



**Section 2** would create a new section of KRS Chapter 243 that would authorize a licensee to direct ship the following quantities of alcoholic beverages, not for re-sale, within or outside the state: 1 case (9 liters) of wine per day, 3 cases of beer per day, and 1 nine liter case of distilled spirits per day. Direct shipment of alcoholic beverages to an address in a dry territory would be prohibited.

**Section 3** would create a new section of KRS Chapter 243 to establish that a licensed common carrier shall require the recipient of alcoholic beverages to demonstrate they are at least 21 years old and require the recipient to sign for delivery.

**Section 4** would create a new section of KRS Chapter 243 to establish that each shipment by a direct shipping licensee would be a sale in Kentucky and taxes shall be collected and remitted.

**Section 9** would amend KRS 243.0305 to require that a wholesaler of a distiller's brands shall allow the distiller to sell its own brands on the distiller's premises as souvenir packages and under a NQ2 license to sell by the drink, at fairs and festivals, and by telephone or Internet, in a limited amount.

**Section 10** would amend KRS 243.130 to allow small farm wineries, direct shipment licensees, and licensed distillers that have an on-premises gift shop or retail outlet and are located in a wet territory or precinct that has authorized limited sale of alcohol at distilleries, to sell, give away, or deliver its products to a retailer or consumer in Kentucky.

**Section 12** would amend KRS 243.355 to allow a distilled spirits and wine storage licensee to also hold a direct shipping license.

Cities derive much of their tax revenue from 3 sources: ad valorem property tax, occupational license tax, and insurance premium tax. An increase in business activity as a result of HB 580 should have a positive fiscal impact on cities and counties that levy those taxes on businesses and workers.

The Kentucky League of Cities believes generally that HB 580 would have **minimal fiscal impact** on Kentucky city revenues. Those local governments that levy a gross receipts tax on sales of alcohol could see a minimal positive fiscal impact; however, a city or county that has more direct shipments of alcohol coming in (meaning the alcohol purchase took place elsewhere) would not see its revenue grow from a tax on gross receipts of alcohol increases under the bill. Local governments that are resident to breweries, wineries, and distilleries could see an increase in tax revenue as a result of HB 580.

Passage of HB 580 could result in more local wineries, breweries, and distillers selling alcohol on site, requiring they obtain a license to do so which would increase local license fee revenue. More such businesses would increase the value of those real and personal properties, which would also result in additional tax revenue to local jurisdictions.

The following information comes from *The Economic and Fiscal Impacts of the Distilling Industry in Kentucky* (January, 2017), prepared for the Kentucky Distillers' Association by the Urban Studies Institute, University of Louisville. The number of distilleries in Kentucky grew from 19 in 2009 to 52 in 2016. Twenty-seven (27) Kentucky counties and 31 Kentucky cities contain distilleries. In 2015, Kentucky distillers paid about \$2.5 million in real property taxes to local governments and about \$2 million in tangible property taxes. The distilled spirit tax brought about \$12.8 million to the thirteen counties that have bonded warehouses for distilled spirits. Approximately 71% of the total local property taxes paid by distillers went to public schools. County and city governments received about \$3 million and local libraries a little over \$1 million. The remainder went to support local purposes such as extension services, public health, fire protection and air quality boards. In addition, a 2016 survey of Kentucky Distillers Association (KDA) members showed a 65 percent increase in locally grown corn use since 2014, amounting to between 15 and 20 million bushels.

**Section 7** would amend KRS 242.280 to remove the stipulation on violations of receipt or acceptance of alcoholic beverages within a dry county that each and every package of said alcoholic beverage so received or accepted shall be considered a separate offense. The removal of this stipulation may have a minimal positive impact on county jails and the Department of Corrections by decreasing the number of offenses. Violations of Chapter 242, when no other penalty is provided, shall be a Class B misdemeanor for the first offense, a Class A misdemeanor for a second offense, and a Class D felony for the third and subsequent offenses.

**Class B and Class A misdemeanors:**

A person convicted of a Class B misdemeanor may be incarcerated for up to 90 days. A person convicted of a Class A misdemeanor may be incarcerated for up to twelve months. Misdemeanants are housed in one of Kentucky's 76 full service jails or four life safety jails. While the expense of housing inmates varies by jail, this estimated impact will be based on \$31.34 per day, which equals the per diem and medical expenses that the Department of Corrections pays jails to house felony offenders. While the majority of misdemeanor defendants are granted bail, those who do not will also cost local jails an average of \$31.34 per day.

**Class D felons:**

When a court denies bail to a Class D felony defendant, the local government is responsible for incarcerating the defendant until disposition of the case in one of Kentucky's 76 full service jails or four life safety jails. While the expense of housing inmates varies by jail, each additional inmate increases facility costs by an estimated average of \$31.34 per day, which equals the per diem and medical expenses that the Department of Corrections pays jails to house felony offenders. Upon sentencing, a Class D felon is housed in one of Kentucky's full service jails for the duration of his or her sentence. The Department of Corrections pays a jail \$31.34 per day to house a D felon. Since the per diem pays for the estimated average cost of housing a Class D felon, the per diem may be less than, equal to, or greater than the actual housing cost.

**Part III: Differences to Local Government Mandate Statement from Prior Versions**

Part II pertains to the bill as introduced and there are no prior introduced versions of the bill.

**Data Source(s):** Kentucky Department for Alcoholic Beverage Control; Report, The Economic and Fiscal Impacts of the Distilling Industry in Kentucky (January, 2017), prepared for the Kentucky Distillers' Association by the Urban Studies Institute, University of Louisville; Kentucky Department of Corrections

**Preparer:** Mary Stephens      **Reviewer:** KHC      **Date:** 3/6/18