



North Carolina Spirits Association

Legislative Report
June 7, 2019

Kicking off “formal” budget negotiations, House and Senate leaders appointed conference committees on Thursday. Budget chairs from both chambers will serve as chairs of the conference committee, and while two House Democrats are on the committee, no Senate Democrats were appointed. Representatives Charles Graham (D-Robeson) and Elmer Floyd (D-Cumberland), are the only Democrats appointed; they were also the only Democrats who backed the House budget. Although the conference committees were appointed Thursday, House and Senate budget leaders have been meeting informally for a few weeks to work through the differences between the two budgets. It is expected that the legislature will approve and spend their state budget to the Governor before June 30, the end of the fiscal year.

On Wednesday, the House was not able to override Governor Cooper’s veto of Senate Bill 359, which would bring new penalties for medical professionals who allow abortion survivors to die. House members debated for more than an hour before voting 67 in support and 53 against an override of the veto, falling short of securing the supermajority needed to override the veto by 5 votes. So the veto is sustained and the bill does not become law.

The legislature's annual farm bill took a key step forward Wednesday, receiving a favorable report in the Senate Agriculture Committee. The bill would, among other things, establish a regulatory process to allow farmers to grow hemp, allow it to be processed, and sold in the form of CBD oil. The bill would still contain a ban on smokable hemp, but the ban would be delayed until December 2020 to give law enforcement time to work with the growing industry. The State Bureau of Investigation and others have said that by leaving smokable hemp flowers legal in the bill, the legislature runs the risk of making marijuana laws impossible to enforce because the flowers look just like marijuana. Farmers who see the flowers, and the CBD oil in them, as a profit generator within a wider hemp industry have asked the legislature not to crack down on distribution of this part of the plant, which they say does not contain enough THC to produce marijuana's characteristic high.

Governor Cooper signed House Bill 363, or the Craft Beer Distribution and Modernization Act, last week after a years-long battle between craft brewers and wholesale distributors. The bill quadruples the number of barrels brewers can produce each year. It allows them to self-distribute up to 50,000 barrels as long as total sales, including in house and to retailers, do not exceed 100,000 barrels. Previously, brewers could produce and self-distribute only up to 25,000.

The Senate is advocacy a House effort to repeal the state's Transportation Corridor Official Map Act (“Map Act”), which was used to reserve private land indefinitely for future road projects. House Bill 131 cleared the Senate Transportation Committee on Wednesday, and bill sponsor

Representative Debra Conrad (R-Forsyth) said the bill needs to get signed into law before the current Map Act moratorium expires on July 1. The Map Act is the subject of several lawsuits from property owners who sued the NC Department of Transportation because they were not compensated for having their property put off-limits to development. The state has had a moratorium for several years as a result of the lawsuits, and Senator Bill Rabon (R-Brunswick) said the Map Act has cost the state up to \$1 billion. Rabon said the repeal is "long overdue." House Bill 131 now goes to the Senate Rules Committee.

Legislation to regulate fantasy sports games like those offered by DraftKings and FanDuel failed a vote in the House Judiciary Committee Wednesday. The bill would require state registration and fees by game operators, along with restrictions to discourage financial misconduct and monetary penalties for company violators. The popular online and app games already are played in North Carolina and in most other states, but not all of the states have formally legalized the industry. A combination of social conservatives, former law enforcement officers, and liberal Democrats on the committee failed to approve the measure Wednesday by a vote of 12-16. Some were worried about putting the state's formal "approval" on these games, which critics still label as gambling. The bill remains in committee and could resurface late during this two-year legislative session.

World War II veterans were honored and recognized on Thursday by the state legislature at the old Capitol building in downtown Raleigh. The House and Senate each met in the Capitol, with the purpose of their sessions to honor the U.S. service members who fought and sacrificed on D-Day, including those North Carolinians killed. After both chambers' sessions, the commemoration continued with a ceremony just outside the Capitol entrance and also at the World War II memorial, where the names of the North Carolinians killed on D-Day were read by rank and last name. The state legislature occasionally uses the 1840 Capitol building for ceremonial events.

The House and Senate adjourned on Thursday and will reconvene on Monday afternoon.

BILL STATUS

Senate Bill 290, Distillery Regulatory Reform Bill, was considered Thursday in the Senate Commerce Committee. The committee considered a revised bill that contained the following provisions. This bill would allow distillery permit holders to:

1. Sell malt beverages, unfortified wine, and fortified wine for consumption on their premises after obtaining the appropriate permit.
2. Sell mixed beverages without having to first obtain a mixed beverage permit from the ABC.
3. Establish a process whereby a retail permittee can request from an ABC store a product from a NC's distiller or out of state distiller who sell fewer than 10,000 proof gallons of in-house brand spirituous liquors distilled and manufactured by it at the permit holder's distillery per year, and if the board/store does not have the product and cannot fill the order, the local board must notify the ABC Commission within 48 hours and request permission for direct shipment. The bill allows the NC distiller to use the direct shipment process under current ABC Commission rule to ship the product direct to the local ABC board/store. Merchandise authorized to be shipped by direct shipment under this

subsection would be consigned by the State ABC warehouse to the distiller's account in care of the local board.

4. Sell spirituous liquor distilled at the distillery in closed containers to visitors for consumption off the premises without limit. Currently, distilleries can only sell to those visitors who tour the distillery and are limited to five bottles per 12 month period per consumer.
5. Issue a purchase-transportation permit for spirituous liquor sold by the distillery, as provided in the bill.

Regarding "Special Orders of Special Items", the bill would provide that through the process established by rule of the ABC Commission for special orders of spirituous liquor that are on the special item list approved by the Commission, ABC stores shall allow the purchase of individual bottles of spirituous liquor. ABC stores may sell in store any bottles it received from a special item case in excess of what was purchased by the requesting customer.

The bill would allow local ABC boards the option of allowing spirituous liquor tastings at ABC stores for broker, supplier and distiller permit holders.

The self-distribution of spirits provision by North Carolina distillers and small out of state distillers directly to retail permittees was removed and replaced with the provision described in paragraph 3 above. This provision was removed at the request of the North Carolina Spirits Association and the North Carolina Association of ABC Boards.

Senator Rick Gunn (R-Alamance), the bill sponsor, explained the bill and described how the stakeholders came together to come up with a way to get NC distilleries products to retail permittees that want them, without implementing self-distribution. There were no questions from the committee. Reverend Creech spoke against the bill. The North Carolina Association of ABC Boards reported that they are neutral on the bill. Pete Barger from the NC Distilleries Association spoke in favor of the bill. The bill was before the committee for discussion only. It is expected that the committee will approve the bill next Wednesday, and then it would go to the Senate Finance Committee for further consideration.

For more information about legislation described in the legislative reports, feel free to contact me at dferrell@nexsenpruet.com or (919) 573-7421. Information is also available on the General Assembly's website: www.ncleg.gov.

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