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***CALIFORNIA
CRAFT
BREWING
INDUSTRY:
AN ECONOMIC
IMPACT STUDY***

***California Craft
Brewers Association***

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I. EXECUTIVE SUMMARY

Sponsored by the California Craft Brewers Association (CCBA) in conjunction with the University of California, Berkeley's Goldman School of Public Policy, this study quantifies the total economic impact by dollar value of the California Craft Brewing industry for 2011. This study also estimates the number of jobs created, community contributions and the taxes paid locally, statewide and federally by the craft brewers.

The craft brewing industry in California is thriving due to rising consumer demand despite being on the heels of the most significant recession since the Great Depression. Providing a product as diverse as the state itself, the California brewing industry is an integral part of the state's economy. Producing approximately 2.2 million barrels in 2011 - equating to one in five craft beers brewed in the United States - California's craft brewers contribute significantly to the state's economy. In 2011, the 243 breweries considered in this study generated approximately \$3 billion in total economic impact in California contributing significantly to the state's total economy.

As a labor-intensive industry made of up of small manufactures focused on quality and innovation, California craft brewers are a substantial source of employment in the state. In 2011, California's craft brewers created 22,000 jobs in a state facing double-digit unemployment. While the jobs created and supported by the craft brewing industry are located throughout the state, the most significant impact can be seen in more rural communities that suffer from high unemployment - areas which tend to house some of California's top craft breweries. As small businesses, craft brewers face a large tax burden along with the state's stringent business regulations. In 2011, craft breweries in California paid more than \$400 million in total local, state and federal taxes – estimated at 52% of the cost of a craft beer at point of purchase.

California craft brewers have prospered through difficult economic times, but the future of the industry is dependent on the support of the state's political leadership through positive policy action.

II. INTRODUCTION

California leads the nation's craft brewing industry producing more craft beer per year than any other state. Despite being on the heels of the most significant recession since the Great Depression, the craft brewing industry is thriving as a direct result of strong statewide and national consumer demand. Providing a product as diverse as the state itself, the California craft brewing industry is integral to the state's economy. Often centered in rural communities, California's craft brewers are a significant economic force with more than 270 often independently-owned craft breweries operating in the state today.

California's craft breweries work as economic engines supporting local economies, creating good jobs and attracting tourism. The majority of the state's craft breweries are small and often family-owned businesses that direct their resources into their products, employees and communities. The revenue earned by each craft brewery finds its way back into the local and state economies in the form of wages, capital expenditures, community in-kind contributions and taxes. As a small manufacturing industry focused on the quality of its product not on quantity, the craft brewing industry is inherently labor intensive. This focus on quality provides a significant number of jobs for Californians of all backgrounds ranging from labor and the trades to the high-tech. The wine industry has put a number of communities in the state on the map as tourist

What is Craft Beer?

Craft beer – often called microbrews – is produced by small and craft breweries that are often independently owned. Classified by the Brewers Association as producing less than six million barrels of beer annually, craft brewers make beer with traditional ingredients like malted barley yet have the freedom to innovate with non-traditional ingredients for added distinctiveness. While craft breweries differ in size from local brew-pubs to bigger production brewers with nationwide distribution, they all tend to be very involved in their communities through philanthropy and volunteerism with individualistic approaches to connecting with their customers. In fact, the majority of Americans live within ten miles of a craft brewery.

destinations. California craft beer tourism is following this trend with an expanding industry that provides both a premier and affordable product.

Commissioned by the California Craft Brewers Association (CCBA) in conjunction with the University of California, Berkeley's Goldman School, this study quantifies the total economic impact of the California craft brewing industry on the state's economy. This study used methods ranging from economic modeling to data collection from a variety of sources including an industry survey, government publications and academic papers. In addition, this study also quantifies craft brewing's statewide employment, state taxes paid and the dollar value of in-kind contributions and support for local communities.

III. METHODOLOGY

To approximate the total economic contribution of the California craft brewing industry, this study ascertained the direct economic impact of the industry through survey, interviews and government publications. It then used input-output analysis – an economic method to quantify the interdependencies between industries within economy – to determine the indirect and induced impacts to the state to quantify the total economic contribution of the industry.

This study assumes that the economic transactions and activities are linked and interdependent to other industries in local, state and national economies.¹ The basis for the interconnection of industries occurs when one industry purchases material from another for its own production. In turn, an industry will then purchase from a different mix of other industries, a process which continues down the production-chain. This economic impact is then extended when the employees within all the involved industries spend their earnings. Therefore, this study establishes that the direct economic impact of the California craft brewing industry is transactions that take place only in the industry immediately affected, whereas the indirect effect determines the impact of inter-industry

¹ In 1758, Francoise Quesnay first developed the analytical notion of inter-industry relationships, a concept that was further developed by Wassily Leontief emerging as modern input-output analysis for which he was awarded the 1973 Nobel Prize in Economics.

transactions. The induced effects measure the economic impacts of related industries. Throughout this study, conservative estimates and calculations are used so as not to overstate the industry's impact.

To quantify the direct economic impact, this study conducted a survey of California's craft breweries to determine most-recent year gross revenue, annual barrel² (BBL) production, employment, location and the dollar value of in-kind contributions data. This survey was sent solely to firms that produce craft beer in California as described below. Most-recent year gross revenue is used as a measure of economic impact and annual BBL production volume is used to measure firms' output. Employment is measured by fulltime or fulltime equivalent positions at each firm. Data was collected as a range to incentivize survey response and to ensure accuracy based on categories used by the California Employment Development Department.

There were 243 craft breweries identified in California at the time of this study. This study defines craft brewers as those firms within the state that operate with a California Department of Alcoholic Beverage Control Type 01 Beer Manufacturer or Type 23 Small Beer Manufacturer license, i.e., breweries that produce craft beer. In addition, this study includes on-site retail or restaurant facilities operated by the Type 01 or Type 23 license holders.³ Within the state, 224 brewers produce less than 60,000 BBL per year classified under the Type 23 Small Beer Manufacturer license, and 19 brewers produce more than 60,000 BBL per year classified under the Type 01 Beer Manufacturer license. Brewers operating with Type 23 licenses include brewpub operations where the majority of craft beer produced is sold on-premise as well as breweries that include on and off premise sales. Type 01 brewers primarily sell product off-premise but may operate on-premise sales.⁴

² Barrels or brewers' barrels, abbreviated as BBL, are the standard brewery unit of measurement equivalent to 31 gallons or 320 12 ounce beers.

³ *ABC License Types*. California Department of Alcoholic Beverage Control. Web. 11 Apr. 2012. <<http://www.abc.ca.gov/forms/abc616.pdf>>.

⁴ *Alcoholic Beverage Licenses*. California Department of Alcoholic Beverage Control, 2011. Web. 11 Apr. 2012. <<http://www.abc.ca.gov/datport/SubAnnStatRep.pdf>>.

As a study looking only at the economic impact of California's craft brewing industry, this study does not include national beer brands producing more than six million BBL per year in total although some maintain production facilities in California.⁵ This study does not include brewers producing flavored malt beverages regardless of scale. In addition, this study does not include beverage distributors, retail outlets or restaurant facilities that are not operated by Type 01 or Type 23 license holders in the direct economic impact calculation.

The survey conducted by this study received a response rate of approximately 60%, with 80% among Type 01 and 40% among Type 23 firms. To generate population-level data for the entire industry, this study uses hot-deck imputation to exact match missing data values considering region, annual BBL production and employment figures as determined from data maintained by the Brewers Association and the California Employment Development Department.⁶ Some figures in the final dataset were directly obtained from the brewers themselves through interview.

This study determined the indirect and induced impact of the craft brewing industry to the California economy using the IMPLAN input-output model developed first by the U.S. Forest Service. The IMPLAN input-output model is based on the assumption that market participants are interconnected to one another through transactions based on supply and demand. The IMPLAN model traces the flows of dollars and employment as produced by an industry to determine the indirect and induced economic impact using regional data based on industry-specific multipliers.⁷ This study used the IMPLAN model and regional data for California, adjusted for inflation, to measure the impact of California's craft brewers.

The total economic impact of California's craft brewing industry is the summation of the direct, indirect and induced economic impact for the industry presented by this study as

⁵ In 2011, California was home to three large-scale commercial production facilities for national beer brands. These facilities are not counted in this study.

⁶ Hot deck imputation is a method used by the U.S. Census Bureau for deriving missing data in which each missing value is replaced with an observed response from a "similar" unit.

⁷ "Minnesota IMPLAN Group." *Minnesota IMPLAN Group*. Web. 11 Apr. 2012. <<http://implan.com>>.

a high and low range. To narrow this range to determine the approximate total economic impact, this study assessed the market through the comparison of three key methodologies: Method 1) the high and low range found by this study (CCBA Study); Method 2) the market share of craft beer as derived from the Beer Institute's 2010 economic impact study (Beer Institute Study); and Method 3) valuating on-premise and off-premise craft beer sold in California based on production volume (On/Off Premise Sales).

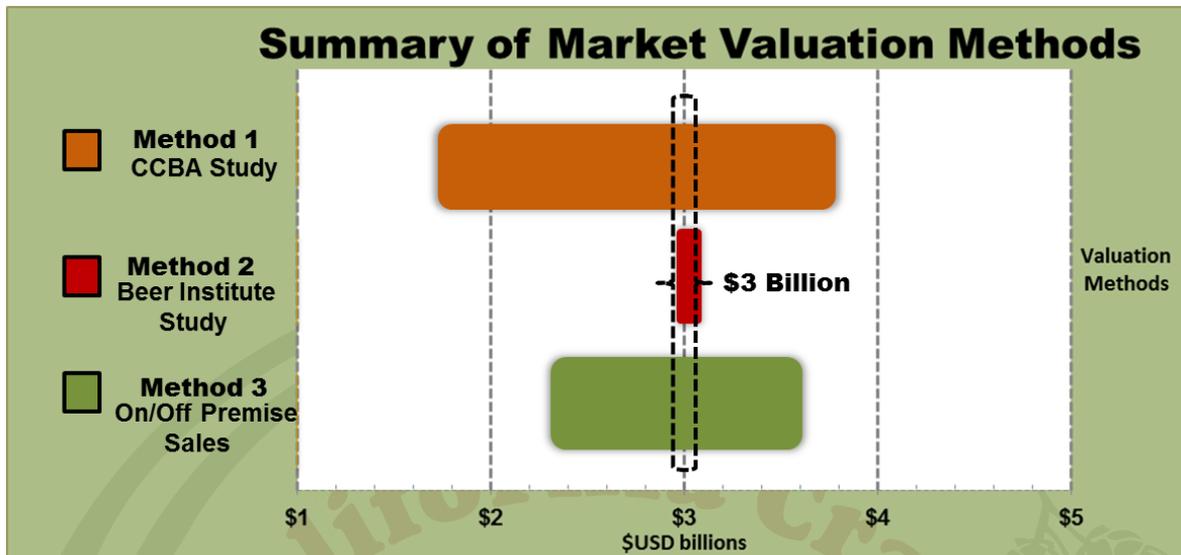
Under Method 2, this study considered Beer Institute data per the market share of craft beer by dollars, which in 2011 was 9.1% of all beer sold in the United States.⁸ The Beer Institute study *Economic Impact of the Beer Industry* looked at the total value of brewing to the California economy inclusive of national beer brands (brewers producing more than 6 million BBL per year).⁹ Under Method 3, to approximate the on-premise and off-premise value, this study considered an on-premise range of one-quarter to one-eighth of all craft beer sold in California and an off-premise range of three-quarters to seven-eighths of craft beer sold. This value was then calculated based on the *Economic Impact and Potential of the Texas Craft Brewing Industry* study, which established that the total value of on-premise craft beer sold at \$2,500 per BBL sold and \$200 per BBL sold off-premise.¹⁰

⁸ "Craft Brewer Facts." Brewers Association. Web. 5 April. 2012.

<<http://www.brewersassociation.org/pages/business-tools/craft-brewing-statistics/facts> >.

⁹ *Economic Impact of the Beer Industry 2010 Data - California*. Publication. The Beer Institute. Web. 19 Apr. 2012.

¹⁰ Metzger, Scott. "Economic Impact and Potential of the Texas Craft Brewing Industry." University of Texas, San Antonio, 2011. Web. 27 Apr. 2012.



By considering the high and low range compared to the other methodologies as seen above, this study estimated the total economic impact of California craft brewers to be approximately \$3 billion in 2011.

The total impact of taxes paid by the California craft brewing industry throughout the production-chain is estimated using the national Beer Institute's study, *Economic Impact of the Beer Industry 2010 Data*, based on the market share of craft beer. The Beer Institute estimates that in California 52% of the cost of a beer at point of purchase is attributed to taxes. These taxes include business and personal, consumption and sales as well as excise taxes at the local, state and federal level.¹¹ This study also takes into account excise tax data from the state of California and the federal government.

CRAFT BREWING CASE STUDY - INNOVATION

California's craft brewers have been the drivers of innovation in the beer industry. As small and often independently owned businesses, craft brewers have the freedom to respond quickly to market demands or to experiment with new techniques and inputs.

¹¹ *Economic Impact of the Beer Industry 2010 Data - Taxes Are The Largest Component of The Price of Beer in California*. Publication. The Beer Institute. Web. 19 Apr. 2012.

THE ANCHOR BREWING COMPANY, as the nation's oldest craft brewery, has been at the forefront of innovation from its founding in 1896 until today. Anchor has long been attributed to starting and driving the modern craft brewing industry. Originally producing steam beer made using a higher temperature brewing process developed during the Gold Rush to avoid using costly ice, Anchor continues to advance the industry from its holiday brew that changes each year to its state-of-the-art production facilities located in the heart of San Francisco. Today owned by Keith Greggor and Tony Foglio, Anchor sells beers in 49 states, Japan, and throughout much of Europe.¹²

"Anchor started it all. It's the granddaddy of the microbreweries."

- David Edgar, Institute of Brewing Studies, January 29, 1991

THE RUSSIAN RIVER BREWING COMPANY, founded more than a century, later exemplifies what it means to innovate in the brewing industry. Producing one of the most sought after craft beers subject to significant consumer and media attention, Russian River was rated as the most influential craft brewery nationwide in 2012. Founded by Natalie and Vinnie Cilurzo following backgrounds in the brewing and winery industries, Russian River's groundbreaking beers serve to attract tourists from around the world. Russian River is also a leader in sustainable production. In 2010, the Cilurzo's installed a 110 kW solar energy system that provides for 70-80% of the brewery's energy needs as well as an advanced waste-water treatment system in 2011 to build on their commitment to both community and environment.¹³

"California's craft brewers are the leaders in innovation driving the nationwide expansion of the industry – our success is the ability to innovate and quickly introduce products to respond to our consumers."

-Natalie Cilurzo

IV. CRAFT BREWING BY PRODUCTION

This study uses annual production by volume as an indicator of industry output.

California and the craft brewing industry nationwide have experienced a significant resurgence and growth following nearly a century of market exit and consolidation.

¹² Anchor: "Interview with John Dannerbeck Anchor Brewing Company." Personal interview. 8 Mar. 2012.

¹³ Russian River: "Interview with Natalie Cilurzo of the Russian River Brewing Company." Telephone interview. 13 Mar. 2012.

WHILE THE BREWING INDUSTRY first emerged as a regional and craft industry with more than 2,470 breweries throughout the United States in 1880, by 1980 there were only 45 breweries in the country with a four-firm concentration level reaching nearly 70% of production, up from 11% in 1935.¹⁴ The Prohibition period marked a significant level of market exit as brewers were driven out of mainstream industry. Although the end of Prohibition drew brewers back into the market along with pre-World War II technological innovations that permitted the production of multiple batches of beer with consistent taste, it was transportation improvements that enabled post-War nationwide distribution to take hold in the late 1940s and early 1950s. Advances in nationwide distribution allowed for bigger regional breweries to begin acquiring smaller brewers, setting the stage for the establishment of the national brands.¹⁵

However, by the late 1980's and early 1990's, a significant expansion of the craft brewing industry in North America reemerged with small-scale, entrepreneurial breweries initiating operations in regions throughout the country – centered in California. The craft brewing movement emerged as a demand shock response with consumers gaining an increased desire for differentiated tastes as well as interest in high-quality locally produced products. In 1985, there were 21 craft breweries in the United States. By 1988 there were 54 and by 1991 the industry had grown to 88. Combined production grew from 26,000 BBL in 1985 to 134,000 BBL in 1988 and to 362,000 BBL in 1991.¹⁶

Today, the craft brewing industry throughout the United States is experiencing tremendous growth both in volume of production and market share despite an anemic nationwide economy. In 2011, the craft brewing industry grew 13% by volume and 15% by dollars compared to growth in 2010 of 12% by volume and 15% by dollars. The craft

¹⁴ Wesson, T., and J.N. De Figueiredo. "The Importance of Focus to Market Entrants: A Study of Microbrewery Performance." *Journal of Business Venturing* 16, no. 4 (2001): 377–403.

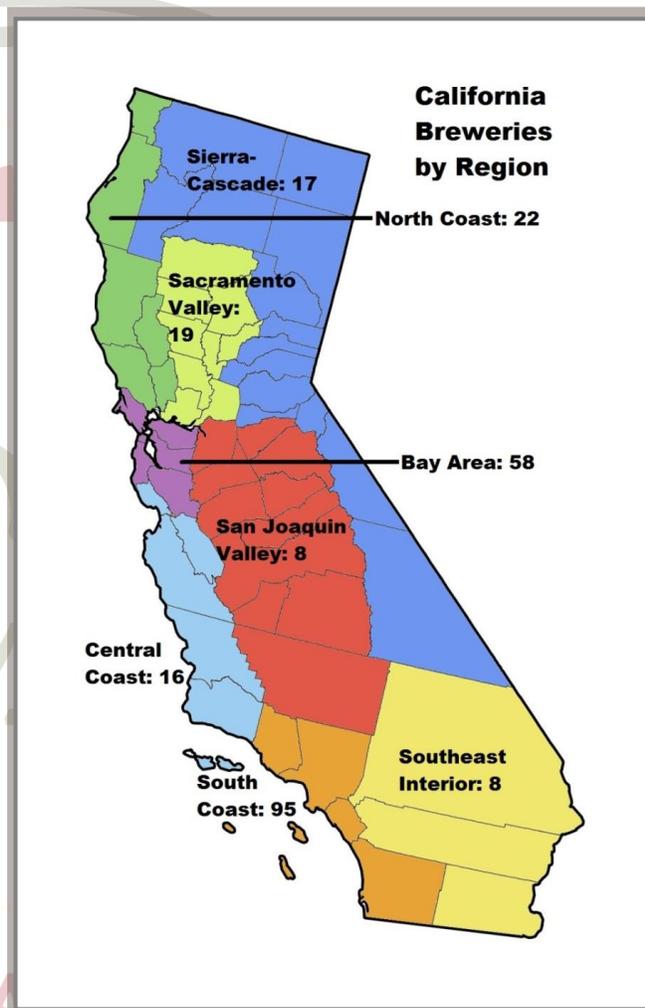
¹⁵ Wesson, T., and J.N. De Figueiredo. "The Importance of Focus to Market Entrants: A Study of Microbrewery Performance." *Journal of Business Venturing* 16, no. 4 (2001): 377–403.

¹⁶ Wesson, T., and J.N. De Figueiredo. "The Importance of Focus to Market Entrants: A Study of Microbrewery Performance." *Journal of Business Venturing* 16, no. 4 (2001): 377–403.

brewing industry's domestic market share in 2011 was 5.7% by volume and 9.1% by dollars.¹⁷ There are more than 2,000 craft breweries in the United States producing more than 10 million BBL of craft beer with much of that volume being produced by California's craft breweries.¹⁸

CALIFORNIA IS HOME to more craft breweries and produces more craft beer than any other state in the United States. California is home to 12 of the top 50 largest craft breweries by volume in the nation.¹⁹ In 2011, the state's craft breweries produced more than 2.2 million BBL of craft beer, surpassing Pennsylvania - the second ranked producer - by more than 500,000 BBL and Colorado - the third ranked producer - by more than 1 million BBL per year. California produces one in every five craft beers made in the United States.²⁰

California's craft breweries can be found throughout the state from the northern reaches to the southern border. While the South Coast region is home to the most craft breweries as the largest



¹⁷ "Craft Brewer Facts." Brewers Association. Web. 5 April. 2012.

<<http://www.brewersassociation.org/pages/business-tools/craft-brewing-statistics/facts> >.

¹⁸ "Craft Brewer Facts." Brewers Association. Web. 26 Mar. 2012.

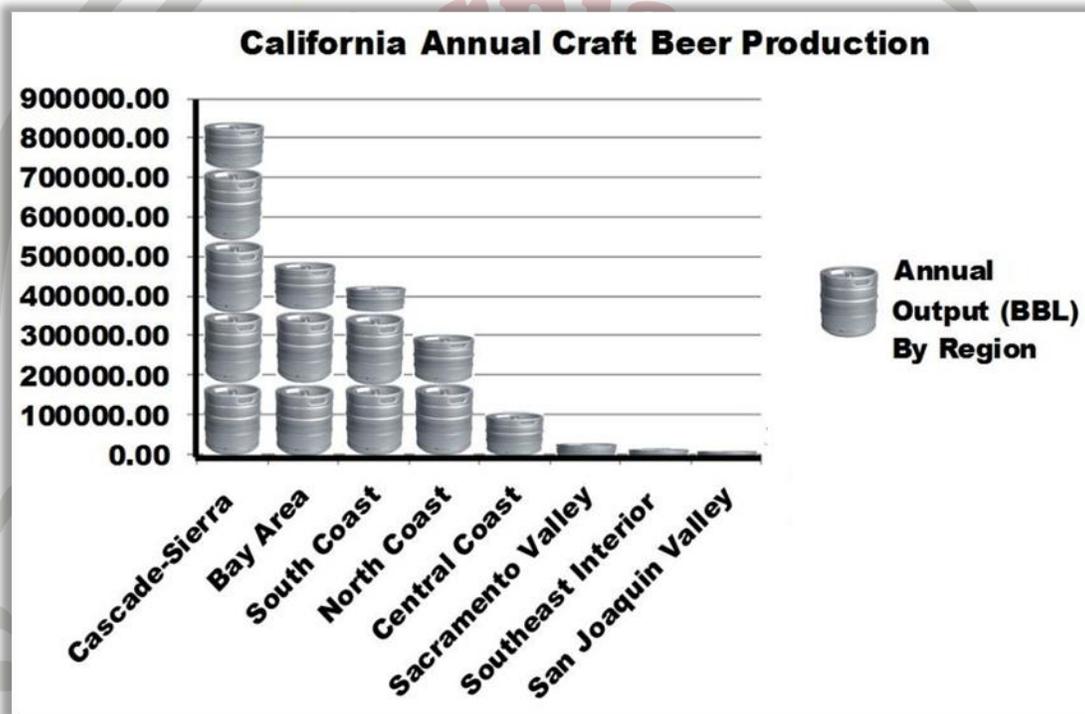
<<http://www.brewersassociation.org/pages/business-tools/craft-brewing-statistics/facts> >.

¹⁹ "Brewers Association Releases Top 50 Breweries in 2011." Brewers Association. 17 Apr. 2012. Web. <<http://www.brewersassociation.org/pages/media/press-releases/show?title=brewers-association-releases-top-50-breweries-in-2011>>.

²⁰ "Craft Brewer Facts." Brewers Association. Web. 5 April. 2012.

<<http://www.brewersassociation.org/pages/business-tools/craft-brewing-statistics/facts> >.

population center in the state, it is the sparsely populated Sierra-Cascade region that produces the most BBL per year as shown below.²¹ Similarly, although the Bay Area region is home to the second most craft breweries and boasts the second most significant annual BBL production, the North Coast region again representing a smaller population level produces nearly the same volume with far fewer breweries. Much of this production volume can be attributed to bigger production craft brewers such as the top producing Sierra Nevada Brewing Company in Chico and the second producing Lagunitas Brewing Company in Petaluma.



The South Coast and the Bay Area are home to more than 60% of the state's craft breweries driven both by the regions' larger populations and strong market demand. Many of these craft breweries are smaller brewpub operations where most of the craft beer produced is sold on-premise. The regions are also home to some of the bigger production breweries including the third largest brewer in the state, the Stone Brewing Company in Escondido and the historic Anchor Brewing Company in San Francisco, the fourth biggest producer in the state. The Central Coast Region also has a strong craft

²¹ "Craft Brewer Facts." Brewers Association. Web. 5 April. 2012. <<http://www.brewersassociation.org/pages/business-tools/craft-brewing-statistics/facts>>.

brewing presence home to 16 craft breweries including the Firestone Walker Brewing Company in Buellton, California's sixth largest brewery.

The craft brewing industry is beginning to thrive in the Sacramento Valley region with both the number of craft brewers and production levels increasing. The Southeast Interior and the San Joaquin Valley regions are home to the fewest craft brewers with eight breweries in each region. In 2011, the Southeast Interior and the San Joaquin Valley regions collectively produced less than 20,000 BBL per year. However, these regions are experiencing active, although slower, growth rates with new craft breweries planned and existing breweries increasing production levels as the market demand begins to shift as seen throughout the state.

Using production volume as an indicator of industry activity, when compared to other states and regions with similar demographics, the California craft brewing industry is thriving even during difficult economic times. The distribution of breweries further demonstrates that this industry, although generally centered in more populous regions, has significant impact throughout the state. In summary, the craft brewing industry in California is alive and prospering but, as with any growing industry, must continue to gain market demand as well as statewide support. **SEE APPENDIX 1.**

CRAFT BREWING CASE STUDY – INDUSTRY GROWTH

The LAGUNITAS BREWING COMPANY, located in Petaluma, is one of California and the nation's top producing craft breweries founded in 1993 by Tony Magee. Lagunitas today is as well known for their flagship IPA (India Pale Ale) sold in nearly every state in the union as for their dedication to their community and the culture of craft brewing. Founded in 1993 by Tony Magee, Lagunitas is a family-owned business and brewery – unmatched in its growth and expansion.

As stated by the Santa Rosa Press Democrat, "Tony Magee just can't make beer fast enough." Since 2004, Lagunitas has experienced a production growth rate of nearly 500% as the brewery has gone from producing about 27,000 BBL per year to 160,000 BBL in 2011. To meet the demand for Lagunitas craft beer, the brewery is engaged in a multi-million dollar expansion project to increase annual

production to 600,00 BBL. This expansion is scheduled to be completed in mid-2012 and will make Lagunitas one of the most significant craft breweries in the United States, second only to the Boston Beer Company makers of Samuel Adams and the Sierra Nevada Brewing Company, while competing with Colorado's New Belgium Brewing Company. Lagunitas also announced plans in April 2012 to expand production nationwide with the construction of a new brewery in Chicago, Illinois to be completed in 2013.

As a founding principle, Lagunitas shares this growth and success with the local community. In 2011, Lagunitas gave nearly \$200,000 worth of in-kind contributions through more than 2,000 donations ranging from products used to fundraise, to employee time, in addition to the open invitation to use the brewery facilities as a community meeting space. From conservation groups to softball teams and the art and music programs at neighborhood schools, Lagunitas steps up to support programs that can no longer depend on traditional sources of funding.²²

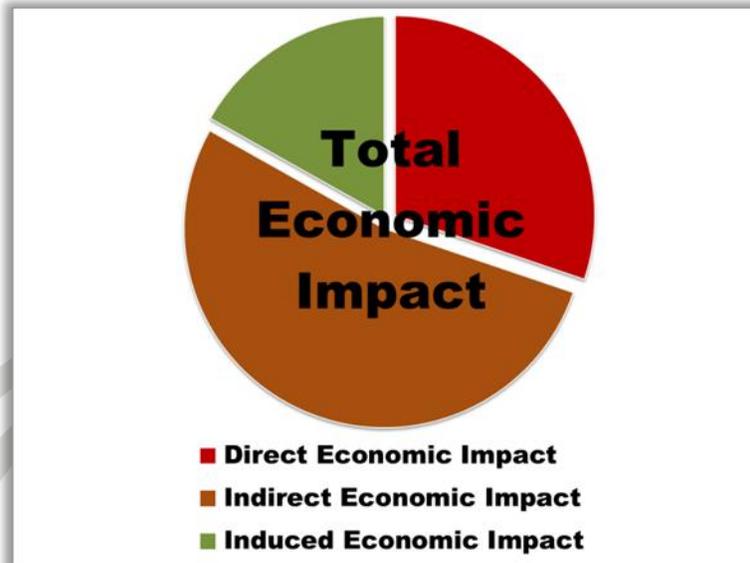
"There are not any domestic industries that are growing like we are growing – period."

-Ron Lindenbusch, Lagunitas Director of Marketing

V. ECONOMIC CONTRIBUTION

As the nation's top producer of craft beer, the economic contributions of the California craft brewing industry to the state are significant. In 2011, the 243 craft breweries looked at by this study in California contributed approximately \$3 billion to the California economy inclusive of all goods and services provided both directly and indirectly.

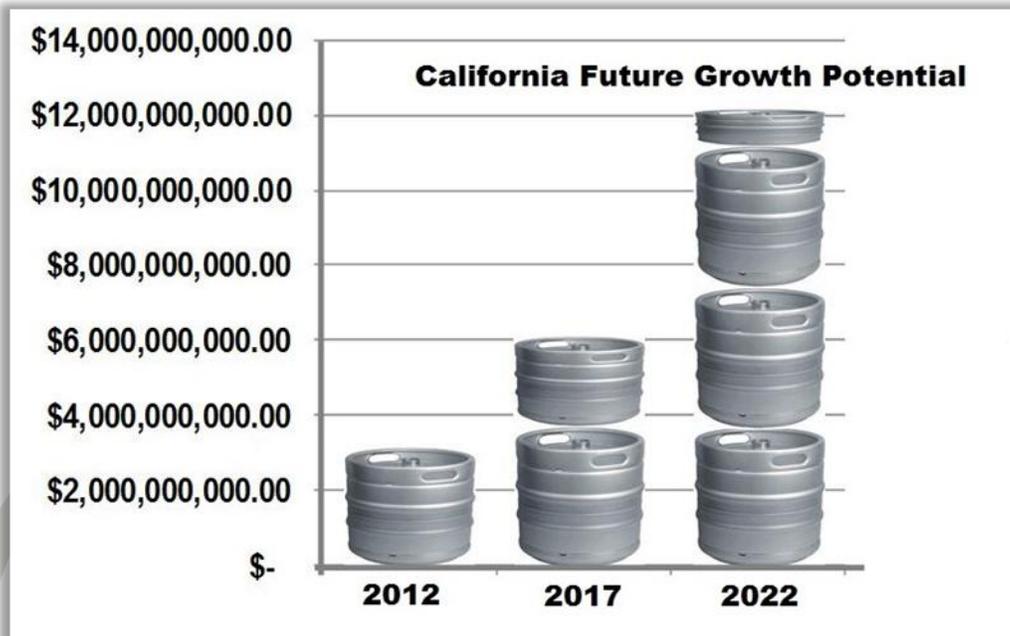
²² Lagunitas: "Interview with Ron Lindenbusch of Lagunitas." Personal interview. 27 Jan. 2012.



The economic impact of the craft brewing industry can be seen throughout the state centered in the regions with greater production volume and brewery numbers. The Bay Area followed by the Cascade-Sierra and South Coast Regions produced the most economic activity influenced by bigger production breweries, followed by the North Coast, Central Coast, Sacramento Valley and finally the Southeast Interior and San Joaquin Valley regions. **SEE APPENDIX 2.**

GROWTH IN THE CRAFT BREWING INDUSTRY has been increasing at a considerable annual rate both by volume and by dollar value. The craft brewing industry grew by 13% by volume and 15% by dollars in 2011 from 2010. From 2009 to 2010, the industry grew by 12% by volume and 15% by dollars.²³ Growth in the industry's revenue at the retail level is generated by dollar amount, while growth in the industry's output is measured by production volume. This level of growth represents significant potential for the California craft brewing industry's future economic impact. To project the future economic impact potential, this study considered the current rate of 15% growth in dollars per year as well as 10% and 5% respectively in per year growth by dollars for the period of five and 10 years as seen below.

²³ "Craft Brewer Facts." Brewers Association. Web. 5 April. 2012. <<http://www.brewersassociation.org/pages/business-tools/craft-brewing-statistics/facts>>.



At the current growth rate considering \$3 billion in 2011 total economic impact, the California craft brewing industry could have a total economic impact of \$6 billion by 2017 and \$12 billion by 2022. While the current growth rate of 15% per year by dollars is not definite for the future, increasing consumer trends indicate that the industry will continue to see growth in both the short and long term. **SEE APPENDIX 3.**

GIVING BACK to the community is a fundamental belief held by California’s craft brewers. For craft brewers throughout the state, their impact is much greater than just their economic activity generated as local small businesses. Craft breweries are an integral part of their communities whether serving as a gathering place, a tourist destination, a venue or as a local landmark. In California, the craft brewing industry is also a significant contributor in terms of in-kind donations. In 2011, the California craft brewing industry gave approximately \$16 million by dollar value of in-kind contributions ranging from products to employee time. Throughout the state, craft breweries donate their time, energy, facilities and products to a diversity of causes. As summarized by Chris Cramer of the Karl Strauss Brewing Company, “with San Diego becoming a

destination for craft brewing tourism – it’s enabled us to support local community organizations ranging from art programs in local schools to the Navy Seals.”²⁴

VI. STATEWIDE EMPLOYMENT

The California craft brewing industry is a significant source of employment statewide. In 2011, the craft brewing industry employed between 15,000 and 30,000 Californians both directly and indirectly – in a state with a double-digit unemployment rate.

As an industry that uses traditional and small-scale production methods concerned most about product quality, craft brewing is inherently labor-intensive which contributes significantly to the state’s workforce. The jobs provided by the craft brewing industry can be seen in direct brewing activities from brew-masters and warehouse management to industries as diverse as agriculture, manufacturing, construction, transportation and the many other businesses that support the craft brewing industry. The craft brewing industry employs workers with a wide range of skills, and is also an industry known for high wages. In 2010, an employee in the brewing industry received an average gross yearly salary of more than \$62,000 as reported by the California Employment Development Department.²⁵

While the jobs created and supported by the craft brewing industry are located throughout the state, much of the most significant impact be been seen in California’s more rural communities. Rural regions are home to many of the state’s premier craft brewers serving as economic engines to their communities and providing a significant number of jobs as well as revenue and taxes.

California’s top two producing craft breweries are both located in municipalities of less than 100,000 people: Sierra Nevada Brewing Company in Chico a town of 80,000 and

²⁴ "Interview with Chris Cramer of the Karl Strauss Brewing Company." Telephone interview. 20 April 2012.

²⁵ "Quarterly Census of Employment and Wages." California Employment Development Department, 2010. Web. 20 Apr. 2012.

Lagunitas Brewing Company in Petaluma a town of 58,000.²⁶ In fact, craft brewers represent some of the only remaining manufacturing firms in many rural communities throughout the state benefitting local employment both directly and indirectly. In rural and urban communities statewide, there is approximately one job created for every 100 BBL produced by craft brewers.

As the California craft brewing industry continues to grow – during good fiscal times and in bad – the breweries as well as the industries indirectly impacted will continue to add jobs. **SEE APPENDIX 4.**

CRAFT BREWING CASE STUDY – RURAL JOBS

THE LOST COAST BREWERY, located in Eureka, California within the North Coast region was founded in 1990 by Barbara Groom, a pharmacist, and Wendy Pound, a family counselor. Beginning as many craft breweries do as a true craft and local business, the Lost Coast was started when its founders began to wonder what it would require to start their own brewpub following years of home brewing. Since opening its doors, the Lost Coast – as a women owned-and-operated small business – has emerged as one of the nation’s leading craft breweries standing virtually alone in an industry traditionally dominated by men producing more than 55,000 BBL per year and growing.

In addition to producing award winning craft beers, the Lost Coast is a significant economic contributor to the North Coast and Humboldt County economies – a rural area hard hit by the recession with an unemployment rate of 11.8%. In an area once known for its timber and fishing industries, the Lost Coast and other local craft breweries stand nearly alone as local manufacturers and as one of few areas of economic growth. With an annual growth rate of 20% in the past decade, the Lost Coast is undergoing a \$15 million expansion of brewing and retail facilities.

Today, the Lost Coast directly employs more than 80 full and full-time equivalent employees providing steady and viable income for community members. The employees of the Lost Coast are local and from many backgrounds working in positions ranging from warehouse workers to skilled tradesmen to business operators. With the planned expansion, the Lost Coast will bring on additional

²⁶ *California Quick Facts Census 2010*. U.S. Census Bureau. Web. 04 Apr. 2012. <<http://quickfacts.census.gov/qfd/states/06000.html>>.

fulltime employees. In addition to competitive wages, the Lost Coast provides a 50% match to all employees for health benefits and covers the full cost of any continuing education or training programs for employee advancement.²⁷

“As more and more folks are leaving rural regions looking for employment, the Lost Coast is providing true American manufacturing jobs that are local and cannot be outsourced.”

-Barbara Groom

VII. TAXES

The craft brewing industry is a significant source of tax revenue to local, state and federal governments even during difficult economic times. Few industries pay as many different taxes as does craft brewing throughout the production process from the purchase of brewing inputs through the final sale. As described by the Beer Institute, brewers as well as other firms engaged in the production process, pay numerous taxes including, but not limited to:

- ***Federal taxes such as business and personal income taxes, Federal Insurance Contributions Act (FICA), unemployment insurance, and the Special Occupational Tax paid by brewers;***
- ***Federal and state excise taxes;***
- ***State and local taxes paid directly by brewers as well as indirectly by input providers, wholesalers, retailers and other related firms;***
- ***Direct wholesale state and local taxes often consisting of gross receipt taxes and other taxes;***
- ***Direct retail taxes including state and local sales taxes, license fees, and applicable gross receipt taxes;***
- ***Brewers pay real estate and personal property taxes, business income taxes, and other business levies that vary in each municipality.***

CRAFT BREWERS FACE A HEAVY TAX BURDEN along with the state’s stringent business regulations. The Beer Institute estimated that, at point of purchase, consumers in California pay over 52% in taxes on each beer purchased – paying state

²⁷ Lost Coast: "Barbara Groom and the Lost Coast Brewery." Telephone interview. 22 Mar. 2012.

and federal excise tax, local and federal business taxes as well as state sales tax.²⁸ Based on the study by the Beer Institute and considering craft brewing's market share of 5.7% by volume in 2011, California's craft breweries paid more than \$400 million in total taxes locally, state and federally. **SEE APPENDIX 5.**

In addition to the local, state and federal taxes faced by most businesses, the craft brewing industry also pays excise tax. Federally, craft brewers pay an excise tax rate of \$7 on the first 60,000 BBL produced by a brewer who produces less than 2 million barrels and \$18 per barrel after the first 60,000 BBL produced.²⁹ In California, craft brewers pay \$0.20 per gallon of beer produced. In 2011, this study estimated that the California craft brewing industry paid more than \$41 million in state and federal excise taxes. **SEE APPENDIX 6.**

VIII. CONCLUSION

The California craft brewing industry continues to grow in a state whose economy is still suffering from the recent recession and facing high unemployment. Throughout California and the nation, the craft brewing industry is increasing production to meet new and growing consumer demand. California's craft breweries act as local economic engines generating revenue and jobs which in turn are multiplied throughout the local economy – each dollar and job generated directly by craft brewers generates more revenue and more jobs. As the industry grows, so will this total economic impact. However, the success of California's craft brewing industry remains tied to the policies and regulations in the state that can either foster or impede growth.

It is crucial for the state's political leadership to continue to support the industry through positive policy action. As small business already facing a large tax burden and stringent regulations, California's brewers have no ability to absorb an increased cost of doing

²⁸ "Taxes Are The Largest Component of The Price of Beer in California." *Economic Impact of the Beer Industry 2010 Data*. The Beer Institute.

²⁹ "Tax and Fee Rate." Alcohol and Tobacco Tax and Trade Bureau. Web. 12 Apr. 2012. <http://www.ttb.gov/tax_audit/atftaxes.shtml>.

business in the state. The future success of the state’s craft brewers – who provide numerous strong jobs, community support and help to drive local economies – is not yet written and cannot be taken for granted. By advancing positive policies, California’s leaders can build a brighter future for craft brewers and small businesses throughout the state.



IX. APPENDICES

Appendix 1

California Craft Brewing By Production		
California Geographic Region	Number of Breweres	Annual Output (BBL) By Region
Cascade-Sierra	17	838503.00
Bay Area	58	570809.00
South Coast	95	405948.00
North Coast	22	289656.00
Central Coast	16	107330.00
Sacramento Valley	19	14033.00
Southeast Interior	8	13245.00
San Joaquin Valley	8	5319.00
TOTAL:	243	2244843.00



Appendix 2

California Craft Brewing Economic Impact		
Geographic Region:	Gross Revenue (High):	Gross Revenue (Low):
Statewide Total*:	\$ 3,793,673,213.44	\$ 1,659,139,379.68
Direct Economic Impact		
Geographic Region:	Gross Revenue (High):	Gross Revenue (Low):
Bay Area	\$ 334,219,000.00	\$ 136,950,000.00
Cascade-Sierra	\$ 273,989,000.00	\$ 107,100,000.00
Central Coast	\$ 62,487,000.00	\$ 24,400,000.00
North Coast	\$ 140,591,000.00	\$ 67,500,000.00
Sacramento Valley	\$ 29,486,000.00	\$ 10,900,000.00
San Joaquin Valley	\$ 9,994,000.00	\$ 2,887,000.00
South Coast	\$ 265,923,000.00	\$ 137,300,000.00
Southeast Interior	\$ 18,895,000.00	\$ 7,800,000.00
Totals:	\$ 1,135,584,000.00	\$ 494,837,000.00
Indirect Economic Impact		
Geographic Region:	Gross Revenue (High):	Gross Revenue (Low):
Bay Area	\$ 586,018,090.95	\$ 240,127,513.86
Cascade-Sierra	\$ 480,411,079.92	\$ 187,788,658.16
Central Coast	\$ 109,564,424.67	\$ 42,782,850.22
North Coast	\$ 246,511,626.88	\$ 118,354,196.32
Sacramento Valley	\$ 51,700,619.74	\$ 19,112,010.96
San Joaquin Valley	\$ 17,523,434.64	\$ 5,062,052.81
South Coast	\$ 466,268,191.81	\$ 240,741,202.29
Southeast Interior	\$ 33,130,407.99	\$ 13,676,484.91
Totals:	\$ 1,991,127,876.61	\$ 867,644,969.53
Induced Economic Impact		
Geographic Region:	Gross Revenue (High):	Gross Revenue (Low):
Bay Area	\$ 189,270,985.16	\$ 77,555,918.18
Cascade-Sierra	\$ 155,162,237.79	\$ 60,651,616.19
Central Coast	\$ 35,386,905.14	\$ 13,817,921.90
North Coast	\$ 79,617,846.61	\$ 38,225,808.52
Sacramento Valley	\$ 16,698,165.78	\$ 6,172,760.19
San Joaquin Valley	\$ 5,659,684.89	\$ 1,634,931.99
South Coast	\$ 136,903,995.68	\$ 77,754,126.08
Southeast Interior	\$ 10,700,394.84	\$ 4,417,204.54
Totals:	\$ 629,400,215.91	\$ 280,230,287.58

Appendix 3

15% (Current) Growth Rate		10% Growth Rate*		5% Growth Rate*	
Five Year Total Impact (2017)		Five Year Total Impact (2017)		Five Year Total Impact (2017)	
Gross Revenue (High):	Gross Revenue (Low):	Gross Revenue (High):	Gross Revenue (Low):	Gross Revenue (High):	Gross Revenue (Low):
\$ 7,630,431,885	\$ 3,337,121,916	\$ 6,109,748,647	\$ 2,672,060,562	\$ 4,841,795,176	\$ 2,117,529,000
Ten Year Total Impact (2022)		Ten Year Total Impact (2022)		Ten Year Total Impact (2022)	
Gross Revenue (High):	Gross Revenue (Low):	Gross Revenue (High):	Gross Revenue (Low):	Gross Revenue (High):	Gross Revenue (Low):
\$ 15,347,524,015	\$ 6,712,144,152	\$ 9,839,811,293	\$ 4,303,380,256	\$ 6,179,493,913	\$ 2,702,563,221



Appendix 4

California Craft Brewing Employment Impact		
Geographic Region:	Employees (High)	Employees (Low)
Statewide Total:	30,597	14,910
Direct Impact		
Geographic Region:	Employees (High)	Employees (Low)
Bay Area	3229	1466
Cascade-Sierra	863	419
Central Coast	534	242
North Coast	1254	555
Sacramento Valley	486	233
San Joaquin Valley	142	59
South Coast	2610	1481
Southeast Interior	182	77
Totals:	9,300	4,532
Indirect Impact		
Geographic Region:	Employees (High)	Employees (Low)
Bay Area	5037.24	2286.96
Cascade-Sierra	1346.28	653.64
Central Coast	833.04	377.52
North Coast	1956.24	865.8
Sacramento Valley	758.16	363.48
San Joaquin Valley	221.52	92.04
South Coast	4071.6	2310.36
Southeast Interior	283.92	120.12
Totals:	14,508	7,070
Induced Impact		
Geographic Region:	Employees (High)	Employees (Low)
Bay Area	2357.17	1070.18
Cascade-Sierra	629.99	305.87
Central Coast	389.82	176.66
North Coast	915.42	405.15
Sacramento Valley	354.78	170.09
San Joaquin Valley	103.66	43.07
South Coast	1905.3	1081.13
Southeast Interior	132.86	56.21
Totals:	6,789	3,308

Appendix 5

Taxes Paid by California Craft Brewers	
Business and Personal Taxes	
Federal	\$ 139,472,097.41
State and Local	\$ 129,417,405.94
Consumption Taxes	
Federal	\$ 21,447,570.01
State and Local	\$ 48,199,453.19
Sales and Other	\$ 40,331,113.91
Excise Taxes	
Federal	\$ 27,912,901.00
State	\$ 13,918,026.60
TOTAL:	\$ 420,698,568.07

Appendix 6

Excise Tax Paid by California Craft Brewers			
Geographic Region	Federal Excise Tax	Geographic Region	State Excise Tax
Bay Area	\$ 6,294,663.00	Bay Area	\$ 3,539,015.80
Cascade-Sierra	\$ 14,284,521.00	Cascade-Sierra	\$ 5,198,718.60
Central Coast	\$ 1,191,310.00	Central Coast	\$ 665,446.00
North Coast	\$ 2,082,592.00	North Coast	\$ 1,795,867.20
Sacramento Valley	\$ 98,231.00	Sacramento Valley	\$ 87,004.60
San Joaquin Valley	\$ 37,233.00	San Joaquin Valley	\$ 32,977.80
South Coast	\$ 3,831,636.00	South Coast	\$ 2,516,877.60
Southeast Interior	\$ 92,715.00	Southeast Interior	\$ 82,119.00
TOTAL:	\$	41,830,927.60	