

REASONS YOUR FELLOW VINTNERS OPPOSE THE BID

1) Weighted vote is unfair and undemocratic. Approval of this proposal would be decided by determining the total DTC sales of all County wineries and **weighting each vote based on their sales**. There are more than 300 wineries involved but 80% of sales are made by 80 wineries thus, it would only require a handful of the top grossing DTC wineries to constitute a 51% majority.

Response by SB Vintners Committee for Santa Barbara Wine Preserve, initially answered in February of 2020:

The voting structure is a statutory requirement of the State of California Property and Business Improvement District law of 1994 , not a proposal created by the SB Vintners Association.

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(a) Upon the submission of a written petition, signed by the property or business owners in the proposed district who will pay more than 50 percent of the assessments proposed to be levied, the city council may initiate proceedings to form a district by the adoption of a resolution expressing its intention to form a district.

- The law was designed to create a fair process for the formation of any District. Since a District can take on many structures that impact constituents in different ways, the process to form the District requires 50%+ of the impacted community to pass. In our case, some wineries may have 5% of their sales assessed, others may have 95% of their sales assessed. Thus, their vote for the creation of the assessment is based on the impact and resulting benefit to their organization. The vote was designed this way because the onus and financial exposure is larger for wineries with larger DTC sales. Once the District is formed, the Board of the revised organization can decide if they want to perpetuate the weighted voting system, or have a one-vote-per-member system.
- For context, all the Districts we have researched have chosen a one-vote-per-member system after the formation of the new District. The Wine Institute (not a District, but an example) previously had a weighted voting system, but has reverted to a one-vote-per-winery system, as well.

2) Larger wine industry players assessed on less of their total sales. The Association says there will be a halo effect on the entire wine industry yet only DTC sales will be assessed a fee. The many small wineries whose DTC sales constitute the majority of their sales will pay a much higher percentage of their bottom line than larger wineries whose gross sales include income from wholesale as well as interests in vineyards, hotels, restaurants, and custom crush facilities.

Response by SB Vintners Committee for Santa Barbara Wine Preserve:

- The Wine Preserve funding will only be used to support DTC promotions and efforts. Therefore, the business receives an equal percentage of benefits as they do contribution. If a winery does 80% of sales in the DTC sector, then 80% of their business efforts will benefit from the Wine Preserve promotions. If a business does 10% of DTC sales, then the promotions will benefit 10% of their efforts.

- All wineries have DTC sales, so all wineries stand to benefit.
- The Winery has the option of passing the assessment along to the consumer; it is added just like California Sales Tax.
- All contributions to the Wine Preserve will benefit all wineries because it is driving consumer traffic, awareness and purchases of all Santa Barbara County Wines. For those who already have vibrant DTC businesses, those businesses will thrive the most. For those who have smaller DTC businesses, those businesses will also improve in sales because of the total increase in Wine Consumers coming to visit Santa Barbara County.
- Larger wineries will probably still pay a larger dollar amount, even if their DTC sales represent less of their overall sales. For example:
 - A small winery does \$200,000 in sales per year will pay \$2,000 in Wine Preserve assessments. These sales could represent 80% of the total business.
 - A larger winery does \$1,000,000 in sales, contributing \$10,000 to the Wine Preserve, but these sales may only represent 20% of the total business.
 - While the smaller winery is making a higher percentage contribution of the total business, the overall contribution still remains smaller. Yet, 80% of the small winery's business will be impacted by the Wine Preserve efforts.

3) The BID law will restrict what the funding can be used for. Advocacy for our industry and wholesale promotion were two of the selling points that the SBVA claimed would be supported with the increased funding. However the County Board of Supervisors informed the SBVA that advocacy is not an allowed use of BID funds. The Association says they will use other funds for wholesale and advocacy but have provided no details on where these funds would come from. There may be legal issues with mixing funds from other sources within the BID entity as it would dilute stakeholder equity and give benefit to non-assessed businesses.

Response by SB Vintners Committee for Santa Barbara Wine Preserve:

The BID is not an entity, it is a funding stream. The organization that manages the funding is the entity.

There are multiple sources of revenue for an association, the wine BID being only one of them. Others are: non-winery memberships, which might include vineyard, business, or hospitality members; sponsorships, such as we have from Bank of Marin and Visit SB; grants - such as our CDFA grant; and event profit.

The funds for the BID will be maintained separately from the other funding, much the same way we have to track the grant funding we received. It is common for nonprofits to have multiple funding streams. Funding streams are often used for dedicated purposes, such as marketing, advocacy, or education.

The Wine Preserve has evolved over the last 24 months based upon many meetings with various wineries throughout the county, listening to their concerns and positions. The Santa Barbara County Board of Supervisors also has had an influence on the development, as they are the ones who ultimately have to endorse this. By listening and evolving based on the feedback of stakeholders, the Wine Preserve has become a better working plan that still achieves the financial needs to promote all of Santa Barbara County Wine.

4) Pass through fee will make customers unhappy. Many winery owners object to adding a self-serving fee to their retail sales, particularly to their wine club members, fearing that many customers will feel that they are being taken advantage of. This would also be true of customers who order wine from outside of the County, questioning why they are being charged an additional tax when not even visiting the area. The add on marketing fee would create an awkward moment at a key time when winery hosts are trying to close sales, sign up new members and request gratuity.

Response by SB Vintners Committee for Santa Barbara Wine Preserve:

This is an opinion. Many vintners do not agree with this and feel their customers will not be swayed by “a penny on the dollar.”

Many consumers around the country and Santa Barbara County residents also want the wine industry to not only survive, but to thrive. They are therefore in support of a 1% assessment, which equates to only \$.35/bottle based upon the average bottle retail in Santa Barbara County. The Wine Preserve also allows wineries to tell their customers in person what the assessment exactly covers, which is supporting the return of customers like the one standing in front of you, and the success of the wine industry as a whole in Santa Barbara County.

Most SBC wineries have a personal identity and relationship with their customer. The customer is dedicated to the winemaker and the story. Our County has a plethora of smaller wineries who cultivate this relationship with their consumer. Many do not believe that a 1% fee will drive this consumer away.

Historically, BIDs see an increase in visitation and sales within their industry each year. Our local Tourism BIDs in Santa Barbara County have experienced increases in yearly visitation, overnight stays, and sales & marketing funding. BID organizations succeed in reaching more visitors, increasing visitation, and increasing sales.

5) Current SBVA board will control new entity. The current board would not have to be re-elected by all the wineries and would have majority control of the new organization for at least the first year. There is no indication that the new organization would have a Board of Directors any more representative of all the wineries.

Response by SB Vintners Committee for Santa Barbara Wine Preserve:

Since 2017, the SB Vintners Board has been highly motivated and very engaged to turn the tide of the SB Vintners and create a thriving, sustainable, and broadly effective organization. To do so, they brought in new leadership, became a working Board, and have tackled the issues facing the organization one-by-one. A lack of funding has been the most significant issue for the last 40 years

in Santa Barbara Wine Country and the Board was determined to not keep repeating the mistakes of the past.

As a result, with the award of the CDFA marketing grant, increased Winery and Business Memberships, increased Business sponsorship, Event Profitability, and strategic partnerships within Santa Barbara County Tourism entities, the organizational budget has doubled and allowed us to pursue the Wine Preserve.

Past organizational failings do not mean that they must persist. It is possible to take a failing organization and an apathetic community and turn them around to succeed. This is not done quickly nor without significant communication or culture shift, but rather is done through education, dedication, and communication. This has been the goal and pursuit of the current Board of Directors of the SB Vintners and they are succeeding.

The current Board is tired of seeing consumer traffic bypassing us to visit other regions. The current Board wants to create a pro-wine culture in Santa Barbara County Wine so that we can all benefit. This is no easy task, as any prior Board member knows, but the Board is committed to creating a new organization that will allow Santa Barbara County Wine to finally achieve its potential.

One idea for the transition for the Board leadership of this new Organization (which will have majority BID funding, and other funding sources, as well) is to comprise the new Board of 75% of the current Board + 25% of new Members. In six-month increments, we will keep re-balancing the new organization's Board to ensure continuity and stability. The current Board holds the vision and strategy for the creation of the BID, holding significant historical knowledge of its formation. It would be foolish to dissolve the current SB Vintners Board entirely. Assessed members will vote in new and future Board members to lead the decision-making process.

Finally, the current Board qualifies to lead the Wine Preserve funding as it is comprised entirely of assessment payors, which is a requirement by law.

6) No accountability. If the BID passes, and the new organization fails to implement their mission of equal representation, a winery has no choice to opt out, but will continue to be required to submit their 1% assessment. The BID if implemented would last for 5 years and would need to be renewed after that.

Response by SB Vintners Committee for Santa Barbara Wine Preserve:

While the term of the BID is five years, the renewal period is annual. The BID may be dissolved each year through the same process through which it was formed, with a petition of 50+% of the industry in favor of dissolution. Without that petition, the BID rolls over until the five years have been met. At that point, the BID undergoes a renewal process, which includes submitting a 50+% petition of the industry for renewal. The BID may then be renewed for a term of five or ten years.

7) Lack of majority support. It's hard to get an exact number but there are well over 300 licensed wineries in the county. The SBVA currently only has around 73 member wineries and some do not support the BID. The SBVA does not represent the vast majority of our wineries and should not be given the authority to determine proposals that will have a major impact on the industry.

Response by SB Vintners Committee for Santa Barbara Wine Preserve:

It is very easy to use winery numbers to manipulate perspective in Santa Barbara County. With almost 300 wineries, they break down roughly like this:

- 294 ABC Licenses in SB Wine Country
- Roughly 75 or 25% have DTC sales of less than \$10,000 per year
- Just over 150 or 50% have DTC sales of less than \$100,000 per year
- The top 80 or so wineries represent about 80% of the entire wine industry

To indicate that the association does not have general support by referencing vintner membership is misleading. The membership of the SBV represents the majority of the wine industry economically.

For the purposes of the BID, when polled and calculated, the initiative had almost 60% support of the wine industry based on the revenue weighting of each winery and having nothing to do with Vintner membership. The support is calculated this way by law and is not a construct of the Vintners Association.

8) Completely unproven and complicated funding structure. The association likens this BID to a hotel tax but it is much more complicated and has never been applied to an entire wine region to fund their Association. Visit SYV for example has a flat \$2.00 tax per occupied room and 32 assessed businesses easily audited through the Transient Occupancy Tax. It is clean and simple and was approved by 75% of the Hotels. A Wine BID has never been approved by a wine region's members. Dry Creek Valley Association considered it but stopped due to a coordinated request from a sizable majority of its members.

Response by SB Vintners Committee for Santa Barbara Wine Preserve:

Temecula is the furthest along of the wine regions to pursue the BID, with an expected implementation date of 2021. It is the wine region closest to Los Angeles and they expect to generate \$1.2M worth of marketing funds.

The structure that has been chosen for the Wine Preserve is the most simple, auditable, and trackable that could be created for a wine region. It is being duplicated in Temecula and proposed in other regions due to its simplicity.

The structure is: 1% of DTC sales in CA. With Santa Barbara County's average bottle price of \$35/bottle, that equals a \$.35/assessment. This amount is auditable against the sales tax paid from the State to the County, which is also 1%. A cleaner structure does not exist.

9) Cities may refuse to opt-in. If the County approves the BID it will then have to pass in the cities. Each city council is required to vote to opt-in to a BID and without a majority of vintners supporting, they won't. The Association says they will simply "cut out" those cities from the map and not promote that part of Santa Barbara County. Lompoc and most of Santa Rita Hills will almost definitely be cut out of the new Santa Barbara Vintners entity as their latest straw poll shows 90% opposed and will not have the weighted vote to approve. This is no way to create a cohesive, strong wine industry in our community.

Response by SB Vintners Committee for Santa Barbara Wine Preserve:

If the City of Lompoc opts out of being included in the Wine Preserve, the Wine Preserve funding will not legally be allowed to be used to market or promote the tasting rooms in Lompoc. Those wineries not in the city limits of Lompoc will not be affected by Lompoc's potential decision to vote itself out of the BID.

10) We need a better and fairer plan for funding. We need a fair system that will generate funds for the association that can be used to benefit our community in any way we see fit.

Response by SB Vintners Committee for Santa Barbara Wine Preserve:

The Wine Preserve is a fair system in that membership dues are eliminated and almost everyone participates in funding the success of the region. Currently, the efforts of the association are funded by a portion of the industry, while all wineries benefit. This has also struck many as unfair and is an imbalance we are seeking to correct. Those without DTC sales – vineyards, wine businesses, hospitality members – will still pay membership dues. There will be a path for everyone in the industry to participate in the success of our wine region.

We must engage positively to find a better answer even if that means going back to the drawing board to consider a host of funding options including: better community engagement to increase membership and retention, fundraising, donations, auctions, grants and profitable events.

Response by SB Vintners Committee for Santa Barbara Wine Preserve:

We believe that the Wine Preserve will be a unifying factor: we all have DTC Sales, and we all want more marketing and promotion to increase awareness of our region and to drive consumer traffic to our wineries. For almost 40 years, Santa Barbara Wine Country has tried to brand itself and has never achieved its potential due to a lack of consistent and reliable funds, as well as a

lack of leadership. While people may not be aware of all that we have done, this organization has accomplished a tremendous amount in the last three years. The SB Vintners has:

- Brought in new leadership;
- Built a dedicated Board of Directors;
- Increased Winery and Vineyard Memberships prior to the pandemic;
- Increased funding by running profitable events;
- Created a profitable and successful Wine Auction;
- Increased sponsorships from tourism boards, corporations, and businesses;
- Won a \$385,000 Agriculture Grant from the State of California;
- Improved relationships with every major Tourism Stakeholder in Santa Barbara County.

The Wine Preserve is a chance for Santa Barbara County Wines to finally grow into what we uniquely are. We are not trying to be Napa, we are trying to be ourselves. As a dues-funded organization, a \$400,000 budget barely keeps the lights on, so to speak, leaving no extra for dedicated marketing. A roughly \$1,000,000 Budget will allow us to creatively market the entire region. This money will allow us to finally “define ourselves,” and help create what every winery wants: strong recognition and more visitation.

For a tax-like fee structure to be considered it needs to be fairly based on production size. For example, a much smaller fee on total gallons produced could accomplish this.

Response by SB Vintners Committee for Santa Barbara Wine Preserve:

This argument cuts both ways: The Wine Preserve structure lines up with the above definition of fairness: those who have larger DTC sales will pay a larger share, while those smaller wineries will have a smaller amount to pay. Meanwhile, the current dues structure is based on production size as well, and some vintners have chosen to no longer participate due to the “unfairness” of paying greater dues because they have had greater success. If the Wine Preserve fails, then we will revert to a system of the winery paying dues, which will allow a smaller majority to once again shoulder the promotion and success of the greater group. Finally, the Wine Preserve is the only option that requires everyone to pay into the region’s collective success, and also allows the fee to be passed along to the consumer.

The current SB Vintners Member Dues format for largely the last 40 years was based upon case production or total gallonage made and that formula has not worked for Santa Barbara County. Many wine regions in California bypass us when it comes to funding, we simply do not have the community or industry that supports this system in a meaningful way. We are trying to eliminate this format to make it more collective, unified, and representative of every winery in Santa Barbara County and create a sustainable source of funding.

Healing division, celebrating diversity and making sure everyone is heard is the only way we can move forward to build a strong industry for our community.

Response by SB Vintners Committee for Santa Barbara Wine Preserve:

This is what the SB Vintners has been doing for the last three years. We have hosted over 20 industry meetings in every appellation and in every city, more than once.

The Wine Preserve has the celebration of Santa Barbara Wine Country's unique diversity and geography at the forefront of the marketing efforts. We recognize this is our strength. Part of our challenge for the last 40 years has been trying to collectively brand the region around similar ideas. There has never been enough money to properly promote every varietal, every region, and every unique portion of this County. The Wine Preserve completely changes this dynamic by creating enough resources to advertise, promote and message the diverse nuances of Santa Barbara County wines. Because a renewed organization is created, led by participants of the Wine Preserve, these decisions will be made collectively.