

**ANNUAL REPORT ON THE
ACTIVITIES OF THE VIRGINIA
SPIRITS BOARD AND THE USE OF
MONEYS IN THE VIRGINIA
SPIRITS PROMOTION FUND**

**David Cuttino
Chairman**

October 1, 2022

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PUBLICATION YEAR 2022

Document Title

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Author

Virginia Spirits Board

Legislative Mandate

Section 3.2-3011 of the Code of Virginia

EXECUTIVE SUMMARY

During the fiscal year ending June 30, 2022, the Virginia Spirits Board (Board) met seven times, with a focus on establishing an ongoing funding mechanism for the Virginia Spirits Promotion Fund (Fund). The Board worked closely with industry and successfully achieved consensus on what eventually became Chapters 84 and 85 of the 2022 Acts of Assembly, which establishes that 20 percent of the 20 percent tax levied on spirits be deposited into the Fund. Because there was no money in the Fund during fiscal year (FY) 2022, no funds were expended during this period. The 2022 Appropriation Act also included an appropriation from the general fund in the amount of \$952,375 for use during FY 2023. The Virginia Spirits Board and VDACS Office of Procurement are currently in the process of creating a Request for Proposals for marketing services to promote the Virginia Spirits industry in FY 2023.

BACKGROUND

The Virginia Spirits Board (Board) and the Virginia Spirits Promotion Fund (Fund) were established by the enactment of Chapters 85 and 410 of the 2020 Acts of Assembly. The Board and Fund were created to provide resources for promotion of the Virginia spirits industry by a number of means approved by an administrative board appointed by the Governor. The purpose of the Board is to foster the development of the Virginia spirits industry by expanding spirits research, increasing education, and promoting the production of ingredients necessary for alcohol distillation and the production of spirits in the Commonwealth.

During the 2021 Session of the General Assembly, legislation was introduced in an effort to fund the Fund by requiring licensed distillers to collect an assessment for each liter of spirits sold that would subsequently be deposited into the Fund. The bill was ultimately left in the Senate Committee on Finance and Appropriations at the request of the patron due to a lack of widespread industry support. Following the 2021 legislative session, considerable work was done by the Board and the industry to find an acceptable funding mechanism.

As a result of this work, legislation was passed during the 2022 Session of the General Assembly establishing a revenue source for the Fund. Chapters 84 and 85 of the 2022 Acts of Assembly requires that 20 percent of the 20 percent tax levied on alcoholic beverages sold by the Board of Directors of the Virginia Alcoholic Beverage Control Authority (VA ABC) that is attributable to the sale of spirits produced by a distiller licensee be deposited in the Fund. Chapters 84 and 85 also requires the Board to submit an annual report to the Governor and General Assembly by October 1 of each year regarding the Board's activities and use of moneys in the Fund, including statistics regarding the extent to which use of moneys in the Fund has impacted spirits sales in the Commonwealth.

The Board consists of 11 members as follows: the Commissioner of Agriculture and Consumer Services (Commissioner) and the Chief Executive Officer of the VA ABC, both of whom shall serve *ex officio* without voting privileges, or their designees; and nine voting nonlegislative citizen members who are appointed by the Governor, three of whom must be coopers or maltsters and six of whom must be owners or operators of a distillery in the Commonwealth.

The Board is required to meet at least four times each year. The meetings of the Board are held at the call of the chairman or whenever the majority of the members so request. The Program Manager manages and conducts the activities required for the Board to carry out its mission and provides the Board with administrative support.

The Board has the power and duty to (i) receive and dispense funds or donations from the Fund; (ii) enter into contracts for the purpose of developing new or improved markets or marketing methods for spirits products; (iii) contract for research services to improve farming practices related to the growing of ingredients necessary for alcohol distillation in Virginia; (iv) enter into agreements with any local, state, or national organization or agency engaged in education for the purpose of disseminating information on spirits projects; (v) enter into contracts with private or public entities for the purpose of developing marketing, advertising, and other promotional programs designed to promote the orderly growth of Virginia's spirits industry; (vi) rent or purchase office and laboratory space, land, equipment, and supplies as necessary to carry out its duties; (vii) employ such personnel as may be required to carry out those duties conferred by law; (viii) acquire any licenses or permits necessary for the performance of the powers and duties of

the Board; (ix) cooperate with other state, regional, national, and international organizations in research, education, and promotion of the growing of ingredients necessary for alcohol production and the production of spirits in the Commonwealth and expend moneys from the Fund for such purposes; (x) adopt a general statement of policy and procedures; (xi) receive from the chairman of the Board an annual report, including a statement of total receipts and disbursements for the year, and file a copy of such report with the Commissioner; and (xii) submit an annual report to the Governor and General Assembly by October 1 of each year regarding the Board's activities and use of moneys in the Fund.

ACTIVITIES OF THE VIRGINIA SPIRITS BOARD

The Virginia Spirits Board met seven times during FY 2022. Three of the seven meetings were conducted electronically via WebEx in compliance with Governor Northam's declared state of emergency due to the COVID-19 pandemic.

After efforts to establish a funding mechanism for the Fund failed during the 2021 Session of the General Assembly, the Board worked with industry stakeholders to develop recommendations and subsequently approved a proposal to establish a revenue source for the Fund. This proposal was introduced during the 2022 Session of the General Assembly as HB 20 and SB 196 and enacted as Chapters 84 and 85 of the 2022 Acts of Assembly. The Board also worked with the Virginia Distillers Association to lobby for a budget appropriation for FY 2023.

Following the enactment of Chapters 84 and 85, the Board began working with the VDACS Office of Procurement to draft a Statement of Needs document for the promotion of the spirits industry to begin the Request for Proposals (RFP) process. An RFP for marketing efforts should be released during the latter part of 2022.

USE OF MONEYS IN THE VIRGINIA SPIRITS PROMOTION FUND

The Fund did not have any available moneys during FY 2021 to allocate. When the Fund was created in 2020, the legislation did not specify a funding mechanism and the creation of such was left to the Board. The funding mechanism was not successfully established until the 2022 Session of the General Assembly, during which a budget appropriation of \$952,375 from the general fund was also approved effective July 1, 2022, for use during FY 2023.

Going forward, VA ABC will report and annually certify to the Comptroller the number of cases of Virginia spirits sold in the Commonwealth. For each of those cases, the 20 percent excise tax will be distributed with 16 percent remaining in the general fund and four percent allocated to the Fund.