERIM JOINT COMMITTEE ON TOURISM, SMALL BUSINESS, AND INFORMATION TECHNOLOGY

Minutes of the 2nd Meeting of the 2018 Interim

July 19, 2018

Call to Order and Roll Call

The 2nd meeting of the Interim Joint Committee on Tourism, Small Business, and Information Technology was held on Thursday, July 19, 2018, at 1:00 PM, in Room 131 of the Capitol Annex. Senator Alice Forgy Kerr, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Alice Forgy Kerr, Co-Chair; Representatives Diane St. Onge, Co-Chair, and Tommy Turner, Co-Chair; Senators Ernie Harris, Stephen Meredith, and Max Wise; Representatives Linda Belcher, John Blanton, Larry Brown, George Brown Jr, John Carney, Jeffery Donohue, Robert Goforth, Jim Gooch Jr., David Hale, Angie Hatton, Kim King, Michael Meredith, Charles Miller, Rick G. Nelson, Sannie Overly, Melinda Gibbons Prunty, Brandon Reed, John Sims Jr, and Jill York.

Guests: Tyler Madison, Office of Agricultural Marketing; Bryan Alvey, Senior Director of Governmental and External Affairs, Kentucky Distillers' Association; Adam Johnson, Senior Director of Kentucky Bourbon Trails, Kentucky Distillers' Association; Eric Gregory, President, Kentucky Distillers' Association.

LRC Staff: Carla Montgomery, Andrew Manno, Chip Smith, and Emma Mills.

Drink KY

Tyler Madison, Office of Agricultural Marketing in the Department of Agriculture, introduced Drink KY, a mobile phone app created by the Grape and Wine Council, which is part of the Kentucky Department of Agriculture. The Grape and Wine Council was created by the General Assembly in statute 260.165, which states that the council is created to promote and facilitate the development of a grape, grape products and wine industry. Since 2007, the council has received \$400,000 from the General Fund.

Mr. Madison reviewed a short history of Kentucky's wine industry, pointing out the first commercial winery in the United States was in Kentucky, located in modern Jessamine County. By 1970, Bracken County was producing more wine than any other county in the United States. Prohibition devastated the wine industry in Kentucky until 1976 when legislation passed to allow wineries to operate again.

In 2013, the Grape and Wine Council created the first app for visitors to track wineries attended, similar to a paper passport, but due to limitations of the platform, the council was advised it would be cheaper to create a whole new app to achieve their goals. The council also invited the Kentucky Guild of Brewers to participate in the app.

The Drink KY app defaults to a map view of all listed wineries and breweries in the area, which include name, hours of operation, and a description of the facility. Once an app user is located within a tasting or tap room, the option to check-in becomes live for use. The user can receive prizes or discounts to checking in to multiple tasting or tap rooms. The app also indicates whether or not a winery or brewery belongs to the Winery Association or the Guild of Brewers, respectively. Mr. Madison shared some of the promotional signs located in the regional airports to promote interest in the app. While the app launched in 2017 with a couple of updates and is already averaging around 850 monthly active users and about 9,500 check-ins.

Responding to a question from Senator Harris, Mr. Madison indicated the Department of Agriculture began tracking how many grapes grown in Kentucky are actually used in the production of wine in Kentucky. He indicated about 30% of the grapes used in Kentucky wine is actually grown in Kentucky. In response to an additional question by Senator Harris, Mr. Madison discussed the requirements for some of the wines entered in competitions sponsored by the Kentucky Department of Agriculture. Specifically for the Commissioner's Cup, all wines entered must be comprised of at least 75% of Kentucky fruit.

Kentucky Bourbon Trail

Bryan Alvey, Senior Director of Governmental and External Affairs, Kentucky Distillers' Association; Adam Johnson, Senior Director of Kentucky Bourbon Trails, Kentucky Distillers' Association, and Eric Gregory, President, Kentucky Distillers' Association presented updates on the Kentucky Bourbon Trail and the bourbon industry in general. Mr. Alvey thanked the General Assembly for their continued support through SB 11, HB 100, HB 183 and HB 400. Adam Johnson then introduced the Kentucky Bourbon Trail's backstory, indicating the trail is almost 20 years old.

Kentucky Bourbon is now an \$8.5 billion industry, generating as many as 17,500 jobs, \$800 million in payroll, \$825 million in tax revenue and \$1.2 billion in capital investments. The Kentucky Bourbon Trail had 1, 194, 233 visitors in 2017, 70% of which were from outside of Kentucky. Of those out-of-state visitors, 75% stay in Kentucky overnight, with the average out-of-state group spending between \$400 and \$1200 during their trip.

New additions to the Kentucky Bourbon Trail include Old Forester (Louisville), Michter's (Louisville), Lux Row (Bardstown), O.Z. Tyler (Owensboro), Bardstown

Bourbon Company (Bardstown), and Jephtha Creed (Shelbyville). Mr. Johnson went on to talk about some of the positive press the Kentucky Bourbon Trail has had lately.

The Kentucky Distillers' Association (KDA) has created a Responsibility Advisory Group to emphasize the importance of drinking responsibly and establishing best practices for visitor centers, events and marketing. Mr. Johnson points to four focus areas: safe rides, underage drinking, responsible consumption, and respect for non-drinkers.

Mr. Brian Alvey discussed how Kentucky ranks in several categories compared to other states. Kentucky is currently ranked 11th in the U.S. in operating distilleries. Distillers currently pay 7 separate taxes on each bottle of spirits in Kentucky, equaling 60% of every bottle of spirits in Kentucky goes to taxes. Mr. Alvey asks that the legislators keep that in mind when the 2019 Session begins. Mr. Johnson notes that recent legislation has really helped the Kentucky Bourbon Trail expand in its experience, such as letting tourists ship spirits out of state, being able to add restaurants to distilleries, and offering cocktails and consumable drinks with tours.

Mr. Eric Gregory, President of the Kentucky Distillers' Association, talked about the use of Intellicheck, an ID checking system that flags fake and expired IDs, in all of the distilleries on the Kentucky Bourbon Trail. He emphasized the efforts to cut down on drinking and driving, such as offering free rides through Lyft over high traffic holidays, including over 1,000 free rides over the 4th of July holiday.

Representative Donohue asked for clarification on a slide in the presentation concerning Kentucky's tax rate on spirit sales in comparison to surrounding states. Mr. Gregory explained for a \$12.00 bottle of spirits sale, Kentucky has an implied tax rate of \$7.54. In comparison, the same \$12.00 bottle of spirits would have a much lower tax rate in West Virginia, Missouri, Tennessee, and Indiana. Kentucky is only one of two states (including South Dakota) that has a wholesale tax on bottles of spirits. The \$7.54 includes the wholesale tax, sales tax and an excise tax. This tax rate does not include the state barrel tax.

In response to a question from Senator Wise, Mr. Johnson clarified that the Kentucky Bourbon Chase, a yearly overnight team relay run through Central Kentucky, is run by a different organization from the KDA, although many distilleries on the Kentucky Bourbon Trail participate in the event. The event brings in about 5,000 people per year. Senator Wise also asked about the Kentucky Owl Distillery, a new complex located in Bardstown which is owned by the Stoli Group. Mr. Gregory explained the impact the facility will have on the Bardstown area with the \$150,000,000 investment by Stoli.

Chairwoman Kerr asked Mr. Gregory to expound on another event offered by the KDA, Bourbon Fantasy Camp. This event hosts a few thousand people from across the country to spend a week in Louisville participating in bourbon related activities, including

time spent with master distillers, bottling your own bourbon, gourmet meals and an auction selling private barrel selections to raise money for charity.

Responding to a question from Representative King, Mr. Gregory explained some about the Barton distillery collapse in Nelson County, but noted that Barton Distillery is not a member of the KDA and the distillery was working with state officials to work through the collapse.

In response to a question from Representative Belcher, Mr. Gregory confirmed that Jim Beam is indeed a member of the KDA.

Chairwoman Kerr asked for the web address for the Kentucky Distillers' Association, which is www.kybourbon.com.

Responding to a question from Senator Meredith about what the General Assembly can do to help the bourbon industry going forward, Mr. Alvey talked about the KDA's desire to focus on the responsibility aspect of the bourbon industry in the 2019 Session of the General Assembly. Mr. Alvey emphasized how seriously the KDA takes responsibility for patrons and drinking responsibly.

In a response to Representative George Brown, Mr. Gregory discussed the impacts of the federal tariffs impacting the bourbon industry in Kentucky. Mr. Gregory explained the KDA has reached out to key members of Congress and Vice President Pence to make sure they understand the impact retaliatory tariffs will have on the bourbon industry. The KDA is concerned about the long term impact of a diminished foreign market. They have no numbers yet since the tariffs have only been recently implemented, but Mr. Gregory indicated that if retaliatory tariffs were to go on for months, or were it to escalate, the bourbon industry could be severely affected. Representative Gooch explained some of the reasoning behind the federal tariffs and how the U.S. imposed tariffs on foreign aluminum directly affects his district in Western Kentucky. He acknowledged it is a complicated issue and voiced his support for the bourbon industry as one of Kentucky's signature industries.

Representative Blanton asked it be noted that Representative Fugate was absent from the meeting due to personal illness.

The August meeting of the Interim Joint Committee on Tourism, Small Business, and Information Technology will take place August 16th, 2018 in Room 131 of the Capitol Annex in Frankfort. The September meeting will take place in Covington Kentucky, time and place to be determined.

There being no further business, the meeting was adjourned at 2:01 p.m.