

Center for Economic Development and Business Research

College of Commerce and Business Administration
Jacksonville State University

An Economic Impact Analysis of the Effects on Alabama Breweries of Off- Premises Consumption of Alcohol



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Introduction

The purpose of this analysis is to examine the annual economic impact of legislative action affecting the sale and consumption of alcoholic beverages in Alabama. The primary focus of the analysis is the alcohol sales laws in Alabama that prohibit sale of craft beer from a brewpub or small brewery for off-site consumption. The issues that the analysis addresses are the relative disadvantage that Alabama brewers face, direct output from sales, and value added along each step in the production process. Tax impacts are measured and considered by taxes paid to state and local government and to the federal government.

Although several issues are being debated in the current legislative session, the initiation of legislative action is to relax burdensome regulation that impedes direct sales from breweries to customers. Existing brewery laws as written pertain to large manufacturers as a packaging brewery. Allowing off-premises consumption of beer would appear to be very beneficial to the burgeoning small brewers within Alabama.

For example, an act to amend Sections 28-3A-17.1 and 28-4A-3 of the Code of Alabama 1975 relating to the sale of alcoholic beverages by a brewpub or small brewery is being considered. The legislation provides for the following:

- Creation of a new Section 28-3A-6.1, Code of Alabama 1975, to license a craft brewer to produce and package no more than 2,000,000 barrels of beer per year and allow off-premises sales

The analysis considers current economic impact before passage and implementation of the legislation to expected economic impact after passage and implementation of the legislation. The time period for this analysis considers effects today relative to effects in three to five years, when projected impacts are expected to be realized. The analysis utilizes survey responses from a sample size of 19 out of 31 brewers and employs extrapolation for the remaining 12 firms that did not respond. Economic impact is considered under both scenarios, before a change in legislation and after a change, and is measured in terms of employment, total value added, output, and taxation.

Data were analyzed via IMPLAN, a statistical software program developed for measuring local, annual economic impact by using relevant data and multipliers appropriate for the state of Alabama. A margins approach to the analysis was employed in order to measure value added at each step in the process of operating a firm. This is necessary to differentiate the effects of direct sales at brewpub and small breweries from the effects of other tiers (i.e. wholesalers and retailers, etc.) that reflect all economic impact. From this approach it is possible to not only consider total impact but how impacts are attributable to shifts along a value chain between economic sectors. Direct, indirect, and induced impacts are measured and included.

Lastly, an analysis of survey responses are extrapolated and reported in developing the model. This analysis relies heavily on to what extent off-premises consumption would affect direct sales for brewpubs and small breweries. Projecting a reasonable level of increase in direct sales is problematic. This analysis uses expectations of survey respondents that on average their direct sales would increase by approximately 50 percent within a few years of legislative implementation. The key component of the analysis surrounds changes from the current state of the brewery industry in Alabama to the expected state within three to five years of new license creation.

Methodology

This economic impact study was developed from a compilation of survey responses by breweries from across the state; input from Dan Roberts, Executive Director of the Alabama Brewers Guild; discussion of national and regional trends and effects with Bart Watson, Chief Economist of the Brewers Association; and internal estimates and approximations devised and developed. The analysis was conducted using IMPLAN software using a margins approach that captures value added.

A total of 31 breweries were surveyed. Nineteen out of 31 responded to the survey. Estimates and extrapolations were made of the 12 breweries who did not respond, with approximately five of which are in various degree of start up with minimal or no sales at this time. Production, brewery and related income, including other alcohol, food or restaurant, and miscellaneous retail were estimated and included.

Reinvestment was also considered. Its effects via expenditure on expanding and upgrading facilities, technology, and equipment as a result of increased economic activity contribute to the total economic impact for the industry. This expenditure was split 60 percent to maintenance, repair, and construction of non-residential structures and 40 percent to brewers (Craft Brewing Study by the Arizona Hospitality Research and Resource Center).

The analysis considers economic impact now, before a passage and implementation of proposed legislation and also after proposed legislation passes and is implemented. For purposes of this analysis each scenario is considered and labeled as BEFORE and AFTER, respectively. For each scenario categories of total value added, employment, and output are considered and whether any resulting economic impact is direct, indirect, or induced. Further, each category is

analyzed relative to impact associated with change that occurs or in measuring the difference in BEFORE and AFTER.

The tax impact on state and local government and on the federal government is considered for existing brewery operations in the state and after expected changes from passage and implementation of legislation takes effect. Value added from changes in tax impact between each scenario is also calculated in explaining total net impact rather than a transferring impact between and among industries.

Economic diversity provides stability during economic downturns by placing the burden of support for a local economy on the backs of many industries and firms and not concentrating risk within one or few sectors of the economy. Diversity is often measured by the Shannon-Weaver Diversity Index along a scale of 0 to 1. Values closer to one indicate more diversity in a region, where a value of 1 would indicate all industries are present in a region. With breweries located throughout the state of Alabama, the diversity index value of 0.77071 suggests that the impact of brewery operations, whether direct, indirect, or induced supports a broad spectrum of industries as identified in Appendices B and C.

Analysis

The following analysis of Alabama breweries consists of three parts in measuring economic impact: a) the current state of brewery industry with existing regulation on consumption; b) brewery industry with relaxed consumption regulations, and c) a comparison of changes between parts a and b. Sales per barrel assumptions increase as direct sales become a bigger component of brewers analyzed and profit margins expand.

Within the model there are three categories – total value added, employment, and output – that we consider in the measure of direct, indirect, and induced effects of total economic impact. Total valued added represents impact added at different stages along a value chain, where net impact is identified. Value added is not to be considered as a summation of individual components in the model but rather represents interrelated relationships between components along a value chain. Employment is the number of workers needed and employed in association with the existence of this industry. Output considers total production but is not necessarily all new impact. Rather, this analysis will focus more on total added value to distinguish between transfer of impact rather than new impact.

Direct effects are revenues from sale of product and are first step in finding economic impact. Indirect effects are spending and jobs created by direct effects, and induced effects goes one step further and includes spending from both direct and indirect effects.

From a current expected level of 57,500 barrels of beer produced and sold in 2015 we find total output on the state to be over \$68 million, with \$17 million directly produced by the brewery industry with a total value added of \$31 million. Breweries are directly responsible for 272 employees that sum to a total of 461 when indirect and induced effects are considered. These effects are summarized in Table 1.

~ TABLE 1 ~ Economic Impact Before Passage and Implementation of Legislation				
BEFORE ¹				
Category	Direct	Indirect	Induced	Total
Total Value Added	\$17,051,766	\$7,845,338	\$6,182,022	\$31,079,127
Employment	272	101	88	461
Output	\$42,042,766	\$15,698,004	\$11,015,056	\$68,755,826

Source: IMPLAN

Inputs for brewery economic impact after a passage and implementation of legislation relaxing beer consumption are somewhat problematic given the sample size and wide variations in revenues per barrel. That a majority of survey respondents expected increasing production by approximately 50 percent as a result of the legislative change seems optimistic in the short run, but very realistic over a period of a few years. Reinvestment assumptions remained the same for each scenario and were further disaggregated between maintenance, repair, and construction of non-residential structures and breweries.

Total output after a change in legislation sums to almost \$170 million with 660 direct jobs produced and 1,116 jobs overall. More importantly, the value added by breweries with expanded sales opportunities is \$74.5 million, which consists of \$40 million of direct and \$35 million of indirect and induced, as shown in Table 2.

It is important to note that these effects reported in Table 2 are not immediate. While BEFORE conditions reflect the industry now, AFTER conditions reflect an industry that allows off-premises consumption. As a result of economic multipliers applied to changes in direct

¹ BEFORE denotes current or existing conditions for brewpubs and small brewers. This table reflects economic impact from the industry before creation of a license that allows off-premises sales.

consumption these economic impacts should be reasonably expected within three to five years of legislative action. While survey respondents indicated a 50 percent increase in sales per barrel after an increase in direct sales, we do not contend that this effect will be realized immediately and as a result a reasonable delay in impact should be expected.

~ TABLE 2 ~				
Economic Impact After Passage and Implementation of Legislation				
AFTER ²				
Category	Direct	Indirect	Induced	Total
Total Value Added	\$40,480,202	\$19,401,363	\$14,636,903	\$74,518,469
Employment	660	249	208	1,116
Output	\$104,464,242	\$39,181,774	\$26,079,849	\$169,725,865

Source: *IMPLAN*

Evaluating the change in economic effect between each scenario is encouraging. Net total output of over \$100 million from expanded direct sales reflects a transfer from other levels along the value chain. Total value added shows that output associated with the industry would increase by over \$43 million through legislative support and affect the state overall by almost \$101 million over three to five years. Table 3 summarizes a change in economic impact after a proposed change in law.

² AFTER denotes economic impact that is expected after the effects of off-premises sales are included. These effects are not expected immediately but rather over a time period of three to five years.

~ TABLE 3 ~				
Economic Impact of Change From Before To After				
Change from BEFORE to AFTER³				
Category	Direct	Indirect	Induced	Total
Total Value Added	\$23,428,436	\$11,556,025	\$8,454,881	\$43,439,342
Employment	388	148	120	655
Output	\$62,421,476	\$23,483,770	\$15,064,793	\$100,970,039

Source: IMPLAN

Tables 4, 5, and 6 consider tax impacts as follows: from BEFORE, AFTER, and the amount of the change between each scenario, respectively. Impact is considered for state and local governments and the federal government. Employee compensation, production and importation, household income, and corporate taxation are tallied in finding total tax impact. Proprietor income is added for federal government to reflect social insurance taxes paid by self-employed workers.

Referring to Table 4, taxation impact of breweries in Alabama now indicate a variety of taxes paid across these four categories from which taxes are assessed and collected. State and local taxes sum to \$4,429,762. Federal taxes include social insurance taxes on proprietor income and sum to \$4,238,933.

³ A change from BEFORE to AFTER isolates the effects of increases in Table 2 from off-premises sales relative to current economic effects summarized in Table 1 generated by the industry at this time.

~ TABLE 4 ~					
Total Tax Impact Before Passage and Implementation of Legislation: State, Local, and Federal					
BEFORE					
	Employee Compensation	Proprietor Income	Production and Imports	Household Income	Corporate Taxes
State and Local	\$53,420	\$0	\$3,913,381	\$392,438	\$70,523
Federal	\$1,962,759	\$115,994	\$555,726	\$1,022,532	\$581,922

Source: IMPLAN

Table 5 summarizes the tax effect impact using data estimations for the industry with less restricted alcohol consumption criteria. State and local taxes collected under this scenario are \$10,908,845 and federal taxes are \$10,131,131.

~ TABLE 5 ~					
Total Tax Impact After Passage and Implementation of Legislation: State, Local, and Federal					
AFTER					
	Employee Compensation	Proprietor Income	Production and Imports	Household Income	Corporate Taxes
State and Local	\$126,608	\$0	\$9,682,234	\$929,066	\$170,937
Federal	\$4,651,841	\$273,089	\$1,374,941	\$2,420,767	\$1,410,493

Source: IMPLAN

Table 6 reflects the tax impact changes from BEFORE to AFTER as a consequence of anticipated effects from higher levels of direct sales. Net state and local tax effects from changes in consumption approximations is \$6,479,083, while federal revenue would be expected to increase by \$5,892,198.

~ TABLE 6 ~					
Total Tax Impact Change from Before to After Passage and Implementation of Legislation: State, Local, and Federal					
Change from BEFORE to AFTER					
	Employee Compensation	Proprietor Income	Production and Imports	Household Income	Corporate Taxes
State and Local	\$73,188	\$0	\$5,768,853	\$536,628	\$100,414
Federal	\$2,689,082	\$157,095	\$819,215	\$1,398,235	\$828,571

Source: *IMPLAN*

Conclusion

Off-site consumption of alcohol appears to have a mutually beneficial economic impact across the industry, when considering total value added by brewpubs and small breweries and the total output that benefits the state. Total value added from breweries is isolated from output affecting the state as a whole. Referring to Appendix C, post effects total to over \$74 million, with wholesale trade constituting over \$17 million or approximately 23 percent of that total. Retail food and beverage stores are also a large percentage, comprising almost 15 percent of total impact. Appendix B similarly shows the importance of input industries in this compilation for the current status of the brewery industry in Alabama.

We contend that for these small firms that depend heavily on building a customer base and customer loyalty that direct sales will be a significant part of their marketing efforts to customers and tourists. Less regulation could also be an impetus in attracting out of state breweries to do business in Alabama. More robust flows of tax revenues into state and local coffers support services. With a relatively high diversity index and positive economic impact potential, continued emphasis on this small but growing industry is consistent with progressive public policy. These benefits are summarized as follows:

- Strong and positive economic impact
- High profit margin revenue stream from direct sales
- Consistent with expanding tourism, as customers could purchase and take product home with them
- Positive state and local government tax impact
- More attractive business climate for out of state breweries to expand into Alabama

However, while changes in legislation produce strong support for expanding craft beer opportunities, three areas of this analysis must be noted when considering these impacts and benefits: A total value added of over \$43 million as a result of policy change is very plausible over a few years but not as realistic within a shorter period of time, such as immediately after policy implementation.

- Small sample size reduces validity of input assumptions
- Revenue per barrel produced varies across firms and product lines

Lastly, it is important to emphasize that this study addresses only beer that is produced within the state, since the direct affect from any change in legislation will affect those local breweries. Larger impact values may be realized, especially through indirect and induced effects, when considering the effect of breweries from the 49 other states on commerce within Alabama.

Appendices

~ APPENDIX A ~

BREWERY SURVEY INSTRUMENT

ALABAMA CRAFT BREWERS

Jacksonville State University Center for Economic Development is administering the following survey. The survey is intended to measure the economic benefits of proposed legislation on allowing craft breweries in Alabama to sell directly to the public for consumption off premises and to participate in entertainment districts. Your responses are anonymous, will be reported only in aggregate, and will not identify any individual or business.

Name of Brewery:

Which of the following best describes your business? Brewpub (220 License)
(Mark X for all that apply) Brewery (200 License)
 Contract Brewery
 In-Planning Stage
 Other _____

Year the brewery started selling:

The following three questions apply to the proposed legislation in Alabama to allow off site consumption of craft beer and brewpub participation in entertainment districts.

Please answer each of the following questions (Mark your answer with X), where:
1 = Strongly Disagree 2 = Disagree 3 = Neither Agree or Disagree 4 = Agree 5 = Strongly Agree

Direct Sales of craft beer to the public for off premises consumption is necessary for growth of craft brewers:
1 = Strongly Disagree 2 = Disagree 3 = Neither Agree or Disagree 4 = Agree 5 = Strongly Agree

Direct sales would be expected to be a significant part of my business revenue per unit of volume?
1 = Strongly Disagree 2 = Disagree 3 = Neither Agree or Disagree 4 = Agree 5 = Strongly Agree

Off-site consumption of craft beer is important in expanding the Alabama tourism market?

1 = Strongly Disagree 2 = Disagree 3 = Neither Agree or Disagree 4 = Agree 5 = Strongly Agree

YOUR BUSINESS NOW

On average what percentage of total sales over the last three years has been from:

% - Selling to wholesalers

% - Direct to consumers

Total quantity of beer (*in barrels*):

2013

2014

2015*

(*estimated based on sales YTD)

Total Revenue 2015* (**estimated*)

Your beer (overall)

\$

Other alcohol

\$

Restaurant/Food

\$

Miscellaneous retail

\$

Total Taxes paid on beer (*excluding sales tax*):

\$

Total sales taxes paid on all sales:

\$

Total annual property taxes:

\$

Business reinvestment dollars spent on plant and equipment in each of last 3 years:

2013

2014

2015*

(*estimated based on sales YTD)

Employment currently:

Number of Full time

Number of Part time

Brewery staff

Management/Sales

Front of house

Back of house

Total 2015* payroll (**estimated*):

YOUR BUSINESS WITH DIRECT SALES OF CRAFT BEER

(After passage and implementation of legislation allowing off site consumption of craft beer and participation in entertainment districts of craft breweries and brewpubs)

Projected total amount of beer produced **AFTER implementation of the proposed legislation into law** (in barrels):

2016	<input type="text"/>
2017	<input type="text"/>
2018	<input type="text"/>

Projected total amount of beer produced **WITHOUT implementation of legislation** (in barrels):

2016	<input type="text"/>
2017	<input type="text"/>
2018	<input type="text"/>

Projected employment **AFTER implementation of legislation** (average over 2016 to 2018):

	Number of Full time	Number of Part time
Brewery staff	<input type="text"/>	<input type="text"/>
Management/Sales	<input type="text"/>	<input type="text"/>
Front of house	<input type="text"/>	<input type="text"/>
Back of house	<input type="text"/>	<input type="text"/>

Anticipated payroll costs per year (annual average over 2016 to 2018): \$

Projected employment **WITHOUT implementation of legislation** (average over 2016 to 2018):

	Number of Full time	Number of Part time
Brewery staff	<input type="text"/>	<input type="text"/>
Management/Sales	<input type="text"/>	<input type="text"/>
Front of house	<input type="text"/>	<input type="text"/>
Back of house	<input type="text"/>	<input type="text"/>

Anticipated payroll costs per year (*annual average over 2016 to 2018*): \$

Projected business reinvestment dollars spent on plant and equipment in each of next 3 years **AFTER implementation of the proposed legislation:**

2016
2017
2018*

*(*estimated based on sales YTD)*

Projected business investment dollars spent on plant and equipment in each of next 3 years **WITHOUT implementation of the proposed legislation:**

2016
2017
2018*

*(*estimated based on Sales YTD)*

Thank you for taking the time to complete this important survey!

Should you have any questions or need assistance please contact:

Ms. Jennifer Swafford, *Program Coordinator*

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Please submit the completed survey by email to:

jswafford@jsu.edu DEADLINE FOR SUBMISSION –

MONDAY, MAY 4, 2015

~ APPENDIX B ~

**TOP 10 INDUSTRIES CONTRIBUTING TO ECONOMIC IMPACT BEFORE
LEGISLATIVE ACTION**

BEFORE	Direct	Indirect	Induced	Total
Total	17,051,766	7,845,338	6,182,022	31,079,127
Oilseed farming	6,112,475	945,126	292,985	7,350,585
Grain farming	4,672,461	8,086	94,565	4,775,112
Vegetable and melon farming	1,914,757	110,227	33,208	2,058,192
Fruit farming	1,972,717	1,206	337	1,974,261
Tree nut farming	0	929,664	496,279	1,425,942
Greenhouse or nursery	0	0	1,095,079	1,095,079
Tobacco farming	581,676	29,153	107,746	718,574
Cotton farming	651,948	7,829	54,862	714,638
Sugarcane and beet farming	552,088	0	0	552,088
All other crop farming	169,455	305,316	50,467	525,239

~ APPENDIX C ~

**TOP 10 INDUSTRIES CONTRIBUTING TO ECONOMIC IMPACT AFTER
LEGISLATIVE ACTION**

AFTER	Direct	Indirect	Induced	Total
Total	40,480,202	19,401,363	14,636,903	74,518,469
Wholesale trade	14,386,592	2,382,645	693,677	17,462,915
Retail - Food and beverage stores	10,997,312	18,462	223,893	11,239,667
Breweries	5,606,982	3,453	799	5,611,234
Maintenance, repair, construction of nonresidential structures	4,169,709	282,606	78,627	4,530,943
Real estate	0	2,272,235	1,175,100	3,447,334
Owner-occupied dwellings	0	0	2,592,714	2,592,714
All other food and drinking places	1,955,844	19,004	129,893	2,104,740
Full-service restaurants	1,745,027	70,285	255,103	2,070,415
Management of companies	0	1,324,945	83,611	1,408,557
Truck transportation	398,837	783,018	119,487	1,301,341
Retail - Miscellaneous store retailers	1,028,109	93,029	66,306	1,187,444