

**MINUTES OF THE MEETING
OF THE
COMMITTEE ON COMMERCE AND LABOR**

**Seventy-Eighth Session
March 13, 2015**

The Committee on Commerce and Labor was called to order by Chairman Randy Kirner at 1:32 p.m. on Friday, March 13, 2015, in Room 4100 of the Legislative Building, 401 South Carson Street, Carson City, Nevada. The meeting was videoconferenced to Room 4401 of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, Nevada. Copies of the minutes, including the Agenda ([Exhibit A](#)), the Attendance Roster ([Exhibit B](#)), and other substantive exhibits are available and on file in the Research Library of the Legislative Counsel Bureau and on the Nevada Legislature's website at www.leg.state.nv.us/App/NELIS/REL/78th2015. In addition, copies of the audio or video of the meeting may be purchased, for personal use only, through the Legislative Counsel Bureau's Publications Office (email: publications@lcb.state.nv.us; telephone: 775-684-6835).

COMMITTEE MEMBERS PRESENT:

Assemblyman Randy Kirner, Chairman
Assemblywoman Victoria Seaman, Vice Chair
Assemblyman Paul Anderson
Assemblywoman Irene Bustamante Adams
Assemblywoman Maggie Carlton
Assemblywoman Olivia Diaz
Assemblyman John Ellison
Assemblywoman Michele Fiore
Assemblyman Ira Hansen
Assemblywoman Marilyn K. Kirkpatrick
Assemblywoman Dina Neal
Assemblyman James Ohrenschall
Assemblyman P. K. O'Neill
Assemblyman Stephen H. Silberkraus

COMMITTEE MEMBERS ABSENT:

Assemblyman Erven T. Nelson (excused)



GUEST LEGISLATORS PRESENT:

Assemblyman Pat Hickey, Assembly District No. 25

STAFF MEMBERS PRESENT:

Kelly Richard, Committee Policy Analyst
Matt Mundy, Committee Counsel
Leslie Danihel, Committee Manager
Earlene Miller, Committee Secretary
Olivia Lloyd, Committee Assistant

OTHERS PRESENT:

Randi Thompson, representing Nevada Wine Coalition
Grant R. Cramer, Professor, College of Agriculture, Biotechnology, and
Natural Resources, University of Nevada, Reno
Daniel Hopper, Private Citizen, Reno, Nevada
John Wagner, Private Citizen, Elko, Nevada
John Klacking, Private Citizen, Reno, Nevada
Tom King, Owner and Chief Operating Officer, Tahoe Ridge Winery,
Minden, Nevada
Victor Joecks, Executive Vice President, Nevada Policy Research Institute
Dennis Eckmeyer, President, Nevada Vines and Wines Association, and
President, Nevada Wine Coalition
Irene King, Private Citizen, Las Vegas, Nevada
Bruce H. Breslow, Director, Department of Business and Industry
Dan Carrick, Private Citizen, Reno, Nevada
Tray Abney, Director of Government Relations, The Chamber Reno,
Sparks, and Northern Nevada
Claudia Vecchio, Director, Department of Tourism and Cultural Affairs
Warren B. Hardy II, representing Nevada Wine Cellars, Inc.
Bill Loken, Owner, Pahrump Valley Winery, Pahrump, Nevada
Jack Sanders, Owner, Sanders Family Winery, Pahrump, Nevada
Roni Regan, Owner, Veronica's Vineyard, Crystal Heights, Nevada
Gretchen Loken, Owner, Pahrump Valley Winery, Pahrump, Nevada
Alan Whittington, Managing Member, IMBIBE Tours, Las Vegas, Nevada
Joyce Hartman, Owner, Queensland Vineyards Bed & Breakfast,
Dyer, Nevada
Alfredo Alonso, representing Southern Wine and Spirits
Keith Lee, representing Distilled Spirits Council of the United States
Mike Draper, representing Churchill Vineyards and Frey Ranch Distillery

Jesse Wadhams, representing Wirtz Beverage Nevada
Gene Gardello, Private Citizen, Reno, Nevada
Rajan O. Dhungana, Private Citizen, Reno, Nevada

Chairman Kirner:

[The roll was called. A quorum was present.] We will open the hearing on Assembly Bill 4.

Assembly Bill 4: Deletes provisions specifying the population of a county in which a winery may engage in certain activities. (BDR 52-228)

Assemblyman Pat Hickey, Assembly District No. 25:

We are going to have a number of people present who are interested in the emerging industry of vineyards and wines in Nevada. I represent Assembly District No. 25, which is primarily in western Washoe County. I am here to present Assembly Bill 4 for your consideration. This measure removes geographic restrictions on wine making in Nevada.

In 2013, the Governor's Office of Economic Development identified the expansion of vineyards as one of the state's agricultural opportunities and priorities, finding that "wine grapes have low-water requirements, and vineyards offer tourism opportunities such as tours and wine tastings." The Nevada Agricultural Experiment Station at the University of Nevada, Reno (UNR) also published a study in 2005, "Towards Wine Grapes (*Vitis vinifera*) Vineyard Establishment in Northern Nevada," on the potential economic benefits of vineyards and wineries and the results of the University's experiments with several varietals planted in northern Nevada. Nevada's four successful commercial wineries are surely a testament to those findings.

The potential economic impact of the expansion of wine making in Nevada cannot be overstated. Please consider the following facts: Americans bought 375.2 million cases of wine in 2013, with an estimated retail value of \$36.3 billion. There were 7,116 wineries in the U.S. in 2011, a 9 percent increase from 2010. California, with 3,458 wineries, is the largest wine-producing state; Washington State is home to 800 wineries and 350 wine grape growers. The wine industry's total economic impact in the state was \$8.6 billion in 2013.

Northern Nevada has a climate very similar to that of eastern Washington, where a majority of the grapes are grown for that state's wineries. Alfalfa hay is the leading cash crop in Nevada. Churchill County is famous for growing alfalfa, and the Fallon area is widely known as the alfalfa growing source for much of the state. With water challenges, farmers like the Frey family and

others have discovered there is a higher economic yield to growing grapes. To grow grapes, it takes only one-seventh of the water needed to grow hay in the alfalfa fields. One acre of alfalfa hay has a market value of \$1,441. One acre of Chardonnay grapes has a market value of \$7,709.

We are here today asking for your consideration to eliminate the population cap for the production of wine in Nevada, which will allow market participants in all of Nevada to benefit economically from the production of Nevada wines, and lift restrictions that unfairly limit market competition. Removing the cap would allow some of the efforts that we have seen emerging in Washoe County to have actual wineries with sales and tasting rooms.

Nevada has been a leader lately. When you examine some of the reasons for Tesla Motors coming to this state, CEO Elon Musk mentioned that one of them was the ease of regulation that allowed Tesla to begin work here. Although the wine industry may never be the size of that project, I think some similar reasons are there. One of the reasons California lost Tesla was a regulatory environment that was not very attractive. I hope this bill will open up the possibilities for a potentially growing industry. The language in the bill is simply going to remove the population cap.

Chairman Kirner:

Are there any questions?

Assemblywoman Carlton:

When this was originally discussed, it was all about economic development. It was about the vineyards in the more remote areas, getting people away from the large, populated counties, and exploring what Nevada can be in the future. It was to get people out to the older towns. What would this bill do to the economic development portion of what is already working in these rural counties? Have you looked at what harm might come from it?

Assemblyman Hickey:

Originally it was envisioned that the population cap would restrict the efforts to the smaller counties. We have seen efforts in Nye, Churchill, and Douglas Counties. The reality of this industry is that the more it grows, the more it attracts interest. Building a mass of participation will help all of the wineries. The owners of the Frey Ranch in Fallon told me last week that they would love to have other businesses near them because then it makes them part of the tour. If you look at the Napa region, the fact that there are so many wineries makes it a magnet for people to come there. I do not think it will hurt.

If Nevada becomes known for growing grapes and producing wines, I think you will see an increase of business for the pioneers. I think it is the rural parts of Clark and Washoe Counties that will participate in this.

Assemblywoman Kirkpatrick:

I work in the food business, and when the crops are affected by the weather, we have to seek products in other parts of the world. How does this bill compensate for that? We cannot call it a Nevada wine if we are not getting the product from Nevada. We have the same problem with cheese. We have an amazing artisanal cheese produced in the rural counties, but there is not enough product to expand it. How does this bill protect Nevada as a whole, and how do we market it as a Nevada product?

Assemblyman Hickey:

I think the people involved in the business can better answer questions about the percentages of juices that need to be imported. It takes a while before an industry like this can be totally self-sustaining. I would say if this industry grows, in the future they may look at percentages to ensure that they are Nevada wines. We do not want businesses to come into the state that would simply take advantage of opportunities. The attractiveness for people who want to visit wineries would be to find wines made from locally grown grapes.

Assemblywoman Kirkpatrick:

I do not see any protections in the bill to ensure that the discussion takes place.

Assemblyman Hickey:

This is a very new industry in this state. There are not a lot of regulations or restrictions. There are some in the definitions in the *Nevada Revised Statutes* that have existed from the time of the original rollout. I would assume that as the industry grows, we are going to take a more serious look at those.

Assemblyman Ohrenschall:

There is a wonderful business in Henderson where people go in and make wine, they get a barrel, they own a share of it, and they get a certain number of bottles. Could something like that call itself a winery?

Assemblyman Hickey:

That would be considered an instructional facility. The University of Nevada, Reno has something like that, and they would like to have a co-op in the future. That would not fall under the category of an actual winery.

Assemblywoman Neal:

I was trying to get a grasp on why the population cap was there and where it came from. In 1993 the county population cap was at 30,000 or less, and it was raised to 100,000 or less. Did you provide any data that shows the growth of the industry in the current counties where it is economically feasible or doing well? Why would we change the population caps to include counties where it may or may not be feasible and economically end an opportunity to grow an industry?

Assemblyman Hickey:

It is a very small industry at this point. We have four commercial wineries. I do not know if we can study and measure what their growth has been. The population cap restricts any endeavors in Washoe County or the rural areas of Clark County. As industries grow, that growth floats the levels of others. If more wineries come into the rural counties that have wineries, it will help the existing businesses because the region will gain a reputation that attracts more interest and customers. We are saying we should open it up and see if Nevada can create—as suggested by the Governor's Office of Economic Development, with challenges for water resources—a new industry. If people come to Las Vegas or Reno, they may visit the wineries in Fallon or Pahrump. It is a positive for our economy to open the opportunity for entrepreneurs.

Assemblywoman Neal:

Does this industry pay liquor taxes, and can we get those records?

Assemblyman Hickey:

In the sales rooms, they pay state sales tax. The goal of every successful winery is to become large enough to have distributors. When that happens, their product is sold in restaurants and bars throughout the state, and there are taxes attached to that. Once they reach the level of being a commercial product, they would be subject to the same taxes that we get in those venues.

Assemblyman Paul Anderson:

What are the current restrictions in Washoe and Clark Counties with the current caps?

Assemblyman Hickey:

You can grow grapes and produce homegrown wines and get together with your friends and do those sorts of things. What wineries in the rural counties can do—and other areas of the state can do if this bill is passed—is to not only produce, but to sell. You are now qualified as a business that can sell wines both from your winery and to wholesalers and distributors as well.

Assemblyman Paul Anderson:

In my district, there are rural preservation areas with acreage and agricultural water. If I found it economically feasible to grow grapes and sell them to the current wineries, I still can do that under current law. Is that accurate?

Assemblyman Hickey:

Yes, you can. That is why I think the industry is attractive to rural landowners or farmers who may not want to become wine producers or have vineyards or have companies themselves, but may transition into growing grapes to sell them, as folks in Fallon have.

Assemblyman Paul Anderson:

If it was economically feasible and I wanted to start a winery in Clark County, I can currently grow grapes, which takes a period of time to build that up—and sell them into the rural counties. It must not be economically feasible or people would be doing it now.

Assemblyman Hickey:

You will hear from the winery owner from Pahrump that vintners are having to purchase juices from other growers to make their products, and they are having to buy from other areas.

Chairman Kirner:

We will now hear from the supporters of the bill.

Randi Thompson, representing Nevada Wine Coalition:

I am here in support of A.B. 4, which will allow commercial wineries in every county in Nevada. Current law allows for instructional winemaking in all counties, but allows commercial production only in counties with populations of 100,000 or less. That is why there are active wineries in Nye, Douglas, and Churchill Counties, but only instructional co-ops like Grape Expectations in Clark County and Nevada Vines and Wines in Washoe County. Both of these groups are teaching people how to grow grapes and make wine, and they are making great wine. These people told Assemblyman Hickey that they would like to make wine in Nevada and asked him to support this bill.

Nevada has the fewest wineries of any state. We are surrounded by the three top grape-producing states in the nation: Oregon, Washington, and California. Whether it is this law or a lack of interest that is preventing the expansion of this industry is speculation, but either way it seems inevitable that this law will change, whether we do it this session or through a lawsuit. I think Alfredo Alonso can attest to that. We have worked hard with people in the

winery and distribution businesses to amend the bill so we will not hurt existing wineries or disrupt the three-tier system. Our goal is to expand the wine industry across the state to help diversify our economy, create jobs, and bring needed tax revenue to the state and counties.

One reason I have heard for not having a substantial wine grape growing industry, specifically in northern Nevada, is that there is not an infrastructure to support it in the way of grape processing. Some say you cannot grow grapes in the state because we are an arid, high desert state. However, as Assemblyman Hickey discussed, agriculture is actually a very big business in Nevada. It is a \$5 billion industry, with alfalfa hay as the leading cash crop, totaling over \$230 million. Dr. Cramer from UNR will explain how Nevada is ripe for grape growing.

We know some owners of existing wineries are worried about how changing the law will impact their businesses. They have made significant investments in their businesses. We do not discount that, nor do we want to hurt them. But if the wine business takes hold in Nevada, they will have a head start. Realistically, Napa would not be Napa if there were only two wineries. Las Vegas would not be Las Vegas if there were only two casinos. Critical mass is needed to make a vibrant wine industry, and we hope changing the law will help do that and benefit the current winemakers.

We know that the liquor distributors are concerned about an expanding wine business, as the state does not have any regulatory and enforcement agencies for liquor like we have for gaming. We have been trying to address their issues, such as limiting wineries to one tasting room, as current law allows for two. But we do not want to hurt the existing wineries that have made huge investments in their businesses and have counted on their second retail location. We have also agreed that we should better define what a winery is to ensure that some big wine company does not open up a shop, bring in wine, stick a label on it, and claim it is locally made, although there are strict federal standards for wine labeling that mandate you indicate the source of your grapes and where you bottled the wine. It would be difficult to say you have a wine made in Nevada unless you have 75 percent of your grapes coming from Nevada.

As Assemblyman Hickey said, and as you can see on the map ([Exhibit C](#)) that shows the economics of the industry, wine and grape production had a \$162 billion economic impact in 2012 in the U.S. Wine consumption in the U.S. has grown every year for the last 20 years. It is worth noting that we share a border with two of the three top wine producing states in the nation.

We all know the success of wine in California's Napa, Sonoma, and Central Coast regions. But a little to the west of us, in El Dorado County, is an up-and-coming wine region that is closer to Nevada in both distance and climate. Nevada has several microclimates that are conducive to growing a variety of grapes for wine.

Our goal is for wineries to make an investment in Nevada, to grow grapes, establish processing facilities, create jobs, and make quality wine. We hope changing the law will allow for the expansion of a wine industry that will help diversify our economy and create jobs.

Grant R. Cramer, Professor, College of Agriculture, Biotechnology, and Natural Resources, University of Nevada, Reno:

I am a professor in the Department of Biochemistry and Molecular Biology at UNR. I principally do my research on wine grapes. Our experimental vineyard started in 1995. We established an experimental winery in 2004. We have been growing grapes successfully in Reno for 20 years. Sometimes we have bad weather and sometimes we are injured, but that is the nature of agriculture.

I want to convey two important messages. Our climate in northern Nevada and the Reno area is very similar to Washington State, if not better. The only difference is in elevation. Southeastern Washington is about 2,500 feet in elevation, and Reno is at 4,500 feet. Colorado is growing grapes at 7,600 feet. Overall, the wine industry has been growing very rapidly in the United States. California has \$4.5 billion in grape sales alone, \$23 billion in retail sales, and the number of wineries in the last ten years has doubled. In Washington there are \$166 million in grape sales, \$1 billion in retail sales, and they have increased from 19 wineries to 835-plus wineries since 1980 and tripled in the last ten years. The wine industry in Colorado has increased from 5 wineries in 1990 to 108, doubling in the last five years. Nevada's first winery started in 1988. We have the lowest number of commercial wineries of any state in the Union, including Alaska and Hawaii. Why are we not developing a wine industry in this state?

Washington, which we are most comparable to, had \$1 billion in winery revenue and \$1.06 billion in tourism-related revenue. Wine-related wages were \$1.17 billion, with a total economic impact on the state of \$8.6 billion; state and local taxes paid were \$237 million. I think we are missing the boat. If you consider the Washington trends, you can see that since the year 2000, there has been a huge escalation in the number of wineries and the number of acres planted.

I want to address weather and climate. We are on the edge of being able to produce grapes, but it is only going to get better. We are actually going to benefit from global warming. If you look at the climate change in Nevada versus Yakima and Richland, Washington, we have a temperature gauge that allows us to evaluate how well grapes will grow. It is called growing degree days. The optimum for producing quality grapes is between 2,500 and 3,500 growing degree days. In 1940, Reno was at about 2,000. We stayed flat through 1980, but by the year 2000 we jumped up to around 3,500. There has been a steady increase in our global warming in the Reno area. Yakima, Washington, has been successful at the range that Reno is in. Richland, the heart of Washington, was around 3,000 in 1940 and has stayed steady. So, our climate now is equivalent to that region, and it is going to continue as predicted by a publication in the proceedings of the National Academy of Sciences. The suitable areas in 2040 include the Reno and Pahrump areas. There are many potential areas where we could be growing grapes, and we have to think about what is going to happen in the next 20 years as well.

Daniel Hopper, Private Citizen, Reno, Nevada:

I am a graduate student at UNR. I am passionate about my research and grapes in general. I am here today in support of A.B. 4, the bill that will allow commercial wineries throughout Nevada.

Since 2009, I have been a student working for Dr. Grant Cramer in the Biochemistry Department at UNR. During my doctoral work, I have been involved in numerous research projects both in the field and in the greenhouse. My dissertation has focused on the response to dehydration and water-use efficiency of different grapevine cultivars at both the whole plant and molecular levels. Our lab has contributed a tremendous amount to the grape research community through our numerous collaborations with both domestic and international partners.

In addition to the work in the lab, I have also developed skills in both grape growing and wine making at the University. We face special circumstances for growing grapes here, such as spring frosts and limited water availability. These are by no means problems unique to Nevada. Research performed at the University has allowed us to gain a better understanding of how to best grow grapes for our local environment and is information which we share freely with anyone interested. We have been instrumental in educating the local community on these practices and generating interest locally in the wine industry.

Part of the education process that we have at the University has been the development of the Vineyard Adoption Program. This program is open to the public and allows anybody to adopt vines at the University. Under our guidance, people maintain the vines from pruning through harvest. Many involved in the program have their own small vineyards at home and are looking for additional training. Some people plant vines soon after being involved in the program and invest in their own backyard vineyards. Some people plan to invest in much larger commercial-scale vineyards. Once harvested, the fruit is theirs to make into wine under our guidance or take home for themselves. Some of the wines produced from the grapes grown at UNR have been entered into local wine-making competitions and have won numerous awards. We are showing that you can grow grapes at the University and make a very good quality wine.

Another training we do at the University is through our bimonthly wine tastings. Traditionally these tastings involve a half-hour lecture from Dr. Cramer or myself on different topics in both viticulture and wine making. The lecture is followed by a wine tasting of various UNR wines made from grapes grown in our vineyard. The tastings can also include commercial wines from local growers. We have had numerous Nevada wine tastings highlighting current wineries in the state. We also have region-specific tastings highlighting the history of well-known vines from regions throughout the world. Education is the primary focus of these tastings. We try to better educate the public on wine in general, on its history, and how to grow the grapes. These tastings started in our winery with just a few people, but they have turned into sold-out venues around town. The wine tastings fostered the creation of a nonprofit group called Nevada Vines and Wines, about which you will hear more.

One question that is routinely asked at these tastings is Where can I buy the wine? Unfortunately, I have to tell people that we cannot sell our wines due to our current license and, in fact, we do not even have the ability to seek the proper licensing based on current wine laws in Nevada.

Through the Vineyard Adoption Program and the wine tastings, we have met a number of home winemakers that are making fantastic wines locally. Their wines are coming from grapes they grew themselves and even grapes that they have purchased from California. A number of people have expressed interest in developing their own commercial operations. I believe that they should have the ability to open and operate a commercial winery wherever they reside in Nevada.

The current wineries in the state—Churchill Vineyards, Tahoe Ridge Winery, Sanders Family Winery, and Pahrump Valley Winery—have done a tremendous job in establishing commercial wineries in the rural counties, and we seek to add to the industry throughout the state.

Since I started in the program at UNR, I have developed a passion for wine making and dream of one day having my own commercial winery. I was born and educated in Washoe County, and I want to have the opportunity to make wine commercially in Washoe County.

John Wagner, Private Citizen, Elko, Nevada:

I represent myself, and I am a consumer. I like wine at dinnertime. When I was teaching broadcast engineers how to maintain equipment at Sony in San Jose, they would ask me How far is it to Napa? I would say, Do not go to Napa; go to the Livermore Valley. At that time the Livermore Valley had about 15 wineries. I understand they now have over 30. I belong to a wine club in El Dorado Hills. I cannot do that here because there are only four wineries. I am always upset when I see certain counties are excluded, but I understand why it was done. We are one state, and I would like to see local wineries here.

Chairman Kirner:

Are there any questions?

Assemblywoman Carlton:

Ms. Thompson, you made a reference to Alfredo Alonso in your testimony. What were you referring to?

Randi Thompson:

We have been working on some compromises on this bill. I think they are going to be offering an amendment. We have been in discussions with people who are interested in this industry.

Assemblywoman Carlton:

If this bill does not pass, are there alternatives for you to be able to address this issue in the future?

Randi Thompson:

I am not sure what you mean.

Assemblywoman Carlton:

There are rumors that if this bill does not go the way people want, they are going to take the legislatively approved three-tier system to court and have a debate over it. Has that been discussed?

Randi Thompson:

No, it has not been discussed with me.

Chairman Kirner:

That is pretty speculative.

Assemblywoman Carlton:

I wanted to put it on the record that that was not going to be the issue, because if it were, everything we would say on the record could end up in court. Having that on the record makes it much easier for the Committee to ask questions.

Assemblywoman Neal:

Dr. Cramer mentioned in his testimony the differences in elevations. What is the effect of the difference in elevation on being able to grow? I was reading a report from the University of Virginia which said there is a direct effect of elevation on the ability to grow grapes. Can you talk about that? Where would you grow a vineyard in Clark County, because it is drier and there is not a lot of water. Will you explain the comparison between Colorado and Washoe County?

Grant Cramer:

Elevation is not really going to have that significant of an effect. It has an effect in our area because of the thin air, which gives us more sun and light and ultraviolet light, which has an impact. We produce very high quality grapes. The biggest impact on that process is the dry air. We do not have to spray pesticides on the plants for powdery mildew control and other types of mildew. We only have powdery mildew here, and insects are almost nonexistent. We have very good conditions for optimally growing grapes. We have shown in our own research that we produce high-quality grapes for high-quality wine.

There is a myth that says there is a problem with elevation. That is the point I make with Colorado. Some of their vines are at 7,600 feet. The biggest limitation is cold. You cannot grow vines at Lake Tahoe. It is too cold and there is too much frost, so the vines will have a harder time surviving.

Everything is a microclimate. Everything depends on a slope and the direction it is in relation to the sun. It depends on soil type and a number of other variables, including whether you get frosts. I have not investigated the Clark County area. I think we are very underexplored as a state in terms of which regions would be the best. Clearly, there are areas where we can grow grapes.

Assemblywoman Neal:

Is this an exploratory bill to figure out if you can grow in southern Nevada? They talked about elevation in the Washington vineyards, so is it a myth or is it real?

Grant Cramer:

Elevation affects climate. Climate is what affects grapes. When we talk about terroir, a French term that people usually associate with the soil, it is not only about the soil. Terroir is where everything comes together. It is the climate and the overwhelming impact of what allows grapes to grow. It gets colder as you get higher in elevation, so there is a limit to where you can grow grapes successfully based on your location. If I am in Kenya on Mount Kilimanjaro at 7,000 feet, I am not going to have much problem with frost or severely cold temperatures. I could be at a low elevation in Alaska and get frost every day. Elevation has an impact on your microclimate. There is not a detriment to it. What I am saying is that even though we are at 4,500 feet, we have plenty of good regions to grow grapes.

Assemblyman Ohrenschall:

Nevada has an economic development plan that calls for diversification, and even though we have had the wonderful developments with Tesla, the opportunities for diversification in the rural counties are not as broad. Why can they not produce wine in the pioneer counties?

Grant Cramer:

We have not stopped the rural counties from developing wineries since time immemorial. Why do we only have four wineries? Why is it not growing? I think it is because we do not have entrepreneurs to invest in it. It is not because we are limited by climate or that we are not producing good quality. It is because we do not have investors. I cannot answer why they are not willing to invest.

Assemblyman Ohrenschall:

So in terms of climate and altitude, do you see any major problems with where it is allowed under current law?

Grant Cramer:

No, I do not see any problems.

Assemblywoman Kirkpatrick:

I want to talk about the bill. I think this is more than just removing the population cap. How do you envision smaller wineries getting federally bonded? It is hard to do if you do not have a lot of capital behind you. I wonder why we

deleted line 34 in section 2, subsection 2, which says, "This section does not prohibit a person from operating an instructional wine-making facility in any county." Where are the protections under *Nevada Revised Statutes* Chapters 369 and 415 that go with this? There is no reference to that in this bill. How is that supposed to work? I think the legislative record is important. We have to know what this means for Nevadans. In the food industry, the crops are very hard to come by for many people, so to change it on a whim concerns me. I want to know where the protections are and why we deleted the last piece, which is statute.

Randi Thompson:

I am not sure why those words were deleted. The people from Grape Expectations requested that those words not be deleted. We have no problem keeping those words in statute.

Assemblyman Paul Anderson:

Dr. Cramer said there are a lot of areas that have not been explored for growing grapes. Is there anything in this statute that limits us from growing grapes anywhere in the state?

Grant Cramer:

The statute deals with commercial wineries and has nothing to do with growing grapes. A commercial winery is a place to make wine and sell it. I have an experimental winery and do not have the license to do that. I can only pour wine to taste, not for consumption—for organoleptic purposes only.

Assemblyman Paul Anderson:

There is no statute that limits growing grapes, and the grapes can be sold anywhere it is economically feasible. Is that accurate?

Grant Cramer:

Yes, I agree with that.

Chairman Kirner:

Are there others in support?

John Klacking, Private Citizen, Reno, Nevada:

I own a winery in California and have lived in Reno for 37 years. My winery is on the Central Coast of California, and I am here to support what Grant Cramer is saying. I have witnessed the climate change in the Central Coast. I see the reports that Nevada is going to have a particular climate that looks like it will be very supportive of grapes. I see what has happened in Washington and Oregon, and I hope that we can create an industry here that is similar to what I see in

other states and other areas of California. The Central Coast of California is considered the area hardest hit by the climate change. It is predicted to not be a great wine area in the future. That future is in about 20 years. It is anticipated that wineries will move to cooler climates, which Nevada has. A lot of people in California could expand to other areas, such as Washington.

Grapes are grown in 50 states. Upstate New York is a tremendous wine area. Northern Michigan is the hot, up-and-coming area, especially in tourist areas in the Upper Peninsula. I believe if we get behind this effort to expand the industry, we can have a bigger area in Nevada. Hopefully, that will create some economic diversification and small businesses.

My wine is distributed through Southern Wine and Spirits. We have the two-tasting-room law in California, and I know there are some people in Nevada who only want one here. I make my wine in a winery that is federally bonded, and there are 40 winemakers in one plant. We rent space in the winery to make it economically viable. It is located in Santa Maria, California, which is a city where a lot of people want to make wine. It has a population of over 100,000 people. It allows people to come together in an almost co-op form to be able to make wine and share the cost of the amount of capital that needs to be put into equipment. Napa Valley has about 450 wineries, of which 68 percent are considered small wineries. A small winery in Napa is considered 50,000 gallons per year or approximately 21,000 cases per year.

Since I started my winery in 2007, the number of wineries in California has grown by 50 percent, and 5,000 new brands have come on the market. You can see the potential here is enormous if you look at how long California has grown grapes and had wineries, and they have had 50 percent growth in the last seven or eight years. That growth is spilling over to Oregon and Washington, and hopefully we can make it spill over into Nevada.

Assemblyman Paul Anderson:

If you were to see these population caps lifted and the opportunity to invest in Washoe and Clark Counties, would you envision expanding your winery into those counties and developing a business there?

John Klacking:

I would consider it in Washoe County. It is an opportunity, and I would look at it. I have looked at the Sierra Foothills. The distance to drive is difficult; it is seven hours to drive to my winery in the Central Coast. I would consider Carson City and Fallon. I am looking for something to benefit my shareholders and me in the local area.

Assemblywoman Seaman:

Mr. Klacking, do you believe that wineries have not taken off in Nevada because they are not in populated areas such as Las Vegas and Reno?

John Klacking:

Absolutely, that would help. The Central Coast of California took a long time to grow. Between Santa Barbara and Paso Robles is the American Viticultural Area, and the majority of it is between Santa Maria and Paso Robles, which is halfway between San Francisco and Los Angeles. You have the population base of San Francisco supporting Napa and the population base of Sacramento and Stockton supporting Lodi and the Sierra Foothills. Within 60 miles of Sacramento you have a population base that is close to equal that of the state of Nevada.

Assemblyman O'Neill:

What is wrong with investing in Douglas County or Carson City?

John Klacking:

I have personal issues, and it is the distance. I would go where the grapes are. I think you need to get the best grapes to have a winery. I do not own any vineyards. I source all my grapes from Santa Barbara to Paso Robles and make the wine in Santa Maria because it is convenient there. It is the best way I can do it. I do it much cheaper than trying to own my own large winery.

Assemblyman O'Neill:

Could the population of Clark County support the wineries in Nye County?

John Klacking:

They do. I understood 90 percent of the business comes from Las Vegas.

Assemblyman O'Neill:

I do not understand why we have to change this regulated area and open Clark and Washoe Counties when the solution is already in place and is still striving to take a foothold.

John Klacking:

In Las Vegas, you have a population base that is much larger than Washoe County. You have a population close to 2 million, but you have a million visitors coming in every week. Las Vegas averages about 50 million visitors a year. In Washoe County, you are not even close to that. You have seen what has happened since the mid-1990s with our gaming industry.

The gaming industry in northern California is now five times the size of northern Nevada. What are we going to do to create business here? Tesla is a great start, but I think it is going to take a bigger population to support the rural wineries. You need to ask the winery owners in Fallon and Minden if they are getting the traffic they want. It is going to take a critical mass.

Assemblywoman Fiore:

Would you open a winery in Nevada if this law was not changed?

John Klacking:

In my situation, I would be inclined to open a winery in Reno. I own five acres in Reno where I could grow grapes. Do I have the desire to open a winery in Fallon and grow grapes there with a tasting room in Reno? That would be more difficult, but it would be the next step. I would probably not open a full-fledged winery in Douglas or Churchill Counties. How could I do that with the cost benefit that California offers me now, by being able to use a custom crush facility and have 40 people sharing the cost of the winery versus 1? It will take some time for Nevada to get to that point. Putting it in another county away from the population would be more difficult.

Tom King, Owner and Chief Operating Officer, Tahoe Ridge Winery, Minden, Nevada:

We produce wine, we grow grapes, we ferment them, we destem them, and we sell them. I would like to give you the perspective of a small winery in the state of Nevada under the existing laws. We have available to us two locations in the state where we can sell wine direct without going through a distributor. One is where we produce the wines; for most wineries that is in an area that is not conducive to resale of wine. The second is in another location of our choice, with the exception of places where most of the people of the state live, and that would be Clark and Washoe Counties.

What that means to us is that for most of our potential customers in the rest of the state, we deal with the distributor. I will give you an example. I sell a bottle of wine through the distribution channel for \$1.25 more than it costs to make it. We have reduced the cost of a bottle by about \$2 over the last three years. The distributor sells the bottle for about \$3 more. The retailer charges an additional \$4 and it ends up on the shelf for \$13 or \$14 per bottle. Going through the distribution channel, the winery is not making any money. We write that off as advertising and marketing, and we at least get our product out. We have won medals in San Francisco and at Eastern cold climate competitions. Gold medals always attract people's attention.

We have recently been able to open our horizons. We are moving to Carson City to open a new facility. We are doing that because we are going to be producing wine there, and it allows us a good retail outlet. We have downsized twice in the last three years; the cost of our rent was driving up the cost of the bottle of wine. We are now in a good location where we can do business in Carson City and Minden. The problem is that we cannot go anywhere else. We might like to go to Reno or Las Vegas someday, and we would have to give up the Minden site to move to Fallon. The law is limiting within the framework of free enterprise.

Assemblywoman Seaman:

Do you feel that if this bill passed, it would hurt the existing wineries?

Tom King:

Absolutely not.

Assemblyman Ellison:

How many of your grapes do you grow in Nevada? Do you import most of your grapes?

Tom King:

We grow about 25 percent, maybe less, of our grapes. The interspecific grape is a grape developed by the University of Minnesota and Cornell University out of necessity, because back East they had to cover their vines in about two or three feet of soil in order for them to survive the winter. Now we have a grape that grows at temperatures as low as 30 degrees below zero. We have tried to build a Nevada industry. We grow the grapes to sell the wine from the interspecific grapes. Our main thrust is growing interspecific grapes. We get grapes primarily from Lodi, California.

Assemblyman Ellison:

Ms. Thompson said the grapes would be grown in Nevada, but apparently they are not and will not be grown in Nevada.

Tom King:

While trying to build an interspecific grape business, you have to furnish your customers with familiar wines in the meantime so you can stay in business. Our goal would be to plant a lot more grapes than we have now.

Assemblywoman Carlton:

One of the barriers is not the vineyards or the processing, but it is about the distribution. Is that close?

Tom King:

You are close. It is hard to satisfy everybody. Being able to sell there would be helpful. I am not advocating skipping the distributors. I would like to see maybe four places or something more reasonable for us to sell our wines and survive.

Assemblywoman Kirkpatrick:

There are 15 counties that can have wineries. How many other wineries do we have? I am not sure that Clark County wants to be part of this, because people go to Las Vegas for an adventure. I have never heard one of my constituents ask to be part of something like this. Is it fair to say that this is just about Washoe County?

Tom King:

It is a fair statement. It would be a good start for us and would open up vineyards to us.

Chairman Kirner:

We will move to the next testifier.

Victor Joecks, Executive Vice President, Nevada Policy Research Institute:

We support A.B. 4 because we do not believe government should pick winners and losers in the economy. This bill would remove an artificial restriction on business and allow people in Clark and Washoe Counties to have the same opportunities that are currently available in the other 15 counties. It would also benefit some of the current wineries.

Dennis Eckmeyer, President, Nevada Vines and Wines Association, and President, Nevada Wine Coalition:

I am here in support of A.B. 4. The bill would allow the expansion of commercial wineries to Washoe and Clark Counties. Our nonprofit, Nevada Vines and Wines, started approximately three years ago as the direct result of attending wine tasting classes under the tutelage of Dr. Grant Cramer at UNR. The nonprofit was initiated to promote viticulture and wine making in the community. The whole idea was to set that up so we could give money back to the University to help establish a viticulture program, because there is not a formal viticulture program at UNR. We have approximately 200 members, of which about half have grapevines planted in the Washoe County area. Those people are involved in growing grapes and making wine. Out of our 200 members, we have approximately 5,000 vines in the ground with more

planned for next year. The goal is to establish Nevada Vines and Wines as a partner with UNR. We have been working with the College of Agriculture, Biotechnology, and Natural Resources (CABNR) and the Main Station farm in planting additional grapes for research and development.

The biggest problem we have is that we do not have a way to make and sell wine to raise money to give to the university. We have no way to raise money other than memberships, donations, and some grants. By allowing the expansion of commercial wine making to Washoe County, we will be able to expand the industry, create some jobs and tax revenue, increase opportunities, and increase agritourism. I believe agritourism will be huge because Nevada has an agriculturally-based economy. It will increase crops which have a higher resale value than alfalfa.

If we remove the population cap and change the law in Washoe and Clark Counties, we are going to create critical mass. We are going to create a low-tech crop and something the state could desperately use from a diversification standpoint. We have no desire to impede or harm anyone's livelihood. We want to expand the industry and foster wine making in northern Nevada and throughout the state. Current laws severely restrict the ability to establish a robust grape growing and wine-making industry in Nevada. We feel we have the climate and resources to substantially further the wine industry in Nevada.

Chairman Kirner:

Are any of you familiar with the bonding requirements?

John Klacking:

I make my wine in a bonded winery, but that winery is bonded for the 40 of us who share that space.

Tom King:

We are bonded by ourselves.

Assemblywoman Seaman:

Has anyone done projections about how many jobs could be created or what revenue would be generated if this bill passes?

Dennis Eckmeyer:

We developed a business plan when we set up Nevada Vines and Wines three years ago. We figure we can employ 2.5 people per acre of grapes planted. That is not necessarily people who are cutting grapes and harvesting.

It includes people who are manufacturing bottles. There are two wine fermentation tank manufacturers in northern Nevada, but none of those tanks are used in Nevada. They are shipped to Washington and California. The employment numbers include the servers who pour the wine. I think that is a reasonable estimate. As far as tax revenues, we can only draw from other states.

Assemblywoman Fiore:

I have a comment. Decades ago alcohol was prohibited and marijuana was legal. Then politicians got involved, and we legalized alcohol and prohibited marijuana. Now politicians and constituents got involved, and we legalized marijuana. It seems as if we are prohibiting the free market. I love this Committee because we are supposed to be opening the free market. I think this is a great bill, and I support the free market.

Chairman Kirner:

Is there anyone from Las Vegas to support this bill?

Irene King, Private Citizen, Las Vegas, Nevada:

I am a sommelier, a California wine appellation specialist, and a candidate for certified specialist of wine and French wine scholar. There are two states that have not been mentioned in the testimony. Those are Arizona and Idaho, both of which have fairly young, thriving wine industries. Arizona has three significant wine regions and 63 wineries. Their elevations range from 3,800 to 6,000 feet, but as others have said, I do not think grapes are the issue. Their wine regions are primarily in Tucson, and one of their most thriving wineries is in north-central Arizona near Sedona. So I think the rural regions of Clark County can easily be considered an important prospect in the growing wine industry.

Idaho has 51 wineries, with most located in the southwest portion of the Snake River Valley. Both of these examples are significant in that they provide a lot of financial impact to the economy. We are not just talking about the wines; we are talking about the satellite industries attached to wines, which I think has been missed. Idaho's wineries contribute \$170 million to the economy, and Arizona projects a contribution of over \$44 million to the economy. They have a very young wine industry which started in 2005.

I think there is a misunderstanding as far as the people who come into Nevada and wine tourism. I am a wine educator and a tourist. People who want to visit wineries and who want to enjoy wine will not come if there is one winery. They will come if there are lots of wineries. They will come to Las Vegas, but the same people who will come to hit Megabucks are not the same people who

will part with \$50, \$75, or \$100 for a bottle of wine. You are keeping out a whole segment of the population that could be contributing to the same type of economic impacts that the other states around us have. When I visit wineries, I do not go to visit one. I go to take a full vacation so I can enjoy all of the wineries that my little pocketbook will allow me to enjoy.

The state has an artificial block on the two largest counties. I, too, believe in the free market. I think it is important that the counties decide for themselves whether or not they want to have wineries, and if they do, where the wineries or vineyards can be located. I think it is up to the counties and not the state. It will come down to the entrepreneur, the person who is willing to take the risk to grow the grapes and to open the wineries. All of the states around us have wineries. Even Utah, which has an adversarial climate for its wineries, has 12. Idaho, Oregon, California, and Arizona have all grown by leaps and bounds since the handcuffs were taken off. I think the Oregon law is a good one to look at for protecting Nevada grapes for Nevada wines and making sure that Nevada wineries are not California wineries with a mask on.

Chairman Kirner:

Are there any questions for Ms. King?

Assemblywoman Diaz:

Per the information I have, it says that Idaho has about 51 wineries and Arizona has about 83. You said that Idaho contributes \$170 million to the state revenue, but Arizona only contributes \$44 million. Why is there such a difference in the figures?

Irene King:

The information I have says Arizona has 63 wineries and they are small so we are talking about hundreds of cases, not thousands per winery per year. Idaho has an older, modern wine industry. They have more American Viticultural Areas. Arizona started their wineries in 2005, and Idaho has been going for a while. I think it is the maturity of the wine business in Idaho that has been contributing so much to the economy, as opposed to Arizona. People are just now starting to discover Arizona wines. I can see them growing significantly in the next few years as their grapes and wines start reaching the market.

Chairman Kirner:

We will return to Carson City for additional testimony in support of the bill.

Bruce H. Breslow, Director, Department of Business and Industry:

At one time there were four casinos in Washoe County. Imagine what would have happened to the future of Las Vegas had there been a law preventing casinos in counties with more than 30,000 people. There is not a wine industry in Nevada; there are four wineries with about 40 acres of grapes. Even the winery in Pahrump gets about 70 percent or 75 percent of their grapes from California. You can call it a Nevada wine if you have a certain percentage of Nevada grapes in a wine. We would like to see an industry. That is why I am here. Our Department is about helping existing businesses, allowing avenues to grow existing businesses, and bringing new business and tourism into the state. I wanted to invest in wines. There was no winery in which I could invest in Nevada, so I invested in a small winery in California. My son sells wine in Ruidoso, New Mexico, a town of 8,000 people. I thought the climate in New Mexico is harsher and drier than Nevada. They have 35 wineries.

You hear about urban farming and about people who want to change because the climate is changing. The more wineries we have will create an economic engine. We do not have an economic engine; we have a day trip. They are wonderful day trips. I have partaken in most of the wineries in Nevada, including Pahrump and Fallon, but they are not going to make me visit for a week or a weekend and rent a limousine or a bus with my friends to go on a wine trail.

There are a lot of farmers who would like to change their crops because they cannot get the water. Grapes take about one-tenth the water as alfalfa. This will help the rural counties and tourism in many ways. This will allow business to grow in Nevada so that we can create an industry. The wineries in Pahrump should see significant growth if more people invest in this industry. That will bring a lot more people to Nevada because they will want to come and do wine tastings. I highly recommend opening this industry to create an industry so we are not losing to places like New Mexico.

Chairman Kirner:

Are there any questions?

Assemblywoman Kirkpatrick:

I have never had one person in Clark County ask me why we do not have a winery. So why is it a big deal? If we have all these other counties that can currently have wineries in the free market and they still do not exist, I do not understand how we are not allowing the free market to thrive and how we have not promoted this.

Bruce Breslow:

People are not asking about wineries in Clark County because there are none. Next week is the biggest week of the year in Clark County. People did not know until several years ago that the first round of the NCAA basketball tournament was the biggest tourism week in Clark County. People now flood Clark County for that. It grew exponentially. There are no wineries in Clark and Washoe Counties. This does not mean that this is going to hurt the existing wineries or the rural counties. It should help create an industry. An industry will create buzz. It has created buzz in New Mexico, Arizona, and Idaho, and even Utah has more wineries than we have. There is no one asking for it because it is not there.

Clark County is known for so many other wonderful things, and they can drink wine anywhere they want without having to ask if there is a wine industry. For other counties, especially in northern Nevada where we are so close to the wine trails, we lose many of our people to getaways in California because we do not have long-term getaways for wine in Nevada. We have the ability to grow agriculture and to help the rural counties. There are so many different ways it would be beneficial: for tourism, economic development, farming, saving water, and creating an industry that people will recognize. It would be similar to what has been done with the microbrews in Las Vegas and the craft liquor industry that is growing around the country.

Assemblywoman Kirkpatrick:

Many of the smaller restaurants in southern Nevada rely on wine weeks. Do you see the wineries impacting that business?

Bruce Breslow:

In my research I have found that only 2 percent of the wine business is direct sales. It should not affect anything. When you go to Idaho and New Mexico, there are usually one or two local wines on the menu, which is loaded with wines from California, Argentina, and New Zealand. It would be nice to have Nevada-grown wines in Las Vegas. You can do that from a distributor, and this bill should not affect how that works. I would love to see Pahrump have ten wineries and have a wine month or wine week. I would love to see Fallon have that too. People follow the money. It is where the entrepreneurs want to invest their own money. Growing is one thing, but for sales, they want people. If you are going to lead them to Pahrump, you need a trail to get there, and the business will grow exponentially instead of being the small, wonderful novelty it is now.

Dan Carrick, Private Citizen, Reno, Nevada:

I strongly support A.B. 4 allowing wineries in both Washoe and Clark Counties. Wineries and tasting rooms would represent a diversification of our Nevada economy and bring more tourists with the spending that follows other businesses.

There are three major elements to the winery business. There is agriculture; that is, growing the grapes. There is vinification; that is, you make the wine. And there is entertainment. Entertainment is where you supply a venue that sells the wine retail, caters weddings, has concerts, possibly has an attached bed-and-breakfast and, in general, supplies a wine experience for tourists. The winery business consists of any combination of these. A large part of the success of wineries is their proximity to population centers and the people who can easily travel to their businesses.

I have seen this firsthand because I have a small, hobby wine-grape vineyard in the Grass Valley/Nevada City area of California. I have been active in the Sierra Wine and Grape Growers Association and watched members start their businesses over the past 15 years. When I developed my property in 2000, there were three commercial wineries in Nevada County, California, which is contiguous to Washoe County. Now there are 20 wineries and more on the way. There are a similar number of younger wineries in adjacent Placer County, California. As the number of wineries increased, it created a meaningful destination for wine enthusiasts, albeit on a smaller scale, but much like Napa Valley, which has become a tourist destination on the scale of Disneyland. People from Sacramento, Reno, and other nearby population centers visit these Sierra Foothill wineries, spend the weekend in local hotels or bed-and-breakfasts, eat in restaurants, plan vineyard weddings, attend vineyard concert events, and shop in stores in town. These wineries also found out that they needed a tasting room in the heart of the downtown area, besides the tasting room at the winery facility, due to the distances from one winery to another in the countryside. These wineries have become a significant draw for tourists who spend money and improve the local economy.

In summary, because wineries provide entertainment, they need to be close to population centers; think Napa to the Bay Area, Santa Barbara to Los Angeles, and now northern Virginia to Washington, D.C. As both Clark and Washoe Counties know something about tourism, what could be a better fit?

Tray Abney, Director of Government Relations, The Chamber of Reno, Sparks, and Northern Nevada:

I learned over the interim that the climate in northern Nevada is conducive to growing grapes and that wineries could not operate in Washoe and Clark Counties. We support this bill because we think that entrepreneurs should be allowed to flourish in Washoe County like they are in the surrounding counties.

Claudia Vecchio, Director, Department of Tourism and Cultural Affairs:

A lot has been said about tourism and the impact and opportunities that this bill would have for tourism. The four wineries that operate in Nevada are tremendous partners for us. They are extraordinary hosts for our domestic and international travelers, and they create the sense of diversification of this industry.

From a tourism perspective, our greatest challenge and our greatest opportunity comes within the area of diversifying this industry. As we talk about diversifying Nevada's economic base, so too do we talk about diversifying tourism. Anything that can occur that helps tourism diversify our offerings for our visitors is good for the state of Nevada. We know generational travelers, such as baby boomers and millennials, will travel for particular types of things. The small craft distilleries and wineries are incredibly appealing to millennial travelers. I think this is the kind of industry, if we grow it correctly, that will have immense appeal for the younger travelers we are targeting for our marketing. Anything that helps us build our brand, diversify this industry, and provide a greater appeal to domestic travelers and our growing number of international travelers is something that we would support.

Chairman Kirner:

Are there any questions? [There were none.] Are there any people who did not get to testify in support? There are several. If you want to give your testimony in writing to the secretary, please feel free to do that. Are there any people in opposition to the bill? [There were.] If there are multiple people from one organization, please select a speaker for the organization.

Warren B. Hardy II, representing Nevada Wine Cellars, Inc.:

We do business as Pahrump Valley Winery. We have several people who have traveled here to testify. You might find it interesting that I have never had a glass of wine in my life. I have spent most of my career in this building trying to represent the interests of business, especially small business. I think those who have testified have missed the point of our opposition. There is a general assumption that we do not want competition. In this case, nothing could be further from the truth. The point that the Committee needs to understand is

that there is a significant difference between having a lot of places in Nevada that sell wine and having a wine industry. They are two very different things. The best thing that can happen to the wine industry, and for a winery, is to have another winery move in next to you. That is how to create the industry.

There is an element that is absolutely critical to developing a wine industry, and that is growing grapes. We absolutely support the expansion of the wine industry in Nevada. We will not realize our full potential until that happens. I would respectfully submit to those who said we need to have competition that there has not been anyone more open to competition than me.

When you start the process by putting restrictions and regulations on an industry, and have people build business models around those regulations, as policymakers you have an obligation when you begin to remove those regulations to make sure no harm is done to the pioneers. The Lokens are such pioneers. They came to Nevada and invested their life savings under the regulations that were in existence at the time. They selected Pahrump because it was permitted. They are advocates of opening up the industry.

To kick open the door as A.B. 4 does in its current form would do violence to the current industry. It would do the most harm to the growers who grow the grapes. If you want to participate in the wine industry in Nevada, you should make a commitment to Nevada's grapes. That is our objection, and I think we have a compromise. The Lokens operate an award-winning winery in Pahrump, and they will give their background and why it is problematic to kick the door open instead of opening it slowly in a responsible way.

Bill Loken, Owner, Pahrump Valley Winery, Pahrump, Nevada:

I have heard two hours of testimony about what is best for the wine industry and how to grow it successfully. None of these people have contacted us in the last 13 years to ask us what our thoughts are.

Thank you for the opportunity to tell our story and to let you see the hard-working people who have dedicated so much to give birth to a new industry for the great state of Nevada. My wife Gretchen and I are the proud owners of the Pahrump Valley Winery. We are currently the largest producer of Nevada-produced wines as the result of the hard work of the many individuals that share our passion.

We are all here to discuss A.B. 4 and its ramifications. While there is some disagreement among us as to how best to advance this legislation, I can assure you that we all share the same goal as the Nevada Vines and Wines mission statement: "The purpose of Nevada Vines & Wines is to promote the growth

and development of a wine industry, both viticulture (vineyards) and enology (winemaking) in the state of Nevada." This is the mission statement that those of us here today have lived by for years. We support these goals, but with some level of commitment that requires an investment in Nevada, meaning use of Nevada land and Nevada fruit.

I believe the pending legislation, as proposed, will have unintended consequences. Opening our two largest metropolitan areas to unfettered access by those promoting California wine would come at the worst possible time. We are just now, within the last three to four years, beginning to produce and sell highly-rated, in-demand Nevada wines. What this industry needs is to think smart, long-term, and in Nevada's interest. Our winery has grown from 100 cases of Nevada wine released in 2008 to our 2013 vintage, which will be released this summer in the form of nearly 1,700 cases of Nevada wine. This has been made possible by the years of hard work and efforts of the people here today. Should anyone doubt the quality of these Nevada wines, doubt no more. We have been extremely fortunate to have won 16 bronze, 23 silver, 8 gold, and 2 double-gold medals for Nevada-grown wines at professional wine competitions open to the industry, not home wine makers. The voting is done blind so there is no bias. This proves we can do it in Nevada despite our many challenges. Please keep in mind that we are just getting started.

The Nevada wine industry is in such an infant stage that it needs nourishment and courage to grow, rather than become a wine suburb of California. In examining the growth of Washington and Arizona, which I believe to be a better comparison, there is one commonality. Both industries started out very small with one or two parties planting vines; generally they were enthusiasts. As they acquired knowledge and experience, which may take years, the wines become of high enough quality that others see the potential and start to follow. Every few years the pace of growth begins to accelerate until a real industry is born, and growth continues at a rapid rate.

One only need to look at Arizona, which suffers many of the challenges that Nevada faces in terms of climate and water. The industry in Arizona started in the early 1980s with the first plantings in a distant southeastern area of the state. Most of the vineyards in Arizona are at elevations of over 4,000 feet, similar to northern Nevada. It took Arizona over 20 years, until 2004, to grow to nine wineries. By 2014, Arizona had 45 operating wineries with dozens of new wineries in the planning stages. Arizona started out with only a few acres of grapes, and now there are over 1,000 acres of vines planted and more in the

planning stages. The wine regions of Arizona are all in rural areas and over one-hour drives from metropolitan areas. Verde Valley north of Phoenix is about 110 miles away. The Sonoita/Elgin region is about 60 miles south of Tucson. The Wilcox region, where most of the state's grapes are grown, is about 80 miles southeast of Tucson. These are the locations of most of the state's wineries.

This has created new industries within the state for farmers and growers, along with a skilled workforce, suppliers, agricultural products and equipment, accommodations for the growth and tourism, and winery personnel such as winemakers, seller assistants, tasting room associates, and advertising and marketing companies. One of the great byproducts of this growth is the demand for suitable land in the rural areas, which has helped raise farm values and helped promote the growth of lower-water-use crops such as wine grapes that use approximately 10 percent of the water that alfalfa uses. At the same time, it creates jobs. One common theme from the vast majority of those involved is the desire to create a sustainable industry that is homegrown for generations to come.

We have heard a lot about explosive growth in other states. There is a commonality amongst them, and that is vineyards. It is vitally important now to keep on the path of sustainability and growth in Nevada as a goal. The consensus of growers across the state is that the state of Nevada does not restrict the importation of grapes from out of state provided the wine is made in counties with populations of 100,000 or less. On the surface, this may seem like an archaic regulation, but it was actually brilliant planning by the Legislature. The state was wise enough to recognize that we could easily become bottling plants for California wine and flood this state with inexpensive California wines. This is not meant to be disrespectful of California. This would have the effect of snuffing out an industry that was about to be born. The state wisely recognized that if a true Nevada wine industry would emerge, it would happen in the rural counties, and it would take time.

There is an effort to change laws to allow wineries and tasting rooms to operate in the two counties with populations over 100,000. We believe this goal is good, and we support those efforts, but with the requirement that these new entities commit to the state of Nevada.

The federal agency that regulates domestic wineries is the Alcohol and Tobacco Tax and Trade Bureau (TTB). All wineries operating or selling wine in the U.S. must comply with the federal law. This agency is more feared than the Internal Revenue Service (IRS). One of the components in the federal law is that any wine sold in the U.S. that has a state designation on the label must

have 75 percent of the grapes grown within that state's boundaries. If 75 percent of the grapes in the bottle are grown in Nevada, then the winery is entitled to label the wine as Nevada wine. This flexibility is a recognition by the TTB that it is often necessary to do a certain amount of blending to create the best wine possible. This is left up to the discretion of the wine maker. We call this the 75-25 rule.

In the two counties that are now restricted, we support that they be able to operate a tasting room and sell as much wine as they please, provided that a portion of the wine produced and sold is produced from Nevada-grown grapes. We do not advocate requirements nearly as severe as the 75 percent. Our industry is too young to have those kinds of restrictions. The purpose of these requirements is to prevent the state from becoming a wine suburb of California. It would incentivize those desiring to open wineries in the two larger counties to invest in Nevada, provide economic development and tourism around the state, and open new markets. It would create an environment that will allow the state to grow much like Arizona and Washington. It achieves the stated goal of those seeking changes to the existing law based on the mission statement of Nevada Vines and Wines. If these requirements are not acceptable, I submit to you that the laws are already in place to import as much out-of-state wine, fruit, and juice as you please, but only in the rural communities so the urban areas do not become California wine suburbs.

Without some limitations to importation, these markets would have to give disincentives to the small and fragile Nevada wine industry at the very moment it needs to be supported. Why would anybody invest years of research and hard work as all of us in the industry have done? Our little winery located in Pahrump, Nevada, is now producing Nevada-grown wines, as are all of the other wineries in the state. Nevada wines have only begun to enter the market, and the reaction to these wines has been overwhelmingly based on customer demand and industry experts' votes of confidence. A few short years ago we sold a few thousand dollars worth of Nevada wine per year. This year we will sell nearly \$500,000 of wine grown and produced in Nevada.

This industry is in its utter infancy and needs time to spread and develop across the state. We will all be proud in 10 or 20 years if there are large and small wineries scattered throughout Nevada. The most frequently asked question from visitors in our tasting room is, Where do your grapes come from? The most frequently heard comment is, I cannot believe you can grow grapes in Nevada. This level of curiosity and amazement is staggering, as some of you have witnessed. It is such a fascination that we have been featured on the *Today Show*. We have had full-page articles written about us in publications such as the *Los Angeles Times*. Not long ago CNN profiled us in a segment

about how a winery can make it in Nevada, and it was aired seven times. The desire is there from the consumers. The fascination about this state is undeniable. With our extremely unique position as the tourism capital of the world, we should plan and grow wisely so that we can someday have Nevada wine as a known brand around the country, if not the globe.

It is our collective hope that the Legislature will act in a manner to encourage the growth of Nevada wines and provide our state with a sound plan going forward. The support of our citizens and our lawmakers is essential.

Chairman Kirner:

Earlier, there was a question from Assemblywoman Kirkpatrick about bonding.

Assemblywoman Kirkpatrick:

In section 2 of the bill, it says if a winery "is federally bonded." What does it take to get federally bonded? Is there a significant investment?

Bill Loken:

The term bonded is the process you go through to be licensed by the federal government to allow wine making in your facility. I really meant it when I said the TTB was more feared than the IRS. Bonded means that you have a bond sufficient to make sure that the federal government will get its money no matter what happens to your facility. It sets forth the requirements of how to operate the winery. The regulations are massively intense. Think of it as getting a business license on steroids.

Assemblywoman Kirkpatrick:

I hear businesses want to come and have wineries, but it would probably not be economically feasible unless many of them get together to get bonded. How easy is it for someone to get federally bonded? What is the cost? How would a government facility like UNR comply?

Bill Loken:

The bonding is complicated enough that I would never have tried to do it myself. I hired a firm that does nothing but bond wineries. It took a number of months to do and cost between \$7,000 and \$10,000 in legal fees. There are also fees paid to the federal government. The hardest part is to get the bond itself. You have to get an insurer to bond you on the anticipated volume of wine that you will produce so the federal government gets their money.

Chairman Kirner:

We will move to the next testifier.

Jack Sanders, Owner, Sanders Family Winery, Pahrump, Nevada:

I founded both of the wineries in Pahrump. I was the one who probably caused the legislation to be where it is today. In 1991 we got the 30,000 cap on. We took steps to correct that to 100,000 two years later. The original cap was at the request of the Legislature and the industry. It was also requested by the Department of Economic Development and the Nevada Commission on Tourism. In 1985-1986, Nevada was going through some very serious problems. Las Vegas was in the process of reinventing itself; gaming and hotel revenues were flat. At the same time, the rural areas were suffering more. Through the auspices of the Nevada Commission on Tourism, to which we are extremely grateful, and the Department of Economic Development, it was suggested that if they backed us—not financially—wineries would probably be a great tourism and economic area to develop.

We wrote the law with a lot of considerations. Some of the questions were brought up again today. One of the questions, which I feel bad about, is Why have we not progressed faster? If we are logically looking at our state, Nevada is different. It is not the climate, but we do not have that much land. Eighty-seven percent of Nevada land is owned by the federal government. That is one of the reasons we do not have great resources to secure land to plant vineyards. We have to depend on the independent agriculturalists to do that for us. It takes time to get that operation going. Growing grapes is a hard process. People expect to drive a small distance to visit wineries. The Napa Valley is about 70 miles north of San Francisco. Temecula is about 60 miles east of Los Angeles. They expect people to drive to visit these centers. We are

grateful that there are now two wineries in Pahrump. Most of the wine-growing regions nationwide have grown, and as a result, communities have developed around these regions. This includes hotels, shopping, and other entertainment and attraction venues. We are in the wine industry, which is the entertainment, attraction, tourism, food, and lodging business. Wine is just one of our vehicles.

With Pahrump's first two wineries operating, visitor numbers continually increase year after year. Lodging numbers through new hotels, RV parks, restaurants, and ancillary support industries have more than tripled in the past ten years. Tourism attractions have become available to our visitors, causing an increase in overnight stays. All of this has occurred despite the recent real estate and banking failures.

We filed an application in 1987 with the Bureau of Alcohol, Tobacco, and Firearms. It is cumbersome and like getting a Gaming Control Board license. They do a thorough background check and want to know who you are and

where your money comes from. I was glad to hear Mr. Loken say that it took him seven to nine months. It took us much longer than that to be bonded. There were no Nevada restrictions on producing wines in the state, but there were very strong restrictions throughout the three-tiered system about selling any wine produced in the state within the state itself. That system holds. It is the way most states control alcohol and alcohol retail sales. We have no objection to that. Southern Wine and Spirits was our distributor for many years. The distribution system is very helpful to the wine industry. To try to go around that would be an exercise in futility. They have the expertise to market, and we are okay with letting them do it and get their percentage.

In the process of crafting the initial state winery law, the recommendation by our legislators, as well as agreement with Nevada distributors, was that rural Nevada was agriculturally-oriented and was based around existing water rights too. I do not know what Washoe County's water rights are, but I know Clark County is in dire straits. It is going to take water to produce grapes. Those two counties were in the growth process at that time with new hotels and real estate. We introduced Assembly Bill No. 203 of the 66th Session in 1991. In 1993 we came back to the Legislature because Tahoe Ridge was an upstart winery, and they were concerned their population was going to go above the 30,000 cap. We had no objection to raising the cap. We were following what was recommended by the Legislature.

For nearly 27 years, this system has worked pretty well. There are now four wineries in Nevada, and I feel guilty that there are not more. Other potential vintners and growers are looking at joining us in rural Nevada, including Pahrump. We anticipate and welcome the proliferation of wineries in the state of Nevada. I do not have any objection to lifting the cap.

I do have problems that we have invested a lot of money. The investments of both wineries over the past 27 years have been an economic strength for our community and beneficial for the state. Our financial contribution has supported employment, tourism, economic growth, building, and the real estate market. It has not been easy, and it has been trial and error for us. We developed a new rulebook for growing grapes. We did not have the benefit of grants that northern California had. We had to do it on our own. We had our trials and tribulations. We had a herd of wild mustangs come down on 3,200 vines of symphony grapes that we had planted the previous year, and they destroyed every one. It was our fault; we did not have a fence. At the next winery I built, the first thing we built was a fence.

We have paid our dues and paved the way for an industry that did not exist 27 years ago. We did it in rural Nevada at the bidding and consent of all parties involved, including the Legislature. It is working well for us, and we want to see it work well for other people too. We welcome and encourage wineries to develop in the rural counties. I know we are looking for compromise with the bill proponents. I do not think any of us have been against raising the cap. We want to make sure that we do what is right for Nevada. We want to get Nevada-grown grapes to show our true Nevada pride.

Chairman Kirner:

Thank you.

Roni Regan, Owner, Veronica's Vineyard, Crystal Heights, Nevada:

My husband Bob and I are the owners of Veronica's Vineyard in Crystal Heights, 30 miles north of Pahrump. Bob could not be here today. He has been working in South Carolina for the past four years due to the closing of the Yucca Mountain project. I work full-time and keep our dream of a winery and vineyard going. In 2005, we planted our first vineyard with four different varietals. We did this to see which would take root in the soil and grow the best. We had to overcome many challenges. Our biggest was the heat and how to develop the proper canopy for our climate. We also had to determine the cycle at which the vines would develop for each varietal. Using the knowledge we learned from the challenges, in 2007 we added two more varietals. In 2010, we added more plants of those varietals which flourished along with one new varietal. We removed the vines that did not flourish. Through the trials and errors we have experienced in our two and a half acres of vines, we have acquired more land, for a total of 25 acres, and we intend to develop an additional 5 to 10 acres of vineyard for a small winery.

In 2008 we harvested our first Cabernet and Merlot, which became the state of Nevada's first ever commercially produced Cabernet and Merlot. In 2010 our grapes were used to produce the state of Nevada's first ever red blend, which we proudly called Silver State Red. The recently released 2012 vintage of this wine just won a silver medal at the Monterey International Wine Competition. It has been a challenge to take care of the vineyard by myself, but we have proven that we can successfully grow grapes in Nevada.

Nevada grapes will continue to be an integral part of the development of the Nevada wine industry. Like everyone here, we want to see vineyards and wineries flourish in Nevada. We are now to the point that we have the success and knowledge to succeed in this environment. We believe the way to promote

growth within the state is to encourage, not discourage, the use of Nevada fruit in wine making. Because of the possibility of unintended consequences, my husband and I cannot support A.B. 4 as proposed. It is our hope that we can work together to join forces to grow our industry.

Assemblyman Ellison:

Mr. Loken, can you explain why 75 percent of Nevada grapes are needed to call the product a Nevada wine?

Bill Loken:

This industry is full of regulations. Federal law says that in order to put a state designation on a bottle, the wine must contain a minimum of 75 percent of grapes grown in the state. Some states make the requirements more difficult. They cannot make it easier. You cannot bottle wine that has less than 75 percent and then falsely label it as a state wine.

Assemblywoman Seaman:

Mr. Sanders, when you started your winery in the 1990s, what percentage of your grapes were grown in Nevada?

Jack Sanders:

The first wines were made in very small quantities in about 1992. The percentage was probably about 3 percent.

Assemblywoman Kirkpatrick:

Thank you for clarifying the labeling. If we are going to grow the wine industry in Nevada, I want to be sure there are some protections for Nevadans. What is the return on your investment and what is the time? I think there is a misconception that it is easy to do this, and there is a business component that we are not addressing.

Bill Loken:

The length of time it takes depends on your environment. I can assure you that if you are in California, Washington, or Oregon, it would be much quicker than Nevada. What makes those states unique is that they have hundreds of thousands of acres of grapes. California has 550,000 acres of wine grapes. If you want to go into the wine business in California, you have ready fruit available all over the state, and you can be in business very quickly. The challenge we have had here in Nevada is that there were no vineyards. Our return on investment has been completely turned upside down because we had to spend 15 or 18 years in trial and error until we finally started to realize

what it was going to take to grow grapes. Now we know how to do it, and I would expect that over the next ten years, we will see a much larger number of vineyards. There is no reason not to because we have done the hard work.

Regarding the return on investment, I think the average winery owners figure they are not going to start turning a profit for three to five years.

Warren Hardy:

I want to thank the Committee, the Chairman, and Assemblyman Hickey for allowing us the time to work this out with the proponents of the bill. We believe we have come up with an agreement that works.

Gretchen Loken, Owner, Pahrump Valley Winery, Pahrump, Nevada:

I am going to speak to you first on behalf of Dr. Roger Gehring, who owns School Lane Vineyards in Amargosa Valley. In the pamphlet we provided ([Exhibit D](#)), on page 3 you will see beautiful pictures of the largest vineyard in southern Nevada, which belongs to Dr. Gehring. He cannot be here because he has been ill. He owns 200 acres of land and has five acres planted with grapes which were planted in 2005. He also has 3,000 newly planted olive trees which will be processed into Nevada-made-and-grown olive oil. He has committed to planting crops other than alfalfa on his land that use much less water. He spent about five years figuring out how to canopy manage, how to irrigate, how to trellis, and how to grow grapes the best way we can down in the southern Nevada desert.

We are successful based on the number of medals that we have won with those Nevada wines. We have produced the first Primitivo, Tempranillo, and Barbera from his vineyard and won medals for all of those. We are committed to growing grapes in Nevada, and that is what this is all about. We want many wineries, because the more wineries there are, the more reasons there are to come to the wine country. We want every county to have wineries. We just want a commitment to grapes grown in Nevada. That is the missing piece in the bill as written.

Alan Whittington, Managing Member, IMBIBE Tours, Las Vegas, Nevada:

We are the only wine tour business operating out of Las Vegas. IMBIBE Tours was founded by a group of wine loving individuals—my wife, our business partner, and me. We spent eight months researching and putting a business plan together. We traveled in California and Arizona, taking tours and visiting wineries before we put our tour into operation. We have been operating just under a year now. We feel fortunate to join the wineries as pioneers of this industry in Nevada.

The tourists who come to Las Vegas ask a couple of questions on every tour: Do they actually grow their own grapes and have vineyards? Do they make wine from the grapes grown on property? Both answers are yes. The biggest draw for all of the wine enthusiasts who come out to the region is to get out of the city. They want to see parts of rural Nevada. They want to see the properties and the grapes grown.

We are opposed to A.B. 4 as proposed. I know as a tourism operator in this industry that it will be detrimental to building a great foundation for wineries and for the longevity of the industry in Nevada. This industry has always been founded in the rural communities and farming communities where operators grow the grapes and produce local wines. This creates jobs in the rural communities as well as larger population centers like Clark County where we generate revenues with transportation providers, concierges, booking agents, hotels, and retailers. It also creates jobs in rural communities and promotes Nevada wines, agriculture, tourism, restaurants, and bed and breakfasts. All of this is the effect of a strong base to grow the industry. It has always, and will always, start with agriculture. In California, the wineries are not in Los Angeles and Sacramento. They started in the rural communities. Tourism followed them, not the other way around.

We already have a wine industry. The infrastructure is in place. The model has already been built, it is working great, and the current laws as written will help Nevada have a vibrant, sustainable wine industry that benefits the entire state. Assembly Bill 4, as written, contributes nothing to Nevada agriculture and does not help tourism throughout the state. The three operating officers of IMBIBE Tours do not support A.B. 4 as proposed.

Joyce Hartman, Owner, Queensland Vineyards Bed & Breakfast, Dyer, Nevada:

I am a farmer. Our family farm has been growing alfalfa since the early 1970s, first with hand lines, then wheel lines, and now pivot irrigation. We still grow and sell to dairies. In 2001 we started a pet food company, packaging our alfalfa, oat, wheat, barley, and Timothy hays for small animal retail. In 2009 we began a test plot of wine grapes and in 2010 a test plot of lavender.

The test plot of grapes consisted of eight varieties—five red varieties, and three white. The reds are Merlot, Malbec, Mourvedre, Sangiovese, and Cabernet Franc. The whites are Sauvignon Blanc, Chardonnay, and Riesling. Fifty of each variety were planted in June of 2009. We have identified six that show incredible potential. In 2014 we planted an additional 600 vines of Riesling and have scheduled another 500 Riesling and 1,000 Sauvignon Blanc for 2015. We placed an advance order of 2,200 Malbec vines and 1,000 Chardonnay for planting in 2016.

We have recently completed a three bedroom bed and breakfast in anticipation of the agritourism draw that the vineyard and lavender garden would give to the farm. We are one of three possible lodgings for travelers or short-term visitors to the valley. We are 80 miles from the nearest town.

Of course, we are committed to new crops that use less water, have a higher value, and benefit the farm as well as the state with lower-water-use crops. We know our neighbors will benefit from the knowledge of new crops grown successfully here. Many other areas in Nevada can be potential gold mines for growing wine grapes. Our fear is that if new wineries in the two largest counties are not given the incentives to support the rural counties and create demand for our product, that our efforts could be wasted and a statewide opportunity could be lost.

We support the efforts to establish a small minimum of Nevada-grown fruit requirement for the new wineries in these areas. We belong to Made in Nevada and display "Nevada Grown" banners at our pet food shows. We want to grow Nevada and support all efforts with that goal in mind. We have something special here, and we have only just begun to share that with new markets and new consumers.

Chairman Kirner:

Are there any questions?

Assemblywoman Kirkpatrick:

You have some wines from California, but you also have the investment in Nevada grapes. Is that a fair statement?

Bill Loken:

Absolutely. We recognize it is going to be that way for a long time. The question that has come up numerous times today is, Why are there not more wineries? My question is, Why are there not more vineyards? There is nothing to prevent anybody from putting in a vineyard. It sounds like the research in northern Nevada has been studied to death. People need to plant some vines and take a chance. There is nothing to prevent them from doing it. The lack of vineyards is causing the lack of wineries. It is vineyards first and then wineries. You cannot open a supermarket without ranchers and farmers. We recognize that for a very long time, fruit will need to be brought in from out of state. The issue is whether you turn these two large metropolitan areas into exclusively 100 percent California bottling plants with no requirement to ever invest a dime in this state.

Assemblywoman Kirkpatrick:

We hear both sides, and we know that some of the issue is the wine from California. I hope the agreement for the amendment is not too high because we do not want to put people out of business. Sometimes when the Legislature gets involved and we do not thoroughly vet things, there are unintended consequences. I hope there is a lot of discussion.

Chairman Kirner:

Are there any people who wish to testify from a neutral position?

Alfredo Alonso, representing Southern Wine and Spirits:

We are opposed to the bill as written but believe that we have some solutions. I want to clarify that you can open a winery in Washoe and Clark Counties. You can open a winery and be licensed as a supplier. You simply cannot have a tasting room or sell on premises. What we are really talking about is whether you want a tasting room and the ability to sell on premises. That is it. If you look at *Nevada Revised Statutes* 369.111, it defines supplier to include "brewer, distiller, manufacturer, producer, rectifier, vintner or bottler of the liquor." That is everybody. Today, I could open up a winery, sell my wine through a wholesaler, and be a part of the system in either of those counties.

I wanted to make sure that I clarified the fact that that is not illegal today. The only thing that is illegal is to have the carve-outs that have been given to the rural counties for economic development. It is not as simple as taking the cap off. A previous testifier indicated that the costs are prohibitive, and yet they wanted additional locations, but on their website their wine is about \$10 more expensive than at Ben's Fine Wines and Spirits.

What we discussed that makes sense is the growth of grapes. The question for this body from a policy standpoint is, Do you want a homegrown industry of wine or do you want one that is imported? We all agreed that we should grandfather the existing rural wineries because they have done the work and made the investment. They came into the industry without a map at great expense and great risk. Anyone who wants to come after them would have two options. If you want to make wine, you would have to use a minimum of 25 percent of Nevada-grown grapes. If you do that, you can have a winery with the ability to sell on premise and that would be unlimited. If you do not want to grow grapes and want to import grapes from out of state, you would be limited to 1,000 cases per year. The goal is to give incentive for the wineries to get up to speed and do what the rural wineries do now. That is the amendment in concept.

Keith Lee, representing Distilled Spirits Council of the United States:

We are a trade organization of major national and international distillers, brewers, and winemakers. We are in support of the concept that Mr. Alonso has presented. We want to support the development of the growing of grapes in Nevada and the wineries that will hopefully result in greater tourism and make all the hard work of our people in Pahrump and others pay off. I think you do that by bringing the critical mass in terms of wineries to this state.

Mike Draper, representing Churchill Vineyards and Frey Ranch Distillery:

Frey Ranch is located just outside of Fallon, Nevada. It is a 1,200-acre ranch and is Nevada's only estate winery and estate grain distillery. They started producing wines in 2003 and last year opened a distillery which produces vodka, whiskey, and gin. We are in favor of the concept of this bill. We agree that there is a tremendous opportunity. Our state is developing and cultivating a great craft beer industry and a great spirits industry. There is no reason our wine industry should not be able to grow and evolve.

Our biggest concern is that we want to see a business environment that promotes, as much as possible, quality wines. We have made a significant investment of time and money to create a quality product. You cannot have a wine industry if it is not a quality product. If we are not talking about quality, who cares? If a winery opens and is considered to produce a poor or subpar wine, it labels the whole industry. However, if someone says Pahrump Valley Winery makes a great wine, then people will want to try another Nevada wine. That works well for us. To have other quality wineries open in the state would be very beneficial to us. We want to see a benefit to Nevada.

The Frey Ranch grows corn, wheat, rye, and alfalfa. Grapes use 10 percent of the water that alfalfa uses. The Freys just learned that they are on 20 percent of their water allocation this year. It does not make sense for them to grow as much alfalfa, but they should turn more attention toward their vineyards.

If companies come into Nevada to make Nevada wines and grow grapes, it only makes sense that they are going to look to our rural communities and our farmers, who are suffering from a drought, to grow their grapes. This could have a tremendous and significant impact on our agricultural communities. We are in support of this concept. We like the conceptual amendment that Mr. Alonso has presented today. However, the bill as written does not promote the quality and the benefit that we are hoping to maintain and promote in this state.

Jesse Wadhams, representing Wirtz Beverage Nevada:

We support the concept of growing a native Nevada industry. We are also supportive of the amendment Mr. Alonso has been developing, and we are happy to help.

Chairman Kirner:

Are there any questions?

Assemblywoman Kirkpatrick:

Will we be able to see the amendment before we have this bill in a work session?

Chairman Kirner:

Yes, that is my requirement. The amendment has to be written before we work the bill. Do you have closing comments, Assemblyman Hickey?

Assemblyman Hickey:

We want a native Nevada wine industry, and I think that is what is behind this bill. You have testimony from people in Washoe County who now have 5,000 vines growing. They would love to be able to have wineries of their own. This hearing has been delayed because we continued to talk with those who have concerns. I have been open to amendments that can make this work for all. That is the goal. We have no intention of hurting the existing industry, and we have heard convincing testimony that as wineries grow, it will help everyone, including the existing ones. As far as the idea of grandfathering, I agree in concept with protecting our existing industries and the investment that is being made, but let us make sure, as Assemblywoman Kirkpatrick said, that we are fair. Even the existing wineries had to begin with and continue to use significant portions of grapes from outside of Nevada. We should have new wineries begin under rules that are at least close to the rules that the original wineries had.

You cannot really be a wine producer and expect your product to grow and be recognized if you do not have a tasting room and the ability to sell. How are you going to get any interest in your product if people cannot taste it? I do not think it is realistic to say you can have wineries the way the law is, but you cannot do anything to market it like the tours in Pahrump. Wineries grow because people come and they like to experience it. More importantly, they like the wine. In Washoe County, we have people who are growing grapes, have learned it through our university system, and want to have a business. We should be about that in Nevada. We will work with those who have amendments in concept so we can come back with something that this Committee can consider.

Chairman Kirner:

I will close the hearing on A.B. 4. Is there any public comment?

Gene Gardello, Private Citizen, Reno, Nevada:

I would like to bring context to this situation. I am a member of Nevada Vines and Wines. I have adopted vines at the University's experimental vineyard in Reno. I have been a home winemaker for four years, and I have been working on the University's effort to establish a wine industry in the state of Nevada. The University of Nevada, Reno and, I suspect, the University of Nevada, Las Vegas have a goal of taking their research and commercializing it. It is a goal of CABNR to use this as a vehicle to establish a wine industry in Nevada. As we have been trying to find out how to do that, it is a chicken and egg issue. You cannot have a vineyard without the vines, and the people are not going to grow the vines unless there is a winery.

We have had a lot of people who have stepped up and asked for information about how to plant vineyards. Dr. Cramer and the members of Nevada Vines and Wines have been very supportive in trying to help people understand that. We have people who want to do it. We recognized some time ago that the problem was that the grape vines take about five years before they start producing grapes so you can make wine. You have to have a winery. The reason that farmers and ranchers would want to plant grapes is so they have the income from their grapes, but they want to have value added. They will make much more money if they can grow the grapes and make and sell the wine. Where the vineyard is located is relatively unimportant. The key is, Where do you make and sell the wine? We realized that we could not get to that value-added aspect until we remove the prohibition to put a winery in Washoe County, and it applies as well to Clark County.

In California, when they start a winery, they buy grapes. Pahrump Valley Winery has to buy grapes from California because there are not enough grapes in production to make as much wine as they would like. Again, it is a chicken and egg issue. If you have any prohibitions or limits, they are impediments to the development of the industry. There is a critical mass in wine tourism. I am advocating to do the bill in such a way that the wineries can exist and sell their products through tasting rooms as it is done elsewhere. I advocate no restrictions and let the marketplace and the competition drive the development of the industry.

Rajan O. Dhungana, Private Citizen, Reno, Nevada:

I am a graduate of the Boyd School of Law at the University of Nevada, Las Vegas. When I went to law school, I was involved in the beer and wine industries. This involves the business model for the firm I have started. I have

talked to people who have indicated interest but do not care where they would start their vineyard and winery. You do not make any money just selling the grapes. When you are growing it, you usually want to do the fermentation as well. When the discussion comes up, I always promote Nevada, but this restriction is the one thing that prevents anybody from considering it. Idaho, Arizona, Oregon, and Washington are considered; California is too expensive, and Nevada is not considered. I urge the Committee to get rid of the cap and see how it grows and flourishes. I do not believe anything bad will happen.

Chairman Kirner:

Is there any other public comment? [There was none.] The meeting is adjourned [at 4:45 p.m.].

RESPECTFULLY SUBMITTED:

Earlene Miller
Committee Secretary

APPROVED BY:

Assemblyman Randy Kirner, Chairman

DATE: _____

EXHIBITS

Committee Name: Committee on Commerce and Labor

Date: March 13, 2015

Time of Meeting: 1:32 p.m.

Bill	Exhibit	Witness / Agency	Description
	A		Agenda
	B		Attendance Roster
A.B. 4	C	Randi Thompson, Nevada Wine Coalition	Map; Economic Impact, Western Wine Producing States
A.B. 4	D	Gretchen Loken, Pahrump Valley Winery	Pamphlet on Nevada Wineries and Tours