

February 2, 2018

Oregon Senate Business & Transportation Committee
900 Court Street NE
Salem, OR 97301

Re: Support of SB 1564

Chair Beyer, Vice Chair Thomsen and Members of the Committee:

On behalf of Economic Development for Central Oregon (EDCO), I would like to express our enthusiastic support of SB 1564, which we believe could catalyze significant growth of the craft distilling industry in our state.

EDCO is a private non-profit organization dedicated to making prosperous communities and quality jobs for Central Oregonians for the past 37 years. Like our vibrant region of the state, EDCO has grown over the years to become the largest private economic development organization in the state.

In this role, we work with both individual companies as well as entire industries to help with a broad range of issues that will foster growth and development of new and better paying jobs for our residents while diversifying our economy. For years we have been meeting with craft distillers individually and as a group in our region to identify areas of challenge and opportunity. SB 1564 represents perhaps the greatest opportunity for Oregon to step forward as a significant national player in craft distilling, much as both the wine industry and craft brewing have done over the past two decades. As you are no doubt aware, state statute provided a framework and an environment for fine wine-making and craft brewing that gave companies in our state a competitive advantage. Distilleries, on the other hand, are at a competitive disadvantage.

Distilled spirits in Oregon are among the highest taxed goods of any produced here. While breweries are taxed in the state at a rate of 8.4 cents per gallon, wineries at 10.5 – 10.8 cents per gallon, craft distilleries pay the second highest tax in the U.S. at \$22.75 (yes, dollars, not cents) per gallon. That places Oregon at the second highest tax rate on distilled spirits in the U.S., and a remarkable \$20.74 more than Colorado, which has a rate of \$2.28 (lowest in the nation). Even Virginia, third highest in the country has a rate that is 12.7% below the Beaver State.

At the same time, small distillers, which comprise 95% of the industry in Oregon, rely heavily on tasting rooms to expose the public to their products since shelf space is limited and strictly controlled at the retail level. Because distillers must pay the tax on all products sold in these tasting rooms, which equates to 30% of their entire revenues, they are almost always an unprofitable part of operations that create a real financial drag to a business' over success. This has serious implications for current and future growth of the industry. Small distillers are perpetually cash strapped and efforts to grow new customers via tasting rooms (as craft brewing and wineries have proven so successfully) are hamstrung.

By allowing the first \$500,000 of revenues from tasting rooms only to be exempted from the 30% tax at retail, the playing field with other craft industries in the state would still not be leveled, but craft distillers would have at least a chance to compete on a national scale.

We support our region's burgeoning craft brewing industry, which has become a major foundation for our economy with our 30+ craft breweries including some of the largest in the state and nation. Craft brewing now supports more than 1,400 jobs in our region and collectively these companies have invested more than \$120 million in taxable facilities and equipment in the past five years along. Sales in our region of craft beer have certainly grown over the years, but the vast majority of this growth in product sales comes from sales outside our region and state. Why? Because Bend and Sisters and Redmond craft brewers along with 200 other Oregon brewers make really exceptional product that the rest of the world wants.

Similarly, EDCO supports our craft distillers in the tri-county region which now includes a dozen small companies – nearly all run day-to-day by their owner-founders. These Oregonians are as passionate about making high quality spirits as their brewer counterparts. They make very high quality products, using local ingredients from area farmers. We believe that reputation for craft, quality, and local supply chain could put Oregon on the national map again. Please help make that a reality by making SB 1564 law.

Should you have any questions, please don't hesitate to contact me via phone or email: rog-er@edcoinfo.com. Thank you for the opportunity to provide an "on the ground" perspective on this important legislation.

Sincerely,



Roger J. Lee
CEO