

KENTUCKY GRAPE & WINE COUNCIL
April 15th, 2015
KDA Office of Marketing
Frankfort, KY
1:00PM



MEMBERS IN ATTENDANCE:

REPRESENTING WINERY OPERATORS:	LOGAN LEET
REPRESENTING WINERY OPERATORS:	ANN KARSNER
REPRESENTING GRAPE GROWERS:	JENNY BEETZ
REPRESENTING GRAPE GROWERS:	BRUCE KUNZE
REPRESENTING THE UNIVERSITY OF KY:	PATSY WILSON
REPRESENTING TOURISM, ARTS & HERITAGE:	JOHN MALLOY
REPRESENTING CITIZENS AT LARGE:	ROGER LEASOR
REPRESENTING CITIZENS AT LARGE:	ANN BAKHAUS

MEMBERS ABSENT:

REPRESENTING WINERY OPERATORS:	DENNIS WALTER
REPRESENTING KY DEPT OF AGRICULTURE:	KRISTEN BRANSCUM

OTHERS REPRESENTED:

REPRESENTING KWA/EQUUS RUN:	CYNTHIA BOHN
REPRESENTING KWA/RISING SONS:	FRANCINE SLOAN

Call to Order

Mr. Roger Leasor called the meeting of the Kentucky Grape & Wine Council (KGWC) to order at 1:08 pm. Those present introduced themselves. Mr. Tyler Madison called the role and a quorum was confirmed.

Mr. Bruce Kunze made a motion to approve minutes from the previous meeting. Mrs. Ann Karsner seconded the motion, all were in favor and the motion passed.

Financial Report:

For the sake of brevity, a request was made to postpone a full financial report until the following KGWC meeting, scheduled to take place on Wednesday, May 20th at 1:00 pm.

KDA Staff Report:

1. *Sweetness Scale:* Mr. Madison reported that the guidelines for a statewide sweetness scale are complete. Temporary stickers that may be placed on bottles/labels will be ordered next week. Mr. Madison will also send winery owners/wine makers the guidelines for the program and the vector files which may be incorporated in future label design.
2. *KGWC Contract Enologist:* At the March, 2015 KGWC meeting, it was requested that Mr. Madison research if the Council may legally use promotional monies to grant funds to the University of Kentucky (UK) in order to supplement the salary of the recently posted extension enologist position, requiring stricter qualification and potentially attracting more experienced candidates. On behalf of the KGWC, Mr. Madison met with Mrs. Patsy Wilson, Mr. Jeff Wheeler and Dr. Robert Houtz from the University of Kentucky on April 9th to discuss the

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position. The posting closed with 13 applicants, 2 of which UK is considering interviewing. From this meeting, Mr. Madison believes that the KGWC has a number of options:

- a. Grant funds to UK in order to create a new position at a higher pay grade.
- b. Utilize funds to contract a KGWC Enologist for the Kentucky Wine industry
- c. Research a way in which the KGWC may reimburse wineries through a cost-share program for the expense of contracting an outside enologist.
- d. Rely on the current applicant pool for the UK extension posting

Mr. Bruce Kunze questioned if these applicants would be able to help the wine industry to the extent of the previous UK enologist, Dr. Tom Cottrell. Mrs. Patsy Wilson noted that UK has not as of yet met with any potential candidates but that aiding Kentucky's wine industry would most certainly be a large portion of the position. Mrs. Wilson also noted that if the Council decided to grant funds to create a new position, the education criteria could demand a Master's Degree or a PhD. However, years of experience may cancel out education requirements so there is a risk that the applicant pool could remain unchanged.

Mrs. Wilson also noted that the current Agriculture Development Board grant that funds the positions is up for renewal on October 16th and that it's impossible to determine if there will be further cuts. Depending on the outcome of the grant, future funding may not be secure.

Mrs. Ann Karsner asked if it would be possible for UK to interview the current applicants to determine if there is a suitable and qualified candidate. If no suitable candidate is located then the KGWC could decide what action to take.

Mr. Roger Leasor added that until the position is filled or other measures are pursued, the wineries of Kentucky are without an enologist to turn to for advice. Though not yet vetted through legal, Mr. Leasor believes that if it proves possible and if the UK position does not offer the caliber of candidate that the industry requires, then reimbursing wineries through a cost-share program for expenses incurred utilizing a KGWC approved outside enologist would be the best approach.

Mrs. Ann Karsner made a motion that the University of Kentucky should move forward in interviewing the top two applicants and include representatives from the Kentucky Grape & Wine Council and appointees to participate in the interview process. The motion was seconded by Ms. Ann Bakhaus; all voted in favor and the motion passed.

Legislative

None

Research

None

Wholesale and Distribution

None

Grower Development

Submission from Mr. Bruce Kunze, originally presented at the Grower Development Proposals Meetings held January 4, 2015.

Revised remaining proposals requiring further action (note that Proposal 1 and Proposal 3 have been removed due to lack of support):

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Proposal 2- Would require a change in statute and would offer financial assistance to vineyards that wanted to expand. The consensus was that it should be for vineyards expanding to 5 acres in size, and that going to 10 acres at this time was too ambitious. There was also a question as to whether wineries would be eligible to expand their vineyards or replace existing vines. Create a new cost share grant category for vineyard expansion in addition to the current marketing cost share and wholesale reimbursement grants.

Kentucky Wineries Association (KWA) President, Ms. Cynthia Bohn, noted that KWA supports Proposal 2.

Mr. Kunze commented that the KGWC would need to decide the amount of funds to dedicate to the proposed cost-share grant if acted upon.

Mr. Logan Leet observed that the entire mission of the KGWC is to promote and sustain an agricultural endeavor. If Proposal 2 can successfully establish the criteria for varieties that grow well in Kentucky and aid in vineyard expansion then it falls in line with the duties of the Council and should be pursued.

Mrs. Wilson remarked that a grant of this nature would entice new growers with the understanding that a program is in place to aid in expansion and growth.

Mr. Bruce Kunze made a motion to create a new cost-share grant category for vineyard capacity expansion in the amount of \$50,000 per year from existing funds. The motion was seconded by Mr. Logan Leet, all voted in favor and the motion passed.

Proposal 4- Would possibly require a regulatory change and would allocate marketing funds only to wineries that use a certain percentage of Kentucky grown grapes in their wines. Some wineries also wanted to include Kentucky grown fruits (the Council had a discussion about this at the November meeting and decided to only include grape wines, but that is open for discussion).

~~The proposal also set a gallonage requirement for wineries to be included in the marketing programs, but this was determined to be too restrictive and would eliminate most Kentucky wineries. Therefore it is not recommended.~~

~~The proposal included a minimum of 30% Kentucky grapes in order to be eligible for the marketing cost share program with that percentage increasing to 75% within four years. After listening to the discussion it seems the proposed percentages are too ambitious.~~ Requires an initial 25% use of Kentucky grown fruit by wineries to receive the full marketing cost share reimbursement, increasing to at least 51% over a 5 year period. Implements a graduated scale that increases the reimbursement according to the percentage of Kentucky grown wine produced.

The percentages listed are the percent of the 50% cost share reimbursement (CSR) that the KGWC reimburses wineries for marketing expenses.

Years 1-2	2016-17	1-24%	= 50% CSR	25+%	= 100% CSR
Years 3-4	2018-19	25-32%	= 50% CSR	33-50+%	= 100% CSR
Years 5+	2020+	33-50%	= 50% CSR	51+%	= 100% CSR

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This proposal would base the reimbursement on a winery's annual production report due by January 1 of each year. It would begin with P1-16 reimbursement based on the winery's 2015 report submitted by January 1, 2016. Wineries beginning production any time during the initial 4 year period would be reimbursed according to the current year's schedule. Beginning the 5th year, all wineries would be reimbursed according to the Year 5+ schedule.

However, upon petition by the regional winery associations and with weather and/or disease information furnished by the University of Kentucky Viticulture Department, the KGWC may permit if unusually severe weather or disease condition cause a significant reduction in the availability of grapes grown in Kentucky to manufacture wine during a given calendar year, the use of greater quantity of out-of-state grape if supplies grown in Kentucky are insufficient to meet the required percentages for reimbursement under this proposal

Ms. Bohn stated that she recently pulled a report from 2000 to the KGWC and that the report proved that the industry is dealing with the same problem today that it did 15 years ago- wineries outpacing acreage of quality grapes. Ms. Bohn observed that in the past she worked with as many as 22 Kentucky growers. By 2007, the number of growers had shrunk to 9 and by last year, the total number of Kentucky growers she worked with was down to only 4 (partially due to extreme weather conditions of the 2014 winter). Due to a lack of available quality fruit throughout the state, Ms. Bohn stated that KWA does not support Proposal 4.

Mr. Leet remarked that although purchasing fruit and juice from out of state is always less expensive than in state, there is a definite value to producing wine from Kentucky fruit. Therefore, in spite of the price difference, availability and quality is by far his largest issue. Mr. Leet commented that the focus needs to be on growers producing a marketable and high quality product.

The main concern amongst the room was quality and availability over pricing. Ms. Bohn noted that if a grower does everything the winemaker wants then that grower should be paid for the work. "If the quality is there then pricing is much less of an issue."

Mrs. Francine Sloan added that the growers are in need of help throughout the state. At the moment, it is very difficult for growers in Kentucky to make a profit off of their grapes.

Agreeing with Mrs. Sloan and Ms. Bohn, Mrs. Wilson observed that there needs to be further focus on education, urging new growers to talk to wineries in their market prior to planting to ensure they have a marketable product. With proper communication and planting the right grapes, there are definitely ways for Kentucky vineyards to be profitable.

Mr. Kunze noted that the intent of Proposal 4 is to help utilize the maximum amount of Kentucky fruit but if the fruit or quality isn't available then the proposal may be premature.

No Action Taken

Proposal 5- ~~Would require a regulatory change and would reimburse distributors only for handling Kentucky grown wines. This proposal would also permit distributors to determine the price of wines sold to retailers. There did not seem to be a consensus on these two items with some wineries in support and some opposed. In lieu of this I would recommend~~ that the Council offer an additional \$10 per case to distributors for handling Kentucky grown wines. ~~It was also suggested that the KGWC provide foil~~

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~~shrink wraps with “Kentucky Grown” for the wineries to use on bottles of wine that contain at least 75% Kentucky grown grapes (fruit) to promote the sale of those wines to consumers.~~

Mr. Bruce Kunze asked if this proposal would be helpful in promoting Kentucky grown wines in the retail market. Ms. Ann Bakhaus responded that she did not think that it would but utilizing funds to create neck hanger coupons or additional POS discounts would certainly be beneficial.

No Action Taken

Proposal 6- Also requires a regulatory change in conjunction with proposal 4. Require vineyards that participate in KGWC grant programs (reimbursements) to report to the KGWC the previous year’s grape yields by variety, and require wineries that participate in KGWC grant programs (reimbursements) to provide the previous year’s number of gallons of wine produced (not bottled or sold) by variety and source (Kentucky or out of state) on an annual basis by January 1 of each year. Intentional failure to accurately report this information would prohibit a vineyard or winery from participating in any KGWC grant program for a period of three years.

Mr. Bruce Kunze moved to approve Proposal 6 which is a regulatory change. The motion was seconded by Mrs. Jenny Beetz, all voted in favor and the motion passed.

Other Business

Ms. Cynthia Bohn stated that Kentucky wineries contributed \$2.9 million in excise tax alone in 2014. From this fact, the need for a complete economic impact study of the Kentucky wine industry was discussed at the last KWA meeting. KWA would like the KGWC to contract a third party organization to complete a full study.

Mr. Leasor noted that the KGWC had already contracted with the University of Kentucky a number of years ago to complete an economic impact study and that study was never finished due to Kentucky wineries refusing to provide necessary data. Mr. Leasor asked if the KGWC can be assured that the wineries will provide the information to an independent third party organization? Ms. Bohn and Mrs. Ann Karsner both responded that the wineries in Kentucky would feel much more comfortable providing information to a third party source from outside of the state.

Mr. Bruce Kunze made a motion to instruct Mr. Madison to compose a list of companies that complete economic impact studies, as well as average completion time, price and experience to present at the next KGWC meeting. The motion was seconded by Mrs. Ann Karsner, all voted in favor and the motion passed.

Adjournment

There being no further business to discuss, Mr. Leasor made a motion to adjourn at 3:21 pm.