



Economic Impact of Craft Breweries in the Sacramento Area

2019



Photo: Tilted Mash Brewing

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Executive Summary

California is the state with the most craft breweries in the country; in the last five years, the amount of breweries grew within the state at a rate of 300%. Nationwide, the craft beer industry increased 357% between 2000 and 2017, making it one of the fastest-growing industries in the United States.

Such expansion has been fueled by the opening of many types of breweries. A 2-year provision for tax reform has also led to growth amongst craft brewers, allowing larger profits and the opportunity to reinvest within their breweries.

The word *craft* typically signifies a product that emphasizes quality, creativity, care, and culture. An Independent Craft Brewers Seal is used across the country to help consumers identify independent craft brewers. Over 4,000 craft brewers use this seal.

The Sacramento area is home to 81 independent craft breweries. In 2017, Sacramento area craft brewers produced over 100,000 barrels, representing a 25% increase of barrelage produced from 2015.

Sacramento area craft brewers produced a total economic impact of about \$751,000,000 in 2018.

Philanthropic contributions to the Camp Fire Relief Fund from the Sacramento Area Brewers Guild totaled over \$130,000.

About This Report

This report was produced by the Office of Business Research & Analysis at California State University San Marcos, which is a joint effort between the College of Business Administration, the department of Economics in the College of Humanities, Arts, Behavioral & Social Sciences, and the University Library. This report was published in conjunction with the Sacramento Area Brewers Guild. This report analyzes the economic impact of craft brewers in the Sacramento area.

Data

The data supporting this report was collected from several sources during the first few months of 2019. A combination of survey data and secondary sources were used. Each data source has varying effective dates, and every precaution has been taken to ensure relative comparability.

IMPLAN

To properly measure and quantify the flow of dollars through the Sacramento economy, OBRA used leading economic impact software. IMPLAN® is advanced input-output modeling software with regional data and economic multipliers built in. IMPLAN® extracts and measures data from local sources, rather than extrapolating regional data from national averages, to properly incorporate regional trade-flow assumptions and economic multipliers into customizable models to view economic impacts.

InDesign

InDesign was used to design the layout of the report. This software creates posters, brochures, newspapers, and ebooks through Adobe software. InDesign publishes content in conjunction with Adobe Digital Publishing Suite and exports to multiple platforms. Main users of InDesign include graphic designers and production artists for publications, print media, and posters.

ReferenceUSA®

ReferenceUSA® is an Infogroup company that hosts an online database containing extensive information about businesses and consumers throughout the nation. The database allows users to find specific data, which can be narrowed down through a variety of filter options, about demographic and detailed firm information. Since its founding in 1992, ReferenceUSA® has collected up-to-date revenue and employment data from businesses through a combination of surveys and direct phone call verification. For those businesses unable to provide complete data, ReferenceUSA® uses advanced economic modeling techniques to ascribe figures based on aggregated data from the U.S. Department of Commerce.

SimplyAnalytics®

SimplyAnalytics® is web-based software that specializes in data visualization, mapping, and analytics. As a leading provider of analytics, data visualization, spatial analysis, and GIS software, SimplyAnalytics® caters to educational institutions, businesses, government agencies, and non-profit organizations in the United States. Demographic, business, and census-based data are gathered from a variety of data providers and can be displayed in multiple views including comparison tables, charts, interactive maps, and reports.

Qualtrics

Qualtrics is a survey tool used to send and track surveys. Qualtrics was used to collect and compile necessary survey data from the local breweries in and around Sacramento County.

Photographs

The photographs are from well-known breweries in the Sacramento area. All photographs were taken at Tilted Mash Brewing, Flatland Brewing Company, Urban Roots Brewing, and Moksa Brewing Company.

The Craft Beer Industry

Nationally, the craft beer industry has experienced a 357% increase in the number of breweries from 2000 to 2017, making it one of the fastest-growing industries in the United States¹. The craft beer industry specializes in consumer choice and heterogeneous products where breweries can differentiate from one another while maintaining marginal value within each new brewery.

Consumers contribute to this industry with their demands for different types of beer. Seasonal, limited, and special production beers are appreciated and create year-round marketing opportunities for craft breweries. This consumer-driven industry relies heavily on a local workforce and locally-grown inputs crafted for local customers, resulting in revenue being returned to the community. Craft breweries also contribute to a region through community outreach in the form of monetary donations, keg donations to local events, and sponsorships.

Per capita disposable income is increasing in the United States. Craft beer is a luxury good, meaning that as disposable income increases, the demand for craft beer may also increase². This rise in disposable income indicates that consumers have purchased craft beer at an increasing rate over the past few years, and will likely continue to do so.

The word *craft* typically signifies a product that emphasizes quality, creativity, care, and culture. Historically, consumers are willing to pay more for beer that is of higher quality and locally crafted.

Industry Overview

Craft brewers, as defined by the national Brewers Association (BA), are those that produce fewer than 6 million barrels (bbl) per year, are independently owned (25% or less ownership by a non-craft beverage alcohol industry entity), and whose beer is produced with traditional and innovative brewing ingredients (flavored malt beverages are not included)¹.



To help consumers differentiate between craft and non-craft beer, the Independent Craft Brewer Seal serves the purpose of identifying independent craft brewers. Established by the Brewers Association, over 4,000 independent craft brewers and 85 percent of craft brewers use this seal¹. The BA advertised nationally to increase the awareness of the logo so that consumers are better able to identify and support beers that are produced by true craft brewers.

The Sacramento area's steady growth in its craft brewing market enticed foreign and corporate competition to enter the market. In 2018, Los Angeles-based and Anheuser-Busch InBev-owned Golden Road Brewing opened a restaurant and beer garden to the dismay of many that valued smaller, local craft breweries within the Sacramento area¹. California ranked 22nd in breweries per capita in the country¹ and the Sacramento area will likely see more big beer companies, such as Anheuser-Busch InBev, MillerCoors, Heineken International, and Constellation purchase more breweries to join in on the liquid gold rush that is developing in the Sacramento area.

There are many classifications of craft brewers. Contract brewers use their brewing equipment to brew beer for other companies in exchange for payment. Regional brewers are those that produce between 15,000 and 6,000,000 bbl of beer. Microbreweries are those that produce fewer than 15,000 bbl and sell 75% of this production off-site. Brewpubs are restaurant-breweries that sell 25% or more of their beer on site.



Volume Share of Beer

During 2017, overall U.S. beer sales volume decreased by 1.2%¹. The volume share of craft beer at the end of 2017 was 12.7%, representing share growth over 2016 of about 0.4%. The volume share of import beer at the end of 2017 was about 17.5%, representing growth over 2016 of about 0.5%. Figure 1 represents the volume share of beer in the U.S. over the past several years between craft, import, and U.S. non-craft beer.



Photo: Moksa Brewing Company

FIGURE 1: VOLUME SHARE OF BEER

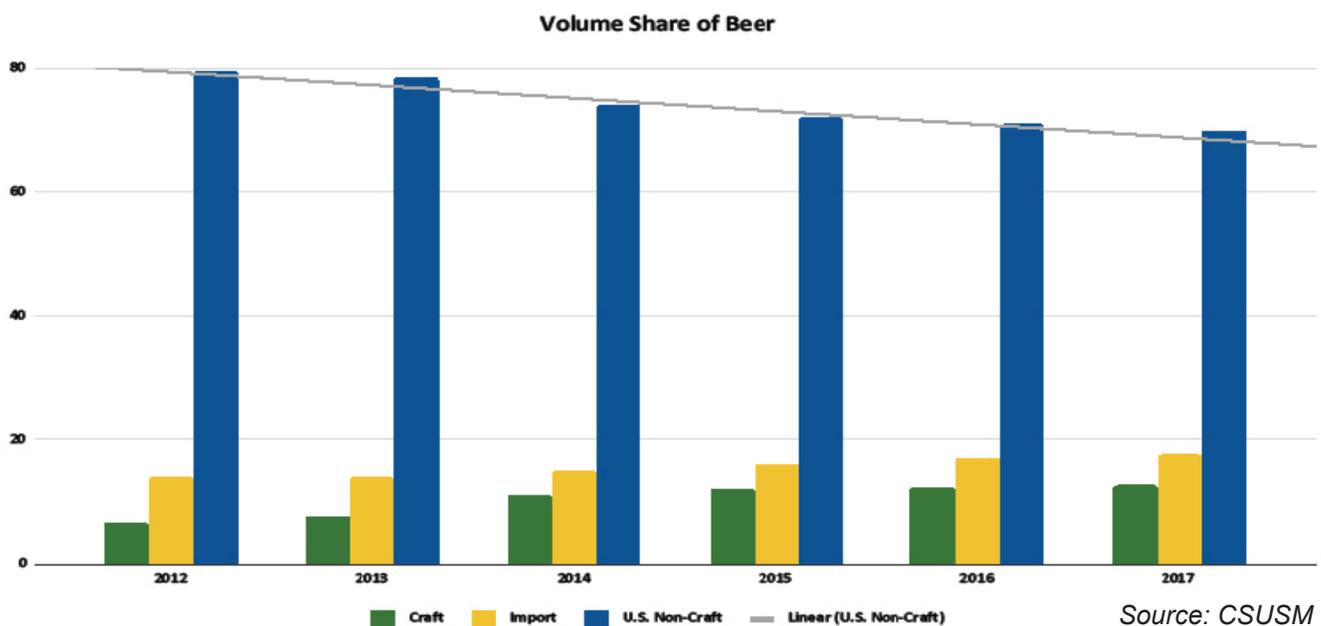
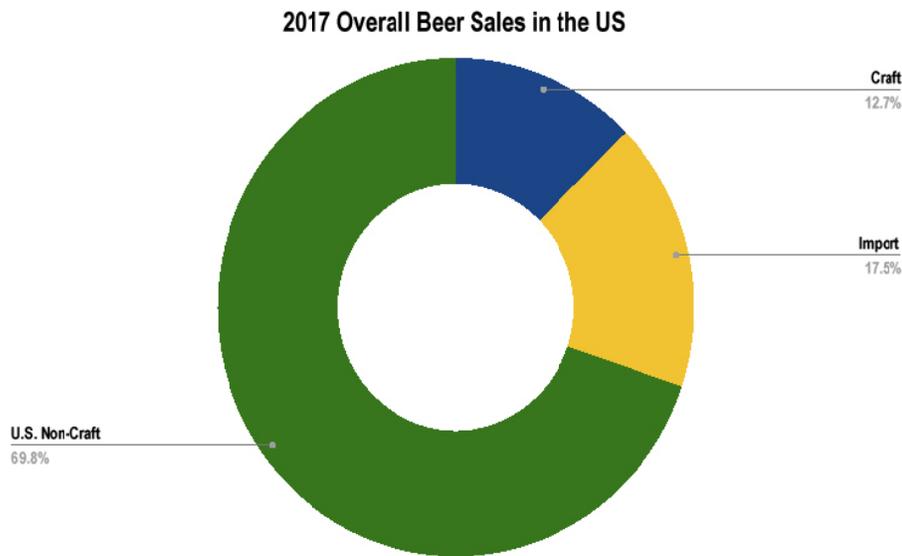


FIGURE 2: 2017 OVERALL BEER SALES IN THE U.S.

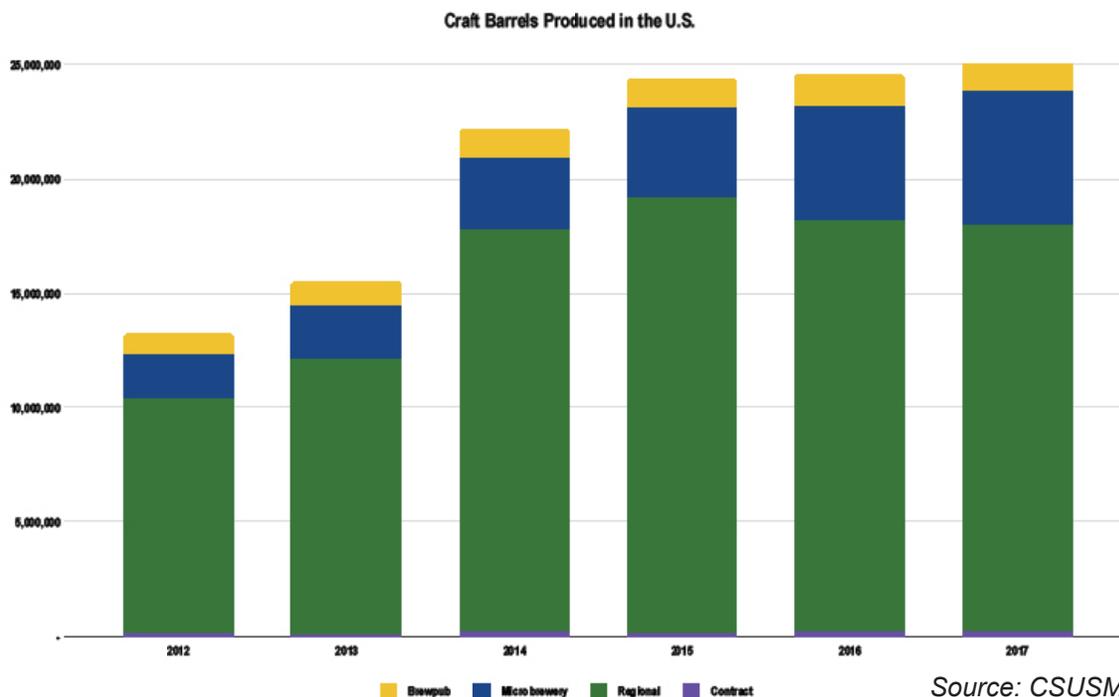


Source: CSUSM

In 2017, there were 24.9 million barrels of craft beer produced in the U.S. (12.7% of overall beer sales), with 1.63% growth from 2016. There were 34.4 million barrels of import beer produced (17.5%), and 137 million barrels of U.S. non-craft beer produced (69.8%). It is important to note that acquisitions of craft brewers in recent years by big beer have skewed some growth numbers. Figure 2 represents a graph showing overall beer sales in the U.S. in 2017.

Microbrewery production grew by nearly 17% in 2017, with brewpub production growth measured at 15% and contract brewers growing at 11%. Regional brewers observed a decrease in production during 2017 of around 1%. It is noteworthy that many breweries in San Diego County fall within the microbrewery and brewpub categories. Figure 3 represents craft barrels produced over the past several years.

FIGURE 3: CRAFT BARRELS PRODUCED IN THE U.S.



Source: CSUSM

Size and Growth

In 2018, there were a total of 1,049 craft breweries that opened in the United States, compared to 219 that closed¹. 150,148 small brewing jobs were created in 2018, showing an 11% growth over 2017¹.

The U.S. Department of Treasury's Alcohol and Tobacco Tax and Trade Bureau (TTB) grants states the authority to oversee alcohol and beverage control. The California Department of Alcoholic Beverage Control (ABC) regulates manufacturers and purveyors of alcohol via licensing within California. The 3 types of ABC licenses discussed in this report are:

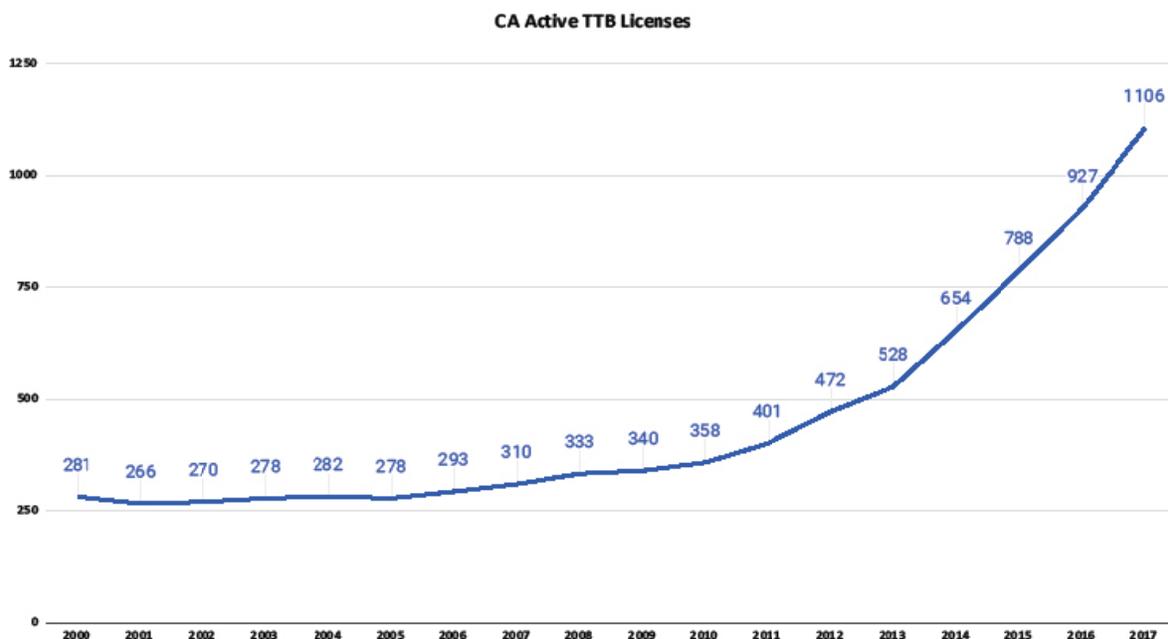
- Type 1:** Beer Manufacturer (large brewer)
- Type 23:** Small Beer Manufacturer (<60,000 bbl)
- Type 75:** On Sale General - Brewpub (>100 to <5,000)

Although the TTB count does not solely reflect active brewers in the marketplace, it is still a good indicator as to the size and relative growth of the industry in terms of firms operating in the marketplace. According to the Brewers Association (BA), there are over 6,600 active breweries in the United States in 2018. The BA expects the total number of breweries to increase to over 7,000 by 2019. TTB license growth has accelerated since 2011. In 2017, there were a total of 1,106 active California TTB licenses, which represents a 19.3% growth rate from 2016 licenses. The number of TTB licenses has almost tripled since 2011. Figure 4 represents the number of active California TTB licenses over the past several years.



Photo: Tilted Mash Brewing

FIGURE 4: CALIFORNIA ACTIVE TTB LICENSES



Source: CSUSM

California

From 2012 to 2017, California breweries grew by 300% to a total of 900 operating craft breweries, making it the state with the most craft breweries in the United States.

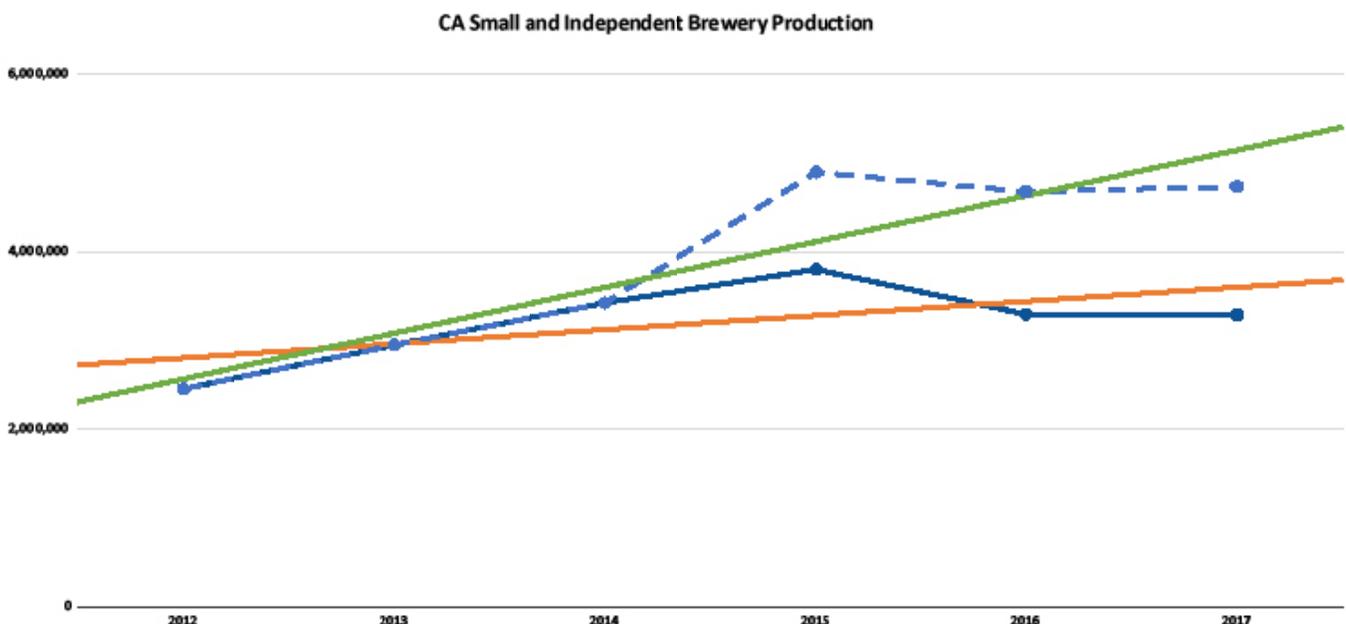
The solid blue line in figure 5 represents the decrease of 10,000 barrels produced since 2016. This graph does not represent non-craft beer companies. When acquired craft brewers are included, the total barrelage comes to 4,734,438 barrels (represented by the dotted blue line). Data provided from previous years is presented in the graph as the solid orange line, while the solid green line is a linear trend with acquisitions.

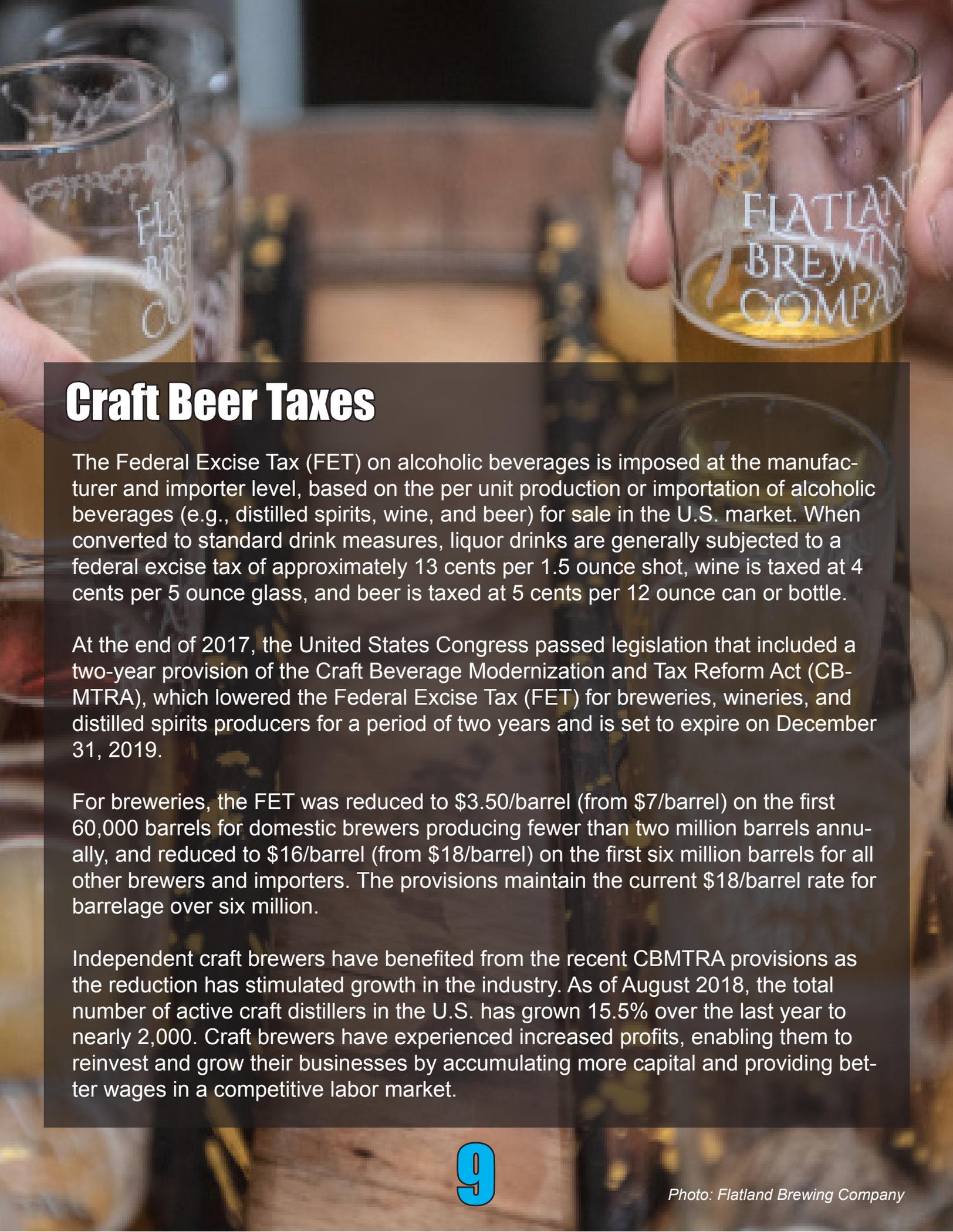
The total amount of gallons produced per individual (or production per capita) is calculated by converting barrelage figures into gallons and dividing by the total amount produced by the drinking age population. California has a greater population than other states and consumes 3.5 gallons per drinking age capita¹. In comparison to other states, Colorado craft breweries produced 11.4 gallons per drinking age capita and Florida produced 2.7 gallons per drinking age capita¹. As a state, the population of 39.5 million consists of a 21+ ratio of 73.2%, totalling 28,926,001 drinking-age adults¹. States such as Texas with 1,156,536 drinking-age adults and New York with 1,211,494 drinking-age adults also have large populations and high percentages for their 21+ population, averaging 72.6%¹.



Photo: Tilted Mash Brewing

FIGURE 5: CALIFORNIA SMALL AND INDEPENDENT BREWERY PRODUCTION





Craft Beer Taxes

The Federal Excise Tax (FET) on alcoholic beverages is imposed at the manufacturer and importer level, based on the per unit production or importation of alcoholic beverages (e.g., distilled spirits, wine, and beer) for sale in the U.S. market. When converted to standard drink measures, liquor drinks are generally subjected to a federal excise tax of approximately 13 cents per 1.5 ounce shot, wine is taxed at 4 cents per 5 ounce glass, and beer is taxed at 5 cents per 12 ounce can or bottle.

At the end of 2017, the United States Congress passed legislation that included a two-year provision of the Craft Beverage Modernization and Tax Reform Act (CBMTRA), which lowered the Federal Excise Tax (FET) for breweries, wineries, and distilled spirits producers for a period of two years and is set to expire on December 31, 2019.

For breweries, the FET was reduced to \$3.50/barrel (from \$7/barrel) on the first 60,000 barrels for domestic brewers producing fewer than two million barrels annually, and reduced to \$16/barrel (from \$18/barrel) on the first six million barrels for all other brewers and importers. The provisions maintain the current \$18/barrel rate for barrelage over six million.

Independent craft brewers have benefited from the recent CBMTRA provisions as the reduction has stimulated growth in the industry. As of August 2018, the total number of active craft distillers in the U.S. has grown 15.5% over the last year to nearly 2,000. Craft brewers have experienced increased profits, enabling them to reinvest and grow their businesses by accumulating more capital and providing better wages in a competitive labor market.

The Sacramento Area

As of February 2019, there were 72 independent craft breweries in Sacramento County³. For the purpose of this report, several other breweries in surrounding cities were included in the study, bringing the total number of breweries surveyed to 81.

Sacramento area independent craft brewers produced about 103,000 barrels in 2017, compared to about 77,000 barrels in 2015, representing a 25% increase in barrelage production between 2015 and 2017.

Economic Impact

Craft brewers have seen an increase in production and hiring to facilitate continued growth. The Sacramento area is home to over 80 breweries that are responsible for economic stimulation and jobs growth for a region with over 1.4 million residents.

To measure the economic impact on the county, data indicating industry changes within an input and output model in IMPLAN[®] software was used, which provides reproducible quantitative results displayed in three impact categories:

Direct impacts result from expenditures associated with constructing and operating a brewery.

Indirect impacts result from the suppliers of the breweries purchasing goods and services and hiring workers to meet demand. These secondary impacts would not occur but for the original brewery operations.

Induced impacts result from the employees of the breweries purchasing goods and services at the household level.

For the purposes of this report, indirect and induced impacts from the IMPLAN[®] model were combined into a “multiplier effect.” The total economic impact is composed of direct and multipliers effects. “Value Added” measures the economic impact of craft beer total activities in Sacramento County and surrounding areas in the form of employee salaries and compensations, taxes on production and imports (minus subsidies), and gross operating surplus. The output is the total annual value of all production activities generated by the craft beer industry in the Sacramento area.

Sacramento Area Craft Beer Economic Impact

The craft beer economic impact for the Sacramento area is listed in figure 6. The Sacramento area's total economic output of craft beer in 2018 was \$751,322,784.

FIGURE 6: SACRAMENTO AREA CRAFT BEER ECONOMIC IMPACT

Impact Type	Employment	Labor Income (\$)	Value Added(\$)	Output (\$)
Direct Effect	1,481	138,012,591	278,454,193	485,680,828
Multiplier Effect	1,632	90,332,158	148,251,981	265,641,956
Total Effect	3,113	228,344,749	426,706,174	751,322,784



Comparisons

Independent craft breweries in and around Sacramento County produced an economic impact of about \$751M in total output for 2018. This number represents a total economic output of nearly twice that of the Sacramento Kings, which had a total output of about \$341M in 2018, represented in figure 7. The craft beer industry in and around Sacramento County had a yearly revenue of about \$483M in 2018, compared to the Sacramento Kings, who, according to Forbes, had about \$263M in revenue in 2018⁴.

FIGURE 7: SACRAMENTO KINGS ECONOMIC IMPACT

Impact Type	Employment	Labor Income (\$)	Value Added(\$)	Output (\$)
Direct Effect	197	19,782,100	59,451,332	265,292,430
Multiplier Effect	549	31,405,794	47,124,535	75,838,673
Total Effect	746	51,187,894	106,575,867	341,131,103

Philanthropy

Starting in November 2018, the Camp Fire made history in the Sierra Nevada foothills as the deadliest fire in California history. With little notice, the flames engulfed 153,000 acres and devastated the town of Paradise, CA and surrounding communities. As of February 2019, over 80 people have lost their lives and over 18,000 buildings were burnt⁵. During the blaze, the tragedy in Butte County was heavily publicized, leaving many wondering what they could do to help.

Companies such as Sierra Nevada Brewing Co. offered to provide support to victims of the Camp Fire by creating a fundraising beer recipe named the Resilience Butte Proud IPA. Suppliers donated the ingredients needed to make the recipe, and Sacramento area breweries came together to donate their time and labor to brew this beer. 100% of the revenue from the Resilience IPA went to the Camp Fire Relief Fund. Participating breweries in the Sacramento area raised over \$130,000 to help provide long-term aid to the Camp Fire victims. The tallies for the total amount raised by the Resilience Butte Proud IPA are still being finalized through the Golden Valley Bank.



About the Publishers

Office of Business Research and Analysis (OBRA)

Founded in 2018, the Office of Business Research and Analysis (OBRA) is a joint partnership between California State University, San Marcos' College of Business Administration (CoBA) and the Department of Economics. OBRA works directly with the local community in creating a suite of research services, including economic impact reports, industry analyses, and business plans.

California State University San Marcos (CSUSM)

Building on an innovative 29-year history, California State University San Marcos is a forward-focused institution, dedicated to preparing future leaders, building great communities, and solving critical issues. Located on a 304-acre hillside overlooking the city of San Marcos, the University is just a short distance from some of Southern California's best beaches and an hour from the US-Mexico border. CSUSM enrollment is over 17,000 (and growing), and the University is fully accredited by the Western Association of Schools and Colleges.

CSUSM enjoys a special relationship with Craft Beer. Stone Brewing is nearby and grew alongside the University. Numerous alumni have started breweries in the region. The University offers its EngiBeering™ program, which trains students to brew craft beer at scale, and to create and run a brewery. In addition, the University has a registered archive, called Brewchive™. The CSUSM Library has begun to collect and digitize historical documents and special pieces. While the collection focuses on the evolution of San Diego's New Brew Wave, circa 1987-present, the archive will also feature signature collections, such as the history of women in San Diego's craft brew industry.

Sacramento Area Brewers Guild

Sacramento Area Brewers Guild was established in 2013 to support independent brewers dedicated to producing local, high-quality craft beer. The Sacramento Area Brewers Guild promotes growth and encouragement for local brewers through education, community involvement, professional development, and collaboration amongst members. Through dedication to their craft, the 81 breweries in the Sacramento area have successfully created a distinguished California craft beer destination. Sacramento Beer Week is an annual, signature event of the Sacramento Area Brewers Guild that showcases these innovative breweries. Sacramento Beer Week will be celebrating its 10th anniversary this spring.

Sources

- 1) Brewers Association
- 2) IBISWorld
- 3) Sacramento Beer Frontier
- 4) Forbes
- 5) CNN





Photo: Flatland Brewing Company